

Preserve capital, minimise losses

How to preserve capital and minimise losses
or
How to sleep at night
(with maximum profit)



Robert Brain for ATAA Brisbane
June 2022

"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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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 investing or trading the market make you worry? Worry about losses?



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Set the scene...

- (1) How well are you sleeping at night with your current investments?
- (2) Does investing or trading the market make you worry? Worry about losses?
- (3) How do we know how much to "risk" in the market with comfort?



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Set the scene...

- (1) How well are you sleeping at night with your current investments?
- (2) Does investing or trading the market make you worry? Worry about losses?
- (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) *Let's just buy some blue chip stocks?* That's the "best" thing to do? Safe as houses? or "disappointing"?
- (2) Is it better to cut the "losers" loose?
- (3) How much can we afford to "risk" (to help us sleep)?



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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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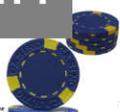
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Blue chip stocks
can be
disappointing...?



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What does "blue chip" mean?

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



ie. no guarantees about anything!

Source:- www.asx.com.au

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Why hold blue chips?

- (1) Dividend income
- (2) Capital growth
- (3) Franking credit tax deductions
- (4) All of the above?
- (5) Other?

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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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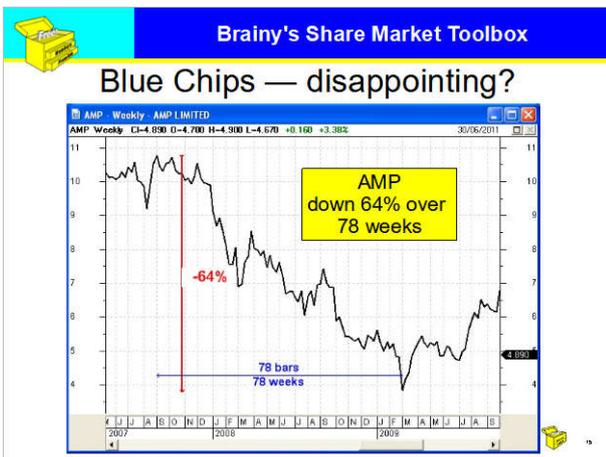
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Investing rules?

In today's investment climate, the "old rules" don't apply any more. From time to time the market can be any of:

(a) Lively	(e) Hopeless
(b) Dead	(f) Profit-making
(c) Great	(g) Loss-making
(d) Challenging	(h) other?

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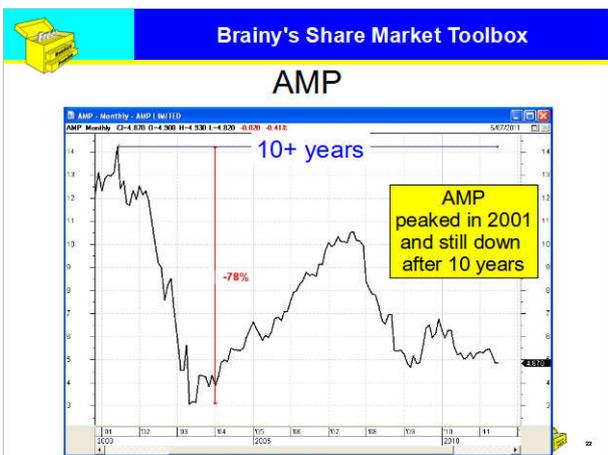
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QUESTION:

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

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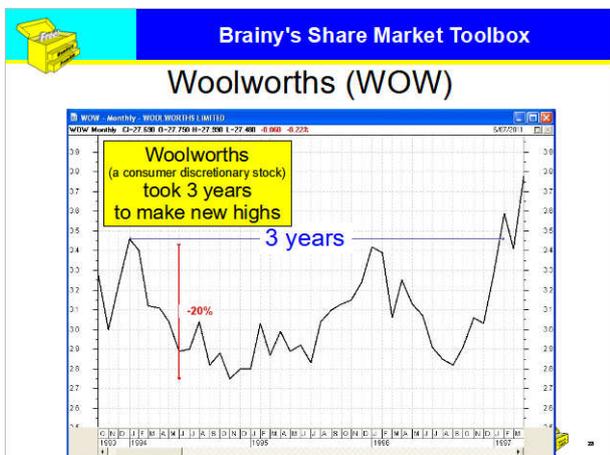




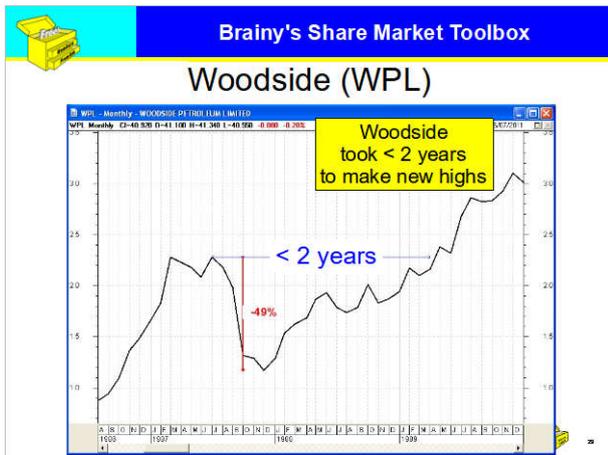
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How long to recover?

It might take only a couple of years or many years, or even more!

Blue chip stocks can disappoint!

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Should we cut loose the "losers"?

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Think about this...

Look at the next slide

Would it have been safe to buy the stock ?

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Lessons?

- (1) Don't buy the "peaks" . . .
- (2) It can be beneficial to cut the losers loose.

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Lesson 1 — don't buy peaks

Prices often retrace after a new peak

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Lesson 2 — cut the losers

- (1) Aim for winning positions where the average profit is greater than the average loss.
- (2) The first loss is the cheapest.

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How much to "risk"?

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We want to invest,
AND
we want to sleep at night.
But HOW?



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Consider this example: ...

- **Portfolio value** = \$100,000 (cash + shares)
- Aim for 10 positions ~ \$10,000 each
- **Exit Criteria**:-
If any one position falls by \$1,000 we sell it.
- Note: \$1,000 = 1% of today's portfolio value.

Is this acceptable? →

Amount at Risk (per position) = \$1,000



Could we sleep at night with this?

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In the BHP chart . . .

In the earlier chart of BHP,
let's say we buy
as explained below

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Let's buy next day ~\$45

Daily Chart.

Down trend.

New uptrend?

Buy the trend at about \$45?

BHP - Daily chart

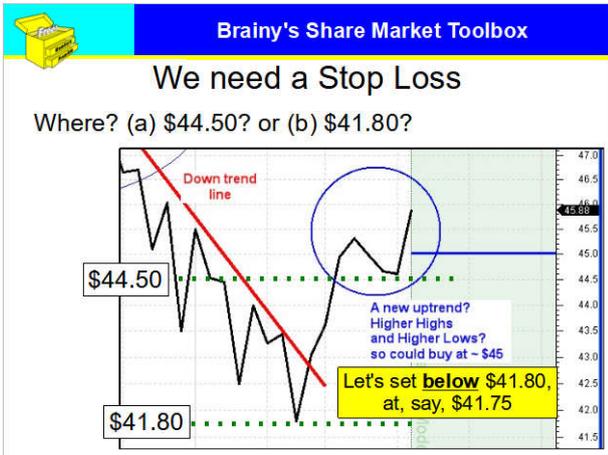
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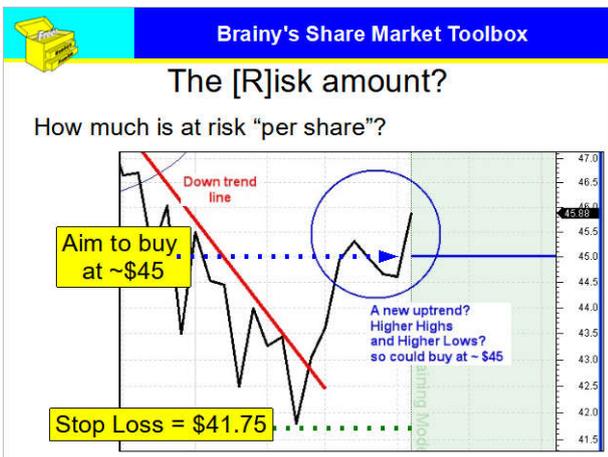
We need a Stop Loss

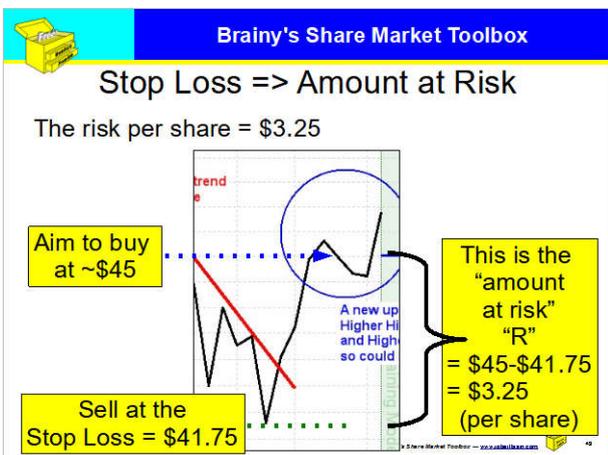
Where might we set a Stop Loss?

BHP - Daily chart

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Position size

The *amount at risk* = "R"
= \$45 - \$41.75
= \$3.25 (per share)

- Happy to risk \$1,000 per position
- If risking \$3.25 per share, then position size = (\$risk) / (risk per share)

$$\frac{1000}{3.25} = 307.7 \text{ shares}$$

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Cost of this position

Buy 308 shares @ \$45 each:
Cost = \$13,860

If this is too much, then
adjust position size down.

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Pause to reflect

Could we sleep at night
with investments like this?

With 1% of capital "at risk"?



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In case you missed it,
let's quickly recap the detail...

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Recap...

(1) aim to buy at ~\$45

(2) set Stop Loss \$41.75

(3) If price falls to the Stop level, then sell

we are risking \$3.25 per share

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What actually happened next?

Here is the price action from the previous slides.
What happened next?

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Compare the 2 options

In this example with BHP:
we bought 308 shares
@ \$45 each for \$13,860.

(1) By using our stop, we sold at \$41.75
for a loss of \$1,000

(2) Without using this approach,
this position 3 years later was worth:
 $308 \times \$37 = \$11,396$
or a capital loss of \$2,464
PLUS opportunity costs.

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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 **before!!**
- (3) If the stop is triggered, then sell according to your strategy.



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

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Question...

Do you know anyone who is currently following this sort of strategy?

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Deliberation time

- (1) What do you think about these Risk Mgt ideas?
- (2) Is the 1% value:
 - (a) too big?
 - (b) too small?
 - (c) about right?
- (3) QUESTION:
What if the "Risk Amount" is rather large compared to the likely reward?
ie. we only anticipate a small price rise, so the Reward/Risk ratio is low?
(some experts suggest Reward/Risk should be >3:1)

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We need a bigger discussion on:
(a) Position size, and
(b) The ins and outs
of exit strategies...

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 **Jump to the BullCharts program for an interactive review with Questions/Answers?**

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 **Summary & Wrap up**

In summary

- Blue chip stocks can disappoint
- Amount “to risk” per position
- Let's sleep at night

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 **Summary & Wrap up**

Thank You :-)

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 - Weekly Market Updates and Watch List
 - monthly e-Newsletters
- Good software – BullCharts
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- See free stuff here: www.robertbrain.com/free



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THE END

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THE END

THANK YOU

(Backup slides follow)

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