

# Colin Nicholson: Newsletter 92

6 September 2009

## Hear me speak

### Canberra

5.15pm Tuesday 22 September 2009

ATAA Canberra meeting

Ainslie Football Club, Wakefield Avenue, Ainslie

5.30 - 6.20pm **Share selection 1 - What to look for and why**

Before starting out on our investment journey, we must know where we are intending to go. Colin will explain his models for finding stocks with high potential, but with an all-important margin of safety. Once he has sketched the map, Colin will show where the journey leads. Even more important, he will show the guideposts to look for when beginning the journey.

6.40 - 7.45pm **Share selection 2 - How to find and assess good stocks**

Colin will then demonstrate how to search for good candidates using charts and fundamentals. Having found a list of candidates, Colin will show how to sort the gems from the rubbish using a recent market scan. Colin will conclude with an assessment of the current stock market landscape for stock selection.

7.45pm Dinner in Football Club Restaurant.

**Further information** [www.ataa.com.au](http://www.ataa.com.au) Visitors welcome. No booking necessary.

### Further speaking engagements

I have now posted the dates and the available details for my 2009 speaking engagements on the *Hear Colin Speak* page on [www.bwts.com.au](http://www.bwts.com.au).

## My presentation slides

I am now publishing the slides from all of my presentations on my members' only website as soon as possible after each presentation. I have already uploaded files of slides for presentations that I have given so far in 2009.

## End August 2009 major world markets review

I find it useful to make written reviews of the market from time to time. This is a very useful discipline which I would recommend to all readers. One reason that written reviews are beneficial is that writing it out forces us to be more thorough and can also help to expose holes in our logic, which can be more easily overlooked when the review is purely mental.

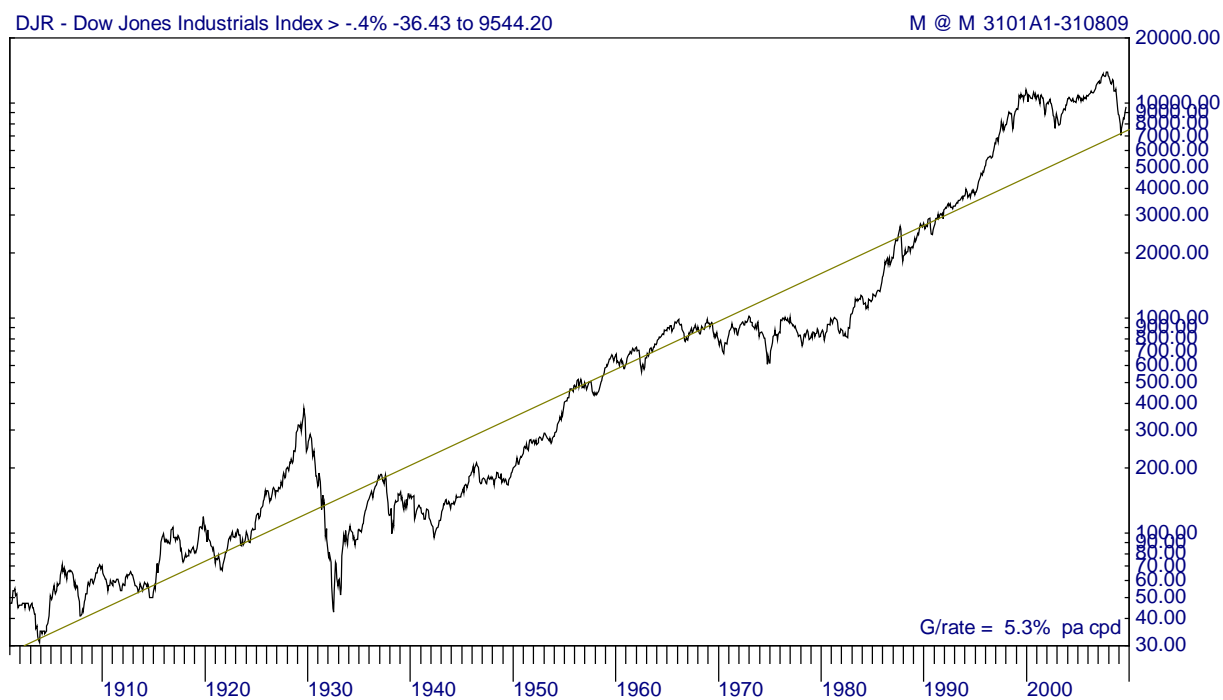
There is a second reason which is even more important. One of the most useful of learning tools is to go back later and review our thinking and decision-making. We should be looking for things we did well and things we did badly. Valuable lessons may be learned from both. However, there is a very big trap in later evaluation. It is called ***hindsight bias***. This bias is largely unconscious for most people. What happens is that afterwards, we have a lot of new information about what happened after the decision was made. We tend to think we knew more than we did, or that we should have known something that was only evident at a later time.

So, by writing down in a review what we knew at the time, we can make a far fairer and better evaluation of a decision. Of course, in doing this, we might find that we did not have information that actually was available if we had looked for it. In other words, our research was insufficiently thorough at the time. This is another very valuable lesson to learn. If we try

to make a decision when the other side of our investment has better information, which would have been available to us too had we taken the time and effort to look, we are investing like a boxer with a patch over one eye. We may miss what was coming at us.

One of the more important principles in analysis is to start with the big picture. There are two aspects to this. One is to begin with major markets and move down to our own market. The second aspect is to begin with the long term of our market and move down to the timeframe in which our decisions are made. In this newsletter I will review major markets.

My first view is the US Dow Jones Industrial Average (DJIA) since 1900:



This is a price index, so excludes dividend reinvestment. I have superimposed on it a line of linear regression, which measures the long term, compound growth rate at 5.3%.

An important observation here is the way the stock market can spend many years above or below the internal trendline, but it eventually reverts to or through the long term trend. Indeed the 2008 bear market plunge brought the market back to the regression line and the present bounce has taken the market above the line again.

There are many pundits out there blithely forecasting a re-run of the 1930s. However, a cursory examination of this chart casts doubt on that view. In 1929, the market had swung way above the regression line and the 1929 crash carried it way below the line. The subsequent rally brought the market back to the line and was followed by lacklustre fluctuation below the line until the late 1950s.

Compare this to 2008. This time the market was again stretched on the upside. The 2008 panic only took the market back to the regression line. It did not plunge way below the line as in the 1930s. Instead it has bounced back above the line. So, my feeling is that if we are to see another test of the 2009 trough, it will be a fall back toward the regression line. From there the 1970s may be a better model than the 1930s. Perhaps we will get a long sideways period where the market stagnates below a rising regression line.

In any case, we are guessing based on only a few historical examples. This is speculative in the extreme. All I am getting out of this review is that the rally has taken us above the regression line, so we are ripe for some kind of correction – downwards or generally sideways. The higher the present move carries, the greater the risk of a correction. We may see a repeat of the 1900 – 1922 period with several severe crises or a repeat of the 1960s – 1982 pattern with its lack of overall growth punctuated by several bear markets.

In other words, anything can happen and we have only wild guesses based on two or three previous examples which may turn out to be totally irrelevant. I have stated my method of dealing with this in a previous newsletter (albeit many readers ask me about it by email over and over again): Forecasting is for the guidance of fools. It cannot be done reliably and leaves us open to the psychological **confirmation bias**. This is when we make a forecast which dooms us to unconscious focus on any evidence that subsequently supports our forecast and to unconscious minimisation of any evidence that tends to be contrary to our prediction. We lose any attempt at objectivity.

The way I deal with this is to examine the situation and what SEVERAL possibilities might be. It is important to have more than one or two possibilities in mind. If we can see only one high-probability outcome, we are fooling ourselves and should seek out a number of different scenarios from other qualified people. The worst thing we can do is to see only one outcome and seek peer support, so falling into the traps of **crowd theory**. We should always seek to be a contrarian. This means that when we hear any strongly held view, we should make a real effort to ponder the situation in depth and develop a number of alternative scenarios.

At this point I look for how I might be harmed the most if any of these possibilities eventuated. This is what real risk is – the worst possible loss. We should have a strategy that protects us from the worst possible outcome. The long term upward march of the market will look after the other side of the equation.

At this point, I am assailed by punters who protest that guarding against the worst possible loss means we forego possible gains. That may be true, but let me remind these punters of the maths: The market fell 55% from the 2007 peak to the 2009 trough. Since then the market has risen over 40%. However, to undo a 55% fall, we need a rise of 122%. We have had a very strong recovery, yet we are not even half way to recovering the losses.

My strategy is to avoid the greater part of the bear market fall. There is no way to know in advance how far the fall might be, so the best defence is to get out of the way. Then, when we think the worst is over, we move back into the market.

Every time I say this in writing or in talks around the country I receive another blast of emails querying my strategy. Basically, these emails want to know what will happen. Then they will know what to do. When I say I don't know what will happen, I am sure that I disappoint these people, who do not read on. Please read on now:

If we knew what would happen for sure, then there would be no profits to be made. Everyone would quickly arbitrage them away and the market would almost cease operating. Seeking to know the future is not a fruitful search. Once we know the possibilities and protect against the worst possible outcome, the task is to devise a strategy to take best advantage of the upside with minimal downside risk. This means:

1. Knowing where we are wrong about any investment. That is where we place our sell stop (stop-loss if you prefer that term).

2. Taking individual stock positions of a size that will take us out of unsuccessful decisions with minimal total risk to the portfolio.
3. Keeping our total market exposure to a level that is appropriate to the phase of the market that we are in (or we think we are in). This means having heavy exposure early in bull markets when the risk is low and having light exposure late in bull markets when the risk is much higher.
4. Selecting individual stock investments only in upward trending stocks and buying only at prices that afford a margin of safety.

Right, so that is the strategy I am adopting myself. It may or may not be appropriate for readers, whose investment plans may be different to mine. It is also not the only possible strategy or even the best strategy. There are many ways to make money in markets. All I can say is that this has worked for me over many market cycles.

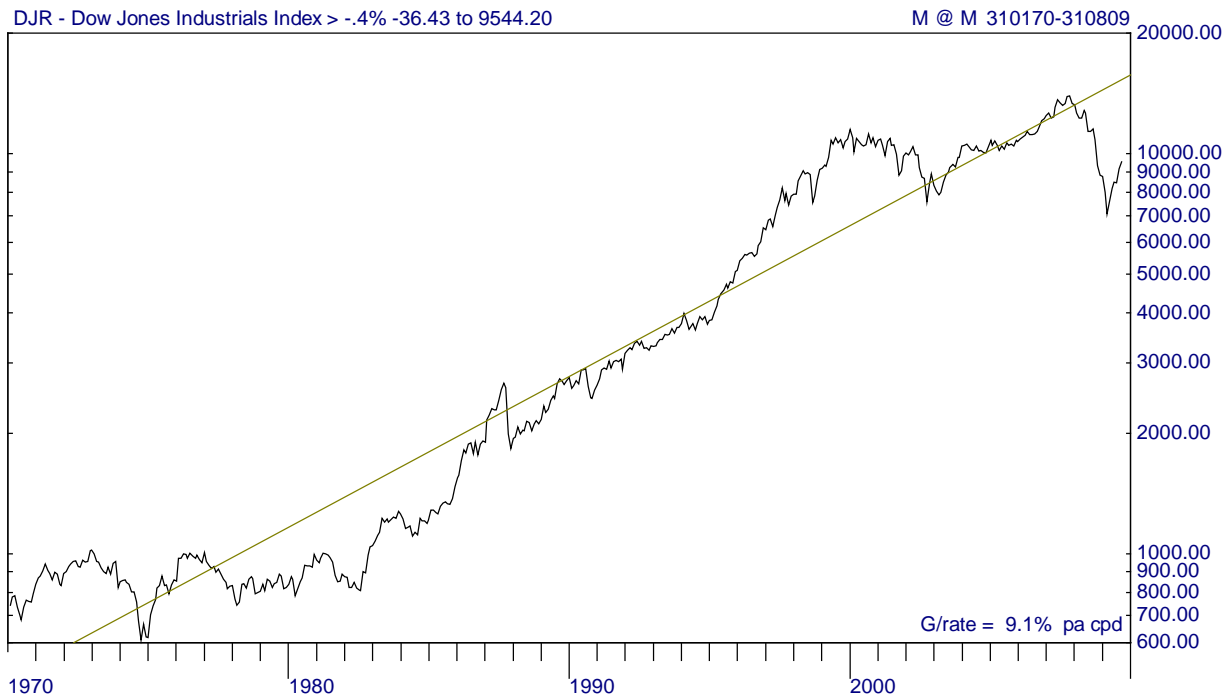
If you want to know what I really think will happen from now, that is easy: I HAVE NO IDEA. I not want to waste energy on futile exercises, and consciously do not try to make a prediction.

Before going further, I want to introduce a problem. While I have data for the DJIA, the US S&P500 index and the Australian All Ordinaries index back to 1900, I only have data for the NASDAQ Composite index, the FT100 index and the Nikkei225 index back to 1970. This poses a problem simply because once we change the period of the regression lines from 110 years to 40 years, the lines will move around quite a bit. This is a general problem with regression lines and does open their use to scoundrels who will select a starting point that demonstrates a preconceived conclusion.

I try to deal with it by using the longest periods for which I have data and when I am forced to use a shorter period for one market, I also use that period for the other markets as well so that we are looking at the same market conditions. This is important because all major world stock markets (US, UK and Japan) tend to be related far more than most people suspect. This is partly because they all reflect the world economy as well as their own economy. It is also because there are many international institutional investors who will to a large extent arbitrage away opportunities in these markets, albeit modified by currency risks.

Before I go on – last time I used regression lines I encountered a snowstorm of emails from readers wanting to press on me their favourite alternative methods. I am a great advocate of the idea that there are many ways to look at markets and a great many tools that are available. Everyone has their favourites. My tools are not presented as perfect or the best or the only way to look at the markets. Please see my comments as thought-starters and readers should apply their own methods in reaching their conclusions. My thoughts are meant to present a view which provokes independent thought, never to suppress it.

This is a long way from explaining why I am now also going to show the DJIA chart back to 1970 and the linear regression line for that period:



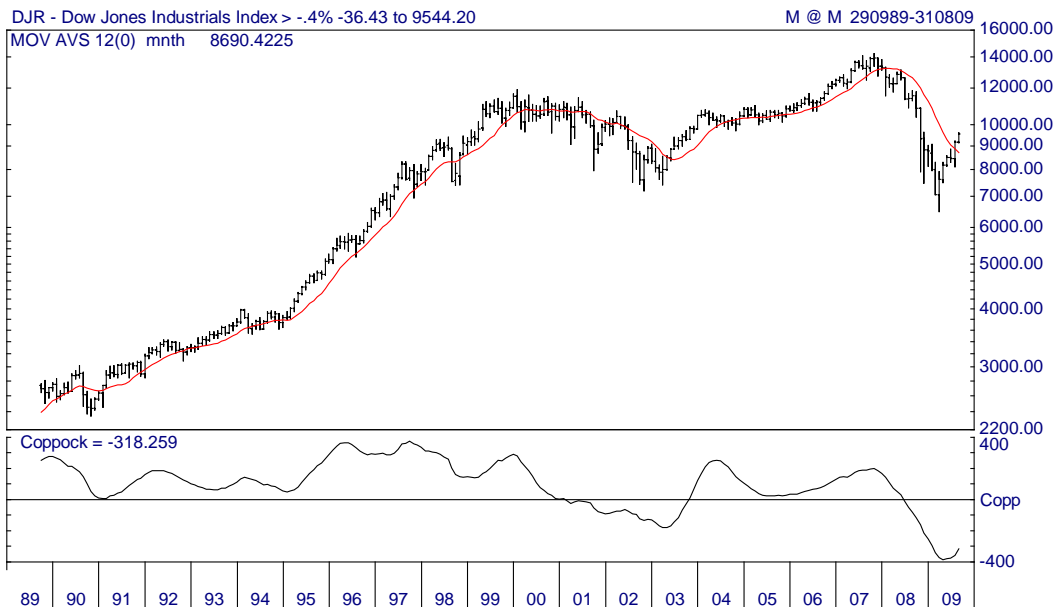
It is immediately obvious that this view differs from the 110-year view. For a start, the growth rate over the last forty years has been 9.1%. This is far higher than the longer term growth rate. We will compare this to other markets a little later.

The other thing of interest, though, is that over this period, the 1982-2007 bull market topped out very close to the long term regression line for the 40-year period. Since the DJIA has fallen well below the regression line and the recent rally has only retraced part of the bear market losses. This opens another scenario for the contrarian thinkers. It could mean that we have seen the worst of it. Although it may take a long time to regain the regression line, the concept of reversion to the mean would favour the scenario that the likely future from here is sideways to upward rather than us seeing a new low below early 2009.

This scenario is well worth considering when formulating shorter-term strategy. It is a good counter to the widespread fears that the present rally is only a bear market rally and there may be at least one more serious moves down. That view cannot be discounted entirely, but there are other competing scenarios like this one. The savvy investor plots a course with them all in mind and with thought as to the pressure points where each scenario might be tested by events and lead to a reassessment.

In other words, we cannot know the future, but we can imagine the alternatives and work them into our strategy and risk control. The key is to think and use our imagination. Then never stop thinking and reassessing. Stop trying to forecast and focus on formulating a strategy that will guard against the worst downside scenarios while participating in the positive scenarios while they continue to unfold. As any poker player will tell us we must know when to hold them and when to fold them.

Below is my next view of the US DJIA: a 20-year monthly bar chart with a 12-month moving average line to show the direction of the larger trend and a Coppock indicator below it.



The first observation is that the Coppock indicator has turned up from below zero. This is the signal to begin buying upward trending stocks for long term appreciation. There have been past instances of this indicator giving premature signals, but there has been a few and their possibility is ignored at our peril. As always, the defence against a premature signal is the sell stop levels on our individual shares. Sell stops will take us away from harm's way if the signal is premature. Remember that even in that situation, not all individual stock sell stops are likely to be triggered.

The second observation is that the market is rallying strongly. The moving average has slowed, but not turned up. However, this moving average is very much a lagging indicator. There are still some large negative values in it from late 2008 – early 2009. At this point the punters want to ask me whether it is a bull market or bear market rally. As I said above, I don't know. However, that is not a problem. The strategy is the same: buy upward trending stocks at prices which afford a margin of safety. The sell stops protect on the downside if the rally fails badly and our stocks are caught up in it.



My next view of the DJIA is the 5-year weekly bar chart with 52-week moving average shown above. I have marked the main swings in the bear market and the bull market to date. I say bull market, because the 2009 price action has given an incontrovertible signal of the start of a bull market – where the price bars broke upward through the dotted red line from the previous peak. That established a trend with higher peaks and higher troughs.

Can the trend fail? Yes, it can, just like any other trend. Nothing continues forever. However, that said, trends tend to persist. My strategy protects the downside, so to invest in this trend is a very low risk exercise. Sooner or later there will be another correction in this trend. If the correction violates the trough just above 8,000 then we have a trend failure. However, while the market stays above that trough the trend remains in place and the correction will be a buying opportunity.

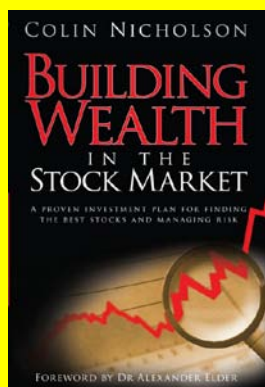
This last statement is actually a simplification. The failure of the uptrend in the way discussed is only one of my three selling signals. The other selling signals tend to occur higher than this one. For more discussion of them see my book *Building Wealth in the Stock Market*.

Summary: I see a bull market trend. I have defined the downside exit point. The risk is low. I should be moving to being fully invested in this market. I do not invest in the US stock market, but the easiest way to express my view is to say what my investment plan would suggest if I was an investor in that market.

For those of my readers who are not familiar with my investment plan, it is all in my new book *Building Wealth in the Stock Market*. Over time I will also be posting examples and case studies on the members' only section of my website [www.bwts.com.au](http://www.bwts.com.au). Some of that material is already there and I will be adding more during September, including updating case studies on my current stock investments.

## Building Wealth in the Stock Market

My new book *Building Wealth in the Stock Market*, presented handsomely in a hardback format, is available for purchase directly from me postage free to Australian addresses.



*Building Wealth in the Stock Market* replaces *The Aggressive Investor*. Most of my basic method has not changed over many years. However, since I wrote *The Aggressive Investor*, I have refined a few things, notably how I view charts in the right time frame, my maximum risk per stock and my focus on an additional financial ratio. While these things are minor in some respects, they have improved what I do. In addition, I revised the way ideas were presented throughout the book. Of most significance, there are completely new and later case studies, plus examples that were not printed in the original book.

For a complete description of the book see <http://www.bwts.com.au/text.cfm?255>

**I sign all copies of the book which are purchased directly from me.**

**Price:** A\$65.00 including GST (Australia only). **Postage free to Australian addresses.** This price applies only to online orders and mail orders on a credit or debit card. Telephone orders and mail orders paid by cheque or money order attract a surcharge of \$5.00 for handling. On-line ordering on my secure website is perfectly safe and the cheapest way to buy the book from me.

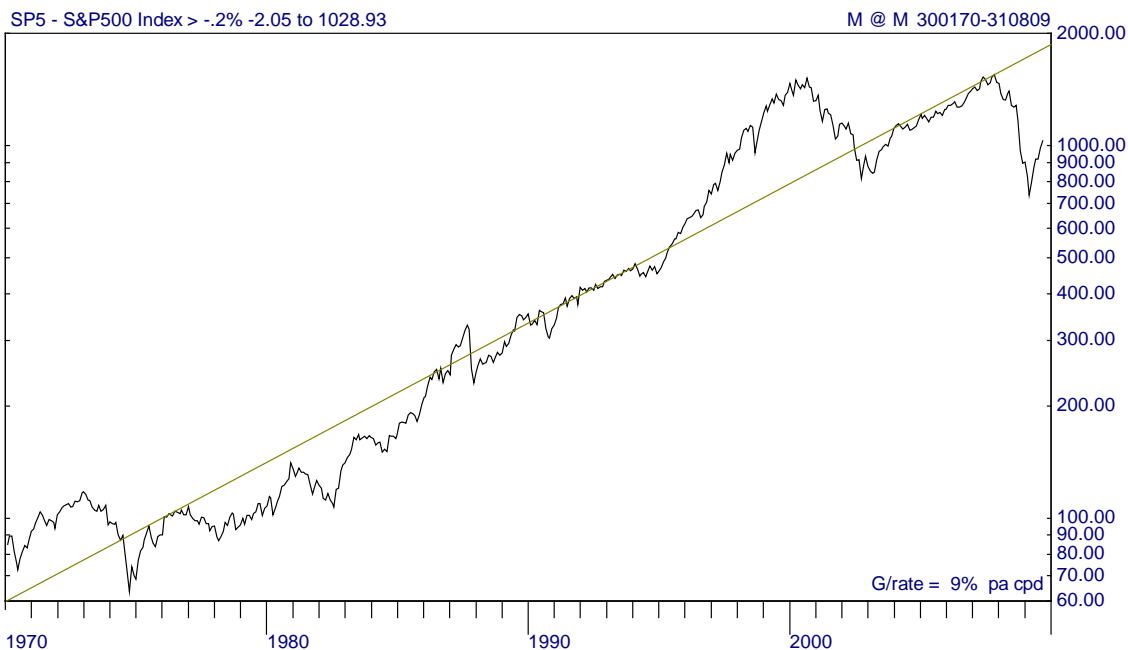
Next, I look at the long term chart of the US S&P500 index from 1900 with a line of linear regression:



Again, this is a price index which does not include reinvestment of dividends. The long term compound return, not surprisingly, is similar to the DJIA at 5.2%.

This chart is very similar to the DJIA except for the 1900-1922 period, which was gently upward on the DJIA, but very much sideways on the broader S&P500 chart. Other than that the key observation of the recent price action is that, like the DJIA, there was a fall to the regression line and a bounce back above it. My basic conclusion here is the same as for the DJIA earlier.

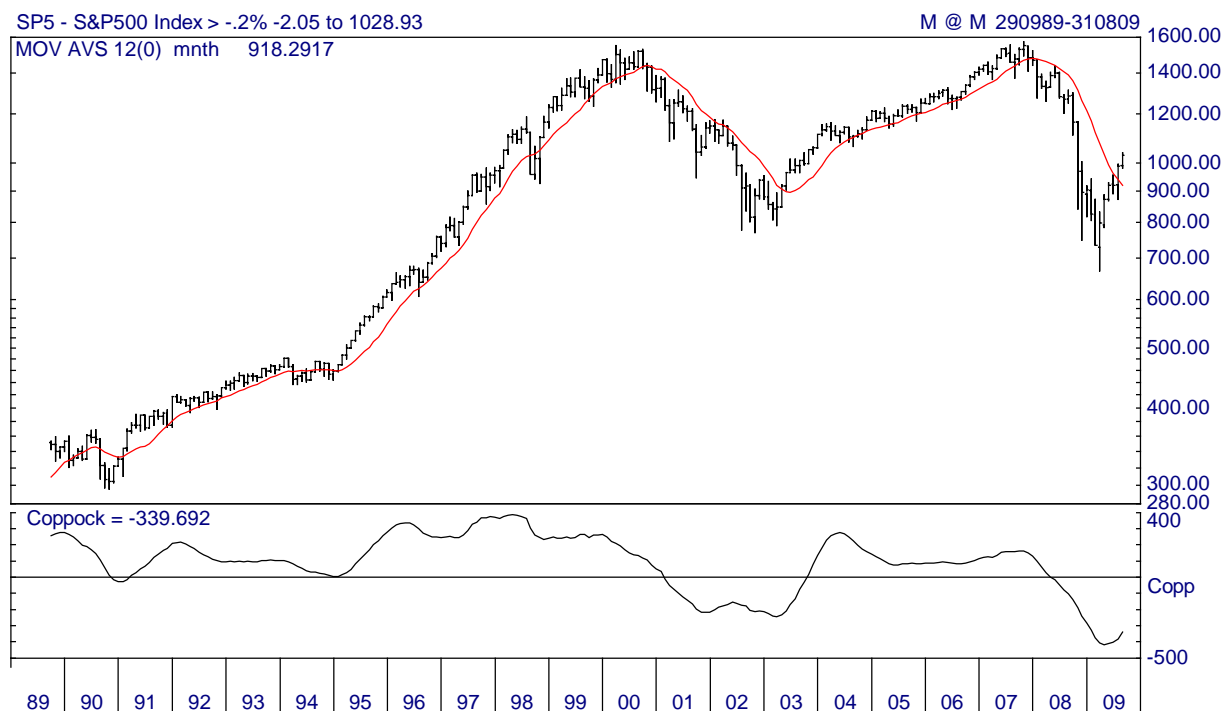
Like the DJIA, we should also look at the chart from 1970:



This shows a 40-year rate of growth of 9%, which is very close to the DJIA growth for that period of 9.1%. Both are price growth only, before reinvestment of dividends.

Other than that, the chart is essentially similar to the DJIA chart for the same period and the same general conclusions are appropriate.

My next view of the US S&P500 index is the 20-year monthly bar chart with 12-month moving average and Coppock indicator in the sub-chart:



Immediately, we see one important difference to the earlier DJIA chart, which showed that the 2007 peak was higher than the late 1990s peak. On this chart the two peaks are essentially the same.

Crude charting theory would suggest that this is a classic double-top reversal pattern. I am inclined to dismiss this view as speculative in the extreme, especially when we remember that the DJIA chart did not show that pattern. It is only likely to come into contention if we get a re-test and failure of the early 2009 trough. Well before then my sell stops would have taken me out of harm's way. So, my strategy deals with the extreme downside risk.

It should be noted that the Coppock indicator has also turned up from below zero several months ago. This signals that it is now an appropriate time to begin buying stocks for long term appreciation.

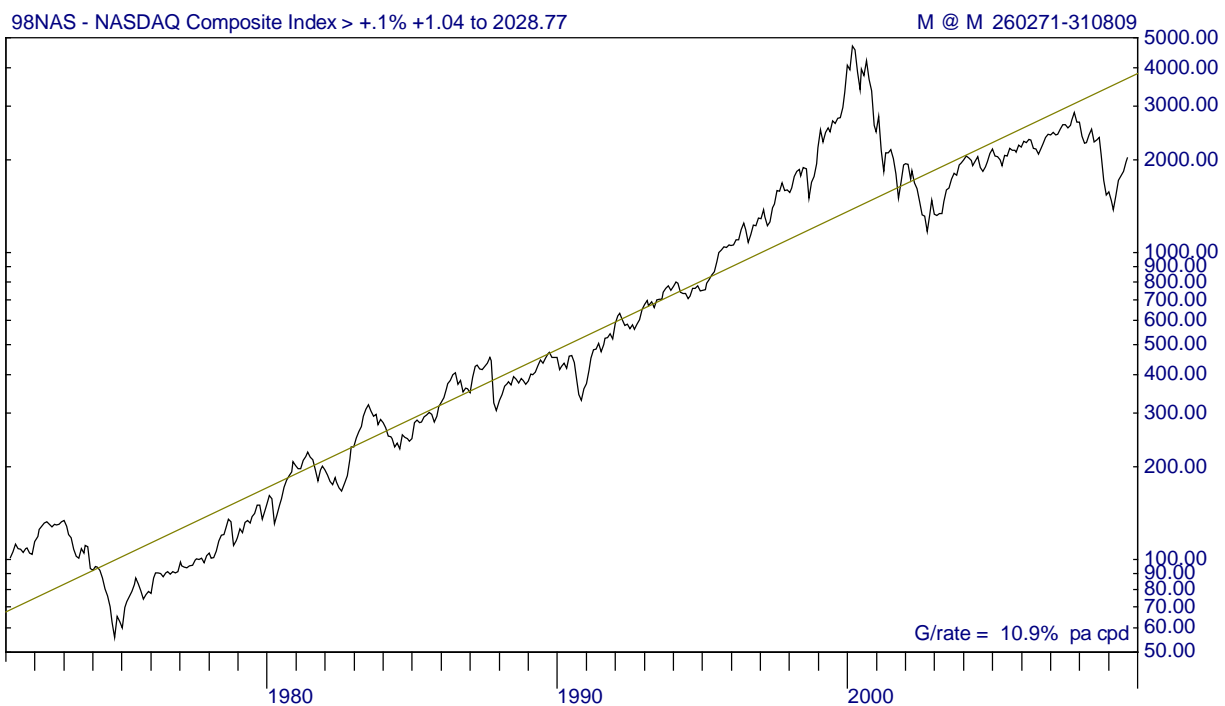
We can now move to the short term view in my timeframe (see next page).

This chart is a 5-year weekly bar chart with 52-week moving average line. I have marked up this chart in the same manner as the DJIA: blue lines defining the main swings of the bear and bull markets. The crucial point was the swing to a confirmed bull market when the price bars moved through the dotted red line across the top of the previous peak in the bull market. We then had a confirmed higher peak and higher trough.



There is really no essential difference between my analysis of this chart and that of the DJIA. My strategy would be the same if I were an investor in that market: I would be moving to being fully invested in upward trending stocks whose price affords a margin of safety. The downside is protected by the sell stops and we can enjoy the upward ride.

Next, it is useful to look at the US NASDAQ Composite index which measures the performance of essentially technology stocks. My data only goes back to 1970, but the chart is still a very interesting one.



As with the previous long term charts, I have superimposed a line of linear regression. This shows that the long term price appreciation, before reinvestment of dividends, has provided a growth rate of 10.9%. This is nominally higher than the return from the S&P500 index of 9% and 9.1% for the DJIA over the same period. This may surprise some readers because the

general perception is that the NASDAQ was slaughtered in the 2000-2003 bear market and is a disaster area. This is simply not true. Long term holders of a broad portfolio of NASDAQ stocks will have done just as well as those with a similarly broad portfolio of S&P500 stocks.

One problem with linear regression lines is that they vary with the starting point. When the period over which they are calculated is very different – 110 years versus 40 years – there can be a substantial difference in the slope of the regression lines. So, in comparing the 110-year charts with the 40-year charts, we have a problem. Instead the valid comparison is between the 40-year charts for all three markets.

While there are some differences between the three market charts, this is primarily a function of the strength of the tech boom in the NASDAQ chart. After this, the NASDAQ was actually a bit weaker than the other two markets for a while, through to the 2007 peak. However, since then, the three markets have moved back into synchronisation to a large extent, such that my view is that the same strategy is appropriate for all three.

Interestingly, the NASDAQ Composite index could double from its present level and still be below the long term regression line. This is also approximately true for the S&P500, but not so much for the DJIA.

Since markets tend to revert to the mean and all three are well below the 40-year regression line even after the recent rally, my favoured scenario is that we are more likely to see further upside than downside. Of course, there will be corrections. That is inevitable. However, the troughs of those corrections should be progressively higher.

In the back of my mind is the disaster scenario that something comes out of left field and markets plunge us into a deep and prolonged depression. This is where our sell stops come in. Providing we do not hesitate pulling the sell trigger if they are hit, we should be protected from the armageddon scenario.

This discussion shows that quite a lot of basic thinking can be done from the long term picture, with direct relevance to short term investment strategy. Yet I keep encountering investors who never take the time to look at and then think about the long term picture. I feel strongly that their returns from investing may be the poorer for this lack of a long term view.

## Tax Invoices

I am often asked for tax invoices. I email a tax invoice to **every** purchaser of my books, or to members of my website who are joining or renewing, even when the amount involved is less than the legally required minimum of \$82.50.

I am also sometimes asked to show the name of the entity making the purchase on the tax invoice. There is no requirement to do this under the tax law unless the tax invoice is for \$1,000 or more. If you buy something valued at less than \$1,000 in a retail shop, the shop will not show your name on the tax invoice. You may add your name or the name of your SMSF or company to the tax invoice later if you wish. The key thing is to be able to show that the cash for the purchase came from the SMSF or the company to reimburse you for the purchase.

Next we look at the 20-year monthly bar chart (see next page). This has a 12-month moving average line and the Coppock indicator in the sub chart. I have also superimposed some grid lines on the chart which show that 2,000 has been a strong resistance and support line over the last 20 years. Moreover, there is more resistance above that level. In one sense, the NASDAQ stocks have done the easy work in the 2009 rally. The going may be tougher on the upside from here onward.



Note that the Coppelock indicator turned up below zero a month earlier than the main US indexes and has therefore given a signal to start buying upward trending stocks for long term appreciation. This chart also shows the very premature Coppelock signal in 2001. However, this time, so far at least, the signal looks to be more secure. Only time will tell.

Next, we need to look at the short term chart.



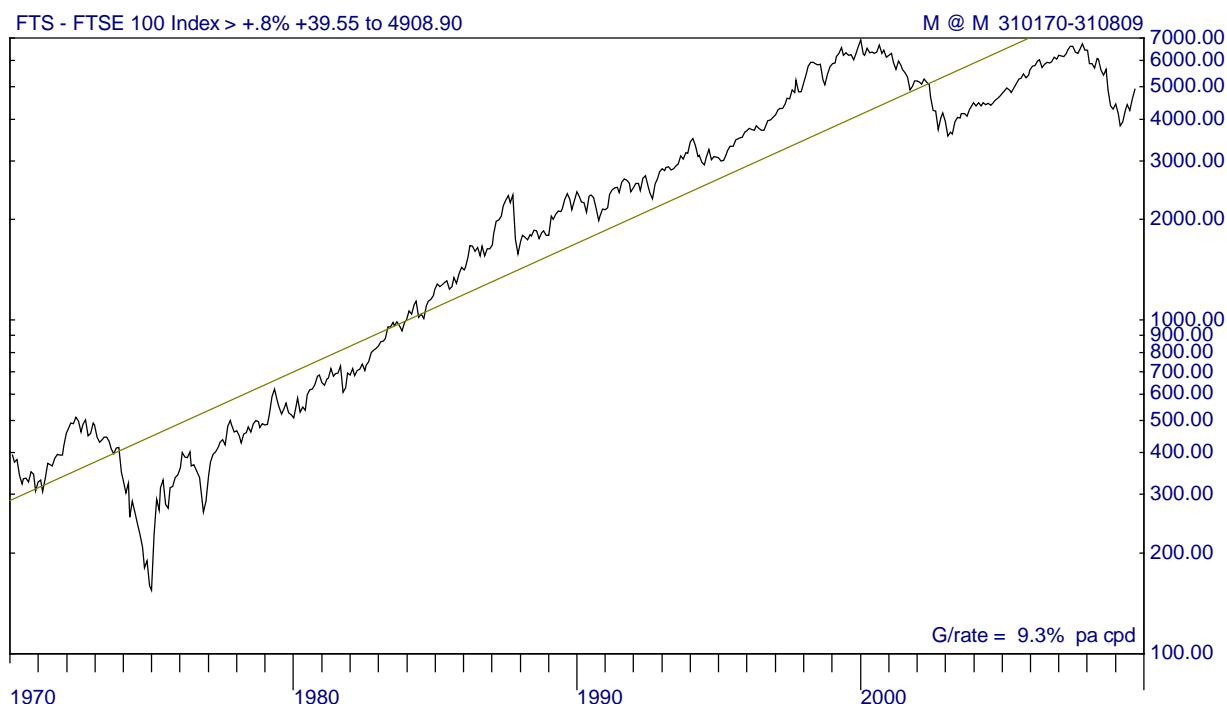
This is the 5-year weekly bar chart with a 52-week moving average line overlaid on the bars. In addition, I have marked up the swings of the bear and bull market to date in blue lines. The interesting difference on this chart is the basically sideways pattern in late 2007 to mid 2008. It is not unusual to have secondary movements take this form in markets and stocks when

they are consolidating a moderate fall. However, as the chart shows, this apparent strength was a mirage and the subsequent fall was savage, more than making up the delay.

As with the DJIA and the S&P500, we now have a confirmed bull market in place from the surge through the dotted red line.

So, my strategy in this market would be the same as for the other two indexes, modified by the earlier comments on the most negative long term scenario. In the US stock market this means that our exposure to NASDAQ stocks might have a moderate degree of caution.

I next look at the UK stock market as measured by the FT100 index. Here is the long term chart:



My data only goes back to 1970. Over the last 40 years the growth rate on price alone before reinvestment of dividends has been 9.3%. This is very close to the US S&P500 return of 9% over the same period.

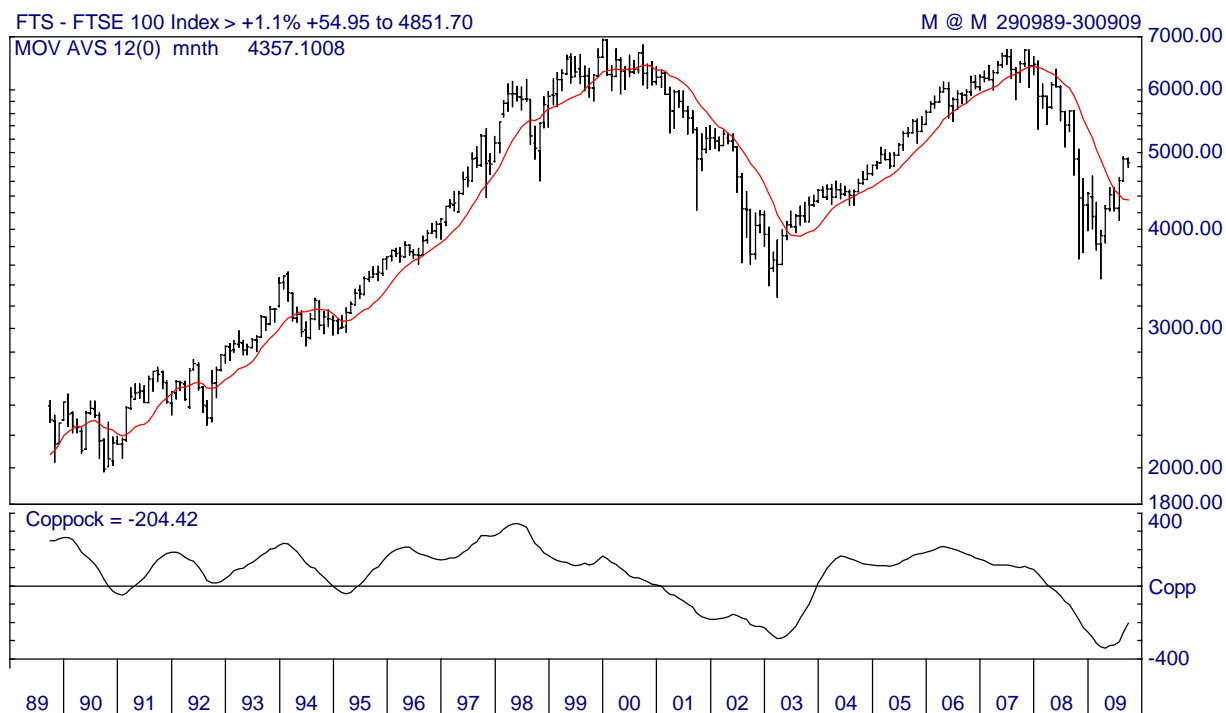
Please note that I have changed something about the way I notify when newsletters are available. The email I send now has a "noreply" sender's address. This is in order to automate the deletion of addresses from the list if emails to them bounce three times. The implications of this are:

1. Add [noreply@bwts.com.au](mailto:noreply@bwts.com.au) to any white list for spam filters that you have installed.
2. If you want to send me feedback or a question, send it to my email address. Use Contact Colin on [www.bwts.com.au](http://www.bwts.com.au). **Do not just click the "reply" button.** If you do that, I will not get your email.
3. If you change your email address, newsletters will stop after the old address bounces three times. So please go to the NEWSLETTERS page on my website and alter your email address if it changes. **Bounces also include mailboxes over quota (often a precursor of a discontinued address) so if you go away for a while and do not clear your mailbox, your address may have been removed from the list.**

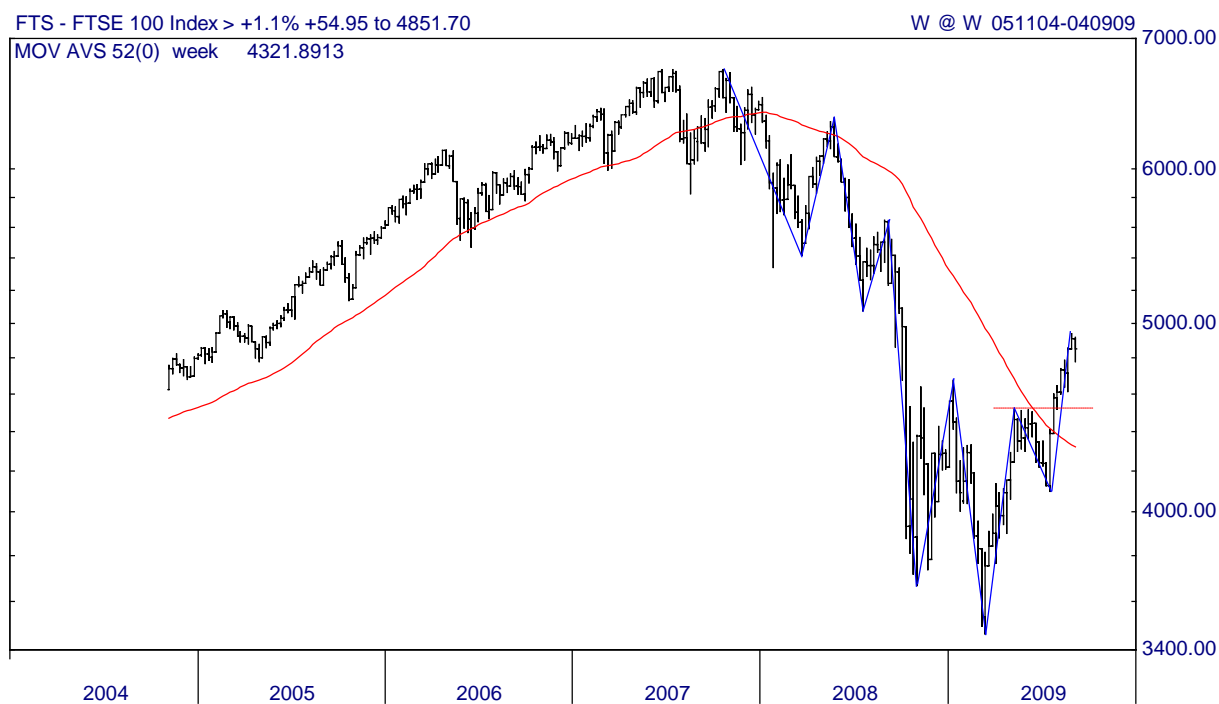
The FTSE100 chart above is similar to the US S&P500 chart in two respects. One is the way the 2007 peak was essentially at the same level as the 2000 peak. The other is the way the 2007 peak almost rose to the long term regression line, but then failed and fell well below it. The present rally is beginning a process of reversion to the mean. However, it does look

weaker than the US chart, which accords with commentary on the British economy and its bank failures.

Next, we need to look at the 20-year monthly bar chart with 12-month moving average superimposed and the Coppock indicator in the sub chart.



The similarities to the US S&P500 are easy to see. The Coppock turned up with the US market, signalling the time to begin buying upward trending stocks for long term appreciation. On this chart, the FTSE100 appears to have broken out upwards from a generally sideways pattern. However, this is best looked at on the 5-year weekly bar chart.



Again, I have marked in the main swings in the bear and bull markets. The late 2008 to early 2009 area is a little difficult. I have marked in a peak and trough pattern, but it may be better seen as a volatile sideways pattern.

This chart shows a base pattern that some chartists will characterise as an inverse head and shoulders reversal pattern. I have no argument with that. Its completion would have been only a little later that the trend analysis using the blue swing lines which showed the move to an uptrend as the index surged upward through the red dotted line marking the first peak in the upward trend following a higher trough.

My conclusion from this analysis is that, like the US markets studied earlier, the UK market is trending upward in a new bull market. With the Coppock indicator signal and the trend signal, my strategy, if I were an investor in the UK stock market, would be to be buying upward trending stocks. As in the US, my sell stops on those stocks would protect me from a failure of the market trend and the trends in the individual stocks held.

As in the US, I am sure many readers will want to know how far the present upward leg and the bull market overall will go. I repeat that I have no idea and do not care. This is not because I am not a UK investor, but because I don't think we can forecast it and that it is both dangerous psychologically and unnecessary to do. So long as we have a strategy to take advantage of the upside scenarios and protect against failure, that is all we need to do. Why make it more difficult?

## Additions to my members' website

My website: [www.bwts.com.au](http://www.bwts.com.au) is in two parts:

There is a great deal of material on my **free website**: Ask Colin, Newsletters some resources for investors and real time disclosure of stocks which I personally hold.

On the **members' website**, there is all my published work except my books and what is on the free website. There are over 700 articles and columns there and I add to them as I write for newsletters or publications.

I have now begun to build a new resource on the members' website, which is aimed at adding value to my book *Building Wealth in the Stock Market*. These additions are:

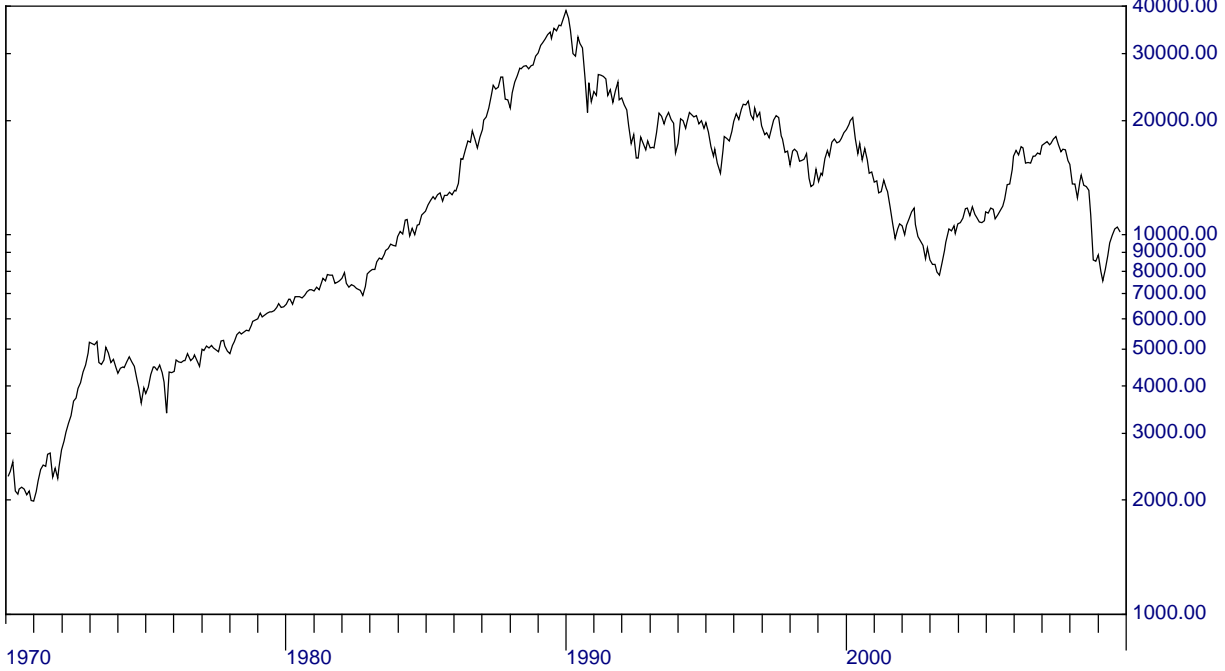
- **Presentations**: The slides of all presentations I give.
- **Market Scan Examples**: I analyse the stocks which come up on market scans using the methods in my book.
- **Market Case Studies**: Analysis of the Australian stock market in terms of the market exposure strategy in my book.
- **Stock Case Studies**: Analysis of investments which I make and other stocks which I may not decide to buy, explaining why. These case studies are teaching tools, not real time investment advice.

The members' website costs \$44 to join and \$55 per year (\$99 in the first year). Members may access, print out or download anything on the members' website.

Next, we move to the last of the major world markets, the Japanese Nikkei 225 index.

98NI2 - Nikkei 225 Index > -.3% -27.53 to 10187.11

M @ M 310170-300909



My data only extends back to 1970, as shown. I have not superimposed a line of linear regression on this chart because it is not very useful. It shows, though, that over the period of the chart the long term compound growth rate in price was only 4%, less than half that for the US and UK markets.

The Nikkei 225 chart is quite different to the US and UK charts in that it shows a tremendous bull market to the 1990 peak and after that a long grinding bear market. In effect, during the technology boom of the 1990s, Japan was essentially missing from the action. It then began to shadow the US and UK markets again from 2003. Like the other markets, 2008 saw a savage sell-off and a rally is underway this year.

98NI2 - Nikkei 225 Index > -.3% -27.53 to 10187.11

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Shown above is the 20-year monthly bar chart with 12-month moving average superimposed and the Coppock indicator in the sub chart. This is an excellent example of a grinding bear market. The various Coppock indicator signals could have been seen as premature. However, most of them seemed to coincide with a rally in the bear market, which could have yielded good gains from following the Coppock signals.

The most recent signal on the Coppock indicator coincided with the US and UK markets, calling for accumulation of upward trending stocks for long term appreciation.



The chart above is the five-year weekly bar chart. Again, I have marked in the main swings on the bear and bull market. As with the UK, the late 2008 to early 2009 area poses some difficulty and could also be seen as an essentially sideways pattern. The way I have marked it looks like a double bottom reversal pattern, which if we accept its validity, would have given an earlier reversal signal than the trend analysis signal which is where the index shot up through the red dotted line. This put in place a higher trough and higher peak.

The Japanese market feels a bit weaker than the US and the UK, but is nevertheless in a clear upward trend and must be considered as the start of a new bull market until there is evidence to the contrary. Therefore, if I were an investor in the Japanese stock market, I would be invested in upward trending stocks. My sell stops would guard against failure of the market trends and the trend in the individual stocks held.

## Conclusion

All the major world stock markets that I have looked at above have swung into a confirmed upward trend. The same has happened in Australia. In strategy terms, on my investment plan I should be heavily invested in upward trending stocks.

This newsletter is longer than usual. It is therefore not appropriate to also look at the Australian market here. Instead, I will be writing up a case study on the Australian stock market for the members' (paid) section of my website. This will cover phase analysis, the Coppock indicator and trend analysis. It will lead into discussion of the appropriate strategy on my investment plan as set out in my book *Building Wealth in the Stock Market*. I hope to

have this work done and on the website by the end of this week or as soon after that as I am able.

I am also working towards writing and posting more updated case studies on stocks that I currently hold over the next month. I posted a major update to the Cash Converters International case study in the last week. I have also drafted a new case study for a stock I am currently buying. I will post that case study as soon as my positions have been taken.

I have been asked a lot of questions in emails and at speaking engagements about the IMF (Australia) case study. I cannot legally answer questions on specific stocks to individual readers. However, an update of this case study is now a high priority and I hope it will help readers understand better how I am analysing that chart without crossing the line into advice.

## New 52-Week Highs and Lows

A reader has advised me that this data is available on <http://www.equitiesinfo.com.au/>

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