

Colin Nicholson: Newsletter 98

25 March 2010

Hear Colin speak

My speaking program is set out on www.bwts.com.au on the *Hear Colin speak* page.

New website design

Please come to www.bwts.com.au and explore the redesigned website. It went live in the early hours of 23 March 2010 and we have now debugged it for all known issues. This is the new Home page:

Colin Nicholson *Building Wealth Through Shares*

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Welcome to my website.

Everything on this website is my work, based on over 40 years experience.

Stock market investors and traders are invited to use the resources provided on this website to improve their knowledge and skills. **I do not provide investment or trading advice, but try to teach how anyone can learn to make his or her own decisions.**

Everything on the website is my copyright work. On the free website I provide this material at no charge. On the paid website I ask that you pay a once-off joining fee and an annual renewal fee.

I am continually adding new material to both the [Free Material](#) and [Paid Material](#) sections.

WHAT'S NEW

The June 2010 Loan Market Group newsletter article on the *Return on Assets* ratio has been uploaded to the members website on the [Fundamental Analysis Articles](#) page. # 24 Mar

The website has been improved and went live at 1.30am 23 March 2010. Please explore and enjoy it. If you find something that does not work please email me [Contact Colin](#). Thank you. # 23 Mar

 You can follow all website news and updates via various [RSS channels](#).

Free Material

There is a great deal of free material on the website, including over 1,000 questions and answers in [Ask Colin](#), numerous [Newsletters](#) and a [Data Files](#) page.

In addition, there is a [Paid Material](#) section of the website that contains more advanced material, other than my books, that may be purchased separately.

[Get Latest Free Newsletter Now](#)

I publish a free email newsletter roughly monthly on analysis, investment and trading topics.

My book [Building Wealth in the Stock Market](#) was the *first Australian book to rate in the Wiley Top 100 Amazon sales*.



You can ask your question to Colin for free!

[You wrote an article in Shares magazine on 5 and 22-day moving averages. In your portfolio you have purchased ABC Learning Centres \(ABS\) on 10 March 2004....](#)

Paid Material

Membership allows you to read the advanced material online, print it or download it.

[Join Now!](#)

Once only joining fee of A\$44.00 plus annual fee of A\$55.00 including GST.

What is available in this section?

Presentations— my slides from presentations I have given

Market Case Studies— market phase and trend analysis for market exposure strategy decisions

Market Scan Examples— technical and fundamental analysis and market scan examples

Stock Case Studies— analysis and discussion of investments I have made

A library of more than *750 copyright articles* and columns that I have written for various publications

[Learn More about Paid Material](#)

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Development — [Yakhnov Studio](#)

Other than to modernise and clean up the design, a lot of work has gone into improving the navigation of the website. Every part of the website can now be reached from the drop-down menu bars (members of the paid website must first log in before accessing the paid material).

That is the good news. The bad news is that I will be out of the country from 26 March 2010 until 7 May 2010, so I will not be able to update the end of month data files on the Resources page on the free website or the charts on the Interesting Charts page of the paid website. I will update them as soon as I can on my return to Australia.

While I am away, my office will be unattended. Please do not email me or leave voice mail messages for me in this period because I will be unable to respond to them.

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I have arranged for Janene Murdoch of the Educated Investor bookshop in Melbourne to fulfil all book orders and to deal with all new memberships and renewals of membership to the paid material while I am away.

If you are a member of the website and cannot recall your password, this is how you can get a new password:

- Launch www.bwts.com.au
- In the top right hand corner, click [Login now](#)
- In the login box which opens, click [Forgot your password?](#)
- Enter your username. Unless you have changed it, 99% of usernames will be the part of your email address before the @ sign.
- An email will then be sent to your email address with the username and a new password.

If that fails, telephone Janene Murdoch on (03) 9620 0885 in Melbourne business hours and she will be able to tell you your username. **SHE CANNOT TELL YOU YOUR PASSWORD** because it is encrypted for security. All she can do is tell you your correct username and then you need to follow the above procedure. I did not give Janene's email here because it would be too vulnerable to spam bots.

I thank all readers in advance for their understanding if my absence from the country causes an inconvenience.

My portfolio

One of the most popular pages on the website is one of the legal pages which lists the stocks that I personally own. This page is there purely to satisfy my legal obligation to disclose any stock I own and mention on the website or elsewhere. If you have an interest in this page, it is still where it was on the old website – at the foot of every page on the website. Before emailing me to ask where it is, please scroll to the bottom of any page and the link will be there.

The last frontier in investing education

My investing plan is heavily, but not exclusively, focussed on stock price charts. This is because my experience has taught me that being able to find good companies is the easy part. What is not so easy is getting the timing right.

The fundamental ratios tell us what the company has done in the past. This is important because it is the best guide we have of the quality of the management of the company and relative value of the company at the present price. It must be remembered that the fundamentals are always history. On the other hand, on the stock markets people are buying and selling shares based, not on the past, but on their expectations for the future. Commonly this future is nine to twelve months ahead of the present time.

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The stock price charts also record history. However, they are more up-to-the-minute than half-yearly or quarterly financial statements. The price at which shares change hands today can give us a good idea of what the smart money – those who know a lot more than we do about the company – is thinking about expectations of the future. Their actions are weighted to their resources, but also to the strength of their conviction about their expectations. The greater their conviction about their view, the more weight of money will be behind their actions. It is the weight of money that moves prices.

The charts therefore serve two purposes:

1. If the fundamentals appear favourable and the price is trending up, then the smart money is putting resources behind an expectation that the price of the shares should be re-rated upwards.
2. If the fundamentals appear favourable and the price is not trending up, it is a warning that the smart money may know something is not right or has changed since the last fundamental data. This may be that the conditions were favourable for the company, but the forward expectations of those close to the company think that situation will become worse.

My experience has shown me the hard way that the best investments have fundamental ratios that indicate good value while the share price is breaking out upwards from accumulation/consolidation phases, or is already trending.

The interesting conclusion from this is that investing really is not that difficult. What causes people to lose money is a lack of discipline in the way they choose and time their investments. This is followed by a lack of discipline in cutting short the investments which do not succeed while letting the good investments grow in value and throw off increasing dividend income. Investing is not difficult, but **we** make it difficult because we do not always act rationally and exercise the necessary discipline.

Many of the mistakes that beginners make go back to the way they make decisions. All of us – and I continue to learn myself – fall into decision making traps. The difficult part of this is that these illogical ways of thinking are basically unconscious. In short, we do what seems natural, but is actually irrational if only we could see that. This is where behavioural finance has opened our eyes in the last fifty years. The academics who have done the pioneering work in this field have, some of them, won Nobel prizes. However, we have been the real winners if only we accepted that this is an area we needed to study.

I often talk about decision making as the final frontier in the education of an investor. First, we learn the knowledge. Then we begin to gain experience in using that knowledge in the markets. We rarely succeed for long. Then we discover money management. This is very important and can protect us from even the weakest of our investment decisions.

Then those of us who started from fundamental analysis discover charting and technical analysis. At the same time, those of us who started from charting and technical analysis

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discover fundamental ratios. We are enriched as investors from this expansion of the tools we have to work with.

Now we come to the last frontier – **us**. We start slowly to realise that it is not only our analysis that determines our results. Money management protects us from poor decisions. However, the trick is to make better decisions. Now we are at the last frontier – decision making. We realise that many of our poor investments were due to poor decision making skills.

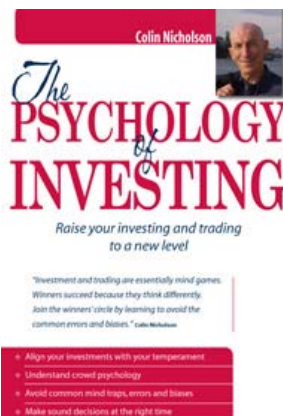
The problem with decision making is that it seems so natural. We collect all the available evidence and decide what to do. What we have to grasp is the unconscious process that is encapsulated in that little word “decide”. The last frontier is when we start to become aware that we may be lacking in decision making skills.

This is where behavioural finance comes in. The researchers in this field have tried to dig below the surface to find how humans actually make decisions. This leads to fascinating discoveries about how we are hugely irrational in what we all do unconsciously.

If you find this confronting – that it is you that is the problem – try to move past it. The very first step is to become aware of the logic traps and biases that we all have. Once we can recognise that and start to see ourselves falling into the traps, we are most of the way there. So, do not be afraid of this, it may be the final step you need to take if you are ever to be a really good decision maker in the investment field.

The problem with this field of knowledge is that most of it is in academic papers that are written in language most of us find difficult to understand. However, there is a growing body of books being written in easy to understand terms for the layman.

Now comes the sell: one of them is my book:



Raise your investing and trading to a new level.

Investment and trading are essentially mind games. Winners succeed because they think differently. Join the winners' circle by learning to avoid the common errors and biases.

- Align your investments with your temperament
- Understand crowd psychology
- Avoid common mind traps, errors and biases
- Make sound decisions at the right time

To order it, please go to www.bwts.com.au and click Colin's Books on the menu bar near the top of the page.

This newsletter is shorter than usual. My apologies - I have run out of time to catch a plane.

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