Share Trading**

Nimble short term investing

Introduction

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The term “Nimble Short Term Investing” (sometimes abbreviated here as **NSTI**) refers to a particular investing style that is applicable to investing in the equity markets (the share market). This investing approach has several underlying assumptions, and adopts specific views and interpretations. Some of it's underlying principles challenge conventional wisdom. And there is a particular mindset that can help an investor to be more successful.

This Article in Brainy's series on Share Trading and Investing (number ST-7100) provides an introduction to the subject, and points to more information and other related articles in this series (some of which are to be written in coming months). See the list of related items included below.

NOTE: This information is for general education only. It does NOT include a recommendation to take any action, nor make any investments. One should always consult a properly trained, qualified and experienced professional before undertaking any investment.

Extra note: There is no guarantee that any information in this article is useful, or that it might result in investment success.

Further reading — Readers are encouraged to also see the following eBook (PDF) Articles that expand on some of the key details regarding the Nimble Short Term Investing approach:

- eBook **Article ST-7200, *“Investing objectives”***;
- eBook **Article ST-7400, *“Underlying principles”***;
- eBook **Article ST-7500, *“Emotions and psychology”***;
- eBook **Article ST-7900, *“Money and risk management”.***

Overview of the nimble short term approach

Carefully consider the following scenario. Let's assume that we have some money which we want to see grow in value. And we are happy to lend the money to one (or more) companies by buying some of the shares in the company. Over time, we want to see the value of our money grow. If the company struggles for any reason, and the value of our investment is falling, we need to consider whether we will leave our money in the hands of the company — and possibly watch it fall significantly in value, and in fact the company might end up in such a situation that our invested funds could end up almost worthless. If we could foresee this eventuality, then we might be wiser to take our money back and invest it somewhere else where it might have a greater chance of growing in value.

If the company cannot improve the value of our investment, then we might as well invest the funds in a bank account where it is likely to grow (albeit by a small amount), instead of reducing in value.

Bearing this in mind, the Nimble Short Term Investing approach is based on the premise that we are looking for capital improvement, and we won't tolerate any destruction of our capital. This might mean that we invest, and monitor our investments, on perhaps a weekly basis.

Investing objectives

The objectives that underpin this investing style and approach include:

1. Strive for short to medium term capital improvement — over days, weeks or months, and maybe for years but not necessarily. Hence "Nimble ***Short Term*** Investing".
2. To maximise the returns by optimising the investment position entry and exit. That is, we will

** - The two words *trading* and *investing* are often used somewhat interchangeably.

strive to time the market. And it is important to understand that this is possible, even though some self-interested experts will try to tell you otherwise. There are many thousands of successful investors who do time the market.

3. To protect the capital from downside risk by using an active approach by having a clear exit strategy to reduce or close out losing positions. Hence "***Nimble*** Short Term Investing".
4. Investment income (such as dividends) is not important and will not be a distraction.
5. We are genuinely interested in helping the company to move forward by lending them our money. Hence "Nimble Short Term Investing".

Time frame and horizon

Our own time frame and investing horizon might not be applicable to everyone; but it is described as follows:-

- Crystallise profits in short to medium term (days and weeks to months).
- Ignore the long-term buy-and-hold approach.
- Spend a maximum of about 1 hour per day, or up to 6 hours per week, on this and related activities.
- Be sensible with balancing the amount of time against the end results. That is, we will not unnecessarily spend too much time on related activities that don't contribute to the outcomes. See more information about balancing the time (in separate materials, including on the web: www.robertbrain.com/share-market/balance-the-time.html).
- Be wary of over-analysis, and excessively complicated analysis. This applies to both fundamental analysis (to identify quality stocks and reduce the risks), and to technical analysis (for timing of the entry and exit).

Underlying principles

There are several principles that are relied upon with this investing approach:-

1. **The opinions and emotions of market participants** are summarised in the price charts. The price charts tell a story, and it pays to understand the stories in the charts. This is what technical analysis is all about, and is so fundamentally important to this investing approach.
2. **Bias?** — Some finance industry professionals are biased, or have a vested interest, or deliver conflicted advice. So do not automatically believe everything that we hear.
3. **Irrelevant and misleading** — Many industry professionals and commentators provide advice and comment that is irrelevant and misleading — so ignore it! For example, they might talk about specific investment opportunities on the assumption that we have adopted the now out-dated buy-and-hold approach. Or they might recommend a fully diversified approach which can reduce the overall portfolio performance when compared to a slightly more active approach that is not fully diversified.
4. **GEMs** — Be cautious about so-called Wall Street words of wisdom and their clichés (eg. “a rising tide lifts all boats”) because some are furphies. See a list of real share market GEMs: www.robertbrain.com/share-market/gems.html.
5. **Intrinsic value and value investing** — These notions are not helpful and are ignored. See more details about these terms:- www.robertbrain.com/share-market/intrinsic-value.html.
6. **Cyclical investing** — This is not helpful and is ignored. See more details about cyclical investing:- www.robertbrain.com/share-market/investing-cyclical.html.
7. **Utilise fundamental analysis** but only to a small degree. Many investors firmly believe that fundamental analysis is useful to a degree, but many people place too much emphasis on it.
8. **Heavily utilise technical analysis** to more accurately time the entry and exit.
9. **The general sentiment of the local market** can influence stock prices, so use this to fine tune and influence the risk and money management approach.
10. **Inter-market analysis** is useful, so use it to further fine tune and influence the risk and money management approach

Investing psychology

The key points regarding this aspect include the following:-

(a) One's own emotional state can strongly influence investment decisions and performance. So understand the forces at play and stay calm. See more information about the emotion and psychology of the markets.

(b) Cognitive and behavioural biases can sub-consciously sway investment decisions. Be aware of potential biases and actively counter their influence.

(c) We cannot be 100% accurate with investment decisions. There will be losing positions, so accept this, cut losses quickly, and move on.

(d) Some closed positions will turn, and in hindsight could have been winners, so accept this, stay calm, put it behind us and move on.

The reader is strongly encouraged to seek out useful texts for further reading on the subject of trader psychology and behavioural finance.

Stock, sector and market analysis

There are some key thoughts regarding stock analysis, sector analysis, and overall market analysis.

1. **The fundamental details** of stocks are somewhat useful, but limited — so don't over-do fundamental analysis. At the end of the day, the true value of a company's shares is the value they are trading for on the market. There is no point arguing with Mister Market (because the market is like an elephant).
2. **Sector analysis** — Ignore sector analysis as it is not overly helpful.
3. **Blue chip stocks?** — This term is not helpful. See the real truth about blue chips on this web page: www.robertbrain.com/share-market/blue-chip.html.
4. **IPOs** — Do not participate in IPOs (after floating, too many of them are under water for too long). See more details about IPOs:- www.robertbrain.com/share-market/ipo.html.
5. **Dividends** — These are useful, but are not the primary objective, so don't focus or rely on dividends, and be cautious about making stock selection decisions based on dividend returns.

Stock selection strategies and details

There are many ways to select stocks for investment purposes, but it is important to decide on just one or two strategies and not to be distracted by others. One possible stock selection method that is used for this approach is ***trend following*** (ie. stocks in a confirmed rising trend). Note that there are other possibilities, but they are not considered here.

The specific details for one stock selection method will be included with this material in the near future.

Whatever strategy we devise, it is very useful to utilise back testing and paper trading strategies to increase the confidence of the strategy details.

Money management

Wise money management is an essential ingredient to help with success. Here are some key considerations:

1. Confirm your own exit strategy details before entering a position. See more information on exit strategies:- www.robertbrain.com/share-market/exit-strategies.html.
2. Optimise the position size using a position sizing tool.
3. Some investment positions will be losers — that's okay. We can't be 100 percent right with our investment decisions, but we can still be profitable.
4. We can still be profitable provided we keep the losses small, and make sure the winners are large. A win/loss ratio of only 40 percent can be okay (provided the losses are kept small and

the profits are relatively high).

5. Let the profits run. If appropriate, take some money off the table to capture profits.
6. Don't close a position just because it has met a price target, or because it is making huge profits. In this situation it may be prudent to take some money off the table.

Risk management

Note the following key points regarding risk management:-

(a) Consider aspects of funda-technical analysis to minimise the risks ie. look for low debt/equity ratio and consistent returns on equity.

(b) Stock liquidity — Only invest in liquid stocks ie. daily trades > x, and daily volume or value > 20 times the position size. See more about stock liquidity.

(c) “Risk” no more than 2 percent of total capital on any one position (the “2 Percent Rule”).

(d) “Commit” no more than 20 percent of total capital to any one position.

(e) Monitor positions at least weekly, and if an exit condition (or stop loss) is met, then action it according to the exit strategy.

See more details about risk management:- www.robertbrain.com/share-market/exit-strategies.html.

Summary

In this article in Brainy's series on Share Trading and Investing (number ST-7100) we have taken an introductory look at the notion of Nimble Short Term Investing as a way to invest in the markets and to protect our capital from too much downside risk. More eBook Articles on this subject are planned in the coming months.

For more information, refer to other articles in this series.

Your own notes and comments: ....

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