

THREE RULES OF INVESTING

Rule 1

DECIDE WHETHER YOU SHOULD BE IN THE MARKET AT ALL AT THIS POINT IN YOUR LIFE

You need the ability to ride out market declines. There is nothing fundamentally different about the volatility of today's market from that of the '60s or '70s. It is just that the declines – and we've had 40 corrections of 10% or more in the past 70 years – happen more quickly, so they seem more painful. If you are not prepared for the volatility – if there is a chance you would have to sell out when the market is down 20% to 30% - you are not ready to own stocks.

RULE 2

INVEST FOR THE LONG HAUL

People want instant gratification, but that is an almost guaranteed way to lose money in stock investing. From one year to the next, the stock market is a coin flip: it can go up or down. The real money in stocks is typically made in the third, fourth and fifth year of your investment because you are participating in a company's earnings, which should grow over time. Those who put away a certain amount each month or quarter and focus 10-15 years down the road, may be much better positioned to take advantage of the up and down cycles of the market.

RULE 3

DO NOT TRY TO PREDICT THE STOCK MARKET OR THE ECONOMY

Trying to predict the market is a total waste of time. When someone says there will be a recession six months from now, that is not economics – that's weather forecasting. Similarly, what the market is going to do in one or two years is truly random. You make money by concentrating on individual companies, not the economy or the market.

- Peter Lynch

“The dumbest reason in the world to buy a stock is because it's going up.”

-- Warren Buffett