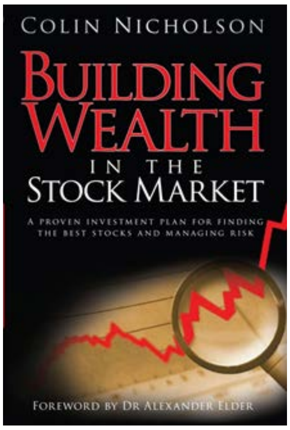
Building Wealth in the Stock Market



A Proven Investment Plan for Finding the Best Stocks and Managing Risk

By Colin Nicholson

This review by Jenni Eason, a member of the Australian Investors Association

This book is an update of Colin Nicholson's *The Aggressive Investor* which was published in 2005 and is no longer in print. It has been updated and the terminology changed so that it can be sold overseas, hence the change from shares to stocks. The book contains a lot of detail, in fact Colin's whole trading strategy and this would allow anyone to implement the same or a similar plan. However, it as Colin points out, no two people should have the exact same plan.

Following the publication of *The Aggressive Investor* in 2005, Colin also published two books *Hot Stocks 2007* and *Hot Stocks 2008* (published October 2007) in which he applied the principles outlined in his book and was out of the market well before it fell dramatically in 2008. I only wish that I had read and followed his advice, in full, then.

The first three chapters of the book deal with basics issues such as trading versus investing, fundamental and technical analysis, the concept that winners think differently and what is required to succeed as an investor. Experienced and novice investors in direct shares will gain from reading them. The next chapter outlines a roadmap of his investment plan and chapters five to twelve provide details of his plan. Once again the chapters are easy to read and contain much useful information, particularly in the areas relating to risk management, position building, rules for selling and taking profits. Much of this information is quite general and the principles could be applied in many circumstances, with only the details changing. One notable change from his previous book is that he has reduced the risk per trade to 0.5% (previously 1%), partly due to the increasing size of his portfolio.

As he mentions, his plan will not suit everyone, for example, he does not borrow to invest, will invest in thinly traded shares, but limits both sector exposure and total number of holdings. He also limits the types of companies he invests in eg no property trusts, stapled securities, listed investment companies, as well as other criteria. A new guideline is that a company's debt-to-equity ratio should be under 60%.

The information in earlier chapters in summarised in Chapter 13 which is an executive summary of his own investment plan. The book is worth buying simply to read this chapter as it will force you to think about your goals, strategy, etc and hopefully commit them to paper.

The final chapters provide a number of detailed case studies in how to manage market risk, determining companies to invest in, entry points, stop losses and reducing exposure. A further reading list is also provided.

This book is a must for most investors, and while it is a little more expensive than most (partly due to being in hardback) it is well worth the money as you get Colin's full investing strategy for just $65.