Special preview of Brainy's monthly articles

This pdf file contains only the **first page** of each of the articles that are available in this month's eNewsletter for subscribers. Except for the article on Share Trading — Position Size Calculator. For this article the first 2 pages are included — the second page is a snapshot of the Excel spreadsheet calculator for your perusal.

This special preview is available for anyone to peruse. Please feel free to forward it to anyone else — no problem.

The sad news is that if you want to see the subsequent pages in each article, you need to subscribe. A lot of work goes into their preparation, so we can't just give them away for free.

For more details, please visit my web site:

http://www.robertbrain.com

Successful investing,

Robert (Brainy) Brain

Brainy's articles on

Share Trading

Position sizing

Document No:
ST-4400
page 1 of 4
25 Feb 2009

Introduction

When setting out on a journey of share trading (or other derivatives like CFDs), two different people could use very similar trading strategies, but end up with one person make good profits, and the other making significant losses. This can happen if the "money management" is sloppy, or unplanned, or haphazard.

This article in Brainy's series on Share Trading (number ST-4400) provides information on just one aspect of money management — position sizing. This is basically the number of shares that you will purchase (the parcel size). This article focuses on trading in shares. It does not specifically consider derivatives like CFDs, nor short selling. These should be covered in another of Brainy's articles in the near future. In the meantime, it is useful to understand the information here in order to understand the total concept, and its application to share trading.

The overview section below talks about the relevance and importance of position sizing. The following sections address it in more detail. To support this topic there is a position size calculator available (in an Excel spreadsheet, or an OpenOffice spreadsheet). And there is information below that explains how to use the calculator.

Overview

When you buy shares (or derivatives like CFDs), you need to decide how much money to invest in any one position. That is, if you have $1,000 to invest, should you invest all $1,000? Or should you invest a smaller amount? How can you work out the optimum amount to invest? Or perhaps, why bother to work out the optimum amount — what difference does it make?

Consider the following questions regarding share trading (or other derivatives):

1. **Assumption**: Let's assume that you have only $1,000 of capital that you could afford to lose. This could be workable for trading CFDs; but for share investing you probably need more like $5,000 to $10,000 as an absolute minimum. If you wanted to live off the profits of trading, then you might need something like $250,000 capital.

2. **Question**: When you trade, would you be happy to risk perhaps just 2% of your total capital on any one trade? Note that 2% of $1,000 is only $20, so you could afford to have quite a few consecutive losses before your capital runs out.

3. **Question**: Would you like to take maximum advantage of the available capital, and make it work as hard as possible for you?

4. **Question**: Would you like to utilise the maximum amount of that 2% of at-risk capital?

If you answered yes to these questions, then you do need to consider the optimum amount of capital to invest in each position. So you might end up investing, say, $1100 in one position, and $900 in another. The important point here is that by actually risking the maximum amount that you can risk (ie. say 2% of capital), then you are taking maximum advantage of favourable price movements to maximise profits.

This article talks in more detail about how to work all this out. And it shows you a very quick, easy and simple way to work this out using the available Position Size Calculator worksheet. A quick view of what the calculator looks like is included in this article on page 2 below. Take a quick look at it now.

About the calculator

The Position Size Calculator was prepared using Open Office Calc, and saved as an OpenOffice ods file. It has also been saved as a Microsoft Excel xls file because a large number of people use this.

You can save the calculator file to your local computer, and have it open at all times when consider a trade. Entry initial information in the yellow cells, and stock-specific information in the green cells. The worksheet is "protected" (without a password), to prevent accidental changes of formulas.

Brainy's articles on
Share Trading
Position sizing

Document No:
ST-4400
page 2 of 4
25 Feb 2009

Position Size Calculator (for Long trades on Stocks)

Yellow cells — Enter (1) *Your Constraints* based on your trading strategy.
Green cells — Enter the (3) *Proposed Entry* and (4) *Exit* parameters.
Blue cells — Contents are all calculated for you.

Use this at your own risk.

(1) Your Constraints:

(a)	Today's Trading Capital:	$1,000.00
	Brokerage rate (%):	0.12%
	Min brokerage amount:	$19.95
(b)	Percentage risk:	2.00%
	(can be changed)	
(c)	Maximum trade size:	20.00%

Calculated (from above):

(d)	2% of your Capital:	$20.00
	Maximum trade size:	$200.00

(2) Variables:

(e)	GST:	10.00%
	Desired Profit Target:	10.00%

Notes:

(a) Brokerage: in this worksheet is calculated as the greater of the percent amount, or the "Min brokerage amount".

(b) Percentage risk is the amount of capital to risk on any one trade.

(c) Maximum trade size is a percentage of your trading capital.

(d) These items are calculated from "Your Constraints" above.

(e) You can change these values if you wish.

(f) This is your parcel size, and trade entry cost.

(g) If you have a margin loan, then there might be fees on each transaction.

For more information, see Brainy's monthly e-Newsletter articles at: www.robertbrain.com

(3) Proposed Entry:

	Stock Code:	BHP
	Likely purchase price:	$30.000
	Initial Stop price:	$29.000
	(ie. your Stop Loss Exit price)	
	Amount at risk (on each share):	$1.00
	2% of your capital	$20.00
	(this is the max risk on this trade)	
	So, Parcel size (rounded up) =	20
	And this trade will cost:	$600.00
(f)	BUT, is this greater than your maximum trade size?	7
	If so, then reduce Parcel size to:	
	And this trade will cost:	$210.00

Plus Brokerage and other Costs:

(g)	Margin loan fees:	$10.00
	Brokerage cost:	$19.95
	GST on brokerage:	$2.00
	Total Entry Cost:	$241.95

(4) Proposed Exit:

	Stock Code:	BHP
	Parcel size:	7
	Likely exit price	$31.000
	Gross return:	$217.00

Less Brokerage and other Costs:

(g)	Margin loan fees:	$10.00
	Brokerage cost:	$19.95
	GST on brokerage:	$2.00
	Exit proceeds:	$185.06

NOTE: There is no guarantee of accuracy, nor that this sheet is free of errors or omissions. And there is no guarantee of success.

(5) TRADE ANALYSIS:

Net Profit / Loss on this trade:	-$56.89
(ie. Exit Proceeds minus Total Entry Cost)	
Break even (based on the Entry price + all costs):	$39.127
Estimated profit % (ie. Net Profit/Total Entry Cost):	-23.5%
Target Sale price to achieve Desired Profit Target percentage:	$41.468
Risk Reward Ratio (ie. Net Profit / Risk amount):	-2.84

Figure 1: A view of the Position Size Calculator spreadsheet

Brainy's articles on
Technical Analysis
Price charts, time periods

Document No:
TA-2100
page 1 of 4
25 Feb 2009

Introduction

This article in Brainy's series on Technical Analysis (number TA-2100) provides an introduction to share price charts, including the various time periods that you might encounter. The article number TA-3100, "Price charts in detail", provides more details on this same topic. If you are already familiar with price charts, then you might want to quickly peruse this article TA-2100, and go on to TA-3100.

Overview

Firstly, it is important to understand that the shares in a listed company might be traded several times each day. If you prepare a list of all of the trades for the day, you will typically find that the share price has varied during the day. A list of all trades in one company's shares for the day is called the "course of trades", or "course of sales". This list of information will include the number of shares traded at a given sale price, and the value (ie. the volume multiplied by the price). According to the ASX specifications for the transmission of the course of sales data between data service providers, there is actually a lot more information accommodated than this. More information is on the ASX web site.

Mind you, there are many companies whose shares might trade only once during a trading day, or might not even trade at all.

Where trades have taken place, the following share price details are captured and widely available for each trading day:

- Open — the first sale price of the day
- High — the highest price for the day
- Low — the lowest price for the day
- Close — the last sale price at the end of the day.
- Volume — the number of shares traded on the day.
- Trades — the number of buy/sell transactions that were executed (for some stocks there are no trades on some days, and for others there are thousands).

Chart types — Line chart

The most common type of share price chart that you will come across is the line chart. See the sample here in Figure 1. Note the following about line charts:

- The Daily price chart at right is of ANN (Ansell Limited), from 12 to 18 August 2008 (16 and 17 August were non-trading days on the weekend, and 18th is the last point).
- The chart is a simple Line graph — the price is indicated along the vertical axis, in this case ranging from about $10.90 to $11.50, and the dates across the bottom of this chart are shown as 12 to 15 August 2008.
- It only shows the Close Price for each day with a straight line joining each day's closing price.
- It gives no indication of the day's volatility (the range up/down during the day).
- This daily line chart of Ansell is doing what many investors and traders would like, and that is it is making a few consecutive "higher closes". That is, it is up trending. Remember that the trend is your friend.

Figure 1: Sample line chart

Brainy's articles on

Technical Analysis
Price charts in detail

Document No:
TA-3100
page 1 of 3
25 Feb 2009

Introduction

The article TA-2100, "Price charts, time periods", provides an introduction to share price charts, and to time periods. It includes basic information on Daily price charts, including the Line chart, OHLC bar chart and the candlestick chart. It also included information about the Volume bar chart which is typically displayed on a price chart.

This article in Brainy's series on Technical Analysis (number TA-3100) provides more details on this topic, and includes discussion on: semi-log price charts, and various time frames (daily, weekly, monthly, quarterly and intraday). There is also a discussion about the pros and cons of candlestick charts versus bar charts.

Candlesticks versus bars?

It seems that with some experience traders and investors choose to use either bar charts, or candlestick charts to better understand the share price range during the period — that is, during the day on a daily chart, and during the week on a weekly chart, etc., remembering that the daily chart shows one bar or candle for each day.

But, which should you use — bar charts or candle charts? It basically boils down to which type of chart you find easier to read and interpret.

Some people love bar charts, and can easily interpret and visualise the intra-period price action. But other people find bar charts difficult to interpret quickly, and prefer candlestick charts. The author's own preference is for candle charts. I find it much easier to understand the relative position of the close and open of consecutive candles. Look at one "up" bar/candle (where the Close is higher than the Open). Is there a large price range between the Close of the bar/candle and the High? This is handy to know, and it is useful to be able to interpret this quickly on a chart with many bars/candles. So, try this exercise, and see which one you find easier.

Time frames — Daily, Weekly, Monthly, etc.

In this section we take a brief look at common time frames, and consider when you might use each of them.

- Daily chart (eg. over a 3-6 months period) — is a common time frame. The sample at right is over about 5 months. Each candle represents the range of prices over the day.

- Weekly chart — can be used by longer term investors to eliminate the "noise" of the daily charts.

- Monthly chart — is good for a longer term perspective of the price action.

- Quarterly chart — eliminates a lot of the noise of the shorter term period charts.

Figure 1: Sample daily chart

Brainy's articles on
BullCharts
IntelliCharts

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BC-06-100
page 1 of 3
25 Feb 2009

Introduction

When you view a price chart, with many charting software packages it is easy to quickly draw a trend line on the chart, or drop a piece of text, or an icon like a little arrow, a number, or an icon symbol of a pair of spectacles (indicating to "watch"), or a little bomb (for example). And it is easy to then move on to view the chart for another stock, and drop annotations on that chart. (In this article I will keep referring to these various pieces of text, or lines or symbols as "annotations".)

Wouldn't it be great if the charting software you use will automatically remember your annotations on each chart, so that when you go back to a given stock, all these lines and text and things are still there? And, wouldn't it be great if you could have an option so that you could draw a different set of annotations for different time frames — ie. different for a daily chart versus a weekly or a monthly chart. And different for different intraday time frames (ie. 1-minute, 10-minutes, one-hour charts, etc.)?

Well, BullCharts can do all this automatically with the IntelliCharts feature. And doing it for different time frames is an optional setting. And, if you don't want BullCharts to remember these annotations, then you can easily turn the IntelliCharts feature off. In this article in Brainy's series of BullCharts articles, we take a good look at the BullCharts IntelliCharts feature.

Overview

What is "IntelliCharts"? Well, when this feature is turned on, the actions described in the text below will occur (refer to Figure 1 below).

Figure 1: IntelliCharts - sample of saved annotations

In the sample in Figure 1, the elements that are displayed and automatically saved are: the moving average indicator, several support lines, a circle, some arrow icons and a spectacle icon.

When you view a price chart (of a stock or index), and you add a text annotation, for example, or a trendline or support line, etc., and then you view a different stock, and then you re-view the original stock, the text and lines that you originally added are re-displayed. That is, when you add these chart elements to a chart, they are automatically saved in the background, and re-displayed later when you view the same stock again.