When to Hold and When to Fold

As of July 21, 2006

For the past week, the Dow gained approximately 0.01%, the S&P 500 was changed slightly and the Nasdaq was down 0.01%, its loss for the third straight week. After a mixed opening, a spike in the middle of the week and a drop at the end, the markets had quite a ride. Along with this ride, a strong labor market and business spending, a weaker housing market and retail sales, and higher energy prices and CPI (rose 0.3%), have sent mixed signals to the markets. Investors may be tempted to chase the highly-anticipated rally, after Bernanke's congressional testimony on Wednesday.

Instead of chasing the market, knowing when to hold and when to fold is more important during this roller-coaster ride. For investors who do not follow the markets closely, patience is definitely an important attribute during this period. As a bearish view is likely to dominate the markets until September or possibly even December, it is okay to buy and hold the stocks you like, especially when they are a bit lower than their normal trading range. However, you will not miss much if you don't get into the game.

On the other hand, for money managers, it is time to hold instead of folding your cards. Wednesday's rally gave money managers a good opportunity to filter out and sell the worst stocks in their portfolio. As for stocks in the financial institution sector in general, it is still not the right time to buy except for some particular cases. Stocks in the commodity sector may still be shorted since fluctuation range is substantial. As for the energy sector, less fluctuation was observed. However this is not the case for the energy service stocks. In this uncertain market, it is still better to stay away from high beta sectors. Nevertheless money managers should continue to seek for quality trading opportunities.

With the inverted yield curve signaling a slowing economy and the Middle East crisis serving as a wild card, investors should sell on strength and short on further strength. Take cover on weakness and buy on further weakness. Take profit when you can, by doing so it will provide investors better investment results in the long run.

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