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DOW	-102.48	NASDAQ	-25.37	S&P 500	-12.13
9,960	-1.02%	2,148	-1.17%	1,084	-1.11%

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Doing what defines you

Commentary: Adopt a risk-controlled strategy

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By Thomas Kee

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LA JOLLA, Calif. (MarketWatch) -- "It is not what's inside you, it's what you do that defines you."

I captured this line from a movie a few years ago. It implies that our thoughts and beliefs matter less than our actions. One might think that our actions are controlled by our thoughts and our beliefs, but often they are not.

Most of the time, our actions are controlled by our emotions instead. This is directly related to our current environment and to the mindset many investors have recently adopted. Many people are setting themselves up to make the same mistakes all over again. Do not let that happen to you.

Instead, I offer a strategy called "Stock of the Week." It is risk controlled and works in any market environment. It is both a long and short strategy, works regardless of economic conditions and the performance has been outstanding. It also keeps you from making mistakes.

Stock of the Week is a specific strategy that you can develop on your own. Every weekend, review the mid- and long-term charts of the market. Develop an understanding of where the market is going.

Then look for stocks likely to trade with the market along those same lines. You want to correlate your stock selection with market direction. This is easiest to do with a filter, but you also can do it manually.

Avoid stocks scheduled to report earnings, or important news events. Those add too much risk to the equation, and our goal is to control risk, not increase risk levels.

Here is an example: If the market is in a mid-term up-channel, and likely to test support and turn higher, look for stocks poised to test support as well. Create a plan to buy them near support, to sell them near resistance -- if a sell signal comes before Friday -- and stop out if support breaks. Be willing to repeat this trade again if you are stopped and it re-triggers, and be willing to adjust it if needed.

However, limit adjustments to overnight adjustments only. This helps control emotional decisions. Do not adjust the plan during market hours. In addition, keep your stops extremely tight. On a \$50 stock, stops are 26 cents in my strategy.

Trade the plan from Monday to Friday, closing it every Friday no matter what. Ending the week in cash is extremely healthy, and it refreshes your mind. This is a critical element.

We are not getting married to these positions; we are not buying and holding. Instead, we are adopting a proactive risk-controlled approach that will work regardless of the economic conditions that lie ahead. You can use this for the rest of your life.

Good trading.

Thomas H. Kee Jr. is president and chief executive of Stock Traders Daily, based in La Jolla, Calif. To view a presentation of his "Stock of the Week" strategy, click [here](#) . ■

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“Is this an advertisement? And, why feel great about being in cash for the weekend? The dollar is in a steep decline, money market's have broken the buck, and some think bonds are ready for a correction. Not impressed”

- [chica](#) | 3:56pm 8/3/09

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