



Brainy's Articles on Share Trading**

Overview

Article No:
ST-1000
page 1 of 4
Revised
4 Jan 2011
This article
is free*

As just one facet of **Brainy's Share Market Toolbox**, Robert (aka *Brainy* — an old high school nickname) has developed an extensive collection of eBook Articles under three main subject headings:

- **Share Trading & Investing** — unbiased and independent information on the Hows, Whys, and Wherefores, to help you get started, and well on the way to successful trading / investing;
- **Technical Analysis** (share price charting) — the ins and outs of reading price charts; and
- **BullCharts** software — How-To tips and information documents on how to use the software, including the chart indicators, scans, Author Strategies and much more.

There are now in excess of 100 individual Articles, available to **Share Market Toolbox** Members. More information about the total collection of Articles is included in the Introduction Article.

Share Trading & Investing — Overview

As the title suggests, this particular Article in Brainy's series on *Share Trading and Investing* (number ST-1000) provides an overview of the material that is covered in the *Share Trading & Investing* series of Articles, all of which have the Article Number ST-xxxx (displayed in the top right hand corner of every page).

This series covers material on a whole range of topics related to share trading and investing. It is presented in a logical sequence under the following major headings:

- **Preparation** — Things to think about before you even think about trading, including some thought provoking discussion about why we might want to consider trading or investing in shares — of special interest to longer-term investors.
- **Getting ready to trade** — setting up the things that you will need. This includes the notion of “practising” before trading for real, by paper-trading or back-testing. Also includes information about: further education, using a broker, and relevant computer systems.
- **Risk and money management** — This is perhaps the most important section, covering very important concepts and techniques to help preserve one's capital. Many successful traders can have an average win to loss ratio of 4 to 6 — ie. 4 wins for every 6 losses. Provided the money management and risk management aspects are both prepared and practised, then losses can be kept small, and profits can be left to run producing a net profit.
- **Trading** — “pulling the trigger”.
- **Progress review** — How successful have you been? Do you need to make changes? Without reviewing performance, it is difficult to identify any badly needed areas for improvement.
- **Trading strategies** — Many people struggle to pull their investing and trading ideas together into a profitable method or strategy. The Articles in this section provide information in this regard, as well as some realistic samples.

A brief overview of each of these areas is included below, and the detail is available in each of the individual document articles.

This series assumes a base level of knowledge about the Share Market, and that the reader will at some stage become sufficiently knowledgeable in the financial instruments to be traded (ie. shares versus CFDs or options, futures, commodities, currencies, etc.).

It should be said here that the words *investing* and *trading* are often used interchangeably. In these Articles, the same thing applies.

It is worth stating that there are a lot of good published text books available. So, there will be times when Brainy's Articles will not try to rewrite slabs of text that are already published; but rather these notes will make reference to specific text books and encourage the reader to refer to those texts.

** - The two words *trading* and *investing* are often used somewhat interchangeably.



Brainy's Articles on Share Trading**

Overview

Article No:
ST-1000
page 2 of 4
Revised
4 Jan 2011
This article
is free*

Preparation

For many people it is not easy to decide one day that you want to be either a successful share trader (or a hands-on investor) and then to be successful from day one. There is an amount of preparation and learning involved, and some “sand box” practise certainly helps as well. Some people might be able to succeed at share trading without any preparation, and with little training; but this is more good luck than anything else.

Learning to be a successful share trader is a journey that can take many months. And even after many months, there might still be more of the journey ahead in order to fine tune the trading skills and to become even better.

So, before a new trader or investor even thinks about trading shares, there are a few things to consider.

The simple act of share trading requires the trader to purchase some shares in one or more companies, and to hold them for a period of time, and then to sell them for a profit. During this time, the following questions are very appropriate:

- How much money do you want to invest?
- Over what time period do you want to hold any shares (hours, days, weeks, months, longer)?
- What is the real reason or motivation for your intended share trading?
- Which companies do you want to invest in (or which ones do you want to avoid)?
- Do you want to confine your investing to only shares?
- Do you want to confine your investing to “long” only (ie. no short selling)?

Why do it?

The first thing to consider here is why we might want to trade in shares. There are some rather compelling reasons to support the case that more people should consider it — especially the more traditional longer-term buy-and-hold investors. This is explored in the first article in the Preparation section (Article ST-2100, “*Why get into share trading?*”).

Psychology, emotion and risk tolerance

Psychology and emotion play a very big role in the ongoing success of a share trader. It is a complex topic, and many texts have been written on the topic. It is very important for the novice share trader to be aware of the complexities, and to take some steps to be in control of this.

If you had tens of thousands of dollars invested in the share market, could you sleep easily at night? Or would you perhaps lie awake at night worried about what might or might not go wrong with the investment? Your degree of comfort in this regard is to do with your risk tolerance. It is useful to understand more about your risk tolerance. And then sleeping easy at night is easier if the “amount at risk” is small compared to your total capital. This is discussed in the Articles on Risk and Money Management.

Source of funds

What about the initial funds that you will use to purchase your first share parcel. How much money do you need? And how much do you have? From where could you obtain any difference that is needed?

Analysis method — fundamental, technical or both?

Do you want to utilise only fundamental analysis, or only technical analysis? Or perhaps a clever combination of both — **Funda-Technical Analysis**? In your trading, do you want to keep up with the news of the day to give you an edge? Or perhaps you don't need any news, and you just want to follow the charts. What do successful traders do in this regard?

** - The two words *trading* and *investing* are often used somewhat interchangeably.



Brainy's Articles on Share Trading**

Overview

Article No:
ST-1000
page 3 of 4
Revised
4 Jan 2011
This article
is free*

Trading styles, plans and strategies

Before you even think about starting out in share trading, it is very useful to give some thought to all of the topics covered under this heading. One of these is to try to understand your own preferred **Trading Style**, which is explained in Article ST-2410, "*Trading Styles (and Styles Worksheet)*".

Before you begin a journey, it is useful to work out exactly where you are going, and how to get there. To become a successful share trader is a journey. It is very useful to embark on a journey with a clear vision of the goal — the reason that you are embarking on this journey. So, a **Trading Plan** is an important document on which you should spend some amount of time to prepare. The Trading Plan describes **what you want to achieve**.

Having prepared the plan that describes **what** you want to achieve, the next step is to determine "**how**" you will go about achieving it — this is the **Trading Strategy**.

There is a Trading Plan template and a Trading Strategy template included in the two Articles ST-2420, "*Trading Plans (and Plan Template)*", and ST-2430, "*Trading Strategies (and Template)*", respectively. In these two templates, all you need to do is print out the template, consider the headings and questions, and fill in the spaces.

This section concludes with a discussion about share prices, and understanding the movement and relativity of share prices.

Getting ready to trade — setting things up

Once you have done the preparation, and you think you are ready to start buying and selling shares, there are few things you need to do to get set up. Things like the following:

- Practise, practise and practise. To gain confidence, and help to reduce your chances of failing, you need to practise using your chosen "strategy". What strategy? See the next point.
- Education. I said earlier that to become a successful share trader is a journey. And along the way you will find out the things that you don't know, and which you need to learn more about. So, there will be some amount of education required along your journey.
- You need a stock broker. How do you choose one? And what do you need to do to going?
- You will need what we call a trading account.
- You will need some way to manage the funds into and out of your share trading account.
- In order to trade shares yourself, an online broker is required. And to utilise this facility you will need access to a computer system with internet access.

Once you have worked through the above check list, and then perhaps gone through it a second time, you might be ready to move onto the next two sections — Risk and money management, and then Trading (pulling the trigger).

Risk and money management

This is a very important aspect that is often overlooked by beginners in this field. Without paying proper attention to risk and money management, share trading and investing activities can be likened to that of gambling. Whereas sound risk management techniques mitigate a lot of the risk and increase the likelihood of success. This aspect covers the following topics:

- Money management
- Risk management
- Position size
- Stop loss
- Portfolio management
- Trading records (journal and/or diary).

** - The two words *trading* and *investing* are often used somewhat interchangeably.



Brainy's Articles on Share Trading**

Overview

Article No:
ST-1000
page 4 of 4
Revised
4 Jan 2011
This article
is free*

At this point let me say that by successfully managing your available capital, and by successfully managing the risks, it can be possible to be successful at this game. Mind you though, not everyone is successful.

People tend not to succeed for a number of reasons, but some of these reasons are because they have not done enough preparation in these risk and money management areas. If you carefully select a position size, and carefully place and enforce a stop loss, then you might still have losing trades, but they should be small and contained compared with the winning trades which should be much bigger.

Trading — “pulling the trigger”

It does not matter whether you are “paper trading”, or share trading for real, the information in this section applies. This material covers the steps in the trading process, as well as comments about managing the emotions, and the need to keep good records.

Progress Review — How successful have you been? Do you need to make changes?

Many people overlook the importance of reviewing their past performance. It is useful to periodically:

- Review all open positions, and to adjust your stop loss value in each position to minimise losses and maximise gains. So you need to have a Review Period built into your Trading Strategy, and you need to follow it and action it.
- Review all closed positions, to see if the losing trades should have been handled differently. Perhaps you need to tweak your Trading Strategy. A review of the closed positions might reveal this.

If you were managing a company, or travelling on a long journey, you should periodically review your progress to see if you are still on course to achieve your stated objective. And if you are wandering off course, you need to make some adjustments.

So it is with share trading. You need to periodically review both your original Trading Plan, and your Trading Strategy. They might have been appropriate when you wrote them, but perhaps they are not so appropriate now. Tweaking them might produce better trading results.

Trading Strategies

One of the most difficult aspects of all this is that of producing a successful Trading Strategy in which you can have enough confidence to move forward with success. This section provides some real hands-on samples to help with this activity.

Summary

This article in Brainy's series on *Share Trading and Investing* (number ST-1000) is an overview of the material in this volume. It assumes a base level of knowledge about the Share Market, and that the reader will at some stage become sufficiently knowledgeable in the financial instruments to be traded.



For more information on Share Trading, or
Technical Analysis, or BullCharts software,
look for more of Brainy's articles, or the other resources, in
Brainy's Share Market Toolbox: www.robertbrain.com

** - The two words *trading* and *investing* are often used somewhat interchangeably.