

# ***Take Control of Your Financial Future***

By Dick Fabian

## **PART ONE**

### **WHAT DOES THE FUTURE HOLD?**



A review of stock market history shows many similarities with the current market and the past. At all times there has been one important ingredient that never changes...the market continually moves in trends both up and down. The only unknown is, when is it going to change direction and how long will that new direction be sustained? The Bear Market that began in March of 2000 caused many investors to question the traditional "buy and hold" investment philosophy.

For those investors who have a long-term investment horizon, are seeking financial freedom, and are looking to avoid catastrophic Bear market losses in the future, the path we recommend is trend following. This is the approach we at Fabian Financial Services (FFS) have been teaching investors about for the past two and one –half decades.

At FFS, it doesn't matter to us whether the market is trending up or down, our goal in any market environment is to strive to attain 20% annualized compounded growth.

### **THE EIGHTH WONDER OF THE WORLD – THE POWER OF COMPOUNDING**

The reason we believe compounding is the key to opening the door to wealth for everyone is because compounding has the power to convert trifling amounts of money into enormous sums.

To show the enormous power of compounding let's use as an example an investor who opens an IRA account at age 40 and contributes \$2,000 each year until age 65. If this account could grow at 20% annualized compounded growth ... our objective ..., at retirement it would be worth over \$1 million. (\$2,000 a year for 25 years is only \$50,000.)

Therefore, the purpose of this report is to show why we believe it is possible for everyone to work towards 20% annualized compounded growth in any market environment for the rest of their life on all of your investment dollars. As you will see, to reach this goal you must follow a simple investment plan, constantly keep your eye on achieving the goal, and have a clearly defined sell discipline in place with 100% of your serious money.

## STRIVING FOR 20% ANNUALIZED COMPOUNDED GROWTH



To successfully reach the 20% compounding goal it is assumed that one has a strong desire to succeed, has a specific strategy to follow, and has the discipline to take action.

Further, while working to attain this long-term goal remember that it is not necessary to realize 20% growth each and every year. There will be some years when 20% will be exceeded and other years when it will not.

There are many ways to work for the 20% compounded goal other than using the stock market. However, there is none that I know of that is available to everyone and is as simple to implement as the Fabian Trend Following Plan we will be describing.

So, whatever strategy you decide to use to work for 20% annualized compounded growth, you must answer the following question to determine your personal motivation:

Which is more important to you?

1. Following a particular investment strategy, or
2. Reaching the financial goal

Believe it or not, there are many people who invest primarily for the "thrill" of the game and/or to prove to the rest of the world how smart they think they are.

When I am asked this question, my unshakable answer is: "reaching my 20% compounding goal has my highest priority." Therefore, for everyone who shares my priority, doesn't it make sense to search for the simplest plan available that has the potential to attain this goal?

Finding the simplest plan assures me of two things: First, I will be willing to commit a larger portion of all of my investment dollars. Second, I will be able to stick with it for the long term. And when I say the long term, I mean the rest of your life.

**... the purpose of this report is to show why we believe it is possible to work for 20% annualized compounded growth in any market environment for the rest of your life on all of your investment dollars.**

## **NECESSARY REQUIREMENTS FOR ANY INVESTMENT PLAN**

I know it is obvious but I am going to say it anyway. Working for 20% annualized compounded growth for the rest of your life ---- **is a very long time!**

With that thought in mind, let me ask a question. Over your lifetime how many promises or resolutions have you made that you stuck with for one or two years, let alone, ten years? I am sure I know the answer ---- **not very many!**

As an astute observer of people, I have learned that there are some things that people will do and there are things people will not do. Of course we know there are things people should do, but unfortunately these usually fall into the category of the things they don't do. Keeping these factors in mind, here is a list of the requirements I believe any long-term investment plan absolutely **must** have in order for you to be in control.

- # 1 The plan must be easy to understand and simple to follow.**
- # 2 The plan must include a sell strategy to avoid significant declines.**
- # 3 The plan must not take up a great deal of time. A few minutes per week is all that should be required.**
- # 4 The plan must not cause stress or anxiety. If it does, no one will stick with it long enough to reap the benefits of long-term compounding.**
- # 5 The plan must not cause a change in one's lifestyle nor interfere with one's occupation.**
- # 6 The plan must not cause disharmony in the household.**
- # 7 You must believe the plan has the potential to attain the goal of 20% annualized compounded growth over the long term.**

Based on your own life experiences, won't you agree that if any of these seven ingredients are missing, it will increase the probability that you will not stick with any plan long enough to reap the maximum benefits of compounding?

**The Fabian Trend Following Plan  
Has All of the Above Requirements.**

# THE FIVE PRINCIPALS OF THE FABIAN TREND FOLLOWING PLAN

## #1- Simplicity

Why is simplicity so important? Because, when an investment plan is simple, people will be comfortable following it with 100% of their nest egg and also be able to reap the benefits of the power of compounded growth.

To show how simple our plan is, there have been no changes to the basic principles of the plan from the day it was introduced over two decades ago.

## #2- Continually Follow the Trends of the Current Market

As trend followers, we let the market tell us what to do. I have found that a 200-day moving average trend-line is best guideline to determine when we are in a Bull Market or a Bear Market.

When the index we are tracking is above its 200-day moving average, we would be long the market with Bull Market funds. When the index drops below its 200-day moving average, there are two options. First, it may be appropriate to invest in Bear Market funds that short the market. Bear Market funds can provide growth in declining markets. Second, there may be times when it may be appropriate to be in the safety of money market funds during uncertain market environments – like during the war in Iraq in 2003.

When it comes to explaining how simple trend following is, a picture is worth a thousand words. Shown above is a chart of the S&P 500

Index covering 1998 through 2003. The jagged line represents the plotting of the daily prices of the index. The smooth line is the 200-day moving average trend line. Every day, we update the trends of the general market indicators on our home page at the "Trends" tab. This free tool provides you the ability to follow the trends of the market on a daily basis.



| Fabian Stock Market Roadmap Worksheet |                 |                |                |                |                 |             |       |                |  |
|---------------------------------------|-----------------|----------------|----------------|----------------|-----------------|-------------|-------|----------------|--|
| as of Friday January 02, 2004         |                 |                |                |                |                 |             |       |                |  |
| Name                                  | Closing Reading | Current Trends |                |                |                 | Performance |       |                |  |
|                                       |                 | 20-Day % Diff. | 50-Day % Diff. | 70-Day % Diff. | 200-Day % Diff. | January %   | YTD % | Momentum Score |  |
| I F.I.C.                              | 136911.64       | 2.34           | 4.07           | 5.14           | 13.96           | -0.11       | -0.11 | 7.66           |  |
| II Wilshire 5000                      | 10777.86        | 2.20           | 4.09           | 5.14           | 12.51           | -0.20       | -0.20 | 7.94           |  |
| 1 S&P 500                             | 1108.48         | 2.25           | 4.28           | 5.24           | 11.52           | -0.31       | -0.31 | 8.85           |  |
| 2 Nasdaq 100                          | 1463.57         | 2.49           | 3.23           | 4.10           | 14.60           | -0.30       | -0.30 | 5.27           |  |
| 3 Russell 2000                        | 560.85          | 2.49           | 4.11           | 5.55           | 18.26           | 0.71        | 0.71  | 5.95           |  |
| I 4 Dow Jones 30                      | 10409.85        | 2.29           | 4.91           | 5.90           | 12.54           | -0.42       | -0.42 | 11.39          |  |
| N 5 S&P Small Cap Val                 | 202.16          | 2.05           | 4.26           | 6.10           | 18.26           | 0.43        | 0.43  | 7.30           |  |
| D 6 S&P Small Cap Gr                  | 178.63          | 1.27           | 2.41           | 3.88           | 14.92           | -0.11       | -0.11 | 2.69           |  |
| E 7 S&P Midcap                        | 575.91          | 1.45           | 2.96           | 4.50           | 15.01           | -0.02       | -0.02 | 4.44           |  |
| X 8 S&P Midcap Val                    | 219.52          | 1.96           | 4.46           | 6.39           | 18.31           | 0.13        | 0.13  | 8.06           |  |
| E 9 S&P Midcap Gr                     | 238.74          | 0.91           | 1.39           | 2.53           | 11.65           | -0.18       | -0.18 | 0.66           |  |
| S 10 S&P Lrg Cap Val                  | 550.29          | 2.60           | 5.08           | 6.30           | 13.44           | -0.30       | -0.30 | 10.50          |  |
| S 11 S&P Lrg Cap Gr                   | 554.10          | 1.90           | 3.49           | 4.17           | 9.61            | -0.32       | -0.32 | 7.20           |  |
| I 12 30 Yr T-Bond Yield               | 5.18            | 2.16           | 1.36           | 1.35           | 4.62            | 2.13        | 2.13  | 0.50           |  |
| I 13 Nikkei 225 (Japan)               | 10676.64        | 3.75           | 3.11           | 2.28           | 12.48           | 0.00        | 0.00  | 8.73           |  |
| I 1 DJ Financial                      | 443.93          | 1.90           | 3.31           | 4.28           | 11.58           | -0.46       | -0.46 | 6.87           |  |
| 2 DJ Banks                            | 457.79          | 1.05           | 2.09           | 3.65           | 11.07           | -1.04       | -1.04 | 3.99           |  |
| 3 DJ Healthcare                       | 287.66          | 2.83           | 5.38           | 6.08           | 7.86            | 0.57        | 0.57  | 10.92          |  |
| 4 DJ Biotechnology                    | 429.40          | 2.75           | 4.64           | 4.08           | 7.82            | 0.59        | 0.59  | 9.05           |  |
| S 5 DJ Pharmaceuticals                | 288.83          | 3.45           | 5.80           | 6.31           | 4.78            | 0.89        | 0.89  | 12.76          |  |
| E 6 DJ Technology                     | 493.76          | 2.34           | 2.69           | 3.82           | 16.64           | 0.15        | 0.15  | 3.65           |  |
| C 7 DJ Internet                       | 69.39           | 3.87           | 3.56           | 3.48           | 16.26           | 0.30        | 0.30  | 3.64           |  |
| T 8 DJ Semiconductors                 | 1467.10         | 2.32           | -0.30          | 2.48           | 23.96           | -0.29       | -0.29 | -6.26          |  |
| O 9 DJ Telecoms                       | 119.46          | 4.55           | 7.67           | 8.69           | 6.71            | 0.29        | 0.29  | 14.76          |  |
| R 10 DJ Wireless Coms                 | 233.05          | 6.44           | 9.60           | 9.46           | 19.44           | 0.27        | 0.27  | 14.65          |  |
| S 11 DJ Energy                        | 244.87          | 3.70           | 9.23           | 9.71           | 13.60           | -0.49       | -0.49 | 22.99          |  |
| I 12 DJ Utilities                     | 114.58          | 2.50           | 4.80           | 5.25           | 10.00           | 0.03        | 0.03  | 9.94           |  |
| I 13 DJ Basic Materials               | 180.37          | 2.53           | 8.35           | 10.85          | 20.46           | -0.40       | -0.40 | 18.75          |  |
| I 14 DJ Real Estate                   | 195.51          | 0.64           | 3.01           | 3.88           | 11.90           | -0.22       | -0.22 | 6.63           |  |
| I 15 PHILX Gold & Silver              | 109.48          | 2.43           | 5.69           | 9.15           | 28.01           | 0.59        | 0.59  | 5.33           |  |

Investments involve risk of financial loss. The Fabian Stock Market Roadmap is intended for informational purposes only and is not a recommendation either to buy or sell any type of security or when to buy or sell any type of security, nor is it intended as specific for any individuals' portfolio. Limitations regarding the use of this chart include the following: information is believed to be correct but cannot be guaranteed, the user assumes all risk, Fabian Financial Services is not liable for the usefulness, timeliness, accuracy, or suitability of any of the information contained. The user understands that the information given can and may fail to predict the direction and magnitude of market price movements and that the user can lose money when using this information to make investment decisions. Past performance does not guarantee similar future results.

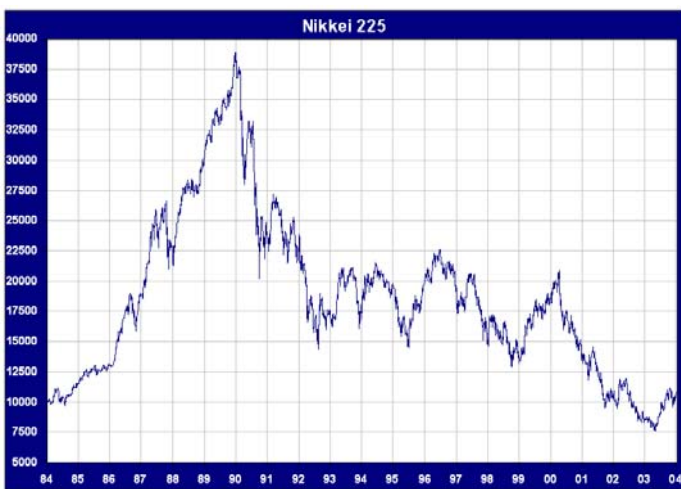
## Fabian Stock Market Roadmap

Another tool to monitor the trends of the market is our **Fabian Stock Market Roadmap**. We publish the **Roadmap** once a week on Tuesdays. Included in this free service are multiple trend line readings for 29 indices and sectors, providing plenty of information on the current trends of the market.

To become a member of the **Roadmap Club** and receive weekly updates as well as be alerted to Fabian Financial seminars in your area, click the Roadmap icon on our web site's home page.

## Don't Be Fearful of Bear Markets Ever Again!

Since I suffered Bear market losses back in the mid-1970's, I've looked at the market, at investing in a completely different way. In 2001 a little more than a year into the 2000 to 2002 Bear market, I took a look at the Japanese market for the past two decades. In 1984, the Nikkei was near 10,000, and then peaked around 40,000 at the end of 1989 (a 300% gain in just 5 years). Today, the Nikkei is around the 10,000 level, a 75% loss in 14 years (see the chart below). This is a clear definition of a prolonged Bear Market. I then wrote a commentary entitled "*It Could Happen To You*" (which is still available in the special reports section of our web site).



The report poses this simple question: Suppose...Just suppose the Bear market in the U.S. could last for another year, two years, or even more...and if you continue to follow the same investment plan you have for the past few years, are you going to be able to achieve your goals? Keep in mind when I wrote this report in 2001 I wasn't predicting the Bear market was going to continue as long as it did. I was just posing a question that needs to be answered even now.

When our indicators are below their 200-day moving average for prolonged periods, we can utilize Bear Market funds available at Profunds or Rydex. These mutual funds are designed to make money when the market is going down.

I personally don't care if you follow our approach to building wealth or another. What I do care about is that whatever plan you follow, make sure they have a plan for growth in both Bull markets and Bear markets.

### **#3- When it is time to buy – using 100% of your available investment dollars – buy only high momentum mutual funds**

For the past 22 years, our experience has shown that any mutual fund exhibiting strong momentum at the beginning of a new market uptrend, usually retains this momentum for the entire cycle. At the time of a new "buy" signal, it is nonproductive to own mutual funds with weak momentum.

There are two ways to find the highest momentum mutual funds. The easiest method is to use the momentum score tool on our ***Fabian Stock Market Roadmap Worksheet***. When it's time to buy, scan down the momentum score column for any index or sector with momentum scores greater than the Fabian Indicator Composite (FIC) and the Wilshire 5000.

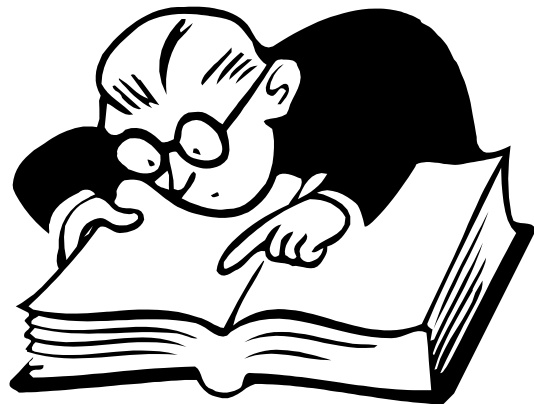
The second method is to use any of the free "fund screening tools" available on the internet. We recommend taking a look at [cbsmarketwatch.com](http://cbsmarketwatch.com) or [finance.yahoo.com](http://finance.yahoo.com).

Whether you are adding new money to your account during an up cycle or you are selecting a new fund to buy because of "rotating up," follow the same selection process as outlined for the beginning of a new uptrend.

### **#4- Monitoring and Rotating Up in Bull Markets**

**Monitoring is the key to long-term success.** The monitoring process puts you in control and lets you know whether or not you are on target to reach the goal. By monitoring, you are continually striving to get your entire portfolio working for superior performance. When you are on target with the goal, it keeps your comfort level high, keeps you motivated to remain committed to your investment strategy ... and ... it motivates you to find additional money to add to your investment account.

How does the monitoring process work? On the day you purchase any individual mutual fund, in addition to noting the price of the fund, you must also note that same day's reading for a specific general market indicator yardstick you will be using. Both the mutual fund prices and the yardstick readings are critical to the monitoring process.



## The “Rotating Up” Process

To work for the 20% compounded goal, you will need to sell any individual fund you are holding once you realize that it is under performing and then rotate up. Regardless of how selective you are in making your initial purchases, not every fund will fulfill your objective. Therefore, during the monitoring process, should one or more of your mutual funds fail to meet or exceed both the goal and your chosen investment yardstick for 90 days – **you must sell these funds and “rotate up”**.

Whenever you sell an under-performing mutual fund, during an ongoing uptrend, the proceeds should be reinvested in another mutual fund that is currently on target for the growth goal. At that time you can add to a current holding or select a new fund following the same procedures you used at the time of an initial purchase.

After your initial purchases are in place at the beginning of a new buy cycle and/or after you have added new money to your account, the monitoring process should take no more than five minutes a week. And after you spend your five minutes each week you can walk away with the relaxed feeling that you have done everything you need to do in taking control of your financial future and make it possible for your investments to conceivably grow to \$1 million or more.

By devoting just five minutes each week, you will be accumulating the kind of money most people strive to attain their whole lives, most often without success. I’m talking about the kind of money that will enable you, along with your family, to participate in the American Dream. In America, being rich is not for just “special people.” It is not something that you have to just dream about. It can come true for you and your family, and it will have an enormous impact on all your lives.

## #5- Follow a Sell Discipline

“Sell” is not a four-letter word, “Hold” is...especially during a Bear market or if a holding in your portfolio is not on target for the goal. Therefore, the question all investors must ask at the time they purchase any investment must be: **When am I going to sell?**

At Fabian Financial Services, we sell when our indicators drop below their trend lines as discussed in the trending section of this report.

When seeking a high compounded growth rate, one cannot afford to participate in significant market declines like many investors have experienced in the Bear Market that began in 2000. You never want to use future market growth just to recover prior losses.

## Bear Market Math

How much gain do you need to get back to break even if you have a 50% loss? 100%. This is just one simple example of Bear market math as well as the devastating impact catastrophic losses can have on your nest egg.

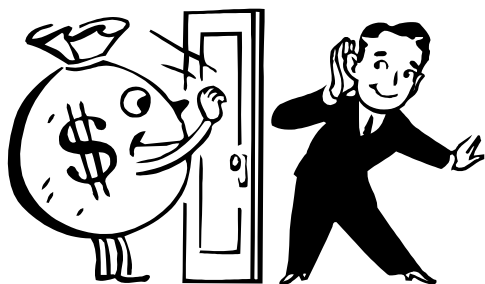
And even though Cisco has gained more than 200% from its bottom at \$8, it still needs a 250% gain to get back to its all-time high of \$84. Look at the five year chart of Cisco with a 200-day moving average, ask yourself the following question: would I have been better off trend following with Cisco...or would I have been better off following the buy-and-hope approach? The answer is simple: Trend following.

Make a vow to yourself and your family to never expose any portion of your nest egg to another catastrophic loss again.

## CLOSING COMMENTS

This is the moment of truth. So, let me ask you this question: Is there any step in the strategy outlined above using the Fabian Compounding Plan that you believe you cannot follow? Remember that our basic plan has only two rules, one for buying and one for selling.

You don't have to know every aspect of how the market works.



My next question is: Do you believe it is possible following our simple plan, with the steps outlined above, to reach the goal of 20% annualized compounded growth over the long term? I believe it is.

To help convince you as to why I believe 20% annualized compounded growth is possible, go to the library and check the year-ending performance figures for all mutual funds over any extended period of time. When you see the large number of mutual funds that have not only met the goal each year but have far exceeded it, that will convince you my simple investment approach has merit.

One final question: Has anyone ever suggested that it could be possible for you, entirely on your own and even with a modest income, to become a self-made millionaire? I am sure no one ever has. But it is possible. If you are not already aware of how compounding can make anyone a self-made millionaire, read my special report entitled *The Power of Compounding*[1]. You can find that report by clicking the link at the end of this report.

I have been sharing many ideas with you. Some may not only be new to you but many of these ideas most likely contradict many of the things you have come to believe over the years. I have challenged what many people consider the "conventional wisdom."

The point is .. **it takes time for new ideas to be accepted.** If you are 30 or 40 or 50 or 60 years old, the beliefs you held prior to reading this report took you 30 or 40 or 50 or 60 years to develop.



Think about the ideas you have read so far. I believe you will find it to be time well spent.

In Part Two, I want to share with you the history of the Fabian Trend Following Plan that was born after suffering losses as a result of the mid-1970's bear market. There had to be a better way than holding on by my fingernails and watching my nest egg melt away.

**If you may be thinking about possibly using a personal money manager and have at least \$300,000 to put to work, you can learn more about the specific process that Fabian Financial Services, Inc. follows for their management clients. These details are included in a company pamphlet.**

**You can receive a copy of our pamphlet by calling (949) 852-9800. After business hours, please leave us your name, address, and phone number on our voice mail. If you prefer, you may fax your request to (949) 852-9840.**

Reference: [\[1\] The Power of Compounding.](#)

**Click here to read**  
**Part Two of Take Control:**  
***How the Fabian Plan Began***