Beginners Guide to Shares

By Sean Towers

First edition publication date 29th August 2015
Seventh edition publication date 14th November 2019

Dedication

I would like to dedicate this book to the two people most responsible for who I am today.

Alex Towers, my dad, a constant inspiration, font of all knowledge and an incredible role model.

Natalie Towers, my daughter, a terrible financial investment but the most amazing person and source of endless joy.

Table of Contents

About This Book

Having only achieved modest returns on property investments and savings, I decided to seek a more lucrative return on my money. I spent a great deal of time researching various alternatives before deciding that shares offered the best potential. Shares offer a good risk to reward ratio and you can easily reduce your risk with a reasonable amount of analysis and due diligence.

I read dozens of books, thousands of pages and made my fair share of mistakes, to gain the knowledge I have now. I've always kept detailed notes of my learnings and constantly updated and tweaked them into the trading strategy I use today. It struck me one day, that my notes wouldn't need much polishing to be a useful guide for others and the Beginners Guide to Shares was born. The book has been written for novice investors planning to trade shares listed on the London Stock Exchange. It contains all of the basic information you need to confidently select and buy your first shares and start building a successful share portfolio.

Having read many books on the subject, it struck me that most of them are long winded and padded-out. I found myself spending hours and hours reading hundreds of pages for a limited amount of useable information. I’m not a great lover of reading and I’m extremely impatient so I’ve written this book differently, after all, you want to buy and sell shares not read books about it. It’s written concisely, getting straight to the point and it's also very specific, giving actual figures to look for when choosing shares and it contains my simple checklist. I've also included links to all of the websites mentioned in the book. I must stress that I don’t claim to be a guru and the book is not a get rich quick system. It is a practical guide to help the novice investor understand the process of trading shares and how to select companies with the best potential.

I give this book away, free of charge so that as many people as possible are encouraged to invest. My guidance is offered with the best of intentions but you should still question everything I say and make your own decisions. I make no guarantee that you will make money or indeed that you won't lose money but hopefully I will give you the necessary knowledge to have the best possible chance. I can however, declare that my guidance is impartial. I do not receive any payment, freebies or benefit of any kind from any of the companies I mention in this book. Furthermore, I don't sell anything, no other books, no seminars, no premium services or tips.

I sincerely hope you find this book concise and informative.

Financial Warnings

All forms of investment carry a degree of risk and it is important that you carry out thorough research and fully understand the risks involved.

The value of shares can go down as well as up so you may get back less money than you originally invested.

You could lose all of the money you invest in shares.

Never invest money in shares that you cannot afford to lose.

Never use borrowed money to invest in shares.

General Warnings

Unfortunately, there’s a whole horde of people out there that are eager to part you from your hard earned cash, these are a few of the common ones.

Systems & Software - Promises of high returns, numerous endorsements, proven track record etc. Stay well clear of all systems and software that pick shares, they are expensive, you don’t need them and the vast majority are no better than a guess.

Seminars - Steer clear of seminars from self proclaimed trading gurus, even the free ones because they are usually just the carrot to sell you the paid seminar or the book etc.

Tips - Beware of tips, they often come from market makers or other involved parties trying to push the price up beyond its true value. Pay little attention to a single tip, if there is a genuine reason to tip a company, you will find multiple different sources tipping it.

Scams - There are a multitude of scams, the most common being an opportunity to get in early on a share that’s just about to explode, they will be worthless shares. Also common is an offer to buy some of your shares at a much higher price than their real value, another scam I’m afraid. Don’t even discuss anything with a cold caller, just hang up.

Remember one of life’s golden rules, if it looks too good to be true it probably is.

Why Buy Shares?

The stock market offers unrivalled investment opportunities. Unlike property, it's totally liquid and totally flexible, so you can change or exit your investments instantly. Unlike traditional savings accounts and the cash ISA, you can earn significant gains. There is an extremely wide choice of companies and funds to choose from and these can easily be diversified to minimise any risk. Finding the best companies to invest in, is relatively straight forward, using free stock screening tools.

Your money can grow in two ways. The value of the shares can increase, giving you a capital gain and most companies pay shareholders a share of the profits in the form of dividends, giving you a regular income.

It's very easy to open a share trading account and if you open a Stocks & Shares ISA, all of your profits will be totally tax-free. Profits are also totally tax-free within a SIPP. Tax-free profits are an enormous benefit that cannot be overstated, particularly if you are a higher rate taxpayer.

Screening and researching of companies can be interesting and almost hobby like. Whilst researching companies and shares you will gain a vast amount of knowledge and learn new skills that you can put to use in other practical ways.

Whilst no investments are totally risk free, investing in shares can be relatively low risk if you carry out a reasonable amount of due diligence and diversification.

Section 1

How to Buy Shares

Shares can be bought and sold through specialist stockbrokers or through the stockbroking divisions of some banks. There are numerous websites giving comparison of services and charges available. The best one for you will depend on your requirements and preferences but some of the considerations should be the charge per trade, any monthly or annual fees, inactivity charges, available markets and the software platform features including mobile applications. Barclays and Halifax are two well known banks that offer share dealing services but there are also a host of specialist stockbrokers who tend to offer a superior and much more comprehensive service. My personal preference is Hargreaves Lansdown although they might not be the most suitable for you and they are not the cheapest.

My preference is based on a great software platform for computer, tablet and smartphone, no monthly or annual fees except the ISA and SIPP management fees and no inactivity charges or hidden charges. I'm slightly less concerned about potentially saving a few pounds elsewhere on the charge per trade. Hargreaves Lansdown tick all the boxes for me but they might not be right for you so shop around for the stockbroker that best matches your preferences. If you choose a low cost broker, do an extra level of due diligence. Goggle the company name and search online forums for customer reviews. Low cost brokers often have strange practices or hidden fees. Some are based overseas which may provide less financial protection. Unfortunately, as so often in life, you usually get what you pay for. I do use some low cost brokers and there are even some alleged free ones coming to the market. There is usually some catch, compromise or sacrifice though so I only use them for much smaller amounts.

This book is designed for people looking for an execution only service, meaning that you'll be choosing your own shares and you just need access to the market. Advisory and management services are available for a fee but my suggestion is an execution only service so that you are in total control of your investments and you aren't sharing any gains. If you are planning on using an advisory and management service, it is still worth reading this book so that you are well informed.

Once you've chosen a stockbroker you will need to open an account, which is a similar but much easier process to opening a bank account. The stockbroker will just need the usual basic information about you. You will often need to deposit some cash as part of the application process and accounts are normally up and running within 24 hours.

Stocks & Shares ISA

ISA stands for Individual Savings Account and it's basically a tax free wrapper. If you open a stocks & shares ISA your profits will be totally tax-free. The government allows you to deposit a certain amount of cash into your stocks & shares ISA each year, currently £20,000 for the 2019-2020 tax year. You can pay in lump sums or monthly amounts at anytime across the tax year. You can buy shares within your stocks & shares ISA exactly the same as you would in any other share trading account. You can buy and sell shares as often as you want within your stocks & shares ISA and any profits you make are free from tax. You can withdraw cash from your ISA and then pay it back in but you cannot pay back in more than the annual allowance. This means that if you took £25,000 out you could only put £20,000 back in (2019-2020 tax year).

There is no limit to the size your stocks & shares ISA can grow to and you can keep adding the new allowance every year. If you added £20,000 in the 2018-2019 tax year and made £3,000 profit for example, you can still add the full allowance of £20,000 in the 2019-2020 tax year and every year after. The only restriction is how much new cash you can introduce into the ISA each year.

Please note that UK stocks are tax-free but many foreign shares will have tax automatically deducted in the relevant country. Some countries have reduced tax rate agreements with the UK but there could still be significant deductions. If you were to buy foreign shares you still wouldn't pay any UK tax; you would only pay tax to the share origin country. Any foreign tax would be automatically deducted by the broker.

If you only have a small amount to invest, it may be better to have a standard stocks and shares account outside an ISA. You won't have an annual management fee and there are low cost brokers with much lower transaction charges. DeGiro is a good example, they make it viable to start with just a few hundred pounds. For the 2019/2020 tax year, you can achieve up to £12,000 capital gains and up to £2,000 in dividends before you have to pay any tax anyway. This means that you need a fairly significant portfolio before you will really benefit from an ISA unless you have other incoming capital gains and dividends already. However, you don't want to build your portfolio too large before moving it into an ISA for a number of reasons. Firstly, when you decide to transfer into an ISA, you may have to sell your holdings or pay fees. When you transfer, you will use some or all of that years allowance. Finally, the ISA allowance or rules could change at any time.

You need to consider your own personal circumstances and goals including time horizons but as a very general guide I would recommend the following threshold. If you intend to invest less than £10,000 in total, stick with a standard stocks and shares account. If you intend to invest £10,000 or more in the first 12 months and then keep adding to it, open a stocks and shares ISA.

SIPP

SIPP stands for Self Invested Personal Pension. If you open a SIPP your profits will be tax-free but the income is taxable when you withdraw it. The government allows you to deposit a certain amount into your SIPP each year, currently £40,000 for the 2019-2020 tax year. However, the

£40,000 maximum includes tax relief so you can only contribute £32,000 yourself and the government adds the other £8,000 for you. Basically, the government refunds the income tax you have paid on the money you contribute. If you are a higher-rate or top-rate tax payer, you can also claim back the additional tax you've paid through a tax return. This makes a SIPP an extremely good idea, if you have a salary of £100,000 per annum, and you contribute £32,000, the government adds £8,000 and you can claim back a further £8,000 through a tax return. You would therefore have £40,000 in your SIPP for an effective cost to you of £24,000. You can pay in lump sums or monthly amounts at any time across the tax year. You can buy shares within your SIPP exactly the same as you would in any other share trading account. You can buy and sell shares as often as you want within your SIPP and any profits you make are free from tax. You cannot withdraw cash from your SIPP until you reach a certain age, currently 55 and changing to 57 from 2028. There is a lifetime allowance on a SIPP, which is a limit on the amount of pension benefit that can be drawn without triggering additional tax, currently £1 million.

A pension is a huge and very long-term strategy and requires much more comprehensive information than I can provide in this book. Thankfully there is a huge amount of free information available which you can find easily with a Google search.

Please note that UK stocks are tax-free but many foreign shares will have tax automatically deducted in the relevant country. Some countries have reduced tax rate agreements with the UK but there could still be significant deductions. If you were to buy foreign shares you still wouldn't pay any UK tax; you would only pay tax to the share origin country. Any foreign tax would be automatically deducted by the broker.

Markets

London Stock Exchange (LSE)

FTSE Main - Financial Times Stock Exchange (Footsie)
The FTSE Main contains the largest listed companies in the UK and is further subdivided by market capitalisation into the FTSE 100, FTSE 250, FTSE 350, FTSE SmallCap, FTSE Fledgling & FTSE All-Share. The FTSE 100 stands for Financial Times Stock Exchange 100 Index. The FTSE 100 is the largest 100 companies. The FTSE 250 is the next largest 250 companies. The FTSE 350 is the FTSE 100 & FTSE 250 combined. These indexes are often quoted to give a picture of the overall market. When you hear that the FTSE 100 is up 10 points today, that means that the overall value of all of the FTSE 100 companies combined is up. Individual companies could be up or down much more than 10 points.

FTSE AIM - Financial Times Stock Exchange Alternative Investment Market (Footsie AIM)
The FTSE AIM contains smaller and less well-known companies and is further subdivided by market capitalisation into the AIM UK 50, AIM 100 & AIM All-Share.

FTSE AIM shares should be considered much higher risk than the main market but they can also offer higher returns.

London Stock Exchange trading hours are 08:00 to 16:30 Monday to Friday.

Foreign Markets

Most stockbrokers will also allow you to trade a multitude of foreign markets. The most common foreign market choice for UK investors is the American markets but you will have to pay US tax albeit at a reduced rate.

I prefer to stick to the London Stock Exchange for a multitude of reasons. If you buy shares that are listed in a foreign currency you are also taking a currency risk. If your US Dollar based share increases 1%

but the currency falls 2% you will be losing in British Pound terms. Most stockbrokers will charge a small extra percentage for transactions in a foreign currency. For many countries you will have to pay tax to that country on any profits you make. Your knowledge of UK companies, the market they operate in and the general economy is likely to be much greater. The market trading hours match our time zone.

Prices Explained

Sell or Bid - This is the price you can currently sell shares at.
Buy or Offer - This is the price you can currently buy shares at.
Mid Price - This is the point midway between the Sell & Buy prices.
Spread - This is the difference between the Sell price & the Buy price.

UK share prices are shown in pence not pounds so a share price of 123.00p is £1.23 per share. Other counties vary so this isn’t always the case; America for example is US Dollars so $123.00 would be $123.00 US Dollars per share.

Below is an example, you can see the difference of 1p between the sell price and the buy price and the buy price per share is 704p which is £7.04.

Cineworld Group plc (CINE)

Sell: **703.00p** | Buy: **704.00p** |

The individual share price does not denote the value of a company. The current share price multiplied by the total number of shares denotes the company value, commonly called the market capitalisation or market cap. A 200.00p share does not make a company higher value than one with a 100.00p share, it depends how many shares are in issue. The individual share price is relatively insignificant, there is no difference in holding 1,000 x 100.00p shares or 500 x 200.00p shares.

Dealing Costs

The Spread - This is the difference between the price you can buy at and the price you can sell at.
Broker Commission - This is the amount you pay the broker to execute buy or sell transaction.
Stamp Duty - When you buy shares the government charges stamp duty as a percentage. There is no stamp duty on shares listed on the AIM.
ISA /SIPP Annual Management Charges - This is a fee the broker charges for managing your ISA or SIPP.

ISA (Hargreaves Lansdown)

Below I will illustrate a total transaction cost based on Hargreaves Lansdown in January 2019.

The current share buy price is 200.00p and the current share sell price is 199.00p.

I buy 1,200 shares at a cost of £2,400 and they are immediately only worth £2,388 if I want to sell them because that is the current sell price. This is the spread and in this instance it works out to be 0.5%. I haven't actually paid any charge but I would lose this 0.5% if I sold immediately and of course the fees on top of that.

Hargreaves Lansdown has charged me a fixed commission amount of £11.95 for executing the transaction

The government has charged me through Hargreaves Lansdown 0.5% stamp duty which equals £12.00

Hargreaves Lansdown will charge me 0.45% of the total values of shares held in the ISA account but this is capped at £45.00 per year for shares and ETFs. The SIPP account is capped at £200.00 per year for shares and ETFs. There is no cap for charges on mutual funds.

Spread - 0.5% (this example)	£12.00 (spread % varies by share)
Commission - Fixed amount	£11.95
Stamp Duty - 0.5%	£12.00
ISA Management - 0.45%	£10.80 (if held for 1 year)
Grand Total	**£46.75 (if held for 1 year)**

There will also be a further stockbroker commission of £11.95 for executing the sell transaction when I eventually sell, bringing the total fees figure up to £58.70.

For my shares to break-even I need approximately 2.97% gain through growth or dividend.
(Total cost with all fees including the sales fee £2,458.70, current sales value £2,388.00 +2.97% = £2,458.92)

Because of the fixed £11.95 commission amount, I recommend buying at least £1,200 worth of shares at a time to keep the commission under 1%. Better still, if you purchase £2,400 at a time, the £11.95 commission is less than 0.5%. The spread, stamp duty and ISA/SIPP management fee are percentages so they are pro-rata anyway.

If you were to buy just £500 worth of shares, the commission alone would be 2.39% and when you factor in the other costs you would need approximately 6.77% gain to break-even.
(Total cost with all fees including the sales fee £531.15, current sales value £497.50 +6.77% = £531.18)

Basic Stocks & Shares Account (DeGiro)

Below I will illustrate a total transaction cost based on DeGiro in January

2019.

The current share buy price is 200.00p and the current share sell price is 199.00p.

I buy 100 shares at a cost of £200 and they are immediately only worth £199 if I want to sell them because that is the current sell price. This is the spread and in this instance it works out to be 0.5%. I haven’t actually paid any charge but I would lose this 0.5% if I sold immediately and of course the fees on top of that.

DeGiro has charged me a commission amount of £1.76 for executing the transaction.

The government has charged me through DeGiro 0.5% stamp duty which equals £1.00

DeGiro will not charge me a management fee.

Spread - 0.5% (this example)	£1.00 (spread % varies by share)
Commission - Fixed amount	£1.75
Commission - 0.022%	£0.01
Stamp Duty - 0.5%	£1.00
Grand Total	**£3.76**

There will also be a further stockbroker commission of £1.76 for executing the sell transaction when I eventually sell, bringing the total fees figure up to £5.52.

For my shares to break-even I need approximately 2.77% gain through growth or dividend.
(Total cost with all fees including the sales fee £204.52, current sales

value £199 +2.97% = £204.52)

Because of the £1.76 commission amount, I recommend buying at least £200 worth of shares at a time to keep the commission under 1%. Better still, if you purchase £360 at a time, the £1.77 commission is less than 0.5%. The spread and stamp duty are percentages so they are pro-rata anyway.

As you can see, DeGiro makes it viable to buy small amounts that would be foolish with Hargreaves Lansdown. However, it is also a much more basic service and the DeGiro platform doesn't offer any research information so you will need to do that elsewhere. There are also some 'commission free' brokers entering the market. Trading 212 and FreeTrade are operating now.

Be warned though, you usually get what you pay for and 'low cost' or 'commission free' brokers are no exception. They often have hidden fees or charges or execution policies that can increase costs. As an example Trading 212 offer you 10 trades per month commission free but they do charge you for depositing or withdrawing funds, varying depending on the method. That said, the fees are still reasonable in most cases, you just need to dig into the detail so that you know what you're paying. This avoids any upset later and ensures you choose a fee structure that best suits your trading pattern.

Equity Regular Savings

If you don't want to invest thousands of pounds at a time there is another option, equity regular savings. You can usually choose any shares from the FTSE 350 and buy a smaller amount per month. You can still buy them within a stocks and shares ISA or SIPP, retaining all the tax advantages. Some brokers offer this service from as little as £25 per month, although I would recommend £100 per month as a minimum, so that the fees aren't high as a percentage. As a guide, Hargreaves Lansdown charge £1.50 per transaction. The fee would equate to 6% if you purchased £25 but only 1.5% if you purchased £100 or as little as 0.6% for a £250 purchase.

Equity regular savings are very flexible with most providers and that is definitely something you should look for. There should be no minimum period you have to commit to and you should be able to change the shares you're buying whenever you like. Normally you will setup a direct debit for the amount you want to buy per month and choose the shares you want to buy. There will usually be a cut-off date each month where you either continue buying the same share as last month or change it for a different one. I generally have a look a few days before the cut-off and see which of my existing portfolio or watchlist are the best value at the time and choose those. This method of alternating monthly between a few shares is better than constantly choosing new ones. If you end up with small holdings in dozens of companies, you have problems managing them and the fee when you sell them can be more significant. For example, if you only held £200 of a certain company and the broker sales fee is £11.95 like Hargreaves Lansdown, it would cost almost 6% in brokers commission to sell.

Equity regular savings provides a good way to get started buying shares and to keep adding to an existing portfolio.

Section 2

Choosing Shares

You can buy shares in any Public Limited Company or PLC as they are more commonly abbreviated to. Each company listed on the stock exchange has a short code to represent it, referred to as a ticker, epic or stock symbol. The code is three or four characters, for example Vodafone is VOD and Unilever is ULVR.

There are literally thousands of companies to choose from and many retail investors simply pick a company they know well. British Telecom (BT.A), National Grid (NG.) and Tesco (TSCO) are good examples of companies that often get chosen purely on their reputation without any thought. However, to find the absolute best potential investments you need to do some research, analysis and due diligence. It is highly likely that some of the best opportunities come from companies you have never heard of.

There is no perfect way of choosing shares, no right and wrong. If there was any guaranteed formula, it would be easy because someone would publish a list of companies in best to worst order. You can however, measure companies against certain criteria to eliminate the weak and highlight the strongest potential. As with so many things, the lowest risk usually offers the lowest reward and the highest returns come from riskier investments but so do the biggest losses. It’s also important to understand that the risk level doesn’t always balance with the reward potential. There are plenty of medium or high risk opportunities that only offer low potential gains and vice versa.

I prefer lower risk for the majority of my portfolio with the occasional medium risk investment, but only when I have a really good reason to believe it will pay off. I also ensure that only a very small percentage of my total investment is medium risk, always less than 10%. I don’t go looking for medium risk investment, I usually stumble across them whilst looking for my preferred criteria. It could be that they fall just outside my usual criteria or it might be that I hear or read about a company and investigate them.

So how do you distinguish between low, medium and high risk? I consider low risk, a company that is making good profit, has a low level of debt and is priced at good value, meeting all of my screening criteria. Medium risk for me would still be a company that is making good profit, has a low level of debt and is priced at good value, but it might slightly fail one or two of my screening criteria figures. High risk would be anything that fails my screening criteria by a long way. I will never risk investment in a company that is not financially sound. If a company is making a loss or has excessive debt, I don't care how much potential it has, I'm happy to join the party later once it's ratios have improved and I'll settle for a smaller gain inline with my lower risk.

There is a mountain of information available when you research a company, both fundamental and technical. The secret is deciding what is the most important so that you can digest it and therefore make a well informed opinion. I have deliberately not covered some of the indicators you will often hear about and this is generally because they are less important or inconclusive. What I have included is specific and definitive indicators that should make investment as safe as it can be. I only use the most relevant key information and what's really important is the combination of indicators. You cannot look at any single indicator in isolation and make a decision based solely upon that. You can never totally eliminate all risk but you can reduce it significantly with a sensible amount of analysis and due diligence.

Debt

Companies often need to borrow but if companies have an excessive level of debt it's not a good sign. A reasonable amount of debt is totally normal but it should be relatively small compared to its profits. If you divide the net debt by the pre-tax profits it will give you a debt to profit ratio. If companies have an excessive amount of debt you should dismiss them, it’s not worth the risk.

I prefer companies that have total net debt of less than three times the full year pre-tax profit. I will consider three and a half or even four times, but only if they significantly exceed all of my other criteria.

Growth

The share price increasing, month after month, year after year, indicates that a company is growing in value which is what you should be looking for as an investor. This capital growth is essential in making it worthwhile investing in shares. If there is no growth in the value of the shares you hold, you only have the dividend and that would probably mean that there are better returns available in other investment types.

I insist upon a share price increase of at least 10% over the last 12 months and I don’t compromise on that minimum. The price doesn’t have to be at it’s all time high because share prices fluctuate but it must be at least 10% higher than it was 12 months ago.

Profitability

In the long term, companies have to be profitable to increase in value and to pay shareholder dividends. In fact, they need to make profits just to stay in business. You should never consider buying shares in a company that is losing money. Yes, there could be a turnaround but investing in losing companies is an unnecessary risk. The more profitable a company is, the more likely it is to succeed and to grow, making it more attractive for investment.

I prefer companies with a net profit margin of at least 15% but I will compromise to maybe 10% if certain other criteria are heavily exceeded. The share price value being much better than my standard criteria or debt being much lower than my standard criteria are examples of things that would make me consider investing in a lower profit margin company.

Profitability can also be expressed as Return on Equity or ROE. Return on equity shows, as a percentage, how much income the company generates in relation to the total shareholder equity. It is calculated by dividing the net income by the total shareholders equity. Shareholders equity being a company's total assets minus its total liabilities. I prefer companies with a return on equity of at least 10%.

Value

There is an Efficient Market Hypothesis which is a theory that the share price is always the correct fair value because the market has factored in, all of the relevant information at any given time. Personally, I cannot comprehend the market being even remotely efficient at this. It is heavily driven by peoples sentiment and emotions. Fear and greed always move prices above and below the true market value. People also have a natural loss aversion and usually suffer with over reaction bias. Companies and sectors fall in and out of favour. Even if we could eliminate all emotional decisions, we couldn't instantly and accurately define exactly how a certain event will impact a company. Even the technical analysts create self-fulfilling prophecies by following their technical rules. My advice is to consider the market wholly inefficient and exploit the fact, seek out companies that are good value and buy. Shares in companies can be considered expensive or cheap in relation to their fundamentals. You will often find that shares in popular and well known companies are relatively expensive. As with every other purchase you make, you should be looking for good value for money.

You will see that every share has a figure called Market Capitalisation or Market Cap for short. Market cap is the total value of a company based on the value of all outstanding shares. It is simply calculated by multiplying the current share price by the total number of shares in issue. An easy way to establish if a company is relatively expensive or relatively cheap is to divide the market cap by the pre-tax profit. The market cap should be realistic in relation to the profit a company makes. If a company has a market cap of £100 million and only makes a profit of £1 million per year, I would consider it very expensive. It would take 100 years to get back in profit what I had paid for the company. If I could afford to buy the whole company I wouldn't, so I won't buy a piece of it at that price either. My preference is for the market cap to be less than 15 times the pre-tax profit, this makes a company relatively good value in my opinion. You can often find companies that are priced as low as 10 times the pre-tax profit and sometimes even less.

A similar way of establishing value is Price-Earnings Ratio or PE ratio. In simple terms, the ratio compares the price per share with the profit a company makes per share. As an example, if the current market share price is 200p and the earnings per share is 10p then the price-earnings ratio would be 20, 200/10. The lower the price-earnings ratio, the less expensive the share is. My preference is for the price-earnings ratio to be less than 20 and ideally less than 15. On the face of it, this appears to contradict my earlier preference for the market cap to be a maximum of 15 times the profit and ideally 10. So why has 15 and 10 changed to 20 and 15 now, for what appears to the same thing? They are calculated slightly differently and you could just use one or the other but I prefer to look at both as a belt and braces confirmation. You will often find that the price-earnings ratio is slightly higher than the market cap to pre-tax profit.

Another measure of value, apart from profitability is the value of the assets in relation to the price. Market to Book Ratio is simply the market cap compared to the book value of a company. The book value being, the net value of all of it's assets. If a company has a market to book ratio of 4, it means that you will be paying 4 times the value of its assets. Hypothetically, this means that if it went bust tomorrow, you would only get a quarter of your money back when the assets were sold because they would only sell for a quarter of what you paid for them. Don't worry though, the other due diligence you do before buying shares, means that you aren't buying shares in a company that's going bust. You will also see some market to book ratios in their hundreds and even thousands so single digits are sensible. I insist on a market to book ratio of less than 5 and if it's a company that has a value that is mainly asset based, for example a property holding company, I would look for a market to book ratio of less than 2, so that I'm only paying twice what the assets are worth.

Dividends

Dividends are the company's distribution of profits to their shareholders. They are normally paid once, twice or four times a year depending on the actual company.

My dividend requirement is relatively low because my return preference is heavily biased towards growth from share price increase rather than income from dividends. This means that I'm happy for the company to be re-investing the profits back into the company rather than distributing it to shareholders because this should drive growth. I will even consider buying shares that don't pay a dividend at all, if the company is relentlessly reinvesting all profits back into the business. A company needs to show good growth history and further growth potential for me to consider it though.

If your preference is weighted towards an income from dividend payments, you should obviously value the dividend payments more than the potential growth when evaluating companies.

A widely accepted belief is that you should aim more for capital growth in your younger years and gradually move towards regular income from dividend payments, as you get older.

If you are receiving dividends and then reinvesting the dividends you will have costs associated with that. If you are receiving dividends to withdraw as cash, you won't.

Spread

The spread is the difference between the sell price and the buy price and in essence, how much you will lose in value the second you buy. This is because as soon as you've bought shares at the buy price you can only sell them at the sell price. The spread is usually much larger on illiquid shares and you see this most often in the AIM market. If you were to buy a share with a 5% spread, it would need to increase by 5% just to break even. The other problem with a large spread is that it almost always indicates an illiquid share so they can move very slowly. The spread is very similar to the foreign currency exchange rates you see when you change your holiday money.

Below is the same example I gave in 'Prices Explained', you can see the difference of 1p between the sell price and the buy price, this is the spread.

The smaller the spread percentage the better, I prefer a spread of less than 1% and I would never buy shares if the spread is higher than 3%.

Exchange Market Size (EMS)

The exchange market size is the number of shares the stockbroker is obligated to sell or buy at the quoted price. It is important that this exceeds your potential buy quantity. If you were to buy 1,000 shares and the exchange market size is only 500, you might not get the same buy/sell price for all your shares. A low exchange market size can also highlight a share that does not have much liquidity, but not always.

Multiply the price per share by the exchange market size and check that it exceeds the amount you are planning on buying. For example, if the share price is 200.00p and the exchange market size is 2,000, you can buy or sell £4,000 at the quoted price.

Performance

Obviously we only want to invest in companies that are performing well over at least the last year, 2 years and ideally 3 years.

I judge performance on the following factors;
Looking at the 1 year chart it has to be clearly rising from left to right.
Looking at the 1 year chart the current price must be above the 200 day moving average, indicating an upward trend.
Revenue must be increasing each year.
Profits must be increasing each year.
If the company pays dividend payments, they should be increasing each year.

Director Dealings

Companies are obligated to disclose any buying or selling of shares by directors of the company. Directors buying or selling shares in their company can be a good indicator of the future. If there is a lot of buying activity, it's a good sign and if there is a lot of selling it could be a bad sign. However, you have to consider the size of the sale compared with the total holding of a director. Directors need cash at certain times as do we all and a selling of a modest amount of their total holding is no cause for alarm.

I prefer companies where there are no directors selling a significant percentage of their shares and directors buying more shares is always a plus.

Liquidity

Liquidity refers to the amount of buying and selling activity the share has. Shares with low liquidity usually have a much larger spread and the price usually moves slowly. You can check the recent trades of a share on the stockbrokers' website and these can vary from thousands of transactions a day to only a few per week. If you buy a share that has low liquidity it needs to have considerably higher potential to make it worthwhile. You will often find that low liquidity shares are from the AIM market which should always be treated as higher risk than the main market.

I prefer shares that have at least hundreds of trades per day although I will consider less liquidity if there is exceptional profit potential.

Stock Screening

With a clear set of target criteria established, we now need to identify companies that qualify. The full process needs to evaluate all of the financial and fundamental company information.

I use a 4-step process;
1) Stock screening using an online stock screener tool, to quickly create a short list of potential companies based purely on the financial criteria.
2) Manual checks of certain other details.
3) Scan of the recent company reports to check for positives and negatives.
4) General overview of the company, how the company presents itself and how it is perceived.

Stock Screener

There are various free of charge stock screening websites that can get you down to a short list relatively easily.

I find that the ADVFN one best suits my needs, it's a little complicated to set-up initially but well worth the effort. You will need to register on the website to be able to save your screening criteria but registration is free. I prefer ADVFN because it filters by most of the criteria I want, so it is very easy to get down to a short list of about 20 or 30 potential companies. ADVFN also allows you to export the results into Excel which I like. You don't have to use ADVFN; an internet search for stock screening tool, will give you some other options.

I screen the companies based on the following criteria;
Sector - no constraints set - (found under Key Figures and called Industry Name on ADVFN)
Market capitalisation - no constraints set - (found under Key Figures and called Market cap. (m) on ADVFN)
Cash & equivalents - no constraints set - (found under Fundamentals and called Cash & equivalents (m)
Debt amount - no constraints set - (found under Key Figures and called Net debt (m) on ADVFN)
Profit amount - no constraints set - (found under Fundamentals and called Profit - pre tax (m) on ADVFN)
Share price increase - exclude less than 10% - (found under Key Figures and called Pc Change from 1yr on ADVFN)
Profit - exclude less than 15% - (found under Deeper Analysis and called Net Profit Margin on ADVFN)
Return on equity - exclude less than 10% - (found under Deeper Analysis and called ROE - Return on equity %)
Price to profit - exclude greater than 15 - (found under Deeper Analysis and called Price To Pre-Tax Profit PS on ADVFN)
Price-earnings ratio - exclude greater than 20 (found under Key Figures and called PE ratio)
Debt to pre-tax profit - exclude greater than 3 (found under Deeper Analysis and called Total Debt/Pre-Tax Profit
Market to book ratio - exclude greater than 5 (found under Deeper Analysis and called Market to Book Ratio)
Dividend yield - no constraints set - (found under Deeper Analysis and

called Dividend yield on ADVFN)
Spread - exclude greater than 3% - (found under Key Figures and called Spread (%) on ADVFN)

I have deliberately copied the minor typos and formatting errors in the ADVFN descriptions above, to make them easier for you to find on the screening tool.

To set-up this screener, go to www.uk.advfn.com then select the Sitemap dropdown and select UK Screener (Filter X). Select Start Filter X and you will be taken to a screen that already has a list of share symbols and names.

First, add the 14 criteria columns by using the Key Figures, Deeper Analysis & Fundamentals drop down menus. Once all the criteria columns have been added you can click on the first item in each column to open the constraints settings. Enter the constraints and then click submit for each of the 8 constraints. When you’ve finished click Save this Filter. It does seem a little complicated but there is a simple to follow ADVFN Screener Set-Up guide near the end of this book.

You now have a saved filter that will generate a list of companies that meet the criteria you have set. I normally export the results into Excel so that they can be sorted or edited.

You will notice that there are 5 financial criteria that I haven’t specified any constraints for. This is because I only use them for comparing similar companies that have passed the screening process, not shortlisting them. It’s also a good way to see the key financial information side by side.

Market capitalisation
Cash & equivalents
Debt amount
Profit amount

Dividend yield

I don't have any strict rules on market capitalisation but smaller companies should definitely be considered much higher risk. Under £10 million market cap is definitely very high risk and are best avoided unless you know the company or have done extensive research on them. Under £50 million market cap is still relatively high risk and requires extra research and due diligence. Really anything less than £100 million market cap needs to be treated with extreme caution. I like to see that there's some cash in the bank so that I know the company can continue to trade without further borrowing but it doesn't need to be an excessive amount. Cash also doesn't necessarily need to be a certain ratio to any other figures. I would only pay serious attention to a low cash balance if a company was close to all of the limits of the other constraints and in particular debt. We've already screened the debt to profit ratio so these are just to see them side by side with the market cap and cash to get a general financial view. Finally, the dividend yield which again I just use to compare similar opportunities against each other.

There is an easy to follow ADVFN FilterX set-up list at the end of the book and there is a downloadable version and a video available on my website.

Manual Checks

For each of the shares that have met the criteria so far, we need to manually check the remaining criteria defined earlier.

Check the Performance criteria defined;
The 1 year chart has to be rising from left to right.
Looking at the 1 year chart the current price must be above the 200 day moving average.
Revenue must be increasing each year.
Profits must be increasing each year.
If the company pays dividend payments, they should be increasing each

year.

Check the Director Dealings criteria defined;
There should be no directors selling a significant percentage of their shares.
Directors buying more shares is always a plus.

Check the Exchange Market Size criteria defined;
The exchange market size should exceed the amount of shares you want to buy.

Check the Liquidity criteria we defined;
Shares should have at least hundreds of trades per day, although consider slightly less liquidity if there is exceptional profit potential.

Check the Ex-dividend Date. This can be useful to factor into the current share price. If it's just about to go ex-dividend it would warrant a slightly higher price and if it's just gone ex-dividend it should be slightly lower. You can also see when you will secure your next dividend payment which you can factor in to your calculations.

Check the business profile, you need to understand what the company does and what market sector it is in. The more you can understand about what a company does, the easier it is to decide if you want to invest in it. If you cannot understand exactly what the company does, it's probably best to dismiss it unless it has some fantastic numbers on the stock screener, then it might warrant further investigation.

Research the company, news, broker recommendations and what tipsters are saying. There are a whole host of sites with varying levels and quality of data. Find a few sites you like and stick to them, so that you can find information quickly. I check all of the sections and tabs to make sure I can get as much information as possible. When looking at broker recommendations and forecasts, you have to take them with a pinch of salt. Only pay attention when there are multiple brokers with a common opinion. If you only have one broker forecast it's not worth much but if ten are saying buy, it's a good sign. Similarly with tipsters, one in isolation can't be relied upon. Only use broker recommendations and tipsters to confirm your screening and research, not to persuade you to buy something that doesn't meet the criteria.

All of the analysis we're doing is Fundamental Analysis which is critical for long-term investing in shares. Technical Analysis is a whole different world. It's extremely complicated and more important for short-term trading, especially for commodities and currency. For long-term investing in shares, fundamental analysis alone is perfectly adequate and more important than technical analysis. There is however, a fantastic free website that gives you an instant and highly detailed, technical overview. SwingTradeBot is so quick and easy to use, it would be foolish not to run your shortlist through it.

There is one fantastic site for an incredible amount of beautifully presented company data, Stockopedia. I avoided it for many years because there is so much free information available and Stockopedia isn't cheap. However, I signed up for a 14 day free trial and was absolutely astounded at how much information and analysis is available. It costs £225 per year but it's definitely worth the money if you're investing a reasonable amount of money.

Company Reports

After the detailed analysis, I take the short list to the next stage, company reports. Company reports can reveal positives and negatives about the future of the company. Reading complete company reports can be a boring and time consuming task but there is an excellent way of shortcutting the process. The ADVFN website allows you to set up highlighting of certain words and phrases within the company reports. Highlighting eliminates the need to read the entire report, you can just skip to the highlighted word or phrase and then read the context. As an example you might highlight the word "borrowing" and then the sentence might say that borrowing is up or it might say that borrowing is down. You can also highlight different words in different colours if they are generally indicating positives or negatives. You will need to register on the ADVFN website to save your list but registration is free. Follow the News link and then click on Highlight Phrases and you can then add words, phrases and colours to highlight. You can then click on Quote and find the company you want and reports can be found on the quote page. The reports you want to look at are the UK regulatory ones.

I highlight certain words red, yellow or green based upon the most common context of the word but you still need to read the whole sentence to make sure. If you are still considering buying after reading the sentences with highlighted words, I would still recommend reading the full report. Highlighting is great for quickly eliminating bad potential buys by highlighting worrying news, but for the companies that pass the highlighted test, it's worth reading the full report before investing. It's also worth reading back through the previous reports to the most recent one. It's good to understand if the positives are new or ongoing and if they're actually real. If you read report after report that promises good news in the future but the future never comes, it could just be hot air.

What you're looking for in company reports is the absence of negatives and hopefully the presence of positives. You have to try and see through the spin though and consider what it actually means. Always study the numbers in detail, what does the data say, because this is hard fact.

I highlight the following words/phrases and colours but you could come up with your own list. This also gives you a nice traffic light system for an instant visual snapshot.

1) below RED
2) challenging RED
3) deficit RED
4) difficult RED
5) disappointing RED

6) down RED
7) lower RED
8) poor RED
9) tough RED
10) unpredictable RED
11) profit YELLOW
12) borrowing YELLOW
13) cash YELLOW
14) debt YELLOW
16) expectations YELLOW
16) exceeding GREEN
17) excellent GREEN
18) favourable GREEN
19) positive GREEN
20) transformation GREEN

General Overview

Once I have a final short list, I undertake a final very general overview.

First, I visit the company's website and if the website isn't good it would worry me. Websites are an extremely low cost way of creating a very professional digital presence. If a company doesn't understand how important that is, the company is less likely to succeed in a modern competitive market. Alongside their business website, good companies will also have well presented investor information and often a separate website. If the investor information is poor, the company will be less likely to attract investment from large investors.

Next, I Google the company to see if there are any reviews or feedback. If the internet is littered with complaints and negative comments, it would again ring alarm bells for me.

Finally, I do some research on the sector the company operates in and consider this alongside my own opinions and judgments.

There is a share buying checklist at the end of the book and a downloadable one on my website.

Watchlists

Most share information websites and mobile apps include the option to create a watchlist and I generally have the same list of companies on all of the ones I use regularly. I usually have two different watchlists, one with my current portfolio and one with my potential targets. Once you have a final short list of potential shares you should create a watchlist of them. The watchlist is then an easy way to monitor, compare and revisit potential buys. Many websites and mobile apps also allow you to set up alerts for things like target prices and regulatory news announcements etc.

Section 3

Buying & Selling

If you've done all of the analysis and research, you should be left with a few potential shares that tick all of the boxes. You should have created a watchlist of these shares in any websites and mobile apps you are using and set-up the relevant alerts. You are now in a position to actually buy the shares when the price and timing are right.

It's a good idea to keep a record of your trades in a spreadsheet. This trading record should include the specific details you establish during your screening and analysis, along with some brief notes on your decision to buy and afterwards your decision to sell. This trading record can be invaluable in understanding your good and bad investments in hindsight. You can download a trading record template in Excel format from my website.

Immediately after you buy your first shares you will see a loss but don't panic, this is entirely normal. Your fees have been deducted and the shares are now being valued at the sell price you would get if you sold, not the buy price you have just paid. The bigger the spread the bigger the immediate drop in value.

Exit Strategy

An important thing to consider before you buy is when you will sell. You should have a clear exit strategy for both positive and negative outcomes. A point at which you'll cash out because you've hit your profit target and a point at which you'll cut your losses because the share isn't performing. You also need to be clear from the start that there will definitely be some negative outcomes and it's critical that you exit them quickly.

There are two basic holding strategies but they are infinitely variable in their application;
Buy and hold, you buy a share with the intention of keeping it indefinitely.
Trading, you buy a share with the intention of selling as soon as you hit a certain profit target.

My advice is to initially just concentrate on buying great shares and then allow their performance to dictate the holding strategy. If one of your shares continues performing well, why sell it? I hold a share indefinitely if it produces a minimum of 15% per year, growth and dividend combined. Over time you can develop a holding strategy when you build an entire portfolio of shares. You still need a clear exit strategy to cover all outcomes.

Negative outcome exit strategy;
If the price keeps declining day after day, you must accept that you may have picked a loser. The first thing to do is analyse the company again. Carefully analyse the fundamental financial data and then search for any new information or news. Unless you are extremely positive in your original choice, I would recommend selling before the price has fallen 10% or your loss exceeds 15% with the spread and fees. Unfortunately, this is going to happen at some stage and it’s one of the most difficult things to deal with. Clicking that sell button and taking a loss is incredibly difficult to do and you will definitely be tempted to just wait a bit longer and see if it goes back up. You then watch it fall even further and your loss increases and now it’s even more difficult to take the even bigger loss. This is a downward spiral that’s only going to get worse. The important thing is, to set yourself an exit point and stick to it, keep your losses small by having a strict exit strategy.

Neutral outcome exit strategy;
If the price remains virtually flat week after week, month after month, it might be better to get your cash back out depending on what other opportunities exist and how much cash you have available to invest. If its flat but not far from an ex-dividend date or there is nothing else you want

to buy, you might continue to hold. The best strategy is hold the shares until a better opportunity exists but actively seek that better opportunity.

Positive outcome exit strategy;
Eventually you'll develop your own holding strategy that will define the positive exit strategy when you select shares, building a balanced portfolio. Until then, it's fine to let the strategy evolve based on the shares performance. Obviously, it's a case of maximising your returns so you have to keep analysing the fundamental data to see when a share is running out of steam. If you purchase a share when it is good value or even cheap and the share keeps increases in price, there will be a point when it's just the correct price and maybe even expensive. At that point, it is unlikely to keep going up by large percentages and it may be time to sell if you need to release the cash for a better opportunity. To try and put a number to it, if a share isn't generating at least 15% per year as a combination of increased value and dividend payment, it is probably better to find an alternative share to buy. If you're lucky enough to buy a share that has a sudden massive growth spurt, usually due to some good news or an event, it's often a good time to sell as further significant growth might take a long time. People often overreact and the share price can climb higher than it should, it then settles over the coming weeks and months and remains flat for a long time. The most common mistake on positive outcome is selling too early. After days or weeks of being slightly down you suddenly find yourself 5% up and immediately worry that the price could go back down and you could lose your profit. You sell, only to see the price continuing to rise over the coming weeks. Don't be tempted to sell as soon as you're in profit, you should be looking to make a good profit before selling.

Stop Loss Tool

A stop loss tool is primarily a negative outcome loss-limiting tool. A way of actioning your negative outcome exit strategy automatically. It eliminates the risk of you failing to push the button if you're planning to exit manually. Instead, you can set a level to automatically sell the shares at, if the price falls to the specified level.

Be warned, the stop loss is not guaranteed, this means that you might set a price but the stockbroker will only get you the best price possible at that time. This best price could be much lower than your entered amount, particularly if the price falls quickly. If you are using an automatic stop loss, I would recommend waiting until 09:00 to set it and cancelling it at 16:00. This will avoid you being stopped out in the start of day and end of day spikes. I don't think automatic stop losses are a good idea if you are disciplined enough to execute an exit manually when you should. It is much better to execute your exit strategy manually provided you are disciplined enough to do so. The stop loss tool is essential when you're trading commodities or currencies in a 24 hour market, especially leveraged transactions but for shares, disciplined manual execution is better.

Stop loss can be good tool for positive outcomes. It can be used to lock in profits once a share price meets your target. Let's say you bought a share at 200.00p and its sell price is now 260.00p and that was your goal. You have several options, you could just sell now and take your targeted profit. You could do nothing if you think it will continue increasing. You could sell some of the shares and keep some of them, locking in some profit. You could set a stop loss for all or part of the holding. For example, you could add a stop loss at 250.00p, if the share price drops to 250.00p it will trigger the sale and you will still make some profit but not as much as if you had sold at 260.00p. If, however the price increases to 270.00p, you can move the stop loss up to 260.00p. You can continue trailing the rising price until eventually the price dips and you sell. This is called a trailing stop loss and it can be a very good way of making sure you don't cash out while there is still upward momentum.

Timing

It's impossible to accurately predict when a stock market crash will occur, how much it will fall or how long it will take to recover. It's therefore sensible to have an investment strategy that minimises the impact of a market crash. The most simple and effective risk reduction is to invest regular amounts gradually over time, rather than one-off lump sums. Even if you have a lump-sum to invest, it's much safer to invest in one share this month, one share next month, one share the month after and so on. Gradually increasing your exposure by drip-feeding in this way, will protect you from buying everything just before a market crash. If a crash comes, hopefully, some of your earlier investments will have grown in value and hopefully, some of your cash is still available to take advantage of new opportunities.

Beyond overall market timing, timing an individual share purchase is much more feasible.

Companies release trading updates every quarter and these can have a big impact on share price. Good news or bad news can move the price significantly. Because of this, I usually avoid buying too close to a trading update. Avoiding the risk of big drop just after you've bought a share is a good idea but of course you also risk missing a big increase that you could have achieved. I would still much rather accept the risk of not making money fast, above loosing money fast. Sentiment often moves prices more than fact and overreaction is extremely common.

There are also certain announcements in the economic calendar that can have an impact on the sector or market as a whole. I check the economic calendar every day so that I can see what announcements are due and anticipate any impact on the shares I am considering. If there is an announcement that potentially has a big impact, I tend to wait until after the announcement. You can usually find the economic calendar on the stockbroker's websites but I like using the one on investing.com. It has a clear indication of the impact level of any event and has a direct link on its mobile application.

Once I've decided to buy a share I usually watch it for at least one day to see how it fluctuates. The London Stock Exchange opens at 08:00 and it can be crazy for the first half hour. Investors and brokers are reacting to any overnight news, regulatory news announcements and overnight orders. The market closes at 16:30 and once again the last half hour can produce some erratic movement. Markets in America open at 14:30 UK time and you can see some greater movement around that time too.

Having watched the share for a day, I get an idea of tomorrow's potential highs and lows and decide upon a target price to buy at. The best price can often be achieved during the first half hour of the day or the last half hour of the day. Companies are obliged to make any regulatory news announcements at 07:00 each day, before the market opens so it is critical that you check for announcements between 07:00 and 08:00 to check that there is no negative news on the company overnight which could cause the share price to drop significantly on opening. World news can also affect the share price particularly if there is a major negative event. I look at the news headlines and decide if anything could have any impact on the shares I'm considering. If there is any bad news, watch the share for a while, analyse the news and then reconsider your decision to buy.

Days when the whole market is down are often good days to buy but beware if the market is going up and your target share is going down. There could be some news you haven't seen. Do some research and appraise the share again, it could be bad news or it could just be a pull-back offering a good buy point.

Be patient and wait for the right opportunity to materialise; you don't need to rush into buying your first share or the next one for that matter. Don't be afraid of missing the boat, it happens but it's better than making mistakes buying.

Share prices move up and down for a multitude of reasons, including but not limited to the following;
Regulatory news announcements, companies are obliged to report

certain information, both scheduled and impromptu.
News that could affect the company, the sector that the company is in or the entire market.
Rumours of something that will affect the company, the sector that the company is in or the entire market.
Broker recommendations.
Supply and demand, if at any given time one outweighs the other, the price is likely to move accordingly.
Large sales or purchases of a share.
Events in the economic calendar.

Limit Orders

I strongly believe that the best way to buy is by using a limit order rather than just clicking the buy now button. A limit order is an order to buy if the share hits a certain price and most stockbrokers also include a price improvement service. If for example the share is trading at 200.00p but you've seen it up and down between 197.00p and 201.00p you might decide to put a limit order on at 198.50p so that the next time it goes down a little you buy. There is a very good possibility that your order will get fulfilled slightly lower than 198.50p. There is of course also a possibility that the price won't drop far enough and your order won't get fulfilled but tomorrow is another day.

Limit orders can also be used for selling your shares; you simply enter a point at which you want to sell. Again there is a good possibility you will achieve a slightly better price than you enter and again there is a possibility that the price won't rise enough and they won't sell at all.

Personally I almost always use limit orders for both buying and selling.

Ex-Dividend

When companies declare dividend payments they also declare a share ownership cut-off date, known as the record date. The record date is the day they will check the register to see who owns the shares. When you buy shares, the actual settlement date is two working days after you buy. The ex-dividend date is therefore two working days before the record date. The ex-dividend date highlights the point at which it’s too late for the deal to be settled before the record date. If you buy a share while it is ex-dividend you will not get paid the most recently declared dividend, the dividend will instead go to the previous holder of the shares. When a share goes ex-dividend it will normally drop in price by approximately the dividend amount. It is important to know the ex-dividend date for shares that you hold or shares that you are considering purchasing so that you can recognise the reason for the price change and don’t make a bad buy or sell decision. Ex-dividend days can be good opportunities to buy if you aren’t too concerned about that first dividend payment because often people see the drop and panic sell or their stop losses get hit so the share price can fall lower than it really should.

Ex-dividend days are rarely a good time to sell, unless you have to quickly limit losses in response to bad news. Ex-dividend days can potentially be good days to buy though.

Building a Portfolio

Exactly how you build a portfolio will greatly depend on your own personal circumstances and financial goals but here are some universal best practices to follow.

Be patient and wait for the right opportunities to materialise; you don’t need to rush into building a complete portfolio. It can be frustrating to have cash sitting uninvested but it is better to be earning zero than loosing money.

It’s never good idea to put all your eggs in one basket so it’s important to have a balanced portfolio rather than all of your holdings in one sector. If everything is in the same sector and the sector is going through a difficult time, all of your holdings will be down. It is far better to have diversity so that even if one sector is suffering your overall portfolio is not majorly affected.

Whilst diversification is important, you shouldn’t aim to hold shares in too many companies either. If you have too many, it’s difficult to monitor and manage them well. Somewhere between 5 and 10 companies is a good idea to start with. As your portfolio develops over time, a good maximum target is 20 holdings with an average of 5% value each. You can hold higher percentages of the strongest ones and lower percentages of the slightly more speculative buys. I have a very simple strategy of 5% for standard, 4% for weaker and 6% for stronger. Standard, weaker & stronger is decided by how far they exceed my criteria.

Portfolio Management

Once you hold some shares you need to monitor and review your portfolio. I know I’m a little overly obsessive so you might want to tone down my methods.

I have news alerts setup for all of the shares I hold and all of the potential shares in my watchlist. There are many sites that will alert you when information is released, I mainly use ADVFN because of the highlighting of words and phrases as explained in the company reports section of this book.

Every day before the market opens at 08:00, I do the following;
I check the world news for any major events.
I check the business news for any company or sector information.
I check the economic calendar for the day.
I check my own calendar for ex-dividend dates and scheduled company announcements.
I have a quick look at my current holdings on the stockbrokers’ website.
I check any stop loss or limit orders I may have open. (I very rarely have any overnight)

A few times throughout the day, I do the following;
I have a quick look at my current holdings on the stockbrokers' website.
I have a quick look at my potential buys on the stockbrokers' website.
I check the business news for any company or sector information.

The above might appear to be a lot to do every day but it only takes me about 15 minutes in total and I have a relatively large portfolio.

Whenever any regulatory news announcements or new company reports are released, I read them thoroughly straight away.

At the weekend the stock market is closed, creating a good opportunity for a more detailed review.

Once I've held a share for 6 months I take the time to review it thoroughly. I use the stock screener to look at the financial data and check that nothing is becoming an issue. Hopefully the shares have increased in price so some of the original criteria might not be met 100% which is fine, but you need to be looking for negatives like the debt to profit ratio increasing or the price to pre-tax profit getting too high. You don't want anything to stray too far outside the original screening criteria. Check that the current price is above the 200 day moving average. If the price has fallen below the 200 day moving average it indicates a downward trend so it may be time to sell. It is also a good chance to check how much the price has increased in the last 6 months. This will give you an indication of how much it could grow in the next 6 months and whether it is meeting your expectations. It's a good idea to review in this way every 6 months and to keep a note of the 6 monthly price increase percentages. The historical percentages are extremely useful as part of future reviews. It's a good idea to set a calendar reminder for 6 monthly reviews.

Don't panic sell if your share starts falling in value. Look at the news, look at the whole market and look at the sector. All shares have bad days, weeks or even months. Carry out some detailed analysis of the share again, if you didn’t own it would you consider buying it based on the screening process? If you would consider buying it and there is no good reason for the price drop, hold onto it but watch it more closely. Remember that sentiment often moves prices more than fact and overreaction is extremely common.

Don’t be afraid to keep shares indefinitely, if they keep performing well, there is no reason to sell.

Section 4

Common Mistakes

I think I've made every mistake possible at least once and some of them many times before I've finally learnt my lesson. I've put together the most common ones in the hope that you can avoid the costly method of learning by experience.

Emotional Trading

Emotions are your biggest enemy, they will cause you to override the methodical analysis you've done and the disciplined actions you've planned. You have to ignore your emotions and stick to your plan. Emotions will cost you money if you allow them to. The most difficult emotional challenge is taking a loss but provided your exit strategy is good and you are disciplined enough to execute it, the emotional impact should be positive because you've limited the loss. Fear and greed are the worst two but hope isn't far behind, none of those three will aid good decision making.

Only ever choose companies based on the analysis you do, not because you like or dislike them or have a gut feeling.

Always buy or sell, positive or negative based entirely on the analysis you've done and the plan you've made.

Avoid buying and selling when you're not in the right mindset. If you're angry or upset about something your decision making is impaired and definitely don't trade after too many glasses of wine. You need to be calm and contented to be able to concentrate and make good decisions.

Ignoring Bad News

If there is any bad news on a company don't ignore it. It may be written in an eloquent manner and not sound like the end of the world but unfortunately it will probably have a dramatic negative effect on the share price.

Always pay attention to bad news. Analyse the impact, screen the share again and make an informed decision.

If you have to take a loss, do it.

Buying Bargains

My own personal nemesis, I struggle to resist every time, despite losing time and time again. When a share drops in price significantly, usually in response to some bad news about the company, there is a temptation to grab a bargain. Known as catching a falling knife because you could grab the handle or the blade, it really is a complete gamble that should be avoided. Your logical mind says, it was 400.00p yesterday and now it's only 200.00p, it must be a bargain, it is bound to go back up and when it does I'll make a fortune. Don't kid yourself, the share is only 200.00p now because it is only worth 200.00p now, it is not a bargain. It is very likely to fall even further once all of the share holders start selling their shares and even if it doesn't fall further it's likely to be a long time before it starts going back up.

Never buy a share that has just had a dramatic drop, it's not cheap, its value has changed so it is not a bargain. By all means add it to your watchlist and in a few weeks or months, put it through exactly the same screening and analysis process you usually use.

Don't use the same mentality as you would buying an object, a coat or a gadget that has just dropped in price dramatically could be a bargain but a share is not.

What is important is 'value' not 'price'. As Warren Buffett says 'Price is what you pay, value is what you get'.

Holding onto Losers

Be under no illusion, you will have some losers. Even the best traders will regularly pick shares that don't work out but they limit their losses by cutting them quickly.

Get out of losers straight away and stick to your pre-planned exit strategy. Don't watch it fall further and further, day after day until it becomes a significant loss. Don't think about it, don't hope; just execute your exit strategy without a second thought and cut your losses. It is a difficult thing to do but your exit strategy should be followed so that the loss is kept to a minimum.

Averaging Down

Even worse than holding onto losers is adding to them. This mistake occurs most often after an initial mistake of buying a bargain but it can happen on an initially logical buy as well. The share price drops and you're loosing money. Wow now it's really, really cheap, if I buy some more at the even lower price it will average the price out and I'll make even more money when it goes back up. No, the share is falling in price because it is falling in value. The smart people are selling like crazy and taking a small loss. The price will continue to fall and when it does finally bottom out it will probably stay there for some time.

Never add to a losing position. If the share price is falling, let the exit strategy keep your loss small and whatever you do, don't increase your loss.

Moving The Negative Stop Loss

Moving the positive stop loss upwards to trail a winning share to lock in increasing profits is fine. Moving the negative stop loss downwards to give a share a little bit more loosing room is not. As the current price gets closer and closer to your stop loss and your impending loss, it is very tempting to just give it a little bit more room, hoping it will turn around. Don't deviate from the exit strategy, the share price is falling and hope isn't going to bring it back up.

Never move the stop loss to accommodate bigger losses. You made a rational decision when you decided upon an exit strategy, don't override it with an emotional one. If the share price is approaching your stop loss, let the exit strategy keep your loss small.

Over Trading

Buying and selling too often will rack up the fees, eating into any profits you make. You are also unlikely to maximise any profits if you are in and out quickly and you will almost certainly be missing out on dividend payments. New investors often feel the need to be constantly buying and selling, always doing something.

Plan to hold shares for several months at the absolute minimum and let the positive or negative exit strategy dictate the exit, that's what the exit strategy is for.

Selling Too Early

There is a temptation as soon as you see some profit to sell, sell, sell before you lose it. You then spend the coming hours, days, weeks and sometimes months watching the price climb to ever higher levels and kicking yourself. Remember your positive outcome exit target and do all of the initial analysis again, would you still buy it today? If the answer is yes, then there is no reason to sell it and no reason to assume the price won't go higher.

Analyse the company again exactly as you did before you bought the shares. If it still ticks all the boxes why would you sell it?

Watch the share more closely if it is in profit and approaching your positive outcome exit strategy. You might even consider a stop loss order to lock in some profit but make it a loose one so that you don't get stopped out in the start of day or end of day spikes. If you do place a stop loss order it is probably best to only have the stop loss order in place between 08:30 and 16:00.

Don't be afraid to keep shares indefinitely, if they keep performing well, there is no reason to sell.

Selling On Ex-Dividend Day

It is crucial that you're aware of the ex-dividend date of any shares you hold, it is rarely a good time to sell. Your shares will drop in price by approximately the dividend value on ex-dividend day and they often fall further because some share holders haven't realised it is ex-dividend day. There are two potential risks if you are not aware of ex-dividend day. Firstly, you might check on your shares, see the dramatic drop and immediately panic sell. Secondly the price might fall low enough to hit any automatic stop loss you have in place.

Ex-dividend days are almost always on a Thursday so be especially aware on Thursdays.

Have a very effective way of staying on top of ex-dividend dates. I have alerts setup on the brokers website and my own calendar reminders.

Make sure that you have cancelled any automatic stop loss orders at least one day before.

Always have a quick check of the ex-dividend date before selling any shares.

Stop Loss Too Tight

If your automatic stop loss is too close to the normal trading range, it is very easy to get stopped out, only to see the price bounce back again. Set your stop loss outside the normal trading range unless this isn’t possible because the price has been falling and is now getting close to your exit target. In this case, don’t be tempted to change the exit strategy, stick to your stop loss but accept the fact that there is a good chance you will get stopped out today.

Section 5

Funds

As well as being able to buy shares in individual companies, it's also possible to buy funds that contain multiple companies. These funds have various structures and can be actively managed or passive index trackers. Funds can be specific to a geographical region, an industry sector or target specific attributes. The choice is virtually infinite and choosing funds can be extremely confusing. I'm going to give you a very basic overview of funds, however, this basic overview should be enough for you to understand my conclusions on funds.

In the broadest terms, there are two main types of fund, ETFs and Mutual Funds.

ETFs (Exchange Traded Funds) trade very similar to shares, there is a buy price and a sell price with a spread and you transact instantly.

Mutual Funds are slightly different, they are only valued once a day and you can only buy or sell once a day. There are various different structures, trusts, funds, open ended and closed. Some have a spread between the buy price and the sell price and some don't, it can be a little confusing.

Both types of fund can be actively managed or passive index trackers. Actively managed, means that there is a person or team of people, picking and choosing what to buy. Passive trackers simply aim to replicate an index. For example, you could buy a fund that tracks the performance of the FTSE 100 or the FTSE All Share. Passive trackers are available at a lower cost than actively managed funds because you're not paying for expensive fund managers.

Both types of fund can be Accumulation or Income and some funds offer units in both options. Accumulation funds will continually reinvest any dividends back into the fund while Income funds will pay these out to you as dividends. Accumulating will grow in value faster than Income because you are reinvesting the dividends rather than withdrawing them. It's really a personal choice depending on your preference for growth or income.

There are some very intelligent and successful investors, who claim that most individual investors would be more successful with an index tracker than choosing individual shares. Many of them recommend only holding index trackers, dismissing individual shares altogether. I enjoy picking individual shares and individual shares certainly have the potential to outperform any index, especially in the shorter-term. However, some extremely smart people have a compelling case as to why the average investor would do better with a broad index fund in the long-term.

Fund managers are more experienced than us, they also have better information and greater resources than we do. Despite that, the vast majority fail to beat the indexes in the long-term. The figure varies depending on who you ask but 85% seems to be a fair estimate. 85% of actively managed funds do not perform any better long-term than simply tracking an index would! That led me to believe that buying index trackers must have some potential, if they perform as well as 85% of fund managers (who should be much better than me). Faced with the facts, I researched funds thoroughly and concluded that it does make sense to hold certain funds in a share portfolio.

I concluded that actively managed funds are a lottery and offer limited potential advantage over index trackers. Yes, there are actively managed funds that are performing well but you are basically just trusting someone else to pick shares better than you do. Index trackers on the other hand, are not trying to do the same thing that you are, choosing individual shares. Instead, they are replicating an entire index, relying on the overall market growing over time and capitalism virtually guarantees this. There are hundreds of indexes to choose from, geographical, market sector, exchange etc. Choosing to track one index like the UK FTSE 100 or American S&P 500 would increase diversity substantially but it's still a drop in the ocean. Choosing multiple indexes would of course diversify further but it gets complicated choosing the indexes and allocating the correct amounts to each one. Thankfully, the best solution, is also a simple one.

The main reason for holding a fund within your share portfolio is to reduce risk through diversification. The more diverse the tracker, the safer it becomes, so for maximum diversification, you need to go as broad as you possibly can. With a global or all world tracker, the risk is spread across virtually every country, every industry and every company in the world. Whilst no stock market investment is 100% safe, this is probably as safe as it gets. There will be good years and bad years but on average over time, you should see a return of approximately 4% to 5% above inflation per year.

I think it makes sense to have part of your portfolio allocated to an all world index tracker. Not only does it de-risk your portfolio through maximum diversification, it also de-risks it by keeping part of your portfolio isolated from your personal share picks.

How much to allocate to individual shares and how much to allocate to an all world index tracker depends on your risk appetite and time horizons. As a very rough suggestion, assuming that you're young, have a share portfolio showing some good profit and you don't have any short-term need for the cash,10% in an all world tracker might be suitable. At the opposite end of the scale, if you're approaching retirement or need the funds in a few years, you might have as much as 50% in the all world tracker. Having read this book, you might even decide that shares aren't for you and invest 100% in an index tracker.

ETF or Mutual Fund?

There are pros and cons with both formats so initially find all world index trackers in both. Most brokers will have filters so that you can search for fairly easily. Read the documentation to establish exactly what the fund is, including its objectives and investment policies. You are looking for simple index tracking, not specialised like value, momentum or high yield. You want good global coverage, not something that excludes a region like ‘ex UK’ and you want to buy in GBP not USD. You also need to check the tracking error, this is the measure of how successfully the fund matches the index it replicates. None will be perfect but avoid funds with large tracking errors. Once you have a suitable all world tracker with good tracking performance, finding the lowest ongoing cost is important. This may well be influenced by the way the stockbroker you choose, charges fees. Unlike shares, there is no stamp duty when you buy an ETF or mutual fund. The obvious choice for me should be an ETF because platform fees are capped for shares and ETFs with Hargreaves Lansdown. The platform fee is 0.45% per year capped at £45 per year on my ISA and £200 per year on my SIPP (platform or management fees are in addition to the charges from the fund). I wouldn’t actually pay any platform fee on an ETF because I’m already capped out but a mutual fund will cost me 0.45% per year because there is no cap for mutual fund fees. However, to buy an ETF, there is a buy/sell spread and I have to pay broker commission. For certain mutual funds, there is no spread and for all mutual funds there is no commission with Hargreaves Lansdown. Choosing mutual funds instead of ETFs allows more flexibility though. You can increase or decrease the amount you have in a fund without attracting any additional fees. This is extremely useful when you have cash sitting idle or in times of market uncertainty. You can simply increase or decrease the amount invested without any cost. This is also good for the new investor because you can gradually buy small amounts, £25 monthly or £100 one-off is not uncommon as a minimum. This eliminates the risk of buying the whole holding at a market high. If you are only investing a small amount at a time, you might consider using a mutual fund to build your capital. You can keep contributing small amounts without any transaction fees. Once you have a large enough amount you can transfer to an ETF without the commission being disproportionately high. You can then keep repeating the cycle, small amounts into the mutual fund and when it’s a few thousand, sell the mutual fund and buy the ETF. You will need to consider the best format for you based upon the way your chosen broker charges fees.

Cost comparison of a popular all world tracker ETF and Mutual Fund through Hargreaves Lansdown.

SWDA iShares Core MSCI World ETF
To buy or sell £100 costs are 0.05% spread and £11.95 commission, total 12.00%
To buy or sell £1,000 costs are 0.05% spread and £11.95 commission, total 1.25%
To buy or sell £5,000 costs are 0.05% spread and £11.95 commission, total 0.29%
Additionally, the ongoing fund management fee is 0.20% and the platform fee is 0.45% per year, capped at £45 ISA, £200 SIPP.

GB00BMJJJF91 HSBC FTSE All World Index Mutual Fund
To buy or sell £100 costs are zero
To buy or sell £1,000 costs are zero
To buy or sell £5,000 costs are zero
Additionally, the ongoing fund management fee is 0.20% and the platform fee is 0.45% per year, uncapped.

Summary

Shares can be extremely complicated so I’ve concentrated on giving you the most relevant information. The most important thing to remember is that you should only invest in companies that are financially healthy. They must be making a profit, growing in value and must not have excessive debt. Don’t be tempted to buy a company that has just dramatically dropped in price and above all, always stick to your exit strategy. Minimising any losses is the single most important factor in making money through share trading. Having part of your portfolio invested in an all world tracker is a good risk limiting strategy.

3 Golden Rules
Choose a company that you understand and is making good profits.
Ensure that it has relatively low debt ratio compared to its profits.
Buy the shares at a price that represents good value.

Thank you for reading the book, I hope you found it clear, informative and concise. I sincerely wish you every success investing in shares and hope you find it both enjoyable and profitable. Any feedback on the book, good or bad will always be gratefully received. You can contact me through my website at www.seantowers.com which also has details of my current portfolio and a blog you can follow. I’m also more than happy to clarify anything you don’t fully understand if you would like to send me a message through the website.

I’ve shared my knowledge completely free of charge and if you appreciate it, please consider making a donation to my preferred charity. I am the chairman of a small, local charity called Giving Back Crawley. We are a small local charity that serves the homeless community. We operate in Crawley, West Sussex and we are entirely run by volunteers. Our primary focus is rough sleepers/street homeless, closely followed by temporarily housed and hidden homeless. We serve our guests a free hot meal and give them some of the essential items they need to get by. We regularly have paramedics attending to give advice and carry out basic health checks. Another incredibly important aspect is taking the time to talk to them and reducing the social isolation they endure. We give them respect and compassion, friendship and hope, no matter what their circumstances may be or what problems they may have, they are always welcomed at Giving Back Crawley. It can be as little as a few pounds and good karma never hurts in investing. Please visit www.givingbackcrawley.org for more information.

Thank you

Sean Towers

Glossary

Bid - The price you can currently sell shares at.

Dividend - The distribution of profits to shareholders.

Exchange Market Size (EMS) - The amount of shares that the market maker/stockbroker, is obligated to buy or sell at the quoted price.

Ex-Dividend Date - Date at which you must own the share at market open, to receive the next dividend payment.

FTSE - Financial Times Stock Exchange.

ISA - Individual Savings Account.

Limit Order - An order to buy or sell at a certain price.

Market Capitalisation (Market Cap) - The value of a company calculated by multiplying the current share price by the total number of shares.

Market Maker - A stockbroker that holds inventory of a company share to create liquidity in the share by offering to both buy and sell at the same time.

Offer - The price you can currently buy shares at.

Spread - The difference in price between the sell/bid and the buy/offer.

SIPP - Self Invested Personal Pension.

Stop Loss - Order to sell at a certain price lower than the current price (not guaranteed).

Useful Links

My Website www.seantowers.com

- Links
- My current portfolio
- My watchlist
- ADVFN FilterX Set-Up List download
- ADVFN FilterX Set-Up Video
- Share buying checklist download
- Share trading record template download
- Blog
- Contact form

ADVFN http://uk.advfn.com

- News
- Alerts
- Company reports
- Company information
- Level 2 service provider
- Stock screener http://uk.advfn.com/p.php?pid=filterx
- Highlight phrases http://uk.advfn.com/news/highlight
- Company alerts http://uk.advfn.com/alerts

DeGiro www.degiro.co.uk

- Low cost stockbroker (no ISA or SIPP)

Hargreaves Lansdown www.hl.co.uk

- Stockbroker offering Stocks & Shares ISA & SIPP

Investing.com http://uk.investing.com/economic-calendar/

- Economic calendar

Investors Chronicle www.investorschronicle.co.uk

- News
- Company reports

Company information
Stock screener

Shares Magazine www.sharesmagazine.co.uk
Company information

Stockflare www.stockflare.com
Company information
Star ratings

Stockomendation www.stockomendation.com
Share tips from experts
Alerts

Stockopedia www.stockopedia.com
By far the best information resource available
Ranks, screens, tools, ratings, tips

SwingTradeBot https://lse.swingtradebot.com
Clear, detailed technical analysis

Trading 212 www.trading212.com
Commission free stockbroker (no ISA or SIPP)

Upcoming Dividends www.upcomingdividends.co.uk
Ex-Dividend dates for all London Stock Exchange companies

Vox Markets www.voxmarkets.co.uk
Company information
News
Alerts

ADVFN, Hargreaves Lansdown, Investing, Stockflare & Vox Markets also have excellent mobile applications available for free.

Share Buying Checklist

Stock Screener (ADVFN)
Market cap - Information only
Cash & equivalents - Information only
Net debt - Information only
1 year price change percent - At least 10%, ideally 15%+
Net profit margin - At least 10%, ideally 15%+
Return on equity - At least 10%
Market capitalisation - Less than 15 times the profit
Price-earnings ratio - Less than 20, ideally less than 15
Total debt to pre-tax profit - Less than 3
Market to book ratio - Less than 5 & less than 2 for asset based companies
Dividend yield - Information only
Spread - Less than 3%, ideally less than 1%

Manual Checks (Hargreaves Lansdown)
Looking at the 1 year chart it must be clearly rising from left to right
Looking at the 1 year chart the current price must be above the 200 day moving average
Revenue must be increasing each year
Profits must be increasing each year
If the company pays dividend payments, they should be increasing each year
Directors must not be dumping shares
Exchange market size must exceed the intended buy
Shares must be liquid
Good understanding of what the business does
Research the company, news, broker recommendations & tipsters
Check the ex-dividend date

Research Websites
Hargreaves Lansdown
Investors Chronicle

Shares Magazine
Stockomendation
Stockopedia
SwingTradeBot

Company Reports (ADVFN Highlight Phrases)
Positive or neutral with no negatives

General
Is the website good?
Are online reviews and feedback good?
Is it in a sector that is likely to improve?

ADVFN Screener Set-Up

To set-up the ADVFN screener go to www.uk.advfn.com
Select the Sitemap dropdown and select UK Screener (FilterX).
Select Start Filter X and you will be taken to a screen that already has a list of share symbols and names.
Add the 14 criteria columns by using the Key Figures, Deeper Analysis & Fundamentals drop down menus.

Key Figures - Industry name
Key Figures - Market cap. (m)
Fundamentals - Cash & equivalents (m)
Key Figures - Net debt (m)
Fundamentals - Profit- pre tax (m)
Key Figures - Pc Change from 1yr Open Price
Deeper Analysis - Net Profit Margin
Deeper Analysis - ROE - Return on equity (%)
Deeper Analysis - Price To Pre-Tax Profit PS
Key Figures - PE ratio
Deeper Analysis - TotalDebt/Pre-Tax Profit
Deeper Analysis - Market to Book Ratio
Deeper Analysis - Dividend yield
Key Figures - Spread (%)

Once all the criteria columns have been added you can click on the first item in each column to open the constraints settings.
Enter the constraints and then click submit for each of the 8 constraints.

Industry name - no constraints to set
Market cap. (m) - no constraints to set
Cash & equivalents - no constraints to set
Net debt (m) - no constraints to set
Profit- pre tax (m) - exclude less than 0.1
Pc Change from 1yr Open Price - exclude less than 10%
Net Profit Margin - exclude less than 15%

ROE - Return on equity - exclude less than 10%
Price To Pre-Tax Profit PS - exclude greater than 15
Price-earnings ratio - exclude greater than 20
Total Debt/Pre-Tax Profit - exclude greater than 3
Market to Book Ratio - exclude greater than 5
Dividend yield - no constraints to set
Spread (%) - exclude greater than 3%

When you’ve finished click Save this Filter and give the filter a name.