User Guide

How to Get The Most Out of Your Subscription
Thank You!

For subscribing to Cabot Explorer and welcome!

As a savvy investor interested in global stocks, you’re in the right place.

No question, one of the most prominent growth trends in the world right now is the rise of emerging markets. Canada, Europe, Australia, Japan, and others are full of world-class companies capturing growth and profits all around the world.

We’ll follow global growth trends and find specific, actionable ideas that have the potential to deliver big gains to your portfolio.

This is the mission of Cabot Explorer.

Every Thursday, you will receive either the Cabot Explorer Issue or the Update. You will also receive Special Bulletins via email whenever market conditions warrant—so that you know exactly what action to take in your stock portfolio.

I encourage you to read through this guide so you can familiarize yourself with our global investing strategy and how we make our buying and selling decisions.

I’ve been a student of the emerging markets for many years, and I know that they provide enormous opportunities for stock investors, and also significant risks. Every stock that I add to our portfolio or watch list will be followed closely, and I will communicate any changes in my recommendations via Updates and Special Bulletins.

I look forward to providing you with the best and most profitable advice possible.

If you ever have any questions about our recommendations, the markets or any other stocks that interest you, I invite you to send an email to me. My address is Carl@CabotWealth.com.

Once again, welcome. I hope we have a long and profitable relationship.

Your guide to investing in emerging markets,

Carl Delfeld
Chief Analyst, Cabot Explorer
What’s in this guide...

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Your Subscription to *Cabot Explorer* Includes:

**Bi-Weekly Issues**
Your issue is emailed to you every other Thursday.

**Weekly Updates**
On all other Thursdays, you’ll get updates on all our stocks and other issues affecting the portfolio.

**Special Stock Alerts**
When appropriate, special bulletins will alert you to important market developments to keep an eye on or that warrant action.

**Special Reports**
Our catalog of Special Reports provides further analysis that lets you dive deeper into the details of stock investing.

**Direct Contact**
Whenever you have an investment-related question, you can email me directly at Carl@CabotWealth.com. You can also call our Cabot Investor Services desk at 800-326-8826 anytime during business hours to speak with someone about your subscription. Or you can email our subscription support staff at Support@CabotWealth.com.

**24/7 Archives**
Your subscription gains you access to our vast online library of analysis, including past issues of *Cabot Explorer*, special reports, and related webinars.

*Make sure to visit the Cabot Explorer hub and bookmark the page!*
Here are the six rules we’ll follow to buy and sell our stocks.

**Rule #1: Get Organized**
Most portfolios I reviewed as an investment advisor were disorganized and rarely reflected a well thought out strategy. Investors would be better served by separating their investments in a number of buckets based on goals and risk tolerance.

Consider a “core & explore” strategy by setting up a core stock portfolio for U.S. stocks, and an explore portfolio for international and emerging market stocks. This keeps everything in their proper places, reduces stress, and can lead to better performance.

Your “explore” portfolio is dedicated to international stocks at the heart of high growth global trends. Explorer can help you discover and invest in these stocks. We normally aim for a fully invested portfolio of ten stocks from around the world.

If you are attempting to follow the portfolio as closely as possible, you will determine the amount of your investable cash that you wish to allocate for our portfolio and divide it into 10 equal-dollar positions.

Each full position you buy, then, will represent about 10% of your allocation. Keep in mind that a ten-stock portfolio is an aggressive portfolio - diversified enough to avoid being crushed by a single loser but concentrated enough to get a significant benefit from a few winners.

How much money you allocate to your explore portfolio is a personal decision based on a number of factors. Perhaps you could discuss this with your financial advisor. There is no need to invest in every recommendation. We will clearly highlight ideas that are more aggressive. You should be open to new ideas but also stay in your comfort zone.

**Rule #2: A Rifle is More Accurate than a Shotgun**
The days of just allocating 10% of your portfolio to an international mutual fund without thinking are over. You need more exposure to international markets and a more sophisticated strategy to achieve your goals.

Some advisors recommend a “shotgun” approach using exchange-traded funds (ETFs), which are essentially baskets of stocks. ETFs are more flexible, transparent, and tax efficient and have lower fees than mutual funds.

But we believe that, for the chance of significant gains, you are going to have to invest in specific stocks - I call this the “rifle” approach.

And you can access international companies that trade right on U.S. stock exchanges through ADRs. Investing in ADRs strips away the headaches and uncertainty of having to buy stocks from exchanges with which you’re unfamiliar. You also avoid any potential foreign currency risks.

Above all, when you buy an ADR, you’re investing in an emerging market company that has met all U.S. accounting and reporting requirements.
Rule #3: Invest in Global Growth Trends
The first step is to identify channels of accelerating and lasting growth.

Some of the trends we keep an eye on include global energy, US-China rivalry, the global battle for resources, cloud computing, health and nutrition, and infrastructure.

We'll always tell you the ones heating up and the ones about to cool off.

Rule #4: Look Ahead & Play the Middle of the Field
No one can predict the future but we highlight for subscribers global growth trends as they emerge. Sometimes the first movers have the edge but companies that come later with scale and capital can vault to the head of these channels of growth.

We do our best to recommend companies with momentum and in an upturn. The adage, “the trend is your friend” is a good one to keep in mind. But sometimes markets overreact and quality companies posting strong revenue and profit numbers can be suddenly trading at “value” prices.

It’s also important to manage risk and, from time to time, take some money off the table after a position becomes profitable.

And while it’s true that some of the greatest investment ideas come at the extremes of deep value and high growth, it’s usually smarter and safer to play the middle of the field.

We also work hard to avoid investing in trends and companies that are running out of steam or facing strong headwinds that will likely slow growth and profitability. In international and especially emerging markets, political change can be an important factor in successful investing.

Great bull markets often start with economic, free market and political reforms and investors can make a killing if they come to the party early.

Rule #5: Protect Your Portfolio
While our intention is to recommend ideas that we believe have substantial upside potential, sometimes markets move against us or a company reports some unexpected negative news.

We need some discipline to protect the portfolio.

Normally, we recommend that subscribers put in place a 20% trailing stop loss in place so that if a stock pulls back 20%, it is removed from the portfolio. This is a personal issue of course and some investors may wish to have a tighter stop loss.

One of the best ways to avoid losses is to follow the trends and, when they move against you, reduce your exposure.

Our Cabot Emerging Markets Timer is our indicator for measuring the intermediate-term trend of emerging markets stocks. The indicator uses the iShares Emerging Markets ETF (EEM), which tracks 800 emerging markets stocks traded on U.S. exchanges.
In addition to monitoring EEM, we look at the EEM’s 25-day and 50-day moving averages. A moving average simply smoothes out the daily fluctuations in any index. A 25-day moving average, for instance, takes each of the last 25 closing values, adds them up, and then divides by 25.

The Cabot Emerging Markets Timer is bullish (positive) when two criteria are met:

EEM must be standing above the lower of its two moving averages; and
That lower moving average must itself be advancing.

When both of these criteria are not met, the Emerging Markets Timer is negative, and the trend of emerging markets-related stocks is deemed bearish.

This is a cue for us to either add new ideas to the portfolio or reduce positions and raise cash.

In addition, from time to time we might also add exposure to EUM, an ETF that moves opposite EEM. In a market downturn, this will be positive and serves as a “shock absorber” for your portfolio.

**Rule #6: Be Alert to Value Opportunities**
While growth investing and following trends is the easiest and most dependable way to invest, keep in mind that some of the greatest investors of all time have been value investors.

Benjamin Graham, Warren Buffet, J. Paul Getty, Sam Zell, John Templeton, Carlos Slim, Li Ka-shing and Howard Marks all had an innate instinct for distressed situations and bargain priced assets.

Unfortunately, value investing takes more effort and discipline than most of us consistently possess. Deep value opportunities can be time consuming to analyze and it takes courage to take a grubstake when most investors are running for the exits. Then we may lack the patience to wait for the catalysts to kick growth into high gear, unlocking the value of the company.

Our goal is to help you make money. It’s as simple as that. And everything we write is aimed at making sense of the news that’s relevant to our investing strategy and presenting the rules of portfolio management that will lower your risk and maximize your profits.
Glossary

Stock investing jargon and terminology can sometimes sound like a foreign language. Here are a few terms that are commonly used in the investment methods discussed in *Cabot Top Ten Trader*.

**Average Up**
Buying more of your best stocks, also called averaging up or pyramiding, is something most great investors through the years have practiced. However, like any tool, it can also be dangerous if misused.

**Bear Market**
A bear market is defined as one in which each successive decline carries the market to new lows. Falling prices and growing pessimism characterize a bear market.

**Benjamin Graham**
Benjamin Graham (1894–1976) was an American economist and investor. He was born in London, graduated from Columbia University at the age of 20, and became Warren Buffett’s teacher in 1950. Graham is the author of *The Intelligent Investor*, a seminal book on value investing that Warren Buffett called “by far the best book on investing ever written.” Buffett was just one of Graham’s disciples. Graham also taught or influenced Mario Gabelli, John Neff, Michael Price and John Bogle.

**Bond Ladder**
Bond ladders are a way of creating your own adjustable-rate income stream, by buying a series of bonds or bond funds with staggered maturity dates. Then, as each security matures, you reinvest the proceeds in a new security at the top of ladder, which becomes your new longest-dated security. If interest rates are rising, the new investments will have higher coupon rates than the investments rolling off the bottom of the ladder, and your yield will gradually rise.

**Bull Market**
A bull market is defined as one in which each successive advance of the primary trend peaks higher than the one preceding it. A bull market is characterized by rising prices and growing optimism.

**Call Options**
Call options give the buyer the right to buy 100 shares at a fixed price (strike price) before a specified date (expiration date). Likewise, the seller (writer) of a call option is obligated to sell the stock at the strike price if the option is exercised.

**Derivatives**
A derivative is a financial instrument—or, simply put, a contractual agreement between two parties—that has a value, based on the expected future price movements of the “underlying asset” to which it is linked. The underlying asset can be a stock, bond, currency or commodity. Strictly speaking, a derivative has no value of its own. It is not an asset; it is a contract. There are myriad kinds of derivatives; the most common are options and futures.

**Dividend**
A dividend is a bonus. An extra. It’s a portion of earnings that the company pays to investors on a quarterly or yearly basis.

**Dividend Reinvestment Plans**
Dividend reinvestment plans, otherwise known as “DRIPs”, are a way for income investors to build long-lasting wealth. Offered by some dividend stocks, dividend reinvestment plans allow you to have your quarterly dividend payments allocated toward buying more shares (or fractions of shares) of that stock.
instead of being paid directly to you in the form of a check. Thus, the amount of shares you own in a given stock automatically expands every quarter when you enroll in a DRIP, so long as that company keeps paying a dividend.

**Double Bottom Chart**
A chart pattern used in technical stock analysis to describe the fall in price of a stock or index, followed by a rebound, then another drop to a level that’s roughly similar to the original drop, and finally another rebound. Consequently, the double bottom chart pattern resembles the letter “W”. This “W” pattern forms when prices register two distinct lows on a chart. However, the definition of a true double bottom is only achieved when prices rise above the high end of the point that formed the secondary low.

**Emerging Markets**
Emerging markets are economies whose gross domestic product (GDP) is growing at a much faster rate than more developed markets such as the U.S., Germany and Japan. Consequently, the stocks in those countries often grow at a faster clip than the average stock in a more mature market.

**ETFs**
An exchange-traded fund--or ETF, for short--is an investment fund that trades on a public stock exchange just like a stock. But unlike individual stocks, ETFs hold dozens and even hundreds of stocks, commodities or bonds, so you get the safety of diversification. In that way, they’re like mutual funds.

**Futures**
Futures are contracts to buy or sell stocks or bonds, or commodities, at a stated price at a stated time in the future. These commodities include pork bellies, gold, currency, corn, wheat, orange juice, etc.

**Growth Investing**
Growth Investing involves a greater degree of volatility than dividend investing or even value investing. But it also has the potential for much bigger rewards. Growth investing involves investing in fast-growing companies that are typically less established than blue-chip companies such as General Electric (GE), Caterpillar (CAT) and Exxon (XOM). Those global behemoths were once growth stocks themselves, but their period of rapid growth is behind them. The best growth stocks are smaller companies whose best is ahead of them.

**Income Investing**
Income investors buy an investment, and that investment continues to reward them with cash just for that one-time purchase. Of course, there’s a little more to it than that, but the general idea is that income investors are devoted to finding top-quality investments that generate steady and secure cash flow with minimal risk.

**Micro Cap Stocks**
Micro cap stocks are publicly traded companies with market capitalizations of less than $300 million but greater than $50 million. Like small cap stocks, micro cap stocks have the potential to net very high returns, but because of their even smaller size, micro caps carry even greater risk than small caps.

**Mid Cap Stocks**
Mid cap stocks are middle-sized publicly traded companies: larger than small cap stocks but smaller than large cap stocks. Mid cap stocks have a market capitalization between $2 billion and $10 billion. Mid caps aren’t as risky as small cap stocks, but aren’t as “safe” as large cap stocks. However, the advantage they have over many of the biggest large caps stocks is that their greatest period of growth is often ahead of them.
**Net Current Asset Value**

One of Benjamin Graham’s earliest analyses, created and tested 75 years ago, is the Net Current Asset Value (NCAV) approach. The objective of the NCAV formula is to find the minimum value a company would fetch if it was liquidated. The formula is:

Net Current Asset Value (NCAV) = cash and short-term investments + (0.75 * accounts receivable) + (0.5 * inventory) – total liabilities – preferred stock

**Options Trading**

An option is a binding, specifically worded contract that gives its owner the right to buy or sell an underlying asset at a specific price, on or before a certain date. The investor has the right—but not the obligation—to buy.

**Small Cap Stocks**

Investing in small cap stocks is a good way to earn huge returns. The smaller companies often have the most potential for growth. They also carry plenty of risk for investors. Anytime you buy shares of a small, little-known company, there are a bevy of unknowns. Some small cap stocks are clinical-stage biotechs whose drugs have yet to be approved for commercial use. Others are chipmakers or cloud-computing companies that have plenty of promise but have been simply misunderstood by the market.

**Trading Volume**

Trading volume reflects the overall activity of the market, indicating the sheer amount of buying and selling of securities. Next to price, it is one of the most closely watched indicators.
About the Expert

Carl Delfeld began his career with the First Bank Boston in London and then director of their Japan and South Korea group. As vice president and Asia director for the investment bank Robert W. Baird, he developed new business in Tokyo, Hong Kong, and Sydney.

Next, Carl was Asia advisor to the U.S. Congress Joint Economic Committee, the U.S. Senate Finance Committee, and the U.S. Department of the Treasury.

He was then U.S. Representative to the Asian Development Bank in Manila, where he led economic and investment missions throughout the region as well as launching investment funds to unlock capital and talent in Asia.

Carl was co-founder of Pacifica Holdings, founder of the Seward Center for Economic Diplomacy, and editor and columnist with Forbes Asia. He also served as a member on the US National Committee on Pacific Economic Cooperation and was chairman of the Asian Pension Forum.

He earned a MALD from the Fletcher School of Law & Diplomacy, Tufts University with study and research at Sophia University, Keio University in Tokyo, Japan and Harvard University.


About Cabot Wealth Network

Cabot Wealth Network, established in 1970, is a trusted independent source of advice for individuals striving to take control of their investments and find the best stocks. Its 20 investment advisory services and annual Summit event deliver high-quality advice to more than 200,000 individual investors and investment professionals in 141 countries. Headquartered in historic Salem, Mass., in a converted 1934 public library Cabot Wealth employees take great pride in providing intelligent investment advice and timely, personal service without the hype and fabricated claims. Cabot is a member of the American Association of Individual Investors, Better Business Bureau, Specialized Information Publishers Association, and the Salem Chamber of Commerce.