

Colin Nicholson: Newsletter 94

28 October 2009

Hear Colin Speak

Sydney

Friday 30 and Saturday 31 October 2009

Trading and Investing Seminars and Expo

Special Offer – Half Price Admission to the Expo

Readers of my newsletter may apply for unlimited half price tickets (\$7.50) to the Expo which are normally \$15 at the door or \$10 in advance on the expo website. All you need to do is visit <http://www.tradingandinvestingexpo.com.au/seminars/melbourne> and click on the TICKETS tab.

When asked for the special promotional code, enter the word **SPEAKER** and the special offer will be automatically provided.

30-minute free presentation

11.30- 12.00 Friday 30 October 2009 and Saturday 31 October 2009

Bear market rally or new bull market?

Do you have your share investments in place yet for the new bull market? If so, that is good, because most investors leave it far too late to put their money to work in a bull market. They then find it difficult to make decisions to act in case for fear that they have left it too late. So they wait for a pull-back. Then when it happens they think the bull market has finished. So they wait for another upward move and the cycle of indecision continues until they finally act out of desperation when it really is too late. If this scenario rings true for you, then you need to come to this presentation. Colin will explain his strategy which has consistently got him into bull markets near their start and out again before the bear begins to roam Wall Street. He will explain how to tell which phase of the cycle we are in. He will also visit the Coppock indicator and basic market trend analysis. From this he will suggest an appropriate strategy for the current market.

90-minute paid presentation

1.45 - 3.15pm Friday 30 October 2009 and Saturday 31 October 2009

How to plan for stock market investing success - in any market

We have just lived through one of the worst bear markets in decades. This event has exposed weaknesses in the investment plans of many people, principally those in or nearing retirement. Most of the problems exposed by the bear market come back to poor planning. A good investment plan makes allowance for periods of declining share prices. Colin's investment plan has enabled him to sail through the bear market virtually unscathed. You can do this too, if you know how. Don't miss this must-attend seminar as Colin clearly outlines what you can do now to refocus your investment plan to ensure you minimise the damage from future bear markets.

Further Information www.tradingandinvestingexpo.com.au/trading

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.

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.

A Strategy for the Australian Stock Market

On Friday and Saturday this week I am speaking at the *Trading and Investing Seminars and Expo* in Sydney. My talks will be updated versions of the presentations given at the Melbourne expo a few weeks ago. Details are on the previous page.

In my free presentation I will be looking briefly at the present situation in the Australian stock market. In the paid seminar, I will further develop the theme of how I set my market exposure – the proportion of my capital invested – in any market, but with a strong focus on right now.

The title of my free presentation is based on the most common question I have been asked as I have moved around the country talking to various associations and expos this year. I have also had numerous emails on the same issue. This whether we are in a bull market, or is it just a bear market rally? Associated with this is the fear of a double-dip bear market, or one of the other “alphabet” possibilities: A V-bottom, A W-bottom, An L-shaped bottom and the notorious square root formation.

As always, like all other teachers, I am asked for my prediction of what will unfold. I have pontificated on this issue of prediction at length in many places, including these newsletters, before, so let me be brief now.

Humans are notoriously bad at predicting the future. Doing so is to do no more than express an opinion. Better is to express a number of opinions, so that later the forecaster can conveniently only refer back to the one that turned out to have been correct in hindsight.

None of this is useful. In fact it can be harmful in that it messes with our mind. Once we make predictions, we open ourselves to confirmation bias. Even worse, if someone questions our prediction, we tend to harden our belief in its correctness, no matter what evidence is put in front of us.

I have always maintained that I do not know what is in the future with any certainty and I do not waste valuable energy trying to calculate it. Instead, I find a far more useful approach is to focus on analysing what is happening now and then executing a strategy that is appropriate to the situation I am seeing.

My strategy at any time will focus on two objectives:

1. To take advantage of the situation that seems to be unfolding.
2. To have in place clearly defined sell-stops at the points where each of my investments will have gone wrong.

From there, the tough bit comes in. This is to execute the strategy faultlessly. This means following a disciplined path of investing with a margin of safety and implementing sell stops immediately they are triggered.

So what is the situation now?

As I look at the major world stock markets in the US, UK and Japan, they are all trending up. Sure, there is a great deal of uncertainty around us, but the markets are currently acting as though they have seen through the crisis to a recovery.

Now, most investors to whom I say this interrupt me with “but ...” What they want is certainty. Well, I am here to tell you two things:

1. Nobody can give you certainty about the future. It just isn't possible. In the future a great range of things may happen. However, very few of them will actually happen. This is a typical process for a bull market and is called “climbing a wall of worry”. If we are to be good investors we need to come to terms with this reality and learn to live with it and thrive in it.
2. If we assume the impossible – that it was possible to have absolute certainty about the future - that would spell the end of the market. If the outcome is certain and everyone knows it, then risk is totally removed and there would be nobody to take the other side of our positions. Investment returns are made by assuming manageable risks. If risk is removed, so are returns.

Now look at the Australian stock market. The minimum we need to know is that it is trending up:



This is a weekly bar chart of the ASX All Ordinaries price index, showing five years of data. What I like to call Charting 101 teaches us that if the chart is heading towards the top right hand corner, as it is now, that is an uptrend.

That is very simple, and very powerful. Most people are discomforted by simplicity and seek complexity. This can be a bad thing if the analysis is so complex that the analysis no longer understands what is happening. That said, let us go a further step. As we move on to study Charting 201, we learn how to identify when the trend changed. There were two key signals:



On this weekly bar chart, I have marked the two important signals A and B.

- A. Was in the week ending 8 May 2009. In that week we saw a strong surge above the lowest peak in the bear market. This signal was that the bear market trend was finished. It did not conclusively indicate the start of a bull market, but it was screaming at us that the bear market was finished.
- B. Was in the week ending 31 July 2009. In that week we saw a strong surge above the first higher peak after a higher trough, confirming the weaker surge in the previous week. Now the bull market was in place beyond contradiction by a chartist.

I have also left the 52-week simple moving average on these charts. It has also turned up now, but that was not until the week ending 9 October 2009. This indicator will always be late because it is a trailing indicator. I do not use it as a timing indicator. For me it provides confirmation of the earlier signals, nothing more. What I use it for is that the best upward trends on stocks or the market index are when the price moves up strongly and consistently above that line.

So, the chart gave me my signals. Those readers who follow my portfolio disclosure on my website (the link is at the bottom of every page on my website – just scroll down to the link and click on it) will know that I began building my market exposure in July 2009 based on that simple but powerful and conclusive analysis. The trend had turned up so I should be long. I have continued building my exposure which is now just over 60% invested.

That is step one – taking advantage of the opportunities. The other side of the coin is the risk that the bull market will be a short one and end badly. This means that I should be prepared for the worst. My tactic there is simple. Every stock I own has a sell stop. As any sell stop is violated I will execute it ruthlessly without hesitation. In the deep liquid stocks, that means selling at market. In the more thinly traded stocks, it requires a bit more skill and experience, but I do not hang about hoping it will come right. The first loss we see when a sell stop is hit is invariably the smallest one we will have an opportunity to realise.

What is my strategy from here? Easy. While the trend is up I will keep building towards 100% invested. I am not rushing it. I have had an exceptionally busy year and have had to balance my promises to present around the country with my personal and family commitments. This has meant that I have built my positions more slowly than I would ideally like. However, when time is short there is always a temptation to take shortcuts. Investing in haste has a downside called unnecessary mistakes and consequent losses. So, I am taking my time and doing my research and moving when I am ready.

This has meant that I am behind the market at this point. The ASX All Ordinaries Accumulation index is up 24.01% for the financial year to date. My portfolio is up 10.54% to 26 October 2009 (with some income from dividends and interest on cash reserve not yet included until they are paid). So, I am behind what has been possible, but the game is not won in the first quarter. It is won at the end of the bull market when we are out of the market and watching the bear roam Wall Street. Watch this space.

I know that some of my readers have better results to date this year than I have. That is good. I have never said I am the best investor in the world and never will. But I have survived and thrived over a long time while many around me have not. I seek to teach the basic disciplines. I expect my readers to have a different investment plan in many respects to me and for many of them to be better investors than I am. That is what I am about teaching. My greatest satisfaction has come from the many readers who have told me that after years of losing money they read my work and began to make money. My reward has been to see them do this.

Conclusion

1. Go with the trend
2. Protect the downside
3. Assess results and refine our methods
4. Keep reading and learning

What we need to do is not really difficult. Doing it is far more of a challenge. In this respect, I cannot stress the importance of item 3 in the above list – assess our results and refine our methods. This has been one thing that has slowed me down somewhat this year. I have been putting more and more effort into recording details of my investments and writing them up as I have time as case studies for publication on my members' website.

The writing takes time, but is worth it. As I write each case study I try to keep a focus on what I did and why in the light of my investment plan. I continue to find lots of small ways in which I may have fudged the plan a bit or a lot. Thinking about why this is so has been interesting.

The key issue seems to be that I make an investment and fudge the plan a bit. The investment works out really well and I forget the little fudges. I honestly believed that many of these were examples of the perfect execution of my plan. Until, that is, I come to write up a case study of them. Then I force myself to see the fudges. As I become more conscious of them I hope I will become better at the way I execute my plan. That should also improve my returns.

I could not recommend more highly to every reader to start recording their thinking when they make an investment. Then when the investment is completed, go back and assess how well the plan was carried out. The way to score this is:

- Winning investment with plan followed perfectly in every respect: Score 10
- Losing investment with plan followed perfectly in every respect: Score 10
- Winning investment with fudges from the plan: Score 10 minus 2 for each fudge
- Losing investment with fudges from the plan: Score 10 minus 2 for each fudge

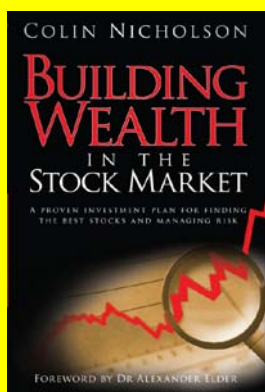
I hope the point here is clear. What matters is perfect execution of the plan, which we constantly strive for. The biggest dangers lie in the ways we get away with breaking the rules and guidelines in our plan. This sets us up for an inferior performance going forward as our discipline degenerates to the point where we may even reap a big loss from breaking our rules once too often.

Acknowledgement The scoring above is mine, however the person who, more than anyone else, put me on to the importance of this is my friend Dr Alexander Elder. Thank you Alex, I was listening and have followed your advice.

In this respect, I have also recently read Geoff Colvin's book *Talent is Overrated*. This book is not specifically about investing and yet it is very much about how the great performers in any field become great through something called "deliberate practice". This book changed the way I look at improving my methods and reinforced many things I was already trying to do, such that I am more confident that I know how to move forward. I could not recommend this book too strongly to any investor who genuinely wants to put in the very hard work to become better at what they do.

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.** There are examples that were not printed in the original book.

For a complete description of the book see <http://www.bwts.com.au/text.cfm?55>

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.

Improving My Teaching

As well as investing, I spend a lot of time and effort trying to teach people to be better investors. In the last newsletter, I asked for suggestions for improving the website. Several readers sent me good ideas.

Implementing these ideas will take some time, but some progress to date is:

I have initiated a **review of the website** with my developer and we will be making improvements over coming months. Some things will happen relatively quickly, but others will take rather more time because of the work involved. The need for this review was awakened by one reader in particular and I am very grateful for the time he took to make me aware of the possibilities.

One important thing to come out of a comment by another reader was being able to know **what additions have been made recently to the website**. On the members' website there was already a column on the Articles home page listing articles added recently. However, the new pages with presentations, examples and case studies are not in that database, so do not appear in that list. I will be working towards better solutions to this issue, but in the meanwhile some measures are:

- More use of the News column on the right of the home page. I have recently added advice there of new or revised case studies and links to a podcast and internet video of a recent presentation and an interview that I have given.
- I have sent out an email to members of the website with advice of new additions to the members' website. I will try to do more of this until we have a better solution, balanced against the risk of upsetting members with unwanted emails.
- My website developer has expanded the areas of the website that are able to be tracked using RSS (*Really Simple Syndication*). If you do not know about this, there is an explanation on the website - go to the RSS link at the bottom right of the home page on www.bwts.com.au or click on this link to that page: <http://www.bwts.com.au/text.cfm?48>. The RSS facility has always covered:
 - Ask Colin
 - News and Events
 - Articles*

The following have been added:

- Presentations*
- Market Case Studies*
- Market Scan Examples*
- Stock Case studies*

The asterisked (*) items are all on the members' website and can only be accessed by first logging in to the members' website.

- More than one reader has suggested audio recordings of presentations, rather than just publishing the slides. This a great idea and one I have pondered for some time. It sounds easy, but in practice there are many issues to be resolved. When presenting, I am often in the hands of the organisers, who have specific equipment in place. In addition, I cannot speak and record at the same time, I need an assistant who knows what they are doing and sometimes how to integrate with the equipment being used by the organiser. There is also the need to negotiate with organisers who charge for attendance or restrict it to paid-up members. Generally, publishing the slides is OK with them, but a full recording plus slides is another matter. Those are some of the issues. However, I want to try to implement this idea in some form in the future. Please bear with me and I will do what I can.

- I have not had the time to write up as many case studies and examples as I would ideally like. They take time – allow a half day at least for each case study. Where members have asked for me to write up case studies or examples that I have not done so far, they go at the top of the list and I will do them when I can.

I am Speaking in Sydney and Adelaide in November

Sydney

Friday 13 November 2009

AIA *What's in Store for 2010* seminar

Time: 1:15 - 2:15 as part of a one-day seminar

Non AIA members may register for the AIA member fee of \$125 by quoting "AIA Offer"

The Private Investor

Colin is a private investor rated the best speaker at the 2009 AIA conference. He warned in 2007 that the bull market was on borrowed time and suggested how private investors should protect their capital. Most importantly, he has been able to beat the All Ordinaries Accumulation index since 2000, coming through the bear market relatively unscathed. He will discuss the advantages and disadvantages private investors have over the fund managers. This will lead into discussion of the appropriate strategy which both active and passive private investors should consider for 2010.

Further Information: <http://www.investors.asn.au/events/?eid=203>

Adelaide

Tuesday 17 November 2009

7:00 pm - 9:00pm

Australian Investors Association

Room 4, 1st Floor, Enterprise House, 136 Greenhill Rd, Unley

Members & Partners \$5pp / Non-Members \$10pp

Failing Companies: Signs to Watch for

When most investors buy shares in a company they tend to focus on the upside. Warren Buffett and Charlie Munger take a different view, which is to focus on the downside risk. If we buy good companies, our portfolio will grow over time. However, if one or more companies in our portfolio should get into serious trouble or even fail, all the good work can be undone. In this presentation Colin will discuss the signs to look for in both fundamental analysis and technical analysis. If we know what to watch for, we should have time to sell out of companies which are headed for trouble.

Further Information:

Adrian Vorbach Councillor South Australia aiasa@investors.asn.au 08 8379 4646

Adelaide

Wednesday 18 November 2009

7.30pm Duration including questions 2 hours

Australian Technical Analysts Association

Visitors welcome (details www.ataa.com.au)

Ground Floor, Enterprise House, 136 Greenhill Road, Unley

How to Plan for Stock Market Investing Success - in any market

We have just lived through one of the worst bear markets in decades. This event has exposed weaknesses in the investment plans of many people, principally those in or nearing

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retirement. Most of the problems exposed by the bear market come back to poor planning. A good investment plan makes allowance for periods of declining share prices. Colin's investment plan has enabled him to sail through the bear market virtually unscathed. You can do this too, if you know how. Don't miss this must-attend seminar as Colin clearly outlines what you can do now to refocus your investment plan to ensure you minimise the damage from future bear markets.

Further Information www.ataa.com.au Charles Browne - 08 8353 6669

Slides shown at these presentations will go up on the Presentations page on the members' website as soon as possible after each of the presentations.

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My email newsletter list contains only your name and email address, which information is not used for any other purpose than to send out email newsletters.

Past issues of the email newsletter are available for reading, downloading or printing from my web site www.bwts.com.au . Newsletters will generally be posted to the web site when the following issue is sent out, about a month later, so my email list is the fastest way to get to see them. Join the list by going to the Newsletters page on www.bwts.com.au and clicking on the relevant link.

The newsletter is intended to be a forum for discussion of interesting ideas about technical analysis, investment and speculation. It is primarily educational in nature. I have taken reasonable care in its preparation. Nevertheless, everything in it should be read as my opinion, unless otherwise stated, and requires the reader to check the accuracy of facts and test the validity of my opinions before acting upon them. My opinions are not intended to be recommendations to invest or speculate in any stock or financial security. Nor are they intended to be recommendations to use any particular investment or speculation method. Readers who do not have the ability to assess the relevance to them of any matter discussed in the newsletter should consult a competent and licensed adviser before acting upon them. I am not a licensed adviser.