Thorough website research can keep traders safe

Research on broking websites can often be crucial, writes **Jeremy Chunn**.

Research in trading is vital, whether you use fundamental analysis, trade on technicals by trusting in the observed patterns in the charts or decide that 10 minutes spent reading a couple of paragraphs by an analyst whose picture you recognise is "research" enough. Only the apocryphal orang-utan armed with a dart places a trade with no thought at all.

Online broking sites are laden with historical data on companies' fundamentals and consensus forecasts and recommendations from broking houses. The more you pay, the more research you get. Whereas users of standard broking platforms would feel encouraged to pick up a book and learn ways the data can be sorted and analysed, those who take out premium packages may feel tempted to skip all that and go straight to the section where stocks with a "buy" recommendation from a major broker are delivered with a click.

Sydney author, columnist and fund manager, Roger Montgomery says all the research available on trading websites is useful, depending on the user's experience.

"Everybody who is an investor is at a different stage in their journey in terms of knowledge and ability," he says. "So not everything is useful to everyone at the same time."

That users have to navigate through a broking site "rather than have it delivered to them" is not ideal, Montgomery says. "The starting point needs to be the user, not the site." He proposes a model where users are labelled based on experience, technical competency and history, and directed to a site suited to them.

"You create different sites for their different abilities," he says, describing the possibility of users attaching functionality to a site as they progress. "So if they want to add new functions and add new ability to the website they can attach that and design it themselves. No one's doing that."

Providers could incorporate that education in such a way that it helps to determine what is delivered to a client, he says. "And as the client's ability improves they can then create their own interface, so it's the individual who determines that rather than the broker pushing it to them."

The metals and mining sector, where more than 700 companies account for 24 per cent of the Australian sharemarket by capitalisation, can be deeply mysterious to investors. The major online trading sites offer little help navigating this minefield of penny-dreadfuls and mid-tier operations and it would be perhaps too much to ask anyway. Most of these stocks have no earnings history or cash-flow information.

A look at some price charts, however, shows those who know how to pick winners in resources make enormous profits.

"The truism that 'the more you read the better' holds," says Perth-based mining expert and geophysicist Allan Trench, author of *The Sharebuyer's Guide to Investing in the Australian Mining Boom*. "So you should get everything you can that's available."

An easy trap to fall into is research from a broking house linked to a company's capital raising, Trench says. "It's a usual risk in all of this investment-banking/corporate-broking space that there are almost two levels of research to look at.

"There is the truly independent initiation and continuation of coverage by investment houses divorced from immediate capital raising and then there is a second suite of research that is really only put out there to assist in getting capital raisings over the line."

Gold is a classic example, Trench says, where it is easy for a prospector to selectively present data so that it puts a company in a positive light when "a fuller understanding of the data would cast a negative slant".

"Companies will quite often stand up and say: 'Hey, look at us. We're cheap on this metric.' But if they showed another half-dozen companies equally appropriate to choose, you'd get completely the opposite answer," he says.

Trench's tip is to pick a sector you like and get onto companies' mailing lists, "if you can stand the plethora of emails", as quite often analysts reports are loaded onto company websites but not released as ASX announcements.