A watch list helps investors prepare for anything

Colour-coded tools can help traders act on information quickly. But they can also tempt some to make rash decisions

By: KIRA VERMOND
Date: November 10, 2015

Jean-Francois Dion, portfolio manager with RBC Wealth Management in Toronto, takes a quick glance at an Excel spreadsheet open on his screen. Bright green and dark red letters predominate.

It’s his watch list – an assortment of a dozen or so solid companies he’s keeping an eye on, stocks that could be added to the portfolio. Right now, they are not quite ready for the big leagues.

If prices fall, however, and the stock meets preset criteria – say, it hits a new 52-week low – it might be time to swoop in and buy it up.

“We invest for a living, so we have these spreadsheets and tools open all the time,” he says of his spreadsheet, which gets a direct feed from Thomson ONE, an investment research tool. “The real purpose of a watch list, to our minds, is to act quickly when there’s a buying opportunity.”

Individual investors also have access to the same kinds of tools to keep tabs on stocks, exchange traded funds, mutual funds, money market funds, indexes and options.
A well-chosen list can help even the most scatterbrained investor stay informed and organized. After all, with thousands of stocks to choose from in Canada, the United States and internationally, it would be impossible to know something about every option out there. Or even a few hundred.

A watch list allows investors to pick companies, industries or indexes that interest them most. Can’t see the forest through the trees? Think of a watch list as a way to home in on what you think are the 12 healthiest saplings in the woods.

Yet a watch list does far more than that, says Gail Bebee, the Toronto-based author of No Hype – The Straight Goods on Investing Your Money. It helps investors develop a solid framework for determining when to buy and sell. They decide on the parameters first, then wait and watch.

“The worst thing people do is trade and buy too much at the wrong time. If you can try to short-circuit that by putting in a process with some rigour to it, that should help you get better returns,” she says.

The secret is in the research that establishes whether a company makes the list. While many people start picking stocks by using an online stock screener – and there are plenty of free ones out there including offerings from Morningstar, Google Finance and Globe Investor’s own Stock Filter – it’s important to research their fundamentals.

Does the company have low debt and high profit margins? It might be worth watching. Or has it been downgraded recently from buy to hold? Maybe not.

Because investors are deciding well in advance what their buy-and-sell thresholds are, they're less likely to make decisions based on fear or greed, Mr. Dion says.

"This is really just about having a plan to make sure you stay rational when others aren't," he says.

Watch lists are perhaps the most useful when markets are volatile and emotions run high. By watching specific stocks and waiting, savvy investors can be ready to buy when the time is right. They are the first ones in line – they've already done their homework.
Watch lists aren't necessarily for everyone, however. They make the most sense for those who buy and trade every few weeks, such as day traders and swing traders.

They might actually do long-term investors a disservice, says Janet Gray, a fee-for-service financial planner and money coach in Ottawa. Even those with predetermined "sell" thresholds might be tempted to dump shares too early simply because they are, well, paying attention to the market.

And as most financial planners will tell you, investing for the long haul is about buying, forgetting, balancing and then forgetting again. Watch lists are all about checking and tinkering. They make us reactive, Ms. Gray maintains.

"Think about 2008. How many people got out of equities and sat in cash as everyone else climbed back up and made money again?" she asks. "Buy low and sell high. If you're watching your watch list, you might be doing the opposite of that."

That's one possibility, but most watch list tools have a feature that might keep long-term investors from peeking too often: the alert function.

By setting personalized alerts, users are notified by e-mail or text when a stock or ETF reaches a threshold they have set. Any number of criteria can trigger an alert, including rising or falling prices or breaking above or below a 200-day moving average.

Ms. Bebee explains that setting an alert is a solution if you want to be notified only if your stocks are seriously tanking or hitting high notes. Meanwhile you don't have to pay attention to all the small bumps in the road.

"You don't have to keep watching your watch lists," she says.