

Market Rules to Remember

Forwarded by a trader from FC Stone

- 1) Excesses in one direction will lead to an opposite excess in the other direction. They always do. Until everyone fears the worst, *and capitulates*, markets will exceed expectations. Then, in the correction, will exceed expectations again.
- 2) Markets tend to return to the mean over time. This is especially evident (visually) when moving averages are applied to price charts, short and long-term alike.
- 3) There are no new eras — excesses are never permanent. Just look at a price chart.
- 4) Exponential rapidly rising or falling markets usually go further than you think, but they do not correct by going sideways. Markets correct by going in the opposite direction, falling sharply after sustained, broad rallies, and rallying after sustained broad weakness. The world ebbs and the world flows; it has always been thus, and shall always be thus.
- 5) The public buys the most at the top and the least at the bottom. Of course they do; they always have and they always shall. The public buys when euphoria reigns, and it sells when depressed years later.
- 6) Fear and greed are stronger than long-term resolve. We are human beings dealing with rational and irrational markets; to believe that "fear" and "greed" can ever be lost is naive for they are the most fundamental of human traits.
- 7) Markets are strongest when they are broad and weakest when they narrow to a handful of blue chip names. Just as volume must follow the trend, so too must good markets have broad support and weak markets have broad weakness...
- 8) Bear markets have three stages — sharp down — reflexive rebound — a drawn-out fundamental downtrend. This really is how this bear market shall end; not with a hoped for "V" bottom, but with a great washing-out... a capitulation... and then months, or even years, of base building.
- 9) When all the experts and forecasts agree — something else is going to happen.... or as we like to say, "When they are yellin', you should be sellin,' and when they are cryin,' you should be buyin.' "
- 10) Markets can not be predicted.... The market WILL dupe you if you try to predict prices! Ask yourself everyday, "how can this market move against my position(s)" and ensure you can take the risk or do something about it.