Market Dynamics

Buy and Forget

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Performance Management System

Portfolios heavy with under-performing stocks almost never outperform the market.

Ignat's Law

"Stocks going in the wrong direction, are the wrong stocks to be in."

Burton Crane Long time editor of the New York Times business section.

A collection of recent newsletters is available on the web site.

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Many investors who follow a long-term investing approach ignore what happens to the price of their stocks. Its as if they bought the stock and then forgot about it. Many investors who follow a "Buy and Hold" approach leave the "hold" part of the approach to chance.

Investors should always evaluate their investments to determine if the stock they bought is worth holding. In order for a stock to be retained in the portfolio, it needs to show a performance that is better than the market. The measurement of a stock's performance should tell the investor whether the stock should be held or not.

Many long-term investors have been taught that you cannot predict a stock's future price movements because the stock market is random. The measurement of a stock's performance using a chart of that performance is very different from trying to predict the future of that stock. The only prediction that is involved is the common sense judgment that what has been happening to the stock recently will probably continue.

It is very important for the long-term investor to use long-measures of performance. There are effective long-term methods for tracking a stock's performance relative to the market. These techniques damp out the random noise in the price data and let the longer term trend of performance show through. The investor can hold the stock for as long as the performance remains better than the market. If the long-term trend of performance turns down, the stock should be sold. It requires that the investor review a long-term chart periodically and systematically. In this way the winners are retained in the portfolio and the losers are eliminated just as soon as the performance turns down.

Experience shows that economic and business conditions can change dramatically in the long-run and these changes are reflected in the prices of stocks. These changes are often the result of "creative destruction." Winners and losers among stocks are revealed by their trends of performance. Randomness makes the future of the stock unpredictable but the long-term performance of the stock as shown on a chart can be very useful in determining whether the stock is performing well or not. A long-term trend of performance by a stock usually continues over time.

The important point is that if the investor measures the long-term trend of performance for a stock, he will know when the trend changes from up to down. Once the trend turns down the investor does not need to predict the future, it is enough to know that the stock is going down on a long-term basis. If it is going the wrong direction, it is the wrong stock for the portfolio.

The measurement of a stock's performance is usually accomplished by using a chart of the stock's relative strength. Relative strength is usually recorded using a ratio of the stock's price to a major market average. The alignment of the intermediate trends of relative strength accumulate into a long-term trend of performance and that is what counts. A stock that is performing well deserves to be retained in the portfolio for as long as that performance persists.

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