

PROFITING FROM VOLATILITY

‘GEMS TO BE FOUND’

Shell-shocked investors have been terrified by this week’s market gyrations — unless they’ve been using play money.

Leaders in the financialpost.com’s Stock Market Challenge stock-picking contest have shrewdly managed their portfolios so that most of last week’s top 10 players are still near the top of the leaderboard, with only a minor shifting of places.

“A number of them cashed out or limited their positions in light of the turmoil,” said Rory Olson, CEO of Stock-Trak Group Inc., the company responsible for developing the software that powers the game.

“All of the leaders have been trading the financials, with traders riding each up/down wave with long and short positions,” Mr. Olson said in an e-mail.

Contestants start with \$100,000 in play money and can buy any stock or exchange-traded fund listed on the TSX, NYSE, Nasdaq or AMEX. The first prize of \$25,000 goes to the best trader (more than 25 trades) and the best investor (fewer than 25 trades) when the contest ends in mid-January.

The leader, who has turned his \$100,000 into an astounding \$563,171 in just 14 trading days for a 463% gain, is risingstar, also known as Doug O’Brien, a 65-year-old retired insurance sales manager from St. Hyacinthe, Que.

Mr. O’Brien said he profited from the extreme volatility of the past week. “I’m back on top. It has never been this good.”

Mr. O’Brien said he traded whatever was moving this week, keeping up-to-date by using the Financial Post.

“There are trading gems to be found every day. I picked up two today. Do not ask which ones,” he said.

On U.S. markets, Mr. O’Brien said he briefly owned American International Group Inc. (AIG/NYSE), JPMorgan Chase & Co. (JPM/NYSE), Energy Conversion Devices Inc. (ENER/NASDAQ), Apple Inc. (AAPL/NASDAQ) and Nike Inc. (NKE/NYSE).

On the TSX, he bought and sold Goldcorp Inc. (G/TSX), Agnico-Eagle Mines Ltd. (AEM/TSX), Questerre Energy Corp. (QEC/TSX), Agrium Inc. (AGU/TSX), Research In Motion Ltd. (RIM/TSX) and Grande Cache Coal Corp. (GCE/TSX).

Mr. O’Brien said he increased his activity to an average of 65 trades per day, “making the most of it while the market rattles and rolls. Many small profits beat the hell out of big, bad losses. A profit is a profit. Sell, sell, sell is my motto.”

Luke Moore of Scarborough, Ont., who plays as MooreMan, has slipped to third place, with \$322,899 or a 224% gain after leading for much of the past week.

“I’m still sticking with the same strategy this week — Freddie Mac/ Fannie Mae. We’ll see if it pays off if the House passes this bailout bill tomorrow,” Mr. Moore said.

He credited his success to a coworker, Rob V. (he didn’t want his last name used) whom Mr. Moore described as an astute investor who is shocked at how well MooreMan is doing.

“In general, I’ll probably keep the number of trades down over the period and stick with the financials,” Mr. Moore said.

Berkley Barnard, a 38-year-old business analyst for a manufacturing company in Brandon, Man., who plays as Lesch, has slipped to seventh place, with \$226,567, a 127% gain.

“With the volatility in the markets over the last while, there have been many waves to ride, and I have tried as best I can to identify them once they start, and get out before they finish,” he said.

Mr. Barnard, who said he is new to the stock markets and approached the contest as a learning experience, said he’s been following the news as closely as his time allows, and trading based on what he sees and reads.

“I have been primarily guided by gut feel on this, and my goal has been to avoid the trap of trying to squeak out every last penny on a given position.”

Mr. Barnard said he held exchange-traded funds in hopes the bailout would pass today, but recent news is dampening his enthusiasm for this approach, “and I will continue to search for a few gems to help me stay competitive. Financials have provided some great opportunities for rapid improvement, but so far at least I have approached them as ‘quick hits’, trying to get in and out quickly as they have jumped around.”

The week has not gone nearly so well for Harley Thwaites, a 16-year-old high school student in Vancouver, one of last week’s leaders who had slipped to 14th place as of yesterday, with \$201,242, up 101%. Although he is too young to qualify for any prizes, he is advising his older brother, who is registered in the contest and is eligible.

Mr. Thwaites bought Agrium Inc. (AGU/TSX) down 23% yesterday, and fertilizer maker CF Industries (CF/NYSE), which suffered a 34.6% plunge yesterday.

“Hopefully, they will have a nice jump at one point soon.”

Mr. Thwaites also holds Citigroup (C/NYSE) and some small miners listed on the Venture Exchange.

“I’m thinking about buying into the bigger companies, probably financial, again because they took most of the worst hits and they could be the ones to gain the most.

As for my own portfolio — National Post employees, of course, are ineligible to win prizes — I assembled a collection of geared exchange-traded funds that fluctuate twice as much as the underlying index.

But such a strategy requires you to check your portfolio constantly, and since I’ve been too busy to even log on this week, my performance suffered and I am in the middle of the pack.

The lesson learned in the contest applies in real life, as well: If you are too busy to watch your holdings constantly, stick with a few quality companies that you can forget about.

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