

Know your investment style and limit your universe

In my last article I discussed the key considerations for investors in setting investing objectives. To recap, each investor should set a return and risk objective.

Each must be balanced relative to each other, but also be realistic with respect to an investor's available time, expertise, intended investing style, and universe.

This week I will discuss how to determine your investing style and universe.

As a technical analyst (all decisions to enter and exit the market and how much to risk are determined by charts) I will only comment on



TERMS OF TRADE

with CARL CAPOLINGUA

relevant techniques for technical analysts.

Investing style refers to the frequency and likely hold time for investments.

I classify traders based upon their typical hold time for an investment. Very short term investors might hold for a few hours to a few days, short term investors for a few days to a few weeks, medium term for a few weeks to a few months, and long term for a few months to a few years.

Once an investor has settled on an investing style, this determines which periodicity to use. Periodicity describes the periodic value of the X-axis of a chart.

Very short term investors would likely use 15-minutes, hourly or four-hourly periodicities, short term would use a daily periodicity, medium term a weekly periodicity and long term a weekly or monthly periodicity.

By picking the correct

periodicity you are likely to enter trades consistent with your investing style. Once the periodicity is determined, so is the frequency of analysis.

This is the golden rule of determining your investing style: only check the market and conduct your analysis in line with your periodicity.

Analysis should only be conducted at the conclusion of each relevant period. For daily, weekly, and monthly periodicities this means checking your investments when the market is closed.

I allocate about three hours per analysis session.

So if you were using my system on daily charts, you

would expect to spend around 15 hours a week on your analysis. If you were using weekly charts, you would need just three hours a week.

If you can't afford to apply yourself for three hours each day, then I would strongly recommend that you refrain from short term investing and try medium term investing instead.

Finally, one must determine their investing universe.

This is the group of securities to be assessed each analysis session.

My universe is all ASX and USA stocks. This means that I must analyse over 10,000

charts each time I do my analysis.

I have some pretty sophisticated tools to automate this process and reduce my analysis time to just a few hours. Your universe may need to be smaller because you don't have access to such tools or have less time.

Just keep in mind the second golden rule of determining your investing style: The bigger your universe, the bigger your opportunity, and the bigger your potential return.

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