nyrej

13 rules for making investment decisions learned over 23 years of being an investment professional

March 11, 2013 - Long Island

With the Dow Jones Industrial Average drawn to the 14,000 level and the S&P 500 drawn to the 1,500 level, the bulls and bears are at a stand-off. The question now is which side will blink first. Is the rally since last autumn over or are we going to continue to move to new 5 year highs and maybe even to new all-time highs in the aforementioned indices? Volatility and headline risk are clearly back with a vengeance. The reasons to be bullish or bearish cancel each other out. For the purpose of this article, I'll skip repeating all of those reasons that you can find out by clicking on the major financial websites and offer 13 rules of investing that I've developed in the 23 years I've been an investment professional.

Don't overreach for yield. When conservative investors purchase risky or complex securities to earn more interest or dividends, it almost always ends badly. Better to spend down your money or lose a little to inflation than to lose money due to investments that are beyond your understanding or risk tolerance.

Don't try to eke out every penny of upside potential from your investments. When your investments are rising, come up with a percentage gain or dollar amount that would trigger a sell order to take a little off the table. I have several triggers so that I sell a little at a time along the way up when I have a winner on my hands. Roller coasters have lots of ups and downs, but the ride ends where it started. If you don't take a little profit off the table, you may just ride your investments up and down in each subsequent market cycle without having anything to show for it.

Paralysis from analysis is OK. If you can't make up your mind about purchasing a security, then that is your mind's way of doing a personal gut check. It means your conviction about the investment in question isn't high enough to commit capital to it. Keep learning about it until you decide to hold or fold.

When consumer staples stocks are leading the major equity averages higher, take that as a sign that investors are worried about a slowdown in the economy. Wait for more macro-economic statistics before committing any more new funds to equities.

Never buy a stock just for a fat dividend. Better to look for companies with a smaller dividend that have a record of raising their dividend over time, which to me is a better indicator of future stock appreciation. Plus, if a stock has an outsized dividend yield due to a pullback in the stock price, beware. If the dividend is 70% or more of the annual earnings estimate, a dividend cut is potentially on the way. That's almost never a good thing.

It's OK to think and invest short term. Too many investors are used to the useless and outdated mantra "don't worry about the paper losses, you're in it for the long term" Usually, you'll hear this from your broker who didn't call you for the last 12 months while your account took a major hit. Thanks but no thanks, buddy. You know what a religious stock is? One that you pray for to go back

up so you can sell it. You can be long and short term for the same position; maybe own some for the long term as you sell some for a short term gain and use the proceeds to diversify into a new position.

Have an investment strategy. To me, strategy is just as important as the investment choices I make. (Fun Fact: When I did a Google search for "Investment strategy" 147,000,000 results came up) My strategy makes extensive use of certain kinds of market orders and exchange listed derivatives. Easy for me because I do this professionally. What's yours? Ride'em up and ride'em down? Break the cycle!

Stick with the original. Imitators rarely win for the long term. Recall that phrase "Coke is the real thing?"

Take comfort in trends that are here to stay. My favorites are the domestic energy production boom, the enlargement of the Panama Canal to be completed next year, and the rising middle class in emerging markets. These are, in my opinion, incredibly durable and will help companies to deliver on strong earnings for years to come.

Know that tech stocks are ones you borrow, not own. Obsolescence and cheaper competitive products, in my experience, are always about a year to 2 years away. Big gains in tech are meant to be realized, in my opinion, of course.

Diversification is important, but strategy is much more so. In an environment that is often characterized more as "risk on" and "risk off," diversification has its limits. So don't be lulled into a false sense of security because you think you're diversified. It helps, but that is no excuse to be complacent, which I see all too often.

It's never too late or too early to take a profit. I do think it is a mistake to be an "all in" or "all out" investor.

Your buys are almost always too early. So for new positions, initiate small and buy more on dips.

Happy investing.

Mitchell Goldberg is the president and an investment professional at ClientFirst Stratgey, Inc., Woodbury, N.Y.

All the views expressed in this report/commentary accurately reflect our personal views about any and all of the subject securities or issuers and no part of our compensation was, is, or will be, directly or indirectly related to the specific recommendations or views we have expressed in this report. This material is not intended as an offer or solicitation for the purchase of sale of any security or other financial instrument. Securities, financial instruments, or strategies mentioned herein may not be suitable for all investors. Any opinions expressed herein are given in good faith, are subject to change without notice, and are only correct as of the stated date of their issue. Prices, values, or income from securities or investments mentioned in this report may fall against your interests, and you may get back less than the amount you invested. The information contained in this report does not constitute advice on the tax consequences of making any particular investment decision. You should consult with your tax advisor regarding your specific situation.

An index is a composite of securities that provides a performance benchmark. Returns are presented for illustrative purposes only and are not intended to project the performance of any specific investment. Indexes are unmanaged, do not incur management fees, costs and expenses and cannot be invested in directly.