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‘Fear is not a strategy’ — How Jim Cramer learned to make the most of market sell-offs

PUBLISHED THU, FEB 29 2024•3:49 PM EST | UPDATED 39 MIN AGO

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CLUB Watch Part 1 of the second Annual Meeting of the Investing Club with Jim Cramer

Jim Cramer and Director of Portfolio Analysis Jeff Marks fielded a range of questions during the Club's Annual Meeting on Saturday. Here's a summary of their answers to some of the questions, including how to determine the number of shares to buy or sell and Jim's advice on stock-picking for kids.

1. How do you stay level-headed through sell-offs? — Emanuel; How do you get over the fear of a major decline in a stock? — Vikki

price," Jim said. "You have to flip the psychology of it because otherwise what happens is you play in fear, and fear is not a strategy."

During these declines, Jim said to focus on a stock's price and pick a level to start buying. When it falls to that price, put some cash to work. Not all your cash, though. Wait until maybe it drops another 3% to 5% then buy a little more, and then perhaps again at 7% to 8% down.

The goal is to make sure the purchases count and can help lower your cost basis in a stock, rather than all being executed at roughly the same price.

"You want to play from strength at all times, but the strength comes from mental strength. Yes, cash can help, but it's the idea that you're the coolest person in the room. Let the other people give you your price," Jim said.

In some instances, the decline in the stock may be tied to troubles that test your conviction in the company's long-term prospects (more on how to spot those situations later). It's hard to admit you made a mistake, Jim said, but he offered a thought exercise to consider.

"You have to imagine what would happen if you had sold it, waited it out and then the next day came back," Jim explained. "If you wanted really to buy it back, then it

In general, our approach when initiating a position is to start with a 1% weighting in the portfolio and then scale into it further from there, Jeff explained.

As for the decision to sell, Jeff pointed members to our recent trim of Wells Fargo , which came after a period of outperformance in the stock that pushed its weighting to No. 1 in our portfolio at nearly 5%. Jeff said that he and Jim decided they wanted to bring Wells Fargo's weighting down to about 4.25%, which then informed how many shares to sell. In this case, that meant letting go of 420 shares with the stock near 52-week highs, bringing our total Wells Fargo share count to 2,670.

"It's a little bit of an art and a science," Jeff said.

Sometimes, Jim added, it may seem like "the art" is letting you down. With some of our recent initiations, he said it feels like we started the position too small because the stock ripped higher not long after we started buying. At other times, you may start buying a stock only to watch it drift lower, making you wonder whether you started with too big a stake. "It's very, very frustrating," he acknowledged.

3. As events take place such as earnings, geopolitical events, C-Suite members leaving, and things like that, how do you determine if something is actionable immediately — such as accounting irregularities — or if it's

Consider our decision on Jan. 18 to exit Humana, which we had owned since April 2022. The morning we sold out, the managed-care provider preannounced ugly fourth-quarter results and offered a downbeat outlook for 2024, sending its shares tanking 8% in the session.

"They're talking about an elevated cost environment, and Medicare Advantage growth slowing as well. We were in it for growing Medicare Advantage subscribers, and once that changed, we decided we had to change with it," Jeff said.

We dumped the rest of our small position at roughly $398 a share, even though it meant recording a loss on the final tranche. It would've been worse if we held on. A week later, shares of Humana plunged nearly 12% on the day its full results were released, to about $355 a share. The stock is currently trading only a few dollars per share above that, stuck in the Wall Street penalty box.

"You have to know when a company is really blindsided," Jim added. "Humana, they were so blindsided that I lost all conviction in them."

Danaher's recent tribulations offer a contrasting example. The life-sciences company – one of our 12 core holdings – has been dealing with so-called inventory "destocking" in recent quarters, as its customers in the biotech and pharmaceutical

DuPont . "We all hate that word [destocking]. You see it, you know the stock is going to fall because of it," Jeff said. "That actually could be an opportunity if there's a line of sight into the future off a sell-off like that. But at the end of the day, you have to know why you own it, and when the thesis changes, you change with it."

4. If you have a position in your portfolio that's run incredibly far, and you're still bullish on it and you want to add more, but probably unlikely you're ever going to lower your cost basis again, how do you address that? — Seth

"It is a good problem, but it's one that we've had to face" with stocks before, including recently with Eaton Corp. , Jim said.

In November, we began to build a position in the electrical components firm — buying 65 shares on Nov. 15, at an average of $226.79 each, before following that up with another 65-share purchase on Nov. 28, at $225.26 apiece.

On Dec. 8, after a major data center project was announced that bolstered our conviction in Eaton, we jumped in to buy 120 additional shares, at roughly $232 each. It was slightly above our cost basis – not a decision we take lightly – but we out from adding more to our position, even though we really want a bigger position. Jim said it's hard to say don't worry about discipline and just buy the stock well above our basis.

"If you just wake up one morning and say, 'Listen, I can't take it anymore,' that's going to be a bad buy," Jim said. "The propensity I have most of the time is say, 'Nope. I missed it. I had my chance. I didn't do it. I'm moving onto the next unless there's a price break,'" Jim explained, defining a price break as a significant 5% to 7% decline.

So far, that hasn't arrived for Eaton. On the other hand, it arrived last week for Palo Alto Networks after its steep post-earnings slide.

"You have to keep in mind, maybe you bought the stock years ago" and the company is much-improved since then, Jeff added. "Eaton is a different company now than when we first bought it because you had a good quarter, you had raised guidance. That's another factor to keep in mind as well" while waiting to get a price break.

5. Name three stocks a young investor could buy. — David; What advice do you recommend I tell my high school students about investing? — Kyle

"They have to buy three stocks that they like," Jim said, because that should keep them engaged in following the markets more than owning, say, shares of an electric

Stocks levered to the energy transition may be a little more volatile now, but "you really got to have a long-term view," he said.

"My suggestion is to buy stuff that doesn't have a lot of earnings power yet, but might," Jim said. "Because if it doesn't work, you've got your whole life ahead of you to make the money back."

For the high-school students, Jeff added: "Get started. Never too early. It's also never too late, and continue to contribute because what you'll find out over time is there's a snowball effect of continuing to invest in the market."

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(Jim Cramer's Charitable Trust is long PANW and ETN. See [here](#) for a full list of the stocks.)

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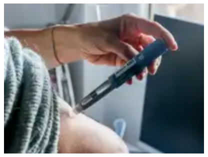

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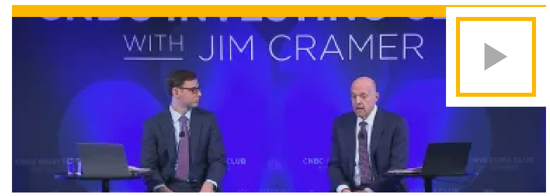

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