May 4, 2009, 12:01 a.m. EDT · Recommend (8) · Post:

Buy and hold is dead

Commentary: Traders need to be nimble in today's markets

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By Thomas Kee

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LA JOLLA, Calif. (MarketWatch) -- It is time to reconcile the positions I have recommended, and look for exit strategies. Anyone who followed my advice over the past few months is up significantly.

Assuming a dollar amount divided equally among all four positions, everyone should be up 27.4% as of April 29. Please review my February and April MarketWatch columns for confirmation. My March column will have resounding similarities to this one.

First, the General Electric (GE 16.02, -0.77, -4.59%)and Microsoft (MSFT 26.14, -0.58, -2.15%)calls were more conservative in my opinion. When we attempt to identify turning points in the market before they are confirmed, we always want to select positions that are stable and capable of weathering the storm.

This assumes those positions are designed to be held for a while. This advice does not apply to proactive investments with associated risk controls. Only after a turn higher has begun should we become aggressive.

Kee's stock picks

STOCK	CALL DATE	CALL DATE PRICE	PRICE AS OF 4/29/09	NET RETURN	% RETURN
GE	2/1/09	$11.75	$12.40	$0.65	5.53%
MSFT	2/1/09	$17.50	$20.60	$3.10	17.71%
UYG	4/1/09	$2.60	$3.46	$0.86	33.08%
URE	4/1/09	$2.40	$3.68	$1.28	53.33%
Avg Return					27.41%

Data: Thomas H. Kee

Appropriately, once the bottom was in place, I recommended ProShares Ultra Real Estate exchange-traded fund (URE 5.73, -0.32, -5.29%)and the ProShares Ultra Financial ETF (UYG 6.09, -0.28, -4.40%).

These are aggressive for two reasons. First, these are financial and real-estate ETFs. If that is not enough, they are also double-weighted, so they move twice as much as those sectors. Although they are aggressive, they were very appropriate because the bottom was already confirmed. We should be aggressive at the bottom of market cycles, and conservative near the top.

If you listen to the pundits, you are usually aggressive at the top and conservative at the bottom. That is exactly the opposite of proactive strategy.

At some point in May, I will be recommending sells of all four positions: GE, Microsoft, ProShare Financial and ProShares Real Estate. At that same time, I will be recommending a short. I will continue to use my proactive strategies. ProShares UltraShort Dow 30 (DXD 33.18, +0.62, +1.90%)probably will be ideal for my purposes.

I have detailed my proactive strategies in an easy-to-read Webinar. These rules will be used after we secure gains from the aforementioned position trades.

The economy is not out of the woods. I expect severe weakness in the years ahead. Proactive strategies are the only way to make money.

Buy and hold is dead. It has been dead for a decade, and it will stay that way through

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the duration of the downward sloping trend in the investment rate. This is detailed in the Webinar linked above as well.

From here, do not be greedy. Secure your gains, protect your wealth and get ready to make money on the downside once again.

We will always be ahead of the curve.

Thomas Kee is president and chief executive of Stock Traders Daily, Founder of the Investment Rate, Architect of the ATAP Program, and active supporter of risk control and proactive trading strategies; his automated, correlated, Market Timing and Stock Selection tools. His Web site is www.stocktradersdaily.com *.*

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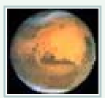
Odie 164 days ago +5 Votes (5 Up / 0 Dn)



What it boils down to, is whaen it makes sense to buy and hold, that's what you do. When it makes sense to trade, that's what you do. Or when it makes sense to be in cash, that's what you should do. And it can make sense to do nothing at all, or any combination of the above.

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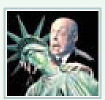
BBX 164 days ago +3 Votes (3 Up / 0 Dn)



Buy and Hold only works in the bull market. It will not work in a bear market or a fluctuated market like these days.

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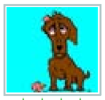
Strnj1 164 days ago +5 Votes (5 Up / 0 Dn)



Correction: It won't work "short term" or for those who panic easily.

I watched my portfolio drop almost 50% as the DJIA dropped from 14000+. Yet, we are only back to 8400 and by rebalancing positions and changing a scant few positions to stocks that I thought would recover quicker I have already regained half of that "loss."

It will work in a bear market if you keep your money in the market and can stomach the "paper" losses. Remember, you haven't "lost" anything unless you sell.

The big key is to buy as many of the solid value stocks as you can possibly afford while everyone is selling them at a huge discount.

(aka Bottom Feeder)

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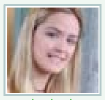
SpiritChild 164 days ago +3 Votes (3 Up / 0 Dn)



Great article, although a bit scary as I am heavily weighted in such stocks (UYG, URE, KFN). I think Kee is right, as I suspect a bear might be around the corner. While these stocks are doing well today, they should be higher considering the INDU hit above 8400 today. UYG and URE are having allot of trouble staying around 4 dollars a share.

I don't know about the rest of you, but I am not selling my positions in these ETF's, as I bought in at an extremely low level that I doubt we will see when the bear returns. I suspect that the bear rally will look as follows: FAZ buy at 5.60 a share, and sell at 18.50. This is much different then the last bear attack in which FAZ went above 40 dollars a share. Likewise, SKF will never again go above 200 dollars a share for the entire run of this recession.

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AlexS 164 days ago

0 Votes

Buy and Hold worked for 20 years starting in about 1980. Before that it was 20 years of Buy and Stall, although certainly not in real terms. Now?

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flashdog 164 days ago

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As we all know that Obama adminstration double tax payments from stocks.
buy and hold is gone when stocks go up sell it for a profit.

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rfd 164 days ago

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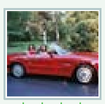

Buy and Hold died after the debacle of the Internet Bubble circa 1999-2000.

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Strnj1 164 days ago

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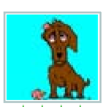

Only for those who were foolish enough to load their portfolio with all or almost all NASDAQ stocks or funds.

First rule of Buy and Hold: Widely Diversify.

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jst.rime 164 days ago

+2 Votes (6 Up / 4 Dn)

Buy and Hold is still the best long term investment strategy... if, you buy the right investments: dividends, growth, debt-free, top position in industry globally. Warren Buffett is still laughing all the way to the bank because of it.
I'll take his advice before I am connived by a bunch of regurgitative baboons posting here.

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jlm2727 164 days ago

Even (4 Up / 4 Dn)

General Electric is going to have a great year. GE stock should be up to 18 by year end.

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jokesonthecountry 164 days ago +1 Vote (2 Up / 1 Dn)

I hope GE go's bust... Edison would be turning in his grave.
GE not a viable manufacturer anymore, now they just spew media blather for the most part. Look at their holdings.
Liberal news programs and newspapers that are going bust and losing market share. Banking that is probably insolvent, Big supporters of Cap and Trade so they can REALLY SCRE* us with a new phony market scam.

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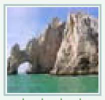
dlsy 164 days ago 0 Votes



Yup..it's still a trading market. But once long period of slow/no growth sets in, market will find it harder to sustain .

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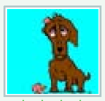
Strnj1 164 days ago +2 Votes (4 Up / 2 Dn)



Sorry to bust your bubble Kee, but as long as I'm around "Buy and Hold" is still here.

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Kashman 164 days ago +1 Vote (4 Up / 3 Dn)

Yeah how's that Ford, Citi, and GM doing you bought 20 years ago? Oh yeah, remember that Yahoo, Dell, and Cisco that you bought and held all the way up to Nasdaq 5000, only to ride it back all the way down? Wasn't that great?

Buy and hold has been dead my friend, for 10+ years. Do yourself a favor, and listen to Cramer. He's the only one who's been saying buy and hold is reckless. Buy and hold takes ZERO skill.

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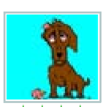
Strnj1 164 days ago 0 Votes



Bought Ford in 2002 for about $7 in 2002 sold it a little over a year later at about 14.00+.

Never owned Citi or GM.

The One I kick myself about but still doubled my money on in 2003 was a local one called Ethyl Corp. (former lead additive maker for gasoline.) It had dropped below a dollar and done a one for five reverse split to keep from falling off the board and was selling for $5 and some change.

I sold it about eighteen months later for around $10 to $12. Checked back about three years later (hint: never look back and cry, "if only.") and its parent company, (Albamarle Corp.?) had merged it with another or spun it off and the new company, New Market Corp. (named after the road the CEO of Ethyl and I grew up on in Varina, VA.) was selling for over $50.

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amazed1 164 days ago — +2 Votes (2 Up / 0 Dn)

Where is the big "Report Abuse" link for the entire story?

MW has lost all credibility letting some snake oil salesman write commentary.

What's next, a series of articles by Cramer?

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Viking4477 164 days ago — -1 Vote (0 Up / 1 Dn)

Simple question:
If anyone had a foolproof method of trading stocks, wouldn't they be on Forbes list of richest people???
This list has stock investors but no "traders". Foolproof means you can't lose. If anyone could do this, they would be on this list. The only logical conclusion is that nobody can trade their way onto this list.

I say buy and hold works, but you can still be a selective buy and holder. Don't buy and hold the index. Buy and hold the quality. Really, it's how Warren Buffett does it. I am amazed at how many people criticize Buffet. Ten years ago he was out of touch for not jumping on the tech train, today he's criticized for his poor performance in this recession. But it really shouldn't be a surprise, he's always had a lot of financial / insurance stocks. And in this crisis, they are all down, regardless of if the company is good or not. So his quality companies will survive and prosper and he will succeed again as he always does because he doesn't pay attention to the daily gibberish in the media or market gyrations. I guess its just a natural tendency for some people to criticize those at the top in anything: sports, politics, showbiz, you name it. Warren Buffett is so good that he'll always get criticized. And I'll listen to you genius critics of him (and buy and hold) when I see your name surpass the Oracle's on the Forbes list.

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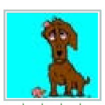
Strnj1 164 days ago — 0 Votes



Everyone has that one that they wished they had walked away from.

The one I lost my assets on was KKD.

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jokesonthecountry 164 days ago — 0 Votes

Will Rogers said it best and had a fool proof method of picking stocks.

"Buy stocks low and sell them when they go up. If they don't go up, don't buy them."

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