

Trading/Investing Strategies
& Technical Analysis

Searching for a Trading Strategy


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(Brainy's *Share Market Toolbox*)

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Searching for a Strategy

Introduction

When starting out in the business of **share trading or investing**, many people are confused by the huge range of possible **analysis methods** and **strategies**.

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Introduction

When starting out in the business of **share trading or investing**, many people are confused by the huge range of possible **analysis methods** and **strategies**.

Even with experience, some traders who use *discretionary analysis* methods manage to overlook some **basic principles**.

So, let's go “back-to-basics”...


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How can this help you?

- Are you looking for trading ideas for your trading/investing strategy?
- How to go about it?
- Perhaps you are an **advanced trader/investor** and overlooking something? So looking for clues to tweak your strategies?

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4

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Session purpose

By group discussion (to share):

- 1) To look at some **key considerations** for a trading/investing strategy
- 2) To discuss the **pros and cons** of some of the elements of a strategy.

Your input will be requested!!
(of relevance to both novice and advanced)



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5

Strategy elements

Some topics that ought to be covered need a lot of time, so cover briefly, or skip over today

- Trading Plan / Strategy elements
- How much capital?
- Trading objectives
- Position sizing
- Risk management
- Markets to trade
- Results targets (eg. win/loss ratio)
- Trading time frame
- Market cap
- Stock universe
- Sector
- Liquidity

See next slides

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6

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Market cap — Does it matter?

- Large cap (> ~\$1.2b)
- Mid cap (> ~\$500m)
- Small cap (> ~\$50m)
- Micro cap (< ~\$50m)



Stock universe?

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7

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Market cap

- Smaller cap stocks can be *illiquid*
- Large cap stocks are well researched with many broker recommendations, and traded by many “investors”
- Some traders draw the line at a particular market cap (eg. \$50 million, etc.).

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8

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Sector focus — Is it useful?

- There are 11 sectors to choose from



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Sector focus

- Could choose to ignore specific sector(s)
- Or to focus on specific sector(s)
- Look for “best performing” sectors?
 - But, how to define “best”?
 - Miss out on performing stocks in poor performing sectors.



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Liquidity — Does it matter?

- Is liquidity important?
- Define *liquidity*...



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11

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Liquidity

What might happen if you hold a \$20,000 position and want to sell it quickly? If this stock:

- ...tends to trade only 10 times each day?
- ...turns over \$100,000 each day (ie. your position is 20%)



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12

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Liquidity “rules”

Some possible “rules of thumb”:

- Take a position with \$ value: < 5% of daily **\$ turnover**
- Take a position with **volume** < 5% of daily volume.
- Take a position that **trades** > 50 times per day (on average)



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13

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Some sample strategies

- Trend following
- Mean reversion
- Dividend stripping/harvesting
- Breakout
- Swing trading
- “Discretionary” !!

There are lots of possibilities!



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14

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Simple case study samples

How to find stocks with:

- “Share price > 10 day MA”
- “Share price momentum rising”
- “RSI < over-sold and rising”

***How to find these conditions?
But is that sufficient?***



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15

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Chart Analysis

When looking for “ideas” for a trading strategy, it can be very helpful to actually view a price chart and observe your desired “criteria” on the chart.

BUT! How to start?

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Case study

Let’s look at a past example...

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17

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Telstra — Case study

- In June 2010, spotted Uptrend after 3 months of sideways consolidation
- Then a Breakout candle on 18th June
- So, was it a buy?
- Let’s take a look...

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18

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Telstra — Case study

- Perhaps we should check further back in time?
- Let's zoom out (remember the market is like an elephant)
- And maybe switch to weekly chart.



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Back to our search...

So, how to go forward?


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Possible Steps

Following is one possible sequence of steps:

- View a “big picture” price chart
eg. monthly line chart over 2+ years
(remember the market is like an elephant)
- Look for key “observations” (see next slide)
- Then view smaller time frame
eg. weekly line or candle chart over 12-24 mths
- Then view smaller time frame
eg. daily price chart over several months or less.


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Chart Analysis — Step 1

- **Big picture*** — eg. **monthly** line chart
- Time frame? — at least a couple of years
(and maybe much longer)
- Look for levels of **Support** and **Resistance** (they can apply for years)
- Look for **trends** — up, down or none
- **Chart patterns**

* The market is like an elephant



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Why?

Why look for:

- support?
- resistance?
- trends?
- chart patterns?

What do these price chart features tell us?



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Why look for these?

Why look for: Support, Resistance, Trends and Chart Patterns?

Because price charts summarise the opinions of the market participants regarding the share price, and these chart features help us to understand those opinions.

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The evidence of investors opinions about share price



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Chart Analysis — Step 2

Repeat step 1, except for **shorter term**:

- Shorter term — eg. **weekly** chart
- Time frame? — perhaps 12-24 months
- **Candle** chart (or **bars**) can be useful
- **Support** and **Resistance**
- Look for **trends** — up, down or none
- **Chart patterns**

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34

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Chart Analysis — Step 3

Repeat previous, except for **shorter term**:

- Shorter term — eg. **daily** line chart (or even candles / bars)
- Time frame? — a few months
- **Support** and **Resistance**
- Look for **trends** — up, down or none
- **Chart patterns**

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35

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Chart Analysis — Step 4

Utilise chart indicators to help understand what has been happening:

- Trend, and trend strength (eg. MA, ADX, ROAR, etc.)
- Price momentum (Momentum, etc.)
- Price volatility? (eg. ??)
- Price over-sold / over-bought (eg. RSI, Stochastic, etc.)
- Volume indicators?

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36

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Chart Analysis — more

Maybe also:

- Candlestick patterns:
 - Observing the presence or absence of candle tails (wicks)
 - Observing the length of tails and bodies.
 - Observing the position of one candle relative to the previous candle(s)
- Observations of volume.



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37

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What else?

What have we missed?

What else is there?



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38

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SUMMARY

One possible sequence of steps:

- View a “big picture” price chart eg. monthly line chart over 2+ years (remember the market is like an elephant)
- Look for key “observations” (eg. support, resistance, trends, patterns, etc.)
- Then view smaller time frame eg. weekly line or candle chart over 12-24 mths
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39

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- More information on this topic and others;
- Technical Analysis information;
- Subscribing Toolbox Members have access to lots more information;
- A special version of this slide set including "Speaker Notes" will soon be available to Toolbox Members.

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41
