Investing In The Share Market – EVERYONE's option

Take a look at the people in the street. Sometimes it is relatively easy to guess what they might do for a living and possibly their level of wealth simply by their general appearance. Whether they seem rich or poor, a stranger might respond to them in a way reflective of their own perceived status, and vice versa. The truth is, however, that each only imagines who or what the other is and acts accordingly.

That's the way the share market works. The rise and fall of prices is less to do with actuality than it is about trends and innuendo. The sudden jump in a company's listed shares simply means that, at a particular point in time, they are in demand, driving the price up. This may be the result of the anticipated success of a long-awaited takeover bid. On the other hand, it could just be the normal fluctuation in the profit-taking cycle.

Anyone considering the share market as an investment option should accept some home truths. First up, it's a gamble. The only ones guaranteed to make money out of your flutter are those who charge for setting it up. Even if the latest prices show you are turning a profit, by the time your shares are sold, it won't necessarily be for the figure you banked on because it will most likely already be on its way down, thanks again to the profit-takers. The share market is an extremely volatile environment.

Second, and most important, it has to be regarded as strictly business with no room for sentiment. Buying into a company that holds some personal connection is unwise. Maybe it's a local industry, or one that a relation works for. The wines it produces might be a favourite and, of course, having shares in the vineyard is a good talking-point over dinner. But this kind of indirect loyalty could influence the advisability of unloading the shares at the right time, especially if the firm is heading for a bad patch. Taking profit in this case could seem like putting the boot into an old friend who really needs his mates to weather the storm with him. In business, however, there are no friends. When it's time to get out, you have to do it and move on.

Perhaps the least considered aspect of share trading, especially for those contemplating it for the first time, is the effort necessary for success. Timing is essential, so it's no good buying a few shares and checking their price once in a blue moon to see how they are going. Even if they are still at par, or have improved some, there may have been a period during the month between checks when they would have made a nice profit, had they been sold at that point. Anyone thinking of investing in the share market must be prepared to keep a close eye on their portfolio, preferably on a daily basis.

On the face of it, that doesn't sound too difficult, but it's only a small part of a much bigger picture. Whether the holding be 100 shares in a single blue-chip company, or 10,000 spread over a number of lower-priced, more volatile listings, the same rule applies – everything affects them and, in turn, the chance of profit.

To better explain this, let's take it from the beginning. It will cost money to set up, cash money that is available from existing funds. Anyone borrowing to gamble is asking for trouble. Assuming there is a cash surplus on hand that could be invested, the over-riding consideration has to be – will it matter if the entire sum is lost? If "yes" is the answer, it should be left where it is, or transferred to a safe option which turns a modest profit, while keeping the principal intact and secure. However, those willing and able to take the risk are on the threshold of a stimulating experience.

Knowing nothing about the share market could seem a disadvantage, but sometimes ignorance can be a good thing because first-timers starting afresh won't be dragging along bad habits. And, initially anyway, there will be no financial risk whatever, so making a few mistakes may wound the pride, but won't hurt the bank account. The forthcoming exercise is strictly theoretical - pretend money only. It does, however, involve a fair bit of time, effort and considerable patience. These are the very qualities successful share-traders need to stay on top of things. At the end of this practice period, not only will you know whether you have what it takes, but you will also have a list of shares that you can consider investing real money in.

So, how to begin? Research is most essential. Not only will it provide information on the way the market has worked in the past, but it is also the basis for predicting the future. Looking back over years, even decades, helps with the understanding of trends and their likely causes. Initially, rather than following individual companies over a period, it is advisable to take an overview of the major world exchanges - Dow Jones, ASX, Hang Seng, etc., and see how they have performed during the past year and earlier. A close-up view of the progress charts will show the small peaks and troughs of normal daily or weekly trading. Stepping back a bit to consider the bigger picture, a general trend will become more evident as the shares climb or fall over a longer period. Remember, this is a record of the market in general and does not necessarily reflect the performance of specific shares, or even sectors. For example, while the market itself may have lost considerable ground over six months because of global financial uncertainty, the mining sector could have climbed steadily over the same period. Indeed, one company's shares might actually have sky-rocketed. This is the kind of information which must be reviewed before buying those all-important first shares.

Staying with market trends, there is obviously a reason for the way they fluctuate. To find out the likely causes of variations on the chart means considering not only the financial news around specific times, but also those general, everyday happenings which may not seem to have any connection with money. They do - anything likely to influence the confidence and financial stability of investors will impact on their trading habits which will, in turn, affect the market. Keeping up to date with current affairs both financial and general will help with predicting how the majority of share-traders might react in certain circumstances. The ability to anticipate likely market trends is essential to buying and selling at the right time.

Once research has made the operation of the market less of a mystery, it is time to consider what to buy. Share trading is a little different to the experience most ordinary folk have with respect to normal transactions. For a start, shoppers aren't allowed into the "store" - that's the province of the brokers who buy and sell on behalf of their clients. They will charge a brokerage fee for each transaction, both buying and selling, so it is important to make the enquiries and find out the likely cost so that it can be factored it into the equation. Brokers may also be willing to advise on the shares or sectors which best suit the intended investment, and especially those areas that ought to be avoided.

Once a broker has been found who is willing to handle future transactions, it is time to put the decision-making process to the test. This will involve the success, or failure, of a theoretical portfolio which will be set up based on a fixed amount which should be the same as the maximum you are thinking of risking. To use a larger total, albeit imaginary, will give a false picture and almost certainly a different result. This trial needs to be as close to reality as possible. Anyone who has a tendency to be cavalier in make-believe situations should curb the desire to act brashly. For the sake of the exercise, imagine this is real money you are playing with - your money. Then, even though no actual cash will be won or lost, for most it will feel like it. And at the end of the test period, those who have found it too hard and stressful can bow out, financially unscathed.

The listings of available shares can be found on the Internet and in the business section of most National and State newspapers. It is a bit like the form-guide for a race meeting. With this as a shopping catalogue, you can pick those sectors the earlier research and your broker seem to indicate as the safer options. Within these - mining, industrials, financials, etc. - are the individually listed companies, each with their own prices for buying and selling, plus the increase or decrease driven by the number of shares which have changed hands during the last trading period, usually a day. Not all will be within your limited price range, but of the ones that are, quite a few will seem to have gone to sleep. As this is all about profit, it might be better to look at those which have experienced a bit of movement. It must be remembered, however, that you are only looking at one day's trading. So, pick a few likely candidates, including some of the sleepers, then go back to the research to find out how they've been fluctuating over the past months. I realise how tedious this might sound - forever checking, then checking again - but the only alternative is to rely on the advice of someone else who won't be accountable for any losses you might make.

Research done, the picture of how your possibles have been fairing should be clearer. You may even have produced something approaching a short-list. If the nerves are starting to play up a little, that's good - you are still aware of the possible dangers. Let's see how you cope with the next stage. This is where you discover if you should get into share trading at all, or just stick with the weekly lottery. If you haven't already made a short list, do it now, then make the final selection of those to be included in the portfolio. It will be noticed that some companies have more than one listing. I used to forget about options, etc., and stuck with ordinary shares, mainly because they were shorter term considerations and there was less to think about. Depending on the price of each share, there may be a minimum that you can buy at any one time. The lower priced ones, $1 to $2, might have to be purchased in blocks of 100, even 500 or 1000 for those less than a dollar. Your broker will know the score on this matter. Now it is simply a matter of picking the ones to buy and calculating how many of each.

The choice won't be a random affair, but will be made based on how diligent you intend to be with regard to monitoring the progress of the portfolio. Unless you can risk buying a large amount of a particular share and are prepared to watch its movement like a hawk, there is little point having one which, according to your research, moves up and down a percent or two most days, yet is the same price now that it was six months ago. What you need are those which rise and fall in a similar way on a daily basis, but that have a record of increasing gradually over a longer period. With a few of these, you won't be buying and selling in a panic.

You've studied the form, have picked your runners; and the prices, including brokerage, suit the budget. Now you must imagine you have your broker on the line and are passing on instructions to buy the shares of your choice. What must be remembered here is that the share market works in a similar way to race-track betting. Starting prices are driven by demand and fluctuate according to current bets, or in this case bids. If you simply request the purchase of 200 XXXX Fabrications Inc shares, the broker will buy at the best price, but it might have risen in the meantime beyond what you are prepared to pay. You need to provide some reasonable guidelines for your broker to buy 200 XXXX Fabrications Inc shares at no more than say: $3.50. In reality, this proviso could delay the purchase by hours, or even days, depending on the flexibility of your offer, but it is the safer way.

This procedure will eventually be repeated with all of the shares you have chosen to buy. I say "eventually" because, adopting the 'buy low, sell high' principle, it may be better to build the portfolio over a period than all at once. As soon as you have given your pretend broker the go-ahead to buy, even if only one company, you now have to check the prices of your selections over the next few days to ascertain if you were flexible enough and have managed to secure all the shares in your portfolio. With a lot of thought and a bit of luck, you are off and running.

The next step is the fun part and is certainly less harrowing than the selection and buying process. Over the coming weeks, you'll be closely watching the performance of your shares to see if you've made good or bad choices. What you will be looking and hoping for is the time when the price of the shares reach that all-important break-even point. Bear in mind, this is not just how much they were when you bought them, nor even taking into account the initial cost plus brokerage. What must also be included is your broker's additional charge for selling. So, purchase price + brokerage(buy) + brokerage(sell) = break-even price. Anything over and above this figure has the potential to turn a profit, always assuming your broker manages to sell before the price drops again.

As with any business, records have to be kept and it is good practice to start this now by creating a spreadsheet of the portfolio. Include company names, number of shares, buying prices, brokerage fees, dates when purchased and sold, and any profits or losses. This can be used to follow progress, but making up an additional chart in the form of a simple graph is a quick and easy way to track your share prices as they rise, fall, or stagnate. With a line drawn showing the break-even price as a benchmark, performance of individual shares can be monitored at a glance. Another graph based on the sum totals of the portfolio will show how your overall investment is going. Obviously, prices climbing above the line record a gain, whereas anything below is a loss. See the **PDF** of this article for two pages of charts which have been adapted from my own work sheets and may be of use to you.

Even when doing this for real and actual cash money has been paid out to set up the portfolio, profits will only be theoretical until the shares are sold. Hopefully, at some point one or more of your holdings will have made sufficient gains to warrant selling at better than the break-even price. Now is the time to imagine getting onto your broker and giving instructions to sell, stipulating the minimum bid that you are prepared to accept. Once again, this limitation placed on the price means the shares may take time to sell, or in some instances may not sell at all, but at least you won't be taking a loss. Having set the wheels in motion, it is time to watch prices over the next day or so to see if your asking price is likely to have been accepted by prospective buyers. If it has, and your sums were correct, you will have made some profit and can re-invest all or part of the total return. You may even buy the same shares again once the price drops - which it might, thanks to profit-takers like you.

When I first tried my hand at share-trading, I was given some valuable advice - never be greedy. When a price is on the rise and past performance suggests it might continue in the positive direction for more than a day or two, there is a temptation to wait a little longer for an even better profit. But just remember - the big boys out there have many more shares than you and if only one of them decides to sell off a large amount, the price will dip. Seeing this, other smaller investors will "get out" while the going is still good and the selling price will drop further, maybe down to your break-even figure, or below. By being greedy, you will have missed the boat. Far better to take a smaller profit for now, rather than none at all.

There will be times when one or more holdings seem to have been a bad buy, those where prices continue to stay below the break-even figure, or may even have fallen lower than the cost of purchase. These need watching carefully, comparing them with other companies in the same sector to ascertain if they are all following a trend. If they are, financial and other news might explain why and whether things are likely to improve. If the one you picked is defying the trend in a negative way, you need to find out if there is a problem within the company itself. A little research on the Internet could unearth something. Whatever the cause, the price has dropped simply because traders are more interested in selling than buying. Unless you know of some forthcoming event which is likely to restore confidence in the company, you should look at cutting your losses and selling too before the price drops even lower. If you take this route, continue to keep an eye on the price because you won't have been the only one who decided to sell and this will force the price down further. Seeing this, you may be tempted to buy again in an attempt to recover your losses; **but beware**: even though you might pick up the same quantity of shares at a lesser price than you had to sell for, the negative trend might continue and you will simply be adding to your loss. Hopefully, this won't be the case and you will learn to stay in the black, reaping a worthwhile reward.

Playing this pretend game over a period of months cannot exactly replicate what happens in reality, but it will provide a feel for the wheeler-dealer environment. It should help you decide whether you have the patience and staying-power to give it a try to make some real money. Those who participate in the trial will also be able to ask themselves: was it exciting, nerve-racking, too time-consuming, or really worth the effort? One factor should be obvious - share-trading is a juggling act that requires planning, a cool head and an awareness of the environment.

Whatever your decision, make the best of it, and good luck for the future.

Next issue: A Penny Saved – cutting the cost of living

Share Trading work sheet

Purchase of Shares							Sales					Balance of Shares retained			Nett result of Sales	
Date	Name of share	Quantity	Cost	Brokerage	Average each	Break Even each *(see Notes)*	Date	Quantity Sold	Selling Price	Brokerage	Nett received	Quantity	Total cost	Average each	Profit	Loss

Notes

Break-even price per share is calculated by adding together Purchase Cost + Purchase Brokerage + expected Sales Brokerage; then dividing by the total number of shares purchased.

Profit or Loss from Sales is calculated by multiplying **Average each** by number of shares sold; then deducting Nett received. Tax may be due on this total.

Share Name:

Share Price

break-even

Date

Share Name:

Share Price

break-even

Date

Share Name:

Share Price

break-even

Date

Share Name:

Share Price

break-even

Date

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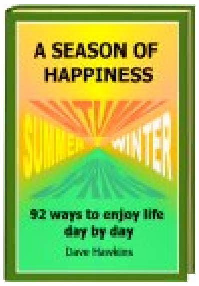

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