# investments

By Mark Skousen

# It Takes Time to Make Money

If Henry Hazlitt can reduce the basics of economics to one lesson, I can do the same for investing. The best way for me to synthesize the world of finance into a single lesson is to tell a story.

While attending an investment seminar last year in Los Angeles, I was awakened in my hotel room at 7:00 A.M. by a frantic phone call from a subscriber to my investment newsletter. He said he had recently retired and had invested nearly $250,000 in an offshore mutual fund that purported to make constant profits of 25 percent or more a year. Several months later, he had become concerned when the fund failed to respond to a request for a modest withdrawal. He had called the foreign company, only to discover that the telephone had been disconnected. Now he wanted to know if there was anything I could do for him.

Sadly, there was little I could do. I told him that I had heard of the company and that the investment advisor had embezzled his money and millions more. Currently, the investment advisor is in jail, awaiting trial. Meanwhile, almost all the money is gone—forever.

The worst part was that this investor—it was hard to believe he was one of my subscribers, since I have warned repeatedly about financial frauds—had invested his entire life savings, and his wife's as well, in this fraudulent scheme. I was sincerely sorry for him. But I had to wonder how a man who spent his entire life working hard and saving a quarter of a million dollars could lose it all in a matter of months.

Every year at financial seminars, I meet thousands of investors—businessmen and entrepreneurs who have been extremely successful in their careers. Very few come to seminars to learn how to make their first million. Most are already successful and are just trying to keep the surplus funds they have worked long and hard to obtain. They want to become successful investors, just as they have become profitable business or professional people.

Well, to tell you the truth, most of them *can't* be successful investors. People will never be as successful in investing as they are in their own businesses unless investing *is* their business. You may think you can be great speculators by reading a couple of financial books, going to a few seminars, or reading this column once every two months. But you should think again. You can't be passive investors and expect to achieve the same monetary rewards as you do in your active professional or business lives.

*Look at the Forbes 400 Richest People in America. How many made their fortunes investing in the stock market? Only three! How many made it investing in coins or artwork? None! The most prevalent way to riches was not investing at all.*

Even in the financial world, the most successful investors are full-time businessmen and entrepreneurs who provide the services to investors—stockbrokers, money managers, coin dealers, real estate brokers, mutual fund managers, insurance salesmen, mail-order promoters, tax-shelter brokers, and yes, even newsletter publishers. They are the ones who make it big. Usually the investor is the last one to make any money.

Want proof? Look at the Forbes 400 Richest People in America. How many made their fortunes investing in the stock market? Only three! How many made it investing in rare coins or artwork? None! Admittedly, more (70) made it in real estate, but many of them are land or shopping-center developers or have inherited property from financial tycoons who made their fortunes in other ways.

By far the most prevalent way to riches was not real estate, not the stock market, not mutual funds—in fact, it was not *investing* at all. It was people's own businesses—manufacturing, retailing, banking, shipping, computer technology, etc.

So what is the lesson? If you want to be a successful investor, you have to give it the attention of a full-time business.

Review why people are successful in a business. It is because they concentrated on doing things right. They took the necessary time to educate themselves, to research ways of becoming more proficient. They got involved. They relied on the expertise of others, but they didn't let them do the job. They spent hours, often overtime, to make sure that they understood everything.

That's the same attitude you need when it comes to investing. You can make money in the stock market, mutual funds, and gold, but only if you take the time to learn what it's all about. You'll undoubtedly make mistakes, but you will learn from those mistakes and become better at it, just as you did in your business.

You might say, "But I'm too busy in my own business to take on another full-time job of investing. I'd rather rely on a professional money manager." You're asking for trouble. No one will watch your money more closely than you. If you can't take the time to investigate an investment area thoroughly, you're better off not getting involved. I've seen too many people get burned by blindly turning their money over to the "professionals." Stay only with areas you are familiar with. If that means only the stock market, or rare coins, or even money market funds, so be it. Don't let diversification be a cover for ignorance of the marketplace.

Two classic books on the subject are worth reading: *The Battle for Investment Survival,* by Gerald Loeb (Simon & Schuster, 1230 Avenue of the Americas, New York, NY 10020), and *The Richest Man in Babylon,* by George S. Clason (E. P. Dutton, 2 Park Ave., New York, NY 10016). Both are often available in bookstores or libraries.

Remember: Invest as though it were your full-time business, or don't invest at all!

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**spotlight**

*By John Dentinger*

# Individualist in the Oddest Place

When he recently took up genealogy, Larry D. Kump was thrilled to find he is a direct descendant of Patrick Henry. "That just tickled me to death, because I liked his feisty attitude," he says.

The last place you'd expect to find Henry's literal or spiritual descendant is at the head of a public workers' union. But Kump, executive director of the Indiana State Employees Association (ISEA), is no ordinary union boss.

For one thing, he runs a voluntary group and doesn't think workers should be forced to join the union in order to work for a unionized employer. "Sometimes employees need to be protected from the caprice of their own union, and an open shop is the best way to do that," he says. And Kump even evinces some sympathy for people who cross picket lines. "I have a problem when people face reprisals for choosing to come to work." (As public employees, ISEA members are forbidden by law to strike.)

He isn't a typical public-employee advocate, either. Most unions, especially those of government workers, fiercely oppose privatization. But Kump, a fan of science-fiction writer Keith Laumer's satires of bureaucracy, supports some efforts to shrink the state. "I don't think any services ought to be provided by the government just because they always have been."

The ISEA has proposed legislation that would require the state to demonstrate that a job is really necessary before replacing any employee who quits. The bill would also require cost-savings studies of any proposed privatization of government services.

But Kump wants government either to do a job itself or to get out of the business completely—not to hire private contractors. "The problem with contracting out is you don't want it, as with the Pentagon, to be underground political patronage, often tied in to 'contributions' to politicians."

A handful of career state employees formed the ISEA in 1953, Kump says, because "they were tired of scurrying to save their jobs every four years." The union has been fighting patronage ever since, but politicians still control about a third of state jobs. With the Indiana Libertarian Party, the ISEA has filed suit to overturn the system. The Republicans, who dominate the state, have tried to have the suit dismissed, to no avail.

*Larry D. Kump: "Nobody knows what's wrong with government more than government employees."*

The ISEA has also championed the rights of whistleblowers. "Nobody knows what's wrong with government more than government employees," says Kump. After a four-year fight, the legislature enacted an ISEA-backed law that protects the rights of state workers to belong to unions, to participate in political activity, and to report corruption without fear of reprisal. Now the ISEA is pushing to add criminal penalties for those who harass whistleblowers.

The ISEA receives whispered phone calls revealing political corruption. It cooperated with the press and FBI in investigating a scam in which state corrections department officials skimmed state funds and inmate benefits for personal use. Among other misdeeds, reports Kump, the department's commissioner used state funds to restore his already lavish state-provided home, even goldplating the bathroom faucets.

Kump didn't plan on a career as a union leader. As a student in Hagerstown, Maryland, he wanted to become an electronic engineer—until he hit calculus. "I sold my calculus textbook on the black market in high school to someone who'd done something obscene with his book."

In junior college, he edited the school paper and managed to offend the administration with his libertarian approach to students' rights. "They were so upset that they took away the scholarship which I was supposed to get as a perk for being editor," he recalls. After college, he spent a few months as chief aide to the Pennsylvania state senate's minority leader, then settled down for six years at a public workers' union in Maryland before moving to Indiana.

In Kump's eight years as executive director, the ISEA has grown from 2,900 members to 4,000—despite a 20 percent reduction in the total number of state workers. (Indiana is the state with the fewest public employees per capita.) The ISEA is now the state's largest public employees' union. But Kump has paid a steep personal price for his success.

Kump says that, after encouraging him to take the job, his wife decided she couldn't put up with the long hours he was working. About six months after he joined the ISEA, she left him. The same day, he was diagnosed with cancer.

"When she told me she was moving back east with our two kids, that upset me more than finding out that I had terminal cancer." An operation took care of the cancer, but his wife is still gone. They share the children. Kump, a Mormon, lists himself on his business card as "father of David & Sarah Kump," right under his ISEA title.

The union's success—often at the expense of the American Federation of State, County, and Municipal Employees (AFSCME), an AFL-CIO affiliate—has also drawn unwanted attention from the AFL-CIO's archrivals, the Teamsters. Without his knowledge, Kump says, "One of our staff cut a deal on the side with the Teamsters to get the ISEA to affiliate with them. A Teamster representative came into my office and said 'We're going to get your membership anyway, so why don't you do it the easy way, and we'll give you a similar position—and save you the embarrassment of being run out of the state professionally.'"

The man told him one of the benefits of Teamster affiliation, says Kump: "'You have trouble with anybody, you point him out to us, and we'll punch him in the nose.' I thought he was kidding, but then I saw he was serious. I told him to do what he could and if they could take over, I'd get a job slinging hamburgers."

In a free market, Kump is confident that this brand of union leadership sells best.

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