

**Sharemarket 101**  
Avoiding the pitfalls  
to make good profits

February 2013

Share Market  
Toolbox

*"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**

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**Sharemarket 101**

**Before we start...**

- This presentation — snippets from two 6-hr seminars at VSCH\* (next in June):
  - (a) "Share market 101"
  - (b) "Price charts — unlocking the secrets"
- A lot of material in [Share Market Toolbox](#)
- I send occasional email
- Feel free to register and not miss out. (see today's no-obligation sign-up sheet)

\* VSCH – Vermont South Community House

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**Sharemarket 101**

**Let's talk about...**

1. Investing
2. The share market
3. Managed funds
4. Blue chip stocks
5. Dividends versus capital growth
6. Bull markets (and bears?)
7. Financial advisors, stock brokers
8. Economists, accountants

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 **Sharemarket 101**

**Set the scene...**

(1) How well are you sleeping at night with your current investments?



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**Set the scene...**

(1) How well are you sleeping at night with your current investments?

(2) Does the market worry you?



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 **Sharemarket 101**

**Set the scene...**

(1) How well are you sleeping at night with your current investments?

(2) Does the market currently worry you?

(3) How do we know how much to "risk" in the market (so that we can sleep soundly)?



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**Sharemarket 101**

### Set the scene...

- (1) How well are you sleeping at night with your current investments?
- (2) Does the market currently worry you?
- (3) How do we know how much to "risk" in the market?
- (4) Are you happy with your *blue chip* investments?



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### Today's Agenda

- (1) Common pitfalls
- (2) "Let's just buy some *blue chip* stocks?"
- (3) Is it better to cut the "losers" loose?
- (4) Key success factors in the markets
- (5) Investing risk management
- (6) Q & A?



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Robert is NOT:-

- stock broker
- financial adviser
- "qualified" in finance
- economist
- accountant

Robert is:  
Engineer  
IT professional  
Share market analyst



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### About... Robert Brain

Market analyst, part-time\* share trader, educator  
Web-based sharemarket-support business

- Many years experience as trainer, presenter, conference facilitator (*Scouts*)
- Share market – active 14+ years\*
- Chartist (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 (convener Australian BullCharts User Group and authorized 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 2006).

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### Important Notice — No Advice!

- (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.

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### Important Notice



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# Common Pitfalls

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## Common pitfalls?

Have there been any "lessons" for investors with/since the GFC?



We can hope to avoid them next time...

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## Common pitfalls

1. Trust everything we hear
2. Trust all financial advice without question
3. Fall in love with a company's shares
4. Hold on to a falling stock
5. Believe that *blue chip* stocks are great
6. Invest too much into one position
7. Long-term buy-and-hold strategy
8. Bear market => head in the sand
9. Get swept up in the hype and join the crowd
10. Take eyes off the ball
11. Over-diversify (resulting in extreme conservatism).
12. Missing out on good investment opportunities.

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**Secrets to success in the markets**

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**Nine secrets to success**

- (1) Beware the "sage advice" (gems and furchpies)
- (2) Long term? — not!
- (3) Be clear about our investment intentions (instrument, duration, a plan, etc.) and don't be distracted
- (4) Diversify? — don't overdo it
- (5) The trend *is* your friend...



**Refer to the handout, and more over...!**

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**the secrets (cont.)**

- (6) Risk management → optimise position size
- (7) Utilise the Stop Loss approach
- (8) Utilise technical analysis
- (9) The "4 Windows" approach...

**More details in the following slides...**

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### 1. Beware the sage advice

There are many clichés and axioms to do with investing. For example:

- "Time in the market" vs "timing the market"
- "A rising tide lifts all boats"
- "When Wall Street sneezes other markets catch a cold"
- "Dollar cost averaging..."
- "The trend is your friend".

**BUT, some of these are furphies\*!!**

\* furphy — A tall tale (refer water cart legend) © 2013 Robert B Brain — Share's Share Market Tutorials — 080 2287500

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### Sage advice

- (1) Salesmen selling products
- (2) In some cases — vested self-interest
- (3) Commissions
- (4) Increasing turn-over

Think about it.  
If you worked in the finance industry,  
how could you increase your take-home pay?

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### Beware the sage advice

There are many clichés and axioms to do with investing. For example:

- "~~Time in the market~~", vs "*timing the market*"
- "~~A rising tide lifts all boats~~"
- "*When Wall Street sneezes other markets catch a cold*" <= TRUE
- "~~Dollar cost averaging...~~" <= Rubbish
- "*The trend is your friend*" <= Very TRUE

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## 2. Long term? — NOT!

- (1) Blue chip stocks can disappoint
- (2) Bear markets or corrections come around about every 4 years producing a roller-coaster effect
- (3) Severe bears or corrections destroy investment capital.

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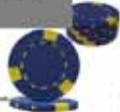
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Blue chip stocks  
can be  
disappointing...

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### What does "blue chip" mean?

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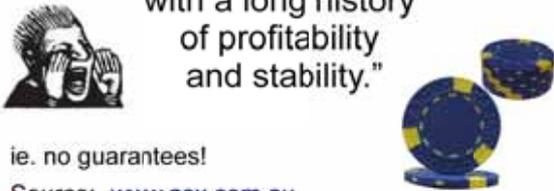
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What does "blue chip" mean?

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



ie. no guarantees!  
Source:- [www.asx.com.au](http://www.asx.com.au)

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Why hold blue chips?

- (1) Dividend income
- (2) Capital growth
- (3) Franking credit tax deductions
- (4) Other?

**It's very useful to do the maths**

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How do they perform?

- (1) Dividend returns? — how are they?
- (2) Capital growth? — how is it?
  - Not bad over the very long term
  - Short term? — can be terrible!

**Do they really perform?  
Or not?**

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### Blue Chips?

At least 36 well-known blue chips fell more than 50% during the GFC, and most are still below their highs of FOUR years ago.

See more details:  
[www.robertbrain.com/bluechip](http://www.robertbrain.com/bluechip)

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**QUESTION:**

How long does it take  
a *blue chip* stock  
to recover from  
a bear market fall  
or a correction?  
**Up to 10 years!**



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**Blue chips — conclusion**

- Even “blue chip” stocks can fall in value
- They can take only a couple of years to recover, or many years!
- Sometimes the dividend income is outweighed by the capital destruction

**The conclusion:**  
It can be financially beneficial  
to sell a falling stock  
to preserve capital and lock in profits.

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**3. Plan and strategy**

- (1) It is very useful to have an investing/trading plan, and at least one documented strategy
- (2) Which instruments to invest?
- (3) Where are the funds coming from?
- (4) What is our risk tolerance?
- (5) How will be handle the risk management?

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### Income or growth?

This is an interesting conundrum:  
Is it best to accept income from dividends at the expense of capital growth?

- It is very useful to do the sums
- It can be shown that capital destruction due to a falling share price can out-weigh dividend income.

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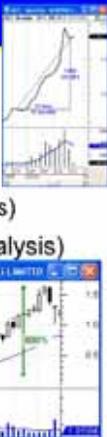
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### Selection strategy

For "stock selection", have a clear selection strategy recorded.  
Examples:

- (1) Today's industry sector (not yesterday's)
- (2) Quality stocks (simple fundamental analysis)
- (3) Rising trend (more shortly)
- (4) Price breakout



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### 4. Diversify?

If we diversify across industries, the result might approximate to the share market index.  
So why not just invest in the index?  
If diversifying for safety, then anticipate mediocre returns

Diversification? — there are arguments both ways.

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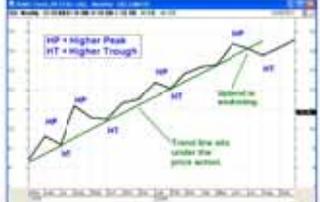
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### 5. Trends

Once a trend is under way, it is statistically likely to continue.

(1) Identify stocks in an uptrend, and invest at the right time



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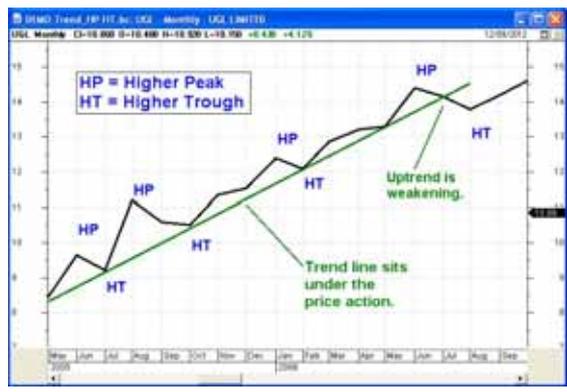
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### Down trends

Once a trend is under way, it is statistically likely to continue.

(1) Identify stocks in an uptrend, and invest at the right time

(2) If a **down trend** is under way, it is likely to continue, so **AVOID IT!** The stock might get a lot cheaper (and destroy investment capital).

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# Risk management

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## The old way...

The old way to invest:

- (1) buy blue chips
- (2) put in bottom drawer and forget
- (3) cash them in at some future time (but when?)

**Question:**  
In all reality, might the money have been better in the bank?



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## By the way...

*Something to think about:*

If you decide to sell some shares, do you know how to go about it?

Would you use a full-service broker (do you already have one?), or perhaps sell using an online broker?

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We want to invest, and  
we want our capital to increase  
**AND**  
we want to sleep at night.  
So, HOW?



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**Small amounts "at risk"**

- (1) Don't bet the house  
keep the position size sensible (optimised)
- (2) Have only a *small* amount "at risk"
- (3) Utilise the price chart\*
- (4) Identify a *Stop Loss* price level early
- (5) If the *Stop Loss* is triggered, then  
sell according to our strategy.

\* — price chart comments next screen...

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***A word about price charts***

Share price charts  
reflect the underlying  
emotions and psychology  
of the market participants  
and  
the opinions about "fair value"

So they are very, very useful.

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So, we can sleep at night

- (1) Keep each position size down to a "sensible" level.
- (2) Determine a Stop Loss level **early**.
- (3) If the stop is triggered, then sell according to our strategy.

**This is sound money management, and best-practise risk management.**



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**8. Technical analysis**

- (1) People tend to repeat past behaviours
- (2) People have different opinions about "fair value" for a company's share price
- (3) Share prices fluctuate between over-bought and over-sold — the tussle caused by differing opinions
- (4) The price charts show all this.

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### Technical analysis and charts

For help:

- ATAA (Australian Technical Analysts Assoc) [www.ataa.com.au](http://www.ataa.com.au)
- Good charting software
  - free charts online, or
  - BullCharts\* — [www.bullcharts.com.au](http://www.bullcharts.com.au)
- Robert's Share Market Toolbox

\* — Robert's preferred charting tool

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### 9. The "4 Windows" approach

A framework for both new and experienced investors and traders to remind us of the key aspects of technical analysis, and as a check list to help us remember key considerations for stock (and index) analysis (utilising technical analysis)



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 **Summary & Wrap up**

### Summary

- Common pitfalls
- Success in the markets
- Heed the quality advice
- Let's sleep at night



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Summary & Wrap up

### Education sessions

Two seminars running at VSCH in June:

- "Share market 101"
- "Price charts — unlocking the secrets"

See seminar details:  
[www.robertbrain.com/shareseminar](http://www.robertbrain.com/shareseminar)

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Summary & Wrap up

### These slides

This set of presentation slides will be available here soon:  
[www.robertbrain.com/presentations](http://www.robertbrain.com/presentations)

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Summary & Wrap up

### Don't forget my Toolbox



- Brainy's **Share Market Toolbox**  
An arsenal of weapons to help you tackle the share market
  - (1) Loads of eBook (PDF) Articles
  - (2) Info: share market, charting, BullCharts
  - (3) Weekly Market Updates and Watch List
  - (4) monthly e-Newsletters
- Good charting software – BullCharts  
[www.robertbrain.com/bullcharts/](http://www.robertbrain.com/bullcharts/)
- My contact details: [www.robertbrain.com](http://www.robertbrain.com)  
or phone: 0438 355 910

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**THE END**

See free stuff here:  
[www.robertbrain.com/free](http://www.robertbrain.com/free)

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Summary & Wrap up

**THE END**

**THANK YOU**

(Backup slides follow)

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