Brainy's Trading News and BullCharts Tips
Monthly e-Newsletters

24 Nov 2008

Special preview of Brainy's monthly articles

This pdf file contains only the **first page** of each of the articles that are available this month to subscribers.

This special preview is available for anyone to peruse. Please feel free to forward it to anyone.

The sad news is that if you want to see the subsequent pages in each article, you need to subscribe. A lot of work goes into their preparation, so we can't just give them away for free.

For more details, please visit my web site:

http://www.robertbrain.com

Successful investing,

Robert (Brainy) Brain

Brainy's articles on
Share Trading

Document No:
ST-2410
page 1 of 3
21 Nov 2008

Trading Styles and "Brainy's Trading Styles Worksheet"

This article in Brainy's series on Share Trading (number ST-2410) provides more details about share trading styles. This is an important consideration before moving on to consider a *trading plan*, and then one or more *trading strategies*. It includes "*Brainy's Trading Styles Worksheet"* on the next page.

Trading styles

To help make sure that you are "share market ready", it is very useful for you to understand your preferred "trading style". Once you have an understanding of your style, it will help to answer some important questions like: What charting software do I need? What data source do I need? How much time do I need to commit to this? How much will all this cost?

Once you have these important questions answered, you will have a better feel for things like:

● How much time does it take to select stocks for purchase, and monitor my portfolio?
● How often do I have to do this?
● What is the ideal length of time to hold a stock? Is it days, weeks, months?
● Do I need to buy charting software? If so, what type?
● What about the data? Do I use end-of-day? or live data? And what are the costs?
● Some people use a serious trading platform. Do I need to do this?
● What sort of returns are possible?

What is a "trading style"?

The topic of trading styles is a difficult one to talk about because, even amongst the experts, different people have different ideas about exactly what defines a trading style.

People tend to have somewhat different trading styles, as they depend on a number of things including your personality style, your risk tolerance, your underlying objectives, and a number of other things. But perhaps most of all, it is to do with your own comfort level regarding investing, and regarding the methods of investing.

Some of the possible trading styles that people talk about include the following:

● Scalper — for intraday quick trades.
● Day trader
● Position trader
● Swing trader versus trend trader
● Long term trader
● Fundamental analysis trader versus technical analysis trader.

These titles don't do much to help the beginner to find their way. In more general terms, we can say that "traders" tend to fall into the following very broad headings:

● The "buy and hold" investor — who wants to commit little time, and just set and forget.
● The position trader (also "inter-day" or "multi-day" trader) — who wants to buy and hopefully hold for at least a few days, or maybe several weeks (typically between one and 20 days).
● The day trader (ie. "intra-day") trader — who wants to be fairly active, and will mostly buy and sell within one day, or maybe within a couple of days.

How to determine your trading style

The table below, "*Brainy's Trading Styles Worksheet",* explains a couple of variations of the three basic trading styles, and helps to answer some of the important questions described above.

In the worksheet table, have a look down the left-hand column at the important questions one at a time, and look across the columns to find the answer that best suits your preference. If you are

Brainy's articles on

Share Trading

Document No:
ST-2420
page 1 of 4
22 Nov 2008

Trading Plans and "Brainy's Trading Plan Template"

This article in Brainy's series on Share Trading (number ST-2420) provides more details about share trading plans, and includes a *trading plan template*. You can print out the trading plan template pages, and tick the boxes and fill in the blanks to produce your own trading plan. It is very important to prepare a *trading plan* before moving on to consider one or more *trading strategies*.

A lot of information is written about *trading strategies* and *trading plans*, and much of the material is a little convoluted and difficult for the new trader to follow. To help simplify things, the information here about Trading Plans is split into a couple of chunks so that it is easier to follow — the *trading plan* that describes the "what", and the *trading strategy* that describes the "how".

It is important to understand that preparing the *trading plan* (and the *trading strategy*) are just a small part of the total process of preparation before placing your first share trade. To help make sure that you are properly *share market ready*, you need to work through the total preparation process — no shortcuts!

Trading style

Before thinking too much about a *trading plan*, it is useful to consider your own *trading style*. See Brainy's article ST-2410, "*Trading Styles and Brainy's Trading Styles Worksheet*", for more details.

Your trading plan

When trading, it is very important to start out with a *trading plan* that is written down. It is at a reasonably high level (ie. not too detailed) and it will include things like the following:

- Your investment objectives (eg. income, capital, investment horizon, etc.).
- Your investment horizon.
- Your funding arrangements (eg. cash, loan, margin loan, etc.).
- Your preferred financial instrument, or multiple instruments (eg. shares/equities, CFDs, warrants, options, futures, currencies, local or overseas, etc.).
- The amount of time you are prepared to commit to this activity each week.

The *trading plan* describes "what" you want to do and achieve at a high level. The *trading strategy* is more of the "how" you will go about it.

Trading plan template

On the following pages is Brainy's *Trading Plan Template*. You can print it out, and tick the boxes and make notes on it, to help you record your own *trading plan*.

Please note something about this, and the terminology. In terms of *trading*, there are a number of activities that you need to be aware of, and which need to take place, and which take some amount of time:

- Research and stock selection.
- Managing one or more watchlists (ie. a list of stocks to watch).
- Trade preparation — confirming stock selection, determining position size, recording proposed trade details and exit strategy, proper money management techniques.
- Placing the trade, at the right time. You might find that you want to buy a stock at a particular price, or with certain elements confirmed during a trading day, so you might be caught spending time watching the screen for a good time to trade.
- Monitoring and reviewing open trades and adjusting stop loss positions.
- Recording and reviewing closed trades, and reviewing your trading strategy for improvement.

Brainy's articles on
Technical Analysis

Document No:
TA-4250
page 1 of 2
21 Nov 2008

The P-SAR indicator — Parabolic Stop and Reverse

This article in Brainy's series on Technical Analysis (number TA-4250) provides an introduction to the Parabolic-SAR indicator.

The Parabolic SAR (Stop And Reverse) indicator was developed by J. Welles Wilder, and is described in his book *New Concepts in Technical Trading Systems*. It is a trending indicator and is mostly used as an exit indicator to indicate the Stop-Loss price point for tomorrow's trading (for long or short positions). It can also be used to help identify entry points. The indicator is a series of dots that are placed either above or below a candle on the price chart.
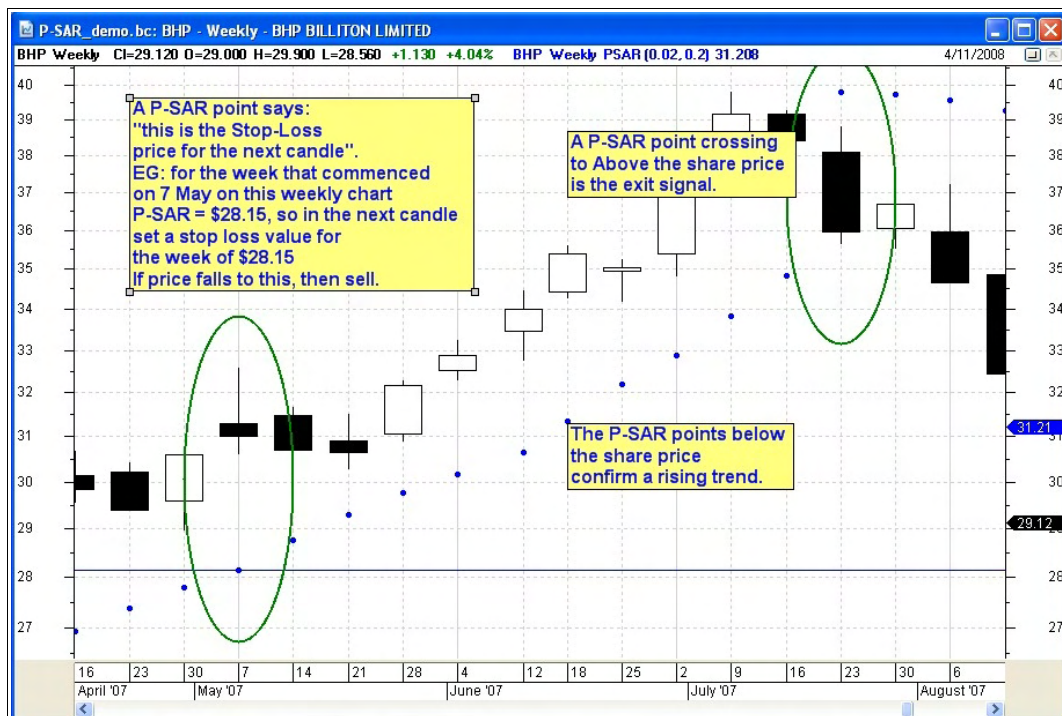

Figure 1: Price chart showing the P-SAR indicator

With reference to the weekly price chart in Figure 1 above, note the following:

- The P-SAR indicator applies to charts of most time frames (eg. daily, weekly, monthly, etc.).
- The P-SAR dots are automatically placed on the chart either below or above each candle.
- For most of the chart portion displayed here, the P-SAR dots are positioned below the candles. This confirms the up trend.
- As the stock rises in an uptrend, the next P-SAR value usually rises also.
- On this weekly chart, for the week of trading from 7 to 11 May 2007, the P-SAR point is below the candle at the value of $28.15.
- This P-SAR point says: "if the price falls to $28.15 any time next week, then sell". See comments on next page for more detail.
- At a point of significant price weakness (eg. the week commencing 23 July), the P-SAR has crossed to "above the share price" for that week.
- P-SAR could be considered as a guide for entry as well. When the P-SAR has crossed from above the price to below, this confirms a possible entry.

P-SAR has changeable parameters — see the next page for details. Also see comments and observations on the next page.

Brainy's articles on
BullCharts

Document No:
BC-10-110
page 1 of 4
22 Nov 2008

BullCharts scans — author scan example

The scanning module is a key feature of the BullCharts software product. It allows you to set up one or more stock selection criteria, and to scan through a specific list of stocks to identify only those stocks that match the criteria. In this article on BullCharts scans (in Brainy's series on BullCharts), we will look at a supplied "author scan" that comes standard with the BullCharts software, and we will look at the basics of how to customise it. More information on BullScan is included in the BullCharts Help file (hit the F1 key), or in Chapter 10 of the BullCharts User Manual.

A quick example

By way of example, consider the following. Let's say you are a longer-term trader, browsing through weekly charts once each week, and you want to search through all stocks in the S&P/ASX 200 index for a potential price breakout (this is what we might find towards the end of a bear market). In this example we want to search for all stocks that match the following criteria:

- The Closing price is between [the previous Close + 5%], and [the Previous Close + 1000%].
- The Volume is between [the previous Volume + 30%], and [the previous Volume + 1000%].
- The share price Low crosses above the 14bar SMA (Simple Moving Average of the Close).
- Close is between 20c and $100.

A sample chart for a stock that matches this criteria is shown in Figure 1 at right.

Figure 1: Desired chart pattern (see Fig. 7)

BullCharts — supplied author scans

The BullCharts software comes bundled with more than 120 supplied *scans*, and many of these are based on *author strategies*. The stock selection criteria described in the example above are actually built into one of the supplied author scans — Leon Wilson's *Breakout* scan. You can find this scan in the BullScan Manager as follows:

- Display the BullScan Manager panel — menu option: View > Panels > BullScan Manager (there are other ways to do this that change in BullCharts version 3.8).
- The BullScan Manager panel is often "docked" against the right-hand side of the window, or can "float" (the floating panel is shown in Figure 2 at right).
- In the BullScan Manager panel, you can view by either Name, Category, or Author. Click on the tab at the bottom of the panel.
- When viewing by category, locate Leon's Breakout scan by browsing down for the list for the *Breakout* category heading, and then view the scans in that category (see Figure 2).
- When viewing by Author, browse down the list until you find "Wilson, Leon", and then locate the same Breakout scan.

Figure 2: BullScan Manager panel – undocked and floating

Brainy's articles on
BullCharts

Document No:
BC-10-120
page 1 of 3
22 Nov 2008

BullCharts scans — key scan features

In this BullCharts article (in Brainy's series on BullCharts) we will make some changes to an existing BullCharts scan to demonstrate some of the key BullScan features.

Stock search criteria (in a bear market)

Let's say you are a longer-term trader wanting to trade long (not short), browsing through weekly charts once each week. And you want to search through all stocks in the S&P/ASX 200 index for a potential price breakout (this is what we might find towards the end of a bear market).

In this example we will start off with Leon Wilson's standard *breakout* scan (discussed in Brainy's article number BC-10-110), and make some changes to search for all stocks that match the following three criteria:

- The share price Close is greater than the 14bar Exponential MA (of the Close).

- The Closing price is between: [the Close of 2 bars ago + 8%], and [the Close of 2 bars ago + 1000%]. This will help to confirm the breakout by waiting to see a sustained increase over 2 weeks.

- We want to see the Bollinger Bands expanding.

- We will ignore volume; but note that we should look for this manually on the chart for confirmation.

A sample chart for a stock that matches this criteria is shown in Figure 1 at right with the downward arrow indicating the "current" candle, and the "2 bars ago" candle indicated by the upward arrow. The percentage increase in price over these 2 weeks is shown as 11.2%. This sample is from the end of the 2003 bear market time frame.
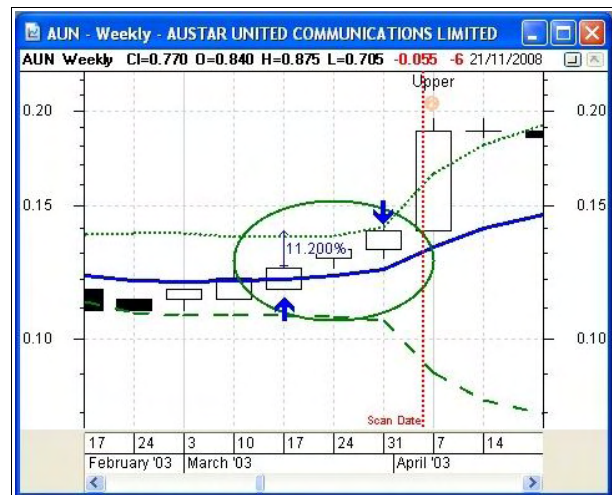

Figure 1: Desired chart pattern

BullCharts BullScan — customising the scan

Let's take a supplied author scan, and make some changes to it, and save it as our own scan for easy future reference. In the BullScan Manager, select Leon Wilson's *Breakout* scan. To help locate it and follow the next few steps, refer to Brainy's article number BC-10-110. In the example depicted in the next pages, I have used the following steps and made the following changes:

- In the BullScan Manager, right-click on the desired scan and choose "Copy" from the drop-down list. Then a copy of the scan definition will open up for changes.

- On the "1. General" tab:

  - Change the "Scan Name" to something very meaningful — for example "Breakout — customised for Brainy's articles".

  - The "Category" is already shown as "My scans". This copy feature enables you to easily clone any number of existing scans.

  - In the "Author" field, I have inserted my own name — Brainy.

With these changes made so far, I can easily locate this scan in future by browsing the list of scans either by Category, or by Author (see Figure 2 at right).
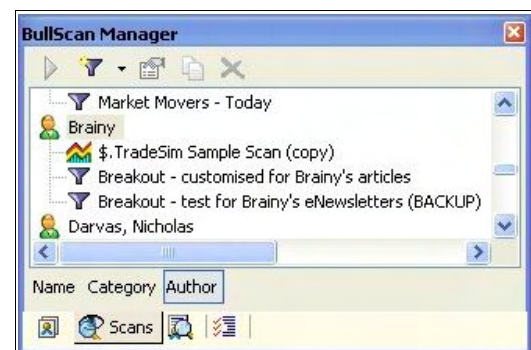

Figure 2: BullScan Manager panel - undocked and floating