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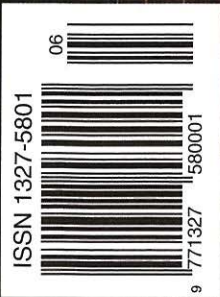
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TRADER'S STORY

Get to know your fellow traders: **Kel Butcher** speaks with **Ray O'Donoghue** about how trading has provided the retirement lifestyle Ray and his wife desired.

Ray O'Donoghue was born in Ireland in 1950 and raised in England. After training as a High School Physical Education teacher, Ray migrated to Australia with his young family in 1975. Nine years later, Ray switched careers and joined the Royal Australian Air Force as an Air Traffic Controller, later becoming an Air Defence Officer. Ray's Air Force career took him to most bases in Australia and included a two-year exchange with the Malaysian Air Force. Ray retired from the Air Force in 2010. Rather than just pottering around the garden, Ray and his wife Angela enjoy travelling and home renovation. Realising that they would need more than a pension to fund their retirement, Ray and Angela began planning 15 years ago how they could achieve the retirement lifestyle they desired.

How and when did you first become interested in the markets?

I became an accidental shareholder in the mid-90s when institutions such as National Mutual and the NRMA demutualised and gifted me a few shares because of the policies I held. It was a period of growing public awareness of the accessibility of the share market for small retail investors; and the first float of Telstra and other government corporations such as the Commonwealth Bank also captured my imagination. Perhaps the biggest 'light bulb' moment came in 1998 when a colleague revealed that he was going to put his life savings into becoming a full-time trader. This was a step that I could not follow, but it certainly piqued my interest in trading. That moment was just before the AMP float and I, like many others, became caught up in the hype. I borrowed \$10,000 to try to get into this 'goldmine' but, luckily for me, AMP opened around \$26, way above my bid of \$18, and I didn't chase it. I considered putting the

\$10k into WPL instead, but was spooked by the AMP experience and got cold feet. Pity – WPL was only \$7.50, then!

And then what happened?

At that time I had only seven years to go to my military retiring age and Angela and I felt that trading was a bit too uncertain to try to build a retirement nest egg to supplement my super. Instead, we decided to build a property portfolio. We were lucky enough to ride the back of the boom of the late 90s and early 'noughties', which delivered very good capital growth. I maintained an interest in shares, reading a bit about share trading and talking to other colleagues who had some experience. The idea grew that share trading could be a good way to supplement my pension, so we decided to dabble a bit in shares to build our knowledge and experience. Small amounts, such as tax refunds and a modest equity loan against our property, provided the funds for this initial experiment.

How have you been able to learn and to educate yourself about the markets?

We went to numerous free seminars, which promised education programmes or systems that would all but guarantee success in the market. While many were just too slick, others seemed promising. But I was too much of a skeptic and balked at the price tag that went with most of the education on offer. As a result, I read quite haphazardly – books, magazines, newspapers – which gave me information but no clear direction. In the end, I decided I would invest on fundamentals, as I understood them, and subscribed to a well-known newsletter for some guidance. That was the 'education' I relied upon for ten years!

When I was approaching retirement, I had to decide whether to take my super as a pension, a lump sum or a combination of both. I decided on the latter, so that I would have the safety net of the pension, as well as the funds to participate in a fairly significant way in the share market. I believed I knew enough to manage these funds, but it was also evident that I should get some serious, structured education to give myself a bit of an edge if I was to meet my goals. My research brought me to the Wealth Within Institute and its Diploma in Share Trading, which I completed during 2010. The Diploma greatly increased my understanding of share trading and turned my trading approach completely on its head. For the first time, I consider myself to be an educated trader, albeit still at a basic level.

Did you make mistakes when first starting out?

Absolutely! For more than ten years, I traded on tips, shallow research, gut instinct and emotion. I became attached to certain equities and held on to them long after I should have acted on a stop loss. Spreadsheets from those days show that I had identified stop loss levels; I just did not have the emotional control to act on

them – consequently, trading positions morphed into investments! Fortunately, my innately conservative nature kept me out of many really bad options – such as the AMP float and HIH, for example. I managed to turn a very modest profit in most years, although I would be the first to admit it was as much through luck as good judgment.

Would you define yourself as a discretionary trader, a mechanical trader or a combination of both?

I would have to say I am a combination trader; although I am much more inclined to be a mechanical trader these days, I do still look for good fundamentals in my trades, which leads me to focus more on the top 100 ASX-listed stocks. I undertook the Diploma more out of necessity than desire and was quite a skeptic regarding technical trading when I began. However, I now firmly believe that price charts incorporate pretty much all the useful information on a stock and that I can trade successfully using purely mechanical approaches.

Who have been some of your mentors and role models? What impact have these people made on you personally as well as on your trading style?

Before I undertook the Diploma, I had no mentors and my only role models were the various authors I preferred, such as Darryl Guppy, Paul Clitheroe, Rene Rivkin, David Koch and Alan Kohler, to name just a few. From that list, you can see how eclectic my reading was and why my approach to trading was so random. I still respect all those people, and particularly like Kochie's no-nonsense approach to basic money management and budgeting. However, as far as trading goes, my mentors are all of the team at Wealth Within. Without doubt, Dale Gilham is foremost, as it was a 30-minute telephone conversation with him that convinced me to undertake the Diploma. He also instilled in me the conviction that protecting capital, not chasing profits, should be the underlying principle of trading. The other person I should mention here is Lea Zerbes, Dale's business and life partner, whose guidance on the psychology of trading has helped me to control the emotional 'beast' that rages inside me with every trade. The fact is that Dale and Lea have surrounded themselves with an excellent team and every member of that team has influenced what I now do in the share market.

Can you give us a brief overview of your trading style?

I guess my style is still a work-in-progress. It is barely a year since I completed the Diploma and I am learning all the time. My preferred approach is to use trend lines to enter and exit a trade, although this method can have its pitfalls. I am currently back-testing a number

of stocks to find a combination of other signals that could improve my current rate of successful trades.

Is there any one trade (win or loss) that sticks in your mind that had a profound effect on your development as a trader? If so, what did you learn from the trade?

There is one bitter-sweet trade that has delivered great lessons. In May 2010, I had just finished Module 3 of the Diploma and felt sufficiently equipped to re-enter the market. Iluka (ILU) had just given me a good entry signal and I bought in at \$4.98. ILU then climbed steadily for a few months, reaching around \$6.30 before falling back to \$6.15-\$6.20. The beast within said take the profit and run, even though my charts said there were no exit signals. Eventually, the beast and fear prevailed, so I set a conditional order at \$6.10 – which was promptly triggered and I happily took a 22.3 per cent profit. Happily, that is, until ILU continued to soar to around \$20 in the following months.

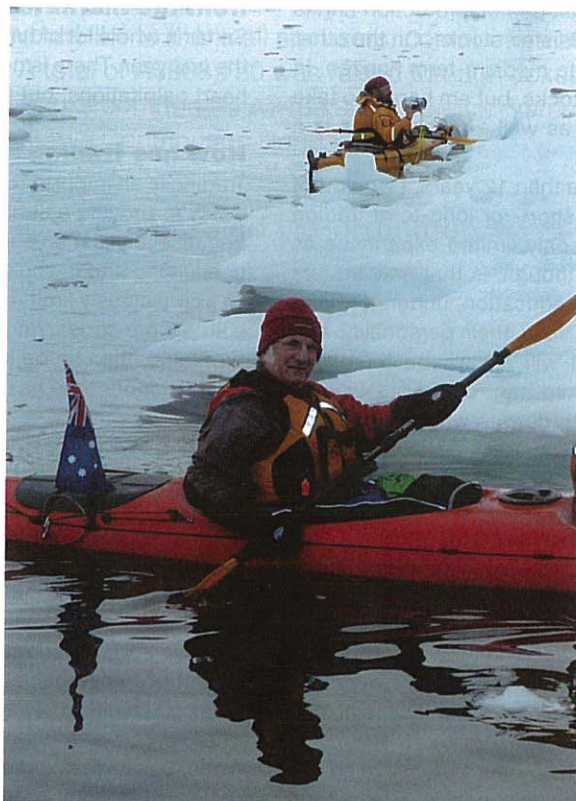
The lessons I learned from my ILU experience were no more than the perennial wisdoms of (a) let profits run (and cut losses); (b) trust your trading rules; and (c) don't let emotion drive your trading. My fear of watching a good profit melt away prevented me from taking advantage of the much greater profits that could have ensued, had I been wiser and less emotional.

Can you tell us about your best and worst trades?

Apart from ILU, which qualifies for both titles for different reasons, my best trade has probably been

Metminco (MNC). A friend suggested it to me and this time I charted it closely before deciding to buy in. I saw a strong reversal signal and entered at 31 cents, exiting a month later on a good Dow exit at 42 cents – 35 per cent profit. Financially, it was a small play as I considered it to be higher risk, but it was satisfying, nonetheless, particularly as MNC is now trading at 23 cents.

My worst trade was a few years ago, in my 'uneducated' era. I bought Magna Pacific (MPH), a small media player, in February 2007 in anticipation of a rumoured arbitrage opportunity. The takeover transpired as expected in October 2007 and I received cash and shares in Destra (DES), which was supposed to go on to bigger and better things. Unfortunately, I believed the hype, held on to DES and rode it all the way to oblivion just a year later... Fortunately, the whole exercise resulted in only a modest net loss, as I was trading very tentatively at the time. This trade was probably the one that started me on the path to a better education.



Would you classify yourself as a short-term or a long-term trader? What advice would you offer to people getting started as traders on the relative merits or otherwise of each?

As mentioned earlier, I do have a somewhat conservative nature and, while I am prepared to take risks, I do like to cover them in some way, too. Consequently, I have diversified in assets – property, cash, shares and a pension stream – and take both long and medium positions in the share market. My long-term portfolio is for generating a dividend income with robust capital protection and is therefore focused on a few of the Top 20 listed stocks. On the other hand, my trading portfolio has a short- to medium-term horizon. In the latter, I primarily consider Top 100 stocks, but am happy to take on smaller, more speculative positions as well – perhaps this is a nod to my inner beast!

Although I have been trading for more than 12 years, I would not presume to proffer advice on whether short- or long-term trading is better, as I consider myself to have only limited experience as an educated trader. What I would say, though, is that new traders should first and foremost gain a quality education, understand the risks, and then take the position that suits their personality and appetite for risk. After all, the market will always be there. My trading style is still something of a mixed bag, but at least I now take a more considered approach and trade with written plans that have definite goals and rules.

What markets do you trade and which markets do you prefer? Do you have a favourite, and why?

At present I trade only the ASX physical share market. As my knowledge and confidence increase I am looking more closely at CFDs and trading overseas share markets. I am happy with my understanding of, and what I have achieved with, the ASX, but I am now looking for more challenges.

Within the ASX, I am mostly engaged with the financial and materials sectors, although I do have exposure to IT and other areas. I don't think I have a standout favourite, but I have to say that the most lucrative area for me has been in materials, with good trades in MNC, ILU, OZL and BHP.

What makes your trading style different from others? What sets you apart from other traders?

I think that for every 10 traders, there are probably 15 styles and I embody about five of them! I don't actually know how I differ from others, but the truism that 90 per cent of people who try to trade for a living fail, and the fact that I have not failed (so far...), might suggest that I am doing something right. I think trading small and conservatively when I had no education kept me somewhat profitable. Now that I have some education in trading, I am able to add good money management and improved emotional control to my 'style'. This has allowed me, somewhat perversely, to take greater, but better-managed risks in trading, while my conservative inclinations are satisfied by my investment approach.

Do you have a favourite trading rule?

As noted earlier, trend-line theory is my favourite trading approach,

but it has its limitations, which I am trying to minimise by combining it with other rules. I now look for other indicators, such as price levels and pattern analysis, to support my decisions. Furthermore, the current market volatility is not very friendly to trend-line theory, so I have to be flexible. The most important rule is to have a good money-management plan in place.

Ed Seykota says "Everybody gets what they want from the markets." What does Ray O'Donoghue 'get' from the markets?

So far, a whole lot of fun and an income that exceeded my target for the last year. There is no doubt that the market also delivers a lot of heart palpitations, but that is part of the excitement of the journey.

How has trading affected your lifestyle?

Trading is an important part of what I do with my life, partly because it has to provide a substantial part of our family income and partly because it is just so enjoyable. However, trading could become all-consuming and it would be easy to let it occupy every waking hour, so I consciously limit the time I devote to it. If this means I must be a little more conservative in order to protect capital, and a little less profitable, then so be it. Nevertheless, trading is allowing us to do more with our time as it is adding to our financial freedom.

What books, seminars and courses have you read or attended and which would you recommend?

Clearly, the course that has had the most influence on me is the Wealth Within Diploma of Share Trading. It has changed my approach to trading and I cannot recommend it highly enough. Wealth Within also conducts an annual workshop that brings students and traders together for education, motivation and support. I have attended the last two and gained much from both. As for good books, the list is long; but I have gained a lot of motivation from the Napoleon Hill classic, 'Think and Grow Rich'. Whenever motivation fades, reading a few pages of this book is sure to help. It doesn't tell me how to trade, but it does calibrate and focus my thinking, and makes me realise what is important in life and how trading can help that.

What does the future hold for Ray O'Donoghue ?

If the last 61 years are anything to go by, quite a few surprises! I know I want to spend quality time with my family, travel extensively and support causes that are important to me. Trading is one of the means that will facilitate these goals and it will remain an important part of my life. 🍷

***Kel Butcher** is a full time futures, equities, forex and derivatives trader. He is the author of '20 Most Common Trading Mistakes and How You Can Avoid Them', 'A Step by Step Guide to Buying and Selling Shares Online', and Forex Made Simple – A Beginner's Guide to Foreign Exchange Success'. He also acts as a mentor and coach to other traders. He can be contacted by email at kel@tradingwisdom.com.au*