Beware the Share Market Bears!
(they are never far away)

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)

About this presentation (cont.)
This presentation has been updated and refined for each of three deliveries in November 2009:
1. 5 Nov — Manningham U3A
   (University of the Third Age);
2. 10 Nov — Melbourne PC User Group — WASINT Special Interest Group;
3. 17 Nov — EIS group (Economic Indicator Services).

This version supplants all previous versions.
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. Does 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?
6. Specialties?

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.
Introduction & Housekeeping

Important Notice

AGENDA
1. Current Crisis — Background and Recent History
2. Some general observations
3. The 10 Key Lessons — some details
4. Online Charts and Software
5. Charts and Technical Analysis
6. Before you trade!
7. What to do next?
8. Recommended Reading

BACKGROUND

The current crisis
(December 2007-now)

BACKGROUND
Global Financial Crisis (GFC)

- US sub-prime crisis
- CDOs (Collateralised Debt Obligations)
- “Toxic” debt
- Bear markets in many countries
- Recessions in some countries.

How bad is it in Australia?

- 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

<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 8.8</td>
</tr>
<tr>
<td>Aug 1989</td>
<td>C</td>
<td>Bear market</td>
<td>-28</td>
<td>46 3.8</td>
</tr>
<tr>
<td>Oct 1991</td>
<td>D2</td>
<td>Correction</td>
<td>-15</td>
<td>18 1.5</td>
</tr>
<tr>
<td>Jan 1994</td>
<td>F</td>
<td>Bear market</td>
<td>-21</td>
<td>32 2.7</td>
</tr>
<tr>
<td>Sept 1997</td>
<td>J</td>
<td>Correction</td>
<td>-11</td>
<td>14 1.2</td>
</tr>
<tr>
<td>June 2001</td>
<td>O</td>
<td>Correction</td>
<td>-19</td>
<td>35 2.9</td>
</tr>
<tr>
<td>Oct 2007</td>
<td>S</td>
<td>Bear market</td>
<td>-51</td>
<td>25 2.1</td>
</tr>
</tbody>
</table>

Note: The letters in the "From Point" column refer to points on next slide.

*Latest bear market has not yet finished.
BACKGROUND

1987 to 1996


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

Beware! The bears

Correction — June 2001 — May 2004

BACKGROUND

Beware! The bears

BEAR MARKET — Oct 2007 — now+

BACKGROUND

Beware! The bears

BEAR MARKET — These charts

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

Visit:
www.robertbrain.com/bearmarkets
Introduction & Housekeeping

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BACKGROUND

Some 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.
Observations — The Finance Industry

Some professionals:
- rely on commissions
- are “serial innovators”
- don’t really “care” about their clients
- will trot out the same old spiel to keep clients invested in their products — eg:
  - It’s time in the market, not timing
  - Over the long term, the market does rise.

Observations — The market rises (over time)

Click to view this interactive chart on the web:

This web-based interactive chart is useful to view performance of different asset classes, and to readily zoom the chart in/out.
See active web link below.
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The 10 KEY LESSONS for investors and traders...

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, property, prices
Run in Cycles

The generic Investment Clock
Source: Citigroup and AFR
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


Profile of the 18-year Real Estate cycle

The 24-hour Real Estate Clock


Several other cycles
- 30-year commodity price cycle
- Seasonal cycles
- 80-year New Economy cycle
- Kondratieff cycle (58-60 years)
- US Presidential cycle — 4-years (details over)
- Decennial cycle (details over)
- 40-year generational spending cycles


US Presidential cycle — 4-years

U.S. markets have a tendency to make a low in the second year of a President's term and a high in the first year.

Source: www.ndr.com
Decennial cycles

Markets tend to under-perform in the first years of each decade (ie. year ends in 0, 1, 2, etc.), and out-perform in the last few years of the decade.

Source: www.ndr.com


For example:

Under-perform, crash or correction:

Out-perform or bull:

Source: www.ndr.com


The average household* peaks in spending between ages 46-50.

* Households in US and other developed countries.

Source: annual surveys by US Bureau of Labor.

Markets, etc. — run in cycles

The lesson:

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

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Lesson #2

Market “Corrections”. They happen. How often? How long?
Bull and Bear Market cycles

Possible sources: Barry Ritholtz and www.thestreet.com

Secular Market cycles

Definition: Secular — A secular market trend is a long-term trend that lasts 5 to 25 years and consists of a series of sequential primary trends (Wikipedia).

Source: www.crestmontresearch.com
Stan Weinstein’s Stage Analysis

“Any stock (or index) has to be in one of four market stages.”
And they don’t have to follow in sequence.


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
#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.

The TEN Lessons!

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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.


“Advisors”

The lesson:

Don’t believe absolutely everything that you hear.

Healthy scepticism is healthy.


The TEN Lessons!

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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 Myth”,
  Vocational Education & Training Publications
- Colin Nickolson...

The lesson:
Many people do successfully “time the market”.
It can be done.
The TEN Lessons!

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Click to add title

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.
The lesson:

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

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Lesson #6

Leveraged instruments. CFDs, etc.
### #6 — Leverage

**Derivatives, CFDs**

- 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.

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**The lesson:**

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

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### The TEN Lessons!

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Lesson #7
Margin Lending
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...
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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

The following companies had significant share price falls from the bull market peak of October 2007:

- **TIM (Timbercorp)** -97%; gone May 2009
- **GTP (Great Southern P)** -96%; gone May 2009
- **BNB (Babcock & Brown)** -99%; gone June 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**
- **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

### 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)** -56%
- **DJJS (David Jones)** -57%
- **JBH (JB-HiFi)** -52%
- **NAB** -59%
- **PRY (Primary Health)** -58%
- **QBE** -50%

** — Until May 2008

* — Blue Chip stocks
Beware! The bears

#8 — Investments fall 90%?

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

BTW:- What does “blue chip” mean?

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 Blue Chips fall this much as well?

The lesson:

Take care with your investments (even Blue Chip stocks), and sell the bad performers.
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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?
Opportunity costs

- Some people buy (blue chip) shares and hold for the steady dividend income stream.
- Even though the share price might fluctuate.
- This might be okay...depends on your:
  - strategy, and
  - investment timeframe / horizon

The lesson:

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

Actively monitor the portfolio.

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Lesson #10
Chart reading?
Six useful tools...

How to anticipate the next one?
- Find some useful price charts
- Watch the market (e.g., market index — XAO)
- Use useful technical indicator tools:
  - Moving Average (30-week, GMMA)
  - Coppock indicator
  - Momentum (and search for divergence)
  - Money Flow (and search for divergence)
- View good quality charts

Sample charts

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

Momentum Indicator (monthly)

Stan Weinstein
Momentum divergence (weekly)

Money Flow indicator

Guppy MMA indicator
These charts...

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

Visit:
www.robertbrain.com/weekly

Click to add title

The lesson:

Charts and Technical Analysis can be very useful (better than tea leaves).

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