

Jim Cramer's Guide to Investing: Principles to help you manage your portfolio

[Jim Cramer@JIMCRAMER](mailto:Jim.Cramer@JIMCRAMER)

At the CNBC Investing Club, we strive to help members manage their own portfolios by showing them how we do it. Over decades of Wall Street experience managing money at Goldman Sachs and my own hedge fund as well as through financial journalism and education, I've put together a Guide to Investing. It consists of 25 principles we follow in managing the stocks in my Charitable Trust, the portfolio we use for the Club. They've worked for me over my career in bull and bear markets, and I hope you find them useful in your investment journey. We've broken up the principles into groupings of five for easy navigation.

- [Principles 1-5](#)
- [Principles 6-10](#)
- [Principles 11-15](#)
- [Principles 16-20](#)
- [Principles 21-25](#)

1. Bulls and bears make money; pigs get slaughtered

This has got to be one of my most favorite mantras when it comes to investing and one I share constantly when people ask what to do with a big winner. We are as upfront as we can be with our mistakes and one prime example to explain this rule can be pulled from our own actions in recent months on [Nvidia](#) (NVDA).

We love this chipmaker — and over the long term, we think its best days are ahead. However, we must acknowledge that we were pigs here and it has hurt us. In fact, when [asked](#) at the beginning of December 2021 why we didn't trim

the stock along with our position in [Advanced Micro Devices](#) (AMD), we admitted to being piggish “because this may be a \$10 trillion stock” on day. It may still be a \$10 trillion stock in the future, but the moment we acknowledged our piggishness, we should have sold some. Why? Because had we listened to that discipline, we would have realized a price of \$320 per share and been in an even better position to repurchase shares as they proceeded to take a greater than 30% hit over the following few months. We were bulls that became pigs and it cost us.

Of course, it is never good to be a pig, but it is even more dangerous to be a piggish bear than a piggish bull. A piggish bull can in an extreme instance lose 100% of their investment in a position, but a piggish bear can lose a whole lot more. Consider the poor saps that pressed the bet against [GameStop](#) (GME) at a pre-stock-split \$4 during the Covid pandemic. Here, you have a group of investors that were short a \$4 stock, playing for bankruptcy. Not only did they get short, in some instances they threw leveraged instruments on top, upping the risk in hopes of upping the reward. Rather than take the win, they had to see it crushed, they wanted to see it go to zero. Well, that piggishness cost them not only their money but their reputation. A group of retail investors banded together, bought up the shares, and forced a legendary short squeeze that saw shares explode from about \$4 to \$483 at the high (again, that was before [GME's 4-for-1 stock split in July](#)).

The bottom line: In any other walk of life outside of investing, there comes a price for something we are not willing to pay and where we would instead look to sell. When it comes to stocks, investors often lose that sensitivity to price and it is a recipe for disaster. So know what you own, what you are willing to pay, and at what price it makes more sense to be a seller than a buyer.

2. It's okay to pay the taxes

Unless your wish is to die with the stock and leave that money to someone else hoping for a stepped up basis (a policy that could change at any point before your eventual demise), we have got some news for you: Those taxes are getting paid eventually. Unless you turn that win into a loss, then congrats (I guess?), no taxes for you.

Whether it's long-term or short-term taxes, you are not going to get every dollar out of the trade. The government wants their cut (so badly that some of those in power are even looking into taxing unrealized gains). Every dollar you make, the government is going to take a piece. But every dollar higher does

mean more money in your pocket, it may be 60 cents more or 80 cents more but every dollar higher that you can sell means more money in your pocket at the end of the day. In other words, don't let a tax hit prevent you from realizing as much as possible. The reality is, you want to buy stocks that you believe will go higher, and sell those you believe will go lower.

That's not to say you shouldn't take advantage of methods to avoid (not evade, that's illegal) taxes. Things like tax-deferred accounts or figuring out how to hedge and take advantage of lower rates. But these are asset location issues (IRAs, 401Ks, and so on) and advanced hedging strategies (like netting out the position to move the sale from a short-term hold to a long-term one) that do not change that fact that when it's time to sell, it's time to sell regardless of the tax implications.

3. Don't buy all at once; arrogance is a sin

Accept that you will never be correct 100% of the time and use that knowledge to your advantage. If you think you can pick the bottom consistently, without luck, well you are wrong and arrogant. I used to be arrogant. As I told readers in my book "Real Money," I thought I had to buy once and go big to show everyone just how right I was. "Put me up on 50,000 CAT!," eager to show everyone how right I would be on the stock of [Caterpillar](#) (CAT).

I've learned since then that getting the best price — and thereby maximizing my returns and limiting my losses — is a whole lot more rewarding than trying to show everyone else how right I was. They don't care anyway. These days, if I want 50,000 shares, I'm buying 5,000 at a time — as we do for the Charitable Trust. We may speed up the buys if we see better prices or average them out over time if we don't, allowing time for the earnings to grow and the stock to become cheaper. We are never buying an entire position in one fell swoop.

When it comes to putting on a position, the goal is not to get the order done, the goal is to get the order done right. Sometimes you do nail the bottom, but we call that a high-quality problem: We will have made a little less money than we had hoped. But we still made money, so we can't beat ourselves up too much.

4. Look for broken stocks, not broken companies

It is important to understand that while stocks represent ownership interest in a company, a stock and a company are not the same and you must be able to differentiate the two.

There is no level too low to sell a broken company. Investors buy companies that either directly pay them to own it via buybacks and dividends, like [Apple](#) (AAPL), or because they think the price will go higher as fundamentals (and therefore the financial outlook) improves. If you don't have one of those two factors working for you, it's because the company is broken. Nobody else is going to take it off your hands at a better price than you paid because the outlook isn't improving. In the long run, the stock price will follow the fundamentals so your only hope in this scenario of buying a broken company is to find a greater fool to take it off your hands. That's not investing, it's gambling.

On the other hand, if you find a great company with a broken stock, the price will eventually follow the strong fundamentals. This is exactly the kind of an opportunity every investor is looking for, one in which the stock is not accurately reflecting the underlying fundamentals. Your job is to get the position before everyone else figures it out. This is also why a shopping list is so important. You must do the homework ahead of time so that when the next correction comes — and it always does — you will know exactly which names to target as the stocks of great companies break down due to indiscriminate selling.

5. Diversification is the only free lunch

Despite this being the only free lunch, nobody ever wants to diversify, they want 100% of the next [Tesla](#) (TSLA) and forget that sometimes what you think is the next Tesla actually is the next [Nikola](#) (NKLA). Consider that in 1995, the 5 largest companies in the S&P 500 were (in order): [General Motors](#) (GM), [Ford Motor](#) (F), [Exxon Mobil](#) (XOM), [Walmart](#) (WMT) and [AT&T](#) (T). Since then, GM has filed for bankruptcy (though since bounced back) and only Walmart has managed to outperform the diversified S&P 500 index.

Now there are many ways to think about diversification, but the primary way is to think about it across sectors. While there may be many reasons to like one stock over another in the same sector, when negativity strikes, nothing is safe. This is even more true now than in the past thanks to the prevalence of exchange-traded funds (ETFs). Large fund managers aren't

differentiating between the different stocks within the sector; all they know is that they want to be underweight or overweight a given sector and they are going to sell the entire basket until that desired sector weighting is achieved.

6. Buy and homework, not buy and hold

One thing we can clearly take away from rule No. 5 is that over time, the facts change, the leaders become followers, the disruptors disrupt, consumer preferences change and so on. The facts change and so must our investment thesis. If you're not doing the homework then how are you going to be sure that what you bought in the past is still what you own today?

The two reasons people often don't do the homework is because they have either (wrongly) convinced themselves that if they hold long enough that ultimately all stocks make a comeback, or that since they don't have the time to do it, nobody does.

- On the first reason, that's just nonsense. Stocks represent ownership in a business. The notion that a business that is doing poorly will always improve and return to strength is just silly. If that was the case, there would be no bankruptcies or disruptors displacing leaders. Industry landscapes are always changing, businesses are living, breathing entities and without proper stewardship will fail. Ultimately, the stock will follow the fundamentals.
- On the second point, you may not have the time, but that's what professionals are paid to do. Make the time. If you can't keep up with the homework— be it because of time restrictions or a lack of understanding when it comes to financial statements – then you either need to own fewer stocks or hand it off to a professional. Tracking companies may not be your day job, but it is a pro's job.

7. No one ever made a dime by panicking

Emotion, especially panic, has no place in investing. When we panic, we don't think clearly. And when we aren't thinking clearly, we make mistakes. If you associate the value of what you own with the price a stranger is willing to throw at it, it can be easy to panic when the bids come in low. However, just because someone offers you less for your house today than the price you paid yesterday doesn't mean it is any less valuable. It may simply mean that the current bidders don't see the value you see.

When volatility strikes, you should focus more on the value of what you own than the price being put on it. By doing that and keeping a level head, you can make rational decisions and perhaps realize that there will be a better time to sell — either when things calm down or your investment thesis materializes and other buyers begin to see the value that you've seen all along.

8. Own the best of breed; it is worth it

When it comes to investing, a real investor runs toward sales, not away. So when the price of an asset declines, you want to be ready and willing to buy more. That is a whole heck of a lot easier to do when you know that you own best of breed.

There is an old saying, "I'm too poor to buy cheap." Many understand that when it comes to goods, they know that if they buy quality they won't have to buy again. That's why you buy the \$2,000 couch, so you don't have to buy four of the \$500 couches. Yet when it comes to stocks, many believe that cheaper is better. All they see is valuation or worse yet a low stock price and think that's the better buy with no thought as to brand loyalty, sales resiliency, profitability, pricing power and so on.

As The Oracle of Omaha Warren Buffett once said, "It's far better to buy a wonderful company at a fair price than a fair company at a wonderful price." When you own best of breed, you don't need to spend every waking minute worrying about falling further behind — remember, if you're not in best of breed, you are already behind — or if management is executing. Instead, you can take a higher-level view by focusing on industry dynamics, macroeconomic updates, geopolitical events and so forth. That's because you know that while your investment may be out of favor, you have a management team that knows how to operate and a product or service that is best in class. When their industry comes back into favor, they will be where the money flows to first.

Consider our recent position in [Nucor](#) (NUE), the best steel maker in the world. We recently exited the position and booked a phenomenal profit. However, once we got the position on and even in our decision to exit, we were able to focus more on the higher-level dynamics — industry pricing, geopolitical turmoil, fiscal spending, and monetary policy. That's because we owned the best and knew if any steelmaker was going to thrive given the backdrop, it would be Nucor, and it did.

9. ‘He who defends everything, defends nothing,’ or why discipline trumps conviction

“He who defends everything, defends nothing.” — Frederick the Great

Defending your stock entails putting your capital to work when the market goes against you. However, that’s not easy and in many cases simply not doable when the entire market turns against you. Capital is limited. You can’t afford to defend all of your stocks because you’ll stretch your dry powder too thin and won’t have made a meaningful impact to your cost basis anywhere. Instead, you should take an objective and unemotional look at your portfolio and acknowledge that some of those holdings that you bought during better times simply do not have what it takes to rally in the new environment. They don’t fit the “profile” of what investors are now favoring.

These past few years provide a perfect example. In 2020 and 2021, when central bank monetary policy was loose and money was flowing, investors were willing to pay anything for the best story. They didn’t care for earnings, they just wanted sales growth, a larger addressable market, or simply the promise of one day disrupting an industry.

Jump to 2022: With heightened inflation fears at the forefront and geopolitical tensions rising, the opposite is true. Investors have no time for the promise of one day turning a profit and no interest in sky-high valuations. They want earnings now, cash flows today and valuations that accurately reflect the underlying fundamentals. That means that no matter how beaten down that high-flying price-to-sales stock may have gotten, it doesn’t have what it takes to rally in today’s market. That pre-revenue genomics play that did so well in 2020 simply is not going to reverse course in this environment. That means that you can’t waste your ammo defending it.

Even if you do decide to own stock in a sector that is out of favor, as tech is now, you can’t buy the entire cohort. Rather, you should focus on the best-of-breed players, the ones that should they continue to sell off, you’ll add to your position — not regret defending in the first place.

10. The fundamentals must be good in takeovers

Given how incredibly lucrative it can be to own a stock that receives a takeover bid, speculators often look to buy a basket of stocks that they wouldn’t even bother to own were the focus on fundamentals. They think that

if they throw the net wide enough, eventually one or some will get taken out. The problem with this thinking: Companies putting an offer on the table aren't dumb. They aren't going to pay a good price for a crummy company; they would rather pay a fair price, maybe even a bit more for a strong company with a bright future than bail out a bad one and work to turn it around.

When you buy the shares of strong companies, you don't need a bailout. The company itself will provide — and should an offer materialize, great. However, if you buy a company on fundamentals and then those fundamentals turn out to not be as strong as you thought, don't convince yourself that some other company is coming to your rescue. The money tied up in that investment would be better allocated to a fundamentally sound one.

11. Don't own too many stocks

One hour of research on each stock per week. That's the rule of thumb on keeping up with the homework. If you can't manage that then you own too many stocks.

Back in my hedge fund days, I would maniacally review the prior day's losing trades — usually between the hours of 4 a.m. and 7 a.m. Ultimately, I realized that while there may be many reasons for a trade to not work out, having too many positions on at once was often a direct cause because I was stretched too thin. I lost money when my position sheet was the size of a textbook. But when it was a single page long, double spaced at that, that's when the profits flowed in, and I was managing hundreds of millions of dollars.

It doesn't matter if you are a home-gamer or a professional, anyone can be guilty of having too many names on their book. Bad fund managers have hundreds of positions on at once, with low conviction and only a surface level knowledge of each — assuming they have any idea what they own to begin with. Good managers, on the other hand, maintain a few positions, know them like the back of their hand, and as a result, have the kind of conviction you need to buy on the way down.

12. Cash and sitting on the sidelines are fine alternatives

The aversion to cash that most investors have is truly to their detriment. So many are fearful of the “cash drag” on the way up — meaning that they fear underperforming due to part of their portfolio not being invested, that they fail

to think of the positive addition that same cash drag can add to performance in a down market.

Believe it or not, you can keep some of your portfolio in cash. If you don't have a feel for the market, step to the sidelines. That's the beauty of a no-called-strike game, you can sit there for as long as you like waiting for that perfect pitch. Some investors believe they should be fully invested, or they'll lose out to inflation. That's not a reason to invest. You only want to take a position — long or short (the Club is a long only portfolio, with cash as our hedge) — when you have an edge.

If you have nothing compelling to buy, meaning you're only going to find it more attractive if it goes down in price, then step to the side. It's better to lose a few percentage points of buying power to inflation than it is to lose money on a low conviction, no-edge position. The idea that you should invest so that you have "enough exposure" is just nonsense. There is one reason and one reason only to invest — to make money.

13. No woulda, shoulda, coulda

It is important to review your past mistakes and learn from them. We do it every day for the Club and use that knowledge to help members learn from our mistakes. However, it is also important not to dwell on the past. What's done is done, you can't go back and change that bad trade or take advantage of that missed opportunity. Once you've reviewed what went wrong and pulled the lesson from it, leave it in the past and refocus on the here and now with your sight set on the future.

The market is forward looking and if you're always looking in the rearview mirror, you're going to miss opportunities. If you can't seem to let a name go, take it off your screen, that's what I would have to do at my hedge fund because I took dwelling on past mistakes to an absolute extreme, and it was psychologically destructive, emotionally damaging, and threw me off my game. You need a clear head and positive energy when making investments. Dwelling on past mistakes will provide you the opposite.

14. Expect corrections; don't be afraid of them

When it comes to the stock market, eventually a correction will happen. You may not know when it will occur or how long it will last. But as certain as death or taxes, there will always be another correction.

So then why is it that so many investors are always shocked when it happens. You know why people are shocked? Because they get greedy. When stocks are ripping to the upside, they think the music never stops, they press their bets, they let cash levels dwindle and end up overexposed.

When I was at my hedge fund, those were the times I was most worried, when it felt like I made too much money too quickly. Up 2% in a single day and I knew I had to pare back my exposure because it was likely that a big down day was right around the corner. Sometimes that day didn't happen, and I had to swallow my pride and step back in at higher levels.

But consider this: During the time that I was running my fund, I compounded at 24% after all fees — roughly doubling the performance of the S&P 500 during that time — and the reason is because my obsession with protecting downside at the cost of missing some upside allowed me to make way more money. Avoiding large drawdowns allowed me to more effectively compound to the upside, even if it meant realizing some of that upside with less exposure.

Instead of being shocked, anticipate that corrections will happen and be ready to take advantage. If you're playing the game right, then you should welcome corrections and view them as opportunities to go shopping. After all, when was the last time you ran away from your favorite retailer having a storewide sale?

15. Don't forget bonds

I'm not talking about your asset allocation; I'm talking about the fact that [bonds are the competition to stocks](#). When rates rise, the reduced risk offered by bonds becomes even more attractive and those investors that bought higher-yielding stocks for income are going to rotate out of those names and into bonds. Bonds are also going to key you into expectations for the economy.

- For example, if the yield on longer duration bonds fall, it may be time to move on from the deeply cyclical names. That's because it's a sign the economy is weakening.

Consider the recent actions we took for the Investing Club. Higher yields on longer-term bonds signals that we needed to lighten up on some of our growthier names. Those same names investors flocked to when rates were

low and economic growth was scarce — making companies that could grow sales and earnings more attractive.

16. Never subsidize losers with winners

Investors — professionals and home-gamers alike — [hate selling losers](#). They think the loss isn't real until its realized and hope upon hope that if they just hold on, eventually they can close it out for a breakeven or in the green. So, what do they do when they need to raise cash? They sell winners. Now, you always want to be [booking some profits](#) in your winners, but if you're selling winners just so you don't have to realize losses, then eventually you will be left with portfolio full of losers.

As Peter Lynch once put it, "Selling your winners and holding your losers is like cutting the flowers and watering the weeds." If you just can't stomach the idea, just try this: Sell the loser and wait a day. If you really want it back, go ahead and buy it back the next day. But my bet is you will feel better with it off your book and never look to buy it back.

17. Hope is not a part of the equation

Hope, like panic, is an emotion. And like panic, is not a strategy you can rely onto make you money. Winners in this game rely on hard work, research, logic, the numbers, and being a realist — not emotions. In some things in life emotion is great. Hoping and praying have their place in religion and can makes sports more fun to watch. But if you want to leverage hope as a strategy when it comes to making money, you're better off booking a trip to Vegas.

18. Be flexible

Imagine if a CEO was so rigid that they failed to adapt to changing consumer preferences; eventually the business would fail. A good investor, like a good CEO, has to adapt to the market. Of course, this also speaks the problem with buy and hold investing and why buy and homework is a much better strategy.

If you fail to realize and adapt to a change in the story, you will ultimately be invested in something you didn't bargain for. If we failed to be flexible for the Trust and didn't consider that inflation and bond yields were on the rise, we

wouldn't have any oil stocks and would be even more exposed to the problematic technology sector than we are now.

By the same token, had we acknowledged that [PayPal](#) (PYPL) wasn't giving us what they promised several quarters ago, we would have saved ourselves a whole lot of hurt and would not have been stuck battling with a terrible performer, which we eventually exited.

19. When high-level people quit a company, something is wrong

Pay attention to what is happening at the upper echelons of management. I'm talking about the C-suite. When the folks in these positions leave, you need to take notice and figure out why. These aren't mid-level jobs that people take for a pay raise, they are the highest level jobs a corporate executive can hope to attain. You don't get these jobs by maintaining a healthy work-life balance. So, when a person that has finally achieved this level in their professional life — an accomplishment they sacrificed family time, friends, leisure time and other joys of life to reach — ups and quits, you need to ask yourself why.

Every now and then there is an exception to this rule. A CEO may be getting up there in years and want to spend more time with family, or really have found somewhere else to work. But in this game we want to focus on the rule, not the exception and the rule of thumb is that top executives don't quit for "personal reasons." Chances are there is something else at play, some reason the executive doesn't want to be associated with the company any longer. You usually don't want to stick around to find out the reason.

20. Patience is a virtue — giving up on value is a sin

Just ask all those geniuses who were paying anything and everything in 2020 and 2021 for companies without sales or companies with revenue growth but massive losses — all the while tossing aside those companies with real assets that make stuff and do things: In the end, everyone knows price, few know value and even fewer have the patience to wait for the cycle to turn and value to become attractive to the broader market.

We have battled with a few of these value names in the past for the Club. Two that come to mind are [AbbVie](#) (ABBV) and [Broadcom](#) (AVGO).

- AbbVie we picked up in the \$70s, attracted to its single digit price-to-earnings ratio and a sustainable dividend in the 5% to 6% range. Sure, the market was on edge about the Humira patent cliff, but at those levels we were being paid to wait thanks to the healthy dividend. The company also had two promising drugs in the pipeline, which combined are expected to exceed peak Humira sales. AbbVie is still in the portfolio, trading around \$134 per share. Our cost basis is around \$91.
- As for Broadcom, we bought shares during the depths of the pandemic lows as the dividend yield paid about 8%. We knew the company had real assets. We also knew the chipmaker's management team was one of the best in the world when it comes to M&A. Plus, its products are critical to the secular growth trends investors love like the cloud. But what we had that other investors didn't was patience. We said the value here is so great that we are willing to step in and wait for it to be realized. That focus on value combined with our patience rewarded us greatly. We have exited AVGO.

Patience is the greatest advantage home-gamers have over the hedge funds. Nobody is sitting there, threatening redemptions if you don't perform every three months. Use that to your advantage and let a good story play out. If a stock does nothing for 18 months before going on a 40% run in 6 months, that's a heck of a good investment.

21. Just because someone says it on TV doesn't make it so

Television is about entertainment; if it's not entertaining, the ratings will stink and nobody will watch. Financial television is no different and guess what: Just because someone says it on TV doesn't mean it's true. Stations are often just scrambling to get a money manager on-air to talk about the headline of the day. It doesn't matter if they are any good at what they do. They're looking for commentary and entertainment. Oftentimes executives will come on television and tell a great story or even an embellished one. They know they can get away with it and will rarely be challenged. They are going to minimize the negatives — if they acknowledge them at all — and exaggerate the positives as much as they can without breaking any rules.

We saw this on full display during the SPAC insanity that defined the 2020-2021 market. It may still be worth listening to what the talking head has to say, but you should do your own research and ask yourself if there are any conflicts.

- Executives are easy: They work for the company and their compensation is largely stock based. Guess which way they want their stock to move?
- As for the money managers, do you think the guy telling you why [Nvidia](#) (NVDA) is going lower is long the stock? Or did they just buy puts the day before releasing that report they were so eager to come on TV to talk about?
- Even the commentary sell-side analysts, arguably the most objective of the bunch given their restrictions, should be taken with a grain of salt. After all, management isn't going to make time to talk to the analyst that is always bearish, so they're conflicted in that they get more access to management if they play up the bull case.

22. Wait until you have read the press release and heard the conference call

I cannot stress this rule enough. If you take an action on your knee-jerk reaction, you will often come to regret it. Wait until you have [read the press release and listened to the conference call](#) if you trade, especially keying in on management's forecast, which is the single most important driver of the stock. If you can't wait, don't pull the trigger. If you can't wait, go do something else not connected with stocks. You are going to save a lot of money. You just don't know enough. We see this time and again when people want to jump the gun based on some sort of bogus intuition. Sure, you might be correct, but we see all kinds of bizarre swings in shares. Stop, listen, and after checking what the Wall Street consensus is looking for, consider making a trade. Don't take your cue from the action, take your actions from knowledge.

We have seen stocks as big as [Johnson & Johnson](#) (JNJ) go down 10% on harebrained headlines, only to be contradicted ten minutes into the meat of the real conference call. We see it all the time with [Microsoft](#) (MSFT). Investors who do so little homework that they don't even realize that Microsoft doesn't provide guidance on the release will sell even a great print before hearing the guidance about 45 minutes into the call. We saw it with [Danaher's](#) (DHR) first-quarter earnings release as shares sold off more than 2% premarket, only to bounce back and into the green as the call got underway.

23. Never underestimate the Wall Street promotion machine

How many times have you heard me talk about the “Wall Street Fashion Show?” Home-gamers and professionals alike simply do not have enough respect for the hype machine that is Wall Street. They fail to acknowledge that the hype can sometimes keep stocks up far longer than they should be, and that analysts and money managers will often find reasons, even irrational ones, to get behind a loved stock for fear that they will be chasing the move. Things have gotten better, and analysts these days realize that their job is to provide sober, objective opinions on companies and their valuations. But that doesn’t mean analysts don’t sometimes fall in love with a company or story and look for any way possible to make the data fit their emotional view.

Sometimes it is just the wrong interpretation of the data. Sometimes it is the result of data mining as they dig and dig until they find something that meets the narrative they want to spin — even if that data is meaningless. Just remember: The hype will go on until the momentum dies down and those pumping the stock aren’t going to tell you the run is over until long after it has ended. That’s why the price cuts always seem to follow the stock lower and never seem to come when shares won’t quit and valuations are getting stretched.

24. Be able to explain your stock picks to someone else

I like to say that if you can’t explain why you want to own the stock in three bullet points, you shouldn’t buy it. You need to sell your picks. I made every portfolio manager at my fund sell me their picks, as if they were a salesperson for the company. That way, I could nitpick points and together we could figure out if the stock was a buy or if they missed a key item that meant it was to be avoided.

Not only will doing so help you better understand the story — but in doing so, you will better discover if there is something you missed. Ideally you will even find someone with the opposite view of your own and have a good old fashion bull-bear debate. We do this religiously for the Club. It’s like a debate club behind the scenes. If one of us is bullish, then someone has got to take the bear side, even they are also bullish.

Their job for the moment is to find all the bad so that we can objectively figure out the positives and negatives of a potential investment.

To help you do this, here are eight questions my ex-wife, the “Trading Goddess,” would ask me over and over again whenever I wanted to put on a new position:

- What’s going to make this stock go up?
- Why is it going to go up when you think it is?
- Is this really the best time to buy it?
- Haven’t we already missed a lot of the move?
- Shouldn’t we wait until it comes down a little more?
- What do you know about this stock that others don’t?
- What’s your edge?
- Do you like this stock any more than any of the others you own and why?

That last one was especially important because she never liked to add another stock without taking one off. After all, how many good ideas can a person have at once? Moreover, sticking to that rule will help you abide by [rule 11 and keep up with your homework](#).

25. There is always a bull market somewhere

At the end of the day, the money is out there. It’s floating around and it needs a home, and chances are it won’t stay in cash for long. That means that while it may at times seem like everything you are looking at is in bear-market mode, there is a bull market somewhere. The money flowing out of one thing is most certainly flowing into something else. That means that if you are going to play this game, it is your job to go out and find it.

You may be a little more active than usual and do more research than you usually do. It may mean you have to put on more of a trader hat than you are used to, and that’s OK. What is not OK is resigning yourself to the bear market because you are too lazy to find the bull market.

As long as I’ve been at it, there has always been a sector or industry that is working when others aren’t. And while I want to empower you as much as I can to go out and find it on your own — that’s my No. 1 goal for the Investing Club. I also promise to help you find it.