ShareFinder Buy Hold Sell Profit

Testimonial 2 – From Discretionary to Mechanical Trading

Warwick Stewart, Kalkite, NSW. 9, November 2005

I commenced discretionary trading on stocks on the ASX in 1998, and continued trying to develop a sound trading system. I had some understanding of levels of risk and the need to have different sizes of trades for the different levels, and of technical analysis. I also tried several trading systems which used technical analysis to determine entry points, and used both financial and technical stops for both stop losses and taking profits. For 3 years I was not successful. I was inconsistent in placing orders when I had entry signals, and often exited a position because the price was dropping and I was worried about loss of capital.

In early 2001 I purchased the SPA Methodology from ShareFinder, and commenced trading it in May 2001. The manual was very explicit about the rules for entering and exiting positions, which, once learned, became easy to follow. This was my introduction to mechanical trading, and a major freeing up of my time. I was able to develop a Trading Plan which had unambiguous rules for entering and exiting trades, and a clear definition of levels of risk to my capital based on the Market Capitalisation of each stock. This removed the uncertainty which had occurred with my discretionary trading.

Late in 2001 I was introduced to Mark Douglas's book "The Disciplined Trader", and bought his later book "Trading in the Zone" in 2002. This book set me on the psychological path of trading mechanically, so that I could better control both my greed and fear instincts – I am still not perfect but I do trade the SPA Methodology mechanically, without letting myself doubt the entry/exit decision and if I should or should not take them. The hardest part still is waiting for the exit signal when I see a stock's price going down.

Because I could scan all the ASX stocks quickly each evening using the scan facility in the Market Master charting program and concentrate only on those which showed an entry signal for whatever capital I had available to place in the market, I reduced the time spent deciding what to do to less than 30 minutes each evening. Scanning my small portfolio of holdings, which has never been more than six at any one time, became a few minutes work each evening. Next day also became a few minutes work placing my orders after the market opened, in my case using an internet broker service. This freeing up of time from the daily routine of my trading has given me the opportunity to read widely, and better understand the importance of profit/loss ratio, positive expectancy and money management.

I started trading the SPA Methodology with $27,000 capital. Initially my money management rules required that I be fully invested at all times. Although the SPA Methodology provided a procedure for lightening holdings when the market or a sector became classified as High Risk, remaining fully invested during the down period in 2002 resulted in me suffering a 39% drawdown of my capital. This led to a redefinition of the number of trades to have open, so that now I will have up to 50% of my capital in cash when conditions are defined as High Risk. I have traded the SPA Methodology for 11 months each year since May 2001, the 12th month is for our annual holiday and I sell all open positions before we go away, ready to re-enter the market when we return. Even with these annual interruptions, and the substantial drawdown in 2002, my capital has increased to $42,000, an increase of 55% over the 4 ½ years.

My experience of mechanical trading with the SPA Methodology, a system which has been proven by extensive back testing and which has a positive expectancy in that back testing, is what I shall continue to trade for my Medium Term active trading.