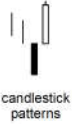


Share strategies to suit your investing style

Trading and the Technical Analysis Approach


Special presentation for the Australian Shareholders Association
24 August 2018




candlestick patterns



chart patterns



monthly candle chart



price breakout

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Revision: 1


Introduction

Special comments

This set of presentation slides is for the ASA seminar day *"Share strategies to suit your investing style"* in Melbourne, August 2018.

This slide set comprises many more slides than we will be able to deliver in the time available on the day; but they are offered here in order to provide a more detailed explanation of the topic for the ASA Seminar participants.

The slides that will be displayed and discussed on the day are flagged with a green tick in the bottom left corner of the slide.





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Introduction

Today's Agenda

Trading and the technical analysis approach

- Technical analysis — why is it useful?
- What type of person to "trade" shares?
- How much time does it take? — The "journey"!
- Real systems and strategies — an intro
- Your system — entries, exits and back-testing
- Risk and money management
- What Resources? — brokers, websites, software, computer
- How much money? How many shares?
- Next steps and some tips.
- Questions and answers at the end.



Q&A

Introduction

Firstly — *trading v investing*

- Terminology:
“trading” versus “investing” — grey area
also: *trader* versus *investor*
- “Shorter term investing” ~ “trading”
- Both investors and traders can hold positions for several days up to several years
- The material in this presentation applies to all these people!
- “Day trading” is a special activity.

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Introduction

Assumptions

- Today's focus is only on trading/investing in Australian **shares**
- CFDs will be mentioned as an aside
- Not discussed: currencies (forex), options, warrants, futures.



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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 20+ years* (slowly at first)
- Chartist ie. technical analyst (ATAA member and national director)
- Provide support and tuition to traders and investors
Brainy's Share Market Toolbox
- Former 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** (convenor Australian BullCharts User Group and authorised reseller offering 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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Share Strategies **1. What is Technical Analysis?**

Technical Analysis
What is it?
Why use it?
Can we make money with it?
Is it also useful for investors?


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





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Share Strategies 1. What is Technical Analysis?

Technical Analysis is very useful!
for investors and traders!



Share market price charts summarise the underlying opinions and emotions of the real market participants (the actual buyers and sellers).




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Share Strategies 1. What is Technical Analysis?

Why use technical analysis?

- ✓ To help understand more about why the prices are moving (opinions and emotions)
- ✓ Minimise downside risks
- ✓ Maximise upside potential
- ✓ Protect hard-earned capital
- ✓ Minimise any losses

The more successful traders and shorter-term investors use some form of technical analysis.




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Share Strategies 1. What is Technical Analysis?

T.A. is a very broad field comprising:

1. Price charts and chart patterns
2. Candlestick (or bar) charts and patterns
3. Chart Indicators
 - Moving Average, MACD, RSI, P-SAR, etc.
4. Numeric (computational) analysis
5. Specialist topics:
 - Fibonacci, Elliott Wave, W.D.Gann
6. Using charting software

But you don't have to master all of it!!



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Share Strategies 1. What is Technical Analysis?

The most useful aspects

1. Uptrends and downtrends
2. Support and Resistance
3. Volume — is important
4. Price breakouts as one example.

Technical analysis is very useful for both investors and traders

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

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Share Strategies 1. What is Technical Analysis?

Up Trends

Could you have been tempted to buy this stock?

If only we could readily spot *uptrends* and take profits.

Up 81% in 40 weeks.

A weekly line chart of BHP over 10 months

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Share Strategies 1. What is Technical Analysis?

A weekly line chart of BAL over 52 weeks

Up 780% in 52 weeks!

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Share Strategies 1. What is Technical Analysis?

Defining an "uptrend" — it's simple

1. Identify the Peaks and Troughs.
2. Look for: Higher Peaks (HP) and Higher Troughs (HT) (or Higher Highs and Higher Lows).

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Share Strategies 1. What is Technical Analysis?

up trend = Higher Peaks and Troughs

Get a feel for what the price is doing.

Identify trends: uptrend, or downtrend, or non-trending.

Terminology:-
Higher High = Higher Peak
Higher Low = Higher Trough

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Share Strategies 1. What is Technical Analysis?

up trend = Higher Peaks and Troughs

"The trend is your friend"

Once in place, an **uptrend** is likely to continue.

Join the trend until it has finished.

Terminology:-
Higher High = Higher Peak
Higher Low = Higher Trough

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Share Strategies 1. What is Technical Analysis?

Beware the down trend

On a weekly candle chart every candle summarises the price action in one week.

Not a good idea to invest in a down-trending stock, until the trend has finished.*

* based on the principles of Dow Theory

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Share Strategies 1. What is Technical Analysis?

Down Trends

Might you have been tempted to buy this (down-trending) stock?

Do you know which stock this is?

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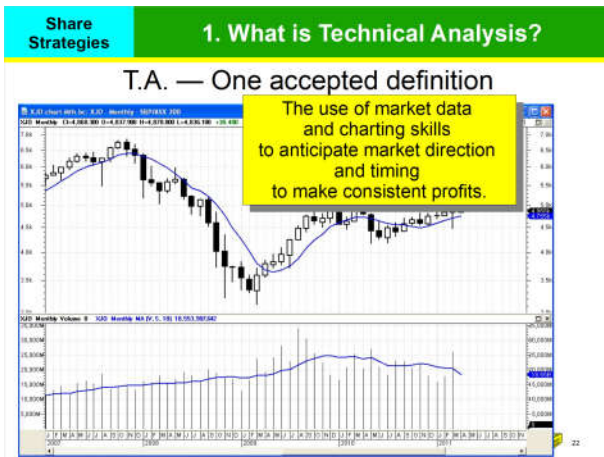
Share Strategies 1. What is Technical Analysis?

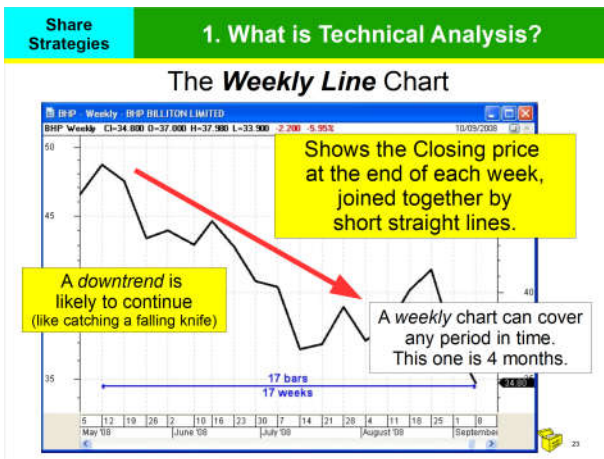
Down Trends

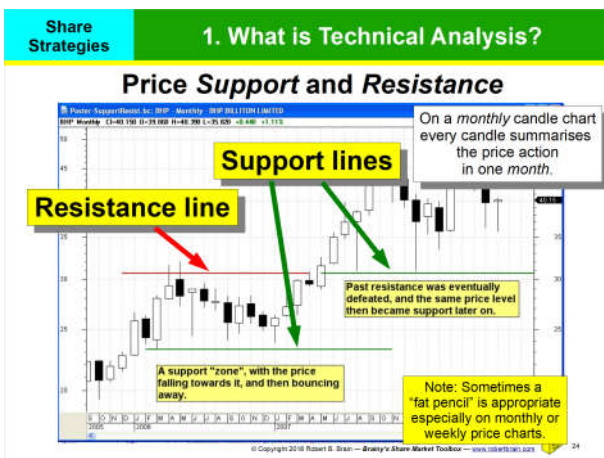
Might you have been tempted to buy this (down-trending) stock?

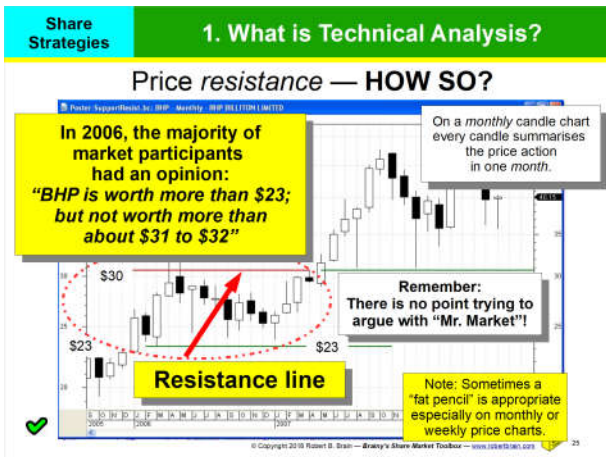
A weekly line chart of Telstra, 1999-2002 (down 46%). Both government and advisers were recommending to buy each tranche — T1, T2, T3. (Could argue that was criminal)

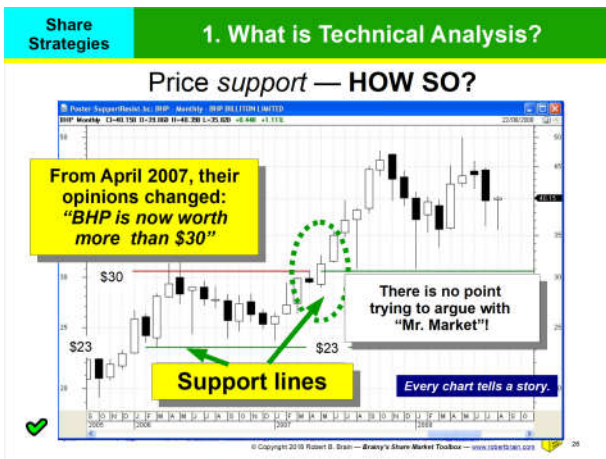
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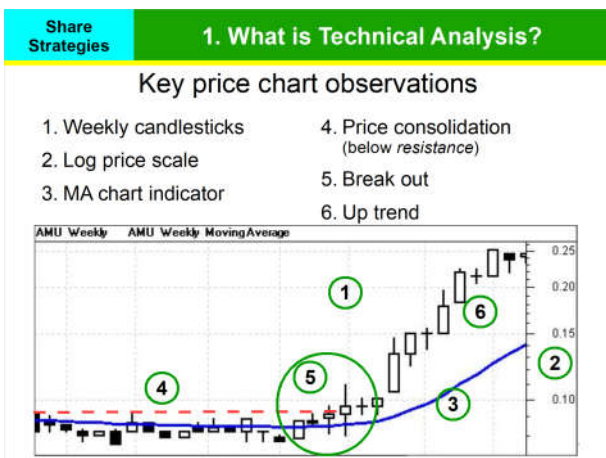












Share Strategies 1. What is Technical Analysis?

OHLC Bar and Candle...

Each **bar** on a bar chart, and each **candle** on a candle chart summarises the price action in any one "period" (a day, week, month, etc.).

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Share Strategies 1. What is Technical Analysis?

Candle features — the White candle

"open" price for the period (bottom of candle body)

"low" price for the period (bottom of candle tail)

"close" price for the period (top of candle body)

"high" price for the period (top of candle tail)

A "period" is a day, week, month, etc.

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Share Strategies 1. What is Technical Analysis?

Candle features — the Black candle

"open" price for the period (bottom of candle body)

"low" price for the period (bottom of candle tail)

"close" price for the period (top of candle body)

"high" price for the period (top of candle tail)

A "period" is a day, week, month, etc.

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Share Strategies 1. What is Technical Analysis?

Which candle is which?

“close” price for the period

Just think that the black coloured candle is gloomy, so it is “down” for the period, and its close is lower than open

“open” price for the period

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Share Strategies 1. What is Technical Analysis?

Fundamental vs Technical

1. The usefulness of fundamental analysis is not really all it's cracked up to be
2. Too much focus on “fair value” or “share price valuations” and forward estimates (which are really just “educated opinions” with a variety of built-in assumptions)
3. Technical analysis certainly provides an advantage for the investor and trader (because it summarises the current opinions of the market participants about “fair value”).

Every chart tells a story.

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Share Strategies 1. What is Technical Analysis?


T.A. Summary Comment



1. Technical analysis (T.A) can be used on:
 - company share price charts
 - commodity price charts (eg. oil, gold, etc.)
 - foreign currency (forex) charts
2. T.A is very good; but not 100% guaranteed, nor 100% reliable (because the charts summarise the opinions of the real market participants).

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Share Strategies 1. What is Technical Analysis?

T.A. Summary Comment


1. Technical analysis (T.A) can be used on:
 - company share price charts
 - commodity price charts
 - foreign currency (forex) charts
2. T.A is very good; but not 100% guaranteed, nor 100% reliable
3. Using T.A can give an unfair advantage over the buy-and-hold investors. 
4. Also need to use wise *money management* and *risk management* principles.


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Share Strategies 1. What is Technical Analysis?

Technical Analysis is very useful!

Share market price charts summarise the underlying opinions and emotions of the real market participants.

Every chart tells a story. 

 It pays to understand the stories in the price charts.



 **Every chart tells a story.**
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Share Strategies 1. What is Technical Analysis?

Can you make money?

Many technical analysts do make money;

but many do not, because of their misuse of T.A. or their lack of preparation or understanding.

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

1. What is Technical Analysis?

Research papers?

Over the years a number of researchers have performed simulations and case studies to test the veracity and usefulness of technical analysis and many conclusions are based on incorrect or misinformed use of technical analysis.

Beware of the inherent **confirmation cognitive bias** of believing these without reviewing the arguments and studies in favour of T.A.

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Share Strategies

2. What type of person?

What “type” of person do you need to be to spend your day trading / investing?

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Share Strategies

2. What type of person?

Trading styles / types

Personal preference which style(s) to adopt:

- *Trader versus investor*
- Intra-day trading? ~ Day trader
- Inter-day trading? — for investors and traders
- Position trader — for investors and traders
- Trend trader — for investors and traders
- Momentum trader — for investors and traders

(some of these terms are not clearly defined)

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Share Strategies **2. What type of person?**

The mindset is very important

- Beware the long-term investor buy-and-hold mindset
- Must be prepared to sell a position, and not hold indefinitely
- Don't be distracted by "blue chips"
- A 100% success rate is a good aspiration, but is not achievable
- Beware myths such as:
"Time in the market vs timing the market" because we CAN "time the market"!



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Share Strategies **2. What type of person?**

Is trading* for you?

- Emotions — Fear and Greed (and Hope)
- Could you sleep at night?
 - If you have thousands tied up and at risk, could you sleep easily?
 - What if one position went belly up? Would that worry you?
- What about your Risk Tolerance and Profile?

* trading, or short-term investing




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Share Strategies **2. What type of person?**

Why would you want to do this?

- To make a reasonable living
- To increase your net worth
- To build capital
- To produce an income stream
- Because the activity is enjoyable (it's the journey).

But, how does it compare with the alternative ways of achieving the same end?





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Share Strategies **2. What type of person?**

Some home truths about "trading"

- Day-trading can be a lonely experience, sitting in front of a screen all day (but it does not have to be this way)
- Every one has some losses – you need to accept this, and minimise them
- Try to maximise the profits
- If you follow the "rules", you might come out ahead
- If not, then you could have significant losses.

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Share Strategies **2. What type of person?**

Attributes of a successful trader

Common attributes that apply to the more successful traders/investors:

- have a trading plan
- trading strategy
- proper money mgt
- proper position sizing
- discipline
- intuition
- relevant experience
- goal setting
- open minded
- flexible
- confident
- commitment
- independence
- willingness to learn
- action oriented
- attitude
- good physical health
- spiritual health
- responsibility
- psychology
- passion



Note: "Day trading" — Is a specialised activity, and rather different to inter-day trading!!! It can be very challenging!

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Share Strategies **3. How much time?**

How much time does this take?

The "journey"!

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Share Strategies **3. How much time?**

How much time is required?

It depends on:

- Your investing/trading *objective*
- Your *investment horizon* — months, years, etc.
- Your degree of aggressiveness (eg. this can impact your *exit strategy*)
- Your *level of interest* in the market.

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Share Strategies **3. How much time?**

How much time is required?

It can be:

- 40 hours per week (full time job)
- Maybe just 2 hours per day
- Or only 2 hours per week (eg. on the weekend)


Suggested:
At least weekly (for an hour or so).

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Share Strategies **3. How much time?**

Your interest and availability

- A few minutes each day, possible to respond to "exit signals" and lock in more profit, minimise any loss, and preserve capital.
- If you only do weekly, then:
 - greater slips of share price,
 - slower to respond to "exit signals",
 - able to lock in only smaller profits, and
 - perhaps suffer larger losses.



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Share Strategies 3. How much time?

The Journey

Many people don't realise they customise their activities, focus on enjoyable aspects
=> so that *the "journey" is important.*

The more time you devote to the right aspects, the greater the chance of being more successful.

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Share Strategies 4. Systems and Strategies

Real Systems and Strategies



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Share Strategies 4. Systems and Strategies

Plans, Strategies, Systems?

- **The plan** — Focuses on the reason for investing and takes into account the investor's age, tolerance for risk, time frame, types of investments etc.
- **The strategy** — Looks at how that plan will be implemented, for example using a value, fundamental, technical or passive, etc.
- **The system** — Provides a set of rules which tell the investor what and when to buy and sell, how risks are managed and provides specific guidelines on portfolio management.

Note: These are the ASA recommended definitions.


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Share Strategies **4. Systems and Strategies**

Success for traders and investors...

Success is dependent on...

- Having a specific, **defined set of criteria** for stock selection, entry conditions, and the exit conditions
- Having **confidence** that your strategy is likely to be successful over time
- And **adhering to the strategy** (which can be challenging due to **emotional inputs** and inherent **cognitive biases**).

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Share Strategies **4. Systems and Strategies**

Trading strategy thoughts

1. Find stocks using *fundamental analysis* and time entry with *technical analysis*
2. Long term bull market strategy, different to shorter term bull market strategy
3. Different for a bear market.

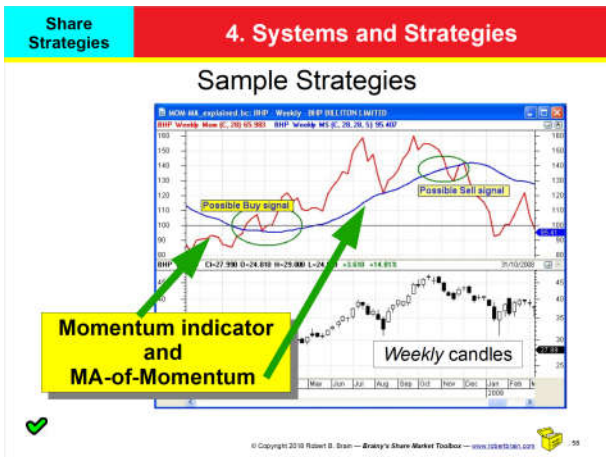
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Share Strategies **4. Systems and Strategies**

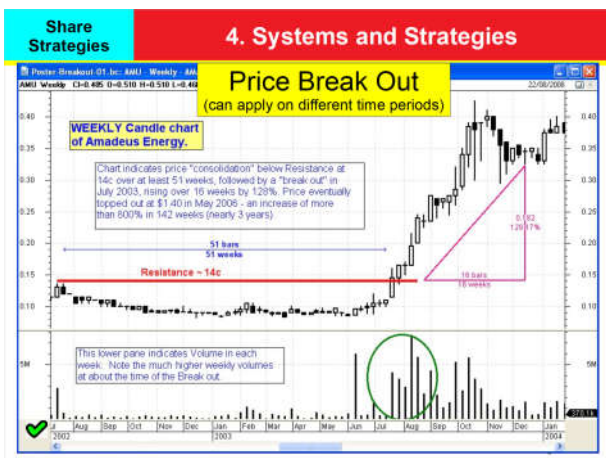
Sample Trading Strategies

- High dividend yield
- Trend following
- Price breakout
- Chart patterns (eg. triangles, double top, etc.)
- Reversal trading
- Momentum indicator + MA-of-Momentum (see next slide)

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- Share Strategies 4. Systems and Strategies
- ### More sample strategies
- Use ADX chart indicator for entry (refer Chuck le Beau)
 - Use the MACD indicator and RSI. Look for RSI divergence against the share price.
 - Use Stochastic indicator and Directional Movement (ADX) to give joint signals
 - Use Parabolic SAR for exits
 - Price Breakout (see next slide)
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Share Strategies **4. Systems and Strategies**

Some successful strategies

These are in use by some successful traders:

- Use the MACD and the RSI indicators. Look for RSI **divergence** against the share price.
- Use Stochastic indicator and Directional Movement (ADX) to give joint signals.

Tip!

Caution:- Not guaranteed!!

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Share Strategies **4. Systems and Strategies**

How to do this?

- Identify *uptrend*, and ride the trend
- Identify Moving Average increasing (confirming the trend)
- Identify *Support* and *Resistance* and then set buys, sells and stop loss
- Look out for potential *Break outs*, then identify, confirm and respond quickly (use Scan feature in charting software)
- Many, many more possibilities....

Tip!

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Share Strategies **4. Systems and Strategies**

Isn't this gambling?



- Some people think that share trading is just gambling?
- Without a proper **trading plan** and **trading strategy** then maybe it is.
- Sensible **risk and money management** make a very big difference.
- But if you have a proper, proven and tested **plan**, then it is actually calculated **risk taking**.
- Compare with other professions:
 - farming, retail business, catering,
 - tourist trade, tradesman, handy man, etc.

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Share Strategies **5. Your system / strategy**

Your system / strategy

The entries, and exits.
Documenting and testing.
The ASX Game?

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Share Strategies **5. Your system / strategy**

Your Trading Plan / Strategy / System

- Have all this recorded — v beneficial
- Include things like:
 - Investment objectives and horizon
 - Funding arrangements (eg. cash, loan, security, margin lending, etc.)
 - Your preferred financial instrument or
 - Multiple instruments (eg. equities, stocks, CFDs, warrants, options, futures, currencies, etc.)
 - Your stock universe.

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Share Strategies 5. Your system / strategy

Trading Strategies / Systems

- "A predetermined set of rules for making trading decisions"
- That is, the stock selection criteria, the buy criteria and the sell criteria
- Stop loss, profit levels, and money mgt
- The trading mechanical and automatic, no subjectivity, no gut-feel and no emotion
- Can have multiple strategies.

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Share Strategies 5. Your system / strategy

Discretionary trading

Without a carefully prepared and tested strategy/system → *discretionary trading*

- Trading decisions based on "intuition"
- Need many hours of experience to be successful

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Share Strategies 5. Your system / strategy

Key elements

- Stock universe
- Entry criteria
- Exit criteria
- Money and risk management aspects

More details on these on next slides.../


Money and risk management

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Share Strategies **5. Your system / strategy**

Stock universe


- A particular set of stocks
- To help stay focused
- Helps remove distractions
- Might be "all stocks".

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Share Strategies **5. Your system / strategy**

Entry criteria

- For example:
- Definite *uptrend*, eg:
 - Moving Average (MA) increasing
 - higher peaks and higher troughs
- Highest High value in last x days.
- Other...
- But, make it clear, so the signal will be clear.




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Share Strategies **5. Your system / strategy**

Why have an Exit strategy?

Sensible *money management*

- We cannot be 100% correct with investing or trading decisions.
- Protect hard-earned capital
- Capture and maximise the profits
- Minimise losses

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Share Strategies **5. Your system / strategy**

Sample exit conditions

- Break below *uptrend* line
- Moving Average Cross-over
- Based on a technical analysis chart indicator such as the ATR (eg. Chandelier Exit).
- A pre-determined *Stop Loss* price level
 - Break below Support level
 - Using indicator like P-SAR.

Popular T.A. chart based features

Horizontal price-specific levels

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Share Strategies **5. Your system / strategy**

Protecting profit and capital — Stop Loss



Sound and sensible money management

Have a pre-planned exit strategy. Utilise a Stop Loss to protect capital, and minimise losses.

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Share Strategies **5. Your system / strategy**

Stop Loss? — under Support?



Initial Stop Loss position could be under recent support and under recent price action.

Down trend is "broken". A new up trend might have started.

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Share Strategies | **5. Your system / strategy**

Stop Loss — eg. using ATR

Wilson ATR Trailing Stop indicator

ATR = Average True Range

The stop is set at a multiple of ATR



The Wilson ATR Trailing Stop is a series of dots (like P-SAR) and says: "if the price falls to here tomorrow, then sell".

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Share Strategies | **5. Your system / strategy**

Back test or Paper trade

- Important to "back test" somehow
 - Use back testing software (eg. TradeSim)
 - Use charting software and test stock selection criteria over time
- Paper trading is essential
 - Studying the theory and actually doing it are different (emotions come into play)
 - Trade on paper – hypothetical trades
 - Play an online stock market game (eg. asx.com.au)

✓

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Share Strategies | **5. Your system / strategy**

Online Trading Games


- Play an online stock market game eg. www.asx.com.au — set up your MyASX logon account, and register for the game
- Game #2 for 2018 started 2nd August, and runs until 14th November.

✓

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Share Strategies 6. Resources

The resources?
Brokers, Websites,
Software, a computer?



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Share Strategies 6. Resources

Full service brokers v Online


Be aware of the difference

Full service brokers:

- Will place the trades for you
- Are likely to charge more than online brokers

Online brokers:

- Generally much cheaper
- Have many tools and much info to share
- Give you more control and flexibility.




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Share Strategies 6. Resources

Websites

Many different websites with resources:

- Your online broker's website
- Various third party websites
- Reference sources
(eg. ex-div dates, reporting dates, dividend amounts, etc.)
- Discussion forums
(eg. HotCopper, Aussie Stock Forums — beware of some)





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Share Strategies 6. Resources

Charting and software

- Web-based charting options
- Real charting software
- Features and costs?
- Share price data
- Trading platforms



Beware “Black Box” software versus “you are in control” software

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Share Strategies 6. Resources

A good computer?



- A good computer might be useful
- Especially if using charting software with a built-in database of stock prices
- Otherwise, a laptop or tablet, especially if using the broker's online tools
- Beware of trying to do this on a smartphone — not so easy.

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Share Strategies 6. Resources

Use good charting software

- If using a basic charting tool, the information might be limited to the basics
- Use a better tool for greater flexibility and more informative results.

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Share Strategies 6. Resources

Charting software – key features

- **Data** — Easy access to download data
- Price charts in various **time frames**
- **Intraday** data (optional)
- **Indicators** – draw them on the chart
- **Watchlists** – several lists of stocks to easily keep an eye on them
- **Scans** – Specify selection criteria, and scan the data for stocks that match the criteria
- **Line studies** and **annotations** on the chart

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Share Strategies 7. How much money

How much money do I need?

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Share Strategies 7. How much money

How much money do I need?

- Maybe just \$5,000
- Some professional traders make 20% pa
- If you had \$250,000 in capital, and if you made 20% pa profit, this equates to \$50,000 pa.
Is this enough?
- About \$100,000 is a good starting amount
- Don't forget other costs:
 - Brokerage, interest on borrowed funds, tax on profits, software costs, data costs, other subscription costs, etc., etc.


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Share Strategies **7. How much money**

Using leverage

It is possible to use leverage to start with smaller amount of capital and magnify the wins and the losses.

- Margin Loan
- CFD (Contract for Difference)
- These can be very dangerous and need very special care.



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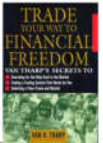

Share Strategies **7. How much money**

Position Size is important

- If too small, then it gets swallowed up by brokerage and slippage.
- \$1500 is about the minimum.
- Ideally, more than \$2500 to \$3000.

Strategy options:

- Fixed Position Size every time, OR
- Adjust the Position Size using something like the "Two Percent Rule" (refer van Tharp)



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Share Strategies **8. How many shares?**

How many shares to invest in?





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Share Strategies **8. How many shares?**

How many shares?

- Many people prefer / suggest about 10 different companies ("...it's easier to manage").
- Some *risk management* rules:
 - Invest no more than 10% of capital in any one position
 - Limit the position size to no more than 5% of daily volume, and/or 5% daily value
 - Keep the "amount at risk" to less than 2% of total portfolio value (refer van Tharp).

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Share Strategies **8. How many shares?**

Stock liquidity

If your Exit Strategy specifies to sell a holding on a specific condition, then it's important to be able to **sell the entire holding**.

- Many listed companies are not liquid enough to help ensure that a complete sale is possible.
- The daily *volume*, or daily *trades*, values might be too small.

eg. Try selling 10,000 shares at \$1 each (\$10,000) when daily values are around: **volume — 5,000 shares** and **value — \$5,000**. That's half of the normal amount.

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Share Strategies **9. Next steps and tips**

NEXT STEPS
and
TIPS



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Share Strategies **9. Next steps and tips**

Next steps


- Continue to learn about technical analysis and possible strategies
- Gather your thoughts and ideas
- Think about entries and exits
- Test out some ideas in a "sand box" (paper trade)
- Understand the motives and strategies of the "big boys"
- Talk and meet with like-minded people
- Find useful organisations (eg. ATAA).

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Share Strategies **9. Next steps and tips**



ATAA — networking, and more

For totally unbiased and broad support:



**Australian
Technical Analysts
Association**

- **Member-focused** national association
- Nine locations around Australia
- **Monthly meetings** and more
- **Online meetings** and more
- **Lots of resources** — www.ataa.asn.au

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Share Strategies **9. Next steps and tips**

Arguments for and against

<u>FOR</u>	<u>AGAINST</u>
<ul style="list-style-type: none">• Can be rewarding• Can be profitable• Aim for success rate of about 50%+• Let profits run	<ul style="list-style-type: none">• Can be high risk• It can take time• There will be losses• But quit losses early• Can be traumatic and emotional

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Share Strategies **9. Next steps and tips**

Trading — Final Tips

Watch out for:

- Use a stop loss!
- Beware low liquidity
- Watch diligently (don't take your eyes off the ball)
- Understand retracements
- Look out for sucker rallies
- Profit takers exist and move the price
- Beware the 3-period pause in a rally

Tips!


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Summary & Wrap up

Summary and re-cap

Trading and the technical analysis approach

- Technical analysis
- The type of person to “trade” shares
- The time it takes
- Real systems and strategies
- Your system — entries, exits and back-testing
- Risk and money management
- Some resources? — brokers, websites, software, computer
- The money
- Next steps and some tips.

 Make sure to view the complete set of slides

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Summary & Wrap up

THE END

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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-Newsletter topics
- Good charting software – BullCharts
www.robertbrain.com/bullcharts/
- My contact details:
✔ web site above, or phone: 0438 355 910

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 **Summary & Wrap up**

Q & A

Questions?



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 **Summary & Wrap up**

Backup slides follow
(they may be "hidden")

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