MONEY MANAGEMENT

Fundamental Analysis involves Price Forecasting, which means determining trend to decide on what position to take in the market – long (Buy) or short (Sell).

Technical Analysis refers to Timing, which means determining specific entry and exit.

Now that you've learned the basics of Fundamental Analysis and Technical Analysis, it is important to cover the very important topic of **Money Management**.

I. In determining Portfolio Make-up, you must remember that total invested funds in any investment instrument must represent only a % of total investible capital.
II. Diversify but don't over-diversify
III. Protective Stops
IV. Risk-Reward Ratio
V. Trading in Multiple Units
VI. Periods of Success and Adversity

Trading & Money Management Checklist

Keep Learning

MONEY MANAGEMENT

Money Management refers to allocation of funds. This includes Portfolio Make-up, Diversification, the Use of Stops, Risk-Reward Ratios, what to do after Periods of Success and Adversity and whether to Trade Conservatively or Aggressively.

I. **In determining Portfolio Make-up, you must remember that total invested funds in any investment instrument must represent only a % of total investible capital.** An investor may want to make a distinction between risk-free to riskier assets ranging from a focus on capital preservation to growth as goals for each fund. Some options are SDA, regular savings account or time deposit, government bonds, commercial bonds, UITFs, mutual funds or equities (also called stocks).

II. **Diversify but don't over-diversify** as a few profitable trades may be diluted by a larger number of losing trades. Stocks tend to move with the sector they belong to, so diversifying investments by sector is one option. Some sectors can also move in tandem such as in the case of rate-sensitive Bank and Property sectors.

III. **Protective Stops.** Stop Placement is an art. The more volatile the market, the looser the stop should be. A trader would want the protective stop to be close enough so that losing trades are as small as possible. However, stops that are too close may result to an unwanted liquidation on short-term market swings or "noise." It is also important to consider your loss threshold.

IV. **Risk-Reward Ratio.** In every potential trade, there is a potential loss (the risk) or a profit objective (the reward). A commonly used standard is the 1:3 ratio wherein the profit potential is 3x the loss potential. A commonly applied theory is to "Let profits run and cut losses short" as large profits in trading are achieved with persistent trends.

V. **Trading in Multiple Units.** These units can be divided into trading and trending (also called a core position). While the trending (core) position is for the long pull with loose protective stops allowing for market to consolidate or correct. On the other hand, the trading position is earmarked for shorter-term in-and-out trading; using resistances/overbought as indicators, some profit can be taken or a protective stop utilized.

VI. **Periods of Success and Adversity.** Every trader's track record is a series of peaks and troughs, much like a price chart. The worst time to increase the size of one's commitments is after a winning streak. Overconfidence can sometimes get the better of an investor who may be willing to add to a current winning position that may already be too late into the game. The wiser thing to do is to increase one's commitments after a dip in equity (which goes against basic human nature).

MONEY MANAGEMENT

Trading and Money Management CheckIlst

1. Trade in the direction of the intermediate trend.
2. In uptrends, buy the dip. In downtrends, sell the rallies.
3. Let profits run, cut losses short.
4. Use protective stops to limit losses.
5. Have a plan. Trade according to plan and not emotion.
6. Don't trade with the herd. Look well into your own investments and time your trades.
7. Money manage
8. Diversify but don't over-diversify
9. Trade on a Risk-Reward Ratio of 1:3
10. In pyramiding, each successive layer should be smaller than before. Add only to winning positions, not losing ones.
11. Except for very short term trading, make decisions away from the market, even better when it is closed.
12. Work form long term to short term.
13. Shorter term charts are used to fine-tune entry and exit
14. Master interday trading before trying intraday trading
15. Keep it simple. More complicated isn't always better. You can create your own method that best applies to your investment goals.
16. Remember though that the market is a dynamic landscape. Keep learning more about investment practices as much as the companies you're investing in.

Keep Learning

If you've gone through our basic references in trading the stock market, you should be able to make key Investing decisions by knowing What to do (Fundamental Analysis), When to do it (Technical Analysis), and How much to commit (Money Management).

MONEY MANAGEMENT

References:
***Technical Analysis of the Financial Markets**: A Comprehensive Guide to Trading Methods and Applications by John J. Murphy*
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Investopedia.com
www.thepatternsite.com

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