



Beware the Share Market Bears!

(they are never far away)

Brainy's 10 Key Lessons from the GFC*
for both investors and traders
November 2009



"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

About this presentation

1. Share market, and more!
2. Bear markets, and bull markets
3. Topics:
 - (a) Share markets — the last 20 years
 - (b) Bull and bear markets
 - (c) Ten Key Lessons from the GFC
 - (d) Share price charts can help!
 - (e) Web sites and software
 - (f) Technical Analysis, Trading, "What next?"
4. Interactive — questions and discussions (as much as the time permits)

About this presentation (cont.)

This presentation has been updated and refined for each of three deliveries in November 2009:

1. 5 Nov — Manningham U3A (University of the Third Age);
2. 10 Nov — Melbourne PC User Group — WASINT Special Interest Group;
3. 17 Nov — EIS group (Economic Indicator Services).

This version supplants all previous versions.

The presenter

1. Engineering degree
2. 30+ years – professional experience
3. Trainer / presenter / conference facilitator
4. Share Market – 8+ years
5. Technical Analyst (ATAA Director)
6. Provide tuition and support to traders and investors
(Brainy's *Share Market Toolbox* web site)
7. Does not hold AFS license! (Can't give advice)



About the audience?

1. Background — accountants? engineers?
2. Investments — traders? investors?
3. Share market knowledge? — yes? no?
4. Charting? and Technical Analysis?
5. Internet experience?
6. Specialties?


Important Notice


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.

**Beware!
The bears**

Introduction & Housekeeping

Important Notice




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**Beware!
The bears**

Introduction & Housekeeping

AGENDA

1. Current Crisis — Background and Recent History
2. Some general observations
3. The 10 Key Lessons — some details
4. Online Charts and Software
5. Charts and Technical Analysis
6. Before you trade!
7. What to do next?
8. Recommended Reading
9. Summary.

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BACKGROUND

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The current crisis
(December 2007-now)

BACKGROUND

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Global Financial Crisis (GFC)

- US sub-prime crisis
- CDOs (Collateralised Debt Obligations)
- "Toxic" debt
- Bear markets in many countries
- Recessions in some countries.

How bad is it in Australia?

A lot of people have been suffering, and there is potentially more to come :-)

- Property values fell.
- Superannuation investments fell in value.
- Unemployment increased.
- Retrenchments.
- Some investments lost as much as 90% or more of their value.
- Some investments were liquidated completely.
- Inappropriate lending - margin loans, etc.
- Issues with over-borrowing that has been encouraged by some lenders.
- Some questionable advice from some experts.

But! ...

A lot of people saw this coming!!

BUT:-

How did they know?

Click to add title

First...

Some
RECENT HISTORY

Recent history — 1986 to 2009



Recent history — 1987 to 2009

Bear Markets and Corrections — 1987 to 2009					
Start Date	From Point	Bear Market or Correction	Amount (%)	Time to recover to past high	
				Months	Years
Sept 1987	A	Bear market	-44	106	8.8
Aug 1989	C	Bear market	-28	46	3.8
Oct 1991	D2	Correction	-15	18	1.5
Jan 1994	F	Bear market	-21	32	2.7
Sept 1997	J	Correction	-11	14	1.2
June 2001	O	Correction	-19	35	2.9
Oct 2007 *	S	Bear market	-51	25	2.1

* — Latest bear market has not yet finished.

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

Beware!
The bears

BACKGROUND

1987 to 1996



Beware!
The bears

BACKGROUND

Bear Market — Sept 1987 — July 1996



Beware!
The bears

BACKGROUND

Bear Market — Aug 1989 — June 1993



Note: Correction D2-D2' inside Bear Market C (details next slide)

Beware!
The bears

BACKGROUND

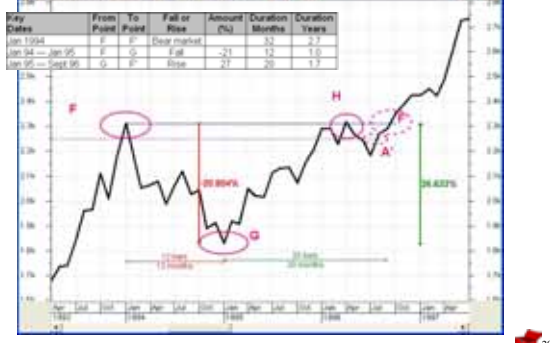
Correction — Oct 1991 — April 1993



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The bears

BACKGROUND

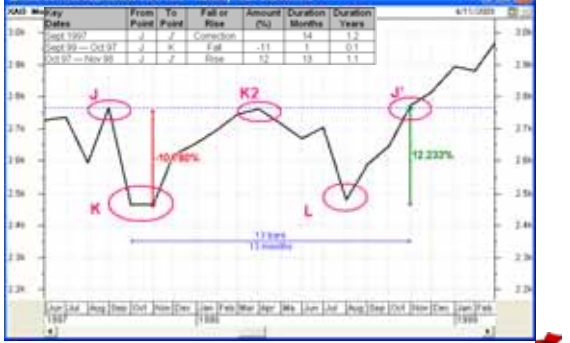
Bear Market — Jan 1994 — Sept 1996



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BACKGROUND

Correction — Sept 1997 — Nov 1998



Beware!
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BACKGROUND

Correction — June 2001 — May 2004



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BACKGROUND

BEAR MARKET — Oct 2007 — now+



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The bears

BACKGROUND

BEAR MARKET — These charts

The charts on the previous slides are already posted on the web.

Visit:

www.robertbrain.com/bearmarkets

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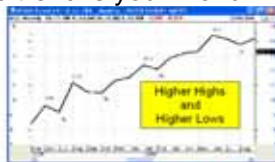
Click to add title

Second...

SOME OBSERVATIONS

Observations — The trend is your friend

- HH = Higher Highs
- HL = Higher Lows
- A trend is in place until it is confirmed to no longer be in place
- Applies to Up trend, and Down trend.

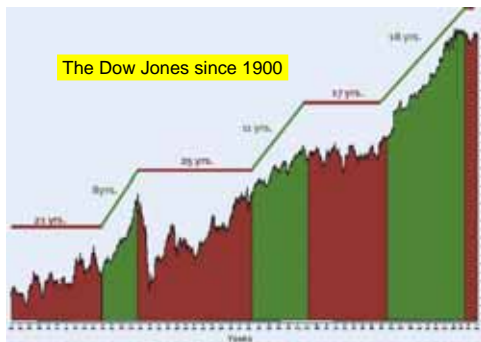


Observations — The Finance Industry

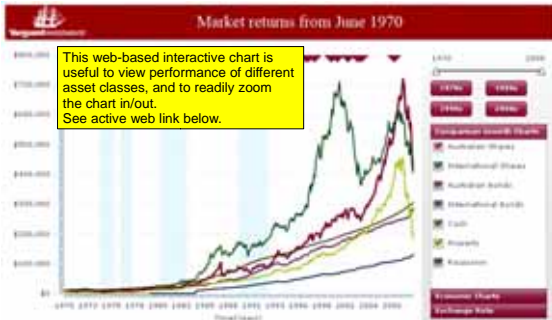
Some professionals:-

- rely on commissions
- are “serial innovators”
- don't really “care” about their clients
- will trot out the same old spiel to keep clients invested in their products — eg:
 - It's time in the market, not timing
 - Over the long term, the market does rise.

Observations — The market rises (over time)




Observations — The market rises (over time)



**Beware!
The bears** **Introduction & Housekeeping**

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**Beware!
The bears** **The TEN Lessons!**

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The 10 KEY LESSONS for investors and traders...

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**Beware!
The bears** **The TEN Lessons!**

The 10 Key Lessons

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2. **Corrections** — Stock market corrections? — How long?
3. **Advisors** — Financial advisors, brokers, bankers
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10. **Chart reading?** — Can be useful! Here's how...

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Lesson #1

Markets, property, prices Run in Cycles



The 10-year Investment Clock



The generic Investment Clock



Source: Citigroup and AFR

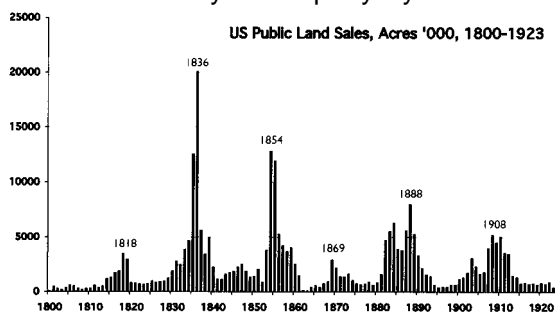


Property values — rise and fall

- Cycles of 17 to 21 years (about 18 on average)
- Phil Anderson (Economic Indicator Services) www.businesscycles.biz
- The Savings and Loan debacle (late 1980s)
- The recent CDO debacle (Collateralised Debt Obligations)
- Clever manipulation of the law and regs by “innovative” (unscrupulous?) people.



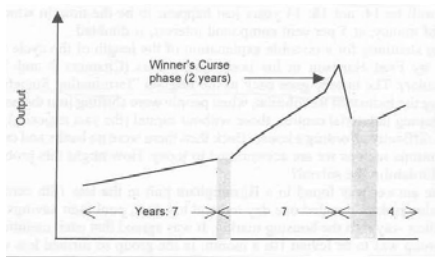
The 18-year Property Cycle



Source: Phillip J. Anderson, *"The Secret Life of Real Estate"*, p. vii.



Profile of the 18-year Real Estate cycle

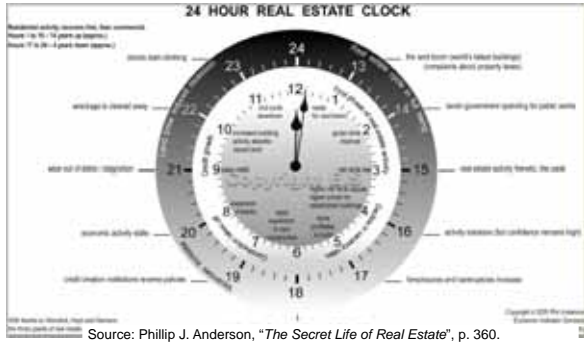


Fred Harrison, *Boom and Bust*, p. 87.

Source: Phillip J. Anderson, *"The Secret Life of Real Estate"*, p. 340.
Original source: Fred Harrison, *"Boom and Bust"*, p. 87.



The 24-hour Real Estate Clock



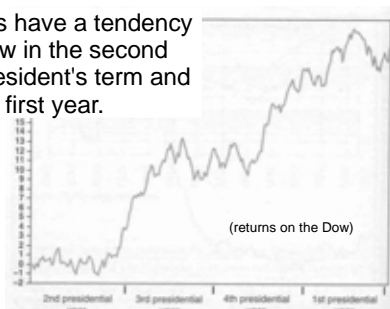
Several other cycles

- 30-year commodity price cycle
- Seasonal cycles
- 80-year New Economy cycle
- Kondratieff cycle (58-60 years)
- US Presidential cycle — 4-years (details over)
- Decennial cycle (details over)
- 40-year generational spending cycles

More details, refer:
"The Great Depression Ahead", Harry S. Dent, www.hsdent.com

US Presidential cycle — 4-years

U.S. markets have a tendency to make a low in the second year of a President's term and a high in the first year.



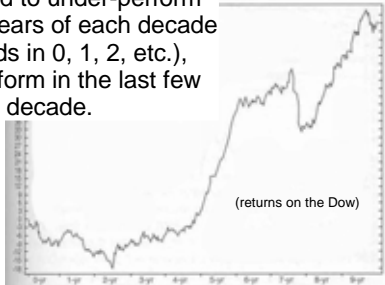
Source: www.ndr.com
Ack: Harry S. Dent Jr., "The Great Depression Ahead", p. 94.

Beware!
The bears

#1 — Markets, property, etc. — Cycles

Decennial cycles

Markets tend to under-perform in the first years of each decade (ie. year ends in 0, 1, 2, etc.), and out-perform in the last few years of the decade.



Source: www.ndr.com
Ack: Harry S. Dent Jr, "The Great Depression Ahead", p. 93.

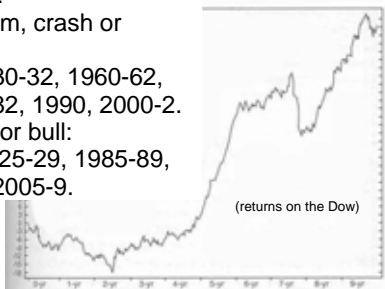


Beware!
The bears

#1 — Markets, property, etc. — Cycles

Decennial cycles

For example:
Under-perform, crash or correction:
1920-22, 1930-32, 1960-62, 1970, 1980-82, 1990, 2000-2.
Out-perform or bull:
1914-19, 1925-29, 1985-89, 1995-2000, 2005-9.



Source: www.ndr.com
Ack: Harry S. Dent Jr, "The Great Depression Ahead", p. 93.



Beware!
The bears

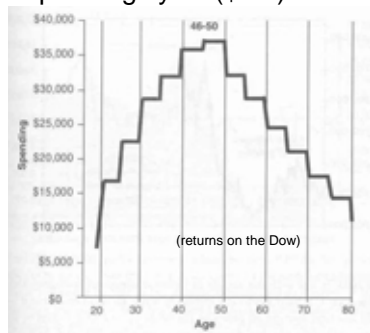
#1 — Markets, property, etc. — Cycles

Household spending cycle (\$US)

The average household* peaks in spending between ages 46-50.

* Households in US and other developed countries.

Source: annual surveys by US Bureau of Labor.



Ack: Harry S. Dent Jr, "The Great Depression Ahead", p. 45.



**Beware!
The bears** #1 — Markets, property, etc. — Cycles

Markets, etc. — run in cycles

The lesson:

It can be useful to be aware of cycles, and of over-priced property.

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**Beware!
The bears** The TEN Lessons!

The 10 Key Lessons

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**Beware!
The bears** #2 — Stock Market Corrections

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Lesson #2

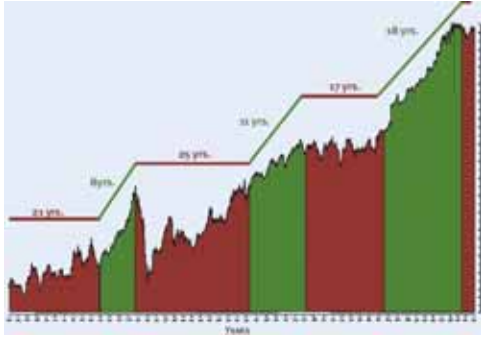
Market “Corrections”.
They happen.
How often? How long?

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Beware!
The bears

#2 — Stock Market Corrections

Bull and Bear Market cycles



Possible sources: Barry Ritholtz; and www.thestreet.com



Beware!
The bears

#2 — Stock Market Corrections

Bull and Bear Market cycles — v2



Possible sources: Barry Ritholtz; and www.thestreet.com



Beware!
The bears

#2 — Stock Market Corrections

Secular Market cycles



Definition: Secular — A secular market trend is a long-term trend that lasts 5 to 25 years and consists of a series of sequential primary trends (Wikipedia).

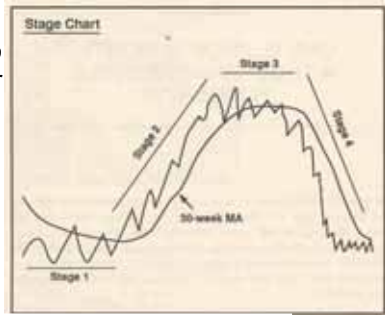
Source: www.crestmontresearch.com



Stan Weinstein's Stage Analysis

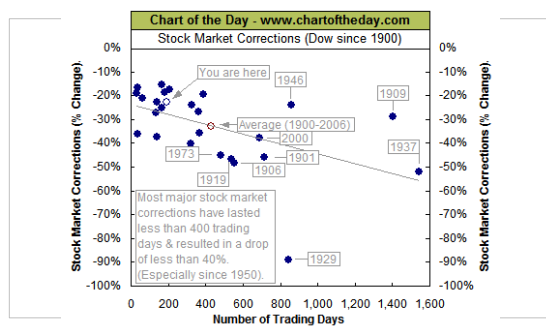
"Any stock (or index) has to be in one of four market stages."

And they don't have to follow in sequence.



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

Click to add title



Source — www.chartoftheday.com

Australian Bear Market Durations

Start Date	End Date	Duration (weeks)	Fall %
Jan 1970	Nov 1971	98	-39.0
Jan 1973	Sep 1974	89	-59.2
Nov 1980	Jul 1982	85	-40.6
Aug 1989	Jan 1991	72	-28.0
Jun 2001	Mar 2003	89	-19.0

Source — UBS

**Beware!
The bears** #2 — Stock Market Corrections

Stock market corrections



The lesson:

Stock market “corrections” do happen, and the bears can demolish investments.

Be prepared to protect your investments.

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**Beware!
The bears** The TEN Lessons!

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**Beware!
The bears** #3 — Financial advisors

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Lesson #3

Financial advisors, brokers & bankers

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Might not be right all the time

- 100% accuracy?
- “Your investments are safe for the long haul...”
- “...don't worry, they will recover (eventually)”
- What about the “experts” and “advisors” (and the innovative bankers) who created and contributed to the melt-down in 2008-09?
- Question their remuneration methods.



“Advisors”

The lesson:

Don't believe absolutely everything that you hear.

Healthy scepticism is healthy.



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[Back to Agenda](#)



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Lesson #4

Timing the market?
Or *time in* the market?

“Timing”? or “Time in”?

What do you think?

- Is it possible to “time” the market?

Thousands of Technical Analysts (chartists) think so, including:

- Frank Watkins
“*Exploding the Myths*”,
Vocational Education & Training Publications
- Colin Nicholson...

Timing the market

The lesson:

Many people do successfully
“time the market”.
It can be done.

**Beware!
The bears**

The TEN Lessons!

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**Beware!
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#5 — Investments — Safe?

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Lesson #5

Investments Capital protection? Blue Chip = safe?



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**Beware!
The bears**

#5 — Investments — Safe?

Capital protection

Are your investments safe?

- Your superannuation
- Capital-protected products and schemes
 - ALPS, etc. (and knockout events)
- Beware the “knockout” events.



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Investments — safe?

The lesson:

Sometimes things are not as they seem.
They might come at a cost.
It is important to read the fine print.

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Lesson #6

Leveraged instruments.
CFDs, etc.

Derivatives, CFDs

- Can be safe; can be very dangerous!
- It is possible to lose a lot more than the initial deposit.
- Under the right circumstances, and in the right hands, can be powerful.

Derivatives, CFDs

The lesson:

If you don't understand
the rules of the game,
then don't play the game.

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Click to add title

Lesson #7

Margin Lending Can it be safe?

Can it be safe?

- Recent history (2008)?
- Directors' borrowings for own shares
- LVR — Loan to Valuation Ratio
- ABS (ABC Learning), AFG (Allco Finance), plus others...

Click to add title

The lesson:

Margin lending...
might work well in a bull market;
but beware...

**Beware!
The bears** **The TEN Lessons!**

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**Beware!
The bears** **#8 — Investments fall 90%?**

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Lesson #8

Can investments really fall as much as 90%?




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**Beware!
The bears** **#8 — Investments fall 90%?**

Can they fall 90%?

- The short answer is yes!
- Take a look at the following...



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Going...Going...Gone

The following companies had significant share price falls from the bull market peak of October 2007:-

- TIM (Timbercorp) -97%; gone May 2009
- GTP (Great Southern P) -96%; gone May 2009
- BNB (Babcock & Brown) -99%; gone June 2009
- ABS (A.B.C.Learning) -92%; gone Aug 2009
- AFG (Allco Finance) -99%; gone Aug 2009
- CDR (Commander Comms) -95%; gone Aug 2009
- MFS (renamed Octaviar OCV) -74%; gone Aug 2009
- NLX (Nylex) -97%; Feb 09 Trading halt and administration

Fell > 60% **

- AAX (Ausenco) -89%
- ABP (Abacus Prop) -91%
- ALZ (Australand) -91%
- * ANZ -62%
- APN News Media -83%
- AWC (Alumina) -84%
- AXA -65%
- BBG (Billabong) -62%
- BJT (Babcock and Brown Japan) -90%
- BKN (Bradken) -93%
- BSL (Blue Scope) -78%
- CEY (Centennial Coal) -71%
- CGF (Challenger Fin) -84%
- CTX (Caltex) -72%
- FLT (Flight Centre) -88%
- FXJ (Fairfax Media) -82%
- HIL (Hills Indust.) -79%
- HVN (Harvey Norm) -72%
- * LEI (Leighton) -71%
- ABC (Adel Brighton) -62%
- AGO (Atlas Iron) -88%

** — Until May 2008
* — Blue Chip stocks

Fell between 50% and 60% **

- ASX -58%
- AWE (Australian Worldwide Exploration) -57%
- * BHP -55%
- CAB (Cabcharge) -54%
- * CBA -58%
- CPA (Commonwealth Property) -56%
- CRG (Crane Group) -58%
- DJS (David Jones) -57%
- JBH (JB-HiFi) -52%
- NAB -59%
- PRY (Primary Health) -58%
- * QBE -50%

** — Until May 2008
* — Blue Chip stocks

Fell < 50% **

- AMC (Amarco) -48%
- ANN (Ansell) -42%
- COH (Cochlear) -40%
- HSP (Healthscope) -30%
- * TLS (Telstra) -34%
- * WOW (Woolworths) -31%

** — Until May 2008
* — Blue Chip stocks

BTW:- What does "blue chip" mean?

Blue chip stocks?

"Blue Chip" definition:

*Shares, usually highly valued,
in a major company
known for its ability to make profits
in good times or in bad, and
with reduced risk of default.*

(Source: www.asx.com.au)

Can Blue Chips fall this much as well?

Click to add title

The lesson:

Take care with your investments
(even Blue Chip stocks),
and sell the bad performers.

The 10 Key Lessons

1. **Cycles** — Markets, stocks, property all run in cycles
2. **Corrections** — Stock market corrections? — How long?
3. **Advisors** — Financial advisors, brokers, bankers
4. **Timing the market** — Can we “time the market”?
5. **Capital protection?** — Is it real? Blue chips safe?
6. **Leverage** — Leveraged instruments (eg. CFDs)
7. **Margin lending** — Can it be safe?
8. **Fall 90%?** — Can investments really fall 90%?
9. **Buy-and-Hold?** — Is it time to re-think this strategy?
10. **Chart reading?** — Can be useful! Here's how..

[Back to Agenda](#) 

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Lesson #9

The Buy-and-Hold strategy. Is it time to re-think?

The set-and-forget approach

- Tends to work in a bull market.
- Many people have used this approach along with a margin loan, and pre-paid 12 months of interest expense.
- Can this approach ride out the downs of the market?
- Is this a *sensible approach* to investing?

Opportunity costs

- Some people buy (blue chip) shares and hold for the steady dividend income stream.
- Even though the share price might fluctuate.
- This might be okay...depends on your:
 - strategy, and
 - investment timeframe / horizon

Click to add title

The lesson:

There are times when the shares in some companies should/could be converted to cold hard cash.

Actively monitor the portfolio.

The 10 Key Lessons

1. **Cycles** — Markets, stocks, property all run in cycles
2. **Corrections** — Stock market corrections? — How long?
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10. **Chart reading?** — Can be useful! Here's how...

Click to add title

Lesson #10

Chart reading ?

Six useful tools...

How to anticipate the next one?

- Find some useful price charts
- Watch the market (eg. market index — XAO)
- Use useful technical indicator tools:
 - Moving Average (30-week, GMMA)
 - Coppock indicator
 - Momentum (and search for divergence)
 - Money Flow (and search for divergence)
- View good quality charts

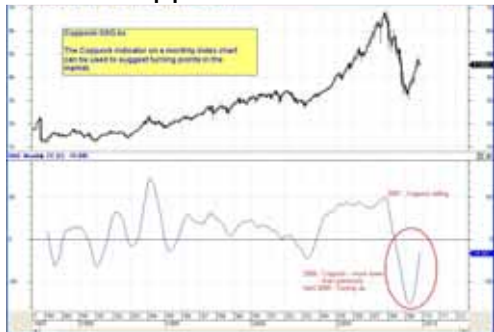
Sample charts

Some sample and
useful price charts follow...

Beware!
The bears

#10 — Charts can be useful

Coppock Indicator



Beware!
The bears

#10 — Charts can be useful

Momentum Indicator (monthly)



Beware!
The bears

#10 — Charts can be useful

Stan Weinstein



Beware!
The bears

#10 — Charts can be useful

Momentum divergence (weekly)



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Beware!
The bears

#10 — Charts can be useful

Money Flow indicator



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Beware!
The bears

#10 — Charts can be useful

Guppy MMA indicator



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**Beware!
The bears** #10 — Charts can be useful

These charts...

The charts on the previous slides are already posted on the web and updated weekly

Visit:
www.robertbrain.com/weekly

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**Beware!
The bears** #10 — Charts can be useful

Click to add title

The lesson:

Charts and Technical Analysis can be very useful (better than tea leaves).

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**Beware!
The bears** Introduction & Housekeeping

AGENDA

1. Current Crisis — Background and