Is 'Buy & Hold' Dead or Alive?

Share Trading Education.com
Your Financial Independence is at the Heart of Everything We Teach

This Article is based on
An EXTRACT from Edition 532 of our Mentoring style
'Investing & Online Trading' Stock Market Report

"Is BUY and HOLD Dead or Live?"

1. How Hard They Fall

Theoretically, in a solidly rising trend, there may be advantages to be gained in *'Buy and Hold'* as trade management appears simple, capital gains are made and dividends are received.

Where this comes unstuck is what do *'buy and hold'* investors do *when markets fall?*

Do they adopt the BHP mantra, i.e. **B**uy, **H**ope and **P**ray - hold and "*wear the pain*" in the hope that prices will come back? If they are fortunate, maybe prices will return, BUT what happens if they do not?

In fact, when faced with reality, often many investors are not able to actually "*wear the pain*" as they watch their portfolio values plummet. Some may have gut wrenching sleepless nights and reduced physical abilities by day as a result……….many such investors, having bought high, end up finally selling low when the mental pressure becomes too much.

During the GFC, many markets, shares and funds fell in the order of 50%. The cruelty of the market is that **a fall of 50% requires not 50%, but 100% to recover to previous levels.**

This very important point applies to not only individual shares and the market Indices…*it also applies to your portfolio overall. I.e. If you lost 50% of your portfolio, you would need to recover 100% to get back to where you were beforehand……*Even worse, once losses exceed 50%, the recovery amounts needed blow out exponentially, as shown below.

The Cruelty of the Market:

% Fall	Gain Needed to Recover
10	11%
20	25%
30	43%
40	67%
50	100%
60	150%
70	233%
80	400%
90	900%

This is why capital protection is such a strong part of Jim Berg's approach.

Several *'Buy and Hold'* investors who held on to their shares during the GFC while markets plummeted found that in reality they could not wear the pain so they sold out far too late and gave up on the market

Many others held all the way down and have not managed to rebuild their portfolios back to where they were in late 2007.

For instance, the ASX200 (XJO) on 1 November 2007 had a High of 6851.50.

16 months later, by 10 March 2009 the XJO had fallen **54.5%** to a Low of 3120.80. This required *not* 54.5%, but actually **119.5%** to recover at that time.

ASX200 (XJO) weekly

At the time of writing, 16th October 2015, the ASX200 (XJO) had closed at 5,268.20, i.e. so far it has regained only 68.8% of the 119.5% needed to recover to its 2007 High.

I.e. the XJO is now only ***just over half way back*** from its March 2009 Low to its former High of 2007 - of **8 years ago.**

Similarly, let's look at this week's current example, Telstra (TLS) over the long term:

Telstra (TLS) weekly

In its heyday of February 1999, Telstra reached an all-time High of $9.20.

Soon afterwards, '*mum and dad investors*' were encouraged to buy Telstra instalments and many were advised to '*Buy and Hold for the long term*', while prices fell.

Those who held have received dividends meanwhile, but at what cost emotionally and financially '*on paper*'?

Nearly 12 years later, by November 2010, Telstra had fallen **72.3%** to a Low of $2.55 requiring, *not* 72.3%, but **260.8%** to recover at that time….

By 16th October 2015, Telstra (TLS) had closed at $5.44, i.e. so far it has regained only 113.3% of the 260.8% needed to recover to its 1999 Highs, i.e. TLS is now ***LESS than half way back*** to its former High of 1999 of **nearly 17 years ago…**

Some '*buy and hold*' investors are advised by their brokers to '*average down',* i.e. to *buy more* shares after prices have fallen ……..then to buy more shares later after prices have fallen further again, as they are seen to have become even '*better value'.*

In theory, IF and when markets rebound, such investors would have more shares at a '*lower average price'* to take advantage of the rise back, with the aim of offsetting the 'paper losses' of all the shares bought at a higher price.

This '*Dollar Cost Averaging'* approach may appear to work in principle, but in practice Jim says it is more akin to '*Revenge Trading'* – of trading a losing stock over and over trying to get their money back. In addition:

1) Money and risk management principles may be thrown out of the window

2) If the share price continues to fall *without rebounding*, then such an '*investor*' has more shares to drag him/her down

When you read in the media that the suburb you live or invest in has risen 7% for the year, it is reasonable to assume that most houses in that suburb have risen about 7% on average, e.g. you do not expect that any houses have fallen 98.9%.

This is *not so with the stock market*.

For instance, let's now look at Lynas (TLC), which was previously a member of the ASX100:

Lynas (LYC) weekly

In April 2011, Lynas (LYC) reached an all-time High of $2.70.

Four years later, by 25 June 2015, LYC had fallen **98.9%** to a Low of only 3 cents.

The cruelty of the markets is such that this required not 98.9%, but actually **8,900**% to recover at that time!

As at 16th October 2015, LYNC closed at 4.3 cents, i.e. so far it has regained ***only 43.3% of the 8,900% needed to recover to its 2011 Highs***. Percentage wise, this equates to only 0.5% of the recovery needed.

Some investors hold on to their falling shares in the belief that the market has never failed to recover and make a new high, so they wait patiently………. What many investors fail to realise is that the Index is contrived, so that while the market as a whole may go back and make those New Highs, it may do so ***without the shares they own***……….

For instance, as mentioned above, Lynas (LYC) was previously part of the ASX100. *This is no longer the case.* As part of the '*rebalancing*' of Indices, non-performers such as LYC are progressively dropped and replaced by better performing shares in Standard & Poors' Indices, in what is known as '*quarterly rebalancing'.*

Therefore, those '*Buy and Hold'* investors who held LYC for the long term, believing that the ASX100 will recover to its former Highs and so will their LYC shares too, now find that:

1. LYC is no longer part of the ASX100 Index and
2. Currently, these '*long term investors'* still have 8,877% left to go to for their LYC shares to get back to their previous High.
3. Even worse, any investors who listened to their broker's advice and bought extra shares on the way down as they became better and better 'value' (see '*dollar cost averaging'* see above) now find they have custom fitted a set of concrete boots to their portfolio.

Now imagine how much better off those LYC investors would have been if they had been given an EXIT signal after the Highs of 2011 and either:

A. Switched to cash and protected their funds, or
B. Switched from a share that was going down.....to a share that was going up in a rising trend….?

2) Jim Berg's Big Picture Approach

No short term trading rally or longer term rising trend will continue forever.

Jim Berg is the author of '*Shares to Buy and When' (one of A&R's business books of the year in 2010) and 'The Stock Trader's Handbook' and 'How to Write Your Own Trading Plan'* and has presented at the Australian Stock Exchange

Jim, a Director at ShareTradingEducation.com, has successfully traded and invested in the market for over 30 years (18 years of which were as a professional broker) and has taught many investors and traders around the world since 1995.

Each weekend, Jim Berg publishes his comprehensive *'Investing & Online Trading' Report* at ShareTradingEducation.com.

In this mentoring-style Report, Jim Berg uses interactive tutorials, together with notional USA and Australian portfolio examples, to teach his Members, step-by-step, how he selects:

- Which shares to buy
- When to buy and
- When to sell shares,
- All using Jim's unique JB Volatility Indicators and common sense *'Weight-of-Evidence' approach*

Jim's Indicators are now included in many charting programs in Australia and around the world, including MetaStock, one of the most popular stock market programs in the world.

In contrast to Buy and Hold, Jim Berg's approach is to:

1. *To "Make hay while the sun shines"* by trading and investing in RISING trends - using his common sense '*Weight-of-Evidence'* approach
2. Then exit the share or the market when Jim's unique JB Volatility Indicators and Signals tell him to exit
3. Either stay in cash or trade and invest in FALLING trends, as taught in his weekly mentoring style *'Investing & Online Trading'* Report and his new Signals Service
4. All, rather than '***B****uy,* ***H****ope and* ***P****ray'*……

Over the 10 years since he first launched his Report in July 2005, Jim Berg has ***not*** had a single major loss in his Report's portfolio. Rather, he has continually maintained his strategy throughout and demonstrated to his Members how to have *small losses and larger gains*.

Jim believes that Capital Protection is paramount. The rationale behind Jim's approach is that it is better to lock away profits and capital and miss some opportunities, than to risk one's nest egg when warnings are flashing by Jim's analysis.

Rather than second guess future direction, Jim then waits patiently for confirmation of market direction using his documented and thoroughly tested Rules, before adding new positions.

For instance, in his Report of 22 December 2007, Jim presented his studies of Bear markets, mini-crashes and crashes. He showed there had been 4 major All Ords – S&P combination sell signals over the previous 20 years and warned that the market was showing signs for the potential for a fifth at that time.

Jim concluded with a quote from Jesse Livermore's 1940 book *'How To Trade In Stocks*: *"If I were walking along a railway track and saw an express train coming at me at sixty miles an hour, I would be a damned fool not to get off the track and let the train go by. After it had passed, I could always get back on the track again, if I desired*

Two weeks later, in early January 2008. this 5th major sell signal was confirmed, so Jim closed his Report's notional Portfolio, ahead of what became the Global Financial Crisis (GFC).

The *Portfolio stayed closed for 1.5 years,* until the market gave an overall re-entry Signal for a rising trend in June 2009.

By then, most Buy and Hold investors around the world were *faced with the huge problem of having to rebuild their wealth*.

Very importantly, as the market went back up, Jim Berg was showing his Members how to ***build even further upon their previously locked-in and protected funds***,

Jim's call in Dec 2007/Jan 2008 was not the only time. In March 2011, Jim issued another Caution Warning and by July 2011 he had progressively wound back positions and closed his Report's notional Portfolio to protect notional trading capital again.

History now shows this was a month ahead of the big falls of August 2011.

Those Members who followed Jim's lead in 2008 - and again in 2011- protected their own portfolios too, so they did NOT lose millions of dollars between them.

In comparison, during those years, many baby boomer investors across the world who trusted their '*nest eggs'* to *'experts'* – most of which advised them to '*buy and hold'* on to their stocks while markets fell - found themselves with insufficient savings for their retirement.

As a direct result, many of these investors had to keep working much longer than they originally planned.

Some '*Buy and Hold'* investors point to the dividends they earn as compensation for falling share prices. In contrast, Jim's investing approach is to invest only in fundamentally shares *which are rising* and to regard dividends as an added bonus.

Two of the main advantages of '*going to cash'* when markets turn down are:

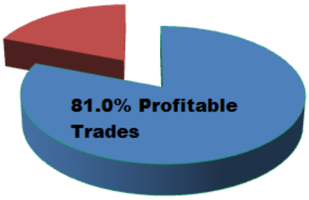
1) Traders and investors have stress free days and nights, with their funds protected in the bank

2) (As mentioned above), after the market rebounds and gives a re-entry signal, while others are trying to rebuild their portfolios, those who have locked away their profits can build them even further in a rising market,

For instance, in September 2012, Jim re-opened his Report's notional Portfolio and over the next 8 months to May 2013, Jim demonstrated how he used his common sense '*Weight-of-Evidence'* trading system and unique JB Volatility Indicators to:

- Find those shares which had passed most of his entry criteria, including those which had corrected within a rising trend and had given an '*RSI Alert'* signal, so that Members could watch their subsequent price action in the next week
- Time his entries into 21 notional trades, once they had passed all of Jim's remaining Entry Rules
- Manage each of those 21 open notional positions week by week in this Report, including when to switch from an Initial to an Adjusted or Trailing Stop after prices had moved in his favour.
- Show when to sell, using Jim's documented exit criteria for this Report, including his 3 Stops, JB Profit Taker and profit targets.
- Progressively publish the results of those notional 21 trades, lasting 4.8 weeks on average, summarised as follows:

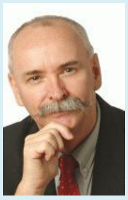
NEWSLETTER PERFORMANCE SUMMARY: 7/9/12 to 17/5/13				
No. of winning notional trades since Sept 2012	17			
No. of losing notional trades	4			
Total Trades	21			
Overall Success Rate (Win-Loss Ratio)	81.0%	(Target > 50%)		
Average Profit per $12.5k notional trade	$ 1,440.29	i.e.	11.5%	
Average Loss per $12.5k notional trade	-$ 691.13	i.e.	-5.5%	
Profit-Loss Ratio	2.08	to 1	(Target > 2:1)	
Average Duration (weeks)	4.8			
Total notional profits	$24,485.00			
Total notional losses	-$ 2,764.50			
Overall net notional Profits after losses	$21,720.50	i.e.	21.7%	of $100k Portfolio
		in	8.3 months	



This was not the first time Jim had achieved a success rate of over 80% for a series of notional trades taken and managed over several months in his Report's notional Portfolio*.

* The past performance of a stock/share is not and should not be taken as an indication of future performance. Caution should be exercised in assessing past performance. This service, like all other financial services, is subject to market forces and unpredictable events that may adversely affect its future performance.

In his book *'Better Trading – Money and Risk Management'*, Daryl Guppy wrote:



" Armed with just a little knowledge, **Trader Novice** calls the direction of a trend successfully **50% of the time.**

With more knowledge and skill **Trader Average** finds it relatively easy to boost the success rate to **60%**. This means that for every 10 trades he enters, only 4 are losers or unsuccessful. There are a lot of traders in this grouping.

Getting from 60% to 70% is much more difficult. For every 10 trades, only 3 are failures. This success rate is sufficiently high for **Trader Success** to realistically consider trading as a full-time occupation.

To turn this sustainable trading into a **major success we shoot for an 80%** success rate to become **Trader Superstar.**

This is like the **top of the mast**. **Very few people make it to this level**……."

Daryl Guppy, Better Trading

In his Report of 6 April 2013, Jim issued his next Caution warning, based on his analysis of the USA, Germany, Chinese and Australian markets at that time.

Jim then progressively wound back the Portfolio until the final position was exited, thereby effectively closing his Report's notional Portfolio on 17 May 2013 - *again before more significant falls in worldwide markets in June 2013.*

Similarly in March 2015, Jim issued Caution Warnings, then progressively wound back his Report's Australian and USA notional portfolios ahead of the large global falls in August and September 2015.

In addition, since June 2015, Jim has been progressively showing his Members how to trade falling trends in both the USA and Australian Markets, with '*live*' examples in his Report, selected from some of the trades in his new Trading and Investing Signals Service.

For example:

- On Monday 24 August 2015, USA markets tumbled, with their largest fall in 4 years and many market participants panicked, with the VIX (often known as the '*Fear Index*') soaring.
- In contrast, on Tuesday 25 August, Jim's Trading Signals Members had already received a Signal to EXIT their new 'open' falling trend position at a **PROFIT,** as it had now triggered a JB Profit Taker exit by Jim's Rules.
- The chart below, republished from Edition 527 of Jim's Report, shows how his Trading Signals Members' first falling trend trade was 'closed' on 25 August 2015, with a **12.7%** profit, or **$2,540** on a $20k notional position, in **4.1 weeks**.

3) "Is *Buy and Hold Dead or Alive?*"

Jim's deliberately conservative approach is that he would rather miss out on some opportunities than risk funds when there is a high probability of a market correction.

In recent years, Jim has issued more caution warnings to his Report Members than before and at those times he did not add any new positions to this Report's notional portfolio or to his Signals Service.

As a result, his Report's Portfolio was closed prior to the market falls in October 2014, subsequently re-opened then closed again before the global falls of August 2015.

After the GFC, in his 11th April 2009 article '***Buy and Hold is a Road to Ruin'***, broker and market commentator Marcus Padley wrote in the Sydney Morning Herald:

"…Is ***"buy and hold dead?"*** Good question. We have been punished by "*long-term*" investment and you have to ask why and whether we can ever trust in it again. It is only when a system comes under pressure that the weaknesses appear.

Ultimately, buying and holding is unrealistic and utopian and has failed us in the short term because it breeds laziness, inaction and denial. The idea you can make a decision on today's information and that that information and judgement will persist for the next 20 years is as arrogant as you can get.

The lessons of the past 16 months have been many, but the most obvious is that there is, unfortunately, little certainty and a lot of guesswork in investment. We may set out with the best intentions to make long-term investments but we cannot think that some grand declaration that it is a "*long-term*" investment excuses us from post-purchase responsibility.

We are at least going to get half our stock picks wrong, every time, because guessing a 20-year investment performance is hardly easy. The trick is not in choosing the flowers, but in pulling the weeds. Imagine what not making losses does for long-term performance. That is the job. Cutting your losses while your profits run. It's not hard.

It is the damage done by the losses that buy-and-hold merchants turn a blind eye to and that's why it doesn't work. Buy and hold was never alive, its weaknesses were just hidden by a bull market and without that even Warren Buffett has been slaughtered.

To beat the odds, all you need do is check in once a week, month or year and act to cull stocks that are going wrong. The market talks but the buy-and-hold merchants don't hear, let alone listen, let alone act. Long-term investment is fantastic in theory, but only in theory, in hindsight, using examples of stocks that went up in the long-term. ABC Learning and Babcock & Brown were long-term investments once. The key to success is managing those and that is not rocket science.

All you have to do is admit you are going to get some wrong and that to ensure the long-term performance of your good stocks you need to do something about the bad stocks. Anything less is ignorance, denial and arrogance. It's not buy and hold, it's buy and watch."

Similarly, Jim Berg's approach is to teach his Members at ShareTradingEducation.com:

1) *To "Make hay while the sun shines"* by trading and investing in RISING trends - using his common sense '*Weight-of-Evidence'* approach

2) Then exit the share or the market when Jim's unique JB Volatility Indicators and Signals tell him to exit

3) Either stay in cash or trade and invest in FALLING trends, as taught in his weekly mentoring style *'Investing & Online Trading'* Report and his new Signals Service

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To discover more, Jim Berg invites you to **click on these links** to:

1) Watch his 3 FREE Video Mini Course and to

2) Download your Free Checklist;
'7 Pitfalls to Avoid in the Stock Market'

Become a Member of Jim Berg's weekly mentoring-style '*Investing & Online Trading*' Report to discover Jim's common sense approach, so you will know:

- ✓ **WHICH stocks /shares to Buy**
- ✓ **WHEN to Buy and, most importantly**
- ✓ **WHEN to SELL**

As a Member, you will be able to

- Tap into Jim Berg's 30+ years trading & investing experience
- Follow Jim's '*Weight-of-Evidence*' Rules, practical educational exercises and Jim's USA and Australia notional Portfolios each week

Information alone will NOT change your life.

Implementation is the key.

It's what YOU DO with what you learn which makes Expert Trader & Investor Jim Berg's stock & share trading and investing education **so VALUABLE.**

"To climb a mountain quickly, everyone needs a Sherpa to lighten the load and help them get where they want to go." (Taki Moore)

Test and measure on paper for as long as you like --*before you put a single dollar more in the market*. **Prove it to yourself.**

July 2015 marked the 10th Anniversary of Jim's weekly Report.

Join today and you will also receive this FREE Bonus Welcome Package, **worth $194:**

- Jim Berg's Stock Selection Tool (usually $97)
- Jim's co-authored Trading Plan Guide (*usually another $97*)

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New! Jim Berg's Signals Service

A falling trend can last for months, even years. Traders/investors will have to make some important decisions:

1) Hold on to existing positions and even add to them. This can be painful if markets continue to fall.

2) Go to cash. If markets continue to fall they will sleep well and 'outperform' the market and most professionals

3) Trade the *'path of least resistance'*, with the aim of profiting from a falling market and 'outperforming' by a considerable margin

Jim Berg's new Trading Signals Service for Australian shares and USA stocks is **now open** to traders and investors around the world.

For more information on Jim Berg's new Signals Service and to get started, go now to: http://www.sharetradingeducation.com/TradingSignals.aspx

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