

Presentation to BCUG

Stock Liquidity


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This presentation...

This set of slides was first prepared in 2011 for discussion in the EMG private traders group.

Now updated for workshop discussion in our BullCharts User Group.

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Trading/Investing problems

- 1) Are we interested in trading/investing in ANY / ALL listed stocks?
(ie. the ASX stocks, ignoring overseas).
If so, should we focus on just some, or all of them possible candidates?
- 2) Is there a maximum *position/parcel size* of which to be mindful?
Or can we buy as many shares as we can afford?

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Problems

- 1) Some stocks are thinly traded (not very "liquid"), and might **trade*** as little as six times per trading day (ie. once per hour).
- 2) For some stocks, a large parcel size might be as big as one half of the day's **trading value**, or one half of the day's **trading volume**.

Can this be a problem?
(see examples on next slide)



* — One **trade** is one buy/sell transaction involving one "parcel" of shares.

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Some samples (from 2011)

Symbol	Name	Trades per WEEK	Volume per WEEK	Median Price* \$c	Typical Price* \$c	Value Traded \$/WEEK	Market Cap (millions)
VSO	VNGD Aus Small Etf Units	1	1	42.59	42.163	\$42	\$5.78
CNK	Condor Metals Limited	1	1,504	0.09	.087	\$120	\$5.20
ESW	Emerson Stewart Group Limited	1	2,500	.2	.2	\$500	\$7.40
KRS	Kresta Holdings Limited	1	5,000	.24	.24	\$1,200	\$34.60
AYA	Attila Resources Limited	2	9,000	.2	.2	\$1,800	\$2.45
CBX	Cape Alumina Limited	5	12,089	.18	.173	\$1,993	\$20.81
SPH	Sphere Minerals Limited	15	31	2.5	2.5	\$78	\$529.55
AEJ	Redbank Energy Limited	28	230	4.155	4.14	\$947	\$3.23
CBB	Cordlife Limited	35	25,760	0.053	0.053	\$1,355	\$7.85

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* — definitions over.../

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definitions

For WEEKLY prices:

- **Median Price** = the average of the High and Low prices for the week
- **Typical Price** = the average of High, Low and Close prices for the week.

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The dilemma...

There are two dilemmas to look at...

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DILEMMA #1

How to decide which stocks to invest/trade?

- All stocks on the market? (liquidity issues?)
- Top 200 — stocks in the XJO?
- All Ords — the XAO?
- Small Ords?
- Mid-cap 50?
- A custom watch list?

AND Dilemma #2 ... /

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DILEMMA #2

What about sound **risk management?**

Are there specific considerations to help decide which *stocks*?
And also trading rules about *parcel size*?
So as to reduce the trading risks?

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Session Objective

To assist with sound risk management, identify a list of key criteria for:
(a) stock selection, and
(b) parcel size.

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Stock Liquidity

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Stock Liquidity

Stock Liquidity

How to define "stock liquidity"
(for share market trading/investing)?

Possible considerations:

- (1) **Sales value** (= Value Traded)
- (2) The number of **trades**
- (3) **Volume**
- (4) Other?

Each day? or each week?



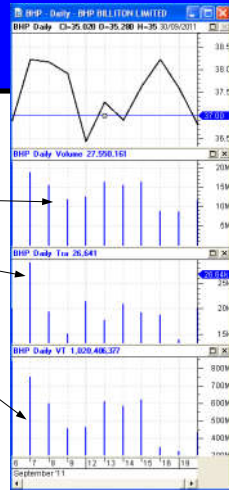
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Volume, Trades, Value

BullCharts can plot
these values...

- Volume
- Trades
- Value Traded



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What about Trades?

What about only considering stocks with:

- **Trades** more than 50 times per day?
(or pick another number?)



That could be our **Stock Universe**,
OR
Simply consider this on the day of purchase?

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Stock Liquidity

Example

Note:

- Trades mostly > 50 / day
- But sometimes < 50 / day

If scanning for only > 50, this stock would be missed on some days.

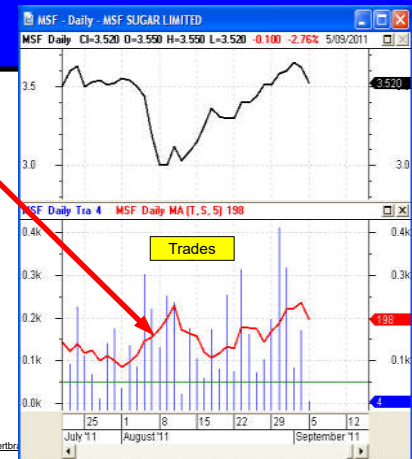


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Solution

Scan for:
5 period SMA
of Trades > 50
over recent days.

[Perhaps 10xSMA
might be better?
or even 20?]



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Position size

What are your thoughts on
Position Size?

eg. as a percentage of
daily **volume** or **value**?



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Stock Liquidity

Position Size and Sales Value

- Intended position size < 5% of daily **value**
- For position size of ~\$5,000 (for example)
=> Daily **Value** > \$100,000.

Intended position size:	\$1,000	\$2,500	\$5,000	\$7,500	\$10,000
Min Daily Value:	\$20,000	\$50,000	\$100,000	\$150,000	\$200,000
Min Weekly Value:	\$100,000	\$250,000	\$500,000	\$750,000	\$1,000,000

BUT: Do most stocks trade this much?

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What about Sales Value?

For example:

- Intended position size < 5% of daily **value**
- For position size of ~\$5,000 (for example)
=> Daily Value > \$100,000.
- How many stocks qualify?
Use BullCharts Scan Criteria:

5-bar SMA of Value > 100,000
every bar for the **last 20 bars**.

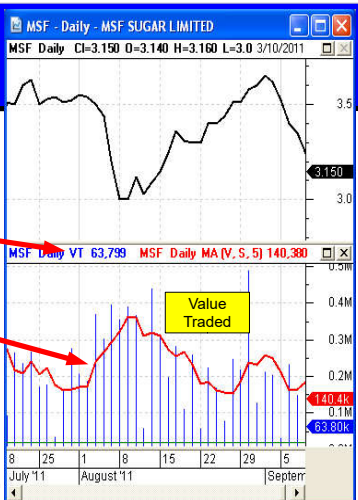
(why: "5-bar SMA", and "last 20 bars"?)

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Solution

- Sales value (VT = Value Traded)
- 5-bar SMA of Value Traded



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What about Volume?

Similar to *Value*:

- Intended position size < 5% of daily **volume**
- How many stocks qualify?

For example, use BullCharts Scan Criteria:

5-bar SMA of *Volume* > 100,000
every bar for the **last 20 bars**.

Conclusions

- (1) Assuming that we only trade in *liquid* stocks.
- (2) Use a simple search criteria such as (eg):-
Daily Trades > 50, and
Daily Value > 100,000
will miss some opportunities.
- (3) So, use search criteria based on
5-period SMA for the last 5 bars
(or a variation of this?)



Feedback?

- Questions?
 - Why Trades > 50, and not 30, or 70?
 - Could VT be 10% of daily value? or another value?
- Feedback?

SUMMARY

We could consider:

- *Value*
- *Volume*
- *Trades*

to:

- (a) Prepare a *Stock Universe*, and
- (b) To determine a *Position Size*



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Thank you



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