



BUY AND SELL RULES FOR STOCKS

Buy Guidelines for Value Stocks

The goal of value approaches is to buy a stock at a discounted valuation.

Here are some basic valuation metrics (as of March 25, 2021) you can use to set valuation rules:

- Price-Earnings: 13.4 or lower (cheapest 40% of all exchange-traded stocks)
- Price-to-Book: 1.5 or lower
- Price-to-Cash Flow: 10.8 or lower
- Price-to-Sales: 1.9 or lower

Buy Guidelines for Growth Stocks

The goal of growth investors is to identify stocks with rising sales and/or earnings. Some strategies require growth over a certain period of years while others require a minimum level of growth.

You can combine both into a strategy, meaning X years of growth and growth in sales and/or earnings of at least Y%.

Here are some basic growth metrics (as of March 25, 2021) you can use to set growth rules:

- EPS Growth 12-Month: 53% (highest 60% of all exchange-traded stocks)
- EPS Growth 5-Year: 16%
- Sales Growth 12-Month: 21%
- Sales Growth 5-Year: 9%





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Buy Guidelines for Income Investors (Dividend-Paying Stocks)

Dividends provide portfolio income, which can be viewed as a sign of underlying fundamental strength.

Here are some dividend growth and yield metrics (as of March 25, 2021) you can use to set income rules:

- Dividend Growth 12-month: 4.8% (highest 60%)
- Dividend Growth 5-Year: 5.5% (highest 60%)
- Current Yield (%): 1.9% (highest 80%)

Buy Guidelines for Momentum Investors

Investors who want to focus on stocks that fall under the “Momentum” approach, will seek out stocks that are outperforming in terms of price return.

Here are some momentum rules you can use:

- 26-Week Relative Strength of at least 70% (used by Value on Move—PEG With Estimated Growth screen)
- Trading within 90% of 52-week high (used by O’Neil CAN SLIM Revised 3rd Edition screen)
- Weighted four-quarter relative strength rank of at least 61% (equivalent to an A+ Investor Grade of B or better)





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Now that we've covered the buy guidelines for stocks that fit the value, growth, income and momentum investing styles, there are a few additional guidelines based on your allocation and management preferences. You will want to be aware of these as you create your own rules.

Additional Guidelines and Buy Rules

Turnover Rules

These are set rules based on how often you want to trade and will be based on your individual investment management preferences you identified in Step 3: "I".

When it comes to turnover, investors should be aware that:

- Value and income strategies will typically have lower levels of turnover
- Momentum and technical analysis strategies tend to lead to more trading activity
- You should opt for lower turnover approaches if taxes are a concern

Trading preferences:

- Small cap stocks have more potential upside but can be harder to trade quickly
- Large-cap stocks can be more easily bought and sold quickly at current prices

Personal preferences:

- Do you want to follow a sustainable investing strategy (e.g. ESG)?
- Are there values you want to incorporate? (e.g. religious preferences)

Although these will reduce the number of investment candidates, they may be important to you, which will make them necessary components to focus on when creating your individual buy/sell/hold rules.



Selecting and Managing Your Investments

BUY AND SELL RULES FOR STOCKS

Sell Guidelines for Stocks

We recommend that you use these guidelines to create your own sell rules for which stocks don't qualify for your portfolio any longer. We are big proponents of having and following written rules, which we use for our real-money model portfolios such as Shadow Stock, VMQ, and Dividend Investing portfolios.

These sell guidelines include:

- The stock no longer matches your strategy (e.g., value becomes expensive, sales decline instead of growing, etc.)
- A company stops being profitable
- The dividend is cut
- A negative change occurs in the business
- You purposely established a pre-defined stop price

Make sure you stick with your sell rules as best as you can. Making sure your buy, sell and hold rules for stocks are clear and concise will help you develop a successful portfolio that will help you fund your financial goals.

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