



Brainy's Articles on Technical Analysis

Robert's Weekly Watchlist strategy

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page 1 of 6
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Introduction

For anyone who is looking to invest money in the share market, one of the biggest challenges is the issue of which stocks to buy, and when to buy them. There are many different approaches to this dilemma, and many finance professionals have widely different approaches which makes it very confusing for investors.

Many people prefer to have a watchlist of preferred stocks (or "favourites"), and to then purchase stocks from that watchlist. The watchlist might simply be all stocks within an index such as the Australian top 200 stocks (ie. the XJO index, which is the S&P/ASX 200).

Along the way, it is very important to have a clear picture of why we want to invest, and how we will proceed. Brainy's Article ST-6405, "*Sample strategy — Robert's Weekly Watchlist*", discusses the approach of preparing a *Trading (and Investing**) Plan* and a *Trading Strategy*. For simplicity here we are using the words *investing* and *trading* somewhat interchangeably, so the *Trading Plan* can be the *Investing Plan*, and so on.

In this article TA-6050, we take the basic information from the *Trading Strategy* described in article ST-6405, and explain the technical analysis aspects — the ROAR, MACD, Momentum, and Wilson ATR Trailing Stop. This article concludes by considering the successfulness of such a strategy, with some key tips for preparing a *Trading / Investing Strategy*.

NOTE: Any one stock-selection strategy might work for some people, but not for others. It is dependent on many complex factors including: which market (eg. Australian stocks, or commodities, or currencies, etc.), the state of the market (ie. bullish, bearish, non-trending, etc.), the very specific stocks in question, and the personality of the investor/trader. The latter one is a very complex one and can exhibit much more influence on success or failure than any other factor.

NOTE: Always consult a properly qualified and licensed financial advisor before making any investment decisions. The advisor should consider your own personal circumstances and advise accordingly.

Money and risk management

One very important element of a successful strategy is that of money and risk management. These items are listed in the Article ST-6405 and deserve a lot more discussion which we cannot include here. The reader is recommended to seek more information on this topic (including from future articles in Brainy's series of articles).

Stock selection and entry criteria

When using technical analysis for stock selection, there is some terminology that needs to be explained. Analysts tend to have defined criteria that when satisfied will prompt the analyst to make a purchase. Sometimes this is simply referred to as the *trade entry criteria*. The criteria might be a simple condition (eg. a price break above a resistance level), or it might be two or more conditions (eg. a price break above a resistance level AND a significant increase in volume).

However, there are some *entry criteria* which are actually "two stage". That is, one set of criteria that must be satisfied (the "set-up"), after which a second set of criteria prompts the purchase (the "trigger"). In terms of "set-up" situations, there are many. Some people solely use chart patterns (eg. an ascending triangle, or a head-and-shoulders pattern), while some people use candle patterns, and others look for a rise in price with a relatively high volume. There are many possible alternatives.

How to find stocks matching the criteria?

Let it be said at the outset that it is one thing to have a number of selection criteria like those described below; but it might be rather difficult to find the stocks that match this criteria. However, charting software tools like BullCharts make the searching process very easy. All of the criteria below can be

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