Sticking with a strategy to win

A novice trader reaps sweet returns by following through on his own trading plans, writes CHARMIAN KOK

For self-professed geek Ronald Lee, his love for numbers and charts can only be matched by the gratifying thrill of following the roller-coaster movements of the stock market. And what better way to feed both passions than to apply the tools of charting and studying price patterns to actual trading in the stock market?

During the school holidays when he has more time, Ron-ald, a second year business student at the Singapore Management University (SMU), finds himself glued to the computer screens monitoring his stocks intently while keeping an eye on CNBC, for any significant news during the market's trading hours.

The 22-year-old student, whose parents hail from Myanmar, first got a taste of trading in the stock market when he participated in a stock challenge organised by SMU's E.y.E Investment club in October 2006. Although his team did not make any profits trading paper money during the challenge, it whetted his appetite for the real thing. Only a few months later, Ronald found himself trading in the real market with a start-up capital of $10,000, provided by supportive parents.

"I like trading because it's exciting and the markets move every day—it's a totally different market every day and it's a challenge to beat it," shared Ronald, who totally immerses himself in the markets every day for hours on end.

"Right now, I personally trade to build up my experiences. My main intention is not to make money, but to pick up lessons from trading, which are far more valuable." Even then, the novice trader managed to rake in returns of about 10 per cent last year amid the sub-prime mess.

As a close follower of the tenets of technical analysis, Ronald believes that one of the keys to success is following through on your strategy. "Whenever trading strategy you have, it's important to be consistent and to stick with it. Once you buy into a stock, you have to follow what the charts say through-out," said Ronald, reflecting on a recent lesson during the sub-prime sell-off. "Some of my stocks did not do very well and there were many instances where my charts lied to me that I had to sell but I held on instead. In the end I got dragged into the mess as well.

"As easy as it may sound, sticking with a strategy consistently becomes harder when money comes into play. With money in the stock markets, you're a different person. If the markets do well, you become greedy and don't sell when it's time to. If the markets are not doing very well, you tend to either sell too early or hold on for longer than you should," Ronald explained.

While it is often hard to stay level-headed and remain objective when money is at stake, Ronald keeps himself disciplined by writing his targets down in black and white. "I find that just telling yourself your limits and targets do not help, you have to put them down on paper and I find it's the most effective thing to do.," shared Ronald.

"Broad strategies aside, Ronald is a strong believer in using the methods employed by technical analysts, who use charts and past stock prices to identify archetypal patterns and indicators in the hopes of realising abnormal returns. Instead of trying to beat the market by seeking out exotic indicators, Ronald believes in sticking to the tried and tested principles followed by most.

"I believe it's a game of probability. It doesn't have to work every time, but as long as you are right half or three quarters of the time, you are still making money."

In choosing his stocks, Ronald typically looks out for heavy volume and high liquidity, which usually indicates strong interest in the stock. Identifying bullish or bearish trends and market sentiments on the company also helps, especially with speculative counters. For instance, he made sizeable returns speculating on Bowesley and Symar last year.

Ronald also uses common indicators to make sure the stock has fulfilled some price movements before deciding to buy into the stock. One example is the moving average convergence divergence, which works well in markets displaying a strong bull or bear trend. Ratios like the Fibonacci are also used to estimate the price target.

"There's nothing fanciful about my methods and I follow what most people would actually do," Ronald told BT. "I'm not looking to come up with a revolutionary method to spot stocks. I do what most people would do, except that it's a game of psychology. The market is moved by how people collectively react and as long as you don't commit the same mistakes as the masses tend to make, you should be able to beat the market."

His advice to budding traders still in school would be to invest a good amount of time to research on stocks and the stock markets. "Having good fundamentals is extremely important. Read up on fundamental or technical analysis extensively, whichever you prefer. Understanding yourself is also vital, so you can look out for your tendencies and the things you are likely to do. Find out what your objectives are and finally, follow your instincts or you have re-established them," Ronald said, at the same time warning against trading actively in the stock markets during the school term. "Not being able to be there 100 per cent will hurt you eventually," he cautioned.