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Trading Up

Trading coach Mirriam MacWilliams made her millions through her stock market investments. Here's what you can learn from her

YOU NEED NOT be a financial whiz to profit from trading in stocks. But neither should you approach it as an easy way to make fast money. People often take unwise risks, especially when they get carried away by the thought of how much they could potentially earn from investing in shares. When the returns are high, so are the stakes.

Even a success story like corporate high flyer Mirriam MacWilliams, 49, who made enough money in the stock market to give up her six-figure salary, has won her success at a price. The former Vice-President of Investor Relations of the largest Coca-Cola bottling company outside the USA lost money in the stock market for two years before she started seeing her trading efforts pay off in the third year.

Although she had a very comfortable income and lifestyle, Mirriam, who is married, started investing in stocks because she saw it as the path to financial freedom. "Financial freedom means that I can do as I choose, when I choose to do that," she explains. "It means being able to have an early dinner with my husband, or going to the movies in the afternoon. Financial freedom means giving my time to my family, instead of to my job."

It has been nine years since Mirriam started investing. Her initial capital of US$10,000 (S$18,000) has grown in two years to US$2 million, so she is officially a millionaire. She now trades for a living and has found a new career as a trading coach, teaching people how to invest profitably in the stock market. Here, she shares the lessons and strategies she has learned.

1 Learn from an expert

If you are new to investing in stocks and shares, Mirriam believes the best way to learn is from someone who knows how to do it, or take a course in investing. There are many such courses around. Before you sign up, ask what is the investment capital you need to pay upfront for the course. On top of the registration and tuition fees, some courses slip in other fees in phases, for instance, for proprietary software and website subscription.

Her first experience was with such 'extras'. Enticed by the amazing testimonials, she put down thousands of dollars before she could accomplish the most basic step – opening a brokerage account. Beware of courses which impose such

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artificial limitations. Mirriam says, "You should be able to start with a computer and do it on your own."

2 Beware of investment courses that make extravagant promises and do not offer support

Ask what kind of support you will get after the training. You cannot expect to start making money after a three-day course. Investing is a learning process, Mirriam constantly reiterates. "That learning process needs time. And you are going to have questions. Who is going to provide the answers?" The courses she conducts for Singapore-based Wealth Mentors (www.wealth-mentors.com) includes two monthly conference calls with her, weekly member e-newsletters about what stocks she plans to buy, and access to archived material on the website.

3 There is no such thing as making money overnight

Take it from Mirriam. She says, "I have been investing for about nine years, seven years successfully. There were two dreadful years when I lost a lot of money, but that was a necessary evil for me to learn. I learned how the market worked through the process of investing my money in the market. But I realised after the first year that stock trading was not a get-rich-quick scheme. That was when a light bulb come on in my head, and I realised I couldn't look at the stock market like a friendly casino. I had to look at it as a place where you conduct business. You buy and sell there. You cannot take a lighthearted approach to the stock market."

4 Don't invest all your capital

Most people believe that they need a huge capital in order to invest. Not true. As Mirriam reasons, "If you cannot make money with $2,000, you cannot make money with $20,000." She gives the example of one of her students from Kuala Lumpur: "Before he attended our training, he did not know anything about the market. He put aside $7,500 as his starting capital. In three months, he doubled it. Then he added another $15,000 to the pot and put it all into one trade. That's a man thing; they want to go for broke! He lost it all. That's why I don't recommend putting all your money into one stock."

The fact is that the more money you put in, the more at a disadvantage you are because you have more to lose. In an ironic way, Mirriam sometimes wishes people would experience what it is like to lose a small amount because that would teach them the fear and respect they should have for the marketplace.

Ideally, she believes that you should not put in more than half of your capital in a trade. Even for someone as experienced as she is, Mirriam says she still does paper trades, ie trades that do not require her to put real capital on the line. "I paper trade because I want to see if I can achieve consistent results."

Trading coach
Mirriam MacWilliams

5 Decide on your trading strategy

There are two styles of trading: short-term trading, where you hold a position for a few hours or a few days, which requires you to monitor the movement of the stock closely; and trading with an investor perspective, where you hold a position for anything between two to five weeks and spend only a few minutes daily to check the stock's movement.

"I find that when people come to my training, the reason why they initially experience a loss is because they are not matched to their strategy. You can use one, then migrate to another later. But everyone should start conservatively," she stresses. "Those who want to make their money in a few hours carry more risk. The shorter the time frame you give yourself to trade, the more accurate your entry has to be."

For newbies at investing, Mirriam recommends that people choose the cautious investor approach. "You have to let the market open for a full hour. If the stock is going up, then see whether that stock reached a new high price from yesterday's high price. If that doesn't happen compared within the first hour, there is nothing to do. If it made a new high, then I need to adjust the stock." Plus, she rationalises: "You can't influence the market, so what difference does it make watching the market the whole day?"

Whichever strategy you choose, Mirriam advises that you should have decided when to get out before you enter a trade. "Understand that with every instrument, there is some risk. Know in advance what that risk is. You have to figure out two things: how to minimise risk and how to eliminate risk. And one of the ways of eliminating that risk is by not taking the trade."

COMMON MISTAKES

These are the four most common slip-ups that both amateur and experienced investors make.

Not having a trading plan

A plan where you write down your strategy for every trade you do helps to keep you focused on your objectives. "I write a trading plan for every trade that I do," says Mirriam. "So I know in advance what my potential price targets are, on both the upside and downside. I know when to get in and when to get out, how much money I am willing to put at risk. I fully automate the trade, and that takes away every element of emotion. Trading should not be a matter of putting your money in the market and hoping for the best!"

Having too many positions at a time

If you are watching over several trades, you tend to lose your focus. Mirriam, who has a basket of about 20 stocks that she trades in, says she was guilty of spreading herself too thin: "I would take six or seven positions. Then I found I was getting out too quickly on the ones that are going my way, and hanging on for too long to the ones that were not." So now, she takes one position at a time, at most two, if she is doing short-term trading.

Trading in stocks that reacts strongly to world news

This is Mirriam's personal opinion. She elaborates, "I don't participate in airline or drug stocks. There are some news that can seriously impact their value. If you have a plane accident, the airline's stock value drops like rocks. If a pharmaceutical company announces the worldwide recall of a certain drug, can you imagine the impact on that stock's value, and the catastrophic losses you could be subject to?" She prefers technology and retail stocks, as she believes these are less volatile. "What is the worst that can happen to an electronics stock?" she asks. "That they can't ship their chips out of the factory on time? News like this will not have a devastating impact on the value of the company's stock."

Buying a stock as it goes down

While it does mean that the stock is becoming more affordable, Mirriam cautions that it can also signal that the stock is weakening. "If you see the stock has been going up and it is backed by strong institutional values, then you want to participate in that growth. You shouldn't be buying a stock that is going down. It means that it is not making money."

Once you understand how to trade, nothing changes, says Mirriam, who has traded options, futures and currencies. "You can trade whatever other instrument there is to trade in the same fashion, by creating a plan that is designed to give you the strongest movement to the upside." She still makes mistakes, she admits, but she has always been careful not to put too much of her money in such trades. "It's all about risk: you decide how much risk you are willing to take."