

Trend Trading ASX Shares



Trend Trading ASX Shares

Robert Brain
May 2018

Price charts summarise 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

Additional comments?

When Robert publishes presentation slides such as this set, there is usually a version of the slides available for Brainy's Share Market Toolbox (premium) members which includes additional explanatory comments — referred to as the "Speaker Notes".



Each page in the set has the slide on the top half of the page and the "notes" on the bottom half (as shown at right).

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Introduction

Are you looking for...?

Are you looking for:

1. Which shares to buy with best chance of capital growth (ie. increase in share price)?
2. Simple ways to manage the investing risks?
3. A way to lock in profits before the share price has fallen too much?

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Trend Trading ASX Shares



- Introduction
- ## Today's Agenda
- Trend Trading ASX Shares
1. What is "Trend Trading"? and Why?
 2. Why "ASX shares"?
 3. How to find *trending* shares.
 4. Protecting capital with Stop Loss exit, etc.
 5. Watch out for *liquidity* (or lack of it).
 6. Risk and money management:
 - Position size
 - Exit strategies
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- Introduction
- ## Assumptions
- *Fair value?* — Vague, imprecise, not helpful
 - The price charts summarise the opinions of the market participants. Hence: *Technical Analysis*
 - Once a share price *uptrend* (or *downtrend*) is in place, it is likely to continue.
 - Levels of price *support* and *resistance* on a price chart are significant.
 - "Short term investor" mindset — happy to sell
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Trend Trading ASX Shares

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 (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)
- **No AFS license! (Can't give advice)**
- **BullCharts software (convenor 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

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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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.

advice (with a red prohibition sign over the word)

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Introduction

Important Notice



advice

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Introduction

Quick questions may be possible

- 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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Trend Trading

Stock selection strategies

- There are many ways to select stocks...

How do you do it?

- Read about companies?
- Talk to other people?
- ... ??



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Trend Trading ASX Shares

 **Trend Trading**

Stock selection strategy ideas

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



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 **Trend Trading**

The investor mindset

1. Long term buy-and-hold is no longer effective.
2. Capital preservation is paramount.
3. A falling share price might devastate a portfolio.

The opinions of the 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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 **Trend Trading**

Let's focus on ASX shares

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Trend Trading ASX Shares

 **Trend Trading**

Why ASX shares?

To invest in equities, we could invest in Australian companies via the ASX, or in overseas equities.

- Information about ASX equities is easy to get.
- It is easy to buy/sell ASX equities (via online broker).

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 **Trend Trading**

Trend Trading What is it? and Why use it?

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 **Trend Trading**

What is *Trend Trading* and why do it?

1. Trend Trading — Finding shares that are in a confirmed uptrend, and joining the trend.
2. Why engage in “trend trading”?
Because a *trend* is likely to continue
3. But why is this the case?
Because of the collective opinions of the market participants about the share price.

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Trend Trading ASX Shares

Trend Trading

Important principles — *Trends*

1. Definition of a share price "uptrend":- series of **Higher Peaks and Higher Troughs**
2. Dow Theory says:
"a trend is a trend is a trend, until it is over"
3. 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)
4. *"The trend is your friend"*.
So we can "join the trend"

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

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Trend Trading

This uptrend was good...

ALL Weekly chart

15 week EMA
30 week EMA
Wilson ATR stop (x2.6)
101 bars
101 weeks
3.630
130.56%

Trend Trading

Perceived stock valuation

Note the price swings between levels of Support and Resistance

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...

CBA price chart story.bc: CBA

CBA Weekly CI=81.510 O=80.87 12/08/2014

\$80
\$78
\$73

Trend Trading ASX Shares

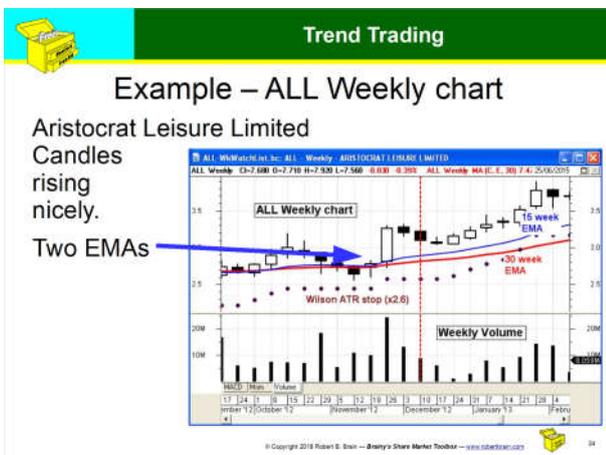


Trend Trading

How to find trending stocks?

One possibility:
Look for
share price Moving Average (MA)
rising for at least three weeks
using weekly price data
and 15 and 30 week MA

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Trend Trading ASX Shares

Trend Trading

Example 2 – PTM Weekly chart

Platinum Asset Management
Candles rising nicely.
Two EMAs

The chart displays the weekly price movement of Platinum Asset Management (PTM) from October 2014 to February 2015. The price starts around \$0.5 and rises steadily to over \$1.5. A blue arrow points to the 15-week Exponential Moving Average (EMA), and a red arrow points to the 30-week EMA. Two horizontal lines indicate ATR stop levels: a green line at approximately \$0.8 labeled 'Wilson ATR stop (x2.6)' and a red line at approximately \$1.0 labeled 'Wilson ATR stop (x3.6)'. The volume bar chart below shows increasing trading activity during the uptrend.

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Trend Trading

But this one soon failed

The chart shows the continuation of the PTM weekly price movement. After reaching a peak of about \$1.5 in late January, the price begins to decline. A red arrow labeled 'Downtrend' points to the falling price. A red circle highlights a point where the price has fallen below the 30-week EMA, with a red line indicating the stop loss level. The text 'Broke below Stop Loss' is written in red. The MACD indicator at the bottom shows the MACD line crossing below the signal line, and the histogram bars are now negative, indicating a bearish trend.

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Trend Trading

How to find trending stocks?

1. Use a charting software tool* to scan the market (on a weekly basis).
2. With a list of trending stocks, it can be useful to further sort them based on the "strength" of the trend (eg. ADX chart indicator).

* Robert's favourite software tool is BullCharts.

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 **Trend Trading**

CAUTION...

1. Not all prospects are profitable
2. Need to be careful
3. Manage the risk.

More details to come .../

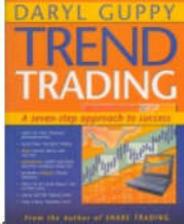
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 **Trend Trading**

Why Trend Trade?

Another reason to think about Trend Trading ASX shares:

1. Many investors / traders actually do this without realising it.
2. It is one of the easiest strategy approaches to understand, and to follow.
3. There are text books that talk about this, and provide more information.



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 **Exit Strategies**

**Protect capital
with effective
Exit Strategy**

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Exit Strategies

Exit options

The good/bad news is there are many options to choose from:

- Trailing Stop Loss — is ideal; but how?
- Weakening trend / Trend failure
- Moving Average cross-over
- Candlestick patterns
- Parabolic SAR
- Volatility-based — eg. ATR, Chandelier, etc.

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Exit Strategies

Ideal — Trailing Stop Loss under price Support levels

The chart displays the daily price of CBA from November 2012 to April 2013. The price starts around 55 and trends upwards to a peak of approximately 70 in late March. Several horizontal green lines represent price support levels. Blue circles are placed at various points along the price line, indicating where a trailing stop loss would be set. The price generally stays above these support levels, demonstrating an ideal scenario for a trailing stop loss strategy.

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Exit Strategies

Weakening uptrend, and failure

The chart shows the daily price of Santos Limited (STO) from January 2008 to July 2008. A green trend line is drawn through the initial upward movement. A red dashed oval highlights a peak in the price around late May/early June 2008. Following this peak, the price shows a clear downward trend, indicating a failure of the uptrend.

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Trend Trading ASX Shares





Exit Strategies

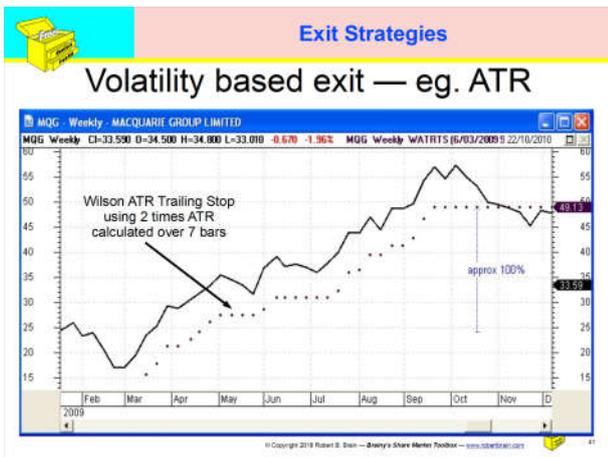
MA — more possibilities

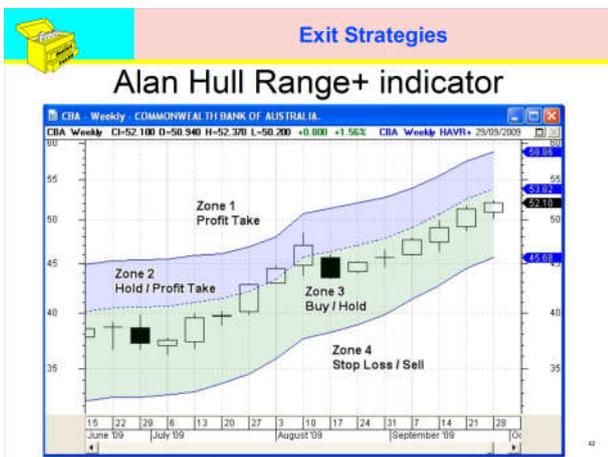
- Alternate parameters can be used. eg:
 - MA(12), MA(14), MA(9)
 - Simple MA
 - Weighted MA
 - Exponential MA
- Price above or below the MA (eg. 50d, 200d, 30w)

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Exit Strategies

Exit strategy options

- Like I said, there are many possibilities to choose from
- Choose wisely
- Find something that “gels” for you
- Test thoroughly.

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 **Liquidity**

Watch out for liquidity (or lack of it)

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 **Liquidity**

Stock liquidity

Only invest in "liquid" stocks

- We want to be able to buy, and sell, without influencing the share price.
- When it comes time to sell, we want to be able to sell quickly (ie. there needs to be buyers ready in the market)
- Check:
 - The daily turn over — volume, and value
 - The number of trades each day.

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 **Liquidity**

Liquid stocks (not)

Of the 2,000+ stocks on the ASX, only about 500 are liquid enough for many traders / investors.

So, be informed and choose wisely.

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 **Liquidity**

Stock liquidity

Only invest in liquid stocks.
Some thoughts:

- Daily volume or value is > 20 times the intended position size (ie. position size < 5% of daily value traded)
- eg. If daily value = \$100,000, then keep position size < $\$100,000 / 20 = \$5,000$
- daily trades > "x" (perhaps 50).

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 **Risk and Money Management**

Risk and Money Management

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 **Risk and Money Management**

Risk management

(a) Choose your *stock universe** carefully, by considering *stock liquidity*.

(b) To reduce some risks, consider aspects of *funda-technical analysis*
eg. look for low debt/equity ratio and consistent returns on equity.

* Stock universe — This is a collection of stocks on which you focus your attention. It might be: large-cap stocks, or small-cap stocks, or tech stocks, or healthcare stocks, or biotech stocks, etc., etc., or a combination of these.

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Risk and Money Management

Money management

- 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)
- "Commit" no more than 10% of total capital to any one position.
- "Risk" no more than 2% of total capital on any one position (the "2 Percent Rule" — more over).
- Optimise the *position size* using a *position sizing tool*.

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Risk and Money Management

Risk Management (v.important)

- Have a good exit strategy in place
- Monitor positions periodically — at least weekly, and if an exit condition (or stop loss) is met, then action it according to the exit strategy.
- If an exit looks appropriate, then take it.

The first loss is the best loss!

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The 2% Rule

The following slides are from a special workshop presentation entitled "Follow my Trade".

These slides explain the so-called "2% Rule", which is used for:

- Evaluating Reward to Risk ratio (to help rank stocks in a useful sequence); and
- Determining the Position Size.

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Trend Trading ASX Shares

The 2% Rule

In this example we are using what is widely referred to as the "2 Percent Rule"; and

- We are using the amount of 2 percent; but
- A more conservative approach would be to use a value less than 2%, and perhaps as low as just 1%.

Also see: https://www.incrediblecharts.com/trading/2_percent_rule.php

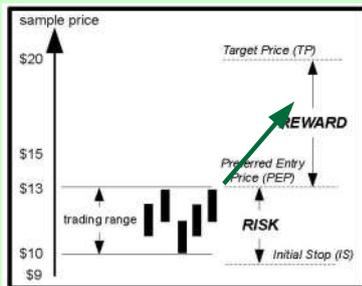
Also see: Colin Nicholson's web site discussion: <http://www.bvts.com.au/index.cfm/resources/ask-colin/817-could-you-explain-the-5-rule-as-opposed-to-the-2-rule-and-suggest/>

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Explaining the 2% Rule

- Recent trading range \$10-\$13
- Anticipate a break out and rising trend.



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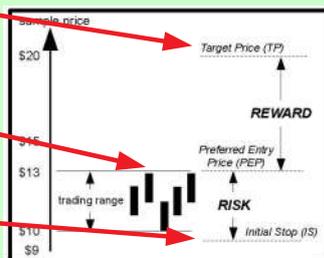
Specific example

1) Identify three key price points:

Target price
= \$20

Preferred Entry
Price (ie. likely
purchase price)
= \$13

Initial Stop Loss
= \$9.50



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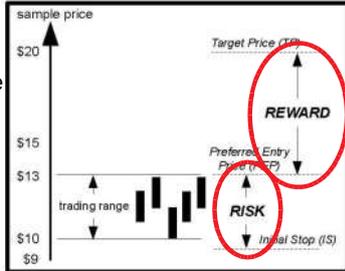
Example (cont)

2) Determine:

- Reward amount
\$20-13 = \$7
- Risk amount
\$13-\$9.50
= \$3.50 per share

3) Calculate:

- Reward/Risk Ratio
- Ideally greater than 2



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Example (cont)

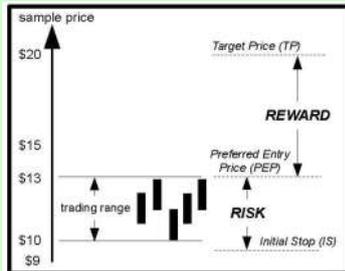
Reward/Risk Ratio

$$= \frac{\$7.00}{\$3.50}$$

$$= 2$$

The greater the reward, the better the ratio.

Great if 3, 4 or 5+

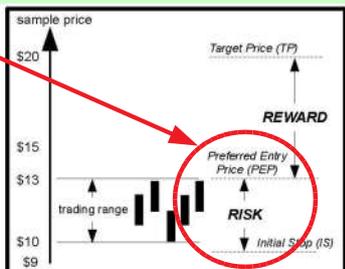


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If it falls... we sell...

If the share price falls and we close the position, how much money have we actually lost?

- The amount "at RISK"
- Assuming that we can sell at our Initial Stop value (ie. no slippage).



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The amount "at risk"

- Many experts suggest to set the amount "at risk" at something like 2% of total capital
- This has led to the "2 Percent Rule" *
- More conservative approach — use 1.5% or 1%

* - The "2 Percent Rule" is very widely used. More details: Van K. Tharp, "Trade your way to Financial Freedom"



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Position Size

Position size (the number of shares to buy):

$$\frac{\text{Total amount at risk}}{[\text{R}]isk per share}$$

Assume we have \$10,000 in total to invest.
Total amount at risk = 2% of \$10,000 = \$200
and with \$3.50 at risk per share:
Position Size = \$200 / \$3.50 = 57.14

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Trend Trading

Trend Trading — Summary ?

Heavy reliance on Technical Analysis

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

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 **Summary & Wrap up**

Trend Trading ASX Shares

Trend Trading is one strategy approach which can be useful, but take care, use risk management and test a strategy thoroughly.

Every chart tells a story. It pays to understand the stories in the charts. www.robertbrain.com 

 **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/bullcharts/
- 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

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

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 **Summary & Wrap up**

THE END

See free stuff here:
www.robertbrain.com/free

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 **Summary & Wrap up**

Q & A ?

Any questions?

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Summary & Wrap up

THE END
THANK YOU

(backup slides follow)

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