

# BullCharts User Group

## Hypothetical \$100k portfolio plan

Updated: ~~June 2015~~ August 2014

### Introduction

There is some interest amongst the BullCharts software users (in the user group) to gain experience with the preparation of a trading plan and strategy, and to have some practise at using BullCharts to identify and select stocks for investment in a hypothetical portfolio situation.

### Objective

The primary objective is to set up and run a *hypothetical* \$100,000 portfolio. This process will achieve the following:

1. Prepare a Trading Plan and Strategy.
2. Use BullCharts software to identify candidate investments. This might include utilising the following BullCharts features:
  - Bull Scan — define selection criteria and set up and run a Bull Scan.
  - Chart indicators.
  - (other?)
3. Consider investment options, set-up situations, entry triggers, position sizing.
4. Consider exit strategy possibilities.

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### Scope

The scope of this exercise will be constrained as follows:

1. The potential universe of investment candidates will be restricted to 200 of the Australian equities, as listed in the BullCharts Security Manager panel. Suggested to use the S&P/ASX 200 index (XJO).
2. The BullCharts User Group meetings will be a forum for discussion, and any necessary decision-making. As the (Melbourne) user group meets once each month, then the following constraints will also apply:
  - (a) Primarily use weekly and daily charts.
  - (b) Also use monthly charts for “bigger” picture where appropriate.
  - (c) Entry decisions to be made for implementation on a weekly basis. That is, potential entry will be Monday morning.

### Trading Plan & Strategy

The trading plan will describe the investment objectives, and recorded in Appendix 1 of this document.

The trading strategy will describe HOW to achieve the objectives in the trading plan, and will be recorded in Appendix 2 of this document.

### Robert Brain

(Australian BullCharts User Group convenor)

### Appendix 1 — Trading Plan

The following key points are to be included in the Trading Plan:

1. Initial investment capital available = \$100,000
2. Investments will only be made in Australian stocks.
3. The “universe of stocks” will be limited to the constituents of the XJO (S&P/ASX 200).
4. Investment decisions to be made during the month.

**(more details next page)**

## Appendix 2 — Trading Strategy

The following key points are to be included in the Trading Strategy:

1. **Portfolio risk** —
  - (a) No more than ~~10%~~ **20%** of capital to be committed to any one position. *This will permit up to about 10 stocks to be held (which is good for a number of reasons).*
  - (b) *To limit downside risk when entering new positions (in case of adverse market conditions, as experienced in April-May 2015) only enter up to 3 new positions at any one time. Do not enter any additional new position until these “move into profit” (have only up to three positions waiting on a profit position — so that as one position moves into profit, an additional new position can be entered). What do we mean by “move into profit”? When the Trailing Stop Loss has lifted to the buy price. (added June 2015)*
2. **Position risk** — use the 2% Rule — no more than 2% of the capital to be “at risk” in any one position.
3. **Position size** — will vary, and will depend on the previous two risk metrics.
4. **Basic investment criteria** — up trending stocks.
5. **Entry “set-up” condition** \* — Consider an entry when the following criteria are met:
  - (a) 15 week EMA has increased every week for 3 weeks, and
  - (b) 30 week EMA has increased every week for 3 weeks.
6. **Entry “trigger” condition** \* — Once the entry “set up” condition is met for a stock, look for the following to make an entry on the open on the next trading day (usually Monday):
  - (a) The share price has risen at least 5% since the entry “set up” condition was met.
7. **Exit conditions:**
  - (a) **Initial Stop Loss** — Study the price chart and use a chart-based feature such as a recent support level, or if a recent candle is a Big White, then choose a price value that might be half way up the candle body. This is a discretionary and subjective choice. *Sell the position if a daily close price is below the Initial Stop Loss value.*
  - (b) **Trailing Stop** — Use *Wilson ATR Trailing Stop (WATRSTS)*, over 14 periods, using 2.6 times ATR on weekly chart. *Sell the position if a daily close price is below the Trailing Stop value.*
  - (c) ~~In volatile (or bear market) conditions, look for daily close below the WATRSTS, and exit at next opportunity (on open next day). (this item deleted — March 2015)~~
  - (d) Also consider looking for trend weakness by looking for a break below the uptrend line (but this seems to be useful only after a long uptrend period — not short term).
  - (e) **Closing a non-performing position** — *Expect capital growth of about 1% each week (about 4% each month). Review each position monthly, and if growth is less than 4% for the month, then close the position at the open next day.*
8. **Rebalance**
  - (a) **What if a position doubles (for example) in value?** — *If a stock has increased by 50% above our purchase price, then sell down one third.*

\* **Comments** regarding the trading strategy set-up and entry trigger:

- (i) The principle here is to find a stock that is confirmed to be up-trending, and typical of suitable for a medium to long term investor (not a short term trader). Hence utilising the weekly moving average. Any stock that has a 15 and 30 week MA rising is likely to be in a longer-term rising trend and not a short term retracement or whip-saw.
- (ii) Many stocks after entering a trend (after consolidation, or on a break out) often retrace to test a price close to the break out price level. There are a number of ways to look for this condition utilising the charts and automatic scanning tools. However, the suggestion here with the trigger condition in point 6(a) above, is to identify the stocks that have risen by a particular percentage amount since the trend was “confirmed”. This is not easy to do, unless maintaining a tabular record of stock information week by week. If another “trigger” condition is suitable, then it could be considered.