Bob Farrell's 10 rules for investing:

Wall Street "gurus" come and go, but in the case of Bob Farrell legendary status was achieved. He spent several decades as chief stock market analyst at Merrill Lynch & Co. and had a front-row seat at the go-go markets of the late 1960s, mid-1980s and late 1990s, the brutal bear market of 1973-74, and the October 1987 crash.

Farrell retired in 1992, but his famous "10 Market Rules to Remember" have lived on and are summarized below, courtesy of The Big Picture (August 2008) and MarketWatch (June 2008).

1. Markets tend to return to the mean over time
When stocks go too far in one direction, they come back. Euphoria and pessimism can cloud people's heads. It's easy to get caught up in the heat of the moment and lose perspective.

2. Excesses in one direction will lead to an excess in the opposite direction
Think of the market baseline as attached to a rubber string. Any action too far in one direction not only brings you back to the baseline, but also leads to an overshoot in the opposite direction.

3. There are no new eras – excesses are never permanent
Whatever the latest hot sector is, it eventually overheats, mean reverts, and then overshoots. Look at how far the emerging markets and BRIC nations ran over the six years prior to the crisis, only to plunge by more than 60%.

As the fever builds, a chorus of "this time it's different" will be heard, even if those exact words are never used. And of course, it – human nature – is never different.

4. Exponential rapidly rising or falling markets usually go further than you think, but they do not correct by going sideways
Regardless of how hot a sector is, don't expect a plateau to work off the excesses. Profits are locked in by selling, and that invariably leads to a significant correction eventually.

5. The public buys the most at the top and the least at the bottom
That's why contrarian-minded investors can make good money if they follow the sentiment indicators and have good timing. Watch Investors Intelligence (measuring the mood of more than 100 investment newsletter writers) and the American Association of Individual Investors Survey.

6. Fear and greed are stronger than long-term resolve
Investors can be their own worst enemy, particularly when emotions take hold. Gains "make us exuberant; they enhance well-being and promote optimism", says Santa Clara University finance professor Meir Statman. His studies of investor behavior show that "Losses bring sadness, disgust, fear, regret. Fear increases the sense of risk and some react by shunning stocks."

7. Markets are strongest when they are broad and weakest when they narrow to a handful of blue-chip names
This is why breadth and volume are so important. Think of it as strength in numbers. Broad momentum is hard to stop, Farrell observes. Watch for when momentum channels into a small number of stocks.

8. Bear markets have three stages – sharp down, reflexive rebound and a drawn-out fundamental downtrend
I would suggest that the reflexive rebound is nearing maturity. We have yet to see the long-drawn-out fundamental portion of the bear market.

9. When all the experts and forecasts agree – something else is going to happen
As Stovall, the S&P investment strategist, puts it: "If everybody's optimistic, who is left to buy? If everybody's pessimistic, who's left to sell?"

Going against the herd, as Farrell repeatedly suggests, can be very profitable, especially for patient buyers who raise cash from frothy markets and reinvest it when sentiment is darkest.

10. Bull markets are more fun than bear markets
Especially if you are long only or mandated to be fully invested. Those with more flexible charters might squeak out a smile or two here and there.