



Mr Michael Covell's books discuss an investment strategy known as trend following. He is known for titles such as *The Complete TurtleTrader*.

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# Investment author 'trending' in S'pore

**Michael Covell chuffed that a cabby has heard of him and his book**

**Rachael Boon**

Singapore investors must be a savvy bunch as this is the only place where a taxi driver recognised American investment author Michael Covell.

Mr Covell, whose books discuss an investment strategy known as trend following, told *The Sunday Times*: "Last year, he blurted out my name and book while I was sitting dishevelled in his back seat on a Saturday morning."

"The fact that Singaporean taxi drivers know my work speaks to the trading awareness of the Singaporean investor."

Mr Covell was recently in town as the keynote speaker for an investment conference organised by ShareInvestor, a financial Internet media and technology company.

He is known for titles such as *The Complete TurtleTrader* and *The Little Book Of Trading: Trend Following Strategy For Big Winnings*.

*The Complete TurtleTrader* was on *The Sunday Times*' non-fiction bestsellers list for 12 weeks from 2007 to 2008.

The strategy is based on technical analysis of market prices and is used by traders who aim to ride on market trends – when prices tend to move upwards or downwards over time.

Mr Covell learnt about the strategy after chancing upon an article

in 1994 about an experiment conducted by commodity traders Richard Dennis and William Eckhardt.

A group of people were taught a simple trend-following system: They bought when a market broke above the top of its recent range.

He defines a market as a stock, bond, commodity or currency.

Mr Covell said: "The idea is to buy a market as it makes a higher high of some x period. For example, (when) a market reaches the highest price seen in the last 100 trading days – you enter."

"Instead of trying to buy a market 'cheap', you are buying a market as it makes higher highs. Buy a market that is rising, not falling. Buying a falling market is anti-trend following."

The article in 1994 was a random read, he said, which turned out to be an eye-opener for him.

"Immediately, a fascination started with traders not using fundamentals, not watching CNBC or Bloomberg, not glued to a monitor

all day, but still making massive fortunes," he added.

Mr Covell described trend following as a form of reactive technical analysis and not a predictive approach.

Fundamental analysis assumes that investors can have all available information, he noted.

"In the last decade we have seen central banks around the world take unprecedented actions on the interest rate curve along with policies such as quantitative easing."

"What's next? How does one undertake fundamental analysis in the face of that fundamental uncertainty? It's a guessing game at best."

He said the biggest advantages of trend following are that you can make above-average money, manage your risk systematically – meaning you don't lose all your money betting the house – and also do extremely well when bubbles burst or a crisis hits.

You don't read charts as a trend-

following trader, said Mr Covell, as they just represent market price data.

"So if looking at a chart makes you feel one way or the other, that's fine, but your trading decisions need to be made via price action and price movement."

"Price is the only true indicator. All other data about a market can be rigged or fixed."

There are five questions that must be and are answered by trend following, he noted. They are:

- What market do you buy or sell at any time?
- How much do you buy or sell at any time?
- When do you buy or sell?
- When do you get out of a losing position? and
- When do you exit a winning one?

The most common mistake of trend following involves failing to cut losses; the best exit strategy is one where money is lost.

When you lose a certain amount of money, exit, said Mr Covell. There are simple rules that can achieve this, such as looking at moving averages and per cent risk stops, for example.

"If you don't have an exit strategy you are not a trend follower. A trend-following strategy with no exit plan is called buy-and-hold. Think about that," he added.

Personally, his "entrepreneurial life revolves around trend following, real estate investments, my firm, and cash for a rainy day."

"(It's) very unambiguous and strict, no riverboat gambling or roulette in Macau or Vegas."

## Winning strategy

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AMERICAN INVESTMENT AUTHOR MICHAEL COVELL

## What matters

**"Your trading decisions need to be made via price action and price movement. Price is the only true indicator. All other data about a market can be rigged or fixed."**

MR COVELL on the priorities of a trend-following trader

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