ADVFN's Be Rich

How to make 25% a year investing sensibly
in shares – a real time demonstration

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SAMPLE

Introduction

Investing is easy, or so it seems when you have been doing it all your life. As a child I would cycle after my friends who were coasting in a leisurely fashion on their way to the nearest sweetshop. They would be pulling away and disappearing over the next brow as I would be pedalling as hard as I could to try to keep up. For me on my small bike, it was hard; for them, older and on bigger bikes, it was easy.
Investing is the same; it's easy when you know how and hard when you don't.

For a new investor, "playing" the stock market can be a huge and often costly learning curve. How to climb it? There is no simple answer. You can read books, but that doesn't start to explain how the process works in practice.

This book sets out to take you up that mountain, at least the first year of the climb.

I have bought and sold shares since I was a little kid, mainly because trading was my father's "game." I bought £20 of a share called Metramar and my father docked half my pocket money for a full year. I recall at some point selling and receiving £100 in £1 notes and throwing them in the air in my bedroom to see them fall all around. I might have been eight or nine. My father had successfully imbued the idea that good things came from buying and selling shares, or at the very least toys and tuck bought autonomously from my own hard-won capital.

For me, things got serious when I started ADVFN, now one of the leading global destinations for private investors looking for the tools they need to play the Game of Markets. I decided to put a large percentage of my liquid assets into shares so that I would be on tiptoes when we built the site, as I would have a lot of "skin in the game."

Having started out in the early computer games industry then pivoted into massively multiplayer games, the stock market felt quite familiar. The stock market IS a multiplayer online game. I applied my understanding of games design and games playing to the market.

That sounds grand, but it isn't. Games are like machines: cogs rotate, dials turn, there are movements, controls, obstacles and goals. So I dug in.

These are a few key points I found.

- **The market pays people for the risk of funding a business.**
- **The market is very often efficient at setting the share price.**
- **In the short term the market moves randomly.**
- **To earn more than the average from shares you need to buy and sell when other people do not want to.**
- **To avoid bad luck you must diversify.**

The stock market is a fun game. It is especially fun because you can make lots of money from it. I found the process very enjoyable, if a little slow. I also discovered, like the kids disappearing over the hill, it is easy. Making solid returns from investing in shares IS easy.
Losing money, however, is also just as simple. It's called trading. Making money trading shares is nearly impossible. (Do not forget this.)

Investing is not trading.

Trading is buying and selling shares with <u>no</u> basis to know if the share is going to go up or down. **Let's look at that more closely**. Here are some of the things that amount to, "**No** basis to know if the share is going to go up or down":

- Share tips.
- Charts analysis.
- Newspaper articles saying a company is good.
- What other people are doing.
- Advice, even from rich people, especially from your broker.
- How you feel.
- News headlines.

. . . The list is much longer but I won't bore you.

Recall: In the short term the market moves randomly.

If it didn't, money would be sucked from the market like blood from a virgin by traders and the market would dry up and die. So trading is a 50/50 bet and you lose the costs of the gamble, until you have no money left.
Investing is different. With investing you have a checklist of attributes you want your company to have and you buy a bunch of the best fits. This checklist is best closely connected with the financial status of the company which can be seen in its financial reports. Investors are financial gold-diggers and they need to check out the finances of their companies before they fall in love.

This, at least, is how I choose to do it.

The checklist is loosely based around "value investing." That is a method of investing created by Benjamin Graham in the 1950's. A student of his, Warren Buffett, took these ideas and made himself the richest man in the world. As such, it's a good place to begin one's investment education.

You can look at it this way:

- If a company can be bought for a few years' worth of its profits, it's probably cheap.
- Check it for cash; it should have enough to get by.
- Check to see if the directors are buying. They're not stupid.
- Look to see how much it is selling as a ratio to its share price. Sales are good.
- We like dividends.

There are a pile more things to think about, but low P/E, fat dividends, directors buying is probably almost enough to get a value investor taking a pinch into their portfolio.
Then there is a matter of being contrarian.

Recall: To earn more than the average from shares you need to buy and sell when other people do not want to.

This is the art of appearing foolish and making money.
People like to think themselves contrarian, but they aren't. Most people like the comfort of crowds. Manchester United supporters are legion, because they win and the hordes of red scarves make normal people want to buy into the movement. Whether people are herd creature or pack animals, few want to go wandering alone even if the grass is longer and the spoils of success theirs alone.

However, if you want to buy when everyone wants out and sell when everyone wants in, you have to be one of those cranky, asocial people that doesn't care what the group-think says.

You don't have to be contrarian to be a value investor, but it helps, because stocks get cheap when people don't want them and not cheap when people want to buy them.

I tend to be contrarian, in the same way as cats tend to like tuna. It works well. However, that just tells you about me, not how to make money in shares.

The key is, to build a portfolio. This in itself is quite contrarian. You will see lots of people say it is a silly idea. Those people are IDIOTS, or crooks, or both.

(The financial industry doesn't make much money from long term investors with portfolios. When the industry doesn't make money out of investors, you will hear cries of, "don't invest like that," and where the industry coins it from investors, you will hear all sorts of encouragement to continue to fill their coffers with such behaviour. Where there are resources there are always predators.)

Recall: To avoid bad luck you must diversify.

A portfolio is how you diversify.

Heads or tails. Luck cuts both ways. However, you can't have good luck without bad and bad luck can take you out of the game completely. Therefore, I am a contrarian value investor that has a diversified portfolio of UK value investments. This works well for me.

So I decided to start a premium newsletter on ADVFN.

Why?

Firstly I get paid for it. I like money, I like it no less the more of it I get. My book *101 Ways to Pick Stock Market Winners* has been in the top of the stocks and shares charts on Amazon for years now and it occurred to me I might get a few subscribers, if I documented my investments on ADVFN.

ADVFN has literally millions of users and many have heard of me. I write a lot of articles for the likes of Forbes, so it seemed like a good idea to turn my full time curating of ADVFN and my husbandry of my portfolio into a newsletter.

The goal quickly became to:

- Show a new investor how to build a portfolio of investments by practical example.
- Expose the realities of investing including mistakes, costs and failures while using only foresight.
- Invest like a very small private investor with all the nasty dis-economies that go with it.
- Be bluntly honest and try not to be boring.

So what follows is exactly what happened when a successful, highly informed, financial guru (so called) actually starts a new portfolio and builds it like a small private investor.
This is the first year (and a bit), from nothing to something with all the ups and downs a new investor won't expect but will come up against. It's a diary of my progress, as written in real-time as I bought and sold shares, from the start of the blog in December 2012 up to May 2014. The blog is still going and if you subscribe you'll be able to follow me in real-time as I continue to work on the portfolio (go to http://newsletters.advfn.com/clemchambers/) – or you can wait until next year to buy the next volume of Be Rich!

If I had made a "pigs ear" of it, this book would still be a solid and practically free education in investment, but happily I didn't.

So read on and see first-hand and in real time how you can build wealth in the stock market. You will see that, in the end, it is easy and that perhaps it doesn't take a guru to make a lot of money from the stock market, only a road map.

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