[Read Part-1 Here](#)

Currently, it seems that nothing can derail the bull market. Trade wars, weakening economic growth, deteriorating earnings, and inverted yield curves have all been dismissed on *"hopes"* that a *"trade deal"* will come, and the Federal Reserve will cut rates. While the last two items may indeed extend the current cycle by a few months, they won't change the dynamics of the former. Eventually, this cycle ends. Of that, there is little argument. It is the *"when,"* that is tirelessly debated. **As I have often stated, I am not bullish or bearish.** My job as a portfolio manager is simple; invest money in a manner that creates returns on a short-term basis, but reduces the possibility of catastrophic losses which wipe out years of growth. In the end, it does not matter **IF** you are *?bullish?* or *?bearish.?* **The reality is that the "broken clock" syndrome owns both *?bulls?* and *?bears?* during the full-market cycle. However, what is grossly important in achieving long-term investment success is not necessarily being *?right?* during the first half of the cycle, but by not being *?wrong?* during the second half.** The second half of the cycle IS coming. **This is why, in times like these that we have to [follow our investment rules.](#)** Those rules allow us to grow capital but reduces the risk of massive drawdowns when the cycle turns. While there are many promoting *"buy and hold"* strategies, it is interesting that **not one of the** great investors throughout history have ever practiced such an investment discipline. In fact, they have all had very specific rules they followed which helped them not only to make investments, but also when to sell them. So, in following up with part one of this series, here are some more rules from great investors which we can all learn from.

William O'Neil's 23 Trading Rules

William J. O?Neil is one of the greatest stock traders of our time, achieving a return of 5000% over a 25-year period. He uses a trading strategy called **CANSLIM,** which combines fundamental analysis, technical analysis, risk management and timing. CANSLIM is an acronym and stands for:

> ***C:*** *Current quarterly earnings per share (up at least 25% vs. year-ago quarter).* ***A:*** *Annual earnings increases at a compound rate of no less than 25%.* ***N:*** *New products, new management and new highs.* ***S:*** *Supply and demand. Stocks with small floats experience greater price rises, plus big volume demand.* ***L****: Leaders and laggards. Keep stocks that outperform and get rid of the laggards.* ***I:*** *Institutional ownership. Follow the leaders.* ***M:*** *Market direction. Three out of four stocks follow the trend of the market. When the intermediate trend is bearish, don?t invest.*

Here are the rules:

1. ***Don?t buy cheap stocks. Avoid the junk pile.***

2. *Buy growth stocks that show each of the last three years annual earnings per share up at least 25% and the next year?s consensus earnings estimate up 25% or more. Most growth stocks should also have annual cash flow of 20% or more above EPS.*
3. *Make sure the last two or three-quarters earnings per share are up by a minimum of 25% to 30%. In bull markets, look for EPS up 40% to 500%.*
4. *See that each of the last three-quarter?s sales is accelerating in their percentage increases, or the last quarter?s sales are up at least 25%.*
5. *Buy stocks with a return on equity of 17% or more. The best companies will show a return on equity of 25% to 50%.*
6. *Make sure the recent quarterly after-tax profit margins are improving and near the stock?s peak after-tax margins.*
7. *Most stocks should be in the top five or six broad industry sectors..*
8. ***Don?t buy a stock because of its dividend or P/E ratio.** Buy it because it?s the number one company in its particular field in terms of earnings and sales growth, ROE, profit margins, and product superiority.*
9. ***Buy stocks with a relative strength of 85 or higher.***
10. *Any size capitalization will do, but the majority of your stocks should trade an average daily volume of several hundred thousand shares or more.*
11. *Learn to read charts and recognize proper bases and exact buy points. **Use daily and weekly charts to materially improve your stock selection and timing.***
12. ***Carefully average up, not down, and cut every single loss when it is 7% or 8%** below your purchase price with absolutely no exception.*
13. ***Write out your sell rules** that show when you will sell and nail down a profit in your stock.*
14. *Make sure your stock has at least one or two better-performing mutual funds who have bought it in the last reporting period. You want your stocks to have increasing institutional sponsorship over the last several quarters.*
15. *The company should have an excellent new product or service that is selling well. It should also have a big market for its product and the opportunity for repeat sales.*
16. ***The general market should be in an uptrend** and either favor small or big cap companies.*
17. *The stock should have ownership by top management.*
18. *Look for a ?new America? entrepreneurial company rather than laggard, ?old America? companies.*
19. *Forget your pride and ego; the market doesn?t know or care what you think.*
20. ***Watch for companies that have recently announced they are buying back 5% to 10% or more of their common stock.** Find out if there is new management in the company and where it came from.*
21. ***Don?t try to buy a stock at the bottom or on the way down in price, and don?t average down***
22. *If the news appears to be bad, but the market yawns, you can feel more positive. The tape is telling you the underlying market may be stronger than many believe. The opposite is also true.*
23. ***37% of a stock?s price movement is directly tied to the performance of the industry group the stock is in.** Another 12% is due to strength in its overall sector. Therefore, half of a stock?s move is due to the strength of its respective group.*

Richard Rhodes 16 Investing Rules

1. ***The first and most important rule is - in bull markets, one is supposed to be long.*** *In a bull market, one can only be long or on the sidelines.* ***Remember, not having a position is a position.***
2. ***Buy that which is showing strength - sell that which is showing weakness.*** *The public continues to buy when prices have fallen. The professional buys because prices have rallied. The rule of survival is not to ?buy low, sell high?, but to ?buy higher and sell higher."*
3. *When putting on a trade, enter it as if it has the potential to be the biggest trade of the year. Don't enter a trade until it has been well thought out, a campaign has been devised for adding to the trade, and contingency plans set for exiting the trade.*
4. ***In bull markets, add to the trade on minor corrections back into support levels. In bear markets, add on corrections into resistance.*** *Use the 33-50% corrections level of the previous movement or the proper moving average as a first point in which to add.*
5. ***Be patient.*** *If a trade is missed, wait for a correction to occur before putting the trade on.*
6. ***Be patient.*** *Once a trade is put on, allow it time to develop and give it time to create the profits you expected.*
7. ***Be patient.*** *The real money in trading is made from the one, two or three large trades that develop each year. You must develop the ability to patiently stay with winning trades to allow them to develop into that sort of trade.*
8. ***Be patient.*** *Once a trade is put on, give it time to work; give it time to insulate itself from random noise; give it time for others to see the merit of what you saw earlier than they.*
9. ***Be impatient.*** *As always, small loses and* ***quick losses are the best losses.*** *It is not the loss of money that is important. Rather, it is the mental capital that is used up when you sit with a losing trade that is important.*
10. ***Never, ever under any condition, add to a losing trade, or ?average? into a position.*** *If you are buying, then each new buy price must be higher than the previous buy price. If you are selling, then each new selling price must be lower. This rule is to be adhered to without question.*
11. ***Do more of what is working for you, and less of what's not.*** *Each day, look at the various positions you are holding, and try to add to the trade that has the most profit while subtracting from that trade that is either unprofitable or is showing the smallest profit.*
12. ***When sharp losses in equity are experienced, take time off.*** *Close all trades and stop trading for several days. The mind can play games with itself following sharp, quick losses. The urge ?to get the money back? is extreme, and should not be given in to.*
13. ***When adding to a trade, add only 1/4 to 1/2 as much as currently held.*** *That moves the average price of your holdings less than half of the distance moved, thus allowing you to sit through 50% corrections without touching your average price.*
14. ***Think like a guerrilla warrior.*** *We wish to fight on the side of the market that is winning. Our duty is to earn profits by fighting alongside the winning forces. If neither side is winning, then we don't need to fight at all.*
15. ***Markets form their tops in violence; markets form their lows in quiet conditions.***
16. ***The final 10% of the time of a bull run will usually encompass 50% or more of the price movement.*** *Thus, the first 50% of the price movement will take 90% of the time and will require the most backing and filling and will be far more difficult to trade than the last 50%.*

Ed Seykota's 21-Investment Guidelines

1. **In order of importance to me are:** (1) the long-term trend, (2) the current chart pattern, and (3) picking a good spot to buy or sell. Those are the three primary components of my trading.
2. **If I am bullish, I neither buy on a reaction, nor wait for strength; I am already in.** I turn bullish at the instant my buy stop is hit, and stay bullish until my sell stop is hit. Being bullish and not being long is illogical.
3. If I were buying, my point would be above the market. I try to identify a point at which I expect the market momentum to be strong in the direction of the trade, so as to reduce my probable risk
4. **I set protective stops at the same time I enter a trade.** I normally move these stops in to lock in a profit as the trend continues. Sometimes, I take profits when a market gets wild. This usually doesn?t get me out any better than waiting for my stops to close in, but it does cut down on the volatility of the portfolio, which helps calm my nerves. Losing a position is aggravating, whereas losing your nerve is devastating.
5. Before I enter a trade, **I set stops at a point at which the chart sours.**
6. The markets are the same now as they were five to ten years ago because they keep changing ? just like they did then.
7. **Risk is the uncertain possibility of loss.** If you could quantify risk exactly, it would no longer be risk.
8. **Speculate with less than 10% of your liquid net worth.** Risk less than 1% of your speculative account on a trade. This tends to keep the fluctuations in the trading account small, relative to net worth.
9. I usually ignore advice from other traders, especially the ones who believe they are on to a *?sure thing?.* **The old timers, who talk about *?maybe there is a chance of so and so,?* are often right and early.**
10. Pyramiding instructions appear on dollar bills. **Add smaller and smaller amounts on the way up.** Keep your eye open at the top
11. **Trend systems do not intend to pick tops or bottoms**. They ride sides.
12. **The key to long-term survival and prosperity has a lot to do with the money management techniques** incorporated into the technical system. There are old traders and there are bold traders, **but there are very few old, bold traders.**
13. **The manager has to decide how much risk to accept**, which markets to play, and how aggressively to increase and decrease the trading base as a function of equity change. These decisions are quite important?often more important than trade timing.
14. The profitability of trading systems seems to move in cycles. Periods during which trend-following systems are highly successful will lead to their increased popularity. As the number of system users increases, and the markets shift from trending to directionless price action, these systems become unprofitable, and under-capitalized, and inexperienced traders will get shaken out. Longevity is the key to success.
15. **Systems don?t need to be changed.** The trick is for a trader to develop a system with which he is compatible.
16. **I don?t think traders can follow rules for very long unless they reflect their own trading style.** Eventually, a breaking point is reached and the trader has to quit or change, or find a new set of rules he can follow. This seems to be part of the process of evolution and growth

of a trader.

17. Trading Systems don?t eliminate whipsaws. They just include them as part of the process.
18. **The trading rules I live by are:**
    1. Cut losses.
    2. Ride winners.
    3. Keep bets small.
    4. Follow the rules without question.
    5. Know when to break the rules.
19. **The elements of good trading are: (1) cutting losses, (2) cutting losses, and (3) cutting losses.** If you can follow these three rules, you may have a chance.
20. **If you can?t take a small loss, sooner or later you will take the mother of all losses.**
21. One alternative is to keep bets small and then to systematically keep reducing risk during equity draw downs. That way you have a gentle financial and emotional touchdown.

But, did you spot what was missing?

Every day the media continues to push the narrative of passive investing, indexing and *?buy and hold.?* Yet while these methods are good for Wall Street, as it keeps your money invested at all times for a fee, it is not necessarily good for your future investment outcomes. **You will notice that not one of the investing greats in history ever had *?buy and hold?* as a rule.** So, the next time that someone tells you the *?only way to invest?* is to buy and index and just hold on for the long-term, you just might want to ask yourself what would a *?great investor?* actually do. **More importantly, you should ask yourself, or the person telling you, ?WHY??** The ones listed here are not alone. There numerous investors and portfolio managers that are revered for the knowledge and success. While we idolize these individuals for their respective *?genius,?* we can also save ourselves time and money by learning from their wisdom and their experiences. **Their wisdom was NOT inherited, but was birthed out of years of mistakes, miscalculations, and trial-and-error.** Most importantly, what separates these individuals from all others was their ability to learn from those mistakes, adapt, and capitalize on that knowledge in the future.

> **Experience is an expensive commodity to acquire, which is why it is always cheaper to learn from the mistakes of others.**

Importantly, you will notice that many of the same lessons are repeated throughout. This is because there are only a few basic *?truths?* of investing that all of the great investors have learned over time. I hope you will find the lessons as beneficial as I have over the years and incorporate them into your own practices.