

Anti-Decimation! Introduction

This presentation...

1. Is similar to one presented to: ASA (Australian Shareholders Assoc'n), and U3A Manningham (University of Third Age), and Melbourne ATAA October meeting.
2. Will be presented in this form (or similar) to: ATAA Canberra Chapter — November.

Investor-focus versus trader-focus

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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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Anti-Decimation! Introduction

Important Notice



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Anti-Decimation! Introduction

About... Robert Brain

Consultant, educator and part-time* share trader
Web-based sharemarket-support business

- Many years experience as trainer, presenter, conference facilitator
- Share Market – active 10+ years*
- Chartist ie. technical analyst (ATAA member and national director)
- Provide tuition and support to traders and investors
Brainy's Share Market Toolbox
- 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)**
- Member Mensa



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

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Anti-Decimation! Introduction

Today's AGENDA

1. How badly can the share market treat us?
 - The GFC — what actually happened?
 - The result — decimated some investments.
2. A 2-part strategy to avoid the damage
 - Moving Average chart indicator
 - "Divergence" on the chart
3. BullCharts software — charting tool of choice

Interactive presentation!
Questions welcome (if time permits).

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Anti-Decimation! Introduction

Agenda

More about avoiding the bears (anti-decimation), rather than strategies for stock selection.

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Anti-Decimation! Introduction

Related topics

Related topics that we won't have time for today:

1. One investing strategy — Robert's *"Weekly Watch List"*
2. *Funda-Technical Analysis* — the juicy details.

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Anti-Decimation! Introduction

Apologies and Warnings

For long-term investors, this presentation:

- Might be an eye-opener
- Might induce nightmares
- Might challenge conventional wisdoms
- Might provoke some debate

So, let me apologise in advance.



AKA — Alfred Hitchcock's *Psycho*

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Anti-Decimation! Introduction

By the way...

There are a lot of things that can impact on our investment thinking and on our investment decisions and actions.

Including:

- Emotions — **fear, greed and hope**
- Numerous psychological impacts
- Cognitive biases — eg. the **denial bias**:-
“The tendency to disbelieve an important or uncomfortable fact, even if it does seem to be true.”

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Price charts acknowledgement

All price charts shown in this presentation are prepared using the Australian BullCharts charting software.



Robert is an authorised BullCharts reseller
More information:
www.robbrain.com/bullcharts/

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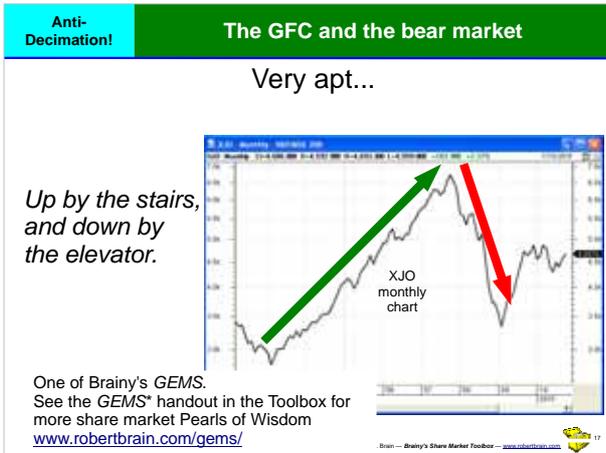
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How badly can the market treat us?

The GFC* and the big bear market

* GFC — Global Financial Crisis

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Anti-Decimation! **The GFC and the bear market**

Was this GFC a once-off?

- No! The market cycles like this regularly!
- A Correction (or Bear) has occurred **eight times** in the last 23 years (ie. a fall of at least 10% every 2.9 years)
- AND, on two occasions, a correction has hit *before recovering* from a bear market
- AND, the average duration to achieve new highs is **3.5 years!**

Can you believe it?

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Anti-Decimation! **The GFC and the bear market**

Recent history — 1987 to 2010

Bear Markets and Corrections — 1987 to 2010

Start Date	From Point	Bear Market or Correction	Net (%)	Weeks to bottom	Time to recover to past high	
					Weeks	Years
Sept 1987	A	Bear market	-48	21	470	9.0
Oct 1989	E	Bear market	-30	65	194	3.7
Nov 1991	G	Correction	-19	53	80	1.5
Jan 1994	I	Bear market	-21	53	150	2.9
Sept 1997	K	Correction	-11	5 or 50	66	1.3
June 2001	O	Correction	-21	88	152	2.9
Oct 2007 *	S2	Bear market	-54	73*	144	2.8
Apr 2010 *	U	Correction	-15	11*	13	0.3
Average time for new highs:						3.5

* — Latest bear market has not yet "finished".

Note: The letters in the "From Point" column refer to points on the charts.

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Anti-Decimation! **The GFC and the bear market**

More information ?

If you want to see those numbers again, and more details about bear markets and corrections:

www.robertbrain.com/bearmarkets

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Anti-Decimation! **The GFC and the bear market**

Where are we today?

- In October 2010 we are now about **3 years** past the last market peak!
(When did the market peak? And at what value?)
 - > 6754 — monthly close for October 2007
 - > 6749 — weekly close 12 October 2007
 - > 6829 — daily close 1 November 2007

(can you show us a picture? - if there is time)

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Anti-Decimation! **The GFC and the bear market**

Where are we today?

- In October 2010 we are now about **3 years** past the last market peak!
 - 6754 — monthly close for October 2007
 - 6749 — weekly close 12 October 2007
 - 6829 — daily close 1 November 2007
- Today's index is still **below the highs** of 2007!
- How far below? (in percentage terms).

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Anti-Decimation! **The GFC and the bear market**

If we had ...

If we had an index-tracking portfolio worth \$100k at 30 June 2007:-

- It is now down 31% (October 2010), and worth only \$69k.
- With a margin loan, it might have been much worse — now owing money.

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Anti-Decimation! **The GFC and the bear market**

Some individual performances

As the GFC unfolded:

- Some stocks dropped ~90% !! (can you name any?)
- Some stocks disappeared completely!! (can you name any?)
- Even some well regarded top-200 stocks!

***Can you believe it?
How many can you name?***

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Anti-Decimation! **The GFC and the bear market**

Going...Going...Gone

The following companies had significant share price falls from the bull market peak of October 2007, and are now gone:-

- AFG (Allco Finance) -99% gone Aug 2009
- BNB (Babcock & Brown) -99% gone June 2009
- TIM (Timbercorp) -97% gone May 2009
- NLX (Nylex) -97% gone Feb 2009
- GTP (Great Southern P) -96% gone May 2009
- CDR (Commander Comms) -95% gone Aug 2009
- ABS (A.B.C.Learning) -92% gone Aug 2009
- BJT (Babcock and Brown Japan) -92% gone Jul 2009
- MFS (renamed Octaviar OCV) -74% gone Aug 2009

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Anti-Decimation! **The GFC and the bear market**

Fell > 60% **

• CNP (Centro Prop) -99%	• FXJ (Fairfax Media) -82%
• CER (Centro Retail) -99%	• HIL (Hills Indust.) -82%
• BKN (Bradken) -93%	• CTX (Caltex) -77%
• ABP (Abacus Prop) -91%	• CEY (Centennial Coal) -76%
• ALZ (Australand) -91%	• LEI* (Leighton) -74%
• AAX (Ausenco) -89%	• HVN (Harvey Norm) -72%
• AWC (Alumina) -89%	• PRY (Primary Health) -66%
• AGO (Atlas Iron) -88%	• AXA -69%
• FLT (Flight Centre) -88%	• CRG (Crane Group) -67%
• CGF (Challenger Fin) -84%	• BBG (Billabong) -66%
• APN News Media -83%	• ABC (Adel Brighton) -63%
• BSL (Blue Scope) -82%	• NAB* -63%
	• ANZ* -62%

** — lowest price
* — Blue Chip stocks

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Anti-Decimation! **The GFC and the bear market**

Fell between 50% and 60% **

• CAB (Cabcharge) -65%	
• ASX -58%	
• CBA* -58%	
• DJS* (David Jones) -57%	
• QBE* -57%	
• AWE (Australian Worldwide Exploration) -57%	
• CPA (Commonwealth Property) -56%	
• BHP* -55%	
• JBH (JB-HiFi) -52%	

Do you recognise many of these names?

** — lowest price
* — Blue Chip stocks

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Anti-Decimation! **The GFC and the bear market**

The end result?

- The GFC dented some portfolios, and
- It decimated others. 
- But some people managed to **increase** their portfolio value during tough times! Using simple and *sensible* strategies. 

(But what does "sensible" mean?)

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Anti-Decimation! **The GFC and the bear market**

Something to think about...

- What do you think about the GFC?
- How badly did it affect us?
- What do we think about the "Buy and Hold" strategy?

Let's look at the impact on a sample portfolio...

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Anti-Decimation! **Hypothetical \$100,000 Portfolio**

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How badly can the market treat us?

Sample \$100,000 Portfolio
(at 30 June 2007)
What was the impact?

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Anti-Decimation! **Hypothetical \$100,000 Portfolio**

Ten stocks

- Let's build a sample portfolio to study
- Ten stocks selected from the top 20, the S&P/ASX 20 index (XTL)
- These are blue chip stocks!
- Allocated about \$10,000 to each stock
- Total portfolio value ~\$100,000 at June 2007.

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Anti-Decimation! **Hypothetical \$100,000 Portfolio**

Ten stocks about \$10k each

- AMP AMP Limited
- ANZ ANZ Banking Group
- CBA Commonwealth Bank
- NAB National Australia Bank
- NCM Newcrest Mining (gold miner)
- SUN Suncorp-Metway
- WDC Westfield Group
- WES Wesfarmers Ltd
- WOW Woolworths
- WPL Woodside Petroleum

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Anti-Decimation! **Hypothetical \$100,000 Portfolio**

Ten stocks about \$10k each

- AMP
- ANZ
- CBA
- NAB
- NCM
- SUN
- WDC
- WES
- WOW
- WPL

- A reasonable and "average" portfolio.
- How much did it devalue in 3-year period 2008-10?
- What was it worth at end June 2010?

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Anti-Decimation! **Hypothetical \$100,000 Portfolio**

The Sample Portfolio — Value

Stock Code	Qty	30 June 2007	
		Share Price	Value
AMP	988	\$10.12	\$9,999
ANZ	345	\$28.99	\$10,002
CBA	181	\$55.25	\$10,000
NAB	244	\$41.02	\$10,009
NCM	474	\$21.08	\$9,992
SUN	526	\$19.02	\$10,005
WDC	501	\$19.96	\$10,000
WES	236	\$42.39	\$10,004
WOW	370	\$27.00	\$9,990
WPL	220	\$45.37	\$9,981
TOTAL:			\$99,981

And the value 3 years later?

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Anti-Decimation! **Hypothetical \$100,000 Portfolio**

Worst case scenario

What if the panicked investor had have sold each stock at the worst possible time? (ie. the lowest value in each case)

- Resulting cash = \$49,147
- Down 51%

(this really does happen...)

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Anti-Decimation! **Hypothetical \$100,000 Portfolio**

Absolute Lowest Value

Stock Code	Qty	30 June 2007		Lowest Share Price			% change
		Share Price	Value	Date	Share Price	Value	
AMP	988	\$10.12	\$9,999	09/03/09	\$3.59	\$3,547	-65%
ANZ	345	\$28.99	\$10,002	12/02/09	\$11.89	\$4,102	-59%
CBA	181	\$55.25	\$10,000	23/01/09	\$24.07	\$4,357	-56%
NAB	244	\$41.02	\$10,009	09/03/09	\$16.03	\$3,911	-61%
NCM	474	\$21.08	\$9,992	23/10/08	\$17.01	\$8,063	-19%
SUN	526	\$19.02	\$10,005	03/03/09	\$4.55	\$2,393	-76%
WDC	501	\$19.96	\$10,000	09/03/09	\$8.90	\$4,459	-55%
WES	236	\$42.39	\$10,004	12/12/08	\$14.58	\$3,441	-66%
WOW	370	\$27.00	\$9,990	03/07/08	\$23.10	\$8,547	-14%
WPL	220	\$45.37	\$9,981	21/11/08	\$28.76	\$6,327	-37%
TOTAL:			\$99,981			\$49,147	-51%

Lowest Value:-

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Is there an alternative?

Should we "hold" stocks,
or (plan B) ?

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Anti-Decimation! **Compare two options**

Compare two realistic options:

Option 1
Hold on for the ride and take the dividends
OR
Option 2
Liquidate key stocks at "appropriate time"
(is this realistic? feasible? do-able?)

NOW! Which option is better??

For our Sample Portfolio, here are the results:...

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Anti-Decimation! **Compare two options**

Option 1 — Hold on

	Option 1 — Hold on	
	Capital	Dividend Income*
Capital invested @ 30/6/2007	\$55,581	
Dividend income F'08		\$4,006
Dividend income F'09		\$3,770
Dividend income F'10		\$3,120
TOTAL Dividend income over 3 years		\$10,896
Capital value @ 30/6/2010	\$80,050	
Percentage change in capital value over 3 years	- 20%	

* Notes:
(a) Franking credits are excluded and personal tax situation ignored.

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Anti-Decimation! **Compare two options**

Option 2 — Details

- Liquidate key stocks at "appropriate time"
- Using a pre-determined exit strategy (some sort of technical analysis criteria)
- Keep taking dividends on each stock until it is sold.

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Anti-Decimation! **Compare two options**

Is Option 2 do-able?

- Is Option 2 do-able?
- Or is it just fantasy?
- Do you already do this?
↳ Traders — probably yes
↳ Investors — maybe not
- Are you sceptical?

What do you think?

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Anti-Decimation! **Compare two options**

Is Option 2 worthwhile?

- This example was a "sample" portfolio.
- Some people suffered much worse losses.
- Every \$1,000 we can keep today, will grow over time.
- Remember the power of compound growth.

Conclusion?
Strategies like this can be very worthwhile.

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A 2-part strategy to avoid the damage

Using a crystal ball to see the bear markets coming...

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Anti-Decimation! **The Crystal Ball — Part 1**

Any suggestions?

Any suggestions for how we can see bear markets coming?

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Anti-Decimation! **The Crystal Ball — Part 1**

Option 2 — It is feasible!

- The simplest (and basic) sell criteria:
 - When the 30-week Moving Average turns down —> SELL! on the open next week
- This very simple concept is explained in detail in Stan Weinstein's infamous book...

Note: There are other ways to achieve better results.

PS: Let me declare my own actions in early 2008. I switched superannuation asset class from shares to cash and bonds!

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Anti-Decimation! **The Crystal Ball — Part 1**

Stan Weinstein — 30week SMA

"Secrets for Profiting in Bull and Bear Markets"
Stan Weinstein (McGraw-Hill, 1988)

- Use Weekly charts
- Apply a 30-week Moving Average (MA)
- Watch for:
 1. Price crossing below MA, and
 2. MA turning down
- Following is an example:...



Available from the Educated Investor bookshop, 525 Little Collins St, Melbourne

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Anti-Decimation! **The Crystal Ball — Part 1**

go back 20+ years...
The 1989 Bear Market

- What happened?
- How big was the fall?
- How long did it take to bottom?
- How long did it take to reach new highs?
- Did we see it coming?

Use BullCharts to view the price action:...

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Anti-Decimation! **The Crystal Ball — Part 1**

The 1989 Bear Market



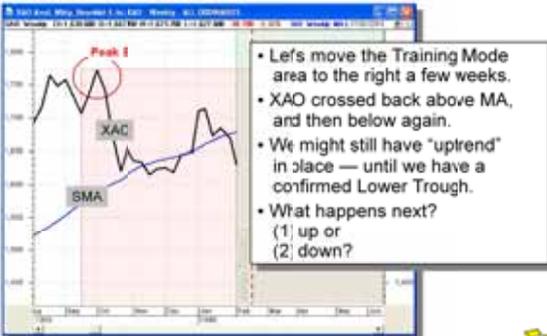
- The XAO index (the black line), peaked in September 1989.
- The blue line is 30-week Simple Moving Average (SMA).
- XAO has crossed below MA; Staa says "beware!".
- Question: what happened to XAO in the next 2 months?
(1) up or
(2) down?

In BullCharts software, use "Training Mode" to hide future data — the green shaded area.

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Anti-Decimation! **The Crystal Ball — Part 1**

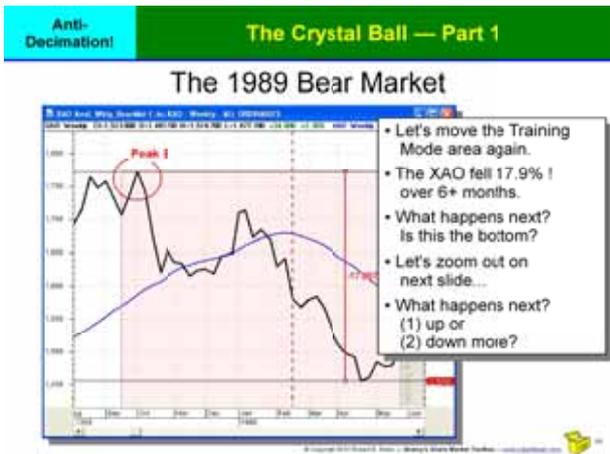
The 1989 Bear Market



- Let's move the Training Mode area to the right a few weeks.
- XAO crossed back above MA, and then below again.
- We might still have "uptrend" in place — until we have a confirmed Lower Trough.
- What happens next?
(1) up or
(2) down?

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Anti-Decimation! The Crystal Ball — Part 1

Important lesson

It is important to familiarise ourselves with the drastic/severe past movements of the market.

if we can understand what the market has done in the past, then we won't be surprised when it happens again.

(the big fast moves, wild swings, etc.)

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Anti-Decimation! The Crystal Ball — Part 1

Now, 2008...

The "GFC" and latest Bear Market

- What happened this time?
- How big was the fall?
- How long did it take to bottom?
- How long did it (will it) take to reach new highs?
- Did we see this coming?

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A 2-part strategy to avoid the damage

Part 2 — Additional Chart-based Tools

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Anti-Decimation! **The Crystal Ball — Part 2**

Chart-based tools

There are many chart-based tools that can give us good clues of pending falls. Just some:

- The *Momentum* indicator (plus others)
- *Divergence* of the indicator with price
- Use some sort of "Stop Loss".

The insight here is really amazing!

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Anti-Decimation! **The Crystal Ball — Part 2**

Index and Momentum in synch

2006-2007

- Weekly Chart of XAO
- Momentum indicator.
- They normally rise together and fall together.
- They peak together and trough together.

(Class C bearish divergence is present)

Anti-Decimation! **The Crystal Ball — Part 2**

Bearish divergence (Class A)

Late 2007

- XAO and Momentum "diverged"!!
- XAO made a *Higher High*, and
- Momentum made a clear *Lower High*.

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Anti-Decimation! **The Crystal Ball — Part 2**

The same as in 1989!!

- Upper pane — XAO with **30-week SMA**.
- Lower pane — the **Momentum** indicator (the squiggly red line).
- Note: "bearish divergence" between Aug 1988 and Sept 1989.
- That is: Higher Peak on XAO but Lower Peak on **Momentum**.

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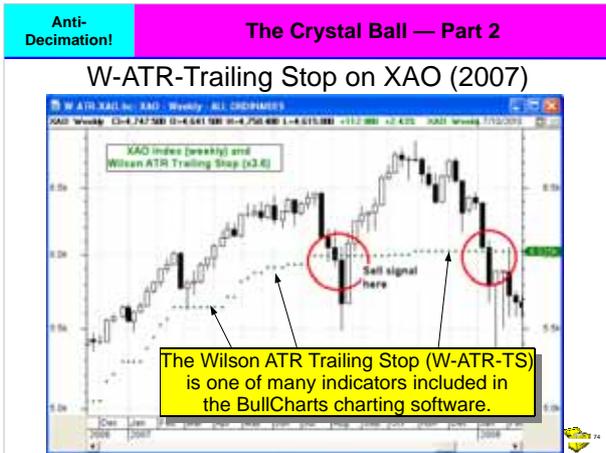
Anti-Decimation! **The Crystal Ball — Part 2**

Other possibilities?

To forewarn of possible market falls:

- ATR-based indicator or trailing stop eg. Wilson ATR Trailing Stop
- Other indicators and divergence: CCI, Slow Stochastic, RSI, MA Oscillator, MACD, Twigg's Money Flow.
- others?

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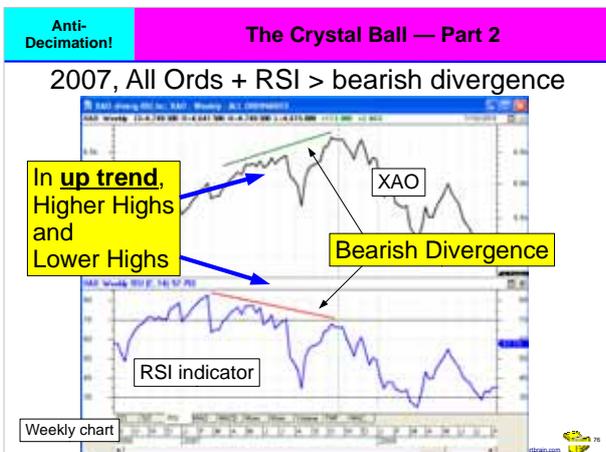


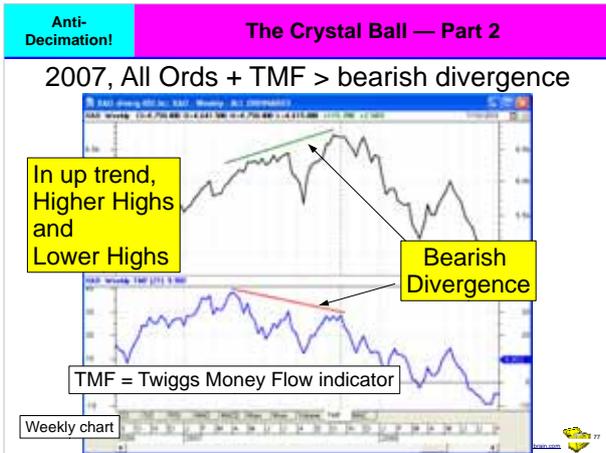
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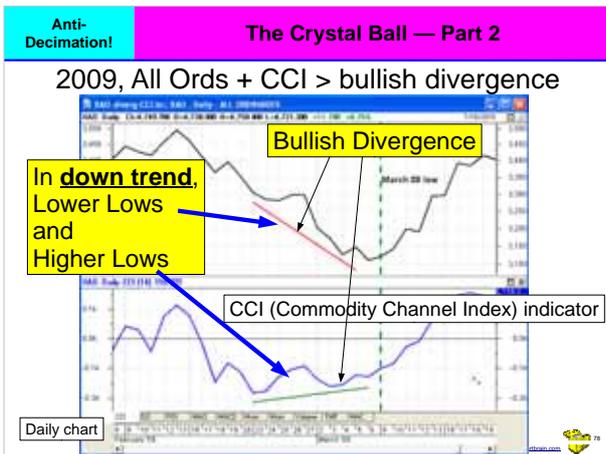
Wilson ATR Trailing Stop

- It is calculated as a multiple of ATR (ATR = Average True Range) eg. **3 times** the average price range over a **14-day period**.
- The dot under today's price sets the Stop Loss to be interpreted in one of two ways:
 - (a) "if the price **trades** below this level next day, then sell **immediately**"; OR
 - (b) "if the price **closes** below this level next day, then sell **the following day**".

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Anti-Decimation! **The Crystal Ball — Part 2**

Divergence

Divergence can be seen:

- On multiple indicators - CCI, Slow Stochastic, RSI, MA Oscillator, MACD, Twigg's Money Flow.
- In different time periods: daily, weekly, monthly, and intraday.
- But will not always be present!

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Anti-Decimation! **The Crystal Ball — Part 2**

Conclusion?

These chart-based indicators gave us many weeks of warning of an impending market fall in 1989, and in 2007! (and at other times, including turn-ups!) Now how useful is that?

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Anti-Decimation! **The Crystal Ball — Part 2**

How to use this?

These tools can be used:

- On a market index to gauge the overall "health" of the market (GEM: "a rising tide lifts all boats") possibly as a "market filter"
- On individual stocks as a part of your trading strategy entry rules, and exit rules.

See the GEMS* handout in the Toolbox for more share market Pearls of Wisdom
www.robertbrain.com/gems/

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Unlocking the secrets

How to unlock the secrets...

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Unlocking the secrets

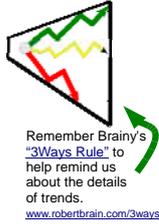


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Unlocking the secrets **How to unlock the secrets...**

Key points

- Price charts can be useful
- A trending stock is likely to continue trending (Dow Theory) (eg. a downtrend is likely to continue)
- Bear markets (and corrections) come around too often
- It can be very beneficial to consider switching out, and then back in again.



Remember Brainy's "3Ways Rule" to help remind us about the details of trends.
www.robertbrain.com/3ways/

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Unlocking the secrets **How to unlock the secrets...**

The unlocking tools...

- Use Weekly price charts
- Use 30-week Moving Average (MA)
- Use Momentum indicator
- Look for divergence of Momentum
- Use an "automatic" Stop Loss tool (eg. Wilson ATR Trailing Stop)
- It's easy with quality charting software.

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Unlocking the secrets **How to unlock the secrets...**

BullCharts

- Free 2 week trial: full version and Live Data
- Runs on Windows XP, Vista and Windows 7 (32-bit and 64-bit)
- Official web site: www.bullcharts.com.au

Your investment:-

- Software \$795 once off
- Data options:
 - End Of Day \$352 pa
 - Snapshots \$462 pa
 - Live data \$151.25/mth (includes EOD)



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Unlocking the secrets How to unlock the secrets... 

BullCharts

- More details, or Free 2-week Trial: www.robertbrain.com/bullcharts/
- Plus 1 hour free tuition, set-up, support.
- Or phone Robert: 0438 355 910



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Unlocking the secrets How to unlock the secrets... 

Technical Analysis?

Learn some more?

- Books, courses, seminars, newsletters
- The ATAA (Australian Technical Analysts Association) 
www.ataa.com.au
(a not-for-profit Australia-wide organisation run by volunteer members)
- Robert's *Share Market Toolbox*
www.robertbrain.com/ta/

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Anti-Decimation! Summary & Wrap up

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Let's summarise

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Anti-Decimation! Summary & Wrap up

Summary

- The GFC happened, and it was not a once-off
- It did impact on many investments (to a degree)
- Several technical chart indicators can forewarn of a pending “problem”
- Quality charting software is very useful.

We can avoid portfolio decimation!

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Anti-Decimation! Summary & Wrap up

We need to...

*Protect our hard earned capital;
and
Watch out for the sharks in the ocean.*



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Anti-Decimation! Summary & Wrap up

More GEMS* (important lessons)

Remember:

“The market is like an elephant!”

We should “zoom out”, and
if we try to stand in the way,
we might get trampled.

See the *GEMS** handout in the Toolbox for
more share market Pearls of Wisdom
or www.robertbrain.com/gems/

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Anti-Decimation! Summary & Wrap up

And more GEMS*...

Some signs of market tops:

- Rampant speculation.
- The taxi driver gives market tips.
- Get-rich-quick schemes promoted.

Some signs of market bottoms:

- Panic on the streets.
- Doom and gloom everywhere.

See the *GEMS** handout in the Toolbox for more share market Pearls of Wisdom.

Anti-Decimation! Summary & Wrap up

About this presentation

This presentation is just one item from Brainy's **Share Market Toolbox**



Handouts for the ATAA (for a limited time):

- Brainy's "Share Market GEMS"
- These slides are available (in PDF form) from the **Share Market Toolbox** (slides also available from ATAA web site)

Brainy's Share Market Toolbox

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Anti-Decimation! Summary & Wrap up

Presentation Handouts

1. Go to the Share Market Toolbox: www.robertbrain.com
2. Look under "LATEST NEWS" heading on right hand side of page.
3. Click on the link: "ATAA Presentation handouts..."
4. Username = ataa
5. Password = ataa



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Anti-Decimation! Summary & Wrap up

About this presentation 

A more detailed version of the slides (complete with *Speaker Notes*) is available to Toolbox Premium Members

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THE END
THANK YOU

(backup slides follow)

101

How to save squillions!

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The End

102
