The Making of a Successful Investor.

The purpose of this essay to help the reader in becoming a better investor. This article will grow in length over time and will eventually be released in book form. Come back often to catch up on additions. Let's start with a few definitions, followed by the ideal characteristics of a successful investor.

***Quotations used in the article are part of the 60 page 'Worthwhile Quotations' found on this website.

***Charts used in this article are courtesy Stockcharts.com, unless indicated.

For most of us it is not necessarily a question of learning, but of being reminded. "The capacity of the mind to forget is tremendous."

Investors are people who are willing to delay current gratification of needs and wants for future gratification. Investors desire to be compensated for this.
Investors expect the money they invest to be **safe**, to be **available** when they need it and they seek to have the money **grow** in value while it is invested.

Successful investing requires a level playing field. Government interference in the marketplace must be limited to the enforcing of contracts, and nothing more.

Pure capitalism can be defined as: "making your capital work for you." Historically capitalism works best where government is limited. The more government, the less freedom. The reason is simple: The bigger the government, the bigger the portion of profits that goes to pay for the government and its services. Unfortunately the trend today is towards more and bigger government.

"A government big enough to give you everything you want is also big enough to take away everything you have." …Thomas Jefferson.

"*Market success is 100% **a function of personality**"* …Dr. Jack Hayden, author of "What makes you a winner in stock and commodity markets," (out of print).

Stock and commodity markets are vehicles that redistribute wealth. The method of distribution works in opposition to the way people think and act in other areas of life. Fear, greed and procrastination are characteristics that hinder investors.

"Fear knocked, faith answered …no one was there!"

There are 3 distinct groups of investors in the world: High Risk (HRI), Medium Risk (MRI) and Low Risk (LRI).

Note: One size does not fill all. Some investors will straddle two categories.

"Nothing can stop the man with the right mental attitude from achieving his goal; nothing on earth can help a man with the wrong mental attitude." .....Thomas Jefferson.

While HRIs may sometimes pull off a very profitable deal, it is the LRI who is consistently among the most successful group of investors.

Unfortunately LRIs are very much in the minority. To be part of the LRI group an investor has to have a lot of patience and he must loves a bargain. LRIs often buy into sectors that have been beaten down and have become unpopular. LRIs concentrate on buying low and selling high. As simple as this sounds, for most people it is difficult to put into practice. Our emotion is a very powerful force. It can cause the mind to rationalize almost anything, including data.

The LRI has learned to master his emotions, his ego and even boredom. It is however a battle that never ends completely – even for the LRI. This is because in the arena of ideas you can never get away from the 'noise' that runs opposite to your ideas.

LRIs have learned to disregard a lot of the news that affects markets on a daily basis. They understand that the 'movers and shakers' like to unload stocks under the guise of good news. At market bottoms these savvy LRIs buy stocks while the news is bad, with the confidence that the bad news is already factored into the price.

In daily life an LRI is likely to buy a low-mileage <u>used</u> car instead of putting up with the depreciation associated with buying a new car. The LRI will drive his car as long as it gives him no problems. If the LRI does buy a new car it is because the price has been reduced to well below 'list'. In all his shopping he loves a bargain.

His investment decisions are based on value and not on emotion. The hardest character trait for an investor to develop is to learn to trade with the head instead of the heart.
The LRI will buy a stock or commodity because it represents value. The stock or commodity is worth more to him than what it is currently priced at. If it goes down in price after he or she has bought it, and if nothing has changed fundamentally, the LRI will often buy more.
The LRI is a person who can make decisions, and does not like to be part of a committee. Because the LRI can make quick decisions, he never turns his financial affairs over to someone else.
In a restaurant the LRI always looks at the **price** of the food before making his or her selection. It's not that he cannot afford the best item on the menu; he is simply looking for value.

LRIs accept the reality that they will make a mistake every now and then. They are usually quick to cut their losses. Many of them go by the axiom: "Cut your losses quickly and let your winners run."
LRIs invest money that they can afford to lose without it altering their lifestyle. "Scared money never wins."

Most LRIs are contrarians. When the majority of 'experts' agree on a trend, LRIs begin to expect the opposite. This is where the benefit of contrary thinking comes into play. **The main difference between LRIs and HRIs is the time when they take the risk**. The LRI takes a position when a trend is beginning and gets out of his position before it ends. The HRI often 'lingers too long at the party'. LRIs are also able to trade markets on the short side. It's all about direction, and moving with the flow.

If you are not presently in the LRI camp but you are willing to learn to control your nerves as well as your greed, and develop the ability to trade with your mind instead of your heart, you are on your way to becoming an LRI.

The HRI likes to strive for perfection. He likes to buy a new car every few years, shops in fine stores and likes to wear a new suit of clothes. His investments are usually concentrated in sectors that are 'hot'. The HRI often acts on a tip from a brother-in-law, or from someone at the office. If the stock or commodity falls in price after having been purchased, he will watch it on a daily basis. He does not like to lose, and so he holds on.

Being stubbornly glued to an investment of any kind will leave the HRI wondering 'how could this happen,' keeping him from acting rationally. Eventually, and often right near the bottom he finally loses patience and sells it.

Because the HRI has not learned to by-pass his emotions, he frequently buys at the top and sells near the bottom.

Most HRIs do not have a lot of patience. They expect the stock or commodity they have bought to rise rapidly.

HRIs are easily influenced by news reports.

During periods of price inactivity the HRI often becomes impatient and sells, in order to be able to chase the next 'hot trend'.

Generally speaking HRIs do not like change. The part of the brain that guides investments operates on a preprogrammed guidance system. It is locked into the 'herd mentality'. Facts that contradict this mindset are quickly rejected. The fear of losing (by changing to a different way of investing), is greater than the desire for gain.

"The key to success is patience. You get a chicken by hatching the egg, not by smashing it." …..Arnold Glasgow.

HRIs often buy because of good news regarding an investment. The problem for HRIs is that LRIs like to sell their stocks on the coat tails of good news. The HRI is buying when the news is good and this provides the LRI with the opportunity to take profits.

At the bottom of bear markets the situation is reversed. The HRIs are dumping stocks on the basis of bad news while the LRIs are accumulating because they believe the worst has been fully discounted.

Jesse Livermore referred to HRIs when he stated: *"The market does not beat them. They beat themselves, because though they have brains they cannot sit tight*."

Ibbotson Associates data suggests that, over the long haul, stock markets have an average return rate of app. 9.5% (since 1926). But average investors don't make anything like 9.5%, because they tend to buy at tops and get out at the bottom.

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The MRI is usually the type who does not bother to learn how to become a LRI and he does not have the courage to act on hot tips as does the HRI.
The MRI usually finds a brokerage firm that will handle his investment decisions for him. He watches the markets, but does not get involved directly, as he trusts the people that are looking out for his investments.
Unfortunately, the people who manage other people's money are almost always HRIs (no offense!), or MRIs, but seldom LRIs.
The result is that the MRI watches his investment just barely outperform the stock averages, and in many cases it underperforms due to charges and commissions.
The investment broker who handles the investments for the MRI has very strict guidelines that are laid down during the Monday morning meetings. Often the broker is told what stocks to 'push' during the coming week. Seldom does the broker call the client to recommend taking profits. The mantra is almost always: "Buy and hold."
A few months before Enron went bust; 9 out of 12 Wall Street analysts who covered Enron's stock still had it listed as a 'buy or hold.'

A few years ago Dalbar, a Boston research firm, conducted a study on the performance of individual investors. According to Dalbar, from 1984 to 2000, when the S&P 500 was compounding at 16.3% per annum, the average US equity mutual fund investor achieved a return of only 5.23% per annum. The average fixed income investor did not do much better, with an annualized return of 6%, compared with 11.83% for the long term government bond index. Dalbar calculated that $100,000 invested in the S&P 500 in 1984 would have been worth $1,301,000 at the end of 2000, whereas the average stock investor's $100,000 was actually worth only $241,000

It is obvious from the above that the goal of every investor should be to move into the LRI class.
This can be done, but it takes determination. It is estimated that LRIs make up less than 25% of the total of investors, yet they walk away with about 75% of the profits.

At any given time there are stocks and commodities that are ready to rise, while others are due to fall. The energy for a rise (or lack of energy for a fall), originates with supply and demand. This supply and demand has multiple sources and unless you have inside information, you have to rely on chart patterns to provide you with clues. The understanding of chart patterns is a major reason why some investors are LRIs instead of HRIs. By understanding chart patterns one can depress ones emotions, and trade with the benefit of technical analysis instead if trading 'with the heart.'

Market success can be achieved by changing your personality from HRI or MRI to LRI. Every one of us can become an LRI by adopting the habits of the LRI. We do this by picking up the character traits of the LRI, and shedding previous bad trading habits.

It begins with an attitude. An attitude produces a habit. A habit, through diligent practice shapes a personality.

We are the mental products of that which goes into our heads. It behooves us to be selective about what we read and hear. As much as possible we need to limit ourselves to those analysts and advisors whose template (understanding of market forces) we can agree with.

To listen to too many different people (or read too many different opinions), will leave the investor bewildered and most often results in inaction, or worse – wrong action. LRIs on balance need very few analysts to help shape their decisions, while HRIs can't seem to get enough input.

"It was always my sitting and waiting that made most of the profits. It was never my 'in and out' trading." Jesse Livermore.

Successful investors learn to be careful about accepting guidance. The power of the internet is that it provides far more information than an investor can possibly absorb. Investors must learn who they can rely on and whom to avoid. This can be done with a notebook. Keep track of predictions made and conclusions drawn by the analysts whose reports you are reading, and learn to avoid the ramblings of those who 'get it wrong' too many times.

By allowing people with erroneous advice to cloud your thinking you may end up selling when you should be buying.

The most dangerous analysts to your success as an investor are those who have taken a position and have committed a major portion of their portfolio in support of a particular trend that runs counter to the main trend. They can become so committed to a particular outcome that their judgment becomes biased in the direction that will benefit their portfolio to the extent that they become oblivious to the obvious.

Investing is popular in societies where previous generations have had financial success. It took Roger Bannister years of preparation including mental training before he could break the four minute mile barrier. He was even warned of possible severe heart damage. After he broke the record which had stood as long as milers were timed, dozens and eventually hundreds of runners ran sub-four minute miles.

When Warren Buffet became a billionaire through his investments, thousands of people began to follow his methods, and many still buy into his stock: Berkshire-Hathaway.

An investment portfolio can be likened to a rose garden. Careful attention, coupled with patience, produces action that results in dead plants being weeded out and replaced with young roses that have good potential.

So it is with stocks. If a stock becomes temporarily overpriced it makes sense to sell all or half of the stock and use the proceeds to purchase a stock that has been beaten down, yet with underlying value.

After a trade ask yourself:

- Why did I get into this trade?
- Did I follow my rules?
- Am I happy with this trade?
- If not, what would I do differently next time?

"Lose the trade, but don't lose the lesson."

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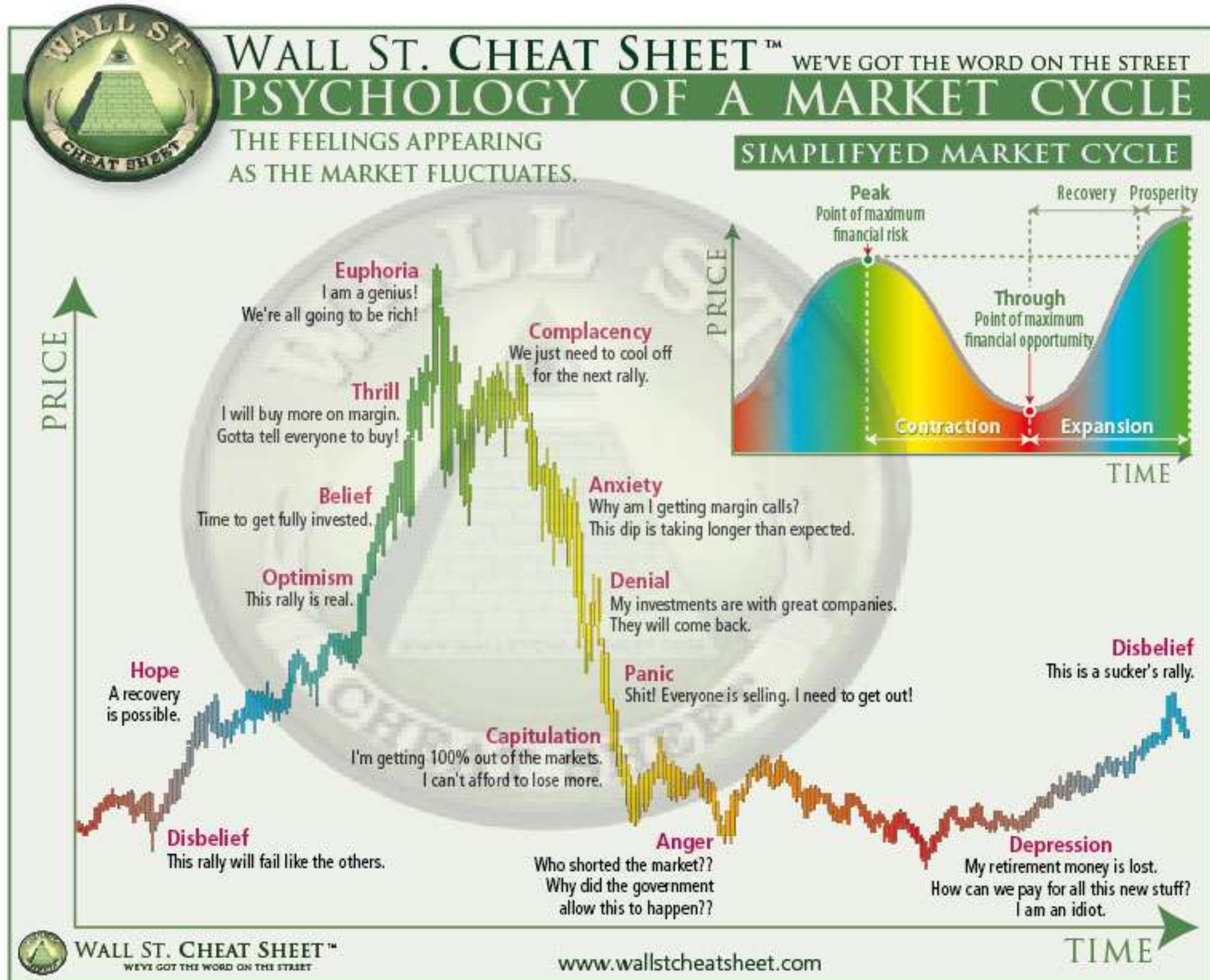
It is very important to know the overall trend of the sector in which you are invested, as 70% of investment returns are the result of the direction in which the asset class is headed and only 30% of the returns are attributable to the individual stock. When a sector is involved in a long-term uptrend, but is correcting in the short-term, you will find that there are a lot of analysts who draw the conclusion that the long-term trend has just turned down. This is when you must examine the fundamentals and if the fundamentals are sound and support a continuation of the uptrend then you are advised to pay attention to the analysts who are acting in accordance with the fundamentals as this will help you to 'buy the dips and ride the waves' as Richard Russell likes to say.
A good rule to remember is that a secular bull market (such as gold since 2001) will erase all 'timing errors' before it is over. (If you pay 'too much' before the final blow-off, price will come to your rescue). This knowledge will make it a lot easier to 'ride the waves.'

A good method to use when building your stock portfolio is to diversify within the sector you are interested in. In my own portfolio I limit myself to 5% exposure to any one stock or ETF. When this item begins to increase and force itself above 6 – 7% I either sell it or reduce the amount of shares I own in the company. This discipline keeps me from going overboard and worrying if one of my stocks takes a dive.

"Investors make most of their mistakes by listening to news. Thus they miss the moves the 'smart money' is making." …Joseph Granville

The opinions about the markets by the majority of people are **worthless**, since these opinions are molded by the latest news. This news is presented by people who work in radio, TV or print media, and who know very little about business. During the gold rush of the 1970's I was interviewed by a newspaper reporter. The first thing the reporter said to me was: "I know nothing about gold." I could have told him whatever I wanted, as he had no way of knowing if that which I shared with him was truth or fantasy.



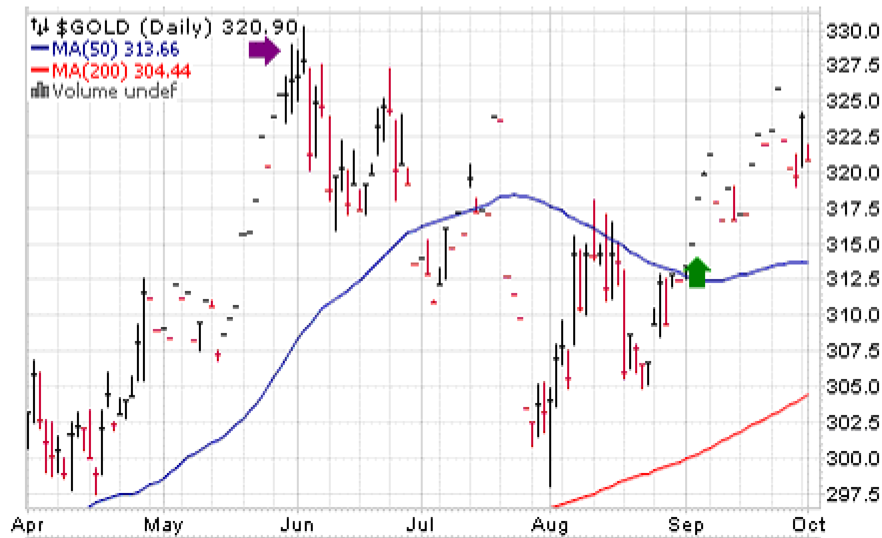
This drawing courtesy Wallstcheatsheet.com represents the mood of many investors as the market rises and falls.

A good analyst is one who puts the needs of his readers or listeners above all else. To quote motivational speaker Zig Ziglar: "*You can have everything you want in life; if you'll just help enough other people get what they want.*"

Should you invest – or should you be a trader?

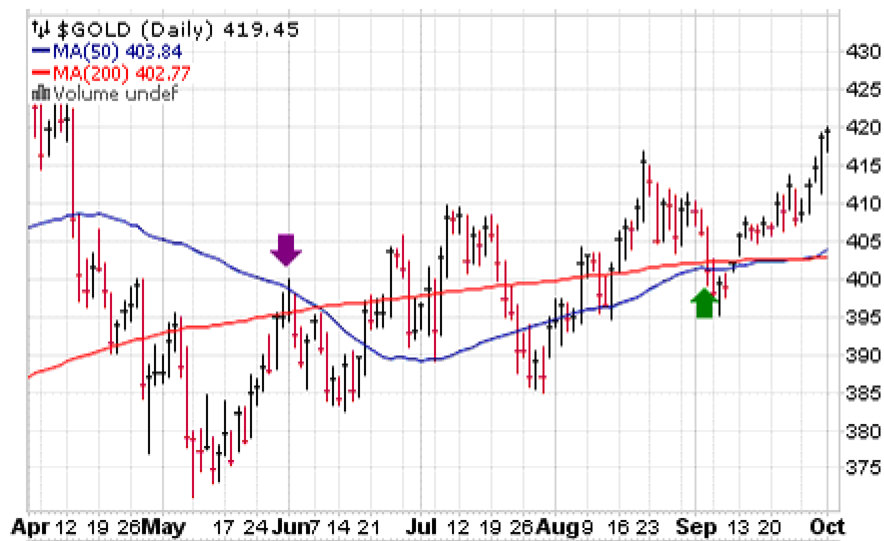
Following is an essay that compares **<u>trading</u>** in gold with **<u>investing</u>** in gold during the gold bull market that started in 2001.
Charts courtesy Stockcharts.com

Featured is the gold price in 2001. Selling in May and buying back right after Labor Day would have yielded a small profit, provided that the sale was made right at the top in May (not easy).



Featured is the gold price in 2002. Selling gold at the top of trading during May and buying back after Labor Day would have produced a small profit, assuming you were smart enough to wait until the last day of May to sell your gold.

Featured is the gold price in 2003. Selling in May and buying back in September would have caused a loss that year.



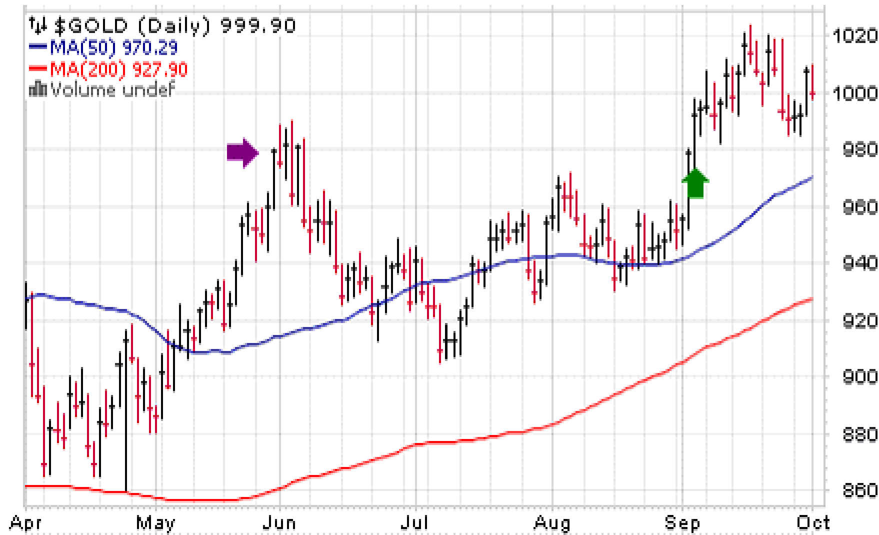
Featured is the gold price in 2004. Selling in May and buying back in September would have produced a loss even if you were smart enough to wait till the last day in May to sell

Featured is the gold price during 2005. Selling in May and going away would have cost money that year.

Featured is the gold price chart from 2006. Selling at the top in May and buying back after Labor Day would have paid off, even if you missed the exact top.

Featured is the gold price chart from 2007. Selling in May and going away would have cost money in that year.

Featured is the gold price chart for 2008. Finally we have an example where selling at anytime in May and buying back the first week of September would have produced an obvious profit. However it was only because of the credit crunch that this was so. Would you have bought gold then? DID you buy gold then?



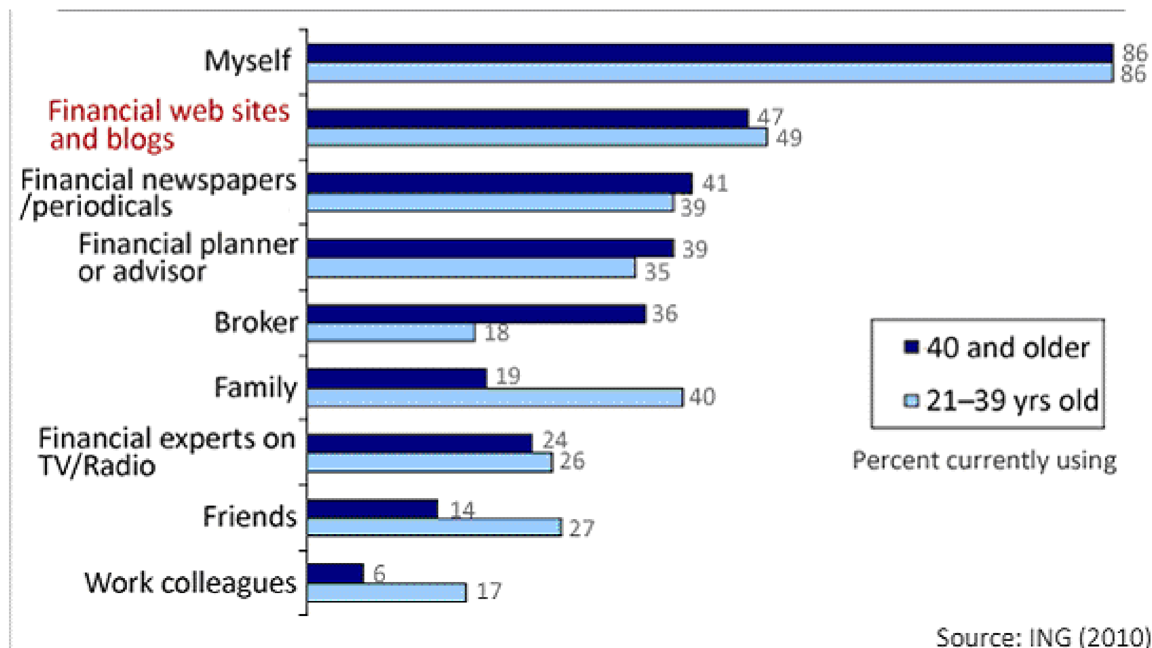
Featured is the gold price chart for 2009. Selling in May and buying back in September would have cost money even if you were able to catch the exact peak in May.

This is the gold price at the present time. Should you sell in May? Was $1250 the top for May, or will price rise to a higher level before June 1st?

How about the investor who purchased gold at $260 (the first price visible in this essay) and held on for ten years to the current $1180! His or her profit is 353%. On an annual basis that works out to 16% per year! From this essay we draw the conclusion that investors make far more money (with very few exceptions) than do traders.

Misinterpretation of current trends by some analysts notwithstanding, the massive amounts of money creation on a worldwide basis **guarantees** that this rising trend in the price of gold will continue!

Where do you fit in when it comes to seeking advice?

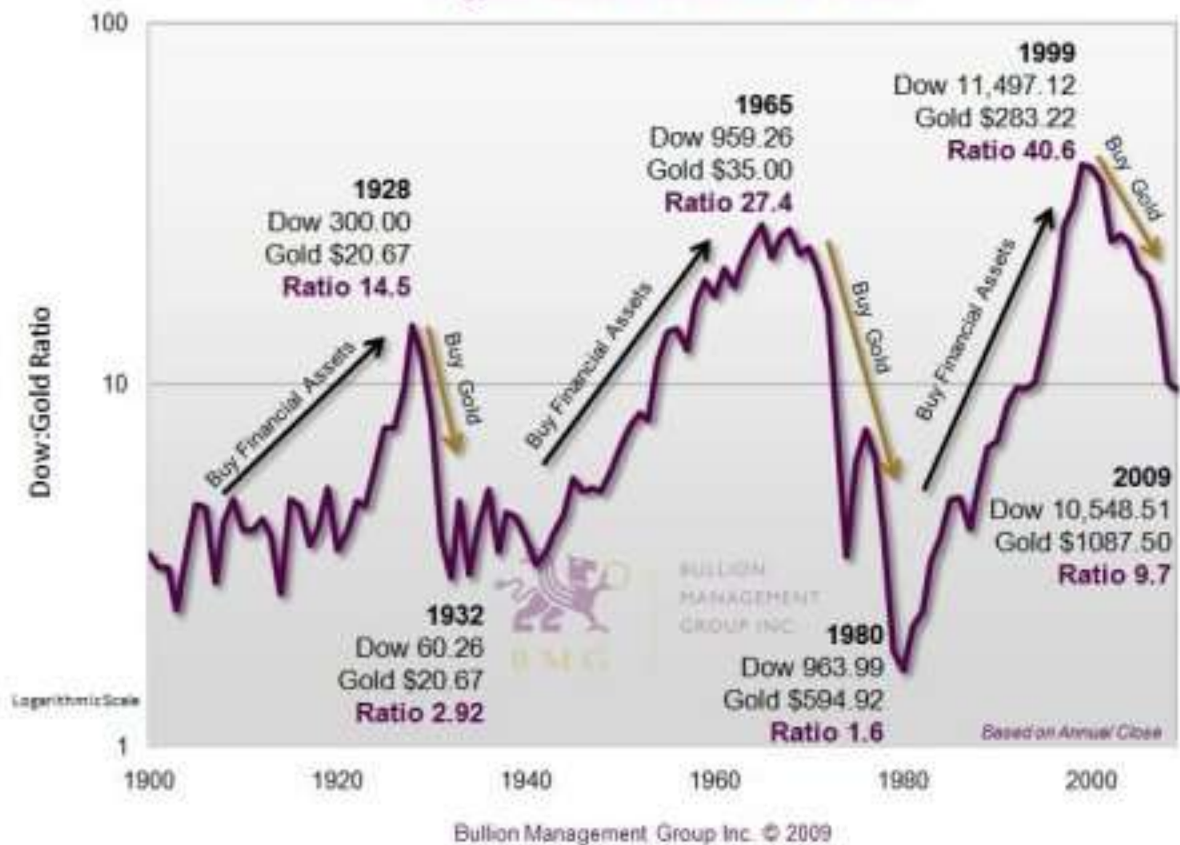


This chart courtesy Clusterstock.com is based on research conducted by Ing Research. Investors were asked where they obtained investment advice, and who they trusted. Brokers came in at 18% and 36% (depending on the age group). The percentages do not add up to 100 due to the fact that investors appear to be using several sources in addition to relying upon themselves (86%).

The most important investment trend is not properly understood by a lot of investors. Once understood, it makes the decision of where to invest a lot easier. This trend usually lasts for about 20 years. It is a trend that is defined as 'confidence in paper' or 'lack of confidence in paper'.

During the 'confidence in paper cycle' you will notice that stocks and bond are on the rise, while commodities are in a bear market.

During the 'lack of confidence in paper cycle' people begin to invest in commodities, especially gold, and divest themselves of stocks and bonds and especially fiat currencies (the ultimate 'paper investment'). Next is a chart that shows this trend clearly.

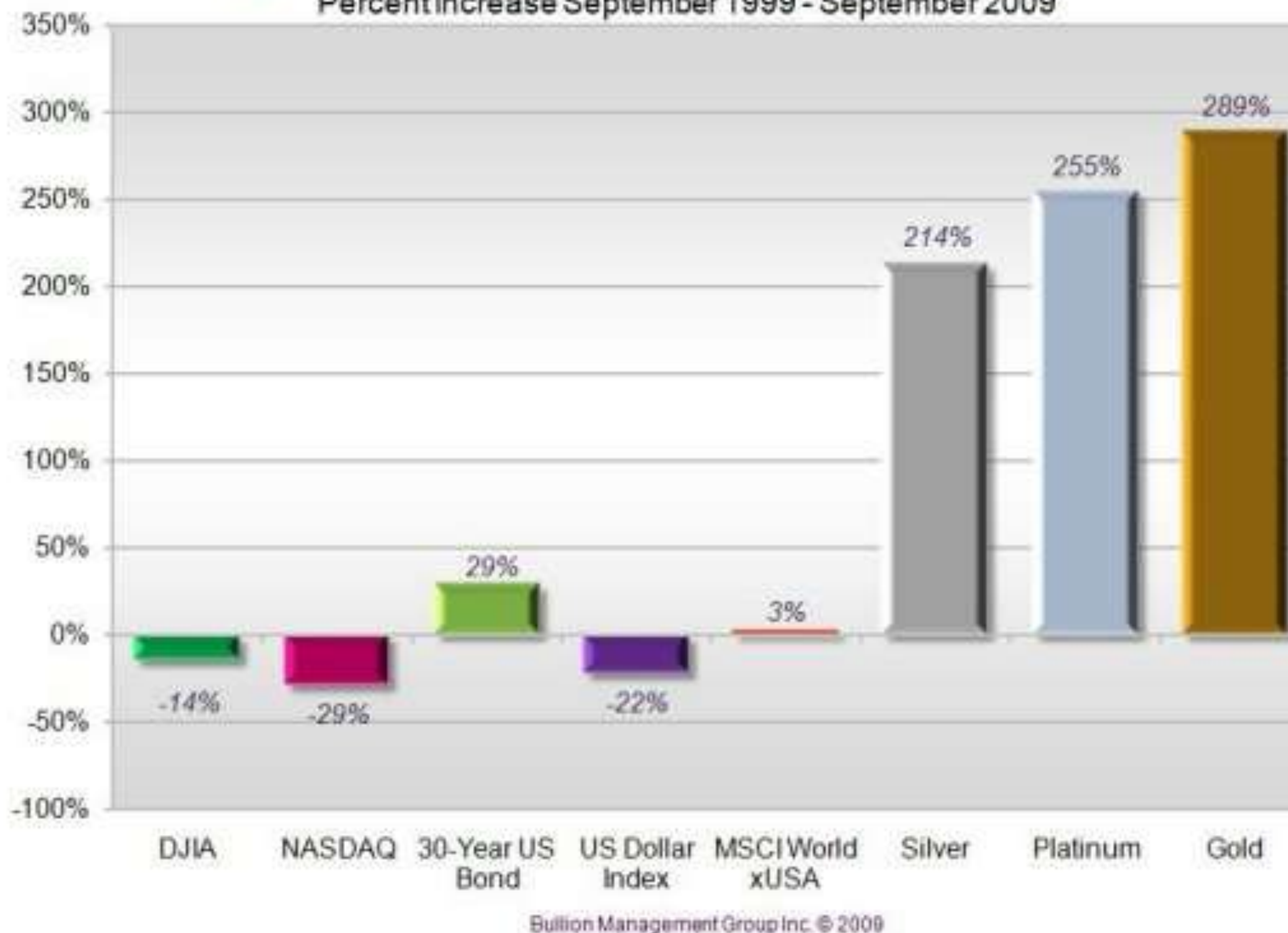


The chart is courtesy www.bmgbullion.com

The current trend began in the year 2000 and will likely end around 2020. It is marked by governments all over the world increasing their debt levels. Politicians who promise their constituents the biggest 'free lunch' usually get elected over politicians who refuse to make such promises.

This trend of governments adding to the debt levels is what provides the energy for the 'lack of confidence in paper' cycle.

Investors who recognize this long term cycle can benefit by investing in the proper sectors of the investment options as shown in the following chart.



This chart is also courtesy www.bmgbullion.com.

When a government has reached a point where it is unable to pay down its debt, it is then faced with two options:

1. Default on the debt.
2. Inflate it away.

The resulting chaos lays the foundation for a return to responsible financing of government and businesses and the high priced gold and silver can then be converted in blue chip stocks that produce goods and services people are in need of.

This knowledge makes identifying the current trend easy and will help those of you who wish to join the ranks of the LRIs a lot easier.

Every investor needs a set of rules to trade by!

Following is a list of trading rules, in no particular order, from which you can pick the rules that suit your needs. There are too many for anyone to use them all, but why not

pick a dozen or so as your starting point, or as a supplement to your current trading plan and then be sure and consult your rules as often as needed to keep you within the parameters that you have set for yourself.

The last part of this article features charts to help you recognize technical patterns that tend to re-occur at regular intervals.

To overcome emotional triggers, one needs to develop a trading strategy that eliminates both fear and greed. Then simply operate within your system. Build your system using some of the suggestions that follow and then stick to your system.

1. Determine the main trend and trade within that trend. The most important trend is a 'super trend' which usually lasts a decade or longer. It is the 'stuff versus fluff' trend. It is the push - pull between the price of gold and the DOW, (see chart on a previous page).

2. Markets move on two emotional forces: Fear and greed. The strongest of these is fear. There is the fear of losing and the fear of losing out. Since fear is the stronger force, a 'down' market usually moves much faster than an 'up' market.

3. Divide your capital into sections and invest a portion into the stock of your choice, within a sector that is rising, or just beginning to rise. Avoid over-exposure to any one stock. None of us know the future, no matter how rosy the stock looks just now. I limit my exposure to a stock or ETF at 5% of my total portfolio. When a stock or ETF in my portfolio rises above the 5%, especially near 10%, I begin to look for a price at which to sell part of it.

4. If you are someone who has special knowledge about a stock and you decide to disregard this 5% rule, then you have the option of buying into the stock with part of your capital and then adding on during pullbacks as long as the stock is in uptrend. One way to be sure that the stock is trending higher is to make sure the 50 day moving average is above the 200 day moving average, while both are rising. At Stockcharts.com these averages are automatically shown in every chart you pull up. Using this method you never add to a losing position.

5. It is a good rule **to never add to a losing position**. This applies especially to futures and options. I personally, on occasion do add on to a losing trade. Since I like bargains, and if a stock still represents value, but was beaten down for reasons that have nothing to do with the assets the company owns, and if I think management has what it takes to make the stock come back, then I will buy more shares in order to bring down my average cost. I do this only **when the chart pattern starts to look positive again.**
It should be noted that the legendary Jesse Livermore always bought on a SCALE UP basis, and sold on a SCALE DOWN basis. Jesse never averaged down, but then Jesse was a futures trader.

6. Look for stocks with good trading volume. If you feel you must buy into a low-volume stock (pink sheet listed stocks come to mind), then you must always use price-specific orders – never a ‘market order’. When you decide to trade these you have to be patient – never be in a hurry. If you normally used protective sell stops they will not work here.

7. Buy only stocks that you have researched yourself or that are recommended by people whose judgment you trust, and don’t expect 10 winners out of every 10 you or anyone else picks. That is why we diversify (within a rising sector).

8. Before buying a stock find out if management has experience within the field they operate in.

9. Once you have decided you want to buy a certain stock and are satisfied that the fundamentals meet your standards, look for a favorable technical entry point. (The last part of this thesis covers chart patterns).

10. Veteran trader Richard Russell trades primarily in stocks that are valued at 10.00 or more, and uses the following rule: A stock which trades 10% or more above or below its 200 day moving average can be expected to be drawn back towards its 200DMA.

11. Look for stocks that meet your fundamental criteria, and that are going through a distribution phase. Prices are moving sideways in a narrow range, volume is down. Be on the lookout for a pickup in volume during an upside breakout. An example is provided in the charts section of this article.

12. Those of you who like to use stops to protect your position, need only to learn to drawn in support lines for long positions or resistance lines for short positions. An alternate method is to determine in advance how much you are willing to lose on a particular position, and place a stop 10%, 15% or 20% below a long position or above a short position. . The advantage of using stops is that you can never lose all of your capital. If you use a stop at 25% and you get stopped out you still have 75% to work with.
I don’t use stops unless I’m operating in a sector I am not familiar with. As long as I know the sector I’m operating in I believe that ‘a rising sector is like a tide that will eventually cause all boats to rise.’ In the late 1970’s I remember the stock of Gold Bond (the bread company) was rising because people were buying the stock, thinking it was a gold stock.

13. Traders who are in a position to watch the market on a daily basis can use ‘mental stops’ (penciled in on the margin of a chart), and then activate these stops if and when the price of the stock closes in on that stop.
NOTE: During ‘panic swings’ such as occurred during May 2010 and in 1987 a sell stop can result in a ‘fill’ far below the intended spot. In some cases such a fill

can take effect well below the price where the market closes.

14. In fast moving markets where the 'spread' is quite close (i.e. bid at 45.01, offer at 45.05 you can safely place a market order to avoid chasing the price. In a slow moving market with wide 'spreads', the safest method is to place a 'price-specific' order.

15. The best traders are those who buy the dips and ride the waves. (Richard Russell).

16. The best time to plan your trades is during the time the market is closed.

17. Leisure is absolutely crucial in order to reach your best mental performance. I make sure I engage in a strenuous exercise (minimum of an hour), at least four times a week.

18. Fundamentals are far more important than past performance, as an indicator of future direction. Past performance is useful for technical analysis only if the fundamentals are sound.

19. Many traders and investors make use of the 200 day moving average. At www.stockcharts.com the red line is the 200D. You can make it a habit to buy just above it or when price falls below it. There is no need to wonder why the 200D is so important, just accept the fact that it is used by millions worldwide. Some stocks correct when they are 10% above the 200D, others swing as high as 100% above it, but eventually every stock or commodity is drawn back towards it.

20. Learn to determine the 'mean' of the stock you are trading. The 'mean of markets' acts like a magnet. When a market moves too far above or below the mean, all things being equal, in time it will return to the mean. The 200 day moving average is a good example of a 'mean.'

21. Fear and greed move markets and are more powerful than resolve. Learn to control your emotions.

22. Learn to recognize the three distinct stages of bear markets: First there comes a sharp drop and the LRIs take profits while the HRIs run low on money. Next is a rebound as HRIs and MRIs cannot believe the top has been reached because the news is still good. The third stage is usually a long drawn-out down-trend, interrupted by rallies. There will always be bulls and there will always be bears.

23. Make a list for yourself. What do I need to see to make me take this trade?

24. Apply the wisdom of diversification with intelligence. You will often hear analysts advise diversification. However, if the food sector is in a bull market and

oil and gas are in a bear market, it does not make sense to diversify out of food into oil and gas. The prudent course of action then is to diversify within the food sector. 'Keep your eggs in one basket and watch the basket' makes a lot of sense

25. When panic strikes, people panic. Be trading according to your trading rules, you can avoid being carried away during a panic.

26. You only have to be about 10% above average to be in the top 20% of stock traders.

27. On average stocks move up at about 7% per year. To beat 7% you need to buy at the bottom of the range and sell at the top of the range. Technical analysis helps you to do that, by determining the range. Learning how to draw in the support lines and the resistance lines on a chart is a must.

28. "It is impossible to produce a superior performance, unless you do something different from the majority." ….Sir John Templeton.

29. If a stock drops below its 200DMA, then fails to rise above it on the next attempt, it is time to sell.

30. It is said that when 100 people begin trading the market, after a year only 20 are in the black, and after 5 years only 5% are in the black. This statistic makes it quite simple for traders with a trading plan to take money from the losers.

31. Quit trying to get rich quick. Think of the trade – not of how much money it will make you.

32. Never allocate a large portion of your trading capital to a high-risk situation, no matter how good it looks.

33. Avoid 'over-trading' and don't watch the market every hour. This will cause you to move in and out of the market too often and all you will be doing is making your broker wealthy.

34. Maintain an adequate cash reserve. Opportunities most often present themselves when you're out of operating capital.

35. Don't buy stocks on margin until you've been in the markets five years, and even then don't use your margin to the limit. No one can predict the future.

➔ to be added to next week.

➔ Bob Farrell was the chief market analyst at Merrill Lynch when he retired in the late 1990s. He had been with the firm for almost 40 years.

He developed a set of trading rules. Here they are:

1. Markets tend to return to the mean over time.
2. Excesses in one direction will lead to an opposite excess in the other direction.
3. There are no new eras – excesses are never permanent.
4. Exponentially rapidly rising or falling markets usually go further than you think, but they do not correct by going sideways.
5. The public buys the most at the top and the least at the bottom.
6. Fear and greed are stronger than long term resolve.
7. Markets are strongest when they are broad and weakest when they narrow down to a handful of blue-chip names.
8. Bear markets have three stages: sharp down; reflexive rebound; and a drawn-out fundamental downtrend.
9. When all the experts and forecasts agree – something else is going to happen.
10. Bull markets are more fun than bear markets.

Potpourri:

How to buy or sell a stock with a primary listing on the TSX, and a secondary listing on the US pink sheets.
The selling part on the TSX is simple, and everyone probably knows the routine. To buy or sell the pink sheet listing, you look at the latest quote on the TSX and convert the price into US dollars with a calculator, using the latest quotation for the Canadian dollar provided at the bottom of the Kitco home page. This gives you the exact 'going price' for that stock on the pink sheets. Next you choose your buy or sell price by using the exact quotation, or by going higher or lower depending on what you expect price to do, or depending on how urgently you want to have your order executed. If you are in a hurry (not good), the higher you place your buy offer the quicker you can expect a fill, and the lower you place your sell order the quicker you can expect a fill.

Following is some sage advice from T. Rowe Price.
Most people think that larger, more mature companies are less risky than younger, faster-growing ones. Not so for Price, who looked at companies as following a life cycle, like people do. There was growth, maturity and, finally, decadence. Here is Price in his own words, from a 1939 pamphlet:

"Insurance companies know that a greater risk is involved in insuring the life of a man 50 years old than a man 25, and that a much greater risk is involved in insuring a man of

75 than one of 50. They know, in other words, that risk increases as a man reaches maturity and starts to decline…

"In very much the same way, common sense tells us that an investment in a business affords great gain possibilities and involves less risk of loss while the long-term, or secular, earnings trend is still growing than after it has reached maturity and starts to decline… The risk factor increases when maturity is reached and decadence begins…"

Price went on to show that investing his way during the Great Depression would've produced a 67% gain, whereas the rest of the market lost money. In the 1930s, people focused on current dividends, and that meant they were reluctant to invest in a growth stock (which typically pays no dividend). Price thought that was a mistake, as I do. "High current income," he wrote, "is obtained at the sacrifice of future income…"

Featured is a 'money producing' chart pattern. When I first became interested in Technical Analysis in the early 1960's I came across a copy of Bruce Gould's book on charting (now out of print). A chart very similar to the above chart was the first chart in that book and I have never forgotten the benefits of this chart pattern.

In the above sample during at the beginning the stock is dormant. Then the stock breaks out on large volume (M). A few weeks later the early buyers and short-term traders take profits (O). After a pullback the people who missed the breakout climb aboard (N). A few weeks later volume increases again as new buying causes another breakout and the stock rises to new heights (Y). This type of chart pattern happens quite often and if you can catch it during the 'M' on 'N' part, it will make you some MONEY.

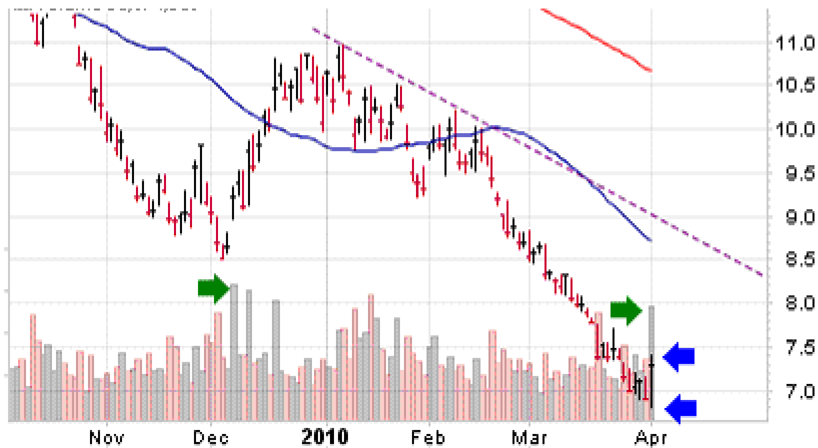
This is a very popular chart pattern. It is called an Advancing Right Angled Triangle (ARAT). The pullbacks are steadily rising as buyers are eager to buy the stock whenever it drops in price. The 50D is in positive alignment to the 200D (green oval), and both are rising. A breakout at the blue arrow has an upside target of a 50% increase in price (in this example).

This pattern is called 'Head and Shoulders.' Whenever we see this pattern we look for a breakdown below the 'neckline'. In this case a breakdown at the red arrow predicts a target at 85.

Here is the same pattern, only this time it is an ‘Inverted Head and Shoulders’ pattern. The neckline is at 8.5 and the breakout at the blue arrow projects a target at 11.5

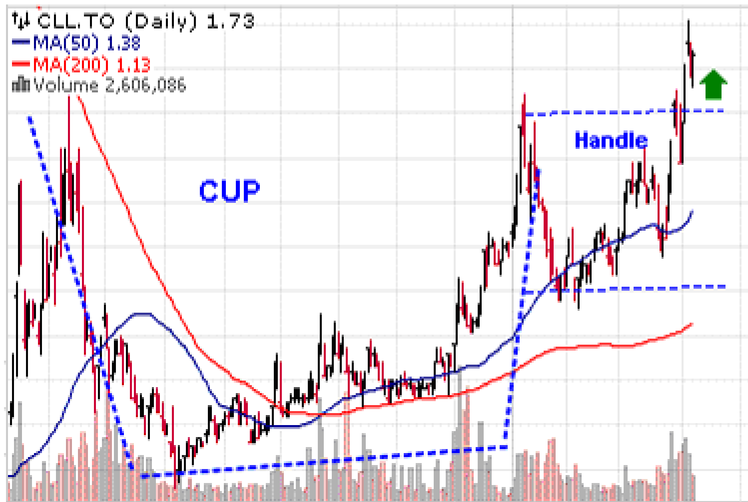
Here is another example of an ‘inverted Head and Shoulders’ formation. The breakout at the blue arrow projects a target at 1325.

Next is an example of a reliable bottoming pattern.



This is called an 'outside upside reversal'. It occurs when price first trades below the range of the previous day and then closes above that range (blue arrows). It is even more powerful than an normal upside reversal (where price starts out below the range of the previous day and closes above the **close** of the previous day – as opposed to the **top** of the previous day as we see here). Volume is supportive in this case (green arrows), and reminiscent of the volume that accompanied a bottom in December.

Here is a nice example of a 'cup with handle' formation. Upside breakouts from a CWH are very reliable indicators of future trends.



Here is another example of a 'cup with handle. In this sample the handle first caused a 50% pullback before finding enough buyers to move price back up again. The breakout at the green arrow portends higher prices.

Featured is a pattern that is called a Declining Right Angled Triangle (DRAT).
In this pattern the pressure from the downtrending line keeps moving price towards the base (green line), and each assault on the base uses up more energy. Finally the base runs out of energy and a breakdown occurs. The 50D is in negative alignment to the 200D and both are slipping.

This is an example of investors trading a pennant. They buy at the bottom of the pennant and sell at the top. Then when the breakout occurs they either buy the breakout as it occurs (blue arrow), or wait for the first pullback after the breakout.

Featured is a chart pattern called ‘outside downside reversal’. It occurs when price starts out above the range of the previous day and closes below that range. Because of the similarity between the latest reversal and the one that occurred in January, the assumption is that price will likely drop down to one of the two green arrow targets.

The importance of a strong Relative Strength Index is shown in this chart. The green line underscores the fact that for 12 months the RSI has been able to remain above '35' and for a good part it stayed above '50'. This shows good underlying strength.

The next trio of charts shows a trend that is rising, flat or declining and how to determine the direction at a glance.

By connecting the starting point with the last trade we arrive at a clear picture as far as the direction of this stock is concerned. As long as price stays above the 200DMA (red line), and as long as it continues its rise, it is wise to 'let your winners run'.

Here is an example of a stock that has gone sideways for a year. The decision whether to stick with the stock depends on the fundamentals. If the fundamentals are of no help, then a plan needs to be drawn up. This plan can be: Once price rises above 7.40 I'll stay in but if it drops below 6.80 I'll sell.

Here is an example of the stock that has no place in your portfolio. The trend has been down all year and the 50D is in negative alignment to the 200D (purple oval). Unless you are absolutely convinced that the company has valuable assets, good management and a business plan, it would have been better to liquidate the shares and buy into a winner.

The point in featuring this trio of stock patterns is to encourage you to draw in an arrow before you buy into the stock, so that you know what you are getting for your money.

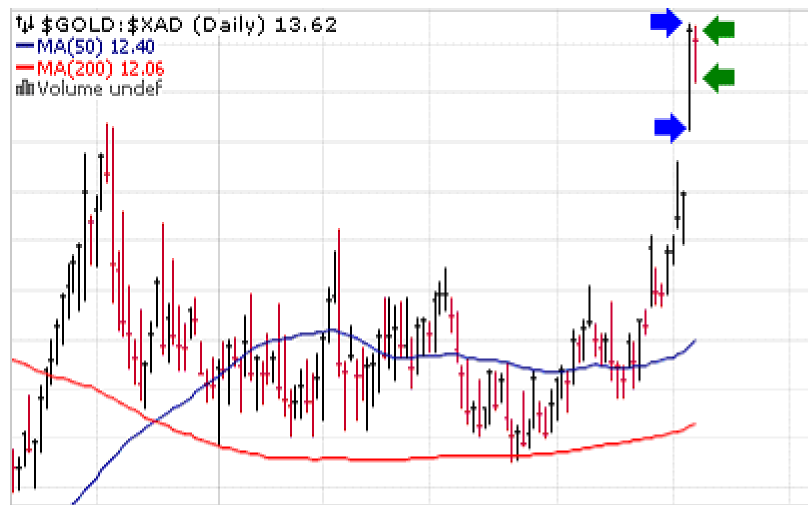
Featured is a chart pattern that is called a ‘bearish rising wedge’. These formations quite often produce a correction and the steeper the wedge the more certain you can be that a correction will occur. The point to take away from this is: don’t buy into a rising wedge formation – wait for the correction.

Featured is a bullish 'falling wedge' formation. The fact that the supporting indicators are in 'non-confirmation' mode (they are rising while price is dropping), is a sign that price is due to rebound. A breakout at the blue arrow has a target at the green arrow.

Featured is a chart pattern that shows an 'island reversal'. These patterns usually point to a top or bottom. They occur when price creates a vacuum on both sides of the last trade. In this case the logical target is at the green arrow, and the fact that the 50D is in positive alignment to the 200D leads to the expectation that price will continue to rise in the longer term, but in some cases an 'island reversal' can indicate the end of an entire move. (When the 50D is above the 200D they are in 'positive alignment' – when the 50D is below the 200D they are in 'negative alignment').

Featured is a situation where the 50D appears headed for an 'iron cross' with the 200D. At the point of the purple arrow this seemed a sure thing. In this example the 50D turns back up after 'kissing' the 200D. That is usually a reliable sign that the trend is about to turn bullish again, or in this particular case that the upside breakout that occurred a week earlier will be successful.

Featured is a stock that has been dormant for a while. Suddenly volume starts to build and price breaks out (blue arrows). Then the short-term traders take a profit and price tests the breakout (purple arrow). Next volume starts to build again and the real breakout begins (green arrows). The secret is to watch for stocks that have been dormant when suddenly volume and price begin to rise.



This pattern is an example of an 'inside day'. It occurs whenever the daily range trades inside the range of the previous day. As a rule one cannot derive any clues as to future trend from an 'inside day', but in this case the fact that the closing price is at the top of the range both days, leads to the expectation that price will rise during the next day.

Featured is an example of a gap (usually caused by some good news). Most gaps are filled later, and this gap took five months before it was finally filled. A good rule to follow is: "most gaps are filled, but if the gap is not filled in a year, it is unlikely to be filled."

DISCLAIMER:
Please do your own due diligence. Investing involves taking risks. I am NOT responsible for your trading decisions.

Happy trading!
Peter Degraaf <:::><