ESSENTIAL LESSONS TO SUCCESSFUL INVESTING

3 STEPS TO SUCCESSFUL EQUITY INVESTING

If you are an individual investor, whether new or experienced, and you want to make money and perform well investing in stocks, there are just three key steps you must learn and follow.

First, you have to develop buying selection rules that let you pick the best stocks, and use charts to determine the right time to buy.

Second, you must have a set of selling rules that tell you when to sell and nail down a profit, or cut short a loss to avoid a possible larger loss.

And third, you need a specific method to tell you when the markets are topping and headed down, and when they've finally hit bottom and turned into a new uptrend. That's all you need.

FOLLOW A SYSTEM RATHER THAN YOUR EMOTIONS

Investors must always protect their investments. If, they don't cut the losers, sooner or later they'll suffer some very large losses.

The problem is we always hope to make money when we buy a stock. And when we have to sell and take a loss, we find it guts wrenching and hard to admit we were wrong. We'd rather wait and hope the price will come back. We try to defend our original decision to buy and justify holding the stock even though we're now in the negative.

Do not make emotional decisions. We tend to get attached to our trading decisions and cannot admit our mistakes.

Follow a set of buying and selling rules..

01

When a stock falls below your purchase price and you're losing money, you hope it'll go back up. But you really should fear that you might lose more money. And you should react by selling the stock and cutting the loss.

02

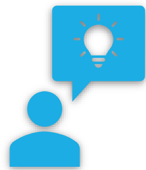
When a stock goes up in price and you're making money, you fear you might lose your profit. So you sell too soon. But the fact that the stock is going up is actually a sign of strength and an indication that you may be right.

03

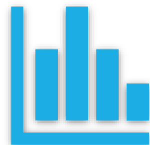
Do not get emotionally involved with your stocks. Follow a set of buying and selling rules.

FOLLOW A SET OF BUYING AND SELLING RULES.

FUNDAMENTAL ANALYSIS OR TECHNICAL ANALYSIS?



From our experience, it's definitely not an "either-or" question. Rather than limiting yourself, you must consider both fundamental information about the strength, quality soundness of the company and the technical side of how a stock is performing in the marketplace.



Fundamental analysis is the foundation you must have behind every stock you buy. This will determine the quality and superiority of the stock.

Technical analysis is the study of market movement, mainly with the use of charts. Chart analysis uses a stock's price and volume movements as the leading indicators and allows you to check out the supply and demand for a stock.

The smart investors use both fundamental and technical analysis in their purchase decisions. A combination of fundamental and technical investment styles is essential to picking winning stocks.

AS LONG AS THE FUNDAMENTALS ARE SOLID, DOES IT REALLY MATTER WHEN YOU BUY A STOCK?

We've all heard the saying, "timing is everything." This is just as true in the stock market as it is in life. Knowing the optimal time to buy or sell a stock play a very important role in equity investing success.

Charts are essential because they communicate critical information about how a stock is acting in the marketplace—information you would miss by concentrating on fundamentals alone.

Your objective is not to be right all the time. It's to make big money when you are right and to get out early when you appear to be wrong. To make big money, you've got to buy the very best. Companies that are #1 in their fields are the real market leaders.

To make big money, you have got to buy the very best companies at the right time.

WHAT'S THE MAIN THING THAT SEPARATES THE REALLY SUCCESSFUL INVESTORS FROM THOSE WHO ONLY GET AVERAGE RESULTS?

GROWTH VS. VALUE INVESTING

Growth stock investors seek companies that show consistent earnings and sales growth. The price-to-earnings ratios of growth stocks are generally higher than those of the average stock simply because they have a record of better-than- normal earnings growth.

Typically, growth stocks have a high-quality, repeat-type product or service that generates superior profit margins and a return on equity.

Value investors, on the other hand, search for stocks they believe are undervalued. These investors evaluate a company's balance sheet and profit-and-loss statement, looking for signs of hidden value—such as an unusually large amount of cash in the company or property carried on the books at cost, which is below the current market value, etc.

They are looking for a bargain and like to buy stocks with a low P/E ratio or a low price-to-book value.

Value investors have to wait for the market to hopefully recognize their stock's value for it to go up in price. This usually takes a longer amount of time, and sometimes it doesn't happen at all.

BUYING STOCKS WITH LOW P/E RATIOS SEEMS TO BE A COMMON PRACTICE. AREN'T BARGAINS GOOD?

It's really improper to say a stock is a bargain because its P/E is low, and conversely, it's improper to say a stock with a high P/E is over-priced. You get what you pay for. The best company in an industry almost always sells at a much higher P/E than the also-rans in the group.

A value investor would have missed every one of these absolutely outstanding companies during their period of greatest performance. P/Es in our view are misused, misunderstood and overstated as a stock selection tool.

If you choose to invest in individual stocks and you're not a professional investor, we firmly believe it is better for you to avoid the value approach and learn to invest in the very best growth companies.

DON'T TRY TO BE A JACK-OF-ALL-TRADES

Many investors try to "get rich quick" and invest in many different, very speculative investments. When you first start investing, you hear about all types of intriguing opportunities to make huge profits. The list of booby traps includes low-priced stocks, penny stocks, options, futures etc.

Always keep investing simple, basic and easy to understand. Don't try to be a jack-of-all-trades. The keys to success in investing—and in life—are concentration and focus. Greater risk of loss is the primary reason why new or relatively inexperienced investors should avoid most of the items mentioned above. Keep it simple.

WHY NOT BUY LOW-PRICED STOCKS?

01

Low-priced stocks—those selling for less than Rs. 15 a share—are usually cheap for a good reason. While it may be tempting to buy a lot of shares at a low price, the financial performance of most of these issues has been poor and lags most other stocks in the market.

02

Do you want to put your hard-earned money into low-quality companies with deficient histories? Most institutional investors will not buy these types of stocks. The best stocks don't sell at Rs. 2, Rs. 4 or Rs. 6 a share. Fortunes have been lost in cheap stocks that have poor fundamentals.

03

You get what you pay for on the market. Low-priced stocks are usually cheap for a good reason. They may be performing poorly.

WHAT ABOUT OPTIONS AND THE FUTURES MARKET?

Options are risky because investors do not only have to be right about the direction of the stock but also about the time frame in which they believe the price will go up or down. It's O.K. to buy stock options as long as you limit your option activity to 10% of your total investment. But even then, options are more volatile and risky.

Again, as with options, futures, due to their highly speculative nature, should be attempted only by people with several years of successful investment experience. People who have the "get rich quick" bug and commit a large percentage of their available money to options or futures are asking for trouble. They can suffer huge losses due to the extreme volatility, leverage and time limits inherent in options and futures trading. The risks are substantially higher than in common stocks.

We know some people will disagree with our observations, but we do not like you to take extra or unnecessary risks. Stocks can be risky enough, and we can limit our risk in them by carefully selecting the better performers and having the discipline to always follow a set of sound selling rules.

Most people in the investment business will tell you to widely diversify and to asset allocate—that is, spread your money among many types of investments in varying percentages. But you should go against this conventional wisdom, even if it makes you a little uncomfortable at first. Copying what everybody is saying and doing in the stock market may feel reassuring, but it will not be the most rewarding.

Your goal should not just to be right in the market but to make substantial money when you are right. This is best done by concentrating your eggs in fewer baskets, knowing them well and watching them carefully.

WHAT'S THE RIGHT MIX FOR YOUR PORTFOLIO?

SELL RULES EVERY INVESTOR SHOULD MASTER

Investors spend most of their time deciding what stock to buy. They spend little time thinking about when and under what circumstances their stock should be sold. This is a serious mistake.

Equal time must be devoted to developing a realistic set of selling rules. You can become a highly successful investor if you buy stocks well and sell them well.

WHAT'S THE MOST IMPORTANT SELL RULE THAT INVESTORS SHOULD KNOW?

Rule #1, of course, is to cut short your losses to protect yourself against the possibility of much greater losses.

The greatest selling rule of all, however, is to use charts and always buy a true fundamental market leader at precisely the right time in the first place. If you always start your buying at exactly the right point, you will rarely ever take a loss.

HOW CAN AN INVESTOR AVOID GETTING SHAKEN OUT OF A POTENTIALLY WINNER STOCK?

About 40% of stocks you buy will pull back near your initial buy point for one or two days. Don't get scared out on this normal yet sharp pullback in price. As long as your loss-cutting point has not been reached, sit tight and be patient. Sometimes it takes a number of weeks for a stock to slowly take off from its launching pad. Big money can only be made by waiting.

Additionally, don't ever sell and take a profit if your leading stock runs up 20% or more in only two or three weeks. If you're really investing in a high-quality leader, rather than a low-quality, cheaper stock, the fact that your stock is up 20% or more in a short time span is an indication of its real power and potential leadership.

HOW CAN AN INVESTOR AVOID GETTING SHAKEN OUT OF A POTENTIALLY WINNER STOCK?

One of the days towards the end will probably show the stock's greatest one-day price advance since the beginning of the move up. Sell into this unusually strong price action. Because of your selection criteria, you probably bought when most people were hesitant and unsure. Now you sell when everyone's excited and bubbling over about how terrific the stock is. Successful decisions in the stock market often are contrary to mass opinion.

You might also consider selling when a stock's P/E ratio increases 130% or more from the time the stock originally began its big move out of its initial base pattern.

Sometimes you should sell a stock because it consistently moves up in price less than another good stock you're holding. The money can be used in the better performing stock.

THANK YOU