The Little Black Book Of Billionaire Secrets

By BRYAN RICH

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BIO

Bryan Rich is the founder of *Pro Perspectives* and *Billionaire's Portfolio*. He is also the founder of Logic Fund Management, a macroeconomic and global investment research, consulting and advisory business.

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INTRODUCTION

Have you ever wondered how billionaires invest their money? How do they continue to get RICHER, while the rest of the world is struggling?

I study great investors for a living. To be more specific, I study how these investors have generated billions of dollars in investing profits, and in the process have become billionaires.

I've trudged through every single stock ever bought by some of the best billionaire investors in the world, and I've found some commonalities that are distinctly different from the average Wall Street investor.

I call them the three Cs:

Conviction, Control, and Change.

The best billionaire investors in the world tend to run very concentrated portfolios. When they take a stake in a company, they bet big. These are high **conviction** investors.

Why do they bet big? Because they have an "edge" in investing. They use their size and reputation to influence management. So, they are in **control.** And with that control over management, they can create **change.**

And change is what reprices stocks.

This is the simple, common formula that we see from the best investors in the world—those that have amassed billions of dollars in wealth for themselves, strictly through their investing prowess. They clearly invest differently. And they clearly have an advantage.

With this formula, they have compounded money at huge returns, over a long career. That can make you a billionaire.

Don't believe it?

Billionaire investors have given us the clear roadmap to follow their footsteps to wealth creation

Get this: If you would have invested only $1,000 with the (now) legendary Carl Icahn back in 1968, you would be worth $1.2 billion today.

Alternatively, for every $1,000 invested in the S&P 500 for the same period, you would have had just $54,706.

WHY YOU'RE NOT A BILLIONAIRE

Average investors make a number of mistakes that keep them poor. Much of it is due to a lack of education and understanding of what investing is all about.

The Wall Street marketing machine has led average investors to believe that active trading, hot stocks tips and predicting market direction are the golden ticket to wealth. In fact, it produces the exact opposite.

#1 Mistake

They Think The Stock Market Is A Good Investment

Inexperienced investors think they should be able to buy at bottoms, sell at tops and make gobs of money. But that's not a repeatable task.

The long-run annualized return for the S&P 500 (including dividends) is 8%. And after fees, most professional mutual fund managers do not beat the S&P 500.

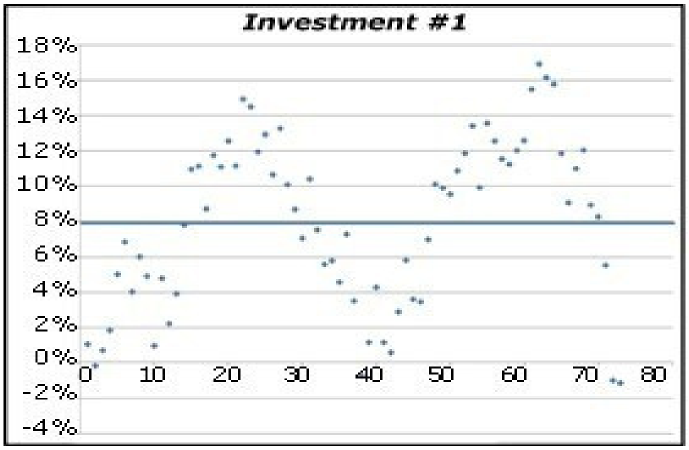
Moreover, too many investors do not understand the risk they're asked to take to achieve an 8% return.

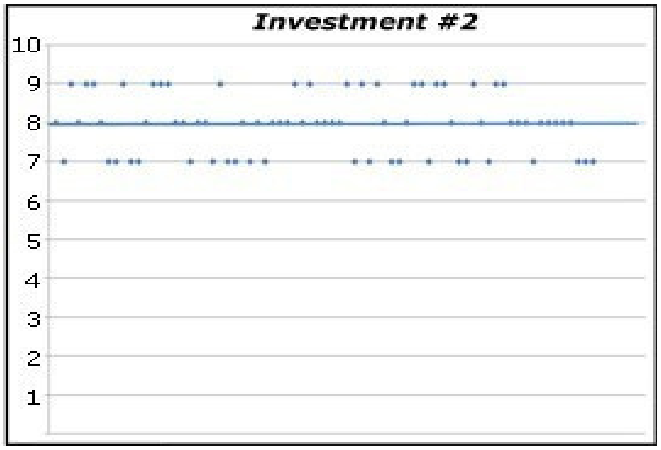
The volatility of stock market returns is best measured by looking at the dispersion of returns around the average return. This gives you a clue as to how much risk you have to endure to achieve your expected return. It's called the standard deviation and is a good way to measure risk.

The standard deviation of the S&P500 is 19%.

This means roughly 70% of the time, the S&P 500 should trade plus or minus 19% around its long-term average return. So if you use standard deviation as a gauge of risk, you'll find that the broad stock market pays you only 1 unit of return for 2 units of risk taken.

> **"Billionaires invest in things they know … where they have an edge."**





Take a look at the two hypothetical charts above…

Both investments have an 8% average annual return. But Investment #1 has a wide range of returns, while Investment #2 has a stream of returns that more tightly hug the average annual return.

If each of the points on the charts represents a monthly return and both investments achieve the same end result, which investment should you choose?

The answer: **Investment #2** —the one with the tighter distribution of returns since it gives you a higher probability of achieving a higher return.

Here's why: Your investment's performance will largely depend on when you enter and when you exit.

If you enter or exit at any given point along the path of Investment #2, the likelihood of success is greater than it would have been with Investment #1.

So unless you think you can pick the exact bottom to enter and the exact top to exit, you're far better off finding investments that have a tighter distribution of returns.

The bottom line is, a buy and hold strategy in the broader stock market the index just doesn't compensate you for risk. It's a bad investment. Stay away.

"Billionaire's don't gamble, they bet on sure things."

#2 Mistake

Overtrading

I know a lot of very rich people. And I know a lot of very successful investors. I can tell you this: None of them got rich day trading.

In fact, not only can day trading be bad for your bank account, it can be bad for your health. There's a study by a prestigious Australian University that found those that sit the most, die the soonest. So, the longer you spend sitting in front of computer screens, the higher your risk of early death. Think about that! The smartest and most successful investors think in terms of risk vs. reward, in EVERYTHING they do!

A shortened life with less money is a bad trade—don't do it.

#3 Mistake

Trusting The Wrong People

If you take away one thing from this book, remember this: Your financial advisor-stock broker is not your friend.

I say this as a matter of fact—no disrespect intended. I've known a lot of brokers in my career and still do.

Sure, 30 years ago when there wasn't the internet or smartphones, you had to call your broker to get a stock quote or make a trade.

Today, you can get stock quotes, economic data, research reports and stock screens all free on the web. So, most people don't need brokers. Get an online brokerage account. It will cost you a few bucks a trade.

In 2021,Warren Buffett's net worth is $98.5 billion.

I don't want to belabour this point but think about this: the brokerage industry does not produce investment minds, it produces salesmen.

My point is this: In many cases (I would estimate the majority of the cases) these people you trust with your money are not experienced or educated enough to watch over your money. Be aware of that.

And keep in mind that brokers get paid regardless of whether your account goes up or down.

“Billionaire investors invest when they can control their own destiny … they don’t leave things to chance.”

Bottom line: Stay away from them and it will save you easily 2% to 4% in fees per year (probably more).

On a $100,000 account, that’s as much as $4,000 more a year in your pocket.

HOW BILLIONAIRES KEEP GETTING RICHER

Unlike the average investor, billionaire investors don't stand by and let the global economic turmoil or restrictive policies destroy their wealth.

They pivot. And they capitalize!

How?

It's not from focusing on the things they cannot control. But by focusing on the things they can control.

Let me explain ...

Billionaire investors have a unique advantage. Of course, they have a lot of money. But with money, comes power and influence.

Unlike mutual fund managers, financial advisors and the rest of Wall Street and Main Street, these billionaires aren't in the business of guessing about what may or may not happen with a company and its stock. They are in the business of sure things. They like to control their own destiny. And that's precisely what drives the way they invest.

They find companies that have a clear need for a shake-up. Then, they buy enough of the company to take control of the wheel.

"What's the difference between a billionaire investor and you?"

WHAT BILLIONAIRES DO DIFFERENTLY

"If someone told you that you could get an inside look at what's in these billionaires' portoflios, wouldn't you want to take a peek?"

You buy as much as 15% ... 10% ... even 5% of a company's stock, YOU are in the driver's seat. Management works for you!

It's this philosophy of taking "controlling interest" in companies that have allowed these big-time investors to put up staggering returns, year after year ... even in the worst economic climate in our lifetimes.

To be clear, these are guys that built their wealth by investing in these types of situations.

They have track records that are unmatched in investing. And their bank accounts prove it.

Now, if someone told you that you could get an **inside look at what is in these billionaires' portfolios,** wouldn't you want to take a peek?

Imagine how valuable it would be to know exactly what the richest, most successful investors in the world have in their portfolios.

This is exactly what I do. I uncover these lucrative investments that allow my clients to piggyback these investing giants. And I do it for my own account.

WOULDN'T YOU LIKE TO HAVE A BILLIONAIRE ON YOUR SIDE

Examples?

Let's start with GGP...

This one is of the "home run" variety. They certainly don't all come like this, but when they do it's a lot of fun.

A billionaire investor was buying these shares, as the world was falling apart (in the Global Financial Crisis), between 25 cents and 50 cents. (Editor's note: the blue box in the charts represent where the funds were found acquiring the stock).

So the world is imploding, and he's pouring hundreds of millions of dollars into a penny stock – THAT GETS MY ATTENTION!

This stock went up 46-fold!

For those that might be slow doing the math …

That's $460k for every $10k invested.

That's a huge winner. And it also demonstrates the appeal of buying low priced stocks, which many of these guys like to do.

You get more bang for your buck.

Next, Microsoft …

It wasn't too long ago that MSFT was a tech giant that was believed to be past its prime.

If you bought the stock at the top in 1999, you were underwater for 16 years. If you bought it in 2000 for half price, it was dead money for 13 years (flat line). In April of 2013, Business Insider wrote a story titled: "Microsoft Could Be Obsolete By 2017."
So what changed?

The same month Business Insider wrote that article, a guy named Jeff Ubben took a $2 billion stake in Microsoft.

By September Ubben had secured a board seat, and he went to work, pushing for stock buybacks and a new strategy.

WOULDN’T YOU LIKE TO HAVE A BILLIONAIRE ON YOURSIDE?

Ubben pushed out the CEO, Steve Balmer. He replaced him with Satya Nadella, who was running the Microsoft cloud business. Nadella's job was **to turn Microsoft into a cloud computing company.**

He did it. Here’s what has happened to the stocks …

The stock has now gone up more than 8-fold. Today, instead of obsolescence, it's a **$1.85 trillion-dollar company, thanks to Ubben. It's the most extraordinary investment of all time.**

Keep in mind: The interesting thing about these opportunities are that you don’t have to be a sophisticated investor to invest like one. They do all of the work. They pay all of the experts. And the average guy can get all of the benefits just by following along.

8X Winner

“The most extraordinary investment of all-time.”

DOUBLES, TRIPLES AND BEYOND

Take a look at Pulte Homes.

The guy that was involved in this stock has one of the greatest long-term-track records of any hedge fund manager in the business.

In this case, he became bullish on homebuilding stocks around mid-2011.

His approach: To bet on a rebound in housing, he wanted to find the cheapest stock in the sector. He bought the one with the lowest book value, the lowest share price and (this is key) the most liquidity. He chose Pulte.

Pulte is a member of the S&P 500 and was one of the few stocks in the S&P 500 index that sold below book value and under $5 a share. So he dove in. He purchased millions of shares for around $4.25.

The stock went up 200% in less than a year.

These billionaires are not afraid to get involved in low priced stocks.

Among other catalysts…Waking up the Wall Street analyst crowd to these stocks can be part of the re-pricing game plan. And cheap stocks give these billionaire investors the opportunity to make multiples on their money.

Another? How about a quick buyout stock …

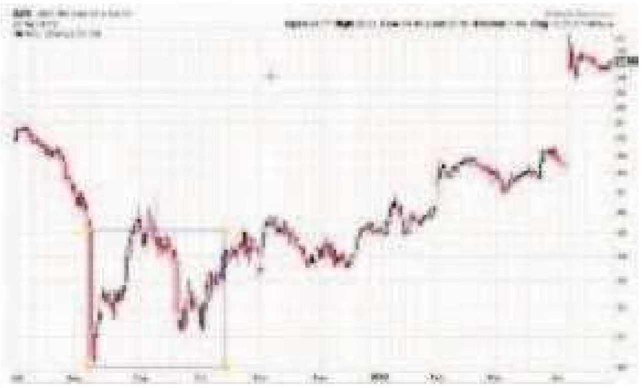
Digital Generation had a valuable niche business, with technology that bigger companies desire. It was in play -- the company has hired Goldman Sachs to find them a buyer. And then George Hall of the Clinton Group showed up with a controlling stake in the company. I followed him in.

The Clinton Group pushed for board representation to ensure that the company is sold at the highest price that is fair to the company's shareholders. I've seen this playbook before. And it's a very effective one.

We entered the stock at $7.94. A month later it was sold for over $13 a share.

DOUBLES, TRIPLES AND BEYOND

Finally, let's take a look at AOL.



The guys involved in this play are bulldogs. They buy a controlling interest in a company, and then they like to force management to sell assets. In turn, they manufacture a return on their investment.

And that's exactly what they did with AOL. They forced the company to sell their patents to Microsoft, for more than the company's market cap! The result …

A DOUBLE in about eight months.

This AOL example shows you that this type of investing can be done with even well known, large-cap stocks.

Now, I can assure you, the above examples are just a small sample.

This is what this type of investing is all about. It's about big winners.

It's about getting a partner on your the side that is hell-bent on making money – big money … and that's what these hedge funds that I follow represent.

They have to be right. They get paid when they are right.

And these plays all have to work out within their time frame –which is inside of a year (maybe two), in most cases. After all, these funds are competing for assets, but mostly for pride ... and annual returns are everything!

So they can't sit and wait five to ten years for an investment to work out, like a mutual fund or endowment might.

They buy stocks that they know they can take control of … to unlock value, to impose their will. And their will is very clear: To make money ... a lot of it.

DOUBLES, TRIPLES AND BEYOND

In all of my years of experience working this industry, I've narrowed down my investing strategy to three simple steps:

Step #1: I find out who the best is
Step #2: I find out what they're buying
Step #3: I buy what they buy

Just follow the best and the rest is easy.

These guys have acquired tremendous wealth because they control their own destiny. They do all the work for you.
They put their own money on the line..
Brokers, mutual funds don't.

"It's like car-pooling with a billionaire. They drive and we get a free ride."

I've narrowed down my investing strategy to three simple steps:

1 **I find out who the best are**

2 **I find out what they're buying**

3 **I buy what they buy**

Just follow the best and the rest is easy.

FOLLOW THE BEST!

Add the activist strategy to the influence that these billionaires have on management and on Wall Street, and you get a recipe for outsized returns – multiples of the annualized return of the S&P 500.

Most importantly, this type of investing lets you enjoy your life. Instead of staring at screens all day, take a walk. Get rid of those computer screens that are killing you.

Put simply, following the world's greatest billionaire investors can put you on a path toward creating real wealth.

Take a look at these returns, from some of the great billionaire investors …

Maybe the most influential investor today is billionaire Paul Singer. He has a long history of putting up returns. Since 1977, Singer has done close to 15% annualized (after fees).

Billionaire Joe Edelman is a biotech investing specialist – the best. He has returned over 30% a year since 1999 after his fees are taken out. If you add back his fees, he's extracted an annualized return from the market of better than 40% a year. That's an incredible number.

Billionaire David Tepper has returned more than 30% a year since 1993 (closer to 40% before fees).

Billionaire Dan Loeb has compounded money at close to 20% annualized before fees, since 1996.

So these are investors that have consistently extracted money from the stock market. This is the market we're constantly told is so "efficient" by the talking heads. Yet these billionaire investors can produce many multiples greater than the performance of the benchmark indices. And that outperformance is the difference between being an average investor and creating a billion-dollar net worth.

You and I can follow their lead with the click of a button in an online brokerage account. How? More in a moment …

WARNING:
A lot of people want to offer you advice on how to manage your money. The BEST investors ONLY surround themselves with proven winners, who have personally demonstrated success!

BILLIONAIRE BIOTECH INVESTING

Remember the billionaire biotech the specialist investor just discussed?

No one is better at picking the winners from the losers in biotech than Joe Edelman. It has made him a billionaire.

Have you ever owned a stock that did this?

As we've discussed, home run stocks are born from the effects of major "change." And there is no more powerful "change" event than a clinical trial event. That's why biotech is a highly–hunted sector.

From the average investor to the most sophisticated Wall Streeter, every investor wants to be part of the next Idenix Pharmaceuticals—a stock that billionaire investor Seth Klarman earned a billion-dollar profit in **one day.**

But as with many things in life, the higher the stakes, the higher the risk.

There's no denying that in biotech investing, there's a lot of risks. For every stock that hits the front page of the financial journals after soaring skyward and making investors rich, there are many more that sink into bankruptcy and make investors poor.

I use a simple screen to put the odds in my favor, when I dip a toe into the biotech waters.

I only want to invest in a biotech stock when the best and smartest investors in the world are involved. That's it. No exceptions.

I want to follow the lead of those investors who: 1) Have a record of knowing the space better than anyone, 2) Have a record of picking the winners from the losers in biotech, 3) Employ a team of top-level experts that know the regulatory process better than anyone and know the science better than anyone, and 4) have a lot at stake, and a lot to lose if they're wrong.

When I follow this formula, I flip the lopsided odds of biotech investing on its head. The odds become in my favour that I will be part of the next big winner.

BUILD YOUR OWN BILLIONAIRE'S PORTFOLIO

So, we've talked about the value of following the best. What about the best OF the best?

I've studied the track records of hundreds of billionaire investors and billion-dollar hedge funds. And one man stands above the rest, as the best investor alive. I'm sure most would consider it to be Warren Buffett. But the numbers tell a different story. In fact, the greatest investor of all time is billionaire activist Carl Icahn.

In 2021, Carl Icahn's net worth is $15 billion.

Incredibly, both Icahn and Buffett have been building their respective investment empires for over five decades. And more incredibly, they remain at the top of their profession. But Icahn has, unequivocally, shown superior skill as an investor.

Icahn has returned 31% annualized since 1968. That would turn every $1,000 invested with Icahn into $1.2 BILLION today – an incredible number. Buffett, on the other hand, returned 19.5% annualized during virtually the same time period.

Buffett's growth rate over that length of time is indeed amazing too. But due to the power of compounding, the wealth creation of Buffett, from pure investment returns pales in comparison to that of Icahn.

Icahn's investment skill has created $118 to every $1 created by Buffett.

So how has Icahn been able to outperform Warren Buffett (and the broad stock market) by so much and for so long?

Of course, Icahn is a dogged shareholder activist and often an agitator of corporate management. The key to his playbook is using power and influence to control his own destiny on stocks he invests in. In a study he published in 2014, Icahn called attention to the power of the board seat. Looking back on a five-year period, Icahn showed that when he secured a board seat on a company in his portfolio, he was able to create value for shareholders to the tune of a 27% gain, on average. That's controlling your own destiny.

> "Icahn's investment skill has created $118 for every $1 created by Buffett."

BUILDING YOUR OWN BILLIONAIRE'S PORTFOLIO

Additionally, when we look strictly across the stocks in his portfolio, we can see some common **TRAITS** that have made Carl Icahn the world's greatest investor.

The media, mutual funds, CNBC, finance books- they all say having a high win rate is paramount to good investing. They tell you that the most important thing is being right. Like many widely accepted adages, it happens to be dead wrong. Billionaire iconic hedge fund investor George Soros says, "it's not whether you're right or wrong, but how much money you make when you're right and how much the money you lose when you're wrong."

Over the past 20 years, the stocks in Icahn's portfolio has a win rate only a tad bit better than a coin toss. But he puts himself in a position so that when he wins, he has the chance to win big!

TRAIT #1

He likes to invest in opportunities with limited risk and huge potential return.

Among Icahn's stocks, his winners were almost twice that of his losers.

TRAIT #2

Icahn became rich by taking concentrated bets throughout his career.

As Buffet has famously said, "you only need one or two great ideas a year to get rich." This is exemplified in Icahn's portfolio. His big win on Netflix garnered a 463% return in just12 months, between 2012 and 2013.

TRAIT #3

Patience is king.

You don't have to go to Harvard or have a Goldman Sachs investing pedigree to have patience. And many times, that can be the difference between making money and losing money in investing. Icahn has an average holding period of over two years.

TRAIT #4

When you hunt for big returns, you must be willing to accept drawdowns and losers.

Icahn has multiple stocks over the past 20 years that have been full losers (i.e. they went to zero). But when you have a portfolio full of stocks with big potential, and a change agent at work, in the end, the big winners can more than pay for the losers.

HOW TO START THE PATH TO A BILLION-DOLLAR FORTUNE

Before I go on, I want to emphasize the extreme value of these types of returns I just mentioned – and the value of **compounding.**

The difference between 31% per year and 8% per year, when you account for the compounding effect over years of time is extraordinary. It's the compounding effect of those types of returns that builds wealth. And that's exactly why these guys are billionaires.

This is exactly why I've chosen to align my financial future and my career with these proven investors.

Bottom line: If you can produce outsized returns, year-in and year-out, and you can compound these returns over a career, you too will be on the path to a billion-dollar fortune.

How do you do it? You identify the best. You track their moves, and you follow them.

The information is a click away. The average investor can pull up an SEC filing (Form 13F) and clone the portfolio of the best investors in the world in minutes. And the information is absolutely free. For me, I like to build the ultimate team of billionaire investors. I can dig a little bit deeper. I know the investors, I know their covert corporate structures, and I have the good fortune of having access to the most sophisticated technology. Plus, I have a very lucrative network of contacts, among them, some of these billionaire investors themselves.

"The difference between 31% per year and 8% per year, when you account for the compounding effect over years of time is extraordinary. It's the compounding effect of those types of returns that builds wealth. And that's exactly why these guys are billionaires."

With that intelligence, I build a diverse portfolio of the highest conviction stocks of the best billionaire investors in the world. I sit back and let the billionaire investors (my fellow shareholders) work for me.

With some patience, over time, when your targeting big returns, and when you can influence change, as a shareholder, you set yourself up for above-average returns. Compound those year-in and year-out and you have a path toward becoming a billionaire.

It can be done. There is living proof right in front of us, with every one of these self-made billionaire investors

As Warren Buffett once famously said “You only need a few ideas to be fabulously wealthy.”

“You only need a few ideas to be fabulously wealth.”

SEVEN SECRETS OF BILLIONAIRE INVESTING

- Billionaire investors bet on sure things.
- They invest in things they know very well.
- They want to be in situations where they can control their own destiny.
- Only buy stocks that the world's best billionaire investors own.
- When possible, buy these same stocks at a discount to what these billionaire investors paid, and get an extra kicker.
- Hold stocks until they double, triple or more—and sell them (or do what I do, sell when the billionaire investors sell).
- Sit back and enjoy the power of compound interest.

MORE ABOUT THE AUTHOR

BRYAN RICH, FOUNDER - Bryan is a Forbes contributor, the founder of BillionairesPortfolio.com, and the founder of Logic Fund Management, macro-economic and global investment research, consulting and advisory business. At Logic, he has advised hundreds of thousands of investors from over 80 countries on global macro investing issues. Prior to founding Logic, Mr Rich was a senior trader with Integra Investment Management, a 2005 nominee for Global Macro Hedge Fund of the year. He started his career with Traval, a family office macro hedge fund that managed assets for a wealthy European family. He has worked in London and on Wall Street. He also consults as an expert in global currency strategy and has run equity and economic research groups for a leading independent research company. He holds an MBA from Rollins College.

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