



How to save squillions!



***Anti-decimation!**

How to avoid the next GFC
(coming soon)

Robert Brain
January 2011



Brainy's Share Market Toolbox — www.robertbrain.com
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Version 0b

Anti-Decimation! Introduction

This presentation...

This is the latest modified and updated version of a presentation originally presented to:

1. ASA (Australian Shareholders Association), and U3A Manningham (University of Third Age) — Aug 2010.
2. ATAA Melbourne chapter October 2010 meeting.
3. Melbourne PC User Group WASINT SIG — Oct 2010.
4. ATAA Canberra chapter — 16 November 2010.
5. ATAA Sydney chapter — 17 Jan 2011.

Investor-focus versus trader-focus?

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Anti-Decimation! Introduction

What do you think?

1. In Australia, how often do we see a *market correction**, or a *bear market**?
(a) yearly, (b) 3-yearly, (c) 5-yearly, (d) each decade?
2. Do they strike without warning? — Yes or No?
3. How long does it take before the share market rises to *new highs*? (e) 12 months, (f) 3 years, (g) 7 years
4. Should we simply invest in the index?
(eg. an index-tracking portfolio or managed index fund)?...

(continued.../)

* Correction = a fall of between 10% and 20%
Bear market = a fall of more than 20%

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Anti-Decimation! Introduction

What do you think? (cont)

- If you had \$100,000 invested pre-GFC, what was it worth 3 years later (June 2010)?
- What is best:
 - Buy-and-hold, or
 - Strategically sell, and buy again?
- How best to get a handle on all this?.

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Anti-Decimation! Introduction

Today's AGENDA

- How badly can the share market treat us?
 - The GFC — what actually happened?
 - The result — decimated* some investments.
- A 2-part strategy to avoid the damage
 - Moving Average chart indicator
 - "Divergence" on the chart
- Charting software — charting tools of choice


Interactive presentation!
Questions welcome.

ps: Definition: decimation — to reduce by one-tenth

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Anti-Decimation! 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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Anti-Decimation! Introduction

Important Notice



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- 1) Regular opportunities for networking with peers, including international affiliations (IFTA).
- 2) Extensive free video and DVD library on many Technical Analysis topics.
- 3) Access to web-based INO-TV for streaming audio and video presentations.
- 4) Extensive ATAA website resources — many past journal articles, presentations from past meetings and more.
- 5) Lots of member discounts — bookshops, email newsletters, memberships, etc.
- 6) Learn about Technical Analysis, including:
 - (a) risk assessment and money management
 - (b) market entry and exit timing
 - (c) market timing and cycle analysis
 - (d) complementing different trading styles
 - (e) trade and strategy back-testing
 - (f) trading and investment psychology.



Anti-Decimation! Introduction



About... Robert Brain

Consultant, educator and part-time* share trader
Web-based sharemarket-support business

- Many years experience as trainer, presenter, conference facilitator (*Scouts*)
- Share Market – active 10+ years*
- Chartist ie. technical analyst (ATAA member and national director)
- Provide tuition and support to traders and investors
[Brainy's Share Market Toolbox](#)
- Engineering Degree (structured thinking with an eye for charts and diagrams)
- 30+ years – professional experience (IT and management)
- **Do not hold AFS license! (Can't give advice)**
- Member Mensa

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

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Anti-Decimation! Introduction

Promotions & Endorsements

- Robert is an ATAA member, and office-bearer (Melb chapter Vice-Pres, and national director), and so he will actively endorse the ATAA
- But, Robert's own personal views about investing, trading, technical analysis and the markets do not necessarily represent those of the ATAA.

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Anti-Decimation! Introduction

Apologies and Warnings



For long-term investors, this presentation:

- Might be an eye-opener
- Might induce nightmares
- Might challenge conventional wisdoms
- Might provoke some debate

So, let me apologise in advance.

Ack – Alfred Hitchcock's Psycho

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Anti-Decimation! Introduction

By the way...

There are a lot of things that can impact on our investment thinking and on our investment decisions and actions.

BTW

Including:


- Emotions — **fear, greed and hope**
- Numerous psychological impacts
- Cognitive biases — eg. the **denial bias**:-
“The tendency to disbelieve an important or uncomfortable fact, even if it does seem to be true.”

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Anti-Decimation! Introduction

Price charts acknowledgement

All price charts shown in this presentation are prepared using the Australian BullCharts charting software.



More information:
www.bullcharts.com.au

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How badly can the market treat us?

The GFC* and the big bear market

* GFC — Global Financial Crisis (2008-2011)


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Anti-Decimation! **The GFC and the bear market**

Very apt...
"Up by the stairs, and down by the elevator."

A Share Market GEM!
 Robert has a large collection of these.

BTW



XJO monthly chart

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Anti-Decimation! **The GFC and the bear market**

BTW

Share Market GEMs

Over many years, we hear a number of share market "pearls of wisdom" that are real gems.

Many are listed here (more than 50):

www.robertbrain.com/gems

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Anti-Decimation! **The GFC and the bear market**

Two more Share Market GEMs*

"The market is like an elephant!"

(a) We should "zoom out", and
 (b) If we try to stand in the way, we might get "trampled".



BTW

"Keep your eyes on the ball."

Especially while the market is falling, so that you can action your stop loss levels.

More Share Market GEMs* in the Toolbox:
www.robertbrain.com/gems/

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Anti-Decimation! **The GFC and the bear market**

The market fell ~50%

How much does the market need to rise to recover back to the previous highs? 20%?, 40%?

Market Peak October 2007 (8754)

Market Trough February 2009 (3345)

Latest market action as at 13 January 2011

S&P/ASX 200 index (XJO) (monthly chart)

35 bars 15 months

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Market Peak October 2007 (8754)

Market Trough February 2009 (3345)

Latest market action as at 13 January 2011

S&P/ASX 200 index (XJO) (monthly chart)

35 bars 15 months

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Anti-Decimation! **The GFC and the bear market**

Was this GFC a once-off?

- No! The market cycles like this regularly!
- A Correction (or Bear) has occurred **eight times** in the last 23 years (ie. a fall of at least 10% every 2.9 years)
- AND, on two occasions, a correction has hit *before recovering* from a bear market
- AND, the average duration to achieve new highs is **3.2 years!**

Can you believe it?

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Anti-Decimation! **The GFC and the bear market**

Where are we now?

At 14th January 2011 we are **more than 3 years** past the last *market peak*!

BTW When did the *market peak*? And at what value?

- 6754 — monthly close for October 2007
- 6749 — weekly close 12 October 2007
- 6829 — daily close 1 November 2007

(can we see a picture? - if there is time)

XJO — S&P/ASX 200
(basically the top 200 stocks by market cap)

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Where was the 2007 market peak?

Daily chart — market peaked 1st Nov at 6829:

BTW

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Anti-Decimation! **The GFC and the bear market**

Monthly candles (October 2007)

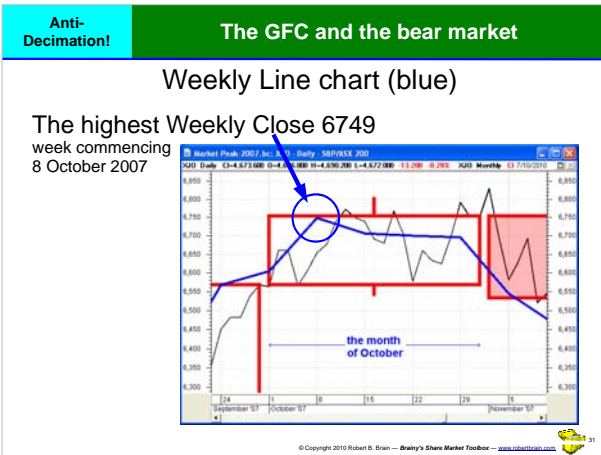
October closed the month at 6754

October candle "empty" (ie. up) with short tails

the month of October

November candle "filled" (ie. down)

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Anti-Decimation! **The GFC and the bear market**

Where are we now?

- At 14th January 2011 we are **more than 3 years** past the last market peak!
 - 6754 — monthly close for October 2007
 - 6749 — weekly close 12 October 2007
 - 6829 — daily close 1 November 2007
- Today's index is still **below the highs** of 2007!
- How far below? (in percentage terms).

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Anti-Decimation! **The GFC and the bear market**

Index-tracking portfolio?

If we had an index-tracking portfolio worth \$100k at 30 June 2007:-

- It is now down 29% (January 2011), and worth only \$71k.
- With a margin loan, it might have been much worse — now owing money.

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Anti-Decimation! **The GFC and the bear market**

Some individual performances

As the GFC unfolded:

- Some stocks dropped ~90% !! (can you name any?)
- Some stocks disappeared completely!! (can you name any?)
- Even some well regarded top-200 stocks!

**Can you believe it?
How many can you name?**

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Anti-Decimation! **The GFC and the bear market**

Going...Going...Gone

The following companies had significant share price falls from the bull market peak of October 2007, and are now GONE:-

- AFG (Allco Finance) -99% gone Aug 2009
- BNB (Babcock & Brown) -99% gone June 2009
- TIM (Timbercorp) -97% gone May 2009
- NLX (Nylex) -97% gone Feb 2009
- GTP (Great Southern Ltd) -96% gone May 2009
- CDR (Commander Comms) -95% gone Aug 2009
- ABS (A.B.C.Learning) -92% gone Aug 2009
- BJT (Babcock and Brown Japan) -92% gone Jul 2009
- MFS (renamed Octaviar OCV) -74% gone Aug 2009

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Anti-Decimation! **The GFC and the bear market**

How to avoid “bombs”?

To avoid companies that are “less likely to ride out the turbulence” use careful stock selection criteria for your Watchlist. **BTW**

One possibility — *Funda-Technical Analysis*:

- (1) Use strategic *fundamental analysis* criteria to avoid over-g geared or poorly managed stocks, then:
- (2) Use *technical analysis* to time the entry, AND to strategically time the exit.

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Anti-Decimation! **The GFC and the bear market**

Fell > 60% **

| | |
|-----------------------------|------------------------------|
| • CNP (Centro Prop) -99% | • FXJ (Fairfax Media) -82% |
| • CER (Centro Retail) -99% | • HIL (Hills Indust.) -82% |
| • BKN (Bradken) -93% | • CTX (Caltex) -77% |
| • ABP (Abacus Prop) -91% | • CEY (Centennial Coal) -76% |
| • ALZ (Australand) -91% | • LEI* (Leighton) -74% |
| • AAX (Ausenco) -89% | • HVN (Harvey Norm) -72% |
| • AWC (Alumina) -89% | • PRY (Primary Health) -66% |
| • AGO (Atlas Iron) -88% | • AXA -69% |
| • FLT (Flight Centre) -88% | • CRG (Crane Group) -67% |
| • CGF (Challenger Fin) -84% | • BBG (Billabong) -66% |
| • APN News Media -83% | • ABC (Adel Brighton) -63% |
| • BSL (Blue Scope) -82% | • NAB* -63% |
| | • ANZ* -62% |

** — lowest price
* — Blue Chip stocks

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Anti-Decimation! **The GFC and the bear market**

Fell between 50% and 60% **

- CAB (Cabcharge) -65%
- ASX -58%
- CBA* -58%
- DJS* (David Jones) -57%
- QBE* -57%
- AWE (Australian Worldwide Exploration) -57%
- CPA (Commonwealth Property) -56%
- BHP* -55%
- JBH (JB-HiFi) -52%

Do you recognise many of these names?

** — lowest price
* — Blue Chip stocks

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Anti-Decimation! **The GFC and the bear market**

Blue Chip Stocks — definition?

Current definition*:

Larger companies with a long history of profitability and stability.

Former definition*:

Shares, usually highly valued, in a major company known for its ability to make profits in good times or in bad, and with reduced risk of default.

* Source — www.asx.com.au

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Anti-Decimation! **The GFC and the bear market**

The end result?

- The GFC dented some portfolios, and
- It more than decimated others.

↓ ↑

- But some people managed to **increase** their portfolio value during tough times! Using simple and *sensible* strategies.

(But what does "sensible" mean?)

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Anti-Decimation! **The GFC and the bear market**

Something to think about...

- What do you think about the GFC?
- How badly did it affect us?
- What do we think about the "Buy and Hold" strategy?
- Careful stock selection strategies?
- What is "sensible"?

Let's look at the impact on a sample portfolio...

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Anti-Decimation! **The GFC and the bear market**

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Anti-Decimation! **Hypothetical \$100,000 Portfolio**

Click to add title

How badly can the market treat us?

Sample \$100,000 Portfolio
(at 30 June 2007)
What was the impact?

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Anti-Decimation! **Hypothetical \$100,000 Portfolio**

Ten stocks

Let's build a hypothetical portfolio:-

- Ten stocks selected from the top 20, the S&P/ASX 20 index (XTL)
- These are all "blue chip" stocks!
- Allocated about \$10,000 to each stock
- Total portfolio value ~\$100,000 at June 2007.

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Anti-Decimation! **Hypothetical \$100,000 Portfolio**

Ten stocks about \$10k each

- AMP AMP Limited
- ANZ ANZ Banking Group
- CBA Commonwealth Bank
- NAB National Australia Bank
- NCM Newcrest Mining (gold miner)
- SUN Suncorp-Metway
- WDC Westfield Group
- WES Wesfarmers Ltd
- WOW Woolworths
- WPL Woodside Petroleum

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Anti-Decimation! **Hypothetical \$100,000 Portfolio**

Ten stocks about \$10k each

- AMP
- ANZ
- CBA
- NAB
- NCM
- SUN
- WDC
- WES
- WOW
- WPL

- A reasonable and "average" portfolio.
- How much did it devalue in 3-year period 2008-10?
- What was it worth at end June 2010?

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| Anti-Decimation! | | Hypothetical \$100,000 Portfolio | | |
|------------------------------|-----|----------------------------------|-----------------|---------------------------------|
| The Sample Portfolio — Value | | | | |
| Stock Code | Qty | 30 June 2007 | | And the value 3 years later? |
| | | Share Price | Value | |
| AMP | 988 | \$10.12 | \$9,999 | |
| ANZ | 345 | \$28.99 | \$10,002 | |
| CBA | 181 | \$55.25 | \$10,000 | |
| NAB | 244 | \$41.02 | \$10,009 | |
| NCM | 474 | \$21.08 | \$9,992 | |
| SUN | 526 | \$19.02 | \$10,005 | |
| WDC | 501 | \$19.96 | \$10,000 | |
| WES | 236 | \$42.39 | \$10,004 | |
| WOW | 370 | \$27.00 | \$9,990 | |
| WPL | 220 | \$45.37 | \$9,981 | |
| TOTAL: | | | \$99,981 | |

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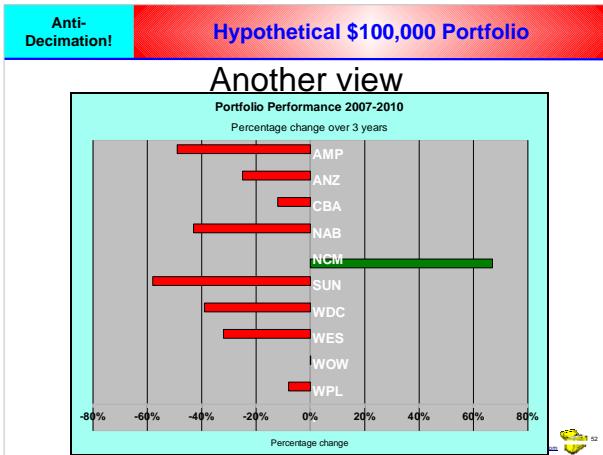
| Anti-Decimation! | | Hypothetical \$100,000 Portfolio | | | | |
|------------------------------|-----|----------------------------------|-----------------|--------------|-----------------|-------------|
| The Sample Portfolio — Value | | | | | | |
| Stock Code | Qty | 30 June 2007 | | 30 June 2010 | | % change |
| | | Share Price | Value | Share Price | Value | |
| AMP | 988 | \$10.12 | \$9,999 | \$5.21 | \$5,147 | -49% |
| ANZ | 345 | \$28.99 | \$10,002 | \$21.61 | \$7,455 | -25% |
| CBA | 181 | \$55.25 | \$10,000 | \$48.64 | \$8,804 | -12% |
| NAB | 244 | \$41.02 | \$10,009 | \$23.28 | \$5,680 | -43% |
| NCM | 474 | \$21.08 | \$9,992 | \$35.10 | \$16,637 | 67% |
| SUN | 526 | \$19.02 | \$10,005 | \$8.04 | \$4,229 | -58% |
| WDC | 501 | \$19.96 | \$10,000 | \$12.18 | \$6,102 | -39% |
| WES | 236 | \$42.39 | \$10,004 | \$28.65 | \$6,761 | -32% |
| WOW | 370 | \$27.00 | \$9,990 | \$27.02 | \$9,997 | 0% |
| WPL | 220 | \$45.37 | \$9,981 | \$41.84 | \$9,205 | -8% |
| TOTAL: | | | \$99,981 | | \$80,019 | -20% |

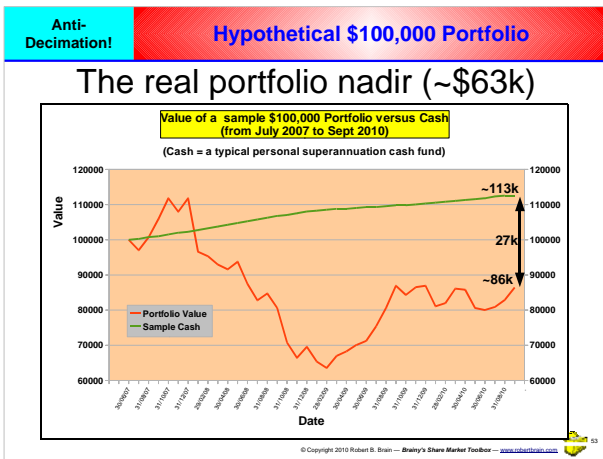
Value @ 30 June '10

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| Anti-Decimation! | | Hypothetical \$100,000 Portfolio | | |
|--|--|----------------------------------|--|--|
| <p>Pause and ponder</p> <p>Think about that for a moment:</p> <p>Over 3 years — down 20% !!</p> <p>How much did a standard bank account reduce over the same 3 year period? (it went up!)</p> | | | | |

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Anti-Decimation! **Hypothetical \$100,000 Portfolio**

Worst case scenario

What if the panicked investor had have sold each stock at the worst possible time? (ie. the lowest value in each case)

- Resulting cash = \$49,147
- Down 51%

(this really does happen... "panic selling" = "capitulation")

Anti-Decimation! **Compare two options**

Let's compare two realistic choices:

Option 1
Hold on for the ride
and take the
dividends

Option 2
Liquidate key stocks
at "appropriate time"
(is this realistic? feasible?
do-able?)

NOW! Which option is better??
What do we think?.....

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Anti-Decimation! **Compare two options**

Let's compare two realistic choices:

Option 1
Hold on for the ride
and take the
dividends

Option 2
Liquidate key stocks
at "appropriate time"
(is this realistic? feasible?
do-able?)

**For our Hypothetical Portfolio,
here are the results:...**

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Anti-Decimation! **Compare two options**

Option 1 — Hold on

| | Option 1 — Hold on | |
|--|--------------------|-------------------|
| | Capital | Dividend Income * |
| Capital invested @ 30/6/2007 | \$99,981 | |
| Dividend income FY08 | | \$4,006 |
| Dividend income FY09 | | \$3,770 |
| Dividend income FY10 | | \$3,120 |
| TOTAL Dividend income over 3 years | | \$10,896 |
| Capital Value @ 30/6/2010 | \$80,050 | |
| Percentage change in capital value over 3 years: | - 20% | |

*** Notes:**
(a) Franking credits are excluded and personal tax situation ignored.

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Anti-Decimation! **Compare two options**

Options — Which is preferred?

| | Option 1 — Hold on | | Option 2 — Liquidate | |
|---|--------------------|---------------------|----------------------|-------------------|
| | Capital | Dividend Income * | Capital | Dividend Income * |
| Capital invested @ 30/6/2007 | \$99,981 | | \$99,981 | |
| Dividend income FY08 | | \$4,006 | | \$1,628 |
| Option 1 — All stocks sold by 31/12/08. Capital realised: | | | \$103,787 | |
| Dividend income FY09 | | \$3,770 | | \$177 |
| Dividend income FY10 | | \$2,120 | | 0 |
| TOTAL Dividend income over 3 years | | \$10,896 | | \$1805 |
| Capital Value @ 30/6/2010 | \$80,050 | which is preferred? | \$103,787 +? | |
| Percentage change in capital value over 3 years: | - 20% | | + 3.8% +? | |

Notes:
 (a) Franking credits are excluded and personal tax situation ignored.
 (b) All capital has gone to cash by 31/12/08 and is available for alternative investment by either: (i) reinvest into shares as appropriate, or (ii) bank deposit, or (iii) an alternative asset class.

Anti-Decimation! **Compare two options**

Is Option 2 do-able?

- Is Option 2 do-able?
- Or is it just fantasy?
- Do people really do this? Traders — probably yes
- Are you sceptical? Investors — maybe not

What do you think?

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Anti-Decimation! **Compare two options**

Is Option 2 worthwhile?

- This example was a “hypothetical” portfolio.
- Some people suffered much worse losses.
- Every \$1,000 we can keep today, will grow over time.
- Remember the power of compound growth.

Conclusion?
 Strategies like this can be very worthwhile.

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**Avoid the damage
2-part strategy**

Using a crystal ball
to see the bear markets coming...

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Anti-Decimation! **The Crystal Ball — Part 1**

Bear anticipation?

(1) Should we simply let things happen?

OR

(2) Should we be on the look-out and anticipate an approaching bear?



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Anti-Decimation! **The Crystal Ball — Part 1**

We said earlier:...

- The market cycles like this regularly!
- A Correction (or Bear) has occurred **eight times** in the last 23 years (ie. a fall of at least 10% every 2.9 years)
- AND, on two occasions, a correction has hit *before recovering* from a bear market
- AND, the average duration to achieve new highs is **3.2 years!**

Can you believe it?

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Anti-Decimation! **The Crystal Ball — Part 1**

Click to add title

How can we see bear markets coming?

What do you think?



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Anti-Decimation! **The Crystal Ball — Part 1**

Option 2 — It *is* feasible!

A bear market tell-tale, and a sell criteria (the simplest and very basic):

When the 30-week Moving Average turns down → SELL! on the open next week

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Anti-Decimation! **The Crystal Ball — Part 1**

Option 2 — It *is* feasible!

When the 30-week Moving Average turns down → SELL! on the open next week

This very simple concept is explained in detail in Stan Weinstein's infamous book... *(next slide)*

Note: There are other ways to achieve better results.

PS: Let me declare my own actions in early 2008. I switched superannuation asset class from shares to cash and bonds!

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Anti-Decimation! **The Crystal Ball — Part 1**

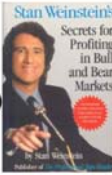
Stan Weinstein — 30week MA

"Secrets for Profiting in Bull and Bear Markets"
 Stan Weinstein (McGraw-Hill, 1988)

BTW

- Use Weekly charts
- Apply a 30-week Moving Average (MA)
- Watch for:
 1. Price crossing below MA, and
 2. MA turning down

Following is an example:...



Available from the Educated Investor bookshop, 525 Little Collins St, Melbourne
www.educatedinvestor.com.au

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Anti-Decimation! **The Crystal Ball — Part 1**

Which MA — Simple or Weighted?

Which Moving Average does Stan Weinstein recommend we use?

BTW

- *Simple MA* — discussed on pp 13-14
- *Weighted MA* — discussed regarding the Mansfield charts (eg. p 25)
- *Simple MA* — how to calculate on p 313

Conclusion? — not sure.

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Anti-Decimation! **The Crystal Ball — Part 1**

go back 20+ years...

To the 1989 Bear Market:-

- What happened?
- How big was the fall?
- How long did it take to bottom?
- How long did it take to reach new highs?
- Did we see it coming?

Use BullCharts to view the price action:...

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Anti-Decimation! **The Crystal Ball — Part 1**

The market peaked — Sept 1989

- The XAO index (the black line), peaked in September 1989.
- The blue line is 30-week Simple Moving Average (SMA).
- XAO has crossed below MA; Stan says "beware!".
- Question: what happened to XAO in the next 2 months?
(1) up or
(2) down?

In BullCharts software, use "Training Mode" to hide future data — the green shaded area.

Anti-Decimation! **The Crystal Ball — Part 1**

The market fell...

- Let's move the Training Mode area to the right a few weeks.
- XAO crossed back above MA, and then below again.
- We might still have an "uptrend" in place — until we have a confirmed Lower Trough.
- What happens next?
(1) up or
(2) down?

Anti-Decimation! **The Crystal Ball — Part 1**

...and fell some more...

- Let's move the Training Mode area again.
- The MA stopped rising, levelled out, and then fell.
- This is "confirmation".
- Stan says: "get out!"
- We also have a Lower Trough (ie. a confirmed down trend)
- What happens next?
(1) up or
(2) down more?







Anti-Decimation! **The Crystal Ball — Part 1**

Important lesson

*If we can understand what the market has done in the past, then we won't be surprised when it happens again.**

It is important to familiarise ourselves with the drastic/severe past movements of the market.
(the big fast moves, wild swings, etc.)

* — Another of Robert's Share Market GEMs.

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Anti-Decimation! **The Crystal Ball — Part 1**

In 2008-2009 ...

The "GFC" and latest Bear Market

- What happened this time?
- How big was the fall?
- How long did it take to bottom?
- How long did it (will it) take to reach new highs?
- Did we see this coming?

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Anti-Decimation! **The Crystal Ball — Part 1**

The GFC and latest Bear Market 2008+

Down 54% over 17 months!!
New highs after ??? years?
Could we have anticipated this?

What about the 30-week MA?

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Anti-Decimation! **The Crystal Ball — Part 1**

Crystal Ball Part 1 — Comments

- The 30-week MA can give a good clue about impending trouble.
- BUT! Technical indicators like this one:-
 - Not 100% accurate
 - Not 100% reliable
 - Not 100% guaranteed
 - Can give false signals sometimes

Question: So, are they worth using?

Answer: It increases our chances of success!

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Avoid the damage 2-part strategy

Part 2 — Additional
Chart-based Tools


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Anti-Decimation! **The Crystal Ball — Part 2**

Chart-based tools

There are many chart-based tools that can give us good clues of pending falls. Just some:

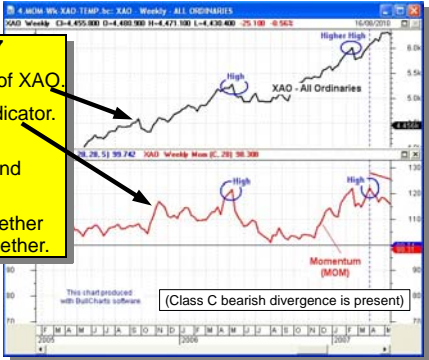
- The *Momentum* indicator (plus others)
- *Divergence* of the indicator with price
- Use some sort of “Stop Loss”.

The insight here can be really amazing! 

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Anti-Decimation! **The Crystal Ball — Part 2**

Index and Momentum “in synch”




2006-2007

- Weekly Chart of XAO
- Momentum indicator.
- They normally rise together and fall together.
- They peak together and trough together.

This chart produced with BullCharts software

Anti-Decimation! **The Crystal Ball — Part 2**

Bearish divergence (Class A)



Late 2007

- XAO and Momentum “diverged”!!
- XAO made a *Higher High*, and
- Momentum made a clear *Lower High*.

A - Oct 2007 - MOM divergence from the index as index makes Higher High, but MOM is making a Lower High (forewarning of pending market fall)

Anti-Decimation! **The Crystal Ball — Part 2**

The same as in 1989!!

- Upper pane — XAO with 30-week SMA.
- Lower pane — the Momentum indicator (the squiggly red line).
- Note: "bearish divergence" between Aug 1988 and Sept 1989.
- That is: Higher Peak on XAO but Lower Peak on Momentum.

Anti-Decimation! **The Crystal Ball — Part 2**

Other possibilities?

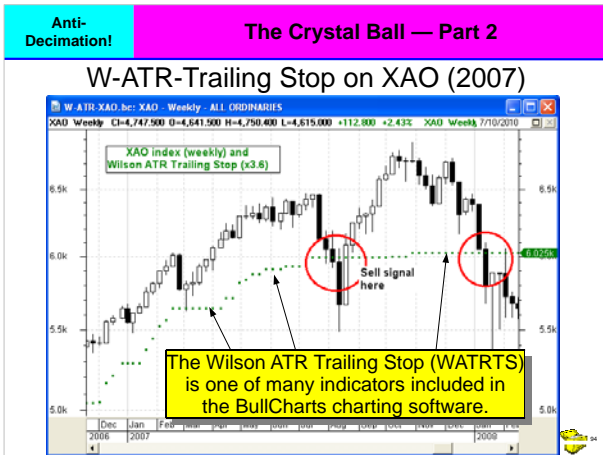
More ways to forewarn of possible market falls:

- ATR-based indicator or trailing stop eg. Wilson ATR Trailing Stop, Chandelier stop (indicator), etc.
- Other indicators and divergence:
 - CCI
 - RSI
 - MACD
 - Slow Stochasti
 - MA Oscillator
 - Twigg's Money
- Are there any others?

Anti-Decimation! **The Crystal Ball — Part 2**

Wilson ATR Trailing Stop

- It is calculated as a multiple of ATR (ATR = Average True Range) eg. **3 times** the average price range over a **14-day period**.
- The dot under today's price sets the Stop Loss to be interpreted in one of two ways:
 - (a) "if the price **trades** below this level next day, then sell **immediately**"; OR
 - (b) "if the price **closes** below this level next day, then sell **the following day**"...



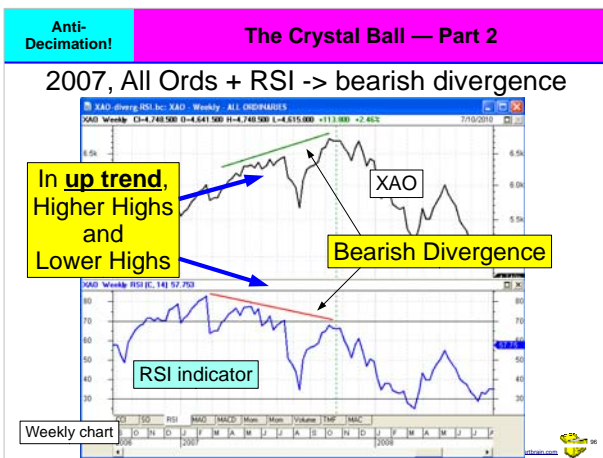
Anti-Decimation! **The Crystal Ball — Part 2**

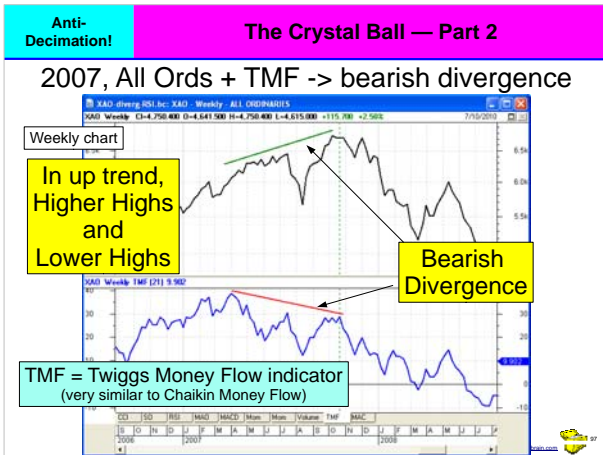
In 2007 — Warning signs!

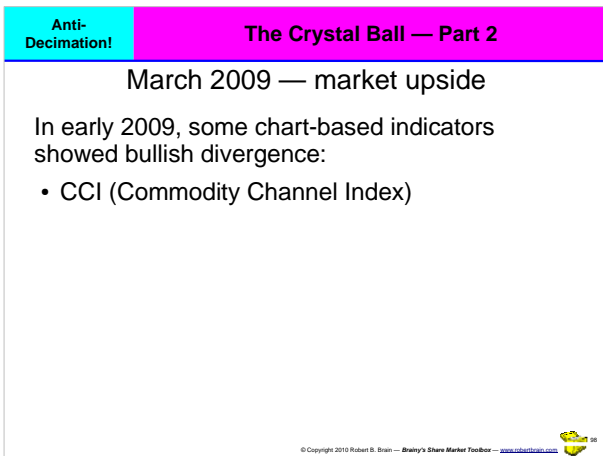
In 2007, there were some chart-based warning signs of weakness in the market:

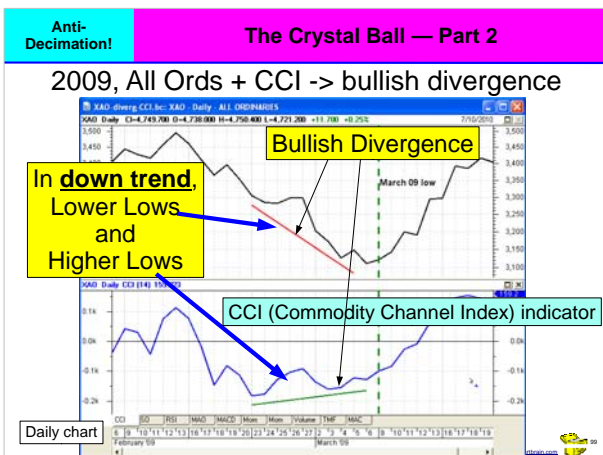
- bearish divergence — index and RSI
- bearish divergence — index and Twiggs Money Flow

(see charts on next slides...)









Anti-Decimation! **The Crystal Ball — Part 2**

Divergence (in summary)

Divergence can be seen:

- On multiple indicators:
 - CCI
 - RSI
 - MACD
 - Slow Stochastic
 - MA Oscillator
 - Twigg's Money Flow
- In different time periods:
daily, weekly, monthly, and intraday.

But will not always be present!

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Anti-Decimation! **The Crystal Ball — Part 2**

Part 2 conclusion?

These chart-based indicators
many weeks of warning
of impending market fall!
in 1989, and in 2007!
(and at other times, including turn-ups!)
Now how useful is that?

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Anti-Decimation! **The Crystal Ball — Part 2**

How to use this?

These tools can be used:

- On a market index to gauge the overall "health" of the market possibly as a *market filter*; (eg. to be more cautious in a weak market) (another GEM* — "a rising tide lifts all boats")
- On individual stocks as a part of your trading strategy entry rules, and exit rules.

More Share Market GEMS* in the Toolbox:
www.robertbrain.com/gems/

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Anti-Decimation! How to unlock the secrets...

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Unlocking the secrets




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Anti-Decimation! How to unlock the secrets...

Key points

- Price charts are very useful
- A trending stock is likely to continue trending (Dow Theory) (eg. a downtrend is likely to continue)
- Bear markets (and corrections) come around too often
- It can be very beneficial to consider switching out, and then back in again.



Remember Brainy's "3Ways Rule" to help remind us about the details of trends.
www.robertbrain.com/3ways/


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Anti-Decimation! How to unlock the secrets...

The unlocking tools...

- Weekly price charts
- Use 30-week Moving Average (MA)
- Use Momentum indicator (or others)
- Look for divergence of Momentum
- Use an "automatic" Stop Loss tool (eg. Wilson ATR Trailing Stop)
- It's easy with good charting software.

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Anti-Decimation! **How to unlock the secrets...** 


Understand the charts...


Need to learn how to interpret the price charts

Technical Analysis:

- Books, courses, seminars, newsletters
BUT beware of information overload
- The ATAA
(Australian Technical Analysts Association)
www.ataa.com.au
(a not-for-profit Australia-wide organisation run by volunteer members)
- Robert's **Share Market Toolbox**
www.robertbrain.com/ta/





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Anti-Decimation! **How to unlock the secrets...** 

Good books


- There are many.
- For starters, visit:
www.robertbrain.com/books/


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Anti-Decimation! **How to unlock the secrets...** 

Charting software tools


| | |
|---|--|
| Some software: | Key features: |
| <ul style="list-style-type: none">• MetaStock• Fcharts• Incredible Charts• BullCharts• Ami Broker• ASX (web)• Yahoo• Trading Room• more...? | <ul style="list-style-type: none">• web-based vs PC-based• quality corrected data• easy-to-use Watchlist tools• good range of Indicators• easy to "Scan" / filter the stocks• easy to apply trend lines and many other line studies, text...• quality print-outs |

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Anti-Decimation! **How to unlock the secrets...** 

eg. BullCharts — key features

- Watchlists — easy, simple, multiple
- Many chart types
- Indicators — many
- Templates — some supplied; easy to create
- Scans — many supplied; and easy to modify or create your own
- Price alerts
- Trade Planner
- Author Strategies
- Customise indicator and template toolbars easily
- Quality data
- Australian product
- Good support
- User group(s)


More details — www.robertbrain.com/bullcharts/ 

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Anti-Decimation! **Summary & Wrap up**

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Summary


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Anti-Decimation! **Summary & Wrap up**

Summary

- The GFC was not a once-off event (and it will come again soon...)
- It impacted many investments
- Several technical chart indicators can forewarn of a pending “problem”
- A good knowledge of technical analysis useful
- Quality charting software is very useful.

We can avoid portfolio decimation!

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Anti-Decimation! Summary & Wrap up

We need to...

*Protect our hard earned capital;
and
Watch out for the sharks in the ocean!!*



The free stuff follows...

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Anti-Decimation! Summary & Wrap up

Some more GEMS*...

Some signs of **market tops**:

- Rampant speculation.
- The taxi driver gives market tips.
- Get-rich-quick schemes promoted.

Some signs of **market bottoms**:

- Panic on the streets.
- Doom and gloom everywhere.

See the GEMS* handout in the Toolbox for more share market Pearls of Wisdom.

Anti-Decimation! Summary & Wrap up

Share Market Toolbox

Robert's Web-based business:

- Free stuff — www.robertbrain.com/free
- plus more stuff reserved for *Toolbox Members*
- **Weekly Watch List** — updated and shared weekly
- **Weekly Market Analysis** — email on Sat morning

Complete list of Toolbox features:
www.robertbrain.com/members




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Anti-Decimation! Summary & Wrap up


Free hand-outs

Handouts for the ATAA (for a limited time):

- Brainy's "Share Market GEMS" eBook
- These slides are available (in PDF form) from the **Share Market Toolbox** (slides also available from ATAA web site)

This presentation is just one item from Brainy's **Share Market Toolbox**

Brainy's Share Market Toolbox





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Anti-Decimation! Summary & Wrap up

Free Handouts

1. Go to the **Share Market Toolbox:** www.robertbrain.com
2. Look under "LATEST NEWS" heading on right hand side of page.
3. Click on the link: "ATAA Presentation handouts..."
4. Username = ataa
5. Password = ataa



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Anti-Decimation! Summary & Wrap up

About this presentation

- This presentation is just one of many items in Brainy's **Share Market Toolbox**
- These slides are available to download from the **Toolbox:** www.robertbrain.com/presentations/
- And a more detailed version of the slides (complete with Speaker Notes) is available for Toolbox Premium Members.

Brainy's Share Market Toolbox




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Anti-Decimation! Summary & Wrap up

BTW Robert's choice — BullCharts

- Runs on Windows XP, Vista and Windows 7 (32-bit and 64-bit)
- Loads onto your PC
- Historical data (since 1987)
- Official web site: www.bullcharts.com.au

Free 2-week trial available
Your investment:-

- Software \$795 once off
- Data options:
 - End Of Day \$352 pa
 - EOD + Snapshots \$462 pa
 - Live data \$151.25/mth (includes EOD)




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Anti-Decimation! Summary & Wrap up

Price charts acknowledgement

All charts shown in this presentation are prepared using the Australian BullCharts charting software.



BTW Robert is an authorised BullCharts reseller.

More details or Free 2-week trial:
www.robertbrain.com/bullcharts/

Plus 1 hour free tuition, set-up or support.
Phone Robert: 0438 355 910


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Anti-Decimation! Summary & Wrap up

Australian BullCharts User Group

Currently, 2 User Groups in Australia

- Melbourne (since 2006)
- Sydney (since late 2010)
- Brisbane planned soon
- Meets monthly
- BullCharts demo, Q&A and trading topics




Robert is the national User Groups coordinator

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Anti-Decimation! Summary & Wrap up

Technical Analysis — more info?

For more information about technical analysis (charting and more),



Robert is happy to recommend:

Australian Technical Analysts Association (ATAA)
a not-for-profit Australia-wide organisation
run by volunteer members
(11 members in 9 locations)

www.ataa.com.au

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How to save squillions!

Click to add title

THE END

THANK YOU

(backup slides follow)

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