



# Investment / Trading Strategy

Funda-Technical Analysis  
How to apply it...

*Robert Brain*

June 2010

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## About this presentation

1. This presentation is just one item from Brainy's **Share Market Toolbox\***
2. These slides are available to download (in PDF form) from Robert's web site:  
[www.robertbrain.com/presentations/](http://www.robertbrain.com/presentations/)



\* Brainy's **Share Market Toolbox** contains lots of free stuff, and lots for Toolbox Members only:  
[www.robertbrain.com/members](http://www.robertbrain.com/members)

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## AGENDA

1. Underlying assumptions
2. Use Fundamental Analysis to identify quality companies for investment (ie. a *Watchlist*)
3. Scope of the strategy (set boundaries)
4. Use Weekly charts (not daily) to look for purchase candidates
5. Use a technical analysis indicator to select stock(s) — for optimum timing of entry
6. Use chart indicators for exit.

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Strategy Strategy — Introduction

Important Notice

1. This presentation does not include any advice.
2. For proper advice, your personal financial situation needs to be considered.
3. This presentation is pure education, only for your general awareness.
4. There are no recommendations to take any action, or to invest any money in any way.
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Strategy Strategy — Introduction

Important Notice



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Strategy Strategy — Introduction

**Caution:** — Some FACTS

1. Past performance **is not a guarantee** of future returns;
2. Any investment/trading strategy might be profitable for one person, and a severe loss-maker for someone else.

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Strategy (1) Strategy — Assumptions

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First,  
some assumptions

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Strategy (1) Strategy — Assumptions

Assumptions

1. It is difficult to predict where the market will be in 12 months time. It is just as difficult to predict for 6 months time.

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Strategy (1) Strategy — Assumptions

Assumptions

2. A bear market (or a correction) can:

- hit with only a couple of weeks\* notice (eg. Dec 2007).
- be quickly followed by a severe correction (eg. Oct 1989 - Oct 1992).
- cause a loss of capital of up to 50% or more (eg. Oct 2007- March 2009).
- cause a loss of capital that is not recovered for up to 4 years or more (eg. Sept 1987, and Oct 1989).

\* — However, the charts can give months of notice.

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Strategy (2) Fundamentals → Watchlist

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Develop a Watchlist of “favourite” stocks

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Strategy (2) Fundamentals → Watchlist

Develop a Watchlist

- Use key fundamental analysis to identify stocks for a “watchlist” of favourites
- **Quality companies** in which you would invest
- Robert's choice:
  - ROE > 10% pa for 2 to 3 years
  - Debt/Equity < 50%
  - PE Growth <= 1

[This is “part A” of my *Trading Plan*]

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Strategy (2) Fundamentals → Watchlist

Alternative

- Some people don't use fundamentals for stock selection.
- Can use constituents in a market index:
  - XJO (S&P/ASX 200)
  - top 100, or 50, etc.
  - Small Ordinaries

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Strategy (3) Scope of the strategy

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Define the boundaries for our investing

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Strategy (3) Scope of the strategy

Define the boundaries

- Use less than 2 hours of my time each week
- Use mostly weekly price charts
- I want to buy stocks for short term capital gain (dividend income is inconsequential; but it might be nice)
- I am happy to sell stocks:
  - within a week or two to cut losses
  - within 6 months to capture and keep profits.

[This is “part B” of my *Trading Plan*]

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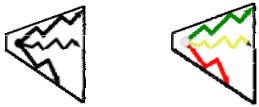
Strategy (3) Scope of the strategy

High-level market “filter”

Should I be “in the market” or not?

- If a **Primary Bull Trend** => yes! be in market!
- If a **Primary Bear Trend** => probably not!
- If **no trend** in place => be very cautious

How to tell? — refer Robert's “3Ways Rule”.



[This is “part C” of my *Trading Plan*]

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**Strategy** (3) Scope of the strategy

Market — Bullish or Bearish?

Use technical chart indicators:

- 30 week Moving Average
- (could use the infamous 200 day EMA on a Daily chart)
- Momentum
- Twigg's Money Flow

(sample chart next slide...)

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**Strategy** (3) Scope of the strategy

Market — Bullish or Bearish?

30 week MA

Momentum indicator

Twigg's Money Flow

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**Strategy** (3) Scope of the strategy

Check the strategy for Bull Trend

For this sample...

...to test out this strategy,  
look at the period of the last bull market trend  
that commenced on 6 March 2009....

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How to spot candidate stocks from your Watch List?

***“The trend is your friend”***

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How to pick up-trending stocks?

There are many ways...

- Select a rising Moving Average (eg. 30 week SMA — à la Stan Weinstein)
- Use two rising MAs (eg. 15 and 30 week EMA) (like the Multiple Moving Average — MMA)
- Check that one MA is above the other.

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eg. Two MAs — Rising




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**Strategy** (4) Spotting candidate stocks

### How to do it?

How can we easily search for stocks that meet this criteria (ie. 2 rising MAs)?

- Eye-ball every stock chart
- Ask someone else
- Read the newspaper
- Receive a newsletter
- (any other suggestions?)

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**Strategy** (4) Spotting candidate stocks

### Example Search...

- Search the XJO index (ie. S&P/ASX 200),
- "As at 25 April 2009",
- Search for stocks with\*\*:
  - 15 week EMA and 30 week EMA....
  - "increased every week for the last 3 weeks"

\*\* - This is one of the steps in my *Trading Strategy*

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**Strategy** (4) Spotting candidate stocks

### HOW? — Use BullCharts — Scan

In BullCharts, set up a scan to look for all stocks with both EMAs rising for 3 "bars", and Weekly

The screenshot shows the 'BullScan Properties' dialog box. The 'Scan Criteria' section is circled in red and contains two checked items: '15 bar exponential MA of Close has increased every bar for the last 3 bars.' and '30 bar exponential MA of Close has increased every bar for the last 3 bars.'. The 'Data period type' dropdown is also circled in red and set to 'Weekly'. A blue arrow points to the 'Data period type' dropdown, and another blue arrow points to the 'Scan Criteria' list.

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Example Search...

- Search the XJO index (ie. S&P/ASX 200),
- “As at 25 April 2009”,
- Search for stocks with:
  - 15 week EMA and 30 week EMA...
  - “increased every week for the last 3 weeks”

• Result:- 42 stocks meet this criteria!!

AGK, ANZ, AOE, ASX, BHP, BTA, CBA, CGF, CPU, CVN, DJS, DOW, ERA, ESG, EXT, FWD, GNC, GUD, HGG, HVN, IFN, IGO, IRE, JBH, KAR, KCN, MML, MND, MRM, NAB, NUF, OMH, ORG, PDN, PRU, PTM, SMX, STO, TRS, UGL, WBC, WTF

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Too many stocks? ...

We need to be able to filter out:

- the stocks that are more likely to perform, and / or
- the stocks that are performing better than the others (eg. higher Rate Of Annual Return).

So, use technical chart indicators.../

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How to use technical chart indicators

(eg. Moving Average, etc.)

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Technical chart indicators\*\*

- Momentum (28 period)
- Twiggs Money Flow (a momentum-type indicator that factors in the volume)
- MACD — MA Convergence Divergence (a trend-type indicator)
- ROAR — Rate of Annual Return

\*\* - These are important steps in my *Trading Strategy*

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Momentum




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Twiggs Money Flow (TMF) indicator




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### MACD indicator

MACD indicator:  
(a) is rising, and  
(b) below the zero line, and  
(c) the two MACD lines are moving apart.



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### ROAR indicator

ROAR  
We want it above 20;  
but it did not rise above 20,  
until 6 weeks later.



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How to decide the exit?  
Many possibilities...

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Strategy (6) Exit strategy

Just one exit strategy...

In this example, choose:

- The *Wilson ATR Trailing Stop*\*\* indicator. The brown dots on this price chart.



\*\* - This is a part of my Trading Strategy

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Strategy (6) Exit strategy

Wilson ATR Trailing Stop

- This is a chart indicator
- Use it to give us a "Stop Loss" value
- It says: "if the stock trades at this price next week, then sell"
- Based on a multiple of "ATR" (ie. Average True Range)
- Here, use 2.6 times ATR
- It rises with price
- It does not fall.




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Strategy (6) Exit strategy

Sample stock (from my watchlist)

- Buy FAN
- Possible sell signal (price hits the stop)
- Held for 24 weeks
- 36% return



Question: Action stop on end of week? or intra-week?

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Strategy SUMMARY

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Is all this feasible?

Can we use chart indicators to give us an edge in the market?  
And spend just 2 hours per week?

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Strategy SUMMARY

Re-cap

- Define a Trading Plan:
  - Specify underlying assumptions and investment parameters
- Use Funda-Technical Analysis to identify quality companies for investment — ie. prepare a Watchlist
- Define the Trading Strategy:
  - Use technical analysis indicators to identify candidates from the Watchlist for purchase
  - Use a chart indicator for exit.

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Strategy SUMMARY

**WARNINGS!!**

- Past performance ***is not a guarantee*** of future returns.
- Any investment/trading strategy might be profitable for one person, and a severe loss-maker for someone else.

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**Strategy** **SUMMARY**

### How to mitigate the risks

- Clearly specify your Trading Plan
- Write down the steps in your Trading Strategy:
  - Entry criteria
  - Exit criteria
- "Back test" and/or "paper trade" !!
- And use other effective "money management" principles and techniques (not discussed today).

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**Strategy** **Summary & Wrap up**

### In Summary

- Funda-Technical Analysis:
  - it is do-able
  - it does reduce risks
  - it minimises losses
  - it helps maximise profits and capital
- It does not take much time.
- Bottom line:
 

*Protect our hard earned capital.*

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**Strategy** **What Next?**

### Possible steps

- Learn a little more about Technical Analysis?
  - books, courses, seminars, newsletters
- Good charting software — BullCharts:
  - All the charts herein are done with BullCharts
  - Robert is authorised reseller with special offer (free tuition) [www.robertbrain.com/bullcharts/](http://www.robertbrain.com/bullcharts/)

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Strategy **What Next?**

### Final Word

- As a part of his regular trading strategy, Robert analyses the state of health of the Aussie market on a weekly basis.
- And the results are posted on the internet here: [www.robertbrain.com/weekly/](http://www.robertbrain.com/weekly/)
- More details are available each week to **Toolbox Members** here: [www.robertbrain.com/members](http://www.robertbrain.com/members)

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Strategy **Summary & Wrap up**

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### Any Questions?

ps: A copy of the slides (PDF file )  
and more details are available.

[www.robertbrain.com/presentations/](http://www.robertbrain.com/presentations/)  
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### The End

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