

Five Simple Rules for Success in the Stock Market

Beyond the obvious rule to diversify, follow these five simple rules, and be assured of success over the long-term in the stock market:



Rule 1 - Perception is Often Opposite of Reality . . .

With all the recent scandal in corporate America and from within major Wall Street brokerage firms, it almost goes without saying that one should be very careful about what's being pitched and from whom. Remember the old saying: "If it seems too good to be true, it most likely is".

Rule 2 - Focus First on the Return OF Your Money, Before You Focus on the Return ON Your Money . . .

As the chart and narrative inserts below illustrate, bear markets can devastate an investor's portfolio. For example, it took 25-years to regain the loss incurred in the super-bear from October 1929 to July 1932. It will take a cumulative gain of over 86% to regain the 46% loss experienced in the recent 2000-03 bear market.

Rule 3 - The Collective Wisdom or Insanity of the Market is Reflected in the Composite-Index Prices . .

As ISI's mathematical models illustrate, an objective trend-following strategy based upon index prices alone can achieve excellent results over the long-term with managed risk.

Rule 4 - If You Don't Understand It, Don't Do It . . .

Simple enough, yet often dismissed. But, perhaps, it's the most important of all five rules.

Rule 5 - Discipline, Discipline, Discipline . . .

A recent study revealed the average investor made about 3% yearly over the 18-year secular bull market from '82-2000. Why so little? A lack of discipline. Most investors chase performance, which means that they are always betting on the winner of the last race. In contrast, the successful execution of any ISI mathematical model requires great discipline.

Rule 2 illustrated . . .

As the chart to the right shows graphically, the six legs of the 2000-03 Bear Market have made it one of most tricky since the 1929-32 mega-bear. Add in that historic Fed easing had failed (it appears until recently), much like the market/economy's non-response in the 1930s. Although, a promising bull rally has developed, it will take a cumulative gain of over 86% to regain the 46% loss experienced by the S&P 500 over the over 3-year bear. It gives meaning to the famed Will Rogers investment advice to "worry more about the return of your money before your worry about the return on your money".

