



Brainy's Articles on Share Trading

Strategy considerations Finding liquid stocks

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Introduction

Many share market investors and traders fall for a number of traps in the early days of their investing or trading experience. One of these is to do with stock *liquidity*. It doesn't matter whether you are buying shares for shorter term profits, or for longer-term investments, it is very important to be able to sell the shares at a time that suits you. To do this, it is important to have buyers available to take your stock at the point in time when you want to sell it. So investing only in liquid stocks is important.

Secondly, if you have decided on some key criteria for *liquidity*, then why waste time scanning all stocks in the market for buy opportunities? There might be only 400 stocks that meet your liquidity criteria, so why spend time scanning through more than 2,000 stocks?

In Article **ST-6210**, "**Strategy considerations — Volume and liquidity**", we took an introductory look at the concept of *stock liquidity*, and especially the considerations of daily (and weekly) *Volume*, the number of *Trades*, and *Sales Value*. But it was a somewhat simplistic view of the topic.

In this Article in Brainy's series on Share Trading (number ST-6215) we take a more detailed look at this topic, and consider in detail how we can find stocks that meet our own liquidity requirements. Remember that the topic of *liquidity* is very important, because by avoiding thinly traded stocks we should be able to hang on to more profits, and minimise losses. Conversely, by ignoring the issue of *liquidity*, we could end up seeing profits slip away, and losses grow before our eyes — it is very easy for this happen.

In the first sections of this Article below we look at this from the point of view of shorter term trading using mostly daily price charts; but in the following sections we also look at the longer-term aspect on weekly charts, which is more relevant to longer-term investors. One key outcome from this study is a definitive list of **tradeable liquid stocks** that meet our own liquidity criteria.

Readers should also refer to the introductory information on this topic in eBook (PDF) Article:

- **ST-6210**, "**Strategy considerations — Volume and liquidity**".

Caution

There are some catches when searching for stocks that meet liquidity criteria such as *volume*, *trades* or *value*. The daily price chart of MSF Sugar Ltd in Figure 1 at right helps to demonstrate this.

In most days shown on this chart, the value for *Trades* (the lower portion of the chart) shows the number of daily *trades* in this stock varying from roughly 100 (i.e 0.1k) up to about 200 to 300. The horizontal (green) line is set at 50 to indicate a possible threshold level — above which we want the value of daily *trades* for a stock to be *tradeable*. But note a couple of days where the *trades* value is below this green line (27th July, and 1st and 11th August). Also for the latest daily figure — a value of 4 trades on 5th September.

So, what is the problem? Well, with a share price between \$3 and about \$3.60 (in the upper pane of the chart) we can see



Figure 1: Trades - caution!