

The Perils of Long Term Investing



The Perils of Long Term Investing

Robert Brain
February 2017

Price charts summarise the underlying opinions and emotions of the market participants. Every chart tells a story. It pays to understand the stories in the price charts.



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Introduction

About this presentation

- Includes references to:
 - big falls in share prices
 - insider selling! (we can see this)
 - blue chips can disappoint?
 - introduction to exit strategies
- Presented to U3A Manningham, Feb 2017

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Introduction

Investing challenges continue

- It was easy to make money in the markets, especially during the bull market 2003-2007
- The long-term buy-and-hold approach to investing WAS working, but not any more
- But successful investing has not been easy since the infamous GFC (2008+)
- The equity markets are very challenging for regular investors
- Investing for either income, or capital growth, has been challenging.

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 **Introduction**

Today's Agenda

1. The dangers of holding on to falling stocks (including many examples)
2. The risk of capital loss
3. Even blue chips are not immune
4. How prevalent is this problem?
5. Some methods to guard against this (exit strategies)
6. Some of the stocks I am watching now.

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 **Introduction**

About... Robert Brain

Nimble Short term Investor
consultant, educator and part-time* share trader
web-based sharemarket-support business

- Many years experience as trainer, presenter, conference facilitator (Scouts)
- Share Market – active 15++ years* (slowly at first)
- Chartist ie. technical analyst (ATAA member and national director)
- Provide support and tuition to traders and investors **Brainty's Share Market Toolbox**
- Member Mensa
- Engineering Degree (structured thinking with an eye for charts and diagrams)
- 30+ years – professional experience (IT and management)
- No AFS license! (Can't give advice)
- **BullCharts software** (convener Australian BullCharts User Group and authorised reseller with special pricing)

* - Not yet enough capital to live off the proceeds of trading (after trading as a hobby until a career change in 2008).

Conflict of interest?

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 **Introduction**

Important Notice — No Advice!

- This presentation does not include any advice.
- For proper advice, your personal financial situation needs to be considered.
- This presentation is pure education, only for your general awareness.
- There are no recommendations to take any action, or to invest any money in any way.
- Always consult a properly licensed advisor before making investment decisions.





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Introduction

Important Notice



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Introduction

Questions?

- Please ask questions.
- Let's discuss details.
- Any price charts prepared with BullCharts software.



*Every chart tells a story.
It pays to understand the stories in the charts.*



www.bullcharts.com.au

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Holding onto falling stocks??

Should we hold onto falling stocks?


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Holding onto falling stocks??

The stock market rises over time?

The stock market rises over the long term. Doesn't it? So it's safe to buy and hold?



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Holding onto falling stocks??

The market in the last 10 years

- The index performance since 2007.
- This will be representative of some stocks, but NOT representative of many stocks.



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Holding onto falling stocks??

Some significant price failures

Some people won't need reminding about some of the big (recent) share price failures:

1. BHP Billiton
2. Aconex (ACX)
3. Bellamy's (BAL)
4. (plus others)

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Holding onto falling stocks??

Some people know in advance

Article in AFR 4 February 2017:
'Banner year' for insider selling as directors dodge corporate disasters

"As six of Australia's worst-performing listed companies lost \$11 billion in value in just six months, well-timed sales by "insiders" helped them avoid the sharp falls that followed profit warnings, downgrades and other corporate disasters. Significant insider selling was evident at the four worst-performing companies in the S&P/ASX 200 over six months and four out of the 10 worst-performing stocks in the S&P/ASX 100 index over that period, as directors and management were spared losses by the good timing of their sales."

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Holding onto falling stocks??

Some samples

That news article referred to:

- Aconex Limited (ACX)
- Sirtex Medical Limited (SRX)
- Bellamy's Australia Limited (BAL)
- Vocus Group Limited (VOC)
- Healthscope Limited (HSO)
- Brambles Limited (BXB)

Let's look at the details: .../

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Holding onto falling stocks??

Change in holdings notices

Some of these are share acquisitions, and some are sales

This information is standard in BullCharts software

Date	Type	Info
11/10/2017	08:28	05
11/10/2017	08:56	05
28/12/2016	09:28	05
08/12/2016	14:47	05
08/12/2016	16:44	05
08/12/2016	16:44	05
08/12/2016	16:57	05
08/12/2016	16:28	05
08/12/2016	16:27	05
14/10/2016	09:11	05
05/09/2016	14:05	05
05/09/2016	13:46	05
01/09/2016	17:57	05
01/09/2016	14:25	05
11/08/2016	17:03	05
09/08/2016	17:51	05
09/08/2016	11:39	05

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Holding onto falling stocks??

These are not the only ones

In addition to the stocks shown on the previous slides, there are many more examples over time. Including blue chip* stocks!!

How do the blue chips really fare?



*BTW — what is the definition of "blue chip"?

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Holding onto falling stocks??

Conclusion?

Over time, share prices can fall, even "collapse"

And even so-called "blue chips"

Often there is a warning in the charts.

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 **Holding onto falling stocks??**

Action plan?

What do we think about that?
Should we guard against a (significant) capital loss?
If so, how?
Any suggestions?



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 **Using the charts**

Stories in the price charts

Don't forget that the price charts can give us a good warning
Provided we know what to look for, and
provided we actually go looking.

**Every chart tells a story.
It pays to understand the stories in the charts.**

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 **Using the charts**

Key belief

The opinions and emotions of market participants are summarised in the price charts.

*Every chart tells a story.
It pays to understand the stories in the charts.*



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Using the charts

Don't believe it? — Study this chart

"The opinions and emotions of market participants are summarised in the price charts."

Note the price swings.
Why do they happen?

(see larger version on next slide)



Using the charts

Why does this happen?

Note: Each candle on a candlestick chart summarises the price action in one "period".

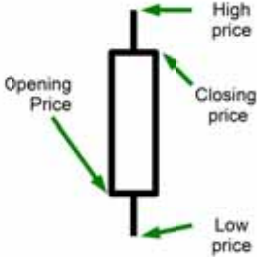
On a weekly chart (like this one), each candle summarises the price action in one week.



Using the charts

The White Candle

- **Up day** — opens low, closes high.
- **Candle body** is the difference between open and close.
- **Upper tail** (wick) goes up to the High of the period.
- **Lower tail** goes down to the Low of the period.
- Can apply to: day, week, month, hour, etc.



White Candle

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Using the charts

Perceived stock valuation

Note the price swings.
Why do they happen?

It's the collective opinions of investors regarding the "inherent value" of the stock.



The chart displays a weekly price chart for CBA from October 2013 to May 2014. The price starts around \$70, rises to a peak of \$80 in late 2013, then falls to a low of \$73 in early 2014, before recovering towards \$80. A red horizontal line is drawn at \$80, and a green horizontal line is drawn at \$73. The x-axis shows months from Oct 2013 to May 2014. The y-axis shows price levels from 70 to 80.

Using the charts

Support and Resistance

The collective opinions of investors result in levels of **Support and Resistance** on the chart.



The chart is identical to the one in the first slide, showing a weekly price chart for CBA with price swings between \$73 and \$80. A red horizontal line is drawn at \$80, and a green horizontal line is drawn at \$73. The x-axis shows months from Oct 2013 to May 2014. The y-axis shows price levels from 70 to 80.

See the daily chart for more detail on the next slide...

Using the charts



The chart shows a daily price chart for CBA. A red horizontal line at the top is labeled "Resistance" with a yellow box. A green horizontal line at the bottom is labeled "Support" with a yellow box. A green diagonal line is labeled "Uptrendline". A blue horizontal line is labeled "5 months". The x-axis shows months from Oct 2013 to May 2014. The y-axis shows price levels from 70 to 80. The volume chart below shows daily trading volume.

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Using the charts

Important principles — *Trends*

- Definition of an "up trend":- series of **Higher Peaks and Higher Troughs**
- Dow Theory says:
"a trend is a trend is a trend, until it is over"
- A trend (either up or down) is likely to continue until it is confirmed to have finished (due to investor psychology and the weight of opinions)
- "The trend is your friend".

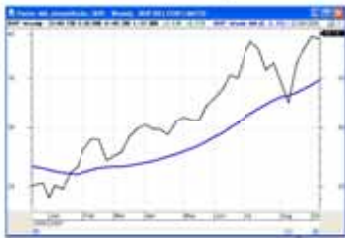
*Every chart tells a story.
It pays to understand the stories in the charts.*

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Using the charts

Trends and MA

- The Moving Average (MA) can be used to identify a "rising" share price
- This is not strictly a definition of "trend", but it is useful
- In an uptrend — the price is above the MA



Using the charts

Trends and MA

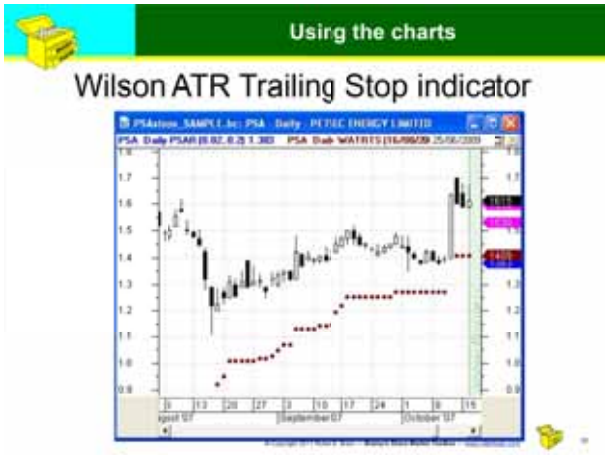
- If the price falls below the MA → bearish. This might be a "sell" signal.

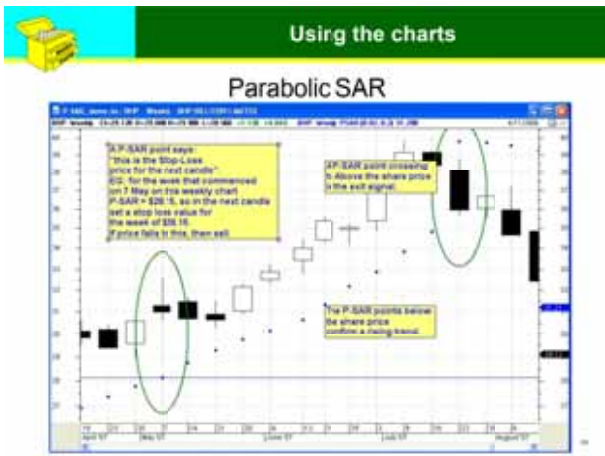


Larger version on next slide.

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Using the charts

Exit strategies

- It is very useful (and important) to consider using an exit strategy to:
 - Protect capital from downside
 - Capture and lock in profits
- There are many different approaches to choose from
- See an overview here:
<http://www.robertbrain.com/share-market/exit-strategies.html>
- Also a past presentation:
<http://www.robertbrain.com/members-arsa/presentations.html#2015-11>

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Using the charts

Risk Management (v.important)

- Keep position size down to a reasonable percentage of your investment capital
- Monitor positions periodically
- Have a good exit strategy in place
- Even a simple Stop Loss is better than nothing
- If an exit looks appropriate, then take it.

The first loss is the best loss!

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Using the charts

Using the charts (Stock picks*?)

*** NOTE: The following is NOT a recommendation to participate in the markets, nor is it advice of any sort. This is general information for education only.**

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Using the charts

Some stocks I am "watching"

CSL Limited

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 **Using the charts**

Robert's Weekly Watch List


- The stocks shown on the previous slides are currently on Robert's Weekly Watch List (WWL) table.
- The WWL is updated each Friday night and available to Premium Share Market Toolbox subscribers on Saturday morning.
- The WWL lists stocks in an uptrend, and sorted using technical analysis chart indicator criteria.

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 **Using the charts**

More about the indicators

- The discussion about the chart indicators with the previous slides is very light on for detail.
- Similar discussions and more samples were included in the presentation for U3A entitled "Medium Term Investing in Today's Awkward Markets" in June 2016 — see the presentation slides in the Share Market Toolbox:- <http://www.robertbrain.com/members-arsa/presentations.html#2016-06>
- Search for more details about technical analysis chart indicators.

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 **Summary & Wrap up**

Perils of long term holding

Long term buy and hold
can risk capital loss.
It can pay to adopt a wise
exit strategy approach.


*Every chart tells a story.
It pays to understand the stories in the charts.* 

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 **Summary & Wrap up**

BTW

- I send occasional email to interested people
- My **Share Market Toolbox** web site:
 - Toolbox Members receive weekly email with (charts) analysis of our market
 - And there's lots more (stop loss, trends, etc...)
- Register for free and not miss out.
- Send me an email request: robert@robertbrain.com


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 **Summary & Wrap up**

Don't forget my Toolbox


- Brainy's **Share Market Toolbox** 
 - www.robertbrain.com
 - Loads of eBook (PDF) Articles
 - Info: share market, charting, BullCharts
 - Weekly Market Updates and Watch List
 - monthly e-Newsletters
- Good software – BullCharts www.robertbrain.com/bulcharts/
- My contact details: web site above, or phone: 0438 355 910

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 **Summary & Wrap up**

ATAA — networking, etc.

For totally unbiased and broad support:

 Australian Technical Analysts Association

- Eight locations around Australia
- Monthly meetings
- Lots of resources — www.ataa.com.au

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 Summary & Wrap up

Q & A ?

Any questions?

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 Summary & Wrap up

THE END

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www.robertbrain.com/free

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