Get Rich Carefully

Author: James J. Cramer

Stock investing is synonymous with greed and fear. These two emotions strongly influence investors' perception of stock investing and have an impact on their ability to make astute investment decisions. In 'Get Rich Carefully', Wall Street veteran and the host of CNBC's Mad Money, Jim Cramer, creates a simple and quick guide to high-yield, low-risk stock investing. Drawing on his unparalleled knowledge of the stock market and on the lessons that he has learnt over the years, he explains in a simple and engaging way how every investor can get rich with a prudent and methodical approach. The key is to start now.

Key Takeaways

- Investing in stock markets need not always be a high-risk, high-return phenomenon
- Stock market investing can also be high-return and low-risk as long as investors follow a disciplined and prudent approach to investing.
- Every kind of investor, whether conservative or aggressive, can invest in the stock markets. The key is to understand stock markets.
- There are certain themes that are now going to remain evergreen and can potentially generate high returns for investors. These include, 1) new technology, 2) the beneficiaries of the desire of all Americans to look good and healthy, 3) the newfound virtue of value, 4) companies that buy other companies to take advantage of scale and synergy, 5) companies that innovate where you didn't think there was any possibility of innovation, 6) the new pharmaceutical companies, the biotechs, and 7) the renaissance in oil and gas that's happening in America
- Companies that are about to break-up can be good candidates for four-fold returns. However, they need to be captured at the beginning of the break-up journey.
- When you invest in a company you also invest in its people. Thus, it is important to determine whether the management of the company is 'bankable'.
- Macro-economic trends play an important role in shaping the future of a company. These need to be followed closely.
- There is no substitute for research. The only way stock investors can make optimal decisions is if they make an effort to learn and understand about stocks.
- To optimise returns, investors should adopt a long-term view to investing.

Innumerable books and research papers have been written on mastering the art and the science of stock investing. Some of these have been highly value accretive while several others have failed to deliver. Here are top five lessons that investors can learn and adopt to chalk out a fruitful stock investing journey.

Lesson 1: Conservative investors need not shy away from stocks

Most people view stock markets with a lens of caution and often avoid investing in stock markets due to the perceived levels of risk. Due to this, it can be said that many people are actually afraid to invest in stocks. However, that need not be the case. Whether you are a conservative investor or an aggressive investor, it does not matter. All you need to do is understand the stock markets, do some research, and accept that the daily stock gyrations often don't have much to do with the day-to-day success or failure of the individual companies that they are meant to track. Thus, it is important to focus on the long-term.

To create a successful stock investing experience, investors can reflect on the following seven major themes which are made to last. These are the themes that investors can count on no matter what happens in the market. Themes that have tremendous staying power and can be considered as multi-year investment opportunities.

- The first is new technology, the companies that have embraced the holy trinity of mobile, social, and cloud
- Second, the beneficiaries of the desire of all Americans to look good and healthy
- Third, the newfound virtue of value, as consumers demand bargain

Get Rich Carefully

Author: James J. Cramer

- Fourth, companies that buy other companies to take advantage of scale and synergy
- Fifth is what I call 'stealth tech,' companies that innovate where you didn't think there was an opportunity for innovation
- Sixth, the new pharmaceutical companies, the biotechs
- And seventh, the renaissance in oil and gas that's happening in America
- Further, investors should also look for companies that can be considered as 'break-up' candidates. When a company separates into two or even multiple companies, the results over time can be staggeringly positive. If investors can spot these breakup candidates before they occur, then they stand to make at least four-fold returns. The first victory comes when the market speculates the possibility of a breakup. The second fillip comes when the actual breakup is announced. The third increase comes as the soon-to-be-split-up stock creeps towards the dissolution. And the fourth boost happens when they actually separate into different, publicly traded stocks. Investors who can embark on this journey from the first phase stand to make significant gains.

Lesson 2: Invest in 'bankable' management

The people at the helm, the CEOs and senior management steering the company, matter the most. This gives rise to the concept of 'bankable' management. While investing in a company, it is very important to evaluate the senior management. Knowing the record and character of the CEO, how he has previously contributed to this firm or other firms that he might have worked at, and what he can bring to the future of the organisation will determine, more than any other factor, whether you will be able to get rich investing with that leader. The future of the firm, the strategic decisions, important policy decisions, etc., are all guided by the CEO along with the senior management. Thus, it is integral that the management is credible, experienced, and can be trusted to make optimal decisions. A firm that has 'bankable' management is likely to make its investors good money over the long-term.

Lesson 3: Macro trends and policies are highly relevant in stock investing

Another important lesson to learn is that we can't just put our blinkers on and look at only a few factors while considering stock investing. The world is becoming increasingly globalised with the boundaries between countries dropping. This means that there are a host of factors, both micro and macro, that impact the fundamental value of a stock. Thus, it is important to first estimate the world' growth, then estimate the sector's growth within the world's prospects, and then focus on figuring out how a given company is performing in that sector and what management is doing to exceed the average performance of companies in that sector. Measure your company's growth rate against both the rate of growth in its own sector and the rate of world [or domestic] growth. If you can approximate all three–the macro or world economic growth, the sector growth, and the micro achievements, including sales and earnings of the companies themselves, then you are going to be successful at growing your wealth carefully through superb stock picking. Macro trends and policies can affect the immediate course and the velocity of a stock, impacting how fast it moves up or down. For example, interest rate decisions by the Central Bank can temporarily affect a stock that would have otherwise been considered as solid. If the interest rates go up it will become more expensive to borrow and for companies to finance their expansion plans. If interest rates go down, excess liquidity could inflate prices. Either way, stock prices are going to react. The important thing is to be cognisant of these movements and to stick with a company that you have invested in after doing the required macro and micro research.

Lesson 4: There is no substitute for doing your own research

Research is one of the main building blocks of stock investing. When you put money into stocks it is important for you to understand the core essence of stocks and also of the companies that you are investing in. Make an effort to understand important terminology related to stocks. What stocks mean, what is price, what is market capitalisation? Once this is done, make an effort to understand research terminology. What are earnings, what is growth, what is a P/E ratio? Knowing these can

help you make better stock investment decisions. Do not look at factors in isolation. Instead, make a note of all the factors that can impact a company's stock price, take advice from trusted experts, and then weave all these inputs together to create a holistic picture. Also, do not just focus on fundamental research. Leverage technical analysis to determine key entry and exit points once you have identified a fundamentally strong company. There will be multiple signals that can tell you when to exit; if you are sitting around waiting for a top, you are going to end up losing a lot of money. Thus, make an effort to understand your investments. Ignorance is never a good strategy.

Lesson 5: Keep a long-term view on investing

To successfully avoid market pitfalls and mitigate the volatility that is accompanied with stock investing, it is important to adopt a long-term approach to investing. When you invest in good companies, you need to keep holding them to reap their true benefits. This can only happen over the long-term. Further, by keeping a long-term view, you can also avoid behavioural biases that can often get in the way of optimal investment decision making. If you want to become a good investor, then you have to learn to tame your worries and yet be sceptical enough to judiciously examine each and every stock investment decision. A scared investor is a terrible investor. However, euphoria is no panacea either. The best way to strike a balance between greed and fear is to invest for the long-term.

Investing in stocks needs to be done judiciously and requires a considerable commitment of time and resources. Many individuals might not be able to do their own research or simply might not be inclined to investing on their own. Yet, as the book says, every investor, including conservative investors should consider including stocks in their portfolio. A viable way to gain exposure to equities is through equity mutual funds. These funds are professionally managed where the fund managers invest in the stock market based on a specific investment mandate and pre-determined risk levels. Further, investors can choose from various equity schemes to suit their risk-return requirements. This can help investors get the desired equity exposure. The main thing is that investors must start their investment journey 'now'.