# 7 Simple Secrets to a High Growth Portfolio

For Investors who HATE risk

# The “Risk Myth”

The bigger the risk,
the bigger the reward.

# The Truth

The most successful investors have a strangle-hold on risk, and ***you*** can, too. Here's how…

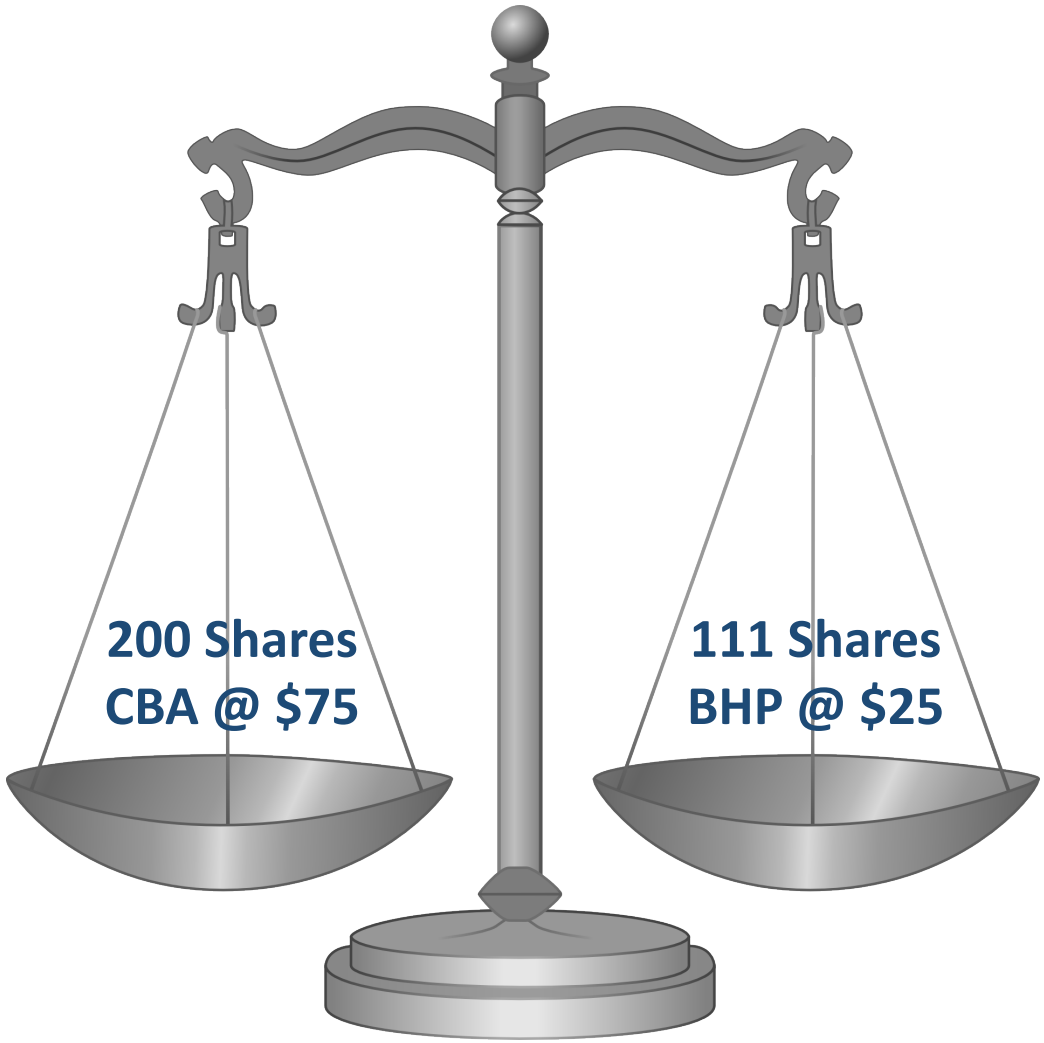
# 1 Diversify

You can't avoid losers. Every investor has them (true story). The key to not letting them overwhelm your portfolio is to avoid putting all your eggs (cash) in one basket. Diversify in WHEN and WHAT you buy.

- ❑ Spread your capital among several stocks in different industries.
- ❑ VectorVest recommends 5-10 stocks or 10-20 stocks, depending on the size of your portfolio, and no more than 2 stocks per industry.
- ❑ Buy 1-2 stocks if the market is favorable, then add more throughout the week (or month) if the market continues to rise.

**Fun Fact:** Legendary investor Peter Lynch is said to have 70% losers due to his strict technique of cutting losses.

# 2 Dollar Weight




Diversification is useless without dollar-weighting your positions.

This means investing equal $$$ in each position.*

*or *less* than average in speculative positions

These days, there are lots of great “discount” brokers to choose from. Do some shopping around for the broker that offers the best service with the lowest prices.

# 3 Keep Commissions Low

# PSST….There's another way to save on commissions – Don't overtrade.

If you find yourself selling loser after loser, your entry point may not be ideal, or the stocks you're choosing may be too volatile for your stop-loss.

Be sure to check the graph before you buy,

but even more importantly…

# 4 Don't Buck the Trend

If you want consistent, low-risk success…

But, I'm a contrarian!

Buy *rising* stocks, in *rising* industries, in a *rising* market.

# A little more on timing the market…

Market Timing doesn't predict the trend, it *identifies* it. By doing so, it is far more effective and profitable than psychic guessing games. A simple way to identify market trends is to graph a major index, like the All Ords and add a long-term moving average, such as a 40-day.

If price is above the moving average the trend is favorable/bullish for buying stocks.

# 5 Step in

Test the waters, before plunging all your capital into the market.

- Buy 1 or 2 stocks at a time
- Add more, slowly, as your portfolio increases in value

# 6 The 50% Rule

Never give away more than half your profit (aka, never let a winner turn into a loser)!

# “Pigs get fed, hogs get slaughtered.” —Anonymous

How many times have you let a “winner” turn into a loser? You aren’t alone, it happens to a lot more investors than you think. Investors who don’t sell when they have gains because they are waiting to gain even MORE… or investors who hope their stock returns to a previous high.

The 50% rule states “never lose more than half a reasonable profit.” How much is reasonable? That’s both relative and subjective, but consider this, the best money managers in the world struggle to make 15% ROI a *year*.

Let’s say you have a loftier goal for your stocks - you want to collect *20%*, before you consider selling.

You own stock XYZ, which has a gain of 18%. Uh- oh, XYZ starts trending down. You now have a 15% gain… 12%... 9%... ***SOLD***.

Even though XYZ never reached your profit goal of 20%, once half your previous profit was lost (18% / 2 = 9%), the 50% Rule kicks in and tells you that it’s time to take the money and run (to the bank). **No one has ever gone broke by taking profits!**

# 7 The 1% Rule

Never risk more than 1-2% of your portfolio value on any single position.

# Easy Math (Really)

Occasionally, a stock can catch even the most informed investors off guard.

If you follow **the 1% Rule**, then you'll never have to worry about a single big-loser causing catastrophic damage to your portfolio. What a relief!

The basic formula works like this…

**Step 1**

**Your Portfolio Value X .01 = Max Risk**

**Example: Let's say you have a $100,000 portfolio.**

**100,000 x .01 = $1,000**

**Bingo! $1,000 is the most you should allow yourself to lose in any single trade.**

With this rule, you can use ANY size stop-loss, but the bigger the stop-loss, the smaller your position in the stock will be. Here's how it works…

**Step 2**

**Example 1: You decide to buy $30,000 of BHP**

**To find out the max % you could afford to lose, take your Max Risk and divide it by your investment.**

**1,000/30,000 = .03 (X100)**

**Your max loss on a $30,000 investment in BHP is 3%!**

**Example 2: You decide to only invest $10,000 in BHP**

**1,000/10,000=.01 (X100)**

**Your max loss on a $10,000 investment in BHP is 10%!**

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20472 Chartwell Center Drive, Suite D, Cornelius, NC 28031
www.vectorvest.com
1-800-303-782
Mon–Sat 11pm–3pm AEDT