Steps for Trading on Your Own

One advantage of investing in low volatility stocks is the simplicity of the strategy. Still, if you're new to investing your own money, it can seem a little intimidating. So here's a breakdown of the steps we use when investing our money and some tips to help you down the path.

NOTE: This strategy has worked consistently for many years, but keep in mind there are no guarantees in the stock market. History shows us that market conditions can change suddenly. However, the beauty of the low volatility strategy is that if the market does go down, low volatility stocks will tend to suffer significantly less than others.

There are several Internet sites designed for do-it-yourself investors. Click here for a list. Note that prices vary from $2.50 to $14.95 per trade. Be sure you read the details of their pricing schedules so there are no unexpected charges.

Once you have established an account at one of these on-line trading sites and have funded it with cash assets, you can get down to business.

1. **Size the portfolio.**
    a. We never invest in fewer than 30 stocks and suggest that as a minimum, if possible.
    b. If you have more than $150,000 to invest, you may want to begin with 50 stocks.
    c. Since the power of the strategy diminishes as you increase volatility, we generally don't invest in more than 50 stocks.
2. **Choose the stocks for your portfolio and make a list. (We create a spreadsheet since it makes the next steps much easier and less subject to error.)**
    a. Our volatility ranking subscription reports provide all the information you need to choose stocks for a basic low vol strategy.
    b. Bob Haugen invests in the lowest volatility stocks, regardless of industry or cap size.
    c. Some prefer to diversify a bit more by limiting the concentration in any one industry to somewhere between 20% and 33%. Many choose to concentrate in all Large Cap stocks. (Note that from time-to-time, the market favors one capitalization over another. In 2012 its bias has been toward Large Cap pretty consistently.
3. **Price the stocks on your list.**
    a. Go to the "Get Quotes" section of Yahoo Finance, Bloomberg or some other popular website. Find the up-to-the-minute price of each stock and add it your portfolio list.
    b. Note that you will want to do this right before you actually buy the stocks since prices fluctuate every day throughout the day.
4. **Determine how many shares of each stock you are going to buy. (This is where a spreadsheet really comes in handy.)**
    a. Divide the amount of money you have to invest by the number of stocks in your portfolio (30-50). This tells you how much money you will invest in each stock.

b. Divide that amount by the price of the first stock on your list. This will tell you how many shares of that stock to purchase. We generally round the number of shares down, for example we would round the number of shares down (from 154 to 150, for example) since prices are always changing in real time and you must allow a margin for trading costs.

c. Repeat this process for each stock on your list.

5. Purchase the stocks.

a. Follow the instructions on the site you're using and double check your work before confirming your buys.

b. Many ticker symbols are quite similar so always check the name as well as the ticker.

c. An error in quantity or a misplaced decimal can wreak havoc with your portfolio.

6. Rebalance.

a. One of the benefits of trading a low vol portfolio is that you need not rebalance frequently. This minimizes your trading costs.

b. See our Summary Results page. Then decide how often you want to revise the contents of your portfolio: monthly or quarterly. In our ongoing review of returns, we found that the returns achieved when rebalancing monthly diminished only a small fraction if you rebalance quarterly, but trading costs are reduced significantly.

c. Bob Haugen rebalances quarterly, selling any stocks which are no longer ranked in the bottom 50 by volatility, and replacing them with the lowest volatility stocks available.

d. If you're limiting the concentration of stocks in any one industry, be sure to select new stocks with that in mind.

e. Before beginning a rebalance, we make a sell list and a new buy list.

f. Once again, check the real time prices of stocks you plan to buy.

g. Using the trading site's prices, determine how much money will be available from the sale of stocks you're replacing, Then calculate how many shares of each new stock you plan to purchase and add it to your list just as you did the first time around.

h. Important: Some trading sites will require that you wait up to three days for your "sells" to settle before allowing you to use those funds to buy new stocks. Make sure you are aware of your site's policies in this regard.

i. A word about the "Bid/Ask Spread: Just as with any brokerage, Internet trading sites quote one price for buying a stock (the "bid") and another for selling that same stock (the "ask"). The difference between these two prices is a transaction cost to you (in addition to the quoted cost per trade of $2.50 - $14.95). Trading too many stocks too frequently can take a big bite out of your portfolio's returns. This low volatility strategy is designed to keep trading and therefore transaction costs to a minimum while maximizing returns.