


# "I am never wrong! - or am I?"

**Trading Insights**

## Trading Insights "I am never wrong! (or am I?)"

**Robert Brain**  
(Brainy's Share Market Toolbox)  
November 2023

*"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**

### What do these things have in common?



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**Introduction**

### What do these things have in common?

- Sudoku puzzle – "I must finish it!"
- Trading/investing – "Is it a buy? should I sell?"
- Elephant stampede!
- Tight rope walker;
- Martial arts – who is the real boss?
- Crossword puzzle – striving for 100% completion and perfection?



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# "I am never wrong! - or am I?"


 Introduction

What do these things have in common?

HINT:  
It's to do with human nature and personality traits and cognitive bias.



QUESTION:  
*Are you in control of yours?*  
(it can affect your trading)

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 Introduction

Today's focus:

***"I am never wrong!  
(or am I?)"***

When trading / investing, have you ever found yourself convinced that your decision was right, but felt that maybe it was "not right"?

Many novice investors / traders find themselves in a quandary: they can't find the "perfect" trading system that wins 100% of the time!!

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 Introduction

New traders / investors

Research has shown that something like 80% (or even 90%) of new traders go out backwards.

- How does this happen?
- How can we avoid this?

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"I am never wrong! - or am I?"

**Introduction**

Blue chips – What could go wrong?

- Have you ever bought blue chip shares, such as Telstra?
- And wondered, in hindsight, if that was the right decision?
- And watched the share price sink, week after week, and month after month?
- Like the following example...

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"I am never wrong! - or am I?"



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Introduction

### Telstra – What went wrong?

- There was a large loss of capital.
- Was the capital loss worth it?
- Did the dividend payments compensate?
- Should we have sold it?
- Why didn't we?
  - Blue chip stocks are safe – they're "great";
  - Didn't know when to sell;
  - Had no Exit Strategy or Stop Loss strategy to protect the capital.

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Introduction

### Today's session

- 1) How feasible is a 100% winning strategy?
- 2) Have a look at personality traits, including *humility*;
- 3) Consider cognitive biases: "I'm always right" and the over-confidence bias;
- 4) What sort of trading metrics are reasonable?.

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# "I am never wrong! - or am I?"

**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 former director)
- Provide support and tuition to traders and investors **Brainy'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 (convenor 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.

**advice** (with a red prohibition sign over it)

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"I am never wrong! - or am I?"

 Introduction

Important Notice



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 Setting the scene

S.T.E.M.

In some fields of endeavour, there is only one right answer, and other possible answers are wrong.

- Engineers, mathematicians and scientists are trained to search for "the" correct answer;
- Examination questions involving number crunching typically have just one correct answer;
- This produces a mindset among professionals where only one right answer exists;
- This does not sit well with market traders.

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 Setting the scene

Novice (common) trader mistakes

A lot is said of the common mistakes that newer traders and investors make:

- Investors – long-term buy-and-hold approach
- Trading without a plan (clear objectives, universe)
- Trading too much (forgetting about brokerage costs)
- Inappropriate position size (too small or too large)
- Not understanding the chosen market / asset class
- Too many positions to monitor
- and one more common one...

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# "I am never wrong! - or am I?"

 **Setting the scene**

## Failing to accept the decision was wrong

A common trading / investing mistake:

- Not having an Exit Strategy;
- Not closing a position when the Stop has been hit;
- *"It's a blue chip stock, and it will come back";*
- *"I don't want to close the position now, it will be a loss";*
- *"I will sell when it gets back to my buy price";*
- *"Surely the loss cannot get any bigger".*

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 **Being humble**

# Humility

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 **Being humble**

## Martial arts and humility

Have you studied any martial art?  
(eg. judo, karate, kung fu, taekwondo, Tai Chi, etc.)

- Humility is one of the key values that are taught;
- A humble student listens to the instructor and does as requested;
- Humility keeps the student receptive to criticism and to opportunities for improvement;
- Humility empowers self-control.

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# "I am never wrong! - or am I?"

 **Being humble**

## What is Humility?

- The quality of having a modest or low view of one's importance;
- Some people believe:  
*"Humility is a very important human trait that all people should exercise in their daily lives."*
- Being humble means you aren't too big for any lesson that may come your way. Some people say humility is even more important than confidence;
- You become more in tune with your weaknesses;
- You can more easily understand where to improve.

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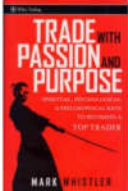
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 **Being humble**

## About humility

Mark Whistler, *"Trade with Passion and Purpose"*, 2007:

- *"... humbleness isn't just a trait of those who have fallen, it's a characteristic of the great, of those who are purpose-centred without ego."* (p49)
- *"... remember that remaining humble is one of the most important aspects of making sure we keep our egos in check. If we live solely on ego, we have fallen into the unconscious trap of not being able to see the emotions that are causing us to make irrational decisions."* (p156).



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 **Being humble**

## About the humble trader

- *"The market is a great humiliator"* – if you make a mistake when trading in the markets;
- When investing, humility is a secret ingredient that can contribute to success;
- Will more easily learn from their mistakes;
- Will more easily learn the lessons from Mister Market;
- Will more easily admit to being wrong from time to time.

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"I am never wrong! - or am I?"

 **Being perfect**

Perfectionism

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 **Being perfect**

Perfectionism?

(1) Do you play Sudoku, and/or crossword puzzles?


(2) Do you:


- (a) give up easily? or
- (b) do you stay involved until it's 100% completed?

(3) Do you spend a lot of time on it?

(4) With crosswords, do you go searching for the answers so as to complete the puzzle?

6				1	
1	7		6 5 1		6 2
6 2	3		5		9 4
	3			2	
4 8	9	7		3 6	
9	6			4	8
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 **Being perfect**

Perfectionist

Excessive time spent, and striving for perfection, can be a symptom of:

- (1) A part of your life's journey;
- (2) A simple desire to complete the task;
- (3) A feeling of achievement in completing the task;
- (4) Fear of failure, or admitting you're wrong;
- (5) Failure to accept you're not perfect;
- (6) Craving approval and recognition.

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# "I am never wrong! - or am I?"

 **Being perfect**

## Perfectionist

Striving for perfectionism in trading and investing is not a good idea:

- Trading is not a perfect science;
- Trading is more of an art, with many right answers;
- We are playing the odds, using many of our tools, strategies and the principles of technical analysis;
- And the activity of trading/investing is just not perfect.

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 **Being perfect**

## Perfectionist? – How to address

- Accept that we won't get 100% of our trades / investments "correct";
- We can't have 100% success in the markets;
- There will be losing positions.

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 **Blue chip stocks – the truth**

Blue chip stocks  
can be  
disappointing...?



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# "I am never wrong! - or am I?"

**Blue chip stocks – the truth**

Are “blue chip” stocks worth it?

- Blue chip stocks tend to be large to very large market capitalisation stocks;
- They are heavily analysed by brokers and analysts;
- They are heavily focused on by many investors;
- Share price movements from day to day are not huge (unlike for small or medium cap stocks);
- Share price performance from month to month and year to year is often not very good.

*But maybe you don't believe me?*

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**Blue chip stocks – the truth**

What does “blue chip” mean?

*“Larger companies with a long history of profitability and stability.”*



ie. no guarantees about anything!

Source:- [www.asx.com.au](http://www.asx.com.au)

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**Blue chip stocks – the truth**

Blue Chips — disappointing?



AMP Weekly AMP LIMITED  
O-4.890 D-4.700 H-4.900 L-4.670 +0.160 +3.38%

AMP down 64% over 78 weeks

-64%

78 bars  
78 weeks

30/06/2011

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"I am never wrong! - or am I?"



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"I am never wrong! - or am I?"

**Blue chip stocks – the truth**

### Blue Chips?

At least 36 well-known blue chips fell more than 50% during the GFC, and 3 years later most were still below their highs of FOUR years prior.

See more details:  
[www.robertbrain.com/bluechip](http://www.robertbrain.com/bluechip)

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**Blue chip stocks – the truth**

### QUESTION:

How long does it take a *blue chip* stock to recover from a *bear market* fall or a *correction*?

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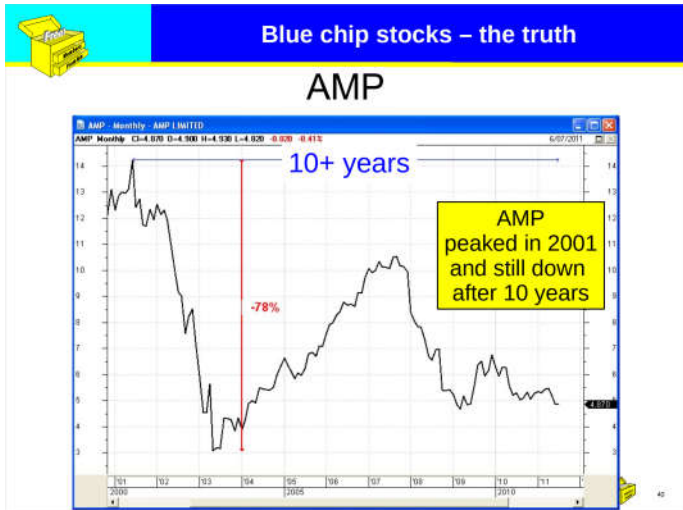
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"I am never wrong! - or am I?"



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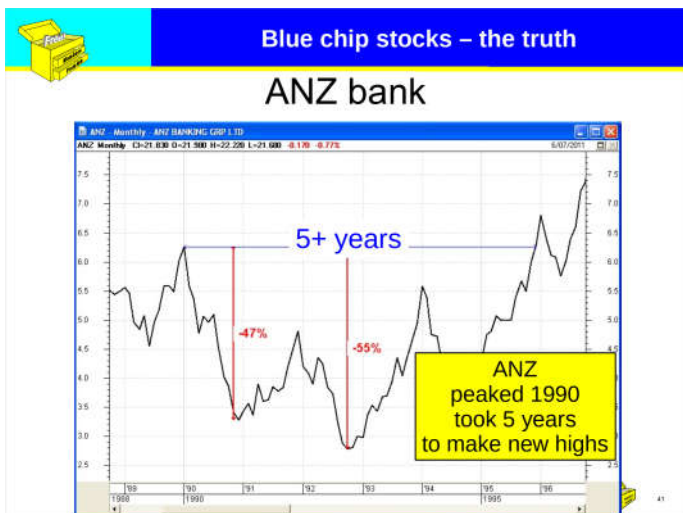
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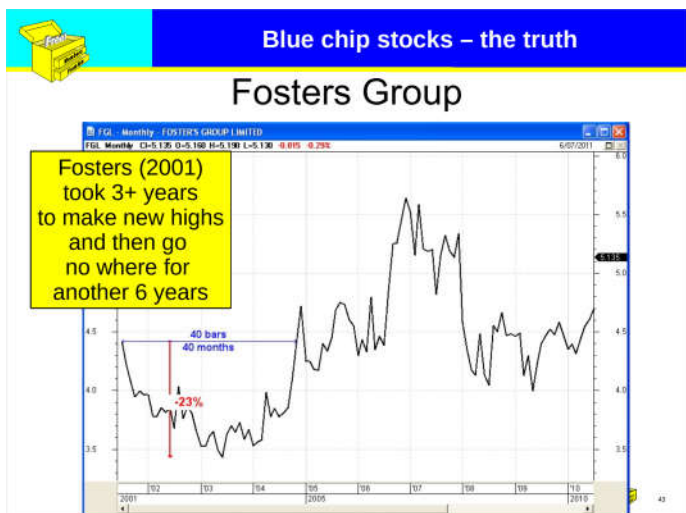
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"I am never wrong! - or am I?"



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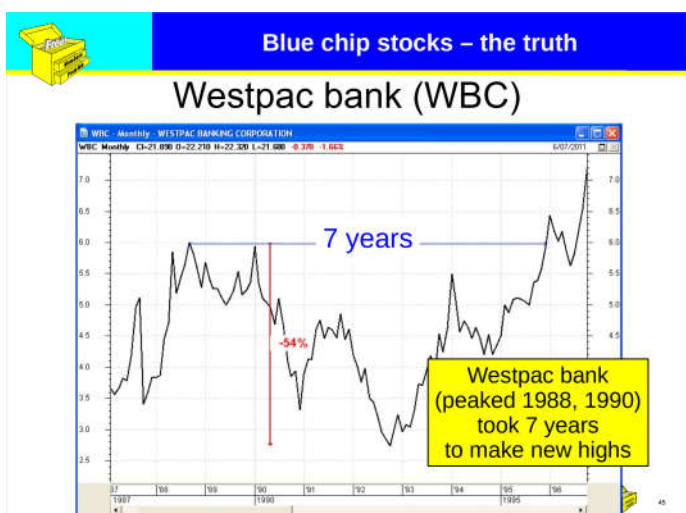
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"I am never wrong! - or am I?"



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**Blue chip stocks – the truth**

How long to recover?  
It might take only  
a couple of years  
or  
many years, or even more!

**Blue chip stocks  
can disappoint!**



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"I am never wrong! - or am I?"

 **Blue chip stocks – the truth**

Blue chips – are they worth it?

Do not blindly follow blue chip stocks!



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 **Cutting losers – Stop Loss**

Should we cut loose the “losers”? (Stop Loss?)

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 **Cutting losers – Stop Loss**

Think about this...

Look at the next slide

Would it have been safe to buy the stock ?

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"I am never wrong! - or am I?"



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"I am never wrong! - or am I?"

 **Cutting losers – Stop Loss**

**Lessons?**

(1) Be careful if buying the “peaks”. . .

(2) It can be beneficial to cut the losers loose, using an Exit Strategy / Stop Loss...

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 **Cutting losers – Stop Loss**

**Lesson 2 — cut the losers**

- Aim for winning positions where the average profit is greater than the average loss.
- The first loss is the cheapest.

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 **Risk management**

**How much to “risk”?**

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"I am never wrong! - or am I?"

 **Risk management**

**Effective risk management**

Effective risk management can include:

- Put no more than about 2% of your portfolio "at risk" (using van Tharp's "2% Rule");
- Have no more than 10% (or 20% max) of your total portfolio in any one position;
- Have a pre-determined Exit Strategy;
- Have a Stop Loss position in mind before making a trade;
- Accept you're wrong and strictly enforce the Stop Loss!

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 **STRATEGIES**

**Strategies to help**

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 **STRATEGIES**

**Beware! Keep these "tips" in mind...**

1. We can't be right 100% of the time;
2. A win/loss **ratio of 40%** can be a winner if:
  - losses are **small** and
  - profits are **bigger**;

BTW: Fighting the market is like standing in front of a herd of stampeding elephants.



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"I am never wrong! - or am I?"

 **STRATEGIES**

**Beware! Keep these "tips" in mind...**

1. We can't be right 100% of the time;
2. A win/loss **ratio of 40%** can be a winner if:
  - losses are **small** and
  - profits are **bigger**;
3. You **CAN** go broke taking profits! \*
4. Let the profits run! \*
5. Watch the risk and money management.  
\* – Not all "experts" agree.

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 **STRATEGIES**

**Calm and sensible**

- Think about humility (being humble);
- Try to bring a degree of calmness and sensibility to the situation
- Try to remove any emotion
- Watch out for the cognitive biases eg. over-confidence
- Don't automatically believe everything that we see and hear (another cognitive bias)
- Don't rush into it.

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 **SUMMARY**

**Conclusions**

Trading insights: *"I am always right! (or am I?)"*

- In trading and investing, there is no such thing as "100% success".
- Accept that you will get some trading decisions wrong.
- Have an Exit Strategy / Stop Loss approach in place.
- Predetermine your exit before each trade.
- If a trade goes against you, and your stop is triggered, then exit according to your strategy.
- Do not hold losers for longer than necessary, because the loss can grow.

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"I am never wrong! - or am I?"

 **SUMMARY**

### Don't forget my Toolbox

- Brainy's **Share Market Toolbox**
  - [www.robertbrain.com](http://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/bullcharts/](http://www.robertbrain.com/bullcharts/)
- My contact details:  
web site above, or phone: 0438 355 910



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 **SUMMARY**

### THE END

See free stuff here:  
[www.robertbrain.com/free](http://www.robertbrain.com/free)

Thank you.

[www.robertbrain.com](http://www.robertbrain.com)

or phone: 0438 355 910

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