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3 Wealth-Building Secrets Your Broker Won't Share

Or else they might lose you as a client…

If you have a stock broker, I'll put the odds at 50-50 that he's out on the golf course this afternoon.

A lot of brokers have the certifications, the big bank account, and plenty of research at their disposal.

The problem is that they're more impressed by the latest growth stock that is shooting to the moon despite being unprofitable. Most are not willing to do the homework required to identify the best stocks to own for the long term.

Instead, they typically follow the herd and pile their clients' money into stocks after the stock beats estimates, tops expectations, or unveils a game-changing product or service.

If you're serious about investing on your own, keeping the lofty commissions you pay to a broker, and securing the financial freedom you want and deserve, we're here to help.

That's why I've put together this report on three wealth building secrets that have helped me separate from the pack and uncover winning investments no one else spots.

In this report, I'm going to unveil a simple rule that you can follow in the biotech sector.

This secret is so powerful that the companies that meet the requirements have historically outperformed the S&P 500 by nearly 100% for two decades…

Then, I'm going to discuss a publicly traded asset that too few brokers understand. But I'll show you how these secret assets unlock incredible wealth when we simply combine them with publicly available information that you can access on your own.

Finally, we'll discuss an academic secret that has allowed investors just like you to find the most undervalued stocks with the highest upside today. I'll even give you a list of four companies that qualify for the years ahead.

So let's get started…

Secret No.1: These Biotech Stocks Beat the Market By 100%

Biotech stocks are favorite investments of many brokers.

These stocks are bright, shiny assets with a simple thesis: That they'll make you a lot of money quickly.

The truth, however, is that there might not be a more speculative sector that can lose your money faster.

I'm more interested in making you money and reducing your level of risk.

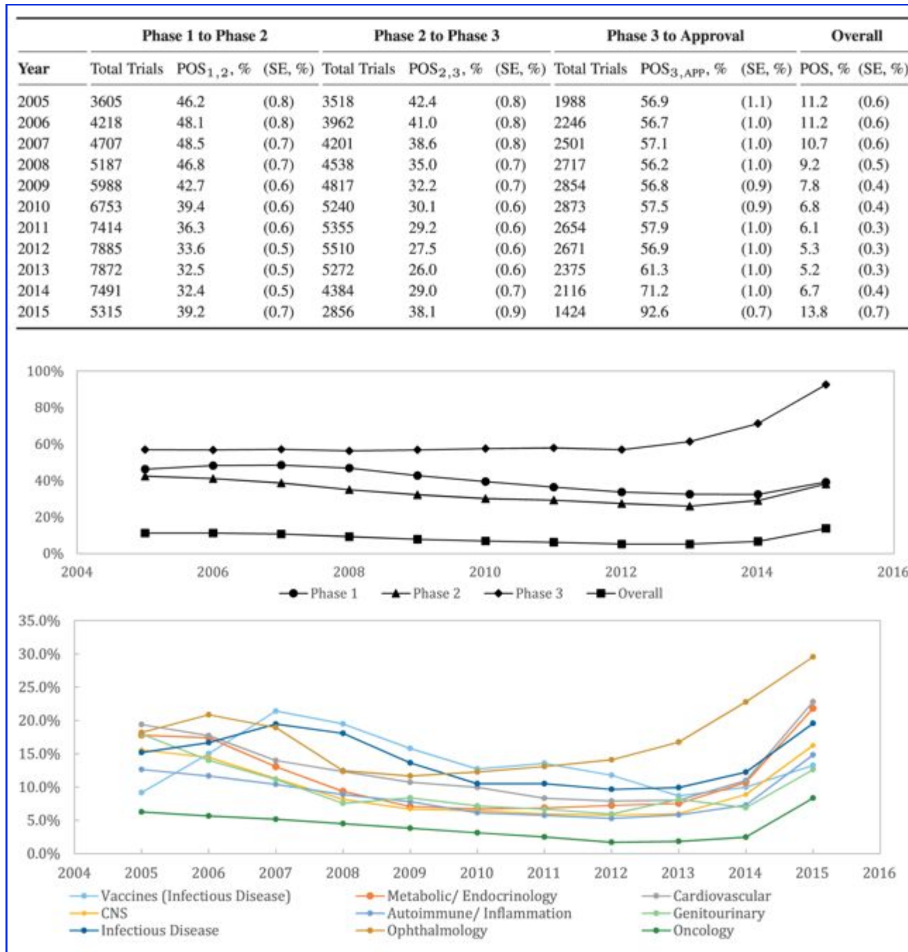
I believe that people make investing **so much more complicated than it needs to be.**

So when it comes to Biotech, I follow one simple rule when I target these stocks.

Successful companies are not just the best for the long-term. They're also the safest, provide the best payouts to investors, and beat the market by a mile.

Most biotech companies fail while they attempt to produce new drugs and get them through the rigid process of Clinical Trials and government approval.

Check out the chart below. These are the probabilities that a drug would pass through each of the three phases of clinical trials from 2005 to 2015.



Year	Phase 1 to Phase 2			Phase 2 to Phase 3			Phase 3 to Approval			Overall	
	Total Trials	$POS_{1,2}$, %	(SE, %)	Total Trials	$POS_{2,3}$, %	(SE, %)	Total Trials	$POS_{3,APP}$, %	(SE, %)	POS, %	(SE, %)
2005	3605	46.2	(0.8)	3518	42.4	(0.8)	1988	56.9	(1.1)	11.2	(0.6)
2006	4218	48.1	(0.8)	3962	41.0	(0.8)	2246	56.7	(1.0)	11.2	(0.6)
2007	4707	48.5	(0.7)	4201	38.6	(0.8)	2501	57.1	(1.0)	10.7	(0.6)
2008	5187	46.8	(0.7)	4538	35.0	(0.7)	2717	56.2	(1.0)	9.2	(0.5)
2009	5988	42.7	(0.6)	4817	32.2	(0.7)	2854	56.8	(0.9)	7.8	(0.4)
2010	6753	39.4	(0.6)	5240	30.1	(0.6)	2873	57.5	(0.9)	6.8	(0.4)
2011	7414	36.3	(0.6)	5355	29.2	(0.6)	2654	57.9	(1.0)	6.1	(0.3)
2012	7885	33.6	(0.5)	5510	27.5	(0.6)	2671	56.9	(1.0)	5.3	(0.3)
2013	7872	32.5	(0.5)	5272	26.0	(0.6)	2375	61.3	(1.0)	5.2	(0.3)
2014	7491	32.4	(0.5)	4384	29.0	(0.7)	2116	71.2	(1.0)	6.7	(0.4)
2015	5315	39.2	(0.7)	2856	38.1	(0.9)	1424	92.6	(0.7)	13.8	(0.7)

Source: [Biostatistics, Volume 20, Issue 2, April 2019]

In 2015, the best year for clinical success, the total probability for passing all three stages hit 13.8%. That's roughly one out of every eight drugs in development. That's a lot of failure and a lot of risk.

So instead of trying to pick which ones are going to succeed and fail, why not just buy biotech companies that are actually already succeeding?

By my definition, the best signal is if the company is **"profitable"**.

Profit Matters

I did some research and found that all you need to do is buy pharmaceutical and biotech stocks **that have been profitable for four straight quarters**.

That's it.

If they've only been profitable for three quarters ignore them.

If they've been profitable for years and are unprofitable for a quarter, dump them.

I know that this sounds <u>incredibly simple</u> - but it makes sense for a few reasons.

First, focusing solely on profit eliminates about 90% of the biotech sector and removes the severe risks of over-speculation.

Second, profitable companies tend to move toward greater profits as they expand markets and put capital to work. These are proven companies in an industry with significant demand and a world with a growing and aging population.

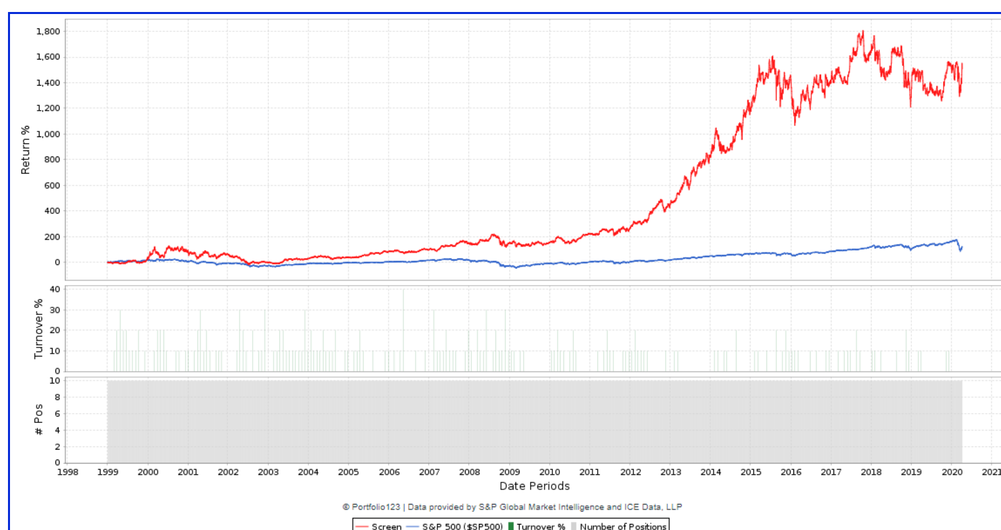
Third, profitable companies put themselves in a position to partner with or buy out smaller biotech companies that have a new cure or treatment that they want to bring to market. You'd be shocked how many small firms run out of cash.

But here's the best part…

My research shows that buying only biotech companies that have a record of four straight quarters of profitability is not just a winning strategy…

But it has blown out the S&P 500 since 1999.

The red line is our list of profitable biotech companies (returning 13.96% per year) compared to the S&P 500 (blue line) and its average annualized return of 3.7% since 1999.



Risks and Rewards

There are risks to any strategy.

But this isn't about speculating on the hottest clinical-stage company. And you're not exposing yourself to more severe risks like regulators and share dilution.

Instead, just buy the winning stocks. If they aren't profitable in the next quarter, drop them and add companies that are in the black.

Here are the top 10 biotech stocks for 2020 using this approach.

Ticker	Name
ABBV	AbbVie Inc
AMGN	Amgen Inc
BIIB	Biogen Inc
GILD	Gilead Sciences Inc
VRTX	Vertex Pharmaceuticals Inc
REGN	Regeneron Pharmaceuticals Inc
ALXN	Alexion Pharmaceuticals Inc
INCY	Incyte Corp
NBIX	Neurocrine Biosciences Inc
IONS	Ionis Pharmaceuticals Inc

Even in turbulent times, this is a strategy that you can do on your own and beat the market.

And we'll always be monitoring profitable biotech stocks for the long haul at *RagingBull Investor.*

Secret No.2: These Public Filings Reveal A Rich Pattern

One thing your broker won't tell you about is an investment called a Closed End Fund (CEFs).

These products have been around since the 1860s in Europe, and evolved into investment vehicles for infrastructure projects (think railroads) in the United States after the Civil War.

Closed end funds are the odd cousin of mutual funds.

The key difference is that their value is not linked to the net-asset-value (the value of the assets minus its liabilities).

Closed-end funds are formed with a fixed number of shares and trade on the public market.

Once the initial original offering closes, they trade on the stock exchanges like any other stock. Investors can trade them back or forth based on their needs or whims.

These funds may trade for more (a premium) or less (a discount) to the actual value of the securities owned by the fund. Investor sentiment and where we sit in the "fear and greed" cycle can play a significant role in closed-end fund pricing.

This cycle allows us to apply some fundamental behavioral investing to the sectors.

This can often create an opportunity to **take advantage of investor behavior.**

About 80% of closed-end fund shares are owned by individual investors who tend to be more emotional than big, wealthy institutions.

Most investors tend to sell in a panic near the bottom in a market sector and buy near the top when a sector is exciting.

This can drive funds to a discount in a bad market and a premium in a frothy market.

I dug into research from a company called Matisse Capital.

The firm had examined the history of closed-end funds from data gathered at the Securities Analysis Center at The University of Oregon Business School.

The data dating back to 2005 shows something very interesting. If investors bought closed-end funds that traded at a premium to their net-asset value, they would generate a loss on that investment most of the time.

Meanwhile, closed end funds that traded at a deep discount to their net-asset value would generate larger returns on average.

So, how do we identify the best discounted closed-end funds to purchase?

Well, we can ignore what our brokers are saying, and instead focus on **SEC 13D filings on a closed-end fund.**

A 13D is a filing that any investor or group must file if they purchase more than 5% of a company or fund's shares.

In the closed-end fund space, we are specifically interested in hedge funds and activist investors that will push managers to reduce the discount between the share price and the net asset value.

Some activist investors specialize in closed-end funds.

How Activists Boost Closed-End Fund Prices

Activists will target closed end funds that show a large discount between their price and net asset value.

The CEF manager can narrow that discount by buying back stock, issuing a tender offer close to net asset value, or even turning the fund into an open-end fund that always trades at NAV.

There have also been some forced liquidations when the fund closed all its positions and returned the cash to shareholders.

Piggybacking the activists can help investors buy-in at a steep discount and sell as the discount narrows due to activist activity.

You can also tailor your closed-end investing strategy to include just specific sectors.

There are funds devoted to technology, bank stocks, real estate, infrastructure, energy, and just about any other sector or asset class in which you might want to invest.

There are even funds that only buy other heavily discounted closed-end funds.

This creates an opportunity to pay a discounted price for a portfolio of closed-end funds that also trade a discount.

It is a discount, double play.

Most closed-end funds pay a dividend, and many have a fixed distribution that returns cash regularly for both income and capital gains to investors.

The high yields are used to attract investor interest in the initial public offering of the fund. Long-term investors can reinvest the dividends to increase their ownership of a fund continually.

We're specifically interested in the actions of SABA Capital, Bulldog Investors, RiverNorth Capital Management, Karpus Management, The City of London Investment Management, Matisse Capital, and Western Investment.

We'll be tracking these activist investors and many more at *RagingBull Investor*.

Secret No.3:

One Number Can Help You Find Deeply Undervalued Stocks… All By Yourself.

Everyone knows Warren Buffett, Carl Icahn, and Benjamin Graham.

But one of the most influential people that can help you make money is a man named Joseph Piotroksi, who spent most of his career as a Stanford professor.

Piotrokski started looking for undervalued, breakout stocks when he was an assistant professor at the University of Chicago.

He found that while buying stocks that traded under book value was a successful strategy, only 44% of deeply undervalued stocks had positive returns over the next two years.

More than half continued to decline in value. Unless you could buy all the undervalued stocks, deep-value investing was something of a coin flip.

What he did next created a secret weapon for Do-It-Yourself investors who wanted to extract as much money out of undervalued stocks as possible.

He created a 9-point model to rank stock based on financial strength based entirely on a company's financial statements. It is simply known as the Piotroski F-Score. He would publish his results in a 2002 paper that rocked the investment world.

It turns out that the higher a company's F-Score, the better the stock performed over the next two years. Stocks with lower scores did poorly.

Combining the F-score model with undervalued stocks helped investors to" "take out the trash" and avid the stocks that were headed for the graveyard of underperformance.

Let's examine the nine points...

1. A company will earn a point if its return on assets is greater than 0.
2. If operating cash flow is greater than 0, the company will earn a point.
3. If this year's return on assets is higher than the ROA a year ago, the company will earn a point.
4. Companies whose operating cash flow is greater than after-tax net income also get a point.
5. Companies that are reducing their long-term debt as a percentage of assets earn a point.
6. A company will earn a point if the current ratio is higher than last year's, indicating that corporate liquidity is improving.
7. The company also gets the point if the total number of shares outstanding is lower than the previous year's.
8. A point is earned if this year's gross profit margin is greater than the gross margin in the same period of the prior year.
9. If sales divided by total assets yields a higher number than the same calculation a year ago, another point is awarded.

Four Stocks With High F Scores

A company that passes most of these measures is in solid financial condition, and the fundamentals of the company are improving.

Combined with valuation metrics like price to tangible book, low price to earnings ratios, and low multiples of free cash flow has been a winning strategy for decades.

By avoiding the stocks with weak balance sheets and poor prospects, investors should earn higher returns over time.

Companies that have higher F-scores are seeing higher sales, margins and profits. They commonly buy back stock and pay down debt. They have adequate liquidity to pay their bills and grow the business. They are the superstars of corporate America.

Companies that currently have 8 or 9 points on the F-score include outstanding long-term buy and hold stocks include:

- Microsoft (MSFT),
- Cisco (CSCO),
- Visa (V), and,
- Lockheed Martin (LM)

Piotroski's research showed that buying undervalued stocks with high F-scores dramatically improved long-term results.

More aggressive investors who bought stock with high F scores and shorted those with low scores could have earned returns as high as 23% annually during the 20-year periods between 1976 and 1996.

Subsequent studies have confirmed that the F-score has continued to add value since the original study, especially when combined with size and valuation factors.

Return on assets is a metric that measures the profitability of a business in relation to its total assets. Return on assets is calculated by dividing net income by total assets, two measures easily found in a company's financial statements that are filed with the SEC every quarter.

Operating cash flow is cash generated from normal operations of a business. It can be calculated as Operating Income plus Depreciation minus Taxes +/- Change in Working Capital. All of these numbers are in the financial statement. Many companies will break out operating cash flow in the cash flow statements.

Net income after taxes is how much profit they earn after all taxes have been paid.

The current ratio is the current assets divided by current liabilities. Both numbers can be easily found on the balance sheet.

Gross Profit Margin is a measure of profitability. It can be calculated by subtracting the cost of goods sold from net sales. That number is then divided by net sales.