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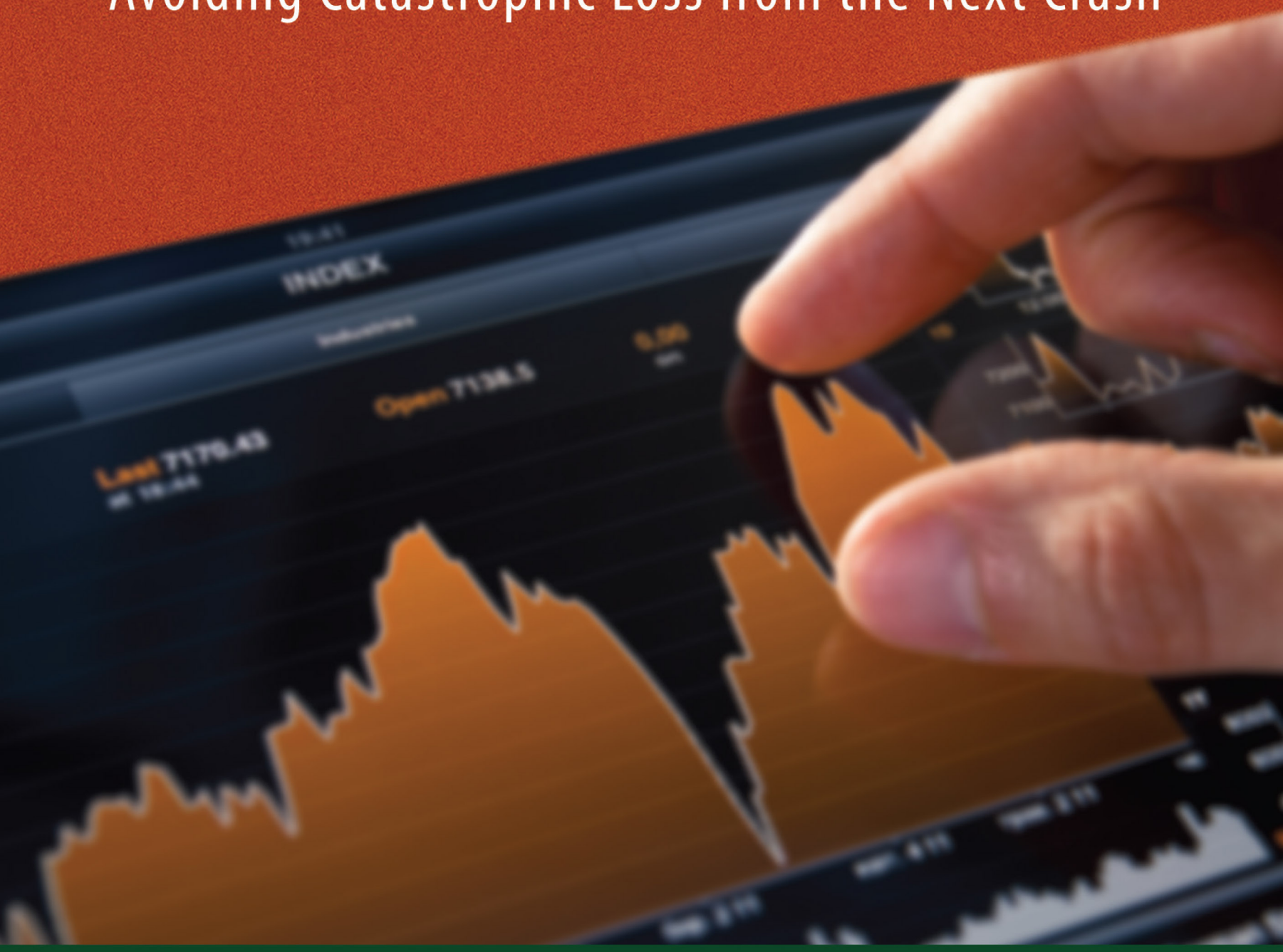
## Timing the Stock Market for Superior Returns and Avoiding Catastrophic Loss from the Next Crash




GARY STONE

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Timing the Stock Market for Superior Returns and Avoiding Catastrophic Loss from the Next Crash

GARY STONE

Second Edition



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www.sharewealthsystems.com

# Contents

## PART 2: THE SPA3 INVESTOR METHOD

## PART 3: HOW TO BUILD YOUR OWN DECISION SUPPORT SYSTEM FOR STOCK MARKET INVESTING

# Introduction

This book exists for two reasons:

**Reason #1:** For you to eventually become a customer and allow me and my team to help you implement everything you read in Parts 1 and 2 of this book.

**Reason #2:** To hugely short-cut your investing journey by realising what to do and what not to do so that you will seriously consider Reason #1 as quickly as possible and fully understand why you would seriously consider it.

As you'll soon find out, I'll be fully transparent, honest, and blunt with you through the pages of this book.

## Book Structure

To do that, I've structured this book as follows:

1. I want you to get an honest picture of where your stock market investing is at today. That way, I can give you specific guidance through this book based on your current needs.

You'll complete a self-assessment that will help you know how best to proceed.

2. After that, I'll make a case for using a well-defined and researched investing process—whether it be yours, somebody else's, or ours— as a Decision Support System (DSS) to objectively decide what stock to buy, when and how much to buy, and when to sell.

   And I'll hopefully show you why an investing DSS is the first-step answer to most of your investing struggles, which occur in your mind.

   Along with the good stuff, you may come to realize why you might not want to expend the effort to create your own investing DSS and see all the ways people clock up massive amounts of time trying to design and create their own DSS.

3. Next, I'll share with you all the steps included in the SPA3 Investor Method, from top to bottom.

   SPA3 Investor is the method I use to invest in the stock market and to help my clients scale their stock market investment returns to be way beyond those of the investing pros. I'm excited to share it with you here.

4. In Part 3, we'll spend some time focusing on creating for yourself the kind of investing system that can fit your personality based on what you want to achieve with your active investing or trading.

I'll discuss the best timing concepts, the concept used in SPA3 Investor, how to design and test your system, the different approaches you can take to achieve similar outcomes, and the investing instruments you might like to use.

The goal of Part 3 is to help you start creating your own stock timing system by the time you finish reading this book.

However, if you are not interested in designing your own system or simply won't have the time to, there is no need to read Part 3. Instead, you can start using somebody else's investing DSS, or ours, to acquire the necessary mental skills and your financial goals.

It might sound like a lot, but really, the entirety of this book can be summed up in the following three points:

1. This is really a book about using a highly effective and efficient investing process. This process brings you ongoing financial rewards, and a mindset of consistency, confidence and joy for as long as you choose to execute it. It will also bring you calm and peace in what can be a very volatile environment.

2. Precisely understanding what the process entails to make objective buy and sell decisions in your unique way of solving the stock marketing investing equation.

3. The steps and mindset required to execute the process confidently, conflict-free, efficiently, and error-free in as little as 15 minutes a week.

## There's more to it than just money...

The method and mindset you're about to discover has radically transformed my investing life for the better, with benefits far beyond the financial.

Approached with the right attitude, the stock market is the most effective and efficient self-help environment available on the planet. It'll fine-tune and mature your discipline, planning, timely taking of action, resilience, decision-making, perseverance, patience, endurance, mental toughness, gratitude, and big picture perspective.

I hope you'll be able to connect with the stock market at this level, just as so many of my customers have.

I've interspersed snippets of hints and tips I've learned from 23-years on the front lines of executing with an objective Decision Support System (DSS) in the Australian and U.S. stock markets, having made all the mistakes and living to tell the tale. (I've traded for 31 years but with an objective DSS for 23.)

So, it's a great privilege to share what I know with you.

I hope it inspires and informs you to grow and improve your own investing, so you can grow and improve the lives of others, including family members and close friends. And perhaps **share** some of the additional **wealth** you create with those who need it more than you do.

If you read this book and decide you'd like help implementing its strategies as quickly as possible, please book a one-on-one online demonstration with one of my team here:

www.sharewealthsystems.com/bookdemo

My business empowers stock market investors with confidence and skills through unlimited education, coaching and by using verified strategies and tools to know exactly when to sell, when and what to buy, and how much to buy.

Knowing all of this makes them avoid large bear markets, maximize growth in bull markets, and accelerate annualized returns to 15%+ in their stock portfolios over the long term on the U.S. and ASX markets.

Helping people like you invest better in the stock market is precisely what we do day-in and day-out.

To your consistent and objective investing success in the stock market,

Gary Stone.

PART 1

# CURRENT STATE OF AFFAIRS

# CHAPTER 1

## Reality Check

Before we proceed with the rest of the book, let's first check in with where you're at right now with your stock market investing endeavours.

This self-assessment is based on my 30-plus years of being an active, self-directed investor and helping other self-directed investors become highly profitable with their stock market investing over 23-plus years. Contained in the Check-in statements are also the knowledge and skills imparted on me from my mentors and coaches over my investing career.

### State of Affairs Check-in Exercise

Below, rate yourself on a scale of 1 - 5 on how accurate the statements are: 1 means "not accurate at all," and 5 means "most accurate." Once you've rated yourself for each statement, total up your scores and then use the Score Categories that follow to determine your next steps.

| State of Affairs Check-in Statement | Self-Rating |
|---|---|
| I have a fully documented **Investment Plan** that guides my Investing Mission, Goals, Sell/Buy Decision-Making, Risk & Money Management. | |
| I have a Portfolio Equity Curve that consistently has a higher Annualized Return % than the Total Return (Accumulation) index, with acceptable retracements. | |
| I enjoy managing my stocks portfolios and am confident that I know precisely what actions to take regardless of what the stock market does. | |
| I am confident to continue maximizing my portfolio exposure in the market even when everybody is calling it overheated, because I have pre-defined how to act in all market conditions. | |

| State of Affairs Check-in Statement | Self-Rating |
|---|---|
| I consistently hit my growth and protection goals as documented in my **Investment Plan**. | |
| I spend less than 1 hour a week managing all my stock portfolios. (Includes all reading, research, analysis, discussions with 3rd parties. paperwork and recording transactions in a Portfolio Tracker.) | |
| I feel at peace with my stock market investing and spend very little time thinking about my portfolio(s) outside of the ½ to 1 hour required per week, as mentioned in the previous box. | |

| State of Affairs Check-in Statement | Self-Rating |
|---|---|
| As a near-retiree, I can take 3-4 weeks of vacation (3 - 4 months for retirees) per year almost completely unplugged from the market and the world without interrupting the execution of my portfolio, and it continues to grow and be protected as long as I have an internet connection. | |
| I have a documented process that alerts me to sells in my portfolio and to new buys when I have available capital, with zero analysis effort on my part, other than my method alerting me to act. | |
| I know exactly how I can take my portfolio to 15% annualized returns or more, including the exact decision-making method I will use to monitor, measure, and manage the portfolio. | |

| State of Affairs Check-in Statement | Self-Rating |
|---|---|
| I do not fear the next stock market crash and embrace all market corrections because I have pre-defined exactly what to do when those market conditions come around. | |
| I predefine my risk for every trade. Meaning I know precisely what criteria will get me to close the trade BEFORE I open the stock position. | |
| I know precisely how much money, to the dollar, I must put into each trade. | |
| My stock portfolios seldom have idle cash sitting in my broker account as my method keeps my investment capital invested in the market to grow. | |

| State of Affairs Check-in Statement | Self-Rating |
|---|---|
| I have plenty of time to spend with my family, pursue my hobbies, and give back to others. That is, the time I expend on my investing does not interfere with any of these. | |
| I am operating in my investing "zone" daily and spend most of my 'investing' time (2 – 3 minutes a day) being vigilant for the next sell/buy signal. | |
| I love my stock market investing and am at peace with all outcomes from any trade or any period in the market. | |
| TOTAL UP YOUR SCORE: | |

Score: 0 - 52

The Key Building Blocks for Sustained and Successful investing are Missing

The bad news is that your decision-making for stock market investing is missing core, fundamental elements required for long-term, sustained, and consistent success.

You probably already know and feel this every other day; no surprise there.

Your portfolio equity curve (daily plotted portfolio value) rises and falls like a yoyo. You often commit too much money into new trades at market tops and too little into new trades at market bottoms.

You don't have a clear, precise definition of when you should exit a stock position because you'll "*feel* when to get out when the time comes." You've experienced 35%, 40% and > 50% loss trades.

Your big profit trades give back most of the profit and sometimes even turn into losing trades.

You are frustrated by how you handle big market falls. Such as the COVID Crash in 2020 and the GFC in 2008. You live in trepidation of the next big market fall with no crystal-clear plan of how to handle it.

However, the good news is that all of that can be fixed. On the bright side, you get to design and establish these fundamentals from the ground up.

**Read this book with an open mind.** Consider how implementing, from the ground up, an objective method that uses unambiguous and unemotional criteria to make buy/sell decisions could

radically improve your investing results and investing mindset for the better.

It won't take much for you to experience a night and day improvement.

### Score: 53 - 70
### A Simple Investing Process Will Make Your Life Much Easier

If your score landed you here, it means your buy/sell decision-making method is the thing holding you back from rapid growth and peace-of-mind with your investing.

You likely rely on unsustainable, subjective, and gut-feel decision-making methods paired with an investing mindset mismatch.

You're spending way too much time reading and 'researching' conflicting and inconsistent 'information' that are more like stories written in persuasive copywriting.

Finding or designing a good buy/sell system for your investing and customising it to your lifestyle and personality will allow you, for the first time, to experience truly consistent and confident investing.

You'll only take trades in stocks that have a high probability of trending up. Also, you'll be able to avoid the profit-sucking large losing trades that stifle portfolio growth and make it so hard to make progress.

Above all, you'll start to enjoy your investing. Your improved mindset will liberate you to do your best execution.

Even more, because you'll be taking the right trades more often, you'll live through large winning trades that sometimes keep rising for a year or more, and you'll cut out of trades when they are relatively small losses.

You'll be at peace with small losing trades because you'll know they are victories against large losing trades.

Get ready to experience life with a fully-invested stocks portfolio and learn what it means to own a portfolio where you take back control rather than the market, your broker, a newsletter, or financial planner controlling you.

If you're the kind of person who, when you realise you have a problem, you just want somebody to help you solve it, I encourage you to at least read Parts 1 & 2 of the book. But don't feel afraid to reach out to us in the meantime and we'll see if we can help you in some way right away. Just shoot us an email and we'll see what we can do to help: info@sharewealthsystems.com

> 70

## You're Only Reading this Book to Determine Whether You Can Add Another Objective and Successful Strategy to Your Investment Plan

You've got your main buy/sell Decision Support System (DSS) dialled in, you know how to make money in the market, and your stock timing is on point with an 'edge' in your favour. In short, your investing mindset and method are in sync.

All you need to do is pour on the speed and get this thing scaled as quickly as possible. You have the process and confidence to do this by adding leverage to further accelerate your annualized returns into the 25% to 40% range.

For you, **the biggest hurdle to overcome is driving your investing psychology and your method to the max** by continuing to execute through deep drawdowns caused by leverage. That's where using a 'mechanical'—objective, precise, unambiguous, unemotional—method comes in.

We'll get you to the point of knowing which levers to focus on and what limits they can be driven to.

If 30% annualized returns or more is the goal and accelerated profits are the requirement for a portion of your investment capital, all you need to do is implement the system as shown in this book with a certain amount of leverage, and you'll be well on your way.

# CHAPTER 2

## Who This Book (and Investing Approach) Is For

While anyone who wants to invest, grow and protect at least $5,000 over the long-term can use the material in this book, the reality is that most people only get serious about their investing—for a variety of reasons—around 50 years of age and beyond.

Until then, they rely, mostly unknowingly, on third parties to do their growing and protecting for them, with the odd glance at a biannual or quarterly statement from a financial planner, (Super / 401(k)) fund manager, investment adviser, portfolio manager, or broker.

This book is…

**…for people who have decided to take control of their investing and themselves invest directly in the U.S. and/or Australian stock markets to accelerate the rate at which they grow their wealth**.

And who **also want to protect their stock market wealth** as well as it would be protected through over-diversification by a Balanced mutual / managed fund.

After 23 years of helping people to successfully take control of their investing, I have found that these people have predominantly fallen into two main categories:

1. Those who have up to 15 years before they intend to cease working for an income, either in their own business or for an employer. I'll called these folk 'near-retirees.'

   Typically, this category of investors has realized that they need to accelerate investment growth to catch up (on below-par growth by third parties who have managed their long-term investments to date) to have enough to last their retirement.

2. Those who have retired in the last 1 to 15 years and rely on their investments for income. I'll call these folk 'retirees.'

   Typically, this category of investors places a premium on protecting their wealth but have also realized that they still need to achieve growth to offset their drawdowns for income.

These two categories of investors typically control between $100,000 and $10 million of capital directly in the stock market.

That said, many of our clients have been able to convince their busy 20 and 30-something children to take control of their investments earlier in life using the method and mindset discussed in this book.

## What you'll find in this book

In this book, you will learn that the highest probability way of being profitable in the stock market and far more profitable than nearly all hedge and mutual/managed funds is to…

1. **…define a robust investment method that objectively determines which stocks you buy, when you buy, how much you buy, and when you sell.**
2. **…attain an investment mindset that is empathetic with the market.**

You will learn what you need to do to create such a method for yourself (Part 3).

You'll learn what steps need to be part of such a timing method to execute it in around 15 to 30 minutes a week.

This book will use, as an example, a live investing method called **SPA3 Investor** to demonstrate how successful such a method can be when executed **exactly** as intended with the right mindset.

Think of your robust investing method as a cooking recipe that has been handed down from grandma based on a time-grown, trial-and-error researched process that has been fine-tuned through decades of repetitive experience.

Use the right ingredients in the recipe (which also means excluding the wrong ingredients), mix and prepare the right amount of each ingredient in the right order at the right time, let nature take care of the cooking by applying the right amount of heat, then remove from the heat at the right time.

As with a recipe, and in just about everything you do in life, in the stock market **timing is everything**.

By the end of this book, you'll be able to confidently create, use, or discern an investing recipe that produces consistent and profitable results. Moreover, the returns over the long haul will be much higher and better than other ways and avenues of investing your long-term investment capital.

## What are 'higher' and 'better' returns?

I might as well cover this now because I know from over 23 years of speaking to investors about active investing with such a 'recipe,' you're thinking:

"What sorts of returns can I get, and how much effort will I need to put in to get those returns?"

Essentially, you're thinking:

"Will it be worth my time reading this book, and will it be worth my while defining a robust investing method?"

At this early stage of the book, I will make a statement about returns. Be assured that every statement I make will be backed up with empirical and real-life proof at some stage in the book.

**The sorts of returns you can expect with this approach are greater than 15% annualized (compounded per year) returns.**

Later, I will show you precisely how real-money portfolios that specifically use this timing approach have achieved **greater than 17% (in U.S. markets) and 19% (ASX) annualized returns** over 5 years and 10.5 months to November 2021 (without using leverage).

And on average, it only requires around 30 minutes a week of effort, but can be done in 15 minutes.

Also, for those with more investing experience and a more resilient stock market investing mindset, I will show you a real-money U.S. stocks portfolio that has achieved **over 35% annualized returns** using leverage in an organized and precise way.

If you feel you don't have a resilient stock market investing mindset, my team and I can train you on using baby steps to improve and get to that level of investing skill.

## Better than what?

The wonderful thing about investing is that there are frames of reference that have been around for decades. They set a precedent, benchmark, or yardstick against which to gauge whether returns are poor, average, good, or excellent.

Think of these benchmarks as a barometer or as a speedometer in a car. The lower the annualized return you achieve, the longer it takes to build wealth. And obviously, the higher the annualized return you achieve, the faster you go at building wealth.

The faster you go, the more risk you take of crashing. Also, the more alert, observant, and vigilant you have to be of what is going on in your surroundings.

However, the slower you go, the higher the probability of NOT reaching your destination in time. With investing, this is THE BIGGEST RISK that most people face.

With investing, not reaching your destination is not achieving a big enough nest egg by the time you retire to last what could be a 30-year retirement for a couple. And enjoy a level of lifestyle, or better, than was enjoyed while receiving an income from working. While also overcoming all the risks of older age, such as: poor health, extended longevity and running out of money, out of control inflation, low growth or decreased dividends.

So, what is poor, average, good, and excellent?

For this, I rely on **the Big Picture®** from CRSP.org, the Centre for Research in Security Prices, which has compiled over 95 years of researched analyses of different types of returns for different types of investment approaches in the stock market.

To June 2021, the 95-year annualized returns (compounded p.a. returns), before fees are deducted, of the following categories are as follows:

1. Balanced Portfolio = 8.3%.
    a. This typifies the returns, give or take 1% to 1.5%, that around 80% of people who invest for retirement via mutual/managed funds, Super Funds, and 401(k)s.
    b. Deduct 0.75% to 2.5% p.a. to account for fees, depending on whether a Financial Planner or 'money manager' is used or not.

2. Growth Portfolio = 9.3%.
    a. Again, deduct similar fees to a Balanced Portfolio.
3. U.S. Stocks = 10.1%.
    a. This typifies returns that index ETF investors can achieve in U.S. and Australian index ETFs.
    b. Deduct 0.03% to 0.3% p.a. if you invest directly in index ETFs, depending on the ETF.
    c. Deduct another 0.3% to 1.5% if you use a robo-adviser, financial planner, or investment adviser to invest on your behalf.

Variability of shorter-term returns increases from Balanced to Stocks-only portfolios.

Google "the Big Picture" to get the updated comparative performances over the long-term.

***Poor*** would be any long-term annualized returns below 6.5% after fees deduction

***Average***, after fees, would be around 7% - 9% annualized.

***Good*** would be around 10% - 13% annualized, after fees.

***Excellent*** would be long-term annualized returns ≥ 14%, after fees.

Then leave nature, through compounded growth, to take care of the rest.

## The results our clients are achieving

In Part 2 of this book, you'll see real-money evidence of how well the methods described in this book work. But I'm not the only one who achieves these results from such an efficient and straightforward approach. Here are two examples from current clients* of how this approach can help you and your money grow faster:

### Case Study #1: Retiree massively outperforms the market index

On 8 March 2021, Rob M., posted his portfolio performance on our Members Forum for all to see. This Forum is used for our clients to openly discuss any and all parts of their personal investing journeys using the approach described in this book.

Rob has been retired for many years and has been one of our clients for over two decades using the approach you'll read about in this book.

He wrote:

*"The following may be of interest to show that despite some errors (mine) and health issues in 2016 - 2018 the system works well. I only trade the ASX with 9 positions and exclude Aristocrat and QBE."*

| Date | Annualized Return % | Total Return On Capital % | Maximum Drawdown % | ASX200 Annualized Return % | ASX200 Accum Maximum Drawdown % |
|---|---|---|---|---|---|
| 2016 | 26.57 | | -9.85 | 11.8 | -9.94 |
| 2017 | 7.75 | | -11.56 | 11.83 | -4.25 |
| 2018 | -7.74 | | -12.28 | -2.28 | -12.88 |
| 2019 | 57.86 | | -11.69 | 23.4 | -6.06 |
| 2020 | 25.96 | | -14.69 | 1.4 | -35.93 |
| 2016-2021 | 19.4 | 142.76 | | 8.72 | |

I added the two rightmost columns to Rob's posted table. Compare Rob's **Annualized Return %** column to the ASX200 Accumulation index Annualized Return % column.

Over the same 5-year period, the ASX200 Accumulation index was up 51.94% (compared to Rob's 142.76%) and has achieved 8.72% annualized return (compared to Rob's 19.4%).

Rob's brilliant outperformance in 2020 of 25.96% return compared to just 1.4% by the ASX200 in a very tough year for stock market investing was due to avoiding most of the COVID-19 Crash because the objective approach described in this book occurred in time to take Rob's portfolio into cash. Rob also had huge outperformance in 2016 and 2019, when the market had good years.

Case Study #2: Financial adviser uses this approach for his own investing

Rob P. is a qualified and licenced financial specialist who provides customised solutions in accounting, tax and advice to small and medium businesses, self-managed superannuation funds (equivalent to a 401(k) in the U.S.) and individuals.

Rob has been a client since September 2009. Here is what Rob has said about the approach you'll read about in this book.

*"I have read all about trading systems, what elements go into them, so I am familiar with what makes a good trading system. But I didn't have the time nor the computing skills to build my own trading system and conduct the research to back test my trading ideas. So I let Gary and the Share Wealth team do the research work for me!"*

*"SWS provides a systematic simple process that works. … It reduces risk of error, risk of getting caught in a market crash, and importantly, it reduces the risk of not earning enough of a return to provide a large enough nest egg to fund a self-funded comfortable dignified retirement."*

*"It frees up my time, I don't have to spend hours reading the financial press to placate my worries, & I don't have to worry about suffering huge losses when the market corrects. If I mechanically follow the rules, I am a VERY good chance to grow my portfolio at an excellent risk adjusted rate of return, beating the ASX Accumulation Index without huge drawdown."*

*"The main benefit of this approach, and where I believe it pays for itself MANY times over, is that it provides a process for getting out of positions systematically and protecting my capital. It is the time when the next GFC or 50% market crash comes along (and it will at some point!!) where I know I will be safely in cash ready to take advantage of the next opportunity when the system tells me to engage the market again. It has my potential downside risk covered off."*

*"Previously, I would stress and worry about the markets when they were falling, Share Wealth Systems has removed that worry completely. The system got me safely into 100% cash before the recent big falls due to the Corona Virus selloff. The calm I am experiencing during this selloff is appreciated! I have come to learn this is where the Share Wealth Systems process pays for itself many times over - it gets me out of the market so I don't experience huge losses. Yet it will allow my 'profits to run' during the good times."*

*"Share Wealth Systems is a firm who displays integrity, transparency and have well researched products that work. It's not only about the provision of a well researched trading system that has a demonstrated edge, it's the education they provide that helps traders stick to the process when the going gets tough and the market tests us."*

*""I have already recommended the system to a number of people who have become very happy Share Wealth Systems customers."*

*Last names of clients are omitted. For serious prospects wanting to work with us, details are available upon request for verification of testimonials.

# CHAPTER 3
## The 4 Hard Lessons

I've been helping self-directed investors grow their stock market portfolios by more than the market indices since 1998 when I released my first investing Decision Support System (DSS). As a result, some of my clients manage multi-million-dollar portfolios, and others manage their entire retirement savings using the DSS method described in this book.

I've executed many 1000s of stocks, ETFs, CFDs, and Options trades in the U.S. and Australian stock markets, with and without leverage, using a DSS.

All that's to say…

…after 26 years of researching and executing mechanical investment systems—preceded by five years of 'wilderness investing' being pulled from pillar to post by all the opinionated 'noise' and hustle that surrounds the markets—I've learned a few things. Things you can only learn by trying, failing, falling, getting up, and trying again; that is, walking the journey to find out what works.

I want to share with you the four main hard lessons I've learned in my 31-year career for two reasons:

1. To learn from my method and mindset mistakes and avoid making them yourself.
2. To show you why exactly I'm so obsessed with using an objective DSS to achieve superior profitability on a sustained basis and even skyrocket some of your investment capital using leverage to 25% annualized returns and beyond, in less than an hour a week.

Hopefully, this can help shortcut you to know what to do right now rather than you repeating my lengthy journey or continuing your journey down a wrong trial-and-error path.

What you'll learn in this book is really helpful, especially for those who need to:

1. immediately start growing their nest egg at a faster rate than average to catchup by the time they retire, due to:
    a. years of low returns
    b. years of insufficient levels of saving
    c. being unprepared and experiencing a large loss of capital from an oversized:
        i. market downturn, or
        ii. stock position that has fallen by a large amount.
2. start gaining the necessary knowledge and skills now to know how to manage a large lump sum they will get down the track.

So, if you'll allow me a quick trip down memory lane, I think you'll find a tremendous amount of value in seeing things from the 10,000-foot view of a long-time self-directed investing veteran who has had

incredible success using an objective DSS to monitor, measure, and manage stocks portfolios in the U.S. and ASX stock markets.

## Hard Lesson #1: What & When to Buy are the least important things to get right

In the mid-1990s, I came to know two editors of two separate financial magazines and subsequently wrote columns and articles for both of the magazines over a few years. I've never forgotten what both editors told me on separate occasions, "Stock tips sell!"

They meant that the best way to sell magazines was to use headlines on their magazine covers such as: "5 Stocks Set to Soar" or "10 Best Stocks for The New Year."

"Stock tips sell" still applies to this day on magazine covers, newsletter email subjects, online blogs, newspapers, everywhere! "5 Top Biotechs for Your Portfolio", where 'Biotechs' could be replaced with EV, lithium, banks, tech, cryptos, or uranium stocks—whatever is in vogue at the time.

"Stock tips sell" because active investors in the stock market don't have their own reliable, consistent, timely, and verifiably profitable CTA (Call To Action) for what and when to buy. And it takes considerable effort and skill to accomplish this. Everybody's looking for an instant short-cut.

The **first problem** with buying stock tips is, how do you measure whether the stock tip worked or not? You see, the only way you'll

ever know is if you also got every corresponding sell signal that went along with the original stock tip from whatever source.

Guess what? No magazine, newsletter, TV show, online blog, colleague or friend ever provides the corresponding sell tips. Moreover, they never provide sell tips timely enough to lock in a profit or prevent a large loss in real-time, making it impossible to measure how well the stock tips do and whether the source has an 'edge' to be used again in the future.

And even if they did provide sells, who keeps a tally of all the stocks tips from that source to measure how many were winners or losers, and what gains or losses would have been made if a portfolio was managed from the tips? Any perception of success or failure would be anecdotal or gut-feel, based on a sample of one, two, or a few.

A **second problem** associated with a particular stock tip is how do you know what analysis was behind the stock tip? Sure, there is always a story attached, a convincing, persuasive yarn that 'sells' the tip. So, how do you know whether or not the story or analysis has an 'edge' over a large sample of tips so it can be used in the future? Well, obviously, you don't.

The **third big problem** associated with stock tips is that even if it did work, how do you know how much of a positive or negative effect following that stock tip will have on your wealth or a portfolio? You see, what stock tips can never tell you is how much to buy—that's left up to you.

The problems of **how much to buy** and **when to sell** are actually far bigger problems to solve than what and when to buy because

they have a far bigger impact on the profits and the losses that you'll experience in the market.

How do you determine when to sell when you get a stock tip from any source, whether it be a broker, media source, friend, or colleague? And how do you determine from one buy idea to the next, how much money to put into that particular trade?

Do you use gut-feel? Or do you just use the animation in your friend's or broker's voice to determine how much you put in? If they are very excited, you put a lot in. If they don't sound as animated as the last tip, then you put less money in.

Of the only four decisions that any stock market investor ever has to make for any single stock investment, **the order of importance** of the decisions are:

1. When to sell.
2. How much to buy.
3. When to buy.
4. What to buy.

The two most important things to get right are "when you sell" and "position sizing (also called money management)." Of the four, they will be the biggest determinants, not only of profitability but also the size and sustainability of your profits over the long term.

From 31 years of trading the markets in many timeframes, 26 years of creating investment systems, and 23 years of training and coaching self-directed investors, I know that nearly everybody practices

the exact opposite of the order of importance. Indeed, fundamental analysts put 95% of their effort into No. 4, What to buy.

How you determine when to sell and how to calculate your position sizes will be covered later in the book.

So, hard lesson number one is that it is far more critical to know when to sell and how much to place into a position, i.e., position-sizing, than knowing what and when to buy.

## Hard Lesson #2: 'Noise' is bad for your performance

What do I mean by 'noise'? 'Noise' is all the opinion articles, writings, reports, forum discussions, talking on TV shows, banter in office corridors, everything going on around the market and related to the market.

'Noise' also includes 'happenings' that have nothing to do with the market, such as geopolitical events, politicians' speeches, changes in laws or regulation, weather or disaster events that could affect particular commodities, or wars, or pandemics.

These are external 'noise' and can all affect the market and your perceptions in significant ways.

Then there is internal 'noise,' which includes your heuristic biases, ego, expectations, emotions, attitudes, level of confidence, and current beliefs about how the market works.

These are all variables that interact with the market and your decision-making. There are thousands, if not millions of variables if you also count every single investor making decisions in every timeframe in any given moment.

The **problem with 'noise'** is that not only does it come from many and varied sources, but you will also only ever know a tiny subset of all of them at any given time.

Have you been so worried about what will happen to your portfolio the next day that you've had a sleepless night? Then hurriedly sold only to find out a few days later the market rallied much higher?

How many times have you thought that certain events, announcements or newsletter reports filled with logic would definitely have a positive effect on the market and stocks you own?

But stock prices did the opposite and plummeted because another known variable played a bigger negative role than was not 'seen' or perceived.

Did you find yourself selling some of your stocks too late in the COVID-19 Crash of March 2020? Did the fear-of-the-future generated from the financial media become too much?

And then did you remain in too much cash for months while the market rallied to record highs?

If you experienced any of these you fell prey to 'noise'.

Given the countless variables at play, it never ceases to amaze me that people make decisions in the stock market thinking they know what will happen in the near and long-term future!

Typically, in the vacuum of not knowing how to handle 'noise', investors allow the loudest 'noise', external or internal, at any given time to hold sway over their decisions.

They form assumptions, create subjective opinions, try to predict, react to fear, give in to feelings of uncertainty, imagine visions of what may happen—good and bad. They allow impulsive and random notions to be imposed on them and their decision-making. They then knee-jerk react with on-the-fly and impulsive decisions, not according to a plan, a process, structured logic, or reason.

Recognise any of these symptoms?

**"If you stand for nothing, you'll fall for anything."**

Why are they bad for your performance?

Because each and every combination of 'noise' is from different sources, according to different stages of their respective development paths. Meaning, current 'noise' is **different, unplanned and irregular every single time** you decide to interact with the market.

A trait of being different, unplanned and irregular also means being random, meaning that no 'noise' pattern can be discerned to be learnt from and used repeatedly and consistently into the future.

So, allowing one's decisions to be affected or controlled by 'noise' creates randomness, which will lead to random, inconsistent and mostly losing investing results.

Would you run a business like this? Or a sporting team? Why then do most invest like this?

Randomness can still generate winners every now and then, which can fool wannabe investors for a long time, thinking that they will eventually turn the corner and become consistently profitable. But confidence will eventually wane as their account balances dwindle.

The trick is to overcome the 'noise', randomness, and uncertainty of the stock market with consistency that creates a rising portfolio value. This book will help you learn how to do this. You can learn what to stand for when it comes to active investing in the stock market, so you don't fall for the 'noise'. You start with understanding The Maths of Simple, which I discuss in Chapter 6.

## Hard Lesson #3: Short-term volatility is the #1 enemy of long-term profitability

Short-term volatility is inevitable in the stock market; this is where stock markets fall rapidly by a few percent to 10% to 15% in a few days or weeks.

A more acute example was the COVID-19 crash that occurred in February/March of 2020, where the market fell 33.9% in the U.S. and 37% in Australia in just 33 days.

In 2007-2009, the U.S. benchmark index, the S&P500, fell 56.7% over 1 year and 5 months. In 2000-2002 the NASDAQ100 index fell 82.9% over 2½ years! Even these are 'short-term' in the grand picture of a 60 to 70-year investing journey for and during retirement.

The stock market is the most volatile investing environment in which anybody will invest. And its short-term volatility really scares the wits out of people.

And in the minds of most, too much volatility equals too much risk.

Besides being the #1 reason many people don't even venture anywhere near the stock market, volatility causes fear and panic for those who do. Fear and panic are both highly emotive states of mind, which erode optimism and confidence. Fear shuts down rational thinking.

And when volatility occurs, 'drawdown'—decline in value—happens in portfolios and open stock positions.

Losing money and feeling like you are wrong causes emotional pain. This triggers human beings' hard-wired emotional pain avoidance mechanisms and a state of mind whereby only hurt, loss and failure can be perceived. Thus, with a skewed and distorted picture of the investing landscape, mistakes are made without even realising at the conscious level, until the volatility dies down and rational thinking returns.

This seriously detracts investors from their long-term plans and takes them off track from achieving long-term profitability and investing goals.

Volatility and drawdown, just like 'noise', cause emotional and unintended knee-jerk decisions. Unfortunately, these invariably turn out to be mistakes that cost investors stifled growth and typically lost money if they lock in the losses and withdraw from the market.

In my experience, short-term volatility and the attempt to avoid the emotional pain it causes is the number one reason people undo themselves in the stock market.

To be successful, every one of us has to find a method or technique to overcome reacting in a way that doesn't severely stunt long-term profitability.

**The question you need to answer is:**
**"How much are you prepared to lose in the short-term to win over the long-term?"**

The **first technique** to overcome the effects of volatility on your decision-making is to learn a 'big picture perspective' of how markets operate and understand the role that volatility and falling prices play in the long-term positive returns on offer from the stock market.

We have to allow for a 'retracement buffer' when stock indices, individual stocks, and our portfolios fall in value.

The key question with 'retracement buffers' is how much buffer to allow before exiting a stock position or moving a portfolio into cash. This is gained from a 'big picture perspective,' which in turn comes from detailed research—either done by you or done-for-you—and from getting to know how the market ebbs and flows to its own beat.

The **second technique** to overcome the fear of the volatility of the stock market in a way that you actually embrace it is to accept, with every bit of who you are, that volatility is your greatest ally in achieving the superior results that are so easily possible using the right approach.

You have to make yourself mentally stronger and braver, not just safer.

And you start this technique with an equation, which is explained in Chapter 6, The Maths of Simple.

The outcome is that you no longer dread volatile periods—you actually look forward to them. You are confident that your process and mindset will handle the market decline with relatively minimal drawdown and you look forward to the ensuing market rise to continue growing your portfolio.

## Hard Lesson #4: Your 'societal paradigm' doesn't work in the market

As we progress through life: going through school, possibly going through university, going through a trade apprenticeship, playing a team role in a job, being part of a family, or being a member of a sporting team, we get programmed how to operate in society, in our families, in our communities, at work, at our clubs.

We get programmed to always try to buy things at a discount, on sale, or bargain down the salesperson in price. We feel good when we do, like a little victory. We feel hurt when we don't.

In business, we are conditioned to try to dominate our competitors and persuade people to come around to our way of thinking. It feels like a continuous struggle to get and maintain the upper hand.

Leaders are taught to be in control of their business, their managers, and their staff. They are taught various mechanisms, tactics, and strategies to lead, manage, micromanage, and motivate (or persuade) staff teams to buy into a company product, strategy or direction.

To win, we are conditioned that we must lead, not follow. We must be in front of the game and predict what's coming, what new technologies are on the way, and position ourselves accordingly. To have an innovative, forward-thinking mindset to best anticipate the future.

We are conditioned never to surrender our position. To keep holding on and fighting for what we currently have.

If any of these don't happen, we perceive ourselves to be losing, being wrong, missing out or leaving money in a deal that should easily be there for the taking.

All of these traits, and many others, may be a solid paradigm to traverse through life in our societies. However, what mostly happens in the stock market is the opposite of what happens in our societal lives. Therefore, to navigate it successfully, we must formulate a paradigm that works in the market, not in society. A paradigm that thinks from the market's perspective, not ours.

**How stock prices move is not a reflection of the mostly orderly societies in which we operate.**

The market is more a reflection of mob mentality and the madness of crowds, where non-sensical and illogical fads can create momentum that takes on an inexplicable life of its own.

To operate successfully in the cauldron of the stock market, we have to adopt "paradoxical thinking." We've got to learn to think in opposite ways to how we operate in society. We have to learn to think from the market's perspective, become empathetic with its movements.

In the market, it's not about buying at a discount or at low bargain prices. It's a myth to try to buy low and sell high. Buying low more often leads to selling lower as your money mostly finds laggards rather than rising stars.

What works best in the market is buying high and selling higher, the absolute opposite of a 'societal paradigm' and what we learn in life. Think about it; nearly everything we buy in life depreciates, so it makes sense to try and buy at the lowest price we can. In the stock market, nearly everything we buy are assets that should appreciate.

If you try to dominate and impose your societal beliefs on the stock market you will get hurt, because society trains you to perceive the lack of control and dominance, losing, being wrong, missing out and leaving money in a deal as hurtful. All these happen often in the market.

In reality none of these are hurtful, it's you placing meaning on them as being hurtful. The market doesn't generate hurtful information, you perceive it as hurtful.

We actually have to learn to surrender to the market, not try to anticipate the future. Let the market be the leader that we listen to as **it communicates to us in its own unique language, the language of price movement**, which is different from every other language you currently know.

We have to shut up and let it be when trends go way higher than our societal logic can believe; no arguing and getting angry with Mr. Market when he doesn't behave the way you want him to.

Now, that might sound like you're giving up control. No, **you get control of your portfolio by giving up trying to control the market**—a paradox. Allow the market to lead and do its thing, and just follow what the market tells you, through **price action**.

Losing, being wrong, missing out and leaving money in a deal will happen more often than in anything else you do in life. Yet you can still be a big winner if you can be empathic with the market.

So, to win in the market, you've got to learn to do the opposite of whatever feels natural to you, which comes from your societal programming. You do this by using thinking patterns that emanate from the market—the market doesn't generate hurtful price action, it's your societal thinking patterns that interpret the market information as hurtful to you.

The first step is understanding a simple formula—The Maths of Simple (see Chapter 6)—based on the price movement of stocks and indices, which, when understood, gives you the confidence to become a follower who buys high and sells higher.

# CHAPTER 4

## Why You Need An Investing Decision Support System

To manage highly profitable portfolios that accelerate growth to build wealth quicker and in a safer manner than mutual / managed funds, you need:

1. to overcome the 4 Hard Lessons
2. clear and precise decision-making, not on-the-fly subjective and irregular 'doings'
3. to calmly handle adverse market conditions without freezing into inaction
4. to confidently and consistently engage the market, not hesitantly sit on the sidelines submerged in self-mistrust.

So far, I have focussed on the need for an investing DSS.

**The first thing you need is an *investing DSS***
**that has a pre-researched Edge,**
**which is then verified in live market conditions.**

If that's the first thing, you're now thinking, *"What else do I need to be successful in the market?"*

You may have noticed that three of the four Hard Lessons I have discussed are psychological in nature.

So, besides an investing DSS, or **market method,**

**… the second, and more important, thing you need is a *market mindset*.**

A **market method** is tangible. As tough as it is to do, you can build one for yourself. Or you can buy a market method.

You can't buy a **market mindset**. But it will cost you time and effort, guided by training and coaching, to obtain the necessary mental skills that are aligned with achieving the investing success you desire.

**Market METHOD + Market MINDSET = Market Profitability**

The **quickest and most sustainable way to acquire these mental skills** is by using an investing DSS to help energise new attitudes, beliefs and habits with respect to stock market investing.

The one word that describes the mindset that is needed for long-term market success is CONSISTENCY.

**INVESTING DSS + CONSISTENCY =**
**MORE PROFITABLE INVESTOR**

'More profitable' than investing in index ETFs or mutual / managed funds.

## Definition of Consistency:

Consistency is a skill that needs to be developed to become a state of mind.

**The skill of consistency is instilled in one's mind through repeated similar activity that accumulates in robustness until execution reaches and maintains a high degree of sameness.**

Consistency is achieved through the compounding effect of regular action over time.

Consistency is *not* irregular deeds with varying enthusiasm and erratic stop-start activity.

Many successful people have recognized that consistency is the key to success in all walks of life. Investing is no different.

*"It's not what we do once in a while that shapes our lives. It's what we do consistently."*
*Anthony Robbins*

*"Long-term consistency trumps short-term intensity."*
*Bruce Lee*

*"Goals on the road to achievement cannot be achieved without discipline and consistency."*
*Denzel Washington*

An environment with perfect outcomes over a large sample of events delivers a probability of 1.0. No environment in any walk of life offers a winning outcome for every single event for everyone who executes in that environment.

That is, perfection is not possible. If it was, everybody could make massive bets on single events and be set for life.

A probabilistic environment is one where the probability of a positive outcome is less than 1.0. Meaning, all environments encountered in life are probabilistic in nature, especially the stock market. This is due to the overwhelming number of variables, nearly all unknown to any individual or group, that are in play in any given moment that can cause a negative outcome.

With perfection not being an option, plenty of our outcomes will be negative. That is, losing, being wrong, missing out and leaving money in a deal will all happen.

**With a mindset of perfection not being an option, a mindset of consistency becomes our aim.**

That is, executing lots of regular, similar events in our chosen environment(s) until a high level of robust sameness is achieved, and success becomes the typical pattern of behaviour and outcome.

To achieve a mindset of consistency in the face of experiencing many negative outcomes, you will HAVE to learn to always **think in terms of a probability of < 1.0 for every single event which you initiate**, and then be at peace with every outcome.

*"Success is neither magical nor mysterious. Success is the natural consequence of consistently applying basic fundamentals."*

*Jim Rohn*

When it comes to the stock market, that "basic fundamental" is having a probabilistic edge in our favour and then continually applying it, free of any conflict, doubt or hesitation.

Instilling a market mindset of consistency requires de-energising beliefs and habits that are inappropriate for investing, and energising new beliefs and habits that are conducive to long-term success in the stock market. Jeff Olson, author of *The Slight Edge*, explains it like this.

*"Trying to get rid of an unwanted habit is a bit like trying not to think about an elephant (the more you try not to think about it, the more you think about it). That's because what you focus on, grows. Which is why people who put a lot of energy into focusing on what they don't want, by talking about it, thinking about it, complaining about it, or fretting about it, usually get precisely that unwanted thing. It's tough to get rid of the habit you don't want by facing it head on. The way to accomplish it is to replace the unwanted habit with another habit that you do want. And creating new and better habits, ones that empower and serve you, is something you know how to do. You do it the same way you built any habit you have: one step at a time. Baby steps. The slight edge."*

Consistency is the compounding of conflict-free actions. Add the compounding of returns, and this results in long-term compounded success in the stock market.

**Compounding Returns + Compounding Actions**
**= Compounding Success**

Nothing stands still. No business, no portfolio, no skill. It is either improving and getting better, or it is decaying and getting worse.

Compounding either happens in a negative direction through erratic irregular action, or in a positive direction through the accumulated compounding of many actions.

## Definition of a Decision Support System:

"A ***Decision Support System*** (DSS) is a computerized program, or 'engine', used to support determinations, judgments, and courses of action in an organization or a business. A DSS sifts through and analyses massive amounts of data, compiling comprehensive information that can be used to solve problems and in decision-making."

DSS is a term used widely across many industries, and I've chosen to use it here because this is exactly what is needed to make consistent and objective decisions in the stock market on a sustained basis.

I'm going to prefix DSS with another word: 'mechanical'—"**mechanical DSS**."

Since the 1980s, the word 'mechanical' has been commonly used amongst experienced traders and investors the world over. It arose in the futures markets when computers were first used by individuals and CTAs (Commodity Trading Advisors) to research and design 'trading systems.'

They did this to overcome their biases, personal 'baggage,' emotions and external opinions from their buying and selling decisions. Therefore, placing their trust in their pre-researched, computerised 'trading system' that objectively only followed the price movement data of a particular commodity to the exclusion of all other possible subjective input.

The definition of being 'mechanical' with an action is: "done without thought or spontaneity; automatic."

Synonyms for being 'mechanical' with an action are: machine-like, unemotional, unfeeling, routine, matter-of-fact, unthinking.

According to Investopedia.com:

> *"Mechanical investing is any one of a number of ways of buying and selling stocks automatically or according to pre-set criteria or triggers. The primary purpose of this approach is to remove as much human emotional behavior as possible. Emotions will often negatively impact or cloud rational investment decisions."*

## The Three Different Types of Decision Support System

Let's first position where a mechanical DSS fits in to other approaches of buy and sell decision-making in the stock market.

### Subjective DSS

The **first type** of Decision Support System (DSS) is a subjective or discretionary DSS. **You are the DSS**.

Your cognitive or conscious mind takes in lots of different input from your emotional and internal knowledge, and through your senses from your surrounds—newsletters, chart analysis, media, emails, brokers, company report analysis—and subjectively computes which stocks to buy, hold and sell in a portfolio, and when. Whilst you may think your decision-making 'engine' has rules, they are unstructured,

loose and subject to be overridden by you at any time for any reason that your cognitive mind sees fit, as affected by your internal and external influences.

It's a haphazard, inconsistent way of investing that can do very well if you have many years of stock market experience, but can also fare badly. It relies on you to be relentlessly tuned in to all your input sources at all times to not miss sells or buying opportunities.

The probability of success is unknown at the start of using this approach. However, it will become known at some stage through a lengthy process of trial-and-error with real money in the market.

An investor using a subjective DSS is effectively on a journey to discover whether the way that their cognitive mind works will ever synchronise ***enough with the way that Mr Market 'thinks'*** to ever achieve consistent and sustained success.

This is the way that the great majority of market participants invest and trade.

## Mechanical DSS

The **second type** of DSS is a mechanical DSS. **The DSS is programmed into a computer**. It is also called a non-discretionary or rules-based system, where the well-defined and unambiguous decision rules are 100% objective to overcome emotion, subjectivity and discretion.

There is one input to this type of DSS, the price action of stocks. And market indices, if required. What, when and how much to

buy, and when to sell are all computed by the DSS, according to pre-researched and defined rules applied to the price action data.

By definition it's a consistent, objective, structured, unemotional and organised way to invest.

Whilst there are no guarantees, because a probability of 1.0 is not possible, the probability of success is defined by the pre-researched edge, and hence is more known at the start of using this approach than other investing approaches.

A mechanical DSS can also be used right away, once the process is learnt, without needing to gain years of knowledge, because the 'market knowledge' is already in the DSS; 'learned' from research and back-testing and then programmed into the DSS.

An investor who uses a mechanical DSS uses an 'engine' that synchronises enough with Mr Market to achieve consistent and sustained success. Not perfect success, but enough synchronisation to handsomely outperform and make their effort well worthwhile.

Here's the logic.

The market provides and endless stream of uncertain highly profitable opportunities that have a probability of < 1 of success, i.e., a probabilistic environment.

To achieve the mindset goal of consistency, you need to think in terms of probabilities of < 1, not perfection—a probability of 1, or certainty.

A mechanical DSS has a pre-researched edge with a probability of < 1 in your favour.

Think in terms of the probabilities of your mechanical DSS's edge and you can achieve consistency.

More and more investors and traders of stocks are moving to using the 'mechanical' approach. Whilst the domain of futures traders for decades, recently FX and crypto traders use this approach widely.

## Intuitive DSS

The **third type** of DSS is an intuitive DSS. Again, **you are the DSS**.

Your internal decision-making 'engine' has now risen from the cognitive mind to the subconscious mind. You are effectively using your intuition and street-smart nous to decide what and when to buy and sell, and what not to buy. This is an advanced Decision Support System that takes decades of experience, trial-and-error, winning and losing, and slowly in a time-grown manner honing in on your stock market gut-feel and intuition.

The few investors who get to this level typically learned from an external decision-making framework for many years at some stage on their journey, like a mechanical DSS, which then became intertwined with their cultivated intuitive experience.

By definition they are successful, because their subconscious mind has reached a similar enough and empathetic wavelength to Mr Market's to be sufficiently consistent and objective. They have

developed a peripheral sense and vision to be able to 'see', 'feel' and 'hear' the market.

A tiny fraction of investors and traders ever reach this level.

Let's look at some **formal definitions**:

1. Definition of subjective: "Based on or influenced by personal feelings, tastes or opinions."
2. Definition of discretion: "The freedom or authority to make judgments and act as one sees fit."
3. Definition of intuition: "The ability to understand something instinctively, without the need for conscious reasoning."

You see, **you can't pre-research and back-test subjectivity or intuition**. Think about it, it is impossible to categorically state what your subjectivity or intuition would have decided to do 10 years ago. Meaning, you can only discover whether your subjectivity or intuition has an edge over many future real-time decision-making buy/sell events, over many years, with real money on the line.

A mechanical DSS is pre-researched to discover and create an edge with the probabilities in your favour by back-testing historical stock price data.

You can always become an intuitive investor down the track if you want, but there is no need. If this is your desire, you first need to develop a mindset of consistency and objectivity. And the best way to do that is by using as a stepping stone an 'engine' that is, by definition, consistent and objective—a mechanical DSS.

If you think about it, most things you have done in life to date had the first step as a mechanical step. Whether it was walking, brushing your teeth, riding a bicycle, or driving a motor car.

When you first started these activities, you had to consciously think where you were looking, putting your feet and placing your hands. Your peripheral vision and hearing were very poor because your concentration on what mechanical actions to perform was so intense that you were perceptually blind and deaf to things going on around you.

Eventually you became intuitive in the execution of driving a motor car. The pathway to intuitive maturity is very similar with the market. However, it takes many more years to become intuitive at the emotional and psychological level in the stock market because there are many more variables at play and hence many more negative outcomes.

## Why a Mechanical DSS Works

### Statistical Edge

Importantly, a mechanical DSS has an edge, a Statistical Edge of timing when to buy and when to sell. Having an edge with the probabilities in your favour is THE SINGLE KEY FACTOR that ultimately determines whether or not a traded portfolio of stocks will be sufficiently profitable over a large sample of buying and selling events.

This means that the mechanical DSS's probabilities of success are pre-determined through research BEFORE any buying and selling takes place in the market with real money.

Without the existence of a sufficiently profitable Statistical Edge, none of the points that follow matter, or even makes sense.

Understanding, accepting and **thinking in terms of the probabilities of your Statistical Edge** builds the trust and confidence to be able to consistently execute with minimal mental conflict from fear and uncertainty.

A deeper explanation of a Statistical Edge is provided in Chapter 6. If you want to create your own Edge, the detailed steps of how you can do this are provided in Part 3 of this book.

### It is Objective

A Statistical Edge is researched on lots and lots of historical stock price data. To determine a Statistical Edge, buy and sell timing criteria have to be programmed into a computer. For a computer to understand the timing criteria, they have to be 100% unambiguous.

This makes the buy and sell criteria objective, meaning the timing criteria are clear, concise, consistent, and constant. They don't keep changing based on changing assumptions, opinions, predictions, perceptions, and notions.

Objectivity is the DNA of a mechanical DSS. And of Consistency.

### It is Efficient

If you are not using a mechanical DSS you have to *research* what and when to buy and when to sell for EVERY trade as PART of the

ongoing investing process, forever! This can mean hours and hours of reading and research for each and every buy and sell.

What makes using a mechanical DSS so highly efficient is that the timing research is done ONCE. It is completed before a single trade is executed in the market. The completed research is then programmed into the mechanical DSS as timing criteria to alert its users of the existence of a buy or sell signal at any given time; this means just a minute or two of vigilance per day.

## Emanates from the Market

A mechanical DSS is researched in the probabilistic environment of the market, 'listening' to its language of price action—so it emanates from the market, not from society.

Using it to make timing decisions overcomes your time-grown 'societal paradigm'—you are making decisions based on a DSS that has come from market price action, and hence, by definition, has a 'market paradigm'. Using the DSS's 'market paradigm' replaces your 'societal paradigm', which is heavily flawed with respect to operating in the stock market.

Using a mechanical DSS is how you achieve 'paradoxical thinking' in the market.

## Overcomes 'Noise'

The objectivity and 'market paradigm' of a mechanical DSS conflicts head-on with the subjectivity of 'noise' and with your 'societal paradigm'. This conflict needs to be resolved one way or the other. You

either will end up reacting to external 'noise' and/or your internal 'societal paradigm', or you will trust and adhere to your mechanical DSS. You won't be able to simultaneously do both.

Your investing results and amount of ongoing mental conflict will eventually reveal which you 'listen' to. In my experience, unless you have the desire to put in the effort to retrain how you think wrt the market, 'noise' will trump you following your DSS. Persevering with a mechanical DSS that has a Statistical Edge is THE WAY to retrain how you think, achieve consistency, and overcome 'noise'.

As stated before, external and internal 'noise' is random in nature. If you use random input, you will get random results. If you use objective and consistent input, you will get consistent results.

Consistency is sustainable and conflict-free. Randomness is neither.

## Adaptable

A mechanical DSS can be programmed to be adaptable, provided that the definition of when to adapt is unambiguous.

A mechanical DSS uses technical analysis indicators that are typically driven by parameter settings. The mechanical DSS can be programmed to adapt its parameter settings based on different conditions.

This is exactly what SPA3 Investor does; it adapts its indicator settings depending on the current volatility of the stock price over the preceding month leading to the present trading day.

This is adaptable objectivity.

## Repeatable

A key derivative of objective and unambiguous buy and sell timing criteria is that they can be successfully repeated into the future over and over again.

How do you repeat subjective timing criteria? You can't; it's impossible! You can't define subjective timing criteria on paper, let alone a computer, because they change all the time by definition! If you can't define them, you can't repeat them—each and every subjective execution uses DIFFERENT timing criteria.

Repeatability lends itself perfectly to being part of a systematic process. Repeatability is also foundational in achieving consistency—the compounding of objective conflict-free actions.

## Replicable

A mechanical DSS's buy and sell timing criteria can be precisely reproduced in multiple portfolios simultaneously to obtain the sameness of consistent results from one portfolio to another; this means multiple investors achieve very similar portfolio returns.

The only proviso is that the stocks being traded by lots of investors simultaneously have sufficient liquidity to support this. The universe of large-cap household name stocks on which SPA3 Investor focuses have plenty of liquidity.

Hopefully, it is obvious that others cannot replicate subjective ever-changing buy and sell timing criteria.

In Part 2, you will see firsthand the brilliant replicable results that SPA3 Investor has achieved with real-money live-executed portfolios that have been open to public scrutiny for many years.

## Measurable

The DNA of a mechanical DSS being objective renders yet another benefit; it makes the mechanical DSS highly measurable.

I know that subjectivity, intuition, and opinion can also be measured. However, the repeatability and replicability of a mechanical DSS make its measurement far more meaningful. Moreover, it gives others who are reproducing the use of the buy and sell timing criteria great confidence that they can also obtain the measured results achieved by the mechanical DSS.

How confident would you be of re-achieving currently measured results of subjective timing criteria into the future, no matter how good they are?

## Auditable, Verifiable, and Transparent

Auditable means that buy and sell dates and prices of historically open and closed positions executed in the market with real money can be reconciled precisely against the objective buy and sell alerts historically signalled by the mechanical DSS.

You see, a buy (and sell) signal for a stock back in 2018 will still be displayed on a chart on the same date at the same price years later. It

will always be the same date and price; this is yet another key characteristic of the objectivity and clarity of a mechanical DSS.

This indisputable auditability means that the historical results are completely transparent for all to see and scrutinize.

It also means that historical performance can be verified to be true and correct compared to the baseline mechanical DSS.

The mechanical DSS combined with a mindset of consistency is the investor's 'true north', their compass to guide them peacefully through the ups and downs of the stock market.

How auditable are subjective and discretionary timing criteria?

## Simple Tools

As stated, the objective, clear and constant buy and sell timing criteria can be defined to a computer. This means that simple tools can be programmed into software to make the process even more productive and efficient for users of the mechanical DSS. Tools like computer scans, App notifications, and portfolio tracking/managing.

You simply cannot program scanning tools for opinions and subjective criteria.

## A Mechanical DSS is the First Stepping Stone to Consistency

As Mark Douglas states in Chapter 11 of his book Trading in the Zone:

*"The mechanical stage of trading is specifically designed to build the kind of trading skills (trust, confidence, and thinking in probabilities) that will virtually compel you to create consistent results."*

Consistent results come from achieving a mindset of consistency. The alternative to consistent results is erratic and random results that stunt and stifle growth due to lack of confidence and self-trust in one's ability to execute free from mental conflict and hesitation.

Mark provides an exercise in his book—think of it as a set of drills—for investors to complete. Yet very few start the exercise (confirmed in one-on-one discussions with Mark), let alone complete it, because they don't have a researched mechanical DSS with an edge that they have enough trust in.

Share Wealth Systems provides a verified mechanical DSS (METHOD) and the necessary coaching (MINDSET) to become a more profitable investor for the long term.

**Market METHOD + Market MINDSET = Market Profitability**

**INVESTING DSS + CONSISTENCY =**
**MORE PROFITABLE INVESTOR**

'More profitable' than investing in index ETFs or mutual / managed funds.

If you would like to take a peek at a researched verified mechanical DSS firsthand, and discover more on how we use it to educate and coach investors to achieve a mindset of consistency, reach out here and schedule a call with Shane Archer:
www.sharewealthsystems.com/bookdemo

## Stock Price Movement and Trends

All successful investors understand at the micro level how stock prices move.

The up and down movement of a stock's price plotted over time is formally called '**price action**'. All known rational, irrational and emotional factors are built into a stock's price action in any given moment; it might be argued that even the unknown factors—to the masses anyway—are factored into the price at any given moment. Price is the most objective measurement of the crowd's sentiment and assessment of value at that time. Regardless of what your personal view is.

**Price action is the language of the market.**

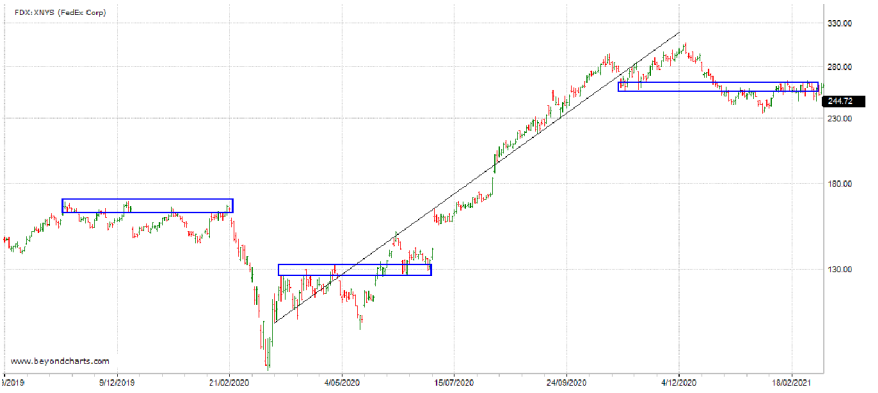
Price action forms the basis for all technical analysis of a stock, commodity, currency or index chart. Technical analysis, used objectively, listens to and reads the market to inform buy and sell decisions.

A stock's price moves up when a buyer is prepared to raise their bid up to what a seller is asking. And vice versa, it moves down when the buyer is NOT prepared to raise their bid up to a seller's asking price so the seller drops their ask down to a buyer's bid.

When many buyers continue raising their bids, sellers raise their asks, taking a stock's price higher. When this continues over an extended period, an **up-trend** results. And vice versa, a **down-trend** results when buyers drop their bids and sellers drop their ask to match the buyers' bids.

Trends happen in all timeframes in the stock market and it is these very trends that create a never-ending stream of probabilistic opportunities from which to profit. Trends form because an economic cycle exists through which business have to navigate. Just like farmers have to work through seasons.

Like Fedex in the chart below when a trend formed from May 2020 to January 2021, when there was around an 85% profit opportunity starting at around $135 through to $255.




Just like businesses have to *time* the economic cycle and farmers have to time the seasons to be profitable—by definition, cycles and seasons are made up of *time*—so do investors have to *time* price action to profit from trends.

Finding and following price trends is the key to being successful in the stock market. This is called **trend-following**. It has worked brilliantly in the stock market for decades since the early 1900s and still continues to work, as the live-executed portfolios in Chapter 9 demonstrate.

The challenge is to use technical analysis of price action to formulate a **trend-following mechanical DSS** with a Statistical Edge that heavily stacks the odds in your favour of not only being profitable over the long term, but also of beating the Total Return (Accumulation) index by a large margin.

## Will the Stock Market Move in Similar Ways in the Future?

If all of the above points about why a mechanical DSS works so much better than alternative approaches make sense to you, then there may be one last question you have. Is it valid to create a Statistical Edge based on historical stock prices and will prices in the future move in similar ways to how they have moved in the past?

Your scepticism is well-founded.

Firstly, nobody can guarantee what will happen in the future in a probabilistic environment. However, it should help to understand the root cause of stock prices moving like they do. **It ultimately all boils down to human decision-making using the combination of our conscious and subconscious thinking**—the whole range of human emotions, behaviour, biases and weaknesses.

While our conscious thinking has evolved over the centuries with the advancement of explanatory knowledge, nearly all experts agree that human subconscious programming, left to its default settings, is still hard-wired from 1000s of years ago.

It is at this subconscious level that we mostly make decisions, especially when highly energised emotive states are in charge, like fear, greed, betrayal, uncertainty and euphoria. But unfortunately, these extreme emotional states also shut down our cognitive brains, called an amygdala hijack, removing reasoning from our decision-making process, even subjective and opinionated reasoning!

As long as the majority of market participants make decisions in this way the stock market will continue to move in similar ways to how its price action has been recorded for well over a century.

Using a mechanical DSS, which emanates and operates from the market's point of view, an investor has the opportunity to override their default subconscious settings with respect to the market, and think from the market's perspective rather than from their societal perspective.

This is yet another reason a mechanical DSS works better; there is a higher probability of not making mistakes when in a highly emotive state of mind.

Lastly, in answering this question, a brief explanation of the research process may further alleviate scepticism. Typically, three separate datasets of stock prices are used on which to research a Statistical Edge:

- In-sample data
- Out-of-sample data
- Live data.

The **in-sample dataset** will ultimately comprise many 10s, if not 100s, of stocks and cover a period of at least ten years that includes at least two severe market falls greater than 25% and two decent market rises.

This dataset is used to back-test buy and sell criteria to determine the presence of a Statistical Edge.

The **out-of-sample dataset** should comprise a shorter period of around three to five years with at least a decent fall and a decent rise each.

This dataset is used to verify that the buy and sell criteria determined with the in-sample dataset still work on a different set of data.

The mechanical DSS's Statistical Edge should then be executed with real money in the stock market as a curated and managed portfolio of stocks to ensure it is practicable, and meets it profitability objectives.

Ultimately, the highest degree of confidence that the edge will continue to manifest successfully in live market conditions is when it has been live-executed through at least one severe market fall of greater than 25% and demonstrated that it successfully handled the market decline, ensuing rise by beating the market indices and other avenues of investing, such as Balanced Funds and the market index.

You will see this evidence in Part 2 of this book.

## Before Using a Mechanical Decision Support System (DSS)

Let's discuss some traits of people who invest in the market using their own discretion and attentively listen to the 'noise' of brokers, newsletters, friends, colleagues, wherever they may source their stock buying ideas; i.e., they do NOT use a mechanical DSS.

Do any of these traits of people who are erratic, random and hesitant and who don't use a mechanical DSS resonate with you?

- They use a scattering of different reasons to buy stocks.
- They let sell decisions slip for days and weeks from when they felt they should have sold.
- They regularly have lots of cash sitting idle in their portfolio and not in the market because they are indecisive and hesitant about investing it.
- They are anxious about what to do when the next big market fall happens and whether they'll sell in time.
- They often change their mind about buying soon after they have bought for no apparent reason.
- They often hold onto stocks falling in price until the pain becomes too great, and they then sell to lock in losing trades of 30% to 50%+.
- They hold onto large positions in stocks that have fallen > 75% from their highs.
- They are always trying to predict when the market might have another big fall, listening intently to the news and the 'noise' to see if there are any signs of an imminent market fall.
- During the 2020 COVID-19 crash, which occurred in just 19 days, they found that they were selling their positions towards the bottom of that 30%+ crash.
- They invested lots of new money into the market in the month before the COVID-19 Crash.
- They guess how much to invest in a position with no formula or method to decide how many shares to buy.
- They feel disorganized about their portfolio with lots of loose ends.

- They bought stocks too late when the market rose after the COVID-19 crash. Or didn't buy at all!
- They buy stocks based on interesting and captivating stories they read in newsletters, online blogs, or chat forums.
- They regularly make the mistakes of buying too late, selling too late, buying too early, and selling too early.
- They only talk about the good trades they've done.
- They get their stock buying ideas from the 'noise' brigade.
- They've had a number of declines in their overall portfolio value of greater than 25% over the last 15 years.
- They have to read a lot of newsletters or broker's reports to decide whether they should hold or sell and what to buy and when to buy.
- They spend several hours every week reading and researching stocks and the market.
- They often sell stocks that carry on rising a long way, leaving a lot of money on the table.

## After Using a Mechanical Decision Support System (DSS)

Compare this to somebody who has transitioned to using a pre-researched mechanical DSS.

Do any of these traits of people who have a mindset of consistency from using a mechanical DSS resonate with you?

- They know which stock to buy when cash is available; therefore, not leaving lots of idle cash in their portfolio when it should be invested in the market.

- They know the precise day to buy a stock and which stock to buy.
- They also know the precise day to sell a stock and move out of that position.
- They objectively seek a new position to replace the one they have just sold, taking no more than a few minutes to decide.
- They know exactly how much, down to a single share, to buy for all positions.
- They are always close to 100% invested in rising markets and are close to 0% invested in severely falling markets.
- Fear of missing out doesn't worry them anymore because they know that their mechanical DSS will have their money in high probability winning trades.
- They know that if a trade isn't a winner, they will cut out of it pretty soon after they buy and limit their loss to a small loss.
- They understand that small losses are victories against large losses. So, they always sell when their mechanical DSS signals a sell.
- They achieve annualized returns of at least 14% annualized over the long-term (rolling periods of five years).
- They feel organized, structured, and calm about their portfolio.
- They are clear about what to do in any scenario that the market may throw at them.
- They embrace volatility without fearing it because they know exactly what to do in volatile circumstances.
- They buy stocks based only on data-backed and researched criteria that have a high probability of winning.

- They make very few mistakes, and when they do, they realize their mistake, document it in their journal, and ensure to their level best they won't repeat that mistake in the future.
- They have ceased trying to predict the next market crash and allow whatever will happen to happen.
- They feel competent and confident of the future and their skills to continue executing in all market conditions.

# CHAPTER 5

## The #1 and Only Problem with Using a Mechanical DSS

"For those who believe, no proof is necessary. For those who don't believe, no proof is possible."

- Stuart Chase

My business and I have taken thousands of self-directed investors through the learning curve of gaining knowledge and skills to execute a mechanical DSS to make buy and sell decisions to time the stock market successfully.

Same DSS, same Mr Market, different people.

Not everybody makes it through the learning curve to become successful at timing the market. The difference is not the market or the DSS; it's the people. Some just never have the necessary desire to get to the point of suspending their current dysfunctional market beliefs to instil new functional market beliefs, and hence never reach a sufficient degree of a mindset of consistency.

That's no indictment on them. It takes all kinds of personalities to make this wonderful world we live in, just as it takes to make the market work like it does. And all kinds of changing opinions, desires, expectations, conjecture, and surmise in many different timeframes to create the liquidity of buyers and sellers at every price point.

I welcome this melting pot of personalities and opinions in the stock market. It's what those of us who use a successful mechanical DSS combined with a mindset of consistency feed off to generate superior profits.

If you don't believe, then you won't trust, and in turn, you won't have the confidence to execute consistently and more profitably over the long term.

Just like happened to John D., a client who confessed this to us on 3 April 2020, a week or so after the market indices had fallen by over 30% in the COVID-19 crash:

> "My holdings are very small and I fell in to the slack trap and didn't follow my rules. Hence I will ride this down turn out. I will be back when my situation changes, as I really believe your system works. I just need some time in my corner to reflect on not obeying my rules. (I'm not really beating myself up, that much)."

Clients Len L. and Bill R., also confessed to us in September 2020:

Len:

> "How has mechanical investing changed my investing? I've been a bit of a smart-a** over the last 8 or so years believing I knew how to invest in the stock market. My performance has proven

otherwise. So now, while investing in the US market, I follow SWS advice, and my performance is much improved. For this I am grateful to Gary and his team."

Bill:

"In about a decade with SWS I have made many stubborn mistakes by not sticking to the rules and could always see retrospectively that I would have been much better off trusting the system. My investing is now more disciplined and successful."

Lack of belief leads to mistakes, which leads to low confidence, which leads to conflicted thinking and doubt, which ultimately leads to inconsistent action through fear and hesitation of placing a buy or sell transaction in the market according to the objective rules of the mechanical DSS.

Overriding the mechanical DSS regresses wannabe active investors away from achieving consistency to rather rely on the subjectivity, 'noise' and outside influences of:

- human beings' heuristic biases (this could be a whole chapter on its own!)
- emotions and beliefs about losing money and being wrong
- other peoples' opinions about the stock your rules have signalled you to buy or sell
- the investor's view and the notion of what the market may do.

Results will be inconsistent, erratic and poor, which will reinforce lack of trust in the investing DSS and enforce a mindset of inconsistency.

The next downward spiralling step is to apportion blame on the mechanical DSS, the market, lack of time, other people, or other external variables that are ever present. That is, not take responsibility for outcomes. If you don't take responsibility for your outcomes, then there is nothing for you to fix or change to get better; something/body else has to change for your outcomes to improve, not you.

The stock market is a difficult place to build belief, confidence and consistency. It provides so much negative ammunition to convince yourself that things just won't work for you.

This is because the market is a probabilistic environment comprised of up and down movements caused by seemingly endless variables and the cauldron of human beings' emotions, decisions, intelligence and fallibility.

The stock market communicates in probabilities not perfect outcomes, meaning no investor over time will ever have every single position in the market be a winner.

Imperfect outcomes means that there will be periods of drawdown where portfolio values will drop by 5%, 10%, 15%, even 20%. Or more if big mistakes are made.

Experiencing losing trades and drawdown does not mean the mechanical DSS is not working; it just means that you are experiencing the normality of the probabilities, call it risk if you like, that are innate in the stock market.

What matters is that your daily plotted portfolio value, i.e., your portfolio equity curve, is on a steadily rising path that performs

better than the stock market Total Return index and experiences acceptable drawdown periods that do not negate the steadily rising path over its long-term journey.

To achieve this, you have to rise above all the negative feedback by fully understanding and accepting that losing trades are factored into your Statistical Edge as being probabilistically normal. Complete acceptance is achieved when you are at peace with all outcomes and absolutely no internal conflict is experienced when losing, being wrong, missing out or leaving money on the table.

Understand too, that drawdowns are factored into your Statistical Edge and are probabilistically normal.

Big-picture perspective, resilience, and perseverance are among the key traits required to achieve objectivity and consistency, leading to superior stock market performance well above what you ever thought you were capable of.

To summarize:

1. The stock market offers an endless stream of probabilistic opportunities, not perfect opportunities.
2. A mechanical DSS with a known positive probabilistic edge, not a perfect edge, as researched on historical stock market data, can 'see' some of the market's probabilistic opportunities that are on offer.
3. A mindset that continuously uses such a Support System to objectively Decide when and how to act on every one of this subset of opportunities, can realise the benefits of the positive probabilistic edge.

4. Such a mindset that is free of conflict, hesitation or doubt is a mindset of consistency.

As you can see, the practical key is to deploy a mechanical DSS with an edge—a recipe if you like.

To do so successfully requires believing in its probabilistic edge that is in your favour and trusting it above the 'noise' and your 'societal paradigm'. Only then can the necessary mindset of consistency be developed for long-term stock market success.

Compare the earlier confessions from John, Len and Bill to Fabian, who wrote this to us on 24 March 2020 during the same COVID-19 market decline:

> "I liquidated all my positions after an 8.5% drop from my portfolio peak, as per the sell signals I received about 3 weeks ago. As of Friday, had I kept all my positions my portfolio would be 35% down from peak.
>
> So Share Wealth Systems has saved me about 27% of my portfolio value during this crisis. Your fee has been paid back 200 or 300 times over!"

And this from John V., who wrote to us on 19 March, 2020 about his COVID-19 crash experience:

> "Just wanted to pass on my thanks to the whole team at SWS … I followed the system closely during the recent sell-off, and am 100% in cash as a result.

It's so good to be acting with confidence & calmness. I was really calm & composed through that, and I took this as such a good sign that I'm maturing in my approach to how I invest, & what I expect ("anything can happen" 😊).

What could otherwise very easily have been a very nervous time for me since 20 Feb is now a time of expectation & excitement re what is to come & the opportunities ahead, as a result of my having followed the system closely.

I run 4 separate portfolios using SWS, with total FUM of $x.xM … and having retired in 2018 it's crucial that my money works for me & that I protect the capital. This may give you some context as to why I find your system so crucial now … I can't afford to incur massive draw-downs at this stage of my life, and am for the 1st time finding myself confident & relaxed about what I do, whether the market is moving upwards or collapsing around me. That has not been the case prior to me starting to use SWS, even when I had all my funds managed by one of the most prestigious investment banks.

My FUM is surely not your largest client portfolio, but it's not insignificant either. I've got a lot riding on your system & I use it now with ever-increasing confidence & peace-of-mind.

You guys are doing very good stuff, & I just wanted to say thanks."

Now is the time to reveal to you a book that will change your investing / trading life forever. I have already mentioned it once. ***Trading***

***in the Zone*** by Mark Douglas. If you've read it then pick it up again and this time study it. Comprehend every word of every chapter.

Share Wealth Systems provides a mechanical DSS (METHOD) and the necessary coaching (MINDSET) to become a more profitable investor for the long term.

**Market METHOD + Market MINDSET = Market Profitability**

**INVESTING DSS + CONSISTENCY =**
**MORE PROFITABLE INVESTOR**

'More profitable' than investing in index ETFs or mutual / managed funds.

If you would like to take a peek at a researched mechanical DSS firsthand and discover more on how we use it to help investors achieve a mindset of consistency, reach out here and schedule a call with Shane Archer:

www.sharewealthsystems.com/bookdemo

PART 2

# THE SPA3 INVESTOR METHOD

"If it is important to you, you will find a way. If not, you'll find an excuse."

- Ryan Blair

# Introduction

***SPA3 Investor*** is an investing ***method***, a mechanical DSS to time when to buy and sell stocks and ETFs, encompassed within a structured ***process***:

1. comprising all the necessary steps and tools to manage, monitor, and measure a stocks portfolio in the U.S. and ASX stock markets,

2. that has a high probability of outperforming the benchmark indices (S&P500 Total Return index and ASX200 Accumulation index) by around five compounded percentage points over rolling five-year periods,

3. while only taking 15 to 30 minutes a week, on average, of effort by the investor, once the process is learned.

Using this ***process*** is all about simplifying; breaking ***complex*** down into smaller chunks of simple.

The most important trait of this ***process*** is removing the need to have to ***manually*** do the same tasks over and over again. The idea is to work out the best way to execute a complex task by first

researching the task manually through iterative steps of trial & error and optimisation.

Then creating a DSS to make repetitive, complex decisions as automatically, objectively and consistently as possible. Then encapsulate the DSS into a process that can be quickly and efficiently repeated in a fraction of the time compared to making decisions manually and inconsistently.

This saves a massive amount of time when the process is executed into the future and makes each decision far more consistent with a much higher degree of confidence, and higher probability of long-term success.

The previous four paragraphs could refer to solving problems in just about any industry; engineering, IT, process control systems, business, etc.

It also applies to solving the problem of achieving superior investment returns in a complex environment such as the stock market. The most important repetitive decisions to make when it comes to investing are:

- What to buy
- When to buy
- How much to buy
- When to sell

They can also be very time-consuming decisions to make. Each 'what' & 'when' to buy and sell can consume hours of reading and research; which can be repeated for every decision!

Most don't have the time to do this, and if they do, it takes years to acquire the knowledge and skills to do it well. Warren Buffett spends nearly every working day reading and researching – it's what he does; it's a major part of his job.

Therefore, most either:

1. do an average to poor job trying to make these timing decisions themselves, or
2. 'outsource' the research and 'decision-making' to third parties such as brokers, managed /mutual funds, investment advisers, financial planners, newsletters, community chat forums, magazines, friends, and colleagues.

'Outsourcing' is fine, provided you are prepared to put up with the consequences of lower returns than are on offer from DIY and with paying huge fees that compound against your returns over the years.

However, beware the biggest financial risk that every investor faces:

**…not having enough money to last a comfortable and independent 20 to 30-year retirement at the level of lifestyle or better than they enjoyed when working for an income.**

By the way, **everybody is an investor** by default, whether you do it yourself or not, by deciding where their retirement monies are invested and by whom.

This book is for those who want to take control of their financial future by controlling their investment decisions in the present.

So, in this book we'll solve the main four stock market investing problems of deciding what to buy, when to buy, how much to buy and when to sell.

We'll encapsulate that solution into tools and a process that achieve an outcome of superior investing returns with very little use of your time.

As you now know, besides the need for a mechanical DSS, the other major ingredient required is the **necessary mindset of consistency**. My business educates and coaches everyday investors to help them achieve this state of mind wrt investing (which helps in other walks of life too), using a mechanical DSS to get there.

# CHAPTER 6
## The Maths of Simple

The maths of simple is also the maths of repeatable, robust, consistent, trusting, and efficient.

A **Statistical Edge** is comprised of the **measurements that are derived from researching the timing of buying and selling in the market**. It's a number that relatively indicates how good your timing is and, as such, could be called a Timing Quotient (TQ). A bit like how IQ, Intelligence Quotient, is a number that has been used to relatively indicate how well a person's brain works.

Timing is required everywhere. Comedians need it to get their punch line just right. Golfers, baseball and cricket batters need it to strike the ball out of the 'sweet spot'. Presenters and orators need it to make their point, and make it memorable. Leaders need it to inspire. Businesses and farmers need it to navigate the economic cycle and the cycles of the seasons, respectively. Football teams need it with their passing and running.

**Timing is everything.** Everywhere!

Yet, even the best never reach perfection in their timing for EVERY execution. There will always be bad jokes, bad shots, bad speeches, bad passes, bad financial quarters and bad crops. They don't seek perfection, they seek consistency. They understand that a high enough probability in their timing over a large sample of executions will achieve long-term success.

If each of their executions was rated over a large sample, a Statistical Edge could be calculated. Just like golfers' stats on the PGA tour and the story of Moneyball in the U.S. baseball league.

It's the same with a Statistical Edge to make money in the market—it just needs to have a sufficient edge in your favour to achieve a positive probabilistic edge—not perfection.

If you want to become a successful, self-directed, active investor, your challenge is to find or create an approach, a process if you like, which gives you the highest probability, BEFORE YOU START investing, of beating an index ETF (i.e., the market) by having good enough buying and selling timing.

I've placed so much importance on the role that the Statistical Edge plays in you coming to believe in a mechanical DSS, to achieve a mindset of consistency, and in all the benefits that flow from this combination, that it behoves you to understand and 'get' this chapter. Read it a few times. There are a few numbers involved, therefore, "The Maths…". But I think after 23 years of explaining this material, I've made it as simple as it can get.

Let me explain…

## Catch 22!

How does an investor ***know in advance*** whether their chosen investment strategy has a high enough probability of achieving a steadily rising portfolio value that handsomely outperforms the stock market benchmarks over the long-term, with acceptable falls in value from time to time?

Answer: Very few know in advance!

How do we go about resolving this Catch 22? By ***researching historical stock prices*** to devise and stress-test a mechanical DSS.

Just like comedians research their subject matter in depth to find the right words to say at exactly the right time. Just like the baseball or cricket batter spends hours in the nets 'researching' methods of *getting their timing as consistently good as they can* at striking the ball. Or the golfer on the driving range 'researching' their timing of striking the ball to get it as *consistent* as they can.

It's a five-step project:

1. Iterative research of various buy & sell criteria using an in-sample dataset of historical stock prices to determine the existence of an Edge;
2. Achieve an Edge that has a sufficient statistical probability by confirming it on an out-of-sample dataset of stock prices;
3. Simulate individual portfolios using that Edge on historical price data;

4. Simulate multiple historical portfolios with different starting dates and in differing market conditions;
5. Create tools and a process to achieve efficiency.

This process is explained in detail in Part 3 of this book. Only when these steps are complete should you start live execution in the market.

I have used ***historical back-testing & portfolio simulation research for over 25 years*** to get these answers and confidence before taking the mechanical DSS to the market for live execution.

Most invest using on-the-fly trial-and-error and gut-feel as they conduct time-consuming subjective stock selection analysis. They then let their real-money investing results provide answers after a large number of trades, which may take years to be more profitable than investing passively in an index ETF.

Investors follow stock tips with no knowledge about the 'edge' of the tipster and with no predefined exit criteria for that tip. They get the 'buy' tip and no 'sell' tip.

I find this totally mind-boggling. Even more mind-boggling is that many investors use trial-and-error on-the-fly trading to 'test' third-party strategies with 10s, even 100s, of $1000s, having little prior idea of the strategy's potential, or lack thereof.

Surely, every self-directed investor should rigorously research their strategy BEFORE deployment with real money. But they don't. Neither do most stockbrokers, newsletter tipsters, authors, financial planners, financial journalists, etc. Why not?

*Perhaps because…*

- *they aren't aware of back-testing,*
- *it's too hard to do,*
- *they don't know how to do it,*
- *they don't have the skills and tools to do it, or*
- *they don't want to expose the false promises of the process or method they are using.*

The maths I'll deal with here is an equation that determines whether your mechanical DSS has a high enough probability of being profitable, or not, into the future. The equation needs two variables to be determined through researching the criteria used to decide when to buy or sell.

The **Win Rate** is the number of closed winning trades over a statistically significant sample from all your trades. Obviously, the higher, the better.

The **Payoff Ratio** (also called the Profit Ratio) is the size of the average winner compared to the size of the average loser. Just divide the former by the latter. Obviously, the bigger the winners and the smaller the losers are, the higher this number will be. The higher, the better.

"How do you want it—the crystal mumbo-jumbo or statistical probability?"

## A Statistical Edge

The mechanical system written about in this book is not a "secret system". It is a commercial product, which self-directed investors execute in the U.S., Australia, and ex-pats of these two countries living elsewhere in the world.

They use it to manage their money because they have developed sufficient *trust in the Statistical Edge*. Trust comes firstly from seeing evidence, and evidence comes from two main sources:

1. live execution in the market with real money, and
2. the research on which confidence was grown to initiate and continue live execution.

***Live execution evidence*** is observing profitability when investing with real money in the market. But readers should also understand what is originally behind the freedom to execute in the market with real money with such confidence and skill.

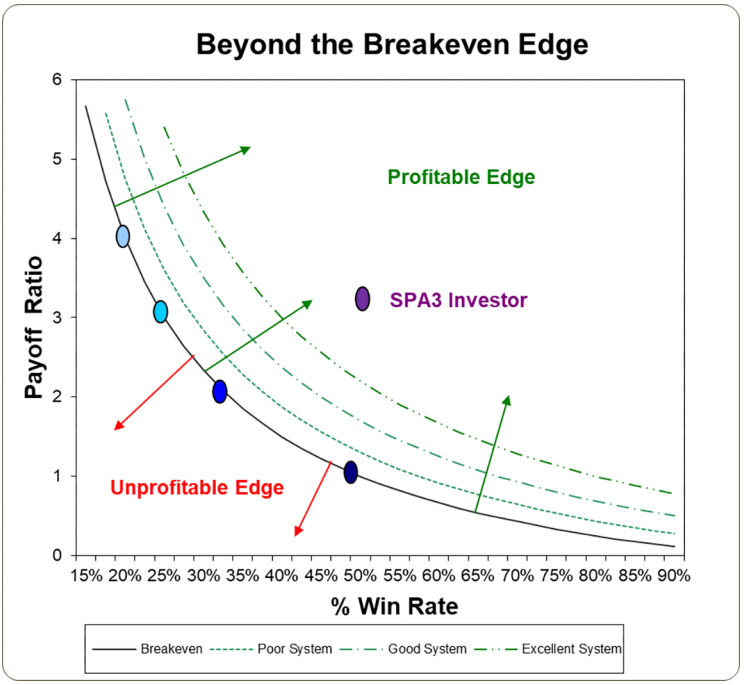
And that is ***historical research through back-testing,*** which is used to create a *mechanical DSS with an 'edge'.*

A successful mechanical system, or DSS, which anybody can execute:

- Has *unambiguous and precise* buy and sell timing criteria that have *no "wiggle" room*…
- Has *well-defined and exact* buy and sell timing criteria that can be defined to a computer…
- Comprises *practicable timing criteria* that can be *realistically executed* in the market …
- *Leaves no room for discretion, subjectivity, outside influence, opinion, or surmise*…
- Can be *measured very accurately* over a large sample of completed trades…
- Has an acceptable *Win Rate* - the percentage of trades that are winners over a large sample…
- Has an acceptable *Payoff Ratio* - the ratio of the average size of winning trades compared to the average size of losing trades...
- Has a ***Positive Statistical Edge*** - the specific arithmetic calculation based on the *Win Rate* and *Payoff Ratio*, i.e., an *Expectancy greater than ZERO, the greater, the better*…

Adhering to the *positive Statistical Edge* has a high probability of being more profitable in live execution over a large sample of trades than investing passively in an index ETF and reinvesting dividends.

The researched **Statistical Edge** of the SPA3 Investor mechanical DSS can be depicted like this.




The solid black line with the blue dots on it is the *breakeven line*. That is, not a winning or a losing DSS.

The equation to determine whether a mechanical system has a ***positive Statistical Edge***, or not, is…

**Mathematical Expectancy (ME) = [(Payoff Ratio + 1) * Win Rate] – 1**

ME is also called your 'Edge,' probability of winning, Statistical Edge, or Probabilistic Edge.

The bottom dark blue dot on the breakeven line is where the Payoff Ratio of 1 (average winner = average loser = 1 ÷ 1 = 1) crosses the Win Rate of 50% (0.5).

**[(1 + 1) * 0.5] – 1 = 0**

The upper light blue dot on the breakeven line is where the Payoff Ratio crosses 4, that is, each winning trade on average is four times larger than each losing trade, and the Win Rate crosses at 20%, that is, only 20% of trades are winners and 80% are losers.

**[(4 + 1) * 0.20] – 1 = 0**

The SPA3 Investor purple dot at Payoff Ratio of 3.4 and Win Rate at 54%, over a large sample of historical trades...

**[(3.4 + 1) * 0.54] – 1 = 1.37**

This is the *theoretically researched Statistical Edge of a portfolio equity curve generated from the SPA3 Investor mechanical DSS*, the real money investing results of which you'll soon see in this book.

**No self-directed investor should execute in the market with real money without a pre-known Statistical Edge.** They simply ***have to know*** whether their timing method for deciding when to buy and when to sell has a *positive Statistical Edge or not*.

If it doesn't, they may be in big trouble. **No amount of analysis, fundamental or technical, reading or learning more about indicators will change a negative Edge into a positive one**. Their portfolio will simply lose money over a large sample of trades if there is no Edge.

Nothing can change that except luck over the short term over a small sample of trades. Any system that *relies on luck is gambling*.

They have to know first by measuring their timing method and then, if needed, continue in research mode to change the concepts of their buy and sell timing criteria until they do have a *good enough positive Statistical Edge*.

And the only way such research can be done is by *defining unambiguous timing criteria to buy and sell to a computer* and then back-testing the timing criteria on historical stock price data. How to do this research yourself is described in detail in Part 3.

## Simulating Portfolios on Historical Data

Investing is an exercise in managing a PORTFOLIO of stocks, not picking the odd stock now and then. A huge winner of 100% profit on 10% of your capital is hardly useful if the other 90% is in cash.

Stock picking to find buying ideas omits the two far more important decisions than just what & when to buy - it omits HOW MUCH to buy in each stock when constructing a portfolio and WHEN TO SELL.

These two decisions have a much bigger impact on how well a portfolio performs over time.

You also HAVE to MEASURE the timing of your buying and selling at the portfolio level, not only the individual stock level. If your buying and selling timing activity as a portfolio doesn't beat the market

with reinvested dividends included (i.e., the Accumulation or Total Return index), you are wasting your time—you might as well invest the same cash into an index ETF and reinvest the dividends.

So, once you have established your Statistical Edge at the individual stock trade level, you need to simulate historical portfolios that strictly adhere to the objective timing criteria of the mechanical DSS with a mix of stocks to measure other statistics compared to the statistics of the market indices, such as the:

- Annualized returns of a portfolio
- Maximum drawdown
- Expectancy
- Sharpe ratio
- Average profit size across all trades
- Size of average winner compared to the size of average loser
- Average hold period per trade

To achieve this, conduct many historical portfolio simulations to allow different mixes of stocks to populate the historical simulated portfolios, just like pilots doing flight simulator training.

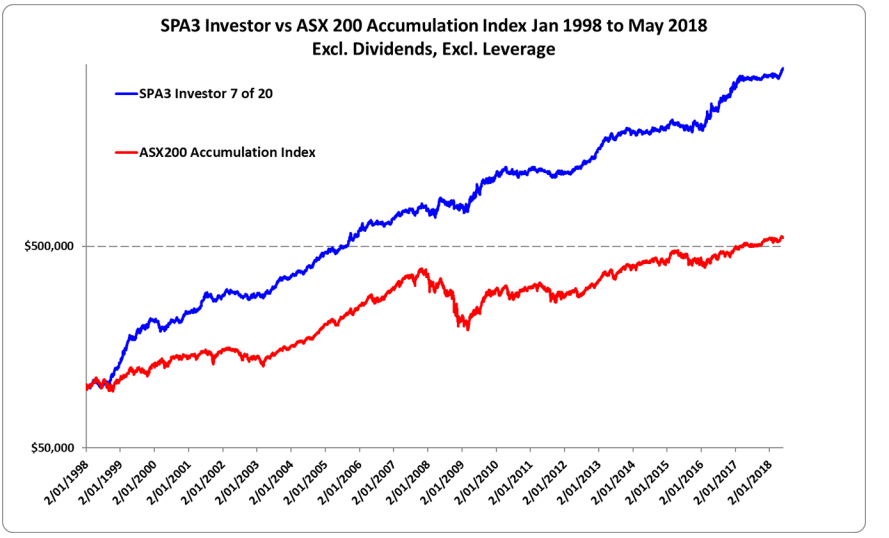
So, like pilots, we too can start *building trust and confidence in the Statistical Edge* BEFORE we use it with live execution.

Portfolio simulation *can only be done with a mechanical DSS that uses pre-defined rules. You simply cannot research and back-test gut-feel, opinions, or subjective criteria made up on the fly!*

Researched simulations should:

- Use the precise, unambiguous buy and sell signals to compile historical portfolios to emulate executing with real money in the market.
- Start on different dates to allow a different mix of stocks to find the portfolio.
- Use different numbers of simultaneously open positions ranging from 2 to 20.
- Use different position sizes (will be affected by no. of open positions).

This chart shows an example of one of the portfolio simulations, starting in January 2000, where a maximum of 7 equally weighted stock positions was open at any given time based on the SPA3 Investor mechanical buy & sell signals.



Notes:

1. Note how in 2008 to early 2009, the blue simulated portfolio equity curve did not fall by anywhere near as much as the red ASX200 index. This is due to the SPA3 Investor *exit signals taking the portfolio mostly into cash during this period*.
2. Annualized return over the 20 years was 19.4% compared to the ASX200 Accumulation index growing by 8.3% annualized. This is greater than the objective of 13.3%, which is 5% annualized better than the ASX200 Accumulation of 8.3% annualized.
3. The maximum drawdown was -16.2% in early 2009—less than the objective of -20% and much less than the index of -54%.
4. Exposure to the market over the entire 20 years was 80.8%, meaning that cash was highly productive in the market whenever trends were rising.
5. This is research – there is no guarantee that these results will be repeated with real money in a live investing environment.

# CHAPTER 7

## The Step-By-Step Process of the SPA3 Investor Mechanical DSS

Remember, the whole point of using an objective mechanical DSS is to be highly efficient and highly profitable on a sustained basis.

It empowers and liberates the investor to overcome 'noise', their emotions, 'societal paradigm' and biases. And in the process helps **develop a mindset of consistency**.

It keeps you fully allocated to ride the bull higher as the markets defy gravity and all those continually calling the top of the market.

It absorbs tremors and shocks so that you don't crack when adverse market circumstances prevail. It is the way to cope with challenges and withstand stress.

It is the one at the wheel to get your portfolio safely through the storm when you're in that zone of not knowing whether to hold your nerve and your open positions, or to cave to the pressure and sell out to the deafening 'noise' of panic and Henny-Penny the sky is falling.

It is also your pilot to guide your portfolio out of the safety of the harbour at the right time to continue your journey of re-engaging the oceans of opportunity in the market.

When managing your portfolio, you have to stop being an inconsistent ***on-the-fly researcher and analyst*** by ceasing to listen to and to read long-winded stories, reports, and opinions about the market and individual stock's predicted futures.

You have to transform to being a ***calm, confident and consistent investor*** if you ever want to hit the kinds of profit levels that can radically change your life and the lives of those you care about.

You have to start executing buys and sells with precision, according to criteria that are well thought out BEFORE starting a portfolio, not succumbing to on-the-run ideas and stories while managing your portfolio.

An **inconsistent analyst mindset** is easily swayed by some guru's latest indicator promotion or buy 'logic' from a broker because their mind is always in a solution-finding mode.

A **consistently confident investor** has chosen their solution and path of decision-making BEFORE becoming an 'executor' in the market and sticks with that path until it yields the fruits they desire, according to the research and analysis already completed.

A successful active investor believes that to be wildly successful, all they really have to do is execute what they know without second-guessing themselves or their Edge and allow their Edge to play out as it is intended.

**Once you know what to do, you must simply do what you know.**

Knowing what to do is far easier than doing what you know.

**Knowing what to do only requires knowledge. Doing what you know, especially under pressure, requires skills, specific mental skills.**

Most people have the right intentions and put in lots of effort, but they don't really know whether their 'what' is the right 'what' for them.

They spend huge amounts of time, maybe forever, wheel-spinning in a trial-and-error analysis phase, trying this and trying that but never arrive at a solution because they don't know what the destination is supposed to look and feel like.

Until you understand what a good enough Statistical Edge is and work it out, or get one for yourself, the chances are you will never work out your 'what', and hence not get to your stock market investing destination.

You have to think differently from how you think now, drop your bad habits and build new habits that work to achieve your investing goals.

Then there are other people who know what to do, but they never get to trust and attain the confidence to do what they already know.

Consistent confidence is the differentiator that gets you to execute what you know. Especially under pressure. And having a Statistical

Edge where you have solid evidence that it works well will play a major role in generating that consistent confidence.

**Know what to Do + Consistent Confidence**
**= Do what you Know**

## The Process Flowchart

The first step of the process is to allocate some of your investible capital to the SPA3 Investor portfolio.

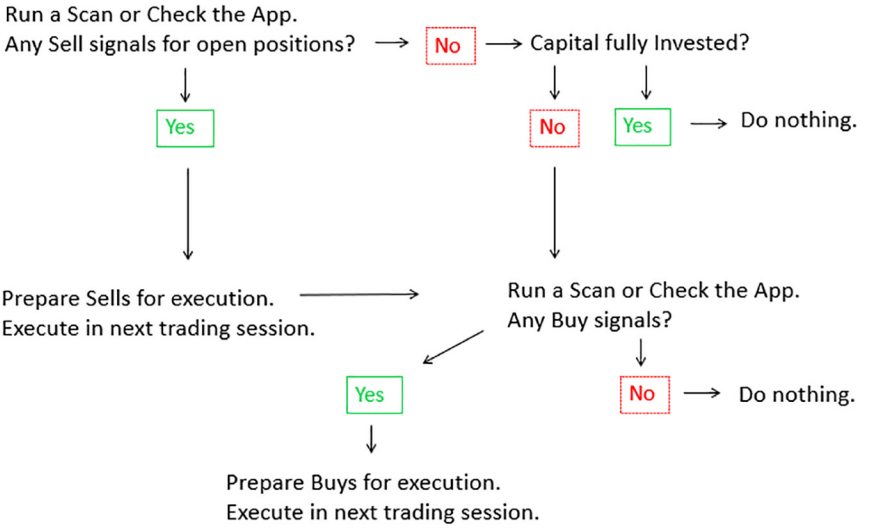
If this is your first SPA3 Investor portfolio, I suggest that you start 'small'.

Now, small will be different for everybody. By 'small', I mean invest enough money that means something to you, but not so much that the fear of losing it will cause you to make mistakes and stop you from executing the process as it should be.

Some people talk about paper trading when they first start using a new investing process. Whilst better than nothing to learn a new process, paper trading doesn't have enough skin in the game to test you when the going gets tough, and you are tempted not to adhere to mechanical buy or sell signals.

Once you have decided how much capital to invest, you now have to get that money invested in the market. You will decide as part of the portfolio setup process how many simultaneously open positions you will manage. Depending on the size of capital, this could vary between 5 and 15. You don't want to manage more than 20, even in multi-million-dollar portfolios.

The decision diagram goes like this….




**The aim is to have as much of your allocated capital invested in the market** for as long as the mechanical DSS continues to signal opportunities to invest.

The main portfolio management activity is to check every day, after the market has closed and before trading starts the following trading day, for any Sell alerts for currently open positions.

So, the **first step** is to ask the question: "Are there any Sell signals for the open stock positions in my portfolio?"

If there are, then prepare a sell order on your online broker platform to sell those stock(s) on the following trading day.

If there aren't any Sell alerts, the **second step** is to ask: "Is all my allocated capital fully invested in the market?"

If yes, then do nothing. This happens most days and could last for weeks while all the open positions in your portfolio continue to trend higher in price without an objective Sell signal occurring.

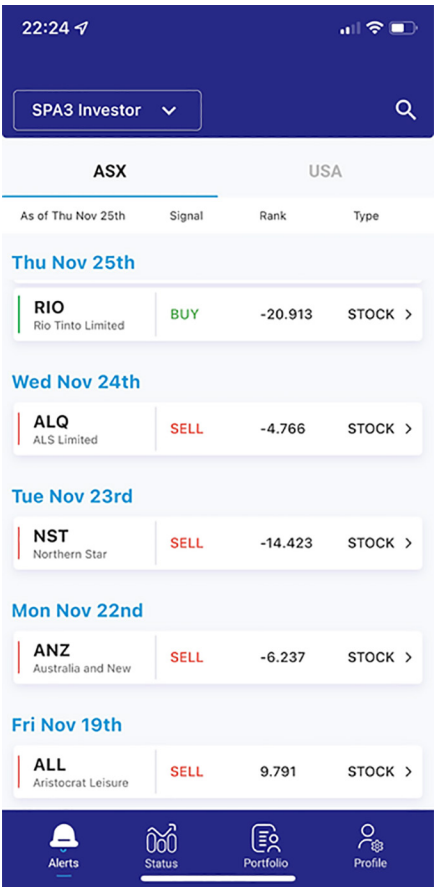
If no, meaning that you have fewer open positions than you decided in your Investment Plan, the **next step** is to ask the question: "Are there any Buy signals?"

SPA3 Investor uses two tools to 'scan' the fixed universe of stocks for Buy signals to open a new position in the market.

The **first tool** is our Beyond Charts technical analysis charting software, where you can run a scan against the universe of stocks that we focus on, seeking new SPA3 Investor Buy signals in any of the stocks. This takes a few minutes at maximum.

The **second tool** is our Alerts App, which we released a number of years ago. The Alerts App will send notifications on your Smartphone when the objective Buy (or Sell) criteria for a stock have been met to open (close) a new position.

Here is a screenshot of the SWS Alerts App showing Buy and Sell alerts for the ASX. U.S. stock alerts are shown by pressing USA alongside ASX:




If there are no Buy alerts on that particular day, then do nothing; your portfolio work for the day is done.

However, if there is one or more Buy alerts, they will be sorted according to Relative Strength. Select in descending order from the strongest.

**No analysis, hesitation, wasted time or confusion about trying to find a stock to buy and when to buy it.**

Prepare an order to buy those stock(s) on the following trading day.

Repeat this process with the express aim of ensuring all your planned open positions are filled.

Most days, there are no Sell signals, and you would do nothing if your portfolio is fully allocated with your planned number of open positions.

When there is a Buy/sell signal, you execute that on the following trading day to buy/sell the alerted stock.

Typically, you would use an At Market Order to get in on the opening of the market, so you wouldn't have to worry about finessing your entry price during market hours, and you can get on with the rest of your life. But you can opt to place the trade during market hours. If you invest in the U.S. market and live in Australia, as I do, it is much easier to simply use an At Market Order to be filled on the open.

Towards the end of 2019, ten weeks passed with no portfolio actions where portfolios were fully invested with no sell signals occurring as stock prices continued to trend higher. However, you still need to be vigilant by checking the notifications from our Alerts App for a Sell alert.

Rinse and repeat each day through the flowchart above. That is the entire ongoing process; nothing more, nothing less.

Structured, efficient, organized, confident, calm stock market investing. Repeated process; like brushing your teeth.

## That's Not Hard!

Many people have asked why I always rattle-on about it being difficult to execute a mechanical DSS?

Well, the actions that need to be executed are very simple in nature; that is, the manual action is straightforward of putting on a buy or sell trade as a mechanical DSS signal occurs.

However, the psychological aspects of resolving the conflict between the 'noise' or their 'societal paradigm' telling them in the moment what to do, compared to what the mechanical DSS is alerting them to do, is very difficult for many people.

Amongst the many types of conflict that occur, some carry 'baggage' from previous bad experiences in the market. When they try to execute with a mechanical DSS, automatic association with those past experiences comes to the fore and causes conflict. And in the moment, that baggage gets in the way and self-sabotages the action they are supposed to take. This causes them to make mistakes by stopping them from placing the buy or sell on the day they are supposed to according to the process. Their bad experiences continue.

Others seek confirmation from external 'noise' sources about the signalled action and are 'talked out' of executing according to the mechanical DSS. And sometimes 'talked into' taking a completely different action that is not even signalled by the mechanical DSS.

Others will find it difficult to accept loss trades or portfolio drawdown that the mechanical DSS delivers as part of its Statistical Edge

and be convinced either by their internal 'noise' or an uninformed third-party that the DSS doesn't work.

Others try to analyse away losing, being wrong, missing out and leaving money on the table, which are all part of the 'Edge', by adding additional buy & sell criteria. They don't understand the Law of Unintended Consequences and think that if they change the system only good things will happen!

Understanding and believing that their mechanical DSS works as is, is hard for many. Once belief is attained, the steps of executing are very simple. People just can't believe that it is ultimately such a simple process that they keep looking for ways to complicate it. Many people fill that void by defaulting back to paying attention to the 'noise' and their societal paradigms, which leads to inconsistency and spiralling back to random and poor results.

All these conflicts are due to ONE thing! These people have not managed to energise new habits, and achieve a mindset of consistency. **And without that there is an extremely low probability that they'll ever achieve sustained success in the market with any DSS, let alone a mechanical DSS.**

## 'Black Box' vs 'Glass Box'

In science, computing, and engineering, a **black box** is a system that can be viewed in terms of its inputs and outputs without knowing its internal workings. Its implementation is "opaque" (black). The term can be used to refer to many inner workings, such as the ones

of a transistor, an engine, an algorithm, the human brain, or an institution or government.

The opposite of a black box is a system where the inner components or logic are available for inspection, which is most commonly referred to as a white box (sometimes also known as a "clear box" or a "**glass box**").

When it comes to mechanical investment systems in the stock and futures markets, a 'black box' system has typically been seen in a bad light for two main reasons:

1. The user of the system doesn't understand what's happening 'inside' the system.
2. The system is perceived as inflexible and cannot be customised to meet the user's investment requirements.

Rather than me explaining where SPA3 Investor stands on this, I'll leave it to a current user, who has lots of stock market investing experience, and who has scrutinised SPA3 Investor enough to say it for me.

> *"Hi Gary, …*
>
> *I have been investing for a long time (36 years) …*
>
> *I love how your system has a glass box approach rather than a black box. I love to be able to understand the details of the signals (I have a Master's in Applied Finance, so I love the details), … I was able to find information*

*detailing how every signal works. This gave me a lot more confidence to invest using your system.*

*I really love the stop loss/exit strategy because, as you say, this gives you comfort to invest knowing what you're are risking. …*

*One other item, I saw you at an ATAA meeting a couple of years ago, and I was impressed with your presentation. … the thing that stopped me from investing was the thought of using another black box system.*

*I think you could make your selling pitch so much better by highlighting that your system is a glass box. People can use it as it is or look into the details if they choose. That would have gotten me interested in signing up sometime earlier.*

*Regards, Darren"*

# CHAPTER 8

# Achieving 15%+ Annualized Returns in 15 Minutes a Week

## Introduction

This chapter provides the results of two stock portfolios that have been executed in the stock market using the SPA3 Investor mechanical DSS.

These stock portfolios are executed on the Saxo Capital Markets (SCM) broker-dealer trading platform with real money, precisely according to the flowchart provided in the previous chapter.

The Beyond Charts technical analysis software and the SWS Alerts App for smartphones and tablets developed by Share Wealth Systems (SWS) have been used to achieve the efficiency spoken of in this book to execute these portfolios.

Beyond Charts has an integrated Portfolio Manager or portfolio tracker built into it. The buy and sell orders that have been executed on the Saxo platform have all been entered into the Portfolio Manager (PM). The portfolio equity curves (daily plotted portfolio value) and results shown come from this PM.

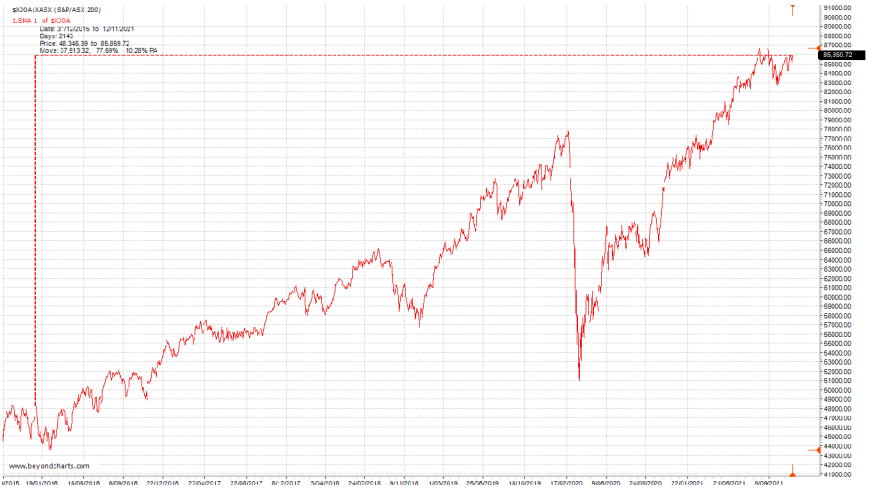
Armed with these tools, a mechanical DSS, a defined process, and a confident mindset, it really does take less than 30 minutes a week, or at maximum, an hour, to manage these SPA3 Investor portfolios regardless of size as long as you don't get sucked back into irrelevant on-the-fly reading and research, which is NOT part of the process.

This chapter covers two live-invested SPA3 Investor portfolios, one U.S. portfolio and one ASX portfolio. The inception date for both was 1 January 2016.

## Publicly Executed Portfolio on the ASX

To set the scene for the investing landscape in Australia since the beginning of 2016, let's quickly look at how the stock market benchmark has performed over that period. Everybody uses the ASX200 Accumulation index (XJOA) for this purpose, which is the ASX200 index with dividends re-invested.

From 1 January 2016 to 12 November 2021, the XJOA **grew by 77.59% in total, or 10.28% annualized** (compounded per year).




This means if A$80,000 had been invested in the ASX200 index and all dividends re-invested, it would have grown to $140,074.

How good is this performance compared to where the majority of people invest their long-term investment monies in managed funds and managed Super funds?

According to S&P Dow Jones Indices Australian SPIVA Scorecard, ***85.8% of actively managed funds were <u>outperformed</u>*** by the ASX200 Accumulation index over 15 years to June 30, 2021, and 75.7% over 5 years.

SPIVA Australia Scorecard Mid-Year 2021

**REPORTS**

**Report 1a: Percentage of Funds Outperformed by the Index (Based on Absolute Return)**

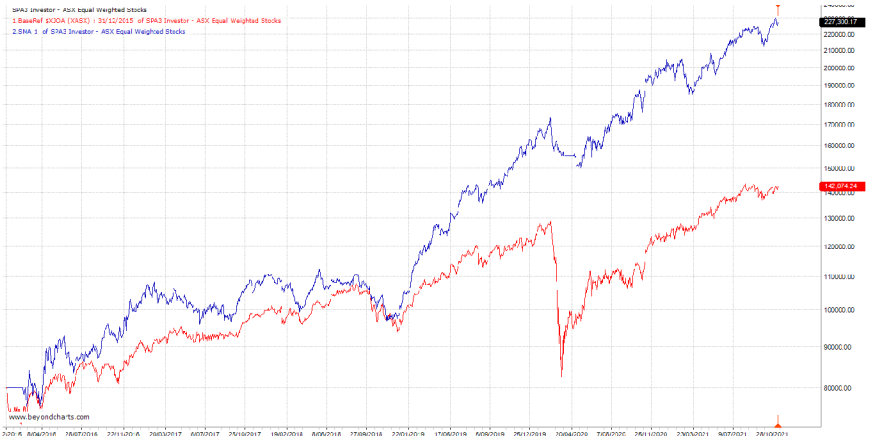
| FUND CATEGORY | COMPARISON INDEX | 1-YEAR (%) | 3-YEAR (%) | 5-YEAR (%) | 10-YEAR (%) | 15-YEAR (%) |
|---|---|---|---|---|---|---|
| Australian Equity General | S&P/ASX 200 | 44.3 | 75.9 | 75.7 | 80.8 | 85.8 |
| Australian Equity Mid- and Small-Cap | S&P/ASX Mid-Small | 35.0 | 49.6 | 65.3 | 55.1 | 50.0 |
| International Equity General | S&P Developed Ex-Australia LargeMidCap | 54.6 | 78.1 | 81.9 | 90.6 | 94.8 |
| Australian Bonds | S&P/ASX Australian Fixed Interest 0+ Index | 29.9 | 67.2 | 70.2 | 85.5 | 83.1 |
| Australian Equity A-REIT | S&P/ASX 200 A-REIT | 58.5 | 56.7 | 56.5 | 78.8 | 78.8 |

Source: S&P Dow Jones Indices LLC, Morningstar. Data as of June 30, 2021. Past performance is no guarantee of future results. Table is provided for illustrative purposes and reflects hypothetical historical performance. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

From this research, all you need to do to be in the top 15% of all investors in Australia over the long-term, including beating the majority of the investing professionals, is invest in the ASX200 index ETF, STW, and re-invest all the quarterly dividends. Other index ETFs on the ASX include VAS (ASX300), SFY (ASX50), and ILC (ASX20).

**Big Tip**: you don't need to pay a financial planner an extra 0.66% to 1.5% per year to do this for you; you can just as easily do it yourself through a low-cost broker platform.

The SPA3 Investor publicly executed portfolio (blue line) on the ASX over the same period from 1 January 2016 to 12 November 2021 has achieved **total growth of 184.13% or 19.47% annualized return**.




Note how shallow the blue line is, compared to the red line during the COVID-19 Crash in March 2020.

The A$80,000 invested on 1 January 2016 has grown to A$227,300.

Imagine 75% of managed funds and Super funds being below the red line.

**$147,300 profit** by the SPA3 Investor portfolio compared to **$60,074 profit** from the ASX Accumulation index (before ETF fees), or **$87,228 MORE profit**, which is 145% more profit.

Statistically, there were 2.21 completed trades a month over 5 years and 10.5 months. This portfolio operates with nine simultaneously open positions. Some months, there are no trades whatsoever; your open positions can continue trending for weeks, even months.

The Win Rate to this date was 44.85% with a Profit Ratio of 3.01 (average closed winner is 3.01 times larger than the average losing position), equalling an Expectancy (Statistical Edge) of 0.80, net of brokerage and pre dividends.

Most of our clients invest many 100s of $1000s with SPA3 Investor, and some multiple millions and replicate this sort of performance. Replicate because this is a mechanical DSS. Read Chapter 4 again about all the benefits of using a mechanical DSS to invest in the stock market.

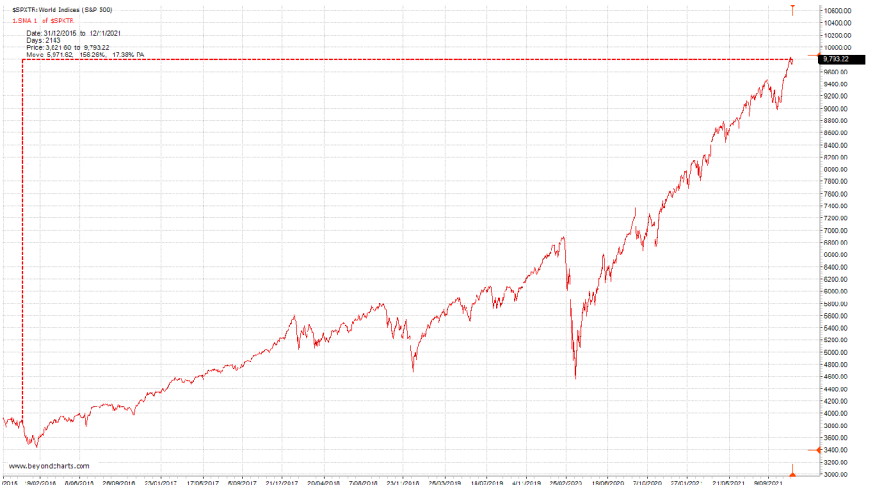
If this material is resonating with you and you'd like to ask us the questions that are sounding in your head right now, then please take action and reach out to us right away and we'll see if we can answer your questions. Just shoot us an email and we'll do our best to help: info@sharewealthsystems.com

> "My experience over 5 years is that SPA3 Investor works well both on the ASX and US. Well north of index returns. I also find it very freeing to always know what the correct action to take is no matter what the current market conditions are. SWS has definitely changed my investing."
>
> Wakefield S. has been a one of our clients since September 2010.

## U.S. Benchmark Performance

To set the scene for the investing landscape in the United States from the beginning of 2016 to the time of writing (November 2021), let's quickly look at how the U.S. stock market benchmark, and worldwide benchmark for that matter, performed over that period. Everybody uses the S&P500 Total Return index (SPXTR) for this purpose.

From 1 January 2016 to 12 November 2021, the SPXTR **grew by 156.26% in total or 17.38% annualized** (compounded per year).




This is a stellar period of growth by the S&P500 TR index.

To put the benchmark's performance into perspective, let's look at how well two giants of the investing world over the last century have fared over this period.

The first is the late John Bogle, who founded Vanguard in 1974. His philosophy was a 60/40 stocks/bonds mix, which the Vanguard Balanced Fund, VBINX, has deployed for decades. Other Vanguard funds could be mixed to achieve the same 60/40 with a fund of funds, which is apparently what John Bogle did with his money.

Over the same period of 1 January 2016 to 12 November 2021, **VBINX grew by 93.14% in total, or 11.87% annualized**. This could quite safely be used as a proxy median for how mutual funds have performed in the U.S. over this period.

The table below shows the S&P Dow Jones Indices U.S. SPIVA Scorecard performance to June 30, 2021, for U.S. Equity Funds. The phrase 'U.S. Equity Funds' is used where the word 'equity' (or equities) can be utilized interchangeably with 'stock' (or stocks).

***It shows emphatically that the vast majority of U.S. Equity Funds do worse than their benchmark total return indices.***

SPIVA U.S. Scorecard Mid-Year 2021

**REPORTS**

**Report 1a: Percentage of U.S. Equity Funds Underperforming Their Benchmarks – Absolute Returns**

| FUND CATEGORY | COMPARISON INDEX | 1-YEAR (%) | 3-YEAR (%) | 5-YEAR (%) | 10-YEAR (%) | 20-YEAR (%) |
|---|---|---|---|---|---|---|
| All Domestic Funds | S&P Composite 1500 | 43.77 | 71.50 | 71.57 | 85.95 | 87.84 |
| All Large-Cap Funds | S&P 500 | 58.20 | 67.64 | 72.67 | 82.51 | 93.80 |
| All Mid-Cap Funds | S&P MidCap 400 | 75.52 | 49.35 | 59.20 | 73.09 | 90.72 |
| All Small-Cap Funds | S&P SmallCap 600 | 78.02 | 54.83 | 66.73 | 83.51 | 93.80 |
| All Multi-Cap Funds | S&P Composite 1500 | 50.55 | 68.62 | 69.81 | 88.58 | 91.32 |
| Large-Cap Growth Funds | S&P 500 Growth | 64.98 | 53.14 | 52.78 | 81.46 | 95.93 |
| Large-Cap Core Funds | S&P 500 | 62.74 | 74.80 | 81.58 | 93.32 | 95.31 |
| Large-Cap Value Funds | S&P 500 Value | 48.35 | 72.56 | 71.26 | 87.75 | 77.56 |
| Mid-Cap Growth Funds | S&P MidCap 400 Growth | 60.15 | 19.53 | 30.56 | 55.43 | 89.73 |
| Mid-Cap Core Funds | S&P MidCap 400 | 72.55 | 64.52 | 75.81 | 86.92 | 90.91 |
| Mid-Cap Value Funds | S&P MidCap 400 Value | 76.47 | 79.63 | 87.93 | 87.84 | 89.69 |
| Small-Cap Growth Funds | S&P SmallCap 600 Growth | 77.13 | 16.48 | 32.12 | 66.99 | 96.27 |
| Small-Cap Core Funds | S&P SmallCap 600 | 77.05 | 69.85 | 86.06 | 96.08 | 89.52 |
| Small-Cap Value Funds | S&P SmallCap 600 Value | 75.00 | 79.38 | 86.84 | 98.10 | 90.32 |
| Multi-Cap Growth Funds | S&P Composite 1500 Growth | 55.56 | 63.58 | 68.27 | 88.18 | 92.98 |
| Multi-Cap Core Funds | S&P Composite 1500 | 53.81 | 81.36 | 85.37 | 94.58 | 90.23 |
| Multi-Cap Value Funds | S&P Composite 1500 Value | 39.39 | 85.00 | 77.50 | 87.50 | 84.29 |
| Real Estate Funds | S&P United States REIT | 74.67 | 46.91 | 43.02 | 72.73 | 86.67 |

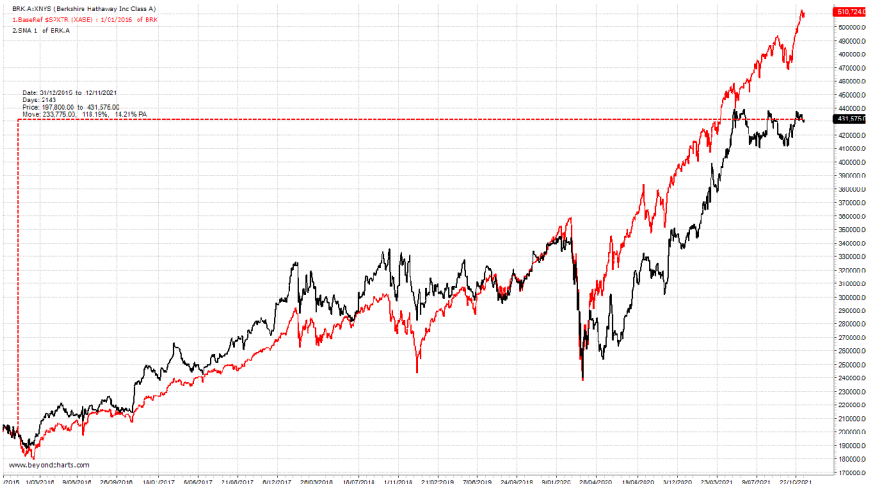
Source: S&P Dow Jones Indices LLC. Data as of June 30, 2021. Returns shown are annualized. Past performance is no guarantee of future results. Table is provided for illustrative purposes.

Note the boxed funds in the 20-YEAR column. ***93.8% of active equity mutual funds underperformed the S&P500 Total Return index over 20-years!*** The longer the period of comparison, the more mutual funds that underperform!

So if you can beat the S&P500 Total Return index, you are a pretty good investor, perhaps in the top 6% to 7% on the planet, including the professionals.

The other investing giant's performance we should quickly look at is Warren Buffett's. Most do this by examining how his Berkshire Hathaway stock is performing. Let's do this over the same period.

Berkshire Hathaway (BRK.A) (black line) **grew by 118.19%, or 14.21% annualized**, underperforming the S&P500 TR index (red line) by quite a bit. This is a true comparison because Berkshire Hathaway doesn't pay dividends.

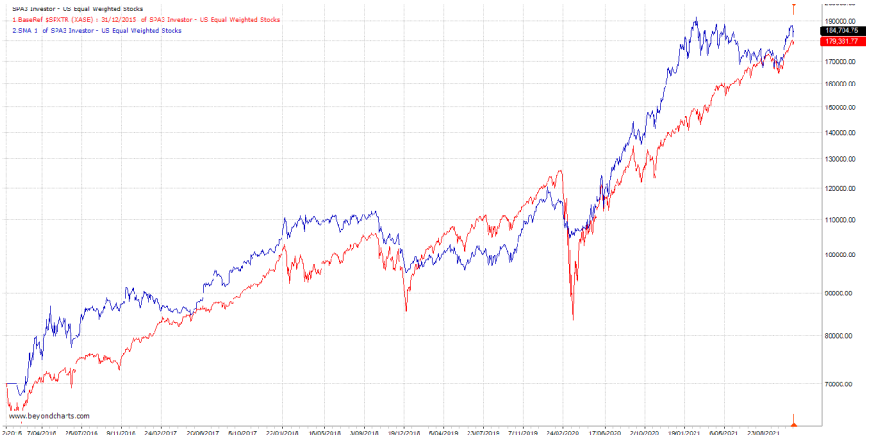



Over the long term, Buffett has managed to outperform the SPXTR by a healthy margin. But I show this comparison to say that the S&P500 has had stellar growth over this particular period and managed to beat even the best who typically has outperformed it.

## Publicly Executed Portfolio in the U.S.

Having set the scene, let's look at how the SPA3 Investor mechanical DSS performed over this period, where not even Warren Buffett could beat the index.

The SPA3 Investor publicly executed portfolio (blue line) on the U.S. markets (NYSE & NASDAQ stocks) over the same period from 1 January 2016 to 12 November 2021 has achieved **a total growth of 163.86%, or 17.97% annualized return**.




Note how shallow the blue line is, compared to the red line (SPXTR) during the COVID-19 Crash in March 2020. This is where SPA3 Investor comes into its own when the market has severe falls. Protection first, then profit.

The US$70,000 invested on 1 January 2016 has grown to US$184,705. Imagine 72% of mutual funds being below the red line.

Statistically, there were 3.0 completed trades a month over the 5 years and 10.5 months. This portfolio operates with 13 simultaneously open positions.

The Win Rate to this date was 50.7% with a Profit Ratio of 2.27 (average closed winner is 2.27 times larger than the average losing position), equalling an Expectancy (Statistical Edge) of 0.66, net of brokerage and pre dividends.

## In Summary...

These are both live-executed publicly followed portfolios, meaning that I publish these portfolios straight after I execute a Buy or a Sell transaction in the market. Our clients can immediately download these portfolios after each trade into their Beyond Charts and Portfolio Manager software instance and scrutinise every move I make in the market, which is actually every move that SPA3 Investor makes as I rigorously and robustly follow the documented process or recipe as intended.

You see, both portfolios have documented and published Investment Plans, which are available as templates for our clients to mimic and write their own. My execution is accountable to these written plans and to my customers who regularly check my execution actions against these Plans.

These Investment Plans are published in our customer Education Centre portal, which is password protected.

Each portfolio takes me around 15 minutes a week, on average, to monitor, manage—that is, execute and record buy & sell transactions into PM—and measure. Once anybody has the process that we provide and the skills we coach to execute it, it should take a similar amount of effort to get similar performance to these two publicly executed portfolios.

"It provides a disciplined and reliable trading system that enables the removal of emotions from entry and exit decisions.

I have been trading for over 30 years in stocks and options in the U.S. and Australia initially using my own indicators. Whilst that system did make me good profits the problem was it took a lot of work to scan the market to find suitable buying opportunities.

Share Wealth indicators are reliable and have enough edge to make good profits but it does so with the minimum effort on my part. I converted all my trading process to SPA3 Investor as a consequence."

Robert H. has been a one of our clients since February 2002.

# CHAPTER 9

# How to Turn A 15%+ p.a. Return into 30%+ p.a. Return

## Introduction

This chapter assumes that the reader has used leverage to some degree in the stock market before, and hence, it doesn't go into all the definitions of the 'leverage' terminology, what they mean and how they are used.

Scaling annualized returns from 15%+ to 30%+ can be achieved using leverage. It can also be achieved by trading very frequently, typically intraday, or by trading highly volatile stocks and other leveraged instruments.

The way I do it focuses on using leverage on the same fixed universe of large-cap, highly liquid stocks without any change to how I follow the SPA3 Investor process, as described in the previous two Chapters. So, no need to go chasing highly volatile instruments.

Instead, use lower volatility instruments and use leverage to scale and accelerate your growth rate.

Leverage should be viewed as a Money Management or Position Sizing tool that can be used in the stock market to achieve a higher growth rate for a portion of one's investment capital.

A single metric can be used to determine how leveraged your portfolio is on an ongoing basis through the portfolio's life: **Margin Utilisation %**.

This metric is calculated in the Beyond Charts Portfolio Manager (PM). It is the key 'lever' used to determine how best to use the ongoing current Cash amount in your leveraged portfolio.

**Caveat Emptor**

Before showing how leverage can be used to magnify growth, it must be understood that it also magnifies losses and greatly increases volatility in a stock portfolio's equity curve, particularly when the stock market falls.

Therefore, leverage should ONLY be used when the investor has modelled, in detail, what the potential maximum drawdown (Max DD) could be in their portfolio. This is a mandatory prerequisite if the investor doesn't want to experience a margin call from their broker, have their positions automatically closed, or potentially wipe out their account.

The necessary Max DD modelling can ONLY be researched when using a mechanical DSS with unambiguous and objective Buy and Sell points that can be defined to a computer. Otherwise, the investor is guessing what their Max DD could be. Therefore, gambling with getting a margin call or even achieving portfolio ruin.

## Publicly Executed Leveraged Portfolio in the U.S.

Like the previous two portfolios discussed in the previous chapter, this is also a live-executed portfolio with real money. This portfolio is executed with a different broker, FP Markets. It takes a little more time to monitor, measure, and manage this portfolio because it has more simultaneously open positions at 15, around 30 to 40 minutes a week, on average.

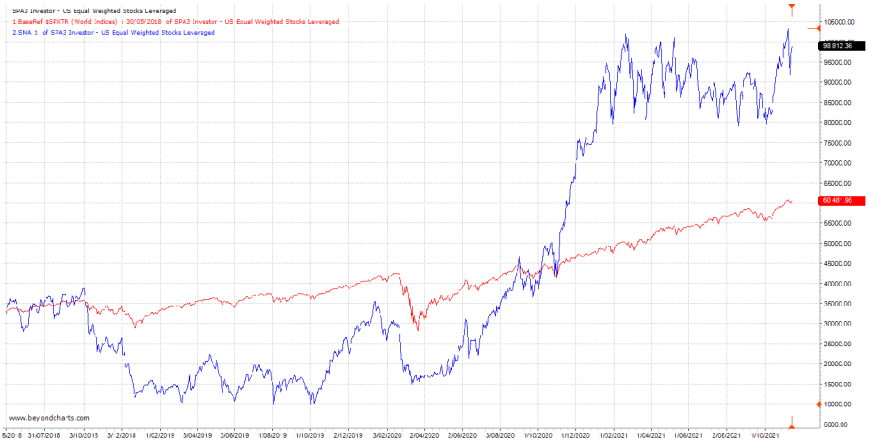
With the benefit of hindsight, the portfolio was started at a tough time, with the market initially rising 8% before falling 19.36% from 20 Sept 2018 to Christmas Eve of 2018. A good test of the method and the money management calculations for executing with leverage.

However, by sticking to the rules of the mechanical DSS, having the necessary mindset of trusting the process, and turning off the external and internal "noise", the portfolio managed to get through the tough period and grow to its potential without any margin calls.

A 'leverage factor' of 1.6: 1 has been used to calculate positions for this portfolio. A 'leverage factor' of 1.1 to 1.5 can also be used. The amount of margin, i.e., cash required by the broker to initially be deposited in the account to cover the leveraged market exposure, was calculated based on the leverage factor and the broker's 'margin requirement'.

The theoretical Maximum Drawdown that occurred during research without leverage was also used to determine how much cash to deposit. The cash, or margin, deposited with FP Markets was US$33,064.

From 30 May 2018 to 12 November 2021, nearly 3.5 years, this portfolio (blue line) has grown the US$33,064 to US$98,812. This is **198.85% total growth, or a 37.25% annualized return** so far. This is after total interest charges to date of $12,279.




The S&P500 TR index (red line) has **risen 82.95% in total, or 19.03% annualized** over the same period.

Notice the increased volatility in the SPA3 Investor leveraged portfolio equity curve!

Investing successfully with leverage requires a higher level of psychological resilience and confidence in your skills and mechanical DSS. But the rewards are there for those who take the first step and transform to using a mechanical DSS for their unleveraged investing.

"As a trader with over 40 years experience in Australian Equities and Futures I can attest that Share Wealth Systems is based on a sound financial plan supported by statistically proven technical analysis with an emphasis on the all important personal psychological development required for successful investing.

The system provided allow for members to flexibly explore their investment individuality within a "steel frame" of rules guaranteed to have you out of the market during times of extreme uncertainty and thus providing performance in excess of the standard market indices. Highly recommended."

Stephen B. has been a one of our clients since August 2014

# CHAPTER 10

## Where to Start to Become a Successful Investor?

The **starting point** to recognizing when and how to act is to write an **Investment Plan**. An Investment Plan has six sections.

The **first section** is the Vision Statement, which covers the "why"; it's your overriding motivation and mission of "why" you are investing in the stock market.

This section can also state the role that this strategy plays in your overall investible capital across all the asset classes in which you invest. We have found that this is best covered using the **Core Satellite Asset Allocation Framework** to depict your overall asset class investment allocations.

**Section two** is the Goals and Objectives Statement; this deals with the "what". Two specific "whats" have to be written down and documented in this section.

> The first is the **Return Objective**, which is typically measured in annualized returns, compounded annual returns, or compounded annual growth return [CAGR].

> The second objective is the **Risk Objective**, which is typically measured by what we call drawdown, more specifically the maximum retracement of your portfolio equity curve over its entire life.
>
> There is a third objective, a **Skills Objective**. This should be the same for everybody—to achieve and maintain a ***mindset of consistency***.

**Section three** describes The Method, or more correctly the Timing Method; this deals with the "how". This is where you stipulate and detail the strategy or strategies you will use to achieve the two objectives, the Return Objective and Risk Objective.

The Method is where the DSS fits into the Investment Plan. It is THE CRUX of your Investment Plan. The DSS must have a positive Expectancy, a Statistical Edge, that is sufficiently positive to not only be profitable but also beat the Total Return index. We'll deal with how you devise this positive edge in a moment.

The **fourth section** is the Risk Management section. This is where you deal with market risk, sector risk, broker risk, and all the different risks you can identify that can affect your investing in the stock market.

**Section five** is about Money Management. This is where you decide the capital allocation across your portfolio or portfolios. It deals with how much money you place in individual trades. Remember we spoke about the four key decisions: what to buy, when to buy, how much to buy, and when to sell. How much to buy is calculated in this section.

The **last section** of the Investment Plan is titled Process Management. This is where you will, in some detail, compile and write down the exact actionable steps that you will take on a day-to-day, week-to-week, or month-to-month basis, depending on the Decision Support System(s) in your Method section. This includes measurement, paperwork, filing, journaling and whatever else you do to remain organised and keep improving.

## Money Management

Money Management is covered in section five of your Investment Plan. Due to its importance, it needs a little more attention.

The Timing Method and the correctly aligned Money Management are key to having success in the market. What strategy (Timing Method) and position sizing (Money Management) approaches an investor uses, is directly linked to the investor's Risk Objective and Return Objective. Which, in turn, are directly linked to achieving the Vision set out in the Investment Plan. Strictly speaking, Money Management and Risk Management are part and parcel of The Method as all three need to be closely aligned.

The key to position sizing is deciding what's too large and what's too small? We want the Goldilocks approach, to be just right. Take too large a position, and you're taking too much risk, which could lead to ruin in your portfolio. Take too small a position, and it could lead to not getting enough growth to beat the index.

The 2% Rule is one that's often spoken of in books, webinars and seminars. It's a generic position sizing rule that's been regurgitated

from one book to the next, where 2% refers to how much capital from a portfolio will be risked in any single open position.

After years of research and portfolio simulations across all different kinds of trading and investment systems, I've found that the shorter the term you trade, the more you will find that the 2% Rule takes too much risk. It leads to a higher probability of deeper portfolio drawdowns and lower annualized returns. A 0.4% to 1.5% Risk % range should be used.

There is a Catch 22—when an investor starts out, they need to **know in advance whether the combination of their Decision Support System and their position sizing approach will remain within the Risk Objective, while also having a high probability of achieving their Return Objective, as stated in their Goals and Objectives Statement**.

Some kind of research and some degree of confidence in a process is required before starting to execute in the market. Without this you will lose money and potentially even lead to portfolio ruin.

Whether you will invest using leverage or not fits into the Money Management section. **Big Tip:** leave leverage to when your DSS is beating the index without leverage. If it needs leverage to outperform then there may be something structurally wrong with your DSS, which will at some stage be exposed by leverage and potentially lead to large losses.

Start answering the questions that follow, then ensure these practicable objectives are documented before starting your research.

## Questions You Need to Ask Yourself

Compiling an Investment Plan requires asking a number of key questions, all of which need clear and precise answers before you start executing your strategy in the market. Answering these questions will state the Objectives for your DSS, form the detail of your Investment Plan outlined above, and also state precisely what you are trying to achieve if you embark on the journey of creating your own mechanical DSS (Part 3 of this book).

1. First-up, ask yourself ***why*** you will invest in the stock market. Is this a growth portfolio or an income portfolio, or both? The ***why*** for this portfolio should consider where it fits in an overall Core Satellite Asset Allocation framework that covers ALL investment asset classes, including property, bonds, mutual/managed funds, ETFs, exotic or cryptos investments.

2. Next you need to ask yourself what annualized return you need to grow the capital allocated to this (these) portfolio(s), and over how many years to meet your Vision? This is your Return Objective. For example, a buy & hold index ETF investor would state a 9% - 10% annualized return over 10 years.

3. Then you need to ask what risk you are prepared to take to achieve your stated Return Objective. This is your Risk Objective and states the maximum percent in value you are prepared to allow your portfolio to decline. "If I get a string of loss trades, what is the worst outcome for my strategy?"

   For example, a buy & hold index ETF investor is prepared to take 55% to 82% Risk Objective to achieve their 9% - 10%

annualized Return Objective. (The NASDAQ100 fell 82% in 2007 to 2009).

4. Next you need to ask: "What strategy will I use to achieve my Return Objective and how will I know what probability I have of achieving my Return Objective using this strategy, or that it will even work at all? Will my strategy be trend-following or reversion-to-the-mean?"

   Simply sucking a Return Objective figure out of thin air isn't simply going to achieve it just because you wrote it down. To answer these questions, you need to look at history and research the chances of your strategy working into the future, remembering there are no guarantees. For example, using a buy & hold index ETF strategy, you'd look at past decades of index performance to determine the probability of achieving a 9% - 10% annualized return over 10 years of more.

5. To complete your Goals and Objectives Statement ask yourself: "What reading, training, coaching do I need to complete and repeat to achieve and maintain a mindset of consistency?"

6. To answer the question in point 4 above, you need to define your strategy and ask yourself: "What are the exact criteria that need to be in place that define unambiguously when to buy a stock (or ETF), and the exact criteria that need to be met to sell a stock (ETF)."

   How often your DSS buys and sells also determines how many opportunities will flow through your portfolio, which determines your portfolio's exposure over the long term.

This is the DSS, or Method.

What is an acceptable Win Rate of all the trades your DSS signals for you? Is 50% good enough for you? Or 40%? Or do you need to have a high win rate because you hate losing, so, say 65%, 70%, 75%? These Win Rates are very difficult to achieve with a trend-following system, but can be with writing options.

What average percentage win and loss per trade will you accept? Is it 0.5% loss trades, on average, or 5% loss trades? Typically, the longer term the system, the larger the average loss trade will be.

The ratio between your average winning and losing trades will determine your Payoff Ratio, which goes into the formula, together with Win Rate, to determine whether your DSS has a positive **Statistical Edge**.

7. Next you need to know whether you should trade through all market conditions or only certain market conditions. You have to objectively define those market conditions, so you know which condition the market is in at any given time. This is part of the Risk Management section.

8. You need to know how many open positions your strategy will manage and how big the positions will be per trade. This is Money Management and fits in together with the Method, which generates the Buy opportunities you will execute. If your Method doesn't generate enough Buys, you may have too many vacant positions which leads to your allocated

capital idly sitting in cash a lot of the time. Or you increase your position size per trade, making it too large and hence taking too much risk.

9. Will you focus on a fixed universe of stocks, options and/or ETFs or look for opportunities in the whole market? If fixed, which stocks will qualify and why? Futures traders, where the mechanical approach originated, have focused on a fixed universe of markets for decades.

10. Will your DSS be directional long-only, bidirectional (long and short) or non-directional where you will profit when the price remains stagnant for a period of time, such as with writing options?

    This is where you decide whether to build a trend-following DSS, a reversion-to-the mean DSS, or a multi-year long-term buy and hold strategy. And whether your DSS will focus on exhaustion entries (buying dips), or price breakouts, or both.

11. You also need to know the range of liquidity of the particular stock positions in your portfolio relative to the position sizes you will take. Will the stocks have sufficient liquidity to be able to close the position when the time comes to sell?

12. You need to know how much of your time it will take to manage the open positions in your portfolio. Will it take you hours a day, hours a week, minutes a week, or minutes a month? After all, you've got other things to do in your life. Before you execute a strategy in the market, you need

to know how much time it will take away from the other activities in your life.

13. You need to know whether your brokerage rate may be too high relative to your position sizes if your strategy generates lots of small position sizes.

14. This is just for one strategy. If you want to execute more than one strategy then all these questions must be answered for each strategy. Which leads to another question: "How will I allocate my capital across multiple strategies?" Whilst not covered in this book, we use the **Core Satellite Strategy Allocation Framework** to determine how to allocate all investible capital across multiple investing asset classes and strategies.

How many active investors even ask these questions before they start investing with a strategy, let alone find the answers? Very few. In fact, I will go out on a limb and say none or very close to none.

# CHAPTER 11

## Summary to Parts 1 & 2

We may have reached the end of our time together. I sincerely hope that you've benefited in many ways from this book to this point.

To recap what we've covered:

Early in the book, we took a challenging look at the status of your stock market investing approach today. We looked at how well prepared you were to be highly profitable on a sustained and consistent basis and made some basic suggestions based on your assessment results.

By now, you should have a clear picture in your mind of where you can improve quickly and how the SPA3 Investor mechanical Decision Support System (DSS) might be the key to solving your timing and mindset challenges to empower and grow you to grow your portfolio to over 15% annualized returns over rolling periods of 5 years.

We examined some of the mindset challenges and hurdles that come with investing in the stock market. We explored the Maths of Simple, the formula for a Statistical Edge for building consistent confidence

in your ability to be more profitable than even the investing pros and potentially scale a portion of your capital to over 30% annualized using leverage.

Then we circled all the way back to the beginning, where to start. It starts with documenting why, what and how in your Investment Plan. Completing section 1 (why) and 2 (what) will help you decide what you do about Section 3 (how). I asked a set of comprehensive questions to help you do this.

Your next step is simple: start.

Decide if you want help with the "'how', the crux and most difficult section of your Investment Plan, by acquiring a DSS or if you want to go it alone and build your own, but start.

You may wish to design and develop your own mechanical DSS. If so, then Part 3 of this book is a must-read for you. Make one small decision, then take one small step.

Building your own mechanical DSS isn't a few days or a few weeks proposition but a few months or even a few years. Very few finish building their own.

The SPA3 Investor mechanical DSS won't make you an overnight millionaire. But it can bring you higher returns over time that accelerate growth far quicker than nearly all the mainstream alternatives, such as financial planners, managed/mutual funds, portfolio managers, and others, including using your own discretion, which by definition uses "noise" as its main input.

First, though, you have to start.

If you do decide you want to take a peek at SPA3 Investor firsthand to understand how it operates and how we coach you to achieve a mindset of consistency, reach out to us here and schedule a product demonstration with Shane Archer (who has been with Share Wealth Systems since 2008 and uses SPA3 Investor):

www.sharewealthsystems.com/bookdemo

We're good at what we do, just like you're good at what you do—that's how you got the capital you have to invest in the stock market. If you have a desire to be a better stock market investor through a better METHOD and better MINDSET, we want to be the ones who help bring out that latent potential in you.

Please don't delay and then say to us, as so many of our clients have done years later: "I wish I'd started this years ago!"

To your objective and consistent investing,

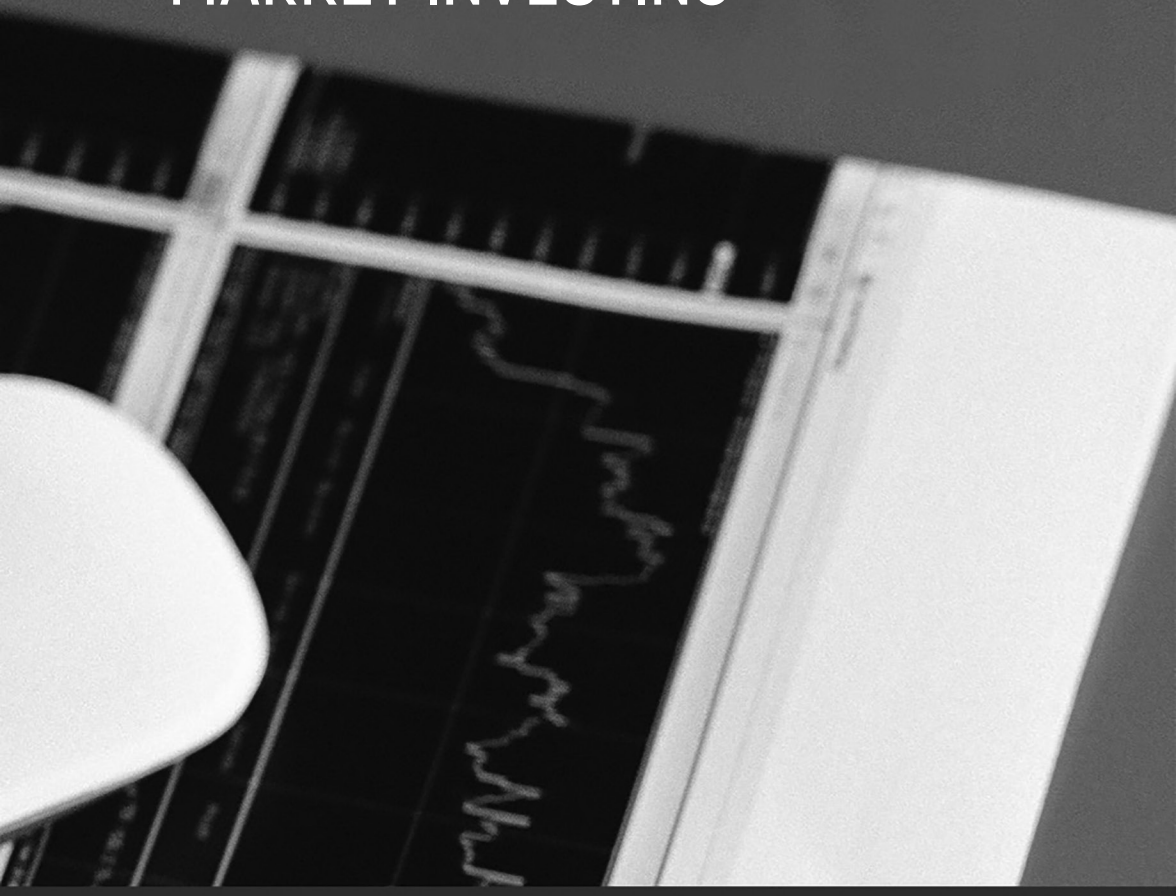
Gary Stone.

"SWS has a great product. I like the very transparent approach. The training recordings are excellent. I now use only SWS for my investing… one of the benefits is having a structured approach to selling stocks that are going down so I don't keep them in my portfolio, in addition of course to keeping stocks going up."

Stephen C. has been one of our clients since June 2009.

PART 3

# HOW TO BUILD YOUR OWN DECISION SUPPORT SYSTEM FOR STOCK MARKET INVESTING



# CHAPTER 12

## Introduction to Building a DSS

The steps required to build an objective and consistent investing system, which we have called a Decision Support System (DSS) throughout this book, to guide our behaviour in the stock market, is covered in this Part of the book.

I've used these steps to build a number of investing and trading systems, four of which have been commercialized for use by other investors. Starting way back in 1990, I learnt these steps from reading many books, attending conferences, seminars & webinars in a number of countries, and collaborating and discussing with others who have trodden the same journey.

Whilst these steps are not exhaustive, using them have worked brilliantly for me to produce the system discussed in this book, SPA3 Investor, which has produced the excellent live-executed results you've read about in this book.

Before getting into it, after 26 years of building systems and talking to many others who have been through a similar process, I can quite safely say that nearly everyone who starts working on a 'trading system' never finishes it.

Designing, developing, back-testing, completing and executing trading systems successfully is a tough assignment. That said, if completed, it is a very rewarding journey as so much is learnt about markets and how stock and index prices move. This learning in itself becomes embedded in who you are as a stock market investor.

One of the main reasons that few finish is that a deep understanding and acceptance is required of what a Statistical Edge is and what it actually means to an investor. This means that the system builder must have overcome their 'societal paradigm' and got to a point in their journey where they think sufficiently from the market's perspective to know when they have arrived at a good enough Statistical Edge to execute in the market with real money.

And to get to this point they must have already executed another mechanical DSS successfully. A catch-22? Most certainly.

The written material in this Part of the book is sourced and refined from numerous presentations that I have given since 2010 on the subject of trading system building at various conferences. Unfortunately, there is no recorded video footage of it so you'll have to read and study it.

Let's get into it…

## Where to Start with Your Research?

I ask this question generically, for those who use their own discretion to invest, and those who use a mechanical DSS.

At its most basic level, there are just two steps required to be an investor, not necessarily successful though:

1. recognizing the time to act,
2. taking that action, a buy or a sell in the stock market.

The input to recognizing the time to act is sourced from some Decision Support System (DSS), whether it be a third-party, your discretion or a mechanical, rules-based process. There are only four decisions ever to be made in the stock market, which are the output of some DSS:

- What to buy
- When to buy
- How much to buy
- When (and how much) to sell

Trading or investing is merely executing buy and sell transactions, even for buy and hold investing which is just far less frequent. The objective of the DSS is to bring order to what appears to be a chaotic environment.

Is the stock market chaotic? Of course, it is. Because there are so many variables, opinions, dependencies, and interdependencies that appear to be chaos to the untrained eye that doesn't have any experience in the market. The objective of the DSS is to bring order to this chaotic environment and to overcome the 'noise', external and internal, to reveal the structure and communication that lies behind and beneath the **price action** (see definition in Chapter 4) of stocks and indices.

The investor can overcome the chaos by creating a process with a core Decision Support System, which listens to the language of the

market—price movement, patterns and characteristics—to reveal the underlying narrative from the market from which they can make decisions and profit.

The **starting point** to recognizing when and how to act, and why, is to write an **Investment Plan**. The template for your Investment Plan is discussed in Chapter 10. Reread Chapter 10 again before continuing if you are reading this part of the book having put it down for more than a day or so.

To complete YOUR Investment Plan, you will need to complete two major research projects.

## The Two Major Research Steps

There are two major steps that you have to complete in advance to address all Investment Plan questions.

**Step one:** to create, research and test a Decision Support System that has an Edge (or acquire one). This is also called a Statistical Edge, or a probabilistic edge and is measured by its Expectancy.

**Step two:** conduct Portfolio Simulation with multiple simultaneously open positions with a limited amount of portfolio capital. This is called Exploratory Simulation. Historical stock price data is used to observe how a portfolio of stocks will behave over a long period. Think of Exploratory Simulation as your flight simulator for the market.

I'll first discuss creating your own Decision Support System, then I'll move onto portfolio Exploratory Simulation.

# CHAPTER 13

## Researching and Creating Your Own Statistical Edge

You can read Chapter 6 again about a Statistical Edge to get an introduction to this chapter.

It is impossible to discover or know a Statistical Edge without researching stocks and index price action.

Your research is your preparation. It's an investor's practice if you like. If you're a tennis player, a pilot, a golfer, a firefighter or a bricklayer, you have to practice before going into the live environment to discover, test and grow your knowledge and skill.

View researching stock and index prices as your degree, apprenticeship or diploma in discovering knowledge to understand the environment of the stock market and how it works, so that you can become empathetic with it. "Practice like you play and play like you practice."

At some stage, the market will find out those who step straight into live execution without doing their time on the floor.

When you design a DSS in the market, a design paradox exists. The designer requires some degree of overcoming the four primary trading fears:

- losing,
- being wrong,
- missing out, and
- leaving money on the table.

If you suffer from fearing any of these in your actual execution in the market, then to some degree you're also going to suffer from 'fearing' them when designing your DSS. Because you will continuously evaluate the theoretical results of your back-testing from the paradigm of losing, being wrong, missing out, or leaving money on the table.

If you haven't overcome these primary fears to some degree at the subconscious level, you will never finish your DSS because you will continuously be trying to design a DSS to avoid these four fears. **You must be prepared to lose to win.**

The paradox is that successful live execution with a mechanical DSS, the very thing you are trying to create, is the solution to resolve these four primary fears at the subconscious level. So, to stand a good chance of completing the creation of your own successful mechanical DSS, you should successfully use another one first to fully accept and assimilate all four outcomes into your relationship with stock market price action.

The trick is to learn to think in terms of probabilities to achieve a high degree of market empathy before starting the design

process. When you learn to think in terms of probabilities of < 1 and not certainties, you understand that there will always be a degree of losing, being wrong, missing out, or leaving money on the table.

The true knowledge you gain from a probabilistic mindset is **the realization that all you have to work out is the degree of losing, being wrong, missing out, or leaving money on the table that your DSS can withstand and still generate a strong rising equity curve that outperforms alternative investing avenues**.

**That is, how much are you prepared to lose in the short-term to win over the long-term?**

## Set Your Objectives

Every DSS requires pre-stated Objectives, which define what you want to achieve with your system so you can know when you have reached the end and completed the design, discovery, development and testing. You have to put boundaries around the DSS to make it practicable to use in real-life, not just in theory while creating it.

The process described here discusses creating a mechanical DSS for investing in stocks but the same process can be used for other instruments like Futures and Options.

The Objectives you set for your research are those you documented in your Investment Plan, which is covered in some detail in Chapter 10.

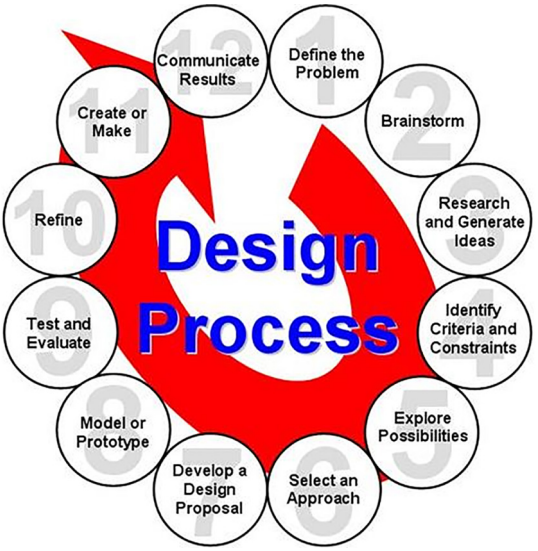
## Tapping Into Your Resources

Many different resources are required to research historical stock price data to build a mechanical DSS:

- A few years of technical analysis study and experience—I had five when I started working on my first mechanical DSS in the 1990s
- A big appetite for reading and studying books, where you find mentors and trail-blazers
- Computer programming capability
- A programming research tool with pre-programmed technical analysis functions. (I have used WealthLab for nearly 20 years but there are many other tools.)
- A deep understanding of statistics and what constitutes a positive Statistical Edge
- Knowledge of the creative process
- Knowledge of the design process
- Creative thinking patterns
- Logical thinking patterns
- Both right-brained creativity and left-brained logic are needed to some degree
- Sound problem-solving ability
- Excellent observation skills
- Attention to detail, and be capable of drilling down to the lowest levels to find the problems in your concepts, design and programming
- An open, objective and neutral mindset, with few biases
- Awareness of your biases to ensure they don't sabotage the evaluation of your outcomes

- Access to accurate historical stock price data and preferably access to delisted stock prices
- Access to mentors to bounce off ideas and research results
- You need lots of available time, not only every now and then, but big chunks of contiguous time to dedicate to working on your DSS—my successful mechanical DSS's have taken 3, 2, 2 and 5 years of elapsed time to complete. The 2 x 2-year DSSs where around 90% dedicated time and more than 40 hours a week
- Have available some risk capital to test the system in live trading in the stock market
- Most of all, you must have a desire to create the system, a lasting sustained desire. Otherwise, you simply won't get to a point where you put a stake in the ground and state that the DSS is complete and ready to execute in the market

Use the **design process** to complete you DSS. Most of these steps are iterative in themselves and need to always be reconciled against your research objectives.



Use **the creative process** to answer the questions posed in steps 2 to 5 on the process design wheel above. The creative process starts by asking yourself and the 'universe' questions regarding the problems that you are trying to solve with your DSS.

Clear your diary, turn off your phone and write the question you want answers for at the top of a blank page of paper. Allow a few minutes to lapse while focussing on the question to let the clutter of your day dissipate. Then for 10 minutes do a 'brain dump' of ***everything*** that comes to mind to do with the question that you've written at the top of the blank page. Don't qualify or judge what you write, just write and write until there's nothing more to write. It's important that you handwrite the 'brain dump'—don't type it into a computer at this stage.

Another technique is to take the question you've written to bed with you. Read it aloud to yourself a number of times as the last thing you do before turning out the light to go to sleep. It doesn't always work that you wake up in the morning with the answer, but you'll be amazed at the things you think about the following day to do with your question. When they pop into head write them down or dictate a voice message on your smartphone if you're nowhere near a pen and paper.

Ask yourself your questions before going for a jog or walk with your dog. Take your smartphone only to speak the ideas that pop into your head into your voice recorder, not to listen to a podcast or music.

The creative process is all about trying to clear what's already in your conscious mind right now and tap into ideas, events, doings,

hearings, connections and potential answers in your subconscious that you've experienced in the past related to your question.

Your work is to create something novel to you. Remember, there's nothing new in the universe—your quest is to capture known ideas and combine them into a creation that will be unique. To succeed you must have an open mind that genuinely desires to find an answer from whatever may come out of the creative process, and not operate under the notion that you are trying to prove something that you already know, or defend something that already exists.

The next step after your 'brain dump' is to qualify what you have written. Do this at least a day later. I find that typing your hand-written 'dump' into a computer automatically invokes your cognitive qualifying thinking. Arrange your 'brain dump' into connected ideas and you will find that your design process takes on a life of its own with your mind continuously tapping into your design project, even at times you least expect it.

This should take you to step six in the design wheel above, where you will move to your computer to start manually modelling and programming concepts to test on historical stock market data.

## Tools of the Trade

There are many and varied indicators, chart patterns and price discovery techniques that comprise the full ambit of technical analysis (TA). This will book will not explain any of them as there are plenty of books (see bibliography at the end of this book) and online articles written about all of them. Indeed, you can do courses in technical

analysis or join IFTA, the International Federation of Technical Analysts, to access reams of training. Most countries have their own TA associations or societies with plenty of study material, viz., MTA in the U.S., ATAA in Australia, STA in the UK, STANZ in New Zealand, plus in many more countries.

There are numerous concepts that you can use to determine when to buy and sell to build a mechanical DSS. These same concepts can also be used with discretion and subjectivity to decide on-the-fly when to buy and sell.

Here is a non-exhaustive list that you can study and research to choose from:

- Candlesticks or bar formations or other chart styles, such as Renko, Equivolume
- Price patterns
- Swing charts, measured in percent, or price highs and lows
- Price breakouts – prices making new timeframe highs or breading out of a range or a channel
- Price exhaustion – entry on troughs at a price support zone for long trades, or at peaks at a price resistance zone for short trades
- Volume action linked to price action
- Support and resistance within a trend channel or trading range
- Momentum concepts using typical momentum indicators such as moving averages, MACD, RSI, ADX, Stochastic, OB/OS, ROC, or any derivative or combination of these momentum indicators

- Parabolic Stop and Return
- ATR, Standard Deviation, Historical Volatility and other volatility calculations, e.g., Bollinger Bands
- Channels: Keltner, Trading Bands and others
- Fibonacci retracements and projections
- Elliott Wave or fractal swing charts
- Gann swing charts, or other Gann concepts
- Steidelmeyer profiles
- Ichimocku patterns
- Comparative Relative Strength
- Intermarket analysis
- Fundamental analysis
- Combinations and permutations of any of the above

When using these indicators, there are different methods that you can use objectively to signal taking action, depending on the indicator, such as:

- Crossover of moving averages with each other, or of price
- Crossover of the zero-line, example: MACD or ROC
- Change in direction
- Delta movements between price and indicators, or between indicators, e.g., MACD Histogram
- An indicator diverging from raw price action
- Crossover of an overbought or oversold zone, example: RSI
- Reaching a particular retracement level such as 61.8% to enter on a dip
- Above or below a particular indicator level for a minimum specified period

- A count of bars or candles on intraday daily, weekly, or monthly charts
- Percentage movements in the price or an indicator or a pattern
- Multiples of indicator values, for example, three times ATR

Plus, many more. This is just a taste, and of course, any combination of any of these can be used together.

These tools can also be used as ***filters*** to include / exclude certain types of price action.

I have found over the years that fewer is simpler, and better. "Everything should be made as simple as possible, but not simpler." Albert Einstein.

## Manual Back-testing

Once you have decided which concepts to research to meet your stated Objectives, start first with one concept and move through your short-list. Gaining an insight into which indicators and potential combinations to use comes from reading lots of other people's research and from reading books. Watch webinars, listen to podcasts find mentors.

Your research will start with manual visual back-testing. You have to see the concepts on charts first. For this you will need basic technical analysis charting software. Ours is called Beyond Charts ($595), but there are plenty available.

Choose 3 different stock charts which look uncorrelated. I typically use a stock that mostly rises over a period of at least 5 years, one that tracks sideways and another that falls over the same period. Objectively record the buy and sell prices associated with your buy and sell criteria, then calculate the statistics from at least 20 trades for each stock. You need to get a picture in your mind of how the criteria of your timing concept work. Only then program the criteria into a computer.

When conducting manual visual back-testing, you will not be as unbiased as a computer is! Your objectivity will be tested as your subconscious biases and blind spots automatically see what you want to see and ignore what you don't want to see.

With this manual step you are looking for logic, practicality and robustness of the concept. If the Win Rate and Profit Ratio of the manually recorded sample of trades has a positive Statistical Edge, write down the rules in as much detail as you can, as they will be the specification of what you'll program in your research software tool.

**Big Tip:** of the indicators and concepts that I've mentioned, you should include testing this one with just about any DSS of any time-frame: the Average True Range, ATR, created by Welles Wilder in the 1970's. Your task will be to determine the parameters to be used with the ATR indicator depending on what timeframe you intend investing. It's typically used in combination with other concepts that we have mentioned already, but the ATR should be involved in some way.

## Computerized Back-testing

When you get to the computer back-testing step, you program the pre-written buy and sell criteria, which must be 100% unambiguous, into specialized software for stock market research, such as WealthLab, Amibroker, TradeStation, AIQ, thinkorswim, Ninjatrader or many others. These use procedural of object-orientated programming languages, such as C#.

MetaStock is another, which supports a vector programming language called MSFL, MetaStock Formula Language. Our own charting software, Beyond Charts, also uses a vector language, which is compatible with MFSL, called BCFL.

Initially, test the criteria and rules against the three stock charts that you tested visually to determine the rules. Typically, the programmed criteria will show worse results than your manual back-testing because there's a big difference between a computer's objectivity and a human's attempt at objectivity.

When you've ironed out bugs and confirmed, or not, that your idea for your Statistical Edge works, you must expand the in-sample dataset for testing your idea for timing the buying and selling of stocks. At this stage you'll need around 20 to 50 stocks with at least 10 years of adjusted data. The in-sample dataset should span at least one large market decline period and one strong rising one, but 2 of each would be better. 1998/1999 to around 2010/2012 is an excellent research period for stocks on nearly all exchanges around the world, but certainly for the U.S. and Australian stock exchanges.

2010 to around 2016 is a sound out-of-sample dataset to then retest your fine-tuned edge with the concepts and parameters back-tested on the in-sample dataset.

This stage of back-testing to determine your 'raw' Statistical Edge on a large sample of completed trades should be conducted with equal position sizes for all trades. Typically, $10,000 per position will work to get a quantity of at least 3 to 5 shares per trade (although AMZN is around $3,500 per share).

The computerized back-testing is an iterative process of discovery, trial-and-error, fine-tuning and optimization of the entry and exit concepts as you discern which you should use, with what parameters, and which you shouldn't use.

Keep a structured, tabulated record of the outcomes you have for each change you make to the indicators and their parameters. As the parameters are modified, so will the **Win Rate** and the **Profit Ratio** (**average size of winning trades** divided by the **average size of the losing trades)**, leading to a different Expectancy for each outcome. Remember the formula from Chapter 6:

**Expectancy (Statistical Edge) = [(Payoff Ratio + 1) * Win Rate] – 1**

Use Expectancy to compare one set of rules against another to see which has the higher Expectancy.

This iterative research process is time-consuming, challenging, and frustrating. I've been through it numerous times over the last 26

years. I starting working on my first mechanical DSS in 1995 and finished it 3½ years later. It is still being used commercially today.

A quote by Niccolò Machiavelli that is very applicable to designing a mechanical DSS:

**"So, in all human affairs one notices, if one examines them closely, that it is impossible to remove one inconvenience without another emerging."**

You may have heard of the Law of Unintended Consequences. People think that making changes to the system will only make good things happen! As you change one variable, expecting it to make an overall improvement, it is highly likely that it will have negative effects elsewhere in the system that actually makes the overall system worse.

Ensure that you don't spend all your time plugging holes and adding lots of criteria and rules to the point that you have curve-fitted your research to a few highly correlated stocks.

This means that you have to leave degrees of freedom in the mechanical DSS to experience losing, being wrong, missing out and leaving money on the table, the four primal fears. Otherwise, you are going to try and remove all the "inconveniences" and negative outcomes that cause emotional pain.

Firstly, you won't be able to remove all negative outcomes, but your subconscious will try. A very high Win Rate, approaching or above 80%, for a trend-following DSS will tell you that you've curve-fitted the criteria that will only work on a few similar types of price action. Curve-fitting removes robustness, meaning your DSS will have a low

probability of working with other stocks into the future, or on the ones you've curve-fitted.

Another part of this step could include selecting a fixed universe of stocks and then conducting a round of manual optimization for each stock that will eventually comprise your fixed universe to use in live execution.

Every stock in your fixed universe should have a positive Expectancy over an in-sample period of at least ten years. **This is how you know your mechanical DSS has a very high probability of being profitable into the future.**

Trend-following will work with Win Rates as low as 30% as long as the Payoff Ratio is high enough to absorb the high loss rate. See the **Breakeven Edge graph** in Chapter 6. This means that profit trades have to be allowed to run and loss trades to be cut ruthlessly according to the sell criteria of the mechanical DSS.

Included in this research would be to run a one-stock 'portfolio' for each of the stocks in the fixed universe using the buy and sell timing of your mechanical DSS, and compare the simulated portfolio against buying and holding that stock. Each position is all of the capital allocated to the portfolio and realized profits are added to the next trade of the stock in the one-stock portfolio.

Typically, buying and selling the stock as a one-stock portfolio using your mechanical DSS should have a better outcome than buying and holding the stock over the selected period, which should be a minimum of 10 years. But that won't happen for every stock. Some stocks rise from bottom left to top right and would have, with the benefit of hindsight and being able 'to see the future unfold', been

fantastic to just have held the entire period. However, if it happens for around three quarters of the stocks that the mechanical DSS beats buying and holding, that's fine.

With one-stock portfolio simulations other metrics become meaningful. For example, the Maximum Drawdown, Sharp Ratio, Exposure, CAGR (Compounded Annualized Growth Rate), Average Profit of all trades, Profit Factor (total $ profit / total $ losses), and the volatility of the equity curve. All these statistics are calculated in the specialized software you'll use for research.

You can, at this stage, decide to introduce Systematic Risk, which is the market risk, or non-systematic risk, which is sector or stock risk, and how you would unambiguously define it? Do you change your position sizes based on systematic or non-systematic risk?

This step, once you have a positive Statistical Edge, completes the proof-of-concept of your buy and sell concepts.

## Portfolio Back-testing

No that you know your Statistical Edge has a high probability of being profitable, how do you know that it is good enough when used to **manage a portfolio of multiple stocks**—that it will reach your Return Objective over time while staying within your Risk Objective as stipulated in your Investment Plan?

Once you have finished back-testing at a 'raw trades' level to determine your Statistical Edge over a large sample of back-tested trades, the next step is portfolio simulation.

The first step of portfolio simulation is to run a single portfolio with between 5 and 15 simultaneously open positions for a minimum of 10 years on the in-sample dataset against your fixed or variable universe of stocks.

Remember to include trading costs and slippage. I use the close price on the day after the signal day to factor in slippage for entries and exits.

You will use the same metrics mentioned above for a single stock portfolio. When you simulate historical portfolios, you can use different mixes of stocks over different periods, different start times, different amounts of starting capital, different positions sizes, different amounts of brokerage.

Because you can see what's happened in the past with your in-sample dataset, simulate starting your back-tested portfolio just before a big market decline to see how your mechanical DSS handled the decline. Then start your back-tested portfolio at the very bottom or halfway down a large market decline. Starting at different dates will generate a different and unique mix of stocks going through the portfolio. This is how you stress-test your mechanical DSS in different market conditions.

Each time record the different portfolio statistics: Expectancy, Maximum Drawdown, Sharp Ratio, Exposure, CAGR (Compounded Annualized Growth Rate), Average Profit of all trades, Profit Factor (total $ profit / total $ losses), and the volatility of the equity curve.

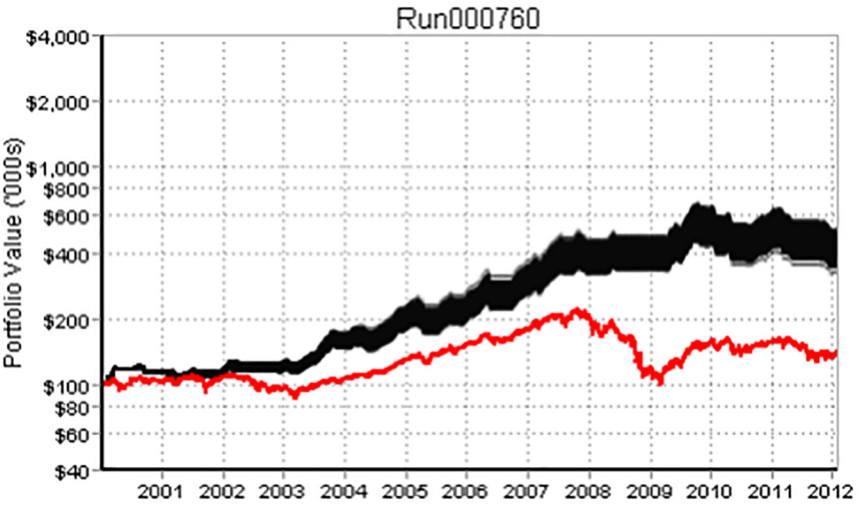
Remember I spoke earlier about "Practice like you play, and play like you practice." You are effectively getting experience of how your

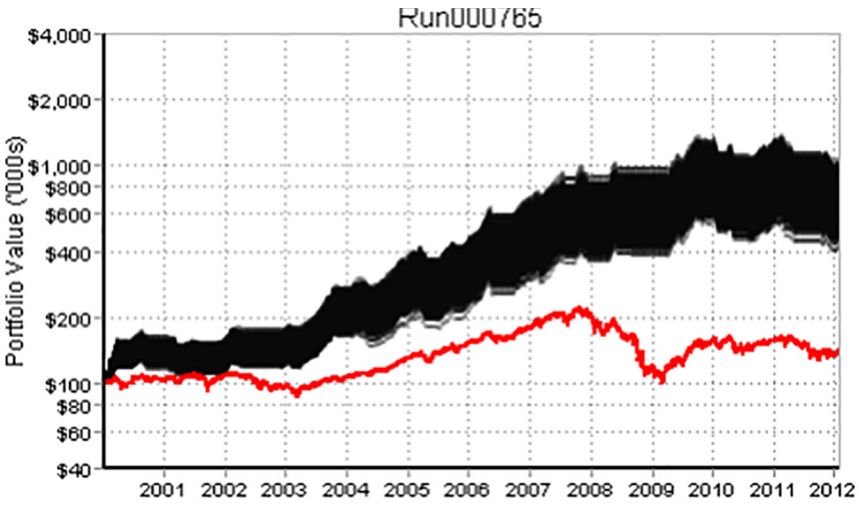
portfolio would operate without actually putting a single dollar into the market. This is your preparation period. This is your net practice, your driving range time, your tennis practice-wall time, and your insight into how the markets work. It gives you a great insight into how you will be able to handle all of the conditions that come in the future when you are live-executing your mechanical DSS in the market.

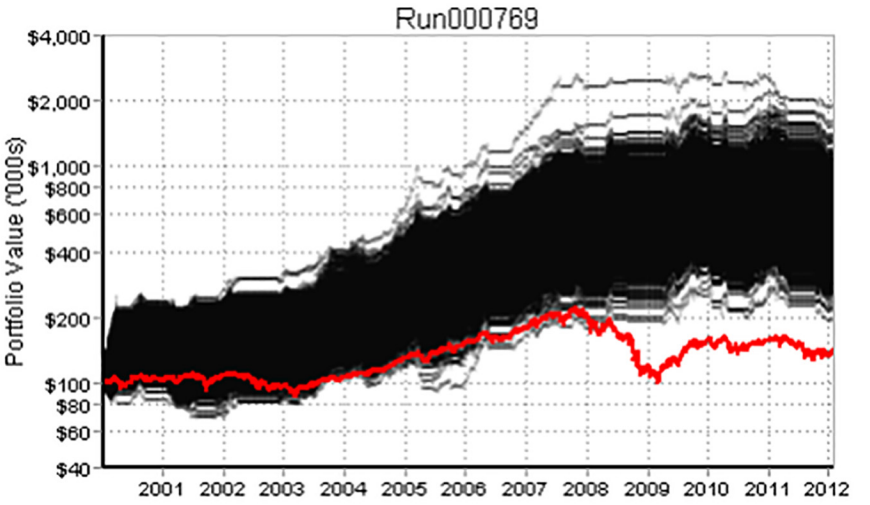
This should be sufficient for most to build their own mechanical DSS to take it to the stock market. There is another step of historical portfolio simulation if you have the inclination, programming skills and time. You can now conduct **Monte Carlo simulations**. Or what I prefer, **Exploratory Simulation**, which is different from Monte Carlo. Google the different tools that provide such functionality.

This is where you run, say, a thousand concurrent simulated portfolios against your in-sample historical dataset by randomly selecting different stocks at the start of in-sample data. This means that you get unique mixes of stocks and portfolios over the back-test period where you can see how the best, worst and median portfolios performed. You can research various position sizing models, brokerage rates and risk management rules to see how your rules handle different market conditions.

Compare these three Exploratory Simulations, which include costs, exclude dividends and are graphed against the ASX200 index.


Run000760
Portfolio Value ('000s)
$4,000
$2,000
$1,000
$800
$600
$400
$200
$100
$80
$60
$40
2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012


Run000765
Portfolio Value ('000s)
$4,000
$2,000
$1,000
$800
$600
$400
$200
$100
$80
$60
$40
2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012



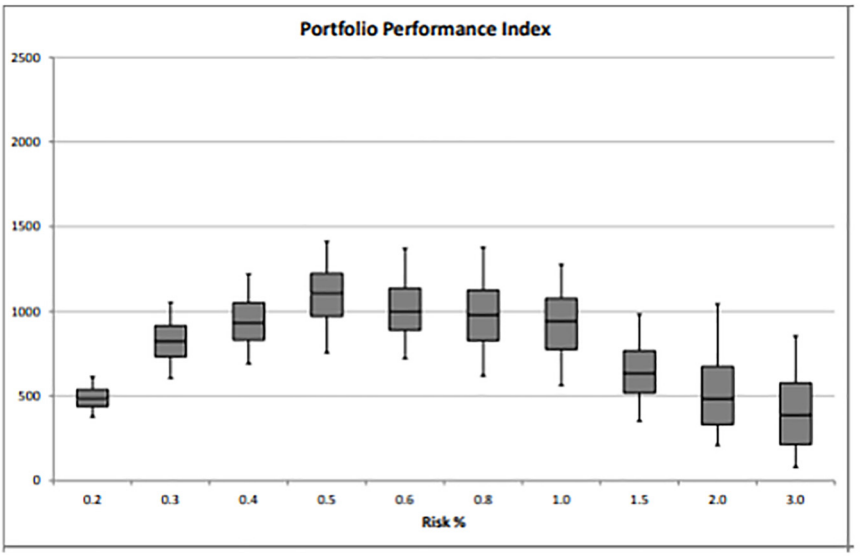

Each simulation 'run' is of a 1000 randomly filled portfolios that use the same mechanical DSS (i.e., same buy and sell criteria for each stock position). The **only change** between these three simulations is position size with Run760 having the smallest and Run769 the largest, meaning there will be a different number of simultaneously open positions at any given time. Run760 will have the most open positions.

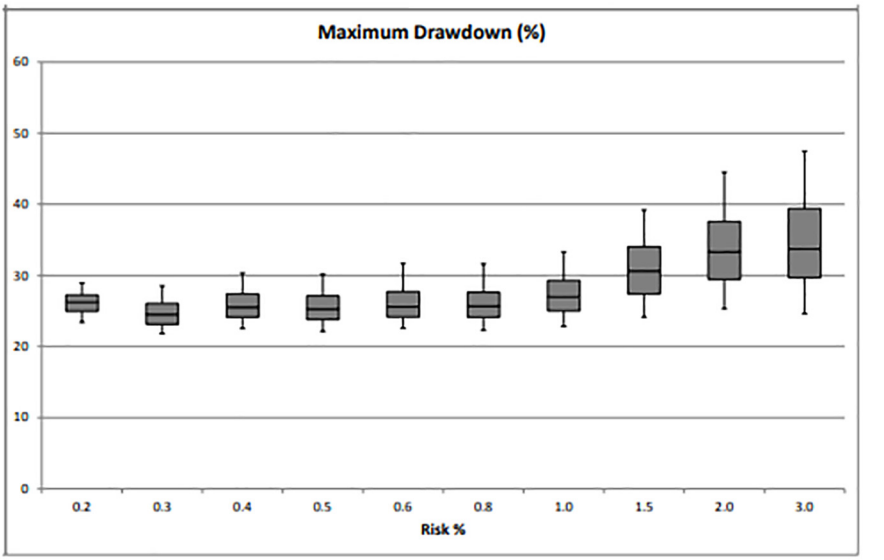
Whilst the largest position size portfolios (Run769) have the potential to generate the most profit (see left vertical axis), it also has the widest variation of portfolio outcomes. Basically, the narrower and the higher the randomly simulated portfolios are, the better. Provided frequency of execution is still practicable for your lifestyle and amount of investible capital.

Plenty of analysis can be done with such fantastic research output, which could turn this short book into a door stop! I'll leave that discovery for you own journey.

Exploratory Simulation is discussed here to give you a starting insight into the type of research that trend-following researchers can conduct. At the risk of stating the bleeding obvious**, such research can ONLY be done with a mechanical DSS**. You simply cannot test subjectivity or intuition at all. Let alone at this level of sophistication.

Always keep your original objectives in mind. What percentage of simulated portfolios are achieving your Return Objectives while staying within your Risk Objective maximum drawdown? With Exploratory Simulation of a thousand simultaneous but unique portfolios, you can divide the portfolio outcomes into percentiles and graph box-plots such as these to easily visualize the output to help decide the position size sweet spots for a given set of mechanical rules.






After this you are really are ready to take your Statistical Edge to the market and start executing initially with a small amount of capital to ensure that any elementary mistakes you make while you build your skills in live-execution of your Edge only have a small effect.

All this research is great but you ultimately want your Statistical Edge to be outperforming the Total Return index (Accumulation index in Australia) by a decent margin in terms of annualized returns, at least 4% to 5% compounded per annum, with real money. Live execution evidence for SPA3 Investor over nearly six years is provided in Chapter 8.

# CHAPTER 14
## Conclusion to Part 3

You've come this far in my book and may be blown away by the amount of work required to build your own mechanical investing DSS. You don't HAVE to do any of what you've read in Part 3 for yourself to achieve what you read in Parts 1 & 2. I've already done it all for you. And it's ready to go right now.

Not having a complete researched mechanical investing DSS is the #1 obstacle for nearly all the active investors I've worked with (including myself way back in the 1990s!) to achieve the necessary mindset of consistency and ongoing, sustainable profitability. So many people get stuck at this stage for years at trying to develop their own mechanical DSS. The main reason is stated in Chapter 12.

Besides, I have already built the best one that I know how (doesn't mean it is THE best one), which has a fantastic sweet spot between profitability, protection and effort. Which is why I use SPA3 Investor for my own investing—the live-executed portfolios you saw in Chapters 8 and 9 are my own money.

So, if you're the type of person who wants to get a mechanical DSS done-for-you right, or start using one right away, meaning if you

want to get going faster and cheaper than expending all your own time redoing what I've done for you, then SPA3 Investor is already built for you.

If you'd like to take a look at it, then Shane Archer (who has been with Share Wealth Systems since 2008 and who uses SPA3 Investor for his own wealth acceleration) would be delighted to take you through a product demonstration.

Just book a time here:

www.sharewealthsystems.com/bookdemo

You can also discover more on how we use SPA3 Investor to educate and coach investors to achieve a mindset of consistency.

# Bibliography

This is not an exhaustive list but it will get you going.


| | |
|---|---|
| Top Traders Unplugged (systemised trend-following) | Podcast |
| Trading Systems that Work | Thomas Stridsman |
| The Definitive Guide to Position Sizing | Van K Tharp |
| Trading in the Zone | Mark Douglas |
| Smarter Trading | Perry Kaufman |
| Technical Analysis Explained | Martin Pring |
| The Way of the Turtle | Curtis Faith |
| Trade Your Way to Financial Freedom | Van Tharp |
| New Concepts in Technical Trading Systems | Welles Wilder |
| Portfolio Management Formulas | Ralph Vince |
| The Misbehavior of Markets | Benoit Mandelbrot |
| Market Wizards | Jack Schwager |
| The New Market Wizards | Jack Schwager |
| Fooled by Randomness | Nicholas Taleb |
| Investment Psychology Explained | Martin Pring |
| Trading Systems - Secrets of the Masters | Joe Krutsinger |
| The Trading Systems Toolkit | Joe Krutsinger |
| New Market Timing Techniques | Thomas R. DeMark |

# How to Get More Information

I've included a few extra resources for you to access as a reader of this work. It's part "thank you" and part "I didn't have enough room in the book but I still want to provide it to you to help you understand more deeply how we may be able to help you."

The links below will take you to privately hosted PDFs and short videos where you can access the additional information and training.

## CASE STUDY: How a Stocks Portfolio beat the March 2020 Crash

In this PDF you will be able track how our mechanical DSS, SPA3 Investor, outperformed in 2019, beat the -35% COVID-19 crash in 2020, and then rose again to new all-time highs while the ASX200 languished below its pre-COVID peak.

The Case Study portfolio is a real-money portfolio live-traded on the Australian Stock Exchange.

The actual broker reports listing the real money positions are provided.

Download CASE STUDY

## ■ REPORT: Every Trade for a 54% Return in 2019

This PDF shows the dates that the actual real-money positions were opened leading into and during 2019 to achieve this fantastic portfolio performance in calendar year 2019.

The actual broker reports listing the positions opened and closed are included in the Report.

Download Report

## ■ VIDEO: SPA3 Investor Buy and Sell Timing shown on Charts

Shane Archer explains in this video snippet (9:47 mins) how the SPA3 Investor buy and sell signals are used by showing some completed real-money trades.

Listen to Shane tell Dave's short story.

Watch the Video Snippet

## ■ VIDEO: SPA3 Investor tools explained and demonstrated

In this 15-minute video snippet, Shane Archer demonstrates the SPA3 Investor signal scanning engine and the Portfolio Manager—which are embedded in our charting software, Beyond Charts—and the Share Wealth Systems mobile App.

Watch the Video Snippet

If you do decide you want more information or would like to discuss where you are in your investing journey, reach out to us here and let's have a chat:

info@sharewealthsystems.com

# About the author

I have included this updated excerpt taken from my book ***Blueprint to Wealth: Financial Freedom in 15 Minutes Week***, published in 2016, which describes my investing journey that started in 1990.

From 1990 to 1995, I intensely studied fundamental analysis and technical analysis. My trading was sporadic and inconsistent, and the overall outcomes continued to be negative, despite a 40% bull market during most of 1991 and a 70% rise in the index from late 1992 to early 1994.

I reacted to tips, newsletters, broker-dealers input, financial magazines, company material and media reports, all of which I now classify as "noise." These were the primary ways I was "called to action" to take positions in the market. Even though I was studying financial market analysis techniques, the "noise" still got the better of me.

I battled to achieve any consistency. I had some good winning outcomes but also had some shock-horror loss trades. The shock-horror losses more than eclipsed the profit trades such as a warrant trade in a stock called WMC that later merged; it turned into a $14,000 loss, pretty big for a young 30-something! It caused much angst and emotional pain! Yes, we remember the big loss trades; they

make larger imprints on our subconscious than the big winning trades.

My biggest problem, in hindsight, was not the analysis; it was that my investing decisions were inconsistent and subjective and based on reaction to "noise" from and around the markets. Rather than using my ever-increasing knowledge about fundamental and technical analysis to source an entry to a position objectively, I was using it to justify an idea that emanated from the "noise." This was the complete opposite from how I should have been investing. But I still had to work that out.

Despite thousands of hours of analysis spent over annual reports, hard and softcopy charts of stock price movement, I was not able to determine ***in advance, for sure,*** what a losing trade looked like compared to a profitable one. At this stage, I still believed that I would be able to solve this problem as if it was a scientific equation – just as with my training in a formal university education when I completed a Science Degree, majoring in mathematics and computer science.

In 1995, after more than five years of frustrating investing results, I decided there had to be a better way of investing in the markets. After all, I had a university degree, was successful in the corporate world, had better than average skills as an athlete and other sports and had done pretty well in everything that I pursued. Why not in the financial markets? I had invested in the necessary tools and had five years of solid research under my belt in both technical and fundamental analysis.

After much reading, research, and soul searching, I decided to start working on designing a 'mechanical system'. I had been led to believe,

although I didn't accept it at the time, that my difficulties had more to do with the way that I thought about the workings of markets rather than the logic that I tried to apply to my market-related decision making.

*A 'mechanical system' is a method that uses unambiguous criteria for precisely deciding when to enter a position, exactly how much money to invest in the position, and precisely when to exit the position.*

By definition, unambiguous means that there can be no debate about the existence of an entry or an exit signal. It either exists, or it doesn't on any given day. There is no subjectivity or discretion about the existence of the signal.

*The signal, and hence the investing decision, is purely dependent on price movement, not the "noise", outside influence or surmise from magazines, newspapers, TV shows, newsletters, brokers, forums, family or colleagues. Or on emotional feelings about what you want to happen.*

Market system design is not an easy activity. It is an arduous task that requires technical analysis skills, understanding of price movement concepts, computer programming skills, lots of time, discipline, motivation, rigor, curiosity and persistence to keep moving to a successful end. I know most who start don't finish.

It was during this time of research and design that I am convinced that my previous life experiences – my mathematics, statistics, and computer science training, practicing and playing team and individual sports such as cricket and golf, the long-distance training and

completion of numerous marathons and ultra-marathons - came to the fore. I had done the preparation part of the journey before in other walks of life and had experienced the associated successful outcomes. I had to do the same in the investing arena.

Through 1995 and 1996 the mechanical system started taking shape. At the beginning of 1997, I found myself in a year-long trading contest in *Personal Investor,* a monthly financial magazine. It was now or never. Would I use my volition and discretion, or would I trust the preparation that had gone into the mechanical system that I was creating?

Purposefully, I decided to use my system. It used market price movement to determine when to buy and sell, not my subjective volition. I had taken my first step towards reaching some degree of objectivity and consistency in my investing.

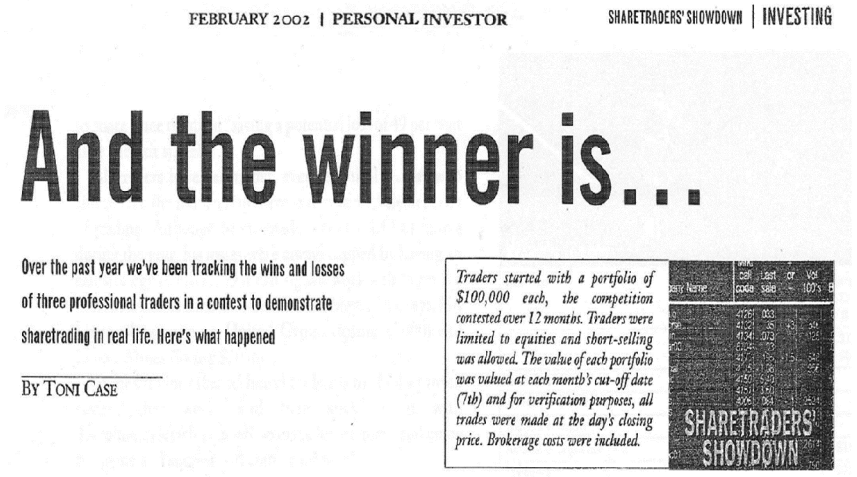
It was a life changing moment in my investing journey and was the next significant step on my journey to believe in, surrender to, and trust a researched process that emanated from the market, not from a discretionary human societal paradigm.

I won the publicly audited trading contest which ended in November 1997, a period that included the tenth anniversary of the 1987 stock market crash. The Australian All Ordinaries index dropped -10.8% in the last six weeks of the contest! The opening paragraph of the final report about the competition in *Personal Investor* magazine said, *"By the length of the proverbial straight, Gary Stone has won the shares investing competition."*

Subsequently, the magazine ran another twelve-month trading contest in 1998 which I won again using the medium-term mechanical investing system that I had been researching.

After a three-year project, I completed the research and design process during 1998 and finalized the unambiguous mechanical rules in precisely defined detail. The mechanical system was formally released as a product in Australia in August 1998 to my then customers. It was called SPA, or Share Profit Advantage ('Sustained' was later changed to 'Share'), and renamed to SPA3 to reflect a later edition of the systematic trend-following approach.

In 2001 *Personal Investor* magazine re-introduced the idea of a year-long publicly audited investing contest. Again, I was invited to participate, and again I used SPA3; which had become a far more mature product and was now being used by many hundreds of investors to manage their portfolios.



FEBRUARY 2002 | PERSONAL INVESTOR SHARETRADERS' SHOWDOWN | INVESTING

# And the winner is...

**Over the past year we've been tracking the wins and losses of three professional traders in a contest to demonstrate sharetrading in real life. Here's what happened**

BY TONI CASE

*Traders started with a portfolio of $100,000 each, the competition contested over 12 months. Traders were limited to equities and short-selling was allowed. The value of each portfolio was valued at each month's cut-off date (7th) and for verification purposes, all trades were made at the day's closing price. Brokerage costs were included.*

SHARETRADERS' SHOWDOWN

**GARY STONE**

| | |
|---|---|
| Best trade | $7674 profit – Argosy Minerals, buying at $0.25 and selling at $0.55 |
| Worst trade | $3001 loss – United Group, buying at $2.12 and selling at $1.75 |
| Number of trades (buy and sell) | 121 |
| Number of wins | 33 |
| Number of losses | 32 |
| Amount of brokerage paid | $3880 |
| Dividends | $2476 |
| Average size of position (before brokerage) | $10,145 |
| Gross return (before brokerage) | 34 per cent |
| Net return (after brokerage) | 30 per cent |

I was again successful in the year-long investing contest which used $100,000 starting capital. SPA3 performed very well in the January 2001 – January 2002 contest, the period in which 9-11 occurred. Despite the extreme volatility in the markets around that event, the audited SPA3 portfolio managed to return 29.5% over a year in the same period that the Australian All Ordinaries index posted a return of 4.5%. Here are snapshots from the magazine.

Throughout this period, I continued to invest mechanically in my accounts, using the SPA3 system, and my investing performance continued to improve, matching and surpassing the results achieved in the trading contests. What was actually happening, as I was later to discover in 2004 when I met Mark Douglas, author of *Trading in the Zone* and an advocate of mechanical trading and investing, was that

my investing habits were automatically transitioning from thinking with a societal paradigm to thinking with a market paradigm.

The mechanical system was transforming how I thought about the workings of the market. ***The more mechanical trades that I completed, the more empathetic I became to market price movement and how it behaved. I was building a mindset of consistency.***

***I had begun to see the price action objectively***
***from the market's perspective***
***rather than from my own perceived perspective,***
***and how it might potentially hurt or benefit me.***

There were no more large-loss-trades as I systematically defined my risk for each trade and mechanically closed the position when called to do so by my objective rules. I started to achieve consistency through objectivity in the moment. I had overcome the 'noise brigade' that surrounds the market, comprised mainly of *commentators who see the market from their perspective; which is pigeon-holed by the limitations of their subjective opinions about the future*.

I no longer reacted with a reflex response to the random short-term volatility of the market; as I now understood that this is a natural part of the ebb and flow of the market, impacted by thousands, even millions, of different variables interacting with stock price movement.

When short-term market randomness caused me to exit from open positions unexpectedly by reaching my unambiguous pre-defined exits, I understood and accepted that this could and would happen just as it had many times in my research of historical data. I knew and accepted that the exit was designed to save me from a possible

large loss in an individual position. Despite such exits triggered by short-term randomness, the evidence from my research, and ensuing experience showed the existence of a robust positive edge that would generate net profits from the winning trades that also occurred.

Even though I wasn't conscious of it at the time, I was moving towards investing from a big picture perspective. I was comprehending and accepting that there is a random outcome in samples of one or a few, but over samples of many tens, or even many hundreds, there is a high degree of certainty of success. Provided that I executed according to a probabilistic edge, encapsulated within a structured process, I could have a positive expectation based on using the unambiguous and objective criteria as defined from an evidence-based research process.

I continue to use the SPA3 Investor mechanical investing process as my investment approach for managing stock portfolios in the U.S. and Australia, both in personal and company open-book 'public portfolios', with the latter available for public scrutiny. It requires minimal effort which has left me plenty of time for my family, running a business, keeping fit, playing golf and writing this book. ***The returns-to-effort ratio is incredibly high.***

Further research over the years since SPA3 was first released, using exploratory simulation to stress test the system, has re-affirmed the methodology as has live execution in the market.

*SPA3 Investor supports investing in ETFs and*
*stocks in the U.S. and Australia.*
*It is a stocks/ETFs and cash strategy in which the rules support*
*being entirely invested in stocks/ETFs and then totally in*
*cash according to the Market Risk and ETF timing.*

I have found that mechanical investing in stocks has worked best for me – it has become the backbone of my investing life. I have been fortunate to have been able to share the SPA3 Investor methodology with thousands of other like-minded everyday investors.

I have managed portfolios in real time in the public eye since 2001. Besides 1997 and 1998, *Personal Investor* magazine also audited and published my portfolio investing results monthly for two years in 2001 and 2002; I beat the market in all four years. Over a twelve-month period from July 1, 2006, to June 30, 2007, one of the four major accounting firms audited the publicly executed portfolio results of the SPA3 Trader mechanical stocks system. Over that twelve-month period, the SPA3 open-book publicly managed and published portfolio achieved a return of 59.55% compared to the index gaining 27.28%.

Since January 2013, I have managed real money open-book publicly executed portfolios using our mechanical systems for stocks on the NASDAQ and for U.S. stocks. Each transaction has been available for my clients to scrutinize since the early 2000s, and are available upon request from the Share Wealth Systems team.

There is a well-known Chinese Proverb that says; "To get through the hardest journey we need take only one step at a time, but we must keep on stepping." Perseverance has been a tenet of my approach to the markets since I began investing in June 1990 and hope it can be yours. The journey continues ...

## My Beliefs about Investing

My beliefs about investing get to the core of why I invest via the stock market, why my company exists and why my team and I continue to do what we do so passionately.

At the highest level, I believe:

1. That the primary investing avenues for everyday people, that of active mutual funds and products offered by the 'big guys', need to be challenged, exposed and potentially avoided as mainstream investing avenues for those that want to do better. This is done, firstly, by substantially outperforming them through the use of simple alternative strategies; and secondly, by making others aware of how to and why they can and should do it.

2. That the "little guys" should take control and do it themselves through the acquisition of knowledge and mindset skills to be able to outperform the 'big guys."

I see myself as one of the "little guys."

The following ***supporting values*** are the foundation for these two ***core beliefs***. The values have been cemented and energized in my psyche through personal research and experience, studying others' research and experiences, and mentors:

- Active mutual funds (also called active managed funds), including 401(k) Plans, Target Date funds, Superannuation funds and pension funds the world over, struggle to match,

let alone outperform their respective benchmark indices for periods of longer than five to six years, and sometimes even shorter periods.

- Their underperforming outcomes are due to three main reasons:
    - The percentage fees, based on Funds under Management (FuM), that active mutual funds charge their investors to manage their fund, to pay their fund management teams, their distributed network of financial planners and advisers and to pay for marketing and advertising.
    - Balanced Funds and Target Date funds diversify into and invest in *lower* performing asset classes than the stock market to reduce risk, but they reduce growth over the long term by more than the benefit diversification is supposed to give them.
    - Mistakes that active fund managers make when being active.
- Distributed networks of financial planners and advisers (and some accountants), who receive a percentage advice fee based on FuM, feed the active mutual fund industry. These fees increase the cost to the everyday investor.
- To get sufficient protection and growth for their investments and overcome longevity risk - the risk of running out of money during retirement - average investors need to find a way to outperform the Total Return index by at least 2% compounded per year over any rolling periods of greater than ten years. ***I believe that the ONLY way to achieve this on a consistent basis is to do it yourself using an active growth***

***strategy that also protects your capital from a severe bear market.***

- The biggest threat to any investor's nest egg is the big bear market, such as those that occurred in 2008, 2002, 1987, 1973, 1938 or 1929, in which there were close to or at least -50% declines in stock market indices. Many other bear markets have occurred with losses between -30% and -50%. The problem is that you don't know when the next big bear will appear, and if it occurs at the wrong time in an investor's lifetime, a retirement nest egg can get decimated and not recover in time to meet retirement needs.
- The only way to avoid most of a severe bear market, and thereby protect one's investment capital, retirement savings or otherwise, is by deploying an unambiguous, well-researched set of timing criteria. The process should require minimal vigilance that alerts the investor to exit the market into cash before a baby bear turns into a big bear.
- ALL investment asset classes including the stock market, residential property, commercial property, treasury bonds, corporate bonds or even exotic investments can experience many years of wide-ranging movement where there is little or no advance in asset values. Why do I believe this?
    - There were five market declines of at least -45% between 1901 and 1921 with no advancement in the Dow Jones Industrial Average (DJIA) over this time. If it happened in the early 1900's, it could happen again.
    - The DJIA made no gain for nearly seventeen years between January 1966 and October 1982.

  - The S&P500 made no net gains for nearly thirteen years between March 2000 and February 2013.
  - In mid-November 2015, the FTSE100 Index is almost 10% below the peak that it reached on 30th December 1999, nearly sixteen years earlier.
  - The above measurements all exclude dividends.
  - In 2016, residential and commercial property prices in Japan were still less than 50% of what they were twenty-seven years before, in 1989.
  - Property price deflation has occurred multiples times in Europe over the last 400 years.
- Market risk (also called systematic risk) has the most significant potential adverse effect on long-term capital protection and growth. Therefore, market timing to move 100% into cash at times is necessary for a timeframe that is consistent with the investor's lifestyle and tolerance for risk.
- Leaving investment capital in cash deposits for the long term instead of investing it in growth asset classes will remove the risk of loss but will also eliminate the potential for growth, which will ensure that longevity risk increases while inflation slowly erodes an investor's nest egg.
- Leverage will do more harm than good to more investors, due to leverage magnifying small mistakes. However, those with the necessary mindset skills and processes can use leverage to their advantage.
- Investors should define their "level of excess" which, when reached, mean they no longer need to continue investing only for themselves but should also do so for others who are needy. That is, **share** some of the excess **wealth** that you gain from your finely tuned investing skills.

Motivated and inspired by these investing beliefs I have been on an ongoing journey for three decades discovering market principles that are consistent with these beliefs.

***These beliefs fuel the core purpose of why my business Share Wealth Systems exists:***

> ***… to empower and skill stock market investors with verified tools and mindset skills to know exactly when to sell, when & what to buy and how much to buy so that they can avoid bear markets, maximise growth in bull markets, and accelerate annualised returns to 15%+ in their stock portfolios on the US and ASX markets.***

## Principles that I have discovered about investing

I have sought principles applicable to the stock market that are consistent with my investing beliefs.

Among the tenets that I have discovered on my investing journey are:

- Price trends exist in the market.
- Only price movement can measure trends.
- Price momentum builds and tends to persist, causing these price trends.
- Trends occur in the market in many time frames and in both directions, up and down.
- Trends repeat themselves in very similar but not identical patterns. There are many different types of patterns that repeat and each pattern repeats in large samples over time.

- Trend-following can work better than any other approach to investing in the stock market.
- Trends are caused by numerous and varied reasons and by many different variables. Causes for one trend are not necessarily the same for another in any given stock or traded instrument. Causes include but are not limited to:
    - Breakouts above a previous high/low price.
    - Mean reversion or the tendency to move to an average price over time, from a low/high to a higher/lower price. The average price referred to here can be heading in an up, down or sideways channel.
    - Perceived price anomalies compared to a perceived intrinsic value.
    - Ongoing company fundamental strength/weakness.
    - Peer price pressure caused by, for example, the same sector, perceived similar characteristics (e.g., high yield, defensive, growth), same commodity, same geographical area, etc.
    - News, e.g., government announcements, company announcements, cultural events, stories written about companies, discoveries, inventions, etc.
    - Systematic risk, which is a falling market caused by geopolitical, events, wars, natural disasters, terrorism, economic or company growth, or positive sentiment.
    - Cycles, such as seasons.
    - Human despair, euphoria and emotional over-reaction.
- Trends end when price retraces sufficiently to determine that the trend has reversed direction, in the given time-frame.

- Trends end for wide-ranging reasons that change for each trend. Knowing the trend end prices in advance, for certain and consistently, can never be achieved.
- Trends can be measured over large samples via the movement in price by determining unambiguous criteria that signal when there is a high probability that a trend has started and that a trend has ended, in a particular time frame.
- It is impossible for any entity or investor to be aware of all positive and negative causes that hold sway and to what degree at any given moment, in any given time frame, or in advance, for any given stock, commodity or investment instrument. That is, "anything can happen."
- ***It is not necessary to know the particular cause in advance for any given trend when unambiguous and objective criteria are used to determine the start and end of a trend.***
- When measuring trends over large samples, it is possible to determine the Statistical Edge for a set of unambiguous and objective timing criteria that define the start and end of the trend.

  Determining statistical edges has been a cornerstone of the research that we have done over many years at my company, Share Wealth Systems.

    - The fact that high probability positive statistical edges exist emphatically demonstrates that investors can exploit the price trends that exist in financial markets, and they can generate handsome profits.

- Repeating investment into and out of these trends using the criteria that define a positive probabilistic edge creates compounding of profits through the re-investment of realized profits into newly identified trends that comply with the probabilistic edge.
- The profits generated can be far greater than alternative investment avenues such as fixed interest, bonds, active mutual funds or buy-and-holding stocks or index funds.

Principles guide decision-making. Without principles in any activity, the range of options from which to choose is massively increased to the point of massive confusion and chaos; resulting in poor, inefficient and unproductive decision-making.

Discover principles in the market that are well founded. Do this and narrow your range of options to the point where decision-making will become simple, consistent and objective.

How can you determine whether your principles are sound or ill-founded? Look at the outcomes that they produce over a large sample of events that test your principles. If the results are positive in relation to your objectives, then you'll know that your principles are fundamental, unchangeable and timeless truths. These outcomes, and what you do to achieve them, will simply prove what you believe; leading to trust on a scale that breeds confidence to overcome fears, uncertainty, doubt, and adversity.

The more market principles your discover, the more you will think from and operate from the market's perspective. Your investing goal, therefore, is to discover market principles that are consistent with

your investing beliefs, to create a set of values and rules based on those principles and then live your investing life by executing them according to those values and standards. Like life.

All enquiries can be sent to info@sharewealthsystems.com