Watch The Best Of Wall Street

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By Scott Chan (see bio at end)
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Sometimes, you may notice headlines broadcasting certain renowned money managers buying this or selling that. Whenever folks like Warren Buffett, George Soros, and Carl Icahn, which are names most investors are familiar with, make a big trade in some stock, you will probably hear it on the news.

The media hypes these moves with good reason: the big names attract eyeballs and readership. But as an investor, you should also pay attention because these guys are respected investing gurus. Their track record proves that they are very good at what they do. Owning the same stocks as they hold does not *guarantee* that you will profit, but at least you can be reasonably confident that whatever they buy has a good chance to make money.

Why the Pros Have the Edge

Besides having great intelligence, experience, and good instincts, these gurus also hold other advantages over the average joe. They have superior access to resources and information, and I am not talking about insider trading, which is illegal.

They have very deep pockets and they know many important people. This means they have the best computer programs at their fingertips to research and analyze economic data and companies. They can hire top-notch analysts and portfolio managers to help pick stocks. They also know experts who can give them insights about specific industries and companies to help them make wise investment decisions.

Investing Is Their Life

Most individual investors have other things to do besides looking at their stock portfolios all day. They usually manage their portfolios in their spare time, and they are investing to build a nice nest egg for themselves and their families.

Professional investors, though, live and breathe investing. Their job is to make as much money as they can. Their dedication to investing and their experience put them at an advantage over a typical retail investor.

As a result, big institutional investors, the so-called "smart money", tend to be market leaders and the little guys are market followers. Quite often, retail investors are late to the game. By the time their friends tell them about some great stock, it is probably already too late.

This is why it makes sense to pay attention to the best of Wall Street and see what they buy. You let them do the work for you, and you follow suit.

The Key is High Conviction

However, you should not blindly follow someone into a stock without taking a look at the stock and the underlying company first. Realistically, you cannot possibly buy everything these gurus own.

The key is to pick out these money managers' *highest-conviction* buys. This means that they are really making an unusual bet that strongly suggests that they have done their homework and they are convinced the stock will be a big winner.

For example, if a top money manager's hedge fund buys a bunch of Apple shares, that is not really a big deal. Apple is the largest company in the world by market cap, and AAPL is widely held by institutional investors. Indeed, the surprise is when a top fund manager *doesn't* hold some shares.

But if the same hedge fund invested $50 million in a small $500-million company, then there is reason to take a long look at this small company.

Of course, the above example has been simplified to make a point. In practice, the ways to spot the standouts are usually more subtle and there is no one-size-fits-all trick. It takes experience and good-old-fashion due diligence to make following the best of Wall Street consistently pay off. But, done correctly, this can be a very successful investing strategy.

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About the Analyst

Scott Chan

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Scott Chan moved from China to the U.S.A. with family at the age of ten. He passed the rigorous entrance exam and attended the merit-based Stuyvesant High School, widely held to be best public school in New York City. He earned undergraduate degrees from New York University followed by an MBA degree from the Zicklin School of Business at Baruch College.