

How To

BUY STOCKS AT A DISCOUNT

The **KEY** To Successful Investing



By John Roberts

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How To Buy Stocks At A Discount by John D. Roberts

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The Key To Successful Investing

When it comes to stock investing, when you buy and how much you pay is critical. Indeed, the success of your trade most often hinges on these critical points. That is to say you win or lose at this early stage in the game.

Successful investors like the legendary Warren Buffett are quite aware of this fact. And they use methods to buy their stocks at a discount.

On the other hand, the average investor seems to pay little attention to this. And so they always seem to always buy at the wrong time and overpay. So this is an important difference to learn from.

Buying stocks at a discount lowers your risk and greatly improves your odds for profit. This is why the successful investors pay so much attention to it.

So since buying stocks at a discount is so critical to your success, the buying differences between the successful investor and the average investor are important to learn from.

We will explore these differences in this special report about buying stocks at a discount. And we will look at two methods to do so.

One method is technically easy, but requires patience and discipline. It's like setting a trap to spring at the right time. The other is more advanced. It's more like Tom Sawyer getting people to pay him to whitewash the fence.

I use both methods.

And I use one or the other every time when I buy stocks.

This has allowed me to buy some stocks at discounts ranging from 3% to 80%. And what is so surprising is that I usually feel I could have got them cheaper still.

In other words, I often think I should have gone for even a greater discount.

By the end of this special report you too will know how to buy stocks at a discount.

We will look into a couple of key mindsets and techniques you can use when buying stocks. And don't worry – they are simple enough to understand.

The mindsets and techniques are ...

1. The Cool Mindset
2. The Bus Stop Mindset
3. Setting A Trap
4. The Tom Sawyer Whitewash

So let's get into this mindset thing right now.

The Cool Mindset



The most critical part of buying stocks at a discount is to have the right mindset. Now I know that may sound like a bunch of psycho-babble at first, but I assure you it is critical.

Let me explain.

Most investors just rush out and buy a stock because they heard a story, no doubt an exciting story, and they can't wait to buy the stock. They are mentally focused on how much higher they think the stock price will go because, well, it's been going up fast so far.

So price is not much of a consideration with them. They want to get into the game – right now. They are excited because they just heard about this thing.

They may have heard about it on the evening news. And guess what types of stocks the news reports on? Well, the major media is always into drama to increase their ratings, so they always report on exciting stocks.

That is to say stocks that have risen dramatically in price, and also stocks that have dropped dramatically in price.

Their mindset is to go with the stock that has gone up, a winner as they perceive it, and to avoid any stock that has gone down, a loser as they perceive it.

So what did they just decide to do? They decided to buy high and sell low, or at least that's probably how it's going to work out in the end. But isn't that backwards?

Don't we want to buy low and sell high?

When we go to a store to shop, do we look for merchandise that is the highest priced or do we look for merchandise on sale? The way most investors buy stocks, it's like they walked into Lord & Taylor Department Store and asked the clerk to show them the merchandise with the absolute highest markup.

Strange isn't it.

But true.

As I write this article this is going on with Apple stock and Facebook stock. There is a frenzy of public sentiment to own these stocks. They are getting a lot of press and the buying public is all pumped up.

Now in the case of Apple, it may indeed go up, but why not wait to buy when the price has pulled back. And in the case of Facebook, well, I have my doubts.

But regardless, let's resolve to not rush out and buy stocks because they have just set a record on price and we are excited. Let's keep a cool head about this. Let's resolve to be more disciplined and buy quality stocks when their price is down.

And that is Mindset idea number one – the Cool Mindset. There is nothing hard to understand about this. But it takes discipline and constant self-reminder to actually do it.

The Bus Stop Mindset



We said in the last chapter about the Cool Mindset that the most critical part of buying stocks at a discount is to have the right mindset. And I admitted that may sound like a bunch of psycho-babble at first, but I'm sure you are starting to get the picture at this point.

And here's the other important mindset you will want to use. I call it the Bus Stop Mindset.

It can keep you from rushing out to buy a stock because you just heard an exciting story and you just can't wait to buy it. It will reset your mental focus.

So why do I call it the Bus Stop Mindset?

Because stock investment opportunities are like waiting at a bus stop. If you miss the bus, another one will come around in five minutes. So what's the rush?

There are almost always investment opportunities available. Even when the market is down. Many times, **ESPECIALLY** when the market is down.

True, you may miss a stock opportunity or two that goes on up from the inflated price you wanted to buy it at. But quite often, when you rush to buy a stock, at a high price, in a frenzy, with everyone else, what does it do?

The price goes down.

And you lose money.

Does this have a familiar ring to it?

So adjust your thinking to this. You will only buy quality stocks when you can get them at a discount. And I'll show you two methods I constantly use that will help you do so.

Believe me, they work quite often.

As I said before, I often get them at a discount and wish I had gone for a bigger discount.

So keep the bus stop image fresh in your mind. Because if you miss this bus (stock opportunity), don't worry. Another will come around in five minutes.

Setting A Trap



Okay, so we have our Cool Mindset on. We are going to cool our jets, and let cooler heads prevail. And we have our Bus Stop mindset going too. We aren't going to be in a rush to buy a stock. Because we know if we miss this bus, another one will be around in five minutes.

“We've got our mind right, boss,” to paraphrase Paul Newman in the movie *Cool Hand Luke*.

So how do we actually do this?

It's pretty simple, really. We do two things.

We pick the discount we want to try for, and we place a special kind of order to buy it.

I use a couple of methods to figure out the discount I want to buy at. Here's a simple one I use quite often. I just decide, arbitrarily I might add, that I'll buy the stock if I can get it for a 10% discount.

Why 10%?

Because the math is easy and I can do it in my head.

For example, if the stock is going for \$30 a share, then I want \$3 off. See how easy that was? I just moved the decimal point to the left (from \$30.00 to \$3.000).

So if I want \$3 off of a stock that is \$30, then I don't want to pay more than \$27 for it ($\$30 - \$3 = \27).

And it's not unusual at all for a stock to move up and down 10%. Just look at the Microsoft chart below. From point 1 to 2 was a 10% drop and from point 3 to 4 was a 12% drop. And in between those points are three others where the stock dropped from 8 to 12%.



So in the ten month period shown in the chart, there were five opportunities to buy the stock at about a 10% discount, or more. Can you find all five of them? 1-2 and 3-4 are two of them. The answer is at the end of the chapter.

That's an average of every two months that the stock goes on sale. So what's the rush, right?

Okay, so I've decided I want to buy Microsoft stock at a 10% discount.

What do I do?

Well, I set a trap.

Just like if you keep noticing a mouse in your house, and you keep seeing him come back to the same place. You set a trap in that place. And eventually the mouse wanders over to the trap and bang, you got him.

So let's talk about a stock trap.

Now the average investor doesn't set a trap. He just rushes out and buys at the current price. That's known in investing jargon as placing a market order, i.e. just paying whatever price the stock market currently lists the stock for.

We aren't going to place a market order like that.

We are going to limit the price we will buy the stock at. We are going to limit it to \$27 a share in this example.

Can you guess what this kind of order is called?

It's called a "limit order." I know you got that one, so go to the head of the class.

And using a limit order is how we are going to set the trap to grab this stock at a discounted price.

Limit orders are not complicated. You either tell your broker, or your online trading system, that you will buy a certain number of shares of stock for no more than a certain price from today through some date in the future. In this case, I might enter into the system that I want to buy 100 shares of Microsoft stock (MSFT) for no more than \$27 a share any time in the next six months if it goes down to that price

.
And then I just go away and don't worry about it.

The price will go up and the price will down and eventually it may get to \$27 a share.

And then bang, my trap slams shut.

My order automatically executes and buys the shares at \$27 a share just as soon as it touches that price.

Just like the mouse sniffing around the cheese baited trap.

Bang! Got the rascal!

See how I didn't have to spend any time constantly checking this stock? I just set the trap and went about my business.

So the whole thing is pretty effortless, really.

But here's where it gets really good. Because placing limit orders is free. That's right. It costs you nothing to have the system constantly looking for your bargain price and buying for you when it goes on sale.

Kind of like having a thrifty personal shopper, isn't it?

So to summarize, we decide to buy our stock at a discount and not pay full price. We set a trap. We walk away and don't worry about it. And the stock gets automatically bought for us if it goes on sale.

And this service is free.

How cool is that?

Answer To Five Opportunities To Buy Microsoft At A Discount

There are five points in the ten months chart shown below where Microsoft stock dropped about \$3 a share (10%). They are ...

1. Somewhat after July (points 1-2).
2. Right at October
3. Between October and January
4. Point 3 to a bit after April
5. Overall points 3-4 ... or a bit after April to point 4

So that's five times in ten months you could have bought Microsoft stock at a discount.

That's every two months on average. So you can see why I say, "What's the rush?"



The Tom Sawyer Whitewash



In the last chapter we talked about the method of setting a trap, like a mousetrap, for when the price of a stock comes down to our discounted price. We used a special buying technique called a limit order.

And the best part of this method was that it was free.

It's hard to beat free.

But in this chapter we are going to do just that. We're going to get someone to pay us to do this. Really. No kidding.

The method we are going to describe always reminds me of the scene in Mark Twain's classic book *Tom Sawyer* where his Aunt Polly tells him he has to whitewash the fence in the front of the house.

Tom was rather averse to work like this. So he came up with a rather ingenious, and theatrical, strategy to get out of it – and get paid.

Whenever he saw one of his friends approaching, he would put on a big show of slathering on a brush of white paint on the fence, and then standing back and examining it critically, like this was a highly specialized skill that had to be done just right.

And he would tell this to his friends as they approached and watched him. He also slyly mentioned what a great pleasure it was to whitewash a fence.

Eventually, the inevitable happened, as he knew it would, and one of them said, "Say, Tom, let me whitewash a little." Tom would act very reluctant to this suggestion, saying, well, he just didn't know if he could let them try, because it took a very special person with talent to whitewash a fence.

But he would finally give in by saying the only way he could let them try it was if they paid him for the privilege. So they all paid up, one by one. And before you know it, he had put all of his friends to work whitewashing the fence for him.

When all was said and done, the fence had been whitewashed three times over, and his Aunt Polly was quite pleased with him (although I suspect she may have disapproved of his method, had she known about it).

And his friends had all paid him for the privilege of doing his work for him. Which is what our Tom Sawyer Whitewash method of buying stocks at a discount is all about.

We are going to let people pay us for the privilege to buy their stocks at a discount.

I told you it was better than free, didn't I?

Now this method is more advanced than the Set A Trap method because it involves stock options. But for those of you who have used options before, I will describe it for you.

And those that have not used options might still want to follow along here as well, because it will expose you to future possibilities. And you might want to look for my book *Stock Options For Beginners* when it is released this Fall.

What we are going to do is sell a put option. This obligates us to buy 100 shares of stock at a certain price if the option buyer chooses to sell it to us.

And we will pick a price lower than the market price. This is how we will get our discount.

Because it's widely known, I'm going to use Microsoft stock in my examples, although there are stock option opportunities with even greater discounts and larger payments out there.

But Microsoft has been a good stock to do this with, and in fact, I bought their stock at a discount recently using exactly this method.

So let's say that Microsoft stock is going for \$30.02 a share in mid-June. We want to look up the options on Microsoft to see what people will pay us for them.

When we look up the options, we will see a list of prices like that shown in the table below (this is known as an option chain in options parlance).

MSFT Jul 33 Days To Expiration		
Puts	Last	Op Int
28.0	0.33	5232
29.0	0.56	11712
30.0	0.94	9735

See the red 29.0 on the left. That stands for \$29 a share. So we could enter into an agreement with another trader to buy his hundred shares for \$29 a share (\$1.02 less than today's price).

And he will pay us to do this.

How much will he pay?

Well, see the red 0.56 in the table. That stands for \$.56 a share.

Since options are always for a hundred shares, that says he will pay us \$56 for the privilege of buying his shares for a \$1.02 a share discount.

How good is that?

Why Would Someone Pay Us To Buy Their Shares At A Discount?

You may be wondering why someone would pay us to do this.

It's simple, really. They are worried about taking a loss. They may have bought for more than \$30 a share in the past. So a drop to \$29 a share is the maximum loss they want to take.

So by entering this agreement with us, they are buying a form of loss insurance from us. They benefit from the insurance we are selling. And we benefit from the reduced price we can pick the stock up for. And our risk is lower, because we bought at a lower price.

Or, they may have bought the stock at \$23 a share in the past, and are in profits. So they want to protect some of their profits. So with our agreement to buy at \$29 a share, they are assured they will keep at least \$600 of their profits if the stock starts going down.

Their \$600 profit was calculated at \$29 (what we will buy at) minus \$23 (what they bought at) equals \$6 a share.

Since options are always bought and sold in lots of 100 shares, that's \$600 profit they are protecting.

So we sell a Microsoft July 29.0 put and \$56 is immediately deposited in our account. Now here's what can happen in the next 33 days.

The stock price can drop to \$29 a share or lower, and the option buyer requires us to buy his 100 shares for \$29.

Oh drat!

We had to buy his shares at a \$102 discount from today's price. Oh, and we also get to keep his \$56.

Or the stock price doesn't drop to \$29 or lower, so the option buyer won't sell us his shares. But we get to keep his \$56.

And in this case we can sell another put option to someone else, for something like \$56 (more or less).

And we can keep doing this over and over again. Just like Tom Sawyer convinced his friends to pay him for the privilege of whitewashing the fence – three times over.

Those are not bad choices if you ask me.

So do you see why I do this often when I have decided to buy a stock? Not only do I have a chance to get it at a discount, but someone pays me for the privilege.

Using my Bus Stop mentality, I don't care if I ever buy the stock or not.

I'll just keep selling people the right to pay me to buy it at a discount.

Now, a couple of things to be aware of.

First off, make sure this really is a stock you want to buy. Because you really will have to buy it if the option buyer decides to sell (called putting the shares to you – hence the term put). When you sell a put you have entered into a contractual agreement.

And second, you need to make sure you have funds available for the full price (in this case \$2900 – \$29 a share X 100 shares) in case that happens.

Those things considered, this seems to be a pretty good way to buy a stock at a discount, don't you think?

So What Have We Learned?

So what have we learned in all of this discussion?

Well, for starters, I think you see where it is quite possible to buy stocks at a discount. Frankly, I buy just about all of my stocks on sale, using one of the methods I've described.

We learned that we need to not rush out and buy in a white hot frenzy like everyone else. With our Cool Mindset, we will cool our jets on this. We will let cooler heads prevail.

And our Bus Stop Mindset will help us buy at a discount too. We will not worry if we miss the bus on any particular stock, because another bus will be around in five minutes or so.

And we learned two techniques to buy stocks at a discount.

One technique is free.

And the other one people actually pay us to do.

It just doesn't get much better than that.

To your health and prosperity,

A handwritten signature in black ink that reads "John Roberts". The signature is written in a cursive style with a long, sweeping underline that extends to the right.

P.S. I always love to hear your comments and suggestions. Be sure and email me at JohnRoberts@LiveLearnAndProsper.com. Just put Stocks On Sale in the subject line.

I read all of my emails.

ABOUT THE AUTHOR



***“It’s not the years
in your life that
count, but the life in
your years”***

John Roberts is the Founder and CEO of Live Learn And Prosper.com, a leading newsletter and website where informed living meets success. His books and articles are known for their easy to understand writing style explaining complex things.

He’s been a life-long investor and prior to founding LLAP, was a Financial Consultant and Stockbroker (formerly licensed with the New York Stock Exchange) and Senior Business Analyst. Before that, he managed the Corporate IT Department of a Fortune 500 Corporation, and earlier in his career, he served as the Senior Programmer/Designer for May Department Stores International, spending time in London, England designing and programming a large scale international foreign buying system. He also served in the United States Marine Corps.



But all is not work and investments in John’s life. Called a renaissance man by his friends, he is also an award winning photographer, cartoonist, published author and avid sailor, believing that life should be an adventure.

He recalls one Thanksgiving finding himself single-handedly sailing his boat the *Saline Solution* in the Florida Keys — on the far edge of tropical storm Keith. He says when he finally made it back safely to port; it was the most thankful Thanksgiving of his life. He also allows this may have been a bit too much adventure.



John’s had a lifelong commitment to self-improvement and achieving goals — for himself and teaching others. He had an early start in life achieving higher goals as a “lettered” fiberglass pole-vaulter in high school, clearing 12’ when the world record was 17’. And still earlier, as a big brother teaching his younger twin sisters how to read before kindergarten.

John currently resides in Miami, Orlando or St. Louis — depending on when you ask him. When he’s not too busy writing in Florida you can often find him soaking up sun at the beach.

