Brainy's Articles on

Share Trading

Why get into share trading?

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Introduction

In 2009/2010, many people were reflecting on the event known as the “Global Financial Crisis” (GFC). This hit the world in late 2007, and impacted on financial markets and personal savings and wealth in 2008 and 2009.

Many of the longer term buy-and-hold investors started to question the quality and value of the financial advice they had previously received, and the usefulness of their own buy-and-hold investment strategy. However, a lot of people came through the crisis with either no detriment to their personal wealth, or an increase in wealth.

This article in Brainy's series on Share Trading, “*Why get into share trading?”* (number ST-2100), tackles the question of why we might want to get into share trading — either directly with an on-line broker, or by utilising a full service stock broker. This article puts forward some very strong arguments even for investors to consider doing this, and it concludes with a brief introductory discussion about the concept of ***FundaTechnical analysis***.

Beware the share market bears

In this article, we take a look at some of the causes of financial crises in general, and the problems with leaving our investments in the market over the long term. Strangely enough, these financial crises do come around in a cyclic fashion, and they do impact the markets periodically.

This article concludes with a description of some possible approaches which can give us better financial returns over both the short and long term (using *fundatechnical* analysis). With a better understanding of the financial crises we are in a better position to minimise the dangers, and to take advantage of them. In short, we can beware of the share market bears.

What are the long-term returns?

There is no doubt that the long-term returns from the share market are around the 10% to 12% mark per annum — provided you spread your investment across the whole of the market and reinvest all the dividends. The index funds that are offered by some fund managers track the performance of a major market index. There are some years where the index goes backward; but over the long term (ie. the very long term, like 20 years plus), the returns are okay.

Years of going nowhere

There are times when the share market falls significantly, and then does not make new highs until perhaps more than 2 years later — and sometimes up to 5 years later. If you have money invested in the market during these times, your shorter-term returns are behind par (ie. negative). Your $10,000 invested in the market might be worth as little as $7,000 for a couple of years.

But, many people say that that's okay because they come out in front in the long term. However, to many people this does not sound like “*sensible investing*”. How much time do you have available to you to park your money and wait for a reasonable return?

What about blue chip stocks?

Some people are surprised to find out that even blue chip stocks can fall as much as 60% in value during a bear market rout. We need to remember the definition of “blue chip”:

> “*Major companies known for their ability to make profits in good times or in bad, and with reduced risk of default.*” (Source: www.asx.com.au — Australian Securities Exchange.)

There is nothing in this ASX definition about continually rising share price, nor about ongoing dividends. It is simply a statement about what we might call “quality” companies.

So, we should not be surprised if our investment in blue chip stocks falls in value for a year or so every five years or so. This is part of the cyclical nature of the market.

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