

Your Money

Financial wisdom with Paul Clitheroe, Chris Moriarty and John Hallows

How Mr Magoo won the day



INVESTMENT TALK

with John Hallows

THE four-month trial of rival sharemarket investment strategies we set up here last year has just ended.

The verdict was fairly clear: a trading strategy based on technical analysis proved more reliable than a buy-and-hold approach devised on a fundamental basis.

There are a lot of buts, though. The trial threw up some important lessons that should be applied to any investment style.

Last year, we set up two hypothetical funds, allotting \$100,000 in Monopoly money to each one.

I asked an old friend, an experienced investor, to pick 10 stocks he thought promising. At the same time, we picked 10 that looked to be potential runners in the short term.

I ran the trial on Quicken's ShareAnalyser market-watching software, which is one of the best I've used (and, at \$299, is affordable).

It connects to a database of up-to-date share prices and other details, and has an ad-

vantage, from the test's point of view, of some complex technical analytical tools.

You can set the software to scan for shares showing any bullish or bearish signals — which saves a lot of time.

We christened the buy-and-hold version the Mr Magoo Fund, because its strategy would likely appeal to the cartoon character.

The technical fund became the Frankenstein Fund, because it surged off the couch and began lurching after shares I'd never even heard of.

Buy-and-hold does well in a healthy market, and the Magoo Fund, which Ken had liberally sprinkled with resource stocks, profited from the end-of-year market surge and rocketing indices in March.

I was less prepared for the relative ease with which it gave back its gains, because of the absence of any profit-taking strategy. After five weeks, Magoo showed a seven per cent profit; two weeks later, the market sagged and Magoo was back to four per cent.

Over the whole period, the ASX 200 put on 11.3 per cent. Magoo was 10 per cent up at the beginning of this month, but those gains were still out on the market. By last week, Magoo was down to only eight per

cent. Frankenstein scored less than Magoo in the good periods, but because it was banking its gain, it was able to put them back to work at the right time.

On several occasions, Frankenstein took profits from three separate trades in the a share also held, to less effect, by Magoo. Frankenstein ended up making 13 per cent — and that profit was safely locked up in the bank.

Here's where the buts begin, though. The technical approach requires a lot of work and attention. I thought 30 minutes a day would be ample, but it wasn't so. I'd say seven hours a week would be the average required.

Frankenstein's losses usually happened when I missed out logging in for two or three days.

That sort of time involvement means you need to do a cost/benefit study first. Frankenstein should beat the index, but if you're starting with much less than \$50,000 capital, you'll be working for a pretty ordinary hourly rate.

In the end, a modified Magoo may suit people better.

Buy-and-hold on a fundamental analysis — but set tight stop/loss limits and take profits when they appear.