101 ways to pick STOCK MARKET Winners

"Chambers is a market legend and 101 Ways *is a must read."*
– Robbie Burns, *The Naked Trader*

Clem Chambers

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First published in Great Britain in 2011 by Beautiful Books.
Published in this edition in 2013 by Harriman House.

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ISBN: 9780857192769

British Library Cataloguing in Publication Data | A CIP catalogue record for this book can be obtained from the British Library.

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Harriman House

To my Father who taught me.

For the millions of ADVFN users who look to us to help build their prosperity.

About the Author

Clem Chambers is CEO of ADVFN, Europe's leading stocks and investment website. He became CEO of ADVFN in January of 2002 and is credited with steering the company from likely dot.com failure to thriving market leader. Internet bible, *Wired Magazine*, for which he regularly contributes, described him as a 'Market Maven'. He is also a member of their renowned 'Brains Trust'.

Clem wrote a stock column in *Wired* from 2000 to 2001 in a period spanning the final boom and following bust. He is a columnist for *The Business*, *The Scotsman*, *Traders'* and *Inside Edge* and is a regular contributor to a number of UK and US financial publications including *Investors Chronicle*, *Stocks & Commodities* and *Futures*. He is a regular commentator on CNBC, the BBC and numerous US financial radio stations.

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Introduction

Picking stocks need not be reserved for financial gurus and degree-wielding mathematicians in investment banks.

Picking good stocks just requires a toolbox of simple ideas that zero in on companies that investors should be looking to add to their portfolio, or traders should be looking to play.

Investing is not trading and trading is not investing.

Investing is like farming. Trading is betting. Both can be very lucrative and either can lose you your shirt.

However, in the main, investing is much easier, more leisurely and less risky. Investors might not get rich quick, but they shouldn't get poor fast either.

Investing is not necessarily that popular, but everyone likes to chance their arm at being a trading genius. It is, therefore, no wonder that the stock market carries a certain aroma of the casino.

Yet investing is the most prudent way to approach the market.

This guide carries investing and trading rules to help you select stocks for investing and trading. The rules can and should be combined when making a stock selection. While each can be the key to a stock selection, none are contradictory. The more rules that are followed when selecting a stock, the better.

Some of the 101 stock-picking techniques in this book are easy and some are tricky. A difficulty rating is therefore given to each one. A difficulty of one means the idea should be simple even to a novice, and, win or lose, the choice it presents to get in and out of a stock is very simple. A score in the region of five means the technique needs careful thought and might take a bit of reflection and practice to use effectively. At the high end, an eight or nine rating means the technique is extremely tricky – a do-or-die method that should only be used if you are very confident.

THE LONG AND SHORT OF IT

The techniques are also categorised by signal; either *long* or *short* (sometimes both).

When you buy a share you are long. That's simple enough to understand. Long means you own the share. If you have a thousand pounds of Shell, you are long a thousand pounds of Shell.

To be short is the opposite of long.

This idea can be confusing. How can you own minus a thousand pounds of Shell? How can you own negative shares? Well, if you sell shares you don't have, you are short. This might sound illegal and wicked, but it is not. Going short is perfectly OK, even though people often moan about it.

Shorting works like this:

- You borrow some shares.
- You sell them at a price to someone.
- You buy them back and return them to the folks you borrowed them from.

When you go short, the broker arranges all the details (the borrowing and so on), so you just sell and then buy back when you are done.

You sell and go short because you think a share will fall. If it falls, you buy back cheaper than you sold and make a profit. If the share goes up before you buy it back, you have made a loss.

Picking stocks is not all about what makes a share good. It is also about what makes a share *bad*. So in this book there are a few no-no rules that can melt the wings of any Icarus-esque stock and justly dissuade an investor from getting involved.

To pick stock market winners you need the right tools. I use ADVFN (**www.advfn.com**), the website of which I am CEO, as the platform to find the stocks I want to buy and sell. When I started ADVFN I put all my money into shares on the basis that this would guarantee my full attention on the tricky task of building a stocks and shares website that actually helps grow a private investor's wealth rather than a pretty but vapid site driven by a bunch of graphic designers with 'no skin in the game'.

ADVFN is now a huge site with users around the globe. It is a leading site, not just in the UK, but in the US, Brazil and in various territories from Italy to Japan.

In essence this book is the condensation of my rules of thumb for investing and trading.

Amongst the many ways of picking winning shares, I have listed a few golden rules. These should be rigorously followed. Break them at your peril!

If you follow the principles listed in this book you should do rather well. Please feel free to send me a Christmas card when you do.

Don't be afraid to make up your own rules. If you think CEOs with beards can't be trusted, then make it a rule and keep track of how it works. You may be right.

The thing to remember is there are 2,000-plus stocks in the UK market. If you exclude one share there are still another 2,000-plus to choose from. In any event you are actually going to *have* to ignore 99% of all possibilities, so developing your own rules is a useful way of winnowing the chaff meaningfully.

As time passes you will build up your own toolkit of ideas and these will likely serve you well. Experience is the most valuable asset in investment and it soon gives rise to valuable investment guidelines all of your own.

Golden Rule No. 1

Diversify

Do not put all your eggs in one basket. This is an awful cliché but one that will save you a fortune. If you invest your money in too few shares you will not reap the results you may deserve. And if you put all your money into one share at a time, you risk losing the lot.

At best, if you do not diversify you will have a rough ride as the small number of shares in your selection buffets your capital around. Concentration of capital will also not help you sleep.

Aim to own 30 stocks. If you do not have the capital to have 30, then build towards that number as you add money to your account.

Buy shares in units – e.g. of £1,000 of value at a time – and do not increase your unit size until you have 30 stocks.

If you make £500 on a stock, the next share you buy should still be bought as a £1,000 unit, leaving the £500 aside until you have made up the extra to buy another stock with that amount.

Always remember, diversification is your best friend.

WAYS 1–4

Internet chat rooms (discussion forums/bulletin boards)

Not many people are cut out to be lonely hunters. Investors like to club together and discuss their positions. Internet chat rooms are unruly, garrulous places. They are like noisy medieval taverns; loud, uproarious and fun.

Is there gold to be had from the fetid river of free speech?

You bet.

Way 1

Silence is golden

SIGNAL: LONG

DIFFICULTY: 4

If you find that online discussion of a stock you are interested in is muted, this is an extremely good sign.

People talk a lot about stocks when they are unsure or when they think their investment needs a shove in the right direction.

Solid stocks attract a solid kind of investor and while they like to communicate, they generally aren't the manic kind of people that inhabit many of the topics on internet boards.

Successful investors are also likely to be well-off and this again tends to keep the noise level down. They have little to prove and are merely dipping their toes into a board about a stock they own; they have no desire to cause a fuss.

It takes a bit of time to get the hang of bulletin boards like ADVFN's, but once you've spent a few hours surfing, you will note how some threads are madness and some are sedate.

The more sedate the better.

Way 2

Madness is badness

SIGNAL: SHORT

DIFFICULTY: 7

When you find a share which is the topic of furious debate on a bulletin board, whatever you do, do not buy it. The noisier the thread, the more virulent the language, the more colourful the debate, the worse the prospects are for the company.

Dying companies attract the attention of the worst investors. They are like lemmings to a cliff.

There is some justification for this, as a disastrous stock has a tiny chance of making a Lazarus-like return and if this does happen its share price will rocket.

This 100-to-one chance of making ten times your money is what attracts the stock trader moths to the flame. To them the attraction of a possible ten-times profit dwarfs the prospect of losing 99 times in a row.

If you are plucky, you will short the stock and watch the spectacle of dozens of dizzy stock gamblers lose their shirts.

However, it's a tricky game, best played only for pennies. There are more sensible ways to make money.

Way 3

‘Due dil’

SIGNAL: LONG OR SHORT

DIFFICULTY: 4

Bulletin boards are a great place to get the background story on a company. Quite often people discussing stocks will have a good knowledge of what the real story is behind a company. Whether it’s a crazy discussion about a risky stock or a boring one, a lot of detail and history will be on display. Merely reading a discussion that has taken place over a number of years will give a good flavour of what is going on behind the headlines. This can be invaluable when you are sizing up a share for its inner personality.

You can’t do too much ‘due diligence’, and a message board thread can be like having lunch at the share’s work canteen.

Way 4

Locate minnows

SIGNAL: LONG

DIFFICULTY: 6

There are over 2,000 stocks on the UK market. Unless you have all the time in the world and the memory of an elephant, there is no way you can know all the companies trading on the stock exchange.

There are many ways of zeroing in on the interesting ones. Internet chat rooms can help. Without doubt there is a lot of bad information out there about poor companies but that shouldn't put you off. After a while spent searching for companies, you'll learn what to look for.

The first thing is to become canny. You won't be able to find the best candidates right away.

Untold investors and traders are out there looking for good stocks. Once they have found one they like they then try to tell everyone, so that their 'friends' help drive the price up. There is nothing wrong with taking notice . This kind of discussion is an opportunity to find prospects you can add to your pick list. But you do have to be very choosy once you've learned about the share. Always go off and do your own research.

There are many small companies out there, and bulletin boards can be particularly good at helping you find them. Any company with a market cap of less than £250 million is considered small. But small can also mean a company worth just £10 million. These micro caps can be great companies but they can also be rubbish. The gems are in amongst the tailings. Forums are a good place to go sieving for these gems as, in the main, no one covers these companies with broker research.

Bulletin board chat is a quick way to browse the micro-cap world to home in on companies worth further research. It's a good jumping off point in the high risk world of small cap investing.

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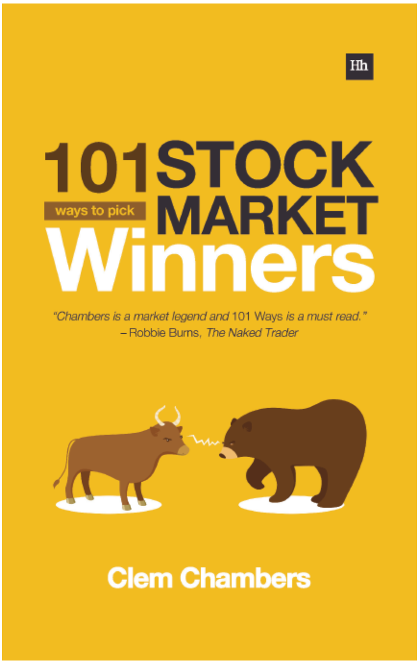

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Paperback: 9780857192769