A “Poor Richard’s Almanac” for investors

Here’s a list of forty-four “rules of thumb” or maxims for investing in the stock market. The list was compiled and reported recently by *Morningstar®StockInvestor*. Most of the maxims speak to investing in individual common stocks, but several speak to every investor in the market. Perhaps you’ll find the list interesting.

(1) When someone says, “Things are different this time,” they’re trying to sell you something.

(2) Don’t invest in what you don’t understand. If you do, you’ll eventually get burned.

(3) When a company delays a financial filing for any reason, avoid the stock.

(4) For each 1% rise in the stock market, an investor’s estimate of their IQ goes up 1 point. For each 1% decline in the market, an investor’s estimate of their fund manager’s IQ goes down 1 point.

(5) Investors are risk averse. The pain of losing $1 is greater than the pleasure of making $1.

(6) Nearly all investors are too bullish. They love being right, love making money, and they get to do more of both when stocks are going up.

(7) The financial media, too, is predisposed to being wildly bullish – television ratings and magazine subscriptions are far higher during a bull market than a bear market. Optimism sells; pessimism doesn’t.

(8) Even a stopped clock is right twice a day; permanent bulls and permanent bears are stopped clocks.

(9) When you read an interview with a mutual fund manager, don’t rush out and buy the stocks they recommend. Even the best portfolio managers are wrong on a third of their picks.

(10) If a company’s CEO has a Ph.D., avoid the stock. Often, the CEO is too brilliant for their own good and misses the forest for the trees. (There are exceptions to this rule, of course.)

(11) Stay away from any company with allegations of accounting misdeeds. There’s rarely just one cockroach in the pantry.

(12) When a company beats earnings expectations but misses revenue expectations, tread carefully.

(13) Great management can’t always cause a stock to go up, but bad management will nearly always cause a stock to go down.

(14) Great CEOs find new ways to outperform expectations from year after year. Poor CEOs find new new ways to underperform expectations year after year.

(15) Management integrity should be a major factor in the investment decision.

(16) Beware of management teams that say, “We expect a rebound in the second half of the year.” They have no idea what will happen, but since no one else does either, they can’t be challenged when making this statement.

(17) When an industry suffers from massive overcapacity – such as autos, airlines, telecommunications, office supplies and computer hardware – all but the strongest companies will get creamed. No matter how well you know the industry, it will take far longer for it to “hit bottom” than you think.

(18) A buying opportunity will always appear eventually, so track a watch list closely and be ready to pounce.

(19) Always hold some cash for a rainy day. The ability to move quickly is valuable; holding cash is akin to holding an option to buy.

(20) Buy stocks when everyone is fearful. These are the times when you make your money; you just won’t know it until later.

(21) Broad stock market panics come along every two or three years. Sector panics happen more often than this, though the sectors change each time.

(22) Don’t worry about leaving some money on the table. The only person who always buys at the bottom and sells at the top is a liar.

(23) All else being equal, it’s better to buy a stock near its 52-week low than its 52-week high.

(24) Month-to-month swings in stock prices are completely unpredictable. Anyone who tells you different is arrogant, confused, or trying to sell you something.

(25) When short-sellers are piling into a stock, avoid it. Short sellers are wrong sometimes, but they have more to lose than you do, and there are lots of stocks for you to choose from.

(26) Stocks can stay overvalued for years. Over time, the market rises, so when you short stocks, the odds are against you.

(27) Dividend growth, not the absolute level of the dividend, is what’s important.

(28) In every bear market, the pundits loudly proclaim, “Buy and hold is dead.” It never has been, and it isn’t now.

(29) Overpay and hold is dead.

(30) If you can’t value a stock, you shouldn’t buy it, even if its price has gone down and is much cheaper than it used to be.

(31) When a non-REIT (real estate investment trust) stock yields more than 5%, avoid it. Chances are high that there’s something wrong with the company’s business model.

(32) No one cares about tainted research when stocks are rising.

(33) Fewer than one in ten stocks are “long-term buys” at any given time. Thus, the ability to say “no” is much more important than the ability to say “yes.”

(34) Patience is a profitable virtue. Impatience is an expensive vice.

(35) Few investors can resist the temptation to trade often.

(36) Frequent trading is a crutch for those who don’t have patience, conviction, or confidence in their ability to analyze a company.

(37) You aren’t right or wrong about a stock until several years after you’ve bought it. In the meantime, you’re either lucky or unlucky.

(38) Hold on to your winners. Often, there’s a reason why they’re winners.

(39) The answer to “How low can it go?” is often zero.

(40) Almost everyone is disappointed when stocks go down. That is illogical. Investors who expect to be net purchasers of stock over the next 20 or 30 years should wish for a 20-year bear market in which stocks are screaming bargains, followed by the greatest bull market in history just as they’re cashing out.

(41) When a company gets more than 15% of sales from any one customer, avoid the stock.

(42) Nearly everyone on the Forbes 400 list of richest Americans falls into one of three categories: entrepreneurs, buy-and-hold investors, and those who inherited their money. Only a couple of market-timers and technical investors are on the list, and there are no day traders.

(43) Most stocks are slightly overvalued most of the time.

(44) Most people spend more time thinking about reward than risk. That’s backward.