Trading Growth Stocks

By David Kreinces, ETF PM (14/04/17 Updated)

In our first article about trading growth stocks, we mentioned the painful reversals that buy-and-hold shareholders endure in order to target extraordinary returns long-term. Unfortunately, over the past few months, many growth stock investors experienced this firsthand.

For example, Tesla (TSLA) recently reversed 30% from its late February peak of $265 per share, to the low this week of $184. While a reversal of this magnitude is very painful for any company, long-term Tesla shareholders enjoyed a 670% gain during the prior 12-month period, leaving them somewhat insulated from short-term corrections.

At ETF PM, we strongly recommended Tesla back in May 2013 because the company had just won the "Triple Crown of Auto Manufacturing." Some of our clients initiated exposure through small, long-term buy-and-hold positions, while others now have larger exposure through our active stock rotation process that includes risk control.

Clearly, nobody can predict the next peak or trough in Tesla shares, or the broader markets for that matter, but we can make defensive adjustments to protect client assets as needed. In our active stock rotation process, we sold Tesla shares at $251 and repurchased the position this week at $198. While we do currently hold this Tesla position, our active risk control process will rotate the exposure as needed.

That said, our favorite stock today is Vipshop (VIPS). The company is a leading online discount retailer in China with strategic support from a legendary venture capital firm in Sequoia Capital. At a current share price of $145, the stock has gained over 2,300% since it first traded publicly roughly two years ago at $6 per share.

Given Vipshop's current market capitalization of $8 billion, there is plenty of opportunity for management to maintain a strong rate of return for shareholders. However, as with all leading growth stocks, extreme share price reversals are inevitable, and investors with larger allocations may benefit greatly from a disciplined risk control process.

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