

# School Sharemarket Game

## Developing a trading plan



Whether you are participating in the Game on your own or in a syndicate, it will be helpful to discuss what trading plan / strategy you are going to use.

Here are some of the things that you need to consider:

### 1) Protecting your portfolio

*Consider buying shares in more than one industry sector to reduce the risk of all your shares falling at the same time.*

One of the ways you can achieve this is to diversify.

To diversify simply means to invest in different companies and/or different industry sectors that don't tend to move in the same direction at the same time.

This will help reduce your risk of losing money. Let's say you invested all of your \$50,000 in one company and the shares in this company dropped by 30%. This would mean that your \$50,000 investment is now only worth \$35,000 - that's a loss of \$15,000. Whereas, if you invested in 4 companies – two in the Financial sector, one in Materials and the other in the Energy sector (approx. \$12,500 invested in each) and the other 3 companies are doing OK, that 30% loss is only \$3,750 – quite a difference.

Check, by looking at the charts to see if the companies you are interested in tend to move together. If they do, you are not really diversifying. For example, a company supplying mining services may go up and down the same as the mining companies that buy their services.

Remember, no one knows for certain how different companies or industries are going to perform in the future. So investing in a range of sectors, helps reduce risk. Be careful of over diversifying, having just a few shares in a lot of different companies – because you will end up paying a lot of brokerage.

For more help on sectors see [Lesson 8: Market indices and market sectors](#).

### 2) Decide your overall investment strategy

- Will you buy and hold for the entire Game?
- Will you have more of a short term view and attempt to buy low - sell high. (Remember, every trade will cost you brokerage.)
- Will you buy and hold some shares and look to trade in and out of other shares?
- Will you choose to hold cash if the market becomes very volatile (fluctuates a lot)?

### 3) Deciding what to buy and when to buy

- How will you choose the companies you are going to buy?  
There will be some companies that you will know; it may good to start by looking at these. To get more information on these companies and how they have been going over the past few months, from the company list, select the name of the company and this will take you to the company details page - scroll down to view a chart of the company's performance.

- Fundamental and technical analyses are methods often used to help with entering or exiting a trade?

You can learn more about fundamental analysis - which is learning to assess a company's financials and technical analysis - which is the study of price charts. These lessons can be found in our [Shares course](#).

A lot of people use fundamental analysis to select a company and technical analysis when deciding to buy or sell.

- Develop a step by step process that you can use to help you make your buying decisions
- Avoid making decisions based on your emotions

#### **4) Before you buy, know when you are going to sell**

- Make a decision on how high you are prepared for a share price to go, before selling? With the Game, you can place a limit order to sell at or above the present price. This decision will also depend on your overall investment strategy.
- Also, have a figure in mind as to how low you are prepared for a share price to go before selling. Think about how much you are prepared to lose before selling out.

For example, if you are trading in and out of the market, you might decide that if a share drops by 10% then you will sell to avoid further losses and if it goes up by 20% then you will sell to take the profits.

Please note there is no stop loss\* feature in the Game, so you will need to keep an eye on the market or review the market at the end of the day and make your decisions from there.

(\*A stop loss is an order that is activated below the current price and is designed to limit the investor's potential loss. This feature is not available in the Game.)

#### **When trading, it is essential to have a plan**

Of course, just because you have a plan doesn't mean it is the right plan! At the end of the Game, if your plan is not successful, you can review it and think about why it didn't work out. After all, this is the whole point of the ASX Sharemarket Game, learning from your experience in real market conditions.