Managing Your Investments for Better Returns

BY **BC LOW**

Much has been said about managing your investments profitably - trading with the trend; cutting your losses short and letting your profits run. But beyond basic principles, traders and investors can do much more to manage their investments to achieve better returns. This short article intends to share useful ideas that can help you to manage your investments.

Learn To Manage Fear And Greed

We often hear about the psychology of fear and greed in investment. After a market has made a sizeable move, we tend to get greedy and buy into the market in the belief that the market will get even higher. This ends up in us buying high, even at record highs. When the market eventually turns, we wonder why we bought so high.

On the other hand, often it is only after a market has fallen sizeably that we get fearful, and cut out our buys. We end up in selling low, making a poor exit and a major loss. Traders and investors are typically caught in this web of greed and fear.

As traders and investors, we can and must not allow these two powerful forces of fear and greed get the better of us. This is one of the hardest things to do, and it will take a lot of discipline. It is well worth the effort, however. How does one know if the market has made that sizeable move which implies we should not be buying that high? Studying the history of the market's move from charts is one approach.

What if you still wish to buy into a market that has risen sizeably? After all, we don't really know where is the actual top of the market. The solution is to refrain from aggressive trades. If you have to add positions, add smaller positions. This is the principle of Pyramiding.

Another way to manage our investment better when a market is high is to buy lower priced stocks rather than higher priced ones in case a sudden reversal occurs. A 10 per cent drop in a $0.50 stock is much less than a 10 per cent drop in a $5.00 stock.

Thirdly, after markets have made a major move, you can consider taking out part of your positions. It could mean exiting part of a large position, say 5 lots out of a holding of 10. Alternatively, you could exit a position that is profitable, but the stock price is moving less aggressively. Do not try and get the last cent out of a position in the market. Or worse, the last cent of all the positions!

Avoid The "Crowded Trade"; Avoid Herd Mentality

Another way to better manage our investments is to avoid the "crowded trade". A couple of months ago, gold was the most popular investment recommendation. Recently though, gold fell sharply, suffering its biggest fall in three decades. Yet many investors will continue to hold their investments in gold despite the uncertainties of its trend.

Not Following Recommendations Blindly

You need to do your own homework to assess investment recommendations and not follow them blindly. Recently I attended a seminar conducted by a highly regarded financial institution that recommended a string of buy recommendations. Upon referring to my charts, I found that all the recommended stocks had already made major moves! The risk of going into such stocks is obvious. You must have a method of analysing investment recommendations, whether it is fundamental or technical analysis. In other words, you have to develop your own skills.

About the Author

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BC Low has been a teacher-cum-practitioner in technical analysis since 1990. He was Senior Lecturer in Singapore Polytechnic, and pioneered the teaching of technical analysis in the polytechnic from 1991. He was awarded the Chartered Market Technician (CMT) by Market Technicians Association in 2000. He is currently President of Technical Analysis Consultancy (www.taconsultancy.biz) and President of the Singapore Technical Analysts & Traders Society (STATS) in 2011-13.

Managing Exits – Do Not Forget Your Positions Because They Are "Long-Term"

One of the more common and possibly fatal errors in investing is not to manage the exit. In my experience, investors are more focused about getting into the market and not when it comes to exiting it. We are all busy with our work, family and social lives. So even when a position is profitable, we tend to not take action because we believe it is for the long term. Still, markets move in cycles and eventually they turn bearish and can wipe out what has been a good position. Therefore, it makes sense to monitor your investments – if not daily then at least weekly. How you time your exit is of course not a simple decision, but not exiting a position or leaving it alone is not an option.

Have You Own Portfolio Of Preferred Stocks

Look at your stock portfolio – is it messy, or are you happy with it? Are there too many stocks – the result of following too many recommendations in the past? Are there too many counters bought on impulse? The result is that an inordinate amount of our capital is tied up, and may leave insufficient funds for the really good trade that comes along. We should review our portfolio regularly – say every 6 months – and re-align it so that we can be ready for the good trades. As we have limited resources, we need to plan ahead and set aside money for future investments.

Decide On A Trading Model That Suits You

Investors can adopt either a short-term trading or a long-term investment perspective. A short term trading style of getting in and out of markets over a few days means more work, and more stress. If you are a retiree or a homemaker, you have more time to focus on shorter term trades. If you already have a busy lifestyle that combines a hectic career, busy family and social calendar, then a short term trading model will be harder to sustain. Also, one should not forget that at times markets do get into big and sustained moves. In such a situation, you want to be able to stay in the market to participate in such moves.

Investing Needs Knowledge

Invest in the necessary knowledge and skills so you are equipped to take advantage of the markets, and not let the market take advantage of you. Whether it is fundamental analysis or technical analysis, one needs to be equipped to invest properly.

Be prepared to invest in quality programmes. Attending short talks may not provide scope and depth in such a complex subject. People are willing to spend thousands of dollars on holidays, cars, branded goods and what have you, but baulk at investing in themselves for long term gain. Be prepared to invest in yourself!

Conclusion

This article suggests a few useful things you can do to manage your investments better – have an independent outlook, have your own ideas about investing, and work hard at improving your skills. But most of all, always be aware of the psychological pitfalls of greed and fear.