Is Buying and Holding a Thing of the Past?

Description

Some investors favour buying low and selling high over buying and holding, because they worry about market crashes. Market crashes do occur. However, in practice, you can only identify them clearly after the fact.

In reality, buying low and selling high is not as simple to execute as one would think. How low is considered low, and how high is considered high? I personally don't think the idea fits for all stocks. That is, I'd consider some stocks for buying low and selling high and others for buying and holding.

It's not simple to buy low and sell high

I consider commodity stocks for buying low and selling high because of their volatile nature. Most recently, the best gain I booked in a commodity stock was ~20% in trading **Torc Oil and Gas Ltd.** (TSX:TOG) in a little over a month.

There's much work that goes behind doing this, though. First, I had to identify that Torc was a fundamentally sound company. Second, I had to buy it at a low. Third, I had to make up my mind that it was intended for a short-term trade for capital appreciation. So, when the time came, I would sell and wouldn't be greedy.

What was the risk I took to get a nice gain in such a short time? Oil prices could have fallen lower, which would have caused Torc's share price to fall with it. However, oil prices could have improved, and I would have missed likely substantially more upside.

I watch a basket of commodity stocks. Sometimes the trend is not so clear, which would make trading riskier. That's when I avoid the trades and potentially leave money on the table. That's why I like to put my savings in buying and holding stocks.

To buy and hold, you still want to buy low, but you might not want to sell high

I've invested in **Royal Bank of Canada** (TSX:RY)(NYSE:RY) before, but I'd sold when I thought it was fully valued. My mentality for the bank has changed.

The big Canadian banks are one of the most profitable groups of businesses in Canada which earn billions of dollars. Typically, they generate returns on equity that are at least in the teens, and they become more profitable over time.

If investors try to buy low and sell high in quality stocks such as Royal Bank, it could take a long time before they can get back in. If you plan to invest for the long term, it may be a better strategy to buy quality stocks when they're priced at attractive multiples and hold on to them for long-term growth.

Right now, Royal Bank is pretty much fully valued. Long-term shareholders should sit tight and collect the growing dividend. Investors looking to buy might want to wait for a bigger margin of safety — perhaps start buying when the shares reach at most the low $90 level.

Investor takeaway

Buy-low-and-sell-high strategies don't always work out. It requires keeping a close eye on the related stocks, an exit strategy, and even some luck.

Quality stocks, especially ones that pay shareholders a growing dividend, should be considered for buying low and holding for long-term growth. However, investors should still check on the companies periodically to ensure they're still doing fine.

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