

# Buy rules

**Value:** *Because the stock is undervalued, we plan to ride it up*

- Ratio (P/E, P/B, P/S), etc
- Dividends
- Growth news

**Event:** *We expect the stock to rise on the occurrence of an expected event*

- When will the event mature?
- What is the range of impact?

**Recent decline:** *The stock dropped beyond what the precipitating event should warrant. The expectation is a rapid rise in response. Often there is a gradual drop back to the precipitated low, so this trade needs caution.*

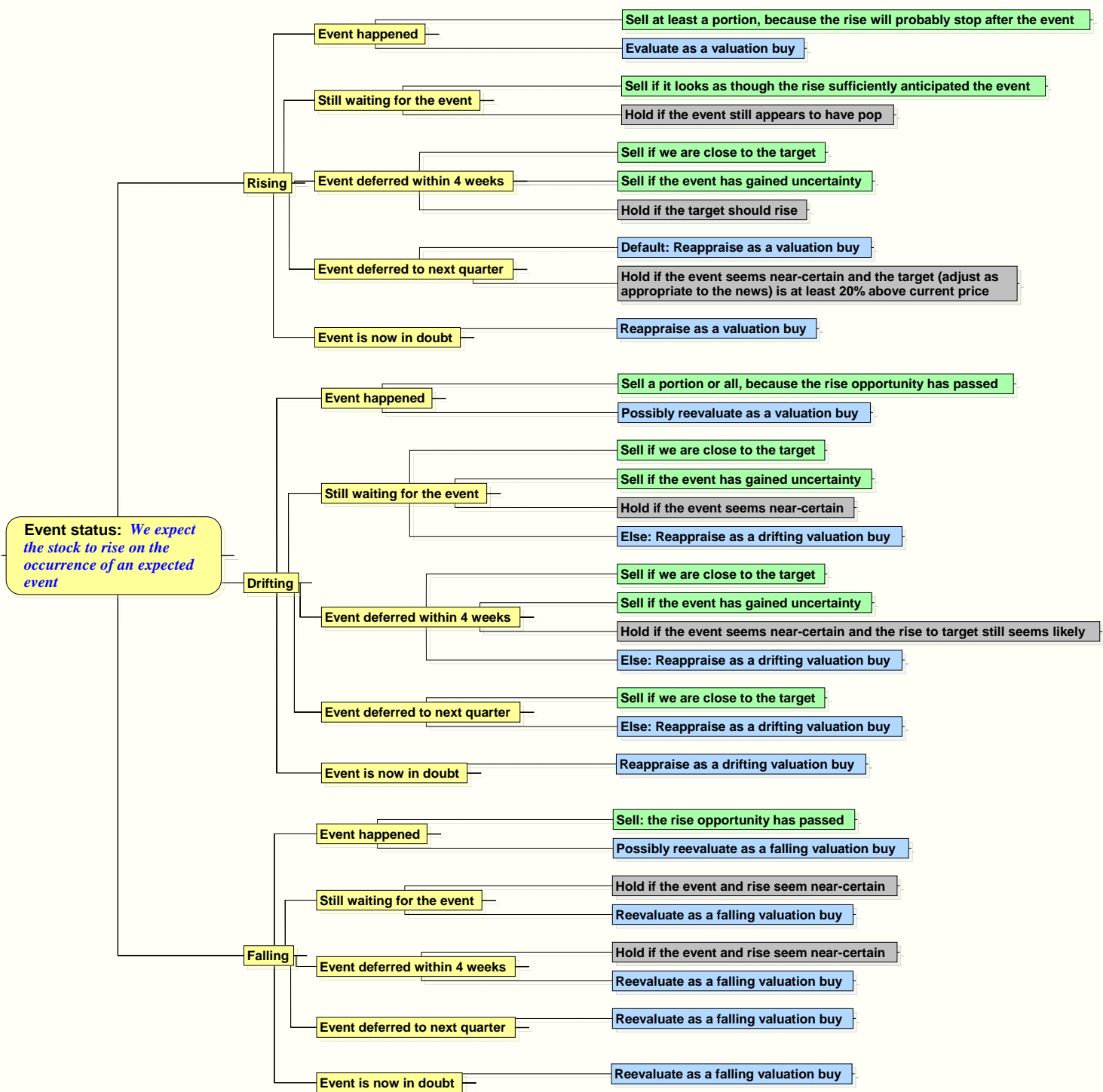
- Earnings surprise
- Industry decline
- Sector decline
- Large position selloff
- New offering: debt relief
- New offering" expansion
- New acquisition
- Political event has happened
- Legal judgment
- New technology
- Analyst downgrade

**Tactical:** *We expect the stock to rise in the near term, anticipating an event or reacting to transient news that probably affects sentiment more than value. This considers near-term reaction to the possibility of an event, not to the event itself.*

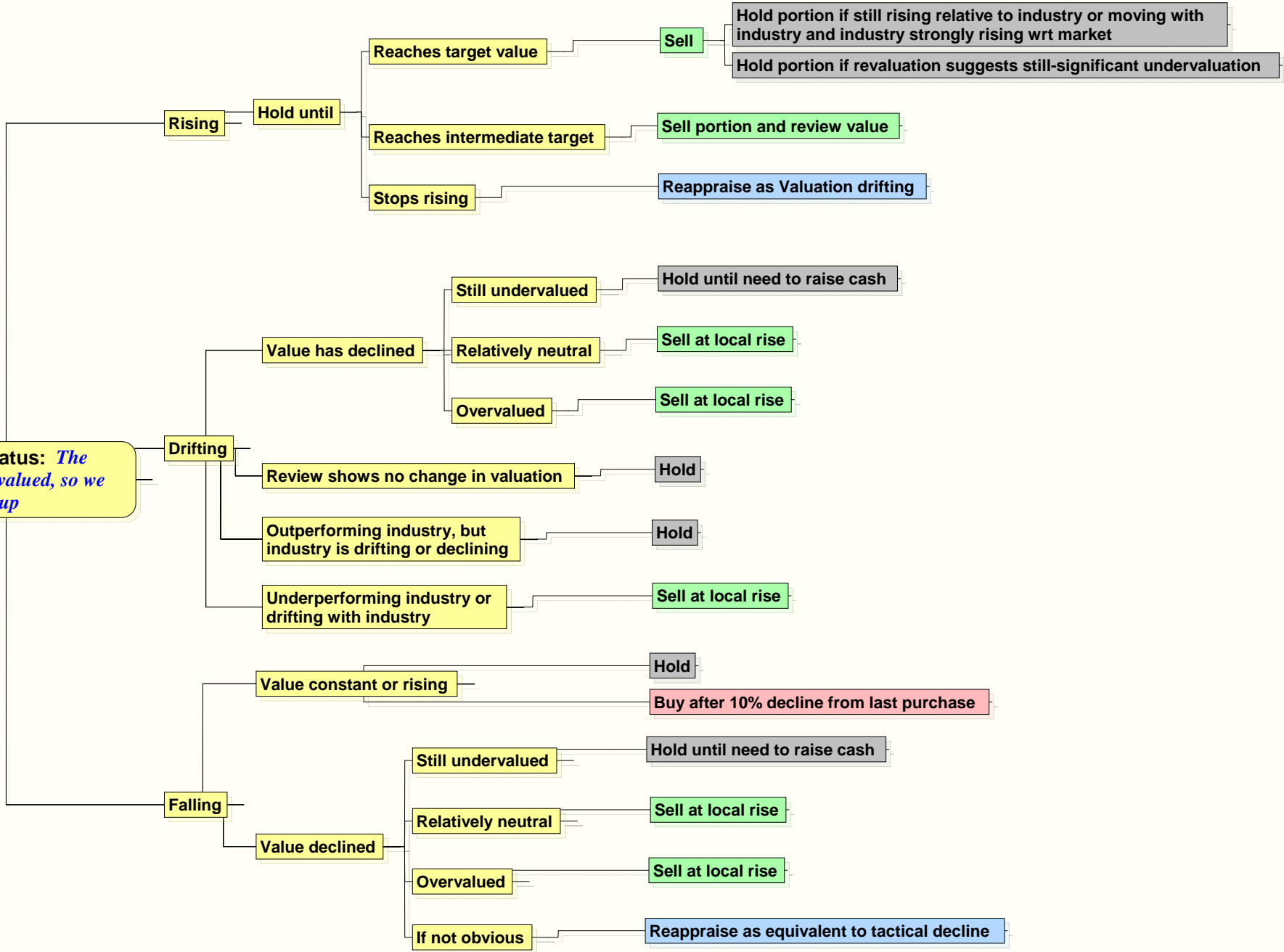
- Analyst upgrade
- Anticipated political event: should increase price
- Anticipated political event: should depress price
- Anticipated legal event: should increase price
- Anticipated legal event: should depress price

**Model:** *We purchased on the basis of a model's buy signal*

- VectorVest study
- Cramer Basket study
- Morningstar study
- MarketGrader study
- Nasdaq dozen study



**Valuation Status:** *The stock is undervalued, so we plan to ride it up*



**Decline status:** *The stock dropped beyond what the precipitating event should warrant. The expectation is a rapid rise in response. Often, there is a gradual drop back to the precipitated low, so this trade often needs caution.*

**Rising**

Default rule: Sell on a rise within 3 days, no matter how small the rise

Review this as a rising valuation, but if there is a large purchase, sell half

**Drifting**

Default rule: Sell on breakeven or small loss after 1-2 days

Review this as a drifting valuation, but if there is a large purchase, sell half

**Falling**

Buy on repeated 8-10% declines in first day

Sell on loss < \$100 (or 5%)

Hold for recovery and profit if the decline was sufficiently steep. Appraise as an event purchase, with a positive next-quarter report as the anticipated event

**Tactical status:** *We expect the stock to rise in the near term, anticipating an event or reacting to news that affects sentiment more than value. This considers near-term reaction to the possibility of an event, not to the event itself.*

**Rising**

Default rule: Sell on a rise within 3 days, no matter how small the rise. For political news that's still in the press, allow up to 3 weeks.

For political news still in the press, review this as a rising event, with a strong bias toward sell

**Drifting**

Default rule: Sell on breakeven or small loss after a few days. For analyst upgrades, sell within 2 days. For longer term events, allow up to 3 weeks.

Review this as a drifting valuation, but if there is a large purchase, sell half

**Falling**

If the precipitating event is expected to depress the price, this continues the anticipated buying opportunity

If the precipitating event was to raise the price, sell on loss < \$100 or (5%)

Hold for recovery and profit if the decline was sufficiently steep. Appraise as an event purchase, with a positive next-quarter report as the anticipated event