Brainy's 10 Key Lessons from the GFC* 
for both investors and traders 
November 2009

“The share market can seem mystical and almost like black magic; but with the right support and assistance, it just seems like magic.”

Robert Brain

Introduction & Housekeeping

About this presentation

1. Share market, and more!
2. Bear markets, and bull markets
3. Topics:
   (a) Share markets — the last 20 years
   (b) Bull and bear markets
   (c) Ten Key Lessons from the GFC
   (d) Share price charts can help!
   (e) Web sites and software
   (f) Technical Analysis, Trading, “What next?”
4. Interactive — questions and discussions (as much as the time permits)
Introduction & Housekeeping

The presenter

1. Engineering degree
2. 30+ years – professional experience
3. Trainer / presenter / conference facilitator
4. Share Market – 8+ years
5. Technical Analyst (ATAA Director)
6. Provide tuition and support to traders and investors (Brainy’s Share Market Toolbox web site)
7. Do not hold AFS license! (Can't give advice)

About the audience?

1. Background — accountants? engineers?
2. Investments — traders? investors?
3. Share market knowledge? — yes? no?
4. Charting? and Technical Analysis?
5. Internet experience?
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.
5. Always consult a properly licensed advisor before making investment decisions.
The current crisis
(December 2007-now)
How bad is it?

A lot of people have been suffering, and there is potentially more to come :-(

- Property values fell.
- Superannuation investments fell in value.
- Unemployment increased.
- Retrenchments.
- Some investments lost as much as 90% or more of their value.
- Some investments were liquidated completely.
- Inappropriate lending - margin loans, etc.
- Issues with over-borrowing that has been encouraged by some lenders.
- Some questionable advice from some experts.

But! ....

A lot of people saw this coming!!

BUT:-

How did they know?
First...

Some RECENT HISTORY

Recent history — 1986 to 2009

The Australian All Ordinaries index (XAO) from 1986 to now (a Monthly Line chart)
Recent history — 1987 to 2009

<table>
<thead>
<tr>
<th>Start Date</th>
<th>From Point</th>
<th>Bear Market or Correction</th>
<th>Amount (%)</th>
<th>Time to recover to past high</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sept 1987</td>
<td>A</td>
<td>Bear market</td>
<td>-44</td>
<td>106 Months 8.8 Years</td>
</tr>
<tr>
<td>Aug 1989</td>
<td>C</td>
<td>Bear market</td>
<td>-28</td>
<td>46 Months 3.8 Years</td>
</tr>
<tr>
<td>Oct 1991</td>
<td>D2</td>
<td>Correction</td>
<td>-15</td>
<td>18 Months 1.5 Years</td>
</tr>
<tr>
<td>Jan 1994</td>
<td>F</td>
<td>Bear market</td>
<td>-21</td>
<td>32 Months 2.7 Years</td>
</tr>
<tr>
<td>Sept 1997</td>
<td>J</td>
<td>Correction</td>
<td>-11</td>
<td>14 Months 1.2 Years</td>
</tr>
<tr>
<td>June 2001</td>
<td>O</td>
<td>Correction</td>
<td>-19</td>
<td>35 Months 2.9 Years</td>
</tr>
<tr>
<td>Oct 2007 *</td>
<td>S</td>
<td>Bear market</td>
<td>-51</td>
<td>25 Months 2.1 Years</td>
</tr>
</tbody>
</table>

* — Latest bear market has not yet finished.

1987 to 1996

The Australian All Ordinaries index (XAO) from 1986 to 1996 - about 10 years.
(A Monthly Line chart)

- Bear Market A
- Bear Market C
- Bear Market E
- Bear Market F

Feb 1988 (A) - rose 512 points from 1260 over 18 months (-46%) to 1786 (B).
Then fell ~28% over 16 months to 1306 (C), and took another 30 months
    to get back up to B at point D.
Beware! The bears


<table>
<thead>
<tr>
<th>Key Dates</th>
<th>From Point</th>
<th>To Point</th>
<th>Fall or Rise</th>
<th>Amount (%)</th>
<th>Duration Months</th>
<th>Duration Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sept 1987</td>
<td>A</td>
<td>A'</td>
<td>Bear market</td>
<td>100</td>
<td>8.8</td>
<td></td>
</tr>
<tr>
<td>Sept 87-Feb 88</td>
<td>A</td>
<td>B</td>
<td>Fall</td>
<td>-44</td>
<td>5</td>
<td>0.4</td>
</tr>
<tr>
<td>Feb 88-July 98</td>
<td>B</td>
<td>A'</td>
<td>Rise</td>
<td>80</td>
<td>101</td>
<td>8.4</td>
</tr>
</tbody>
</table>

Bear Market A. Market fell 44% from of 2249 in Sept 87 (A) of 1251 in Feb 88 (B) just 5 months later. Then took 101 months (8.4 years) to recover to A in July 1996, and go on to make Higher High Index values are monthly Close.

Beware! The bears


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<td>C'</td>
<td>Bear market</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Aug 89-Dec 90</td>
<td>C</td>
<td>D</td>
<td>Fall</td>
<td>-28</td>
<td>16</td>
<td>1.3</td>
</tr>
<tr>
<td>Dec 90-Jun 93</td>
<td>D</td>
<td>C'</td>
<td>Rise</td>
<td>36</td>
<td>30</td>
<td>2.5</td>
</tr>
</tbody>
</table>

Note: Correction D2-D2' inside Bear Market C (details next slide)
**BACKGROUND**

**Beware! The bears**

**Correction — Oct 1991 — April 1993**

<table>
<thead>
<tr>
<th>Key Dates</th>
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<th>Amount (%)</th>
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<td>D2</td>
<td>D2’</td>
<td>Correction</td>
<td>18</td>
<td>1.5</td>
<td></td>
</tr>
<tr>
<td>Oct 91 — Oct 92</td>
<td>D2</td>
<td>E</td>
<td>Fall</td>
<td>-15</td>
<td>12</td>
<td>1.0</td>
</tr>
<tr>
<td>Oct 92 — Apr 93</td>
<td>E</td>
<td>D2’</td>
<td>Rise</td>
<td>18</td>
<td>8</td>
<td>0.5</td>
</tr>
</tbody>
</table>

**Bear Market — Jan 1994 — Sept 1996**

<table>
<thead>
<tr>
<th>Key Dates</th>
<th>From Point</th>
<th>To Point</th>
<th>Fall or Rise</th>
<th>Amount (%)</th>
<th>Duration Months</th>
<th>Duration Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan 1994</td>
<td>F</td>
<td>F’</td>
<td>Bear market</td>
<td>-21</td>
<td>12</td>
<td>1.0</td>
</tr>
<tr>
<td>Jan 94 — Jan 95</td>
<td>F</td>
<td>G</td>
<td>Fall</td>
<td>-21</td>
<td>12</td>
<td>1.0</td>
</tr>
<tr>
<td>Jan 95 — Sept 96</td>
<td>G</td>
<td>F’</td>
<td>Rise</td>
<td>27</td>
<td>20</td>
<td>1.7</td>
</tr>
</tbody>
</table>
Beware! The bears

BACKGROUND

Correction — Sept 1997 — Nov 1998

Correction — June 2001 — May 2004

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BEAR MARKET — Oct 2007 — now+

The charts on the previous slides are already posted on the web.

Visit:

www.robertbrain.com/bearmarkets
Second...

SOME OBSERVATIONS

Observations — The trend is your friend

- HH = Higher Highs
- HL = Higher Lows
- A trend is in place until it is confirmed to no longer be in place
- Applies to Up trend, and Down trend.

Higher Highs and Higher Lows

Draw a straight Trend Line under the price action.
Beware! The bears

Observations — The market rises (over time)

The Dow Jones since 1900

Observations — The market rises (over time)

Market returns from June 1970

Click to view this interactive chart on the web:
Observations — The Finance Industry

Some professionals:-
- rely on commissions
- are “serial innovators”
- don't care about their clients
The 10 Key Lessons

1. **Cycles** — Markets, stocks, property all run in cycles
2. **Corrections** — Stock market corrections? — How long?
3. **Advisors** — Financial advisors, brokers, bankers
4. **Timing the market** — Can we “time the market”? 
5. **Capital protection?** — Is it real? Blue chips safe? 
6. **Leverage** — Leveraged instruments (eg. CFDs) 
7. **Margin lending** — Can it be safe? 
8. **Fall 90%?** — Can investments really fall 90%? 
9. **Buy-and-Hold?** — Is it time to re-think this strategy? 
10. **Chart reading?** — Can be useful! Here's how...

# Lesson #1

**Markets, prices, etc. — Cycles**

Markets, property, prices
Run in Cycles
Property values — rise and fall

- Cycles of 17 to 21 years (about 18 on average)
- Phil Anderson (Economic Indicator Services)  
  www.businesscycles.biz
- The Savings and Loan debacle (late 1980s)
- The recent CDO debacle (Collateralised Debt Obligations)
- Clever manipulation of the law and regs by “innovative” (unscrupulous?) people.
The 18-year Property Cycle

US Public Land Sales, Acres '000, 1800-1923

The generic 18-year property cycle

Fred Harrison. *Boom Bust*. p.87.
Several other cycles

- US Presidential cycle — 4-years
- 30-year commodity price cycle
- decennial cycle
- seasonal cycles
- 40-year generational spending cycles
- 80-year New Economy cycle
- Kondratieff cycle (58-60 years)

Markets, etc. — run in cycles

The lesson:

It can be useful to be aware of cycles, and especially of over-priced property.

Lesson #2

Market “Corrections”.

How often? How long?
Bull and Bear Market cycles

Stan Weinstein's Stage Analysis

Australian Bear Market Durations

<table>
<thead>
<tr>
<th>Start Date</th>
<th>End Date</th>
<th>Duration (weeks)</th>
<th>Fall %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan 1973</td>
<td>Sep 1974</td>
<td>89</td>
<td>-59.2</td>
</tr>
<tr>
<td>Nov 1980</td>
<td>Jul 1982</td>
<td>85</td>
<td>-40.6</td>
</tr>
<tr>
<td>Aug 1989</td>
<td>Jan 1991</td>
<td>72</td>
<td>-28.0</td>
</tr>
<tr>
<td>Jun 2001</td>
<td>Mar 2003</td>
<td>89</td>
<td>-19.0</td>
</tr>
</tbody>
</table>

Source — UBS
Beware! The bears

#2 — Stock Market Corrections

Stock market corrections

The lesson:

Stock market “corrections” do happen, and the bears can demolish investments.

Be prepared to protect your investments.

Beware! The bears

#3 — Financial advisors

Lesson #3

Financial advisors, brokers & bankers
Might not be right all the time

- 100% accuracy?
- “Your investments are safe for the long haul…”
- “…don't worry, they will recover (eventually)”
- What about the “experts” and “advisors” (and the innovative bankers) who created and contributed to the melt-down in 2008-09?
- Question their remuneration methods.

The lesson:

Don't believe absolutely everything that you hear.

Healthy scepticism is healthy.
Lesson #4

Timing the market? Or time in the market?

“Timing”? or “Time in”?

What do you think?

• Is it possible to “time” the market?

Thousands of Technical Analysts (chartists) think so, including:

• Frank Watkins
  “Exploding the Myths”, Vocational Education & Training Publications

• Colin Nicholson...
The lesson:

Many people do successfully “time the market”.
It can be done.

Lesson #5

Investments
Capital protection?
Blue Chip = safe?
Capital protection

Are your investments safe?

- Your superannuation
- Capital-protected products and schemes
  - ALPS, etc. (and knockout events)
- Beware the “knockout” events.

Investments — safe?

The lesson:

Sometimes things are not as they seem. They might come at a cost. It is important to read the fine print.
Lesson #6

Leveraged instruments. CFDs, etc.

- Can be safe; can be very dangerous!
- It is possible to lose a lot more than the initial deposit.
- Under the right circumstances, and in the right hands, can be powerful.
The lesson:

If you don't understand the rules of the game, then don't play the game.

Lesson #7

Margin Lending
Can it be safe?
Can it be safe?

- Recent history (2008)?
- Directors' borrowings for own shares
- LVR — Loan to Valuation Ratio
- ABS (ABC Learning), AFG (Allco Finance), plus others...

The lesson:

Margin lending... might work well in a bull market; but beware...
Lesson #8

Can investments really fall as much as 90%?

- The short answer is yes!
- Take a look at the following...
#8 — Investments fall 90%?

Going...Going...Gone

- TIM (Timbercorp) -97%; gone May 2009
- GTP (Great Southern P) -96%; gone May 2009
- BNB (Babcock & Brown) -99%; gone June 2009;
- ABS (A.B.C.Learning) -92%; gone Aug 2009;
- AFG (Allco Finance) -99%; gone Aug 2009;
- CDR (Commander Comms) -95%; gone Aug 2009
- MFS (renamed Octaviar OCV) -74%; gone Aug 2009;
- NLX (Nylex) -97%; Feb 09 Trading halt and administration

Fell > 60% **

- AAX (Ausenco) — 89%
- ABP (Abacus Prop) — 91%
- ALZ (Australand) — 91%
- * ANZ — 62%
- APN News Media — 83%
- AWC (Alumina) — 84%
- AXA — 65%
- BBG (Billabong) — 62%
- BJT (Babcock and Brown Japan) — 90%
- BKN (Bradken) 93%
- BSL (Blue Scope) — 78%
- CEY (Centennial Coal) — 71%
- CGF (Challenger Fin) — 84%
- CTX (Caltex) — 72%
- FLT (Flight Centre) — 88%
- FXJ (Fairfax Media) — 82%
- HIL (Hills Indust.) — 79%
- HVN (Harvey Norm) — 72%
- * LEI (Leighton) — 71%
- ABC (Adel Brighton) — 62%
- AGO (Atlas Iron) — 88%

** — Until May 2008
* — Blue Chip stocks

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Fell between 50% and 60% **

- ASX — 58%
- AWE (Australian Worldwide Exploration) — 57%
- * BHP — 55%
- CAB (Cabcharge) — 54%
- * CBA — 58%
- CPA (Commonwealth Property) — 56%
- CRG (Crane Group) — 58%
- DJS (David Jones) — 57%
- JBH (JB-HiFi) — 52%
- NAB — 59%
- PRY (Primary Health) — 58%
- * QBE — 50%

** — Until May 2008
* — Blue Chip stocks

Fell < 50% **

- AMC (Amcor) — 48%
- ANN (Ansell) — 42%
- COH (Cochlear) — 40%
- HSP (Healthscope) — 30%
- * TLS (Telstra) — 34%
- * WOW (Woolworths) — 31%

** — Until May 2008
* — Blue Chip stocks
Blue chip stocks?

"Blue Chip" 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)

Can they fall this much as well?

The lesson:

Take care with your investments (even Blue Chip stocks), and sell the bad performers.
Lesson #9

The Buy-and-Hold strategy. Is it time to re-think?

The set-and-forget approach

- Tends to work in a bull market.
- Many people have used this approach along with a margin loan, and pre-paid 12 months of interest expense.
- Can this approach ride out the downs of the market?
- Is this a sensible approach to investing?
The lesson:

There are times when the shares in some companies should be converted to cold hard cash.

Actively monitor the portfolio.

Lesson #10

Chart reading?

Six useful tools...
How to anticipate the next one?

- Find some useful price charts
- Market index (eg. XAO)
- With useful indicator tools:
  - Moving Average (30-week, GMMA)
  - Coppock indicator
  - Momentum (and search for divergence)
- Money Flow (and search for divergence)
- Good quality charts?

Sample charts

Some sample and useful price charts follow...
Coppock Indicator

The Coppock Indicator on a monthly index chart can be used to suggest turning points in the market.

Momentum Indicator (monthly)

The Momentum Indicator is a measure of how far the price has moved over a specific time period. Falling Momentum suggests weakening prices.
Beware! The bears

#10 — Charts can be useful

Stan Weinstein

Momentum divergence (weekly)
Beware! The bears

#10 — Charts can be useful

Money Flow indicator

Divergence of Money Flow indicator from price at A (ie. higher price but lower indicator); and again at B.

Guppy MMA indicator

Multiple Moving Averages can tell a lot about the character and nature of a trend.
These charts...

The charts on the previous slides are already posted on the web and updated weekly.

Visit:

www.robertbrain.com/weekly

The lesson:

Charts and Technical Analysis can be very useful.
Online Charts and Software?

Online Charts

- Some web sites provide reasonable charting services
- Can include some indicators
- Charts tend to be a little rough or simplistic
Online Charts

Web sites to view price charts:

- ASX web site
- at Yahoo
- Big Charts . com
- NetQuote
- ADVFN

The real URLs are on my web site Portal page
www.robertbrain.com/stocks_portal

Charting Software

- There are a few products around; with different strengths and weaknesses
- Normally installed onto your computer
- Rely on getting share price data from some where (a data service)
- Need to download End-of-Day (EOD) data each day.
Charting Software — Overview

- Easy access to download data
- Price charts in various time periods (D, W, M)
- Intraday data (optional)
- Indicators – draw them on the chart
- Watchlists – several lists of stocks to easily keep an eye on
- Scans – Specify selection criteria and scan the data for stocks that match the criteria
- Line studies and annotations on the chart.

Charting Software — Costs

- Some of the charting tools are free
- Some cost $100s
- Some cost $1,000s
- What about training and support? Availability and costs?
Charting Software — EOD

- For short-term traders who want to buy and sell within a day, intraday data (a live data plan) is probably the only way to go.
- For everybody else, End of Day (EOD) data should suffice.

Charting Software — Data

- Free data tends to be 20-minutes delayed in Australia (otherwise royalties are payable to view live data, so it costs more).
- Real live data is available from brokers and data providers.
- EOD data is available from various sources (but check for data compatibility with your chosen software).
Charting Software Products

Install software to do chart analysis on your PC.

- BullCharts (this is my preferred package)
- ProTrader (not CommSec)
- MetaStock
- Market Analyst
- EzyChart
- NetQuote
- (plus a few others)

Charts and Technical Analysis?

A little more detail if time permits…?
What is it?

The study of share price charts using various analysis techniques to form a view as to likely future price action.

Share price charts

- Line charts are common
- In the media (TV, newspapers)
- But, don't show range of prices in each period
- Help to identify trends.
Trends and Trend Lines

Would you have been tempted to buy this stock? why?

If you knew this stock was falling, would you buy it? (many people did buy it)
Trends and Trend Lines

- HH = Higher Highs
- HL = Higher Lows
- Place a straight Trend Line under the action.
- “The trend is your friend”.

The Moving Average (MA)

- Is common on charts in the media.
- AFR shows 60 day MA
- This chart shows 14 period SMA
Candlestick basics

Shows:
- Open
- High
- Low
- Close
- White candle — opens low, closes high
- Black candle — opens high, closes low

Support and Resistance

- A very basic and important tool for interpreting price charts – used by many professional traders
- Generally a horizontal line (can be a “zone”)
- Support – above which the price moves up and down, bouncing up off the line (like a floor)
- Resistance – below which the price moves up to the line and retreats below it again (ceiling)
- Indicates emotion and psychology in the market.
Support and Resistance

A support "zone", with the price falling towards it, and then bouncing away.

Past resistance was eventually defeated, and the same price level then became support later on.

Technical Analysis — Summary

- Huge topic
- The basic concepts are simple and very useful
- The average investor could benefit from even a small understanding.
Stop!

Before you start share trading...

Some key tips

- Trading Plan — must have!
- Trading Strategy/ies — must have!
- Stop loss positions — must have!
- Trading Journal and Diary
- Money & Risk Management strategies
- Can you cope with the emotion?

(no more for now)
Take no action?

What to do next?

Some choices:

(a) Take no action.
(b) Learn more...how the market works
(c) Learn more...why it behaves the way it does
(d) Start monitoring the market “periodically”
(e) Leave super as it is? or consider re-weighting
(f) Take a more “active role” with investing.
Possible action points

(a) Learn more about the market...
(b) Learn how to identify trends...
(c) Learn how to interpret price charts...
(d) Learn more about candlesticks and patterns
(e) Learn more about Trading Plans and Trading Strategies
(f) Are you suitable to be a “trader”? (even an end-of-week trader)

More information and help

(a) ATAA (Australian Technical Analysts Association) www.ataa.com.au
(b) Specialist books: *Educated Investor* bookshop — Collins Street, Melbourne (ask for Robert's discount)
(c) Brainy's *Share Market Toolbox* web site
   Weekly market updates, charting, seminars, workshops, eNewsletters, Tip Sheets and other resources on the web: www.robertbrain.com
(d) Other trainers, educators and service providers.
Recommended Reading


SUMMARY

- Bear markets come around fairly often.
- Their duration and impact can be vast.
- Background behind the GFC.
- The 10 Key Lessons from the GFC.
- Charts, web sites, software.
- We are now wiser about investing going forward.
The 10 Key Lessons — Recap

1) Market cycles (and property) — they are real
2) Market corrections and bears — they really happen
3) Financial advisors — take care
4) We can “time” the market
5) Capital-protected schemes. Blue chip = safe?
6) Leverage — Need to understand the “rules” of the game.
7) Margin Lending — can be dangerous or safe.
8) Blue Chips and others can fall by 50-90%
9) “Buy-and-Hold” — Is it time to re-think this strategy?
10) Charts can be useful.

Consider: Sensible Investing?

Any Questions?

ps: A copy of the slides and more details will be available soon by email. Simply send an email request to: robert@robertbrain.com
The End

THE END

THANK YOU

(backup slides follow)