

# MarketWatch

October 16, 2009 12:45 PM EDT

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## Latest News

- 12:37p Friday's biggest gaining and declining stocks
- 12:33p U.S. stock market drop lifts VIX off 13-month lows
- 12:33p Dollar gets a lift from weak confidence data
- 12:32p Treasuries gain after inflows, economic data

DOW	-101.95	NASDAQ	-25.18	S&P 500	-12.02
9,961	-1.01%	2,148	-1.16%	1,085	-1.10%

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### Ciena rolls dice — uphill

Scoring key assets from bankrupt Canadian rival Nortel would be transformative for Ciena, but it's far from a sure thing. And poses risks, to boot.

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## Exploit your competitive advantages

Commentary: Trade warily in these market conditions

STORY QUOTES COMMENTS SCREENER (12)

By Thomas Kee

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LA JOLLA, Calif. (MarketWatch) -- Your primary objective should always be to exploit your competitive advantages.

Because we are individual investors, we have the ability to control our risk much better than institutions ever could.

Institutional investors who manage billions of dollars cannot get into and out of the market as easily as we can. They wish they could. That difference affords us an exceptional competitive advantage.

Unfortunately, most investors do not know how to take advantage of this. In this article, I hope to offer the constructs necessary to allow you to do so.



If you have been following my recent columns for MarketWatch, you are already familiar with a proactive strategy I introduced in March. That strategy is something I have been using to guide my clients into and out of varying market cycles since January 2000. That strategy is exactly what you should use to trade the market from here.

Anyone who tells you that this is a good time to make a position trade is foolish. From current levels, and for the foreseeable future, the market could fall just as easily as it could rise. This balance of probability tells us that we must be willing to trade both long and short. Most

individual investors are one-sided, but almost all professional traders are willing to switch from one side to another when the market calls for it.

### TRADING STRATEGIES Making the Turn

Playing the back nine of 2009 could be tricky for investors with tough targets to reach.

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- 'Boom!' goes the market
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In my opinion, the market is telling us that we should be willing to trade both long and short for the time being.

In March, there were different signals. In March, we had excellent opportunities to buy at the bottom. In April, I identified the ProShares Ultra Real Estate fund (URE 5.73, -0.32, -5.29%) and the ProShares Ultra Financials fund (UYG 6.08, -0.29, -4.55%) as exceptional opportunities for able investors. In May, I advised everyone to take profits.

That is the identification of opportunity. Those do not happen all the time. When they surface we need to be able to take advantage of them, but in the meantime we should always protect our risk and realize opportunities on both sides of the curve.

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## Reader Response »

“I do have a suggestion for would be traders who want to manage their retirement funds. If one has all his pension tied in his (her) current employer plan, there are no alternatives. But if an employee quits the current job, he (she) should immediately roll over the 401K into an IRA account with a (preferably) discount brokerage house. Unfortunately, many participants in 401K opt to...”

- EuroAmerican | 7:51pm 7/1/09

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### GE brass is funnier than Jay Leno

It's clear that NBC Universal misfired by installing Jay Leno in a primetime comedy show every night. General Electric senior management would have been a better choice, writes Jon Friedman.

11:13am Today | Comments: 21

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## Risk control

Before I go any further, the primary objective of the proactive strategies that I offer is risk control. Without risk control, the returns of the strategies we use could never be realized. Please review my performance for details. The only reason our strategies perform as well as they do is that we focus on controlling our risk first.

Instead of chasing performance, we consider performance to be a natural byproduct of risk control. Though my effort in this is difficult, I am trying to coin the phrase "chasing risk control" for my clients. If we are able to control our risk at all times, we are able to realize opportunities when they surface. However, if we relinquish risk controls we may identify opportunities, but be handcuffed in losing positions when it comes time to act.

Interestingly, the strategy that I am proposing is not something that should only be used at select times. We can use it in any market environment, regardless of economic conditions, it works on both the long and short sides of the curve, and I have developed a way to do it without sacrificing time or lifestyle.

This strategy has a set of rules. The most general of these rules are as follows:

- Risk controls must be used at all times

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