

Medium Term Investing in Today's Awkward Markets



Medium Term Investing in Today's Awkward Markets

Robert Brain
June 2016

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



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Introduction

About this presentation

- Utilises some key ideas and slides from the Nimble Short Term Investing presentation
- Adjusted a little for medium term investing (as opposed to "short term investing")
- Presented to U3A Manningham, June 2016

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Introduction

Today's investing challenges

- The long-term buy-and-hold approach to investing was working, but not any more
- It was easy to make money in the markets, especially during the bull market 2003-2007
- But successful investing has not been easy since the infamous GFC (2008+).
- The equity markets are very challenging for regular investors.
- Investing for either income, or capital growth, has been challenging.

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 **Introduction**

Today's Agenda

1. Let's invest "medium term"
2. How to find dividend income stocks?
 - One simple current list
 - Sorted by dividend yield
 - Easily eliminate the illiquid stocks, etc.
3. How to find stocks with capital growth?
4. Some example recent winning stocks.

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 **Introduction**

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 (Scout's)
- Share Market – active 15+ years* (slowly at first)
- Chartered 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)
- **No 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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 **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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Introduction

Important Notice



advice

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Introduction

Questions?

- Please ask questions.
- Let's discuss details.
- Any price charts prepared with BullCharts software.



*Every chart tells a story.
It pays to understand the stories in the charts.*



www.bullcharts.com.au

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Finding dividend income

How to find
dividend income
stocks

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Finding dividend income

How to find (good) income stocks?

Use a search facility:
Websites,
Brokers,
Some software tools.
What's your favourite?



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Finding dividend income

BullCharts supplied scan:

Symbol	Name	Div Yield	Close	Annual Div/5y	Ex Date
LDI	Cardno Limited	41.567	0.400	0.200	4/03/2015
SGH	Stater & Gordon Limited	20.930	0.430	0.090	18/03/2015
HIL	Hills Limited	20.755	0.265	0.095	14/04/2015
PRT	Prime Media Group Limited	14.925	0.335	0.050	3/03/2016
MRM	Mesa Offshore Limited	13.750	0.400	0.095	4/03/2015
DCG	Decol Group Limited	13.376	0.785	0.105	4/03/2016
NEC	Nine Entertainment Co. Ltd.	11.304	1.150	0.130	2/03/2016
CCV	Cash Converters International	10.127	0.395	0.040	30/04/2016
PAC	Pacific Current Group Limited	9.956	4.870	0.400	1/02/2016
MLD	Maca Limited	9.746	1.180		1/02/2016
SMD	SMS Management & Traders	9.593	1.720		1/02/2016
MND	Monadelphous Group Limited	9.491	7.000		1/02/2016
MOC	Mortgage Choice Limited	9.412			30/03/2016
GMF	GPT Metro Office FMO Units	9.097			30/03/2016
PVL	Pinegroup Limited	8.464			15/03/2016
GDI	GDI Property Gap Stapled S.I.	8.420		0.076	29/12/2015
AZ	Air New Zealand Limited	7.950		0.178	15/03/2016

Looks easy! BUT...

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Finding dividend income

Capital destruction!!

Symbol	Name	Div Yield	Close	Annual Div/5y	Ex Date	Close 2015	Price 1 year
LDI	Cardno Limited	41.567	0.400	0.200	4/03/2015	0.200	49.9
SGH	Stater & Gordon Limited	20.930	0.430	0.090	18/03/2015	0.200	49.9
HIL	Hills Limited	20.755	0.265	0.095	14/04/2015	0.400	48.2
PRT	Prime Media Group Limited	14.925	0.335	0.050	4/03/2015	0.120	42.3
MRM	Mesa Offshore Limited	13.750	0.400	0.095	4/03/2015	0.090	39.1
DCG	Decol Group Limited	13.376	0.785	0.105	4/03/2016	1.100	35.8
NEC	Nine Entertainment Co. Ltd.	11.304	1.150	0.130	2/03/2016	1.400	37.9
CCV	Cash Converters International	10.127	0.395	0.040	14/04/2016	0.400	44.7
PAC	Pacific Current Group Limited	9.956	4.870	0.400	3/03/2016	1.400	47.0
MLD	Maca Limited	9.746	1.180		14/04/2016	1.400	44.7
SMD	SMS Management & Traders	9.593	1.720		15/03/2016	1.400	43.1
MND	Monadelphous Group Limited	9.491	7.000		3/03/2016	1.400	48.6
MOC	Mortgage Choice Limited	9.412			3/03/2016	1.400	73.0
GMF	GPT Metro Office FMO Units	9.097			30/03/2016	1.400	78.6
PVL	Pinegroup Limited	8.464			15/03/2016	1.400	38.9
MDC	Mortgage Choice Limited	8.7	1.800	0.160	23/02/2016	2.000	39.1
AZ	Air New Zealand Limited	8.7	3.990	0.178	15/03/2016	2.000	49.9
VLA	Village Roadshow Limited	8.6	2.100	0.186	8/02/2016	2.000	3.4
SAR	Select Harvests Limited	8.6	8.800	0.980	2/03/2016	11.000	40.9
GDI	GDI Property Gap Stapled S.I.	8.4	9.900	0.076	28/12/2015	9.800	1.9
EPW	Enn Power Limited	8.3	1.440	0.120	15/03/2016	1.400	33.1
TRX	360 Cap Index Fund Index	8.2	2.710	0.222	30/03/2016	2.600	

Let's look at one example...!

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Finding dividend income

Conclusion

Chasing **dividends** is fine.
BUT
it pays to watch the **capital value**

The easiest way is to
keep an eye on the charts.

-
- Finding dividend income**
- Today's Agenda**
1. Let's invest "medium term"
 2. How to find dividend income stocks?
 - One simple current list
 - Sorted by dividend yield
 - Easily eliminate the illiquid stocks, etc.
 3. How to find stocks with capital growth?
 4. Some example recent winning stocks.
- WHY & HOW?**

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Finding dividend income

How to eliminate illiquid stocks?

1. Why worry about stock liquidity?
 - So we can exit a position quickly, when we want to.
2. Clearly define "liquidity"
 - Note: it can change from month to month
3. Include a "filter" in your market scans.
4. Create your "current" watchlist to include only liquid stocks.

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Using the charts

Using the charts But how?

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Using the charts

Fundamental vs Technical?

Where do you sit?

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Using the charts

Fundamental analysis

- Fundamental analysis is okay; BUT...
- Don't hold your breath waiting for the share price to increase to your perceived value.
- The share price is determined by Mister Market, and changes every day.
- If the share price is in a "down trend", then it is likely to continue, and get cheaper and cheaper.
- The 100% technical analyst believes that everything we need to know is already in the chart, and we don't need anything else.

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Finding dividend income

BHP was cheap!

In 2012, BHP was cheap at about \$30. Could it get any cheaper?

Finding dividend income

BHP was cheap!

No capital growth from 2012 to 2014; but:...

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Using the charts

Key belief

The opinions and emotions of market participants are summarised in the price charts.

Every chart tells a story.

It pays to understand the stories in the charts.

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Using the charts

Don't believe it? — Study this chart

"The opinions and emotions of market participants are summarised in the price charts."

Note the price swings.
Why do they happen?

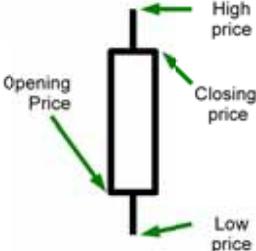
(see larger version on next slide)



Using the charts

The White Candle

- **Up day** — opens low, closes high.
- **Candle body** is the difference between open and close.
- **Upper tail (wick)** goes up to the High of the period.
- **Lower tail** goes down to the Low of the period.
- Can apply to: day, week, month, hour, etc.



White Candle

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Using the charts

Why does this happen?

Note: Each candle on a candlestick chart summarises the price action in one "period".

On a weekly chart (like this one), each candle summarises the price action in one week.



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Using the charts

Perceived stock valuation

Note the price swings.
Why do they happen?

It's the collective opinions of investors regarding the "inherent value" of the stock.

See the daily chart for more detail on the next slide...



Using the charts



Using the charts

Using the charts (Stock picks*?)

*** NOTE: The following is NOT a recommendation to participate in the markets, nor is it advice of any sort. This is general information for education only.**



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Using the charts

Stock selection strategies

- There are many ways to select stocks (some more successful than others), so decide on one or two strategies and don't be distracted by others.
- The chosen stock selection method for this approach is **trend following** (ie. stocks in a confirmed rising trend).
- Utilise **back testing** and **paper trading** strategies to increase the confidence of the strategy details.

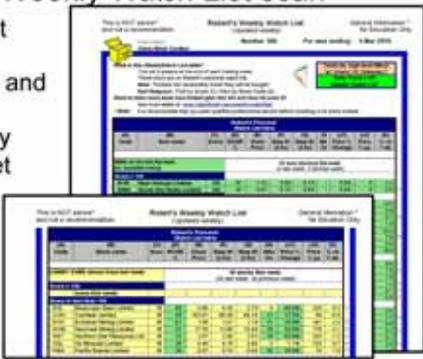


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Using the charts

My Weekly Watch List scan

I do a market scan every Friday night, and publish the results for my Share Market Toolbox subscribers.



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Using the charts

My stock selection details

- Both 15 and 30 week Moving Average rising for at least three weeks (on weekly chart)
- MACD* low (prefer below zero)
- Prefer steadily rising weekly candles
- Prefer Wilson ATR* Trailing Stop (WATRTS) indicator to be rising every few weeks.
- Exit:- In ranging or volatile market, daily close below WATRTS, exit on next open.

* MACD = Moving Average Convergence Divergence chart indicator
ATR = Average True Range

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Using the charts

Example – ALL Weekly chart

Aristocrat Leisure Limited
Candles rising nicely.

Two EMAs
W-ATR-TS
Note: The general rising nature of elements of this chart!
Volume

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Using the charts

Important principles — Trends

- Definition of an "up trend":- series of **Higher Peaks and Higher Troughs**
- Dow Theory says:
"a trend is a trend is a trend, until it is over"
- A trend (either up or down) is likely to continue until it is confirmed to have finished (due to investor psychology and the weight of opinions)
- *"The trend is your friend"*.

*Every chart tells a story.
It pays to understand the stories in the charts.*

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Using the charts

Trends and MA

- In this strategy I use the Moving Average (MA) to identify a "rising" share price;
- This is not strictly a definition of "trend";
- But it is easy to "scan" for this.

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Using the charts

More detail

1. Two EMA curves up
2. The EMAs crossed
3. EMAs rising for 3+ weeks
4. MACD crosses "above" Signal Line
5. MACD crosses above zero
6. Momentum crosses above it's MA
7. MA of Mom turns up.

Using the charts

This one was good...

Using the charts

CAUTION...

- Not all prospects are profitable
- Need to be careful
- Manage the risk:
 - Keep position size "reasonable"
 - Good Exit strategy
 - Stop Loss strategy
 - Beware the illiquid stocks

(see sample next slide...)

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Medium Term Investing in Today's Awkward Markets

Using the charts

Example 2 – PTM Weekly chart

Platinum Asset Management
Candles rising nicely.

Two EMAs

W-ATR-TS

Note: The general rising nature of elements of this chart!

Volume

The chart displays weekly price data for PTM. It features two Exponential Moving Averages (EMAs) in blue and red, both trending upwards. A red line represents the 14-day Weekly ATR (W-ATR) with a 20-period moving average (TS). The price candles are generally rising. Below the price chart is a bar chart for Weekly Volume. A yellow box highlights the volume bars.

Using the charts

Example 2

1. Two EMA curves up
2. The EMAs cross
3. EMAs rising for 3+ weeks
4. MACD crosses "above" Signal Line
5. MACD crosses above zero
6. Momentum crosses above its MA
7. MA of Mom turns up.

This chart includes additional indicators: MACD (blue line) crossing above its signal line (green line) and above zero; Momentum (red line) crossing above its moving average (blue line); and the moving average of Momentum (blue line) turning upwards. The price chart shows a continuation of the upward trend.

Using the charts

But this one failed

The chart shows a sharp decline in price, indicated by a red arrow labeled "Downward". A red circle highlights a point where the price has fallen significantly. A yellow box contains the text: "So, have a sensible Stop Loss / Exit Strategy. And make sure to USE IT!". The MACD indicator shows a sharp drop below the signal line.

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 **Using the charts**

Is there a better exit?

- In this strategy we use Wilson ATR Trailing Stop
- But in the previous example it gave away a lot
- So, is there a better exit method?



Remember:

- A win/loss ratio of 4/6 can still be profitable.

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 **Using the charts**

Money management (1-4 of 8)

- Confirm the *exit strategy* details before entering a position.
- Some investment positions will be losers — that's okay.
- A *win/loss ratio* of only 40% can be okay (provided the losses are kept small and the profits are relatively high).
- Let profits run. If appropriate, take some money off the table to capture profits.

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 **Using the charts**

Money management (5-8 of 8)

5. Don't close a position just because it has met a *price target*, or because it is making huge profits. (you can go broke taking profits)
6. "Commit" no more than 10% of total capital to any one position.
7. "Risk" no more than 2% of total capital on any one position (the "2 Percent Rule").
8. Consider optimise the *position size* using a *position sizing tool*.

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Using the charts

Risk management

- (a) Stock liquidity — Only invest in liquid stocks
ie. daily trades > "x", and
daily volume or value > 20 times the position size.
- (b) To reduce some risks, consider
aspects of *funda-technical analysis*
eg. look for low debt/equity ratio and
consistent returns on equity.
- (c) Monitor positions at least weekly, and
if an exit condition (or stop loss) is met,
then action it according to the exit strategy.

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Using the charts

Stocks selected 5 March 2016

The following 9 stocks were identified
in my weekly scan in March 2016:

SDF	Steadfast Group Limited
PBG	Pacific Brands Limited
CTD	Corporate Travel Management Limited
CIM	Cimic Group Limited
JHX	James Hardie Industries PLC
ABC	Adelaide Brighton Limited
OZL	Oz Minerals Limited
HVN	Harvey Norman Holdings Limited
FLT	Flight Centre Travel Group Limited

How did they perform?

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Using the charts

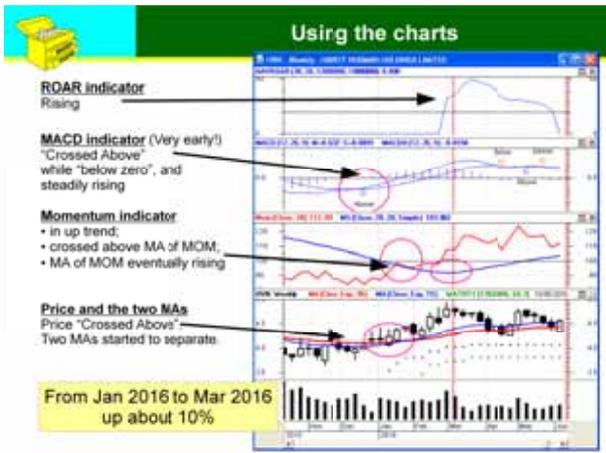
Performance over 3 months

Symbol	Name	Close 4/3/16	Close 10/6/15	Percent Diff
SDF	Steadfast Group Limited	\$1.71	\$2.36	20.5
PBG	Pacific Brands Limited	\$0.97	\$1.165	18.0
CTD	Corporate Travel Management Limited	\$13.08	\$14.97	14.4
CIM	Cimic Group Limited	\$32.42	\$36.79	13.5
JHX	James Hardie Industries PLC	\$18.26	\$20.30	11.2
ABC	Adelaide Brighton Limited	\$5.00	\$5.43	8.6
OZL	Oz Minerals Limited	\$5.45	\$5.54	1.7
HVN	Harvey Norman Holdings Limited	\$4.80	\$4.56	-5.0
FLT	Flight Centre Travel Group Limited	\$43.84	\$32.20	-26.6

Let's study one example...!

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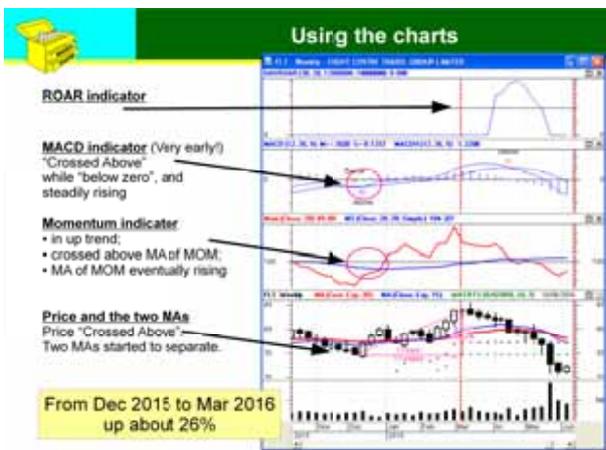


Using the charts

Performance over 3 months

Symbol Name	Close 4/3/16	Close 10/6/16	Percent Diff
SDF Steadfast Group Limited	\$1.71	\$2.26	20.5
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JHX James Hardie Industries PLC	\$18.28	\$20.30	11.2
ABC Adelaide Brighton Limited	\$5.00	\$5.43	8.6
OZL Oz Minerals Limited	\$5.45	\$5.54	1.7
HVM Harvey Norman Holdings Limited	\$4.80	\$4.30	-5.0
FLT Flight Centre Travel Group Limited	\$43.84	\$32.20	-26.6

Lets view the chart of FLT .../



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 **Using the charts**

NOTE:-

Heavy reliance on Technical Analysis; but:

- Is not a 100% guaranteed, science; but
- Is very helpful to understand the opinions of market participants
- Provides invaluable insights
- Puts the odds in our favour
- Helps with risk analysis, to minimise the risks and any losses.

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 **Using the charts**

Risk Management (v.important)

- Keep position size down to a small percentage of your investment capital
- Monitor positions periodically
- Have a good exit strategy in place
- Even a simple Stop Loss is better than nothing
- If an exit looks appropriate, then take it.

The first loss is the best loss!

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 **Summary & Wrap up**

Medium Term Investing

Even when the market is tough, there are still some stocks that are trending higher.

The secret is knowing how to find these gems.

**Every chart tells a story.
It pays to understand the stories in the charts.**

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 **Summary & Wrap up**

BTW

- I send occasional email to interested people
- My **Share Market Toolbox** web site:
 - Toolbox Members receive weekly email with (charts) analysis of our market
 - And there's lots more (stop loss, trends, etc...)
- Register for free and not miss out.
- Visit: www.robertbrain.com



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 **Summary & Wrap up**

Don't forget my Toolbox

- Brainy's **Share Market Toolbox**
 - 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/
- My contact details:
web site above, or phone: 0438 355 910



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 **Summary & Wrap up**

ATAA — networking, etc.

For totally unbiased and broad support:



Australian
Technical Analysts
Association

- Eight locations around Australia
- Monthly meetings
- Lots of resources — www.ataa.com.au

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Summary & Wrap up

Q & A ?

Any questions?

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Summary & Wrap up

THE END

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