Is Buy and Hold Still a Good Investing Strategy?

Description

With so many different types of investing strategies, including high-frequency trading, momentum investing, etc., is a buy and hold strategy behind the times?

The short answer is — it depends largely which stocks you're holding.

A potential buy-and-hold strategy

Some investors take profits from winners and hold on to losers, hoping that the losers will recover some day. However, doing so will be detrimental to the health of your portfolio.

If you perform due diligence and trust in your stock picks, then it may make sense to hold all your stocks, since you don't know which will outperform in the long run. In a portfolio, you'll just have to accept that there will be losers, winners, and some in between. Even the best of the best investors don't hit a home run on every investment they make. The idea is that the outperformance of the winners should more than cover the losses of the losers.

Sometimes you have to sell, maybe even at a loss

Sometimes you end up with a stock that's entirely different from what you had in mind.

In 2015, **Concordia International Corp.** (TSX:CXR)(NASDAQ:CXRX) was bid up to over $100 per share. Some investors might have jumped in, thinking the stock could go higher. However, the stock quickly fell to $40 per share. Some investors might have bought it then, thinking they were getting a bargain after the large drop, but look where the stock is now — trading at $0.28 per share.

The best scenario would be not having bought such a stock in the first place, but if you did, first of all, don’t buy more. Second of all, get out of the stock (hopefully, at an opportune price). For such stocks, cutting losses early is better than holding on to the stock.

Stocks you’d want to buy and hold

Certainly, there are great businesses that are worth buying and holding for the long run. If a business continues to become increasingly profitable over time, there’s no reason to sell the stock unless it becomes excessively overvalued.

Toronto-Dominion Bank (TSX:TD)(NYSE:TD) is an example of a great business. It operates in an oligopoly environment in Canada, and it has meaningful contributions from its U.S. operations.

The stock has delivered long-term returns of about 9.5% per year since 2001, which exceeded the less than 5% per year returns of the U.S. market in that period.

The bank is trading at a reasonable multiple currently at about $76 per share. Given that it’s estimated to grow its earnings per share by at least 9% for the next three to five years, an investment in TD today can deliver returns of at least 12% if it trades at a normal multiple. That’s a fabulous estimated return for an investment in a great business.

Investor takeaway

Investors need to perform careful research before buying any stocks. A buy-and-hold strategy will work for a portfolio filled with great businesses.

CATEGORY

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3. Investing

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