INVESTMENT WISDOM IN A NUTSHELL:

Here are some important investment techniques in a simple question-and-answer format, for those who may be first-time investors getting their feet wet, and to improve the performance of those who may have been playing the market for some time. Learn commonsense strategies, know when to buy and sell at the right time, and successfully manage your own portfolio.

Lesson 1 - What every investor should know when entering the market

- Always sell your worst performing stock first, not your best-performing stock.
- Cut your losses early.
- Be persistent. Learning to invest doesn’t happen overnight. It takes time, effort, and experience.
- Do not make emotional decisions. We tend to get attached to our trading decisions and cannot admit our mistakes.

Lesson 2 – Getting started: There’s no time like the present!

- Each week you must spend time tracking your investments. Learn to read charts so you get the facts, not opinions.
- Research on the stockbroker you’re considering. Where do they get their information? Are they truly interested in shares that are right for you?
- You don’t have to wait until you have the right job or reach the right age, start now and gain experience over the years.
- Find out the stockbroker firms available.
- Open a cash account first, and then after a few years’ experience, consider a margin account that lets you borrow money from your broker.
- As a beginner, avoid volatile investments such as penny stocks.
- It only takes Rs. 500 to Rs. 1000 to get started. Add to your investment account from savings from your salary.

Lesson 3 – Follow a system rather than your emotions

- Learn from history and study the best stock market winners.
- Do not get emotionally involved with your stocks. Follow a set of buying and selling rules.
- Always conduct a post-analysis of your stock market trades so you learn from successes and mistakes.

Lesson 4 – Fundamental analysis or technical analysis?

- Technical analysis involves learning to read a stock's price and volume chart and timing your decisions properly.
- A combination of fundamental and technical investment styles is essential to picking winning stocks.
- Fundamental analysis looks at a company's earnings, earnings growth, sales, profit margins, and return on equity. It narrows down your choices so you are only dealing with quality stocks.
- Volume or the number of shares of stock trades per day or per week is a key to interpreting supply and demand correctly. It is a signal that big institutions may be buying or selling your stock, which could impact price positively or negatively. The best institutional investors use both fundamental and technical analysis in their purchase decisions.

Lesson 5 – First among fundamentals: Earnings and sales

- Strong sales and earnings are among the most important characteristics of winning stocks.
- Rule of thumb: Look for stocks with higher annual earnings growth rates
- To make big money, you have to buy the very best companies at the right time.
- Buying a stock as it is coming out of a price consolidation area or base is crucial to making large gains.

Lesson 6 – Relative Price Strength: A key technical tool

- Calculate Relative Price Strength by taking a stock' s price 1 year ago and its price today, calculating the percent change and then comparing it to all other stocks over the same time period. The result should be on a scale of 1 to 99 with 99 being the highest.
- Relative price strength is one key technical indicator that shows you what value the market itself places upon a stock.
- If a stock's relative strength falls, do not buy any more shares.

Lesson 7 – Know a stock by the company it keeps

- When buying stock, look at the group strength.
- Always pick stocks from leading industry groups or sectors. The majority of past market leaders were in the top industry groups and sectors.
- The Industry Group Relative Strength Rating can help you identify stocks in top industries.

Lesson 8 - The importance of volume and sponsorship

- Volume is the actual number of shares traded daily and is available in most newspapers.
- Institutional investors usually buy better quality stocks. When you're selecting stocks, daily or weekly trading volume is how you measure demand.
- Stocks never go up by accident. There must be large buying, typically from big institutional investors.

Lesson 9 - How to buy at just the right moment

- Increased volume from the prior day/week with the price moving down is generally a negative sign.
- Buy a stock when it is breaking into new high ground. Ninety eight percent (98%) of individual investors never buy this way, and that's why few will ever own big stock winners. The idea is not to "buy low, sell high" always sometimes it is "buy high and sell higher".
- Increased volume from the prior day/week with the price moving up is generally a positive sign.
- A decrease in price on decreased volume indicates no significant selling.

Lesson 10 – How to gauge stock market's health

- When it comes to the stock market, remember:
- Have a set of selling rules that tell you when to sell and nail down a profit, or cut short a loss to avoid a possible larger loss.
- For an individual investor investing in common stocks, the key steps to follow are:
- Develop buying selection rules that let you pick the best stocks and use charts to determine the right time to buy.
- Have a specific method to tell you when the general market averages are topping and headed down, and when they've hit bottom and turned into a new uptrend.
- It's better to get-off the elevator on one of the floors on the way up than to ride it all the way down. Ignore personal opinions about the market. Study the day-to-day price and volume changes in the indices instead.
- A typical bear market will decline 20% to 25% from its peak price. A negative political or economic environment could cause a more severe decline. There are other factors that affect the stock market other than political and economic environment.

Lesson 11 – How to spot when the market hits a top

- Knowing when to buy or sell a stock is key.
- Because three out of four stocks, regardless of how "good" they are, will eventually follow the trend of the general market, it is important to learn how to spot when the market is hitting a top.

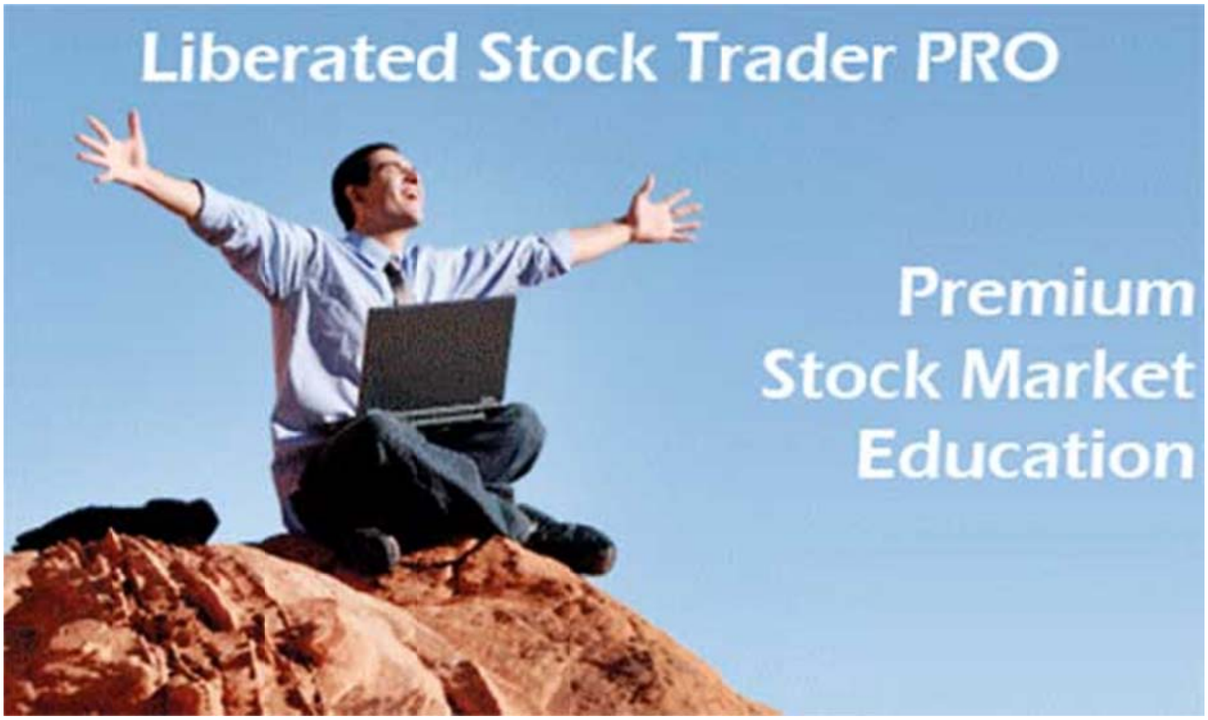
Lesson 12 – How to spot when the market bottoms

- Eventually, one of the rallies will "follow-through".
- At some point on the way down, the indices will attempt to rebound or rally. A rally is an attempt by a stock or the market to turn up and advance in price after a period of decline.
- Bear markets create fear and uncertainty. When stocks hit bottom and turn up to begin the next bull market loaded with opportunities, most people simply don' t believe it.
- Bear markets normally come in two or three waves, interrupted by several attempted "false" rallies that usually fizzle out after one to three weeks and occasionally five to six weeks or more.
- Also, observing how leading stocks are acting can be another indicator of a market top.

Lesson 13 – Putting the stock-picking puzzle together

- Potential winners will have strong earnings and sales growth, increasing profit margins and high return on equity
- What is the company's expected rate of future expansion?
- Is it in one of the Top 5 groups?
- Does the company's management own the stock?
- Is the annual pre-tax profit margin 18% or more? (For retailers it's alright to have lower margins). This too is subjective. It may vary.
- Has there been a general trend of profit-margin improvement over many quarters?
- Has that growth rate accelerated in recent quarters?
- How much are the consensus earnings estimates up for the next 2 years?
- If it's a turnaround stock, does it have two quarters of strong earnings increases or one quarter that is up so much that the 12 months earnings per share are back to their old peak?
- If it's a growth stock, is each of the last 3 years of earnings up an average of 25% or more per year? Again this is subjective. It may vary.
- Is the next quarter's consensus earnings estimate up a worthwhile amount?
- Are the percentage increases in profits accelerating compared to recent quarters?
- Once you determine that you are operating in an up -trending market, here are the factors you need to consider:
- Is the company's current quarterly earnings per share up a worthwhile amount?
- Does it have six to twelve quarters of significant earnings increases up 50%, 100%, even 200% or more? This is subjective though.
- Have earnings in the past few quarters been higher than expected?
- Is the company's Earnings Per Share Rating is higher?
- If 2 or more quarters have turned up, are the trailing 12-month earnings near or above the peak of the prior couple of years?
- Does the company have six to twelve quarters of strong sales growth?
- Is the current quarter's after-tax profit margin at or close to its peak?
- Are the company's margins among the best in its industry?
- Is the return on equity is relatively good and is its ROE among the very best in its industry?
- Is the stock part of a historically winning industry group?
- At what percent capacity is the company operating?
- Do you really understand and believe in the company's business? Have you seen or used its product or service?
- Analyze the week-by-week price and volume action. Write down the price at which you will begin buying the stock. After your initial purchase, identify a price area at which you will add a small amount as a follow-up buy if it continues to perform well.

- If the stock drops substantially below your exact initial buy point (may be 8%), protect yourself against a possible larger loss by selling at the current market price.
- Keep adding to your best-performing stocks and reduce or sell your worst performing ones.
- Check a long-term monthly chart to see if stock is also emerging out of a long-term base over a number of years.



Lesson 14 – Growth Vs. Value Investing

- Studies have shown the new market leaders had P/Es that significantly exceeded the rest of the market before they made their big advance.
- Value investors search for stocks they believe to be undervalued. They evaluate a company' s balance sheet and profit-and-loss statement, looking for hidden value like an unusually large amount of cash in the company or property carried on the books at cost, which is below the current market value, etc.
- Growth stock investors seek companies that show consistent earnings and sales growth, usually 20% or more each year for the past 3 years or 5 years
- There are two kinds of investors: growth stock investors and value investors.
- Growth stocks have a high-quality, repeat-type product or service that generates superior profit margins and return on equity of at least 17% to 50%.
- Value investors look for a bargain and like to buy stocks with a low P/E ratio (Price/earnings) or low price-to-book value. They look to buy a business franchise at a low price. Value investors wait for the market to recognize their stock's value for it to go up in price. This takes a long time, and sometimes does not happen at all.

- Unit Trusts are a great investment as well. Pick strong performing funds and remember the key to success with Unit Trust is to buy and hold.

Lesson 15 - Don't try to be a Jack-of-all-trades

- Keep it simple. Concentrate on a few good high-quality stocks or Unit Trusts are best. The more types of investments you own, the harder it is to keep track.
- You get what you pay for on the market. Low-priced stocks are usually cheap for a good reason. They may be performing poorly.

Lesson 16 - What's the right mix for your portfolio?

- Concentrate your eggs in fewer baskets, know them well and watch them carefully.
- It is not advisable to hold more than 20 stocks. You cannot keep track of all these investments properly. But this to again very subjective.
- Stagger your buying over time. Never buy all five stocks at once. Let your stocks make some progress before you get 100% invested.
- If you already own the maximum number of stocks but want to add a new stock to your portfolio, sell the least profitable stock to get money for the new one.

Lesson 17 - Sell rules every investor should master

- Don't let yourself lose money on a stock you had a reasonable profit in.
- Cut your losses short and do it early.
- 30% of market leaders will peak after many months of advance by having what is called a "climax top". The stock will run up at a much faster rate than in prior weeks. Look for the stock' s greatest 1-day price advance since the beginning of the move up. This usually means that everyone is excited about the stock, which makes its price rise dramatically. Because the market often moves contrary to mass opinion, it is a good idea to sell your stock when this happens.

Lesson 18 - More sell rules every investor should master

- If your stock advances a significant distance over many months and has formed several bases during the process, the fourth time the stock breaks out of a base ("fourth stage" base) it probably should be sold.
- Sell a stock if the earnings per share show a major deceleration in growth for two quarters in a row.
- Sometimes you should sell a stock because it consistently moves up in price less than another good stock you are holding. The money can be used in the better performing stock.

It is noteworthy to mention here that these lessons are not rules of investing, these are norms. Norms might vary from investor to investor or stock broker to stock broker. Even the statistics and limits given in this article might vary from situation to situation. The objective of this article is to give investors a guideline and educate them properly and not to "stereotype" any stock.

Source: O'Neil, J. William, (2000),"24 Essential Lessons for Investment Success", McGraw Hill, USA.