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Over time, with advances in science and technology, the Information Age is upon us. With advent of the Internet and other improvements in the way information is transmitted, trading stocks is easier than ever says **CHIANG KIAN SENG**

When I was much younger, I remember watching my father watching the movement of stock prices on Tele-text on TV. I remember also asking him what he was doing. He patiently explained that he was watching price movements of the stocks he was interested in so that he can decide when would be a good time to buy or sell the stocks.

The lack of information sources

Back in those days, if you wanted to monitor the stock market, there were only a few sources. It was either the newspapers, the Tele-text on TV or you would have to call your stockbroker. There were no such conveniences as the Internet or smartphones back then.

If you wanted to find out about the financial health of a company whose stock you are interested in buying, you had to request the company to send you their latest financial reports in the post. And mind you, the figures you see in those reports may not be the most current.

The inability to buy and sell in a timely manner

I remember also during the Asian Financial Crisis of 1997, a lot of my then colleagues were trying desperately to

sell their stocks to avoid the oncoming bloodbath. They called their stockbrokers to help them do this, but many a times they got an engaged tone at the end of the line. With so many people trying to get out at the same time, it is no wonder that the telephone lines were jammed.

The rise of the information age

Over time, with advances in science and technology, the Information Age is upon us. With advent of the Internet and other improvements in the way information is transmitted, the difficulties faced by people in my father's generation in trading stocks are now but vague memories of a bygone era.

Online brokerage platforms

With the rise of the Information Age, all stock brokerage firms now have online brokerage platforms. This means that one can use the Internet to monitor, buy and sell one's stocks.

You no longer need to call your broker or watch the Tele-text to trade in the stock market.

The Internet has made this world much smaller place. You can now trade and monitor your stocks portfolio even if you are not in Singapore. All you need is a computer and an Internet connection.

Mobile brokerage platforms

If you think that the Internet-based brokerage platforms are the stock trader's gift from heaven, now there is something even more exciting for the busy executive. Most stock brokerage companies have also now rolled out mobile phone-based stock trading platforms too, thanks to the improvements in mobile phone technology and the invention of the Smartphone. So now, even if your job requires you to be away from a computer, you can still monitor and trade your stocks via a mobile phone. All you need is a Smartphone, for example an iPhone™, a BlackBerry™ or any Android™- based mobile phone.

The rise of technical analysis

Technical Analysis is the study of past price movement and behavior of a security so as to predict the future direction of the price of the security. It is normally done with the help of charts with the security's daily price information plotted on it.

Stock traders have been using some form of Technical Analysis to help them decide when they should buy into or sell off their stocks for the longest time, even before the rise of the Information Age.

As you can probably imagine, practicing Technical Analysis, without the availability of timely information and the help of technology, would have been a very manual and time consuming task indeed.

However, in the Information Age that we are living in today, Technical Analysis is fast becoming the preferred way to trade stocks.

Many of the stock brokerages now provide price charts for their clients to use Technical Analysis to analyse their stock's price movements. These charting platforms are also packed with the most popular Technical Analysis tools and indicators to suit each and every trader's fancy. The best part, the service is provided free of charge! It has never been easier to trade in the stock market. All you need to do is to open a brokerage account and you will have access to all the charts.

So, what is Technical Analysis anyway?

Feeling the market pulse

A new investor's foray into the financial markets is often not a smooth ride, despite the plethora of information that is freely available. Their pitfall lies in the blind search for the most profitable investment, the winning strategy or a set of secret indicators that would give them an edge over the rest of the market participants. In fact, the person who draws the most out of it is one who can be in sync with the sights and sounds, the people in the space and the inherent expectations within the markets. There is a set of rules to play by in any given situation that you find yourself in. The holy grail of strategies and indicators is at best a myth.

Let's draw a simple analogy with the story of Robinson Crusoe. He was a castaway who spent 28 years on a remote tropical island near Venezuela, surviving with captives and mutineers before he was rescued. During his 28 years there, in order to survive, he focussed on understanding the rules of the new world that he was in,





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and building a new life with whatever resources he had at his disposal.

Thus, before you can enjoy and profit from trading any financial market, you will first need to learn to plant yourself into the heart of the trading activity via the price signals you receive on your charts, hear the buzz on the street and understand the motivations behind the different types of market participants. Essentially, you need to understand the rules governing the financial market and feel the pulse of the participants.

Understanding price movement in the market

Technical analysis is the attempt to make sense of the price action of a financial market, where the action is

represented in a graphical form. The transacted price at any one point in time is an agreement of the value of the underlying asset between buyers and sellers of the asset.

The herd mentality

Just like animals move in herds when they move from one grazing land to another, market participants tend to exhibit the same herd mentality in their trading and investing decisions.

The central theme behind this herd mentality is the fear of losing out on the next great run.

To understand this psychological attribute, let's take a look at the formation of a typical market bubble.

A market bubble does not start out being a bubble. It first begins with a group of deep investors who demonstrates great fundamental foresight. When they foresee a rise in demand for a particular good or service, they are always the first to load their cash into these assets. Then, there is another group of smart investors who will get wind of those winning positions. They begin to sit up and examine the fundamentals behind this product or service market. Agreeing with the assessment of the deep investors, they too start taking positions in these assets, pushing the price of the asset up. Soon, this hits the headline news. This is when the last remaining group of retail investors, for fear of missing out on the next great run, starts jumping onto the bandwagon.

As the price of the asset skyrockets beyond reasonable valuations, the deep investors begin to cash out of their positions. As the price of the asset stalls, market participants soon realise the game is up. Fear hence strikes them. They start rushing out of the market, again, in herds. The bubble has now officially burst. The last man standing in the market is the greatest loser.

The next question you will be asking is, "What is the key difference between me and the Wall Street big boys? What gives them the foresight to make so much money?"

As you can see, the same two emotions of greed and fear drive the flurry actions of buying and selling in the financial markets at any point in time. The answer is hence this: It does not matter which category of market participants you fall under. You can be a market maker, an institutional trader or a retail investor. The one key element that determines your success in this game is how you handle your fear and your greed.

"A successful investor is able to acknowledge his emotions for what they are, and see the market as it is."

Fear transcends various aspects of our lives daily and relationships we have. At work, we fear the wrath of our bosses when we make mistakes. At home, there is a subconscious fear that our loved ones would one day leave us. Even within ourselves, we are constantly grappling with fear; the fear of being inadequate and the fear of growing old. In short, the unknown is a space that engenders fear. It is a natural human reaction.

In trading, fear will arise regardless whether you are in a profitable or losing position. It is because you do not know what is going to happen next. When you are in a profitable position, you are afraid of losing your paper profits, as you do not know when the market will suddenly turn against you. When you are in a losing position, you may be reluctant to exit your position for fear of missing out the chance to come out profitable when the market direction changes.

Greed, on the other hand, is wanting more than what we currently have. Again, this is an emotion that resides in various aspects of our lives. In trading, greed will motivate a trader to hold on to a profitable position longer than he really should or to overtrade such that he can make more from the markets, without respecting what the market is able to give.

On any trading day, as the price action unfolds, you will not know exactly where the price will close. You can only learn to read the cues the market is sending out. To be profitable, you have to be in sync with the market flow and well positioned to take advantage of the price action for that trading day, week or month. You must know what to look for.

Regardless of where you are right now, in order to fit in, you have to speak the lingo the people in the financial market speak and understand the rules they live by. That, in its most basic form, is the essence of Technical Analysis.

Now, let us take a look at what else you need to know to be a successful trader.

3 key lessons before you jump in

Over the years training many people to trade, I have found that in order for a trader to be successful in this business, there are 3 key lessons that they have to keep in mind.



With a big dream, you need a plan

Take for example, one day you suddenly feel like visiting a remote place. Will you jump into your car, start the engine, drive out of your parking lot, and then think about how to get to where you want to go? If you do so, you are wasting your time and petrol. You would probably be a road hazard too, making sharp turns at corners, without knowing exactly where you want to go.

Similarly, you should never enter a trade without having an idea of where you want the trade to go. More precisely, you need to know where you want to enter, where you need to cut your loss and where you want to take your profit.

It sounds simple, but the most common reason why new traders do not follow closely to this simple rule

is that they are too excited to enter the trade and jump in prematurely.

The next most common reason is that they feel that they cannot control the market, so why plan for it? This is very dangerous because when you do not plan your trades, you will then be more emotional when the market turns against you and forces you to make a decision at a critical moment.



Think like a fund manager and risk manage each position you take

Every trade is an opportunity to make money, yet it is also an opportunity for you to lose money. Hence, you need to be as focused on your downside as you are on your upside.

Trading is a purely statistical game, and there is no way to guarantee that every trade you take will make you money. However, across a hundred trades, you can create a probability level that is profitable for your specific trading style.

Thus, every trade that you take must be controlled precisely. You have to drop the trades that lose money because every dollar lost is a dollar you have to make back.



Be prepared to lose money

The only way you can be a successful trader is that you must have lost money, and made it back. I know many new traders work towards finding a system that never loses money; or one that even if it loses money, it never loses any amount of money that would make them emotionally upset.

These people go on a lifelong chase for such a system that can never be found, and many give up, and avoid trading altogether.

Trading is essentially an emotional game. The process of losing money allows you to see if you can command your focus to keep to your rules, and trade to make back your money again. This is the challenge that most people fail at.

Hence, if you are in a losing phase now, this is when you must put in more effort and not give up! *📌*



Chiang Kian Seng is a Senior Trainer at FXDS Learning Group. He attended his first financial education course later in life when he was in his mid-30s. Since then, he has discovered that investing in one's financial education is one of the best gifts one can give oneself. He has since clocked more than 3,000 hours trading and investing, in particular, the Singapore stock markets. He teaches and guides with passion because he enjoys helping people make sense of the trading world.

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61, Upper Paya Lebar Road, #05-02A Tat Wan Building, Singapore 534816 or e-mail: prime@spring.com.sg