

## Learning from the Global Financial Crisis.

The events of late 2007 and 2008 dealt a savage wake up call to traders and investors the world over. Billions of dollars were wiped from equity values and long term investors saw their treasured portfolios decimated as companies collapsed under huge debt burdens or an inability to re-finance loans and other borrowings as credit risk tightened. In Australia, several well known companies imploded as a result taking shareholders with them as they went to the wall. Examples include ABC Learning Centres, Babcock and Brown and many other lesser known companies like Rubicon which was only known to high net worth investors. There was of course, the usual hue and cry from the 'mums and dads' and others as they claimed to have been duped by an investment scheme, the unscrupulous behaviour of a financial adviser more focussed on his commission income than the plight of his client, or the out and out greed of company directors. Much of this pain could have been avoided if the vast majority of these so-called investors had taken the time to learn and understand what they were doing rather than blindly trusting the advice of others, or being sucked into the vortex of greed that had 'everyone' believing that the bull market and the money trail associated with it would go on indefinitely.

Then, in 2009, things began to change. The market watches and 'experts' began talking about a 'green-shoots' recovery. Slowly but surely stock markets began to recover. Share values began to improve and the losses that investors were carrying in their portfolios weren't quite as bad as they had been. Equity markets began to recover and it seemed as though, suddenly, the gloom and doom that had pervaded the markets was over and everything was back to "normal".

Prices were rising, profits were being made, losses weren't "all that bad" and the punters re-entered the markets with a similar level of reckless abandon that they had employed in the glory days of 2007 prior to the crash. As equity markets rebounded (the ASX All Ordinaries Index rebounded almost 55% from the March 2009 lows which is half of the GFC decline), and confidence began creeping back in, people re-entered, or perhaps entered for the first time, equity markets that were once again in a bull market up trend. It was almost as if the world simply returned to doing what had been done in the past, hoping and believing that it can't happen again.

So, what have traders and investors learned from the Global Financial Crisis? And what have you learned? What plans have you put in place to educate yourself and protect yourself from further shake-outs in the equity markets in the years ahead? Any?, or have you just put your head in the sand, resigned yourself that your portfolio is still down on what it was pre the GFC, and decided you have to keep working for another 10 years and not take that early retirement you had planned? Or, worse still, have you simply returned to what you were previously doing – listening to your broker, your mate with the hot tip, or some other supposed expert? With no real plan or systematic approach to engaging the market you are once again at the mercy of the market when we experience the next market catastrophe.

These recent market events should provide you with the ideal opportunity to stop and clearly re-assess what it is you want to achieve from your active investing and trading activities in the stock market. Take your head out of the sand and undertake an honest appraisal of what you have really achieved and what it is that you want to achieve moving forward.

This will require a great deal of honesty on your part, and will be well worth it in the long run. Take the time to assess the education and tools you will need to become successful and profitable, or to increase your profitability if you are already successful. Once you have identified these it is time for a period of transition as you move from the realms of the punter and uneducated market loser, to that of an educated and informed professional trader or investor with a business-like approach to your trading. An essential component of this will be a well researched trading plan and the development or purchase of a robust and profitable trading system that has a positive edge over the market over the long term. Included in this trading system or methodology you will need strict risk management and money management tools and techniques to ensure that you not only maximise your potential returns from winning trades, but also that you employ appropriate strategies to get you out of losing trades quickly and efficiently without limiting profit trades. A disciplined and consistent approach to the markets will remove the emotion and 'noise' from your trades and allow you to focus on the overall outcomes of the system over the longer term, rather than focusing on the outcome of each individual trade.

For over 15 years my business Share Wealth Systems has helped everyday investors transition to become successful and disciplined active investors. Our #1 system SPA3 provides investors with the rigour and rules to be able to perform in both good markets and bad and our past performance displays this. SPA3's strategy consists of a Trading System, Risk Management, Money Management and Portfolio Management – what we call the four essential pillars needed for successful Active Investment.