

Getting Your Edge In Stocks!



In this issue of Invest magazine, we are excited about Invest Fair 2010, and many of the readers here would have already visited the exhibition at Singapore's iconic Marina Bay Sands. It has also been a nice year of gradual recovery in the stocks market.

On the top of many people's to-do list is what stocks they should buy. It seems like a great year to load up, before the train passes by. Nonetheless, before you rush into buying a stock, I urge you to consider your Stock Personality. Each personality has its strength and has its weaknesses. Many new investors and traders get confused by the myriad of investing education available on the internet that conflicts with each other. Hence, when you know exactly what type of trader you are, you can use the resources to hone your specific skills needed to be really profitable in that zone. In our seminars, we teach our clients how to identify their own stock personality and how to build up this natural character within themselves. For today, I will describe to you the three personalities, and how to blend them to get your edge in the stock markets for the next decade!

WHAT IS YOUR STOCK PERSONALITY?

a. The Trend Runner

The trend runner is the most common type of stock trader, because he does not need to worry about any stock specifically. He will use a series of support and resistance lines

to identify the buying and selling ranges. Additionally, he will employ a host of technical indicators to aid in getting a better entry point. Take for example; he will use the MACD indicator to identify stocks that are at a turnaround point, and this can be further reinforced with the use of an oscillating indicator like a RSI or a Stochastics indicator.

You can imagine the trend runner to be like a machine in the factory. They will continually sieve out the stocks to find a counter that matches all their requirements. Once they find such a counter, they will then buy the counter, and sell it off once it misses its performance targets. These benchmarks are likewise set by the technical indicators in advance.

The concepts may seem very technical to the stock trading beginner, but it becomes very simple once you learn how the key indicators work. It does not require you to know anything about the stock and the quality of the stock. You trade primarily on what this set of indicators tell you about the future direction of the stock.

In all its simplicity, there is a challenge for the trend runner: and it is not an external challenge, but rather something that runs deep in them. The trend runner has to fight the temptation of falling in love with their stocks. In the simplicity of the system, the key feature is that you should not hold on to any stock that begins to fail the criteria. It is like

going to the grocery store and picking oranges. You pick up the orange from the pile, and evaluate its colour and radiance, if it is good, you put it in your bag; otherwise you throw it away. The trend runner has to constantly add to his positions when the indicators show, even if he may feel uncomfortable. Likewise, he has to close his positions, at the soonest moment that the indicators signal faults in his position. Unfortunately, the human psychology was not born from birth to manage greed and fear so smoothly. Thus, many trend runners lose money because they fall in love with their positions and hold on to it, long after the indicators have shown to exit.

A critical tool for the trend runner is to have an automated system to find and track these stocks as they happen. While you can actually do the selection without software, you will find that it requires you to spend a lot of time in the markets searching for these developing events. A proper software will help you scan for setups in minutes a day, thus allowing you to jump on and get off quickly. Nonetheless, the final leap is still your action to enter or to exit your trade.

b. The Entrepreneur

The entrepreneur is very different from the trend runner, because he does not spread his net as wide as the trend runner. The entrepreneur has to methodically seek out companies that he likes, and preferably within industries

that he is familiar with. Then, he builds up an understanding of these companies, and buys them whenever their stock price shows abnormal weakness.

He will look into how a company builds its advantage in the market place. The management of these companies must be visionary and yet practical to handle short term challenges while riding on the long term growth potential. The entrepreneur has to evaluate if the company's customers love their product and their affinity to the brand loyalty. He then has to assess if the company has a future in this industry. When all of the above are in place, the entrepreneur investor can confidently take advantage of market inefficiencies to buy this quality stock at a great price.

I liken this investor to an entrepreneur, especially building on my own experience of starting my own business and growing it and buying other businesses. Whenever I look to buy another business, I always check for these key points, to see the quality and survivability of the business. I would even make the effort to walk the ground, for example, if it is a shopping mall, I would drive to the physical locations and look at the traffic count. If everything is great as above, I would immediately buy the business! Unfortunately, I never get the opportunity to buy it at a clear discount unless the seller has mitigating circumstances, which is not always the case.

The amazing thing about the stock market is that it will discount wonderful companies that have visionary leadership and products that are flying off the shelves. How does this happen you may ask; it is simply because sellers of that particular stock in the stock market could be selling for reasons other than its long term value. It makes it a perfect situation for the savvy entrepreneur investor because you get to buy these fantastic companies at a discount.

In this set up, you have to be aware that this is not an excuse for holding on to stocks of lousy companies. Time has to be spent on

identifying, and watching the progress of the companies that you want to invest in. You need to know their key performance indicators and their competitive advantage in the market. On average, I spend a minimum of three months watching the company that I intend to buy. Many times, I would also buy a token position, just to keep the waiting process exciting.

c. The Plantation Owner

The plantation owner is somewhat similar to the entrepreneur, except that his cycle is even more infrequent. He has to wait for major shakeups for the economy or the particular stock before he can buy. In contrast, the entrepreneur can buy at most stock market retracements; the plantation owner buys a large amount at extreme corrections.

Similar to a real-life plantation owner, the investor in this category would buy large positions of stocks, and leave it to grow. The rewards may occasionally take a few years to harvest, but the scale of its harvest is worth the wait. A classic recent example is during the recent Singapore stock market collapse in 2008, many seasoned investors were like plantation owners buying up our quality REITs and blue chips. In the next 12 months that followed, many have already tripled their portfolio, and there is still more upside for them.

The plantation owner style is ridiculously simple that most people can grasp the concept, however, the difference between making a fortune and making a small pile, lies in the size of the plantation you buy. Unfortunately, buying opportunities for the plantation owner comes four years once or even longer. Hence, the first time plantation owner usually buys a very small position and never grows it big.

The entrepreneur investor is actually the plantation owner investor in training, because the entrepreneur investor has been faithfully building a list of high quality companies. In a market recession, the entrepreneur investor is like a kid in a candy store and

will begin to use all his spare cash to buy up every plantation he can lay his hands on!

GETTING YOUR EDGE IN THE STOCK MARKET

Now that you know what the three stock personalities are, you might be asking yourself: which is the most profitable personality? The secret is that there is no way to judge which personality can be the most profitable. There are many famous trend traders that make hundreds of millions, and likewise there are many entrepreneur and plantation owner investors that make hundreds of millions.

Nonetheless, if you trade or invest in only one particular style, you must be prepared to wait out the market. It is well known that Warren Buffet can be out of the market for months or years at a stretch, because he only buys in one specific style. Thus, your edge in the market to consistently have a series of profitable investments and trades, is to use the correct personality at the correct times.

This edge is your guarantee to have a constant series of profitable or yielding trades and investments. In reality, you can make money with a personality that does not fit the current market sentiment, however, it is a much more difficult process. The profits will be harder to earn, and losses are easier to accumulate. Thus, the easiest way is to work on developing all of your trader personalities, and then use it profitably at every juncture of the stock market: crash, recovery and rally! ■

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