

How I use Technical Analysis

...or confessions of a chartist

Technical analysis or charting is the original form of behavioural finance. Interpret price charts and use technical analysis to enhance and protect your profits....



by Alan Hull

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The Market Dynamic

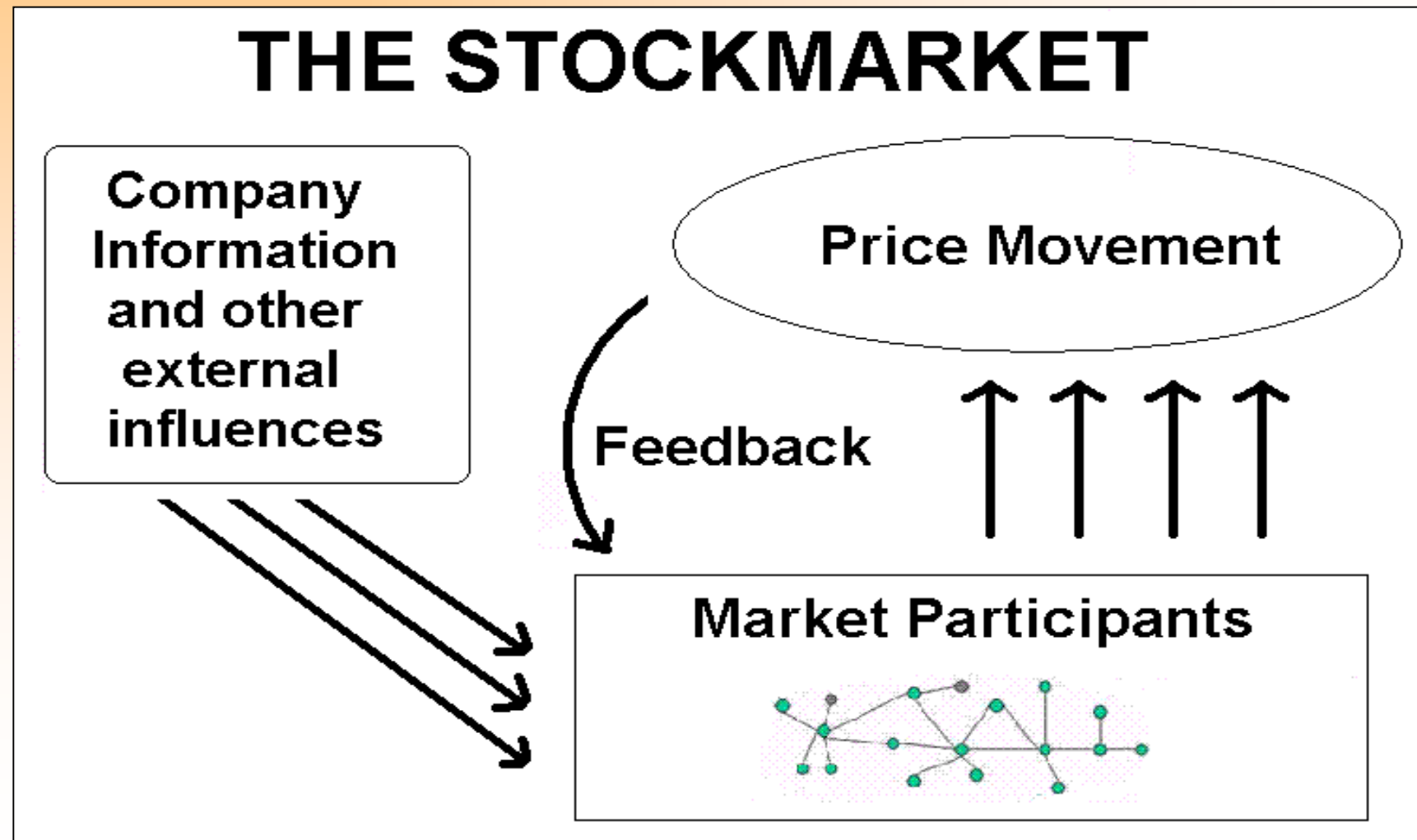
Fundamentalist



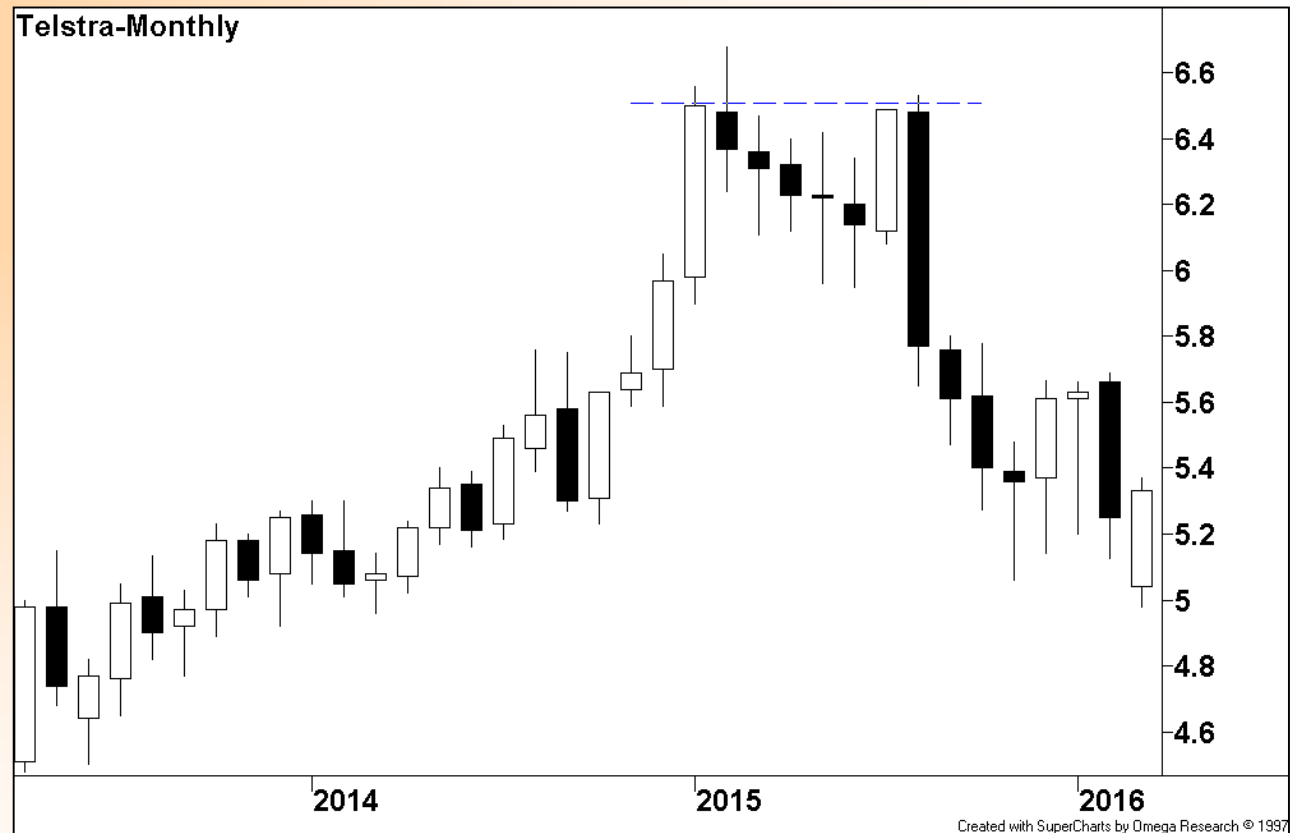
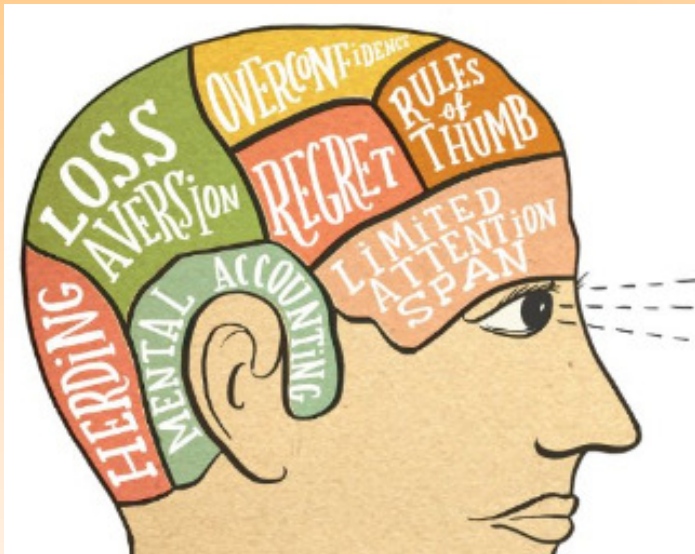
Chartist

Fundamental and technical analysis are not conflicting approaches - they should always be used side by side

There are two key forces that drive share price movements - and to track them both requires fundamental & technical analysis

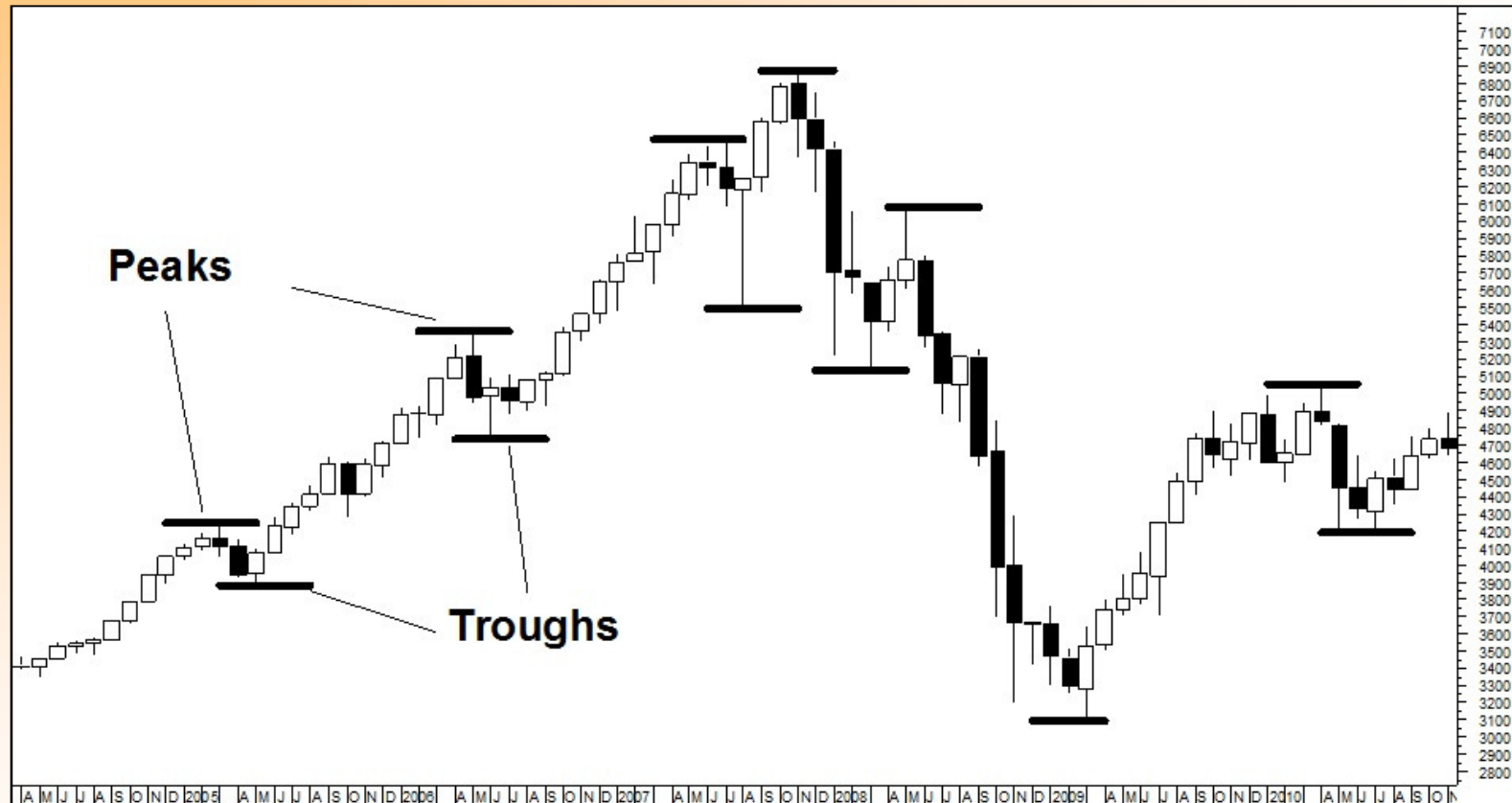


Think of technical analysis as the original form of behavioural finance...centuries old



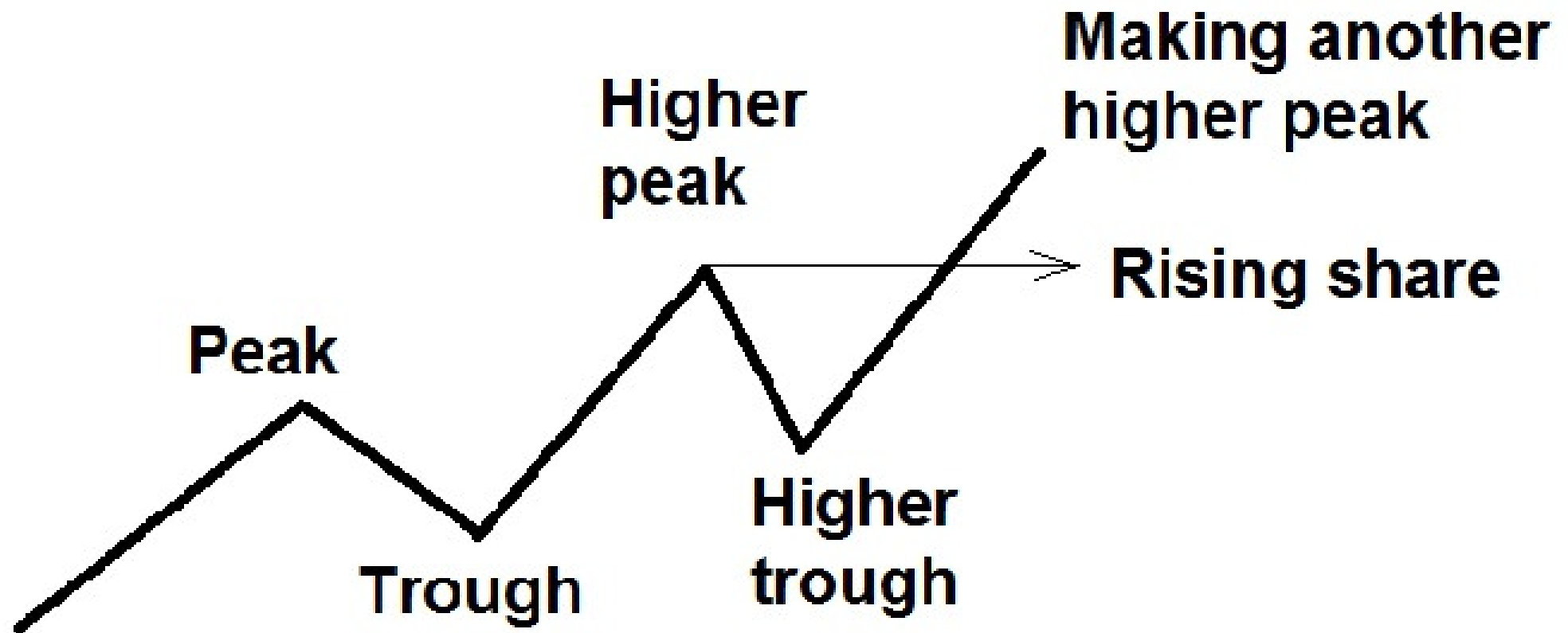
I use technical analysis on a needs basis and so let's take a look at how I do this...

It starts with a question - which way is the market trending? Up, down or sideways



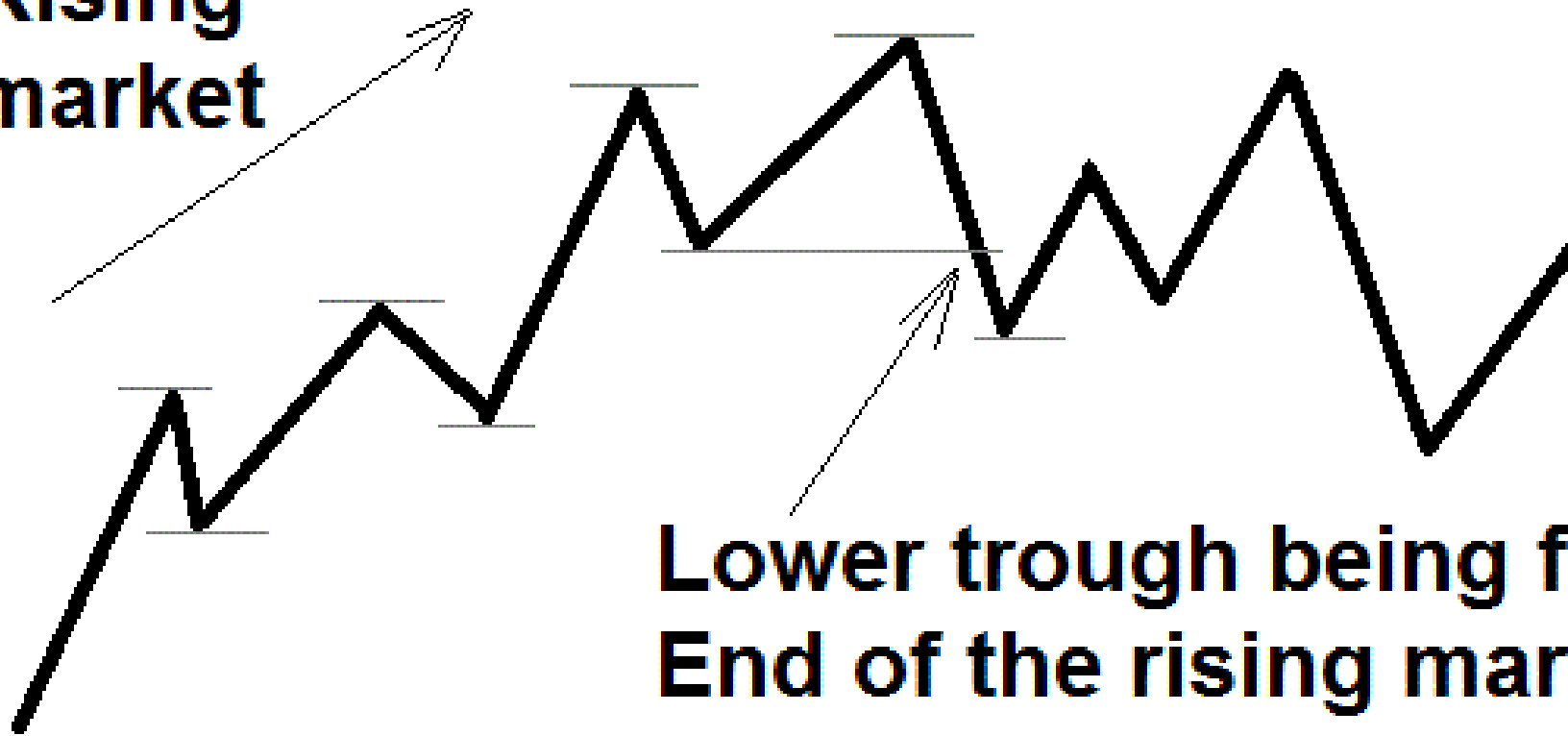
A simple method for identifying trends is Dow Theory which uses peaks & troughs

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



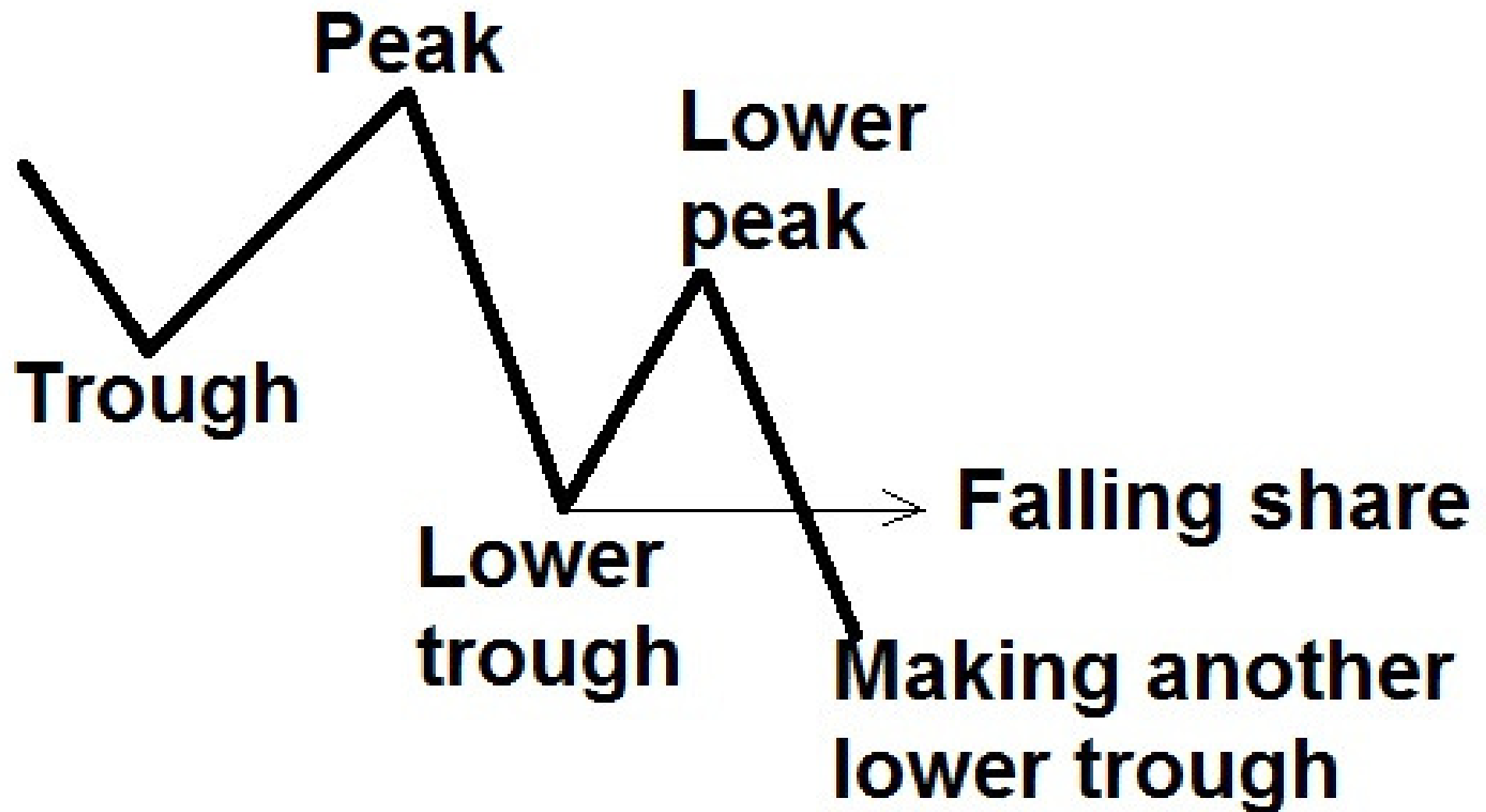
But a share is no longer technically rising once it makes a lower trough...

**Rising
market**

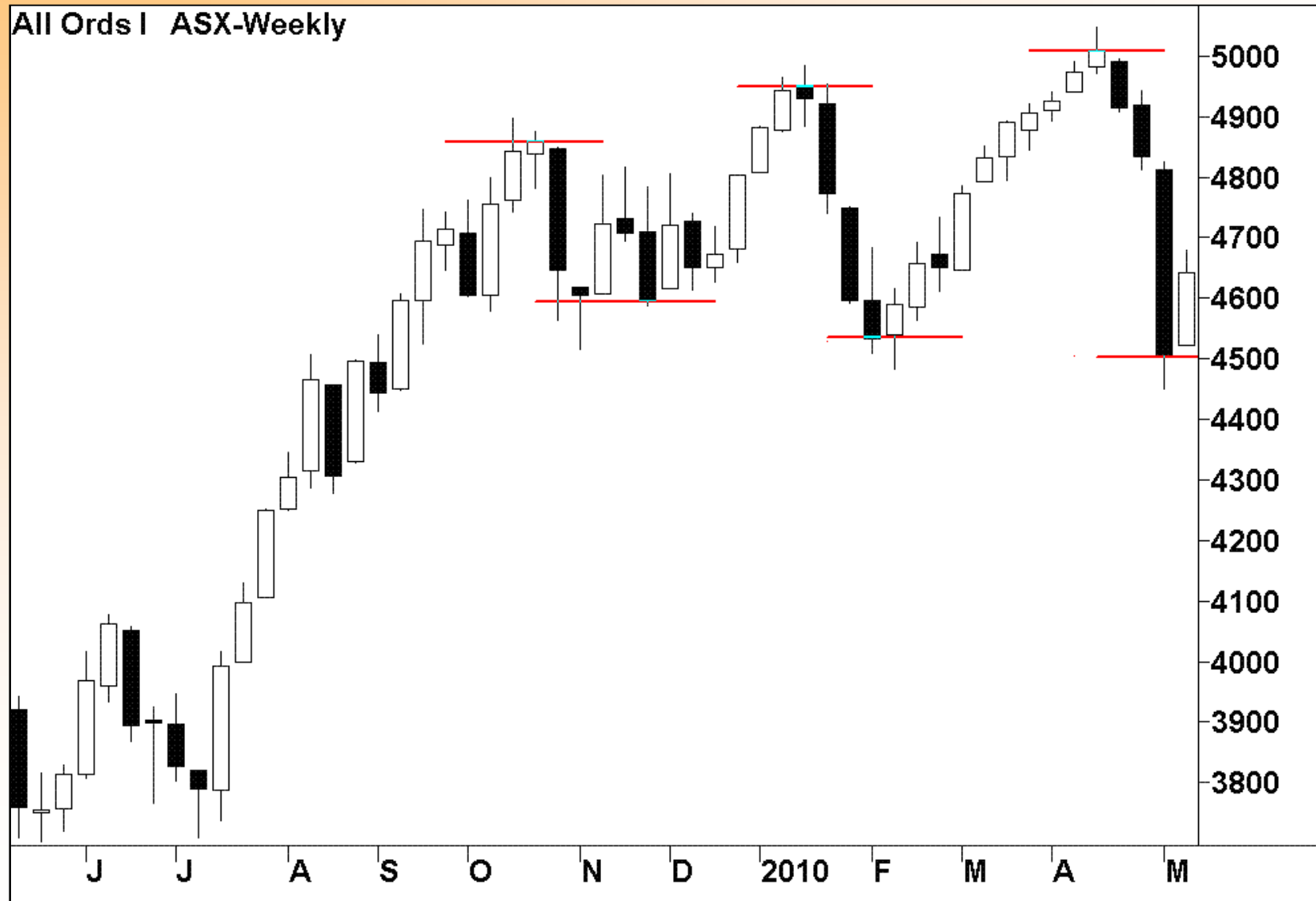


**Lower trough being formed
End of the rising market**

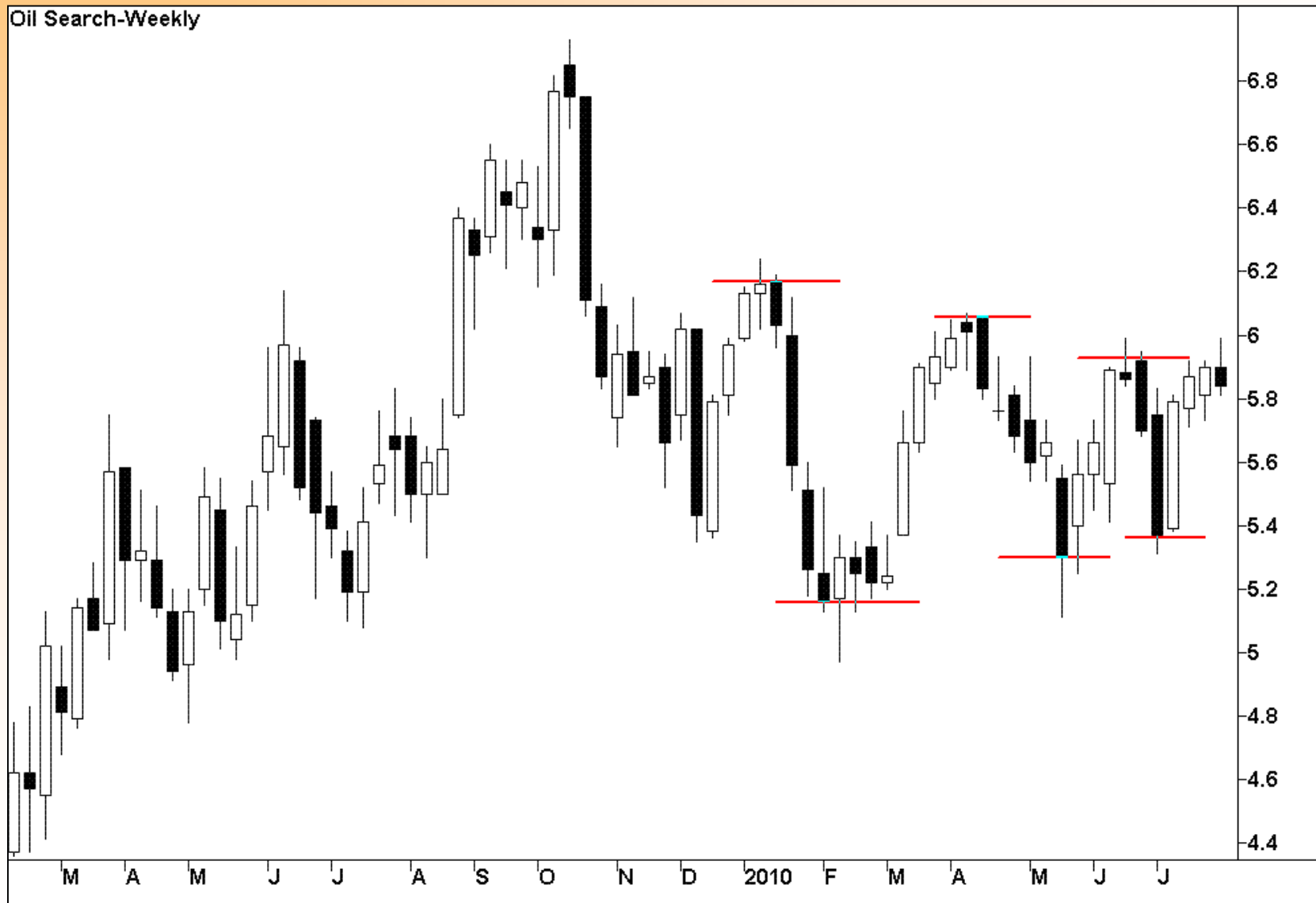
And this logic can be flipped upside down to identify a falling share as well...



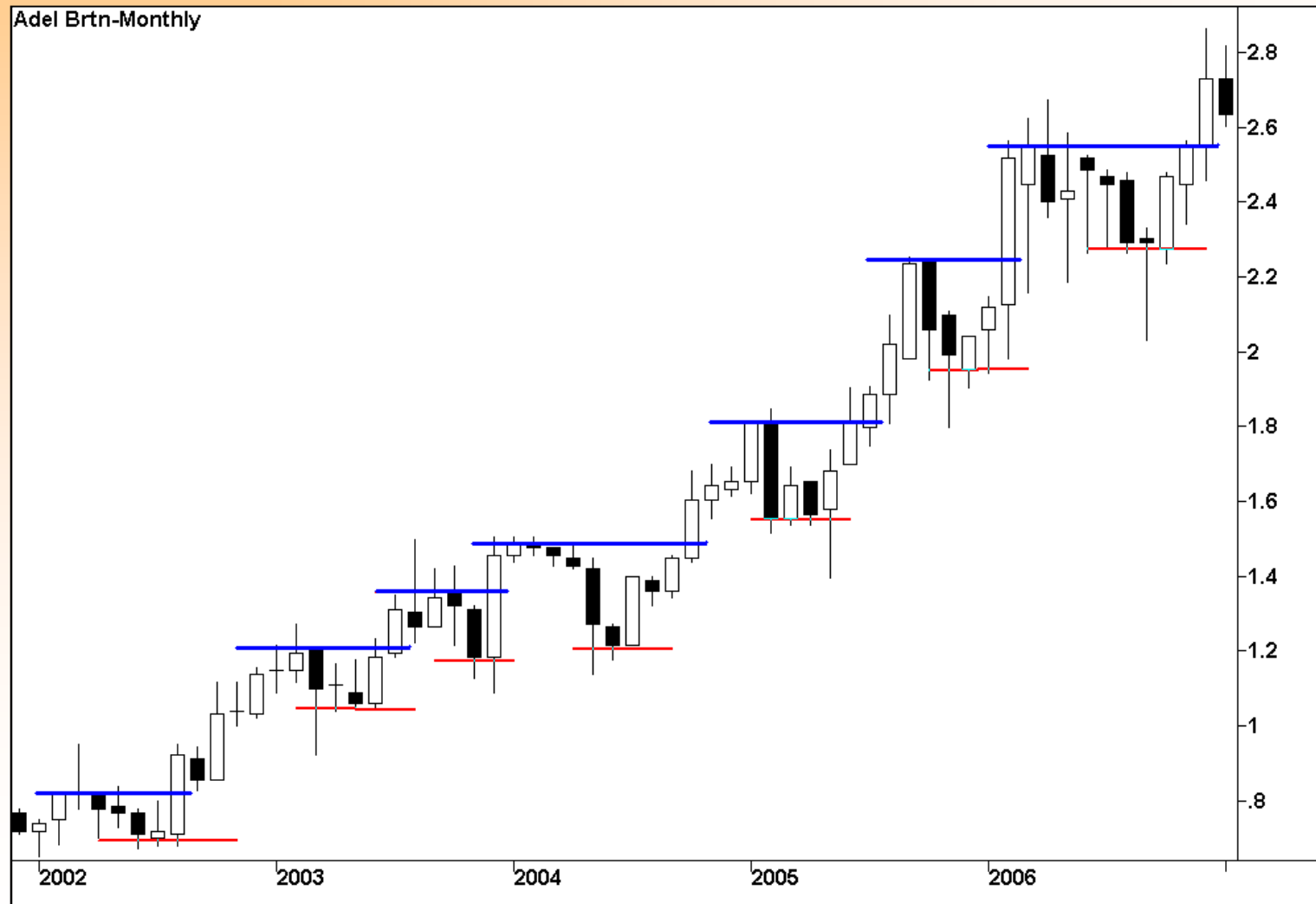
And Dow Theory can also identify when a share is trending sideways



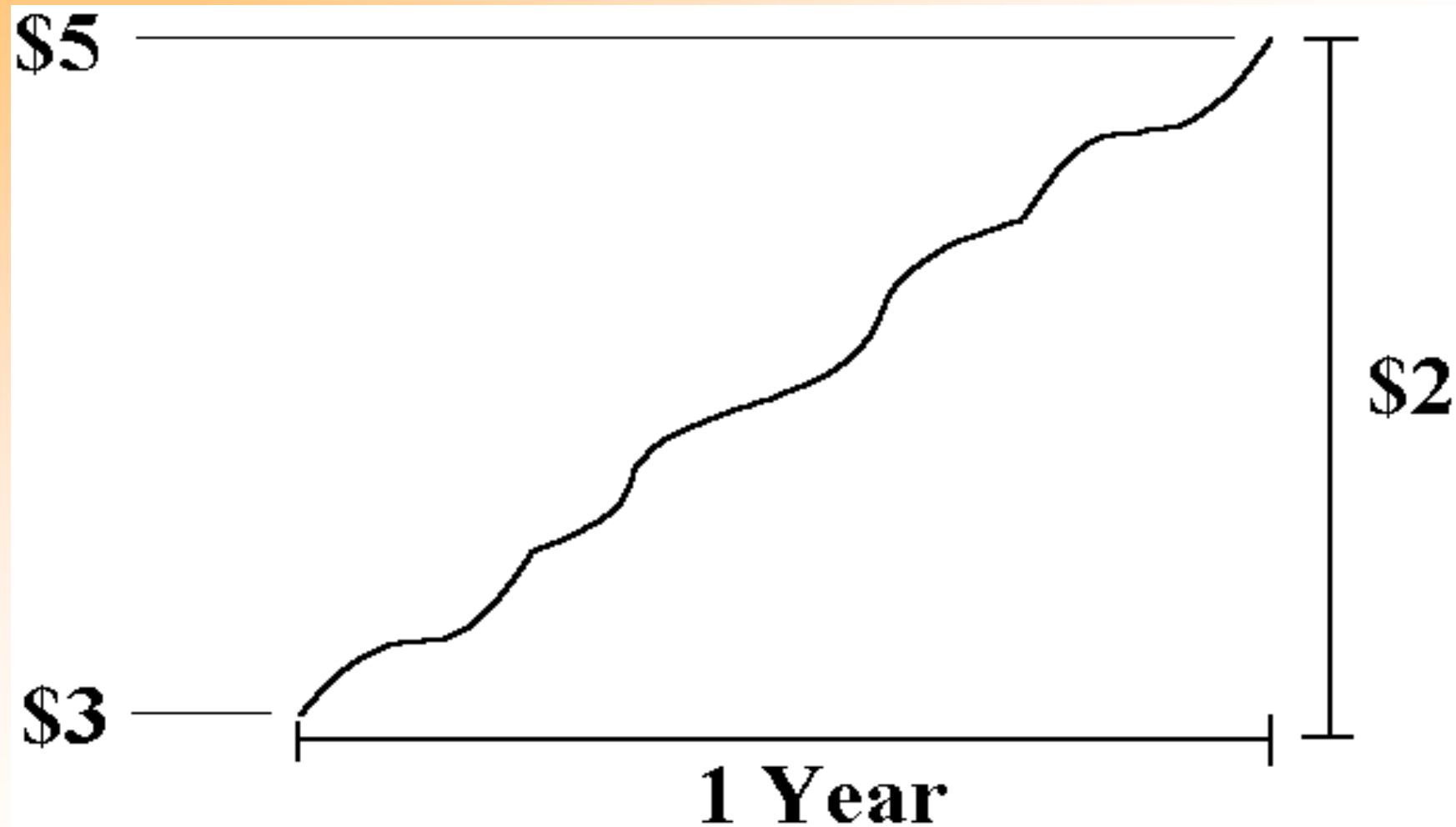
Shares trending sideways can make either outside or inside swings...



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

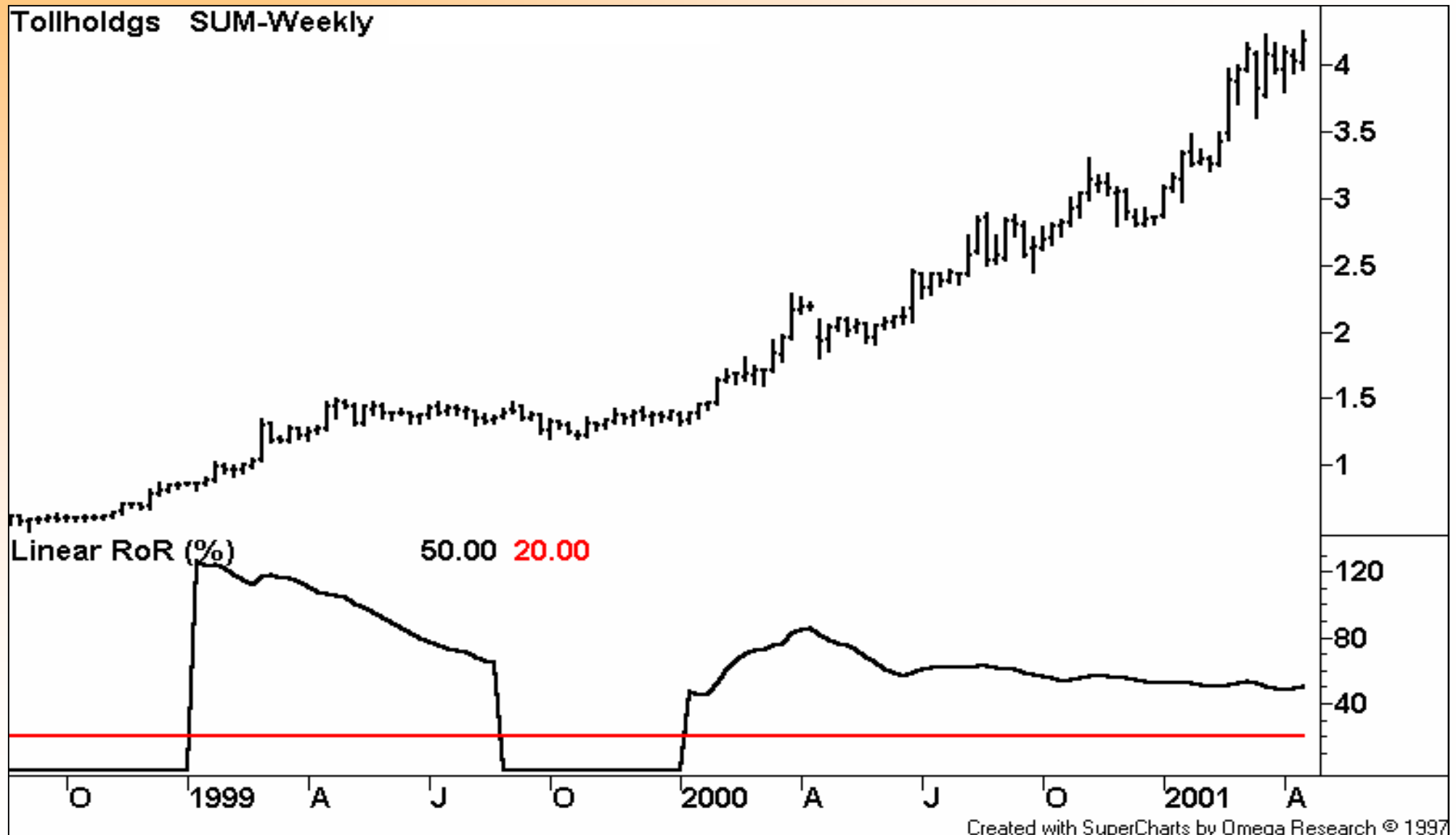


But one limitation of Dow Theory is that it is polarized - it can't compare trends...

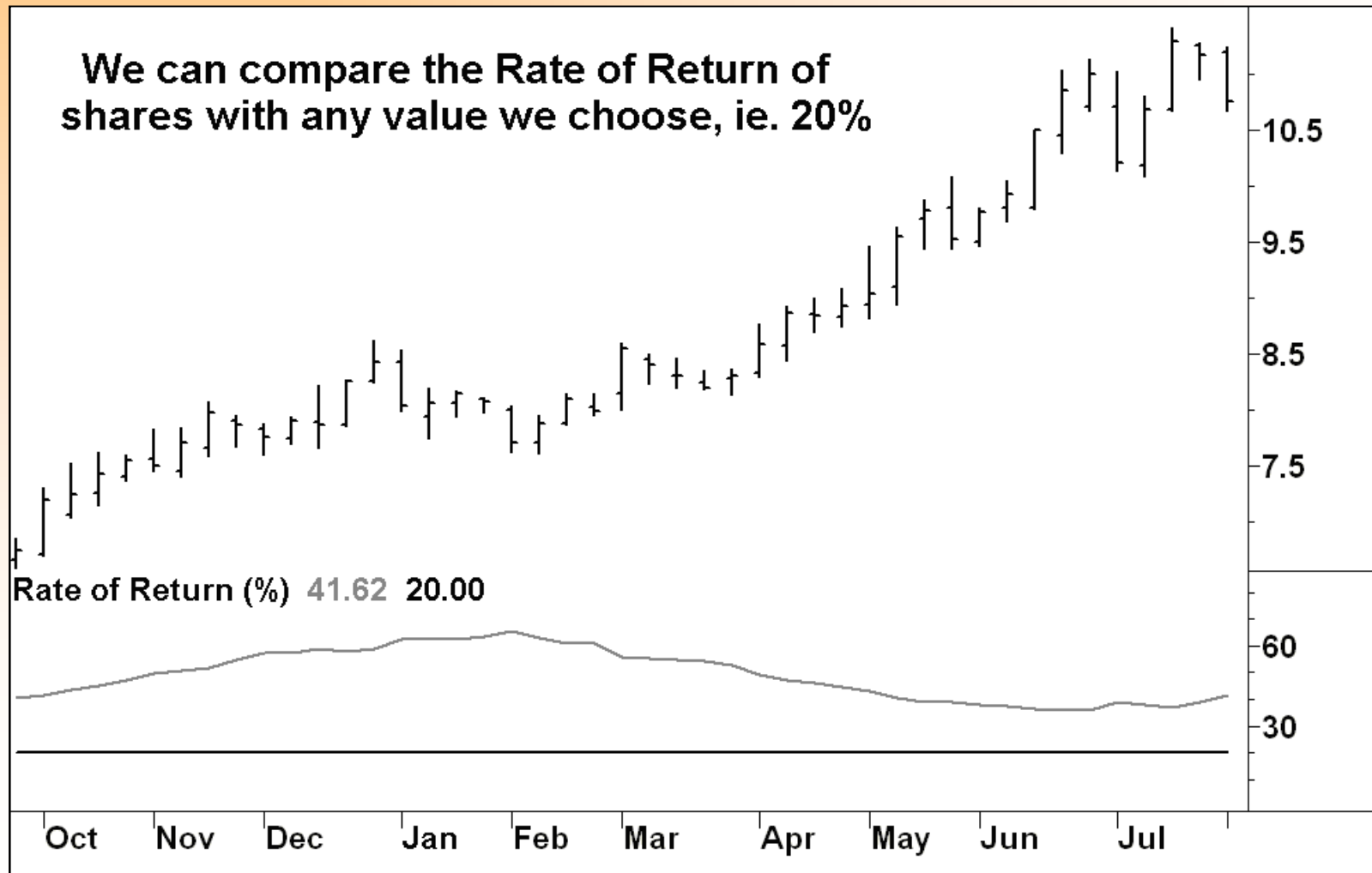


Annual Rate of Return = $2/5 = 40\%$

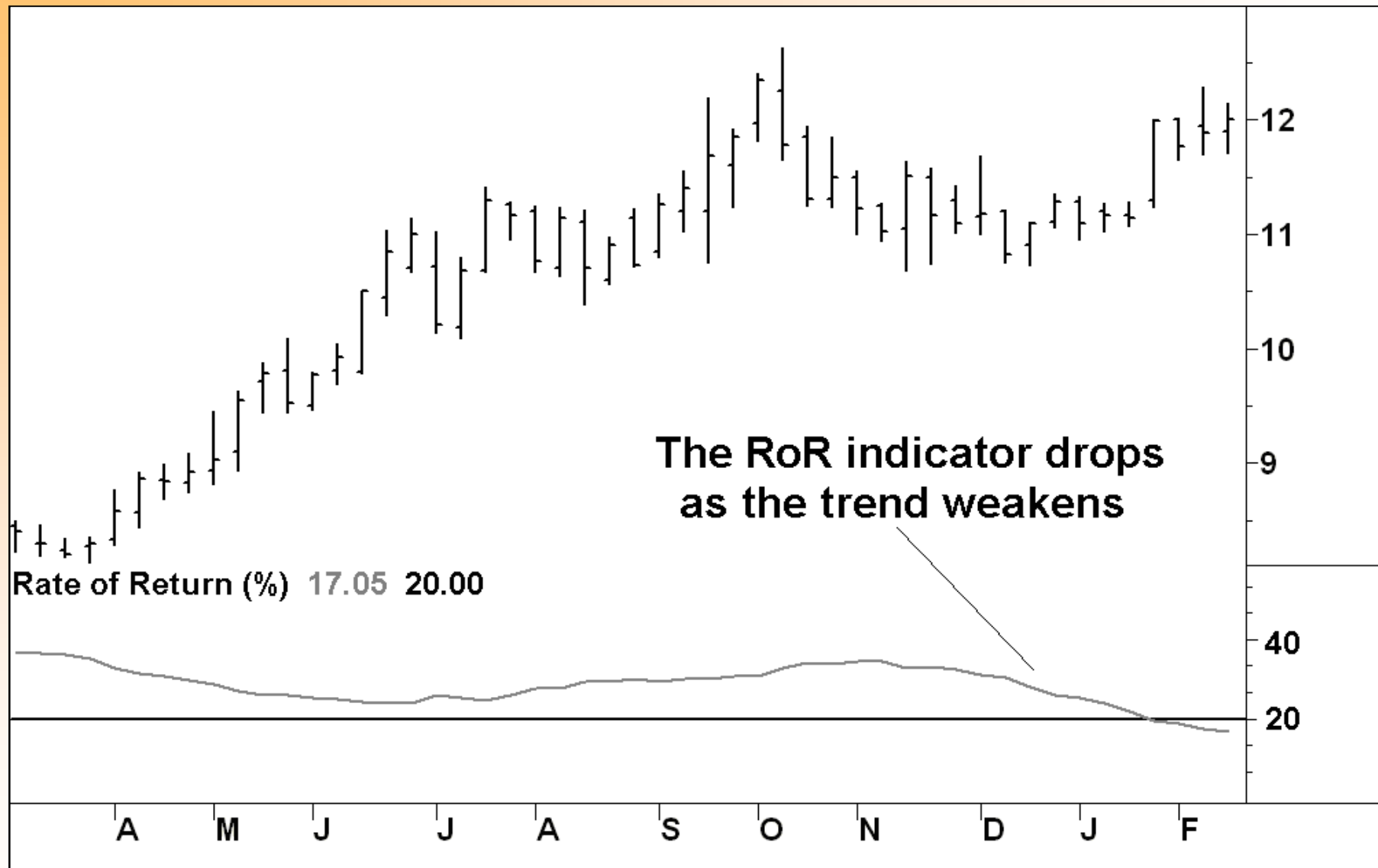
Rate of return measurement can be made easily, using modern charting software...



The Rate of Return (RoR) indicator allows me to measure & compare the profitability of different trends – and set a benchmark

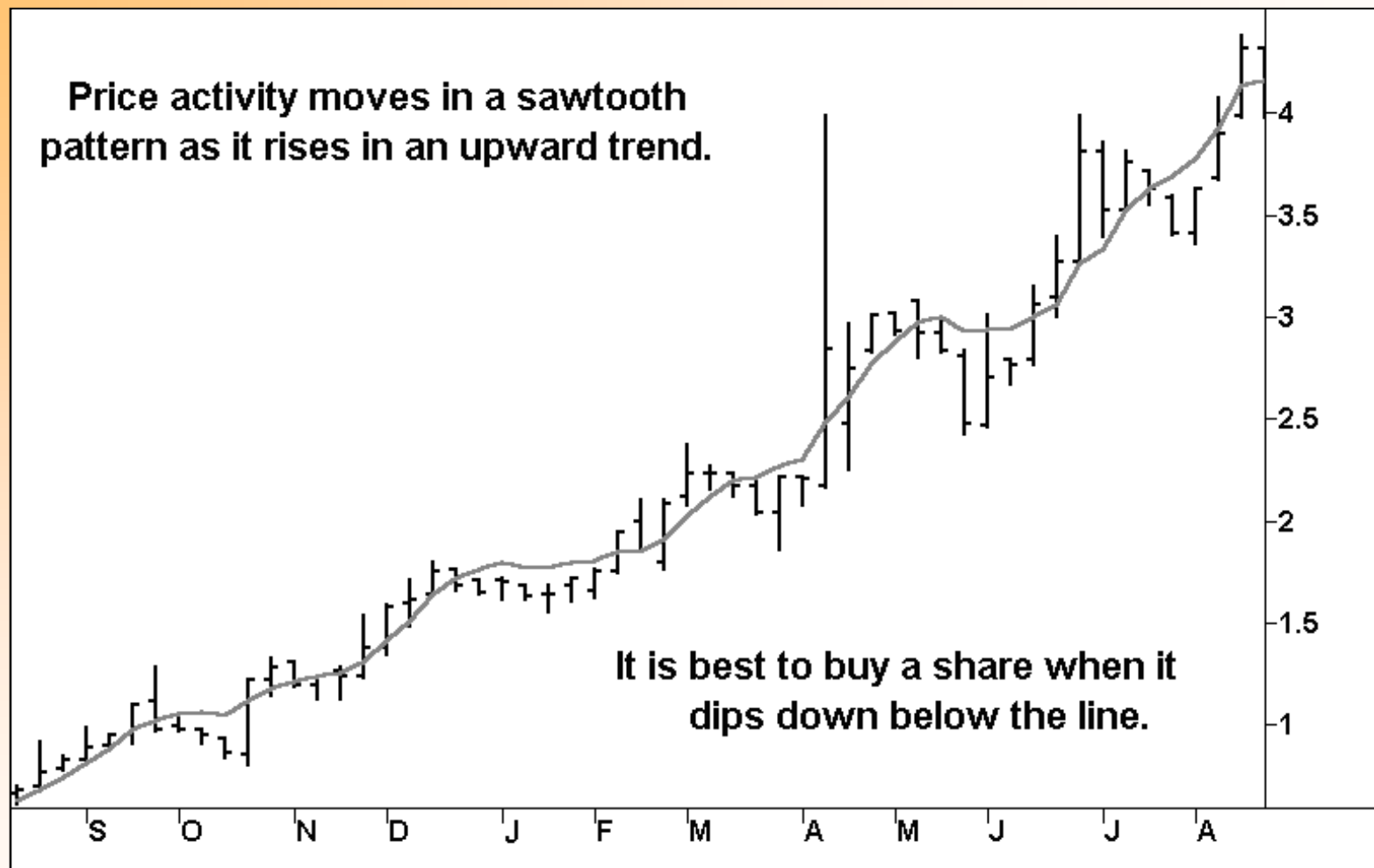


It also provides a time based stop loss...



So it keeps my money working hard

Next question - When do I buy, hold & Sell?

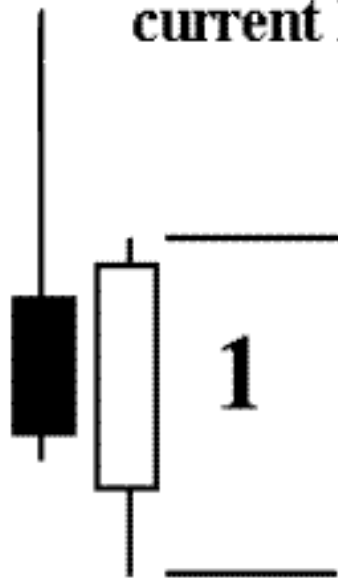


For this I use my Range Indicator which is based on an automated central trendline

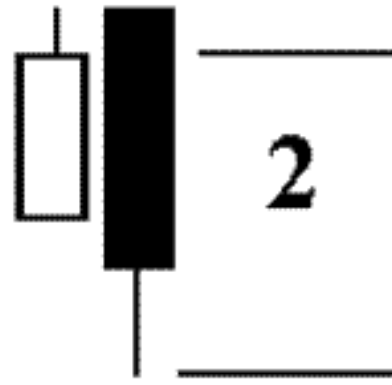
I then create a tolerance envelope around the central trendline using volatility...

J. Welles Wilder's 'True Range' is defined as the largest of these three measurements

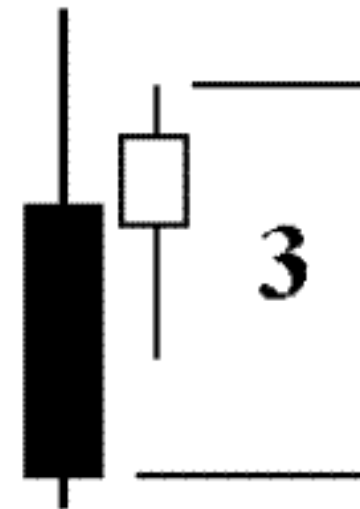
current high &
current low



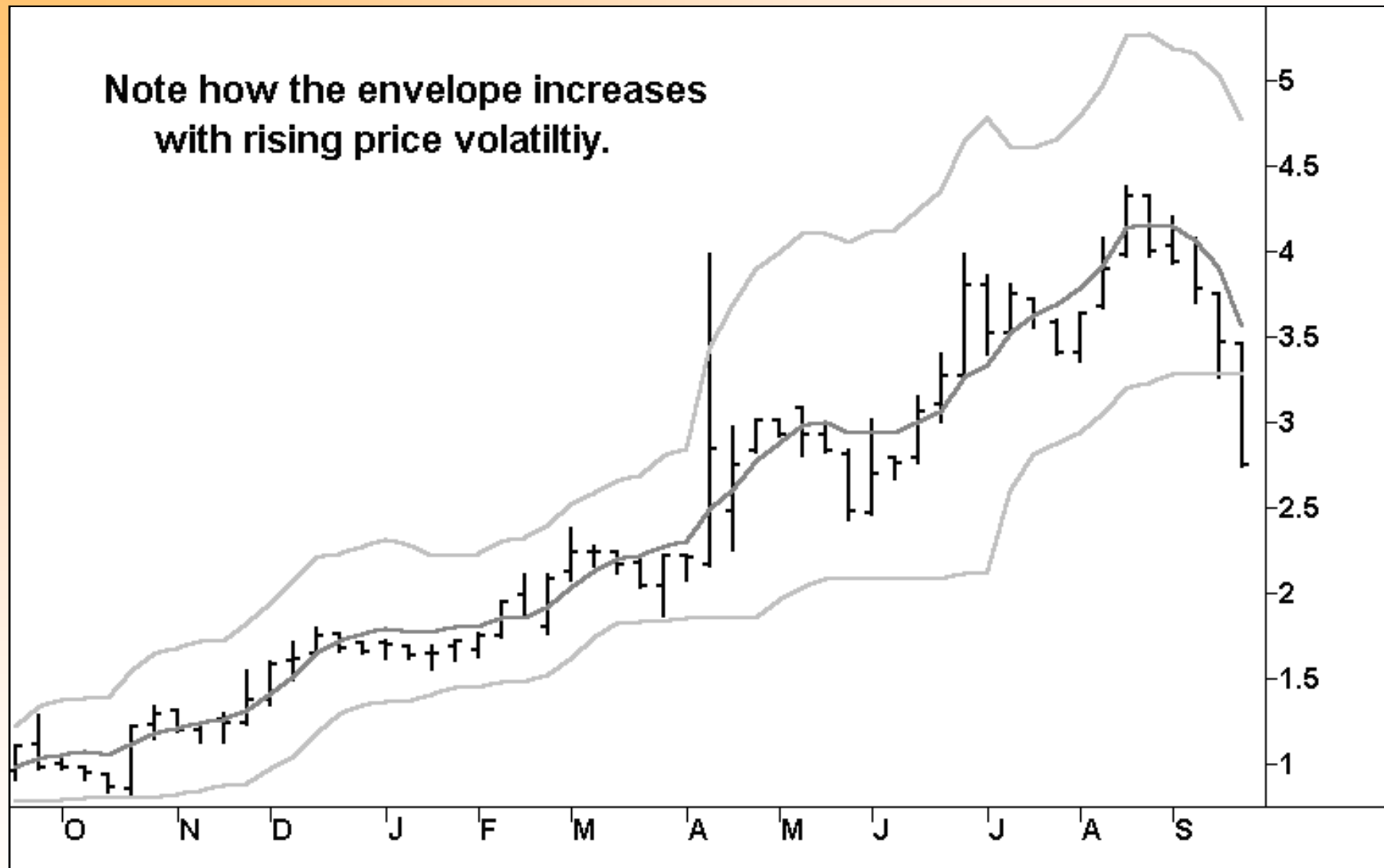
current low &
previous close



current high &
previous close



The upper and lower lines form 4 zones...



When to buy, hold, sell or take profit

I employ these indicators to create my weekly newsletters - the Blue Chip Report

ASX200 Search Results

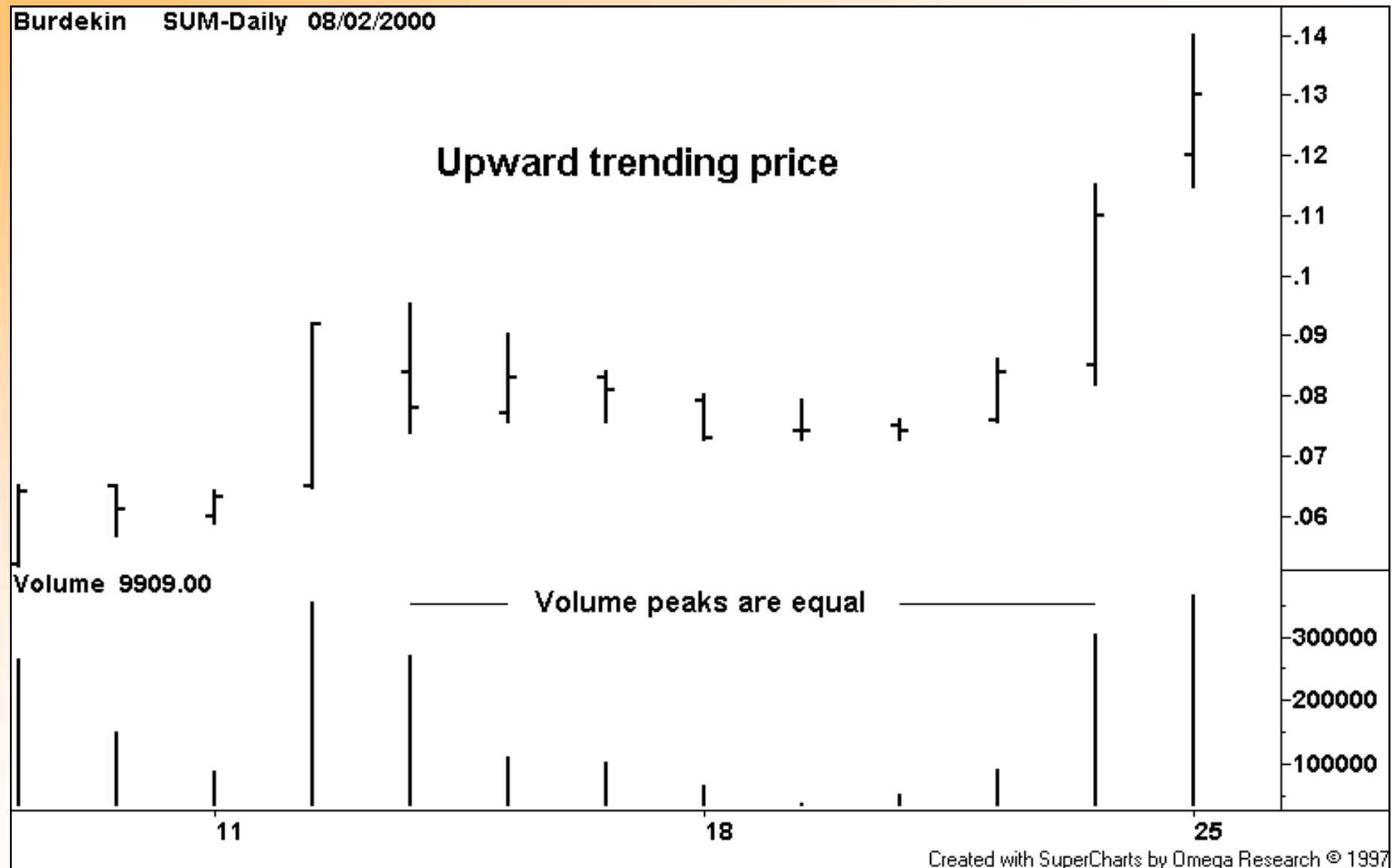
Code	Company Name	Price(\$)	ROAR(%)	Cashflow(\$)	Industry Group	Stop Loss(\$)
A2M	The a2 Milk Company Limited	11.94	101.47	13888331	Food Beverage & Tobacco	10.19
BAL	Bellamy's Australia Limited	18.92	100.95	5208719	Food Beverage & Tobacco	17.66
ALU	Altium Limited	22.28	94.44	3250569	Software & Services	17.82
BPT	Beach Energy Limited	1.70	89.29	3618770	Energy	1.36
SBM	St Barbara Limited	4.75	65.49	2287416	Materials	3.80
STO	Santos Limited	6.20	64.81	8195887	Energy	4.99
NEC	Nine Entertainment Co. Holdings Limited	2.38	62.51	2583925	Media	1.96
SVW	Seven Group Holdings Limited	19.67	60.85	2138093	Capital Goods	15.74
WHC	Whitehaven Coal Limited	4.78	60.61	5319944	Energy	3.93
NXT	NEXTDC Limited	7.49	58.78	3133825	Software & Services	5.99
SDA	Speedcast International	6.03	56.51	2459676	Telecommunication Services	4.82

Full results available at www.alanhull.com

	<u>S&P ASX200 Index</u>		<u>The Blue Chip Report</u>	
July 2001		\$100,000		\$100,000
2001/2002	-7.9%	\$92,100	7.6%	\$107,600
2002/2003	-5.8%	\$86,758	11.3%	\$119,759
2003/2004	16.8%	\$101,333	48.6%	\$177,962
2004/2005	21.1%	\$122,714	58.0%	\$281,180
2005/2006	18.7%	\$145,662	26.0%	\$354,287
2006/2007	23.7%	\$180,184	38.7%	\$491,396
2007/2008	-16.9%	\$149,733	6.1%	\$521,371
2008/2009	-24.2%	\$113,498	-18.2%	\$426,481
2009/2010	8.8%	\$123,485	-11.9%	\$375,730
2010/2011	7.1%	\$132,253	20.7%	\$453,506
2011/2012	-11.1%	\$117,573	-7.0%	\$421,761
2012/2013	15.5%	\$135,797	15.1%	\$485,447
2013/2014	12.7%	\$153,043	19.1%	\$578,167
2014/2015	0.4%	\$153,655	-1.8%	\$567,760
2015/2016	-4.1%	\$147,355	13.1%	\$642,136
2016/2017	11.3%	\$164,006	8.7%	\$698,002

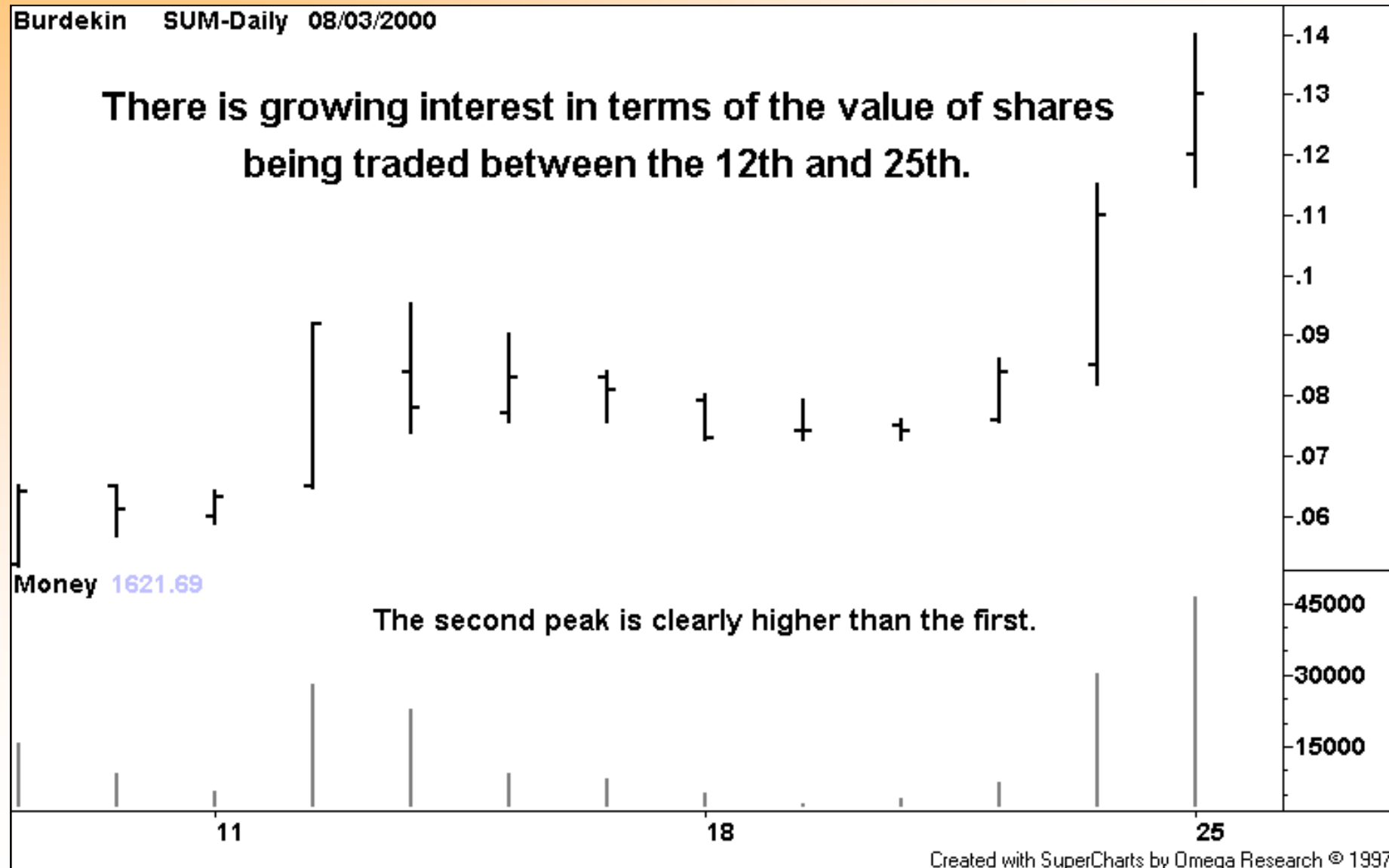
The past performance of this product is not and should not be taken as an indication of future performance. Caution should be exercised in assessing past performance. This product, like all other financial products, is subject to market forces and unpredictable events that may adversely affect future performance.

The problem of volume & penny stocks...

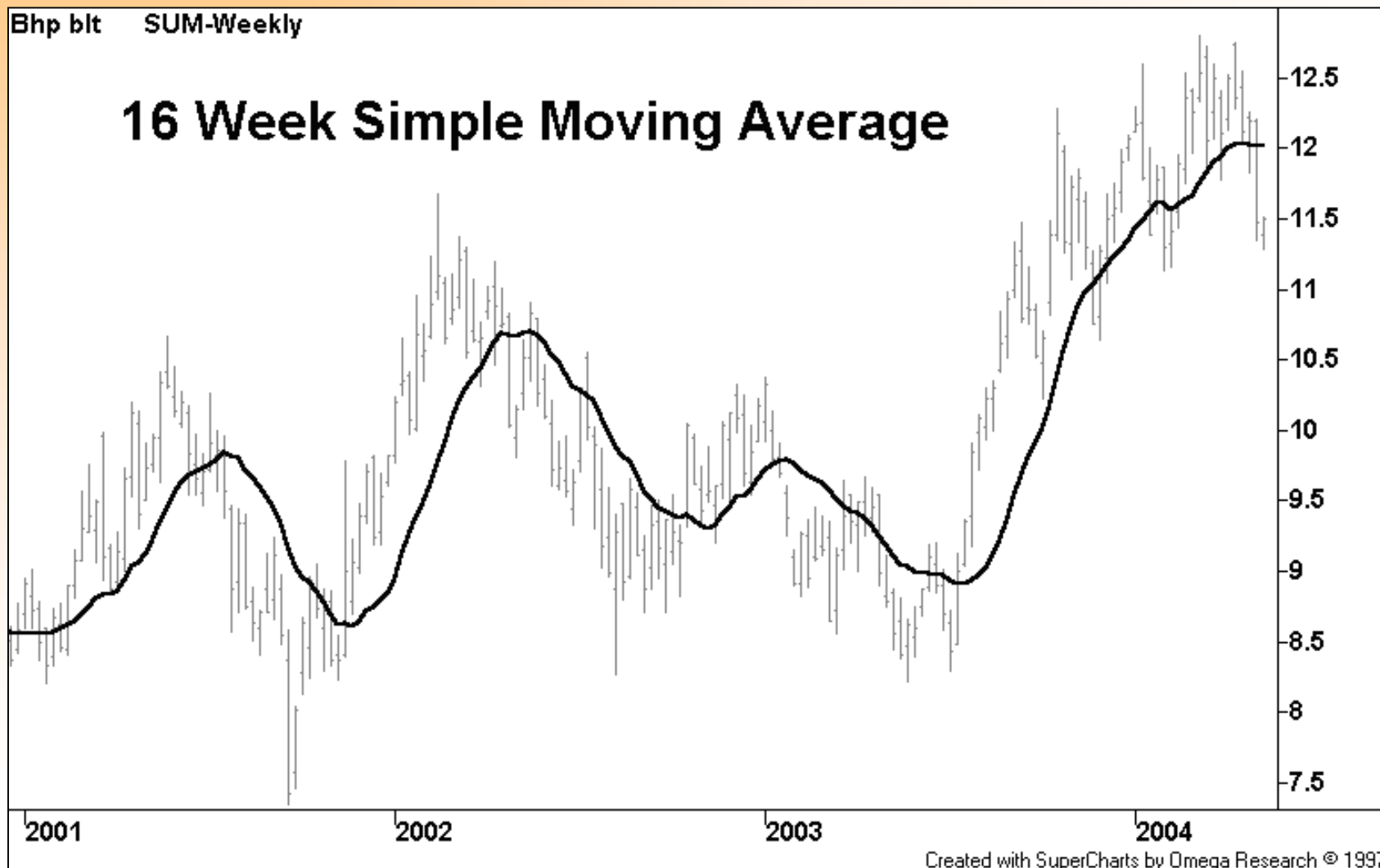


We think in dollar terms – not in volume

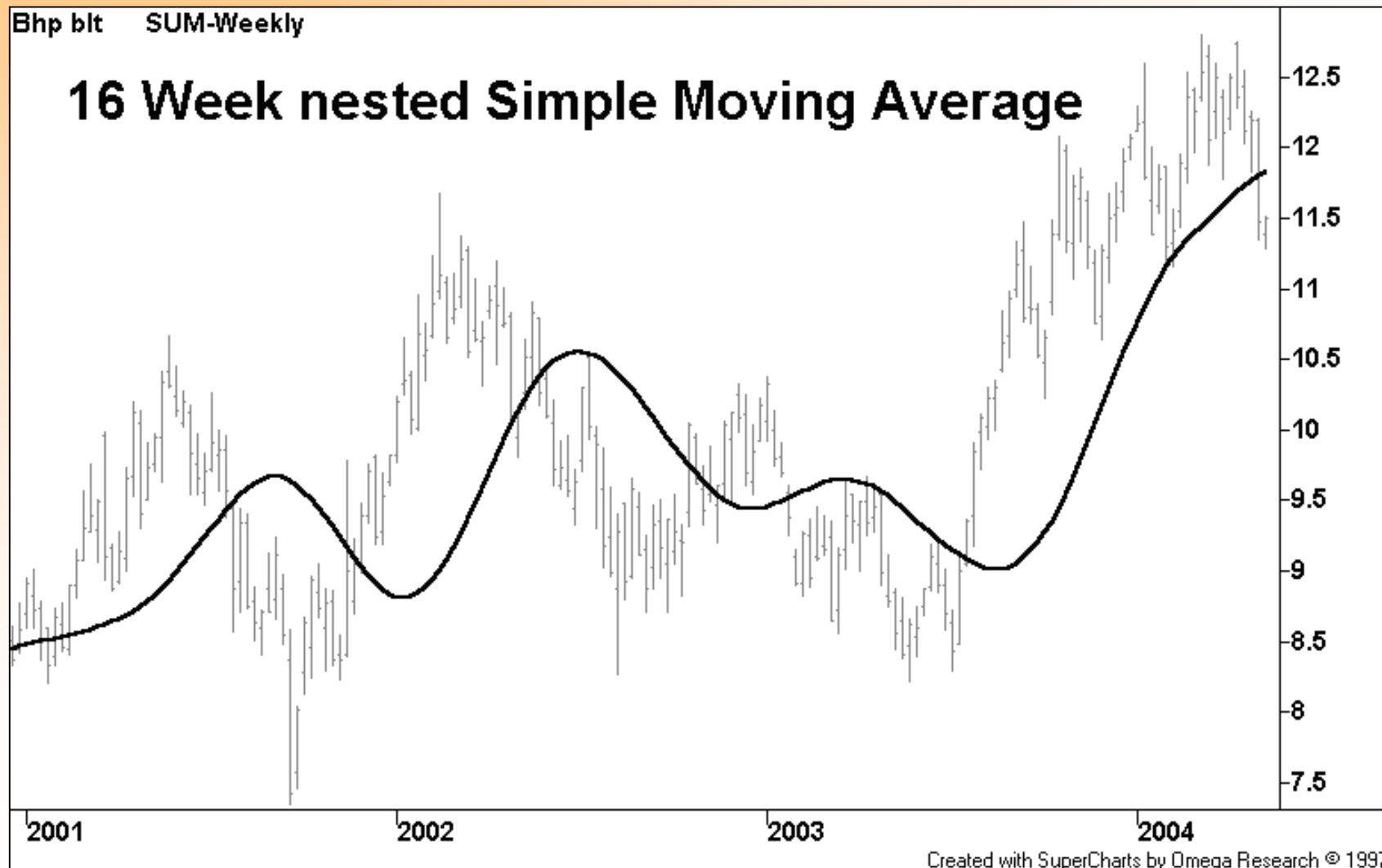
We should observe the amount of money being turned over, not the trading volume



Finally, the issue of lag and smoothing in moving averages – the 16 week SMA below is jagged and shunted to the right



Smoothing the line is easily achieved by nesting the moving average (ie. taking an average of an average), but it increases lag

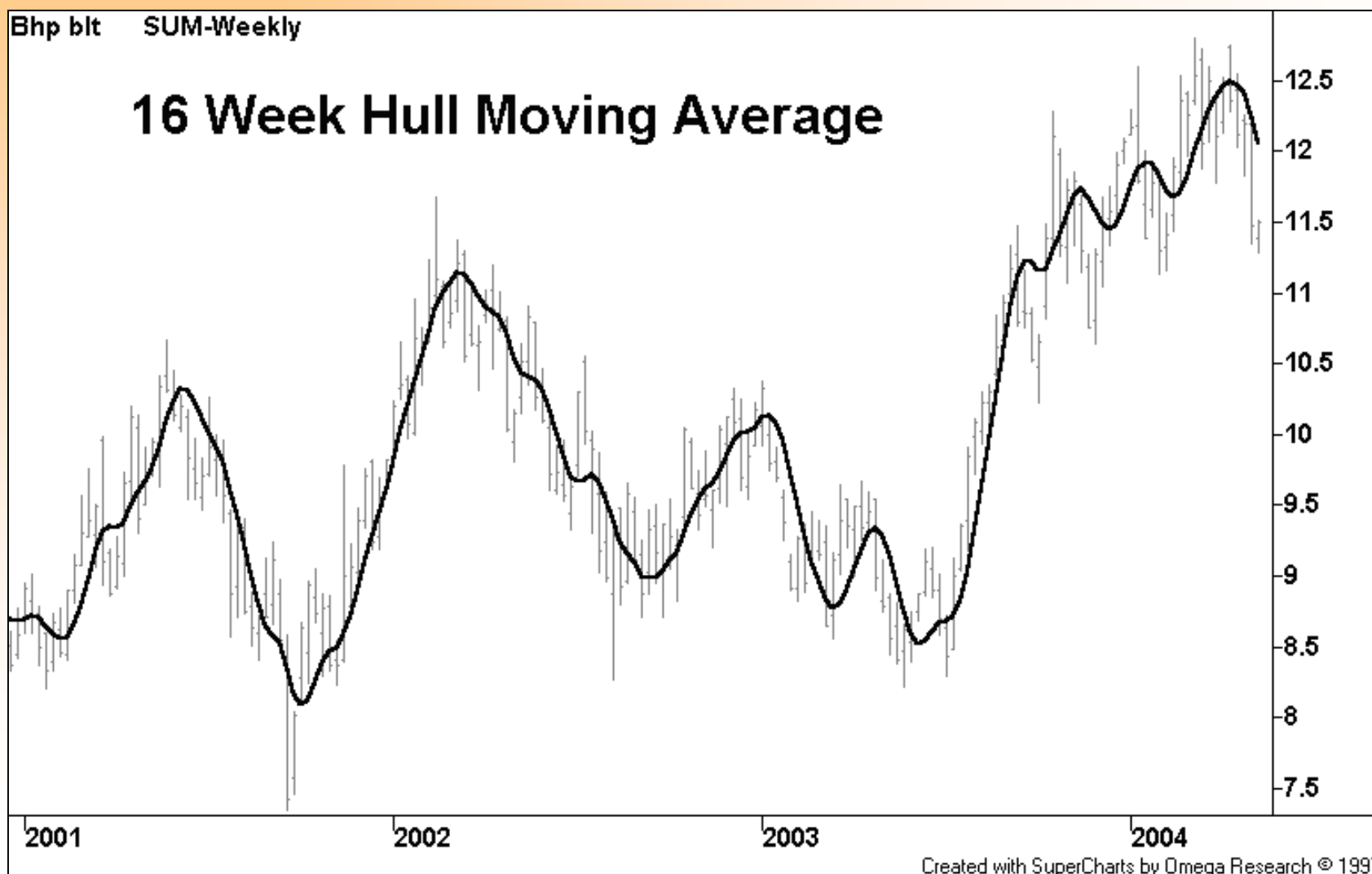


But solving the problem of lag is a bit more involved – the Hull Moving Average employs a geometric solution to lag – take a series of 10 numbers and calculate both the 10 period and 5 period simple averages – 4.5 and 7

0	1	2	3	4	5	6	7	8	9
				↑			↑		
				4.5			7		

Now take the difference between these two values (2.5) and add it twice to the 10 period average and we actually overshoot with 9.5

Now here's the clever bit (*well actually I found it by accident*), if we combine these techniques we get an ideal compromise...



Master the Market Dynamic

Fundamentalist



Chartist

Successful investors employ both fundamental and technical analysis to master the market dynamic...

My brochure is in your delegate satchel...

***...and there are free online
courses and a wealth of
information available at
my website***

www.alanhull.com

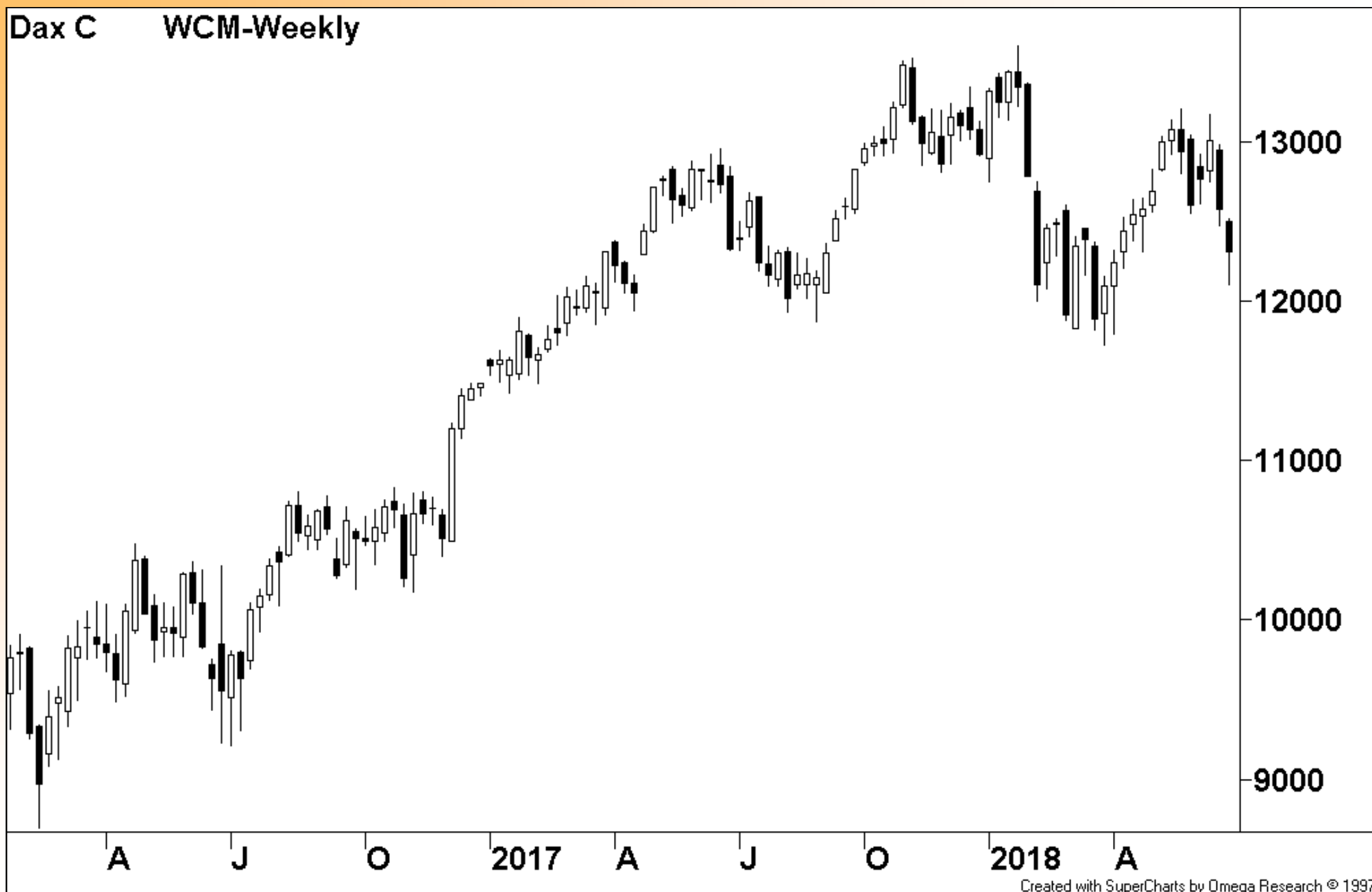


Thank you for attending this presentation

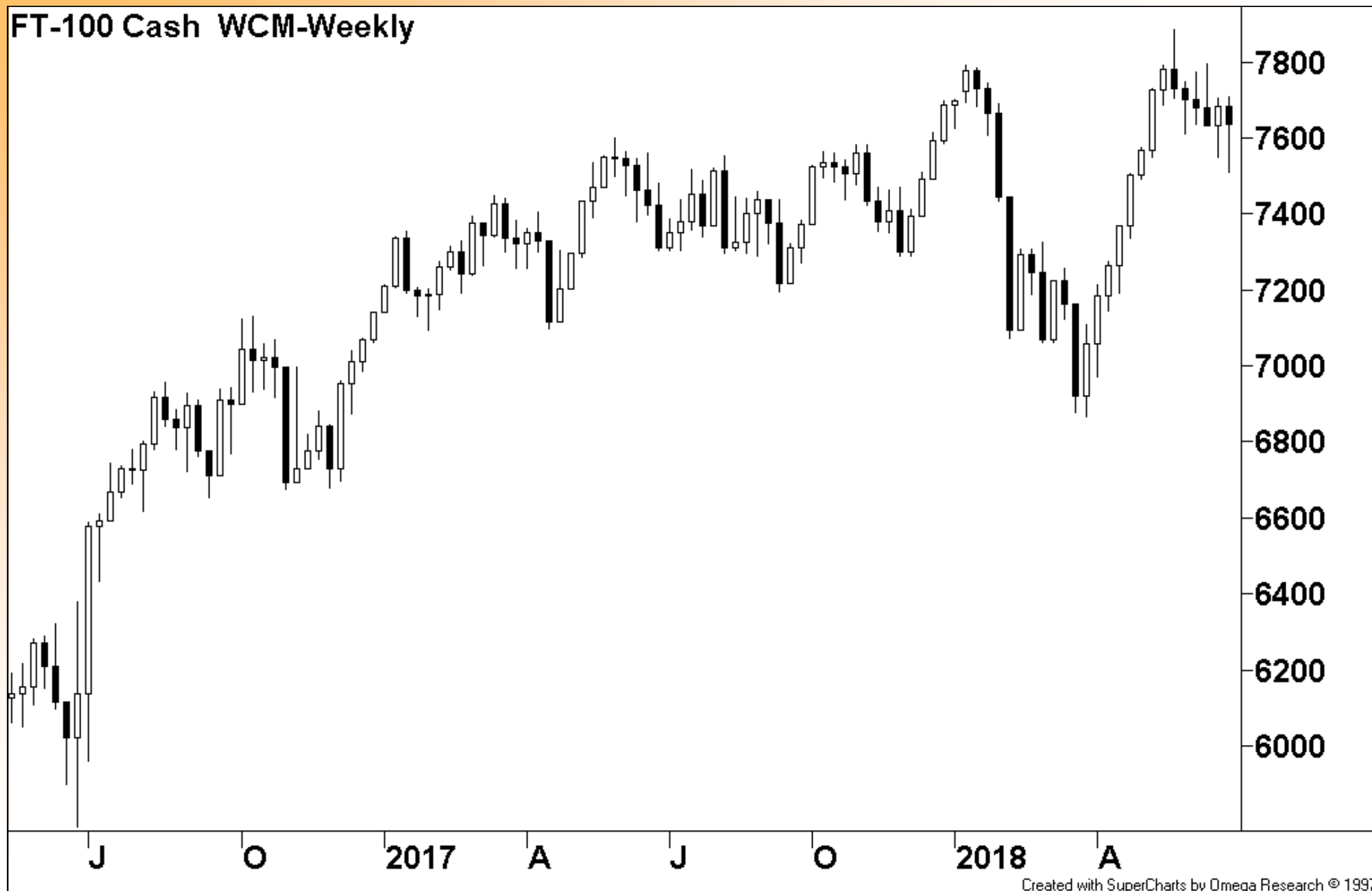
SP-500 Cash-Weekly



Dax C WCM-Weekly



FT-100 Cash WCM-Weekly



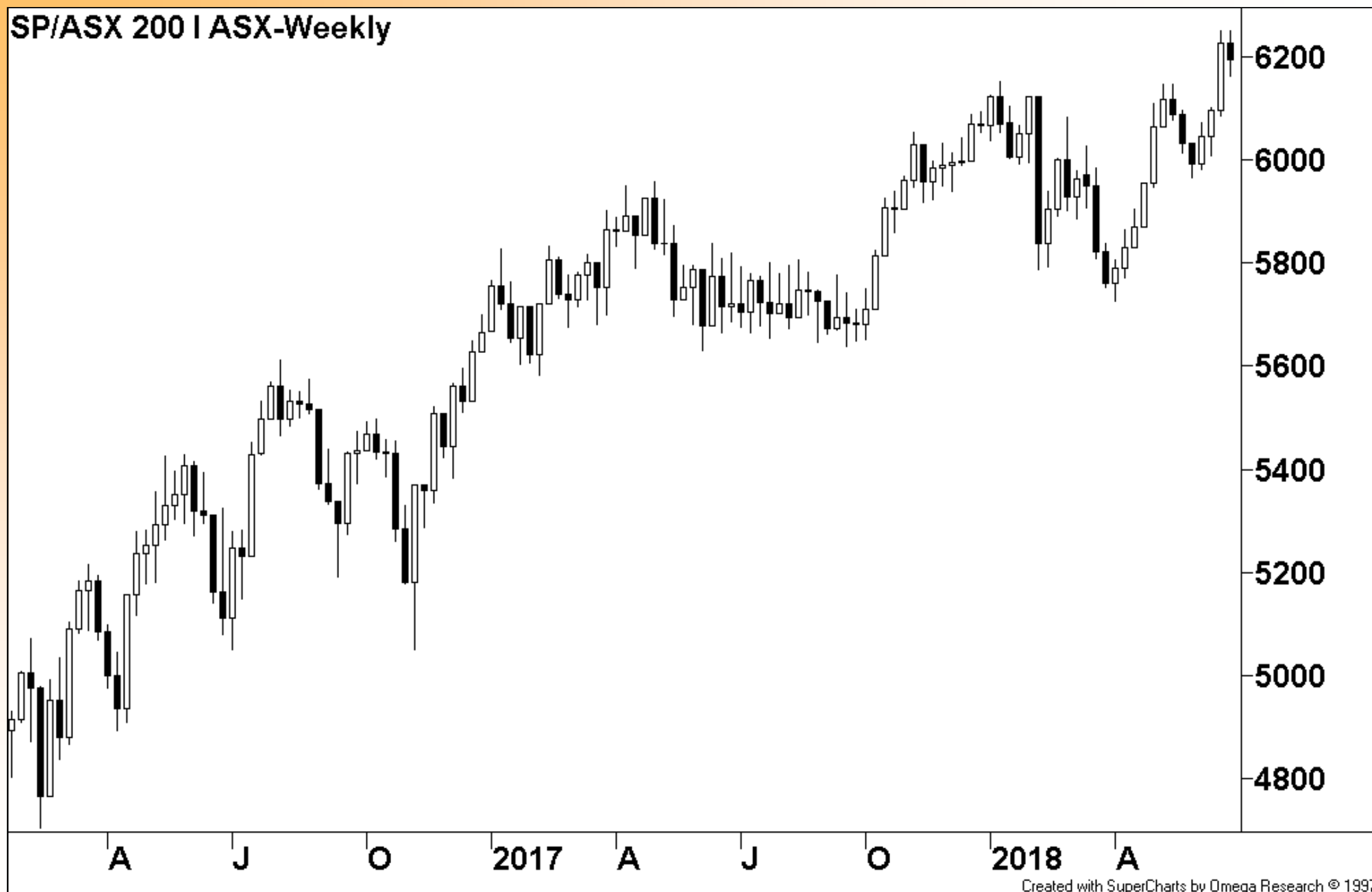
Nikkei Cash WCM-Weekly



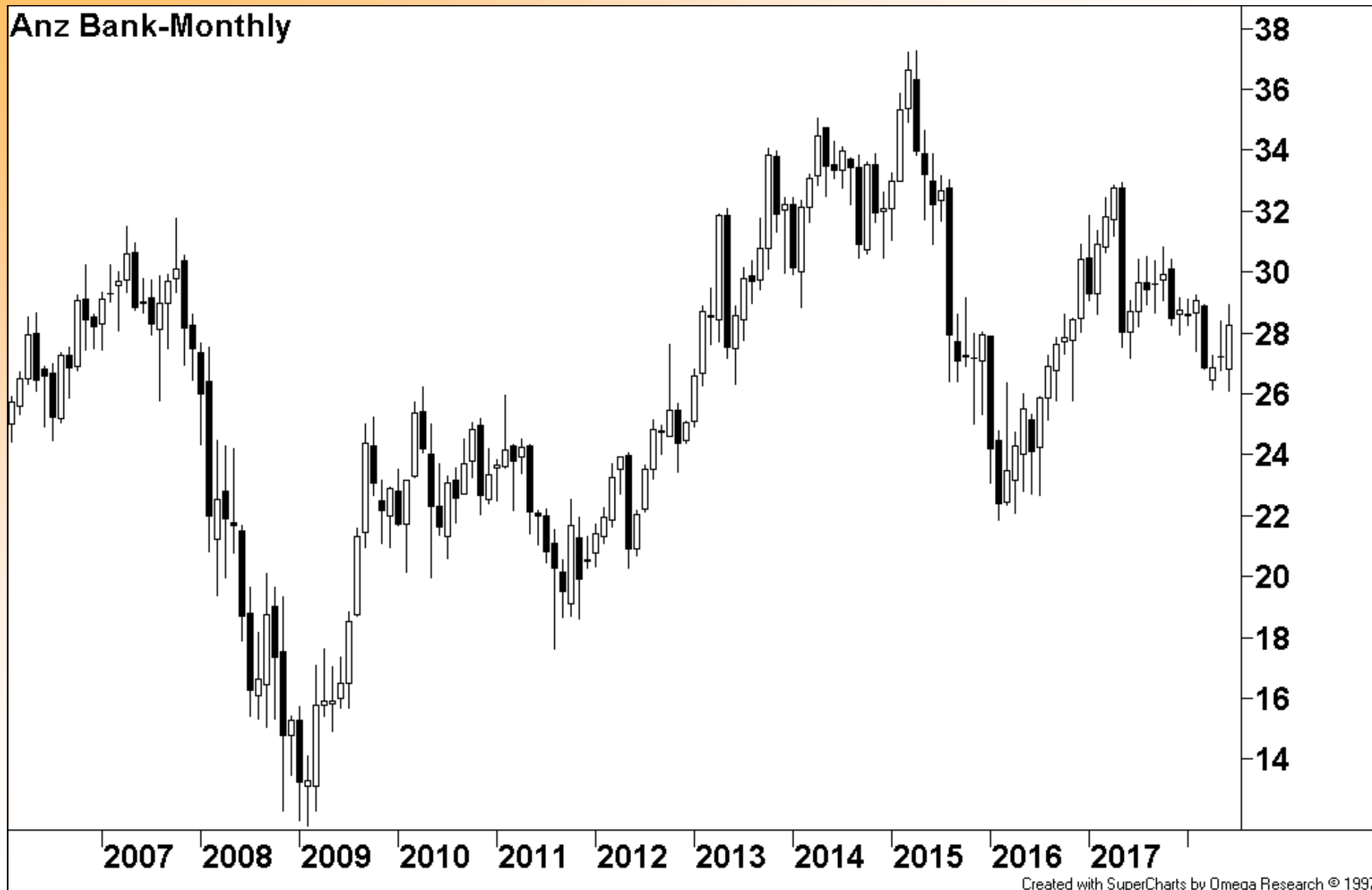
Shanghai Comp-Weekly



SP/ASX 200 | ASX-Weekly



Anz Bank-Monthly



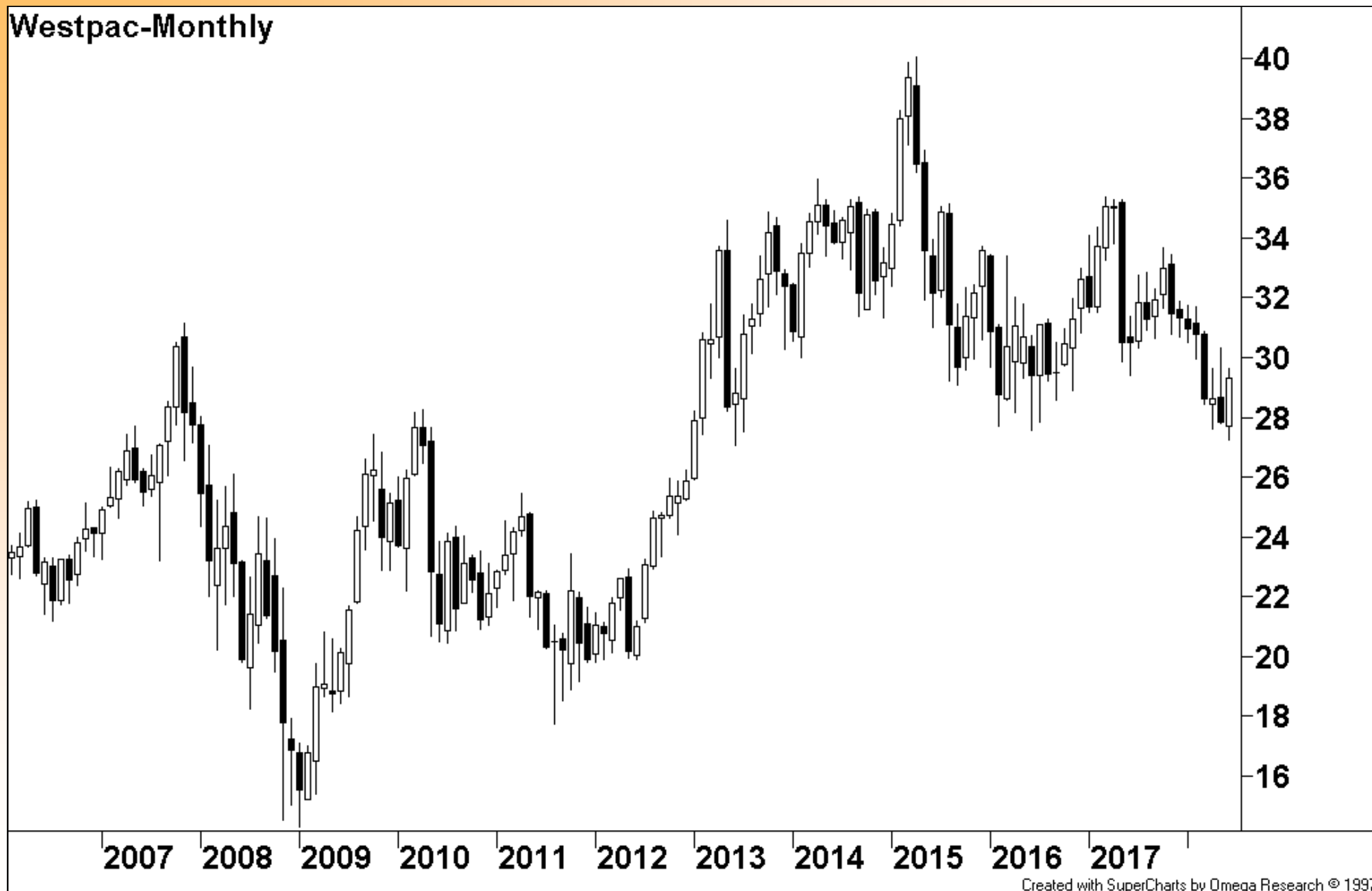
Cwlth Bank-Monthly



Nat. Bank-Monthly



Westpac-Monthly



Telstra-Monthly

