DICK FABIAN'S
THE TEN FABIAN AXIOMS

I consider myself first a student of people and then a student of the market. I do not know how to predict what the market will do, however, it is easy to predict what people will do, because we all behave the same way for the same reasons.

One of the questions which was asked of me at investment seminars during the years while I was writing the Fabian Newsletter was: " Dick, you have explained to us how the investment plan that you recommend is simple to understand and easy to follow. Therefore, isn't there a significant impact on the overall market when your thousands of subscribers receive a sell signal?"

My response to that question comes as quite a surprise to the audience. I answer: "Don't worry about it, because most of the subscribers do not sell on that day. The reason being, their emotions plus the predictions they are hearing from others, get in the way." The important and significant point I want to make is - knowing what to do and then actually doing it, are two completely different things.

My primary investment management objective, both for subscribers of the Fabian Newsletter as well as for the managed clients of Fabian Financial Services, has always been to assist individual investors to accumulate wealth from the growth of their personal investment portfolios. While working to fulfill this goal for others, I am always on the lookout to identify those factors which assist people to be successful, and also those factors which can be stumbling blocks on their road to success.

Based on my observations, over the past 30+ years, I have identified many of these factors and have grouped them under what I call my "Fabian Axioms." I want to share some of these with you.

FABIAN AXIOM #1:
SET AS YOUR INVESTMENT GOAL A SPECIFIC COMPOUNDED GROWTH RATE.

I recommend that you make your goal the same as mine. Strive to attain 20% annualized compounded growth on your personal investments over the long term. When I say the long term, I mean the rest of your life.

I have always believed that setting a personal financial goal is very important. As a result, I wanted to be as helpful as possible to assist people in setting their goal. Therefore, years ago, early in my career, I went to the library to search out available text books which outlined the process for constructing long-term financial goals. It didn't take very long however, after going through several books, to understand why people never bother to even try to set long-range financial goals.

In the real world the procedures outlined in the textbooks are not only long and

cumbersome but they just don't work. For example, to properly project for the future, one of the questions to be answered is to predict (guess) what the rate of inflation will be 10 and 20 years from now. Most people do not recall that in the 1980's the US inflation rate was 21%. Can you imagine anyone, 10 to 20 years prior to that date, predicting what the inflation rate would have been in the 1980s? Further, the text book procedures ask you to predict what the value of your house will be when the time comes for you to retire. You are then informed that if you do not predict correctly on the questions asked, any projections you may make will be meaningless.

I have even heard of a computer software program that follows the same process as outlined in the textbooks. They asked the same predicting questions ... and in addition ... they even ask you to predict how long you were going to live.

I have been told that my middle name should be "SIMPLE" because I reduce everything I recommend to a simple process. My reason is that if what is recommended is not simple, people simply will not do it.

Here is the simple process I followed in setting my own personal long-term financial goal. The process requires answering only four questions. I refer to these questions as the "4 HOWS." It is important that the questions be answered in the sequence in which they are presented.

HOW #1 - How Much Money Do You Want To Accumulate? Many times when I am in a one-on-one discussion with an individual and I ask this question, some people answer: "all the money I can get", I tell them that is not a specific goal. For example, you would not consider going to the finest architect in the world, tell him to build you a house and then leave town. When you came back, you would not expect the house to be exactly the one that you wanted. You did not design it even though it might be a great house. That is why the architect requires his client to sign-off on the blueprints before he begins construction.

Getting back to my question about how much do you want to accumulate? When someone answers, "OK Dick, I want to accumulate $1,000,000." I say, "Great. Now we can put together a specific plan to follow to work toward reaching that goal."

HOW #2 - How Much Time Do You Have? Do you want to attain your goal next week? Do you want it in 5 years, 10 years, or 20 years? It makes a difference the path you will follow to reach your goal, depending on the amount of time you have to get there.

HOW #3 - How Much Money Do You Have Available To Work With? How much do you have now and how much more will you have over various periods of time in the future? It has always been fascinating to me how people, if they seriously think about a meaningful goal and believe they can conceivably reach it, will eventually find they have much more money to use for investments than they originally were willing to admit.

I keep reminding you we all have two kinds of money. We have investment money (play money) and serious money. Think about it. If somebody was to stop you on the street and asked, "How much money do you have available for investing?" Your immediate response would be the amount of play money you have invested. All of the other money you keep hidden in a CD or under the mattress, and you don't even think about. After all, that is your security blanket.

Here is the point. Eventually, I want you to feel comfortable enough to put all of your serious money to work in your long-term investment plan. It is my intention, because of the benefits of compounded growth, to get you so motivated about becoming a self-made millionaire, you will gladly put that serious money to work.

HOW #4 - How Are You Going To Put Your Investment Money To Work? I believe this How is the least important of the four, because it puts the cart before the horse. In fact, for many it is the only question many people ask when it comes to goal setting. Most likely you are reading this report because you were looking for the answer to this fourth HOW.

Before we go on, think about this: What difference does it make how or where you are going to put your investment money to work if you have not decided in advance what you want it to accomplish for you?

I was riding on the Hollywood Freeway one day and saw a sign posted on a billboard in front of a small manufacturing plant. It read: "If you don't know where you're going, any road will do." Isn't this another way of saying: "If you don't know what you are trying to achieve with your investment dollars, any investment will do."

UNDERSTANDING THE GOAL SETTING PROCESS

With the answers to the first three HOWs, answering the fourth HOW for anyone would be easy. Here is what I mean:

Suppose you tell me you want to accumulate $100,000 (How #1), in a 12 year period (How #2), with a $10,000 initial investment (How #3). Where would you invest (How #4)?

Before coming up with a specific investment, the first thing I would do is refer to a compounded growth table. I would use the table to determine what rate of return would be needed to get $10,000 in 12 years to grow to $100,000. The compounded growth table will show that 20% compounded growth, over 12 years, will reach your goal.

For purposes of our discussion right now, do not concern yourself about where you are going to get 20% compound growth. Just be aware, **you now have the most valuable piece of investment information** that you have ever had **in your entire investment lifetime**.

The reason I say this is because the next time someone calls you on the phone

and tells you about some great investment he has for you in commodities or oil or Arabian horses, and so on, you can ask yourself this question, "Do I believe that I can get 20% compounded growth from that investment?" If the answer is yes, then do it. No problem. But if the answer is no, then you CAN say, "Sir, I'm sorry I cannot become involved in the investment you are recommending because I have a goal. I really and truly want to reach it. I cannot take your advice because I do not believe it has the potential to give me 20% compounded growth. Therefore, if I followed your recommendation, I would have to change my goal. I will not change my goal, therefore I cannot follow your recommendation."

The same response would be appropriate if someone were to suggest that you invest in municipal bonds. It makes no difference what tax bracket you are in; municipal bonds are not going to give you 20% compounded growth over the long term. They are just not structured to attain it. Because the interest earned on municipal bonds is free of all taxes, the interest they pay is less than what you would earn in a money fund. Therefore, anyone who puts money in municipal bonds has to have a goal other than 20% annualized compounded growth.

Here is a very interesting thing about goals that Dr. Maltz points out in Psycho-Cybernetics. He says that the instant, the millisecond, you set a meaningful goal, the very next thoughts that enter your mind are the 50 or more reasons why you will not be able to reach it. So, I suggest that you follow Dr. Maltz's approach. He says we should not blindly accept, at that particular moment, that you absolutely and positively will be able to reach your goal. Just kind of massage the idea for a couple of days in your mind. Say to yourself, Well, maybe I can and, if I can, what will it mean to me over time? Dr. Maltz further points out that the more you fantasize about it, the more you think about it, and the more you become aware of the end-results which could be yours as a result of attaining the goal, the more you are going to want it. Consequently, the more you want it, the more your mouth waters and your adrenaline runs, the higher the probabilities are that you will attain it.

KNOWLEDGE IS POWER?

The Investor Protection Trust of Arlington, Virginia commissioned a study of 1,001 investors to determine the level of their skills and habits in buying financial products. They found that the vast majority of them are "reckless, financially illiterate and sitting ducks for investment fraud and abuse." The study goes on to say:

"Their appalling lack of basic financial knowledge revealed by this survey calls into serious question the ability of most Americans to make the sound, informed financial decisions that would allow them to achieve their goals. Two-thirds of investors have never prepared a specific financial plan, even though having one is considered the cornerstone of wise investing. One of their conclusions was that these findings are particularly troubling because investing is no longer optional. The safety-net of pension plans of the past are no longer available to the younger generations."

There have been many surveys taken over the years, like the one quoted above, telling us that individual investors admit to their lack of investing knowledge. It is interesting that individuals cite their lack of investment knowledge as their reason why they are not more successful. In my opinion, however, it is not the lack of knowledge of the many facets of investing that is keeping them from being successful. What is lacking is a definable and meaningful objective or goal that is important to them and one they believe is attainable. This is the missing ingredient for success and it ties in with the conclusions of those associated with the survey mentioned above.

Another point that I have repeated often: Attaining your goal is what is of utmost importance, the path you follow to get there is secondary. From my discussions with hundreds of individual investors however, many of them would say, "What is most important to me is to know that I am following the most sophisticated and clever investment strategy I can find, and the eventual financial results are secondary."

During the past three decades, while I have listened to many different investment strategies, I have always been searching for the answer to only one question. Since my goal, right from the start, has been to maximize the benefits of compounded growth, I am not looking for the most sophisticated or clever way to get there. The question I am continually asking is "What is the simplest path that I would be able to follow over the long term, which offers the probability for me to reach my goal?"

Simplicity is important to maximize the benefits of compounding, because compounding only produces its miraculous benefits over time. If the path is simple, it enhances the probabilities that you will stick with the plan over the long term. To realize a high compounded return over just three or four years will not have a lasting impact on your long-term quality of life -- for the rest of your life. However, realizing 20% compounded growth over 10 or 15 or 20 years will surely impact your long-term quality of life.

FABIAN AXIOM #2: ALWAYS HAVE ALL OF YOUR AVAILABLE INVESTMENT DOLLARS WORKING

I use the examples of the extraordinary results from compounded growth as the motivating force to get people's attention and then get them to follow through with an investment plan. Human nature being what it is requires the passage of time, after the introduction of a new concept, before one can accept the concept fully. For this reason, I stress compounding examples using small amounts of money. This will make it easier for my readers to become comfortable with the idea.

I encourage everyone in the beginning to put to work at least a small amount of money so they can personally experience the impact of compounding on their lives. Actually seeing your own money growing at a high compounded growth rate will be the inspiration to make you a serious investor. Once that time comes, it is necessary for you to take an inventory of **all** of your available potential liquid

assets. To help you to identify the many sources for these assets, use the Personal Financial Snapshot Table 1-1. The totals from this table would be a "lump sum" amount that you could commit to your investment plan. In addition, determine all of the future periodic investments you would be able to make over time.

Once you are aware of the many benefits that can be yours from compounding, wouldn't it then make sense that you should have as much money as possible working for you?

WHAT OTHERS DO

When you talk with people about investing, you find out that everyone falls into one of three categories.

First are those who are not invested at all. They hear about and read about all of the excitement in the investment world. He or she is inundated with advice from all sources telling them that they have to become responsible for their own retirement. In fact, haven't we all heard that more people believe in the existence of flying saucers than those who believe that Social Security will be there for those who retire 30 years from now?

These noninvestors are particularly upset if they are one of the "baby boomers". They know they are out of step. They read almost every day about the billions of dollars that are being put into mutual funds by others in their generation who are actively investing for their retirement.

The next group of people are those who call themselves investors BUT are working with less than 20% of the total amount of the money that they could make available for investing. It is unfortunate, but members of this group account for the largest number of individual investors.

You may be wondering whether or not you are presently using a large enough percentage of all of your available investment dollars working for long-term growth. One way to answer this question is to remind yourself of one of the critical points about the power of compounding. As you recall, you learned that 20% compounded growth, over a 10-year period is the same as getting 52% growth, each and every year, for 10 years, on your original investment. Therefore, if you truly believed you would get a growth of 52% each year for the next 10 years on the total amount of money that you put to work today, how much money would you commit today? How does your answer compare with the actual amount of money you do have invested today? As I said before, for people who invest only a small portion of their available investment dollars, it means they believe that whatever investment they are using with their play money, it is not appropriate for their serious money.

I am sure you will also find this interesting. The people who make up this "play money" group are also the most speculative. They are looking to hit home runs every 90 days. They are willing to take extra risks. WHY? - Because, even if they

were to lose a large portion of their play money, they are not seriously hurt. Their serious money is being hidden and is not subject to risk.

I said there were three groups of investors. The third group, to which I belong, are those investors who commit 90% or more of the total amount of money that they have available for investing. Keep in mind, this third group is also conscious of risk - but instead of hiding the major portion of their total available investment dollars, they follow investment strategies which they believe will protect their current nest-egg.

When you think about it, whether you are an investment manager of other people's money, as we are at Fabian Financial Services, or whether you are managing your own money, there are two functions you need to fulfill. The first, and most important, is not to lose the money you already have - and then - and only then - do you strive to get the money to grow.

Personal Financial Snapshot

We call this page a personal "financial snapshot.?It is here that you will list all the money that could be converted into a liquid investment.

Liquid Assets	**Husband**	**Wife**	**Combined**
Cash			
Savings	________	________	________
Money Market & CD's	________	________	________
Other	________	________	________
Investments			
Stocks	________	________	________
Bonds	________	________	________
Mutual Funds	________	________	________
Other	________	________	________
Retirement Assets			
Life Insurance - Cash Value	________	________	________
Annuities	________	________	________

IRA's			
Retirement Plans			
Other			
Real Estate			
Residences - Current:Equity			
Undeveloped Land			
Rental Property - Current:Equity			
Other			
Other Assets			
Collectibles			
Receivables			
Partnership			
Closely Held Business			
Other			
TOTAL			
Periodic Future Investments			
Weekly			
Monthly			
Quarterly			
Annually			

Table 1-1

INVESTING SHOULD BE A FAMILY AFFAIR

A great many of the investors working for long-term growth are married. However, with the number of people who attend investment seminars and observing those who do most of the talking, you would almost naturally come to the conclusion that in investing, it is a man's world. This is not so. In fact, if the truth were known, it is the woman in the household who carries a great deal of the "say-so" as to how investments will be made. Usually, her most important contribution is to decide whether or not any investments will even be made at all.

There was a research study on successful marriage, conducted by psychologist John Gottman at the University of Washington. The study found that in order for a marriage to last, husbands should simply do what their wives say. I have been married for 50+ years and I go along with that advice.

Further, in my opinion, investing couples should be sure that the wife is comfortable with the investment approach they are using to fulfill their family's long-term financial objectives. When this happens, their probability for success is greatly enhanced.

FABIAN AXIOM #3:
NEVER FOLLOW INVESTMENT RECOMMENDATIONS UNLESS YOU KNOW THAT THE PERSON MAKING THE RECOMMENDATION, HAS HIS MONEY IN THE SAME INVESTMENTS HE IS RECOMMENDING FOR YOU

I have always wished there was a rule for everyone who gives financial advice, requiring him or her to tell their listeners where they have the majority of their own money working. Also, they should be required to let their listeners know whether or not they personally even have any investment money.

I am not saying that those who do not have money to invest should not be giving financial advice. However, if you knew that the person giving you advice had no investment money of his own, or was not using the investment he was recommending to you, wouldn't you view differently what he had to say?

Well for me, that rule is already in place. All of the dollars that I have are invested in mutual funds following the Fabian Compounding Plan.

There have been occasions when a new client joins us in our money management company, Fabian Financial Services. They ask me where I put my personal money. My answer is, "if I did not put my own money in exactly the same place where I put your money, that would mean I had two plans. The truth is, I am not smart enough to have two plans, therefore we are all invested together."

FABIAN AXIOM #4:

NEVER TRY TO PREDICT THE FUTURE DIRECTION OF THE MARKET

Every day at my office I watch CNBC, the TV financial news channel. All through the day you hear new predictions about what the market is going to do, or not do. Even though these predictions are seldom right, no one ever seems to worry about it nor do they give any recognition to the fact that the predictions that were given yesterday did not come true. They just go ahead and give you another one for today and then they will give you another one tomorrow.

For you and me, it really shouldn't matter what these predictions are. However, a potential problem could develop if you accept any of these predictions. Doing so can create an emotional block. If you accept a particular prediction, either your own or from someone else, it can stand in your way and hold you back when the time comes for you to take some investment action.

I participated on a TV investment panel in Chicago. As the program was coming to an end the moderator went around the table and asked each participant what their prediction was for where the Dow Jones Industrials would close at the end of the current year. Other participants gave their predictions. When my turn came, I told the moderator that I did not know. He became annoyed and said that I must at least have an opinion. I then told him "I cannot afford the luxury of an opinion." He did not understand what I was saying and just went on to the next person on the panel. Having an opinion, just like making a prediction, can prove to be an expensive luxury. Whenever your opinion interferes with your ability to follow the rules of the investment plan you are following, you can pay a dear price indeed.

Instead of relying on predictions, let me tell you what I do. Believe it or not, everyday I talk to the market. In my talk, I never tell IT what I want it to do, because the market does not care what I want. For those people with an open mind, the market will answer any question you ask of it. So, everyday, I ask "Market, I have been invested now for quite some time and I have stayed in the market because it has been in an uptrend. Is the uptrend still in place?" If the market answers yes, I say "Thank you market." And then I simply leave my investments untouched because I have all of the information I need.

I know that one day I will ask the market my usual question: "Market, I have been invested for a long time, I have made a lot of money because I have been participating in an uptrend. Is the uptrend still in place?" And one day the Market will say "NO!" On that day, I will say "Thank you Market". However, now I am going to move out of my invested positions, because now the uptrend line has been penetrated.

I want you to notice something that is very important. Whenever I asked the market where we were, either in an uptrend or in a downtrend, and it gave me an answer, I never asked WHY. They do not pay extra dollars for knowing why the market is going up or why it is going down. If it is going up and you are fully invested, you are making money. If it is going down and you are still in, you are losing money. That's really all there is to it. Therefore, you have to know when to be in and when to be out. It doesn't matter why the trend is up or why the trend is

down. When the time comes to take action, you must follow through. Don't let an opinion get in your way.

To reach my goal, there is no need to predict what the market is going to do. Further, because I do not predict, I never think about interest rates, the deficit, the balance of payments, or who is going to be elected president, or anything else. None of these things have anything to do with making money. There are other people, however, who believe they have to understand these things in order to make money in the market. From my perspective, they are just complicating their lives with no extra reward.

Once again - Never try to predict what the market is going to do. Remind yourself, over and over again, that you cannot afford the luxury of having an opinion.

FABIAN AXIOM #5:
THE FINANCIAL MEDIA IS NOT YOUR FRIEND

If you want confusing, conflicting, dangerous, and near unusable advice, follow the financial media. They continually do investors more harm than good and are particularly loathsome because they come disguised as your friends, with presumably sound financial advice.

The media's interests and your interests are not compatible. You're trying to build wealth, to outpace inflation, to increase your spendable income. They want only to sell more newspapers, magazines, and television shows, to increase their circulation and audience share. They know you want financial advice, and advice is cheap, so they give it to you.

Here is an example of the media "trying" to help you make investing decisions. February of each year is the month for the Annual Mutual Fund Edition of Money Magazine. An acquaintance of mine reviewed and compiled data reviewing the cover stories for the February issues of Money Magazine over a five-year period. This is what Money Magazine touted in their headlines about what specific mutual funds to buy:

Feb. 1992 "20 Great Mutual Funds To Buy Now."

Feb. 1993 "The 12 Funds To Buy Now." Of this list of 12 funds, only one fund name was repeated from the previous year. As a result you would now own 31 funds. (20+11).

Feb. 1994 "The Nine Best Funds To Buy Now." None of these 9 funds were repeats from the previous years. Now you own 40 funds. (20+11+9)

Feb. 1995 "Eight Most Dependable Mutual Funds." None of the 40 previously mentioned funds were mentioned in this year's list. You now own 48 different mutual funds. (20+11+9+8).

Dec. 1995 "The One That Beats Them All!" This fund had not been mentioned

once in the prior four years. Now you would have owned 49 different funds. (20+11+9+8+1).

My personal observation: Have you ever noticed that Money Magazine never tells you when to sell anything they previously told you to buy?

A MONEY MAGAZINE EDITORS AXIOMS.

Senior editor Caroline Donnelly had joined Money Magazine when it began in 1972. After 15 years with the magazine, in 1987, she wrote an article entitled: ***What I Learned***. Here are a few of her observations:

"Nobody, no matter how able or well-intentioned -- not my broker, not my accountant, not the manager of my mutual fund, not my brother-in-law, cares as much about my money as I do."

"Timing is all but impossible, at least for the likes of me. The only way I can hope to be in the right investment at the right time is to use dollar-cost-averaging."

"For me, plain-vanilla investments offer the best return. I don't have the time to research and monitor the tricky ones, so I'm likely to lose money in them."

"My home may be my best investment, but it is a lot of trouble. I don't have to repaint my stocks every five years."

"If I live within my means by a wide enough margin, budgeting is unnecessary."

"I need not feel guilty when I neglect my personal finances because of the demands of my job. I have probably earned a higher return on the energy that I have invested in my career than I would have if I had spent that energy tinkering with my investments, filling out my own tax returns and so forth."

"Despite all appearances, very few people of my acquaintance know what they are doing when it comes to investments or taxes. This is reassuring." (The emphasis is mine.)

If an editor of Money Magazine, who had been with them for 15 years, had come to the conclusions she shared with us, do you believe the month after month advice they offer has much value?

FABIAN AXIOM #6:
AVOID THESE INVESTMENT MYTHS... BUY-AND-HOLD, DOLLAR COST AVERAGING, AND ASSET ALLOCATION

THE TRAGEDY OF BUY-and- HOLD

The following section on Buy & Hold is taken from a report I prepared in the spring of 1991 and updated through 1999.

INTRODUCTION

Mutual fund companies, brokers, financial planners and the financial press always put forth a barrage of statistics showing buy-and-hold as a wise and profitable strategy. However, statistics can be selectively chosen to prove or disprove anything. For this reason, I decided to examine a broad spectrum of stock market data, covering the better part of the 20th Century. I was convinced that the bigger picture would flush out the truth.

In this review you will find the fruits of my efforts. I endeavored to examine every aspect of the buy-and-hold strategy: the historical view, the psychological factor, variations on the theme, money made during bull markets, money lost during bear markets, whether the strategy is practical, prudent, profitable, or, as my experience told me, potentially tragic.

Those who promote buy-and-hold and its close cousin dollar-cost-averaging often have ulterior motives. They have prepared clever and persuasive sales pitches. These sales pitches can be very effective. And so as an advocate for individual investors, I feel a responsibility to help prevent the tragedy of buy-and-hold in the 1990's, to protect wealth, and to let the truth be known.

HISTORICAL PERSPECTIVE

One of the most common investment forms of advice today is invest for the long term. Do not try to time the market. Use a buy-and-hold strategy with dollar cost averaging. You can get this advice free from mutual fund companies, stock brokers, financial planners, the financial press, even from your brother-in-law. But is this a wise and profitable strategy for the future? Or is it a financial disaster waiting to happen? Let's review historical stock market data and you decide.

Historically, the stock market has yielded higher returns over the long term than most other investments. Conventional wisdom says that, even though the market has periodic declines, by investing for the long term you can overcome occasional losses and achieve higher yields. Short term investing, on the other hand, is impractical because the time periods you choose to invest may coincide with market declines. The stock market does have a way of humbling, even the most brilliant market forecasters.

Thus by using a long-term buy-and-hold strategy you will make money during market uptrends, lose some money during market downtrends, but over the long term achieve greater returns than CDs, treasuries, corporate bonds, money markets, real estate, precious metals, and most other investments. Furthermore, you can expect to do better with this strategy than with any other market strategy. After all, the S&P; 500 Index grew nearly 534% during the '80's, returning an annualized rate of 17.55% to buy-and-hold investors. This performance record beats almost all money managers, market timers, and forecaster for the same period.

Sounds logical, doesn't it? There's just one problem. The great bull market of the

'80's was the longest in the experience of everyone's investing memory. In fact, most of the investors in the 90's had not lived through a serious bear market. They do not know what can happen - just how serious their losses can be!

Obviously, you cannot miss with a buy-and-hold strategy in a strong bull market. But in the years to come, do you really expect a repeat of the great bull market of the 1980's and 1990's? Even the most optimistic investors hedge on this question. And for good reasons: the budget deficit, the Middle East War, the drug crisis, inner cities crisis, higher taxes, skyrocketing healthcare costs, possible recessions, possible rises in inflation ... the list goes on.

What's more, while the S&P; 500 Index compounded at 17.55% during the 1980's, it only compounded at 7.81% in the 1960's, and 5.86% in the 1970's (source: Ibbotson Associates, Chicago). This brings the average compounded growth for the past thirty years to 10.41%. That is not a bad rate of return, but remember it was achieved after thirty years of steady, steel-nerved, buy-and-hold investing. Thus, if you were planning to use a buy-and-hold strategy - and believe you are capable of sticking to it - you would be wiser to expect a 10% compounded rate of return after thirty years, rather than a 17% return in the next ten years.

While I do not predict the market, I do expect to see a mix of some good years and some bad years in the future. The bad years are the problem. If a serious bear market develops anytime during the next ten or fifteen years - and historical data suggests one will - you could easily lose 30%, 40%, 50% and more of your investment capital. Losses of this severity would certainly render buy-and-hold a financial disaster.

Since most investors do not take the time to do market research, they are unaware of the enormously destructive power of bear markets. They are also unaware of the precious time and earning power lost on bear markets -- time that only the very youngest investors can afford to lose.

Riding bear markets to the bottom - as every buy-and-hold investor must do - is in fact a double tragedy. The first tragedy is ending up with a lot less money when you finally hit the bottom. The second tragedy is wasting future market advances just making up your prior losses. Smart investors know that market advances are for getting your money to grow, not for simply making up past losses. And this combination of lost money and lost time make bear markets double trouble for every buy-and-hold investor.

Let us look at bear markets since 1929 and see the damage they caused, in terms of time and money lost. See Table 1.2. I have done the research for you, so you can quickly digest the facts. The S&P; 500 statistics show that, on average, a new bear market begins every 5 years, lasts 18 months, causes losses of 39%, and requires 5 1/2 years to break even, if your are using a buy-and-hold strategy. Use a calculator. Determine how much money you will have left after a 39% decline. Also determine what you could earn in a money fund over 18 months. Consider also what you might make over 5 1/2 years, if you were not just making

up losses.

After you have made these calculations, decide if you can afford to use a buy-and-hold strategy for your long-term investment lifetime.

BUY-AND-HOLD IS NOT AS PROFITABLE AS SWITCHING.

People often ask: "Can you sidestep bear markets to achieve high profits, or is a long term buy-and-hold strategy ultimately more profitable?" There are many opinions on this question, but opinions do not mean anything unless they correspond to the truth. So, to find the correct answer to this question, I turned to historical stock market data. *First, I charted a hypothetical $10,000 investment in the Dow Jones Industrials, from October 1, 1926 through December 31, 1990 (over 64 years). Next, I charted the same investment, for the same period, using the Dow Jones Transportations. Finally, I charted a hypothetical $10,000 investment in the Standard & Poor's 500 Index from September 26, 1930 through December 31, 1990 (over 60 years).

For each major indicator, I tracked the buy-and-hold strategy along with the trend-following Fabian Compounding Plan. The Fabian Plan uses a 39-week moving average of indicator's prices to generate buy signals during market uptrends and sell signals

S&P; 500 Bear Market Study

Bear Market	**Duration**	**% Decline**	**Time needed to break even**
Jul '33 - Mar '35	20 months	33.93	2.25 years
Mar '37 - Mar '38	12 months	54.47	8.83 years
Nov '38 - Apr '42	41 months	45.80	6.42 years
May '46 - Mar '48	22 months	28.10	4.08 years
Aug '56 - Oct '57	14 months	21.63	2.08 years
Dec '61 - Jun '62	6 months	27.97	1.75 years
Feb '66 - Oct '66	8 months	22.18	1.42 years
Nov '68 - May '70	18 months	36.06	3.33 years
Jan '73 - Oct '74	21 months	48.20	7.58 years
Nov '80 - Aug '82	21 months	27.11	2.08 years
Aug '87 - Dec '87	4 months	33.51	1.92 years
Jul '90 - Oct '90	3 months	19.92	.58 years
Jul '98 - Aug '98	1.5 months	19.34	.25 years

Bear Market Facts

Definition of a bear market: 20% decline or more

Average frequency of bear markets: Every 5 years

Average duration of a bear market: 16 months

Average decline during a bear market: -33.24%

Average time needed to break even: 3.5 years

Profit needed to break even: 50% gain

Table 1-2

during market downtrends. During the downtrends, the Fabian Plan calls for switching to the protection of money market funds. For the study period, the Fabian Plan averaged no more than two moves in and out of the market per year. While out of the market, I assumed a money fund yield of 6%.

*The readings shown in the daily newspapers for the Dow Jones Industrials, the Dow Jones Transportations and the S&P; 500 do not include the re-investment of dividends. Both the "Buy-and-Hold" statistics and the "Switching" statistics are based on the same newspaper data.

THE RESULTS:

A $10,000 buy-and-hold investment in the Dow Jones Industrials from October 1, 1926 through December 31, 1990 grew to just $164,922. But the trend-following Fabian Plan increased the $10,000 to $1,588,382 - over nine times better.

For the same period, a buy-and-hold investment in the Dow Jones Transportations resulted in the $10,000 growing to just $74,713. But the Fabian Plan increased the $10,000 to $1,991,041 - over twenty-six times better.

A $10,000 buy-and-hold investment in the Standard & Poor's 500 Index, from September 26, 1930 through December 31, 1990, grew to $169,954. But the Fabian Plan boosted the $10,000 to $970,147 - nearly six times better. See Table 1-3

I urge you to verify these findings for yourself. For this study I consulted the following sources: Dow Jones Averages, Centennial Edition, Dow Jones-Irwin, Illinois: Standard & Poor's Security Price Index Record, Standard & Poor's Corporation, New York.

While past performance is not a guarantee of future results, we can learn from history. Certainly next year will not be exactly like last year, or the next five years exactly like the past five years. Still, there are only seven types of stock market activity: 1) the market can rise sharply; 2) it can rise slowly: 3) the market can

60+ Year Study
Performance Results

Buy & Hold vs. Switching

Buy & Hold **$10,000 Starting Value**	**Ending Value**
DJI 1926 - 1990	$164,992
DJT 1926 - 1990	$74,713
S&P; Oct 1930 - 1990	$169,954
Dollar Cost Averaging (Buy & Hold) $100 Monthly Investment	
DJI 1926 - 1990	$559,042

39WAR Trading Rules **$10,000 Starting Value**	**Ending Value**
DJI 1926 - 1990	$1,588,382
DJT 1926 - 1990	$1,991,041
S&P; Oct 1930 - 1990	$970,147
Periodic Investment Plan (Switching) $100 Monthly Investment	
DJI 1926 - 1990	$1,521,167

This model represents a hypothetical example. The rates of return shown above have been calculated by applying historic information provided by reputable sources. These results do not reflect re-investment of dividends, the effect of taxes, management fees, and charges. Past hypothetical performance is not indicative of future earning expectations.

Table 1-3

decline sharply: 4) it can decline slowly; 5) the market can move sideways in a narrow range; 6) it can move sideways in a somewhat broader range; 7) the market can crash.

My research shows, over the past 64 years, each of the seven types of market activity occurred many times. Through this entire period the Fabian Compounding Plan would have worked very well.

What's more, 64 years of stock market price data prove conclusively that the market does move in trends, either up or down, over a period of months or years.

Occasionally, the market moves sideways, but this motion is always temporary.

Sooner or later, the market re-establishes itself in an upward or downward trend. Investors following the Fabian Compound Plan have a distinct advantage over buy-and-hold investors because they know the trend, and thus can switch, during meaningful market declines, to the safe and steady earnings - of money funds during bear markets.

BUY WHAT? HOLD WHAT?

The idea behind buy-and-hold is that you will buy something and hold it over the long term for a good profit. But no one bothers to ever ask the critical question: buy what, hold what? Obviously, you have to choose something to buy and hold. What if you choose the wrong stock or mutual fund? Not every mutual fund or stock will be good over the long term. This idea that you can simply buy something and forget it is foolish!

For example, in 1914 there was a company traded on the stock exchange called McCrary & Sons. They made buggy whips. This company had made quality buggy whips since 1826 with great success. Many people bought shares of McCrary & Sons in 1914, convinced the company would continue to be successful. For a while they were. But after the Great War, automobiles replaced horses and carriages, and the demand for McCrary whips dried up. McCrary tried to switch to manufacturing leather accessories for automobiles, but too late - they were never really competitive. After the Stock Market Crash of 1929, they closed up shop for good.

Also consider the case of 44 Wall Street, one of the best performing mutual funds in the early 1970s. Excited over this fund's stellar track record, hordes of investors bought 44 Wall Street in early 1973. Tragically they invested just in time for the '73-74 bear market, when this former favorite lost 75% of its value.

My point is you cannot afford to use a buy-and-hold strategy without careful selection and diligent monitoring. No stock or mutual fund is good forever. Like it or not you will have to do some trading -- some pruning in your portfolio from time to time. It is odd, but many investors seem to want an easy way out, a free lunch when it comes to their investing. Buy-and-hold has such an appeal because it appears to be easy. But I am here to tell you that, in investing, as in life, there is no free lunch.

Imagine buying-and-holding 44 Wall Street and riding the '73-74 bear market to the bottom. Imagine if you had invested $50,000 in this fund and at the bottom of the bear your statement read $12,500. How would you feel then? With a loss like that you would need 300% gain to break even. How easy do you think it is to get a 300% gain?

As far as I am concerned buy-and-hold is about the same as stick-your-head-in-the-sand. Once you understand that you will have to do some trading to protect your wealth, you will also understand that your trading must include avoiding bear

markets. Just as stocks and mutual funds are not perennially good, markets are not endlessly bullish.

THE FALLACY OF DOLLAR COST AVERAGING

Those who insist you cannot profitably move in and out of the market base their opinions on the uncertainty of market forecasting. And they are right. Investors who attempt to time the market on predictions usually end up doing worse than those who follow a straight buy-and-hold strategy.

Still, buy-and-hold has its drawbacks, especially if you buy in at market highs which many investors often seem to do. So in order to improve the profitability of buy-and-hold, promoters recommend dollar-cost-averaging -- the practice of making consistent periodic investments over the long term. The idea is, if you make steady purchases ($500 per month, $1,000 per quarter, etc.), you will buy some shares at a high price, some at a low price, and some at an average price, and thus do better than if you make a lump-sum purchase or were to make random purchases at your own discretion.

All of this sounds logical but dollar-cost-averaging is essentially a sales gimmick. It was most likely invented by a stockbroker seeking a way to make sales commissions in a declining market. One day, as the story goes, this broker called his client and recommended XYZ Company, and so his client bought 1000 shares. But then a few days later the price of XYZ fell 10 points and the broker was worried sick about what his client would say. So he took the offensive. He called his client and said. "I've got great news! XYZ has dropped 10 points! Now we can buy more shares at a bargain price!" Most likely that is how dollar-cost-averaging was born. It has been refined and promoted in more clever ways ever since.

People do not have the stomach for buying stocks or mutual funds in a declining market and that is why dollar cost averaging does not work. For example, suppose you have been following a $500 a month dollar-cost-averaging program, and the market has continued to climb over several months or even years. So far, so good. But then suddenly the market turns down, the following month it drops lower, and the next month, lower yet. You are still investing $500 per month, but now you are beginning to worry. You watch the market decline again the following month and again the month after that. How long can you keep this up? Maybe you will watch your account value shrink for six or seven months, but sooner or later you will think twice before throwing good money after bad. And that is why dollar-cost averaging does not work. Emotionally you cannot see it through.

Although in theory buy-and-hold and dollar-cost-averaging work well during bull markets, they are certainly impractical during bear markets. Perhaps you have noticed that buy-and-hold promoters conveniently use 1980 and 1990 statistics to back up their arguments. But remember that during that period of time, we experienced the longest bull market in the life experience of many investors.

Now those years are behind us. What are the chances of an encore performance

in the next two decades? In fact, sometime during the next decade we will probably see a serious bear market. If so, buy-and-hold investors will lose 30%, 40%, 50% and more of the investment capital. While dollar-cost-averaging may be an improvement over a straight buy-and-hold strategy (provided you are capable of following it faithfully), it is no match for a strategy that successfully avoids bear markets.

Here's proof: We tracked a $100 dollar a month investment in the *Dow Jones Industrials, from February 1926 through December 1989, using the dollar-cost-averaging strategy and the trend-following Fabian Compounding Plan. The Fabian Compounding Plan generated buy signals during market uptrends and sell signals during market downtrends. Sell signals call for a switch out of equities and into money funds thereby enabling followers to avoid bear markets.

The results of this comparison study show that the trend-following Fabian Compounding Plan is nearly 3 times more profitable than dollar-cost-averaging. In conclusion, the idea that dollar-cost-averaging is a valid investment approach is a fallacy. See Table 1-4

*The readings shown in the daily newspapers for the Dow Jones Industrials do not include the re-investment of dividends.

BIG ADVANCES FOLLOW BEAR MARKETS.

We have talked about the tragedy of riding bear markets to the bottom and losing a substantial portion of your investment capital. And we have touched on the tragedy of wasting future market advances just getting even again. But there is an even greater tragedy than either of these: Missing out on the advances that follow bear markets.

When we talk about buy-and-hold, we talk about it theoretically. We assume that an investor following this strategy actually buys and holds a stock or mutual fund over several years. But the psychology of buy-and-hold investing forces another, more common, scenario -- that of selling at the bottom and missing out entirely on the big advance that follows every bear market.

Arguments for buy-and-hold are always structured on hindsight, i.e., if you would have bought this mutual fund ten years ago, you would now have ---, etc. The problem is that in the real world of investing, nobody has the advantage of hindsight. In actual practice it is emotionally very difficult to hold on to a stock or mutual fund in a declining market. If you are an experienced investor you know this is true. Most often investors buy high and sell low. The reason for this is that investors act emotionally rather than rationally. When the market is going up, investors become optimistic and buy. When the market is going down, investors become pessimistic and sell.

Fed up with the market and sick with losses, many investors sell at or near the bottom. Some leave the market for good. Others quit the market for several months or a year. The problem with this later group is that by the time they jump

back in they could have missed the biggest part of a new advance. Usually the biggest portion of the advance occurs within the first nine months following a bear market low.

Investors who have suffered bear market losses seek greater safety so they put their money in CDs, treasuries, even in tin cans which they bury in their backyards. Ironically they desperately need the larger stock market gains to get even again. If they earn just 5 or 6 or 7% in a CD, they can not begin to make up their losses and that is why this tragedy is the worst one of all.

In Table 1-5, you can see the dramatic advances that followed the twelve bear markets since 1929 -- on average, a gain of 124% each. If you are serious about accumulating wealth, you must use these special opportunities for getting your money to grow. It is tragic to waste them making up bear market losses, and even more tragic to miss them entirely. The solution is not to leave the market and the high profits it can yield, but instead to avoid bear markets in the first place.

ASSET ALLOCATION

The Asset Allocation concept became popular following the 1987 market crash. According to proponents of the approach, the main benefit of asset allocation is that it provides added investment flexibility that you do not have when using just one investment segment.

To back up this claim advocates point to studies of various market segments over time. For instance, if you look at international stocks, precious metals stocks, corporate bonds and domestic U.S. stocks over a ten-year period, (source, Morningstar, ten-year date range from 12/31/83 - 12/31/93) you find that U.S. stocks outperformed the other market segments during three of the ten years. International stocks outperformed the other sectors four out of ten years. And precious metal stocks and corporate bonds each outperformed the other sectors two years out of ten.

Since no single market segment is always the top performer, proponents advocate spreading your money out among various market segments. In this way, they say, you will be able to adapt to any and all economic and investment climates.

In theory no one can argue with this logic. However, the actual method followed by many advocates of asset allocation leaves obvious drawbacks which seem to be in direct opposition to

S&P; 500 Index
Advances Following Bear Markets

Bear Market	Total % Advance

Sep '29 - Jun '32	+	177.27
Jul '33 - Mar '35	+	131.64
Mar '37 - Mar '38	+	62.24
Nov '38 - Apr '42	+	157.70
May '46 - Mar '48	+	259.39
Aug '56 - Oct '57	+	86.35
Dec '61 - Jun '62	+	79.78
Feb '66 - Oct '66	+	48.05
Nov '68 - May '70	+	73.53
Jan '73 - Oct '74	+	125.63
Nov '80 - Aug '82	+	228.81
Aug '87 - Dec '87	+	64.77*

*Through 7/16/90

Table 1-4

the logic. The concept is to select a number of asset classes. For example, 50% to equities, 25% to bonds, 10% to precious metals, and 15% to others. The idea is to select asset classes that are not closely correlated, so that while one asset class is declining, another will be moving up. Ideally this will provide positive rates of return in all markets, but not as high a return from a trend following plan covering all investment areas of the world.

There is an investment approach known as Modern Portfolio Theory (MPT) that defines exactly how a portfolio should be allocated among various asset classes so as to maximize return for any particular level of risk. These allocators "re-balance" portfolios periodically to conform to the formulas of MPT, but there are seldom dramatic shifts between asset classes. Typically, the portion of capital invested in any particular asset class will change no more than a few percentage points at each rebalancing.

Most investors following the traditional asset allocation approach (either in a specific asset allocation fund or as an investment strategy) always have some money invested across all market segments - regardless of which individual sector is the current high performer. This means that gains in certain segments could be negated by losses in others. In the end, this equals flat performance.

In addition, investment recommendations in traditional asset allocation strategies are primarily based on forecasts. In other words, predictions on how different market segments might perform in the future rather than analysis of their current trends.

Wouldn't it make more sense to be primarily invested where the current evidence points to the highest potential for gain? In this way, you can avoid the need to be invested, at least with some money, in all segments, at all times. Instead, doesn't it make more sense that at any one time you may be holding more than only one particular type of fund? For instance, if the domestic equity market were the only market segment showing a strong uptrend, your portfolio could consist of only domestic equity funds. At other times you could be 100% invested in money market funds. This is a protective measure which helps you to reduce risk in the event that no market segment is in a distinct uptrend.

FABIAN AXIOM #7:
THE VALUE OF TREND FOLLOWING

The success of the Fabian Compounding Plan can be credited to our simple trend-following approach to investing. Before proceeding any further there is one very relevant factor that everyone must absolutely recognize.

The Fabian Compounding plan does not use
MARKET TIMING!!!
It is built on TREND FOLLOWING.

In the future, during the years while you will be following the Fabian Compounding Plan, you must keep reminding yourself of this truism.

There is a significant difference between "market timing" and "trend-following."

Market timing is predicated on predicting the future direction of the market. Its objective is to be positioned in an investment before a new trend develops. We all know how unreliable predictions have been in the past.

Trend-following, on the other hand, depends only on discipline. Without exception everyone has the capacity to be a disciplinarian and follow simple rules.

My trend-following plan was adopted to help investors preserve capital during declining markets. It has always been my belief that the only people who can ever be wiped out by a severe and long lasting market crash, are those who participate in such declines. Trend-following enables us to stand aside.

My trend-following strategy, because it enables investors to step aside during meaningful market declines, increases their comfort level. As a result, our followers are willing to commit a larger percentage of their total available investment dollars than they would be willing to commit to other more complicated and therefore risky plans.

I developed the trend-following investment approach to avoid bear markets like the one I participated in during 1969. My approach adopts what might be called a buy-and-hold approach during bull markets, and then moves to money funds or

other safe vehicles during bear markets. To the extent that an investor successfully follows this approach, principle is preserved while the market is falling and then one participates again once a new bull market (up-trend) is recognized.

At the beginning our trading strategy focused on equity-based domestic mutual funds nearly exclusively. Over the years, when many new and different types of mutual funds became available, we expanded the areas of the world and sectors of the market that we use in our trend following process. With so many choices now available, our strategy is to buy whichever asset class is moving up most rapidly. i.e., highest momentum. After we are invested we monitor each position against a performance yardstick. If an existing position falls appreciably below the performance of the yardstick, we "rotate up" to a new invested position with a higher momentum.

DOES TREND-FOLLOWING WORK?

The financial media does not approve of anyone who advocates "trading" mutual funds. Because of this I felt you would find the following article interesting. It appeared in *The New York Times* on Oct. 4, 1998 entitled *"Is the Time Right for Market Timing?"* Written by Mark Hulbert following the severe market decline that took place during August and September 1998. Here are some excerpts from that article:

"What a difference two months can make. As recently as this summer, the debate between market timers and buy-and-hold investors was all but dead. Buy-and-hold investors had declared victory, and few were disagreeing. But now, with the broad market down 20% from its midsummer highs, the faith of buy-and-hold investors is being tested.

"How should you decide whether to try timing the market? Begin by acquainting yourself with the compelling statistical case against it: Fewer than 20% of market timers are able to beat a buy-and-hold strategy on a risk-adjusted basis. Buy-and-Holders, however, mistakenly consider the matter to be solely about statistics. Investors don't give up on a buy-and-hold strategy because they are ignorant of the data. They do so because they can't take the psychological pain of an extended market decline.

"The lesson, of course, is that you shouldn't wait until the bottom of the next bear market to discover that you're a closet market timer. After all, investors who try to execute a buy-and-hold strategy but lose nerve at the bottom of the next bear market will likely be worse off than investors who pursue a thoughtful market-timing strategy that looks inferior on statistical grounds. Latter-day converts to the buy-and-hold strategy assure me that they won't be foolish and throw in the towel in a bear market. But I don't believe them.

"Why is it so psychologically difficult to stay fully invested, when it's statistically clear that most investors would be better off in the long run if they did? The long run is much longer than the typical investor's attention span. Nevertheless, the

psychological strain of buying and holding shouldn't seduce you into thinking that following just any market timing system will do better. Not all market timers are created equal. There are a select few market-timing newsletters ' just five among all those that I have tracked over the last 15 years ' that have shown that they can immunize investors, relatively speaking, from more risk than the performance they may forfeit in the process." See Table below.

Switch-Hitters

The best-performing market timing strategies of the investment newsletters monitored by the Hulbert Financial Digest. Returns are those for the Wilshire 5000 index when the newsletter recommends investing in stocks and for the 90-day Treasury bill when it is out of the market.

Newsletter	***Annualized Return Dec 31, 1982 Aug 31, 1998***	***Risk* vs. Market (Market = 100)***	***Avg. Number of Switches** a Year***
Systems and Forecasts	+17.0%	73.7	16.6
Wilshire 5000 value-weighted total return	+15.6%	100.0	0
Market logic	+15.1%	52.4	31.4
Fabian Premimum Investment Resource	+14.8%	78.7	1.7
The Elliott Wave Theorist	+12.0%	50.1	1.2

*Risk calculation is based on standard deviation.

**"Switches" refers to strategy switches into or out of the market.

Source: Hulbert Financial Digest, October 1998.

Table 1-5

FABIAN AXIOM #8: MONITORING - THE KEY TO LONG-TERM SUCCESS

It is necessary for you to know if the investment plan you are considering has the potential to attain your goal and at the same time provide you with a high degree of comfort. To assure yourself of attaining both of these objectives, you must first examine the past history of the investment you may be considering.

It is important to review the past. You must decide if you believe your investment

plan has the potential of attaining your goal. You wouldn't want to waste your time on a plan that can't meet the goal, nor do you want to waste your time with a complicated or stress-producing plan that you would more than likely abandon later.

There is another big advantage to following a plan that you are comfortable with before committing your serious money. It means you will able to monitor the plan after your serious money has been put to work. Checking the progress of the plan while your money is working, to see that it is meeting the goal, this is monitoring. Monitoring let's you know you are on target. This keeps your comfort level high and, even more important, keeps you motivated to remain committed. Eventually, it helps you to find more money to put to work.

FABIAN AXIOM #9:
PRACTICE PATIENCE

Putting first things first. The primary reason you are investing all of your serious money is to strive to reach the goal of 20% annualized compounded growth. Furthermore, to keep your comfort level high, you always want to know that you are continually on target to attain that goal. You accomplish both of these objectives by monitoring. What I have just described is the development of "a state of mind."

Even though this is true, human nature dictates that many investors will feel they have to be making money all the time - every single day. I wish it was so, but that is not the way it works.

In the big picture, the market can do only three things. It can go up, it can go down or it can move sideways. When the market is clearly moving either up or down, it is easy to be in tune as to what you and your investments should be doing. It is the side-trading range that will prove emotionally difficult. Often these "trading range" periods take place during a transition, from an up market to a down market or vice-versa. At other times, they take place while the market takes a breather, a pause to refresh. These gray areas can cause extra trading. Such times as these, may make one more susceptible to listening to the predictions of others regarding the future direction of the market. During these times, you are frustrated while trying to recognize the current market trend. This is when patience will pay a big dividend.

A successful Fabian Compounding Plan investor does not allow himself to be concerned whether the market is going up or down, as long as they are along for the ride on the right side of the market (in or out). It is wise to take to heart the old sayings, such as "go with the flow", "never fight the tape" or "don't ever say the market is wrong."

FABIAN AXIOM #10:
MAKE TAX-DEFERRED INVESTING A TOP PRIORITY

One of the best ways to maximize the power of compounding (and minimize the

effects of taxation) is to use tax-deferred investment vehicles. These enable your accounts to grow free of current taxation and thereby compound at a faster rate.

The Fabian Compounding Plan, with mutual funds, is ideal for use with tax-deferred vehicles. That is why everyone is encouraged to take maximum advantage of those that are available to them. Tax deferred investments include Individual Retirement Accounts (IRA's), Roth IRA's, Simplified Employee Pensions (SEP's), Keoghs, 401(k) and 403(b) plans and variable annuities.

The IRA is the simplest vehicle to use, but permits only modest annual contributions. The SEP and Keogh are primarily for self-employed persons, but allow much larger contributions. The 401(k) and 403(b) are used by corporate employees and also allow generous contributions. The variable annuity can be used by anyone and allows very large contributions, although, unlike the other vehicles, contributions must be funded with after-tax dollars.

The basic difference between qualified and non-qualified investments is that qualified vehicles (e.g., the IRA or 401(k) are funded with pre-tax money, and non-qualified vehicles ---e.g., variable annuities) are funded with after- tax dollars.

It is important to remember that while qualified plans can help alleviate your tax burden every year, they will not eliminate it altogether. (The exception, at retirement, being the Roth IRA.) At some point after you retire, taxes will come back into the picture again. In the meantime, you just cannot beat tax-deferred compounded investing for building wealth.

The decisions you make in choosing a specific tax deferred vehicle to use, will have a long-term impact on your financial future. You should seek out adequate counsel in selecting a plan. On the Internet, you can find general information on each of the available tax deferred plans. One such site can be reached at - www.quicken.com/retirement/ --

OBSERVATIONS

401(K)

In 1999 there were 27 million Americans participating in their employers' 401(k) plans. Collectively this group's investments were worth more than $1 trillion. At least 10 percent of these accounts were worth more than $100,000 but half of them were worth less than $10,000. This would indicate that many participants are not investing their full eligible amount.

Each passing year, more trading choices are being made available for 401(K) participants. These additional options have caused confusion. Many participants feel they are not capable of making the "proper" investment decisions. Hopefully my "goal oriented" strategy in my book *The Mutual Fund Wealth Builder* will assist them.

VARIABLE ANNUITIES

Variable annuities offer the potential for tax-deferred growth over the long term with virtually no limit to the amount of money that can be invested. Other qualified plans usually offer many more investment options than can be found with variable annuities. Therefore, everyone should first maximize their investments in whatever qualified plan are available to them and then consider using variable annuities with "excess" long-term investment dollars.

To maximize your potential for a high compounded growth from your investment, consider only variable annuity products which offer at least 15 different mutual fund options.

Never consider putting a qualified retirement plan into a variable annuity.

NOW THE REST IS UP TO YOU

Now that I have spelled out the significance of each of the Ten Fabian Axioms, I urge you to sit down with your family and fill out the Personal Financial Snapshot located in the Axiom #2 section. Take sufficient time so that you know you have covered everything. This is the **first step** in the wealth-building process.

Next answer the first three HOWS which are outlined in Axiom #1.

Once you have completed these simple steps to setting your own Personal Financial Long-Term Goals, you are now ready to answer the 4th HOW. The simplest answer is to follow the trending approach with the Fabian Compounding Plan.