
*(Note: I am sidelined for the next couple of days due to a small surgery. Will be back to a regular posting schedule on Monday.)*

As I discussed this past weekend, the current *"bull market"* seems unstoppable. Even on Twitter, investors have once again been lulled into the *"complacency trap."*

> The Fed taught the market to buy the dip. Now we do it instinctively...but we've forgotten why. BofaML on astonishing market bounce backs: pic.twitter.com/PCUM3YkBWn
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> ? Tracy Alloway (@tracyalloway) May 28, 2017

I have often written on the perils and pitfalls of investing, portfolio and risk management and the fallacy of long-term ?average? rates of returns. Unfortunately, few heed these warnings until it is generally far too late. For example, just last week I received an email exposing this problem exactly.

*?Explain this to me. I have been listening to all of these people on television talking about how great the market is doing. However, my advisor convinced me back in 1998 to buy a bunch of blue chip stocks and just hold them. Well, almost 20-years later, I am not much better off than where I started and am still a long way from where I need to retire.  I just don't get it."*

This email goes to the very core of the fallacy that is continually espoused by the mainstream media with reference to *?buy and hold,? ?dollar cost averaging,?* and *?compounding.?* **When you are invested in ANY asset that can lose principal value during your investment time horizon, you can NOT compound returns. Compound returns ONLY occur in investments that do not lose principal such bonds, money market accounts and CDs.** Furthermore, **the major problem is the loss of *?time?* to achieve your investment goals.** When a major correction occurs in the financial markets, which occur quite frequently, getting back to even is NOT the real problem. **While capital can be recovered following a destructive event, the time to reach your investment goals is permanently lost.** The majority of mainstream commentators continue to suggest that *?you can not manage?* your money because **if you sell, then you are going to *?miss out?* on some level of the bull market advance.** The problem is they fail to tell you what happens when you lose a large chunk of your capital by chasing the bull market to its inevitable conclusion. (See *?Math Of Loss?*) While investing money is easy, **it is the management of the inherent *?risks?* that are critical to your long-term success.** This is why every great investor in history is defined by the methods by which they manage their investments. **When they *?buy?*, but most importantly when they *?sell.?*** The difference between a successful long-term investor, and an unsuccessful one, comes down to following very simple rules. **Yes, I said simple rules, and they are ? but they are the most difficult set of rules for any one individual to follow. Why? Because of the simple fact that they require you to do the exact OPPOSITE of what your basic human emotions tell you to do:**

- **Buy stuff when it is being liquidated by everyone else, and;**
- **Sell stuff when it is going to the moon.**

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## The 7-Trading Rules

Here are the rules ? they are not unique or new. **They are time tested and successful investor approved. Like Mom?s chicken soup for a cold ? the rules are the rules.** If you follow them you succeed ? if you don?t, you don?t.

### 1) Sell Losers Short: Let Winners Run:

It seems like a simple thing to do but when it comes down to it the average investor sells their winners and keeps their losers hoping they will come back to even.

### 2) Buy Cheap And Sell Expensive:

You haggle, negotiate and shop extensively for the best deals on cars and flat screen televisions. However, you will pay any price for a stock because someone on television told you too. Insist on making investments when you are getting a *?good deal?* on it. **If it isn?t ? it isn?t, don?t try and come up with an excuse to justify overpaying for an investment.** In the long run ? overpaying will end in misery.

### 3) This Time Is Never Different:

As much as our emotions and psychological makeup want to always hope and pray for the best ? this time is never different than the past. History may not repeat exactly but it surely rhymes awfully well.

## 4) Be Patient:

As with item number 2; **there is never a rush to make an investment and there is NOTHING WRONG with sitting on cash until a good deal, a real bargain, comes along.** Being patient is not only a virtue ? it is a good way to keep yourself out of trouble.

## 5) Turn Off The Television:

Any good investment is NEVER dictated by day to day movements of the market which is merely nothing more than noise. **If you have done your homework, made a good investment at a good price and have confirmed your analysis to correct ? then the day to day market actions will have little, if any, bearing on the longer-term success of your investment.** The only thing you achieve by watching the television from one minute to the next is increasing your blood pressure.

## 6) Risk Is Not Equal To Your Return:

Taking RISK in an investment or strategy is not equivalent to how much money you will make. **It only relates to the permanent loss of capital that will be incurred when you are wrong.** Invest conservatively and grow your money over time with the LEAST amount of risk possible.

## 7) Go Against The Herd:

The populous is generally right in the middle of a move up in the markets but they are seldom right at major turning points. When everyone agrees on the direction of the market due to any given set of reasons ? generally something else happens. However, this also cedes to points 2) and 4); **in order to buy something cheap or sell something at the best price ? you are generally buying when everyone is selling and selling when everyone else is buying.** These are the rules. **They are simple and impossible to follow for most.** However, if you can incorporate them you will succeed in your investment goals in the long run. **You most likely WILL NOT outperform the markets on the way up but you will not lose as much on the way down.** This is important because **it is much easier to replace a lost opportunity in investing ? it is impossible to replace lost capital.** As an investor, it is simply your job to step away from your *?emotions?* for a moment and look objectively at the market around you. Is it currently dominated by *?greed?* or *?fear??* Your long-term returns will depend greatly not only on how you answer that question, but how you manage the inherent risk.

> ***?The investor?s chief problem ? and even his worst enemy ? is likely to be himself.?*** ? Benjamin Graham