The 12 Keys ingredients of the Stock Market

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“Neither the world was flat nor the stock market is impossible”

“It’s curious how human kind is able to create an enigma which ingenuity itself can’t solve” Edgar Allan Poe (1809 – 1849), American writer

I entered the world of the stock market several years ago, surely enough like you, with a certain level of skepticism and ideal vision regarding what happens all around it.

Fantastic businesses, a life of adventures and luxury, stories about known people with extraordinary guesses, hand - made suits, expensive cars and offices with views. All of this really does exist, especially for the ones who make others believe it in exchange for a lot of money.

I for one, still dream of all of this because I entered this world without much preparation and as it usually happens in these cases, I lost a lot. What made me different from the rest was having looked back to be able to understand what I had done wrong. I found out that you had to study and understand something which even though has been with us for more than 400 years, it still hasn´t got a proper university course, and as I know now, it will never have one because it´s not what you know but what you do with what you know that helps you survive in this market.

But from all the good things that happened to me the best was, without any doubt, meeting someone who made a living out of this and who told me to educate myself for two years or more with all the means I have at my disposal, but without spending any money on magic formulas.

At the beginning I didn’t listen to him, of course, but after losing again, I rethought the piece of advice he gave me.

Thanks to that person, I was able to begin something, make it on my own and grow.

I invite you to do the same by reading this book which I wrote using a mixture of basic and complex things given to me by my experiences.

Maybe you cannot find every little detail in here, but what you do find is REAL and TRUE and CAN help you.

At the beginning you may find it a bit difficult, but with some practice you will understand it and this will be forever because the rules haven’t changed and will never change.

Learn from my mistakes, because they will be the cheapest you make in the stock market, and if you happen to lose money continue studying to understand why.

Patience and Luck and if I could do it, anybody can. I want to give my thanks to Marc González and Rafael Jarque for knowing how to listen every time I came to them with the somewhat boring theories and discoveries about the stock market, while

we were riding our horse. Furthermore, without their advice and corrections this book wouldn´t exist today.

I also want to thank Mrs. Josefa and Mr. Antonio who always had faith in me without knowing very much about the stock market, but who always knew how to cheer me up during the worst days.

I am grateful to my family because without their trust in me I wouldn´t have been able to support myself and begin something in this world.

I am also grateful to **Alexandra Hutusoru**, my friend and a great professional, for always being there for me. This translation is yours.

I love you, thanks.

And last but not least, thank you, for buying this humble book.

Written by Pablo S. Mariana between 2009 and 2010

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<u>Preface</u>

"I put the Financial Times on the floor and I called my dog to pee on it. On each spot left untouched I would be able to sell something"

Bob Beckam

"The future can be a lot of things. For the weak it´s the unattainable. For the fearful, it´s the unknown. And for the courageous it´s an opportunity."

Victor Hugo

"The only limits are, as always, the ones your eyes impose on you."

The fundamental objective of this book is to familiarize you with the Stock Market: on the one hand it gives you the basic knowledge necessary for you to get acquainted with the stock market and its ways and it also gives you the possibility to understand and use this knowledge to be able to enter and manage the market without any fear and with the guarantee of not being destroyed at the first signs of change; and on the other hand this book will prevent you from wasting a lot of your money on commissions, custodies, different expenses and professionals who offer to manage your money.

According to the Phoenicians, since a long time ago, whoever controlled the market, controlled the whole world, and this is one of the things that hasn’t changed with humanity. Commerce is the base of human relationships, good or bad.

We need to buy what we don´t have and we need to give something in exchange. It´s the rule of the Market and it always has been.

The Stock Market is the worldwide market by far. Absolutely everything is contained by the stock market capital, beginning with our home insurance, capital expansion for companies, to our savings and the savings of our taxes, everything.

So, you can become a business person thanks to the unlimited products of the Market, because every time you buy a share, you put a risk on your capital and this risk can be related to the Market itself, to the products, or to the administration and the trajectory of the company, be this from whichever category it may be.

The world of the Stock Market is becoming more and more accessible to everybody, beginning with the information and ending with the necessary training and formation. This is also true for every type of business and knowledge. With the Stock Market you can buy the shares of whatever company you want, and also other different types of financial products with only the pressing of a button.

But this apparently small advantage doesn't always result in you earning money, because if you don't know your way around it, it will probably cost you not only money but also time. This is the point where you make mistakes and don't take advantage of all the options at your disposal.

But, on the contrary, if you do it right and you have a bit of luck, which you need in every little thing you do in life, you can enjoy extraordinary advantages, starting from material ones, like a free of worry retirement, to personal ones, since making a living with the Stock Market has never required being physically present when making investments, all the contrary to having one's business physically bound.

The Stock Market can be either a beautiful dream or a horrible nightmare, from whichever point of view you look at it. It all depends on it ruling on our favor or not. One thing is certain: the Stock Market never always makes an impression on you.

Metaphorically speaking it is like an ocean that allows you to catch either little fish or a whale and where a big wave can simply knock you down. This is the way you can understand why the fishermen that have a bigger boat and better equipment catch more fish than the ones who go by themselves and with only the basic equipment. Even though they know where the bigger fish are their ability is very different, and that is why the results are the same.

Your metaphorical boat and equipment for your "trip" is your knowledge and capital, which will always be less than the ones of the professionals but nevertheless they have to be enough to stay afloat and allow you to "navigate" a lot. This is how you learn little by little.

But there is also no need to be in a hurry, because the Stock Market doesn't allow too many mistakes. Furthermore it's neither better nor worse than it has been in the last few years, so there is no rush in showing your resources. Don't worry too much if you find yourself in a phase of recovery or increase and get the impression that you will arrive late; it's never what it seems and the cycles always repeat themselves.

Be realistic and acknowledge that you can earn money with the Stock Market but you can also lose, and it all happens much faster within it than outside of it, in life. Because while employment is created and life style increases, your business, whichever it may be, goes up with it. The Stock Market is designed to take part or all of your capital because the money that other people, be they professionals of the Stock Market or not, earn in the future, will only be the money somebody else lost, including you.

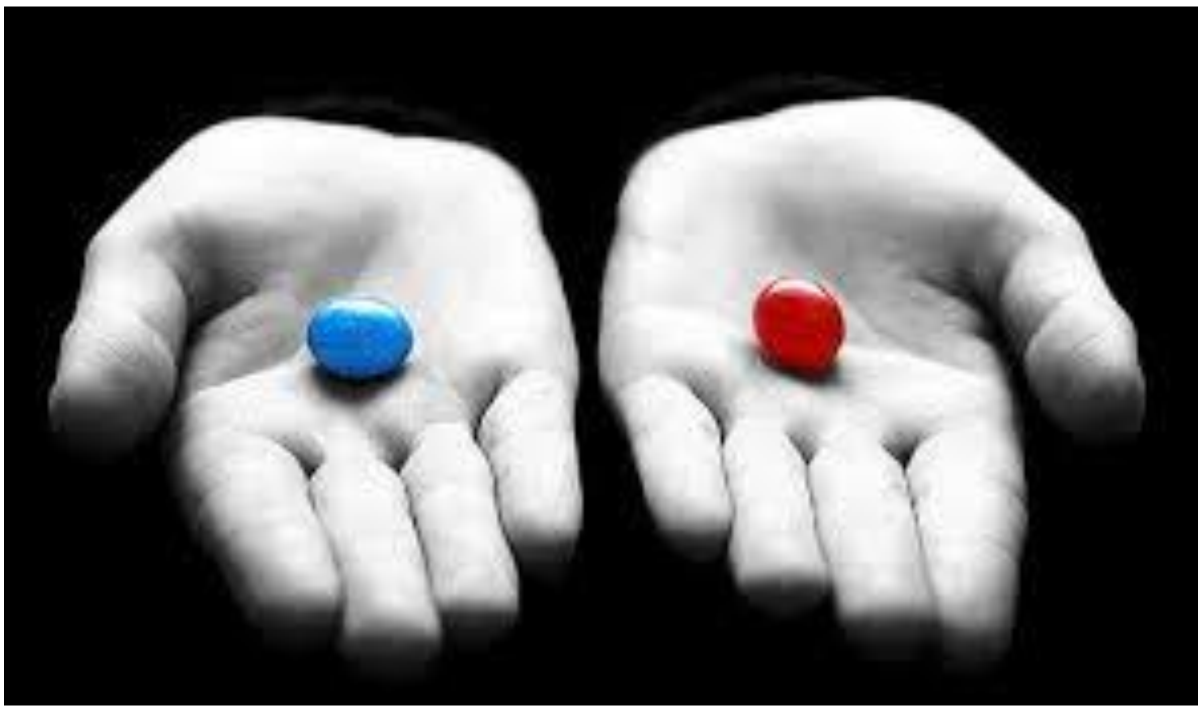
I have made over 1500 real operations with all known markets and with every type of financial products. Nonetheless, this book won't teach you how to become rich in 2 days nor using 1000 euros. But, considering the percentages I've made all these years and the fact that the failed operations haven't taken me out of the Market yet, just think that what you could learn here is worth at least the value of this book.

First, I will teach you how not to lose, and the next step will be to teach you how to win. From that point onwards you will decide your own destiny, using your own abilities. I hope that when you reach the end of this book you will have a more clear idea of what the business of the Stock Market is, about its components and main "characters", and that when and if you decide to intervene you will understand that all help is little, because the opportunities and risks are bigger as you enter it.

More than two billion dollars go around the world electronically every day, and this amount increases every moment. Nowadays more money is made so there is more money available each time. The only problem is that this money is invisible because it travels electronically so when people want to see it they can’t. The majority of the population struggles to get by every month and however 2 billion dollars just go around the planet looking for someone to own them, take care of them, nourish them and make them grow.

“Investment means freedom, riches and commodity. Even though investment implies risks, like the ones that join a sailing trip to Tahiti, those risks, as well as the objective are worthwhile.”

Welcome.



1 – Game or Business

"Don't tell my mother I work with the Stock Market. She thinks I play the piano in a brothel."

"If everything else fails, one can always assure his immortality with the help of one spectacular mistake."

"A Stock Market investor with no reflection, arguments or motivation is just the same as a roulette player: a lover of chance."

It doesn’t matter if you think that the Stock Market is just like a game or it is just business, that it is unpredictable and that only the same people win, or that you can only make money with privileged information.

It doesn’t matter what you think because all this doesn’t affect the Market in any way. Furthermore, you know that there is some truth in all this and that there is more to it than you can even imagine.

As a business let’s say it is a Market where everybody fits: the optimists and the pessimists, the honest businessmen that give part of their company to shareholders they don’t know and make a compromise regarding a correct operation so that they can grow together, and also the ones that want to pass the burning match to other so as to avoid getting burned.

We could also allow the entrance to the bold and the cautious, the smart and the foolish, the ones that trust their eyes and the ones that trust their ears, the romantic that keeps his shares all his life and the ones that last only minutes, the calm the ones that are in a hurry, and above all the ones who know the rules and the ones who don’t.

I am sure you belong to this last one apart from one or various of the others. Let’s try to make that better, shall we?

And if you look at it as a game, there is no comparison available because a game in its simple form, is something that keeps you busy, it distracts and entertains you, meanwhile if you put in some money at that game, the feelings are much more intense either when you win or lose.

That is exactly what the Stock Market is. What I am trying to say is that is has got psychological and sociological implications.

We hear Stock Market and we immediately associate it with triumphs or famous bankruptcies and frauds, not even thinking of the small anonymous stories belonging to people who simply use the Stock Market to help improve their daily economy.

While I was writing these very lines I was in the currency market with a carefully revised previous strategy and I was actually earning 500$. But just in the following few minutes it completely turned around and I saw how the benefits were decreasing to the point where because of the stipulated parameters within the strategy I could just easily begin losing.

Here is where you get overexcited, you feel woozy and you ask yourself: should I take some benefits even though I have few? Should I let the stops jump away with the risk of losing?

Or should I just drink tea and relax, or go for a run, or take the dogs for a walk or whatever it takes for me not to see what happens and let the system do its thing?

These are the questions that every person, professional or not, asks at one point. It's no that strange at all. What happened?

What the majority does in this case is to sell and collect even the smallest benefits and what happens right after, as in the 90% of the cases, is that the market turns completely around as if nothing has happened.

The only thing that you take out of this process is getting upset, besides losing benefits, generating commissions and, even worse, remaining out of the market until the next sign of entering.

I just stopped looking at the screen, giving the system permission to take me out if necessary using the parameters that I calmly and previously created, and after some time and when the moment came, I looked again and saw that I was making slow but sure benefits, all thanks to the well done planning which I will teach you how to do.

As a game, if you only look for the feelings, it has no comparison. Personally, after some professional adventures in the business world, and filled with experience, some of it bad but always instructive, I decided to enter the world of the Stock Market, with the intention of earning money with it.

I treated it as if it were any other type of business and I studied its strong and less strong points and it took only 4 parameters to convince me.

What you should know:

1. In any business in general, any piece of knowledge works for you. That provides mobility and not only within our borders.
2. You don’t need any people to work for you, not even for managing your accounts and investments.
3. Your loss is limited according to what you have (I am still paying taxes of previous adventures)
4. Your benefits can be limited and have nothing to do with subediting them to a major company structure or to market cycles.

If your predictions are correct, your capital increases. As a business, you buy part of a company (shares), you collect part of the benefits if there are such, in dividends as well as in the increase of the price.

This way you don’t have the daily problems of a company, which I wouldn’t like to mention because the ones that haven’t had them would say they are an improbability and the ones that have had them (for 15 years I was the director of a national service company) wouldn’t even like to remember them.

As a business it is clean and simple. You buy something to sell it afterwards and get benefits which is yours if you take the commissions and taxes, and besides that what you only need to work is a computer and the way we say it in Buenos Aires, the three Ps which are “plata” (money), “paciencia” (patienece) and “pelotas” (guts).

Furthermore, there is an important difference: the capital that you invest is always money, not equipment, not merchandise.

You are a stranger to the daily decisions of the company, but so as to its management and daily problems.

The real question surely lies in whether you really want to know how the Stock Market works in general or if you prefer other people to manage it for you.

The difference is pretty obvious and if you dedicate some of your time trying to see how it works, that doesn’t mean that you are obligated to bring **your own problems into this,** because as you will see, this requires time and dedication and not everybody has both.

But it does have the capacity of helping you understand some aspects that can, in the end, affect your finances.

One of the most important things that you have to understand is that, even if you consider it as a game or a business, you are a part of it. It makes no difference if you have your money in a retirement plan, if you keep it as shares: everything goes in the same bag.

Somebody takes it all to the Stock Market to sell it and take a benefit for it, so that he can give to you **what he borrowed plus his part.**

So, it is really important that when somebody offers you one of the possible investments that you can make, you can be able to analyze the possible benefits and losses.

If you let somebody manage your money without the safety net that you would use, you should at least know the basic rules of the “game”:

1. You want to earn money, but you have to think that in order for you to do that somebody else needs to lose it.
2. Whatever you do in the Stock Market, your account will always have little holes called commissions and delays in executions.
3. First, survive. After that, earn money.

Don’t think of becoming a millionaire, at least not for now.

I hope this helps you realize that the Stock Market is not to be taken lightly.

Just think about other aspects of your life’s economy, and see if for buying a car or a house you should be interested in doing it yourself or you would let somebody else manage it, and act in consequence.

My advice is for you to study or read a bit on the topic. It doesn’t have to be technical books, but maybe just some stories about the Stock Market.

Those could help you to have a basic idea about what you need to know.

Just keep in mind that nobody gets rich by listening to rumors.

You may not get to be as intelligent as the ones that work with the Stock Market every day, but it really isn't that difficult understanding the basic concepts that can save you as much as possible from being deceived.

The difference between a gambler and an investor is the following: for the gambler, the investment is a game of chance, but for the investor is a game of abilities.

And for the people who give others their money to invest for them, is a game that they don't want to learn.

The most important thing for the one in the last category is carefully choosing a financial advisor.

My help is just a small part of all this, but it is better than nothing and it could help you find a point in your life where you can have two jobs: one for you, your daily job, and one for your money, so that it can grow thanks to wise investments. That is what I recommend.

Remember that if you don't want to show interest in your money, you should put your money with interest.

2 – The levels of the Stock Market

"A long term investor is nothing else but a short term investor, who just made a wrong judgment about the expectancies and tendencies of the Market"

"The ones who win the money are those who, with patience and observation, go after the ones who lose it." Benito Perez Galdós

"Make the laws known for yourself because it is more expensive if you don't.

Robert Kiyosaki

There is an infinite number of companies from all around the world that are part of the Stock Market, besides all the financial products that can be found on the financial markets.

Fortunately for us, all the investments can be made around three levels of action, which are not of risk:

- Earn money only at the rising of the Market
- Earn money only when the Market goes up or down
- Automatic systems

All of them have advantages and disadvantages which we will analyze thoroughly little by little, and you will also see that the risk doesn't increase at the same time as the benefits of each level do.

There can be more risk in a level 1 buy operation than in a level 3 one. I am talking mostly about speed: it's not the same doing 10 operations a day than doing the same number of operations a year even if it's on the same title or company.

In both cases, your benefits and losses will significantly change.

Think of it as driving on a regional road or a motorway. Each one of us is more comfortable going on one or the other.

That is why when talking about the Stock Market you have to find your own rhythm of work.

Level 1. Earning money only at the rising of the Market

This is what we will try to explain in this book, slowly but certainly. Clearly, if the price of what you bought increases, your benefits increase. Nevertheless, you can also call it winning and earning money when you are out of the Market the moment it goes down, because when you want to go in again you will have more capital, the result of you not losing it previously.

This way of operating constitutes 90% of the operations in the Stock Market, judging by number of products and people who act either consciously (by themselves) or unconsciously (through funds)

People make operations on all of these products, hoping that their value increases as time passes, something more than the occasional dividends.

Here we have to take into account the buy price (because a low price doesn't always promise a cheap one) and the time we want the investment to stay on, so that at least the development of the company or fund can exceed the annual IPC plus the expenses of our buy and sell which we will talk about more in detail later.

Level 2. Earn money only when the Market goes up or down.

The Stock Market has got some products that you can sell and which don't have a definite price, so you have the possibility of giving that product to somebody that has to buy it in a certain amount of time, so you have that limited amount of time at your disposal to buy it at an inferior price and pocket the difference.

It's the same as if you bought and then sold it at a higher price.

These processes are called Derivatives, and the way they function is more complex.

You can win a lot more money when the Market goes up or down, because the operations get doubled and all the possibilities are taken into account.

Plus, there is the inactivity effect which allows you to multiply your possible benefits, but you need a bit of a previous study to reduce the risks**.**

Here you would find the Warrants, the Future Contracts, the Difference Contracts, Forex, etc..

Each one of them functions on its own and in a specific way, with different markets, so that's why it's not for beginners, remember that.

Nowadays the Banks and other agents offer you platforms for operating easily with these types of products, but remember that you have to understand them very well and that you have to try to find platforms with simulated money, so that you can try operating before investing real money.

This will not be so much mentioned here.

Level 3. Automatic Systems

In the 90s, seen as how computers were developing, the Banks began employing Mathematicians and Physicians with the purpose of creating and developing programs.

Now you can understand why 60% of the worldwide operations are done by computers and specially created programs.

With these programs the computer basically gives the Market the buy and sell orders which have previously been specified by us using fixed parameters tried out in time. It's also not necessary for us to be on top of that investment process and the psychological factor is left aside.

It's the safest way to operate in the stock Market, but the most difficult to learn, although, seen how it is based on worldwide known signs, which we will later mention, it becomes somewhat easier.

I personally recommend some of the courses there are on the market or even a private teacher.

One can never expect of reaching the complex systems the banks work with but he can learn how they function and compare them with our ideas and the previous used information that we have and that is the only thing in the Stock Market.

The most important thing is learning step by step, getting to know the various types there are, and once you choose your level, learning how to be comfortable with it and explore it to the maximum.

On our web, www.brokerpanda.com you will find all kinds of courses, online ones as well as face to face, so you can educate yourself in the world of the Stock Market.

3 - Portfolio or fund

"An intelligent investor is a part time one. The limit of his investments is determined by the Market."

"And the worst thing is that if you don't risk something, you will risk everything."

Basically, I understand that a share portfolio or another type of long term sure investment, like Treasure Letters or a public debt, is something of our property and something we don't touch very often, because we expect it to go up, either because of recommendations, or because we trust our consultant, or simply because of the time that passed since we last bought.

What I want to point out is that in this book you will not find any indications for long term investment as for 10 or 20 years.

If you are looking for that I recommend that you see Warren Buffet's way of doing things, who works mostly with Fundamental Analysis, which works better for long periods of time.

There are various very interesting books on this subject.

Traditionally, you will find that the majority of investors wants to leave the money untouched for many years for it to give constant benefits, which is very difficult even though the share are spectacular.

Having learnt that, take into consideration that the advice of the experts, for a period of more than 10 years is not very reliable.

Not more than **their** own opinion. There are too many changes and each time they happen faster.

But on a long term, macroeconomic and global changes are more important than the one of a sector or a company, and in order to see what is happening to the world you don't need too many consultants.

Remember that the Stock Market and the Economy don't have to go hand in hand and they normally don't.

Just think of the Economy as the owner of a dog and think of the Stock Market as the dog. While the owner takes the dog for a walk, his pace is constant.

Meanwhile the dog get closer or separates itself, walks a few steps ahead or with the owner, starts running or stops whenever he pleases.

Just remember that when making a portfolio, you have to put things that you clearly understand, like shares that have a sufficiently safe history not only regarding business, but also product, assurance types, banks, etc.

There is a well-known term for that: the “Monopoly of the Consumer”.

You have to make yourself a portfolio with shares belonging to well-known companies that have products demanded worldwide; products that you can find in your own supermarket.

You have to choose those brands or products that have been with us for a long time and will remain on the market for at least as long.

These are called the Monopoly of the Consumer and constitute the base of any solid long term portfolio.

A fund is much more dynamic even though it’s also formed of different shares and investments.

We can manage it or not and we wait for better benefits from a checking account at any bank.

As a matter of fact, when a bank offers you this or any other fund it’s because the promised and expected benefits are superior.

But why do it ourselves and not the bank or the consultant **we have**?

And why not?

Let’s examine the strong points of a fund and compare:

1. It diversifies the investment. Nothing that you yourself can’t do.

2. There is a professional who is in charge of a team that has got the information and means to operate and also who is always looking at the graphics.

Well, they can't be that good when they don't offer you benefits besides what you invested; and even less, when you don't touch anything in a few years and you start losing the management and buy commissions, the operational commissions, the cancelation ones, and the IPC of these years.

If all of this happens and you still don't lose a 10% of the investment and the possibility of touching the money because of the penalizations, you are extremely lucky.

Even more, there is another problem. Have they realized yet that the funds are usually created at the beginning of the year? A part from the legal reasons and generating commissions, there should be no reason during the year in moving the fund shares.

Why? Well, why not? You have already paid and if anything goes wrong you have two options: you either have to get paid the 90% of your former capital, in a few years, the 90% you gave to the bank for its operations; not to mention the 10% you gave away in expenses and commissions.

Or, which is even worse, the market has gone down but nobody is going to say anything because you already knew that the market was unpredictable and that if you wanted your money to be safer you should have made yourself a checking account (moreover you owe some more on commissions)

Another aspect: if you are a client at the X Bank with an amount of 6000 € and there is another client at the same bank with an amount of 600.000 € and the bank has to sell some shares because they are on the verge of collapsing, who do you think the bank will sell them to first?

Well, that's it. The same thing happens with the funds. So, to end this idea, the fact that a team of professionals dedicates itself to your fund so as to get you benefits is totally incompatible to the 20.000 funds (yes, 20.000 is not an error) that can be **found** on the Spanish Stock Market.

3. The possibility of operating in rising foreign markets

Firstly, the more foreigners **the more opaque and higher commissions** and secondly, the more rising the more variable they are, and the more variable the more the commissions and the risks.

MOREOVER, NOBODY IS GOING TO STOP YOU IF YOU WANT TO OPERATE IN THE SAME MARKETS, WITH THE SAME COMPANIES FROM WHICH YOU CHOOSE THE MOEST WELL-KNOWN.

I suppose that now you have an idea about funds they are the bank's version of the following: for every client there is always a proper fund. Do you want a fund with a risky 30% on an Asian Market? Or maybe a 30% on American technology and a 40% on reliable German **bonds**? Don't worry, they exist.

Oh! If the Ferrari guys could only sell us one with the reliability of a Mercedes at the price of a KIA. I would buy two!!

4 – The importance of a plan

"Could you tell me what road to take?

- ***Well, that depends on where you want to go.***
- ***It doesn't matter that much…***
- ***Then, it really doesn't matter which way you go. "***

Lewis Carrol, ***Alice in Wonderland***

"The biggest mistake of the great investors is when they sense a big error and in spite of that they make it. It almost always happens because they let themselves influenced by others."

In the Stock Market a mistake has a high price, but that doesn't make it any less of a mistake and it usually implies previous consideration and preparation before taking a decision which later becomes the source of the mistake.

But this is the good part. If we are capable of understanding where we went wrong, we can correct everything so that little by little we get better and stop making mistakes.

Like everything in life, experience is very important. In the Stock Market you cannot understand things like delay of execution or the psychological component of an investment just from books or explanations, because you have to experience them. Bad investments are inevitable before you begin doing good ones.

"You have to kiss a lot of frogs before you discover which the prince is. This affirmation is available for many aspects of life, as well as for investments"

If a decision is taken without a proper plan, the consequences of the investment are out of your control, so even if they are good or bad you have no way of knowing.

So what is sure to happen is that you make the mistake again, which is even worse, because I don't know any investor that hasn't grown after a good operation.

It doesn't matter what your plan is as long as it is definite and you have studied it objectively, and as long as if functions properly.

From buying on Monday and selling on Friday, to acting judging by the stages of the Moon, everything goes, as long as it gives constant benefits in the different phases of the **bond**: getting you in the market when it goes up, taking you out when it goes down and without many expenses on the lateral trends.

But you will understand more of this later on.

Personally, I prefer Mathematics and what is almost the same thing, graphics, because nowadays, with all the progress made In Information Technology, one can study graphics until he finds a suitable way for him of operating in the Stock Market with using proven realistic and reliable statistics.

Graphics are the representation of the price of a **company** in a limited amount of time. And within that time with these realistic prices you can use several parameters which would be the indicators that will help you understand better what you are looking at.

This way you can also predict with more clarity the current trends of the Market, so that you can act using your own rules.

For example, if a crossing of parameters gives us an annual average of 20% profitability in the last 5 years, and in these last 5 years we have had upward and downward trends, then it is highly probable that the following year we have a profitability of 10% and 30%.

The difficult thing would be for us to have a loss of 50%.

And if, for example, you diversify it in ten companies with a profitability of between 10% and 20% each, we will definitely reach our objective of earning something, although I have to remind you that in crisis moments we will be the only ones getting out of the Market with our capital intact if things don't go as we want.

No bank will sell and give you your capital back until a better chance comes along.

And also take into consideration that the word "sell" is not that clear to a broker.

This book will give you some basic concepts to understand the Markets. First, you will learn how to visualize them in a simple and easy to understand way and then we will give you several standardized **signs** to use as **criteria.**

They are the most well-known because what best works in the Stock Market is to follow the rest: buy when everybody else is buying and sell when everybody else is selling but anticipating if it is possible.

There is a saying regarding the Stock Market: "The trend is your friend" and it's really important you take it into account.

The possible benefits lay on the time factor: on the sooner you get in or out. This is the key. If you are capable of getting in or out of the Market before anybody else you have the possibility of investing in another **company,** or not, but your money is safe.

But if you maintain the same companies until the end, you could lose it all.

Unfortunately when the Market falls, the worst thing is that when you want to sell nobody wants to buy, that is why you have to get out when you have the chance and not when you please.

It is extremely important to get out as soon as possible.

The objective of having **a plan** is having ideas that can agree or not with some of the analysis on the Market, but you have to understand it so that you can have some intellectual examples and strategies that may or may not go with your daily events on the Market.

The important thing is to have ideas, either good or bad, and not go about this as if it were a game as others do.

Your best plan will probably not be the first one, but the amount of all of your knowledge and treasured experiences gathered in time, and of all the real and simulated operations, and that may take a while, depending on each individual.

Your plan should be created using our left side of the brain, where great ideas are born, and while conceiving it, you should stay away from emotions and feelings.

<u>5 – Visualization</u>

"If you can't see it, you can't know about it, if you don't know about it, you can't understand it, nor study it, nor act upon something with minimal possibilities"

"What can be measured, can be managed."

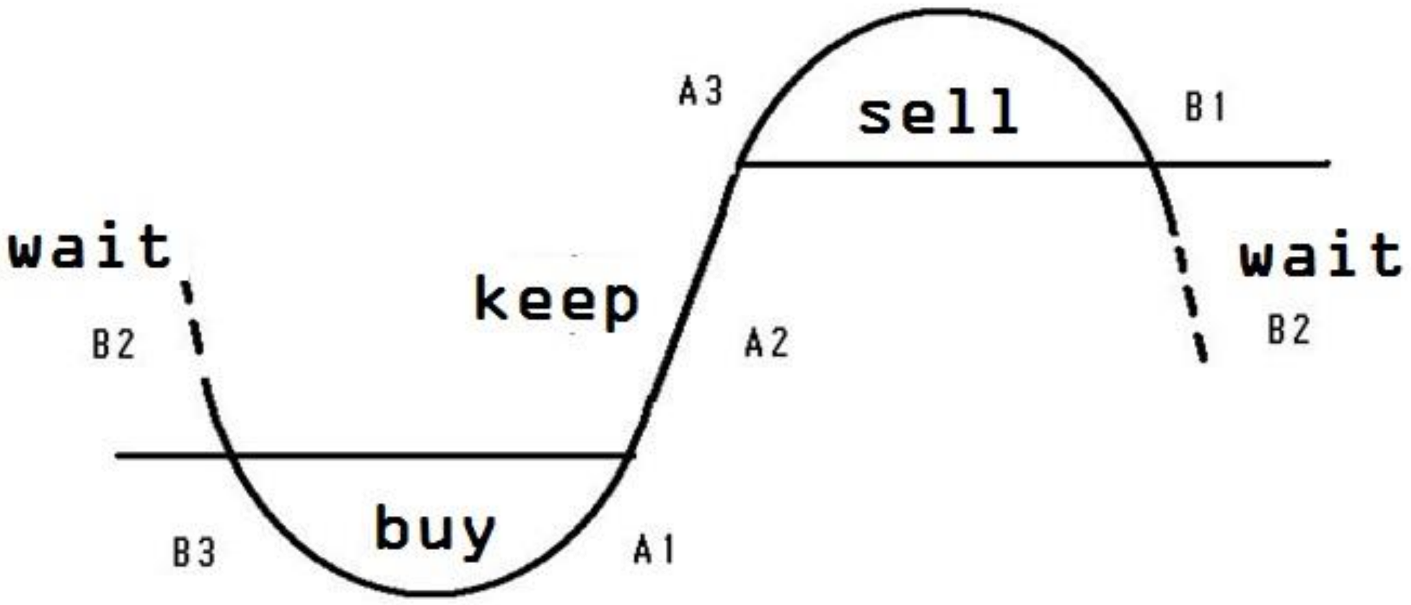
"We are not afraid anymore of something we have learnt to understand."

Marie Curie

We have to take into account that prices go down when the owners of the **companies** want or need to sell and the ones who have the money don't want or don't need to buy, and the prices go up when the ones with money want or need to buy but the owners don't need or don't want to sell.

The cycle of a share can develop itself in three ways: bull, bear and **lateral,** which happens most of the time.

The bull and bear trends, each has three steps:



A1 – **Correction Phase**, a low volume of operations and a small number of shareholders.

A2 – **Accompaniment Phase**, The volume of operations goes up and so is the number of shareholders.

A3 – **Excessive Phase**, the volume of operations is excessively high, and the number of shareholders is high, reaching the maximum at level X.

B1 – **Correction Phase**, low volume of operations and the number of shareholders is slowly reducing itself.

B2 – **Accompaniment Phase**, the volume of operations goes up, while the number of shareholders continues to go down.

B3 – **Excessive Phase**, a high volume of operations, and the number of shareholders gets really low going to a minimum at level Y

Which means that your objective is to buy inside or as close as you can to the buy phase and sell inside or very close to the sell phase.

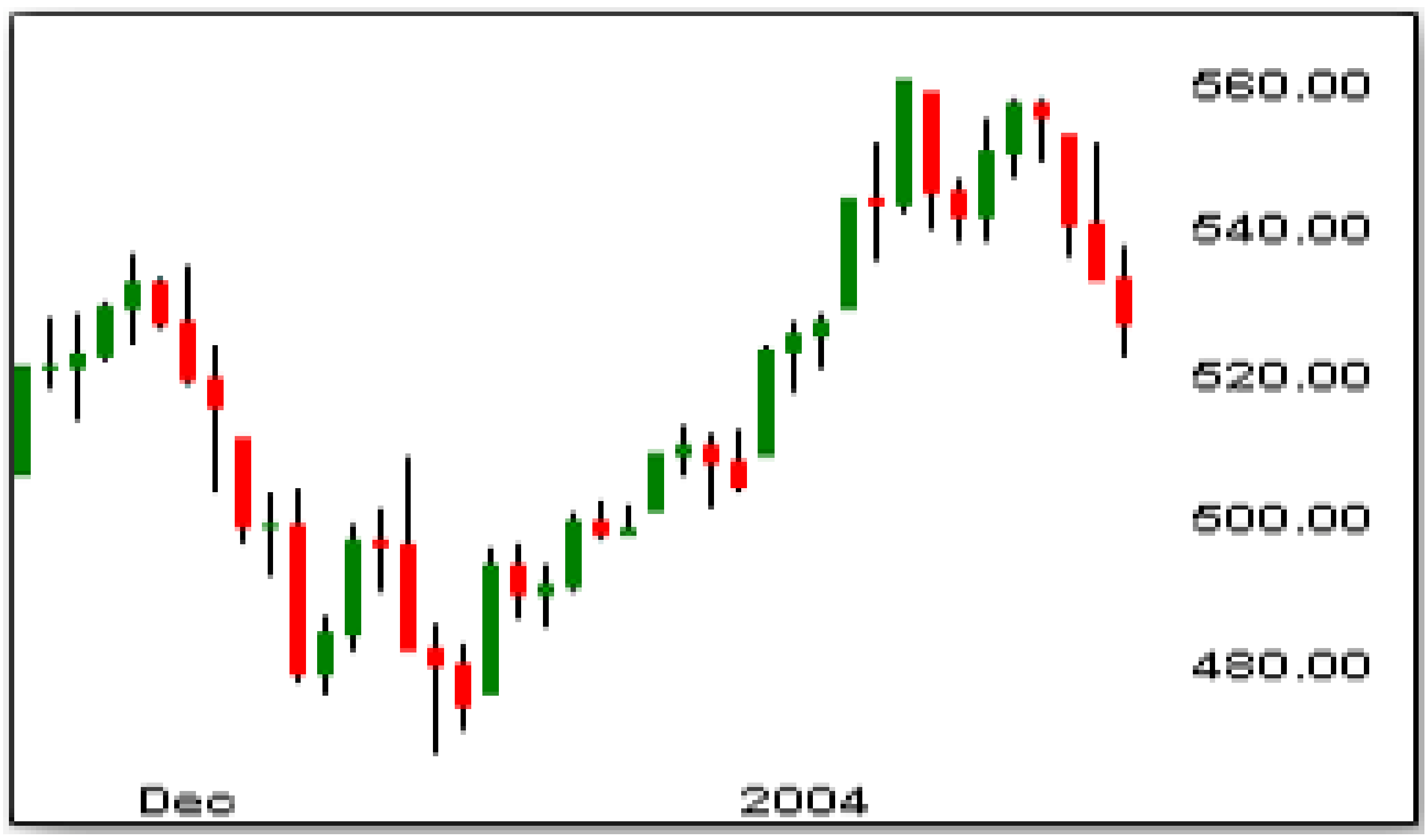
- **Buy at phases A1 and B3**
- **Wait and keep your companies at phase A2**
- **Sell at phases A3 and B1**
- **Wait and keep companies at phase B2**

And all of this applied on a realistic graphic would be something like this:

Let's start with the beginning so that from now on you can focus your attention on the practical side.

The first thing in you have to do on a regular graphic is to see the range of time in which you are going to act, meaning the amount of data gathered in a limited amount of time so that you can be comfortable making your investments.

There are various ways of looking at a graphic but so as to avoid getting into details about this, I am going to recommend the Japanese Candles or simply called the CANDLESTICKS, because they give us more information and that makes understanding them easier.



Candlestick Chart

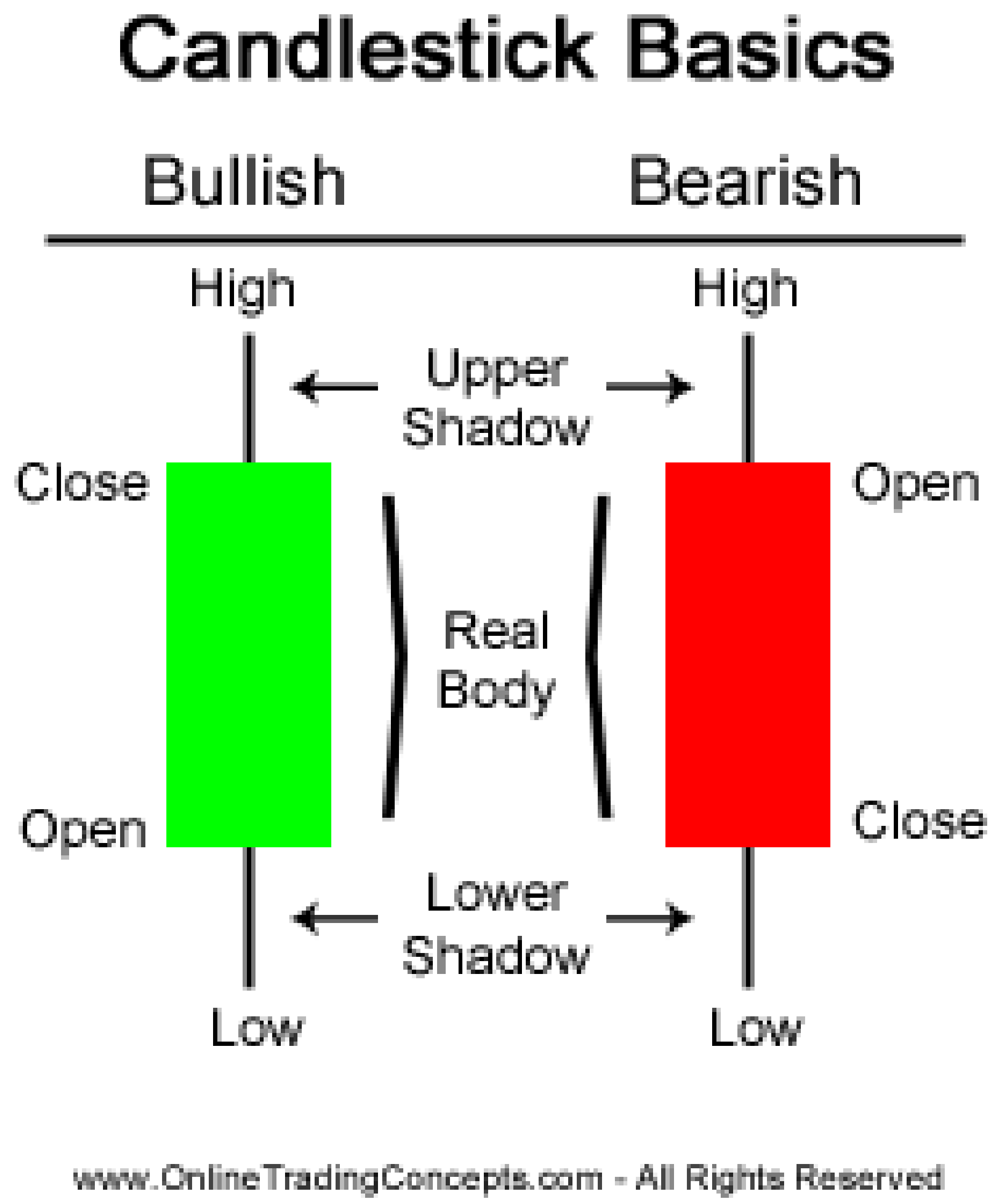
Each candlestick represents a limited amount of time. If you look at the previously shown graphic, which is a daily one, you can see that each candlestick is a day and regardless of the fact that you can see a larger or a shorter period of time, which can be determined by the zoom option, each candlestick has a main body and two extensions, the upper one and the lower one.

Taking into account that in the series the succession of the candlesticks always goes to the right, this means that on each candlestick we have 4 information parameters.

- Buy price or opening of the candlestick
- Sell price or closing of the candlestick
- The maximum price reached by the company of the candlestick
- The minimum price reached by the company of the candlestick

The candlestick will be empty or white if the sell price is higher than the buy price.

And if the sell price is lower than the buy price, then the candlestick will be full or colored.



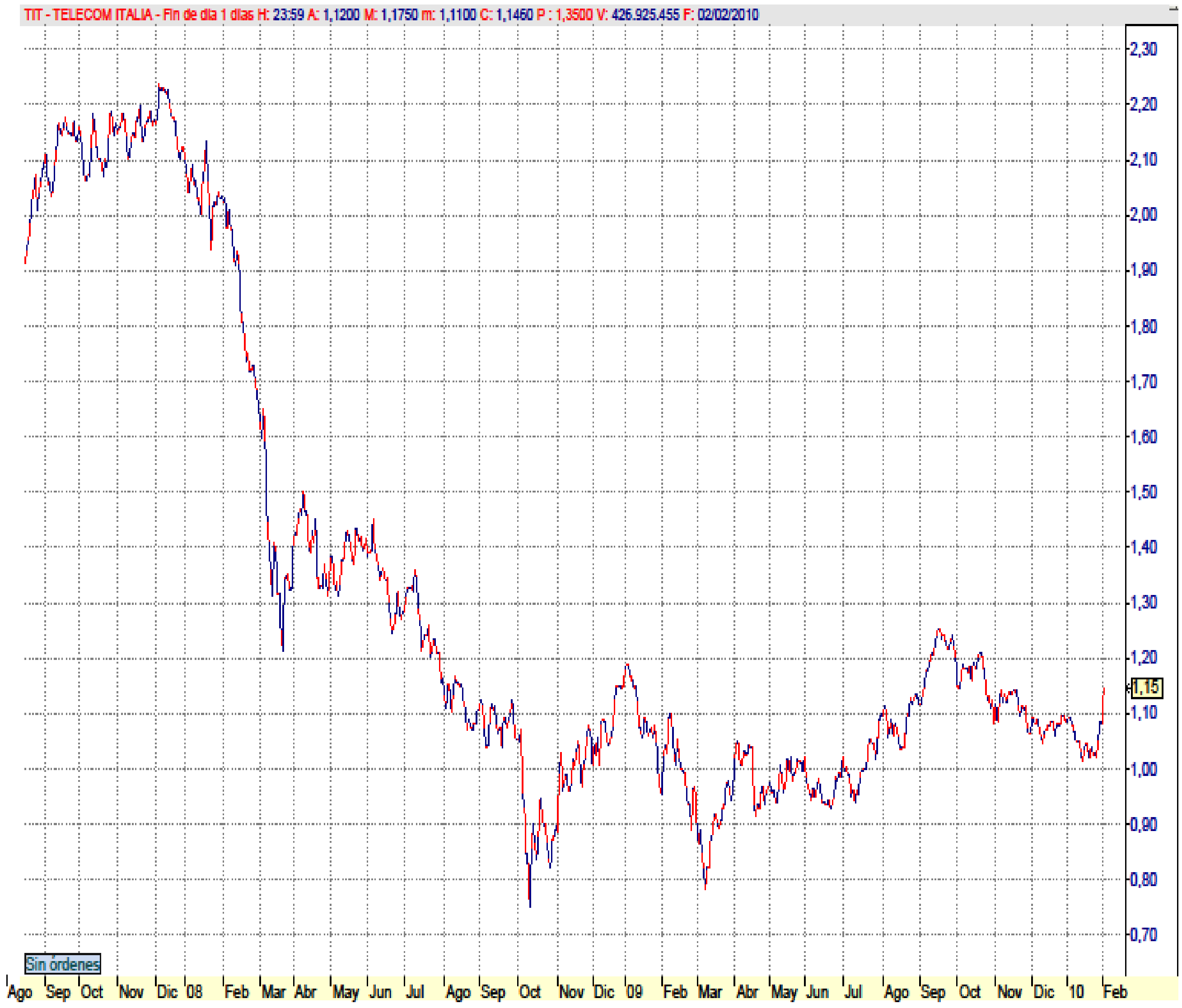
The maximum and minimum within the candlestick make no difference to its color. The ones that do make a difference are the buy price and sell price.

Each candlestick represents the range of time that you want to see, so that means you can change whenever you want, with any kind of data program. In daily graphics, each candlestick represents a day and only at the end of the day the candlestick return to its authentic color, even tough, during the session it changes colors several times.

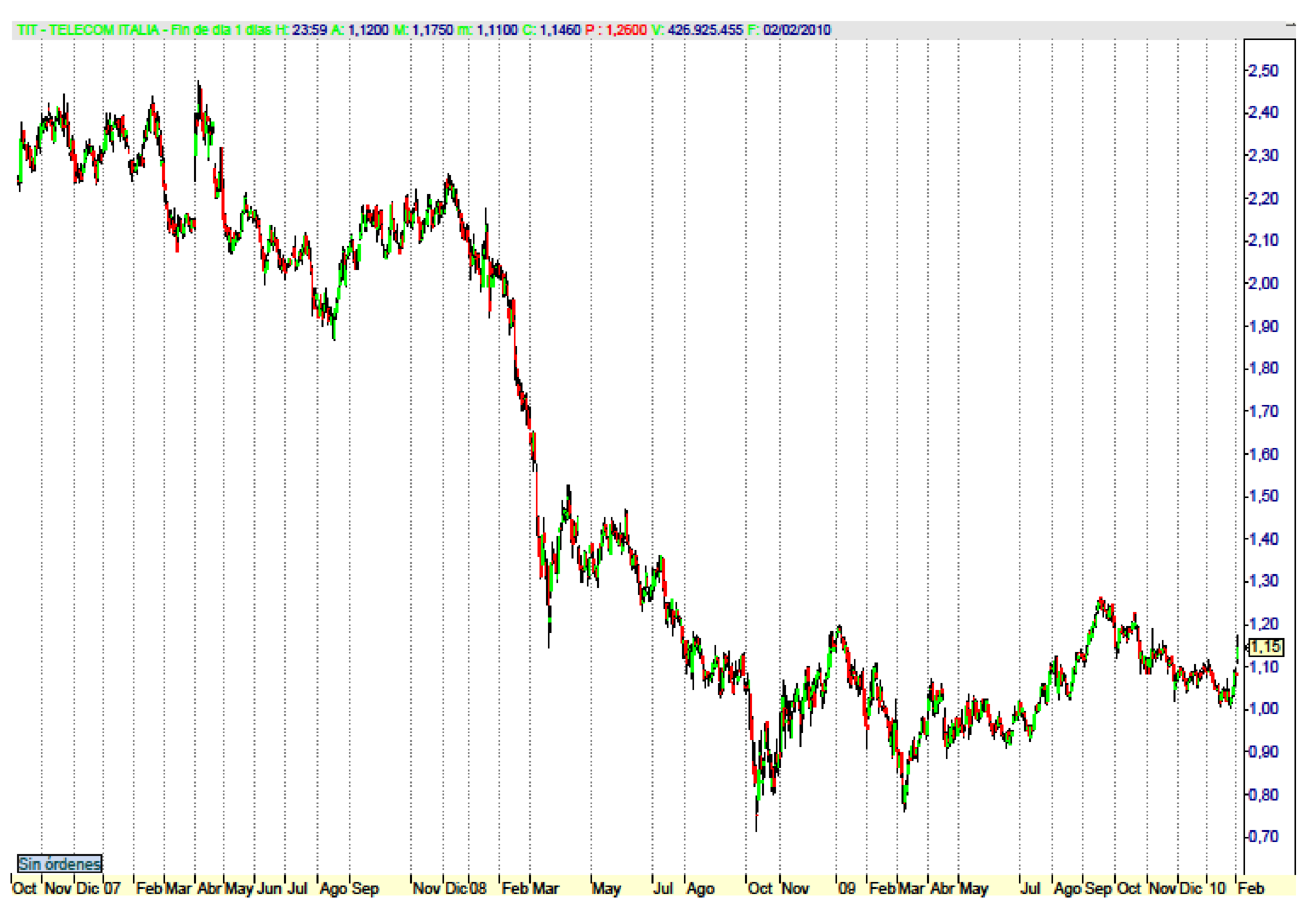
It’s the same thing if the candlesticks are for 5 minutes, 30 minutes, several hours or several days. It is always the same and within each candlestick are the ones of inferior status, up to a minute, depending on the platforms at our reach.

When you visualize the information you have to find the range of time we want and you will feel comfortable applying what you know.

Let us apply what we know on a random graphic. We will use the patterns which are accessible to all, on any platform that the banks or brokers put at our disposal. They are usually represented by lines.

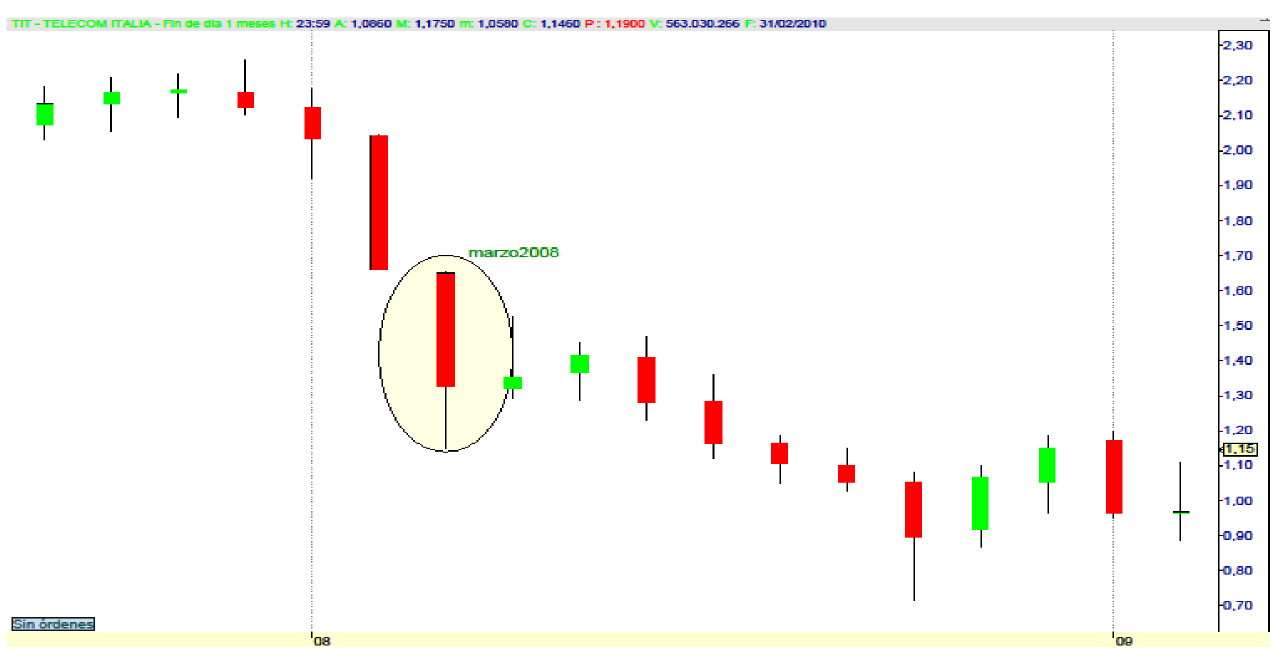


This one here is a several years graphic that shows us the development of the company**.** Let's transform this into a daily candlestick graphic.

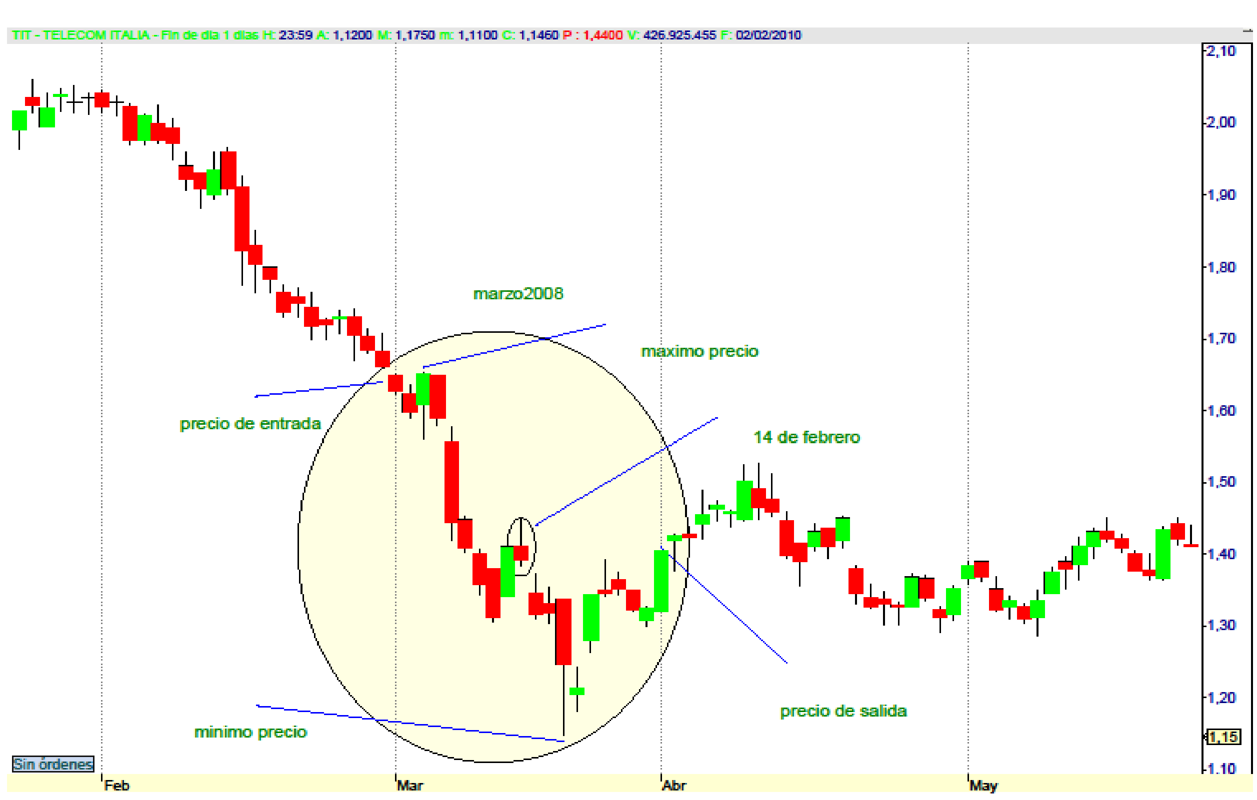


If we transform this graphic into a monthly candlestick graphic, we can see that everything is the same, except that know we begin to see buy and sell colors.

Let's study the month of March of 2008 on a 5 year graphic.



And within this month



Here you can see the different parts of the month of March and the reason of its red color. You can also see here the 14th of February and you have the chance of analyzing it in detail and notice that it's the same thing all over again.

Let's look at what differences we have in a random year of this **company** between leaving the fixed investment the way it is and buying and selling using a **mobile average backup.**

From October to October with an approximate investment of 2000 euros with a buy price of 1.054 we would have 1900 shares, that would become 2280 euros in a year, with the sell price of 1200 euros. So, the benefits would be of approximately 280 euros.

We can prove that the ideal objective would be to go **from diamond to diamond,** but that would surely be impossible for inexperienced people, so we will try to get as close as we can to the extremities and for that we would need to support ourselves on a parameter like for example a **mobile average,** which is nothing more than the graphic representation of the average sell prices of the previously selected candlesticks.

As you can plainly see here with the average of the last 10 candlesticks, represented here by a continuous line near the candlesticks, we are approaching our objective of being close to the extremities of our **company cycle.**

This is only part of the **help** we are looking for to create, step by step, our investment **plan**. In the chapter called Technical Analysis we will explain in detail and offer examples.

To sum up what we have been saying in this chapter, we need to see the Stock Market from an easy to understand perspective, as for example a several years' graphic with daily candlesticks that gives us a very ample idea about its prices and its long term actions.

The colors will also help you see if the ones who prevail are the **bulls or the bears** and you could also have a possible indication or visual aid, like for instance, an ample mobile average that helps you see if we are in a **bull or bear period.**

We will introduce various lines and indicators as we continue introducing ourselves to the Stock Market, but never overcharging the graphic, because a graphic with too much information produces a lot of confusion.

Let's see the next graphic in the simplest way possible: it's a 5 years' graphic with daily candlesticks and a simple average of a hundred previous candlesticks to accompany the trend and help us learn faster.

Here you can clearly see how buying when the price is superior to the average and selling when the price is inferior can only help us earn some money while the price **collapses.**

We have to understand what we see or what we want to see so that we can think about it. This is the key to everything. Some will prefer operating on a yearly range of time and some on a daily one, depending on the operation that each wants to do, but the most important factor is understanding what we see.

Once you understand this specific way of representing the history of a **company**, you will be able to visualize and understand not only the rest of the companies on the Market but also all of the financial products that you can operate with.

You only have to know what you are looking at because a 10 minutes' candlestick graphic is not the same thing as the very same graphic of the same company but with daily, weekly or yearly candlesticks.

6 – Fundamental Analysis Vs. Technical Analysis

“One has to understand that behind the façades of the big companies and institutions you won’t find

“I think that in the business world, there is an immutable law: that words be words, explanations be explanations, promises be promises, but that only facts make reality.”

“Practice must always be built on strong theory.”

Leonardo Da Vinci

With the desire of being as short as possible, I will just say that the Fundamental Analysis studies the companies and the characteristics of the Stock Market in which they appear, so as to be able to analyze the possibilities of making a good investment, the economic perspectives of the Market, the management team, so all in all, everything that affects the business in itself.

All the information related to the company and the sector to which it belongs must be analyzed so as to select the best buy moment, and followed so as to foresee the movements that could affect the price and therefore know the best sell moment.

The companies that **quote** the Stock Market have this and other type of information at their disposal, so that you can correctly value your possible buy chance as a shareholder.

No two companies are the same, so everything depends on the time you spend studying all the parameters that come to mind when the moment comes to analyze it.

You have to do it so as to determine if the current price of the share is undervalued or overvalued, and study the possible future occurrences, so as the sector of the company can give the company a boost, this way pushing the price up.

As a practical example, let’s say that if you really believe the countries could apply the Kyoto Protocol over the environment, a great investment would be any company that works with renewable energy and if not, any oil company would compensate you.

As you may begin to understand, you need not only a lot of reliable information (without going into details, let’s say that financial engineering exists and not only in the Stock Market), but you also need to know how to analyze it correctly, something that not everybody can do.

But the biggest problem with all this is that its effectiveness is higher on long term than on short term, so you have to study a lot before you decide and once you have done the investment, not touch it in a long time, as there is a saying in the Stock Market which claims that:

"four is not two plus two, but five minus one."

With other words, if the gathered information is reliable, if the study, the analysis and the subsequent result of this information is correct, your **prediction** will finish by imposing itself. But on the way towards the finish anything can happen.

When? Here lies the problem. It depends on the imponderables that can temporarily involve the fundamental factors, like important occurrences, related news and trends and as long as the world we live in doesn't radically change, as for example a war or the last President of the United States.

If this way of investing convinces you and gives you tranquility, just remember some basic aspects: study and become aware of every **purchase and sale,** arm yourself with patience and don't invest in companies if you don't understand what they sell. These tips will help you somewhat.

I don't know any economist that got rich with the Stock Market. They make a living out of it, at the most, but that doesn't mean that the greatest known investor isn't still Warren Buffet.

His books are very interesting and I strongly recommend them before investing, as well as Benjamin Graham's book, "*The intelligent investor*".

I also want to mention that Warren Buffet not only buys the most studied shares, but also takes responsibility for the companies many times, so their results are above average.

And all of this without taking into account the short term operations he does, called Brokerage.

There are two types of investors, the ones with eyesight and the ones with great eyesight. The first operate with all the types of merchandise they see, but the others do it with businesses the possibilities of which others cannot see.

Those are the grand investors.

Technical Analysis basically studies the charts we usually find in the Stock Market, since all the shares, currencies and derivatives have a chart representation which is always the same.

What I want to say is that we can graphically represent anything that can be commercialized through parameters we can understand.

For example, take a look at two totally different charts:

1. The chart we have been using until now.

On it we can see the Telecom Italia shares, through daily candlesticks in a 5 year period of time, with a mobile average which shows us that when the company is under it, it’s always better to be out and that just a few days before we had a **purchase signal**.

2. Here we have the chart of the EURO-DOLLAR currency with another candlestick platform, this time of 30 minutes and a period of time of 2 months. It also shows a mobile average.

As you can see, they are similar, although the underlying element, or value of study, is completely different, and this is exactly what gives the amount of possibilities that are presented to us after having learnt some basic elements.

It's the Technical Analysis that gives you the possibility of making short term operations and gives you more support when you have to decide upon one investment, either for purchasing or for selling.

The tools you have to use here the historic company charts and some indicators, that help you to understand better the actions and help you follow the trend which is the only way of at least not losing.

With the help of these analysis we can instantly value 20 years of **pricing, quotation** in some cases and **see its behavior including with global events, like the 9/11 attack, that are capable of making things happen in the Market.**

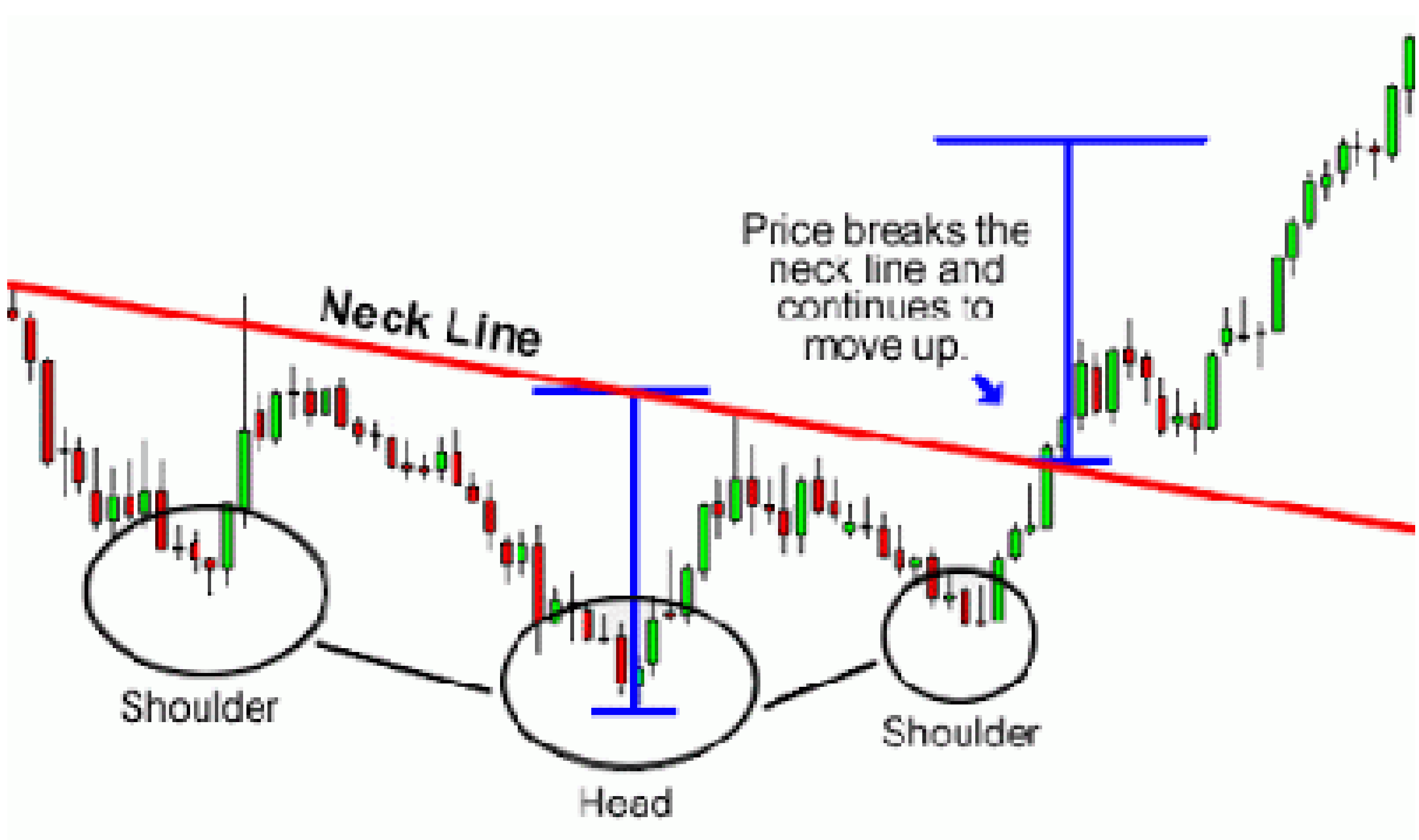
But we shouldn't forget that they show what happened until the current date, it doesn't show the future, because that would be divination and this is not our field of study.

Another thing you should know about Technical Analysis is that its indicators are known and applied worldwide.

I mean that the mobile average is the same for the Spanish Stock Market as well as for the American one, so in a beginning we all have the same possibilities of getting it right.

The noticeable development of the Technical Analysis owes its thanks to the progress made in the field of Information Technology and Communication.

There is one obsolete system of analysis that even I wasn't capable of fully understanding: the one based on geometrical forms on which the investor had to read between when wanting to invest. I am talking about the parameters based on the geometrical forms of **shoulder-head-shoulder,** cones, triangles, channels ,etc



They are the basis of what we know today and I don't want to say that knowing them is not useful, but they are difficult to understand to the occasional investor. Meanwhile, the ones I will explain later are easier.

To sum up, think that both the Fundamental and the Technical Analysis are important, but most of all it will depend on the period of time you are prepared to have a determined investment.

The longer the time, the more decisive the fundamental parameters are, if whether the investment is good or bad in 5 or 10 years.

And regarding the technical parameters, the shorter the work period of time, the more decisive they are.

It is also important to know if in that moment the share is undervalued or overvalued so as to be able to get profitability in several months or a year.

7 – Helpful signs

“You don’t need to understand everything in the Stock Market, but only the most important. And even if you get to know everything, you don’t have to be a part of it all. Choosing your way, and perfecting it. That is the real secret.”

“If you need a guarantee, buy yourself a toaster.”

“The way to hit the nail on time is hitting the horseshoe a hundred.”

Miguel de Unamuno

“A genius mind is 2% talent and 98% persistent effort.”

Ludwig van Beethoven

Valencia, Spain

If we want to know whether it is going to rain, what we do is look for clouds, but even if we see them, that doesn’t mean the rain is a certain thing. What we do know is that there are more possibilities for it to rain.

This is an example of a helpful piece of information, or what we will call a sign, which is nothing more than the information about a subject, and even though it’s based on previous experiences and statistics, it is nevertheless reliable, although not definite.

In the Stock Market what you always need is information, and in your search for it, the first thing you have to look for is the main tendency, so that your operations can be for or against it.

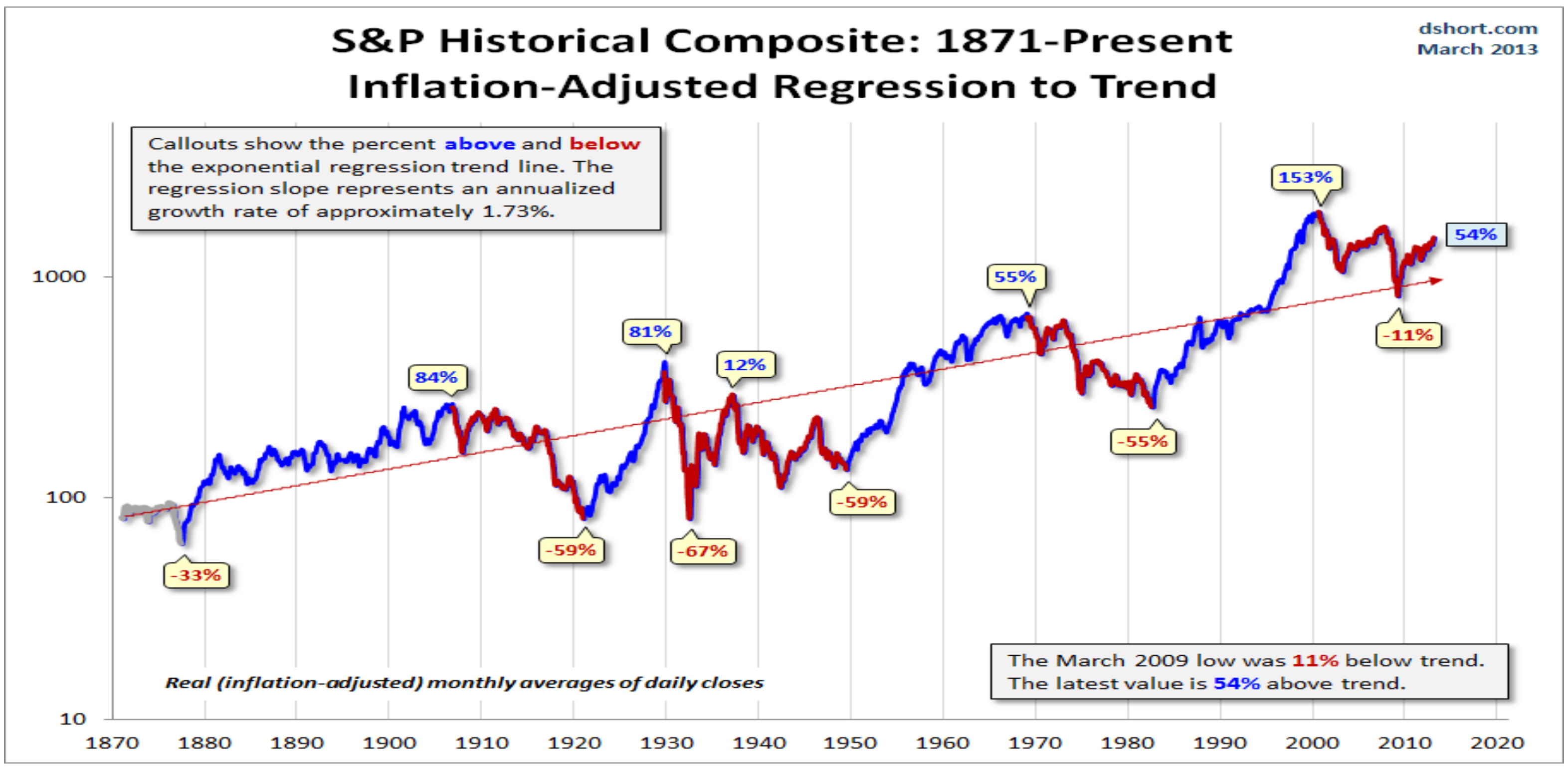
This depends on your criteria and on the ability to think for yourself. Thanks to the graphics and the signs which generate from them, you are able to see the consequences of your past operations which allow you to see how you can act in the present and future.

No sign is infallible, so here we will show you the most used, according to tendency, which will allow you to have an idea of how to make your investments profitable, even a little bit more than the rest.

All the signs work very well as long as there is a good tendency, and on the other hand they give a lot of false signals when there is no tendency.

But basically, apart from the times when the market doesn’t have much activity, your objective is to get on the “train” when you see a bull tendency, even though you’re not the first, and know when to get off it when the tendency changes, without being the last.

In order to do this, the next examples will help you.



With this objective in mind, let's only the TELECOM ITALY graphic, to demonstrate that all the indicators work, maybe some more than others depending on the stretch of tendency you are working in.

It would also be interesting to see how the indicators work in the "bear" market so as to understand how to limit your loss and get to your first objective: ***not loss***.

Sometimes it's possible for an indicator to work better in a "bull" faze than in a "bear" faze, or viceversa, so the faster you get familiarized to them, more possibilities you have to make your investments profitable.

If you think that all this is over prepared in all the details, remember that the dictionary is the only place where success precedes work. I want to remind you that you have three available options

1. Not do anything
2. Give your investment to a third party and keep hoping
3. Form yourself financially speaking

We all have the possibility of deciding, but don't worry, since I know the way I can guide you.

MOVING AVERAGES

A Moving Average, MA (MM in Spanish, Media Móvil), shows the average of all the data in a temporary window.

In plain words, every candle shows a range of buying and selling operations. And each candle has a middle point which defines its minimum and maximum, so joining each middle point we can obtain an MA of all the candles.

There are various types of MAs. I recommend the Exponential Moving Average (EMA, MME in Spanish), which you´ll find in every platform all the time and which gives more value to the last candles than to the first.

The rules to operate are the simplest and the ones with the most trend in the market and they can be found on all the Stock Market platforms.

You simply have to look for the MAs in the indicators, choose one and put the parameter you want, so that a continuous line appears on the graphic.

The line should be more or less close to the candles, depending on the value that you give the MA.

Remember that an average of 200 daily candles has nothing to do with an average of hourly candles and that can be verified. All of them can be put on the same graphic as long as the platform allows it.

Basic use rules:

1. If the operation implies only one EMA (for example, 100). You should buy only when the values goes above the EMA and sell when it goes the opposite way.

2. If the operation implies two EMAs (for example, 100 and 50). You should buy when it crosses the longer EMA (100) and sell when it crosses the shorter one (50). The latter is used for collecting benefits, but often one of them loses at the following turning points.

You can see how the yearly operations are few in both cases, with a light improvement at the crossing of the two averages on the 7th operation of the graphics.

In the others the sale sign is necessarily given by the closest crossing, so as to optimize your investment, which in this case is the EMA 100.

On a real graphic of a company that collapses from 2009, you can calculate the approximate difference:

-1. Buying 2000 euros on the 1st of January at a price of 1.18 euros, equals at 1695 shares.

Selling the 1695 shares on the 22nd of December at a price of 1,08 euros, equals to 1.830 euros. All of this gives you a loss of 9%, which represents 170 euros from our initial investment.

-2. Making sure that the money changes in all the operations, except on the 7th, you'll buy 2000 euros on the 15th of July (with EMA 100) at a price of 0.98 euros which equals at 2040 shares.

These will be sold on the 23rd of October (with EMA 50) at a price of 1.16 euros which equals to 2.366 euros.

All of this gives you a 366 euros benefit, an approximately 18% of our investment.

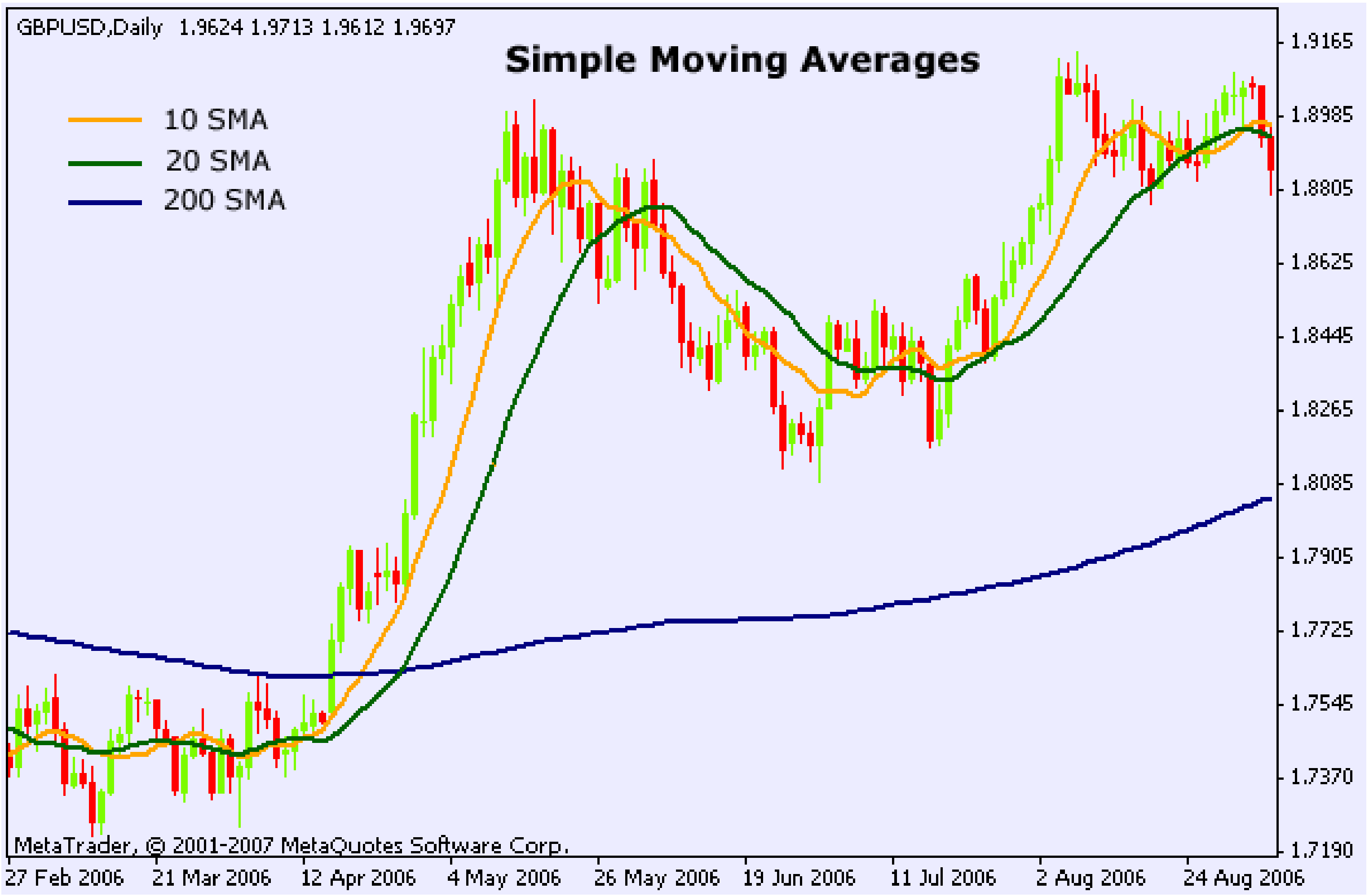
These operations should have both commissions and dividends, but I hope the main concept is clear: if you have to deal with a bear market, leave it to the rest or use a Simple Moving Average, in this particular case, from a loss of 170 euros to a win of 366 euros.

Both of them work and they can be applied on the graphic easily. You only have to check where on the indicators it says MOVING AVERAGES and look for the EXPONENTIAL (this one gives more importance to the last ones than to the first, and it´s the most common).

Next, a box will pop up that allows you to modify the average as you want and lets you try the different kinds of candles and times you find comfortable.

Take into account that candles of less than a day would force you to stay in front of the computer all day in case of a crossing at 12 at night or 3 in the afternoon.

On the other hand, weekly candles make crossings possible after months, including years.



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THE MACD INDICATOR

Without losing myself in details, this indicator has got two lines that cross themselves around a flat line called the 0 line.

The price of the title is not important because these crossed lines indicate that there is or may be a change of tendency.

These two lines, which in the end are Mobile Averages, are represented by a fast one (for example and averages from the last 26 candles) and a slow one (from the last 9).

The fast line is the continuous one and reflects the agreement of the share holders in a short period of time.

The short line, the discontinuous one, shows the agreement but for a longer period of time, so the cross between the lines, identifies the changes suffered by the balance between the bear and the bull, who is the one dominant in that precise moment and what the general state is.

When you put an indicator on the graphic, you already have standard parameters, so it´s not necessary to modify or put them every time. You only have to learn how its signals work.

As you can see here, despite the fact that the value of the title went down almost a 50% in two years and a half, we would only lose in the second operation, while in the first one we would change the money and in the two last we would win something.

And all of this using the MACD indicator while buying and selling in the cross moments.

Even though afterwards we refer to it as the MONEY MANAGEMENT SYSTEM, let´s say that if in the second operation you had put a 5% STOP, the result would have been different.

I only wanted you to observe how we are protected by it in a bear market.

The basic operation rules are very simple:

1. Buy when the fast or continuous line crosses the slow or discontinuous line and goes upwards and

2. Sell when the same lines cross themselves but this time downwards.

When you buy, don't forget to put a protection STOP under the last minimum price, or a STOP based on the maximum percentage per possible lost operation (we will explain the different types of STOPS later on).

As you can see on the graphic, on the second operation the candle that gives us the crossing signal on the lower indicator is extremely long and until it finishes the signal doesn´t appear.

On the other part of the graphic where the tendency is more positive we can see how the majority of the operations are positive.

On the same graphic we can see more ways to use it, like for example buying when the fast line crosses 0, which transforms the first two operations in negative, but takes a lot of advantage of the forth operation.

Las but not least there is another very much used variable which allows us to buy when the crossing happens before reaching 0 and allows us to buy even more when it crosses 0, having the opportunity of selling on the first crossing on the contrary: everything or only part.

3º RSI INDICATOR AND 4º STOCHASTIC INDICATOR

These indicators that are also called Oscillators are very much used all over the world. Even though their use is very complicated in following the tendency they are requested by all the investors for the identification of undervalued or overvalued titles.

They work on totally different speed limits on the same time range, showing signal disparity, but basically both put the price of the title on a different window between 0 and 100 on a graphic which has got over-playing and over-buying areas.

The RSI is represented by one line only and marks the areas between 30 and 70, and as you will see, gives few signals.

He STOCHASTIC is represented by two lines (mobile averages) which cross each other and mark the areas between 20 and 80.

The theory is simple: you buy when the signals cross the 30 and 20 lines upwards and you sell when they cross both the 70 and 80 lines downwards.

An important aspect is not to operate at the entrance of the areas but to do it getting out of them, because they can be very mobile and they are stages of volatility.

As you can well see on the following graphic, they are very different, but their buying and selling signals are very good when they manage to synchronize with each other.

You can see here how there is a lot of disparity of operations from one to another, but that together in synchrony they work very well.

There are a lot more indicators, some related to tendency, others with volatility, others with volume and some relating many of them to each other.

It depends on the platform or program you use for developing the graphics, the indicators, oscillators, etc., that we have at our disposal.

But the most important thing is that they offer real information of each detail of each moment, and it tells you where the value will be.

It´s here where you have to decide if you go with the tendency, you abandon it, you operate against it, etc., but if you know one or more indicators, you can begin taking decisions based on criteria.

If your decisions are good you reassert yourself and you improve and polish your technique and if the decisions you take are not so good you can know your mistakes and improve.

This will give you experience which is the only thing you cannot learn from books.

Before concluding this chapter I would like to ad that excess of information is never good on a graphic. It obscures your vision and gives you too many signals.

What I truly recommend is reading the result of each indicator individually and then ad a maximum three per graphic.

“What information feeds on is really obvious: it feeds on the attention of its receivers. So, the excess of information leads to the decrease of attention.”

8 - Orders

"Quality is never an accident, it´s the result of the effort made by intelligence."

"Companies go down, when they make the wrong decisions, or something of equal importance, when they make too many decisions. The second option is when things get complicated."

Let´s not forget that the Stock Market is huge and allows you to buy shares, options, instalment contracts, bonds and other financial products.

It´s of utmost importance to take this into consideration, because if you go and sell your products and nobody buys them, you have a bad day, but if we go and they literally take it from your hands, it´s going to be a good one.

Simply put, the essential thing is for the Market to have many clients and traders set to buy and sell. The more they do this the better.

This is called Liquidity, meaning people whom, for whatever reasons, are willing to buy and sell.

So this way you have the compensation you need, that´s why it is always recommendable for you to operate using values with a lot of liquidity, a very important factor.

Without giving much detail, the values that make the biggest index of the Stock Market, are usually the most liquid: IBEX, CAC, DAX, NASDAQ, etc.

And within these values there are always other which are much more liquid because the parameters necessary to the index are very diverse.

I once again want to say that it´s not going to make any difference whether your analysis is exact, if when you want to buy nobody sells and when you want to sell nobody buys.

That´s why, when you give the order, it has to be immediately because you risk that everything you studied ends up being for nothing and so you end up at the mercy of the Market.

Besides knowing about Liquidity, it´s also important for you to know about the different ways to access the Market, because one right decision can go badly with the inappropriate order.

The most important are:

- **Limited Order**: the order will apply to the price that you put. If you order more than the available shares, the only ones that will get bought or sold are these ones, so the ones left out, even if it´s only one, will have no value.

- **Market Order**: you give the number of shares, and they will be managed depending on the balancing entry. Their management will probably not be at the same price, but surely they will have others until their final buy or sell operation.

- **Stop Order**: it helps you close all actions until the price reaches its desirable point and then it automatically sends an Order to the Market to proceed to the liquidity for the best price.

Which one is the best? Neither. You have to understand each one and use it properly in each case.

Using a real example, if today you want to buy a specific number of shares of a certain company, and it´s an investment that you want for whatever price, you have to buy Market A.

For example, 6000 euros for each one of the number of shares, every time you have a sell operation (shares at 20 euros, at 19,95, at 19,90, until we reach the specific amount of money, in this case 6000).

Another thing you can decide upon is that if the share goes up to 20 euros, buy the ones in sale for that price, even though the total goes up to only 3.900 from the 6000.

Maybe this doesn’t seem that important when buying, but it is important when selling.

Imagine an operation where you buy 200 shares, each for 20 euros (summing up to 4000 euros).

After some time, after you see there are no changes, you want to sell them but the price is 22 euros.

If you are not in a hurry, you can put a Limited Order of 22,10 euros and a Stop Order of 29, 10 euros and wait to see if there are any changes in one or the other direction.

Depending on the direction it takes, they will sell on one price or the other, and you can eliminate the order you didn’t need.

But if you really are in a hurry, and you put a limited order, the following things can happen: if the price falls towards 18 euros, it may not have any buyers at 21,90 euros (or you only have buyers for 130 shares); another possibility is to find yourself with a huge Gap in values, which means that you not only continue having the shares but you also keep from having a support that can limit your loss.

In that case you would need to enter the Market and find the best price to sell so you can rapidly get rid of the investment.

Considering that liquidity has nothing to do with the prices of the shares falling, it is actually very important when putting the orders on the Market.

Shares which have values that suddenly fall and have no buyers are dead weight that can skip your sell orders, or they can just go ahead and respect them but at different prices.

And as if this were not enough, these shares charge you with commissions, on each operation, even if it´s made of only one.

This can kill your benefits or add loss to your accounts. More simply put, even if you give a sell order of 100 shares, they can be bought in different packages until reaching 100, this way charging you for every package instead of giving you a total amount.

This is one of the advantages of operating yourself. If you give your shares to a broker, he may sell them in one operation or more.

But always keep in mind that every operation costs and if he sells them in 5 operations you will be charged with 5 commissions.

And even with the same number of sell orders, it just may be that you are not the most important client from the company, and there is somebody else who is better placed than you.

Imagine that this person also wants to sell.

Who do you think would have preference regarding the execution of the orders? Yourself, with a capital of 60.000 euros or the other who has 10 million? The other one, I know, because I would give him preference too.

Unfortunately, for you to have a better understanding of how this works, you would have to operate with real money.

What I recommend is for you to choose a low price company and a high price one, and put a low quantity of money on them, so as to see what sell and buy orders you receive using all the orders.

This way you can compare the results.

Remember NOT to put in any order unless you understand perfectly what the expected result of that order is.

And 50 to 100 euros is more than enough for tryouts.

“All actions or ways of acting have risks, so being careful doesn’t mean avoiding the danger (which is impossible), but resides in measuring the risk and acting with precision. Let ambition lead you towards making mistakes, not laziness.”

“The only ones who make no mistakes are the people who are asleep.”

9 - Fixed expenses

“There is nothing more certain than death and taxes.”

“If you must play, you need to know three things before starting: the rules of the game, what you are playing for, and the moment to step out.”

“The average man is a conformist that accepts miseries and disaster with the same stoicism of a cow standing in the rain.”

“Learn how to bend. It’s better than to break yourself.”

First, let’s understand the concept of Mathematic Hope.

If you normally play Poker in your home with your family and friends, using beans which are interchangeable for cents and hoping to clean out your in laws and rest of the family on Christmas, then your Mathematic Hope is ZERO, because you can win or lose exactly what you are willing to risk.

The incredible and humiliating 6 euros won after 3 hours of fierce fighting, in the best moment of your life as the king of the three Js, will forever be yours provided that the IRS doesn’t find out.

But if on the contrary, even though winning, you played in a proper space, a space dedicated to such things, paying the entrance, the drinks and the coffees during three hours and letting the place take its fair share, your Mathematic Hope will be negative: take away the expenses from your possible winnings and to your loss add those expenses.

That is what we call Negative Mathematic Hope: be your winnings what they may, there is always an added cost.

You may want to remember this because it’s the main rule of the Stock Market. Somebody made this business so that you and I could win and lose and that has a cost with each operation we do.

In the Stock Market you will always have a Negative Mathematic Hope: if you win 1000 euros in 5 operations, it’s possible those operations cost 900 euros and if you lose 1000 euros, they will actually be 1100.

Cost is very important within the Stock Market, and so is getting it right or not.

The first of the costs will be the Commissions for Operations, one for selling and one for buying. It would be recommendable for you to find a broker or bank with the minimum commission because every cent is important and there is a lot to choose from.

Let's do a simulation with real data:

fecha compra	Prec comp	nºde acción	comi 0 €	capital	Fecha venta	precio venta	nºde acción	comi 0 €	capital
11/04/05	4,28	467	0	1998,76	25/05/06	5,31	467	0	2479,77
19/06/06	5,43	456	0	2476,08	11/09/07	8,63	456	0	3935,28
25/09/07	9,19	428	0	3933,32	27/12/07	9,54	428	0	4083,12
17/03/08	9,21	443	0	4080,03	02/04/08	9,12	443	0	4040,16
28/04/09	5,41	746	0	4035,86	22/06/09	5,36	746	0	3998,56
27/07/09	5,71	700	0	3997	04/02/10	6,2	700	0	4340

Using, for example, the operations we have done with IBERDROLA, since 2005 we have a ZERO commission: and the same ones with a 0,4% commission per operation. (8 euros from 2000 euros):

fecha compra	prec comp	nºde acción	comi 8 €	capital	Fecha venta	precio venta	nºde acción	comi 8 €	capital
11/04/05	4,28	467	8	1998,76	25/05/06	5,31	467	8	2463,77
19/06/06	5,43	453	8	2459,79	11/09/07	8,63	453	8	3893,39
25/09/07	9,19	423	8	3887,37	27/12/07	9,54	423	8	4019,42
17/03/08	9,21	436	8	4015,56	02/04/08	9,12	436	8	3960,32
28/04/09	5,41	732	8	3960,12	22/06/09	5,36	732	8	3907,52
27/07/09	5,71	684	8	3905,64	04/02/10	6,2	684	8	4224,8

That gives us a difference of 116 euros, almost a 6% of difference without taking into account the share loss (from 700 to 684), which will burden our dividends. If you have 10 values and you apply the same percentages, you can see the actual importance of the figure that you miss.

The second expense refers to the Execution delay, also called SLIPPAGE, which is the difference between the moment you release the order and the moment of execution on the Market.

Without making it complicated, it would be as if every sale and purchase had consecutive prices. For example, imagine that I lose 0.5 decimals since I tell the broker to buy until the moment the order is executed. In the previous example, we'd buy the 4,28 euros operation with 4,33 euros and we'd have the next table:

fecha compra	prec comp	nº de accio	Comi 8 €	capital	fecha venta	precio venta	nº de accio	comi 8 €	capital
11/04/05	4,33	461	8	1996,13	25/05/06	5,26	461	8	2408,86
19/06/06	5,48	439	8	2405,72	11/09/07	8,58	439	8	3750,62
25/09/07	9,24	405	8	3742,2	27/12/07	9,49	405	8	3827,45
17/03/08	9,26	413	8	3824,38	02/04/08	9,08	413	8	3734,04
28/04/09	5,46	683	8	3729,18	22/06/09	5,31	683	8	3610,73
27/07/09	5,76	626	8	3605,76	04/02/10	6,15	626	8	3833,9

Which takes another 390 euros bite out of our account with only 626 shares. Briefly put, with the correct guesses in operations and a theoretical benefit of 117% in five years, a charming and seductive 23,4% per year, in a Market with low commissions and moderate delays, you would be left with a 91,5%, and an annual 18%.

And on top of that, having only 626 shares out of the 700 theoretical ones, since you are now able to buy less, and that will make itself noticeable with the dividend distribution, which is part of your investment.

The third Expense is the Value Custody and the other almost imperceptible commissions that some banks will collect from you for:

- Opening the account
- Keeping the account
- Canceling the account
- For collecting the dividends on your behalf
- For giving you the dividends
- For offering you the platform so you can operate
- For keeping you informed with all that happens, via mobile or e-mail
- For informing you about every sale or purchase via letters, each letter including an operation.
- Etc.,etc..

The list is too long. Without getting into details, the Value Custody is the only one that lacks a lot of sense, considering that for the past few years all the operations have been done computer-wise.

There are a lot of alternatives to the traditional banks, which are equally secure and which you can find at your disposal.

You only have to look for them and compare them and also think that even though you always have to pay, every euro you save on other concepts will be as well invested as every good operation you release.

The forth Expense is information.

This book is information, prices on real timeline are information, analysts' recommendations are information. In the Stock Market, everything is information and it has a price.

The important aspect of every expense is to know it exactly, to assess it, assume it and get rid of it as soon as possible if the expected results are not shown.

For example, if a bank offered you counselling for a price of 3000 euros a year, would you consider it pricy? If you have a million euros and you think it would give you a 20% win, it's not pricy at all.

I would say it's quite cheap.

But if instead you're thinking to begin everything on a low scale, you should look for trustworthy independent analysts that make reasonable promises and won't cost you a fortune.

I insist on the trustworthy aspect, because in spite of what you may think, most of the information in Stock Market is not.

I don't think it's necessary to remind you the typical scam lines as: "Give me the money because I promise you 1000% benefits in a year with no risks."

This way, Stock Market books are full of failures, when actually the Stock Market itself has nothing to do with it.

It's ignorance and greed that are at fault.

An example:

Your bank advises you to invest in certain shares because they say they will be out on the Market (Public Sale Offer).

Your bank thinks that they will go up from the first day and incidentally it's your bank that can have order of preference.

What you are not going to be told is that this certain company has hired another one that can prepare it to go on the Market, and that this second company has hired its bank so it can sell its values.

All of this, because no company goes on the Market thinking it'll lose money on the first day, So they need to set the shares at a determined price to get to the preset objectives.

It's also not very common for the director of the company to compensate the lost capital with money from his own pocket, because there are a few excuses that they use like: "you never know what the Stock Market has in store for you, sometimes you win, others you lose" or "don't worry, it'll go up, it always does", etc..

Once the value is on the Market, it's a roller coaster ride, because from that point on it's the vision and forecast of the stockbroker that will move its price, and a lot of money will be needed to change a tendency.

The advice of professionals as the banks and big agencies would have to be a different chapter, considering that all recommendations are biased by their own important clients.

To finish this chapter, let's take a look at the graphic that are using as an example of TELECOM ITALIA:

- 10.000 euros, divided by 2.96 euros per share on the 4th of January of 2005 equal 3.378 shares.
- 3.378 shares, times 1,08 euros, the value of each share, on the 4th of January of 2010, equal3.648 euros.

So, a macabre 65% joke plus the previous commissions, plus the annual IPC loss, and not to mention all the possibilities in which that money could have been used.

10. Risk diversification and management

“There can be an endless string of methods but, principles there are few. The one who is capable of understanding and applying principles can then choose his own methods, but the one who applies the methods ignoring the principles is sure to encounter problems in his way.”

“The most powerful asset that we possess, in order to make money, is our mind.”

Tomorrow is unknown to all, and in the Stock Market, even more. If you are the owner of a company, then you know how difficult it is in a year to go from a 10 million euros value to half of it.

It’s not because there is no bad management, or because unions don’t put enough pressure or even because there is no other competitor or law to vary the business.

What presents real difficulty is all of them appearing at the same time.

But unfortunately, everything is a little more possible in the Stock Market. Let´s say you bought a 200.000 euros value like TELECOM ITALIA, at 2,96 euros a share in January of 2005, encouraged by a piece of advice or information that seemed trustworthy to you, because as you can see now it´s rising and people usually buy when it rises.

So, come January 2007, a bright spark of the many out there, shows you the following graphic and tells you this: “It´s time to buy because after having moved around in a bull market, it´s about to rise a lot, clearly haven´t been able to face the resistance.

Moreover, clearly backed up by the recovery of the resistance arches, you either have the possibility of recovering the money doing a pyramid or of buying other 200.000 euros because the value is …….

Remember this image and keep in mind what happened, so that every time you have a doubt you can come back to it.

Because putting the numbers together we have the following situation:

- In January of 2010 you have 200.000 euros (2,96 per share, 67.567 shares). Now it's 1,06 and only 71.621 euros.

- And from the second 200.000 euros at 2.37 per share and 84.388 shares they now cost 89.451 euros.

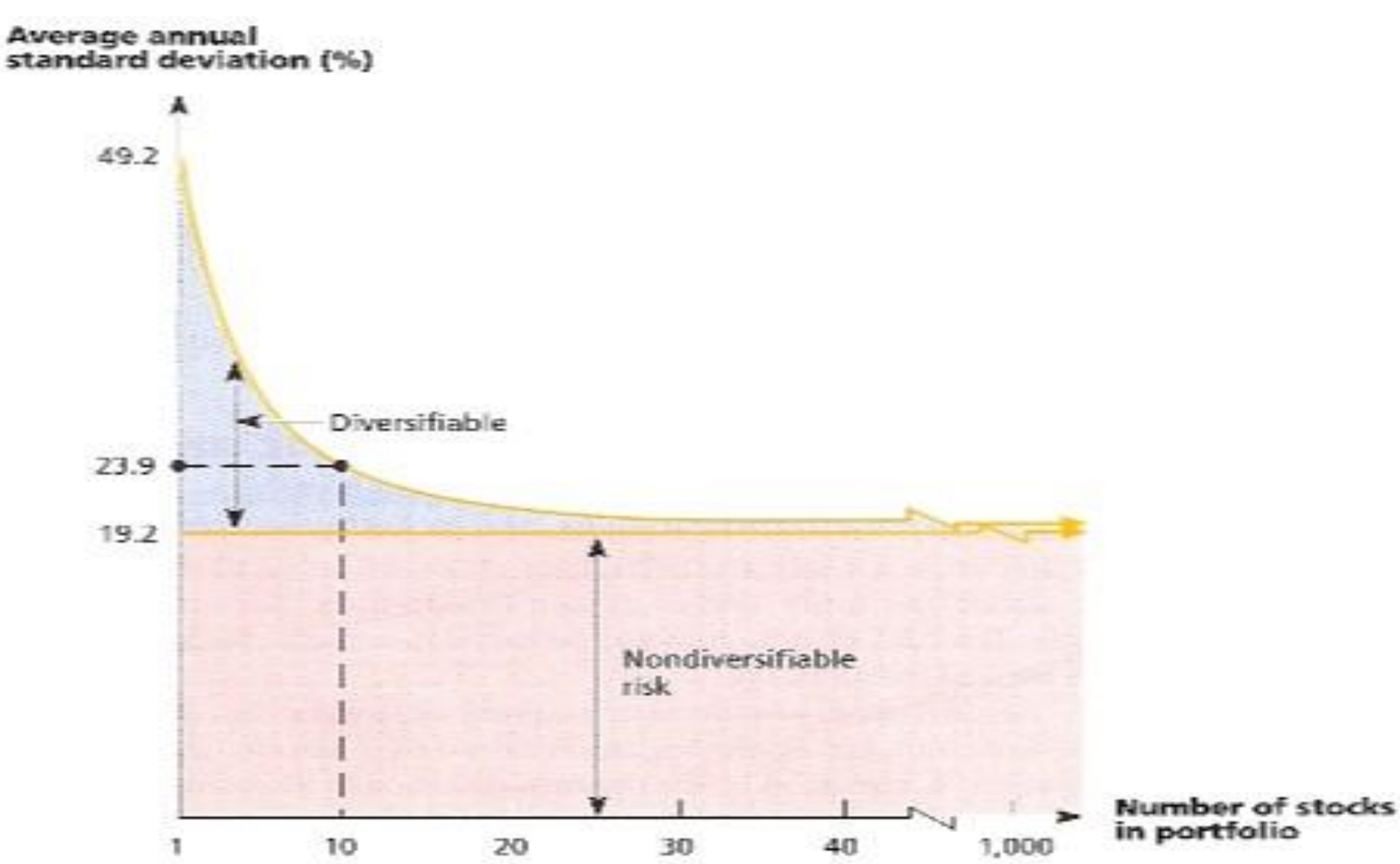
- So, from a total of 400.000 euros of investment, you now have 171.072 euros, with or without a commission.

I hope that with this example, you will not think of doing a pyramid or doubling your bet to recuperate everything at the first positive operations that comes by.

How to avoid this situation? There are 5 basic rules.

1. Diversify.

If you have your money divided among 10 values, it´s very difficult for all of them to collapse as in the previous example, because even though it´s a period of economical crisis, there are some companies that are still going up, or at least maintaining the same level.



2. Use valid indicators

Ignore the indicators that you can randomly place, as for instance the shapes, and focus on the mathematic ones, the ones previously explained.

Do the same with the advice and recommendations made by analysts that use those kinds of methods.

They are not modern enough yet. Reject recommendations regarding the future if somebody if they say they have 100% correct forecasts.

Why would they want to share that with you? But, do pay attention to the ones who tell you they have just bought or sold and that when circumstances allow it, they will do it again.

Those people have a strategy, maybe not the best, but at least it´s something. There isn´t such thing as a method that works for everybody and all the time.

3. Have a System or a method

System is no more than a number of rules of buying or selling that makes you feel comfortable: they can be 2 or 3 Mobile Averages, MACD indicators and so on. The most important aspect of a system isn't its types of indicators but the discipline that it supposes, when to buy, when to sell with loss or with benefits.

The system has to be based on objective data and it has to give a Positive Mathematic Hope on the long run, despite the operations that reflect limited loss, which is normal.

4. Assume the loss as well as the benefits

You can't always win because the Market is very independent and different from our hopes and dreams, so my advice is not to get yourself caught up by any values or companies that you may operate with. If a value drops until where you last put your STOP, the moment you felt more at ease, you have to sell and wait for another chance with the same value or others.

You have to assume the loss of the operation made and of the commissions and see if the mistake was within our system or if it was one of the anticipated losses. Because your system wouldn't be so good if it didn't anticipate bad operations. It wouldn't be a realistic.

You should never do a pyramid or double your investment when you are in the process of losing, thinking that it might change unexpectedly. I've never known anyone to prove that technique is valid.

Remember the value curve for benefits. If you wait too much it'll always change direction. It's one of the most important conditions that the Market imposes.

5. The rule of controlling the money

Besides controlling the commissions, which we have seen to control the sign of an operation, you have to be very sure about the amount you are willing to lose, both in total and per operation.

And don't worry about the benefits. The more the better.

Please, remember this:

- **If you lose 10% you have to win an 11% to recuperate**
- **If you lose a 20% you have to win a 25%**
- **If you lose a 40% you have to win a 67%**
- **And if you lose a 50% you would have to win a 100% just to recuperate, and you may find this extremely complicated.**

You can let yourself lose as much as you want with one operation but my advice is that you should not let it be more than a 5% of your capital.

You will lose a lot of time or many operations until you get back on the market, you will lessen the risk while you reduce your capital and it will increase if your decisions are the right ones.

REMEMBER THE BASIC RULE: FIRST SURVIVAL

With all of these premises you can find a value like the one shown before with some simple mobile averages of 10 and 90.

And with the operations that you can see before you right now, you can't lose anything, not even the 5% I mentioned previously.

11 – Build your Fund

"When you go to the Stock Market and succeed with the help of a professional, that can be called success. If you do it without the advice of a professional, that is a big success. But only when you succeed In spite of the advice of a professional, you can say that success is your own and a huge one."

"Maybe our acts don't always bring happiness with themselves. But one thing is for sure: we cannot have happiness without our acts."

"There is no such thing as a more profitable investment than the one of our knowledge."

Benjamin Franklin

It may seem unbelievable, but now you are ready to create your own fund and compare yourself to anyone. Let’s review what we know:

1. You have to look for values of companies which have a business and products we know and understand like oil companies, food chains, etc..

   It will cost you the same as the others and it will be more fun comparing your opinions with the one of the experts.

2. You can represent the graphic of values in candlesticks and with an acceptable period of time, like for example one or two day candlesticks or from six months to a whole year. The most important aspect is that everything can be seen clearly, so that you can observe the signals that accompany the most important tendencies, and that you can understand everything you see.
3. You apply some indicators until you see which is more reliable and you will also be able to see the differences with the number of operations.

   At the beginning I always use **Mobile Averages** because they are very visual and they are situated above the graphic. El MACD y el RSI are very simple to use and they work, that is why everybody uses them.

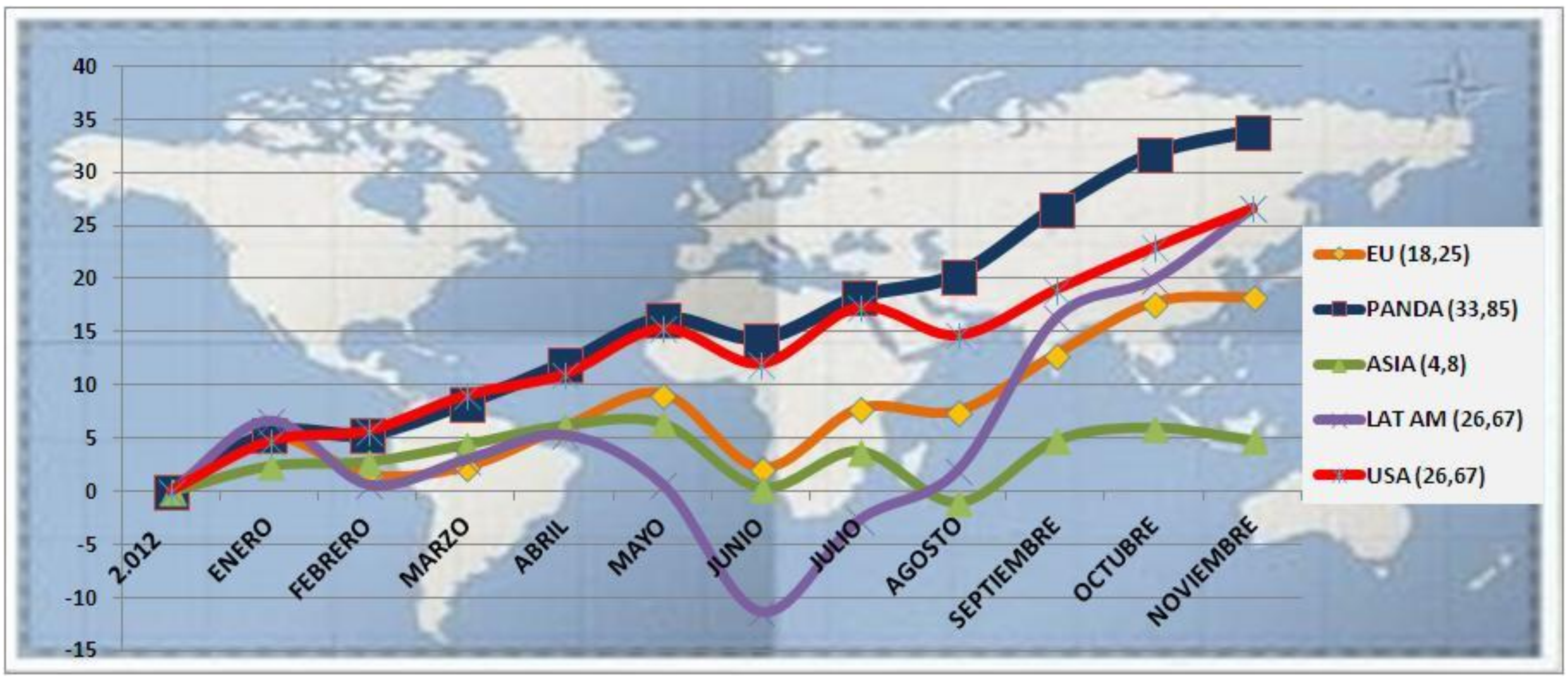
4. You analyze the different commission offers on the Stock Market. It won’t cost you anything and surely you will find differences what will all the banks and brokers on the Internet.
5. First, you make the operations on paper or with simulators that can be found in the Stock Market. Following the results from the past is always a good thing but you always have to make a few test operations before the real ones.
6. When you start earning money regularly with your operations but without real money, you will begin to buy classifying the different values and clearly defining the buying price, downward and upwards, and knowing by this point, and with the help of practice, the **purchase and sale orders.**
7. You will have to make sure everything is going as planned and change the system if it’s not. However you will not change it if it works but shows predictable loss within the system, seen as they can’t be stopped but are quantifiable.
8. You will learn from your reactions when using real money. That is a process which can’t be stopped and since it’s difficult it can’t be explained.

   If you decide to go in with five or six values, operating with a maximum of two with real money, and the rest of them on paper, will surely give you enough excitement for now, I assure you.

9. You will keep on studying and adding new knowledge to your system. Take into account that this is only an approach to Technical Analysis.

10. Have a lot of patience with yourself because nobody knows all of this from the beginning and you won't be able to get this right from the very first day. You have to get six right or less out of ten, but at the end result, the percentage has to be better every time.

11. Be realistic with your earnings and losses. Let the benefits in and cut the loss.



"Think by yourself. Be the Chess player not the piece on the board."

"Many wrong steps have been taken because of the desire to keep out of trouble."

12 – A peek at the professionals

“An expert is somebody who has made all the possible mistakes but in a large field of experience.”

“SCOTTY: It’s all yours sir. All systems automatic and ready. A chimp and two apprentices could pilot it!

CAPTAIN KIRK: Thank you Mr. Scott. I’ll try not to take it personally.”

STAR TREK

There is a lot more to this that I have told you. To see how you can operate with a lot of guarantees on a real market and all the knowledge that you can get, I will explain how we operate in our company to get the analysis: www.brokerpanda.com

60% of the operations are done by computers, to be more specific, the programs that think, try out and finally **introduce&install** the programmers and analysts from the financial entities.

At the analyst company I work in, all types of shares and funds are analyzed and anything can be converted into a graphic, can be analyzed for profitability and the way to do all this is always the same.

We basically function like this:

1. We take a representative value for a market. Let's say IBERDROLA of THE IBEX 35 from the Spanish stock Market.

2. We have to see which the most adequate period of time to operate is: normally between one hour and five days. And we also have to see the data we can use to find reliability and various tendencies, since the program has to survive bad moments and give profit in the good ones.

3. We try everything we know and for that there are some programs which automatically give us information about the operations of those five years with any **sign or the sum of these.**
   Without many details, we work with 100 different **signs** and we have to try every one of them to see which is the best, although a trained eye already knows the time to use either ones or the others, and this avoids a lot of steps.

4. When we have the best signs, we have to optimize the system. If we have, for example, two **mobile averages,** entering the crossing of the same two, we tell the computer to find the best of the two, through every possible combination between the **Short Average**, with values between 1 and 20, and the **Long Average**, with values between 25 and 250, and so we would have time for coffee.

5. After the program gives us some Mobile Averages, like for example 5 and 160, we have to observe the parameters separately: the number of operations, the flexibility, the right answer ratio, the yearly profits, the maximum number of losses, etc..

6. We again optimize using the program and tell the computer to find the best way to establish a monetary objective and the stops, and the result will be, after another short break, that each time we enter, it's best to gather the profits when reaching a 7% profit, and finish the operation with a loss of until 3,5%.

7. At the end of this stage we will have a trading system with purchase signals in a range of time (two hours) with parameters (mobile averages of 5 and 160) and with sale signals and an operation objective of a 7% profit and a stop of 3,5% if the averages don't cross each other beforehand.

8. If this trading system doesn't give us a minimum profit (with commissions and everything) of more than a yearly 20%, we have to give up the value, but if it does give us more, we will continue with the second part of the process, the economic one.

9. Now we have to put all the operations on a data chart and these operations can be up to approximately 3000 represented by two hour candlesticks.

After that we will put them in another financial management program, which will have to change 3000 order operations into 1000 different combinations and take out the 50 worst ones.

This will give the real **measure** of our trading system for when the future operations change. And they will.

10. If we are still within a yearly 10% of correct guesses it's time for the system to tell us when the time is to invest more money or when to withdraw your investment.

For example, if every time we have a thousand euros profit we can increase our positions, the information will be different compared to when we increase our positions every 5000 euros of profit.

This will optimize the amount of money per operation.

11. Finally we introduce it into a program connected to the broker that will automatically send the orders to the Market without us being present.

12. Last but not least we put our money on at least five different trading systems with five different values for a maximum diversity and we also daily control that all our systems work and that our broker sends the orders on time.

13. After all this we begin all over again.

We review this every time something unpredictable happens and we go on adapting parameters and signs according to the activity of the Market, because as we previously explained, we have a minimum of three trading systems per value, **during purchases, sales and lateral markets.**

"The future is here. The problem is that it's not yet distributed to everybody."

<u>Epilogue</u>

"Some time ago somebody asked me if I gave up the Stock Market after having lost …….. Euros.

I didn't answer, because I've just spent……. Euros on my formation."

"An old stockbroker can lose everything but his experience."

"The reasonable man adapts himself to the world. The unreasonable one insists on adapting the world to himself. Therefore, all progress depends on the unreasonable man."

We all approach the Stock market because we want to win and nobody wants to lose. But for some to win others have to lose. That is the most basic rule of the Stock Market and we have to avoid being us the ones who lose.

This is a modest book, an approach to the Stock Market, the four basic steps of the Chachacha, so it's enough for you not to make a fool of yourself, which would be being left out of the Market and not even knowing why.

Remember that the Stock Market and its products are really old, but that one of its secrets is keeping yourself always young, like that brand of cola that always pops into your head.

And also remember that one of the best books about the Stock Market is "Confusión de Confusiones", written in Spanish by a Portuguese Jew in approximately 1866, named José de la Vega.

This book is a "must" for the ones who think that the products called derivatives or options are recent.

This is not a book with advice. It's a Mathematics book with own experiences and the only good piece of advice I can give you, which is to **keep on forming yourself** and reading is the most advisable thing.

You can learn and practice different ways to act before finding one which is the most suitable for you.

This way you can give it a try, first little by little, even if proportionally the commissions are high, an then when you earn regularly or at least know your reactions when earning or losing, you will have time to make bigger risks.

The Stock Market usually has a lot of conferences in its delegations and they never lose their purpose, but they always concentrate their attention on what they want to sell.

Be careful with the classes also, because there is a big variety. Not because they are more expensive they are good.

Some are not very good and I should know because I've been in some.

Remember it's almost impossible to know something anyone else doesn't, and if they don't know it, it will make no sense.

The best thing is to begin knowing the majority's opinion because that is the one which moves the market.

And remember that it´s almost impossible to know something others don´t and in the end if they turn out not knowing things, all this would be pointless.

It´s better to know the opinion of the majority soon, because that´s the one giving fuel to the Markets.

Unfortunately you won´t have any other option than to try it again and again with real money, so as to really understand how everything goes.

As they say in the Buenos Aires Market, don´t go anywhere near the Stock Market if you don´t have the three Cs: self-CONTROL, CASH and COURAGE.

See you in the Stock Market.

"All humans are born equals, but it´s the first and last time they remain like this"   Abraham Lincoln

<u>*"The 12 Keys of Stock Market "*</u>

Pablo Sabirón Mariana,

CEO Panda Data Engineering Ltd.

Written in **Valencia/London**, 2010