

How to save squillions!





Blue Chip Price Charts Unlocking the Secrets




Price charts can be very useful
(if you know how to read them)

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Revision 2
with extra
updates

“Blue Chip Price Charts Unlocking the Secrets”

The Handout NOTES

This document is the set of Handout Notes for this presentation.


Each page contains a presentation slide in the upper half, and supporting comments and notes in the lower half of the page.

The session agenda:

- The GFC — What actually happened?
- What did this do to our investments?
- Is there an alternative approach?
- The crystal ball is real!
- One possible strategy — Robert's "Weekly Watch List"
- Funda-Technical Analysis — the juicy details

This presentation was delivered to both the U3A (Manningham) and the ASA (Australian Shareholders Association) Melbourne meetings on Thursday 19 August, 2010.

1/9/10 — Some Speaker slides updated (slides 28 to 39).

Unlocking the secrets	Introduction
<p style="text-align: center;">Note</p> <ol style="list-style-type: none">1. This presentation contains some 93 slides in total.2. Sub-sets of these slides might be available with Speaker Notes for limited distribution (eg. this slide and slides 28-39 which describe a model \$100,000 portfolio and it's performance over 3 years until 30 June 2010).3. The full set of slides can be available from Brainy's Share Market Toolbox web site: www.robertbrain.com/presentations/ <p style="text-align: right;"><small>© Copyright 2010 Robert B. Brain — <i>Brainy's Share Market Toolbox</i> — www.robertbrain.com  2</small></p>	

This slide is for information only.

It explains that a selected collection of these slides might be available as a separate hand-out.

The full set of slides can be available from Brainy's Share Market Toolbox web site:
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Unlocking
the secrets


Sample \$100,000 Portfolio

Click to add title

Sample
\$100,000 Portfolio
(at 30 June 2007)

What was the impact?

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Sample Portfolio


Let's take a look at a sample portfolio of stocks that was valued at \$100,000 at end of June 2007.

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Sample \$100,000 Portfolio

Ten stocks

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

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(see text on the slide)

Unlocking the secrets		Sample \$100,000 Portfolio	
<h2>Ten stocks about \$10k each</h2>			
• 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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(see text on the slide)

Unlocking
the secrets

Sample \$100,000 Portfolio

Ten stocks about \$10k each

<ul style="list-style-type: none">• AMP• ANZ• CBA• NAB• NCM• SUN• WDC• WES• WOW• WPL	}	<ul style="list-style-type: none">• Is this a reasonable “average” portfolio?• How much did it devalue in 2008-10?• What was it worth at end June 2010?
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(see text and question on the slide)

BUT, how much was this portfolio worth 3 years later, at end of June 2010?...

If the market (and index) fell 50%, did this portfolio lose 50% of its value?

Unlocking the secrets		Sample \$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

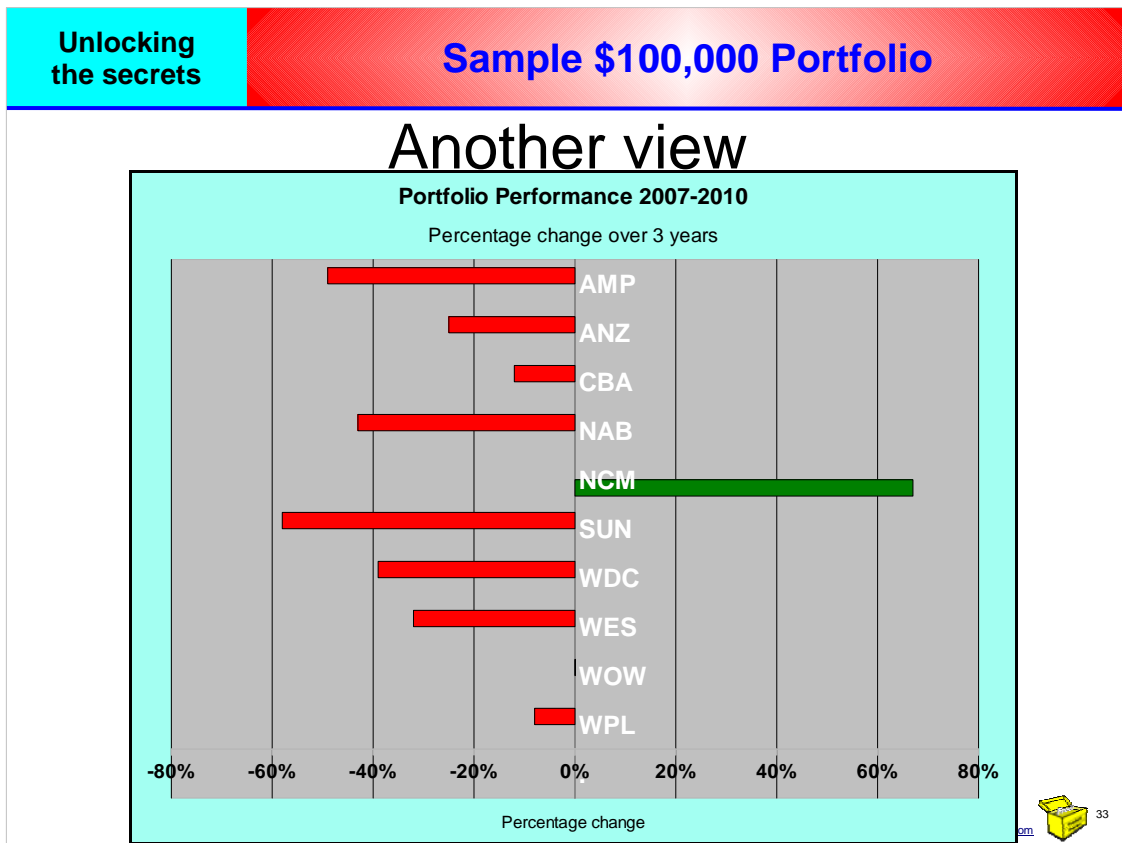
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(see text and comments on the slide)

Note: the original total value of the portfolio was not exactly \$100,000. Simply because it was not possible to take the real share prices, and quantities, and arrive at exactly \$10k for each share holding, nor a total of \$100,000. So we are just \$19 off.

BUT, at end of June 2010, our \$100,000 portfolio has dropped in value by some \$20,000 or 20%, and is now worth just \$80,019 !!

Mind you, though, at the bottom of the bear market it would have been worth somewhat less than this.



Here is another view of the portfolio performance

This view helps us to understand the magnitude of the individual performances.


And note the impact of Newcrest! More than 60% increase.

Imagine the portfolio performance if Newcrest had not been in the portfolio! It would have been worse than it is!

Unlocking
the secretsAn alternative?

Click to add title

Is there an alternative?
Should we “hold”?
or (plan B) ?

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Is there an alternative?

In hindsight, was it best to hold onto these stocks during the market fall?

OR

Is there a “Plan B” that we could have implemented, in order to avoid these losses?

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the secrets

An alternative?

Compare the numbers:

Two realistic options:

Option 1

Hold on for the ride and take the dividends

OR

Option 2

Liquidate key stocks at “appropriate time”
(is this realistic? feasible? do-able?)

For our Sample Portfolio, here are the results:...

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Let's compare two realistic options
(as described on the slide).

But in relation to Option 2, you might ask
“what is an appropriate time to sell?”

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the secrets

An alternative?

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	\$80,019	
Percentage change in capital value over 3 years:	- 20%	

* Notes:

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

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Option 1 — Hold on — The results

Here are the results for Option 1.


Our starting capital diminished by 20%.

But, the good news is that over the 3 year period we received a total of nearly \$11,000 in dividends (on which we would be paying income tax).

Note the footnote regarding franking credits, and personal tax situations.

		Option 2 — Liquidate	
		Capital	Dividend Income *
Capital invested @ 30/6/2007		\$99,981	
Dividend income FY08			\$1,628
All stocks sold by 31/12/08. Capital realised:		\$103,787	
Dividend income FY09			\$177
Dividend income FY10			0
TOTAL Dividend income over 3 years			\$1805
Capital Value @ 30/6/2010		\$103,787 +?*	
Percentage change in capital value over 3 years:		+ 3.8% +?*	

* Notes:
(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.

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Option 2 — Liquidate — The results

Here are the results for Option 2.

This option involves progressively selling off our share holding during the 3-year period when certain “sell Criteria” are met. During this time, some stocks rose in value before falling, and we saw earlier that Newcrest rose and rose.

Note the footnote — Our capital at the end of the period was 3.8% higher than where we started; BUT as we turned it into cash it became available for us to put into a bank account and earn 2%, or 3%, or more as interest! Or we could have opportunisticly invested it into rising stocks.

During the period, we did receive some dividends before we completed our sell off.

Unlocking the secrets
An alternative?


Options — Which is preferred?

	Option 1 — Hold on Capital		Option 2 — Liquidate Capital	
	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		\$3,120		0
TOTAL Dividend income over 3 years		\$10,896		\$1805
Capital Value @ 30/6/2010	\$80,019	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.



Compare the two options

The capital position of Option 2 is clearly preferred.

If you want to add up the capital and dividend returns to see a total amount, that's fine. But remember that the tax treatment might be different.

Even so, Option 2 is a clear winner.

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the secrets

An alternative?

Is Option 2 do-able?

- Is Option 2 do-able?
- Or is it just fantasy?
- Do you already do this?
- Are you sceptical?

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Is it do-able?

Some people might think that this is fantasy.

They might think that we can't "time the market".

But let me say that there are many people who do invest/trade this way, and they are very profitable.

The sell criteria used in this example are clear cut and indisputable, and based on conventional Technical Analysis methods. It is discussed in later slides in this presentation.