My Ideal Portfolio

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From the desk of Lakshay Behl

Dear fellow investor,

In the last issue, I talked to you about a potentially great opportunity that might have opened up for us as investors… for a short period of time. In case you missed that, you can watch the video here (and download a file that contains all the relevant links for the data sources) …

https://westernston.com/private-investments/

Today, I'm going to talk to you about my own ideal investment portfolio.

I am going to talk to you about what my ideal portfolio contains. About how it is diversified. About how capital is allocated to different classes of assets and liabilities.

Additionally, I'll give you my reasons for why I'm allocating a certain percentage of my portfolio to a particular class or kind of asset or liability.

And of course, we should take into account the **Kelly Criterion**.

The Biggest Thing I've Learned from Marc Mayor

I have known Marc for almost half a decade now.

It's been a great, synergistic relationship of friendship, mutual trust… and of course learning. We have both learned from each other. I focus on the domain of business growth, brand building and equity development, while (as you know) Marc focuses on finance, assets and liabilities, risk management and capital allocation.

Over the last five years, both Marc and I have learned a lot from each other. I have learned a lot that would otherwise take me years if not decades of pain and regret to learn on my own. But the one thing that has permanently changed my framework as an investor is the concept of **money management**. At least that's what Marc calls it.

I call it capital allocation.

No doubt you've heard about it if you have been following Inside ALPHA for some time.

Here's a quick example, which again, you might already have heard before…

> Imagine you go to a casino with $100 in your pocket. You see a dealer who's accepting bets on coin tosses. Heads or tails. It's an ordinary coin, so there's 50/50 chance of you winning the bet.
>
> The good news is that when you win, you triple your bet amount. So, if you risk $1, and you win, you get back $3. In other words, your winnings are $2 on top of every $1 you bet when you win.
>
> You can bet any amount of money that you have on your hand (so in the beginning, you could bet any amount up to $100).
>
> Now, of course, this is a great position to be in. Because you have a 50% chance of winning. And yet, every time you win, you triple your betting amount.
>
> The dealer is closing up shops after 100 rounds, though. So, you can only place 100 bets. No more.

So…

This is where the fundamental capital allocation problem comes in.

How much do you bet in order to maximize your earnings over 100 turns?

Do you bet a fixed amount? Like $5 per bet?

Well, that could be risky. Because there is a chance (although admittedly small) that you could lose 20 times in a row. And then instead of winning, you'd walk away having lost 100% of your capital.

So clearly, betting a fixed amount of money on each turn isn't the best possible thing you can do.

Do you bet a percentage?

Of course!

That makes sense. You should only be risking a fraction of what you hold at any given point of time. This is the essence of capital allocation, or money management. A smart investor will never bet the farm, so to speak.

But how much?

Should you bet 2%? Should you bet 5%? 10%? 25%? 50%? How much should you bet?

Well… I'll quickly give you some numbers…

(We will assume you win 50 times and lose 50 times… real life isn't as predictable, but the law of averages does work out over a large enough sample size.)

If you bet 2% every time, you end up with a little over $258. That's a 158% return within a few hours. Not a bad day at the casino, right?

So already you see that by being a conservative (and consistent) investor, you start winning.

But… is this optimum?

Not at all.

What happens if you bet **5%** each time?

Well, if you bet 5% each time… you end up with **$903** and change. Now, we're in the big league. The increased risk seems to have paid off. You end up with $803 in profit instead of $158.

What if you risked a little bit more?

How about **10%**?

Well… when you bet 10%, you end up with a whopping **$4690.16**. Not bad. Not bad at all.

Seems like increasing risk is the way to go, right? Higher risk yields higher returns.

So, let's try **20%**...

When you say 20%, you mean you're going to bet 20% of whatever you hold in your pocket at any time. In the beginning, you have $100. You bet $20.

If you lose, you end up with $80. Now on the second bet, you bet $16.

You do this 100 times. You win 50 times, and you lose 50 times.

And here's what you end up with…

Drum roll please…

$28,900

That's right. A magnificent $28,900. That's over 28,800% return on your capital. Within ONE day!

So… it seems that the more you bet, the more you win, right?

Let's go crazy then… let's bet 75%, and see what happens…

If you bet 75%, you'll basically end up with zero.

That's right. Betting three fourths of your capital on every round will eventually kill your entire capital.

So maybe… we went a little crazy with 75%. Let's try 50%, OK?

If you bet 50% every time… you'll end up with exactly $100 at the end. No profit, no loss.

So, what's going on? How much should you bet to maximize your winnings? And how much can you end up with?

Well… this is the biggest breakthrough by far that I have had in all my years of working with, talking to and learning from Marc.

You use something called…

The Kelly Criterion

(I'll talk about numbers in just a bit.)

But basically**… when you use the Kelly Criterion… you start betting exactly one fourth of whatever you hold on each turn. You just keep betting 25% of whatever's in your pocket…**

And you end up with a mind-boggling $36,109.89. A return so enormous that if you could do this every day for just three days… you'd be a billionaire. On the fourth day, you'd be the richest person on the face of this planet by far!

(Realistically, though, you'd be talking to some tough guys in the casino's basement on the second day.)

But actually, no casino in the world would offer you a bet like that! Because they'd be crazy to. They'd go out of business within an hour.

Fortunately, as investors, we constantly find deals that a casino wouldn't offer. Like the ones Inside ALPHA offers every month or so with the Investir Gagnant 2.0 program.

So, here are the **two formulae** that you need to learn, if you haven't already.

The first is the **Kelly Criterion.**

Here's how it goes:

$$\text{Allocation} = p - (q/r)$$

Here p is the probability of winning, q is the probability of losing, r is the ratio of return and investment. The variables p and q can be expressed as either a fraction or a percentage.

So, in our example above, p was 50%, q was 50% (because a simple coin toss has a 50% chance of landing on either heads or tails). And r was 2. Because for every $1 bet, you'd get $3 back on accurate prediction. In other words, you'd win $2 on every $1 bet.

With that in mind, plug those numbers into the Kelly Criterion, and you get:

Allocation = 50% - (50%/2)

Or Allocation = 25%.

- **If you bet more than 25%, you not only assume extra risk, but you actually diminish your returns.**
- **If you bet less than 25%, you're fine, but you're not optimizing your capital based on the opportunities.**

So that's the Kelly Criterion. It tells you how much risk is worth assuming, and where you need to stop.

The second one is basically a little more complex, but it allows you to figure out how things will work over the long run. This is the formula that helped me predict what happens after 50 wins and 50 losses depending upon how much you bet.

So here goes…

Final Amount = Initial Capital X [(1 – Allocation) ^ (q*n)] X [(1 + Allocation * r) ^ (p*n)]

Here, p, q and r are the same probability of winning, losing and the ratio of winnings to investment amount.

n = total number of rounds or total number of bets placed, or total number of investments made.

And Allocation is simply the percentage of your investable capital that you're putting into an investment. Which ideally, should come from the Kelly Criterion.

Initial capital and final amount should be self-explanatory.

So, from the above examples, p, q and r were fixed at 50%, 50% and 2 respectively. The coefficient n was also fixed at 100. We were simply testing this equation for allocation. We started from 2%, then tested 10%, 20%, 75%, 50% and so on. And then we finally tested for 25% (which is what the Kelly Criterion would have us do) and we arrived at $36,109 as the final amount, with $100 being the initial amount.

By the way, if you'd like to download an excel based calculator where you can simply the values and get your ideal allocation number (as well as predicted outcomes after a certain number of bets) just send me an email (lakshay <at> Westernston <dot> com) and let me know. I built a rudimentary one for myself, and I'm happy to share it with you.

So…

Those two or three pages that I've just typed are the core of the most important learning about finance I have had as a result of all my interactions with Marc and Inside ALPHA.

A Word of Thanks

I am thankful to Marc, by the way, for bringing this to my attention… because who knows how many years it would be before I finally worked it out on my own. As a result of working with Marc, I learned this while I was still in my twenties, so not only have I been spared decades of heartache and losses thanks to poor money management, but also a lot of sleepless nights trying to figure this out on my own.

Thank you, Marc!

By the way… here's something you should do…

A Litmus Test for All Financial Experts

If you don't already do this… you should start testing all the financial experts and advisors you meet… everyone who wants some of your money. Before giving them a single dime… ask them this casino question. Ask them what their capital allocation strategy would be.

If they can come up with the right answers, they're amount the rare 1% who actually know what they're doing. Most likely, however, they'll just embarrass themselves… and you'll figure out that they shouldn't be trusted with your capital at all.

Moving on…

So… why did I detail all of that for you?

Answer: Because it is particularly relevant to what we're about to discuss next.

One simply cannot discuss an ideal investment portfolio without discussing a sound capital allocation framework first.

Now that we have discussed the Kelly Criterion, we can move on and start discussing my ideal portfolio…

My Ideal Investment Portfolio

One of the greatest fallacies investors have when they talk about their portfolio is diversification.

Very often, someone might think that they have a well-diversified portfolio, where in reality, they don't.

Diversification, or lack thereof, is associated with a lot of risks. I'll quickly summarize some of those risks, although I'm sure Inside ALPHA has talked to you about these risks quite frequently in the past.

So let's get started…

Diversification Risks #1 & #2
Geographic Risk & Leakage Risk

Is all your wealth tied to one particular country? So, in other words, if the regime collapses tomorrow, will you go broke? Is all your real estate lying in your native country? Is all your cash in banks and funds located in one country?

Congratulations! You have geographical risk.

Now, please note that I am not saying that your country is unstable, or the regime is about to collapse. No. Of course not.

I am just saying that you never know what happens when. And of course, market crashes occur in every country (including yours) all the time… just like anywhere else in the world. Of course, seasons of investing also change in your country all the time, just like every other country.

Your job as an investor is to protect your capital.

And how do you protect your capital?

By diversifying it.

At most 50% of your entire portfolio should be tied to any one country at any given point of time. If more than 50% of your portfolio is tied to one country, and something bad happens (which, let's face it… with the political tempers and greed running rampant can happen at any time) to that country, your entire portfolio could be gone within a matter of weeks if not days or hours.

You DO NOT want to expose yourself to that kind of risk.

(What do you suspect happened to the formerly wealthy people of Venezuela who did not care to minimize geographic risk at all?)

And there are ways to invest in other countries even if you haven't ever thought about it. In fact, you really need to invest in other countries to have a well-balanced portfolio.

Why?

Because, let's talk about New York. For real estate investing, this is not the season to invest in New York. And yet, there are cities in other countries or even in the United States where it's high time right now to be buying real estate. As much as you can.

In fact, Inside ALPHA continues to offer real estate investment opportunities in states like Florida, South Carolina and Ohio, where right now the time is perfect to invest.

And that applies to currency too…

Currencies crash within moments. Mr. Modi (the Indian Prime Minister) has made a point of it for the world. He just decided to take 97% of India's currency out of circulation with a two hour notice! It was absolutely crazy!

More concurrently, look at Venezuela.

For about 1,000 USD you can buy about 9987 Venezuelan Bolivars today. Exactly 10 years ago in 2009, 1,000 USD would have converted into approximately 2150 Bolivars. So basically, Venezuelan currency crashed by almost 800%. Concurrently, the entire economy of Venezuela crashed.

Today, of course, people are so desperate for food that they're selling their body parts, hair, pets, and in some cases even children just in order to buy a single meal.

Of course, your country might be a far more stable economy.

But I sleep easy knowing that my portfolio is spread across the world. In multiple nations, and in multiple currencies. So, unless aliens invade the planet, I'm basically secure. Financially speaking.

This is the essence of diversification.

And it's not just Venezuela. Currency crash in Zimbabwe happened recently. Around 2007-09 their currency crashed so bad, that the Zimbabwe government had to abandon their currency entirely, & switch to USD.

ONE US dollar was given in exchange for 35,000,000,000,000,000 old dollars.

That is NOT a typo, by the way. That is 35 TRILLION old dollars. I don't know if I should laugh at that or feel sorry for the people of Zimbabwe.

Too big to fail, right?

The currencies themselves continue to lose value… even when the economy seems to be strong and stable.

The US Dollar has inflated (and become de-valued) enormously over these 72 years.

$2000 of today's money is equivalent to $174 in 1947 money. Don't take my word for it. Take the US government's:

Inflation Calculator

If in 2019 (enter year)
I purchased an item for $ 2,000.00
then in 1947 (enter year)
that same item would cost: **$174.12**
Cumulative rate of inflation: **-91.3%**
CALCULATE

This screenshot comes from **usinflationcalculator.com** which by the way you can, and you should check out on your own.

So, while your country is most likely nowhere as unstable as Venezuela or Zimbabwe… it's most likely nothing special either, especially for an investor.

Do you feel richer?

Well, that's because of two reasons:

A. You have done way better than the average citizen in your country. So obviously, the average results do not apply to you. You already know this.
B. It's insidious: What you may not realize is that behind the scenes massive technological growth has made everything cheaper. The air Conditioner that cost $300 in 1975 still only costs $300. But back then, only the wealthiest 1% had the air-conditioner. And only in some of the rooms in their massive houses. Today, when I rent an apartment for three months in a city with a hot summer, I have them install an AC in the kitchen as well.

So, if there were no inflation going on… you'd see the prices of all things… especially those that as mass manufactured (which is pretty much everything) and especially electronics go down rapidly. If the dollar hadn't lost its value since 1975, an AC would probably cost $63 today, even if there were no magnificent technological advances.

Inflation, of course, doesn't let that happen.

Consequently, whether or not you agree with me, your currency is losing value. Every single moment of the day. And night. Especially night. (That's an inside joke we have here at Westernston, which I might probably share with you someday.)

So… all currencies lose value over time.

So, you need a strategy to minimize the leakage risk.

Or maybe… if you start thinking like the smartest investors in the world… You need a strategy to take advantage of these loopholes. And make yourself a fortune because of this imbalance.

You see, every imbalance has two sides.

Every unfair advantage has two counterparties. One party wins at the expense of the second.

In this game of global currency manipulation, most people play victim to the current economic conditions.

(I don't wanna call it a crisis just yet, but hey… do you really want to wait for it to become a financial crisis for you?)

In the next week or so, I'll show you how you can learn to switch the tables and take advantage of the current imbalance. Join the winning side.

Diversification Risk #3: Sector Risk

Which of the following sectors are you over-invested in? And more importantly, which of the following sectors are you not invested in at all?

- **Health & Medical**
- **Financial Services**
- **Consumer products & services**
- **Logistics & transportation**
- **Business products & services**
- **Construction**

- **Real estate**
- **Retail**
- **Security – IT & Physical**
- **Securities**
- **Commodities**
- **Crypto-currencies**
- **Precious & rare metals**

Do you have stock holdings in each of these sectors?

If you remember high school chemistry, you would recall the fundamental law of thermodynamics:

Energy can neither be created, not destroyed.
It can only be transformed from one form to another.

Well…

Wealth, monetary wealth, is a lot like energy.

It can't be created rapidly. It can be destroyed rapidly if you drop a nuclear bomb on a big city. But the last time that happened was almost a century ago. Sure, accidents happen, and wealth gets destroyed on the regular… but it is such a small fraction of the overall wealth of the world that it's a non-factor.

And *where* does wealth go?

Well, it simply goes from one sector to another. From one economy to another. From one POCKET to another.

The question is… how do you ensure that even if wealth flies away (which it does inevitably and constantly) from one of your pockets… it eventually flies right into and lands safely back inside another one of your pockets!

If you're not a strategic investor… then you may be successful at your profession or in your business…and you may be getting wealthier. But some of your hard-earned wealth is constantly flying out of your pocket.

An example of that is the currency-devaluation that I was just talking about.

Now… Some wealth may even be flying into one of your pockets. But the goal is to make it deliberate and well-engineered enough so that you're on the receiving end of wealth-flow far more frequently and constantly than you're at the delivering end.

And one way to do that is to diversify your portfolio.

Let's talk about India.

India right now has a massive real estate glut going on. Every piece of property is massively over-priced, but there really are no buyers to buy it.

It's so overpriced that in a city like Mumbai… you'd end up paying 50 times the annual rent to buy an apartment. So an apartment that you could comfortably rent for $1000 a month… expect to pay $600,000 to buy it.

Except, the kind of person who'd want to live in $1000 a month rental apartment really can't afford to pay the $600,000 price tag that the seller expects. Because he just doesn't have an income large enough to support those enormous mortgage payments.

As a consequence, construction may take a downturn soon following the current real-estate stagnation that India's got right now.

Money is leaving real estate and soon enough construction sectors in India.

But **where** will it go?

Who knows!

We sure as heck don't know.

And anyone who claims to know is either a liar, or simply after your money. Nobody knows. Not me. Not the smartest members of the Cartel. Not Warren Buffett. Not Donald Trump. Nobody knows!

What we do know is that it will flow into one of the other sectors. And therein comes the value of diversification…

**The ideal investment portfolio remains invested
in all major sectors of the world,
in all major currencies,
and in all major economies of the world.**

As a result, no matter where the wealth ends up, we'll be there with our pockets wide open to catch it.

Now…

You need to ask yourself if you're already as diversified as you can be. If you've got a "pocket" in all the sectors.

Because if you don't… you could be the smartest investor in the country… but the market crash is going to destroy your portfolio anyway.

It's like racing against a bear.

The market is a big bear. It will catch you sooner or later. Even if you are faster than all your friends. Even if you're Usain Bolt. The slowest grizzly bear runs faster than the fastest human athlete.

With all that said… let's finally break down my own (ideal) investment portfolio.

Now… I have a confession to make.

My own portfolio right now, at this moment, isn't exactly structured like this.

Why?

Because my own portfolio is a work in progress.

I estimate my own portfolio to be very similar to the ideal portfolio we're discussing today over the next ten years.

The Power of Ten

By, the way, I'm obsessed with thinking about ten years. I don't think too much in terms of annual projections or quarterly forecasts. I do think, however, long-term. I find 10 years is a perfectly reasonable period for anyone to be thinking about.

Bill Gates once said that most people overestimate what they can accomplish in one year, and underestimate what they can do over a decade.

I have taken this to heart. Recently, when Marc and I had a discussion on marketing, we discussed a developing three-year campaign followed by a ten year plan.

In fact, when I start working with a new client, I don't even talk about one or three years. I talk about ten-year expectations and plans. And I really don't work with anyone who can't think long-term, and who needs results tomorrow.

You could be the tallest, most athletic man in the room with the looks of a Greek God, but you're not going to have a baby tomorrow by mating with a girl tonight. The world just doesn't work that way.

Therefore, I structure all my plans and projections over a decade. Not over a month, or even a year.

And as such, my own portfolio is likely to become completely aligned with my ideal portfolio sometime over the next decade. It won't happen instantly, because it just can't. Change takes time, and change this enormous takes a lot of time. It's like changing the course of a large container ship. You can't just steer it into a new direction. You'll need time.

The good news is that with each passing month, and with each deal I make, I move one step closer to aligning my actual portfolio with my ideal portfolio.

Here's the ideal portfolio…

Name	P	Q	R	P-q/r	My Allocation
Cash	90	10	0.5	70	8 (Balance of rest)
Gold & Silver	70	30	1.5	50	10

Real Estate	50	50	4	37.5	35
Crypto-BTC	10	90	50	8.2	5
Small Business P/E	60	40	2	40	25
Insurance	5	95	35	2.285	2.5
Market Neutral Stock Trades	45	55	2	17.5	12.5
Private Lending & Venture Capital	2.5	97.5	200	2.0125	2

Allow me to explain those columns…

The first column is name. This column names the class of assets/liabilities we're talking about.

The second and the third column and p and q. The probability of a predicted outcome occurring and the probability of the predicted outcome not occurring. Fourth column is the ratio of predicted return and invested amount.

For instance, Bitcoin… I allocated it p and q values of 10% and 90% respectively, for a return to investment ratio (r) of 50x. Currently, Bitcoin trades at $10,000 approximately. I believe there is 10% chance that Bitcoin will end up selling for $500,000 or higher apiece sometime over the next decade.

If you ask Marc, he'll most likely tell you that there is a better than 10% chance of that happening. But I like to be conservative, and so I assume there's a 10% chance of that happening.

The fifth column there is about allocation as per the Kelly Criterion.

This is what we were discussing above. The fifth column basically lists how much of my capital could be placed in a particular class/kind of assets/liability set.

And finally, the sixth column shows you what I believe is the ideal allocation.

Introducing… Net Present Value (NPV)

Now, Kelly Criterion is a great start, but it doesn't give you the total picture on how to allocate your capital. For that, I use something called the "Net Present Value" calculation. It's a moderately time-consuming calculation that allows me to take into account the time value of money.

Here's an overview…

Time Value of Money

Would you rather receive $1 Million today… or would you rather receive $100,000 a year for 10 years?

The answer should be easy, right? $1 Million today. Absolutely. No question about it.

But would you rather choose to **receive $1 Million today, or would you receive $100,000 a year for 15 years?**

Now… things start getting complicated. Right?

This is where the Net Present Value calculations come in handy.

I'll discuss the NPV calculations at some point of time in the future with you, I'm sure. Maybe Marc and Inside ALPHA have already discussed NPV with you.

But in this particular case, long story short, if you think you can invest your capital to yield at a rate higher than roughly 6.5% annually, you should collect $1 Million today and start investing elsewhere.

Another question that demonstrates the importance of understanding NPV…

> If you buy a piece of property for $80,000 today… and then rent it for $8000 a year (increasing by 5% each year) and then sell it for $200,000 after 15 years… what was your net rate of return (also known as IRR or Internal Rate of Return).

(Answer: Approximately 17.95% per annum)

Understanding NPV (Net Present Value) of money allows you to make those calculations.

Like I said… getting into the nitty-gritty of NPV and IRR would cost us a few hours on its own… so we'll perhaps do that another day. Or maybe Inside ALPHA will offer a way for you to learn about it, if they haven't already.

But for now, let's just say that for designing my own ideal portfolio, I used both the Kelly Criterion as well as Net Present Value (and also Internal Rate of Return) calculations.

The Kelly Criterion is helpful for minimizing risk.

Well... let's say optimizing risk. Because when a little bit of extra risk can bring in a lot more profit, you should assume it. So that's what Kelly Criterion does.

The NPV and IRR calculations allow me to maximize my yield while keeping my risk as low as possible.

With that said, I'd like to quickly explain my rationale behind assigning those numbers to each of those classes of assets/liabilities sets.

Breaking It Down…

CASH

I'll talk about it towards the end. Why? Because of several reasons, as you'll see below…

GOLD & SILVER

I have always been bullish about gold and silver. Nobody has ever accused me of being a goldbug, but that does not mean I don't have at least as much affinity and love for gold as the goldbugs do.

The only difference between a goldbug and me is that I like to diversify, while a goldbug likes to put his entire portfolio in gold and silver and stuff related to gold and silver. Which, by the way, I would personally never do.

So…

Currently, gold is underpriced.

Artificially kept down, a lot of investors believe, by various elements and agents in the society.

Great news for us, right?

I estimate that gold has a 70% chance of selling at $3000 to $3500 an ounce over the next decade or so.

Goldbugs think gold will probably sell for $12,000 an ounce. I've even heard $40,000 an ounce. The problem with that is that they estimate that the global economy is bound to crash sooner or later. And all fiat currencies will eventually be worth nothing.

While there may be some truth to that sentiment… there is no way of predicting when that will occur. Something like that might not occur for the next 200 years. I'll most likely have long gone by the time something like that occurs… and USD, EUR, GBP and all other major currencies collapse.

So, I remain reasonable in this debate.

I'm still quite bullish on gold, though. I believe it is highly undervalued.

Therefore, I estimate that more likely than not, it's going up. And it's going to grow by 250% over the next decade.

Kelly Criterion therefore dictates an allocation of 50%.

Now, of course, gold doesn't yield any dividends. At least not until you get creative (and maybe Marc has or can talk to you about this).

Gold and silver are just one class of assets.

And finally, storing gold and silver is a whole new set of problems in and of itself.

So, for my purposes, I allocate just 10% of my total portfolio to gold and silver. Gold makes up more than 70% of this allocation, and silver makes up the balance.

I figure that at the very least, gold will beat inflation, and so it's just saving for the long-term, if nothing else.

REAL ESTATE

I love real estate. Why? Because there's always arbitrage on a global scale.

My father bought an apartment in Mumbai for approximately $40,000 back in 1998. Today, it's supposed to be worth $850,000. Back in 1998, Mumbai's real estate market was undervalued. Today, it's overvalued.

We are now trying to find a buyer for it, and as soon as we find one, it'll be gone. He rents it out to collect a cool $1200 a month… which ironically is more than his pension that he receives after a lifetime of public sector/government job.

Real estate markets keep ebbing and flowing.

If you're buying real estate in Bangkok these days, you're not being a smart investor at all. Bangkok real estate is also in a bubble right now. It's enormously overpriced. You can expect to pay 30 times the annual rent in order to buy a piece of property there.

But back when I first visited Thailand, property was really underpriced in Bangkok. It used to cost less than 1 million Baht to buy what would cost you about 6-8 million Baht today less than 10-15 years ago.

So the real estate market keeps ebbing and flowing.

Of course, on one hand there are markets like Hong Kong, Bangkok and Mumbai. Overpriced to a ridiculous degree.

On the other hand, you have markets like Ohio and South Carolina, where you can buy properties to rent out all day long for just five to ten times the annual rent.

Of course, Inside ALPHA continues to bring you opportunities in the real estate space.

As far as I am concerned, those opportunities are what I want to invest in too.

I estimate that there is at least a 40% chance of getting a 400% return from real estate over the next decade.

That just boils down to 15% a year compounded, which is extremely conservative… given that markets continue to turn.

What is undervalued today will one day be overvalued and vice versa.

So when you invest in undervalued real estate (even without leverage, but especially when using debt based leverage) you're not only profiting right off the bat in the form of rental income… but also biding your time (comfortably) until the undervalued property becomes overvalued, and you sell it for a huge capital gain.

Kelly Criterion would have me put half of my portfolio into real estate.

Of course, I need to diversify, and I also need to look at NPV and IRR calculations.

But even accounting for NPV and IRR, I find that allocating **35%** of my entire portfolio to real estate investment deals (spread out over various geographic areas) is the way to go.

Why?

Because again, **real estate is as time-tested** as an investment can get. There's only so much land in the world, and the more I control, the better I feel as an investor.

CRYPTOCURRENCY

I'm bullish on cryptocurrency. That's an understatement of course. I do believe that blockchain is going to change the way we do everything in the near future.

Forget smart money… we're soon going to be living in a world with smart contracts and smart advertising. We're already getting there to a certain extent.

Now… of course there is no way to tell if Bitcoin will continue to stand the test of time.

I do suspect that it **may not be Bitcoin** in the end that ends up becoming the de facto cryptocurrency of the world. It could be Bitcoin, but it could be some other cryptocurrency as well.

For that reason, I assign a 10% probability of winning to Bitcoin. And a 90% chance that it would be some other currency.

But one thing is sure…

Whatever cryptocurrency ends up becoming the prominent cryptocurrency that people all over the world actually use… will skyrocket.

A 50x growth is an absolutely conservative under-statement.

But I like to remain conservative, and so with those numbers, Kelly Criterion would have me invest 8.2% of my portfolio in cryptocurrency.

I actually end up devoting just **5%**, though. I understand the returns might be lower… but I like to diversify my portfolio as far and wide as I can. And therefore, I find 5% to be a great allocation for cryptocurrencies.

For some other investors, this number might be as low as 2% or even 1%. That is fine. I understand cryptocurrency enough to know that sooner or later that is what we'll be using to buy bread, bacon and biscuits every single day.

But even if you don't share my outlook… you'd still be well-advised to put 1% of your portfolio in cryptocurrency anyway. **The returns potentially outweigh the risk by orders of magnitude**.

Small Business Private Equity

So…. Finally, … I am going to allude to our previous video (which if you haven't watched yet, you can watch here: https://westernston.com/private-investments/).

In that video, I spoke at length about why right now, there exists a small window of opportunity that we can take advantage of. Soon I'll start showing you some case studies, and also start discussing why we might uniquely be in a position to take advantage of this particular opportunity.

I spoke about the demographic factors that make **hundreds of thousands of businesses go on sale every single year… on a market that only has 10,000 buyers** looking to buy within that same year.

With that kind of imbalance of power… buyers hold all the influence as well as decision-making power.

This is a unique opportunity. One that Westernston (and our clients) are in a very unique position to harness. **We can now buy successful small businesses for a Price to Earnings ratio of just 4-7.**

Which means annual return varying from 15% to 25% right off the bat. And this is just the earnings side, the cashflow/dividend side. The capital gains side is completely separate, as we discussed, and will continue to discuss over the next week.

Till now, everything we discussed, someone else is also discussing. This particular class of assets and liabilities… equity in successful small businesses at dirt cheap prices… this is what makes my portfolio (and soon yours) unique.

Now… nothing is without risk.

There is always a chance that a business you hold stock in fails… or gets into legal troubles… or succumbs due to poor marketing.

But this is also what Westernston specializes in.

We work with clients from Europe, United States, Asia and soon even Australia and help them with growing their respective businesses. We specialize in long-term brand equity growth and deep marketing/advertising campaigns. The other thing we specialize in is systemizing operations.

We have a strong team of professionals who do this day in and day out. Systemizing our clients' operations, developing long-term marketing campaigns that build brand equity and grow market share.

And as such, we find ourselves in a very unique position of being able to acquire small businesses as investors, and use our own skillset to help those businesses grow far beyond their original founders and owners could have imagined.

For me, the probability of acquiring a business that I can grow and scale, and profit from within a decade are 80% or higher. Especially since we spend tens of thousands of dollars on due diligence and research.

But the investor in me wants to remain conservative, and estimates that we have a **60% chance (slightly better than 50/50) of tripling our investment over a decade**.

And as such the Kelly Criterion gives me an allocation factor of 40%.

Again, the investor in me wants to be even more conservative.

So I'm investing only **25%** of my portfolio in private equity deals.

For you, this number might be lower.

I actually recommend investing no more than 10% of your portfolio in private equity.

Insurance

Ask Marc if you should be insured for something, and he'll tell you **"you can never be over-insured".** I happen to agree. I once happened to be in a car accident with inadequate insurance. I have never ever repeated that mistake.

I actually treat my insurance plans as investment avenues.

I have bought a term-life insurance plan. I estimate there is a smaller than 5% chance of me dying within the decade, but if I die… my family will receive about $2 Million in tax-free capital.

At that rate, **no more than 2.285% of my total investable should be poured into insurance, according to Kelly Criterion**.

I'm personally pouring just **1%** of my investable capital into insurance premiums, though. Actually less than 1%.

But I find that if my parents had bought a nice life-insurance plan… and their parents had bought one for themselves… it would be ongoing wealth building through the generations. Death is, after all, inevitable.

Believe it or not I have actually run NPV analysis and IRR calculations.

Turns out that if someone dies soon after they start paying the premiums, the returns are off the chart. Of course, the longer one lives, the lower the returns get to be. **But you still make at least bank interest even if you live to be a hundred years old. Not such a bad deal, after all.**

Market-Neutral Stock Trades

This is one area that I must admit I am not doing so well in.

Why? Because I haven't yet had the time to focus on it and learn the nitty-gritty of it.

But I must also disclose that over the next few years, I intend to establish a framework to start investing in the stock market.

Of course, **I would have to be market-neutral (or as close as possible) at all times**.

Even so, being very conservative, I estimate that I have a 45% chance (less than 50/50) of tripling my invested capital in less than a decade.

Plug those numbers into the Kelly Criterion, and you find the optimum allocation is 17.5%.

And while I don't invest in market neutral trades as of today… I soon intend to diversify myself into the stock market itself too.

Ideally, I'd allocate **15%** of my portfolio to market neutral stock trades, or even futures.

But this is a learning curve I'm still far behind, so I'd have to learn before I earn here.

Venture Capital, Angel Investing & Private Lending

Inside ALPHA has already offered a deal that falls in this category. Remember **Bity**? That is what would fall into this category.

Venture Capitalists make a ton of money, even though they only make money 1 out of 40 times.

Because out of every 40 companies they invest in, 35 lose big. Three to four fare moderately well. But one out of forty, on an average, delivers a breakout performance.

Like Facebook. Like Instagram. Like Uber.

How would you like to have been the investor who bought $1000 worth of Facebook stock when Mark Zuckerberg was still in school and needed a few thousand dollars for hosting? You'd probably be a centi-millionaire from that investment alone… if not a billionaire.

Venture Capital and Angel Investing is the riskiest of them all.

And yet, I recently started funding tiny companies that I believe have a great potential on account of having a great team and a great product.

It's not a lot. Kelly Criterion would have you allocate no more than 2% of your investable capital to venture capital deals.

Personally, I'm happy at just **1%**.

This is a **high-risk, high-reward situation**.

But 98% of the time you don't get rewarded at all. It's just that the other 2% of the deals you make here will make such a huge return that it'll make your eyes water.

Of course, when Inside ALPHA presents a deal like Bity, you should grab it with both your hands, because it isn't easy to find a venture capital deal that you can buy in for less than a few hundred thousand dollars anyway.

Then there is the vetting.

We all know Marc and his team aren't going to present an offer they don't already believe in. Inside ALPHA coinvests with their clients, and that makes the possibility of succeeding even as a venture capitalist somewhat higher than a traditional venture capital firm.

Right now, I'm aiming at just one deal a year.

But sooner or later, I'll establish a fund whereby we'll aim to close one deal a month. We'll talk about that when we establish that sometime between 2021 and 2023.

FINALLY, BACK TO CASH

Hard currency. Basket of currencies. Bank deposits. Savings accounts. Current/checking accounts. Cash in your wallet. Cash deposits or fixed deposits. All of these fall under the purview of cash for the purpose of this discussion.

I estimate that there is 90% chance that cash will lose half of its value over the next decade.

Of course, that's a very pessimistic outlook. But it could happen, given how freely money is printed.

This is the only place where Kelly Criterion doesn't work well, by the way.

Cash is always losing value, because all currencies lose value thanks to inflation.

And yet, we all need cash to get by. Day to day. It's also how we're paid our dividends. It's how our salaries or returns are structured for the most part.

Personally, **I like to allocate as much of my portfolio to cash as the rest of the portfolio dictates.** In other words, I allocate whatever is left to cash.

Whatever is left after my total investable income (which is my income after taxes less my expenses) is allocated to everything else... remains in various currencies of cash.

Cash is a necessary evil.

You need it to pay the bills. You need it in order to close deals. You need it in order to invest. Cash is how your clients pay you. How your dividends are structured.

And yet, cash loses value so rapidly, that it is unwise to keep too much cash on hand at any time.

CONCLUSION

This particular issue ended up being a little bit longer than I had intended.

But it was important for me to emphasize what a well-diversified portfolio actually is.

We are all fortunate as investors to have found Inside ALPHA. Not only do Marc and his team show us how to invest… but also, they serve us real investment deals on a silver platter… so we can build a balanced, well-diversified portfolio.

As an investor, I kick myself for not having bought $1000 worth of Bitcoin back in 2010, when it was still trading for less than $1 apiece. A friend of mine did just that, while I thought I was being conservative by not spreading myself too thin with things that aren't likely to work. If I had, my Bitcoin would be worth more than $10 Million today.

Of course, my friend ended up buying… but then he sold it when Bitcoin fell from its then all-time high of $1000 to less than $250 in 2015. By this time, I had found Marc and Inside ALPHA, and I started buying. I'm still buying, as you know.

The point is… don't close yourself off to potential profits from any kind of deal. You don't have to invest your entire portfolio… or even half of it. Don't even invest 5% or 10% of your total portfolio. Even a little bit can make a huge difference to your portfolio.

IN THE NEXT ISSUE:

- ⇨ Real world examples of small businesses that are listed for sale right now. (You will not want to miss this)
- ⇨ Why price to earnings ratios can be as low as 2 or even 1, and why that is not a profitable deal if you look closely.
- ⇨ The red flags that buyers end up ignoring… or worse… not even knowing about
- ⇨ Why this would totally not make sense unless a certain condition is fulfilled.

ABOUT WESTERNSTON, INC.

Westernston is the leading business systems architecture firm for small and medium businesses.

We work with clients with annual revenues between $10 Million and $200 Million.

Here's what we do for them:

- ⇨ Systemize regular operations
- ⇨ Document systems
- ⇨ Optimize workflow through critical paths and resources
- ⇨ Develop long-term marketing campaigns focused on building brand equity
- ⇨ Develop deep client-relation campaigns focused on developing lifetime brand loyalty
- ⇨ Develop rapid advertising campaigns suitable for the modern social media and dwindling attention spans

You can learn more about Westernston, Inc. on our website www.westernston.com.

Prima facie, our objective is to help our clients systemize their operations and double their market shares. But if you look beneath the surface, our objective is to help our clients grow over the long-term and become the pre-eminent, dominant forces in their respective marketplaces.

Consequently, we cannot work with business owners who don't control their own brands, and every aspect thereof.