Success Rules

1. If you begin with a prayer, you can think more clearly and make fewer mistakes.

2. Outperforming the market is a difficult task. The challenge is not simply making better investment decisions than the average investor. The real challenge is making investment decisions that are better than those of the professionals who manage the big institutions.

3. Invest—don't trade or speculate. The stock market is not a casino, but if you move in or out of stocks every time they move a point or two, the market will be your casino. And you may lose eventually—or frequently.

4. Buy value, not market trends or the economic outlook. Ultimately, it is the individual stocks that determine the market, not vice-versa. Individual stocks can rise in a bear market and fall in a bull market. So buy individual stocks, not the market trend or economic outlook.

5. When buying stocks, search for bargains among quality stocks. Determining quality in a stock is like reviewing a restaurant. You don't expect it to be 100% perfect, but before it gets three or four stars you want it to be superior.

6. Buy low. So simple in concept. So difficult in execution. When prices are high, a lot of investors are buying a lot of stocks. Prices are low when demand is low. Investors have pulled back, people are discouraged and pessimistic. But, if you buy the same securities everyone else is buying, you will have the same results as every one else. By definition, you can't outperform the market.

7. There's no free lunch. Never invest on sentiment. Never invest solely on a tip. You would be surprised how many investors do exactly this. Unfortunately there is something compelling about a tip. Its very nature suggests inside information, a way to turn a fast profit.

8. Do your homework or hire wise experts to help you. People will tell you: Investigate before you invest. Listen to them. Study companies to learn what makes them successful.

9. Diversify—by company, by industry. In stocks and bonds, there is safety in numbers. No matter how careful you are, you can neither predict nor control the future. So you must diversify.

10. Invest for maximum total real return. This means the return after taxes and inflation. This is the only rational objective for most long-term investors.

11. Learn from your mistakes. The only way to avoid mistakes is not to invest—which is the biggest mistake of all. So forgive yourself for your errors and certainly do not try to recoup your losses by taking bigger risks. Instead, turn each mistake into a learning experience.

12. Aggressively monitor your investments. Remember, no investment is forever. Expect and react to change. And there are no stocks that you can buy and forget. Being relaxed doesn't mean being complacent.

13. An investor who has all the answers doesn't even understand all the questions. A cocksure approach to investing will lead, probably sooner than later, to disappointment if not outright disaster. The wise investor recognizes that success is a process of continually seeking answers to new questions.

14. Remain flexible and open-minded about types of investment. There are times to buy blue-chip stocks, cyclical stocks, convertible bonds, and there are times to sit on cash. The fact is there is no one kind of investment that is always best.

15. Don't panic. Sometimes you won't have sold when everyone else is buying, and you will be caught in a market crash. Don't rush to sell the next day. Instead, study your portfolio. If you can't find more attractive stocks, hold on to what you have.

16. Don't be fearful or negative too often. There will, of course, be corrections, perhaps even crashes. But over time our studies indicate, stocks do go up…and up…and up. In this century or the next, it's still "Buy low, sell high."

Sir John Templeton