Sensible trading

Stock trader Mirriam MacWilliams says combining fundamentals with technicals makes for a powerful trading system

| BY GOOLA WARDEN |

In the late 1990s, Mirriam MacWilliams, a corporate high-flyer at the peak of her career, gave up her job as the vice-presi-dent of in vestor relations at the largest Coca-Cola bottling company outside the US and a six-figure annual salary for a little-known and predominantly male-dominated area of stock trading. In two years, she racked in US$2 million ($1 approx US$0.60) and was made the national director of education at the US Stock Investors Club, which has over 14,000 members.

On the social side, MacWilliams is a big fan of extreme sports such as bungee jumping. She is also an avid photographer and deep-sea diver and marries both interests by engaging in deep-sea photography occasionally. She has even won photography contests organised by UM Rosenstiel School, an established school of photography in Miami, Florida.

MacWilliams' forte is turning complex subjects into easy-to-follow, step-by-step strategies that anyone can learn and use. "You will not make US$10,000 a month from trading until you've made $1,000 a month" she says. "You must have a trading plan. I would like to know why I'm taking this position, at what price to enter and the risks involved before I enter." MacWilliams shares some of the intricacies of her trading plans with *The Edge Singapore*.

How do you choose a stock?
There is an element of fundamental analysis. Fundamentals help to determine which stocks you want to trade. I went with www.moneycentral.com, [which] has a free tool [that ranks a stock] depending on its fundamental strength. It is called "stock rating". You just [have to] key in the stock and it gives you a number and that gives you the company's strength or weakness.

How does the stock rating on moneycentral work?
The stocks are ranked from number one to 10. [Companies numbered] eight to ten are strong. One to six are companies that go down — the weaker ones. Take Delta Airlines, for example. At one point, it was ranked four and a gentleman called to ask me to check it out. He said it was trading at US$12 [at that time] but it used to be US$33 a few years ago. He said it was fairly priced. Delta Airlines then scored a one [earlier this year] and the price went down to US$2. There's a reason the stock went from US$33 to US$12. If fundamentals are four, you have to wait till fundamentals become eight. I would not buy at four, I would wait. Something has to change to make the fundamentals attractive so that it turns into an eight.

Do you have any favourites?
Two sectors I completely avoid are the drug and airline sectors because news associated with these stocks can have an adverse effect on your position. When it comes to investing, I do not want catastrophic news. People either love or hate drugs. One day they're curing cancer, the next, the [pharmaceutical companies] are recalling them. Even the strongest, most powerful drug company cannot survive worldwide recall. If the stock opens sharply lower, it can go right past your stop.

Do you look at technicals?
Technically, I look at where the stock price closes compared with where it closed the previous day and [its] volume. Institutions control the close in our market. They are the ones who assess risk. You can see money gets shifted and this usually happens before market closes. They either take money out of the market to put into bonds or vice versa. The bond market closes an hour earlier than the stock market. The smart money is in the business of assessing risk. I want to see how the stock price closes.

If the stock price is having continued upward momentum, I'd want to look at volume. In the event that share prices rise, there must be institutional participation. It should not be moved around by people. That is why I only invest in stocks with at least half a million shares traded a day. Generally, you will see there are a large number of institutions that follow that stock. So, volume plays a role.

If there is a conflict between the fundamentals and technicals, what do you do?
I stay out. If there is divergence between technicals and fundamentals, you cannot do the trade — don't force the trade, you will be putting capital at risk. If you have a fundamentally strong stock that is also technically strong, you cannot sell that stock short. Leave your expectations outside. You only know when the stock makes a top and bottom after it has done this. People have been trying to see the top and bottom since the beginning of time.

For investing purposes, you are armed with the understanding that a fundamentally strong stock that is also technically strong has a higher probability of getting stronger. Or a fundamentally weak stock that is also technically weak has a propensity to get weaker.

What is the risk of trading in options?
I do not like to participate in instruments where news can be quite severe and drastically affect companies, like those in the drug and airline sectors. An option is a geared position. I like to take a position where the stop on my stock is US$2 or less. That keeps my option stop below 25%. If a stock opens down US$10, that wipes out my option. For airlines, a plane incident can cause a sharp drop in prices.

How do you spot a trading opportunity?
[I buy] when the stock goes up. When the stock no longer goes up, if I do not get stopped out,

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I will sell. I don't believe in averaging down the cost. I'm a believer in buying into strength and selling weakness. Strong stocks get stronger and weak stocks get weaker. That's why it never makes sense to buy stocks that go down. I have no bias. I would use a small measure of technical analysis. I have to look at a chart to see if the stock has the potential to rise by 10%.

What would you say is the most important part of a trading plan?
The stop loss. Stop loss is your only line of defence. There's no other protection you have in the stock market. Once you're in a trade, you have to draw that line. It's a live working order in the event that the trade doesn't go in your favour — the stop loss takes you out. For as long as I've been investing, I do not have the discipline to take myself out of a trade. That is why I have an automatic stop loss. The minute a trade of mine gets executed, and I control that option, the next thing I will do is to place a stop loss. I do not wait for an hour.

The inclination is for people to hang on. No one wants to be wrong. The stock starts to go down, then the negative news event is out and if you're hanging in there while the smart money is starting to scale out, you are going to see losses. But if you had placed a stop loss, it would have been triggered. You would have had your investment capital back and survived to see another day to take another trade. For options, you do not have the benefit of time because options expire. They are very unforgiving because your entire capital is at risk.

How much capital do you normally put at risk for a trade?
If you have investible capital of US$9,000, don't use more than US$2,500 of that.

What is your strategy?
My bread-and-butter strategy is where I am in one position at a time and I stay in a position for three to four weeks on average. All I want is a 10% move on the stock. It's very achievable because I trade options. If the stock has a 10% upside, I can get a 100% return on my investment using an option. This is the allure of options. In the US, a 10% move can happen in a few days — it's not an unrealistic expectation. I write a plan that enables me to capture a 10% gain on the stock, or a small loss on the option on the downside in the event it turns against me.

How did you determine your first trade when you started out?
My first trade was a US$10,000 investment. With hindsight, I shouldn't have started with such a large investment. All I need to do is to determine whether I can take US$30,000 and make US$30,000. That is how I trade. I don't want to be in multiple positions. My bread-and-butter strategy is to take one position, leverage on that and capture that return.

How did you start out investing?
I invested quite a bit of capital on learning how the market works. Then, I started buying stocks and lost money straight away. It was not a pleasant experience. On top of that, I had invested US$32,000 on educating myself. I needed to see what went wrong — I started to analyse my positions and realised I didn't have a game plan. When I started to write my plan, I thought this didn't make sense. Through trial and error, I found a plan where I traded, had a lot of successes, and reached a point where I could trade $10,000 capital and double it.

What was the plan?
It was to invest in a company called Home Depot. The stock was $35 at the time. And I could see the stock had the potential technically to move 10%. My husband and I then went to New Guinea to scuba dive and when I came back, the $10,000 had become $22,000. It was a result of the stock having been able to achieve that 10% gain. The stock was able to get to that price level in four weeks although we didn't come back till after five weeks.

How do you choose the stock for that sort of a gain?
I want companies that have strong backbone. I don't really participate in options where the underlying stock has no money, or has negative earnings. Those are the stocks I want to make money to the downside.

I don't believe in averaging down the cost. I'm a believer in buying into strength and selling weakness. Strong stocks get stronger and weak stocks get weaker. That's why it never makes sense to me to buy stocks that go down. — MacWilliams

What happens when the stock goes in your favour? When do you come out?
I generally wait for my 10% gain. I place not only a stop loss, [but also] a sell stop — it takes me out at my profit. When the stock starts going my way, I start to adjust the stop loss in that direction too. I'm preserving capital, locking in gains. I prefer to let the trade ride and adjust my sell stop and stop loss. At some point, one of them will trigger. Then I get out, and wait for the next trade.

Isn't the stock market more stressful than being in investor relations at Coca-Cola?
It is if you don't have what I call a trading plan.