How to Be a Successful Investor for Life
By Timothy Lutts Chief Analyst, Cabot Stock of the Week

My job as chief analyst of Cabot Stock of the Week is to give you one great investment every week, chosen from the recommendations of Cabot Growth Investor, Cabot Top Ten Trader, Cabot Explorer, Cabot Small-Cap Confidential, Cabot Undervalued Stocks Advisor and Cabot Dividend Investor... as well as our various special reports.

But successful investing involves much more than just stock selection, so I urge you to read the following tips, the distillation of a lifetime in this business. And then re-read them as necessary over time, so that you can truly make the best use of my recommendations.

1. **Recognize that perfection in investing is impossible.** Not all your investments will be winners. Losses are a normal part of the business. Your goal is to ensure that your profits outweigh your losses, and the best way to do that is to have an investing discipline.

2. **Determine whether you’re dealing with a value stock,** as recommended by Cabot Undervalued Stocks Advisor, or a growth stock, as recommended by Cabot Growth Investor, Cabot Top Ten Trader or Cabot Explorer.

3. **If it’s a value stock,** buy only when the stock is undervalued. Cabot Undervalued Stocks Advisor chief analyst Bruce Kaser bases his value measurements on earnings—seeking stocks with low prices but strong earnings growth, which will boost the stock’s price.

4. **If it’s a growth stock,** buy only if the stock’s main trend is still positive. If the news is good but the stock’s behavior is not, trust the stock. Remember that the stock market is always looking ahead, and that your best guide to the company’s future news is what the stock itself is doing today.

5. **In healthy bull markets, remain heavily invested,** remembering, again, to ignore the news. **In bear markets, hold a large cash position,** remembering that capital preservation is goal #1. And remember that bull markets always begin when the economic news is lousy, and bear markets always start when the news is good. Again, the market is looking ahead. So learn to trust stock charts.
6. With value stocks, diversification is highly recommended. Because the timing of their advances is unpredictable, holding dozens of value stocks means the average value of your holdings will appreciate over time. Contrarily, with growth stocks, concentration is advised. Five growth stocks can be plenty, particularly if they are in different industries, while 12 growth stocks is probably the maximum you should contemplate.

7. Sell your value stocks when chief analyst Bruce Kaser advises you that a stock is fully valued based on the company’s earnings outlook.

8. Sell your growth stocks in the following circumstances:
   a) when the stock’s uptrend ends, as signaled by a substantial high-volumedrop below a previous support level
   b) when the stock fails to outperform the broad market over a period of 13 weeks
   c) when a profit of 100% or more has been cut in half
   d) when your loss exceeds 20% in bull markets and 15% in bear markets.

9. Getting a little more sophisticated, take partial profits in growth stocks that have temporarily become highly overbought, often because of a very strong market or particularly good news about the company. Similarly, buy more shares of growth stocks in which you have profits when they have been through a normal correction and are presenting low-risk entry points.

9. Don’t fall in love with your stocks, regardless of how big your profit or how well you think you know the company. The worst place to focus your investment is your own employer’s stock, as it concentrates your risk.
About the Expert

Timothy Lutts is Chairman and Chief Investment Strategist of Cabot Wealth Network, leading a dedicated team of professionals who serve individual investors with high-quality investment advice based on time-tested Cabot systems.

Timothy is also the chief analyst for Cabot Stock of the Week and chief analyst of Cabot Marijuana Investor.

Under his leadership, Cabot advisories have been honored numerous times by Hulbert Financial Digest, Dow Jones MarketWatch and Timer Digest as the top investment newsletters in the industry.

Timothy has appeared on numerous podiums as an investing expert, including Bloomberg TV and the World Money Show, led Investor’s Business Daily discussion groups and been interviewed by Dow Jones MarketWatch, TopStockAnalysts.com, VoiceAmerica.com, AOL Finance and numerous other business news organizations.