ASX Schools Sharemarket Game

Student Lesson: YOUR GAME PLAN

Your Game plan

This session is all about deciding what your Game plan is going to be. When you play a game of basketball or football, you have a plan on how you will play and hopefully win the game.

It's pretty much the same with investing - you need to have a plan. When you start playing the Sharemarket Game it is important to 1) do your research and 2) have a trading plan.

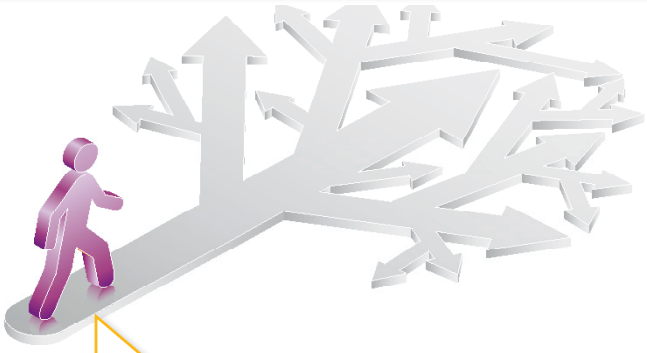
There are many books written on how to develop a trading plan and there can be a lot involved. In this lesson we will keep it simple. Once you have decided on the company shares you want to buy, you will also need to decide on the following:

WILL YOU BUY AND HOLD YOUR SHARES FOR THE LIFE OF THE GAME?

If you think the sharemarket is going to continue to rise, you might decide on a buy and hold strategy. The advantage of this is that you will be paying less brokerage. There is also less time involved in doing research because once you have bought your shares – that's it. But remember, you still need to keep an eye on them.

Even if you intend buying and holding it would still be helpful to have some rules. For example, will you sell a share if it drops to a certain level to protect your portfolio? Will you sell a share if it is not performing as well as you want?

Read what one of our national winners **Zachery said...** *"I studied the charts/graphs of a range of shares across sectors and set up a watch list. I then chose those that were on the rise. After purchasing ten blocks of shares, no further trades were made..."*



WILL YOU TRADE IN AND OUT OF THE MARKET, CONTINUALLY LOOKING FOR NEW COMPANIES TO INVEST IN?

You may decide to look at individual companies to invest in - make your profit, take your profit and then step into the next opportunity. This may be the strategy to use if you think the sharemarket is going to be fairly volatile (moving up and down quite frequently).

Using this strategy will take up more time because you will need to be on the lookout for possible new companies to invest in. You will also need to keep an eye on your shares and have some set rules. For example, what profit do you want to make? Also be aware of brokerage costs because every time you buy and sell you must pay brokerage and this can add up very quickly.

Joel & Mitchell said... *"When we started the Game, we chose to invest in company shares that were at a low but had the potential to rise and therefore would greatly increase our portfolio value...when our shares had reached their potential...and started to fall, we sold those shares..."*

OR WILL YOU USE A MIXTURE OF BOTH?

You might decide that you would like to use a mix of both strategies: hold when the sharemarket or an investment is moving up; however, if it begins to move down, step out and take your profit. Then wait and step back in again on another upward move with the same or a different company. The difference to trading in and out of the market is that you might hold onto the shares for longer, perhaps putting up with some occasional drops in price and only selling when you are convinced the share price is in a solid downtrend.

Hannah said... *"A technique I used was to regularly check upcoming dividends, so I could invest in some of these companies and increase my portfolio value, but sell the shares off again if it looked like the business could take a downturn...Towards the end of the Game I tried to stick to the companies I had already invested in so that they had the time to progress, giving me a higher portfolio value. However, whilst doing this I found it important to still keep a watchful eye over how their value was going so if it started to drop by a considerable amount I could simply sell those shares off and invest in something else. I also kept some cash on hand so that if one of my companies did decrease considerably in value, I still had more cash to invest with."*

HOW MUCH WILL YOU HOLD IN CASH?

If the sharemarket is particularly volatile, you might choose to sell out of some or all of your shares and instead hold some or all of your funds in cash. But remember that although holding cash will protect you from further loss if the market is moving down, it will not grow your dollars.

When the sharemarket was falling, **Savas said...** *"At times when it seemed dangerous to invest large portions of my money, I would play it safe, by either placing minimal money in trades, or not trading at all. At some stages I didn't hold any shares...which worked out well..."*

HOW MANY COMPANIES WILL YOU INVEST IN?

You must invest in at least 4 companies. This is because there is a rule in the Game that says you need to purchase different shares in the Game at least 4 times. There is also a rule that says you can only invest 25% of the value of your portfolio in any one company. For example, if you wanted to put the maximum amount of money into each company, this would be approximately $12,500 spread over 4 companies (4 X $12,500 = $50,000). This is really all about diversification. It means that rather than putting all your money into one company, you are putting it into a number of companies and as a result there is less risk.

Be careful if you are thinking of buying shares in a lot of different companies...find out what this student discovered: **Michael said...** *"We decided to buy 100 shares in Woolworths, and 50 in CSL Limited. At this stage we were just learning about the share market, and didn't understand much. We researched, collaborated and eventually decided on our plan. We realized that for 100 or 50 shares to become profitable, they would need to increase in price by a large amount to cover the cost of brokerage. Buying such a small amount of shares was our first mistake..."*

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HOW WILL YOU DECIDE WHEN TO ENTER OR EXIT A TRADE?

Often technical analysis is used to help decide when to enter and exit a trade.

For example, resistance points are when a share keeps nudging an upper limit or keeps staying just above a low price. Some chartists say that if the price eventually "breaks out" above (or below) that resistance point then the share price is likely to continue strongly in the same direction.

The ASX website has a lot of information about charting see:
http://www.asx.com.au/prices/charting-library.htm

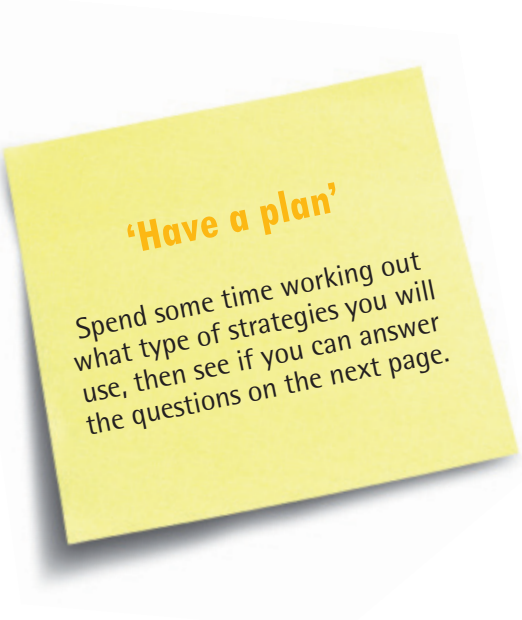
HOW MUCH PROFIT DO YOU WANT TO MAKE BEFORE SELLING?
HOW LOW ARE YOU PREPARED FOR YOUR SHARES TO FALL BEFORE SELLING?

You might decide that you will be a buy and hold investor except if a share drops too far. For example, a certain percentage below your purchase price might be the lowest you are prepared to let the share price fall before you sell your shares.

Brandon said... *At the beginning of the Game I started out buy buying a few lower priced shares. They started losing value so I sold them before I lost anymore..."*

Alternatively, if your shares rise by a certain percentage above your purchase price, you might want to take your profit by selling out at this point so that you can invest in something else.

Having a plan helps you to be more consistent and less emotional. If you don't have a plan and the market is fairly volatile (moving up and down a lot), you might find yourself panicking and selling out all the time. As a result you could end up paying a lot of dollars in brokerage and still not find yourself getting anywhere.



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My Game plan

Questions	Decision & reasons why
Will you buy and hold your shares for the life of the Game?	
or Will you frequently trade in and out of the market?	
or A mixture of both?	
Will you hold any cash?	
How many companies will you invest in? Have you decided on any companies yet? If yes, list them.	
How will you decide when to buy and when to sell?	
What profit do you want to make before selling? How low are you prepared for your shares to fall before selling? Calculate your limits as a percentage.	