

FINANCIAL REVIEW

investor

Opportunity within volatility

Researching potential investment targets can bring rewards when the market falls, writes **Bina Brown**.

LET'S face it. Nobody likes losing money. But that is exactly what has been happening in recent days and weeks as many investors lose patience, or even panic, and sell.

It's been a wild ride but the latest sharemarket rout is part and parcel of investing in equities. Indeed, investors with a stomach for volatility will be trawling the market now looking for opportunities.

As American stockmarket guru Warren Buffett famously said, "be greedy when others are fearful", which is all well and good but it's a lot harder to do than, say, when markets are jumping up and down by as much as 5 per cent in a day.

How you react to volatility depends greatly on whether you are a trader or an investor in the market for the long haul. So let's look at both types.

Long haul

Think about investing in the sharemarket as buying a share of a business that is hopefully going to grow and prosper for many years.

While the price of the shares might rise and fall according to market sentiment, provided the underlying business is sound then the price should reflect its prospects.

For many people, it is a matter of keeping a rational head while share prices gyrate, says Prescott Securities principal Nick Loxton.

Loxton says long-term investors should see volatility as an opportunity to pick up good companies at cheaper prices. It is also a good time to check that your existing holdings are still sound investments – especially if the earnings outlook changes considerably.

If all the good reasons for buying them in the first place still exist, then it might just be a matter of waiting until some of the uncertainty disappears before you make any rash decisions about selling.

Selling at a loss will crystallise it and prevent you taking advantage of any upside when the markets recover.

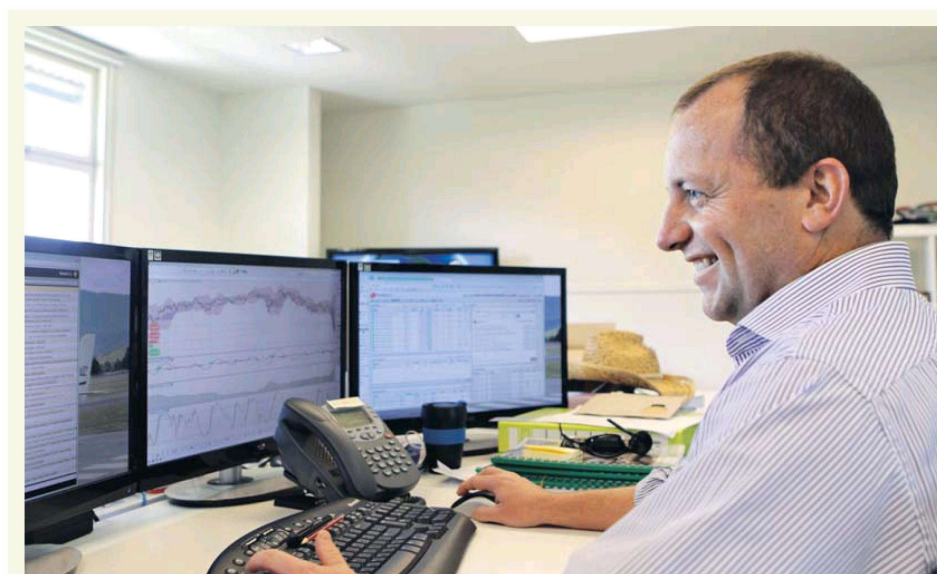
"In times like this, it is good to have a wish-list of good-quality companies you want to own and what is a good price to pay for them," Loxton says. If you get them at those prices, then that is fantastic.

"If they happen to go down further the next day, don't panic; it's part of what happens in the market," he says.

Traders

Anybody can buy shares in a listed company – it is what you do then with them that is so important. That's the view of stock market trader Justine Pollard.

Certainly that was the case before the global



Great deal more focused ... sharemarket trader Stuart Freeman meditates daily to prepare for work's ups and downs. Photo: Jacky Ghossein

Setting up safety nets on trading rollercoaster

SHAREMARKET trader Stuart Freeman begins each day with 20 minutes of meditation.

He then reviews his documented trading plan, decides the positions he will take and works out exactly how much he is prepared to lose if things go wrong.

The former recruitment consultant finds the time for himself helps put him on an "even pegging" before boarding the emotional rollercoaster that comes with share trading.

"The thing about trading is there are so many opinions and conflicting opinions about what is going on that the biggest challenge is getting a grip on your emotions so you are not

looking at external sources. If you do that, you are like a plastic bag blowing in the wind," Stuart says.

Instead of looking at the wealth of macroeconomic data available or even stock-specific information, Stuart uses a basic system that helps him narrow down stocks that might be worth trading based on particular trend signals.

Importantly, he has specific rules he follows regardless of whether the market is trending up or down.

"On every trade I know exactly what my maximum loss is going to be and I never have

more than 10 trades open at the same time," he says. "It is absolutely about money management." Stuart controls his losses by putting in place so-called stop-losses. If a stock's price is falling, then the shares will automatically be sold once it hits a pre-determined price. If he is on a winning stock it is equally important to know when to sell.

He exits his positions using a trailing stop-loss, ensuring he captures profits as the share price moves. The present market is a reminder about just how vigilant you have to be with your trading strategy, rules and, most importantly, your emotions, he says.

financial crisis, when the stock market was running hot and people were jumping into the market as if there was only one way prices would go.

Then the GFC hit and people realised they didn't have an exit strategy, Pollard says.

She questions how many people learnt that lesson during the GFC.

"The majority of people lost money in the stock market during the GFC and the main reason for this was a lack of planning," Pollard says.

"But market crashes like the GFC can provide a fantastic opportunity to profit and

these opportunities do not come around very often. You just need to know some key strategies and create a clear trading plan ready to take action in all market situations," she says.

Pollard's strategies include putting in place a stop-loss as soon as she opens a trade. By knowing what price the share will be sold at if it drops, she knows upfront what her risks is.

Then she works out how many shares she can afford to buy based on the amount she is prepared to lose on a trade. At all times, she knows her total market risk, which ensures she is not overexposed in the market at any time.

Pollard says it is important to know when the markets are unfavourable and when to sit out of the market. Last week, when the markets were on a definite trend downwards, was one of those weeks – unless you are confident short selling, a strategy used to make money on falling shares.

Pollard says the most important thing to do is to take action on your trading plan.

"It is common for people to know what they should be doing but not act on it," she says.

"If that is the case, then usually it means they were uncomfortable with the level of risk to begin with."