

# SHARES HOW TO BUY

Savvy software programs can research the market and advise you when to buy and sell stocks. Chris Wright road-tests the abilities of five cyber stockbrokers.

**P**icking stocks is hard work. You can spend your life researching price-earnings ratios, earnings history, the curriculum vitae of the chief executive and the future price of oil – and still end up buying a dud. Wouldn't it be nice if there was a program on your computer that just told you what to buy?

Many systems tap into this sentiment, from black boxes that give you buy lists without ever explaining how they've come up with them, to technical trading systems, which seek to identify patterns in stock price behaviour and help you set up strategies to exploit them.

To give you a guide, *AFR Smart Investor* road-tested five such products – and kept a diary. The five are: Share Wealth Systems' (formerly ShareFinder) SPA3 system, OmniTrader, BullCharts, Pro Trader and Stock Doctor. We should stress that we chose a range of programs that set out to do quite different things and thus we're not always comparing apples with apples.

## WEEK 1 | AUGUST 17

This week is spent installing software and trying to understand our new systems. Physically, installation presents no major problems – BullCharts triggers a few thorny messages when installed on Vista but the installation material talks you through them. Most systems automatically link to a provider for the stock exchange data you need each day, but for OmniTrader you need to set up an account with an external provider – easy, but a cost to be remembered.

The approaches to training vary a lot. We are won over by Share Wealth Systems' excellent one-on-one webinar in which a courteous and helpful instructor takes us through the system in such a way that we can see his use of the mouse on our screen. If we don't understand, we ask and it's explained to us. OmniTrader's training materials, particularly its video seminars, are outstanding and professional, although as a US-developed system most of the stocks in its demonstrations are listed in the US. We like Pro Trader, too – its videos and manuals are clear and straightforward. BullCharts makes a bit less effort on the visual side of its training materials, since it assumes users have some technical ability already (it's also the cheapest). Finally, Stock Doctor's package consists of very clear and detailed PDF manuals, with access to a host of training courses and phone and email coaching.

A short time with these systems reveals that none of them are truly black-box systems that tell you what to do but don't tell you why. That model, in fact, is all but discredited; they tend to be hard sold by phone by companies that frequently change their name

as they attract the attention of consumer and finance watchdogs. Instead, all of our chosen systems require you to take a degree of responsibility for your decisions.

**Share Wealth Systems:** This program comes closest to simply telling you what to do. You start out by setting your preferences for risk and liquidity (we stick with the defaults). It then scans the market and generates buy signals it considers high, medium and low risk; over the weeks it builds a portfolio of stocks in those three risk positions, telling you exactly what to put in (and later, what to take out, or whether to put in more). If you want to know why a signal has arisen, you can get a lot of detail.

**OmniTrader:** Developed in the US, this one is a powerful, professional product: it looks good and it can do plenty. Technical traders can use an existing strategy or customise their own, and then the system will generate buy or sell signals based on that strategy. We're road-testing the basic one, so are only looking at pretty straightforward technical methods – trending, reversal and breakout – but OmniTrader really excels with the numerous modules you can add to it, accommodating celebrated investment models like the Darvas box – a technique that visualises boxes of short-term trading patterns in stocks, with buy signals being triggered when the price breaks out of the top of the box.

**Pro Trader:** This system doesn't offer quite such a range of technical indicators as some

other programs, but that's deliberate: its developers feel that beyond a certain point you're only adding confusion. This can be used as a charting system and as a way of implementing a strategy (it's particularly fond of the Darvas box and has a specific scan for that). It also has a proprietary function called the Combo Scan to identify good prospects. So, again, while this will signal stocks that fit within a strategy, you've still got to make the call on whether it's sensible to buy them.

**BullCharts:** This charting program is a dream for those who know what they're doing but not for those who don't. You have a multitude of strategies you can scan for, and a wealth of information underpinning how those scans come out – the charts themselves are widely admired by those who like this approach. But if you want a buy signal, or want the system to tell you straight out when to buy in and sell out – that's not what you get here. You need to know how to read the data before you can make that call.

**Stock Doctor:** We deliberately chose this package as something different from the technical herd, in that it is primarily a fundamentals-based tool with a lot of information on ratios, indicators and other real data, but it also includes a sophisticated charting module with more than 100 different methods and indicators if you want it. The closest thing to a buy signal here is something called the Lincoln valuation for Star Stocks, a theoretical share price value calculated by Lincoln's analysts using earnings forecasts.

### ► Pro Trader



### ► OmniTrader



This chart shows a simple moving average overlaid with a Darvas box, and the automated chart patterns. The vertical line is an analysis of a recent signal.



## WEEK 2 | AUGUST 24

Time to start putting the strategies to work. The Share Wealth Systems is simple as its approach is prescribed for us.

With OmniTrader we decide to act if we get a decent looking buy signal from our combination of trending, break-out and reversal filters; ideally we'd like to see two of these approaches firing at once before making a buy.

For Pro Trader, we use the proprietary Combo Scan function, filtered a bit for size and liquidity, and then look for stocks within it that show an upward trend; since this program loves Darvas boxes, we've also decided to buy in if any reasonably large-cap companies fit the bill.

BullCharts is quite big on investment author Alan Hull and offers several scans mirroring his approach, so we use one based on his *Active Investing* books and look for stocks in the S&P/ASX 100 that the charts suggest would be in the "buy" zone under his system.

Although we recognise a fundamental portfolio is not meant to work in a six-week trial, we pick stocks that come through Stock Doctor's Star Stocks' filter and that the system considers undervalued. As you can see, the results are going to be as much to do with our strategy as the software.

What an odd range of stocks we find ourselves in. Our Alan Hull approach with BullCharts puts us into a handful of big names, including Bank of Queensland (BOQ), Consolidated Media Holdings (CMJ), David Jones (DJS), Macquarie Group (MQG), chemical company Orica (ORI) and retailer Wesfarmers (WES).

Stock Doctor gives us an eclectic range

from biggies like Woolworths (WOW) and Telstra (TLS) to recovering mining stocks like Resolute Mining (RSG) and Equinox Minerals (EQN). Our reading of the Pro Trader data puts us into Amalgamated Holdings (AHD), Amcor (AMC), Goodman Group (GMG), Navitas (NVT) and NRW Holdings (NWH), among others.

Share Wealth Systems starts us out in Oil Search (OSH), which it rates low-risk, and two metals and mining companies, Comet Ridge (COI) and Jabiru Metals (JML), which it considers high risk; we will eventually get to 13 positions across the three risk profiles.

And OmniTrader's first scan, which we've limited to the S&P/ASX 200, gives us four buy signals we like the look of: Woolworths, QBE Insurance Group (QBE), Tabcorp Holdings (TAH) and miner Lynas Corporation (LYC).

Not one single stock in common – and through our research we find no stock will ever appear in more than two systems.

Our first couple of days inevitably trigger a few teething problems, which allow us to check the quality of support. A Stock Doctor query is answered and remedied by email within an hour, and they later call to be sure we've fixed it. Queries on BullCharts and OmniTrader are also swiftly answered.

There are lively chat communities connected with these systems, none more so than Share Wealth Systems, for which we have received 66 new notifications of discussions in its forum before we've even finished installation. Stock Doctor sends a daily email with suggestions, updates and discussions, and all of them have their own communities of followers swapping ideas.

## WEEK 3 | AUGUST 31

We're settling into a routine. By 8pm AEST each system has end-of-day ASX data ready to download. We do that – it varies from a minute or so to about 15 minutes for Share Wealth Systems – and then study the results, looking at the stocks we're holding and the opportunities to buy or sell, and put in our trading orders for the next morning.

Most systems allow a more expensive live data option but since many investors aren't watching the market like hawks – they have jobs – we've stuck with end of day. An annoying side effect is that there's a lag time between the system generating a buy signal and you being able to act on it. On the data downloaded to Share Wealth Systems one Friday night, for example, comes a signal to buy a group called Swick Mining Services (SWK); in Share Wealth Systems' own portfolios this shows up as \$0.665 per share, which is the Friday night close. But, if you tell your broker to buy at the Monday morning open, it opens at \$0.715 – so it's already gone up 7.5 per cent before we get in on the act. This is unavoidable but important to note.

Many systems are big not only on when to get into a trade but also when to get out, and we set stop losses in all our systems except Share Wealth Systems, which automates sell signals anyway. Pro Trader is insistent on this point. OmniTrader, too, uses a trade plan method of entering trades that requires you to set stop losses. Stock Doctor triggers automatic stop-loss and overvalued warnings.

Entering week three, our portfolios are filling up. Share Wealth Systems now has

us in nine active positions and to someone like me who's been raised on fundamental analysis, various warning signs are screaming out: small or even micro caps, a concentration towards energy and materials, stocks that have trebled before we buy in and only two companies – financial services provider Tower (TWR) and Oil Search – we know anything about.

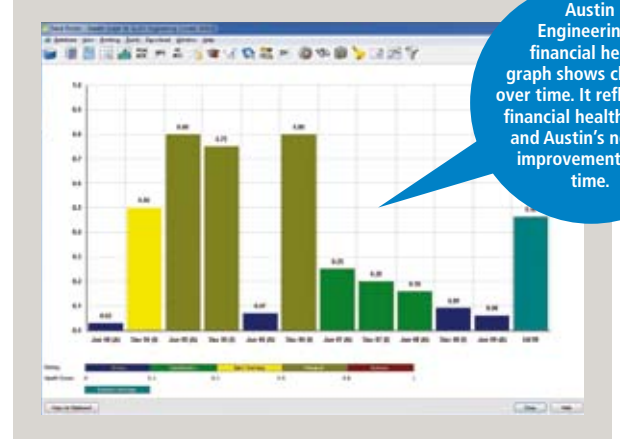
Already OmniTrader and Pro Trader have triggered sell signals or stop losses. Our first Darvas box – Soul Pattinson (SOL) – triggers on Pro Trader, so we buy in. We're reminded how much latitude we have in these systems: OmniTrader generates 13 new buy signals one day, and since we're not going to act on all of them, we have to dig into the copious underlying data and interpret the charts to decide which to go for. This enforced education will eventually prove a good thing, but it takes us a while to get the hang of it.

## WEEK 4 | SEPTEMBER 7

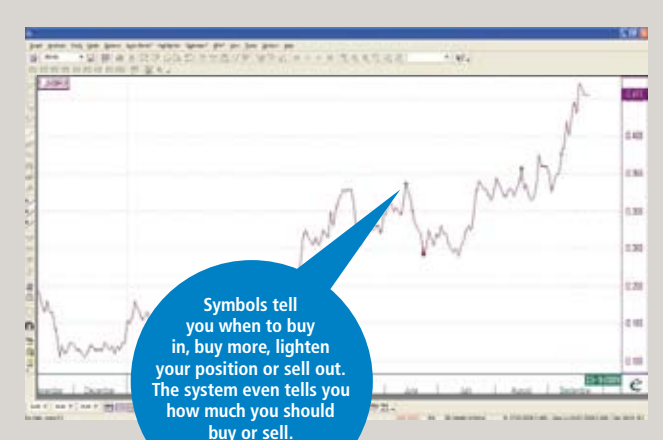
Our portfolios are getting full and more time is spent reviewing existing positions to see if it's time to get out. All the technical systems have pulled us out of at least one position by now. We're learning the subtlety of buy signals and that they shouldn't be followed blindly. A bit late, you might think, but this illustrates why you should probably spend the first month with a new system paper trading in order to figure out things like this. A useful session with OmniTrader shows why you should look beneath a new buy signal for facts. Already, each system has generated at least one great call – OmniTrader sells us out of Lynas Corporation at a 20.41 per

cent profit, BullCharts data suggests it's time to get out of Consolidated Media Holdings (CMJ), up 18.16 per cent, and stocks in other portfolios are near to 20 per cent gains. There are plenty of duds, too, though.

### ► Stock Doctor



### ► Share Wealth



### ► BullCharts



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## WEEK 5 | SEPTEMBER 14

By now we've developed a clear idea of which people these programs suit. Share Wealth Systems is best for those with a set amount of capital with which they want to set up a new portfolio, rather than those coming to it with an existing portfolio and expecting the system to tell them how to modify it. It is good for people who want some hand-holding in their decisions.

BullCharts is for investors who already know what they're doing in technical analysis and want a tool to help them do it more effectively. The charts look great, the filters are impressive, but don't expect to be told chapter and verse what to do.

OmniTrader is also highly impressive as a technical charting program, and has

some excellent features such as back-testing of strategies; it combines it with specific recommendations but the investor needs to learn how to interpret those, and commit to educating themselves on what they mean.

Pro Trader, like OmniTrader, combines useful charting ability with hints on what to buy, if you want them: you can follow its lead or do your own thing. It's an efficient and well-thought-out system.

And Stock Doctor is a fabulous resource for the fundamental investor. As an archive of information and interpretation it's terrific, but a quite different product to the others reviewed here; while its charting capability is surprisingly sophisticated, it's only intended as an adjunct to its fundamental foundation.

## WEEK 6 | SEPTEMBER 21

We wrap up our trading on September 24. Remember, it's as much about our strategy as the program. But here's how we did in a period during which the S&P/ASX All Ordinaries Index put on 8.5 per cent:

### Share Wealth Systems (+10.4%)

This was the one we let do its own thing – we didn't impose stop losses but scrupulously followed its buy and sell orders no matter how absurd they looked. And, what do you know, it was the best performer, although we let it go into very small caps that we wouldn't otherwise have touched. Best call was Jabiru Metals (JML), which rose 29.71 per cent; worst was Swick Mining Services which, since we didn't use stop losses for this portfolio, dropped 15.02 per cent.

### BullCharts (+9.0%)

Our use of the Alan Hull method on BullCharts gave us the closest thing to a buy and hold strategy, as few stocks moved in or out of the range during our review period. Over that time only one stock we selected went backwards (CSR [CSR]) while the best performer was Macquarie Group, gaining 23.41 per cent in the time we held it.

### Stock Doctor (+8.8%)

We used this as a fundamental counterpoint to the technical systems and it did pretty

well. Two of the stocks we used it for hit stop losses (Carnarvon Petroleum [CVN] and Telstra) but these were well outweighed by successes like Equinox Minerals – up 24.94 per cent – and Fleetwood Corporation (FWD) – up 21.74 per cent.

### Pro Trader (+7.1%)

The Combo Scan feature identified some good buys, including the single best trade on any system we used: NRW Holdings, which climbed 44.22 per cent in our review period. On the debit side, it triggered Babcock & Brown Infrastructure Group (BBI), which hit a stop loss the very next day. We also tried it for a couple of Darvas box selections and one, Soul Pattinson, performed very well with a 16.71 per cent gain.

### OmniTrader (+4.5%)

This was the weakest number, but returns did improve once we got better at analysing the buy signals – a reminder that it's a good idea to paper trade in the first weeks. Several early purchases hit stop losses, among them AWB (AWB), Independence Group (IGO), Incitec Pivot (IPL) and Sigma Pharmaceuticals (SIP). But it identified some great buys, too, particularly Lynas Corporation, which climbed 20.41 per cent before the system told us to pull out, and Macquarie Office Trust (MOF), which climbed 24.48 per cent.

## WHAT THEY COST

**Share Wealth Systems:** The SPA3 system costs \$2995, and there is a \$71.50 monthly maintenance fee including end-of-day data, help desk support and twice weekly training webinars.

**OmniTrader:** Bought through Australian seller CorporateDoctor, OmniTrader's basic version is \$US475 (\$538), and you then purchase additional modules according to what you want. For example, bundling it with a chart pattern confirmation module and strategy modules for Guppy and Darvas box strategies costs \$US1315. You will also need a data provider; we used the Premium Data end-of-day download, for which subscriptions are \$30 a month.

**Pro Trader:** Software and data for the first 12 months is \$1254; Pro Trader membership, which includes the software and data plus training, broker recommendations, members' forum and a weekly broadcast, is \$2450.

**BullCharts:** \$795 for the software, and \$352 a year for the data.

**Stock Doctor:** \$1895 for the first 12 months, then \$1277 a year thereafter if paid before your renewal date. That covers the software, email and phone coaching, newsletters, monthly training workshops, tip sheets, access to quarterly user group conferences and free upgrades to later versions. **Si**

