




Stock Liquidity

 **Brainy's Share Market Toolbox**

Stock Liquidity



Share Market
Toolbox

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July 2022



"The share market can seem mystical and almost like black magic; but with the right support and assistance, it just seems like magic."
Robert Brain


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 **Introduction**

Stock liquidity

Let's assume:

- We want to be able to buy, and sell, a parcel of shares, with no fuss, and without influencing the share price; and
- When it comes time to sell our shares, we want to be able to **sell quickly** (ie. there needs to be buyers ready in the market).


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 **Introduction**


Here's a thought or two ...

- 1) Are we interested in trading/investing in ANY, or ALL, listed ASX *stocks**?
(ignoring overseas stocks)
If so, should we focus on just some, or all of them as possible candidates?
- 2) Is there a maximum *position/parcel size* of which to be mindful?
Or can we buy as many shares as we can afford?


* — "stocks" here refers loosely to all ASX listed securities, equities, ETFs, etc.


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Stock Liquidity

 Introduction

Session objective

- Consider the issues with *stock liquidity*
- On the ASX, many stocks are NOT "liquid"?!
- How to define *liquidity*? 
- Study:
 - The daily turnover – *volume*, and *value*
 - The number of *trades* each day.


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 Introduction


Session objective

This session may help you with:


- Sound risk management, and
- Help with key criteria for stock selection (a *stock universe*), and
- Might help with parcel/position size.



This will be an interactive session with your frequent input... 

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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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Stock Liquidity


 Introduction

Important Notice



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 Liquidity ISSUES

Stock liquidity


Imagine:

- You own some shares in a stock that trades five times each day (on average);
- Now you decide to sell it; but so do all the other interested parties;
- So, the sell orders flood in, but there are very few if any interested buyers;
- What happens to the share price?



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 Liquidity ISSUES


Two problems:

- 1) Some stocks are thinly traded (not very "liquid"), and might **trade*** as little as six times per trading day (ie. once per hour).
- 2) For some stocks, a large parcel size might be as big as one half of the day's **trading value**, or one half of the day's **trading volume**.

Can this be a problem?
(see examples on next slide).




* – One **trade** is one buy/sell transaction involving one "parcel" of shares.

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Stock Liquidity

 **Liquidity ISSUES**

Some examples (from 2011)

Symbol	Name	Trades per WEEK	Volume per WEEK	Median Price* \$.c	Typical Price* \$.c	Value Traded \$/WEEK	Market Cap (millions)
VSO	VNGD Aus Small Etf Units	1	1	42.59	42.163	\$42	\$5.78
CNK	Condor Metals Limited	1	1,504	0.09	.087	\$120	\$5.20
ESW	Emerson Stewart Group Limited	1	2,500	.2	.2	\$500	\$7.40
KRS	Kresta Holdings Limited	1	5,000	.24	.24	\$1,200	\$34.60
AYA	Attila Resources Limited	2	9,000	.2	.2	\$1,800	\$2.45
CBX	Cape Alumina Limited	5	12,089	.18	.173	\$1,993	\$20.81
SPH	Sphere Minerals Limited	15	31	2.5	2.5	\$78	\$529.55
AEJ	Redbank Energy Limited	28	230	4.155	4.14	\$947	\$3.23
CBB	Cordlife Limited	35	25,760	0.053	0.053	\$1,355	\$7.85


* – definitions over.../ © Copyright 2022 Robert B. Brain – Brain's Share Market Toolkit – www.cobrain.com  10


 **Liquidity ISSUES**

Definitions

For WEEKLY prices:

- **Median Price** = the average of the High and Low prices for the week
- **Typical Price** = the average of High, Low and Close prices for the week.


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 **Liquidity ISSUES**

Liquid stocks (or not)


Of the 2,000+ stocks on the ASX, only about 500-700 are liquid enough for many traders / investors.

Question: When scanning for a trade, are you interested in all stocks?
and
do you scan the entire market?



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Stock Liquidity


 **Liquidity ISSUES**

Liquid stocks (or not)

Of the 2,000+ stocks on the ASX, only about 500-700 are liquid enough for many traders / investors.

So, it might pay to be informed and choose wisely (but how?)


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 **Liquidity SOLUTIONS**


One solution...

- Place **multiple buy orders** in small parcels **over a period of time** (hours or days);
- Monitor your positions **frequently**;
- Be prepared to exit a position in **small parcels** over a period of time.

But, is this feasible for you
Is it a hassle?




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 **Liquidity SOLUTIONS**


Another solution...

Only invest in *liquid* stocks – those that have enough turnover to satisfy trading requirements. Some guidelines:

- Daily *volume* or *value* is > 20 times that of the intended share parcel (ie. parcel value < 5% of the daily *value* traded)
- eg. If daily *value traded* = \$100,000, then keep value of the parcel < $\$100,000 / 20 = \$5,000$
- Daily *trades* > "x" (perhaps 50).


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Liquidity ISSUES

Two possible issues to think about...

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Liquidity ISSUES


Issue #1


Assume we want to trade only *liquid* stocks.
So, how to decide which stocks to invest/trade?

- All stocks on the market? (liquidity issues?)
- Top 200 – stocks in the XJO?
- All Ords – the XAO?
- Small Ords?
- Mid-cap 50?
- A custom watch list of liquid stocks?

That is, your **Stock Universe**

AND Dilemma #2 ... /

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Liquidity ISSUES

Issue #2

Sound risk management is related...
Careful thought about *liquidity* can help to decide which *stocks* to trade;

And maybe also with some trading rules regarding the *parcel or position size*;

This could help to reduce the trading risks!

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Stock Liquidity


Liquidity SOLUTIONS

Stock Liquidity – a definition?

How to define “*stock liquidity*” ?
(for share market trading/investing)

Three possible considerations:

- (1) **Sales value** (= *Value Traded*) per “period”
- (2) The number of **trades** per “period”
- (3) **Volume** per “period”
- (4) Other?



Note: “period” = each day or each week.

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Liquidity

Volume, Trades, Value

Charting software can plot these values...

- Volume
- Trades
- Value Traded

To help us visualise the issue and compare multiple stocks.



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Liquidity SOLUTIONS

Finding *liquid* stocks

It is feasible to build a watchlist of **liquid stocks** by considering any or all of:

- Volume
- Value
- Trades.

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Stock Liquidity

Liquidity SOLUTIONS


What about Trades?

What about only considering stocks with:

- Trades more than 50 times per day?
= one trade every 7.2 minutes
or pick another number?



All stocks that conform to this criteria could be our **Stock Universe**, OR do we just manually consider this on the day of purchase?

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Liquidity SOLUTIONS

Example

Note:

- Trades mostly > 50 / day
- But sometimes < 50 / day

If scanning for only > 50, this stock would be missed on some days.

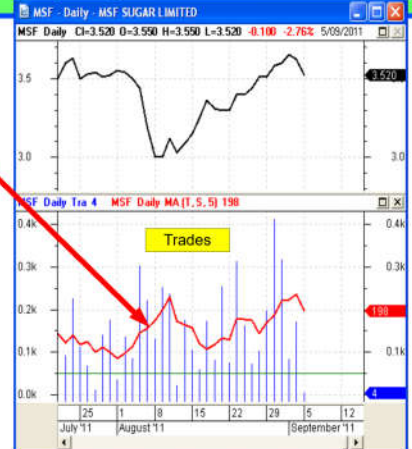


Liquidity SOLUTIONS


Solution

Scan for:
5 period SMA
of Trades > 50
over recent days.

[Perhaps 10xSMA might be better?
or even 20?]




Stock Liquidity

 **Liquidity SOLUTIONS**


Position size


What are your thoughts on Position Size?

eg. as a percentage of daily **volume** or **value**? 

Is it feasible to buy a \$20,000 parcel of shares where its daily **value** traded is only \$50,000?

Your parcel will be 40% of the daily value!

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 **Liquidity SOLUTIONS**


Position Size and Sales Value

- If intended position size < 5% of daily **value**
- For position size of ~\$5,000 (for example) => Daily **Value** > \$100,000.

Intended position size:	\$1,000	\$2,500	\$5,000	\$7,500	\$10,000
Min Daily Value:	\$20,000	\$50,000	\$100,000	\$150,000	\$200,000
Min Weekly Value:	\$100,000	\$250,000	\$500,000	\$750,000	\$1,000,000

BUT: Do most ASX stocks trade this much?


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 **Liquidity SOLUTIONS**

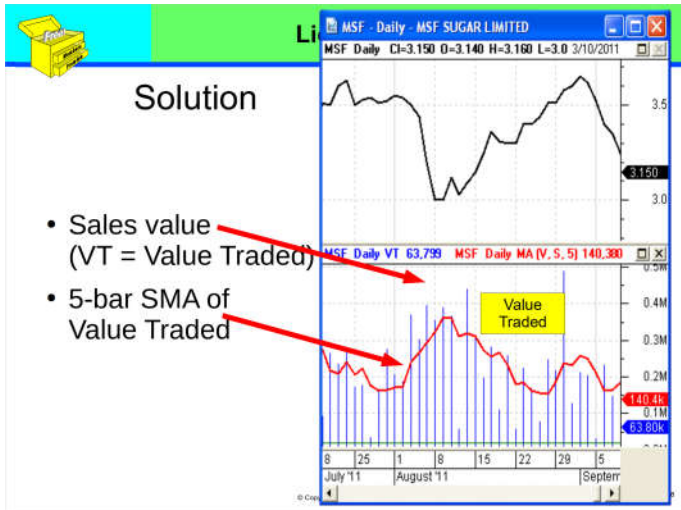
What about Sales Value?

For example:

- If intended position size < 5% of daily **value**
- For position size of ~\$5,000 (for example) => Daily Value > \$100,000.
- How many stocks qualify?
Use software scan criteria (eg. in BullCharts):
5-bar SMA of Value > 100,000 every bar for the **last 20 bars**.
(why: "5-bar SMA", and "last 20 bars"?)

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Liquidity SOLUTIONS

What about *Volume*?

Similar to *Value*:


- If intended position size < 5% of daily **volume**
- How many stocks qualify?
For example, use software scan criteria:
5-bar SMA of Volume > 100,000
every bar for the **last 20 bars**.

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Liquidity SOLUTIONS


Conclusions

- (1) Assuming that we only trade in *liquid* stocks, we can build a special watchlist;
- (2) Use a simple search criteria such as (eg):-
Daily Trades > 50, and
Daily Value > 100,000
but we will miss some opportunities;
- (3) So, use search criteria based on **5-period SMA for the last 5 bars** (or a variation of this?).




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Stock Liquidity


 **Liquidity SOLUTIONS**

Feedback?

- Questions?
 - Why Trades > 50, and not 30, or 70?
 - Could Value Traded be 10% of daily value? or another value?
- What do you think?
- Does your trading strategy specify something different?



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 **Summary & Wrap up**

SUMMARY

Stock liquidity (lack of) can be a problem

We could consider:

- *Value* per day or week
- *Volume*
- *Trades*

And use this to:

- (a) Build a *Stock Universe*, and
- (b) Help to determine a *Position Size*
- (c) And better manage risk.

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Downloadable materials


ProTrader Workshop participants can download materials:

- Handouts for the five sets of presentation slides
- "ASX Index Compositions" pdf
- "Single Candlestick Shapes"... pdf
- "Uptrend Candle Patterns"... pdf
- "Downtrend Candle Patterns"... pdf

<https://www.robertbrain.com/files/KL/>

Username: **protrader** (not case sensitive)

Password: **ProTrader2022** (this IS case sensitive!)

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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
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- My contact details:
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 Summary & Wrap up

THE END

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THE END

THANK YOU

(backup slides follow)

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