

Share Trading

Trading Case Studies

Presented to the
Australian BullCharts User Group
26 May 2010



This presentation is one of many in
Brainy's *Share Market Toolbox* (web site);
and is amongst a huge array of
share market and charting information.
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AGENDA

- (1) How to find a potential trade.
- (2) The **Initial Stop** — where is it?
- (3) What is our **Target Price**?
- (4) What is our **Risk Amount**?
- (5) What is the **Risk/Reward ratio** value?
- (6) Do we place this trade? — Go-NoGo?
- (7) How to place **Trailing Stop**.

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Important Notice



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Important Notice (cont)

- This presentation does not include any advice.
- For proper advice, your personal financial situation needs to be considered.
- This presentation is pure education, and it is only for your general awareness.
- There are no recommendations to take any action, or to invest any money in any way.
- Always consult a properly licensed advisor before making investment decisions.

Important Notice (cont)

Past performance is no guarantee of future returns!

Assumptions

- Australian stocks only
- Investing / trading long (no short selling)
- No intraday observations or trading
- Looking for short to medium term capital profits
- Keen to protect capital and profits
- Will use sound money management and risk management techniques
- Use Weekly and Daily charts.

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How to find a potential trade?

Some possibilities:

1. Look for a trend and ride the trend...
2. Look for a chart pattern
3. Use one (or more) chart indicators
4. "System" — eg. Alan Hull's ActVest / ActTrade
5. *Look for a break of down trend* ←
6. *Look for potential price break-out above a consolidation range.* ←

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SAMPLE #1

Darryl Morley (Day Trader)
Herald Sun
7 April, 2010

Uses Weekly charts for setup, and Daily for Entry.

My reason for buying **BMW** was that the price broke the long term down trend in January when it had a strong move up to 13.5c. It then slowly retraced almost all that move by early March.

Up until this time the volume had been low and sporadic (many days with very low or no volume).

It then moved up to 12c within a few days and traded near the top of this range for the next three days.

Then it moved above the 13c resistance level (indicated by three spike highs to this level over the previous six months).

The consolidation above 14c and just below the next serious resistance at 18c for the next week and a half prompted me to look for a buy signal.

Its daily pivot point on March 26 was the signal. I bought at 16.5c for a total of \$3320.

The reason I bought this amount was that the stop had to be 14c — meaning I was risking \$500. At this time, I do not want to risk more than that on a low-priced stock because the market could still reverse quickly from its present level.

If this happened and the stop was broken, I would likely have to exit well below the stop and incur a loss of more than \$500.

I am anticipating holding **BMW** for a break above 18c and selling as it gets close to 35c target.

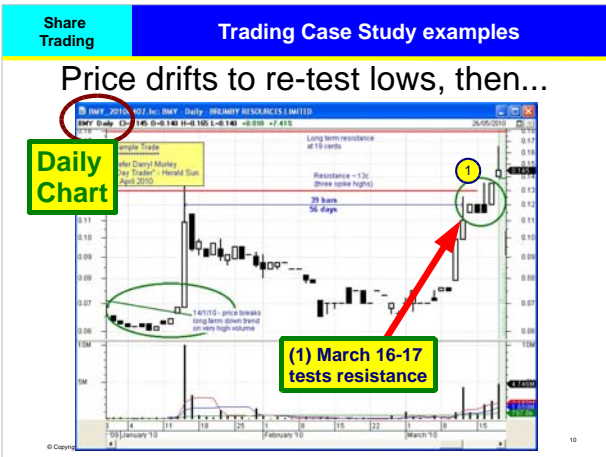
BMW will bounce after it moves into the

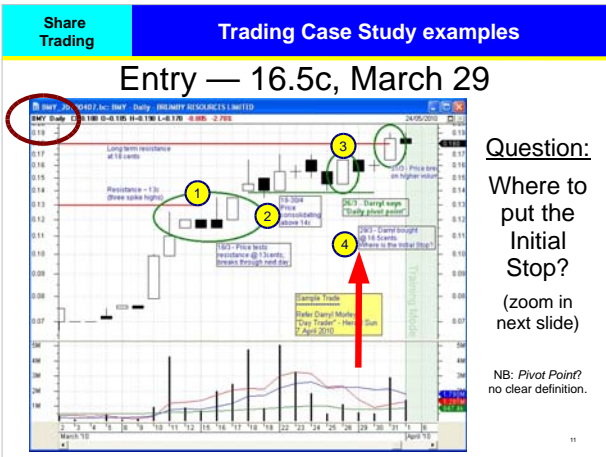
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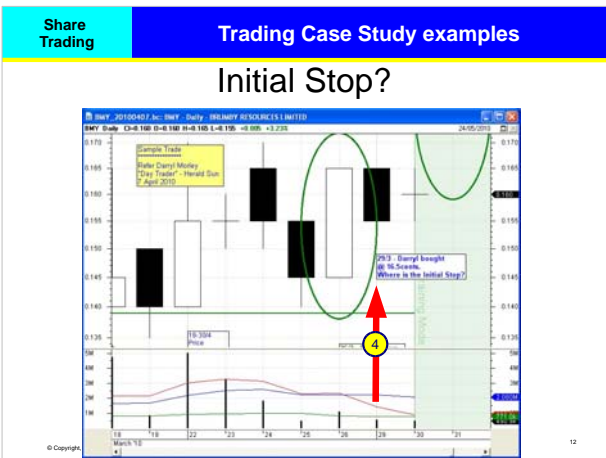
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Jan 2010 — Break of down-trend

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Initial Stop = 14 cents ?



Is this a good trade? (let's vote)

- (a) Yes
- (b) No
- (c) Too early to tell

What you have traded this?



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Risk?

- On this trade, the amount of **risk per share** = 2.5c
- Let's assume our **total amount** to risk (R) = \$500
- Parcel size** = $\frac{\text{Total risk}}{\text{risk per share}} = \frac{\$500}{\$0.025} = 20,000$ shares

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Risk / Reward Ratio?

- Let's call it the "Reward to Risk" ratio.
- Entry price = 16.5c
- If Target Price = 35c
- Possible Reward = 18.5c
- Risk (R) = 2.5c
- So Reward/Risk = $\frac{18.5}{2.5} = 7.4$ to 1 !! :-)

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Is this a good trade?

(a) Yes
 (b) No
 (c) Too early to tell

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The steps

- Spot the potential trade
- Determine the **Initial Stop**
- Determine the **Target Price**
- Determine the **Risk Amount** and the **Reward/Risk Ratio**
- Determine the **Position Size**

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The steps in the process

At which step can we enter the trade?

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Monitor progress...

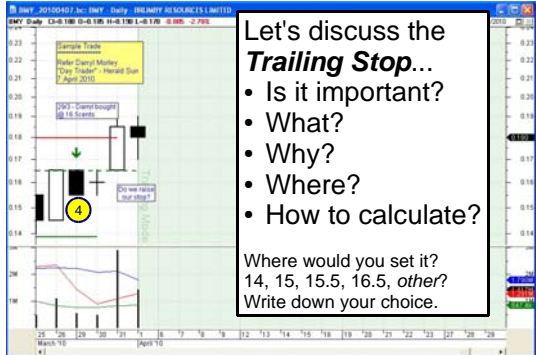
Let's monitor the trade...

Daily?
Weekly?

Why do it?

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Trailing Stop?



Let's discuss the **Trailing Stop**...

- Is it important?
- What?
- Why?
- Where?
- How to calculate?

Where would you set it?
14, 15, 15.5, 16.5, *other*?
Write down your choice.

Trailing Stop

- Do you place a Conditional Sell Order in the market?
OR
- Manually monitor the market each day and manually place sell order if stop is reached?

Trailing Stop?



Do we raise the **Trailing Stop**?

14, 15, 15.5, 16.5, 17,
19, 20, 20.5, *other*?
Write down your choice.

Still in?



Still in?



Summary

- Initial Stop
- Target Price
- Risk Amount and Reward/Risk Ratio
- Go? NoGo? Decide whether to trade or not
- Position size
- Manage the trade with a (rising) Trailing Stop (Never, ever, ever lower the stop).

SAMPLE #2

(only if enough time...)

THE END

Thank you.

More information:

www.robertbrain.com

THE END

THANK YOU

(backup slides follow)
