Newsletter

The days of the Chalkies…

Prior to the fast world of the internet…how was trading done?

Depending on your age, you may remember the days of the Chalkies, or have no idea what we're talking about.

Initially trading took place using a **call system** (1861 to 1961). Using this system a reader called the names of each company and brokers made a bid or offer. Stocks were called 3 times a day.

This system was limited as the market was only open for a very short period each day and there was only a small number of companies listed.

Watch this video to see how it all worked.

In the 1960s trading changed to a **post system** (1961 – 1990) where "Chalkies" wrote bids and offers continuously on blackboards, as operators, who worked for brokers, called out orders. All of this made for a very noisy trading floor.

Watch the Chalkies in action to see how it all happened.

With the post system everything that was written on the boards was also typed into a price reporting system. The limitation was that during busy times there could be quite a delay between the change of prices on the boards and when they appeared on screens via the price reporting system.

The advantage of the 'post trading' system was that the market was open for longer from 10 am to noon and from 2 to 3.30 pm. Back then there were sharemarkets in each State and prices for the same shares could differ between States.

In 1987 a screen based trading system was introduced and the individual state stock exchanges were combined to form the Australian Stock Exchange. It started with just a limited range of stocks. Slowly all stocks were moved to this system and the trading floors were closed in 1990. Everyone, no matter where they lived could now trade in the same market at the same prices.

So there you have it, a little bit of history – now back to today.

Important Game reminder: To be eligible for prizes - one buy transaction must have been completed by 12 October, plus you must have purchased shares, in the Game, in at least 4 different companies over the Game period.

Stock Doctor Webinars

Webinar 1 recording
Game on with Stock Doctor

Webinar 2 recording
Smarter Game strategies

Webinar 3 recording
Reporting season update – the good, the bad & the ugly

Webinar 4 - Six secrets of successful sharemarket investing
Recording will be available shortly

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Market update – Changing wind tides

If you have been proactively playing the ASX Game, you may have sensed a different feel in the investing air. What seemed to work before, now fails, and vice-versa where things that were down are now up.

You are experiencing what is known as a change in the investing cycle, where factors that previously influenced market moves are changing. It's akin to enjoying a pleasant summers day when suddenly you experience a wind shift and the temperature changes.

Before recent months, the major factors driving the market and stock performance were Momentum (factors that relate to price movements) and Quality strategies (factors that relate to the core fundamentals of running a good business). These factors have been prevalent for some time and have resulted in significant outperformance for investors who have chosen to implement them. This includes Stock Doctor Star Stocks which are identified based on quality factors such as Financial Health, earnings efficiency, and cash flow generation.

However, in recent months there has been a suggestion by many that things may have run a little too hot for too long and a correction was due. For those using Stock Doctor during the ASX Game, you would have heard us advocate several times that investors should in the current market employ a prudent approach to investing. It was also the topic of a recent article written by Elio D'Amato for the Australian Financial Review that you can read here.

One of the drawbacks of a changing cycle is when investors jump on to an outperforming strategy, they also tend to jump off when things get a little tough, locking in the gains made through the previous cycle. This has indeed been the case for several businesses whose share prices have run particularly hard over the past 12-24 months, where investors have now cheerily taken a 10% loss on stocks which had previously made significant gains.

So, what has taken the place of Quality and Momentum? Well, the Value Investing cycle (factors that relate to identifying cheap businesses) is having its moment in the sun. The reasons for this are numerous but essentially, they are:

1. With volatility increasing in markets, many are looking for stocks already battered down. The theory is if the market has ignored you to date, or your price has already fallen significantly, then your price can only go sideways or up. Despite the apparent risks such a strategy can pose, if executed correctly by the investor, it may lead to significant gains. Else should the market experience a general sell-off based on trade wars, rising oil prices, interest rates etc, then these value businesses will not fall as much as no premium was attached to them.

2. Companies have been achieving substantial earnings growth over the past few years, but there is now a sense that the pace of growth is slowing down. Companies with large cash balances are looking to buy other

cheaper companies to add them to their stable; giving them a profit boost and new horizons to conquer. We have already seen approximately $150 billion worth of merger and acquisition activity in Australia this year. With access to competitive funding and prevailing strong economies chances are there's more to come. . Companies like MYOB Limited, Greencross and Navitas are recent examples.

Time will tell whether Value remains an outperforming strategy over the long-term. It hasn't in recent history, but that doesn't mean it won't work in the future. But, given we are close to getting to the finish line in the ASX Game you may be interested in considering a value strategy right now as it may help boost your returns.

From an education perspective, it is important to understand why these things are occurring within your portfolio. A changing cycle can leave many investors downcast, mainly if the move is against them. But to be honest, trying to pick changing cycles before they occur is hard. By the time most investors notice any change, it is already too late. Just like changing lanes on the freeway, where you jump into another lane because it is moving quicker, only to be disappointed when you come to a halt and cars in the lane you were previously in start passing by.

Therefore, we advocate using Lincoln's 9 Golden Rules of successful investing to formulate a strategy and sticking to it with discipline in all conditions. While you might be sailing into a headwind for the moment, when the shift does occur you will want to be ready to capitalise on it.

Try Stock Doctor for 30 days FREE. The link to sign up is via your Game dashboard.

Game update