

STAY IN THE GAME

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Cramer said he knows how hard it can be to keep one's head in the game, and as far as he's concerned there are three "forces" that keep people out of stocks: "boredom, bummers and brokers."

Boredom, said Cramer, is a big problem. If market players are not interested in the stocks they own, they won't pay attention and that can lead to unexpected losses. "That's a recipe for disaster," Cramer said.

But as long as people invest well and stay interested, they could make a fortune, he continued. The one cure for boredom with investing is speculation, said Cramer, who believes people need to speculate if they want to be good investors. Speculation, he explained, means trading in a "high-risk, high-reward" stock and "trying to turn a little money into a whole lot of money in not a lot of time."

Some might consider speculation to be foolhardy and "more immoral than gambling," but Cramer, who has made some of his biggest gains by speculating, believes speculation is good for investors.

"I'm telling you it's OK to speculate and make those risky investments that most of the talking heads frown on," he said. "And not only is it OK -- it's entirely necessary. It's prudent and responsible."

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The Ground Rules

Because speculation can be "really risky," Cramer cautioned that investors should only start once they understand the basic ground rules of speculating.

First, never invest retirement money in speculation, he stressed. And second, don't ever have more than 20% of your non-retirement portfolio in speculative stocks.

Cramer urged very conservative investors to put a tiny bit of their money into a speculative stock. "Make it 1% or 2% of your portfolio if you're that conservative, because trust me, that 1% or 2% will make the whole process of investing a lot more interesting," he said.

What to Look For

Generally speaking, Cramer said, when he talks of speculation he is referring to small-cap stocks, meaning those with a market cap of anywhere from \$250 million to \$2 billion. For those new to the game, market capitalization represents the number of shares of a company multiplied by its stock price. It's one of the best ways of knowing what the market believes a company is worth, he explained.

Small-cap stocks are usually also less expensive per share, selling anywhere from \$2 to \$10, Cramer said. Sometimes there's a catalyst "lurking in the future that people are betting on" and often speculative stocks are unprofitable, he added.

Although Cramer said he would never recommend buying a stock with no revenue, or no sales, "a stock with accelerated revenue growth, that hasn't yet become profitable fits the speculative profile as long as you believe in the stock," he said.

There are two ways to go about speculating. Either people can pick out an individual stock with which to speculate or they can speculate on a sector trend by putting together a basket of stocks, Cramer said.

When speculating on a whole industry, people should not miss out by buying the one stock in the group that gets left behind, he said. To avoid this they should "cast a wide net" and spread the risk around by speculating in a "basket of stocks." Also, when speculating by sector, people should look for an industry that's been "knocked around" and "beaten up."

Moreover, speculation means always trading, he said. Cheap, small-cap stocks tend to go up and down by large amounts, so when speculating, it's a good idea to go in with an exit strategy, otherwise you risk losing all your gains, Cramer said.

"You can't be a good investor if you're not an excited, interested investor, and one of the best ways to get excited is to speculate, but do it right and do it carefully," he said. "Be a prudent, conservative speculator and follow my speculative rules."

Expect Corrections, Prevent Losses

Something even worse than boredom is losing a lot of money, Cramer went on to say. But if he'd quit every time he lost money in a stock or every time his whole portfolio was down, he never would have gotten anywhere, he said.

Although Cramer said he doesn't have the magic formula to prevent market players from ever losing money in the market, and though most investors will likely lose a lot of money at some point, "it pays not to give up."

For damage control, Cramer gave his viewers two rules. The first rule, he said, is to expect corrections and not fear them. "A correction is when the market's been roaring, and then one day, boom, it gets crushed," he explained.

Taking a look at the **S&P** over the last year, Cramer said that after it had a "decent run," it fell into "a big fat correction" in May that continued through June. Consequently, the index fell and eventually bottomed in the first half of June. But from there on out it came "roaring back" all the way to December and went even higher than where it was before the correction, he said.

If people lost money in the market then, they might've been tempted to give up on stocks altogether, which, in light of where the market climbed, would've been a "pretty bad idea," Cramer said. Investors need to understand that sometimes stocks go down and keep going down. They need to be psychologically prepared for big corrections like the one that started in May so they'll develop a "superior attitude" and stay in the game, he said.

The next rule is about preventing losses, Cramer continued. One of the best ways to try to avoid losses is to "watch out for multiple contraction," which means that the market will start paying a lot less for the same amount of earnings, he said.

If players see a "marketwide nosedive" or a "big, ugly downturn," especially one that's caused by interest rate hikes, they should identify and sell their high-multiple stocks, as they are the only certain types of stocks that are "truly vulnerable" to multiple contraction, Cramer said.

As severe multiple contractions usually won't occur a stock until the company reports earnings, people should sell their high-multiple stocks before the companies report, unless they want "a world of pain," he advised.

Lastly, Cramer urged his viewers to place limit orders instead of market orders.

"Limit orders keep you in the driver's seat, they keep you from being totally ripped off, and they're really easy to execute, he said. "Please, if you listen to nothing else I say, use limit orders instead of market orders."