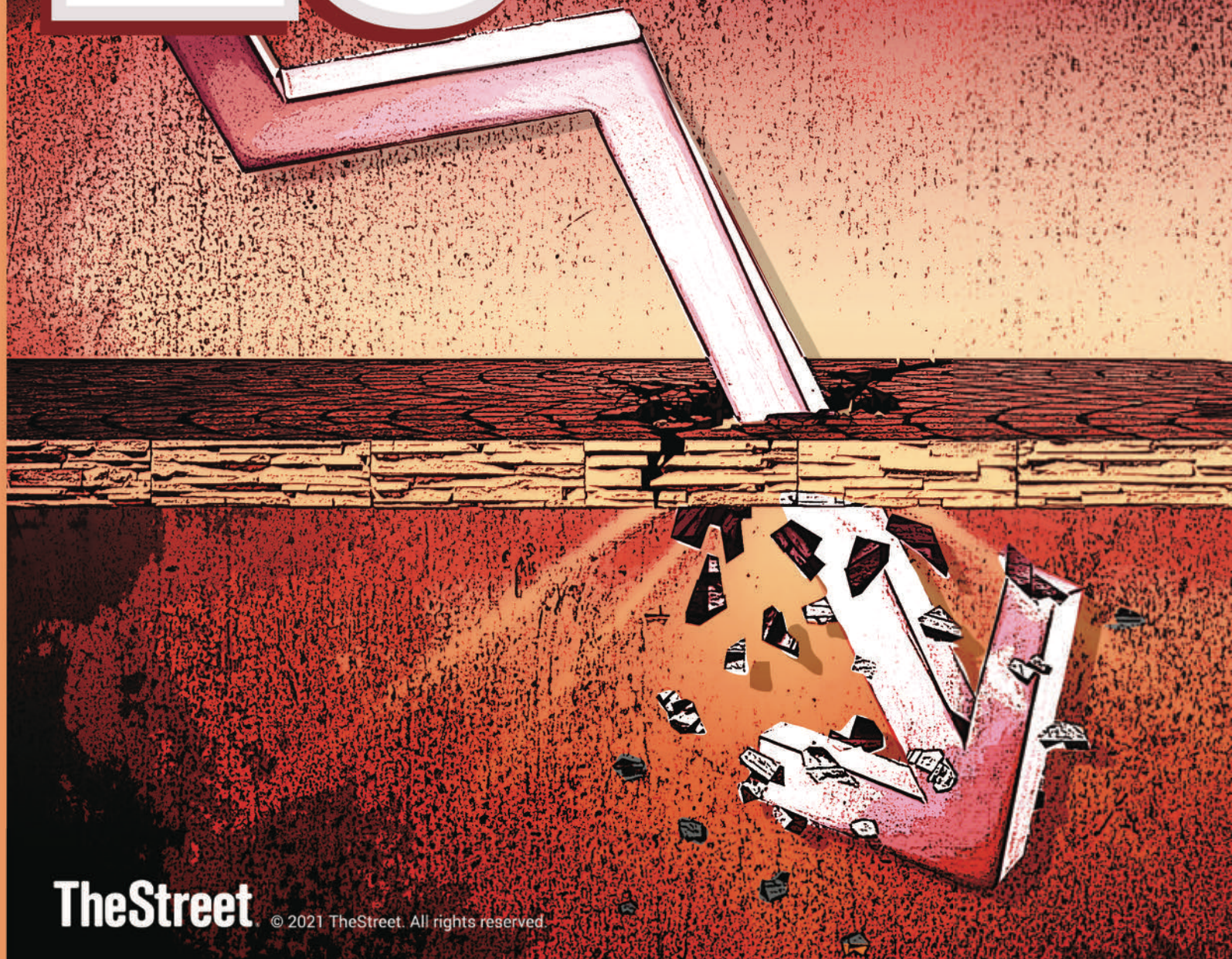


JIM CRAMER'S

20

**RULES FOR
SPOTTING
THE BIG ONE**



TheStreet

© 2021 TheStreet. All rights reserved.

True market bottoms are nearly impossible to detect until they have already passed. But if you follow these rules that I've learned over many decades, you can spot them, and then buy.

Spotting market bottoms -- big bottoms -- is never easy. That's why, after my series on the pandemic bottom of March 2020, I want to offer all subscribers and potential subs the 20 rules to finding bottom. I will explain when to buy, or more importantly, when you must buy, and I want you to return to this list every time we have a truly nasty selloff.

RULE 1

What's the proximate cause of the selloff? Is it

something financial? Is it a recession? Is it rates that are too high? Is it related to earnings? All of these scenarios can trigger selloffs, but I find only really monumental selloffs need this list. The rest can be handled by picking at stocks 5% to 7% from their highs. The only exception is a case where this is systemic risk, and we have had only one since 1979 when I bought my first stocks: the Great Recession. I think the playbook Fed Chair Jerome Powell produced at the bottom will work in pretty much every situation, except one where the banking system is in collapse and the credit markets just break. Given that it has happened only once, let's put that one away, because all of the other bottoms can be found by using this white paper.

In this most recent instance, the selloff was caused by something out of left field -- which is not unusual. It was caused by a public health crisis that actually was declared by the much -- and deservedly -- maligned World Health Organization. The declaration went against everything we



had been hearing in Washington with President Donald Trump's endless, and false, claims that keeping people from China would stop the illness.

The WHO broke the prevailing wisdom and the markets, which were at highs, began the relentless grind down, by 30%. So, remember to look at the front page of the New York Times for the cause, as much as you would watch The Wall Street Journal, for the real cause, because Wall Street can't factor in all causes. This was a public health emergency and not many strategists saw it coming. I was fortunate enough to do so only because I was acutely aware of the science away from Wall Street and happened to have been blessed to meet with my friend, David Tepper, who owns the Carolina Panthers and an old mentor of mine at Goldman Sachs (GS). The fact that we got our info from Lancet and from some bulletins from the Harvard T.H. Chan School of Public Health, the most honest broker in this instance, made it so poignant that I skipped the 2020 Super Bowl to tell TheStreet, and then CNBC, the next day. Public health: It's an oddity that proves the left field rule.

RULE 2

When you have an

emergency of any sort, the politicians want in. They want to figure out what is wrong and they want villains. They are not helpful. Anything that is done in Washington requires several acts to get finished. That's why there were so many big declines in the averages. The politicians like brinkmanship and uncertainty. Wall Street lives on uncertainty.

**POLITICIANS
LIKE BRINK-
MANSHIP...WALL
STREET LIVES ON
UNCERTAINTY**

So, remember this: Rarely does a vote on complicated economic issues ever succeed the first time. You must be prepared for disappointment and pounce between the first and second failures, leaving room for a third and you will be set up very well for one of the interim bottoms.

RULE 3

When you are down 30% from the highs, you have

no choice but to find something to buy. I like to do screens. When we were down 30% from the highs, we screened for what I call "accidental high yielders," companies with good balance sheets and dividends that yield high returns only because the stocks are too compressed. Down 30%, we found 79 stocks in the S&P with yields above 5% that were down 50% and 119 with yields above 4% that were down 40%. There were so many good names to choose from it was a cornucopia. But if you were paralyzed by fear, you missed them all. We made some great buys for Action Alert PLUS from these screens and I used a lot of them on "Mad Money."

RULE 4 There are a lot of people who like to buy when

the ratio of declines is nine-to-one to advancers. That's what my late friend and former CNBC anchor Mark Haines often said was the critical ratio. The ratio is what he went out on a limb about, when he called the fabled Haines' bottom at the end of the Great Recession selloff. This bottom produced an insane corollary: There was a day when there were fewer than 10 stocks that were up in the S&P. That day was one of the most ideal days to buy in the history of the stock market. So, add "how many are in the green" to the mix of a bottom call and match it with this one.

**MANY
HEDGE FUND
MANAGERS DO
NOT CARE ONE
WHIT ABOUT
YOU...**

RULE 5 A sudden pyrotechnic

move in the Volatility Index can be a sign of a bottom for certain. When the VIX hit 80, up four times from where it was a few weeks before, it exhausted itself and started coming down even as the stock market was trying to find a bottom. Only some errant intra-day price movements, however, are responsible for sporadic declines. That meant the peak in the VIX meant the nadir in the averages. Whenever the VIX came down it was an opportunity to buy. The VIX was not worth much on the go-up, but it was spectacular on the way down -- and it didn't throw you off the way Washington did.

RULE 6 Do not trust hedge fund

managers who come on television and talk about what they are doing. They are almost all inherently conflicted and are either pressing an agenda, or trying to raise money. Or they are trying to sound like the philosophers they wish they were. There were so many shameless, scared hedge funds that came on during this period that I demand you not pay them attention. I will say that during this whole period the only hedge fund manager I felt had a bead on things was David Tepper, and he did that because he's like the honey badger. Many hedge fund managers do not care one whit about you, but do care for publicity, because they crave it like pabulum. Ignore them and remember what I wrote about a particularly notorious example here.

There was a day when there were fewer than 10 stocks that were up in the S&P.

RULE 7 One of the most annoying things that happens in

a selloff is that you tend to get real sideshows going on that somehow determine the action of the market, because they are so linked with S&P futures. During this entire decline, oil dictated much of the direction -- or I should say the initial direction -- of trading, even as the oil pits pretty much ceased to work during the period. Oil rallying was often viewed as a sign of strength, but it was simply the case that oil weakness from the U.S. could not offset oil cutbacks from the Saudis. The supply and demand are centrally controlled and rarely are a sign of anything. It is remarkable to look back and see how worthless they really were yet they got credit for so much of what would occur. When there is some commodity that everyone is

using to figure out that S&P that commodity is most likely wrong.



RULE 8 Time and again

during this period, we read about how dividends were being canceled or cut. Any perusal of the stocks of the companies that cut dividends shows you that the vast majority of the time you had to buy the stock. Why? Because the dividend is not cut by surprise. Almost every analyst who follows the stock is telling his or her big accounts that a dividend is about to be axed. So when it does, the shorts are ready and the longs are, too. This bottom spotter was perhaps the most true I have ever seen it to be, even as the contemporaneous verbiage at the time was enough to scare the dickens out of everyone. Please watch

for these "surprise" cuts and be ready. Best example? Darden (DRI), parent of Olive Garden. It suspended its dividend just when people realized that there will probably be 150,000 competitors to Darden that will go surrender because of COVID.

RULE 9 One of the craziest moments in this selloff was

the disintermediation of the credit markets from the common stocks. The reason was twofold: First, Fed Chair Jerome Powell decided he would take care of helping companies raise money -- his calm helped Carnival (CCL) from going under. Second, the newer investors are not as interested in the credit markets and their ravenous interest in stocks and equity

offerings was a virtuous circle like I have never seen. These newer buyers understood that if the equity offerings by a Carnival or an American Air (AAL) worked, the companies would have enough money to pay their bills so their stocks would go higher. Obviously, these were symbiotic; a cruise company that can't sail will not be able to raise money in stock before its balance sheet can be shored up. Powell took care of the balance sheet. The newer investors took care of the money needed to run the darned operation. Betting against the new investors simply didn't work. They tend to come in at between 3 a.m. and 4, using round-the-clock services and they set the tone for the opening. They were almost never defeated.

RULE 10 Many people want to try to figure out what

stocks will be the best when new circumstances present themselves. I think that's a very smart entry point, but it is not the right entry point. The lesson from this selloff, when it comes to picking the best stocks, is to find stocks that are doing incredibly well ahead of the decline and then ask if their thesis, their methods, their products, would work even better in a shutdown.

**IT'S BETTER
TO BUY
A COMPANY
WITH HIGH
GROWTH, BUT
NO EARNINGS**

The three cases that dramatize this: Zoom Video (ZM), Roku (ROKU) and DocuSign (DOCU). All three had huge tailwinds going into the pandemic. Needless to say, social distancing and a lack of a desire to get COVID coalesced with Zoom and DocuSign. Roku was simply the default television for people before COVID and it exploded after. I feel the same way about the cybersecurity stocks, namely, Zscaler (ZS), Palo Alto (PANW), Okta (OKTA) and CrowdStrike (CRWD). The move to the cloud had been causing a gigantic amount of traffic, but when it moves to the home offense the threats went ballistic and you had no choice but to buy one of these. I want to be

clear that we have learned that very few companies that grew slowly before COVID, and got swept up by my COVID 100 index and then continued to rally past the Pfizer (PFE) and Moderna (MRNA) moment of truth. Don't be a hero when a company has no growth, but earnings. It's better to buy a company with high growth, but no earnings whatsoever.

RULE 11 I often say that there are no speeding tickets

given in this business, meaning the velocity of moves should not play a role in thinking that the direction of the moves could change. This rule was challenged this time around because the swiftness was unprecedented -- top three, right along with the two great crashes of 1929 and 1987. I think there is a lesson here: When the decline is swift but it is not accompanied

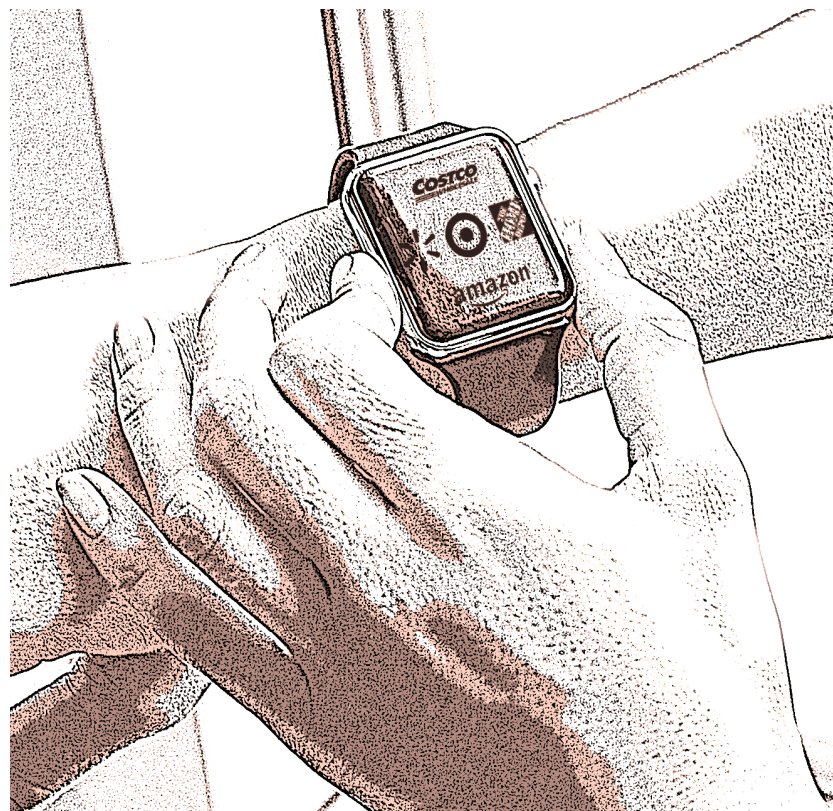
by pronounced declines in manufacturing, industrial or consumer activity, as was the case with '87 you have to buy, not sell. So keep in mind a compact movement down more than 30% without economic collapse could very well be a reason to just put your shopping list net out there and see what you can catch.

RULE 12 Bitter pill: Almost all of the top analysts in this

market failed you. They repeatedly cut their price targets and their estimates almost by central command, autopilot. They demonstrated very little critical reasoning: Is it possible that there actually may be something good happening in the business, something that performs well in a lockdown? When I invented the term WATCH -- Walmart (WMT), Amazon (AMZN), Target (TGT), Costco (COST) and Home Depot (HD) -- all except Amazon were out of favor. The news headlines were filled with stories about non-essential services. Companies that had essential services were given the golden goose and they never looked back. Why was this not more obvious to the analysts? I think it is because the presumption was the economy was too weak to handle even the most meager of expenses.

It was so wrong.

The downgrades in tech and autos were particularly painful given that the work-at-home, stay-at-home phenomenon was so in your face. I can find so few instances where analysts made contrary calls -- an occasional Tesla (TSLA) or Apple (AAPL) or even homebuilding calls, the latter from Ivy Zelman of Zelman & Associates, who does nothing but housing, demonstrated true horse sense. Special shoutout to Lisa Ellis, partner at MoffettNathanson, who, uniquely saw the coming of the best fintechs for this era. Matthew Boss made some extraordinary retail calls over at J.P Morgan (JPM). I truly admire his work. No one following the internet or the cloud truly distinguished his or herself. Pathetic.



RULE 13 Perhaps the only thing more worthless than the

bloviating blowhard hedge funds and the curiously intellectually absent analysts were their top strategists. They are so hidebound by the spreadsheets that they could not rise above the notion that perhaps the S&P was not going to correlate. The strategists turned out to be thumb-suckers for the most part. I will distinguish David Kostin from Goldman Sachs (GS) because he's novel. He's looking to clients for ideas and he synthesizes them. At the same time he was willing to be contrary and drew up some remarkable work about how growth without earnings tops growth with earnings. It was staggering in its beauty. Michael Cembalest, the amazing J.P. Morgan strategist challenged you constantly and you were for the better for it. If you can get your hands on their research the next crisis you will do all the better for it.

RULE 14 I know this will seem obvious, but good stocks

matter. I put that out because the brainwashing by the index fundiacs reached its peak when most of the big-cap stocks became plurality owned by index funds. The index fund is a democratizer in how it leavens stocks. But that did not happen this time. In fact, the newer buyers shed the chains of indexing and focused on companies that they really, really liked.

These new buyers eschewed diversification, which is hard for someone like me who has come through so many declines better for being diversified. The premise, however, of an index fund is that you need it because you are too stupid or lazy to do any work on stocks. I think that a premise based on snobbery, condescension and contempt, buttressed by the desire to profit from you, belongs in one of Dante's circles. I salute all of those who decided that stocks are not corn or wheat but actual representations of companies.

Of course, the "movement" toward finding short squeezes is not what I am talking about and as much as I enjoy reading Reddit's "Wall Street Bets" for its scatological nature, it is strictly prurient. The focus is on too few names and the hero-worship is something out of a novel.

All that said, when I got in the business we were always looking for the next Intel (INTC) or



**GOOD
STOCKS
MATTER**

Amgen (AMGN) or Pfizer or Microsoft (MSFT). The index movement gave that a name: Single stock risk, one of the most self-serving terms in the business. Do not be browbeaten by people in our business who look down on you and yet still want your money. They tend to be charlatans.

RULE 15 The Fed, as we learn over and over again, at

crunch time is not political. It is driven to try to put as many people to work as is possible. Not so the hedge fund managers and others who come on and spout stupid things about how the Fed is pushing on a string, or the Fed can't do it alone, blah blah blah. This selloff showed definitely that a non-timid Fed can pretty much do whatever it wants and you better not doubt it. Why do people do so? I think it is because of how stock market professionals work. Very few are fully invested. They often need the market to go down to profit from their shorts. They are unreliable at best and culpable at worst in getting you out of stocks based on some gibberish about how the Fed is not up to the task. These people are mountebanks. Believe me, if I had subpoena power I would out every one of them.

RULE 16 At extreme times the oscillator will seem to fail

you until it doesn't. We had the most extreme reading in the history of the S&P Oscillator that I trust so much; at minus 24, you had to buy. The problem, of course, is the multiple of readings below minus 10 that would have produced you buying stocks way too early. What is to be done about this? I think I have come up with a solution. Leave more space between buys. When the oscillator goes off the rails, space your buys. First at minus five. Next, minus



10. Then, minus 20. At that point, go bigger, but wait until the oscillator begins to go up to put in the biggest chunk. Yes, that means you will not have made as much at the bottom as you would have liked. Then again you would still be in the game with a terrific basis. I write this one sadly as I have never really had to be as patient with the oscillator, but the VIX selloff in 2018 and this one have chastened me to be less aggressive on the downside.

RULE 17 Moralizing makes you no money. There are so

many holier-than-thought rich people in the world it disgusts me. These are the people who want to say to you that the Fed's gains are filthy lucre, just contemptible giveaways to the rich who own stocks. This kind of pretentious ill-logic disgusts me, because with cash in hand and fractional shares, you are given a chance to crash the party and make some money.

Why do you have to sit out the rare opportunities to profit because of the Fed's dual mandate? Believe me, it wants stocks to go higher for the wealth effect, but it wants interest rates to go lower to lessen the stock competition. And what happens? Bought-and-paid-for hired guns, the guns of rich masters, profit for them while disparaging the creation of it. These people are the moral equivalent of robber barons. Do not be fooled. Why do others not call them out? Because, remember this, I do not play for dinner. That's an in-your-face, less-than-elegant way of saying: I play for you, not them.

RULE 18

You say value? I say wrong. When we have

mammoth selloffs, there is a propensity among managers to come on air and talk about how value will shine. Sure it can. But every single selloff I have seen since 1984, when it didn't work, was ended by the advance of super high growth stocks that often had nothing but sales and no earnings to see. This time it was particularly acute. Why don't people want to recognize this? Oh boy, is this one easy: They are lazy.



I wish I had the jobs of the of these mindless pontificators. I don't. I am responsible for a huge universe of stocks and I thrive on those that are rewarded with a multiple of sales or high price-to-earnings ratios, because it is usually indicative of quality. I know this is hard to grasp, so I don't want to make things convoluted. While I created FANG as a paean to growth, it is not the one I am most proud of, because it was pretty much in-your-face, given the business-to-consumer background. It is pretty much that we hold these truths to be self-evident that big-time managers are drawn to growth.



No, the name that defines my kind of thinking is Nvidia (NVDA). For as long as I have been following Nvidia, it has been outrageously expensive on near-term earnings. But if you want to see why growth prevails, go back in time and look what Nvidia ended up earning vs. the estimates. There are moments when Nvidia looked like it was selling at 80-times earnings estimates, but when the company reported its numbers, they were so far removed from the estimates that it was actually selling at 18 times. Sometimes it was selling at a profound discount to the so-called value out there. Nvidia, not Facebook (FB), Amazon, Apple (AAPL), Netflix (NFLX) or Google now Alphabet (GOOGL), proves the rule and it worked really well again. I have historically, for 25 years, tried to bring out these kinds of names to you. You can find them yourselves, but these kinds of stocks surface with detective work that I have at my fingers and you may not.

RULE 19 You want a sign that a bottom is at hand?

Check the initial public offering calendar. During this turmoil, there was only one IPO on the docket and that was some Chinese morass that the Party decided to dump on our heads, no matter what. I think that perhaps the real standout reminder here is that when the IPO calendar is weak, people think the stock market is weak. But at major points of inflection, the lack of an IPO calendar can turn out to be a clarion call that there are too many negative people and the brokers even feel the heat. When all syndicate desks pull back, that's because there is a lack of demand for new merchandise. It does not mean that existing merchandise is

bad. It does mean that it is too compelling. When you see that IPO calendar diminish until it's stillborn, find something to buy.

Finally,

RULE 20 I saved the best for last. When everyone is

worried about a bad unemployment number, whether it be the Thursday payroll figure or the big-daddy monthly non-farm payroll number, then you have my blessing to buy. That's because the Fed is worried, too. The bottom of this entire bear market came when Jay Powell went on the "Today" show, very specifically, to tell you he would not rest until hiring restarted. When I go back to the week's events, the chattering economic class people, often so worthless except as contrary indicators, were constantly barking about how Thursday's number would be the worst ever.

It was.

That was the bottom.

I hope these 20 points make sense to you. I hope that you will join us in the contemporaneous, real-time information we give club members of Action Alert PLUS, as well as in my Real Money columns and the columns of others.

We have been doing this type of analysis for more than 25 years. It has no fear or favor and I don't mind blasting the clay-footed idol that I see all around me.

Why?

I have pledged myself to help that little guy, the scholarship kid in the background, the scared, wondrous but impoverished worker, the one living in his car, the one with no savings, and I want to get that person food on the table the only way I know how: to help that kid win in the stock market. If you agree with me, I will give you my two favorite words: welcome aboard.





ABOUT JIM CRAMER

Jim Cramer is one of America's most recognized and respected investment pros and media personalities. In addition to managing his Action Alerts PLUS investing club and charitable-trust portfolio, Jim writes daily market commentary for TheStreet's RealMoney and produces daily video segments for TheStreet.com. He's also host of CNBC's "Mad Money with Jim Cramer" and co-host of CNBC's "Squawk on the Street."

Cramer graduated magna cum laude from Harvard College, where he was president of The Harvard Crimson. He worked as a journalist at the Tallahassee Democrat and the Los Angeles Herald Examiner, covering everything from sports to homicide before moving to New York to help start American Lawyer magazine. After a three-year stint, Cramer entered Harvard Law School and received his J.D. in 1984. Instead of practicing law, however, he joined Goldman Sachs, where he worked in sales and trading. In 1987, he left Goldman to start his own hedge fund. While he worked at his fund, Cramer helped start Smart Money for Dow Jones and then, in 1996, he founded TheStreet, Inc., a leading financial news and information company serving both individual and institutional investors. In 2000, Cramer retired from active money management to embrace media full time, including radio and television.

Cramer is the author of *Confessions of a Street Addict*, *You Got Screwed*, *Jim Cramer's Real Money*, *Jim Cramer's Mad Money*, *Jim Cramer's Stay Mad for Life*, *Jim Cramer's Getting Back to Even* and most recently, *Get Rich Carefully*. He has written for *Time* magazine and *New York* magazine and has been featured on CBS' 60 Minutes, NBC's Nightly News with Brian Williams, Meet the Press, Today, The Tonight Show, Late Night and MSNBC's Morning Joe.

Action Alerts PLUS

© 2021 225 Liberty Street, 27th Floor, New York, NY 10281

[Terms of Use](#)

[Privacy Policy](#)

[LEARN MORE ABOUT ACTION ALERTS PLUS](#)