Questions to ask to Formulate your own Investment Plan

The following sections will assist you in understanding how to go about formulating your own Investment Plan.

You can use Iain's Investment Plan as a foundation of template for your own plan.

The Mission Statement

What is my core purpose for investing in the market, actively or near-passively?

The Mission Statement deals with '***why***?' Examples of investment purposes may include:

- Contribute to and invest via a private retirement fund (Solo 401(k), IRA, Self-Managed Super Fund). Initially all for portfolio growth and then also for income in later years.

- Grow a capital base in a specific timeframe for a specific purpose, e.g. $50,000 for an extended overseas family holiday. Or $150,000 for a house extension or a down payment to buy your first home. Or $100,000 for tertiary education for children.

- Earn income from dividends, while growing your base capital.

- Establish a capital base from which to derive income in order to pursue a dream that does not earn or require income.

If you don't have your purpose for actively investing in the market committed in writing, then stop reading now and do one of two things; establish your purpose and commit it to paper or cease all investment in the market until you have determined and committed your purpose to paper.

All investors have different purposes for investing in the market. It is suggested that if your purpose is 'to make money' go back and think again. Human minds don't know how to comprehend such non-specific purposes.

Research shows that 91% of Americans invest for retirement and 72% as the primary reason for investing.

Purpose drives you to persevere when the going gets tough, to learn more, to read more, to do some self-analysis to improve your psychological approach to active investment.

It is also possible that you may actively invest in the market for multiple purposes such as the examples above. In this case you might establish different portfolios for the different purposes and possibly even use different mechanical investing systems with different risk management and money management rules for each purpose, i.e. a different methodology for each purpose.

Goals and Objectives

This section deals with ***what*** you wish to achieve through active or near-passive investment in the stock market, ***how much*** you wish to achieve and by ***when*** you want to achieve the stated goals. Specificity is required in the Goals and Objectives Statement.

What are my investing goals?

These are the realistic periodic goals that you aim to achieve to attain your stated purpose. Here you work back from your purpose as stated in your Mission Statement and calculate by how much you need to grow your capital to achieve your purpose in the time that you have available. Then the periods can be broken down into shorter periods, such as years, quarters and maybe even months.

This process will assist in:

1. Motivating you to research historically what returns have occurred in the past tto determine what returns may be possible in the future.
2. Establishing how much capital you will make available to achieve your goals and the ultimate objective, which, in turn, is driven by your purpose for active investment.
3. determining how much to regularly contribute – on a monthly or quarterly basis - to your investment funds to increase the probability of achieving your goals.
4. Establishing a benchmark against which to measure your future returns. This could be a stock market benchmark index or a mutual fund in which you previously had heavily invested your retirement nest egg, say. Or both.

What are my risk objectives?

This covers the main investing metric of drawdown. What is the maximum amount of drawdown that I am willing to endure in my portfolio(s)?

What actions will I take if the risk objective is met?

Am I prepared to invest using leverage (i.e. using margin)? If so, how much leverage am I prepared to invest with? This is linked to the historical maximum drawdown that has occurred with a particular strategy.

What are my analysis skills goals?

These might include different technical and / or fundamental analysis skills goals such as learning more about:

- relative strength analysis,
- support & resistance,
- Fibonacci retracements,
- trends and channels,
- price patterns,
- momentum indicators,
- price volatility indicators,
- devising a technical analysis investing system,
- the correlation of debt to equity ratios to stock performance,
- the correlation of Return on Equity to stock performance,
- other fundamental ratios from a listed company's P&L & Balance Sheet.
- etc.

What are my investing mindset skills goals?

These might include different investing attitude goals such as:

- devising a process to achieve consistency and objectivity,
- overcoming the fear of buying stocks that have reached a new all-time high,
- learning to trust your process, system and regular investing processes,
- learning how to be at peace with all outcomes in the markets,
- etc.

We suggest that the mindset skills goal that should be focused on is achieving consistency and there is no better way of achieving consistency than with using an unambiguous, objective, stress-tested mechanical investing system.

The Investing Method

The investing system comprises technical and/or fundamental indicators that define the unambiguous entry and exit signals to buy and sell a particular share/commodity in the financial markets.

All active investors MUST have an Investing System that is stress-tested, robust, consistent and statistically provable. If you are deploying more than one market strategy, e.g. for a different investing timeframe or instrument, you need an Investing System for each.

Questions such as these must be answered and taken into serious consideration when devising an Investing System of evaluating one to use:

How much time do I have on a daily and weekly basis to follow the processes of my Investing System?

What frequency of opening and closing market positions can I sustain? For many years.

How much stress and volatility am I capable of putting up with while actively investing in the market?

What individual trade size can I tolerate for each position?

In which markets will I actively invest?

Which investing instruments will I use?

Can I tolerate investing with leverage? If so, how much leverage?

How many consecutive losing outcomes can I tolerate?

How much drawdown can I tolerate in my portfolio value?

The goals and objectives set above will determine the market strategies, investment timeframe, the effort required and in which types of instruments you will actively invest.

If your investment strategy is medium-term trading in equities or near-passive investing with a combined equities and ETF strategy, then SPA3 or SPA3ETF can be the Investing method in your Investment Plan.

There is no need to document the SPA3 signals and rules in your Investment Plan as these are already set out in the appropriate SPA3 or SPA3ETF manual.

Risk and Money Management

The Risk Management component of the Investment Plan deals with the various risks in the market and how you manage those risks. These risks can erode initial capital or profits.

The Money Management Plan deals with how to allocate capital within a portfolio.

The rules in your Risk Management and Money Management Plans must be consistent with your Mission Statement, Goals and Objectives Statement and your Investing Method. To establish a risk management and money management plan an investor must try to answer a number of core questions:

How do I construct a portfolio with the entry signals from my Investment method?

What are the various risks that could affect my portfolio? Such as: market risk, sector risk, broker risk, computer failure risk, instrument risk, plus many others.

How do I assess and measure the risks that could affect my portfolio?

What is the risk associated for each entry signal?

How do I deal with market risk?

What type of technical exit signals will I use to exit trades?

If I use stop losses, how and where will I set my stop losses?

How much money am I prepared to allocate to individual trades?

How much money am I prepared to risk on individual trades? How will I calculate the risk?

How and where will I take a profit for an open trade?

Will I trade all stocks in the market or will I focus of certain categories of stocks or short targeted stocks with specific characteristics? If so, which ones will I choose and omit, and why?

If you are a near-passive long-term active investor in ETFs and large-cap stocks then the SPA3ETF Methodology provides answers to these questions. If you are a medium-term active investor in equities then the SPA3 Methodology provides answers to these questions.

If you are investing / trading other instruments over a different term, you need to devise the appropriate Risk Management and Money Management rules that are consistent with your Investing Method for investing with that particular market strategy.

The SPA3 Methodology provides flexibility within the SPA3 Risk Management and SPA3 Money Management rules to meet different risk profiles and amounts of investment capital. To meet these different profiles, each active investor using the SPA3 Methodology needs to customise their Risk Management and Money Management rules by deciding:

- Your Risk Profile.
- How much capital to allocate to medium-term trading and / or leveraged medium-term trading using SPA3CFD.
- How much capital to allocate to different entry risk levels.
- How many open positions you should have in each entry risk level.

Once these decisions have been made you need to document them in your Investment Plan because they are crucial to achieving your goals and objectives.

The SPA3 Portfolio 1 public portfolio uses SPA3 Risk Profile 1. It is recommended that those new to SPA3 get started on Risk Profile 1 and then after a few months of trading review your SPA3 Risk Profile.

The operational tasks of managing the trades and the risks in your portfolio become a structured process. You do not need to document the SPA3 Risk Management and Money Management rules in your Trading Plan as they are already documented in the SPA3 Manual.

Process Management

Process Management entails regular routines that are followed to enforce adherence to the signals and rules of the Trading System and rules of the Risk Management and Money Management components of the Investment Plan for a particular market strategy.

Performance Measurement is also part of Process Management and is of vital importance. If you do not measure your performance how do you know how well or poorly you are doing and where to make adjustments to your investing processes or investing mindset? It is important to put a Measurement Plan in place and then to use an iterative process to apply necessary adjustments to your psychological approach, risk management or money management plan.

All active investors need to develop their own Process Management routines and Performance Management Plan. This must be included in your Investing Plan. For the SPA3 methodologies, the SPA3 portfolio manager automatically reports all the necessary measurements for SPA3 and SPA3CFD active investment, including equity curves.

Discipline is required at all stages during the process of active investment. Here are some considerations for inclusion in your Investment Plan:

AT ENTRY:

- Only ETFs / stocks that meet the Investing Method rules must be purchased.
- The correct position size must be allocated according to the Money Management rules.
- Know the exit signals for that entry signal BEFORE placing the order for the trade.
- Know the limit of risk BEFORE the position is opened.
- Open a new position on the next trading day after a signal. Buy at limit / market between 11am and 12 noon, or 3.00pm and 3.30pm (choose one period), depending on the spread at that time.
- Alternatively, use Market on Open or Market on Close orders, if available on the broker platform that you use.
- Once bought, the trade details must be checked and entered into the SPA3 TradeMaster portfolio manager.

DURING THE TRADE:

- Daily routines for exit, and lightening signals or pyramid opportunities, if used.
- Weekly routines to analyse the Overall Market Index and the Sector Indices for Risk Management lightening of open positions, if used. Depending on the market being traded the Overall Market Index for SPA3 Market Risk in Beyond Charts is:
  - NASDAQ: NASDAQ Composite ($COMP).
  - ASX: ASX All Ordinaries ($XAO)

AT EXIT:

- Exit according to the Trading Investment Method the next trading day after an exit signal occurs between 11am and 12 noon, or 3.00pm and 3.30pm (choose one period).
- Alternatively, use Market on Open or Market on Close orders, if available on the broker platform that you use.
- Record the exit details.

PORTFOLIO MANAGEMENT

- Maintain the % invested as formalised in the Risk Management section of the Trading Plan.
- Seek another entry signal for a portfolio that has available capital for investment into the market.
- Check for pyramiding opportunities, if used.
- Review of portfolio capital to ensure that capital is balanced across positions according the Money Management rules.
- With SPA3CFD, ensure that your overall exposure does not exceed your planned exposure. E.g. if you planned to trade with x3 portfolio leverage then ensure that you are not leveraged at x3.5 or higher.

PERFORMANCE MANAGEMENT

- Conducted monthly. (Many of these actions are for more active methodologies.)
- How has the portfolio performed relative you your benchmark index?
- Check how many trades were NOT entered and exited according to the Trading System Rules.
- What made you break your entry and exit rules? Outside influence? Fear? Nervousness? Hesitation? Lack of confidence? Lack of trust?
- How are you going to improve this?
- In how many trades were the Money Management rules broken?
- When you had available capital in your portfolio, were there trades, including pyramiding opportunities (that met the rules), which you did not take? Why did you not take them? How can you improve your mindset to follow the rules and take these trades?
- How many profit trades were there in the month?
- How many loss trades were there in the month?
- What was the net profit for the month?
- How much brokerage was paid in the month? Can you reduce your costs?
- Does this meet your Goals and Objectives for the month? For the last quarter? For the last 6 months? For the last 12 months?
- Do you need to modify your Trading Plan as a result?
- Do you need to improve your skills in any area and how will you go about it?