

Trading Growth Stocks

By [David Kreinces](#), [ETF PM](#) (11/8/13)

The global stock market has been doing extremely well lately. Note our article this past March titled "[Put Your Cash To Work](#)." Equity returns are trouncing fixed income, and many investors are increasing their risk appetite accordingly. In some cases, this includes adding exposure to individual stocks.

At ETF PM, we advise clients to diversify through a combination of [strategic indexing](#) and [trend following](#), using leading, ultra-low-cost exchange-traded funds (ETFs). However, we also provide individual stock exposure through buy and hold recommendations, and an active trend following stock rotation process. That said, we typically advise clients to limit individual stock exposure to 5% of their liquid investment assets.

Recently, our individual stock trading efforts have focused on [Tesla \(TSLA\)](#), [Solar City \(SCTY\)](#), [3D Systems \(DDD\)](#), [LinkedIn \(LNKD\)](#), and [Netflix \(NFLX\)](#). All of these companies have extraordinary relative price performance, leadership positions in their respective industries, and "game changing" innovation.

However, even the best stocks suffer painful reversals at times. Over the past decade, long-term investors in [Apple \(AAPL\)](#) earned well over 40 times their money, or more than 45% annualized, but they had to endure a number of sharp reversals that exceeded 20%.

Between 2007 and 2009, AAPL fell by more than 40% twice, and within the past two years it had a 45% decline. Today, Tesla and Solar City are both probing declines greater than 20%.

History proves that nobody can consistently predict future stock prices, and emotion is a liability in portfolio management. In order to contain these inevitable stock price reversals, we employ a trend following rotation process that protects principal by shifting to cash as needed. [Trend following](#) is a reactive, rules-based process, that enables investors to target aggressive growth, and contain losses during downturns.

As for [Twitter \(TWTR\)](#), we typically wait for stocks to be public for more than one year before trading them. However, we do make exceptions, as we did for Solar City, when the stock performance justifies the risk. ETF PM currently has long-term positions in Tesla, and we are actively trading Tesla, Solar City, and 3D Systems.

David S. Kreinces is the Founder of ETF Portfolio Management (ETF PM), a revolutionary financial advisory firm that specializes in rules-based investing and risk control. He has over 20 years of professional investment experience in multiple asset classes and investment processes. He is an expert in trend following and successfully delivered gains in the crash of 2008. See www.etfpm.com and www.InvestableBenchmarks.com.