One of the key lessons to learn is how to develop a trading plan.

Remember to:

- Keep it simple
- Be consistent
- Be patient
- Be disciplined
- And always reflect on the decisions you’ve made

It may take a while to develop a trading plan that works for you, this is where the Sharemarket Game can help you practice and learn. Trading plans can range from the simple to the very complicated. Here we will keep to the simple, plus provide you with some links where you can learn more.

1) Protecting your portfolio

- Consider buying shares in more than one sector to help reduce risk.

One of the ways you can help protect your portfolio is to diversify. Diversification is when you invest across a variety of sectors and companies. For example, you might diversify by buying shares in the energy, health care and financials sectors and over this time the financial sector might be down but the health care and energy sectors might be moving upward. In this case, you have spread the risk over your portfolio. However, if you had invested all your money in the financial sector then your portfolio would not have done so well.

The goal of diversification is to help your overall investment return by spreading the risk.

Remember, no one knows for certain how different types of investments are going to perform in the future. So selecting a range of investment options helps reduce risk. Make sure the companies don’t tend to always move together – you can look at the charts and compare. Also, be careful of over diversifying, having just a few shares in a lot of different companies because if some of your investments do well, you want to have enough of them to boost your portfolio.

For more help on sectors see Market indices and market sectors (Lesson 7).

2) Decide when to enter a trade

- What type of research are you going to do on the companies or sectors you are interested in?

Take some time to learn about and fundamental analysis (Lesson 9) - introduction on learning to assess a company’s financials and technical analysis (Lesson 10) - how to use sharemarket price charts to assist your investment decisions.

- Fundamental and technical analyses are methods often used to help with entering or exiting a trade. A lot of people use fundamental analysis to pick 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 trading decisions.

- Avoid making decisions based on your emotions.
3) Before you buy, know when you are going to sell

- Make a decision regarding how high or low you are prepared for a share price to go, before selling? With the Game, you can place a limit order (see Game help page) to sell at or above the present price.

There is no stop loss* facility 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.)

4) Decide on 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 - see Game help page)
- Will you buy and hold some shares as your core investments and look to trade in and out of other shares?
- Will you choose to hold cash if the market becomes very volatile?

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 assess 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.

Further resources to help you with developing a trading plan:

Books: **Smart Trading Plans** by Justine Pollard - Justine takes you through the process of developing and implementing your own personal trading plan.

**Analysing Company Accounts** by Martin Roth - This book will help you understand how to read Company annual reports and prospectuses and increase your financial analysis knowledge.