How to Invest with the Big Dogs

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Whether you are an active trader following momentum trends revealed by a stock chart, or a long-term investor with a broadly diversified portfolio, you can hunt with the big dogs of Wall Street. Driven by the forces of marketing and 24×7 news, investors are bombarded with information that can become a big distraction. If used properly, knowledge can be powerful, but if used randomly, it can be catastrophic to your results. Historically, investments were distributed by a force of salespeople, so over time the public has been trained to make reactive decisions based upon emotion and hype. Have you ever bought a stock based on a "tip" heard at a cocktail party or from a friend at work? If so, it probably made the tipster feel incredibly smart and it may have even made you a bit of money, but most likely it did not make a lot of sense for your portfolio. If you are a trader, various articles on the internet can convince you that unless you subscribe to a certain charting function or trading platform, you will invariably miss out on the best trades. Take heart, investing should be a fun process driven by an appropriate level of excitement and engagement, and by following these 3 easy steps you can hunt with the big dogs:

Step 1 – Develop a Plan

A well-laid plan is thoughtful, relevant and specific, and can be used for both short-term and long-term investing. These two examples show you how:

Active Trader- Trade the three highest volume mid-cap stocks respectively in the Technology, Financial and Healthcare sectors with buy/ sell triggers based on Bollinger Band limits, and take trading account from $25,000 to $30,000 over 20 trading days.

Long-Term Investor- Invest Individual Retirement Account in top-ranked Lipper mutual funds with lowest expense ratios, splitting portfolio evenly among Fixed Income, S&P 500 and Global categories, targeting 8% total portfolio return over the next year.

Step 2 – Evaluate Your Results on a Periodic Basis

It is easy to focus on what you could do better, but be sure to celebrate your successes as well. Being objective in evaluating your plan will be the next step to improving it for use going forward. Use the performance of related indices to evaluate your results. For example, compare the results of a global fund to the MSCI EAFE index total return for the same time period.

Step 3 – Continually Improve your Strategy

Small changes can make a big difference in your results. The best professional investors are systematic and they use raw numbers to remain objective. Try to apply your strategy in different ways or change small factors to see if the results improve.

Being proactive helps keep your money safe and build upon your assets. This summer, many reactive investors liquidated their portfolios near stock market lows, which permanently locked in losses. A consistent, objective strategy will help protect you from unpredictable events. The euphoria created by an over-heated market is as unhealthy as the fear created by unexpected drops. By developing a plan, evaluating your results, and continually improving your strategy, you too can hunt with the big dogs of Wall Street.

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