

PUNCHING ABOVE YOUR WEIGHT

Trading software comes in all shapes and sizes, as Chris Wright discovers.

There's something wonderful about the idea of a piece of software that will sort out your investment needs. A black box, a charting system, a research tool – people differ in what they want from trading software but they have one common ambition: getting better returns for less effort with the help of technology.

But there are many different types of trading software available and they all do markedly different things. Finding the right product requires you to be very clear about what you want. We've come up with some key steps to make sure you end up with the package that's best for you and then make the best possible use of it – if, that is, you need one at all.

What's out there?

Step one is understanding exactly what's out there. At one extreme is the "black box". You may see these advertised (or receive a "cold call" from someone selling them) with remarkable promises of their track record and ability, but generally they don't tell you how these systems come up with the recommendations they make.

These things have a very bad name. We don't recommend them and neither does the Australian Securities and Investments Commission, which puts its reasoning very succinctly: "If you rely on these programs, you put complete faith and trust in the skill and reliability of the programmers," ASIC says in its public information on trading systems.

"If their reasoning is wrong or if their program is unreliable, you won't know and you will have no control. You will also not be able to properly assess the level of risk in the program and whether it matches your own risk tolerance."

ASIC recommends buying programs only from people who hold an ASIC licence – you can check this through the databases available on its website – and warns specifically against promoters who promise high returns over a short period, do not disclose potential losses and risks, claim the program will make you a successful trader, provide examples of large profits made by investors using the program in the past, or who are based overseas.

There are, though, decent providers (including some based overseas) who may meet your needs, provided you're very clear on what their products can and can't do. None of the systems mentioned in this article are black boxes, because in every case you can dig in and find out how and why it

has recommended a trade, whatever it's come up with.

If you're after something that will tell you what to buy and when to buy it, the closest reputable system to that goal is probably Share Wealth Systems and its SPA3 product.

With SPA3, you start out by revealing what your risk profile is. You decide how much liquidity you want in your stocks and how much you want to allocate among low-, medium- and high-risk positions (there are defaults available if you want to be guided on this).

Every day you get SPA3 to scan the market and if it finds stocks that meet its methodology it will create "buy" signals and tell you which of the high-, low- or medium-risk positions they fit. It even tells you how much of your portfolio to invest. As time goes by, it will tell you when it thinks you should buy more and when you should sell.

Some systems, such as Pro Trader and OmniTrader, are sophisticated charting systems – as most products in this area are – but they also offer buy signals in certain circumstances. In both of these cases you can use the product to try a variety of charting techniques and then get it to trigger buy and sell recommendations that fit with the approach you've selected.

Others are just charting programs. You can infer the buy and sell recommendations from what they show you but they're basically about the charts. Products such as BullCharts and, to an extent, Insight Trader, fit into this category.

Yet another camp is represented by Stock Doctor, which stands out for the fact that it's not primarily based on charting (though you can use it for that). Instead this program helps you with fundamental analysis – it will run any Australian stock through a series of criteria and help you do the research that suggests whether you should buy it.

Know what you want

With the range of products available, the next stage is pretty clear – know what you want. In fact, start by asking yourself the question: are you sure you really need a trading system at all?

If you just want to build a portfolio of blue-chip yield stocks and hold them for 20 years then you're probably not going to get much out of a trading system.

If you're a believer in understanding the companies you invest in, knowing what they do, how they're managed and the ins and outs of their industries, then most of these