Is BUY and HOLD Dead or Alive?

THE BIG PICTURE

By John Atkinson

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 'Buy, Hope and Pray'……

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 excellent 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
4) All, rather than 'Buy, Hope and Pray'……

To discover more, Jim invites you to watch his 3 Free Video Mini Course and to download your Free Checklist '7 Pitfalls to Avoid in the Stock Market' at www.ShareTradingEducation.com