

Tools for successful long term investing

If you've been a subscriber to NymbleInvestor.com for very long, you've probably read one of our rants concerning what it takes to be a successful long term holder of stocks. Contrary to the popular wisdom, being a successful long term investor has nothing to do with how long you hold a stock. The biggest misconception of new investors is that time will cure all ills. That is simply not the case. Time spent in a flawed company loses you money when the company goes bankrupt or is overrun by competitors – or when your money could be doing better in another investment.

Contrary to popular wisdom, being a successful long term investor has nothing to do with how long you hold a stock.

The biggest challenge of being a *successful* long term investor is knowing when to sell. Since time will not cure all ills a company might have, you need to have some sort of way to determine when it's time to take profits or cut your losses. That

time is when the story of the company changes sufficiently that the reason you bought stock in the company no longer exists.

The problem is that a funny thing happens to 97% of investors between the time you buy a long term position and when things turn for the worst: you get attached to the company. You're comfortable with it because you know it so well. You're willing to make allowances and excuses for its mistakes. You might have even become involved in defending it on an internet stock message board. Know this: If you let too many allowances and excuses slip by, the capital you have invested in the company will begin to disappear. Worse yet, you'll probably endure some big event causing the price to plummet overnight.

The benefit of being a long term investor is the chance you have for serious growth in your portfolio at advantageous tax rates. The hidden danger is falling in love with a company whose business is slowly worsening. You need to strike a rather difficult balance between making sure you don't end up in a stock that never recovers and having patience to ride out minor setbacks every company will have throughout the years you might be invested in it.

On our site we regularly admonish people to write down *in a notebook* exactly why they have bought a stock and exactly under what conditions they would sell. We find this is the *only* way to consistently defend against falling in love with a company *and* against being spooked out of a good investment prematurely. We've received a number of requests for some help in constructing such a notebook so we have developed this document to help you do just that.

The last two pages in this document are a form designed to make it easier for you to start following our advice about compiling a notebook. Print out those two pages and use them to start your own notebook. We'd suggest taking them to your local copy shop and have them "duplex" the sheets so that you get one piece of paper, double-sided for each stock.

For all your current long term positions and for any new long term positions fill out this form. Pay as much or more attention to the "Why I would sell" side than the "Why I am buying" side. This document will be the key to protecting your investment in this company so

Success will come from your discipline to follow what you have written.



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give it the time it deserves. Don't be afraid to list price targets in the document, too. ("When the stock doubles I'll sell 50% of my shares so the rest will be "free" or "if the stock drops by 40% I'll close the position.")

Once a month or when major news (like earnings releases, major press releases, new research) comes along, open up the notebook and update the form. Take some time to make sure the company is still the company in which you originally invested. If it has met goals, then outline new ones. If its competitors are doing something new, update that too – and make sure to update **both** sides of the form. Attach new pages if you like.

Once a month, take time to make sure the company is the same company in which you invested.

Investing success will come from your discipline to follow what you have written. If you are anxious about the stock and are wondering if you should sell, re-read the information you have written down and, all things being equal, **stick with what it says**. If something happens that matches one of the conditions for selling on the right side of the form, stick to your original strategy and sell it – or at the very least reduce your position. The more disciplined you are in following what you wrote, the better investor you will be.

Above all, keep **every single one of the sheets you fill out**. Even if you do not own the stock any longer, re-read the sheets to learn from them. That is especially important for your unprofitable investments. If you close a position, attach a blank piece of paper to the form and write out all the reasons why you closed the position – even if you closed it for reasons unrelated to the stock like to raise cash to buy a car.

Keep the sheets segregated between profitable and unprofitable positions and make sure you apply lessons learned to all your current and future positions. Even if you only own one or two stocks, you will find the body of notes you accumulate over time will be more valuable than anything else you do as an investor.

We've received feedback from some people who say filling out the form takes too much time. To that we say "tough." Investing is hard work. It is not a game and if you expect to be successful at it then you must do the work.

If you follow this strategy closely, we guarantee it will make you a better investor. Let us know how you are doing with this strategy by periodically dropping us a line at: worksheet@NymbleInvestor.com.



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Company Name: _____
 Ticker Symbol: _____
 Industry: _____
 Inv. Rel. Phone: _____
 Contact: _____
 Contact: _____
 Today's Date: _____

Purchasing Record

Date: _____ Quantity: _____ Price: _____
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Why I own this stock

Why was I initially attracted to this company?

Here are the primary challenges/events that the company must meet for success.

How is the company situated financially?

What would change to make me sell

If they changed this, I would sell the stock

How long will I give the company to meet these challenges?

What missed goals would cause me to sell the stock

What changes to the financial situation would make me sell?



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Why I own this stock

Who are the major analysts covering the company?

Who are the company's main competitors and what is their comparative market position?

What are the other reasons why this is a good company, good sector, and/or a good stock that caused me to buy?

What would change to make me sell

What could they say/do that would make me sell?

What changes in the competitive marketplace would cause me to sell the stock?

What changes to the company, its sector, or its stock would cause me to sell this stock?



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