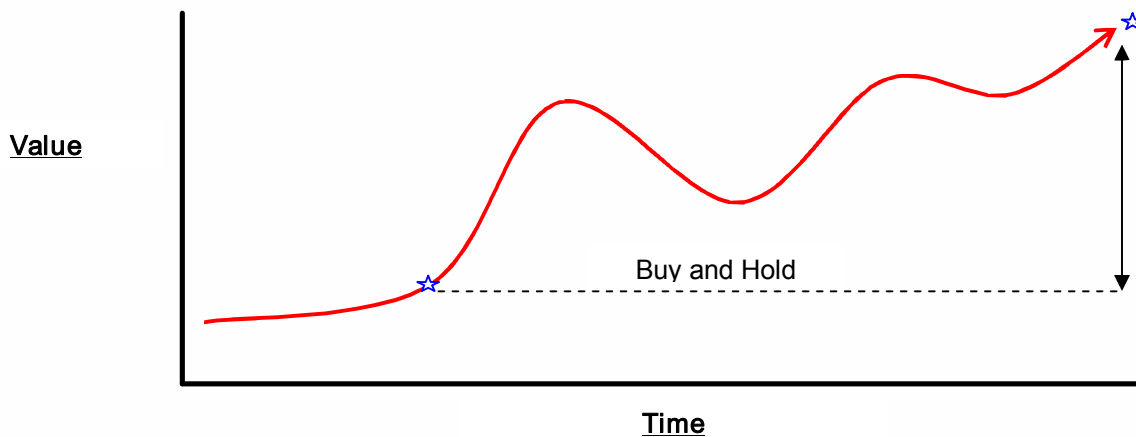


Buy & Hold Stock



Requirements

- Purchase stock
- Hold position indefinitely with the view of gaining in capital value as stock price rises
- Medium to Long-term market outlook

Benefits

- Markets generally rise over time due to bias towards growth in global economies.
- Easiest form of investment, and requires little interaction with markets
- Lowest risk strategy
- Many advisors able to provide decisions

Risks

- Poor performance by company resulting in falling stock price
- A weak economic environment has a high probability of leading to weak performance in stock value
- No protection - could lead to a 100% loss of invested capital
- Exit not measurable
- In many cases, requires “outside” advice for decisions as inexperience can mean poor choice/s

FMR Analysts

INDEPENDENT
STRATEGY ANALYSIS

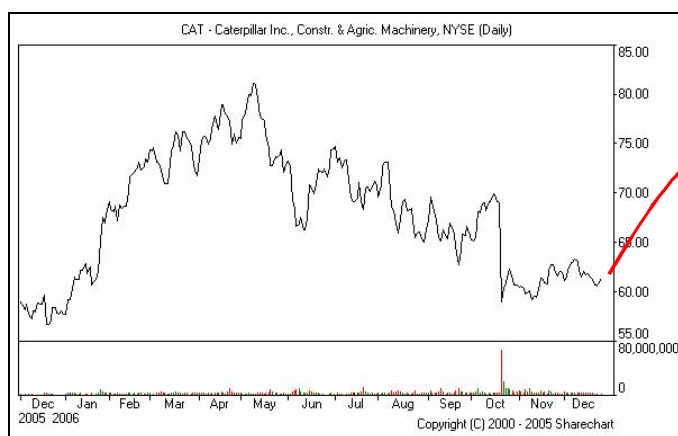
How to ...

- Decide on a company to invest in, either through a licensed advisor or by personal decision-making.
- Purchase stock/s through a broker
- Hold indefinitely
- Exit position once you have made a gain. This could be a pre-determined point of exit, when you need the capital, or when advised to exit

Tips & Hints

- Market Timing is critical. The start of a rising market is ideal as it will give the best environment for capital growth. The top of an upward market gives greatest risk for future downwards activity as sellers could enter the market at any time, and a stock that is high in value is at greatest risk of falling further.
- Fundamentally stronger companies offer better investment potential. These are companies that are profitable, that have good/strong Management, and have a desired product/market for Revenue generation.
- Companies that offer Dividends are popular for Buy & Hold investment as they produce an income.
- Establish what your expectations are for the stock over the time period you expect to invest. Pre-determine your Exit points to profit from your investment. Also establish your “acceptable loss” point, where you will exit if the stock/markets are trading against your expectations.

Example



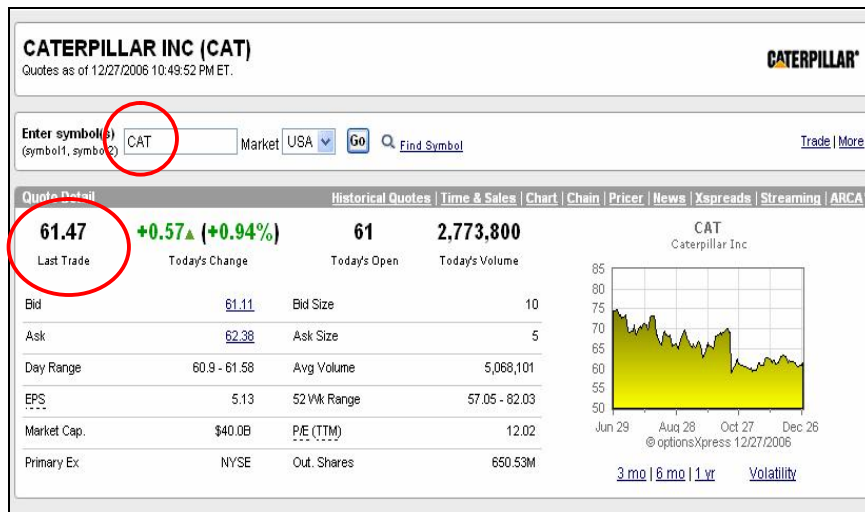
Expecting share price to
rise over time

- CAT (Caterpillar Inc) has retraced through most of 2006.
- Investor believes that CAT is a fundamentally strong company
- For last 2 months, stock price has held above \$60 per share (known as a support level)
- Investor believes that CAT will be worth more than \$60 over the coming year, potentially trading back to last long term high around \$80

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If a Bullish expectation has been established, the investor would contact the broker to enter the position.



- The last traded price for CAT is \$61.47
- If we were investing \$2,000, we would be able to purchase 32 shares in CAT.

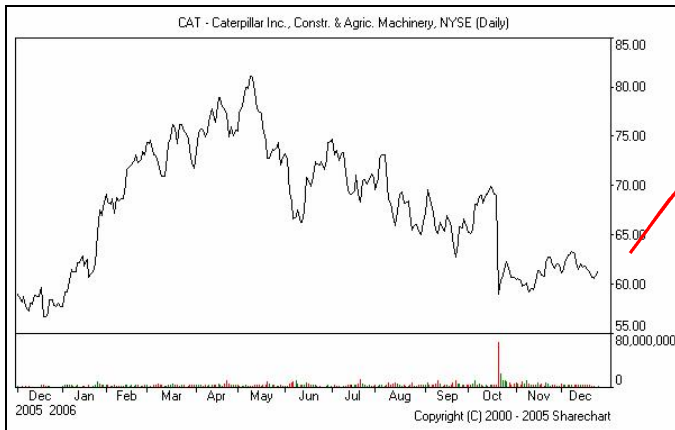
Order Placing

Buy 32 CAT shares

- When entering into stock positions, the investor must be specific with their terminology.
- The first section denotes what the action is - Buy.
- The next section denotes what stock - CAT .
- Finally, the investor will need to specify how to transact the order; 1) at market value (the current price), 2) at a limit (a maximum price paid), or 3) some sort of advanced order (beyond the scope of this explanation).

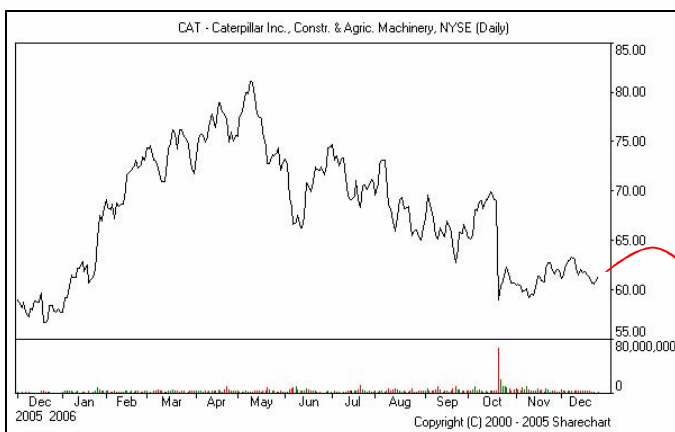
What to do if ...

If the stock price rises:



- Hold position as long as you believe there is reason for the stock to continue rising. Example; company remains fundamentally strong, stock price maintains an upwards trend, and/or positive sentiment remains with company
- Be aware, that there may be short-term counter-trend retracements, where the stock price falls slightly before resuming upwards trend
- Establish pre-determined points to exit, either at a monetary/percentage value or based on time

If the stock price remains steady:



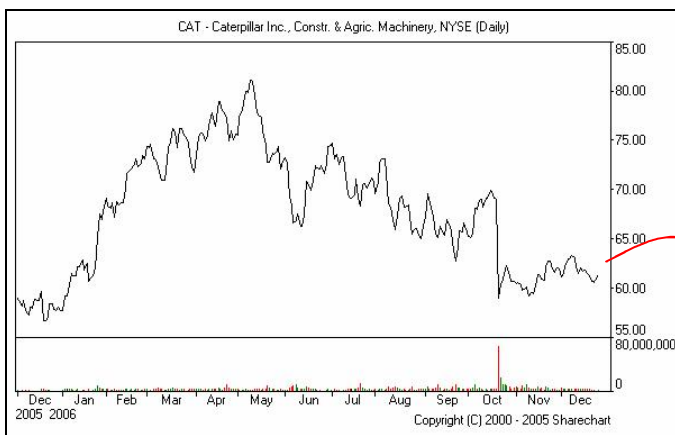
- Establish a “time frame” for exiting the position. A stock price that fails to find direction is still costing you profits. There is no point holding the position indefinitely because the stock could continue trading sideways.

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- Is there a reason for the stock price failing to find direction? Could the stock find the bullish/upwards activity you were expecting, or could it eventually find sellers?
- Rule of thumb ... the longer the stock price holds the support level, the stronger the sentiment becomes that buyers could prevail. But once that support level is broken, it is clear there are no interested buyers in the market - exit the position.

If the stock price falls:



- Keep losses short
- In the above example, the position was entered because support around \$60 had been identified, suggesting that buyers found the stock as a “good buy” at that level. If the stock price were to break that level, then the reason for entering is no longer valid. The position should be closed
- Establish a value at which you are willing to exit. This could be determined by a percentage fall in stock price, or maybe a dollar loss.
- Maintain discipline. When the stock price reaches your exit point, close the trade - no matter what your expectations are. If the stock price recovers, you can re-enter later. However, if the stock price continues to fall, you will realize a larger loss.

Disclaimer

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