How To Handle Monster Stocks For Maximum Profits

Cabot GROWTH INVESTOR
Helping Investors Build Wealth Since 1970
It's every American's dream:

Investing in a stock right before it rips skyward on a long and lucrative run.

Thankfully, Cabot Growth Investor has had countless successes in this regard... In a large part because of the simple rules you are about to learn. And, remember:

You really only need a handful of these stocks to become independently wealthy.

However, it takes a little finesse.

No stock goes up in a straight line. On your march upward, you will meet resistance along the way... Numerous times, in fact. And when this happens, it is only natural to feel a little doubt.

Because picking an elusive “Monster Stock” is only half the battle to a successful investing career.

Knowing exactly how to HANDLE these big winners is just as crucial. And that is what we’ll dive into today. After reading this, you will have a much clearer understanding of what to do when you are behind the wheel of a big winner.

Let’s begin.

**First off, there’s no one perfect way to handle big winners.**

If there was, nobody would ever get shaken out and everyone would sell at the very top. As you know from experience, that just does not happen.

But keeping three facts in mind will help you enormously:

**Fact #1:**

**As a growth investor, grabbing a few big winners is key to your long-term success.**

That’s because it is difficult to make much upside progress if you are taking only 15% or 20% profits; those singles eventually get eaten away by small losses (and the occasional loser that gets away from you on, say, an earnings gap).

Growth investing tends to be skewed, with a lot of your net profit coming from relatively few trades.
Fact #2:  
Even the best winners are going to have a bunch of scary corrections and tedious sideways periods.

You can use almost any example, but look at Baidu, which readers rode for MORE THAN TWO YEARS. Our total profit was 283%. However, during its up-move, BIDU had seven pullbacks of at least 14% (see chart).

In other words, you’re going to have to “feel the heat” at times. Most regular investors can handle one 14% correction... but very few can stomach seven

![Seven 14%-plus corrections](image)

Fact #3:  
Big moves take time to play out.

For a stock to run 100%... 200%... or more, it’s going to take many months if not longer as institutional investors build positions.

So, putting it all together, we believe:

(A) When you catch a tiger by the tail, you want to get as much as you can out of it but...

(B) You must use a clear system to do so. One that gives YOU conviction while giving THE STOCK itself room to correct and consolidate along its way higher while also...

(C) Having an idea of where the stock is within its longer-term advance.

That’s why we advise using our “tight-to-loose” system.
The “Tight-to-Loose” System

With this time-tested system, we start out with a relatively tight loss limit but then gradually loosen our mental stop as the stock advances.

Ideally, if we have a big enough profit, we like to simply ride the stock’s 200-day moving average, which usually contains most big winners’ major up-moves. We also frequently (though not always) take partial profits on the way up, which not only books some profit but allows us more conviction in giving our remaining shares more rope.

On the flip side, there are a couple of things we don’t advise:

One is selling all your shares on the way up.

We like booking profits as much as anyone, but telling a stock it can't go any higher can prove very painful if you really do have a true market leader. We’d also be careful...

Selling a winner with the goal of buying it back later.

Such a consolidation might not come for a while, and even if it does, buy points are not always clean-cut.

We have often seen investors sell out entirely, and then suffer two or three losing trades when trying to re-enter, and then move on... often just before the stock resumes its longer-term uptrend.

Applying These Rules To An Actual “Monster Stock”

Let’s apply these various Do’s and Don’ts to Shopify (SHOP), another big winner for our Model Portfolio.

The stock had only been advancing for five months—in most cases, big market leaders won’t top permanently after such a short period. First, we took one-third of our initial position off the table in late March (too early in retrospect, providing another lesson of how hard it is to time exits correctly).

We could have taken off a few more shares to protect against the stock (or the overall market) turning ugly... but overall, we elected to play SHOP out for a longer-term gain.

Currently, the 40-week line is just below 60; we’re unlikely to give the stock that much room. But the 30-week moving average is in the mid-60s and rising quickly, which could provide nice longer-term support should the stock build a deeper consolidation.
Of course, if SHOP fell from here and stopped us out in the mid-to-upper 60s, that wouldn't be good. But our experience (and rules) tell us that giving this type of situation plenty of room usually allows us to sit through a normal correction and benefit from the stock’s longer-term uptrend.

**And that’s where the big money is earned.**

Now obviously, there comes a time to exit your position, too. And if you had the stomach to stay invested through, say, seven big corrections... you deserve to cash in on it!

This leads us to...

### Eight Tools and Rules For Selling Your Stock

No matter the year or the market environment, the most common questions we field at Cabot Growth Investor concern selling.

Because, as the “second half of the battle”, selling is a different animal altogether.

When you sell your stock, you’re giving up hope, essentially eliminating any possibility of greater profits. Mentally, it can be tough to do, which is why it’s so important to develop a set of rules and tools.

In the heat of the moment, these rules will give you a clear, repeatable path to follow (even when your emotions tell you otherwise).
1. Cut losses short

This is, was, and always will be the cardinal rule for growth stock investors; you never want your loss from your cost basis to exceed 15% to 20%; if you’re on your toes, you’ll likely get rid of a loser at 10% or less. (We’re not talking about trailing stops here, which are often counterproductive.)

2. Never let a solid profit turn into a loss

This is such a common mistake. If you develop a 15% to 20% profit in a stock, and things begin to head south, you shouldn’t allow the stock to fall all the way back to your buy price. Notice that this and the first rule of selling concern protecting your capital.

If you’re able to accomplish that goal, it’s simply a matter of time before you nail down some big winners that propel your portfolio higher.

3. After an extended rise, sell on a big-volume break below the 50-day moving average

Institutions tend to add to winning positions after a stock has dipped to its 50-day line, so if a leading stock clearly breaks its 50-day on big volume, it’s telling you institutions are not only failing to support the stock, they’re dumping it!

And that often tells you a longer, deeper base-building period (at best) is upcoming, so selling at least some of your shares is prudent.

4. Huge downside volume is a red flag

If a stock falls sharply on triple normal volume, it’s telling you big investors are bailing out. That’s not always a sign to sell, but you should put your stock on probation; demand that it hold up and begin to advance in the days following the drop.

If it doesn’t, that’s a good indication that some sort of top has been put in.

5. Sell after an outsized negative reaction to an earnings report

Earnings season can make or break a stock. If you witness a huge gap down (more than 10% or 15%, usually through a major support level like the 50-day line) right after a company’s quarterly report, you should sell.

Even though you’ll feel “late” in selling after a big drop, our studies show that most big earnings-induced gap downs lead to lower prices in the ensuing weeks.
6. After an extended rise, consider selling some shares on abnormal strength

We believe that “offensive selling” can help you keep a good portion of your profits. In this case, abnormal strength might mean a 20% to 40% jump in just a week or two (or less!) after a multi-month rise, possibly on some good news (an upgrade, a stock split, a new contract, a new CEO, etc.).

While such news probably contains longer-term positives, many institutions will sell into such strength, so taking a few chips off the table is prudent.

7. Consider selling a piece of a big winner when market timing turns negative

If the Cabot Tides and Two-Second Indicator turn bearish, it's likely most stocks are going to have a rough time in the weeks to come. So if you have a big winning stock, consider selling a quarter or third of your shares, ringing the cash register, and raising some cash.

8. Remember that you can always buy a stock back

This is an important psychological tool. Too many investors believe selling is an all-or-nothing decision, but with commissions so small these days, you can freely get back into a stock. You shouldn't hesitate to sell simply because you fear the stock will run higher without you; if the stock resumes its advance, you can get back on board.

There you have it...

Successful investing is a bizarre combination of brains, stomach, and human psychology. That said, you will be shocked by the consistent, positive (and profitable) impact the information in these few short pages provides.

Having this checklist of rules locked-and-loaded will set you apart from the “also-rans” and “nearly men” when you do find yourself with, what could be, a life-changing stock.
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.