Hello, and welcome to the book of the month, "The Wall Street Journal guide to understanding money and investing." It is a joy to share this month with you again! This month, we are going to learn a lot of helpful things when it comes to money and investing. We will be covering the topics of money, stocks, bonds, mutual funds, and futures and options.

The history of money is interesting. The first principle is that money does not have any value of itself. It is only worth what it can buy at any given time. As a simple illustration, in 1626, the island of Manhattan was purchased for $24. It is now worth over 31 billion.

In the last century, world economies changed from exchanging commodity currency like gold and silver, to Fiat currency, which is actually created out of thin air, and has no intrinsic value.

This kind of paper money as its ups and downs because value changes with economic conditions. For example, when there is a lot of paper money in circulation, prices go up, and paper money buys less. This is known as inflation. During the American Revolution, paper money dropped in value from one dollar to 2 1/2 cents. In 1862, the US government issued its first paper money. This money goes through a cycle, from the US treasury to the Federal banks, and then to the Federal Reserve banks, which distribute it to individual banks in their region. From here to regular banks, which ends up with people and businesses. When money starts to get old the bank separate worn bills and coins and sends them back to the Federal branch, which then returns it back to the Treasury, where it is shredded or the coins are melted for recasting.

Now in our information age, money is also electronic. In fact, the exchanging of actual money represents only about 7% of the trillions of dollars in the US economy. Currently, about $1.7 trillion move every day electronically through the Federal Reserve system. Everybody is now using credit cards, ATMs, debit cards, phone banking, and the Internet. This has changed everything over the past few years.

Okay, so let's look first at the Federal Reserve system. As a side note, the Federal Reserve is the single biggest scam in world history.

But there's nothing you and I can do about it. So let's get educated, and see how to work with the system to our best advantage. The Federal Reserve is the guardian of the nation's money. They are the banker, the regulator, the controller, and the watchdog all in one entity. It is divided into 12 separate district banks, with 25 regional branches spread across the country. Every district bank has a president of directors and the system itself is run by a seven-member board of governors. The directors are appointed by the president, and serve 14-year terms. About half of the American banks are members of the Federal Reserve system.

The money that powers our world economy is created out of nothing by the Federal Reserve, which is actually a private institution. Most countries try to control the amount of money in circulation. It is a constant juggling act to keep enough money in the economy, and yet not let it grow too fast. The Federal Reserve makes banks keep 10% of their deposits into a fund at all times. This is supposed to be insurance for the customer. It's actually quite little joke, but then again that's government! The Federal Reserve has the power to adjust interest rates. These are the rates it charges banks to borrow money. If the rate is high banks tend to borrow less, therefore there is less money for you and I the customer. If the rate is lower, the banks tend to borrow more freely, and there is more money quickly available. The Fed's goal is to keep the economy running smoothly by keeping an eye on the money that people have to spend.

Economists then deal with what the Federal Reserve is creating. They look at things like unemployment figures, the index of leading economic indicators, durable goods, housing starts, new factory orders, consumer confidence, weekly earnings, the unemployment rate, producer prices, consumer credit, the consumer price index, which is known as the CPI, which reports things like food, housing, transportation, medical care, clothing, education, recreation and other basics. Based on all the statistics, the economists also adjust their policies.

The economic cycle is really based on two principles, inflation and recession. Inflation takes place when prices rise, because there is too much money in circulation, and not enough goods and services to spend it on. When prices go higher than people can or will pay, demand decreases, and the economy begins to go down. Because people are buying less, the economy slows down, the factories lay off workers, unemployed people purchase less and, this is known as a recession. This is one of the most difficult things to control in an ever-changing economy. One technological advance can change everything in just a few years. For example, in 1800. You could travel from New York to Philadelphia in about 18 hours by stagecoach, and it cost you four dollars. Today you can take the train, and it costs about $35, but thinks only 75 minutes. So the price of the trip has inflated 775%, but the traveler's time has deflated. About 1340%. One simple invention like this can completely upset an economic cycle. Now that we are a global economy, it even compounds the problem worse.

The next factor is the different world currencies. These also have a massive impact on economies. A simple example is when the euro was introduced in 1999. 18 years later, it has crushed the US dollar. No one could foresee this all! There are a lot of people that trade these currencies. In fact, the Forex market as it is known exchanges nearly $2 trillion each day. The traders alone can move the world economies. That was not possible just a few years ago. So as the information revolution continues, the global economy becomes more and more challenging.

Okay with that brief lesson on money, let's move into the next area of stocks. Stocks are really not too difficult to understand. A stock is simply a piece of some corporation's pie. When you buy a stock or shares, you now own a slice of a company. Stocks are what we call equity investments. You become a stockholder or a shareholder. When a corporation issues stock, the money is used to finance the corporation. After this the stocks are traded among investors, and the stock goes up or down depending on what investors are willing to pay for it. There are common stocks and preferred stocks. Most stocks in the United States are common stocks. With these you have the potential to lose or make a lot of money. Preferred Stock are actual ownership shares, they reduce the risk, because the dividend is guaranteed. Stocks can also split when the price of a stock increases significantly. Corporations have the right split the stock, which stimulates more trading. When a stock is split there are more shares available, but the total market value is the same.

A stock's value can change at any moment, depending on market conditions, investor perceptions or a million other issues. The profit you made on the sale of the stock is known as capital gains. Dividends are the portion of the company's profit, which is paid out to the shareholders. The Board of Directors of the company determines how much this will be. Stocks that pay dividends regularly are known as income stocks. Stocks that pay no dividends, while reinvesting their profits are known as growth stocks.

The first time a company issued stock it's called, "going public." This simply means that it is now possible for outside investors to buy company stock. The company registers the stock with the Securities and Exchange Commission. This is known as an IPO, or an initial public offering. Right now about 51% of Americans own at least one stock.

The stocks are broken down into about three categories. First are the large-cap stocks. These are companies that are worth more than five billion dollars. The second are the mid-cap stocks. These are companies with capitalizations of more than 1.5 billion. The last are the small cap stocks, and these are companies worth less than 1.5 billion.

To buy or sell a stock you have to go through a brokerage institution. You can also buy stock directly from the company that issues it. The process is very simple. Most people today are trading online so you don't even talk to people in most cases. Let's review a few terms here, because stock investing has it's own language. If you buy a stock at the current price it is listed, this is called placing a "market order." If you think the price of the stock you want to buy is going to change, you can place what is called a "limit order," which buys the stock at the price you want, if it gets to that price. A "stop order" instructs your broker or computer to buy or sell at a certain price when the price hits a specified target.

There are also different kinds of brokers. There are full-service brokers that provide a wide range of services such as research, banking, and financial advice for clients. Then there are discount brokers, that do the buying and selling for you, but offer limited services. Their fees are usually lower. Then there are deep discount brokers. Their services are even cheaper, but there is very little if any support. The most economical way to trade today is online.

You can also sell a stock short. This concept is used by many investors, and can make you huge amounts of money as the market drops. I use it all the time. Two of the funds we regularly trade are URPIX and USPIX. These funds short the market. The easiest way to explain, "shorting the market" is this. Every transaction requires a buy and a sell. When you sell short, you simply reverse the equation. You sell the stock first. The key to this is that when you sell the stock, you want to be sure the stock is at its highest price, and cannot go any higher. So you sell it at the highest price, and wait for it to fall and lose value. When it hits the lowest price you think it can go, you "buy to close." This completes the deal. You bank the profit of the difference.

You can also buy on margin. This is a strategy that allows investors to borrow the money they need to buy stocks. It also increases the potential return on the stock investment if you do it right. To bind on the margin you have to set up a margin account with a broker. You can then borrow up to 50% off a stock's price on the margin. For example, if you buy 1000 shares at $10 a share; your total cost would be $10,000. But by buying on margin, you put up $5,000, and borrow the remaining $5,000. Let's say the stock price goes up to $15. You repay the $5,000, and keep the $10,000 balance. Buying on the margin can be very risky, and it must be thoroughly studied till you become very good at it.

Learning to read the stock market should be part of your education. There are thousands of websites today that you can do this. These websites show the highest and lowest prices the stock has gone through, the percent yield, the price to earnings ratios, and the volume or amount of stocks that are being exchanged. It is interesting to note how this has changed in the last few years. It used to be good look at the numbers, and make very informed and intelligent decisions. Up until 1994 or so, you could look at the book value, the earnings per share, the returns, the quarterly reports, the balance sheets, the corporate dividends, the moving averages, and make it very informed and intelligent choices. Today, that is almost impossible. Intelligent investors still use this information, but we look at much more today. There are two other items that can completely change even the best numbers to the worst numbers! First is investor emotion. I have written about this many times in my financial education teachings. I would estimate about 70% of investors today don't have the foggiest idea what they are doing. They watch the news, and get swayed totally by the motion of certain events. This can cause a good market to fall, or a bad market to go up. So a big part of investing today is to look at these emotional trends. The second area is our global economy. This has changed everything also in the last few years. One bad day in China can tremendously impact our stock market in America. We did not have to deal with this just a few years ago, but now it is very important to keep your pulse on the entire global economy.

Next it's important to understand that there are three major exchanges. To get a stock traded publicly you have to qualify. First is the New York Stock Exchange. This is sometimes called the NYSE. To get on this, you have to have 1.1 million publicly held shares, plus $40 million in capitalization. The second is the NASDAQ. This one is so complicated. I won't go into the details, but there are a lot of requirements. Then there is the AMEX or American Stock Exchange. For this you have to have 500,000 publicly held shares and 3 million dollars in market capitalization.

If you've ever watched the floors of the stock exchanges, you're seeing a miniature riot every day! It begins 9:30 Eastern time, and ends at 4:30 p.m. You'll see people running around in three different colored jackets. There is a light blue jacket with the orange shoulders, - these are the messengers running back and forth with information. The green jackets are for the floor supervisors or traders, and then Navy blue jackets are for the reporters. They did a study of these guys and gals have found they walk an average of 12 miles a day crisscrossing the floor.

All stocks and mutual funds are represented by trading symbols. Most of them are four and five letter abbreviations. You can then look these symbols up, and see how that stock is doing. Let's take a moment and look at the different types. The one we hear the most about in America is the Dow Jones industrial. This was created in

1884, when Charles Dow made a list of 11 stocks he thought represented the economic strength of America. Today it is comprised of 30 major industrial companies. The S&P 500 incorporates a broad base of 500 stocks including 400 industrial companies, 20 transportation companies, 40 utility companies and 40 financial companies. The NASDAQ is unique because it tracks the performance of stocks traded through its electronic system. There is also the Russell 2000, which tracks 3,000 US companies, and there is the Wilshire 5000, which includes nearly all stocks traded in the US market. The indicators of these combined together produce what is known as a bull or bear market. As it goes up, it is known as a bull market. As it goes down, it is known as a bear market. Generally, the market has to fall 20% before it is considered an actual bear market.

Sometimes you hear about market crashes. We have had three major ones since the beginning of the stock market. The first was 1929, where there was a 12% loss. The next was 1987 with a 22% loss. The biggest one happened in the year 2000, which most of you remember. This is actually a normal part of the market. Just like human beings, the market breathes in, and breathes out. You have to remember we are part of a global economy now. So trading takes place around the clock. It begins in Australia and New Zealand, goes to Tokyo, and then Hong Kong and Singapore, it goes to the Middle East countries, Europe and America. The world never stops trading stocks. You can track these international markets as well. Often watching what the world market is doing before the American market opens is an excellent way to determine how the US market will perform. It doesn't always work, but many times it is very helpful. The main markets are Japan's Nikkei average, the Toronto 300 composite, Paris CAC, London's FTSE, etc. Investing internationally has some real benefits. If you know what you're doing, you can make money three ways. First of all in the stock rising in value. Secondly, in dividends, which most foreign countries pay. But then you can also take advantage of the foreign countries currency rising against the dollar like the euro has last few years. This kind of investing can be risky, but if you know what you're doing it can pay you well.

Okay let's now go into another area of bonds. Bonds are simply loans that investors make to corporations and governments. The lenders can earn interest, and the borrowers get the cash they need. A bond is a loan that pays interest over a fixed term. When the bond matures at the end of the term, the principal or investment is repaid. There are all kinds of types of bonds. Bonds by US companies, the Treasury, cities and states, federal and local government agencies, as well as overseas companies. Bonds are primarily used for conservative investors, because they're guaranteed for the most part. The interest rate however is usually pretty low. So you don't make a lot of money, but it is safe. The three main bonds people use today are corporate bonds, treasury bonds, and municipal bonds. Corporate bonds raise capital to pay for expansion and modernization in various corporations. Treasury bonds float debt issues to pay for a wide range of government activities and to pay off the national debt. Municipal bonds are for states, cities, counties and towns for things like schools, highways, stadiums, sewage systems, bridges, etc.

There is a rating system for bonds, primarily done by two companies. Standard and Poor and Moody's Investor Services. The best rating is an AAA. This is the best quality bond with the smallest risk. They go all the way down to a D rating. Investors base their decision on these ratings. There are tax privileges with certain bonds as well. For example municipal bonds are tax-exempt. You don't have to share your money with the IRS or state taxes. So a lot of people use this as their investment strategy. There is a huge variety of bonds, -something for everybody. You may want to consider this as part of your investment strategy. You can get Ginny Mae bonds which are government mortgage bonds, or, Freddy Mac bonds from the Federal home loan corporations, and Fanny Mae's from the federal national mortgage Association, or even US savings bonds. If you are a Canadian listening to all this, 99% of what I'm sharing with you is also available in Canada, just under different names.

Okay now we are going to take a quick look at mutual funds. This is probably the most well known investment today. It is considered safer, and when you use a tax-deferred investment like a 401(k), the government only allows you to invest in mutual funds. They are pretty simple. A mutual fund company decides on an investment concept, let's say it's gold. They hire a manager, who is good in this area, and then put out a prospectus. Investors review the prospectus and invest their money in this mutual fund. By pooling many different peoples money, the fund ends up with hundreds of millions of dollars, which is then invested by the fund manager and his team. They may invest this money in several hundred different gold companies. So your money is a diversified and not just stuck with one company. Most mutual funds are called open-ended funds. This means they can keep on selling shares as long as they want. Closed end funds raise money only once. There are funds for everything you can imagine, over 14,000 available today! There are stock funds, bond funds, money market funds, precious metals funds, sector funds, real estate funds, gas and oil funds, technology funds, health-care funds, international funds, and everything else you can imagine.

I have invested in funds for many years now, and if there is one rule I would like to share with you it would be this. 98% of mutual funds only make money with market is going up. When the market goes down, 98% lose money. So there are two keys, you can use in this. Number one is to understand market trends. When a market peaks, you cash out of your funds. Then wait until it has corrected or crashes, and then invest your money again at the bottom to ride it back up. Or you can use the strategy we use where you utilize to mutual funds to make money when the market goes up or down. As you know, we use UOPIX when the market is going up, and URPIX when the market is going down.

When it comes to mutual funds, my strategy is very simple. Look for emerging trends. For example, in the last three years, oil has tripled in price. That's an emerging trend. China has gone crazy, building the equivalent of the US workforce every 13 months. That's an emerging trend. Satellite radio, replacing AM/FM is an emerging trend. As you look for these trends, you can then do a little bit of research with Morning Star's mutual fund guide or Barron's mutual fund guide. Say for example, you want to invest in China. Look in the guide, and there might be 200 companies that invest in China. Beside each one will be a history of the profits of that fund. They usually show this in one year, five-year, 10 year, and 15-year examples. So you go through all 200 companies, and find the three or four companies that have a track record of producing a 50% return or more for the last 10 years. Out of a group of 200 funds, you might find three or four. You can know that the fund managers of these three or four know what they are doing. That's a wise investment. If you follow this simple strategy, you can usually do very well in mutual funds.

Okay now let's go into our final area, futures and options. This is a very complex and volatile investment choice. It takes months of intensive education, but if you master it, it can make you wealthy very quickly. So let's begin by defining the difference between futures and options. A future is an obligation you agree to. It is like a contract. When you enter into it, you are obligated to buy or sell a specific commodity such as corn, gold, or treasury bonds on a specific day at a specific price. Options are not as stringent. Options give you the right to sell or buy a specific item, like stocks, precious metals, or bonds for a preset price during a specific period of time, usually three or four months. The power of futures and options is that you leverage your investment 10 times. In other words, you can buy a futures contract worth thousands of dollars for an investment of about 10% of the total value. So for example, you could buy a gold contract worth $35,000 if gold was $350 an ounce, and it would cost you only $3,500. If the gold price goes up $100 to $450 an ounce, the value of your investment goes up $10,000, and you have just made a 300% gain on your $3,500. But remember the opposite can also happen. If gold drops $100 an ounce you would be out $10,000. So you really have to know what you're doing! Remember, all futures and options have dates when they expire. Nearly all of them expire within a year or less.

Similar to this is the commodities market. Commodities are raw materials, like wheat, silver, oil, coffee etc. Commodity prices are based on one simple thing, - supply and demand. If a commodity is plentiful, the price will be low. If the commodity is hard to come by, the price goes up. So if there's a drought in the Midwest for wheat, then wheat prices are going to go through the ceiling! If there is trouble in the Middle East, gas prices go up. You can trade options on these things in the same way. This is really volatile because part of the equation is out of your control in many cases. I can't control the weather, or Middle East conflict. So I generally stay out of this, unless it's an area that I know I have control of.

There is a word that you may have heard before in this area called hedging. These are people that want to protect themselves against price changes that could undercut their profits. Here's an example. If I have a textile company and want to lock in the price of cotton during the summer. I can buy cotton futures for December let's say 5,000,000 pounds of cotton at $.58 a pound. Let's say, then that during the summer the cotton crop is poor and the prices go up to $.68 a pound. The textile company is protected and can take delivery of the cotton at $.58 a pound, rather than $.68 a pound, and they just saved themselves a half million dollars. That's called hedging. You probably heard on the news recently about how airline companies, hedged their gas prices for their airplanes. This is exactly the same situation.

Options like this are opportunities to make buy and sell decisions and make good money if the market goes the right direction for you. There are two primary words you may want to understand here. If you buy call options, you are betting that the price of the underlying investment will go up. If you buy put options, you are betting that the price will go down. The difference here is the same as what I explained earlier. You are leveraging your investment 10 times. So let's say you're investing in XYZ stock, and it was $50 a share and went up to $60 a share. You would make a 20% return on your money. But if you get a call option on the same stock, you would make 200% return. Now remember, puts and calls have expiration dates. If that doesn't happen with in the time period, you can lose a lot of money. If you are going to get in this kind of investing, I suggest to get into a very good training program, and trade on paper for at least a year till you are batting seven out of 10 investments. Then invest real money when you have this mastered.

All right, that's a lot of education in a short period of time! You may want to listen to this CD over and over, and it won't take you long to be fully educated in this area. As a result, you can be an even better steward of God's money. That's what these monthly CDs are all about. The more educated we become, the better we can manage God's money. I want to thank each one of you again for supporting our all power ministry. We deeply appreciate it, and want you to feel good knowing that your hundred $199 contribution each year is making the difference in thousands of lives. I'm looking forward to spending some time with you at the end of the month call. Till then, I want to wish you an incredible day and may God's favor and blessing be all over you as you get every drop of juice out of life you can every day! Love you all!