10 Simple Rules to Make You Serious Money in the Sharemarket and Keep it!

By Joseph Sgro

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It appears that I have a dislike for admitting that I could ever get it wrong and this explains why I sometimes can't take a loss. On the other side of the equation: if I was wrong and XYZ was not going to make me a fortune − then what could I do?

Okay I spotted one of my stocks in the "Shares" magazine − I confess! I was just reading about all the up−and−coming stars and there was this little snippet asking a question like: "Could this be a new Microsoft?". Now they may not have said that exactly, but it was enough to make me think XYZ was a good news story as its price will testify − at the time(in the 70's). I mean it was there − it had to have some merit!

It was a miner and had a technology company in its portfolio and a percentage of another tech company and was doing very little in the resources area because there was more hype in tech shares at the time. It was a time when many miners were turning into tech companies. Can you visualize the miners making their way to the goldfields?

Well I was right into that − so I bought heaps and the crazy part was that I was not going to sell something that had such a great future. Nearly $60 000 went into this company and I've still got it. Not because I am still in love, but because it's nearly worthless. It will be a reminder to me never to do that again!

How much is this RULE really worth to me? That's simple − without counting any other stock in my tech−wrecked portfolio, this RULE is worth $59 494.45 saved.

If I just add one more, an online retailer, which cost me $69 928.20, my total saving would be $129 422.65. So if someone had given me the above rule to live by, I could have sold out early and kept most of $129 000.

The unloved by the market, which included many of my startups have plummeted since the tech boom − some went up like shooting starts, only to be blasted to pieces and fall back to Earth. You won't get directors coming out to say that the market has put an outrageous price on this company or that one, and that really, there is no substance to back up the price. However someone will notice that the king is really naked and when they do there is no mercy from the crowd.

I have heard say, "The market is always right", and maybe it's not a bad one to remember. Those that didn't participate in the tech boom will have lost considerable money and those that fell in love with the naked royalty will have lost their shirts.

Does it hurt? You bet it does! It hurts every day, but it will get better one day − I hope! It was a great

experience, even though it was a painful one. Now it is you, the reader, who stands to benefit from my mistakes; which increases the value of such insights and will make this book probably the most treasured book about the market's affect on individuals' psychology and an awesome reminder of the pitfalls of sharemarket speculation.

Do I think that I'm the worst case? NO WAY!! You only have to look back in time to see what companies, underwriters and well−established financial houses paid for software companies and internet security companies − even our beloved Telstra(using the taxpayer's wealth) suffered its billion dollar nightmares, not to mention News Corp's businesses going bust. The bigger they are the harder they have fallen: Enron, Vivendi, Worldcom and others handing over billions as if there was no tomorrow. Well now the penny has well and truly dropped as these huge gorillas fight for their survival under a pile of debt and scandal. Nope...I'm in good company. The scandals and falls since June 2002 have certainly been enough to scare me. We live in hope that we don't end up with a depression and that the losses of up to $US8 trillion at the time of writing, are finally stemmed without bringing the whole financial system to its knees.

How many lucky devils bought News Corp at $26 and how many have watched the decent to $8.46? Losing $12 billion in one year only makes people want to own it, pushing the price from below $9.50 back up to above $10.50.

The market lurches from drunken stupor to bottomless pit of despair − it's easy to get it wrong on any day!

In sharemarket trading you live and die by your trading plan − so experiment by all means but at some stage you will need trading rules to live by. The market can leave you behind. It has a way of changing faster than you can. It does its time as a bull and then becomes a bear and in the same breath will do an about face and scream to a high, leaving your position in the red, when everything you know tells you that the market for that stock should not behave that way. You keep screaming ...BUT IT'S A LOSER!!!!!! Stock punters just ignore you, pushing the dog of a stock higher, after losses counted in billions of Australian dollars and a weaker quarterly profit. Who really cares? Emotion carries the market higher until once again the profit takers come in and sell the highs.

If you have enjoyed this discussion...there's more....and the content is not specific to any one country. You can apply these ideas.

Please visit: http://www.tutorhelp.com.au/sharemarket.html

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Happy Investing,
Joseph Sgro
The Author

Joseph Sgro was born in Western Australia with a hunger to become a millionaire(a Wild Colonial Boy at heart). Classroom teacher with 15 years and sharemarket trading experience of 16 years culminated in a portfolio of over $700 000 and a serious turn for the worst in March 2000.This turn of fortune gave rise to much analysis and a desire to learn what went wrong.

How to Make Money in the Sharemarket

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Isn't earning a good return on our money a very essential
consideration? Yes I think most would agree. We want to
build our retirement money−machine because we all know
you need piles of the stuff and if we are going to enjoy
retirement then we better have a GOOD PLAN!

CONSIDERATIONS
−−
Real Estate: You make your money when you buy!

Small Business: You make your money
when you sell your money−making system.

Shares: You make your money when you can!
−−

My favourite game is playing the sharemarket and I will
admit to you from the start it's not always money in your

bank account − why? Simply because it's a game where the one who who knows the most makes the money.

If you want to join me then start your education now! Learn how, do the training and master your emotions you you will do well.

LOOKING BACK

It wasn't till I lost my advisor that I really learned about making money. Now I'm not saying sack your advisor − I would never say that! You have to make your own decisions.

An advisor can tap into situations that you would not be aware existed. You can also learn from them. Just be careful as to who gives you advice and make your own decisions.

Don't trust anyone to make money for you. No one cares about your money the way you do. Advisors in most cases are just

sales people who need to get clients so that they can pay their bills. At the best of times you do not rate that highly in their priorities.

If you lose or win, it's nothing to them − they hope they will still get to keep their jobs. It is easy to understand − make them a lot of money and they might let you know what is happening to your account, but this depends on who is more important than you today. We all want advice and we all ask the opinions of others, but don't become dependent on someone solving your problems − you are alone! Now live with it! The sooner you take full responsibility the better.

The people who make excellent returns are those that see trading as a business and realize that they will always be a pupil who needs to keep learning, be self−motivated and resilient, because losing at some stage is inevitable.

There are going to be more people that lose money than make money. I have had strings of losses, where position after position has had to be closed. Now you don't need that to happen too many times to wipe out your capital. This is the reason for keeping your positions small. You must decide how much time you will be willing to invest to learn how to make your fortune and keep it. The less time you're willing to devote to learning, the less money you should put into the sharemarket.

The gambler will eventually give his winnings back to the house because they do not have a plan and trading rules which help them develop self−discipline. The most important quality to develop if you seriously wish to be successful in the sharemarket is self−discipline. Although this is easy to write in words I assure you that developing personal discipline is very hard and to carry out actions without involving emotion can be next to impossible. We are often ruled by emotion and we hate to admit we have made a loss − thus, often we won't do what we should to rescue our remaining capital. This is how a little loss becomes a big loss over time.

Master yourself − your emotions will help you lose money. The more you think with your emotions and the more you make decisions with your emotions, the more you will lose.

NO ONE CAN PREDICT WHAT WILL HAPPEN IN THE MARKET!

If anyone can predict with any accuracy it won't be you and if you must predict what is going to happen, don't put any money on your bet. Next, if your broker could predict what was going to happen he/she would not be a broker − they would be living the life of Riley. If the money is coming out of the market then for god's sake take notice. This may be as close as you get to insider trading.

The stockmarket is like a sport. Everyone wants to see the great players and witness all the action, but not everyone is going to win the game. It is up to you to learn how to play the game. You need to learn the rules and learn the tactics and strategies to help you score more goals.

There are many different plays you can make in the market, but learning the less risky plays and those that reduce risk will make you more money.

Less risky to some......using options to make money

Examples might include:

1. Writing puts when the market is going up instead of

buying the stock. If you're exercised then you can decide whether to buy the stock or act earlier to prevent the exercise by closing out your put position when the put price drops(buy the same put series and close it out).

2. Writing calls over your shares when it looks like the stock price is ready to fall.

3. Buy calls or puts depending on which way the market is going. Up market might indicate buying a call to cature the upside. A falling market may indicate buying a put to capture the rising value created by people buying protection.

The first strategy many people will see as too risky, but it really depends on your level of education in options, whether you can handle the risk and how much spare cash you have to meet your obligation if your puts are exercised. If the total cost of exercise is $50 000 and you have the money then in the case you do get exercised you will be able to buy the shares.

Get protection for your shares

Buy Puts
Let's say you protect your position by buying a put, then if the price drops you will cap your loss, or alternatively, you could sell the put/s, which may result in a profit and thus make up for any lost value in the share. Covering your position may be an on−going requirement. There will always be a price to pay − that's life!

Making money buying puts

Write Puts
If you write puts then you'll be obliged to buy the stock in the event you are exercised and so having sufficient cash is essential. You can also buy another series to cap your potential loss to the spread between the two series.

If you wrote $10.00 puts and bought $9.50 puts your loss would be partly covered by having that cover if the price drifted lower.

So we can make what looks risky, less risky, by knowing more about what is possible and then choosing our exit strategy. If I am exercised my contingency plan might be to write calls over my new shares and if I preferred, I could go back to put writing, by letting myself be exercised.

If I wanted to keep the shares then I would write calls that are further out of the money. I can even buy calls in a different series so that in the case the share price goes up I capture some of the increase, or I can cancel the contract by buying calls in the same series.

During May 2002 I used this same strategy with NCP. I wrote puts at $12.50. I watched the share go down to $9.68. I let myself be exercised and met my obligation by paying $12.50/share − risky? You bet, because all the worst conditions for put writing came together in June 2002, the month I wrote puts.

It fell to $8.44. NCP makes up 10% of the Australian All Ordinary Index, so you could expect such an important stock will get serious attention. However at the time big media companies were not the flavour of the month − all the flavours had turned sour!

Following the purchase of the stock I wrote covered calls. There is nothing wrong with the strategy, but timing is your most important variable − thus a contigency plan is required. Keep in mind that 1 month in the market is a long time and 3 months is an eternity. Things can change very quickly from panic to ecstacy for no apparent reason. Someone always raises their hand with an explanation to satisfy the crowd − wouldn't we be disappointed if someone couldn't tell us. I think we'd probably get very worried!

Writing calls is a good idea when you think the stock price will fall. My contingency in the event I was exercised was to write calls and make up the difference I had lost − I didn't

intend buying back the calls, as I felt there was little risk of losing the stock because the $10.50 level would remain out of the money.

The resulting action suggested that a better plan would have been to buy/write regularly − buy the calls back sheep(cheap) and write deer(expensive). Waiting first for the stock to peak then writing the call.

I could have closed out my contract by purchasing puts in the same series. I could have bought puts in another exercise price series to cap my loss. I chose a different way and regretted my choice. Holding the stock was not the easiest choice I could have made and in fact it held me back from making a lot more money.

Once I had the stock I had to protect it. If I then sold the protection I could have found the stock slipping further in value, so I kept the protection in place and missed the profit as the stock moved back up. So even though I inially lost by having been exercised I lost more by not being in a position to be more flexible. A further complication was my stock was purchased with a margin loan.

What should I have done?

I could have sold the protection , made a profit and then looked at buying the same protection cheaper. I could have done this at least 4 times in 4 months.

This brings us to the topic of increasing the flexibility of our thinking.

If you make money only in one direction you will reduce your trading results drastically. The market does not always go up! Sometimes it goes down or moves sideways.

We all need to be on the right side of the market. Believe me the alternative is no fun!

Happy Trading,
Joseph Sgro

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Joseph Sgro has spent a good slice ofthe last 20 years as an educator andas a trader for the 16 years.He writes of his experiences tradingthe stockmarket and shares with others"HOW TO" via THE 10 Simple Rules Ezine: How to join the top 5%.