



### Brainy's Share Market Toolbox

## The traders' journey. Following the trend! (and capital protection)

March 2014

*"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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### Introduction & Housekeeping

## Interactive...

Two things:

- I have some material to share; and
- Encourage everyone else to share.

And:

- Please ask questions.
- Let's discuss details.



Price charts prepared using BullCharts software  
[www.bullcharts.com.au](http://www.bullcharts.com.au)



*Every chart tells a story.  
Understand the story in the chart.*

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### Introduction & Housekeeping

## About... Robert Brain

**Nimble Short term Investor**  
consultant, educator and part-time\* share trader  
web-based sharemarket-support business

- Many years experience as trainer, presenter, conference facilitator (Scouts)
- Share Market – active 15+ years\* (slowly at first)
- Chartist ie. technical analyst (ATAA member and national director)
- Provide support and tuition to traders and investors **Brainy's Share Market Toolbox**
- Member Mensa
- 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 authorised reseller with special pricing)



\* - Not yet enough capital to live off the proceeds of trading (after trading as a hobby until a career change in 2008).

**Conflict of Interest**

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# Robert details the "Typical Trader's Journey"

 Introduction & Housekeeping

## Background

- Are we *investors* or *traders*?
- What level are we at? — novice, experienced?
- Which instrument(s)? — shares, currencies, index, CFDs, options, ... ?
- If just shares, then any old shares? or a limited "universe"?
- Time frame? — days, weeks, months, years?

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 Introduction & Housekeeping

## Tonight's presentation

- The trader's typical journey (very briefly)...
- Technical Analysis — useful?
- Fundamental analysis — useful?
- The price "trend"
- Protecting capital, capturing profits
- Key lessons along the way.

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## 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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Important Notice



**advice**

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Q & A ?



**Any specific questions tonight?**

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**Stock selection**

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# Robert details the "Typical Trader's Journey"

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## How to find stocks?

Assuming we invest in Australian stocks, how do we find the right stocks to invest in?



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**Brainy's Share Market Toolbox**

## How to find stocks?

Assuming we invest in Australian stocks, how do we find the right stocks to invest in?



- (a) Look for tips in magazines.
- (b) Look for tips in newspapers / web sites.
- (c) Subscribe to free or paid email newsletters.
- (d) News articles at half-yearly company reporting.
- (e) Special software to do clever filtering.

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## Tips in magazines?

Do magazines help with stock selection?



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Tips in newspapers/web?



**Do newspapers or web sites help with stock selection?**

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**Brainy's Share Market Toolbox**

Chasing share prices?



**Does company news help?**

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**Brainy's Share Market Toolbox**

Reporting season results



**Do company reports help with stock selection?**

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My View...about the news

**It's not very helpful  
for stock selection**

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 **Brainy's Share Market Toolbox**

Special "filtering" software

Search a list of stocks for (eg):

- ROE > 10% pa...
- Low Debt/Equity
- Good dividend
- Rising share price

**Got any favourite tools?** 

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"Filtering" tools...

- Free tools (eg. [www.ASX.com.au](http://www.ASX.com.au) )
- Broker-supplied (eg. CommSec, etc.)
- Web-based
- Reasonable tools for a fee
  - Fundamental scanning tools
  - Charting tools
- Specialist (expensive) tools for traders.

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**Analyst recommendations**

They give buy, hold, sell recommendations.  
Are these of any value?



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**Analyst recommendations**

Are these of any value?

- They are only "opinions" (ie. guesstimates)
- They are "educated" opinions
- Based on a range of assumptions
- 100 analysts can have 100 different answers — how come? Are they all correct?

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**My View...about recommendations**

**Not very helpful  
for stock selection**

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### Fundamental analysis

Fundamental analysis — does it help?

- Company statistics reported after the event 
- Updated 6-monthly
- Doesn't factor in the general market sentiment nor broad opinions of value

*Compare to technical analysis (shortly...)*

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### "Fair value"

What is "fair value"?



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### "Fair value"

What is "fair value"?

- It is one "opinion" about the value of a company as at a specific date (also see previous slide)
- If two parties differ, then who is right?
- If 100 parties differ, then who is right?

**(basically guesswork?)**

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My View...about *fair value*

**Not very helpful  
for stock selection**  
(actually — useless)

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**Technical Analysis**

Price charts summarise  
the underlying  
opinions and emotions  
of the market participants.  
Every chart tells a story.  
It helps to understand  
the stories in the price charts.

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My View...about *technical analysis*

**Extremely  
useful and  
very helpful**  
(my very first view — witchcraft)

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Why spend time on...

- Reading news
- Reading financial reports
- Fundamental analysis



Because it's enjoyable  
(but, relate it to ABC time management principles,  
and urgency versus priority versus enjoyment)

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What about education?

How can we learn more about the market  
and investing / trading, etc., etc...?

- Courses
- Seminars, Lectures, Workshops
- Books
- Internet
- Organisations
- Self-help groups...



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Favourite strategy / approach?

Do you know of a  
"favourite" approach?

(without giving it away)



Could be yours, or someone else's.

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## Written strategy?

Do we have a pre-planned and written "strategy"?

- Entry strategy?
- Exit strategy?
- Written down?
- Discretionary trading?



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## Position size?

How much do we invest in a position?

- Play around with just \$500?  
(that was my first foray a long time ago)
- \$1500 to \$3000?
- \$3000+ ?



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## Sleep at night?

Risk and money management

- Portfolio risk (eg. the 20% rule)
- Position risk (the 2% rule)



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Introduction & Housekeeping

# Trends

up, down, sideways

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## Trends — up, down, sideways

- Up trend — Higher peaks and higher troughs
- Down trend — Lower peaks and lower troughs
- A confirmed trend is likely to continue.

***The trend is your friend.***

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# Robert details the "Typical Trader's Journey"



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### Period? — daily, weekly, monthly?

Is there an ideal period to use on the charts?

- Depends on your investing horizon, and available time windows.
- Day traders use intraday charts.
- Position traders use daily/weekly.
- Long term investors use weekly/monthly.

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### Liquidity?

What about liquidity?

- If you want to exit a position very quickly, what might inhibit your exit?
- Low volume per day.
- Few "trades" per day.

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 **Introduction & Housekeeping**

# Protecting capital

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### Bear markets & Corrections

- These come around about every 3 or 4 years (on average)
- And they can take 3 years before sustaining new highs (on average).

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

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## Simplified exits

- Stop Loss
- Parabolic-SAR
- Chandelier Exit
- Wilson ATR Trailing Stop

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## Trailing Stop Loss

**CBA daily chart**

The chart displays the daily price of CBA from November 2013 to April 2014. A black line represents the price, which generally trends upwards from approximately \$60 in November to a peak of about \$75 in late March. A red line indicates a trailing stop loss that follows the price's upward movement. Several exit points are marked with blue circles and horizontal lines: a green line at the bottom left, a green line at the start of the main uptrend, a red line at the peak, and a green line after a dip in late March. The x-axis is labeled with dates from 11/1 to 4/1, and the y-axis shows price levels from 60 to 75.

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## Protecting capital, capturing profits

- Use a sound exit strategy
- As a minimum, utilise a Stop Loss
- Watch the Win / Loss ratio  
(can be low, provided wins are big and losses are small)

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Robert details the "Typical Trader's Journey"



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### Blue chips can disappoint

- The title "blue chip" does not mean anything significant.
- Even blue chip stocks can disappoint.

More details see:  
[www.robertbrain.com/share-market/blue-chip.html](http://www.robertbrain.com/share-market/blue-chip.html)

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**Introduction & Housekeeping**

# My journey...

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### Key milestones

1. Interested in the markets
2. Small parcel purchase (wrong)
3. Read the news and newsletters (wasteful)
4. Education:- seminars, books
5. Discovered technical analysis
6. Discovered sound risk management
7. Encountered many strategies
8. Offered many instruments
9. Bombarded with information and offers

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 **Summary & Wrap up**

### Summary

- News and research — needs a balance
- The trend is your friend
- Capital protection
- Money & risk management
- Entry & exit strategies (pre-planned)

*Every chart tells a story.  
Understand the story in the chart.*

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### Q & A ?

# Any questions?

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Robert details the "Typical Trader's Journey"

 Summary & Wrap up

### my Toolbox

- Brainy's **Share Market Toolbox**
  - [www.robertbrain.com](http://www.robertbrain.com)
  - Loads of eBook (PDF) Articles
  - Info: share market, charting, BullCharts
  - Weekly Market Updates and Watch List
  - monthly e-Newsletters
- Good software – BullCharts  
[www.robertbrain.com/bulcharts/](http://www.robertbrain.com/bulcharts/)
- My contact details:  
web site above, or phone: 0438 355 910



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 Summary & Wrap up

### THE END

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

Thank you.

[www.robertbrain.com](http://www.robertbrain.com)  
or phone: 0438 355 910

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 Summary & Wrap up

### THE END

### THANK YOU

(Backup when you)

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