10 Rules for Big Profits in Growth Stocks
At Cabot Growth Investor, all our growth stocks must meet our 10 rules for growth stock investing—a rigorous analysis that requires a thorough knowledge of a company and the action of its stock. These rules form the foundation of growth stock investing and the investment philosophy used by Cabot Growth Investor.

1. **Invest in Fast-Growing Companies**

   You’ll usually find them in today’s fast-growing industries, where revolutionary new technologies and services are being created. As you study the companies in these growth industries, you should favor lesser-known companies that have yet to reach peak perception. Frequently these will be smaller companies, where growth potential is greater!

2. **It’s OK to Be Wrong – But Not to Stay Wrong**

   Relative performance (RP) studies are a superb way to identify successful companies and to avoid problem companies. RP measures how a stock is performing relative to the market. You should buy stocks that are consistently outperforming the market. This is a good indication that they are under accumulation by big, usually institutional investors, week after week, month after month, and that the companies are succeeding. The best investing tips come from the performance of the stocks themselves. (Ignore hot tips!)

3. **Use Market Timing to Guide Your Investing**

   Be cautious when the broad market is against you and aggressive when it’s with you. Don’t underestimate the power of the market to move stocks, both up and down. When Cabot’s market timing indicators are signaling a bull market, don’t delay. The trend is up, so stocks will be going up. Buy our recommended stocks and hang on as long as the ride is profitable.

4. **Once You’ve Invested in a Stock, be Patient**

   Recognize that time is your friend. Frequently stocks don’t go up as fast as you might want them to. But if you can develop a persistent and tolerant attitude coupled with plenty of patience, you’ll have a great advantage. We call this STAYING POWER. (The need for patience does not apply to losses— read Rule 6).

5. **Diversify Your Portfolio**

   For the Cabot Growth Investor Model Portfolio, 10 stocks provide plenty of diversification. Smaller investors can do well with as few as five stocks, but you should never have all your eggs in one basket.
6. Cut Losses Short

This is the key to ensuring that you retain enough capital to stay in the game. No matter how hard you try, it's inevitable that some stocks go against you as soon as you buy them. Get rid of these stocks quickly! Never let your loss of your original money invested exceed 20%, based on the closing price of the stock; in practice, we usually cut losses between 10% and 15%. This is a crucial rule, and yet we repeatedly hear from new subscribers who ignore it, hold on and suffer far greater losses. They learn the value of this rule the hard way.

7. Sell a Winning Stock when it Loses Positive Momentum

This is a clear indication that other investors are selling, too. And a lot of them know more than you do. So don't wait for the company to tell you about the bad news. Sell first and read the bad news later. You can usually tolerate relative performance (RP) line corrections of as long as eight weeks but seldom more than 13 weeks before concluding that the stock's momentum has turned negative. When these limits are exceeded, sell the stock without regret.

8. Let Your Profits Run

The power of compound growth can swell your account dramatically—if you are patient. Long-term investments make more money than short-term investments. Learn to develop staying power. Let your profits run and run and run. This is how big money is made in the market. Not by taking 10% and 20% profits but by thinking big—in terms of 100%, 200% and larger profits.

9. As Time Passes, Buy More Shares of Your Best-Performing Stocks

Add a modest number of shares to your winners from time to time, trying to do this during corrections in the stock, not after the stock has posted a major run-up. Called “averaging up,” this is a great way to increase your investment in your best stocks.

10. Be An Optimist

In our four-plus decades of publishing the Cabot Growth Investor, we've seen many ups and downs for both the market and the United States. After every tough event, our dynamic country and economy have eventually rebounded. No matter how bleak the situation, always stay optimistic because the stock market will give you some dazzling opportunities.
About the Expert

A growth stock and market timing expert, Michael Cintolo is chief analyst of Cabot Growth Investor and Cabot Top Ten Trader. Since joining Cabot in 1999, Mike has uncovered exceptional growth stocks and helped to create new tools and rules for buying and selling stocks.

Perhaps most notable was his development of the proprietary trend-following market timing system, Cabot Tides, which has helped Cabot place among the top handful of market-timing newsletters numerous times.