


Robert's presentation to U3A Manningham Sharemarket Group


U3A — Share Market

How to preserve capital and minimise losses
or
How to sleep at night (with maximum profit)



September 2011

"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



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Brainy's Share Market Toolbox

Before we start...

- I send occasional email
- Feel free to register and not miss out.
- [Latest U3A email](#)



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Set the scene...

(1) How well are you sleeping at night with your current investments?



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Set the scene...

- (1) How well are you sleeping at night with your current investments?
- (2) Does the market currently worry you?



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Set the scene...

- (1) How well are you sleeping at night with your current investments?
- (2) Does the market currently worry you?
- (3) How do we know how much to "risk" in the market?



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Set the scene...

- (1) How well are you sleeping at night with your current investments?
- (2) Does the market currently worry you?
- (3) How do we know how much to "risk" in the market?
- (4) Are you happy with your *blue chip* investments?



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Today's Agenda


- (1) *Let's just buy some blue chip stocks?*
That's the "best" thing to do?
Safe as houses? or "disappointing"? 
- (2) Is it better to cut loose the "losers"?
- (3) How much can we afford to "risk"
(to help us sleep)? 
- (4) Where is the market now?
and where is it going?
- (5) Q & A?   

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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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Important Notice



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Blue chip stocks
can be
disappointing...?



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What does "blue chip" mean?

"Larger companies
with a long history
of profitability
and stability."



ie. no guarantees!
Source:- www.asx.com.au

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Why hold blue chips?

- (1) Dividend income
- (2) Capital growth
- (3) Franking credit tax deductions
- (4) Other?

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How do they perform?

(1) Dividend returns? — how are they?

(2) Capital growth? — how is it?

- Not bad over the very long term
- Short term? — can be terrible!

Do they really perform? Or not?

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Investing rules?

In today's investment climate,
the old rules don't apply any more.
The current market is:

(a) Lively	(e) Hopeless
(b) Dead	(f) Profit making
(c) Great	(g) Loss making
(d) Challenging	(h) other?

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Blue Chips — disappointing?

The chart displays the weekly price of AMP Limited from 2002 to 2011. A vertical red line marks a 64% price drop over a period of 78 weeks (79 bars). A yellow box contains the text: "AMP down 64% over 78 weeks". The x-axis shows years from 2002 to 2011, and the y-axis shows price from 4 to 11.

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Blue Chips?

At least 36 well-known blue chips fell more than 50% during the GFC, and most are still below their highs of FOUR years ago.

See more details:
www.robertbrain.com/bluechip

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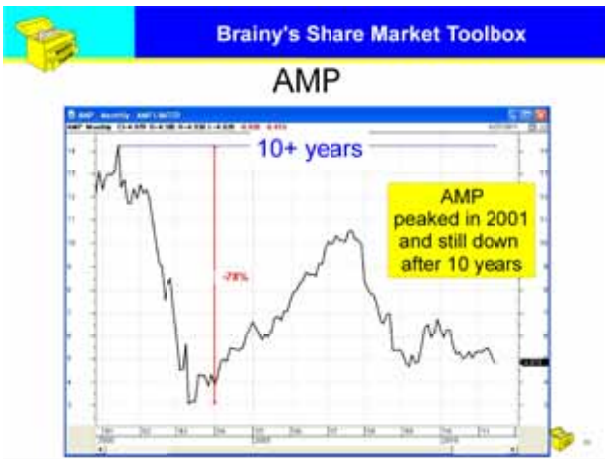
QUESTION:

How long does it take a *blue chip* stock to recover from a bear market fall or a correction?

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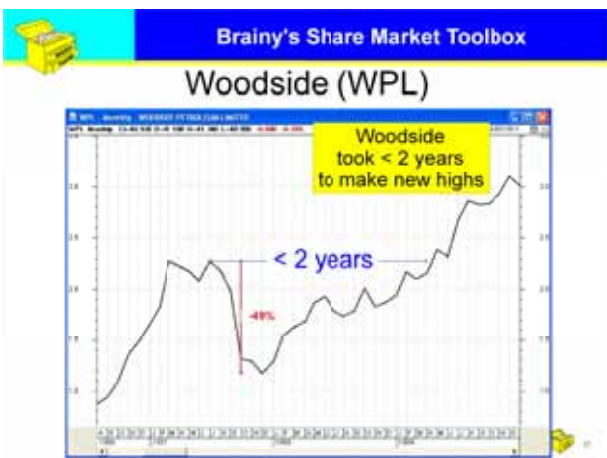




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How long to recover?
It might take only
a couple of years
or
many years, or even more!

**Blue chip stocks
can disappoint!**

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**Should we
cut loose
the "losers"?**

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Your opinion please?

Look at the next slide

Would it have been safe
to buy the stock ?

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Lessons?

- (1) Don't buy the "peaks". . .
- (2) It can be beneficial to cut the losers loose.

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Lesson 1 — don't buy peaks

Prices often retrace after a peak

BHP — Weekly chart

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How much
to "risk"?


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We want to invest,
AND
we want to sleep at night.
So, HOW?



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Consider this example: ...

- **Portfolio value** = \$100,000 (cash + shares)
- Aim for 10 positions ~ \$10,000 each
- **Exit Criteria:-**
If any one position falls by \$1,000 we sell it.
- Note: \$1,000 = 1% of today's portfolio value.

Is this acceptable? →

Amount at Risk (per position) = \$1,000

 Could we sleep at night with this?

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In the BHP chart . . .

In the earlier chart of BHP,
let's say we buy
as explained below

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Let's buy next day ~\$45

Daily Chart.

Down trend.

New uptrend?

Buy the trend at about \$45?

BHP Daily Chart

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We need a Stop Loss

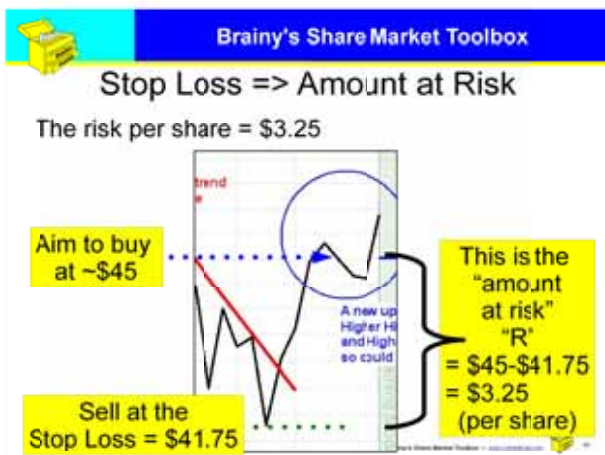
Where might we set a Stop Loss?

BHP Daily Chart

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Position size

The *amount at risk* = "R" :-
= \$45 - \$41.75
= \$3.25 (per share)

- Happy to risk \$1,000 per position
- If risking \$3.25 per share, then position size =

$$\frac{1000}{3.25} = 307.7 \text{ shares}$$

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Cost of this position

Buy 308 shares @ \$45 each:
Cost = \$13,860

If this is too much, then
adjust position size down.


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Pause to reflect

Could we sleep at night
with investments like this?

With 1% of capital "at risk"?



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In case you missed it,
let's quickly recap the detail...

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Recap...

(1) aim to buy at ~\$45

(2) set Stop Loss \$41.75

(3) If price falls to the Stop level, then sell

we are risking \$3.25 per share

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What actually happened next?

Here is the price action from the previous slides.
What happened next?

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Compare the 2 options

In this example with BHP:
we bought 308 shares
@ \$45 each for \$13,860.

- (1) By using our stop, we sold at \$41.75 for a loss of \$1,000
- (2) Without using this approach, this position today (3 years later) is worth:
 $308 \times \$37 = \$11,396$
or a capital loss of \$2,464
PLUS opportunity costs


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So, we can sleep at night

- (1) Keep each position size down to a "sensible" level.
- (2) Determine a Stop Loss level **early**.
- (3) If the stop is triggered, then sell according to your strategy.



This is sound money management, and best-practise risk management.


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Question...

Do you know anyone who is currently following this sort of strategy?

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Discussion time

- (1) What do you think about these Risk Mgt ideas?
- (2) Is the 1% value:
 - (a) too big?
 - (b) too small?
 - (c) about right?
- (3) QUESTION:
What if the "Risk Amount" is rather large compared to the likely reward?
ie. we only anticipate a small price rise, so the Reward/Risk ratio is low?

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Where is the market now?
and
where is it going?

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 **BullCharts** Jump to the BullCharts program for an interactive review with Questions/Answers?

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 **Summary & Wrap up**

Summary

- Blue chip stocks can disappoint
- Amount "to risk" per position
- Let's sleep at night

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 **Summary & Wrap up**

Don't forget my Toolbox

- Brainy's **Share Market Toolbox**
 - www.robertbrain.com
 - Loads of eBook (PDF) Articles
 - Info: share market, charting, BullCharts
 - Weekly Market Updates and Watch List
 - monthly e-Newsletters
- Good software – BullCharts
www.robertbrain.com/bullcharts/
- My contact details:
web site above, or phone: 0438 355 910



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THE END

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www.robertbrain.com/free

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THANK YOU

(Backup files folder)
