



TheStreet®

Jim Cramer's

25

**RULES FOR
INVESTING**

Rule No. 1

Bulls Make Money, Bears Make Money, Pigs Get Slaughtered

So many times in my almost 40 years on Wall Street, I've seen moments where stocks went up so much that you were intoxicated with gains. It is precisely at that point of intoxication, though, that you need to remind yourself of an old Wall Street saying: "Bulls make money, bears make money, but pigs get slaughtered."

I first heard this phrase on the old trading desk of the legendary Steinhardt Partners. I would be having a big run in some stock (or the market entirely) and Michael Steinhardt would tell me that I had made a lot of money — perhaps too much money — and maybe I was being a pig. I had no idea what he was talking about. I was so grateful that unlike so many others, I had stayed in and caught some very big gains.

Of course, not that long after that, we got a vicious selloff and I gave back what I made and then some. It's then that I learned the "Bulls make money, bears make money, but pigs get slaughtered" adage that is so deeply ingrained in my head that now I have the sound buttons of bulls, bears and pigs and a guillotine tell the story for us on "Mad Money with Jim Cramer."

Just so you know, the same thesis applies to those who press their bets on the short side. We've had some major corrections of stocks over the years, but other than in 2000 and then again in 2007-2009, most stocks bounced back after their declines. If you stayed short you were a pig, too, and you got slaughtered.

So often when I bring this adage up, people ask me, "How do you know when you are being a pig?" I know there's not supposed to be any stupid questions out there, but the answer is, frankly, you don't need me to tell you.

If you weren't feeling piggish after we hit an all-time high on the Nasdaq in 2000 after a 3,000-point jaunt in almost no time flat, you needed a shrink, pronto. We all know how that ended (and how long it took to get back to that vaunted level). If you were walking around owning a huge amount of stock in 2008 as bank after bank failed, you, too, were a pig.

Remember, one of my chief goals is to stay in the game. The people who got wiped out by the Nasdaq crash tended to be people who never took anything off the table, who never felt greedy; they were slaughtered by their own piggishness. Same with those who never came back from the 2007-2009 charnel house.

But it was my desire not to be a pig that kept me in the game both at the time of the Nasdaq crash and the big downturn that bottomed in the spring of 2009. That's why I remind people every day, "Have you taken your profit? Have you booked anything? Or are you being a pig?"

Because you never know when things you own are going to crash. You never know when the market could be wiped out. You can't have certainty. At those times, you have only human nature to guide you.

Sure, there will be times when stocks just keep going and going and going. When I coined the term FANG a few years back for Facebook, Amazon, Netflix and Google (which became Alphabet), I loved them all. But I gave up on Amazon after an amazing run. It continued to move up another 50%. I felt like a pig after that extremely profitable run, and I felt like a fool when it kept on galloping.

It's just the price I have to pay for following my adage. I recognize for every huge pile of cash left on the table in an Amazon, there's the gigantic losses that could have occurred had I stayed in the casino in 2000 and in 2008 — the two experiences that destroyed not one but two generations of investors.

I think you could say that my desire not to be too greedy saved me so I could live to play again. So, never forget: “Bulls make money, bears make money, but pigs get slaughtered.” If you do, I will be sure to remind you — soon — with my sound board on “Mad Money.”

Rule No. 2

It's OK to Pay the Taxes

No one has ever liked to pay taxes. As long as there have been taxes, people have hated paying them. But the aversion to paying taxes on stock gains borders on the pathological. That's why my second bedrock tenet for my 25 Rules for Investing is, “It's OK to pay the taxes.”

So many times, people will have gigantic gains and they simply refuse to take any profits because they don't want to incur taxes that cut into their winnings. But Wall Street is littered with the broken hearts of people who feel like this.

A couple of years ago, for example, I went to a presentation from a prominent hedge-fund manager who recommended buying Macy's stock because of its real estate value. The stock had already run a great deal and was ripe for some profit-taking. But I know people who had owned it for years and had hefty profits and didn't want to take them because they would have to write a check to Uncle Sam.

Next thing you know, the stock of Macy's was cut in half — and it wasn't any 2-for-1 split. Rather, shopping malls had hit a tipping point courtesy of Amazon, and that was all she wrote. Those who didn't want to share the profit with Uncle Sam got no profit at all.

I had zero sympathy for the people who held on to the stock. I have long ago made my peace with the Tax Man. I know that some gains were and are simply unsustainable. Given, though, that so many people thought that if you bought and held, you always ended up with more than if you bought and sold, my discussion fell on deaf ears — an audience like Gollum, the character in *The Lord of the Rings* who says, “I'm not listening, I'm not listening.”

It's important to remember that gains — any gains — can be ephemeral. It is better to stop worrying about the Tax Man and take the gains when they appear unsustainable than to ride things back to a loss. Stop fearing the Tax Man; start fearing the Loss Man. You won't regret it.

Rule No. 3

Don't Buy All at Once

No broker likes to fool around with partial orders. No financial adviser has the time to buy stocks methodically over time. The game is to get the trade on, at one level, in a big way. Make the “statement buy.” Get the position on the sheets or in the portfolio.

But from where I sit, that's all wrong — 100% wrong. Never buy all at once. Never sell all at once, either. Instead, stage your buys. Work your orders. Try to get the best price over time.

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When I first started out as a professional trader, I wanted to prove to everyone how big I was and how right I would be. If I wanted to buy Caterpillar, then by golly I wanted to buy it now — big, at one price — because I was so sure of how right I was. “Put me up on 50,000 CAT!” I would scream, as if I were the smartest guy in the universe.

But what an arrogant son of a gun I was. Arrogant and wrong.

What should I have been doing? Following my rule that you don't buy all at once. If I wanted to get 50,000 CAT in, I would buy it in units of 5,000 over time, trying to get the best price. I would put some on to start and then hope to work my way down to get a better basis.

Now, I no longer trade institutionally, and I no longer trade “in size.” But I still invest for my Action Alerts PLUS charitable portfolio, and when I have a new name, I buy in 500-share increments over the course of a day to get my several-thousand-share position on. I do it that way to give me a terrific price.

Why don't more people do it my way? Why don't people who want 500 shares of ExxonMobil buy it in 100-share increments? I think it's because they want to be big, too. They don't want to waste their broker's time, and the broker wants to get the trade done. I know my brokers hated it when we would place orders from my old hedge-fund desk.

Nevertheless, it's just plain hubris to buy a big chunk of anything (relative to your net worth) all at once. Who knows if the stock will crater soon after?

You must resist feeling like you are making a “statement” with your purchase. I've bought and sold billions of shares of stock. Do you know how often I got in at the right price? Do you know how often the last price I paid was the lowest and it was off to the races? Probably one in 100, and I'm pretty good at this game.

Resist the arrogance, buy slowly, even buy over a couple of days as I do for my Action Alerts PLUS portfolio. It's humbling ... and it's right.

Rule No. 4 **Buy Damaged Stocks, Not Damaged Companies**

Let's say Wall Street was holding a sale on merchandise that it had to move. And let's say you took that merchandise home only to find it didn't work, had a hole in it or was missing a key part. If we were on Main Street, it wouldn't matter. There are guarantees and warranties galore on Main Street. You can take anything back.

But you can't return merchandise on Wall Street and get your money back. Nope, no way. Which is why I always say, “Buy damaged stocks, not damaged companies.”

Sometimes these buys are easy to discern. In 1998, when Cendant was defrauded by the management of CUC International through a series of bogus financials, the stock went from \$36 to \$12 in pretty much a straight line.

Was that a one-day sale that should be bought? No, that was a damaged company. It took years for Cendant to work its way back into investors' hearts. Some say it has never recovered.

If you have any doubt what damaged merchandise is, I urge you to buy a copy of my autobiography, “Confessions of a Street Addict.” The Cendant story is all there for those to see, including former New Jersey governor Chris Christie—who soon after the book came out had me testify against an officer of the company who was instrumental in the fraud. There was no merchandise worth owning in much of that company.

But sometimes the sales on Wall Street aren't as obvious. I got snookered in 2004 into thinking that Nortel's accounting problems were a simple selloff of a damaged stock, with the company actually quite whole. But in fact, the company was gravely damaged by accounting fraud and it looked doubtful that it would ever recover.

And sometimes the sale is so steep that it looks as if something's dreadfully wrong, but the problem is really something that will go away over the longer term.

The same thing happened with some of the oils that my charitable trust owned in 2016. I figured there was no way a stock like Marathon Oil could be cut in half without bouncing back — but I was wrong. It got cut almost in half again and has barely recovered because in the end, it was just a mirror of a commodity that hasn't been able to recover.

How do we know if there's something wrong with the company instead of just the stock? I think that's too complicated a question.

What I like to do is develop a list of stocks I like very much. I call this the “bullpen” at my Action Alerts PLUS club for investors, and when Wall Street holds an en masse sale on a bullpen stock, I like to step up to the plate and buy.

I particularly like to be ready when we have multiple selloffs in the stock market because of events unrelated to the names that I want to buy. I like a major shortfall of an important bellwether stock, or perhaps some macro-event that doesn't affect my micro-driven story.

Of course, sometimes you just have to deduce that a company's fortunes haven't really changed and that the fundamentals that triggered a selloff (either in the market or the company) will reverse shortly. But you never know — which, again, is why I think you must obey Rule No. 3: “Don't Buy All at Once.” If you don't buy all the stock at once but instead take your time, it's more likely that you won't be left holding a huge chunk of merchandise when more bad news comes around the corner.

Rule No. 5

Diversify to Control Risk

If you control the downside, the upside will take care of itself. I have always believed that to be the case, but controlling the downside means managing the risk.

The biggest risk out there is sector risk. I don't care how great a tech stock was in 2000 (even an eBay or a Yahoo!) if you had all of your eggs in that sector, you got scrambled. Same with the financials in 2008 or oil from 2014 to 2016.

What can keep you from getting nailed by sector risk, which is about 50% of the entire risk of owning a stock? Answer: Diversification.

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That's the only investment concept that truly works for everyone. If you can mix enough different sectors into your portfolio, you can't be hit by one of the myriad perfect storms that come our way far more often than you would think.

Why aren't more people diversified? Well, many amateurs don't know the stocks they buy. They end up with stocks that are frighteningly similar. When I started playing "Am I Diversified?" on my radio show in 2001, I was blown away by how few people knew just how undiversified they really were.

I still field quite a few calls from people who genuinely think that owning the FANG stocks is a diversified strategy. Hardly. You own variations of the same thing — social, mobile and the cloud — and they move together. That's faux diversification.

No matter how much I may like oil stocks at any given moment, I can't countenance a portfolio made up of ExxonMobil, Chesapeake Energy and Halliburton. I will always say no to a portfolio of Johnson & Johnson, Eli Lilly, Allergan and United Health, even if I like all four. They just leave you exposed to health-care sector risk that could overwhelm any of these stocks.

Having an undiversified portfolio is not just an amateur mistake, though. Many professionals don't like to be diversified because of the bizarre way money is run in this country.

If you concentrate all your bets in one sector and the sector takes off, you will beat pretty much every diversified fund out there. That's the nature of the beast. You then can market yourself as a huge success and get profiled by every magazine and take in capital from unsuspecting folk who don't know how much risk you're truly taking on.

But such amateurs and professionals are both wrong. Controlling risk is the key to long-term rewards, and controlling risk means being diversified at all times.

Rule No. 6 **Do Your Stock Homework**

My kids always hated to do homework. They thought it was punishment. Sometimes when I looked at what they were studying, I had to admit that I found it easy to sympathize with them. What was the relevance of most of the things they studied? How would it help them in later life? Why bother?

Of course, that's a terrible attitude, and as a parent, I encouraged them to study because I wanted them to do well (and because you never knew what they'd eventually be interested in).

I think many of you believe that the homework you do on stocks might be just as irrelevant to your own portfolios as this schoolwork seemed to my kids.

When I tell people that they have to listen to the Starbucks conference call or know what the analysts are looking for from Netflix, they don't want to hear it. They can't understand what a scold I am.

When I remind people that doing the homework means listening to the conference calls and reading research reports, they want no part of it. They look at me as if I'm some sort of old-fashioned teacher who's asking for way too much in this busy world in which we live. That's just plain wrong.

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Where does the desire to own stocks with no research into the companies come from? It comes from two different views:

- If I buy a stock and hold it long enough, it will come back.
- I don't have the time — no one has the time — to be that diligent.

The latter point is easy to counter. You don't have the time? Give it to someone else. You don't understand how to read a balance sheet? Give it to someone else. There are lots of good managers out there who'll beat you simply because they're at it every day and you can't be.

But it's the first concept that I find really needs debunking. Buy-and-hold strategies became the be-all and end-all for many people in the 1990s. As in, "You know what? I'm just going to hold on to that CMGI because it has to go back to \$100 where I bought it." Or, "Why sell Infospace now even though it's down 40%, because it will be the first trillion-dollar stock." Yep, if you hold things for the long term, the texts say that everything works out.

Huh? What text says that? I don't know of it. That's just a fictional contortion of what the texts say.

That's why I say that before you buy any stock, please, please, do your homework. Listen to the conference calls. Go to the company's website. Read the research. Read the news stories.

Everything's available on the web. Everything. You have so much more available now—so much more knowledge — that there's no excuse. You aren't up there begging at the Goldman Sachs library for some microfiche statement from three months ago. You have it in the here and now. Use it!

If you fall back on a buy-and-hold strategy for any group of stocks and don't pay attention, I can assure you that you'll be soundly beaten by professional managers with good track records who are actively searching for good stocks all of the time. I'm quite certain that any index fund can beat you, but that's just not a strategy for wealth-building. Remember, it's "buy and homework," not "buy and hold."

Rule No. 7 **No One Made a Dime by Panicking**

You see it over and over again. A stock gets hammered, people flee and the market gets crushed on a huge down day. People leave at the end of the day and a whole sector gets annihilated — quickly. People can't take the pain, so they bolt after the annihilation.

Panic is the operating instinct in all of these cases. There's something basic and instinctive about panic, about the desire to flee. It might work when it comes to individuals and things that might threaten us physically, but it can't make you a dime investing.

That's why I say, "No one ever made a dime panicking." There will always be a better time to leave the table than the one brought on by panic.

And don't I know it. Back in 2010, I was on air for the "Flash Crash," when the Dow Jones Industrial Average fell 900 points in less than a half-hour.

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I watched my TV monitor for the “ticker” (that crawl that’s underneath the picture on CNBC) and I couldn’t believe what was happening. People were dumping stock simply because everyone else was dumping stock. That’s what a panic looks like. It’s textbook.

I urged people to pick a stock they loved and buy it using limit orders so they wouldn’t have to accept a price they didn’t like. The result? I’m still getting thanked for what happened that day. But all that really happened was that I realized that no one ever made a dime by panicking. And I chose to help people profit from it.

I did the same back in 2016 when the Dow had a two-day, 1,000-point selloff. I told people to buy down on limits, and we did so for ActionAlertsPLUS.com, too. We got outstanding buys simply because we used the panic to our advantage.

I want you to do something for me next time there’s a panic on Wall Street. I want you to take the opposite side of the trade.

When you see one of those high-speed routs of a sector or a stock, buy a little. Get a feel for it. See what I mean. The most rewarding trades you can make are those where the decks have been cleared out by panicky folks using market orders who just don’t get that the exit doors aren’t as big as they think they are.

Mind you, I’m not saying that all merchandise that gets “panicked out of” is worth buying for the long term. I’m just saying that it’s rare that a stock or market that gets socked doesn’t have some sort of future bounce that lets you to get out at a better price than you will if you join the fleeing masses.

Rule No. 8 **Buy Best-of-Breed Companies**

In cars, we buy best of breed. Not even an issue. We pay up because we know that a good brand signifies reliability. It signifies a higher level of service or a quality of ownership that can pay dividends for years.

Why don’t so many of us feel that way about the stock market? Why are so many drawn to penny stocks that are constantly being talked about on Twitter (or the stock of Twitter itself, and its doppelganger Snapchat) when they could buy Facebook?

I think it’s because people can’t resist what they perceive as a bargain. But unless they’re caused by sudden unrelated selloffs, most bargains in the market often lead not to gains but to losses. That’s why you’ll always hear me say on “Mad Money’s” Lightning Round that if you like Stock X, you’ll really like Johnson & Johnson because that’s a best-of-breed company. Sure, Stock X might give you some momentary pyrotechnics, but I’m talking about buying stocks with great balance sheets and long histories of dividend boosts, strong pipelines and principles. That — not penny stocks or bargains — is the best way to accumulate long-term wealth.

Remember, there are very few bargains out there in the world of secondary and tertiary players. I believe that when it comes to price-to-earnings multiples, investing in the more-expensive stock is invariably worth it because you get peace of mind.

That’s why I say, “Own the best of breed. It’s worth it and you’ll almost never regret it.”

Rule No. 9

Defend Some Stocks, Not All

When the markets are hard and unrelentingly negative, it's important to remember an adage that's well-suited for a battlefield plan but is just as valuable for a portfolio plan, "He who defends everything defends nothing."

When the market's flying and many stocks are in a bullish mode, it really doesn't matter how much you have on or how many positions you have. The more exposure, the better.

But when things get tougher, you have to recognize that many stocks that you bought for better times might not be in good enough shape to rally. You can't own everything you'd like to own.

If you try to defend them all in a nastier time than when you bought them, you'll simply run out of capital or go on margin near the bottom. And then you'll be margined out — sold out by the margin clerk when the stock market has finally found its footing. You'll lose your reserve and not be ready if the market doesn't turn in your direction.

That's why I rank all of my stocks at all times for my Action Alerts PLUS charitable portfolio. I need to know which stocks I'll defend when things get tough and which I'll cut loose and use as sources of capital.

If you think that, say, the techs are going to start rallying, it's extremely important that you don't just keep the whole complex. Pick the best stocks — the ones you know you'll want to buy if they go lower — and toss out the rest. Let those new-found cash reserves buy you the stocks of better companies in the sector than you had before, at better prices.

The non-essentials — the ones that have no catalysts and that you're using just for exposure because you thought you liked the market — should get the heave-ho immediately.

Karen Cramer, who worked with me for years at my old hedge fund, used to call this "circling the wagons" around your best names. The first few times you do it, you'll curse yourself because you'll be slaughtering stocks you might have had on for some time.

But you must go through this process a multitude of times before you realize how right it is and it becomes second nature. You'll end up with a great cost basis on the stocks you really like and you'll have enough capital left to make a difference.

Rule No. 10

Bad Buys Won't Become Takeovers

Nothing's more exciting than a takeover — and nothing's as lucrative. You can put on a lifetime's worth of moves in a day from a takeover. So, people go to great lengths to try to get in on them, including buying a lot of bad companies in the hope of catching one takeover target.

But it's a funny thing about bad companies — they rarely get takeover bids. The companies that get bids are usually great companies with cheap stocks, not crummy companies with expensive stocks. Yet that's what people buy all of the time.

Here's my rule: Never speculate on companies with bad fundamentals. The odds are that you'll end up owning something that could go down much more than you thought but that has very limited upside.

You can make much more money buying a company that's doing well and can still get a bid than you can buying a company that's doing poorly and is unlikely to get a bid. It makes sense — not a lot of bad companies get bids because not a lot of managers can turn bad companies into good ones. If you had moved on, you could have bought high-quality companies that moved up over time and could have done much better.

When you're scouting for companies with good fundamentals and likely takeover bids, remember that unlike companies with bad fundamentals that you might speculate on, you don't need to cut and run if these good stocks go down. If they don't get a bid, you can still buy more and find other ways to win. That's not something you can do with a company that's gone from bad to worse while you were waiting irrationally for lightning to strike.

Rule No. 11

Don't Own Too Many Stocks

In my years as a hedge-fund manager, I spent three hours every day analyzing the mistakes of the day before.

That was my major task, one that I completed before anyone else came into the office, generally between 4 a.m. and 7 a.m. I would analyze every losing trade (you don't need to analyze the winners, they take care of themselves) and try to figure out how I could have made more money or lost less. I was maniacal about it.

After a couple of years of this, I realized that good performance could be directly linked to having fewer positions. So now I never buy a stock without first taking a different one off. That's a great discipline—and one you should adopt, pronto.

All of the bad money managers I know have hundreds of positions, and all of the good ones have a few stocks that they know inside and out and would still like on the way down. That's why I say, "Don't own too many stocks."

I know this can be constraining. You'll end up selling some stocks that are good and buying other stocks that aren't as good. But take it from someone who's owned stocks for 39 years — it's far more likely that you'll be selling marginal companies and getting bigger in better ones. That's how to make a portfolio really work for you.

When I lost the most money as a hedge-fund manager, my "sheets" (position sheets) were as thick as a brick. When I made the most money, my sheets were, well, one sheet of paper, double-spaced. And I ran hundreds of millions of dollars.

So, please remember that whether you're a pro or an amateur, you can always have too many positions.

Rule No. 12

Cash is for Winners

The aversion to cash in this business breaks my heart. Sometimes cash is such a perfect investment that it drives me crazy how few people ever recommend it. They hate the market, so they're only 95% long instead of 100% long. Or, they think the market stinks so they decide to short a few high-fliers against their longs. No, no, no!

You don't like any sectors? Then sell stock and raise cash. Don't buy puts on your stocks or find other stocks to short against your current positions.

I'm telling you that the odds don't favor your winning on both your shorts and your longs. But if you can raise some cash and put it to work lower later on, that's the best way to protect yourself.

I was one of Wall Street's biggest options traders for a time and I can tell you that when I bought puts to hedge my positions, I almost always lost money. When did I make money? When I bought puts to profit from companies with shortfalls, or companies that I deemed severely overvalued vs. their fundamentals.

So many people never want to get out and go to cash, which is literally just a position made up of short-term Treasuries of the less-than-a-year variety. People start talking about how little cash earns — although it sure earned more than a year ago.

Or they say, "I can't be in cash, that's for losers." But I say, "Cash is for winners if you think there's a major disaster ahead."

I grew up in a different time. I only shorted when I had an edge. I can't short at all right now by contract, but back when I could, I didn't short just for the sake of having some shorts on against longs. I don't care about not having enough exposure. I care about losing money!

If I were you and I didn't like the market or didn't have anything that compelling to buy (as defined by a willingness to buy it down if the stock keeps going lower), I would raise that cash. Go to the sidelines. It's never wrong when you don't like the tape or when you can't find anything that truly makes sense for you.

Rule No. 13

No Woulda, Shoulda, Couldas

Your head matters in this game. You need to have it on right every day if you are going to see opportunities and act on them. Yet so many of us have heads clouded with thoughts that genuinely throw us off target and make us do the wrong thing.

The most damaging recurring thought you can have is this, "If only I ____." You can fill in the rest, as in, "If only I had acted sooner on Electronic Arts." Or, "I should have pulled the trigger on Nvidia ahead of that quarter." Or, "I could have made a fortune if I had stayed short that Chesapeake Energy."

Don't get hung up on the woulda, shoulda, couldas — they're wasted, damaging emotions. They're destructive to the positive psychology you need when you are making investment decisions. For a long time, I took it to an extreme. I would sit and be mesmerized by a couple of big misses, by things that I got wrong. I would be obsessed, hitting up the big miss over and over again. Not any more. With the benefit of hard-fought wisdom,

I was able to see just how destructive such a pattern of thinking is.

In fact, I have had to build in methods of tricking my mind into not playing this game, chiefly removing the stock from my desktop and my mobile stock lists. Just clear it out. If you like it so much after you sold it go buy it back for heaven's sake. But don't tell me what you could have done or should have done. You didn't. Move on.

If you're like me and you need help curbing this kind of destructive thinking, go to that extreme. Take the stocks off your monitor or your portfolio watch. You will be surprised how much better you perform when you stop the woulda, shoulda, couldas.

Rule No. 14

Expect, Don't Fear Corrections

You'd think that after the dozens of corrections we've had in the last 20 years we would get used to the process. You would think that we would say, "Let's prepare for the correction because it has to be right around the corner." Yet most people I know act as if corrections are total shockers, the type of thing that never happens.

To me, corrections are like the rain. I expect it has to rain, and I prepare for it. When it comes, I am ready. I have an umbrella and a coat or I stay indoors. Expect corrections; don't be afraid of them.

Of course, corrections happen at allegedly unexpected times. The last few we had were preceded by terrific days during which we made lots of money and all systems seemed go.

That's when I worry most. I used to have a rule at my hedge fund: When I made 2% in a day on the upside I knew I was too exposed, I knew I was too long. I knew that my portfolio would kill me if we caught a storm. So as the market lifted or if my performance was swinging too much to the upside, I would pull back — sometimes furiously — into strength so I would be ready for that big down day.

Sometimes it never occurred and I had to swallow my pride days later and come back in. But when it did occur, I outperformed by so much that my partners thought I was a genius. Plus, I was ready to buy things with the cash I had taken off the table.

You may not know when a storm might strike. But we do have barometric readings that help immensely. When my paid subscription for Standard & Poor's proprietary oscillator CEOs +5, that signals to me a level of overbought that I regard as dangerous and I pull back aggressively and wait for a correction.

That might mean that if I owned a portfolio of Intel, PNC Financial, Electronic Arts and Procter & Gamble, I might be selling up to half of those positions no matter what in order to be ready for the storm. Oh and keep in mind, when that oscillator reaches -5, it's time to cover your shorts or re-apply your cash, as that typically means that we're near the end of a sell-off.

If the rough weather doesn't come, I underperform on the upside. But think of this: I compounded at 24% after all fees for my hedge-fund career — or about twice what the market did during a long stretch in which it was pretty darned good. The only empirical conclusion: My method of avoiding the big down days more than made up for having less exposure on the big ramp-ups.

Rule No. 15

Don't Forget About Bonds

"Where are the bonds?" That's how I used to begin every phone conversation when I was on the road and away from my desk back when I ran my hedge fund.

Yet people forget the bond market all the time. They forgot it in 2000, even though it told them the economy was softening. They forgot it in 2001 when it was clear that the cash rates were too competitive to stocks and would cause a massive selloff.

They forgot it when the Federal Reserve raised rates 17 times in lockstep fashion in the middle of the previous decade, precipitating the worst downturn since the Great Depression. And there have been countless tape tantrums in the last decade where some Fed official would strike a hawkish note and everyone freaked out that rates were headed much higher.

That's why I say, "Don't forget bonds." Always keep those bond prices and interest rates in front of you.

I was trained to focus on bonds because bonds are the competition to stocks, the competition I most fear. When short-term rates go sky-high, you have to expect companies that had been bought for good yields (stocks like American Electric Power or Ventas) will sell off.

When long-term rates rise, you have to be wary that all stocks might be worth more than they have been, especially if rates are going higher because of a rise in inflation. We've long had the ideal environment for stocks — low inflation and low rates — but I fear that's lulled us into not being careful (or careful enough) if we get a big spike in rates.

So, you need to watch more than the stocks. If this were basketball, I would be saying that if you just watched the man with the ball (let's call him "Citigroup") and didn't watch the defense — the bonds — there's no way you'd get to the basket. The players without the ball — the bond market — can actually determine the action.

But many people who got into investing in the last decade don't even know what bonds are. These people are troubled when you say, "Bonds went up today." They think that means interest rates are going up, rather than what it really means, which is that interest rates are going down. If you don't understand how bonds work, I think you won't be able to make nearly as much money as if you do.

So keep your eye on the ball — and on the bond men without it.

Rule No. 16

Never Subsidize Losers With Winners

Professionals and amateurs alike hate selling their dogs. They keep hoping, keep assuming, that a sinking stock is wrong in its direction.

They rationalize that the weakness or lack of interest they see is and will be fleeting and that people soon will recognize the value that the holder sees in the stock. That's all well and good until you need money.

Most fund managers have fabulous marketing teams that are able to hype their funds regardless of performance. Despite that (and despite the shameless way this industry supports just about anyone who runs money if the money-runner is willing to kick back to the sources of funds), managers do get cash calls. They periodically have to redeem shares they own for cash to send back to unlucky investors.

When they do, that tendency to keep the dogs develops a sinister side. Good stocks get sold to subsidize the losers. You then get a self-fulfilling spiral as the bad stocks stay bad. They usually keep going down, and the fund keeps sinking without the good stocks.

These fund managers have never learned my rule, "Never subsidize losers with winners."

Individuals do the same thing. They have only a finite amount of capital to invest, but rather than take their medicine (a loss), they hold on to the losers and sell their winners.

My advice to anyone who is stuck in this position is quite simple: Sell the losers and wait a day. If you really want these stocks, go buy them back the next day. I'm certain that you never will.

Rule No. 17

Check Hope at the Door

When I hear the word "hope" — as in, "I hope that Doomed Stock du Jour will come back to where I bought it so I can sell it at breakeven" — I get furious.

Always remember: Hope is not part of the equation. Don't "hope" for anything. Hope is emotion, pure and simple, but this is not a game of emotion (other than to take the other side of the desperate).

Yet I hear "hope" more than any other word, particularly with troubled tech stocks. Those stocks are filled with hopeful people betting that something good eventually will happen that will drive their stocks higher.

Now, hoping and praying are excellent things in religion, and they're integral to sports. You know that the coaches of some of these come-from-behind NCAA men's basketball teams keep players motivated through hope.

But hope is a mistaken emotion in our business. It supplants reason and it supplants rigor — especially when it comes to low-dollar-amount stocks.

No company ever set out to have a low-dollar-amount stock. The companies fight like heck not to have them. When they have them, it's a judgment rendered by the market that's harsh, difficult to accept — but ultimately far more right than wrong.

When you suffuse your thinking with hope, you end up holding on for something that most likely will never occur. Cut your losses and move on.

Remember, we don't care where a stock has been, we care where it is going — and it's most likely headed down if you're reduced to hoping.

Rule No. 18

Be Flexible

The most important rule of all is, "Be flexible."

You should be flexible because business by nature is dynamic, not static. Things change. Markets change. Competitors start new price wars to win market share. Companies execute poorly. Customers cancel orders. Events happen that make buying decisions more difficult or postpone them.

Of course, our buy-and-hold brainwashing totally precludes many of us from ever thinking like this. We've made up our minds that things are great for Coca-Cola or General Mills or Kellogg, and we don't want the facts to get in the way of the story even as times and tastes do change.

Our love for stocks is so misplaced in this rough-and-tumble world of business. You must be willing to recognize that companies do take turns for the worse. Managements make mistake. There are bad strategic and tactical errors being committed by managers every day. You just have to own up to recognizing them, stop hoping and start selling.

I mention this because in my career, the unwillingness to recognize a turn for the worse almost always led to much larger losses than I had already had accrued in a stock. This is what happens if you're inflexible — if you believe too much and don't shift when it's clear that management doesn't care.

Stay flexible and recognize the vicissitudes of the market and of individual businesses. Or own bonds. Your call, as always.

Rule No. 19

When the Chiefs Retreat, So Should You

One of my favorite rules is that when you see unexplained resignations by executives, you should presume something is wrong and do some selling.

I've sold stocks simply because the CEO or CFO resigned. And if I had to, I would buy the shares back once I was convinced that there was nothing wrong.

But in my whole investing career, the only time I can recall a CEO leaving for an undisclosed personal reason where you would have still made money in the stock involved Visa. I've wracked my brain to come up with other examples and simply can't think of them. That's because CEOs don't quit for personal reasons. They'd lose their bonuses if they did. CFOs don't quit for personal reasons, either.

After all, these are fabulous jobs. You get them after giving up much of what people enjoy about life, such as family, friends and nights out. Competition is so fierce for these positions that when you finally land one, you don't up and leave. You leave because something's wrong at the company.

Hence, my rule, "When high-level people quit a company, something is wrong."

"Aha!" you say, "I know a CEO who quit because he had an epiphany about climbing K2." Or, "I know a CFO who left because she wanted to spend more time with her family."

Fine. There are exceptions, but this is a game about rules. There's always some situation in which it's a mistake to sell when a high-level person leaves, but I don't care. As you can tell if you've read these rules to this point, I'm giving you the stuff that has kept me in the game for years — that has literally kept me from losing more money than I've made.

Rule No. 20

Giving Up on Value is a Sin

Patience is a virtue, but giving up on value is a sin. I see so many people throwing in the towel on companies that have real assets and real worth just because an investment thesis isn't working yet, and it angers me.

I recall an interview I did not that long ago with Apple's Tim Cook when his stock had fallen from \$136 to \$93. People were giving up on him and Apple left and right.

I looked at the stock, which was selling at an incredibly low price-to-earnings multiple. I looked at the consumer loyalty, the service-revenue stream and the cash position and I said, "What's the point of selling the stock of a company that makes the greatest products of all time?" It turned out to be a fabulous call, because the negativity created a tremendously profitable price to buy.

It takes patience to let value play out. Most people don't have it, and if you don't, then frankly I think you should let someone who does have patience run your money. You don't deserve to. That's what index funds are for.

Rule No. 21

Be a TV Critic

Lots of times executives say whatever they want on air, knowing that they can get away with it. Lots of times, fund managers come on air and tout their holdings without even giving a care about whether they'll be in a position short- or long-term.

I accept this as a given. I accept that what I hear on television is probably right, but no more than that. That's the world in which we live.

That's the reason I follow this tenet, "Just because someone says it on TV doesn't make it so."

I think you're naive if you simply believe what you hear. The vetting process to get on television simply isn't all that rigorous, and the desire to self-promote is very strong for most managers.

When someone comes on and says that some plunging stock is a buy, do you think: "Hmm, that sounds like an opportunity." Or do you think, "He's really stuck in that pig?"

If you answered "yes" to the former, you need to be more skeptical. If you asked the second question, let's just say your thinking is ready for prime time.

Rule No. 22

Wait 30 Days After Warnings

Few rules have saved me more than the 30-day pre-announcement rule.

When a company pre-announces a shortfall, don't think that it will come back any time soon. Now, there can be isolated cases here and there when you can actually say, "You know what, I'll buy a stock after this announced shortfall because all of the information is in."

But I've found the opposite to usually be the case — there's a lot more bad news ahead. That's why I want you to wait at least 30 days after one of these kinds of announcements before doing any buying. I know it seems arbitrary, but my work shows that that's when you have the best hope that investors have already priced the bad news into a stock.

Here's why I think my rule works. When a company pre-announces a bad quarter, it isn't just looking at the past, it's also looking at its future (i.e., its order book).

Believe me, if there were any hope that the company wouldn't have to preannounce — hope in the form that maybe something could get better rather than worse in the next 30 days — the company would wait.

But pre-announcements signal ongoing weakness. That's why I like to wait 30 days to see if anything has gotten better before I pull the trigger and buy.

Sure, I'll miss some great opportunities. But most of the time, I've watched a lot of woe and another leg down for a stock after 30 days. I might miss a point or even two if that doesn't happen, but I'll be on terra firma. That's the only thing you want to be stepping on in any market, including this one.

Rule No. 23

Beware the Wall Street Hype

Amateurs and professionals alike simply don't have enough respect for the Wall Street promotion machine.

But I, on the other hand, recognize that when Wall Street falls in love with a stock, it will go far further than anyone thinks.

Few stocks were as heavily promoted in the last decade as Valeant. This drug company soared to the \$200s on acquisition after acquisition as analysts routinely raised numbers. Why? Because management would slash costs and raise prices.

But when the political environment changed, analysts turned on the stock and Valeant's numbers fell apart. It turns out that the only reason the stock was in the \$200s to begin with (considering the endless pyramiding of new companies on old) was because the analyst-promotion machine was so powerful.

So, beware of unanimity on weak merchandise. It's probably a sign that something's going to get weaker — and that the stock is going to go lower than it already is.

Rule No. 24

Explain Your Picks

One of the worst things that ever happened to stock-picking was the Internet, because it took away one of the most important brakes on the process — one of the most important warning systems — which is talking to someone about a buy.

Now you can buy the stock of an Integrated Devices or an Albemarle, with a stroke of a key, without ever having to explain to another human being why you're doing so.

This is why you should always be able to explain your stock picks to someone else — anyone else — even if you don't have a broker's ear.

Buying stocks is a solitary event — too solitary. As I love to say, we all are prone to making mistakes, sometimes big ones. One way to cut down on these mistakes is to force yourself to articulate to someone else why you like a stock like Fitbit or GoPro. Do you know how they make their money? Do you know how their earnings are supposed to be?

I really see this problem in biotech. So many people own biotech stocks without any understanding what a company does or how it could possibly make money. I urge you to be able to articulate a thesis to someone — anyone — for owning a stock, so you know if the price goes down whether you should cut and run or buy some more. Without understanding what you own, trust me when I say that you'll be slaughtered on the next decline.

When I was at my hedge fund, I always made every portfolio manager “sell” me the stock — literally sell it to me like a salesperson — before I would buy it. If you're in a position of picking stocks yourself, get someone to listen to you as you articulate your reasoning.

I also like to ask people, “What's going to make this dog go up. What's the catalyst?” Or, “Have we already missed the move in this overvalued stock, which is up 100% this year?” And, “What's your edge?”

These are among the questions that I always ask — and if you can't properly answer them, then you shouldn't be buying. And yes, that's exactly how I ask these questions.

Rule No. 25

There's Always a Bull Market

I like to end every one of my TV shows with this signoff, “There is always a bull market somewhere, and I will try to find it for you.” I say that because it's true.

Something is always working. Maybe it's gold, so you buy best-of-breed Randgold Resources or the SPDR Gold Shares ETF. Maybe it's oil, so you buy some Schlumberger or Chevron. Maybe it's the chemical complex, so you pick up some DowDupont. I've seen moments where the only stocks in bull mode were in your supermarket or your medicine chest, stocks like PepsiCo or Merck.

Now, I know that might mean you have to do some trading. It might mean that you have to look further and harder than your time and your inclination allow. That's OK, too. What matters is that you don't simply default to what's in bear mode because you're time-constrained or intellectually lazy.

Jim Cramer's **25** RULES FOR INVESTING

This isn't just a criticism of do-it-yourselfers. Many professionals stuck with the leg irons of the wrong tech stocks long after they should have. If they looked around, they might have spotted a rotation into other stocks they could have lived with. They might have been able to come up with a stock that fit the thesis of what was going on behind the scenes — a Lockheed Martin for a defense pick-up, an XPO Logistics for the last mile of the service, an Idexx Labs for the humanization of pets. Just remember: There's always a bull market somewhere.

I'll always end my shows with this tag line because it's vital for me to get you to think more opportunistically than the average investor does.

Oh, and by the way, it has the added advantage of being true. In my almost 40 years in the business, there has always been a sector that works. You just have to find it. I know it, and I'm honored if you will let me help you.



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.

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