User Guide

How to Get The Most Out of Your Subscription
Welcome!

Thank you for subscribing to Cabot Growth Investor!

As chief analyst of Cabot Growth Investor, I want to touch base with you personally and welcome you on board. My goal, simply put, is to help you make money ... hopefully big money when the market environment is right.

And I'll do that by recommending to you the market’s leading stocks—those with a new and revolutionary product or service—as well as top-notch portfolio management advice (when to buy, buy more, hold, and eventually sell).

But I first recommend you go through this guide before getting started. It will make a big difference. And if this type of investing is new to you, I suggest you also read this section to help you get started.

I've been a student of the market for many years, and I know that growth stocks provide enormous opportunities for stock investors ... if they know how to find the real leaders, and how to handle them during their dramatic up moves. That is our specialty and our main focus, which we've been providing for subscribers for 50 years.

I look forward to continuing that tradition by providing you 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'm always available by email. My address is Mike@CabotWealth.com

Once again, welcome. I look forward to a long and profitable relationship.

Your guide to growth stock investing,

Mike Cintolo
Chief Analyst, Cabot Income Advisor
What’s in this guide...

Here’s What You Get
- All the benefits Of Your Cabot Growth Investor Subscription

Our Investment Strategies
- How We’ll Make You Money

New To This Type of Investing?
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Your Subscription to *Cabot Growth Investor* Includes:

**Bi-weekly Issues**
Every other Thursday of every month Cabot Growth Investor brings you the latest market insights around growth investing, along with the top stock recommendations, what actions you should take, and an update on the stock mix of our model growth portfolio.

**Weekly Updates**
Every Thursday (except the day the issue is published) you get emailed an update on the portfolio stocks and other important news since the last update.

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

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

**Direct Contact**
Whenever you have an investment-related question, you can email me directly at Mike@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 Growth Investor, reports, and related webinars.

Make sure to visit the *Cabot Growth Investor* hub and bookmark the page!
How We’ll Make You Money

You can make a lot of money when the stock market is advancing. And you can lose a lot of money if you remain fully invested when the stock market is falling.

So you should aim to be heavily invested when the market is advancing, raking in all the profits possible ... and be in a defensive position (holding plenty of cash) when the market is trending lower, protecting your hard-earned capital.

Trouble is, the direction of the market isn't always easily discernable, especially if you let your emotions creep into your decision making or focus on the daily headlines.

That’s why we’ve developed two unique indicators—Cabot Trend Lines and Cabot Tides—that unequivocally inform us of the current market trend. That takes all human emotion out of the equation, allowing us to know for sure which way the market is trending.

Here are the two main trends lines we use at Cabot Growth Investor to make sure our investing decisions are as solid as possible.

**Cabot Trend Lines:**

*Longer-term trend*

Our Cabot Trend Lines are the longer-term indicator of the two and it’s proven its worth over may decades should be many decades; we’ve been using a version of it since our first Cabot Growth Investor back in October 1970. Today, the indicator consists of two indexes, the S&P 500 and Nasdaq Composite ... probably the two most well-known and well-followed indexes among investors. We look at each index relative to its 35-week moving average ... and we only take readings at the end of every week.

The rules are simple: To get a buy signal, both indexes must close two straight weeks above their respective 35-week moving averages. And for a sell signal, it's the reverse; two straight weeks below the 35-week line for both indexes.

Of course, using such a long-term moving average suggests that any signals will come too late to be of use. But the track record disagrees. Indeed, from the start of 2000 through mid-2012, the Trend Lines gave just 17 signals.

If you bought the Nasdaq during every buy signal, then sold the Nasdaq short when the Trend Lines were bearish, you would have reaped a 130% gain (vs. a loss of 15% by just buying-and-holding the Nasdaq).
Going back further, since January 1991, if you had simply bought the Nasdaq at every buy signal and moved to cash during sell signals, you’d be up more than 10-fold (11.4% per year), more than 2% better per year than the Nasdaq ... and that doesn’t include the interest you would have earned during the down periods.

That said, the Trend Lines aren’t designed to be a trading system—they’re an accurate, broad-based measure of the market’s longer-term trend. They were negative for 80% of the 2000-2003 bear move, were positive for more than 80% of the 2003-2007 bull market, negative for nearly 90% (!) of the 2008-2009 market meltdown, and positive for 80% of the 2009-2011 upmove. Going back further, the Trend Lines were positive for all but 12 weeks during the incredible 1995 to 2000 bull run! In other words, history shows that the indicator will continue to keep us on the right side of the market’s major trend.

Cabot Tides: Intermediate-Term Trend

While the Cabot Trend Lines tell us whether the market’s longer-term trend is up or down, the Cabot Tides examine the intermediate-term trend of the market. The Tides examines five different indexes: the S&P 500 and Nasdaq Composite (same as the Trend Lines), as well as the NYSE Composite, the S&P Small Cap 600 and the S&P 400 Mid-Cap. Looking at all five of these indexes gives us a very broad view of a variety of stocks and sectors.

To derive signals from the Tides, we compare each index to its own 25-day and 50-day moving averages. Notice these are much shorter-length, moving averages than those used in the Cabot Trend Lines, which means the Tides will give buy and sell signals quicker than the Trend Lines.

If an index is standing above the lower of these two moving averages, and that lower moving average is itself advancing, then

New to this type of investing? Here’s how to get started

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 we use.

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. Buy Stocks with Strong RP Lines

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 relative to 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.
we deem the intermediate-term trend for that index positive. If not, the intermediate-term trend for the index is considered down.

We apply the above method to each of the five indexes. If at least three of the five are positive, then the Cabot Tides is considered positive (i.e., the market’s intermediate-term trend is bullish). If at least three of the five are negative, we assume the market’s intermediate-term trend is down. Simple as that!

Combined with the Trend Lines, the Tides give us a clear-cut, thumbs-up or thumbs-down verdict on the market’s major trends. The number one advantage of using this trend-following system is that you will never, ever miss out on a major bull move ... and you will never, ever remain heavily invested during a major bear move. Just having this card up your sleeve will tremendously boost your investment results throughout the years.

**Cabot Two Second Indicator:** Market Health Today

When we check the market stats every day, we look at one number first. It’s one of the most important numbers we look at all day. The smaller that number the better we like it. It takes us only two seconds to check it—that’s why we call it the Cabot Two-Second Indicator!

This indicator, unlike any other market-timing indicator we know of, answers the question, “How healthy is the stock market today?” When you use it, you are simply taking the temperature of the stock market by noting the number of stocks on the NYSE that hit new 52-week price lows for the previous day. That single number, when properly interpreted,

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.
will give you a very good idea of the health of the current stock market. (We consider this indicator to be a long-term indicator, not a short-term indicator.)

In formulating the indicator many years ago, we looked at the number of daily new highs and the number of daily new lows on the NYSE and their correlation with the market itself. The data we reviewed went back as far as the beginning of 1962, covering all of the bull markets, the bear markets and the do-nothing markets during that time period.

Essentially, we found that as long as the number of daily new lows did not exceed 40, the market was sound and in no danger of falling significantly. This specific threshold of 40 new lows remained the same over all the decades we studied.

Briefly, here are the advantages of this indicator:

1. It is a daily reading of what the market itself is doing.
2. It is an extremely broad-based indicator in that it tallies the results of the entire NYSE.
3. Using our guidelines, you get a simple, unbiased reading of the health of the market every day.

The Two-Second Indicator proves to be particularly helpful during normal markets and at market tops. In addition, at market bottoms, this indicator can help identify the reduced selling that takes place before the next major market advance.

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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 the five decades 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.
How To Read Your *Cabot Growth Investor*

Your *Cabot Growth Investor* newsletter includes bi-weekly issues, weekly email updates, trade alerts on a regular basis, and special reports when necessary. The bi-weekly issue will be available on the fourth Thursday of every month and the weekly updates every other Thursday.

Here’s a brief tour of a typical *Cabot Growth Investor* monthly issue.

1. **Overview of the market.**
   Here’s what we see happening in the market right now, which shapes our investing advice inside the issue.

2. **What To Do Now.**
   In this section, we give you concise instructions on what action to take.

3. **Model Portfolio.**
   Here are updates on all the stocks in the portfolio and specific buy, sell, or hold advice.

4. **Watch List.**
   These are the stocks we’re watching closely to potentially add to the Model Portfolio.
**Other Stocks of Interest.**
Here are other stocks for you to consider. Note that our opinion on these stocks is updated on the *Cabot Growth Investor* website.

**Educational features.**
On this page, we discuss all the various aspects of growth stock investing, from stock picking to chart reading and more.

**Cabot Market Timing Indicators.**
Here we explain the current reading of our three market timing indicators mentioned above: Cabot Trend Lines, Cabot Tides, and Cabot Two-Second Indicator – and give our market timing report and wrap up summarizing our current position.

Current and past issues, trade alerts, special bulletins, updates, and educational resources are always available at CabotWealth.com. And if you still have questions, you can always email me directly at Mike@CabotWealth.com and I’ll get back to you as soon as possible.
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 Growth Investor*.

**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

A growth stock and market timing expert, Mike Cintolo is a 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.

Mike's work has appeared in a wide range of print and online outlets, including Forbes.com, The MoneyShow, Motley Fool, and CNBC.

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.

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