

Technical analysis for the not so technical - identifying trends

Charting is actually a very practical science which employs very robust logic 99.9% of the time. And using some very robust logic Alan is going to show you how to identify and compare price trends.



by Alan Hull

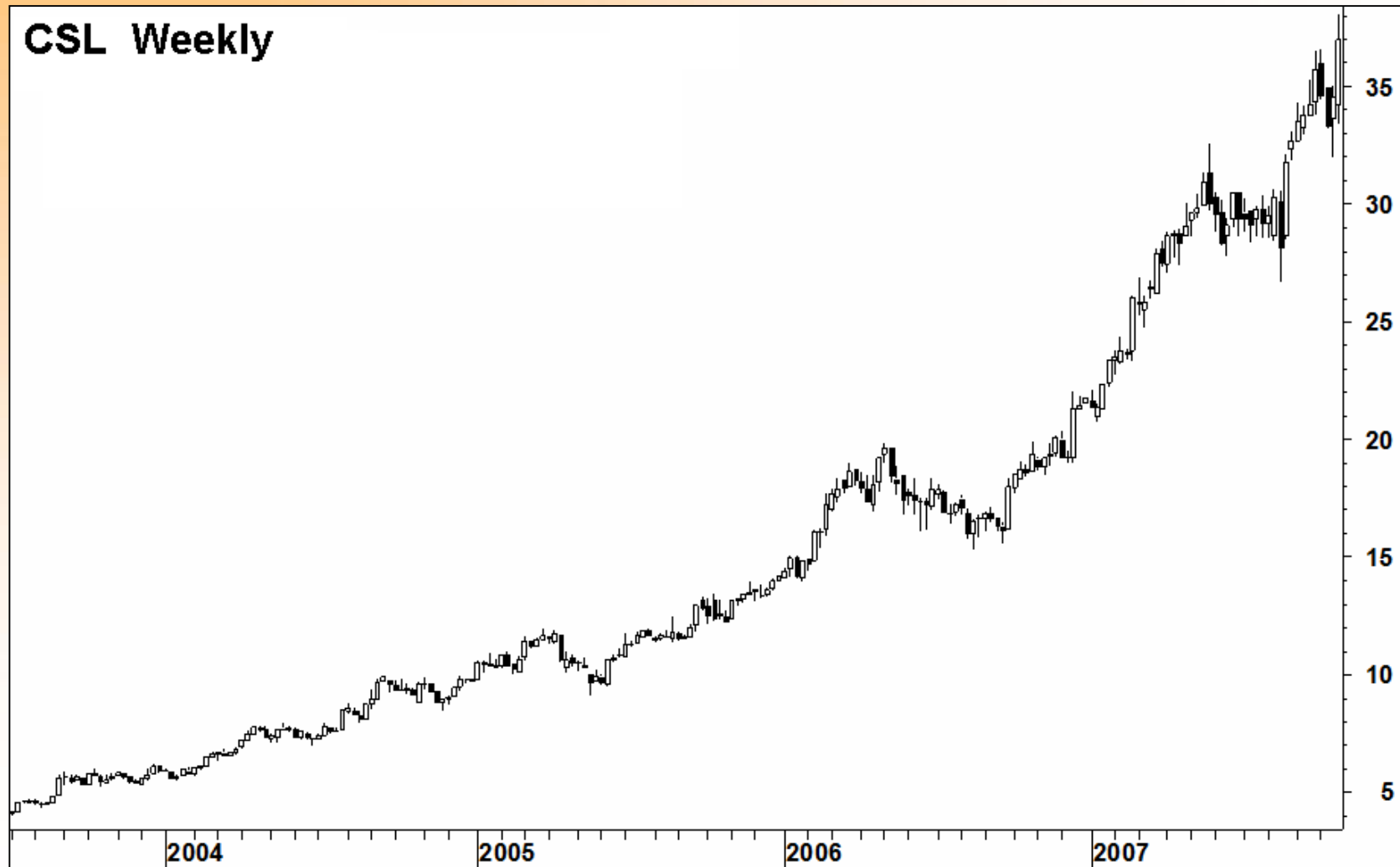
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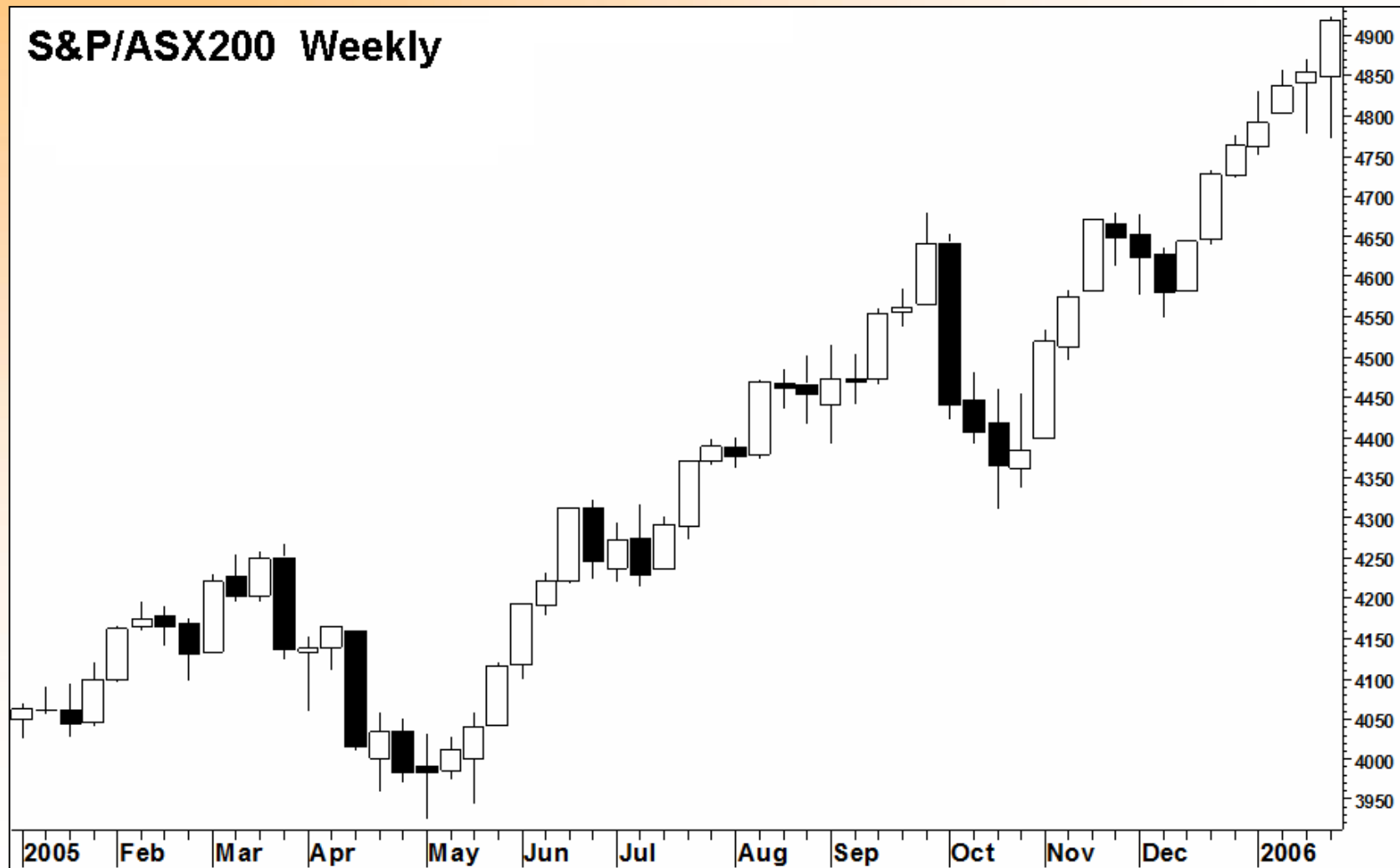
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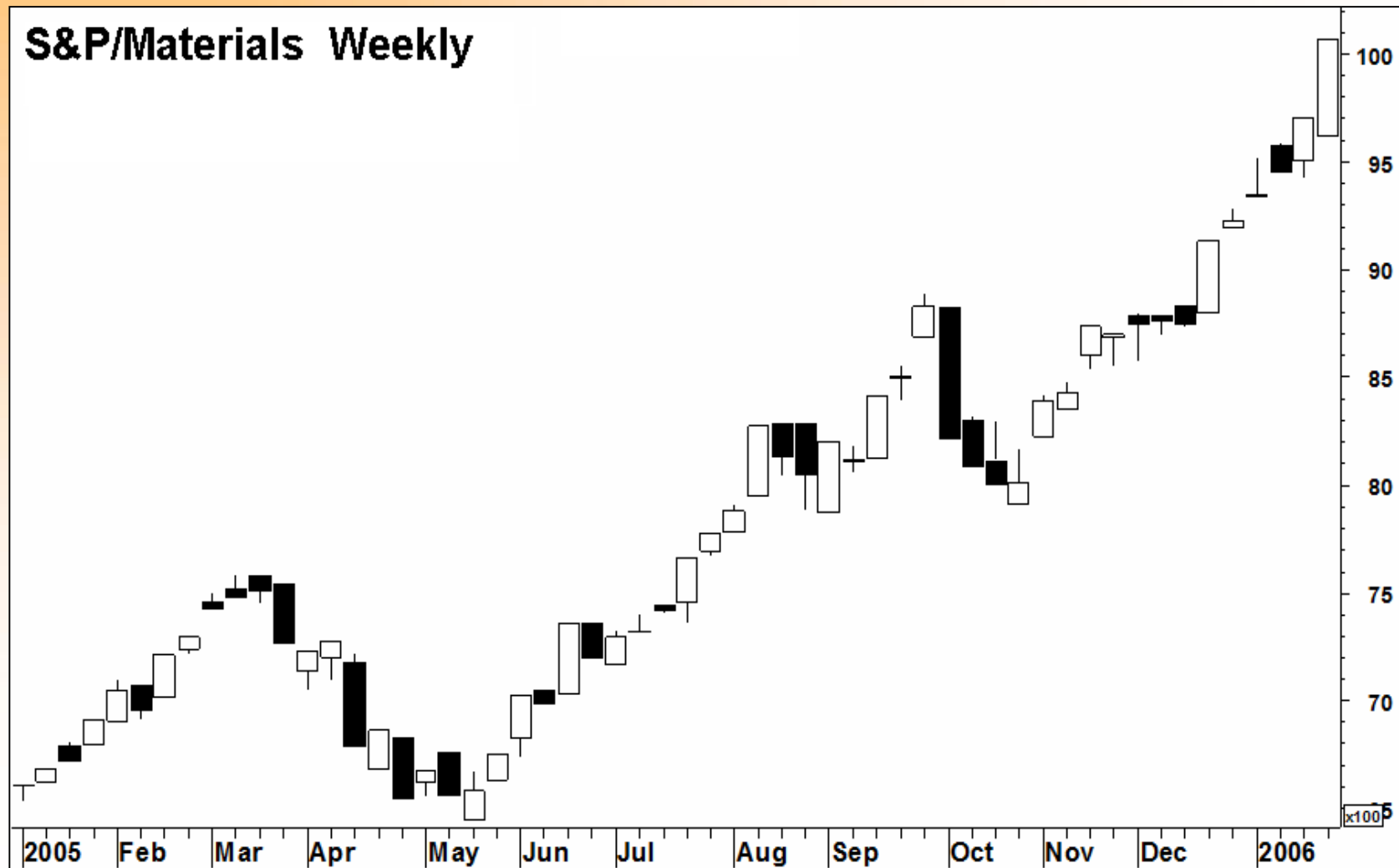
The trend is your friend - a top down approach to building a growth portfolio



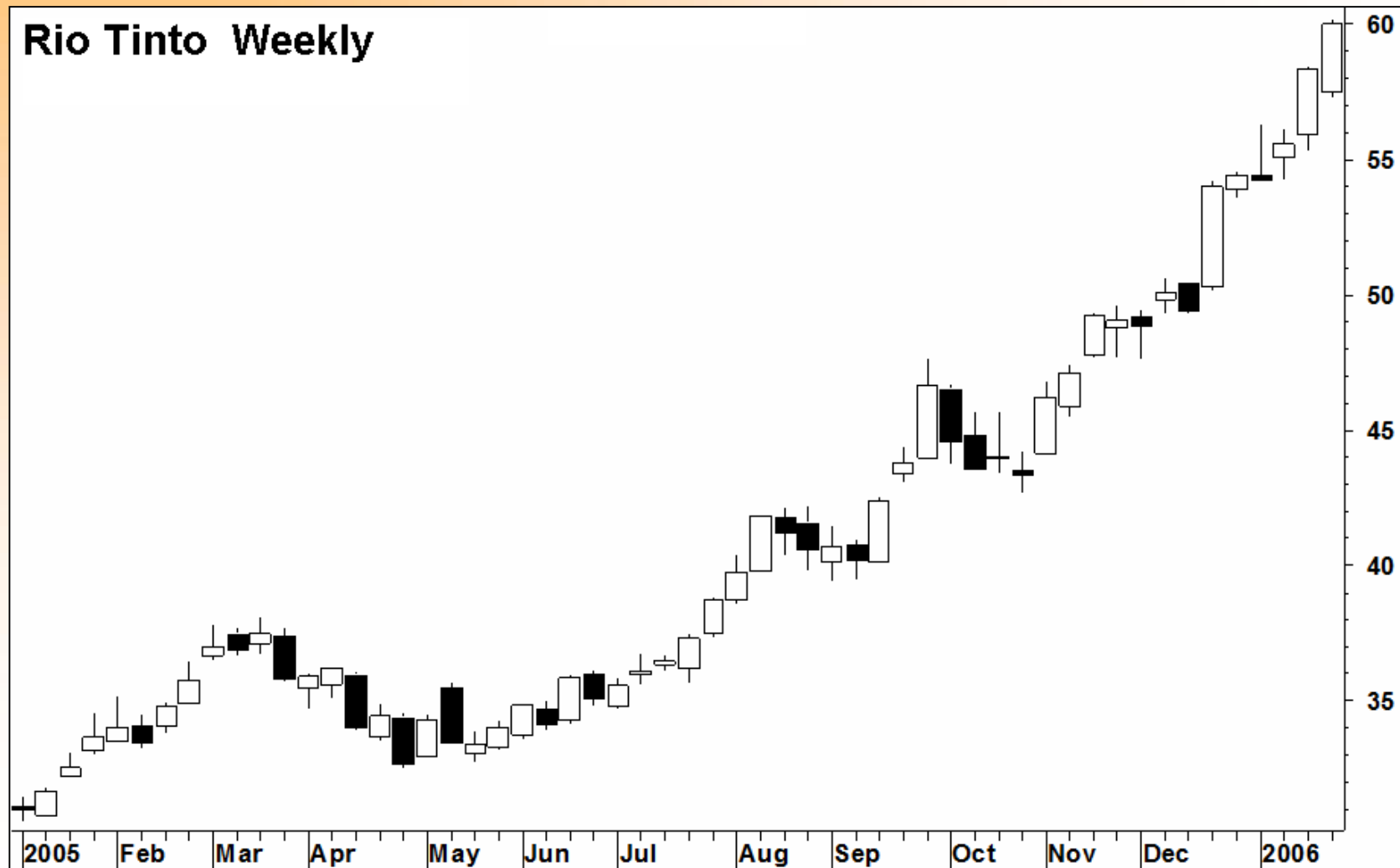
Start by identifying a rising market - in 2005 the ASX200 index rose about 20%



Then identify a rising sector within the rising market - the Materials sector

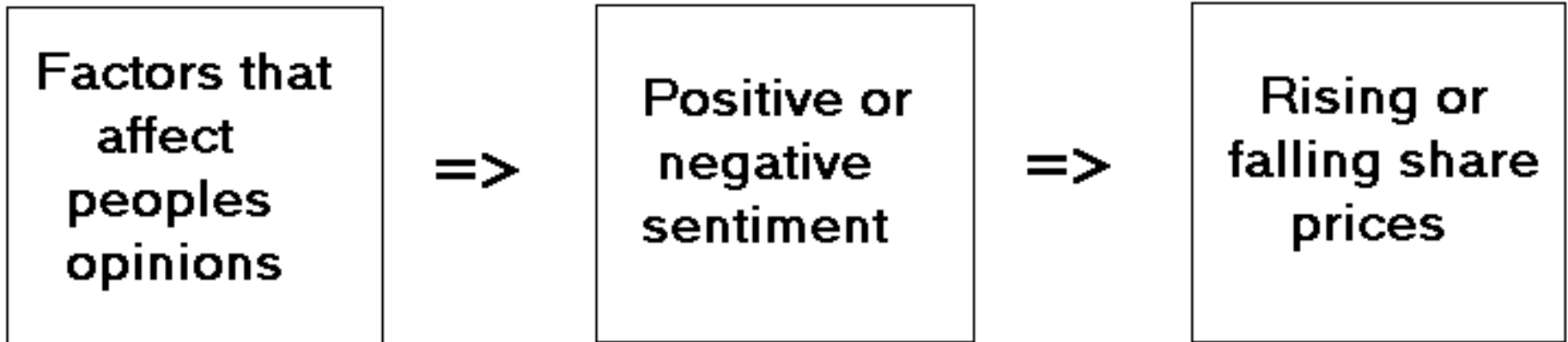


Finally, identify a rising share within the rising sector - Rio Tinto doubled in 2005



The trend is your friend - combining fundamental and technical analysis...

Fundamental

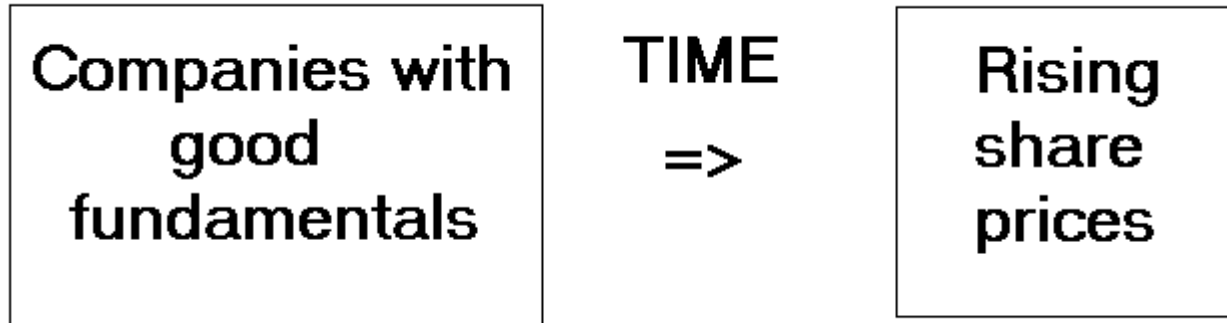


Chartist

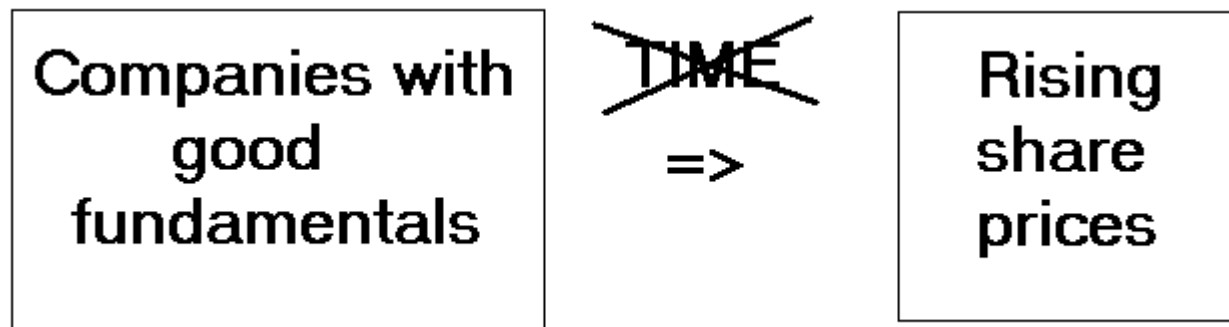
Active Investing uses fundamental and technical analysis together

Eliminate the 'TIME' factor by...

Passive Investing

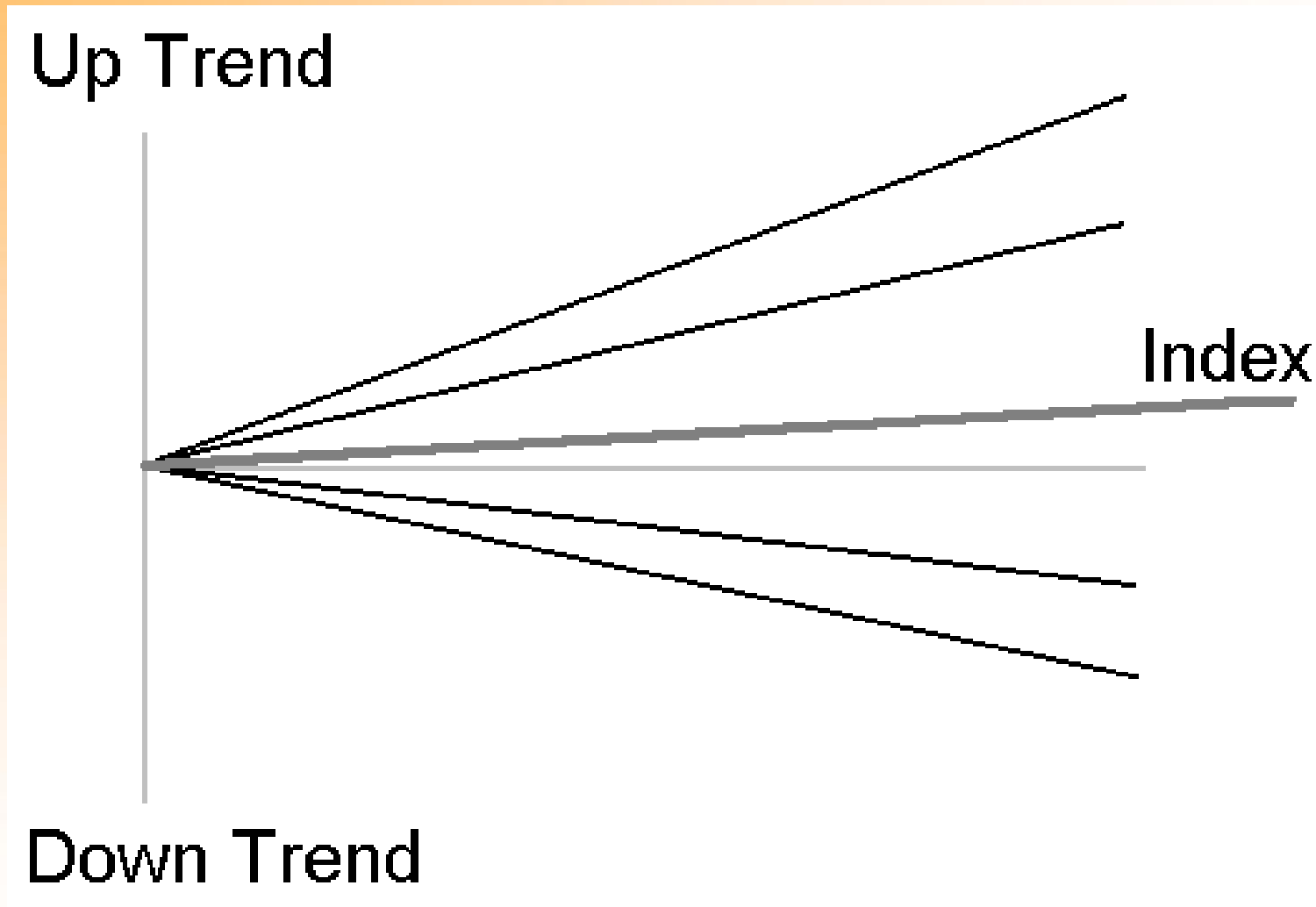


Active Investing



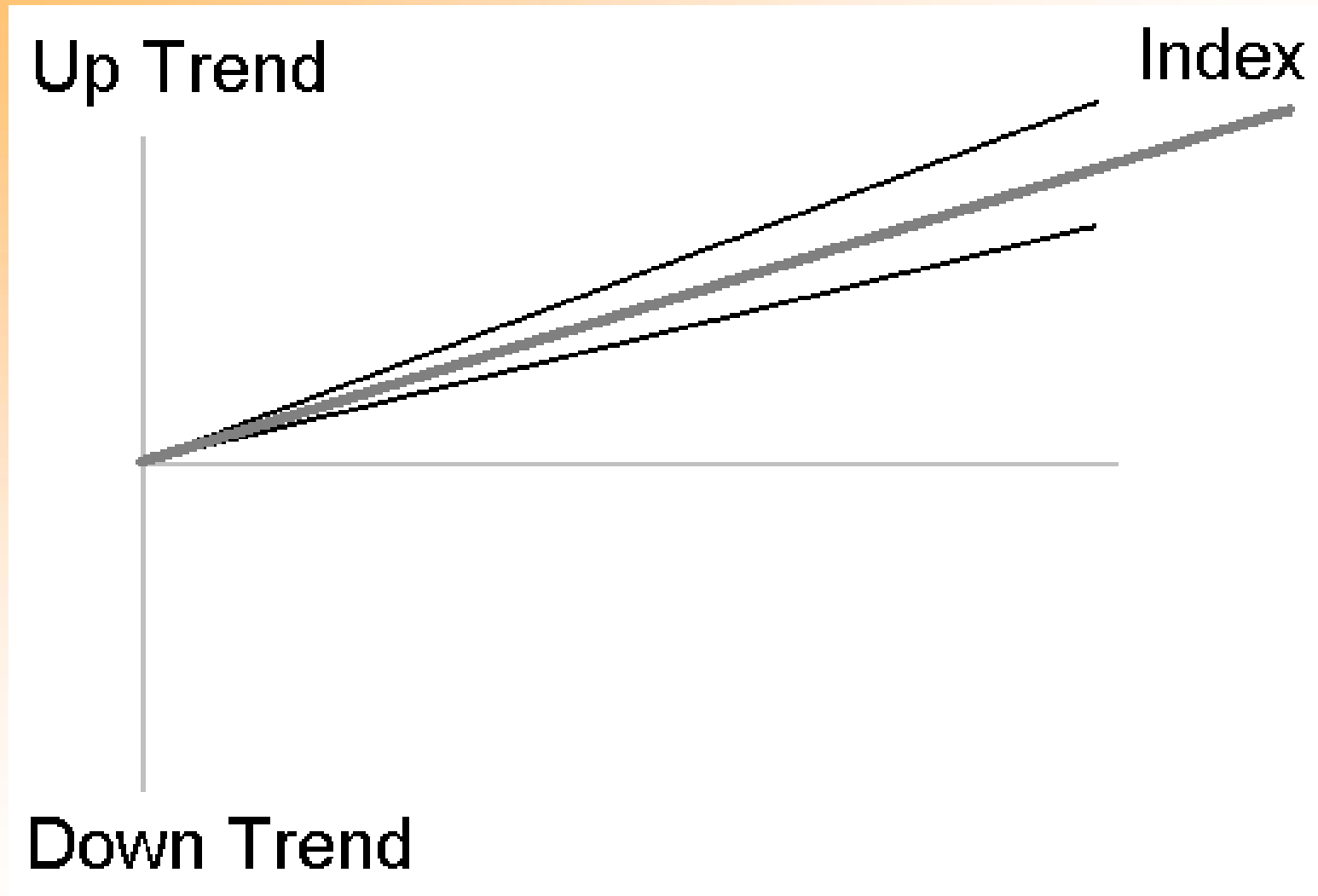
... 'Testing & Measuring' for price trends

Optimization is the key...not timing



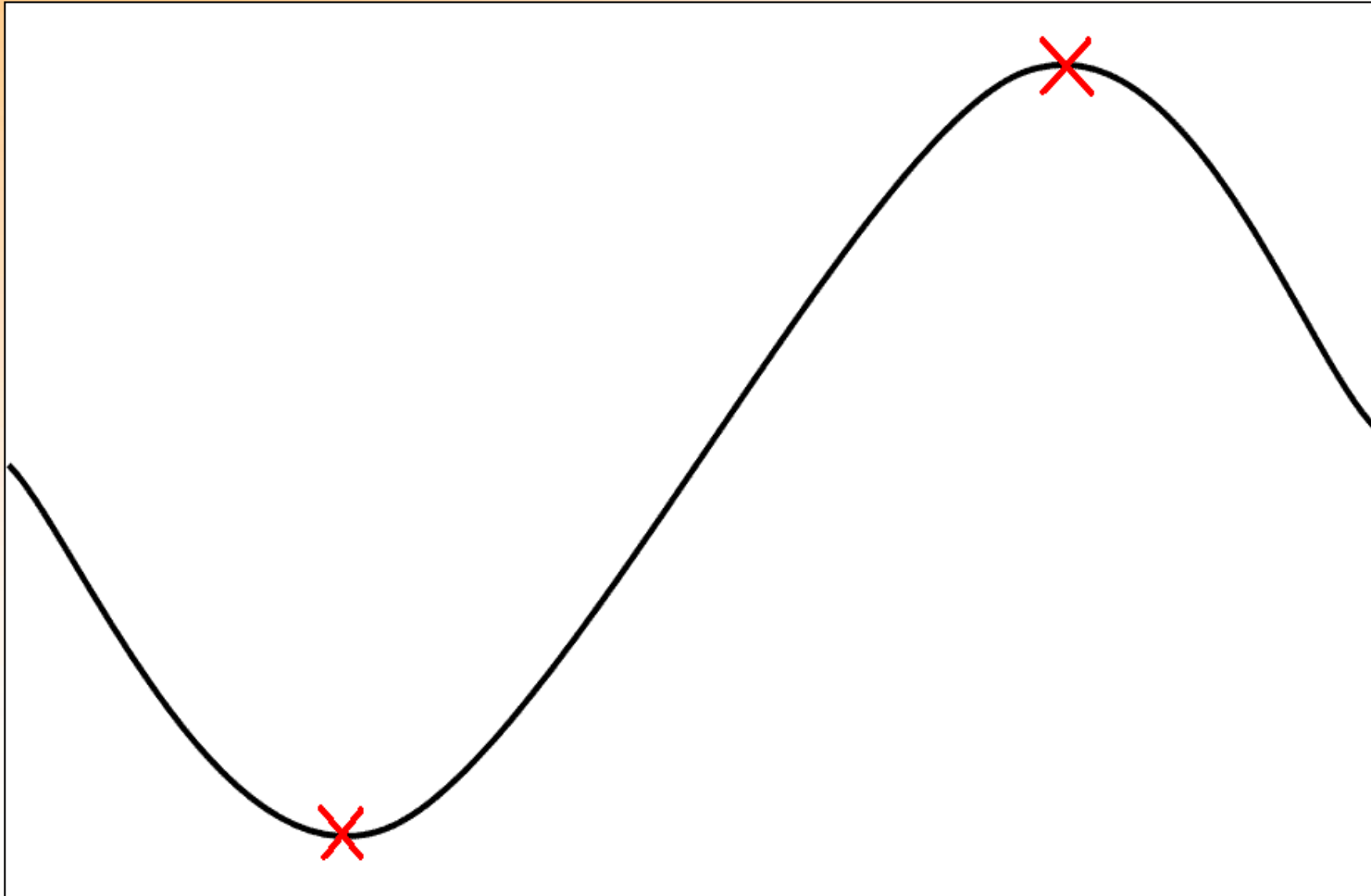
If we eliminate the weaker trends...

...then beating the average is easy

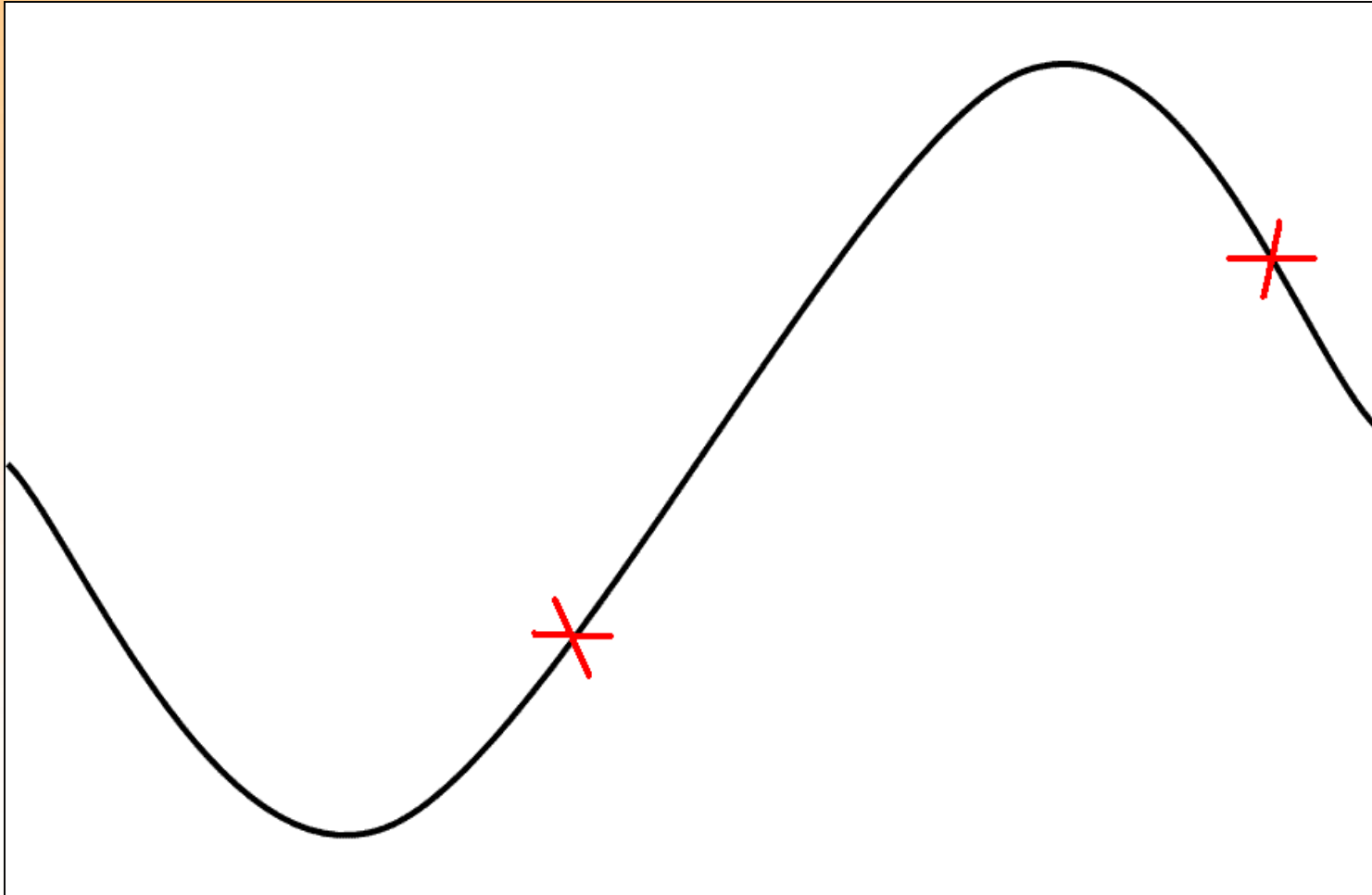


It's mathematical common sense

And identifying a trend should not be confused with 'Buy low, sell high'



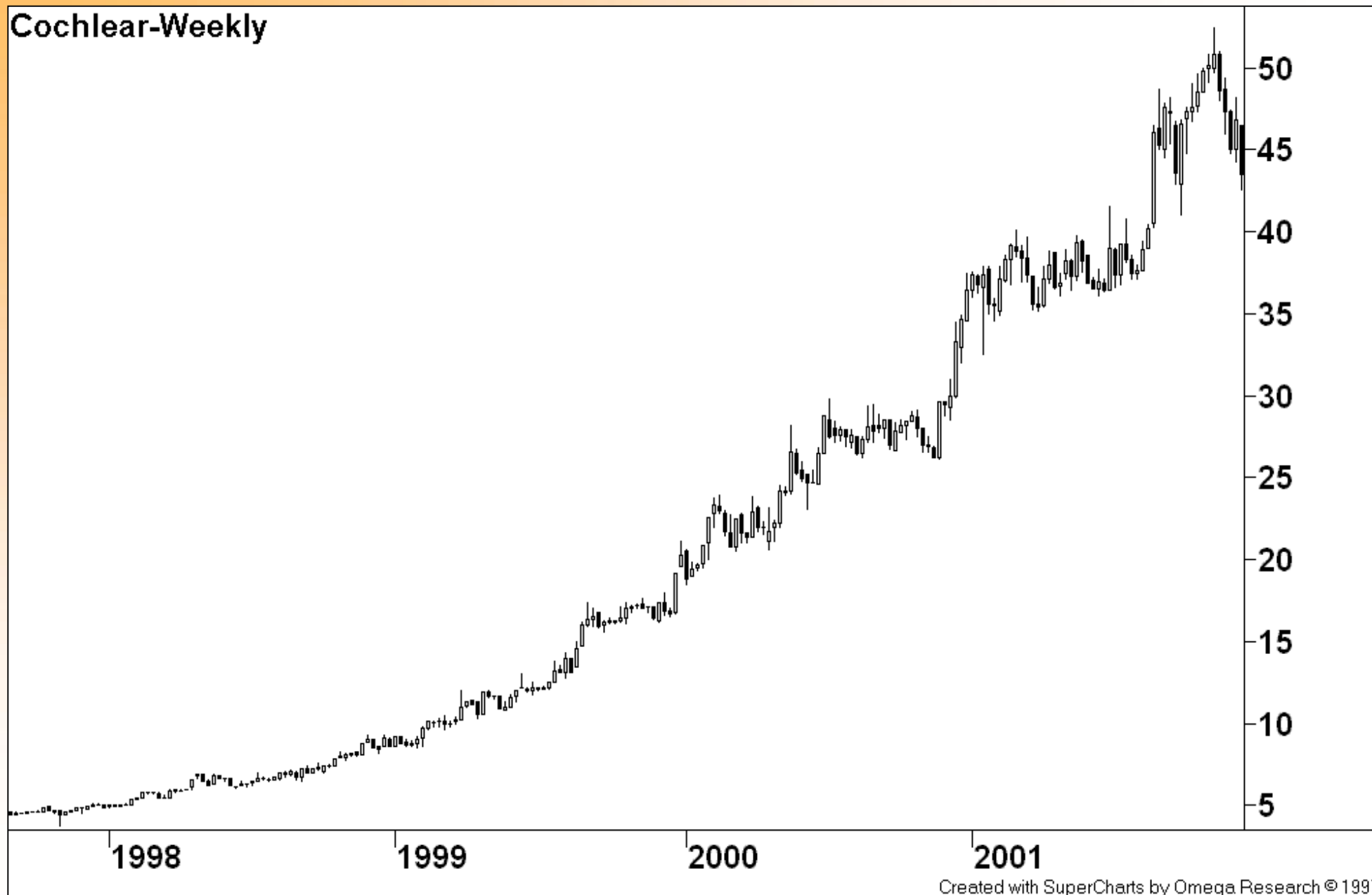
**Identifying a rising trend is where we
buy a rising share & sell a falling share**



A lot of the time price trends are obvious



Cochlear-Weekly



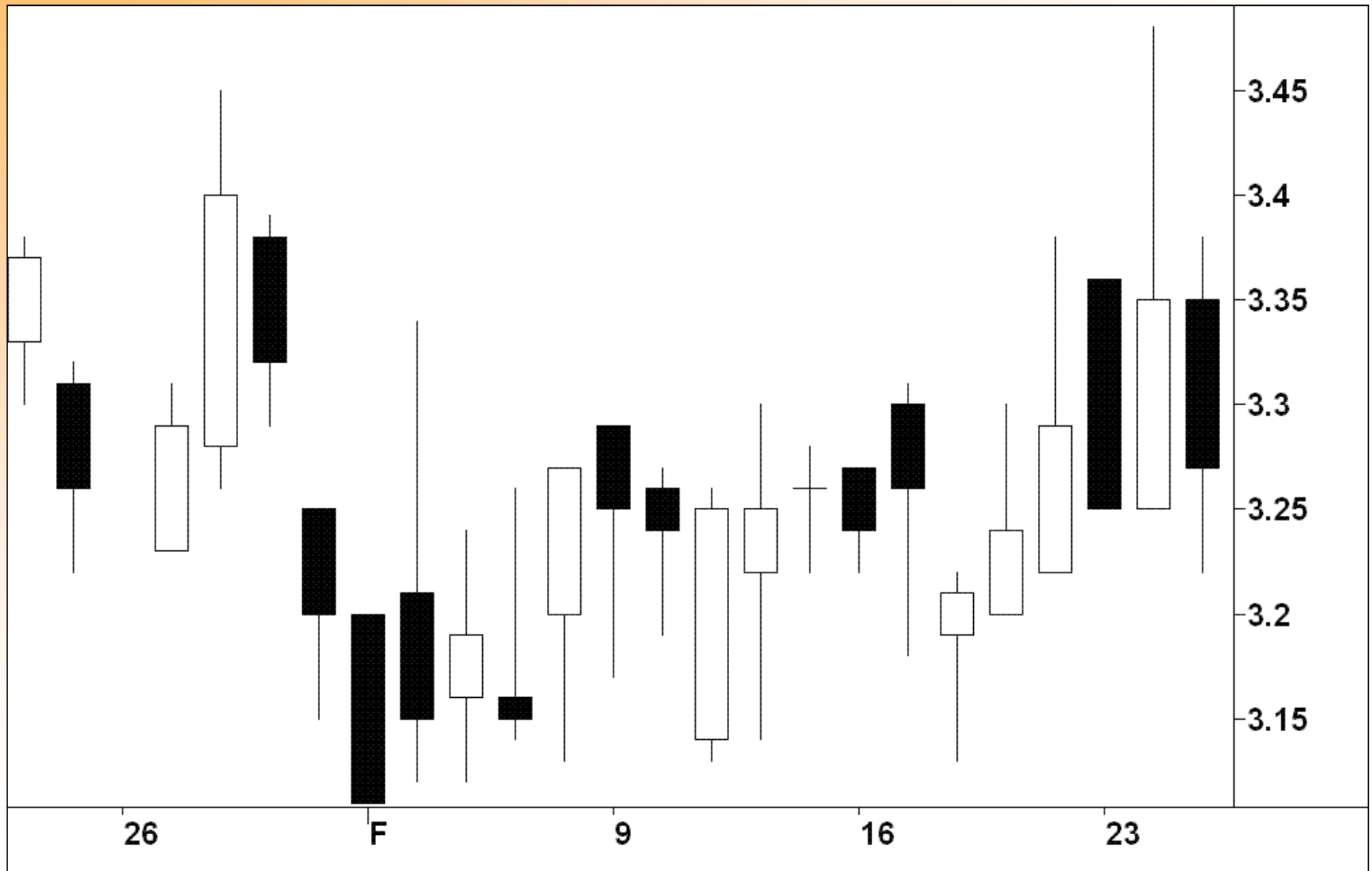
Bhp Blt-Weekly



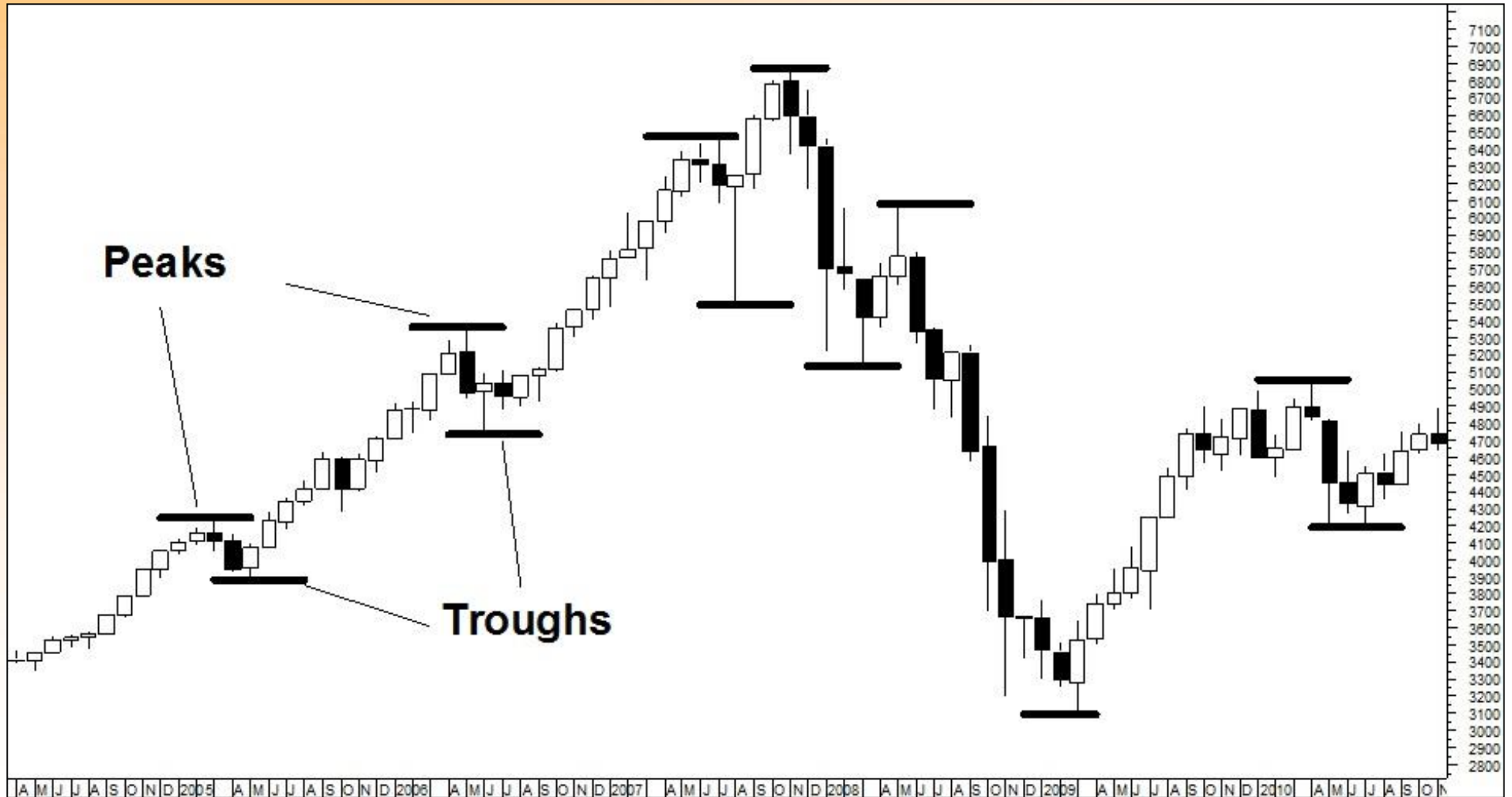
When a share is trending upwards and then when it's trending down...



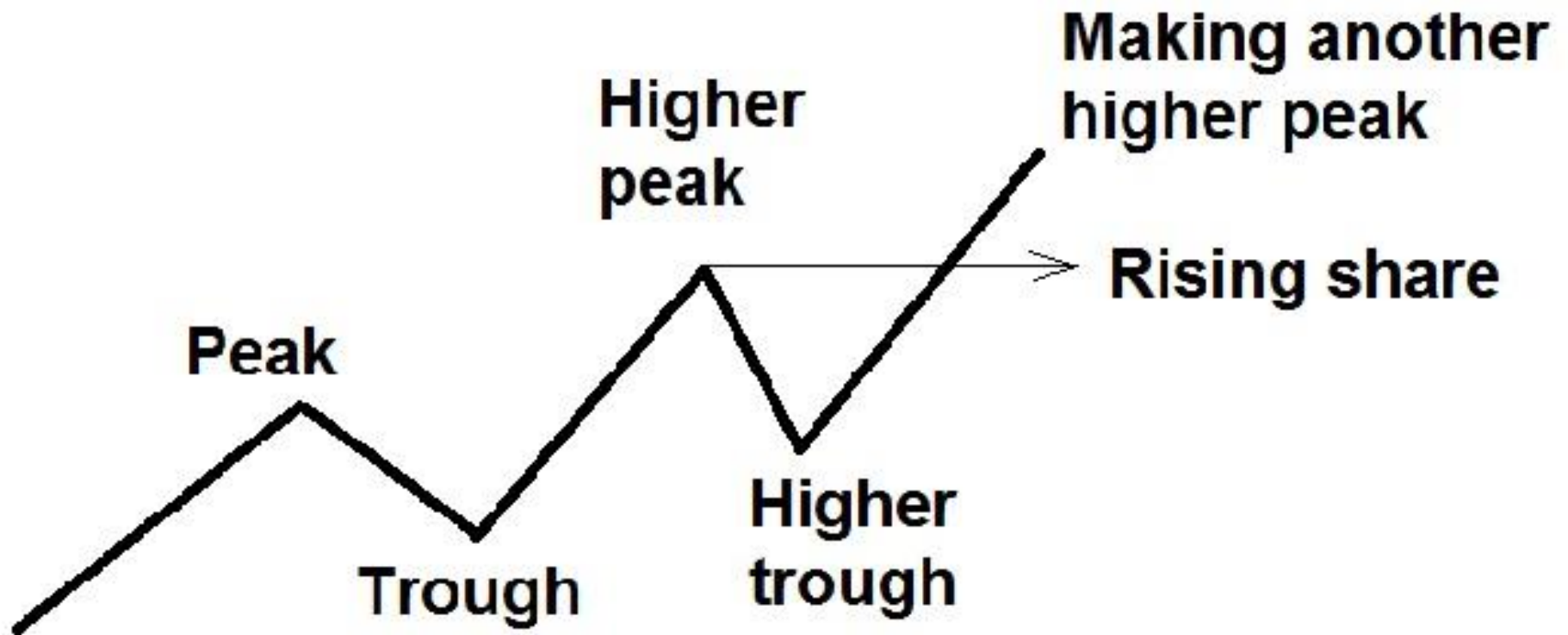
But sometimes it's not so obvious...



A simple method for identifying trends is Dow Theory which uses peaks & troughs

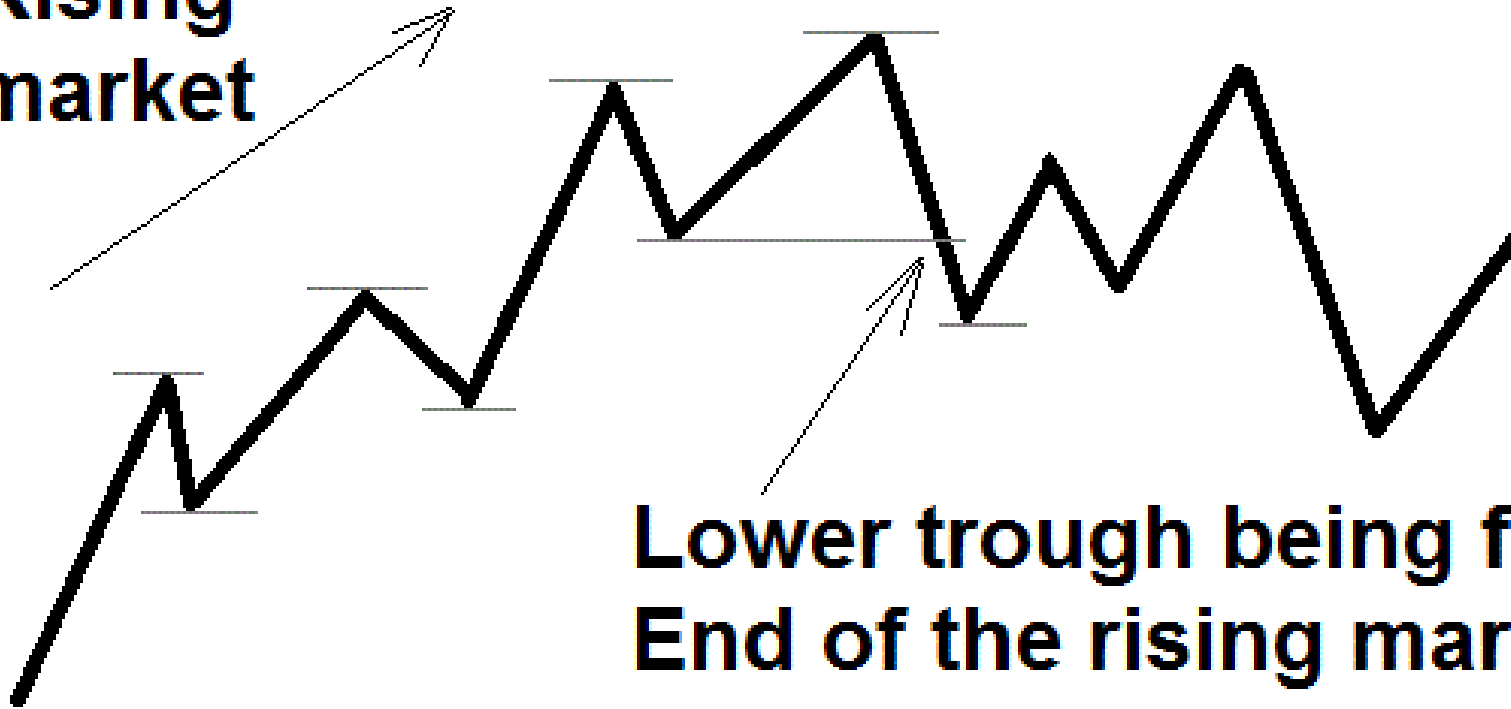


A rising share is one where there are higher peaks and higher troughs...



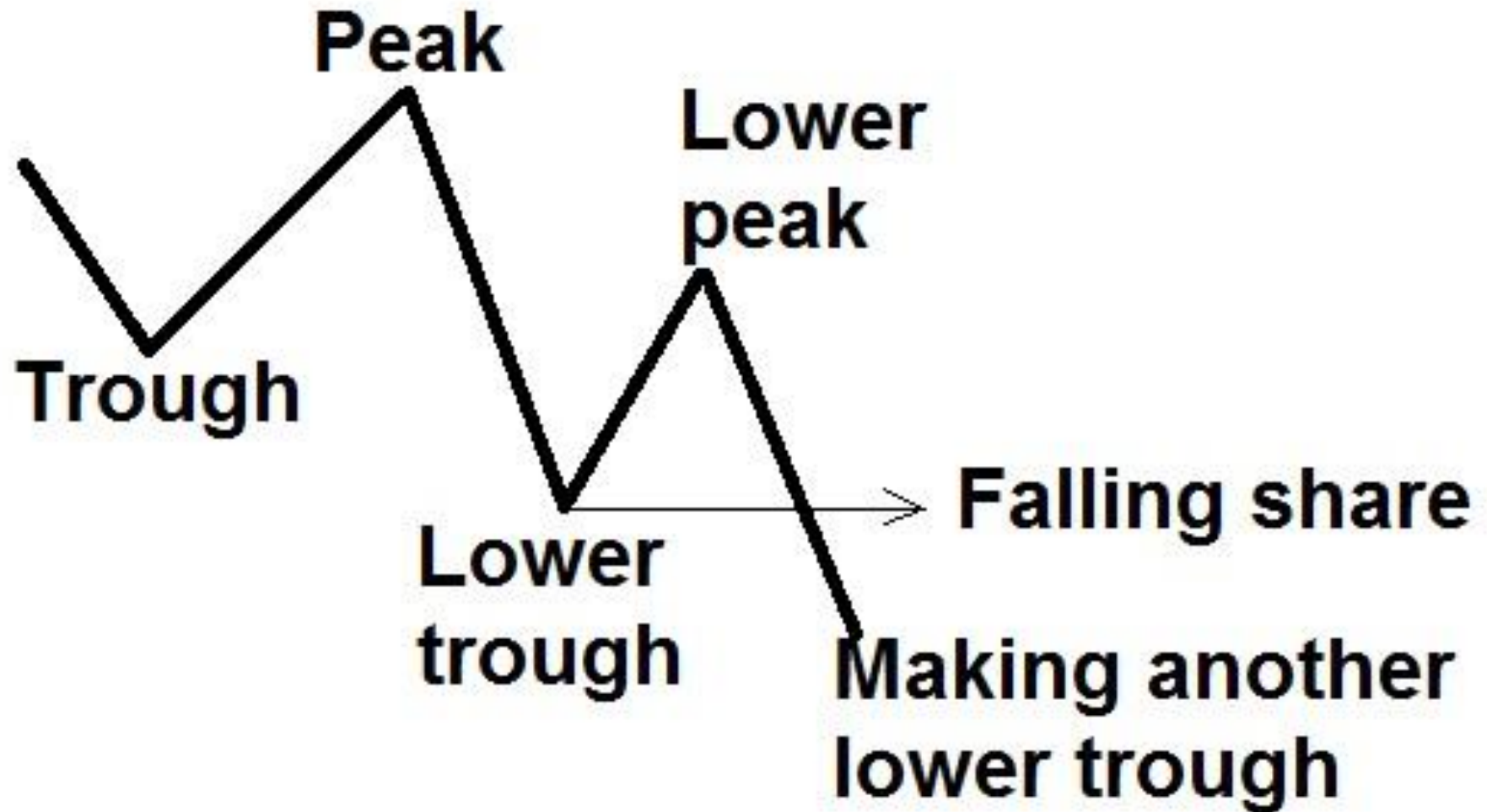
**But a share is no longer rising once
it makes a lower trough...**

**Rising
market**

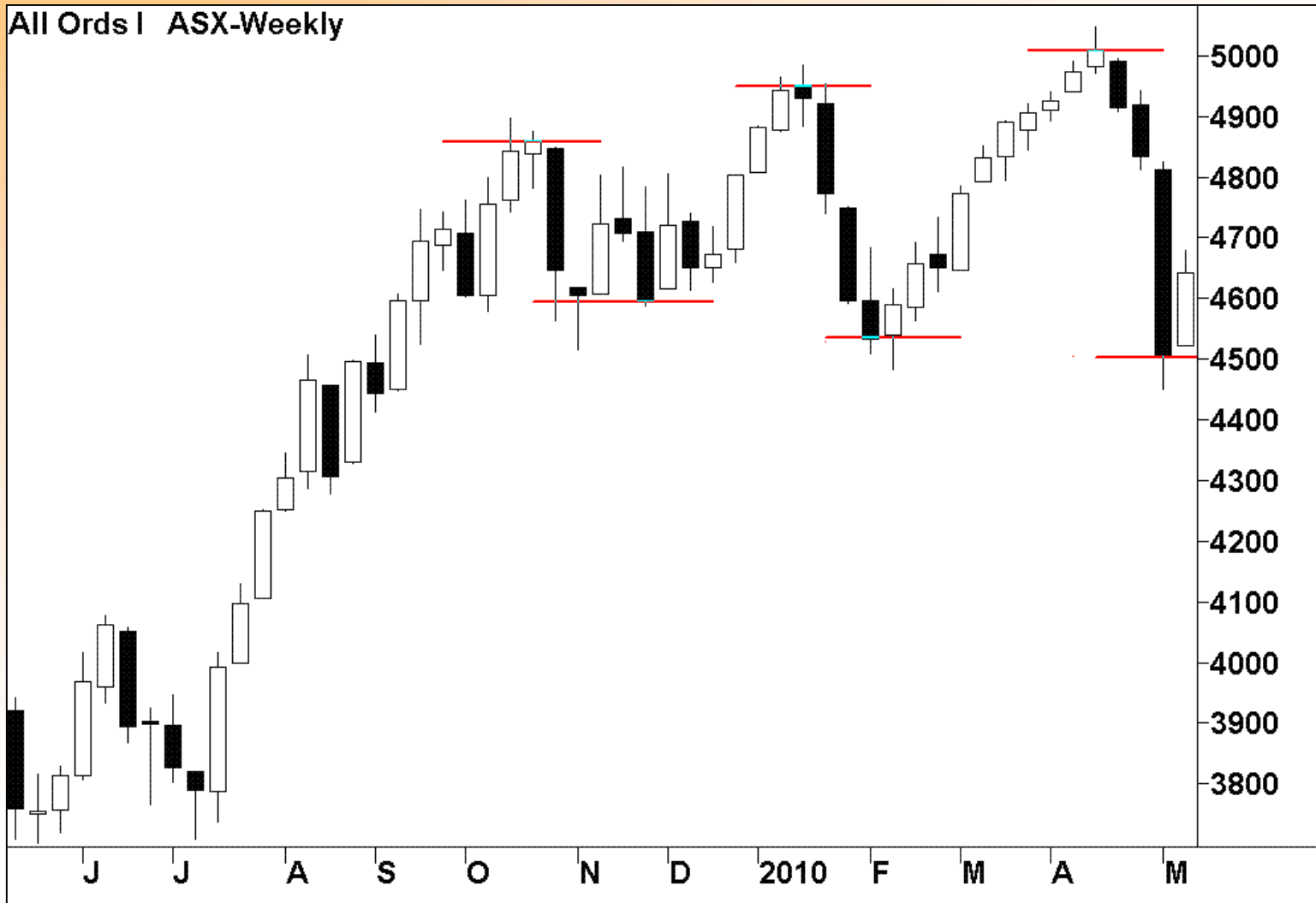


**Lower trough being formed
End of the rising market**

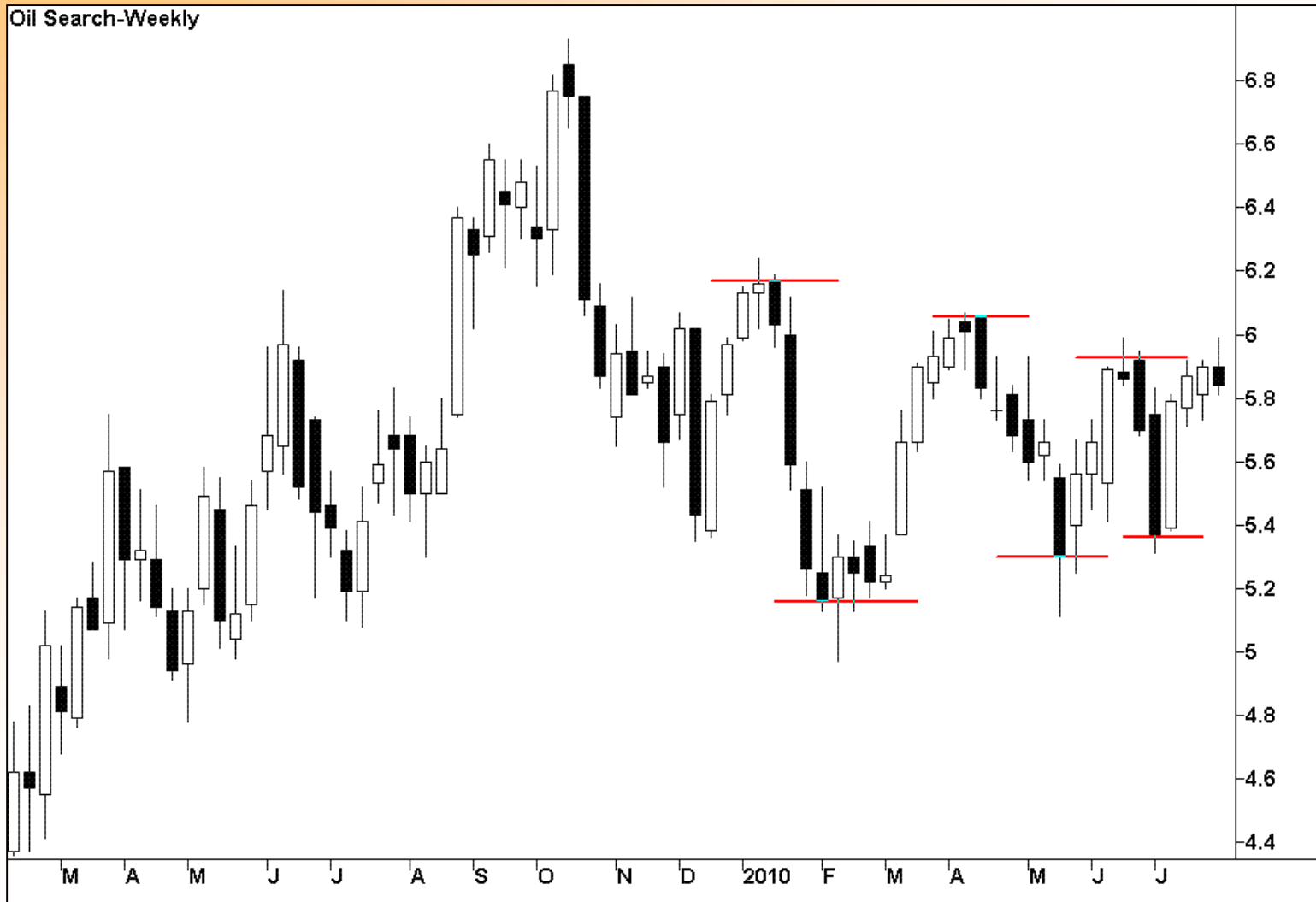
And this logic can be flipped upside down to identify a falling share...



And Dow Theory can also identify when a share is trending sideways



Shares trending sideways can make either outside or inside swings...



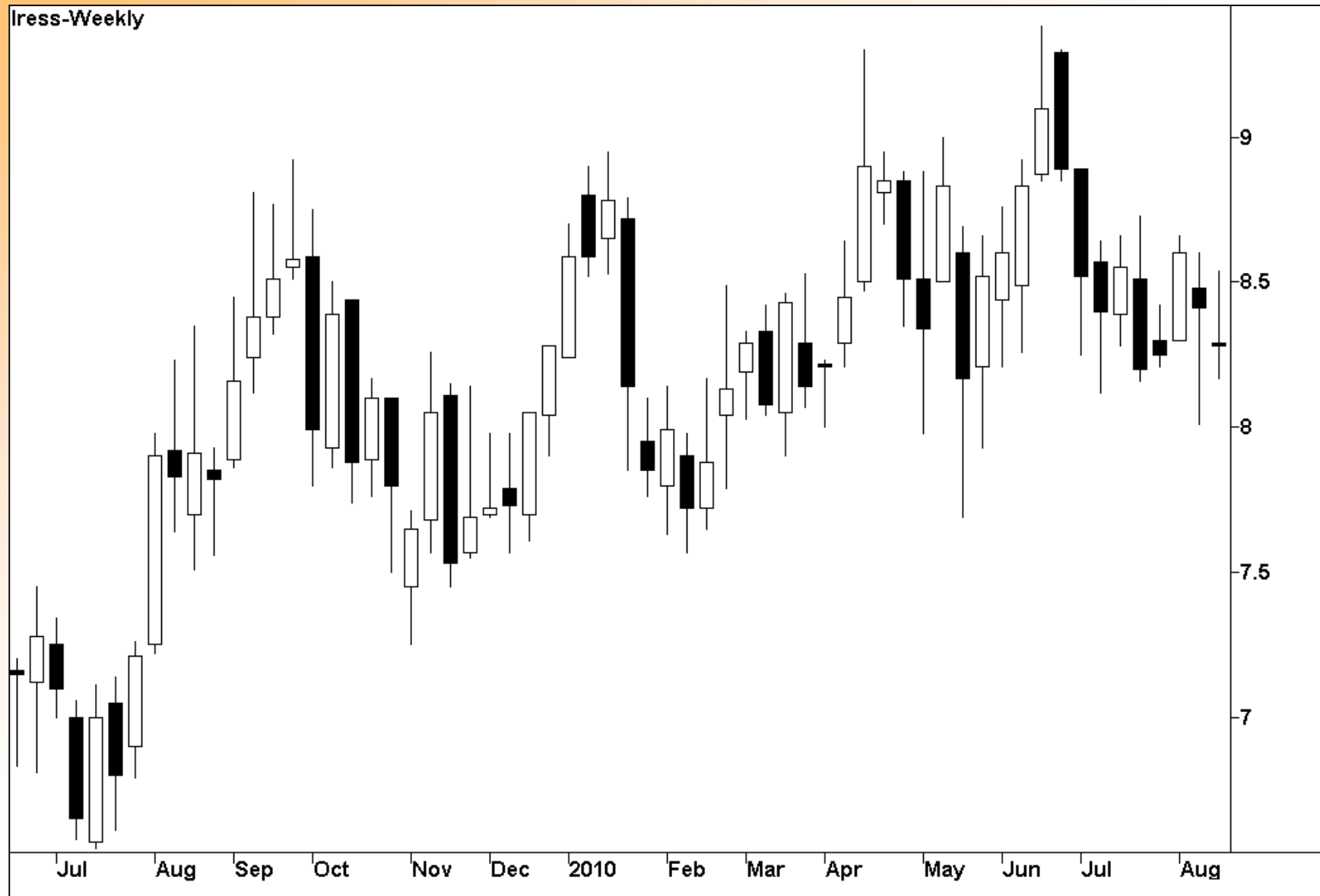
Which direction is Lynas trending in?



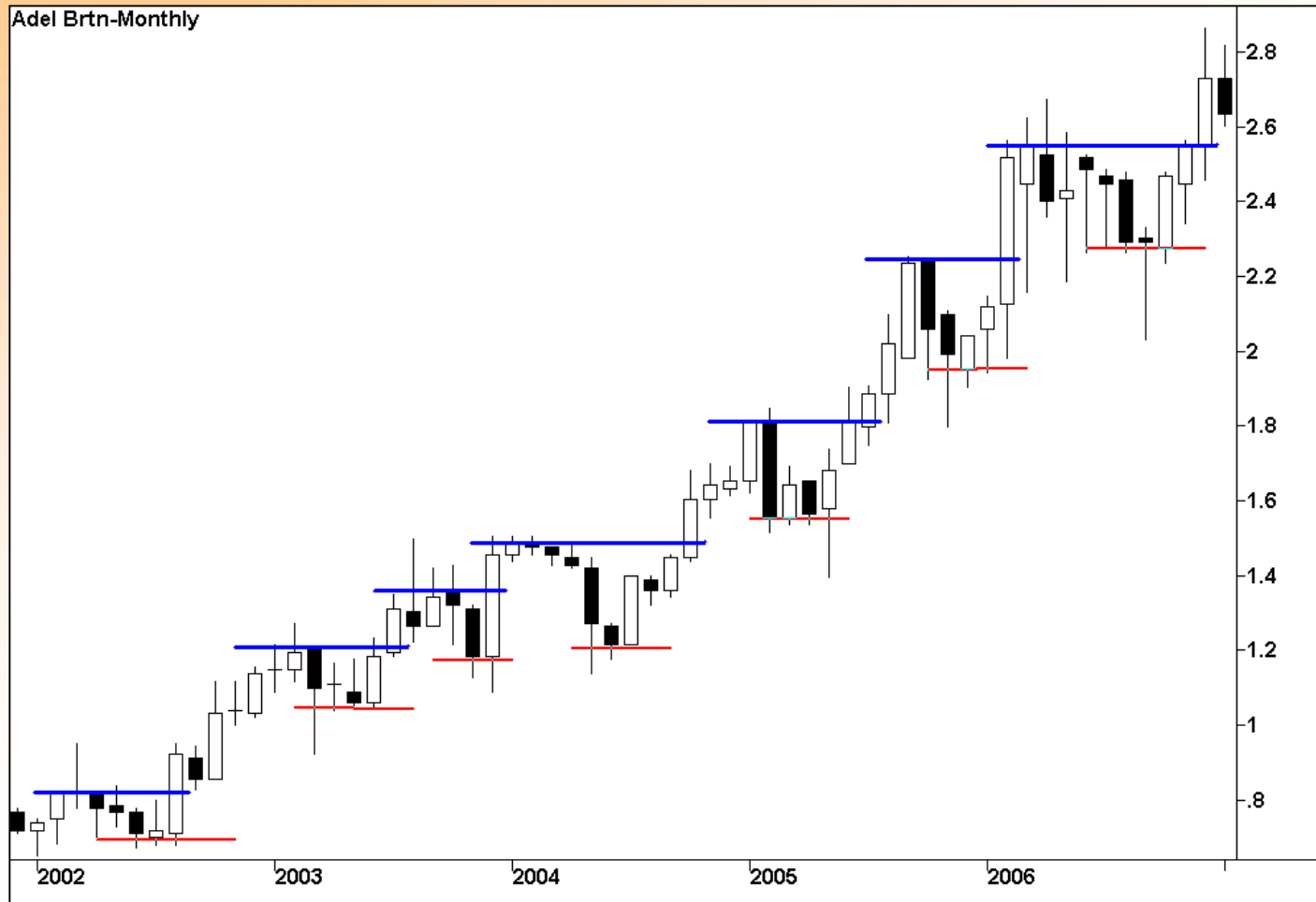
What about CSR?



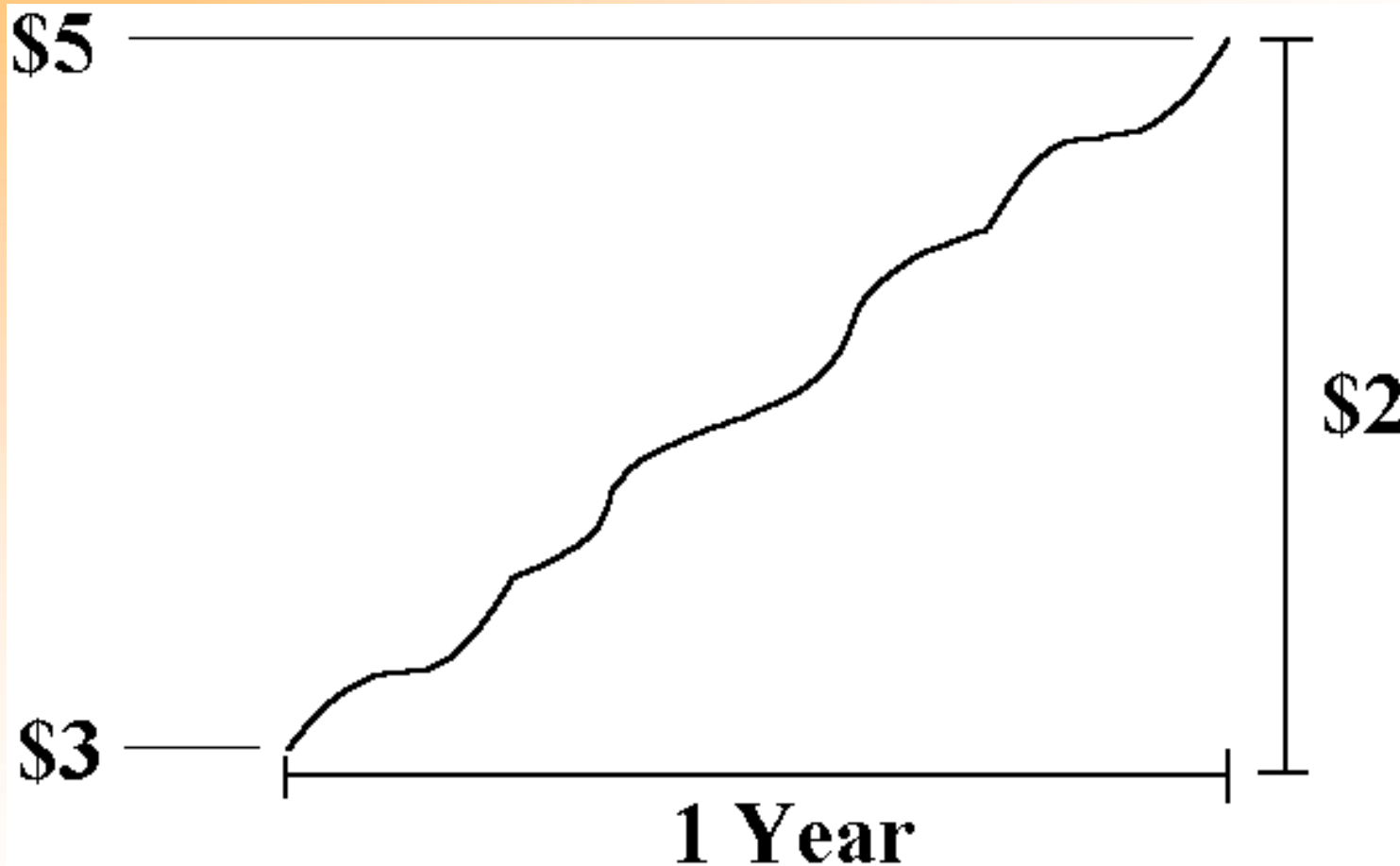
And what about Iress?



Dow Theory can also be used as a trailing stop loss - hence a rising share should never make a lower trough

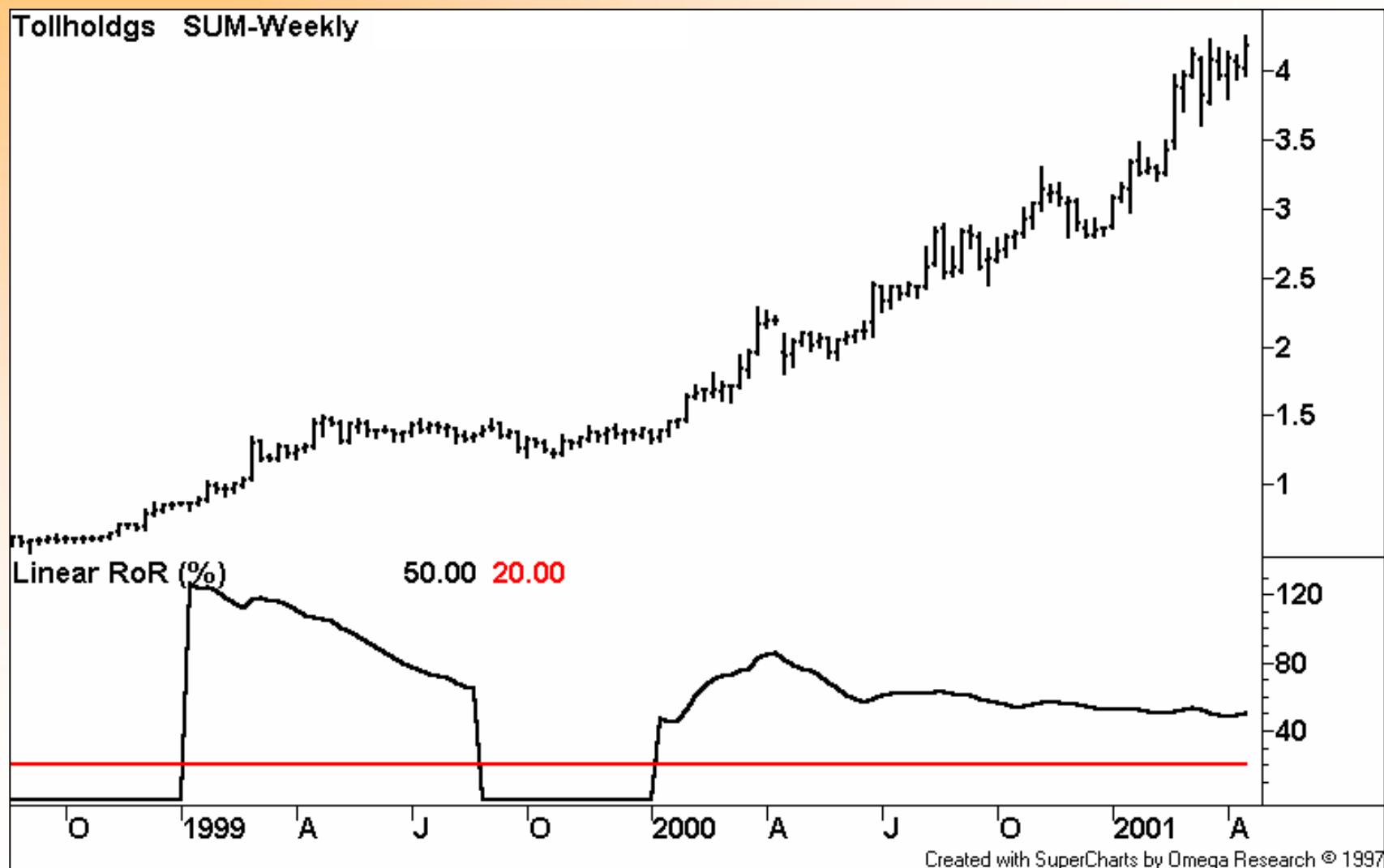


But one limitation of Dow Theory is that it is binary - it can't compare trends...



Annual Rate of Return = $2/5 = 40\%$

Rate of return measurement can be made manually or using charting software...



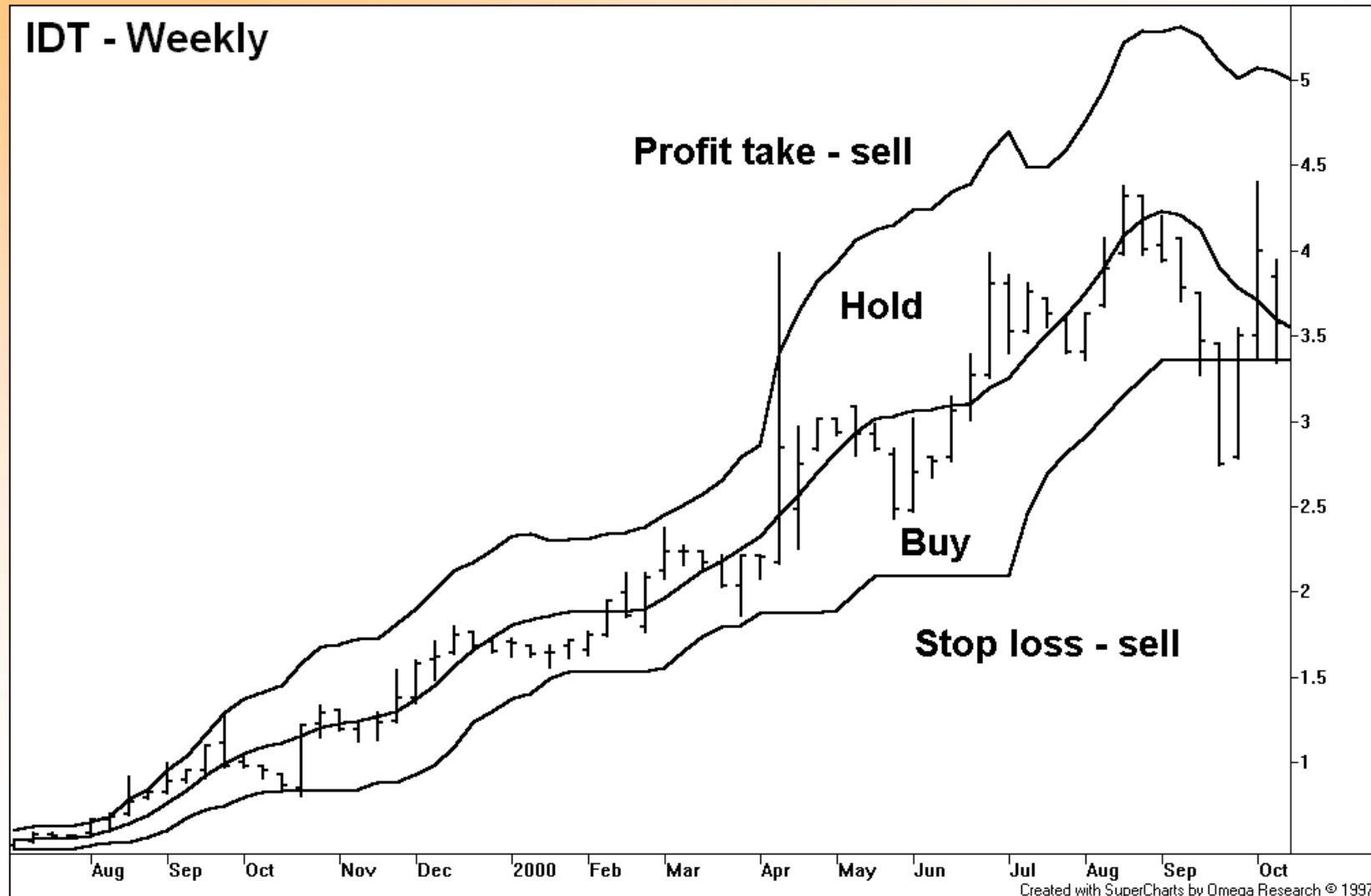
Rising trends can then be optimized to identify the most profitable shares...

| Code | Company Name | Price(\$) | ROAR(%) | Cashflow(\$) | Industry Group |
|------|----------------------------|-----------|---------|--------------|--------------------------------|
| FLT | Flight Centre | 21.40 | 95.61 | 1555315 | Consumer Services |
| WHC | Whitehaven Coal | 5.78 | 84.68 | 1912945 | Energy |
| SMX | SMS Management & Tech | 6.66 | 81.24 | 475171 | Software & Services |
| SEK | Seek | 7.94 | 74.93 | 2903550 | Commercial Services & Supplies |
| MRM | Mermaid Marine Aust | 2.82 | 69.60 | 349457 | Transportation |
| KCN | Kingsgate Consolidated | 8.72 | 65.56 | 1021645 | Materials |
| WTF | Wotif.com Holdings | 7.69 | 63.26 | 903277 | Retailing |
| JBH | JB Hi-Fi | 19.34 | 60.77 | 4484843 | Retailing |
| FMG | Fortescue Metals Group | 5.34 | 58.13 | 11358928 | Materials |
| CBA | Commonwealth Bank of Aust. | 59.83 | 52.73 | 58325876 | Banks |
| ORI | Orica | 27.50 | 47.43 | 7232927 | Materials |
| GUD | GUD Holdings | 8.96 | 44.40 | 508114 | Consumer Durables & Apparel |
| IRE | Iress Market Technology | 8.90 | 40.79 | 807212 | Software & Services |
| CPU | Computershare | 12.57 | 39.12 | 6169046 | Software & Services |

Simple technical analysis can then be used to refine the moment of entry...



This technique is employed by the Range indicator - available in charting software



- 1. Identify rising price trends**
- 2. Compare their profitability**
- 3. Know when to buy, hold, sell**

So when you are managing shares for capital growth, technical analysis is a vital tool that can work in harmony with fundamental analysis

And the results achieved with these simple guidelines speak for themselves- ASX Top 10 Portfolio service versus the All Ords...

| Annual performance figures | | |
|----------------------------|----------------|----------------------|
| Year | All Ordinaries | ASX Top 10 Portfolio |
| 2012 | 13.9% | 24.9% |
| 2013 | 12.8% | 24.4% |
| 2014 | 1.2% | 7.4% |
| 2015 | -0.8% | 6.0% |

**Identifying and optimizing price trends
- it's mathematical common sense**

Question time...



Alan Hull's
ASX Top 10
Portfolio

*'My ASX Top 10
Portfolio is a no fuss
step-by-step portfolio
management service.
I do all the analysis
each week and email
you the instructions.'*



My brochure is in your Delegate's satchel