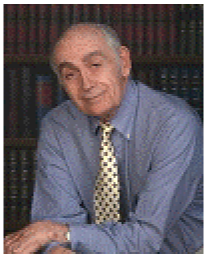
Q&A with Dick Davis



"The award-winning financial blogger, Charles Kirk, posted the following lengthy interview with Dick Davis on his website** www.thekirkreport.com **on December 19, 2007."

The best is often saved for last and that is exactly the way I feel about the final Q&A of 2007.

As many of you already know, I have highly recommended *The Dick Davis Dividend*, a new book by the esteemed Dick Davis. It is a great honor for me to post a Q&A with Mr. Davis and I am sure you'll enjoy it as much as I have. For those who find this Q&A interesting, I also encourage you to visit Mr. Davis' website (thedickdavisdividend.com) for more information. I've already received positive feedback by a number of members since I recommended this book a few weeks ago.

Even though Mr. Davis provides many perspectives in this Q&A, it is not even a minor substitute for reading his book. *The Dick Davis Dividend* is so insightful, comprehensive, and detailed (not to mention incredibly well written) that there are major concepts and some extremely helpful information I have purposefully left out of this Q&A. My goal here is simple: 1) to offer a helpful introduction to Mr. Davis and his views, and 2) inspire you to read one of the best books I've ever come across in some time. I hope I achieve both of these goals and that, if you haven't read it yet, you find his book as useful as I have.

One of the great privileges of running this website is that I've developed relationships with some people who are far more experienced and knowledgeable about the markets than I am. Mr. Davis is one of those people. As a long-time member of The Kirk Report, Mr. Davis has served as both a personal mentor and collaborator in many ways through the years. From offering hundreds of suggestions to what I call my link posts, to feedback concerning links and features I cover at the website (i.e. lazy portfolios), to spreading the word out about the website, Mr. Davis has been and continues to be a major positive influence. I was one of many who offered encouragement for Mr. Davis to write this book, and he has managed to include the immense amount of perspective and insight that one can only gain after the kind of life experiences he has had over the past 40 years.

Like many great books on investing, Mr. Davis' number one goal is to help others invest more intelligently and more successfully. Many people talk the talk, but don't walk the walk. Mr. Davis is the exception and not the rule in this regard. Even while in retirement, he dedicates himself to helping others do better in the market and even offers a **free weekly investment class** in Florida to help average joe investors. His humility, yet savvy understanding of how the market really works, is both unique and impressive. It is an honor to know Mr. Davis and an even greater honor to feature him in this month's Q&A. Let's get started!

Q&A With Dick Davis

Kirk: Hi, Dick. I know you've read your fair share of these Q&A sessions to know how they work. Please start by telling us something about your background and how you got into the securities business.

Davis: First, I want to thank you for the opportunity to reach your readers. I have read your site every day for years and the questions submitted in your monthly Q&A reveal an unusually informed and responsive readership. Second, although there are compelling reasons for long-term investors like me to come to this site, many of the long-term oriented suggestions in this interview would prove dead wrong if applied to short-term trading.

Kirk: Yes, it is important for readers who haven't read the book to understand that you have a long-term bias in your strategies toward the market. Yet, I still think there are many concepts in the book that I think are just as helpful to everyone, even those only focused on short-term strategies. We'll try to cover a few of both in this Q&A to offer some food for thought for everyone. With that said, please tell us about yourself.

Davis: I was born in 1928 and raised in Yonkers, NY. I went to Horace Mann School for Boys, Hobart College, Syracuse University and University of Miami with majors in English literature and accounting. I served in the Army Counter Intelligence Corp in Japan during the Korean war.

My father was active in the stock market and that’s what triggered my interest. It was over 50 years ago but I still remember his broker’s name—Joe Huckle with the Merrill Lynch office in Miami Beach. He was a real gentleman and his phone-calls to my father were the highlights of my dad’s day. In 1958 Merrill put an ad in the Miami Herald for account executives. Over 500 answered that ad and they hired 5 of us (the connection with Joe Huckle probably didn’t hurt me). I was never comfortable selling because I got tired of saying “I don’t know” in response to questions about the market or individual stocks.

I thought the securities business was exciting, so, in order to stay with Merrill, I had to create a job for myself. I always thought the stock market reports on radio were dull and uninteresting. I felt I could do better. I talked a radio station into letting me do a 15-minute in-depth report at drive time with permission to mention my affiliation with Merrill Lynch at no expense to the firm. For the first time, a market report was more than just closing prices read by a news reporter who knew little about the market. My report included the latest stock recommendations from the nation's leading market gurus like Granville, Prechter, Zweig, Allmon, Weinstein and Fosback (they gave me permission in exchange for the leads and exposure). The report filled a need and developed a large following.

From radio I went to television (the CBS outlet in south Florida) and then I initiated a nationally syndicated stock market column in the Miami Herald via the Knight Ridder newswire. Between radio and TV, I broadcast 6 times a day. That, along with a 3 times a week column in the Herald gave me saturation exposure in south Florida. I broadcast uninterruptedly for some 20 years and, because of the continuous exposure, mine became a household name to investors in south Florida. I offered free research reports on the air, which enabled me to distribute thousands of "leads" to the brokers, which kept Merrill Lynch happy. I was the only employee of a NYSE member firm in the country to work full time as a broadcaster (I did no selling).

Then I decided to launch an investment newsletter. I devised a format where I wouldn't have to recommend stocks. The Dick Davis Digest offered a cross-section of recommendations from the nation's most popular "gurus"—those with the best track records. The "Digest" filled a need and was profitable almost from the get go. My contribution was choosing and editing the excerpts and a page one "Personal Note" where I commented mostly on the psychological aspects of investing. In 1989 I sold the "Digest" (the new owners bought the name; it's still going strong but I have no affiliation) and I was able to retire on the proceeds of the sale. I moved from Miami to Boca Raton.

I have done some writing and speaking in recent years but most of my pre-book time has been spent preparing for a free weekly class on the stock market open to the public. My teaching has focused on the things I write about in the book. In fact it was the desire to reach many rather than the few in class that led me to the book. I've worked on it with a passion—7 days a week for almost 4 years. One of the difficulties in writing a first book is that, although you hope that what you're writing matters, you never know for sure.

Kirk: Was the desire to reach a wider audience a major reason for writing The Dick Davis Dividend?

Davis: Yes. I think if someone feels he can help other people, he should try to do it. After interacting with investors for 40 years, I felt I had something to say that could help others. I could be dead wrong. Ego may have clouded my judgment and the almost 4 years I've spent exclusively on this book may turn out to be a giant miscalculation. But all we have to work with is our judgment and mine has told me to go full steam ahead.

Kirk: In my opinion, the only miscalculation you've made is judging how good your book really is. Even on my second and third readings of it, I found material there that I think offers tremendous help to anyone who is serious about improving his performance. My main critique of the book has to do with the fact that there was just such an enormous amount of high quality stuff there that I fear that some of the message will be lost. The four years of daily effort that went into this book really shows and I think only through copious note taking and rereading will readers truly get the maximum benefit from it. Moreover, I think you say some things that many people probably don't want to hear in the current "get rich mentality" especially among new market participants.

In the book you present a large number of opinions based on your 40 years of interaction with the investment public as a radio and TV broadcaster, teacher, speaker, newsletter editor, and columnist. What would you say is your most controversial opinion that you think the investor should be aware of?

Davis: Probably my conviction that the popular advice, "do your homework" is totally misguided. How can I be so presumptuous as to criticize advice that sounds so plausible and is so widely espoused? First, because I'm limiting the meaning of the word "homework" to stock specific research—i.e. learning all you can about a particular stock. This type of research is mostly a waste of time, especially the study of numbers and ratios. Most of us don't have a clue how to interpret numbers. And even if we did, if we knew everything there is to know about a stock, there's no way we can know how the market will respond to what we know, not to mention the fact that others know what we know, before we know it.

Most of us have a limited amount of time we can devote to "homework." It's my contention that time can be more productively spent reading a great investment book that's stood the test of time (I have a list of favorites in my book) or, lets say, reading the easily accessible annual letters to shareholders from Warren Buffett. Advisers mean well when they say, "do your homework" but, in my view, learning cash flow ratios or inventory turnover or studying SEC filings, which Jim Cramer advises, is totally unrealistic. Most of us just don't have the ability. And if we did, if we were all CPAs, that skill would be mostly negated by the perversity and randomness of the market itself. Of course, none of this applies to short-term trading where preparation means everything.

Kirk: I know I've recommended that readers do their own homework, but I would agree that your point is both valid and realistic. Most investors, including me, do not have the time and skill required to do homework at the level often recommended. In fact, many in this business use it as a cop out of sorts to avoid any sort of financial liability when recommendations go sour. In other words, it's the old game of I will always take credit for your investment winners, but if you end up losing money, it was your fault for "not doing your own homework." That's not an equal or fair relationship, is it? How do you recommend investors deal with this conflict?

Davis: You can study till you're blue in the face and still be a loser. If you're aware of this, you will not be intimidated by anyone who says you took a loss because you didn't do your homework. If you do lots of homework, pick a stock and it does go up, that rise may be related to your findings, but it is far more likely that it went up for any of 100 other reasons. Like many oft-repeated clichés, "do your homework" sounds like unassailable, irrefutable logic but it simply isn't. The most we can say is that the longer you hold on to a stock, the more likely your homework findings will come into play and be a factor and the less likely luck will be a factor. I treat this whole subject of the futility of "homework" extensively in the book.

Kirk: I have never had the privilege of attending one of your classes (that is something I'd like to remedy in 2008). But, from what you outline in the book, I'm sure I would like it and would learn quite a lot. In the book, you say that you've never made any stock recommendations or market forecasts. How do your students let you by with that?

Davis: They're not happy with it. They'd much prefer that I give a definitive opinion like everybody else does. Instead I say, "I don't know. But here's a list of all the reasons I know why the stock (market) should go up and another list of all the reasons why it should go down." It's not a very satisfactory reply but it's the only one I'm comfortable giving. My students in class will often say that leaves them more confused than ever. My response is "that's because the market **is** confusing, not to mention perplexing, puzzling and unfathomable. If you're not confused, you don't understand."

Kirk: I must say that evaluating investment ideas through listing the pros and cons is valuable. It is something I've also discussed many times over the years. Can you give us a good example of the pros and cons of any stock of your choice?

Davis: There are always both positives and negatives on a stock. Being aware of all the good and all the bad is the only way to get the complete picture. It enables the investor to clue in on what's motivating the person on the other side of the trade. And it avoids future surprises that result from knowing only one side of the story. (Morningstar is the only service I know that attempts to list both the major positives and negatives of the more popular stocks. It's not a detailed list, but it's a step in the right direction.)

For example, lets take Apple (AAPL) and list the major pluses and minuses. (It would be the same process for any other stock or for the over-all market itself.) Since far more stocks are recommended for purchase than sale, Wall Street usually focuses more on the positives than the negatives. So when you draw up your list, the plus side is likely to be longer than the minus side.

Apple (Positives or Reasons to Buy):

- Robust earnings growth expected in both consumer and corporate markets
- Extraordinarily high profit margins
- Strong cash balance and zero debt
- Leads industry in innovative technology
- Big head-start over competition
- Bright prospects for new I-Phone and spinoff products
- I-Pod remains extremely popular and continues to spawn derivative products
- Excellent reception for new Intel-based Macs
- Wide acceptance of its user interface software
- Sales of Macintosh computers the last 5 years expected to increase 3 to 4 fold over the next 5 years; biggest growth story in the PC industry
- Retail stores bringing in new buyers for the products
- Significant increase in insider buying
- Bullish technical outlook on both short and long term charts
- Recent bullish cover story in Barron's

Apple (Negatives or Reasons to Sell):

- Must depend on successful new product launches to maintain profits
- A slowdown in innovation could cause declining margins
- Increasing competition
- Long term success for I-Phone far from certain
- Dependence on others for key I-Tunes content
- Questions regarding the company's option accounting
- Unusual dependence on the leadership of one man
- Historically high price earnings multiple may already discount the company's bright prospects

Brokers recommending the purchase of a stock rarely can or want to list all the negatives. It's up to you to press, and if they don't know, have them ask their research department and get back to you.

Kirk: Indeed, like most things concerning the market, to gain your edge you must know both sides of any situation and then make a judgment call or educated guess. By listing the pros and cons of any stocks you're involved in in this way, at least you'll have a solid understanding of the situation.

Getting back to the book, what else do you feel strongly about that's little discussed elsewhere?

Davis: The whole question of the irrelevance of news gets a lot of space in my book. As important as keeping abreast of the news is to the trader, that's how unimportant it is to the long-term investor. Maybe 1% of the news represents basic, fundamental change and may or may not require action on the part of the investor (that judgment usually can only be made in retrospect). The other 99% is irrelevant; it is a hardly discernible dot on the long-term chart. It takes on significance only when it is repeated and starts to form a pattern. (In other words, higher earnings are followed by higher earnings followed by higher earnings, etc.). Rarely is it necessary for the long-term investor to act on news. A critique of CNBC in the book is titled "The Worst You Can Do Is Be Totally and Instantly Informed." The news is never as bad or as good as it's made out to be when first released.

A corollary of the irrelevance of news is the misuse of news by the media in explaining what happens in the stock market or in a particular stock. This is a pet peeve of mine which I probably devote too much space to in the book—because I don't see it discussed elsewhere. My sensitivity is likely due to my background. Most people who have been in this business for a long time have been brokers, or money manager/advisors or analysts. I am a product of the media. I've been dealing with news and the market for decades—as a broadcaster on radio and TV, and as a writer of my own newsletter ("The Dick Davis Digest") and of a nationally syndicated column.

What's exasperating to me is that the investing public has been led to believe by an innocent, well-intentioned but ignorant media that whatever news is used to explain the move in a stock or in the market is, indeed, the actual reason for the move. The truth, of course, is that it may be or it may not be. The only time we know for sure is if the news involves surprise. The market soared 300 points when Bernanke cut interest rates a full half percent because it was a surprise. The market plummeted 500 points in one day in 1987 but there was no surprise news so, to this day, no one knows for sure why it happened that particular day.

There's always a column A (good news) and a column B (bad news) on the market and on a stock—always. So the media uses an item from column A to explain an up move and an item from column B to explain a down move. It's the logical thing to do, but the market is illogical. The broadcaster reports a stock is down because of lower earnings whereas the truth is the stock went down because the president of the company sold a big block of stock to satisfy a divorce settlement. In the book I list close to 50 reasons why stocks may move that have nothing to do with the news. It is a futile exercise to try and explain what is often inexplicable.

This use of "logical" reasons to explain market moves has been so deeply ingrained in our psyche for so long that few question its validity (the emperor wears no clothes). I think it should be made clear to investors that the causes cited definitively by the media are guesses at best. Once the media recognizes that the market is king and final arbiter, that the market will do what it has to do to make the majority of people wrong, that its actions cannot be explained definitively, that it is an enigma, unfathomable, unpredictable and illogical--and candidly conveys that sense of uncertainty and guesswork to the public, the latter will be better served. Because the media consists of human beings who, even if they're savvy, want to keep their jobs, that type of full disclosure will never happen.

In the book, I also address the sticky question of why, at 1:10 pm on a rainy Thursday afternoon the market suddenly makes a sharp move with the exact same news background that's been around for days, weeks, or even months. It's a lengthy discussion, the bottom line being no one knows why-- but emotional factors triggered by the unsettling action of the market itself likely play a major role.

Kirk: I think this is one of the strongest points in the book. In a day and age where I think investors suffer more from information overload than underload (and perhaps I even contribute to that in some manner), I think your perspectives in this area are not to be missed. The fact that you worked in the financial media in several capacities only adds credibility to your insight along these lines. To say the least, I don't think I'll ever watch another program on the market in the same manner.

As someone who tries to explain market patterns and the reasons behind market moves on any given day, I admit I'm guilty as charged for this same line of useless banter at times. The truth is that many market movements can't be easily explained and I suspect that as program/quant trading gains a larger influence over the market that will become even more true.

In the book you state your belief that "one of the worst things that can happen to a long-term investor is to be instantly and totally informed about his stock." How do investors tune out the constant barrage of news, views, and constant flow of useless information they must deal with in today's modern era?

Davis: Once the long-term investor understands why too much exposure to the media is unhealthy, it'll be easier for him to reduce or erase that exposure. We're ruled by emotions. If you watch CNBC over a long period of time, it is likely you'll hear news about your stock somewhere along the way. That news, reported by an animated reporter in a sharply rising or falling market can sound earthshaking at the time. It can easily trigger your fear/greed button and cause you to take action that, after the dust settles, proves imprudent. There is very little news that proves significant to the long term prospects of a company. Because reporters, brokers and other media people are mostly clueless regarding the irrelevance of news, they think it's important for you to know what they're reporting and that they're performing a service by keeping you informed. They are not. It is, in fact, a disservice because it may well cause you to disturb sound long-term positions. The vast majority of news requires no action. Its impact is no more than a dot on a long-term chart. Knowing this should help the investor "tune out."

This is not to say you cannot learn from the media. There is always interesting and useful information. Moreover, some people simply like to stay informed. The key is the ability to filter out the emotionally charged news (which can always be better evaluated when calm is restored). That's difficult to do, which is why a dollar cost averaging approach has so much appeal. It allows complete isolation from the news and protection from emotional triggers.

Of course there's one thing that makes it extremely easy to turn off the "static." In bad markets, investors are happy not to have to watch the daily deterioration of their net worth. The result: unopened brokerage statements and a decline in "tout TV" viewership.

Kirk: A recurring theme throughout the book has to do with the fact that "nobody knows the answers." Can you explain what you mean?

Davis: I have a chapter dedicated to this idea. It bears repeating because sometimes a "guru" sounds so compelling and so erudite and so convincing and so passionate that we forget that he also can be dead wrong. Every day things happen in the market that dramatically illustrate that even when the news overwhelmingly and irrefutably points the market in one direction, it will fool everybody, and I mean everybody, and go in the opposite direction.

On Monday October 1st, Wall Street was nervously waiting to see just how badly the credit debacle had affected bank earnings. Then, back-to-back, two global banks confessed to multibillion dollar credit write downs that were worse than expected. Citigroup warned that credit problems could cause its 3rd quarter net to slump 60%. It also said it sees no near-term relief for the housing sector. Then the Swiss bank, UBS reported that it will report its first quarterly loss in nine years.

Anyone with advance knowledge of this somber news would have expected a dire market. Instead the Dow soared 191 points to an all-time high, surpassing its previous high made 2 1/2 months earlier. Commenting on the market's stunning performance, I remember Michael Santoli of Barron's (among the most insightful stock market writers we have) saying something like, "even if you had the front page of tomorrow's paper today, it's far from certain you could make money". To explain the market's action that day, the best the media could do was to say that the news, as bad as it was, provided clarity and removed fear of the unknown. Talk about a stretch! Why did the market soar? In my view, the only responsible answer would be something like this: "The only thing we can say for sure is that nobody knows. Beyond that we can say that chart breakouts, short covering, first quarter repositioning, momentum buying, fear of missing the train, etc. may or may not have been contributing factors."

Kirk: In the book you provided a description of the market that is as good as I've ever seen:

> *"Like a boxer, the investor's first step toward winning is knowing what to expect from his adversary.... He should know that the market goes to extremes in both directions, that it can be both the supportive, caring, seductive lover and the cruel, cold, insidious antagonist; that it can cause euphoria and exhilaration or anger, fear and despair. He should know that the market can change its mood on a dime; that it can be capricious, enigmatic, and ornery; and that mostly it can be dull, listless, and boring."*

Very well said. While you say in the book that you are still a "strong proponent of the stock market as a long-term means of growing money," at the same time you also admit that "many who invest in the stock market do not belong there." In your experience, what are some rules of thumb for determining if you should not be in the market?

Davis: You should not be in the market if any part of the funds you're investing normally go toward food, rent or shelter. You should not be in the market if your objective is capital gains--and a capital loss would force you to lower your standard of living. You should not be in the market if you are completely undisciplined emotionally and find yourself always buying high and selling low; and you should not be in the market if reverses affect your physical health. Some might say you should not be in the market if you cannot learn from your mistakes, but that would disqualify most of us and make the market a lonely place.

On the other hand, you can be in the market if you invest small as long as what you invest is part of your savings and not rent money. Disciplined investment of gradually increasing amounts in a dollar cost averaging program can produce meaningful results over time.

Kirk: After 40 years in this business, you admit in the book that you are convinced that the individual investor either loses money or, at best, earns only an annual return that's lower than roughly 3%. In essence, what investors make in good markets they more than give back in bad ones. Sad to admit, but I think you are absolutely correct. I've often said that if individual investors were doing as well as many seem to think, we wouldn't be able to escape constant advertisements to that same effect. For example, I think we would see tons of ads on TV saying that "90% of Ameritrade customers beat the market by 20% every year" if that were true. The sad fact is that most underperform the market, which is why you and many others have come to the conclusion that an approach grounded in passive investing really is the best way to improve that performance.

In the book you suggest that if investors really knew how many pros invest their own money, they would be surprised. How so?

Davis: It's my belief that many pros are closet indexers. People who make their living advising others on how to beat the stock market are understandably reluctant to reveal that their own money – or at least some of it – goes into cloning indexes. Really, really smart people like Ben Stein, Burton Malkiel, Andrew Tobias, Jonathan Clements and Larry Kudlow are not money managers so it's easier for them to admit much of their own money is in index funds. Their money manager counterparts may not be able to be as forthcoming, but you can bet many are doing the same thing.

Kirk: Like me, you believe that index funds certainly are powerful weapons for investors in their quest to do well in the market. Can you briefly explain why you think this?

Davis: I believe anyone who truly understands how exceedingly difficult it is to make money in the stock market with any consistency, will opt for index funds. Why do so many of the smartest, most experienced professionals in the business use index funds for their personal portfolios? Because they've been humbled by the market often enough to recognize the best way to put the odds in their favor is to invest in a diversified low cost, buy and hold portfolio of index funds and rebalance when the percentage allocations get significantly out of whack. They also recognize that with fine-tuned exposure to different asset classes that have low correlation, it's possible to outperform the broad general market as represented by the S&P 500 or Dow Industrials. In other words, careful indexing no longer has to be a matter of throwing in the towel and settling for what the market does.

Index fund portfolios have not been around long enough to compile lengthy track records but if we can believe the statistics of those that have been back tested, we can be reasonably confident that at worst, they will match the market and at best, outperform the market. The most important factor affecting the performance of an index fund portfolio, next to proper representation of different, uncorrelated asset classes (and maybe even more important than that), is the price you pay for your funds. If you're going to hold something for a long time, it makes sense to exercise patience in waiting for a reasonable entry level. Since it is difficult emotionally to buy in depressed, oversold markets, a dollar-cost-averaging approach would seem worthy of serious consideration.

Kirk: How did you go about picking the 28 model portfolios you feature in your book? Which one or two do you like the best?

Davis: First, a little background. I am not an erudite scholar. Far from it. When brainy people start talking about derivates, short straddles, currency overlaps or stochastic oscillators, I run for the hills. I'm a common sense, meat and potatoes guy that has a knack for recognizing outstanding talent in others. The best way I know to help investors is to make them aware of the best thinking out there. That was the whole idea behind my newsletter, "The Dick Davis Digest." I am a poor stock picker. In 40 years in the business, I've never recommended a stock. But I have a good feel for those that can pick stocks and who can write about them with authority, conviction and clarity. I featured them in my newsletter and I use that same approach in my book.

In selecting the 28 model portfolios featured in the book, I focused on those experts in the field of indexing that my research revealed to have the most impressive credentials. These are all highly respected heavyweights in the field. These are men who have immersed themselves in this relatively new discipline. In addition to being extremely knowledgeable, they are also innovative, forward thinking and sensitive to the varying needs of different types of investors (which is why most of the 28 recommended more than one portfolio; there are 49 in all).

These model portfolios represent the culmination of years of thinking and back testing by each of these advisors. Their focus was on what mix of index funds would likely perform the best.

Exposing the results of these findings by such luminaries as John Bogle, Burton Malkiel, Ben Stein, Jonathan Clements, Paul Merriman, Andrew Tobias, Knight Kiplinger, etc., I feel I'm doing a service to the reader. This is the best thinking by the best thinkers on the best way to invest long-term. To my knowledge my book is the only place you can go to find a broad selection of specifically recommended index fund portfolios by a cross-section of the nation's elite indexers, all in one place. I think the reader is better served by recommendations from many experts than by just one recommendation from the author.

Ever since my newsletter days I've had a strong bias toward lucidity in writing. Financial writing is cluttered with gobblygook. Analysis that's easy to understand, clearly expressed and well thought out is what impresses me most. The ideal portfolio (in addition to having good prospects for outperformance) is one that is defined by clarity, simplicity and ease of implementation. That's why I focus on a range of lazy man portfolios. We do not have actual 10-15 year track records on any of these portfolios but my sense is (supported in part by back testing) that, when we do, they are likely, for the most part, to continue to out-perform the S&P 500.

In the public's mind, the world of finance is perceived as being mysterious, complicated, and confusing. What's simple is suspect. The truth is just the opposite. What's easiest to understand and implement is often the most effective. This is one of the great attractions of the lazy man portfolios. They are eminently doable. If you could choose a portfolio with a broadly diversified list of 15 index funds that threw off an average annual yield of 12% or one with only 3 components—stocks, bonds and international—that threw off an average 10%, which would you choose?

Many would opt for the 12% higher yield. It depends on your priorities. I would opt for the 10% because to me, ease of execution and maintenance more than offsets the additional income. The simplest of the lazy man portfolios are my favorites. Since each investor has different needs and priorities, there's no "one size fits all" portfolio for everybody. But the very simple 3, 4 and 5 component lazy portfolios come close.

In the meantime, with 49 different model portfolios from 28 index fund "experts", the reader is likely to find more than one that suits his individual requirements. The bottom line is that the lazy portfolio approach is probably the best way to invest for most investors. It is reassuring to me that this is an opinion that you, Charles, emphatically agree with. In my book I list many references for acquiring a solid background in index fund investing. But the single most valuable resource, filled with practical advice, is the Charles Kirk February 16, 2007 Q&A on Lazy Portfolios. It's a "must read."

Kirk: I think, like you, everything I've learned about the market tells me that passive investing in this manner is the right way to go for 99% of people who invest in the market. But, ironically, isn't it unusual for someone whose whole career revolved around stocks and who is best known for his newsletter about stocks to be pushing index funds and a passive investment strategy?

Davis: First, I do not recommend index funds exclusively. I think everyone, depending on their circumstances, should have some of their money in the stock market, (I suggest a possible ratio of 20% stocks and 80% index funds, but that ratio is not ironclad). Second, even though I suggest only a 20% allocation to stocks, because of my stock background, more than half the book is about the stock market and how to put the investment odds in your favor. Third, a passive investing strategy via index funds is, after all, an approach based on common stocks. Index fund portfolios can be structured in many different ways, but the core foundation remains equities.

As I have mentioned before, I believe that as an investor gains maturity, experience, insight and humility, his path will inevitably lead to index funds for at least part of his money. It did so for me. Those who remain exclusively stockpickers to the end are those few who are successful or who have unlimited money, ego, optimism and/or stubbornness.

Kirk: In your experience in talking with others about passive investing (either professionally or through your teaching) I'm curious to know two things: 1) Do you find that investors have enough patience for these strategies in a world so focused on getting "fast money" in the market, and 2) Do you find, as I do, that, even though these portfolios are good, investors' emotions based on too much media noise and speculation to be a major problem in this approach as well? I ask these two things because, since providing more coverage to these portfolios this year, I've received a tremendous number of questions that indicate that people are attracted to this approach but are still confused about how to implement and maintain it. For example, I'm discovering quite a number of people who are trying to outsmart the system by incorporating sophisticated market timing, technical analysis of index funds/etfs, and short-term stop loss management ultimately are disappointed with their returns. People are confused, I think, about how these portfolios are really to be used and some have defeated their purposes. Can you shed some light on these issues?

Davis: Failure to implement a passive investment strategy successfully is due more to lack of patience than any other factor. In fact, by definition, any long-term approach to the market cannot succeed without an over abundance of patience. Some advisors use the word “discipline;” it can be used interchangeably with “patience” since you can’t have one without the other.

Most investors, especially younger ones, are short on patience and long on “immediate gratification.” Experience and longevity do not automatically endow you with patience but they increase the odds. The mass of young people who watch Jim Cramer, for example, with his inordinate focus on the short term, are not the best candidates for developing into patient investors.

Passive investors are especially challenged because they are tied to the performance of a few indexes (lazy portfolios range from 3 to 11 funds). Exercising the patience to stay with those funds which may be flat or lower, while certain hot areas of the market are exploding, or to stay with those funds while certain areas of the market are collapsing with prospects of going still lower, is extremely difficult to do. Even more difficult is having to add to your non-performing indexes on a regular, dollar cost averaging basis amid the fireworks in other heated sectors of the market. Or having to sell part of your best performing funds in periodic rebalancing.

Joel Greenblatt was asked whether he was worried about too many people using his “Magic Formula” (The Little Book That Beats The Market, John Wiley). He answered “no” because he recognized that there would likely be only a few people able to hang on to depressed stocks for a long time (Greenblatt’s formula calls for buying “good” stocks that are out of favor). So much for patience – or, more precisely, the lack of it.

As for the implementation of an index fund approach, the key is to keep in mind that “less is more.” “Lazy” portfolios are called lazy because they require minimum maintenance. Generally speaking (but not always), the more bells and whistles you add, the more likely you are to dilute the results. The portfolio has already been tested and balanced. If you are particularly skillful and lucky, or if you’re in the hands of a true expert in the field, you may be able to enhance performance by tinkering. However, adding different ingredients to a popular, proven recipe may make it better but it’s more likely to make it worse. Too much fine-tuning can muffle the tune.

Kirk: I know when I covered lazy portfolios earlier this year, the most common question asked was “Which portfolio should I go with?” Ideally, how would you recommend that investors evaluate the portfolios you’ve outlined and go about creating a strategy that is right for them?

Davis: There are too many people out there that can answer this question far better than me, including Charles Kirk. I am not an expert on index funds. That’s why I have 28 other leading experts in the field offering their insights and favorite portfolios in my book. I would only add these “common sense” observations:

1. I believe too much is made of matching your objectives to the objective of the portfolio. Whether you're 30 or 60, risk averse or not, rich or not, income oriented or not, etc, if you buy a portfolio that performs well, everybody will be happy. Few if any of these portfolios are high risk. Their low cost, diversified, balanced, uncorrelated contents are specifically designed to limit risk. I'm not sure that enough years have gone by to conclude decisively that the more customized portfolios with more funds in them are likely to do better than the 3, 4 and 5 fund basic portfolios. Because of their simplicity I lean toward the latter. Until proven otherwise over say a 20 year period, I think they have as good or better chance to outperform a broad general index, which should be the goal.

2. In a given year, results of the 28 portfolios may vary considerably but I suspect, over time, the results would not be that different. One reason is because of their balance. In the portfolios featured in the book, the more speculative ones are not that speculative and the more conservative ones are not that ultra conservative.

3. With the question of asset allocation already addressed in the make up of these portfolios, the remaining issues of low commission costs and low entry level become crucial. Sectors of the market and the index funds that represent them become oversold just like individual stocks. Obviously, that's the time to buy them. (By definition – uncorrelated funds in a portfolio are unlikely to be oversold all at the same time.) "Oversold" is a relative term and is often difficult to determine. If you have confidence you can make that judgment (with the help of thekirkreport.com), fine. Otherwise, a dollar-cost-averaging approach to building a portfolio makes sense. Another uncomplicated approach may make the most sense of all: Buy when you have the money.

Kirk: Where do you stand in the controversy over conventional mutual fund index funds versus exchange traded funds (ETFs)?

Davis: I don't think it makes much difference, although as Bogle says, the accelerating use of niche, narrowly based specialized ETFs is likely to make index fund investing riskier than it's supposed to be. The knock on ETFs—the commissions involved each time you buy and sell-- is lessened if you use low commission sites like folioFN.com, sharebuilder.com, buyandhold.com and mystockfunds.com. I think that in the future, individual investment strategies are likely to be built around ETFs. That's because of their transparency, ease of execution and ever increasing range of selection. Some model portfolios in my book are ETFs, some conventional mutual funds and some contain both.

Kirk: In the book you say that "investors want clear direction, not confusion, they want definitive, no-hedge answers, not choices." Which is why they rely a great deal on market experts, media sources, investment advisors, and why these people have so much appeal and can charge so much for advice that is often wrong. In your view, the term stock market expert is an oxymoron and "the bum on the park bench probably has a good chance of being right as the savvy professional." That's quite a statement for someone who built a newsletter around investment picks from other professionals! So, if this is really true and people want no-hedge answers and no choices, why haven't passive portfolios caught on with more people? Is it the get-rich quick mentality, just a basic misunderstanding about how difficult the markets can really be, or is something else at work here?

Davis: Most investors want assertive, confident, no-hedge opinions, not wishy, washy “I could be wrong” opinions. After 40 years on Wall Street, I believe this is an irrefutable fact. Even if all 95 million investors graduated with a 4 year degree in Investing and my book was a course requirement, it would not be different. The widespread acceptance of humility and non-definitive answers can only come with a change in human nature.

In a perfect world, all advisers would answer questions about stocks/the market in the same way, “I don’t know, but this is my best guess…” and conclude by saying “Keep in mind there are many smarter than me that think just the opposite.” Obviously, this is not going to happen. Also, ideally, the response should include both the positives and the negatives so there are no surprises. That also won’t happen. In some ways, that’s a blessing. If you are totally informed and know all the good and all the bad, it can be very difficult to make a decision (my being aware of both sides of the story is one of the reasons I’ve never recommended a stock). This way, if you hear a very convincing one side of the story, all you have to do is hope it’s the right side.

As for the question of why passive portfolios haven’t caught on, there’s no simple answer. Many factors are at work. Most of us are unable to suppress the desire to do better than the market. The perception persists that indexing represents surrender. The abundance of success stories and of big winners in the stock market that are always featured in the media activate the greed button. It is much easier for the investor to put his arms around an individual stock like an Apple or a Google, names that he can relate to in his daily life, than to embrace an abstract concept like an index.

Another factor is that index funds are not aggressively sold by brokers who, understandably, defer to higher commission, more frequently traded products. (Index funds are popular with fee based financial planners and advisors who don't rely on commissions and deal with the client's total financial picture.)

Besides greed, there is another psychological factor involved, which is the excitement and challenge that the stock market offers which index funds do not – at least not the broad general indexes. Most of us overestimate our investing abilities. We automatically put ourselves in the 20% or so that will outperform the averages. The exception is the older investor who has been humbled by the market and who welcomes the relative serenity of index funds. He sees indexing not as capitulation but as wise acceptance of reality. In the book, I recommend a combination of both indexing and individual stocks, with a bias toward the former. As mentioned, because of my stock background, there's a heavy focus on the stock market and how to put the investment odds in your favor.

Kirk: Actually, in a perfect world, every stock we owned would be a ten-bagger, we would never see a bear market, and it would be easy to make money in the market. But, what's the fun in that?

One of my favorite sayings is that "it is better to be lucky than good." It is something I've said about some of my more questionable trades that have gone right. Surprisingly, you actually spend time in your book discussing the role that luck plays in the investment process. Why do you place such a high emphasis on the role of luck in investing?

Davis: I don't believe luck, or the lack of it, is given enough credit or blame in analyzing performance results. It is a major influence but is often swept under the rug. By nature we are prone to explaining success by our own skill and blaming failures on the ineptness of others. But performance often has nothing to do with skill, or the lack of it. It often has everything to do with luck. We often make money in a stock for reasons completely different from those that caused us to buy it. Luck is a powerful influence but advisers rarely talk about it because it diminishes their aura of knowledgeability. There are some, however, usually veterans, that readily acknowledge luck as a factor in their success. If I could only pick one—money, talent or good luck, I'd pick luck every time. When dealing with a phenomenon (the stock market) that is random, arbitrary and irrational, not to mention capricious, erratic and illogical, the best ally you can have is luck. The one thing that reduces its influence is longevity. The longer you hold your stock, the lesser role luck is likely to play.

The guidance provided in my book is based on the assumption that the investor is not lucky. Otherwise, why would she need the book?

Kirk: You say in your book that in teaching your stock market class you use current events in the market to illustrate basic truths. Can you give us an example from today's markets?

Davis: A favorite concept of mine is the durability of major trends. I believe this is a valuable truth for all long-term investors to understand. Trends in the stock market, in the economy, interest rates, inflation—once they take hold, have a strong tendency to last longer and go further than most everybody expects (with interruptions along the way). As I'm writing this, the bull market is 5 years old, going on 6 but refuses to act its age. Despite being one of the oldest bull markets on record, it has yet to experience anywhere near a 20% decline (20% being the classic requirement for a "bear market" label). In fact, all the major averages are ahead for the year.

Yet, each of the past few years we've heard that the market is overextended and overdue for a major pull-back. It will come-- but in the meantime, the odds always favor an existing, solidly entrenched trend to continue in force. Those who have played the percentages and believed in the durability of major trends have benefited. The same applies to multi year, longer than expected uptrends in the economy's expansion, small caps, REITs and value stocks as well as recently completed 18-year downtrends in inflation and interest rates. The current 5-year up trend in gold sounds vulnerable until you realize it follows a 22-year down trend. The sick focus of the financial media on the short term diverts the long-term investor from grasping this valuable truth of durability. I write about this in the December 10 issue of Barron's (page 26).

Kirk: I believe this raises a very important point that I'm starting to see across the board. The lack of a true long-term focus has frankly created more opportunities for long-term investors. As the entire market has turned short-term, the real gains very well may be for those who actually adopt and patient long-term investing strategies. Do you think we'll see investors become more focused on long-term approaches?

Davis: I doubt it. I don't believe your positive experience is typical Charles. Far from it. You find ways to take advantage of oversold conditions in order to establish long-term positions and the long term stocks you've bought previously were bought mostly on weakness. That's the difference between a disciplined professional like yourself and most non-professionals who freeze when the market is oversold. If the number of long-term investors does grow, it'll be because of volatile or declining markets. Investors tend to hold on to their loses, waiting to get even. They become long-term investors, involuntarily, not by design.

Kirk: Indeed, one of the cardinal rules is to never let a bad trade turn into a long-term investment.

On another subject, value is such a mercurial concept in investing. Even to this day, I still have trouble finding truly undervalued investment opportunities. Stock screens I've designed that specifically seek out value have had inconsistent results (something I continue to research). In the book you write that "what you buy is probably less important than what you pay for it." Can you explain what you mean by this, and, better yet, give some rules to guide investors in making sure they pay the right price for their investments?

Davis: The concept of the “right price” is one of the most difficult to pin down in all of investing. Everyone who buys a stock thinks he’s buying it at the right price, a judgment that the seller thinks is dead wrong. The best the investor can do is buy in a “reasonable” range. There are probably dozens of metrics based on fundamentals that can be used to determine what’s “reasonable.” Books have been devoted to just this subject. In addition to price, there’s the technical position of the stock to consider and there’s also a “feel” for the stock that’s acquired by watching its behavior pattern over a long period of time.

Screens are a popular research tool. You can measure value by filtering a stock through dozens of screens. The results may be helpful or they may be meaningless depending partly on your degree of sophistication using and interpreting screens.

Two life-long super smart students of the market can look at the price of a stock and come to exact opposite conclusions. Whatever approach you choose to determine “value”, it’s important to realize there are a hundred other ways of getting an answer that may or may not confirm your answer, and that the Market’s behavior may or may not validate your findings.

Since it’s an educated guess at best, I would keep it simple. I would do one of two things. 1) I would focus on a few easy to understand, widely followed measurements such as a price/earnings ratio and if a stock was selling at the low end of its historic p/e range I would make that a plus. You would likely need more reasons to buy, but that would be one. Of course a judgment then has to be made as to whether or not the attractive price may be more than offset by the reasons for it being so. 2) But, I’d probably rely more on the climate surrounding the stock and the market generally. If you are able (a big if) to buy a stock after sharp declines have left the market and your stock oversold and under loved, you’re most apt to be buying at the right price, realizing of course, that it will always go lower after your buy.

The ideal solution is to follow Will Rogers’ advice: “Buy a stock and when it goes up, sell it. If it doesn’t go up, don’t buy it.” We discuss this subject in detail in the book under the title “Proper

Entry Level Is Crucial." As a corollary, we also have a section titled "The Sticky Question Of When To Sell" in which we list 17 reasons to sell that make good sense.

Kirk: One of your sections is titled, "After You Buy It'll Always Go Lower." If you know it's going to go lower, why not wait?

Davis: Because if you wait and it goes lower, you'll want to wait 'till it goes still lower and when it does, you'll wait some more, etc., etc. Then suddenly it'll turn and spurt higher, and having watched it at lower prices, you'll want to buy it on a dip. But it continues to go higher while you watch from the sidelines.

The reason you buy a stock knowing it'll always go lower is because you believe it's at a reasonable price and you want to establish a position in the stock so when it does go up you'll be there. The reason why a stock will always go lower after you buy it or higher after you sell it is because it is unrealistic for you to expect to buy at the very bottom tick or sell at the very top tick. Someone does—but it won't be you, or at least that's the best way to look at it.

Kirk: You make the point that negative opinions sound more authoritative than positive ones. Why do you think that is?

Davis: For the same reason that bad news sells newspapers or that the pain of loss is felt more intensely by investors than the pleasure of profit. Negativity strikes a quicker, deeper, more responsive chord in our emotions than positivity. The analyst who predicts that the housing slump has a long way to go on the downside sounds like he knows something the optimists doesn't. The bear usually has an advantage in convincing others because he sounds more credible, more authoritative, more caring (he doesn't want you to lose money) and better researched.

The bear provides a valuable service to investors. Amid euphoria, he reminds us that Wall Street is a two-way street. He also helps provide the bricks that build the "wall of worry" necessary for all bull markets to climb. However, the perennial bear has to be wrong more than he's right because the market goes up more than it goes down.

Kirk: One of the biggest issues I have about the mainstream media right now is that it is crossing the line from providing financial news to offering pure investment advice, despite disclaimers to the contrary. Do you think that trend is a helpful one for investors? If not, why not?

Davis: I have no quarrel with advice being offered in the media PROVIDING it is always preceded by the following disclaimer both before and after the opinion is expressed: "The following (preceding) opinion represents one man's opinion. There are other professionals equally knowledgeable who hold the exact opposite opinion. An independent Board has determined that over the past 5 years, our guest's track record is as follows: …" Of course, this will never happen. If it did, the media outlet would lose its audience and go out of business. We cannot suppress opinion nor would we want to but without putting it in context it can have a deleterious effect on the investor.

The objectives of the media are often at odds with the objectives of the long-term investor. The media wants to entertain --and opinion, especially incendiary, provocative, outrageous opinion, is an integral part of that entertainment. But opinion, especially that expressed with deep passion and conviction can easily unsettle and derail the long term investor. The trend in the media toward saturation investment advice is an unhealthy one for the long term investor. Also, if the new Fox channel uses what Fox has been known for heretofore---a glitz, hype, tabloid, fast-paced, happy-talk format rather than a serious, insightful, thoughtful presentation---it, too, will represent an obstacle to the long term investor. On the other hand, if they do what CNBC does not and offer the viewer alternative programming with at least some focus on the long term, they have an opportunity to do a real service.

Kirk: In the book you discuss a number of popular investment strategies including William O'Neil's CANSLIM approach and Joel Greenblatt's Magic Formula. Are you partial to any of these?

Davis: I think any approach that is well thought out by smart people and that has stood the test of time deserves a look. The problem with almost all of these "systems" is that they require an emotion-free robot to execute them. They work in the abstract but when subject to the frailties of human nature, especially an often short supply of patience and stick-to-itiveness, they breakdown. For example, it's hard to fault Greenblatt's premise of buying good stocks cheap, but even he admits you may have to endure years of underperformance before the formula pays off. The truth is that you can take almost any successful market strategy, do the exact opposite, and if you are consistent and stay with it, achieve success. The bargain buyer who uses the new low list and the momentum buyer who uses the new high list can both do well if they stay with it and the time span is long enough.

Kirk: So, you are basically suggesting that there are millions of ways to profit from the market, especially if time is on your side and you stay consistent. But, the problem with many investors is that they can't afford periods of underperformance and they chase performance no matter where they can find it. The mentality "there's a bull market somewhere - go find it" rules supreme in the average investor I come across. What do you offer for those people who find themselves unable to say consistent and long-term focused?

Davis: The easy answer is to have someone else handle their investing. But many investors find it difficult to give up control. They also find it difficult to recognize their own shortcomings. If they are constantly chasing performance and coming up losers, the blame is placed on everything except where it belongs—their own inadequacies.

Because it's rooted in one of the more dependable traits of human nature, greed, the quest for performance will always be with us. Target date/retirement funds, asset allocation funds, balanced funds and the type of diversified index fund portfolios featured in the book offer the investor a haven from the emotionally draining search for the hot sector. These "one stop" type of investment vehicles are no magic formula but what you may (or may not) give up in performance, you gain in less emotional wear and tear. Interestingly, this balanced approach is gaining popularity in the 401K field. Over 40% of plans today offer automatic rebalancing, resetting your mix of stocks, bonds and cash once a year.

The ability to stay focused on the long term is likely to increase with market exposure. The willingness to relinquish control of the decision-making becomes easier after the market has beaten you down. However, with an 80% passive, 20% active approach, the mostly passive investor still has a chance to spread his wings and join the quest.

Kirk: Like any great teacher, your book deals with a number of misconceptions about investing. Can you highlight one or two misconceptions you would like to set straight here as an example?

Davis: One has to do with the historical return on stocks and another deals with uncorrelated assets. The universally accepted average annual return on investments is around 10.4% (S&P 500 1957 to date). But if you cash your dividends and don't let them compound and if you take into account the payment of taxes and commissions as well as the eroding effect of inflation, that 10.4% is likely closer to 3%. As for uncorrelated assets, (one goes up when the other goes down, thus reducing risk), the truth is that in severe sweeping downtrends, everything goes down. (The possible exception is bonds.) Another misconception is this: because someone sounds like he knows what he's talking about doesn't mean he knows what he's talking about. What helps him sound so convincing is that he doesn't know that he doesn't know.

Kirk: You say the best the investor can ever hope to do is to put the odds in his favor. In your opinion, what's the best way of doing that?

Davis: Most of the book is devoted to answering that question. In some ways, it's analogous to the preparation a trader makes before he makes a trade. With all the indicators pointed in the right direction and the table set just the way he wants it, the trader feels he has an edge and is comfortable pulling the trigger. When investing, **if you can put history on your side, if you can have the fundamentals going for you, if the stock is technically strong and if the sentiment is favorable (which usually means indifference, skepticism or worry), if all four of these factors are on your side, you clearly have an edge**. You can still be wrong, but the odds are definitely in your favor.

Kirk: What are some of the issues you deal with in your stock market class that keep coming up year after year?

Davis: First, I should explain my class is open to the public so I get both repeats and new students each week (I've taken a leave of absence during the final preparations for the book.) Because I'm in south Florida, I have many retirees and, during the "season," many "snowbirds" from all over the country. A recurring situation is this: students will explain to me why they think the market or a particular stock will go up. They'll repeat all the good things they've read about or been told about by their broker. They'll make a convincing case. Then I say, "OK, that's column A (positives). Now let's hear column B (negatives)." In most cases, there's complete unawareness of the other side of the story. That doesn't necessarily mean failure. It just means that if the stock does indeed go up, luck may have had a lot to do with it.

Another common situation is the self-rebuke expressed by students for wrong moves they've made in the market. For example, the 2000-2002 collapse was a scary time. Many students sold near the bottom, only to see the market turn around. They blamed themselves for "panicking." What I tell students is this: "Look, you could easily have been right. The market could have gone much lower and your sell decision would have looked good. Your getting out could have prevented a much more serious erosion of your college or retirement nest egg or it could have avoided your having to lower your standard of living. What you were fearful of happening could have happened and you would have been a hero. At the time you sold—not now looking back—absolutely nobody knew what was going to happen. Many of the smartest people on Wall Street thought the same way you did. And many who didn't sell and held on did so only because fear and confusion caused inertia, rendering them incapable of taking action."

By far, the most common investor reaction to bad news is “Lets wait and see what happens.” It drives brokers crazy. For the investor, the possibility of a turn around is much easier to live with than the certainty of taking a loss. Sometimes “wait and see” works; more often than not, it doesn’t.

Kirk: Who are some of your heroes in the investment business?

Davis: I think the three people who have helped investors most during my lifetime are Louis Rukeyser, Jack Bogle and Warren Buffett. Rukeyser was a pioneer in educating the investor via his widely followed TV show, “Wall Street Week”; Bogle has been championing the rights of the mutual fund investor for decades and does it with as much energy today as he did when he founded Vanguard in the 70’s; Buffett has enlightened investors through his wisdom and insight.

Buffett’s outstanding track record gives him 100% credibility. He has an uncanny ability to convey profound ideas in easy to understand, down to earth language. He is the most quoted “guru” in “The Dick Davis Dividend.” His wisdom makes mine a better book and on the subject of language, there are no better craftsmen among financial writers than Alan Abelson (Barron’s) and Andrew Tobias (andrewtobias.com). Both can weave magic with words. As for treating complex subjects with clarity and brevity, Jonathan Clements (Wall Street Journal) is also a gifted wordsmith. If I had the natural talent of any of these three, I would have written my book half as slowly and twice as effectively.

Kirk: Before we wrap this up, what would you most like for my readers to take away from this Q&A?

Davis: It’s hard to pick out one or two main ideas from a lifetime of convictions and almost 500 pages of text. In the final chapter of the book, under the heading “What I hope stays with you” I list 30 major ideas or insights that have been covered in the book. That’s followed by the conclusion titled “The Big Five Ideas.” If I had to single out one of these 35 convictions as the most important, it would be this: (and I quote from the book):

> “We know markets will go up over time and that a diversified portfolio of low-cost index funds will ensure participation in that growth. The only important thing left for us to do so that we make sure we can enjoy the result of our wisdom, patience and discipline is to stay healthy. A long-term approach requires our being here long-term. As obvious as this may appear, it needs emphasis. What does eating right, exercising, and staying stress-free have to do with successful investing? Everything. The best investment advice you can give or receive is ‘Stay healthy.’” I would add this: buying a low maintenance, low cost portfolio of non-correlated funds such as those featured in “The Dick Davis Dividend,”

> especially on a dollar cost averaging basis, is probably one of the most stress-free approaches to investing. Absence of stress will help you stay healthy.

Kirk: Any final thoughts?

Davis: I would like to congratulate all of the readers of the Kirk Report. I know your sense of modesty makes you uncomfortable hearing this but there's a good reason I talk more about Charles Kirk in my book than anyone else. And there's a good reason I visit your website every day. I'll leave the presentation of those reasons to the book. I'll simply say that based on talent alone, Charles Kirk is a phenomenon. I know of no one else that trades profitably 4 out of 5 times consistently over the years. Barron's calls this performance "amazing." (April 3, 2006). Add to that-- Kirk's character, humility, and intense desire to help others (which he chooses over making really big money as a money manager). I'm sure his readers have come to the same conclusion I have: namely, that both traders and long-term investors are using their time wisely by following Kirk's perceptive thinking, his innate feel for the market, his wide ranging links, and his enlightening Q & As. In my view, the taste of Kirk's readers is impeccable.

One other thing I think should be mentioned to clear the air. After reading your praise for my book and my praise for your performance, the reader might understandably conclude that there's some sort of "you scratch my back, I'll scratch yours" collusion going on here. The truth is that neither of us has ever seen or spoken to the other (it's strictly an e-mail friendship) and that what's involved is no more than a genuine mutual respect. Charles did schedule this Q&A at the approximate time of the release of my book and I appreciate that.

Kirk: Thank you for the compliments but, I think just like all investors, I'm still learning and still have a lot to learn. Your words of wisdom, experience, and perspectives both in the book and through our personal emails are valued more than you'll ever know. Thank you for taking the time to share your thoughts and perspectives and to provide readers with a sense of some of the topics covered in the book. I hope they are inspired to go buy what I think is one of the best books about investing I've ever come across.

Before we, go, I must ask about your plans now. What are you planning to do with the rest of your retirement?

Davis: Writing a book is a selfish, self-serving endeavor. Because I live alone, I have been able to focus 7 days a week for almost 4 yeas on doing exclusively what I want to do without regard for anything or anyone else. I felt passionately that I had something to say that mattered and that could help others. I made a commitment to myself that I would stay with it until it was complete.

Being isolated and working all the time is not fun. I did not enjoy it. But, for better or worse it is my legacy. Now that I've gotten it out of my system, I feel good. If people actually read it, I'll feel better. If they don't, so be it. I'll be disappointed, mostly in my poor judgment, but I know I could never rest easy if I didn't try.

I'm not sure what I'll be doing now. But rejoining civilization and interacting with others will be a welcome change. Friends remind me that I've always been involved with a "project" of some sort and seem convinced that I will be again. Maybe so. In the book, I refer to a "super website idea." I may or may not try to do something with that.

In the days immediately ahead I'll be involved with publicity for the book (interviews, book signings, etc.) and making the website for the book as informative as I can. Anyone interested in learning more about the book, please go to thedickdavisdividend.com. It has excerpts, reviews, my bio, table of contents, radio interviews, a link for buying the book and lots of other features. We just posted the December 10 Barron's article on the site.

Thanks again, Charles, for this opportunity. For the new year, I wish your readers all the things they want the most for themselves and their loved ones come true in 2008. If one of those wishes is investment success, they could not be in better hands than Charles Kirk.

Kirk: Thank you Dick. On behalf of all of us, we wish you continued success and we are grateful that you've taken the time to provide these perspectives and insight. I'm sure they'll prove valuable to many as they have me.