



*How to save squillions!*



**\*Anti-decimation!**  
Part 1 — The Impacts

Part 1  
The impacts of a bear market

*Robert Brain*  
July 2011



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Version 12c

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Anti-Decimation!

Introduction

**This presentation...**

This is the latest modified and updated version of a presentation originally presented to:

1. ASA (Australian Shareholders Association), and U3A Manningham (University of Third Age) — Aug 2010.
2. Several ATAA chapter meetings 2010-2011.
3. Melbourne PC User Group WASINT SIG — Oct 2010.
4. Small investment groups and U3A in March & July 2011.

*Investor-focus versus trader-focus?*

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Anti-Decimation!

Introduction

**What do you think?**

1. In Australia, how often do we see a *market correction*\*, or a *bear market*\*?  
(a) yearly, (b) 3-yearly, (c) 5-yearly, (d) each decade?
2. Do they strike without warning? — Yes or No?
3. How long does it take before the share market rises to *new highs*? (e) 12 months, (f) 3 years, (g) 7 years?
4. Should we simply invest in the index?  
(eg. an index-tracking portfolio or managed index fund)?...

\* Correction = a fall of between 10% and 20%  
Bear market = a fall of more than 20%

(continued...!)

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**Anti-Decimation!** Introduction

What do you think? (cont)

- If you had \$100,000 invested in blue chips in the share market pre-GFC, what was it worth 3 years later (June 2010)?
- What is best:
  - Buy-and-hold, or
  - Strategically sell, and buy again?
- How best to get a handle on all this?.

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**Anti-Decimation!** Introduction

Today's AGENDA

How badly can the share market treat us?

- The GFC of 2008— what actually happened?
- How badly can a bear market treat us? The damage to a \$100,000 portfolio.
- What's best?:
  - Hold on for the rider? or
  - Liquidate stocks at the "right time"?

 **Interactive presentation!**  
**Questions welcome.**

ps: Definition: decimation — to reduce by one-tenth © Copyright 2010 Robert B. Brain — Bailey's Share Market Toolbox — www.rbbt.com 

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**Anti-Decimation!** Introduction

Important Notice — No Advice!

- This presentation does not include any advice.
- For proper advice, your personal financial situation needs to be considered.
- This presentation is pure education, only for your general awareness. 
- There are no recommendations to take any action, or to invest any money in any way.
- Always consult a properly licensed advisor before making investment decisions.

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**Anti-Decimation!** Introduction

### Important Notice



**advice**

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**IMPORTANT NOTICE - AUSTRALIAN TECHNICAL ANALYSTS ASSOCIATION**

Please note that the views expressed at this meeting are the view of the speakers and members only. They do not represent or reflect the views of the ATAA. The ATAA conducts this meeting as a forum to provide an opportunity for its members to hear the view of speakers and other members.

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**Benefits**

### ATAA – Member Benefits

Potential members, and existing members, are reminded of the benefits of being a member of this very useful Australia-wide organisation:-

- 1) Regular opportunities for networking with peers, including international affiliations (IFTA).
- 2) Extensive free video and DVD library on many Technical Analysis topics.
- 3) Access to web-based INO-TV for streaming audio and video presentations.
- 4) Extensive ATAA website resources — many past journal articles, presentations from past meetings and more.
- 5) Annual ATAA Conference (speakers + networking).
- 6) Lots of member discounts — bookshops, email newsletters, memberships, etc.
- 7) Learn about Technical Analysis, including:
  - (a) risk assessment and money management
  - (b) market entry and exit timing
  - (c) market timing and cycle analysis
  - (d) complementing different trading styles
  - (e) trade and strategy back-testing
  - (f) trading and investment psychology.




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**Anti-Decimation!** Introduction

### About... Robert Brain

Consultant, educator and part-time\* share trader  
Web-based sharemarket-support business

- Many years experience as trainer, presenter, conference facilitator (*Scouts*)
- Share Market – active 11+ years\*
- Chartist ie. technical analyst (ATAA member and national director)
- Provide tuition and support to traders and investors  
[Brainy's Share Market Toolbox](#)
- Engineering Degree (structured thinking with an eye for charts and diagrams)
- 30+ years – professional experience (IT and management)
- **Do not hold AFS license! (Can't give advice)**
- BullCharts software (convenor Australian BullCharts User Group and authorised reseller (with special pricing))
- Member Mensa

 \* - Not yet enough capital to live off the proceeds of trading (after trading as a hobby until a career change in 2008).

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**Anti-Decimation!** Introduction

### Promotions & Endorsements

- Robert is an ATAA member, and office-bearer (Melb chapter Vice-Pres, and national director), and so he will actively endorse the ATAA [www.ataa.com.au](http://www.ataa.com.au)
- But, Robert's own personal views about investing, trading, technical analysis and the markets do not necessarily represent those of the ATAA.





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**Anti-Decimation!** Introduction

### Apologies and Warnings


For long-term investors, this presentation:

- Might be an eye-opener
- Might induce nightmares
- Might challenge conventional wisdoms
- Might provoke some debate

*So, let me apologise in advance.*

Ack — Alfred Hitchcock's Psycho



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**Anti-Decimation!** Introduction

By the way...

There are a lot of things that can impact on our investment thinking and on our investment decisions and actions. 

Including:

- Emotions — **fear, greed and hope**
- Numerous psychological impacts
- Cognitive biases — eg. the **denial bias**:-  
*"The tendency to disbelieve an important or uncomfortable fact, even if it does seem to be true."*

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**Anti-Decimation!** Introduction

Price charts acknowledgement

All price charts shown in this presentation are prepared using the Australian BullCharts charting software. 

More information:  
[www.bullcharts.com.au](http://www.bullcharts.com.au)

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**How badly can the market treat us?**

The GFC\* and the big bear market

\* GFC — Global Financial Crisis (2008-2011)

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**Anti-Decimation!**      **The GFC and the bear market**

What actually happened?

- Finance was too cheap
- Engineered financial products (CDOs)
- “Toxic” loans
- US sub-prime mortgages with reset interest rates (honeymoon period ended)
- Global share markets fell
- Economies slowed

**And the Australian market fell — how far?**

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**Anti-Decimation!**      **The GFC and the bear market**

BTW — Why study this?

*If we can understand what the market has done in the past, then we shouldn't be surprised when it happens again.\**

It is important to familiarise ourselves with the drastic/severe past movements of the market.  
(the big fast moves, wild swings, etc.)

\* — Another of Robert's Share Market GEMs.

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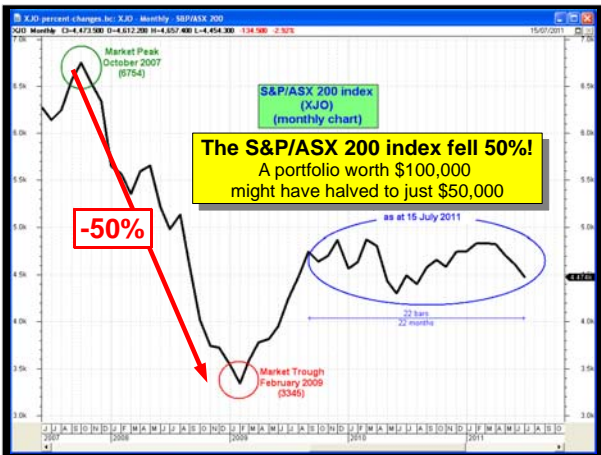
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**Anti-Decimation!**      **The GFC and the bear market**

Very apt...

*"Up by the stairs, and down by the elevator."*

A Share Market GEM!

Robert has a large collection of these.

**BTW**

XJO monthly chart

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**Anti-Decimation!**      **The GFC and the bear market**

**BTW**

**Share Market GEMs**

Over many years, we hear a number of share market "pearls of wisdom" that are real gems.

Many are listed here (more than 100):

[www.robertbrain.com/gems](http://www.robertbrain.com/gems)

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**Anti-Decimation!** **The GFC and the bear market**

Two more Share Market GEMS\*

*"The market is like an elephant!"*

(a) We should "zoom out", and  
(b) If we try to stand in the way, we might get "trampled".

**BTW**



*"Keep your eyes on the ball."*

Especially while the market is falling, so that you can action your stop loss levels.

More Share Market GEMS\* in the Toolbox:  
[www.robertbrain.com/gems/](http://www.robertbrain.com/gems/)

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**Anti-Decimation!** **The GFC and the bear market**

The market fell ~50%

How much does the market need to rise to recover back to the previous highs? 20%?, 40%? and how long might that take?



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**Would you believe 100% ?**  
How long might that take?  
Would you believe 3+ years?

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**Anti-Decimation!** **The GFC and the bear market**

Was this GFC a once-off?

- No! The market cycles like this regularly!
- A Correction (or Bear) has occurred **eight times** in the 24 years 1987-2011 (ie. a fall of at least 10% every 3 years)
- AND, on two occasions, a correction has hit *before recovering* from a bear market
- AND, the average duration to achieve new highs is **3.3 years!**

**Can you believe it?**

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**Anti-Decimation!** **The GFC and the bear market**

Recent history — 1987 to 2011

Start Date	From Point	Bear Market or Correction	Amt (%)	Weeks to bottom	Time to recover to past high	
					Weeks	Years
Sept 1987	A	Bear market	-48	21	470	9.0
Oct 1989	E	Bear market	-30	65	194	3.7
Nov 1991	G	Correction	-19	53	80	1.5
Jan 1994	I	Bear market	-21	53	150	2.9
Sept 1997	K	Correction	-11	5 or 50	66	1.3
June 2001	O	Correction	-21	88	152	2.9
Oct 2007 *	S2	Bear market	-54	73*	196	3.8
Apr 2010 *	U	Correction	-15	11*	65	1.3
<b>Average time for new highs:</b>						<b>3.3</b>

\* — Latest bear market has not yet "finished".

✓ Note: The letters in the "From Point" column refer to points on the charts.

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**Anti-Decimation!** **The GFC and the bear market**

Bear Market + Correction

- Bear Market — 1989 to 1993
  - Bear for 3.7 years
  - Correction for 1.5 years — late 1991-92
- Bear Market — 2007 to 2011+
  - Bear for 3.3+ years (TBA)
  - Correction for ? years — April 2010-?

(see charts later...)

✓

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**Anti-Decimation!** **The GFC and the bear market**

More information ?

You can see those numbers again, and more details about **bear markets** and **corrections**:  
[www.robertbrain.com/bearmarkets](http://www.robertbrain.com/bearmarkets)

and similar information about **bull market** periods:  
[www.robertbrain.com/bullmarkets](http://www.robertbrain.com/bullmarkets)

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**Anti-Decimation!** **The GFC and the bear market**

Where are we now?

At 15th July 2011 we are **more than 3+ years** past the last *market peak*!

**BTW** When did the *market peak*? And at what value?

- > 6754 — monthly close for October 2007
- > 6749 — weekly close 12 October 2007
- > 6829 — daily close 1 November 2007  
(can we see a picture? - if there is time)

XJO — S&P/ASX 200  
(basically the top 200 stocks by market cap)

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**Anti-Decimation!** **The GFC and the bear market**

Where was the 2007 market peak?

Daily chart — market peaked 1st Nov at 6829:

**BTW**



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**Anti-Decimation!** **The GFC and the bear market**

Where are we now?

At 15th July 2011 we are **more than 3+ years** past the last market peak!

- 6754 — monthly close for October 2007
- 6749 — weekly close 12 October 2007
- 6829 — daily close 1 November 2007

- Today's index is still **below the highs** of 2007!
- How far below? (in percentage terms).

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**Anti-Decimation!** **The GFC and the bear market**

Index-tracking portfolio?

If we had an index-tracking portfolio worth \$100k at 30 June 2007:-

- It is now down 34% (July 2011), and worth only \$66k.
- With a margin loan, it might have been much worse — now owing money.

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**Anti-Decimation!**      **The GFC and the bear market**

Some individual performances

As the GFC unfolded:

- Some stocks dropped ~90% !! (can you name any?)
- Some stocks disappeared completely!! (can you name any?)
- Even some well regarded top-200 stocks!

**Can you believe it?  
How many can you name?**

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**Anti-Decimation!**      **The GFC and the bear market**

Going...Going...Gone

The following companies had significant share price falls from the bull market peak of October 2007, and are now GONE:-

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



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**Anti-Decimation!**      **The GFC and the bear market**

How to avoid "bombs"?

To avoid companies that are "less likely to ride out the turbulence" use careful stock selection criteria for your Watchlist. 

One possibility — *Funda-Technical Analysis*:

- (1) Use strategic *fundamental analysis* criteria to avoid over-gearred or poorly managed stocks, then:
- (2) Use *technical analysis* to time the entry, AND to strategically time the exit.



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**Anti-Decimation!** **The GFC and the bear market**

**Fell > 60% \*\***

• CNP (Centro Prop) -99%	• FXJ (Fairfax Media) -82%
• CER (Centro Retail) -99%	• HIL (Hills Indust.) -82%
• BKN (Bradken) -93%	• CTX (Caltex) -77%
• ABP (Abacus Prop) -91%	• CEY (Centennial Coal) -76%
• ALZ (Australand) -91%	• LEI* (Leighton) -74%
• AAX (Ausenco) -89%	• HVN (Harvey Norm) -72%
• AWC (Alumina) -89%	• PRY (Primary Health) -66%
• AGO (Atlas Iron) -88%	• AXA -69%
• FLT (Flight Centre) -88%	• CRG (Crane Group) -67%
• CGF (Challenger Fin) -84%	• BBG (Billabong) -66%
• APN News Media -83%	• ABC (Adel Brighton) -63%
• BSL (Blue Scope) -82%	• NAB* -63%
	• ANZ* -62%

\*\* — lowest price  
\* — Blue Chip stocks

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**Anti-Decimation!** **The GFC and the bear market**

**Fell between 50% and 60% \*\***

• CAB (Cabcharge) -65%	
• ASX -58%	
• CBA* -58%	
• DJS* (David Jones) -57%	
• QBE* -57%	
• AWE (Australian Worldwide Exploration) -57%	
• CPA (Commonwealth Property) -56%	
• BHP* -55%	
• JBH (JB-HiFi) -52%	

*Do you recognise many of these names?*

\*\* — lowest price  
\* — Blue Chip stocks

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**Anti-Decimation!** **The GFC and the bear market**

**Blue Chip Stocks — definition?**

Current definition\*:

*Larger companies with a long history of profitability and stability.*

Former 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.*

**BTW**



\* Source — [www.asx.com.au](http://www.asx.com.au)

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**Anti-Decimation!**      **The GFC and the bear market**

The end result?

- The GFC dented some portfolios, and
- It more than decimated others. 

• But some people managed to **increase** their portfolio value during tough times! Using simple and *sensible* strategies. 

*(But what does "sensible" mean?)*

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**Anti-Decimation!**      **The GFC and the bear market**

Something to think about...

- What do you think about the GFC?
- How badly did it affect us?
- What do we think about the "Buy and Hold" strategy?
- Careful stock selection strategies?
- What is "*sensible*"?

**Let's look at the impact on a sample portfolio...**

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**How badly can the market treat us?**

**Sample \$100,000 Portfolio**  
(at 30 June 2007)  
What was the impact?

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**Anti-Decimation!** **Hypothetical \$100,000 Portfolio**

### Ten stocks

Let's build a hypothetical portfolio:-

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

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**Anti-Decimation!** **Hypothetical \$100,000 Portfolio**

### Ten stocks about \$10k each

- 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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**Anti-Decimation!** **Hypothetical \$100,000 Portfolio**

### Ten stocks about \$10k each

- AMP
- ANZ
- CBA
- NAB
- NCM
- SUN
- WDC
- WES
- WOW
- WPL

• A reasonable and "average" portfolio.

• How much did it devalue in 3-year period 2008-10?

• What was it worth at end June 2010?

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**Anti-Decimation!** **Hypothetical \$100,000 Portfolio**

### The Sample Portfolio — Value

Stock Code	Qty	30 June 2007		
		Share Price	Value	
AMP	988	\$10.12	\$9,999	And the value 3 years later?
ANZ	345	\$28.99	\$10,002	
CBA	181	\$55.25	\$10,000	
NAB	244	\$41.02	\$10,009	
NCM	474	\$21.08	\$9,992	
SUN	526	\$19.02	\$10,005	
WDC	501	\$19.96	\$10,000	
WES	236	\$42.39	\$10,004	
WOW	370	\$27.00	\$9,990	
WPL	220	\$45.37	\$9,981	
<b>TOTAL:</b>			<b>\$99,981</b>	

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**Anti-Decimation!** **Hypothetical \$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%
<b>TOTAL:</b>			<b>\$99,981</b>		<b>\$80,019</b>	<b>-20%</b>

Value @ 30 June '10

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**Anti-Decimation!** **Hypothetical \$100,000 Portfolio**

### Pause and ponder

Think about that for a moment:

Over 3 years — down 20% !!

How much did a standard bank account reduce over the same 3 year period? (it went up!)

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**Anti-Decimation!** **Hypothetical \$100,000 Portfolio**

And now another year later:

Over FOUR years  
it is no better!

How much did a standard bank account reduce  
over the same 3 year period?  
(it went up!)

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**Anti-Decimation!** **Hypothetical \$100,000 Portfolio**

Another view

Portfolio Performance 2007-2010

Percentage change over 3 years

Bank	Percentage change over 3 years
AMP	-4.5%
ANZ	-2.5%
CBA	-1.5%
NAB	-4.5%
NCM	7.5%
SUN	-5.5%
WDC	-3.5%
WES	-3.5%
WOW	-1.5%
WPL	-1.5%

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**Anti-Decimation!** **Hypothetical \$100,000 Portfolio**

The real portfolio nadir (~\$63k)

Value of a sample \$100,000 Portfolio versus Cash  
(from July 2007 to Sept 2010)

(Cash = a typical personal superannuation cash fund)

Date	Portfolio Value	Sample Cash
30/07/07	\$100,000	\$100,000
31/07/08	\$110,000	\$102,000
31/07/09	\$63,000	\$105,000
31/07/10	\$86,000	\$108,000
31/07/11	\$113,000	\$113,000

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**Anti-Decimation!** **Hypothetical \$100,000 Portfolio**

### Worst case scenario

What if the panicked investor had have sold each stock at the worst possible time?  
(ie. the lowest value in each case)

- Resulting cash = \$49,147
- Down 51%

(this really does happen... "panic selling" = "capitulation")

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**Anti-Decimation!** **Hypothetical \$100,000 Portfolio**

### Absolute Lowest Value

Stock Code	Qty	30 June 2007		Lowest Share Price			% change
		Share Price	Value	Date	Share Price	Value	
AMP	988	\$10.12	\$9,999	09/03/09	\$3.59	\$3,547	-65%
ANZ	345	\$28.99	\$10,002	12/02/09	\$11.89	\$4,102	-59%
CBA	181	\$55.25	\$10,000	23/01/09	\$24.07	\$4,357	-56%
NAB	244	\$41.02	\$10,009	09/03/09	\$16.03	\$3,911	-61%
NCM	474	\$21.08	\$9,992	23/10/08	\$17.01	\$8,063	-19%
SUN	526	\$19.02	\$10,005	03/03/09	\$4.55	\$2,393	-76%
WDC	501	\$19.96	\$10,000	09/03/09	\$8.90	\$4,459	-55%
WES	236	\$42.39	\$10,004	12/12/08	\$14.58	\$3,441	-66%
WOW	370	\$27.00	\$9,990	03/07/08	\$23.10	\$8,547	-14%
WPL	220	\$45.37	\$9,981	21/11/08	\$28.76	\$6,327	-37%
<b>TOTAL:</b>			<b>\$99,981</b>			<b>\$49,147</b>	<b>-51%</b>

Lowest Value:-

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**Is there an alternative?**

Should we "hold" stocks?  
or use "plan B"?

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**Anti-Decimation!** **Compare two options**

Let's compare two realistic choices:

Option 1  
Hold on for the ride and take the dividends

Option 2  
Liquidate key stocks at "appropriate time"  
(is this realistic? feasible? do-able?)

**NOW! Which option is better??**  
What do we think?.....

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**Anti-Decimation!** **Compare two options**

Let's compare two realistic choices:

Option 1  
Hold on for the ride and take the dividends

Option 2  
Liquidate key stocks at "appropriate time"  
(is this realistic? feasible? do-able?)

**For our Hypothetical Portfolio, here are the results:...**

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**Anti-Decimation!** **Compare two options**

**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
<b>TOTAL Dividend income over 3 years</b>		<b>\$10,896</b>
Capital Value @ 30/6/2010	\$80,050	
Percentage change in capital value over 3 years:	- 20%	

**\* Notes:**  
(a) Franking credits are excluded and personal tax situation ignored.

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**Anti-Decimation!** **Compare two options**

### Option 2 — Liquidate

The details:

- Liquidate key stocks at “appropriate time”
- Using a pre-determined exit strategy (some sort of technical analysis criteria)
- Keep taking dividends on a stock until it is sold.

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**Anti-Decimation!** **Compare two options**

### Option 2 — Liquidate

	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
<b>TOTAL Dividend income over 3 years</b>		<b>\$1805</b>
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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**Anti-Decimation!** **Summary & Wrap up**

**Summary**

- The GFC was not a once-off event (and it will come again...)
- It impacted many investments
- Several technical chart indicators can forewarn of a pending “problem”

*See the details in Part 2 shortly!*

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**How to save squillions!**

Take a break,  
then  
continue with Part 2!

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