



Share Market 101 Success factors to avoid the pitfalls

When considering whether to invest in the share market, there are a number of pitfalls for the unwary, and for the uninitiated. There are experienced finance industry professionals who are very keen to provide advice to anyone and everyone. Unfortunately, and despite all good intentions, some of this experienced, professional and learned advice is not always in the best interests of the share market investor.

But how can we tell the difference? How can we sort the wheat from the chaff? Who can we trust? Who will honour and respect our best interests?

This leaflet provides two simple check lists to help, and the reader is strongly encouraged to seek out more information.

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Investors (and traders) — Common pitfalls

The following are common pitfalls that affect the performance of many investors and traders.

1. Trust everything we hear.
2. Trust all financial advice without question.
3. Fall in love with a company's shares (emotional attachment).
4. Hold on to a falling stock (perhaps because we like the company).
5. Believe that *blue chip* stocks are great.
6. Invest too much into one position.
7. Follow the long term buy-and-hold investment strategy.
8. Bear market => "*She'll be right!*" (head in the sand).
9. Get swept up in the hype and join the crowd.
10. Take eyes off the ball.
11. Over-diversify (resulting in extreme conservatism).
12. Missing out on good investment opportunities.



Telstra - 1999-2011 (12 years)

Beware the sharks in the ocean!



Key Success Factors in the markets

These are useful thought-provoking factors for consideration. Many of the successful investors and traders follow these axioms. There are active internet links included below which are useful if you are viewing an electronic copy of this document, otherwise, type the internet address shown.

1. **Beware the "sage advice"** — There are many clichés and axioms to do with investing. Things like: *"Time in the market, or timing?"*, *"A rising tide lifts all boats"*, *"When Wall Street sneezes other markets catch a cold"*, *"Dollar cost averaging..."*, *"The trend is your friend"*. Some of the share market gems are actually furrphies. See Robert's list of [Share Market GEMs](http://www.robertbrain.com/gems).
www.robertbrain.com/gems
2. **Long term? - NOT!** — Accept that many investments are best NOT kept for the long term. Even [blue chip shares](http://www.robertbrain.com/share-market/blue-chip.html) can plunge in value, and result in opportunity costs. www.robertbrain.com/share-market/blue-chip.html
3. **Plan and strategy** — If you decide to invest in shares, then make sure to have some form of investing/trading plan and strategy in place. Read more about [plans and strategies](http://www.robertbrain.com/share-market/plan-and-strategy.html). www.robertbrain.com/share-market/plan-and-strategy.html
4. **Diversification?** — Be careful not to overdo this. If you spread your investments, then the portfolio performance will be closer and closer to the performance of the index, in which case you might just as well invest in an index-tracking fund, and ride the roller coaster of [bull and bear markets](http://www.robertbrain.com/market-analysis.html).
www.robertbrain.com/market-analysis.html
5. **Trends** — Identifying and riding a [rising trend](http://www.robertbrain.com/technicalanalysis/trends.html). Remember that once a price trend is under way, it is statistically likely to continue.
www.robertbrain.com/technicalanalysis/trends.html
6. **Risk management** — Make sure to have some effective [risk management](http://www.robertbrain.com/sharemarketready) in place. This will be described in your Investing/Trading Strategy and will encompass some rules to limit each position size, and the portion of your total investment capital that is at risk. Effective risk management will help to sleep at night. www.robertbrain.com/sharemarketready
7. **Stop loss** — Make sure to have an effective [Stop Loss](http://www.robertbrain.com/share-market/stop-loss.html) approach. This will be covered in the risk management portion of your strategy.
www.robertbrain.com/share-market/stop-loss.html
8. **Utilise technical analysis** — This is essential in order to maximise the effectiveness of entry and exit timing. www.robertbrain.com/ta
9. **The "4 Windows" approach** — If the broad field of technical analysis is a little daunting, then utilise the [4 Windows approach](http://www.robertbrain.com/4-windows) to get started.
www.robertbrain.com/4-windows

*"The best time to prepare for the next bull market
is before the bulls have bolted."*