# Fresh Invest: How to build your trading strategy
## Season 2, Episode 2 Transcript

**Alex Lieberman, Co-founder and Executive Chairman of Morning Brew** Hey, everyone, I'm Alex Lieberman, co-founder and Executive Chairman of Morning Brew. This is season two of Fresh Invest, your favorite investing podcast sponsored by Fidelity Investments and powered by Morning Brew.

**Alex** Today's topic: How to go about building a trading strategy. So, you've decided to get involved in the stock market and you've considered the two ways you could possibly go about it: investing or trading. But you ultimately decided that you'd rather trade actively than passively invest over a long period of time. Of course, it's not an either/or. You can definitely do both, and many investors do.

**Alex** But for today's episode, we're going to focus on trading and how to go about it the right way. So how do you build a smart, coherent trading strategy? By opening up your investing app and clicking buy on the first stock you see with a cool ticker symbol? Probably not the best idea. Instead, you should map out a plan and form a strategy. That's what we'll be focusing on today with some help from Brett Yoder.

**Alex** Brett Yoder, welcome back to the show. Just for our listeners who didn't join for the first episode, could you introduce yourself and also explain what your role is at Fidelity?

**Brett Yoder, Fidelity Trading Strategy Desk** Yeah, Alex, thanks so much. And so I'm Brett Yoder. I work in a small group at Fidelity, we're called the Trading Strategy Desk. Essentially what we are is an educational group. We're just trying to teach about trading — and think about how broad that concept is. We run four to five different webinars every single day that you can find at Fidelity.com/coaching, and in there, jump in to hear about topics from market mechanics to technical analysis to options and even more advanced-style trading strategies themselves.

**Alex** So, I think it is great that you're providing a lot of these resources from just webinars to all of the other resources that Fidelity offers, because this last year, in so many respects, has been wild. We have seen an absolute influx of young, relatively inexperienced people starting to trade — starting to invest, starting to day trade. As we just see this new guard of traders, what do you think are the most important things that they should be thinking about as they get involved in [chuckles] — I don't want to call it a hobby — get involved in the practice?

**Brett** Yeah, absolutely. I mean, we're in the day and age where we're talking about how much money we've made on trades and where we're posting to social media and doing all these things. And the influx of new traders has just been mind-blowing, everything being said. The considerations we need to have here is let's not forget that we're risking our assets. We're taking monetary risks. Every single penny that we put into the stock market, or if we're using an option or derivative or something of that nature, we've got to have some sort of game plan.

**Brett** So my first thing is, truly, let's temper the expectations. Let's hit the books. Do a little bit of reading. Let's try to differentiate why we would ever risk our assets on the market. And from that point, then let's start trading. So it might not be the most popular thing. I think I said this last episode as well, but let's do some studying and figure out why we're trading and why it might go up, why it might go down.

**Alex** So another question I have for you is, why do you think it is that so many young people have gotten into trading recently?

**Brett** I don't know. You know, I mean, it's a good question. There's a lot of hubbub about different brokers and how they've gone about presenting the idea of trading to the newer investors and a lot of conversations, and that might be the case. I mean, what could certainly be the case is just everyone wanting to succeed and everybody wanting to move up. And we're seeing a lot of volatility in the market I haven't seen in a few years. And there have been those opportunities to get those sort of gains and really jump-start your life. So I think it's a mixture probably of everything, all of the above, right, as far as how it's being presented and then the possibilities that are out there.

**Alex** For sure.

**Alex** OK, so now with all these people involved in the markets, there's this concept that I want to talk about, and it's this idea of speculation. I want you to explain what speculation is for new investors, whether speculation is a good or a bad thing, and why it can be tough to deal with.

**Brett** Right. Speculation, in a nutshell, it's when I don't know what the outcome of something is going to be, yet I'm going to try to make a determination of what that outcome is. I am then speculating. You flip a coin — you're speculating heads or tails. Same thing with the stock market. We don't know why the stock market goes up or down. We can certainly find correlations. We could find out reasons after the fact and blame it on the headline or whatever happens. But we're investing today about what might happen tomorrow. We're speculating about an outcome that we don't know. And that's kind of uncomfortable, really, —

**Alex** Yeah.

**Brett** Because it's not like a coin flip where it's like, oh, hey, Alex, you know, heads or tails, 5 bucks. We're not sitting there doing some sort of heads or tails coins. We're taking our hard-earned money and we're trying to grow it. We're trying to meet our financial goals. There's a lot more at stake.

**Alex** I guess, you know, the only flip side to that is, with something like heads or tails, like you said, you're speculating, right? If you hit the books, at least one can make the argument that there is a level of skill and knowledge that can be put into smarter speculation.

**Brett** It could be you walk a slippery slope when we start to draw that parallel. Let's be very clear. Our analysis means nothing to the market.

**Alex** Yeah.

**Brett** Absolutely nothing. I could draw correlations if I wanted to. There's a famed study that an Ivy League did and posted about years ago. Decades ago. But it was a group of your MBA graduate students, putting it together and using their CFA-style — that's the chartered financial analyst. But it's the CFA people that should know, that should have this area of expertise, and then compared it with an animal — I believe it was a monkey — but dropping a dart on a board, picking stocks. And wouldn't you know it, the results were about the same.

**Brett** There's an illusion of sophistication that we have to address when we talk about investing and trading. It's regardless of my why. I didn't influence the market. The market went up or down because it did. So my why shouldn't be trying to predict the future. If I'm trying to predict the future, I'm going about this the wrong way. What my why should do is provide very clearly what I'm going to do when the market goes up and what I'm going to do when the market goes down.

**Brett** And for any of your listeners that heard the last episode, maybe we'll just build on that a little bit during this episode because it's all about how articulate can I get with my why. That's why we do fundamental analysis. That's why we do technical analysis. It's how are we going to react if the market does X?

**Alex** Yeah, so interesting. So, for people that are trying to establish their why, understand what they're going to do should the markets go up, should they go down. What sorts of information should a trader be looking at on a daily basis or an investor be looking at, let's say not daily but weekly? What are the things that we should be tracking as we put our money to work?

**Brett** It's why we need that basis in education — a little bit academia — because if I'm going to focus in on one specific aspect of the one factor of the stock or the stock market or sector, whatever have you. If I'm going to focus on one that, well, the information that's pertinent to me is, of course, the information related to that specific factor. If I'm going to be an infotech investor in that sector, do I need to pay attention to energy? Do I need to pay attention to bonds? Do I need to pay? Do I need to pay? Do I need to pay?

**Brett** And we've got to bridge this gap of what is relevant to our reason why we're trading and how we react to the market going up or down. So it's an interesting answer.

**Alex** So, speaking about risk, right, and we spoke a lot about this in the previous episode. For new traders who are getting involved in the space, what are some specific strategies that young traders and just newer traders can keep in mind to help limit their risk?

**Brett** Yeah, absolutely. You know, it's one of those, again, it's such a common question, but where do we go from? How do we get into it from the stepping stone? We get into a little bit more of the different styles of analysis there are. There's fundamental analysis and there's technical analysis. The determining my risk really then falls in line with [indistinct].

**Brett** Fundamental analysis — I'm thinking over the long term I'm going to invest into a stock and it normally goes up or down by a certain amount. And if the value did go down and all of a sudden I had a need for that money, I've got to sell out — that's the risk I'm going to be taking. It's more longer term, but now it's need-driven. And if it's need-driven and I'm young, look, you might need money in a month or three months or five months, whatever it is.

**Brett** So if you need that money, should you be taking risk where the value could be less? So we start to deal with this idea of if I do get a drawdown, which is essentially what this is called, in my portfolio, will I still be able to take care of my financial need? And so that's kind of our investing side. That's kind of the fundamental analysis that we'd be doing.

**Brett** With the trading side, we're not saying the situation is different. You still need your certain amount of money in a certain amount of time. But you have more money than that in your portfolio. So when you think about, OK, well, if I risk all of that on one trade, you know, I'm going in and hoping that I am right on that one trade. Yeah, that's pretty risky. If you get yourself wrong on that trade, you've lost that money. Now you can't trade because you need the money five months or whatever it is down the road.

**Brett** So with a trader, we take the amount of money that we can be risky with or put at risk in the market, and then we start to think about, OK, do I want it? How often do I want to trade? Do I want to have a lot of trades where I make a little bit of money on? Do I want to have one big trade and go for it all? And we have to deal with that appetite. It's subjective.

**Brett** And certainly we can say that there's one that's more favored than the other one. Either you're the luckiest person in the world and you put it all on that one stock and it worked out for you, which it's probably not going to. We'd rather spread that out through multiple trades and try to make a little bit more and a little bit more and a little bit more.

**Alex** It's interesting because, you know, as I asked that question and I'm thinking to myself, what are the strategies? My assumption is you're going to say things that relate to like the specific orders you're placing or doing, like, this very, you know, sophisticated stuff around the way you structure your trades. But really, what you spoke about is far more psychological.

**Alex** It's like it is a function of how much are you willing to lose? What is your appetite for risk? Is this going to impact the way that you can live your life and make sound judgment and adjustments based on answers to those questions? So it sounds like so much of your approach to limiting risk and the strategies to limit risk are really just trying to understand your own psyche and realistically what you can do based on your needs in life.

**Brett** Oh, absolutely. One of the most fascinating topics that is really getting a lot of research behind it right now is this idea of behavioral finance. Psychologically how we think about the market. And it's not that broad. It's much more specific, Alex. Imagine yourself in a trade and you're up some huge amount. So you're up in 50%. You hit a home run with this one. Now, how do you feel? And we can agree that, yeah, right, absolutely, we're ecstatic. I mean, 50% on this one, I hit a home run. I'm going to go tell my buddy about it. That kind of feeling. That's where we get the pride. We get the idea that OK, hey, this is working out for us. And it does some other things too. It starts to build almost a little bit of hubris. Hey, you got this one right. I'll bet you get the next one right too. And we start this kind of self-belief circle that we go through.

**Brett** And that's an interesting dynamic. That's interesting. How confident are you going to be with your next trade? Confidence is going to be high. Maybe overconfident. We've got to keep that in check. And then you're up 50%. But who's to say it doesn't go up another 10%? 60%? What if you can make 100%, Alex? Are you going to hang in there? And we deal with this, and we deal with this all the time, especially over the past year.

**Brett** As you mentioned, you brought me on to talk about the idea of newer traders, and what happens with newer traders. Why are there so many newer traders? Well, what happens after they make a trade and they hit a home run? Think about the overconfidence that goes into that, and all of a sudden we're taking more and more risk and it's getting out of whack. Behavioral finance, deep dives, all of that.

**Alex** So what are your suggestions on managing? Because I think you hit the nail on the head, right? We are emotional beings.

**Brett** Yeah, absolutely. So we've got to put them in check. How do we put that in check? We have a very, very clear plan that accounts for the price going up and the price going down. Now, the reason why I didn't jump in any specifics as far as order types or structured trades or bracket entries, bracket exits, and these kinds of things is because, honestly, if we went into the market with our toolbox already filled and we know exactly why we're trading and we know exactly how we're going to react, we fight it all. It's the combatant of all of our emotions.

**Alex** Yeah. It just sounds like — going back to what you said a few minutes ago, it's, like, do you understand your risk tolerance? If you ask yourself why and why and why, you create a plan. That plan is based on if the market goes up or if the market goes down. It's basically your emotional insurance policy for yourself saying, hey, you know right now, as you're setting this plan, your emotions are going to change based on how the markets move and how that impacts the value of your position. But you said to yourself a few weeks ago this was your plan and you would do this plan no matter what happens to your emotional state based on what happens in the markets.

**Brett** Absolutely.

**Alex** So one thing that you mentioned a minute ago — and I just want to make sure I understand the difference of — I know probably how you handle risk around it can be similar, but you talked about fundamental analysis and you talked about technical analysis. What's the difference between these two and as a trader or an investor, should you involve both of these practices in your overall investing strategy, or do you cherry-pick one versus the other? How do you think about these two versus each other?

**Brett** Yeah, absolutely. One, one of these hats that we'll talk about here is going to make a lot more sense to you individually, right? That's the one you should probably lean towards. We don't want to create dissonance between our analysis and the way that we think. So you have two investors sitting next to each other, right? You've got one that sat and, you know, they're thinking about investing their money. And it's this company they just love. They've got the product of it. And they have used the product. They've talked about the product. And.

**Brett** They did really happy with it and worked out for them. It's great, right? I love the product. And then, you get researching a little bit more and you realize, you know what, not only do I love the product, this company is awesome. It's run well. It has good workers. Everybody's happy. We focus on all the different aspects that actually make the company a good company. And you say to yourself, you know what, I want to invest in that. I want to be a part of that, a part of that show. OK. I've now completed this idea of fundamental analysis. It is company-first. You're investing in what the vision of the company is, based off of whatever metrics you want to articulate that with.

**Brett** Compare that to the other person that's sitting next to them and they're, like, you know what? That is an awesome company for maybe even the same exact factors. Right now it's trading at a $100. And based off of that $100, you know, it was $90 the week before. It was $80 a week before that. $70 a week before that. Well, it just keeps going up. $10, $10, $10. OK, you know what? I want to try to take advantage of that next $10 move.

And now, regardless of what the company does, regardless of anything — product, service-oriented governance — none of that matters. What matters is it's $100 today. It was something in the past. And we're trying to take advantage of the move in the future.

**Brett** It's the study of price. Price and volume alone. That's technical analysis. I just care what the market thinks, and the market thinks in price terms. I just care about what I think. I want to invest in a vision. That's the fundamental side. That's your own terms. That's a pretty good way to break them apart.

**Alex** Yeah. So, technical is a focus on studying price and price action of a given stock within the market. Fundamental is studying the company at its core, everything that makes it a company and everything that creates a value for it as a company, from the product to the management team to the growth plan, et cetera.

**Alex** Now it's time for our brand-new feature for Fresh Invest season two — our audience question segment. Before we put the season together, we ask the Morning Brew community for their burning questions around investing and trading. And in each episode, our Fidelity guests are answering one of those audience questions.

**Alex** And this week's question for you, Brett, is what are some of the best resources out there to gain more financial literacy? What do you have for the listeners?

**Brett** Yeah, well, I mean, let's pitch my own deck here [Alex laughs] for a second. We've got [chuckles] Fidelity.com/coaching, Fidelity.com/classroom. One of the things that we do, and we've been behind for so many years, is free education. You want to trade, you want to invest? Look, let's give you some resources.

**Brett** There's such a prolific amount of information out there where you can learn little bits of the market here and there. It's typically strategy for — I guess, Alex, the way I'd maybe answer this is to give a little warning, a little warning on the market. If you're going to Google how to trade, we want some way to learn about the market that is nonbiased, and it's almost impossible to find. But if you're reading through this article, and it's like, OK, you need to do this. Or here's a checklist on how to trade. Those are red flags. We want to understand the concept. We don't want someone telling us exactly what to do. So aside from going back to college or some sort of high academics trying to understand the ins and outs of market mechanics and supply and demand and econ and all these other aspects that maybe you'd consider, you should be very, very selective on the information you do pay attention to.

**Alex** Awesome. So two great resources from Fidelity, but also an approach for any content you look at to almost, in some ways, look at it with an air of skepticism to make sure you are looking for fundamental education rather than people advertising or proselytizing things that you must do or should do.

**Brett** Right, yeah. Exactly that.

**Alex** Brett, this has been an absolute master class, from continuing to hammer home the why to the information that you need to focus on as you put your money to work, to also just understanding the difference between fundamental and technical analysis and also how these inform strategies, but aren't necessarily strategies in themselves. So I think for any younger new trader, this is just invaluable information for them to think about as they begin getting involved in the market. So really appreciate your time and all of your insights.

**Brett** It's always my pleasure, sir. Hopefully we can do it in the future.

**Alex** Thanks so much for listening to Fresh Invest. And don't miss next week's episode, where we'll be chatting with Matthew Horne about the internet's absolute favorite topic besides Bennifer: cryptocurrency.

**Alex** Thank you for tuning into Fresh Invest, which is sponsored by Fidelity Investments and powered by Morning Brew. Check out Fidelity.com/FreshInvest for more information on topics covered in this week's episode. See you next time.

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**Erica** See you next time.

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