

Follow My Trade
Trading in practise
a hands-on session

Please note:
The front row of seats are reserved for *active participants* in today's workshop audience-participation discussions.

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Follow My Trade
Trading in practise
a hands-on session

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These slides + notes

- This set of slides is available from the ATAA web site for ATAA members.
- Three versions of these slides are also available for Share Market Toolbox members.
- Premium Toolbox members have access to a set of slides along with the *Speaker Notes* and explanations for each slide in the set (all in the one PDF file).

See: www.robertbrain.com/presentations/

When trading shares:-

How to:

- Minimise our risk?
(so we can sleep at night)
- Set the **Stop Loss** price level?
- Estimate our **Price Target**?
- Calculate the **Position Size**?
- Follow the trade, manage risk, trailing stop...



So, how do we do all this?

Self study?

- These slides are effective when presented to one or more small groups in a workshop situation with interactive discussion.
- These slides can be used for self-study:
 - Have these slides handy, AND have a Trading Work Sheet handy with pen and calculator.
 - Step through the slides one at a time, and consider the options when presented (eg. Preferred Entry Price, Initial Stop, etc., etc.).
 - These slides are most effective when the *Speaker Notes* are also used.

Trading in Practise

Session Purpose:

- To consider a realistic trading example using historical price data.
- To look at one example of good money and risk management methods
- Consider:
 - position size calculation,
 - initial stop loss, and
 - trailing stop loss (of time permits).



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Trading in Practise

The process for this session:

1. We will use a specific *trading strategy*, and a trade *set-up* and a *trigger*.
2. We will view a price chart.
3. We will consider how we decide a "reasonable" price to enter the position.
4. We will identify our own preferred Stop Loss.
5. We will consider whether it is worth risking our money, considering the possible returns.
6. We will consider how much we are "risking".



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PREFACE

A cautionary introductory note:

- Discretionary traders versus rigid-plan traders.
- Successful discretionary traders might see little benefit in the information in these slides.
- Less experienced traders and investors might find that the information in these slides will "save their bacon".



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Thank you...

Thank you to the BullCharts User Group folks who trialed this Workshop session on two occasions in the last two years.

Their feedback has fine-tuned the details, and the full session normally runs for 60 to 90 minutes (so will have to cut short today).

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Teams

1. Quickly form into teams:-

- of 2, 3 or 4 people
- in the seats where you are
- (turn round and say hello to your team members).

2. Preferably also have:

- **Trading Work Sheet** (or a piece of paper),
- Pen (or pencil),
- A calculator might be handy.



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The "paper work" ...

Trading Work Sheet (with sample numbers)
To assist with a realistic hands-on Trading Workshop for BullCharts User Group and ATAA (Melbourne) 2012

| Portfolio & Trade Risk | | Trade Work Sheet | |
|----------------------------------|--------------|------------------|-------------------|
| | Sample | Start amount | Date: ___/___/___ |
| (a) Today's CAPITAL | = \$ 50,000 | \$ | |
| (b) Maximum Capital per position | = 20% of (a) | \$ | |
| (c) Risk per trade | = 2% of (a) | \$ | |
| (d) Amount "at risk" per Trade | = \$ 1,000 | \$ | |
| | = (a) x (c) | | |

| Trade Planning / Position Size | |
|---|---|
| Stock Code: | |
| (1) The "RISK" (nR): | PEP = 1 |
| Preferred Entry Price | IS = 1 |
| Initial Stop Price | RISK (per share) = (PEP - IS) = 1 |
| (2) The "REWARD": | TP = 1 |
| Target Price | Preferred Entry Price (above) PEP = 1 |
| REWARD (per share) = (TP - PEP) = 1 | |

Does anyone else want one?

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Diagram explanation

2) Calculate:

- Reward amt
- Risk amount

3) Calculate:

- Reward/Risk Ratio

4) Ideally:

- greater than 2 or even 3

sample price

\$20

\$15

\$13

\$10

\$9

Target Price (TP)

REWARD

Preferred Entry Price (PEP)

RISK

Initial Stop (IS)

trading range

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Diagram explanation

Reward/Risk Ratio

= \$7 / \$3.05

= 2.3

The greater the Reward, the better the ratio.

Great if 3, 4 or 5+

sample price

\$20

\$15

\$13

\$10

\$9

Target Price (TP)

REWARD

Preferred Entry Price (PEP)

RISK

Initial Stop (IS)

trading range

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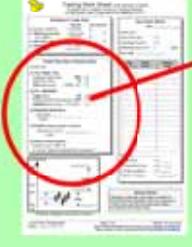
Portfolio & Trade Risk mgt

Constraints
as per your
Trading Plan / Strategy

| Portfolio & Trade Risk | | |
|----------------------------------|----------------------------|-------------|
| | Sample | Your amount |
| (a) Today's CAPITAL | = \$ 50,000 | \$..... |
| (b) Maximum Capital per position | = 20% of (a) = \$10,000 |% |
| (c) Risk per trade | = 2% of (a) |% |
| (d) Amount "at risk" per Trade | = \$ 1,000 = (a) x (c) | \$..... |

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Position Size calculation



Trade Planning / Position Size

Stock Code:

(1) The "RISK" (=R):

Preferred Entry Price PEP = \$

Initial Stop Price IS = \$

RISK (per share) = (PEP - IS) = \$

(2) The "REWARD":

Target Price TP = \$

Preferred Entry Price (above) PEP = \$

REWARD (per share) = (TP - PEP) = \$

(3) REWARD:RISK Ratio:

$\frac{REWARD}{RISK} = \dots = \dots$

(4) Position Size (number of shares):

$\frac{\text{Amount at risk } (d)}{RISK} = \dots = \dots$

(5) Value of this position:

Position Size x PEP = \$

Q: Is this Position Value less than (3) above?

We will work through this section shortly.

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Trade Work Sheet

Can enter actuals onto the Work Sheet



Trade Work Sheet

Date: ___/___/___

Stock Code:

Actual Entry Price = \$

Initial Stop Price (IS) = \$

Initial Stop Amount: R = cents

Entry date: ___/___/___

| Date (dd - mm) | Close Price | Trailing Stop |
|-------------------|----------------|------------------|
| | | |
| | | |
| | | |
| | | |

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Case Study

Part A

Planning the Trade

Note: The following is a hypothetical trade situation (known as "Robert's JB+AH" strategy), and is not a recommended approach or method.

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My "JB+AH" strategy

1) Using my scanning/charting software, and my special "set-up" criteria, look for stocks with a "Start" signal within the last few days.



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My "JB+AH" strategy

1) Using my scanning/charting software, and my special "set-up" criteria, look for stocks with a "Start" signal within the last few days

2) If this occurs, and if other conditions are favourable (eg. Hull Range+ indicator), then look for trigger: an "open, green candle" within the green "Buy" zone of the Range+ indicator.

3) Then buy next day at the open.



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Possible trade...

Possible trade. Set-up is in place but no trigger

but Hull Range indicator is NOT favourable

"Start" signal ("over sold") is good



ACR — Acrux Ltd

December 2008



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Now Plan the Trade...

My system says --> "GO!"
We have decided to take the trade, and we will do the following in the next few slides:

1. What is my "Preferred Entry Price"?
2. What is my "Initial Stop Loss" position?
3. Calculate the **RISK** per share
4. What is my "Target Price"?
5. Calculate the possible **REWARD**
6. Calculate the REWARD / RISK ratio.

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Your trade planning...

We are about to buy somewhere here

What are your values?

- Preferred Entry Price (PEP)
- Initial Stop (IS)
- RISK per share = R

(and fill out the "Work Sheet")

March 2009





Here's my Work Sheet

Trade Planning / Position Size

Stock Code: . . . **ACR** . . .

(1) The "RISK" (=R):

| | | |
|-------------------------|--------------|------------|
| Preferred Entry Price | PEP | = \$ 0.405 |
| Initial Stop Price | IS | = \$ 0.35 |
| RISK (per share) | = (PEP - IS) | = \$ 0.055 |

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The Risk amount?

Amount "at risk"?

Note down your **Risk amount**
(\$ or cents *per share*)



| Trade Planning / Position Size | |
|--------------------------------------|----------------|
| Stock Code: | |
| (1) The "RISK" (=R): | |
| Preferred Entry Price | PEP = \$ |
| Initial Stop Price | IS = \$ |
| RISK (per share) = (PEP - IS) | = \$ |
| (2) The "REWARD": | |

Target Price?



What is your estimate for the **Target Price**?
(see chart on next slide)

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Check the bigger picture...



64c-->

50c-->

39c-->

What is your Target Price?

It could be at: 50 cents?

<--35c

August 2008 March 2009

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More paper work...



Estimate your REWARD:

- Target Price (TP) = ? (mine = 50c)
- Preferred Entry Price (PEP) = ? (mine = 40.5c)

Here's my Work Sheet:

(2) The "REWARD":

| | |
|--------------------------------------|-----------------------|
| Target Price | TP = \$ 0.50 |
| Preferred Entry Price (above) | PEP = \$ 0.405 |
| REWARD (per share) = (TP-PEP) | = \$ 0.095 |

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More paper work...



Estimate your REWARD:

- Target Price (TP) = ? (mine = 50c)
- Preferred Entry Price (PEP) = ? (mine = 40.5c)

REWARD per share
 = [Target Price] — [Preferred Entry Price]
 = 50 — 40.5 cents
 = 9.5 cents per share

Note down your REWARD amount...
 (\$ or cents *per share*)

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Reward to Risk Ratio

Calculate your:

Reward
 Risk



(3) REWARD:RISK Ratio:

$$\frac{REWARD}{RISK} = \frac{9.5}{5.5} = 1.7$$

Mine:-

Is this high enough?

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Let's digress...

What's your view? 

- "Reward to Risk" ratio?
(1.7 in this case study)

OR 

- "Risk to Reward" ratio?
(0.59 in this case study)

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Position Size

Position size (the number of shares to buy):

Total amount at risk
[R]isk per share

Total amount at risk in this study
= 2% of \$50,000 = \$1,000 

(4) Position Size (number of shares):

$$\frac{\text{Amount at risk (a)}}{RISK} = \frac{1000}{0.055} = 18,182$$

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Value of this parcel

Value of this parcel:

The Parcel Size x PEP = \$ _____ 

(mine = 18,182 x \$0.405 = \$7,363)

QUESTION:
Is this parcel value less than
item (b) on the Work Sheet??

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Trade Work Sheet

- If we place the trade, record the "Actual Entry Price".
- Complete the details at the top of the Trade Work Sheet.
- Now let's go forward a week or two....

Trade Work Sheet
Date: ___ / ___ / ___

Stock Code:

Actual Entry Price = \$

Initial Stop Price (IS) = \$

Initial Stop Amount: R = cents

Entry date: ___ / ___ / ___

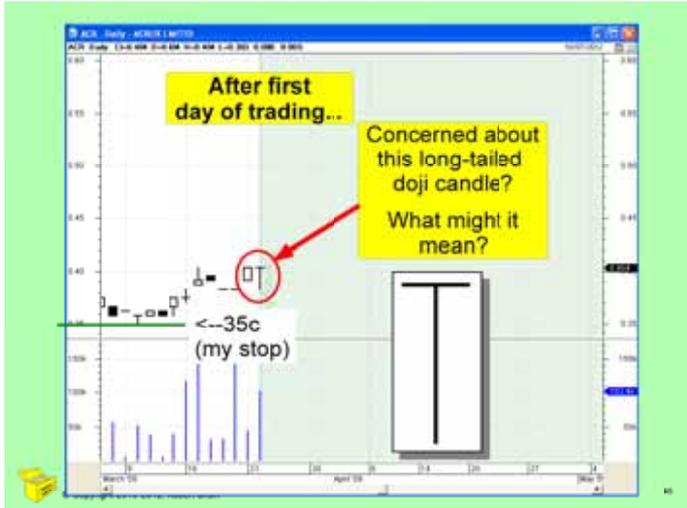
| Date (dd - mm) | Close Price | Trailing Stop |
|-------------------|----------------|------------------|
| | | |
| | | |
| | | |

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Now let's view the chart...

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Case Study

Part B

Managing the Trade & the Trailing Stop

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Trailing Stop?

What's your preferred method?

- (a) Recent chart trough?
 - (b) Under a Big White?
 - (c) Half way up a Big White?
 - (d) Parabolic-SAR?
 - (e) Volatility-based indicator?
 - (f) Other?
- Elder's Chandelier Exit
 - Elder's SafeZone
 - JB Trailing Stop
 - Parabolic SAR
 - Wilson ATR Trailing Stop
 - JB Volatility Profit Taker
 - NW Short Trailing Stop (ADX)
 - Chande Volatility Trailing Stop

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Trailing Stop — samples



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Trailing Stop — samples



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That's all for now

That's all the price action we have for now.

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A cautionary introductory note:

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- Successful discretionary traders might see little benefit in the information in these slides.
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Conclusion & Wrap UP

- Where did you end up?
- Was your Stop hit?

- Conclusions?
- Comments?



Monitor trade, revise stop

What's the best Trailing Stop?

- Elder's Chandelier Exit
- Elder's SafeZone
- JB Trailing Stop
- Parabolic SAR
- Wilson ATR Trailing Stop
- JB Volatility Profit Taker
- NW Short Trailing Stop (ADX)
- Chande Volatility Trailing Stop



SUMMARY

With trade management,
risk management and
paper work.

HOW DID WE GO?



Where next?

- That's all for tonight.
- Trailing Stops — an art form?
- We can workshop more another time?
- We can do another stock next time?

Brainy's Share Market Toolbox

- Tonight's slides and the *Trading Work Sheet*:
www.robertbrain.com/tools/
- Good charting software – BullCharts
www.robertbrain.com/bullcharts/
- *Weekly Market Analysis* email and *Waich List Updates*
- *Monthly e-News* email
- My contact details:
web site above, or phone: 0438 355 910