6 Rules From 6 Of The World's Top Investors

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Investors don't agree on much, but they do agree that making money in the market comes with a steadfast strategy that is built around a set of rules. Think for a moment about your early days as an investor. If you're like many, you jumped in with very little knowledge of the markets. When you bought, you didn't even know what a spread was and you sold either too early if you saw a gain or too late if your stock dropped in value. If your only investing rule has been to not follow any rules, you're probably disappointed with your results so far.

If you don't have your own carefully crafted suite of investing rules, now is the time to do it and the best place to start is to ask the people who have had success in their investing careers. We not only found people who can claim success, we found six of the most successful investors in history.

"Be patient with winning trades; be enormously impatient with losing trades. Remember it is quite possible to make large sums trading/investing if we are 'right' only 30% of the time, as long as our losses are small and our profits are large." – Dennis Gartman

Dennis Gartman began publishing The Gartman Letter in 1987. It is a daily commentary of global capital markets that is delivered to hedge funds, brokerage firms, mutual funds, and grain and trading firms around the world each morning. Mr. Gartman is also an accomplished trader and a frequent guest on financial networks.

His rule above addresses a wealth of mistakes that young investors make. First, let winning trades run. Don't sell at the first sign of profits. Second, don't let a losing trade get away. Investors who make money in the markets are OK with losing a little bit of money on a trade but they're not OK with losing a lot of money.

As Mr. Gartman points out, you don't have to be right a majority of the time. What is more important is to let a winning trade run and get out of a losing trade quickly. The money you make on the winning trades will far outpace the losing trades.

"It's Far Better to Buy a Wonderful Company at a Fair Price than a Fair Company at a Wonderful Price" – Warren Buffett

Warren Buffett is widely considered the most successful investor in history. Not only is he one of the richest men in the world but also has had the financial ear of numerous presidents and world leaders around the world. When Mr. Buffett talks, world markets move based on his words.

Mr. Buffett is also known as being a prolific teacher. His yearly letter to investors in his company, Berkshire Hathaway, is used in college finance classes in the largest and most prestigious universities.

Mr. Buffett gives two key pieces of advice to the investor: When evaluating a company, look at the quality of the company and the price. The quality of the company is most important and requires that you understand balance sheets, listen to conference calls and have confidence in the management. Only after you have confidence in the quality of the company should the price be evaluated. According to Mr. Buffett, if the quality of the company is high, don't expect to buy it at bargain bin prices. If the company isn't a quality company, don't buy it because the price is low. Bargain bin companies often produce bargain bin results. Sometimes good companies have bad stock and when you see that, dig deeper into your research. If the company still looks good, buy it.

"Do you really like a particular stock? Put 10% or so of your portfolio on it. Make the idea count. Good [investment] ideas should not be diversified away into meaningless oblivion." – Bill Gross

Bill Gross is the co-chief investing officer of PIMCO and manages the PIMCO Total Return Fund, one of the largest bond funds in the world.

Mr. Gross' rule speaks about portfolio management. A universal rule that most young investors know is diversification or not putting all of your investing capital into one name. Diversification is a good rule of thumb but it also diminishes your profits when one of your picks makes a big move while other names don't. Making money in the market is also about taking chances based on exhaustive research. Always keep some cash in your account for those opportunities that need a little more capital and don't be afraid to act when you believe that your research is pointing to a real winner.

"We're getting hurt, but I'm a long-term investor"- Prince Alwaleed Bin Talal

You may have never heard of Prince Alwaleed Bin Talal, but he's well known in the investing world. An investor from Saudi Arabia, he founded the Kingdom Holding Company. If anybody had reason to panic, it is him. Prior to the Great Recession, he owned a 14.9% stake in Citigroup at a price much higher than its post-recession price. In addition to that, his real estate investments in India lost considerable value after the 2009 recession.

When others may have sold, Prince Alwaleed Bin Talal has done what many of the best investors have done to amass their riches: Hold the stock for a long period of time, taking large market events out of the picture and collecting a dividend while they wait.

It's OK to trade stocks on a short or medium term basis, but the bulk of your portfolio should be invested in longer term holdings.

"You learn in this business … If you want a friend, get a dog." – Carl Icahn

Carl Icahn is a private equity investor and modern day corporate raider, buying large stakes in companies and attempting to get voting rights to increase shareholder value. Some of his holdings have included Time Warner, Yahoo, Clorox and Blockbuster Video.

Mr. Icahn has made his fair share of enemies over the years, but investors shouldn't take his advice strictly in terms of interpersonal relationships. How many times in your investing past have you read an article, watched a news report or took a tip from a trusted friend about the next hot stock and lost money? (Hopefully you never acted on an unsolicited e-mail sent to you about a big-moving penny stock.)

There is only one piece of advice to act upon: Your own exhaustive research based on facts (not opinions) obtained from trusted sources. Other advice can be considered and verified but it shouldn't be a sole reason to commit money.

"I am convinced that all this poverty in Mexico and in Latin America, like it's happening in China is the opportunity to grow. It's an opportunity for investment" –Carlos Slim

Another of the richest men in the world, Carlos Slim, owns hundreds of companies and has an employee base of more than 250,000. His quote above represents a mindset that the best investors possess. They don't look at what's happening now. By studying the momentum of a company or an entire economy and how it interacts with its competitors, great investors invest now for what will happen later. They are always forward thinking. If you're looking at now or trying to jump on the bandwagon of an investment that has already had short term gains, you've probably missed the big move. Try to find the next big winner but always anchor your portfolio with great companies that have a long track record of steady growth.

The Bottom Line

Now that you've read about one of each of these investors' rules, it's time to become a student of these investors and learn from their experiences. Each of these investors is known for being students of the markets, as well as leaders. As you begin to apply your new rules and commit to following them even when your mind tells you no, you'll see the profits start rolling in. Maybe you will make this list of legendary investors someday.