How to Win or Lose in the Stock Market

How to Lose in the Stock Market

This might seem a strange way to start. However, it is often just as instructive to look at why people lose, as it is to identify the traits of winners. I have found that if you control losses when investing, the profits will tend to look after themselves. In a similar way, it seems to me that if I could only tell beginners what the destructive behaviours are before they start, they might be spared much financial pain. Here is a list of ways people set about losing money in the stock market:

Buy a Computerised Trading System

The more expensive it is, the better it will be. Quality costs in this area as in any other. Be impressed with the simulated profit results, which the promoter will assure you are a far better guide to future results than actual audited trading results. Why spend time developing yourself as a trader if you can just buy all the experience on a CD and run it on your computer? Continue to be amazed that professional fund managers don't use these systems when the simulated results give results ten times better than mutual fund returns. When you say your prayers, don't forget to give thanks to the generosity of the system promoter in giving you the tools to become rich quickly without risk or hard work.

Do It Now! Don't Waste Time Developing a Plan of Action

After all, everyone knows that he who hesitates is lost. If only you had bought Cochlear, Flight Centre, Westfield and CSL when they listed you would be very rich now. Anyone can look at these charts and see how easy it was. The problem with most people is that they know too much about it and confuse themselves. Yes, you know that most small businesses fail and that the key reason is the lack of a sound business plan. And yes, most traders fail for the same reason – lack of a sound trading plan. But you are not like those people; you are special and would not make those silly mistakes. Plans only inhibit you. It is better for an intelligent person like you to form your plans as you go along.

Learn to Pick the Tops and Bottoms

Trading with the trend is for wimps. No wonder they don't become rich, they leave too much on the table. You can capture it all – buy the low of the trend and sell the high. Look at the charts they show you at the expensive seminars run by trading gurus. Yes, buying a new low is trading against the trend, but you know when the trend is going to change – it always worked in the seminar examples. So, give thanks in your prayers for the guru who took time out from spending his or her fabulous wealth gained from trading to tell you the secret.

Take Profits quickly and hold on to the Losers

It is no wonder traders lose. They keep leaving their winnings on the table where the market can grab them back. They are just greedy. Better to take them straight away. Little fish are sweet and you can always catch lots more. But not the losers - after all, a loss is not real until you sell. Besides, the experts tell you stocks always go higher after a fall. Of course, you would not be silly enough to buy HIH or One.Tel.

Look to Trading to Provide the Action you Crave

The trouble with most jobs and occupations is that they are boring. Bosses and clients keep wanting to impose discipline on you. But discipline breeds mediocrity. To succeed, you only need to break free of all those irksome restrictions. Who needs plans? Who needs to study and learn dreary details? Who needs to have to keep good records? Make money and it looks after itself. No, the market is a way to get free of all the things that have always held you back. Go for it and the devil take the hindmost.

So, there you have it – five sure-fire ways to lose lots of money in the stock market.

The Three Ways to Get Rich

Fred J Young wrote a book, which only an American could call *How to Get Rich and Stay Rich*. Now, I would not read a book with a title like this, for the same reason that I do not go to free seminars about computerised software. However, some interesting extracts from it were included in Charles D Ellis' *Investor's Anthology*. In these extracts, Fred identified that there were only three ways to get rich. Here are his secrets in my words:

Inherit Wealth If you have been so blessed, you do not need to read on. However, there are two problems. Firstly, unfortunately it is beyond your control. Secondly and even more unfortunately, you will need his advice about staying rich. That is the hard part.

Marry Wealth This one is within your control – or it might once have been, but you have already blown your chance. Again you will need his advice about staying rich. I need to check whether he also gives advice on staying married.

If by a ghastly fluke of fate you were not born rich. Further, if you fail to marry wealth, there is only one choice left. Since someone before you has not spent less than they earned and invested their savings wisely, you are going to have to *do it for yourself*.

Fred found that those who were successful with the third choice invested in one or more of:

- Real estate
- Their own business
- Stocks and shares
- Bonds or other fixed interest (thanks to compound interest)

Finally, a direct quotation from Fred:

Any time you have a choice between good luck and good judgement, you should take good luck. Good luck, by definition, denotes success. Good judgement can still go wrong.

The Twelve Commandments

I have just entertained you with some ideas from Fred J Young from Charles D Ellis' *Investor's Anthology*. Another chapter in this book contains the twelve (compound interest must have been working on the original ten) commandments of Philip L Carret, one of the outstanding investors of the twentieth century. I found that they are of general application to either trading or investing. Here are my renditions of his commandments:

- It is important to be diversified as a trader or an investor. Never put more than 10% of your funds into one stock and no more that 20% into the one industry sector.
- Regularly check how your investments are performing. Look at each one separately, ignoring the overall results for the last period. Be ruthless rather than hopeful.
- Keep at least 50% of your funds in stocks that pay dividends.
- Dividend yield is much less important that capital gain for investors as well as traders.
- Close out losing trades and investments quickly. Be very reluctant to realise profits.
- Never exceed 25% of you funds in speculative stocks, illiquid stocks or a stock about which information is not published regularly.
- Never, ever invest on the basis of "inside information". You can be sure you are the last to hear it.
- Never ask advice about what stocks to buy or sell. Do your own work, based on facts, not the opinions of others.
- Mechanical formulas and methods for trading, investing or analysing investments should be avoided. Thinking is hard work, but these things make you intellectually lazy.
- In boom conditions, half your funds should be moved into short-term bonds.
- Never borrow heavily to invest and only when stocks are depressed.
- Consider putting a small proportion of your funds into long-term options (if available) in promising companies.

Finally, a direct quotation from Phil Carret's The Art of Speculation, which contains one of the most important of the ways successful traders and investors think that is the exact opposite to the way losing traders and investors look at the problem:

If (the speculator) has 100 shares of a given stock, for example, which is selling at [$]90, he should disregard entirely the price that he paid for it and ask himself this question: "If I had $9,000 cash today and wished to purchase some security, would I choose that stock in preference to every one of the thousands of other securities available to me?" If the answer is strongly negative, he should sell the stock. It should not make the slightest difference in this connection whether the stock cost 50 or 130. That is a fact which is entirely beside the point, though the average individual will give it considerable weight.

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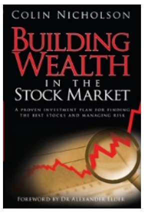

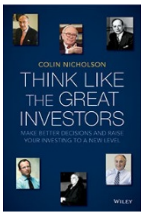

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