Presentation to BCUG

Stock Liquidity

February 2020
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Version 1b

This presentation...

This set of slides was first prepared in 2011 for discussion in the EMG private traders group.

Now updated for workshop discussion in our BullCharts User Group.

Trading/Investing problems

1) Are we interested in trading/investing in
   ANY / ALL listed stocks?
   (ie. the ASX stocks, ignoring overseas).
   If so, should we focus on just some, or
   all of them possible candidates?

2) Is there a maximum *position/parcel size*
   of which to be mindful?
   Or can we buy as many shares
   as we can afford?

Problems

1) Some stocks are thinly traded
   (not very "liquid"), and might **trade*** as little as
   six times per trading day (ie. once per hour).

2) For some stocks, a large parcel size might be
   as big as one half of the day's **trading value**,
   or one half of the day's **trading volume**.

Can this be a problem?
(see examples on next slide)

* — One **trade** is one buy/sell transaction involving one "parcel" of shares.

Some samples (from 2011)

Symbol	Name	Trades per WEEK	Volume per WEEK	Median Price* $.c	Typical Price* $.c	Value Traded $/WEEK	Market Cap (millions)
VSO	VNGD Aus Small Etf Units	1	1	42.59	42.163	$42	$5.78
CNK	Condor Metals Limited	1	1,504	0.09	.087	$120	$5.20
ESW	Emerson Stewart Group Limited	1	2,500	.2	.2	$500	$7.40
KRS	Kresta Holdings Limited	1	5,000	.24	.24	$1,200	$34.60
AYA	Attila Resources Limited	2	9,000	.2	.2	$1,800	$2.45
CBX	Cape Alumina Limited	5	12,089	.18	.173	$1,993	$20.81
SPH	Sphere Minerals Limited	15	31	2.5	2.5	$78	$529.55
AEJ	Redbank Energy Limited	28	230	4.155	4.14	$947	$3.23
CBB	Cordlife Limited	35	25,760	0.053	0.053	$1,355	$7.85

* — definitions over.../

definitions

For WEEKLY prices:

- *Median Price* = the average of the High and Low prices for the week

- *Typical Price* = the average of High, Low and Close prices for the week.

The dilemma...

There are two dilemmas
to look at...

DILEMMA #1

How to decide which stocks to invest/trade?

- All stocks on the market? (liquidity issues?)

- Top 200 — stocks in the XJO?

- All Ords — the XAO?

- Small Ords?

- Mid-cap 50?

- A custom watch list?

AND Dilemma #2 ... /

DILEMMA #2

What about sound
risk management?

Are there specific considerations
to help decide which *stocks*?
And also trading rules about *parcel size*?
So as to reduce the trading risks?

Session Objective

**To assist with
sound risk management,
identify a list of
key criteria for:**

**(a) *stock selection*, and
(b) *parcel size*.**

Disclaimer

[the standard disclaimer
goes here regarding no advice,
and this is for information and
education and discussion only...]

advice

Stock Liquidity

Stock Liquidity

How to define "*stock liquidity*"
(for share market trading/investing)?

Possible considerations:

(1) **Sales value** (= *Value Traded*)

(2) The number of **trades**
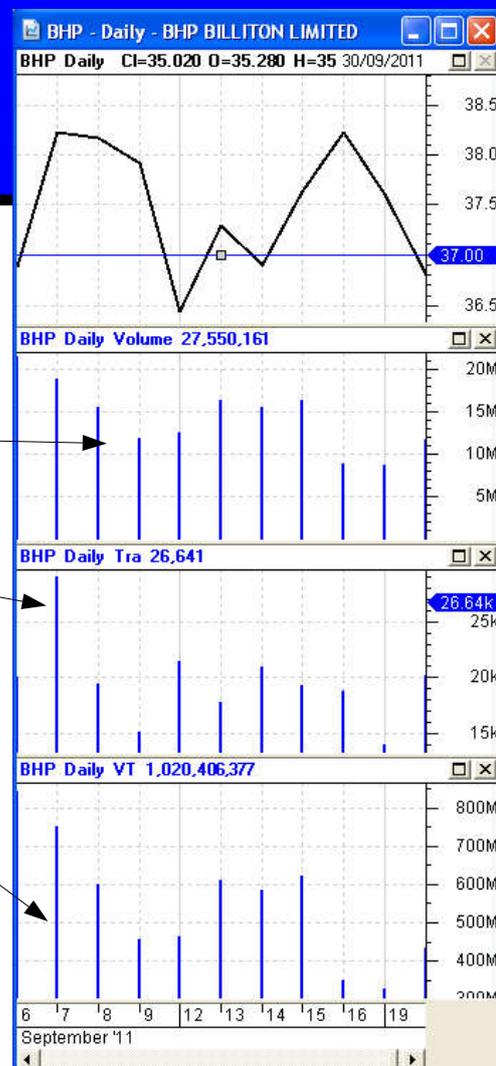
(3) **Volume**

(4) Other?

Each day? or each week?

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Volume, Trades, Value

BullCharts can plot
these values...

• Volume

• Trades

• Value Traded

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What about *Trades*?

What about only considering stocks with:

- *Trades* more than 50 times per day?
  (or pick another number?)

That could be our **Stock Universe,**
OR
Simply consider this on the day of purchase?

Example

Note:

- Trades mostly > 50 / day

- But sometimes < 50 / day

If scanning for only > 50, this stock would be missed on some days.

Solution

Scan for:
5 period SMA
of Trades > 50
over recent days.

[Perhaps 10xSMA
might be better?
or even 20?]
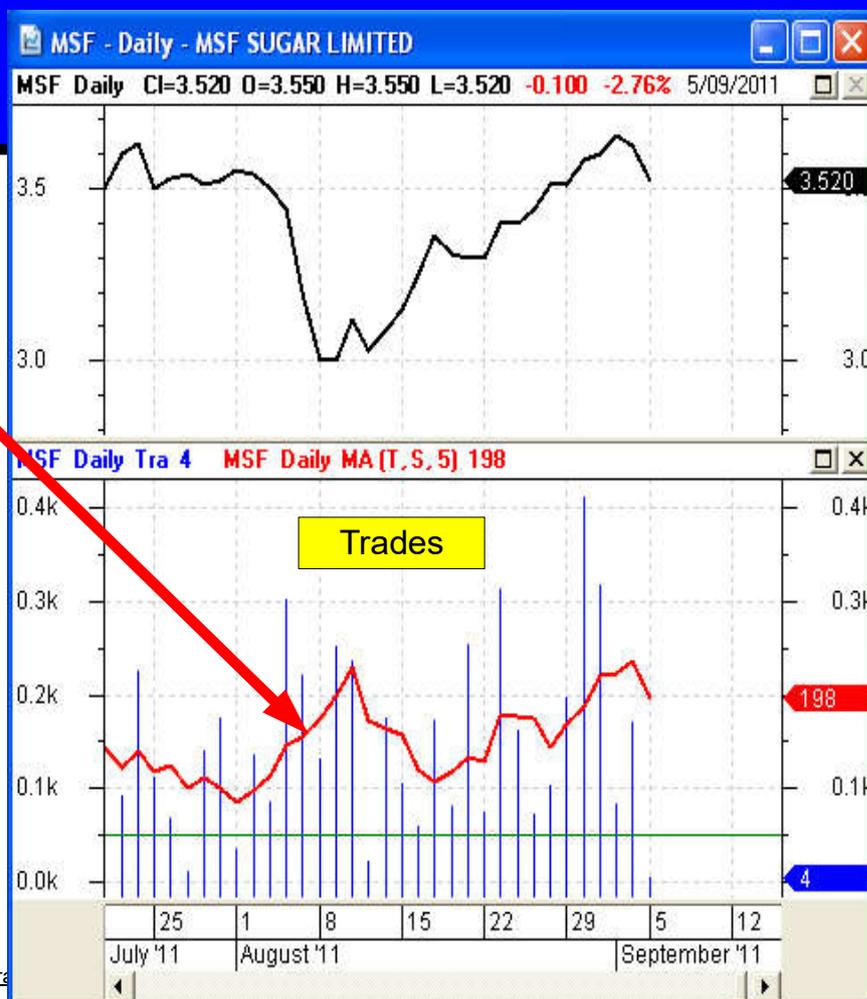
Trades

Position size

What are your thoughts on Position Size?

eg. as a percentage of
daily *volume* or *value*?

Position Size and *Sales Value*

- Intended position size < 5% of daily *value*

- For position size of ~$5,000 (for example)
  => Daily ***Value*** > $100,000.

Intended position size:	$1,000	$2,500	$5,000	$7,500	$10,000
Min Daily Value:	$20,000	$50,000	$100,000	$150,000	$200,000
Min Weekly Value:	$100,000	$250,000	$500,000	$750,000	$1,000,000

BUT: Do most stocks trade this much?

What about *Sales Value*?

For example:

- Intended position size < 5% of daily *value*

- For position size of ~$5,000 (for example)
  => Daily Value > $100,000.

- How many stocks qualify?
  Use BullCharts Scan Criteria:

5-bar SMA of *Value* > 100,000
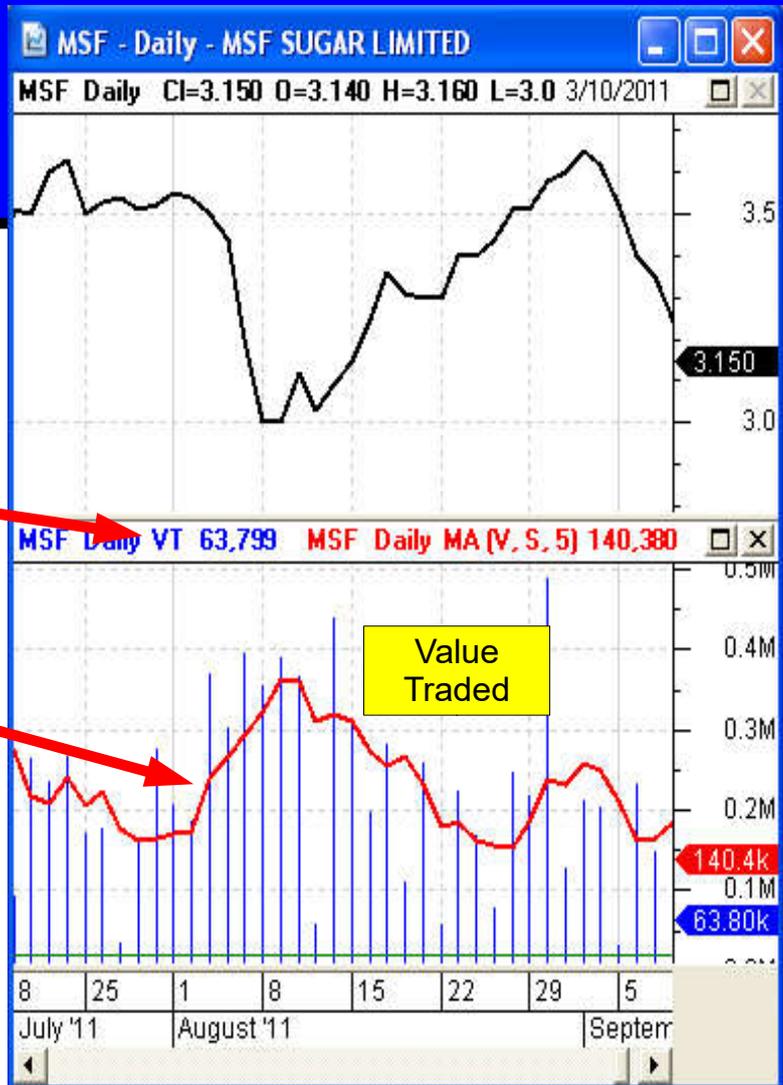every bar for the **last 20 bars**.

(why: "5-bar SMA", and "last 20 bars"?)

Solution

- Sales value (VT = Value Traded)
- 5-bar SMA of Value Traded

What about *Volume*?

Similar to *Value*:

- Intended position size < 5% of daily **volume**
- How many stocks qualify?
  For example, use BullCharts Scan Criteria:

  5-bar SMA of *Volume* > 100,000
  every bar for the **last 20 bars**.

Conclusions

(1) Assuming that we only trade in *liquid* stocks.

(2) Use a simple search criteria such as (eg):-
Daily Trades > 50, and
Daily Value > 100,000
will miss some opportunities.

(3) So, use search criteria based on
5-period SMA for the last 5 bars
(or a variation of this?)

Feedback?

• Questions?

   • Why Trades > 50, and not 30, or 70?

   • Could VT be 10% of daily value? or another value?

• Feedback?

SUMMARY

We could consider:

- *Value*
- *Volume*
- *Trades*

to:

(a) Prepare a *Stock Universe*, and

(b) To determine a *Position Size*

Thank you