OUR TEN INVESTMENT PRINCIPLES

I. *Focus on having a great defense.*
We believe protecting capital is the most critical part of investing. Losses work geometrically against you. Risk management is key. Sam Zell once said "the definition of a great investor is someone who starts by understanding the downside."

II. *Define your risk by never taking big losses.*
The biggest mistake we see investors make is letting their losses run out of control as they start to rationalize their mistake. It goes against human nature to easily admit mistakes, but when it comes to investing - it is just the cost of doing business. We never enter into a position without having a predetermined exit point if the market proves us wrong.

III. *Cut losses short and let winners run.*
This is, without a doubt, the most counterintuitive part of investing. The novice investor will sell their winners too soon and hang on to their losers way too long. As Peter Lynch said, "this is like pulling out the flowers and watering the weeds." *

IV. *Never add to a losing position.*
Adding to a losing position can be very tempting as the old saying goes "we aren't wrong we are just early." But this strategy usually leads to an inflated ego and the inability to think objectively about risk. This is also referred to as "throwing good money after bad."

V. *Always invest with the prevailing trends.*
Although it can be done, it is extremely difficult to invest against the trend as market trends can be just as powerful as the tides in the ocean. The trend is your friend. Don't fight it.

VI. *Don't try to pick tops and bottoms.*
Trying to pick tops and bottoms is a fool's errand. It's next to impossible to get out at the absolute top or get back in at the bottom. We wait for the overall trend to weaken before we start to scale out and, conversely, wait to see strength return and the overall trend begin to change before buying back in. If anyone happens to pick the absolute top or bottom of the market, look out, because their luck typically only goes one way from there.

VII. *Let the market confirm your opinion before taking action.*
We analyze a tremendous amount of research on the stocks we own, but at the end of the day this research just amounts to an opinion. If the market does not agree, our opinion doesn't mean anything. Price action is what dictates success or failure in the stock market, not opinion.

VIII. *Never get emotionally tied to a stock.*
The world is dynamic and companies can go in and out of favor like produce at the supermarket. There is absolutely no guarantee the leading companies of today will be the leading companies of tomorrow.

IX. *Never buy a stock just because it's had a big decline.*
This is called bottom fishing which in turn can lead to the proverbial "catching a falling knife." It might work sometimes but as Mark Miniverini once said, "In stud poker and on Wall Street, miracles happen just often enough to keep the losers losing." **

X. *Know when to do nothing.*
This may seem contradictory to some of our other principles but it's not. Forcing money to work when the opportunity just isn't there is a sure fire way to destroy capital. Sometimes inaction is the best action. As the old saying goes … "Patience is the rarest commodity on Wall Street."

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Providing Sound Guidance in an Uncertain World

Sources:
*https://www.goodreads.com/author/quotes/18237.Peter_Lynch
**Minervini,Mark (2013) Trade like a stock market wizard, Mcgraw Hill Education

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