

The Myths Of Stocks For The Long Run – Part XII

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CHAPTER 12 – 181 Lines of Wisdom

Over the last 30-years, I have endeavored to learn from my own mistakes and, trust me, I have paid plenty of “stupid-tax” along the way. However, it is only from making mistakes, that we learn

how to become a better investor, advisor or portfolio manager.

You have now read our opinions on buy and hold. Before we conclude we thought you should hear the views of investing legends.

The following is a listing of investing tips, axioms and market wisdom from some of the great investors of our time. **Importantly, as you review this invaluable knowledge, compare how these investing legends approach investing as compared to your methodologies, those of your advisor, or what you are told daily by the media.**

Can you spot what's missing?

Bob Farrell's 10-Investing Lessons

1. **Markets tend to return to the mean over time.**
 2. Excesses in one direction will lead to an opposite excess in the other direction.
 3. **There are no new eras – excesses are never permanent.**
 4. Exponential rising and falling markets usually go further than you think.
 5. **The public buys the most at the top and the least at the bottom.**
 6. Fear and greed are stronger than long-term resolve.
 7. **Markets are strongest when they are broad and weakest when they narrow to a handful of blue-chips.**
 8. Bear markets have three stages.
 9. **When all the experts and forecasts agree – something else is going to happen.**
 10. Bull markets are more fun than bear markets.
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12 Market Wisdoms From Gerald Loeb

1. The most important single factor in shaping security markets **is public psychology.**
2. To make money in the stock market **you either have to be ahead of the crowd or very sure they are going in the same direction** for some time to come.
3. **Accepting losses is the most important single investment device** to insure safety of capital.
4. The difference between the investor who year in and year out procures for himself a final net profit, and the one who is usually in the red, is not entirely a question of superior selection of stocks or superior timing. **Rather, it is also a case of knowing how to capitalize successes and curtail failures.**
5. One useful fact to remember is that the most important indications are made in the early stages of a broad market move. **Nine times out of ten the leaders of an advance are the stocks that make new highs** ahead of the averages.
6. There is a saying, *"A picture is worth a thousand words."* One might paraphrase this by saying a profit is worth more than endless alibis or explanations. . . **prices and trends are**

really the best and simplest *“indicators”* you can find.

7. **Profits can be made safely only when the opportunity is available** and not just because they happen to be desired or needed.
 8. **Willingness and ability to hold funds uninvested while awaiting real opportunities** is a key to success in the battle for investment survival.-
 9. In addition to many other contributing factors of inflation or deflation, **a very great factor is the psychological**. The fact that people think prices are going to advance or decline very much contributes to their movement, and the very momentum of the trend itself tends to perpetuate itself.
 10. Most people, especially **investors, try to get a certain percentage return, and actually secure a minus yield when properly calculated over the years**. Speculators risk less and have a better chance of getting something, in my opinion.
 11. **I feel all relevant factors, important and otherwise, are registered in the market’s behavior**, and, in addition, the action of the market itself can be expected under most circumstances to stimulate buying or selling in a manner consistent enough to allow reasonably accurate forecasting of news in advance of its actual occurrence.
 12. **You don’t need analysts in a bull market, and you don’t want them in a bear market**
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Jesse Livermore’s Trading Rules Written in 1940

1. **Nothing new ever occurs in the business of speculating or investing** in securities and commodities.
2. Money cannot consistently be made trading every day or every week during the year.
3. Don’t trust your own opinion and back your judgment **until the action of the market itself confirms** your opinion.
4. **Markets are never wrong – opinions often are.**
5. The real money made in speculating has been in commitments showing in profit right from the start.
6. As long as a stock is acting right, and the market is right, do not be in a hurry to take profits.
7. One should **never permit speculative ventures to run into investments**.
8. The money lost by speculation alone is small compared with the **gigantic sums lost by so-called investors who have let their investments ride**.
9. **Never buy a stock because it has had a big decline** from its previous high.
10. Never sell a stock because it seems high-priced.
11. I become a buyer as soon as a stock makes a new high on its movement after having had a normal reaction.
12. **Never average losses.**
13. The **human side of every person is the greatest enemy of the average investor** or speculator.
14. **Wishful thinking must be banished.**

15. Big movements take time to develop.
 16. It is not good to be too curious about all the reasons behind price movements.
 17. It is much easier to watch a few than many.
 18. **If you cannot make money out of the leading active issues, you are not going to make money out of the stock market as a whole.**
 19. The leaders of today may not be the leaders of two years from now.
 20. Do not become completely bearish or bullish on the whole market because one stock in some particular group has plainly reversed its course from the general trend.
 21. Few people ever make money on tips. Beware of inside information. If there was easy money lying around, no one would be forcing it into your pocket.
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21 Rules Of Paul Tudor Jones

1. When you are trading size, **you have to get out when the market lets you out, not when you want to get out.**
 2. **Never play macho with the market and don't over trade.**
 3. **If I have positions going against me, I get out; if they are going for me, I keep them.**
 4. I will keep cutting my position size down as I have losing trades.
 5. **Don't ever average losers.**
 6. Decrease your trading volume when you are trading poorly; increase your volume when you are trading well.
 7. **Never trade in situations you don't have control.**
 8. **If you have a losing position that is making you uncomfortable, get out.** Because you can always get back in.
 9. **Don't be too concerned about where you got into a position.**
 10. **The most important rule of trading is to play great defense,** not offense.
 11. Don't be a hero. Don't have an ego.
 12. I consider myself a premier market opportunist.
 13. I believe **the very best money is to be made at market turns.**
 14. **Everything gets destroyed a hundred times faster than it is built up.**
 15. Markets move sharply when they move.
 16. When I trade, I don't just use a price stop, I also use a time stop.
 17. **Don't focus on making money; focus on protecting what you have.**
 18. You always want to be with whatever the predominant trend is.
 19. My metric for everything I look at is the 200-day moving average of closing prices.
 20. **At the end of the day, your job is to buy what goes up and to sell what goes down** so really who gives a damn about PE's?
 21. I look for opportunities with tremendously skewed reward-risk opportunities.
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Bernard Baruch's 10 Investing Rules

1. Don't speculate unless you can make it a full-time job.
 2. **Beware of barbers, beauticians, waiters — of anyone — bringing gifts of “inside” information or “tips.”**
 3. Before you buy a security, find out everything you can about the company, its management, and competitors, its earnings and possibilities for growth.
 4. **Don't try to buy at the bottom and sell at the top.** This can't be done — except by liars.
 5. **Learn how to take your losses quickly and cleanly.** Don't expect to be right all the time. If you have made a mistake, cut your losses as quickly as possible.
 6. Don't buy too many different securities. Better have only a few investments which can be watched.
 7. **Make a periodic reappraisal of all your investments** to see whether changing developments have altered their prospects.
 8. Study your tax position to know when you can sell to greatest advantage.
 9. **Always keep a good part of your capital in a cash reserve.** Never invest all your funds.
 10. Don't try to be a jack of all investments. Stick to the field you know best.
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James P. Arthur Huprich's Market Truisms And Axioms

1. **Commandment #1: “Thou Shall Not Trade Against the Trend.”**
2. Portfolios heavy with underperforming stocks rarely outperform the stock market!
3. **There is nothing new on Wall Street.** There can't be because speculation is as old as the hills. Whatever happens in the stock market today has happened before and will happen again, mostly due to human nature.
4. **Sell when you can, not when you have to.**
5. **Bulls make money, bears make money, and “pigs” get slaughtered.**
6. We can't control the stock market. The very best we can do is to try to understand what the stock market is trying to tell us.
7. **Understanding mass psychology is just as important as understanding fundamentals** and economics.
8. **Learn to take losses quickly**, don't expect to be right all the time, and learn from your mistakes.
9. **Don't think you can consistently buy at the bottom or sell at the top.** This can rarely be consistently done.
10. When trading, remain objective. Don't have a preconceived idea or prejudice. Said another way, **“the great names in Trading all have the same trait: An ability to shift on a dime when the shifting time comes.”**
11. **Any dead fish can go with the flow.** Yet, it takes a strong fish to swim against the flow. In other words, what seems “hard” at the time is usually, over time, right.
12. Even the best looking chart can fall apart for no apparent reason. Thus, never fall in love with a position but instead remain vigilant in managing risk and expectations. Use volume as a confirming guidepost.

13. **When trading, if a stock doesn't perform as expected within a short time period, either close it out or tighten your stop-loss point.**
14. As long as a stock is acting right and the market is *"in-gear,"* don't be in a hurry to take a profit on the whole positions. Scale out instead.
15. **Never let a profitable trade turn into a loss,** and never let an initial trading position turn into a long-term one because it is at a loss.
16. **Don't buy a stock simply because it has had a big decline** from its high and is now a "better value;" wait for the market to recognize "value" first.
17. **Don't average trading losses,** meaning don't put *"good"* money after *"bad."* Adding to a losing position will lead to ruin. Ask the Nobel Laureates of Long-Term Capital Management.
18. **Human emotion is a big enemy of the average investor** and trader. Be patient and unemotional. There are periods where traders don't need to trade.
19. **Wishful thinking can be detrimental to your financial wealth.**
20. Don't make investment or trading decisions based on tips. Tips are something you leave for good service.
21. **Where there is smoke, there is fire,** or there is never just one cockroach: In other words, bad news is usually not a one-time event, more usually follows.
22. **Realize that a loss in the stock market is part of the investment process.** The key is not letting it turn into a big one as this could devastate a portfolio.
23. Said another way, ***"It's not the ones that you sell that keep going up that matter. It's the one that you don't sell that keeps going down that does."***
24. Your odds of success improve when you buy stocks when the technical pattern confirms the fundamental opinion.
25. As many participants have come to realize from 1999 to 2010, during which the S&P 500 has made no upside progress, you can lose money even in the *"best companies"* if your timing is wrong. Yet, if the technical pattern dictates, you can make money on a short-term basis even in stocks that have a *"mixed"* fundamental opinion.
26. To the best of your ability, try to keep your priorities in line. Don't let the *"greed factor"* that Wall Street can generate outweigh other just as important areas of your life. Balance the physical, mental, spiritual, relational, and financial needs of life.
27. **Technical analysis is a windsock, not a crystal ball.** It is a skill that improves with experience and study. Always be a student, there is always someone smarter than you!

James Montier's 7 Immutable Laws Of Investing

1. **Always insist on a margin of safety**
2. This time is never different
3. **Be patient and wait for the fat pitch**
4. Be contrarian
5. **Risk is the permanent loss of capital,** never a number

6. Be leery of leverage
 7. Never invest in something you don't understand
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10-Trading Rules From Todd Harrison

1. Respect price action but never defer to it.
 2. Discipline always trumps conviction. Following a set discipline removes the emotional bias of conviction.
 3. **Opportunities are made up far easier than lost capital.**
 4. Emotion is the enemy of trading.
 5. It's far better to "zig" when others "zag."
 6. Be adaptive to the market. Failure to adapt leads to extinction.
 7. Maximize reward relative to the risk taken.
 8. **Perception is reality in the marketplace.**
 9. When "unsure" - trade small or not at all.
 10. Don't let bad trades turn into investments.
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25-Trading Rules From Jim Cramer

1. Bulls, Bears Make Money, Pigs Get Slaughtered
2. **It's OK to Pay the Taxes**
3. Don't Buy All at Once
4. Buy Damaged Stocks, Not Damaged Companies
5. Diversify to Control Risk
6. Do Your Stock Homework
7. No One Made a Dime by Panicking
8. Buy Best-of-Breed Companies
9. Defend Some Stocks, Not All
10. Bad Buys Won't Become Takeovers
11. Don't Own Too Many Names
12. **Cash Is for Winners**
13. No Woulda, Shoulda, Couldas
14. Expect, Don't Fear Corrections
15. Don't Forget Bonds
16. Never Subsidize Losers With Winners
17. Check Hope at the Door
18. **Be Flexible**
19. When the Chiefs Retreat, So Should You
20. Giving Up on Value Is a Sin
21. Be a TV Critic
22. Wait 30 Days After Preannouncements

23. Beware of Wall Street Hype
 24. Explain Your Picks
 25. There's Always a Bull Market
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10-Rules From Richard Bernstein

1. **Income is as important as are capital gains.** Because most investors ignore income opportunities, income may be more important than are capital gains.
 2. **Most stock market indicators have never actually been tested.** Most don't work.
 3. **Most investors' time horizons are much too short.** Statistics indicate that day trading is largely based on luck.
 4. **Bull markets are made of risk aversion and undervalued assets.** They are not made of cheering and a rush to buy.
 5. **Diversification doesn't depend on the number of asset classes in a portfolio.** Rather, it depends on the correlations between the asset classes in a portfolio.
 6. **Balance sheets are generally more important** than are income or cash flow statements.
 7. **Investors should focus strongly on GAAP accounting,** and should pay little attention to "pro forma" or "unaudited" financial statements.
 8. **Investors should be providers of scarce capital.** Return on capital is typically highest where capital is scarce.
 9. **Investors should research financial history** as much as possible.
 10. Leverage gives the illusion of wealth. **Saving is wealth.**
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David Rosenberg's 13-Rules For Economists

1. **In order for an economic forecast to be relevant,** it must be combined with a market call.
2. **Never be a slave to the data** – they are no substitutes for astute observation of the big picture.
3. **The consensus rarely gets it right** and almost always errs on the side of optimism – except at the bottom.
4. **Fall in love with your partner, not your forecast.**
5. No two cycles are ever the same.
6. Never hide behind your model.
7. Always seek out corroborating evidence
8. **Have respect for what the markets are telling you.**
9. Be constantly aware with your forecast horizon – many clients live in the short run.
10. **Of all the market forecasters, Mr. Bond gets it right most often.**
11. Highlight the risks to your forecasts.
12. Get the US consumer right and everything else will take care of itself.
13. **Expansions are more fun than recessions** (*straight from Bob Farrell's quiver!*).

Our Own Investing Rules

1. **Cut losers short and let winner's run.** *(Be a scale-up buyer into strength.)*
2. **Set goals and be actionable.** *(Without specific goals, trades become arbitrary and increase overall portfolio risk.)*
3. **Emotionally driven decisions void the investment process.** *(Buy high/sell low)*
4. **Follow the trend.** *(80% of portfolio performance is determined by the long-term, monthly, trend. While a "rising tide lifts all boats," the opposite is also true.)*
5. **Never let a "trading opportunity" turn into a long-term investment.** *(Refer to rule #1. All initial purchases are "trades," until your investment thesis is proved correct.)*
6. **An investment discipline does not work if it is not followed.**
7. **"Losing money" is part of the investment process.** *(If you are not prepared to take losses when they occur, you should not be investing.)*
8. **The odds of success improve greatly when the fundamental analysis is confirmed by the technical price action.** *(This applies to both bull and bear markets)*
9. **Never, under any circumstances, add to a losing position.** *(As Paul Tudor Jones once quipped: "Only losers add to losers.")*
10. **Market are either "bullish" or "bearish." During a "bull market" be only long or neutral. During a "bear market" be only neutral or short.** *(Bull and Bear markets are determined by their long-term trend as shown in the chart below.)*
11. **When markets are trading at, or near, extremes do the opposite of the "herd."**
12. **Do more of what works and less of what doesn't.** *(Traditional rebalancing takes money from winners and adds it to losers. Rebalance by reducing losers and adding to winners.)*
13. **"Buy" and "Sell" signals are only useful if they are implemented.** *(Managing a portfolio without a "buy/sell" discipline is designed to fail.)*
14. **Strive to be a .700 "at bat" player.** *(No strategy works 100% of the time. However, being consistent, controlling errors, and capitalizing on opportunity is what wins games.)*
15. **Manage risk and volatility.** *(Controlling the variables that lead to investment mistakes is what generates returns as a byproduct.)*

But, did you spot what was missing?

Every day Wall Street and the financial media push the narrative of passive investing, indexing and "buy and hold." Yet while these methods are good for Wall Street, as it keeps your money invested at all times for a fee, it is not necessarily good for your future investment outcomes.

You will notice that out of 181 lines of investment advice, not one of the greatest investors of the last 100 years have "buy and hold" as a rule.

So, the next time that someone tells you the *“only way to invest”* is to buy an index and just hold on for the long-term, you just might want to ask yourself what would a *“great investor”* actually do. **More importantly, you should ask yourself, or the person telling you, “WHY?”**

The investors listed here are not alone. There are numerous investors and portfolio managers revered for the knowledge and success. While we idolize these individuals for their respective *“genius,”* we can also save ourselves time and money by learning from their wisdom and their experiences. **Their wisdom was NOT inherited, but was birthed out of years of mistakes, miscalculations, and trial-and-error.** Most importantly, what separates these individuals from all others was their ability to learn from those mistakes, adapt, and capitalize on that knowledge in the future.

Experience is an expensive commodity to acquire, which is why it is always cheaper to learn from the mistakes of others.

There are only a few basic *“truths”* of investing and all great investors have learned them over time. We are not preaching alternative strategies, as we hope you learned we are just standing on the shoulders of geniuses.

I hope you will find the lessons as beneficial as I have over the years and incorporate them into your own practices.