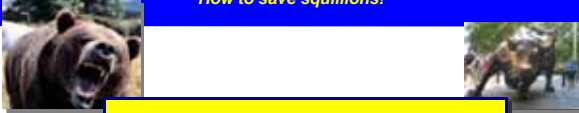



How to save squillions!



***Anti-decimation!**
Part 2 — Avoidance

Part 2
How to avoid the next GFC
(coming soon)

Robert Brain
July 2011



Brainy's Share Market Toolbox — www.robertbrain.com
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Version 12c

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

- A 2-part strategy to avoid the damage
 - Moving Average chart indicator (a la Stan Weinstein)
 - "Divergence" on the chart
- Charting software — charting tools of choice


Interactive presentation!
Questions welcome.



 ps: Definition: decimation — to reduce by one-tenth

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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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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.

Under no circumstances are attendees at this meeting to infer that by allowing speakers and members to speak at this meeting that the ATAA endorses, approves, agrees or promotes the views of such speakers or members. The ATAA does not provide any advice whatsoever regarding any investment in any financial products within the meaning of Section 766B of the Corporations Act or otherwise.

It is further essential to note that speakers prepare their presentations without taking into account or giving any consideration to the objectives, financial situation or needs of any attendee at this meeting. **Therefore, the views and opinions expressed by the speakers must not be considered personal advice relevant to any specific person's financial position or situation.**

Speakers and members present their views for purposes of education and exchange of views and discussions only. **Therefore it follows that the views expressed must not be acted upon as investment or financial advice or as any advice.**

Attendees must consider the appropriateness of the views expressed in the light of their own objectives financial situation, needs, position and seek professional advice from person(s) who are licensed to give financial, legal and tax advice only.

By attending this meeting you release and discharge the ATAA from all liability loss or damage that you may suffer or sustain (the Loss) and indemnify the ATAA against the loss.



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.



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 faciitator (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 toby 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
- 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!

In Part 1:

How badly can the market treat us?
The GFC* and the big bear market!



* GFC — Global Financial Crisis (2008-2011)

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In Part 1:
Sample \$100,000 Portfolio
(at 30 June 2007).
What was the impact
over 3 years?

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Options?

In Part 1

- Is there an alternative?
- Should we "hold" stocks?
- or use "plan B"?

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Part 2:
Avoiding the damage
2-part strategy

Using a crystal ball
to see the bear markets coming...

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Anti-Decimation! **The Crystal Ball — Part (a)**

Bear anticipation?

(1) Should we simply let things happen?

OR

(2) Should we be on the look-out and anticipate an approaching bear?



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Anti-Decimation! **The Crystal Ball — Part (a)**

We said earlier:...


- The market cycles like this regularly!
- A Correction (or Bear) has occurred **eight times** in the last 24 years (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 Crystal Ball — Part (a)**

How can we see bear markets coming?



What do you think?

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Anti-Decimation! **The Crystal Ball — Part (a)**

Option 2 — It is feasible!

A bear market tell-tale, and a sell criteria (the simplest and very basic):

When the 30-week Moving Average turns down → SELL! on the open next week

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Anti-Decimation! **The Crystal Ball — Part (a)**

Option 2 — It is feasible!

When the 30-week Moving Average turns down → SELL! on the open next week

This very simple concept is explained in detail in Stan Weinstein's infamous book... (next slide)

Note: There are other ways to achieve better results.

PS: Let me declare my own actions in early 2001. I switched superannuation asset class from shares to cash and bonds!

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Anti-Decimation! **The Crystal Ball — Part (a)**

Stan Weinstein — 30week MA

"Secrets for Profiting in Bull and Bear Markets"
Stan Weinstein (McGraw-Hill, 1988)

BTW

- Use Weekly charts
- Apply a 30-week Moving Average (MA)
- Watch for:
 1. Price crossing below MA, and
 2. MA turning down

Following is an example:...

Available from the Educated Investor bookshop, 525 Little Collins St, Melbourne
www.educatedinvestor.com.au

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Anti-Decimation! **The Crystal Ball — Part (a)**

Which MA — Simple or Weighted?

Which Moving Average does **BTW** Stan Weinstein recommend we use?

- *Simple MA* — discussed on pp 13-14
- *Weighted MA* — discussed regarding the Mansfield charts (eg. p 25)
- *Simple MA* — how to calculate on p 313

Conclusion? — not sure.

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Anti-Decimation! **The Crystal Ball — Part (a)**

go back 20+ years...

To the 1989 Bear Market:-

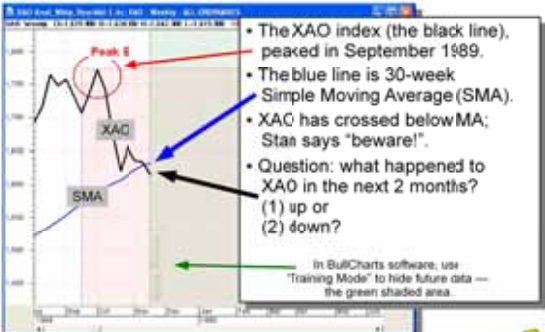
- What happened?
- How big was the fall?
- How long did it take to bottom?
- How long did it take to reach new highs?
- Did we see it coming?

Use BullCharts to view the price action:...

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Anti-Decimation! **The Crystal Ball — Part (a)**

The market peaked — Sept 1989



- The XAO index (the black line), peaked in September 1989.
- The blue line is 30-week Simple Moving Average (SMA).
- XAO has crossed below MA; Stan says "beware!".
- Question: what happened to XAO in the next 2 months? (1) up or (2) down?

In BullCharts software, use "Training Mode" to hide future data — the green shaded area.

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Anti-Decimation! **The Crystal Ball — Part (a)**

The market fell...



- Let's move the Training Mode area to the right a few weeks.
- XAO crossed back above MA, and then below again.
- We might still have an 'uptrend' in place — until we have a confirmed Lower Trough.
- What happens next?
(1) up or
(2) down?

Anti-Decimation! **The Crystal Ball — Part (a)**

...and fell some more...



- Let's move the Training Mode area again.
- The MA stopped rising, levelled out, and then fell.
- This is "confirmation".
- Stan says: "get out!"
- We also have a Lower Trough (ie. a confirmed down trend)
- What happens next?
(1) up or
(2) down more?

Anti-Decimation! **The Crystal Ball — Part (a)**

...then fell even more...



- Let's move the Training Mode area again.
- The XAO fell 17.9% ! over 6+ months.
- What happens next?
Is this the bottom?
- Let's zoom out on next slide...
- What happens next?
(1) up or
(2) down more?





Anti-Decimation! **The Crystal Ball — Part (a)**

Important lesson

*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.

Anti-Decimation! **The Crystal Ball — Part (a)**

In 2008-2009 ...

The "GFC" and latest Bear Market

- What happened this time?
- How big was the fall?
- How long did it take to bottom?
- How long did it (will it) take to reach new highs?
- Did we see this coming?

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Anti-Decimation! **The Crystal Ball — Part (a)**

The GFC and latest Bear Market 2008+

Down 54% over 17 months!!
New highs after ??? years?
Could we have anticipated this?

What about the 30-week MA?

Anti-Decimation! **The Crystal Ball — Part (a)**

The GFC and latest Bear Market 2008+

• Dec 2007 — XAO crosses below the MA. Stan says "look out".

• Jan 2008 — MA turned down. Stan says "get out".

• March 2009 — XAO crosses above MA.

• June 2009 — MA turned up.


Anti-Decimation! **The Crystal Ball — Part (a)**

Crystal Ball Part (a) — Comments

- The 30-week MA can give a good clue about impending trouble.
- BUT! Technical indicators like this one:-
 - Not 100% accurate
 - Not 100% reliable
 - Not 100% guaranteed
 - Can give false signals sometimes

Question: So, are they worth using?
Answer: It increases our chances of success!

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**Avoid the damage
2-part strategy**

**Part (b) — Additional
Chart-based Tools**

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Anti-Decimation! **The Crystal Ball — Part (b)**

Chart-based tools


There are many chart-based tools that can give us good clues of pending falls.
Just some:

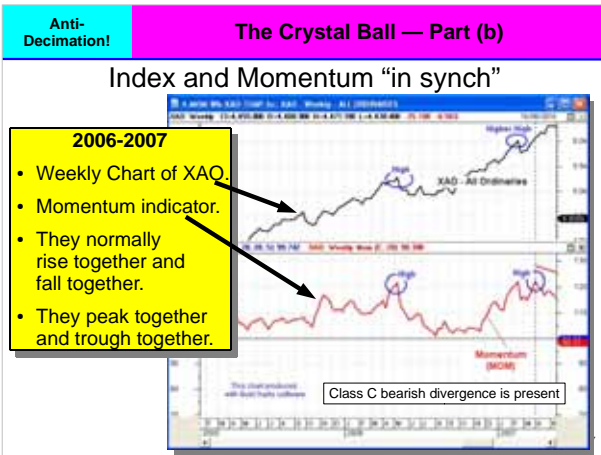
- The *Momentum* indicator (plus others)
- *Divergence* of the indicator with price
- Use some sort of "Stop Loss".

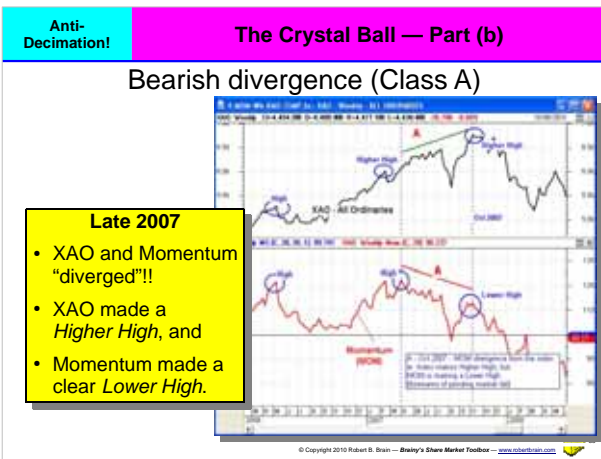
The insight here can be really amazing!

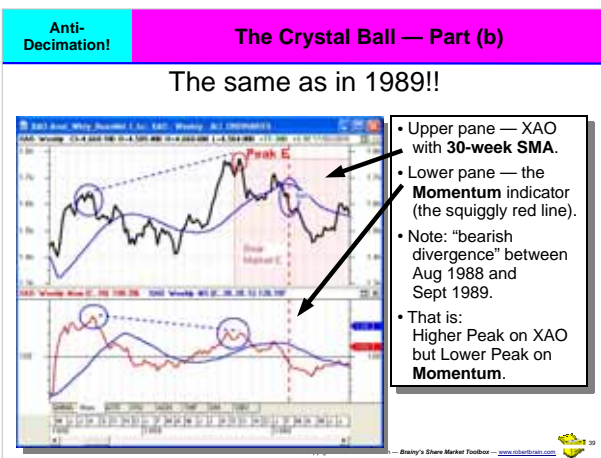


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Anti-Decimation! **The Crystal Ball — Part (b)**

Other possibilities?

More ways to forewarn of possible market falls:

- ATR-based indicator or trailing stop
eg. Wilson ATR Trailing Stop, Chandelier stop (indicator), etc.
- Other indicators and divergence:
 - CCI
 - RSI
 - MACD
 - Slow Stochastic
 - MA Oscillator
 - Twigg's Money Flow
- Are there any others?



Share Market Footbot — www.sharemarket.com

Anti-Decimation! **The Crystal Ball — Part (b)**


Wilson ATR Trailing Stop

- It is calculated as a multiple of ATR (ATR = Average True Range)
eg. **3 times** the average price range over a **14-day period**.
- The dot under today's price sets the Stop Loss to be interpreted in one of two ways:
 - (a) "if the price **trades** below this level next day, then sell **immediately**"; OR
 - (b) "if the price **closes** below this level next day, then sell **the following day**"...

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Anti-Decimation! **The Crystal Ball — Part (b)**

W-ATR-Trailing Stop on XAO (2007)



The Wilson ATR Trailing Stop (WATRTS) is one of many indicators included in the BullCharts charting software.

Anti-Decimation! **The Crystal Ball — Part (b)**

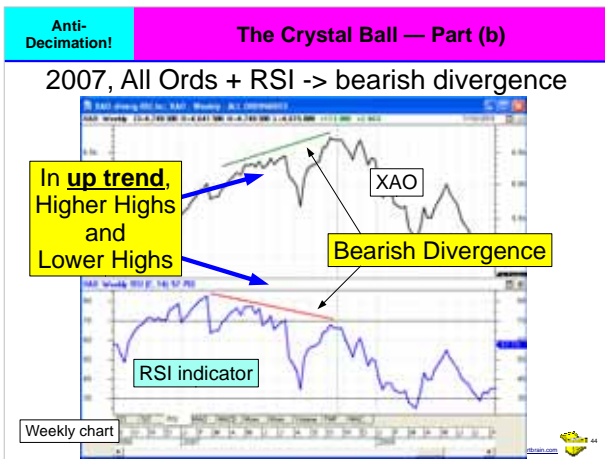
In 2007 — Warning signs!

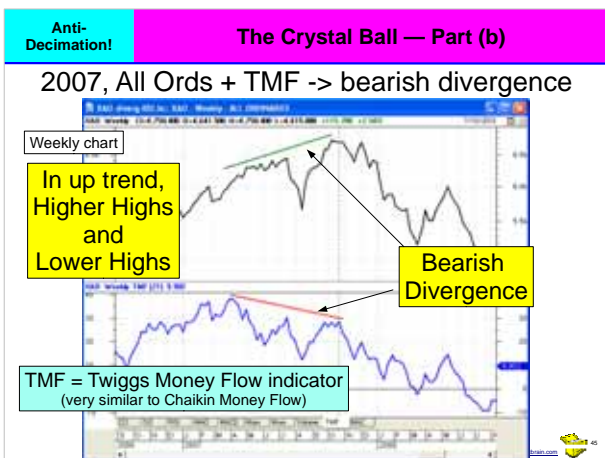
In 2007, there were some chart-based warning signs of weakness in the market:

- bearish divergence — index and RSI
- bearish divergence — index and Twiggs Money Flow

(see charts on next slides...)

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Anti-Decimation! **The Crystal Ball — Part (b)**

March 2009 — market upside

In early 2009, some chart-based indicators showed bullish divergence:

- CCI (Commodity Channel Index).

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Anti-Decimation! **The Crystal Ball — Part (b)**

2009, All Ords + CCI -> bullish divergence

In down trend, Lower Lows and Higher Lows

Bullish Divergence

CCI (Commodity Channel Index) indicator

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Anti-Decimation! **The Crystal Ball — Part (b)**

Divergence (in summary)

Divergence can be seen:

- On multiple indicators:
 - CCI
 - RSI
 - MACD
 - Slow Stochastic
 - MA Oscillator
 - Twigg's Money Flow
- In different time periods: daily, weekly, monthly, and intraday.

But will not always be present!

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Anti-Decimation! **The Crystal Ball — Part (b)**

Part (b) conclusion?

These chart-based indicators
many weeks of warning
of impending market fall!
in 1989, and in 2007!
(and at other times, including turn-ups!)
Now how useful is that?

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Anti-Decimation! **The Crystal Ball — Part (b)**

How to use this?

These tools can be used:

- On a market index to gauge the overall "health" of the market possibly as a *market filter*; (eg. to be more cautious in a weak market)
- On individual stocks as a part of your trading strategy entry rules, and exit rules.

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Anti-Decimation! **How to unlock the secrets...**

Unlocking the secrets

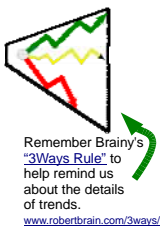


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Anti-Decimation! **How to unlock the secrets...**

Key points

- Price charts are very useful
- A trending stock is likely to continue trending (Dow Theory) (eg. a downtrend is likely to continue)
- Bear markets (and corrections) come around too often
- It can be very beneficial to consider switching out, and then back in again.



Remember Brainy's "3Ways Rule" to help remind us about the details of trends.
www.robertbrain.com/3ways/

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Anti-Decimation! **How to unlock the secrets...**

The unlocking tools...

- Weekly price charts can be adequate
- Use 30-week Moving Average (MA)
- Use Momentum indicator (or others)
- Look for divergence of Momentum
- Use an "automatic" Stop Loss tool (eg. Wilson ATR Trailing Stop)
- It's easy with good charting software.

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Anti-Decimation! **How to unlock the secrets...**

Understand the charts...


Need to learn how to interpret the price charts

Technical Analysis:

- Books, courses, seminars, newsletters
BUT beware of information overload and over-complication
- The ATAA (Australian Technical Analysts Association)
www.ataa.com.au
(a not-for-profit Australia-wide organisation run by volunteer members)
- Robert's **Share Market Toolbox**
www.robertbrain.com/ta/





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Anti-Decimation! **How to unlock the secrets...** 

Good books


- There are many.
- For starters, visit:
www.robertbrain.com/books/


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Anti-Decimation! **How to unlock the secrets...** 

Charting software tools


Some software:	Key features:
<ul style="list-style-type: none">• MetaStock• Fcharts• Incredible Charts• BullCharts• Ami Broker• ASX (web)• Yahoo• Trading Room• more...?	<ul style="list-style-type: none">• web-based vs PC-based• quality corrected data• easy-to-use Watchlist tools• good range of Indicators• easy to "Scan" / filter the stocks• easy to apply trend lines and many other line studies, text...• quality print-outs

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Anti-Decimation! **How to unlock the secrets...** 

Price charts acknowledgement

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



More information:
www.bullcharts.com.au

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Anti-Decimation! **How to unlock the secrets...**

eg. BullCharts — key features

- Watchlists — easy, simple, multiple
- Many chart types
- Indicators — many
- Templates — some supplied; easy to create
- Scans — many supplied; and easy to modify or create your own
- Price alerts
- Trade Planner
- Author Strategies
- Customise indicator and template toolbars easily
- Quality data
- Australian product
- Good support
- User group(s)

More details — www.robertbrain.com/bullcharts/

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Anti-Decimation! **Summary & Wrap up**

Summary

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Anti-Decimation! **Summary & Wrap up**

Summary

- The GFC was not a once-off event (and it will come again soon...)
- It impacted many investments
- Several technical chart indicators can forewarn of a pending “problem”
- A good knowledge of technical analysis useful
- Quality charting software is very useful.

We can avoid portfolio “decimation”!

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Anti-Decimation! Summary & Wrap up

We need to...

*Protect our hard earned capital;
and
Watch out for the sharks in the ocean!!*



The free stuff follows...

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Anti-Decimation! Summary & Wrap up

Some more GEMS*...

Some signs of **market tops**:

- Rampant speculation.
- The taxi driver gives market tips.
- Get-rich-quick schemes promoted.

Some signs of **market bottoms**:

- Panic on the streets.
- Doom and gloom everywhere.

See the **GEMS*** in the Toolbox for more share market Pearls of Wisdom - www.robertbrain.com/gems .

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Anti-Decimation! Summary & Wrap up

Share Market Toolbox

Robert's Web-based business:

- Free stuff — www.robertbrain.com/free
- plus more stuff reserved for *Toolbox Members*
- **Weekly Watch List** — updated and shared weekly
- **Weekly Market Analysis** — email on Sat morning

Complete list of Toolbox features:
www.robertbrain.com/members




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Anti-Decimation! Summary & Wrap up

About this presentation

- This presentation is just one of many items in Brainy's **Share Market Toolbox**
- These slides are available to download from the **Toolbox**: www.robertbrain.com/presentations/
- And a more detailed version of the slides (complete with Speaker Notes) is available for Toolbox Premium Members.

Brainy's Share Market Toolbox

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Anti-Decimation! Summary & Wrap up

Price charts acknowledgement

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

BTW Robert is an authorised BullCharts reseller.

More details or Free 2-week trial:
www.robertbrain.com/bullcharts/
 Plus 1 hour free tuition, set-up or support.
 Phone Robert: 0438 355 910

BullCharts

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Anti-Decimation! Summary & Wrap up

BTW Robert's choice — BullCharts

- Runs on Windows XP, Vista and Windows 7 (32-bit and 64-bit)
- Loads onto your PC
- Historical data (since 1987)
- Official web site: www.bullcharts.com.au

Free 2-week trial available
 Your investment:-

- Software \$795 once off
- Data options:
 - End Of Day \$352 pa
 - EOD + Snapshots \$462 pa
 - Live data \$151.25/mth (includes EOD)

BullCharts

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Anti-Decimation! Summary & Wrap up

Australian BullCharts User Group

We have an Australia-wide User Group

- Melbourne (since 2006)
- and over the web — Webinars for “remote” users
- Meets monthly
- BullCharts demo, Q&A and trading topics

Robert is the national User Groups coordinator.



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How to save squillions!

THE END

THANK YOU

(backup slides follow)

68
