



# **10 hidden truths of successful share trading**

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**[www.justshares.com.au](http://www.justshares.com.au)**

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## Introduction

Hello and thank you for your interest in this Free Report.

I've written many reports, plenty of articles and a pretty large book. I always like to start off by letting you know who I am and what experience I have. Just so you can make a quick decision on one of these two:

1. **Boring!** This guy has no idea or he's only interested in selling me something. I'm turning the television back on!
2. Okay, this guy sounds like he knows what he is talking about without the usual sales fluff. **I just might turn the page...**

### Who Am I?

Okay, first off my name is Sam McNeill. My business (Just Shares) has taught hundreds of Australians how to trade shares over the last few years. These include people from all walks of life and all corners of the country.

I have also, prior to founding Just Shares, provided consulting services to many large financial organisations such as: Macquarie Bank, National Australia Bank, St George Bank, Sydney Futures Exchange, Singapore Government and ANZ Bank.

At Just Shares we are involved in share trading 24 hours a day, 7 days a week, and have been for years. We see what works. We know what works. We do what works.

And unlike many companies in this area, we don't just teach it to others. We use the trading techniques that we teach. We make real money in real life from trading using these techniques.

And the truths I'm about to share with you really do seem to be hidden. I say hidden because very few people seem to know about them.

I'll say this. If you trade shares based on the principles I'm about to disclose to you in this report you will give yourself the absolute best possible chance of success.

So, let's get started .....

## **Hidden Truth 1 - The most important principle in share trading is protecting your money.**

This truth is known by every Professional Share Trader. Yet not many people outside of professional trading circles seem to know about it.

I see newspaper and magazine ads all the time that say: *"We can teach you to make 50% profit from your trades every month."* The focus is on the potential profits. Now whether some of these profits are real or not is debatable. Let me just pause for a moment to consider these profits before I get to protecting your money.

Please think about this for a moment. Some advertisements claim that you can make 50% profit from share trading each month – some claim substantially higher figures. If you could make 50% profit each and every month and you started trading with say \$10,000 then after just 2 years and 6 months you would have just under \$192 Million in profit! It's simple compounding arithmetic, you can calculate the figures for yourself.

Now I can absolutely guarantee to you that if anyone knew how to turn \$10,000 into \$192 Million in just two-and-a-half years they wouldn't sell the secret to you or me for the cost of a \$5,000 training course.

So forget about these super sized monthly profits. Common sense tells you that you are chasing an unrealistic dream if you allow yourself to be misled down that particular garden path.

However, substantial and pleasing profits can be made from share trading on a regular basis – but not 50% per month and higher.

Let's forget about making money from share trading for just a moment. Consider this instead.

The best share trading techniques on the planet have a success rate of around 70% to 80%. This means that, on average, if you are applying the best techniques in the best way possible then in seven or eight times out of ten you will have a profitable trade. This sounds good, and it is good – it is very good. However, the flip side of this is that two or three times out of every ten you will experience trades that do not make a profit for you – they make a loss.

Again this is widely accepted in professional share trading circles but it is not widely discussed in the advertising that you will see about share trading. And the reason it is not widely discussed is because the folks writing the ads want you to chase unachievable super sized profits, they don't want you to think about the reality of potential losing trades.

Fact: unless you do think about your two or three losing trades out of every ten you will be on the road to trading ruin. Let me prove this to you.

If I am trading with \$10,000 and if I have a losing trade of say 20%, my \$10,000 will be reduced to \$8,000. That is the original \$10,000 less 20% (\$2,000).

Now in my next trade I am therefore starting with \$8,000. If I make a 20% profit my \$8,000 will increase to \$9,600. That is my original \$8,000 plus 20% (\$1,600).

Let's stop right here.

Recapping, I have done two trades, one lost 20% and one gained 20% but I am down \$400. This hardly seems fair. But then the share market doesn't care about fairness. Welcome to the reality of share trading!

As the table below shows, the larger a loss gets the worse the situation gets:

Size of loss	Gain needed to recover
10%	11.1%
20%	25.0%
30%	42.9%
40%	66.7%
50%	100%
60%	150%
75%	300%
100%	ruin

So this brings us to first and most important truth of share trading:

**We must keep any losing trade really, really small. How small? No more than 2% of our trading capital is our aim.**

The good news is that there are simple and straight forward ways of doing this. The full details of how to do this is beyond the scope of this paper, however, let me give you one simple way of doing it.

If my trading capital is \$10,000 then 2% of my trading capital is \$200. So if the share price of the share that I am trading should fall to the level at which I will lose \$200 (2% of my trading capital) then I sell the shares. This is simple and straight forward and it will protect your hard earned cash.

One draw back of this very simple method of protecting your money is that the dollar figure, in this case \$200, doesn't necessarily relate to what is happening with the share price. However applying this money protection rule is 100% better than not protecting your trading capital at all.

In Just Shares training courses we teach some further straight forward but slightly more sophisticated ways of keeping any losing trades really, really small.

**The key principle here is always have in place a price that if the share price falls to this price, you sell and cut your losses. Protecting your hard earned cash is your most important focus when trading shares.**

## Hidden Truth 2 - Hunting for the big spectacular winning trade is a losers game

Can you predict the future with complete precision and certainty? If so please call me, the ways that we could make money together are unlimited.

But if you can't predict the future with complete certainty don't worry – you are the same as me and everyone else.

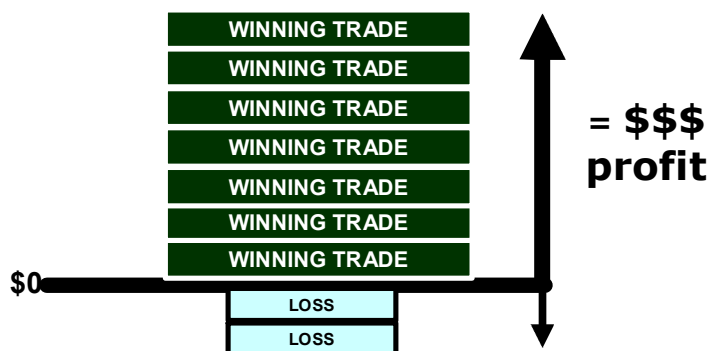
What does this have to do with share trading?

To be able to pick the biggest and most spectacular winning trades would require predicting the future with complete certainty. Because to pick such trades implies that you must know how high your share will go and how high all other shares will go so that you can pick the biggest and most spectacular winning trade.

It's already beginning to sound implausible if not completely impossible, isn't it?

Yet there are many people out there who will sell you computer programs and systems that promise just this – all of the biggest winners in the share market.

The reality of making a living from the share market – as opposed to gambling or speculating – is that it is about accumulating a significant number of moderate sized winning trades whilst accepting a smaller number of smaller losing trades. If you do this you will always end up with a profit after any given period of time.



**The key here is not to waste your time and money chasing the biggest winning trades but instead focus on ways of making repeatable and sustainable moderate size wins. Do this whilst keeping any losing trades small and you are on your way to success.**

## Hidden Truth 3 - “Buy low, sell high” is for fools

Just imagine how good this would be.

You buy a share at its lowest price and sell at its highest price. We would be rolling in money, surely this must be the way to go.

Unfortunately the draw back here is that pesky inability that we suffer from. You know the one where we can't predict the future with absolute certainty and neither can anyone else. But if only we could .... the money that we would make.

But there is no point dreaming.

Sadly, there is a whole industry built around advising you what shares to buy and sell in order to buy low, sell high. This is because it sounds so enticing, so inviting and even logical.

Step back from this and think about it for a moment. The only way that you can know in advance that a share has hit its absolute lowest price, or for that matter its highest price, is by knowing exactly what is going to happen in the future.

Trying to pick the price lows and highs is a sure fire way of becoming frustrated, angry and probably losing money in the process.

**The key here is to use your common sense and judgment. Anyone who wants your money for selling you an approach that is based on an ability to predict the future will result in only one outcome. And it's unlikely to be a good financial outcome for you.**

## Hidden Truth 4 - Hot share tips are worthless

People often believe that the key to making money from the share market is hot tips. Hot share tips based upon some “secret inside” information that makes its way to only the fortunate few.

Here’s a scenario.

I’m sitting at my desk doing what I do. The phone rings.

Me: “G’day, Sam here.”

Gary (my son’s friend’s Dad – Gary knows a thing or two about the share market, he knows a journalist who knows a stockbroker who is apparently in the know):  
“G’day Sam, have I got a great share tip for you. Buy MZZ – it’s going to take off. It’s a sure fire hit. Don’t miss this one.”

Gary hangs up after some friendly chit chat.

Wow. Here we go – easy money for me. MZZ is the ticket.

So what should I do? Buy now? Wait a bit?

No – I should buy now, can’t afford to miss the opportunity. But how many shares should I buy? At what price?

What should happen after I buy? Should the price go up straight away? Or should it take a few weeks or maybe a few months before the price takes off? How high should it go? When should I sell and why?

And the questions keep coming.

A share tip on its own is worth very little if anything. A share tip on its own does not tell you what to do or what to expect or how to know if what was meant to happen is happening or is not happening.

Because of my involvement with shares, I get sent at least half a dozen share tips a week – I ignore all of them. I ignore them because they don’t come with the information needed to reliably make money from them.

**The truth in all of this is that share tips are worthless. Unless the law has been broken somewhere there is no such thing as “secret inside” information it is only speculation and guesswork.**

## Hidden Truth 5 - Share Trading is Straight Forward

At its core share trading is about buying a share at one price because we believe that at some point in the future we can sell it at a higher price.

Share trading is that straight forward.

Trading has been around for a long time. The word trade dates back to the 13<sup>th</sup> Century. People have traded all kinds of things: camels, rice, oil, gold and more recently shares.

The core of all trading is buying something for one price with a view to selling it for a higher price at some point in the future.

No matter how complex or complicated someone appears to make share trading, you should always be able to relate what they are saying back to the core of share trading. Buying a share at one price because we believe that at some point in the future we can sell it at a higher price.

If you can't relate what is being described to you back to this core then forget it. What you are being told is probably going to be too complex and too far removed from making money from trading to be of any value to you.

**The best and most successful professional share traders all apply a small number of straight forward techniques and apply them very well. That should be your goal as well.**

## **Hidden Truth 6 - Buying and holding for the long term is not a sure fire way of making money**

If buying and holding for the long term was a sure fire way of making money then life would be easy. All we would have to do is buy some shares in quality companies and leave them in the bottom drawer. Take them out of the bottom drawer a few years later and hey presto – profits.

This is what lots of people do. This is what lots of people advise others to do.

Does it work?

The answer is sometimes. It depends on which company's shares that you buy – did the company's performance live up to expectations? But it also depends on market timing.

Market timing is about whether the market goes up or down after you buy and for how long and how far. Whilst there have been some very good times to buy and hold for the long term there have also been some bad times. For example the Australian share market was at the 3,400 level in May 2001 and three years later it had only just recovered back to this level having reached a low of 2,700 in between.

Three years is a long time to wait just to get your money back.

**The truth here is that to buy and hold shares for the long term is not a magical solution to making money from the share market.**

## **Hidden Truth 7 - Trading with the trend puts probability on your side**

This is really very straight forward. As Professional Traders know, if the share price is increasing we want to trade the share and if the price is falling we don't want to trade the shares. Seems logical, sensible and straight forward. And it is.

But enter the trader's enemies: Fear, Greed and Envy.

Fear says: "But what if I buy the share when it is increasing in price and it is already at its highest price?"

Greed says: "Hang on, we would make more money if the share price was not already increasing because we could buy the very same share for less and then make more profit."

Envy says: "I know that someone out there must be making more money than me. I just need to find the magic solution and then I can make more profits than they do."

Good old Fear, Greed and Envy. Three of the trader's sworn enemies – the fourth enemy being Hope. But Hope doesn't make an appearance here.

Here's a fact for you: if a share price is moving in an upwards or downwards or sideways direction then the most likely thing that it will do in the short term is what it is currently doing. So if a share price was moving up then the most likely thing that it will do in the short term is continue to move up. This puts probability on our side.

Trading with the trend means identifying those shares moving upwards in price and hitching a ride upwards with them. Combined with a sound approach to restricting any losses, like selling if we will lose 2% of our trading capital, this approach limits the downside through applying the 2% loss rule and it creates a large upside through the trend continuation.

**Trading with the trend will give you a trading edge. It puts probability on your side.**

## **Hidden Truth 8 - Don't become fixated by your own success**

What follows is a true and factual story.

A University in America did an experiment to understand more about the psychology of success. This experiment has subsequently been repeated a number of times at different places and by different people.

The experiment involved getting people to guess the outcome of tossing a coin. You know how it goes, I toss the coin, you guess the outcome and then you are either right or wrong.

Let me ask you a question, if the coin were tossed 500 times how many times would you expect to guess the outcome correctly? That's right around 250 times or 50% of the time. It doesn't matter how clever you are or how hard you concentrate the outcome is determined by the laws of probability. Just about everyone understands this and knows it.

What you may not be aware of is that in the 500 tosses there is a fairly good chance that you will put together three or four runs of guessing five tosses in a row correctly.

And here is where the psychology of success takes hold. What the university experiment did was asked the people guessing the outcome of the toss how they felt about their performance at various times.

What they found was that when people were having successful runs – four or five or six correct guesses in a row – that they believed that they themselves were responsible for this success. Reasons ranged from, I am getting better at this, to I am now concentrating harder and that is improving my performance.

Let's stop right here. People who know that the outcome of a guess is based on a strict 50% probabilistic outcome believe that when they have a few guesses correct in a row that it is because of their talent and ability. How scary is that.

Yet this happens with share traders all the time – especially new traders. After a winning trade or two or three, the trader begins to believe that they have a special "talent" for trading. They begin to believe that they are naturally better than the average trader.

Before long, the trader's belief in their own superior ability begins to result in over confidence – trading too many shares or trading without properly managing the risk.

And the next thing that happens is the Market Slap! The share market has a nasty habit of slapping down over confident traders with a big loss.

**The truth here is that every trade involves risk and every trader should be managing risk. This means protecting your capital and not getting carried away with your successes. Beware the Market Slap!**

## Hidden Truth 9 - Buy the right number of shares

The right number of shares. Right for what?

Right for the maximum number of trades that you do at once and right for your level of trading capital.

The right number of shares that you should buy is directly related to 2% of your trading capital. Remember that 2% of trading capital is the maximum amount that we are prepared to risk in a trade.

We never want to enter a trade knowingly risking more than 2% of our trading capital.

To understand what this means, let's look at an example. Feel free to substitute the numbers used in the example for the numbers that apply to you.

### EXAMPLE 1

Our Trading Capital is \$40,000. We have a maximum of four trades of up to \$10,000 each running at any one time.

Therefore 2% of our trading capital = \$800.

We are considering entering a trade where the current share price is around \$10.00 and the stop loss price (the price that we will sell at should prices fall instead of rise) from the trading technique that we are using is \$9.50.

If our trade is for \$10,000 then we would be buying 1,000 shares. If the trend turns against us straight away then we would lose around  $1,000 \times (\$10 - \$9.50) = 1,000 \times 50 \text{ cents} = \$500$ .

This potential loss of \$500 is less than 2% of our trading capital (\$800) so we can enter the trade and buy the 1,000 shares that we want.

## EXAMPLE 2

Our Trading Capital is \$40,000. We have a maximum of four trades of up to \$10,000 each running at any one time.

Therefore 2% of trading capital = \$800.

We are considering entering a trade where the current share price is around \$10.50 and the stop loss price (the price that we will sell at should prices fall instead of rise) from the trading technique that we are using is \$9.50.

If our trade is for \$10,000 then we would be buying 950 shares. If the trend turns against us straight away then we would lose around  $950 \times (\$10.50 - \$9.50) = 950 \times \$1.00 = \$950$ .

This is more than 2% of our trading capital so we cannot enter the trade to buy 950 shares. We either have to **not** take the trade **or** reduce the number of shares that we buy (position size) down to the point when we are not risking more than 2% of trading capital.

Number of shares = 2% of trading capital / size of loss per share =  $\$800 / \$1.00 = 800$  shares.

Doing this calculation before you enter any trade is very important. It ensures that you never knowingly enter a trade risking more than 2% of your trading capital.

This concept of making sure that you are buying the correct number of shares is known as position sizing.

Never enter a trade knowingly risking more than 2% of trading capital. Always check this by performing the position sizing calculation.

## Hidden Truth 10 - Know your objective and manage your money

Why do you want to trade shares?

To make money?

Seems like an obvious answer to a silly question.

But think about it a bit more and be a bit more specific.

Do you want to take money regularly from your share trading as income? Or do you want to build your trading capital up as quickly as possible? Or maybe some combination of both?

Being clear on what you want to achieve from your trading is important because it will influence the style and nature of how you trade.

Here are three different models for managing your money when trading. There are many others – you choose one based upon what you want to achieve from your share trading.

1. Take all the profits out as income as each trade closes – remembering to preserve your trading capital at its original level.
2. Add all your profits to your trading capital as each trade closes.
3. Take 50% of your trading profits as income at prescribed levels. For example, if your starting trading capital is \$10,000 then you take \$2,500 as income when your trading capital reaches \$15,000. Then you take another \$3,750 as income when your trading capital reaches \$20,000 and so on.

You must have a financial objective as you trade and a clear approach to money management. This will enable you to make appropriate trading decisions based upon your desired financial objective.

## Conclusion

I trust that this Free Report has been of benefit to you.

With the right knowledge, along with taking the time to learn it, your share trading can be successful and can deliver some very pleasing returns.

Learn to trade shares the right way and reap the rewards.

If you have any questions or comments please email me at

[sam.mcneill@justshares.com.au](mailto:sam.mcneill@justshares.com.au).

All the very best for a healthy and wealthy future,

*Sam*

**Sam McNeill - Executive Director**

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**P.S. I do recommend that you get yourself a copy of the Just Shares cost and obligation free Introductory CD and Manual. You will learn a lot from this great introduction to share trading. Visit [www.justshares.com.au](http://www.justshares.com.au) to request your free CD and Manual.**

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