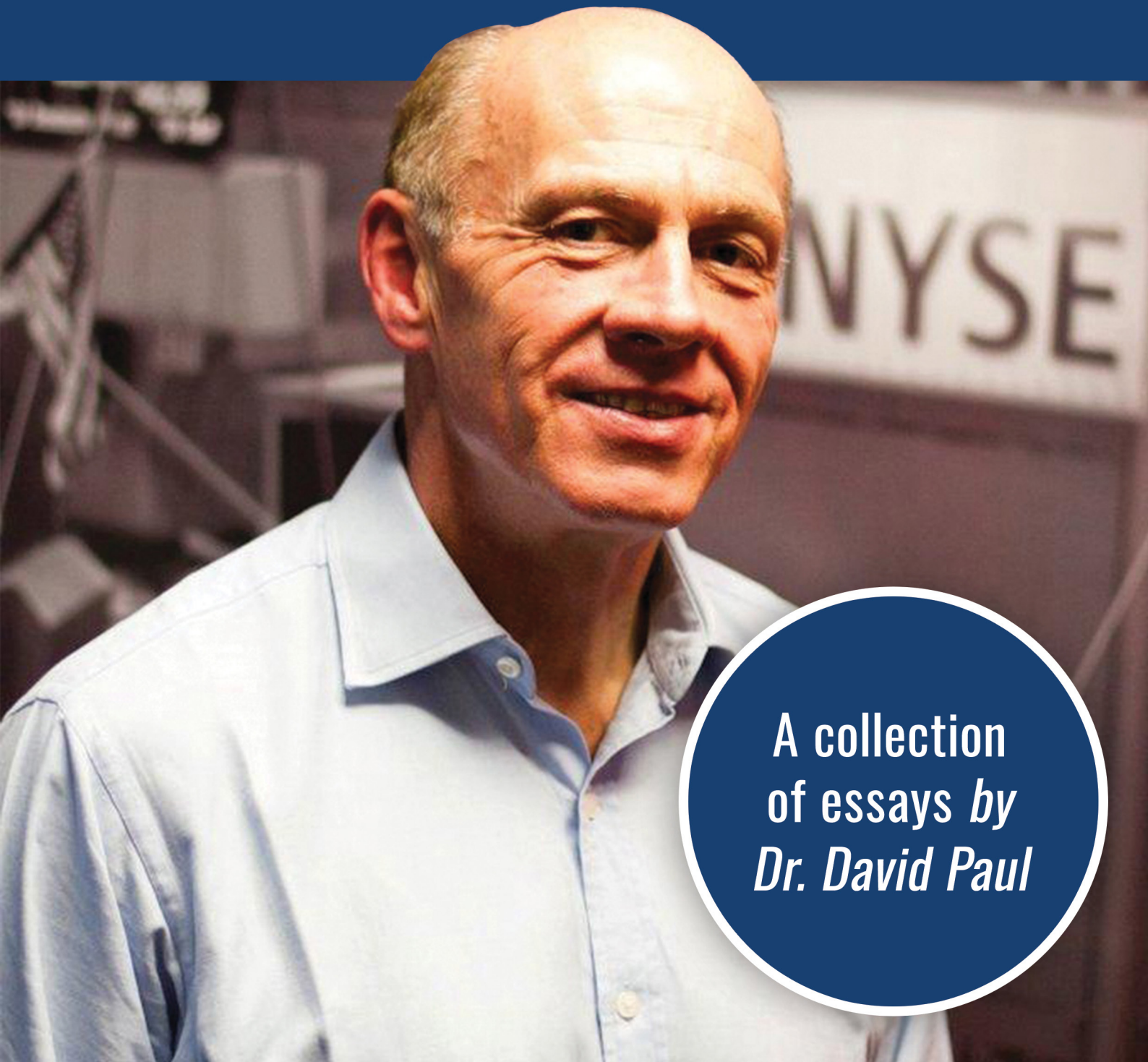




*Insights, Lessons
& Wisdom from a*
MASTER TRADER



A collection
of essays *by*
Dr. David Paul

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2017-10-06

A Great Company May Not Be a Great Investment

“The only way to make money in anything is to calculate the value of the asset and then pay less for it.”

The above quote was drummed into me by a very successful family member when I was growing up. Many years later I found exactly the same advice in many investing textbooks. Warren Buffett’s mentor Ben Graham writes pretty much the same in “The Intelligent Investor.”

In Chapter 2 of his classic investment book, “Stocks, Strategies and Common Sense,” VectorVest Founder Dr. Bart DiLiddo writes, “There are some simple, common sense rules that can improve anyone’s stock picking skills regardless of the system they use.

RULE 1: FAVOUR UNDERVALUED STOCKS. The only way to know if a stock is undervalued, is to know what a stock is really worth. I answer this question by calculating a stock’s value from its earnings growth rate,

The only way to know if a stock is undervalued is to know what a stock is really worth.

profitability and other fundamentals. My formulas are described in Chapter 3, “How to Value Stocks.” If a stock’s Value is more than its Price, the stock is undervalued. It’s a candidate for selection.”

Dr. DiLiddo goes on to say that “Undervalued stocks offer a higher probability of achieving gains, the potential for very large gains and lower downside risk. In other words, undervalued stocks increase the odds of

winning, increase the rewards for winning, and decrease the risk of losing, compared to overvalued stocks. So, favour undervalued stocks.”

Let’s test this out using the Unisearch facility on VectorVest 7. Click on the Unisearch tab. Click in the box under Parameter, click on Stocks, then Price/Volume, then Stock Price - (Split Adjusted). Click in the box under Operator and then click on <. Click in the box under Value, then click on Stocks, then Capital Appreciation and then Value. Leave the sort at the default VST (VectorVest’s Master Indicator). Click in the date box and change the date to 4 October 2016. Click on Run Search. Click on QuickTest Top: 10. As of 4 October 2017, you should see an average gain of 45.24% for the test portfolio, whereas the overall market, as represented by the VVC/UK, gains only 9.86%.

That’s the power of investing and trading in undervalued shares.

2017-10-13

Position Sizing

The concepts of position sizing in trading and investing are arguably the most important in the journey to becoming consistent in performance. The concepts are not that sexy and the mathematics are trivial. Position sizing tends to be overlooked in the big ego game of stock selection and entry points.

At VectorVest, we firmly believe in position sizing and its vital role in ensuring consistent performance. In Lesson 2 of the Successful Investing Quick Start

Course (SIQSC)

this topic is discussed in detail (click on the training tab in VectorVest 7 UK to find this

course). I wish to simply show how to calculate optimal position size and will illustrate this with a simple example.

At VectorVest, we firmly believe in position sizing and its vital role in ensuring consistent performance.

VectorVest recommends using a 1% risk model to define my position size. This does not mean that we only purchase shares to the value of 1% of my capital base, but rather it is the amount of cash that we are prepared to risk to ascertain whether my trading idea is correct or incorrect. The 1% refers to the cash lost if the share should fall from the purchase price to the stop loss figure. Let's go through the calculations step-by-step.

1. How much money is in your account? If you don't know how much money is in your account then you cannot size your positions and if you cannot size your positions then you are gambling and not trading or investing. For the sake of this example, I am going to assume that a new trader has £20000 of capital to start their trading business.

2. 1% of £20000 is £200. This is the maximum loss that should ever be taken on any single trade or investment. I know shares can gap through stops so don't get your slide rule out. Losing 1.5% won't kill you. It's losing the lot, half or a quarter of the lot, that will kill you both financially and mentally.
3. Let's assume that after due consideration we decide to BUY a particular share at 325p.
4. Use the VectorVest stop loss that's calculated automatically by the program. Let's assume that the stop loss on the program is 295p.
5. The Risk per share is thus 325p minus 295p which is 30p or £0.3.
6. Number of shares to be purchased (N)*Risk per Share = 1% Account Size.
7. $N = 1\% \text{ Account size} / \text{Risk per Share}$.
8. $N = 200 / 0.3 = 666 \text{ shares}$.
9. Total purchase price = $666 * 3.25 = £2164.5$.

Pretty simple and easy to understand. There are many methods of position sizing and extremely complicated models are used by the institutional community and taught in financial management courses. The disasters at both the retail and institutional level are when no position sizing is practiced at all.

I hope the above will stimulate thought and get you thinking about how you will size your positions.

2017-10-20

Timing the Market, Can It Be Done?

“Being on the wrong side of the market is the worst thing that can happen to an investor. It doesn’t have to happen to you.” Dr. Bart DiLiddo

The Price of the VectorVest Composite is the most important tool to determine whether the stock market is moving up or down. If it’s moving up, then it’s a good time to be buying stocks and enjoying the ride. If the stock market is moving down, then all new buy orders should be cancelled and stop losses monitored carefully and diligently.

The VectorVest Composite UK (VVC/UK) is an arithmetic indexed average of all the shares on the UK market comprising both the LSE and AIM. In VectorVest,

there are several market timing methods, but in this short essay I will discuss the longest-term system which is the timing

Please pay special attention to Market Direction. It is one of the four major mistakes that investors and traders make on an ongoing basis.

system used for the Worry-Free Investing (WFI) system. In subsequent essays, I will discuss shorter term systems such as the DEW method.

The Relative Timing of the VVC/UK, (RT), reflects the direction, strength and momentum of an established market trend. This indicator is especially useful in analyzing the momentum of a trend. If the direction of a VVC/UK RT movement diverges from the direction of a VVC/UK Price movement, it signals a change in momentum.

Each day the VectorVest program assigns a Buy, Sell or Hold recommendation to each of the nearly 2200 shares that we follow on the entire UK market and displays the Buy/Sell Ratio. The Buy/Sell Ratio of the VectorVest Composite UK, (BSR), reflects the strength of the market and thus is exceptionally good at confirming trends signaled by the VVC/UK Price.

In addition a further indicator named the Market Timing Indicator, (MTI), has been designed to measure the overall strength and direction of the market. It combines the VVC/UK Price, RT, and the Buy/Sell Ratio into a single indicator which ranges from 0.00 to 2.00. The underlying trend of the market is Up when the MTI is above 1.00 and Down when the MTI is below 1.00. The strength of a trend is, of course, reflected by the level of the MTI.

*** A Confirmed Up, (C/Up), signal is given when both of the following occur:**

1. Price

- * The Price of the VectorVest Composite UK (VVC/UK) has increased five-trading-day-period over five-trading-day-period for two consecutive five-trading-day-periods.
- * The Price of the VVC/UK has increased from the prior day.

2. MTI

- * The Market Timing Indicator (MTI) is greater than 1.00.

*** A Confirmed Down, (C/Dn), signal is given when both of the following occur:**

1. Price

- * The Price of the VectorVest Composite UK (VVC/UK) has decreased five trading-day-period over five-trading-day-period for two consecutive five-trading-day-periods.
- * The Price of the VVC/UK has decreased from the prior day.

2. MTI

- * The Market Timing Indicator (MTI) is less than 1.00.

In VectorVest, click on the Timing tab on the main toolbar. Then click on Market Timing Graph. That will load a chart of the VectorVest Composite UK over the past year. Also, in its default fashion, the 65-day Moving Average of Price, MTI, BSR and RT will be displayed.

At the bottom left of the chart there is a dropdown menu which houses all of the market timing methods. Just click on Confirmed Calls and this will populate the graph with Confirmed Up and Confirmed Down signals in the form of green and red triangles. The last Confirmed Up occurred on the 29 September 2017 and thus it is safe to be in the stock market. Those following the WFI method should be fully invested at this time.

Although stock market guru types strongly argue that the market cannot be timed, the Confirmed Call method will easily keep you in the market during long up moves and well out of harm's way during a sell-off.

Please pay special attention to Market Direction. It is one of the four major mistakes that investors and traders make on an ongoing basis.

2017-10-27

The Path to a Million Pound Portfolio

In the following I note seven steps that focus my thinking, help with trading discipline and produce excellent profits. The result is a UniSearch that locates shares that are undervalued, that are growing earnings strongly and fairly safely and that are rising in price. That's a great place to be.

These are tabulated below with the UniSearch code in brackets. The shares are sorted by the Master Indicator, VST.

1. The VectorVest UK Composite is in a Confirmed Up (C/Up) situation.
2. The Color Guard currently has Green lights.
3. Favour Undervalued shares ($\text{Stock Price} - (\text{Split Adjusted}) < \text{Stock Value}$)
4. Long-Term Price Appreciation Potential (RV) greater than or equal to 1.3 ($\text{Stock RV} \geq 1.3$)
5. Relative Safety (RS) greater than or equal to 1 ($\text{Stock RS} \geq 1$)
6. Earnings Growth Rate (GRT) greater than or equal to 15% ($\text{Stock GRT} \geq 15$)
7. The share has a Buy Recommendation ($\text{Stock REC (Recommendation)} = \text{BUY}$)

If you run a QuickTest of the Top 10 shares from 2 October 2017 (the day after the most recent C/Up signal) through 24 October 2017, these 7 points have outperformed the market, as represented by the Price of the VVC/UK, by a factor of 3.

If we use the same idea and run a QuickTest from 16 December 2016 to 5 July 2017 when the VectorVest Composite was trending upward as defined by the Confirmed Call Market Timing System, we produced an annualized

33.55%. In this same period, of over 6 months, the market, as represented by the Price of the VVC/UK, produced just an annualized 17.08%.

Our job as traders is to simply apply the rules, especially the rules on exits, as defined in Lesson 2 of the “Successful Investing Quick Start Course.”

Unfortunately, many traders make the same mistakes over and over again. A very common mistake is snapping at winners. The average trader unfortunately tends to become pessimistic when they have a winner. They fear that the market is going to take away the open profit. This leads many to take a small and quick profit. Also, the average trader tends to become optimistic when they have a loser. They become optimistic that the share is going to turn back up soon. When the share does not recover, a large loss is booked.

To become a winner, it just takes a simple change of your thoughts. Winners become optimistic when they have a winner and pessimistic when they have a loser. This helps letting winners run and culling losers quickly and without fuss or remorse. Have some fun observing your thoughts on your next trade.

***To become a winner,
it just takes a simple change
of your thoughts.***

2017-11-03

A VectorVest Secret Weapon

Did you know that technical traders, both retail and institutional, spend days of their valuable time compiling a list of shares that are trending strongly? My definition of Technical Analysis is the study of trends and turning points.

Did you know that at the major trading houses droves of CFA qualified, exceptionally bright young people are employed in the quest for the true Value of a share? The search for the true Value of a share is my definition of Fundamental Analysis.

Imagine that with a few clicks of your mouse a list could be compiled of all the shares on the LSE that are undervalued by the market, have strong growth potential and are trending strongly upwards. Imagine being able to get the same knowledge as the two groups mentioned above in a few seconds without all the heavy lifting involved.

Well you don't have to imagine it any more. Using the VectorVest program, this list can be compiled easily. In these essays, I have spoken of the ability of VectorVest to place a robust valuation on each share on the LSE and AIM each evening. The mathematics behind the calculations are revealed in Chapter 3 of Dr. DiLiddo's book "Stocks, Strategies and Common Sense."

To gauge the longer-term trend of the share, I make use of a proprietary metric on VectorVest called the Comfort Index (CI). CI is an indicator which reflects a stock's ability to resist severe and/or lengthy price declines. CI is based solely upon a stock's long-term price history. It's a unique measurement in the Technical Analysis world and no one else has anything similar or as effective.

CI is also a measure of a stock's Price resistance to market downturns. This index is computed by comparing an individual stock to the up and down

movement of the VectorVest Composite and is cast into a scale of 0 to 2.00. A stock with a CI of 1.00 or greater is more resistant to a downturn in the market, as measured by the VectorVest Composite.

There are many ways of using the CI, but here is a UniSearch that I use each day to keep my eye on the pulse of the market. It's a UniSearch that finds shares with great fundamentals that are in the throes of a strong trend where the Price is breaking out of a 13-week high.

Here are the UniSearch parameters:

Stock Price - (Split Adjusted) < Value

Stock RV (Relative Value) ≥ 1.3

Stock RS (Relative Safety) ≥ 1.0

Stock Price - (Split Adjusted) New High Over 13 weeks (end of day data)

Stock GRT (Growth Rate) ≥ 20

I then sort these shares by CI Desc.

Immediately my focus is on the pulse of the market. I have narrowed down the nearly 2200 shares that we follow on the LSE and AIM to a relatively small watchlist of stocks with outstanding fundamentals that are trending strongly and breaking upwards. That's a great area to place your focus in the search for short to medium term trading profits. It's where I have found most of the shares featured in VectorVest.

Once the watchlist has been generated then please apply the cherry-picking techniques that are taught in Lesson 4 of the "Successful Investing Quick Start Course." This course is built into the VectorVest program and can be found under the Training tab on the main tool bar. Following this process will produce many high probability trading opportunities.

2017-11-10

Trading Is a Business

If you're serious about your trading then I am sure you already treat it like a business. You have a trading plan, you keep meticulous records and you study the markets for a few moments each evening and for a little longer on weekends.

To become a consistently winning trader/investor, three important elements are required. I call them the 3 M's.

They are:

1. Method. This is a trading system that simply makes more when it's correct than it loses when it's wrong. This is known as a "positive expectancy" system.

2. Money. This involves managing your money properly. This is fully addressed in Lesson 2 of the "Successful Investing Quick Start Course" which is built into the VectorVest program and can be accessed by clicking on the Training tab on the main toolbar.

3. Mind. This is the mental strategy required to simply play the game of trading.

I feel it is vital to keep your trading strategy simple. I favour undervalued stocks with high earnings potential and reasonable safety that have a BUY recommendation in VectorVest. I buy into these when both the Primary Wave is Up and the VectorVest Composite UK has printed a Confirmed Up, C/Up, signal. This approach is fully detailed in the "Successful Investing Quick Start Course."

Most traders spend their trading careers bouncing from strategy to strategy instead of honing their focus on one method. The reason this is important is because focusing on a method allows us to master not only the strategy, but the emotions and decision-making skills that surround the method.

Have you noticed the more you know about a system, the simpler it becomes and the more you've made it your own, the better your trading results? That's because you're able to better execute the strategy.

The emotion of fear is the No.1 culprit that keeps most traders from reaching a level of consistency and profitability over the long term. These fears can be subdivided into four categories and they collectively are responsible for a host of trading errors.

1. The fear of being wrong
2. The fear of losing money
3. The fear of missing a trade
4. The fear of leaving money on the table

To sidestep these fears, there are two main courses of action.

Firstly, you must have total belief and conviction in your system. You must have a strong belief that over the long run, a positive

The more testing you do and the more data you gather, through both live and simulated trading, the more those feelings of fear and uncertainty will diminish.

outcome will result. There is only one way to gain this conviction and that's to test, test, test and test. Observing results over a long period of time then adds to your confidence and ability to execute effectively.

The more testing you do and the more data you gather, through both live and simulated trading, the more those feelings of fear and uncertainty will diminish. The BackTester tool in VectorVest will allow you to complete this testing easily and quickly.

Secondly, focus on what the market is telling you right now. When you are fully engaged on what is happening NOW, your mind does not wander. Keep a razor-sharp beam of focus on the market and what it is saying in relation to your trading rules. The Special Forces of all nations are taught to be present in combat situations.

So, by all means, formulate goals and objectives for your trading business and work towards these. You are aware of where you want to go, but you honour and give the fullest attention to the step that you are taking at this moment.

2017-11-17

What's the Hardest Part of Making Money in the Market for You?

I present a webcast several times a month which is named the “10-Minute Investor” where I show the attendees how to outperform the market in 10 minutes a day. In the webcast, I ask the question “what's the hardest part of making money in the market for you?” Around 80% of the audience types into the webcast chat box, “knowing when to exit.”

Traders are told to “let their profits run,” but unfortunately that's pretty vague advice. Let a profit run long enough and it can easily turn back into a loss. Traders need a plan that allows them to let their profits run beyond what they typically lose on a losing trade, but also realize that the market will not move in their direction forever. If you plan your profitable exits and find that over time they are bigger than your average loss, winning only 50% of your trades (or even less) can still make you a highly successful trader. Here are several methods to help you do it. The subject is covered in detail in Lesson 2 of the “Successful Investing Quick Start Course,” SIQSC, which is built into VectorVest, under the Training tab on the main toolbar.

There are two types of exits. These are associated with a profitable trade and a trade that goes poorly. In both cases, how you will exit a trade should be planned before you enter and be a part of your written trading plan.

1. Setting an initial stop and position sizing.

VectorVest calculates a stop-loss level for each share in the database each day. The level is based on a 13-week Moving Average (MA), but is adjusted for the fundamental position of the share. If the fundamentals are good, then the stop loss is widened, while if the fundamentals are poor, the stop is tighter. In my personal trading, I take action on a close below the VectorVest Stop. This is

easy to spot via a red marker on my WatchList of shares that I invariably view on the smart phone using the VectorVest Android app. For many, this is when ego gets in the way. Tell your ego to take a hike. Keeping losses small is the cornerstone of becoming profitable. For the position sizing calculation, please play Lesson 2 of the SIQSC. It's vital that if the position should be stopped out, only 1% of your capital is lost. An old mentor once told me that "the most important part of trading is to have enough money to trade tomorrow."

2. Exits from a profitable trade or investment. Just a few of the dozens available.

- a. The Trailing Stop is probably the most well-known profit exit technique. In simplest terms, as the price moves in your favour, an exit order moves along with it, trailing the price by some set amount. It's like a ratchet spanner as it allows unlimited movement in one direction, but only a set amount in the opposite direction. My first mentor used a 25% Trailing Stop loss and this tests exceptionally well using the BackTester in VectorVest using the Worry-Free Investing Methodology (WFI) with a 50% target.
- b. The VectorVest calculated Stop is also an excellent Trailing Stop. Every evening re-sort your WatchList by Relative Timing (RT). This will place the shares with the lowest RT at the bottom of the list and certainly any shares that you hold with a RT less than 1.00 need to be monitored carefully. If a share should close below the VectorVest Stop, it will be shown with a red market beside the share. Be very careful and aware of your thoughts during this process as most complete the exercise incorrectly. Most people cave in to their emotions and get rid of the shares that are doing well and refuse to take the loss on the shares that are not. I am sure nearly everyone reading this will have made that mistake at some time in their trading life. Your job as a consistently winning trader/investor is to cull the losers quickly and without fuss and to keep your hands well off the winners.

- c. A price target can be a simple and effective method of exiting a winning position. If you are risking £300 on a trade, but will make £900 if the price hits your target, your reward outweighs your risk 3:1. If you set a stop loss and a price target, you can “walk away,” knowing that eventually one of the orders (stop or target) will get filled. This is advantageous to all traders, but especially those who lack time to constantly monitor their trades and/or worry about their emotional responses. Fear of losing and the greed of leaving money on the table can result in terrible decisions being made.
- d. A moving average can be used as a trailing stop loss. A 40-day MA seems to work well. A break below the 40-day MA is a strong early warning signal that the trend upward is faltering.
- e. Letting winners turn into losers is an emotionally draining experience. The education department at VectorVest has addressed this issue and recommends that in no instance should the trader give back more than 50% of the profit. This is a line in the sand. If a share is purchased at £10 per share and then moves to £15 per share, a hard stop should be placed at £12.50 per share, no matter what any other methodology of exiting suggests. This technique has a lot of merit and Dr. DiLiddo suggests that after a profit of 10% is seen, the worst that can happen is that the trader walks away with a 5% profit.

There is no best way to exit a profitable trade. For some trades, one method will work well, but will be less than perfect on other trades. The key is to decide on a method and stick to it. All these methods can help you “let your profits run,” but will get you out if the price moves too much against you. You’ll never squeeze every penny out of a trade, but utilizing the exit strategies outlined here will help you capture the bulk of a move.

2017-11-24

Building Mental Toughness and Resilience Into Your Trading

Building resilience and mental toughness is one of the hottest concepts in psychology right now. Coaches are talking about how athletes can develop more grit and mental toughness in their training. Wide awake teachers can foster greater resilience in the classroom and coaches are showing individuals like you and I how to build resilience into our daily lives.

For many individuals, the trading environment requires more mental toughness than they have ever needed to muster in order to make a success of their professional careers or businesses.

We live as financial traders among a world of probabilities and not certainties. By using VectorVest to purchase undervalued shares that are growing earnings aggressively and safely and that are rising in price, we can get our hit rate up to easily around 75%. If we can gain twice as much as we lose, then this is a massive edge in the stock market. Unfortunately, on the next trade or investment, we don't know if it's one of the 75% or one of the 25%. The market cannot be predicted on a trade-by-trade basis.

As traders, we need two levels of belief. At the level of a single trade, the outcome is random. At the level of 30 trades, we must believe, with every fiber of our being, that our method is profitable and that it is going to make lots of money. Getting my mind around thinking in probabilities was the most difficult thing I have ever had to master in these 62 years.

A run of three losing trades with an excellent and profitable system is certainly possible. Those that have been trading for a while should know exactly to what I refer. The mental toughness to stay present and focus on perfect execution on the 4th trade after three losers is Herculean. It's tough,

but not impossible to master. Once you get it and can successfully play the game of trading then the loot just keeps coming and coming.

I define mental toughness as the perseverance and passion to achieve long-term goals. Sometimes you will hear mental toughness referred to as grit. It is a strong predictor of success in any endeavor.

In my trading seminars, I ask the audience if mental toughness can be built or if it is God-given at birth. There is invariably a mixed response, but I am certain that it can be built and here are some thoughts.

Mental toughness is like your bicep, it needs to be worked to grow. It's not about discipline, but has much more to do with building strong daily habits that, once developed, don't need all that much discipline. The psychologists refer to this as building new neural pathways in your brain. I have no idea how it occurs, but it certainly works for me and for many of the traders I have coached over the years.

I never miss the gym and require zero discipline to get there. After a period of inactivity, I built that habit 20 years ago and its going strong, I am happy to report. To get the habit going, I hired a personal trainer. They essentially made sure I arrived at the gym. Personal trainers think they are in the exercise business. They are, in fact, in the habit building business. After a few months, I no longer needed the coach. The neural pathway had been built. Any change you wish to make in life can be achieved in a similar manner.

The execution of my trades occur in exactly the same way. Some are winners and some are losers, but there is little resistance in execution. It takes work and, like pressups, you have to do your own.

- * Can you maintain a daily trading journal each day for 30 days until the habit is engrained? What about starting now with a few sentences about the last trade you completed.
- * Can you make sure that you complete the calculation of the number of shares to purchase, so as only 1% of your account is at risk?

- * Can you devote 15 minutes to analysis each and every day come hell or high water?
- * For me, physical exercise helps my trading immensely. Can you get to the point where you don't miss a workout for 30 days?
- * Can you define a stop loss for each trade as you place the trade and keep doing this until it is second nature?
- * Can you define a target for each trade as you place the trade and also keep doing this until it is second nature?
- * Can you ensure that you are getting enough sleep?
- * Can your diet and energy levels improve?

Motivational guru Tony Robbins has a method of building a positive attitude to life. He suggests an exercise where you focus on positive thoughts only for two weeks. If a negative thought slips in, you start from the beginning. I am still trying to finish this.

In the trading area, you can review the “Successful Investing Quick Start Course” in the Training tab on the main toolbar in VectorVest. Choose undervalued stocks that have a high price appreciation potential, Relative Value (RV) with a Relative Safety (RS) greater than 1.00 that are breaking new highs when the overall market is showing green lights in the Color Guard. The course will allow you to add rules to this simple, but outstanding approach.

A longer-term mechanical system with exact rules in the “Worry-Free Trading” methodology would also make a great place to start building the discipline required to simply play the trading game. The rules are simple and laid out in detail in a “Special Report” titled “Guide to Worry-Free Investing” which can be downloaded from VectorVest. Click on Views and then “Special Reports.” This system has been tested positively over a 20-year period and is robustly profitable.

Take small steps to begin with. Start the exercise using tiny positions or even on a demo account. I have done this exercise with many traders in the past. There was resistance from all the participants to start with, especially if we

hit a cluster of losers early on in the exercise. However, if I can get a trader to stick to the rules for 8 to 13 trades (depends on the trader), then something mystical

happens. The resistance falls away as the neural pathway is built. At this point, perfect execution

Take small steps to begin with. Start the exercise using tiny positions or even on a demo account.

becomes automatic with no internal conflict. You may find trading tough at the moment, but I assure you that you are only 8 to 13 trades away from the trader you want to become and all the cash that you desire.

2017-12-01

Should You Add to a Winning Position?

If you catch a great trending move, scaling into it (adding to the size of the position) is a great trade adjustment to increase your max profit.

In my trading over the years, I have found that the easiest way to build good and fast returns is to be in a larger position when correct, than when I am incorrect. This sounds simple and trivial, but it's exceptionally difficult to do. As with all things in financial markets, it's the difficult things emotionally that make the money.

In VectorVest the Midas Touch technique finds shares that are trending strongly with a single click. Just go to Viewers on the main toolbar and on the left-hand

side under WatchLists click on the Cherry Picking folder. You will find the Midas Touch stocks

WatchList here. (There is a Special Report on the construction of the Midas Touch technique called "The Amazing Midas Touch" which can be found in the Views tab.)

When you have a winning trade, become optimistic, and when you have a losing position, become fearful.

Another VectorVest metric called the Comfort Index (CI) finds shares that are in the throes of a strong trend. CI is an indicator which reflects a stocks ability to resist severe and/or lengthy price declines. In the Stock Viewer, simply click on the CI column header to resort all the shares in the VectorVest database by CI. That's a very easy way of finding shares that are trending strongly. In the past, I have referred to the CI as VectorVest's secret weapon.

Most of the trading books and sources advocate scaling out of positions. This means that when you call the market with precision, the big move is held with only 1/3 or 1/2 of the initial position. If your market call is poor, then you take a hit with the full position. That's not the way to generate fast profits. Over the years, I have used both methods. Scaling out is emotionally easier, as it's quite easy to take lots of small profits. However, I struggled to get ahead, because the losses were much bigger than my gains. At best, my account stayed around the same level with no progress, but at the same time no drawdown.

Adding to winning positions take strength and grit, but the rewards are immense. UK listed Victoria (VCP.L) is a great example. From my initial position, I added a similar sized position, twice, along the way as the share broke upwards.

The initial position was taken at the Confirmed Up signal during December 2016. The initial position involved a risk of 1% of my capital. The position was doubled at the end of July 2017 where the Stop (VectorVest Stop) was well above my initial entry. The position was added to, for the third time, in mid-October 2017.

If you add to a position it's vital that scaling in only starts when the initial stop can be raised to the entry point. In a way, we are financing the risk on the second tranche of shares from the paper profits made on the first.

When a typical trader has a winning position, they tend to become **FEARFUL** in their thinking. They have an enormous fear that the profits will disappear. When a typical trader has a losing position, they tend to become **OPTIMISTIC**. They become optimistic that the position will turnaround. I am afraid that the average trader will more easily add to a losing position than a winning position and that's trading suicide. Many academic studies in behavioral finance have shown this and the researchers refer to the error as the disposition effect.

If there is a secret to trading, it's the following.

When you have a winning trade, become optimistic, and when you have a losing position, become fearful. Become the silent watcher of your thoughts in your next trade and practice this. It's useful to keep notes of your thoughts until the habit is built and is a part of your mental makeup. It's a small fix, but it can change your bottom line positively in a very short period of time.

Short-term traders who hold positions for a few days have a very limited scope to add to winners, but position traders should consider the concept very carefully and decide if it suits their trading beliefs and philosophies.

2017-12-08

A Positive Expectancy Trading System

When you first started to trade, how did you judge your results? If you're like most novice traders, you likely had little understanding of the concept of trading expectancy, so you focused almost entirely on your win rate in the early days. You were probably trying to win 80 or even 90 percent of the time.

Very high win rates can be achieved by experienced traders (who trade infrequently) or those with a system that uses very wide stop-losses or no stop-losses at all. It's extremely difficult for most traders to sustain these percentages without experiencing several high losses which can wipe out all the gains and much more. There are two types of capital. The first is the cash and the second is your emotional capital. A big loss can totally destroy the latter and build a strong negative belief that you are a loser in the investing and trading business.

What might surprise you is that the win rate isn't all that important. In fact, it's the relationship between your win rate and the risk to reward of your trading edge or system. The risk to reward ratio is nothing more than the amount made on winners divided by the loss on the losers.

Simply put, your trading expectancy is the average amount you can expect to win or lose per trade with your system when a large number (30 minimum) of trades are taken. To calculate your trading expectancy, you need to know three things - your win percentage, your average win and your average loss. The calculation is as follows.

$$\text{Expectancy} = (\text{Probability of Win} * \text{Average Win}) - (\text{Probability of Loss} * \text{Average Loss})$$

A system which is correct 50% of the time which makes twice as much when it's right than it loses when it's wrong has a strong positive expectancy.

If you risk a pound per share bought, then on average you make 50 pence per share on each and every trade.

At my trading seminars, I always ask the following. Are the casinos in the gambling business? The answers are mixed, but Las Vegas is certainly not in the gambling business. The casinos and the games played there have strong positive

expectancy for the house. The house knows to several decimal points what the expectancy is on

If I can find trades like this 40% of the time, the expectancy is enormous.

each game on their floor. It's the punter that's in the gambling business. They are playing the tables with a negative expectancy system and the longer they stay, the more broke they become. This is something you may have worked out on your own.

As a metaphor for your trading business consider yourself as the casino. Using VectorVest to find undervalued shares that are growing earnings strongly and safely and then buying them when the overall market is rising is an edge that the casinos can only dream about.

One of the biggest mistakes that all traders make is that they enter the competitive battlefield that is the markets without a written plan that details their trading edge. Lesson 4 of the "Successful Investing Quick Start Course" will help formulate this.

Day traders usually have a very low risk to reward as the markets only move a relatively small amount in any trading day. They need a high win rate to get ahead and that's why there are so very few winning day traders. Swing traders who risk a pound to make 2 pounds can build a fortune with a system that's correct 50 to 60% of the time.

As discussed last week in my position trading I personally favour adding to winning positions. This reduces the hit rate, but causes the risk to reward to

rise to 5 plus to 1. If I can find trades like this 40% of the time the expectancy is enormous.

What type of trader are you? Have you a written trading plan? What's your average loss?

What's your average win? What's your hit rate?

Have you got a positive expectancy system?

Have you got the discipline to follow the system through periods of drawdown? If so, like the casinos, you can build a Vegas in your lifetime.

2017-12-15

Risk Management and the Surprising Danger to Your Wealth After a Run of Winners

We have had a very good run in the UK market since the Confirmed Call upwards of a year ago in December 2016. The returns have been flat since the UK summer, but it has been an excellent year for those using our product. This can cause slackness in applying risk management.

“My biggest losses have always come after I have had a great period and I started to think I knew something.” Paul Tudor Jones.

This quote from winning hedge fund trader Paul Tudor Jones is worth considerable thought over the next few weeks and in the first quarter of 2018. The markets have been very kind to us all over the last year and I know from the User Groups, very kind, to most VectorVest subscribers.

***There is a right time
and a wrong time
to buy stocks.***

Long may it last and the seasonality for another move upwards is excellent.

After a run of winning trades, we change enormously. After a series of winning trades, your pituitary gland gets to work. “Your pituitary gland is about the size of a pea and is situated in a bony hollow, just behind the bridge of your nose. It is attached to the base of your brain by a thin stalk.” After a run of good trades, the gland floods the bloodstream with hormones and the result is a feeling of euphoria. A similar process occurs after a good workout (a

different hormone) at the gym. It's easy to become addicted to the latter and I am.

I know traders who become euphoric after a single winning trade or investment. Certainly after a few, good money-making trades in a row, we all change. Euphoria is often defined by a feeling of invincibility. As these hormones get to work, it's very easy to brush aside the concept of a stop-loss. It's very easy to forget about correct position sizing. I am invincible and I am sure this is a winner. If it's a winner, let's accelerate the process of wealth accumulation and have a big bet. It becomes much easier to justify adding to a losing position while these hormones are in control. In short, this feeling of invincibility is responsible for a host of trading errors.

Most institutional risk managers agree that the biggest trading disasters occur after a run of good luck and they are taught to evaluate the traders under their control for their susceptibility to euphoria. A big difference between institutional traders and retail traders is the risk manager who, although universally hated, polices the process. At the retail level, we are trader and policeman. When the hormones kick in, it's sometimes akin to putting a goat in charge of a cabbage patch.

As I have said here on many occasions, we need two things to make money in the stock market (or any market). We need quality information and certainly VectorVest fulfills that role. We also need self-awareness. The practice to build presence and awareness is never ending and it's the only way I have found to sidestep the euphoria that I mentioned above.

The rules of using VectorVest to find high probability trading and investing opportunities are simple and easy to implement. The program does all the heavy lifting associated with the fundamental and technical position of nearly 2200 shares. These rules and guidelines are presented in the "Successful Investing Quick Start Course" which is built into the VectorVest program under the Training tab on the main toolbar. In particular, please review Lesson 2, which tackles the subject of risk management and position sizing.

The course should be repeated several times a year to reinforce the following principles and core beliefs.

There is a right time and a wrong time to buy stocks.

Stocks with massive potential can easily be identified by the VectorVest technical and fundamental metrics of RV, RS, RT and CI, well in advance of the move.

By investing in these stocks a small amount of cash can be grown into a fortune over a few years.

2017-12-22

Some Simple Guidelines to Provide Focus for 2018

For many traders and investors, their emotions influence their trading and these can often have a negative impact on results. Learning to control emotions and be disciplined enough to create and use a strategy consistently, is something that I have written about over the past month in this forum.

Also, markets don't like egos. A trader that is influenced by ego rarely admits they are wrong. Ego gets in the way and causes the trader not to close trades when their strategy dictates they should. I can think of one celebrated City trader whose ego allowed him to lose his clients hundreds of millions as resource shares bottomed out and he refused to cut his shorts.

To build discipline keep things simple and follow the VectorVest prescription detailed in the "Successful Investing Quick Start Course" (SIQSC). I have summarized some simple rules to focus our thoughts for the year ahead.

1. Decide on the amount of cash that you wish to devote to share trading/ investing. Few decide on this in advance. As you should know by now, "if you don't know how much cash you have in your account, then you can't size your positions correctly. If you don't size your positions correctly, then you are gambling and not trading." How to size positions is covered in Lesson 2 of the SIQSC.
2. An easy and effective way to accomplish this is to divide your cash into ten parts and never put more than 10% into any single investment/trade. Then resolve to follow the VectorVest stop- loss without hesitation.
3. VectorVest recommends investing in undervalued shares that are rising in price with little volatility and that are growing earnings strongly and safely.

4. Try not to have any more than 2 shares from any sector/industry. This is a rule that I forgot earlier in the decade where I was very overweight in construction shares. On that occasion it worked out fine, but a similar overweight position during the Brexit vote of 2016 would have been a disaster. The market is like Santa. If you don't follow the rules he doesn't bring you any toys.
5. After purchase, please put your shares into a WatchList and resort this WatchList by Relative Timing (RT). Resolve to take action on the shares at the bottom of the list when sorted by RT. When you own shares, the only thing that matters is whether they are rising or falling in price. Resorting by RT places those shares that are rising at the top of the resorted list and those that are falling at the bottom. It's the shares at the bottom of the list that require the work.
6. Rest assured your ego will fight you all the way and come up with a dozen reasons why not to simply get rid of "sell" rated stocks. A "sell" rated stock is where the share price of that stock has fallen below the VectorVest calculated Stop Price. Tell your ego to take a hike.
7. Your success as a trader will be determined by your ability to simply exit the losers quickly and unemotionally. Those of you who have traded a little will know that this is more difficult to do than to talk about. Holding on to losers is one of the four big mistakes that losing investors and traders make until they run out of money.

As I write this piece on the 19th of December the Primary Wave is Up, but the underlying trend remains Dn. However, the DEW Market Timing System has turned upwards. Those traders who have decided within their trading plan to use the DEW have now permission to Buy stocks and to add to existing positions.

Please have a wonderful Christmas and a healthy, happy and prosperous 2018. I look forward to seeing you all at the User Groups and at the online webcasts during the year ahead.

2017-12-29

A Delta Unisearch That Finds Winner After Winner and Significantly Outperforms the Overall Market

A few weeks ago in the VectorVest UK bi-weekly webcasts I focused on a Delta Unisearch in order to show shares that were growing earnings per share (EPS) strongly and especially those where EPS had been revised sharply upwards.

In this context Delta refers to rate of change of EPS as opposed to the use of the Greek term in the options world. As Ben Graham (Buffett's mentor) said, "EPS is the engine that drives the share price." It's just matter of time before the EPS increase shows up in the share price. If you wish to be a relatively short-term momentum trader, then it's vital that you have a list of these shares at hand. Fortunately, the UniSearch tool on VectorVest does this easily with a few clicks of the mouse.

From the home page on VectorVest click on the UniSearch tab on the main toolbar and then on the A to Z function at the top left-hand side of this page. This will display all the prewritten searches alphabetically. Then just scroll down until you see "Explosive EPS Stocks." If you click on this, the UniSearch will be loaded in the main portion of the same page.

This UniSearch finds shares over 50 pence that have a traded volume of greater than 50000 shares that are on a Buy recommendation, where EPS has grown by more than 25% over the past 13 weeks. These stocks are then sorted

by the master indicator VST, bringing those stocks with the best combination of Value, Safety and Timing to the top of the list.

Please experiment with the UniSearch. Some reading may wish to add lines such as Relative Safety, $RS \geq 1$. This will remove shares where the financial performance is haphazard or unproven. Also adding the Comfort Index, $CI \geq 1.3$ to the mix will find shares that are in the throes of a long-term uptrend. As I have stated before on many occasions, the CI is a VectorVest secret weapon.

As often noted in my writing most stocks move up and down with the market averages and knowing whether the VectorVest Composite is moving up or down is a vital part of the quest for profits, so it's great to know with some certainty which way the market is heading. In my experience, the least accurate predictions are made by the TV market pundits so be wary of these people. On VectorVest we have several Market Timing methods that are totally objective and ego-free.

On 29 September 2017, the most conservative Market Timing system, Confirmed Calls, gave an Up, buy signal on the UK market. If you run the standard "Explosive EPS Stocks" UniSearch on that date and QuickTest the top 10 shares through 22 December 2017, you should see easily that the selection has gained 20.53%, while the VVC/UK has gained 2.44%. This is a 89% annualized gain.

My next step was to use the BackTester on VectorVest to ascertain the long-term performance of this UniSearch. The BackTest was started at the first Confirmed Up signal in 2009 which occurred on 20 March 2009 and ended on 22 December 2017. The rules of the BackTest were:

- Rules...Confirmed UP Buy Long
- Search Explosive EPS Stocks
- Stop Criteria 75% Gain or 25% Loss
- Try to maintain 10 positions
- Automatically replace closed positions
- Invest average portfolio value

Rules...Confirmed Down No Action

During the period a 50000 pound starting capital was grown to 260910 pounds with no possible dividends added. This was a Compounded Rate of Return (CROR) of 20.76% and Annualized Rate of Return 48%, which is greatly in excess of the overall London market.

By any standard and measure, this is an excellent performance.

2018-01-05

No Luck Is Required

“The more I practice the luckier I get.” Gary Player

Making money in the stock market isn't a game of chance and it has nothing to do with your age, background or sex. Money is made consistently by a mixture of knowledge, skill and discipline. I define discipline as the ability to simply follow the rules of a simple, but robust and proven trading plan over and over again without deviation. This, as you may have discovered, is much more difficult to do than to write about.

When you start on the path to financial independence by investing and trading in stocks many friends and family members can sneer. It's like gambling they will say. In gambling the odds are stacked heavily against you and the longer you stay in the casino the more broke you become. In contrast, the stock market allows us to engineer a plan where the odds are stacked in our favor. In a way we become the casino and like the casino play the game with an edge. The VectorVest method of trading stocks by combining the following three aspects is an enormous edge. They are;

1. Fundamental position of a share (the study of value, earnings growth and safety).
2. Technical position of a share (the study of trends and turning points).
3. Technical position of the overall market.

These three aspects of share selection and market timing are fully discussed in the Successful Investing Quick Start Course which is built into VectorVest under the Training tab on the main toolbar. Buying stocks with outstanding fundamentals that are rising when the market is rising is simple, intuitive and proven over decades.

Lesson 5 of the aforementioned course is all about putting together a trading plan that suits you. Dr. DiLiddo, founder of VectorVest, has written

a book entitled “Stocks, Strategies and Common Sense” which will help with the construction of your business plan. That’s what it is, as trading is a business like any other. The book can be downloaded from the Views tab on VectorVest. Click on the Views tab and then on “Special Reports.”

Some decisions will have to be made when constructing your blueprint for success. If you try and become a value stock trader, growth stock trader, swing trader and day trader all at the same time then there is a high probability of confusion and poor discipline. I don’t know of anyone who has excelled by becoming a jack of all trades in any walk of life. For most of my trading life, since 1982, where I have actively traded stocks, commodity futures, bonds and forex at both retail and institutional levels I have been a swing trader. My typical hold is from a few days to 8 weeks. To become a master at anything, it’s my view that you need to be focused and specialize.

When you have chosen a trading approach which reflects your beliefs about markets there will be times where the overall market cycle suits your system and you will be well rewarded. There will also be times when your system is out of sync with the market and, in this time, you will underperform. Value investors have underperformed over the past few years, but their day will come in due course.

If you are a short-term swing trader and exit out of a stock for a good profit and then the stock triples that should be of no great concern to you. Similarly, long-term position traders will frequently have a good profit and give it back in the quest for a share that triples in price. In my humble opinion, the key is to focus on a particular style and once you decide on this style, the detail defining it. Once that’s decided and committed to paper then the discipline to follow it will more easily be attained. Discipline will be attained only through practice and only by perfect practice. To be a winner, you need to focus on a single style and become a master in its execution.

“I fear not the man that has practiced 10000 kicks once, but I fear the man that has practiced one kick 10000 times.”

—Bruce Lee

2018-01-12

A Picture Says Much More Than a Thousand Words

My introduction to the share market started in April 1981. I had just moved to South Africa and found myself sharing an office with an elderly metallurgist who spent most of our employer's time trading on the Johannesburg Stock Exchange. I watched him day after day update his charts by hand taking the data from the newspaper. His charts were a work of art. In October 1982 after watching the old fellow trade for a year and saving a starting pot of cash, I put on my first trade. It was a winner and I have been trading and have been an avid chart watcher ever since.

Thankfully these days we don't need to update our charts and information systems by hand.

A stock chart allows us to see what's going on in any market as buyers and sellers come together. Mark Twain said that "History may not repeat itself but it rhymes." Chartists believe that faced with the eternal boundary conditions of fear and greed, the investment community will react and make the same decisions over and over again. Chartists believe that patterns in the price action have some predictive ability. In the chartist's view, they can be used as an edge in markets. The patterns are subjective and in many cases can only be seen in hindsight. The analysis of chart patterns is certainly much more of an art than a science.

Some people believe that the markets cannot be timed, but here at VectorVest we have been objectively timing the stock markets of the world for over 28 years. There is a good time to be exposed to stocks and an awful time. On VectorVest the most conservative market timing model applied to the VectorVest Composite of the UK tells the trader and investor when exactly to be buying shares and when not to be buying shares. In the words of Dr. DiLiddo, the founder of VectorVest, "The most important thing to know is

whether the overall market is moving up or down. Everything follows from this.”

I like to keep my stock charts as simple as possible without multiple indicators and the like. I display the Price action in candlestick format. In my model stock, the Price will be rising with little volatility. Some may find that a moving average helps define the trend and in the Successful Investing Quick Start Course (SIQSC) which is built into VectorVest, a 40-day average is used. If the Price is trending upwards above the 40-day average, all is good.

Above the Price, I usually plot a green line study of the VectorVest Value as I favor those shares that are undervalued. In the window below the Price, I display Earnings Per Share (EPS). It's my view that EPS is the engine that drives the share price upwards and thus I wish to see EPS rising from the bottom left of the window to the top right. On 29 Decemer 2017, I wrote an essay on a UniSearch (Explosive EPS Stocks) that can be used to find such shares. In particular, I like to search for shares where the EPS has been revised upwards recently. For an example of this phenomena have a look at the charts of Stobart (STOB.L) and more recently the Impax Group (IPX.L). If you run this UniSearch once a week you won't have any shortage of high probability trading opportunities.

On the bottom left of a stock chart on VectorVest, there is a dropdown menu which includes all of the VectorVest Market Timing systems. If you click on Confirmed Calls, this will populate any stock chart with green and red triangles. These are the Confirmed Call buy and sell signals from the Composite overlaid on an individual stock chart.

I have 7 boxes that I need to tick for each share trade and investment. It's a conservative list of rules I know, but there are old traders and there are bold traders, but there are no old bold traders.

1. Share price < VectorVest valuation (Price (Actual) < Value)
2. Price Appreciation Potential (RV) > 1.3
3. Safety of Earnings (RS) > 1

4. Earnings Growth Rate (GRT) > 20 and growing smoothly
5. The VectorVest Composite has signaled a Confirmed Up
6. The Color Guard is showing a green light in the Price column.
7. The share under study is on a BUY recommendation.

I mentioned Stobart above. For the last few weeks STOB.L and the overall UK market have ticked all the boxes apart from point 7. The share is on a Hold recommendation and I am watching it carefully for any positive change.

Across the pond in the USA, the Composite is starting to move towards an overbought situation. The MTI is around 1.50 and the Buy/Sell ratio is 3.21 as of Tuesday 9th January. A MTI of 1.65 and a Buy/Sell ratio of greater than 4/4.25 invariably precede a change. We don't know what's going to happen next so let's just stay in the moment and react to what is happening now.

As end-of-day traders, our present moment is the advice and the trends displayed each evening on the home page of VectorVest and, in this moment, they are positive. Let's be wary, but enjoy the ride.

2018-01-19

Building a Fortune Takes More Than Motivation

At the start of the year many of us will have written down goals and objectives for the months ahead. This is clearly an excellent thing to do. The first thing that comes to mind is how to build the motivation to achieve these milestones in our lives. However, recent research shows clearly and scientifically that it takes something much more concrete than motivation to make things happen.

A surprising research study reveals why motivation isn't the key to achieving your goals and offers a simple strategy that actually works. In the study the goal was to develop a habit to exercise regularly as reported in the British Journal of Health Psychology.

Three groups were chosen at random.

Group 1 was the control group and was asked to record the number of times they exercised over a period of several weeks.

Group 2 was the motivation group and these people were asked to read and listen to many motivational programs showing the benefits of exercise to your overall health and self-worth. In particular, they were shown that exercise reduced the onset of heart disease.

Group 3 also underwent the same motivational training as Group 2, but, in addition, were coached in planning when and where the exercise would take place within their daily schedules. This included specifically which day, where and when during the day.

After the test period the researchers were surprised.

Group 1... 38% exercised at least once a week.

Group 2 ...35% exercised at least once a week

Group 3 ...95% exercised at least once a week.

By writing down exactly when and where they were going to exercise greatly increased the probability of the goal being achieved. The result as concluded by the British Journal of Health Psychology was that “motivation has no effect on exercise behavior.”

Deciding in advance when and where you will take specific actions to reach your goal can double or triple your chances for success. In over 100 studies in many different areas, people who exactly state when and where their new behavior is going to happen are much more likely to stick to their goals.

It's my belief and personal experience that a similar process is true for the goal of building a personal fortune on the stock market. If you plan when and where and how the process can be built into your day and life, there is a much higher probability of it happening.

In these essays, I have written at length about having a written trading plan. If you haven't, then your first goal will be to apply the above process to getting a set of rules down on paper that satisfy your personal goals and beliefs about trading and investing on the stock market. Lesson 5 of the Successful Investing Quick Start Course will greatly help with this exercise.

If you are new to investing then please consider the VectorVest Worry-Free Investment strategy (WFI). This plan has been tested over the past 25 years and has produced excellent profits over that period in the USA, UK and South Africa. The rules can be downloaded from the VectorVest program. Click on the Views tab on the main toolbar and then on Special Reports. Scroll down to the Guide to Worry Free Investing (4th down).

The WFI is a conservative trading plan and it will only take a few minutes a day to keep under control. On most days, there will be nothing to do. To make this happen each and every day apply the process detailed above and your goal of building a fortune on the stock market is well on its way. I guarantee it.

I was schooled in this process in my first institutional trading job around 30 years ago. The desk head insisted on a morning and afternoon routine. The

trader on the desk who didn't have his homework completed on the markets they were trading by the London open in the morning and the NYC open in the afternoon were not around very long. I no longer trade intraday, but each and every weekend schedule the time and place in advance where I can study the markets and manage the positions in my portfolio during the week ahead. Without that, it's just so easy to miss a few days to travel, sloth and other pressing commitments.

Exercise is very important to me personally. Each and every week I sit and plan when I can get to the gym and fit it around a fairly active travelling schedule. I have lots to do in other areas of my life. In particular, I have had a goal to write a book on swing trading techniques in the stock market. The latter has been on my list of goals in January for the past few years. This is the year and I will use the above simple process to make it happen.

In both the UK and the USA the trends both short-term and long-term are strongly positive as I write on 15 January 2018. Let's be wary and do our daily homework, but enjoy the ride.

2018-01-26

Keep the Analysis Simple and Quick

In trading and investing, it is very easy to make life much more complicated than it needs to be. It's easy to get sucked into spending hundreds of hours in the study of Elliott Wave, Fibonacci and Gann before eventually ending up where you started. It's happened to me many times.

In the last 6 years in the stock markets of both the UK and South Africa, the winners in my account have been found from a much simpler and quickly performed analysis. It takes a few minutes a day to keep the process under control, within my written trading plan. This gives me the time to focus on what's really important and that's cutting losses quick and letting winners run. I also (as you know) favour adding to winners. In gaming parlance this is referred to as a "reverse martingale" money management system. The rules of the plan are taken from the Successful Investing Quick Start Course which is part and parcel of the VectorVest analysis program.

- 1. High/Lows:** All my big winners really started to appreciate strongly when they broke through 52-week highs. On VectorVest, a break of a 52-week high can be added to the search criteria within the UniSearch facility on the program. A list of shares breaking a 52-week high can be generated in a few clicks. Maybe more simply the fact that the share has generated a VectorVest Buy recommendation is enough evidence that the share is moving strongly upwards. This will mostly get the investor onboard prior to the breakout of the 52-week high. As you will see below, this tests exceptionally well.
- 2. Undervalued Shares:** All my winners have been trading at a price lower than the VectorVest valuation. I favor undervalued shares. There is much less risk there. Buffett says, "You don't know who has been swimming naked until the tide goes out." Each day VectorVest calculates a Value for

each share in VectorVest UK listed on the London Stock Exchange and AIM. Again, it's simple to use UniSearch to find undervalued shares that are breaking upwards.

3. **Relative Safety (RS):** I only look at shares that have a safe history of making money. I don't like surprises. There is lots of cash to be made in companies that are growing their earnings safely and steadily. Each evening VectorVest calculates a metric that represents the safety and predictability of the earnings. Once more that number can be added to the mix on UniSearch and this means that now we have a list of all the shares that are undervalued with a good track record of making money that are breaking upwards. This is done in seconds.
4. **Earnings per Share Growth Rate (GRT):** I only look at shares that are aggressively growing their earnings at above 20% per annum. As Ben Graham (Buffett's mentor) put it "earnings per share growth is the engine that drives the share price." Once more this can be added to the UniSearch parameters. Our list now contains those shares that are undervalued, growing EPS strongly with a safe track record that are breaking upwards. This is information that each investor and trader needs to have at their fingertips.
5. **Market Timing:** Most of all the overall London market was heading upwards during big percentage moves from my winners. The most important thing is to know whether the market is moving up or down. Everything else follows from that. On the VectorVest program, we have a totally objective methodology of assessing market direction. This is vital to your success and to meeting your trading objectives. In the test presented below I have used the Confirmed Call Market Timing system.

Using Unisearch, the following lines of code will find undervalued shares, which are growing earnings strongly and breaking upwards on a Buy recommendation.

Price (Actual) < Value GRT >= 20

RV >= 1.3

RS $\geq$ 1

Stock Rec-(recommendation) = Buy Sort...VST Desc

If I QuickTest the above, from the Confirmed Up market signal on 29 September 2017 through 22 January 2017, the top 10 shares chosen have appreciated by 11.0%, while the overall market, as represented by the VVC/UK, is up 3.4%.

In the present market the Comfort Index, CI, is producing excellent results. I refer to the CI as VectorVest's secret weapon. If the sort of the above UniSearch is changed from VST Desc to CI Desc then the performance in the same period improves. In this case the top 10 chosen appreciates by 17.7%. This is a 56.0% annualized gain.

Currently, the Primary Wave of the VVC/UK is down, but the underlying trend is still upwards. VectorVest advises inaction, until, if and when, the Primary Wave turns back up. Please watch stops carefully until this happens.

2018-02-02

Are You in the Market to Prove Yourself Right or to Make Money?

There are four fears that are at the root of trading errors and mistakes. In order of importance to me they are:

1. Being Wrong
2. Losing Money
3. Missing Out
4. Leaving Money on the Table

Being wrong and losing money may not pose immediate threats to your existence, but they are major fears. At the Swing Trading Seminar I introduce this by saying that “Most men over 50 are less scared of death than they are of being wrong.” I see a lot of heads nodding when I make this remark.

The dynamics of the four fears in your trading/investing manifest themselves in a tendency to trade to be right, as opposed to trading to make money. The urge to be right is deep rooted and without spending time becoming aware of this, the average trader will start to snap at winners and increase the stops or ignore the stops. They will even start to justify this by making remarks such as “Stops are for buses.”

I know I am stressing on this point, but I have been observing retail portfolios for 25 years and it's the reason that many of them end in the red. The ego's need to be right causes the most rational of people to keep doing the wrong thing. Make a watch list, sort the watchlist by RT, keep the shares at the top and cull those at the bottom. It's that simple, but the ego will fight you all the way. Be warned.

Here is a small, but very important mental trick that will help.

When a losing trader has a winning trade, they tend to become nervous, worried and pessimistic. They stress over the possibility that the profit will be taken away from them in an overnight move or by a poor trading statement. For this reason, they tend to snap at their winners.

When a losing trader has a losing trade, they tend to become optimistic. They are optimistic that the losing position will turn around into a winner. “Give it another day” which turns into “Give it another week.”

A winning trader has a completely different mental view of winners and losers. When a winning trader has a profitable trade, they become optimistic that the position will keep rising. When they have a losing position, they quickly become pessimistic and close the position.

On your next trade or investment pay close attention and become aware of your thoughts. If the position is in the black focus on positive optimistic thoughts and practice excluding pessimistic thoughts. If the position moves into the red focus on just the opposite. This will take some practice and work.

To become a winner at the game of trading, it's vital that you become optimistic in a winning position and pessimistic in a losing position. If you practice that mental switch then the cash is on its way.

2018-02-09

Getting Out of Your Own Way

The rules of trading are straightforward and I have no doubt you have seen them many times.

The rules are simple and they have been time proven by everyone who has been successful in the game of trading and in fact the game of life.

The rules are:

1. Buy low...Sell high
2. Let winners run...cull losers quickly
3. Add to winners, not losers
4. Go with the trend

The rules are easy and intuitive to understand, so what makes it so difficult to follow them? More than likely many of us will have broken these time honored rules time after time. I know I have. It takes quite a while and normally a heap of cash to convince the failing trader that the problem may be theirs, as opposed to a market hell bent on “getting” them.

My first run in with the rules of trading happened in 1984. I had been trading on the Johannesburg Stock Exchange since October 1982 and in the two years had built up quite a tidy sum for that period in my life. When I started, I knew nothing and simply followed trends (as defined by an 89 day moving average) and the rules 1-4 presented above.

After two years, I had read, studied and attended many investment meetings and courses at the local University. Although in hindsight I didn't know enough to know I knew nothing, I felt I was a guru. In 1984, I bought into the story around a share, forgot about position sizing and although the share was falling added to a loser several times. There can be no higher a sin in stock

trading than adding to a losing position. Needless to say the stock kept falling and I lost all the cash I had made in the previous two years.

Let me restate this. The worst sin of all is adding to a losing position. The two for the price of one argument is touted by brokers everywhere. Why do we punish ourselves and our bank balance with this most basic of errors?

The VectorVest system of stock analysis is totally objective. The fundamental position of a stock is calculated from the financial statements and not gut feelings. The technical trend of both the stock and the market are calculated in the same precise and consistent fashion for each market around the world. Over the past months, I have detailed in these essays my conservative approach to stock selection. I favor undervalued stocks with a high long-term price appreciation potential ($RV > 1.3$), reasonable RS ($RS > 1$), that are trending higher with a strong Comfort Index ($CI > 1.3$). I especially like to see a step increase in Earnings per Share and use UniSearch to find these shares in my weekend analysis. The UniSearch is known as “Explosive EPS Stocks.”

The VectorVest program is an awesome edge in markets. We just need to get out of the way and follow it within our unique trading plan.

Once a stock has been purchased, the only thing that matters is whether it's trending upwards or not. Simply make a WatchList of your shares and review Lesson 2 of the Successful Investing Quick Start Course for guidance.

A WatchList of your shares sorted by the trend (RT desc) as opposed to the default VST will tell you immediately the shares at the bottom of the list that need attention. These should be watched and culled if necessary. The system has been proven in 5 continents over the last 28 years. I have had to take action over the last 10 days and exit several positions that were at the bottom of my portfolio watchlist and will discuss these in detail at the next webcast on the 12th February.

However, it's easy to just sit there and watch and do nothing saving hoping and praying.

The discipline that dissolves the veil of deception between yourself and the market can be attained in many ways. For me the practice of staying in the “moment” and focusing on what’s happening now has resulted in the elimination of many of the trading errors that I have talked about above. It takes practice and our egos will fight the process tooth and nail. The ability to stay present and keep your head while everyone else loses theirs will help all other areas of your life as well.

I note that the bookshops are full of books on “mindfulness.” There is no shortage of texts on the subject.

Last week I wrote about the four fears in trading. The only practical way of sidestepping fear in any form is to become totally present. This is what Special Forces are taught to handle their fears in battle. When you get into that zone of being totally there, it’s a very sexy place to be. It’s the real reason that people climb mountains. On the side of Everest very few will be thinking about last night’s meal or contemplating whether to go for the chicken or fish this evening. The mind is totally focused on each single millisecond as anything else will result in a sure and sudden death. If you have ever owned a motorcycle and done the “TON” just reflect on where your mind was as the needle went past 100.

To start your practice, try the following. If you are having dinner with the family this evening, try and just be there. Forget about what happened today and don’t worry about tomorrow’s agenda. Just be there totally engrossed in the meal. The first method of building presence is to focus on being present when you are not being threatened in any way. If you practice this for a few days you will soon observe that your threshold of presence will increase enormously. Things that would have previously sent you into a spin, no longer have that effect. In your business you will be able to handle problems in a much less stressed fashion.

More importantly in your trading, with practice, you can finally get out of your own way.

2018-02-16

Winning At the Game of Trading

Winning share traders have dozens and even thousands of trading strategies and ideas. Some are totally fundamental, some only technical and some use a bit of both.

At VectorVest, we combine both the technical and fundamental position of a share and the technical position of the overall market. It's a winning edge that's been proven worldwide over the past 28 years.

However, cutting through all of these approaches are two common denominators which I believe must exist together to put yourself on the winning side of the ledger.

These are:

1. A positive expectancy system
2. A positive mental posture

I will devote today's entry to the first, as I have written about trading psychology over the last few weeks. The mathematics of a positive expectancy system must come first, although when it's in place it's not as important as correct personal psychology. All of the positive psychology in the world won't cut it with a system that loses more than it makes.

In the trading seminars that I have done all over the world, I start with putting up a chart of a randomly selected stock. I then ask the crowd, "Is it going to go up or down tomorrow?" I get a show of hands from those who think it's going up and another show of hands that it will fall. I did this a few weeks ago at the first London Swing Trading Seminar.

Out of my pocket I pull a Pound coin and call it the "Ultimate Trend Detector." I tell the crowd that clearly the Head means the market is going

up and the Tail means it's going down. I toss the coin and justify the position of one set of hands. The relief on their faces is a joy to observe as is the disappointment on the side of those who got it wrong. Ego is a very strong force within us all.

"Would you trade like that?" I yell. The answer is a 100% NO.

I then ask. Let's consider a special game. If you can predict whether it's going to be a head or tail I will double what you are prepared to bet. If you are prepared to bet a Pound that I will throw a head and you are correct I will pay you two Pounds. Clearly if you are incorrect I will take the Pound away.

Would you play that game?????

Most of the crowd new to trading dismiss the idea and just shake their head. I can see in their eyes "Did we pay good money to listen to this?"

However, it's a great game to play and the game is the basis of all financial trading. With the coin you should be correct 50% of the time. If you are correct, I will pay you twice as much as when you are incorrect. Let's look at the sums.

5 times 2 (when you are correct) minus 5 times 1 (when incorrect) equals 5 units on 10 throws of the coin.

If you are prepared to bet 1 Pound per coin toss, on average, you will make 50 pence every throw.

In trader speak, you have now got a game with a **"POSITIVE EXPECTANCY."**

The 5 out of 10 is the "hit rate" and the 2 to 1 is the "risk to reward ratio" although I suppose it should be "reward to risk," but that's not how traders speak.

The expectancy of a trading system, whether technical or fundamental based is critical to success and it is NOT just about being right all the time as most people think. In fact, the risk to reward ratio is just as important and in my personal trading system, more important than the hit rate. In my trading

plan I add to winning positions and by doing this can engineer risk to rewards of 8 to 10 plus. When I am correct, I wish to build a large position and when incorrect have a tiny position. Easy words to write, but it's taken me many years to get the execution correct.

Day traders rarely have a risk to reward ratio of greater than 1 as the market does not normally move that far in a single day. This means they need to be right much more than 50% of the time to scratch a profit after the commissions associated with frequent trading. That's why there are so few winning day traders around. The sums are against them.

At VectorVest, by putting the technical position of a share together with the fundamental position, we can engineer systems with both a high hit rate and a high risk to reward. The expectancy then goes through the roof.

However, if you can be correct 50% of the time and make twice as much when you are correct as when you are incorrect then you have got a method of making money for the rest of your days.

With that written plan in place, it's just a matter of playing the game over and over again.

2018-02-23

Three Buckets

“At Berkshire Hathaway we have three buckets: yes, no and too hard. We just throw some decisions into the ‘too hard’ file and go onto the others.”

“It is remarkable how much long-term advantage people like us have gotten by trying to be consistently not stupid, instead of trying to be very intelligent.”

So says Charlie Munger who is the sounding board and partner of Warren Buffett. Bill Gates says Mr. Munger is the smartest person he has ever met.

The “too hard bucket” is a very simple, yet very powerful idea. Think of all the brain power expended by industrious City analysts (most with CFA qualifications) trying to decide if the discounted cash flow projections of a complicated earnings model makes some middle-of-the- road (MOTR) stock a marginal buy or not.

The rational thing would be to skip such MOTR analysis entirely and look for something with higher conviction potential (such as an undervalued stock with the RV through the roof). Meanwhile, if you can’t find anything, keep looking or sit on your hands. It’s smarter to be smart about the limits of your intelligence.

The founder of VectorVest, Dr. Bart DiLiddo, puts this across succinctly in the following. “Good Portfolio Management starts with buying the right stocks.”

To make proper use of the too hard bucket, a few qualifications apply.

You can’t have a job that favors output over substance like the analyst forced to have an opinion when no opinion is worth having. Most institutional analysts will have to generate lots of reports to justify their own existence and inevitably sooner or later get involved with the “too hard bucket.” For us, as retail investors, this means that if there is nothing to buy, then sit on your metaphorical hands and drink coffee. If you buy stocks long only, then when

the market is falling, there is nothing to do except watch stops. That's a job in its own.

It's easy to be tempted by a lack of patience into the "fancy play syndrome" and making trades because you are bored. It's so tempting to try and pick a bottom in a stock that's falling. Early in my trading career I was told that "top and bottom pickers become cotton pickers" and that mantra has helped a lot. Over the last 35 years in this business, I have met many very intelligent people who eventually became cotton pickers by their ego's need to prove its worth by venturing into the "too hard bucket."

You certainly can't be driven by ego and its need to prove to others and yourself how smart it is. Don't be put off by the need to throw away ideas over and over again in marginal situations that don't, at a glance, fit the criteria below.

So before buying any stocks let's make sure of the following:

- a. The stock's price is steadily rising and not too volatile.
- b. The company is making money and growing their earnings strongly.
- c. Favour undervalued stocks.
- d. The overall market is rising and the Color Guard on the front page of VectorVest is showing green lights.

The disasters in the UK market recently, Carillion and Optima, and Steinhoff in Europe and South Africa were all firmly in the NO bucket. All three were trending strongly down and that had been the case for many months prior to the final collapse.

It's amazing how good the results are when you do what it says above and simply stay with shares that have great fundamentals, which are rising in price and only purchase them when the overall market is trending upwards.

2018-03-02

Finding the Very Best Shares for Your Portfolio

The founder of VectorVest, Dr. Bart DiLiddo, says “Good Portfolio Management starts with selecting the right stocks.” He adds that it’s just like a sports team. If you fill the team with good players, just having those players will help the team to do well. How to find these stocks is what I will try and illustrate in this essay.

I don’t think a retail portfolio needs to hold more than ten carefully managed shares.

I think it was WD Gann in a 1930s book who first suggested that the trader/investor should split his cash into ten pieces and NEVER put more than one piece into any single investment or trade. It remains very sage advice nearly 100 years later. More recently quantitative analysts have agreed with Gann’s conclusions.

Then Mr. Gann goes on to suggest that the trader should never lose more than 10% of each piece in any one trade. This means that the risk on any one trade is kept at 1% of the entire cash value of the portfolio. There are old traders and there are bold traders, but there are NO old bold traders. In Lesson 2 of the “Successful Investing Quick Start Course” (SIQSC), the topic of risk management and position sizing is covered in detail. The lesson should be often studied. Risk management will keep you alive long enough so as you can gain experience in the craft of investing.

In his excellent book, “Stocks, Strategies and Common Sense,” Dr. DiLiddo recommends that within the 10 stocks purchased, there should be no more than two within the same industry or sector. If you haven’t got a copy of the book it can be downloaded from the VectorVest program by clicking on the

Views tab on the main toolbar, then “Special Reports” and scrolling down to the link.

In my mind the secret of making money is to find the value of an asset and pay less for it. This is common to property, used cars and, in my view, all asset classes. In my portfolio I favour 10 undervalued stocks that are growing earnings strongly and trending upwards in price.

Such shares are easily found by using the UniSearch tool of VectorVest. I have created my own UniSearch which illustrates the power of the program to find winners easily and without much fuss. The search has had a great time in both the UK and recently in USA.

1. Price (Actual) < Value
2. RV $\geq$ 1.3 (RV is Relative Value, the price appreciation potential)
3. RS $\geq$ 1 (RS is Relative Safety which quantifies the safety and predictability of the financial performance)
4. GRT $\geq$ 20 (GRT is Earnings Growth Rate in percentage points)
5. CI $\geq$ 1.3 (CI is the Comfort Index and reflects the stocks resistance to a downturn and measures a strong and rising long-term trend)
6. REC (Recommendation) = Buy
7. The Color Guard on VectorVest is showing Green lights
8. I sort these shares by the Master Indicator, VST Desc

Over the last year, this UniSearch has outperformed the overall market significantly. The overall market since 27 February 2017 to 26 February 2018 is up 4.3%, while the selection above is up 14.8%.

Clearly the above QuickTest was done with no Market Timing which is a key part of the VectorVest edge in markets.

There are many ways of “cherry-picking” quality shares for your portfolio and these are taught in Lesson 4 of the SIQCS. Please study this lesson and find a method that suits your needs and beliefs about markets.

If you fill the portfolio with good shares, just having those shares will help the portfolio to do well.

2018-03-09

What Winners Do

“A losing trader can do little to transform himself into a winning trader. A losing trader is not going to want to transform himself. That’s the kind of thing winning traders do.”

—Ed Seykota as taken from his interview in the book *Market Wizards*

It may sound trivial or overly simple and yet it is so important. Being a winner starts with a firm commitment to winning. And that commitment starts with a relentless determination to do what it takes to win - day in and day out, leaving no stone unturned. Are you a committed winner?

What steps are you taking to make 2018 your biggest and best year ever?

The most important step in my view to becoming a winner in this business is to take total and 100% responsibility for your trading and investing life. You are totally responsible for your life and your trading results. This is the foundational principle you must embrace if you plan for happiness and success in life, trading or any endeavor. For many people, everything is someone else’s fault. I hear it every day. “They got me.” I hear it from retail traders and institutional traders alike.

Many developing traders are willing to take responsibility for their winners, few are willing to take responsibility for the losers. Somehow when they win, there is no talk of the broker or market-maker, the market behaving strangely, the system, their risk management or mind affecting their trading.

Without taking responsibility for winning and losing trades alike, you’re all the more likely to look at your trading career as a failure because you allowed any passing wind to blow you around, all the while blaming the wind for how things turned out. When you fail to responsibly guide your direction and outcomes, you set the stage for creating a miserable trading life - a trading life that fulfills none of your dreams and aspirations. People who take complete responsibility for their lives experience joy and control of circumstances. They

are able to make choices because they understand that they are responsible for their choices.

Even when events that are not under your control go awry, you can, at the very least, determine how you will react to the event. You can make an event a disaster or you can use it as an opportunity to learn and to grow.

The most important aspect of taking responsibility for your life is to acknowledge that your trading and investing life is your responsibility. You are in charge. No matter how hard you try to blame others for the events of your life, each event is the result of choices you made and are making.

Ask yourself, what are the aspects of trading you most neglect, you enjoy the least and that you pay the least attention to? These are likely the weakest aspects of your trading and, consequently, the ones that need to be developed the most. Take a long think about it, then make a list of them. Meditate on this list as to how it has affected your trading in the past and what you are going to do to develop this in the future.

What skills do you need to develop and work on? Here are some suggestions.

1. Deciding upon and putting on paper a trading plan. In all the years I have been dealing with traders, I have never found an individual who did not have some resistance in putting a trading plan on paper. Lesson 5 of the “Successful Investing Quick Start Course” will help with getting this done.
2. Risk management and position sizing. These subjects are deemed boring and frequently forgotten.
3. The discipline to follow the plan. I have written about building this habit in the past in these essays.
4. Diligence to plan for a time each day to focus on your investments for 10 minutes at least. Remember those people who plan a time in their day and week where the activity is to occur have a much higher probability of following through.

Eliminate blame, eliminate excuses. If the blame track or the excuse track plays repeatedly in your mind, you are shifting responsibility for your decisions and life to others.

Listen to yourself when you speak. In your conversation, do you hear yourself blame others for things that don't go exactly as you want?

Become aware of your thoughts. If these thoughts persistently blame others and the market for your trading losses then becoming aware of them will help. These thoughts arrive and chatter away in your head like a school room full of youngsters when the teacher leaves the room. When you observe your thoughts and can laugh at them, they have lost their power. Don't judge the thoughts, just laugh and dismiss them. It's quite normal to observe that these same thoughts have been circulating in your head for years and in some cases decades.

Taking responsibility is the cornerstone of becoming a consistently winning trader and investor.

2018-03-16

The Secret to Trading Success...It's Not What You Think

In this essay I wish to focus on what it takes to become a consistently winning trader. A logical place to start would be to look at the methods and characteristics of the big winners in the trading game around the world. When I did this years ago, the answers were confusing to say the least.

Below, I have added the tag lines of several famous investors and traders.

"I haven't met a rich technician."

Jim Rodgers

"I always laugh at people who say, I have never met a rich technician. I used fundamentals for 9 years and then got rich as a technician."

Marty Schwartz

"Diversify your investments." John Templeton "Diversification is a hedge for ignorance."

William O'Neil

"Concentrate your investments. If you have a harem of 40 women you will never get to know any of them well."

Warren Buffett

"You have to understand the business of a company you have invested in or you will not know whether to buy more if it goes down."

Peter Lynch

"Averaging down is an amateur strategy that can produce serious losses."

William O'Neil

“Don’t bottom fish.”

Peter Lynch

“I believe the very best money is made at the market turns.”

Paul Tudor Jones

This totally confused me some 30 plus years ago. These guys just didn’t agree on anything. I am sure many reading will have gone down a similar path. All of the above was put into context by the book “Market Wizards” by Jack Schwager around the end of the eighties. He interviewed many of the top traders in the US, including those that I quote from above. His conclusions were similar to my own in that each of the big winners had a radically different trading plan which suited their own personalities and beliefs about markets. Market Wizards is a great read.

The path to finding a trading plan that suits your personality and beliefs is a rite of passage in the trading/investing business. It will take a few weeks and months to get this into place and it needs to be written down on a single sheet of paper.

A great place to start would be to complete the 5 Lesson Quick Start Course which is built into the VectorVest program. In the last week of the course, the new trader (or losing veteran trader) is shown how to put the pieces together into a working plan. Take your time and meditate over this process. It will be time exceptionally well spent.

My own plan is very simple and I have written about the UniSearch used on many occasions. I focus on shares that are trading below the VectorVest calculated valuation, that are growing earnings strongly and reasonably safely. These shares should be on a VectorVest BUY recommendation and the overall market should be trending upwards. The UniSearch parameters and plan are summarized in the following 8 points.

1. Price (Split Adjusted) < Value
2. RV >= 1.3 (RV is the price appreciation potential)

3. $RS \geq 1.0$ (RS is Relative Safety which quantifies the safety and predictability of the financial performance)
4. $GRT \geq 20$ (GRT is Earnings Growth Rate in percentage points)
5. $CI \geq 1.3$ (CI is the Comfort Index and reflects the stocks resistance to a downturn and measures a strong and rising long-term trend)
6. Recommendation = Buy
7. The Color Guard on VectorVest is showing Green Lights.
8. I sort these shares by the Master Indicator VST.

Schwager concludes that there is no “Holy Grail” to making money in the markets although my research shows that following the above is as good as it gets. Jack’s book got me thinking that if there is no common ground in how to make money, then what about common ground on the ability not to lose money. Eureka.

“My basic advice is not to lose money.”

Jim Rogers

“I am more concerned about controlling the downside. Learn to take the losses. The most important thing in making money is not to let your losses get out of hand.”

Marty Schwartz

“I am always thinking about losing money as opposed to making money. Don’t focus on making money, focus on protecting what you have.”

Paul Tudor Jones

“Rule 1. Never lose money. Rule 2. Never forget Rule 1.”

Warren Buffett

“Learn how to take losses quickly and cleanly.”

Bernard Baruch

“The majority of unskilled investors stubbornly hold on to their losses.”

William O’Neil

Now I was getting somewhere. Although all these big winners in the market had radically different methods of making money in the markets, they all agreed on the importance of how to control their losses. That was the secret.

Learning how not to lose money is more important than learning how to make money.

Learning how not to lose money in the markets is fully discussed in Lesson 2 of the “Successful Investing Quick Start Course” mentioned above. In Lesson 2 of the course, you will be taught how to accurately size your positions so as only 1% of your account is at risk should the trade go against you.

In my view, to be a successful trader we need two main characteristics.

Firstly, we need a source of quality information on which to make decisions. VectorVest, and its mix of both technical and fundamental information, fills this requirement perfectly with little fuss. All the calculations are completed effortlessly for nearly 2200 shares each and every evening. The data is presented in a fashion that's easy to understand. Information is only useful when you can easily react to it.

Secondly, we need the self-awareness to focus on perfect execution of a simple trading plan. A plan where we cut our losers quickly, never losing more than 1% of our equity on any single trade or investment. A plan where we let our winners run and avoid snapping at our winners after a few ticks of profit. A plan where we build a position in our winners by adding to these positions as they break upwards through old highs.

Professional golfers focus on perfect execution of each and every stroke. They invest heavily in mental training to this end. Special Forces practice and drill this skill so they can perform in the most challenging situations.

Trading and investing are no different.

2018-03-23

Reminiscences

Over the last few days I have reread my longtime favorite trading book. I am pleased to note that not much has changed in the 100 odd years since the book was published and that the VectorVest philosophy has much commonality with the approach discussed in the book.

“Reminiscences of a Stock Operator,” by Edwin Lefevre, tells the story of a young trader named Larry Livingstone. The book is based on the exploits of Jesse Livermore. He was known as JL to his friends and as a trader, JL had unparalleled success in the stock market of his day. According to biographer Richard Smitten, the great JP Morgan himself sent a letter to JL in 1907 begging him to stop shorting the market to save the entire banking system.

His personal life was far from perfect, and he was frequently prone to bouts of depression or the “black dog,” as defined by Churchill years later. During his best years, JL cornered the cotton, corn and wheat markets and became a millionaire from trading before he was thirty.

I have been involved with VectorVest for only seven years and this was the first entire reading of the book in that time. I frequently read parts of the book, but last week started afresh from Chapter 1. I was surprised that many parts of the JL method were exactly what I have been saying to VectorVest customers and prospective customers in seminars and webcasts over the past seven years.

JL started life as a short-term trader, but he changed his tune quite early on in his career. In his own words, “But my greatest discovery was that a man must study general conditions, to size them so as to be able to anticipate probabilities.” He further said that the big money was in “sizing up the entire market and its trend.” Whether swing trading or position trading he concluded that success came much easier when the trades were taken in sync with the trend of the underlying market. When reading this, I smiled to

myself in that I have been saying the same for seven years now. The founder of VectorVest puts this exceptionally well in the following:

“The single most important thing to know is whether the market is going up or down. Everything follows from that.”

—Dr. Bart A. DiLiddo

When the overall trend was determined, JL was just as happy on the short side of markets as the long or simply buying shares. Over the last few years, the long side was the place to be, but that will not always be the case. In the period between 2007 to March 2009 the only way to make money was on the short side. I have noticed myself developing a long only mentality and I have noted that many funds are now touting long only funds. Invariably when this becomes consensus sooner or later there will be a change. Modern markets allow each of us the ability to short without fuss and it's something that I personally will be working on in the months and years ahead as the Color Guard and Market Timing systems on VectorVest dictate.

JL used both technical and fundamental studies to make his decisions with the general conditions of the market tying it all together. I have been saying the following at VectorVest meetings up and down the country and it's essentially what JL was talking about 100 years ago. It's the best of both worlds using the best parts of both technical and fundamental analysis.

“At VectorVest we favor undervalued shares that are growing their earnings both aggressively and safely, that are rising in price. Those shares should be accumulated when the overall market is rising.”

I think JL would have approved.

If you haven't read the Reminiscences, I think that you should. It reads easily and is available at most decent bookstores. I am surprised that the story has not been used for a Hollywood movie.

Many large trading floors give the book to newly appointed traders on their first morning at work.

2018-03-29

A Sure Way to Put the Probabilities At Your Back

Many say that money management is the “Holy Grail” of trading and it certainly helps. Learning how to cut losses quickly is vital while riding winners and adding to winning positions is important, but at VectorVest we take it one step further. Your best defense is a good offense and that means picking the very best stocks at the outset. With this task successfully completed much of the money management will take care of itself.

It is much easier to follow your trading plan if you are in the right stocks. By all means ride and add to your winners and cut your losses quickly, but make sure you are in the best of the best stocks to begin with.

Dr. Bart DiLiddo, the founder of VectorVest, taught me that “good portfolio management starts with selecting the right stocks.” Just like with a sports team. If you fill the team with great players, just having those great players would help the team do well. So by filling your portfolio with really good stocks, just those good stocks alone would help your portfolio do well.

Let me share the checklist I use when looking for stocks to buy.

1. Look for stocks whose price is steadily rising & not volatile.
2. Make sure the company is making money and growing their earnings.
3. You should favor undervalued stocks.
4. Favor safe stocks.

These shares are not volatile and they are already going up in price. In other words these shares are already doing what you want them to do. Remember this, what you see in the past is most likely what will happen in the future and that is rising in a smooth and steady fashion.

Unfortunately, most people have been brainwashed into buying falling stocks. The old “2 for the price of 1” strategy has been responsible for bankrupting many at both retail and institutional level. I have never seen a stock too high not go higher and too low not go lower. Really good stocks usually don’t look back when they start moving upwards.

Earnings per share (EPS) growth is the engine that drives the share price according to Ben Graham who is Warren Buffet’s mentor. VectorVest calculates a forecasted EPS which makes this analysis and study very easy for us.

When a company’s earnings are rising, that company can grow. It can put more money into research & development and also grow by acquisition. At VectorVest we have found that companies with rising earnings have stock prices that tend to go higher. Wouldn’t you rather invest in a company that is making money and making more and more money every year?

In addition at VectorVest we favor companies that are undervalued. Over time, we’ve found that a stock’s price and its value meet. Most of the time price will go to meet value. So you would want to favor stock prices that are below the value. My grandfather used to drum into the family that the only way to make money in anything was to “find the value of the asset and then pay less for it.”

A stock’s value is automatically calculated by the VectorVest program using data summarizing EPS growth, profitability and many other fundamental inputs. Undervalued stocks offer a higher probability of achieving gains, the potential for very large gains and lower downside risk according to Dr. DiLiddo.

The process to find those undervalued shares that are growing earnings aggressively and safely whilst trending upwards with little volatility is fully discussed in the Successful Investing Quick Start Course which is built into VectorVest. Just click on the Training tab on the main tool bar and all five Lessons will appear.

A great source of detailed information on finding the very shares for your portfolio can be found in Dr. DiLiddo's book "Stocks, Strategies and Common Sense." The book can be downloaded from the Welcome tab on VectorVest.

In particular Chapter 2 on "How to Pick Stocks," Chapter 3 on "How to Value Stocks," Chapter 5 on "EPS Growth" and Chapter 7 on Stock Safety are particularly relevant to this essay.

The entire book is a gold mine of information for those who wish to put the probabilities of success markedly on their side.

2018-04-06

Sidestepping the Four Big Mistakes That Sabotage Trading Consistency

There are four big mistakes that cause both retail and institutional traders to lose consistency and suffer much drawdown in their accounts.

It is extremely important that you understand the nature of these mistakes so as you can work on removing them from your trading life and become better at playing the game of trading and investing. It will take practice.

The first mistake is that you think of the money first. You might think “*I want to make money. That’s the whole point of investing.*”

However, if you had a job and you were successful at that job, you were successful because you concentrated on doing the job well. When you do your job well, you get rewarded financially for doing your job well. The best dentist in your area has a successful practice because they focus on perfect execution of each and every procedure. If they focus on performing each root canal treatment with perfection, then their waiting room will be full and the cash will take care of itself.

As an investor, you should focus on making the best possible trades. A consistently winning trader and investor (like the dentist above) focuses on perfect and flawless execution of each and every trade as defined by the rules in their written trading plan. If you haven’t got a trading plan then it’s time you did. Lesson 5 of the Successful Investing Quick Start Course (SIQSC) will show you how to construct such a plan. The SIQSC is built into VectorVest under the Training tab on the main toolbar. My essay of last week will suggest how to go about finding the very best shares for your portfolio. Dr. DiLiddo’s book “Stocks, Strategies and Common Sense” will also help formulate your plan. The book can be downloaded from the Welcome tab of VectorVest.

Once the plan has been put on paper, the next step is to develop the patience and discipline to follow it. Old hands will attest that this is easier to write than do.

However, by focusing on the process of trading rather than the output (the money), you will learn to live in each moment where you will find calmness and a total lack of fear. Successful trading and investing is the deliberate repetition of a process with the intention of reaching a specific financial goal. When you truly shift into putting your attention on perfect execution of the trade you are doing right now and remain aware that you are doing so, you begin to feel calm, refreshed and in control. Your mind slows down and the inner chatter goes away. This inner chatter I often refer to as akin to a schoolroom full of kids when the teacher has stepped out of the room. The chatter is responsible for all of the emotional decisions that we have all made in our respective trading journeys.

The second mistake people make is they buy stocks going down. Unfortunately, this is something that has been engrained in investors' heads since birth. Since we all have started to invest, the newspapers we read each weekend have been advising to buy stocks falling and making new lows.

Stock gurus tell people to buy stocks that are falling because they are cheaper, you can buy more shares and you can pound cost average. The two for the price of one argument has bankrupted more traders than anything else ever created. I have never seen a share too high not to go higher and too low not to go lower.

I dealt with a three-part stock buying checklist last week, but if you just focus on shares that are trending upwards with little volatility, that alone will increase your probability of becoming a winner. Don't buy shares that are trending downwards. Your ego will enjoy the challenge of picking a bottom in the share, but on the floor of the Chicago Mercantile Exchange they have a saying. "Top and bottom pickers become cotton pickers." Don't let that happen to you. Simply focus on shares that are trending higher and regularly breaking

52-week highs. The Comfort Index (CI) on VectorVest will find these shares for you with a single click.

The third mistake investors make is holding onto losers too long. In the seminars and webcasts that I conduct, this mistake comes up frequently when I ask the question “which one of these mistakes has cost you the most over the years?”

You end up holding onto that losing trade thinking, *“it’ll come back”* or *“I couldn’t have been wrong on this one”* or worse yet *“I’ll buy more of it now.”* One of the worst things you can do is buy a stock and **NOT HAVE AN EXIT PLAN**. It’s like jumping out of a plane without a parachute. Clearly this exit plan should be a part of your trading plan and decided upon before the trade was placed along with the optimal position size. The latter is discussed in detail in Lesson 2 of the SIQSC.

The worst mistake that anyone can do is adding to a losing position. Averaging, as it’s called, will sooner or later totally bankrupt you. One of the most damaging effects of holding a losing position is that it reinforces the belief that you are no good at investing and trading.

The fourth mistake causing people to lose money in the stock market is they ignore overall market direction. There is a good time to be in the stock market and a very poor time to be in the stock market. Again the Sunday papers and their columnists advocate a Buy and Hold approach and constantly repeat the mantra that it’s “time in the market and not market timing that’s important.” Buy and Hold is great if you can hang around for 21 years.

If we just look at 2007/8 into March 2009, the overall market dropped 40%. When you lose 40%, you would need to gain 66% just to get back to break even. For many people, that could take years to recover from and for many they will never recover. The shock of losing 40% has meant that 9 years later in 2018, they are still in cash. The emotional shock and associated pain is still present.

At VectorVest we have several totally objective Market Timing methods that give a clear signal that it’s OK to be in the stock market. We have short-term

systems for swing traders and longer- term signals for position traders and investors. In your trading plan it's vital to decide which of these you are going to use within your personal trading plan. Once more Lesson 3 of the SIQSC will discuss Market Timing in some detail.

The VectorVest Worry-Free Investing (WFI) method uses the most conservative Market Timing Method known as Confirmed Calls to enter the market. This method has a 20-year track record of achieving profits and a copy of the rules can be downloaded from VectorVest. Click on the Views tab and then Special Reports. If you scroll down to the Guide To Worry-Free Investing, the rules are there for you. If you haven't got a trading plan, then this will be a great place to start your investment journey.

Many reading will have been to my Swing Trading Success with VectorVest course. In the course we present a shorter-term aggressive trading plan using the "Midas Touch" stocks which are sorted by a derivative of the Comfort Index (CI). The method has exact and totally objective rules and tests exceptionally well over the past 10 years.

2018-04-13

The Anatomy of a Swing Trade

Stocks rarely proceed upwards in price linearly, but rather in a series of steps. Old hands refer to these steps as “Peak and trough” progression. In basic form, the swing trader wishes to benefit from the fast move upwards and be well out of the market while the share falls back to long-term support. This ebb and flow of shares and financial instruments was first noted by Charles Dow around 1880.

Swing trading expertise can be used in three main ways within your individual trading plan.

- a. Classic swing trading is buying in at support or shortly after the share starts to move upwards and then exit the position at a profit target or as the share turns downward. This is probably the option to be used if the leverage of a CFD or spread bet is contemplated. Leverage is cool when the share is going your way, but not so cool when the position is going against you. For example, I have been trading US stock Square Inc., SQ, using some leverage via a spread bet. I have traded the share three times since September 2017 and on all three occasions took profits as the share peaked out and turned downwards. As I write this piece at 3:30pm UK time on the 10 April I am eagerly watching SQ for another entry long.
- b. Some traders use swing trading knowledge to quantify and pinpoint an elegant entry into a share at a very good level. This feels good as the position should move into the black quickly. They then manage the trade as a position trade and ignore the pullbacks and subsequent swings. This is a solid plan for an unleveraged position.
- c. Some traders use their swing trading expertise to add to winning positions at elegant levels. That's what I have done with the listed gold

and zinc miner Griffin Mining, GFM.L, and in many other cases. In the former, I have used my swing trading knowledge to add to the share on three occasions after the initial entry. The last entry was a few days ago. Again, this is best with unleveraged positions as handling the retracements with leverage most (including myself) find very difficult.

For a successful campaign of swing trades the following should be in place.

1. Swing trade only in the very best shares. These shares are undervalued by the market and growing earnings strongly and reasonably safely. VectorVest finds these shares in seconds using the UniSearch tool in the program. A UniSearch which uses $RV > 1.3$, $GRT > 20$, $RS > 1$ will suffice. I have written about this UniSearch on many occasions in my essays.
2. The share should be trending upwards strongly. On the VectorVest program, we have a metric known as the Comfort Index, CI, which finds these shares effortlessly. The CI is totally unique and in my essays, I refer to it as the VectorVest secret weapon. Adding CI to the UniSearch ($CI > 1.3$) mentioned in 1 will automatically find those shares with outstanding fundamentals that are trending strongly. That adds enormously to the chances of success in our swing trading operations.
3. The overall market should be positive and trending upwards. At VectorVest, we have five totally objective Market Timing methods that tell us that it's safe to be in the stock market. On the front page of VectorVest there is a feature known as the Market Timing Gauge visually informs the trader that it's OK to buy shares. This short-term Market Timing system is referred to as a Green Light buy. In Lesson 3 of the Successful Investing Quick Start Course (SIQSC) these Market Timing methods are discussed in detail.
4. Money Management and position sizing are critical to success. How to manage the trade in the event of a successful or poor outcome needs to be decided upon well before the trade is placed.

On the 21 April 2018, I will be holding an online version of my “Swing Trading Success with VectorVest” course which will be live streamed into your homes. At the workshop, we will discuss all of the four points above in great detail with a goal to construct several detailed trading plans during the day.

Towards the end of the day an automated trade plan will be presented where the strength of VectorVest automates the entire process. The plan is monitored each day by our Genius tool and will email you with exactly what to buy and sell. This removes all emotion and the biases which we all possess. It’s truly a magnificent tool.

2018-04-20

Size Does Matter

The concepts of position sizing in trading and investing are arguably the most important in the journey to becoming consistent in performance. The concepts are not that sexy and the mathematics are trivial. Position sizing tends to be overlooked in the big ego game of stock selection and entry points.

When you have a great trading system such as VectorVest, it is certainly easier to meet your system objectives via a robust position sizing method. However, you still have a large chance to meet your objectives and profit with an average system or great system operated with poor discipline, if optimal position sizing is practiced.

There are many psychological biases which discourage the practice of optimal position sizing. In “Trading in the Zone”, the late Mark Douglas discusses the topic in some detail. In the book he writes about the concept of “thinking in probabilities.” If, using VectorVest, we can be correct in 80% of our trades then we are incorrect 20% of the time. On the next trade we simply don’t know whether it’s one of the 80% or one of the 20%. The market cannot be predicted on a trade by trade basis. Over a batch of trades there is order, but in a single trade anything can happen.

If you think you know what’s going to happen next, on a trade-by-trade basis, then it’s easy to make a host of trading errors.

If you know what’s going to happen next, why place a stop-loss?

If you know what’s going to happen next, why not put everything into that position? Let’s accelerate the process of wealth accumulation.

At VectorVest, we firmly believe in position sizing and its vital role in ensuring consistent performance. In Lesson 2 of the Successful Investing Quick Start Course (SIQSC), this topic is discussed in detail and in the remainder of this post I wish to simply show how I have personally and simply

managed this topic over the years. I will illustrate the calculation with a simple, but totally realistic example.

Over the past three decades, I have been using a 1% risk model (or less) to define my position size. This does not mean that I only purchase shares to the value of 1% of my capital base, but rather it is the amount of cash that I am prepared to risk to ascertain whether my trading idea is correct or not correct. The 1% refers to the cash lost if the share should fall from the purchase price to the stop-loss figure.

How much money is in your account? If you don't know how much money is in your account, then you cannot size your positions, and if you cannot size your positions, then you are gambling and not trading or investing. I come across this all the time. The first step is to decide how much of your total capital you wish to allocate to your trading business. For the sake of this example I am going to assume that a new trader has 20000 pounds of capital to start their trading business.

1. 1% of £20000 is 200 pounds and this is the maximum loss that should ever be taken on any single trade or investment. I know shares can gap through stops, so please don't get your slide rule out. Losing 1.5% won't kill you. It's losing the lot, half or a quarter of the lot, that will kill you both financially and mentally.
2. I use the VectorVest calculated stop. Let's assume that the Buy point is 400p and the stop is 40 pounds. This is quite a wide stop, but if the entry level is after confirmation from a candle pattern or after a few green bars that's often the case.
3. The Risk per Share purchased is thus 4.00 minus 3.40 which is 60p and £0.6.
4. Number of shares to be purchased (N) * Risk per Share = 1% Account Size.
5. $N = 1\% \text{ Account size} / \text{Risk per Share}$
6. $N = 200 / 0.6 = 333 \text{ shares}$

7. Total purchase price = $333 * 4.00 = £1333$

In many cases, I start with a 1/2% risk model and then add to the position if my trading idea is correct.

There are many methods of position sizing and extremely complicated models are used by the institutional community and taught in financial management courses. However, the disasters at both retail and institutional level are when no position sizing is practiced at all and the trader is sure that they know what's going to happen next and have a "bet the farm" punt.

I hope the above will stimulate thought and get you thinking about how you will size your positions. There is a lot of discussion on the topic on the internet as a simple search will show.

In brief, divide your capital into 10 parts and only allocate 1 part to any single investment. Never have more than 2 parts focused on any single sector of the economy. Vow each evening before bed to NEVER lose more than 10% of each part.

As traders, it's our job to focus on perfect execution of each trade without fear or hesitation. Sizing the position correctly in relation to the size of our account whilst using a sensible stop-loss is a big part of the execution process. This is a part of the process which is frequently overlooked. As a result, most of the failures in trading don't stem from poor analysis, but rather from poor or non-existent position sizing.

2018-04-27

The Five-Step Stock Selection Process

In the following I have broken down the VectorVest investing and trading philosophy into five easily followed steps. The VectorVest program does all the heavy lifting of the calculations leaving the trader free to focus on trade execution.

1. The first step is to analyze any stock you own or are interested in and know whether it is over or undervalued, whether its earnings are rising or falling and how safe it is. Take an inventory of all the stocks you own or want to own and really understand them. In my investing, I focus on shares that are trading below their VectorVest valuations (Value) with an Earnings Potential (Relative Value (RV)) greater than a triple A rated corporate bond. I also don't like surprises and stipulate a safety of earnings metric (Relative Safety (RS)) of greater than 1.00. This is the part of investing and trading that I didn't attempt prior to using VectorVest. As an engineer by training I just didn't have the skills, time or inclination to complete detailed fundamental analysis. Since building the fundamentals (which VectorVest does for me) in tandem with my technical studies my hit rate of profitable trades has gone up significantly and more importantly the risk to reward of the trades has also improved.

A simple UniSearch finds these shares quickly and easily:

Price (Split Adjusted) <= Value RV >= 1.30

RS >= 1.00

GRT >= 20

These shares are then sorted by the Master Indicator, VST, Desc.

2. Secondly, I certainly don't want to hold on to losers. It's vital to make sure that every stock you own has a stop in place to minimize your risk. Last week, I wrote about the simple math of calculating the position size or number of shares to be accumulated so as no more than 1% of your capital is at risk. If you are a swing trader then you may have a target for the share price such as a percentage profit figure or maybe an old high on the chart. Many swing traders exit positions when they have made twice as much as they have risked. Position traders should probably use a trailing stop-loss. The important thing here is that this is all decided before entering the position with your trading plan.
3. Thirdly, I don't want to ignore overall market direction. On VectorVest there are many Market Timing systems. Short-term systems for swing traders and longer-term systems for position traders. All the systems are totally objective and no subjective input is required from the investor or trader. There is a good time to be in the stock market and an awful time to be in the stock market. Dr. DiLiddo puts it well when he says *"The single most important thing to know is whether the market is going up or down. Everything follows from that."*

In your trading plan it's important to decide on which Market Timing system suits your style of investing. If you are following the Worry-Free Investing (WFI) method then it's the most conservative Market Timing model that's used, known as Confirmed Calls. Swing traders will find the DEW Market Timing method very useful for entries that are normally a few days ahead of the Confirmed Calls. All the Market Timing signals can be overlaid on any stock chart by the drop-down menu on the bottom left hand side of each chart (If you cannot find this then please call support at 0800 014 8974 and they will talk you through the procedure).

4. It's my objective to find shares with great fundamentals that are rising in price and making new highs on a regular basis. I have never seen a share that's too high not to go higher and too low not to go lower. On

VectorVest, the “secret weapon” does this easily with a single click or the weapon can be built into a UniSearch. The “secret weapon” is the Comfort Index (CI). On a scale between 0.00 and 2.00, a CI of greater than 1.30 finds shares that are trending strongly with zero fuss. I simply add this as another line in the UniSearch parameters quoted above.

5. Lastly, to eliminate emotionally trading and knee jerk reactions it's vital to have a written plan that you follow and have total faith in. In all the years I have been working with both retail and institutional traders, I have never found a person that didn't have resistance in putting together a trading plan. Faith in your plan can be achieved by back testing over as long a period as possible. This process is a rite of passage and to succeed the trader should believe, with every fiber of his being, that over a batch of trades the system will make much more cash when it's right than it loses when it's incorrect. In short, the plan should, in a single page, detail a positive expectancy system.

By using this 5-step process, it will lead you to trade with confidence and generate consistent gains. The first thing you want to do is focus in on the area where you are lacking and tackle that area first. For me this was section 1 and fundamental stock analysis in the years prior to VectorVest.

2018-05-04

The Only Way to Make Money Is to Find the Value of an Asset and then Pay Less for It

The secret to making money in the stock market is to find the value of an asset and then pay a lot less for it. I was introduced to the concept very early in life. A family member used earnings from his business to quietly accumulate land. He would know exactly which farm he wished to buy and then would sit and wait until some calamity in the economy allowed him to buy it at much less than he felt it was worth. The father of value investing, Ben Graham, called the process “Buying a dollar for 50c.”

Stock prices rise when:

1. Corporate Earnings rise.
2. Interest rates fall.
3. Inflation falls.

Establishing the value of a common stock is quite a process. In Chapter 3 of “Stocks, Strategies and Common Sense,” Dr. DiLiddo details how he calculates the Value of a stock. The book can be downloaded from the Views tab on the main toolbar of VectorVest. Click on Special Reports and scroll down. The VectorVest algorithm uses forecasted earnings per share, forecasted earnings growth, profitability, interest and inflation rates. The Value of each share is calculated each day and provided in a simple easy to read format. At a glance you can see if any share is undervalued or overvalued. It's easy with a mouse click to use UniSearch to locate undervalued shares.

VectorVest provides a second measure of Value called Relative Value (RV). RV is a measure of the long-term price appreciation potential. The calculation is much simpler than that of finding value.

The first step in the RV calculation is to forecast the earnings of a share over the next three years. We then make the following assumption: we assume that those earnings will be fully discounted into the share price at SOMETIME over the next three years. We calculate the share price at that future date and work out the potential upside. This upside is then divided by what a treble A rated UK Corporate Bond would pay in that time. The result is RV and the calculation is discussed in detail in Chapters 4,5 and 6 of “Stocks, Strategies and Common Sense.”

If the RV of a share is 1.40, then the probabilities favour this share out performing a treble A rated corporate bond by 40%. If the RV is 0.90, then the probabilities favour the share underperforming a bond by 10%. Why would you wish to take a position in something as risky as a share if you could get a better return from a savings account where the capital is guaranteed?

VectorVest rates an RV of greater than 1.30 as excellent. RV allows the investor to compare all stocks on a consistent basis. This, for once, answers the eternal question of whether it's better to purchase a share with a very high Price/Earnings ratio (P/E) with a high growth rate as compared to low P/E stock with a low growth rate. Stocks with a RV of greater than 1.00 have favorable price appreciation potential, while those with a RV of less than 1.00 are either glamour stocks selling at a premium, overpriced, have a low or nonexistent earnings and low growth rates.

In my humble opinion, RV is the most important fundamental measure on the VectorVest program and in my personal trading and investing I take the view that the larger the RV the better. In the following, I have assembled a simple UniSearch that links great stock fundamentals with a strongly trending technical picture. For a measure of a strong trend, I will use the “secret weapon,” the Comfort Index (CI). I also don't like surprises and have added a Relative Safety (RS) input to minimize these.

Value/Price ≥ 1.2 .

((Value/Price) is preprogrammed in the VectorVest fields)

RV ≥ 1.40

RS ≥ 1.00

Stock recommendation = BUY

Sorted by CI Desc.

If I run this Unisearch on the last Confirmed Up which occurred on 17 April 2018, the top 8 selected are up 5.59% as of 2 May 2018, which is almost twice the appreciation of the overall market.

A similar QuickTest over the last year since 2 May 2017 shows that this simple and unoptimized UniSearch has outperformed the market by more than 3 times. As we all know the LSE has been flat to down since last summer with the VectorVest Composite only appreciating 3.05% in the year. The top 8 from the Unisearch have risen 9.63%.

2018-05-11

Stock Safety: the Heart of Worry-Free Investing

Last week I wrote about favoring stocks that are undervalued. This week I wish to focus on stock safety.

The VectorVest program calculates important and exact data on stock safety each day. This is unique and very hard to find information and that's because it's the last thing anybody wants to think about. The program examines the balance sheet, income statement and cash flow statements of companies on both the LSE and AIM. This information is then mathematically massaged to fit between 0.00 and 2.00. Above 1.00, the stock's safety is fair and above 1.30, the Relative Safety (RS) metric is excellent. Even the few credible sources that provide some form of risk analysis, do so subjectively. Consequently, most investors do little more than plug intuition into their investment decisions and for this reason stock safety (RS) is the missing link in consistent performance in the markets.

Knowing how safe (or risky) a stock is can make the difference between making you a winner or loser as an investor. Here are the key factors used by VectorVest in assessing stock safety.

- 1. EARNINGS CONSISTENCY.** The largest risk that shareholders have is that the company fails to meet earnings expectations. Experienced investors know that the moment of truth comes each quarter for every publicly traded American company. If a company fails to meet analysts' earnings estimates, its stock price often drops 30% in a single day. Therefore, the single most important factor in assessing stock safety lies in quantifying the probability that quarterly earnings will meet investor's expectations. If a company has a well-established record of consistent, predictable earnings performance, it is much more likely to meet the market's expectations.

2. **COMPANY SIZE.** It is true that the stocks of large companies generally are safer than those of smaller companies. Many fund managers are forbidden to invest in companies with less than a billion dollars in annual sales. Obviously, larger sized companies aren't going to disappear overnight. Investors should not assume, however, that the shares of a company are safe just because they belong to big companies. Size is not nearly as important to an equity investor as knowing where the company's earnings are heading. It is virtually impossible to forecast the earnings of companies in cyclical industries with any degree of accuracy. Therefore, the VectorVest safety ratings on these stocks are below average.
3. **PRICE BEHAVIOR.** The classic measure of price volatility.
4. **LONGEVITY.** All other factors being equal, there's less risk in dealing with a company with a long track record than one which is brand new. Young companies offer some of the best investment opportunities, but they also bear potential pitfalls that could be fatal. Regardless of how good a stock looks, it's risky if it hasn't been traded for at least five years.
5. **DIVIDEND HISTORY.** A company doesn't have to pay a dividend to be called as a safe stock. But, if it does pay a dividend, it must maintain or increase the dividend without exception. A cut in dividend is a black eye for any company and reflects poorly on its management and stock safety.
6. There are many other factors including and especially those financial performance ratios that include a measure of debt. These are fully discussed in Chapter 7 of "Stocks, Strategies and Common Sense."

The RS of a stock is the heart of the Worry-Free Investment methodology (WFI). This method has been backtested over the past 20 years in the US markets and over the last 10 in the UK with excellent results.

The method uses the longest and most conservative Market Timing system on VectorVest to indicate when it's a good time to be in the stock market and when it's the time to be careful in the stock market.

The rules are simple, robust and straightforward.

- a. When the VectorVest Composite UK prints a Confirmed Call, C/Up, BUY signal, the investor should sort all the shares in the database by RS. In practice, I use a UniSearch in the Searches - Retirement folder named “Long Term Winners - RS Desc.” This brings those shares with the best safety track record to the top of the list.
- b. Purchase 10 of the top RS stocks. Endeavour not to purchase more than 2 stocks in a single sector of the economy. Use the VectorVest stop-loss to calculate position size. When the overall market is rising, the investor should be fully invested.
- c. As the overall market is rising, the probability of getting stopped out of a high RS stock is low, but it certainly can happen. If it does, run the UniSearch and replace with another high RS stock that you do not presently own. If the overall market is rising then it's vital that you are fully invested.
- d. Like humans, markets are living entities and breathe in and out. Sooner or later there will be a Confirmed Down, C/Dn, signal. When this occurs, there is a much higher probability that even high RS shares will fall. They are resilient, but in a strong selloff some will retreat. Obey the Stop calculated by VectorVest. In this case we DO NOT replace, but build a cash position. For example, in a strong selloff we may have to exit three shares. In this example, the portfolio would be 70% in shares and 30% in cash.
- e. When the next C/Up occurs then run the UniSearch and replace those three positions with shares you do not own.

It's that simple. A detailed document on Worry-Free Investing can be downloaded from VectorVest. Click on the Views tab and then on “Special Reports” and scroll down.

Over a 20 year test period in the USA from 1996 to 2016, the WFI method turned 100000\$ into 680000\$ and along the way collected 51000\$ in dividends which were not added. This is a compound rate of return roughly twice that of the S&P500.

2018-05-18

Playing the Game of Trading

I have written about the components of a winning trading plan on many occasions. A winning plan must simply make more cash when it's correct than when the prognosis is incorrect. In trader speak, this is referred to as a "positive expectancy system." There are three parts to any system and the amount of cash produced by the system is a function of these.

1. The hit rate (% winners)
2. Risk to reward (how much is made when right divided by that lost when wrong)
3. Commissions and spreads

It's not that difficult to engineer a trading plan with a positive expectancy, but many find the game of trading very difficult to play. Simple trend following systems using breakouts or moving average crosses rarely have a hit rate of more than 50%. They can be very profitable when traded correctly as they typically have a risk to reward ratio that's well above 2. Assuming an average risk to reward of 2, then in 10 trades the expectancy is as follows

$$5 * 2 \text{ (when correct)} - 5 * 1 \text{ (when incorrect)} / 10$$

$$(10 - 5) / 10 = 0.5$$

If you follow this plan and risk a pound on each trade then on average you should make 50p on each trade. That's a positive expectancy system. In practice many trend following systems have a risk to reward well above 2 and many resilient and tough minded traders and investors have made a fortune trading them.

Although the system has a positive expectancy it can be a very tough plan to follow.

In a 50% trading system or game, the probability of having two losing trades in a row is $1/4$. That's $1/2 * 1/2 = 1/4$. The probability of having 5 bad trades in a row occurs every 32 trades. That's $1/2 * 1/2 * 1/2 * 1/2 * 1/2 = 1/32$. A 50% system is a very difficult game to play emotionally. Sticking to your guns and executing without fear or hesitation after a run of losers is far from easy.

Using the power of VectorVest, the hit rate can be improved significantly from 50% to easily 70%. A breakout in a share which has great fundamentals when the overall market is rising is a high probability event. When all the VectorVest boxes (as discussed in this essay and in the

VectorVest Seminars and Webcasts) are ticked, then such a system is much easier to trade as the clusters and runs of losers are much reduced.

By combining the technical and fundamental position of a stock and then only being active in the stock market when the overall market is rising, the probability of success is skewed in our favour and this makes life much easier emotionally. Only those who have traded for some length of time will understand this. For example, if as a trader we are patient and only take the very best and strongest setups in high VST (Value, Safety and Timing) shares when the market is rising, a 70 to 80% hit rate is attainable.

In an 80% hit rate system, the probability of a losing trade is thus $1/5$. The probability of two losing trades in a row goes out from $1/4$ in a 50% system to $1/25$ in an 80% system. The probability of 5 losers in succession is over $1/5000$. As the hit rate rises, the runs and clusters of losing trades disappear. Many traders conclude that standing aside until all the VectorVest boxes are ticked and then only trading these plums of opportunity suits their personality best. Dealing with runs of losers unemotionally is tough.

These clusters of losers are why most lose their shirts in the Foreign Exchange markets. In these markets the fundamentals are impossible to quantify and most decisions are made solely technically. That's pretty much a 50% environment and it's tough. If you don't believe me just have a go and see.

I use VectorVest in a very conservative way.

1. The fundamentals of a company (I am only interested in undervalued companies with great fundamentals where EPS is rising strongly and reasonably safely).
2. The technical position of the share. This just means that the share price is making higher lows and is rising on a BUY recommendation. I don't pick at bottoms and will leave that to other brave souls. Top and bottom pickers become cotton pickers. In particular, I make use of the Comfort Index (CI) (VectorVest's secret weapon) to find shares that are in the throes of a strong trend.
3. The technical position of the UK market. I get involved only as the UK and/or the USA market is moving upwards. I start to get interested as soon as I spot a green light in the Price column of the Color Guard and as the trend progresses hope to be fully invested when the longest-term measure of the overall market prints a Confirmed Call Buy signal, C/Up.

If I stick to the rules above, a 70% to 80% hit rate is possible and this allows the trading game, that so few can master, to become fun. Standing aside until all the parts of the plan are in place to ensure a high hit rate and the elimination/reduction in frequency of the clusters of losers takes discipline, but the rewards are enormous. There are 4 trading fears;

1. Being Wrong
2. Losing Money
3. Missing Out
4. Leaving Money on the table

If fear 3 kicks in then we chase and trade marginal ideas and the hit rate falls and the clusters of losers come back.

No discussion on the hit rate of a system is complete without an examination of exits. That will be the subject of next week's essay.

All our goals in life are funded by only two sources. These are enthusiasm and belief. I am happy to state that the VectorVest system detailed above will give you both after a few short months of practice.

2018-05-25

Have You Decided Upon the Exit Criteria in Your Trading Plan? Part 1

“Selling is a crucial part of successful investing. Yet, it is avoided like the plague. The reasons are clear.

Buying a stock is fun, a positive event. It's the beginning of a hopeful relationship.” From Chapter 10 of “Stocks, Strategies and Common Sense” (SSCS) by Dr. Bart DiLiddo.

Please read Chapter 10 of SSCS along with this essay to aid understanding of this most important issue. It is probably the most important part of your trading plan.

Every day I receive emails about when to exit trades. As you all know I am not allowed to give personalized and written financial advice and so my answer is always the same. The exit criteria should be decided upon well in advance as a vital section of your trading plan. Any decision that is not thought out in advance will be taken emotionally and inevitably that leads to mistakes and errors. This week I will focus on preparing for when a trade does not go our way.

Last week, I wrote of probabilities and the clusters of good and bad trades that occur and how VectorVest can be used to avoid or at least reduce the frequency of these clusters. In short by combining the technical and fundamental position of the share with a general market that's rising the hit rate can be raised. Buying a high VST share in an overall market that's rising is a high probability event. Since the last Confirmed Up, C/Up, on 17th April, the top 5 VST shares have outperformed the London market by 2X as I write on Tuesday, 22nd May.

The cardinal rule of investing is to keep your losses small. By keeping losses small and allowing winners to run, this ensures a high risk to reward ratio which is essential for a positive expectancy system. This goal can be completed easily with no fuss assuming that the trader/investor has done their homework and focused on stocks that trade with reasonable volume. What is a reasonable volume to you and me, may be quite different from a hedge fund or Mr. Buffett. My first mentor instructed that the 50-day moving average (MA) of the volume of shares traded, should be more than 20 times your total exposure.

The VectorVest program calculates a stop-loss level for every share in the UK database. The stop-loss level is based on a 13-week MA of the Price of the share which is adjusted for the fundamental position of the share.

Safe stocks with solid fundamentals should have “looser” Stop Prices than those with weak fundamentals. These considerations allow investors to stay with solid stocks longer and get out of weak stocks faster. For this reason, VectorVest’s Stop Prices are fine-tuned according to each stock’s safety, fundamentals and price trend.

Do you place a hard stop in your trading platform at the level of the VectorVest Stop? This means a spike intraday can trigger the position to be closed, while at the end of the trading day, all is well. Many find this frustrating and for this reason, I monitor my stops on unleveraged positions by observing and obeying the VectorVest Stop on an end of day basis. These are called “mental stops” and I trust myself to action these. If the share closes below the Stop, then a red Sell signal will be clearly seen on my WatchList and, of course, the Genius feature on the program (if setup) will notify via an email. I then exit the next morning.

If I have taken a leveraged bet on any share and presently I have 5 of these running (on commodity counters), then I place the stop on the trading platform. These stop orders are actioned intraday without any involvement on my part. I deem this as essential with a leveraged position.

These methods of placing stops are not advice, but just what has suited me best over the years and they are in my personal trading plan. We don't trade markets, we trade our beliefs about markets. Yours may be quite different to mine and I would be surprised if they were not. Your personal trading plan needs to reflect your beliefs about markets.

In a Q and A session (Monday, 21 May 2018), I spoke of Market Timing and of several UniSearches that have been consistent over the years. The webcast is stored at www.vectorvest.co.uk. Click on Events and then scroll down to recorded webcasts. New investors should carefully consider the mechanical "Worry Free Methodology" (WFI) as a first step in their investing career. Some decisions on the UniSearch to be used and the Market Timing system to be used must be made and entered into your written trading plan. In WFI, these are included in the rules which can be downloaded from VectorVest under the Views tab and "Special Reports." In my essay of the 27th April I have detailed a 5-step stock selection process that will help with the decision on which stocks to buy.

After you have decided on the shares to be purchased and you have decided on where to exit if the position moves against you. The next question is "How Many?" This calculation was detailed in my Essay of 20 April 2018.

It's the easiest thing in the world to spend time allocating a stop-loss and calculating an optimal position size for each position that you hold and then totally ignore the stop when it's time to beat a quick retreat. The ego within us does not like to admit that it could be incorrect. Thoughts like "Let's give it another day" begin to crystallize in our minds.

I have examined in detail the mental posture of winning and losing traders. When a losing trader has a trade that goes against them, they become optimistic. They become optimistic that it will surprise everyone and turn back up. When a losing trader has a winning trade, they quickly become pessimistic. They become pessimistic as they feel the market is going to pullback and remove their small profit. This manifests as taking quick and small profits, a poor risk to reward ratio and a negative expectancy trading

system. A negative expectancy system loses more when it's wrong than it makes when it's correct. Last week's Essay examined this concept in some detail.

To become a winner, it just takes the awareness to modify your mental posture. If you have a losing position, quickly become pessimistic and make a hasty retreat. When you have a winning position, take deep breaths and let it run. I will examine the latter in detail next week.

2018-06-01

Exits—Part 2

As was the case with last week's essay, this week's should be read along with Chapter 10 of "Stocks, Strategies and Common Sense" (SSCS) and Lesson 2 of the Successful Investing Quick Start Course (SIQSC).

Last week I wrote about some ideas on stop placement and money management when the trade or investment fails to perform. Our success as an investor and trader will be directly proportional to the extent that we can action these concepts without fear or hesitation. It's quite a simple procedure on VectorVest. Put the shares that you own into a WatchList. If you don't know how to do this, then please call support on 0800 014 8974 and they will help you or click on your Welcome tab and select Build A WatchList to view a short tutorial. It's vital to your success that you can complete this task.

Re-sort the WatchList by the VectorVest metric RT which defines the short-term price trend of the counter. This will automatically list the shares that are doing well and trending upwards at the top of the list and the shares that are not at the bottom. Your job is to simply get rid of those shares at the bottom of the list. Easy to write, but difficult to do I know. We have all got a tendency to become optimistic when faced with losing shares and pessimistic when we have a winner. Please reread the last paragraph of my Essay of last week where I (in my humble opinion) detail the secret of trading and investing.

At a User Group meeting in South Africa a few years ago, a very successful investor with many years experience told the group the secret to his success. At the end of each and every month he simply sold the worst performers as defined by RT. If the overall market was in an uptrend, as defined by a Confirmed Up, C/Up, call, he replaced, if not he built up some cash to take advantage of the next C/Up signal. This process is simple, effective and robust. Its emotionally difficult to do and that's why it works. In my experience, it's the

emotionally difficult stuff that the crowd hasn't got the discipline to follow that brings home the bacon.

Money Management, cutting losses and riding winners are vital to your success, but it becomes much easier if we are invested in the correct stocks. Your best defence is a good offense which results in more winners and fewer losses. Pick the best stocks to begin and life will be much easier. Following your trading plan, if you are in the right stocks, becomes less stressful as it eliminates the frequency of clusters of bad luck (my Essay of the 18 May 2018). So, ride your winners and cut your losses, but make sure you are in the best of the best stocks to begin. There are three types of stocks as defined by Charlie Munger, who needs little introduction.

"It is remarkable how much long-term advantage people like us have gotten by trying to be consistently not stupid, instead of trying to be very intelligent."
Charlie Munger.

1. **Bad...** These are falling, charting falling tops and showing a red SELL recommendation on VectorVest. BT Group (BT-A.L) is a good example.
2. **Too Hard...** These shares are range bound and showing high volatility. In hindsight, it looks as if we could make a fortune trading these beasts, but it's much harder on the hard-right edge. Randgold Resources (RRS.L) is a good example.
3. **Good...** These shares are rising with little volatility. Earnings Per Share are growing strongly and they are trading below the VectorVest valuation and on a BUY recommendation. Games Workshop (GAW.L) is a good example, but there are many shares in the UK and USA that fit this bill.

If we have done our homework and with discipline have bought into class 3 shares when the overall market is rising then the next step is to decide on when to bank profits. This is important, but secondary to cutting losses which will occur in even the very best qualified shares. While there are many ways of banking profits, the choices in cutting losses are few. I hope I have convinced you of your first job in this essay.

There are as many ways of bagging profits as there are traders and I hear many variants at the User Groups. In SSCS, Dr. DiLiddo goes into these in some detail. There are two philosophies in trade management.

- 1. Scaling out...** Here we exit after a relatively small profit. I have several successful fund managers that use this approach. They exit half of the position when they have made as much as they have risked. If they buy a share at 10 with a VectorVest Stop at 8.50, then the risk/share is 1.50. When the share gets to 11.50 they exit half the position and raise the stop-loss to entry. They then let the remaining half run using the VectorVest Stop as a trailing stop-loss. If we define a successful trade as getting the first half banked and the stop to entry, then the hit rate of this approach in class 3 shares is very high. This markedly reduces the frequency of the clusters of bad trades and makes the path much easier to follow. The real profit is made on the 40 to 50% of trades/investments that keep moving upwards strongly until they are finally stopped. The advantage of the system is a high hit rate, but the disadvantage is that when the trading gods smile the position is half size. This is an excellent starting point to build confidence and experience, but it could be all that you ever need. I will illustrate with several examples during the Q and A session on Monday, 4 June. In the ground-breaking book "Trading in the Zone," the late Mark Douglas advocates scaling out of a position.
- 2. Scaling In...** This is my preferred trade management method and when I am at my best, this is what I do. I add to the position as the position moves my way. This means that I am correct with a large position and wrong with a small position. The downside is that I frequently have large open profits that get eaten up in a pullback, which is hard to stomach. Before adding to the position, it's vital that the Stop can be raised to entry. In this way the risk on the 2nd tranche of shares is financed by the paper profits in the 1st. The overall risk should never be any more than the risk on the 1st position. Recently I completed a swing trading course and detailed a method of pinpointing swing lows which are ideal positions to add to an existing trade. I have done this with great success

in Griffin Mining (GFM.L) and Games Workshop (GAW.L). When the share trends strongly, as in the latter two, money comes quick and fast. When the positions fall apart and you give back lots of paper profits it can be mentally tough. The most famous group of traders in history were known as the “Turtles.” They were trend followers as taught by Richard Dennis and the corner stone of their method was adding to winners.

In the final week of this trilogy we will discuss targets. Profit targets based on risk to reward, chart objectives, Fibonacci plus an innovative exit technique pioneered by the User Group Leader in Birmingham.

In the meantime, please focus on getting rid of losers. You should write down your sell price before you buy into the stock. The time that it's easiest to think clearly about when you will exit a position is before you get onboard.

Decide on which Market Timing system indicates to you when it's safe to be in the market and when it's not.

Find the very best shares. A recap of my essay of the 27 April should help. Meditate on whether you should scale out or in.

Start to formulate your plan for success and wealth.

2018-06-08

Exiting Profitable Trades

As was the case with last week's essay, this week's should be read along with Chapter 10 of "Stocks, Strategies and Common Sense" (SSCS) and Lesson 2 of the Successful Investing Quick Start Course (SIQSC).

Please also load VectorVest7 US and display a 1-year chart of Micron (MU). I will share this during the essay to illustrate the challenges that can cause much mental conflict in coming to an agreement on a robust exit strategy in your trading plan.

Pick the best stocks to begin and life will be much easier. Following your trading plan if you are in the right stocks becomes less stressful as it eliminates the frequency of clusters of bad luck (my essay of 18 May 2018). So, ride your winners and cut your losses, but make sure you are in the best of the best stocks to begin with.

Micron is an example of such a share. The share is undervalued and growing earnings strongly and safely. The Earnings Per Share (EPS) plot over the past year is rising from the bottom left to the top right of the window. This concept is fully discussed in Lesson 4 of the SIQSC. Over the past year, EPS has risen from 4 to 10 and that's the engine that's driving the share price upwards.

In 1982, I first started to trade in the share market. At that time, armed with a sheet of graph paper and a 3h pencil, I hand charted the shares I was following and calculated a 25% trailing stop-loss. The recent high on Micron was 64.66 per share. $\frac{1}{4}$ of this is 16.16 and thus the stop currently, by this simple method, is $64.66 - 16.16$ which is 48.50. This stop level is in place until the share makes a new high. It's simple and doesn't change very often. I used this in the South African market for many years and its advantage is that it ignores short-term pullbacks and thus keeps the investor in the larger trends which is where most of the money is made.

The VectorVest program calculates a stop-loss (Stop) level for every share in the UK database. The Stop is based on a 13-week Moving Average of the Price of the share which is adjusted for the fundamental position of the share.

Safe stocks with solid fundamentals should have “looser” Stops than those with weak fundamentals. These considerations allow investors to stay with solid stocks longer and get out of weak stocks faster. For this reason, VectorVest’s Stops are fine-tuned according to each stock’s safety, fundamentals and price trend. Over the past few years, I have replaced the 25% trailing stop with the VectorVest calculated Stop. As of 5th June, the VectorVest Stop for MU is 53.28 which clearly protects more of the paper profits in the position than is the case for the 25% trailing stop method.

I have replaced the 25% trailing stop in my trading plan with the VectorVest calculated Stop, but the former was very profitable for many years.

Old hands reading this will have the experience to formulate their own rules. Here is what I suggest for new investors and those who are maybe unhappy with their performance.

1. Invest in only the very best stocks. My essay of 18th May will help with this topic as will a review of the SIQSC.
2. Decide on a Market Timing method that informs when it’s safe to be in the market. For most, the Confirmed Call method will be optimal and it’s what I use in my position trading work. I favour the DEW Timing method in my shorter-term swing trading.
3. Use the VectorVest calculated Stop to size the position so as no more than 1% of your capital is lost if the trade/investment moves against you. My essay of 20 April 2018 illustrates the calculation needed with a practical example. This is a vital step. If you don’t size your positions properly, you are gambling and not trading.
4. Let’s assume that the position moves your way, as most of them will, if all the SIQSC boxes are ticked. I suggest that when you have made as much as you have risked, then exit half of the position. Bring the stop on

the second half of the position to entry. In theory some money has been made on the first half and no cash can be lost on the second half of the position.

5. When the VectorVest calculated Stop has a value above the initial entry point, trail the stop upwards behind the price. Eventually you will be stopped out of the position.
6. There is a chasm between writing down a simple set of rules and following them. The discipline to follow your rules can be easily attained, but few achieve this level of mastery. To build the discipline, it's necessary to take deep breaths and focus for a batch of trades. If you can follow the rules for somewhere between 8 and 13 trades, then something amazing occurs between your ears as you create new neural pathways inside your brain. The paradox is that when you have built trading discipline you really don't need that much of it as all the decisions flow smoothly without conflict. You are between 8 and 13 trades away from the trader that you wish to be. That's all.

By following the above or your own version of the above, the hit rate should be high as defined by taking profits on the first half of the position. This constant positive emotional input will make trading and investing fun. By contrast allowing winning positions to turn into losers can be tough to handle. Many traders find it impossible to handle and thus never get to 8 to 13 trades without messing and changing the rules.

Stocks tend to move upwards in a series of steps or swings. As you can see from the Micron chart, there was a strong upward swing in February 2018 followed by a 3-wave pullback to support. From this support level another swing which is still in process started. Traders, and especially those employing leverage, will find it very difficult to handle the pullback within a trend, especially if you get stopped out at a low, as was the case in Micron. Handling and profiting from the swings within a strong trend is the subject of my "Swing Trading Course With VectorVest" which will run again in July 2018. It is my preferred method of trading in the stock market.

Let's address where swing traders should consider banking the 2nd half of the position. As with all the thoughts on exits, it's impossible to get it correct on each trade. A robustly profitable set of rules that suit your beliefs about markets over a batch of trades is the best that you can hope for. This will take some thought. Please keep the concepts simple as perfect execution is vital to your success. It's easy to make mistakes when the bar is jumping around and the tweets are flying.

1. Many swing traders will target the last old high. That's what occurred over the past few days in Micron. At the last old high, my old trading partner used to take half of the remaining open profits off the table. In "Trading in the Zone" the late Mark Douglas says that if you don't take some money when the market gives you money then you are by inference saying, "I know what's going to happen next." Douglas makes the point at length that in a single trade no one knows what's going to happen next. In this he is 100% correct in my humble opinion. Cynics will argue that exiting at the old high will be the markets cue to gallop higher. Remember the best that you can do is to construct a simple, easily followed set of rules that are profitable over a batch of trades.
2. Moving averages can be used to lock in profits. In the SIQSC, a 40-day Moving Average is suggested. Please review this lesson in detail.
3. In Birmingham, our User Group leader has many years of experience in trading and investing. He has championed a simple, but very effective method of locking in profits. He holds the share if it remains on a Buy recommendation. When the Buy changes to Hold, he simply exits. Over the past year this allowed profits to be taken timeously in shares such as JD Sports, Victoria and many others. The technique is simple and easy to manage by using our smartphone app within the busiest of schedules.
4. In the BackTester on VectorVest, there are many ways of exiting a position available for test. Have some fun with these and especially the latest addition known as the ProfitLocker Stop. This uses volatility to calculate a trailing stop-loss which weaves a fine line between letting

winners run and at the same time protecting open profits. It's a very exciting development and I will devote a full essay to it soon.

2018-06-15

The Best of Both Worlds

“The best of all worlds...collecting dividend checks while the prices of your stocks go up, comes from finding solid growth stocks that pay dividends. VectorVest is ideally suited to find these babies.”

—Dr. Bart DiLiddo “Stocks Strategies and Common Sense” (SSCS) Chapter 8

Those reading who are conservative by nature should study the Pale Blue Chips UniSearch which is found under the UniSearch tab on VectorVest. I have been using the search in both the UK and USA for the last 6 years and, in both countries, the results have been robust and well above both market averages.

The search looks for shares with above average Relative Safety ($RS \geq 1.25$) that pay a dividend and have a history of growing the dividend at 10% a year without deviation. The program finds lots of shares that fill that bill, but then the clever bit starts.

VectorVest then sorts the shares by summing the program's two proprietary master indicators namely VST and YSG.

1. VST is Value, Safety and Timing. This finds shares that should grow their share price strongly over the next three years.
2. YSG is Dividend Yield, Safety of paying the yield and the Growth of the yield.

The shares from the Pale Blue Chips search are then sorted by the sum of these two metrics. The output of the search finds shares that can grow their share price, pay a dividend and grow that dividend yield safely.

I would recommend using this UniSearch in conjunction with the Confirmed Call Market Timing

System which will instruct objectively when it's safe to be in the market and purchasing shares and when it's not. The stellar returns of the past month

since the last Confirmed Up, C/Up signal on the 17th April tell me what I already know. The most important thing to know is whether the market is rising or falling. Everything follows from that.

The rules I would suggest are similar to those used in Worry-Free Investing and are briefly summarized below.

1. Buy the top 10 shares in the Pale Blue Chips UniSearch when the market prints a C/Up signal.
2. Try not to be exposed to more than two shares from any single area or sector of the overall economy.
3. Use the VectorVest Stop and exit any share that closes below the calculated Stop level. If the overall market is still rising, then run the Pale Blue Chips UniSearch again and replace the share with a counter that you don't already own. When the overall market is rising, then it's vital that you are fully invested.
4. The market is a living entity and breathes in and out like any other living being. Sooner or later the overall market will print a Confirmed Down, C/Dn. Here you are much more likely to get stopped out of some of your portfolio. In this case you do not replace, but build a cash position.
5. When the next C/Up is printed on the VectorVest Composite UK then run the Pale Blue Chips and get fully invested once more.

It takes moments to manage and, with the app on the smartphone we all carry, can be fitted into the busiest of schedules.

Since the last C/Up on 17 April 2018 through 8 June 2018, the Top 10 shares have risen by 9.65%, which is nearly double that of the overall market. I haven't added in any possible dividend payments to this figure. There are 9 winners in the portfolio with a single small loss in RWA.L of 2.86%

2018-06-22

The Keys to Trading Success

A quick search on the internet will soon locate many vendors who are willing to sell you the Holy Grail of trading and investing for many thousands of dollars. These documents tend to be long winded, complicated and exceptionally difficult to execute as the market unfolds in real time.

I have been around the proverbial block with these types of systems over many years. I have concluded that (certainly for me) the cash arrives regularly only when I focus on perfect execution of a simple and robust trading plan. A plan, for example, that's well illustrated in the "Successful Investing Quick Start Course" (SIQSC) that's built into VectorVest.

The big achievers in all facets of life seem to be the most disciplined of people. However, it's been my experience that success is quite a short race which is fueled by enough discipline for the habit to kick in and take over. Practice long enough and the process becomes routine. The great winners in trading and in life don't have more discipline than you, they just use it better.

Those personal trainers that you see in the gym are not in the exercise business, but rather in the discipline building business. This realization is foreign to most of them.

The key to trading success (and universal success in all areas of life and business) is to choose the right habit and bring just enough discipline to establish it. It works everywhere, from the gym to executing a simple trading plan. Those of you reading who have some trading experience will know that following a simple set of trading rules is much easier to write about than do.

In my second favorite trading book the late Mark Douglas asks the question, "Can discipline be built?"

Of course, it can, and it's quite an easy job to do so. In his book, "Trading in the Zone," Mark suggests:

1. Take a simple mechanical trading system (such as the VectorVest Worry-Free trading plan (WFI). The rules of the WFI can be downloaded from VectorVest. Click on the Views tab and then on "Special Reports." If you scroll down the pdf document can be downloaded).
2. Resolve to follow the system for 30 trades without changing the rules.

I build discipline in all areas very easily. This may seem good, but it also means that I can acquire poor habits easily. I have become very aware of this over the years and pay special attention, especially to my diet, so as not to take on a habit which could take some shifting.

For many years, I did seminars for large hedge funds and institutional traders on all five continents. In these week-long workshops, the group would trade using real-time data. Based on my observations in these sessions it takes around 8 to 13 trades, perfectly executed, to establish the habit. As I have written here on many occasions you are 8 to 13 trades away from being the trader you wish to become. This journey is a rite of passage and no one else can do it for you. It's a bit like press ups in the gym. I can show you exactly how to complete the exercise, but you must do your own press ups in the end.

If you can follow the rules perfectly for 13 trades or so, then the habit will become engrained and then the discipline paradox kicks in. When you have it, you don't really need it.

If you are not getting the results from trading and investing that you desire, then I suggest that you focus on the WFI plan and reread my essay of 11 May 2018 which details the process. The plan has been tested in the UK and the USA for many years and it robustly produces profits with little fuss or effort. In the USA, there were only 177 trades in a 20-year test period.

The WFI uses the longest-term measure of the overall market (Confirmed Calls) to define when it's safe to buy stocks and when it is not safe to buy

stocks. Since the last Buy signal on the 17th April the top 10 WFI stocks have appreciated by 16%, while the overall market is up 5%.

Over the past year since the Confirmed call on 19 July 2017, the top 10 stocks have appreciated by 20.5%, while the overall market is up only 3.5% since that time.

I have recently done a Core Finance interview on the rules and the performance of the Worry- Free Investing plan which can be viewed on the VectorVest UK Blog.

On the 30th June I will be conducting a 1-day course on using VectorVest to quickly build your ISA portfolio using techniques that are simple and easy to follow. The objective is to build wealth by locating fast growing companies and riding these trends until the trend turns. To model success in any area of life it's important to study the winners in which ever area who choose to excel. To this end I will present many case studies of the big winners on the LSE in the last few years and focus on what fundamental and technical triggers precipitated the move. I will then present a plan that finds these in the future, that defines money management and then details the process of managing the trade and very importantly managing yourself.

It's going to be a great day and I hope the best event I have ever done.

2018-06-29

Timing the Market

“The most important thing to know is whether the market is rising or falling. Everything follows from that.”

—Dr. Bart DiLiddo

In the UK, VectorVest calculates a Composite measure of the overall stock market. The VectorVest Composite UK (VVC/UK) is an arithmetic averaged index of the 2149 shares that we follow on the LSE and AIM. It is the broadest measure of the UK stock markets that I personally know of. A similar Composite is calculated in all the stock markets of the world where VectorVest has a presence.

VectorVest has been timing the markets of the world for over 25 years and have designed objective systems that identify market trends with accuracy and precision. There are long-term systems for investors and short-term systems for traders.

All the systems are totally rule based and require no subjective input. The systems are based on the;

1. VectorVest Composite UK
2. Breadth of the VectorVest Composite UK which is measured by the proprietary Buy/Sell ratio
3. Momentum of the VectorVest Composite UK (RT)
4. The Market Timing Indicator (MTI). This is a composite momentum indicator which combines the momentum of the Price of the VVC/UK and the breadth of the VVC/UK, Buy/Sell ratio (BSR, into a single line study which is mathematically massaged between 0.00 and 2.00. The MTI is an important component of the longest-term timing system known as Confirmed Calls.

The output from these timing systems are summarized on the front page of VectorVest each day and require no chart reading experience to decipher. The trend situation on VectorVest UK is Down/Down. The first word refers to the Primary Wave or the short-term trend, while the second word refers to the underlying trend. With a smart phone and the VectorVest app, staying on top of the trend of the overall market can easily fit into the busiest of lifestyles. Knowing where the overall market is heading is 70% of the exercise and vital to your success.

Of course, a chart of the VVC/UK can be summoned with two clicks. Click on the Timing tab on the top left of the Homepage and then on Market Timing Graph and it's done. All the VectorVest Market Timing signals can be overlaid on this chart by making use of the dropdown menu on the lower left-hand side of the chart.

Markets are like ourselves and they breathe in and out. At each turn from an up trending to a down trending market, a similar series of events occurs. The short-term systems record the first change, then the medium-term systems and finally the long-term systems. It's important to your success that you become familiar with the sequence of each turn. In the following I will describe the Primary Wave (short-term), the DEW (medium-term) and Confirmed Call signals (long-term) signals. At most turns from up to down and down to up, they fire in that order.

The Primary Wave (Fastest Signal and most aggressive)

The Primary Wave, also called the Primary Trend, is determined by the week-to-week movement of the VectorVest Composite UK (VVC/UK).

Studies by the research department at VectorVest show that day-to-day movements in the Price of the VectorVest Composite UK (VVC/UK) are not statistically significant. Week-to-week movements, however, are very much worth noting. When the Price of the VVC/UK is higher than it was one week ago, the Primary Wave is Up. When the Price of the VVC/UK is lower than it was one week ago, the Primary Wave is Dn. The Primary Wave provides a relatively fast, reliable indicator of market direction.

When the Primary Wave changes direction, say from Up to Down all investors should use it as a warning signal that the market trend is showing signs of changing from up to down.

The Primary Wave in the UK has been on a Down call since the 18th June.

The DEW Market Timing System (Medium Term swing trading signals)

D...Detrended Price oscillator (DPO). This a standard Momentum indicator of the Price of the VVC/UK with centre line at 0.

E...Price envelope of the VVC/UK (rarely used)

W...Weighted Moving average of the VVC/UK.

The ideal market timing system should be fast, reliable and objective. The signals generated by the VectorVest DEW Market Timing system are more reliable than the Primary Wave.

Moreover, the DEW signals are totally objective and easy to identify and very robust in back testing.

Up signals are given when:

1. The Price of the VVC/UK is above the 30-day Weighted Moving Average
2. The DPO is positive
3. *If the lower envelope is pierced in a Down wave, the Up signal only requires one of the two prior conditions to be met. (Rarely happens)
Last time was in the crisis in 2008.

Down signals are given when:

1. The price of the VVC/UK is below the 30-day Weighted Moving Average
2. The DPO is negative
3. *If the upper envelope is pierced in an Up wave, the Down signal only requires one of the two prior conditions to be met. (Rarely happens)

The DEW signals are NOT recorded on the home page of VectorVest. Simply display the Market Timing Graph as instructed above and select the DEW overlay. Please call support on 0800 014 8974 if you have any navigation

problems. The DEW signals are excellent swing trading entry and exit points. The last sell signal from the DEW system occurred on 19 June 2018. Its normal that the DEW will show a turn a few days after the Primary Wave.

Confirmed Market Calls: (Least Aggressive and used in Worry-Free Trading)

Our studies show that a slower, but more reliable signal of market direction than the Primary Wave is obtained by analyzing the two-week movements of the Price of the VVC/UK. When the Price of the VVC/UK goes up two weeks without an intermediate down week, it gives a preliminary signal of a sustainable Up trend. When the Price of the VVC/UK goes down two weeks without an intermediate up week, it gives a preliminary signal of a sustainable Down trend. The VectorVest Market Timing Indicator(MTI) is used to compliment the Price as follows.

A Confirmed Up (C/Up) signal is given when both of the following occur:

1. Price

- *The Price of the VectorVest Composite UK (VVC/UK) has increased five-trading-day-period over five-trading-day-period, for two consecutive five-trading-day-periods.

- *The Price of the VVC/UK has increased from the prior day.

2. MTI

- *The Market Timing Indicator (MTI) is greater than 1.00.

A Confirmed Down (C/Dn) signal is given when both of the following occur:

1. Price

- *The Price of the VectorVest Composite UK (VVC/UK) has decreased five-trading-day-period over five-trading-day-period, for two consecutive five-trading-day-periods.

- *The Price of the VVC/UK has decreased from the prior day.

2. MTI

*The Market Timing Indicator (MTI) is less than 1.00.

Currently, we have a Down/Down situation reported on the Homepage of VectorVest UK. The second word refers to the underlying trend which is defined by the MTI being less than 1.00. On 28 June 2018, the Primary Wave was Dn for the second five-day trading period and the MTI closed below 1.00, signaling a Confirmed Call Down.

To summarize

The Primary Wave is Down and the advice is “VectorVest does not advocate buying any stocks at this time.” Short-term traders who enjoy “jobbing” over a few days should have banked profits and the most aggressive of those would be short.

The DEW is on a Down signal and swing traders who use the DEW in their unique trading plan should have banked positions or at least are watching stops carefully and have exited non- performers.

With getting the C/Dn call 28 June, those following the Worry-Free Investing plan, which uses the Confirmed Call Market Timing System, would be watching their stops carefully.

Over the next few weeks and months, please keep a log of the turning points and get familiar with this very predictable series of events.

2018-07-06

A Few Questions to Answer Before Pulling the Trigger

In selecting stocks, your primary job is that of assessing information. Many investors, however, feel qualified and prefer to analyze data. This is fine if they have the time, resources and skills to produce reliable results. Knowledgeable investors can save time and get excellent results by asking the right questions. For simplicity I have broken down these questions into three areas;

1. The fundamental position of the company.
2. The technical position of the company. I define the technical position as the study of trends and turning points.
3. The technical position of the overall market. How the trend of the overall market is measured was discussed in detail last weekend and I won't repeat it here. Suffice to say that there is a good time to be buying stocks and an awful time. As of 4 July 2018, the Primary Wave, or short-term trend, of the UK market is Dn and the underlying trend is down. The most aggressive investors will be dipping their toes into new long positions only when the Primary Wave turns to Up.

Fundamentals.

In property the most important three factors are location, location and location. In stocks they are Earnings, interest rates and inflation. Stock valuations go up when Earnings go up and interest and inflation rates go down.

- Is the company making money?
- What is the stock worth?
- Is the stock over or undervalued?
- How safe is the stock?

- What are its forecast earnings per share?
- What is its estimated earnings growth rate?
- What is its growth to P/E ratio?
- What are its dividends per share?
- How safe are the dividends?
- How fast are dividends growing?
- Does this stock meet my risk/reward objectives?

I started to trade stocks in 1982 and did utmost to understand the fundamentals of the shares I was following on the Johannesburg Stock Exchange. I totally failed in this endeavor. I didn't have either the knowledge, the time or, if I am honest, the inclination. For this reason, from 1984 (when I gave up beating my head against the annual and interim reports) I traded technically alone. It wasn't until I discovered VectorVest and its ability to do all the heavy lifting that I added this dimension into my trading plan. Remember information is useless unless you can react to that information. VectorVest displays the fundamentals in the following easy-to-use fashion.

- A. Value.** A value is calculated for every share in the UK database each day. The valuation methodology is discussed in Chapter 3 of "Stocks, Strategies and Common Sense" by Dr. Bart DiLiddo. At a glance of the Stock Viewer or by using UniSearch, it is easy to see which shares are under or overvalued. Favor undervalued shares.
- B. Relative Value (RV).** This is a measure of the long-term price appreciation potential of the share. RV takes Price, value, Earnings Growth, AAA rated Corporate bond rates and risk and massages these into a scale between 0.00 and 2.00. A rating of 1.30 and over is regarded as excellent.
- C. Relative Safety (RS).** RS is made up of Earnings Consistency, Company size, price behavior, longevity, dividend history and all the vital financial ratios. Again, this is displayed on a scale between 0.00 and 2.00. Above

1.30, the safety of the earnings stream and the financial integrity of the company is excellent.

D. Dividend history is quoted in three metrics. These are Dividend Yield (DY), Dividend Growth (DG) and Dividend Safety (DS). These metrics are combined into the Master Indicator for income investors known as YSG. This stands for yield, safety of the yield and the growth of the yield. This can easily be built into UniSearch to find candidates for an income portfolio.

The best defence is a strong offense. If you trade in shares with excellent fundamentals and then add a sound trend following or swing trading plan that combination will build an enormous edge in markets.

To help cement this combination of fundamentals and technicals together, I will be presenting an online Swing Trading Course in the next few weeks. This includes a full day's swing trading theory plus two mastery webcasts to fully drive home the techniques. The workshop is well suited to the present choppy environment. The Bull market that started in 2009 is by all measures mature, while news events have caused scary volatility over the past few months. Brexit and its ramifications lie ahead with central bankers worldwide running low on financial ammo to keep the engine running.

For unprepared investors, unable to sift through the noise, the volatility can be stomach- churning. Emotions can take over, resulting in impulsive decisions to sell at the worst possible times.

The objective of the Swing Trading Course is to give you the ability to lock in those 3 to 21 day profits as swing traders take advantage of pullbacks that occur within the long-term market trend.

With the right tools & education, you can easily learn how to swing trade, allowing your portfolio to grow quickly.

During the day and following sessions, we will show you how to;

1. Use the power of VectorVest to find the very best shares to consider as Swing Trading vehicles. These shares are growing earnings strongly

and safely. On VectorVest, a UniSearch will be included that finds these shares easily with a single mouse click. Finding the best trending stocks with great fundamentals is vital to success. This will be a hands-on explanation of the metrics mentioned at the start of this essay plus their nuances.

2. There is a good time to be buying stocks and an awful time to be buying stocks. VectorVest has been Timing the Market for over 30 years and has perfected several systems that tell objectively whether the market is moving up or down. Everything follows from this. Again, this is a hands-on explanation of the contents of last week's essay (30 June 2018).
3. Several trading systems will be presented in detail to put all the pieces of share selection, market timing, entry point, position size, stop-loss and target together.

At the end of the course the trader will take away two swing trading plans and a third more conservative longer-term trading plan.

Those who have completed the course before can gain free access to the mastery sessions by phoning support on 0800 014 8974.

2018-07-13

How to Put the Probability of Success at Your Back

Trading the fast moves in stocks with or without leverage can be exceptionally lucrative. Swing trades are completed on either daily or weekly charts and can last from 3 days to 5 weeks. No intraday screen watching is necessary and most of the work will be completed when the market is closed. This has been my main method of investing and trading over the past 35 years.

Swing trading allows you to analyze the markets on your schedule. However, most people fail.

The brokers tell all that only 5% of the people who try, make any money in leveraged markets. Why?

1. They are not trading in the correct shares or maybe have ventured into markets that are overly competitive. They fail to find those shares that are growing earnings strongly and reliably as the fundamentals are hard work. Putting the fundamental picture together with the technical situation adds immensely to the probability of success. Using the power of VectorVest, we can find the very best stocks to trade in seconds. In most cases using VectorVest you will know much more about the fundamental position of a stock than most in the city. The average stock out of the FTSE100 is poorly followed and in many cases priced inefficiently. This is vastly different to the forex markets and commodity markets where hordes of very clever Armani clad analysts produce accurate pricing models and thus agreement on pricing. The bottom line is that it's much easier to find a trend in the stock market than in the other more competitive arenas. We can only make some money if we timeously spot a trend and ride it until it turns.

2. They have no idea of the state of the overall market. There is a time to be buying stocks and there is a time to be short selling stocks. The most important thing is to know whether the market is moving up or down. Everything follows from that.
3. Most have no idea of position sizing and money management. They have no plan and no strategy. They are simply trading on tips, emotion and off the seat of their pants. In days of old, I used to consult to banks and hedge funds. 90% of all the trading errors, that produced large drawdowns, that I witnessed in those days were due to position sizing errors. The latter cures a multitude of errors.

In last week's essay (6th July), I spoke at length of how the VectorVest metrics quantify the fundamentals of a company in a few clicks. In short-term trading a mix of earnings growth and a strong trend are vital. The Comfort Index (CI) is what I refer to as VectorVest's secret weapon. Simply sorting the entire database by CI will find shares that are trending strongly and that, on its own, will find some excellent swing trading prospects. A simple UniSearch can add the fundamentals to the mix and construct a WatchList which has the best of both worlds.

RV $\geq$ 1.3

GRT $\geq$ 20

RS $\geq$ 1

Stock Recommendation = BUY

Sorted by CI

Dr. Bart DiLiddo, Founder of VectorVest, says that "Good portfolio management starts with owning the right stocks." The above UniSearch will find them. He also says, "It's great fun to own stocks that are going up." That's my favorite Dr. D line and I think all reading would agree.

In my essay of 29th June, I wrote at length about Market Timing and why there is a good time and an awful time to be buying shares. As of 11th July, both the short-term trend and underlying trend of the VectorVest Composite UK were Up. The underlying trend was confirmed by Price action and that

means that we are back in a Confirmed Up phase. The medium-term measure of the UK Composite, the DEW, was also positive. The ball is in and the game is on.

In the UK Q and A session last Monday, 9th July, I was asked a few times if we should buy a quality share before the market gave a signal. On Monday, all the signals were down. My answer is always the same. The challenge of trading and investing is to follow the process and focus on perfect execution of a simple set of rules. If we focus on perfect execution, then the cash will take care of itself. That's a long-winded way of saying that I responded, "Wait for a market signal."

The entry criterion is discussed in Lesson 4 of the Successful Investing Quick Start Course which is built into the VectorVest program. How to pinpoint the exact entry point is a large part of the "Swing Trading with VectorVest" course work and is detailed in both the video seminar and in the "Mastery Sessions." When an entry point is decided upon the next, and most forgotten, part is to calculate the number of shares to be purchased so as only 1% of your capital will be lost if the position should fail. The paradox here is that once all the analysis is completed the average trader feels sure he or she is correct. That's why they are trading in the share in the first place. If they are 100% sure that they are correct in their prognosis then why not have a big punt. They wish to accelerate the process of wealth accumulation.

Unfortunately, if you are correct 80% of the time then you are wrong 20% of the time. On the next trade you don't know whether it's one of the 80 or one of the 20. Cut yourself some slack here. No one else does either. Certainly not those Armani clad fellows on the TV and certainly not that guy who shouts and jumps up and down each afternoon, UK time, on CNBC.

Position sizing becomes more difficult after a run of good luck. We can easily become euphoric and feel invincible and trade much larger than we should. Many fortunes have been lost after a run of random fortune. It's a breeding ground of mistakes and trading errors.

Let's assume a capital base of £20000. 1% is £200. That's the most we should lose if the position bombs out. Plus 500 (PLUS.L) has just broken out and I will assume that I have decided to BUY at £18 even. The VectorVest Stop is close to £16 and I will round it out to make the arithmetic easier to illustrate the calculation and make the point.

Risk per share = £18 - £16 = £2 per share.

Number of shares to be bought $N \times \text{Risk per share} = 1\% \text{ account size}$

$N = 1\% \text{ account size} / \text{Risk per share}$

$N = 200 / 2 = 100$

The order would be to purchase 100 shares at £18 each with a stop-loss order placed at £16. The absence of the above calculation is the reason most go broke in financial markets.

All the parts that I have detailed work together synergistically. If you trade in the best shares and only trade when the overall market is positive then your hit rate will improve and your trading plan will become much easier to follow.

2018-07-20

Deliberate Practice and Five Reasons to Maintain a Trading Diary

One of my great joys is the interaction and discussion at the VectorVest UK User Groups around the country. Recently at the Birmingham UG I was reminded of the benefits of accurate notes and record keeping. The UG Leader has posted very impressive trading results over the past year and keeps an impeccably maintained set of records of his trades and investments. Over the years that I have been trading I have observed this repeatedly. Large profits in trading and exceptional record keeping go hand in hand.

In my first stint on an institutional trading floor, the practice of recording in detail each trade was instilled from the first morning and wow betide anyone who didn't comply. To this day, nearly 35 years later, I keep a trading diary of all my trades and investments. In my case its hand written. This may be a sign of my vintage, but, for me, a hand-written diary seems to internalize the trading process. In the same way as most (even millennials) write down school/college or university course work prior to an exam to absorb the material, a hand-written trading diary keeps me mentally close to the action. If that sounds prehistoric, keep an electronic record, but it's vital, as I shall try and explain, that the process is followed. A key to becoming successful in any walk of life is to take total and full responsibility for the results achieved. If the process of trading is not accurately recorded then it's so easy to blame Brexit, China, Trump or any other number of reasons rather than ourselves for any underperformance.

First, we need a trading plan and a great starting point is the VectorVest Worry-Free Investing method (WFI). The latter has had a magnificent period

during 2018. Since the Confirmed-Up signal on 17 April 2018, the method has outperformed the UK market by 5X.

The rules are simple, robust and straightforward and a detailed document on WFI can be downloaded from VectorVest7. I summarize these below.

- a. When the VectorVest Composite UK prints a Confirmed Up, C/Up, BUY signal, the investor should sort all the shares in the database by RS. In practice, I use a UniSearch in the Searches - Retirement folder named “Long-Term Winners - RS Desc.” This brings those shares with the best safety track record to the top of the list.
- b. Purchase 10 of the top RS stocks. Endeavour not to purchase more than 2 stocks in a single sector of the economy. Use the VectorVest stop-loss to calculate position size. When the overall market is rising, the investor should be fully invested.
- c. As the overall market is rising, the probability of getting stopped out of a high RS stock is low, but it certainly can happen. If it does, run the UniSearch and replace with another high RS stock that you do not presently own. If the overall market is rising, then it's vital that you are fully invested.
- d. Like humans, markets are living entities and breathe in and out. Sooner or later there will be a Confirmed Down, C/Dn, signal. When this occurs, there is a much higher probability that even high RS shares will fall. They are resilient, but in a strong selloff some will retreat. Obey the Stop calculated by VectorVest. In this case, we DO NOT replace, but build a cash position. For example, in a strong selloff we may have to exit three shares. In this example, the portfolio would be 70% in shares and 30% in cash.
- e. When the next C/Up occurs, run the UniSearch and replace those three positions with shares you do not own.

All we must do is follow the rules and wealth will automatically appear. Those of you who have been trading for a while will know that following a

simple set of rules is much easier to write than do. A trading diary and the following steps will help get the process instilled.

- 1. Track each trade.** This will provide detailed data on profits and losses. It will detail the position sizing, if any used. It will detail your exits and detail your P/L.
- 2. Review each trade.** The more you review your trades and ask yourself what could you have done differently to help you stick to the rules. Reviewing each trade may help you tweak the strategy and get to a point where it suits your beliefs about markets. In most cases the review will focus on where you failed to adhere to the rules.
- 3. Learn from every trade.** The more you review each trade, the more you will learn and the process will speed up the path to profits. I know many who have been making the same mistakes for 30 years. By recording your trades, thoughts and market observations, you are learning from past actions and mistakes. When you record and flag a mistake or trading error (not taking a stop or snapping at a quick profit for example), it helps to avoid repeating these errors. You are engraining the process of taking total responsibility for your results. Those who are winners see each trade review as a way of improving their skills, a lesson to learn and a chance to grow as a trader from each experience good or bad.
- 4. Grow from each trade.** It's my belief that a well-documented trading diary helps to build trading discipline. It helps to keep track of your trading plan and charts a path to your long-term financial goals. In addition to the more mechanical aspects of the diary, please rate yourself while making any major decision (entry, position sizing, exits etc.) on a feeling good or bad scale. 0 is miserable, while 10 is euphoric. I found the results of this quite amazing around 20 years ago after completing a trading psychology course in the US. Most of my trading errors were when I journaled 0-2 and 8-10. Certainly, for short-term swing traders and day traders, its vital to know when you are simply not "up for it" to use an everyday expression.

- 5. Long-term goals.** The more you learn about markets, about your trading plan and very importantly about yourself will help reinforce the three beliefs that are essential to building wealth in financial markets. These beliefs are summarized below and, once in place, your path to financial success is certain. The VectorVest WFI plan and an accurate well-kept and honest trading journal will, over a period of months, build these essential trading and investing beliefs. You are on your way to the future you desire. The beliefs are;
- a. Money can be made in markets.
 - b. I can make money in markets.
 - c. I deserve to make money in markets.

2018-07-27

Building the 10 Minute a Day Path to Stock Market Success

In past essays I have written at length about building the discipline to follow a simple set of trading rules. Those reading with even a little trading experience will acknowledge that it's much easier to write than achieve. Those with no trading experience will wonder what all the fuss is about.

The process of building trading discipline is quite simple and this process can be applied to most facets of life. The process entails gritting your teeth and following the rules for 8 to 13 to maybe 21 trades. I used to offer a service where I would sit and nursemaid traders through the period.

By doing this, I have turned many serial losers into consistent winners on the futures markets all over the world. If you wish to build the discipline to complete 30 pressups each evening, then grit your teeth and make a start. After 13-21 days the habit/discipline will be built. This is how personal trainers make their living.

The psychologists speak about new neural pathways within your brain being forged in this period. I have no idea of the neuroscience, but the process gets me to the gym twice a day with zero effort. All observing believe that this takes discipline, but the paradox is that once the habit is built it takes little or no discipline.

I personally find it easy to build discipline in all areas of life, and, although this may seem positive, it also means that I can easily build the discipline to follow poor choices. These 63 years have taught me to be very careful with my choices and choosing the chips instead of the salad on a few occasions can easily produce an engrained habit I do not need and a new belt. It's my

view that building the discipline to manage your portfolio in 10 minutes a day, every day, can be achieved in a similar fashion.

Within my essay of last week on record keeping, I updated the rules of the VectorVest Worry- Free Investing method (WFI). The WFI has outperformed the market significantly during the past 12 months and has shot the lights out since the last Confirmed Up Call on 17 April 2018.

Let's answer some questions about this trading plan and then I will summarize the actions to be taken each evening. It's my promise to you that if you grit your teeth and complete these actions each day for the next month, then this habit will be built. It may take slightly more than 10 minutes to start with, but by the end of the period, 10 minutes should be more than adequate.

1. What will trigger me to Buy stocks?

In the WFI, we use the Confirmed Call method of deciding whether it is safe to Buy stocks. This is the most conservative Market Timing method of VectorVest. The signal is shown on the front page of VectorVest each evening. Below the Market Timing Gauge (traffic light) on the HomePage of VectorVest, there is the Color Guard. On this, the column to the extreme right is named Call. On 24 July 2018, there is a green C/Up in this space saying it's OK to consider buying stocks.

In addition, I also wish to observe that the pointer of the Market Timing Gauge is within the green area and that "VectorVest advocates buying safe, undervalued stocks that are rising in price at this time." If the pointer is within the red area of the Market Timing Gauge, although there is a Confirmed Call upwards, the Market Timing Gauge is negative, so, for me, it's a day to observe rather than a buy day.

2. What to Buy?

This is easily answered for WFI by using the UniSearch tab on VectorVest. Locate the retirement folder and click on Long-Term Winners - RS Desc. This finds shares on the LSE that have reasonable volume and are trading above 50 pence per share. The program then sorts these shares by Relative Safety. This

brings those shares with the safest track record to the top of the list. In my own work, I have added a parameter to the standard UniSearch because of my faith (based on lots of back-testing) in the Comfort Index (CI). I am not alone in this as many other VectorVest users around the UK have arrived at the same conclusion. My modified UniSearch finds the UK's safest shares that are in the throes of a strong trend. The CI is without doubt VectorVest's secret weapon (to the standard "Long-Term Winners - RS Desc," I have added $CI > 1.3$). Select 10 shares ensuring that no more than two are from any single area of the economy.

3. Where is your stop and where is the target?

In WFI, the VectorVest calculated Stop is the standard used. You can decide to place a stop with the broker or, as in my case, elect to manually exit the position. When a Stop is triggered I observe the low of that day. If the market moves below that point, then I exit sometimes by keeping an eye on the position or by a market order if busy. In this way, I was stopped out of Griffin Mining, GFM.L, (not a WFI stock) a few weeks ago. As of 24 July 2018, I am still long with Trifast, TRI.L, which triggered a Stop, but hasn't traded below the low of that day. In WFI, there are no targets and you can easily just let the winners run if they remain above their respective stops. Some investors around the country have warmed to exit at a 50% profit. This tests exceptionally well over the last 10 years. A few decisions need to be made by each of you here.

Every evening please grit your teeth and resolve to do the following. It does not have to be real money and following rules exactly with a dummy portfolio will help a lot to get the process up and running. The biggest fear in trading is being wrong and that doesn't care whether the cash is real or imaginary. The next biggest fear is losing money.

- a. **Put your WFI portfolio into a WatchList.** Resort by RT and that will put the shares that are trending to the top of the list. The work needs to be done at the bottom of the list. If you see a RED box beside the share, it has hit its Stop and needs to be either sold or watched carefully the next

few days. On most days with WFI shares and my extra CI filter, there will be nothing to do. This can be done in seconds on the smartphone app. There has been nothing to do for me since 17 April 2018.

- b. Is it safe to Buy shares?** Make a note in your trading diary. There is a very small possibility that you can get stopped out of a WFI share when the overall market is rising, but it certainly can occur. If it's OK to be in the market (C/Up plus a green light in the Price column), re-run the modified WFI UniSearch and replace the share you have sold with another you don't already own. In an up market, this is a rare occurrence.
- c. Is it not safe to Buy shares?** A Confirmed Down signal on VectorVest is serious. Again, make a note of this in your trading diary. Over the past few years these pullbacks have been weak and many have now decided to ignore them. My technical analysis and Dr. DiLiddo's Market Climate model show that we are still in a Bull market, but sooner or later it will turn and a Confirmed Down signal will precede a much larger move. Be warned. In the case of a Confirmed Down, there is a much higher probability of being stopped out of some of your shares. If this occurs simply don't replace and build a cash position. In the last Confirmed Down, I was not stopped out of any shares.
- d. When the next Confirmed Up arrives,** run the UniSearch again and replace with a share that you don't presently own from the top of the list. This will be the case if you are starting from scratch today. In the latter, you will be adding all 10 positions over a period of around a trading week. In my trading plan both a Green Light and an Confirmed Up are required.

Put the process to the test with a dummy portfolio and then resolve to follow the steps each evening for a month. Keep a daily diary for the process. Most of the latter can be done on the phone over coffee, but it's vital that it be done. As I have repeatedly written, it's the flawless execution of a robust trading plan that produces the results and the cash.

2018-08-03

Value Momentum Trading and Investing

Recently in this forum and in my Swing Trading Course I tabulated seven steps to investment success with VectorVest. In the following I will restate these and then present a UniSearch which will easily locate shares that fit the bill. This trading system is much more aggressive than the Worry-Free system as Relative Safety (RS) is not the sorting parameter. The system can be summarized by three words “Value Momentum Investing.”

Dr. Bart DiLiddo, the founder of VectorVest, teaches that “Good portfolio management starts with buying the correct stocks.” These are stocks that are undervalued and growing earnings strongly and reasonably safely. The fundamental position of the shares are points 1 to 4 on my list. Your best defence in this line of work is a good offense. Pick the best stocks to start with and much of the rest will take care of itself. Ride your winners and cut your losers fast. Practice sound money management and position sizing, but most of all make sure that you are trading in the best shares to start with.

1. Favour undervalued shares and favour shares that have a price appreciation potential (RV) which are classed by VectorVest as excellent. The Relative Value (RV) again is a proprietary VectorVest calculation that computes the share price upside, over a window of three years into the future, as compared to an AAA rated Corporate Bond. In VectorVest terminology a $RV > 1.30$ is excellent.
2. Relative Safety (RS) measures the consistency and the predictability of the financial performance. A high RS reduces the probability of an earnings surprise and that we don't want. Conservative Investors will certainly wish to stipulate a high RS figure. In this UniSearch $RS \geq 1$.

3. Earnings Growth Rate (GRT) reflects a company's one to three-year growth rate in percent per year. In my work I like to see GRT above 20% and there is no shortage of these on the LSE presently. Remember its GRT that drives the share price upwards.
4. The most important thing to know is whether the market is rising or falling. Everything follows from that. I favour using the Confirmed Call Market Timing System. This is the longest and most conservative Market Timing System on the VectorVest program. The signals can be overlaid on the VectorVest Composite chart and are shown by the green and red triangles. A simple click of a mouse can overlay the overall market signals on any share. I only wish to purchase shares when the overall market is rising as defined by a Confirmed Call.
5. VectorVest also calculates the short-term trend of the overall market which is known as the Primary Wave. The Primary Wave is shown on the Home Page of VectorVest under the first portion of the Trend Column. I wish to buy shares when the Primary Wave is Up and the market is rising as defined by a Confirmed Call. No charting experience or subjective input is needed to determine the trend of the overall market. The advice on the front page is the final confirmation that it is safe to Buy stocks. "VectorVest advocates buying safe and undervalued shares at this time."
6. The long-term trend and resilience of the share is vital. This is measured by the Comfort Index (CI) which I refer to as the VectorVest secret weapon. A CI of greater than 1.30 indicates that the share is trending strongly with little volatility.
7. Finally, I wish the get a buying signal from the share as it moves higher. This is simple a BUY recommendation from the program which is shown by the green bar at the top of the chart.

The UniSearch is as follows

Price (Split Adjusted) <= Value

RV >= 1.30

RS >= 1.00 GRT >= 20

Recommendation = Buy CI $\geq$ 1.30

Sorted by VST

The top 10 shares from this Seven Steps UniSearch have appreciated by 16% since the Confirmed Up, C/Up, signal on the 17 April 2018 to 31 July 2018. The overall market has risen by 6%.

Since the last C/Up on 10 July 2018 to 31 July 2018 the UniSearch has risen by twice the rate of the overall market.

Some notes to aid execution.

- a. Use the VectorVest calculated stop-loss.
- b. Calculate the position size as instructed in my Essay of the 13 July 2018.
- c. Decide on how you will exit the position. A Trailing Stop or a profit target?
- d. Put the shares into a WatchList and re-sort them by Relative Timing (RT).
- e. The hard and emotional work needs to be done at the bottom of the list.

Some months ago, I wrote about the Holy Grail of trading and investing. This is based on many thousands of trades by retail and institutional traders that I have examined over the years. It's worth restating here.

The average losing investor when faced with a winning position invariably becomes pessimistic. They become deeply worried and fearful that the market will snatch back their open profits. The average investor when faced with a loss will become optimistic. They hope that the market will turn and give them their money back. As a result, the average investor snaps at winners and allows losers to run in the vain hope that they will turn around.

A winning investor thinks quite differently. When they have a winner, they become optimistic and when they have a loser they quickly become pessimistic. This allows them to run winners and quickly cull losers.

As a first step please become aware of your thoughts in your next trade or investment. This awareness will allow you, with practice, to change your

thinking and jump into the winning camp. It's that simple, but it takes work. Clearly a positive attitude to all aspects of life will be necessary.

Next week I will use the shares that result from the above UniSearch and present a simple swing trade entry which will get short-term swing traders onboard with little risk. This will help those who hope to take advantage of leverage in some form. Please input the above parameters into UniSearch.

2018-08-10

Rising Shares in Rising Markets

There are four major mistakes in the stock markets and in all markets. Of these, buying stocks that are falling in price would seem to cause the most misery and blown accounts. The mistakes as we see them at VectorVest are;

1. Focusing on the money/outcome as opposed to an intense focus on the process and execution of your trading plan.
2. Buying stocks that are falling in price.
3. Holding on to losers too long.
4. Ignoring overall market direction.

Over the weeks in this forum I have tried to communicate that successful trading and investing is all about the perfect execution of a repeatable trading plan. I have also written at length about the various VectorVest Market Timing models and how overall market direction is 70% of the exercise. In this brief note, let's look at the nuances of making sure we don't get tempted to purchase shares that are falling because, inevitably, they are falling for a good reason. The two for the price of one argument has bankrupted more share traders than anything else.

The subject is addressed in detail in Lesson 4 of the "Successful Investing Quick Start Course" which should be replayed as a part of this week's study. This repetition is necessary and vital because there are many seemingly knowledgeable individuals who will advise pound cost averaging and advocate holding and adding to losing positions. In some occasions, adding to losers can dig you out of a hole, but sooner or later the practice will ruin both your account and trading confidence. In South Africa and Germany, we had a listed entity that was the largest mattress manufacturer and distributor in the world. About this time last year, the share was selling at 120. Over the past year they

fell to 1.50. A client of my son in Johannesburg bought 3 million shares at 12 where the share stabilized for a few days before diving again. This was a deal worth over 1.5 million pounds. I leave it to your own devices to work out how much his shares are worth now. In the UK, Capita, BT and Marconi come to mind naming a few.

The TV Gurus say, “they are cheaper,” “you can buy more shares,” “pound cost average.” That fellow who jumps up and down each afternoon on our TV screens is as far removed from perfect execution of a simple set of rules such as “Worry-Free Investing” as is possible in this world.

Even in the strongest of trends markets rise by charting a series of rising lows. This is known by market technicians as “Peak and Through” progression. The question that’s posed by many old and new traders is, “Is this is just a short pullback within a strong uptrend or the start of a major reversal.” I hope the following suggestions will help with putting some rules in place within your trading plan to answer this riddle.

1. Use the VectorVest Buy recommendation. If the share is on Buy, then ignore the day to day price action. Our User Group (UG) leader in Birmingham has used this to great effect in his personal and UG portfolio. He exits without hesitation when the Buy turns to Hold. He argues strongly that he is long gone before a major sell off occurs. This is excellent advice.
2. Since time began, I have been using moving averages to define the trend. I use a 21-day Exponential Moving Average (EMA) and a 55-day EMA. These can be added to the VectorVest charts and a template saved. If you struggle to get this completed, please call support on 0800 014 8974. It’s a free call. Clearly when the 21 is above the 55, the trend is upwards and when the 21 is below the 55, the trend is down. This tends to give the trend more leeway than the VectorVest Buy signal. Within an uptrend as defined by the averages, the VectorVest Buy signal can change to Hold and if the trend continues can change back to Buy. The technique is a slightly looser measure of the trend. In the next Q and A session on

Monday, 13th August, I will show the moving averages and comment on how I use these.

3. Over the years I have noticed that even in the strongest of trends, the share price tends to pull back into the area between the 21 and 55 averages. I refer to this area as the “Zone” and those with knowledge of candle patterns may wish to add to positions in this area. If successful, this will get the trader onboard before a breakout of the last high. In the “How to become a ISA Millionaire Course” which I presented in London last month, we have a technique that finds these shares using the power of VectorVest. The technique is named after its inventor MR Jerry D Ambrosio as “Jerrys Jewels.” The technique is saved in UniSearch for those who have completed the course and finds shares with strong fundamentals in a strong uptrend that are temporarily oversold. The UniSearch should be run each day and outputs a list of trading opportunities each morning. I will be running the “How to become a ISA Millionaire Course” again in September.

Charles Dow in 1880 used no indicators, but did use price action to define trends. He was the first person to write about the price action within three types of a trend. He spoke about three types of a trend. These are Fast, Normal and Creeping.

- A. Fast Trend.** This is a great place to be as the price is surging upwards. MR Dow said that if the next rising low was higher than the last high then the trend was “fast.” In this period breakouts work well.
- B. Normal Trend.** Here the price action has slowed and the next rising low pulls back to the last old high. This is the most common and known as a “kiss.” Half the market will have placed their orders waiting for a pullback to the last old high.
- C. Creeping Trend.** This is where the next rising low is lower in price than that of the last old high and that’s a sure sign that the trend is running out of steam and, at best, heading for a consolidation and at worst a reversal.

The VectorVest Buy Recommendation will react to ABC above objectively as will the moving averages with no chart reading required. Please don't consider purchasing shares that are in a freefall in the hope of a turnaround. As I was coached many years ago "hope is not a winning stock market strategy."

2018-08-17

The Amazing Midas Touch Trading Technique

The Midas Touch (MT) technique was first used to trade the USA Gold Mining Index and thus the name. The technique finds big winners quickly and easily. It's a lightning fast method of knowing What To Buy, When To Buy and When To Sell.

This amazing cherry picking technique gives us the ability to find stocks that are rising in strong trends and that have the strength and persistence to keep rising in price.

The technique uses a double smoothing to eliminate short-term price noise and show easily the direction of the main trend. This can be done in a portfolio of 10 shares in 5 minutes per evening.

"I never pick a stock without it... I use the Cherry Picking with the Midas Touch method to select 100% of the shares I buy."

—DR Bart DiLiddo

On VectorVest there is a pre-prepared chart layout which, if selected, will automatically load the Midas Touch layout on each chart. In the following I will define the construction of the layout in point form. Also, there is a PDF document on the technique which can be downloaded from VectorVest. Click on the Views tab and then "Special Reports" on the top left-hand side of the page. There is a list of the many "Special Reports" that have been done on the technique over the years.

1. The MT technique is based on a derivative of the VectorVest Stop price. Each evening the program calculates a stop-loss level for each share in the database. The VectorVest Stop is based on a 13-week moving average of Price adjusted for the fundamentals of the share. Shares with excellent fundamentals are given more room to move.

2. The program calculates a 10-day and a 65-day average of the Stop price. This is the double smoothing of the Price data. When the 10-day crosses above the 65-day average of the Stop price, a major trend is underway. When the 10-day crosses down through the 65-day average, then the trend has reversed.
3. A trend change is much more significant if momentum (rate of change of price) is increasing. If you are in your car and accelerating there is a higher probability that the car will keep going forward than if you are slowing down. As we are on the hunt for a strong long-term major trend DR DiLiddo used a 40-day average of the VectorVest RT as the momentum filter. The RT (40) is mathematically massaged between 0.00 and 2.00 akin to all other metrics on VectorVest. Above 1.00, momentum is rising. Please take some time out and load a chart of Eland Oil and Gas (ELA.L). On the right of the chart, click on Graph Layouts and then on Midas Touch. When loaded the 10-day and 65-day average of the Stop should be in the upper portion of the graph with the RT (40) in the lower portion.
4. During late September 2017, the 10 and 65-day averages of the Stop crossed. The 10 crosses up through the 65. In the window below, the RT (40) was also above 1.00 and this indicated that there was a strong trend about to begin. Since this time, ELA.L has more than doubled in price and the trend is still strong with the averages moving apart. It has taken seconds a day since late September 2017 to monitor the position and decide to do nothing. Note on the chart that as the

Price continues higher, the RT (40) is also making new highs. This shows that the strength or momentum of the trend is rising. The car is moving forward, and the driver has their foot on the gas.

As DR DiLiddo suggests above, the technique makes an excellent cherry-picking tool. In the VectorVest Worry-Free Trading method (that I have spoken about frequently in these Essays), the MT technique could be used to fine tune those shares selected. A high RS share where the

10-day average of the Stop is above the 65-day average of the Stop and the RT (40) is above 1.00 should increase the probability of the position moving quickly into profit.

I have found the technique particularly useful for commodity shares and used the technique very profitably on South African mining shares. The short-term noise on this asset class can easily confuse the most experienced of traders. The MT technique removes the noise and, with discipline and experience, the main trend can be followed and that's where the big money is made.

To ensure that strongly trending shares are not missed, the program calculates a MT watchlist. Click on the Viewers tab, then select the Cherry Picking group, then click on Midas Touch Stocks. The rules for inclusion in the MT WatchList are detailed below.

- a. The 10-day average of the Stop price must be above the 65-day average of the Stop price.
- b. Both Stop price moving averages must be making a 3-month high.
- c. The 40-day RT must be greater than 1.00.
- d. The 40-day RT must be making a 3-month high.

The MT technique is perfect for those that wish to sidestep the noise and short-term volatility which is especially prevalent during July and August of each year. The technique finds shares that are trending and keeps the trader in sync with the longer-term trend in a few minutes a week.

2018-08-24

Worry-Free Investing: a Standalone Method of Building a Safe Fortune

I have been around the proverbial trading block numerous times over the past 35 years in this line of work. In that time, I have tested and traded dozens of mechanical systems. None of them produced profits on an ongoing basis. They would do well in a certain market environment and get trashed in another. For this reason, I developed my own more intuitive trading setups and plans based on pattern analysis. I do my best to transfer this knowledge at the User Groups and at the online sessions on a Monday afternoon.

The Worry-Free Investing (WFI) method is the ONLY mechanical method that I have ever found that consistently makes money in all market types with next to no trading required and certainly no subjective decision making.

All decisions involve emotion of some kind and to avoid these getting in the way of profits it's vital that the decisions are binary in nature. Is the market going up or down, yes or no.

On VectorVest UK just click on UniSearch and then scroll down to the Searches - Retirement folder. With that folder open the "Long-Term Winners RS Desc" should be easy to spot. That's your ticket. It's a conservative UniSearch but in 2018 it's shown most others a clean pair of heels. This UniSearch will find those shares with the safest track record of making money safely on the London Stock Exchange. If the overall market is rising, then we wish to be invested fully in the top 10 shares bearing in mind that we don't want to be exposed to any more than two shares from any area of the economy.

The WFI uses the longest-term measure of the market to tell us whether it's OK and safe to buy shares. On the front page of VectorVest UK just below the Market Timing Gauge there is the Color Guard. In the right-hand column of

the Color Guard is a column called Call. As of 22 August 2018, the Call is in red and says C/Dn (Confirmed Down). That means the longest-term Market Timing system that we use for WFI is saying it's not the time to be buying shares. No amount of philosophizing or chart gazing will change this fact. Please don't make life any more complicated than this.

The Call changed from Up to Down after the close on 21 August 2018. This means that we should be especially careful in monitoring our stop-loss levels. If a share should trade below our stop-loss, then it should be sold and a cash position held. For example, if within a strong overall market sell-off we are stopped out of three shares, then the portfolio should reflect 7 open positions and roughly 30% in cash.

When the Call changes to C/Up then it's time to be fully invested once more. Simply re-run the UniSearch and purchase three shares that you don't already own from the top of the list.

When I run this UniSearch and do a QuickTest of the performance since the C/Up in April 2018, it has outperformed the market by 3 times showing a 15% gain. Over the last year since the C/Up on 19 July 2017, the UniSearch is showing a gain of 20% in slightly over a year and that's exactly what it should do year after year and that's not counting yields that could be reinvested.

When I show WFI to my City fund manager friends they simply don't believe it.

In my Essay of 27 July, I have detailed the steps required to build the discipline to follow the

WFI trading plan. Please re-read these steps.

In mails I get from customers I frequently am asked for a trading plan. If you are new to trading and investing or you are not getting the results that you desire (losing money), then the first step is to perfect the execution of a simple mechanical system and the WFI fits the bill perfectly.

Following a simple set of rules is much more difficult to do than to write. The ego will fight you all the way.

If you cannot control the ego and follow these simple and mechanical rules, then I am certain that you will struggle and lose money with a more subjective set of rules.

Over the past 10 days, I have met with three groups of traders and investors. One group in South Africa and two in the UK.

In the first and second of these meetings on two continents, I examined the trades taken by them over the past three months. In both cases when I stripped out all the intraday trades and two to three days of speculative trades, both groups were very profitable. Both groups said the same thing. When they started all went well. They followed the rules. After a few months of success, they were now Gurus and started to trade on gut feel and ego. The result was drawdown.

The third group also started well and were profitable, but then were tempted by the ego to trade Chinese IPOs. Severe drawdown was the also the result.

For many years I have thought of starting my own fund to manage money professionally. At 63, I now feel that I am past that challenge, but if I were to manage money for any of you reading, I would put 80% of the cash into WFI, reinvest the dividends and with the other 20% complete some swing trades as the opportunity arose.

My apologies about writing about the WFI so close to my essay of 27 July, but in these meetings over the past two weeks in both South Africa and the UK it has become clear to me that many of us are making life much more difficult than it needs to be. Just remember that all those trading adverts showing guys riding around in helicopters and Italian cars (that provide fodder for the ego) may be the work of that famous Danish trader Hans Christian Anderson.

Developing the discipline to initially following a simple set of rules is a rite of passage in this business. Those with trading experience will realize how difficult it is to subdue the ego and just follow the rules. Those with no trading experience will wonder what the fuss is about.

2018-08-31

The Midas Touch and Its Ability to Separate Noise From a Tradeable Trend

Two weeks ago, on the 17th August, in this forum, I discussed the Midas Touch technique, its construction and its ability to confirm the start of a major and tradeable trend. To find the Essay just click on the Views tab and then on Essay Viewer in the top left-hand side of your screen.

Please reread the construction of the technique as I won't repeat these here.

The technique is particularly useful in confirming price action at major turning points in a share or an overall market. Often at these major turning points price action is difficult and subjective to discern. Last week I spoke about the decision-making process and that all decisions have a level of emotion attached to them. Should you eat that chocolate biscuit or not? It's very important that in our trading journey that we keep the decisions as binary as possible. Yes or no. The Midas Touch fulfills this exceptionally well.

All the points in your trading plan should be as yes or no, off or on, as possible. When you are profitable with this approach, then maybe a move to a more intuitive plan is possible. I personally like to keep my plan as mechanical as possible.

There are four trading fears and I have listed them here often

1. Being wrong.
2. Losing money.
3. Missing out.
4. Leaving money on the table.

Even after all these years in this line of work I still struggle with the third. I stress that the market or share is going to run and yours truly will not be onboard. To confirm the turn from a down to an uptrend, the Midas Touch technique provides an objective signal that a major move is on the way.

In the UK I am presently looking for a high risk to reward trade/investment in both construction shares and in the much more speculative environment of gold shares. It's the latter where the Midas Touch takes its name. The founder of VectorVest, DR B DiLiddo, constructed the technique to spot major tradeable trends in the US Gold Mining index which has a volatile nature, to say the least.

In construction shares please load a three-year weekly chart of UK builder Bellway, BWY.L. It's a stock that has been particularly good to me on various occasions over the past 5 years. The fundamental picture on VectorVest is good.

From the low, after the Brexit vote in 2016, the share doubled in price, peaking in October 2017. Since this time the share has pulled back in what market technicians refer to as a "flag" pattern which is bullish. If you cannot see the pattern don't stress because I will cover it in the Q and A session on the 3rd September. At this point, I require an objective method of entering the position and the Midas Touch is ideal for this. If I jumped in now, then "fear 3" above would have sucked me in once more.

At this point revert to a daily price chart over the last year. If jumping from weekly to daily is a technical issue, again I will cover that on the 3rd or please call support on 0800 014 8974. Apply the Midas Touch template which is under Graph Layouts on the top right-hand side of the screen. Please remember the Midas Touch should be applied ONLY to the daily price chart.

If the 10-day average of the VectorVest Stop-loss crosses above the 65-day average of the VectorVest Stop-loss and the 40-day Moving Average (MA) of the RT moves above 1.00, then a long-term trend has probably started. It's then safe to enter a position trade which should last several months to years.

On BWY.L, that hasn't quite happened yet, but it's close. I will sit on my hands until it does, but I smell money here.

On a much more speculative note, Randgold Resources, RRS.L, seems to be finding support after also charting a very positive pattern on a weekly five-year view. Again, this will be discussed on Monday 3rd September in the Q and A. Please load a daily chart of RRS.L and apply the Midas Touch layout. The trend position from the 10- and 65-day MA of the VectorVest Stop-loss is still downward and the 40-day MA of the RT is also pointing down. I will do nothing here until the Midas Touch gives a Buy signal. Note how the price has made a falling bottom, but the RT40 has made a rising bottom. That's called "Bullish Normal Divergence" and it's an excellent leading sign of a turn.

On both BWY.L and RRS.L, I hope this has given you a highly reliable trigger which you may find useful in your trading plan for these or any other stocks that are of interest. I am optimistic of both turning into highly profitable plays, but for now it's time to sit firmly on hands.

2018-09-07

Getting Around the Most Common Mistakes in Trading and Investing

Each month I complete an online webcast called the “10 Minute Investor.” Its objective is to introduce new people to the VectorVest approach to investing and trading and show them how the process can be managed in a few minutes a day.

In the presentation I detail the four mistakes that I have seen repeatedly in retail and institutional portfolios over the years. These mistakes are:

- 1. Thinking of the money first as opposed to focusing on the process of trading.** A friend of mine in South Africa says that you either “fall in love with the process of trading or leave the business.” Like a winning golfer, it’s vital to focus on perfect execution of each trade (stroke in golf). If you focus on the process the cash will take care of itself. Focus on the process of following a simple, but robust set of rules. The simpler the better as these rules stand a much smaller chance of being curve fitted to the past. Things go smoother and better with the trend so adding the Comfort Index (CI) on VectorVest to the mix helps considerably. I have noted over the years that many take a winning simple and robust system and ruin it by trying to make it perfect.
- 2. Buying shares that are falling in price has caused more blown accounts than anything else in the trading business.** The “two for the price of one” thought is very tempting and sucks us all in from time to time. Sometimes we get lucky and the share turns, but when it doesn’t accounts are blown. The market is like Santa Claus. It knows when you have been naughty and doesn’t bring any presents. On VectorVest, cherry picking with the Midas Touch, as taught in Lesson

4 of the Successful Investing Quick Start Course (SIQSC), will help you avoid the temptation of “two for the price of one.” Also, applying some moving averages to your charts will define a strong uptrend and as said above things go much better and easier with the trend. I use a 21-day Exponential Moving Average (EMA), a 55-day EMA and an 89-day Simple Moving Average. When the 21 is above the 55 and both are above the 89 then there is an upward trend, and all is good. In the ISA Millionaire course, soon to be run digitally, I will present how to enter these trends with little risk.

3. **Holding on to losers too long.** In the “10 Minute webcast” I ask the audience which of the mistakes has cost you the most over the years and holding on to losers comes up much more than any of the other mistakes. It happened to me in the early days. I put on my first trade in October 1982. From this time to around August 1984, I built up a large account for that time of my life from a very modest start. In 1984, I had done a lot of homework on a stock and was sure that the share was a ten bagger. The latter means that it should go up in price by 10 times. It didn't, but I held on and pretty much gave away all that I had made over the previous 2 years. That was a very costly mistake that I have never made again. Just remember that if you are correct 80% of the time then you are wrong 20% of the time. On the next trade you don't know whether it's one of the 80 or the 20. The ego has an impressive power over us and won't admit it is wrong. When you enter a position, the exits should be already defined. An exit if the trade goes wrong and if the trade behaves. Please review Lesson 2 of the SIQSC for many suggestions on how to “weed the garden” and get rid of losers before they can do your portfolio any serious harm.
4. **Ignoring Market Timing and the position of the overall market.** As I have written here many times, there is a good time to be in the stock market and an awful time. It's important that you have this at your fingertips and that's why it's on the front page of VectorVest and on the smart phones apps. The most important thing to know is whether the

market is rising or falling, everything follows from that. In the early days, I used a 50-week average on the S&P500 to guide my thinking. I used two weekly closes above the average to indicate safety and a single weekly close to indicate danger. This helped a lot, but as you may have noted, markets rise slowly and fall quickly just like the fairground rollercoaster. For this reason, the entry signal from the MA system was fine, but the exit poor. On VectorVest the Confirmed Call method of Market Timing, which uses the price, momentum (RT) and the breadth (BUY/SELL ratio) of the VectorVest Composite, reacts much quicker to market turns while keeping the trader/investor in many multi-month moves.

My research over the years indicates that number 3 causes most pain and drawdown. The ego is a fierce force in all of us. Ego just won't die. Tell your ego to take a hike.

2018-09-14

The Conservative Swing Trader

Last weekend I got a very interesting mail from our User Group leader in the West of England. He had spotted a large percentage move in Craneware PLC, CRW.L, and wondered how this move could have been anticipated in advance. This is the type of thinking and research that I have been doing for a very long time. At the end of the month looking for and analyzing the big movers has improved my ability to predict these moves. Some of these large moves simply cannot be predicted, but in the case of Craneware that wasn't the case.

Before reading further please have a look at CRW.L on VectorVest. As of the end of day Monday, 10 September, the share sits on position five on the Stock Viewer as sorted by the default VST Desc.

Of note the share is trading well above the VectorVest valuation, but the safety of the earnings and financial performance as measured by Relative Safety, RS, is excellent at a figure of 1.40 on a scale between 0.00 and 2.00. Both short-term and long-term measures of the trend (Relative Timing, RT, and Comfort Index, CI) are excellent with values of 1.73 and 1.71, respectively.

This is a safe share that's trending strongly. The valuation suggests that maybe the move is overdone, but, in my view, suitable for a relatively short period swing trade.

Please stop reading once more and load a chart of the share. Immediately the move that peaked our User Group leader's attention is clear. As I have related in this forum I use three moving averages to define the trend and these have been positive for the share since June 2017. The averages are 21-day Exponential Moving Average (EMA), 55-day EMA and 89-day Simple Moving Average (SMA). Load them and save a layout so as they can be easily

added and subtracted from any chart in a click. If you struggle with this task, then please call support at 0 800 014 8974 and they will talk you through the procedure.

Next use the drawing tool to draw a simple trendline below the lows. From the low on September 2017 to the last low prior to blast off on the first week of August 2018. That's a good trendline with five touches. Now again using the horizontal line drawing tool place a line above the high made at around 20 pounds at the start of March 2018. Note where the trendline and the horizontal line coincide. That marked the low of the last swing. Former resistance became support at the upsloping trendline. We have defined a turning point in both price and time.

The next step in this process is to click on Add Parameter on the right of the chart and select Technical Analysis and then the Stochastic Oscillator indicator. Use the default settings. At the start of August prior to the blastoff the Stochastic was showing a value of less than 20 on a scale between 0 and 100. This showed that the share was considerably oversold and added conviction that a major bottom was in place.

All these measures were saying that a move was highly probable but how do we find these stocks in an ocean of more than 2100 shares on the LSE. That's where the power of UniSearch comes in. In the following I will make use of a UniSearch which requires the ProTrader addon. The UniSearch finds safe shares (Worry-Free shares) that are trending strongly that are oversold.

In all the UniSearch lines of code for Date/Time, select "Time of Search"

Stock Price - (Split Adjusted)...Stochastic Oscillator STOCH (14, 3) day
slow %K has crossed above 20 in the past 1 day.

Stock Price - (Actual) > 50 CI > 1.5

RS > 1.3

Sorted by VST DESC

If you go back in time and select the 7th August, then CRW.L is the only share selected by the UniSearch and a QuickTest shows that the share has appreciated by more than 51% since this time.

The UniSearch finds only a few shares and sometimes no shares that fit the criterion each day. Since the start of August, the shares selected test very well, although CRW.L is exceptionally good.

On the 3rd of August, the UniSearch found Fevertree Drnks, FEVR.L, and Allianz Tech, ATT.L. These shares are up a combined 6.5% in that period which is over 50% annualized. In the poor market of August, this is a sterling return.

As the title suggests, it's a UniSearch to be investigated by those who wish only to trade in exceptionally safe shares fundamentally, that are trending strongly, but oversold in the short- term. This presents the trader a low risk entry point. I will certainly run this UniSearch each morning.

2018-09-21

What Has Doncaster Got to Do With Timing the Stock Market?

“Sell in May and go away until St Leger Day.” The St Leger for those uninformed is a horse race run at Doncaster and it was run last Saturday, 15th September. The gist of the seasonality is that its best to exit the market in May and sit in cash until after the race has been run.

The results of such an action over the past 30 years is inconclusive with no advantage to selling in the summer. This year the VectorVest Composite is flat over this period, but I suppose it would have saved much angst in this poor period for gains.

Fortunately, at VectorVest, we have many more sophisticated tools to measure market direction. My belief is that defining market direction is 70% of the exercise. I started defining overall market direction very early in my investing career as I noted that when the indices reflecting the overall market were up, my positions were also up. In those days I charted by hand using an engineer's drawing board and a draftsman's black ink pen. When you chart by hand the cross- market relationships are formed easily and deeply in your mind.

In those days to measure the sentiment of the stock market I used the SP500 as my yardstick. A weekly chart of the cash price was used in conjunction with a 50-week moving average. Two consecutive closes above the 50-week was a sign that it was safe to buy stocks and two closes below the same average was danger. Markets are like a fairground roller coaster. They take a long while to climb and then fall very quickly. The two closes above the average proved to be a reasonable entry, but the two closes below the average proved a late exit. I

changed that in the end to a single close below the 50-week average, but even that was slow.

The VectorVest method of Market Timing gets over the lagged signals from a moving average system by studying the price, momentum and breadth of the VectorVest Composite. The latter is an equally weighted index of all the shares that we follow on the LSE and AIM. There are various signals for differing types of traders from short-term spread betters to long-term position traders.

On the Home page of VectorVest, there are two words that define the trends of the London markets. As of 18th September, these are Up/Down. This means the Primary Wave (short-term trend) is Up, while the Underlying Trend is Down. At every turn, pretty much, the same series of events takes place and I urge you to follow these signals at this potential turn upwards of the LSE. I will detail the sequence of events as a Down market turns to an Up market. Clearly the short-term signals will fire ahead of the longer-term measures. Small boats turn more quickly than aircraft carriers.

Let's assume the overall market is in a freefall. At that point, the trend situation will be Down/Down. As above this means that the Primary Wave is Down and the Underlying Trend is Down. It's a poor time to be buying shares and that will be the advice offered by VectorVest just below the traffic light on the Home page of the program. Sooner or later, there will be a turn upwards and when that occurs the VectorVest signals will show it clearly. No guesswork or planetary aspects are required. I will discuss the signals as they appear in my engineers point form.

1. The Primary Wave turns Up. The trend situation is now Up/Down. For this signal to print, the VVC/UK should close above the close of five days ago. That's the situation as of 18th September.
2. If the change in direction proceeds, the next signal will be shown in the Price column of the Color Guard which is just below the traffic light on the Home page of the program. The Color Guard is simply a table of the Price of the VectorVest Composite, the momentum of the VectorVest Composite (RT) and the Buy/Sell Ratio (BSR). If you see a green light

in the Price column (first from the left), that means that the VectorVest Composite is higher day-over-day and week-over-week. The Green Light Buy signal is a fast measure of the turning point and should be used by short-term traders to dip their toes into the market. As of 18th September, this has not occurred.

3. If the turn upwards keeps going, the next signal is a Green Light in the Price column of the Color Guard, as before, say in this instance the Green Light has a black star within it. The Green indicates that the Price is up day-over-day and week-over-week, but this has been confirmed by momentum (RT) also rising. In the background, the program is running two Moving Averages (MA) on the RT of the Composite. If the short MA is above the longer MA, the RT is rising, and the program records this fact with the black star. It's known as the RT Kicker. A Green Light buy confirmed by the RT Kicker is a strong signal that the reversal is getting much stronger and becoming a much safer bet to buy into. These signals are totally objective in nature and no chart reading skills are necessary.
4. Next up in the sequence of the turn is the DEW Market Timing system. It's not shown on the Home page of VectorVest, but is a very powerful and robust medium-term trading system. Akin to all systems that work, the rules are simple and straightforward. To find the DEW please load a Market Timing Graph and apply the ProTrader DEW layout from the menu on the top right side of the chart.
5. D is the Detrended Price Oscillator (DPO), E are Price Envelopes and W is a Weighted MA. When the VVC/UK closes above the default MA and the DPO is above its centerline, that's a DEW buy signal. When the VVC/UK closes below the MA and the DPO is below its centerline, that's a sell signal. Very simple and robust as it should be. The DEW signals can be shown on the Market Timing Graph and indeed any chart by using the dropdown menu below the chart. If you have any difficulties finding this, please call support on 0800 0148974.

6. Next in the sequence, the Underlying Trend turns upwards and the trend situation will be summarized as Up/Up. If you again load the Market Timing Graph and, on this occasion, please load the VectorVest MTI layout. The MTI is a very special indicator which combines the momentum of the VVC/UK (RT) and the BSR into a single line study. As with all other VectorVest metrics, it's massaged between 0.00 and 2.00. When the MTI is greater than 1.00, the Underlying Trend is Up. When It's less than 1.00, the underlying trend is Down.
7. The last and most conservative signals on VectorVest are known as Confirmed Calls and they print a signal when the Underlying Trend is confirmed by Price action. If the MTI is greater than

1.00 and the Price of the VVC/UK has increased five-trading-day-period over five-trading-day- period, for two consecutive five-trading-day-periods and from the previous day, that defines a Confirmed Up signal. If the MTI is less than 1.00 and the Price of the VVC/UK has decreased five-trading-day-period over five-trading-day-period, for two consecutive five-trading-day-periods and from the previous day, that defines a Confirmed Down signal. These signals are used by conservative traders and investors in the Worry-Free Investing method. Although they are the longest-term on VectorVest, they respond much quicker to market events than my moving averages mentioned above.

At each turn, the same sequence of events take place. At this potential turn observe and make friends with the signals as they occur. This knowledge will make you a lot of money over the next few years.

2018-09-28

If I Was a Fund Manager

If I was a fund manager, I would take the clients' money and without doubt place 70% of it with the VectorVest Worry-Free Investing (WFI) methodology. With the remaining 30%, I would use the techniques presented in the Swing Trading Course and the ISA Millionaire Course to add zest to the returns. The latter would not be crucial in 2018 as the WFI is having an awesome year.

I have presented the details of WFI here many times and if in doubt on these, the rules can be downloaded from VectorVest. Click on the Views tab and then on Special Reports. If you scroll down the PDF document, WFI is there. I last spoke about WFI in this forum in my essay of the 24th August. In that essay there are many links and references to earlier entries. Please remember that the only reason that we are trading and in markets is to make money and not to solve a puzzle. It may be repetitive, but I am writing about something that makes money and a lot of money with little effort. I want all reading to be a consistently winning trader and investor.

As you know, WFI uses the Relative Safety metric to find and sort the safest shares on the LSE. I use the UniSearch named "Long Term Winners RS Descending" which is prewritten in the Searches - Retirement folder of UniSearch. This UniSearch only selects shares from the LSE and avoids AIM. However, there are many fine companies on AIM and if you wish this line of code can be removed. Since the Confirmed Up in April 2018 the UniSearch using AIM and LSE shares has produced an increase of 21.21%, while LSE stocks only have given 16.94%. Both are excellent results and, in the City, the fund managers don't believe me when I present the data.

Using the BackTester on VectorVest, the WFI methodology (LSE stocks only) has increased 50000 pounds to 272000 pounds since the first Confirmed Up signal after the crisis. This occurred in the first half of 2009. In the test no

dividends were added into the mix and I used a 50% Profit Target and a 25% Trailing stop-loss.

More recently the research department at VectorVest in the USA have been experimenting with various stop-loss methods and using the volatility-based stop loss known as the Profit Locker. The settings on the Profit Locker chosen after this investigation on the UK market are 100% Profit and a 20% stop-loss.

It was also decided to start testing at the beginning of 2012 to exclude the large rise in 2009/10 and 11 and thus make the results more representative of a normal market. During this time, the WFI using the standard, LSE only, UniSearch increased 50000 pounds into 142000 pounds which is a 17% compounded rate of return, excluding the dividends. The maximum drawdown was 16% which occurred at the Brexit vote. I will run the BackTester at UK Q and A session on Monday, 3 October.

As a fund manager my only job will be to follow the rules. Easier to write than do, I know. To help this execution, the entire process can be automated within the “Genius” facility on the program. If you struggle to set this up, please make an appointment with Support and they will talk you through the process. Each evening you will get an email which will allow crisp decision making, with little effort on your part.

Now for the remaining 30% of the investors’ money. I think I answered this question in my essay of the 14th September in an entry called “The Conservative Swing Trader.” I have always found trading other people’s money much more difficult than trading my own. As a small fund manager, the client will invariably follow your progress on a trade by trade basis. For this reason, I would only wish to trade in shares with an excellent track record of making money and, in fact, trade in similar shares to those in WFI, but on a much shorter time frame.

A UniSearch to find shares that have safe fundamentals that are in the throes of a strong trend, but temporarily oversold was presented in the essay of the 14th September and I am exceptionally pleased with it. The entire thinking was precipitated by an email from our User Group Leader in the West of

England. He asked how to find shares like a Craneware (CRW.L) before they made their leap upwards. I repeat the UniSearch below. It's a beauty.

In all the UniSearch lines of code for Date/Time, select "Time of Search"

Stock Price - (Split Adjusted)...Stochastic Oscillator

STOCH (14, 3) day slow %K has crossed above 20 in the past 1 day.

Stock Price - (Actual) > 50

CI > 1.5

RS > 1.3

Sorted by VST DESC

When I ran the UniSearch on Monday 24th September, two shares only fit the specification above. These are MACF.L and GBG.L. MACF.L looks like a very strong probability trade. The share is undervalued and growing EPS strongly. Technically the share has just broken out of a five wave "flag" pattern and looks bound much higher. GBG.L is at support and is also growing EPS strongly.

The Conservative Swing Trader UniSearch will give me, the fund manager, many high probability trades during a month. If only one of them is a Craneware, I would be more than happy.

Although you have heard it before I believe that what I have presented above is a twofold road map to building a fortune in the stock market in a controlled and disciplined fashion. I am asked often for a set of rules for a trader to follow without deviation that will cut them through the millions of systems, ideas, indicators etc. that are out there on the internet. The above is a summary of those rules.

If I was a fund manager, the above is exactly what I would do.

2018-10-05

The Aggressive Swing Trader

Three weeks ago, I wrote an essay named “The Conservative Swing Trader” and followed with that in the second half of last weekend’s entry. This technique uses the Stochastic indicator to finesse an elegant entry into the safest stocks on the UK market that are also within the throes of a strong trend.

This week I should like to mention a more aggressive technique that will appeal to those people worried that the overall market could be subject to a correction. The technique holds only five stocks and goes into cash when the Market Timing signal is downward.

The Aggressive Swing Trading (AST) technique uses the Confirmed Call method of Market Timing. The rules for Confirmed Call signals are totally objective and defined below. The Market Timing Indicator (MTI) is a momentum indicator which combines the Price, RT and the Buy Sell Ratio of the VectorVest Composite UK.

A Confirmed Up (C/Up) signal is given when both of the following occur:

1. Price

- *The price of the VectorVest Composite UK (VVC/UK) has increased five-trading-day-period over five-trading-day-period, for two consecutive five-trading-day-periods.

- *The price of the VVC/UK has increased from the prior day.

2. MTI

- *The Market Timing Indicator (MTI) is greater than 1.00.

A Confirmed Down (C/Dn) signal is given when both of the following occur:

1. Price

*The price of the VectorVest Composite UK (VVC/UK) has decreased five-trading-day-period over five-trading-day-period, for two consecutive five-trading-day-periods.

*The price of the VVC/UK has decreased from the prior day.

2. MTI

*The Market Timing Indicator (MTI) is less than 1.00.

These signals can be overlaid on the VectorVest Composite by means of the dropdown menu just below the chart. Clearly a green triangle is a Buy signal and the red triangle a Sell signal.

Upon a Buy signal from the Confirmed Call system, five stocks are purchased from the UniSearch detailed below and when a Sell signal is printed they are sold for, hopefully, a profit. Some bullish Confirmed Call signals last months and years, while others only a few weeks.

When the overall market has printed a C/Dn signal, the portfolio is in cash.

The UniSearch was written by the VectorVest Education Department and uses the following criteria.

- a. In my essay of the 17th August I have detailed and written about the Midas Touch trading method. The Midas Touch uses a double smoothing technique to reduce the noise and focus on shares that are trending strongly. The Midas Touch uses a 10-day Moving Average (MA) and a 65-day MA of the VectorVest Stop-loss. The VectorVest Stop-loss is based on a 65-day MA of the share price and thus the double smoothing. The technique also uses a 40-day MA of the momentum of the share in question which is a 40-day MA of the VectorVest metric Relative Timing (RT).
- b. The AST method uses shares which are in the Midas Touch WatchList. To get into this WatchList the 10-day MA of the Stop must be above the 65-day MA of the Stop and both these averages must be charting a

three-month high. The RT (40) must be above 1.00 and charting a three-month high. The shares on the UK market that fulfill these conditions are listed in the Midas Touch WatchList which can be found on the Viewers tab of VectorVest.

- c. I have used a trading volume where the 50-day MA of Volume is more than 100000 shares and that the share Price is above 50p.
- d. It's the sort of the Midas Touch WatchList that is unique to this trading method. The sort used is CI/RT. CI is the Comfort Index and a high value of the CI finds a share that is trending strongly and resistant to a market sell off. RT is a much shorter-term measure of the trend in the share. When CI/RT is high, we should find a share that's in the throes of a strong trend that's temporarily oversold.
- e. CI/RT is not yet a standard field on VectorVest, so the field needs to be written using the Custom Field Builder and that will be good practice for all reading. Click on tools on the top right-hand side of the screen. At the top of the pop-up Custom Field Builder should be easy to see. The process of creating the field is intuitive, but should any problems be encountered, please give support a call on 0800 014 8974. When that's done, the sort on UniSearch can be specified as CI/RT.

The UniSearch is below. Please use “Time of Search” in each line of code.

Stock Watchlist = Midas Touch Stocks

Stocks Average Volume (50 day moving average) $\geq$ 100000

Stock Price (Actual) $>$ 50

Sorted by CI/RT Desc.

Results

10th July to 21st August Top 5 shares 4.69%. VectorVest Composite UK 0.46%

17th April to 28th June Top 5 shares 10.7%. VectorVest Composite UK 4.09%

The next step is to use the BackTester on VectorVest to assess the long-term performance as I was quite pleased with the short-term performance above in a very difficult market over the past year. To build the BackTest the Stop-loss used was $RT < 1.00$. Also, I asked the program to fill only one of the five positions each day after a C/Up signal. At a C/Dn signal, all were sold.

Please check my work (I was trading 10 years before I owned a computer), but the results are excellent since the first C/Up in 2012. A 50000-pound starting pot has increased to over 210000 in that time which is a compounded rate of return of nearly 24%. The maximum drawdown was under 17%.

A major benefit may be that many will sleep more soundly if they are in cash when the market is falling. I won't mention the results in the City as they simply would not believe me.

2018-10-12

The Secret

Over the past few weeks in this essay I have spoken about building both a conservative and an aggressive trading method plus many references to the VectorVest proprietary Worry-Free Investing plan. All the latter have a proven edge in markets and have been tested positively since the start and first Confirmed Up signal in 2012. Worry-Free has been tested in the USA over 20 years in many market types with excellent results.

The term edge simply means that the trading plans have a positive expectancy or in simple terms make more when they are correct than they lose when wrong. If the trader/investor can follow the rules and execute without fear or hesitation, they are certain money-making vehicles.

Remember the rules include money management as well as entry and exit parameters.

If you are new to investing and trading, then, in my humble opinion, the Worry-Free Investing plan is the place to start. It has few rules and all the decisions are totally mechanical and objective. If one switched on the Genius on VectorVest, it will inform you on what must be done daily. This will help the trader/investor to make crisp and quick decisions. On most days there is, nothing to do and I know that can be a challenge. Doing nothing as we will see below is much harder than it would seem.

I note recently that all the spread betting and CFD market makers are now forced to publish in their advertising material that only a small percentage of the traders that do business with them make any money. The split seems to be around 80/20 which seems to be a number that floats around in most endeavors in life. I have noted over the years that 80% of my profits come from 20% of my trades.

Some years ago, I went on a major mission to try and find out what the 20% who are winners were doing and what the 80% who were losers were not.

The sample included thousands of mostly swing trades lasting a few days to a few weeks. Although many readers may be long-term position traders, I still believe that the study is useful and will help in your journey to becoming a consistently winning trader/investor in all time frames.

Simply I found that the winners thought differently from the losers. If anything, many of the losers were better informed and much better analysts than the winners.

The average losing trader (the 80%) became very pessimistic when they had a winning trade or investment. They became pessimistic that the market would snap away their profits. This pessimism invariably resulted in the 80% of eventual losers taking a quick profit.

The average losing trader (the 80%) became very optimistic when they had a losing position. They became optimistic that the position would turn around and get their head back above water. This optimism resulted in holding on to losing positions and committing the cardinal mistake of adding to a loser.

The average winning trader (the 20%) became very optimistic when they had a winning trade or investment. They simply allowed the position to run according to their personal trading plan and exit plan. I mention above that 80% of my profits come from 20% of my investments and if these aren't nipped in the bud, then I simply have a bad year. We don't know which are going to be the big winners. When I tell my "fintech" friends that my best investment over the last year makes toy soldiers (GAW.L) they are sure I am jesting.

The average winning trader (the 20%) becomes very pessimistic when they have a losing position. This pessimism results in the position being closed quickly and without fuss or angst.

On your next trade or investment my challenge to you is to become aware and observe your thoughts. The spiritual people call this "cultivating the silent watcher." With practice you can change (not easily I know) those thoughts and make the switch to becoming a part of the 20% group. This simple mental switch has helped me turn losing traders into winning traders over the last 20

years. Your thoughts have momentum and it will take some work on your part to practice and build these beliefs. They can be instilled in your mind in the same way as your primary school teacher instilled the multiplication tables. This is by repetition and contemplation.

Normally the traders I have consulted with in the past had to lose a heap of cash before they would consider doing the practice.

Don't let that happen to you.

2018-10-19

A High Probability Opportunity Lies Ahead

VectorVest combines the power of fundamental valuation with the insight of technical analysis and that is sure to make you a better and more consistent investor. For my first 25 years in this line of work I pretty much just used technical analysis and did OK. I just didn't have the skills or the time or the inclination to fight with the annual and interim reports to understand the fundamentals. Over the past 8 years (with VectorVest doing all the heavy lifting) my results have improved with both the hit rate and the risk to reward of my trading calls improving significantly. The latter was the result of adding the fundamentals into the mix.

The VectorVest philosophy encompasses three major areas of market analysis. These are:

- 1. The fundamental position of a stock.** I define fundamental analysis as the search for the true value of a share. As you know this is summarized on VectorVest by the valuation, price appreciation potential (RV) and the earnings safety (RS). In short, I wish to be focusing on shares that are undervalued and that are growing earnings strongly and safely. Both RV and RS are graduated on a scale between 0.00 and 2.00. Above 1.30 for each is defined as excellent.
- 2. The technical position of a stock.** I define the technical position of a stock as the study of trends and turning points. On VectorVest there is a short-term measure of the trend of each stock in the database (RT) and a longer-term measure of this trend known as the Comfort Index (CI). As with the fundamental metrics both RT and CI are measured on a scale between 0.00 and 2.00. Above 1.30 on each show both the short-term trend of the share and the longer-term trend are both strong. A high metric for CI (> 1.30) and a low metric for RT (< 1.00 or below) would

indicate a share that's in the throes of a strong long-term trend that's possibly oversold in the short-term. More on this later in this entry.

3. The technical position of the overall market. Again, this is the study of the trend and possible turning points of the general market. Readers of this essay will know that VectorVest has many Market Timing systems to cater for short-term swing traders and longer-term position traders. As I have written before I believe that this is at least 70% of the exercise. Those in the market in the week starting the 8th of October will have had this point made clearly to them by drawdown in their accounts. The Market Timing systems make use of a composite indicator known as the Market Timing Indicator (MTI). The MTI is constructed from the rate of change of the Price of the VectorVest Composite UK, an equally weighted index of all the shares in VectorVest UK, (e.g. LSE and AIM) and a rate of change of the market breadth as measured by the proprietary VectorVest Buy/ Sell ratio, BSR. As I write on Wednesday, 17th October, the short-term trend of the UK market is down and the longer-term trend of the UK market is also down. A similar situation is evident for the US market. In VectorVest terminology both markets are in a DnDn trend. The first word refers to the Primary Wave (short-term) and the second to the underlying trend (longer-term). The advice on the front page of VectorVest on both sides of the pond is not to buy stocks. Clearly, it's also a time to watch stop-losses very carefully.

So why do I entitle this entry "A high probability opportunity lies ahead?" Over the years the research department at VectorVest has noted that the VVC/UK and the levels of MTI and BSR have strong predictive aspects when they are showing mega oversold readings.

When the MTI falls below 0.65 and the BSR drops below 0.25 that indicates a market that's in extreme oversold territory and the probability of a strong bounce or the start of a new trend is high. This mega oversold situation occurs only a few times every two years. In last week's "Special Presentation" Steve Chappell started his excellent presentation looking back to the start of the Bull

Run in 2009 where the metrics were in this mega oversold area. Please watch Steve's presentation if you haven't done so already. A great example of this mega oversold market, predicting a strong and very tradeable trend occurred in November 2016 when MR Trump was elected.

As of 17th October the MTI and the BSR are showing mega oversold levels and although the downside may not be over (as Tuesdays market action, especially in the US, was very positive) this is a time to prepare for a turn upwards. This technique is known as Bottom Fishing. I certainly won't do anything until the Color Guard on the Home page of VectorVest advocates buying shares. More conservative investors may wait until the longer-term Market Timing systems indicate that the overall market is rising.

On both VectorVest UK and USA there is a Bottom Fishing folder in UniSearch which will easily find shares that have been beaten down over the last few weeks. Let me suggest a UniSearch that makes sense to me and suits my beliefs about markets and trading. Remember we most often trade our beliefs about markets than markets themselves.

Using Unisearch and time of search in each line of code.

RV $\geq$ 1.30

RS $\geq$ 1.20

RT $\leq$ 0.90

CI $\geq$ 1.30

Sorted by the Master Indicator VST

My objective is to find a share with excellent fundamentals (RV and RS) which is in the throes of a strong long-term trend (CI), that's temporarily oversold (RT). Please adjust the UniSearch to suit your own circumstances. For example, traders may conclude that my level of RS is too conservative for their taste and may wish to lower it.

Another UniSearch that will be useful in this environment is the Conservative Swing Trading UniSearch that I presented in my essay of the 14th September.

Remember that although markets are showing mega oversold levels on the VectorVest metrics they can easily fall further. It's vital that nothing is done until a Market Timing signal that you trust is printed on the VectorVest Composite and the that advice on the front page of VectorVest is positive.

2018-10-26

The Midas Touch Technique. Two Interpretations

In this entry I would like to explain and hopefully remove any confusion on the two ways I use the Midas Touch (MT) trading system.

The Midas Touch trading system uses a double smoothing technique to remove the day-to-day noise. This allows the trader to focus on the long-term trends in any stock or commodity. The Midas Touch system makes use of a 10-day and a 65-day Moving Average (MA) of the VectorVest Stop-loss. The VectorVest Stop is itself based around a 65-day MA of the share price. A Moving Average of a Moving Average performs the double smoothing that I referred to above.

I have written about the Midas Touch in Essays on the 17th August and again on the 31st August, 2018. Please reread to understand the basics of the technique. It's simple, robust and as good as money in the bank for us all. The technique uses a 10-day MA and a 65-day MA of the VectorVest Stop and a 40-day MA of the Relative Timing of the share (RT40).

To ensure that strongly trending shares are not missed, the program calculates an MT WatchList. Click on the Viewers tab, then select the Cherry Picking WatchList group, then click on Midas Touch Stocks. The rules for inclusion in the MT WatchList are detailed below.

- a. The 10-day MA of the Stop price must be above the 65-day MA of the Stop price.
- b. Both Stop price MAs must be making a 3-month high.
- c. The RT40 must be greater than 1.00.
- d. The RT40 must be making a 3-month high.

This is the WatchList that was used in the essay of the 5th October to identify shares for my “Aggressive Swing Trading” (AST) technique. The results of BackTesting the AST trading plan are excellent so those interested in swing trading and having the focus and emotional make-up to action the signals should have a reread of this entry.

The VectorVest calculated Midas Touch WatchList is the first interpretation of the technique. I mentioned another interpretation in my Q&A webcast on the 22nd of October and the purpose of this Essay is to fully explain this more visual use of the technique and to supply a UniSearch to easily find the entry points.

The second interpretation is simple. When the 10-day MA crosses above the 65-day MA of the Stop price, a major trend is underway. When the 10-day MA crosses down through the 65-day MA, then the trend has reversed.

A trend change is much more significant if momentum (rate of change of price) is increasing. As we wish to locate and pinpoint a strong long-term major trend, DR DiLiddo used a 40-day MA of the VectorVest RT as the momentum filter. The RT40 is mathematically massaged between 0.00 and 2.00 akin to all other metrics on VectorVest. Above 1.00, momentum is rising.

For a BUY signal from this technique the 10-day MA of the Stop must cross above the 65-day MA of the Stop and the RT40 is above 1.00.

For a Sell (getting out of a long position) the 10-day MA of the Stop normally crosses down through the 65-day MA of the Stop prior to the RT40 falling through 1.00 and that's my exit signal. So, both measures must display a signal to BUY, but only a single to exit.

Please stop reading for a moment and load a 2-year and 1-month daily graph of Bellway (BWY.L) and apply the Midas Touch template. The latter is found in a menu under Graph Layouts on the top right-hand side of your screen. Over the period there was a BUY signal as the moving averages crossed and the RT40 went above 1.00 at the end of September 2016 which lasted until February 2018. There was a poor signal in May and June of 2018, but if the exit signal was taken it was far from a disaster. At present the moving

averages have not crossed. The RT40 remains below 1.00. I am watching carefully for a signal noting that both averages must cross and the RT (40) needs to move above 1.00 before proceeding. As I often say, “doing nothing is much more difficult than it would seem.”

One of my great joys at VectorVest UK is the interaction at the UserGroups. At the London UserGroup one of our Elite members has written a UniSearch to find the entry signal. It requires ProTrader. The UniSearch is revealed below.

Time of Search...Stock 10-day MA (Stop Price) > Stock 65-day MA (Stop Price)

5 Days Ago...Stock 10-day MA (Stop Price) < Stock 65-day MA (Stop Price)

Time of Search...Stock 40-day MA (RT) > 1.00

Time of Search. Stock AvgVol (50 day Moving Average) >= 50000

Sorted by VST Desc

This UniSearch will locate shares that look highly probable to be at the beginning of a strong trend. I have found the technique exceptionally useful for commodity shares. As discussed in the Q&A of the 22nd October, the Midas Touch technique will be very useful to mark an entry point into the large Copper Miners such as KAZ.L

2018-11-02

Strength in a Selloff Is a Leading Indicator

My first mentor and I met by pure accident. I shared an office with him when I first arrived in South Africa in April 1981. Each day he spent hours hand charting the shares he was following and watching on the Johannesburg Stock Exchange. Based on this apprenticeship, I saved some cash from my salary, placed my first trade in October 1982 and am still going strong.

He was the first to alert me to the fact that those shares that showed strength in a downturn were invariably the first to turn strongly upwards when the overall market recovers.

As of 31st October 2018, both the LSE and the USA markets are in a mega oversold condition. I have discussed this in the Essay of the 19th October 2018. Turning points are rarely easy to pinpoint to the day. A trading legend once quoted that “markets normally do what I think they will do but never when.”

In the following I will detail a UniSearch in VectorVest which finds shares that have a strong history of outperformance and show high relative strength over the past three weeks of this present selloff.

This selloff may, of course, be far from over. Before any action is taken the investor should simply wait for the front page of VectorVest to say it's OK to buy shares. More conservative investors will wait for the DEW Market Timing System to print a Buy signal and those following the Worry-Free Investing method will wait for a Confirmed Call Buy signal. The Confirmed Call is the most conservative and long-term signal within the VectorVest program.

To complete this task, click on the UniSearch tab on the toolbar of VectorVest. Then click on the Delta Searches - Stocks. Three from the top,

there is a UniSearch named “1 - Week Price Delta” Delta. Please click and open that UniSearch.

In the value column I have changed the time from 1 week to 3 weeks as that is approximately the length of the current downturn as measured from the last Confirmed Down signal on the VectorVest UK Composite.

The UniSearch is as follows

Time of Search...Stock Price (Split adjusted) ...Delta...3 week sorted Desc
 Time of Search...Stock Watchlist...=...FTSE 350
 Time of Search...Stock CI (Comfort Index) ...>=...1.3
 Sorted By 3 Week Price Delta DESC...VST DESC... (That’s the standard and no change needed)

My rationale is as follows:

1. I have used the FTSE 350 stocks as there is lots of volume in these counters. If we need to exit quickly, liquidity is vital, should the bounce/trend change in the overall market become a deceased feline.
2. The Comfort Index measures long-term strength and resilience to a downturn. I refer to the indicator as the VectorVest “Secret Weapon.”
3. Sorting by the 3-week Price delta brings those stocks to the top that have done well in this period of overall market weakness.

The UniSearch finds several very interesting counters with the Pearson Group at the top of the list. This share is up 10% over the past three weeks, while the overall market has tanked. My old mentor would have this share firmly in his sights. Also, the UniSearch shows that Plus500, Drax, Nex Group, AG Barr and Sainsburys look interesting.

I am certain that this UniSearch will throw up some great shares even in a strong overall market. In a strong overall market, I feel that the original 1-week Delta sort, will alert the trader to opportunity in a more timeous fashion.

We don't trade markets but rather our beliefs about markets and the UniSearch above makes good sense to me based on the beliefs that I have built in markets over the past 36 years. Please try it and we will discuss the UniSearch and the overall market conditions on both sides of the pond, in detail, at the Q and A webcast on 5th November.

2018-11-09

When Should I Start to Buy Stocks?

This is a question that I have been asked repeatedly over the past few days.

I wish there was a clear-cut answer to the question. It's a decision that should be a part of your trading plan and decided well in advance.

There are six main Market Timing methods built into the VectorVest program. In my essay of the 29th June 2018, I have detailed the construction of all of these. All the measures of Market Timing are totally objective in nature.

For a signal to Buy shares

1. Primary Wave turns upward.
2. A Green Light in the Price Column of the Color Guard.
3. A black star within the Green Light.
4. The DEW prints a BUY.
5. The underlying trend turns Up.
6. The underlying trend is confirmed by 2 weeks price action. (A Confirmed Call). This is the most conservative and long-term signal on the VectorVest program.

Conservative investors and those using the Worry-Free Investing method (WFI) will wait patiently for signal no 6 (Confirmed Call) to print on the VectorVest Composite. One of our most experienced users has concluded that they will start to build a position at the first Green Light after a Confirmed Up signal. A conservative and prudent approach, but it's a plan that's been thought through in advance, far away from the emotional ups and downs that invariably result in poor decisions.

In my Essay of the 5th October, I detailed an Aggressive Swing Trading plan which uses a focused portfolio of 5 shares when the VVC/UK is rising. This method also uses the Confirmed Call Market Timing system to define when the market is rising or falling. It is invested when there is a Confirmed Up and in cash when the Composite prints a Confirmed Down signal. This makes for clear and undisturbed sleep. The Aggressive Swing Trading system is part of the VectorVest Swing Trading Course due to be presented in November and December 2018.

Many readers will know our London User Group leader. She has many years of experience with VectorVest in both the UK and Australia. In her plan, she uses the Green Light Buyer confirmed by the RT Kicker Market Timing system to initiate buying shares. Again, it's thought through in advance. The Green Light Buyer confirmed by the RT Kicker simply means that the Price of the VVC/UK is positive day-over-day and week-over-week and the price momentum is rising. An excellent signal for aggressive swing traders.

The point that I am trying to make is that it's vital to decide on a Market Timing method in advance and test it using the BackTester on the program. When that's completed to your satisfaction then your focus should be on the process of trading and investing. If you focus on the process, the cash will take care of itself.

At each turn Up (and Down), the signals invariably fire in the same order. Small boats turn more quickly than oil tankers and thus the Primary Wave shows a Buy signal much sooner than the DEW for example. Similarly, the DEW gives a signal mostly a few days ahead of the Confirmed Call signal. At this turn upwards from the October selloff please become familiar with the turn and record in your trading diary each signal as it arrives. Please read my essay of the 20th July which emphasizes the importance of an up-to-date trading diary to your success.

As of the 6th November, the UK market has only registered signal no 1 above. This has been the case since the 30th October 2018. Buying shares when only the Primary Wave is positive should only be used only by the

most aggressive traders. Those hardy individuals should be experienced in risk management and have the emotional response to exit quickly without hesitation if the Primary Wave should fail. Please trade in liquid shares, as if there isn't liquidity, it's going to be impossible to run for the door.

Trading the Primary Wave can be tough mentally. The Primary Wave can be noisy at turning points and suffer many false starts. I have added a single position at this time and this was discussed at the Q and A session on the 5th November 2018. The share in question was Dart where I felt the technical position of the share plus the mega oversold position of the market warranted the exposure.

Before adding any more shares, I will wait for the DEW Market Timing System to print a Buy signal.

The selloff in October was led from the USA. The economic figures from the USA in the last week were very robust and show an economy growing strongly. The payroll numbers on the 2nd were excellent and the ISM PMI (manufacturing) came in at 57.7. This is an excellent number in a metric that I have studied for many years. Above 50 reflects expansion in manufacturing.

In the US market, the VVC has printed a Green Light in the Price Column of the Color Guard on the 1st November and again on November 6th. This is signal no 2 as tabulated above. It's time for me to get a watchlist prepared for the USA stocks and that will be discussed in the Q and A on the 12th November.

On the SP500 Index, the 200-day Moving Average (MA) is followed by even the most fundamentally orientated Wall Street traders. The 200-day MA provided support for many months as the stock market rose, but cracked in the selloff of October 2018. As of the 6th November, the SP500 had rallied back to the 200-day average which is now providing resistance. I will be much happier when this level is exceeded.

I favor a strong move to the year, but that's conjecture, and I will wait for the VectorVest signals before entering as discussed above.

Always trade the market and NOT the forecast.

2018-11-16

Consistent Swing Trading

The swing trader attempts to extract the high momentum moves from a share or any financial instrument that's in the throes of a strong trend. To my best knowledge the term "swing trade" was first discussed by W D Gann around 100 years ago.

Markets rise via a series of steps or in the parlance of the technical analyst "rising bottoms." A share runs upwards and then sooner or later invariably pulls back to long-term support. Then, with luck, the process starts over again. It's a process that I described in some detail during the Q and A session on the 12th November as applied to the AIM stock Dart Group (DTG.L). Swing Trading has been my preferred form of trading and investing since 1982. I am trying to become more long-term, but still a swing trader at heart.

The process is simple and it's vital to follow the process. If we as traders follow the process and focus on making the best possible trades, then the cash will take care of its self. In point form I will try and describe the process and it starts with owning the very best shares. These shares are growing earnings strongly, reasonably safely and the share price is trending upwards strongly. Here goes.

1. A simple UniSearch easily finds shares of interest that are fundamentally strong. Use $RV \geq 1.30$ and $RS \geq 1.20$ to find shares that are growing strongly. Please add a liquidity metric or simply focus on FTSE350 stocks where there should be enough volume. A 50-day moving average of the volume traded which is over 100000 shares should suffice for most.
2. I refer to the Comfort Index (CI) as the VectorVest secret weapon. Adding a line to 1 above which specifies a $CI \geq 1.30$ will find shares with great fundamentals that are trending strongly. This simple UniSearch which takes seconds to run puts us streets ahead of the

competition and, make no mistake, it's a competition with some very bright participants. You are taking money from the dumber of them as these people trade emotionally off the seat of their pants.

3. Is the overall market moving up or down? Everything follows from that. Last week and in many of these Essays, I have discussed the various and objective VectorVest Market Timing systems. At least the Primary Wave should be Up when entering a swing trade. A Green Light in the Price column of the Color Guard is also an excellent signal with a black star in the Green area (the RT Kicker) adding to its validity. Swing trades should only be taken when at least the Primary Wave is Up by even the most aggressive traders. Other more conservative traders will wait for further confirmation that the overall market is rising, and this was discussed in last week's Essay.
4. The Stochastic Indicator is a standard feature of most technical analysis programs. The latter measures overbought and oversold levels of a share on a scale between 0 and 100. A value of less than 20 indicates that the share under scrutiny is oversold. Adding a line to the UniSearch above (which requires ProTrader) that finds shares where the Stochastic has been less than 20 and over the last day has broken up through 20 finds shares with great fundamentals, that are in the throes of a strong trend that are temporarily oversold. If the overall market is showing a Green Light, then these shares are setting up for a swing trade.
5. Keep a careful eye on old resistance on the chart becoming support. Years ago, my first mentor always said that the first thing to ask yourself when you look at a chart is "where are the orders?" In a strong uptrend, institution traders will favor buying a pullback to the last old high.
6. Display the chart over the past two years and establish if there is a long-term support trendline at work offering support to the share. Don't ever try and force this. It should jump off the screen at you. A pullback to such a support line will be a magnet for institutional orders. This was the case on DTG.L. On many occasions the pullback to an old high and the

pullback to an inclined support trend line are the same level. This is a very special point on the chart.

7. Candlestick patterns make for strong confirmation that a turn upwards has started. There are many candlestick reversal patterns which confirm a turning point. I favor and use just a few of these and have invented some patterns of my own. Candlestick patterns make excellent entry points and are the subject of an entire VectorVest study course being offered presently.
8. During a Bull market or strong uptrend in any share the traded volume should expand when the share is rising and contract when the share is pulling back to support. In the noise of the market it's quite difficult to see this clearly on many retracements. A pullback to support on low volume adds greatly to the probability that it is a pullback we are observing and not a change in trend. A low volume pullback to support, on a share trending strongly with great fundamentals, is first prize for me. When the turn is confirmed by a candle pattern and the overall market is showing a Green Light, then the "ball is in and the game is on."

It's difficult to do justice to the Swing Trading process in such a short essay without posting charts and examples to drive home the simple, but very robust methodology. In the above I haven't addressed managing the trade or sizing the position. I will focus on that in this essay next weekend. In the Q and A session on the 19th November I will include several charts to illustrate the above 8 points. Please spend some time looking at the chart of DTG.L in the UK and CNC in the USA. Both charts show clear swing trade setups where the process was successfully applied.

2018-11-23

Managing a Swing Trade

Successful swing traders understand the importance of trade management and focus on managing risk above all else. By using VectorVest and the trade plan I outlined last week, the success rate of our trades can be high, but still we don't know what's going to happen on a trade-by-trade basis. If we are correct 80% of the time, then we are incorrect 20% of the time. On the next trade we don't know if it's one of the 80 or one of the 20. The difference between successful and not-so-successful traders is understanding and applying a simple risk management strategy. Take full responsibility for your trading results and certainly don't blame the environment. You must own your success and your mistakes.

While risk management is a broad topic, it means one thing for our purposes here and that's summarized in a few words "Cut Losers quickly" and never lose any more than 1-2% of your account in any single trade or investment. I have detailed this calculation many times in this forum. As correct position sizing is the mistake I encounter on retail accounts repeatedly, I will repeat the simple mathematics here.

Know your exits before pulling the trigger to enter the position. The first exit is when we encounter those trades that fail to move our way. The second is the plan to manage winners. Let's take the medicine of managing our losers first.

How much money is in your account?

If you don't know how much money is in your account, then you cannot size your positions, and if you cannot size your positions, then you are gambling and not trading or investing. I come across this all the time. The first step is to decide how much of your total capital you wish to allocate to your trading business. For the sake of this example I am going to assume that a new trader has 20000 pounds of capital to start their trading business.

1% of £20000 is £200 and this is the maximum loss that should ever be taken on any single trade or investment. If you are experienced, then this can be increased to 2%. I know shares can gap through stops, so please don't get your slide rule out. Losing 1.5% or 2.5% won't kill you. It's losing the lot, half or a quarter of the lot, that will kill you both financially and mentally.

I use the VectorVest's calculated Stop. Let's assume that the Buy point is 400p and the Stop is at 340p. This is quite a wide stop, but if the entry level is after confirmation from a candle pattern or after a few green bars that's often the case.

The Risk per Share purchased is thus 400 minus 340 which is 60p or £0.6.
Number of shares to be purchased (N) * Risk per Share = 1% Account Size.

$$N = 1\% \text{ Account size} / \text{Risk per Share}$$

$$N = 200 / 0.6 = 333 \text{ shares}$$

$$\text{Total purchase price} = 333 * 4.00 = £1333$$

Pride and ego are the reasons that many just find it impossible to act on stop-loss levels and an even worse habit is to add to losing positions. Averaging, as it is called, can sometimes get you out of trouble but sooner or later it will wipe you out. Some teachers of the trading game suggest framing your losses akin to the overheads in a normal business. The shopkeeper must pay his rent and his lights and water bills.

I had to take some medicine on Tuesday, 20th November as several of the positions that I was holding fell below their stop-loss levels. These failing positions were exited or sold down to a tiny size. Protection and preservation of capital is paramount in this business. I hope that's the Landlords rent bill paid for the month.

If you apply the template that I proposed last weekend, then a large proportion of your trades will start to move into the black. It will take patience to wait on all the parts of the plan to align. Over the past months and based on discussions with VectorVest investors and traders, I have been managing these trades in the following manner. The approach has certainly helped especially in the US markets where most the trades went my way initially, but failed

before charting new highs. Last week's example in the UK market of Dart is a good example of the approach working well.

1. Resolve to risk no more than 2% of your account on any single trade and size the position as discussed above.
2. When the share has moved into the black by the same amount as the initial risk then take profits on 1/2 of the position and increase the stop-loss to the entry point. In the example above the entry point was 400p and the Stop was 340p. When the share moves to 460p then bank half and bring the stop-loss to entry on the second half. We are now able to make money on the second half of the position with little or no risk (assuming a liquid counter). This is a great position to be in emotionally.
3. Although the numbers are different that's how the position in Dart was managed. I was stopped at entry after banking a small profit of half of the position. It was still a profit and not a loss. The emotional consequences of allowing winners to turn into losers can be hard to stomach. Most of my leveraged spread bets in the US markets were managed in this way. That allowed a small profit to be taken on half of these positions, while the second half was stopped at entry, prior to the train smash of the past two weeks.
4. When the stop-loss on the second half of the position has been increased to the entry the VectorVest Stop-loss may be below the entry point. If the share continues upwards, then raise the stop when the VectorVest calculated Stop moves above the entry point.
5. Around the country many of our users have developed many ways of managing winning positions. Our User Group leader in Birmingham has done exceptionally well by holding positions if they stay on a Buy recommendation on VectorVest. When a share changes from a Buy to a HOLD, he exits. That's been very effective and allowed him to exit winners at or very close to the top of the shares path.
6. Technically orientated traders use Fibonacci levels to project exits. The Fibonacci sequence is probably more useful for exits than entries

although in the Swing Trade Course, I look at both entry and exit levels using the sequence.

7. A common exit level for many swing traders is a multiple of the initial risk. I know many who have made millions in markets that exit when they have made 2.5 to 3 times the initial risk. Then the objective is to “rinse and repeat.”

2018-11-30

Playing the Swing Trading Game

It's ultimately not about what happens, it's about how you respond to what happens that makes the defining difference. I used to play competitive tennis and what happens to many players on the tennis court often happens in the trading room for many traders. After a couple of poor shots, it's easy to get down on yourself with negative self-talk between points. This negative self-talk that started from one or two simple errors impacts the next two or three points and, before you know it, the negative self-talk has spiraled into losing the game, set and the match.

The difference between greatness and a hacker on the golf course is the ability of the great golfer to play the 4th perfectly after making a mess of the 3rd. The top golfers employ coaches to get the mental side of their game perfect. DR Bob Rotella is a coach to many of the top golfers in the world. If you read his books on golf and simply "tippex" out golf and replace with trading, then you have access to some of the best mental training on how to play the game of swing trading.

His book "How Champions Think" is excellent.

A similar thing to a poor hole in golf often happens to many traders after one or two losing trades. There is the obvious initial disappointment, but what follows is the defining difference between success and failure in my opinion. How you respond over the course of the next 2 or 3 trades can often make or break a trading account. If you increase your stake, move to another strategy, skip trades that meet the criteria and generally behave in a haphazard approach because of your disappointment, then you are only likely to reduce the chances of success and drain your account even further. It takes discipline to follow a simple set of rules, but the good news is that this discipline can be built and built quite easily. However, most swing traders and investors never

make the journey. I will explain the process of building trading discipline in the last paragraph. Building a disciplined approach into your trading and investing is a rite of passage.

Whenever I meet with the members at our UserGroups, I remind them of these 3 things.

1. Have a simple, robust and thoroughly tested method that you understand and can follow. In my Essay of two weeks ago, I detailed the bones of such a system.
2. Apply solid risk management to your method. This was discussed in last week's Essay.
3. Focus on the process of trading and repeat. If you focus on perfect execution and focus on making the best possible trades, then the cash will take care of itself.

This is a simple recipe for success that can deliver great profits over time, but there is one reason why many can't follow this simple process. It's because when trading the plan, the results appear random and you do not know on which trade it will deliver you profit and on which trade it won't. Over a series of trades, the trading plan is profitable and provides a solid edge in markets. Over a single trade, the outcome is random.

In our line of work, we need two levels of belief. At the level of a batch of trades, we must firmly believe from our BackTesting that the plan is profitable. At the level of a single trade we must believe that the outcome is random. Getting your mind around thinking in probabilities is difficult. Getting to a point where you focus on the results from a batch of trades as opposed to the live or die emotions around being successful in a single trade takes work.

To start to build these beliefs:

1. Detail and simple mechanical trading system. This will include entry and exit criteria and position sizing.
2. Resolve to follow these rules for a batch of 30 trades.

3. Keep the size small or use a practice account to get going.
4. If you allow emotion to enter and change the rules mid-stream, then start over again.

If you can adhere to the rules for 8 to 13 trades, you will notice the process becoming easier. The discipline is being built and when you have it the paradox is that you don't need it. You are 8-13 trades away from the trader you want to become. That's all, but most don't make the journey. The pain and emotion surrounding the life or death outcome of a single trade causes all manner of trading errors and rule changing along the way.

The discipline that dissolves the veil of deception between yourself and the market can be attained as described above. For me, the practice of staying in the "moment" and focusing on what's happening now has helped make the trading journey much easier and has resulted in the elimination of many of the trading errors. It takes practice and our egos will fight the process tooth and nail. The ability to stay present and keep your head (and follow some simple and robust rules), while everyone else loses theirs will help in all other areas of your life as well.

2018-12-07

Market Timing Is 70% of the Exercise

Good trading and investing is about executing some simple steps well, without fear or hesitation.

“The most important thing to know is whether the market is rising or falling. Everything follows from this.” This quote from the founder of VectorVest DR DiLiddo has been brought home to us all with clarity over the last two months. The tide seemed to be turning on Monday, 3rd December, but that gain has been wiped out in the trading of the 4th and 5th December.

Knowing when it's safe to Buy shares and when its best to be on the sidelines is critical to our success in this endeavor.

The VectorVest edge in the stock market is comprised of three facets of market analysis.

- 1. The fundamental position of a share.** My definition of fundamental analysis is that it's the search for the true value of a share. VectorVest calculates this for all the shares on the LSE and AIM each day. Furthermore, VectorVest calculates the safety and predictability of earnings stream of the share and rates this on a scale between 0.00 and 2.00. Above 1.30 is excellent. An important measure of the fundamentals is Relative Value (RV) which measures the share's price appreciation potential in relation to a AAA rated corporate bond. Again, above 1.30 is excellent. In my research, I am using the UniSearch function on VectorVest to easily locate undervalued shares that are growing earnings strongly ($RV \geq 1.30$) and safety ($RS \geq 1.20$). Conservative hands-off longer-term position traders may wish to push RS up to 1.30 while aggressive swing traders will be happy with a $RS \geq 1.00$. At VectorVest

we believe is buying the very best stocks as defined by RV, RS and RT. That alone will help your portfolio excel.

- 2. The technical position of the share is much easier to quantify.** On VectorVest, the Comfort Index (CI) measures the long-term technical position of the share on a scale between 0.00 and 2.00. I call CI the VectorVest secret weapon. On its own it can make your portfolio sing. Above 1.30, the share is in the throes of a strong and sustainable trend. I always add a line in UniSearch mentioned in 1 above which includes $CI \geq 1.30$. By doing this I find shares with great fundamentals where the long-term trend is strong. The Midas Touch technique can be used to further cherry pick shares which are found by using the Unisearch. DR DiLiddo says “I never pick a stock without it... I use the Cherry Picking with the Midas Touch method to select 100% of the shares I buy.” In VectorVest, there is a Special Report on the Midas Touch and I have written about the technique in my Essays of the 31st August 2018 and 26th October 2018.
- 3. The technical position of the overall market is 70% of the exercise.** If that's positive, then your portfolio shares that have the mix of excellent fundamentals and a strong technical position should fare well. In my Essay of the 9th November, I reviewed the VectorVest Market Timing methods. There are short-term Timing systems for swing traders and longer-term systems for position traders. As of the 4th December, the market is starting to turn upwards, but the going remains volatile to say the least. Local politics and the international trade wars have ramped up volatility, add in the bond market and worries about a USA recession.
 - a. The Primary Wave is UP.
 - b. There was a green light in the Price column of the Color Guard on December 3rd which indicated that the price of the VectorVest Composite UK was up day-over-day and week-over-week.
 - c. The DEW medium term Market Timing system is on a Buy but hanging in there by a thread.

- d. The underlying trend remains Down.
- e. There is a Confirmed Down signal in place.

Aggressive swing traders using the shorter-term signals should be considering long positions, while those following the Worry-Free position trading plans should still be in waiting mode.

After a strong Up day on Monday, 3rd December, markets fell back strongly on Tuesday, 4th December. On the 3rd of December, late in the USA trading day, the bond market signaled what is known as an inversion. Yields on 3-year bonds moved higher than the yield on 5-year bonds. Shorter-term bonds normally carry lower yields because the investment is considered less risky, whereas longer dated funds should have higher yields to reflect that an investors money is at more risk as it's committed for longer.

A much more serious threat to the Bull market would be an inversion in the normal Yield curve between 2- and 10-year bonds. This has not occurred yet, but the Yields on these bonds are converging. This inversion, if it should occur, has predicted all the USA recessions since 1945. However, many months can pass before the inversion of the bond market and the beginning of a Bear market. An inverted yield curve does not cause a recession, but it's a symptom of it.

The USA markets are closed as I write after the close of the London markets which had a strong down day based on what happened yesterday on the NYSE and domestic UK politics.

Position traders and those following the Worry-Free Investment plan should sit calmly and await a Confirmed Call. Stops and capital preservation should be at the forefront of our minds.

Santa may be coming but he is certainly taking his time and his GPS seems faulty. The reindeers are struggling to gain traction.

2018-12-14

MTI Divergence with the Price of the VVC/UK at Last

The Market Timing Indicator is a composite measure of both the rate of change of the momentum (RT) of the VectorVest Composite index (VVC/UK) and the rate of change of the Buy/Sell ratio. The Buy/Sell ratio is simply the number of shares on a VectorVest Buy signal divided by the number on a VectorVest Sell signal. It's the VectorVest proprietary method of measuring the breadth of the overall market.

On a scale between 0.00 and 2.00 the underlying trend of the market is defined as Up when the MTI is greater than 1.00 and Down when the MTI is less than 1.00.

When the VVC/UK has increased for a five-trading-day-period over five-trading-day-period, for two consecutive five-trading-day-periods and from the previous day, then the underlying trend Up has been confirmed by price action. This is known as a Confirmed Up, C/Up, signal.

Similarly, if the Price of the VectorVest Composite UK (VVC/UK) has decreased five-trading-day-period over five-trading-day-period, for two consecutive five-trading-day-periods and from the previous day, then the underlying trend Down has been confirmed by price action. This is a Confirmed Down, C/Dn signal.

The last Confirmed Call on the UK market was a C/Dn and this was printed on the 5th October. Confirmed Calls, as the red ink on many portfolios will attest, need to be taken very seriously. On the VectorVest program, Lesson 3 of the "Successful Investing Quick Start Course" reviews the Market Timing signals available and as I wrote last weekend this is 70% of the exercise.

I am writing this piece on the afternoon of the 12th December at the open of the USA market. Before reading further please open a chart of the VVC/UK over the last year. Simply click on the Market Timing tab and then click on Market Timing Graph.

Since the 11th of October, the Price of the VVC/UK has been charting lower lows while the MTI has been printing rising lows. This is especially evident after the selloff on the 6th December. On this day the MTI charted an easily spotted higher low. This feature is known by technical analysts as Compound Normal Divergence. It's a countertrend bullish signal which predicts a reversal and turn upwards. This is the most positive development that I have noted on the UK market since the last Confirmed Down signal.

The MTI is rising from a mega oversold situation where the metric fell to 0.6 and the Buy/Sell ratio down to 0.11. The Research Department at VectorVest has noted that when the MTI and Buy/Sell ratio fall below 0.65 and 0.25, respectively, then a strong reversal can be expected. As you know there have been two false starts where the Primary Wave turned upwards, but these failed to carry through. On this occasion, while the underlying trend is still strongly down, the divergence between the MTI and the Price of the VVC/UK makes a reversal that can follow through more probable. As with all things trading related time will tell.

The duration of the divergence is important and the longer the better. I have noted over the years that a normal divergence of less than 13 bars has little predictive value. In this case there are over 40 daily bars between the low of the 11th October and today. This is a significant number and suggests that the divergence is a strong predictive tool, but it is countertrend and the trend is your friend.

Conservative investors will note the divergence and simply wait until the Up move is surer and a C/Up is charted. A C/Up preceded by a divergence between the VVC/UK Price and MTI from a mega oversold situation can setup a very strong and high momentum move.

More aggressive swing traders and those employing leverage should consider entering or getting their toes wet upon a Green Light Buy signal. This signal should (conditional tense I know), in this case, follow through due to the improved technical picture to a point where some profit can be taken on half of the position and stops increased to entry.

As the USA market opens on the 12th December the

1. Primary wave of the VVC/UK is down.
2. The DEW Market Timing System is down.
3. The Underlying Trend is down.
4. A C/Dn signal is in place.

Doing nothing is much more difficult than it would seem, but I will wait until the advice from the HomePage of VectorVest becomes positive with Green Lights, at least, from the Color Guard before any purchases.

2018-12-21

Momentum Divergence Is an Early Warning Signal on the Midas Touch Trading Technique

In my essay of the 26th October 2018 I have detailed the Midas Touch Trading Technique. As I clock up more trades using this technique, I am becoming a big fan of the way the smoothing technique eliminates the day to day noise of the markets and concentrates on the big trends, where most money can be made with the least effort. The volatility of most shares on the UK and USA markets has been difficult over the past three months and the technique helps smooth these out. Dr DiLiddo first designed the technique to trade the USA gold mining index which is a market which has a violent and volatile disposition most of the time. The Midas Touch is simple, robust and as good as money in the bank for us all.

The Midas Touch trading system uses a double smoothing technique to remove the day-to-day noise. This allows the trader to focus on the long-term trends in any stock or commodity. The Midas Touch system makes use of a 10-day and a 65-day Moving Average (MA) of the VectorVest Stop-loss. The VectorVest Stop is itself based around a 65-day MA of the share price. A Moving Average of a Moving Average performs the double smoothing that I referred to above.

When the 10-day MA crosses above the 65-day MA of the Stop price, a major trend is underway. When the 10-day MA crosses down through the 65-day MA, then the trend has reversed.

A trend change is much more significant if momentum (rate of change of price) is increasing. As we wish to locate and pinpoint a strong long-term

major trend, DR DiLiddo used a 40-day MA of the VectorVest RT as the momentum filter. The RT40 is mathematically massaged between 0.00 and 2.00 akin to all other metrics on VectorVest. Above 1.00, momentum is rising.

Using my visual interpretation of the Midas Touch a BUY signal is printed when the 10-day MA of the Stop must cross above the 65-day MA of the Stop and the RT40 is above 1.00.

Similarly, for a Sell (getting out of a long position) the 10-day MA of the Stop normally crosses down through the 65-day MA of the Stop prior to the RT40 falling through 1.00 and that's my exit signal. So, both measures must display a signal to BUY, but only a single to exit.

The RT40 is an exceptionally strong measure of price momentum capturing a large cycle within its calculation. Technical Analysts look for divergences between the share price and the momentum of the share price to anticipate turning points. My definition of technical analysis is that it is the "study of trends and turning points".

In this essay I wish to discuss "normal divergence". In a further post and in the webcasts, I will discuss its cousin which is known as "reverse divergence" or "hidden divergence". The latter is much more difficult to observe and thus the name.

Normal divergence between the price and the RT40 indicates a market trend that's becoming mature and that the trader needs to be careful of a sudden reversal. As most traders struggle with exits this forewarning is valuable information. The divergence using the RT40 is especially powerful and a leading indicator of a reversal. There are few leading indicators in the world of technical analysis.

Normal divergence is experienced by anyone who drives a car. In your car there is a momentum indicator. It's called the speedometer. The speedometer measures the first rate of change of distance which is speed. If you are in your car and you are speeding up, then there is a higher probability that the car will keep moving forward than if you are in your car slowing down.

If markets were about certainties, then they simply would not exist. As traders and investors, we inhabit a probabilistic environment.

The car increasing in speed, can hit a wall. A wall for a speeding stock would be a trading statement that's awful or an overall market that's been spooked by an unexpected Central Bank rate hike. We prosper by coming to terms with risk and reward. Don't avoid risk everyone but try and manage it by position sizing and simply following some simple trading rules. If you focus on undervalued stocks that are growing earnings, strongly and safely, that are rising, when the overall market is rising then the probabilities are in your favor. There will be the odd "wall" but few disasters. I have detailed some rules here many times but a replay of the "Successful Investing Quick Start Course" over the break would help reinforce these for us all. On VectorVest just click on the "training" tab and the 5 video lessons are there.

In the Midas Touch technique, the RT40 is the speedometer. If the RT40 is rising with the price, then the trend is strong and should keep going. If the price is rising but the RT40 is falling, then the like the car slowing down there is more chance of a change in direction.

Please load a chart of KAZ.L using the Midas Touch layout over the past 2 years.

In the period between September 2017 and June 2018 Kaz was rising in price. However, if you observe the RT40 in this period the metric was charting a series of falling tops. The price rising and the momentum metric moving in the opposite direction is the divergence and this suggested strongly that the trend in this share was mature and a turn was probable. As you can see the share fell by 50% plus after this period of divergence which lasted for many months. As I noted last week the longer the divergence the better.

Another good example is Games Workshop (GAW.L). Please load a chart over 1 year and again use the Midas Touch layout. In the period between the 13th July 2018 and the 26th September 2018 the share ran strongly upwards. However, the RT40 failed to follow the share and charted a falling top on the 26th of September. This strong divergence was saying that the price trend was

mature and could easily turn. That's exactly what the price did and fell from 40 to 28 pounds.

In summary if the price of the share is rising, with the 10-day average of the VectorVest Stop above the 65-day average of the same and the RT40 is rising, without divergence, then the trend is getting stronger. Adventurous traders should consider adding to positions. If the price continues higher but the RT40 fails to follow and divergence is noted, then positions should certainly not be increased, and many will decide to take some partial profits.

Some reading will be using much shorter-term indicators to enter positions. These are the tools I spoke about in the VectorVest Swing Trading Course. Even if you are a swing trader over a few days to a few weeks I think it's important to judge the state of the longer-term trend of the position by the Midas Touch technique. If the latter is exhibiting Normal divergence, then it's certainly time to be wary and watching carefully.

Forewarned is forearmed.

2018-12-28

Buy When the Blood Is Running in the Streets

The quotation above is well known but poorly followed. A popularly followed measure of stock market sentiment is the CNN Fear Gauge. At present the dial is sitting in the extreme fear area. On VectorVest the underlying trend has been Down and Confirmed Down by price action since the first week of October 2018. As of 24 December, the momentum on the VectorVest Composite as measured by the Market Timing Indicator (MTI) in the USA is in mega oversold territory at a value of 0.36. This is calibrated on a scale between 0.00 and 2.00. The research department at VectorVest maintain a value of less than 0.60 indicates an oversold situation.

Similarly, the breadth of the USA market as measured by the proprietary Buy/Sell ratio is 0.04 with only 225 stocks on a Buy rating and 5616 on a Sell rating. A Buy/Sell ratio of less than 0.25 is considered oversold. I use the USA metrics in this essay as in my opinion the fall in markets originated from there and I believe any turnaround will come from there.

In these essays and during the webcasts on Monday afternoons I have been advising even the most adventurous of traders to sit and wait until at least the underlying trend turns Up and the Color Guard prints a Green Light in the price column. This is still my advice. I will say it again. Doing nothing is much more difficult than it would seem.

Those shorting the indices have had a great time and my simple model and system of using the VectorVest Primary Wave, a moving average and a few candle patterns, to enter and exit trades, has given several excellent trades over the past few weeks including the short of the last few days. These are taken by using spread bets on the Dow Jones Industrial average or “Wall Street” in the terminology of the spread betting world. I have presented the method at the

User Groups in November and December and am presently editing the slides to include many more examples.

There have only been 13 previous quarters on the SP500 since 1929 as bad for market bulls as the last quarter of 2018. However, the subsequent performance after such a fall is heartwarming and encouraging.

In the 13 worst quarterly performance of the SP500 index since 1929 the average performance in the next year after the bad quarter was a gain of 25%. Only in 1929, 1930 and 1931 did the performance after a bad quarter not become positive.

In the three years after the same 13 quarters, the average performance of the SP500 is 37%. Again, the years after poor quarters in 1929 and 1930 did not become positive.

In the five years after the same bad 13 quarters the average performance of the SP500 is 91%. Again years 1929 and 1930 the next five years did not become positive.

I find the numbers very positive for the future, and in the UK, if the domestic uncertainties can be clarified, we could easily get an extra boost.

The momentum to the downside is exceptionally strong and for those traders and investors who buy shares or trade only the long side of the market it's too early to get involved. Traders and investors should simply wait on the VectorVest Market Timing signal that they have decided upon and detailed in their personal trading plan.

When a catalyst appears (trade wars, an interest rate remark which is dovish or a whisper of some form of Central bank stimulus) the turn will be swift and quite strong. After a selloff of this strength it would take some exceptionally strong changes in the fundamentals and news flow to chart a V bottom in my humble opinion. My crystal ball sees a rally until the middle of February and then another selloff to chart a rising bottom (I hope).

A rally into February would be a great start to the year. In highly oversold stocks, with strong EPS growth, a rally could achieve many investors annual

performance objectives. As you all know I tend to be more optimistic than most so please follow your personal plan. I am chomping at the bit.

I will be trading the market and not the forecast. Money is made and kept by engineering a positive expectancy system based on sound money management and position sizing. That done, my focus and respectfully all that are readings' focus should be on following the process of trading and holding the four trading and investing fears at bay. These fears are.

1. Being wrong
2. Losing money
3. Missing out
4. Leaving money on the table.

I have, over the years, got my mind around these four fears, save number 3. I always stress and worry that the market will run and yours truly will be not be onboard. Maybe in the next 35 years I will get this right.

I would like to wish all reading a very healthy, happy and prosperous 2019. Our Monday afternoon webcasts will start on Monday 7th January at 1:30PM UK time and apart from the bank holidays run all year. I am looking forward to them and greeting you all at the User Groups around the country.

Happy New Year

2019-01-04

How to Predict Explosive Share Price Moves with the Midas Touch Technique

Two weeks ago, in my Essay of the 21st December, I wrote (once more) about the Midas Touch technique. The discussion centered on how a divergence between the Price of a share and its momentum can have leading characteristics. In short, these divergences can tell us what price is going to do before it does it. Leading indicators are in short supply and that's what makes these tools very special in the technical analysis world.

The Midas Touch trading system uses a double smoothing technique to remove the day-to-day noise. This allows the trader to focus on the long-term trends in any stock or commodity. The Midas Touch system makes use of a 10-day and 65-day Moving Average (MA) of the VectorVest Stop-loss. The VectorVest Stop is itself based around a 65-day MA of the share Price. A Moving Average of a Moving Average performs the double smoothing that I referred to above.

When the 10-day MA crosses above the 65-day MA of the Stop price, a major trend is underway. When the 10-day MA crosses down through the 65-day MA, the trend has reversed. DR DiLiddo, who invented the technique, also uses a 40-day MA of the VectorVest RT as the momentum filter. The RT40 is mathematically massaged between 0.00 and 2.00 akin to all other metrics on VectorVest. Above 1.00, momentum is rising.

Using my visual interpretation of the Midas Touch a Buy signal is printed when the 10-day MA of the Stop crosses above the 65-day MA of the Stop and the RT40 is above 1.00. Similarly, for a Sell (getting out of a long position) the 10-day MA of the Stop normally crosses down through the 65-day MA of the

Stop prior to the RT40 falling through 1.00 and that's my exit signal. So, both measures must display a signal to Buy, but only a single to exit.

In the Essay of the 21st December 2018, I spoke about the “normal divergence” between the Price of the share and the RT40 measure of the momentum. If the Price of the share is rising and charting a rising top, but at the same time the RT40 is charting a falling top, then this predicts a change in trend. Normal divergence predicts a reversal in trend and is defined as a reversal pattern. Please work through the essay of the 21st and the examples of KAZ.L and GAW.L that showed the power of the technique to predict a selloff in Price.

Today I will try to explain the concept of “Reverse Divergence” or “Hidden Divergence” or a “Slingshot.” These terms refer to the same pattern which sets up a highly probable fast move in the share Price. I favor the term “Slingshot” as that describes perfectly what occurs if the setup works to plan. Please remember as traders we exist in a probabilistic environment.

Reverse Divergence is not widely known, even in the technical analysis community, and it predicts an extension of a current trend. Thus, Normal Divergence is a reversal pattern and Reverse Divergence is a continuation pattern in the parlance of the technical analyst.

To explain the concept an example will save a thousand words. Please load a chart of Eland Oil and Gas (ELA.L) over the past year. As of 31st December, it's second from the top on the “stock viewer” with an impressive VST of 1.37. I have been reviewing the share in the weekly Q and A sessions for the past month with no purchase yet.

ELA.L has pulled back over the past few months since the high charted in July 2018 to an old resistance level charted in March/April 2018. Former resistance has become support which is perfectly normal. Institutional traders will have bid the share at this level and any weak hands that chicken out will invariably take the bid. Sooner or later the share will get to the institutional orders.

Please load the Midas Touch layout by clicking on the drop down under Graph Layouts on the top right-hand side of the VectorVest screen and select Midas Touch.

The share traded a low pivot in April 2018 and another major rising low pivot in November 2018. The share price has charted a rising low.

During the same period, the RT40 has charted a lower low. If the Price is charting a rising low and the RT40 is charting a falling low that is the Reverse Divergence. It's present in ELA.L and that's why I have been stalking this counter for the last few months. I smell a monster move here.

The Reverse Divergence clearly must be confirmed by a Midas Touch Buy signal and that has not occurred yet. Currently, the 10-day MA of the VectorVest Stop is below the 65-day MA of the Stop and the RT40 is below 1.00.

If a signal should print, then a Midas Touch Buy signal preceded by Reverse Divergence predicts a sudden, explosive and highly probable move in the share price.

Hopefully the percentage move will be same as what happened when the technique fired in Anglo Asian Mining (AAZ.L). In this case please load a chart of the share over the past 18 months. The share charted a low in December 2017 and a rising low in August 2018. In the same period, the RT40 charted a falling low and that is the Reverse Divergence. The Midas Touch Buy signal was printed in October 2018 and since that the share has moved strongly.

In the Q and A session of the 7th January, I will review the concept of Reverse Divergence and present many charts of past trades and several that look highly probable for the future.

2019-01-11

Market Timing Is Starting to Get Me Excited

The technical position of the overall UK market has improved considerably. In these Essays, I have spoken about an ordered sequence in the reversal of the VectorVest Composite UK (VVC/UK) from down to up. This is measured by several totally objective Market Timing systems. At each reversal, these systems print signals in pretty much the same order. It's vital, in MY opinion, that you become familiar with the reversal and have decided within your trading plan (well in advance) which one of the signals will cause you to buy stocks.

From a low point the following sequence takes place.

1. The Primary Wave or short-term trend of the VVC/UK turns up. This is shown on the front page of VectorVest and on the smart phone app. As I write the trend situation is defined as Up/Dn. The first word (Up) refers to the Primary Wave. This is the fastest measure of the overall market and I use this with my spread betting method which trades the indices in both the UK and USA. I rarely hold these trades on the indices for more than 2 days. The Primary Wave is noisy. The Primary Wave is only suitable for the most aggressive and focused traders who revel in short-term swing trades.
2. Again, on the front page of VectorVest there is a set of numbers known as the Color Guard. On the Color Guard the program tabulates daily values for the Price of the VVC/UK, the RT of the VVC/UK and the Buy/Sell ratio. The Price column of the Color Guard is the first from the left in the table. If the Price of the VVC/UK has increased both day-over-day and week-over-week, the program shades the value in Green. This is known as a Green Light Buy and it's the second signal (visual with no chart watching) that a reversal is occurring. This is still a signal for

aggressive traders, but has a higher probability of following through into a strong move than the Primary Wave alone.

3. The next signal is a Green Light Buy as defined above which is confirmed by rising momentum. The VectorVest RT is the momentum indicator used, but no chart watching is required. Within the program, two Moving Averages (MA) are applied to the RT. If the short average (5-day MA) is above the longer (20-day MA), then the program decides that the RT is rising. Over the years, the research department at VectorVest has shown that a Green Light Buy confirmed by rising RT is a much stronger signal than a Green Light Buy alone. This is known as a Green Light Buy confirmed by the RT Kicker. This an excellent signal and it's easy to spot as the signal is shown visually by a black star within the Green Light in the Price column. This signal occurred on 7th January.
4. The next signal is known as the DEW. Up signals are given when the VVC/UK closes above its 30-day weighted MA and the Detrended Price Oscillator (DPO) is above 0. The DPO is a standard technical analysis momentum measure and not proprietary to VectorVest. This Market Timing system is very useful for swing trading and is NOT shown on the front page of VectorVest. To observe the signal load a chart of the VVC/UK and use the dropdown menu at the foot of the page to apply the DEW signals to the chart. This signal occurred on 9th January.
5. At the present, the trend situation on the VVC/UK is UpUp. The first word refers to the Primary Wave and the second word refers to the Underlying Trend. The Underlying Trend is defined by the VectorVest proprietary Market Timing Indicator (MTI). The MTI is a composite of both the momentum of the Price of the VVC/UK and the momentum of the Buy/Sell ratio. The Buy/Sell ratio is the number of shares on a VectorVest Buy recommendation divided by those on a Sell recommendation. The Buy/Sell ratio is a measure of market breadth. The MTI is scored on a scale between 0.00 and 2.00. When the MTI moves above 1.00, the underlying trend is defined as Up.

6. The final and most long-term and conservative signal on VectorVest is known as a Confirmed call. The “call” is shown in green or red in the last column on the extreme right of the Color Guard. For a Confirmed Up, the MTI must be greater than 1.00 and the Price of the VVC/UK must increase five-trading day period over five trading day period for two consecutive five trading day periods and from the prior day. It’s the Underlying Trend confirmed by Price action. This signal is best for position traders and is the signal used in the VectorVest Worry-Free trading method. This signal occurred on 9th January.

The big question is? Which one of the above is for you? It’s quite common for investors to start with small positions when a Green Light Buy is seen and then add as the longer-term (and more confirmed) signals are printed. This needs thought and your decision should be committed to paper. Along with position sizing, it’s a very important part of your personal trading plan.

If you are new to VectorVest, please observe the signals as they occur. Keep careful notes and become familiar with the reversal. I will discuss the sequence of the reversal at the Q and A session on the 14th January. Currently, the signals outlined above are Up in all cases. Aggressive swing traders should have been getting their feet wet in new positions during the short-term signals, while position traders and investors would have waited for the longer-term signals.

2019-01-18

Ticking the Boxes to Success in Swing Trading

Over the past few weeks I have been reinforcing the concept of focusing on the process of trading. If the trader focuses on the process and perfects the process, then the cash will take care of itself. That's also true for most areas of life.

In trading, as in life, don't be concerned with the fruit of your actions, just give attention to the action itself. The fruit will come of its own accord. Try not to allow this moment to become a stepping stone to a future moment.

In trading this is all about intense focus on the process of trading and executing your trading system perfectly in each moment. The results will flow in due course

The ability to build presence by focusing on the process destroys fear in trading. The four trading fears are being wrong, losing money, missing out and leaving money on the table.

The condition of fear (these four trading fears) is divorced from any true and immediate danger. You can always cope with the present moment, but it's very difficult to cope with the future.

Last week, I detailed the VectorVest Market Timing Systems and how they identify a turn in the overall market. At each turn there is an ordered process and it's vital that you understand this sequence and decide at what stage you feel that it's safe to accumulate shares. Market Timing is 70% of the exercise and an important part of the process. If you are a short-term swing trader, then the Green Light Buy system will be important especially if the Green Light is confirmed by momentum and shown visually by a black star within the Green Light. Longer-term position traders and those using the Worry-Free Investing method will wait on a Confirmed-Up signal. As of 15th January,

all UK Market Timing systems from short-term to long-term are positive for stocks.

Earnings Per Share (EPS) is the engine that drives the share price according to the author of the well-respected text “The Intelligent Investor.” EPS is an important part of the VectorVest metric RV or Relative Value. In RV the program forecasts earnings for each share in the database over a period of three years into the future. It then assumes that within this three-year period the earnings will be discounted into the share price. The projected price is then used to calculate the upside by subtracting the present share price. This upside is then divided by what a AAA rated corporate bond will pay over the same period. If a share has an RV of greater than 1.30, it's considered excellent. If a share has an RV of less than 1.00, then the probabilities favor this share rising less than could be obtained from a bond. In my swing trading I only consider shares with a $RV \geq 1.30$.

It's also important to visually inspect the EPS line study on VectorVest. The metric should be growing smoothly from the bottom left to the top right of the window. To display EPS please use the VectorVest Simple Graph Layout. AAZ.L in the UK and LULU in the USA make excellent case studies. In both the RV is greater than 1.30 and EPS is growing strongly.

In short-term trading, the trend is vitally important. I wish to trade shares that are in the throes of a strong long-term trend. The Comfort Index (CI) on VectorVest calculates this automatically and once again a CI of greater than 1.30 finds a share in the throes of a strong long-term trend with minimal volatility. That's my second input. So far, it's $RV \geq 1.30$ and $CI \geq 1.30$. LULU and AAZ.L both fit with AAL.L showing an excellent figure and thus a very strong trend upwards.

Safety of financial performance (Relative Safety, RS) is vitally important in longer-term position trading, but not as important in short-term swing trading as risk is being monitored pro-actively by stop loss orders, disciplined money management and diligence. LULU looks excellent on RS but AAZ.L (a small miner) has a poor number for RS of less than 1.00 on a scale between

0.00 and 2.00. I have still taken a position, but the poor value makes me wary and watchful. The sudden down bar charted on Wednesday 15th is a surprise that traders in shares with low RS need to be capable of managing on a regular basis. Those traders who only wish to trade in safe proven stocks should add a RS line into their UniSearch of $RS \geq 1.20$ or even 1.30, while more aggressive traders should use $RS \geq 1.00$.

Technically both AAZ.L and LULU have pulled back over the last few weeks in what technicians refer to as a “flag” pattern. This simple pattern is exceptionally bullish and in both shares the price has broken out of the pattern. Both shares are on a Buy recommendation on VectorVest.

The UniSearch to find these opportunities is

RV ≥ 1.30

CI ≥ 1.30

RS ≥ 1.00

GRT ≥ 20

Market Timing used is the Green Light Buy confirmed by the RT Kicker (the black star within the Green Light).

Depending on the size of your account it may be wise to add a volume filter. A stock's average volume as measured by a 50-day moving average of volume greater than 50000 shares should suffice.

I have run the UniSearch on the USA market and LULU is seventh on the list as sorted by VST. Other shares such as SPSC, MOH, ATTU and FTNT look very interesting for swing trades long.

Buying into shares showing strong EPS growth which are in the throes of a strong long-term trend when the market is rising in the basis of a very successful and robust trading plan and is core to my swing trading business.

2019-01-25

Pale Blue Chips

I have been using VectorVest each day since 2010. In that time one of the most consistent UniSearch that has performed through thick and thin has been Pale Blue Chips (PBC). This was the first UniSearch that I used when finding my feet with the program in the South African stock market.

The search is found in the Conservative folder within UniSearch and is particularly useful for those investors that need to provide a source of passive income which is steadily growing year- by-year. Although I swing trade in stocks and the indices (using the Primary Wave on VectorVest) for income and employ some of the techniques taught in the Options Paycheck Course for income, there will come a day when passive income will be vital and that's what PBC is all about.

As PBC is a Conservative UniSearch, we certainly don't want surprises and that concerns Relative Safety (RS). A RS of greater than 1.25 is stipulated. This finds those stocks with a solid track record of performance, that are making money and all the financial ratios are improving. A high RS does not eliminate surprises, but reduces their frequency and makes these surprises easier to handle emotionally.

PBC also requires that the company should be growing earnings, pay a dividend and have a strong track record of safely growing their dividend. I won't relate the exact numbers here as all reading should have the UniSearch as a standard on VectorVest. In my view, it's much better to select a share that can grow earnings and dividends than a share which currently pays a large dividend, but the dividend is static or reversing and that's what PBC locates with a click.

On VectorVest there are two master indicators. These are VST (Value, Safety and Timing) and YSG (Yield, Safety and Growth). The former suits momentum players, while the latter can be used to find shares that are suitable

for those requiring income. The key to the PBC UniSearch is that it employs both to find shares with a foot in both camps.

The PBC UniSearch employs both master indicators to sort the shares that fulfil the RS, earnings growth rate (GRT) and dividend criteria specified. The shares from PBC are sorted by the sum of VST and YSG. This brings those shares where both the share price and the dividend yield should rise together to the top of the list. This will give the investor a good blend of capital growth and dividend growth and that's a great place to be.

As we are dealing with a conservative investing trading plan, the Market Timing system used should be the longest term on the VectorVest program, namely Confirmed Calls. The last Confirmed Up signal was printed on 9th January.

A QuickTest on the performance of the top 10 shares from the PBC since the 9th to the close on the 21st January (as I write) shows that these have appreciated by 3.0%, while the VVC/UK is up 0.5%.

In terms of system rules, I favor the following:

1. Buy the top 10 shares from the PBC UniSearch upon a Confirmed-Up signal making sure there are no more than 2 shares from any single sector of the economy.
2. Place the shares into a watchlist and after purchase resort the list by RT. This means the shares that are performing are at the top of the list and those that are not are at the bottom. It's at the bottom where the emotional hard work needs to be done.
3. If a share should hit and fall below its Stop, as calculated by VectorVest, simply sell that share. If the Confirmed Up is still in place rerun the PBC and replace with a share that you don't currently own.
4. When the VVC/UK is rising, as defined by the Confirmed Call system, then we should be fully invested.

5. Sooner or later there will be a Confirmed Down. At this point, getting stopped out becomes much more probable. In this case, sell the share in question, but DO NOT replace and build a cash position.
6. When the next Confirmed Up is printed, rerun the PBC and get back fully invested.

Try and add the dividends into the portfolio as they appear twice a year. This will speed up the journey to freedom immensely until some day you can live off the yield. Until then I will keep swing trading and work on becoming an expert options trader/writer for income by taking “The Options Paycheck.”

2019-02-01

More Thoughts on Buy and Hold

I arrived in South Africa in April 1981 and the place was buzzing. The Gold price had moved upwards strongly over the previous few years and there was a boom in place. Gold mining stocks had gone up and up and everyone I interacted with was share trading.

From its peak, Gold then lost over 80% of its value over the next 20 years. Over the last few years, Platinum has lost most of its value and Platinum stocks are basing out at the lows of a 60- year cycle. I am watching the metal carefully. A simple chart of oil over the past 20 years shows the enormous cycles in play in this vital commodity.

In stocks, the S&P500 (a market average of the 500 largest stocks in the USA) lost 50% of its value in a few years after both 2000 and 2007. The Nasdaq (technology heavy stock index), not to be outdone, lost 75% after 2000 and around 55% after 2007.

The adage that stocks always go up longer-term that's common on the airwaves can be hard to take after a 50 plus percentage loss. Buy and Hold is great on a 21-year view.

Although UK property prices seem to defy gravity, I have witnessed two property busts in UK properties in my life time.

All asset classes, in my humble view, are highly probable to experience a 50% fall in their value from peak to lowest tick over your lifetime. I have seen many in my 63 years.

To escape these cycles, it involves some measure of trading or at least rebalancing your portfolio. This does not mean day trading or anything remotely close to short-term trading. Institutional traders simply switch from being overweight in stocks to a large holding of bonds when they feel that a

bear market in stocks is in place. There are several UK ETFs that allow the retail investor to replicate this defensive strategy, but many are happy to hold cash in this period. Better to get 1.5% in cash than to suffer a 50% drawdown. An ETF that would be suitable for switching from equities to UK bonds (Gilts) would be IGLT.L.

If the overall market is falling, then more aggressive players can use an inverse ETF to hedge a portfolio or make some gains as the overall market falls. I am reliably informed that the only liquid inverse ETF that's listed on the LSE is SUK2.L This is a double leveraged instrument and thus, with the leverage, is not suitable for the faint of heart. The liquidity, although enough for my purposes, would not be large enough for an institutional account and thus, they park their cash in bonds. There are many exceptionally liquid inverse ETFs listed on the US markets.

The point that I am making is that you don't have to tolerate these demoralizing 50% drops in your wealth and with a little effort you can profit from them. DR DiLiddo says that "The worst thing that can happen to an investor is to get caught on the wrong side of a market. It does not have to happen to you."

I became very aware of this in my early days in the markets and for many years used a 40-week Moving Average (MA) of the S&P500 as a Market Timing guide. I started with two weekly closes above the average as saying it was OK to buy stocks and two closes below to say that it was not. The Buy signal was fine as markets tend to rise with less momentum than they fall, but the Sell signal was late. For many years my timing system was two closes above the 40-week MA and a single close below. At present, the S&P500 is below its 40-week MA. Old habits die hard and the latter makes me wary, careful and extra diligent on stops.

The VectorVest Market Timing signals are much more comprehensive and I have described them in these Essays on many occasions. The last Essay on the subject was on the 11th January 2019. We look at the three aspects of the

VectorVest Composite (VVC) of any country where VectorVest is active. These are

1. The Price of the VVC
2. The momentum of the VVC (rate of change of price), Relative Timing(RT)
3. The breath of the VVC as measured by the proprietary Buy/Sell ratio

The objective is to objectively indicate whether it is safe to be buying shares or not. There are a range of Market Timing systems from short-term to long-term. The longest-term system known as Confirmed Calls is quick to register a major turning point in the market and gives a signal many weeks ahead of the 40-week MA system mentioned above.

This system could certainly be used to switch from being overweight in shares (or fully invested as I prefer) in a Confirmed Up to being underweight in shares and overweight in bonds in a Confirmed Down. Another possibility would be to utilize the inverse SUK2.L within a Confirmed Down.

I am a share trader and firmly believe that by finding undervalued shares that are rising in price when the overall market is rising, I can outperform the overall market with ease. It takes a little focus and most importantly the discipline to cut the losers quickly. This is what I shall continue to do and focus upon in the weekly Q and A sessions.

For those who wish to have a very simple life consider the following:

Confirmed Up...Buy MIDD.L...This is an ETF that follows the FT250 index.

Confirmed Down...Buy IGTL.L... This is an ETF that tracks UK bonds (Gilts)

For aggressive traders consider an inverse ETF (SUK2.L) in a Confirmed Down, but pay special attention to its liquidity in relation to your position. For most the liquidity is ample, but very large accounts and funds may struggle. Even for these large players, the liquidity in the bond ETF is enormous.

2019-02-08

Eight Thoughts on Stock Market Trading Success

How much money is in your account? If you don't know how much money you have allocated to your speculative trading account, then you cannot size your positions correctly. If you cannot size your positions correctly you are gambling and not trading.

1. Never risk more than 1% of your account in any trade. Use a stop-loss order for each position. The VectorVest program calculates a stop-loss for each share listed on the LSE and AIM each day. The risk is the amount of cash lost if the share should fall from the entry to the stop-loss level. As a rule, split your capital into 10 portions and then vow never to lose any more than 10% of each position should that position move against you. Careful and disciplined risk management is the difference between winning and losing in stock trading. If you don't trust yourself to action the stop-loss, then orders can be placed on many trading platforms to accomplish this automatically. Never underestimate the power of the ego within us all to "give it another day." All disasters start with a missed tackle.
2. Spread the ten positions across the entire market and don't hold any more than two positions out of the ten in any single sector or area of the economy.
3. Never let a profit turn into a loss. I advocate exiting half the position when you have made as much as you have risked. Then get the stop-loss to entry and let the second half run with the stop-loss trailing upwards behind the price. To illustrate let's assume we purchase a stock at 10 pounds and VectorVest calculates that the stop-loss is 8.50. When the position has moved to 11.50, we have made as much as initially risked.

At this point bank half and then move the stop to entry. You now can make money with NO risk on the second half and that's a great feeling.

4. Trade only in the very best shares. Those shares, in my humble opinion, should be undervalued by the market and have strongly growing Earnings Per Share (EPS). Warren Buffett's mentor says that EPS growth is the engine that drives the share price. Ben Graham argues that companies that are growing EPS strongly can spend money on acquisitions, research into new and better products and attract the best talent. VectorVest, in a few key strokes, can find undervalued shares that are growing earnings strongly. It's like a football team. Fill the team with great players and that alone will help the team do well. Fill your portfolio with shares with great fundamentals and you are well on your way to success.
5. Never buck the trend on any stock. The stock should be in a strong upwards trend. Undervalued shares that are growing EPS strongly and breaking upwards through a 52-week high are the basis of a very successful stock and simple trading system. On VectorVest, there is a unique and proprietary metric called the Comfort Index (CI). The CI finds shares that are in the throes of a strong upward trend with a single click. Shares with great fundamentals which also have a high CI can be built into a UniSearch on VectorVest and found easily. I am not suggesting that we do not buy a pullback in an upwardly trending stock with great fundamentals, but rather emphasizing the need to have a strong trend at your back.
6. Never buck the trend of the overall market. The most important thing to know is whether the market is rising or falling. Everything follows from that. Some traders and investors use a moving average on the indices to time the overall market. The problem is that markets move like fairground rollercoasters. They take a long time to rise, but fall quickly. Moving averages on the indices don't do a bad job on the entry, but tend to be on slow when it's time to get out of the market and into cash or be

short. This is due to the lagged nature of the moving average calculation and this was discussed in detail in my Essay of 1st February 2019. On VectorVest, we have several unique and totally objective Market Timing systems that react quickly to market conditions. There are systems for swing traders and longer-term position traders and investors. There is a good time to be buying shares and an awful time to be buying shares and for success you need a system that's easy to use to tell you when. I reviewed the VectorVest Market Timing signals in my essay of 11th January 2019. As of the 5th February, all the Market Timing signals on VectorVest are Up. Focus on the present moment, manage this moment well and the future will take care of itself. For most of us the present moment is a daily bar and the daily advice from the front page of the VectorVest program.

7. Trade only in active markets. Keep out of slow and illiquid stocks. Risk management is the core of consistency in stock market trading and if the share is poorly traded there may not be a bid in sight. A filter can be added to exclude shares with poor trading volume as a line within all the UniSearch variants on the VectorVest program.
8. Doing nothing is much more difficult than it would seem. If you develop the patience to follow the above pointers, then your success as a stock trader is ensured.

2019-02-15

Cultivating a Disciplined Approach

I have written about discipline in trading many times over the past year that I have been compiling this weekly essay. In trading seminars, I can see the delegates nod off as I mention the subject. I have heard it said that you have got to lose a lot of money before a typical trader concludes that they may be a part of the problem. In my experience this is not far from the truth. Don't let that happen to you.

A disciplined technical approach **REQUIRES** that you have **NO OPINION**. You must be free to trade on one side of the market one day and willing to be on the opposite side the next, if your approach warrants it. Without that freedom and flexibility, your style can be compromised much to your disadvantage. Virtually every mistake you make psychologically is caused by having an opinion on the markets. It is best to trade on the assumption that your opinion (not your trading plan) is worthless. Think about it. The only opinion that counts is your position in the market.

In my first institutional trading job, the desk head used to say, "Take off your opinions of where the market is going when you hang up your coat in the morning." When we feel that we know what's going to happen next and it does not, then a wave of pain arrives. Many of you will have experienced what I have just written. This pain is responsible for many trading errors.

All trading pain can be removed by really, really believing that in one trade anything can happen. Remember that the VectorVest edge does a great job of predicting the future over a batch of trades, but cannot predict what's going to the outcome of any single trade or investment. If you are correct 80% of the time, then you are wrong 20% of the time. On the next trade you don't know whether its one of the 80 or one of the 20.

In contrast, the amount that we believe that we can predict the outcome of any one trade will be directly proportional to the extent that we FAIL as a trader. The expectation that we know what's going to happen next is the source of all trading pain. Many people start to trade and invest knowing very little about the market and do very well.

In the beginning of their trading career they have no expectation of being able to predict the market as they know nothing and have little experience. After a few months of trading they slowly become gurus and now feel confident to predict the future on a trade-by-trade basis. Slowly the pain starts and they find that trading errors of hesitation and picking trades start to surface.

The most common trading error is that of hesitation and picking trades. Our minds have two design characteristics:

1. Associate one moment with a previous moment
2. To avoid both physical and emotional pain

This is how we have been wired to learn from our experiences and mistakes and it works well in most areas of life. If you put your hand on a hot stove plate as a child, it hurt. For the rest of your days when your hand gets close to something hot you relive the childhood experience and very quickly elect to move your hand away to avoid the pain.

This programming gets in the way while we are trading. If we start to trade with any system let's say the first trade is a winner and the second a winner. Sooner or later a bad trade is going to come along.

If we believe that we know what's going to happen next and, for most traders, this is reason they put the trade on in the first place, then the loser is accompanied by PAIN.

The next trade comes along. When it's time to execute our mind remembers the pain associated with the bad one. The mind is wired to avoid pain, so we find ourselves hesitating. In many people, this can be very subtle. We have been hard wired not to be very good at this.

When a problem threatens to engulf you, there is nothing like irrelevant detail to keep your head above water. There are many internet predators that survive by finding traders in this mode late at night on the net and offer “the secrets to 99% winning trades” at 3000 a pop.

There is no method out there which can predict the market with anything approaching 100% accuracy. There are just too many variables around for that to happen.

Am I saying that we should forget about working on our analysis?

Of course not. Once we realize (and firmly believe with every fiber of our being) that at the level of one trade that the market cannot be predicted, we can certainly work hard to get a better overall edge, but remember that the best analysts are normally the worst traders imaginable.

I use a very simple UniSearch which involves a $RV > 1.30$, $RS > 1.00$, and a stocks $GRT > 20$. I have brought the RS down over the years. When I started with VV, I used 1.25. I sort with VST and by CI and eyeball the shares initially with VV simple layout and then by the Midas Touch layout. That's covered in Lesson 4 of the Quick Start Course on the VectorVest program under the Training tab.

This simple UniSearch is working robustly in the stock markets of UK and USA. I spread bet mostly in USA stocks as they have been much more active over the past year. I have 5 spread bets in the USA market as I write on the 12th February 2019. These were discussed in detail at the Q and A session on that day along with my unleveraged positions on the LSE and AIM.

Market Timing is vital and everyone that's been in the market over October to the present should be convinced of that. It's 70% of the exercise. I have written about overall Market Timing on numerous occasions in these Essays. For swing trades, I require at least a Green Light Buy (GLB) with positive guidance from the front page of VectorVest. A GLB confirmed with the RT Kicker would be a much better and stronger signal. For the Worry-Free portfolio, the Confirmed Calls are used as Market Timing.

I favor a technical entry in swing trades and teach these in both the Swing Trading Course and in Lecture 4 of the ISA Millionaire Course. For example, a share with the above characteristics that breaks out of a “Flag” pattern that’s on a VV Buy recommendation is a high probability event.

Also, a trendline break by a simple gap upwards rarely disappoints and it predicts a strong and fast move. At present the share LULU in the USA seems to be setting up a “Cup and Handle” breakout pattern. If this pattern breaks out and the overall market stays positive, this should precede a strong move with around a 70% probability of success.

I use the VV calculated Stop and work out the number of shares to buy so if the position goes poorly, I have lost 1% of my speculative account balance. I exit half the position when I have made as much as I have risked and then set the Stop to entry. The attraction of banking some cash when the market gives us some is very clear if you have a look at PLUS.L. If we don’t take some cash when the market gives us some, then you are saying that you know what’s going to happen next and as I repeatedly say “The market cannot be predicted on a trade by trade basis.” When the VV Stop rises above the entry point, then I trail stop up behind the price and let the second half run.

Successful trading is about the perfect repetition of a simple process which should be set out on a single page document. Our job is to focus on perfect execution of the process and to make the very best trades. If we focus on the process, then the cash will take care of itself.

2019-02-22

A Worry-Free Unisearch That's Working Well in 2019

In the UK, there is a UniSearch that has been used for our Worry-Free Investing (WFI) method. It is called “Long-Term Winners RS DESC.” You can find it by clicking on the UniSearch tab and, on the left-hand side of the screen, click on the Searches - Retirement group.

In WFI, rather than sorting all the shares on the London Stock Market by the Master Indicator, VST, we sort by safety of earnings (RS) alone. This brings to the top of the list those companies that have shown that they can make money and grow earnings safely and reliably over the years. RS is a function of the following:

- Earnings Consistency
- Company Size
- Price Behavior
- Business Longevity
- Dividend History
- Debt to Equity Ratio and many other important accounting ratios.

In WFI, the Confirmed call method of Market Timing is used. Please refer to my Essay of the 11th January where all the VectorVest Market Timing systems are discussed. Confirmed calls are the longest-term and most conservative signals on VectorVest as their name implies. The last Confirmed Up, C/Up, call occurred on the 9th January 2019. By that time, even the most conservative investors should have been getting towards fully invested. I urge you all to become very familiar with the turn of the VVC/UK as spelt on the Essay of the 11th January. All turning points in the VVC/UK engage the Market Timing systems (short-term to long-term Confirmed calls) in a very

similar way. If you missed the turning point on this occasion, then resolve never to allow that to happen again.

Many years ago, my grandfather used to tell my brother and I that the “only way to make money in anything was to find the value of an asset and then pay less for it.” Many years later I read the “Intelligent Investor” which is a book by Buffett’s mentor, Ben Graham. He was saying the same. At VectorVest, DR DiLiddo teaches that we should favor undervalued stocks. These are three very important and influential mentors in my life that have played a big part in building my beliefs about markets. As I often say, “we don’t trade markets, but our beliefs about markets.” I thought it would be a great idea if I simply added this to the standard Long-Term Winners UniSearch.

VectorVest calculates a value for each share on the LSE each day. The algorithms that are used are fully discussed in Chapter 3 of DR DiLiddo’s book “Stocks, Strategies and Common Sense.” This can be downloaded from VectorVest. Click on Views tab and there is a section called Special Reports. Click on that and scroll down. Also in this section, there is a document on WFI.

Long-Term Winners RS DECSC 2

Time of Search...Stock Price (actual)...>=...50

Time of Search...Stock Avg Volume (50-day MA) ...>=...50000

Time of Search...Stock Exchange...<>...AIM

Time of Search...Stock Price (Actual)...<=...Stock Value

Time of Search...Stock Rec (recommendation)...<> Sell

The UniSearch finds shares on the main market (not AIM) that are trading over 50p with good volume where the share price is less than the VectorVest calculated valuation. These shares are either on a Buy or a Hold recommendation and not on a Sell.

The last C/Up was printed on the 9th January and is still in place. In this time (9th January to 19th February), a simple QuickTest of the top 10 shares from this UniSearch has appreciated by over 9% while the VVCUK has risen by only 2.66%. This is an annualized rate of 85%. During this time, there are

no losers in the portfolio which makes the experience much easier to manage emotionally.

There are some excellent stocks on the junior market, AIM, but adding AIM shares to the mix reduces the results.

For some, using a filter that only considers FT350 stocks is useful as many brokers will only place automatic stop-losses on shares within that index. This is certainly a useful feature if you are travelling or if you are honest enough to admit that you may dither and not honor the stop.

Just add a line in the UniSearch:

Time of Search...Stock Watchlist...= FTSE350

This has little effect on the performance as the high RS shares are probably also FT350 shares.

Favoring undervalued stocks and adding this to the UniSearch adds an extra measure of safety to the portfolio which, I believe, is warranted in this late stage Bull market that we find ourselves in.

2019-03-01

Keep the Process of Trading Simple and Clear-Cut and Focus on Pristine Execution

The Midas Touch trading technique is a lightning-fast method for knowing When to Buy, What to Buy and When to Sell. The technique was first derived to trade the volatile US Gold Bugs index, but it was soon apparent that the technique could be used universally to easily and quickly find shares that are trending strongly.

The Midas Touch is perfect for those who are short of time, those that find investing far too complicated and especially for those that are not making money. The Midas Touch will fix the latter by keeping the investor focused on large profitable moves and well away from the day-to-day noise of the stock market.

The Midas Touch trading system uses a double smoothing technique to remove the day-to-day noise. This allows the trader to focus on the long-term trends in any stock or commodity. The Midas Touch system makes use of a 10-day and 65-day Moving Average (MA) of the VectorVest Stop-loss. The VectorVest Stop is itself based around a 65-day MA of the share Price. A Moving Average of a Moving Average performs the double smoothing that I referred to above.

When the 10-day MA crosses above the 65-day MA of the Stop price, a major trend is underway. When the 10-day MA crosses down through the 65-day MA, the trend has reversed. DR DiLiddo, who invented the technique, also uses a 40-day MA of the VectorVest RT as the momentum filter. The

RT40 is mathematically massaged between 0.00 and 2.00 akin to all other metrics on VectorVest. Above 1.00, momentum is rising.

There are three simple steps to becoming profitable with the Midas Touch Technique

- 1. When to Buy. It all starts with Market Timing.** Market Timing is the most important information an investor can have. And you'll find it right on the VectorVest HomePage. I have written at length in this forum about Market Timing and how it's essential that you have decided on which Market Timing system is for you. If in any doubt, please read my Essay of the 11th January 2019. The most important thing to know is whether the market is rising or falling. Everything follows from that.
- 2. What to Buy.** The automatically compiled Midas Touch WatchList points you directly to the best stocks in the strongest uptrends. VectorVest ranks all stocks passing the 'Midas Touch' test by VST (Value, Safety & Timing) to ensure they are the cream of the crop. To get onboard the Midas Touch WatchList all the components of the Midas Touch should be making a three-month high. More recently both myself and the research department of VectorVest in the USA have experimented with getting an entry signal well before these shares have qualified for the Midas Touch WatchList. I have written about my visual technique in my Essay of the 4th January 2019. More recently, on the 15th February, there was a "Special Presentation" detailing a UniSearch that will find stocks well before they qualify for the Midas Touch WatchList. The UniSearch is called MT Prospects and it has been added to VVUK. Click on the UniSearch tab on the main toolbar, on the left-hand side, click on the Cherry Picking folder and select MT Prospects. Also, if you haven't already, please study the presentation video. It is an excellent piece of work. MT Prospects finds stocks where the 10-day average (Stop) is greater than the 65-day MA (Stop), but the RT40 is still a little below 1.00. The UniSearch builds in both rising earnings and volume which adds to the probability of success. From 1st February to

25th February, the top 10 shares are up 5.43%, while the VVC/UK is up 2.18%.

- 3. When to Sell.** VectorVest believes you should always have a Stop-loss in place to protect your capital and your profits. Each day a Stop-loss level is calculated and shown visually on the share charts and WatchList. Place your shares into a WatchList and re-sort by RT. The good shares will be at the top of the list and the dogs at the bottom. Your job is to simply exit the dogs and keep your hands off the shares at the top of the list. I am afraid that every instinct will direct you to do just the exact opposite. Always keep what shows you a profit and exit what shows you a loss.

In just 3 steps the Midas Touch and the MT Prospects gives you a system that's fast and straightforward. You'll be able to find winners, and big winners regularly, with no fuss or stress.

2019-03-08

How to Sleep Well At Night in Troubled Times

In my Essay of the 22nd February, I reported on the performance on the VectorVest Worry-Free Investing technique (WFI). In that essay a change was made to the standard UniSearch where a line ensuring the shares chosen were trading below their VectorVest valuation. This detail adds a measure of safety to the performance and as of 1st March, the top 10 shares chosen at the last Confirmed Up, C/Up, on the 9th January have increased in value by over 11%, while the VVC/UK is up 2.59%. This is an excellent result. Please reread the Essay as it can quite easily be all you need to ensure a bright future.

Last week I reviewed the Midas Touch WatchList and presented rules on how this can be traded within a structured plan.

In this week's Essay, I should also like to use the Midas Touch WatchList for a much more aggressive type of investment which can easily be traded alongside the WFI method with a smaller percentage of your funds (In My Humble Opinion). This is a more aggressive technique with many more transactions that will appeal to those people worried that the overall market could be subject to a correction or that the bear is nigh. The technique holds only five stocks and goes into cash when the Market Timing signal is downward. Thus, the ability to sleep when the market is falling.

- 1. The technique uses the Confirmed Call Market Timing system.** The last call was C/Up on the 9th January. Upon a Buy signal from the Confirmed Call system, five stocks are purchased from the UniSearch detailed next and when a Sell signal is printed, they are sold for, hopefully, a profit. Some bullish Confirmed Call signals last months and years, while others only a few weeks. When the overall market has printed a Confirmed Down, C/Dn, signal, the portfolio is in cash.

2. **The method uses shares which are in the Midas Touch WatchList.** To get into this WatchList the 10-day Moving Average (MA) of the Stop must be above the 65-day MA of the Stop and both these averages must be charting a three-month high. The 40-day MA of RT must be above 1.00 and charting a three-month high. The shares on the UK market that fulfill these conditions are listed in the Midas Touch WatchList which can be found on the Viewers tab of VectorVest in the Cherry Picking folder.
3. The UniSearch is below. Please use “Time of Search” in each line of code.
 Stock Watchlist = Midas Touch Stocks
 Stocks Average Volume (50 day moving average) ≥ 100000
 Stock Price (Actual) > 50

 Sorted by CI/RT Desc.
4. **CI is the Comfort Index and is a measure of the long-term Price trend of a share.** On a scale between 0.00 and 2.00, a high CI finds a share that is trending strongly with little volatility. It is without doubt a VectorVest secret weapon. Dividing CI by RT finds a share that’s trending strongly long-term, but is temporarily oversold in the short-term. The technique is looking for a pullback in a strong trend automatically. CI/RT is not yet a standard field on VectorVest, so the field needs to be written using the Custom Field Builder and that will be good practice for all reading. Click on Tools on the top right-hand side of the screen. Then select Custom Field Builder. Click on Fields, Capital Appreciation, then CI. Click on the /, then click back on Fields, Capital Appreciation, then RT. Click on Validate, click OK. Click on Save Changes. Click OK to the Custom Field Saved Successfully message. Click on Exit. When that’s done, the sort on UniSearch can be specified as CI/RT.
5. **In BackTesting, a stop-loss of $RT < 1.00$ is used.** Also, the program is asked to fill only one of the five positions each day after a C/Up signal. At a C/Dn signal, all are sold. The trading method is totally in cash when

the VVC/UK has printed a C/Dn. Although I have not done it yet, the next step will be to add an Inverse ETF such as SUK2.L when the market is falling.

Over the past 10 years, the method outlined above has grown from 50000 pounds to 388000 pounds. Although many of the shares may have paid a dividend these have not been added. The Compound Rate of Return over the 10 years was 23%. All of this was done while sleeping well. Since the C/Up on the 9th January, the technique has underperformed WFI investing, but over the long run the numbers are conclusive.

In the BackTester on VectorVest, the WFI technique is a standard and pre-built trading system. In the weeks ahead, I will have this technique added.

2019-03-15

It Does Not Have to Be Difficult or Complex. Let VectorVest Do the Heavy Lifting

VectorVest provides a range of proprietary indicators that make it easy to identify When to Buy, What to Buy and When to Sell shares for both long-term investors and short-term traders. Each industry group and stock on VectorVestUK has a unique analysis that includes:

- **Value**—Value provides the company's current worth. If the Value is higher than the Price, the company is undervalued, if the Price is higher than the Value, the company is trading at a premium. As I have often reminded "the only way to make money in anything is to find the value of an asset and then pay less for it. The stock market is no different in that regard to making a profit buying and selling used cars. Buffett's mentor, Ben Graham, has written an entire book on the subject. On the UniSearch tab of VectorVest just write a line:

Price (Split adjusted) $\leq$ Value.

If you run the UniSearch, the program will find all the undervalued shares on the LSE and AIM in a click. Under the column on UniSearch named "Date/Time" please use the "Time of Search" for all the lines of code mentioned above and below.

- **Relative Value**—RV presents an alternate view of value, indicating the long-term price appreciation potential regardless of the current value. On a scale between 0.00 and 2.00 a figure above 1.30 is excellent. This

means that the share under study should outperform the risk-free rate (a AAA rated Corporate Bond) by 30% over a window of three years into the future. This is clearly where we wish to be and why we are in the share market in the first place. If you wish to locate these shares add another line into UniSearch below the first mentioned above.

$RV \geq 1.30$.

We have just found all the shares on the LSE and AIM that are undervalued where the share price should outperform over a window of 3 years into the future.

- **Relative Safety**—RS is an indicator of risk. It's computed from an analysis of the consistency and predictability of a company's financial performance, debt to equity ratio, sales volume, business longevity, price volatility and other factors. Many conservative traders don't like surprises and while these can never be reduced to zero, they can be minimized by focusing on shares with a high RS. RS is measured on a scale between 0.00 and 2.00 and above 1.30 measures a share that's making money and all the financial ratios are getting better. Please remember although a high RS reduces surprises, they are never totally removed. There are just too many factors in play in the modern world for that. A line in UniSearch can be added to remove those shares with a poor track record of performance.

$RS \geq 1.20$.

- **Relative Timing**—RT is a fast, smart, accurate indicator of the price trend. It analyzes the direction, magnitude, and dynamics of a stock's price movements over four different time periods to reveal the trend and reflect changes in price momentum.
- **Value, Safety, Timing**—VST-Vector is the master indicator for ranking every stock. It combines the information from RV, RS and RT to create

a single indicator that will rank any list of stocks from best to worst. In my UniSearch I will sort all the shares found in the above steps. That will bring those shares with the best combination of Value, Safety and Trend to the top of the pile and that's where the winners are found. This is the standard and default sort on UniSearch.

- **Recommendation**—VectorVest gives a Buy, Sell or Hold recommendation on every stock, every day. The recommendation reflects the cumulative effect of all the VectorVest parameters working together. The recommendations are mathematical and not influenced by opinion. I will add a line to the UniSearch.

- **Stock REC**—(Recommendation) = Buy

The UniSearch above is a favorite of mine and it is referred to as David's Big Hitters. It's not a custom UniSearch on VectorVest and needs to be added which will be good practice for new users. The Big Hitters finds conservative shares that are undervalued and growing earnings strongly and safely. The UniSearch should be saved in the Conservative folder on UniSearch.

Clearly these shares should only be considered when the overall market is rising, and the Confirmed Call method of Market Timing is perfect for such a conservative UniSearch. Since the last Confirmed Up call, 9 January 2019 through 8 March 2019, the UniSearch has recorded a growth of double that of the market. I have written about Market Timing last in my Essay of the 11th January 2019.

As of 8 March, the UniSearch has analyzed the entire London Stock Market and AIM in a blink and found 8 shares only that fulfill the conservative criterion that I have set.

The next step (assuming we have a Confirmed Call upwards in place) is to place the eight into a WatchList. When they have been bought the reasons for the purchase are less important than their upwards trend. For this reason, change the sort on the WatchList from the default VST to RT. Each day resolve to spend a few seconds with this list. This can be done easily on your Smartphone in a spare moment, but like brushing your teeth it needs to be

done daily. The RT sort will place the shares trending strongly at the top of the list and those lagging at the bottom. Your job is to keep your hands off the shares at the top and let them run while culling quickly the shares at the bottom especially if they should hit their VectorVest calculated Stop-loss.

The shares at the bottom of the WatchList that have hit their VectorVest Stop-loss will be easy to see as they are color coded an obvious red. Human nature in my experience means that the average investor does this entirely incorrectly. The losers in the share market invariably take profits on their winners after a small move, but slug it out with their losers and take a hiding.

Don't let that happen to you.

2019-03-22

Asymmetrical Reward to Risk

One of the big secrets to trading that's in open view is finding a method that generates "Asymmetrical Reward to Risk." In other words, making lots of cash when you are right and losing only a small amount when you are wrong. In my experience I have never come across a method more suited to this task than the Midas Touch Trading Technique.

The ability to generate investments and trades which have a large payoff in relation to the initial risk is twofold. Firstly, a specific method is required and secondly, patience and tenacity are required to sit through the daily ups and downs and general market noise and let our winners run. As with most of life the rewards are enormous for those that can smile at this adversity. Those people who can be right and sit are uncommon. The money is made by the sitting and not the thinking.

In January 2018, I was on Core Finance and recommended GKPL as a buy at 115p. The decision was based on the Midas Touch. The Stop calculated by VectorVest was 100p and thus the risk per share purchased was 15p. The share behaved itself and over the year moved upward strongly. I sold the share at 250p on the 12th October 2018. That was a profit of 135p per share purchased which equated to a 9 to 1 reward to risk trade. That's asymmetrical reward to risk at its best.

Let's assume we have a method that can only be correct 50% of the time with this level of reward to risk. When its correct it will make 5 times 9 units and when its incorrect it will lose 5 times 1 unit in a batch of 10 trades. That's a total of (45-5) units per 10 trades. In common parlance this means that every time you place a trade and risk a pound, the market will give you 4.5 pounds.

Even with a lower reward to risk the numbers are also impressive. At a reward to risk of 5, the system will return $(5 \times 5) - (5 \times 1)$ which is 20 units per 10 trade batch. Here the market will give you back 2 pounds per pound risked. You are now the casino and not the punter playing the machines.

The casino is a powerful metaphor for your trading business. Are the casinos in the gambling business? They most definitely are not. They know the payout and the expectancy of their games down to several decimal points. The punter is in the gambling business and they are playing a negative expectancy game. The longer they stay, the more broke they become. You may have discovered this on your own.

The point of this essay is to highlight that your success will be a function of a combination of reward to risk and the ability to find winning trades. Most of us only focus on being correct in calling the market up or down. It's the ability to call those trades that have a strong possibility of becoming high reward to risk trades that brings the bacon home. Let's drill down to how to achieve this.

On the 1st March, the Essay was focused on the Midas Touch Trading Technique. The essay detailed "When to Buy", "What to Buy" and "When to Sell."

The amazing Midas Touch Trading Technique uses a double smoothing technique to mask out the day-to-day noise of the stock market and easily allows the investor to find shares that are trending strongly where the financial reward can be many times larger than the initial risk. Plus, the technique is easy-to-use. The technique eliminates the day-to-day noise from the decision-making process and from the chart. This helps investors like me sit in the big moves as was the case with GKPL. Here are some pointers for you to consider.

1. Use the Confirmed Call Market Timing System to tell you when it's safe to be in the market and when it's not. As I write on the 19th March, the call is Up and it has been Up since the 9th January 2019.
2. When the market is rising then the automatically compiled Midas Touch WatchList points you directly to the best stocks in the strongest uptrends.

VectorVest ranks all stocks passing the 'Midas Touch' test by VST (Value, Safety & Timing) to ensure they are the cream of the crop.

3. If you have ProTrader, then the MT Prospects UniSearch will find shares that are close to entering the Midas Touch WatchList. This was featured on the "Special Presentation" of the 15th February. This presentation should be often reviewed. For a long time, I have used the Midas Touch in this way via a visual inspection of the charts. The MT Prospects UniSearch has automated my visual process.

Note: ProTrader 7 Searches is an add-on tool.

4. The Midas Touch can be used to "cherry pick" stocks from any UniSearch. For example, last week I wrote about the "Big Hitters" UniSearch and detailed the parameters that I have long used with good success. To generate quick and probable high reward to risk trades make sure that the 10-day Moving Average (MA) of the VV Stop is above the 65-day MA of the VV Stop and the RT 40-day MA is above 1.00. These are the basic requirements of the technique as defined by DR DiLiddo and are fully discussed in my Essay of 1st March 2019. If the latter criteria are satisfied, then a big trend with a large payoff is underway. Cherry Picking with the Midas Touch is fully covered in Lesson 4 of the Successful Investing Quick Start Course which can be found under the Training tab on VectorVest.
5. When a Confirmed Down is printed on VectorVest, then cease all buying of shares and watch the VectorVest calculated Stop for each share in your portfolio carefully. If you are stopped in any share, do not replace, but build a cash position. When the next Confirmed Up comes around, then rerun whichever UniSearch/MT Watchlist you have chosen and replace. When a Confirmed Up is in place it's vital, in my humble opinion, to be fully invested.

DR DiLiddo says *"I never pick a stock without it... I use Cherry Picking with the Midas Touch method to select 100% of the shares I buy."* That's a very powerful recommendation of the technique.

2019-03-29

The VectorVest Edge in the Stock Markets of the World

VectorVest is a stock analysis service that analyzes over 2200 UK stocks each day for Value, Safety and Timing. Value is the foundation of the VectorVest stock analysis system. As I have often written “the only way to make money in anything is to find the value of an asset and then pay less for it.” A stock’s value is calculated each day from a formula which is described in Chapter 3 of “Stocks, Strategies, and Common Sense.” This formula uses earnings per share, earnings growth, profitability, interest and inflation rates. It is the first and only valuation formula which employs all these important factors.

VectorVest also assesses a stock’s long-term price appreciation potential versus a risk-free alternative in a AAA rated Corporate bond. This information is presented as an indicator called Relative Value, (RV) on a scale of 0.00 to 2.00. Stocks with RV values of 1.00 or above have favorable long-term upside price potential. The background for computing RV is given in Chapter 6 of “Stocks, Strategies, and Common Sense.”

Safety is assessed by VectorVest from a wide variety of factors. These factors are discussed in Chapter 7 of “Stocks, Strategies, and Common Sense.” Consistency and predictability of a company’s financial performance is the single most important factor in assessing stock safety. Stocks of companies which achieve higher earnings per share quarter after quarter, year after year, have high safety ratings in the VectorVest system. Stocks of companies with erratic, unpredictable earnings have, of course, low safety ratings. This information is presented as an indicator called Relative Safety, (RS) on a scale of 0.00 to 2.00. Stocks with RS values of 1.00 or above have above average stability and predictability.

In assigning numbers to value, price appreciation potential and stock safety it's quite easy to analyze the fundamental position of a company in less than 30 seconds.

VectorVest believes that investors should buy stocks that are rising in price and sell stocks that are falling in price. Therefore, it analyzes a stock's price behavior for direction, magnitude of change and rate of change. This information is presented as an indicator called Relative Timing, (RT) on a scale of 0.00 to 2.00. Stocks with RT values of 1.00 or more are in an uptrend and vice-versa. RT also is useful in depicting changes in price momentum. A rising share price but a falling RT shows that momentum is falling, a warning of a reversal. Market technicians refer to this as bearish normal divergence.

All three indicators, RV, RS, and RT are combined into a master indicator called VST-Vector. Stocks with a VST-Vector rating of 1.00 or above on a scale of 0.00 to 2.00 have favorable combinations of Value, Safety, and Timing. All stocks in the VectorVest database, as a default, are sorted by the master indicator VST.

At least 70% of the exercise of outperforming the market is knowing when it's safe to buy stocks and when it's not.

The VectorVest model of Timing the Market is described in Chapter 20 of "Stocks, Strategies & Common Sense." For your convenience this system is summarized below:

The most conservative VectorVest Market Timing system (Confirmed call) is based upon two simple rules:

1. A trend is signaled when the Price of the VectorVest Composite moves two consecutive weeks in a given direction.
2. An upturn is confirmed when the Market Timing Indicator (MTI) is greater than 1.00, and a downturn is confirmed when the MTI is less than 1.00. The MTI is a combination of the rate of change of the VVUK Composite and the rate of change of the proprietary Buy/Sell ratio. The Buy/Sell ratio is a measure of the breadth of the advance.

All the Market Timing signals are objectively calculated and displayed on the front page of VectorVest with no chart interpretation necessary.

The question I receive most is “where to start.” My answer is always the same. The first place to develop your stock trading skills is by focusing on perfect execution of the VectorVest Worry- Free Investing method (WFI). I have written about this in my Essay of 22 February 2019. The UniSearch used is restated below. Please note this UniSearch sorted the shares found NOT by VST but by RS. This brings the shares on the LSE with the best history of making money safely to the top of the list.

Long-Term Winners RS DESC 2

SORTED BY RS Descending

Time of Search...Stock Price (actual) $\geq$ 50

Time of Search...Stock Avg Volume (50-day MA) $\geq$ 50000

Time of Search...Stock Exchange $\neq$ AIM Exchange

Time of Search...Stock Price (Actual) $\leq$ Stock Value

Time of Search...Stock Rec (recommendation) $\neq$ Sell

WFI uses the Confirmed Call Market Timing system as defined above to indicate when it's safe to buy shares. The last Confirmed Up call, 9 January 2019 and it is still in place as of 26 March 2019. The top 10 shares from the WFI UniSearch above shows that they have rose 9.1% while the market is up 2.7%.

In WFI it's vital to be fully invested when the market is rising. If a Confirmed Down is printed (and it will be sooner or later) then it's a signal to stop all share purchases and watch stops very carefully. VectorVest calculates a stop-loss for each share daily. If you are stopped out of any share, then simply build a cash position. When the next Confirmed Up is printed then rerun the above UniSearch and get back to being fully invested.

There is a full set of rules for WFI on VectorVest. Click on Views and then on Special Reports.

The rules are clear and easy with no subjective inputs and this is where I advise everyone to start on their trading journey. The high RS shares are robust and although surprises can never be completely avoided, they can be minimized. This makes the process easier emotionally and presently from January 9th there are no losers in the portfolio.

2019-04-05

Short-Term Trading or Spread Betting With the Midas Touch Watchlist

The Midas Touch Trading Technique ignores market noise and pinpoints shares that are trending strongly. I have written about the technique in this Essay on many occasions and am greatly impressed by it. The last Essay on the subject was on the 22nd March 2019.

As discussed in the aforementioned Essay the Midas Touch Trading Technique uses a double smoothing technique to mask out the day-to-day noise of the stock market and easily allows the investor to find shares that are trending strongly where the financial reward can be many times larger than the initial risk. The technique is suited to long-term position traders, but the shares in the WatchList are also very suitable for short-term speculation. The probability of a short-term trading signal being correct goes up significantly if there is a strong trend at its back. The Midas Touch WatchList makes an excellent shortlist of shares where short-term trading opportunities can be found. Firstly, let's define the characteristics needed of a share to become a member of the Midas Touch WatchList.

1. The 10-day Moving Average (MA) of the VectorVest Stop is above the 65-day MA of the VectorVest Stop. That's the double smoothing noted above as the VectorVest Stop is based on a moving average.
2. The Stop price MAs must be hitting new 3-month highs.
3. The 40-day MA of the VectorVest RT must be above 1.00 on a scale between 0.00 and 2.00.
4. The 40-day MA of the RT must be hitting a new 3-month high.

If these four conditions are met, then the share is placed into the Midas Touch WatchList which can be found by clicking on Viewers, then clicking on the Cherry Picking folder which is found under WatchLists.

These shares make ideal candidates for short-term swing trades and those with ProTrader can scan for the setups. Those without ProTrader can easily scan the top 20 from the Midas Touch WatchList (sorted as a default by VST) by eye in a few minutes.

Note: ProTrader 7 Searches is an add-on tool.

There are only a few short-term trading techniques that can be applied to pinpoint exact entries for relatively short-term trades over a 2 to 3-week period that are sufficiently accurate for a leveraged environment. I will be explaining these in detail in the new “Amazing Midas Touch Trading Technique” video sequence, but will include a single and very powerful tool in this brief.

I was first introduced to the momentum study known as the “Stochastic Indicator” when I attended a 3-day trading course by its inventor, George Lane, in 1986. The study plots a unique rate of change of the price of a share on a scale between 0 and 100. Less than 20 is defined as an oversold position and over 80 an overbought condition. My experience is that the tool works well with the trend and poorly against the trend. The oversold levels (less than 20) thus provide excellent entry points with the trend of those shares in the Midas Touch WatchList which are trending upwards strongly.

I first became aware of the share T Clarke (CTO.L) at the start of February 2019 when it appeared on the Midas Touch WatchList. It's a small cap share and I had never heard of it prior to this heads up. The fundamentals on VectorVest are good. Please load the share's graph by clicking on the Graphs tab, then typing CTO.L beside the Stock and hitting Enter on your keyboard. Click on Graph Layouts and select Midas Touch. Put a tick in the Price box and that will load the candle chart of Price action. Also, please load the standard 14-day Stochastic Indicator under Add Parameter and then Technical Analysis.

The share price of CTO.L retraced to support in the last two weeks of February 2019 and in this period the Stochastic retreated to its oversold level which is less than 20. As the stochastic broke back upwards though 20, this gave an excellent low risk entry into the share. George Lane would have confirmed the entry by a break and daily close above the trendline defining the highs of the days within the February downturn. That confirmed an entry on the 8th March at 106p. The share is now around 126p and moving higher. His technique defined a stock trending strongly, but currently oversold with entry defined by a simple trendline break and close.

Again, it is easy to scan for this setup in ProTrader, but a simple visual does the trick in a few minutes of focus.

It's important to add Market Timing to this discussion. The UK market has been rising and the most conservative measure of the trend (Confirmed Calls) have been positive for market bulls since the 9th January. Clearly this added strongly to the probability of the trade in CTO.L being successful. I view Market Timing as 70% of the exercise and AT LEAST the overall market should be indicating a Green Light Buy before taking any swing trade.

In conclusion, the Midas Touch WatchList provides an excellent source of swing trading opportunities and the addition of a 14-day Stochastic pinpoints high probability and a low risk entry point. For regular and consistent success add Market Timing and good EPS growth fundamentals to the mix and you have an excellent short-term trading system.

I always exit half the position when I have made as much as the initial risk. At that point I increase the stop-loss on the share from the initial VectorVest Stop to the entry point. I then let the second half of the position run hoping for a runner.

2019-04-12

Using the Stock Viewer to Sidestep Information Overload

The stock market emits an enormous amount of information each day. Some of this is meaningless and, of course, some of it is vital to our success. An old stock market adage is “it’s not what you don’t know that gets you, it’s what you do know that’s just plumb wrong that gets you.” Sifting the gems from the misinformation that is thrown at the individual investor daily is a big part of success in the stock market.

So how can we separate the good advice from the bad? That’s what the HomePage and the Stock Viewer on VectorVest achieves. The information presented is based on hard cold numbers with no ego-based imagination or dubious wave counts. The advice in terms of market direction and the fundamental position/technical position of a share is reality.

The first step is to decide whether the overall market is rising or falling. Everything follows from this. As I write on Tuesday, 9th April the longest-term measure of the trend of the UK market is Up and has been positive for buying stocks since 9th January 2019. This is shown on the HomePage of VectorVest and no chart watching, or any subjective input is required. The trend situation is UpUp as I write. The first word refers to the Primary Wave (short-term trend) and the second to the underlying trend (longer-term trend).

VectorVest is designed to conduct a factual, objective analysis of both stock technical and fundamental data and transform it into easily used information and guidance. Information and guidance is stored in the Stock Viewer. It is a gold mine of solid dependable information and my job as a stock trader is to extract the gold and that’s not hard to do. I simply access Stock Viewer by

clicking on the Viewers Tab, then Stock Viewer and examine the top 30 stocks ranked by VST-Vector. I look at the chart of each one of the top 30 VST stocks most every evening. This is the default sort on the Stock Viewer.

In Lesson 4 of the Successful Investing Quick Start Course (SIQSC) which is built into VectorVest and accessed by clicking on the Training Tab, there are two main cherry-picking techniques discussed. The first looks for a nice steady pattern of rising prices. I also like to see smooth, steadily rising EPS patterns. It's hard to go wrong buying stocks with steadily rising earnings. Buffett's mentor Ben Graham says that "EPS growth is the engine that drives the share price." Please review Lesson 4 of the SIQSC for more detail.

The second cherry-picking technique is the Midas Touch which I have written about extensively in the past few months in this Essay.

Shares with the best EPS growth patterns have invariably high RS ratings. The next thing I do is sort by RS and again look at the charts of the top 30 RS stocks. By hand (a dinosaur I know) I note common ground between this sort and the VST sort. For these high RS shares, I especially like to look at the weekly chart over 3 to 5 years to examine the long-term of earnings performance of these great stocks plus the trend and support and resistance levels.

To find shares with the smoothest long-term price performance patterns, sort by Comfort Index, CI. I refer to the CI as the VectorVest secret weapon. I've finally relocated CI on my Stock Viewer screen to be between VST and GRT by using the right click menu and selecting Layout. If the CI is high, above 1.40, the top 20 stocks will have a smooth, rising Price chart with little volatility. Again, I make a note of the common ground between this and the RS and VST sorts.

I first saw this very simple technique demonstrated by Susan Thornborough who runs the VectorVest London User Group. It's simple and gives the investor a great feel for the market action in a few moments. Try it. The technique finds some great shares.

Of course, UniSearch can be used to do most of the above automatically, but the hands-on process has great merit in my view.

Take those shares that show a great combination of trend, EPS growth and safety when the overall market is rising and place them in a WatchList. Re-sort the WatchList by RT. This will place the strongest at the top and the poorest performers at the bottom of the list.

Remember the “Holy Grail of Trading” in my humble opinion. Winning traders become very optimistic when they have a winning position and allow the position to run. Winning traders become pessimistic very quickly with shares that are underwater and at the bottom of their WatchList and simply exit those positions. Losers unfortunately get this process completely wrong all the way around. They become pessimistic with their winners and optimistic with their losers. They exit winners far too early and hang on to losers in vain hoping they may turn. Don’t let that happen to you.

2019-04-18

Markets Move in Tradeable Trends

Conventional wisdom by Stock Market academics teach that stock prices move in a random fashion and you cannot “time the market.” While I would agree that prices of individual stocks can be chaotic, our Market Timing Graph clearly shows that the average price of over 8,000 stocks in the US and over 2200 in the UK, as reflected by the Price of the VectorVest Composite (VVC) or the Price of the VectorVest Composite UK (VVC/UK), respectively, shows sustained trends.

These trends can be many years in duration such as the upmarket that’s been in place since 2009. In 1970, the UK stock market made a high and, from there, it took 21 years for that market to break up and make a new high in real inflation adjusted money. Have you got 21 years to hang around? It’s not looking that good for me.

The VVC/UK moves in a remarkably deliberate fashion, forming up and down waves as time goes by. It clearly shows that the market is rising when the Price of the VVC/UK goes up and the market is falling when the Price of the VVC/UK goes down. Our job, then, is to ascertain the direction of these trends as they are unfolding. Everything follows from that. As I have often stated here, I believe that Market Direction is 70% of the battle.

The Primary Wave of the VVC/UK is a short-term measure of market direction. Our studies show that day-to-day movements in the Price of the VectorVest Composite are not statistically significant. Week-to-week movements, however, are very much worth noting. When the Price of the VVC/UK is higher than it was one week ago, the Primary Wave is Up. When the Price of the VVC/UK is lower than it was one week ago, the Primary Wave is Dn. The Primary Wave provides a relatively fast, reliable indicator of market direction. In the weekly Q and A webcasts, I have discussed how the Primary

Wave is an excellent trade entry signal for short-term futures trading (or spread betting) of the stock indices of which I primarily trade the Dow30 cash. The spread betting companies refer to the index as Wall Street.

When the Primary Wave changes direction, say from Up to Dn, Prudent Investors should use it as a warning signal that the market trend is showing signs of changing from up to down. They should become defensive, i.e., defer the purchase of stocks and watch stops.

Our studies show that a slower, but more reliable signal of market direction is obtained by analyzing the two-week movements of the Price of the VVC/UK. When the Price of the VVC/UK goes up two weeks without an intermediate down week, it gives a preliminary signal of a sustainable Up trend. When the Price of the VVC/UK goes down two weeks without an intermediate up week, it gives a preliminary signal of a sustainable Dn trend. The best and easiest way to see this is to view a weekly chart of the VVC/UK, also known as the Market Timing Graph.

When a signal from the two-week rule changes direction, say from Up to Dn, Investors should recognize that the market has gone from an uptrend to downtrend. This is a much stronger signal than the Primary Wave which looks at a 1-week reversal. They should implement the defensive actions cited above and consider selling their weaker stocks. Aggressive Investors and Traders should use this signal to implement downside strategies such as selling stocks short and buying Puts. The latter is difficult in the UK at the retail level. To sell stocks short is also difficult at the retail level in the UK, but easy if you have a CFD account or a spread betting account.

The most significant signals of a change in trend of the VVC/UK is when the 2-week change in direction is confirmed by momentum using the VectorVest proprietary measure known as the Market Timing Indicator (MTI). The MTI combines the Price of the VVC/UK, with the rate of change of the Price of the VVC/UK (RT) and a rate of change of the Buy/Sell ratio (BSR).

The MTI is calibrated on a scale between 0.00 and 2.00 and when its above 1.00 the trend is Up. The VectorVest MTI is an extremely powerful indicator

of market conditions. The means the market is strong when the MTI is greater than 1.00 and weak when the MTI is less than 1.00.

Therefore, we use the MTI to give Confirmed Up and Confirmed Down signals. A Confirmed Up signal is given when the two-week rule has signaled a sustainable uptrend and the MTI has gone from below 1.00 to above 1.00. A Confirmed Dn signal is given when the two-week rule has given a signal of a sustainable downtrend and the MTI has gone from above 1.00 to below 1.00.

Our experience has shown that the use of Confirmed signals to buy long on Up signals and sell short (or at least stop buying) on Dn signals is far superior to employing simple buy and hold strategies. A Confirmed Call signal should not be taken lightly. This was seen dramatically over the past 6 months of trading in both UK and USA. The Confirmed Down of October 2018 lead to a strong and violent sell-off where it was nigh on impossible to make money by buying shares.

The Confirmed Up signal of the 9th January heralded a period where it's been quite easy to make money by buying shares. This Confirmed Up is still in place.

Let's enjoy the ride for now. In your trading plan you should have already decided upon your course of action when the trend changes to Confirmed Down. The choices are quite simple but need thought on your part. Some of the more obvious choices are summarized below, but there may be many variants that suit your beliefs about markets.

1. Cease any stock purchases.
2. Watch stop-losses carefully and if stopped out of any shares build a cash position.
3. Just go to cash or a bond ETF.
4. Aggressive and knowledgeable traders can make money by taking short positions or by investing in an inverse ETF.

2019-04-26

Simple and Repeated Success

Our number one priority, here at VectorVest UK, is to help you make money in stocks, and we will work with you until you do. We know we can help you as we have done with thousands of subscribers all over the world. Let me ask a question for your contemplation over the weekend that you read this essay. “Are you in the stock market to make money or to solve a puzzle?”

It’s strange, this thing about making real money. We have so many ways of demonstrating how to do it, yet we continue to get comments from subscribers saying they haven’t done so. It’s almost like there’s some secret we haven’t told you about. There’s no secret. The VectorVest Worry-Free Investing (WFI) method for example (that I have written about here on many occasions) shows you how to do it repeatedly. The only secret is that there isn’t a secret.

Years ago, myself and my trading partner of the time had monthly live coaching clinics for short- term traders in the city of London. We kept getting criticism from those attending in that we did the same thing and taught the same process each month. My reply to this critic was that we did the same thing and had the same trading rules each day. The rules were not profitable on each trade, but over the month they amounted to a strongly positive expectancy system. In short, they made more when correct than they lost when incorrect. Just like WFI

At VectorVest UK, it all starts with our fundamental belief that investors should buy safe, undervalued stocks, rising in price. That’s why we provide an assessment of Value, Safety and Timing on every stock, every day. Aggressive Investors who manage risk proactively with stop- loss orders should focus on Relative Value and forecast EPS growth, with only a passing interest in safety of earnings (RS). The latter simply buy rising stocks in rising markets supported by strongly growing EPS. Of course, the corollary of selling falling

stocks in falling markets also applies to those traders who understand and are experienced in selling an asset that they don't presently own. In any case, making money all starts with knowing whether a stock is more likely to go up or down in price.

This is where Wall Street and the CNBC/Bloomberg market strategists really get it wrong. They say, "You can't time the market. You should buy stocks on the way down. You should dollar average with regular monthly investments. You should buy and hold. And, finally, you can't beat the market." **VECTORVEST REFUTES ALL THESE LIES.** We Time the Market and when it's pointing upward, it's safe to buy stocks that are rising in price. This last occurred in the UK stock market on January 9th, 2019 and it's been a great ride. As I write on the 23rd April, the trend upward remains intact.

It is my experience over the past 35 years that your chance and probability of making money by buying rising stocks when the market is rising increases strongly. Knowing when the market is rising and it's safe to buy stocks is 70% of the exercise. Maybe that's the secret.

We Time the Market to see whether stock prices are rising or falling, and we have the Color Guard and front page of VectorVest to convey our analysis. The first thing you should do every day is look at the Color Guard. It tells you in a flash when it's OK to buy stocks. Chartists will wish to add the Market Timing Chart of the VectorVest Composite UK (VVC/UK). This can be found under the Timing tab on VectorVest UK. Each Monday afternoon, I present a detailed study of the VVC/UK and VVC (USA). In this I focus on the Primary Wave (short-term trend), the underlying trend, the Buy/Sell ratio (known as the Canary for its leading characteristics) and, of course, the longer-term trend (Confirmed Calls).

All the information is easy to spot on the front page of VectorVest and on the phone app. As of 23rd April, the VVC/UK is within an UpUp trend. The first word refers to the Primary Wave and the second to the underlying trend. To the right of the UpUp, you should see a green C/Up under the column Call. This is the longest-term Market Timing signal known as a Confirmed Call. It's

the underlying trend confirmed by price movement. When the trend changes to a time when it's not safe to buy shares, this will change to a red C/Dn. Last week (18th April), I wrote an entire essay on Market Timing. Since the 9th January, the WFI method has nearly trebled the performance of the overall market.

VectorVest will help, with pleasure, new investors to learn how to do the right things at the right time. First, we have the Successful Investor Quick Start Course under the Training tab on VectorVest. We also have a terrific Product Support group who is more than happy to answer your questions and help you any way they can.

Most importantly, we have the VectorVest University, please [click here](#) to access the University. If you're serious about making money with VectorVest, visit the University on a regular basis and attend our live events done by webcast and live London seminars. You can also access training on our Twitch stream by [clicking here](#) between 7pm - 8pm GST.

2019-05-03

High Growth vs Low PE Stocks

One of the most interesting questions that comes up frequently at seminars and workshops is “Why do we have a “B” rating on XYZ.L, when its Price was almost double its Value?” It’s a good question, one that comes up all the time.

Four conditions must be met for a stock to get a “B” rating: 1) Its Price must be greater than its Stop, 2) Its short-term Price trend must be up, i.e., Relative Timing, RT, must be greater than 1.00 on a scale of 0.00 to 2.00, 3) Its VST-Vector, VST, must be greater than 1.00 on a scale of 0.00 to 2.00, and 4) Its Price must be rising faster than its Stop.

ABDPL (Ab Dynamics) is a good example of this and it’s a stock that I personally hold. Even though ABDPL closed at £21.45 per share last Friday and VectorVest listed its Value at £11.76 per share, ABDPL met all these conditions, so it got a “B” rating. How can that happen when it is so overvalued?

The answer lies within VST, our Value, Safety, Timing indicator, which incorporates Relative Value, RV. “RV is an indicator of long-term price appreciation potential. ABDPL has an RV of 1.29, which is very good on a scale of 0.00 to 2.00. This indicator is far superior to a simple comparison of Price and Value because it is computed from an analysis of projected price appreciation three years out, AAA Corporate Bond Rates, and risk.” Chapter 6 of DR DiLiddo’s book, “Stocks, Strategies & Common Sense,” gives a step-by-step explanation of how the difference between Price and Value, Risk and Earnings Growth are used in computing RV.

This information is combined with our indicators for Relative Safety, RS, and Relative Timing, RT, using a vector formula to compute VST, our Master Indicator. Although RV, RS and RT for ABDPL were all above 1.00 as of last

Friday, it is important to understand that it is not necessary for RV and RS to be above 1.00 for a stock to get a “B” rating.

The bottom line, here, is that a comparison of Price and Value indicates that ABDP.L is currently overpriced, but its RV of 1.29 indicates that it has favorable price appreciation potential. It is a perfect example of what I feel DR DiLiddo was thinking about when he made the title of Chapter 6 of his book, “High Growth vs. Low P/E Stocks.”

How can a share be trading at twice its value and still have a RV of 1.29 I am asked repeatedly? I explain this very simply. If the share price stays at its present value and the earnings are booked at the rate VectorVest anticipates for ABDP.L (GRT=27) then at some time in the 3-year window ABDP.L will be significantly undervalued. So, the share in simple language has run past the current valuation, but over a 3-year horizon, there is plenty of upside. Ab Dynamics (ABDP.L) has been very kind to me.

Away back in 2012 Ted Baker (TED.L) was striding upwards. I was new to the VectorVest method. I wanted to buy TED.L, but never did because its Price was well above Value. As time went by, I encountered many other hot stocks (e.g. FEVR.L) that were just the same. They were overpriced, but just kept going higher and higher in price. Finally, I realized that all the ones I wanted to buy were stocks of companies with good business models and sky-high earnings growth rates.

My RV analysis now makes it easier for me to see which of these stocks I would consider buying. If Price was greater than Value and RV was well above 1.00 (I use a minimum value of 1.25 in my UniSearch), I would now consider buying it although I knew it was selling at a premium price. I also knew that these stocks were in high demand and savvy investors were willing to pay for the promise of future growth. These shares should be bought as they are breaking upwards through a multi-week high when the overall market is positive. The latter has been the case since the 9th January.

Investing in growth shares is an exciting way to build wealth for hands on traders and investors. It will take more focus and dedication than the Worry-

Free Investing Method (WFI), but should result in much higher gains over the years. As we are dealing with shares that are overvalued, stop-losses need to be obeyed without fear or hesitation.

2019-05-10

Focus on the Process and the Results Will Follow

Well, it doesn't take a genius to wonder, what is the process?

It takes some time to fine-tune the process of trading or investing to your own style and to your personal beliefs about markets.

This isn't something you'll find on the internet, books, or forums, etc., but based on our experience at VectorVest over the years, it's a vital area of study and contemplation. Your job is to make the best possible trades and, as I have said here many times, "if you focus on perfect execution of this single trade then the cash and your trading results will take care of themselves."

I won't outline a process in this short essay, but rather pose leading questions for each to answer. These answers will be the foundation of the plan which should be a methodology that suits you. This will mean a little thought and work on your part will be necessary. A replay of the VectorVest Successful Investing Quick Start Course will be very helpful. It's under the Training tab on VectorVest.

At VectorVest we believe in finding the best shares for your portfolio. That alone will help your portfolio perform. These shares should be growing earnings strongly and safely. We believe in buying these shares when they are rising, making new highs and on a VectorVest Buy recommendation only when the general UK market is rising as defined by the VectorVest Composite UK (VVC/UK).

Develop your trading plan.

This is your guiding light in a world of darkness. Trading can be a dark place without the plan especially if you are responding emotionally to all day-to-day market noise. Without a trading plan that's pretty much what's going to happen. Your trading plan should tell you:

- When is it safe to BUY shares? Which VectorVest Market Timing system will you use? I last wrote about Market Timing in this Essay on the 18th April 2019. (**Hint.** If you are new to VectorVest, the Worry-Free Investing plan which uses the longest and most conservative signals on VectorVest which are known as Confirmed Calls is a good place to start).
- When it's time to Buy shares, which UniSearch will you use to find those shares that suit you? (Hint. The Worry-Free Investing plan uses Long Term Winners RS descending. It is found in the Retirement folder of UniSearch).
- How will you cherry-pick the very best shares from the UniSearch? (Hint. DR DiLiddo says he never buys a share before cherry-picking with the Midas Touch technique).
- What are your position sizing rules? How many shares will you Buy so as only an acceptable portion of your capital is lost if a share should disappoint? To calculate this accurately you will need to have decided upon the stop-loss before any purchase is done. The VectorVest Stop is the obvious choice although aggressive traders with experience and/or using leverage may decide on a level closer to the entry point.
- Assuming the overall market is positive, how will you enter your trades? What, if any, technical trigger will you use? A positive candle formation? A breakout? A Moving Average crossover?
- How do you manage your trades? Do you scale out as I have been advocating recently? Do you scale into the position? How do you manage the open profits? Do you use a trailing stop-loss such as the VectorVest Profit Locker?
- How do you exit your trades? Do you exit at a percentage profit, an old high, a FIB target or use a trailing stop? This is a philosophy and should be decided upon as the trade is being entered.

The trading psychologists make their students practice the entire process in their minds repeatedly in the same way as golfers visualize each stroke.

Special forces visualize, practice and drill so when the lead is in the air above their heads their actions are automatic and performed without hesitation and conflict. The candlestick jumping up and down, market noise and CNBC/Bloomberg waffle is the equivalent of bullets over your head and a possible landmine under your next step. South African golfer Gary Player made the process of visualizing success famous in the golfing world. It's a technique that will certainly help build trading discipline. In your mind's eye, see yourself, hear yourself and feel the emotion of a perfectly executed trade from start to finish. This works wonders in a very short period of practice.

Execute your trades consistently. This is where your discipline comes into play. There's no point in developing your trading plan if you don't follow it. This is like buying an expensive GPS, ignoring it in a strange city and wondering why you've not reached your destination. It's all too common in my experience of working with retail and professional institutional traders alike. I would suggest at least a 30 trade exercise to get a decent sample size. In this the trader should follow their rules and plan exactly for 30 trades. I have found that somewhere between 8 and 13 trades, conflict disappears. As I have often said in this Essay "You are 8-13 trades away from the trader that you wish to become." That's all.

2019-05-17

There Is an Ordered Sequence to Each Market Reversal

Over the past few days the technical position of the VectorVest Composite UK (VVC/UK) has changed and is now saying loudly that it's not a good time to buy shares as I write this on the 14th May 2019.

My definition of technical analysis of either a single share or the total market, as represented by the VVC/UK, is that it's the study of trends and turning points. Over the past few days, at the start of May, the reversal in the direction of the VVC/UK has occurred in a near perfect sequence. This is a sequence that each VectorVest trader needs to understand in some detail.

The sequence of the turn will be discussed in the following points. Each reversal where the VVC/UK turns from Up to Down occurs in the same way. As we will see later a turn from a Down market to an Up market is just a mirror image of these points.

1. On the 30th April, the Primary Wave turns Down. This is shown on the front page of VectorVest where the trend summary is DnUp. This just means that the Primary Trend is Down, while the Underlying Trend is still Up.
2. On the 1st May and 2nd May, there is a red light in the Price column of the Color Guard. This shows that the Price of the VVC/UK is down both day-over-day and week-over-week.
3. On 9th May, there is a red light in the Price Column of the Color Guard with a black star within the red, noting a RT Kicker Combo Down signal. This indicates that the Price of the VVC/UK is down day-over-day and week-over-week and that the momentum of the fall is strong

to the downside. The momentum of the fall is measured by two moving averages on the RT of the VVC/UK. If the short average is below the longer average, then VectorVest automatically draws in the black star. This allows those that haven't got the time or inclination to become momentum analysts to keep on top of the game. A falling market that's gaining in speed is a strong signal of a potentially large reversal. This signal needs to be taken very seriously.

4. On 9th May, the DEW Market Timing system printed a sell signal. This is a medium-term trading system normally used by swing traders who wish to be invested for several weeks to several months. This signal is not displayed on the front page of VectorVest and swing traders need to load the chart of the VVC/UK. Then overlay the DEW signals from the Market Timing dropdown menu just below the Price chart.
5. On 10th May, the Underlying Trend turned to Down as the VectorVest MTI indicator moved below 1.00. The trend summary is now DnDn.
6. On 13th May, the Underlying Trend was confirmed by Price action and the VVC/UK printed a Confirmed Down, C/Dn, signal. This is shown on the front page of VectorVest and no chart watching, or subjective analysis is required.

At each turn the same series of events takes place. Sometimes the sequence is slightly changed in that 4, 5 and 6 occur on the same day. The turning point from a market low is a mirror image of the above as summarized below.

1. The Primary Wave turns Up. The trend summary is now UpDn.
2. A Green light is printed in the Price Column of the Color Guard.
3. A Green Light with a Black Star is printed in the Price Column of the Color Guard.
4. The DEW Market Timing system prints a Buy signal.
5. The Underlying Trend turns Up. The trend summary is now UpUp.

6. The Underlying Trend is confirmed by Price action and a Confirmed Up, C/Up, signal is printed on the front page of VectorVest.

Points 1 to 6 are what I shall be watching for when the current down trend has run out of steam as was the case at the start of 2019.

The VectorVest Worry-Free Investing method (WFI) has had a very good period during the first months of 2019. The method uses the Confirmed Call Market Timing System. The last C/Up was printed on the 9th January 2019 and the last C/Dn on the 13th May 2019.

WFI uses a UniSearch known as “Long-Term Winners-RS Desc” which can be found in the Retirement folder on VectorVest UniSearch.

Over the period the VVC/UK is up 4%, while a QuickTest of the top 15 shares from the above UniSearch has produced a gain of 10.7%.

2019-05-24

The Midas Touch Watchlist and Midas Touch Crossover Unisearch

I have been attending the UserGroups around the country and noted a lot of confusion between the two main interpretations of the Midas Touch Technique.

If the Midas Touch technique is combined with a Market Timing System, such as the VectorVest Confirmed Calls, then the technique forms the basis of a high probability trading method that can be kept under control in a few minutes a day. I have recently just finished a three-part course on the Midas Touch which looked at the trading technique in detail. This course will be offered again at the end of 2019.

The Midas Touch trading system uses a double smoothing technique to remove the day-to-day noise. This allows the trader to focus on the long-term trends in any stock or commodity. The Midas Touch system makes use of a 10-day and 65-day Moving Average (MA) of the VectorVest Stop-loss. The VectorVest Stop is itself based around a 65-day MA of the share Price. A Moving Average of a Moving Average performs the double smoothing that I referred to above.

When the 10-day MA crosses above the 65-day MA of the Stop price, a major trend is underway. When the 10-day MA crosses down through the 65-day MA, the trend has reversed. DR DiLiddo, who invented the technique, also uses a 40-day MA of the VectorVest RT (RT40) as the momentum filter. The RT40 is mathematically massaged between 0.00 and 2.00 akin to all other metrics on VectorVest. Above 1.00, momentum is rising.

To ensure that strongly trending shares are not missed, the program calculates a Midas Touch WatchList. Click on the Viewers tab, then select

the Cherry Picking group, then click on Midas Touch Stocks. The rules for inclusion in the Midas Touch WatchList are detailed below.

- a. The 10-day MA of the Stop price must be above the 65-day MA of the Stop price.
- b. Both Stop price moving averages must be making a 3-month high.
- c. The RT40 must be greater than 1.00.
- d. The RT40 must be making a 3-month high.

The shares from the Midas Touch WatchList are in the throes of a strong and confirmed trend and suitable for purchase when the overall market is trending upwards. However, please note that these shares may have moved strongly prior to inclusion in the Midas Touch WatchList to fulfill the criterion of all three defining metrics charting a 3-month high. To get an early entry, I simply revert to the original interpretation of the technique.

Simply, when the 10-day MA crosses above the 65-day MA of the Stop price, a major trend is underway. When the 10-day MA crosses down through the 65-day MA, then the trend has reversed.

A trend change is much more significant if momentum (rate of change of price) is increasing. If the 10-day MA crosses above the 65-day MA of the VectorVest Stop and the RT40 is above 1.00 then that signals a BUY signal for the stock. On average this occurs about 3-4 weeks ahead of the share entering the Midas Touch WatchList.

For many years in SA and UK, I observed these crossovers visually and found the technique especially useful in commodity and mining shares. In the Midas Touch Course, I teach the importance of divergence analysis between the share price and the RT40 as an important leading indicator of change, signaling in some cases a continuation of trend (reverse divergence) and a slowing/reversal of trend (normal divergence). I also speak about these patterns at the weekly Q and A sessions and at UserGroups around the country.

However, in recent months we have now two UniSearches which endeavor to locate those shares where the 10-day MA (Stop) is above the 65-day MA (Stop) and the RT40 is above 1.00. The first was written by a UserGroup member in London and known simply as the Midas Touch Crossover. The second was written by the research department at VectorVest and is known as the Midas Touch Prospects. The latter is a standard UniSearch on VectorVest if Protrader has been purchased and enabled. I include the Midas Touch Crossover below as it should be added manually. It also requires Protrader. ProTrader 7 Searches is an add-on tool. Click [here](#) or call 0800 014 8974 for a FREE 30-day trial of ProTrader.

Time of Search...Stock 10-day MA (Stop Price)>Stock 65-day MA (Stop Price)

5 Days ago...Stock 10-day MA (Stop Price)

Time of Search...Stock 40-day MA (RT) >1

Time of Search...Stock Aver Vol (50 day Moving Average) >=50000

Sorted by VST Desc.

In my own trading I keep tabs of both interpretations of the Midas Touch Technique.

1. I find the Midas Touch WatchList an excellent source of trading opportunities. These shares are trending strongly and very suitable for purchase should a small pullback occur. Purchasing Midas Touch WatchList shares that are oversold as defined by a 14-day stochastic moving below 20 is the basis of an excellent trading plan. Here the share should have good fundamentals (RV, RS and GRT) and the overall market must be rising. Ab Dynamics, ABDP.L, over the past few months is an excellent example of such, but there are many. I have three simple entry methods to pinpoint exact entries in Midas Touch WatchList shares and will be showing these at the London Seminar to be held on 1st June 2019. Specializing in any one of these techniques can be the

basis of a successful trading business. For more information on the Fast Track To Wealth Workshop on 1st June or to sign up, please [click here](#).

2. Using the Midas Touch Crossover Unisearch to locate the exact turning point. I then Cherry Pick the very best shares using Divergence analysis between the price and the RT40. This found the explosive move in Games Workshop, GAW.L, with ease and the big percentage move in JD Sports, JD.L.

The Midas Touch technique is unrivaled in its ability to cut through the market noise and show clear and tradeable trends in a few minutes a day. Please study both interpretations and decide on which approach suits your beliefs about markets best. The time spent will soon become money in the bank.

2019-05-31

How to Protect Profits

The USA markets printed their longest-term sell signal on VectorVest on 8th May and it remains so as of 29th May 2019. This signal is known as a Confirmed Down, C/Dn, and it needs to be taken very seriously by all. The VVC/US had a very weak day on Tuesday, 28th May with three red lights printed on the Color Guard. There is a black star within the red light in the Price column of the Color Guard which means that 10-day Moving Average (MA) of RT has crossed below the 15-day MA of RT, signaling the momentum to the downside is strengthening. I am feeling bearish and that's a sure sign that a low point is due soon.

The MTI and Buy/Sell ratio are approaching oversold levels recording figures of 0.73 and 0.26, respectively. The Research department at VectorVest advise that when the MTI and Buy/Sell Ratio levels get below 0.60 and 0.20, the USA market is mega oversold. Adventurous traders can begin to consider buying into after the first Green Light is printed using Bottom Fishing strategies.

The Dow Jones Industrial Average charted a bearish outside day on the 28th May which adds to my worries on the downside. The only reality is the trend and that's bearish on both the Primary Wave and Underlying trend firmly down.

In the UK, the pound has fallen below 1.27 to the Dollar in a fast momentum move over the past two weeks on a cocktail of "no deal" Brexit and Corbyn worries. I will leave the politics to your weekend newspapers. This has meant that the UK stock market has fared much better than our USA cousins.

As many UK companies bank profits in dollars, but report in pounds, this means they report many more pounds now than was the case two weeks ago. This is good for share prices and explains, in my humble opinion, the marked

difference in the trend situations between the UK and the USA. Also, the UK market is priced much more cheaply than the USA which should make the blue-chip market resilient to bad news.

My belief system makes me very careful as my experience tells me that what goes down in the USA gets to the UK and SA very quickly. During the period of the last C/Dn, I stopped out of all my poorly performing shares and held those in solid uptrends. The winners such as GAW.L, JD.L and ABDP.L just keep on going. I am very happy with AAZ.L after a spell of stress in the share. After a “flag” consolidation JLG.L looks highly probable to resume its trending move.

If I had a five-pound note for the number of times I have been asked “when should I sell and take profits in JD.L,” I would retire. I understand the emotions in this question as I have personally had an excellent start to the year and have no intentions of giving that back to the market, but, at the same time, wish to give my big winning shares enough room to move ahead.

There are two main ways of achieving this.

1. Restrict losses of Capital Appreciation...I will cover this today.
2. Hedge against losses. This is more difficult in the UK as opposed to the USA where options strategies and shorting stocks are easier for the retail investor to access. I will try to cover this topic from a UK perspective in next week's Essay.

The simplest and most direct way of restricting losses of capital appreciation is to use a stop-loss. This discipline requires that one determine ahead of time the price at which they will sell a stock. Ideally this should be decided as you enter the trade and not emotionally in a crisis such as the trade war fueled/ politics influenced current debacle. How one does this depends upon their trading plan and beliefs. Exits are a pre-decided philosophy as opposed to mathematical certainty. VectorVest can help. VectorVest calculates a Stop-Price for every stock it covers.

VectorVest uses a combination of moving averages and is adjusted for fundamentals to compute a Stop -loss level. In the VectorVest system, any stock whose current Price is below the Stop receives an “S” recommendation. This eliminates any confusion or contradiction between the VectorVest Stop-Sell Price and VectorVest recommendation.

As I have written here many times. Place the shares that you are holding into a WatchList. The shares are bought and paid for so the reason you bought them doesn't really matter anymore.

What does matter is whether they are rising or falling. For that reason, re-sort your shares by RT. This will bring those shares that are trending upwards to the top of the list and those that are not to the bottom.

The work needs to be done at the bottom of the list. This is difficult and unfortunately most make the worst trading error at this point. The average trader/investor will easily find that the market has hypnotized them into making exactly the wrong decision. This is taking a profit on the winners and letting the losers run.

These quotes from “Reminiscences of a Stock Operator” says it so well. Sooner or later the book will be made into a blockbuster movie. It's a good read.

“I did precisely the wrong thing. The cotton showed me a loss and I kept it. The wheat showed me a profit and I sold it out. Of all the speculative blunders there are few greater than trying to average a losing game. Always sell what shows you a loss and keep what shows you a profit.”

“A stock operator must fight a lot of expensive enemies within himself.”

I have felt the tug of this temptation over the past few weeks in my own portfolio during the C/Dn period. I have 3 large winners and around 7 shares that are doing just fine. I have 2 that were showing a red Sell signal in my watchlist. Even after 35 years, the temptation to bank the winners and hold the losers emerged for a second or so. Those shares that were underwater have been sold.

I have a background as a trader, but am trying in my old age to become longer-term. My trading plan in terms of managing the trade is as follows. I am ignoring the entry point and the reason for entering in this Essay. I have covered entries many times in these Essays and each Monday afternoon at the Q and A sessions plus numerous workshops. Please refer to my Essay of 4th January 2019, “How To Predict Explosive Moves With The Midas Touch Technique.” For short- term traders, the Essay of the 5th April 2019 entitled “Short Term Trading With The Midas Touch WatchList” will show how to pinpoint low risk entries in strongly trending shares.

1. Use the VectorVest Stop-loss and calculate the number of shares to purchase so if the trading setup fails no more than 1% of capital will be lost.
2. If the share moves my way, I will exit half the position when I have made as much as I have risked. In simple terms, if I purchase 200 shares at 10 pounds with a stop-loss at £8.50, then I have risked £1.50 per share. When the share rises to £11.50. I have made as much as I have risked. At that point exit half (100 shares).
3. Let the remaining half run using the VectorVest calculated Stop as a Trailing Stop. However, at the outset, the VectorVest Stop can be below the initial entry point. When the VectorVest Stop increases above the entry point, then trail it upwards behind the price.

The methodology is far from perfect, but emotionally it's quite easy to put into practice. There is nothing more disheartening than a winning trade turning into a loser. The result of this is a swing trade type profit on half the position, but hopefully a “runner” on a high percentage of trades with the remaining half size position.

This may not suit everyone, but it has been working exceptionally well for me in this late stage bull market and it saved my bacon on USA tech stocks over the past few weeks since the turn down. It's a suggestion for your own trading plan.

2019-06-07

Simple Decisions to Point Your Trading Business to Consistent Success

Last Saturday, 1st June, 2019 VectorVestUK ran the first “Fast Track To Wealth London Workshop” and we had a great day and a full house. We plan to run another similar workshop on the 27th July 2019. I found the first session a little short and have decided that on the 27th, it will be run from 10AM to 3PM which gives me an extra hour to drive home my message and answer questions.

In the seminar as we progressed through the day, I asked the delegates to write down and answer a series of questions which would provide some structure for their trading plan. I will repeat some of these here.

1. Decide on the amount of cash that you wish to devote to your share trading/investing business. Few decide on this in advance. As you should know by now, “if you don’t know how much cash you have in your account, then you can’t size your positions correctly. If you don’t size your positions correctly, then you are gambling and not trading.” How to size positions is covered in Lesson 2 of the Successful Investing Quick Start Course (SIQSC) found on the Training tab in VectorVest 7 UK.
2. An easy and effective way to accomplish this is to divide your cash (once decided upon) into ten parts and never put more than 10% into any single investment/trade. Then resolve to follow the VectorVest Stop-loss without hesitation.
3. Which VectorVest Market Timing system will you use to decide when it’s safe to buy shares? If you are following the VectorVest Worry-Free trading plan (WFI), then the Confirmed Call signals are used. More information on Worry-Free investing can be downloaded from

VectorVest by clicking on Views and on the top left-hand side click on Special Reports, then Guide to Worry-Free Investing.

Swing traders may feel that these signals are late and elect to use a faster Market Timing System such as the Green Light Buy confirmed by the RT Kicker. In my essay of the 29th June 2018, I detailed all the VectorVest Market Timing systems and how they arrive in order at each turning point of the VectorVest Composite UK. This is a vital area of knowledge for each trader and investor. If you are new to trading and investing, please just simply buy stocks when the front page shows a Confirmed Up and also when the advice on the front page reads “VectorVest advocates buying safe undervalued stocks at this time.”

4. VectorVest recommends investing in undervalued shares that are rising in price with little volatility and that are growing earnings strongly and safely. If you are following the WFI then use the UniSearch “Long Term Winners RS descending.” It’s under the retirement folder in UniSearch. “Pale Blue Chips” in the Conservative folder is also an excellent choice. Also, please consider “Superstars” in the Prudent folder of UniSearch.

VectorVest is designed to conduct a factual, objective analysis of both stock technical and fundamental data and transform it into easily used information and guidance. Information and guidance are stored in the Stock Viewer. It is a gold mine of solid dependable information and my job as a stock trader is to extract the gold and that’s not hard to do. I simply access Stock Viewer by clicking on the Viewers Tab, then Stock Viewer and examine the Top 30 stocks ranked by VST-Vector. I look at the chart of each one of the Top 30 VST stocks most every evening. This is the default sort on the Stock Viewer.

Shares with the best EPS growth patterns have invariably high RS ratings. The next thing I do is sort by RS and again look at the charts of the Top 30 RS stocks. By hand (a dinosaur I know), I note common ground

between this sort and the VST sort. For these high RS shares, I especially like to look at the weekly chart over 3 to 5 years to examine the long-term earnings performance of these great stocks plus the trend and support and resistance levels.

To find shares with the smoothest long-term price performance patterns, sort by Comfort Index, CI. I refer to the CI as the VectorVest secret weapon. I've finally relocated CI on my Stock Viewer screen to be between VST and GRT by using the right click menu and selecting Layout. If the CI is high, above 1.40, the Top 20 stocks will have a smooth, rising Price chart with little volatility. Again, I make a note of the common ground between this and the RS and VST sorts.

I first saw this very simple technique demonstrated by Susan Thornborough who runs the VectorVest London User Group. This process was demonstrated at the "Fast Track" seminar on the 1st June by Susan Thornborough and will be again on the 27th July. For this reason alone, the day will be well worth your valuable time.

5. Try not to have any more than 2 shares from any sector/industry.
6. After purchase, please put your shares into a WatchList and re-sort this WatchList by Relative Timing (RT). Resolve to act on the shares at the bottom of the list when sorted by RT. I know I say this each week and sound like a broken clock, but I have seen a dozen portfolios since writing this sentence last week where profits were taken on the winners and the losers were left to run. I repeat these words for my own good as well as yours.
7. Rest assured your ego will fight you all the way and come up with a dozen reasons why not to simply get rid of Sell rated stocks. A Sell rated stock is where the share Price of that stock has fallen below the VectorVest calculated Stop Price. Tell your ego to take a hike.

8. Your success as a trader will be determined by your ability to simply exit the losers quickly and focus with enthusiasm and joy in following the process of trading. Those of you who have traded a little will know that this is more difficult to do than to talk about. Holding on to losers is one of the four big mistakes that losing investors and traders make until they run out of money.

As of 5th June, the trends on the UK and USA markets have both printed a Confirmed Down signal. The USA market is in mega oversold territory and that indicates there is a high probability of a turn soon and that would seem to have started on the 4th June where a very strong advance of 500 points on the Dow Jones Industrial Average was recorded. This was the 2nd largest move of 2019 according to a Bloomberg report.

Those whose trading plan includes Bottom Fishing techniques will be watching closely. The Primary Wave is Up in the US, but the underlying is still Down and a Green Light was printed in the Price column of the Color Guard Wednesday, 5th June. A Green Light Buy which is preceded by a mega oversold position on the VVC USA could setup a high probability and high momentum move.

The UK market will follow.

2019-06-14

On 3rd June, There Was No One Left to Jump Out of a Wall Street Window

On the 3rd June I presented a VectorVestUK Q and A session. During the Market Timing Session of the webcast we discussed the two red lights printed on the front page of VectorVestUK as of 31st May and that the trends in both UK and USA were hard down. I remarked that I was feeling so bearish that a bottom must be near.

On that day as we worried that the financial world would end the technical position of the VVC/UK was poor with a Confirmed Down printed after the close on the prior trading day which was the 31st of May. However, the Market Timing Indicator (MTI) and the Buy/Sell ratio (BSR) were not stretched or showing a mega oversold condition. This, in my opinion, was due to the weakness of the pound. For once the UK market was outperforming the USA market.

In the USA the situation was much different. Although showing that the trend of the VVC/US was down, the MTI and the BSR, were stretched and showing levels that indicate a bottom is close and that a strong reversal is imminent. If you look at your charts on VVUS that's exactly what happened. I have been timing and reading about timing the Dow Jones 30 for most of my adult life and nothing comes close to the power of the BSR in determining when I should be long and when I should be short.

On the morning of 3rd June there was no one left to jump out of the window after the Canary had been fed. The Canary is the name given by DR DiLiddo to the BSR. Like the Canary in the coal mine, it's a leading indicator of change and there are precious few of those in this business.

Let's take a step back and review the calculation. Each day VectorVest assigns a Buy, Sell or Hold recommendation to each share in the UK and USA.

For a BUY 1. Stock Price > Stop Price

2. VST > 1.00

3. RT > 1.00

4. Price must be diverging away from Stop Price For a Sell Price < Stop Price

For a Hold Price > Stop, but any one of the other three factors needed to receive a Buy are not met

From this the BSR is computed each day. Simply, when the BSR gets below 0.20, there is no one left to jump out of the window. When the BSR gets above 4.00, then the trade is crowded. Be very careful if you are long.

As of 31st May, the BSR of the USA was sitting at 0.18. There were over 5 times more shares on a Sell recommendation than on a Buy. There were 3 red lights on the Color Guard. The red light in the Price column had a black star showing that the Price of the VectorVest Composite (VVC) US was down day-over-day and week-over-week and that momentum to the downside was increasing. I was getting questions in the Q and A about what shares to short. I hope my vigorous answers to these questions dissuaded the individuals from shorting a market in a mega oversold state.

In my Essay of the 17th May 2019, I reviewed the sequence of a turn from a down market to a up market. These are quite predictable and follow the same path at every change of trend. A VectorVest Market Timing signal that's preceded by a mega oversold situation is a very exciting prospect.

The first VectorVest buy signal on the US market occurred on June 4th when the Primary Wave turned Up. On 5th June, a green light Buy was printed showing the Price of the VVC was up day-over-day and week-over-week. This is a fast, reliable buy signal used by aggressive traders whose trading plan desires to get onboard close to the turn. It's a very useful signal for those that spread bet on the indices such as the Dow, as I do. That signal has proved to

be very profitable and since the signal through 11th June, the Dow had gained over 500 points. Please note that although I enjoy short-term speculation on the indices, this form of trading demands considerable focus and may NOT be suitable for you.

Over the years of trading the Dow I have developed a strong faith in a 16-day simple moving average as a barometer of the short-term trend. Around 10 years ago, my trading partner and I tested all sensible moving averages and the best performance showed that 16 day was optimal at that period.

If I observe a Green Light Buy from the overall market and the Dow is above its 16-day average, that's a very high probability long signal. Similarly, if the Dow is below its 16-day average and prints a red light in price column of the Color Guard that's a high probability short signal.

If the long signal as detailed in the last paragraph is preceded by a mega oversold value from the "Canary," then that's as good as it gets in this line of work.

Enter the position at the Wall Street open. I place an initial stop loss at the lowest point of the last two days trading. If for example the entry is on a Wednesday just place the stop at the lowest point of Monday and Tuesday's trading range. Make sure that, if the trade fails, only a maximum of 2% of capital is lost. Position sizing is vital to survival.

As always, I exit half the position when I have made as much as the initial risk. Then get the stop to entry and now we have a risk-free trade. We can make money with no risk. That's a great feeling. I usually trail the stop upwards behind the price at the lowest point of the last two days trading range. Far from perfect, but it's simple and easy to execute as I travel.

Your job, whether in short-term speculation as above or in the much longer-term VectorVest Worry-Free Investing method, is to focus on the process of trading. If done, the money will take care of itself.

2019-06-21

Woodford's Fall and Lessons That Private Investors Can Learn From It

For those outside the UK reading, Neil Woodford was what the popular press refers to as a “rock star” fund manager with 25 years of excellence and market beating returns as a large fund manager. A few years back he started out on his own and attracted 11 billion pounds of investment into his Equity Income fund. It did not go well and since the beginning has underperformed his peer group. Over the last months, the amount under management has fallen to 3 billion and the cash was being pulled out so fast that the fund took the decision to suspend transactions. Redemptions of cash are being hampered by the fact that a large percentage of the holdings are in non-listed or very illiquid startup companies. As of 20th June, that's still the case.

What can we learn from this? Three things I feel.

1. If something is working for you, then don't change it without testing. Mr. Woodford had a style of investing in large dividend paying safe stocks during his 25 years at Invesco which outperformed the market and bought his reputation. Over the period since the start of his new endeavor there is no doubt that UK shares have lagged the USA probably because of Brexit. However, a fund made up of solid and safe and maybe unfashionable UK stocks should have maintained or increased its dividend in this period. This was not the case since 2017 where income has fallen. This reflects a change of style of investing to growth which has failed or at least his investors have run out of patience before it could deliver. Although I am basically a trend following swing trader. I understand the temptation to experiment only too well and invariably it's a costly and embarrassing exercise. Please find a plan that you have

tested and suits your beliefs. Then rinse and repeat. If you don't know where to start just use the VectorVest Worry-Free Method which I have discussed in my Essay of the 24th August 2018. The Worry-Free Method is a properly tested and proven method.

2. If you take a bold and contrarian view, then invariably it's going to take quite a spell for you to be proved correct. That's what Mr. Woodford has done with a large part of his fund. As Keynes said, "the market can remain irrational longer than you can stay solvent." The share or asset is falling or ranging sideways for a reason. Charlie Munger says "We have three baskets: in, out, and too tough... We have to have a special insight, or we'll put it in the "too tough" basket." The next time you feel like buying a share that's falling think about Charlie and his baskets. Buy safe undervalued shares that are rising when the overall market is rising. That's something we, here at VectorVest, advocate. I have spent a long while managing money over the years and know from bitter experience that each investor will joyfully say that they understand risk. However, when the first monthly report is issued with red ink on the bottom line the phone line is invariably red also. Mr. Woodford's reputation was many orders of magnitude higher than mine, but sooner or later with underperformance the investors have galloped before his contrarian call has come to fruition.
3. Make sure that you are trading in liquid shares that are easy to exit. My first mentor used to say that the daily volume should be 20 times your exposure. For most FTSE250 shares this is not an issue, but for some low market cap AIM shares, this is real even for a small account. Our advantage as small investors is that we are nimble. Our advantage as VectorVest subscribers is that we can use Average Volume as one of our filters to find shares. Also, don't talk too much about the shares you hold. This adds to ego and makes it more difficult to cull the shares that don't perform. Good investments and trades go your way quickly. The inventor of the Stochastic indicator (a momentum trading oscillator) used to teach a 3-bar time stop. If he was trading a weekly chart (very common

in the 1980s when I knew him), he would give the trade 3 weeks to move into profit. If it didn't move in that time and was above the initial stop-loss, he simply got rid of it arguing that the investment was a waste of opportunity. Let winners run and cull the losers is the mantra. Unfortunately, most of us do exactly the opposite. Lessons 2 and 5 of the Successful Investing Quick Start Course found under the Training tab can teach you how to adjust your stops to let the winners run and cull the losers.

I am sure there are many more lessons that can be learned from this saga as it unfolds.

2019-06-28

UK Stock Market at a Very Important Resistance Level

As of the close on 26th June, the Primary Wave of the VectorVest Composite UK (VVC/UK) is Up and so is the Underlying Trend. The Confirmed Up has been in place since 13th June, but we did just have a Primary Wave Dn on 25th June. The advice on the front page advises we use caution when buying stocks.

If you display the Market Timing Graph of the VVC/UK (click on the Timing tab and click on Market Timing Graph) over the past two years a quick glance will show that the index is approaching a very important resistance zone of 420.00 pence to 425.00 pence. This is the 4th time the VVC/UK has tried to clear this level over the past two years. Old school technical analysts say the markets break on the 4th attempt.

We don't know what's going to happen next and it's not necessary to know to make money in the stock market. If you hang out in the present and just do what the market tells you to do in that moment (for us a daily close) then the future will take care of itself. If your Market Timing System is Confirmed Calls and that's what I use in my position trading, then it's time to sit and let the ball do the work. I buy into positions when we have a Confirmed Up and the advice on the front page of VectorVest is positive. If the latter says no, it would be a day to stand aside and keep an eye on stops. As we will see at the end of the Essay, the situation in the USA is far from positive and that thought is doing its best to take my mind from the facts on the VVC/UK and the present moment. It will not succeed.

I am fully invested and holding a portfolio of shares that I fully discuss each Monday lunchtime. However, I must communicate that although these shares are suitable for me, they may not be suitable for you. I have been a buyer of Gold counters recently, namely Polymetal, Highland and Pan African

Resources. In the US, I have a holding in Kirkland Lake. The break upwards in the Gold price above multiyear resistance in the 1360/80 level was done on very large volume and a multiyear run in the Gold board is probable. For those of you who haven't experienced this before they are exciting times if you have the stomach for the intermediate ups and downs. The Midas Touch technique has given a Buy signal on the US Gold Bugs index which is a positive and very strong long-term signal.

On the Gold Board small miners like Highland and PAF will simply make much more money as the Gold price rises and that amount of money is highly geared and nonlinear with the Gold price. Small mining shares are geared to the Gold price akin to a 10x leveraged instrument. If the Gold price keeps rising, small Gold miners are shares on steroids. A note of caution, Gold can easily disappoint and Gold shares should only be considered by "adventurous investors." The latter should be practiced and experienced in position sizing and risk management. Gold shares can give you a very bloody nose if poorly managed and they are far from Worry-Free.

Games Workshop, Ab Dynamics and JD Sports are still being held in the portfolio. I am optimistic that if the highs in these shares charted over the past few weeks are exceeded that there is more upside on all three.

As I communicate repeatedly on Monday afternoons 80% of the gelt (a deeply guttural South African word for money) is made on 20% of the trades. It's vital to let these fellows run and that's what I am trying to do with Games Workshop, Ab Dynamics and JD Sports. Just use the VectorVest calculated Stop to protect open profits. This will automatically calculate a stop-loss level that should keep you in the bigger move. Stops placed too close, especially under obvious lows, will be picked off as was the case in JD Sports on the 13th March. The VectorVest Stop-loss kept us in the move.

This stop running exercise is invariably an accumulation exercise by experienced hands. I use this setup to predict a fast and explosive move which was the case in JD Sports.

Candlestick charting analysts will note the “hammer” candle on the 13th March. The market opened above the obvious stop-loss levels at a series of old lows and intraday went down below these levels and then promptly reversed as many large orders hit the book. The price then closed the day around where it had opened. This setup was noted by technical analysts over 100 years ago. In the works of W D Gann and Richard Wyckoff the setup that occurred in JD Sports is known as “Lost Motion” and a “Spring,” respectively. In September 2019, we will introduce a new course in Candlestick charting which will study the hammer pattern and many other reversal patterns which act as outstanding leading indicators of a fast and explosive move.

If there is something to worry about it's the breadth of the US market where the overall market is lagging considerably behind the SP500. In the USA, the Buy/Sell ratio is still well below 1.00, at 0.40, and that means there are many more companies on a Sell recommendation than on a Buy. Both the Primary Wave and the Underlying Trend of the VVC USA are down and the index has been in a Confirmed Down since the 8th May.

This divergence between the rising price and the market breadth in the USA is not the only cloud on the horizon. Bond markets are nervous and those who study the US bond market will note that 3-month yields are now less than 10-year yields. This inversion of the yield curve is considered by many as a reliable predictor of a USA recession in around 9 months to a year's time. A series of rate cuts by the Fed can change this picture quickly. There is much angst around this Europe as well. At present investors are paying 0.2% interest to park their cash in German bonds.

When you read this, the G20 summit will be in full swing. Although I would suppose there will be much talk, the market will await and focus on the outcome of the discussions between the leaders of the US and China. A defrosting of that relationship and the promise of rate cuts would be very positive for stock markets. It's noteworthy that foreign purchases of USA bonds have largely stopped over the past few months.

A positive outcome would help the Copper price which is sitting on important long-term support. If the discussion between the two leaders goes well then I will be focusing on large UK miners in the Monday afternoon sessions.

A lot can happen between my writing this and you reading it. I would not be surprised to see a pullback within this bull market (my view) for a few days to several weeks. The USA markets such as the Dow 30 and the SP500 look much overbought. Please stay in the moment and focus on the facts on the front page of VectorVest.

2019-07-05

Trading Expectancy and Why It's the Corner Stone of Your Trading Plan

Trading expectancy is a calculation that shows what the typical profit is for each trade placed. If it's negative, the strategy is a loser. If it's positive, the strategy is a winner. The calculation combines how many trades are typically won with the average loss on losers and the average gain on winners. The typical win is known as the "hit rate" and the average loss to average gain known as the "risk to reward ratio."

While knowing the expectancy of a strategy is important, expectancy also highlights that there isn't just one way to make a profit. A trader can lose almost all their trades, but if their wins are much bigger than their losses, they can still make a good income. On the flip side, there may be a trader that wins almost all the time, but because their losses are so much bigger than their gains, they end losing money overall.

Most new and many veteran traders only think about trading in terms of winning. They don't like losing and so they are always trying to (or hoping to) win 8, 9 or 10 trades out of every 10 they take. While winning 8 or 9 trades out of 10 may be possible, it doesn't mean that trader will be successful over time. There is nothing wrong with winning! Many traders do very well by winning 7 or 8 trades out of 10. The point is that the hit rate alone doesn't tell the full story or anything close to the full story.

Some years back, my trading partner of the era and I attended a sales presentation of a fellow selling a forex trading course. He was claiming a 90% hit rate and showed the audience his trading log over three trading days. His claim over this period was correct and that's why he had to hire a central London cinema to present. If we are honest with ourselves, we simply want

to be correct on each trade. Mark Douglas in his book “Trading in the Zone” says that the four trading fears are:

1. Being wrong
2. Losing Money
3. Missing out
4. Leaving Money on the table.

It was fear, number 1, that filled the 500-seat cinema.

How many trades we win or lose isn't the only thing to consider. We also need consider the size of those wins and losses. By combining these factors, we see that it is possible to have successful traders with high rates and low win rates.

Here was the data that the fellow in the cinema advertised in his own literature Hit Rate = 90%

Average risk 9 units Average profit 1 units.

Before reading any further would you trade with that system?

Calculating Trade Expectancy:

$(\text{Win}\% \times \text{Average Win Size}) - (\text{Loss}\% \times \text{Average Loss Size})$

So, for the fellow above it's a poor result over a batch of 10 trades $((9 \times 1) - (1 \times 9))/10 = 0$

The system that sounded perfect with a 90% hit rate in fact makes no money. Under normal circumstances with slippage and sweaty hands on the mouse, the system would lose a lot of money. For those reading who are in business expectancy in trading is like margin in your business. The higher the margin and the higher the expectancy, the more resistance the business (and trading is a business) is to shocks and errors.

Let's now consider a simple breakout technical trading system. These were first made famous by

Richard Dennis and his group of “Turtles” in the 1980s. If you google the “Turtles” there is a rich legacy online. They believed in buying when the market simply broke a 20-day high. In later years, they used a 55-day high.

Their system often won less than 30% of time, but it was very profitable. That’s because their winners were so much bigger than their losers. There is a big difference between being right and consistently banking and building your wealth.

Although the hit rate in a trend following system with no fundamental input is low the risk to reward in a well-designed system is excellent and can easily be 5 to 1. Let’s look at the numbers again over 10 trades.

Hit Rate = 40% Average risk = 1 unit Average gain = 5 unit

Expectancy is $((4 \times 5) - (6 \times 1)) / 10$ $(20 - 6) / 10 = 1.4$

This simply means that the system makes £1.40 for every £1 risked. It has a positive expectancy and all you must do is play the game. You are now the casino and not the punter pushing £1 coins into the machines. The punter is playing a negative expectancy system and the longer he or she plays, the more broke they become.

Trading expectancy only really matters over many trades. While 10 trades were used in the examples above to keep it simple, 10 trades are quite a small sample size. To get a reasonably reliable trade expectancy, look at results over at least 30 to 50 trades. Over that many trades we start to get a truer sense of how a strategy performs.

For many years I was a technically based trader alone. I tried to keep the fundamentals under control, but failed miserably. I didn’t have an accounting background and found the annual and interim reports piling up in the corner of the office. If I am honest, I didn’t really have the inclination. In those years my only interest in life was chasing a rugby ball.

Following trends was much easier and it was quite profitable, but the hit rate rarely strayed much above 55%. As I showed above in the “Turtles” example,

that can be profitable, but you need to be resilient of mind to handle the losses which tend to arrive in clusters of good and poor luck.

That took practice and a sustained run of losers is hard to stomach even for the most resilient.

When in 2011, I found a tool that would complete all the fundamentals for me with no effort, it completely changed my trading plan. DR DiLiddo, founder of VectorVest, says that “Success starts with buying the correct stocks.” He attests that if you buy these stocks that are undervalued and growing EPS strongly and safely, that alone will help your investments do well.

Since 2011, I only take my technical setups in shares that have excellent fundamentals when the overall market is rising. That has done two things. It has increased my hit rate to around 70% and has also increased the risk to reward ratio on my swing trades to well over 3 to 1.

For a more conservative trading plan, the Worry-Free Method sorts all the shares on the LSE by safety of earnings (RS) and brings those shares with the best history of making money regularly and safely to the top of the pile. These are outstanding shares that invariably pay a strong and growing dividend. This system has outperformed the overall UK market by 2x (yield not added) with no trading since the Confirmed Call Up shortly after the start of 2019.

To increase expectancy, the VectorVest approach of integrating the following works wonders. These are

1. The fundamentals position of the Company (RV, RS).
2. The technical position of the company (RT, CI).
3. The technical position of the overall market (Buy shares when there is a C/UP and the Color Guard is positive).

When you can tick all three boxes, the hit rate rises and the risk to reward rises. Christmas comes early.

Please don't just focus on optimizing your plan to hit rate alone, however tempting it sounds and more importantly feels emotionally. It's the interaction

between hit rate and risk to reward that builds wealth. Most great wealth is built on investments with an asymmetrical risk to reward ratio.

2019-07-12

Using VectorVest to Automate Your Swing Trading

Although I personally enjoy and spend a lot of my day looking at charts and applying technical tools such as moving averages, trend lines and FIB studies, many do not. Technical analysis is an art rather than a science and many of the conclusions and actions of a technical trader are subjective. The learning curve can be steep, but VectorVest can make it easy.

In this Essay, I will detail a short-term swing trading system that's performing well which requires no subjective input and when incorporated into the portfolio manager on VectorVest can be automated to a point where all you have to do is process the buy or sell order. Each day VectorVest will email your instructions.

The technique is classed as aggressive and it will appeal to those people worried that the overall market could be subject to a correction or worse. The technique holds only five stocks and goes into cash when the Market Timing signal is downward.

The technique uses the Confirmed Call method of Market Timing. The rules for Confirmed Call signals are totally objective and defined below. In the UK, the signals are based around the VectorVest proprietary Market Timing Indicator (MTI). The MTI is a momentum indicator which combines the Price, RT and the Buy Sell Ratio of the VectorVest Composite UK.

A Confirmed Up (C/Up) signal is given when both of the following occur:

1. Price

- The price of the VectorVest Composite UK (VVC/UK) has increased five-trading-day-period over five-trading-day-period, for two consecutive five-trading-day-periods.
- The price of the VVC/UK has increased from the prior day.

2. MTI

- The Market Timing Indicator (MTI) is greater than 1.00.

A Confirmed Down (C/Dn) signal is given when both of the following occur:

1. Price

- The price of the VectorVest Composite UK (VVC/UK) has decreased five-trading-day-period over five-trading-day-period, for two consecutive five-trading-day-periods.
- The price of the VVC/UK has decreased from the prior day.

2. MTI

- The Market Timing Indicator (MTI) is less than 1.00.

Upon a Buy signal from the Confirmed Call system, five stocks only are purchased from the swing trade UniSearch detailed below and when a Sell signal is printed, they are sold for, hopefully, a profit. Some bullish Confirmed Call signals last months and years, while others only a few weeks. When the overall market has printed a C/Dn signal, the portfolio is in cash. This helps deep slumber.

In these Essays, I have often written about the Midas Touch technique and the Midas Touch WatchList. The Midas Touch uses a double smoothing technique to reduce the noise and focus on shares that are trending strongly. The Midas Touch uses a 10-day Moving Average (MA) and a 65-day MA of the VectorVest Stop-loss. The VectorVest Stop-loss is based on a 65-day MA of the share price and thus the double smoothing. The technique also uses a 40-day MA of the momentum of the share in question which is a 40-day MA of the VectorVest metric Relative Timing (RT).

To get into the Midas Touch WatchList the 10-day MA of the Stop must be above the 65-day MA of the Stop and both these averages must be charting a three-month high. The 40-Day MA of RT must be above 1.00 and charting a three-month high. The shares on the UK market that fulfill these conditions are listed in the Midas Touch WatchList which can be found on the

Viewers tab of VectorVest in the Cherry Picking group.

The UniSearch is below. Please use “Time of Search” in each line of code.
Stock Watchlist = Midas Touch Stocks

Stocks Average Volume (50 day moving average) $\geq$ 100000 Stock Price (Actual) > 50

Sorted by CI/RT Desc. CI is the Comfort Index and is a measure of the long-term trend of the share. RT is a fast measure of the short-term trend of the share. When CI/RT is high that's a way of using VectorVest to find shares that are in a strong longer-term trend, but are currently in an oversold position.

CI/RT is not yet a standard field on VectorVest, so the field needs to be written using the Custom Field Builder and that will be good practice for all reading. Click on Tools on the top right-hand side of the screen. At the top of the pop-up Custom Field Builder should be easy to see. The process of creating the field is intuitive, but here is a short run through. Click on Fields, Capital Appreciation, then select CI, click on the /, click on Fields, Capital Appreciation, then select RT. Click on Save Changes and then Exit. Should any problems be encountered, please give support a call on 0800 014 8974. When that's done, the sort on UniSearch can be specified as CI/RT.

There have been 3 Confirmed Up signals in 2019 with the third still in progress as of 5th July. We had thus two occasions to sell into cash.

Trade 1. 9th January to 13th May 2019

Top 5 shares from the UniSearch 18% up, while the market was up 4%

Trade 2. 28th May to 31st May 2019 (this is rare to be such a short period)
Top 5 shares from the UniSearch 0.34% down, while the market was down 1%

Trade 3. 13th June to present 5th July 2019

Top 5 shares from the UniSearch 2.83% up, while the market is up 2.48%

The next step is to use the BackTester on VectorVest to assess the long-term performance as I was quite pleased with the short-term performance above. To build the BackTest, the Stop-loss used was $RT < 1.00$. Also, I asked the program to fill only one of the five positions each day after a C/Up signal. At a C/Dn signal, all were sold.

Since the first C/Up signal in March 2009 the technique has grown an initial £50000 stake into

£415000 pounds with no dividends added. That's a compound rate of return of 23%.

2019-07-19

The Study of Trends and Turning Points

My definition of technical analysis in the share market is that it's the study of trends and turning points. My definition of fundamental analysis in the share market is that this is the search for the true value of a share. VectorVest answers both these quests with hard unemotional numbers and combines these metrics into the "Master Indicator" known as VST. VST stands for Value, Safety of Earnings and Timing and combines the key VectorVest metrics RV, RS and RT. It's a single number on a scale between 0.00 and 2.00 that combines the fundamental position of a share with the technical position of a share.

At most investment meetings, the fundamental analysts will sit on one side of the room and the technicians on the other. There is little common ground in their beliefs about markets. At VectorVest we believe in buying shares with great fundamentals that are rising in price which is exactly what sorting all the shares on the LSE by VST finds. A sort by VST is the default on VectorVest. High VST shares combine the best of both approaches in a quest to make some money without a lot of fuss and stress.

Of the three key indicators: RV, RS, RT, that we use to analyze stocks, Relative Timing, RT, is the most important. Relative Value, RV, and Relative Safety, RS, are also very important, but RT is like location when assessing real estate properties. In fact, we overweight RT when we calculate our master indicator, VST-Vector.

A stock's Price is in an uptrend when RT is greater than 1.00 on a scale of 0.00 to 2.00. Since we believe in buying rising stocks, no stock can receive a "B" rating unless RT is above 1.00. If the RT average of a universe of stocks, such as a WatchList, Industry Group or Business Sector, is above 1.00, then

that universe of stocks is in an uptrend. This also applies to the VectorVest Composite, which is an arithmetic average index of the stocks in our database.

Since RT senses momentum changes, it can see the invisible. Momentum is a foreign concept to many, but we all have a momentum indicator in our cars. It is called the speedometer. If you are in your car and you are speeding up, then there is a higher probability that the car will keep moving forward than if you are in your car slowing down. Momentum measures whether the trend has its foot on the petrol or its foot on the brake.

This is particularly important in spotting turning points. For example, if a stock's Price is going up and RT begins to trend lower, RT is revealing a loss in the stock's upward Price momentum and indicates that the stock's Price is peaking, or a turning point may be near. The reverse is also true. A rising RT in concert with a falling stock Price indicates a loss of downward Price Momentum and a bottom or turning point may be near.

Stock prices rise by charting a series of steps. As Charles Dow defined many years ago an uptrend is a series of higher highs and higher lows. As the trend progresses RT should move similarly. A trend where both price and RT are rising in sync, charting a similar pattern of rising highs and lows defines a strong trend. This is a trend where positions should be held and added to as the share price breaks higher.

Sooner or later in most trends the price can chart a rising high, but the RT fails to make a rising high and that's a sure sign that the trend is losing strength. At this point resist the temptation to add to positions and consider taking partial profits and tightening stops.

Divergence studies can be applied to individual shares and to the overall market as defined by the VectorVest Composite (VVC).

The concept of a divergence between Price and RT is known as "normal divergence" and I will discuss this at length in the next Q and A session on Monday 22nd July 2019.

I will also be covering the entire VectorVest trading methodology in detail in the “Fast Track to Wealth” Saturday live seminar which is being held in Central London on July 27th. The objective of the day is that each delegate will leave with a detailed trading plan which suits their investing objectives and risk tolerance. The detail of making money and building wealth in the stock market is far from what it seems. In this 5-hour seminar I will detail what I refer to as the 3 M’s. These are

1. Method.
2. Money Management.
3. Mind Management.

All three are required for consistent success.

2019-07-26

How to Redirect Your Emotions for Successful Trading and Investing

Good traders and investors make rational decisions. They don't easily allow misplaced and poorly directed emotions to impact their buy, sell and risk management choices. This is especially important when the market is choppy. This is the case as I write on the 23 July 2019. The US markets are rising on very low volume and breadth with the Primary Wave as measured by VectorVest moving from Up to Down and back frequently. As will be discussed later in this essay, our emotions as traders are always present, but should be redirected from system entries and being correct in each trade.

Traders tend to become bearish AFTER the market tanks and traders tend to become bullish AFTER the market surges. This means that these traders are no longer thinking independently or rationally. They are just following the market in a herd. I frequently joke "I am feeling bearish and that normally means a low is close."

Warren Buffett says, "be greedy when others are fearful and be fearful when others are greedy." This is easier said than done because we are all human and we should be very grateful for that. No one is perfect. Most traders and investors tend to "be greedy when others are greedy and be fearful when others are fearful."

Humans are social animals. We cannot live in isolation for long periods of time without going a little mad. That's why other peoples' thoughts impact our own thoughts. We all get a little greedy when the market goes up and a little fearful when the market goes down. Feeling these crowd- driven emotions is just a part of being human.

But you cannot let these emotions determine your trading decisions. If you do, your returns will be average at best.

The best traders have a clearly defined strategy. Trading is about probability. Simple, cold, hard mathematics. It isn't about following a hunch or a gut feeling. Invariably your emotions will control your "gut feeling," especially as the stakes become higher. If the money is needed in the short term, then those hunches will be far from unemotional. In my essay of the 5 July 2019, I spoke of system expectancy and the factors that determine a winning trading strategy. These are hit rate, risk to reward and brokerage/spreads.

Therefore, at VectorVest, we advocate as a first step, a quantitative trading strategy instead of a discretionary trading strategy. A strategy such as the Worry-Free Method or the more aggressive swing trading plan I wrote about in my Essay of 12 July 2019 can be fully programmed and tested over many years.

Traders tend to be very rational when they are building the model. Then the trick is to follow the plan and simply do what the portfolio manager within VectorVest tells you to do. To accomplish this it's necessary, in my humble opinion, to redirect your emotions and NOT try and become a zombie with no emotion. That's not possible while making decisions. The psychologists have proved that when the part of the brain that's responsible for emotions is not functioning the person cannot make even the most basic of decisions.

Practice becoming very excited and joyful when you have followed your trading rules to the letter. Practice becoming highly emotional and joyful about the process of trading. If you focus on the process of trading with joy and enthusiasm and make the very best trades according to the system rules, then the cash will take care of itself. Reward yourself when you have joyfully and enthusiastically followed and focused on the process of trading and have followed your rules to the letter. This takes practice. Many spend years designing a plan, but simply cannot follow it.

Discretionary traders can also control and redirect their emotions when trading with this approach. Just follow a simple checklist. Do the following

when you find that the market is leading your train of thought, which will be most of the time. The VectorVest edge is threefold:

1. The technical position of the overall market. Which Market Timing system are you using?
2. The fundamental position of the share. What criteria are you using to select shares? Which UniSearch are you using?
3. The technical position of the share. Metrics such as RT and CI define the short-term trend and the longer-term trend, respectively. The Midas Touch WatchList will automatically find shares that are trending strongly.

Writing down your thoughts will make things clearer. A well written trading diary is essential and especially important for discretionary traders and investors. Tick off points 1 to 3 above and detail the exact trigger for entry. Also record how you were feeling when the trade was initiated. What's the stop-loss level? How many shares are you buying? What's the total risk as a percentage of the portfolio if the trade/investment should fail? Where is the target? Are you using a trailing stop-loss rather than a fixed target?

These are some pointers to keep track of and get checked off while you focus on the process. All the successful traders I have ever met keep a detailed trading diary and review it often.

All the above, at least, should be detailed before the trade is taken and then as was discussed above for the quant strategy it's your job to joyfully and enthusiastically focus on the process.

The alternative is years of searching for perfection that simply does not exist. Next year I will have the perfect system that is never wrong and will be rich beyond measure. Sure.

2019-08-02

The Most Important Aspect of Success: How Many Shares Will I Buy?

Last Saturday I conducted a “Fast Track to Wealth” seminar in central London. I was surprised by the many questions and confusion around how to size positions. There are only a few things in trading that we can control, and the number of shares purchased is one of these. This makes position sizing vitally important.

We certainly can't control whether the share will move up or down after our purchase, but we can decide on a level (prior to the buy in) where we can conclude that our trading idea or setup is not working. This level known as the “stop-loss” is automatically calculated by VectorVest. The VectorVest stop-loss level is based on a 13-week moving average which is adjusted for the fundamentals of the company. If the fundamentals are good, the VectorVest algorithm gives the share more room to vibrate. If the fundamentals are poor, the Stop is kept tighter.

The distance between the purchase price (for whatever reason or setup chosen) and the stop-loss level is referred to as the “Risk per share.” This is unique to each trade.

The concepts of position sizing in trading and investing are arguably the most important in the journey to becoming consistent in performance. The concepts are not that sexy in comparison to the intellectual challenges of finding good entries and the mathematics are trivial. Position sizing tends to be overlooked in the big ego game of stock selection and entry points.

At VectorVest, we firmly believe in position sizing and its vital role in ensuring consistent performance. In Lesson 2 of the “Successful Investing Quick Start Course” (SIQSC) this topic is discussed in detail (click on the

Training tab in VectorVest 7 UK to find this course). I wish to simply show how to calculate optimal position size and will illustrate this with a simple example.

VectorVest recommends using a 1% risk model to define my position size. This does not mean that we only purchase shares to the value of 1% of my capital base, but rather it is the amount of cash that we are prepared to risk, to find out whether my trading idea is correct or incorrect. The 1% refers to the cash lost if the share should fall from the purchase price to the stop-loss figure.

Let's consider two trading systems.

- a. The first is a pure trend following system where the trader understands expectancy and has a hit rate of 50% and a risk to reward of 4. This is a very profitable system. Please refer to my essay of the 5th July 2019 which focuses on trading expectancy. If the system is correct 50% of the time, then it's also wrong 50% of the time. The probability of a bad trade is $1/2$. Thus, the probability of two bad trades in a run is $1/4$ ($1/2 \times 1/2$) and three in a run is $1/8$. In a batch of 8 trades we will have a run or cluster of 3 bad trades. If you don't believe me just toss a few coins and note the outcome.

If a trader should risk too much in any single trade, then a run of three bad trades could be very expensive and kick the trader out of the game prior to the positive expectancy doing its work. If a trader bets 10% of his/her capital on any trade (the cash difference between the entry and the stop-loss), then a run of three bad trades would cause a drawdown of 30%. What would the quality of your decision making be like when your hard earned £100000 is now £70000 after three trades. Not very good, I fear. The negative emotion of "how can I get my cash back" will be central and in control. If you risk 1% of your capital, then a 3% drawdown will be OK for most to manage.

- b. The second system is more typical of a VectorVest trend following trading plan where the triad of fundamentals and the technical position

of both the share and the general market are used. Here the hit rate improves to around 66% with a risk to reward of 3. This is a very profitable system. The higher hit rate means that the clusters or runs of poor luck don't come up nearly as often, but they are still there. The probability of a bad trade is $1/3$. A run of two bad trades is $1/9$ and three $1/27$. Reducing the clusters of bad trades makes this system much easier to trade emotionally (and that's very important), but the same position sizing model must be used. Although a run of three bad trades will only occur in a sample of 27 trades, the cluster is still present. We don't know when it will strike, but it's a mathematical certainty that it lurks silently waiting.

I hope I have given you some food for thought and motivation as to why position sizing is vital for your success even with exceptionally profitable systems. Most disasters are caused by trading a position that's much too big for the account size that breaks the trader both financially and emotionally before the positive expectancy system can kick in. Let's walk through the calculations required to size positions with a simple example.

1. How much money is in your account? If you don't know how much money is in your account, then you cannot size your positions and if you cannot size your positions, then you are gambling and not trading or investing. For the sake of this example, I am going to assume that a new trader has £20000 of capital to start their trading business.
2. 1% of £20000 is £200. This is the maximum loss that should ever be taken on any single trade or investment. I know shares can gap through stops so don't get your slide rule out. Losing 1.5% won't kill you. It's losing the lot, half or a quarter of the lot, that will kill you both financially and mentally.
3. Let's assume that after due consideration we decide to BUY a share at 325p.
4. Use the VectorVest stop-loss that's calculated automatically by the program. Let's assume that the stop-loss on the program is 295p.

5. The Risk per share is thus 325p minus 295p which is 30p or £0.3.
6. Number of shares to be purchased (N)*Risk per Share = 1% Account Size.
7. $N = 1\% \text{ Account size} / \text{Risk per Share}$.
8. $N = 200 / 0.3 = 666 \text{ shares}$.
9. Total purchase price = $666 * 3.25 = £2164.5$.

Pretty simple and easy to understand. There are many methods of position sizing and extremely complicated models are used by the institutional community and taught in financial management courses. The disasters at both the retail and institutional level are when no position sizing is practiced at all.

I hope the above will stimulate thought and get you thinking about how you will size your positions and its input to your eventual success.

2019-08-09

The Explosive EPS Unisearch

A few weeks ago, in the VectorVest UK weekly webcasts I mentioned a Delta UniSearch. I run this UniSearch each weekend to find shares that are growing earnings per share (EPS) strongly and especially those where EPS had been revised sharply upwards. A few emailed and indicated that they could not find the UniSearch and I hope this Essay will help with that.

In this context Delta refers to rate of change of EPS as opposed to the use of the Greek term in the options world. As Ben Graham (Buffett's mentor) said, "EPS is the engine that drives the share price." It's just a matter of time before the EPS increase shows up in the share price. If you wish to be a relatively short-term momentum trader, then it's vital that you have a list of these shares at hand. Fortunately, the UniSearch tool on VectorVest does this easily with a few clicks of the mouse.

From the Home Page on VectorVest click on the UniSearch tab on the main toolbar and then on the A to Z function at the top left-hand side of this page. This will display all the prewritten searches alphabetically. Then just scroll down until you see "Explosive EPS Stocks." If you click on this, the UniSearch will be loaded in the main portion of the same page.

This UniSearch finds shares over 50 pence that have a traded volume of greater than 50000 shares that are on a Buy recommendation and EPS has grown by more than 25% over the past 13 weeks. These stocks are then sorted by the master indicator VST Desc, bringing those stocks with the best combination of Value, Safety and Timing to the top of the list.

Please experiment with the UniSearch. Firstly, increase and decrease the percentage although 25% gives good results. Some reading may wish to add lines such as Relative Safety, $RS \geq 1.00$. This will remove shares where the

financial performance is haphazard or unproven. Also, adding the Comfort Index, $CI \geq 1.30$ to the mix will find shares that are in the throes of a long-term uptrend. As I have stated before on many occasions, the CI is a VectorVest secret weapon.

As often noted in my Essay's most stocks move up and down with the market averages and knowing whether the VectorVest Composite is moving up or down is a large part of the quest for profits, so it's vital to know with some certainty which way the market is heading. In my experience, the least accurate predictions are made by the TV market pundits so be wary of these people. On VectorVest we have several Market Timing methods that are totally objective and ego-free. Most will simply use the conservative Market Timing system known as Confirmed Calls. In 2019 the first Confirmed Up Call, C/Up, of the year occurred on the 9th January. Prior to the signal both the UK and USA markets were in a mega oversold state making this signal exceptionally important. The signal worked like a charm.

On the 9th January I ran the Explosive EPS UniSearch as standard and out popped many shares I had not heard of. Augean Plc, AUG.L, was at the top of the list and on a VectorVest Buy recommendation. I bought the share as it broke upwards through the last high and it's been a great investment.

Anglo Asian, AAZ.L, was also found in the UniSearch. In the period prior to the C/Up signal EPS had risen by over 100%. The share moved sideways for a period before giving a VectorVest Buy signal in April. The share remained in my WatchList of potential trades from January to April prior to purchase. I had never heard of the company prior to running the UniSearch.

Ab Dynamics, ADBPL, featured on the UniSearch and the share has risen from 15 pounds to 25 pounds during the year and is one of my star performers.

There clearly have been disappointments. Serica Energy, SQZ.L, and Regal Petroleum, RPT.L, have done nothing during the year and I have exited both some months ago.

On 13th June (the date of a C/Up) the UniSearch found Trans-Siberian, TSG.L, the share was on a VectorVest Buy and breaking higher. Since this date the share has increased by 50%.

Let's now focus on the present selection from the UniSearch, as of 2nd August. TSG.L still appears in the UniSearch results indicating that EPS is still rising strongly.

Ergomed Plc, ERGO.L, looks strong in a very weak market. I particularly like the gap in the share price as it cleared the last significant high at around 3 pounds. Of interest is MPAC.L. The share price is pulling back in the weak market, but should find support at around 1.80 pounds. Its on my list to watch. Pershing Sq, PSH.L, is also on my WatchList.

Some rules:

- 1. Market Timing is important.** Even companies that are growing EPS strongly will not advance when sentiment is down. For most simply decide to only buy shares when there is a C/Up signal and the advice on the Home Page of VectorVest is positive.
- 2. Run the Explosive EPS UniSearch on the weekend.** Remember that low RS shares are not suitable for everyone. The latter need to be managed carefully as there are many surprises with a share with an RS of less than 1.00.
- 3. The best shares will be in the throes of a strong trend already.** CI will be useful or simply eyeball the chart of the few shares from the UniSearch. That's why I like MPAC.L. The share is making a series of rising bottoms and that Charles Dows definition of an uptrend.
- 4. The Midas Touch can be used as a final cherry-picking tool.** I have detailed the technique in many Essays. This test can remove the subjective chart analysis. Please review my Essay of the 24th May 2019.
- 5. Assuming the general market is still positive then I favor a VectorVest Buy signal plus a break of the last significant high as the entry.** Traders

can certainly Buy a pullback using for example the stochastic indicator and that's what I did in the case of ABDP.L.

- 6. Size your position as per last week's Essay using the VectorVest stop-loss.**

2019-08-16

The DEW Market Timing System

“The most important thing to know is whether the market is rising or falling. Everything follows from that.”

—DR Bart DiLiddo

VectorVest has been timing the stock markets of the world for over 25 years and has designed objective systems that identify market trends with accuracy and precision. There are long-term systems for investors and short-term systems for traders.

Today I would like to focus on a medium-term Market Timing System known as the DEW which reacts quickly and accurately to a change in trend. In this last turn down, the DEW System printed a Sell signal a full week earlier than the longer-term and more conservative Market Timing System which is known as a Confirmed Call Down. I will describe the calculation of the Timing System and its strengths.

In the UK, VectorVest calculates a Composite measure of the overall stock market. The VectorVest Composite UK (VVC/UK) is an arithmetic averaged index of over 2100 shares that we follow on the LSE and AIM. It is the broadest measure of the UK stock markets that I personally know of. A similar Composite is calculated in all the stock markets of the world where VectorVest has a presence.

In my Essay of the 17th May 2019, I reviewed all the VectorVest Market Timing signals from short-term to long-term and presented the sequence of events that unfolds at each turning point. Please review this carefully as the next paragraph won't make much sense unless you have. An understanding of how a downturn changes to an up trending market is money in the bank. An

understanding of how bull markets change to bear markets is both cash saved and trading self- esteem preserved.

The output from these Timing Systems are summarized on the front page of VectorVest each day and require no chart reading experience to decipher. As I write this on the 13th August, the trend situation on VectorVest UK is Up/Down. The first word refers to the Primary Wave or the short- term trend, which is upward. The second word refers to the underlying trend, which is down. The underlying trend has been confirmed by price action and the longest and most conservative measure of the trend known as the Confirmed Call is down. All but the fastest measure of the trend of the UK market is bearish after the close of Monday 12th August 2019.

With a smart phone and the VectorVest app, staying on top of the trend of the overall market can easily fit into the busiest of lifestyles. Knowing where the overall market is heading is 70% of the exercise and vital to your success.

Markets are like us, they breathe in and out. At each turn from an up trending to a down trending market, a similar series of events occurs. The short-term systems record the first change, then the medium-term systems and finally the long-term systems.

The DEW Market Timing System is not displayed on the front page of VectorVest and the trader (and that's who will be using the system and typically not a longer-term investor) needs to load the VVC/UK.

A chart of the VVC/UK can be summoned with two clicks. Click on the Timing tab on the top left of the Homepage and then on Market Timing Graph and it's done. All the VectorVest Market Timing signals can be overlaid on this chart by making use of the dropdown menu on the lower left-hand side of the chart to the right of Confirmed Calls. Please select the DEW option. I find that displaying the last six months of data shows these medium-term signals well.

On the right-hand side of the chart under the "Graph Control Panel" there are several default layouts to choose from. Click on ProTrader Timing DEW.

The DEW Market Timing System (Medium Term swing trading signals)

D Detrended Price Oscillator (DPO). This is a standard momentum indicator of the Price of the VVC/UK with centre line at 0.

E Price envelope of the VVC/UK (rarely pierced).

W Weighted Moving average of the VVC/UK.

The ideal Market Timing System should be fast, reliable and objective. The signals generated by the VectorVest DEW Market Timing System are more conservative than the shorter-term systems, but much faster than the longer-term systems. Moreover, the DEW signals are totally objective, easy to identify and very robust in BackTesting.

Up signals are given when:

1. The Price of the VVC/UK is above the 30-day Weighted Moving Average
2. The DPO is positive
3. *If the lower envelope is pierced in a Down wave, the Up signal only requires one of the two prior conditions to be met. (Rarely happens)
Last time was in the crisis in 2008.

Down signals are given when:

1. The Price of the VVC/UK is below the 30-day Weighted Moving Average
2. The DPO is negative
3. *If the upper envelope is pierced in an Up wave, the Down signal only requires one of the two prior conditions to be met. (Rarely happens)

As stated above, the DEW signals are NOT recorded on the HomePage of VectorVest. Simply display the Market Timing Graph as instructed above and select the DEW overlay. Please call support on 0800 014 8974 if you have any navigation problems.

The DEW signals are excellent swing trading entry and exit points and they never miss a large move. However, in a tightly ranging market, they can be prone to chop (whipsaw). This is the price you pay to catch the big moves.

The last sell signal from the DEW system occurred on 2nd August 2019 while the longer term Confirmed Call signal occurred only on the 9th August 2019.

A week is a long time in a leveraged position and those who speculate in CFD's and spread bets will find the DEW very useful.

2019-08-23

Trade Exits: When and Where to Take Profits

At VectorVest UK UserGroups around the country more questions arise from where to exit a winning or a losing position than from any other part of the investment and trading process. I will try and give some suggestions in this Essay. However, exits are a vast subject. Most traders agree that after a few months of work entries can be mastered, but exits require much more study and testing. VectorVest can help you do that easily.

Traders are told to “let their profits run,” but unfortunately that’s vague advice. Let a profit run long enough and it can easily turn back into a loss. Traders need a plan that allows them to let their profits run beyond what they typically lose on a losing trade, but also realize that the market will not move in their direction forever.

If you plan your profitable exits and find that over time, they are bigger than your average loss, winning only 50% of your trades (or even less) can still make you a highly successful trader. I have written about the concept of system expectancy in my Essay of the 5th July 2019.

Risk management is covered in detail in Lesson 2 of the “Successful Investing Quick Start Course,” SIQSC, which is built into VectorVest, under the Training tab on the main toolbar.

There are two types of exits. These are associated with a profitable trade and a trade that goes poorly and disappoints. In both cases, how you will exit a trade should be planned before you enter and be a part of your written trading plan.

1. Setting an initial stop, position sizing and simple operation of a VectorVest WatchList.

VectorVest calculates a stop-loss level for each share in the database each day. The level is based on a 13-week Moving Average (MA), but is adjusted for the fundamental position of the share. If the fundamentals are good, then the stop-loss is widened, while if the fundamentals are poor, the Stop is tighter. The number of shares to buy so as only 1% of your capital is lost should the trade disappoint was discussed in my Essay of the 2nd August 2019. The latter is probably the most important Essay that I have written to date. In my experience more traders fail because of poor “position sizing” than for any other reason.

In my personal trading, I act on a close below the VectorVest Stop. This is easy to spot via a red marker on my WatchList of shares which have been sorted by RT. When you own the share, the only metric that really matters is whether the share is trending up or down. RT tells us whether the share is rising or falling and places the winners at the top of the list and the losers at the bottom. It is your job to cull the losers and keep your paws off the winners. Easier written than done, I know only too well.

For many, this is when ego gets in the way and most traders get this process totally the wrong way around. They take profits on their winners and ignore the losers. Tell your ego to take a hike. Keeping losses small is the cornerstone of becoming profitable. An old mentor once told me that “the most important part of trading is to have enough money to trade tomorrow.”

2. Exits from a profitable trade or investment. Just a few of the dozens available.
 - a. The Trailing Stop is probably the most well-known profit exit technique. In simplest terms, as the price moves in your favor, an exit order moves along with it, trailing the price by some set amount. It's like a ratchet spanner as it allows unlimited movement in one direction, but only a set amount in the opposite direction. My first mentor used a 25% Trailing

Stop order and this tests exceptionally well using the BackTester in VectorVest using the Worry-Free Investing Methodology (WFI) with a 50% target.

- b. The VectorVest calculated Stop is also an excellent Trailing Stop and it's mostly tighter than the 25% Trailing Stop mentioned above. Simply sorting the shares in your portfolio WatchList by Relative Timing (RT) will complete most of the work required. This will place the shares with the lowest RT at the bottom of the list and certainly any shares that you hold with a RT less than 1.00 need to be monitored carefully. If a share should close below the VectorVest Stop, it will be shown with a red, 'S' marker beside the share. Be very careful and aware of your thoughts during this process as most complete the exercise incorrectly.
- c. A price target can be a simple and effective method of exiting a winning position. If you are risking £300 on a trade, but will make £900 if the price hits your target, your reward outweighs your risk 3:1. If you set a stop-loss and a price target, you can "walk away," knowing that eventually one of the orders (stop or target) will get filled. This is advantageous to all traders, but especially those who lack time to constantly monitor their trades and/or worry about their emotional responses. Fear of losing and the greed of leaving money on the table can result in terrible decisions being made. For many years I used a target of 2.5 times my initial risk. Just remember trades can easily end badly. If you get out at a target, invariably the share keeps going. If you don't, the share pulls back and you give back 25% of your profit. Just smile and focus on execution of the process.
- d. A Moving Average can be used as a Trailing stop-loss. A 40-day MA seems to work well. A break below the 40-day MA is a strong early warning signal that the trend upward is faltering. This is discussed in detail in Lesson 2 of the SIQSC.
- e. The Fibonacci Sequence of numbers can be used to calculate targets. This is difficult to explain without a chart and I will review this exit

technique which is mainly used by swing traders in the Q and A session scheduled for Monday 2nd September 2019.

- f. Letting winners turn into losers is an emotionally draining experience. Over the past year, this is what I have been using and communicating to VectorVest users at meetings around the country.

When you have made a profit equal to the initial risk then exit half of the position. Then bring the stop to entry and let the second half run using the VectorVest calculated Stop figure as a Trailing stop-loss.

In figures, let's assume that we buy 100 shares of ABC.L at £10 and place a stop at £8.50. When the share has risen to £11.50 then we have made as much as was initially risked (£1.50 per share purchased). Sell half (50 shares). At this point bring the stop-loss to the entry point on the remaining 50 shares. This means that we have made some money on the first half of the purchase and now have a risk-free trade on the second half. That's a very good feeling.

There is no best way to exit a profitable trade, save in hindsight. For some trades, one method will work well, but will be less than perfect on other trades. The key is to decide on a method and develop the discipline to adhere to it. All these methods can help you "let your profits run," but will get you out if the price moves too much against you. You'll never squeeze every penny out of a trade, but utilizing the exit strategies outlined here will help you capture the bulk of a move.

2019-08-30

How a Spell of Winning Trades Can Adversely Affect Your Financial Well-being

We have had a very good run in the UK market since the first Confirmed Call upwards which was printed in January 2019. It has been an excellent year for those using our product. Even during this spell when the VectorVest Composite UK (VVC/UK) has been falling, the high VST shares that I have been holding have held their own. A period of success can cause slackness in applying risk management.

“My biggest losses have always come after I have had a great period and I started to think I knew something.” Paul Tudor Jones.

This quote from winning hedge fund trader Paul Tudor Jones is worth considerable thought over the next few weeks and in the last portion of 2019. The markets have been very kind to us all over the last year and I know from the User Groups, very kind, to most VectorVest subscribers. Long may it last.

After a run of winning trades, we change enormously. After a series of winning trades, your pituitary gland gets to work. “Your pituitary gland is about the size of a pea and is situated in a bony hollow, just behind the bridge of your nose. It is attached to the base of your brain by a thin stalk.” After a run of good trades, the gland floods the bloodstream with hormones (known as neuropeptides) and the result is a feeling of euphoria. A similar process occurs after a good workout (a different hormone) at the gym. It’s easy to become addicted to the latter and I am.

When I leave the gym, I am no longer a 64-year-old with a stuffed hip.

The relationship between hormones and their effect on the body was pioneered by the late DR Candice Pert.

DR Pert showed how neuropeptides and their receptors are a key to understanding how mind and body are interconnected and how emotions can be manifested throughout the body. It's a fascinating piece of work which DR Pert refers to as the "Biochemistry of Emotions."

In my Essay of the 26th July 2019, I addressed emotions in trading and how to redirect those emotions by getting excited and joyful about the process of trading. If you focus on following your trading rules with joy and emotion and make the very best trades, then the cash will take care of itself.

It's important to note that a run of good trades may have little to do with our abilities as traders or investors. In a 50/50 system, such as trend following with a breakout system or moving average crosses, the probability of a run of three winners in a row is $1/2 \times 1/2 \times 1/2 = 1/8$. This means that in a sample of 8 trades we should have a run of 3 winners. After 3 winners, many traders are fooled into believing that they have God-like trading abilities. This false belief causes them to bet big and indulge in a host of other trading errors.

I know many traders who become euphoric after a single winning trade or investment. Certainly after a few, good money-making trades in a row, we all change, but, as shown above, a passerby off the street can easily make 3 winners in a row. Euphoria is often defined by a feeling of invincibility. As these hormones get to work, it's very easy to brush aside the concept of a stop-loss. It's very easy to forget about correct position sizing. I am invincible and I am sure this is a winner. If it's a winner, let's accelerate the process of wealth accumulation and have a big bet. It becomes much easier to justify adding to a losing position while these hormones are in control. In short, this feeling of invincibility is responsible for a host of trading errors.

In the great trading book "The Education of a Speculator," Victor Niederhoffer writes about his experiences and in detail of the demise of his fund. After a great run he simply started to bet too much on any single trade.

He was the largest /Japanese Yen trader in the world and got caught on the wrong side of the Kobe earthquake fallout.

Most institutional risk managers agree that the biggest trading disasters occur after a run of good luck and they are taught to evaluate the traders under their control for their susceptibility to euphoria. A big difference between institutional traders and retail traders is the risk manager who, although universally hated, polices the process. At the retail level, we are trader and policeman. When the hormones kick in, it's sometimes akin to putting a goat in charge of a cabbage patch.

As I have said here on many occasions, we need two things to make money in the stock market (or any market). We need quality information and certainly VectorVest fulfills that role. We also need self-awareness. The practice to build presence and awareness while focusing with joy on the process of trading is never ending.

As of Wednesday 28th August 2019, all the VectorVest trading systems from short-term to long- term are bearish. The VVC/UK is trending down on all measures from the Primary Wave to a Confirmed Down and the advice is not to Buy shares now. This is very good advice. I am watching stops carefully in a few minutes a day every day. My portfolio is in a Watchlist re- sorted by RT. My problem children are at the bottom of the list and that's where the work needs to be and will be done.

So far there hasn't been anything to do and I am very pleased with Anglo Asian (AAZ.L), Highland Gold (HGM.L) and Polymetal (POLY.L). Sylvania (SLP.L) has nearly doubled since the entry point and seems destined higher if the latter can break the old high at 40p. The resource stocks have helped the portfolio move ahead as the big winners from the run from January to May have stopped for breath.

Games Workshop (GAW.L) has been a strong performer in the first half of this year. At present the share is pulling back in a pattern which chartists refer to as a "Flag." This is a bullish pattern. There is a major old high on the chart at

slightly over 40 pounds which was charted in September 2018. I suspect that this level will be tested probably on a spike down before the pullback is over.

When the overall market turns upwards, I will be carefully watching GAW.L for an entry point to add to this outstanding investment.

2019-09-06

Big Ships and Little Ships

The overall UK market is represented on VectorVest by the VectorVest Composite UK (VVC/UK). It is an arithmetic index of the over 2100 shares that we follow on the LSE and AIM.

In my Essay of the 17th May 2019, I reviewed the VectorVest Market Timing Systems. There are systems for short-term traders and systems for position traders (long-term). Of vital importance is the change from a down market to an up market which takes place in a very ordered fashion. The change from an up market takes place in a similarly ordered fashion. The order is repeated below:

1. Primary Wave
2. Green Light Buy
3. Green Light with a Black Star (RT Kicker system)
4. DEW
5. Underlying Trend ($MTI > 1.00$)
6. Confirmed Call

The quickest measure of a trend change is the Primary Wave. As of Tuesday, 3rd September, the Primary Wave of the VVC/UK is Up, while the underlying or long-term trend is Down with a Confirmed Down in place.

I am a conservative person with much of my portfolio and use my UniSearch called “Long Term Winners RS Descending 2” to find shares to buy when the general market turns up as defined by the longest and most conservative measure which is known as a Confirmed Call. The search simply looks for shares on the LSE only (not AIM) that are trading less than their VectorVest valuation that are trading at over 50 pence. These shares are on either a Buy or a Hold recommendation on VectorVest and are sorted by RS. This brings those shares with the best track record of making money to the

top of the list. The UniSearch has had a great 2019 with no trading since the Confirmed Call in January 2019. Position traders, who wish to stay out of the noise should favor using this proven method and the Confirmed Call Market Direction system.

Their trades, they hope, will last many months and maybe years.

The Worry-Free Method will be the subject of the seminar being held in Central London on the 21st September 2019. To register for the Worry-Free Investing Seminar, please [click here](#).

The short-term trend or Primary Wave is like a small boat; it can change direction faster than a large oil tanker (the Underlying Trend), but it's prone to get bashed about in rough seas. On the London market, the Primary Wave turned Up after the close on Friday, 30th August. On the same day, a green light was printed on the Price column of the Color Guard which shows that the Price of the VVC/UK was up both day-over-day and week-over-week. After the close on Monday, 2nd September, there was a black star printed within the green light which informs us that both the Price of the Composite is rising and its momentum (RT) is rising. Assuming a suitable technical setup, the swing trader (who is an emotionally resilient animal by nature to survive) could use the Primary Wave, Green Light and the black star (known as the RT Kicker trading system) to establish a short-term position.

These trades typically last a few days to a few weeks in the market. Here is a simple method to find high probability swing trades.

1. Use the Midas Touch WatchList to find shares that are trending strongly. Just click on Viewers, then WatchList Viewer and Cherry Picking.
2. I was first introduced to the momentum study known as the "Stochastic Indicator" when I attended a 3-day trading course by its inventor, George Lane, in 1986. The study plots a unique rate of change of the price of a share on a scale between 0 and 100. Less than 20 is defined as an oversold position and over 80, an overbought condition. My experience is that the tool works well with the trend and poorly against the trend. The oversold levels (less than 20) thus provide excellent entry points

with the trend of those shares in the Midas Touch WatchList which are trending upwards strongly. Chart these shares and apply the standard VectorVest Stochastics Oscillator (you can find this under Add Parameter, Technical Analysis) to the chart. It will load in a separate window below the Price when you select the box beside Stochastics Oscillator.

3. As a case study, please review the chart of Trans-Siberian Gold (TSG.L). In the course of July 2019, the share pulled back and, in this process, the stochastic indicator moved below the oversold level which is 20 on a scale between 0 and 100. As the stochastic moves above 20 once again, this acts as a high probability entry point. The share has moved strongly since.
4. On the chart of TSG.L, please overlay the Primary Wave by using the drop-down menu at the bottom left of the chart. A Primary Wave Buy signal was printed as the stochastic rose through the 20 level which gave the swing trader permission to enter the position.

This process can be automated. A UniSearch which combines the Midas Touch Watchlist, the stochastic falling below 20 and any number of fundamentals inputs (if required) can be easily written. ProTrader is required for such as UniSearch. This will give the swing trader many tradeable opportunities each month.

Using the WFI method with most of your wealth whilst using a smaller proportion to find high probability swing trades (with maybe some leverage) are the bones of a sensible trading approach.

2019-09-13

A Fast Objective Method for Knowing When to Buy, What to Buy and When to Sell

There are three beliefs that each trader and investor needs to possess to regularly and consistently make money in markets. These are:

- 1. Money can be made in markets.** Now this may seem obvious, but I can guarantee that if you mention at a family lunch that you are trading in stocks someone around the table will laugh and say that you are gambling. They don't understand expectancy. I wrote about expectancy in my Essay of 5th July 2019. In simple terms, we wish to be the casino and NOT the punter putting 1- pound coins into the machine. We need an edge that makes much more when it's correct than it loses when it's wrong.
- 2. The second belief is that "I can make money in markets."** There is an entire industry out there telling you that you cannot. The entire fund management industry wants your cash and they take a large chunk of it as fees for doing precious little in my opinion. In my Essay of 30th August, the subject and effects of clusters of winning and losing trades was addressed. A run of 3 losing trades occurs unfortunately only too often and this can chip away at the belief that "I can make money in markets." Building this belief will take work and, on VectorVest, we have the BackTester to speed up the process. We need to firmly believe that our system, whatever that system may be, will be profitable over a trading campaign of 30 trades. This is a rite of passage.

3. **The third belief is that “I deserve to make money in markets.”** Our general mental wellbeing and attitude is very important within the mix. It took me personally many years to work out that when I am happy and positive, money runs to me and when I am grumpy and miserable, it runs away.

I frequently hear “I haven’t got the time.” “It’s all too complicated.”

At the Q and A which I presented on the 9th September, we were discussing the copper producer KAZ.L. The share is falling, and several wanted to know whether I thought it was a good time to jump in to get onboard at a bargain price. Similarly, we discussed the small building stock TCO.L. This share has pulled back (after a great uptrend) in a pattern that technicians refer to as a falling wedge. This is bullish. Is it time to get onboard? There are many tools at the investor’s disposal, but most are subjective and require much experience. The answer to these issues was obvious and it’s the VectorVest Midas Touch trading system. The latter is clear cut and locates strong trends within the share market that produce large reward to risk trades. That’s the edge and it’s a very powerful edge. It will tell us exactly when it’s time to get into either KAZ.L or TCO.L with no head scratching.

I have spoken about the Midas Touch in these Essays on numerous occasions. The Midas Touch is a fast and easy system for spotting big winners in all market conditions. VectorVest’s exclusive Midas Touch System manages the impossible by taking away the frustrations of do-it-yourself investing by doing all the hard work for you in a clinical black and white fashion.

In the Midas Touch course, which will be run in early October 2019, I will fully describe the entire system and focus on using the Midas Touch to find and pinpoint swing trades within the trend. These signals could be used with leverage by the more experienced. For the first time I will address how to short the market and especially weak underperforming shares if in the future a bear market should arrive. Sooner or later it will and, as you know, the bond markets of the world are saying it’s nearly upon us. This will allow us to make

money and hedge our portfolios in the event of a Bear market. A Bear market may be a new experience to some reading this, but I have been through many.

As of 9th September, as I write, the trends on VectorVest are DnDn. This means the short-term trend of the UK market is Down and the Underlying Trend is also Down. The longest and most conservative Market Timing system (the Confirmed Call) is bullish. All we can do is to focus our minds on what's happening now. If we, on a day-to-day basis, manage the "now" well, the future will take care of itself. Today VectorVest advises not buying stocks at this time.

Let's not avoid risk, but each day manage it well.

2019-09-20

Swing Trading in Bull and Bear Markets

Stocks rarely proceed upwards in price linearly, but rather in a series of steps. Chartists refer to these steps as “Peak and trough” progression. In basic form, the swing trader wishes to benefit from the fast move upwards and be well out of the market while the share falls back to long-term support. This ebb and flow of shares and financial instruments was first noted by Charles Dow around 1880.

In a Bull market, a strong trend upwards is defined by a series of rising bottoms, while in a Bear market a down, trend is defined by a series of falling tops.

In a Bull market, swing traders profit by buying at support and selling into resistance. In a Bear market, swing traders profit by selling after a rally to resistance prior to a further fall in price.

Last week, I illustrated how the Midas Touch can be used to objectively define a strong up trend in a share. It can be equally used to find a strong downtrend in a share.

Swing traders will be buying a pullback in a share with excellent fundamentals when the share (as defined by the Midas Touch) is rising and the overall market is rising.

Swing traders will be short selling a rally in a share with poor fundamentals when the share (as defined by the Midas Touch) is falling and the overall market is falling.

To do this, swing traders need knowledge and strong robust tools which are all supplied by the VectorVest program. Let me focus on long positions (buying shares) first.

These tools are

1. A Robust Market Timing system to tell us objectively whether the overall market is rising or falling. Everything follows from this. The Confirmed Call Market Timing system on VectorVest is the obvious choice, but more aggressive traders may favor the DEW system.
2. Swing trade long in only in the very best shares. These shares are undervalued by the market and growing earnings strongly and reasonably safely. VectorVest finds these shares in seconds using the UniSearch tool in the program. A UniSearch which uses $RV > 1.30$, $GRT > 20$, $RS > 1.00$ would be a good place to start.
3. For best results, the share should be a part of the Midas Touch WatchList. These are shares that have confirmed a strong and resilient trend over a three-month period. The Research department at VectorVest has also designed a Midas Touch Prospects WatchList which comprises strongly trending shares that don't quite make the stiff criteria of the Midas Touch WatchList. Both WatchLists are great places to find swing trades.
4. A short-term pullback with the trend can be easily seen by employing the Stochastic Indicator. When the latter falls below 20 on a scale between 0 and 100 and subsequently rises above 20 again, that marks a high probability of a resumption of the upward trend. The accuracy of this technique can be greatly increased by knowledge of divergences between the share price and the Stochastic. This concept is known as reverse divergence and it's a leading indicator of a strong high momentum move. Chartists also employ candle and bar chart patterns to confirm that the turn is underway.
5. Money Management and position sizing are critical to success. How to manage the trade in the event of a successful or poor outcome needs to be decided upon well before the trade is placed. Knowledge of a high probability target that is used by City traders is a key to consistent profits. In swing trading, a trailing stop-loss can give back a high percentage of profit. Selling into strength at this key level allows a quick exit in even

the most illiquid of shares as the masses stream in, late as always in the move.

6. During a pullback in an uptrend prior to a reversal upwards, a share will show a repeatable pattern in traded volume. If this pattern is present, then a reversal upwards is a very high probability event.

The process of swing trading in a Bear market is like the above, but inverted.

1. A Market Timing system showing the market is falling. As I write it is not, but sooner or later there will be a Bear market and I would like all our customers to be prepared for it.
2. Favor shares that are overvalued with poor fundamentals and low or negative EPS growth.
3. The Midas Touch technique should show that the share is within a strong downtrend. I have a UniSearch for this, but it also can be seen visually.
4. A rally within the downtrend can be seen by again employing the Stochastic indicator. When the latter rises above 80 on a scale between 0 and 100 and subsequently falls below 80, a high probability fall in the share price is underway. Once again divergences and candle/bar chart reversal patterns help the accuracy of the technique. These are not well understood and have strong leading characteristics if they are mastered.
5. Money Management is vital. Knowledge of the key levels for targets used by the City is vital to lock in profits. This is much more important on the short side than when buying stocks.
6. A rally within a downtrend prior to a further fall can be confirmed by volume of shares traded. This is very marked and a very important characteristic of a short swing trade and a large part of my personal method.

2019-09-27

Becoming Aware of Eliminating Trading Mistakes

Our objective as traders and investors is to fine tune an investment and trading plan by BackTesting over a period of many years and market types. This is a rite of passage. When we find a method that suits our objectives and beliefs about markets then the focus should change to simply following the rules of the system. Following a simple set of trading rules without fear or hesitation is much easier to write than do. When the discipline is in place to follow a set of trading rules for a batch of trades, then take steps to improve the plan as you get more experience. Most chop and change after a single losing trade. A batch of trades is somewhere between 20 to 30 trades.

If the investor is new to the game, then the VectorVest Worry-Free Investing method (WFI) that I teach at the Saturday afternoon sessions and more concisely within the Tuesday evening webcasts is a good place to start.

I have been dealing with both retail and institutional investors for a quarter of a century and the same mistakes come up repeatedly. Hopefully reading this will help you become aware of these potholes so as you can simply drive around them. Here they are.

1. Thinking of the money first as opposed to focusing on the process of trading. A friend of mine in South Africa says that you either “fall in love with the process of trading or leave the business.” Like a winning golfer, it’s vital to focus on perfect execution of each trade (stroke in golf). If you focus on the process, the cash will take care of itself. Focus on the process of following a simple, but robust set of rules such as the WFI. I have noted over the years that many take a winning simple and robust system and ruin it by trying to make it perfect.

2. Buying shares that are falling in price has caused more blown accounts than anything else in the trading business. The “two for the price of one” thought is very tempting and sucks us all in from time to time. Sometimes we get lucky and the share turns, but when it doesn’t many accounts are blown. The market is like Santa Claus. It knows when you have been naughty and doesn’t bring any presents. If you simply focus on only buying shares that are on a VectorVest “Buy” recommendation that will solve much of this mistake. There are many techniques that define a rising stock. For example, if the stock is in the Midas Touch WatchList then that’s a stock that’s trending strongly. Also, the proprietary VectorVest Comfort Index (CI) will also find strongly trending shares.
3. Holding on to losers too long is the mistake that has cost most of us dearly over the years. When I do a quiz at seminars and webcasts, holding on to losers comes up much more than any of the other mistakes. It happened to me in the early days. I put on my first trade in October 1982. From this time to around August 1984, I built up a large account for that time of my life from a very modest start. In 1984, I had done a lot of homework on a stock and was sure that the share was a ten bagger (meaning it should go up in price by 10 times). It wasn’t, but I held on and pretty much gave away all that I had made over the previous 2 years. That was a very costly mistake that I have never made again. Just remember that if you are correct 80% of the time, then you are wrong 20% of the time. On the next trade you don’t know whether it’s one of the 80 or the 20. The ego has an impressive power over us and won’t admit it is wrong. When you enter a position, the exits should be already defined. An exit if the trade goes wrong and if the trade behaves. “Get rid of the losers before they can do you any harm” is a trading motto that should be prominently displayed.
4. Don’t ignore overall Market Timing. There is a good time to be in the stock market and an awful time. It’s important that you have this at your fingertips and that’s why it’s on the front page of VectorVest and on the smart phone apps. DR DiLiddo says that “the most important thing

to know is whether the market is rising or falling, everything follows from that.” Markets rise slowly and fall quickly just like a fairground rollercoaster. As most know, VectorVest has several objective methods of determining the position of the overall market. Long-term systems for position traders and short-term systems for swing traders. If you are following the WFI method, then the Confirmed Call method of Market Timing, which is the most conservative system on VectorVest, is used. Stocks should be acquired only when there is a Confirmed Up signal in place and the advice on the front page of VectorVest is positive.

As I write this Essay on the 24th September 2019, the short-term trend of the UK market is down, while the Underlying Trend is Up. In VectorVest parlance that's a DnUp trend. The Underlying Trend has been confirmed by price action and that means there is a Confirmed Up in place. However, the advice which summarizes the direction and the strength of the Primary Wave is saying “NO” and is far from positive. Sit on hands. Doing nothing, I know, is much more difficult than it would seem.

The ego is a fierce force in all of us. Ego just won't die. Tell your ego to take a hike.

2019-10-04

Understanding Fear and Learning How to Manage It

Despite a commanding knowledge of trading, most traders experience fear every day on a level that compromises their capacity to trade effectively. The late Mark Douglas in his book “Trading in the Zone” defined the four trading fears as:

- Being wrong
- Losing Money
- Missing out
- Leaving money on the table.

I joke in many of the seminars that most men over 50 are less scared of death than they are of being wrong or losing money. These fears are responsible for the many errors we make as traders and the four mistakes I wrote about last week.

When looking at a chart in hindsight, most traders can almost touch the trading profits, but they cannot consistently capture these gains and achieve their financial dreams. This problem eventually comes to a boiling point somewhere in the evolution of a trader. At this turning point they either leave trading, continue to suffer losses, or begin to take a closer look at themselves. Although the VectorVest methodology, which combines fundamental analysis with technical analysis, is a great edge over a batch of trades, no method can predict the outcome of any single trade or investment. As I often say “if you are correct 80% of the time you are wrong 20% of the time. On the next trade you don’t know whether it’s one of the 80 or one of the 20.”

When traders recognize that the Holy Grail of being able to predict the outcome of each trade is not “out there” and not in their system or methodology, good traders eventually realize that the solution to becoming

consistently successful lies within them. Getting past the fear of being wrong and the fear of losing money in a one trade, but being 100% sure you will make money in 30 trades takes inner work. This is called “Thinking in Probabilities.”

Mastering the four fears stated above is the start of a journey toward the inner trader. As jarring as this realization may be to a trader battling his fears, this is the first, and foundational, step into the transformation that is required to become a successful trader.

Learning to deal effectively with fear opens the door to re-training the brain and mind for peak performance trading. This is true in all endeavors and especially true for athletes and our military special forces. A very good friend, who is a trading coach to banks and hedge funds, uses the military analogy to describe the process of taming the four fears. This allows him to engage and captivate the attention of the mostly male trading staff who as a group initially are skeptical of inner work, mental strength and resilience training.

What are the tools and skills a trader needs to harness in order to develop his potential as a trader? These skills are like that taught to Special Forces around the world and to world class athletes. Our job is to focus on the present moment and execute a simple set of trading rules without fear or hesitation. Focusing on this moment and simply reacting to this moment is called “mindfulness.” The only way to sidestep fear within the trading environment or on the battlefield is to be totally grounded in this moment.

Until the spell of fear is broken, getting to the potential that lives within us all will remain locked behind a closed door. Even when the trader learns to regulate fear so that it does not sweep him away and they can establish a calm mind, how do they locate the discipline, patience, courage and impartiality that one must develop? The answer to this question is crucial in order to move from mediocrity to successful trading. For myself and most successful athletes the answer is that he or she develops awareness through the skill of mindfulness.

In your local bookstore there are many texts about mindfulness. Simply put, mindfulness is the capacity to be aware of (observe) your thoughts, your biases and your beliefs.

One of the most common mistakes and reasons that accounts get blown or make zero progress can be easily fixed by becoming aware of your thoughts. It's a simple and profound fix. In fact, in my past writing I refer to the fix as the "Holy Grail" of trading and investing. The rules of trading in pretty much every book that you read are simple "Let your winners run and get rid of your losers quickly." Great advice, but in my 30 years of observing retail and institutional accounts, the opposite is invariably done. Traders tend to take profits on winners quickly, but sit and dither and allow their losers to go further south. This practice makes them losers in the game of speculation.

When losing traders have a winning trade, they become pessimistic. They are deeply worried and distressed that the market will take away their profits. When Losing traders have a loser, they become optimistic. They become optimistic that the share will bottom out and head north.

When winning traders have a winner, they become optimistic and allow the position to run. When winning traders have a losing position, they become pessimistic quickly and simply exit the trade.

Here is my challenge to you. On your next few trades or investments (by whichever trading plan you have chosen), try to become very aware of your thoughts. On many occasions, your thoughts will sound like a roomful of naughty schoolchildren. Become quiet and observe your thoughts. In that moment it will be perfectly possible for you to sidestep the fear of being wrong or losing money and to practice being optimistic in a winning position and pessimistic in a losing position. It may take a little time for the practice to pay off, but this simple fix has helped me turn hundreds of losing and breakeven traders into winning traders.

In developing mindfulness as a psychological skill specifically for trading, you begin to examine your thoughts during the trading process, looking for the underlying biases and self-limiting beliefs. The market is going to take my

small profit away is just a single belief that we may possess. There are normally many more. Any small step you take (however small) to reinforce a positive belief is a step in the right direction.

If you are using the VectorVest Worry-Free Investing Method (WFI) then simply place the shares from the UniSearch Long Term Winners RS Descending, into a WatchList. Re-sort the WatchList by RT. That will bring the winners to the top and the losers to the bottom. Your job is to become optimistic about the shares at the top of the list and deeply pessimistic about those at the bottom, especially if the share has a red Sell signal attached.

A guide to WFI can be downloaded from VectorVest. Click on the Views tab and then on “Special Reports.”

Over the next few months I will write about how mindfulness can help fix other trading problems and introduce some positive trading beliefs which, with practice, will ease the journey to becoming a consistently successful trader.

2019-10-11

Are You Watching the Screen or the Door?

The old story told in trading rooms around the world goes something like this. How do you tell the professionals from the amateurs?

The trading room sages liken the stock markets of the world to a vast cinema with a big screen, very plush seating and a fine and engaging movie in progress.

The entire cinema has only got a single small entry and exit door.

The amateurs are totally focused and fixated on the screen, while the professionals are focused on the door.

As of 8th October 2019, the trends on VectorVest UK and USA are down with both the Primary Wave and the Underlying Trend pointing southwards. In both countries, the Underlying Trend down has been confirmed by price action and thus the longest-term and most conservative signal on VectorVest is Down.

The story above was regaled to me on my first morning on the job at the proprietary trading desk of a small bank. This took place several decades ago, and I have never forgotten it and its significance in the journey to becoming a consistently winning trader and investor.

The gist of the story is that the amateurs focus on how much they can make, but the professionals focus on managing the risk of the position. They know exactly where the door is and how long it will take to get there.

As the trends on both the USA market and the UK market are both Confirmed Down, it's a time to be very focused on the door. This means.

1. Until the trends change on VectorVest no more share purchases.

2. **Decide on a stop-loss level for each share in your portfolio and resolve to implement these.** The VectorVest stop-loss is located at a place on the chart which is far from an obvious level and should mostly save your position from price spikes and deliberate stop running. Last week, I wrote about a simple mental process that will help you accept the risk intrinsic to each trade and to manage it well. I hope you have had a chance to practice this. It is a fortune building mental fix. If you are stopped out of any position, then build a cash holding. This would be a good time to revisit Lesson 2 of the “Successful Investing Quick Start Course” on the Training tab which examines risk and how it can be managed.
3. **Rework your position sizing for each position.** If you are risking more than 1% of your account on any position, consider lightening. The risk is the amount of cash lost should the share fall from the entry point to the stop-loss used.
4. **Pay attention to those shares that haven’t moved upwards over the past year that you may be holding.** It may be time to raise some cash in those so as there is money in your account when the tide turns. It will.
5. **Keep a watching eye on the USA markets.** When the MTI indicator falls below 0.60 and the Buy/Sell gets below 0.20, the USA market has reached a mega oversold position. When the market turns then the probabilities favor a strong and high momentum move when that move is confirmed by a green light from the Color Guard on the front page of VectorVest. These mega oversold areas make outstanding entry points. The UK will invariably follow.
6. **Take this inactive time and put it to good use.** Investigate the possibility of using an inverse ETF to profit when the market falls. Examine the chart of SUK2.L in detail. This instrument is twice leveraged and will rise twice as fast as the FTSE100 falls. SUK2.L can be used to hedge your portfolio. Spend time overlaying the VectorVest

Market Timing signals on SUK2 to get a good feel for how it moves. I hope to spend an entire Q and A session on this topic soon.

I have kept this Essay small in length as the above parable conveys a very simple and important message succinctly without thousands of words. If you follow the process and manage the risk well, the profits will take care of themselves.

2019-10-18

The Power of One

In the 1980s, a fellow by the name of Ralph Vince started to research the effects of varying position size on investment and trading performance. A quick search on Google will reveal the books and papers that Vince has written over the years. His research is quite difficult for those not mathematically inclined, but the results are simple, and you have heard them a thousand times before in this Essay.

If you have a trading system that's correct in its market calls 66% of the time, that's a fine system. If that system makes twice as much when its correct as it loses when its wrong, then you have a method of printing money for ever. A 66% hit rate system can easily be attained if you tick all the VectorVest boxes. These are buying undervalued shares with good fundamentals that are rising when the market is rising. Please don't complicate what is essentially a simple process.

In a 66% correct system which has a positive expectancy (makes more when correct than it loses when incorrect), the trader still must face clustering and runs of good and bad trades. In a 66% correct system, two bad trades occur every 9 trades and thus 3 bad trades every 27 trades. If you bet 1/3 of your capital on any single trade, you go broke every 27 trades. That's a sobering thought after the joy and jubilation of getting 27 trades under your belt. Remember the bet size is the amount of money that you can lose if the share drops from your entry point to the stop-loss used.

To get through the clusters mathematically, and that means not going broke in them, the bet size needs to be less than 2% of your available capital. At VectorVest we advise a 1% bet size. When I present this in a seminar, I see faces drop. The body language in the crowd is that it's going to be a slow process to get rich. Nothing could be further from the truth as I will show below. First let me revisit position sizing. I know I have done it before, but

it's the most important factor in becoming a consistently winning trader and investor, but alas it's not as sexy as entry points, I easily concede.

Let's assume an account of 100000 pounds

1% of this capital is 1000 pounds. We should NEVER lose more than that in a single trade. Assume we buy a share at 10 pounds and use the VectorVest Stop (stop-loss) at 8.50 pounds.

The risk/share is thus 1.50 pounds. I read this off the chart and it's unique to each trade. The stop needs to be well out of the price action traffic or it will be picked off by the pros and algorithms. The VectorVest calculated stop-loss does a good job in weaving that fine line between protecting your capital and making sure that you are not stopped out of a trending share prematurely.

Let N = the number of shares to be purchased

$N * \text{Risk/Share} = 1\% \text{ Account Size}$

$N = 1\% \text{ Account Size} / \text{Risk/Share}$

In my example $N = 1000 / 1.50 = 666$ shares

Buy 666 shares at 10 pounds each is the brokers order.

I was taught that by my first mentor in South Africa in 1981 and still perform the same calculation today. If the position falls apart then I will lose 1000 pounds in our example which is 1% of my account size. I now have 99000 pounds remaining in my account. The next position will be sized on an Account Size of 99000 pounds.

My first mentor also taught me the "Power of One" which is the title of this Essay. Here are some facts about the "Power of One"

1. If you are completely incorrect in each trade and apply the "Power of One" then it will take approximately 650 trades to take the account down from 100000 pounds to 100 pounds. Remember if you lose, the position is sized on the remaining capital. The "Power of One" is simply sizing your position so as the maximum loss is 1% of your capital.
2. If you have a system that has a 2 to 1 risk to reward ratio and apply the "Power of One" then it takes only 35 trades to double your money. Only

35 trades to turn 100000 pounds into 200000 pounds. Remember after you win 2000 pounds, then the next position will be calculated on an Account Size of 102000 pounds and if the stop-loss is the same it means that the “Power of One” allows you to buy more shares.

3. If you have a system that has a 3 to 1 risk-to-reward ratio and apply the “Power of One” then it takes only 23 trades to double your money. Remember after you win 3000 pounds, then the next position will be calculated on an Account Size of 103000 pounds and if the stop-loss is the same it means that the “Power of One” allows you to buy more shares.

These calculations were done decades ago and certain unique assumptions were made, but the mathematical facts show strongly that if you apply the “Power of One” you must work hard to blow your account and not so hard to double it. When I was shown this in 1981, I could not sleep for a few nights it got me so excited.

The winners and the losers come along in runs and emotionally the clusters I wrote about in the first paragraphs can be difficult to say the least. Size your positions correctly and allow the “Power of One” and simple arithmetic to keep your mind centered and focused on perfect execution of each trade.

As of Wednesday, 16th October, the trend situation on the VectorVest Composite UK is pointing southwards. Please keep your eyes peeled on the door I wrote about in last week's Essay until the tide turns.

2019-10-25

Trade What You See on the Chart and Not What You Think

A stock chart allows us to see easily and exactly what's going on in any market as buyers and sellers come together. Mark Twain said that "History may not repeat itself but it rhymes." Chartists believe that, faced with the eternal boundary conditions of fear and greed, the investment community will react and make the same decisions repeatedly. Chartists believe that patterns in the price action have some predictive ability. In the chartist's view, they can be used as an edge in markets. Remember an edge is not perfect sight, but the ability to make more money when correct than you lose when incorrect. Technical patterns can be subjective and, in many cases, can only be seen in hindsight. The analysis of chart patterns is certainly much more of an art than a science.

I like to keep my stock charts as simple as possible without multiple indicators and the like. I display the Price action in candlestick format. In my model stock, the Price will be rising with little volatility. Some may find that a Moving Average (MA) helps define the trend and in the Successful Investing Quick Start Course (SIQSC) which is built into VectorVest, a 40-day MA is used. If the Price is trending upwards above the 40-day MA, all is good. Over the years I have used multiple averages with success. These are a 21-day exponentially smoothed MA (EMA), a 55-day EMA and an 89-day Simple MA (SMA). When the 21-day crosses above the 55-day and these both move above the 89-day, there is a strong trend underway. I refer to the crossover point as a "bowtie." You get very lucky if you trade in a share only after a "bowtie" has been charted.

Price rarely rises linearly, but rather in a series of steps. The share price tends to pull back into the “zone” created by the area between the 21-day EMA and the 55-day EMA. In a trending share buying a pullback in the “zone” which is also a test of an old high on the chart is the basis of a very successful swing trading plan or a low risk entry point for a position trade in the share. To coordinate a high probability entry point, look for the following.

1. The share is trending and a “bowtie” has been charted.
2. A pullback in the share price into the zone between the 21-day and 55-day EMA.
3. The pullback finds support at an old high on the chart.
4. There is an obvious support trendline in place.
5. Wait for confirmation that the support will hold by using a reversal candle pattern. At VectorVest, we have an excellent course in candlestick charting. For more information or to register for the self-study digital course, “Master the Art of Candlestick Analysis,” please [click here](#).

On my default chart layout, above the Price, I always plot a green line study of the VectorVest Valuation of the share. I favor those shares that are undervalued especially for position trades. For short-term swing trades over a few days this is less important.

In the window below the Price, I display Earnings Per Share (EPS). EPS is the engine that drives the share price upwards. EPS should be rising from the bottom left of the window to the top right linearly for at least the last year. I have been using VectorVest since 2011 and in this time have noted that if the EPS is growing smoothly from the bottom left to the top right of the window then the trading invariably also goes smoothly and to plan. Swing trades and the entry point for position trades taken by following my five points above will be much more successful in an environment where EPS is growing strongly. In Lesson 4 of the SIQSC, EPS is used as a cherry-picking technique and I strongly advise all too frequently replay that module. In UniSearch, there is

an “Explosive EPS” search that will find these stocks for you in a single mouse click.

In longer-term position trading a five-year window to examine EPS growth adds greatly to the performance if the latter is rising smoothly and the share price is trending upwards with little volatility. If a company has a five-year track record of growing EPS linearly then recent testing, done and presented at a recent User Group in Oxford shows an excellent increase in performance. The test results were based on the US stock market. I am presently testing this concept on the UK market and have a plan to use this filter to cherry pick high RS stocks for the VectorVest Worry-Free trading method. I will discuss this at the Q and A session on Monday 4th November when my test program is complete.

Managing the trade is a part of the process where an investment philosophy is needed. Over the past two years I have been advocating a scaling out of positions. This is quite simple and has helped the bottom line. When the trade/investment is in the money then I sell off half when I have made as much as the initial risk. So, if you buy a share at £10 and use the VectorVest stop-loss which is at for example £8.50 then you have risked £1.50 on each share purchased. When the share moves to £11.50, you have made as much as you have initially risked. At that point bank half the position and bring the stop-loss on the remaining half to entry. Then let the second half run using a trailing stop-loss. The VectorVest Stop is ideal for this.

When the UK market breaks out of the range that it's been trading within then I may review this philosophy and allow all the entire position to run. Until the overall market breaks north then scaling out has helped the profit and loss account. It's also emotionally much easier. Allowing winners to turn into losers can flush away trading self-esteem very quickly.

Combining fundamental analysis and technical analysis which results in taking trades/investments in shares with great fundamentals that are rising is a strong edge in the stock market. It's the best of both worlds.

2019-11-01

Often Wrong but Never in Doubt

The Swing Trading Course using the VectorVest Midas Touch technique is nearly over with just a single Mastery Session remaining in the first week of November. I have asked all those that participated in the course to make their first attempts at a detailed trading plan. The results received so far have been excellent in content.

The base swing trading method is simple and robust, but it's not the method that makes the money it's the ability of the trader to follow the method that makes the money.

The best methodology in the world is useless if you don't have the discipline to follow it. We are rewarded for perfect execution of the system and those with experience of trading will know that this is much easier to write about than do. Whether it's a relatively aggressive swing trading system or the more passive Worry-Free Investing system, it is execution of that system that's vital to success.

US based trading coach Brett Steenbarger reckons that the problem in following a simple set of trading rules starts because the person who plans and initially places the trade or investment is not the same person who manages the trade. This makes a lot of sense to me as I have witnessed large swings in trader personalities before placing the trade and during the trade on many occasions over the years. Another mind he says has taken over.

During planning of the trade/investment, the stage is static and the fears of being wrong and losing money that I have detailed here many times are not in play. We primarily use the left brain which is the analytical part. All is crystal clear at this point, but once the trade is active and the markets are open, all changes very quickly indeed. Anyone who has experienced this will attest to

the increase in emotion as the daily candle jumps up and down and the wires are full of good and bad news. Steenbarger makes the point that at this time when the decisions become more emotionally charged that we make these decisions with the older brain, known as the reptile brain. Steenbarger argues that there is a different person at the helm.

At the trade planning stage, the emotions are clarity, optimism and enthusiasm, but after entry, these can change to fear of loss, fear of a small profit disappearing, fear of being wrong again and even boredom. There cannot be anyone reading who has placed even a single trade who will not have felt this change in emotion.

Becoming aware of the change is the first step is solving this problem and getting to the point where we can simply follow our rules.

You get better at making good decisions by making good decisions and, like press ups, you have got to get the reps in. It will take a batch of 30 reps to get this process correct and that's the next step for my band of swing traders from the recent course. It's the same process that anyone using the Worry-Free Investing Method or any VectorVest trading method should use. With your plan and with my help, it's vital that you do the following otherwise your investment in training is of academic use only.

1. Get your trading systems setup/setups boiled down to a few rules. These clearly show detail entry, stop, position sizing and managing the trade.
2. Let me have a look at them before starting.
3. Before starting make sure that you have mentally followed the rules for many imaginary trades. Gary Player, the golfer, to my best knowledge first wrote and spoke about his visualization techniques to improve his golf. Run a perfect trade through your mind frequently from start to finish. Mentally rehearse the move and rehearse what you will do if the market decides not to cooperate with your trade setup.

4. Resolve to follow those rules for a batch of 30 trades. I am happy that you start on demo account. The biggest fear is being wrong and for most that fear easily initiates the emotional response that Steenbarger refers to.
5. Spend some quality time practicing “mindfulness” and being present. I recommend purchasing “Practicing the Power of Now” by Eckhart Tolle. Becoming present and focusing on this moment alone will help keep the analytical mind at the helm. Becoming and working on being “present” has helped my personal training and many other aspects of life greatly. As Kipling said “If you can keep your head when all about you are losing theirs, etc.”
6. Rarely does it take 30 trades. Somewhere between 8 and 13 trades, the inner resistance will cease. Unfortunately, few people make the journey to 13 trades with the same set of rules. You are 8 to 13 trades away from the trader you wish to become.

On my desk and on my wall, I have the title to this Essay prominently displayed. I am often wrong in my trade calls, but NEVER in doubt of what to do next. We don't know what the market will do next, but we can plan for what we will do when the market does that.

As I write and finish this Essay on Wednesday 30th October from a sunny Edinburgh, the trends both short-term and underlying are positive. The Underlying Trend has been confirmed by Price action and a Confirmed Up, C/Up, has been in play since after the close on 24th October. I have added several positions in my Monday afternoon portfolio and will discuss these fully at the Q and A webcast on Monday 4th November.

2019-11-08

My Most Asked Question at Webcasts and Seminars Answered

The secret to making money in the stock market is to find the value of an asset and then pay a lot less for it.

Establishing the value of a common stock is quite a process. In Chapter 3 of “Stocks, Strategies and Common Sense,” DR Bart DiLiddo, the Founder of VectorVest, details exactly how he calculates the value of a stock. The algorithm uses forecasted earnings per share, forecasted earnings growth, profitability, interest and inflation rates. The Value of each share is calculated each day and provided in a simple easy to read format. At a glance you can see if any share is undervalued or overvalued. It's easy with a mouse click to write a UniSearch to locate undervalued shares.

VectorVest then provides a second measure of value called Relative Value (RV). RV is a measure of the long-term price appreciation potential and is compared to the risk-free return (Treble A Corporate Bonds) over the same period. The calculation is much simpler than that of finding value.

If the RV of a share is 1.40, then the probabilities favor this share out performing a Government bond by 40%. If the RV is 0.90 then the probabilities favor the share underperforming a bond by 10%. Why would you wish to take a position is something as risky as a share if you could get a better return from a savings account where the capital is guaranteed.

VectorVest rates an RV of greater than 1.30 as excellent. Momentum traders should favor shares with a high RV. The latter drives the share price.

As per the title of this Essay let me address my most often asked question on the Monday afternoon webcasts and at seminars. If a share trading above its valuation, but the RV is still an impressive 1.30 plus. How can this be?

On VectorVest, JD Sports (JD.L) is fully valued at around £7.80. However, the RV figure is an excellent 1.49. How can this be?

My answer is that JD.L is fully valued at present. If the share price stays at this level and the earnings achieved as anticipated (at an annual growth rate (GRT) of 19%) then at sometime within the next three years, the share will be undervalued.

Simply put, the share looks fully valued now, but over a window of three years into the future there is lots to come. If you hold the share simply keep holding as I intend to do with JD.L.

Using VectorVest for my momentum trading portfolio my preference is to build a WatchList of shares that are undervalued and that are growing their earnings aggressively and reasonably safely. I have mentioned Relative Safety (RS) on many occasions in this Essay, mostly when Worry-Free Investing was discussed. RS is a measure of risk and measures the consistency and predictability of the financial performance. On a scale between 0.00 and 2.00, a RS of greater than 1.00 is fair and greater than 1.30 is excellent.

A good example of such a share is LionTrust Asset Management (LIO.L). The share is much undervalued and has a RV of 1.55 with a RS of 1.43. Over the last five years, the share price has trended higher with little volatility and the forecast earnings per share (EPS) has increased linearly from the bottom left to the top right of the 5-year view window. This is very positive for further gains in the share price.

Over the past several months (from August to the middle of October 2019) the share has been trending sideways within what technical analysts refer to as a “triangular continuation pattern.” As this triangular formation was completing, towards the end of September, forecast EPS was ramped upwards by VectorVest. In my experience this is a leading indication that a breakout is near and that’s exactly what happened.

I have been speaking about the share at the last two Monday afternoon webcasts and used the share as an example of a potential trading opportunity at the recent Investors show.

Let's look at the facts.

1. The share is much undervalued with excellent metrics for RV and RS.
2. Over the past five years the trend of the share price is strongly upwards with little volatility.
3. Forecast EPS over the last five years is growing strongly and linearly with little volatility.
4. The overall market printed a Confirmed Call upwards on the 24th October 2019. A Confirmed Call is the strongest and most conservative measure of the trend of the entire London market on VectorVest.
5. LIO.L printed a VectorVest Buy signal after the close on the 24th October 2019.

As I write this on Tuesday 5th November, the share price of LIO.L has broken upwards and has charted a five-year high and my position in the share has its head above water by around 10%. We don't know what is going to happen next, but by following the points noted above, it's quite easy to pinpoint trading opportunities which offer a high hit rate of 70% plus, while also offering a large reward-to-risk ratio.

This is the VectorVest edge in practice. The edge combines the fundamental position of a share with the technical position of both the share and the overall London market. When all three boxes can be ticked, the wheel is rigged in our favor. The objective is to engineer a positive expectancy trading system, a system that makes much more money when it is correct than it loses when it is not correct. The hard part is sitting and waiting for these high probability opportunities to come along. As I have frequently reminded everyone in this Essay "Doing nothing is much more difficult than it would seem."

2019-11-15

Three Buckets and How This Concept Can Help Your Trading

“At Berkshire we have three buckets: yes, no and too hard. We just throw some decisions into the ‘too hard’ bucket and go onto the others.

...It is remarkable how much long-term advantage people like us have gotten by trying to be consistently not stupid, instead of trying to be very intelligent.”

—Charlie Munger

This paragraph has helped my trading and investing immensely since I steeped myself in the writings of Charlie Munger some years ago. As you are probably aware, he is investing partner of Warren Buffett.

I was reminded of this concept at a recent User Meeting in Edinburgh. We were looking at stock charts and the group leader commented on a chart of a share where the price action was up and down with high volatility. He stated simply and quietly “That’s not a share I would be interested in.” I could hear Mr. Munger speaking to me in South Queensferry.

The “too hard bucket” is a very simple, yet very powerful idea.

Think of all the brain power expended by industrious City analysts (most with CFA degrees) trying to decide if the discounted cash flow projections of a complicated earnings model makes some middle-of-the-road stock a marginal buy or not.

The rational thing would be to skip such MOTR (middle-of-the-road) analysis entirely and look for something with higher conviction potential (such as the Relative Value, RV, is through the roof with reasonable Relative Safety, RS). Meanwhile, if you can’t find anything, keep looking (or sit on your hands). It’s smarter to be smart about the limits of your intelligence. As

I remind everyone most weeks “Doing nothing is much more difficult than it would seem.”

Buffett and Munger largely put commodity stocks into the too hard bucket. They argue that an accurate prediction of earnings in these stocks is impossible to quantify as commodity prices move up and down. The selloff in Gold over the past few days highlights this for us. In my webcasts, I make the point at the start that Gold shares are for the more adventurous investor. Gold shares invariably have a low RS on VectorVest. They are far from Worry-Free investments.

To make proper use of the too hard bucket, a few qualifications apply. You can't have a job that favors output over substance (like the analyst forced to have an opinion when no opinion is worth having). This means that if there is nothing to buy then sit on your hands and drink coffee. If you follow the VectorVest rules and buy stocks only when the overall market (as defined by the VectorVest Composite UK (VVC/UK)) is rising, then when the market is falling there is nothing to do except watch stops. That's a big job in its own.

It's easy to be tempted by a lack of patience into “fancy play syndrome” (making trades because you are bored). When I look at losing accounts, the first thing I notice is that when I take out trades taken in shares with poor fundamentals that are trending downwards, the account is normally positive. The old two for the price of one syndrome has bankrupted more traders than anything else. These traders are trying to spot a bottom or a turning point and it's a highly addictive pursuit. On the floor of the Chicago pits they say that “top and bottom pickers become cotton pickers.”

The Comfort Index (CI) on VectorVest finds shares that are in throes of a strong trend. Taking trades and investing in shares with a high CI value with strong fundamentals will immediately help your trading results. CI is a VectorVest secret weapon. The metric is unique in the trading industry.

You certainly can't be driven by ego (a need to prove to others how smart you are). You can't be put off by the need to throw away ideas (having to say “no” repeatedly).

With VectorVest I simply look at undervalued stocks that are growing their earnings both aggressively and safely that are trending up. I wish to accumulate those stocks when the general market turns up by printing a “Confirmed Call” on the VVC/UK chart. The process of winning in the stock market is not complicated, but many of us (including myself on many occasions) seem hellbent on making the process complicated.

The Confirmed Call is also shown on the front page of the program and it's easy to see on the app for your phone. There can be no excuse for even the busiest of people not to be informed. When the general market turns down, I stop buying and watch the stops of the shares I have closely. Last week I wrote about this process to pinpoint the move in LIO.L which is still in progress.

There will be many losing positions. However, the winning positions will outnumber the losers and we should make much more when correct than we lose when we are incorrect. Keep it simple and stay close to the discipline of buying rising stocks with good fundamentals when the overall market is rising and you will be well rewarded.

2019-11-22

Compound Interest Is the Eighth Wonder of the World. He Who Understands It, Earns It. He Who Doesn't, Pays It.

The famous quotation from Albert Einstein came to mind this week as a friend asked for loan. He is a person that's made much more money than I over the years. He has started and sold several fine businesses for large amounts of money. You may have noted in your own life that no matter how much you earn; you can easily find a way to spend it.

Dozens of lottery winners have joined the ranks of Willie Nelson, Mike Tyson and Billy Joel.

These people have all made or won millions, only to blow it all and eventually become bankrupt. George Best summed it all up when he said, "I spent a lot of money on booze, birds and fast cars. The rest I just squandered."

The most recent (that I know of) big spender is the boxer Floyd Mayweather who, based on his paychecks, became one of the higher earning sports stars in the world. After a bout of reckless spending where he routinely carried a wad of 1 million dollars in his backpack for emergency purchases, he ended up broke.

He would fight, earn money, blow the money, fight, earn etc. with no income whatsoever beyond the fighting.

Does this strike a chord with anyone reading? It was your humble correspondent until I figured all this out in my thirties after a spell of

Mayweather size splurges on several racehorses. The latter were a tad on the slow side I must report.

I have long been aware of the “Salary Treadmill” where every month the cash comes in and, within a few hours, the standing orders come through and suddenly it’s all gone. This process repeats and repeats, as every month it’s the same old story. Just working and paying and working and paying.

The point is that in this life there are only two ways to make money. You can work for it or you can get your money to work for you. Whether you acknowledge the fact or not, all employed people are financial traders. You trade your time for money and there are only a certain number of hours in a week. Also, your employer will never pay you any more than what it takes to keep you sitting behind that desk. If he did, he would be a poor businessman and that’s unlikely.

The only way to break out of the salary treadmill is to get your money to work for you. Open your wallet and find a 50-pound note. Have a long look at the note. In your hands observe a servant that will work for you and your heirs forever if you decide to invest it? If you blow it, then it’s gone forever and someone else gets to make the choice.

I was very lucky in that I was mentored in this way of thinking early on in my investing career. My mentor had only earned a modest wage throughout his life, but through investing conservatively 15% of this modest salary, retired early and wealthy. I am greatly in his debt and if it wasn’t for that initial chance encounter (sharing an office together), I would probably be like the friend who needed help during the week.

In the history of Man, no one has ever become rich by working for a salary. I define Financial Independence as the absence from financial worries and independence from the need to work if I so desire. This can only be achieved if the income you receive from your investments exceeds that of your salary. It will take a few brave decisions and a deep breath to take the first steps.

Let’s list these steps.

1. How much of a lump sum can you start to invest now?
2. How much can you commit to saving of your Gross monthly paycheck? I suggest 15% as a minimum.
3. Make your savings work hard and achieve a growth rate of well in excess of inflation.
4. Find a VectorVest trading method that suits your objectives and beliefs about the stock market.

The VectorVest Worry-Free Investing (WFI) method is an excellent place to start. The method focuses on the UK's safest shares and purchases these when the overall market is rising. If you click on the Views tab on the VectorVest7 HomePage and then on Special Reports, you can download a guide to WFI. I will also be completing a detailed webcast on WFI on the 26th November at 630PM UK time. For more information or to register, please [CLICK HERE](#).

VectorVest can also be used to pinpoint swing trades for fast profits. I have written about this approach most recently in my Essay of the 25th October 2019.

If I were managing money professionally, I would allocate 70% to WFI and 30% to more short- term swing trading. To start, pick one system and practice, practice and practice executing it perfectly.

Get that fifty-pound note working hard as soon as possible in a tax efficient account.

2019-11-29

Reminiscences of a Stock Operator

On trains and airplanes while travelling over the last week I have reread my longtime favorite trading book. “Reminiscences of a Stock Operator,” by Edwin Lefevre. The book tells the story of a young trader named Larry Livingstone, but is based on the true-life exploits of legendary trader Jesse Livermore. He was known as JL to his friends. As a trader, JL had unparalleled success in the stock market of his day. According to biographer Richard Smitten, the great JP Morgan himself sent a letter to JL in 1907 begging him to stop shorting the market to save the entire banking system.

His personal life was far from perfect, and he was frequently prone to bouts of depression or the “black dog,” as defined by Churchill some years later. During his best years, JL cornered the cotton, corn and wheat markets and became a millionaire from trading before he was thirty.

I have been involved with VectorVest for 9 years and this was the first entire and detailed reading of the book in that time. I frequently read parts of the book, but, over the last two weeks, started from Chapter 1. I was surprised that many parts of the JL method were exactly what I have been saying to VectorVest customers and prospective customers in seminars and webcasts over the past nine years.

Firstly, JL was just as happy on the short side of market as the long or simply buying shares. Over the last few years, since 2009, the long side has been the place to be, but this will not always be the case. In the years 2007 to March 2009, the only way to make money was on the short side. I have noticed myself developing a long only mentality and I have noted that many funds are now touting long only funds. Invariably when this becomes consensus, there will be a change. Modern markets allow each of us the ability to short without fuss and it's something that I personally will be working on in the months

and years ahead. My objective will be to design a UniSearch that can be used profitably in periods such as the period from October to the end of December 2018. Markets breathe in and breathe out. It's a fool's errand to try and predict when a turn will occur. However, the VectorVest Market Timing models, which follow the overall market, have never missed a move in the past and will not in the future.

As I write on the 26th November the trends (from short-term to long-term) on VectorVest UK and USA are strongly upwards. Currently the advice on the HomePage of VectorVest advocates buying safe, undervalued stocks that are rising in price. It is excellent advice.

Secondly, JL although he started life as a short-term trader, he changed his tune quite early on in his career. In his own words, "My greatest discovery was that a man must study general conditions, to size them so as to be able to anticipate probabilities." He further said that the big money was in "sizing up the entire market and its trend." When reading this, I smiled to myself in that I have been saying the same for many years and I quote the founder of VectorVest below. It is my belief that overall market direction is a vital part and the most important part of winning in the stock market.

"The single most important thing to know is whether the market is going up or down. Everything follows from that."

—Dr. Bart A. DiLiddo

Thirdly and very importantly, JL used both technical and fundamental studies to make his decisions. This is the cornerstone of the VectorVest philosophy. The biggest price moves will occur when the fundamentals and the price direction agree. At various times over the last 37 years in this line of work I have designed and successfully traded models that are purely based on price. However, these are more difficult to trade and although they were profitable, they can suffer a long period of drawdown and the resultant emotional angst that goes with drawdown.

The best idea is to put the two investing and trading strategies (fundamentals analysis and technical analysis) into one. The results can be astounding.

“At VectorVest we favor undervalued shares that are growing their earnings both aggressively and safely, that are rising in price. At VectorVest, we advocate buying the latter shares into a general market that’s going up.”

I think JL would have approved.

If you haven’t read *Reminiscences of a Stock Operator*, I think that you should and it would be an excellent holiday read. It reads easily and available at most decent bookstores. I am surprised that the story has not been used for a Hollywood movie. I would cast Leonardo DiCaprio in the role of JL.

2019-12-06

Getting Out of Your Own Way

The rules of trading are simple, and I have no doubt you have seen them many times over the years.

These simple rules have been time proven by everyone who has been successful in the game of trading and in fact the game of life.

The rules are

1. Buy low...Sell high
2. Let winners run...cull losers quickly
3. Add to winners not losers
4. Go with the trend

The rules are simple to understand, so what makes it so difficult to follow them? More than likely many of us will have broken these time-honored rules time after time. I know I have. It takes quite a while and normally a heap of cash to convince the failing trader that the problem may be his or hers, as opposed to a market hell bent on “getting” him or her. The mental dynamics are difficult and poorly understood even by experts in the field.

Instead of buying low, many of us get sucked into a share as it peaks and find ourselves shorting after a massive fall. We hold on to losing positions and hope that the market will turn around and make us look clever for getting in early. It's more likely to be a margin call which finally gets us out.

The worst sin of all is adding to a losing position. The two for the price of one argument is pushed and encouraged by brokers everywhere. Why do we punish ourselves and our bank balance with this most basic of errors?

Why?

The early part of our brain, called the Reptilian Complex or Reptile Brain, is responsible for our survival and works on instinct. It tries to repeat our life experiences (good or bad) as closely as possible because it knows they have led to our survival so far.

If your Reptile Brain activates your flight/fight mode because of a previous experience, for example, a fear of missing out, your thinking-brain shuts down and logic, reason and emotion become impossible to process.

This, in turn, might cause you to ignore your trading rules and enter or exit a trade too early, which in turn can result in a losing trade, which can then create fear, anger, frustration which feeds the next trade and so on.

The strongest emotional drive at the deepest root of being human is to survive. This feels incompatible with taking quick and small losses on investment decisions that work out poorly. The irony is that is the only way to survive.

The Reptile Brain gets a signal to act much earlier than your conscious awareness. If you have swerved to miss a dog on the road (causing chaos) after vowing to never do that again, this is an example of the Reptile Brain working to keep you safe well in advance of your conscious knowing anything about it. In the same way a ball that's been thrown fast at you can cause you to duck while a lobbed ball will be caught. The latest research carried out by a Cape Town based neurologist concludes that your Reptile Brain gets a signal (about the dog running across your path for example) up to a 1/2 second faster than your conscious brain.

Losing positions are added to and afterwards you cannot believe that you did that again. Day Trading is made especially difficult by this lag as lots can be done in that 1/2 second. Most day traders find it nearly impossible to follow a simple set of rules and it's the Reptile Brain at work trying to keep us safe and out of harm's way that's the cause.

At least we can rely on the fact that the VectorVest system of Stock Analysis is being totally objective. The fundamental position of a stock is calculated from the financial statements and not a gut feeling. The technical trend

of both the stock and the market are calculated in the same precise and consistent fashion for each market around the world.

A WatchList of your shares sorted by the trend indicator (RT) will tell you immediately that the shares at the bottom of the list need work and should be watched and culled if necessary. The system has been proven in all 5 continents over the last 29 years. All we must do is to get ourselves out of the way and follow it executing our trades perfectly.

The discipline that dissolves the veil of deception between yourself and the market can be attained in many ways. The simplest that I have taught to hundreds of day traders over the past 20 years is to do what our mothers told us to do and count to 10 before making any decisions. That sorts out the lag between the Reptile Brain and the conscious brain. In the past I have turned around serial day trading losers by insisting on that count before any decisions were taken.

For me the practice of staying “in the moment” and focusing on what’s happening now has resulted in the removal of many of the trading errors that I have talked about above. It takes practice and our egos will fight the process tooth and nail. The ability to stay present and keep your head while everyone else loses theirs will help all other areas of your life.

Here is another holiday read for you. I recommend a long and detailed read of “Practicing the Power of Now” by Eckhart Tolle. Mr. Tolle will show you to how to build presence.

The only practical way of sidestepping fear in any form is to become totally present. That’s what special forces are taught to handle the fears in battle. When you get into that zone of being totally there, it’s a very sexy place to be. It’s the reason that people climb mountains. On the side of Everest very few will be thinking about last night’s meal or contemplating whether to go for the chicken or fish this evening. The mind is totally focused on each single millisecond as anything else will result in a sure and sudden death. If you have ever owned a motorcycle and done the “TON” just reflect on where your mind was as the needle went past 100. The Reptile Brain and the conscious brain are

working together in that moment to ensure your survival. That's the state of mind where quality investment decisions are made.

As I write on the 3rd December the short-term trend (Primary Trend) is Down on VectorVest UK while the Underlying Trend remains upwards. Swing traders should be focused on their profit taking rules. If you are unsure of what to do, then your trading plan needs attention over the approaching holidays. Remember we don't know what the market will do next, but we can have planned what we will do when the market and our shares reveal their hand.

2019-12-13

The Study of Trends and Turning Points in the Stock Market

A month ago, I was conducting a VectorVest seminar in London. In this seminar, I mentioned the term Technical Analysis of the stock market. Although I use this term frequently, I have found from subsequent emails from that event that quite a few attending did not understand what I was talking about. Let me try and clear up this confusion. At VectorVest we study the technical position of both individual shares and of the overall London market. Our objective is to buy rising shares in rising markets.

Martin Pring defines the term Technical Analysis well in his excellent text “Technical Analysis Explained.” He writes that Technical Analysis is the study of share price trends and turning points. As mentioned in the last paragraph, at VectorVest we wish to buy into shares that are trending upwards when the overall market is trending upwards. That may seem simple (and it is), but there are many in the market being punished by buying into shares when they are falling. The 2 for the price of 1 has bankrupted more traders than any other mistake.

Over the past few years several very experienced traders that I know well have lost millions of dollars short selling SP500 futures (betting the market will fall) in a market that was rising.

Picking tops and bottoms is a big ego game and as I have written here before “Top and Bottom pickers become Cotton pickers” sooner or later. Swim with the stream.

In Technical Analysis we can measure 3 aspects of the share price action of any stock.

1. Price trend
2. Momentum (speed) of the Price
3. Volume of shares traded at that Price

On VectorVest there are two measures of the trend of a share. RT (Relative Timing) measures the short-term trend of the share on a scale between 0.00 and 2.00. Above 1.00, the share is rising and the further above 1.00, the faster the share is rising. CI is the Comfort Index and this metric measures the longer-term trend of the share again on a scale between 0.00 and 2.00. Once again, above 1.00, the longer-term trend is rising and the further above 1.00, the faster this is rising. These two metrics can be easily used within UniSearch to find strongly trending shares in seconds with no chart watching required or needed.

A quick inspection of RT and CI would have shown any trader or investor that Tullow Oil should have been avoided many months before the share collapsed on Monday 9th December.

My first institutional desk head used to say that he had never seen a share trending upwards (above a 200-day moving average in his analysis) that had gone bankrupt.

As of 10th December 2019, Liontrust Asset Management (LIO.L) has a RT of 1.26 and a CI of

1.59 showing that both the short-term trend and the longer-term trend are positive with the longer-term trend very strong. This objective analysis lends itself to clean and strong decision making. Over the past few months I have written many times about the fundamental measures on VectorVest. These are Value, Relative Value (RV) and Relative Safety (RS). LIO.L is undervalued with a RV of 1.56 and a RS of 1.48. LIO.L is a share where the fundamental position and the technical position are excellent. What is more, the share was analyzed objectively in less than 30 seconds. I remain a shareholder.

On VectorVest 7, we have access to all the commonly used technical studies (RSI, Stochastics, MACD and Moving Averages) to measure both price and

momentum visually. It is simple to design and save a template or several templates that can be applied at a click to any share.

My standard template contains the shares VectorVest's calculated Valuation (plotted in the same window as a candle plot of the share price) and Earnings Per Share (EPS) plotted in a window below the Price. In short-term swing trading, I also include a window which displays the volume of shares traded. This is exceptionally useful in swing trades that last from 3 to 21 days. If you struggle to create and save templates, then please give support a call on 0800 0148974 and they will quickly sort that out for you.

I have spent years studying volume trades and its interpretation relying heavily on the work of a technical analyst of yesteryear named Richard Wyckoff.

A Bull market is characterized by stock prices rising on increased volume and pulling back on falling volume. Shares rarely rise linearly, but rather chart a series of steps. In a Bull market, these steps should chart a series of rising low points. A pullback on falling volume to a rising low point means that the Bull market is intact and that we are, in fact, with a pullback and not a change in trend. This gives me confidence to buy into a pullback within the overall trend after confirmation of a low by way of a positive candle pattern.

Many people say that volume leads price, but, in fact, it is the lack of volume that causes the share price to rise. Why would anyone buy a share at 10 pounds if it were freely available at 9 pounds? Only if the supply at 9 pounds is no longer available will anyone pay 10.

For prices to rise, the volume at the lower price must be zero at the exact point of a turn. This may only last for a few minutes. In the futures markets that I traded in the past, every day for a living, the volume traded on the FT100 futures would dry up for around 30 minutes at each significant turning point.

A pullback in a share with a strong CI that has good fundamentals ON LOW VOLUME is a strong buying opportunity. Remember the mantra. We wish to

buy rising shares in rising markets. For the swing trader a slight pullback on falling volume can finesse an excellent low risk entry into such a share.

On the 17th December, VectorVest will be presenting a full day summit on all aspects of building wealth on the stock markets of the world. I will be speaking on swing trading and will discuss in detail the concepts I have written about above.

2019-12-20

What Winners Do

“A losing trader can do little to transform himself into a winning trader. A losing trader is not going to want to transform himself. That’s the kind of thing winning traders do.”

—Ed Seykota. Quoted from the book “Market Wizards.”

It may sound trivial or overly simple and yet it is so important. Being a winner starts with a firm commitment to winning. And that commitment starts with a relentless determination to do what it takes to win - day in and day out, leaving no stone unturned. Are you a committed winner?

What steps are you taking to make 2020 your biggest and best year ever? These steps do not have to be groundbreaking, but they should be consistent measures taken each day.

Have you committed your trading plan to a sheet of paper? How much money is in your account?

Can you size positions correctly?

Do you record market direction each day?

Do you resort your portfolio by RT each day and let those shares at the top of the list run and quickly exit those shares at the bottom?

Have you examined your thoughts when you are in a winning position and when you are in a losing position?

Remember winners become optimistic in a winning trade and quickly pessimistic in a losing trade. Losers do just the opposite. In short-term trading, 95% lose money because of this. Your thoughts have enormous momentum and it will take work and awareness to turn this momentum around. When you are trading well pretty much everything you do hurts at the start. These are some of the questions and areas to work on.

It has only been nine years since I have been using fundamental information together with technical information in the stock market. In the early 1980s, I tried to keep the fundamentals in check, but simply failed. The annual and interim reports keep piling up in the corner of the office. I did not have the accounting skills, the time or, if I am honest, the inclination to fight with the financial statements. Prior to discovering VectorVest, I traded solely on the technical scenario which I certainly have not forgotten and still use all of it daily. The difference is that I now apply Technical Analysis to those shares that are undervalued by the market and that are growing earnings both aggressively and safely. That has made an enormous difference for the good. My hit rate has improved and, more importantly, the risk to reward has risen markedly.

VectorVest takes all the fundamental data and finds these shares for me without fuss. It would take a gaggle of CFA types to do the same job.

By combining both approaches, most of the breakouts and simple trend following tools have yielded great results. I spoke of Liontrust Asset Management (LIO.L) last week. This share is a good example of the power of combining the fundamentals and technical position of a share in order to predict a high probability move. Please load the chart over the last year prior to reading further.

In the period between July and October 2019, LIO.L traded sideways in a range known by technically orientated traders as a symmetrical triangle. The share was trading below the VectorVest valuation and within the period of the triangle forecast earnings per share (EPS) was rising strongly. The VectorVest forecast EPS is as close to a crystal ball as we can achieve in this line of work.

The probabilities of a breakout of the symmetrical triangle, moving cleanly upwards, were high. That is why Susan Thornborough and I used the share as our example of how to use the VectorVest edge at the London Investors show in October 2019.

After the close on the day of the Investors Show, the overall trend on the VectorVest Composite UK turned up as defined by the longest-term measure

of the trend on VectorVest known as a Confirmed Call and the share printed a BUY recommendation. All three boxes were ticked.

These are

1. The fundamental position of the share was excellent with all VectorVest metrics of RV, RS and EPS growth showing very positive figures.
2. The technical position of the share showed a strong long-term trend with an excellent value for the Comfort Index, CI. LIO.L was on a Buy recommendation.
3. The overall market was rising.

If you wish to find swing trade winners with a hit rate of 70% plus, then there is no alternative but to sit and wait for these three conditions to be met. It's akin to a lion sitting and stalking its prey. As I have said a dozen times here "Doing nothing is much more difficult than it would seem."

LIO.L has moved from £7.80 at entry to £10.70 as of 16th December. This is a 3-to-1 risk to reward ratio trade using the VectorVest Stop to define the initial risk. My Stop is slightly under £9.

We have had an excellent time in the UK market in 2019. The Worry-Free Trading plan (WFI) since January 2019 has increased by 40% with no dividend yields added as of the 17th December 2019. I have completed a video on the rules and performance of WFI in 2019 and that should be on the blog section at the www.vectorvest.co.uk very soon.

I am very optimistic about an upgrading of the entire UK stock market. The latter has lagged the USA over the past few years, but we will trade the market and NOT my forecast.

I was personally overweight in building stocks over the election period which was well rewarded. I am now rebalancing with a maximum of two builders in my portfolio.

2019-12-27

10 Steps to Swing Trading Success

This is a written walk through the seminar that I presented in the VectorVest Financial Freedom Summit on the 17th December 2019. The entire Summit is on the VectorVest channel on YouTube. The following ten steps should be a part of any swing trading plan. These are:

1. The overall market is on your side. This means that you are initiating a swing trade in a share that is moving in the same way as the overall market. On VectorVest there are many measures of Market Timing. Fast measures for swing traders and longer-term measures for position traders. To initiate a swing trade, in my humble opinion, at least the Primary Wave on VectorVest should be Up and the advice on the front page of VectorVest positive for buying shares. I firmly believe that this is 70% of the exercise. Swim with the stream.
2. The industry group and sector of the economy are on your side. Stocks tend to follow their industry group up or down. Simply load the industry group in the Viewers page of VectorVest and sort by RT. This will easily find those areas of the economy that are performing. I personally need to work on this and add it to my analysis.
3. Trade in the very best shares. Shares that are growing earnings strongly and reasonably safely. Favor those shares that show strong earnings per share (EPS) growth over at least the last year with little volatility in the EPS chart. EPS growth is the engine that drives the share price. The latter should be rising from the bottom left of the window on VectorVest to the top right. As detailed in last week's essay a share that trades sideways while EPS is rising makes for an excellent high probability swing trade when the share breaks upwards and moves to a VectorVest Buy recommendation. Forecast EPS on VectorVest is a strong leading

indicator of change.

Leading indicators of change are in very short supply in this line of work.

4. The stock under study should be in an existing uptrend. Our job as swing traders is to finesse an elegant entry from a retracement (this is trader jargon for a pullback in the share price) in a share that is just about to explode higher as the longer-term trend re asserts itself. On VectorVest the Comfort Index (CI) finds shares that are in the throes of a strong long-term trend, easily with little fuss. It is indeed a secret weapon. Swing trade in shares that possess a CI of greater than 1.3 and both your hit rate and risk to reward will improve.
5. Most pullbacks will retrace to the last significant swing high. Frequently this will also be a major Fibonacci level. This pullback should take place on falling volume. A pullback in the share price on low volume in relation to the last advance is a sure sign that sooner or later the bull trend will resume. There are many ways a share can pause within a strong trend and give swing traders an excellent entry point. Last weekend I wrote about a symmetrical triangle, but also technical patterns such as “flags,” falling wedges and cup and handles patterns can make excellent entry points. In all of these, the down move within the pattern should show falling volume while up moves within the pattern should show increased volume. Volume can be difficult as many shares are bought and sold for reasons that have nothing to do with the share. Please listen to the YouTube video and I will talk you through why this should be.
6. A technical momentum indicator such as George Lanes Stochastic indicator (a standard study on VectorVest) can confirm that support (or buying of shares) should be anticipated. The study is normalized between 0 and 100 with a stochastic value of less than 20 indicating an oversold position in a share. This is an exciting place to look for a buying opportunity. A divergence between the share price and the

Stochastic adds to the strength of this observation. On VectorVest there are UniSearch that can find shares with good fundamentals where the stochastic is less than 20. These require the ProTrader add on. If you are interested, please request a 30 day free trial of this.

7. A bullish candlestick reversal pattern confirms that the support has a high probability of holding and that the advance has started. An Up day with rising volume would be first prize. There are many candlestick patterns, but I personally just use a few. I favor bullish engulfing, hammer, morning star and harami (inside bars) patterns. It is now time to open the broker's marketmaker and buy some shares.
8. Firstly, how much money in in your account. If you do not know how much money is in your account, you cannot size positions and if you cannot size positions you are gambling and not trading. Vow never to lose any more than 1% of your account in any single trade.
9. Size your positions. Use the VectorVest stop and calculate the Risk/Share purchased. This is simply the purchase price minus the VectorVest calculated stop loss level. If N is the number of shares about to be purchased, then the simple equation is that $N * \text{Risk/Share} = 1\% \text{ Account Size}$. Thus $N = 1\% \text{ Account Size} / (\text{Risk/Share})$.
10. Split the position purchased in to two equal parts. When the position has risen, and you have profited by as much as the initial risk sell one part. Increase the stop loss level on the second part to entry and let it run. Do not micromanage the second part and allow this part to run using the VectorVest stop loss as the trailing or ratchet stop. My experience is that around 30% of trades will result in what I refer to as "runners."

If you plan on swing trading in 2020 then the above should give some strong guidelines to formalizing a trading plan.

I will discuss these points at our first Q and A session of 2020 which is on the 6th January.

Happy New Year. I hope the year brings good health and prosperity to you all and all that are close to you.

I look forward to the year ahead.

2020-01-03

How to Adhere to Those New Year Trading and Investing Resolutions

At this time of the year many of us will have written down goals and objectives for the year ahead. This is clearly an excellent thing to do. I suggest that you get clear and on paper, goals for both the next year and the next five years. Most people overestimate what they can do in a year and become disappointed at the shortfall. However, most people in my experience totally underestimate what they can achieve in five years.

The first thing that comes to mind is how to build the motivation to achieve these milestones in our lives. However, recent research shows clearly and scientifically that it takes something much more concrete than motivation to make things happen.

A surprising research study reveals why motivation is not the key to achieving your goals and offers a simple strategy that works. In the study the goal was to develop a habit to exercise regularly as reported in the British Journal of Health Psychology.

Three groups were chosen at random.

Group 1 was the control group and was asked to record the number of times they exercised over a period of several weeks.

Group 2 was the motivation group and these people were asked to read and listen to many motivational programs showing the benefits of exercise to your overall health and self-worth. In particular, they were shown that exercise reduced the onset of heart disease.

Group 3 also underwent the same motivational training as Group 2, but, in addition, were coached in planning when and where the exercise would take

place within their daily schedules. This included specifically which day, where and when during the day.

After the test period the researchers were surprised:

Group 1 ...38% exercised at least once a week.

Group 2 ...35% exercised at least once a week

Group 3 ...95% exercised at least once a week.

Writing down exactly when and where they were going to exercise greatly increased the probability of the goal being achieved. The result as concluded by the British Journal of Health Psychology was that “motivation has no effect on exercise behavior.”

Deciding in advance when and where you will take specific actions to reach your goal can double or triple your chances for success. In over 100 studies in many different areas, people who exactly state when and where their new behavior is going to happen are much more likely to stick to their goals.

It's my belief and personal experience that a similar process is true for the goal of building a personal fortune on the stock market. If you plan when and where and how the process can be built into your day and life, there is a much higher probability of it happening.

In these essays, I have written at length about having a written trading plan. If you have not, then your first goal will be to apply the above process to getting a set of rules down on paper that satisfy your personal goals and beliefs about trading and investing on the stock market. Lesson 5 of the Successful Investing Quick Start Course, which is built into the VectorVest program and can be found on the Training tab, will greatly help with this exercise.

If you are new to investing, then please consider the VectorVest Worry-Free Investment strategy (WFI). This plan has been tested over the past 25 years and has produced excellent profits over that period in the USA, UK and South Africa. A Guide to WFI can be downloaded from the VectorVest program by

clicking on the Views tab, then Special Reports. Scroll down to the Guide to Worry-Free Investing (4th down).

The WFI is a conservative trading plan which invests in the UK's safest shares when the overall market is rising. WFI uses the UniSearch "Long Term Winners RS Descending" to find these shares and the longest measure of the trend of the London market which are known as a Confirmed Call. It will only take a few minutes a day to keep under control. On most days, there will be nothing to do. To make this happen each day, apply the process detailed above and your goal of building a fortune on the stock market is well on its way. I guarantee it. The WFI has had an excellent 2019.

I was schooled in this process in my first institutional trading job around 30 years ago. The desk head insisted on a morning and afternoon routine. The trader on the desk who did not have his homework completed on the markets they were trading by the London open in the morning and the NYC open in the afternoon were not around very long. I no longer trade intraday that often, but each day and especially weekends, schedule the time and place in advance where I can study the markets and manage the positions in my portfolio and WatchLists. Without that, it is just so easy to miss a few days to travel, sloth and other pressing commitments.

Exercise is very important to me personally. Each week I sit and plan when I can get to the gym and fit it around an active travelling and trading schedule. I have lots to do in other areas of my life. I have had a goal to write a book on swing trading techniques in the stock market. Last week's Essay was essentially a chapter summary. The swing trade book has been on my list of goals in January for the past few years. This is the year and I hope to use the above simple process to make it happen.

We have had an outstanding 2019 in the UK stock market and I hope that everyone reading has done well. Let's simply stay in the moment (our moment is simply a daily bar) and apply the process of trading. If we focus on the process of trading mindfully then the future will take care of itself.

Happy 2020 everyone. May it bring you and yours much health and prosperity.

2020-01-10

Clustering and Why Trading Can Be Difficult

If you have read my essay of the 5th July 2019, then the concept of trading system expectancy should be no stranger to you. Let us assume you can call the share market correctly more than 50% of the time. Then, if your reward to risk is positive, then the market will write you a cheque for the rest of your days.

In a seminar that I presented to a large bank a few years back, I played my coin game simulation of the trading business. This game had a 2 to 1 payoff. If they risked a fiver and called heads or tails correctly, I would give them back 10 pounds. Clearly if they were incorrect in their prognosis, I would take the bet. We started off with a pot of 100 pounds. It is a 50/50 game.

The room was full of CFA rated analysts and highly qualified people, but with little trading floor experience. They had a positive expectancy system, but I must report that the roomful of analysts went totally broke within 15 minutes of playing the game. In ten throws of the coin the following should be the result.

Correct 5 times 2

Incorrect 5 times 1

Thus, in ten coin tosses the result is $((5 \times 2) - (5 \times 1)) / 10 = 0.5$

If you bet a pound on each trade, then on average you should receive 50p back on each toss. A positive expectancy system.

In trading there are two decisions at least in each trade. Is the asset going up or down (long or short)?

How much do I bet?

The coin answers the first. I ask, "Heads or Tails"?

Then I ask how much do you want to bet? The answer is varied but normally in my seminars it starts at about 20%. I spin the coin and play the game. Let us look at the probabilities. The latter are not as sexy as market direction, but they will keep you alive. In the coin game, heads/tails have a probability of occurring 1 out of 2-coin tosses.

Unfortunately, there is a $1/4$ probability of two heads or two tails in a row and similarly a probability of $1/32$ of 5 tails or heads in a row.

If you bet 20% of your loot on one trade, then in a cluster of 5 poor trades, the game is over. That is what happens to most traders. A run of poor trades takes them out prior to a run of winners starting even with a high expectancy system. Even if they have some cash left, the drawdown will leave them scared and incapable of making a sound decision. The system will be long discarded.

I write about this overtrading topic at the start of 2020 because of the great year that most of us have had during 2019. After a good run of trades, it is my experience that position sizing is discarded and thoughts of invincibility take root. Remember we are not playing chess in the stock market. In the game of chess pretty much everything is defined. If you beat me then you probably have better skill than I or I simply made a mistake. In the stock market, there are many unknowns such as occurred on the morning of the 3rd of January. The stock market is more akin to the game of poker in that we do not know what card will be dealt next. Sooner or later position sizing errors will be punished and punished hard. What can we do? Let us think of some simple but robust answers:

1. Resolve to not risk any more than 1% of your account in any 1 trade. If you have 5 bad trades in a row in a miserable market, then the drawdown will be acceptable. If you think 5% is too high, then scale back until it is acceptable. At the institutional level, 5% would mean a very cold stare from the risk manager.
2. Try and get your hit rate up from the 50% level. This reduces the frequency of a cluster of bad trades. For me, the VectorVest method of combining fundamental analysis and technical analysis has increased

my hit well above the 50% level. Our method of what I refer to as value momentum investing that I teach at the seminars and talk about at the Q and A webcasts has a hit rate of approaching 70% and I am very proud of it. It looks at the fundamentals of the share, the technical position of the shares and the technical position of the overall market. When all three are positive, I can call the future with a probability that is uncommon in this line of work. In my essay of the 27th December 2019, I reviewed the steps required to find and trade high probability swing trades.

3. Recently three of our subscribers have researched a cherry-picking method which shows an outstanding increase in expectancy which is aimed at medium-term to long-term investors. They will be presenting this at a Monday afternoon Q and A session before the end of January.

Lastly please spend some time internalizing the concepts that Mark Douglas teaches in his book “Trading in the Zone.” It is not the easiest of reads, but well worth the effort. We rarely trade markets, but rather trade our beliefs about markets. The late Mark Douglas will suggest for your consideration, beliefs that he feels are congruent with the realities of the market environment.

Learning how to think in probabilities is a very difficult exercise.

As I write on the 8th January, the international situation could not be more tense. The stock market is holding its own for the moment. The short-term trend or Primary Trend of the UK market is Down, while the Underlying Trend remains Up. The advice is not to buy stocks now. In a difficult market, Games Workshop (GAW.L), Greggs (GRG.L) and Redrow (RDW.L) to name three have closed in the black on the 7th January. Any share that stays strong and increases in a difficult market should move strongly when the tide turns and hopefully the present standoff abates.

I stopped out of Ab Dynamics (ABDPL) before travelling to the USA at the open on the 7th January. Please take a moment and decide on what you will do if the international tensions escalate. Where are your stops on the positions you hold?

2020-01-17

Are You Feeling Lucky?

There are many reasons to purchase a common stock on the LSE. I am hoping that all reading will have a rigorous process and trading plan to detail what shares should be purchased and when these should be purchased.

The decision-making process as I see it has four main and sometimes hidden steps.

1. **Foundational beliefs.** We see the world through these beliefs and they, at a deep level, direct our actions. It's vital that your beliefs about markets are in sync with the realities of the market environment. I have referred to the text "Trading in the Zone" many times in these Essays. In this book the late "Mark Douglas" suggests 5 core beliefs for traders. That is an essay all on its own and I will leave them for another day. Suffice to say that once a belief is lodged in your mind it takes on a life of its own, leading us to notice and seek out evidence confirming our belief. We ignore and work hard to actively discredit information contradicting the belief. The way we process new information is driven by the beliefs we hold. Major positive beliefs are these:
 - A. Money can be made in the stock market.
 - B. I can make money in the stock market.
 - C. I deserve to make money in the stock market.
2. **The Share selection process.** For example, this could be the Worry-Free Investing process that I have detailed here many times and referenced last week or a much more aggressive swing trading plan such as swing trading with the Midas Touch.
3. **Luck.** This can work wonders for your portfolio or bring chaos to your portfolio. If you focus solely on shares with a high RS (Relative Safety), then surprises will be minimized and rarified, but they will occur from

time to time. Will the result of the trade talks between the US and China do your portfolio good or harm? Those long of Gold are hoping for a breakdown in these talks.

Those long of stocks are hoping for a positive outcome in the talks. Did the drone attack on Iran a few days ago push up the value of your holdings or pull it down? None other than Sir Alex Ferguson said, "It takes a little bit of luck to win the Premiership."

4. **Results.** I firmly believe that in order to learn from our mistakes and build skill in investing and trading that it is critical to separate the process (step 2) and the results. The results may in fact be due to luck.

The learning loop starts with a belief system, which directs a share purchase (or a decision as to what school you send the kids to) which via luck (good or bad) produces an outcome. If you can differentiate between an outcome based on a sound decision making process and an outcome that occurred because of luck, then investing/decision making skill can be attained in a surprisingly short space of time.

At VectorVest, we have UniSearch for aggressive traders to those more suitable for conservative and prudent traders like your correspondent. I have talked and written about many of these in this Essay and during the Monday afternoon Q and A sessions.

If you are starting to invest or haven't had the results that you desire, please take a step backwards and focus on those shares with a high RS. This will reduce the incidences of bad luck nailing both your returns and trading self-esteem and, in fact, create a belief totally contrary to the positive belief stated in B above. Investing skill in high RS shares is surprisingly easy to attain and in a few months of practice (a few minutes a day) you will be able to outperform City experts with ease.

Trading in small mining shares (low RS shares invariably) can produce large rewards, but they can also produce enormous losses. I have firsthand experiences of these enterprises. If some poor unfortunate drops a

wheelbarrow down the shaft (bad luck) that is the mine closed for a fortnight at least. The compressor bank which powers the jackhammers will have been purchased fourth hand (normally from a bankrupt sale) and when it goes down production stops. The production manager will fight with the accountant who said holding the spares on site would drain the cash flow. I have sat in these meetings in my youth in South Africa and the language would cause a Marine sergeant to blush.

Small market cap pharmaceutical companies have similar characteristics by betting on a single product that may or may not get approval. None other than a MR Woodford lost his empire by betting on the latter.

Whichever methodology you choose the first thing to do after the purchase is to put the shares you now own into a WatchList in the VectorVest program. Your shares will automatically be rated by Value, Safety and Timing as the shares listed are shown in descending order of VST.

When you own these shares, the original reason that you got onboard is now academic. The only thing that really matters is the trend of the share. This is measured by the metric on VectorVest named Relative Timing (RT). The latter measures the direction, magnitude and dynamics of the price history. It's mathematically massaged to fit between 0.00 and 2.00. Above 1.00, the share is going up, and the further above 1.00, the faster it is going up.

Once you own some shares then it's best to rate your shares by RT alone. That's done by just clicking on the top of the column marked RT to sort in descending order, as in any spreadsheet. The shares that are rising are at the top of the list and the shares that are doing poorly are at the bottom.

It's the ability to act on the poorly performing shares at the bottom that separates the good traders and investors from the also-rans. The VectorVest BUY/SELL/HOLD recommendation will help, and, as soon as it flashes red, I strongly advise you to re-look at the share and simply exit.

Your ego will find it hard to get out of a poor performer and will invent dozens of reasons to take a quick profit on a winning share. Tell your ego to

take a hike and cut the poor performers and hold on to the winners. If you can do that, your future is assured as a winning trader or investor.

2020-01-24

The DEW, a Robust Non-Curve Fitted Market Timing System

In most of my talks and posts I have encouraged a conservative set of rules and searches. These have focused on the Worry-Free Investing (WFI) Method of investing which uses the most conservative measure of Market Timing on VectorVest and are applied to the VectorVest Composite UK (VVC/UK). These are known as Confirmed Calls.

The VectorVest Composite of the UK is an equally weighted index of all the shares followed by VectorVest on the London main market and AIM. It's the broadest measure of the entire market that I personally know of.

I am convinced that if any follow the WFI approach, your path to wealth will be steady and sure. Just before writing this on the 21st January 2020 I ran a BackTest on my standard WFI trading system and this has produced a 20% gain since the last Confirmed Up on the 24th October 2019. That's excluding any dividends that may have been paid. There will be great years (like last year) and flat years I am certain, but the approach has been tested with success over the past 25 years in all market types. Building wealth in the stock market is a marathon and not a sprint.

I will be running an afternoon seminar in London on the 7th March which will focus on the exact rules of WFI. It's a free seminar and if you come along, master the rules and focus on the discipline of following the simple rules of the system, then you are set for life. Please [click here](#) if you'd like to register for this FREE seminar.

There is also a slightly more aggressive approach that, if coupled with strong risk management, can accelerate wealth accumulation. You may wish to allocate a portion of your funds to this. The objective will be to get into

investments earlier in their upcycle, closer to the turning point and thus utilize smaller stops. This is very important in leveraged spread bets. At the end of the Essay, I will suggest a simple prepopulated WatchList on VectorVest that will find shares that should move strongly when the DEW signal is printed. This can easily be a standalone system

The DEW technique is a standard VectorVest study. There is a template on VectorVest which pulls up the study easily and applies the study to the VectorVest Composite UK. As with the Confirmed Calls, there is a dropdown menu below the chart where the DEW signals are placed on the chart. Green for buy and obviously Red for sell. Let's define the basics first.

1. **D stands for a detrended price oscillator.** This is standard momentum study of the VVC/UK and uses a standard look back period of 20 days.
2. **E stands for envelopes.** The latter I am going to ignore today and leave for your personal study.
3. **W stands for a 30-day weighted Moving Average.** Weighted simple is a mathematical technique to make remove the lag out of the average calculation.

Up signals are given when:

1. The price of the VVC/UK is above the 30-day Weighted Moving Average
2. The DPO is positive

Down signals are given when:

1. The price of the VVC/UK is below the 30-day Weighted Moving Average
2. The DPO is negative

Please load the VVC/UK graph. This is done by clicking on the Timing tab on the HomePage of VectorVest. Then click on Market Timing Graph and there it is! You can load the chart over all time periods from 3 months to 10 years. As we are looking at a fast measure of changes in trend, I normally load a six-month view.

Under the Graph Control Panel on the top right of the chart locate the ProTrader Timing DEW Layout and apply it. Then on the lower left side of the chart locate the drop down next to Confirmed Calls and select DEW. If you get lost, please call support on 0800 014 8974 and they will talk you through the navigation.

Note the Buy and Sell signals and note how close these came to the actual daily turning points. The last Buy signal, which is still in place, occurred on the 13th December.

Invariably the DEW Market Timing signals will occur several days and, in some cases, weeks before the longer-term Confirmed Call signal is printed.

Traders who have decided to use the DEW Market Timing System would start to Buy shares from their favorite UniSearch when the DEW prints a Buy signal and could easily be well into the money before the more conservative Confirmed Call signal arrives.

Traders can easily swing trade by using the standard Midas Touch (MT) WatchList to easily find those shares that are within a strong upward trend. This trend should resume with strong momentum when the DEW from the VVC/UK is printed.

The MT WatchList can be found under Viewers in the Cherry Picking folder in the WatchList Viewer. I have defined the Midas Touch in many courses and will be doing that again with the new ISA Millionaire course which starts on the 27th January and you can enroll for the course by clicking [here](#).

Since the last DEW buy signal on the 13th December, the top 10 stocks have risen by 7.76% while the overall market is up by 2.5%.

The DEW Market Timing System and the MT WatchList define an exceptionally simple and robust swing trading system. I would suggest exiting half of any position when you have made as much as the initial risk and then running the second half with the VectorVest standard stop-loss as the trailing stop level.

Please remember my frequent Essays on risk management.

For those like myself who are fully invested during this excellent period, the DEW system will warn us of a turn down well ahead of a C/Dn signal. Many reading this may wish to take profits off the table at that point in positions that have prospered in 2019.

2020-01-31

Bearish and Bullish Normal Divergence. Leading Indicators of Change

A quick examination of the VectorVest Composite US (VVC US) showed that it was coming. No, not the Coronavirus. Rather an excuse for investors to take profits and the shorts (those people who hope to profit if the stock market falls) to get excited.

To isolate the large multi-month investment cycles, I personally find the analysis of the US market more useful than the UK. The UK indices follow the US broad cycles, but, presently, with much more noise and volatility. This is due to fluctuations in the pound/dollar rate and local Brexit politics. In my short-term swing trading where the trades last 2 to 3 days, I find systems that are very profitable on the Dow that are marginally profitable when applied to the FT100 for this reason. In this Essay, I will focus mostly on the USA market which comes as an essential part of VVUK.

After an impressive joyride to the upside, which saw the S&P 500 surge +15.3% from the close of October 2, 2019 and the high seen on January 17, 2020, the stock market had become overbought, sentiment had become overly optimistic, the macro theme was well established and lots of folks thought there was only one way the market could go from here. As in onward and upward in a fashion seen in 2013 and 2017. In short, bullish complacency had set in.

Markets move in cycles and the Market Timing Indicator (MTI) on VectorVest solves and tells us easily when we should be aggressive in markets and when we should be careful in markets.

Please load VectorVest USA and click on the Timing tab and then on Market Timing Graph. That will load a graph of the VectorVest Composite

US (VVC US) which is an equally-weighted index of all the shares followed by VectorVest in the USA stock markets. Make sure you select 1y at the bottom right of the graph to look at a 1-year view of the VVC US. This index is the broadest measure of the USA stock markets that I know of and comprises of over 8250 stocks.

If not already loaded, select the VectorVest MTI layout from the Graph Control Panel to the right of the chart. The MTI is a composite indicator which combines the momentum of the Price of the VVC US and the momentum of the breadth of the VVC US into a single line study. The MTI like all studies on VectorVest runs between 0.00 and 2.00. If the MTI is less than 0.65 that indicates an oversold situation and when the MTI is greater than 1.65 a mega overbought situation.

To observe the detail of the MTI, untick the Buy/Sell ratio and the RT and zoom into a 6-month view by clicking on the 6m on the lower right of the chart.

Observe the strong bullish run in the Price of the VVC US from 23 December 2019 to 17 January 2020. However, if you look down at the MTI, you should notice that the MTI failed to follow the price and charted a slightly lower high in this period. This failure swing is known as Bearish normal divergence and it's a leading indicator of a change in trend. This is particularly important as the MTI was extended and close to the overbought 1.65 level noted above. In this move the divergence occurred at an MTI level of 1.55.

MTI divergence with Price of VVC has an excellent track record of predicting turning points. The divergence can last for quite a spell. The Primary Wave on VectorVest is the shortest and most aggressive measure of the direction of the VVC. If the Primary Wave turns downwards and this signal is preceded by bearish normal divergence between the MTI and Price, then this invariably calls a reversal with precision. The latter technical situation occurred after the close on 24 January 2020. On the VVC US, that day's market action was also a bearish engulfing candle which is a very bearish technical phenomenon. VectorVest has an excellent course in candlestick

charting called Master the Art of Candlestick Analysis. Please click [here](#) for more details.

As is usually the case when the market becomes overbought (high MTI and divergence with Price) and sentiment becomes very bullish, something comes out of the woodwork to cause short-term swing traders to rediscover their sell icon. In this case, it was the fear of the Coronavirus, the dive in oil, falling interest rates, and, of course, a new take on the old theme of the trade war.

Students of market history will recall that stocks stumbled about 17 years ago when the severe acute respiratory syndrome (SARS) posed both a health and economic threat to the globe. Until Friday, the U.S. stock market had basically shrugged off the reports that the Coronavirus was wreaking havoc in China.

From the stock market's perspective, the key concern on the Coronavirus front has to do with the potential impact to global economic growth and China's economic growth. Given that the outbreak is occurring during the Lunar New Year, China's equivalent to the Christmas holiday season, where Chinese traditionally travel to the town of their birth and that serious travel restrictions have been put in place, the thinking is that China's GDP is going to be impacted. A slowdown or a shutdown in China would reduce the use of raw materials and for that reason miners got hammered hard.

My guess is that unless this thing gets scary, the western consumer will likely go on about their business and the US/UK economy won't take much of a hit. The big assumption here is that a meaningful outbreak does not occur in the US, UK and Europe. As always let's trade the market and not the forecast. As I write at the US open on 29 January 2020, the Primary Wave on both the UK and USA markets is down. Let's be very careful with open profits.

The MTI divergence from Price can also be used as a leading indicator to announce when it's time to get ready to buy stocks. In this case the MTI should fall to around 0.65 on a scale between 0.00 and 2.00. The Price of the VVC US should fall, but the MTI should not follow. This failure swing results in a technical picture which shows the Price falling, but the MTI rising. This is

known as a Bullish normal divergence. When this pattern is confirmed by the Primary Wave turning upwards and there are green lights shown on the Color Guard, then a high probability reversal is on its way and that's the time to be aggressive, strong and start to accumulate shares for your favorite UniSearch.

Most get it the wrong way around. They are aggressive when the MTI is high and conservative and fearful when the MTI is low. It takes awareness and presence to buy when the MTI is low when all your friends are gloomy and the forecasts in the financial media are of doom. When you are trading well "Everything that you do hurts."

2020-02-07

A Simple Process to Produce Excellent Results and Stock Market Gains

The one sure way to make money in the stock market is to buy low and sell high. Everybody knows it and it sounds so simple, yet few can do it. Why is that? Last week, I mentioned the Market Timing Indicator (MTI) on VectorVest. It takes strength to buy when MTI is oversold and strength to sell out (or at least watch stops carefully) when the MTI is overbought. As mentioned last week, it's easy for investors with no experience and those with years of experience to get this the wrong way around.

Simply put, there are times when a stock is more likely to go up than it is to go down. The keys to the Kingdom are getting a way to work this out which is objective, robust and well-tested.

Once you have completed this exercise then the real work of developing the discipline to follow the rules begins. This is the ability to think about the results of a batch of trades as opposed to fixating on the result of any single trade. Traders refer to the latter as "Thinking in Probabilities."

Becoming proficient at the game of Backgammon helps. Learning to think in terms of the dice roll probabilities helps the mind internalize the concept of probability which we all understand at an intellectual level, but few really understand at a gut level. When we have a good trade, we feel happy. When we have a bad trade, we feel miserable. This is far from thinking around a batch of 30 trades.

What's the best way to tell when a stock is more likely to go one way instead of the other?

There are a million different ways investors try to answer that question. Value Hunters believe stocks are more likely to go up when they have low P/E ratios. Momentum Players think that stocks that are already soaring in price are most likely to keep going up. Traders use all sorts of indicators to determine when a stock is more likely to go up or down. Some of these techniques work better than others.

I will present three steps in this Essay that tilt the odds of success well in our favor. My job and your job, with respect, is to tick the boxes and follow these as best we can. Remember to record in your journal the details of purchase and management of the trade or investment. Also remember to clearly differentiate between the process of trading and the result. Was the positive result caused by your process or good luck? Was the disaster caused by not following your process or simply bad luck?

Step 1

In my humble opinion, the first and most important step lies in studying the broad market. This is at least 70% of the exercise. The trick to beating the odds now becomes one of identifying when the overall market is in an uptrend or a downtrend. Knowing what the direction of the market is doing is the single most important information an investor needs to have. This was amply illustrated over the past 18 months. During October to December 2018, the London Stock Market and most stock markets around the world were falling. The VectorVest Market Timing Systems (such as the Confirmed Call system) had printed a sell signal in October 2018. In these 3 months, it was difficult and near impossible to make any money by buying stocks. This changed in January 2019 and for most of the year, the London Stock Market rose and it was very easy to make money by buying stocks.

The most important thing to know is whether the stock market is rising or falling. Everything follows from this realization. VectorVest measures the direction of the stock market objectively and the results are on your device from around 9pm each evening. Even the busiest people have no real excuse not to have 70% of the battle at their fingertips.

As I write just after the USA open on the 5th February, the trend of the UK market is summarized by the words DnUp and a Confirmed Up. This means that the short-term trend (Primary Wave) is Down, while the Underlying Trend is Up. The Underlying Trend has been confirmed by price action and thus the longest and most conservative measure of the trend which is known as a Confirmed Call is Up. I will consider buying UK stocks (although nearly fully invested) when the Primary Wave changes to Up and all three VectorVest measures mentioned here are positive.

Step 2

The best defense is offence. The second step is to invest in the best stocks. Stocks that are growing earnings strongly and safely. VectorVest analyzes over 2000 stocks on the LSE and AIM each day for Value, Safety and Timing. Value is the foundation of the VectorVest Stock Analysis system. It is calculated each day from a formula which is described in Chapter 3 of Dr. DiLiddo's book, "Stocks, Strategies, and Common Sense." This formula uses earnings per share, earnings growth, profitability, interest and inflation rates. It is the first and only valuation formula which employs all these important factors.

VectorVest also assesses a stock's long-term price appreciation potential and compares this to a AAA rated Corporate bond. This information is presented as an indicator called Relative Value (RV) on a scale of 0.00 to 2.00. Stocks with RV values of 1.00 or above have favorable long-term upside price potential. The background for computing RV is given in Chapter 6 of "Stocks, Strategies, and Common Sense."

Safety is assessed by VectorVest from a wide variety of factors. These factors are discussed in Chapter 7 of "Stocks, Strategies, and Common Sense." Consistency and predictability of a company's financial performance is the single most important factor in assessing stock safety. Stocks of companies which achieve higher earnings per share interim-over-interim, year-after-year, have high safety ratings in the VectorVest system. Stocks of companies with erratic, unpredictable earnings have, of course, low safety ratings. This information is presented as an indicator called Relative Safety (RS) on a scale

of 0.00 to 2.00. Stocks with RS values of 1.00 or above have above average stability and predictability. RS is the corner stone of the VectorVest Worry-Free Investing method (WFI). I will be presenting a free afternoon seminar in central London on WFI on Saturday 7th March 2020. Please click [here](#) to register for this event. It's FREE!

Over the past two weeks at our Q and A sessions on a Monday afternoon, we have been treated to two presentation by very experienced VectorVest users. These presentations have focused on finding shares that have a 5-year history of strong and stable earnings per share (EPS) growth. These shares known as EPS Kings have shown outstanding gains in both the UK and USA markets. These EPS Kings are a shining example that investing in the very best shares pays handsomely. The presentations are stored at the VectorVest UK website. Please click on "live events" and scroll down to view the presentations hosted by me on the 27th January and the 3rd February 2020. The EPS Kings method also answers the next requirement.

Step 3

VectorVest believes that investors should buy stocks that are rising in price. The program analyzes a stock's price behavior for direction, magnitude of change and rate of change. This information is presented as an indicator called Relative Timing (RT) on a scale of 0.00 to 2.00. Stocks with RT values of 1.00 or more are in an uptrend and vice-versa. RT also is useful in detecting changes in price momentum through the study of momentum divergences.

All three indicators, RV, RS, and RT are combined into a master indicator called VST-Vector. Stocks with a VST-Vector rating of 1.00 or above on a scale of 0.00 to 2.00 have favorable combinations of Value, Safety and Timing. All stocks in the VectorVest data base can be analyzed, sorted and ranked by VST-Vector. The UniSearch tool on VectorVest allows the investor to search for shares that suit their investing objectives in a few clicks.

Buy, Hold, and Sell recommendations are given on each stock every day. At least three conditions must be satisfied for a stock to receive a Buy

recommendation: (1) Stock Price must be greater than Stop-Price. (2) RT must be ≥ 1.00 . (3) VST-Vector must be ≥ 1.00 .

If the market is rising, then buying undervalued and safe stocks that are rising in price will push the odds of success markedly in your favor.

2020-02-14

They All End Badly

What I mean by the above is that exits are difficult and especially difficult for those who are used to exact solutions. If you have a target in place for a share and take profits, then it's frustrating to see the share keep going higher. If you don't take profits, it's equally frustrating to see the share pullback and take away 1/3 of your profit.

All we can hope for is a set of robust rules that fit our beliefs about markets that we can follow and make profits most of the time. The title of the Essay, by recognizing the difficulty, removes the emotional pressure for your correspondent.

In 1982, I first started to trade in the share market. At that time, armed with a sheet of graph paper and a 3h pencil, I hand charted the shares I was following and calculated a 25% trailing stop-loss. I simply calculated a level that was 25% below the highest tick charted by any share. At that point I exited the share. It's simple and doesn't change very often. I used this in the South African market for many years and its advantage is that it ignores short-term pullbacks and thus keeps the investor in the larger trends which is where most of the money is made.

The VectorVest program calculates a stop-loss (Stop) level for every share in the UK database. The Stop is based on a 13-week Moving Average of the Price of the share which is adjusted for the fundamental position of the share.

Safe stocks with solid fundamentals should have "looser" Stops than those with weak fundamentals. These considerations allow investors to stay with solid stocks longer and get out of weak stocks faster. For this reason, VectorVest's Stops are fine-tuned according to each stock's safety, fundamentals and price trend. Over the past few years, since discovering VectorVest, I have replaced the 25% trailing stop with the VectorVest calculated Stop.

Old hands reading this will have the experience to formulate their own rules. Here is what I suggest for new investors and those who are maybe unhappy with their performance.

1. Invest in only the very best stocks. Recent webcasts which have emphasized investing in EPS Kings should be reviewed. Please email me for the slides and the link to these presentations. They are solid gold.
2. Decide on a Market Timing method that informs when it's safe to be in the market. For most, the Confirmed Call method will be optimal and it's what I use in my position trading work. Several weeks ago, I wrote about the DEW Timing method which is very useful for shorter-term swing trades.
3. Use the VectorVest calculated Stop to size the position so as no more than 1% of your capital is lost if the trade/investment moves against you. This is a vital step. If you don't size your positions properly, you are gambling and not trading. I have been looking at retail and institutional accounts for 35 years and this is the No 1 reason for blowing up an account.
4. Let's assume that the position moves your way, as most of them will, if all the VectorVest rules are followed. Buying undervalued, safe stocks that are rising when the overall market is rising puts the odds at your back. I suggest that when you have made as much as you have risked, then exit half of the position. An example may help. Let's assume that you buy a 1000 shares of stock ABC at 10.00 pounds and place a stop-loss at 8.50 pounds. The risk per share is 1.50 pounds. When the price rises to 11.50 pounds you have made as much as initially risked. At this point, bank the profits on half the position, i.e. 500 shares of ABC and at the same time increase the stop on the second half of the position to entry. In theory, some money has been made on the first half and no cash can be lost on the second half of the position.
5. When the VectorVest calculated Stop has a value above the initial entry point, trail the stop upwards behind the price. Eventually you will be

stopped out of the position. The real money is made by letting the 2nd half of the position run until stopped out by a close below the VectorVest Stop. The technique is emotionally easy to follow because most of the trades (if the VV rules are followed) will make the first target. Then we have the potential to make lots on the 2nd half with no risk. That's a great feeling. Emotionally, even if the 2nd half of the position is stopped without any gain, the profit on the first part satisfies the part of us that wants and needs to be right. We remain happy and all is good. We look forward to the next trade. By following the above or your own version of the above, the hit rate should be high, if defined by taking profits on the first half of the position. This constant positive emotional input will make trading and investing fun. By contrast, allowing winning positions to turn into losers can be tough to handle. Many traders find it impossible to handle and simply quit or get talked into a £10000 mentorship program in a moment of emotional despair. Like doing press ups, the path to mastery and becoming a consistently winning trader/investor is a path that you tread alone. No other person can do your press ups for you. At our webcasts and User Groups we will help and encourage you along the way and VectorVest will do all the research and heavy lifting so you can focus on this journey without the hassle of number crunching. It is a rite of passage.

6. There is a chasm between writing down a simple set of rules and following them. The discipline to follow your rules can be easily attained, but few achieve this level of mastery. To build the discipline, it's necessary to take deep breaths and focus for a batch of trades. If you can follow the rules for somewhere between 8 and 13 trades, then something amazing occurs between your ears as you create new neural pathways inside your brain. The paradox is that when you have built trading discipline you really don't need that much of it as all the decisions flow smoothly without conflict. You are between 8 and 13 trades away from the trader that you wish to be. That's all.

Many traders will try and exit the 2nd half of the position at a target. My testing says that most money is made by letting the 2nd half run if the price stays above the VectorVest Stop. However, the pullback to the Stop gives back profit and that upsets many. I hear this frequently in the User Groups around the country.

As with all the thoughts on exits, it's impossible to get it correct on each trade. A robustly profitable set of rules that suit your beliefs about markets over a batch of trades is the best that you can hope for. This will take some thought.

Many swing traders will target the last old high. I personally think that the last old high is a very early place to take profits on the 2nd half of the position. Fibonacci studies are used by professional traders to finesse exit rules. I illustrate these in the Monday afternoon webcasts and will do so again at the Q and A session on the 17th February.

In Birmingham, our User Group leader has many years of experience in trading and investing. He has championed a simple, but very effective method of locking in profits. He holds the share if it remains on a Buy recommendation. When the Buy changes to Hold, he simply exits. The technique is simple and easy to manage by using our smartphone app within the busiest of schedules.

Using the BackTester on VectorVest, there are many ways of exiting a position available for test. Have some fun with these and especially the latest addition known as the ProfitLocker Stop. This uses volatility to calculate a trailing stop-loss which weaves a fine line between letting winners run and at the same time protecting open profits. It's a very exciting development.

2020-02-21

Trend Following Using Value and Momentum

The study of trends and turning points is my personal definition of Technical Analysis in the financial markets. Trends are visually recognized by a series of rising price bottoms. If the volume of shares traded rises as the price rises, it adds to the validity of the trend.

Technical traders, both retail and institutional, spend days of their valuable time compiling a list of shares that are trending strongly. The trend is your friend is a popular saying amongst technically orientated traders.

Did you know that at the major trading houses droves of CFA qualified, exceptionally bright young people are employed in the quest for the true Value of a share? The search for the true Value of a share is my definition of Fundamental Analysis.

Imagine that with a few clicks of your mouse, a list could be compiled of all the shares on the LSE that are undervalued by the market, have strong growth potential and are trending strongly upwards. Imagine being able to get the same knowledge as the two groups mentioned above in a few seconds without all the heavy lifting involved.

Well you don't have to imagine it anymore. Using the VectorVest program, this list can be compiled easily. In these Essays, I have spoken of the ability of VectorVest to place a robust valuation on each share on the LSE and AIM each evening. The mathematics behind the calculations are revealed in Chapter 3 of Dr. DiLiddo's book "Stocks, Strategies and Common Sense."

To gauge the longer-term trend of the share, I make use of a proprietary metric on VectorVest called the Comfort Index (CI). CI is an indicator which reflects a stock's ability to resist severe and/or lengthy price declines. CI is based solely upon a stock's long-term price history. It's a unique measurement

in the Technical Analysis world and no one else has anything similar or as effective.

CI is also a measure of a stock's Price resistance to market downturns. This index is computed by comparing an individual stock to the up and down movement of the VectorVest Composite and is cast into a scale of 0.00 to 2.00. A stock with a CI of 1.00 or greater is more resistant to a downturn in the market, as measured by the VectorVest Composite.

There are many ways of using the CI, but here is a UniSearch that I use each day to keep my eye on the pulse of the market. It's a UniSearch that finds undervalued shares with great fundamentals that are in the throes of a strong trend where the Price is breaking out of a 13-week high. Here are the UniSearch parameters:

Stock Price - (Split Adjusted) < Value

Stock RV (Relative Value) ≥ 1.3

Stock RS (Relative Safety) ≥ 1.0

Stock Price - (Split Adjusted) New High Over 13 weeks (end of day data)

Stock GRT (Growth Rate) ≥ 20

I then sort these shares by CI Desc.

Immediately my focus is on the pulse of the market. I have narrowed down the nearly 2200 shares that we follow on the LSE and AIM to a relatively small list of stocks with outstanding fundamentals that are trending strongly and breaking upwards. That's a great area to place your focus in the search for short to medium term trading profits if you are a momentum orientated trader.

Once the list has been generated, then please apply the cherry-picking techniques that are taught in Lesson 4 of the "Successful Investing Quick Start Course." This course is built into the VectorVest program and can be found under the Training tab on the main tool bar.

I focus on shares with a strongly rising Forecast Earnings Per Share (EPS) line study. The EPS should be rising from the bottom left to the top right of

the 1-year window which is the normal default. As noted above volume of shares traded is a strong leading indicator of an upward continuation of the trend. Markets tend to rise in a series of steps. As the share price increases, volume traded should rise and as the share price retraces to support, the volume of shares traded should fall.

A share price that's rising on rising volume and pulling back to support on falling volume is showing all the characteristics of a bull trend which should continue.

Several weeks ago, the UK share Quilter (QLT.L) was found by the UniSearch above. The share is showing the price and volume characteristics noted in the last paragraph and has excellent fundamentals. I have a position.

Longer-term investors may wish to use the concepts presented in the recent webcasts on EPS Kings to further cherry-pick. This is accomplished by scrutinizing the performance of the stock over the past five years. These presentations will be continued at the 24th February 2020 Q and A session where Mark from our Guildford User Group will discuss his research into the EPS Kings with a focus on income generation.

Looking forward to seeing many Essay readers and subscribers at the London Traders Show on February 28th.

2020-02-28

Safe and Consistent Growth and Income

After a bad day on the markets such as Monday 24th February, it's worth dusting off thoughts on how to consistently make money in the UK's safest shares. These shares pay a handsome dividend and are invariably resilient to an overall market selloff. Worry-Free shares are invariably not involved in cyclical industries such as mining which would have helped in the past weeks turmoil.

During a selloff, the need for an investing plan becomes clear to most. The bars/candles moving up and down with much momentum can cause many errors and precipitate basic mistakes. A plan that suits your beliefs and objectives should be at the top of your priorities. The plan below would be a good start.

The VectorVest program calculates important and exact data on stock safety each day. This is unique and very hard to find information and that's because it's the last thing anybody wants to think about. The program examines the balance sheet, income statement and cash flow statements of companies on both the LSE and AIM. This information is then mathematically massaged to fit between 0.00 and 2.00. Above 1.00, the stock's safety is fair and, above 1.30, the Relative Safety, RS, metric is excellent. Even the few credible sources that provide some form of risk analysis do so subjectively. Consequently, most investors do little more than plug intuition into their investment decisions and, for this reason, stock safety (RS) is the missing link in consistent performance in the markets.

Knowing how safe (or risky) a stock is can make the difference between making you a winner or loser as an investor. It also makes the journey to becoming a consistent winner much easier emotionally. Here are the key factors used by VectorVest in assessing stock safety.

1. **EARNINGS CONSISTENCY.** The largest risk that shareholders have is that the company fails to meet earnings expectations. Experienced investors know that the moment of truth comes each quarter for every publicly traded American company. If a company fails to meet analysts' earnings estimates, its stock price often drops sharply in a single day. Therefore, the single most important factor in assessing stock safety lies in quantifying the probability that their earnings will meet investor expectations. If a company has a well-established record of consistent, predictable earnings performance, it is much more likely to meet the market's expectations.
2. **COMPANY SIZE.** It is true that the stocks of large companies generally are safer than those of smaller companies. Many fund managers are forbidden to invest in companies with less than a billion dollars in annual sales. Obviously, larger-sized companies aren't going to disappear overnight. Investors should not assume, however, that the shares of a company are safe just because they belong to big companies. Size is not nearly as important to an equity investor as knowing where the company's earnings are heading. It is virtually impossible to forecast the earnings of companies in cyclical industries with any degree of accuracy. Therefore, the VectorVest safety ratings on these stocks are generally below average.
3. **PRICE BEHAVIOR.** The classic measure of price volatility.
4. **LONGEVITY.** All other factors being equal, there's less risk in dealing with a company with a long track record than one which is brand new. Young companies offer some of the best investment opportunities, but they also bear potential pitfalls that could be fatal. Regardless of how good a stock looks, it's risky if it hasn't been traded for at least five years.
5. **DIVIDEND HISTORY.** A company doesn't have to pay a dividend to be called as a safe stock. But, if it does pay a dividend, it must maintain or increase the dividend without exception. A cut in dividend is a black eye for any company and reflects poorly on its management and stock safety.

6. There are many other factors including and especially those financial performance ratios that include a measure of debt. These are fully discussed in Chapter 7 of “Stocks, Strategies and Common Sense.”

The RS of a stock is the heart of the Worry-Free Investment methodology (WFI). This method has been BackTested over the past 20 years in the US markets and over the last 10 in the UK markets with excellent results.

The method uses the longest and most conservative Market Timing system on VectorVest to indicate when it's a good time to be in the stock market and when it's the time to be careful in the stock market.

The rules are simple, robust and straightforward.

- a. When the VectorVest Composite UK prints a Confirmed Call, C/Up, BUY signal, the investor should sort all the shares in the database by RS. In practice, I use a UniSearch in the Searches - Retirement folder named “Long Term Winners - RS Desc.” This brings those shares with the best safety track record to the top of the list.

In my own long-term Worry-Free portfolio, I have added a line of code to the standard UniSearch and saved this under the name “Long Term Winners-RS Desc 2” also in the retirement folder. This is the only change from the standard UniSearch:

Price (Actual) <= Stock Value.

I have added an extra margin of safety into my long-term portfolio by only considering shares that are trading below the VectorVest valuation.

- b. Purchase 10 of the top RS stocks from the UniSearch. Endeavour not to purchase more than 2 stocks in a single sector of the economy. Use the VectorVest Stop-loss to calculate position size. When the overall market is rising, the investor should be fully invested.
- c. As the overall market is rising, the probability of getting stopped out of a high RS stock is low, but it certainly can happen. If it does, run

the UniSearch and replace with another high RS stock that you do not presently own. If the overall market is rising, then it's vital that you are fully invested.

- d. Like humans, markets are living entities and breathe in and out. Sooner or later, there will be a Confirmed Down, C/Dn, signal. When this occurs, there is a much higher probability that even high RS shares will fall. They are resilient, but in a strong selloff, some will retreat. Obey the Stop calculated by VectorVest. In this case we DO NOT replace, but build a cash position. For example, in a strong selloff we may have to exit three shares. In this example, the portfolio would be 70% in shares and 30% in cash.
- e. When the next C/Up occurs, run the UniSearch and replace those three positions with shares you do not own.

It's that simple. A detailed document on Worry-Free Investing can be downloaded from VectorVest. Click on the Views tab and then on Special Reports and scroll down to Guide To Worry-Free Investing.

In 2019, the Worry-Free method which focuses on the UK safest shares produced a gain of approximately 45%, while the overall market rose 15%. This does not include any dividend payments. Last year was a very good year for the method. The long-term 10-year return from a test done in 2009 to the present is around a 15% compounded gain, again excluding the dividends.

2020-03-06

The Groundwork for the Next Upswing

Has the market bottomed out as I write on the 4th March 2020? Certainly, the bounce upwards on Monday, 2nd March was impressive and suggests that at least a short-term bottom is in place. Whilst the US indices sold off on Tuesday, 3rd March, this selloff found support at a major FIB level of Monday's advance. As I write at 9AM UK time on the 4th March, the Dow futures are rising and have shown an impressive advance during the first hour of UK trading.

No confirmation of a trend change is seen in the VectorVest Composites of the UK and USA. All trends from the short-term Primary Wave to the longer-term Confirmed Calls are on a sell on both sides of the pond.

Time will tell, but a strong bounce over the next two weeks seems likely with then a test of the low of last Friday. I will trade the market and not my forecast. The Color Guard on VectorVest will tell me what to do.

The Market Timing Indicator and the Buy/Sell Ratio are both showing mega oversold metrics. Short-term and those traders who understand how to manage risk by acting unemotionally to stop-loss levels should be considering and preparing a hit list for "bottom fishing." There is an excellent VectorVest course on this topic. Please [click here](#) for more details.

In selecting stocks, your primary job is that of assessing information and making decisions in an uncertain environment. Many investors, however, feel qualified and prefer to analyze data. This is fine if they have the time, resources and skills to produce reliable results. Knowledgeable investors can save time and get excellent results by asking the right questions and getting quick and reliable answers to these questions. It is my view that the

investor should spend most of their time managing the process as opposed to calculating ratios and hunting around the internet for reliable data.

For simplicity, I have broken down these questions into three areas;

1. The fundamental position of the company.

In property, the most important three factors are location, location and location. In stocks they are Earnings, interest rates and inflation. Stock valuations go up when Earnings go up and interest and inflation rates go down.

- Is the company making money?
- What is the stock worth?
- Is the stock over or undervalued?
- How safe is the stock?
- What are its forecast earnings per share?
- What is its estimated earnings growth rate?
- What is its growth to P/E ratio?
- What are its dividends per share?
- How safe are the dividends?
- How fast are dividends growing?
- Does this stock meet my risk/reward objectives?

I started to trade stocks in 1982 and did my utmost to understand the fundamentals of the shares I was following on the Johannesburg Stock Exchange. I totally failed in this endeavor. I didn't have either the knowledge, the time or, if I am honest, the inclination. For this reason, from 1984 (when I gave up beating my head against the annual and interim reports), I traded technically alone. It wasn't until I discovered VectorVest and its ability to do all the heavy lifting that I added this dimension into my trading plan. Remember information is useless unless you can react to that information. VectorVest displays the fundamentals in the following easy-to-use fashion.

- A. Value.** A value is calculated for every share in the UK database each day. The valuation methodology is discussed in Chapter 3 of “Stocks, Strategies and Common Sense” by Dr. Bart DiLiddo. With a glance of the Stock Viewer or by using UniSearch, it is easy to see which shares are under or overvalued. Favor undervalued shares.
- B. Relative Value (RV).** This is a measure of the long-term price appreciation potential of the share. RV takes Price, Value, Earnings Growth, AAA rated Corporate bond rates and risk and massages these into a scale between 0.00 and 2.00. A rating of 1.30 and over is regarded as excellent.
- C. Relative Safety (RS).** RS is made up of Earnings consistency, Company size, price behavior, longevity, dividend history and all the vital financial ratios. Again, this is displayed on a scale between 0.00 and 2.00. Above 1.30, the safety of the earnings stream and the financial integrity of the company is excellent.
- D. Dividend history is quoted in three metrics.** These are Dividend Yield (DY), Dividend Growth (DG) and Dividend Safety (DS). These metrics are combined into the Master Indicator for income investors known as YSG. This stands for yield, safety of the yield and growth of the yield. This can easily be built into UniSearch to find candidates for an income portfolio.

The best defence is a strong offense. If you trade in shares with excellent fundamentals and then add a sound trend following or swing trading plan, that combination will build an enormous edge in markets.

- 2. The technical position of the company.** I define the technical position as the study of trends and turning points. A Buy recommendation on VectorVest shows the share is rising in price. Some traders also use Moving Averages to signal that a sustainable trend is on its way. I favor using three moving averages. These are 21ema, 55ema and 89sma. I refer to the crossover of all three averages as a “bow tie.” When this crossover occurs, the probability that a trend is underway increases significantly.

Try them.

Buying a pullback to a previous high (resistance becoming support in technical jargon) after a bow tie has been charted is simple and it is a strong edge for swing traders. More advanced traders can look for confluences of support where many measures of support and resistance are found around a single level. Have a look at EGL.L. Note how recently after the selloff the share found support at a confluence of where resistance became support and a long-term trend line. At the same level there was a 78% FIB retracement of the last trading range. I will point this out to all next Monday.

- 3. The technical position of the overall market.** How the trend of the overall market is measured I discuss in the weekly Q and A meetings and I won't repeat it here. Suffice to say that there is a good time to be buying stocks and an awful time. That's been displayed in all our brokerage accounts over the past ten days. As I write on the 4th March, it's not a good time to buy stocks, but this will change as sure as morning follows night. This is the time to prepare and get mentally prepared to buy at the right place. Remember when you are trading well "Everything that you do HURTS."

In your trading plan, please decide on how you will decide that it's safe to buy shares. Longer-term position traders should use the Confirmed Call system, while medium-term traders can use the DEW Market Timing system.

In the Monday afternoon webcasts, I will explain the detail of these Market Timing Systems as they print buy signals if the turn in the Composite progresses.

2020-03-13

“They Are Never a Formality.” Wayne Rooney Quote on Taking Penalties

Building resilience and mental toughness is one of the hottest concepts in psychology right now. Coaches are talking about how athletes can develop more grit and mental toughness in their training. Wide awake teachers can foster greater resilience in the classroom and coaches are showing individuals, like you and I, how to build resilience into our daily lives.

For many individuals, the trading environment requires more mental toughness than they have ever needed to muster in order to make a success of their professional careers or businesses. This is easily seen from the many trading profit and loss statements I have read over the years.

Professionals who have made a great success in their careers can easily be serial losers in the investment and trading game. Rooney would be the first to admit he is no genius, but he has got what the shrinks call “Grit.” Imagine what it’s like to take a penalty that matters in front of 65000 screaming football supporters.

As financial traders (also penalty takers, poker players and pedestrians), we live in a world of probabilities and not certainties.

At VectorVest we have a process. Firstly, we use VectorVest to objectively decide whether it’s safe to buy shares or not. Secondly, we purchase undervalued shares that are growing earnings aggressively and safely and that are rising in price. By doing so, we can get our hit rate up to around 70%. If we can gain twice as much as we lose, then this is a massive edge in the stock market.

Unfortunately, on the next trade or investment, we don't know if it's one of the 70% or one of the 30%. The market cannot be predicted on a trade-by-trade basis.

As traders, we need two levels of belief. At the level of a single trade, the outcome is random. At the level of 30 trades, we must believe, with every fiber of our being, that our method is profitable and that it is going to make lots of money. Getting my mind around thinking in probabilities was the most difficult things I have ever had to master in these 64 years. We all understand probabilities at an intellectual level, but don't understand them at a gut level.

Becoming a good Backgammon player helped a lot.

A run of three losing trades with an excellent and profitable system is certainly possible. Those that have been trading for a while should know exactly to what I refer. The mental toughness to stay present and focus on perfect execution on the 4th trade after three losers is Herculean. It's tough, but not impossible to master. Once you get it and can successfully play the game of trading then the loot just keeps coming and coming.

I define mental toughness as the perseverance and passion to achieve long-term goals. Sometimes you will hear mental toughness referred to as grit. It is a strong predictor of success in any endeavor. Psychologist Angela Duckworth has written an excellent book on the subject which is simply entitled "Grit." It's well worth a detailed read.

In my trading seminars, I ask the audience if this mental toughness and discipline can be built or if it is God-given at birth. There is invariably a mixed response, but I am certain that it can be built and here are some thoughts.

Mental toughness is like your bicep, it needs to be worked to grow. This work entails building strong daily habits that, once developed, don't need all that much discipline. The psychologists refer to this as building new neural pathways in your brain. I have no idea how it occurs, but it certainly works for me and for many of the traders I have coached over the years. The recent book by author James Clear will help with developing these positive habits in

trading and in life. His book “Atomic Habits” is a must for any trader who feels their trading discipline could improve.

I never miss the gym and require zero discipline to get there. After a period of inactivity, I built that habit 20 years ago and it's going strong. To get the habit going, I hired a personal trainer.

They essentially made sure I arrived at the gym. Personal trainers think they are in the exercise business. They are, in fact, in the habit building business. After a few months, I no longer needed the coach. The neural pathway had been built. Any change you wish to make in life can be achieved in a similar manner.

The execution of my trades occurs in the same way. Some are winners and some are losers, but there is little resistance in execution. It takes work and, like press ups, you must do your own.

- Can you maintain a daily trading journal each day for 30 days until the habit is engrained? What about starting now with a few sentences about the last trade you completed.
- Can you make sure that you complete the calculation of the number of shares to purchase, so as only 1% of your account is at risk?
- Can you devote 15 minutes to analysis each and every day come hell or high water?
- For me, physical exercise helps my trading immensely. Can you get to the point where you don't miss a workout for 30 days?
- Can you define a stop-loss for each trade as you place the trade and keep doing this until it is second nature?
- Can you define a target for each trade as you place the trade and also keep doing this until it is second nature?
- Can you ensure that you are getting enough sleep?
- Can your diet and energy levels improve?

As I write on the 11th March 2020, all measures of the trend on both sides of the pond are down. The markets are much oversold and sooner or later we shall have a strong rebound. I will discuss those shares that should move strongly when the overall market turns at the weekly Q and A meeting on the 16th March 2020. Until you see some Green lights on the front page of VectorVest, do nothing. I know better than most that “doing nothing is much more difficult than it would seem.”

2020-03-20

What Can We Learn about the Market and What Have We Learned about Ourselves in the Recent Selloff?

The stock market correction became a bear market according to Charles Dow last Thursday the 12th March as the USA markets fell more than 20% from their peak. That was Dow's basic definition of a bear market which is still used by the financial press. I keep long-term charts going back to the start of the USA stock markets. The velocity of the fall over the last month has only a single period in history when the velocity of the fall was higher. That was in 1915 during the First World War as the Lusitania was sunk mid Atlantic.

In speaking to VectorVest customers, I have found that most have made me very proud by honoring the VectorVest Stops and moving substantially to cash. The lack of inverse ETFs in the UK that are liquid is a major disadvantage compared to the USA markets. The ETF SUK2 is charted on VectorVest and it has enough liquidity for most, but is still several orders of magnitude in traded volume below that of the USA equivalent. SUK2 is a double leveraged ETF which means it will rise twice as fast as the UK market falls. In the coming weeks, I am hoping to have a presentation at our weekly Q and A sessions by a member from the Oxford User Group where he will discuss the merits, disadvantages and details of hedging with either ETFs or spread bets on the FT100 index.

Both the UK and USA markets are much oversold with BSR and MTI at levels not seen since the last major rout in 2007/8. As I write on the 17th

March, I feel that there is a high probability of a bear market rally getting underway soon based on the mega oversold readings from the MTI and the BSR on either side of the pond. However, there is no confirmation of any turn from the Color Guard on both VVUS and UK and, until that changes positively, I will sit and wait for a Green Light.

I also have noticed that on the 16th March, US equities made lows but US Treasuries did not follow. That's always been a heads-up for me in the past.

Bear market rallies are strong and fast moves. Central bankers are taking extreme measures, as you will have read, all over the world. The latter seem to have panicked Wall Street and the City a little by the strength of the response. In early Monday trading, the FED seemed to convince the market that things would get much worse before they would better and thus the gap down.

Never underestimate or bet against the FED is an old trader maxim and it still hold true in my view. The FED/ECB/BOE can, by supporting markets, cause a V bottom. A speedy recovery will also need a sudden end/slowdown in infections of the Coronavirus and, until that's in place, the stimulus may well be in vain. Until the UK/USA markets close above a 78% FIB retracement of the selloff, I will assume that any rally is a bear market rally and will treat any investments/trades made over the next week in that light. This will be fully described and charted on both the UK and USA Market Timing charts in the weekly Q and A session on the 23rd March 2020.

Until we have a clear signal that this issue is well and truly behind us, I recommend that any trades/investments taken should be exceptionally carefully managed. I suggest that when any position is profitable by the same amount as the initial risk, take partial profits and get the Stop on the remainder of the position to entry. If the overall market recovers and we get that close above a 78% FIB of the selloff, we can easily build a position from there. Many will complain that this is extra brokerage I know. Remember we still have NO signal from the overall market to buy shares as I write on the 17th March an hour prior to the London close.

To illustrate the above please assume that a Buy signal is taken in a share at 10 pounds for whatever reason. The reasons will be fully discussed next Monday afternoon. Also let's assume a stop-loss level of 8.50 pounds. When the share has moved 1.50 pounds to 11.50 pounds, the trade has made as much as the initial risk. At that point, take profits on half the shares bought and bring the stop on the other half to entry. You now have made a profit on half of the shares and have the ability, in theory at least, to make money on the second half at no risk. This is a great feeling and essential in this environment. If a bear market rally starts, then most of the high RS and much oversold stocks should move quickly and easily to what I refer to as "first base."

Let's review what we have may have found out about ourselves over the past month.

For many traders and investors, their emotions influence their trading, and these can often have a negative impact on results. Learning to control and direct emotions and be disciplined enough to create and use a strategy consistently is something that I have written about over the past months in this forum. A written plan which dictates what you must have to enter a trade/investment and then, more importantly, tells you what to do if the trade goes your way and what to do when it does not go your way. The plan should also detail position sizing.

Markets don't like egos. A trader that is influenced by ego rarely admits they are wrong. Ego gets in the way and causes the trader not to close trades when their strategy says they should. Please have a long read of a small book written by a SP500 floor trader. The title is "Zen in the Markets" and in the book the author (the late Eddie Toppel) talks about the effects of the ego on trading performance. The book in Pdf format is freely available by a Google search. On the floor of the CME the author was known as "fast Eddie" as he never hesitated.

To build discipline, keep things simple and follow the VectorVest prescription detailed in the "Successful Investing Quick Start Course"

(SIQSC). I have summarized some simple rules to focus our thoughts for the opportunities ahead.

1. Decide on the amount of cash that you wish to devote to share trading/investing. Few decide on this in advance. As you should know by now, “if you don’t know how much cash you have in your account, then you can’t size your positions correctly. If you don’t size your positions correctly, then you are gambling and not trading.” How to size positions is covered in Lesson 2 of the SIQSC.
2. An easy and effective way to accomplish this is to divide your cash into ten parts and never put more than 10% into any single investment/trade. Then resolve to follow the VectorVest Stop- loss without hesitation.
3. VectorVest recommends investing in undervalued shares that are rising in price with little volatility and that are growing earnings strongly and safely when the overall market is rising. To repeat and emphasis, as I write on the 17th March, all measures from short-term to long-term trends on the VVComposite on both sides of the Atlantic are firmly down. Stand Aside.
4. Try not to have any more than 2 shares from any sector/industry.
5. After purchase, please put your shares into a WatchList and re-sort this WatchList by Relative Timing (RT). Resolve to act on the shares at the bottom of the list when sorted by RT. When you own shares, the only thing that matters is whether they are rising or falling in price. Re-sorting by RT places those shares that are rising at the top of the re-sorted list and those that are falling at the bottom. It’s the shares at the bottom of the list that require the work.
6. Rest assured, your ego will fight you all the way and come up with a dozen reasons why not to simply get rid of “Sell” rated stocks. A “Sell” rated stock is where the share price of that stock has fallen below the VectorVest calculated Stop Price. Tell your ego to take a hike.

7. Your success as a trader will be determined by your ability to simply exit the losers quickly and unemotionally. Those of you who have traded through the last month will know that this is more difficult to do than to talk or write about. Holding on to losers is one of the four big mistakes that losing investors and traders make until they run out of money. All the winners I know in this business have a common thread. They never hesitate in taking a quick loss.

2020-03-27

Winners Focus on Building Mental Strength

Your ability to advance and build your mental strength will affect all areas of your life, which includes your mental, emotional and physical health. The full expression of your potential demands taking total responsibility or ownership. It's not the market makers, the virus or any other of the role players fault. Champions in all fields assume total responsibility for their results.

To improve your mental strength means to develop yourself so you are always improving how you deal with your everyday experiences. If you make your mental development a priority, you will learn ways to improve it and become a better person.

The main reasons to advance your mental strength and “GRIT” include:

- Cope with stress better.
- Increase your self-confidence.
- Have greater clarity on your priorities.
- Know when to say “yes” or “no” to demands placed on you.
- Feel good and positive when taking a quick loss in trading.
- Feel good and positive after a few losing trades in a row.

Developing yourself into a stronger and mentally tougher person with “GRIT” does not require a lot of time, but it will require sustained focus. A few minutes each day is much better than hours twice a month. At the end of this, I will offer a simple exercise that will build trading mental toughness.

Trading does not have to be a tough business, but we seem hellbent in making it so. The mental strength to quickly and without hesitation take a quick trading loss separates the winners from the losers. The mental strength

to place a third trade without fear or hesitation after two losers separates the winners from the losers.

Most spend their lives in the search for the proverbial “Holy Grail.” A trading system that is never wrong. There is no such thing. I have been a part of that group for a spell in my early trading years. If you wish to join in the chase, there are many online vendors who will sell you the long-lost secrets of W D Gann for 50k.

The VectorVest prescription of buying undervalued shares that are growing earnings strongly and safely that are rising when the overall market is rising is a strong edge in the stock market. It's not our job to second guess the rules, but just apply the rules and that takes mental strength, especially in the volatility of the last month.

Those starting to invest should consider using the VectorVest Worry-Free Trading method (WFI). The latter is mechanical with exact rules. The next Buy signal from Worry-Free will, in all probability, precede a very strong percentage move as the overall market is much oversold now. It should be the best time to start a portfolio in many years. Many argue 12 years. There will be losing trades, but there should be many more winners than losers. Much more importantly, the winners should make than 2 to 3 times more than is lost in losing trades. That's the edge which trading texts refer to as trading system expectancy.

Trying to be successful in trading by constantly searching for a “Holy Grail” that is never wrong is like losing your car keys in the garage, but looking for them in the kitchen because the light is better in the kitchen. In my humble opinion, the focus by the champion and warrior should be on finding a simple, robust, well tested and easily actionable plan and then developing the mental toughness and “GRIT” to follow it. The WFI is exactly that. I believe that at this time your focus should be on shares and companies that have outstanding balance sheets with little debt. These companies will have the reserves to handle a few poor months and, more importantly, the cash to feed off the companies that do not.

We are told by our mentors and mothers to always have 6 months cash on hand for emergencies. Many companies after a single poor month are crying for a bailout. The latter will be easy prey for the Microsoft, Apple, Berkshire Hathaway and Amazon, to name a few, that have lots of cash in reserve. A simple re-sort of the Stock Viewer by Relative Safety (RS) will easily find these shares in both the UK and the USA.

Here are five easy things you can do consistently to advance your mental strength.

- 1. Make your health and wellness a priority.** If you have a busy lifestyle, it's not uncommon for many people to not give much attention to their overall health. Focusing on your self-care is essential if you want to be healthy mentally, emotionally and physically. I know the gyms are closed at present, but a few sets of pressups, planks, tricep dips and a short run at home would suffice. The websites are full of home exercises.
- 2. Develop your self-confidence.** Confidence is developed by successfully dealing with new risks. As you challenge yourself to do things you have not done before, you will learn things about yourself. They will support you when setting and achieving bigger goals. Traders should operate from a confident mindset, but not a cocky mindset.
- 3. Embrace your challenges.** Everyone will have challenges and experience difficult times. Instead of wishing you didn't have problems, accept them and then focus on becoming the person you need to be to overcome them. You can learn to turn obstacles into new opportunities. The present Coronavirus situation can be used to grow substantially. No amount of shouting or fuming will change the latter situation. We don't know what's going to happen next in our next trade. It's not what happens to you, but how you react to it that matters.
- 4. Establish empowering habits and routines.** Your habits reveal who you are. If you have habits that boost your confidence and support you in achieving your goals, you will be mentally strong. Learning something new every day is an example of a habit that will improve your life.

5. I have written many times about the 30-trade challenge. It's all about formulating a simple trading plan with exact rules such as WFI. My challenge to you is to follow the rules for 30 trades. If you chop and change the rules, such as not taking a stop-loss or snapping at profits, then you need to start again. If you can adhere to this regime then you will build quickly and easily very positive trading habits. It normally takes somewhere between 8 and 13 trades for the habit to be built. After this period, the mental resistance simply disappears. You are 8 to 13 trades away from the trader you wish to become.

2020-04-03

Can You Make Money by Tossing a 1 Pound Coin?

Winning traders have dozens and even thousands of trading strategies and ideas. Some are totally fundamental, some only technical and some use both methods of analysis as I try to do.

I know some great traders who just use gut feel and they seem to do fine. However, cutting through all these approaches are two common denominators.

These are:

1. Trading Psychology and the ability to play the game of trading. It is a game and a game that you play with yourself. Last week, I suggested a simple exercise of a batch of 30 trades to build good habits and reinforce trading discipline. It is as I have oft said a “rite of passage.”
2. The simple mathematics that define an edge in the stock market. All the psychology in the world will not help with a system or edge that loses more than it makes.

I will devote today's entry to the second, which is the mathematics behind a winning trading system. The key aspects of a winning trading system are far from what most believe. The mathematics must come first, although when it is in place, it is not as important as correct personal psychology.

In the trading seminars that I have done all over the world, I start with putting up a chart of the Dow 30 stock index for no other reason than the numbers are in everyone's face by mainstream media. I then ask the crowd, “Is the Dow going to go up or down tomorrow?” I get a show of hands from those who think it is going up and another show of hands that it will fall. I did this last at the 2-day trading event in Tampa, Florida in January 2020.

Out of my pocket, I pull a Pound coin and call it the “Ultimate Trend Detector.” I tell the crowd that clearly the head (HRH) means the market is going up. I toss the coin and justify the position of one set of hands. The relief on their faces is a joy to observe as is the disappointment on the side of those who got it wrong. “Would you trade like that?” I yell.

The answer is a 100% NO.

I then say, let us consider a special game. If you can predict whether it is going to be a head or tail, I will double what you are prepared to bet. If you are prepared to bet a Pound that I will throw a head and you are correct, I will pay you two Pounds. Clearly if you are incorrect, I will take the Pound away.

Would you play that game?????

Most of the crowd, new to trading, dismiss the idea and just shake their head. I can see in their eyes “Did we pay good money to listen to this?”

However, it is a great game to play and the game is the basis of all financial trading. With the coin you should be correct 50% of the time. If you are correct, I will pay you twice as much when you are correct as when you are incorrect. Let us look at the sums:

5 times 2 (correct) minus 5 times 1 (incorrect) equals 5 on 10 throws of the coin.

Thus, if you are prepared to bet 1 Pound per coin toss, on average you will make 50 pence every throw.

In trader speak, you have now got a game with a “POSITIVE EXPECTANCY.” As far as I know, the term expectancy was first coined by trading coach Van K Tharp. In simple terms, your winning system must make more money in its winning trades than it loses when incorrect.

In the coin game, the 5 out of 10 is the “hit rate” and the 2 to 1 is the “risk to reward ratio.” The mathematics of a system, whether technical or fundamental, is critical to success and it is NOT just about being right all the time as most people think. System expectancy is a function of three parts;

1. Hit rate.
2. Risk to reward.
3. Commissions and spreads and in the UK stamp duty.

Consider a trend following system that has a hit rate of only 40%. That figure is unfortunately typical of a system that buys breakouts with no other filters. Trend following systems tend to predict high risk to reward moves where the reward can be 5 times that of the risk and in many cases much more.

The expectancy is

$$(4 \times 5) \text{ when correct} = 20 \quad (6 \times 1) \text{ when incorrect} = 6$$

In 10 trades, the system makes 14 units or £1.40 per £1 risked. That is a very strong edge in markets, and it is why many trend followers (if they can adhere to the rules) are some of the world's wealthiest traders and investors.

At VectorVest, by putting the technical position of a share together with the fundamental position, we can engineer systems with both a high hit rate and a high risk to reward. The expectancy then goes through the roof. My swing trading system has, over the years, produced a hit rate of around 66% while averaging a 2.5 risk to reward ratio. All I must do is focus on playing the game. Akin to any other game in the world, such as golf or tennis, that comes down to perfect execution of each stroke or serve. Keep your mind focused on the present moment and concentrated on what is happening now.

The VectorVest systems are proven in the heat of the stock market all over the world for the last 30 years. You can spend years trying to figure it out on your own or use what has been proven in battle for 30 years, but whatever you do, do not forget about expectancy.

As I write on the morning of the 1st April 2020, the Primary Wave of the UK stock market (as measured by the VectorVest Composite UK (VVC/UK)) is Up, while the underlying trend is Down, and a Confirmed Down Call is in place. There is a Green Light in the Price column of the Color Guard which is positive. Inside the Green light, there is a black star which visually shows that

the Price is rising day-over-day and week-over-week and the momentum of the VVC/UK is also rising.

The market seems to be waiting on the US jobs report which will give analysts some idea of the effect of the coronavirus on the economy.

Aggressive traders should already have taken some positions and should be watching stops and open profits very carefully. More conservative investors should be watching and waiting on a Confirmed Up signal before any action.

2020-04-09

The Objective of a Recession Is to Survive It

In the talks, webcasts and videos that I have been presenting since the Corona virus has turned the world upside down, I have been emphasizing that traders and investors should be focused on companies that have the financial reserves and business models to survive a period of poor sales. These companies should be able to survive the storm and after the storm, these companies should be able to purchase assets at knock down prices. Big tech that is highly cash rich is a prime example. For example, Microsoft has 146 billion dollars in reserve and will without doubt use this period to purchase smaller interesting ventures that will not be able to survive the storm.

As I write on the 7th April, the medium-term Market Timing Model on VectorVest (known as the DEW) has given a Buy signal in the USA. This is a very positive signal, but the advice on the front page of VectorVest on the 7th April advises caution and to err on the side of defense.

Conservative investors and traders will want to wait for more confirmation of an uptrend from the Confirmed Call Market Timing system which is the method used in Worry Free Investing (WFI). When it is time to buy, Stock Safety should be your primary concern.

On VectorVest, companies with sound fundamentals can be found by re-sorting the database by

Relative Safety (RS). RS is an indicator of risk. Alternatively, in UniSearch apply the search “Long Term Winners RS Descending”.

The VectorVest program assigns a Safety rating to every stock in our database every day. In his classic investment book, “Stocks, Strategies and Common Sense,” our Founder, DR Bart DiLiddo, devoted an entire chapter to the importance of RS, calling it “Stock Safety: The Missing Link.” It is Chapter

7 and well worth reading again if you have not already done so. You will find the most current printing in PDF format on the Welcome tab.

RS is graded on a 0.00 to 2.00 scale: the higher it is, the safer the stock.

RS is computed from an analysis of the consistency and predictability of a company's financial performance. It is included in the Full Stock Analysis Report under the heading titled, SAFETY (Relative Safety/RS). In its makeup, RS includes the debt to equity ratio, sales volume, business longevity, price volatility and other factors.

The following points summarize how RS for each stock in the database is calculated daily.

EARNINGS CONSISTENCY AND PREDICTABILITY. This is number one when an investor is assessing Safety. Earnings is the engine that drives the bus, Dr. DiLiddo says. Earnings in VectorVest is a 12-month leading indicator. A safe stock is one that is making money and is expected by analysts to continue making money over the next year. For stocks we own or ones we might buy, we want EPS rising to the right edge of the graph. Price follows earnings.

COMPANY SIZE. It is fair to say that stocks of large companies are generally safer than smaller companies. Smaller companies have more explosive growth potential, but they also fail more often than larger, well-established ones. Larger companies tend to grow more slowly but offer less risk.

PRICE VOLATILITY. I find it noteworthy that price volatility is named explicitly in the Full Stock Analysis as one of the critical elements. Dr. DiLiddo writes, "Price Volatility is a reflection of fear and uncertainty." Safe stocks have track records of steady prices and earnings performance. Favor stocks with low volatility. They are safer.

DEBT TO EQUITY RATIO. This is a measure of a company's financial leverage calculated by dividing the total liabilities by shareholders equity. It shows the proportion of equity and debt the company is using to finance

its assets. Beware of companies with excessive debt. You can spend hours analyzing a company's financial statements, or you can simply favor stocks that have a Relative Safety/RS score above 1.00. VectorVest does all that analysis for you.

SALES VOLUME. This is the number of units sold of a product or service. Sales volume is a performance indicator important to the future of the company. Rising sales is positive for RS.

BUSINESS LONGEVITY. Younger companies offer some of the best investment opportunities, but they face many threats related to financial and human resources as well as potential problems with customers, suppliers, competitors, and investors. Such risks can be fatal to the company and your portfolio. A company with a long track record has well-established processes to manage effectively. Stick with the tried and true.

DIVIDEND HISTORY. Mature, dependable companies can afford to share profits with their investors in the form of dividends. Risky, untested, or faltering companies rarely pay a dividend because they need to put all their available resources toward survival. Favor companies that have a long history of maintaining and growing their dividends, in good times and bad. They regularly outperform the market.

As a practical exercise In Stock Viewer, change the Sort to RS DESC. Chart the top 25 or so stocks and select a Weekly 5-year view. Add EPS and RS.

Notice on GAW.L, LIO.L, AVON.L etc. all feature at the top. On page 51 of DR DiLiddo's book, he writes, "When one takes into account the difficulty of picking winners, commission costs and tax consequences, the best strategy for the average investor is to create a diversified portfolio of high Relative Value (RV), high Relative Safety stocks which require little or no trading. With above average rewards and below average risk, these stocks combine THE BEST OF ALL WORLDS."

RV is an indicator of the long-term price appreciation of a share price and is measured relative to the return from a AAA rated Corporate bond. If the RV is greater than 1.30 on a scale between 0.00 and 2.00 it is classed as excellent.

DR D is making a case for holding shares with a high RV and a high RS and that is a very good place to be now in this storm.

AVON.L has a RV of 1.40 and a RS of 1.51 LIO.L has a RV of 1.43 and a RS of 1.47 GAW.L has a RV of 1.30 and a RS of 1.45

That is why I am holding them, but watching stops carefully in what (until the market proves otherwise), in my humble opinion, is a bear market rally. Have a great Easter everyone.

2020-04-17

The Trend Is Your Friend

I have written about building a systematic edge as a precursor to becoming a successful and consistent investor or trader. If you do not have an edge in markets, you will likely lose in the long run. It is a mathematical certainty. What is an edge? Simply put, an edge is a system of discovering buying opportunities that result in your system making much more when its correct than you lose when it is incorrect. As I have written here many times, this is referred to in trading books as a positive expectancy system. In other words, if you apply the system rules without fear or hesitation repeatedly, you most certainly will not win every trade, but you will come out ahead on the P/L over the long run.

In most seminars, I ask the following question; Are the casinos in the gambling business? The response is varied, but the casinos are most definitely NOT in the gambling business. They have quantified their edge in the various casino games to several decimal places. The casinos have constructed rules and police those rules to ensure a positive expectancy system is in place. The casinos are a great metaphor for your trading business. The casinos have a positive expectancy system, simply play the game, and build cities out of the proceeds. The punter putting the one- pound coins into the slot machine is playing a negative expectancy system game. The longer they stay, the more broke they become.

VectorVest's edge is trend following. I personally only apply trend following techniques such as moving average crosses to shares with outstanding fundamentals when (and only when) VectorVest indicates that it is safe to buy shares. In the Essay of last week, I defined Relative Safety (RS) and Relative Value (RV). High levels (greater than 1.30 on a scale between 0.00 and 2.00) of RS finds shares with an excellent track record of sound and improving financial performance, while RV levels of greater than 1.30 finds shares that are growing earnings strongly. As noted over the past few Essays, I believe that

in this unique period our focus should be on shares with a safe track record that have the resources to survive and then prosper from the misfortune of others.

The VectorVest edge is a methodology our Founder, Dr. Bart DiLiddo, and his instructors have taught for more than 25 years. It began when Dr. DiLiddo found his edge some 30+ years ago after reading a book called, “Follow the Leaders,” written by Mr. Richard Blackman. Dr.

DiLiddo has said, “This book changed the way I selected stocks and managed my portfolio. On January 14, 2000, I wrote an essay on my awakening and called it ‘Revelation.’ If there ever was an essay you should read, Revelation is it. Mr. Blackman believed in buying rising stocks in rising industries in rising markets. He advocated buying stocks that were breaking out to new highs. I could not believe what he was saying because it was totally opposite to what I was doing. But when I thought about it and when I tried it, I became a believer.”

THE PRIMARY WAVE. VectorVest’s method of trend following begins with market direction. Dr. DiLiddo’s early studies showed the week-to-week movement of the Price of the broad market, represented by the VectorVest Composite, was significant. When Price is higher than it was one week ago, the Primary Wave is Up and vice versa. It is a fast, yet reliable indicator of a short-term trend that has the potential to develop into a long-term trend.

THE TWO-WEEK RULE. VectorVest discovered a slower, but more reliable signal of market direction is obtained by analyzing the two-week movement of the Price of VectorVest Composite. When Price goes up week-over-week for two consecutive weeks, it gives a preliminary signal of a sustainable uptrend and vice versa. When the trend is confirmed with a Confirmed Call, subscribers are encouraged to get in early and follow the trend until it ends.

RISING STOCKS. The 3 main principles of trend following in stocks may surprise you. 1. Buy high, sell higher. 2. Trends in motion tend to stay in motion, so just follow Price. 3. Don’t set firm profit targets, let your winners

run. The Comfort Index (CI) finds shares that are in throes of a strong trend with little volatility. It is indeed a secret weapon. Shares with a high CI (> 1.30) are showing a strong and persistent long-term trend. Buying high RS stocks that also have a high CI which are on a BUY recommendation is a simple and easy to follow trading system which can be set up on UniSearch.

In UniSearch (click on the UniSearch tab), choose the Retirement folder and load Long Term Winners RS descending. Simply add two extra lines of simple code to the three lines that already exist and save the UniSearch under a separate name.

Time of Search Stock Rec (Recommendation) = Buy Time of Search Stock
CI (Comfort Index) ≥ 1.30

The basic mindset or methodology behind a trend following system is that we're going to enter a position that is already persistently rising, such as a VectorVest Buy-rated stock, and we're going to stay in that stock as long as Price continues to move higher instead of exiting prematurely.

VectorVest calculates a sensible Stop that allows the stock room to follow the overall trend, but does not allow a substantial loss or give back too much profit if the trend breaks down.

As I write on the 15th April, the UK market has printed an UpUp trend. This means that the Primary Wave (short-term trend), the Underlying Trend and a medium-term Market Timing system known as the DEW are all upwards. The Underlying Trend has not been confirmed by two-week Price action and thus the longest-term measure of the trend on VectorVest is still down. As the market still has not printed a Confirmed Call, those following the Worry-Free Investing plan will be still watching from the sidelines.

2020-04-24

The VectorVest Buy/Sell Ratio Is a Leading Indicator of Change in the Stock Market

In the stock market or any well traded market, a leading indicator shows the probable trend of the share price well before price itself has shown its hand. There are very few of these.

The Buy-to-Sell Ratio (BSR) is one of the most powerful indicators available anywhere to analyze the stock market. The ratio is known as “the Canary” for its ability to predict the future.

It is vitally important to understand the nuances of the indicator, especially when the BSR is divergent from the Price of the VV Composite. The BSR gives the trader advance warning of a change in trend, such as the market collapse in February 2020. The overall health of the stock market can be seen from a glance at the BSR.

As a first step, I will define how stocks receive the BUY and SELL ratings.

To receive a BUY Rating, the stock Price must be above its Stop-Price and Price must be diverging away from the Stop which you can see on each chart. The RT or Relative Timing must be greater than 1.00, and the Master Indicator, VST (Value, Safety and Timing), must also be greater than 1.00. Stocks with high RV, RS values receive ‘B’ ratings more easily than those with low RV and RS values.

To receive a SELL Rating, the stock’s Price must simply fall below its Stop-Price. The latter is a 13-week Moving Average of Price adjusted for the stock’s fundamentals. The better the RV and RS scores, the wider the STOP, allowing

investors to hold a quality stock longer through normal up and down moves. The SELL rating establishes a line in the sand for the investor to take some action to avoid a potentially catastrophic loss in their portfolios. Please note that a SELL rating is given when the stock closes below the Stop-Price.

Now that we know how the BUY and SELL ratings are derived, the Buy-to-Sell Ratio is simply the number of BUY Rated stocks divided by the number of SELL Rated stocks. The first thing the BSR tells us is that the stock market is robust and healthy when the percentage of Buys is greater than the percentage of Sells, i.e., the BSR is greater than 1.00.

The BSR is of great use in defining an overall stock market that is overbought or oversold. When the BSR gets below 0.20, then the market is defined as oversold and when above 4.20 overbought. Signals to buy the market from a Market Timing model that are preceded by oversold levels in the BSR tend to predict high probability high percentage moves. This the basis of the VectorVest “Bottom Fishing” method which is the subject of an entire VectorVest course.

A BSR of less than 0.20 signals that the market is nearing a bottom and we should position ourselves for a potentially explosive rally from there. This is especially valid when confirmed by an oversold MTI, Market Timing Indicator. When the market turns and the indicators begin to move higher, this is one of the safest times to buy stocks. In summary:

OVERBOUGHT...BSR greater than 4.20...MTI greater than 1.60

OVERSOLD...BSR less than 0.20...MTI less than 0.60

I have used this material to enter positions in both the UK and USA in the present rally since the low in March using the DEW Market Timing system. Here the Buy signal on the 6th April from the DEW was preceded by an oversold level on the BSR. I have discussed these purchases at length in the Monday afternoon Q and A sessions. As I write on the morning of the 22nd April, the trends on VectorVest UK have become bearish and I am watching these aggressive positions carefully.

A stock market that is rising with a rising BSR is the sign of a healthy market. A stock market that is rising with a falling BSR or flat BSR is a cause for worry. This divergence is known as a normal bearish divergence and is the leading feature of the BSR that I highlighted above. A sell signal from a VectorVest Market Timing system such as the DEW or a Confirmed Call Down is preceded by a bearish divergence between the Price and the BSR. That divergence is a sign that the upward market is about to turn down.

In the UK, the period leading up to the collapse in February 2020 illustrates this perfectly. Before proceeding please load a chart of the VectorVest Composite UK (VVC/UK) over the last six months using the VectorVest MTI Layout and apply the Confirmed Call signals. The last Sell Signal (C/Dn) occurred on the 25th February.

Since the start of 2020, the Price of the VVC/UK was flat to slightly upward, but note the BSR falling in this period. That is the divergence and leading indicator of a trend change.

Since the market low on the 18th March, the stock market has advanced, but the BSR has not gained and this indicates a weak market which is a worry to me. As I write on the morning of the 22nd April, the trends on the VVC/UK are DnDn which indicates that the Primary Wave and Underlying Trend are both pointing south. There is a red light in the Color Guard showing that the Price of the VVC/UK is down day-over-day and week-over-week.

The charts are saying that more downside and a test of the March lows is highly probable. As always, I will trade the market and not the forecast.

Please note that the Confirmed Call Down from the 25th February is still in play and that those conservative investors following the Worry-Free Trading method should still be watching from the sidelines.

2020-05-01

The Engine That Drives the Share Price

In the UK, it is my belief that the major moves (up or down) in the stock market start in the USA. For this reason, VectorVest UK and VectorVest USA are marketed as a single product which can be opened on your computer (in separate windows) simultaneously. A knowledge of the trends on the US markets are vital to UK investors and traders. Please read my Essay of last week on the relationship between the Price of the VectorVest Composite and the VectorVest Buy/Sell ratio as an early indicator of a change in trend.

Earnings season each quarter in the USA is very important for UK based investors. Also the frequent changes in direction of the Primary Wave (short-term trend) in both the UK and USA markets over the past week (as I write on the 28th April 2020) is nothing more than major investors waiting on the FED meeting and press conference to shine some light on policy and the effect of that policy on earnings.

Another earnings season in the USA and UK is already upon us and well under way. The Founder of VectorVest, Dr. Bart DiLiddo, writes in his little green book titled, "Stocks, Strategies & Common Sense," "Earnings growth is the engine that drives stock prices higher and higher." The opposite is also true.

Few things can move a stock faster and further up, or down, than an earnings announcement. Earnings means profit. A growing Earnings Per Share, EPS, is the most important indicator of a company's financial health. If you own a corner shop and that shop makes more money this year than it did last year, then your shop is worth more next year than last year. It is not rocket science.

In the City of London and on Wall Street in the weeks before earnings reports come out, stock analysts issue earnings estimates. There are thousands of these people in the City covering mainly FT350 stocks. This is their best shot at what they think earnings will come in at. These forecasts are then compiled into a “consensus earnings estimate.” When a company beats the estimate, it is called an earnings “surprise” and the stock’s price usually moves higher, especially if the company also issues a positive outlook. The opposite is also true. If a company releases earnings that fall short of the estimate, it is said to “disappoint.” Share price is almost certain to move lower until the company can right the ship or valuation looks attractive once again.

VectorVest provides four vital, exclusive measures of earnings. Paying close attention to them can help investors become more consistently profitable while reducing the risk of getting burned by an “earnings disappointment” on a stock they own.

First, consider owning high Relative Safety, RS, stocks. Stocks with RS scores above 1.20 on a 0.00-2.00 scale have proven, consistent and predictable earnings. Such stocks are more likely to have an earnings surprise than an earnings disappointment. This, in my view, is very important in the present environment where earnings upsets are going to be much more common. All the shares in my portfolio in the UK, bought on the 7th April as the DEW Market Timing system said it was OK to buy stocks, have a high RS.

Second, look for EPS on at least a one-year chart to be rising from bottom left all the way to the top right of the window. EPS in VectorVest is a leading 12-month indicator of earnings. It is computed from a combination of recent earnings performance and traditional fiscal, calendar year earnings forecasts. Over the first quarter of this year, we have had three presentations by VectorVest users on EPS Kings. To become an EPS King, the share should show strong and linear EPS growth over a 5-year period combined with a price chart showing an upward trend with little volatility in the same period. The ability to see EPS on a chart and focus on those shares with strong and

linear EPS growth gives VV investors a distinct advantage and an edge in markets.

Third is Value. It is computed from forecasted earnings per share, forecasted earnings growth, profitability, interest and inflation rates. My early years using the VectorVest Value was a mental and emotional challenge. Some shares trade above the value and keep going higher. This happened to me with Ted Baker and with Fevertree and it was frustrating to say the least as, after I sold, they kept bounding upwards. Shares can trade much higher than the valuation, but there is simply more risk. If the share disappoints in terms of EPS growth, then the share will take a sudden and sharp haircut which happened to both shares that I mention above. A share that is trading above the VectorVest valuation does not have what Ben Graham (Buffett's mentor) refers to as a margin of safety. Conservative Worry-Free investors will wish to be invested in shares that are trading below their valuation.

Finally, a fourth key and related measure is Earnings Growth, GRT. In VectorVest, GRT reflects a company's one to three-year forecasted earnings growth rate in percent per year. It is so important, Dr. DiLiddo devotes the entire Chapter 5 of "Stocks, Strategies and Common Sense," to the topic. It is a great read. He titled it, "Earnings Growth: The Golden Touch." He writes, "The earnings growth rate of your stocks must be consistent with your investment objectives. If you want to double your money every five years, you should have a portfolio of solid stocks growing at least 14 percent per year."

It's my experience that even short-term swing traders should examine the above measures of earnings carefully. A technical signal to Buy a share which is growing EPS strongly increases the probability of the trade becoming a winner. It also increases the reward-to-risk ratio considerably.

Accumulating undervalued shares that are on a VectorVest Buy recommendation, showing strong EPS growth and high RS when the overall market is rising is a simple and strong edge in the stock market.

The longest-term measure of the trend, Confirmed Call, of the VectorVest Composite UK has given a Buy signal. This means that those following the

Worry-Free Method should be purchasing their first positions of this cycle. I am holding quite a few Worry-Free shares that I bought when the DEW Market Timing system gave a Buy signal on the 7th April based on a much more aggressive “bottom fishing” strategy. I will add size to many of these in the days ahead and slowly over the next few weeks if the trends persist become fully invested.

The lack of breadth of the advance, especially in the USA, is a worry. Stops need to be enforced without hesitation. Remember the 1% position sizing rule. If the investment fails, the maximum cash loss should be around 1% of your account. I will revisit this calculation in the Q and A session on the 4th May 2020.

2020-05-07

Simple Thoughts for Big Consistent Results

An investor's greatest enemy is often themselves. It is certainly what I have had to work on the most over the years.

The market is an easy game to play. It is just that we are hell-bent upon making it so complicated. That is what makes it so difficult for many investors and traders to win. A glance at the rules of trading in any market reveals some easily understood and seemingly simple rules to follow. We have all seen them a hundred times. They are the rules that all traders, both professional and nonprofessional, are supposed to follow. I said supposed to follow. The rules have been time and money proven. The most important and basic rules of trading and investing are as follows: 1. Buy low, sell high. 2. Let profits run, cut losses quickly. 3. Add to a winning position, not a loser. 4. Go with the trend.

Over the past weeks, I have written about the VectorVest edge of buying undervalued shares with strong earnings growth, that are rising in price, when the overall UK market is rising. This is a simple and very strong edge in markets. This edge will produce more winners than losers and will also result in our winning positions being much larger than our losing positions. There will be losing trades and your success, and my success, will be defined by how the latter are managed.

These generic rules 1 to 4 above and the VectorVest rules are simple and are certainly easy to understand. How come so many of us kill ourselves in the market? What makes it so difficult to follow these guidelines? More than likely all of us have repeatedly broken each of these rules and will probably continue to do so, despite acknowledging that we will wind up losers if these simple guidelines are not followed. The answer to this question contains the secret for our future success in the market.

The first step is to recognize the error of our ways and be determined to do something about it. The result will be a permanent change in our behavior as it applies to our attempts to make money in the market. These rules are for stocks, futures, spread bets or whatever market you trade.

Ego is our enemy, the enemy within all of us. If a position goes poorly then the trouble begins. Ego starts to tighten its grip over our ability to do the right thing. The right thing is to get rid of our losers immediately. The ego will produce the most fantastic reasons for holding on to that money-draining position, be it in stocks, options, or futures. Ego will fight us all the way and prevent us from realizing quickly that it is better to swallow our pride and do the right thing.

Take the loss before it becomes expensive. We know the rule that says take those losses quickly and move on, but more likely we will say “Give it another day.”

When we have a winner, ego manifests itself by coaxing us into taking our profits quickly. Why didn't the ego get us out of our losses as quickly? The ego will get us out of our winners fast because it needs the immediate gratification of being right.

Becoming aware of the ego's grip on us is a starting point. Egoless people have nothing to protect. They just do whatever the market and VectorVest tells them to do. There is simply no hoping, no praying, and no weird rationalizing. The truth revealed without egos interference is our goal. I will list some egoless steps that I hope will help and allow you to listen to the only true voice which is the market itself.

1. **Egoless traders do not fight the Market.** Market direction is the single most important thing you need to know to make money in stocks. Which VectorVest Market Timing system are you using to say it is safe to be buying stocks?
2. **Trade the very best stocks.** On page 51 of Dr. DiLiddo's book “Stocks, Strategies and Common Sense,” he writes, “*When one takes into account the difficulty of picking winners, commission costs and tax consequences,*

the best strategy for the average investor is to create a diversified portfolio of high Relative Value (RV), high Relative Safety (RS) stocks which require little or no trading. With above average rewards and below average risk, these stocks combine THE BEST OF ALL WORLDS.”

RV is an indicator of the long-term price appreciation of a share price and is measured relative to the return from a AAA rated Corporate bond. If the RV is greater than 1.30 on a scale between

0.00 and 2.00, it is classed as excellent.

Dr. D is making a case for holding shares with a high RV and a high RS and that is a very good place to be.

3. Use a stop-loss on each position and size your positions correctly and make sure that, in the event of a bad trade/investment, the maximum loss is 1% of your account size. VectorVest calculates a stop-loss level for each share in the database each day.

4. Far and away the worst error anyone can commit is to add to a position that is a loser. There is no worse curse than making money while violating this most cardinal of trading rules. We are only setting ourselves up for the one that does not come back. Pound cost averaging, as it is called, means that we are going against the flow of the market. Our initial decision was wrong and now it is compounded by our hoping that the market will bottom out and turn.

5. Exit half the position when the profits are equal to the initial risk. Increase the stop-loss on the 2nd half of the position to the initial entry point. Then let the second half of the position run with a loose trailing stop-loss. The VectorVest Stop is ideal for this. In this way, the trader takes a quick profit on half the position, adjusts the protective stop-loss to entry, and then can make money on the 2nd half of the position at no personal risk. That is a great feeling.

Life is available only in the present moment. The human mind does everything it can to avoid being present. It is normally ruminating over the

past or worrying about the future. It takes practice to stay in the moment and to keep your head when all around are losing theirs. I suggest a read of “Practicing the Power of Now” by Eckhart Tolle.

Our job as traders and investors is to construct a set of rules that define a positive expectancy trading system and then to execute those rules without fear or hesitation repeatedly. A positive expectancy system is a set of trading rules that will make much more money when the plan is correct than when it's wrong. The greatest golfers and the greatest tennis players in the world spend large amounts of cash on coaches who help them focus on the present moment. The ability to take this stroke or serve with perfection when the last was a mess is the trademark of a champion. Investing and trading is no different.

2020-05-15

Swinging in the Stock Market with the DEW Market Timing System

In my weekly Q and A sessions, I have been using DEW Market Timing signal to indicate when it is safe to be in the stock market and thus safe to Buy stocks. The DEW has worked very well for me over the years. I have had many requests from new customers to fully explain the derivation of the Timing system.

The DEW reacts to a turning point in the VectorVest Composite UK (VVC/UK) more quickly than the more conservative Confirmed Call system used by position traders. As a result, I find the DEW is exceptionally useful in my swing trading operations giving signals, in many cases, a few weeks before the Confirmed Calls. The only way to check out the DEW Timing signal is on the Market Timing chart of the VVC/UK. The system is not summarized on the HomePage of VectorVest.

Click on the Timing tab and then Market Timing Graph. To the right of the screen where it notes Graph Layouts, click on the double down arrow to expand the Graph Layouts you can choose from. Click on the Layout entitled ProTrader Timing DEW. Per the bottom left of the graph, just to the right of Confirmed Calls, you will see a dropdown key. Click on the dropdown key and select DEW. This will ensure the DEW Market Timing signal is selected.

The name DEW represents 3 key things:

D—Detrended Price Oscillator (DPO). The DPO oscillates around 0. This is a standard technical analysis momentum indicator and is not a proprietary VectorVest metric.

E—Envelopes (notice on the chart there is an upper envelope and a lower envelope that runs above and below the VVCUK).

W—30-Day Weighted Moving Average (MA). There is a 30-Day Weighted MA applied to the VVC/UK.

The DEW Up signal is given when the VVC/UK closes above the 30-Day Weighted MA and the DPO is above zero.

Here are the exact rules, as there are some exceptions.

Up signals are given when:

1. The price of the VVC/UK is above the 30-day Weighted Moving Average
2. The DPO is positive

*If the lower envelope is pierced in a Down wave, the Up signal only requires one of the two prior conditions to be met. (Rarely happens but occurred at the last turning point after the Covid19 market correction)

Down signals are given when:

1. The price of the VVC/UK is below the 30-day Weighted Moving Average
2. The DPO is negative

*If the upper envelope is pierced in an Up wave, the Down signal only requires one of the two prior conditions to be met. (This also rarely happens save extreme conditions)

In extreme situations (such as February/March 2020), the VVC/UK pierced through the lower envelope, only 1 of the signals was required for a DEW Up signal. There is no need to worry about the detail of the signal in the extreme case as the VectorVest software is fully programmed to handle this situation. All you need to do is to apply the DEW signals via the dropdown menu as written above.

In the USA, the last Buy signal from the DEW occurred on the 6th April 2020 and that over a month ago as I write on the 13th May 2020. On this date, no Confirmed Signal has yet been printed.

In the UK, the last Buy signal from the DEW occurred on the 7th April 2020 and was followed by a Confirmed-Up signal on the 27th April.

Small boats turn faster than aircraft carriers and, in this case, the DEW was some 2 weeks ahead. The Confirmed Call signals, as their name suggests, are confirmed by 2 weeks of price action and have a higher probability of preceding a strong move. Confirmed Call signals are used by more conservative position traders and the Market Timing system used in the Worry-Free Investing System (WFI). The latter uses the Long-Term Winners UniSearch on VectorVest to generate stocks to purchase and has an outstanding track record in the UK and the USA. I will be presenting a webcast on WFI on Saturday, 16th May and Tuesday, 26th May. They are free talks and you can register by clicking [here](#) and selecting which day you'd like to attend.

The DEW lends itself to more aggressive trading and especially for those who “spread bet” or make use of leveraged CFD trading. Getting into the position early with the DEW signal can significantly reduce the stop-loss required and thus allow a larger position to be traded and still only risk 1% of the total account.

I developed this UniSearch in the USA, but it is working well on FT350 stocks.

I call it the FT350DEWSWINGERS UniSearch and its simple easy and robust with 3 lines only of code. The UniSearch uses my favorite VectorVest metric, the Comfort Index (CI). The CI is a measure of the long-term trend of a share. If a share is trending strongly with little volatility, then that share will score highly on the Comfort Index. The CI is an indicator which reflects a stocks ability to resist severe or lengthy price declines.

Here is the UniSearch.

Time of Search Stock Watchlist = FTSE 350

Time of Search Stock CI-(Comfort Index) => 1.20

These shares are then sorted by CI*GRT Desc. GRT (Earnings Growth Rate) reflects a company's 1 to 3 years forecasted earnings in percent per year. This sort brings those shares with the best combination of long-term price trend and Earnings Growth to the top of the list.

CI*GRT is not a standard parameter on VVUK and needs to be generated in the Custom Field Builder. The latter is found under Tools on the top right-hand side of the VectorVest program HomePage window. It is quite easy to complete, but I will cover this in the Q and A session on Monday, 18th May 2020.

I ran the Unisearch on the 7th April when the DEW printed a Buy signal. As of 12th May, the Top 10 stocks have appreciated by nearly 3 times the overall market in that time. A similar UniSearch using SP500 stocks in the USA shows a similar result. Please note that there is NO safety of earnings specified in this UniSearch and that early signals with the DEW are taken which may not follow through into sustainable trends. The method of trading is for those who are experienced in managing risk proactively with stop-loss orders and can apply these without fear or hesitation.

Many other parameters could be added to the above UniSearch on both sides of the pond. However, simply buying companies that are growing earnings strongly that are trending strongly upwards when the overall market is moving upwards is a strong edge in the stock market.

2020-05-22

Earnings Yield Dividend Yield and Relative Safety

One of the questions I get most often asked during this very strange period that we are living through is “Will BP.L be able to pay its dividend?” We cannot answer that question for sure, but we can certainly look to VectorVest for a high probability answer.

Let us try and answer this question. Is BP.L making enough returns to justify its dividend yield? To answer this question, there is a very important indicator on VectorVest that requires study.

This is the VectorVest calculated Earnings Yield (EY).

Dr. DiLiddo the founder of VectorVest notes that Earnings Yield can be used to find:

- Forecasted earnings per share
- Assess dividend safety
- Calculate earnings growth rates
- Determine intrinsic value

EY tells you how much earnings of a company you are buying per dollar (pound) invested. For example, if you have an EY of 5%, it means you are buying 5% of earnings for every dollar/pound you spend. Dr. DiLiddo covers this in Chapter 13 and Chapter 14 per “Stocks, Strategies and Common Sense.”

You can read the book (and should) by clicking on the Welcome Tab. You will see an image of “Stocks, Strategies and Common Sense” in the upper right, click on the image of the book to download.

Dr. DiLiddo notes in Chapter 14 “Since Earnings Yield reflects the amount of money a company is making and Dividend Yield reflects the amount of money being paid out to shareholders, Earnings Yield provides an ideal tool

for assessing dividend safety. It is simply a matter of comparing one to the other. If the Dividend Yield exceeds the Earnings Yield, there's trouble."

The company will need to borrow to pay the Dividend and that may be difficult in the present environment and I suggest staying clear of this situation.

If a company is paying out more than it is earning, there is likely to be problems since the money must be raised from somewhere. Frequently more shares are issued. More debt can be taken on or the dividends are cut or not paid at all. As a shareholder, we do not want any of the previously mentioned outcomes. I would like the dividend paid out of company earnings knowing the company has enough funds on hand. Why put yourself at risk of dividends not being paid when it's quite easy on VectorVest to find those companies where the EY is covering the DY sufficiently.

To be informed of companies where DY is greater than the EY, simply setup a new UniSearch. On the first blank Parameter box, click on Stocks, then Dividend Analysis and select DY - (Dividend Yield). In the Operator box, set the operator to read >. Click on the Value box and click on Stocks, Capital Appreciation and then select EY - (Earnings Yield). In the next blank Parameter box, click on Stocks, Filter By and then select WatchList. Set the Operator to =. In the Value box, set the WatchList to be the FT100 by clicking on the plus sign to the left of the FTSE group and then selecting FTSE 100. Click on OK and then Run Search.

As of 18th May, I found 5 shares that paid a dividend in the FT100 where the DY was greater than the EY. One of these was B.P.L.

We now have the information to answer the initial question: Is B.P.L. making enough returns to justify its Dividend Yield?

I can see that currently B.P.L. has a DY of 10.73% with an EY of 7.25%. The Dividend Safety (DS) score currently sits at 5 out of 99. The latter is no surprise based on these numbers. B.P.L. will have to borrow to pay its DY or reduce the DY (as done by RDSB.L) or simply stop paying the DY. It looks as if BP could be the next firm to cut its dividend. The company cannot continue to

pay out more than it can afford indefinitely. Sooner or later, this will become a problem for business.

A dividend cut might hurt the B.P.L share price in the near term, but it will lead to increased income and capital gains for investors over the long run.

If you are a dividend investor, it is vital to ensure your stock's EY is sufficiently above its DY which will ensure that the DS score is as high as possible.

If income from dividends is important to you then how does the DY versus EY look on your shares?

2020-05-29

Earnings Growth— The Golden Touch

I was inspired by the weekly Essay written by Dr. DiLiddo on 8 November 2019 in the Views for the US Market. If you have not already seen this Essay, it is entitled “The Future Is Now.” It can be found on VVUSA on 8 November 2019.

In the Essay written by Dr. DiLiddo, he discusses his progress in a trading career that started in 1960 and concludes that many “so called experts still use P/E ratios to value stocks. Taken alone, P/E ratios don’t tell you very much about a stock’s value. At a minimum, one should know something about the company’s earnings growth rate.” It’s very easy to find a stock on a P/E of 5 that looks cheap, but the earnings growth is negative. The reason that the stock is cheap is that it is nearing bankruptcy. A friend of mine in SA (a value investor) lost his asset management business in this way.

“A high P/E ratio could be justified if its earnings growth rate, GRT, were higher than its P/E ratio. In other words, a stock would be undervalued, if its G/(P/E) ratio were greater than 1.00.” Dr. DiLiddo confesses to becoming a “high growth stock junkie” after this realization.

Most analysts deal with the past, while the stock market looks to the future. It is easy to get up- to-date earnings growth rate information from VectorVest by accessing Stock Viewer and clicking on the GRT column heading. GRT reflects a company’s one to three year forecasted earnings growth in percentage per year.

GRT, as noted by Dr. DiLiddo, is not just looking at the growth now, but also into the future. The study of historical growth rates can be misleading as this will not alert you to what is likely in the future. This is where the power of GRT really gives you the edge as the investor. The VectorVest program looks

not only at historical growth rates, but current and future growth rates. The detail of this is contained in Chapter 5 of Dr. DiLiddo's "Stocks, Strategies & Common Sense" book. You can get a digital copy per the Welcome tab. If you have not already read Chapter 5, "Earnings Growth: The Golden Touch," the following sentence is vitally important to everyone reading.

"Your job as an investor is to preserve and increase your net worth. Your enemies are spending, taxes and inflation. Spending can be controlled. Taxes may be deferred, sheltered, and avoided, but not evaded. Inflation cannot be deferred or evaded, but it can be overcome. One of the surest ways of defeating these enemies is to have a portfolio of solid growth stocks."

In my humble opinion, the greatest stock price moves will occur when the growth fundamentals and the price direction (trend) agree. For many years in my journey as a trader/investor, I designed and successfully used trading models that were based purely on price. In these early models (1982 to 2009), no consideration was given to any fundamental information and yet they were very profitable for me. At the time I did not have the skills, time or, if I am honest, the inclination to fight with the interim and annual reports to get a handle on the fundamentals.

From 2010 when I discovered VectorVest, I had the ability to include these into my trend following models with no effort on my part. My objective in all my trading, whether long-term over many months or in swing trading over a few days, is to put both forms of analysis (fundamental and technical) together into the best of both worlds. The results can be astounding.

If you focus on shares that are in the throes of a strong trend (CI) that are growing earnings strongly (GRT) and reasonably safely (RS) when the overall market is rising, then your success is nearly certain. Hands-off investors will specify a high RS (>1.30), while swing traders who are more active may be happy with a lower RS (>1.00) which will give them much more opportunity.

I have found that sorting UK and USA shares by a combination of $CI \times GRT$ finds some excellent growth shares that are also rising in price. There are many

more excellent UniSearches that are prewritten on VectorVest and of course you can write your own.

The UniSearch tool on VectorVest makes this very easy although some very successful traders such as our User Group Leader in London simply and visually find shares with a strong trend and strong fundamentals directly from the Stock Viewer in a few minutes.

As I write on the 27th May 2020, the markets on both sides of the Atlantic have had a very strong period. The trends from short-term to the longest measure of the trend in both countries is Up. I am holding a full portfolio in the UK and several long spread bets in USA shares. The news flow on the virus seems to be getting better by the day although any reports on a second wave in the Autumn would be very damaging to the stock market. Please keep a close watch on stop-loss levels and remember protecting capital is paramount. I will review the UK and USA markets in the Q and A session on Monday 1st June 2020 at 1:30PM UK time.

2020-06-05

Stop-Losses. Are They for You?

As a technically orientated trader, I have always managed risk proactively using stop-loss orders. They can be a pain at times as the stop-loss level can trigger you to get out of a strongly trending share. On the positive side, they remove the ability of the market to wipe you out. One User Group member in Oxford tells us the story of Marconi (once a FT100 bellwether) falling from 13 pounds to a few pence. That is a wipeout of note and the consequences in terms of cash, emotional wellbeing and the home front with family can be severe. In South Africa recently the largest mattress manufacturer in the world (listed both in Johannesburg and Frankfurt) fell from 120 Rands per share to 1 Rand per share. The VectorVest Stop-loss triggered at slightly above 100 Rand and those who did not act on it were severely punished.

What is worse than not taking the stop is adding to a losing position. This is known as averaging and it may work with index ETFs, but it certainly does not with individual equities. Frequently, as with Marconi and Steinhoff, they just do not come back, and, if you average, you now own a heap of them. I remember doing this with a share I owned in 1984 when new in the game of trading. I started in 1982 and had two great years from a tiny base. In a quarter of the year towards the end of 1984, I gave most of the gains back by adding to a loser that did not come back. A valuable lesson and it's never happened to me since.

The most fundamental of all trading laws is to add to winning positions and quickly exit losing positions. So easy to write but difficult to do. Most do just the opposite. This is the reason why the Spread Betting Companies say that 70% lose money when trading with them. The latter is a requirement of the financial regulator. The main reason for this statistic is that the 70% of

losers do not respect this most basic of trading wisdom. In short, they snap at winners in case these disappear and ignore losses hoping the price will turn.

The VectorVest philosophy and guidance on stop-losses can be found in Dr. Bart DiLiddo's classic investment book, "Stocks, Strategies and Common Sense." He devotes Chapter 10 to the subject which he titled, "Stop-Prices: Are They For You?" The opening paragraph sets the stage for an enjoyable and thought-provoking read.

"A Stop Price is like a pane of glass. Once it gets hit, it's broken. The use of Stop-Prices is one of the most controversial and misunderstood methods of selling stocks. Stop-Prices are double-edged swords. They can cut losses and protect profits, or result in high turnover and lost opportunities. Are they for you?"

"Investors should be aware that the period of highest risk is at the time of purchasing a stock. Taking commissions into account, you are already starting with a loss. If the stock heads down in price, the loss increases. The name of the game, at this point, is to control further losses. Stops provide the discipline to do this."

VectorVest instructors teach the concept by saying something like, "Just like boarding an airplane, taking a hotel room or heading to the mall on Black Friday, always know where the exits are before you place your trade." In other words, determine your Stop Price before you click the order entry button. You would not jump out of an airplane without a parachute.

Dr D continues, *"Many advisors suggest that Stop-Prices be set at 10% below purchase prices. I have found that the Stop-Price of a stock should be based upon its safety, fundamentals and price trend. Safe stocks with solid fundamentals should have 'looser' Stop-Prices than those with weak fundamentals. These considerations allow investors to stay with solid stocks longer and get out of weak stocks faster."*

On the VectorVest program the stop-loss level is automatically calculated each day based on a 13-week Moving Average of Price, adjusted for the fundamentals of the stock. A "Sell" recommendation is generated when a stock's Price closes below this calculated level.

Simply place your portfolio in a WatchList. Re-sort the WatchList by RT and that will place all the shares that are doing well at the top of the list and all those that are doing poorly at the bottom of the list. As you see a red colored “Sell” recommendation appear at the foot of the list, it’s your job to simply exit that position. Then, grit your teeth to keep your itchy hands off the winning positions at the top of the list.

As I wrote above that is much easier to write than do.

As I write on Wednesday the 3rd June 2020, all the measures of the trend on VectorVest UK and USA are positive from short-term to long-term. On both sides of the pond markets are looking overbought, but they can stay overbought for quite a spell. If the VectorVest DEW Market Timing signal remains “long,” I will do my best to sit and enjoy the ride. I will fully discuss the trends on both sides of the Atlantic in our Q and A session on 8th June 2020 at 130pm UK time.

2020-06-12

The Weekly Price Chart. Sometimes Forgotten but Very Important

A weekly chart is comprised of the opening price on Monday morning, the closing price on a Friday evening and the highest and lowest price recorded during the week. A weekly chart removes a great deal of the daily noise and will allow you to clearly see the support and resistance levels and price patterns that can last for many months and years.

I start all my analysis with a 5-year view of weekly bars. Below the price plot, I add forecast Earnings Per Share (EPS). First prize is to find a share that is trending upwards over this period with little volatility and EPS is moving smoothly from the bottom left to the top right of the window. During the course of this year, we have had several guest presentations at our weekly Q and A webcasts which have fully described how visually building a WatchList of such shares adds greatly to your success as both a long-term investor or swing trader. The presenters refer to the shares from such a WatchList as “EPS Kings.”

As an exercise this weekend, spend a few moments building a list of your own “EPS Kings.” Remember this is an eyeball study and not a UniSearch. Load the top 50 shares as sorted by VST on the Stock Viewer and set the periodicity to 5 years and get to work. A 5-year view should automatically default to a weekly candle. If you chose the default layout “VectorVest Simple” that will plot EPS in a window below the Price.

As a second exercise, re-sort by RS and again have a look for some “EPS Kings.” Some prefer a CI sort to find trending shares more easily. Please experiment for yourself. The time taken to visually populate a WatchList of

strongly trending shares with linear and stable EPS growth is money in the bank.

When you have completed a list of these shares, take a few moments to draw in a simple trendline that connects the lows. Any trendline that has three touches or more becomes a very valuable area or zone of support. On Liontrust Asset Management (LIO.L), a trendline drawn from the lows predicted to the tick the lows of the February/March rout this year. That is not magic. That is simply where the big money had placed their orders. By completing this exercise, you have replicated what the top City analysts are doing.

The next step is to draw some simple horizontal support and resistance lines. The most accepted concept in technical analysis is that previous resistance will become support when it breaks.

Again, using LIO.L as an example, a horizontal line drawn at the high drawn in July 2018 has defined support since that time. In the rout of February/March 2020, this horizontal support line and the ascending trendline discussed above come together at a single point. This confluence of support from two different geometrical constructions define support in both time and price. This is a very powerful concept and it holds true in all markets and in all time frames. If you ever have a rush of blood to the head and try your luck on the Forex markets, it's about the only thing that does work to define a low risk high probability trade in that exceptionally difficult environment.

So, as you do not think I am using a small cap UK share to promulgate my point, please load Apple (AAPL) in VVUSA over the last 5 years. Can you see the confluence of support from the upsloping trendline and a horizontal line that defined the lows of early March? The low in March was confirmed by a bullish engulfing weekly candle which is an exceptionally bullish two candle pattern. I will point out this confluence of support at the weekly Q and A session on Monday, 15th June.

It is my opinion that whatever your investment style (long-term investing or short-term swing trading), a study of weekly charts will help especially

if you incorporate the “EPS Kings” philosophy. For swing trading this will need to be complimented with analysis of the daily chart for entries and exits. That is a subject for another Essay. What you really need to consider is which periodicity (daily or weekly candles) is better suited to your investment style and lifestyle? Many investors tell me they do not want to be chained to their computer, micro-managing their portfolios. If that is you, weekly charts may be all that you require.

The advantages of a weekly chart:

- It gives you a clearer picture when studying price action over a long period of five years. This allows powerful trendline support levels to be easily drawn (if they exist that is).
- It gives you a broader perspective and often makes breakout patterns such as channels, cup with handle, double bottoms, rounded bottoms and other classic TA patterns jump off the page.
- Candle patterns on weekly charts have a much higher reliability than on daily candles.
- Very importantly weekly price action can smooth out minor noise and volatility making it easier to hold your winners for an extended move. Investors and traders watching their positions daily may be shaken out of a good stock by short-term volatility or even normal pullbacks.
- A surprise benefit perhaps, but a big one, is that psychologically it's a lot easier for shareowners to stay calm and make fewer impulsive decisions when looking at the weekly chart.

2020-06-19

There Are Three Types of Price Trends

“Learn from Yesterday Live for Today

Hope for Tomorrow

We should move forward carefully but confidently and learn from our mistakes”

The above is not a well-known quote from Albert Einstein, but it is my favorite.

Former resistance becoming support and breakouts can be some of the best trades you make, no matter if you are a day trader, swing trader or long-term investor. When done correctly, with the wind at your back with Market Timing and good fundamentals, they can get you into the money very quickly after entering the trade. These setups allow you to use a tight stop-loss for a better reward-to-risk ratio.

There are three types of trends as noted by Charles Dow some 140 years ago.

- 1. Fast trend.** Here the last rising low (swing low in trader speak) is higher than the previous top or resistance point or in trader speak the last “swing high”. This is a sign that the trend is speeding up and this is where breakouts are at their best. To fully examine this please load a chart of GAW.L over the past 6 months. On the 14th May 2020, the share charted a swing low which was considerably above the last significant swing high charted on the 14th April 2020. That is a fast trend and, when the share broke the resistance charted on the 30th April, GAW.L was off to the races. Eagle eyes should be able to spot a similar setup occurring as I write. As a swing trader you can survive on this single setup alone.
- 2. Normal trend.** Here the market pulls back and kisses the last old top. These setups are common and a cornerstone of my trading. My mentor

Richard Wyckoff referred to these as “sweet spots.” Again, there is a great example on GAW.L at the start of the move upwards after the major selloff in February and March 2020. Note that on the 16th April GAW.L retraced to the last significant swing high point charted on the 25th March 2020. The share then traded a green colored up day. A breakout of the high of that day would have provided a low risk entry point into this great share. In the last few days LIO.L charted a “sweet spot setup” and has moved upwards since. The entry point was above the high of the 12th of June and a tight stop-loss could have been set at the low of that day. Already the trade has made as much as the initial risk and the stop-loss could now be placed at the entry point. BHMG.L charted a sweet spot and few days ago and that’s why I bought the share at that point. This was discussed at the Q and A session two weeks ago and I will review the trade next Monday the 22nd of June at the weekly session. So far so good.

- 3. Creeping trend.** In this version, the last swing low interferes with the last significant swing high. This is an indication that the trend is slowing down. The probabilities favor the share moving into a consolidation or a reversal pattern. Generally, breakout trades do not work out well in a situation where the trend has started to creep. A share moving into consolidation for a few months is fine for a long-term investor choosing shares with outstanding fundamentals, but it is death to short-term swing traders and especially those employing the leverage of a spread bet or the CFD market. In my portfolio, HLMA.L is showing a creeping trend and, although I feel the share has a place in any long-term portfolio, there are much better opportunities around for swing traders. Swing traders should focus on shares that are showing fast or normal trends.

We had a terrific presentation about Support and Resistance during last week’s Guildford User Group. During a chart review, a member of the group showed how the automatically drawn VectorVest support and resistance levels can stop the share market in its tracks.

Support is the level at which demand is strong enough so that price does not go lower. Resistance is the opposite of support. It is the ceiling at which buyers are hesitant to continue buying because price is already too expensive.

VectorVest makes trading Support and Resistance (S/R) faster and easier by automatically locating S/R lines on your charts. To set it up, click on Add Parameter in the Graph Control Panel. In the dropdown, click on Technical Analysis and then Support Resistance. A S/R box will be added at the bottom of the Graph Control Panel. Click in the square at the left to add S/R to your graph.

The default settings are quite strong. To view the settings, right click in the S/R box and then Change Settings. A menu with all the settings will appear. Hover your mouse over any of the settings to get a definition. If you feel the settings are too tight and you are not getting enough S/R lines, you might change the Size of Reversals to Medium from Strong and the Size of the Support Resistance Zone to Average from Thin. Then change the Number of lines to Display to Show 3 Closest Matching Lines. Click OK. I also like to change the color of the lines to green for Support and red for Resistance. Simply right click again in the Support Resistance box and choose Change Style. Select green for Support and red for Resistance and make the line medium width for greater visibility.

I like to have both the default S/R box in the control panel, plus a second one with my own settings as above. That way I can toggle back and forth when looking at a graph to see different S/R lines. The way to do that is to open two S/R boxes in the control panel and change the settings on one to your specifications. Then save your graph layout so that you can call it up at any time. Click on Graph Layouts at the top of the control panel. Choose Save/Modify Layouts and give your new layout a name.

As an exercise please load a chart of the VectorVest Composite UK (VVC/UK). Click on the Timing tab on VectorVest and then on “Market Timing Graph.” Then proceed to add the automatically drawn S/R lines as described above with the default setting. You should see the support line which became

resistance and stopped the VVC/UK in its tracks at its recent high point on the 8th June 2020.

VectorVest has several searches that will help you identify potential S/R breakouts. You will still need to study the charts to find the best candidates and especially locating shares that are in the throes of a fast trend. A couple of good ones in the Price-Volume folder are Price-Volume Boomers and Price and Volume Winners.

The keys to success in all trading is to use good position sizing and risk management. Develop patience (far from easy I know) and take only the most desirable set-ups in fast and normal trends. You will find automatically generating your S/R lines will increase your objectivity and be a huge timesaver allowing you to look through several charts in minutes to find the best set- up.

2020-06-26

The Value of a Definite Tangible Plan of Operation

“The importance of sticking to that plan. A locomotive off the track is useless.

The close study of Wall Street securities, methods and conditions will pay any man capable of using horse sense in his ventures.

Panics are rare opportunities for people with money.

Buying when insiders buy and selling when they sell is a sure way to wealth.

When your stock is in your own safety deposit box, you can more patiently wait for a large profit.

It does not matter how small you start as long as you start right. Markets follow panics as regularly as the sun rises and sets.

The value of stop orders in preserving profits once secured.”

Written by Richard Wyckoff in 1908. Not much has changed in the last 112 years.

Here are seven basic steps that will help you consistently make money in the stock market and may also help with putting your trading plan to paper.

STEP 1. Do not make this much too difficult. That is, ignore the blizzard of data, stock tips and breaking news that comes your way every day. VectorVest has the vital information you need, not just data, to make good decisions and quickly. You need to know three things: A. What are your stocks really worth? Is the share price under or overvalued? What is the Price appreciation potential of the share (RV)? In a recent Q and A session a subscriber

showed conclusively that a $RV > 1.25$ will add significantly to the portfolios performance B. How safe are your stocks measured by the Relative Safety, RS, indicator? C. Is price trending up or down?

STEP 2. Weed your portfolio. Sell any stock that falls below the initial Stop criteria that you set when you bought the stock. Put your stocks into a WatchList and re-sort that list by RT. That will bring those stocks that are performing to the top of the list and those that are not to the bottom of that list. Failing to get rid of poor performers is the number 1 reason that traders lose money. If you fail to take this important action, especially if market conditions are worsening, your P/L will take a pounding and your emotional state will be destroyed. Take the time now to set stops on all your remaining stocks. When you know exactly when you will sell a stock, you will feel so much more in control. Your confidence will increase, and the process of trading will become fun like an enjoyable game. Most get this step completely wrong. They fail to exit their losers, but cannot keep their hands off their winners. I have written about this a dozen times before in these Essays, but I see it daily in the portfolios of both retail and institutional traders.

STEP 3. Size your positions correctly. The first step is sizing your positions is to decide on how much money is in your trading account. If you do not know this number, then you cannot size your positions correctly and if you do not size your positions correctly, you are gambling and not trading. When you have decided the latter then resolve to lose only 1% of the account size on any single trade. The 1% is not the exposure, but rather the amount of cash that you will lose if the positions falls from the entry level to the stop-loss level. Each trade will have a unique risk/share purchased depending on where you entered and the level of the VectorVest calculated stop-loss. Let us assume a £50000 account. 1% of that is £500. That is the maximum loss you should take if the position goes against you. If the purchase price is £10 and the stop-loss calculated by VectorVest is £8.75, then the risk/share purchased is £1.25 pounds. The following is then true. Let N equal the number of shares purchased

$$N * (\text{risk/share}) = 1\% \text{ Account size}$$

$$N = 1\% \text{ Account size} / (\text{risk/share})$$

$$N = 500 / 1.25 = 400$$

We should buy 400 shares at purchase price of £10 using a stop-loss order of £8.75. If the trade “bombs” then the loss will be around £500. I appreciate that there is commissions and stamp duty as well. If you have 3 bad trades in a row, then you are down 3% which is manageable and quite easy to recover from. I often see traders risking 10% of their account in any single trade and with 3 bad trades they would be down 30%. That is a knock, both in terms of the money and in terms of your confidence and emotional state. It can lead to many poor decisions in a vain effort to get your money back.

STEP 4. Only buy when the market is rising. That means the overall market is in an uptrend with the Primary Wave Up as a minimum and/or a green light in the Price column of the Color Guard. Make sure the market and your stock are also rising on the day you make your purchase. Studies have shown, and my personal experience tells me that 70% to 80% of stocks move in the direction of the overall market. Even high Relative Safety (RS) stocks are prone to pulling back when market conditions worsen as we saw only too well in February 2020. VectorVest UK’s DEW and Confirmed Call signals act on the market akin to the tides in the ocean, pulling most stocks up and down with it. Just like the tide, the bulls push the market higher and higher in waves until it reaches a peak. That is the point at which investors begin to believe prices have gotten too high in relation to earnings or that earnings were likely to fall as was the case in February 2020. They stop buying and begin selling to take profits. The effect on the market is like a receding tide. It pulls the market lower in waves until it reaches the point where prices are attractive once again. Buyers step back in and the cycle begins all over again. In this current campaign I have been using the DEW Market Timing system on VectorVest and, as I write on the 24th June 2020, this signal is positive. I am holding stock positions from the Buy signal from the DEW in the first week of April in both the UK and USA.

STEP 5. Be patient. Buy only the best stocks and the best set-ups as defined by your trading plan. The trading plan will take some work, but it is a rite of passage. Like pressups, no one can do them for you. I feel strongly that the Worry-Free Investing (WFI) Trading plan is an excellent place to start. There is a guide to WFI on VectorVest. Click on Views and then on Special Reports. WFI is a mechanical system with fixed rules and little trading.

STEP 6. Manage the Trade. In Step 3 above I discussed how to size positions and the importance of exiting losers without fear or hesitation. Let's now discuss how to handle those trades that go our way. There are as many ways to complete this as there are traders, but I suggest the following at least until you formulate something that suits your unique beliefs about markets a little better.

- A. Size your positions as above and in our example, we bought 400 shares of ABC.L at £10 on a stop-loss order of £8.75.
- B. When the share price has moved up to £11.25, we have gained as much as the initial risk. At that point sell half the holdings i.e. 200 shares. You will have banked a profit of $200 * 1.25 = £250$.
- C. Bring the stop-loss on the remaining 200 shares to the initial entry point at £10. At this point, the VectorVest stop-loss is invariably below the new stop-loss level. If the share rises further, trail the stop-loss upwards behind the price as the VectorVest stop-loss increases.
- D. I favor keeping a loose stop-loss on the second half of the position to hopefully get a "runner" and the VectorVest Stop is ideal for this. Around 40% of the trades go on to bank sizable gains.
- E. The objective is to take small profits on half the position and then let the second half run with a loose stop as a risk-free trade.

STEP 7. Keep a trading diary. Keep good records of all the above. Record your reason for entry and any exceptions to the trading plan that you have taken. Learn from your mistakes on each trade.

2020-07-03

There Are Only Four Outcomes to Any Stock Market Trade

There are only four things that can happen to your next trade.

1. Big Win
2. Small Win
3. Small Loss
4. Big Loss...(Wirecard)

Your job is to avoid number 4. The stock market is an easy game to play and it is all about avoiding number 4 above. However, we seem hell-bent upon making it complicated. That is what makes it so difficult for us to win.

A glance at the dos and don'ts of trading in any market reveals some easily understood and seemingly simple rules to follow. We have all seen them a hundred times. They are the rules that all traders, both professional and non-professional, are supposed to follow. Remember, I said supposed to follow: the rules have been time and money proven.

Last week, I summarized seven steps which I hope helped to formalize a trading plan for all readers. The steps provide a simple and robust edge in the stock market. Please read this Essay before proceeding if you have not already. The VectorVest edge advocates accumulating Buy recommended shares with outstanding growth and safety fundamentals (RV and RS) when the overall market as defined by the VectorVest Composite UK (VVC/UK) is rising and then managing these shares well. I have defined how many shares to buy (position sizing) and my thoughts on managing the positions in last week's Essay.

These rules are simple and are certainly easy to understand. VectorVest does all the heavy lifting of the fundamental analysis. What makes it so difficult to follow these guidelines or similar guidelines that suit your own beliefs about markets?

More than likely we have repeatedly broken each of these rules and will probably continue to do so, despite acknowledging that we will wind up losers if these simple guidelines are not followed. The answer to this question contains the secret for our future success in the market.

In my humble opinion, the problem is internal and until we all learn to change our perception about what makes the market tick, we will continue to punish ourselves and remain on the losing side of the ledger. These are lessons I had to learn the bitter way during the mid-1980s.

We have all bought stocks because we thought they were cheap. Stocks that once sold for 80p and are now selling for 36p. The stock is cheap. We can get twice as much, almost like two for the price of one. The rules say go with the trend. In this case, the trend is certainly down. Yet we fool ourselves into thinking that we are getting bargains. At this point if you have VectorVest EU, please load a chart of Wirecard (WDI.DE). The share was in a strong downtrend for 3 years prior to its collapse a few days ago. Any who bought into the 2 for the price of 1 was severely punished.

Wirecard investors were fighting the trend. A drunk off the street could have seen that the share price direction was down, yet many of us think nothing of averaging (adding to) a loser. We know the major rules. What makes us want to break them and place our capital at greater risk?

The problem is that we bring to the market a set of beliefs that are not in sync with the realities of the stock market. We must rid ourselves of these dangerous forms of self-deception before we hear the markets call. Getting rid of ourselves is the most difficult problem we face when attempting to make money in whatever market we're involved.

Using the VectorVest edge, we can easily get to a point where 70% of our stock calls are positive and with a 3-to-1 reward to risk ratio that is a very

profitable trading system. However, if you are correct 70% of the time, you are incorrect 30% of the time. On the next trade, you do not know whether it is one of the 70 or one of the 30. That is the reality of the market environment and it's at odds with our normal belief system. As an engineer, few bridges collapse, as an accountant, the books will eventually balance and a pilot who flunks on 30% of his takeoffs, would be out of work rapidly or dead. Yet this is the challenge in markets and especially professionals are poorly equipped to handle. We all understand probabilities at an intellectual level, but few can easily think in probabilities at an experiential level.

When a trade goes against us, the trouble begins. Our ego starts to tighten its grip over our ability to do the right thing. The right thing is to get rid of our losers immediately. The ego will produce the most fantastic reasons for holding on to that money-draining position. Ego will fight us all the way and prevent us from realizing quickly that it is better to swallow our pride and do the right thing and take the loss before it becomes expensive. We know the rule that says take those losses quickly and move on to avoid number 4 above.

When we have a winner trade, ego manifests itself by magically persuading us into taking our profits quickly. The ego will get us out of our winners fast because it needs the immediate gratification of being right. It likes being right. It will deny being wrong. Being aware of our egos tight grip is a start. Becoming aware of the influence of the ego is our decision making is the first step to success and making sure we avoid number 4.

Egoless people have nothing to protect. They just do whatever the market and VectorVest tells them to do. They sort the shares in their portfolio watchlist by RT. The shares that are not performing are at the bottom of the list. Those are the shares that need to be sold when they close below the VectorVest Stop loss. They have avoided number 4. They do not tell the market what to do or what it is going to do, but simply flow with it.

The spread betting companies reveal by law that over 70% of their clients lose money. I set out to understand what the 30% do, to become winners.

I found that, simply put, the winners think differently from the losers. Your primary goal must be to learn how to think like a consistently successful trader. Through awareness coupled with your desire to be successful, you can restructure and install the beliefs and attitudes that are necessary to reach your primary goal. The beliefs necessary are contained in the next few paragraphs. They are simple, but will take discipline to install these into your mental framework.

I found that when a losing trader has a losing position, they become optimistic. They become optimistic that it's going to turn and hold on to the losing position. A winning trader who has a losing position becomes quickly pessimistic and exits the position.

I found that a losing trader that has a winning position quickly becomes pessimistic. They are worried that the market will snap away their profits. As a result, they quickly take a small profit. A winning trader who has a winning position becomes quickly optimistic and lets the winner run.

Here is my challenge to you. On your next trade as the position moves with or against you become aware of your thoughts. Observe your thoughts. Thoughts have much momentum, especially in a stressful situation. In this way, slowly over a few trades you can, with work and discipline, begin to think like a winning trader or investor. With practice, our thinking will automatically (and at a deep level within us) become optimistic in a winning position and quickly pessimistic in a losing position. You will have avoided number 4.

As I write on the 1st July, the DEW Market Timing system on VectorVest UK and USA is positive, and I am holding positions either side of the Atlantic. These will be discussed in detail in the Q and A session on the 6th July.

2020-07-10

Focus Exclusively on the Process and Enjoy the Ride

“The more I practice the luckier I get.” Gary Player

Making money in the stock market is not a game of chance and it has nothing to do with your age, background or sex. Money is made consistently by a mixture of knowledge, skill and discipline. I define discipline as the ability to simply follow the rules of a simple, but robust and proven trading plan repeatedly without deviation. This, as you may have discovered, is much more difficult to do than to write about. Winners understand that trading is a skill that is only mastered through rigorous practice over time.

Winning traders are aware of and accept the fact that the market is ultimately unpredictable; that there is no surefire market analysis technique or strategy that will infallibly predict price movements. As I often write, if you are correct 70% of the time, you are thus incorrect 30% of the time. On the next trade you do not know whether it's one of the 70 or one of the 30. Until you accept that the market cannot be predicted on a trade-by-trade basis, then the same market can hand out a lot of pain. On a single trade, the outcome is random, but over 30 trades the outcome is ordered. Getting your head around that and thinking in probabilities is difficult and it took me many years to get it right.

In contrast, losing traders, once they have put a trade on, tend to only look for market action that confirms that they are right and minimize or rationalize away any market action that seems to contradict their analysis. Thus, they often end up staying in losing trades too long and taking unnecessarily large losses. I wrote about this in detail in last week's Essay.

When you start on the path to financial independence by investing and trading in stocks, many friends and family members can sneer. It is like

gambling they will say. In gambling, the odds are stacked heavily against you and the longer you stay in the casino, the more broke you become. In contrast, the stock market allows us to engineer a plan where the odds are stacked in our favor. In a way we become the casino and, like the casino, play the game with an edge. The VectorVest method of trading stocks by combining the following three aspects is an enormous edge. They are:

1. Fundamental position of a share (the study of value, earnings growth and safety).
2. Technical position of a share (the study of trends and turning points).
3. Technical position of the overall market.

These three aspects of share selection and Market Timing are fully discussed in the Successful Investing Quick Start Course which is built into VectorVest under the Training tab on the main toolbar. Buying stocks with outstanding fundamentals that are rising when the market is rising is simple, intuitive and proven over decades.

Lesson 5 of the course is all about putting together a trading plan that suits you. Dr. DiLiddo, founder of VectorVest, has written a book entitled “Stocks, Strategies & Common Sense” which will help with the construction of your business plan. That is what it is. Trading is a business like any other. The book can be downloaded from the Welcome tab on VectorVest.

Some decisions will have to be made when constructing your blueprint for success and the online course will help you make these. If you try and become a value stock trader, growth stock trader, swing trader and day trader all at the same time then there is a high probability of confusion and poor discipline. I do not know of anyone who has excelled by becoming a jack of all trades in any walk of life. For most of my trading life, since 1982, where I have actively traded stocks, commodity futures, bonds and forex at both retail and institutional levels, I have been a swing trader. My typical hold is from a few days to 8 weeks.

In all trading styles and trading plans there will be losers. Winning traders know the difference between a “bad trade” and a trade that loses money. This is a critical point to understand. Just because you end up losing money on a trade, that does not mean it was a bad trade. It just means that it was a losing trade. What makes a trade a good trade is not whether it wins or loses. A trade is a good one if you follow your process. This will entail that the trade offers greater potential reward than risk and the odds or probabilities of it being successful are in your favor, regardless of how it turns out. If you take a trade for good reasons and manage the trade well once you are in it, then it is a good trade, even if you end up getting stopped out for a loss.

Conversely, even if a trade happens to make money, if it was not initiated for good reasons and with a favorable risk/reward ratio, then it is a bad trade even though it may have happened to turn out profitably. Understanding and separating the process from luck is key to your eventual success with any trading style.

When you have chosen a trading approach which reflects your beliefs about markets, there will be times where the overall market cycle suits your system and you will be well rewarded. There will also be times when your system is out of sync with the market and, in this time, you will underperform. Value investors have underperformed over the past few years, but their day will come in due course.

If you are a short-term swing trader and exit out of a stock for a good profit and then the stock triples that should be of no great concern to you. Similarly, long-term position traders will frequently have a good profit and give it back in the quest for a share that triples in price. In my humble opinion, the key is to focus on a style and once you decide on this style spend some time defining the detail of it. Once that is decided and committed to paper then the discipline to follow it will more easily be attained. Discipline will be attained only through practice and only by perfect practice. To be a winner, you need to focus on a single style and become a master in its execution. As you become more experienced you may be capable of running two styles of trading as I am

presently trying to do. This is difficult, but running a “Worry-Free Investing” portfolio and a swing trading portfolio makes sense.

As I write on the 8th July, all the trends from short-term to long-term are positive on both sides of the Atlantic. There is a worrying bearish normal divergence between the Price of the VectorVest Composite and the Buy/Sell Ratio in both countries. This is warning that the trend in place since late March is mature. I am holding positions in both countries using the DEW Market Timing System which is bullish and will continue to hold if this remains the case. The positions and the trends on both sides of the pond will be fully discusses at the Q and A session on the 13th July.

“I fear not the man that has practiced 10000 kicks once, but I fear the man that has practiced one kick 10000 times.”

—Bruce Lee

2020-07-17

How to Eliminate the Four Major Trading Mistakes

There are four big trading mistakes that cause both retail and institutional traders to lose consistency and suffer much drawdown in their accounts.

It is extremely important that you understand the nature of these mistakes so as you can work on removing them from your trading life and become better at playing the game of trading and investing. It will take practice and awareness. Becoming aware of these mistakes is the first step to getting rid of them.

Mistake 1. You think of the money first. You might think “I want to make money. That’s the whole point of investing.”

However, if you had a job and you were successful at that job, you were successful because you concentrated on doing the job well. When you do your job well, you get rewarded financially for doing your job well. The best dentist in your area has a successful practice because they focus on perfect execution of every procedure. If they focus on performing each root canal treatment with perfection, then their waiting room will be full and the cash will take care of itself.

As an investor, you should focus on making the best possible trades. A consistently winning trader and investor (like the dentist above) focuses on perfect and flawless execution of each trade as defined by the rules in their written trading plan. If you have not got a trading plan, then it is time you put pen to paper. Lesson 5 of the Successful Investing Quick Start Course (SIQSC), which you can find on the Training tab, will show you how to construct such a plan.

The SIQSC is built into VectorVest under the Training tab on the main toolbar. Dr. DiLiddo’s book “Stocks, Strategies & Common Sense” will also

help formulate your plan. The book can be downloaded from the Welcome tab of VectorVest. A good place to start would be the VectorVest Worry Free investing plan (WFI) and I will discuss this more fully in the last paragraph of this Essay.

Once the plan has been put on paper, the next step is to develop the patience and discipline to follow it. Old hands will attest that this is easier to write than do.

However, by focusing on the process of trading rather than the output (the money), you will learn to live in each moment where you will find calmness and a total lack of fear. Successful trading or investing is the deliberate repetition of a process with the intention of reaching a specific financial goal. When you truly shift into putting your attention on perfect execution of the trade you are doing right now and remain aware that you are doing so, you begin to feel calm, refreshed and in control. Your mind slows down, and the inner chatter goes away. This inner chatter I often refer to as akin to a schoolroom full of kids when the teacher has stepped out of the room. The chatter is responsible for all the emotional decisions that we have all made in our respective trading journeys.

Mistake 2. Buying stocks that are going down in price. Unfortunately, this is something that has been engrained in investors' heads since birth. Since we all have started to invest, the newspapers we read each weekend have been advising to buy stocks falling and making new lows.

Stock gurus tell people to buy stocks that are falling because they are cheaper, you can buy more shares and you can pound cost average. The two for the price of one argument has bankrupted more traders than anything else ever created. I have never seen a share too high not to go higher and too low not to go lower.

Focus on shares that are trending upwards with little volatility and that alone will increase your probability of becoming a winner. Do not buy shares that are trending downwards. Your ego will enjoy the challenge of picking a bottom in the share, but on the floor of the Chicago Mercantile Exchange

they have a saying. “Top and bottom pickers become cotton pickers.” Do not let that happen to you. Simply focus on shares that are trending higher and regularly breaking 52-week highs. The Comfort Index (CI) on VectorVest will find these shares for you with a single click.

Mistake 3. Holding onto losers too long. In the seminars and webcasts that I conduct, this mistake comes up frequently when I ask the question “which one of these mistakes has cost you the most over the years?”

You end up holding onto that losing trade thinking, “it’ll come back” or “I couldn’t have been wrong on this one” or worse yet “I’ll buy more of it now.” One of the worst things you can do is buy a stock and NOT HAVE AN EXIT PLAN. It is like jumping out of a plane without a parachute. Clearly this exit plan should be a part of your trading plan and decided upon before the trade was placed along with the optimal position size. The latter is discussed in detail in Lesson 2 of the SIQSC.

The worst mistake that anyone can do is adding to a losing position. Averaging, as it is called, will sooner or later totally bankrupt you. One of the most damaging effects of holding a losing position is that it reinforces the belief that you are no good at investing and trading. Just imagine what would have happened to your account if you had averaged down into Wirecard. Many did.

Mistake 4. Ignoring overall market direction. There is a good time to be in the stock market and a very poor time to be in the stock market. I think the selloff in February and March this year made this very clear. The Sunday papers and their columnists advocate a Buy and Hold approach and constantly repeat the mantra that it is “time in the market and not market timing that’s important.” Buy and Hold is great if you can hang around for 21 years. My father told me that from the high in the London market in 1969 it took 21 years for the LSE to rise above that level in inflation adjusted money.

More recently from 2007 to March 2009, the overall market dropped 40%. When you lose 40%, you would need to gain 66% just to get back to break even. For many people, that could take years to recover from and for many

they will never recover. The shock of losing 40% has meant that 12 years later in 2020, they are still in cash. The emotional shock and associated pain are still present and have caused financial rigor mortis

At VectorVest we have several totally objective Market Timing methods that give a clear signal that it is OK to be in the stock market. We have short-term systems for swing traders and longer- term signals for position traders and investors. In your trading plan it is vital to decide which of these you are going to use within your personal trading plan. Once more Lesson 3 of the SIQSC will discuss Market Timing in some detail and I discuss Market Timing at our Q and A sessions each Monday afternoon.

The VectorVest Worry-Free Investing (WFI) method uses the most conservative Market Timing Method known as Confirmed Calls to enter the market. This method has a 20-year track record of achieving profits and a copy of the rules can be downloaded from VectorVest. Click on the Views tab and then Special Reports. If you scroll down to the Guide to Worry-Free Investing, the rules are there for you. If you have not got a trading plan, then this will be a great place to start your investment journey.

2020-07-24

Selecting the Best Stocks for Your Investment Portfolio

The founder of VectorVest, Dr. Bart DiLiddo, says “Good Portfolio Management starts with selecting the right stocks.” He adds that it is just like a sports team. If you fill the team with good players, just having those players will help the team to do well. How to find these stocks is what I will try and explain in this Essay.

I don't think a retail portfolio needs to hold more than ten carefully managed shares.

It was WD Gann in a 1930s book who first suggested that the trader/investor should split his cash into ten pieces and NEVER put more than one piece into any single investment or trade. It remains very sage advice nearly 100 years later. More recently quantitative analysts have agreed with Gann's conclusions.

Then Mr. Gann goes on to suggest that the trader should never lose more than 10% of each piece in any one trade. This means that the risk on any one trade is kept at 1% of the entire cash value of the portfolio. As they say in the Chicago pits “there are old traders and there are bold traders, but there are NO old bold traders.” Remember the risk refers to the amount of cash lost if the share drops from the purchase price to below the VectorVest calculated Stop-loss level. That amount should be around 1% of the size of your account.

In Lesson 2 of the “Successful Investing Quick Start Course” (SIQSC), the topic of risk management and position sizing is covered in detail. The lesson should be often studied. Risk management will keep you alive long enough so as you can gain experience and get very good at the craft of investing.

In his excellent book, “Stocks, Strategies and Common Sense,” Dr. DiLiddo recommends that within the 10 stocks purchased, there should be no more than two within the same industry or sector. If you have not got a copy of the book it can be downloaded from the VectorVest program by clicking on the Welcome tab on the main toolbar, then Download Stocks, Strategies & Common Sense.

I was taught very early in life that the secret to making money is to find the value of an asset and then pay less for it. This is common to property, used cars and, in my view, all asset classes. In my portfolio I favor 10 stocks that are growing earnings strongly, consistently and trending upwards in price.

Such shares are easily found by using the UniSearch tool of VectorVest. I have created my own UniSearch which illustrates the power of the program to find winners easily and without much fuss. The search has had a robust time in both the UK and USA. Recently, the UniSearch which is based on the VectorVest Worry Free investing method (WFI) has been improved by a member of the Guildford User Group who has spent a long period researching and testing all the available options.

On UniSearch locate the Retirement folder. Open the folder and you will easily see the UniSearch “Long Term Winners RS descending.” You will need to add a single line of simple code which is the last line of the four lines tabulated below.

Stock Price-(Actual) ≥ 50

Stock AvgVol-(50-day movA) ≥ 50000 Stock Exchange $\neq$ AIM

Stock RV-Relative Value ≥ 1.25

These shares are then sorted by the standard sort from the “Long-Term winners RS Descending” Unisearch which is RS. This brings those shares with the highest consistency of financial performance to the top of the list. The research done by our member from Guildford showed that adding RV ≥ 1.25 to the mix added significantly to the performance in both UK and USA.

$RV \geq 1.25$ is simple to add and then the new UniSearch can be saved and given a new title. I will illustrate this process if any struggle with it in the Q and A webcast on Monday afternoon July 27th.

As I have written about on many occasions, the WFI method uses the Confirmed Call Market Timing method to tell us when it's safe to buy shares and when it is not.

In the UK, the last Confirmed Up occurred on the 27th April 2020. A simple QuickTest of the top shares selected by the UniSearch above on that date has appreciated by almost 20% to the

21st July 2020. This is excluding any dividends. On Saturday, 25th July 2020 and Tuesday 28th July, I will be presenting the detail of the WFI investing method. Please [click here](#) for more information or to register for one of these events.

As I write on the 22nd July 2020, all the measures of the trend of the UK market are positive and I am holding my long positions in the stock market.

2020-07-31

A Proven Approach to Building Wealth Safely on the LSE

Several times a month I present a webcast entitled “A Proven Approach to Building Wealth on the London Stock Exchange.” The presentation introduces the VectorVest Worry-Free Investing (WFI) method that I have also written about in these Essays over the past few years. Links to the presentations in August are included at the end.

In last week's Essay, I detailed the UniSearch used for Worry-Free Investing and included a video of how to use UniSearch. Please read that Essay before proceeding here. The UniSearch presented sorts all the shares found by safety and predictability of the financial performance which is known as Relative Safety (RS). I have received many mails requesting the detail of how RS is constructed. In this Essay, I will attempt to answer these queries.

The VectorVest program calculates important and exact data on stock safety each day. This is unique and very hard to find information and that is because it is the last thing anybody wants to think about. The program examines the balance sheet, income statement and cash flow statements of companies on both the LSE and AIM. This information is then mathematically massaged to fit between 0.00 and 2.00. Above 1.00, the stock's safety is fair and above 1.30, the Relative Safety (RS) metric is excellent. Even the few credible sources that provide some form of risk analysis, do so subjectively. Consequently, most investors do little more than plug intuition into their investment decisions and for this reason stock safety (RS) is the missing link in consistent performance in the markets.

Knowing how safe (or risky) a stock is can make the difference between making you a winner or loser as an investor. Here are the key factors used by VectorVest in assessing stock safety.

- 1. EARNINGS CONSISTENCY.** The largest risk that shareholders have is that the company fails to meet earnings expectations. Experienced investors know that the moment of truth comes each quarter for every publicly traded American company. If a company fails to meet analysts' earnings estimates, its stock price often drops 30% in a single day. Therefore, the single most important factor in assessing stock safety lies in quantifying the probability that quarterly earnings will meet investor expectations. If a company has a well-established record of consistent, predictable earnings performance, it is much more likely to meet the market's expectations.
- 2. COMPANY SIZE.** It is true that the stocks of large companies generally are safer than those of smaller companies. Many fund managers are forbidden to invest in companies with less than a billion dollars in annual sales. Obviously, larger sized companies are not going to disappear overnight. Investors should not assume, however, that the shares of a company are safe just because they belong to big companies. Size is not nearly as important to an equity investor as knowing where the company's earnings are heading. It is virtually impossible to forecast the earnings of companies in cyclical industries with any degree of accuracy. Therefore, the VectorVest safety ratings on these stocks are below average.
- 3. PRICE BEHAVIOR.** The classic measure of price volatility.
- 4. LONGEVITY.** All other factors being equal, there is less risk in dealing with a company with a long track record than one which is brand new. Young companies offer some of the best investment opportunities, but they also bear potential pitfalls that could be fatal. Regardless of how good a stock looks, it is risky if it hasn't been traded for at least five years.

5. **DIVIDEND HISTORY.** A company does not have to pay a dividend to be called as a safe stock. But, if it does pay a dividend, it must maintain or increase the dividend without exception. A cut in dividend is a black eye for any company and reflects poorly on its management and stock safety.
6. **There are many other factors including and especially those financial performance ratios that include a measure of debt.** These are fully discussed in Chapter 7 of “Stocks, Strategies & Common Sense.”

The RS of a stock is the heart of the Worry-Free Investment methodology (WFI). This method has been BackTested over the past 20 years in the US markets and over the last 10 in the UK with excellent results.

The method uses the longest and most conservative Market Timing system on VectorVest to indicate when it's a good time to be in the stock market and when it's the time to be careful in the stock market. These signals are known as Confirmed Calls and they are easily seen on the front page of VectorVest as I will point on in this video link. Please click [here](#).

The rules of WFI simple are robust and straightforward.

- a. When the VectorVest Composite UK prints a Confirmed Call, C/Up, BUY signal, the investor should sort all the shares in the database by RS. In practice, I use the UniSearch that I presented last week. This brings those shares with the best safety track record to the top of the list. For completeness, the UniSearch is detailed again:

Stock Price-(Actual) ≥ 50

Stock AvgVol-(50-day movA) ≥ 50000

Stock Exchange $\neq$ AIM

Stock RV-Relative Value ≥ 1.25

- b. Purchase 10 of the top RS stocks. Endeavour not to purchase more than 2 stocks in a single sector of the economy. Use the VectorVest Stop-loss to calculate position size. When the overall market is rising, the investor should be fully invested.

- c. As the overall market is rising, the probability of getting stopped out of a high RS stock is low, but it certainly can happen. If it does, run the UniSearch and replace with another high RS stock that you do not presently own. If the overall market is rising, then it is vital that you are fully invested.
- d. Like humans, markets are living entities and breathe in and out. Sooner or later, there will be a Confirmed Down, C/Dn, signal. When this occurs, there is a much higher probability that even high RS shares will fall. They are resilient, but in a strong selloff some will retreat. Obey the Stop calculated by VectorVest. In this case we DO NOT replace, but build a cash position. For example, in a strong selloff, we may have to exit three shares. In this example, the portfolio would be 70% in shares and 30% in cash.
- e. When the next C/Up occurs then run the UniSearch and replace those three positions with shares you do not own.

It is that simple. A detailed document on Worry-Free Investing can be downloaded from VectorVest. Click on the Views tab and then on “Special Reports” and scroll down.

Over a 20-year test period in the USA from 1996 to 2016, the WFI method turned 100000 into 680000 and along the way collected 51000 in dividends which were not added. This is a compound rate of return roughly twice that of the S&P500.

Last year on the LSE, the WFI method gained over 40%. Since the Confirmed Up signal on the 27th April 2020, the WFI has gained 16% as I write on the 28th July 2020.

In the trading and investing world we do not know what is going to happen next, but we should know what we will do when the market reveals its hand. WFI and the rules above show you exactly what to do whatever the London market throws at us.

2020-08-07

The Pulse of the Stock Market

Many technical traders, both retail and institutional, spend days of their valuable time compiling a list of shares that are trending strongly. My definition of Technical Analysis is the study of trends and turning points.

At the major trading houses exceptionally bright young people that are CFA qualified are employed in the quest for the true Value of a share. The search for the true Value of a share is my definition of Fundamental Analysis.

Imagine that with a few clicks of your mouse a list could be compiled of all the shares on the LSE that are undervalued by the market, have strong growth potential and are trending strongly upwards. Imagine being able to get the same knowledge as the two groups mentioned above in a few seconds without all the heavy lifting involved.

Each day the VectorVest program calculates a Value for each share on the UK market. The mathematics behind the calculations are revealed in Chapter 3 of Dr. DiLiddos book "Stocks, Strategies & Common Sense." In addition, the program calculates a measure of the share's price appreciation potential in relation to a AAA rated corporate bond. This measure is known as Relative Value (RV) and is graduated on a scale between 0.00 and 2.00. An RV of greater than

1.30 is designated as excellent and means that the share should outperform a corporate bond by 30%. RV drives the share price and is vital for capital growth. Recent research by a User Group member shows that an $RV > 1.25$ greatly improves the performance in both the UK and USA.

In my Essay of last week, I discussed Relative Safety (RS) in detail. The latter measures the safety and predictability of the financial performance. I have added a measure of safety to the UniSearch presented below.

To gauge the longer-term trend of the share, I make use of a proprietary metric on VectorVest called the Comfort Index (CI). CI is an indicator which reflects a stock's ability to resist severe and/or lengthy price declines. CI is based solely upon a stock's long-term price history. It is a unique measurement in the Technical Analysis world and no one else has anything similar or as effective.

CI is also a measure of a stock's Price resistance to market downturns. This index is computed by comparing an individual stock to the up and down movement of the VectorVest Composite and is cast into a scale of 0.00 to 2.00. A stock with a CI of 1.00 or greater is more resistant to a downturn in the market, as measured by the VectorVest Composite.

There are many ways of using the CI, but here is a UniSearch that I use each day to keep my eye on the pulse of the market. It is a UniSearch that finds shares with great fundamentals that are in the throes of a strong trend where the Price is breaking out of a 13-week high. Here are the UniSearch parameters:

Stock RV (Relative Value) ≥ 1.25

Stock RS (Relative Safety) ≥ 1.00

Stock GRT (Growth Rate) ≥ 15

Stock Price - (Split Adjusted) New High Over 13 weeks (end of day data)

I then sort these shares by CI Desc.

Immediately my focus is on the pulse of the market. I have narrowed down the nearly 2200 shares that we follow on the LSE and AIM to a relatively small WatchList of stocks with outstanding fundamentals that are trending strongly and breaking upwards. That is a great area to place your focus in the search for short to medium term trading profits along with the UniSearch used for Worry Free Investing and that used for aggressive swing trading. Please click [here](#) to watch a video of how to write the UniSearch.

Once the WatchList has been generated then please apply the cherry-picking techniques that are taught in Lesson 4 of the "Successful Investing Quick Start Course." This course is built into the VectorVest program and can

be found under the Training tab on the main tool bar. Following this process will produce many high probability trading opportunities. The process and it is a process is a trend following trading plan where the breakout of a 13-week high is applied only to those shares with strong growth properties.

As always, the overall market and the direction of the overall market is paramount and 70% of the exercise. This year has shown us clearly that there is a great time to be in the stock market and an awful time. Buying stocks when the market is rising will make the going easy.

Conservative investors should buy stocks when the VectorVest Composite is printing a Confirmed-Up signal while more aggressive traders should use the DEW Market Timing system. I will discuss these and how they are faring in the attached video.

Short-term swing traders can also use the UniSearch to find candidates for 3 to 5 days high momentum moves in the direction of the longer-term both technical and fundamental trends. If you run the UniSearch above every day you will have no shortage of strong trading opportunities.

2020-08-14

Timing Your Share Purchase At Support With Ease

In shares that are trending upwards or downwards, several Exponential Moving Averages works wonders in determining short-term support and resistance.

In practice I added a 21-Day and a 55-Day Exponential Moving Average (EMA) to each chart. I refer to the area of the chart between the averages as the “Zone”. In an up-trending share, support and buying occurs as the share retraces to this area. Many ask me at the webcasts “where are the averages”? My answer is that I have been looking at them so long that I can see where they are without adding them to the chart.

In VectorVest 7, it is just a matter of right clicking on the Price and adding a Moving Average. The program gives a choice of simple and exponential. If you struggle to find these just give support a call at 0800 014 8974. It is a free call on a land line.

Let us assume the share has got acceptable fundamentals as defined by VectorVest and your personal objectives. In my Essay of the 15th May 2020 I wrote about a method for swing trading stocks and in that suggested a UniSearch to find stocks with strong growth fundamentals.

In the Essay of the 24th July 2020 I wrote about a UniSearch to locate shares that suit the longer- term Worry-Free Investing method (WFI).

Let us also assume that the London market has given a sign that it is safe to buy stocks. In WFI the Confirmed Call Market Timing system is used, while in swing trading the UniSearch suggested using the DEW Market Timing system to decide on whether it is safe to buy stocks. If these signals are negative, then simply stop buying shares and watch stops closely. More aggressive swing traders can clearly be looking for shorting opportunities.

As said above I always place two exponentially smoothed Moving Averages (EMA) on each chart. When the 21-Day MA has crossed above the 55-Day MA, then the trend is Up. When the 21-Day MA crosses below the 55-Day MA, the trend is Dn.

In all markets and in all timeframes (down to 5-minute bars on the SPX) I have found the following technical setup to provide an excellent low risk entry point.

Games Workshop (GAW.L) is a good example of the technique. Please load the chart and apply the Moving Averages and use the drop down to add the Confirmed/Up signal on the 27th April 2020.

Please note how the share runs after the C/Up signal and then pulls back (retraces) into the zone between the 21-Day and the 55-Day MAs. The share is accumulated in this area and that accumulation is shown by the “hammer” candle pattern charted on the 14th May 2020. After this accumulation was complete the share was marked up and a fast move occurred. Since May the share has found support 5 times using the 21-Day EMA.

I am often asked the following. “I missed the initial C/Up signal (could be the DEW if you are a swing trader). When do I enter?”. This technique can be used to enter a share after the Market Timing signal is printed at a good level. The technique could also be used to add to a winning position if that is a part of your trading plan.

To summarize.

1. Use a UniSearch to locate shares that possess strong fundamentals that suit your objectives. I broadly divide these trading objectives into swing trading and WFI investing.
2. Is it safe to be buying shares? The WFI uses the Confirmed/Up signals and in my swing trading I use the DEW signals.
3. If the 21-Day EMA is above the 55-Day EMA the trend of the share is Up.

4. Wait for a pullback into the “Zone” between the 21-Day and the 55-Day EMAs.
5. On many occasions this pullback into the “Zone” will line up with an old high which is now becoming support. This confluence of a pullback to an old high which occurs in the “Zone” rarely fails and is a bread and butter setup for me in all time frames. This setup occurred recently in Avon Rubber (AVON.L).
6. Wait for confirmation of a turn upwards to be confirmed by a positive candlestick pattern. There are only a few of these that I use. Namely “hammers”, “outside days” and “inside days”. VectorVest runs an excellent course in candlestick charting and I will discuss these simple patterns at the Q and A on Monday afternoon the 17th August.
7. After entry WFI traders should use the VectorVest Stop-Loss and revert to the normal WFI rules. I will be running a webcast on WFI on Saturday 15th August at 4:00PM UK time. You can register on the webpage. These webcasts are run regularly three times per month.
8. Swing traders can consider a tighter Stop-Loss located below the low of the confirmation candle pattern.
9. The entry point is a breakout above the high of the confirmation candle. Please ensure that the positions are sized to ensure that if the position fails that only 1% of your capital is lost. This is vital.

2020-08-21

Ten Thoughts to Guide Your Personal Trading Plan

- 1. How much money is in your account?** If you do not know how much money you have allocated to your speculative trading account, then you cannot size your positions correctly. If you cannot size your positions correctly you are gambling and not trading.
- 2. Never risk more than 1% of your account in any trade.** Use a stop-loss order for each position. The VectorVest program calculates a Stop-loss for each share listed on the LSE and AIM each day. The risk is the amount of cash lost if the share should fall from the entry to the Stop-loss level. As a rule, split your capital into 10 portions and then vow never to lose any more than 10% of each position should that position move against you. Careful and disciplined risk management is the difference between winning and losing in stock trading. If you do not trust yourself to action the stop-loss, then orders can be placed on many trading platforms to accomplish this automatically. Never underestimate the power of the ego within us all to “give it another day.” All disasters start with a single missed tackle. Hit the stops hard and low.
- 3. Spread the ten positions across the entire market and do not hold any more than two positions out of the ten in any single sector or area of the economy.**
- 4. Never let a profit turn into a loss.** I advocate exiting half the position when you have made as much as you have risked. Then get the stop-loss to entry and let the second half run with the stop-loss trailing upwards behind the price. To illustrate let us assume we purchase a stock at 10 pounds and VectorVest calculates that the Stop-loss is 8.50. When the position has moved to 11.50, we have made as much as initially risked.

At this point bank half and then move the stop to entry. You now can make money with NO risk on the second half and that is a great feeling.

- 5. Trade only the very best shares.** Those shares, in my humble opinion, should be undervalued by the market and have strongly growing Earnings Per Share (EPS). Warren Buffett's mentor says that EPS growth is the engine that drives the share price. Ben Graham argues that companies that are growing EPS strongly can spend money on acquisitions, research into new and better products and attract the best talent. VectorVest, in a few clicks, can find undervalued shares that are growing earnings strongly. It is like a football team. Fill the team with great players and that alone will help the team do well. Fill your portfolio with shares with great growth fundamentals and you are well on your way to success.
- 6. Never buck the trend on any stock.** The stock should be in a strong upwards trend. Undervalued shares that are growing EPS strongly and breaking upwards through a 52-week high are the basis of a very successful stock and simple trading system. On VectorVest, there is a unique and proprietary metric called the Comfort Index (CI). The CI finds shares that are in the throes of a strong upward trend with a single click. Shares with great fundamentals which also have a high CI can be built into a UniSearch on VectorVest and found easily. I am not suggesting that we do not buy a pullback in an upwardly trending stock with great fundamentals, but rather emphasizing the need to have a strong trend at your back. I find that sorting shares on UniSearch by a combination of CI and GRT finds opportunities that satisfy the requirements of pointers 5 and 6 easily and without fuss. Please review my essay of the 15th May 2020 on this topic.
- 7. Never buck the trend of the overall market.** The most important thing to know is whether the market is rising or falling. Everything follows from that. Some traders and investors use a moving average on the indices to time the overall market. The problem is that markets

move like fairground rollercoasters. They take a long time to rise but fall quickly. Moving averages on the indices do not do a bad job on the entry, but tend to be on slow when it is time to get out of the market and into cash or be short. This is due to the lagged nature of the moving average calculation. On VectorVest, we have several unique and totally objective Market Timing systems that react quickly to market conditions. There are systems for swing traders and longer-term position traders and investors. There is a good time to be buying shares and an awful time to be buying shares and for success you need a system that is easy to use to tell you when. I have reviewed the VectorVest Market Timing signals in these essays on many occasions and will do so again in the short video accompanying this entry. As of mid-day 18th August as I write, all the Market Timing signals on VectorVest are Up. Focus on the present moment. Manage this moment well and the future will take care of itself. For most of us the present moment is a daily bar and the daily advice from the front page of the VectorVest program. Based on this, on Tuesday 18th August, I am sitting and holding positions and enjoying the ride. I will stress about tomorrow, tomorrow.

8. Trade only in active markets. Keep out of slow and illiquid stocks. Risk management is the core of consistency in stock market trading and if the share is poorly traded there may not be a bid in sight. A filter can be added to exclude shares with poor trading volume as a line within all the UniSearch variants on the VectorVest program.

9. Doing nothing is much more difficult than it would seem. In the seminars (to keep people awake), I always joke that there is a neurological link between your butt and the mouse finger.

When you put the former into the trading seat it immediately sends a message to the mouse finger to buy something. These impulsive buys, taken after 10 seconds in the trading seat, rarely fare well.

10. Maybe the most difficult part is letting winners run. In point 4, I suggested exiting half of the position when you have made as much as

you initially risked. Then get the stop loss to entry. The objective is then to let the second half run using the VectorVest Stop-loss as a trailing stop. This will give the share lots of wiggle room on its ascent. Try not to micromanage the trade at this point. About 40% of all the trades taken will just keep running like the GAW.L of this world. Try your best to just let the ball do the work.

2020-08-28

When It Is Time to Sell, You Will Not Want to

We have had a very good run in the UK market and an excellent run in the USA since the last Confirmed Up signals in both countries. More aggressive investors in the UK who use the DEW Market Timing System to alert them to when it is safe to buy shares, have been long in the market since the 7th April 2020. For those who simply took the signals it has been an excellent year for those using our product. This can cause slackness in applying risk management.

“My biggest losses have always come after I have had a great period and I started to think I knew something.”

—Paul Tudor Jones.

This quote from winning hedge fund trader Paul Tudor Jones is worth considerable thought over the next few weeks in the run up into the USA elections. The markets have been very kind to us all over the last six months and I know from the User Groups, very kind to most VectorVest subscribers. Long may it last. The probability of another strong move into the USA elections is strong in my humble opinion.

After a run of winning trades, we change enormously. After a series of winning trades, your pituitary gland gets to work. “Your pituitary gland is about the size of a pea and is situated in a bony hollow, just behind the bridge of your nose. It is attached to the base of your brain by a thin stalk.” After a run of good trades, the gland floods the bloodstream with hormones and the result is a feeling of euphoria. A similar process occurs after a good workout (a different hormone) at the gym. It is easy to become addicted to the latter and I am.

I know traders who become euphoric after a single winning trade or investment. Certainly after a few good money-making trades in a row, we all change. Euphoria is often defined by a feeling of invincibility. As these hormones get to work, it is very easy to brush aside the concept of a stop-loss. It is very easy to forget about correct position sizing. I am invincible and I am sure this is a winner. If it is a winner, let us accelerate the process of wealth accumulation and have a big bet. It becomes much easier to justify adding to a losing position while these hormones are in control. In short, this feeling of invincibility is responsible for a host of trading errors.

Most institutional risk managers agree that the biggest trading disasters occur after a run of good luck and they are taught to evaluate the traders under their control for their susceptibility to euphoria. A big difference between institutional traders and retail traders is the risk manager who, although universally hated, polices the process. At the retail level, we are trader and policeman. When the hormones kick in, it's sometimes akin to putting a goat in charge of a cabbage patch.

As I have said here on many occasions, we need two things to make money in the stock market (or any market). We need quality information and certainly VectorVest fulfills that role. We also need self-awareness. The practice to build presence and awareness is never ending and it is the only way I have found to sidestep the euphoria that I mentioned above.

The USA markets are rising on a few shares. The divergence between the Price of the VectorVest Composite and the Buy/Sell Ratio shows this clearly on both sides of the Atlantic. This divergence has dragged on since June 2020. A Sell signal from the DEW or a Confirmed Down signal which is preceded by such a marked divergence needs to be taken seriously by all. It is my view that this time will not be different. The probability of a strong move upwards soon is high. Strong blowoff upward moves are rarely corrected by sideways market action, but rather by a strong and high momentum reversal. This period between now and the USA elections are not the time for long and protracted fishing trips.

The rules of using VectorVest to find high probability trading and investing opportunities are simple and easy to implement. Last week in this Essay, I detailed 10 pointers on how to use VectorVest and how to construct a trading plan for your trading business. Thankfully the VectorVest program does all the heavy lifting associated with the fundamental and technical position of nearly 2200 shares in the UK and 8000 plus in the USA. These rules and guidelines are presented in the “Successful Investing Quick Start Course” (SIQSC) which is built into the VectorVest program under the Training tab on the main toolbar. Entry points and prolonged discussions of the technical and fundamental position of an investment or trade are exciting.

However, it's strong risk management that builds consistency and this subject tends to be forgotten about. Please review Lesson 2 of SIQSC, which tackles the subject of risk management and position sizing. The course should be repeated several times a year to reinforce the principles and core beliefs of a consistently winner trader and investor. If we all spent as much time managing the risk as we do on entries, we would all be much richer.

There is a right time and a wrong time to buy stocks. For new customers, I have had many requests to define the DEW Market Timing system and have done so in the video accompanying this Essay.

2020-09-04

How to Build Consistency as a Stock Trader

“The more I practice the luckier I get.”

—Gary Player

Making money in the stock market over an extended period of years is not a game of chance and it has nothing to do with your age, background or sex. Money is made consistently by a mixture of knowledge, skill and discipline. I define stock market discipline as the ability to simply follow the rules of a simple, but robust and proven trading plan repeatedly without deviation. This, as you may have discovered, is much more difficult to do than to speak or write about. Do not allow this to put you off. It can be mastered with a little practice and a few months effort. Once this skill is mastered you will have a method of generating cash for life. It will require practice like all skills. It can be scary at first but just start small to get up and running. I know the comment from many will be that the commissions are high with a tiny account. In my view reframe that as a learning exercise to get you going and your confidence higher.

“I fear not the man that has practiced 10000 kicks once, but I fear the man that has practiced one kick 10000 times.”

—Bruce Lee

When you start on the path to financial independence by investing and trading in stocks, many friends and family members will sneer. It is like gambling they will say. In gambling the odds are stacked heavily against you and the longer you stay in the casino the more broke you become. In contrast, the stock market allows us to engineer a plan where the odds are stacked in our favor. In a way we become the casino and like the casino play the game with an proven edge. The VectorVest method of trading stocks combines the following three aspects of analysis and is an enormous edge. They are:

1. **The Fundamental position of a share** (the study of value, earnings growth, and earnings safety). Look for shares with outstanding fundamentals. This alone will make your portfolio do well. On UniSearch please consider “Long Term winners RS descending” which is in the retirement portfolio to find great stocks. I will be conducting a webcast on this technique on the 8th September which uses this UniSearch to great effect. This is an outstanding way of getting started in the stock market using the VectorVest Worry-Free Investment strategy. Please [CLICK HERE](#) to register for more information.
2. **The technical position of a share** (the study of trends and turning points). VectorVest defines both the short-term trend of the share and the longer-term trend exactly with no chart watching. I will define these and demonstrate these also in the webcast mentioned above on the 8th September.
3. **The technical position of the overall market.** I have defined two methods of quantifying the technical position of the overall market in this essay over the past two weeks. These can be the Confirmed Call or the DEW Market Timing signals. The former is best suited for longer-term investors while the DEW will suit swing traders. The longer-term Confirmed Calls will be revisited in the webcast on the 8th September.

This edge should result in gains that are much greater than the initial risk with a hit rate of successful trades of greater than 60%. The risk is simply the cash lost if the share drops from the entry point to the VectorVest Stop-loss.

These three aspects of share selection and Market Timing are fully discussed in the Successful Investing Quick Start Course which is built into VectorVest under the Training tab on the main toolbar. Buying stocks with outstanding fundamentals that are rising when the overall market is rising is simple, intuitive, and is proven over decades by VectorVest subscribers worldwide.

There are no short cuts to ticking these three boxes for success in the stock market over an extended period. Missing a single box will pull down your hit rate and especially destroy your risk to reward ratio over that extended

period of months and years. Anyone can get lucky for a few weeks, but to be consistent over many months and years it takes the discipline to sit and wait until these boxes are ticked. Many of the emails in your inbox will endeavor to convince you that there is a secret short cut that only a few know about. This is mostly total baloney and written by scoundrels or by those who do not know enough to know they know nothing.

Lesson 5 of the course is all about putting together a trading plan that suits you. Dr. DiLiddo, founder of VectorVest, has written a book entitled “Stocks, Strategies and Common Sense” which will help with the construction of your business plan. That is what it is, as trading is a business like any other. The book can be downloaded from the Views tab on VectorVest. Click on the Views tab and then on “Special Reports.” I have also suggested ten points to consider when constructing your trading plan in my Essay of the 21st August 2020.

Some focus will be required when you start the process of trading and investing.

Some decisions will have to be made when constructing your blueprint for success. If you try and become a value stock trader, growth stock trader, swing trader and day trader all at the same time then there is a high probability of confusion and poor discipline. I do not know of anyone who has excelled by becoming a jack of all trades in any walk of life. For most of my trading life, since 1982, where I have actively traded stocks, commodity futures, bonds, and forex at both retail and institutional levels I have been a swing trader. My typical hold is from a few days to 8 weeks. To become a master at anything, it is my view that you need to be focused and specialize.

In the next few weeks, VectorVest will be conducting an options trading course called the “Options Jumpstarter.” Options on shares give the trader exactly that, namely options. Options are great way of buying insurance on a portfolio to avoid the effects of a market crash such as we experienced in February and March 2020. Options can also be used to generate an income on shares that you presently hold using the most basic of options strategies

known as “Covered Calls.” This strategy and several much more advanced options techniques will be taught in this extensive 6-week options course.

The course is just about to start, and I see from the link below that the testimonial featured at the start of the promotional email is from a very valued UK subscriber to VectorVest.

As I write after the close on Tuesday, 1st September, the Primary Wave on VectorVest is Down while all the longer-term measures of the trend on the London market are up. I am holding positions and added several mining stocks just before the long weekend. This and much more will be fully discussed at the Q and A session on the 7th September.

2020-09-11

How to Size Your Positions for Consistent Success

The concepts of position sizing in trading and investing are arguably the most important in the journey to becoming consistent in performance. The concepts are not nearly as stimulating as figuring out entry points and the mathematics are trivial. Position sizing tends to be overlooked in the big ego game of stock selection and entry points.

When you have a great trading system such as VectorVest, it is certainly easier to meet your system objectives via a robust position sizing method. However, you still have a good chance to meet your objectives and profit with an average system or great system operated with poor discipline, if optimal position sizing is practiced.

There are many psychological biases which discourage the practice of optimal position sizing. In “Trading in the Zone”, the late Mark Douglas discusses the topic in some detail. In the book he writes about the concept of “thinking in probabilities.” If, using VectorVest, we can be correct in 75% of our trades then we are incorrect 25% of the time. On the next trade we simply do not know whether it is one of the 75% or one of the 25%. The market cannot be predicted on a trade by trade basis. Over a batch of trades there is order, but in a single trade anything can happen.

If you think you know what’s going to happen next, on a trade-by-trade basis, then it’s easy to make a host of trading errors.

If you know what’s going to happen next, why place a stop-loss?

If you know what’s going to happen next, why not put everything into that position? Let us accelerate the process of wealth accumulation.

At VectorVest, we firmly believe in position sizing and its vital role in ensuring consistent performance. In Lesson 2 of the Successful Investing

Quick Start Course (SIQSC), this topic is discussed in detail and in the remainder of this post I wish to show how I have personally and simply managed this topic over the years. I will illustrate the calculation with a simple, but totally realistic example.

Over the past three decades, I have been using a 1% risk model (or less) to define my position size. This does not mean that I only purchase shares to the value of 1% of my capital base, but rather it is the amount of cash that I am prepared to risk to ascertain whether my trading idea is correct or not correct. The 1% refers to the cash lost if the share should fall from the purchase price to the stop-loss figure as opposed to the cost of the entire position (exposure). Please reread this paragraph until the difference between risk and exposure is clear. To most new traders the difference is muddled.

How much money is in your account? If you do not know how much money is in your account, then you cannot size your positions, and if you cannot size your positions, then you are gambling and not trading or investing. I come across this all the time. The first step is to decide how much of your total capital you wish to allocate to your trading business. For the sake of this example I am going to assume that a new trader has 20000 pounds of capital to start their trading business.

1. 1% of £20000 is 200 pounds and this is the maximum loss that should ever be taken on any single trade or investment. I know shares can gap through stops, so please do not get your abacus rule out. Losing 1.5% will not kill you. It is losing the lot, half, or a quarter of the account, that will kill you both financially and mentally. What will the quality of your decision making be like when you have blown a quarter of your account in a single trade? Not great, I fear. The urge to get your money back will take hold. From there it is a slippery slope to blowout.
2. I use the VectorVest calculated Stop. Let us assume that the Buy point is 400p and the stop is at 340p. This is quite a wide stop, but if the entry level is after confirmation from a candle pattern or after a few green bars that is often the case.

3. The Risk per Share purchased is thus 400p minus 340p which is 60p or £0.6.
4. Number of shares to be purchased (N) * Risk per Share = 1% Account Size. This simple and trivial equation was shown to me by my first mentor in 1982 and I have used it in each trade ever since.
5. $N = 1\% \text{ Account size} / \text{Risk per Share}$.
6. $N = 200 / 0.6 = 333 \text{ shares}$.
7. Total purchase price = $333 * 4.00 = £1333$.
8. The £1333 is the exposure while £200 pounds is the total risk on the position. Again, please make sure that you understand the difference between these. Many that I discuss these concepts with do not. In the video accompanying this Essay (link below), I will work another market example and further emphasize this vital step in your trading plan and process.

There are many methods of position sizing and extremely complicated models are used by the institutional community and taught in financial management courses. However, the disasters at both retail and institutional level are when no position sizing is practiced at all and the trader is sure that they know what's going to happen next and have a "bet the farm" punt.

I hope the above will stimulate thought and get you thinking about how you will size your positions. There is a lot of discussion on the topic on the internet as a simple search will show.

As traders, it is our job to focus on perfect execution of each trade without fear or hesitation. Sizing the position correctly in relation to the size of our account whilst using a sensible stop- loss is a big part of the execution process. This is a part of the process which is frequently overlooked. As a result, most of the failures in trading do not stem from poor analysis, but rather from poor or non-existent position sizing.

As I write midday on the 9th September 2020, the Home Page of VectorVest UK and USA are showing lots of red. The Primary Wave in both countries

is Down. The DEW medium term Market Timing system is Down while the Underlying Trend remains positive. In the USA, I have cleared all my positions after an excellent spell as the DEW turned to Down. Please be very careful in this environment and resolve to take stops without fear or hesitation. The position of both the UK and USA markets will be addressed at the Q and A session on Monday, 14th September 2020.

2020-09-18

It Does Not Matter How Well You Know the Horse. Never Stand Behind It

Do not avoid risk, but manage risk well and professionally. This entails managing the entire trading process from entry to exit. I present a webcast several times a month which is named the “10-Minute Investor” where I show the attendees how to outperform the market in 10 minutes a day. In the webcast, I ask the question “what’s the hardest part of making money in the market for you?” Around 80% of the audience types into the webcast chat box, “knowing when to exit.”

Traders are told to “let their profits run,” but unfortunately that’s vague advice. Let a profit run long enough and it can easily turn back into a loss. Allowing winners to turn into losers can cause your trading confidence to go downhill fast. Traders need a plan with exact rules, that allows them to let their profits run beyond what they typically lose on a losing trade, but also realize that the market will not move in their direction forever. If your profitable trades over time are bigger than your average loss, winning only 50% of your trades (or even less) can still make you a highly successful trader. Here are several methods to help you achieve this. The subject is covered in detail in Lesson 2 of the “Successful Investing Quick Start Course,” (SIQSC), which is built into VectorVest, under the Training tab on the main toolbar.

There are two types of exits. These are associated with a profitable trade and a trade that goes poorly. In both cases, how you will exit a trade should be planned before you enter and be a part of your written trading plan.

1. Setting an initial stop and position sizing.

VectorVest calculates a stop-loss level for each share in the database each day. The level is based on a 13-week Moving Average (MA), but is adjusted for

the fundamental position of the share. If the fundamentals are good, then the stop-loss is widened, while if the fundamentals are poor, the stop is tighter. In my personal trading, I act on a close below the VectorVest Stop. This is easy to spot via a red marker on my WatchList of shares that I invariably view on my smart phone using the VectorVest Android app. For many, this is when ego gets in the way. Tell your ego to take a hike. Keeping losses small is the cornerstone of becoming profitable. For the position sizing calculation, please reread and play the video from last week's Essay where this topic is discussed in detail. It's vital that if the position should be stopped out, only 1% of your capital is lost. An old mentor once told me that "the most important part of trading is to have enough money to trade tomorrow."

2. Exits from a profitable trade or investment. Just a few of the dozens available.

a. The Trailing Stop is probably the most well-known profit exit technique. In simplest terms, as the price moves your way an exit order moves upwards along with the share price. The exit order trails the price by some set amount. It is like a ratchet spanner as it allows unlimited movement in one direction, but only a set amount in the opposite direction. My first mentor used a 25% Trailing stop-loss. It was chosen in a pre-computer age because it was easy to calculate.

b. The VectorVest calculated Stop is also an excellent Trailing stop. Every evening re-sort the shares that you own in a WatchList by Relative Timing (RT). This will place the shares with the lowest RT at the bottom of the list and certainly any shares that you hold with a RT less than

1.00 need to be monitored carefully. If a share should close below the VectorVest Stop, it will be shown with a red mark beside the share. Be very careful and aware of your thoughts during this process as most will complete and get this exercise correct and then make the wrong decision about which shares to exit emotionally. Most people will cave into their emotions and get rid of the shares that are doing well and refuse to take the loss on the shares that are not. I am sure nearly everyone reading this will have made that

mistake at some time in their trading life. Your job as a consistently winning trader/investor is to cull the losers quickly and without fuss and to keep your hands well off the winners.

c. A price target can be a simple and effective method of exiting a winning position. If you are risking £300 on a trade (the difference in cash between the entry point and the stop-loss used), but will make £900 if the price hits your target, your reward outweighs your risk 3:1. If you set a stop-loss and a price target, you can “walk away,” knowing that eventually one of the orders (stop or target) will get filled. This is advantageous to all traders, but especially those who lack time to constantly monitor their trades and/or worry about their emotional responses. Fear of losing and the greed of leaving money on the table can result in terrible decisions being made.

d. A Moving Average can be used as a trailing stop-loss. A 40-day MA seems to work well. A break below the 40-day MA is a strong early warning signal that the trend upward is faltering. This is discussed in detail in Lesson 2 of the SIQSC.

e. Letting winners turn into losers is an emotionally draining experience. Over the past few years, I have been using a simple technique to manage winning trades and have found this process both emotionally easy to manage and profitable. Firstly, I use the position sizing technique that was addressed in last week's Essay. In this, I defined the risk/share purchased was the difference between the buy in price and the VectorVest calculated Stop-loss. I simply exit half of the shares purchased when the position has moved by an amount equal to the initial risk/share. At that point I get my stop to entry on the 2nd half of the shares remaining. I let this portion run using the VectorVest Stop as a trailing stop-loss. Here is the process in point form:

1. Size the position so as only 1% of the account is lost if the trade fails. Please reread and play the video on last week's Essay.
2. Let's assume we buy 100 shares at 10 pounds each and the VectorVest Stop-loss is at £8.50. The risk/share is thus £1.50.

3. When the share rises to £11.50, sell 50 shares at that price. That is a profit of 50×1.50 pounds.
4. Bring the stop-loss on the 50 shares remaining to the entry point at £10.
5. Use this as a stop-loss for the remaining 50 shares until the positions moves far enough to cause the VectorVest Stop to rise above the initial entry point. After this point, trail the stop upwards at the VectorVest Stop.

The technique takes a quick profit on half of the shares and then engineers a situation where nothing can be lost on the second half with the opportunity of a big win on these shares. This is the possibility of reward with no downside risk on the 2nd half of the position. That is a great feeling. To make this into a profitable exercise it's vital that you follow the rules and do not snap at a quick profit on the 2nd half. The VectorVest Stop is excellent in this regard as it's well outside the "traffic" and market noise.

There is no best way to exit a profitable trade. For some trades, one method will work well, but will be less than perfect on other trades. The key is to decide on a method and stick to it. All these methods can help you "let your profits run," but will get you out if the price moves too much against you. You'll never squeeze every penny out of a trade, but utilizing the exit strategies outlined here will help you capture the bulk of a move.

2020-09-25

Are You in the Market to Prove Yourself Right, to Solve the Puzzle, or to Make Money?

There are four fears that are at the root of most trading mistakes. In order of importance to me they are:

1. Being Wrong
2. Losing Money
3. Missing Out
4. Leaving Money on the Table

Being wrong and losing money may not pose immediate threats to your existence, but they are major fears. At the training seminars, both live and via webcast, I introduce this by saying that “Most men over 50 are less scared of death than they are of being wrong.” I see a lot of heads nodding when I make this remark.

The dynamics of the four fears in your trading/investing manifest themselves in a tendency to trade to be right, as opposed to trading to make money. The urge to be right is deep rooted and without spending time becoming aware of this, the average trader will start to snap at winners and increase the stops or ignore the stops. They will even start to justify this by making remarks such as “stops are for buses.”

This is vitally important as I write this on the 22nd September 2020 as all the measures of the trend on the USA markets are pointing down. The weakness of the pound against the dollar has protected the UK market, but if the USA falls further we will, in all probability, fall with it.

Please reread my last two weekend Essays on risk and position sizing, which will help.

I know I am stressing on this point, but I have been observing retail portfolios for 25 years and it is the reason that many of them end in the red. The ego's need to be right causes the most rational of people to keep doing the wrong thing. In one simple sentence the following is the reason for failure. The losing or breakeven traders and investors "sell their winners and hold on tightly to their losers in the vain hope that they will turn." Construct a simple VectorVest WatchList, sort the watchlist by RT, keep the shares at the top and cull those at the bottom. It is that simple, but the ego will fight you all the way. Be warned.

In last week's Essay, I outlined a trading plan that took a quick profit on half the position while allowing the 2nd half of the position to run. This concept has helped many traders to get over this fear and get over it quickly. Again, please reread last week's Essay for this and refer to the short video attached to this entry.

Here is a small, but very important mental trick that will help.

When a losing trader has a winning trade, they tend to become nervous, worried and pessimistic. They stress over the possibility that the profit will be taken away from them in an overnight move or by a poor trading statement. For this reason, they tend to snap at their winners.

When a losing trader has a losing trade, they tend to become optimistic. They are optimistic that the losing position will turn around into a winner. "Give it another day" which turns into "Give it another week."

A winning trader has a completely different mental view of winners and losers. When a winning trader has a profitable trade, they become optimistic that the position will keep rising. When they have a losing position, they quickly become pessimistic and close the position.

On your next trade or investment pay close attention and become aware of your thoughts. If the position is in the black, focus on positive optimistic

thoughts and practice excluding pessimistic thoughts. If the position moves into the red, focus on just the opposite. This will take some practice and work.

To become a winner at the game of trading, it is vital that you become optimistic in a winning position and pessimistic in a losing position. If you practice that mental switch, then the cash is on its way.

It only takes a few monster stocks, if you handle them correctly, to materially improve your life financially. I am confident that GAW.L, AVON.L, LIO.L, HLMA.L and JD.L contain the characteristics and have the potential to be monster life changing stocks. Handling them correctly simply means letting them rise and avoiding the temptation of taking quick ego satisfying profits whilst ruthlessly culling the shares that underperform. There will be many occasions that profits are given back as is the case with CWK.L right now. That is the price we pay every now and then to reel in a monster life changing stock.

2020-10-02

Market Timing. It's 70% of the Process to Become a Winner in the Stock Market

“Sell in May and go away until St Leger Day.” The St Leger for those uninformed is a horse race run at Doncaster. It was last run in September 2020 a few days ago. The gist of the seasonality is that it's best to exit the stock market in May and sit in cash until after the race has been run. So far this year, this well-worn saying has been performing well. The UK market has largely been flat all of June to Mid-September, but now seems to have a new lease of life as I write on Tuesday 29th September 2020. This can change by the time of publication.

The results of “Sell in May etc.” over the past 30 years is inconclusive with no advantage to selling in the summer. This year, the VectorVest Composite was flat over this period, but I suppose it would have saved much angst in this poor period.

Fortunately, at VectorVest, we have many more sophisticated tools to measure market direction. My belief is that defining market direction is 70% of the exercise. I started defining overall market direction very early in my investing career as I noted that when the indices reflecting the overall market were up, my positions were also up. In those days I charted by hand using an engineer's drawing board and a draftsman's black ink pen. When you chart by hand the cross- market relationships are formed easily and deeply in your mind.

In those days, to measure the sentiment of the stock market, I used the SP500 as my yardstick. A weekly chart of the cash price was used in

conjunction with a 50-week moving average. Two consecutive closes above the 50-week was a sign that it was safe to buy stocks and two closes below the same average was danger. Markets are like a fairground roller coaster. They take a long while to climb and then fall very quickly. The two closes above the average proved to be a reasonable entry, but the two closes below the average proved a late exit. I changed that in the end to a single close below the 50-week average, but even that was slow.

The VectorVest method of Market Timing gets over the lagged signals from a moving average system by studying the price, momentum and breadth of the VectorVest Composite. The latter is an equally weighted index of all the shares that we follow on the LSE and AIM. There are various signals for differing types of traders from short-term spread betters to long-term position traders.

On the Home page of VectorVest, there are two words that define the trends on the London markets. As of the 29th September 2020, these are Up/Down. This means the Primary Wave (short-term trend) is Up, while the Underlying Trend is Down. No chart watching is required or needed to establish easily and objectively the trend of the overall market.

At every turn, pretty much, the same series of events takes place and I urge you to follow these signals at this potential turn upwards of the LSE. I will detail the sequence of events as a Down market turns to an Up market. Clearly the short-term signals will fire ahead of the longer-term measures. Small boats turn more quickly than aircraft carriers.

Let us assume the overall market is in a freefall. At that point, the trend situation will be Down/Down. As above, this means that the Primary Wave is Down and the Underlying Trend is Down. It is a poor time to be buying shares and that will be the advice offered by VectorVest just below the traffic light on the Home page of the program. Sooner or later, there will be a turn upwards and, when that occurs, the VectorVest signals will show it clearly. No guesswork is required. I will discuss the signals as they appear in my engineers point form.

1. The Primary Wave turns Up. The trend situation is now Up/Down. For this signal to print, the VVC/UK should close above the close of five trading days ago. This is my 1st measure of a reversal.
2. If the change in direction proceeds, the next signal will be shown in the Price column of the Color Guard which is just below the traffic light on the Home Page of the program. The Color Guard is simply a table of the Price of the VectorVest Composite, the momentum of the VectorVest Composite (RT) and the Buy/Sell Ratio (BSR). If you see a green light in the Price column (first from the left), that means that the VectorVest Composite is higher day-over-day and week-over-week. The Green Light Buyer (GLB) signal is a fast measure of the turning point and should be used by short-term traders to dip their toes into the market. The GLB is my second signal that a turn is underway. Frequently, a GLB will occur on the same day as the Primary Wave turns upward. The GLB is my 2nd measure of a reversal of the overall market.
3. If the turn upward keeps going, the next signal is a Green Light in the Price column of the Color Guard, but in this instance the Green Light has a black star within it. The Green Light indicates that the Price is up day-over-day and week-over-week as before, but this has been confirmed by momentum (RT) also rising. In the background, the program has applied two Moving Averages (MA) to the RT of the VectorVest Composite UK. If the short MA is above the longer MA, the RT is rising and the program records this fact with the black star. It is known as the RT Kicker. A Green Light Buy confirmed by the RT Kicker is a strong signal that the reversal is getting much stronger and becoming a much safer bet to buy into. These signals are totally objective in nature and no chart reading skills are necessary. This is my 3rd measure that a reversal is taking place.
4. Next up in the sequence of the turn is the DEW Market Timing system. It is not shown on the Home page of VectorVest, but is a very powerful and robust medium-term trading system. Akin to all trading systems

that work, the rules are simple and straightforward. To find the DEW please load a Market Timing Graph by clicking on the Timing tab and then clicking on Market Timing Graph and apply the ProTrader DEW layout from the menu on the top right side of the chart. As the DEW is not on the Home Page of VectorVest, I will show how to set it up in this short video.

D is the Detrended Price Oscillator (DPO), E are Price Envelopes and W is a Weighted MA. When the VVC/UK closes above the default MA and the DPO is above its centerline, that is a DEW Buy signal. When the VVC/UK closes below the MA and the DPO is below its centerline, that is a Sell signal. Very simple and robust as it should be. The DEW signals can be shown on the Market Timing Graph and indeed any chart by using the dropdown menu below the chart.

The DEW is my 4th measure of a reversal in price.

5. Next in the sequence, the Underlying Trend turns upwards and the trend situation will be summarized as UpUp. If you again load the Market Timing Graph and, on this occasion, please load the VectorVest MTI Layout. The MTI is a very special indicator which combines the momentum of the VVC/UK (RT) and the BSR into a single line study. As with all other VectorVest metrics, it is mathematically massaged between 0.00 and 2.00. When the MTI is greater than 1.00, the Underlying Trend is Up. When it is less than 1.00, the Underlying Trend is Down. The Underlying Trend is my 5th measure of the turn.

Please note that sometimes signal 4 (the DEW) and signal 5 (the Underlying Trend) can be on the same day or even 5 can occur before 4 depending on the geometry of the reversal.

6. The last and most conservative signals on VectorVest are known as Confirmed Calls and they print a signal when the Underlying Trend is confirmed by Price action. If the MTI is greater than 1.00 and the Price of the VVC/UK has increased five-trading day period over five-trading day period, for two consecutive five-trading day periods and from the

previous day, that defines a Confirmed Up, C/Up, signal. If the MTI is less than 1.00 and the Price of the VVC/UK has decreased five-trading day period over five-trading day period, for two consecutive five-trading day periods and from the previous day, that defines a Confirmed Down, C/Dn, signal. These signals are used by conservative traders and investors in the Worry-Free Investing method. Although they are the longest-term on VectorVest, they respond much quicker to market events than my moving averages mentioned above. This is my 6th and longest-term measure of a reversal.

In the UK market, the last C/Up occurred on the 27th April 2020 and the signal is still in place as I write.

At each turn and reversal of the overall market, the same sequence of events take place.

2020-10-09

The Process of Short-Term Trading in UK and USA Stocks

This is a written walk through the seminar that I will present in the VectorVest Financial Freedom Summit on the 19th October 2020. The entire Summit is three days of outstanding stock market trading and investing education and it is all free. Please register at Financial Freedom Summit.

The following ten steps should be a part of any swing trading plan. I will use many charts to illustrate the points below and their nuances in the talk. These are:

- 1. The overall market is on your side.** This means that you are initiating a swing trade in a share that is moving in the same way as the overall market. On VectorVest, there are many measures of Market Timing. Fast measures for swing traders and longer-term measures for position traders. To initiate a swing trade, in my humble opinion, at least the Primary Wave on VectorVest should be Up and the advice on the front page of VectorVest positive for buying shares. I firmly believe that this is 70% of the exercise. Swim with the stream. As I write on the 7th October, the trend outlook on VVUK is positive, while on VVUSA caution is advised when buying stocks.
- 2. The industry group and sector of the economy are on your side.** Stocks tend to follow their industry group up or down. Simply load the industry group in the Viewers tab of VectorVest and resort by RT. This will easily find those areas of the economy that are performing. Again, I will illustrate this on the day.
- 3. Trade in the very best shares.** Shares that are growing earnings strongly and reasonably safely. Favor those shares that show strong Earnings

Per Share (EPS) growth over at least the last year with little volatility in the EPS chart. EPS growth is the engine that drives the share price. The latter should be rising from the bottom left of the window on VectorVest to the top right. As detailed in last week's Essay, a share that trades sideways while EPS is rising makes for an excellent high probability swing trade when the share breaks upwards and moves to a VectorVest Buy recommendation. Forecasted EPS on VectorVest is a strong leading indicator of change. Leading indicators of change are in very short supply in this line of work.

4. **The stock under study should be in an existing uptrend.** Our job as swing traders is to finesse an elegant entry from a retracement (this is trader jargon for a pullback in the share price) in a share that is just about to explode higher as the longer-term trend reasserts itself. On VectorVest, the Comfort Index (CI) finds shares that are in the throes of a strong long-term trend, easily with little fuss. It is indeed a secret weapon. Swing trade in shares that possess a CI of greater than 1.30 and both your hit rate and risk to reward will improve. I will define on the day three types of trend, fast, normal and creeping.
5. **Most pullbacks will retrace to the last significant swing high.** Frequently this will also be a major Fibonacci level. This pullback should take place on falling volume. A pullback in the share price on low volume in relation to the last advance is a sure sign that sooner or later the bull trend will resume. There are many ways a share can pause within a strong trend and give swing traders an excellent entry point. Technical patterns such as flags, falling wedges and cup and handles patterns can make excellent entry points. In all of these, the down move within the pattern should show falling volume while up moves within the pattern should show increased volume. Volume can be difficult as many shares are bought and sold for reasons that have nothing to do with the share. Listen carefully to my talk on volume. The latter is a leading indicator if it is interpreted correctly.

6. **A technical momentum indicator such as the George Lanes Stochastic indicator (a standard study on VectorVest) can confirm that support (or buying of shares) should be anticipated.** The study is normalized between 0 and 100 with a Stochastic value of less than 20 indicating an oversold position in a share. This is an exciting place to look for a buying opportunity. A divergence between the share price and the Stochastic adds to the strength of this observation. On VectorVest, there are UniSearches that can find shares with good fundamentals where the Stochastic is less than 20. In the attached video, I will illustrate how this technique can pinpoint entries into a strongly trending stock with good growth fundamentals. Please [CLICK HERE](#) to see the video.
7. **A bullish candlestick reversal pattern confirms that the support has a high probability of holding and that the advance has started.** An Up day with rising volume would be first prize. There are many candlestick patterns, but I personally just use a few. I favor bullish engulfing, hammer, morning star and harami (inside bars) patterns. It is now time to open the brokers marketmaker and buy some shares.
8. **Firstly, how much money is in your account?** If you do not know how much money is in your account, you cannot size positions and if you cannot size positions, you are gambling and not trading. Vow never to lose any more than 1% of your account in any single trade.
9. **Size your positions.** Use the VectorVest Stop and calculate the Risk/Share purchased. This is simply the purchase price minus the VectorVest calculated Stop-loss level. If N is the number of shares about to be purchased, then the simple equation is that $N \times \text{Risk/Share} = 1\% \text{ Account Size}$. Thus $N = 1\% \text{ Account Size} / (\text{Risk/Share})$.
10. **Split the position purchased into two equal parts.** When the position has risen, and you have profited by as much as the initial risk, sell one part. Increase the stop-loss level on the second part to entry and let it run. Do not micromanage the second part and allow this part to run using the VectorVest Stop-loss as the trailing or ratchet stop. My

experience is that around 30% of trades will result in what I refer to as “runners.”

2020-10-16

Strength in a Selloff Is a Leading Indicator. Never Let a Good Crisis Go to Waste

When it's time to buy stocks, you will not want to. By the latter, I simply mean that emotionally it's difficult. Just remember the emotions you felt in the last week of March this year. That was the best time to have bought stocks in 2020. The proverbial blood was running fast in the streets.

My first mentor and I met by pure accident. I shared an office with him when I first arrived in South Africa in April 1981. Each day he spent hours hand charting the shares he was following and watching on the Johannesburg Stock Exchange. Based on this apprenticeship, I saved some cash from my salary, placed my first trade in October 1982 and am still going strong.

He was the first to alert me to the fact that those shares that showed strength in a downturn were invariably the first to turn strongly upwards when the overall market recovers. Shares that have done well in a selloff, such as in February and March this year, tend to outperform when the overall market turns upward.

As I write on the 13th October 2020, we have recovered from the mega oversold condition seen in March 2020. It is always good to review and learn from these experiences and, with this awareness, improve our performance in the game of trading stocks. It is a game and it is a game that we play with ourselves. The market does not know who we are, nor does it care. It is like snow in winter. The parent hates the snow as it makes life a pain, while the schoolboy loves the snow for snowball fights and fun. The snow is just there and neutral.

In the following, I will detail a UniSearch in VectorVest which finds shares that have a strong history of outperformance and show high Relative Safety (RS) over the past weeks of the February to March 2020 selloff.

A decision is needed to define when the selloff is over. Before any action is taken, the investor should simply wait for the front page of VectorVest to say it's OK to buy shares. More conservative investors, like myself, will wait for the DEW Market Timing system to print a Buy signal (although I did take a few positions at the first Green Light shown on the Color Guard on March 24th). Those following the Worry-Free Investing method will wait for a Confirmed Call Buy signal. The Confirmed Call is the most conservative and long-term signal within the VectorVest program.

To complete this task, click on the UniSearch tab on the front page of VectorVest. Then click on the Delta Searches - Stocks. Three from the top there is a UniSearch named "1-Week Price Delta" Delta. Please click and open that UniSearch.

In the Value column, I have changed the time from 1 week to 5 weeks as that is approximately the length of the downturn as measured from high to the low on a weekly bar/candle chart during February and March 2020.

The UniSearch is as follows:

Time of Search...Stock Price (Split adjusted) ...Delta...5 week sorted Desc
 Time of Search...Stock Watchlist...=...FTSE 350
 Time of Search...Stock RS (Relative Safety)...>=...1.25
 Sorted By 5-week Price Delta DESC...VST DESC... (That is the standard and no change needed)

In the accompanying video, I will write the UniSearch and show the Quicktest results.

My rationale is as follows:

1. I have used the FTSE 350 stocks as there is lots of volume in these counters. If we need to exit quickly, liquidity is vital, should the bounce/trend change in the overall market become a deceased feline.

2. Relative Safety measures the safety and predictability of earnings. This will make the decision to enter easier as these stocks are unlikely to go under financially in even the most awful recessionary period. More aggressive traders may run the UniSearch without this line.
3. Sorting by the 5-week Price Delta brings those stocks to the top that have outperformed in this period of overall market weakness.

The UniSearch finds several very interesting counters. A QuickTest of the top 15 shares from this UniSearch, bought ONLY on the 7th April 2020 when the DEW turned up, showed a 25% gain, while the overall market gained 20%. To recap the shares were selected from the UniSearch done on the 20th March, but only purchased when the DEW turned up on the 7th April.

Fusing together the VectorVest RS metric and technical outperformance in a selloff is a strong edge in markets.

More recently, the US markets sold off for four weeks and charted a low on the 24th September. I ran the same UniSearch (save the FTSE 350 line of code) and that is where I found the share “Gravity” which I bought and discussed at the Q and A sessions. The UniSearch also found “Rock” which I am still holding. In the US, the UniSearch has also outperformed although the high RS metric means that the UniSearch omits the tech stock highflyers.

We do not trade markets, but rather our beliefs about markets and the UniSearch above makes good sense to me based on the beliefs that I have built in markets over the past 39 years. I offer it for your consideration.

2020-10-23

If I Was Managing Your Money

There is nothing more important than your money.

If I were your fund manager, I would take the money and without doubt place 70% of it with the VectorVest Worry Free Investing (WFI) methodology. With the remaining 30%, I would use the techniques presented in my Swing Trading Course to add zest to the returns. The latter would not be crucial in 2018/2019 and so far in 2020 as the WFI is having multiple good runs.

I have presented the details of WFI here many times and if in doubt on these, the rules can be downloaded from VectorVest. Click on Views on the main toolbar and then on Special Reports. If you scroll down the PDF document on the WFI is there. I wrote about the details of WFI in this forum in my Essay of the 24th August 2018 and have mentioned the technique many times since that date. In that Essay, there are many links and references to earlier entries. Please remember that the only reason that we are trading and in markets is to make money and not to solve a puzzle. It may be repetitive, but I am writing about something that makes money and a lot of money with little effort. I want all reading to be a consistently winning trader and investor.

Each month I present three webcasts on the WFI technique.

As you know, the WFI uses the Relative Safety metric to find and sort the safest shares on the LSE. A UniSearch named “Long Term Winners RS Descending” which is prewritten in the retirement section of UniSearch will find high RS shares easily and without fuss. This UniSearch only selects shares from the LSE and avoids AIM. However, there are many fine companies on AIM and if you wish this line of code can be removed. Since the Confirmed Up in May 2020, using this UniSearch has produced an increase of 23% while

LSE stocks only have given 15.0% as I write on the 20th October 2020. City fund managers do not believe me when I present the data.

Recently the research department at VectorVest in the USA have been experimenting and have perfected volatility-based stop-loss methods known as the ProfitLocker. The settings on the ProfitLocker chosen after this investigation on the UK market are 100% profit and a 20% stop-loss. In the Trading Systems Viewer on VectorVest the standard and recommended version of WFI uses the Long-Term Winners RS Descending UniSearch and the Profit Locker stop-loss system.

Using the BackTester on VectorVest, the WFI methodology (LSE stocks only) using the standard parameters as detailed in the Trading Systems Viewer has increased 50000 pounds to over 260000 pounds since the first Confirmed Up signal after the GFC. The C/Up occurred in March of 2009. In the test, no dividends were added into the mix. This is a 15% compounded rate of return excluding any dividends paid. You will need the AuTotimer addon to replicate these results (For a FREE 30-day trial of AutoTimer, please [click here](#)).

Many subscribers have spent hours testing many variants of the standard WFI process. A very interesting development is adding the VectorVest metric Relative Value (RV) ≥ 1.25 to the “Long Term Winners RS descending” Unisearch. RV is an indicator of the long-term price appreciation potential of a share relative to the performance of a corporate bond. On a scale between 0.00 and 2.00, a RV of 1.25 predicts that the share price appreciation will be 25% ahead of that of a bond. Adding RV will find shares with high safety plus strong growth characteristics. This approach has tested well in both the UK and USA markets.

As a fund manager my only job will be to follow the rules. Easier to write than do, I know. To help with the execution the entire process can be automated within the “Genius” facility on the program. If you struggle to set this up, please make an appointment with support and they will talk you through the process. Each evening you will get a mail which will allow crisp decision making, with little effort on your part.

I personally keep the WFI system under control manually and simply look at the portfolio every evening in a watchlist sorted by RT. As I have written many times, the work needs to be done at the bottom of the list.

The WFI approach is easy to execute and thus is a great place for new traders to start. Trading is all about execution and managing what is happening in this moment. As end-of-day traders, this moment is the daily bar. If we manage what is happening well in this moment, then the future will take care of itself.

In the next few weeks, I will be running a short-term trading course focusing on how to profit from price moves that last from a few days to several weeks in UK and USA shares. This is how I would deploy the other 30% of any cash that I manage. On Wednesday 28th October, there will be an introductory seminar on this course where you can decide if the concept is for you. In the seminar, on the 28th, I will detail a starter swing trade system that works in all markets which I developed many years ago while trading forex at a listed bank. To register for the webcast, please [CLICK HERE](#).

Our weekly Q and A sessions will resume on Monday 26th October and run each Monday at 1:30PM UK time until the Christmas break.

2020-10-30

Short-Term Trading. Is it for You?

The short-term trader attempts to extract the high momentum moves from a share or any financial instrument that is in the throes of a strong trend. This is known as “swing trading.” To my best knowledge the term “swing trade” was first discussed by W D Gann around 100 years ago.

Markets rise via a series of steps or in the parlance of the technical analyst “rising bottoms.” A share runs upwards and then sooner or later invariably pulls back to long-term support. Then, with luck, the process starts over again. It is a process that I described in some detail during the Q and A session on the 26th October 2020 as applied to several of the shares in my portfolio.

Swing Trading has been my preferred form of trading and investing since 1982. I am trying to become more long-term but still a swing trader at heart.

The process is simple and it's vital to follow the process. If we, as traders, follow the process and focus on making the best possible trades, then the cash will take care of itself. In point form, I will try and describe the process and it starts with owning the very best shares. These shares are growing earnings strongly, reasonably safely and the share price is trending upwards strongly.

Here goes.

1. A simple UniSearch easily finds shares of interest that are fundamentally strong and that are trending strongly. In Swing Trading, I look for shares that are growing earnings strongly and reasonably safely. To accomplish this, I focus on GRT which is Earnings Growth Rate. GRT reflects a company's one to three-year earnings growth rate in percent per year. Remember these are short-term trades and that we are managing risk with stop-loss orders. In the more hands off Worry Free Investing (WFI), the safety and predictability of earnings (RS) is paramount. I am careful

to add a liquidity metric or simply focus on FT350 stocks where there should be enough volume. A 50-day moving average of the volume traded which is over 200000 shares should suffice for most.

2. I refer to the Comfort Index (CI) as the VectorVest secret weapon.
Adding a line to any

UniSearch which specifies a $CI \geq 1.2$ will find shares that are trending strongly. A simple UniSearch which combines the trend (CI), and earnings growth (GRT) takes a second to run. This puts us streets ahead of the competition and, make no mistake, it is a competition with some very bright participants. You are taking money from the dumber of them as most of these place trades emotionally off the seat of their pants.

I refer to the UniSearch as the FT350DEWSWINGERS. It has only a few lines as follows.

$CI \geq 1.2$

Stock Watchlist = FTSE 350

Sorted by $CI * GRT$

I will write the UniSearch for you in the accompanying video and show you how to construct the field $CI * GRT$.

The UniSearch finds those shares that are trending and brings those shares with the best combination of long-term trend and Earnings Growth Rate to the top of the list. Please [CLICK HERE](#) to see the video.

3. Is the overall market moving up or down? Everything follows from that. In many of these Essays, I have discussed the various and objective VectorVest Market Timing systems. At least the Primary Wave should be Up when entering a swing trade. A Green Light in the Price column of the Color Guard is also an excellent signal with a black star in the Green area (the RT Kicker) adding to its validity. Swing trades should only be taken when at least the Primary Wave is Up by even the most aggressive traders. Other more conservative traders will wait for further confirmation that the overall market is rising. The UniSearch above (as

its name suggests) has been designed to take positions only when the DEW Market Timing system is positive.

4. The Stochastic Indicator is a standard feature of most technical analysis programs, including VectorVest. The latter measures overbought and oversold levels of a share on a scale between 0 and 100. A value of less than 20 indicates that the share under scrutiny is oversold. If you use the UniSearch above to compose a WatchList of shares, then a stochastic of less than 20 and then moving up through 20 will finesse an elegant entry point. This is an excellent swing trading technique. Adding the concept of “reverse divergence,” which I speak about at the Q and A, webcasts will add considerably to the technique. I point out an example of this technique in the video.
5. Keep a careful eye on old resistance on the chart becoming support. Years ago, my first mentor always said that the first thing to ask yourself when you look at a chart is “where are the orders?” In a strong uptrend, institutional traders will favor buying a pullback to the last old high.
6. Display the chart over the past two years and establish if there is a long-term support trendline at work offering support to the share. Do not ever try and force this. It should jump off the screen at you. A pullback to such a support line will be a magnet for institutional orders. This is what I hope is occurring in AVON.L at present. On many occasions the pullback to an old high and the pullback to an inclined support trendline are the same level as on AVON.L. This is a very special point on the chart.
7. Candlestick patterns make for strong confirmation that a turn upwards has started. There are many candlestick reversal patterns which confirm a turning point. I favor and use just a few of these and have invented some patterns of my own. Candlestick patterns make excellent entry points and are the subject of an entire VectorVest study course being offered presently

8. During a bull market or strong uptrend in any share, the traded volume should expand when the share is rising and contract when the share is pulling back to support. In the noise of the market, it's quite difficult to see this clearly on many retracements. A pullback to support on low volume adds greatly to the probability that it is a pullback we are observing and not a change in trend. A low volume pullback to support, on a share trending strongly with great fundamentals, is first prize for me. Unfortunately, volume can be difficult to read as many people buy and sell shares for purely random reasons. They need the money or have too much money, so they sell or buy shares.

It's difficult to do justice to the Swing Trading process in such a short Essay without posting charts and examples to drive home this simple but very robust methodology. In the above, I have not addressed managing the trade or sizing the position, but have done so in my recent presentation at the VectorVest Summit. The recordings from the Summit will be available soon. If you'd like to order those or for more information, please [click here](#).

I will cover the entire process in detail in the short-term trading course currently being offered and, of course, as it occurs in the Q and A sessions.

2020-11-06

Risk and Reward

In any trading system, there are three simple ways to engineer that a trading system makes more when it is correct than it loses when wrong. A trading plan that makes money over the long haul is known as a “positive expectancy system.” These are:

1. **Hit rate...**The percentage of your trades that make a profit.
2. **Reward to Risk...**The amount of money you make on your winners divided by the amount of money you lose on your duds. This is normally referred to as risk to reward.
3. **Commissions and Spreads...**This is important in the UK as our commissions are larger than in the US and we have a 1/2% stamp duty to factor into the equation.

As traders we fixate on number 1 above. There is a strong emotional bias to be correct on each trade. The internet is full of systems that advertise 90% success for that reason. They are easier to sell. Traders frequently pay 25000\$ for the long-lost secrets of WD Gann. In many cases, we are fixating on the wrong thing. There will always be losing trades. The market has too many unknowns that come out of the blue and 2020 has many examples. Focusing on number 2 above is the “secret sauce.”

One of the big secrets to trading that is in open view is finding a method that generates “Asymmetrical Reward to Risk.” In other words, making lots of cash when you are right and losing only a small amount when you are wrong.

The ability to generate investments and trades which have a large payoff in relation to the initial risk is twofold. Firstly, a specific method is required and secondly patience, tenacity and presence are required to sit through the daily ups and downs and general market noise and let our winners run. As with most of life, the rewards are enormous for those that can smile at this

adversity. Those people who can be right and sit are uncommon. The money is made by the sitting and not the thinking.

Let us assume we have a method that can only be correct 50% of the time, but makes 4 times more when it's correct than it loses when incorrect. When it's correct, it will make 5 times 4 units and when it's incorrect, it will lose 5 times 1 unit in a batch of 10 trades. That is a total of $(20-5)$ units per 10 trades. In common parlance, this means that every time you place a trade and risk a pound, the market will give you 1.5 pounds. You are now the casino and not the punter playing the machines.

Even with a lower reward to risk, the numbers are also impressive. At a reward to risk of 2 the system will return $(5*2) - (5*1)$ which is 5 units per 10 trade batch. This is typical of an intraday trading system where the market does not move that far in a single session. Here the market will give you back 50p per pound risked. Unfortunately, spreads and commissions become much more important to success in a low expectancy system and remember you are trading frequently as a day trader. It is easy as an intraday trader to single handedly finance the education of your brokers children. If you open the charts on a spread betting/forex platform, they default to a five- minute chart. The last paragraph is the reason why.

The casino is a powerful metaphor for your trading business. Are the casinos in the gambling business? They most definitely are not. They know the payout and the expectancy of their games down to several decimal points. The punter is in the gambling business and they are playing a negative expectancy game. The longer they stay, the more broke they become. You may have discovered this on your own.

The point of this Essay is to highlight that your success will be a function of a combination of reward to risk and the ability to find winning trades. Most of us only focus on being correct in calling the market up or down. It is the ability to call and sit in those trades that have a strong possibility of becoming high reward to risk trades that brings the bacon home. Calling the trades with VectorVest is the easy part. I have written about this in last week's Essay (and

in many other Essays) on how to find shares with a strong combination of both earnings growth and share price trend and momentum.

The hard part for most is the emotional challenge of simply letting the winners run without snapping at a quick profit. If you are new to trading, this will not make much sense. Let us have a chat six months into your trading journey.

Some years ago, I did a review of many thousands of traders of which 10% were making great profits and 90% were losers or breakeven traders. Similar stats are displayed for all to see in the spread betting company adverts.

I found that the 90% who were losers in the game were just as educated about markets as the 10% winners. If anything, the losers had more market knowledge than the winners and mostly had a sound trading system in place. It was quite a mystery for some time as to how the winners obtained their results.

After reading and rereading the text by the late Mark Douglas, *Trading in the Zone*, I started to ask questions regarding the “mental posture” of both groups.

It became clear that the winners and losers simply thought differently.

The losers when faced with a winning trade became immediately pessimistic. They fretted that the market would reverse and take away all their profits. As a result of this thought, they emotionally snapped at the quick profit before it might disappear although the rules of their well thought through system said “it is OK to hold.” They are risking a pound to make 10p.

The losers when faced with a losing trade became immediately optimistic. They became optimistic that the share would turn so “let’s give it another day.” As a result, small losses became big losses.

The winners, as said above, simply thought differently. When they had a winning trade, they became immediately optimistic and allowed the position to run within the rules of their system. When the winners had a losing

trade, they immediately became pessimistic and either immediately exited or followed their systems stop-loss level to the letter.

My challenge to you is that on your next trade or investment to become aware of your thoughts. That is the first step to change. Your thoughts have momentum, and it may take several trades to instill the process of becoming optimistic with a winner and deeply pessimistic with a loser. It is something that I personally work on all the time.

In the attached video I will show several slides that illustrate the moving parts of a positive expectancy system and clearly layout how that system is constructed along with an example of a high reward to risk trade during 2020.

2020-11-13

Surviving a “Sea Change”

On Monday 9th November, Pfizer announced very positive news for us all and signaled a move back to a normal virus free life in Spring 2021. Stocks that had been beaten down in price by Covid-19 moved strongly upwards while those that had profited from staying and working at home were hammered.

How big or small your position is should not be a random decision. Position size is precisely calibrated for the risk on the trade and your personal risk limit. Position sizing can make or break a trader. If the trader is too risk adverse, then the account will not grow and the trader will become dispirited. If you take positions that are too large, the share market can wipe out an entire account in one big move. I had a position in QDEL which I held over last weekend. If I had not practiced sound position sizing, then Monday with the vaccine gap down would have been a very expensive day. This is what brought the subject of this Essay to mind. It cannot be discussed often enough.

Here is how to determine your personal risk limit and trade risk, as well as how to come up with the right position size so you capitalize when conditions are favourable and will not lose your shirt if the trade does not work out.

Set a percentage amount of your account you are willing to risk on each trade. Many professional traders choose to risk 1%, or less, of their total capital on each trade. If they lose on a trade, that means they have only lost 1%, and still have 99% of their capital intact. In this way, even a string of losses cannot significantly hurt the account. Unfortunately, strings of losing trades even in strongly overall winning systems are common.

At the institutional level risking less than 1% is common, but some traders will risk up to 2% with a proven system. If you are starting out and do not have a successful track record, stick to risking 1% or less of your account on each trade.

The limit set on this step applies to all trades. It's soul destroying to have a tiny position in your winning trades and a large position in your losers.

For example, on a £20000 ISA trading account, risk no more than £200 (1% of account) on a single trade. This is your trade risk and is managed using a stop-loss order in the market, or for the strong, a mental level where they will exit.

Establish where the stop-loss will be for this trade by simply using the VectorVest calculated Stop-loss level from the program. Then measure the distance in pounds between the stop-loss level and your entry price. This is what I call the Risk/Share and is the number of pounds lost per stock purchased if the trade should not work out. Each trade will have a unique value of Risk/Share calculated by the trader at the start of each purchase.

A common error is to pick your position size first, and then place a stop-loss to accommodate it. Nothing upsets me more than when I hear a trader say, "it's a risky trade, I will use a tight stop." The stop-loss needs to be placed at the correct level well out of the noise of the price action.

Anything tighter than this and you are throwing away money as the position will be frequently stopped out as price moves back and forward before starting to trend. It is very frustrating to be stopped out just before a big move. Again, this occurs frequently as market makers use the liquidity offered by tight stops to generate the liquidity necessary to get their customers filled at the best prices and thus get paid.

Currently it is easy to buy odd lots of all shares and, although I have no experience of it, to buy fractions of some large shares. This makes sizing of positions with even small accounts quite straightforward. The formula could not be easier, but the discipline to apply the formula can trip even experienced traders up.

1. Let us assume we have £50000 pounds in our account. 1% of that is £500 pounds. That is the most cash I would ever wish to lose on any single trade. This £500 is the difference in cash between the entry price and the stop-loss used.

2. Let us assume we buy the share at £10 and place the stop-loss at the VectorVest calculated level which is £8.50. Thus, the Risk/Share is £1.50.
3. Let N = the number of shares to be purchased or the position size.
4. $N * \text{Risk/Share} = 1\% \text{ Account size}$.
5. $N = 1\% \text{ Account Size} / (\text{Risk/Share})$.
6. $N = 500 / 1.5$.
7. $N = 333$.

In this example, I would purchase 333 shares at £10 each. The total exposure is £3330. If the trade fails, then I will lose 1% of my account. I shake my shoulders and move to the next trade.

Last Monday on QDEL there was a gap open and the stock opened well below my stop-loss level. The brokers were down as many of you would have experienced. I witnessed the fastest rotation from momentum stocks to value stocks that I have experienced in 40 years of market trading. Billions must have moved in seconds to have caused this.

When the dust settled, I simply exited QDEL. The loss was more than the 1% maximum loss at about 2.5% of my account. This was not fun, but not the end of the world as the account has had an excellent run since the March 2020 low. I started to take spread bets in the US from the 6th April 2020 when the VectorVest DEW Market Timing system said it was safe to buy shares.

Position sizing will keep you alive and remember the objective of trading is to have enough money to trade tomorrow.

2020-11-20

Trade Execution Is Everything

Trade Execution is everything and practicing mindfulness will help.

The rules of trading are simple and I have no doubt you have seen them many times over the years.

These simple rules have been time proven by everyone who has been successful in the game of trading and, in fact, the game of life.

They are:

1. Buy low, sell high.
2. Let winners run...cull losers quickly.
3. Add to winners not losers.
4. Go with the trend.

The rules are simple to understand, so what makes it so difficult to follow them? More than likely many of us will have broken these time-honored rules time after time. I know I have. It takes quite a while and normally a heap of cash to convince the failing trader that the problem may be his or hers, as opposed to a market hell bent on “getting” him or her. The mental dynamics are difficult and poorly understood even by experts in the field.

Instead of buying low, many of us get sucked into a share as it peaks and find ourselves shorting after a massive fall. We hold on to losing positions and hope that the market will turn around and make us look clever for getting in early. It is more likely to be a margin call which finally gets us out.

The worst sin of all is adding to a losing position. The two for the price of one argument is pushed and encouraged by brokers everywhere. Why do we punish ourselves and our bank balance with this most basic of errors? Why?

The early part of our brain, called the Reptilian Complex or Reptile Brain, is responsible for our survival and works on instinct. It tries to repeat our life experiences (good or bad) as closely as possible because it knows they have led to our survival so far.

If your Reptile Brain activates your flight/fight mode because of a previous experience, for example, a fear of missing out, your thinking-brain shuts down and logic, reason and emotion become impossible to process.

This, in turn, might cause you to ignore your trading rules and enter or exit a trade too early, which in turn can result in a losing trade, which can then create fear, anger and frustration which feeds the next trade and so on.

The strongest emotional drive at the deepest root of being human is to survive. This feels incompatible with taking quick and small losses on investment decisions that work out poorly. The irony is that for traders it is the only way to survive.

The Reptile Brain gets a signal to act much earlier than your conscious awareness. If you have swerved to miss a dog on the road (causing chaos) after vowing to never do that again, this is an example of the Reptile Brain working to keep you safe well in advance of your conscious knowing anything about it. In the same way, a ball that has been thrown fast at you can cause you to duck while a lobbed ball will be caught. The latest research carried out by a Cape Town based neurologist concludes that your Reptile Brain gets a signal (about the dog running across your path for example) up to a 1/2 second faster than your conscious brain.

Losing positions are added to and afterwards you cannot believe that you did that again. Day Trading is made especially difficult by this lag as lots can be done in that 1/2 second. Most day traders find it nearly impossible to follow a simple set of rules and it is the Reptile Brain at work trying to keep us safe and out of harm's way that is the cause.

At least we can rely on the fact that the VectorVest system of Stock Analysis is being totally objective. The fundamental position of a stock is calculated from the financial statements and not a gut feeling. The technical trend

of both the stock and the market are calculated in the same precise and consistent fashion for each market around the world. For many, the simple discipline of entering positions in undervalued, safe shares when several moving averages have crossed upwards is enough to become very profitable in the stock market. These traders then focus on staying in the position if the moving averages stay positive and increasing a ratchet type stop-loss level as the price climbs to protect profits. This will take much focus and presence. At present, VectorVest is presenting an excellent course on how to fuse Moving Averages into the VectorVest method of trading shares.

For me, the practice of staying “in the moment” and focusing on what is happening now has resulted in the removal of many of the trading errors that I have talked about above and have plagued my efforts over the early years. A simple example of this is that if the share price stays above the moving averages chosen, then all is good, and I sit in the position. This takes practice and our egos will fight the process tooth and nail. New people will wonder what the fuss is about. Let us have a chat six months into your journey. The last few sentences will make more sense then. The ability to stay present and keep your head while everyone else loses theirs will help all other areas of your life.

So much suffering in the world is caused by our worrying about the future. And what does worrying do? It takes us out of the present moment and makes us feel miserable.

We worry about the future and turn our backs on the present moment because we feel if we do not, our future will be bleak. How about this for an idea? If you are worrying about having enough money to pay the rent for example, do not spend your moments worrying about it. Place your moment-to-moment attention on making enough money to pay the rent.

There is this insidious feeling in so many of us that worries that if we do not worry then things will not work out. As if worrying will pay dividends for us. It is a crazy thought, and it is not true. My son once told me that I was not happy unless I had something to worry about. This struck home.

What I have tried to do the past several years is live by the motto, “Be present and trust in life.” It does take a leap of faith to just say to yourself, “I am going to give everything I have to the present moments of my life and let the chips fall where they may.”

In trading, as with most aspects of life, spend some time detailing a robust process and then focus on perfect execution of those simple rules in the present moment. If you focus on perfect execution of your rules in each moment, then the future will take care of itself.

2020-11-27

The VectorVest Stock Viewer Investing Made Simple and Profitable

The stock market sends out an enormous amount of information each day. Some of this is meaningless and of course some of it is vital to our success. An old stock market adage is “it’s not what you don’t know that’s gets you, it’s what you do know that’s just plumb wrong that gets you.” Sifting the gems from the misinformation that is thrown at the individual investor daily is a big part of success in the stock market.

So how can we separate the good advice from the bad? That is what the Home Page and the Stock Viewer on VectorVest achieves. The information presented is based on hard cold numbers with no ego-based imagination or my dubious wave counts. The advice in terms of market direction and the fundamental position/technical position of a share is reality in this moment (NOW).

The first step is to decide whether the overall market is rising or falling. Everything follows from this. As I write on Wednesday 25th November, the longest-term measure of the trend of the UK market is Up and has been positive for buying stocks since 11th November 2020 after a short spell of 2 weeks on a down signal. This is shown on the Home Page of VectorVest and no chart watching, or any subjective input is required. The trend situation is UpUp as I write. The first word refers to the Primary Wave (short-term trend) and the second to the Underlying Trend. A Confirmed Call is printed when the Underlying Trend is Up (second word) and it has been confirmed by two weeks price action.

VectorVest is designed to conduct a factual, objective analysis of both technical and fundamental stock data and transform it into easily used

information and guidance. All this information and guidance is stored in Stock Viewer. It is a gold mine of solid dependable information and my job as a stock trader is to extract the gold and that is not hard to do. Lesson 1 of the Successful Investing Quick Start Course (SIQSC) will define all the important VectorVest metrics for you in an easy to digest short video. The SIQSC can be found by clicking on the Training tab of VectorVest UK. Every day, come hell or highwater, I simply access Stock Viewer and examine the top 30 stocks ranked by VST-Vector. I look at the chart of each one of the top 30 VST stocks most every morning. This is the default sort on the Stock Viewer.

In Lesson 4 of the SIQSC, there are two main cherry-picking techniques discussed. The first looks for a nice steady pattern of rising prices. I also like to see smooth, steadily rising EPS patterns. It is hard to go wrong by buying stocks with steadily rising earnings and a steadily rising share price. Buffett's mentor Ben Graham says that "EPS growth is the engine that drives the share price." Please review Lesson 4 of the course for the detail of this technique.

The second cherry picking technique is the Midas Touch which I have written about extensively in the past, but will review in the attached video.

Shares with the best EPS growth patterns have invariably high Relative Safety, RS, ratings. The next thing I do is sort by RS and again look at the charts of the top 30 RS stocks. By hand (a dinosaur I know), I note common ground between this sort and the VST sort. For these high RS shares, I especially like to look at the weekly chart over 3 to 5 years to examine the long-term of earnings performance of these great stocks plus the trend and support and resistance levels. High RS shares with a history of growing both the EPS and share price with little volatility are first prize for investors. In our Q and A sessions these shares have been named "EPS Kings" by the group of three investors that have championed the technique.

Another way to find shares with the smoothest long-term price performance patterns is to sort by Comfort Index, CI. I refer to the CI as the VectorVest secret weapon as it finds shares that are in the throes of a strong trend with a single mouse click. The CI has cut hours off my analysis time and

allows me to focus on the most important issue which is risk management which I have flogged to death in these Essays over the past few weeks. I have finally relocated CI on my Stock Viewer screen to be between VST and GRT. If the CI is high, above 1.30, the share will have a smooth, rising Price chart with little volatility.

I first saw this very simple technique of using the Stock Viewer demonstrated by Susan Thornborough. Susan demonstrated her technique at a recent Q and A session, and it is a delight to watch her present this. I will ask Susan to demo this technique again at a Q and A session between now and the Christmas break. It is simple and gives the investor a great feel for the market action in a few moments. Try it. The technique finds some great shares.

Of course, UniSearch can be used to do most of the above automatically, but the hands-on process has great merit in my view.

Take those shares that show a great combination of trend, EPS growth and safety when the overall market is rising and place them in a WatchList. Re-sort the WatchList by Relative Timing, RT. This will place the strongest to the top and the poorest performers to the bottom of the list.

Remember the “Holy Grail of Trading” in my humble opinion. Winning traders become very optimistic when they have a winning position and allow the position to run. Winning traders become pessimistic very quickly with shares that are underwater and at the bottom of their WatchList and simply exit those positions. Losers, unfortunately, get this process completely the wrong way around. They become pessimistic with their winners and optimistic with their losers. They exit winners far too early and hang on to losers in the vain hope they may turn. Do not let that happen to you.

2020-12-04

Elvis Has Left the Building

I present a webcast each month which is named the “10-Minute Investor.” In this, I show the attendees how to outperform the market in 10 minutes a day. In the webcast, I ask the question “what’s the hardest part of making money in the market for you?” Around 80% of the audience types into the webcast chat box, “knowing when to exit.”

Traders are told to “let their profits run,” but unfortunately that’s vague advice. Let a profit run long enough and it can easily turn back into a loss. Traders need a plan that allows them to let their profits run beyond what they typically lose on a losing trade, but also realize that the market will not move in their direction forever. If you plan your profitable exits and find that over time, they are bigger than your average loss, winning only 50% of your trades (or even less) can still make you a highly successful trader. Here are several methods to help you do it. The subject is covered in detail in Lesson 2 of the “Successful Investing Quick Start Course,” SIQSC, which is built into VectorVest, under the Training tab on the main toolbar.

There are two types of exits. These are associated with a profitable trade and a trade that goes poorly. In both cases, how you will exit a trade should be planned before you enter and be a part of your written trading plan.

1. Setting an initial stop and position sizing.

VectorVest calculates a Stop-loss level for each share in the database each day. The level is based on a 13-week Moving Average (MA), but is adjusted for the fundamental position of the share. If the fundamentals are good, then the Stop-loss is widened, while if the fundamentals are poor, the Stop is tighter. In my personal trading, I act on a close below the VectorVest Stop. This is easy to spot via a red marker on my WatchList of shares as sorted by RT that I invariably view on the phone using the VectorVest Android app. For many, this is when ego gets in the way. Tell your ego to take a hike. Keeping losses

small is the cornerstone of becoming profitable. I will cover the position sizing equation in the attached video. I know I have done this many times before, but it was obvious from the last course that I have just completed that many have misunderstood my efforts.

It is vital that if the position should be stopped out, only 1% of your capital is lost. An old mentor once told me that “the most important part of trading is to have enough money to trade tomorrow.” Every now and then a stock will gap through the stop-loss as happened to me with QDEL in the US market recently. Here the final loss was 2.5% of the portfolio. Disappointing, but hardly the end of the world.

2. Exits from a profitable trade or investment. Just a few of the dozens available.
 - a. The Trailing Stop is probably the most well-known profit exit technique. In simplest terms, as the price moves in your favor, an exit order moves along with it, trailing the price by some set amount. It is like a ratchet spanner as it allows unlimited movement in one direction, but only a set amount in the opposite direction. My first mentor used a 25% Trailing Stop-loss and this tests exceptionally well using the BackTester in VectorVest using the Worry-Free Investing Methodology (WFI) with a 50% target.
 - b. The VectorVest calculated Stop is also an excellent and more sophisticated Trailing Stop. Every evening re-sort your WatchList by Relative Timing (RT) Desc. This will place the shares with the lowest RT at the bottom of the list and certainly any shares that you hold with an RT less than 1.00 need to be monitored carefully. If a share should close below the VectorVest Stop, it will be shown with a red marker beside the share. Be very careful and aware of your thoughts during this process as most complete the exercise incorrectly. Most people cave into their emotions and get rid of the shares that are doing well and refuse to take the loss on the shares that are not. I am sure nearly everyone reading this will have made that mistake at some time in their trading life. Your job

as a consistently winning trader/investor is to cull the losers quickly and without fuss and to keep your hands well off the winners. Easy to write I know.

- c. A price target can be a simple and effective method of exiting a winning position. If you are risking £300 on a trade, but will make £900 if the price hits your target, your reward outweighs your risk 3:1. The target can be an old high on the chart or a FIB based projection which I will cover during the Q and A session on Monday 7th December. If you set a stop-loss and a price target, you can “walk away,” knowing that eventually one of the orders (stop or target) will get filled. This is advantageous to all traders, but especially those who lack time to constantly monitor their trades and/or worry about their emotional responses. Fear of losing and the greed of leaving money on the table can result in terrible decisions being made.
- d. A Moving Average (MA) can be used as a Trailing Stop-loss. A 40-day MA seems to work well. A break below the 40-day MA is a strong early warning signal that the trend upward is faltering. Again, please review Lesson 2 of the SIQSC for more detail on this technique.
- e. Letting winners turn into losers is an emotionally draining experience. It seems to reinforce the negative belief that “I am no good at this.” My answer to this is simple and it works. If you buy a stock at 10 pounds and the VectorVest Stop-loss is at 8.50 pounds, then the risk/share purchased is 1.50 pounds. If the stock makes as much as is risked (£1.50) then sell half the shares you bought. That means when the stock price appreciates to £11.50 you sell half of the initial purchase and then increase the Stop-loss on the remaining half to entry. This means that you have banked a small profit on the first half of the stock and can now make money on the second half with no risk. This is a great position to be in. Let the second half run using the VectorVest Stop-loss as a trailing stop as written above. I will again detail this in the attached video.

There is no best way to exit a profitable trade. For some trades, one method will work well, but will be less than perfect on other trades. The key is to decide on a method and stick to it. All these methods can help you “let your profits run” but will get you out if the price moves too much against you. You will never squeeze every penny out of a trade, but utilizing the exit strategies outlined here will help you capture the bulk of a move.

2020-12-11

Making Your Dreams a Reality in 2021

This is the time of the year where many of us will be writing down goals and objectives for the months ahead. This is clearly an excellent thing to do. The first thing that comes to mind is how to build the motivation to achieve these milestones in our lives. However, recent research shows clearly and scientifically that it takes something much more concrete than motivation to make things happen.

A surprising research study reveals why motivation is not the key to achieving your goals. The UK based study offers a simple strategy that works. In the study, the goal was to develop a habit to exercise regularly as reported in the British Journal of Health Psychology.

Three groups were chosen at random.

Group 1 was the control group and was asked to record the number of times they exercised over a period of several weeks.

Group 2 was the motivation group. These people were asked to read and listen to many motivational programs showing the benefits of exercise to your overall health and self-worth. They were shown that exercise reduced the onset of heart disease.

Group 3 also underwent the same motivational training as Group 2, but, in addition, were coached in planning when and where the exercise would take place within their daily schedules. This included specifically which day, where and when during the day.

After the test period the researchers were surprised.

Group 1 ...38% exercised at least once a week.

Group 2 ...35% exercised at least once a week

Group 3 ...95% exercised at least once a week.

By writing down exactly when and where they were going to exercise greatly increased the probability of the goal being achieved. The result as concluded by the British Journal of Health Psychology was that “motivation has no effect on exercise behavior.”

Deciding in advance when and where you will take specific actions to reach your goal can double or triple your chances for success. In over 100 studies in many different areas, people who exactly state when and where their new behavior is going to happen are much more likely to stick to their goals.

It is my belief and personal experience that a similar process is true for the goal of building a personal fortune on the stock market. If you plan when, where and how the process can be built into your day and life, there is a much higher probability of it happening.

In these Essays, I have written at length and no doubt bored you to tears about having a written trading plan. If you have not got a plan, then your first goal will be to apply the above process to getting a set of rules down on paper that satisfy your personal goals and beliefs about trading and investing on the stock market. Lesson 5 of the Successful Investing Quick Start Course (SIQSC) will greatly help with this exercise.

If you are new to investing, then please consider the VectorVest Worry-Free Investment strategy (WFI). This plan has been tested over the past 28 years and has produced excellent profits over that period in the USA, UK, and South Africa. The rules can be downloaded from the VectorVest program. Click on the Views tab on the main toolbar and then on Special Reports.

Scroll down to the Guide to Worry Free Investing (4th down). I also run a webcast on the WFI investing method called “A Proven Approach to Building Wealth Quickly and Safely on the LSE” and the next will be on December 16th at 1:30PM UK time.

The WFI is a conservative trading plan and it will only take a few minutes a day to keep under control. The WFI focuses on stocks that have a safe track record (RS) that are also growing earnings ($RV \geq 1.25$). These shares should increase in price as the earnings rise and in the main pay an excellent and

above average yield. Wealth is thus built by the capital appreciation in the share price plus reinvesting the dividends. In the US where the options market is liquid at the retail level, then extra income for reinvestment can be achieved by writing “Covered Calls” on the shares in the portfolio. This is impossible/very difficult in the UK as the options market on even the largest UK shares is illiquid.

To make this happen each day, apply the process detailed above of planning and scheduling when you will focus on your stocks and your goal of building a fortune on the stock market is well on its way. I can guarantee it.

I was schooled in this process in my first institutional trading job around 30 years ago. The desk head insisted on a morning and afternoon routine. The trader on the desk who did not have his homework completed on the markets they were trading by the London open in the morning and the NYC open in the afternoon were not around very long. I no longer trade as intensely intraday, but am always, if possible, prepared for the US open at 2:30PM each afternoon. Each day and especially each weekend I schedule the time and place in advance where I can study the markets and manage the positions in my portfolio.

Exercise is very important to me personally. Each week I sit and plan when I can get to the gym and fit it in around an active schedule. That has kept me at the gym all my life except when the darn place is closed due to Covid.

In both the UK and the USA, the trends both short-term and long-term are strongly positive as of the 9th December 2020. Let us be wary and cautious as the MTI and the BSR are showing mega overbought readings. Let us do our daily and weekly homework and enjoy the ride. In the video, I summarize the position of the London market on the morning of Wednesday 9th December 2020.

2020-12-18

How to Make Profitable Trading Decisions in the Stock Market

In selecting stocks, your primary job is that of assessing information. Many investors, however, feel qualified and prefer to analyze the raw data. This is fine if they have the time, resources, and skills to produce reliable results. Knowledgeable investors can save time and get excellent results by asking the right questions and reacting to the answers to these questions. Information is useless unless you can react to that information. The objective of VectorVest is to offer the information about the market and your stocks in a format that will allow you to take the action required to make a profit on the transaction.

For simplicity, I have broken down these questions into three main areas of analysis;

1. The fundamental position of the company.
2. The technical position of the company. I define the technical position as the study of trends and turning points.
3. The technical position of the overall market. There is a good time to be buying stocks and an awful time to be buying stocks. I have discussed the VectorVest Market Timing signals many times in these Essays and last week included a video which summarized the latter. As of 14th December 2020, the Primary Wave, or short-term trend, of the UK market is Up and the underlying trend is Up. The longest-term measure of the trend on VectorVest which is known as a Confirmed Call has been Up since the 11th November 2020. This is a good time to be buying stocks, but this can change quickly especially with several of the key metrics in a stretched and overbought state. Each week I start the Q and

A session on Monday afternoons with the technical position of both the UK and the USA markets.

In property the most important three factors are location, location, and location. In stocks they are earnings, interest rates and inflation. Stock valuations go up when earnings go up and interest and inflation rates go down. Here are some questions to direct your thoughts.

- Is the company making money?
- What is the stock worth?
- Is the stock over or undervalued?
- How safe is the stock?
- What are its forecasted earnings per share?
- What is its estimated earnings growth rate?
- What is its growth to P/E ratio?
- What are its dividends per share?
- How safe are the dividends?
- How fast are dividends growing?
- Does this stock meet my risk/reward objectives?

I started to trade stocks in 1982 and did my utmost to understand the fundamentals of the shares I was following on the Johannesburg Stock Exchange. I totally failed in this endeavor. I did not have either the knowledge, the time or, if I am honest, the inclination to study long and boring annual reports, written in what seemed a foreign language at the time. For this reason, from 1984 (when I gave up beating my head against the annual and interim reports) I traded technically alone. It was not until I discovered VectorVest and its ability to do all the heavy lifting that I added this dimension into my trading plan. Remember, information is useless unless you can react to that information. VectorVest displays the fundamentals in the following easy-to-use fashion which has greatly improved my results by increasing the win rate and more importantly increasing the risk to reward ratio.

A. Value. A value is calculated for every share in the UK database each day. The valuation methodology is discussed in Chapter 3 of “Stocks, Strategies and Common Sense” by Dr. Bart DiLiddo. A glance of the Stock Viewer or by using UniSearch, it is easy to see which shares are under or overvalued. Favor undervalued shares.

B. Relative Value (RV). RV is a measure of the long-term price appreciation potential of the share. RV takes Price, Value, Earnings Growth, AAA rated Corporate bond rates and risk and massages these into a scale between 0.00 and 2.00. A rating of 1.30 and over is regarded as excellent.

C. Relative Safety (RS). RS is made up of Earnings Consistency, Company size, price behavior, longevity, dividend history and all the vital financial ratios. Again, this is displayed on a scale between 0.00 and 2.00. Above 1.30, the safety of the earnings stream and the financial integrity of the company is excellent.

D. Dividend history is quoted in three metrics. These are Dividend Yield (DY), Dividend Safety (DS) and Dividend Growth (DG). These metrics are combined into the Master Indicator for income investors known as YSG. This stands for yield, safety of the yield and the growth of the yield. This can easily be built into UniSearch to find candidates for an income portfolio.

The best defence is a strong offense. If you trade in shares with excellent fundamentals (for me high RV and high RS) and then add a sound trend following or swing trading plan, that combination will build an enormous edge in markets. I simply use a 21-day and a 55-day EMA to define the trend of the share. If the 21 is above the 55 then the trend is Up. Watch very carefully the area between the 21 and the 55. I call this part of the chart the Zone. Your share will frequently pullback into this Zone prior to moving higher. This is part of my swing trading approach, but not all of it, as there are many other factors such as volume traded to consider.

To help convey this combination of fundamental and technical study, I will be presenting two sessions at the Tampa Two-Day Seminar via live-stream event on the 8th and 9th of January 2021. This includes a full session on a

simple, but profitable swing trading plan which fuses together the technical and fundamental data with an objective to pinpoint and automatically locate, high probability money making trades. The second session will focus on position sizing and trade management in the swing trading environment. The sessions are well suited to the present choppy environment.

For unprepared investors, unable to sift through the noise, the volatility can be stomach-churning. Emotions can take over, resulting in impulsive decisions to buy or sell at the worst possible times.

The objective of the two sessions at the Tampa Two-Day Seminar via live-stream is to give you the ability to lock in 3-to-21-day profits and to take advantage of pullbacks that occur within the present long-term market trend.

With the right tools & education, you can easily learn how to swing trade, allowing a part of your portfolio to grow quickly.

2020-12-24

Make a Trader's Journal a Part of Your 2021

In the daily battle that traders face in the markets, it is essential that they maintain the most valuable of personal commodities which is belief in themselves and the confidence to succeed. Without these vital attributes, traders risk becoming prone to a host of trading errors. They can become defensive, hesitate at crucial moments, trade nervously, and suffer from bouts of self-doubt.

When asked by traders on what they should be doing to become winners I always answer, "Are you keeping a trader's journal?" Invariably they are not. Invariably they look despondent and would have been much happier if I had replied with the "Long Lost Secrets of WD Gann."

A trader's journal is a tool for greater self-awareness which through time can help you in the battle to overcome yourself (e.g., snapping at profits or ignoring stops) and help lead to greater success as a trader. The objective of a well-maintained trader's journal, used in a constructive and diligent manner, is to power one's trading to a higher level by helping to develop a more structured and rigorous approach to trading, to build confidence and self-belief, and to help win the emotional battle one faces with themself.

A trading journal is one of the most effective tools for performance management. It is where you record and review your trades and your actions in the heat of battle in relation to your trading plan. A journal can help you track progress as well as study mistakes made when entering or exiting a trade. In the long run, these reports can act as the foundation for better executions. Your job is to make better trades.

A successful career in stock trading has a lot to do with our psychology and mental state. Most stock traders experience certain emotions that could

lead to unplanned actions. Having a trading journal allows you to take note of everything you felt and learned from a trade. This practice enables you to acknowledge your thoughts and emotional triggers behind every trade.

Documenting every trade/investment and the rationale behind all the decisions of the trade/investment can help define your strengths and weaknesses as a stock trader. Through these written observations, you can be your own adviser and reinforce better trading skills. Journaling also makes us more accountable for any errors. By acknowledging what you do best or what needs more improvement, you can grow your trading skills. It's very easy to repeat the same trading mistakes for much of your lifetime. I see it frequently when I examine retail accounts.

Many traders tend to lose money in the stock market because of unplanned moves or impulsive decisions. Detailed notes of these kind of seat of the pants decision making, can keep your emotions and decisions in check. This can help you become much more aware and take responsibility for the possible consequences. After developing a sound trading plan, making use of a trading journal is a great way to stick to a trading plan. On my travels, I find that many have great difficulty in sticking to a trading plan and regularly jump between being traders and investors. If the last trade would have gone well by adopting a swing trade plan, they follow that for the next trade. If the result would have been better on the last trade by being a position trader, they adopt that approach for the next trade. The old saying that the definition of a "long-term trade is a short-term trade gone wrong" is true for many. Detailed notes of your behavior will force accountability or at least it has done that for me.

A successful trader not only examines each trade, but also the progression of their trading performance. Through a trading journal, stock traders can hasten the path towards a more disciplined and profitable trading career. If you make a written record of your actions and feelings during the process of execution of the trade you can then quantify, scrutinize, and enhance this trading process. You can thoroughly keep track of your skills, weaknesses, and

emotional triggers. The alternative is to keep making the same mistakes for a generation.

2020 has been a year that we will not forget in a while on many fronts. The price move upward from April has resulted in good gains for the UK portfolio and has produced a high momentum move in the US that I have not experienced since 1998 and 1999. As of 22nd December 2020, the stock market on both sides of the Atlantic are in an overbought position, but the trends upward are intact. I will exit all my US leveraged positions before the holiday and hold all my UK outright positions if they stay above the VectorVest Stop-Loss.

We will not have a Q and A session on Monday 28th December, but will be back again in full harness on January 4th, 2021.

Merry Christmas everyone and wishing you all everything that you desire in 2021.

2020-12-31

Some Thoughts on Becoming a Consistent Swing Trader

The swing trader attempts to extract the high momentum moves from a share or any financial instrument that is in the throes of a strong trend. To my best knowledge the term “swing trade” was first discussed by W D Gann around 100 years ago.

Markets rise via a series of steps or in the parlance of the technical analyst “rising bottoms.” A share runs upwards and then sooner or later invariably pulls back to long-term support. Then, with luck, the process starts over again. Swing Trading has been my preferred form of trading and investing since 1982. I am trying to become more long-term, but still a swing trader at heart.

The process is simple and it's vital to follow the process. If we as traders follow the process and focus on making the best possible trades, then the cash will take care of itself. In point form, I will try and describe the process and it starts with owning the very best shares. These shares are growing earnings strongly, reasonably safely and the share price is trending upwards strongly. Here goes:

1. UniSearch easily finds shares of interest that are fundamentally strong. Conservative investors and traders can use a $RV \geq 1.30$ and $RS \geq 1.20$ to find shares that are growing strongly and safely. Please add a liquidity metric or simply focus on FT350 stocks where there should be enough volume. A 50-day Moving Average of the Volume traded which is over 100000 shares should suffice for most.
2. I refer to the Comfort Index (CI) as the VectorVest secret weapon. Adding a line to your UniSearch which specifies a $CI \geq 1.20$ will find shares that are trending strongly and are more resistant to severe and

lengthy downturns. A simple UniSearch built around a combination of both the stock price trend and earnings growth can put us streets ahead of the competition. In this UniSearch, all the stocks in the FT350 index are sorted by a combination of $CI * GRT$ (GRT is the projected annualized earnings growth rate). This will find shares that are growing strongly and the share price is also trending upwards strongly. I refer to this UniSearch as the FT350DEWSWINGERS. Make no mistake, we are in a competition with some very bright participants. You are taking money from the dumber of them as these people trade emotionally off the seat of their pants. The UniSearch is below for reference. It is not a standard in VVUK and needs to be written into the software and saved. I will cover this in the first Q and A session on 2021 on the 4th January.

$CI \geq 1.20$

Stock Watchlist = FTSE 350

Stock REC - Recommendation $\neq$ Sell

Sorted by $CI * GRT$ (please note the $CI * GRT$ needs to be built in the "Custom Field Builder")

3. Is the overall market moving up or down? Everything follows from that. The UniSearch above, as its name suggests, uses the DEW Market Timing system to indicate when it is safe to buy shares. At least the Primary Wave should be Up when entering any swing trade. A Green Light in the Price column of the Color Guard is also an excellent signal with a black star in the Green Light (the RT Kicker) adding to its validity. Swing trades should only be taken when at least the Primary Wave is Up by even the most aggressive traders. Other more conservative traders will wait for further confirmation that the overall market is rising such as the DEW or the Confirmed Call system. Using the BackTester on VectorVest, the system above using the DEW tests well over the past ten years in both the UK and the USA. Over the past two years, the system has excelled in a strong price momentum environment.

4. The Stochastic Indicator is a standard feature of most technical analysis programs. The latter measures overbought and oversold levels of a share on a scale between 0 and 100. A value of less than 20 indicates that the share under scrutiny is oversold. Adding a line to the UniSearch above (which requires ProTrader) that finds shares where the Stochastic has been less than 20 and over the last day has broken up through 20 finds shares with great fundamentals, that are in the throes of a strong trend that are temporarily oversold. If the overall market is showing a Green Light, then these shares are setting up for a swing trade. Please note that the stochastic refinement is not a part of the BackTest mentioned in section 3 of this Essay.
5. Keep a careful eye on old resistance on the chart becoming support. Years ago, my first mentor always said that the first thing to ask yourself when you look at a chart is “where are the orders?” In a strong uptrend, an institution trader will favor buying a pullback to the last old high. This is a setup known as a “sweet spot” and I will be discussing this in detail during my sessions at the Tampa live stream event on the 8th and 9th January 2021.
6. I start my study by displaying the price chart over the past two years to establish if there is a long-term support trendline at work offering support to the share. Do not ever try and force this. It should jump off the screen at you. A pullback to such a support line will be a magnet for institutional orders. On many occasions, the pullback to an old high and the pullback to an inclined support trend line are the same level. This is a very special point on the chart.
7. Candlestick patterns make for strong confirmation that a turn upwards has started. There are many candlestick reversal patterns which confirm a turning point. I favor and use just a few of these and have invented some patterns of my own. Candlestick patterns make excellent entry points and are the subject of an entire VectorVest study course being offered presently called “Master the Art of Candlestick Analysis.”

8. During a bull market or strong uptrend in any share, the traded volume should expand when the share is rising and contract when the share is pulling back to support. In the noise of the market, it is quite difficult to see this clearly on many retracements. A pullback to support on low volume adds greatly to the probability that it is a pullback we are observing and not a change in trend. A low volume pullback to support, on a share trending strongly with strong growth fundamentals, is first prize for me. When the turn is confirmed by a candle pattern and the overall market is showing a Green Light, then the “ball is in and the game is on.”

It is difficult to do justice to the Swing Trading process in such a short Essay without posting charts and examples to drive home the simple, but very robust methodology. In the above, I have not addressed managing the trade or sizing the position. I will focus on that in detail in my two sessions at the Tampa live-stream next week.

2021-01-08

MTI Divergence with the Price of the VVC/UK + the VVC USA Is a Warning

The Market Timing Indicator (MTI) on VectorVest is a composite measure of both the rate of change of the momentum Relative Timing (RT) of the VectorVest Composite Index (VVC/UK) and the rate of change of the Buy/Sell ratio (BSR). The BSR is simply the number of shares on a VectorVest Buy signal divided by the number on a VectorVest Sell signal. It's the VectorVest proprietary method of measuring the breadth of the overall market.

The MTI is measured on a scale between 0.00 and 2.00. The underlying trend of the UK market is defined as Up when the MTI is greater than 1.00 and Down when the MTI is less than 1.00.

When the VVC/UK has increased for a five-trading-day-period over five-trading-day-period, for two consecutive five-trading-day-periods then the underlying trend Up has been confirmed by price action. This is known as a Confirmed Call Up signal.

Similarly, if the Price of the VectorVest Composite UK (VVC/UK) has decreased five-trading-day-period over five-trading-day-period, for two consecutive five-trading-day-periods then the underlying trend Down has been confirmed by price action. This is a Confirmed Down Call signal.

The last Confirmed Call on the UK market was a Confirmed Up signal. This was printed on the 11th November. Confirmed Calls, as the excellent performance over the last few weeks on many portfolios will attest, need to be taken very seriously. On the VectorVest program, lesson 3 of the Successful Investing Quick Start course (SIQSC) reviews the Market Timing signals available.

As I keep saying knowing whether the market is rising or falling is 70% of the exercise.

I am writing this piece on the morning of the 5th January 2021 and the Confirmed Call upwards is still in place. Since the last signal on the 11th November 2020 the Worry-Free Investing technique has produced a gain of 12% while the overall market is up 5% over these few weeks. In the attached video I briefly describe the technique and the UniSearch used.

Before reading further please open a chart of the VVC/UK over the last year. Simply click on the Market Timing tab on the top of the Home Page of VectorVest and then click on Market Timing Graph. Apply the Confirmed Call signals by using the drop-down menu below the chart. The details of this video can be found by clicking [here](#).

Over the last six weeks the Price of the VVC/UK has been charting higher lows (rising) while the MTI has been printing falling tops (falling). This concept where the Price and the speed of the Price (the MTI) are moving in different directions is known as a divergence. A divergence between the Price and the MTI is an early warning signal of a turn. The longer it lasts the more serious the divergence becomes. Its certainly not a signal to exit and certainly not a signal to “short” the market as these divergences can last for many months. It is a signal to be careful and diligent with stops.

Also of concern are the values of the MTI and the BSR.

The MTI is falling from a mega overbought situation where the metric rose above 1.60 and the BSR above 9.00. The research department at VectorVest have noted that when the MTI and BSR rise above 1.60 and 4.25 respectively the trend is mature and at some point, a reversal should be expected. Again, these numbers are a warning signal. In the USA there is a similar situation (if not a worse situation technically) as the Buy/Sell metric is also showing divergence with the Price of the VVC USA.

The duration of the divergence is important and the longer the better. I have noted over the years that a divergence of less than 13 bars (days in this case) has little predictive value. In this case there are over 30 daily bars where the

Price of the VVC/UK and the MTI are moving in a different direction. This is becoming a significant number.

Conservative investors will note the divergence and simply wait until any down move is noted and a Confirmed Call Dn is printed on the chart. A Confirmed Dn preceded by a divergence between the Price of the VVC/UK and the MTI from a mega overbought situation can setup a very strong and high momentum move.

More aggressive swing traders and those employing leverage should consider using the DEW Market Timing system which will invariably react faster to the turn and print an earlier warning sell signal. This time will not be different.

As this year begins, I will end this Essay with a quote from “Lord of the Rings” to guide us all into a brighter future and a prosperous 2021:

Frodo: *“I wish none of this had happened.”*

Gandalf: *“So do all who live to see such times, but that is not for them to decide. All we have to decide is what to do with the time that is given to us.”*

Happy New Year Everyone.

2021-01-15

Building Resilience Into Your Trading and Investing

It is ultimately not about what happens, it is about how you respond to what happens that makes the defining difference to your long-term performance and profit and loss. What happens to many players on the tennis court often happens in the trading room for most traders. After a couple of poor shots, it's easy to get down on yourself with negative self-talk between points.

This negative self-talk that started from one or two simple errors impacts the next two or three points and before you know it the negative self-talk has spiraled into losing the game, set and the match.

The difference between greatness and a hacker on the golf course is the ability of the great golfer to play the 4th perfectly after making a mess of the 3rd. The top golfers employ coaches to get the mental side of their game perfect. Dr Bob Rotella is a coach to many of the top golfers in the world. His books have some of the best mental training on how to play the game of swing trading and investing available. His book "How Champions Think" is excellent.

A similar thing to a poor hole in golf often happens to many traders after one or two losing trades. There is the obvious initial disappointment but what follows is the defining difference between success. How you respond over the course of the next 2 or 3 trades can often make or break a trading account. If you increase your stake, move to another strategy, skip trades that meet the criteria and generally behave in a haphazard approach because of your disappointment then you are only likely to reduce the chances of success and drain your account even further. It takes discipline to follow a simple set of rules, but the good news is that this discipline can be built and built quite easily. However, most swing traders and investors never make the journey. I will explain the process of building trading discipline in the last

paragraph. Building a disciplined approach into your trading and investing is a rite of passage. This was the focus of my second talk at the Tampa Two-Day Investment Seminar live stream on the 9th January 2021.

Whenever I meet with the members at our online Q and A sessions or online User Groups, I remind them of these 3 things.

1. Have a simple, robust and thoroughly tested method that you understand and can follow. If you are new or still struggling to find a method, please start with the VectorVest Worry Free Investing plan (WFI).
2. Apply solid risk management to your method. This simply means risking no more than 1% of your account on any single trade or investment. In essence split your cash into ten parts and then resolve never to lose more than 10% of any part.
3. Focus on the process of trading and repeat. If you focus on perfect execution and focus on making the best possible trades, then the cash will take care of itself.

This is a simple recipe for success that can deliver great profits over time, but there is one reason why many cannot follow this simple process. It is because when trading the plan, the results on a single trade are random. You do not know on which trade it will deliver you profit, and on which trade it will not in advance. Over a series of trades, the trading plan is profitable and provides a solid edge in markets. Over a single trade the outcome is random.

To make the edge in markets perform, it's essential that all the trades are taken without fear or hesitation.

In our line of work, we need two levels of belief. At the level of a batch of trades, we must firmly believe from our BackTesting that the plan is profitable. At the level of a single trade, we must believe that the outcome is random. Getting your mind around thinking in probabilities is difficult. Getting to a point where you focus on the results from a batch of trades as opposes to the live or die emotions around being successful in a single trade takes work.

To start to build these beliefs.

1. Detail a simple mechanical trading system. This will include entry and exit criteria and position sizing. VectorVest's WFI is such a plan.
2. Resolve to follow these rules for a batch of 30 trades.
3. Keep the size small and use a practice account to get going.
4. If you allow emotion to enter and change the rules mid-stream, then start over again.

If you can adhere to the rules for 8 to 13 trades, you will notice the process becoming easier. The discipline is being built and when you have it, the paradox is that you do not need it. You are 8- 13 trades away from the trader you want to become. That is all, but most do not make the journey. The pain and emotion surrounding the life-or-death outcome of a single trade causes all manner of trading errors and rule changing along the way.

The discipline that dissolves the veil of deception between yourself and the market can be attained as described above. For me, the practice of staying in the "moment" and focusing on what is happening now has helped make the trading journey much easier and has resulted in the elimination of many of the trading errors. It takes practice and our egos will fight the process tooth and nail. The ability to stay present and keep your head (and follow some simple and robust rules) while everyone else loses theirs will help all other areas of your life as well.

2021-01-22

A Journey of 1000 Miles

A journey of 1,000 miles begins with the first step. Your journey to becoming a successful trader begins with your next trade. I challenge you to do the following six things on your next trade.

Einstein once defined insanity as doing the same thing over and over and expecting a different outcome. It is quite easy to make the same mistakes and continue to do so for many years. Here are the steps I propose to remedy this situation. Remember it is just a single trade to start.

1. Only pick the best and leave the rest. In this step, only chose a trade in those shares that have excellent fundamentals. These shares will be undervalued by VectorVest and growing earnings strongly and safely. This means in VectorVest that the Relative Value (RV) and Relative Safety (RS) values will be greater than 1.25.
2. Only pick stocks that are in an obvious trend. To help with this, apply a 21 and 55-day exponentially smoothed Moving Average to the chart. The 21 should be above the 55 and both should be pointing upwards. Pullbacks into the zone between the 21 and 55-day Moving Averages make excellent entry points especially if this shows a confluence with an old high. I will once again demo this at the Q and A session on Monday 25th January 2021. Allow the share to confirm that support and buying power has arrived by waiting for a green painted Up day on high volume.
3. Resist the temptation to enter early, motivated by the fear that the share will move without you onboard. Plan while things are static, and the market is closed. Know where to get in and where you will place the protective stop. From this point, size your position so as no more than 1% of your account will be lost if the trade fails. Decide when and where you will take partial profits. Plan in detail how you will trail or manage your stop-loss both before the initial profit goal is achieved and then

afterwards. Make detailed notes and records of the decisions made in your trading journal.

4. The overall market is positive for buying shares. This will be dependent on the rules within your trading plan. For example, in the Worry-Free Trading Method (WFI) the most conservative measure of the trend of the overall market is required before a trade can be taken. The latter are known as Confirmed Calls. Swing traders may use a faster measure of the trend of the overall market such as the DEW Market Timing method. It is my belief that 70% of the chances of success are simply ensuring that the overall market is rising. Do not ignore overall market direction.
5. Resolve to let the position run if your stop-loss rules have not been violated. Resist the temptation to chicken out after a single bad day. Resist the temptation to watch the share intraday. The market makers and algo programs will do their best to shake you out of the big winners. I have written about the real secret, the real Holy Grail of trading many times in these Essays. The winners become optimistic when they have a winning position and allow the position to run. The losers become pessimistic in a winning position. They become paranoid that the market is going to snatch back their small profit, so they quickly bank that profit. The same people become quickly optimistic with a losing position and justify holding on to losers and adding to losers. If there is a secret, it's becoming optimistic in a winning trade and quickly becoming pessimistic in a losing position. You unfortunately have been hard wired to do just the opposite.
6. Conduct a postmortem of each trade. Ask yourself honestly did you follow your rules? Ask yourself if the same conditions appeared in the future would you take the trade? What makes a decision great is not that it has a great outcome. A great decision is the result of a good process. In your postmortem, try and understand if the outcome was a function of your process or just simply luck. Ask yourself "did I play poorly and get lucky?" or "did I play well?" In seminars over the years, I would ask the

audience. “What was your best trade last year?” “What was your worst trade last year?” Invariably the best trade was the trade that made most money and the worst trade that lost the most money. Also, invariably the trade that soared did so by a lucky event and the trade that bombed through stops did so because of an event that could not have been predicted such as Covid-19. In your postmortem, try and differentiate between the process and luck.

Your success in this game will be a function of playing the game well and following your process.

2021-01-29

A Seventy Percent Success Secret

It is my belief that 70% of my ability to make money in the stock market is the ability to know when the overall market is trending upwards and when it is not.

The most important thing to know is whether the overall market is rising or falling. Everything else follows. I was taught this in my early days of speculation on the Johannesburg Stock Exchange in the early 1980's. My trades went well when the market was rising, but invariably fared poorly when the market was falling. Seems obvious, I know, but it took a few years at the University of Hard Knocks for this realization to dawn upon me.

When should I start to buy stocks?

This is a question that I have been asked repeatedly over the last few weeks.

I wish there were a clear-cut answer to the question. It is a decision that should be a part of your trading plan and decided well in advance.

There are six main Market Timing Methods built into the VectorVest program. In many Essays, I have detailed the construction of all of these. The Essay of the 28th June 2018 is probably the most detailed. All the measures of Market Timing are totally objective in nature and they are reviewed each Monday afternoon at the VVUK Q and A session. The next is on Monday 1st February 2021 at 130PM UK time.

For a signal to Buy shares:

1. Primary Wave turns upward.
2. A Green Light in the Price Column of the Color Guard.
3. A black star within the Green Light.
4. The DEW prints a BUY signal.

5. The underlying trend turns Up.
6. The underlying trend is confirmed by 2 weeks Price action. (A Confirmed Call). This is the most conservative and long-term signal on the VectorVest program.

At each turn Up (and Down) the signals invariably fire in the same order. Small boats turn more quickly than oil tankers and thus the Primary Wave shows a Buy signal much sooner than the DEW for example. Similarly, the DEW gives a signal mostly a few days ahead of the Confirmed Call signal. At this turn upwards from the February/March 2020 selloff please become familiar with the turn and record in your trading diary each signal as it arrives as a practical exercise.

Conservative investors and those using the Worry-Free Investing method (WFI) will wait patiently for signal no. 6 (Confirmed Call) to print on the VectorVest Composite. One of our most experienced users has concluded that they will start to build a position at the first Green Light after a Confirmed Up signal. A conservative and prudent approach, but it is a plan that has been thought through in advance, far away from the emotional ups and downs that invariably result in poor decisions. During February 2021, I will be presenting three webcasts on the WFI method. It is simple, mechanical and it works. If I were managing your money, I would put 60 to 80 percent of it into this method depending on risk profile.

More aggressive swing traders should consider the DEW Market Timing system to define when the market is rising or falling. Buy shares when there is a DEW Up signal and in cash when the Composite prints a DEW Down signal. This makes for clear and undisturbed sleep. In the Essay of the 30th October 2020, I have discussed this method in some detail and included the UniSearch that pinpoints the shares to be traded upon the DEW signal. The method back tests well in both UK and US.

Short-term trading over 3 to 5 days is a tough business. Invariably these traders (of which I belong with a small percentage of capital) use the leverage available from a CFD or spread bet. The latter is what I use on my US trades

and it is important to enter close to the turn to reduce the size of the Stop-Loss required. The Green Light Buyer confirmed by the RT Kicker Market Timing system to initiate buying shares achieves this and invariably prints a signal a few days at least before the DEW. The Green Light Buyer confirmed by the RT Kicker simply means that the Price of the VVUK Composite is positive day-over-day and week-over-week and the Price momentum is rising. It is an excellent signal for aggressive swing traders and can be seen visually by the black star within the green light on the Home Page of VectorVest.

The point that I am trying to make is that it is vital to decide on a Market Timing method in advance and test it using the BackTester on the program. When that is completed to your satisfaction then your focus should be on the process of trading and investing. If you focus on the process the cash will take care of itself.

As of the 27th January 2021, and currently all the measures of the trend on both UK and US markets are positive. However, the Buy/Sell ratios in both countries have fallen, especially in the UK. Clearly this can have changed a lot during US earnings season by the time you read this piece on Saturday 30th January. This fall in the Buy/Sell ratio intimates a weakening situation. In the UK, many stocks such as GAW.L and JD.L have pulled back to long-term support levels and these critical levels need to be monitored carefully. I will discuss these shares in detail next Monday at the Q and A session.

Please remember that the markets are in a mega overbought technical position which can last a further few months or a few days. I do not know when a turn will come nor does anyone else. Please also note that this time will not be different and sooner or later a selling wave will occur. A selling wave which is preceded by a mega overbought market is invariably a fast high momentum move.

I am holding positions until the VV Composite and the VV Market Timing systems inform me that a turn as defined by a mirror image of the sequence above has started.

Always trade the market and NOT the forecast.

2021-02-05

The Process Is the Way

Over the months I have been reinforcing the concept of focusing on the process of trading and investing. If the trader focuses on the process and perfects the process, then the cash will take care of itself. That is also true for most areas of life. It is tempting to dream about buying GameStop at \$2 per share and riding it to \$400 per share as it is to dream about winning the lottery next Saturday. It is highly probable not to happen.

In trading (imho) as in life do not be concerned with the fruit of your actions, just give attention to the action itself. The fruit will come of its own accord. Try not to allow this moment to become a steppingstone to a future moment. It is tough I know only too well and takes presence. I have found this more difficult at this time with the gym closed although I do not quite understand why.

In trading, this is all about intense focus on the process and executing your trading system perfectly in each moment. The results will flow in due course.

The ability to build presence by focusing on the process destroys fear in trading. The four trading fears are being wrong, losing money, missing out and leaving money on the table.

The condition of fear (these four trading fears) is divorced from any true and immediate danger.

You can always cope with the present moment, but it is very difficult to cope with the future.

Last week, I detailed the VectorVest Market Timing Systems and how they identify a turn in the overall market. At each turn, there is an orderly process and it's vital that you understand this sequence and decide at what stage you feel that it's safe to accumulate shares. Market Timing is 70% of the exercise and an important part of the process. If you are a short-term swing trader, then the Green Light Buyer system will be important especially if the Green

Light is confirmed by momentum and shown visually by a black star being displayed within the Green Light of the Price Column in the Color Guard. Longer-term position traders and those using the Worry-Free Investing Method (WFI) will wait on a Confirmed Up signal. As of the 2nd February, the Primary Wave of the UK market is Down while the Underlying Trend is Up. This is a DnUp situation. The medium-term Market Timing system known as the DEW is also Down. The advice on VectorVest on Tuesday 2nd February 2021 is to sit on hands and not to buy shares. Stop-Loss levels should be maintained diligently without fear or hesitation in a market that seems to be turning down.

Earnings per share (EPS) is the “engine that drives the share price” according to the author of the well-respected text “The Intelligent Investor.” EPS is an important part of the VectorVest metric RV or Relative Value. In RV the program forecasts earnings for each share in the database over a period of three years into the future. It then assumes that within this three-year period the earnings will be discounted into the share price. The projected price is then used to calculate the upside by subtracting the present share price. This upside is then divided by what a AAA rated corporate bond will pay over the same period. If a share has an RV of greater than 1.30 that is considered excellent. If a share has an RV of less than 1.00 then the probabilities favor this share rising less than could be obtained from a bond. In my trading I mainly focus on shares with an $RV \geq 1.25$.

It is also important to visually inspect the EPS line study on VectorVest. The metric should be growing smoothly from the bottom left to the top right of the window. To display EPS please use the Graph Layout “VectorVest Simple.” Sylvania Platinum, SLP.L, in the UK shows EPS growing strongly and linearly over the past year. In this share, the RV is greater than 1.70 with EPS more than tripling over the last year. It is no great surprise that the share Price has moved from 40p per share to 107p per share in the same period. The share has the look of a 10 bagger to me if you are patient.

The trend is vitally important, and my objective is to buy stocks with great fundamentals that are rising in price when the overall market is rising. I wish to trade in shares that are in the throes of a strong long-term trend. The Comfort Index (CI) on VectorVest calculates this automatically and once again a CI of greater than 1.30 finds a share in the throes of a strong long-term trend with minimal volatility. On SLPL the CI is 1.72. Another place to find shares that are trending strongly is to load the Midas Touch WatchList or build a UniSearch that incorporates the Midas Touch WatchList. In the latter $RV > 1.25$ could easily be added. In the US, that's where I found Fulgent Genetics, FLGT. Until running the Midas Touch WatchList I had never heard of the share. After looking at the Midas Touch WatchList I noted that the RV was 1.70 and the CI was greater than 1.30. The rest is history, and it was my biggest winner last week and I sold too soon. Maybe in another 40 years I will get that right. In the video accompanying this Essay, I will show you where to find the Midas Touch WatchList and how its generated.

Safety of financial performance (Relative Safety, RS) is vitally important in longer-term position trading and is the foundation of the Worry-Free Investing Method. I will be running a webcast on this technique on Wednesday 10th February and you can register for that by clicking [here](#). The webcast will include the UniSearch and the rules used to manage positions in a few minutes a day.

Relative Safety is not as important in short-term swing trading (imho) as risk is being monitored proactively by Stop-Loss orders, disciplined money management and diligence. In my Essay of the 31 December 2020, I outlined a swing trading method and detailed a UniSearch that finds stocks for consideration. As my natural style of trading is that of a swing trader, I speak about this system and this way of trading most Monday afternoons at the Q and A session. I try and include all my swing trades in the US market, warts, and all.

Over the next few weeks, I intend to present several webcasts on an introduction to trading which will get across the basic requirements of

how anyone can trade simply using VectorVest to build up their Individual Savings Account (ISA) over several years. The objective is to become an ISA millionaire from a structured repeatable process. I will post the links here when they are available and at our next national User Group on the 17th February. The alternative is to consult a crystal ball to find the next short squeeze.

2021-02-12

A Unisearch for Both Growth and Income

I have been using VectorVest each day since 2010. In that time, one of the most consistent UniSearches that has performed through thick and thin has been “Pale Blue Chips” (PBC). This was the first UniSearch that I used when finding my feet with the program in the South African stock market. This was when I first got involved with VectorVest in 2010 and the SA business was largely built on this UniSearch.

The UniSearch is found in the Conservative folder within UniSearch. It is particularly useful for those investors that need to provide a source of passive income which is steadily growing year- by-year. There is a lot of common ground between the Worry Free UniSearch and PBC and that is the emphasis on the safety and predictability of the earnings stream.

As PBC is a conservative UniSearch we certainly do not want surprises and that’s where Relative Safety (RS) comes into its own. An RS of greater than 1.25 (on a scale between 0.00 and 2.00) is stipulated. This finds those stocks with a solid track record of performance, that are making money and all the financial ratios are improving. A high RS does not eliminate surprises, but reduces their frequency and makes these few surprises easier to handle emotionally.

PBC also requires that the company should be growing earnings, pay a dividend and have a strong track record of safely growing that dividend. I will not record the exact numbers here as all reading should have the UniSearch as a standard on VectorVest. In my view, it is much better to select a share that can grow earnings and dividends even from a low base than a share which currently pays a large dividend, but the dividend is static or falling. That is what the PBC UniSearch locates with a click.

On VectorVest, there are two master indicators. These are VST (Value, Safety and Timing) and YSG (yield, safety of the yield and the growth of the yield). The former suits momentum players while the latter can be used to find shares that are suitable for those requiring income. The key to the PBC UniSearch is that it employs both to find shares with a foot in both camps.

The PBC UniSearch employs both master indicators to sort the shares that fulfill the RS, Earnings Growth Rate (GRT) and dividend criteria specified. The shares from PBC are sorted by the sum of VST and YSG. This brings those shares where both the share price and the dividend yield should rise together to the top of the list. This will give the investor a good blend of capital growth and dividend growth and that is a great place for a hands-off investor to be. It is a great place to locate shares for a SIPP (Self-invested personal pension) or an ISA (Individual Savings Account) where the objective is to “let the ball do the work.”

As we are dealing with a conservative investing trading plan, the Market Timing system used should be the longest-term on the VectorVest program, namely Confirmed Calls. The last Confirmed Up signal in the UK market was printed on the 11th November 2020.

A QuickTest on the performance of the 9 shares found from the PBC since the 11th November 2020 to the close on the 8th February 2021 shows that these have appreciated by 13.7%, while the Price of the VVC/UK is up 7.5%. This excludes any dividends paid.

In terms of system rules, I favor the following.

1. Buy the top 10 shares from the PBC UniSearch upon a Confirmed Up signal making sure there are no more than 2 shares from any single sector of the economy.
2. Place the shares into a WatchList and after purchase re-sort the list by Relative Timing, RT. This means the shares that are rising in price the fastest are at the top of the list. Similarly, those that are falling in price are at the bottom of the list. It is at the bottom where the emotional hard work needs to be done.

3. If a share should hit and fall below its Stop, as calculated by VectorVest, simply sell that share. If the Confirmed Up is still in place, re-run the PBC and replace with a share that you do not currently own.
4. When the VVC/UK is rising, as defined by the Confirmed Call system, then we should be fully invested.
5. Sooner or later there will be a Confirmed Down. At this point, getting stopped out becomes much more probable. In this case, sell the share in question, but DO NOT replace and build a cash position.
6. When the next Confirmed Up is printed, re-run the PBC and get back to being fully invested.

Try and add the dividends into the Portfolio as they appear twice a year. This will speed up the journey to financial freedom immensely until some day you can live off the yield.

2021-02-19

A Trader's Journey

When I first began trading, I heard all manner of objections from people I knew and respected who said all kinds of things, such as:

You should not become a trader because...

- It is risky.
- It is gambling.
- It is too difficult.
- It is manipulated.
- Computers run the game.
- You should keep your “real” job...That was my mother when I resigned from Anglo American in 1988.
- The suits run the game.
- Brokers will hunt your stop-losses.
- Technical analysis only looks at the past.
- You need a thorough education in economics and a CFA.

Most of these objections come from general ignorance about how trading and investing works, concern from loved ones for your financial well-being, or fear of being overshadowed by your success if you manage to make it work and make lots of loot.

I start all my trading talks showing the delegates that the first thing we need in our trading business is an edge which has a positive expectancy. This simply means that the system used should make more money when it's correct than it loses when it is incorrect. In effect, the winning investor and trader is setting themselves up to become the casino and not the punter putting the pound coins into the slots. I wrote about a simple, conservative, but robust edge in markets last week with some rules for your consideration. This method will

make much more than it loses in a campaign of trades and will aid in wealth building by paying a dividend.

If you are truly committed to becoming consistently profitable as a trader and you have realistic expectations and a realistic plan to follow to get there, including seeking out a role model who can lead the way, then the sky is the limit over several years. I think that most people overestimate their goals over a year, but vastly underestimate what they can achieve over five years.

There are three core beliefs that all winning traders need to instill in their personal belief system at a deep subconscious level. The market will do its best daily to remove these positive beliefs and turn us all into market cynics. Please do not allow this to happen as there is a surplus of these fellows presently.

Belief 1

Money can be made in markets. Above, I started this Essay with the many objections that you hear from friends and colleagues when you mention that you are venturing into financial markets. Reading about traders and investors who have built fortunes in markets helped me build this positive belief in my early investing days. There are many excellent books which chart the progress of investors and traders just starting out in trading and how they have achieved success. I would recommend “How I made \$2,000,000 in the Stock Market” by Nicolas Darvas. This is a great and simple read on how a dancer from New York built a fortune by trading in stocks over 50 years ago. Also, the book “Market Wizards” written by Jack D. Schwager, relates the stories of many outstanding traders who made a fortune in the markets. Money can be made in markets. Just follow the VectorVest basic rules and it is there for the taking. On VectorVest, click on the Welcome page and download the Quick Reference Guide. The latter includes a checklist on how to build wealth by using a robust analytical process.

Belief 2

I can make money in markets. There is an entire industry out there called the asset management industry which essentially says that money can be made in markets, but you cannot do it. They have multi-million-pound

advertising budgets and build an impressive story. Most of it is smoke and mirrors as most funds and trusts gloriously underperform the indices. This underperformance has motivated the rush to indexing and tracker funds. The managers know that they will not be able to outperform so they decide to be average. Be average and get paid. Just remember no one will take care of your money better than you.

On VectorVest, there is an extensive BackTester. Using this tool, we can test all of our proposed strategies over many years into the past. In this way, we can build a strong and robust set of systems and rules and much more importantly build a strong belief that, in a campaign of trades, these rules will be robustly profitable. This process is a rite of passage. On VectorVest, please click on the Training tab and then click on Navigation Training Series. This will open in a separate window and includes a section on BackTesting; among lots of other essential VectorVest topics. Everything that you need to make money and conclusively prove that “I can make money in markets” is included in this comprehensive training series.

Belief 3

I deserve to make money in markets. Successful traders and investors have a positive mental attitude and maintain that positive attitude every single day they trade and make decisions about their portfolio. It takes confidence in your abilities, confidence in your decisions, confidence in your charts and confidence in your system to succeed as a trader. Confidence hinges on your mental attitude. BackTesting as noted above will help, but it still takes resilience to handle the drawdown that comes with even the most positive expectancy system.

Your daily attitude affects your ability to perform successfully as a trader. If you stay positively focused, you will be able to assess your position with confidence and pull the trigger at the precise moment to ensure maximum profitability. If you allow negativity or self-doubt to eat away at your confidence, your performance will suffer. My performance certainly does. We

all have bad days, but I have never seen a person with a downbeat attitude become consistently successful over a period of more than a few weeks.

Once negative thoughts regularly creep into your thinking patterns, you start to second-guess your abilities, your decisions and your system. Pretty soon, you are making bad trades, you cannot pull the trigger and things start crumbling around you. The only way to succeed over many months and years is to refuse to allow yourself to be beaten down. You must maintain faith in yourself and confidence in your ability to succeed. Successful traders and investors succeed because they have a positive mental attitude and believe in themselves and their well-tested system. It is not the other way around. They are not happy because they succeed. They succeed because they are happy, enthusiastic and motivated individuals. A positive attitude gets positive results always.

Develop a positive mental attitude and your success will increase as your skills grow. A positive mental attitude will allow you to:

1. Focus on making profitable trades. Even if you have a losing streak, positive focus will allow you to turn things around and snap back into the profit zone.
2. Focus on profit-making goals which are process orientated. A positive focus on following your well researched process will give you the strength and courage to persevere when the going gets tough.

Whether it is through your actions or through your attitude, there is always a way to introduce a more affirmative perspective into your life. Stay focused on the positive possibilities and life will continue to grow more richly rewarding.

2021-02-26

Ten Minutes a Day, Every Day

In past Essays, I have written at length about building the discipline to follow a simple set of trading rules. I emphasize this at all the courses I present and will do so in the “How to Become an ISA Millionaire 2021” course that I will present in March 2021. Those reading with even a little trading experience will acknowledge that it is much easier to write about trading discipline than to achieve it. Those with no trading experience will wonder what all the fuss is about.

The process of building trading discipline is quite simple, but not easy. The process can be applied to most facets of life. The process entails gritting your teeth and following your trading rules for 8 to 13 to maybe 21 trades. I used to offer as a service where I would sit and nursemaid traders through the period. By doing this, I have turned many serial losers into consistent winners on the futures markets all over the world. If you wish to build the discipline to complete 30 press-ups each evening, then grit your teeth and make a start. After 13-21 days the habit/discipline will be built. This is how personal trainers make their living. The latter think they are in the exercise business. That is an illusion, they are in the discipline building business.

The psychologists speak about new neural pathways within your brain being forged in this period. I have no idea of the neuroscience, but the process gets me to the gym twice a day with zero effort when the place is open. I am presently counting the days until they open like a child before Christmas. Those close to me believe that my gym attendance takes discipline, but the paradox is that once the habit is built, it takes little or no discipline. Quite the opposite in fact.

I personally find it easy to build discipline in all areas of life, and, although this may seem positive, it also means that I can easily build the discipline to

engage in negative pursuits. These 65 years have taught me to be very careful with my choices. A few poor decisions can easily produce an engrained habit I do not need and a new belt. It is my view that building the discipline to manage your portfolio in 10 minutes a day, every day, can be achieved in a similar fashion.

I have spoken about the rules of the VectorVest Worry-Free Investing method (WFI) on many occasions in these Essays. The WFI has performed well during the past 12 months and has outperformed the market significantly since the last Confirmed Up Call on 11 November 2020. I will be completing three webcasts on the WFI method in March 2021.

The rules of WFI are simple, but getting to the point where you can flawlessly follow those rules is not simple or easy in the heat of battle. It is my promise to you that if you grit your teeth and complete these actions each day for the next few months, then this habit will be built. It may take slightly more than 10 minutes to start with, but by the end of the period, 10 minutes should be more than adequate.

1. What will trigger me to Buy stocks?

In the WFI, we use the Confirmed Call method of deciding whether it is safe to Buy stocks. This is the most conservative Market Timing method of VectorVest. The signal is shown on the Home Page of VectorVest each evening. Below the Market Timing Gauge (traffic light) on the Home Page of VectorVest, there is the Color Guard. On this, the column to the far right is named Call. On the 24 February 2021, there is a green C/Up in this space saying it is OK to consider buying stocks. This C/Up has been in place since the 11 November 2020.

In addition, I also wish to observe that if the pointer of the Market Timing Gauge is within the green area such that “VectorVest advocates buying safe, undervalued stocks that are rising in price at this time.” If the pointer is within the red area of the Market Timing Gauge, although there is a Confirmed Call upwards, the Market Timing Gauge is negative, so, for me, it is a day to observe rather than a buy day. That is the case as of Wednesday 24th February.

2. What to Buy?

This is easily answered for the WFI by using the UniSearch tab on VectorVest. Select the Searches - Retirement folder and click on Long-Term Winners - RS Desc. This search finds shares on the LSE that have reasonable volume and are trading above 50 pence per share. The program then sorts these shares by Relative Safety, RS. This brings those shares with the safest track record to the top of the list. In my own work, I have added a parameter to the standard UniSearch because of my faith (based on lots of BackTesting) in the VectorVest metric Relative Value (RV) to significantly enhance the capital growth of the WFI trading system. I have simply added a line of code $RV \geq 1.25$ to the UniSearch and called this UniSearch Long-Term Winners RS Desc1.

3. Where is your Stop and where is the target? Managing the process.

In WFI, the VectorVest calculated Stop is the standard used. You can decide to place a Stop with the broker or, as in my case, elect to manually exit the position. When a Stop is triggered, I observe the low of that day. If the market moves below that point, then I exit sometimes by keeping an eye on the position or by a market order if busy. The biggest winners in trading are those that take losses easily and quickly.

- a. **Put your WFI portfolio into a WatchList.** Re-sort by RT and that will put the shares that are trending higher to the top of the list. The work needs to be done at the bottom of the list. If you see a RED box beside the share, it has hit its Stop and needs to be either sold or watched carefully the next few days. On most days, with WFI shares, there will be nothing to do when the overall market is rising. When a C/Dn is in place, then Stops are much more likely to be triggered. This can be done in seconds on the smartphone app. There has been nothing to do for me since the 11th November in this Portfolio. That can change quickly so it needs daily diligence.
- b. **Is it safe to Buy shares?** Make a note in your trading diary. There is a very small possibility that you can get stopped out of a WFI share

when the overall market is rising, but it certainly can occur. If it is OK to be in the market (C/Up plus a Green light in the Price column), re-run the modified WFI UniSearch and replace the share you have sold with another you do not already own. In a C/Up market, this is a rare occurrence, but happened recently with Avon Rubber, AVON.L.

- c. **Is it not safe to Buy shares?** A Confirmed Down signal on VectorVest is serious. Again, make a note of this in your trading diary. Over the past few years, these pullbacks have been weak, and many have now decided to ignore them. Those who ignored the C/Dn signals got a wakeup call in March 2020. In the case of a Confirmed Down, there is a much higher probability of being stopped out of some of your shares. If this occurs, simply do not replace and build a cash position. In the last Confirmed Down during October and November 2020, I was not stopped out of any shares. In the C/Dn of February and March 2020, I was stopped out of them all in a frantic morning.
- d. **When the next Confirmed Up arrives, run the UniSearch again and replace with a share that you do not presently own from the top of the list.** This will be the case if you are starting from scratch today. In the latter, you will be adding all 10 positions over a period of around a trading week. In my trading plan, both a Green light and a Confirmed Up are required.

Put the process to the test with a paper Portfolio and then resolve to follow the steps each evening for a month. Keep a daily diary for the process. Most of the latter can be done on the phone over coffee, but it is vital that it be done daily. As I have repeatedly written, it is the flawless execution of a robust trading plan that produces the results and the cash.

2021-03-05

Habits of a Winning Trader and Investor

COURAGE:

You need the courage to action these basic steps.

#1: Open a trading account.

#2: Deposit money into your trading account.

#3: Focus on following the VectorVest basic principles. When to Buy. What to Buy. When to Sell. Please revisit the Successful Investing Quick Start Course under the Training tab. It is so easy to make things much more complicated than they need to.

#4: Adopt a trading strategy and execute that strategy with precision.

#5: Take the trades as they come along. Do not pick trades.

#6: Follow your strategy and diligently record each trade in your journal. Remember, it is impossible to judge the strategy on a single trade or even 5 trades. A batch of 13 to 30 trades defines a campaign of trades. To make this happen please read on.

Persistence and emotional Grit:

Trading and investing are a business where the results are judged after a campaign of trades rather than a single trade. Most traders however, live and die on the last single trade. If it was a winner, they are happy, but if it was a loser, they are miserable.

It is easy to make a winning trade. You could take a drunk off the street and they could make a single winning trade. The hard part is to be able to trade with consistency and that takes grit and persistence.

Do you have the PERSISTENCE and GRIT to:

- #1: Take a few minutes to study your portfolio each day? Ten minutes a day for Worry-Free Investing and around 30 minutes a day if you wish to swing trade.
- #2: Can you patiently wait for your trading setups to appear?
- #3: Can you follow a proven trading strategy without changing the rules? Especially after a few losers. “Cheerfulness in adversity” is a prerequisite of becoming a consistently successful individual in any demanding endeavor.
- #4: Not to give up on a trading strategy after a losing streak of 2 to 3 trades?
- #5: Not go against a strategy after a winning streak especially, in this case, your money management rules? After a streak of winners there is a compulsion to trade a much bigger size. Many successful funds have collapsed in this way due to the euphoria of a winning streak. The managers felt they had achieved God like status, bet the farm and lost.

Save Money and minimize Tax:

In the UK, make use of a Stocks and Shares ISA (Individual Savings Account) to minimize and eliminate tax. The details of which are readily available online. Removing the tax handbrake greatly increases your ability to build a million-pound portfolio.

Getting into a regular savings habit will take some planning. Transferring as much as possible of the £20k allowance into your ISA account each year will speed up the journey to financial independence. US Financial journalist Dave Ramsey rants on YouTube on why some Americans end up rich and why most end up broke. He concludes that the difference is that the successful saved 10% of their salary throughout their lives and the destitute did not. It is quite entertaining.

Constant Learning:

As a trader and investor, it is our job to keep learning and evolving with the markets. I consider myself as a lifelong student of the markets. Over the past

few years, there has been an explosion of new instruments that allow private investors to compete equally with institutional traders.

Although I understand the mathematics of the stock options market, I have little hands-on knowledge and practical trading experience in options. That is my personal area of focus for 2021.

As a stock trader, you will need to spend some time and efforts into honing your own strategy from any guidelines given within the VectorVest courses and product. You are unique and will have a range of beliefs about markets that are unique to you. This could be in relation to entry conditions or, more commonly, on exits and targets. Over several weeks and months of work, observation and reading this input plus the VectorVest core concepts, it will slowly evolve into a trading process that suits and fits you. The VectorVest BackTester will help this personal journey. No one is expecting you to be able to do that without good training and education behind your back and we offer many of these within the VectorVest University. Stock trading education is as important as is continual reading on the subject.

On a completely different theme, I am getting many mails about missing VectorVest emails. Could I please ask you to have a look at the following if this applies to you.

If you are not receiving your VectorVest emails, the problem could be that your email preferences are too restrictive. To select the emails you want to receive, and even how many emails you want per week, go to Tools, and click on My Profile. There you will find the Email Preferences settings to make your choices. Remove the types of emails you do not want VectorVest to send you, and make sure you choose Opt-In to Keep Receiving Emails to get the ones that you want.

2021-03-12

What Can We Easily Control in Our Trading Business?

In the years that I have been speaking about markets to both retail and institutional clients, the question that comes up most often is “How can I get ahead with only buying shares equal to 1% of my account size?” This question has come up a lot over the past few weeks and in this Essay, I will try and put this to rest once and for all.

The 1% rule has been time-tested by anyone who has practical experience of surviving in trading. It is frequently misunderstood. To backtrack, the 1% of the account size refers to the amount lost if the share purchased should fall from the entry point to the VectorVest calculated Stop-Loss level. That loss should never be more than 1% of your portfolio. As you will see, if you read on, that results in the total purchase price of the shares as a percentage of the total portfolio to be a reasonably aggressive exposure. This is not a wimpish strategy in the slightest.

We cannot control whether the share is going to move up after our purchase decision, but we can control the amount that is risked and that is what makes position sizing, as it is called, so important.

In the 1980s, a fellow by the name of Ralph Vince started to research the effects of varying position size on investment and trading performance. A quick search on Google will reveal the books and papers that Vince has written over the years. His research is quite difficult for those not mathematically inclined, but the results are simple, and you have heard them a thousand times before in these Essays.

If you have a trading system that is correct in its market calls 66% of the time, that is a fine system. If that system makes twice as much when its correct as it loses when its wrong, then you have a method of printing money forever.

A 66% hit rate system can easily be attained if you tick all the VectorVest boxes. These are buying undervalued shares with good fundamentals that are rising in price when the market is rising. Please do not complicate what is essentially a simple process.

In a 66% correct system which has a positive expectancy (makes more when correct than it loses when incorrect), the trader still must face clustering and runs of good and bad trades. In a 66% correct system, 3 bad trades occur every 9 trades and thus 9 bad trades every 27 trades. If you bet 1/3 of your capital on any single trade, you go broke every 27 trades. That is a sobering thought after the joy and jubilation of getting 27 trades under your belt. Remember, the bet size is the amount of money that you can lose if the share drops from your entry point to the Stop-Loss used.

To get through the clusters mathematically, and that means not going broke or suffering enormous drawdowns in them, the bet size needs to be less than 2% of your available capital. At VectorVest, we advise a 1% bet size. When I present this in a seminar, I see faces drop. The body language in the crowd is that it is going to be a slow process to get rich. Nothing could be further from the truth as I will show below. First let me revisit position sizing. I know I have done it before, but it is the most important factor in becoming a consistently winning trader and investor, but alas it is not as sexy as entry points.

Let us assume an account of 100000 pounds.

1% of this capital is 1000 pounds. We should NEVER lose more than that in a single trade. Assume we buy a share at 10 pounds and use the VectorVest Stop (Stop-Loss) at 8.50 pounds.

The risk/share is thus 1.50 pounds. I read this off the chart and it is unique to each trade. The Stop needs to be well out of the price action traffic or it will be picked off by the pros and algorithms. The VectorVest calculated Stop does a good job in weaving that fine line between protecting your capital and making sure that you are not stopped out of a trending share prematurely.

Let N = the number of shares to be purchased

$N * \text{Risk/Share} = 1\% \text{ Account Size}$

$N = 1\% \text{ Account Size/Risk/Share}$

In my example $N = 1000/1.50 = 666$ shares

Buy 666 shares at 10 pounds each is the broker's order.

This means we are purchasing shares to a value of 6660 pounds.

I was taught that by my first mentor in South Africa in 1981 and still perform the same calculation today. If the position falls apart then I will lose 1000 pounds in our example which is 1% of my account size. I now have 99000 pounds remaining in my account. The next position will be sized on an Account Size of 99000 pounds.

My first mentor also taught me the "Power of One." Here are some facts about the "Power of One."

1. If you are completely incorrect in each trade and apply the "Power of One" then it will take approximately 650 trades to take the account down from 100000 pounds to 100 pounds. Remember, if you lose, the position is sized on the remaining capital. The "Power of One" is simply sizing your position so as the maximum loss is 1% of your capital.
2. If you have a system that has a 2 to 1 risk-to-reward ratio and apply the "Power of One" then it takes only 35 trades to double your money. Only 35 trades to turn 100000 pounds into 200000 pounds. Remember, after you win 2000 pounds, then the next position will be calculated on an Account Size of 102000 pounds and if the Stop-Loss is the same it means that the "Power of One" allows you to buy more shares.
3. If you have a system that has a 3-to-1 risk-to-reward ratio and apply the "Power of One" then it takes only 23 trades to double your money. Remember after you win 3000 pounds, then the next position will be calculated on an Account Size of 103000 pounds and if the Stop-Loss is the same it means that the "Power of One" allows you to buy more shares.

These calculations were done decades ago and certain unique assumptions were made, but the mathematical facts show strongly that, if you apply the "Power of One," you must work hard to blow your account and not so hard to

double it. When I was shown this in 1981, I could not sleep for a few nights as it got me so excited.

The winners and the losers come along in runs and emotionally the clusters I wrote about in the first paragraphs can be difficult to say the least. Size your positions correctly and allow the “Power of One” and simple arithmetic to keep your mind centered and focused on perfect execution of each trade.

2021-03-19

Using the Delta EPS Unisearch to Find Winning Stocks

A few weeks ago, in the VectorVest UK weekly webcasts, I focused on a Delta UniSearch to show shares that were growing earnings per share (EPS) strongly and especially those where EPS had been moving sharply upwards. The latter is shown on the forecast EPS chart as a vertical move upwards and is a very good sign and warning of a probable sharp move upwards in the share price.

In this context, Delta refers to rate of change of EPS as opposed to the use of the Greek term in the options world. As Ben Graham (Buffett's mentor) said, "EPS is the engine that drives the share price." It's just a matter of time before the EPS increase shows up in the share price. If you wish to be a relatively short-term momentum trader, then it's vital that you have a list of these shares at hand. Fortunately, the UniSearch tool on VectorVest does this easily with a few clicks of the mouse.

From the Home Page on VectorVest, click on the UniSearch tab on the main toolbar and then click on the Delta Searches - Stocks folder on the left-hand side of this page. Then scroll down until you see the "Explosive EPS Stocks" Search. If you click on this, the UniSearch will be loaded in the main portion of the same page.

This UniSearch finds shares over 50 pence that have a traded volume of greater than 50000 shares that are on a Buy recommendation, where EPS has grown by more than 25% over the past 13 weeks. These stocks are then sorted by the master indicator, VST, bringing those stocks with the best combination of Value, Safety and Timing to the top of the list.

Please experiment with the UniSearch. Some reading may wish to add other indicators such as Relative Safety, $RS > 1.00$. This will remove shares where the financial performance is haphazard or unproven. I have added this indicator to my UniSearch as a standard. Also adding the Comfort Index, $CI \geq 1.30$ to the mix will find shares that are in the throes of a long-term uptrend. As I have stated before on many occasions, the CI is a VectorVest secret weapon.

As often noted in my writing, most stocks move up and down with the market averages and knowing whether the VectorVest Composite is moving up or down is a vital part of the quest for profits, so it's great to know with some certainty which way the market is heading. In my experience, the least accurate predictions are made by the TV market pundits so be wary of these people. On VectorVest, we have several Market Timing methods that are totally objective and ego-free.

On 11th November 2020, the most conservative Market Timing system, Confirmed Calls, gave a C/Up, BUY signal on the UK market. If you run the standard "Explosive EPS Stocks" UniSearch and add $RS > 1.00$ on that date and QuickTest the top 10 shares through to the 16th of March, you should see easily that the selection has gained 13.43%, while the VVC/UK has gained 7.95%. This is an annualized gain of 39.25%.

I personally cherry-pick the shares from this UniSearch using my personal technical settings.

1. Add a 21-Day and a 55-Day Exponential Moving Average (EMA) and an 89-Day Simple Moving Average (SMA). The 21 should be above the 55 and both should be above the 89. If not, I leave the share.
2. I like to visually observe that traded volume is rising when the price is rising, and that traded volume is falling when price pulls back.
3. My entry point is defined by a pullback into the "zone" between the 21 and 55 EMA on falling volume.

4. This pullback should find support at a previous old high. This is the well-worn technical observation that previous resistance when broken will become a new support level.
5. The Stochastic indicator using the VectorVest standard settings is a very useful measure of the stocks short-term technical position. A Stochastic of less than 20 indicates an oversold position and this adds to the strength of the setup.
6. I use a candle pattern reversal signal to define the entry point and use the concepts written about last week to size the position correctly and conservatively. I use the VectorVest calculated Stop in this calculation to define the risk/share. Please review this step before reading further if the last sentence confuses.
7. The distance between the entry point and the Stop-Loss used is the initial risk. When the share has advanced in price, and your profit is now equal to the initial risk, consider taking some profits and moving your Stop-Loss level to the initial entry point. Now let the remaining shares run if VectorVest indicates they are on either on a Buy or Hold recommendation. If the recommendation changes to a Sell, then simply exit the position.

Applying the above to today's selection from the UniSearch, BBOX.L seems to fit and tick most of the boxes. Fundamentally, the share is trading above the VectorVest Valuation and that will deter conservative position traders.

2021-03-26

Buying a Pound for 50 Pence

As a boy, I was taught that the best way to make money in any form of trading was to establish the value of an asset and then pay a lot less for it.

A family member used earnings from his business to quietly accumulate land. He would know exactly which farm he wished to buy and then would sit and wait until some calamity in the economy allowed him to buy it much less than he felt it was worth. The father of value investing,

Ben Graham, called the process *“Buying a dollar for 50c.”*

Stock prices rise when:

1. Corporate Earnings rise.
2. Interest rates fall.
3. Inflation falls.

Establishing the value of a common stock is quite a process. In Chapter 3 of “Stocks, Strategies and Common Sense,” Dr. DiLiddo details how he calculates the Value of a stock. The book can be downloaded from the Welcome tab on the main toolbar of VectorVest. The VectorVest algorithm uses forecasted earnings per share, forecasted earnings growth, profitability, interest, and inflation rates. The Value of each share is calculated each day and provided in a simple easy to read format. Immediately, you can see if any share is undervalued or overvalued. It's easy with a mouse click to use UniSearch to locate undervalued shares.

VectorVest provides a second measure of Value called Relative Value (RV). RV is a measure of the long-term price appreciation potential. The calculation is simpler than that of finding value.

The first step in the RV calculation is to forecast the earnings of a share over the next three years. We then make the following assumption: we assume that those earnings will be fully discounted into the share price at SOMETIME over the next three years. We calculate the share price at that future date and work out the potential upside. This upside is then divided by what a treble A rated UK Corporate Bond would pay in that time. The result is RV, and the concept and calculation is discussed in detail in Chapters 4,5 and 6 of “Stocks, Strategies and Common Sense.”

If the RV of a share is 1.30, then the probabilities favour this share and its share price outperforming a treble A rated corporate bond by 30%. If the RV is 0.90, then the probabilities favour the share underperforming the bond by 10%. Why would you wish to take a position in something as risky as a share if you could get a better return from a savings account where the capital is guaranteed?

VectorVest rates a RV of greater than 1.30 as excellent. RV allows the investor to compare all of the stocks on a consistent basis. Most analysts use the metric Price/Earnings ratio (P/E) to get a handle on value. This is essentially the number of years needed for the earnings stream to pay the share price. This metric has a flaw in that it looks backwards and not forwards. A share with a P/E of 3 can easily look like a bargain in comparison with a share with a P/E of 80 by this measure. In many cases, this is in fact misleading. A friend of mine in South Africa lost his asset management business in this way. He took a big bet on a share he felt was a bargain with a P/E of 3. The share was cheap for a good reason. Earnings were tumbling and the company eventually went under.

RV answers the eternal question of whether it's better to purchase a share with a very high Price/Earnings ratio (P/E) with a high growth rate as compared to a low P/E stock with a low growth rate. Stocks with an RV of greater than 1.00 have favorable price appreciation potential, while those with a RV of less than 1.00 are either glamour stocks selling at a premium, overpriced, have low or nonexistent earnings and low growth rates.

In my humble opinion, RV is the most important fundamental measure on the VectorVest program and in my personal trading and investing. I take the view that the larger the RV the better. RV looks forward while P/E is looking at the past.

In the following, I have assembled a simple and prudent UniSearch that links great stock fundamentals with a strongly trending technical picture. For a measure of a strong trend, I will use the “secret weapon,” the Comfort Index (CI). I also don’t like surprises and have added a Relative Safety (RS) input to minimize these.

Stock Price - (Split Adjusted) $\leq$ Stock Value

RV $\geq$ 1.30

RS $\geq$ 1.00

Stock recommendation = BUY

Sorted by CI Desc.

If I run this UniSearch on the last Confirmed Up which occurred on 11th November 2020, the top 10 selected are up 19.4% as of the 23rd March 2021, which is almost three times the appreciation of the overall market.

Let’s not make this exercise too difficult.

Over the next few weeks, the education department at VectorVest will be running a detailed “Successful Investing Course...Six weeks to Steady Growth.” The course material applies to all the VectorVest markets around the world to which we, in the UK, have full access as a part of our normal subscription. At the end of the course, I will be completing a “Mastery Session” which will focus exclusively on UK shares to add a local flavor to the offering.

2021-04-01

Swing Trading Without Thought or Subjective Input

Although I personally enjoy and spend a lot of my day looking at VectorVest charts and applying technical tools such as moving averages, trend lines and FIB studies, many do not. Technical analysis is an art rather than a science and many of the conclusions and actions of a technical trader are subjective. The learning curve can be steep, but VectorVest can eliminate this angst and make life easy.

I will detail a short-term swing trading system that is performing well in this Essay. It requires no subjective input and when incorporated into the portfolio manager on VectorVest, can be automated to a point where all you must do is process the buy or sell order. Each day VectorVest will email your instructions.

The technique is classified as aggressive, and it will appeal to those people worried that the overall market could be subject to a correction or worse. The technique holds only five stocks and goes into cash when the Market Timing signal is Down.

The technique uses the Confirmed Call method of Market Timing. The rules for Confirmed Call signals are totally objective and defined below. In the UK, the signals are based around the VectorVest proprietary Market Timing Indicator (MTI). The MTI is a momentum indicator which combines the Price, momentum (RT) and the Buy/Sell Ratio (BSR) of the VectorVest Composite UK.

A Confirmed Up (C/Up) signal is given when both of the following occur:

1. Price

- The Price of the VectorVest Composite UK (VVC/UK) has increased five-trading-day-period over five-trading-day-period, for two consecutive five-trading-day-periods.
- The Price of the VVC/UK has increased from the prior day.

2. MTI

- The Market Timing Indicator (MTI) is above 1.00.

A Confirmed Down (C/Dn) signal is given when both of the following occur:

1. Price

- The Price of the VectorVest Composite UK (VVC/UK) has decreased five-trading-day-period over five-trading-day-period, for two consecutive five-trading-day-periods.
- The Price of the VVC/UK has decreased from the prior day.

2. MTI

- The Market Timing Indicator (MTI) is below 1.00.

Upon a Buy signal from the Confirmed Call system, five stocks only are purchased from the swing trade UniSearch detailed below and when a Sell signal is printed, they are sold for, hopefully, a profit. Some bullish Confirmed Call signals last months and years, while others only a few weeks. When the overall market has printed a C/Dn signal, the portfolio is in cash. This helps deep slumber.

In these Essays, I have often written about the Midas Touch technique and the Midas Touch WatchList. The Midas Touch uses a double smoothing technique to reduce the noise and focus on shares that are trending strongly. The Midas Touch uses a 10-day Moving Average (MA) and a 65-day MA of the VectorVest Stop-Loss. The VectorVest Stop-Loss is based on a 65-day MA of the share price and thus the double smoothing. The technique also uses a 40-day MA of the momentum of the share in question which is a 40-day MA of the VectorVest metric Relative Timing (RT).

To get into the Midas Touch WatchList, the 10-day MA of the Stop must be above the 65-day MA of the Stop and both these averages must be charting a three-month high. The 40-Day MA of RT must be above 1.00 and charting a three-month high. The shares on the UK market that fulfill these conditions are listed in the Midas Touch WatchList which can be found by selecting the Viewers tab on VectorVest, then select Go to WatchList Viewer and click on the Cherry- Picking group.

The UniSearch is below. Please use “Time of Search” in each line of code.
Stock WatchList = Midas Touch Stocks

Stocks Average Volume (50 day moving average) $\geq$ 100000 Stock Price (Actual) $>$ 50

Sorted by CI/RT Desc. CI is the Comfort Index and is a measure of the long-term trend of the share. RT is a fast measure of the short-term trend of the share. When CI/RT is high, that's a way of using VectorVest to find shares that are in a strong longer-term trend, but are currently in an oversold position.

CI/RT is not yet a standard field on VVC/UK, so the field needs to be written using the Custom Field Builder and that will be good practice for all reading. Click on Tools on the top right-hand side of the screen. At the top of the pop-up select Custom Field Builder. The process of creating the field is intuitive, but here is a short run through. Click on Fields, Capital Appreciation, then select CI, click on the /, click on Fields, Capital Appreciation, then select RT. Click on Save Changes, click OK and then Exit. Should any problems be encountered, please give support a call on 0800 014 8974. When that's done, the sort on UniSearch can be named as CI/RT Midas Touch.

Stop-Loss levels in any trading technique are always contentious. When the overall market is rising, then the probability of getting stopped out of several of the five shares chosen is low, but it certainly can occur. The VectorVest research department found shares should be held if the RT of the stock stays above 1.00. When the RT of any of the five shares drops below 1.00, they

should be simply sold, and the position replaced with another from the UniSearch.

The next step is to use the BackTester on VectorVest to assess the long-term performance. I was quite pleased with the short-term since the last Confirmed Up signal on the 11th of November 2020. To build the BackTest, the Stop-Loss used was $RT < 1.00$. Also, I asked the program to fill only one of the five positions each day after a C/Up signal. At a C/Dn signal, all were sold.

Since the first C/Up signal in January 2019, the technique has grown an initial £50000 stake into

£92000 pounds with no dividends added. That's a compound annual rate of return of 32%. I will run the BackTester in the accompanying video. Please [click here](#) to see this week's video.

Have a great Easter and the next VVUK Q and A webcast will be on Monday 12th April at 1:30PM UK time.

2021-04-09

Making Smart Decisions When You Don't Have All the Facts

In my talk at the forthcoming VectorVest Financial Freedom Summit on the 16th and 17th of April, I will be presenting my take on how to make good decisions about swing trading in the stock market. I shall be focusing on the role of price action and volume patterns to increase the probability of a successful and profitable trade. The latter are a large part of my personal swing trading plan.

Anyone can place a successful trade. To consistently win at the game of swing trading, it will take a robust and well tested process plus your ability and discipline to adhere to that process. Please endeavor to fully differentiate between the process and old-fashioned luck. The latter is great when lady luck smiles upon you, but don't for a moment think you will get rich in that manner. If you wish to get rich in swing trading (and you can get very rich), then that will only occur with a process that allows you to make quality decisions repeatedly. They will certainly not be all winners, but the winners should exceed the losers, and much more importantly, the amount won should greatly exceed the amount lost.

In my humble opinion, the real secret to developing the discipline to trade well and become a consistent winner will be your ability to get excited, enthusiastic and joyful about your ability to apply the process in your trading plan. With a tried and trusted process, become excited and emotional about your strength and confidence to follow the plan whatever the result. You are now in a place where, on a trade-by-trade basis, the market cannot cause you any pain. You have redirected your personal emotions from the outcome of a single trade (cry or jump for joy) to the joyful experience of a batch of trades.

Measure success by your enthusiasm about the process and the cash will take care of itself.

Let me detail some steps for your consideration in formulating a swing trading process that makes sense to you and is in sync with your personal and unique beliefs about markets.

Stocks rarely proceed upwards in price linearly, but rather in a series of steps. Old hands refer to these steps as “Peak and Trough” progression. In basic form, the swing trader wishes to benefit from the fast move upwards and be well out of the market while the share falls back to long-term support. This ebb and flow of shares and financial instruments was first noted by Charles Dow around 1880.

Swing trading expertise can be used in three main ways within your individual trading plan.

- a. Classic swing trading is buying in at support or shortly after the share starts to move upwards and then exiting the position at a profit target or as the share turns downward. This is probably the option to be used if the leverage of a CFD or spread bet is contemplated. Leverage is cool when the share is going your way, but not so cool when the position is going against you and turns downwards.
- b. Some traders use swing trading knowledge to quantify and pinpoint an elegant entry into a share at a very good level. They then manage the trade as a position trade and ignore the pullbacks and subsequent swings. This is a solid plan for an unleveraged position.

For a successful campaign of swing trades, the following should be in place.

1. Swing trade only in the very best shares. These shares are undervalued by the market and growing earnings strongly and reasonably safely. VectorVest finds these shares in seconds using the UniSearch tool in the program. A UniSearch which uses $RV > 1.30$, $GRT > 20$, $RS > 1.00$ will suffice. I have written about this UniSearch on many occasions in my Essays. Pay particular attention to Forecasted Earnings per Share (EPS). This is normally plotted in

the window below the price. EPS rising strongly over the past year is a leading indicator of positive change in the share price and an essential part of my personal process.

2. The share should be trending upwards strongly. On the VectorVest program, we have a metric known as the Comfort Index, CI, which finds these shares effortlessly. The CI is totally unique, and I refer to it as the VectorVest secret weapon. Adding CI to the UniSearch ($CI > 1.30$) mentioned in step 1 will automatically find those shares with outstanding fundamentals that are trending upwards strongly. That adds enormously to the chances of success in our swing trading operations. My objective is to buy a short-term pullback in a share that is trending upwards. How to finesse this entry using price action, volume of shares traded, and momentum is the focus of my 1-hour presentation.

3. The overall market should be positive and trending upwards. At VectorVest, we have five totally objective Market Timing methods that tell us that it's safe to be in the stock market. On the Home Page of VectorVest, there is a feature known as the Market Timing Gauge that visually informs the trader that it's OK to buy shares. This short-term Market Timing system is referred to as the Green Light Buyer. In Lesson 3 of the Successful Investing Quick Start Course these Market Timing methods are discussed in detail.

4. Money Management and position sizing are critical to success. How to manage the trade in the event of a successful or poor outcome needs to be decided upon well before the trade is placed.

2021-04-16

Beliefs and Common Ground Among Winning Investors

In this Essay, I wish to focus on what it takes to become a consistently winning trader. I started down this path by reading about the methods and characteristics of the big winners in the trading game around the world. When I did this years ago, the answers were confusing to say the least. Below, I have added the following quotes from several famous investors and traders.

“I haven’t met a rich technician.”

—Jim Rodgers

“I always laugh at people who say, I have never met a rich technician. I used fundamentals for 9 years and then got rich as a technician.”

—Marty Schwartz

“Diversify your investments.”

—John Templeton

“Diversification is a hedge for ignorance.”

—William O’Neil

“Concentrate on your investments. If you have a harem of 40 women, you will never get to know any of them well.”

—Warren Buffett

“You have to understand the business of a company you have invested in or you will not know whether to buy more if it goes down.”

—Peter Lynch

“Averaging down is an amateur strategy that can produce serious losses.”

—William O’Neil

“Don’t bottom fish.”

—Peter Lynch

“I believe the very best money is made at the market turns.”

—Paul Tudor Jones

This totally confused me some 30 plus years ago. These guys just didn’t agree on anything. I am sure many reading this will have gone down a similar path. All the above was put into context by the book “Market Wizards” by Jack Schwager around the end of the eighties. He interviewed many of the top traders in the US, including those that I quoted from above. His conclusions were like my own, in that each of the big winners had a radically different trading plan which suited their own personalities and beliefs about markets. Market Wizards is great and a must read.

The path to finding a trading plan that suits your personality and beliefs is a rite of passage in the trading/investing business. It will take a few weeks and/or months to get this into place and it needs to be written down on a single sheet of paper.

A great place to start would be to complete the 5 Successful Investing Quick Start Course which is built into the VectorVest program (click on the Training tab to access the course). In the last session of the course, the new trader (or losing veteran trader) is shown how to put the pieces together into a working plan. Take your time and meditate over this process. It will be time exceptionally well spent.

My own plan is simple, straightforward and based on high VST stocks. Last week’s “Special Presentation” deals with this process in some detail. Please watch this if you haven’t already.

I have written about a simple UniSearch on many occasions to easily find winning stocks, but I know many just work straight from the Stock Viewer. My focus is on shares that are growing earnings strongly and reasonably safely. These shares should be on a VectorVest BUY recommendation and the overall market should be trending upwards. The UniSearch parameters to find such shares are summarized in the following few points. Please note that this is a

more aggressive UniSearch than that used in Worry Free Investing which sorts shares by Relative Safety. For those interested in the Worry-Free Approach, I will be running a series of webcasts on this topic during April.

1. $RV \geq 1.40$ (RV is the price appreciation potential).
2. $RS \geq 1.00$ (RS is Relative Safety which quantifies the safety and predictability of the financial performance).
3. $GRT \geq 20$ (GRT is Earnings Growth Rate in percentage points).
4. Recommendation = Buy.
5. The Color Guard on VectorVest is showing Green Lights with a Confirmed Call printed.
6. I sort these shares by the Master Indicator, VST.

Applied to the FTSE 350, the top 10 stocks from the above UniSearch have doubled the performance of the market since the last Confirmed Call Up on the 11th of November 2020.

In Market Wizards, Schwager concludes that there is no “Holy Grail” to making money in the markets, although my research shows that following the above is as good as it gets. Jack’s book got me thinking that if there is no common ground in how to make money, then what about common ground on the ability not to lose money. Eureka.

“My basic advice is not to lose money.”

—Jim Rogers

“I am more concerned about controlling the downside. Learn to take the losses. The most important thing in making money is not to let your losses get out of hand.”

—Marty Schwartz

“I am always thinking about losing money as opposed to making money. Don’t focus on making money, focus on protecting what you have.”

—Paul Tudor Jones

“Rule 1. Never lose money. Rule 2. Never forget Rule 1.”

—Warren Buffett

“Learn how to take losses quickly and cleanly.”

—Bernard Baruch

“The majority of unskilled investors stubbornly hold on to their losses.”

—William O’Neil

Now I was getting somewhere. Although all these big winners in the market had radically different methods of making money, they all agreed on the importance of how to control their losses. That was the secret.

Learning how not to lose money is more important than learning how to make money.

Learning how not to lose money in the markets is fully discussed in Lesson 2 of the Successful Investing Quick Start Course mentioned above. In Lesson 2 of the course, you will be taught how to accurately size your positions so that only 1% of your account is at risk should the trade go against you.

In my view, to be a successful trader, we need two main characteristics.

First, we need a source of quality information on which to make decisions. VectorVest, and its mix of both technical and fundamental information, fills this requirement perfectly with little fuss. All the calculations are completed effortlessly for over 2000 shares each evening. The data is presented in a fashion that’s easy to understand. Information is only useful when you can easily react to it.

Second, we need the self-awareness to focus on perfect execution of a simple trading plan. A plan where we cut our losers quickly, never losing more than 1% of our equity on any single trade or investment. A plan where we let our winners run and avoid snapping at our winners after a few ticks of profit. A plan where we build a position in our winners by adding to these positions as they break upwards through old highs.

Professional golfers focus on perfect execution of every stroke. They invest heavily in mental training to this end. Special Forces practice and drill this skill so they can perform in the most challenging situations.

Trading and investing are no different.

2021-04-23

Buying the Best Stocks for Your Portfolio

Many say that money management is the “Holy Grail” of trading. It certainly helps and will keep you alive and kicking while you learn the ropes. Learning how to cut losses quickly is vital while riding winners and adding to winning positions is also important, but at VectorVest, we take it one step further. Your best defense is a good offense and that means picking the very best stocks at the outset. With this task successfully completed and adding the basic money management thoughts that I have presented here over many weeks, success is assured.

It is much easier to follow your trading plan if you are in the right stocks. Ride and add to your winners and cut your losses quickly, but a big part of your trading plan, is to make sure you are in the best of the best stocks to begin with. Being in the best stocks will contribute to the two main factors that will increase your profitability. These are hit rate, or winning percentage, and the amount made in a winning trade divided by that lost in a losing trade. Both of these factors will greatly influence your profitability and define the “expectancy” of the system. The latter simply means that your plan, or in trader speak “edge,” will make more money when it’s correct than it loses when incorrect.

Dr. Bart DiLiddo, the Founder of VectorVest, has taught us that “good portfolio management starts with selecting the right stocks.” Just like with a sports team. If you fill the team with great players, just having those great players would help the team do well. So, by filling your portfolio with good stocks, just those good stocks alone would help your portfolio do well. For my portfolio, those stocks are growing earnings strongly and reasonably safely.

Let me share the checklist that you should use when looking for stocks to buy. The “Special Presentation” referenced on the 9th of April will help

illustrate this process and is well worth reviewing before moving on. To view this presentation, please [click here](#).

1. Look for stocks whose price is steadily rising & not volatile.
2. Make sure the company is making money and growing their earnings.
3. You should favor undervalued stocks.
4. Favor safe stocks.

These shares are not volatile, and they are already going up in price. In other words, these shares are already doing what you want them to do. Remember this, what you see in the past is most likely what will happen in the future and that is stocks rising in a smooth and steady fashion.

Unfortunately, most people (including your humble correspondent at times) have been brainwashed into buying falling stocks. The old “2 for the price of 1” strategy has been responsible for bankrupting many at both retail and institutional levels. I have never seen a stock too high not go higher and too low not go lower. Really good stocks usually don’t look back when they start moving upwards.

Earnings Per Share (EPS) growth is the engine that drives the share price according to Ben Graham who was Warren Buffet’s mentor. VectorVest calculates a forecasted EPS which makes this analysis and study very easy for us.

When a company’s earnings are rising, that company can grow. It can put more money into research & development and grow by acquisition. At VectorVest, we have found that companies with rising earnings have stock prices that tend to go higher. Wouldn’t you rather invest in a company that is making money and making more and more money every year?

In addition, at VectorVest, we favor companies that are undervalued. Susan Thornborough, who has been using VectorVest for many years, never wavers on this requirement. This brings a margin of safety into her portfolio and minimizes the probability of a surprise and sudden fall to value. Over time, we’ve found that a stock’s price and its value meet. Most of the time price will

go to meet value. So, you would want to favor stock prices that are below the value. My grandfather used to drum into the family that the only way to make money in anything was to “find the value of the asset and then pay less for it.”

A stock's Value is automatically calculated by the VectorVest program using data summarizing EPS growth, profitability, and many other fundamental inputs. Undervalued stocks offer a higher probability of achieving gains, the potential for very large gains and lower downside risk according to Dr. DiLiddo.

The process to find those undervalued shares that are growing earnings aggressively and safely whilst trending upwards with little volatility is fully discussed in the Successful Investing Quick Start Course which is built into VectorVest. Just click on the Training tab on the main tool bar and all five Lessons will appear.

A great source of detailed information on finding the very shares for your portfolio can be found in Dr. DiLiddo's book “Stocks, Strategies & Common Sense.” The book can be downloaded from the Welcome tab on VectorVest.

Chapter 2 on “How to Pick Stocks,” Chapter 3 on “How to Value Stocks,” Chapter 5 on “Earnings Growth: The Golden Touch” and Chapter 7 on “Stock Safety: The Missing Link” are particularly relevant to this Essay. The entire book is a gold mine of information for those who wish to put the probabilities of success markedly on their side.

Focus on buying the very best stocks. Be strong and fully invested when the overall market is rising and very carefully watch stops like a hawk when it is falling and protect capital at all costs. Spend quality time deciding exactly how you will manage the trade or investment. You should have thought through this process before entering the trade and know exactly where the initial stop is placed and where or how you are going to harvest profits. Please [click here](#) to see this week's video.

2021-04-30

Be Very Careful After a Winning Period

We have had a very good run in the UK market since the Confirmed Call Up of a year ago in April 2020. It has been an excellent year for those using our product. This run of good returns and relatively easy progress has bred slackness. I am aware of it in myself. In the USA during 2020, all my trades just blasted off and never looked back. That was not normal. Over the past few weeks, some measure of normality has returned, but bad habits such as ignoring stops as “The good shares always come back” are prevalent in my discussions with subscribers. If we get a decent pullback or bear market, which sooner or later will occur, these folks will pay dearly for that error of judgement.

“My biggest losses have always come after I have had a great period and I started to think I knew something.”

This quote from winning hedge fund trader Paul Tudor Jones is worth considerable thought over the next few weeks and over the summer doldrums of 2021 into the worrying Autumn period.

The markets have been very kind to us all over the last year, and I know from the national User Group, very kind to most VectorVest subscribers. Long may it last and the seasonality for another move upwards is good.

After a run of winning trades, we change enormously. After a series of winning trades, your pituitary gland gets to work. “Your pituitary gland is about the size of a pea and is situated in a bony hollow, just behind the bridge of your nose. It is attached to the base of your brain by a thin stalk.” After a run of good trades, the gland floods the bloodstream with hormones and the result is a feeling of euphoria. A similar process occurs after a good workout (a different hormone) at the gym.

I know traders who become euphoric after a single winning trade or investment. Certainly after a few, good money-making trades in a row, we all change. Euphoria is often defined by a feeling of invincibility. As these hormones get to work, it's very easy to brush aside the concept of a stop-loss. It's very easy to forget about correct position sizing. I am invincible and I am sure this is a winner. If it's a winner, let's accelerate the process of wealth accumulation and have a big bet. It becomes much easier to justify adding to a losing position while these hormones are in control. In short, this feeling of invincibility is responsible for a host of trading errors.

Most institutional risk managers agree that the biggest trading disasters occur after a run of good luck and they are taught to evaluate the traders under their control for their susceptibility to euphoria. A big difference between institutional traders and retail traders is the risk manager, who although universally hated, polices the process. At the retail level, we are trader and policeman. When the hormones kick in, it's sometimes akin to putting a goat in charge of a cabbage patch.

As I have said here on many occasions, we need two things to make money in the stock market (or any market). We need quality information and certainly VectorVest fulfills that role. We also need self-awareness. The practice to build presence and awareness is never ending. Keep our eyes on the present moment instead of focusing on the past or what might happen in the future. Believe what you see, not what you think. If seeing is believing, then we must learn to accept what we see and simply heed the Color Guard and follow our trading process.

As a start, become aware of your thoughts in your next trade or investment. Observe what you are thinking if the trade goes your way. Observe what you are thinking if it goes against you. Your job is to become optimistic if you have a winner and pessimistic if you have a loser. Honest observation of your thoughts will normally reveal that your thoughts are invariably the other way around. Good traders are always very present people. They are focused on

what's happening now. For us, as end of day traders, the present moment is the daily bar/candle.

The rules of using VectorVest to find high probability trading and investing opportunities are simple and easy to implement. The program does all the heavy lifting associated with the fundamental and technical position of over 2000 shares in the UK and many more around the VectorVest world. These rules and guidelines are presented in the "Successful Investing Quick Start Course" which is built into the VectorVest program under the Training tab on the main toolbar. Please review Lesson 2, which tackles the subject of risk management and position sizing. The course should be repeated several times a year to reinforce the principles and core beliefs.

I have written about the process of finding great stocks for your portfolio in last week's Essay. I will review the three main WatchLists and UniSearch that I use in this week's video.

2021-05-07

Should You Sell in May?

Selling in May and going away is not a part of my personal trading plan. As of the 5 May 2021, the longest measure of the trend of the UK market, is positive and the medium model, the DEW, is also positive for buying shares. The Primary Wave or short-term trend is Down and the advice on VectorVest is not to buy shares currently.

The VectorVest Composite UK (VVC/UK) finally broke above the pre-covid highs in January and since has tested that level twice. As many of you know, I view a double bottom formation after a strong run as a positive technical sign.

On Tuesday, 4th May, the US market suffered a strong down day as Janet Yellen mentioned that interest rates in the US may have to rise. This caused the US stock market to gap lower with tech being the hardest hit. The UK market followed immediately with miners escaping the carnage based on rising metals prices and commodity prices in general. The uptrend is under pressure.

Stop buying shares and watch the stop-losses on your current holdings carefully.

I will analyze the VVC/UK and my holdings in detail at the weekly Q and A session on 8 May 2021 and briefly review the technical picture of both the UK and US markets in the attached video.

For many traders and investors, their emotions and fears influence their trading, and these can often have a negative impact on results. Learning to control, redirect emotions and be disciplined enough to create and use a strategy consistently, is something that I have written about over the past years in this forum. By redirect, I simply mean to focus your energy and get excited and happy about your ability to simply follow the process. Remember, that a big secret of becoming a consistent winner is to separate the process and the outcome. Did you win and make money by following your edge? Or did you get lucky? Any fool can place a winning trade, but few can do this regularly

and consistently. That's what winners do, and it entails following a pre-planned process akin to any other successful business. I have written about how to separate the process and the outcome in the Essay of the 9 April 2021. Please reread.

Also, markets don't like egos. A trader that is influenced by ego rarely admits they are wrong.

Ego gets in the way and causes the trader not to close trades when their strategy dictates that they should close the position. I can think of one celebrated city trader whose ego (two years ago) allowed him to lose his clients hundreds of millions as resource shares bottomed out and he refused to cut his shorts. My late friend Ed Toppel wrote a classic little book on the effects of the ego on market performance. The book is called "Zen in the Markets." Ed was a floor trader in the S&P500 pit and was known on the floor as "Fast Eddie" as he never hesitated. It's a simple and profound read and should, in my humble opinion, be on every trader's desk. It's certainly on my desk.

To build discipline, keep things simple and follow the VectorVest prescription and process detailed here and in the "Successful Investing Quick Start Course" (SIQSC). Your ability to get rich and become exceptionally wealthy from your investments will be directly proportional to the enthusiasm you can muster about simply following the VectorVest process. Take your better half out to dinner when all your rules have been obeyed and celebrate this fact regardless of the outcome. If you do, then the cash will take care of itself. I wrote about a simple process using VectorVest on the 23 April 2021.

I have summarized some simple rules to focus our thoughts for the months ahead.

1. Decide on the amount of cash that you wish to devote to share trading/investing. Few decide on this in advance. As you should know by now, "if you don't know how much cash you have in your account, then you can't size your positions correctly. If you don't size your positions correctly, then you are

gambling and not trading.” How to size positions is covered in Lesson 2 of the SIQSC.

2. An easy and effective way to accomplish this is to divide your cash into ten parts and never put more than 10% into any single investment/trade. Then resolve to follow the VectorVest Stop- Loss without hesitation. I have detailed my personal method of sizing positions in my Essay of the 12 March 2021. It's a method that I have used on each trade since I was taught the simple technique in 1982.

3. VectorVest recommends investing in undervalued shares that are rising in price with little volatility and that are growing earnings strongly and safely. These can be easily found from the Stock Viewer or scanned for by using UniSearch. On VectorVest UK, please click on Training and then click on Navigation Training Series for some excellent training on all aspects of VectorVest including UniSearch.

4. Try not to have any more than 2 shares from any sector/industry. This is a rule that I forgot earlier in the last decade where I was very overweight in construction shares. On that occasion, it worked out fine, but a similar overweight position during the Brexit vote of 2016 would have been a disaster. The market is like Santa. If you don't follow the rules, he doesn't bring you any toys.

5. After purchase, please put your shares into a WatchList and re-sort this WatchList by Relative Timing (RT). Resolve to act on the shares at the bottom of the list when sorted by RT. When you own shares, the only things that matter are whether they are rising or falling in price. Re-sorting by RT places those shares that are rising at the top of the re-sorted list and those that are falling at the bottom. It's the shares at the bottom of the list that require the work.

6. Rest assured your ego will fight you all the way and come up with a dozen reasons why not to simply get rid of Sell rated stocks. A Sell rated stock is where the share price of that stock has fallen below the VectorVest calculated Stop-Price. Tell your ego to take a hike.

7. Your success as a trader will be determined by your ability to simply exit the losers quickly with strong emotions flowing. Those emotions of joy will emanate from the internal knowing that you are following the process and the cash will follow.

Those of you who have traded a little will know that this is more difficult to do than to talk about. Holding on to losers is one of the four big mistakes that losing investors and traders make until they run out of money.

I will hold positions if these positions remain above their Stop-Loss levels and forget about seasonality and rely on the process.

2021-05-14

Selling Is a Crucial Part of Successful Investing

“Selling is a crucial part of successful investing. Yet, it is avoided like the plague. The reasons are clear. Buying a stock is fun, a positive event. It’s the beginning of a hopeful relationship.” From Chapter 10 of “Stocks, Strategies and Common Sense” (SSCS) by Dr. Bart DiLiddo.

Please read Chapter 10 of the SSCS along with this Essay to aid understanding of this most important issue. A plan which dictates when you will exit a position whether it’s a winner or loser is probably the most important part of your trading plan.

Every day I receive emails about when to exit trades. As you all know I am not allowed to give personalized and written financial advice and so my answer is always the same. The exit criteria should be decided upon well in advance as a vital section of your trading plan. Any decision that is not thought out in advance will be taken emotionally and inevitably that leads to mistakes and errors.

The cardinal rule of investing is to keep your losses small. By keeping losses small and allowing winners to run, this ensures a high risk to reward ratio which is essential for a positive expectancy system. This goal can be completed easily with no fuss assuming that the trader/investor has done their homework and focused on stocks that trade with reasonable volume. What is a reasonable volume to you and me, may be quite different from a hedge fund or Mr. Buffett. My first mentor instructed that the 50-Day Moving Average (MA) of the Volume of shares traded, should be more than 20 times your total exposure.

The VectorVest program calculates a Stop-Loss level for every share in the UK database. The Stop-Loss level is based on a 13-week MA of the Price of the share which is adjusted for the fundamental position.

Safe stocks with solid fundamentals should have “looser” Stop prices than those with weak fundamentals. These considerations allow investors to stay with solid stocks longer and get out of weak stocks faster. For this reason, VectorVest’s Stop prices are fine-tuned according to each stock’s safety, fundamentals and price trend.

The VectorVest calculated Stop is an excellent place on the chart to set the initial protective stop and from this information calculate the position size or number of shares to be purchased.

Remember the maximum loss in pounds should be no more than 1% of your account size. I have detailed my personal method of sizing positions in the 12 March 2021 Essay. It’s a method that I have used on each trade since I was taught the simple technique in 1982.

Do you place a hard stop in your trading platform at the level of the VectorVest Stop? This means a spike intraday can trigger the position to be closed, while at the end of the trading day, all is well. Many find this frustrating and for this reason, I monitor my stops on unleveraged positions by observing and obeying the VectorVest Stop on an end of day basis. These are called “mental stops” and I trust myself to action these. If the share closes below the Stop, then a red Sell signal will be clearly seen on my WatchList and, of course, the Genius feature on the program (if setup) will notify via an email. I then exit the next morning.

If I have taken a leveraged bet on any share and presently, I have 5 of these running (on USA shares), then I place the stop on the trading platform. These stop orders are actioned intraday without any involvement on my part. I deem this as essential with a leveraged position.

These methods of placing stops are not advice, but just what has suited me best over the years and they are in my personal trading plan. We don’t trade markets; we trade our beliefs about markets. Yours may be quite different to

mine and I would be surprised if they were not. Your personal trading plan needs to reflect your personal beliefs about markets.

After purchasing some shares, the first and simplest method of managing them is to put the shares that you own into a WatchList. To do this you can click on the Welcome tab and select

“Build a WatchList” to view a short tutorial. Or if you don’t know how to do this, then please call support on 0800 014 8974 and they will help you. It is vital to your success that you can complete this task.

Re-sort the WatchList by the VectorVest metric Relative Timing which defines the short-term price trend of the stock. This will automatically list the shares that are doing well and trending upwards at the top of the list and the shares that are not at the bottom. Your job is to simply get rid of those shares at the bottom of the list. Easy to write, but difficult to do, I know. We have all got a tendency to become optimistic when faced with losing shares (give it another day) and pessimistic when we have a winner. Be very aware of those thoughts and try as best you can to stem their flow. Winning traders become optimistic when they are ahead in a position and quickly pessimistic when they are underwater. I have written about this repeatedly in these Essays.

There are two philosophies in trade management:

1. Scaling out...Here we exit after a relatively small profit. I have worked with several successful fund managers that use this approach. They exit half of the position when they have made as much as they have risked. So, if they buy a share at £10 with a VectorVest Stop-Loss at £8.50, then you have risked £1.50 on each share purchased. When the share moves to £11.50, they exit half the position and raise the Stop-Loss to entry. They then let the remaining half run using the VectorVest Stop as a Trailing Stop-Loss. If we define a successful trade as getting the first half banked and the stop to entry, then the hit rate of this approach is very high. This markedly reduces the frequency of the clusters of bad trades and makes the path much easier to emotionally follow. The real profit is made on the 40 to 50% of trades/investments that keep moving upwards strongly until they are finally stopped. The advantage

of the system is a high hit rate, but the disadvantage is that when the trading gods smile the position is half size. This is an excellent starting point to build confidence and experience, but it could be all that you ever need. In the noise of the US markets as of late where few moves have followed through the trade management method above has worked exceptionally well and saved my bacon on numerous recent occasions.

2. Scaling In...This is my preferred trade management method for position trading and when I am at my best, this is what I do. I add to the position as the position moves my way. This means that I am correct with a large position and wrong with a small position. The downside is that I frequently have large open profits that get eaten up in a pullback which turns into a reversal. This is hard to stomach. Before adding to the position, it is vital that the Stop can be raised to entry. In this way the risk on the 2nd tranche of shares is financed by the paper profits in the 1st. The overall risk should never be any more than the risk on the 1st position. I have added to positions in SLP.L and GAW.L recently. When the share trends strongly, as in the latter two, money comes quick and fast. When the positions fall apart and you have built a large position, it can be mentally tough.

In the above I have assumed a Trailing Stop-Loss as defined by a rising VectorVest calculated Stop. Many will wish to sell into strength and for swing trading over a few days, this is essential. Over the next few weeks, the VectorVest educational team will be addressing this question in a new course entitled "How to Know When to Sell Your Stocks." As you know, I favor price targets based on the Fibonacci sequence and will be presenting that part of the course.

In the course, you will learn about specialized exit stops which can be used for your initial Stop- Loss, as well as, for Trailing Stops and price targets. They will take into consideration the dynamics of the markets. I am looking forward to presenting my section of the material.

2021-05-21

Some Questions to Quantify Before Buying a Stock

In selecting stocks, your primary job is that of assessing information and making decisions when frequently you don't have all the facts. Many investors feel qualified and prefer to analyze raw fundamental data. This is fine if they have the time, resources and skills to produce reliable results, but even the busiest individual with skills can only cover a fraction of the 2000 plus UK stocks on offer. Knowledgeable investors can save time and get excellent results by asking the right questions and using VectorVest to answer these questions totally objectively. For simplicity, I have broken down these questions into three areas:

1. The fundamental position of the company.
2. The technical position of the company. I define the technical position as the study of trends and turning points.
3. The technical position of the overall market.

Overall Market.

How the trend of the overall market is measured I have discussed in these Essays on many occasions and cover Market Timing in detail at each Monday afternoon Q and A session. I will also review Market Timing in the accompanying video to this Essay, although this may change significantly before you receive this on Saturday, 22nd May. Suffice to say that there is a good time to be buying stocks and an awful time. As of 17 May 2021, the Primary Wave, or short- term trend, of the UK market is Dn, while the underlying trend is Up. The advice on VectorVest instructs that it is NOT the time to buy shares.

Fundamental Position.

In property the most important three factors are location, location and location. In stocks they are Earnings, interest rates and inflation. Stock valuations go up when Earnings go up and interest and inflation rates go down. The effect of inflation on share valuations and stock prices has been on every investor's mind over the past month. Some questions to answer.

- Is the company making money?
- What is the stock worth?
- Is the stock over or undervalued?
- How safe is the stock?
- What are its forecasted earnings per share?
- What is its estimated earnings growth rate?
- What is its growth to P/E ratio?
- What are its dividends per share?
- How safe are the dividends?
- How fast are dividends growing?
- Does this stock meet my risk/reward objectives?

I started to trade stocks in 1982 and did utmost to understand the fundamentals of the shares I was following on the Johannesburg Stock Exchange. I totally failed in this endeavor. I didn't have either the knowledge, the time or if I am honest, the inclination. For this reason, from 1984 (when I gave up beating my head against the annual and interim reports) I traded technically alone. It wasn't until I discovered VectorVest and its ability to do all the heavy lifting that I added this dimension into my trading plan. Remember, information is useless unless you can react to that information. VectorVest displays the fundamentals in the following easy-to-use fashion.

Value. A value is calculated for every share in the UK database each day. The valuation methodology is discussed in Chapter 3 of "Stocks, Strategies

and Common Sense” by Dr. Bart DiLiddo. At a glance of the Stock Viewer or by using UniSearch, it is easy to see which shares are under or overvalued. VectorVest favors undervalued shares.

Relative Value (RV). This is a measure of the long-term price appreciation potential of the share relative to what a AAA rated bond will pay you in the same period. RV takes Price, Value, Earnings Growth, AAA rated Corporate bond rates and risk and massages these into a scale between 0.00 and 2.00. A rating of 1.30 and over is regarded as excellent.

Relative Safety (RS). RS is made up of Earnings Consistency, Company size, price behavior, longevity, dividend history and all the vital financial ratios. Again, this is displayed on a scale between 0.00 and 2.00. Above 1.30, the safety of the earnings stream and the financial integrity of the company is excellent.

Dividend history is quoted in three metrics. These are Dividend Yield (DY), Dividend Growth (DG) and Dividend Safety (DS). These metrics are combined into the Master Indicator for income investors known as YSG. This stands for yield, safety of the yield and the growth of the yield. This can easily be built into UniSearch to find candidates for an income portfolio.

The best defense is a strong offense. If you trade in shares with excellent fundamentals and then add a sound trend or swing trading plan, that combination will build an enormous edge in markets.

Technical Position.

To ensure a strong offense, buying shares with excellent fundamentals that are rising in price when the overall market is rising is the core of the VectorVest method. This can simply mean purchasing BUY rated shares with high values of RV and RS when the overall market is rising. This is the basis of the VectorVest Worry-Free Investing plan. In this plan, the VectorVest calculated Stop-Loss is used to locate the initial Stop-Loss, to size the position and then as a Trailing Stop-Loss if the share obeys orders.

Adding several moving averages to the price of the stock is very useful. I use a 21-Day and a 55- Day Exponential Moving Average (EMA) and an 89-Day Simple Moving Average (SMA) to define the trend. If the 21 is above the 55 and above the 89, there is a strong trend underway. Old timers on the floor of the NYSE used to call the point on the chart where all the moving averages crossed a “Bowtie.” The latter is a powerful measure of a turning point. I have used this point as a measure of a trend change successfully for nearly 4 decades. It works.

Stocks rarely rise in straight lines, but rather in a series of steps. Frequently pullbacks in a stock will find short-term support in the “zone” between the 21 and 55 EMA and I will illustrate this in the attached video.

In conclusion, no one knows what is going to happen next on a trade-by-trade basis, but we can load the probabilities so there is a strong breeze at our back.

2021-05-28

History May Not Repeat Itself but It Rhymes

My introduction to the share market started in April 1981. I had just moved to South Africa and found myself sharing an office with an elderly metallurgist who spent most of our employer's time trading on the Johannesburg Stock Exchange. I watched him day after day update his charts by hand taking the data from the newspaper. His charts were a work of art. In October 1982, after watching the old fellow trade for over a year and having saved some cash, I put on my first trade. It was a winner and I have been trading and have been an avid chart watcher ever since.

Thankfully, these days we don't need to update our charts and information systems by hand.

A stock chart allows us to see what's going on in any market as buyers and sellers come together. Mark Twain said that "history may not repeat itself, but it rhymes." Chartists believe that faced with the eternal boundary conditions of fear and greed, the investment community will react and make the same decisions repeatedly. Chartists believe that patterns in the price action have some predictive ability. In the chartist's view, they can be used as an edge in markets. The patterns are subjective and, in many cases, can only be seen in hindsight. The analysis of chart patterns is certainly much more of an art than a science and is best completed in the late evening with a measure of Scotland's premier export at hand.

Some people believe that the markets cannot be timed, but, here at VectorVest, we have been objectively timing the stock markets of the world for over 30 years. There is a good time to be exposed to stocks and an awful time. On VectorVest, the most conservative Market Timing model applied to the VectorVest Composite of the UK tells the trader and investor when exactly to be buying shares and when not to be buying shares. In the words of

Dr. DiLiddo, the founder of VectorVest, “The most important thing to know is whether the overall market is moving up or down. Everything follows from this.” It is my belief (and thus true for me) that being in sync with the overall market is 70% of the exercise in becoming consistent as a trader and investor. As I write on the 26th of May 2021, both the short-term trend and Underlying Trend on VectorVestUK are on a Buy signal and the longest measure of the trend (a Confirmed Call) is also positive for buying shares. The Confirmed Call has been Up since the 11th of November 2020. The latter is an excellent way of defining the major trend in the overall market which ignores short-term noise. The Confirmed Calls are an unbeatable method for investors to be continually in sync with market direction. They are the Market Timing System used for the VectorVest Worry-Free Investing (WFI) method.

I like to keep my stock charts as simple as possible without multiple indicators and the like. I display the Price action in bar chart format, although many prefer candles. In my model stock chart, the Price will be rising with little volatility. Some may find that several Moving Averages (MA) helps define the trend visually and there my 21-day and 55-day exponentially smoothed MAs will help. I also add a third MA of 89-days in duration, but this time around a simple MA. When the 21 crosses above the 55 and both cross above the 89, that marks a very important change of trend. Investing and trading in shares after this crossover (known as a Bowtie) has occurred puts the trader alongside powerful forces.

Above the Price, I usually plot a green line study of the VectorVest Value as I favor those shares that are undervalued. In the window below the Price, I display Earnings Per Share (EPS). It's my view (and more importantly Ben Graham's view) that EPS is the engine that drives the share price upwards. I wish to observe EPS rising from the bottom left of the window to the top right.

On the 19th of March 2021, I wrote an Essay on a delta UniSearch (Explosive EPS Stocks) that can be used to find such shares. I like to search for shares where the EPS has been revised upward recently. For an example of this phenomena, have a look at the chart of Clipper (CLG.L) around January

2021. The step function in EPS preceded the move that has taken place during the past 5 months in the share. Please reread the Essay of the 19th of March 2021 carefully. The UniSearch described finds shares in advance of the share moving. Leading indicators such as this are far and few between.

On the bottom left of any stock chart on VectorVest, there is a dropdown menu which includes all the VectorVest Market Timing systems. If you click on Confirmed Calls, this will populate any stock chart with green and red triangles. These are the Confirmed Call buy and sell signals from the Composite overlaid on an individual stock chart.

Please load the chart of CLG.L and apply the Moving Averages discussed above, EPS and the VectorVest Valuation.

The MAs are positive after a Bowtie in June 2020 which is still in place. EPS is rising from the bottom left of its window to the top right with the steep rise in December. The Confirmed Call has been in place since the 11th of November 2020. Unsurprisingly, the share has risen from 500p to 739p in the last 5 months. I will discuss the detail of the setup in the attached video.

As I have said a thousand times in these Essays, when you tick all the boxes, you get very lucky. The trick for me is to have the discipline to wait until everything is in place and as you all know “doing nothing is much more difficult than it would seem.”

2021-06-04

What's Your Primary Goal in Markets? To Make Money or to Solve a Puzzle?

There are four fears that are at the root of trading errors and mistakes. In order of importance to me, they are:

1. Being Wrong
2. Losing Money
3. Missing Out
4. Leaving Money on the Table

Being wrong and losing money may not pose immediate threats to your existence, but they are major fears. At the VectorVest seminars and webcasts, I introduce this by saying that “Most men over 50 are less scared of death than they are of being wrong and losing money.” I see a lot of heads nodding when I make this remark.

The dynamics of the four fears in your trading/investing manifest themselves in a tendency to trade to be right on your market call, as opposed to trading to make money. The urge to be right is deep rooted and without spending time becoming aware of this, the average trader will start to snap at winners and increase the stops or ignore the stops. They will even start to justify this by making remarks such as “Stops are for buses.”

The most important and basic rules of trading and investing are as follows:

1. Buy low, sell high.
2. Let profits run, cut losses quickly.

3. Add to a winning position, not a loser.
4. Go with the trend.

These rules are simple and are certainly easy to understand. How come then so many of us kill ourselves in the market? What makes it so difficult to follow these guidelines? More than likely, we have repeatedly broken each of these rules and will probably continue to do so, despite acknowledging that we will wind up losers if these simple guidelines are not followed. The answer to this question contains the secret for our future success in the market.

The problem lies not within the rules, but within us as we apply these rules to our investments and trading decisions. The problem is internal, and until we learn to change our perception about what makes consistent money in the market, we will continue to punish ourselves and remain on the losing side of the ledger.

I know I am stressing on this point, but I have been observing retail portfolios for 30 years and it is the reason that many of them end in the red. The ego's need to be right causes the most rational of people to keep doing the wrong thing. You can make a WatchList of the shares that you hold and sort the WatchList by Relative Timing. Keep the shares at the top and cull those at the bottom that are below the VectorVest Stop-Loss. The latter are marked in red. It is that simple, but the ego will fight you all the way. Be warned.

Many seem to be hard wired to hold on to losing positions and start hoping that the market will turn around and reward us for being a little early in calling the correct direction of the turn. More than likely, we hold on to losers until we cannot stand the pressure any longer and rationalize the situation by saying it is not worthwhile getting out now. The old saying that a "long-term position is invariably a short-term trade gone wrong" has a ring of truth to it for many. What makes it so difficult to take a loss of 1% of capital assuming we have done our position sizing sums correctly?

A far worse sin than holding a losing position is adding to a losing position. The share is falling, and we are buying more of it. We are arguing with the market. I am right and you are wrong. We are fighting the trend and sooner or

later will pay dearly for this. In South Africa and Germany, the world's largest mattress manufacturing company fell from a price of 120 SA Rands to 0.70 SA Rands in a few months. I know of many who averaged it the entire way down and lost their life's work in the process.

The market puts us in a contest with ourselves. Here is a small, but very important mental trick that will help you achieve the results that you desire.

When a losing trader has a winning trade, they tend to become nervous, worried, and pessimistic. They stress over the possibility that the profit will be taken away from them in an overnight move or by a poor trading statement. For this reason, they tend to snap at their winners.

When a losing trader has a losing trade, they tend to become optimistic. They are optimistic that the losing position will turn around into a winner. "Give it another day" which turns into "Give it another week."

A winning trader has a completely different mental view of winners and losers. When a winning trader has a profitable trade, they become optimistic that the position will keep rising. When they have a losing position, they quickly become pessimistic and close the position.

On your next trade or investment, pay close attention and become aware of your thoughts. If the position is in the black, then focus on positive optimistic thoughts and practice excluding pessimistic thoughts. If the position moves into the red focus on just the opposite. This will take some practice and work as old, engrained thought patterns have built up considerable momentum over years.

To become a winner at the game of trading, it is vital that you become optimistic in a winning position and pessimistic in a losing position. If you practice that mental switch, then the cash is on its way.

Successful traders manage the downside and know that the upside will take care of itself.

They never give up. Even when faced with a cluster of poor trades successful traders practice cheerfulness in adversity.

Successful traders are always looking for ways to improve their performance month after month.

Successful traders believe totally in the VectorVest edge in the stock market which gives them the confidence to take each trade/investment without fear or hesitation. The program does all the heavy lifting associated with the fundamental and technical position of over 2000 shares in the UK and many more around the VectorVest world. These rules and guidelines are presented in the “Successful Investing Quick Start Course” which is built into the VectorVest program under the Training tab on the main toolbar. Please review Lesson 2, which tackles the subject of risk management and position sizing. The course should be repeated several times a year to reinforce the principles and core beliefs.

2021-06-11

The VectorVest Worry-Free Strategy Has Yielded Over 50% in the Past 13 Months

Several days ago, I noticed a post on the VectorVest Facebook page which read as follows. “What is the best strategy to use if I don’t wish to watch stocks during the day?” Here is my answer in both the UK and USA markets. These are only two markets where I have “skin in the game” and VectorVest is operational.

I would, without reservation, recommend the VectorVest Worry-Free Investing method (WFI) for this role of hands-off trading and investing. The heart of WFI is the proprietary VectorVest metric Relative Safety or RS.

The VectorVest program calculates important and exact data on stock safety each day. This is unique and very hard to find information and that’s because it’s the last thing anybody wants to think about. The program examines the balance sheet, income statement and cash flow statements of companies on both the LSE and AIM. This information is then mathematically massaged on a scale between 0.00 and 2.00. Above 1.00, the stock’s safety is fair and above 1.30, the RS metric is excellent. Even the few credible sources that provide some form of risk analysis, do so subjectively. Consequently, most investors do little more than plug intuition into their investment decisions and for this reason RS is the missing link in consistent performance in the markets.

Knowing how safe (or risky) a stock is can make the difference between making you a winner or loser as an investor. Here are the key factors used by VectorVest in assessing stock safety.

1. EARNINGS CONSISTENCY. The largest risk that shareholders have is that the company fails to meet earnings expectations. Experienced investors know that the moment of truth comes each quarter for every publicly traded

American company. If a company fails to meet analysts' earnings estimates, its stock price could drop sharply in a single day. Therefore, the single most important factor in assessing stock safety lies in quantifying the probability that quarterly earnings will meet investor's expectations. If a company has a well-established record of consistent, predictable earnings performance, it is much more likely to meet the market's expectations.

2. COMPANY SIZE. It is true that the stocks of large companies generally are safer than those of smaller companies. Many fund managers are forbidden to invest in companies with less than a billion dollars in annual sales. Obviously, larger sized companies aren't going to disappear overnight. Investors should not assume, however, that the shares of a company are safe just because they belong to big companies. Size is not nearly as important to an equity investor as knowing where the company's earnings are heading. It is virtually impossible to forecast the earnings of companies in cyclical industries with any degree of accuracy. Therefore, the VectorVest safety ratings on these stocks are below average.

3. PRICE BEHAVIOR. The classic measure of price volatility.

4. LONGEVITY. All other factors being equal, there's less risk in dealing with a company with a long track record than one which is brand new. Young companies offer some of the best investment opportunities, but they also bear potential pitfalls that could be fatal. Regardless of how good a stock looks, it's risky if it hasn't been traded for at least five years.

5. DIVIDEND HISTORY. A company doesn't have to pay a dividend to be called a safe stock. But, if it does pay a dividend, it must maintain or increase the dividend without exception. A cut in dividend is a black eye for any company and reflects poorly on its management and stock safety.

6. There are many other factors including and especially those financial performance ratios that include a measure of debt. These are fully discussed in Chapter 7 of "Stocks, Strategies and Common Sense."

The RS of a stock is the heart of the Worry-Free Investment methodology (WFI). This method has been BackTested over the past 20 years in the US markets and over the last 10 in the UK with excellent results.

The method uses the longest and most conservative Market Timing system on VectorVest to indicate when it's a good time to be in the stock market and when it's time to be careful in the stock market.

The rules are simple, robust, and straightforward.

a. When the VectorVest Composite UK prints a Confirmed Up Call, C/Up, BUY signal, the investor should sort all the shares in the database by RS. In practice, I use a UniSearch in the Searches - Retirement folder named "Long-Term Winners - RS Desc." This brings those shares with the best safety track record to the top of the list.

Recently I have added a single line to this UniSearch which is:

Relative Value ≥ 1.25 . Please add this indicator and save the UniSearch as "Long-Term Winners-RS DESC WFI."

Adding this line finds shares that will grow earnings strongly which will be reflected in the share price over time. The UniSearch finds shares that are making money safely and that are also growing reasonably stronger. This mixture of RV and RS finds some very special companies. These companies should easily outperform the inflation worries that many of us are stressing about.

b. Purchase 10 of the top Stocks from the modified UniSearch. Endeavour not to purchase more than 2 stocks in a single sector of the economy. Use the VectorVest Stop-Loss to calculate position size. When the overall market is rising, the investor should be fully invested.

c. As the overall market is rising, the probability of getting stopped out of a high RS stock is low, but it certainly can happen. If it does, run the UniSearch and replace with another high RS stock that you do not presently own. If the overall market is rising, then it's vital that you are fully invested.

d. Like humans, markets are living entities and breathe in and out. Sooner or later there will be a Confirmed Down Call, C/Dn. When this occurs, there is a much higher probability that even high RS shares will fall. They are resilient, but in a strong selloff, some will retreat. Obey the Stop calculated by VectorVest and simply sell these shares that close below their Stop-Loss. In this case we DO NOT replace, but build a cash position. For example, in a strong selloff, we may have to exit three shares. In this example, the portfolio would be 70% in shares and 30% in cash.

e. When the next C/Up occurs, run the UniSearch and replace those three positions with shares you do not own.

It's that simple. A detailed document on Worry-Free Investing can be downloaded from VectorVest. Click on the Views tab and then on "Special Reports" and scroll down.

Over a 20-year test period in the USA from 1996 to 2016, the WFI method turned 100000\$ into 680000\$ and along the way collected 51000\$ in dividends which were not added. This is a compound rate of return roughly twice that of the S&P500.

Running the modified UniSearch detailed above, the top 10 shares have appreciated by 54% since the Confirmed Up signal on the 27th of April to 27th of October 2020. I will show the UniSearch and the performance in the video below.

Develop the discipline to simply follow the WFI rules and your cash worries are over. If I were managing your money, I would place 80% into WFI and with the remaining 20% apply my swing trading setups with a little leverage to boost returns.

2021-06-18

The Trader's Journey

When you first started to trade or invest, how did you judge your results? Did you measure the results by your profit and loss or did you focus on being correct on your market calls as the route and fast track to wealth?

If you're like most novice traders, you likely had little understanding of the concept of trading expectancy, so you focused almost entirely on your win rate in those early days. You were probably trying to win 80 or even 90 percent of the time.

Very high win rates can be achieved by experienced traders (who trade infrequently) but most who have a high hit rate achieve this by using a system with very wide Stop-Losses or no Stop-Losses at all. They use a wide Stop-Loss or no Stop-Loss and a small target and, in the process, are risking a pound to make 10 pounds. This is not good business.

It's extremely difficult for most traders to sustain these percentages without experiencing several high losses which can wipe out all the gains and much more. On trading floors, this type of behavior is known as "eating like a chicken and pooping like an elephant."

There are two types of capital. The first is the cash and the second is your emotional capital. A big loss can destroy the latter and build a strong negative belief that you are a loser in the investing and trading business.

What might surprise you is that the win rate isn't all that important. In fact, it's the relationship between your win rate and the risk to reward of your trading edge or system that builds your account balance. The risk to reward ratio is nothing more than the amount made on winners divided by the loss on the losers.

Simply put, your trading expectancy is the average amount you can expect to win or lose per trade with your system when a large number (30 minimum) of trades are taken. To calculate your trading expectancy, you need to know

three things - your win percentage, your average win and your average loss. The calculation is as follows.

$$\text{Expectancy} = (\text{Probability of Win} * \text{Average Win}) - (\text{Probability of Loss} * \text{Average Loss})$$

A system which is correct 50% of the time which makes twice as much when it's right than it loses when it's wrong has a strong positive expectancy. If you risk a pound per share bought, then on average you make 50 pence per share on each trade.

At my trading seminars, I always ask the following. Are the casinos in the gambling business? The answers are mixed, but Las Vegas is certainly not in the gambling business. The casinos and the games played there have strong positive expectancy for the house. The house knows to several decimal points what the expectancy is on each game on their floor. It's the punter that's in the gambling business. They are playing the tables with a negative expectancy system and the longer they stay, the more broke they become. This is something you may have worked out on your own.

As a metaphor for your trading business, consider yourself as the casino. Using VectorVest to find undervalued shares that are growing earnings strongly, safely, trending upwards and then buying them when the overall market is rising is a strong edge in markets. It is an edge that the casinos can only dream about. In the attached video, I will show how to apply the VectorVest edge easily and simply to the UK market. It does not have to be difficult.

One of the biggest mistakes that all traders make is that they enter the competitive battlefield that is the markets without a written plan that details their trading edge. Lesson 5 of the "Successful Investing Quick Start Course" will help formulate this.

Day traders usually have a very low risk to reward as the markets only move a relatively small amount in any trading day. They need a high win rate to get ahead and that's why there are so very few winning day traders. Swing traders

who risk a pound to make 2 pounds can build a fortune with a system that's correct 50 to 60% of the time.

Using a position trading strategy, such as the VectorVest Worry-Free Investing method, risk to reward ratios of 5 to 1 are commonplace. With these types of trades, a 40% hit rate will result in a positive expectancy system and some of the wealthiest traders in the world are long-term position traders and trend followers.

What type of trader are you?

Have you a written trading plan?

What's your average loss?

What's your average win?

What's your hit rate?

Have you got a positive expectancy system?

Have you got the discipline to follow the system through periods of drawdown?

If so, like the casinos, you can build a Vegas in your lifetime.

2021-06-25

How to Use the Midas Touch to Pinpoint Opportunity in the UK and US Markets

The Midas Touch WatchList is an excellent place to look for high probability swing trades and investments in both the UK and US markets. The technique cancels out the noise of the market and thus allows the trader to focus on the main trend. The WatchList which I will define later in this Essay can be used on its own or as part of a UniSearch that includes fundamental data.

The Midas Touch trading system uses a double smoothing technique to remove the day-to-day noise. This allows the trader to focus on the long-term trends in any stock or commodity. The Midas Touch system makes use of a 10-day and a 65-day Moving Average (MA) of the VectorVest Stop-Loss. The VectorVest Stop is based around a 65-day MA of the share price. A Moving Average of a Moving Average performs the double smoothing that I referred to above.

I will demonstrate the basics of the technique and its construction in the video accompanying this Essay. The Midas Touch is simple, robust, and as good as money in the bank for us all. The technique uses a 10-day MA and a 65-day MA of the VectorVest Stop and a 40-day MA of the Relative Timing of the share (RT40).

To ensure that strong trending shares are not missed, the program calculates a Midas Touch WatchList. Click on the Viewers tab, then select Go to WatchList Viewer, then click on the Cherry-Picking Folder and click on Midas Touch Stocks. The rules for inclusion in the Midas Touch WatchList are

detailed below. As a default the shares that fulfill the criterion below are sorted by the Master Indicator, VST (Value, Safety and Timing).

- a. The 10-day MA of the Stop price must be above the 65-day MA of the Stop price.
- b. Both Stop price MAs must be making a 3-month high.
- c. The RT40 must be greater than 1.00.
- d. The RT40 must be making a 3-month high.

As of the 22nd of June 2021, the share at the top of the Midas Touch WatchList in UK is Future (FUTR.L). The latter has just broken out of an ascending triangle continuation pattern and looks set to advance in price. The Character Group (CCT.L) and Luceco (LUCE.L) also rate well and are close to the top of the Midas Touch WatchList. They are both trending strongly and rising in price on increasing volume which is an excellent indication of further share movement.

Litigation Capital (LIT.L) also features on the Midas Touch WatchList. The share is trending strongly and recently has retraced to the last significant high point where previous resistance seems to have become support.

In both the UK and US market, I find it a very easy job to find trading opportunities by studying the top 20 to 30 shares in the Midas Touch WatchList.

The VectorVest calculated Midas Touch WatchList is the first interpretation of the technique. Many feel that the 3-month confirmation of the trend is required to enter the WatchList means that they enter the position late in the move.

The second interpretation is simple. When the 10-day MA crosses above the 65-day MA of the Stop Price, a major trend is underway. When the 10-day MA crosses down through the 65-day MA, then the trend has reversed.

A trend change is much more significant if momentum (rate of change of price) is increasing. As we wish to locate and pinpoint a strong long-term

major trend, Dr. DiLiddo used a 40-day MA of the VectorVest RT as the momentum filter. The RT40 is mathematically massaged between 0.00 and 2.00 akin to all other metrics on VectorVest. Above 1.00, momentum is rising.

For a BUY signal from this interpretation of the Midas Touch technique, the 10-day MA of the Stop must cross above the 65-day MA of the Stop and the RT40 is above 1.00.

For a Sell (getting out of a long position) the 10-day MA of the Stop normally crosses down through the 65-day MA of the Stop prior to the RT40 falling through 1.00 and that's my exit signal. So, both measures must display a signal to BUY, but only a single measure to exit.

Please stop reading for a moment and load a 1-year daily graph of Litigation Capital (LIT.L) and apply the Midas Touch template. The latter is found in a menu under Graph Layouts on the top right-hand side of your screen. Over the period, there was a BUY signal as the Moving Averages crossed and the RT40 went above 1.00 at the end of January 2021 which is still running. The share price has gone from 70p to around 110p in this period and the trend is still going strongly. Many have asked how to scan for such signals using UniSearch. The answer evaded us for a long while.

Stephen from London who is one of our Elite members solved the problem and has written a UniSearch to find the entry signal. It requires ProTrader. For a FREE 30-day trial to VectorVest ProTrader, please click [here](#).

The UniSearch is revealed below:

Time of Search...Stock 10-day MA (Stop Price) > Stock 65-day MA (Stop Price)

5 Days Ago...Stock 10-day MA (Stop Price) < Stock 65-day MA (Stop Price)

Time of Search...Stock 40-day MA (RT) > 1.00

Time of Search. Stock AvgVol (50 day Moving Average) >= 50000

Sorted by VST Desc

A knowledge of momentum divergences adds greatly to the power of the Midas Touch technique, especially the latter interpretation. Signals that

occur where there is a divergence between the RT40, and the stock price are a powerful leading indicator of change.

2021-07-02

Keep Your Eye on Market Direction for Large and Easily Attained Stock Market Gains

“The most important thing to know is whether the market is rising or falling. Everything follows from that.” Dr. Bart DiLiddo.

During most of 2020 and the first three months of 2021, I personally booked excellent gains on swing trades in the US markets. Over the past three months these gains have dried up. This is because the overall market in the US has been ranging and the trades simply didn't follow through. Although my ego would beg to differ, the biggest reason for my consistency over the years (as a swing trader and investor) is that my trades and investments were in sync with the trend of the overall market. I was taught this by observation of gains and losses in the mid to late 1980's. Jesse Livermore speaks of the same in “Reminiscences of a Stock Operator” some 100 years ago.

In the UK, VectorVest calculates a Composite measure of the overall stock market. The VectorVest Composite UK (VVC/UK) is an arithmetic averaged index of over 2000 shares that we follow on the LSE and AIM. It is the broadest measure of the UK stock markets that I personally know of. A similar Composite is calculated in all the stock markets of the world where VectorVest has a presence. These are all available as a part of your VectorVest UK subscription.

VectorVest has been timing the markets of the world for over 30 years and have designed objective systems that identify market trends with accuracy and precision. There are long-term systems for investors and short-term systems for traders.

All the systems are totally rule based and require no subjective input. The systems are based on the:

1. VectorVest Composite UK (VVC/UK).
2. Breadth of the VectorVest Composite UK, which is measured by the proprietary Buy/Sell ratio (BSR).
3. Momentum of the VectorVest Composite UK (RT).
4. The Market Timing Indicator (MTI) which combines the trends of the Price of the VVC/UK, the RT and the BSR into a single indicator on a scale between 0.00 and 2.00. The MTI is an important component of the longest-term timing system known as Confirmed Calls.

The output from these timing systems is summarized on the Home Page of VectorVest each day and require no chart reading experience to decipher. The trend situation on VectorVest UK is UpUp as of the 29th of June 2021. The first word refers to the Primary Wave or the short-term trend, while the second word refers to the Underlying Trend. With a smart phone and the VectorVest app, staying on top of the trend of the overall market can easily fit into the busiest of lifestyles. Knowing where the overall market is heading is 70% of the exercise (imho) and vital to your success.

Of course, a chart of the VVC/UK can be loaded with two clicks. Click on the Timing tab on the top left of the Home Page and then on Market Timing Graph and it's done. All the VectorVest Market Timing signals can be overlaid on this chart by making use of the dropdown menu on the lower left-hand side of the chart.

Markets are like us. They breathe in and out. At each turn from an up trending to a down trending market, a similar series of events occurs. The short-term systems record the first change, then the medium-term systems and finally the long-term systems. It's important to your success that you become familiar with the sequence of each turn. In the following, I will describe the Primary Wave (short-term), the DEW (medium-term) and Confirmed Call (long-term) signals.

At most turns from up to down and down to up, they fire in that order. The Primary Wave (Fastest Signal and most aggressive).

The Primary Wave, also called the Primary Trend, is determined by the week-to-week movement of the Price of the VectorVest Composite UK (VVC/UK).

Studies by the research department at VectorVest show that day-to-day movements in the Price of the VectorVest Composite UK (VVC/UK) are not statistically significant. Week-to-week movements, however, are very much worth noting. When the Price of the VVC/UK is higher than it was one week ago, the Primary Wave is Up. When the Price of the VVC/UK is lower than it was one week ago, the Primary Wave is Dn. The Primary Wave provides a relatively fast, reliable indicator of market direction.

When the Primary Wave changes direction, say from Up to Down all investors should use it as a warning signal that the market trend is showing signs of changing from up to down.

The Primary Wave in the UK has been on an Up call since the 24th of June 2021. The DEW Market Timing System (Medium Term swing trading signals)

D...Detrended Price Oscillator (DPO). This a standard Momentum indicator of the Price of the VVC/UK with centre line at 0.

E...Price envelope of the VVC/UK (rarely used).

W...30 day Weighted Moving Average of the VVC/UK.

The ideal Market Timing system should be fast, reliable, and objective. The signals generated by the VectorVest DEW Market Timing system are more reliable than the Primary Wave.

Moreover, the DEW signals are totally objective and easy to identify and very robust in back testing.

Up signals are given when:

1. The Price of the VVC/UK is above the 30-day Weighted Moving Average.
2. The DPO is positive.

3. *If the lower envelope is pierced in a Down wave, the Up signal only requires one of the two prior conditions to be met. (Rarely happens)
Last time was in the crisis in 2020 and before that in the crisis of 2008.

Down signals are given when:

1. The Price of the VVC/UK is below the 30-day Weighted Moving Average
2. The DPO is negative.
3. *If the upper envelope is pierced in an Up wave, the Down signal only requires one of the two prior conditions to be met. (Rarely happens).

The DEW signals are NOT recorded on the Home Page of VectorVest. I will summarize the navigation needed to find these at our next Q and A session on the 5th of July 2021. The DEW signals are excellent swing trading entry and exit points. The DEW on the UK market is currently on a Buy signal and has been so since the 25th of May 2021.

Confirmed Market Calls (Least Aggressive and used in Worry-Free Investing).

Our studies show that a slower, but more reliable signal of market direction than the Primary Wave is obtained by analyzing the two-week movements of the Price of the VVC/UK. When the Price of the VVC/UK goes up two weeks without an intermediate down week, it gives a preliminary signal of a sustainable Up trend. When the Price of the VVC/UK goes down two weeks without an intermediate up week, it gives a preliminary signal of a sustainable Down trend. The VectorVest Market Timing Indicator (MTI) is used to compliment the Price as follows.

A Confirmed Up (C/Up) signal is given when both of the following occur:

1. Price.
 - The Price of the VectorVest Composite UK (VVC/UK) has increased five-trading-day-period over five-trading-day-period, for two consecutive five-trading-day-periods.
 - The Price of the VVC/UK has increased from the prior day.

2. MTI

- The Market Timing Indicator (MTI) is greater than 1.00.

A Confirmed Down (C/Dn) signal is given when both of the following occur:

1. Price.

- The Price of the VectorVest Composite UK (VVC/UK) has decreased five-trading-day-period over five-trading-day-period, for two consecutive five-trading-day-periods.

- The Price of the VVC/UK has decreased from the prior day.

2. MTI.

- The Market Timing Indicator (MTI) is less than 1.00.

Currently, we have an UpUp situation reported on the Home Page of VectorVest UK. The second word refers to the Underlying Trend which is defined by the MTI being greater than 1.00. The Confirmed Call signals do an excellent job of ignoring market noise and keeping the investor in sync with the longer-term of the UK market. The last Confirmed Up Call signal was recorded on the 11 November 2020 and is still in force as of 24 June 2021.

Over the next few weeks and months, please keep a log of the turning points and get familiar with this very predictable series of events. As you know, I will analyze the trend and technical position of both the UK and USA markets at our weekly Q and A meetings in some detail and will illustrate the basis of Confirmed Calls, the DEW, and the Primary Wave next Monday afternoon on the 5th of July.

2021-07-09

The Power of the Comfort Index (CI)

Did you know that technical traders, both retail and institutional, spend days of their valuable time compiling a list of shares that are trending strongly? My definition of Technical Analysis is the study of trends and turning points.

Did you know that at the major trading houses droves of CFA qualified, exceptionally bright young people are employed in the quest for the true Value of a share? The search for the true Value of a share is my definition of Fundamental Analysis.

Imagine that with a few clicks of your mouse a list could be compiled of shares on the LSE that are undervalued by the market, have strong growth potential and are trending strongly upwards. Imagine being able to get the same knowledge as the two groups mentioned above in a few seconds without all the heavy lifting involved.

Well, you don't have to imagine it anymore. Using the VectorVest program, this list can be compiled easily. In these Essays, I have spoken of the ability of VectorVest to place a robust valuation on each share we cover on the LSE and AIM each evening. The mathematics behind the calculations are revealed in Chapter 3 of Dr. DiLiddo's book "Stocks, Strategies and Common Sense."

To gauge the longer-term trend of the share, I make use of a proprietary metric on VectorVest called the Comfort Index (CI). CI is an indicator which reflects a stock's ability to resist severe and/or lengthy price declines. CI is based solely upon a stock's long-term price history. It's a unique measurement in the Technical Analysis world and no one else has anything similar or as effective.

CI is also a measure of a stock's price resistance to market downturns. This index is computed by comparing an individual stock to the up and down

movement of the VectorVest Composite and is cast into a scale of 0 to 2.00. A stock with a CI of 1.00 or greater is more resistant to a downturn in the market, as measured by the VectorVest Composite.

There are many ways of using the CI, but here is a UniSearch that I use each day to keep my eye on the pulse of the market. It's a UniSearch that finds shares with strong growth fundamentals that are also trending strongly. I refer the UniSearch as the DEW Swingers. It's a simple UniSearch with only a few lines of parameters for you to input.

Time of Search - Stock CI - Comfort Index ≥ 1.20

Time of Search - Stocks Rec -(Recommendation) $\neq$ Sell

Time of Search - Stocks WatchList = FTSE350

These shares are then sorted by CI*GRT Desc. GRT is the percentage annualized growth rate of the stock. This provides a measure of both earnings growth and the trend of the share. CI*GRT is not a standard metric on VectorVest UK, but can be generated easily using the Custom Field Builder. The latter is found under Tools on the top right-hand side of the VectorVest program Home Page window. It is quite easy to complete, but I will cover this in the accompanying video. Several traders and VectorVest users (who have presented frequently at webcast events in the UK) have found that the results improve with a different sort. This research points to better results by using CI*RT as the sort as opposed to the CI*GRT that I have used. Please experiment with both in your own work.

I have only used FTSE350 shares in this UniSearch as these invariably have a high daily turnover (making entry and exit without slippage easier) and a low spread between the buying and selling price. An alternative to this approach would be to include the entire market with a volume filter.

The DEW Swingers as the name implies uses the DEW Market Timing System to inform us when it's safe to be in the market and when it is not. I defined the DEW in last week's Essay. The last DEW Buy signal on the UK Market was on the 25 of May 2021 and remains Up as of the 5 July 2021.

A QuickTest from the 25th of May to the close on Monday 5th July shows that the top 8 shares from the UniSearch have appreciated by 10.5% while the market has risen by 3.5%.

The DEW Swingers as the name suggests is a swing trading UniSearch and should buy shares when the DEW starts upwards and exit those positions into cash when the DEW prints a Sell signal. This can be tough going when the market gets whiplashed and much easier to write about than do. Swing traders needs a thick hide on many occasions. However, the results from the mechanical approach of buying the top 5 to 8 shares when the DEW turns Up and selling them when it turns down is extremely difficult to replicate from subjective chart reading.

To help with the emotional peaks and valleys I suggest exiting half the position when you have made as much as the initial risk. The initial risk is defined simply as the difference between the entry point and the VectorVest calculated Stop-Loss. This amount should never be more than 1% of your total account. The following can be used to size the position correctly and once more I will cover this in the video.

Risk/share is the Price Paid - VectorVest Stop-Loss

Number of shares bought (N) * Risk/share = 1% Account size

$N = 1\% \text{ Account Size} / (\text{Risk/Share})$

When you have made as much as the initial risk bank half the position and bring the Stop-Loss to the entry point and then let the second half run using the VectorVest Stop as a Trailing Stop- Loss. Exit all when the DEW turns down.

I have found similar results with this UniSearch in the US markets. I use the DEW Swingers UniSearch in the US to find candidates to swing trade in that market along with the Midas Touch WatchList that I discussed two weeks ago.

2021-07-16

Reminiscences of a Stock Operator by Edwin Lefevre

In the book “Markets Wizards” by Jack Schwager, the author relates the story that all new trading trainees at Goldman’s spend their first morning at work reading “Reminiscences of a Stock Operator,” by Edwin Lefevre. I think you should as well.

Over the last few weekends, I have reread this longtime favorite trading book of mine. I am pleased to note that not much has changed in the 100 odd years since the book was published and that the VectorVest philosophy has much commonality with the approach discussed in the book.

“Reminiscences of a Stock Operator,” tells the story of a young trader named Larry Livingston. The book is based on the exploits of Jesse Livermore. He was known as JL to his friends and as a trader, JL had unparalleled success in the stock market of his day. According to biographer Richard Smitten, the great JP Morgan himself sent a letter to JL in 1907 begging him to stop shorting the market to save the entire banking system.

His personal life was far from perfect, and he was frequently prone to bouts of depression or the “black dog,” as defined by Churchill years later. During his best years, JL cornered the cotton, corn and wheat markets and became a millionaire from trading before he was thirty.

I have been involved with VectorVest for only ten years and this was the first entire reading of the book in that time. I frequently read parts of the book, but last weekend started afresh from Chapter 1. I was surprised that many parts of the JL method were exactly what I have been saying to VectorVest customers and prospective customers in seminars and webcasts over these ten years.

JL started life as a short-term trader, but he changed his tune quite early on in his career. In his own words, “But my greatest discovery was that a

man must study general conditions, to size them so as to be able to anticipate probabilities.” He further said that the big money was in “sizing up the entire market and its trend.” Whether swing trading or position trading, he concluded that success came much easier when the trades were taken in sync with the trend of the underlying market. When reading this, I smiled to myself in that I have been saying the same for seven years now. As you will have often heard at the weekly webcasts, I believe that market direction is 70% of the exercise in becoming a consistently successful trader or investor. The founder of VectorVest puts this exceptionally well in the following:

“The single most important thing to know is whether the market is going up or down. Everything follows from that.”

—Dr. Bart A. DiLiddo

I have written about the VectorVest Market Timing systems in my Essay of the 2 July 2021.

When the overall trend was determined, JL was just as happy on the short side of markets as the long or simply buying shares. Over the last few years, the long side was the place to be, but that will not always be the case. In the periods between 2007 to March 2009 and all of 2000, 2001 and most of 2003, the only way to make money was on the short side. I have noticed myself developing a long only mentality and I have noted that many funds are now touting long only funds. Invariably when this becomes consensus sooner or later there will be a change. Modern markets allow each of us the ability to short without fuss (in a CFD account) and it is something that I personally will be working on in the months and years ahead as the Color Guard and Market Timing systems on VectorVest dictate.

As of July 13, 2021, the short-term trend of the VectorVest Composite UK is Up while all other longer-term measures of the market are also Up. The longest-term measure of the UK market known as a Confirmed Call has been Up since the 11 November 2020. Our Worry-Free Trading system that uses the Confirmed Calls has had an excellent period since this time and long may it last.

JL used both technical and fundamental studies to make his decisions with the general conditions of the market tying it all together. I have been saying the same at VectorVest meetings up and down the country and via webcast. It is essentially what JL was talking about 100 years ago. JL and VectorVest endeavor to use the best of both worlds by using the best parts of both technical and fundamental analysis to make investment and trading decisions.

I define fundamental analysis as the search for the true value of a stock while technical analysis is the study of the share price trends and turning points.

“At VectorVest we favor undervalued shares that are growing their earnings both aggressively and safely, that are rising in price. Those shares should be accumulated when the overall market is rising.”

I think JL would have approved.

If you have not read the Reminiscences, I think that you should. It reads easily and available at most decent bookstores. I am surprised that the story has not been used for a Hollywood movie.

Many large trading floors give the book to newly appointed traders on their first morning at work. I would cast Di Caprio as JL.

2021-07-23

Just Do It

“Plan your trade and trade your plan” is a commonly spouted mantra in the trading world. It’s much easier to write than do I readily admit, but it gets easier with practice. First, you must have a plan which instructs:

1. Is it a safe time to be buying shares?
2. What shares to buy?
3. Where should you place the initial stop?
4. How many shares to buy to ensure no more than 1% of capital is at risk?
5. How to take profits and exit the position?

If you are still struggling with these questions, then consider the VectorVest Worry-Free Investing (WFI) method. The methodology is totally mechanical and has had a great run in the UK over the past years. I will be running several webcasts on the WFI in July and August.

Now you have a plan (your own or WFI) then adhering to that plan is next and, quite honestly, the much harder challenge. It is a bit like becoming a sniper in the army. I could take you to the firing range and show you the rifle. Over a matter of a few hours, I could show you how to clean it, hold it, breathe with it, and become one with it. In a few hours you would be hitting the target 9 times out of 10. Could you still do that if some other SOB is firing back at you? The latter is akin to practice trading with dummy money. The market noise can lead to some errant decision making and to start, please switch off all intraday prices and noise. The screen is not your friend most of the time.

The only way to build the discipline to follow your plan is (as the trainer’s advert goes) is “Just do it.” At least, just do it once. To start, focus on following the plan for just one trade. Just do it once. If you do follow the plan for just one trade, regardless of the outcome, that is a major milestone. The second

time will become much easier. Your future wealth and prosperity are all about this single trade as they appear one by one over the next few years.

One of my favorite trading analogies is by the late and great Mark Douglas in his book “Trading in the Zone.” He tells the story of two salesmen: A bad salesman gets rejected a few times and then has a liquid lunch. A good salesman gets rejected a few times, grabs a cup of coffee, and then goes back to work, knowing that he is getting closer and closer to a sale. Trading is no different. Provided that you have a solid methodology in place, such as WFI, then it is simply a matter of playing the game repeatedly and the cash will take care of itself. Playing the game comes down to perfect execution of this trade with no fear or hesitation and the only way to get there is to “Just do it.”

Don't look to the markets for entertainment. You will find that trading, done properly, can often be quite boring. You spend a lot of time waiting for positions and once you're in them, you'll spend a lot of time waiting for them to work. A good friend and excellent trader often says that “80% of the points come in the last 20% of the duration (time) of the trade.” By this he simply means that after entry the share can hang around doing little prior to exploding higher when most have given up. Just have a look at the LIO.L chart to see an example of this.

As of Tuesday 20 July 2021, the UK market has printed its first Confirmed Down, C/Dn, signal since October 2020. This is the longest and strongest signal in the VectorVest toolbox and needs to be respected. The US market has recorded a similar signal over the past few days.

I have no idea if this sell signal is a manifestation of summer doldrums or heralding the start of a sustained selloff as was the case in February 2020. I suspect it is the former. Here is what I plan on doing:

1. No further purchases on both sides of the pond until the trend situation changes.
2. Watch Stop-Losses carefully. As the markets are pointing down, take Stop decisions mechanically with no hesitation.

3. Raise cash in shares that have not performed during the upswing for cash ammunition to buy stocks when the next upturn arrives.

Markets breathe in and they breathe out just like us. This is an unlikely time of the year for a sudden selloff, and I admit that the summer doldrums scenario is the most likely. An event such as the reemergence of the Delta Covid variant can change that scenario quickly and the situation in highly vaccinated Israel is a worry to financial markets. As always, no one knows what's going to happen next. Not me, not those chaps writing in the pink newspaper and certainly not that fellow who jumps up and down on the TV each afternoon. All we can do is perfect a trading plan that suits us and develop the resolve and discipline to follow it. Trade by Trade. "Just Do It."

2021-07-30

My Most Often Asked Question Answered

On Monday last I was asked a question that comes up repeatedly at seminars and workshops. “Why do we have a “B” rating on GAW.L, when its Price is significantly greater than its Value?” It’s a good question, one that’s come up many times over the past 10 years.

Four conditions must be met for a stock to get a “B” rating:

- 1) Its Price must be greater than its Stop,
- 2) Its short-term Price trend must be up, i.e., Relative Timing, RT, must be greater than 1.00 on a scale of 0.00 to 2.00,
- 3) Its VST-Vector, VST, must be greater than 1.00 on a scale of 0.00 to 2.00, and
- 4) Its Price must be rising faster than its Stop.

Games Workshop (GAW.L) is a good example of this and it’s a stock that I personally hold. Even though GAW.L closed at £118 per share on Monday 26th July and VectorVest listed its Value at £78 per share, GAW.L met all these conditions, so it got a “B” rating. How can that happen when it is so overvalued?

The answer lies within VST, our Value, Safety, Timing indicator, which incorporates Relative Value, RV. “RV is an indicator of long-term price appreciation potential. GAW.L has an RV of 1.42, which is excellent on a scale of 0.00 to 2.00. This indicator is far superior to a simple comparison of Price and Value because it is computed from an analysis of projected price appreciation three years out, AAA Corporate Bond Rates, and risk.” Chapter 6 of Dr. DiLiddo’s book, “Stocks, Strategies & Common Sense,” gives a step-by-step explanation of how the difference between Price and Value, Risk and Earnings Growth are used in computing RV.

This information is combined with our indicators for Relative Safety, RS, and Relative Timing, RT, using a vector formula to compute VST, our Master Indicator. Although RV, RS and RT for GAW.L were all above 1.00 as of Monday 26 July 2021, it is important to understand that it is not necessary for RV and RS to be above 1.00 for a stock to get a “B” rating.

The bottom line, here, is that a comparison of Price and Value indicates that GAW.L is currently overpriced, but its RV of 1.42 indicates that it has favorable price appreciation potential. It is a perfect example of what I feel Dr. DiLiddo was thinking about when he made the title of Chapter 6 of his book, “High Growth vs. Low P/E Stocks.”

How can a share be trading well above its Value and still have a RV of 1.42 I am asked repeatedly? I explain this very simply. If the share price stays at its present value and the earnings are booked at the rate VectorVest anticipates for GAW.L (GRT = 25%), then at some time in the 3-year window GAW.L will be significantly undervalued. So, the share in simple language has run past the current valuation, but over a 3-year horizon, there is plenty of upside. Games Workshop has been very kind to me and I have added to the position three times since March 2020. The share took a knock on Tuesday 27th July after reporting earnings growth as forecast on a negative day for the overall market. I am unperturbed for the moment.

When I was new to both VectorVest and the UK market away back in 2012, Ted Baker (TED.L) was striding upwards. I was new to the overall VectorVest method. I wanted to buy TED.L, but never did because its Price was well above Value. As time went by, I encountered many other hot stocks (e.g., FEVR.L) and many more on the US market that were just the same. They were overpriced, but just kept going higher and higher in price. Finally, I realized many of the shares I wanted to buy were stocks of companies with good business models and sky-high earnings growth rates.

RV analysis now makes it easier for me to see which of these stocks I would consider buying. If Price was greater than Value and RV was well above 1.00 (I use a minimum value of 1.25 in my UniSearch), I would now consider buying

it although I knew it was selling at a premium price. I also knew that these stocks were in high demand and savvy investors were willing to pay for the promise of strong future growth.

Buying high RV stocks with reasonable earnings safety (RS) that are on a BUY recommendation when the overall market is rising is a sure way of making money and getting rich. Investing in growth shares is an exciting way to build wealth for hands on traders and investors.

Investing in strongly growing shares with a short track record will take more focus and dedication than the Worry-Free Investing Method (WFI) which only invests in shares with a high RS. High RS reduces the probability of a surprise or earnings miss. It will also take much more discipline as an earnings miss can cause a large and sudden price drop. A moment of weakness on stops in growth stocks with a low RS that report a shortfall in profits will be severely punished.

If you want a quiet life and few surprises, then resolve to follow the WFI.

In my trading plan, I devote 70% of my resources to the WFI plan and the remainder to higher risk swing trading in growth stocks and commodities which I firmly believe are in a strong growth phase.

2021-08-06

The D Word Once More

The Worry-Free Investing (WFI) method is simple and robust, but it's not the method that makes the money, it's the ability of the trader to follow the method that makes the money. The D word is discipline and I offer no apologies for writing about the D word frequently. Short-term trading systems will require more D than the WFI system and that's why the WFI is a great place to start.

The best methodology in the world is useless if you don't have the discipline to follow it. We are rewarded for perfect execution of the system and those with the experience of trading will know that this is much easier to write about than do. Whether it's a relatively aggressive swing trading system or the more passive WFI system, it is execution of that system that's vital to success.

We seem to have been hard wired by our creator to be poor at this job of trading and investing. As I keep saying at our webcasts, when it's time to buy, you won't want too. When it's time to sell, you won't want too. Please meditate on the last two sentences. They are very important to your success in this line of work.

There are many people on the internet that would like to sell you a system for many thousands of dollars that does not require the discipline that I write about. Be wary of these people. At best, they don't know enough to know they know nothing, and at worst, are total scoundrels.

US-based trading coach Brett Steenbarger reckons that the problem in following a simple set of trading rules starts because the person who plans and initially places the trade or investment is not the same person who manages the trade. This makes a lot of sense to me as I have witnessed large swings in trader personalities before placing the trade and during the trade on many occasions over the years. Another mind he says has taken over.

During planning of the trade/investment, the stage is static and the fears of being wrong and losing money, that I have detailed here many times, are not in play. We primarily use the left brain which is the analytical part. All is crystal clear at this point, but once the trade is active and the markets are open, all changes very quickly indeed. Anyone who has experienced this will attest to the increase in emotion as the daily candle jumps up and down and the financial news websites are full of good and bad news. Steenbarger makes the point that at this time when the decisions become more emotionally charged that we make these decisions with the older brain, known as the reptile brain. Steenbarger argues that there is a different person at the helm.

At the trade planning stage, the emotions are clarity, optimism and enthusiasm, but after entry, these can change to fear of loss, fear of a small profit disappearing, fear of being wrong again and even boredom. There cannot be anyone reading who has placed even a single trade who will not have felt this change in emotion.

Becoming aware of the change is the first step in solving this problem and getting to the point where we can simply follow our rules.

You get better at making good decisions by making good decisions and, like press ups, you have got to get the reps in. It will take a batch of 30 reps to get this process correct and that's the end point of all the courses I present for VectorVest. In any course that I present, I challenge all the delegates to complete 30 trades without changing the initially agreed rules.

It's the same process that anyone using the Worry-Free Investing Method or any VectorVest trading method should use. It's vital that you complete the exercise as otherwise all the training, reading and effort is academic only.

1. Get your trading systems setup and boiled down to a few rules. These clearly show detail entry, stop, position sizing and managing the trade.
2. Before starting, make sure that you have mentally followed the rules for many imaginary trades. Gary Player, the golfer, to my best knowledge first wrote and spoke about his visualization techniques to improve his golf. Run a perfect trade through your mind frequently from start to

finish. Mentally rehearse the move and rehearse what you will do if the market decides not to cooperate with your trade setup.

3. Resolve to follow those rules for a batch of 30 trades. I am happy that you start on a demo or simulated account. The biggest fear is being wrong and for most that fear easily initiates the emotional response that Steenbarger refers to.
4. Spend some quality time practicing “mindfulness” and being present. I recommend purchasing “Practicing the Power of Now” by Eckhart Tolle. Becoming present and focusing on this moment alone will help keep the analytical mind at the helm. Becoming and working on being “present” has helped my personal training and many other aspects of life greatly. As Rudyard Kipling said “If you can keep your head when all around you are losing theirs, etc.”
5. Rarely does it take 30 trades. Somewhere between 8 and 13 trades, the inner resistance will cease. Unfortunately, few people make the journey to 13 trades with the same set of rules.

You are 8 to 13 trades away from the trader you wish to become.

2021-08-13

Prospecting for Swing Trade Opportunities Using the Midas Touch WatchList

Over the past few months, I have been focusing on the Midas Touch WatchList on VectorVest UK and especially VectorVest US to locate trading opportunities. This is where I found ANAT recently, a share that I have never heard prior to studying the WatchList for a few minutes. The trade in ANAT has been excellent with the share being subject to a takeover as announced on the 9th of August.

The Midas Touch (MT) technique was first used to trade the USA Gold Mining Index and thus the name. The technique finds big winners quickly and easily. It's a lightning-fast method of knowing What to Buy, When to Buy and When to Sell.

This amazing cherry-picking technique gives us the ability to find stocks that are rising in strong trends and that have the strength and persistence to keep rising in price.

The MT uses a double smoothing technique to eliminate short-term price noise and easily show the direction of the main trend.

"I never pick a stock without it...I use the Cherry Picking with the Midas Touch method to select 100% of the shares I buy." Dr. Bart DiLiddo.

On VectorVest, there is a pre-prepared chart layout which, if selected, will automatically load the Midas Touch layout on each chart. In the following, I will define the construction of the layout in point form. Also, there is a PDF document on the technique which can be downloaded from VectorVest. Click on the Views tab and then "Special Reports" on the top left-hand side of the

page. There is a list of the many “Special Reports” that have been done on the technique over the years.

1. The MT technique is based on a derivative of the VectorVest Stop price. Each evening the program calculates a Stop-Loss level for each share in the database. The VectorVest Stop is based on a 13-week Moving Average (MA) of Price adjusted for the fundamentals of the share. Shares with excellent fundamentals are given more room to move.

2. The program calculates a 10-day and a 65-day MA of the Stop price. This is the double smoothing of the Price data. When the 10-day crosses above the 65-day MA of the Stop price, a major trend is underway. When the 10-day crosses down through the 65-day average, then the trend has reversed.

3. A trend change is much more significant if momentum (rate of change of price) is increasing. If you are in your car and speeding up, there is a higher probability that the car will keep going forward than if you are slowing down. As we are on the hunt for a strong long-term major trend, Dr. DiLiddo used a 40-day MA of the VectorVest RT as the momentum filter. The RT (40) is mathematically massaged between 0.00 and 2.00 akin to all other metrics on VectorVest. Above 1.00, momentum is rising.

The technique is particularly useful in confirming price action at major turning points in a share or an overall market. Often at these major turning points, price action is difficult and subjective to discern. Frequently the turning points are easier seen on the RT (40) than on the price data. A VectorVest subscriber from Oxford has spoken at our national User Group about the power of the RT (40) and I hope to have another presentation from him on the technique before the end of the year. I have presented an entire course on swing trading with the Midas Touch and intend to rework that course during the remainder of 2021.

As discussed, the program calculates a MT WatchList. Click on the Viewers tab, then click on WatchList Viewer and select the Cherry-Picking group, then click on Midas Touch Stocks. The rules for inclusion in the MT WatchList are detailed below. The shares are then sorted by the Master Indicator, VST.

- a. The 10-day MA of the Stop price must be above the 65-day MA of the Stop price.
- b. Both Stop price MAs must be making a 3-month high.
- c. The 40-day RT must be greater than 1.00.
- d. The 40-day RT must be making a 3-month high.

Over the past few months, I have been speaking about KAPE.L and FUTR.L at the Monday afternoon Q and A webcasts. I found these shares from a weekly inspection of the MT WatchList. At present, my focus for a new position is on TUNE.L. The share is a part of the list and has excellent VectorVest growth fundamentals and has just broken out of a “cup and handle” pattern. I will be addressing this pattern in our national UK User Group (SWIC) next Wednesday, 18th August.

Swing traders and especially traders employing the leverage of a spread bet or CFD will need to finesse an elegant point to join the fun. A pattern such as the “cup and handle” is an excellent way of pinpointing an exact entry point. The Stochastic Indicator is another way to help with this task and as a picture is worth a thousand words, I will illustrate how to use the Stochastic Indicator in conjunction with the MT to pinpoint a precise swing trade entry point in this week’s video. Please [click here](#) to watch the video.

2021-08-20

An Important Period to Focus on Market Timing

The US market is rising and making new highs after a twelve-year run. The breadth of the market is falling, and this divergence is never good news. Any pullback in the US will be felt in the UK. I am fully invested in the UK and riding the trend for as long as it keeps going.

However, I am watching the Market Timing signals from VectorVest carefully each day and I think you should too.

“Sell in May and go away until St Leger Day.” The St Leger for those uninformed is a horse race run at Doncaster and it is run around the middle Saturday of September each year. The gist of the seasonality is that its best to exit the market in May and sit in cash until after the race has been run.

The results of such an action over the past 30 years is inconclusive with no advantage to selling in the summer. This year (2021), the VectorVest Composite has risen over this period and the trader/investor would have missed out. The emotion of missing out is painful. The only thing worse than you not making money is that the loud fellow at the club, has.

This annual cycle is far from alone. Cycle analysts use many cycles and will always have a cycle that fits the past perfectly. Choosing which cycle that will fit the market into the future is impossible, although, there are many who will tell you and sell you courses, that state they can. The market cannot be predicted on a trade-by-trade basis. There are just too many factors and random events, such as Covid, to make this even remotely possible. Just remember, it's not what you don't know that gets you. It's what you do know that's just wrong that gets you.

Fortunately, at VectorVest, we have many sophisticated, but pragmatic tools to measure market direction. We take our lead from the master itself (the market) and follow it up and down.

Market Timing is important all year around, but becomes vitally important as the investment world gets back from their summer break after the US Labor Day holiday.

My belief (as you all well know) is that defining market direction is 70% of the exercise in becoming a consistently winning trader and investor. I started defining overall market direction very early in my investing career as I noted that when the indices reflecting the overall market were up, my positions were also up. In those days, I charted by hand using an engineer's drawing board and a draftsman's black ink pen. When you chart by hand, the cross-market relationships are formed easily and deeply in your mind.

In those days, to measure the sentiment of the stock market, I used the S&P500 as my yardstick. A weekly chart of the cash price was used in conjunction with a 50-week moving average. Two consecutive closes above the 50-week were a sign that it was safe to buy stocks and two closes below the same average was danger. Markets are like a fairground roller coaster. They take a long while to climb and then fall very quickly. The two closes above the average proved to be a reasonable entry, but the two closes below the average proved a late exit. I changed that in the end to a single close below the 50-week average, but even that was slow.

The VectorVest method of Market Timing gets over the lagged signals from a moving average system by studying the price, momentum, and breadth of the VectorVest Composite (VVC). The VVC is an equally weighted index of all the shares that we follow on the LSE and AIM. There are various signals for differing types of traders from short-term spread betters to long-term position traders.

On the Home Page of VectorVest, there are two words that define the trends of the London markets. As of 16 August 2021, these are UpUp. This means the Primary Wave (short-term trend) is Up, while the Underlying Trend is

also Up. At every turn, pretty much, the same series of events takes place and I urge you to follow these signals carefully. I will detail the sequence of events as a Down market turns to an Up market. Clearly the short-term signals will fire ahead of the longer-term measures. Small boats turn more quickly than aircraft carriers.

Let's assume the overall market is in a freefall. At that point, the trend situation will be DnDn. As above, this means that the Primary Wave is Dn, and the Underlying Trend is also Dn. It's a poor time to be buying shares and that will be the advice offered by VectorVest just below the traffic light on the Home Page of the program. Sooner or later, there will be a turn upwards and when that occurs the VectorVest signals will show it clearly. No guesswork or planetary aspects are required. I will discuss the signals as they appear in my engineers point form.

1. The Primary Wave turns Up. The trend situation is now UpDn. For this signal to print, the VVC/UK should close above the close from five trading days ago.
2. If the change in direction proceeds, the next signal will be shown in the Price column of the Color Guard which is just below the traffic light on the Home Page of the program. The Color Guard is simply a table of the Price of the VectorVest Composite, the momentum of the VectorVest Composite (RT) and the Buy/Sell Ratio (BSR). If you see a green light in the Price column (first from the left), that means that the VectorVest Composite is higher day-over-day and week-over-week. The Green Light Buyer signal is a fast measure of the turning point and should be used by short-term traders to dip their toes into the market.
3. If the turn upwards keeps going, the next signal is a Green Light in the Price column of the Color Guard, as before, but in this instance the Green Light has a black star within it. The Green indicates that the Price is up day-over-day and week-over-week, but this has been confirmed by momentum (RT) also rising. In the background, the program is running two Moving Averages (MA) on the RT of the Composite. If the short

MA is above the longer MA, the RT is rising, and the program records this fact with the black star. It's known as the RT Kicker. A Green Light confirmed by the RT Kicker is a strong signal that the reversal is getting much stronger and becoming a much safer bet to buy into. These signals are totally objective in nature and no chart reading skills are necessary.

4. Next up in the sequence of the turn is the DEW Market Timing system. It's not shown on the Home Page of VectorVest, but is a very powerful and robust medium-term trading system. Akin to all systems that work, the rules are simple and straightforward. To find the DEW please load a Market Timing Graph and apply the ProTrader DEW layout from the menu on the top right side of the chart.
5. D is the Detrended Price Oscillator (DPO), E are Price Envelopes and W is a Weighted MA. When the VVC/UK closes above the default MA and the DPO is above its centerline, that's a DEW buy signal. When the VVC/UK closes below the MA and the DPO is below its centerline, that's a sell signal. Very simple and robust as it should be. The DEW signals can be shown on the Market Timing Graph and indeed any chart by using the dropdown menu below the chart. If you have any difficulties finding this, please call support on 0800 014 8974. I use and recommend using the DEW for medium-term swing trades on both the UK and US markets.
6. Next in the sequence, the Underlying Trend turns upwards, and the trend situation will be summarized as UpUp. If you again load the Market Timing Graph and, on this occasion, please load the VectorVest MTI layout. The MTI is a very special indicator which combines the Price of the VVC/UK, the momentum of the VVC/UK (RT) and the BSR into a single line study. As with all other VectorVest metrics, it's massaged between 0.00 and 2.00. When the MTI is greater than 1.00, the Underlying Trend is Up. When it's below 1.00, the underlying trend is Down.
7. The last and most conservative signals on VectorVest are known as Confirmed Calls and they print a signal when the Underlying Trend is

confirmed by Price action. If the MTI is greater than 1.00 and the Price of the VVC/UK has increased five-trading-day-period over five-trading-day-period, for two consecutive five-trading-day-periods and from the previous day, that defines a Confirmed Up signal. If the MTI is below 1.00 and the Price of the VVC/UK has decreased five-trading-day-period over five-trading-day-period, for two consecutive five-trading-day-periods and from the previous day, that defines a Confirmed Down signal. These signals are used by conservative traders and investors in the Worry-Free Investing method. Although they are the longest-term on VectorVest, they respond much quicker to market events than my moving averages mentioned above. The Confirmed Call signals are the Market Timing system used in the VectorVest Worry-Free Investing method.

At each turn, the same sequence of events take place. At this potential turn, observe and make friends with the signals as they occur. This knowledge will make you a lot of money over the next few years.

2021-08-27

Keep Your Analysis Simple and Robust

Many say that money management is the “Holy Grail” of trading, and it certainly helps. Learning how to cut losses quickly is vital, while riding winners and adding to winning positions is important. At VectorVest, we take it one step further. Your best defense is a good offense and that means picking the very best stocks at the outset. With this task successfully completed, much of the money management will take care of itself, especially if these stocks are accumulated when it's safe to be exposed to the stock market. Last week in the Essay, I looked in detail of how VectorVest tells us objectively when it's safe to be in the market and when it is not. Let's focus on that Essay and on finding the very best stocks for your portfolio.

It is much easier to follow your trading plan if you are in the right stocks. Ride and add to your winners and cut your losses quickly, but make sure you are in the best of the best stocks to begin with.

Dr. Bart DiLiddo, the founder of VectorVest, taught me that “good portfolio management starts with selecting the right stocks.” Just like with a sports team. If you fill the team with great players, just having those great players would help the team do well. So, by filling your portfolio with good stocks, just those good stocks alone would help your portfolio do well.

Let me share the checklist I use when looking for stocks to buy.

1. Look for stocks whose price is steadily rising & not volatile.
2. Make sure the company is making money and growing their earnings.
3. Favor undervalued stocks.
4. Favor stocks with a safe track record of making money.

These shares are not volatile, and they are already going up in price. In other words, these shares are already doing what you want them to do. Remember this, what you see in the past is most likely what will happen in the future and that is, rising in a smooth and steady fashion.

Unfortunately, most people have been brainwashed into buying falling stocks and fall into this decade's old trap. I have made this mistake many times over the years. The old "2 for the price of 1" strategy has been responsible for bankrupting many at both retail and institutional levels. I have never seen a stock too high not go higher and too low not go lower. Good stocks usually don't look back when they start moving upwards.

Earnings per share (EPS) growth is the engine that drives the share price according to Ben Graham who is Warren Buffet's mentor. VectorVest calculates a forecasted EPS which makes this analysis and study very easy for us. I like to display EPS in a window below the price plot and will illustrate my normal chart layout in the attached video. A smoothly rising EPS is an enormous edge in markets which invariably causes Buy rated stocks to keep trending higher in price.

When a company's earnings are rising, that company can grow. It can put more money into research & development and grow by acquisition. At VectorVest, we have found that companies with rising earnings have stock prices that tend to go higher. Wouldn't you rather invest in a company that is making money and making more and more money every year?

In addition, at VectorVest, we favor companies that are undervalued. Over time, we've found that a stock's price and its value meet. Most of the time price will go to meet value. So, you would want to favor stock prices that are below the value. My grandfather used to drum into the family that the only way to make money in anything was to "find the value of the asset and then pay less for it."

A stock's value is automatically calculated by the VectorVest program using data summarizing EPS growth, profitability, and many other fundamental inputs. Undervalued stocks offer a higher probability of achieving gains,

the potential for very large gains and lower downside risk according to Dr. DiLiddo.

The process to find those undervalued shares that are growing earnings aggressively and safely whilst trending upwards with little volatility is fully discussed in the Successful Investing Quick Start Course which is built into VectorVest. Just click on the Training tab on the main tool bar and all five Lessons will appear.

A great source of detailed information on finding the very best shares for your portfolio can be found in Dr. DiLiddo's book "Stocks, Strategies and Common Sense." The book can be downloaded from the Welcome tab on VectorVest.

Chapter 2 on "How to Pick Stocks," Chapter 3 on "How to Value Stocks," Chapter 5 on "Earnings Growth" and Chapter 7 on "Stock Safety" are particularly relevant to this Essay.

The entire book is a gold mine of information for those who wish to put the probabilities of success markedly on their side. It's very easy to make the process of making money on the stock market exceptionally complicated. Buying the very best stocks when the overall market is rising cuts through this complexity. Accumulating Buy rated stocks that are growing earnings strongly and safely when the overall market is rising is all we need to prosper.

2021-09-03

Why Do We Hesitate to Take a Position after a Losing Trade?

I have written about discipline in trading many times over the past few months. As the FED and the central banks of the world start to rein in the injection of cash into the economy it can easily cause a pullback.

As of the 1st of September, the trends of the UK and USA markets are Up. In the UK, all the VectorVest Market Timing systems are positive while in the US the longest-term measure of the trend (Confirmed Call) has not yet turned Up.

If a change should occur it has a habit of taking place after the US Labor Day holiday. A 10% pullback in the S&P500 (this will make its way across the Atlantic to the FTSE 100 in a nanosecond) would be entirely normal. As you will read, many forecasters are pontificating on much more. If such an event does occur, then it will be your job and my job to stay in the moment to follow our rules on exiting positions. This will protect our gains over the last 17 months and preserve our capital. This will take discipline. Remember “when it’s time to sell you won’t want too.”

In trading seminars, I can see the delegates nod off as I mention the subject of trading discipline. I have heard it said that you have got to lose a lot of money before a typical trader concludes that they may be a part of the problem. In my experience, this is not far from the truth. Don’t let that happen to you.

A disciplined technical approach **REQUIRES** that you strive to have **NO OPINION**. You must be free to trade on one side of the market one day and willing to be on the opposite side the next if your approach warrants it. Without that freedom and flexibility, your style can be compromised much

to your disadvantage. Virtually, every mistake you make psychologically is caused by having an opinion on the markets. It is best to trade on the assumption that your opinion (not your trading plan) is worthless. Think about it. The only opinion that counts is your position in the market. That position is quantified exactly and objectively by the VectorVest technical and fundamental metrics. Relative Value, Relative Safety, Relative Timing, Earnings Per Share, Comfort Index and the VectorVest Recommendation are my go-to indicators to quantify the position of a stock in a 30 second look.

In my first institutional trading job, the desk head used to say, “Take off your opinions of where the market is going when you hang up your coat in the morning.” When we feel that we know what’s going to happen next and it does not, then a wave of pain arrives. Many of you will have experienced what I have just written. This pain is responsible for many trading errors.

All trading pain can be removed by really, really believing that in one trade anything can happen. Remember that the VectorVest edge does a great job of predicting the future over a batch of trades, but cannot predict what’s going to be the outcome of any single trade or investment. If you are correct 80% of the time, then you are wrong 20% of the time. On the next trade, you don’t know whether it’s one of the 80% or one of the 20%.

In contrast, the amount that we believe that we can predict the outcome of any one trade will be directly proportional to the extent that we FAIL as a trader. The expectation that we know what’s going to happen next is the source of all trading pain. Many people start to trade and invest knowing very little about the market and do very well.

In the beginning of their trading career, they have no expectation of being able to predict the market as they know nothing and have little experience. After a few months of trading, they slowly become gurus and now feel confident to predict the future on a trade-by-trade basis. Slowly the pain starts, and they find that trading errors of hesitation and picking trades start to surface.

The most common trading error is that of hesitation and picking trades. Our minds have two design characteristics:

1. Associate one moment with a previous moment.
2. To avoid both physical and emotional pain.

This is how we have been wired to learn from our experiences and mistakes and it works well in most areas of life. If you put your hand on a hot stove plate as a child, it hurt. For the rest of your days when your hand gets close to something hot you relive that childhood experience and very quickly elect to move your hand away to avoid the pain.

This programming gets in the way while we are trading. If we start to trade with any system, let's say the first trade is a winner and the second a winner, sooner or later a bad trade is going to come along.

If we believe that we know what's going to happen next and, for most traders, this is the reason they put the trade on in the first place, then the loser is accompanied by PAIN.

The next trade comes along. When it's time to execute, our mind remembers the pain associated with the bad one. The mind is wired to avoid pain, so we find ourselves hesitating. In many people, this can be very subtle and subconscious. We have been hard wired not to be very good at this.

When a problem threatens to engulf you, there is nothing like irrelevant detail to keep your head above water. There are many internet predators that survive by finding traders in this mode late at night on the net and offer "the secrets to 99% winning trades" at 3000 a pop.

There is no method out there which can predict the market with anything approaching 100% accuracy. There are just too many variables around for that to happen.

Am I saying that we should forget about working on our analysis?

Of course not. Once we realize (and firmly believe with every fiber of our being) that at the level of one trade that the market cannot be predicted, we

can certainly work hard to get a better overall edge. But remember, that the best analysts are normally the worst traders imaginable. They believe with normally an arrogant smirk that they know exactly what is going to happen next and when it does not, they sit in the position like lobsters in a hot pot.

Successful trading is about the perfect repetition of a simple process which should be set out on a single page document. Our job is to focus on perfect execution of the process and to make the very best trades. If we focus on the process, then the cash will take care of itself. If you have not got a trading plan, then please consider the VectorVest Worry-Free Investing method. I will be presenting two webcasts on this during September.

2021-09-10

Two Important Considerations on Your Path to Exponential Growth in Your Wealth

1. How long will it take to double your money? Here the rule of 72 is very useful. The rule is to divide 72 by the annual rate of growth of your portfolio and the result will give you the time that it will take to double the initial investment. It is an approximation, but for most cases, perfectly acceptable. In my swing trading, I have a target of a 40% return on my account. It will thus take $72/40$ years to double my initial stake. Once I have a method of doing this then the next question comes to mind.

2. Can the process be scaled? Although many of us can dream up a way to double a tiny amount of money, it becomes much more difficult as the stake grows. All business plans, investment and trading plans rely on a way of making your money grow and then repeating the process. Pure Gym is an example in the UK. From a single profitable unit, they have scaled to 500 gyms and a 1.5 billion valuation by repeating a process. Wetherspoon pubs has done the same. Some of the wealthiest people have acquired their money through investment or through owning businesses that could be successfully scaled up over time. They have achieved exponential growth.

Using the VectorVest Worry-Free Investing (WFI) plan, we have a proven and simple process that delivers positive returns on the London Stock Exchange with very little effort. This process can be scaled quite easily by focusing on shares with a high daily turnover or maybe more simply by analyzing only the highly liquid FTSE350 stocks. For most retail investors, the WFI process applied to FTSE350 will allow the portfolio to be scaled easily

without an upside limit. This simply means that position size can be increased as the account size grows. We have now achieved exponential growth. All we need to do is to follow the process exactly. That's the discipline part I frequently refer to. I hope the following will help.

"The more I practice the luckier I get."

—Gary Player.

When I first went to South Africa in 1981, I rented a cottage on his farm outside Johannesburg, and I heard the great golfer repeat these words many times in person.

Making money in the stock market isn't a game of chance and it has nothing to do with your age, background, or sex. Money is made consistently by a mixture of knowledge, skill, and discipline. I define discipline as the ability to simply follow the rules of a simple, but robust and proven trading plan repeatedly without deviation. This, as you may have discovered, is much more difficult to do than to write about.

When you start on the path to financial independence by investing and trading in stocks, many friends and family members can sneer. It's like gambling they will say. In gambling, the odds are stacked heavily against you and the longer you stay in the casino, the more broke you become. In contrast, the stock market allows us to engineer a plan where the odds are stacked in our favor. In a way, we become the casino, and like the casino, play the game with an edge. The VectorVest method of trading stocks by combining the following three aspects is an enormous edge. They are:

1. Fundamental position of a share (the study of value, earnings growth, and safety).
2. Technical position of a share (the study of trends and turning points).
3. Technical position of the overall market.

These three aspects of share selection and market timing are fully discussed in the Successful Investing Quick Start Course which is built into VectorVest under the Training tab on the main toolbar. Buying stocks with outstanding

fundamentals that are rising when the market is rising is simple, intuitive, and proven over many decades.

Lesson 5 of the course is all about putting together a trading plan that suits you. Dr. DiLiddo, founder of VectorVest, has written a book entitled “Stocks, Strategies and Common Sense” which will help with the construction of your business plan. That’s what it is, as trading is a business like any other. The book can be downloaded from the Welcome tab on VectorVest.

Some decisions will have to be made when constructing your blueprint for success. If you try and become a value stock trader, growth stock trader, swing trader and day trader all at the same time, then there is a high probability of confusion and poor discipline. I don’t know of anyone who has excelled by becoming a jack of all trades in any walk of life. For most of my trading life, since 1982, where I have actively traded stocks, commodity futures, bonds, and forex at both retail and institutional levels I have been a swing trader. My typical hold was from a few days to 8 weeks. To become a master at anything, it’s my view that you need to be focused and specialized. However, swing trading is much more difficult to scale. The signals come quickly, and liquidity can be difficult especially if leveraged trades are employed.

If you are new to investing, then please start with the WFI. It’s simple to apply and it works. I will be running two webcasts on WFI during September 2021.

When you have chosen a trading approach which reflects your beliefs about markets, there will be times where the overall market cycle suits your system, and you will be well rewarded. There will also be times when your system is out of sync with the market and, in this time, you will underperform. Value investors have underperformed over the past few years, but their day will come in due course.

If you are a short-term swing trader and exit out of a stock for a good profit and then the stock triples that should be of no great concern to you. Similarly, long-term position traders will frequently have a good profit and give it back in the quest for a share that triples in price. In my humble opinion, the key

is to focus on a particular style and once you decide on this style, the detail defining it. Once that's decided and committed to paper then the discipline to follow it will more easily be attained. Discipline will be attained only through practice and only by perfect practice. To be a winner, you need to focus on a single style and become a master in its execution.

“I fear not the man that has practiced 10000 kicks once, but I fear the man that has practiced one kick 10000 times.”

—Bruce Lee

Exponential growth of your wealth should be the core of your ideal business model.

2021-09-17

When to Leave the Party

Like a social engagement, the trick of the trade (or party) is to arrive fashionably late and leave just before the police arrive.

This week's Essay should be read along with Chapter 10 of Dr. DiLiddo's book "Stocks, Strategies and Common Sense" (SSCS) per the Welcome tab and Lesson 2 of the "Successful Investing Quick Start Course" (SIQSC) under the Training tab.

If you pick the best stocks to begin with, then life will be much easier. Following your trading plan if you are in the right stocks becomes less stressful as it eliminates the frequency of clusters of bad luck (see the Essay of 18 May 2018 for more information). So, ride your winners and cut your losses, but make sure you are in the best of the best stocks to begin with. LIO.L and KAPE.L are an example of such shares. These shares are undervalued and growing earnings strongly and safely. The Earnings Per Share (EPS) plot over the past year is rising from the bottom left to the top right of the window. Over the past year, forecasted EPS has risen from 74p to 108p for LIO.L and that's the engine that's driving the share price upwards. For KAPE.L, forecasted EPS has risen from 10p to 20p in the same period. Both shares are discussed each Monday afternoon at the UK Q and A session.

In 1982, I first started to trade in the share market. At that time, armed with a sheet of graph paper and a 3h pencil, I hand charted the shares I was following and calculated a 25% trailing stop-loss. I used this in the South African market for many years. Its advantage is that it ignores short-term pullbacks and thus keeps the investor in the larger trends which is where most of the money is made. It was also easy to calculate.

The VectorVest program calculates a Stop-Loss (Stop) level for every share in the UK database. The Stop is based on a 13-week Moving Average of the Price of the share which is adjusted for the fundamental position of the share.

Safe stocks with solid fundamentals should have “looser” Stops than those with weak fundamentals. These considerations allow investors to stay with solid stocks longer and get out of weak stocks faster. For this reason, VectorVest’s Stops are fine-tuned according to each stock’s safety, fundamentals and price trend. Over the past 11 years, I have replaced the 25% trailing stop with the VectorVest calculated Stop.

Old hands reading this will have the experience to formulate their own rules. Here are what I suggest for new investors and those who are maybe unhappy with their performance.

1. Invest in only the very best stocks. I detail these in the Worry-Free Investing webinars which I run twice each month.
2. Decide on a Market Timing method that informs when it’s safe to be in the market. For most, the Confirmed Call method will be optimal especially for position trades. Swing traders can consider the DEW Market Timing system.
3. Use the VectorVest calculated Stop to size the position so as no more than 1% of your capital is lost if the trade/investment moves against you. My Essay of 12 March 2021 illustrates the calculation needed with a practical example. This is a vital step. If you don’t size your positions properly, you are gambling and not trading.
4. Let’s assume that the position moves your way, as most of them will, if all the SIQSC boxes are ticked. As an initial suggestion, when you have made as much as you have risked, then exit half of the position. Bring the stop on the second half of the position to entry. In theory, some money has been made on the first half and no cash can be lost on the second half of the position.
5. When the VectorVest calculated Stop has a value above the initial entry point, trail the stop upwards behind the price. Eventually you will be stopped out of the position.
6. There is a chasm between writing down a simple set of rules and following them. The discipline to follow your rules can be easily attained, but

few achieve this level of mastery. To build the discipline, it's necessary to take deep breaths and focus on a batch of trades. If you can follow the rules for somewhere between 8 and 13 trades, then something amazing occurs between your ears as you create new neural pathways inside your brain. The paradox is that when you have built trading discipline you really don't need that much of it as all the decisions flow smoothly.

By following the above or your own version of the above, the hit rate should be high as defined by taking profits on the first half of the position. This constant positive emotional input will make trading and investing fun. By contrast, allowing winning positions to turn into losers can be tough to handle. Many traders find it impossible to handle and thus never get to 8 to 13 trades without messing up and changing the rules.

Stocks tend to move upwards in a series of steps or swings. Traders, and especially those employing leverage, will find it very difficult to handle the pullback within a trend.

Let's address where swing traders should consider banking the 2nd half of the position. As with all the thoughts on exits, it's impossible to get it correct on each trade. A robustly profitable set of rules that suit your beliefs about markets over a batch of trades is the best that you can hope for. This will take some work on your part. Please keep the concepts simple as perfect execution is vital to your success. It's easy to make mistakes when the bar is jumping around, and the tweets are flying.

1. Many swing traders will target the last old high. Certainly, a share will find solid resistance at an old high before moving higher and that's because of the traders exiting at this point. At the next UK Q and A session on the 20th of September, I will briefly show how swing traders use the FIB ratios to pinpoint exit points beyond the last swing high. KNOS.L will be used as an example.

2. Moving averages can be used to lock in profits. In the SIQSC, a 40-day Moving Average is suggested. Please review this lesson in detail.

3. In the BackTester on VectorVest, there are many ways of exiting a position available for test. Have some fun with these and especially the latest

addition known as the ProfitLocker Pro Stop. This uses volatility to calculate a Trailing Stop-Loss which weaves a fine line between letting winners run and at the same time protecting open profits. It's a very exciting development and at our National User Group meeting in October we will have a presentation from the VectorVest champion of the Profit Locker Pro, Mr. Steve Chappell. This looks to be a "gamechanger" for swing traders and position traders.

2021-09-24

Technical Analysis. The Study of Trends and Turning Points

A month ago, I was conducting a VectorVest webcast which was focused on the Worry-Free Investing methodology. In the webcast, I mentioned the term Technical Analysis of the stock market. Although I use this term frequently, I have found from many subsequent emails from that event and other similar events that quite a few attending did not have a notion of what I was talking about. Let me try and clear up this confusion. At VectorVest, we study both the technical position of both individual shares and of the overall London market. Our objective is to buy rising shares in rising markets.

Martin Pring defines the term Technical Analysis well in his excellent text “Technical Analysis Explained.” He writes that Technical Analysis is the study of share price trends and turning points. As mentioned in the last paragraph, at VectorVest we wish to buy into shares that are trending upwards when the overall market is trending upwards. That may seem simple (and it is), but there are many in the market being punished by buying into shares when they are falling. The 2 for the price of 1 has bankrupted more traders than any other mistake.

Over the past few years, several very experienced traders that I know well have lost millions of dollars short selling S&P500 futures (betting the market will fall) in a market that was rising.

Picking tops and bottoms is a big ego game and, as I have written here before, “top and bottom pickers become cotton pickers” sooner or later. Swim with the stream. Over the past few days, I admit, they have got some of their money back.

In Technical Analysis we can measure 3 aspects of the share price action of any stock.

1. Price trend.
2. Momentum (speed) of the Price.
3. Volume of shares traded at that Price.

On VectorVest, there are two measures of the trend of a share. RT (Relative Timing) measures the short-term trend of the share on a scale between 0.00 and 2.00. Above 1.00, the share is rising and the further above 1.00, the faster the share is rising. CI is the Comfort Index, and this metric measures the longer-term trend of the share, again on a scale between 0.00 and 2.00. Once again, above 1.00, the longer-term trend is rising and the further above 1.00, the faster this is rising. In detail, the CI is an indicator which reflects a stock's ability to resist severe and or lengthy price declines.

These two metrics of RT and CI can be easily used within UniSearch to find strongly trending shares in seconds with no chart watching required or needed.

My first institutional desk head used to say that he had never seen a share trending upwards (above a 200-day moving average in his analysis) that had gone bankrupt. Similarly, the probability of a share with a high CI going to the wall is low.

As of the 20th September, Kape Tech (KAPE.L) has a RT of 1.47 and a CI of 1.68 showing that both the short-term trend and the longer-term trend are positive with both the short-term and long-term measure of the trend very strong. This objective analysis lends itself to clean and strong decision making. No chart watching is necessary for those who haven't the time or simply just don't like charts.

Over the years, I have written many times about the fundamental measures on VectorVest. These are Value, Relative Value (RV) and Relative Safety (RS). KAPE.L is undervalued with a RV of 1.75 and a RS of 1.33. KAPE.L is a share where the fundamental position and the technical position are both in

excellent shape. What is more, the share was analyzed objectively in less than 30 seconds. I remain a happy shareholder. I have completed a video on how to analyse any stock in 30 seconds. Please click [here](#) to see this week's video.

As of the 20th of September, both the fundamental and technical position of KAPE.L are excellent, but the technical position of the overall market is far from positive. Remember it is my belief that the overall market is 70% of the exercise in becoming a consistent winner in the stock market. Before any purchase, tick all three boxes. The Color Guard on VectorVest on the 20th says it clearly. VectorVest does not advocate buying stocks at this time.

On VectorVest 7, we have access to all the commonly used technical studies (RSI, Stochastics, MACD and Moving Averages) to measure both price and momentum visually. It is simple to design and save a template or several templates that can be applied at a click to any share. I discuss the advantages and drawbacks of using many of these in my Monday afternoon webcasts. Recently, I have covered how to use the Stochastic Indicator to quantify the momentum of a share in two-time frames (daily and weekly).

My standard template contains the share's VectorVest calculated Valuation (plotted in the same window as a candle plot of the share price) and Earnings Per Share (EPS) plotted in a window below the Price. I use this template which can be viewed on the VectorVest UK blog page each Thursday.

In short-term swing trading, I also include a window which displays the volume of shares traded. This is exceptionally useful in swing trades that last from 3 to 21 days. If you struggle to create and save templates, then please give support a call at 0800 0148974 and they will quickly sort that out for you.

I have spent years studying volume traded and its interpretation, relying heavily on the work of a technical analyst of yesteryear named Richard Wyckoff.

A Bull market is characterized by stock prices rising on increased volume and pulling back on falling volume. Shares rarely rise linearly, but rather chart a series of steps. In a Bull market, these steps should chart a series of rising low points. A pullback on falling volume to a rising low point means that the Bull

market is intact and that we are, in fact, with a pullback and not a change in trend. This gives me confidence to buy into a pullback within the overall trend after confirmation of a low by way of a positive candle pattern.

Many people say that volume leads price, but, in fact, it is the lack of volume that causes the share price to rise. Why would anyone buy a share at 10 pounds if it were freely available at 9 pounds? Only if the supply at 9 pounds is no longer available will anyone pay 10.

For prices to rise, the volume at the lower price must be zero at the exact point of a turn. This may only last for a few minutes. In the futures markets that I traded in the past, every day for a living, the volume traded on the FT100 futures would dry up for around 30 minutes at each significant turning point.

A pullback in a share with a strong CI that has good fundamentals ON LOW VOLUME (assuming a positive general market) is a strong buying opportunity. Remember the mantra. We wish to buy rising shares in rising markets. For the swing trader, a slight pullback on falling volume can finesse an excellent low risk entry into such a share. Once again, I try and cover these topics on a Monday afternoon and presented some of the Wyckoff material recently at the International User Group hosted by Mr. Stan Heller of VectorVest Canada.

2021-10-01

Swing Trading Success

Typically, swing trading involves holding a position either long or short for more than one trading session, but usually not longer than several weeks or a couple of months. The goal of swing trading is to capture a chunk of a potential price move. Successful swing traders are only looking to capture a chunk of the expected price move, and then move on to the next opportunity.

In most texts and courses, swing traders primarily use technical analysis, due to the short-term nature of the trades. However fundamental analysis can be used to considerably enhance the analysis. If a swing trader sees a bullish setup in a stock, they may want to verify that the growth fundamentals of the asset look favorable. This is the cornerstone of the VectorVest approach.

Combining fundamental analysis and technical analysis adds considerably to the profitability of the VectorVest swing trading methods as presented by myself and in much more detail in the VectorVest “Trade like a Pro” course which is being offered presently. Please [click here](#) for more information or to register.

The financial objective of swing trading is to generate a 1 to 5% return on your account per trade, while keeping drawdowns as low as possible. This is done by risking a maximum of 1% and targeting moves with a reward of 3 to 5 times this initial risk.

Swing trading methods have become a popular alternative to trend following methods. In position/trend following systems, the investor/trader sits and endures normal pullbacks within the trend. This is uncomfortable and difficult for many emotionally. For example, trend traders will be sitting in a pullback in LIO.L now and probably stressing a little. Although these pullbacks are a natural part of a share price rising in a series of higher lows, they are uncomfortable periods and extremely difficult with the leverage of a spread bet. Leverage magnifies the emotions and if you don't believe me,

please try and experience these emotions for yourself. Most leveraged traders using spread bets, CFDs, and futures are swing traders.

As cost of trading has decreased and spreads between bid and ask prices have narrowed, swing trading has become the mainstay of active traders and hedge funds, Wall Street banks and now quant funds. My rules for swing trading are as follows.

1. Is the overall market rising or falling? In swing trading, I use the DEW Market Timing system.
2. A view is formed on a share via the fundamentals. Here I focus on strong earnings growth and price appreciation potential (RV) with a fair record of earnings safety (RS).
3. The investment is only made when a trend develops in the right direction. There is no attempt to find a bargain in a falling share. Don't be a hero and buy into a falling market. I mainly use the Midas Touch WatchList to find shares that are trending strongly.
4. A decision is made on the size of the investment and the stop-loss necessary within the trade entry setup employed. I use three main trading setups only. I have discussed these in a recent VectorVest UK National User Group meeting on the 18th of August 2021. The "Trade like a Pro" course details proven methods used by the world's best traders and investors in a multi week series of presentations. Please [click here](#) to view the webinar.
5. If the position becomes unprofitable, the position is not increased. There is no attempt to average down.
6. The position is cut if the price falls to the stop-loss level.
7. The position is cut if the fundamentals change for the worse.
8. Scale out of winning trades. I exit half the position when the profit is equal to the initial risk. At this point, the stop-loss is increased to the initial entry point. The second half of the position is allowed to run. When the VectorVest Stop rises to above the entry point, the stop-loss is adjusted upwards to trail the price. I give the second half of the position lots of room

to make the target. Many argue that I give the second half much too much room. Experiment and decide on how to trail the stop in a way that suits your objectives.

9. Simple technical analysis is used to pinpoint a target using mostly Fibonacci extensions of the past pullback. I will illustrate how to graph these in VectorVest in the accompanying video as a picture says a thousand words.

2021-10-08

An Excellent Opportunity to Hone Your Market Timing Skills

Over the past two weeks we should all have seen that determining the overall market direction is paramount to our success as investors and traders. As I write on Wednesday 6th October, both the short-term and Underlying Trend of both the UK and USA markets are down. The advice on both sides of the Atlantic is to sit on hands and watch stops carefully.

The risk appetite is low on the 6th of October with headwinds from the rise in oil, Evergrande debt spiraling into a Lemans moment and the USA congress squabbling over the debt ceiling. Personally, again as I write, I have moved into cash with over 50% of my account.

In all the markets that we follow, VectorVest calculates a Composite measure of the overall stock market. The VectorVest Composite UK (VVC/UK) is an arithmetic averaged index of all the shares that we follow on the LSE and AIM. It is the broadest measure of the UK stock markets that I personally know of. A similar Composite is calculated in all the stock markets of the world where VectorVest has a presence.

VectorVest has been timing the markets of the world for over 30 years and has designed objective systems that identify market trends with accuracy and precision. There are long-term systems for investors and short-term systems for traders. This is an excellent time to review these systems as the turning points from the present down market back to a positive market for buying shares occurs in a very predictable way.

All the systems are totally rule based and require no subjective input. The systems are based on the:

1. Price of the VectorVest Composite UK (VVC/UK).
2. Breadth of the VectorVest Composite UK which is measured by the proprietary Buy/Sell Ratio, BSR.
3. Momentum of the VectorVest Composite UK, Relative Timing (RT).
4. The Market Timing Indicator (MTI). This is a composite momentum indicator which combines the Price of the VVC/UK, the momentum of the Price of the VVC/UK, RT, and the breadth of the VVC/UK, BSR, into a single line study which is mathematically massaged between 0.00 and 2.00. The MTI is an important component of the longest-term timing system known as Confirmed Calls.

The output from these timing systems is summarized on the Home Page of VectorVest each day and require no chart reading experience to decipher. The trend situation on VectorVest UK as I write is DnDn. The first word refers to the Primary Wave, or the short-term trend, while the second word refers to the Underlying Trend, or the longer-term trend. With a smart phone and the VectorVest app, staying on top of the trend of the overall market can easily fit into the busiest of lifestyles. Knowing where the overall market is heading is 70% of the exercise and vital to your success.

Of course, a chart of the VVC/UK can be summoned with two clicks. Click on the Timing tab on the top left of the Home Page and then on Market Timing Graph and it's done. All the VectorVest Market Timing signals can be overlaid on this chart by making use of the dropdown menu on the lower left-hand side of the chart.

Markets are like us, they breathe in and out. At each turn from an up trending to a down trending market, a similar series of events occur. The short-term systems record the first change, then the medium-term systems and finally the long-term systems. It's important to your success that you become familiar with the sequence of each turn. Please make careful notes of the turning sequence as the overall UK market bottoms out from this selloff. From the present low, sooner or later the following sequence will take place. This is a great place to start honing your Market Timing skills.

1. The Primary Wave turns Up. The trend situation is now UpDn. For this signal to print, the Price of the VVC/UK should close above the close from five trading days ago.

2. If the change in direction proceeds, the next signal will be shown in the Price column of the Color Guard which is just below the traffic light on the Home Page of the program. The Color Guard is simply a table of the Price of the VectorVest Composite, the momentum of the VectorVest Composite (RT) and the breadth of the VectorVest Composite (BSR). If you see a green light in the Price column (first from the left), that means that the VectorVest Composite is higher day-over-day and week-over-week. The Green Light Buyer signal is a fast measure of the turning point and can be used by short-term aggressive traders to dip their toes into the market.

3. If the turn upwards keeps going, the next signal is a Green Light in the Price column of the Color Guard, as before, but in this instance the Green Light has a black star within it. The Green indicates that the Price is up day-over-day and week-over-week, but this has been confirmed by momentum (RT) also rising. In the background, the program is running two Moving Averages (MA) on the RT of the Composite. If the short MA is above the longer MA, the RT is rising, and the program records this fact with the black star. It's known as the RT Kicker. A Green Light confirmed by the RT Kicker is a strong signal that the reversal is getting much stronger and becoming a much safer bet to buy into. These signals are totally objective in nature and no chart reading skills are necessary.

4. Next up in the sequence of the turn is the DEW Market Timing system. It's not shown on the Home Page of VectorVest, but is a very powerful and robust medium-term trading system. Akin to all systems that work, the rules are simple and straightforward. To find the DEW, please load a Market Timing Graph and apply the ProTrader DEW layout from the menu on the top right side of the chart.

D is the Detrended Price Oscillator (DPO), E are Price Envelopes and W is a

Weighted MA. When the VVC/UK closes above the default MA and the DPO is above its centerline, that's a DEW buy signal. When the VVC/UK closes below the MA and the DPO is below its centerline, that's a sell signal. Very simple and robust as it should be. The DEW signals can be shown on the Market Timing Graph and indeed any chart by using the dropdown menu below the chart. If you have any difficulties finding this, please call support on 0800 014 8974. I use and recommend using the DEW for medium-term swing trades on both the UK and US markets.

5. Next in the sequence, the Underlying Trend turns upwards, and the trend situation will be summarized as UpUp. If you again load the Market Timing Graph and, on this occasion, please load the VectorVest MTI layout. The MTI is a very special indicator (as described above). When the MTI is greater than 1.00, the Underlying Trend is Up. When it's below 1.00, the Underlying Trend is Down.

6. The last and most conservative signal on VectorVest is known as Confirmed Calls and they print a signal when the Underlying Trend is confirmed by Price action. If the MTI is greater than 1.00 and the Price of the VVC/UK has increased five-trading-day-period over five-trading-day-period, for two consecutive five-trading-day-periods and from the previous day, that defines a Confirmed Up signal. If the MTI is below 1.00 and the Price of the VVC/UK has decreased five- trading-day-period over five-trading-day-period, for two consecutive five-trading-day-periods and from the previous day, that defines a Confirmed Down signal. These signals are used by conservative traders and investors in the Worry-Free Investing method.

At each turn, the same sequence of events take place. At this potential turn, observe and make friends with the signals as they occur. This knowledge will make you a lot of money over the next few years and probably in the next few weeks if the annual Santa rally plays out.

2021-10-15

Becoming a Consistent Winner Is Not What It Seems at First Glance

A positive expectancy trading system is simply a trading plan that makes more cash when it wins than it loses when its wrong.

Trading expectancy is a calculation that shows what the typical profit is for each trade placed. If it's negative, the strategy is a loser. If it's positive, the strategy is a winner. The calculation combines how many trades are typically won with the average loss on losers and the average gain on winners. The typical win is known as the "hit rate" and the average loss to average gain is known as the "risk to reward ratio."

While knowing the expectancy of a strategy is important, expectancy also highlights that there isn't just one way to make a profit. A trader can lose almost all their trades, but if their wins are much bigger than their losses, they can still make a good income. On the flip side, there may be a trader that wins almost all the time, but because their losses are so much bigger than their gains, they end up losing money overall.

The internet is full of high hit rate systems, but most of these lose money. To achieve the high hit rate the system developer must widen stops and accept small wins. For me, this has always been a recipe for disaster.

Most new and many veteran traders only think about trading in terms of winning. They don't like losing and so they are always trying to (or hoping to) win 8, 9 or 10 trades out of every 10 they take. While winning 8 or 9 trades out of 10 may be possible, it doesn't mean that the trader will be successful over time. There is nothing wrong with winning! Some traders do very well by winning 8 trades out of 10. The point is that the hit rate alone doesn't tell the full story or anything close to the full story.

Some years back, my trading partner of the era and I attended a sales presentation of a fellow selling a forex trading course. He was claiming a 90% hit rate and showed the audience his trading log over three trading days. His claim over this period was correct and that's why he had to hire a central London cinema to present. If we are honest with ourselves, we simply want to be correct on each trade. Mark Douglas in his book "Trading in the Zone" says that the four trading fears are:

1. Being wrong.
2. Losing Money.
3. Missing out.
4. Leaving Money on the table.

It was fear, number 1, that filled the 500-seat cinema.

How many trades we win or lose isn't the only thing to consider. We also need to consider the size of those wins and losses. By combining these factors, we see that it is possible to have successful traders with both high rates and low win rates.

Here was the data that the fellow in the cinema advertised in his own literature:

Hit Rate = 90%

Average risk 90 points (or pips in Forex)

Average profit 10 points

Before reading any further would you trade with that system?

Calculating Trade Expectancy:

$(\text{Win}\% \times \text{Average Win Size}) - (\text{Loss}\% \times \text{Average Loss Size})$

So, for the fellow above it's a poor result over a batch of 10 trades

$((9 \times 10) - (1 \times 90)) / 10 = 0$

The system that sounded perfect with a 90% hit rate in fact makes no money. Under normal circumstances with slippage and sweaty hands on the mouse, the system would lose a lot of money. For those reading who are in business,

expectancy in trading is like margin in your business. The higher the margin and the higher the expectancy, the more resistance the business (and trading is a business) is to shocks and errors.

Let's now consider a simple breakout technical trading system. These were first made famous by Richard Dennis and his group of "Turtles" in the 1980s. If you google the "Turtles" there is a rich legacy online. They believed in buying when the market simply broke a 20-day high. In later years, they used a 55-day high.

Their system often won less than 30% of the time, but it was very profitable. That's because their winners were so much bigger than their losers. There is a big difference between being right and consistently banking and building your wealth.

Although the hit rate in a trend following system with no fundamental input is low, the risk to reward in a well-designed system is excellent and can easily be 5 to 1. Let's look at the numbers again over 10 trades.

Hit Rate = 40%

Average risk = 10 points

Average gain = 50 points

Expectancy is $((4 \times 50) - (6 \times 10)) / 10 = (200 - 60) / 10 = 14$ points

This simply means that on average each trade taken has a positive outcome of 14 points. It has a positive expectancy and all you must do is play the game. You are now the casino and not the punter pushing £1 coins into the machines. The punter is playing a negative expectancy system and the longer he or she plays, the more broke they become.

Consider the following carefully:

If you risk 100 points to make 10 points you must be correct 91% to break even. If you risk 50 points to make 10 points you must be correct 83% to break even. If you risk 30 points to make 10 points you must be correct 75% to break even. If you risk 20 points to make 10 points you must be correct 67% to break even. If you risk 10 points to make 10 points you must be correct 50% to break

even. If you risk 10 points to make 20 points you must be correct 33% to break even. If you risk 10 points to make 30 points you must be correct 25% to break even. If you risk 10 points to make 50 points you must be correct 17% to break even. If you risk 10 points to make 100 points you must be correct 9% to break even.

Trading expectancy only really matters over many trades. While 10 trades were used in the above example to keep it simple, 10 trades are quite a small sample size. To get a reasonably reliable trade expectancy, look at results over at least 30 to 50 trades. Over that many trades we start to get a truer sense of how a strategy performs.

For many years I was a technically based trader alone. I tried to keep the fundamentals under control, but failed miserably. I didn't have an accounting background and found the annual and interim reports piling up in the corner of the office. If I am honest, I didn't really have the inclination. In those years, my only interest in life was chasing a rugby ball.

Following trends was much easier and it was quite profitable, but the hit rate rarely strayed much above 55%. As I showed in the above example, this can be very profitable, but you need to be resilient of mind to handle the losses which tend to arrive in clusters of good and poor luck. That took practice and a sustained run of losers is hard to stomach even for the most resilient.

In 2011, I found a tool that would complete all the fundamentals for me with no effort, it completely changed my trading plan. Dr. DiLiddo, founder of VectorVest, says that "Success starts with buying the correct stocks." He attests that if you buy these stocks that are undervalued and growing EPS strongly and safely, that alone will help your investments do well.

Since 2011, I only take my technical setups in shares that have excellent fundamentals when the overall market is rising. That has done two things. It has increased my hit rate to around 70% and has also increased the risk to reward ratio on my swing trades to well over 3 to 1.

For a more conservative trading plan, the Worry-Free Method sorts all the shares on the LSE by safety of earnings (Relative Safety) and brings those

shares with the best history of making money regularly and safely to the top of the pile. These are outstanding shares that invariably pay a strong and growing dividend. This system has outperformed the overall UK market significantly and I will be conducting a webcast on this on the 27th of October 2021.

To increase expectancy in your trading plus make the system easier emotionally to trade, the VectorVest approach of integrating the following works wonders. These are:

1. The fundamentals position of the Company (Relative Value and Relative Safety).
2. The technical position of the company (Relative Timing, Comfort Index).
3. The technical position of the overall market (e.g., Buy shares when there is a C/Up and the Color Guard is positive).

When you can tick all three boxes, the hit rate rises and the risk to reward rises. Christmas comes early.

Please don't just focus on optimizing your plan to hit rate alone, however tempting it sounds and more importantly feels emotionally. It's the interaction between the hit rate and risk to reward that builds wealth. Most great wealth is built on investments with an asymmetrical reward to risk ratio.

As of the 13th of October, all the VectorVest measures of the trend on the London market are down and the advice is to stand aside. This does not mean there is no work to be done. The time should be spent in formulating a WatchList of shares that look interesting when the next upswing begins. In the video for this Essay, I have put together a WatchList of shares most of which are high RS (Worry-Free) stocks along with a few more speculative counters.

2021-10-22

How to Sidestep the Four Major Trading Fears

Despite a commanding knowledge of trading, most traders experience fear every day on a level that compromises their capacity to trade effectively and become a consistent winner. This is especially pertinent now as a new Buy signal in the UK market is near as of Wednesday 20 October 2021.

The late Mark Douglas in his book “Trading in the Zone” defined the four trading fears as:

1. Being wrong.
2. Losing money.
3. Missing out.
4. Leaving money on the table.

I joke in many of the live seminars (they are on the way back) that most men over 50 are less scared of death than they are of being wrong or losing money. These fears are responsible for most of the execution errors we make as traders and investors.

When looking at a chart in hindsight, most traders can almost touch the trading profits, but they cannot consistently capture these gains and achieve their financial dreams. I think most reading would agree that a major challenge for us all is to replicate the performance of our BackTests going forward.

This problem eventually comes to a boiling point somewhere in the evolution of a trader. At this turning point, they either leave trading, continue to suffer losses or begin to take a closer look at themselves. Although the VectorVest methodology, which combines fundamental analysis with technical analysis, is a great edge over a batch of trades, no method can predict the

outcome of any single trade or investment. As I often say “if you are correct 80% of the time you are wrong 20% of the time. On the next trade you don’t know whether it’s one of the 80 or one of the 20.”

When traders recognize that the Holy Grail of being able to predict the outcome of each trade is not “out there” and not in their system or methodology, good traders eventually realize that the solution to becoming consistently successful lies within them. Getting past the fear of being wrong and the fear of losing money in one trade, but being 100% sure you will make money in 30 trades takes inner work. This is called “Thinking in Probabilities.”

Investors and traders require two levels of belief. At the level of a single trade, the future cannot be predicted, but at the level of 30 trades with the VectorVest system, there is an edge and order.

Mastering the four fears stated above is the start of a journey towards mastering the inner game of trading and investing. As jarring as this realization may be to a trader battling his fears, this is the first, and foundational, step into the transformation that is required to become successful and consistent. As a first step, please read and digest the book “Trading in the Zone” by the late Mark Douglas. His live seminars are on YouTube and although long, well worth the time investment.

Learning to deal effectively with fear opens the door to re-training the brain and mind for peak performance trading. This is true in all endeavors and especially true for athletes and our military special forces. A very good friend, who is a trading coach to banks and hedge funds, uses the military analogy to describe the process of taming the four fears. This allows him to engage and captivate the attention of the mostly male trading staff who as a group initially are skeptical of inner work, mental strength and resilience training.

What are the tools and skills a trader needs to harness to develop his potential as a trader? These skills are akin to that taught to Special Forces around the world and to world class athletes. Our job is to focus on the present moment and execute a simple set of trading rules without fear or hesitation. Focusing on this moment and simply reacting to this moment

is called “mindfulness.” The only way to sidestep fear within the trading environment or on the battlefield is to be totally grounded in this moment.

Until the spell of fear is broken, getting to the potential that lives within us all will remain locked behind a closed door. Even when the trader learns to regulate fear so that it does not sweep him away and they can establish a calm mind, how do they locate the discipline, patience, courage and impartiality that one must develop? The answer to this question is crucial to move from mediocrity to successful trading. For myself and most successful athletes, the answer is that he or she develops awareness through the skill of mindfulness.

In your local bookstore there are many texts about mindfulness. Simply put, mindfulness is the capacity to be aware of (observe) your thoughts, your biases and your beliefs.

One of the most common mistakes and reasons that accounts get blown or make zero progress can be easily fixed by becoming aware of your thoughts. It's a simple and profound fix. In fact, in my past writing, I refer to the fix as the “Holy Grail” of trading and investing. The rules of trading in pretty much every book that you read are simple “Let your winners run and get rid of your losers quickly.” Great advice, but in my nearly 40 years of observing retail and institutional accounts, the opposite is invariably done. Traders tend to take profits on winners quickly, but sit and dither and allow their losers to go further south. This practice makes them losers in the game of speculation.

When losing traders have a winning trade, they become pessimistic. They are deeply worried and distressed that the market will take away their profits. When losing traders have a loser, they become optimistic. They become optimistic that the share will bottom out and head north.

When winning traders have a winner, they become optimistic and allow the position to run. When winning traders have a losing position, they become pessimistic quickly and simply exit the trade.

Here is my challenge to you. On your next few trades or investments (by whichever trading plan you have chosen), try to become very aware of your thoughts. On many occasions, your thoughts will sound like a roomful of

naughty schoolchildren. Become quiet and observe your thoughts. In that moment, it will be perfectly possible for you to sidestep the fear of being wrong or losing money and to practice being optimistic in a winning position and pessimistic in a losing position. It may take a little time for the practice to pay off, but this simple fix has helped me turn hundreds of losing and breakeven traders into winning traders.

In developing mindfulness as a psychological skill specifically for trading, you begin to examine your thoughts during the trading process, looking for the underlying biases and self-limiting beliefs. The market is going to take my small profit away is just a single belief that we may possess. There are normally many more. Any step you take (however small) to reinforce a positive belief is a step in the right direction.

If you are using the VectorVest Worry-Free Investing Method (WFI) then simply place the shares from the UniSearch Long-Term Winners RS Descending, into a WatchList. Re-sort the WatchList by RT. That will bring the winners to the top and the losers to the bottom. Your job is to become optimistic about the shares at the top of the list and deeply pessimistic about those at the bottom, especially if the share has a red Sell signal attached.

2021-10-29

Some Timeless Trading Guidelines for the Remainder of 2021!

For many traders and investors, their emotions influence their trading, and these can often have a negative impact on results. Learning to control emotions and be disciplined enough to create and use a strategy consistently is something that I have written about over the past month in this forum.

Also, markets don't like egos. A trader that is influenced by ego rarely admits they are wrong. Ego gets in the way and causes the trader not to close trades when their strategy dictates, they should. I can think of one celebrated City trader whose ego allowed him to lose his clients hundreds of millions as resource shares bottomed out and he refused to cut his shorts.

To build discipline, keep things simple and follow the VectorVest prescription detailed in the "Successful Investing Quick Start Course" (SIQSC). The course is built into VectorVest under the Training tab. I have summarized some simple rules to focus our thoughts for the remainder of the year where historically excellent gains are captured. Remember, I write about probabilities and not certainties, but hopefully I drove that home in last week's Essay.

1. Decide on the amount of cash that you wish to devote to share trading/investing. Few decide on this in advance. As you should know by now, "if you don't know how much cash you have in your account, then you can't size your positions correctly. If you don't size your positions correctly, then you are gambling and not trading." How to size positions is covered in Lesson 2 of the SIQSC.

2. An easy and effective way to accomplish this is to divide your cash into ten parts and never put more than 10% into any single investment/trade. Then resolve to follow the VectorVest Stop- Loss without hesitation.

3. VectorVest recommends investing in undervalued shares that are rising in price with little volatility and that are growing earnings strongly and safely. These can be found by eyeballing within the Stock Viewer in the manner that Susan Thornborough favors and explains at our monthly national User Group meetings. The next online meeting is on November 17th and Susan will again demonstrate her simple technique to find winners from the Stock Viewer. Clearly a UniSearch can be written to achieve the same result. I will demonstrate such a UniSearch at the next UK Q and A session on Monday 01 November 2021.

4. Try not to have any more than 2 shares from any sector/industry. This is a rule that I forgot earlier in the last decade where I was very overweight in construction shares. On that occasion it worked out fine, but a similar overweight position during the Brexit vote of 2016 would have been a disaster. The market is like Santa. If you don't follow the rules, he doesn't bring you any toys.

5. After purchase, please put your shares into a WatchList and re-sort this WatchList by Relative Timing (RT). Resolve to act on the shares at the bottom of the list when sorted by RT. When you own shares, the only thing that matters is whether they are rising or falling in price. Re-sorting by RT places those shares that are rising at the top of the re-sorted list and those that are falling at the bottom. It's the shares at the bottom of the list that require the work.

6. Rest assured your ego will fight you all the way and come up with a dozen reasons why not to simply get rid of "Sell" rated stocks. A "Sell" rated stock is where the share price of that stock has fallen below the VectorVest calculated Stop Price. Tell your ego to take a hike.

7. Your success as a trader will be determined by your ability to simply exit the losers quickly and unemotionally. Those of you who have traded a little

will know that this is more difficult to do than to talk about. Holding on to losers is one of the four big mistakes that losing investors and traders make until they run out of money.

As of 27 October 2021, the Primary Wave of the VectorVest Composite UK (VVC/UK) is Up and the Underlying Trend is Up. The medium-term Timing System known as the DEW Market Timing System is also Up. Finally, the longest-term measure of the trend on the UK market known as a Confirmed Call has printed a Buy signal after the close on Friday 22nd October. It's time to be brave and the author is in the process of becoming fully invested once more.

Remember, don't be afraid of risk, but manage the risk carefully by conservative position sizing and stop-loss orders that are actioned.

Let's hope for a strong run into the end of 2021.

2021-11-05

Be Careful of Trading Euphoria after a Winning Period

The concepts of position sizing in trading and investing are arguably the most important in the journey to becoming consistent in performance. The concepts are not that sexy, and the mathematics are trivial. Position sizing tends to be overlooked in the big ego game of stock selection and entry points.

When you have a great trading system such as you find in VectorVest, it is certainly easier to meet your system objectives via a robust position sizing method. However, you still have a large chance to meet your objectives and profit with an average system or great system operated with poor discipline, if optimal position sizing is practiced.

There are many psychological biases which discourage the practice of optimal position sizing. In “Trading in the Zone,” the late Mark Douglas discusses the topic in some detail. In the book, he writes about the concept of “thinking in probabilities.” If, using VectorVest, we can be correct in 80% of our trades then we are incorrect 20% of the time. On the next trade, we simply don’t know whether it’s one of the 80% or one of the 20%. The market cannot be predicted on a “trade by trade” basis. Over a batch of trades there is order, but in a single trade anything can happen.

Years ago, I was the moderator in a trading contest in the South African city of Durban. As a participant was going to take a trade, I summarized to the crowd that I felt the trade had a 75% chance of success. The trade unfortunately didn’t perform, and the trader was stopped out. One fellow in the crowd shouted out that I was wrong. I replied that I was not wrong and all I did was point out that it was one of the 25%. Thinking in probabilities is a challenge.

If you think you know what's going to happen next, on a trade-by-trade basis, then it's easy to make a host of trading errors. Unfortunately, thinking that you know what's going to happen next is much more prevalent after the strong trending move that's occurred from March 2020 to the present. Be very careful as most great trading and investing disasters occur after a good run where our execution including position sizing or the lack of it becomes sloppy. It's easy to become euphoric after a spell of winning trades and feel invincible. This state is invariably as precursor of a fall from grace for the following reasons.

If you know what's going to happen next, why place a Stop-Loss?

If you know what's going to happen next, why not put everything into that position? Let's accelerate the process of wealth accumulation.

At VectorVest, we firmly believe in position sizing and its vital role in ensuring consistent performance. In Lesson 2 of the Successful Investing Quick Start Course (SIQSC), this topic is discussed in detail and in the remainder of this post I wish to simply show how I have personally and simply managed this topic over the years. I will illustrate the calculation with a simple, but realistic example.

Over the past nearly four decades, I have been using a 1% risk model (or less) to define my position size. This does not mean that I only purchase shares to the value of 1% of my capital base, but rather it is the amount of cash that I am prepared to risk ascertaining whether my trading idea is correct or not correct. The 1% refers to the cash lost if the share should fall from the purchase price to the Stop-Loss figure.

How much money is in your account? If you don't know how much money is in your account, then you cannot size your positions, and if you cannot size your positions, then you are gambling and not trading or investing. I come across this all the time. The first step is to decide how much of your total capital you wish to allocate to your trading business. For the sake of this example, I am going to assume that a new trader has 20000 pounds of capital to start their trading business.

1. 1% of £20000 is 200 pounds and this is the maximum loss that should ever be taken on any single trade or investment. I know shares can gap through stops, so please don't get your slide rule out. Losing 1.5% won't kill you. It's losing the lot, half, or a quarter of the lot, that will kill you both financially and mentally.
2. I use the VectorVest calculated Stop. Let's assume that the Buy point is 400p and the Stop is at 340p. This is quite a wide Stop, but if the entry level is after confirmation from a candle pattern or after a few green bars that's often the case. The Stop-Loss needs to be placed well out of the traffic otherwise it will be picked off by savvy Italian suited City traders whose job it is to get their customers (the big funds) filled at the lows of the day. Remember, when your Stop gets hit that generates the liquidity for another fellow to get onboard.
3. The Risk per Share purchased is thus 400p minus 340p which is 60p and £0.6.
4. Number of shares to be purchased (N) * Risk per Share = 1% Account Size.
5. $N = 1\% \text{ Account size} / \text{Risk per Share}$
6. $N = 200 / 0.6 = 333 \text{ shares}$
7. Total purchase price = $333 * 4.00 = £1333$

In many cases (especially in the Worry-Free trading plan), I start with a 1/2% risk model and then add to the position if my trading idea is correct.

There are many methods of position sizing and extremely complicated models are used by the institutional community and taught in financial management courses. However, the disasters at both retail and institutional levels are when no position sizing is practiced at all, and the trader is sure that they know what's going to happen next and have a "bet the farm" punt.

I hope the above will stimulate thought and get you thinking about how you will size your positions. There is a lot of discussion on the topic on the internet as a simple search will show.

In brief, divide your capital into 10 parts and only allocate 1 part to any single investment. Never have more than 2 parts focused on any single sector of the economy. Vow each evening before bed to NEVER lose more than 10% of each part.

As traders, it's our job to focus on perfect execution of each trade without fear or hesitation. Sizing the position correctly in relation to the size of our account whilst using a sensible Stop- Loss is a big part of the execution process. This is a part of the process which is frequently overlooked. As a result, most of the failures in trading don't stem from poor analysis, but rather from poor or non-existent position sizing.

2021-11-12

Averaging Down Is an Investing Sin

There are four major mistakes in the stock markets and in all markets. Of these, buying stocks that are falling in price would seem to cause the most misery and blown accounts. The mistakes as we see them at VectorVest are:

1. Focusing on the money/outcome as opposed to an intense focus on the process and execution of your trading plan.
2. Buying stocks that are falling in price.
3. Holding on to losers too long.
4. Ignoring overall market direction.

Over the weeks in these Essay, I have tried to communicate that successful trading and investing is all about the perfect execution of a repeatable trading plan. I have also written at length about the various VectorVest Market Timing models and how I believe that overall market direction is 70% of the exercise. In this brief note, let's look at the nuances of making sure we don't get tempted to purchase shares that are falling because, inevitably, they are falling for a good reason. The two for the price of one argument has bankrupted more share traders than anything else.

The subject is addressed in detail in Lesson 4 of the "Successful Investing Quick Start Course" which can be found on the Training tab in VectorVest 7 and should be replayed as a part of this week's study. This repetition is necessary and vital because there are many seemingly knowledgeable individuals who will advise pound cost averaging and advocate holding and adding to losing positions. I know I have over the years and the process is inevitably painful and embarrassing.

On some occasions, adding to losers can dig you out of a hole, but sooner or later the practice will ruin both your account and trading confidence. In

South Africa and Germany, we had a listed entity that was the largest mattress manufacturer and distributor in the world. The share was selling at R120. Over a few months, they fell from that lofty level to R1.50. A client of my son in Johannesburg bought 3 million shares at R12 where the share stabilized for a few days before diving again. This was a deal worth around 2 million pounds. I leave it to your own devices to work out how much his shares are after the fall.

The TV Gurus say, “they are cheaper,” “you can buy more shares,” “pound cost average.” In the City of London, a very famous bond trader used to comment “stops are for busses” when asked about risk management. He is no longer in the business. Adding to a losing position is arguing with the market. You are saying “I am right” and “you are wrong.” However, there is a temptation to average down that’s hard to explain, especially if it’s dug you out of trouble in the past. Add to winners not losers. Easy to write I know.

Even in the strongest of trends, markets rise by charting a series of rising lows. This is known by market technicians as “Peak and Through” progression. The question that’s posed by many old and new traders is, “Is this just a short pullback within a strong uptrend or the start of a major reversal?” I hope the following suggestions will help with putting some rules in place within your trading plan to answer this riddle.

1. Use the VectorVest Buy recommendation. If the share is a Buy, then ignore the day-to-day price action. Pullbacks within a strong trend should occur on falling and low volume. If the advance in price occurs on strong and rising volume and any pullback occurs on relatively low volume then that’s the strongest indication, that I know of, that the pullback is a pullback and not a trend reversal. I will show examples of this in the Q and A on Monday 15th November and in the attached video.

2. Since time began, I have been using moving averages to define the trend on stocks, bonds and futures markets. I use a 21-day Exponential Moving Average (EMA), a 55-day EMA and an 89- day Simple Moving Average (SMA). These can be added to the VectorVest charts, and a template saved.

If you struggle to get this done, please call support on 0800 014 8974. It's a free call. Clearly when the 21 is above the 55, and both the latter are above the 89, the trend is upwards. Where the three averages cross, I refer to as a "bowtie." The averages tend to give the trend more leeway than the VectorVest Buy signal. Within an uptrend, as defined by the averages, the VectorVest Buy signal can change to Hold and if the trend continues, can change back to Buy. The technique is a slightly looser measure of the trend. In the next Q and A session on Monday 15th November, I will show the moving averages and comment on how I use these. I am pleased to report that Stephen who reports his portfolio at our National User Group is using this technique to measure a trend and his portfolio is up 47% in 2021 to date.

3. Over the years, I have noticed that even in the strongest of trends, the share price tends to pull back into the area between the 21 and 55 averages. I refer to this area as the "Zone" and those with knowledge of candle patterns may wish to add to positions in this area. If successful, this will get the trader onboard before a breakout of the last high. In the "How to become an ISA Millionaire Course" which I present each Spring, we have a technique that finds these shares using the power of VectorVest. The technique is named after its inventor Mr. Jerry D Ambrosio as "Jerrys Jewels." The technique is saved in UniSearch for those who have completed the course and finds shares with strong fundamentals in a strong uptrend that are temporarily oversold. The UniSearch should be run each day and outputs a list of trading opportunities each morning. I will be running the "How to become an ISA Millionaire Course" again in early 2022.

Charles Dow in 1880 used no indicators, but did use price action to define trends. He was the first person to write about the price action within three types of a trend. These are Fast, Normal and Creeping.

A. Fast Trend. This is a great place to be as the price is surging upwards. Mr. Dow said that if the next rising low was higher than the last high then the trend was "fast." In this period breakouts work well.

- B. Normal Trend.** Here the price action has slowed and the next rising low pulls back to the last old high. This is the most common and known as a “kiss.” Half the market will have placed their orders waiting for a pullback to the last old high.
- C. Creeping Trend.** This is where the next rising low is lower in price than that of the last old high and that’s a sure sign that the trend is running out of steam and, at best, heading for a consolidation and, at worst, a reversal. These trends are difficult to describe in words and in the attached video, I will illustrate fast, normal and creeping trends with examples. Please [click here](#) to see this week’s video.

The VectorVest Buy Recommendation will react to ABC above objectively as will the moving averages with no subjective chart reading required. Please don’t consider purchasing shares that are in a freefall in the hope of a turnaround. If a share is on a VectorVest Sell signal, then never ever add to that position is a good belief to build.

As I was coached many years ago “hope is not a winning stock market strategy.”

2021-11-19

A Secret Stock Market Weapon

Many technical traders, both retail and institutional, spend days of their valuable time compiling a list of shares that are trending strongly. My definition of Technical Analysis is the study of trends and turning points.

At the major trading houses, exceptionally bright young people that are CFA qualified are employed in the quest for the true value of a share. The search for the true value of a share is my definition of Fundamental Analysis.

Imagine that with a few clicks of your mouse a list could be compiled of shares on the LSE and

AIM that are undervalued by the market, have strong growth potential and are trending strongly upwards. Imagine being able to get the same knowledge as the two groups mentioned above in a few seconds without all the heavy lifting involved.

Each day the VectorVest program calculates a Value for each share we cover on the UK market. The mathematics behind the calculations are revealed in Chapter 3 of Dr. DiLiddo's book "Stocks, Strategies and Common Sense." In addition, the program calculates a measure of the share's price appreciation potential in relation to a AAA rated corporate bond. This measure is known as Relative Value (RV) and is calculated on a scale between 0.00 and 2.00. An RV greater than 1.30 is designated as excellent and means that the share should outperform a corporate bond by 30%. RV drives the share price and is vital for capital growth. Recent research by a member in Guildford shows that an $RV > 1.25$ greatly improves the performance in both the UK and USA.

Each month I present two webcasts that show the detail of the VectorVest Worry-Free Trading method (WFI). In these webcasts, I discuss Relative Safety (RS) which is the backbone of WFI in detail. RS measures the safety

and predictability of the financial performance. I have added a measure of safety to the UniSearch presented below.

To gauge the longer-term trend of the share, I make use of a proprietary metric on VectorVest called the Comfort Index (CI). CI is an indicator which reflects a stock's ability to resist severe and/or lengthy price declines. CI is based solely upon a stock's long-term price history. It is a unique measurement in the Technical Analysis world and no one else has anything similar or as effective. CI is the secret weapon that I refer to in the title of this Essay.

CI is also a measure of a stock's Price resistance to market downturns. This index is computed by comparing an individual stock to the up and down movement of the VectorVest Composite and is cast on a scale of 0.00 to 2.00. A stock with a CI of 1.00 or greater is more resistant to a downturn in the market, as measured by the VectorVest Composite.

There are many ways of using the CI, but here is a UniSearch that I use each day to keep my eye on the pulse of the market. It is a UniSearch that finds shares with great fundamentals (growth and safety) that are in the throes of a strong trend where the Price is breaking out of a 13-week high. Here are the UniSearch parameters:

Stock RV (Relative Value) ≥ 1.25

Stock RS (Relative Safety) ≥ 1.25

Stock Price - (Split Adjusted) New High Over 13 weeks (end of day data)

Stock GRT (Growth Rate) ≥ 15

I then sort these shares by CI Desc.

Immediately, my focus is on the pulse of the market. I have narrowed down the nearly 2100 shares that we follow on the LSE and AIM to a relatively small WatchList of stocks with outstanding growth and safety fundamentals that are trending strongly and breaking upwards. That is a great area to place your focus in the search for short to medium term trading profits.

Once the WatchList has been generated then please apply the cherry-picking techniques that are taught in Lesson 4 of the "Successful Investing

Quick Start Course.” This course is built into the VectorVest program and can be found under the Training tab on the main tool bar. Following this process will produce many high probability trading opportunities. The process, and it is a process, is a trend following trading plan where the breakout of a 13-week high is applied only to those shares with strong growth properties.

As always, the overall market and the direction of the overall market is paramount and 70% of the exercise. The last few months has shown us clearly that there is a great time to be in the stock market and an awful time. Buying stocks when the market is rising will make the going easy.

Conservative investors should buy stocks when the VectorVest Composite is printing a Confirmed Up signal, while more aggressive traders should use the DEW Market Timing system.

2021-11-26

It's a Business Like Any Other

Most businesses will be in planning mode at this time of the year. Your trading business is no different. Yet most trade from the seat of their pants.

If you're serious about your trading and investing, then I am sure you already treat it like a business. You have a trading plan; you should keep meticulous records and you study the markets for a few moments each evening and for a little longer on weekends. If you haven't got a trading plan, then this task will keep you busy over Christmas. The latter is a must for consistent success.

To become a consistently winning trader/investor, three important elements are required. I call them the 3 M's. They are:

1. **Method.** This is a trading system that simply makes more when it's correct than it loses when it's wrong. This is known as a "positive expectancy" system. I have written at length about this over the years in these Essays. In essence a positive expectancy system just means making more cash when your trades work out than you lose when they don't work out.

2. **Money.** This involves managing your money properly. This is fully addressed in Lesson 2 of the "Successful Investing Quick Start Course" which is built into the VectorVest program and can be accessed by clicking on the Training tab on the main toolbar. I have also written about position sizing on numerous occasions in these Essays.

3. **Mind.** This is the mental strategy required to simply play the game of trading.

I feel it is vital to keep your trading strategy simple and straightforward.

I favour undervalued stocks with high earnings potential and reasonable safety that have a BUY recommendation in VectorVest. I buy into these when

both the Primary Wave is Up and the VectorVest Composite UK, VVC/UK has printed a Confirmed Up, C/Up, signal. This approach is fully detailed in the “Successful Investing Quick Start Course.”

In the UniSearch section of VectorVest, the search “Superstars” is an excellent place to start your quest for high performance stocks. Superstars can be found in the Prudent folder.

In my version of this UniSearch I have modified the settings to only look at FTSE 350 stocks because of liquidity. The parameters used are designed to pinpoint growth stocks with a reasonable track record of safety.

My parameters are:

GRT (Growth Rate) $\geq 20\%$

RS (Relative Safety) ≥ 1.00

RV (Relative Value) ≥ 1.40

tocks WatchList = FTSE 350

The shares from my FTSE 350 Superstars UniSearch are then sorted by the Master Indicator VST. This brings those shares with the best combination of Value, Safety and Timing to the top of the list. This is where the winners live.

Please note that I have lowered the Relative Safety (RS) requirement of this UniSearch and raised the Price appreciation potential (RV) to find high growth stocks. This means that risk needs to be managed diligently, but the returns more than make up for this effort. The top 5 stocks from the FTSE 350 Superstars have gained nearly four times more than the overall market in the last year.

I use the UniSearch to find reasonably safe high growth stocks to compliment my Worry-Free Investing (WFI) Portfolio. As discussed on many occasions, I try and place 70% of my assets into WFI and the rest into a slightly higher risk category such as the output from Superstars

FTSE 350. The UniSearch is shown in detail in the attached video.

Most traders spend their trading careers bouncing from strategy to strategy instead of honing their focus on one or two methods. New investors should

focus on a single method. The reason this is important is because focusing on a method allows us to master not only the strategy, but the emotions and decision-making skills that surround the method.

Have you noticed the more you know about a system, the simpler it becomes and the more you've made it your own, the better your trading results? That's because you're able to better execute the strategy.

The emotion of fear is the No.1 culprit that keeps most traders from reaching a level of consistency and profitability over the long-term. These fears can be subdivided into four categories, and they collectively are responsible for a host of trading errors.

1. The fear of being wrong.
2. The fear of losing money.
3. The fear of missing a trade.
4. The fear of leaving money on the table.

To sidestep these fears, there are two main courses of action.

Firstly, you must have total belief and conviction in your system. You must have a strong belief that over the long run (20 plus trades), a positive outcome will result. There is only one way to gain this conviction and that's to test, test and test. Observing results over a long period of time then adds to your confidence and ability to execute effectively.

The more testing you do and the more data you gather, through both live and simulated trading, the more those feelings of fear and uncertainty will diminish. The BackTester tool in VectorVest will allow you to complete this testing easily and quickly.

Secondly, focus on what the market is telling you right now. When you are fully engaged on what is happening **NOW**, your mind does not wander. Keep a razor-sharp beam of focus on the market and what it is saying in relation to your trading rules. The Special Forces of all nations are taught to be present in combat situations.

So, formulate goals and objectives for your trading business and work towards these. You are aware of where you want to go, but honor and give the fullest attention to the step that you are taking at this moment.

2021-12-03

Protecting Capital

If you miss a tackle, then it takes five tackles to bring the ball carrier down.

Once more a Rugby metaphor that was instilled into me from the first days at school. As I will show, it's similar in trading and investing. The trading world rewards good and quick losers.

As of the 30th of November, the longest-term measure of the trend on VectorVest UK and VectorVest US is down. You all will have read the reason why. I am not a virologist, but I do know, that as of the 30th of November, there is fear in the air around the new variant of Covid- 19 and a possible new lockdown of the economies of the world. This week a vaccine manufacturer has cast doubts on the ability of the current vaccine to effectively give protection from the new variant. Markets fell hard on this news.

On a more positive note, both the UK and the US markets are still well above the October 2021 lows and on the long-term chart, this move down could be classed as a healthy correction.

Healthy corrections rarely feel like a healthy event when they are happening. In the US, the proprietary VectorVest Buy/Sell ratio is already within a mega oversold zone suggesting that at least a bounce or rally is close. Whether this is a resumption of the bull trend, or a counter trend rally is far from clear. The VectorVest Market Timing signals will answer that quandary in due course.

The reality is that all measures of the trend on VectorVest on both sides of the pond are down and that capital must be preserved at all costs. Your ego and my ego will provide all sorts of excuses for not completing this task. Remember, we simply don't know whether this is a vast overreaction to the new variant of Covid-19 or a selloff akin to February 2020. As I will show below, a big loss takes a lot of fancy footwork to recover from. More importantly, a big loss can inflict serious psychological damage in that it

reinforces a belief that you are no darn good at this. Once in place, these beliefs are hard to shift.

Your stock is losing value. You want to sell, but you can't decide in favor of selling now, before further losses, or later when losses may or may not be as large after a bounce. You know that you should offload your holdings and preserve your capital and reinvest the money when the overall market turns back up in the future. In a perfect world, when sitting in a stock market webcast or seminar, you'd always achieve this aim and sell at the correct time.

Unfortunately, it isn't that easy in real life. There would seem to be a little Devil on your shoulder. In a winning investment, the Devil will say "Take the money, Take the money." In a losing investment, the same fellow will say "Give it another day" or even worse "Buy some more." There can be few who have been trading for a while that haven't experienced input from this obnoxious gnome on your right shoulder.

The result of this Devil on your shoulder is that most traders invariably book a tiny profit on their winners and a huge loss on their losers. It takes a great amount of presence and mindfulness to stay in the moment and simply execute the simplest set of trading rules.

I remember 2007 and 2008 when the housing bubble burst and stocks started their descent into a bear market, investors froze like a buck caught in a lion's jaw. Many didn't even react until the value of their portfolio holdings had declined by as much as 50% to 60%. I remember screaming at clients to get out and protect their capital, but most hung on worrying that they would be selling the exact bottom. The table below is sobering as it shows the amount of effort needed to claw back after a large loss. Don't take that size of a loss in the first place and please don't average down.

A stock that declines 50% must increase 100% to breakeven. A stock that drops 50% from £10 to

£5 ($£5 / £10 = 50\%$) must rise by £5, or 100% just to return to the original £10 purchase price. Many investors forget about simple mathematics and take

in losses that are greater than they realize. They falsely believe that if a stock drops by 20%, it will simply have to rise by that same percentage to breakeven.

In my portfolio, I use the VectorVest Stop-Loss as my line in the sand. All the shares that I hold are placed into a WatchList and every day I simply sort this WatchList by RT (Relative Timing). The latter is a measure of the short-term trend of the stock. Sorting by RT, the shares that are rising most strongly are placed at the top of the list, while those that are rising slowly or falling are at the bottom.

The work needs to be done on the shares that are at the bottom of the list. The VectorVest program will highlight those shares in red in your WatchList that have closed below the VectorVest Stop-Loss. Your success as an investor and my success will be a function of simply selling these shares without fear or hesitation in all environments, but especially in the present Confirmed Down Call.

2021-12-10

Are You a Brave, Tough Bottom Fisherman?

Has the market bottomed out as I write on the 8th of December 2021? Certainly, the bounce upwards on Monday and Tuesday of this week was impressive and suggests that at least a short-term bottom is in place.

On both sides of the Atlantic, the Primary Wave of the respective VectorVest Composites has turned up. In the US, the turn upwards was predicted successfully by a mega oversold technical picture from both the Buy/Sell Ratio (BSR) and the Market Timing Indicator (MTI). Buying when everyone else is running away takes guts. Well-done to those who have made good money in this period.

The bottom fishing setup was highlighted in last week's "Special Presentation" plus reiterated at the International User Group online.

As discussed in the "Special Presentation," the MTI and BSR were both showing mega oversold metrics. Short-term and those traders who understand how to manage risk by acting unemotionally to Stop-Loss levels should have prepared a hit list for "bottom fishing." This was the advice given by Mr. Heller at the International User Group.

In the selloff of the past two weeks, my mainly conservative portfolio of high RS and high RV stocks has been resilient and apart from getting stopped out in Volex are intact from the chaos caused by the new Covid-19 variant. I am well pleased with Kainos, Liontrust and Intermediate Capital having a great two days. As the Primary Wave of the UK market has turned Up, I have entered a small starter position in Games Workshop and will add more should the DEW Market Timing System turn positive. Future will be next if all goes well with the market using a similar starter position.

In selecting stocks that suit your personal objectives and risk tolerance, the primary job is that of assessing information and making decisions in an uncertain environment. Many investors, however, feel qualified and prefer to analyze data. This is fine if they have the time, resources, and skills to produce reliable results. Knowledgeable investors can save time and get excellent results by asking the right questions and getting quick and reliable answers to these questions. It is my view that the investor should spend most of their time managing the process as opposed to calculating ratios and hunting around the internet for reliable data.

For simplicity, I have broken down these questions into three areas.

1. The fundamental position of the company.

In property, the most important three factors are location, location and location. In stocks they are Earnings, interest rates and inflation. Stock valuations go up when Earnings go up and interest and inflation rates go down. In my portfolio, I favor stocks with a good combination of earnings growth and earnings safety. I look for and use UniSearch to locate stocks, that have a high RV and a high RS. Let the ball do the work.

- Is the company making money?
- What is the stock worth?
- Is the stock over or undervalued?
- How safe is the stock?
- What are its forecasted earnings per share?
- What is its estimated earnings growth rate?
- What is its growth to P/E ratio?
- What are its dividends per share?
- How safe are the dividends?
- How fast are dividends growing?
- Does this stock meet my risk/reward objectives?

I started to trade stocks in 1982 and did my utmost to understand the fundamentals of the shares I was following on the Johannesburg Stock Exchange. I totally failed in this endeavor. I didn't have either the knowledge, the time or if I am honest, the inclination. For this reason, from 1984 (when I gave up beating my head against the annual and interim reports), I traded technically alone. It wasn't until I discovered VectorVest and its ability to do all the heavy lifting that I added this dimension into my trading plan. Remember, information is useless unless you can react to that information. VectorVest displays the fundamentals in the following easy-to-use fashion.

A. Value. A value is calculated for every share in the UK database each day. The valuation methodology is discussed in Chapter 3 of "Stocks, Strategies and Common Sense" by Dr. Bart DiLiddo. With a glance of the Stock Viewer or by using UniSearch, it is easy to see which shares are under or overvalued. VectorVest favors undervalued shares.

B. Relative Value (RV). This is a measure of the long-term price appreciation potential of the share. RV takes Price, Value, Earnings Growth, AAA rated Corporate bond rates and risk and massages these into a scale between 0.00 and 2.00. A rating of 1.30 and over is regarded as excellent.

C. Relative Safety (RS). RS is made up of Earnings consistency, company size, price behavior, longevity, dividend history and all the vital financial ratios. Again, this is displayed on a scale between 0.00 and 2.00. Above 1.30, the safety of the earnings stream and the financial integrity of the company is excellent.

D. Dividend history is quoted in three metrics. These are Dividend Yield (DY), Dividend Growth (DG) and Dividend Safety (DS). These metrics are combined into the Master Indicator for income investors known as YSG. This stands for yield, safety of the yield and growth of the yield. This can easily be built into UniSearch to find candidates for an income portfolio.

The best defense is a strong offense. If you trade in shares with excellent fundamentals and then add a sound trend following or swing trading plan, that combination will build an enormous edge in markets.

2. The technical position of the company. I define the technical position as the study of trends and turning points. A Buy recommendation on VectorVest shows the share is rising in price. Some traders also use Moving Averages to signal that a sustainable trend is on its way. I favor using three moving averages. These are 21-day ema, 55-day ema and 89-day sma. I refer to the crossover of all three averages as a “bow tie.” When this crossover occurs, the probability that a trend is underway increases significantly.

Buying a pullback to a previous high (resistance becoming support in technical jargon) after a bow tie has been charted is simple and it is a strong edge for swing traders. More advanced traders can look for confluences of support where many measures of support and resistance are found around a single level. I will give several examples of these setups at next week’s Q and A session.

3. The technical position of the overall market. There is a good time to be buying stocks and an awful time. That’s been displayed in all our brokerage accounts over the past two weeks. As of the 8th of December 2021, only the Primary Wave or short-term trend of the UK market has printed a Buy signal. All longer measures of the trend of the overall market are Down. Only the most aggressive traders should be buying shares. More conservative traders should patiently sit and wait for the longer measures of the trend such as the DEW to print a Buy signal.

In your trading plan, please decide on how you will decide that it’s safe to buy shares. Longer- term position traders should use the Confirmed Call system, while medium-term traders can use the DEW Market Timing system.

2021-12-17

Consistency Is the Goal

As the market is trading in a bipolar fashion with the S&P 500 making new highs with little market breadth as measured by the VectorVest Buy/Sell Ratio, I thought to put out an Essay about how to consistently outperform the game of investing and trading. I believe these guidelines are true for both short-term oriented traders and long-term investors trying to outperform benchmarks.

Let's look at 5 rules to excel at this game.

1. Be realistic in your expectations. The internet is choc a bloc with folk demonstrating how to turn 100 pounds into a million in several months, especially in the Forex space. This can be done in the same way as I can win the lottery next Saturday night. Anyone can put on a winning trade. However, to become consistent as a trader or investor and to outperform year-after-year is an art form. In last week's Essay, I detailed the requirements needed for a high probability trading system. This included both the stock's fundamental and technical position plus the technical position of the overall market. Please reread before proceeding if you have not already done so. The VectorVest Worry-Free trading method has a long track record of realistic and consistent performance and is the core of my personal holdings.

2. Look for asymmetrical reward to risk opportunities. One of the main things to understand in trading/investing is that you will not be correct anything close to 100% of the time. You will have some successful trades, and some awful ones. In these Essays, I have written about expectancy on many occasions. In simple terms, expectancy just means making more on the winners than you lose on the poor trades and thus making a profit at the end of the year. We all need many large reward to risk trades to pay for all the (hopefully) small losers. The next point shows how to achieve this.

3. Cut losses and let profits run. This is advice we have all heard a thousand times. Walk on to a trading floor (hard to find these days I know)

and ask a couple of seasoned traders what they do before setting up a trade. I can guarantee the answer will be “I will set up my stop-loss.” This is the best piece of advice I’ve ever been given. If you find yourself in a good and profitable trade, trailing stops will also help you to keep your profits running if the trend stays favorable. They will of course limit your downside if the trend reverses. The VectorVest Stop-Loss can be used as a Trailing Stop and that’s what I use in my Worry-Free Investing portfolio. There is a long and detailed discussion on trailing stops each month at the VectorVest UK National User Group meeting. Trailing stops are also studied in detail by the VectorVest ProfitLocker Pro trading system.

4. Size your positions correctly. The first step in this direction is to decide on how much cash is in your account. Then decide on how much of this you wish to risk on any single trade or investment. At VectorVest, we recommend that the maximum loss or risk should be 1% of the account size. So, if you have a £100000 ISA account then the maximum loss should be £1000 which, when I went to school, was 1% of the account size.

The next step is to look at your proposed entry point and the Stop-Loss level to be used. Let’s assume that you are using the VectorVest Stop-Loss in this discussion. Simply subtract the entry point from the Stop-Loss level to calculate the risk/share purchased. This is unique to each trade.

Let N = number of shares to be purchased.

$N * \text{Risk/Share} = 1\% \text{ account size}$

$N = 1\% \text{ Account Size} (\text{Risk/Share})$

If the position falls apart and you get stopped, you have lost 1% of your equity. Shake yourself off and move on to the next trade. For example:

Account size = 100000 pounds

1% = 1000 pounds

Entry point £10 and VectorVest Stop is at £8.50

Risk/Share = £1.50 (entry point - Stop-Loss)

$N * \text{Risk/Share} = 1\% \text{ Account Size}$

$N = 1000/1.5 = 660 \text{ shares}$

We purchase 660 shares at £10 pounds each which means the deal is worth £6600.

If the share falls and hits its Stop-Loss, then we have lost £1000. Don't stress to much about the brokerage in the calculation. Just keep the loss to around 1% of the account and certainly no more than 2%.

5. Your portfolio should favor undervalued stocks that are growing earnings strongly and safely. The latter are measured by values of the VectorVest metrics Relative Value and Relative Safety, respectively and Values above 1.25 on a scale between 0.00 and 2.00 are favorable. You should be fully invested when the overall market is rising, especially if the VectorVest Market Timing system known as Confirmed Calls has printed a Confirmed Up signal. When the overall market has printed a Confirmed Down signal it's time to be careful. Stop all purchases and watch stops carefully.

As the 15th of December 2021, all the trends from short-term to long-term on the VectorVest Composites on both sides of the Atlantic are down. Santa seems to be leaving later and later each year. In the meantime, manage risk carefully.

2021-12-31

Risk a Little Make a Lot

“The essence of portfolio management is the management of risk, not returns,” said Benjamin Graham. Graham is the father of value investing and his book, “The Intelligent Investor,” is often cited as the primary inspiration of Warren Buffet and many other renowned traders and investors.

In simple terms, the asymmetric risk is the notion of taking a risk that will generate a profit that is bigger than the risk taken. I have written about the concept many times in these Essays as I view this concept the most vital route to becoming a consistent winner. In other words, an asymmetric risk reward profile happens when we have a disparity between the risk taken and the potential reward. A positive asymmetrical risk reward profile happens when the potential profit is bigger than the potential loss. Risk a little, make a lot is the motto of a winning trader and investor.

If you risk £500 and have the potential to win £2,000, you have just made an asymmetrical trade. As per my many Essays on position sizing, you should have risked 1% of your capital to capture a gain of 4%.

The ability to find asymmetric trades is the true skill of trading. We all need to develop our skills to identify and then have the patience to wait for the best asymmetrical trading opportunities.

The most difficult part is to stay disciplined and let the asymmetric trading opportunities show up rather than force a trade.

Even though this idea is simple common sense, most people fall into the trap of making symmetrical trades on the stock market or worse.

Many investors commonly risk 1% of their capital in the pursuit of a 1% return on their capital. Or even worse, they risk 1% of their account in the pursuit of a 1/2% return. I haven't been able to make consistent money as a scalper risking a pound to make 50p. I am not saying it cannot be done, but, to succeed, the trader needs a win rate that's hard to achieve in practice.

This quote from Jesse Livermore sums up what is required to build asymmetrical risk/reward portfolio. The quote is taken from the book “Reminiscences of a Stock Operator.” Much of the strength required to engineer asymmetrical risk/reward trades are emotional rather than analytical.

“After spending many years in Wall Street and after making and losing millions of dollars, I want to tell you this: It never was my thinking that made the big money for me. It always was my sitting. Got that? My sitting tight!”

—Jesse Lauriston Livermore.

Stocks with the potential to massively appreciate offer asymmetric risk/reward profiles. Stocks that are undervalued on VectorVest with a high Relative Value (RV) are excellent candidates for an asymmetrical risk to reward portfolio. Stocks like JD Sports, Games Workshop and Liontrust have produced magnificent risk to reward trades and investments over the past few years.

The basis of the VectorVest Worry Free Investing technique are shares with a $RV > 1.25$ and a Relative Safety (RS) of greater than 1.30. This finds shares with the potential to grow their share price that also have an outstanding track record of financial strength. This is a great place to be and a great place to start your search for high reward to risk opportunities.

Let me illustrate an asymmetrical trade by a practical example from another industry.

On Boxing Day, I looked at the Kempton Park race card for the King George VI Chase and noticed a horse by winning Irish trainer Willie Mullins priced a 28 to 1. I found that hard to believe as Mullins has been on a winning run over the past year. I checked the odds online and they were correct. Tornado Flyer was paying 28 times the initial risk if the horse won the race. With Mullins track record, I felt this highly probable especially as his nephew was the jockey. I placed my 20-pound bet and Tornado Flyer romped in by 9 lengths.

As I write on the morning of the 28th of December, I note that Mr. Mullins has a horse running on the 2.20pm at Leopardstown in the Savills Chase. The

horse Kemboy is priced at 8 times the initial risk. I have risked another £20. As in all things trading related “time will tell”.

If Kemboy fails to win the high reward to risk of the first bet means my Christmas and New Year bets will be well in the black.

Please focus on high reward to the initial risk trades in your trading plan preparation for the year ahead.

I wish all reading a very healthy and prosperous 2022.

2022-01-07

When Should I Start to Buy Stocks?

This is a question that I have been asked repeatedly over the past few days.

I wish there was a clear-cut answer to the question, but in essence, we wish to be buying stocks only when the overall market is rising.

There are six main Market Timing methods built into the VectorVest program. In my Essay of the 20th of August 2021, I have detailed the construction of all of these. All the measures of Market Timing are totally objective in nature and are based around the VectorVest Composite of the UK market (VVC/UK). The VVC/UK is an equally weighted index of all the shares that VectorVest follows on the LSE and AIM. It is the broadest measure of the UK market that I am aware of.

For a signal to Buy shares:

1. Primary Wave turns upward.
2. A Green Light in the Price column of the Color Guard.
3. A black star within the Green Light in the Price column of the Color Guard.
4. The DEW prints a BUY.
5. The Underlying Trend turns Up.
6. The Underlying Trend is confirmed by 2 weeks price action. (A Confirmed Call). This is the most conservative and long-term signal on the VectorVest program.

At each turn Up (and Down) the signals invariably fire in the same order. Small boats turn more quickly than oil tankers and thus the Primary Wave shows a Buy signal much sooner than the DEW for example. Similarly, the DEW usually gives a signal mostly a few days ahead of the Confirmed Call

signal. At each turn upwards from the recent selloff, please become familiar with the turn and record in your trading diary each signal as it arrives.

The decision of which Market Timing system you adopt should be a part of your trading plan.

The point that I am trying to emphasize is that it's vital to decide on a Market Timing method in advance and test it using the BackTester in the program. When that's completed to your satisfaction, then your focus should be on the process of trading and investing. If you focus on your process the cash will take care of itself.

Conservative investors and those using the Worry-Free Investing method (WFI) will wait patiently for signal no. 6 (Confirmed Call) to print on the VectorVest Composite. One of our most experienced users has concluded that they will start to build a position at the first Green Light after a Confirmed Up signal. A conservative and prudent approach, but it's a plan that's been thought through in advance, far away from the emotional ups and down that invariably result in poor decisions. As of the close on 4th of January 2022, there is a Confirmed Up Call signal in place on VectorVest UK and a green light is present in the Price column of the Color Guard. The author is over 90% invested at this point.

In a much more aggressive "Swing Trading" plan, the DEW Market Timing system can be used to allow positions to be taken closer to the turning point. This is normally (not always) a few days quicker than the more conservative Confirmed signals. In the US market, where I swing trade exclusively, I use the DEW system to indicate when it's safe to get back into the stock market. As I write, I have a single open position as the trading year gets underway. I will discuss this trade and the rationale involved in the trade in the UK Q and A on Monday, 10th January.

Extremely aggressive swing traders can consider the Green Light Buyer confirmed by the RT Kicker Market Timing system to initiate buying shares. Although the name sounds intimidating the Green Light Buyer confirmed by the RT Kicker simply means that the Price of the VVC/UK Composite

is positive day-over-day and week-over-week and the Price momentum as measured by the VectorVest indicator Relative Timing (RT) is rising. The latter is present as of the close on the 4th of January 2022. This is an excellent signal for aggressive swing traders and is displayed visually by a black star within the green light. No chart watching is necessary for those who abhor charts.

Trading the Primary Wave which is the shortest and fastest measure of the trend of the VVC/UK can be tough mentally. The Primary Wave can be noisy at turning points and suffer many false starts. The high cost of execution plus the 1/2% stamp duty adds a great headwind to short-term trading based on the Primary Wave in the UK stock market. Buying shares when only the Primary Wave is positive should only be used by the most aggressive traders. Those hardy individuals should be experienced in risk management and have the emotional response to exit quickly without hesitation if the Primary Wave should fail. Please trade in liquid shares. If there isn't liquidity, it's going to be impossible to run for the door.

On the morning of the 5th of January 2022, all the VectorVest Market Timing systems are positive. As noted above, there is a green light in the Price column of the Color Guard plus green lights in the RT and Buy/Sell Ratio columns. This is a strongly positive technical picture with all three measures of the VVC/UK higher day-over-day and week-over-week. The VVC/UK is approaching resistance on the chart for the fourth time. Old floor traders always bet that markets break on the fourth attempt.

Always trade the market and NOT the forecast and stay nimble. There is a lot of data to be published during the latter three days of this week ending with the US jobs numbers on Friday.

2022-01-14

Swing Trading Success with VectorVest

This is a written walk through the talk that I presented in the VectorVest Two-Day (Tampa) Live stream on the 7th and 8th of January 2022. The entire two days of outstanding stock market trading and investing education was free to all.

The following ten steps should be a part of any swing trading plan. I used many charts to illustrate the points below and their nuances in the talk. The edited recording will be available soon. These salient points are as followed:

1. The overall market is on your side. This means that you are initiating a swing trade in a share that is moving in the same way as the overall market. On VectorVest, there are many measures of Market Timing. Fast measures for swing traders and longer-term measures for position traders. To initiate a swing trade, in my humble opinion at least, the Primary Wave on VectorVest should be Up and the advice on the Home Page of VectorVest should be positive for buying shares. I firmly believe that this is 70% of the exercise. Swim with the stream.

2. The industry group and sector of the economy are on your side. Stocks tend to follow their industry group up or down. Simply load the industry group in the Viewers page of VectorVest and re-sort by Relative Timing, RT. This will easily find those areas of the economy that are performing.

3. Trade in the very best shares. Shares that are growing earnings strongly and reasonably safely. Favor those shares that show strong earnings per share (EPS) growth over at least the last year with little volatility in the EPS chart. EPS growth is the engine that drives the share price. The latter should be rising from the bottom left of the window on VectorVest to the top right. As detailed in these Essays over the years, a share that trades sideways while EPS is rising

makes for an excellent high probability swing trade when the share breaks upwards and moves to a VectorVest Buy recommendation. Forecasted EPS on VectorVest is a strong leading indicator of change. Leading indicators of change are in very short supply in this line of work.

4. The stock under study should be in an existing uptrend. Our job as swing traders is to finesse an elegant entry from a retracement (this is trader jargon for a pullback in the share price) in a share that is just about to explode higher as the longer-term trend reasserts itself. On VectorVest, the Comfort Index (CI) finds shares that are in the throes of a strong long-term trend, easily with little fuss. It is indeed a secret weapon. Swing trade in shares that possess a CI of greater than

1.30 and both your hit rate and risk to reward will improve. I will define in the talk three types of trends, fast, normal and creeping. Moving averages can also be useful in determining the trend of the share.

5. Most pullbacks will retrace to the last significant swing high. Frequently this will also be a major Fibonacci level. This pullback should take place on falling volume. A pullback in the share price on low volume in relation to the last advance is a sure sign that, sooner or later, the bull trend will resume. There are many ways a share can pause within a strong trend and give swing traders an excellent entry point. Technical patterns such as flags, falling wedges and cup and handle patterns can make excellent entry points. In all of these, the down move within the pattern should show falling volume, while up moves within the pattern should show increased volume. Volume can be difficult as many shares are bought and sold for reasons that have nothing to do with the share. Listen carefully to my talk on volume. The latter is a leading indicator if it is interpreted correctly.

6. A technical momentum indicator, such as George Lanes Stochastic indicator (a standard study on VectorVest), can confirm that support (or buying of shares) should be anticipated. The study is normalized between 0 and 100 with a Stochastic value of less than 20 indicating an oversold position in a share. This is an exciting place to look for a buying opportunity.

A divergence between the share price and the Stochastic adds to the strength of this observation. On VectorVest, (using ProTrader) there is a standard UniSearch that can find shares with good fundamentals where the Stochastic is less than 20.

7. A bullish candlestick reversal pattern confirms that the support has a high probability of holding and that the advance has started. An Up day with rising volume would be first prize. There are many candlestick patterns, but I personally use just a few. I favor bullish engulfing, hammer, morning star and harami (inside bars) patterns. It is now time to open the brokers market maker and buy some shares.

8. Firstly, how much money is in your account? If you do not know how much money is in your account, you cannot size positions and if you cannot size positions, you are gambling and not trading. Vow never to lose any more than 1% of your account in any single trade.

9. Size your positions. Use the VectorVest Stop and calculate the Risk/Share purchased. This is simply the purchase price minus the VectorVest calculated Stop-Loss level. If N is the number of shares about to be purchased, then the simple equation is that $N * \text{Risk/Share} = 1\% \text{ Account Size}$. Thus $N = 1\% \text{ Account Size} / (\text{Risk/Share})$.

10. Split the position purchased in to two equal parts. When the position has risen, and you have profited by as much as the initial risk, sell one part. Increase the Stop-Loss level on the second part to entry and let it run. Do not micromanage the second part and allow this part to run using the VectorVest Stop-Loss as the Trailing or Ratchet Stop. My experience is that around 30% of trades will result in what I refer to as “runners.”

If you plan on swing trading in 2022, then the above should give some strong guidelines to formalizing a trading plan.

2022-01-21

Four Outcomes Only

There are only four things that can happen to your next trade.

1. Big Win.
2. Small Win.
3. Small Loss.
4. Big Loss...(e.g., AVON.L).

Your job is to avoid number 4. The stock market is an easy game to play and it is all about avoiding number 4 above. However, we seem hell-bent upon making it complicated. That is what makes it so difficult for us to win.

A glance at the do's and don'ts of trading in any market reveals some easily understood and seemingly simple rules to follow. We have all seen them a hundred times. They are the rules that all traders, both professional and nonprofessional, are supposed to follow. Remember, I said supposed to follow: the rules have been time and money proven.

Last week, I summarized seven steps which I hope helped to formalize a swing trading plan for all readers. The steps provide a simple and robust edge in the stock market. Please reread that Essay before proceeding if you have not already. The VectorVest edge advocates accumulating Buy recommended shares with outstanding growth and safety fundamentals (RV and RS) when the overall market as defined by the VectorVest Composite UK (VVC/UK) is rising and then managing these shares well. I have defined how many shares to buy (position sizing) and my thoughts on managing the positions in last week's Essay.

As of the 19th January, the trends of stock markets on both sides of the Atlantic are down on all timeframes. The Fed and the BOE are in the process of tapering financial stimulus and increasing interest rates during 2022. Bond markets are already discounting three to maybe four small increases in interest

rates. Stock markets don't particularly like rising rates. It's a time to be careful and diligent and respect risk.

The rules I presented last week for swing traders and those associated with the Worry-Free Investing plan (WFI) for longer-term traders are simple and are certainly easy to understand. VectorVest does all the heavy lifting of the fundamentals analysis. What makes it so difficult to follow these guidelines or similar guidelines that suit your own beliefs about markets?

More than likely, we have repeatedly broken each of these rules and will probably continue to do so, despite acknowledging that we will wind up losers if these simple guidelines are not followed. I know I have. The answer to this question contains the secret for our future success in the market.

In my humble opinion, the problem is internal and, until we all learn to change our perception about what makes the market tick, we will continue to punish ourselves and remain on the losing side of the ledger. These are lessons I had to learn the bitter way during the mid-1980's. These lessons invariably must be relearned after a period of outperformance such as the last two years after the Covid selloff.

We have all bought stocks because we thought they were cheap. Stocks that once sold for 80p and are now selling for 36p. The stock is cheap. We can get twice as much, almost like two for the price of one. The rules say go with the trend. In this case, the trend is certainly down. Yet we fool ourselves into thinking that we are getting bargains. Wirecard in Germany was a great example of this several years ago. The two for the price of one impulse buy has bankrupted more traders than any other reason in my nearly 40 years of examining of both retail and institutional accounts.

Wirecard investors were fighting the trend. A drunk off the street could have seen that the share price direction was down, yet many of us think nothing of averaging (adding to) a loser. We know the major rules. What makes us want to break them and place our capital at greater risk?

The problem is that we bring to the market a set of beliefs that are not in sync with the realities of the stock market. We must rid ourselves of these

dangerous forms of self-deception before we hear the markets call. Getting rid of ourselves is the most difficult problem we face when attempting to make money in whatever market we're involved.

Using the VectorVest edge, we can easily get to a point where 70% of our stock calls are positive and, with a 3 to 1 reward-to-risk ratio, that is a very profitable trading system. However, if you are correct 70% of the time you are incorrect 30% of the time. On the next trade, you do not know whether it is one of the 70 or one of the 30. That is the reality of the market environment and it's at odds with our normal belief system. As an engineer, few bridges collapse, as an accountant, the books will eventually balance and as a pilot who flunks on 30% of his takeoffs, would be out of work rapidly or dead. Yet this is the challenge in markets and especially professionals who are poorly equipped to handle this. We all understand probabilities at an intellectual level, but few can easily think in probabilities at an experiential level.

When a trade goes against us, the trouble begins. Our ego starts to tighten its grip over our ability to do the right thing. The right thing is to get rid of our losers immediately. The ego will produce the most fantastic reasons for holding on to that money-draining position. For the author in Polymetal, it was my belief that the gold market was in a corrective phase within a strong bull market. Pure Ego. Ego will fight us all the way and prevent us from realizing quickly that it is better to swallow our pride and do the right thing and take the loss before it becomes expensive. We know the rule that says take those losses quickly and move on to avoid number 4 above.

When we have a winning trade, ego manifests itself by magically persuading us into taking our profits quickly. The ego will get us out of our winners fast because it needs the immediate gratification of being right. It likes being right. It will deny being wrong. Being aware of our egos tight grip is a start. Becoming aware of the influence of the ego in our decision making is the first step to success and making sure we avoid number 4.

Egoless people have nothing to protect. They just do whatever the market and VectorVest tells them to do. They sort the shares in their portfolio

WatchList by RT. The shares that are not performing are at the bottom of the list. Those are the shares that need to be sold when they close below the VectorVest Stop-Loss. They have avoided number 4. They do not tell the market what to do or what it is going to do, but simply flow with it.

The spread betting companies reveal by law that over 70% of their clients lose money. I set out to understand what the 30% do to become winners.

I found that, simply put, the winners think differently from the losers. Your primary goal must be to learn how to think like a consistently successful trader. Through awareness, coupled with your desire to be successful, you can restructure and install the beliefs and attitudes that are necessary to reach your primary goal. The beliefs necessary are contained in the next few paragraphs. They are simple, but will take discipline to install these into your mental framework.

I found that when a losing trader has a losing position, they become optimistic. They become optimistic that it's going to turn around and hold on to the losing position. A winning trader who has a losing position becomes quickly pessimistic and exits the position.

I found that a losing trader that has a winning position quickly becomes pessimistic. They are worried that the market will snap away their profits. As a result, they quickly take a small profit. A winning trader who has a winning position becomes quickly optimistic and lets the winner run.

Avoid number 4 above and you will easily win at the game of trading and investing.

As of January 19th, all the Market Timing signals in both the UK and US from long-term (Confirmed Calls) to short-term (Primary Wave) are down.

2022-01-28

When It's Time to Sell, You Won't Want to

“Selling is a crucial part of successful investing. Yet, it is avoided like the plague. The reasons are clear. Buying a stock is fun, a positive event. It's the beginning of a hopeful relationship.” From Chapter 10 of “Stocks, Strategies and Common Sense” (SSCS) by Dr. Bart DiLiddo.

Please read Chapter 10 of SSCS along with this Essay to aid understanding of this most important issue. It is probably the most important part of your trading plan.

Every day I receive emails about when to exit trades. As you all know, I am not allowed to give personalized and written financial advice and so my answer is always the same. The exit criteria should be decided upon well in advance as a vital section of your trading plan. Any decision that is not thought out in advance will be taken emotionally and inevitably that leads to mistakes and errors. This week, I will focus on some thoughts on when a trade does not go our way or after a market selloff such as we have experienced in the last few weeks.

The cardinal rule of investing is to keep your losses small. By keeping losses small and allowing winners to run, this ensures a high risk to reward ratio which is essential for a positive expectancy system. In last week's Essay, I wrote at length about the emotional and psychological roadblocks that make implementation of this seemingly easy task far from easy. With this material understood, this goal of making much more when we are correct than we lose when we are incorrect can be achieved.

This is assuming that the trader/investor has done their homework and focused on stocks that trade with reasonable volume which allows an easy exit at a click. There is nothing quite as frustrating as being caught in an illiquid

stock that's tanking. What is a reasonable volume to you and me may be quite different from a hedge fund or Mr. Buffett and that's a huge advantage to the private investor/trader. My first mentor instructed that the 50-day moving average (MA) of the volume of shares traded, should be more than 20 times your total exposure.

The VectorVest program calculates a Stop-Loss level for every share in the UK database. The Stop-Loss level is based on a 13-week MA of the Price of the share which is adjusted for the fundamental position of the share.

Safe stocks with solid fundamentals should have "looser" Stop Prices than those with weak fundamentals. These considerations allow investors to stay with solid stocks longer and get out of weak stocks faster. For this reason, VectorVest's Stop Prices are fine-tuned according to each stock's safety, fundamentals and price trend. In my trading and investing, I use the VectorVest calculated Stop-Loss.

Do you place a hard stop in your trading platform at the level of the VectorVest Stop? This means a spike intraday can trigger the position to be closed, while at the end of the trading day, all is well. Many find this frustrating and for this reason, I monitor my stops on unleveraged positions by observing and obeying the VectorVest Stop on an end of day basis. These are called "mental stops" and I trust myself to action these. If the share closes below the Stop, then a red Sell signal will be clearly seen on my WatchList and, of course, the Genius feature on the program (if setup) will notify via an email. I then exit the next morning.

If I have taken a leveraged bet on any share (a spread bet in my case), then I place the stop on the trading platform. These stop orders are actioned intraday without any involvement on my part. I deem this as essential with a leveraged position.

These methods of placing stops are not advice, but just what have suited me best over the years and they are in my personal trading plan. We don't trade markets; we trade our beliefs about markets. Yours may be quite different to

mine and I would be surprised if they were not. Your personal trading plan needs to reflect your beliefs about markets. Here are some thoughts.

1. Invest in only the very best stocks. The definition of these will depend on your own personal objectives e.g., growth or income or a mixture of growth and income such as the Worry-Free Investing method (WFI).

2. Decide on a Market Timing method that informs when it's safe to be in the market. For most, the Confirmed Call method will be optimal especially for position trades. Swing traders can consider the DEW Market Timing system. When the Market Timing system prints a Sell signal then all share purchases should be ceased, and extra focus brought to monitoring Stop-Loss levels. Some aggressive swing trading strategies will go to cash when the Market Timing system prints a sell. This is the case in the Aggressive Swing Trading Portfolio found in the UK Trading System Viewer. Although this system has had a rough six months as the UK market bounced back and forth in a tight range, the system has gained 259% since the start of 2016 with 79% over the past three years. Those who follow the system tell me that it aids slumber as they are in cash during selloffs like the last few days.

3. Use the VectorVest calculated Stop to size the position so as no more than 1% of your capital is lost if the trade/investment moves against you. My Essay of 12 March 2021 illustrates the calculation needed with a practical example. This is a vital step. If you don't size your positions properly, you are gambling and not trading.

4. Let's assume that the position moves your way, as most of them will, if all the VectorVest boxes are ticked. As an initial suggestion, when you have made as much as you have risked, then exit half of the position. Bring the stop on the second half of the position to entry. In theory, some money has been made on the first half and no cash can be lost on the second half of the position. The latter is simple and easy to implement and will lead to consistent success. It's emotionally easy to follow as the hit rate (defined by hitting the first target) is exceptionally high. It stops winners turning into losers which is tough on the trading soul.

5. When the VectorVest calculated Stop has a Value above the initial entry point, trail the stop upwards behind the price. Do your best to sit in the 2nd half of the position until the share price closes below the VectorVest Stop and thus eventually you will be stopped out of the position.

6. Swing Traders, especially those using leverage, will wish to sell into strength as the share rises with the 2nd half of the position. To accomplish this, some simple technical analysis needs to be done. Channel tops can make excellent swing trade exits for the 2nd half of the position, while some make use of the Fibonacci sequence to calculate targets. I will cover these ideas in my Monday afternoon Q&A session on the 31st of January 2022.

7. Moving averages of the share price can be used to enter and exit positions. In the recent 2-day Tampa live stream, Mr. Heller from VectorVest Canada has presented the detail of this method. The recording of his presentation and all of the 2-day live stream are available at the VectorVest University. On VectorVest, click on the Training tab and then on the VectorVest University. If you scroll down the recording is there.

There is a chasm between writing down a simple set of rules and following them. The discipline to follow your rules can be easily attained, but few achieve this level of mastery. To build the discipline, it's necessary to take deep breaths and focus on your trading rules for a batch of trades. If you can follow the rules for somewhere between 8 and 13 trades, then something amazing occurs between your ears as you create new neural pathways inside your brain. The paradox is that when you have built trading discipline, you really don't need that much of it as all the decisions flow smoothly.

2022-02-04

Focus on Buying the Very Best Stocks for Your Portfolio

The only way to make money in anything is to find the value of an asset and pay less than that for it. The father of value investing, Ben Graham, called the process “Buying a dollar for 50 cents.”

Stock prices rise when:

1. Corporate Earnings rise.
2. Interest rates fall.
3. Inflation falls.

As you will have seen in the press and online, the investment debate now centers on interest rate rises to combat inflation. Rising rates are not good for share valuations and that has hit highly valued tech stocks exceptionally hard. For many of the latter, the pandemic gains have been given back to the market. If you read last week's Essay and followed the simple prescription on exits given there, most of the profit in these shares would have been captured.

Establishing the value of a common stock is quite a process. In Chapter 3 of “Stocks, Strategies and Common Sense,” Dr. DiLiddo details how he calculates the Value of a stock. The book can be downloaded from the Welcome tab on the main toolbar of VectorVest. The VectorVest algorithm uses forecasted earnings per share, forecasted earnings growth, profitability, interest, and inflation rates. The Value of each share is calculated each day and provided in a simple easy to read format. Immediately, you can see if any share is undervalued or overvalued. It's easy with a mouse click to use UniSearch to locate undervalued shares.

VectorVest provides a second measure of Value called Relative Value (RV). RV is a measure of the long-term price appreciation potential. The calculation is simpler than that of finding value.

Relative Value, RV, is an indicator of long-term price appreciation potential. RV is computed from an analysis of projected price appreciation three years out, AAA Corporate Bond Rates and risk, so it's not just a simple comparison of Price and Value. RV is reflected on a 0.00 - 2.00 scale with values above 1.00 being favorable and values below 1.00 being unfavorable. The result is RV, and the calculation is discussed in detail in Chapters 3, 4 and 5 of "Stocks, Strategies and Common Sense."

If the RV of a share is 1.30, then the probabilities favour this share and its share price outperforming a treble A rated corporate bond by 30%. If the RV is 0.90, then the probabilities favour the share underperforming the bond by 10%. Why would you wish to take a position in something as risky as a share if you could get a better return from a savings account where the capital is guaranteed?

VectorVest rates a RV of greater than 1.30 as excellent. RV allows the investor to compare all of the stocks on a consistent basis. Most analysts use the metric Price/Earnings ratio (P/E) to get a handle on value. This is essentially the number of years needed for the earnings stream to pay the share price. This metric has a flaw in that it looks backwards and not forwards. A share with a P/E of 3 can easily look like a bargain in comparison with a share with a P/E of 80 by this measure. In many cases, this is, in fact, misleading. A friend of mine in South Africa lost his asset management business in this way. He took a big bet on a share he felt was a bargain with a P/E of 3. The share was cheap for a good reason. Earnings were tumbling and the company eventually went under.

RV answers the eternal question of whether it's better to purchase a share with a very high P/E ratio with a high growth rate as compared to low P/E stock with a low growth rate. Stocks with a RV of greater than 1.00 have favorable price appreciation potential, while those with a RV of less than

1.00 are either glamour stocks selling at a premium, overpriced, have low or nonexistent earnings and low growth rates.

In my humble opinion, RV is the most important fundamental measure on the VectorVest program and in my personal trading and investing. I take the view that the larger the RV, the better. RV looks forward while P/E is looking at the past.

The VectorVest program calculates important and exact data on stock safety each day. This metric is known as Relative Safety (RS). This is unique and otherwise very hard to find information and that is because safety is the last thing anybody wants to think about. The program examines the balance sheet, income statement and cash flow statements of companies on both the LSE and AIM. This information is then mathematically massaged to fit on a scale between 0.00 and 2.00. Above 1.00, the stock's safety is fair and above 1.30, the Relative Safety (RS) metric is excellent. Even the few credible sources that provide some form of risk analysis, do so subjectively. Consequently, most investors do little more than plug intuition into their investment decisions and for this reason stock safety (RS) is the missing link in consistent performance in the markets.

Knowing how safe (or risky) a stock is can make the difference between making you a winner or loser as an investor. Here are the key factors used by VectorVest in assessing stock safety.

1. EARNINGS CONSISTENCY. The largest risk that shareholders have is that the company fails to meet earnings expectations. Experienced investors know that the moment of truth comes each quarter for every publicly traded American company. If a company fails to meet analysts' earnings estimates, its stock price could drop sharply in a single day. Therefore, the single most important factor in assessing stock safety lies in quantifying the probability that quarterly earnings will meet investor's expectations. If a company has a well-established record of consistent, predictable earnings performance, it is much more likely to meet the market's expectations.

2. COMPANY SIZE. It is true that the stocks of large companies generally are safer than those of smaller companies. Many fund managers are forbidden to invest in companies with less than a billion dollars in annual sales. Obviously, larger sized companies aren't going to disappear overnight. Investors should not assume, however, that the shares of a company are safe just because they belong to big companies. Size is not nearly as important to an equity investor as knowing where the company's earnings are heading. It is virtually impossible to forecast the earnings of companies in cyclical industries with any degree of accuracy. Therefore, the VectorVest safety ratings on these stocks are below average.

3. PRICE BEHAVIOR. The classic measure of price volatility.

4. LONGEVITY. All other factors being equal, there's less risk in dealing with a company with a long track record than one which is brand new. Young companies offer some of the best investment opportunities, but they also bear potential pitfalls that could be fatal. Regardless of how good a stock looks, it's risky if it hasn't been traded for at least five years.

5. DIVIDEND HISTORY. A company doesn't have to pay a dividend to be called a safe stock. But, if it does pay a dividend, it must maintain or increase the dividend without exception. A cut in dividend is a black eye for any company and reflects poorly on its management and stock safety.

6. There are many other factors including and especially those financial performance ratios that include a measure of debt. These are fully discussed in Chapter 6 of "Stocks, Strategies and Common Sense."

In the weeks ahead, I will continue to focus on undervalued stocks that have a proven track record of growing earnings strongly (RV) and safely (RS) for most of my holding following the Worry-Free Trading plan as best I can.

For the remainder around 20% of the portfolio, I will drop the RS requirement to above 1.00, while holding RV above 1.30 and swing trade in those shares. These steps will be fully discussed in the Q&A sessions on Monday afternoon.

As of the 2nd of February, the trends on the VVC/UK and the VVC in the USA are in a similar position. In both regions the short-term trend, or Primary Wave, has turned Up, while the longer-term measures of the trend are Down.

This is the moment to “run off the ball” and focus on preparing a WatchList of shares that suit your objectives.

2022-02-11

What Is the VectorVest Midas Touch Saying About Oil Stocks?

The Midas Touch trading system uses a double smoothing technique to remove the day-to-day noise. This allows the trader to focus on the long-term trends in any stock or commodity. The Midas Touch system makes use of a 10-day and a 65-day Moving Average (MA) of the VectorVest Stop-Loss. The VectorVest Stop is based around a 65-day MA of the share price. A Moving Average of a Moving Average performs the double smoothing that I referred to above.

There is a special report named “The Amazing Midas Touch” on VectorVest. Please click on the Views tab and then on Special Reports and this can be downloaded and studied.

There is a predesigned layout for the Midas Touch which can be applied to any chart. After loading the chart of any share there is a dropdown menu called Graph Layouts on the top right-hand side of the chart window which will automatically load the Midas Touch.

Please load a chart of Serica Energy (SQZ.L) which is currently one of the top-rated stocks in the UK.

When the 10-day MA crosses above the 65-day MA of the Stop Price, a major trend is underway. When the 10-day MA crosses down through the 65-day MA, then the trend has reversed. Dr. DiLiddo, who invented the technique, also uses a 40-day MA of the VectorVest RT as the momentum filter. The RT40 is mathematically massaged on a scale between 0.00 and 2.00 akin to all other metrics on VectorVest. Above 1.00, momentum is rising.

Using my visual interpretation of the Midas Touch, a BUY signal is printed when the 10-day MA of the Stop crosses above the 65-day MA of the Stop and the RT40 is above 1.00. Similarly, for a Sell (getting out of a long position) the 10-day MA of the Stop normally crosses down through the 65-day MA of the Stop prior to the RT40 falling through 1.00 and that's my exit signal. So, both measures must display a signal to BUY, but only a single to exit.

On SQZ.L, the 10-day crossed above the 65-day and the RT40 broke upwards through 1.00 in December 2020. Since that time the share has been rising strongly.

Divergences between the share price and the RT40 indicator can be powerful leading indicators of a change in trend. If the price of the share is rising and charting a rising high/top, but at the same time the RT40 is charting a falling top, then this predicts a change in trend in the future. This is known in technical analysis circles as bearish Normal Divergence.

If you study the SQZ.L chart between February 2021 and November 2021, SQZ.L charted a rising high/top on the price and a rising top on the RT40. This is saying that the long-term measure of momentum is rising and that there is life left in the trend. Positions should be held. It's vital that you understand this concept because this will give you the strength and grit to hold on to the position through the inevitable short-term ups and downs. When you are correct it's important to make lots to survive and prosper in this line of work.

Since the market top on November 2021, SQZ.L has traded higher and continues to make higher highs. However, the RT40 as I write has failed to follow a low top. This is bearish Normal Divergence, and it is a warning signal of a change in trend. It's my view that the trend in SQZ.L and in Oil stocks in general is very mature. Certainly SQZ.L can move higher in the short-term, but I caution against adding to positions with a long objective with the RT40 in this technical state. In the attached video, I have summarized the above in a hopefully more digestible form.

Knowing when to be strong in a position and adding to that position and knowing when to be careful and taking cash off the table is a powerful edge in the stock market. No other indicator in my nearly 40 years of trading does that as well as the concept of normal divergence between the share price and the VectorVest RT40 momentum indicator. When in doubt about when to hold and add to a position or lighten a position, the RT40 and normal divergence will clear that doubt immediately.

The concepts of normal divergence using the RT40 are fully studied for both short-term swing trading and position trading in the forthcoming “Precision Swing Trading Course” of which I have the honor of presenting two of the five modules. You can learn more by clicking [here](#).

I will revisit the subject of divergences in my next Q&A session on Monday 14th February 2022.

Next week, I will continue with the study of divergences and study how to use the Midas Touch technique to predict when the trend is going to explode higher using the concept of reverse divergence.

2022-02-18

Is There a Resumption of the Upward Trend about to Occur for LIO.L?

Last week I wrote about the concept of using a divergence between the price of a stock and the VectorVest RT40 momentum indicator within the Midas Touch technique to get an early “heads up” about a trend change. I repeat the technical parameters of the Midas Touch for clarity.

The Midas Touch trading system uses a double smoothing technique to remove the day-to-day noise. This allows the trader to focus on the long-term trends in any stock or commodity. The Midas Touch system makes use of a 10-day and a 65-day Moving Average (MA) of the VectorVest Stop-Loss. The VectorVest Stop is based around a 65-day MA of the share price. A Moving Average of a Moving Average performs the double smoothing that I referred to above.

There is a special report named “The Amazing Midas Touch” on VectorVest. Please click on Views tab and then on Special Reports and this can be downloaded and studied.

There is a predesigned layout for the Midas Touch which can be applied to any chart. After loading the chart of any share there is a drop-down menu called “Graph Layouts” on the top right-hand side of the chart window select the Midas Touch.

At this point, please load a chart of Liontrust Asset Management (LIO.L) over a period of 18 months and apply the Midas Touch layout. Tick the box adjacent to the price and the share price in candle format will appear.

While regular divergences (last week’s topic) are especially useful for cautiously predicting the end of a trend, reverse divergence can be a good

indication of trend continuation. Bullish reverse divergence takes place when the price is making a higher low (HL). But the oscillator is showing a lower low (LL). In an uptrend, reverse divergence happens when the price makes a higher low, but the RT40 oscillator makes a lower low.

Normal divergence is a reversal pattern while reverse divergence is a trend continuation pattern. Reverse divergence setups are in sync with the trend and are especially powerful with the strength of the RT40 behind them. For this reason, some technical analysts refer to reverse divergence as a “slingshot.” The latter says it all, but remember, all technical setups have a probability associated with them and there are NO sure things.

I use the concept of reverse divergence between a momentum indicator and the share price on all time frames and on all markets. However, many subscribers have found the concept of reverse divergence hard to understand and I hope the attached video and cheat sheet presented in the video, with a few replays, will help. As always, I will revisit this concept in our Q&A session on the 21st of February 2022.

Please study the chart of LIO.L. The share advanced in price from March 2021 to September 2021, moving from £12 pounds per share to £25 pounds per share. It was enjoyed by most VectorVest UK users. The share has excellent VectorVest calculated fundamentals metrics.

Since September 2021, the share has lost ground and has retreated to £15 pounds per share and is approaching a significant old high on the chart which offered resistance from July 2020 to the breakout on March 2021. This is an important level.

From the low in March 2021 to the low charted on the 15th of February 2022, the share is obviously charting a higher low (£15 is greater than £12). Now observe the VectorVest RT40. While the share is charting a higher low this strong measure of momentum is charting a lower low. That's the reverse divergence setting up.

This reverse divergence must be confirmed by price action and thus a reversal in the share price. One way of doing this would be to wait for

the 10-day MA of the VectorVest Stop to cross above the 65-day MA of the VectorVest Stop and the RT40 to move above 1.00. This would be an exceptionally strong buy in point. The crossover of the afore mentioned averages with positive momentum which are preceded by a reverse divergence of some 11 months in length would suggest a high probability entry point plus a large risk to reward move. Finally, the move invariably occurs quickly without much handwringing and angst.

A more aggressive signal would simply be a VectorVest Buy recommendation again preceded by the reverse divergence noted on the chart. Although the future is a very slippery commodity, it's my view that if LIO.L prints a VectorVest Buy signal that the next move upwards after the signal will be very profitable and quick.

These concepts are difficult to get across in word form and I hope the video attached will help your understanding.

A trader/investor can make the above setup into a powerful trading methodology and that's required to make consistent gains in the stock market.

Just remember to apply the technique to the very best stocks with outstanding growth and safety metrics on VectorVest and take signals only when the overall market is rising.

2022-02-25

What's the Hardest Part of Financial Trading for You?

I present a webcast several times a month where I show the attendees how to outperform the market in 10 minutes a day. In the webcast, I ask the question “what’s the hardest part of making money in the market for you?” Around 80% of the audience types into the webcast chat box, “knowing when to exit.”

Traders are told to “let their profits run,” but unfortunately that’s vague advice. Let a profit run long enough and it can easily turn back into a loss. Allowing profits to turn into losers can cause your trading confidence to go downhill fast. Traders need a plan with exact rules, that allows them to let their profits run beyond what they typically lose on a losing trade, but also realize that the market will not move in their direction forever. If your profitable exits over time are bigger than your average loss, winning only 50% of your trades (or even less) can still make you a highly successful trader. There are several methods to help you achieve this. This subject is covered in detail in Lesson 2 of the “Successful Investing Quick Start Course” (SIQSC), which is built into VectorVest, under the Training tab on the main toolbar.

There are two types of exits. These are associated with a profitable trade and a trade that goes poorly. Remember, the latter may have absolutely nothing to do with your judgement or execution. In both cases, how you will exit a trade should be planned before you enter and be a part of your written trading plan.

1. Setting an initial stop and position sizing.

VectorVest calculates a Stop-Loss level for each share in the database each day. The level is based on a 13-week Moving Average (MA), but is adjusted for the fundamental position of the share. If the fundamentals are good, then the Stop-Loss is widened, while if the fundamentals are poor, the stop is tighter.

In my personal trading, I act on a close below the VectorVest Stop. This is easy to spot via a red marker on my WatchList of shares that I invariably view on my smart phone using the VectorVest Android app. For many, this is when ego gets in the way. Tell your ego to get lost. Keeping losses small is the cornerstone of becoming profitable. It's mentally tough to action and it's those things that are tough to execute that are profitable. We seem to have been designed by the creator to not be very good at financial trading, but that's a subject for another day.

For the position sizing calculation, please play the video from my first presentation at the recent Tampa two-day live stream. It is available to all at the VectorVest University where this topic is discussed in detail. It's vital that if the position should be stopped out, only 1% of your capital is lost. An old mentor once told me that "the most important part of trading is to have enough money to trade tomorrow." Please click [here](#) to access the University and scroll down a bit until you see the Tampa live stream.

2. Exits from a profitable trade or investment. Just a few of the dozens available.

a. The Trailing Stop is probably the most well-known profit exit technique. In simplest terms, as the price moves your way an exit order moves upwards along with the share price. The exit order trails the price by some set amount. It is like a ratchet spanner as it allows unlimited movement in one direction, but only a set amount in the opposite direction. My first mentor used a 25% Trailing Stop-Loss. It was chosen in a pre-computer age because it was easy to calculate.

b. The VectorVest calculated Stop is also an excellent Trailing Stop. Every evening, re-sort the shares that you own in a WatchList by Relative Timing (RT). This will place the shares with the lowest RT at the bottom of the list and certainly any shares that you hold with a RT less than

1.00 need to be monitored carefully. If a share should close below the VectorVest Stop, it will be shown with a red market beside the share. It's very easy to cave into your emotions and get rid of the shares that are doing

well and refuse to take the loss on the shares that are not. I am sure nearly everyone reading this will have made that mistake at some time in their trading life. Your job as a consistently winning trader/investor is to cull the losers quickly without fuss and to keep your hands well off the winners.

c. A price target can be a simple and effective method of exiting a winning position. If you are risking £300 on a trade (the difference in cash between the entry point and the Stop-Loss used), but will make £900 if the price hits your target, your reward outweighs your risk 3:1. If you set a Stop-Loss and a price target, you can “walk away,” knowing that eventually one of the orders (stop or target) will get filled. This is advantageous to all traders, but especially those who lack time to constantly monitor their trades and/or worry about their emotional responses. Fear of losing and the greed of leaving money on the table can result in terrible decisions being made. The concepts known as Fibonacci ratios are used by floor traders to calculate profit targets. I will discuss these in detail at the Q&A session on Monday 28th February 2022.

d. A Moving Average can be used as a Trailing Stop-Loss. A 40-day MA seems to work well. A break below the 40-day MA is a strong early warning signal that the trend upward is faltering. This is discussed in detail in Lesson 2 of the SIQSC.

e. Letting winners turn into losers is an emotionally draining experience. Over the past few years, I have been using a simple technique to manage winning trades and have found this process both emotionally easy to manage and profitable. Firstly, I use the position sizing technique that was discussed in detail at the Tampa two-day live stream in January 2022. In this, I defined that the risk/share purchased was the difference between the buy in price and the VectorVest calculated Stop-Loss. I simply exit half of the shares purchased when the position has moved by an amount equal to the initial risk/share. At this point, I get my stop to entry on the 2nd half of the shares remaining. I let this portion run using the VectorVest Stop as a Trailing Stop-Loss. Here is the process in point form:

1. Size the position so as only 1% of the account is lost if the trade fails. Please reread the Essay from 28th January 2022.
2. Let's assume we buy 100 shares at 10 pounds each and the VectorVest Stop-Loss is at £8.50. The risk/share is £1.50.
3. When the share rises to £11.50 then sell 50 shares at that price. That is a profit of 50×1.50 pounds.
4. Bring the Stop-Loss on the 50 shares remaining to the entry point at £10.
5. Use this as a Stop-Loss for the remaining 50 shares until the positions moves far enough to cause the VectorVest Stop to rise above the initial entry point. After this point, trail the stop upwards at the VectorVest Stop.

The technique takes a quick profit on half of the initial position and then engineers a situation where nothing can be lost on the second half with the opportunity of a big win on this. To make this into a very profitable exercise, it's vital that you follow the rules and do not snap at a quick profit on the 2nd half. The VectorVest Stop is excellent in this regard as it's well outside the "traffic" and day-to-day noise intrinsic to the stock market.

There is no best way to exit a profitable trade. For some trades, one method will work well, but will be less than perfect on other trades. The key is to decide on a method and stick to it. All these methods can help you "let your profits run," but will get you out if the price moves too much against you. You'll never squeeze every penny out of a trade, but utilizing the exit strategies outlined here will help you capture the bulk of a move.

2022-03-04

Some Thoughts for Difficult Times

The overall UK and USA markets are in the throes of a strong selloff. This is the largest percentage fall since February and March of 2020. As I write, I have been personally stopped out of many holdings during this fall and on the 1st of March 2022 am over 70% in cash. Capital preservation is the key to survival. Please be assured that sooner or later there will be a new buy signal and, when it occurs, the news in the press and on the television will be dire. As in March 2020 when most of my last portfolio was purchased “When it’s time to buy you won’t want to.” The following are some thoughts to prepare for the next turn.

1. How much money is in your account? If you don’t know how much money you have allocated to your trading account, then you cannot size your positions correctly. If you cannot size your positions correctly, you are gambling and not trading.

2. Never risk more than 1% of your account in any trade. Use a Stop-Loss order for each position. The VectorVest program calculates a Stop-Loss for each share that VectorVest follows on the LSE and AIM each day. The risk is the amount of cash lost if the share should fall from the entry to the Stop-Loss level. As a rule, split your capital into 10 portions and then vow never to lose any more than 10% of each position should that position move against you. Careful and disciplined risk management is the difference between winning and losing in stock trading. If you don’t trust yourself to action the Stop-Loss, then orders can be placed on many trading platforms to accomplish this automatically. Never underestimate the power of the ego within us all to “give it another day.” All disasters start with a single missed tackle.

3. Spread the ten positions across the entire market and don't hold any more than two positions out of the ten in any single sector or area of the economy.

4. Never let a profit turn into a loss. I advocate exiting half the position when you have made as much as you have risked. At this point, get the Stop-Loss to entry and let the second half run with the Stop-Loss trailing upwards behind the price. To illustrate let's assume we purchase a stock at 10 pounds and VectorVest calculates that the Stop-Loss is 8.50. When the position has moved to 11.50, we have made as much as initially risked. At this point, bank half and then move the stop to entry. You now can make money with NO risk on the second half and that's a great feeling.

5. Trade only in the very best shares. Those shares, in my humble opinion, should be undervalued by the market and growing earnings per share (EPS) strongly. Warren Buffett's mentor says that EPS growth is the engine that drives the share price. Ben Graham argues that companies that are growing EPS strongly can spend money on acquisitions, research into new and better products and attract the best talent. VectorVest in a few keystrokes can find undervalued shares that are growing earnings strongly. It's like a football team. Fill the team with great players and that alone will help the team do well. Fill your portfolio with shares with great fundamentals and you are well on your way to success.

6. Never buck the trend on any stock. The stock should be in a strong upwards trend. Undervalued shares that are growing EPS strongly and breaking upwards through a 52-week high are the basis of a very successful stock and simple trading system. On VectorVest, there is a unique and proprietary metric called the Comfort Index (CI). The CI finds shares that are in the throes of a strong upward trend with a single click. Shares with great fundamentals which also have a high CI can be built into a UniSearch on VectorVest and found easily. I am not suggesting that we do not buy a pullback in an upwardly trending stock with great fundamentals, but rather emphasizing the need to have a strong trend at your back.

7. Never buck the trend of the overall market. The most important thing to know is whether the market is rising or falling. Everything follows from that. Some traders and investors use a moving average on the indices to time the overall market. The problem is that markets move like fairground rollercoasters. They take a long time to rise, but fall quickly. Moving averages on the indices don't do a bad job on the entry, but tend to be on slow when it's time to get out of the market and into cash or be short. This is due to the lagged nature of the moving average calculation. On VectorVest, we have several unique and totally objective Market Timing systems that react quickly to market conditions. There are systems for swing traders and longer-term position traders and investors. There is a good time to be buying shares and an awful time to be buying shares, and for success, you need a system that's easy to use to tell you when. I will review the Market Timing signals in both the UK and US at next Mondays Q&A session. As I write, on the 1st of March, all the Market Timing signals on VectorVest UK are Down and the advice on the Home Page of VectorVest is to not buy stocks at this time. Focus on the present moment, manage this moment well and the future will take care of itself. For most of us, the present moment is a daily bar and the daily advice from the Home Page of the VectorVest program. Doing nothing is much more difficult than it would seem.

8. Trade only in active markets. Keep out of slow and illiquid stocks. Risk management is the core of consistency in stock market trading and if the share is poorly traded there may not be a bid in sight. A filter can be added to exclude shares with poor trading volume as a line within all the UniSearch variants on the VectorVest program.

Again, doing nothing is much more difficult than it would seem. If you develop the patience to follow the above pointers, then your success over a period of time as a stock trader is ensured.

2022-03-11

Waiting on the DEW Market Timing System

“The most important thing to know is whether the market is rising or falling. Everything follows from that.”

—Dr. Bart DiLiddo

VectorVest has been Timing the stock markets of the world for over 30 years and have designed objective systems that identify market trends with accuracy and precision. There are long-term systems for investors and short-term systems for traders.

Today, I would like to focus on a medium-term Market Timing system known as the DEW which reacts quickly and accurately to a change in trend. In this last turn down, the DEW system applied to the UK market printed a Sell signal around a week earlier than the longer-term and more conservative Timing system which is known as a Confirmed Call Down. I will describe the calculation of the Timing System and its strengths and weaknesses. I will personally use the DEW system to time my first steps back into the market after this selloff on both sides of the Atlantic. As I write on the 8th of March 2022, the DEW is printing a Sell signal in both bourses, and I am sitting on my hands.

In the UK, VectorVest calculates a Composite measure of the overall stock market. The VectorVest Composite UK (VVC/UK) is an arithmetic averaged index of more than 2110 shares that we follow on the LSE and AIM. It is the broadest measure of the UK stock markets that I personally know of. A similar Composite is calculated in the stock markets where VectorVest has a presence.

Each Monday afternoon in our UK Q&A sessions, I review all the VectorVest Market Timing signals from short-term to long-term and present the sequence of events that unfolds at each turning point. This topic was

recently addressed in detail at the Tampa 2-day live stream presentation that was held in the first weekend of 2022. The recordings are available on the VectorVest University. Reviewing these carefully as an understanding of how a downturn changes to a up trending market is money in the bank. An understanding of how bull markets change to bear markets is both cash saved, and trading self-esteem preserved.

As of the 8th of March 2022, the trend situation on VectorVest UK is DnDn. The first word refers to the Primary Wave or the short-term trend which is Down. The second word refers to the Underlying Trend which is Down. The Underlying Trend has been confirmed by price action and this is the longest and most conservative measure of the trend known as a Confirmed Call Dn and has been in place since the 13th of January.

With a smart phone and the VectorVest app, staying on top of the Trend of the overall market can easily fit into the busiest of lifestyles. Knowing where the overall market is heading is 70% of the exercise and vital to your success.

Markets are like us, and they breathe in and out. At each turn from an up trending to a down trending market, a similar series of events occurs. The short-term systems record the first change, then the medium-term systems and finally the long-term systems. Small ships turn faster than aircraft carriers.

The DEW Market Timing System is not displayed on the front page of VectorVest and the trader (and that's who will be using the system and typically not a longer-term investor) should load the VVC/UK.

A chart of the VVC/UK can be summoned with two clicks. Click on the Timing tab on the main toolbar and then on the Market Timing Graph. All of the VectorVest Market Timing signals can be overlaid on this chart by making use of the dropdown menu on the lower left-hand side of the chart. Please select the DEW option. I find that displaying the last six months of data shows these medium-term signals well.

On the right-hand side of the chart under the "Graph Control Panel" there are several default layouts to choose from. Click on the "ProTrader Timing DEW."

The DEW Market Timing System (Medium-Term swing trading signals):

D...Detrended Price Oscillator (DPO). This is a standard Momentum indicator of the Price of the VVC/UK with centre line at 0.

E...Price envelope of the VVC/UK (rarely used).

W...Weighted Moving average of the VVC/UK.

The ideal Market Timing system should be fast, reliable, and objective. The signals generated by the VectorVest DEW Market Timing system are more reliable than the shorter-term systems, but much faster than the longer-term systems. Moreover, the DEW signals are totally objective, easy to identify and very robust in BackTesting.

Up signals are given when:

1. The Price of the VVC/UK is above the 30-day Weighted Moving Average
2. The DPO is positive
3. *If the lower envelope is pierced in a Down wave, the Up signal only requires one of the two prior conditions to be met (Rarely happens).
Last time was in the Covid crisis in 2020.

Down signals are given when:

1. The Price of the VVC/UK is below the 30-day Weighted Moving Average.
2. The DPO is negative.
3. *If the upper envelope is pierced in an Up wave, the Down signal only requires one of the two prior conditions to be met (Rarely happens).

As stated above, the DEW signals are NOT recorded on the Home Page of VectorVest. Simply display the Market Timing Graph as instructed above and select the DEW layout. I will demonstrate this in the attached video.

The DEW signals are excellent swing trading entry and exit points and they never miss a large move. The downside is that they are prone to chop (whipsaw) in a tightly ranging market. This is the price you pay to catch the big moves.

The last sell signal from the DEW system occurred on 6th of January 2022, while the longer- term Confirmed Call signal occurred on the 13th of January 2022.

A week is a long time in a leveraged position and those who speculate in CFDs and spread bets will find the DEW very useful. As stated above, I await a signal from the DEW Market Timing system in both the UK and the USA to indicate that it is safe to initiate new positions after the present selloff has run its course.

2022-03-18

Opportunity Lies Ahead

Markets on both sides of the Atlantic are trending down as I write on the 15th of March 2022, but are in deep and mega oversold territory. Last week, I wrote about the DEW Market Timing System and its robust ability to indicate when it's the correct time to be accumulating shares. If you load the DEW Market Timing layout as shown in last week's video, there seems to be a strong normal divergence setting up between the Price of the VVC/UK and the Detrended Price Oscillator used in the DEW's construction. A Buy signal from a mega oversold market preceded by such a divergence is a high probability signal and a signal that I will be acting upon. For the moment, on March 15th, it's a day to sit on hands.

Over the years, the research department at VectorVest has noted that the VectorVest Composite and the levels of the Market Timing Indicator and the Buy/Sell ratio have strong predictive aspects when they are showing mega oversold readings. When the MTI falls below 0.60 and the Buy/Sell ratio drops below 0.20, that indicates a market that's in extremely oversold territory and the probability of a strong bounce or the start of a new trend is high. This mega oversold situation occurs every few years and now the UK market is climbing slowly from such a technical position.

A great example of this mega oversold market occurred in November 2016 when Mr. Trump was elected. The scenario played out again at the Covid lows in 2020.

VectorVest combines the power of fundamental valuation with the insight of technical analysis and that is sure to make you a better and more consistent investor. For my first 25 years in this line of work, I pretty much just used technical analysis and did OK. I just didn't have the skills, time or the inclination to fight with the annual and interim reports to understand the fundamentals. Over the past 11 years (with VectorVest doing all the heavy

lifting, not I), my results have improved significantly with both the hit rate and the risk to reward of my trading calls. The latter was the result of adding strong growth fundamentals into the mix.

The VectorVest philosophy encompasses three major areas of market analysis. These are:

- 1. The fundamental position of a stock.** I define fundamental analysis as the search for the true value of a share. As you know this is summarized on VectorVest by the valuation, price appreciation potential, Relative Value (RV) and Relative Safety (RS). In short, I wish to be focusing on shares that are undervalued that are growing earnings strongly and safely. Both RV and RS are measured on a scale between 0.00 and 2.00. Above 1.30 for each is defined as excellent.
- 2. The technical position of a stock.** I define the technical position of a stock as the study of trends and turning points. On VectorVest, there is a short-term measure of the trend of each stock in the database, Relative Timing (RT) and a longer-term measure of this trend known as the Comfort Index (CI). As with the fundamental metrics, both RT and CI are measured on a scale between 0.00 and 2.00. Above 1.30 on each show both the short-term trend of the share and the longer-term trend are both strong. A high metric for CI (> 1.30) and a low metric for RT (< 1.00) would indicate a share that's in the throes of a strong long-term trend that's possibly oversold in the short-term. This was the case in all the stocks I highlighted in the Q&A session (save GAW.L) on the 15th of March.
- 3. The technical position of the overall market.** Again, this is the study of the trend and possible turning points of the general market. Readers of this Essay will know that VectorVest has many Market Timing systems to cater for short-term swing traders and longer-term position traders. As I have written, before, I believe that this is at least 70% of the exercise.

I reviewed some excellent candidates for purchase in the latest Q&A session on the 15th of March and the recording is available by clicking [here](#). These stocks were selected based on strong growth fundamentals as per point 1

above and mostly on the technical position discussed in the last part of point 2. Many are on sell recommendations presently and two things must occur before purchase. The general market must print a DEW buy and the stock should confirm with a VectorVest Buy recommendation. You can get very rich by simply buying Buy rated shares with excellent growth and safety metrics when the overall market is rising. Let's keep the process simple and robust.

That's why I entitle this Essay "Opportunity Lies Ahead." Remember, that although markets are showing mega oversold levels on the VectorVest metrics, they can easily fall further. It's vital that nothing is done until a Market Timing signal that you trust is printed on the Market Timing Graph and the advice on the Home Page of VectorVest is positive. Doing nothing is much more difficult than it would seem.

2022-03-25

The Ball Is in and the Game Is On

Last week I felt that there was a great opportunity ahead and a reward for our patience over the past weeks of the downswing. As I am sure you have all seen, the VectorVest Composite UK printed a Confirmed Up Call after the close on Monday 21st of March. A spring day in more ways than one.

Someone once said that the game of trading was “simple but not easy.” The difficulties mainly arise from our ability to simply follow a simple set of rules without chopping and changing those rules.

I have written about discipline in trading many times over the years that I have been compiling in these weekly Essays. In trading seminars, I can see the delegates nod off as I mention the subject. I have heard it said that you have got to lose a lot of money before a typical trader concludes that their personal discipline may be a part of the problem. In my experience, this is not far from the truth. Don't let that happen to you.

A disciplined technical approach **REQUIRES** that you have **NO OPINION** of where your present position is heading as the market cannot be predicted accurately on a trade-by-trade basis. You must be free to strongly hold a position today and cut it tomorrow if your approach warrants it.

Without that freedom and flexibility, your style can be compromised much to your disadvantage. Virtually every mistake you make psychologically is caused by having an opinion on the markets. It is best to trade on the assumption that your opinion (not your trading plan) is worthless.

In my first institutional trading job, the desk head used to say, “Take off your opinions of where the market is going when you hang up your coat in the morning.” When we feel that we know what's going to happen next and it

does not, then a wave of pain arrives. Many of you will have experienced what I have just written. This pain is responsible for many trading errors.

All trading pain can be removed by really, really believing that in one trade anything can happen and it's tough to mentally get to this point. Remember, that the VectorVest edge does a great job of predicting the future over a batch of trades, but cannot predict what's going to be the outcome of any single trade or investment. If you are correct 80% of the time, then you are wrong 20% of the time. On the next trade you don't know whether it's one of the 80 or one of the 20.

In contrast, the amount that we believe we can predict the outcome of any one trade will be directly proportional to the extent that we FAIL as a trader.

The expectation that we know what's going to happen next is the source of all trading pain. Many people start to trade and invest knowing very little about the market and do very well.

In the beginning of their trading career, they have no expectation of being able to predict the market as they know nothing and have little experience. After a few months of trading, they slowly become gurus and now feel confident to predict the future on a trade-by-trade basis. Slowly the pain starts, and they find that trading errors of hesitation and picking trades start to surface.

The most common trading error is that of hesitation and picking trades. Our minds have two design characteristics:

1. Associate one moment with a previous moment.
2. To avoid both physical and emotional pain.

This is how we have been wired to learn from our experiences and mistakes and it works well in most areas of life. If you put your hand on a hot stove plate as a child, it hurt. For the rest of your days when your hand gets close to something hot you relive the childhood experience and very quickly elect to move your hand away to avoid the pain.

This programming gets in the way while we are trading. If we start to trade with any system, let's say the first trade is a winner and the second a winner. Sooner or later a bad trade is going to come along.

If we believe that we know what's going to happen next, and for most traders, the reason they put the trade on in the first place, then the loser is accompanied by PAIN.

The next trade comes along. When it's time to execute our mind remembers the pain associated with the bad one. The mind is wired to avoid pain, so we find ourselves hesitating. In many people this can be very subtle. We have been hard wired not to be very good at this.

When a problem threatens to engulf you, there is nothing like irrelevant detail to keep your head above water. There are many internet predators that survive by finding traders in this mode late at night on the net and offer "the secrets to 99% winning trades" at 3000 pounds a pop. These rogues give the investment training business a very tarnished reputation.

There is no method available which can predict the market with anything approaching 100% accuracy. There are just too many variables around for that to happen and what's more it's not necessary. If you make much more on your winners than is lost on the losing positions, then a 50% hit rate can make you very rich.

Am I saying that we should forget about working on our analysis?

Of course not. Once we realize (and firmly believe with every fiber of our being) that at the level of one trade that the market cannot be predicted, we can certainly work hard to get a better overall edge. But remember, that the best analysts are normally the worst traders imaginable.

Keep your analysis simple and focus on undervalued stocks that are growing earnings strongly and safely. These stocks should be trending upwards on a VectorVest Buy Rating. A simple UniSearch on VectorVest will find such stocks in a click and I will demonstrate such at our next Q&A session on Monday 28th March 2022.

Market Timing is vital and everyone that's been in the market since January 2022 to the present should be convinced of that. It's 70% of the exercise. I have written about overall Market Timing on numerous occasions in these Essays and summarize the Market Timing at present in the attached video.

As I write on the 22nd of March 2022, VectorVest UK has just printed a Confirmed Call Up on the UK market. This is the most conservative Market Timing signal on VectorVest, and I have already added to some existing positions and accumulated two new positions. The shares in question were discussed in detail at the Q&A session of the 21st of March.

I used the VectorVest calculated Stop for the above purchases and have calculated out the number of shares to buy on each position. Should the trade/investment go against me, then I will have lost just 1% of my account balance.

Successful trading is about the perfect repetition of a simple process which should be set out on a single page document. Our job is to focus on perfect execution of the process and to make the very best trades. If we focus on the process, then the cash will take care of itself.

2022-04-01

Finding the Best Shares for Your Portfolio with the Stock Viewer

The stock market emits an enormous amount of information each day. Some of this is meaningless and of course some of it is vital to our success. An old stock market adage is “it’s not what you don’t know that gets you, it’s what you do know that’s just plumb wrong that gets you.” Sifting the gems from the misinformation that is thrown at the individual investor daily is a big part of success in the stock market. Finding important information in a form that’s easy to react to is the foundation of trading success and that’s what we address at VectorVest. Clear and unambiguous facts that are easy to react to with little head scratching.

So how can we separate the good advice from the bad? That’s what the Home Page and the Stock Viewer on VectorVest achieves. The information presented is based on hard cold numbers with no ego-based imagination or my dubious wave counts. The advice in terms of market direction and the fundamental position/technical position of a share is reality. It’s my job and your job as investors and traders, to focus our minds on the present moment and react to this daily information. I keep repeating myself I know, but if we manage today well, then the future and our P/L account will take care of itself.

The first step is to decide whether the overall market is rising or falling. Everything follows from this. As I write on Tuesday 29th March 2022, the longest-term measure of the trend of the UK market (known as a Confirmed Call) is Up and has been positive for buying stocks for the past week. This is shown on the Home Page of VectorVest and no chart watching, or any subjective input is required. The trend situation is UpUp as I write. The first word refers to the Primary Wave (short-term trend) and the second to the

Underlying Trend. All the measures of the trend including the medium-term Market Timing system known as the DEW (not shown on the Home Page) is Up.

Many will know that my core belief is that the US markets determine the direction of many of the stock markets of the world and in particular the UK market. Of note is that the US market has printed its first Confirmed Call Up of 2022 after the close on the 29th of March. The Confirmed Call has been Down since the 22nd of November 2021.

VectorVest is designed to conduct a factual, objective analysis of both stock technical and fundamental data and transform it into easily used information and guidance. All this information and guidance is stored in the Stock Viewer. It is a gold mine of solid dependable information and my job as a stock trader is to extract the gold and that's not hard to do.

To start, simply click on the Viewers tab at the top of the VectorVest Home Page and select the Stock Viewer. Then examine the top 30 stocks ranked by VST-Vector. I look at the chart of each one of the top 30 VST stocks most every evening. This is the default sort on the Stock Viewer.

After loading a chart, please select the "VectorVest Simple" layout from the Graph Layout dropdown menu.

In lesson 4 of the Successful Investing Quick Start Course (SIQSC) which is built into VectorVest, there are two main cherry-picking techniques discussed. The first looks for a nice steady pattern of rising prices. I also like to see smooth, steadily rising EPS patterns. Forecasted EPS is the blue line study below the share price plot on the layout selected. It's hard to go wrong buying stocks with steadily rising earnings. Buffett's mentor Ben Graham says that "EPS growth is the engine that drives the share price." Please review lesson 4 of the course for more details.

The second cherry-picking technique is the Midas Touch which is detailed in a "Special Report" which can be downloaded from VectorVest. Please click on the Views tab and on the upper left-hand side click on Special Reports.

Shares with the best EPS growth patterns have invariably high Relative Safety, RS ratings. The next thing I do is sort by RS and again look at the charts of the top 30 RS stocks. By hand (a dinosaur I know) I note common ground between this sort and the VST sort. For these high RS shares, I especially like to look at the weekly chart over 3 to 5 years to examine the long-term of earnings performance of these great stocks, plus the trend and support and resistance levels.

To find shares with the smoothest long-term price performance patterns, sort by Comfort Index, CI. I refer to the CI as the VectorVest secret weapon. I've finally relocated CI on my Stock Viewer screen to be between VST and GRT. If the CI is high, above 1.30 the stocks will have a smooth, rising Price chart with little volatility. Again, I make a note of the common ground between this, the CI and the VST sort.

I first saw this very simple technique demonstrated by Susan Thornborough and Susan has developed a technique which bypasses my written notes. It's simple and gives the investor a great feel for the market action in a few moments. Try it. The technique finds some great shares. I will ask Susan to show all this technique once again at the next online investors club meeting on the evening of the 20th of April 2022.

Of course, UniSearch can be used to do most of the above automatically, but the hands-on process has great merit in my view.

Take those shares that show a great combination of trend, EPS growth and safety when the overall market is rising and place them in a WatchList. Re-sort the WatchList by RT. This will place the strongest to the top and the poorest performers to the bottom of the list.

Remember, the "Holy Grail of Trading" in my humble opinion. Winning traders become very optimistic when they have a winning position and allow the position to run. Winning traders become pessimistic very quickly with shares that are underwater, at the bottom of their WatchList and simply exit those positions. Losers unfortunately get this process completely the wrong way around. They become pessimistic with their winners and optimistic with

their losers. They exit winners far too early and hang on to losers in the vain hope they may turn. Don't let that happen to you.

Over the last 40 years in this line of work I have seen the following characteristics in the many winning traders that I have worked with and traded with on all five continents of our world. They are:

1. Discipline
2. Optimism and personal confidence
3. Confidence in their process
4. Knowledge
5. Patience

How do you rate in these?

2022-04-08

Swing Trading in Strongly Trending UK Shares with the Midas Touch

The Midas Touch Trading technique ignores market noise and pinpoints stocks that are trending strongly. I have written about the technique in this Essay on many occasions and am greatly impressed by it. There is a Special Report on the construction of the technique on VectorVest.

Click on the Views tab and click on Special Reports on the top left-hand side of the screen and select The Amazing Midas Touch report.

The Midas Touch Trading technique uses a double smoothing technique to filter out the day-to-day noise of the stock market and easily allows the investor to find shares that are trending strongly where the financial reward can be many times larger than the initial risk. The technique on its own is a winning strategy suited to long-term position traders, but the shares in the WatchList are also very suitable for short-term speculation. The probability of a short-term trading signal being correct goes up significantly if there is a strong trend at its back. The long-time tested rule of taking short-term trades in the direction of the longer-term trend applies to all markets and time frames. The Midas Touch WatchList makes an excellent focused list of shares where short-term trading opportunities can be found in a single click. As a short-term trader, this reduces the number of shares to be studied to a manageable number and that's very important as the trading takes focus. Firstly, let's define the characteristics needed of a share to become a member of the Midas Touch WatchList.

1. The 10-day Moving Average (MA) of the VectorVest Stop is above the 65-day MA of the VectorVest Stop. That's the double smoothing noted above as the VectorVest Stop is based on a moving average.

2. The Stop price MAs must be hitting new 3-month highs.
3. The 40-day MA of the VectorVest RT must be above 1.00 on a scale between 0.00 and 2.00.
4. The 40-day MA of the RT must be hitting a new 3-month high.

If these four conditions are met, then the share is placed into the Midas Touch WatchList which can be found by clicking on the Viewers tab and selecting WatchList Viewer. Then click on the Cherry Picking folder and select the Midas Touch Stocks WatchList.

These shares make ideal candidates for short-term swing trades and those with ProTrader can scan for the technical setups. Those without ProTrader can easily scan the top 20 from the Midas Touch WatchList (sorted as a default by VST) by eye in a few minutes. I will go through this process in the attached video on the UK market.

There are many short-term trading techniques that can be applied to pinpoint exact entries for relatively short-term trades over 2 to 3 weeks that are sufficiently accurate for a leveraged environment. In the following, I will detail one of these that is time proven by myself and many others.

I was first introduced to the momentum study known as the “Stochastic Indicator” when I attended a 3-day trading course by its inventor George Lane in 1986. The study plots a unique rate of change of the price of a share on a scale between 0 and 100. Less than 20 is defined as an oversold position and over 80 an overbought condition. My experience is that the tool works well with the trend and poorly against the trend. The oversold levels (less than 20) thus provide excellent entry points with the trend of those shares in the Midas Touch WatchList which are trending upwards strongly. Please start your study of this indicator using an 8-day Stochastic and this entails changing the setting from the default which is set at 14. I have used the period of 8 on all timeframes from hourly to monthly charts over the years with good results and that was what George taught me so many years ago.

If you run through the process summarized above, the top share on the Midas Touch WatchList as sorted by the Master Indicator VST is TGA.L. The share has been on the list for some months, and I know the share has been very kind to most of our members. I am a shareholder in the South Africa market.

Apply the 8 period Stochastic and you should easily observe that the stock was much oversold in the dip that occurred on the 16th of March. The Stochastic was showing a value of less than 20. Some use a breakup through the 20 confirmed by a green up candle to confirm the entry. After that, the trend resumed and the rest is history. They are always easy in hindsight I know. It takes strength and resolve to be a swing trader, but if this can be mastered emotionally then the rewards are high. When you get used to getting in at the cusp of the turn (and it will take practice like anything else), the process is great, fun and very profitable. Learn to love the process as the trading horse race hasn't got a finishing gate.

It is easy to scan for this setup in ProTrader, but a simple visual examination does the trick in a few minutes of focus.

In conclusion, the Midas Touch WatchList provides an excellent source of swing trading opportunities in the UK and in all the world markets that are a part of your membership. The addition of an 8-day Stochastic pinpoints high probability and low risk entry points. For regular and consistent success, add the Market Timing considerations discussed in detail at each Q&A session on Monday afternoons. The next webcast is on April 11th at 1:30pm UK time. If you also add strong EPS growth fundamentals to the mix, you have an excellent short-term trading system.

You only need one strategy to get rich in the stock market. The sooner you commit to being great at it, the sooner it will pay you. You will never get paid well for knowing a little about many strategies. To be great at one thing, you must sacrifice the others until that first setup is mastered and consistently profitable.

2022-04-14

Simple Trading Rules That Are Emotionally Difficult to Follow

Please don't underestimate how difficult it can be to follow several, seeming trivial, trading rules especially those associated with position sizing. New traders will dismiss the latter. Older and more experienced traders will know only too well the discipline required to follow a single investment/trading plan until it's mastered. As I said last week, you just need one well executed strategy to get rich in the stock market. I suggested a swing trading plan in last week's Essay.

After a run of good luck in the market, we all can get very slack and cocky. In this mental state, it's easy to decide (mostly emotionally) to trade at a size which will cause massive drawdown when a run of losing trades arrive. The latter will sooner or later pitch up as sure as day follows night. The following points have kept me alive in these markets for many years and, in that period, I have seen dozens of hotshots come and go. Remember, we tend to be risk seeking with losses and risk averse with winners. The mind can and does play a lot of tricks.

1. How much money is in your account? If you don't know how much money you have allocated to your speculative trading account, then you cannot size your positions correctly. If you cannot size your positions correctly you are gambling and not trading.

2. Never risk more than 1% of your account in any trade. Use a stop-loss order for each position. The VectorVest program calculates a Stop for each share listed on the LSE and AIM each day. The risk is the amount of cash lost if the share should fall from the entry to the stop-loss level. As a rule, split your capital into 10 portions and then vow never to lose any more than 10% of

each position should that position move against you. Careful and disciplined risk management is the difference between winning and losing in stock trading. If you don't trust yourself to action the stop-loss, then orders can be placed on many trading platforms to accomplish this automatically. Never underestimate the power of the ego within us all to "give it another day." All disasters start with a single missed tackle.

3. Spread the ten positions across the entire market and don't hold any more than two positions out of the ten in any single sector or area of the economy.

4. Never let a profit turn into a loss. To start your trading journey, I suggest the following. Consider exiting half the position when you have made as much as you have risked. At that point, increase the stop-loss to the initial entry point and let the second half run with the stop-loss trailing upwards behind the price. To illustrate, let's assume we purchase a stock at 10 pounds and VectorVest calculates that the Stop is 8.50. When the position has moved upwards to 11.50, we have made as much as initially risked. At this point, bank half and then move the stop to entry. You now can make money with NO risk on the second half and that's a great feeling. Let the second half of the position run and trail the protective stop upwards at the VectorVest calculated level.

5. Trade only in the very best shares. Those shares, in my humble opinion, should be undervalued by the market and growing earnings per share (EPS) strongly. Warren Buffett's mentor says that EPS growth is the engine that drives the share price. Ben Graham argues that companies that are growing EPS strongly can spend money on acquisitions, research into new and better products and attract the best talent. VectorVest in a few keystrokes can find undervalued shares that are growing earnings strongly. It's like a football team. Fill the team with great players and that alone will help the team do well. Fill your portfolio with shares with great fundamentals and you are well on your way to success. Please review Lesson 1 of the Successful Investing Quick Course (SIQSC) to discover how to analyse any share both technically and fundamentally in 30 seconds.

6. Never buck the trend on any stock. The stock should be in a strong upward trend and breaking higher at the entry point. Undervalued shares that are growing EPS strongly and breaking upwards through a 52-week high are the basis of a very successful stock trading system. On VectorVest, there is a unique and proprietary metric called the Comfort Index (CI). The CI finds shares that are in the throes of a strong upward trend with a single click. Shares with great fundamentals which also have a high CI can be built into a UniSearch on VectorVest and found easily.

7. Never buck the trend of the overall market. The most important thing to know is whether the market is rising or falling. Everything follows from that. Some traders and investors use a moving average on the indices to time the overall market. The problem here is that markets move like fairground rollercoasters. They take a long time to rise, but fall quickly. Moving averages on the indices don't do a bad job on the entry, but tend to be on slow when it's time to get out of the market and into cash or be short. This is due to the lagged nature of the moving average calculation. On VectorVest, we have several unique and totally objective Market Timing systems that react quickly to market conditions. There are systems for swing traders and longer-term position traders and investors. There is a good time to be buying shares and an awful time to be buying shares and, for success, you need a system that's easy to use to tell you when. I have written about the VectorVest Market Timing systems on many occasions, but again a review of Lesson 3 of the SIQSC will get you up to speed very quickly on this topic. Focus on the present moment and manage this well and the future will take care of itself. For most of us, the present moment is a daily bar and the daily advice from the front page of the VectorVest program. As a write on the 12th of April 2022, the advice on VectorVest is to sit on hands and not purchase any stocks.

8. Trade only in active markets. Keep out of slow and illiquid stocks. Risk management is the core of consistency in stock market trading and, if the share is poorly traded, there may not be a bid in sight. A filter can be added to exclude shares with poor trading volume as a line within all the UniSearch variants on the VectorVest program.

Doing nothing is much more difficult than it would seem. If you develop the patience to follow the above pointers, then your success as a stock trader over a campaign of trades and investments is ensured.

2022-04-22

The Structure of a Model Trading Plan

“Plan your trade and trade your plan” is a commonly spouted mantra in the trading world. It’s much easier to write than do I readily admit, but it gets easier with practice. The first 8 to 13 trades of a 30-trade campaign will be difficult, but after those are under your belt the process becomes much easier. As I have said here a dozen times, “You are 8 to 13 trades away from the trader/investor that you want to be.” The 80% that lose money (according to the spread bettor’s stats) never muster the discipline to jump this creek. You must have a plan which instructs.

1. Is it a safe time to be buying shares?

For most, just simply follow the VectorVest Confirmed Call Market Timing system. Aggressive traders can consider the medium-term system known as the DEW. In my weekly webcasts, I study these in some detail for both the UK and US markets. Once you understand how to read these you will know at a glance on VectorVest whether it’s safe to Buy stocks or not. I believe that knowing whether the overall market is rising or falling is 70% of the exercise. Swim with the stream. I will look at Market Timing in the attached video as of Wednesday 20th of April 2022.

2. What shares to Buy?

VectorVest analyses all the stocks we cover on the LSE and AIM each day for value, safety and trend. Portfolios loaded with undervalued shares that are growing earnings both strongly and safely reward traders handsomely. The stocks chosen should be trading below the VectorVest Valuation and possess excellent levels of Relative Value (RV) and Relative Safety (RS) and be rated a VectorVest Buy recommendation. In Lesson 1 of the Successful Investing Quick Start Course (SIQSC) these metrics are explained in detail by video

instruction in a few minutes of your time. It is so easy in trading to make life a ton more difficult than it needs to be as I acknowledge only too well.

3. Where should you place the initial stop?

VectorVest calculates a Stop-Loss for each stock we cover, each day. This Stop is based on a 13- week moving average of the price of the share, but it is adjusted for the fundamentals of the company. A share with excellent fundamentals (RV and RS for example are excellent) has a wider calculated Stop-Loss level than a similarly priced stock with poor fundamentals. The Stop- Loss is calculated to keep the trader in a stock with great underlying fundamentals that's trending higher without getting stopped prematurely on a market maker-initiated stop. The latter is widespread. It is simply market makers, making money and getting their best clients filled at the lows of the week. I was very good at it in my youth. The VectorVest calculated Stop weaves a fine line between keeping the position trader in a winning position and protecting capital and does an excellent job.

4. How many shares to buy to ensure no more than 1% of capital is at risk?

I get more emails about this than anything else and I do my best to communicate. The 1% risk is the amount of cash that you lose if the share falls from the entry point to the Stop-Loss level calculated by the VectorVest program. It is NOT the entire purchase price. The cash lost between the entry point and the VectorVest Stop-Loss level should not be more than 1% of your total account size.

Let's say we buy at £10 and the VectorVest Stop is at £9 in a £100000 account. 1% of the account size = £1000.

The Risk/Share purchased is £1. Each trade will have a different risk per share depending on where you entered and where VectorVest has calculated an appropriate Stop level. The simple equation is as follows:

Let N = the number of shares purchased.

$N * \text{Risk/Share} = 1\% \text{ Account size.}$

$$N * 1 = 1000.$$

$$N = 1000/1 = 1000.$$

We buy 1000 shares at £10 each and thus the entire purchase is £10000.

In the same account, we also buy a share at £10. In this case, VectorVest has calculated a tighter Stop at £9.30.

In this example the Risk/Share = £0.7.

$$N * \text{Risk/Share} = 1\% \text{ Account Size.}$$

$$N * 0.7 = 1000.$$

$$N = 1000/0.7 = 1428 \text{ shares at } £10 \text{ each.}$$

The total exposure is now £14280, but the risk in pounds is the same in both examples.

Short-term swing traders frequently use much tighter stops than position traders and can thus load up on the number of shares purchased for the same risk in pounds. This is one of the main advantages of swing and short-term trading.

I have completed the above calculation for every trade that I have done since shown the technique in 1982. It has kept me alive in good times and in bad.

5. How to take profits and exit the position.

To start your trading journey, I suggest the following: Consider exiting half the position when you have made as much as you have risked. At that point, increase the Stop-Loss to the initial entry point and let the second half run with the Stop-Loss trailing upwards behind the price. To illustrate, let's assume we purchase a stock again at £10 and in this case VectorVest calculates that the Stop-Loss is £8.50. When the position has moved upwards to £11.50, we have made as much as initially risked. At this point, bank half and then move the stop to entry.

After a weekend's effort, you now will have a plan, then adhering to that plan is the next and, quite honestly, the much harder challenge. It's a bit like becoming a sniper in the army. I could take you to the firing range and show

you the rifle. Over a matter of a few hours, I could show you how to clean it, hold it, breathe with it, and become one with it. In a few hours you would be hitting the target 9 times out of 10. Could you still do that if someone is firing back at you? The first is akin to practice trading with dummy money and the latter is trading real loot. The market noise can lead to some errant decision making and to start please switch off all intraday prices and noise. The screen is not your friend most of the time.

The only way to build the discipline to follow your plan is (as the trainer's advert goes) "Just do it." At least, just do it once. To start with, focus on following the plan for just one trade. If you do, follow the plan for just one trade, regardless of the outcome that is a major milestone. The second time will become much easier. Your future wealth and prosperity are all about this single trade as they appear one by one over the next few years.

One of my favorite trading analogies is by the late and great Mark Douglas in his book "Trading in the Zone." He tells the story of two salesmen: A bad salesman gets rejected a few times and then drinks his lunch. A good salesman gets rejected a few times, grabs a cup of coffee, and then goes back to work, knowing that he's getting closer and closer to a sale. Trading is no different. Provided that you have a solid methodology in place such as I have suggested above, then it's simply a matter of playing the game repeatedly and the cash will take care of itself. Playing the game comes down to perfect execution of this trade with fear or hesitation and the only way to get there is "Just do it."

Don't look to the markets for entertainment. You'll find that trading, done properly, can often be quite boring. You spend a lot of time waiting for positions and once you're in them, you'll spend a lot of time waiting for them to work. My best friend and excellent trader often says, "80% of the points come in the last 20% of the duration (time) of the trade." This simply means that, after entry, the share can hang around doing little prior to exploding higher when most have given up.

Spend a few hours of quality time this weekend and map out a plan for your trading business.

2022-04-29

How to Be a Happy Trader in All Market Types

Years ago, I attended a Trading Expo in New York City where I listened to a legendary trader speak about trading and his trading process. He has an indicator named after him and a daughter who is a movie star. He said the following “if you want to be happy then don’t trade.” I disagreed with him then and even more so now. If you are miserable as a trader, then this infers that your beliefs about markets are simply out of sync with the realities of the market environment. The late Mark Douglas expands greatly on this topic in his book “Trading in the Zone.”

Good traders and investors try and make rational decisions and follow their trading plan. Last week, I wrote about the constituents of a VectorVest based trading plan for your consideration. They don’t easily allow misplaced and poorly directed emotions to impact their buy, sell and risk management choices. This is especially important when the market is choppy and facing the headwinds of rising rates, war, Covid disruptions in China and the effects of a strong US dollar. This is the case as I write on the 27th of April 2022 with the trends firmly down on both sides of the Atlantic. The US markets are sitting at a major support level and below this level there is much fresh air. Remember, the parachute (stop-loss). If you are new to the game, then a fixed line will be appropriate and that means placing the stop level in the market makers (brokers) software. So akin to the fixed line, the stop is automatically triggered, and capital is preserved.

Older more experienced heads with many jumps under their belt can use a manually executed stop if they wish. More on the general state of the market at the end of this Essay.

The masses of traders tend to become bearish AFTER the market tanks and tend to become bullish AFTER the market surges. This means that these

traders are no longer thinking independently or rationally. They are just following the market in a herd. I frequently joke “I am feeling bearish and that normally means a low is close.”

Warren Buffett says, “be greedy when others are fearful and be fearful when others are greedy.” This is easier said than done because we are all human and we should be very grateful for that. No one is perfect. Most traders and investors tend to get the emotional response the wrong way around and “be greedy when others are greedy and be fearful when others are fearful.”

Humans are social animals. We cannot live in isolation for long periods of time without going a little mad. That’s why other peoples’ thoughts impact our own thoughts. We all get a little greedy when the market goes up and a little fearful when the market goes down. Feeling these crowd- driven emotions is just a part of being human.

But you cannot let these emotions determine your trading decisions. If you do, your returns will be average at best.

The best traders have a clearly defined strategy. Trading is about probability. Simple, cold, hard mathematics. It isn’t about following a hunch or a gut feeling. Invariably, your emotions will control your “gut feeling” especially as the stakes become higher. If the money is needed in the short-term, then those hunches will be far from unemotional. In many Essays, and each Monday afternoon at the VectorVest Q&A sessions, I speak of system expectancy and the factors that determine a winning trading strategy. These are hit rate, risk to reward and brokerage/spreads. In simple talk, a winning system should make more when it’s correct than it loses when it is not.

Therefore, at VectorVest, we advocate as a first step, a quantitative trading strategy instead of a discretionary trading strategy which focuses on undervalued stocks that are growing earnings strongly and safely. These stocks should be on a VectorVest Buy recommendation and should only be accumulated when the overall market is rising. I will run through these once more in point form at the end of this Essay.

Traders tend to be very rational when they are building their trading models. Then the trick is to follow the plan and simply do what the portfolio manager within VectorVest tells you to do. To accomplish this, it's necessary, in my humble opinion, to redirect your emotions and NOT try and become a zombie with no emotion. That's not possible while making decisions. The psychologists have proved that when the part of the brain that's responsible for emotions is not functioning the person cannot make even the most basic of decisions.

Practice becoming very excited and joyful when you have followed your trading rules to the letter. Practice becoming highly emotional and joyful about the process of trading. If you focus on the process of trading with joy and enthusiasm and make the very best trades according to the system rules, then the cash will take care of itself. Reward yourself when you have joyfully and enthusiastically followed and focused on the process of trading and have followed your rules to the letter. This takes practice. The trick, as I see it, is to redirect your emotions rather than gritting your teeth to remove them. Many spend years designing a plan, but simply cannot follow it. If you apply a positive expectancy system and can get to the place where you can follow all the rules with love and enthusiasm, then it's impossible to view the market as a dangerous place and you will be a trader and happy at the same time. All the big winners I have known over the years have fallen in love with the process and in love with what they do through up and downs in the overall market.

Discretionary traders using the VectorVest metrics can also control and redirect their emotions when trading with this psychological approach. Just follow a simple checklist. Do the following when you find that the market is leading your train of thought, which will be most of the time.

The VectorVest edge is threefold:

- 1. The technical position of the overall market.** Which Market Timing system are you using?
- 2. The fundamental position of the share.** What criteria are you using to select shares? Which UniSearch are you using?

3. The technical position of the share. Metrics such as RT and CI define the short-term price trend and the longer-term price trend. The Midas Touch WatchList will automatically find shares that are trending strongly.

Writing down your thoughts will make things clearer. A well written trading diary is essential and especially important for discretionary traders and investors. Tick off points 1 to 3 above and detail the exact trigger for entry. Also record how you were feeling when the trade was initiated. What's the stop-loss level? How many shares are you buying? What's the total risk as a percentage of the portfolio if the trade/ investment should fail? Where is the target? Are you using a trailing stop-loss rather than a fixed target? These are some pointers to keep track of and get checked off while you focus on the process.

Again, all the successful traders I have ever met keep a detailed trading diary and reviewed it often.

All the above at least should be detailed before the trade is taken.

It's your job to focus on the process, joyfully and enthusiastically. Smile at and adopt cheerfulness in any temporary adversity.

The alternative is years of searching for perfection that simply does not exist. Next year, I will have the perfect system that is never wrong, and I will be rich beyond measure. Sure.

The US markets which tend to lead the UK market are at major support levels with values of the Buy/Sell Ratio, BSR, and Market Timing Indicator, MTI, recording mega oversold numbers after the close on the 26th of April 2022. If you are bottom fishing, then it is time to be preparing a WatchList of buying opportunities to take advantage of a bounce in this oversold environment.

There is a Special Report on bottom fishing on VectorVest written by Dr. DiLiddo which can be found by clicking on the Views tab, selecting Special Reports and clicking on the Bottom Fishing report.

This is an aggressive trading plan as failure of these levels would lead to a major selloff to the next support on the chart. I personally will position myself long on the SPX via a spread bet as my personal bottom fishing trade and am patiently waiting for a good entry into such a position after the US open on the 27th of April as I finish this Essay.

2022-05-06

Strength in a Selloff Is a Leading Indicator

When it's time to buy stocks, you will not want too. By the latter, I simply mean that emotionally it's difficult. Just remember the emotions you felt in the last week of March 2020. That was the best time to have bought stocks since that time. The proverbial blood was running fast in the streets. Are we approaching a similar place in May 2022? The news flow is similarly awful.

My first mentor and I met by pure accident. I shared an office with him when I first arrived in South Africa in April 1981. Each day he spent hours hand charting the shares he was following and watching on the Johannesburg Stock Exchange. Based on this apprenticeship, I saved some cash from my salary, placed my first trade in October 1982 and am still going strong.

He was the first to alert me to the fact that those shares that showed strength in a downturn were invariably the first to turn strongly upwards when the overall market recovers. Shares that have done well in a selloff such as we have experienced since the start of 2022 have a high probability to outperform when the overall market turns upward.

As of the 2nd of May 2022, all the trends from short-term to long-term are down on both sides of the Atlantic. Let's hope that has changed for the better by the time this Essay is published. The UK market has, for once, been stronger in the decline and has found support from the so called "old economy" value stocks that inhabit the exchange. Please keep your eye on the Color Guard for the first signs of a turn.

In the USA, the proprietary measures of the market such as the Market Timing Indicator, MTI, and the Buy/Sell Ratio, BSR, are in mega oversold territory and those who excel in bottom fishing should be preparing a buy list of stocks. The latter is not for the faint of heart. Those new to bottom fishing

should probably paper trade their first experience to get the hang of the process. Don't fear there will be many more. The market is like a horse race at Royal Ascot where the thoroughbreds are companies and there is no finish line.

It is always good to learn from these experiences, and, with this awareness, improve our performance in the game of trading stocks. It is a game, and it is a game that we play with ourselves. The market does not know who we are nor does it care. It is like snow in winter. The parent hates the snow as it makes life a pain, while the schoolboy loves the snow for snowball fights and fun. The snow is just there and neutral.

In the following, I will detail a UniSearch in VectorVest which finds shares that have a strong history of outperformance and show high relative strength over the past weeks of the 2022 selloff.

A decision will be needed to define when the selloff is over. Before any action is taken the investor should simply wait for the Home Page of VectorVest to say it's OK to buy shares. More conservative investors like myself will wait for the DEW Market Timing system to print a Buy signal, although in March 2020, I did take a few positions at the first Green Light shown on the Color Guard on March 24th. Those following the Worry-Free Investing method will wait for a Confirmed Call Buy signal. The Confirmed Call is the most conservative and long-term signal within the VectorVest program.

To complete this task, click on the UniSearch tab on the main tool bar in VectorVest. Then click on the Delta Searches - Stocks Folder and select the 5-Week Price Delta Search. Please click and open that UniSearch.

In the Value column, I have changed the time from 5 weeks to 17 weeks as that is approximately the length of the downturn as measured from high to the low on a weekly bar/candle chart from January 1st of 2022 to the end of April 2022.

The rest of the UniSearch is as follows:

Time of Search...Stock Price (Split adjusted) ...Delta...17 week sorted Desc
Time of Search...Stock Watchlist...=...FTSE 350
Time of Search...Stock RS (Relative Safety)...>=...1.25
Time of Search...Stock Industry Group <> Financial (Trusts)
Sorted By 17-week Price Delta DESC...VST DESC...
(That is the standard and no change needed).

My rationale is as follows:

1. I have used the FTSE 350 stocks as there is lots of volume in these counters. If we need to exit quickly, liquidity is vital, should the bounce/trend change in the overall market become a deceased feline.

2. Relative Safety measures the safety and predictability of earnings. This will make the decision to enter easier as these stocks are unlikely to go under financially in even the most awful recessionary period. More aggressive traders may run the UniSearch without this line.

3. Sorting by the 17-week Price delta brings those stocks to the top that have outperformed in this period of overall market weakness.

4. I have excluded Investment Trusts, but clearly this line can be removed by those active in these instruments.

It is my view that the fusion of the VectorVest RS metrics and technical outperformance in a selloff is a strong edge in markets.

We do not trade markets, but rather our beliefs about markets and the UniSearch above makes good sense to me based on the beliefs that I have built in markets over the past 40 years. I offer it for your consideration.

2022-05-13

Eight Thoughts for the Next Confirmed Up Signal

1. Size your positions.

How much money is in your account? If you don't know how much money you have allocated to your speculative trading account, then you cannot size your positions correctly. If you cannot size your positions correctly you are gambling and not trading.

2. Manage your risk.

Never risk more than 1% of your account in any trade. Use a stop-loss order for each position. The VectorVest program calculates a Stop-Loss for each share we cover on the LSE and AIM each day. The risk is the amount of cash lost if the share should fall from the entry to the stop-loss level. As a rule, split your capital into 10 portions and then vow never to lose any more than 10% of each position should that position move against you. Careful and disciplined risk management is the difference between winning and losing in stock trading. If you don't trust yourself to action the stop-loss, then orders can be placed on many trading platforms to accomplish this automatically. Never underestimate the power of the ego within us all to "give it another day." All disasters start with a missed tackle.

3. Diversify your trades.

Spread the ten positions across the entire market and don't hold any more than two positions out of the ten in any single sector or areas of the economy.

4. Protect your profits.

Never let a profit turn into a loss. I advocate exiting half the position when you have made as much as you have risked. Then get the stop-loss to entry and let the second half run with the stop-loss trailing upwards behind the price. To illustrate let's assume we purchase a stock at 10 pounds and VectorVest

calculates that the stop-loss is 8.50. When the position has moved to 11.50, we have made as much as initially risked. At this point bank half and then move the stop to entry. You now can make money with NO risk on the second half and that's a great feeling.

5. Trade in the very best stocks.

Those shares should be undervalued by the market and growing earnings per share (EPS) strongly. Warren Buffett's mentor says that EPS growth is the engine that drives the share price.

Ben Graham argues that companies that are growing EPS strongly can spend money on acquisitions, research into new and better products and attract the best talent. VectorVest in a few keystrokes can find undervalued shares that are growing earnings strongly. It's like a football team. Fill the team with great players and that alone will help the team do well. Fill your portfolio with shares with great fundamentals and you are well on your way to success.

6. Use Fundamental and Technical Analysis.

Never buck the trend on any stock. The stock should be in a strong upward trend and breaking higher at the entry point. On VectorVest, there is a unique and proprietary indicator called the Comfort Index (CI). The CI finds shares that are in the throes of a strong upward trend with a single click. You also need to find undervalued shares that are growing EPS strongly and breaking upwards through a 52-week high. This is the basis of a successful stock trading system. Shares with great fundamentals which also have a high CI can be built into a UniSearch in VectorVest and found easily. Last week I showed a UniSearch that would locate the stocks on the LSE that have outperformed in the selloff of 2022.

7. Follow Market Direction.

Never buck the trend of the overall market. The most important thing to know is whether the market is rising or falling. Everything follows from that. Some traders and investors use a moving average on the indices to time the overall market. The problem is that markets move like fairground

rollercoasters. They take a long time to rise, but fall quickly. Moving averages on the indices don't do a bad job on the entry, but tend to be slow when it's time to get out of the market and into cash or be short. This is due to the lagged nature of the moving average calculation. On VectorVest, we have several unique and totally objective Market Timing systems that react quickly to market conditions. There are systems for swing traders and longer-term position traders and investors. There is a good time to be buying shares and an awful time to be buying shares and for success you need a system that's easy to use. As I write on the 11th of May 2022, the trend on the overall market is down on all timeframes and this is Not the time to be buying stocks. It's time to be planning and refining what we will action when a new buying signal occurs. It will be as sure as day follows night. When it's time to buy, most will not want to. Make sure you are prepared.

8. Trade in active stocks.

Keep out of slow and illiquid stocks. Risk management is the core of consistency in stock market trading and if the share is poorly traded there may not be a bid in sight. In the UniSearch a filter can be added to exclude shares with poor trading volume.

Doing nothing is much more difficult than it would seem. If you develop the patience to follow the above pointers, then your success as a stock trader is ensured.

2022-05-20

Buy When the Blood Is Running in the Streets

The quotation above is well known, but poorly followed by retail investors who tend to do the exact opposite. The latter tend to buy in when all the news is positive and invariably that's exactly near the top of the cycle. The financial press is the worst at this practice and a cover on the Economist or Forbes saying that Oil is doomed has a near 100% track record in calling a perfect buy in point. That was certainly the case in March 2020. My purchase of Shell at this time precipitated around 100 emails telling me quite colorfully about my trading skills. The good trade is always the hard trade. It is not intellectually difficult. In fact, the thicker you are, the better. It's just emotionally difficult to buy in after several big red monthly bars.

A popularly followed measure of stock market sentiment is the CNN Fear Gauge. At present, the dial is sitting in the extreme fear area. On VectorVest UK, the Underlying Trend has been Down and Confirmed Down by price action for the past month. As I write in the UK, only the shortest- term measure of the trend, the Primary Wave, has turned up on the 16th of May 2022 with the Color Guard printing a Green Light in the Price column on the 17th of May. The latter indicates that the Price of the VectorVest Composite UK is higher day-over-day and week-over-week.

This is an aggressive Buy signal.

In the US, the long-term trend of the VectorVest Composite has been down since 12th of April 2022. At present, the momentum on the VectorVest Composite as measured by the Market Timing Indicator (MTI) in the US is in mega oversold territory at a value of 0.55, but off its lows made recently on 11th of May 2022. The MTI is calibrated on a scale between 0.00 and 2.00.

The research department at VectorVest maintain a value of less than 0.60 indicates an oversold situation.

Similarly, the breadth of the US market as measured by the proprietary Buy/Sell Ratio is at 0.10 (again off its lows) with only 493 stocks on a Buy rating and 4772 on a Sell rating. A Buy/Sell ratio of less than 0.20 is considered oversold. I use the US metrics as my guide as it is my opinion the fall in markets originated from there and I believe any turnaround will come from there. In the US, the Primary Wave is Up with no Green Light yet.

In these Essays and during the webcasts on Monday afternoons, I have been advising all to save the most adventurous of trades and wait until at least the DEW Market Timing system prints an Up call. This is still my advice. I will say it again. Doing nothing and waiting for a signal from your trading plan is much more difficult than it would seem.

Adventurous traders following the Bottom Fishing Course will already have taken several positions on Friday the 13th of May. The latter is not for the faint of heart, but can be very profitable. Please note that a fall through a level of 3900 on the S&P500 would signal a renewed selloff and there is a lot of fresh air between the present index levels and the next support level should that 3900 level fail to hold.

Those shorting the indices have had a great time and my simple model and system of using the VectorVest Primary Wave, a moving average, and a few candle patterns, to enter and exit trades, has given several excellent trades over the past few weeks including the short over the last few days. I personally take these trades by using spread bets on the S&P500 and have presented my ideas at several national User Group meetings.

There have only been 14 previous quarters on the S&P500 since 1929 as bad for market bulls as the first quarter of 2022. However, the subsequent performance after such a fall is heartwarming and encouraging.

In the 14 worst quarterly performances of the S&P500 index since 1929, the average performance in the next year after the bad quarter was a gain of

25%. Only in 1929, 1930 and 1931 did the performance after a bad quarter not become positive.

In the three years after the same 14 quarters, the average performance of the S&P500 is 37%. Again, the years after poor quarters in 1929 and 1930 did not become positive.

In the five years after the same bad 14 quarters, the average performance of the S&P500 is 91%. Again, the next five years after 1929 and 1930 did not become positive.

I find these numbers very positive for the future and especially for the UK market that has been resilient in the selloff. Sooner or later a strong rally will occur, but it is far from certain that, on May 18th, this selloff is over. Please be cautious until the move is confirmed by the longer-term VectorVest signals.

The momentum to the downside is still strong and for those swing traders and investors who buy shares or trade only the long side of the market, it's too early to get involved. Traders and investors should simply wait on the VectorVest Market Timing signal that they have decided upon and detailed in their personal trading plan. For your correspondent, it will be the DEW Market Timing system which still has some work to do to print an Up signal. I will discuss the method of Market Timing on Monday 23rd May at our weekly Q&A meeting.

When a catalyst appears (I suspect this will be a scaling back in the hawkish talk from the FED), the turn will be swift and quite strong.

I will be trading the market and not the forecast. Money is made and kept by engineering a positive expectancy system based on sound money management and position sizing. I wrote about the latter and the essential features of a trading plan in last week's Essay. My focus, and respectfully all those that are reading, should be focused on following the process of trading and holding the four trading and investing fears at bay. These fears as defined by the late Mark Douglas in his book "Trading in the Zone." They are:

1. Being wrong.

2. Losing money.
3. Missing out.
4. Leaving money on the table.

Over the years, I got my mind around these four fears, save number 3. I always stress and worry that the market will run and yours truly won't be onboard. Maybe in the next 40 years I will get this right, but I am feeling this fear now.

2022-05-27

What Defines a Good Trade? It's Not What You Think

Winning traders know the difference between a “bad trade” and a trade that loses money. In my humble opinion, this is a critical point to understand. Just because you end up losing money on a trade does not mean it was a bad trade. It just means that it was a losing trade. What makes a trade a good trade is not whether it wins or loses.

A trade is a good one if you follow your process, and, in these Essays over the past years, I have written at length about the well proven VectorVest process. The Essays are all catalogued on your VectorVest program. It's quite simple. If the overall market is rising, then simply buy undervalued Buy rated stocks that have strong and safe earnings growth metrics that are rising in price.

If you follow the VectorVest process, the trade will offer a greater potential reward than the initial risk and the odds or probabilities of it being successful are in your favor. Over a batch of trades, you could get very rich doing this. There will be losing trades due to no fault of yours or no fault of the system. For example, Avon Protection bought a company that makes body armor for the US military and the body armor didn't work. The share tanked.

If you take a trade for a good reason and manage the trade well once you are in it, then it is a good trade, even if you end up getting stopped out for a loss. Conversely, even if a trade happens to make money, if it was not initiated for a good reason (on a whim) and with a favorable risk/reward ratio, then it is a bad trade even though it may have happened to turn out profitably. Understanding and separating the process from luck is key to your eventual success.

Winning traders operate on the premise that if they continue to make “good trades” as defined by the VectorVest system, that they will ultimately be profitable overall. Losing traders incorrectly identify any trade that loses money as a “bad trade” and any trade that makes money as a “good trade,” regardless of whether there was a reasonable basis for making the trade.

Evaluating trades solely based on whether they happen to win or lose is doing nothing more than looking at random rewards like playing a slot machine.

One reason that losing is so common among traders is that many attitudes and principles that serve us well in life do not work well at all in the profession of trading.

In our ordinary, daily lives, we are taught to avoid risky situations. But trading is all about taking risks. Many of us think of ourselves as risk takers, but have we accepted the risk? If you keep moving or neglecting stop-loss levels, then you have not accepted the risk of the trade. With VectorVest, risk can be minimized (by selecting high Relative Safety (RS) stocks), but it is still there and needs careful management.

Winning traders who genuinely accept the risk of trading (1% of your account size) can enter a trading opportunity without hesitation and just as easily close a trade when it is not working.

They are not burdened with the emotional pain that causes them to lose their focus or self-confidence because of a trade not working out.

Traders who have not learned this attitude toward trading are driven by emotional reactions to winning or losing trades and have not truly accepted the fact that trading is a risk-filled business. Because they are not acting in harmony with reality, they do not make the best possible trading decisions.

Trading and being successful requires discipline and courage. The process demands that we maintain confidence while dealing with the continual uncertainty.

In the profession of trading, facing the truth about what we're engaged in is one of the key elements to success.

Winning traders regularly review and journal their trades. They understand that trading is a skill that is only mastered through rigorous practice over time.

Winning traders aren't ego-invested in their trades. They can always view the market objectively and easily cast aside trade ideas, tips and gossip that don't fit squarely within the process.

Winning traders do not hesitate to initiate positions and take on risk based on their market analysis and trading strategy. However, they do not risk money recklessly. Always aware of the possibility of being wrong, they practice strict risk management by putting small limits on their losses. It's critical to remember that if you are correct 75% of the time, then you are incorrect 25% of the time. On the next trade you don't know whether it's one of the 75 or one of the 25.

The market cannot be predicted on a trade-by-trade basis.

Winning traders are aware of and accept the fact that the market is ultimately unpredictable on a trade-by-trade basis.

In contrast, losing traders, once they have put a trade on, tend to only look for market action that confirms that they are right, and minimize or rationalize away any market action that seems to contradict their analysis. They often end up staying in losing trades too long and taking unnecessarily large losses. *"Let's give it another day."*

Trading is basically without boundaries and the market is a completely free environment. You are free to buy or sell, enter or exit, at any point in time. There are basically no rules that require you to either open or close a trade at any given price or time. Even though one of the primary attractions of trading is the complete freedom to make our own decisions to basically do whatever we want, whenever we want, the only way to consistently succeed in trading is to self-impose a set of rules to govern our trading and to practice strict

discipline in following those rules. Respect your money or it will find a new owner.

The VectorVest process starts with Market Timing. There is a great time to be in the stock market and an awful time to be in the stock market. As I write on the 24th of May 2022 the trends on both sides of the Atlantic are Down from short-term to long-term and it's still a time to sit on hands.

2022-06-01

I Await the Dawn

As I write this Essay on Wednesday, 1st of June 2022, the technical position of the overall UK market has improved considerably. In these Essays, I have spoken about an ordered sequence in the reversal of the VectorVest Composite (VVC/UK) from Dn to Up. This is measured by several totally objective Market Timing Systems. At each reversal these systems print signals in pretty much the same order. It's vital, in my humble opinion, that you become familiar with the reversal and have decided within your trading plan (well in advance) which one of the signals will cause you to buy stocks. I discussed this in detail at the Q&A session on Monday, 30th May and that video is available if you missed the webcast. The signals and their construction are also addressed in this week's "Special Presentation" to the UK.

From a low point, the following sequence takes place:

1. The Primary Wave or short-term trend of the VVC/UK turns Up. This is shown on the Home Page of VectorVest and on the smart phone app. As I write, the trend situation is defined as UpDn. The first word (Up) refers to the Primary Wave. This is the fastest measure of the overall market and I use this with my spread betting efforts in which I trade the S&P500 index. I rarely hold these trades on the indices for more than 2 days. The Primary Wave is noisy. The Primary Wave is only suitable for the most aggressive and focused traders who revel in short-term swing trades.

2. On the Home Page of VectorVest there is a table of numbers known as the Color Guard. On the Color Guard, the program tabulates daily values for the Price of the VVC/UK, the RT, the Buy/Sell Ratio and the Market Timing Indicator. The Price column of the Color Guard is the first from the left in the table. If the Price of the VVC/UK has increased both day-over-day and week-over-week the program shades the value in Green (assuming that it was yellow the week prior). This is known as a Green Light Buyer and it's the second

signal (visual with no chart watching) that a reversal is occurring. This is still a signal for aggressive traders, but has a higher probability of following through into a strong move than the Primary Wave alone. There has been a Green Light in the Price column of the Color Guard in VectorVest UK after the close of the 27th and 30th of May 2022.

3. The next signal is a Green Light Buyer/RT Kicker as defined above which is confirmed by rising momentum. The VectorVest RT is the momentum indicator used, but no chart watching is required. Within the program, two moving averages are applied to the RT. If the short average is above the longer then the program decides that the RT is rising. Over the years the research department at VectorVest has shown that a Green Light Buyer confirmed by a rising RT is a much stronger signal than a Green Light Buyer alone. This is known as a Green Light Buyer confirmed by the RT Kicker. This is an excellent signal and it's easy to spot as the signal is shown visually by a black star within the Green Light.

4. The next signal is known as the DEW. Up signals are given when the Price of the VVC/UK closes above its 30-day weighted average and the Detrended Price Oscillator (DPO) is above 0.00. The DPO is a standard technical analysis momentum indicator and not proprietary to VectorVest. This Market Timing system is very useful for swing trading and is NOT shown on the Home Page of VectorVest. To observe the signal, load the Market Timing Graph of the VVC/UK and use the dropdown menu at the foot of the page to apply the DEW signals to the chart. As I write, the DEW has NOT given a Buy signal although it is very close. You are either present or you are not in the world of technical analysis signals.

5. At the present, the trend situation on the VVC/UK is an UpDn. The first word refers to the Primary Wave and the second word (Dn) refers to the Underlying Trend which is pointing down. The Underlying Trend is defined by the VectorVest proprietary Market Timing Indicator (MTI). The MTI is a composite of both the momentum of the Price of the VVC/UK and the momentum of the Buy/Sell Ratio. The Buy/Sell Ratio (BSR) is the number of

shares on a VectorVest Buy recommendation divided by those on a sell. The BSR is a measure of market breadth. The MTI is scored on a scale between 0.00 and 2.00. When the MTI moves above 1.00, the Underlying Trend is defined as Up. As I write, the MTI has a value of 0.95.

6. The final and most long-term and conservative signal on VectorVest is known as a Confirmed Call. The “call” is shown in green or red in the last column on the extreme right of the Color Guard. For a Confirmed Up, the MTI must be greater than 1.00 and the Price of the VVC/UK has increased five-trading day period over five-trading day period for two consecutive five- trading day periods. It’s the underlying trend confirmed by price action. This signal is best for position traders and is the signal used in the VectorVest Worry-Free trading method. At present, the VVC/UK is printing a Confirmed Down.

The big question is? Which one of the above is for you? It’s quite common for investors to start with small positions when a Green Light Buyer signal is seen and then add as the longer-term (and more confirmed) signals are printed. This needs thought and your decision should be committed to paper. Along with position sizing it’s a very important part of your personal trading plan.

If you are new to VectorVest, please observe the signals as they occur. Keep careful notes and become familiar with the reversal. I will discuss the sequence of the reversal as it proceeds at the Q&A session on the 6th of June. As I write, the signals outlined in 1, 2 and 3 are Up or Neutral at present. The longer-term signals outlined in 4,5 and 6 are still pointing down. I hope that will have changed positively between my writing and your reading of this Essay. Aggressive swing traders should now be getting their feet wet in new positions while position traders and investors should be watching and preparing from the sideline.

2022-06-10

Battle Stations

The VectorVest Market Timing signal known as the DEW has printed a Buy signal on Monday 6th of June 2022. Last week in the Essay, I reviewed all the VectorVest Market Timing signals and how they turn from Down to Up in a very predictable and repeatable fashion at each turning point.

Up signals from the DEW are given when the VectorVest Composite UK (VVC/UK) closes above its 30-day weighted moving average and the Detrended Price Oscillator (DPO) is above 0. The DPO is a standard technical analysis momentum measure and not proprietary to VectorVest. This Market Timing system is very useful for swing trading and is NOT shown on the Home Page of VectorVest. To observe the signal, load a Market Timing chart and use the dropdown menu at the foot of the page to apply the DEW signals to the chart. In last week's Essay, there was a video which detailed all the Market Timing signals. Please review this if there is any doubt in your mind about their construction.

As often stated here and in the Monday afternoon Q&A sessions, I use the DEW signal to indicate when it's safe to "start" to buy stocks. The DEW is still quite an aggressive Buy in, and conservative investors will probably want to wait for further confirmation from the Confirmed Call Market Timing system. Which Market Timing system that you use to define when it is safe to Buy stocks is the cornerstone of your personal trading plan and needs much thought.

As of the close on 6th June, the trend situation on VectorVest UK is an UpDn. There is a Green Light in the Price column of the Color Guard garnished by a black star. This means the short-term trend of the Price of the VVC/UK is Up, day-over-day and week-over-week with rising momentum (RT), while the Underlying Trend remains Dn.

As stated above, the move upwards, and how long it will last, is far from certain, but signals must be taken according to the plan. If I don't take these signals, as dictated by my plan, then I am trading from the seat of my pants.

As I write before the close on the 7th of June, I have added to my position in Airtel Africa and gone back to full weighting in Atalaya Mining. I will add both Computacenter and Morgan Sindall when they confirm with a VectorVest Buy recommendation. Also, as discussed in the Q&A session on Monday 6th of June, I have bought into a new starter position in Marlowe. This share is highly rated on VectorVest with a strong mix of growth and safety plus the share has broken upwards on very high volume.

If the move continues and the Underlying Trend turns Up, then I will add several more new positions in shares such as the Man Group, Games Workshop and Volex. The Market Timing Indicator which defines the Underlying Trend is sitting at 0.99 on a scale between 0.00 and 2.00. Above 1.00, the Underlying Trend is Up so the signal should come soon if the trend proceeds.

As with all things trading related, "*time will tell.*"

2022-06-17

Asymmetrical Risk to Reward

Our number one priority at VectorVest UK is to help you make money in stocks, and we will work with you until you do. We know we can help you as we have done with subscribers all over the world. Let me ask a question for your contemplation over the weekend that you read this Essay. “Are you in the stock market to make money or to solve a puzzle?” This may need some honest thinking, but you don’t need to be correct on all your trades to get very rich in the stock market, although most focus on being correct on each call and take it personally when it frequently is not. Perversely, it’s not that important to be correct on each call. John Henry who owns the Boston Red Socks and Liverpool Football Club is only correct in about 35% of his trades.

Years ago, myself and my trading partner of the time had monthly live coaching clinics for short- term traders in the City of London. We kept getting criticism from those attending in that we did the same thing and taught the same process each month. My reply to this critic was that we did the same thing and had the same trading rules each day. The rules were not profitable on each trade, but, over the month, they amounted to a strongly positive expectancy system. In short, they made more when correct than they lost when incorrect.

I have written about “system expectancy” in these Essays on numerous occasions. Our first objective as a financial trader is to develop an edge in the markets which makes much more money when it is correct than it loses when it is incorrect. For me, this is all about developing an edge which has a much larger reward than the initial risk. The academics call this an asymmetrical risk to reward opportunity. It’s a bit like asking a pretty girl out on a date. Limited downside with excellent upside potential if the trade goes well.

Happiness in the dating game is not to take the initial and frequent rejection personally, but just keep playing the game.

In position trading, it's quite easy to engineer a system which can produce a reward of many times (10X) the initial risk. That's the type of risk to reward that a band of trend followers such as John Henry achieve. Our number one job as a trader is not to think incessantly about how to be right in this call, but rather to focus on the risk to reward. That's why I have been so attracted to the Wyckoff methodology. The "Spring" and "Upthrust" method involve entries at market extremes where the risk is lowest and the potential reward is highest. I will be illustrating this concept along with several others at the VectorVest Summit on the 24th of June 2022.

At VectorVest UK, it all starts with our fundamental belief that investors should buy safe, undervalued stocks, rising in price. That's why we provide an assessment of Value, Safety and Timing on every stock, every day. Aggressive Investors who manage risk proactively with stop-loss orders should focus on Relative Value (RV) and forecasted EPS Growth (GRT), with only a passing interest in safety of earnings (RS). Simply buy rising stocks in rising markets supported by strongly growing EPS. Of course, the corollary of selling falling stocks in falling markets also applies to those traders who understand and are experienced in selling an asset that they don't presently own. In any case, making money all starts with knowing whether a stock is more likely to go up or down in price.

This is where Wall Street and the CNBC/Bloomberg market strategists really get it wrong. They say, *"You can't time the market. You should buy stocks on the way down. You should dollar average with regular monthly investments. You should buy and hold. And, finally, you can't beat the market."* **VECTORVEST REFUTES ALL THESE LIES.** We time the market and when it's pointing upwards it's safe to buy stocks that are rising in price. Everyone in the stock market during 2022 should understand the importance of Market Timing. For most of the year, the VectorVest Composite UK (VVC/UK) was falling and

that makes making money in stocks very difficult. Only energy stocks have escaped and produced excellent results.

It is my experience over the past 40 years that your chance and probability of making money by buying rising stocks when the market is rising increases strongly. Knowing when the market is rising and it's safe to buy stocks is 70% of the exercise. Maybe that's the secret.

We time the market to see whether stock prices are rising or falling, and we have the Color Guard and front page of VectorVest to convey our analysis. The first thing you should do every day is look at the Color Guard. It tells you in a flash when it's OK to buy stocks. Chartists will wish to add the Market Timing Chart of the VectorVest Composite UK (VVC/UK). This can be found under the "Timing" tab on VectorVest UK. Each Monday afternoon I present a detailed study of the VVC/UK and VVC in USA. In this, I focus on the Primary Wave (short-term trend), the Underlying Trend, the Buy/Sell Ratio (known as the Canary for its leading characteristics) and of course the longer-term trend (Confirmed Calls).

However, all the information is easy to spot on the front page of VectorVest and on the phone app. As I write on 15th June, the VVCUK is within a DnDn trend. The first word refers to the Primary Wave and the second to the Underlying Trend. To the right of the DnDn you should see a red "C/Dn" under the column "Call." This is the longest-term Market Timing signal known as a Confirmed Call. It's the Underlying Trend confirmed by price movement. When the trend changes to a time when it's safe to buy shares, this will change to a green "C/Up." No chart watching is required.

VectorVest will help new investors to learn how to do the right things at the right time. First, we have the Successful Investor Quick Start Course under the "Training" tab on VectorVest. We also have a terrific Product Support Group who is more than happy to answer your questions and help you any way they can. It's a free call from the UK on 0800 014 8974. Then we have the VectorVest University. If you're serious about making money with VectorVest,

simply follow the rules and focus on buying undervalued stocks with excellent measures of growth and safety when the overall market is rising.

Now let's simply sit this downdraft out.

2022-06-24

Exits Risk Management and Profit Taking

As I write on Wednesday the 22nd of June, all the measures of the trend of both the UK and USA markets are Down. On both sides of the pond, the stock market is showing mega oversold levels of the VectorVest metrics Market Timing Indicator and the Buy/Sell Ratio levels. If you follow the VectorVest advice there is nothing to Buy while the market is in this technical state, but there is plenty of work running “off the ball” to be done.

There is an “Island Reversal” on both the VectorVest Composite US (VVC) and the SPX. Its early days, but this formation is the most positive development on the former charts for many weeks.

It's at this time we should be preparing a hit list of shares that suit our objectives to focus upon when the market turn occurs. It will turn and it will happen when we least expect it and when the news is the darkest. Is this going to be a rally in a bear market or a resumption of the bull market? I don't know and no one else knows. Certainly not that guy who jumps up and down on CNBC most afternoons. I will be taking the signals as they appear, focusing on undervalued stocks that are growing earnings strongly and safely and managing risk carefully.

Managing risk is all about exit points. These are not that sexy, especially when compared to entry points which tend to totally dominate our thinking. Old hands know that a sound plan to define where to get out when wrong and where to put cash in the bank when correct, are much more important than entries and much more difficult to master.

The trading psychologist, the late Van K Tharp, in his courses demonstrates the power of exits by testing a random entry system based on a coin toss. With the appropriate and quite simple exits he shows that this system is

extremely profitable. He simply exits losers quickly and uses a trailing stop to allow the winners to run. Easy to do in a game. As most of you will have experienced, we all seem to have been hardwired by the Creator to get this the other way around. Most tend to snap at winners and adopt a “give it another day” approach to losers. I have spoken at length about this in the VectorVest Summit broadcast on June 24th, 2022. All have access to this at the VectorVest YouTube channel.

More questions arise from where to exit a winning or a losing position than from any other part of the investment and trading process. I will try and give some suggestions in this Essay.

However, exits are a vast subject and VectorVest has a full five-part course on the subject. Most traders agree that after a few months of work, entries can be mastered, but exits require much more study and testing.

Traders are told to “let their profits run,” but unfortunately that’s vague advice. Let a profit run long enough and it can easily turn back into a loss. Traders need a plan that allows them to let their profits run beyond what they typically lose on a losing trade, but also realize that the market will not move in their direction forever.

If you plan your profitable exits and find that over time, they are bigger than your average loss, winning only 50% of your trades (or even less) can still make you a highly successful trader.

Again, I will have addressed this topic in the Summit.

Risk management is covered in detail in Lesson 2 of the “Successful Investing Quick Start Course,” SIQSC, which is built into VectorVest, under the Training tab on the main toolbar.

There are two types of exits. These are associated with a profitable trade and a trade that goes poorly and disappoints. In both cases, how you will exit a trade should be planned before you enter and be a part of your written trading plan. Don’t wing it please.

1. Setting an initial stop, position sizing and simple operation of a VectorVest WatchList.

VectorVest calculates a Stop-Loss level for each share in the database each day. The level is based on a 13-week Moving Average (MA), but is adjusted for the fundamental position of the share. If the fundamentals are good, then the stop-loss is widened, while if the fundamentals are poor, the stop is tighter. The number of shares to buy so that only 1% of your capital is lost should the trade disappoint is discussed at the Summit on 24th June. In my experience, more traders fail because of poor “position sizing” than for any other reason.

In my personal trading, I act on a close below the VectorVest Stop. This is easy to spot via a red marker on my WatchList of shares which have been sorted by RT. When you own the share the only metric that really matters is whether the share is trending up or down. RT tells us whether the share is rising or falling and places the winners at the top of the list and the losers at the bottom. It is your job to cull the losers and keep your paws off the winners. Easier written than done I know only too well.

For many, this is when ego gets in the way and most traders get this process totally the wrong way around. They take profits on their winners and ignore the losers. Tell your ego to take a hike. Keeping losses small is the cornerstone of becoming profitable. An old mentor once told me that “the most important part of trading is to have enough money to trade tomorrow.”

2. Exits from a profitable trade or investment. Just a few of the dozens available.

- a. The Trailing Stop is probably the most well-known profit exit technique. In simplest terms, as the price moves in your favor, an exit order moves along with it, trailing the price by some set amount. It's like a ratchet spanner as it allows unlimited movement in one direction, but only a set amount in the opposite direction. My first mentor used a 25% Trailing Stop order. This made me a lot of cash in the early days especially in a volatile emerging market such as the Johannesburg Stock Exchange.

- b. The VectorVest calculated Stop is also an excellent Trailing Stop and its mostly tighter than the 25% Trailing Stop mentioned above. Simply sorting the shares in your WatchList by Relative Timing (RT) will complete most of the work required. This will place the shares with the lowest RT at the bottom of the list and certainly any shares that you hold with an RT less than 1.00 need to be monitored carefully. If a share should close below the VectorVest Stop, it will be shown with a red 'S' marker beside the share.
- c. A price target can be a simple and effective method of exiting a winning position. If you are risking £300 on a trade, but will make £900 if the price hits your target, your reward outweighs your risk 3:1. If you set a stop-loss and a price target, you can “walk away,” knowing that eventually one of the orders (stop or target) will get filled. This is advantageous to all traders, but especially those who lack time to constantly monitor their trades and/or worry about their emotional responses. Fear of losing and the greed of leaving money on the table can result in terrible decisions being made. For many years, I used a target of 2.5 times my initial risk. Just remember, trades can easily end badly. If you get out at a target invariably the share keeps going. If you don't the share pulls back, and you give back 25% of your profit. Just smile and focus on execution of the process.
- d. A Moving Average can be used as a Trailing Stop-Loss. A 40-day MA seems to work well. A break below the 40-day MA is a strong early warning signal that the trend upward is faltering. This is discussed in detail in Lesson 2 of the SIQSC.
- e. The Fibonacci Sequence of numbers can be used to calculate targets. This is difficult to explain without a chart, but I will fully explore this technique at the next UK Q&A session that I present towards the end of July 2022.
- f. Letting winners turn into losers is an emotionally draining experience.

When you have made a profit equal to the initial risk then exit half of the position. Then bring the stop to entry and let the second half run using the VectorVest calculated figure as a Trailing Stop-Loss.

In numbers, let's assume that we buy 100 shares of ABC.L at 10 pounds and place a stop at 8.50 pounds. When the share has risen to 11.50 pounds then we have made as much as was initially risked (1.50 pounds per share purchased). Sell half (50 shares). At this point bring the stop-loss to the entry point on the remaining 50 shares. This means that we have made some money on the first half of the purchase and now have a risk-free trade on the second half. That's a very good feeling.

There is no best way to exit a profitable trade. For some trades, one method will work well, but will be less than perfect on other trades. The key is to decide on a method and develop the discipline to adhere to it. All these methods can help you "let your profits run," but will get you out if the price moves too much against you. You'll never squeeze every penny out of a trade, but utilizing the exit strategies outlined here will help you capture the bulk of a move.

2022-07-01

Exits When the Position Goes Sour

Last week, I wrote about trade exits. Firstly, when the position fails and secondly when the position moves in our favor. In this Essay, I focus on the former in more detail.

As a technically orientated trader, I have always managed risk proactively using stop-loss orders. They can be a pain at times as the stop-loss level can trigger and get you out of a strongly trending share. On the positive side, they remove the ability of the market to wipe you out. One member in Oxford tells us the story of Marconi (once an FTSE 100 bell weather) falling from 13 pounds to a few pence. That is a wipe out of note and the consequences in terms of cash, emotional wellbeing and the home front with family can be severe. In South Africa a few years ago, the largest mattress manufacturer in the world (listed both in Johannesburg and Frankfurt) fell from 120 Rands per share to 1 Rand per share. The VectorVest Stop-Loss triggered at slightly above 100 Rand and those who did not act on it were severely punished.

What is worse than not taking the stop is adding to a losing position. This is known as averaging and it may work with index ETFs, but it certainly does not with individual equities. Frequently, as with Marconi and Steinhoff, they just do not come back and if you average you now own a heap of them. I remember doing this with a share I owned in 1984 when new in the game of trading. I started in 1982 and had two great years from a tiny base. In a quarter of the year towards the end of 1984, I gave most of the gains back by adding to a loser that did not come back. A valuable lesson and it's never happened to me since.

The most fundamental of all trading laws is to add to winning positions and quickly exit losing positions. So easy to write, but difficult to do. Most do just the opposite. This is the reason why the Spread Betting Companies

say that 70% lose money when trading with them. The latter is a requirement of the financial regulator. The main reason for this statistic is that the 70% of losers do not respect this most basic of trading wisdom. In short, they snap at winners in case these disappear and ignore losses hoping the price will turn.

The VectorVest philosophy and guidance on stop-losses can be found in Dr. Bart DiLiddo's classic investment book, "Stocks, Strategies and Common Sense." He devotes an entire chapter to the subject which he titled, "Stop-Prices: Are They for You?" The opening paragraph sets the stage for an enjoyable and thought-provoking read.

"A Stop Price is like a pane of glass. Once it gets hit, it is broken. The use of Stop-Prices is one of the most controversial and misunderstood methods of selling stocks. Stop-Prices are double- edged swords. They can cut losses and protect profits or result in high turnover and lost opportunities. Are they for you?"

"Investors should be aware that the period of highest risk is at the time of purchasing a stock. Taking commissions into account, you are already starting with a loss. If the stock heads down in price, the loss increases. The name of the game, at this point, is to control further losses. Stops provide the discipline to do this."

VectorVest instructors teach the concept by saying something like, "Just like boarding an airplane, taking a hotel room or heading to the mall on Black Friday, always know where the exits are before you place your trade." In other words, determine your Stop Price before you click the order entry button. You would not jump out of an airplane without a parachute.

Dr. DiLiddo continues:

"Many advisors suggest that Stop-Prices be set at 10% below purchase prices. I have found that the Stop-Price of a stock should be based upon its safety, fundamentals, and price trend. Safe stocks with solid fundamentals should have 'looser' Stop-Prices than those with weak fundamentals. These considerations allow investors to stay with solid stocks longer and get out of weak stocks faster."

On the VectorVest program, the stop-loss level is automatically calculated each day based on a 13-week Moving Average of Price, adjusted for the fundamentals of the stock. A “Sell” recommendation is generated when a stock’s Price closes below this calculated level.

Simply place your Portfolio in a WatchList. Re-sort the WatchList by RT and that will place all the shares that are doing well at the top of the list and all those that are doing poorly at the bottom of the list. As you see a red colored “Sell” recommendation appear at the foot of the list, it’s your job to simply exit that position. Then, grit your teeth to keep your itchy hands off the winning positions at the top of the list.

As I stated above, it is much easier to write than do. The ego is such a demon within us all.

As I write this Essay on Sunday, 26th of June 2022, the technical position of the overall UK market has improved.

2022-07-08

If I Was Managing Your Money

If I was managing your money I would without a doubt place most of it in undervalued stocks that have a high Relative Safety (RS) and Relative Value (RV) on VectorVest. These shares will be accumulated when they are rising in price and are on a VectorVest Buy Recommendation when the overall market is rising.

This is the basis of the VectorVest Worry-Free Investing strategy (WFI) which I have presented here many times in the past. The rules defining the WFI can be downloaded from VectorVest. Click on the Views tab on the main tool bar and then on Special Reports. If you scroll down the PDF document of the WFI is there.

As you know, the WFI uses the Relative Safety metric to find and sort the safest shares that VectorVest covers on the LSE. RS is an indicator of risk. The consistency and predictability of the financial performance are the primary factors in assessing RS. On a scale between 0.00 and 2.00, a level of above 1.30 shows the company is making money and all the financial internal ratios are improving. VectorVest believes in investing in companies that are making money and lots of money with strong growth in sales, margins and earnings.

I use the UniSearch named “Long-Term Winners RS Desc” which is prewritten in the Searches -

Retirement folder in the UniSearch as my starting point on the hunt for excellent investment candidates in this “running of the ball” period. This UniSearch only selects shares from the LSE and avoids the AIM. However, there are many fine companies on AIM and if you wish this line of code can be removed. Many conservative investors such as Susan Thornborough who runs the VectorVest UK national User Group (SWIC) will add an extra

line where the share price is less than the VectorVest valuation. This makes excellent sense in this environment, and I have added this to my personal UniSearch.

Also, to be added to the “Long-Term Winners RS Desc” UniSearch is the VectorVest metric Relative Value (RV). RV is an indicator of the long-term price appreciation of a share. The share price, share value, earnings growth, Relative Safety (Risk) and corporate bond rates are used to compute Relative Value. In the UniSearch, I have added a line $RV \geq 1.25$. This means that to be included in the results the share should have a strong probability of outperforming a corporate bond by 25%.

My objective is to pinpoint, simply and easily, a list of LSE quoted stocks that are undervalued and that are growing earnings strongly and safely.

As I write this Essay, well in advance of its publication, the trend of the UK market is Down on all VectorVest Market Timing Systems from short-term to long-term. It's certainly not a time to be buying stocks and many from the UniSearch above are on sell recommendations. However, when the market turns (and it will when we least suspect it and when the news is dire) the shares from the UniSearch will be well worth watching as they turn up with the market and move into a Buy recommendation. The shares chosen will rarely shoot the lights out, but should offer slow and predictable share price growth with few surprises. This is essential if you manage money for others especially as a small fund manager.

2022-07-15

Earnings Growth Is Key

A few weeks ago in the VectorVest UK weekly webcasts, I mentioned a Delta UniSearch named “Explosive EPS Stocks.” I run this UniSearch each weekend to find shares that are growing earnings per share (EPS) strongly and especially those where EPS had been revised sharply upwards. A few emailed and indicated that they could not find the UniSearch, and I hope this Essay will help with that.

In this context, Delta refers to rate of change of EPS as opposed to the use of the Greek term in the options world. As Ben Graham (Buffett’s mentor) said, “EPS is the engine that drives the share price.” It’s just a matter of time before the EPS increase shows up in the share price. If you wish to be a relatively short-term momentum trader, then it’s vital that you have a list of these shares at hand. Fortunately, the UniSearch tool on VectorVest does this easily with a few clicks of the mouse.

From the Home Page on VectorVest, click on the UniSearch tab on the main toolbar and then on the A-to-Z function at the top left-hand side of this page. This will display all the prewritten searches alphabetically. Then just scroll down until you see “Explosive EPS Stocks.” If you click on this, the UniSearch will be loaded in the main portion of the same page.

This UniSearch finds shares over 50 pence that have a traded volume of greater than 50000 shares that are on a Buy recommendation and EPS has grown by more than 25% over the past 13-weeks. These stocks are then sorted by the master indicator VST Desc, bringing those stocks with the best combination of Value, Safety and Timing to the top of the list.

Please experiment with the UniSearch. Firstly, increase and decrease the percentage, although 25% gives good results. Some reading may wish to add lines such as Relative Safety, $RS \geq 1.00$. This will remove shares where the financial performance is haphazard or unproven. Also, adding the Comfort

Index, $CI \geq 1.30$ to the mix will find shares that are in the throes of a long-term uptrend. As I have stated before on many occasions, the CI is a VectorVest secret weapon. As you will see, there are only a few stocks that fulfill this strong growth criteria in this very bearish environment.

In this market environment, I think it is useful to expand the Stock Recommendation to both Buy and Hold. This adds greatly to the number of shares the UniSearch uncovers and certainly a stock that can maintain a Hold Recommendation in this downdraft should do well when the tide turns.

As often noted in my Essays, most stocks move up and down with the market averages and knowing whether the VectorVest Composite is moving up or down is a large part of the quest for profits, so it's vital to know with some certainty which way the market is heading. This concept should have been brought home to all in the downtrend of the last six months.

In my experience, the least accurate predictions are made by the TV market pundits so be wary of these people. They may have a 10-year view which suits their funds mandate that's far from the objectives of your trading plan.

On VectorVest, we have several Market Timing methods that are totally objective and ego-free. Most will simply use the conservative Market Timing system known as Confirmed Calls. This year, the UK Market has been in a Confirmed Down signal since the 25th of April 2022. As we can all probably attest, it's difficult to make money buying stocks in this environment.

Some rules to consider for your trading plan:

1. Market Timing is important. Even companies that are growing EPS strongly will not advance when sentiment is down. For most, simply decide to only buy shares when there is a Confirmed Up signal and the advice on the Home Page of VectorVest is positive.

2. Run the Explosive EPS UniSearch on the weekend. Remember, that low RS shares are not suitable for everyone. The latter need to be managed carefully as there are many surprises with a share with an RS of less than 1.00.

3. The best shares will be in the throes of a strong trend already. CI will be useful or simply eyeball the chart of the few shares from the UniSearch.

4. The Midas Touch can be used as a final cherry-picking tool. I have detailed the technique in many Essays. This test can remove the subjective chart analysis. Please review my Essay of the 24th of May 2019.

Out of the UniSearch, the following stocks jump off the page at me:

At the top of my list from the standard UniSearch on 11 July 2022, there is Capricorn Energy (CNE.L). The share is trending upwards with strong EPS growth. The share price is rising on rising volume and retracing on falling volume. The latter is an excellent sign. The share is trading at 222p as of 11th of July 2022 and the VectorVest Valuation is 309p.

John Laing (JLEN.L) is second on the list, but seems camped at strong overhead resistance on a 5-year weekly graph. I would leave the share until that level is breached.

Kistos PLC (KIST.L) is third on the list and seems to have broken upwards through resistance on rising volume. The share is trading at 463p while VectorVest Values the stock at 609p. Please note that there is significant deal making in this share at present. From a technical perspective, the share looks good for a further advance.

Out of interest, I expanded the stock recommendation to Buy and Hold (REC = B, H) and found one share interesting, Big Yellow (BYG.L). BYG.L is on a VectorVest Hold Recommendation at present. The share has retraced to previous resistance and has grown earnings strongly in 2022.

This share looks set to resume its long-term trend when the market turns positive. Let's wait for a Confirmed Up signal from the market and a VectorVest Buy Recommendation from the stock.

A swing trader can easily live by placing trades or spread bets in the shares found by the "Explosive EPS UniSearch."

2022-07-22

The Study of Trends and Turning Points

I speak frequently about the study of Technical Analysis of the stock market and of individual stocks. Although I and many others use this term frequently, I have found from many emails over the years and comments at live events that quite a few attending did not have a notion of what I was talking about. Let me try and clear up this confusion. At VectorVest, we study both the technical position of both individual shares and of the overall London market. Our objective is to buy rising shares in rising markets.

The author Martin Pring defines the term Technical Analysis well (in my opinion) in his excellent text “Technical Analysis Explained.” He writes that Technical Analysis is the study of share price trends and turning points. As mentioned in the last paragraph, at VectorVest, we wish to buy into shares that are trending upwards when the overall market is trending upwards. That may seem simple (and it is), but there are many in the market being punished by buying into shares when they are falling. The 2 for the price of 1 has bankrupted more traders than any other mistake.

In the post Covid era, several very experienced traders that I know well, lost millions of dollars short selling S&P 500 futures (betting the market will fall) in a market that was rising. Picking tops and bottoms is a big ego game and as I have written here before “Top and Bottom pickers become Cotton pickers” sooner or later. Swim with the stream. Over the past few months, the shorts to which I referred at the start of this paragraph have got some of their money back. The reason was simply that the overall market was trending downwards.

In Technical Analysis we can measure 3 aspects of the share price action of any stock:

1. Price trend.

2. Momentum (speed) of the Price.
3. Volume of shares traded at that Price.

On VectorVest, here are two measures of the trend of a share. RT (Relative Timing) measures the short-term trend of the share on a scale between 0.00 and 2.00. Above 1.00, the share is rising and the further above 1.00, the faster the share is rising. CI is the Comfort Index, and this metric measures the longer-term trend of the share again on a scale between 0.00 and 2.00. Once again, above 1.00, the longer-term trend is rising and the further above 1.00, the faster this is rising. In detail the CI is an indicator which reflects a stocks ability to resist severe and or lengthy price declines.

These two metrics of RT and CI can be easily used within UniSearch to find strongly trending shares in seconds with no chart watching required or needed. A UniSearch that sorts LSE shares by the combination of CI*RT finds stocks where both the short-term trend and the longer-term are strong. Please [click here](#) to see how to setup the UniSearch.

My first institutional desk head used to say that he had never seen a share trending upwards (above a 200-day moving average in his analysis) that had gone bankrupt. Similarly, the probability of a share with a high CI going to the wall is low. As a fund manager you can talk your way out of a spell of underperformance, but to have a stock go bankrupt on you is a death sentence.

Over the years in this forum, I have written many times about the fundamental measures on VectorVest. These are Value, Relative Value (RV) and Relative Safety (RS). Conservative investors will wish to add a measure of safety to the UniSearch (RS) above and a measure of strong earnings growth (GRT). In VectorVest notation:

RV $\geq$ 1.25

RS $\geq$ 1.25

GRT $\geq$ 15

Sorted by CI*RT

By running the above UniSearch we have found several stocks with strong fundamentals that are trending strongly upwards. This is a good place to be, but in this down market the list is small with stalwarts TGL.L and SQZ.L at the top of the pile. Number 8 on the list is LTHL.L which although has limited liquidity, looks in the opinion of the author, to be heading much higher in price.

As I write on the 20th of July both the fundamental and technical position of TGL.L, SQZ.L and LTHL.L are excellent, the technical position of the overall market is far from positive, but improving. Remember, it is my belief that the overall market is 70% of the exercise to becoming a consistent winner in the stock market. Before any purchase tick all three boxes.

1. The technical position of the stock.
2. The fundamental position of the stock.
3. The technical position of the overall market.

The Color Guard on VectorVest on the 20th of July 2022 says it clearly. VectorVest advocates caution when buying shares with all measures of the trend of the overall market Down. In last weekend's special presentation Mr. Jim Penna from the VectorVest education department described the VectorVest MTI indicator and how this unique oscillator can be used to define the direction of the overall market. Please play this repeatedly until the importance of market timing has sunk in. Market Timing is at least 70% of the exercise. Again, swim with the stream.

I reviewed all the VectorVest Market Timing signals in my Essay of the 1st of June 2022. This is a worthwhile quick read as some decisions will need to be made on when you start to buy stocks. In my trading plan, I intend to dip my toes into the water when the medium-term Market Timing signal known as the DEW prints a Buy signal. That has occurred after the close on the 19th of July 2022. Based on this signal I have added to my positions in Airtel Africa and Macfarlane. I am tempted in LTHL.L, but an average daily volume of 6000 shares priced at approximately £14 is on the low side for me. It's always easy to

get in, but getting out when there is a spot of bother, is the challenge with low volume stocks.

If the trend follows through, I will add when the longer-term systems such as a Confirmed Call prints a Buy. If the positions don't work out and I get stopped at the VectorVest calculated Stop, I will book a tiny loss. I have written an Essay on the 1st of July 2022 named "Exits when the position goes sour" to address this and the psychology of ensuring that losses are small in relation to wins.

2022-07-29

Characteristics of a Winning Trader and Investor

Over the last 40 odd years in this line of work, I have spent a lot of time with winning traders at both the institutional level and retail level. I have noted some common characteristics that seem to occur in those that consistently win and grow their investment accounts.

Courage:

You need the courage to action these basic steps:

#1: Open a trading account. Demo accounts are useful for a month or so to get a feel for the broker's software. These do not in any way prepare the trader or investor for the gamut of emotions encountered when real loot is on the line. Start small. I know many will say that the fees are a big part of the purchase and that is true. Look upon these as training fees necessary for progress.

#2: Deposit money in your trading account.

#3: Focus on following the VectorVest basic principles. When to Buy. What to Buy. When to Sell. Please revisit the Successful Investing Quick Start Course under the Training tab on the main toolbar. It is so easy to make things much more complicated than they need to be. I wrote about much of this in last week's Essay.

#4: Adopt a trading strategy and execute that strategy with precision. I did my best to discuss the salient points of such a strategy last weekend.

#5: Take the trades as they come along. Do not pick trades.

#6: Follow your strategy and diligently record each trade in your journal. Remember, it is impossible to judge the strategy on a single trade or even 5

trades. A batch of 13 to 30 trades defines a campaign of trades. To make this happen please read on.

Persistence and Emotional Grit:

Trading and investing are a business where the results are judged after a campaign of trades rather than a single trade. Most traders, however, live and die according to their last single trade. If it was a winner, they are happy, but if it was a loser, they are miserable.

It is easy to make a winning trade. You could take a drunk off the street and they could make a single winning trade. The hard part is to be able to trade with consistency over many years and that takes grit and persistence.

Do you have the **PERSISTENCE** and **GRIT** to:

#1: Take a few minutes to study your portfolio each day? Ten minutes a day for Worry-Free Investing and around 30 minutes a day (every day) if you wish to swing trade.

#2: Can you patiently wait for your trading setups to appear? Doing nothing is much more difficult than it would seem.

#3: Can you follow a proven trading strategy without changing the rules? Especially after a few losers. "Cheerfulness in adversity" is a prerequisite of becoming a consistently successful individual in any demanding endeavor.

#4: Not to give up on a trading strategy after a losing streak of 2 to 3 trades?

#5: Not change your money management rules after a winning streak? After a streak of winners, there is a compulsion to trade a much bigger size. Many successful funds have collapsed in this way due to the euphoria of a winning streak. The managers felt they had achieved God like status, bet the farm on the next trade and lost.

Save Money and Minimize Tax:

In the UK, make use of a Stocks and Shares ISA to minimize and eliminate tax. The details of which are readily available online. Removing the tax handbrake greatly increases your ability to build a million-pound portfolio.

Getting into a regular savings habit will take some planning. Transferring as much as possible of the £20k allowance into your ISA account each year will speed up the journey to financial independence. US Financial journalist Dave Ramsey rants on YouTube on why some Americans end up rich and why most end up broke. He concludes that the difference is that the successful saved 10% of their salary throughout their lives and the destitute did not. His rant is on YouTube. It is quite entertaining.

Constant Learning:

As a trader and investor, it is our job to keep learning and evolving with the markets. I consider myself a lifelong student of the markets. Over the past few years, there has been an explosion of new instruments that allow private investors to compete equally with institutional traders.

Although I understand the mathematics of the stock options market, I have little hands-on knowledge and practical trading experience in options. However, at VectorVest, we have some of the most experienced option traders in the world teaching how to build income from the stock options market.

As a stock trader, you will need to spend time and effort into honing your own strategy from any guidelines given within the VectorVest courses and products. You are unique and will have a range of beliefs about markets that are unique to you. This could be in relation to entry conditions or more commonly on exits and targets. Over several weeks and months of work, observation and reading this input plus the VectorVest core concepts will slowly evolve into a trading process that suits and fits you. The VectorVest BackTester will help this personal journey and there are many tutorials on this subject in the VectorVest Navigation Training series of videos.

In last week's Essay I discussed a simple, but robust methodology to get new investors started.

I won't comment on the state of the overall market as I write on Tuesday 26th July 2022. The Federal Reserve is due to decide on US interest rates on Wednesday 27th July. Big Tech is due to publish earnings in the week ending Friday 29th July. A combination of these will drive markets during the rest of the summer and I have no doubt change the position of both the US and UK markets totally, well before you all read this on Saturday 30th July.

In the Q&A session on Monday 1st of August, I will study Market Timing on both sides of the Atlantic in the webcast in detail.

2022-08-05

A UniSearch for Conservative Investors in Worrying Times

In the UK, the UniSearch that has been used for the VectorVest Worry-Free Investing (WFI) method is found in the Retirement folder within UniSearch. This is a great place to look for strong companies that have the pricing power and financial reserves to survive tough economic conditions which can get much worse before they get better.

I thought I had seen all there was to be seen in markets, but on the 2nd of August where all the financial world was focused on a plane landing in Taiwan took the biscuit. Let's get back to the process.

Click on the UniSearch tab and the various UniSearches are listed on the left-hand side of the screen in their various categories. If you scroll down, the Searches-Retirement folder will be there. The UniSearch in question is called "Long-Term Winners RS Desc."

In WFI, rather than sorting all the shares that we cover on the London Stock Exchange by the Master Indicator VST, we sort by safety of earnings (RS) alone. This brings to the top of the list those companies that have shown that they can make money and grow earnings safely and reliably over the years. RS is a function of the following:

- Earnings Consistency
- Company Size
- Price Behavior
- Business Longevity
- Dividend History

- Debt to Equity Ratio and many other important accounting ratios

In WFI, the Confirmed Call method of Market Timing is used. Confirmed Calls are the longest-term and most conservative signals on VectorVest as their name implies. I will fully discuss the conditions that should occur for a Confirmed Call to print in the attached video. The last Confirmed Call Up occurred on 27th July 2022.

At this time, conservative investors should have been entering their first positions of the new upswing. I will discuss my efforts at the Q&A session on Monday 8th August.

There are many VectorVest Market Timing signals which suit different types of investors and traders. Short-term systems for swing traders and longer-term systems such as the Confirmed Call for investors. I will try and cover these in the attached video.

I urge you all to become very familiar with the turning points of the VVC/UK. All turning points in the VVC/UK engage the Market Timing systems (short-term to long-term Confirmed Calls) in a very similar way. If you missed the turning point on this occasion, then resolve never to allow that to happen again.

Many years ago, my grandfather used to tell my brother and I that the “only way to make money in anything was to find the value of an asset and then pay less for it.” Many years later I read the “Intelligent Investor” which is a book by Buffett’s mentor Ben Graham. He was saying the same. At VectorVest, Dr. DiLiddo teaches that we should favor undervalued stocks. These are three very important and influential mentors in my life that have played a big part in building my beliefs about markets. As I often say, “we don’t trade markets, but our beliefs about markets.” I thought it would be a great idea if I simply added this to the standard Long-Term Winners UniSearch.

VectorVest calculates a Value for each share that we cover on the LSE each day. The algorithms that are used are fully discussed in Chapter 3 of Dr. DiLiddo’s book “Stocks, Strategies and Common Sense.” This can be downloaded from the VectorVest Welcome tab. Click on Views tab and there

is a section called Special Reports. Click on that and scroll down. Also, in this section there is a document on the WFI.

Long-term Winners RS Descending 2:

Time of Search...Stock Price (actual)...>=...50

Time of Search...Stock AvgVol (50-day MA)...>=...50000

Time of Search...Stock Exchange...<>...AIM Exchange

Time of Search...Stock Price (Actual)...<=...Stock Value

Time of Search...Stock Rec (recommendation)...<>...Sell

The UniSearch finds shares on the main market (not AIM) that are trading over 50p with good volume where the share price is less than the VectorVest calculated Valuation. These shares are either on a Buy or a Hold recommendation and not on a Sell.

There are some excellent stocks on the junior market AIM and clearly these can be added easily if required. AIM stocks are smaller companies and in many cases are unproven.

For some, using a filter that only considers FTSE 350 stocks is useful as many brokers will only place automatic stop-losses on shares within that index. This is certainly a useful feature if you are travelling or if you are honest enough to admit that you may dither and not honor the stop.

Just add a line in the UniSearch:

Time of Search...Stock WatchList...=...FTSE 350

I have found that this has little effect on the performance as the high RS shares are probably also FTSE 350 shares.

Favoring undervalued stocks and adding this to the UniSearch adds an extra measure of safety to the portfolio which I believe is warranted in a potential new market upswing that we find ourselves in.

At VectorVest we have a process, a process that's been proven over 30 years. I shall be adding to positions and buying into new positions as the move up continues and that will be fully discussed in the Monday afternoon Q&A on the 8th of August 2022.

2022-08-12

Should You Buy and Hope?

I arrived in South Africa (SA) in April 1981 and the place was buzzing. I went there for six months to play rugby and stayed 35 years. At the seminars, there would always be one who would ask “did they play extra time?” The Gold price had moved upwards strongly in the late 1970’s and there was a boom in place in SA. Gold mining stocks had gone up and up and everyone I interacted with was share trading.

From its peak, Gold then lost over 80% of its value over the next 20 years. Next, Platinum lost most of its value and Platinum stocks are basing out at the lows of what I believe is a 60-year cycle. I am watching metal carefully. A simple chart of oil over the past 20 years shows the enormous cycles in play in this vital commodity culminating in the post Covid period where you had to pay the buyer to take the product off your hands. Latterly, the price of oil has charged higher as we all know only too well.

In stocks, the S&P500 (a market average of the 500 largest stocks in the US) lost 50% of its value in a few years after both 2000 and 2007. The Nasdaq (technology heavy stock index), not to be outdone, lost 75% after 2000 and around 55% after 2007. I haven’t done the recent selloff numbers as the fall may not be over as I write.

My father told me that the FTSE 100 made an all-time high in 1969. After this it took a full 21 years in real inflation adjusted money for the FTSE 100 to break this high in 1990.

The adage that stocks always go up longer-term that’s common on the airwaves can be hard to take after a 50 plus percentage loss. Buy and Hold is great on a 21-year view.

Although UK property prices seem to defy gravity, I have witnessed two property busts in UK properties in my lifetime.

All asset classes, in my humble view, are highly probable to experience a 50% fall in their value from peak to lowest tick over your lifetime. I have seen many in my 67 years and have named a few above.

To escape these cycles, it involves some measure of trading or at least rebalancing your portfolio. This does not mean day trading or anything remotely close to short-term trading. Institutional traders simply switch from being overweight in stocks to a large holding of bonds when they feel that a bear market in stocks is in place. This has been a poor choice recently as the price of bonds has tanked as interest rates have moved up from multi year lows and inflation is rampant. If you have an institutionally managed pension account, I bet it will be showing signs of wear. These are invariably a 60/40 mix of shares and bonds respectively and both asset classes have taken a hit.

In the latest selloff, this year, I simply went to cash and at the lows was around 70% in cash and 30% in stocks that were at least partially defying the fall. These were mostly Oil and Commodity counters.

If the overall market is falling, then more aggressive players can use an inverse ETF to hedge a portfolio or make some gains as the overall market falls. I am reliably informed that the only liquid inverse ETF that's listed on the LSE is SUK2.L. This is a double leveraged instrument and thus, with the leverage, is not suitable for the faint of heart. The liquidity, although enough for my purposes, would not be large enough for an institutional account and thus, they park their cash in bonds.

There are many exceptionally liquid inverse ETFs listed on the US markets and an exceptionally liquid options market. The latter allows many sophisticated hedging strategies to be employed and these are taught in the retirement courses offered by the VectorVest Education department.

Experienced traders and investors in the UK can use the CFD market or spread betting markets to hedge their portfolios. The latter offer considerable leverage, and this unfortunately is the cause of much misfortune. Leverage is great fun when the position does what its told and brings tears when the position misbehaves.

The point that I am making is that you don't have to tolerate these demoralizing 50% drops in your wealth and, with a little effort, you can profit from them. Dr. DiLiddo says that "The worst thing that can happen to an investor is to get caught on the wrong side of a market. It does not have to happen to you."

I became very aware of this in my early days in the markets and for many years used a 40-week Moving Average (MA) of the S&P500 as a Market Timing guide. I started with two weekly closes above the average as saying it was OK to buy stocks and two closes below to say that it was not. The Buy signal was fine as markets tend to rise with less momentum than they fall, but the Sell signal was late. For many years, my timing system was two closes above the 40-week MA and a single close below. At present, the S&P500 is below its 40-week MA. Old habits die hard, and the latter makes me wary, careful and extra diligent on stops.

The VectorVest Market Timing signals are much more comprehensive, and I describe these in detail for both the UK and the US each Monday afternoon in the Q&A session.

We look at the three aspects of the VectorVest Composite (VVC) of any country where VectorVest is active. These are:

1. The Price of the VVC.
2. The momentum of the VVC (rate of change of price), Relative Timing (RT).
3. The breath of the VVC as measured by the proprietary Buy/Sell Ratio (BSR).

The objective is to objectively indicate whether it is safe to be buying shares or not. There are a range of Market Timing systems from short-term to long-term. The longest-term system known as Confirmed Calls is quick to register a major turning point in the market and gives a signal many weeks ahead of the 40-week MA system mentioned above.

I am a share trader and firmly believe that by finding undervalued shares that are growing earnings strongly and rising in price when the overall market is rising, I can outperform the overall market. It takes a little focus and most importantly the discipline to cut the losers quickly. The process is fully illustrated in the Successful Investing Quick Start Course (SIQSC) which is available to all under the Training tab on VectorVest UK.

As I write on Tuesday the 9th of August 2022, all the Market Timing systems (from short-term to long-term) on VectorVest on both sides of the Atlantic are positive for buying shares. I will look at the position of the UK and US markets in the attached video which I hope to complete just after the US inflation number has been made public at 13:30pm UK time on the 10th of August 2022. Markets on both sides of the pond have been waiting on this metric for the last few days to get a feel for the Fed's next move on interest rates.

2022-08-19

Core Concepts to Becoming a Consistently Successful Trader

Our number one priority, here at VectorVestUK, is to help you make money and grow your wealth in the Stock Market. We will work with you until you do. We know we can help you as we have done with countless subscribers all over the world. Let me ask a question for your contemplation over the weekend that you read this essay. “Are you in the stock market to make money or to solve a puzzle?”

It’s strange, this thing about making real money. We have so many ways of demonstrating how to do it, yet we continue to get questions from subscribers saying they haven’t done so. It’s almost like there’s some secret we haven’t told you about. There’s no secret. The VectorVest Worry Free Investing (WFI) method for example (that I have written about here on many occasions) shows you how to do it repeatedly. The only secret is that there isn’t a secret, but just the application of a robust objective process.

In September I will be running a webcast series called “Wealth Building Strategies and Secrets.” In this series, I will demonstrate WFI along with several more aggressive trading plans. For a refresh on these please sign up for the webcast by clicking [here](#).

Years ago, myself and my trading partner of the time had monthly live coaching clinics for short term traders in the City of London. We kept getting criticism from those attending in that we did the same thing and taught the same process each month. My reply to this critic was that we did the same thing and had the same trading rules each day. The rules were not profitable on each trade, but over the month they amounted to a strongly positive expectancy system. In short, they made more when correct than they

lost when incorrect. Just like WFI and the other strategies I will present in September.

Learning to think in probabilities is a challenge, but it is a rite of passage in this line of work. Unfortunately, it does not matter how much research you complete, the outcome of any single trade or investment is largely random. Some years back, I had been buying an index stock at an important support level and had made excellent cash doing this on five separate occasions. On the sixth attempt the support failed, and I got stopped out. Later that day, I was told that the hedge fund that had been accumulating at support simply didn't bid the share. The MD of the funds mother had died and all the traders were at the funeral.

As I have written here many times "if you are correct 80% of the time in market direction then you are wrong 20% of the time. On the next trade, you don't know whether it's one of the 80 or one of the 20."

However, with a well thought out and researched process, the outcome of a batch of trades is perfectly predictable. Before you can make a judgement on your trading processing a batch size of 30 trades or thereabouts is necessary. Many traders live and die by the outcome of a single trade and chop and change their process in the hope of getting it correct on the next trade. The latter is a recipe for disaster and frustration. Building the discipline to follow a simple set of rules for a batch size of 30 trades takes some doing, but when it is mastered you will be in the top 5% of all the traders in the world and a big winner in the stock market.

At VectorVestUK, our process starts with our fundamental belief that investors should buy safe, undervalued stocks, rising in price. That's why we provide an assessment of Value, Safety and Timing on every stock, every day. Aggressive Investors who manage risk proactively with stop-loss orders should focus on Relative Value and forecast EPS growth, with only a passing interest in safety of earnings (RS). The latter simply buy rising stocks in rising markets supported by strongly growing EPS. Of course, the corollary of selling falling stocks in falling markets also applies to those traders who understand

and are experienced in selling an asset that they don't presently own. In any case, making money all starts with knowing whether a stock is more likely to go up or down in price.

This is where Wall Street and the CNBC/Bloomberg market strategists really get it wrong. They say, *"You can't time the market. You should buy stocks on the way down. You should dollar average with regular monthly investments. You should buy and hold. And, finally, you can't beat the market."* **VECTORVEST REFUTES ALL THESE LIES.** We time the market and when it's pointing upwards, it's safe to buy stocks that are rising in price. This last occurred in the UK stock market as defined by the DEW Market Timing System on 19th July 2022 and it's been a great ride since this signal. As I write on the 16th of August 2022, the trend upwards remains intact, but is becoming mature by many measures.

It is my experience, over nigh 40 years, that your chance and probability of making money by buying rising stocks when the market is rising increases strongly. Knowing when the market is rising and it's safe to buy stocks is 70% of the exercise. Maybe that's the secret.

We Time the Market to see whether stock prices are rising or falling, and we have the Color Guard and front page of VectorVest to convey our analysis. The first thing you should do every day is look at the Color Guard. It tells you in a flash when it's OK to buy stocks. Chartists will wish to add the Market Timing Chart of the VectorVest Composite UK (VVC/UK). This can be found under the "Timing" tab on VectorVest UK. Each Monday afternoon (all VectorVest subscribers should get a link), I present a detailed study of the VVC/UK and VVC USA. In this, I focus on the Primary Wave (short-term trend), the Underlying Trend, the Buy/Sell ratio (known as the Canary for its leading characteristics) and of course the longer-term trend (Confirmed Calls).

However, all the information is easy to spot on the front page of VectorVest and on the phone app. As I write the VVC/UK is within an UpUp trend. The first word refers to the Primary Wave and the second to the Underlying Trend. To the right of the UpUp you should see a green C/Up under the column

“Call.” This is the longest-term Market Timing signal known as a Confirmed Call. It’s the underlying trend confirmed by price movement. When the trend changes to a time when it’s not safe to buy shares, this will change to a red “C/Dn.” No chart watching is required.

VectorVest will help, with pleasure, new investors to learn how to do the right things at the right time. First, we have the Successful Investor Quick Start Course under the “training” tab on VectorVest. We also have a terrific Product Support Group who is more than happy to answer your questions and help you any way they can.

Then we have the VectorVest University. If you’re serious about making money with VectorVest, visit the University on a regular basis and attend our live events done by webcast.

2022-08-26

A Simple Trading Plan—Point by Point

In the following, I will try and summarize a very simple trend following trading plan that has worked for me. Please don't skip to the end and focus on the entry criteria as the initial comments on money management and stock selection are key to the success of the technique. This was the first very profitable technique that I used on the Johannesburg Stock Exchange when I started to trade and invest in 1982. I have taught it in the past, but many roll their eyes and say, "I knew that already." Audiences demand novelty over a robust and consistent but slightly boring plan.

1. How much money is in your account? If you do not know how much money you have allocated to your speculative trading account, then you cannot size your positions correctly. If you cannot size your positions correctly you are gambling and not trading.

2. Never risk more than 1% of your account in any trade. Use a stop-loss order for each position. The VectorVest program calculates a stop-loss for each share listed on the LSE and AIM each day. The risk is the amount of cash lost if the share should fall from the entry to the stop-loss level. As a rule, split your capital into 10 portions and then vow never to lose any more than 10% of each position should that position move against you. Careful and disciplined risk management is the difference between winning and losing in stock trading. If you do not trust yourself to action the stop-loss, then orders can be placed on many trading platforms to accomplish this automatically. Never underestimate the power of the ego within us all to "give it another day." All disasters start with a single missed tackle. Hit the stops hard and low.

3. Spread the ten positions across the entire market and do not hold any more than two positions out of the ten in any single sector or area of the economy.

4. Never let a profit turn into a loss. To start, consider exiting half the position when you have made as much as you have risked. Then get the stop-loss to entry and let the second half run with the stop-loss trailing upwards behind the price. To illustrate, let us assume we purchase a stock at 10 pounds and VectorVest calculates that the stop-loss is 8.50. When the position has moved to 11.50, we have made as much as initially risked. At this point, bank half and then move the stop to entry. You now can make money with NO risk on the second half and that is a great feeling.

Raise the stop-loss behind the price when the VectorVest Stop rises above the initial entry point.

5. Trade only in the very best shares. Those shares, in my humble opinion, should be undervalued by the market and have strongly growing Earnings Per Share (EPS). Warren Buffett's mentor, Ben Graham, says that EPS growth is the engine that drives the share price. Ben Graham argues that companies that are growing EPS strongly can spend money on acquisitions, research into new and better products and attract the best talent. VectorVest, in a few clicks, can find undervalued shares that are growing earnings strongly. It is like a football team. Fill the team with great players and that alone will help the team do well. Fill your portfolio with shares with great growth fundamentals and you are well on your way to success.

6. Never buck the trend on any stock. The stock should be in a strong upward trend and the entry criteria detailed later finds these. Undervalued shares that are growing EPS strongly and breaking upwards through a 52-week high are the basis of a very successful stock and simple trading system. On VectorVest, there is a unique and proprietary metric called the Comfort Index (CI). The CI finds shares that are in the throes of a strong upward trend with a single click. Shares with great fundamentals which also have a high CI can be built into a UniSearch on VectorVest and found easily. I am not suggesting that we do not buy a pullback in an upwardly trending stock with great fundamentals (the spring setup for those familiar with my work), but rather emphasizing the need to have a strong trend at your back. I find

that sorting shares on UniSearch by a combination of CI and GRT finds opportunities that satisfy the requirements of pointers 5 and 6 easily and without fuss.

7. Never buck the trend of the overall market. The most important thing to know is whether the market is rising or falling. Everything follows from that. Some traders and investors use a moving average on the indices to time the overall market. The problem is that markets move like fairground rollercoasters. They take a long time to rise, but fall quickly. Moving averages on the indices do not do a bad job on the entry, but tend to be slow when it is time to get out of the market and into cash or be short. This is due to the lagged nature of the moving average calculation. On VectorVest, we have several unique and totally objective Market Timing systems that react quickly to market conditions. There are systems for swing traders and longer-term position traders and investors. There is a good time to be buying shares and an awful time to be buying shares and for success you need a system that is easy to use to tell you when. I have reviewed the VectorVest Market Timing signals in these Essays on many occasions. As I write on Tuesday the 23rd of August 2022, the short-term trend is Down, while the Underlying Trend is Up. A DnUp situation with a Confirmed Call upwards in place since the 27th of July 2022. The advice on VectorVest suggests not to buy stocks at this time.

8. Trade only in active markets. Keep out of slow and illiquid stocks. Risk management is the core of consistency in stock market trading and if the share is poorly traded there may not be a bid in sight when you wish to leave the party. A filter can be added to exclude shares with poor trading volume as a line within all the UniSearch variants on the VectorVest program.

Doing nothing is much more difficult than it would seem. In the seminars (to keep people awake), I always joke that there is a neurological link between your butt and the mouse finger. When you put the former into the trading seat it immediately sends a message to the mouse finger to buy something. These impulsive buys, taken after 10 seconds in the trading seat, rarely fare well.

9. Maybe the most difficult part is letting winners run. In point 4, I suggested exiting half of the position when you have made as much as you initially risked. Then get the stop-loss to entry. The objective is then to let the second half run using the VectorVest stop-loss as a trailing stop. This will give the share lots of wiggle room on its ascent. Try and let the ball do the work.

10. Finally to the entry condition. Find stocks that are breaking above and charting a 5-year high. This may be an all-time high. The share should then trade sideways below the all-time/5-year high for 13 weeks. The entry point is a breakout of the high point on increased volume after the 13-week consolidation. The breakout after a 13-week pause helps increase the probability that the breakout works successfully and that the risk to reward is acceptable. That's it. Please note that during the consolidation, the volume traded should decrease and that volatility of the price bars should decrease. Some refer to the pattern as a "volatility contraction pattern." The contraction and fall in volatility are seen visually by numerous "Doji" candles where the open and the close of the day are similar in price.

I have found that after 21 weeks of consolidation, the probability of a strong breakout is not as high. These numbers are guides and frequently I will take a breakout after 12 weeks (rather than 13) if the earnings are growing strongly and the volume patterns are positive. Start with 13 weeks and get a feel for the technique. Over the years, I have studied the consolidation patterns that seem to perform best and will endeavor to communicate these at the next Q&A session on Tuesday, 30th August 2022. Remember, the date has been changed from Monday due to the UK bank holiday.

On the week ending 11th April, TGA.L made an all-time high. The share then moved sideways below this level for 15 weeks and then broke out of the level on the 16th week. During the consolidation, TGA.L had grown EPS significantly and that is an excellent sign that the breakout will be successful. I bought TGA.L at the breakout and am still holding the share.

KIST.L made an all-time high on 4th April 2022. The share then moved sideways for 12 weeks and broke upwards on excellent volume on the 13th

week. Within the 12-week consolidation, there was a ramp up on forecast EPS. The share has moved from 450p to 630p as of 23rd August. I haven't got a position as my order wasn't filled.

The technique is simple, but used properly as defined above is very profitable and hands off. It will certainly not find every move, but it finds enough of them to base a profitable portfolio on the technique. Can you see the recent setup on AstraZeneca (AZN.L)? Time will tell if the position will be a big winner, but the share is going the correct way for now.

2022-09-02

The Perfect Model for Your Trading Business

The perfect model for your business is not what most think. Casinos make a great deal of money on what would seem to be a random cut of the cards or a throw of the dice. Over the years, the casinos of the world have evolved games that give the house an edge. The edge is small, but eventually if the punter keeps playing, he or she will lose all their cash. This is something that you may have already worked out. The Casino for this reason provides the perfect model for your trading business. Let me clarify the Casino operation is the model and NOT the punter playing a game that's rigged against them. We want to be the Casino and NOT the punter.

At seminars I ask, *"Are the casinos in the gambling business?"* Invariably, a new to trading audience, will say "Yes." The answer to this question is that nothing could be further from the truth. It's the punter that's in the gambling business. The Casinos have engineered their edge and can calculate it to several decimal places. In the trading world, the edge of a trading system or strategy was given the name of "expectancy" by trading coach, the late Van Tharp.

Trading expectancy is a calculation that shows what the typical profit is for each trade placed. If it's negative, the strategy is a loser. If it's positive, the strategy is a winner. The calculation combines how many trades are typically won with the average loss on losers and the average gain on winners. The percentage of time a strategy wins is known as the "hit rate" and the average loss to average gain known as the "risk to reward ratio."

While knowing the expectancy of a strategy is important, expectancy also highlights that there isn't just one way to make a profit. A trader can lose almost all their trades, but if their wins are much bigger than their losses, they can still make a good income. On the flip side, there may be a trader that wins

almost all the time, but because their losses are so much bigger than their gains, they end losing money overall.

Most new and many veteran traders only think about trading in terms of winning. They don't like losing and so they are always trying to (or hoping to) win 8, 9 or 10 trades out of every 10 they take. While winning 8 or 9 trades out of 10 may be possible, it doesn't mean that trader will be successful over time. There is nothing wrong with winning! Many traders do very well by winning 7 or 8 trades out of 10. The point is that the hit rate alone doesn't tell the full story or anything close to the full story.

Some years back my trading partner of the era and I attended a sales presentation of a fellow selling a forex trading course. He was claiming a 90% hit rate and showed the audience his trading log over three trading days. His claim over this period was correct and that why he had to hire a central London cinema to present. If we are honest with ourselves, we simply want to be correct on each trade. Mark Douglas in his book "Trading in the Zone" says that the four trading fears are:

1. Being wrong.
2. Losing Money.
3. Missing out.
4. Leaving Money on the table.

It was fear number 1 that filled the 500-seat cinema.

How many trades we win or lose isn't the only thing to consider. We also need to consider the size of those wins and losses. By combining these factors, we see that it is possible to be very successful with a system with a low hit rate that makes much more when it's correct than it loses when it is incorrect.

Here was the data that the fellow in the cinema advertised in his own literature:

Hit Rate = 90%.

Average risk 9 units.

Average profit 1 units.

Before reading any further would you trade with that system?

Calculating Trade Expectancy:

Here's how to calculate trade expectancy:

$(\text{Win \%} \times \text{Average Win Size}) - (\text{Loss \%} \times \text{Average Loss Size})$

So, for the fellow above it's a poor result over a batch of 10 trades
 $((9 \times 1) - (1 \times 9)) / 10$ equals 0.

The system that sounded perfect with a 90% hit rate in fact makes no money. Under normal circumstances with slippage and sweaty hands on the mouse the system would lose a lot of money. For those reading who are in business, expectancy in trading is like margin in your business. The higher the margin and the higher the expectancy the more resistance the business (and trading is a business) is to shocks and errors.

Let's now consider a simple breakout technical trading system. I wrote about a simple version of this in last week's Essay which has a huge risk to reward ratio. Breakout systems were first made famous by Richard Dennis and his group of "Turtles" in the 1980's. If you google the "Turtles" there is a rich legacy online. They believed in buying when the market simply broke a 20-day high. In later years, they used a 55-day high.

Their system often won less than 30% of time, but it was very profitable. That's because their winners were so much bigger than their losers. There is a big difference between being right and consistently banking and building your wealth. A book entitled "The Little Book of Trading" by Coval details the experiences of some of the richest fund managers on the planet who are breakout trend followers.

Although the hit rate in a trend following system with no fundamental input is low, the risk to reward in a well-designed system is excellent and can easily

be 5 to 1 and in many cases much more. Let's look at the numbers again over 10 trades for a 5 to 1 system.

Hit Rate = 40%.

Average risk = 1 unit.

Average gain = 5 unit.

Expectancy is $((4 \times 5) - (6 \times 1))/10$.

$(20 - 6)/10$ equals 1.4 units.

This simply means that the system makes £1.40 for every 1£ risked. It has a positive expectancy and all you must do is play the game. You are now the casino and not the punter pushing 1- pound coins into the machines. The punter is playing a negative expectancy system and the longer he or she plays the more broke they become.

Trading expectancy only really matters over many trades. While 10 trades were used in the examples above to keep it simple, 10 trades are quite a small sample size. To get a reasonably reliable trade expectancy, look at results over at least 30 to 50 trades. Over that many trades we start to get a truer sense of how a strategy performs. The casinos know this. They know that if you roll two dice 500 times down the craps table that the seven will appear most often. If the seven is thrown the croupier will shout "Seven Out" and the house mostly wins. At the level of a single throw of the dice there is randomness while at the level of 500 throws there is perfect order. Trading systems are no different.

For many years, I was a technically based trader alone. I tried to keep the fundamentals under control, but failed miserably. I didn't have an accounting background and found the annual and interim reports piling up in the corner of the office. If I am honest, I didn't really have the inclination. In those years, my only interest in life was chasing a rugby ball.

Following trends was much easier and it was quite profitable, but the hit rate rarely strayed much above 50%. As I showed above in the "Turtles" example that can be very profitable, but you need to be resilient of mind to handle the losses which tend to arrive in clusters of good and poor luck. That took

practice and a sustained run of losers is hard to stomach even for the most resilient.

In 2011, I found a tool that would complete all the fundamentals for me with no effort it completely changed my trading plan. Dr. DiLiddo the founder of VectorVest says that “Success starts with Buying the correct stocks.” He attests that if you buy these stocks that are undervalued and growing EPS strongly and safely, that alone will help your investments do well.

Since 2011, I only take my technical setups in shares that have excellent fundamentals when the overall market is rising. That’s done two things. It has increased my hit rate to around 66% and has also increased the risk to reward ratio on my swing trades to well over 3 to 1.

Please don’t just focus on optimizing your trading plan to hit rate alone, however tempting it sounds and more importantly feels emotionally. It’s the interaction between hit rate and risk to reward that builds wealth. Most great wealth is built on investments with an asymmetrical risk to reward ratio.

2022-09-09

Stop-Losses. Painful At Times but They Will Keep You Alive to Fight Another Day

As I write on the 7th of September 2022, all the measures of the trend on VectorVest on both sides of the Atlantic are down. Both the US and UK markets are sitting on important support levels which if broken could lead to a move down towards the June 2022 low or much lower. It's a time to be careful and aware of the fact that to ensure consistent success we as traders must be primarily risk managers.

As a technically orientated trader, I have always managed risk proactively using stop-loss orders. They can be a pain at times as the stop-loss level can trigger you out of a strongly trending share and frequently stops can get you out at exactly the place you should be buying in. On the positive side, they remove the ability of the market to wipe you out. One VectorVest member from Oxford tells us the story of Marconi (once a FTSE 100 bell weather stock) falling from 13 pounds to a few pence.

In my own portfolio, I had a significant position in house builder Persimmons made after the March 2020 low. After a reasonable run, the share started to fall earlier this year as interest rates began to rise, and I elected to get out on a stop-loss at 25 pounds. The share is now at 14 pounds. The latter would have been a hit of note and the consequences in terms of cash, emotional wellbeing and the home front with family can be severe.

What is worse than not taking the stop, is adding to a losing position. This is known as averaging and it may work with index ETFs, but it certainly does not with individual equities. Frequently, as with Marconi and Steinhoff, they

just do not come back and if you average, you now own a heap of them. I remember doing this with a share I owned in 1984 when new in the game of trading. I started in 1982 and had two great years from a tiny base. In a quarter of the year towards the end of 1984, I gave most of the gains back by adding to a loser than did not come back. A valuable lesson and its never happened to me since.

The most fundamental of all trading laws is to add to winning positions and quickly exit losing positions. So easy to write, but difficult to do. Most do just the opposite. This is the reason why the Spread Betting Companies say that 70% lose money when trading with them. The latter disclosure is a requirement of the UK financial regulator. The main reason for this statistic is that the 70% of losers do not respect this most basic of trading wisdom. In short, they snap at winners in case these disappear and ignore losses hoping the price will turn.

The VectorVest philosophy and guidance on stop-losses can be found in Dr. Bart DiLiddo's classic investment book, "Stocks, Strategies and Common Sense." He devotes Chapter 13 to the subject which he titled, "Stop-Prices: Are They for You?" The opening paragraph sets the stage for an enjoyable and thought-provoking read.

"A Stop Price is like a pane of glass. Once it gets hit, it is broken. The use of Stop-Prices is one of the most controversial and misunderstood methods of selling stocks. Stop-Prices are double- edged swords. They can cut losses and protect profits or result in high turnover and lost opportunities. Are they for you?"

"Investors should be aware that the period of highest risk is at the time of purchasing a stock. Taking commissions into account, you are already starting with a loss. If the stock heads down in price, the loss increases. The name of the game, at this point, is to control further losses. Stops provide the discipline to do this." (quote obtained from the second edition of Stocks, Strategies & Common Sense)

VectorVest instructors teach the concept by saying something like, "Just like boarding an airplane, taking a hotel room or heading to the mall on Black

Friday, always know where the exits are before you place your trade.” In other words, determine your Stop Price before you click the order entry button. You would not jump out of an airplane without a parachute.

Dr. DiLiddo continues:

“Many advisors suggest that Stop-Prices be set at 10% below purchase prices. I have found that the Stop-Price of a stock should be based upon its safety, fundamentals and price trend. Safe stocks with solid fundamentals should have ‘looser’ Stop-Prices than those with weak fundamentals. These considerations allow investors to stay with solid stocks longer and get out of weak stocks sooner.”

On the VectorVest program, the stop-loss level is automatically calculated each day based on a 13-week Moving Average of Price and adjusted for the fundamentals of the stock.

A “Sell” recommendation is generated when a stock’s Price closes below this calculated level.

Simply place your portfolio in a WatchList. Re-sort the WatchList by RT and that will place all the shares that are doing well at the top of the list and all those that are doing poorly at the bottom of the list. As you see a red colored “Sell” recommendation appear at the foot of the list, it is your job to simply exit that position. Then, grit your teeth to keep your itchy hands off the winning positions at the top of the list.

As I wrote above that is much easier to write than do. Your ego will put up a fight.

2022-09-16

Are Earnings Growing Or Slowing?

I recently reread the weekly Essay written by Dr. DiLiddo on 8 November 2019 in the Views for the US Market. If you have not already seen this Essay, it is entitled “The Future Is Now.” It can be found on VectorVest US.

In the Essay, he discusses his progress in a trading career that started in 1960 and concludes that many so-called experts still use P/E ratios to value stocks. Taken alone, P/E ratios do not tell you very much about a stock's value. At a minimum, one should know something about the company's earnings growth rate. It's very easy to find a stock on a P/E of 5 that looks cheap, but the earnings growth is negative. The reason that the stock is cheap is that it is nearing bankruptcy. A friend of mine in SA (a value investor) lost his asset management business in this way. He fell in love with a stock and kept buying more of it as the price dropped and his final purchase was on a P/E of 2. That was just before the company went broke.

A high P/E ratio can be justified if its earnings growth rate, GRT, were higher than its P/E ratio. In other words, a stock would be undervalued, if its $G/(P/E)$ ratio were greater than 1.00. Dr DiLiddo confesses to becoming a “Growth Stock Junkie” after this realization.

Most analysts deal with the past while the stock market looks to the future. It is easy to get up-to-date earnings growth rate (GRT) information from VectorVest by accessing Stock Viewer and clicking on the GRT column heading. GRT reflects a company's one to three year forecasted earnings growth on percentage per year.

GRT as noted by Dr. DiLiddo in the US Essay of the week (8 November 2019), is not just looking at the growth now, but also into the future. The study of historical growth rates can be misleading as this will not alert you to what is

likely in the future. This is where the power of GRT really gives you the edge as the investor. The VectorVest program looks not only at historical growth rates, but current and future growth rates. The detail of this is now contained in Chapter 4 of Dr. DiLiddo's "Stocks Strategies & Common Sense" book. You can get a digital copy per the Welcome tab. If you have not already read Chapter 4, "Earnings Growth: The Golden Touch". The following sentence is vitally important to everyone reading.

"Your job as an investor is to preserve and increase your net worth. Your enemies are spending, taxes and inflation. Spending can be controlled. Taxes may be deferred, sheltered, and avoided, but not evaded. Inflation cannot be deferred or evaded, but it can be overcome. One of the surest ways of defeating these enemies is to have a portfolio of solid growth stocks."

In my humble opinion, the greatest stock price moves will occur when the growth fundamentals and the price direction (trend) agree. For many years in my journey as a trader/investor, I designed and successfully used trading models that were based purely on price. In these early models (1982 to 2009) no consideration was given to any fundamental information and yet they were very profitable for me. At the time I did not have the skills, time or if I am honest the inclination to fight with the interim and annual reports to get a handle on the fundamentals.

From 2010 when I discovered VectorVest, I now had the ability to include these into my trend following models with no effort on my part. My objective in all my trading whether long-term over many months or in swing trading over a few days is to put both forms of analysis (fundamental and technical) together into the best of both worlds. The results can be astounding.

If you focus on shares that are in the throes of a strong trend (CI) that are growing earnings strongly (GRT) and reasonably safely (RS) when the overall market is rising, then your success is nearly certain. Hands off investors will specify a high RS (>1.30) while swing traders who are more active may be happy with a lower RS (>1.00) which will give them much more opportunity.

I have found that sorting UK and USA shares by a combination of CI*GRT finds some excellent growth shares that are also rising in price. There are many more excellent UniSearches that are prewritten on VectorVest and of course you can write your own. Each month I run a webcast called “Wealth Building Strategies and Secrets” where I run through the entire process and conclude with several stocks that seem highly probable to move higher. The next webcast is on Tuesday 20th September at 6:30PM UK time.

The UniSearch tool on VectorVest makes this process very easy although some very successful traders such as Susan Thornborough in London simply and visually find shares with a strong trend and strong fundamentals directly from the Stock Viewer in a few minutes.

As I write on the 14th of September 2022, the technical position of the stock markets on both sides of the Atlantic is poor. The inflation number from the US disappointed and the thought of a huge FED hike in interest rates caused the bulls to run for cover with the S&P500 falling 177 points on the day. The UK suffered a similar fall.

UK inflation came in slightly below forecast at 9.9% annualized. It was forecast at 10%. With unemployment at multiyear lows this will give the BOE the reason to proceed with a 0.5% or even 0.75% hike next week.

It's a time once again to be very strong and disciplined on stops and maybe reread last week's Essay on the topic. Please protect capital until this market finds a bottom, where stocks will be on sale.

2022-09-23

The VectorVest Stock Viewer...a Mountain of Vital Information

The stock market emits an enormous amount of information each day. Some of this is meaningless and, of course, some of it is vital to our success. An old stock market adage is “it’s not what you don’t know that gets you, it’s what you do know that’s just plumb wrong that gets you.” Sifting the gems from the misinformation that is thrown at the individual investor daily is a big part of success in the stock market.

So how can we separate the good advice from the bad? That’s what the Home Page and the Stock Viewer on VectorVest achieves. The information presented is based on hard cold numbers with no ego-based imagination or dubious wave counts. The advice in terms of market direction and the fundamental/technical position of a share is reality and an eon away from that clown who jumps up and down on our TV’s each afternoon.

The first step is to decide whether the overall market is rising or falling. Everything follows from this. As I write on Wednesday 21st September 2022, all the measures of the trend are down from short-term to long-term. The situation is similar in the USA, but could change enormously before you read this Essay as the FED and the BOE are deciding on interest rates on Wednesday and Thursday, respectively. A dovish Mr. Powell could easily cause a sharp rally in the mega oversold USA Market. A resumption of rhetoric that rates will continue to rise to tame inflation as per his Jackson Hole speech would be very negative for markets. I would expect the UK to follow around a nanosecond later.

Market trends are shown on the Home Page of VectorVest and no chart watching, or any subjective input is required. The trend situation is DnDn as

I write. The first word refers to the Primary Wave (short-term trend) and the second to the Underlying Trend. The advice is simple. Sit on hands.

VectorVest is designed to conduct a factual, objective analysis of both stock technical and fundamental data and transform it into easily used information and guidance. All this information and guidance is stored in Stock Viewer. It is a gold mine of solid dependable information and my job as a stock trader is to extract the gold and that's not hard to do. I simply access Stock Viewer and examine the top 30 stocks ranked by VST-Vector. I look at the chart of each one of the top 30 VST stocks almost every evening. This is the default sort on the Stock Viewer.

In Lesson 4 of the Successful Investing Quick Start Course (SIQSC) which is built into VectorVest, there are two main cherry-picking techniques discussed. The first looks for a nice steady pattern of rising prices. I also like to see smooth, steadily rising EPS patterns. It's hard to go wrong buying stocks with steadily rising earnings. Buffett's mentor Ben Graham says that "EPS growth is the engine that drives the share price." Please review Lesson 4 of the course for details.

The second cherry-picking technique is the Midas Touch which I have written about in the past in these Essays and will be addressing in detail at our live seminar in Central London on the 29th of October at the Chesterfield Hotel in Mayfair. Please mark your calendars and stay tuned for more details coming soon.

Shares with the best EPS growth patterns have invariably high RS ratings. The next thing I do is sort by RS and again look at the charts of the top 30 RS stocks. By hand (a dinosaur I know), I note common ground between this sort and the VST sort. For these high RS shares, I especially like to look at the weekly chart over 3 to 5 years to examine the long-term of earnings performance of these great stocks plus the trend, support and resistance levels.

To find shares with the smoothest long-term price performance patterns, sort by Comfort Index, CI. I refer to the CI as the VectorVest secret weapon. I've finally relocated CI on my Stock Viewer screen to be between VST and

GRT. If the CI is high, above 1.30, the top 20 stocks will have a smooth, rising Price chart with little volatility. Again, I make a note of the common ground between this and the RS and VST sorts.

I first saw this very simple technique demonstrated by Susan Thornborough. It's simple and gives the investor a great feel for the market action in a few moments. Try it. The technique finds some great shares.

Of course, UniSearch can be used to do most of the above automatically, but the hands-on process has great merit in my view.

Take those shares that show a great combination of trend, EPS growth and safety when the overall market is rising and place them in a WatchList. Re-sort the WatchList by RT. This will place the strongest performers to the top and the poorest performers to the bottom of the list.

Remember, the "Holy Grail of Trading" in my humble opinion. Winning traders become very optimistic when they have a winning position and allow the position to run. Winning traders become pessimistic very quickly with shares that are underwater and at the bottom of their WatchList and simply exit those positions. Losers unfortunately get this process completely the wrong way around. They become pessimistic with their winners and optimistic with their losers. They exit winners far too early and hang on to losers in the vain hope they may turn. Don't let that happen to you.

2022-09-30

How to Put Your Emotions and Trading System on the Same Side

Good traders and investors make rational decisions. They don't easily allow misplaced and poorly directed emotions to impact their buy, sell and risk management choices. This is especially important when the market is choppy or falling as is the case now. As I write on Tuesday 27th September 2022, the news flow from the UK as described by the most prestigious newspapers is dire and doom laden. The UK and US markets are falling on all VectorVest Market Timing systems from short-term to long-term. The advice is to stand aside and raise cash as stocks hit their VectorVest calculated Stop-Loss.

Traders tend to become bearish AFTER the market tanks, and traders tend to become bullish AFTER the market surges. This means that these traders are no longer thinking independently or rationally. They are just following the market in a herd. I frequently joke *"I am feeling bearish and that normally means a low is close."*

Warren Buffett says, "be greedy when others are fearful and be fearful when others are greedy." This is easier said than done because we are all human and we should be very grateful for that. No one is perfect. Most traders and investors tend to "be greedy when others are greedy and be fearful when others are fearful."

Humans are social animals. We cannot live in isolation for long periods of time without going a little mad. That's why other people's thoughts impact our own thoughts. We all get a little greedy when the market goes up and a little fearful when the market goes down. Feeling these crowd-driven emotions is just a part of being human. At present in the general economy, consumers are making what I call an "error of pessimism." You can see that in sofa sales.

Consumers are saying “Let’s make the sofa last another year.” In good times, consumers frequently make what I call an “error of optimism” where perfectly good sofas are replaced, and the TV sets get bigger and bigger. These patterns by consumers are the driving forces that create the cyclical nature of financial markets. Central bankers since the dawn of time have tried to smooth these cycles out of existence to no avail.

We cannot let these emotions determine your trading decisions. If you do, your returns will be average at best.

The best traders have a clearly defined strategy. Trading is about probability. Simple, cold, hard mathematics. It isn’t about following a hunch or a gut feeling. Invariably, your emotions will control your “gut feeling” especially as the stakes become higher. If the money is needed in the short-term, then those hunches will be far from unemotional.

In these Essays over the years, I have written frequently of system expectancy and the factors that determine a winning trading strategy. These are hit rate, risk to reward and brokerage/spreads.

Therefore, at VectorVest we advocate as a first step a quantitative trading strategy instead of a discretionary trading strategy. This strategy uses the VectorVest system to pinpoint stocks that are undervalued and growing earnings strongly and safely. These stocks are on a VectorVest Buy signal and should be purchased when the overall market is rising. The stocks purchased should be put into a simple VectorVest WatchList and re-sorted by the VectorVest metric RT (Relative Timing). This brings the stocks that are moving upwards in price to the top of the list and those that are struggling or falling to the bottom of the list. Keep your paws off the stocks at the top of the list and simply exit the stocks at the bottom of the list when they hit their VectorVest calculated Stop. Easy to write I know.

Traders tend to be very rational when they are building the model. Then the trick is to follow the plan and simply do what the portfolio manager within VectorVest tells you to do. To accomplish this it’s necessary, in my humble opinion, to redirect your emotions and NOT try and become a zombie with

no emotion. That's not possible while making decisions. The psychologists have proved that when the part of the brain that's responsible for emotions is not functioning the person cannot make even the most basic of decisions.

Practice becoming very excited and joyful when you have followed your trading rules to the letter. Practice becoming highly emotional and joyful about the process of trading. If you focus on the process of trading with joy and enthusiasm and make the very best trades according to the system rules, then the cash will take care of itself. Reward yourself when you have joyfully and enthusiastically followed and focused on the process of trading and have followed your rules to the letter. This takes practice. Many spend years designing a plan, but simply cannot follow it.

Discretionary traders can also control and redirect their emotions when trading with this approach. Just follow a simple checklist. Do the following when you find that the market is leading your train of thought which will be most of the time. The VectorVest edge is threefold:

- 1. The technical position of the overall market.** Which Market Timing system are you using?
- 2. The fundamental position of the share.** What criteria are you using to select shares? Which UniSearch are you using?
- 3. The technical position of the share.** VectorVest metrics such as RT and CI define the short-term trend and the longer-term trend. The Midas Touch WatchList will automatically find shares that are trending strongly.

Writing down your thoughts will make things clearer. A well written trading diary is essential and especially important for discretionary traders and investors. Tick off points 1 to 3 above and detail the exact trigger for entry. Also record how you were feeling when the trade was initiated. What's the stop-loss level? How many shares are you buying? What's the total risk as a percentage of the portfolio if the trade/ investment should fail? Where is the target? Are you using a trailing stop-loss rather than a fixed target? These are some pointers to keep track of and get checked off while you focus on the process.

All the successful traders I have ever met keep a detailed trading diary and review it often.

All the above at least should be detailed before the trade is taken and then it's our job to focus on the process joyfully and enthusiastically.

The alternative is years of searching for perfection that simply does not exist. Next year I will have the perfect system that is never wrong, and I will be rich beyond measure. Sure.

2022-10-07

Running off the Ball

Over the past six months, we should all have seen that determining the overall market direction is paramount to our success as investors and traders. As I write on Tuesday 4th of October 2022, the short-term and Underlying Trend of the UK market is down. The advice is to sit on hands and watch stops carefully. This time can be used productively by “running off the ball” in preparation for a turn upwards which will occur as sure as day follows night. Remember, when it’s time to buy you won’t want too.

However, on both sides of the pond, markets are in a mega oversold condition and in that technical state where a small catalyst can trigger a powerful rally. On the VectorVest Composite, there was a strong reversal on Monday 3rd of October, where early severe losses on the Composite were reversed before the end of the session. On the FTSE 100 Index, there are several candlestick “wicks” in succession that invariably are institutional accumulation which is positive. It’s time to get ready for action.

Let me define how, at VectorVest, we objectively follow and make timing decisions in the stock markets around the world.

In all the markets that we follow, VectorVest calculates a Composite measure of the overall stock market. The VectorVest Composite UK (VVC/UK) is an arithmetic averaged index of the over 2000 shares that we follow on the LSE and AIM. It is the broadest measure of the UK stock markets that I personally know of. A similar Composite is calculated in all the stock markets around the world where VectorVest has a presence.

VectorVest has been Timing the markets of the world for over 30 years and have designed objective systems that identify market trends with accuracy and precision. There are long-term systems for investors and short-term systems for traders. This is an excellent time to review these systems as the turning points from the present down market back to a positive market for buying

shares occurs in a very predictable way. This time around will be no different and if you haven't done so already, it's a great time to hone your market timing skills.

All the systems are totally rule based and require no subjective input. The systems are based on the following:

1. Price of the VectorVest Composite UK (VVC/UK).
2. Breadth of the VectorVest Composite UK which is measured by the proprietary Buy/Sell Ratio (BSR).
3. Momentum of the VectorVest Composite UK, Relative Timing (RT).
4. The Market Timing Indicator (MTI). This is a momentum indicator which combines the Price of the VVC/UK, the RT and BSR into a single line study which is mathematically massaged on a scale between 0.00 and 2.00. The MTI is an important component of the longest-term Market Timing system known as the Confirmed Calls.

The output from these Timing systems is summarized on the Home Page of VectorVest each day and requires no chart reading experience to decipher. The trend situation on VectorVest UK as I write is DnDn. The first word refers to the Primary Wave or the short-term trend, while the second word refers to the Underlying Trend. With a smart phone and the VectorVest app, staying on top of the trend of the overall market can easily fit into the busiest of lifestyles. Knowing where the overall market is heading is 70% of the exercise and vital to your success. In the US, the Primary Wave has turned to Up after a strong Monday session where poor manufacturing data was perversely the cause. Some market participants feel that this poor data will force the FED to "pivot" on raising interest rates.

A chart of the VVC/UK can be summoned with two clicks. Click on the Timing tab on the top left of the Home Page and then click on the Market Timing Graph and it's done. All the VectorVest Market Timing signals can be overlaid on this chart by making use of the dropdown menu on the lower left-hand side of the chart.

Markets are like us, and they breathe in and out. At each turn from an up trending to a down trending market, a similar series of events occurs. The short-term systems record the first change, then the medium-term systems and finally the long-term systems. It's important to your success that you become familiar with the sequence of each turn. Please make careful notes of the turning sequence as the overall UK market bottoms out from this selloff. From the present low, sooner or later the following sequence will take place. This is a great place to start honing your Market Timing skills and the skill will be money in the bank for you over the next few years.

1. The Primary Wave turns Up. The trend situation is now UpDn. For this signal to print, the Price of the VVC/UK should close above the close from five trading days ago.
2. If the change in direction proceeds, the next signal will be shown in the Price column of the Color Guard which is just below the traffic light on the Home Page of the program. The Color Guard is simply a table of the Price of the VectorVest Composite, the momentum of the VectorVest Composite (RT) and the Buy/Sell Ratio (BSR). If you see a green light in the Price column (first from the left), that means that the VectorVest Composite is higher day-over-day and week-over-week. The Green Light Buyer signal is a fast measure of the turning point and can be used by short-term aggressive traders to dip their toes into the market.
3. If the turn upwards keeps going, the next signal is a Green Light in the Price column of the Color Guard, as before, but in this instance the Green Light has a black star within it. The Green indicates that the Price is up day-over-day and week-over-week, but this has been confirmed by momentum (RT) also rising. In the background, the program is running two Moving Averages (MA) on the RT of the Composite. If the short MA is above the longer MA, the RT is rising, and the program records this fact with the black star. It's known as the RT Kicker. A Green Light confirmed by the RT Kicker is a strong signal that the reversal is getting much stronger and becoming a

much safer bet to buy into. These signals are totally objective in nature and no chart reading skills are necessary.

4. Next up in the sequence of the turn is the DEW Market Timing system. It's not shown on the Home Page of VectorVest, but is a very powerful and robust medium-term trading system. Akin to all systems that work, the rules are simple and straightforward. To find the DEW, please load a Market Timing Graph and apply the ProTrader DEW layout from the menu on the top right side of the chart.

D is the Detrended Price Oscillator (DPO), E are Price Envelopes and W is a Weighted MA. When the Price of the VVC/UK closes above the default MA and the DPO is above its centerline, that's a DEW buy signal. When the Price of the VVC/UK closes below the MA and the DPO is below its centerline, that's a sell signal. Very simple and robust as it should be. The DEW signals can be shown on the Market Timing Graph and indeed any chart by using the dropdown menu below the chart. I use and recommend using the DEW for medium-term swing trades on both the UK and US markets.

5. Next in the sequence, the Underlying Trend turns upwards, and the trend situation will be summarized as UpUp. If you again load the Market Timing Graph and, on this occasion, please load the VectorVest MTI layout. The MTI is a very special indicator which combines the Price of the VVC/UK, the RT and the BSR into a single line study. As with all other VectorVest metrics, it's massaged on a scale between 0.00 and 2.00. When the MTI is greater than 1.00, the Underlying Trend is Up. When it's below 1.00, the Underlying Trend is Down.

6. The last and most conservative signals on VectorVest are known as Confirmed Calls and they print a signal when the Underlying Trend is confirmed by Price action. If the MTI is above 1.00 and the Price of the VVC/UK has increased five-trading-day-period over five- trading-day-period, for two consecutive five-trading-day-periods and from the previous day, that defines a Confirmed Up signal. If the MTI is below 1.00 and the Price of the VVC/UK has decreased five-trading-day-period over five-trading-day-period,

for two consecutive five-trading-day-periods and from the previous day, that defines a Confirmed Down signal. These signals are used by conservative traders and investors in the Worry- Free Investing method.

At each turn, the same sequence of events take place. At this potential turn, observe and make friends with the signals as they occur. This knowledge will make you a lot of money over the next few years.

2022-10-14

Doing Nothing Is More Difficult than It Would Seem

As I write on Tuesday 11th of October, all the measures of the trend on both sides of the pond are Down from short-term to long-term. The advice on the Home Page of VectorVest hasn't changed much over the past few weeks. Do NOT buy stocks at this time. The UK market technically remains in a mega oversold state, and it will take very little positive news to cause a decent rally, but this may be weeks away. Certainly, the US CPI number on Thursday can be a catalyst. A falling number from last month would help markets around the world. By the time you read this, that number will have come and gone.

In the Q&A sessions over the past weeks, I have shown that the Price of the VVC/UK has charted falling lows while the MTI and the Buy/Sell ratio have also charted falling lows. The absence of some divergence between the Price of the VVC/UK and the momentum and breadth measure says to me that there is more downside to come. Falls usually end when the Price of the VVC/UK falls, but the MTI and BSR rise. This is what technicians refer to as a "bullish divergence." If that sounds akin to Outer Mongolian to you, I will explain the concept in detail next Monday afternoon in the Q&A session at 1:30PM.

In the meantime, there is much work to be done on our trading plans. What is your edge in the stock market?

The term edge simply means that the trading plans have a positive expectancy or in simple terms make more when they are correct than they lose when wrong. If the trader/investor can follow the rules and execute without fear or hesitation, they are certain money-making vehicles.

Remember, the rules include money management as well as entry and exit parameters. Try and summarize your trading rules on a single sheet of paper. Detail your rules on:

1. When to Buy (reread last week's Essay).
2. What to Buy (rework the Successful Investing Quick Start Course, SIQSC, especially lesson 4).
3. When to Sell. (Lesson 2 of the SIQSC will help).

I noted recently that all the spread betting and CFD market makers are now forced to publish in their advertising material that only a small percentage of the traders that do business with them make any money. The split seems to be around 80/20 which seems to be a number that floats around in most endeavors in life. I have noted over the years that 80% of my profits come from 20% of my trades.

Some years ago, I went on a major mission to try and find out what the 20% who are winners were doing and what the 80% who were losers were not. The sample included thousands of mostly swing trades lasting a few days to a few weeks. Although many readers of this Essay may be long-term position traders, I still believe that the study is useful and will help in your journey to becoming a consistently winning trader/investor in all time frames.

Simply, I found that the winners thought differently from the losers. If anything, many of the losers were better informed and much better analysts than the winners. It's my experience that some of the best analysts are the worst traders imaginable. They hold on to losers as if their life depends on them.

The average losing trader (the 80%) became very pessimistic when they had a winning trade or investment. They became pessimistic that the market would snap away their profits. This pessimism invariably resulted in the 80% of eventual losers taking a quick profit.

The average losing trader (the 80%) became very optimistic when they had a losing position. They became optimistic that the position would turn around

and get their head back above water. This optimism resulted in holding on to losing positions and committing the cardinal mistake of adding to a loser.

The average winning trader (the 20%) became very optimistic when they had a winning trade or investment. They simply allowed the position to run according to their personal trading plan and exit plan. I mention above that 80% of my profits come from 20% of my investments and if these are nipped in the bud then I simply have a bad year. We don't know which are going to be the big winners.

The average winning trader (the 20%) become very pessimistic when they have a losing position. This pessimism results in the position being closed quickly and without fuss or angst.

On your next trade or investment, my challenge to you is to become aware and observe your thoughts. The spiritual people call this "cultivating the silent watcher." With practice you can change (not easily I know) those thoughts and make the switch to becoming a part of the 20% group. This simple mental switch has helped me turn losing traders into winning traders over the last 20 years. Your thoughts have momentum, and it will take some work on your part to practice and build these beliefs. They can be instilled in your mind in the same way as your primary school teacher instilled the multiplication tables. This is by repetition and contemplation.

Normally the traders I have consulted with in the past had to lose a heap of cash before they would consider doing the practice.

Don't let that happen to you.

2022-10-21

“A Fool Is Someone Who Knows the Price of Everything and the Value of Nothing.”—Oscar Wilde

A secret to making money in the stock market is to find the Value of an asset and then pay a lot less for it.

Establishing the Value of a common stock is quite a process. In Chapter 3 of “Stocks, Strategies & Common Sense,” Dr. Bart DiLiddo, the founder of VectorVest, details exactly how he calculates the Value of a stock. The algorithm uses forecasted earnings per share, forecasted earnings growth, profitability, interest and inflation rates. The Value of each share is calculated each day and provided in a simple easy-to-read format. At a glance you can see if any share is undervalued or overvalued. It’s easy with a mouse click to write a UniSearch to locate undervalued shares.

VectorVest then provides a second measure of Value called Relative Value (RV). Relative Value is a measure of the long-term share price appreciation potential and is compared to the risk-free return over the same period. The calculation is much simpler than that of finding Value.

The first step in the RV calculation is to forecast the earnings of a share over the next three years only. We then make the following assumption. We assume that those earnings will be fully discounted into the share price at **SOMETIME** over the next three years, not when. We calculate the share price at that future date, and by subtracting the price of the share today, the program works out the upside. This upside is then divided by what a Treble A rated Corporate Bond will payout in that time. The result is RV.

If the RV of a share is 1.40, then the probabilities favor this share outperforming a AAA rated Corporate Bond by 40%. If the RV is 0.90, then the probabilities favor the share underperforming a bond by 10%. Why would you wish to take a position in something as risky as a share if you could get a better return from a corporate bond where the return is much safer, and defaults are rare.

VectorVest rates an RV of greater than 1.30 as excellent. Momentum traders should favor shares with a high RV. The latter drives the share price.

As per the title of this Essay, let me address my most often asked question on the Monday afternoon Q&As and at seminars. Share “ABC” is trading above its valuation, but the RV is still an impressive 1.30 plus. How can this be?

My answer is that “ABC” is fully valued or maybe overvalued at present. However, if the share price stays at this level and the earnings achieved are as anticipated then at sometime within the next three years, the share will be massively undervalued.

Simply put, the share looks fully valued now, but over a window of three years into the future, there is lots to come. If you hold the share, simply keep holding it as long as the share trades above the VectorVest calculated Stop.

A good example of this is 4Imprint (FOUR.L). As of 17th October, FOUR.L is trading above its Valuation, but has an RV of 1.56 with a good RS of 1.26. The share is growing earnings at a forecasted annualized growth rate (GRT) of 39%. The latter when achieved should propel the share price much higher over the next year. As noted in the Q&A session of Monday 17th of October, the technical pattern looks highly probable to break upwards soon and the share should be on the radar of all swing traders.

When using VectorVest for my momentum trading portfolio, my preference is to build a WatchList of shares that are undervalued and that are growing their earnings aggressively and reasonably safely. I have mentioned Relative Safety (RS) on many occasions in these Essays, mostly when Worry-Free Investing was discussed. RS is a measure of risk and measures the consistency

and predictability of the financial performance. On a scale between 0.00 and 2.00, an RS of greater than 1.00 is fair and greater than 1.30 is excellent. Hands off position traders should demand a high RS from their investments, while more aggressive and focused swing traders who manage risk via actively monitored stop-losses can (in my view) drop the RS to “fair.” In my case that’s $RS \geq 1.00$.

This is the VectorVest edge in practice. The edge combines the fundamental position of a share with the technical position of both the share and the overall London market. When all three boxes can be ticked, the wheel is rigged in our favor. The objective is to engineer a positive expectancy trading system, a system that makes much more money when it is correct than it loses when it is not correct. The hard part is sitting and waiting for these high probability opportunities to come along.

As I write on the 19th of October 2022, the overall UK market as defined by the Price of the VectorVest Composite UK (VVC/UK) is printing an UpDn situation. This means that the Primary Wave (short-term trend) has turned Up, while the Underlying Trend is Down. The medium-term Market Timing System known as the DEW is also on a Down signal. In my trading, I will start to dip my toes into new positions when the DEW prints a Buy signal.

Once more *“Doing nothing is much more difficult than it would seem.”*

2022-10-28

Market Bottom or Bear Rally?

The UK and US stock markets have been trending down for most of 2022 and it's been a tough year for long only equity traders and investors. As I write on Tuesday the 25th of October 2022, VectorVest UK has printed a Green Light in the Price column of the Color Guard on the Home page of the program. This indicates that the Price of the VectorVest Composite UK is up day- over-day and week-over-week. It's the most positive sign from the UK market that we have seen for some months. Whether this is a rally in a bear market (which I suspect) or a major market bottom, there is money to be made between now and Christmas.

The medium-term Market Timing system that I follow, known as the DEW, hasn't printed a Buy signal yet, but it is getting closer. When the DEW prints a Buy signal, then I will start to buy stocks and add the counters to my WatchList shown at the Q&A session on the 21st of October. Please [click here](#) to view the recording if you missed it.

Until then, I will sit on hands and follow my trading rules. Let's look at 5 rules to excel at this game.

- 1. Be realistic in your expectations.** The internet is choc-a-bloc with folk demonstrating how to turn 100 pounds into a million in several months, especially in the Forex space. This can be done in the same way as I can win the lottery next Saturday night. Anyone can put on a winning trade? However, to become consistent as a trader or investor and to outperform year-after-year is an art form. In the UK investors club webcast (SWIC meeting) on the 19th of October, we discussed the requirements needed for a high probability trading system. This included both the stocks fundamental and technical position plus the technical position of the overall market. Please [click here](#) to view the recording.

2. **Look for asymmetrical reward to risk opportunities.** One of the main things to understand in trading/investing is that you will not be correct anything close to 100% of the time. You will have some successful trades, and some awful ones. In these Essays, I have written about expectancy on many occasions. In simple terms, expectancy just means making more on the winners than you lose on the poor trades and thus making a profit at the end of the year. We all need many large reward-to-risk trades to pay for all the (hopefully) small losers. The next point shows how to achieve this.
3. **Cut losses and let profits run.** This is advice we have all heard a thousand times. Walk on to a trading floor (hard to find these days I know) and ask a couple of seasoned traders what they do before setting up a trade. I can guarantee the answer will be “I will set up my stop-loss.” This is the best piece of advice I’ve ever been given. If you find yourself in a good and profitable trade, trailing stops will also help you to keep your profits running if the trend stays favorable. They will, of course, limit your downside if the trend reverses. The VectorVest Stop-Loss can be used as a trailing stop and that’s what I use in my investing portfolio. There is a long and detailed discussion on trailing stops each month at the VectorVest UK National User Group session. Trailing stops are also studied in detail by the VectorVest ProfitLocker Pro trading system. Have a look at the performance of UK building stocks in 2022 if you still feel stops are not important.
4. **Size your positions correctly.** The first step in this direction is to decide on how much cash is in your account. Then decide on how much of this you wish to risk on any single trade or investment. At VectorVest, we recommend that the maximum loss or risk should be 1% of the account size. So, if you have a £100000 ISA account then the maximum loss should be £1000 which when I went to school was 1% of the account size.

The next step is to look at your proposed entry point and the stop-loss level to be used. Let’s assume that you are using the VectorVest Stop-Loss in

this discussion. Simply subtract the entry point from the stop-loss level to calculate the risk/share purchased. This is unique to each trade.

Let N = number of shares to be purchased

$N * \text{Risk/share} = 1\% \text{ account size}$

$N = 1\% \text{ account size} / \text{risk/share}$

If the position falls apart and you get stopped, you have lost 1% of your equity. Shake yourself off and move on to the next trade. For example:

Account size = £100,000

1% = £1,000

Entry point = £10 and VectorVest Stop is at £8.50

Risk/share = £1.50 (entry point - Stop-Loss)

$N * \text{risk/share} = 1\% \text{ account size}$

$N = 1000 / 1.5 = 660 \text{ shares}$

We purchase 660 shares at £10 pounds each which means the deal is worth £6600

If the share falls and hits its stop-loss, then we have lost £1000. Don't stress too much about the brokerage in the calculation. Just keep the loss to around 1% of the account and certainly no more than 2%.

5. Your portfolio should favor undervalued stocks that are growing earnings strongly and safely. The latter are measured by values of the VectorVest metrics RV and RS respectively, and above 1.25 on a scale between 0.00 and 2.00 is favorable. You should be fully invested when the overall market is rising, especially so if the longest-term VectorVest Market Timing system known as Confirmed Calls has printed a Buy signal. When the overall market has printed a Confirmed Down signal it's time to be careful. Stop all purchases and watch stops carefully.

The move up in stocks over the past few days in a very oversold market has originated in the US where Wall Street is expecting a softening of the hawkish talk from the FED. Remember, when it's time to buy, you simply won't want to. It's always the same at market bottoms.

2022-11-04

When Should I Start to Buy Stocks?

“Three men came to Wall Street. The first always knew WHAT was the best buy. The second knew WHY it was the best to buy. But the third knew neither of these things; he only knew WHEN to buy. He made the most money.”

—Richard D. Wyckoff, 1932

“The single most important thing to know is whether the market is going up or down. Everything follows from that.”

—Dr. Bart DiLiddo

The title of the Essay is a question that I have been asked repeatedly over the past few days.

I wish there was a clear-cut answer to the question. It's a decision that should be a part of your trading plan and decided well in advance.

There are six main Market Timing methods built into the VectorVest program. In these Essays over the years, I have detailed the construction of all of these on numerous occasions and refer to them in each Q&A session.

All the measures of Market Timing are totally objective in nature.

For a signal to Buy shares:

1. Primary Wave turns Up.
2. A Green Light in the Price Column of the Color Guard.
3. A black star within the Green Light.
4. The DEW prints a BUY.
5. The Underlying Trend turns Up.

6. The Underlying Trend is confirmed by the 2-week Price action of the VectorVest Composite UK (VVC/UK) (A Confirmed Call). This is the most conservative and long-term signal in the VectorVest program.

Conservative investors and those using the Worry-Free Investing method (WFI) will wait patiently for signal no. 6 (Confirmed Call) to print on the VVC/UK. One of our most experienced users has concluded that they will start to build a position at the first Green Light after a Confirmed Up signal. A conservative and prudent approach, but it's a plan that has been thought through in advance, far away from the emotional ups and downs that invariably result in poor decisions.

In my personal trading plan, I start to dip my toes into the market when the DEW (no. 4 above) prints a Buy signal. In the UK, the DEW printed a Buy after the close on the 31st of October and I bought into two positions on the 1st of November. These are Glencore and Plus 500. Both shares are breaking higher at 52-week highs and are on a VectorVest Buy signal with strong fundamentals. These stocks were found by a quick examination of the top 20 stocks as sorted by the master indicator VST, which is the default sort in the VectorVest Stock Viewer.

If the move keeps running, then I will continue to add positions. In the Q&A last Monday I presented a WatchList of shares which include GAW.L, VLX.L, KAPE.L, FOUR.L, WOSL.L, BMY.L, AEP.L and BEZ.L which have an excellent combination of fundamentals and a strong technical position. FOUR.L looks excellent for a strong break out upwards from a technical pattern known to chartists as a "bull flag." The trade has a technical target of around £50 which would be a 40% move from the present level. The share needs to break out upwards from the "flag formation" to confirm the entry point.

It's vital to decide on a Market Timing method that suits you in advance. For aggressive traders, they will take their first steps when a Green Light is printed. For swing traders, the DEW does an excellent job, while investors will probably wait for a Confirmed Up signal. When that decision has been made,

then the focus should be on the process of trading and investing. If you focus on the process, the cash will take care of itself.

At each turn Up and Down, the signals invariably fire in the same order. Small boats turn more quickly than oil tankers and thus the Primary Wave shows a Buy signal much sooner than the DEW for example. Similarly, the DEW gives a signal mostly a few days ahead of the Confirmed Call signal.

Please trade in liquid shares as if there isn't liquidity, it's going to be impossible to run for the door and thus manage risk. The seasonality is excellent for a strong move between this writing and Christmas 2022. By the time you have read this, the FEDS decision and the BOE's decision on interest rates will be long published plus the US jobs report. It's going to take some dovish talk by the FED to act as the catalyst for a strong run into the end of the year.

2022-11-11

There Are Only Four Outcomes

There are only four things that can happen to your next trade or investment:

1. Big Win
2. Small Win
3. Small Loss
4. Big Loss

Your job is to avoid number 4. The stock market is an easy game to play, and it is all about avoiding number 4 above. However, we seem hell-bent upon making it complicated. That is what makes it so difficult for us to win.

A glance at the do's and don'ts of trading in any market reveals some easily understood and seemingly simple rules to follow. We have all seen them a hundred times. They are the rules that all traders, both professional and nonprofessional, are supposed to follow. Remember, I said supposed to follow: the rules have been time and money proven.

The VectorVest edge advocates accumulating Buy recommended shares with outstanding growth and safety fundamentals (RV and RS) when the overall market as defined by the VectorVest Composite UK (VVC/UK) is rising and then managing these shares well. I have defined how many shares to buy (position sizing) and my thoughts on managing the positions in each Q&A sessions on Monday afternoons.

What makes it so difficult to follow these guidelines or similar guidelines that suit your own beliefs about markets?

More than likely, we have repeatedly broken each of these rules and will probably continue to do so, despite acknowledging that we will wind up losers

if these simple guidelines are not followed. I know I have. The answer to this question contains the secret for our future success in the market.

In my humble opinion, the problem is internal, and until we all learn to change our perception about what makes the market tick, we will continue to punish ourselves and remain on the losing side of the ledger. These are lessons I had to learn the bitter way during the mid-1980's. These lessons invariably must be relearned after a period of outperformance such as the first two years after the Covid selloff.

We have all bought stocks because we thought they were cheap. Stocks that once sold for 100p and are now selling for 50p. The stock is cheap. We can get twice as much, almost like two for the price of one. The rules say go with the trend. In this case, the trend is certainly down. Yet we fool ourselves into thinking that we are getting bargains. Wirecard in Germany was a great example of this several years ago. The two for the price of one impulse buy has bankrupted more traders than any other reason in my nearly 40 years of examining both retail and institutional accounts. Have a look at the Persimmons chart in the UK or Meta in the US to highlight the folly of averaging losers.

Wirecard, Persimmons and Meta investors were fighting the trend. A drunk off the street could have seen that the share price direction was down, yet many of us think nothing of averaging (adding to) a loser. We know the major rules. What makes us want to break them and place our capital at greater risk?

The problem is that we bring to the market a set of beliefs that are not in sync with the realities of the stock market. We must rid ourselves of these dangerous forms of self-deception before we hear the markets call. Getting rid of ourselves is the most difficult problem we face when attempting to make money in whatever market we're involved in.

Using the VectorVest edge, we can easily get to a point where 70% of our stock calls are positive and with a 3 to 1 reward to risk ratio that is a very profitable trading system. However, if you are correct 70% of the time you are incorrect 30% of the time. On the next trade, you do not know whether it is

one of the 70 or one of the 30. That is the reality of the market environment and it's at odds with our normal belief system. As an engineer, few bridges collapse, as an accountant the books will eventually balance and a pilot who flunks on 30% of his takeoffs would be rapidly out of work and probably dead. Yet, this is the challenge in markets and many of us are poorly equipped to handle this. We all understand probabilities at an intellectual level, but few can easily think in probabilities at an experiential level.

When a trade goes against us, the trouble begins. Our ego starts to tighten its grip over our ability to do the right thing. The right thing is to get rid of our losers immediately. The ego will produce the most fantastic reasons for holding on to that money-draining position. Ego will fight us all the way and prevent us from realizing quickly that it is better to swallow our pride and do the right thing and take the loss before it becomes expensive. We know the rule that says take those losses quickly and move on to avoid number 4 above.

When we have a winning trade, ego manifests itself by magically persuading us into taking our profits quickly. The ego will get us out of our winners fast because it needs the immediate gratification of being right. It likes being right. It will deny being wrong. Being aware of our egos tight grip is a start. Becoming aware of the influence of the ego in our decision making is the first step to success and making sure we avoid number 4.

Egoless people have nothing to protect. They just do whatever the market and VectorVest tells them to do. They sort the shares in their portfolio WatchList by RT. The shares that are not performing are at the bottom of the list. Those are the shares that need to be sold when they close below the VectorVest Stop-Loss. They have avoided number 4. They do not tell the market what to do or what it is going to do, but simply flow with it. After 40 years in this line of work, this is a battle that I fight every single day. Egos are resilient sods.

The spread betting companies reveal by law that over 70% of their clients lose money. I set out to understand what the 30% do to become winners.

I found that, simply put, the winners think differently from the losers. Your primary goal must be to learn how to think like a consistently successful trader. Through awareness, coupled with your desire to be successful, you can restructure and install the beliefs and attitudes that are necessary to reach your primary goal. The beliefs necessary are contained in the next few paragraphs. They are simple, but it will take discipline to install these into your mental framework.

I found that when a losing trader has a losing position, they become optimistic. They become optimistic that it's going to turn and hold on to the losing position. A winning trader who has a losing position becomes quickly pessimistic and exits the position.

I found that a losing trader that has a winning position quickly becomes pessimistic. They are worried that the market will snap away their profits. As a result, they quickly take a small profit. A winning trader who has a winning position becomes quickly optimistic and lets the winner run.

Avoid number 4 above and you will easily win at the game of trading and investing.

As I write on the 9th of November, the two markets in the world that I actively follow disagree. All the Market Timing signals in the UK are Up, while in the US all are Down, except for the DEW. This is an unhealthy situation especially with US elections results today and a very important US CPI number coming later in the week. However, due to the UK Buy signal, I have added to some positions and at the time of writing have committed around 30% of my available funds to the stock market. I have taken a position in FOUR.L and added to GAW.L.

2022-11-18

What Have Successful Traders Got in Common?

Courage.

Like Hercules at the crossroads, courage is not a singular event. It is a daily challenge; one we face up to not once, but constantly. Will we be brave or afraid? Strong or weak? Wise or stupid? Will we cultivate a good habit or a bad one? Stay the same or grow? Will we endure the bliss of ignorance or the challenge of a new idea? Will we take the easy way or the right way?

You need the courage to action these basic steps:

- #1: Open a trading account.
- #2: Deposit money in your trading account.
- #3: Focus on following the VectorVest basic principles. When to Buy. What to Buy. When to Sell. Please revisit the Successful Investing Quick Start Course under the Training tab. It is so easy to make things much more complicated than they need to be, and I frequently excel at this.
- #4: Adopt a trading strategy and execute that strategy with precision.
- #5: Take the trades as they come along. Do not pick trades.
- #6: Follow your strategy and diligently record each trade in your journal.
Remember, it is impossible to judge the strategy on a single trade or even 5 trades. A batch of 13 to 30 trades defines a campaign of trades.

Persistence and Emotional Grit.

Trading and investing are a business where the results are judged after a campaign of trades rather than a single trade. Most traders, however, live and die the last single trade. If it was a winner, they are happy, but if it was a loser, they are miserable.

It is easy to make a winning trade. You could take a drunk off the street and they could make a single winning trade. The hard part is to be able to trade with consistency and that takes grit and persistence.

Do you have the Persistence, Grit, and Courage to:

- #1: Take a few minutes to study your portfolio each day? Ten minutes a day for Worry-Free Investing and around 30 minutes a day if you wish to swing trade.
- #2: Can you patiently wait for your trading setups to appear?
- #3: Can you follow a proven trading strategy without changing the rules? Especially after a few losers. “Cheerfulness in adversity” is a prerequisite of becoming a consistently successful individual in any demanding endeavor.
- #4: Not to give up on a trading strategy after a losing streak of 2 to 3 trades?
- #5: Not go against a strategy during a winning streak especially, in this case, your money management rules? After a streak of winners there is a compulsion to trade a much bigger size. Many successful funds have collapsed in this way due to the euphoria of a winning streak. The managers felt they had achieved God-like status, bet the farm and lost.

Save Money and Minimize Tax.

In the UK, make use of a Stocks and Shares ISA to minimize and eliminate tax. The details of which are readily available online. Removing the tax handbrake greatly increases your ability to build a million-pound portfolio.

Getting into a regular savings habit will take some planning. Transferring as much as possible of the £20k allowance into your ISA account each year will speed up the journey to financial independence. US financial journalist Dave Ramsey rants on YouTube on why some Americans end up rich and why most end up broke. He concludes that the difference is that the successful saved 10% of their salary throughout their lives and the destitute did not.

Constant Learning.

As a trader and investor, it is our job to keep learning and evolving with the markets. I consider myself as a lifelong student of the markets. Over the past few years, there has been an explosion of new instruments that allow private investors to compete equally with institutional traders. The VectorVest webcasts will certainly help.

As a stock trader, you will need to spend some time and effort into honing your own strategy from any guidelines given within the VectorVest courses and product. You are unique and will have a range of beliefs about markets that are unique to you. This could be in relation to entry conditions or more commonly on exits and targets. Over several weeks and months of work, observation and reading this input plus the VectorVest core concepts will slowly evolve into a trading process that suits and fits you. No one is expecting you to be able to do that without good training and education behind your back and we offer many of these within the VectorVest University. Stock trading education is important as is continual reading on the subject.

Market direction on both the UK and US markets has turned positive for buying stocks with all the VectorVest UK Market Timing signals printing a BUY as I write on the 15th of November 2022. I am slowly adding to existing positions and adding some new positions. WOSL.L has been purchased and I have added to GAW.L, FOUR.L and GLEN.L.

2022-11-25

Is Santa on the Way?

Has the market bottomed out at the end of September 2022? Certainly, the rally upwards since this time is impressive and suggests that at least a short-term bottom is in place. I am treating this as a rally in a bear market until it proves to the contrary.

In the UK, the longest-term measure of the trend known as a Confirmed Call has been Up for several weeks, but a similar measure in the US remains on a Down print. As a write, the short-term trend of the UK market is down while all other measures are positive for buying shares. I think that it is highly likely that the VectorVest Composite UK (VVC/UK) will chart a “right shoulder” in chartists parlance even under the most positive of scenarios. I will discuss the detail of this at the weekly Q&A session which will take place on Tuesday 29th of November at 1:30pm. Please note the change in the date from our normal Monday slot.

Time will tell what happens, but the seasonality is historically good for stocks. Whatever happens, I will trade the market and not my forecast. The Color Guard on VectorVest will tell me what to do.

Let's change our focus for the rest of the Essay and consider what to buy should the move upwards in the VVC/UK continue.

In selecting stocks, your primary job is that of assessing information and making decisions in an uncertain environment. Many investors, however, feel qualified and prefer to analyze data. This is fine if they have the time, resources and skills to produce reliable results. Knowledgeable investors can save time and get excellent results by asking the right questions and getting quick and reliable answers to these questions. It is my view that the investor should spend most of their time managing the process as opposed to calculating ratios and hunting around the internet for reliable data.

For simplicity I have broken down these questions into three areas;

1. The fundamental position of the company.

In property, the most important three factors are location, location and location. In stocks they are Earnings, interest rates and inflation. Stock valuations go up when Earnings go up and interest and inflation rates go down.

- Is the company making money?
- What is the stock worth?
- Is the stock over or undervalued?
- How safe is the stock?
- What are its forecasted earnings per share?
- What is its estimated earnings growth rate?
- What is its growth to P/E ratio?
- What are its dividends per share?
- How safe are the dividends?
- How fast are dividends growing?
- Does this stock meet my risk/reward objectives?

I started to trade stocks in 1982 and did my utmost to understand the fundamentals of the shares I was following on the Johannesburg Stock Exchange. I totally failed in this endeavor. I didn't have either the knowledge, the time or if I am honest, the inclination. For this reason, from 1984 (when I gave up beating my head against the annual and interim reports), I traded technically alone. It wasn't until I discovered VectorVest and its ability to do all the heavy lifting that I added this dimension into my trading plan. Remember, information is useless unless you can react to that information. VectorVest displays the fundamentals in the following easy-to-use fashion.

A. Value. A value is calculated for every share in the UK database each day. The valuation methodology is discussed in Chapter 3 of "Stocks, Strategies and Common Sense" by Dr. Bart DiLiddo. With a glance of the Stock Viewer or by

using UniSearch, it is easy to see which shares are under or overvalued. Favor undervalued shares.

B. Relative Value (RV). This is a measure of the long-term price appreciation potential of the share. RV takes Price, Value, Earnings Growth, AAA rated corporate bond rates and risk and massages these into a scale between 0.00 and 2.00. A rating of 1.30 and over is regarded as excellent.

C. Relative Safety (RS). RS is made up of Earnings Consistency, Company size, price behavior, longevity, dividend history and all the vital financial ratios. Again, this is displayed on a scale between 0.00 and 2.00. Above 1.30, the safety of the earnings stream and the financial integrity of the company is excellent.

D. Dividend history is quoted in three metrics. These are Dividend Yield (DY), Dividend Growth (DG) and Dividend Safety (DS). These metrics are combined into the Master Indicator for income investors known as YSG. This stands for yield, safety of the yield and the growth of the yield. This can easily be built into UniSearch to find candidates for an income portfolio.

The best defence is a strong offense. If you trade in shares with excellent fundamentals and then add a sound trend following or swing trading plan that combination will build an enormous edge in markets.

2. The technical position of the company. I define the technical position as the study of trends and turning points. A Buy recommendation on VectorVest shows the share is rising in price. Some traders also use moving averages to signal that a sustainable trend is on its way. I favor using three moving averages. These are 21ema, 55ema and 89sma. I refer to the crossover of all three averages as a “bow tie.” When this crossover occurs, the probability that a trend is underway increases significantly. Try them.

Buying a pullback to a previous high (resistance becoming support in technical jargon) after a bow tie has been charted is simple and it is a strong edge for swing traders. More advanced traders can look for confluences of support where many measures of support and resistance are found around

a single level. I will point out several examples of these confluences next Monday. The Serica chart is a prime example.

3. The technical position of the overall market. How the trend of the overall market is measured is something that I discuss in the weekly Q&A meetings. I firmly believe that a knowledge of where the overall market is heading is 70% of the exercise. Suffice to say that there is a good time to be buying stocks and an awful time. That's been displayed in all our brokerage accounts over the year.

In your trading plan, please decide on how you will decide that its safe to buy shares. Longer- term position traders should use the Confirmed Call system while medium-term traders can use the DEW Market Timing system.

Buying safe (RS), undervalued stocks that are growing earnings strongly (RV) that are rising in price, on a VectorVest Buy recommendation, when the VVC/UK is rising is a simple and proven trading plan. Put your stocks into a WatchList and re-sort the WatchList by RT (Relative Timing). This will bring the stocks that are performing to the top and those that are not to the bottom of that list. Your job is to keep your hands off the winners at the top and cull the losers on a Sell recommendation at the bottom. Easy to write and much more difficult to do I know, but that is the challenge to us all.

2022-12-02

Some Thoughts for Your Trading Plan

My Essays have become too long. It's easy to get lost in a sea of words and forget some very simple concepts that all the winners in this game of speculation have in common.

Last week, I wrote about the VectorVest edge in the stock market and will repeat it here for reference. I also defined the key VectorVest metrics which define both the fundamental and technical position of a stock.

Buying safe (RS), undervalued stocks that are growing earnings strongly (RV) that are rising in price, on a VectorVest Buy Recommendation, when the Price of the VVC/UK is rising is a simple and proven trading plan. Put your stocks into a WatchList and re-sort the WatchList by RT. This will bring the stocks that are performing to the top and those that are not to the bottom of that list. Your job is to keep your hands off the winners at the top and cull the losers on a Sell Recommendation at the bottom.

My rules are as follows. Please consider these and see if they gel with your beliefs about markets.

- 1. No big losses** (cut losses quick). Size your position based on the VectorVest calculated Stop-Loss. If the share falls from the entry point to the Stop, then the maximum loss should be 1% of your account size. This is critical to your survival. Remember, we are risk managers and not fortune tellers. Missing tackles is a cardinal sin in speculation and in Rugby. Hit those Stops both hard and low and resist the temptation to "give it another day."

- 2. Never averaging down.** This is the most damaging mistake that any trader can make. The share is falling, and your initial position is underwater, and you are buying more of it. Sometimes averaging as it's called will work, but when it doesn't, your account is blown. Again "Never Average Down."

3. Never buy stocks in downtrends. The old “two for the price of one” has bankrupted lots of traders recently in the tech smash and since the dawn of trading time. Those who felt they could forecast a bottom in Meta and Peloton have been taught a lesson in humility. The adage is to never try and “catch a falling knife.” Rather wait and let it hit the sand and simply pick it up. The VectorVest Buy Recommendation will tell you exactly when it’s time to act.

4. Avoid extended stocks. Personally, I favor buying stocks upon a pullback within a strong uptrend to where previous resistance has become current support. If you study the chart carefully, the breakout upwards should occur on rising volume and the pullback to the new support on falling volume. I will be explaining this in detail at the next Q&A session and at the Tampa Two-Day Investment live seminar in January 2023.

5. Never let a good gain become a loss. There are many ways of accomplishing this goal. The easiest has worked for me for many years. It’s simply to take some profit when you have gained as much as the initial risk. Let’s say you buy a stock at £10 and the VectorVest Stop-Loss is at £8.50. You have committed to exiting the position if the share price falls to £8.50 and have sized the position so as the maximum loss is 1% of your account size. The initial risk is £1.50 and thus when the share has risen to £11.50 the position has a profit of £1.50 per share purchased which is equal to the initial risk.

At that point, sell half of the position and increase the stop-loss on the 2nd half to the entry point. This means (in theory at least) that it’s impossible to book a loss on the 2nd half of the position and there remains the possibility of a big gain. It is essential that the 2nd half of the position is left alone to run.

I detailed the calculation required to size positions in my Essay of the 28th of October 2022.

6. Nail down decent profits. Exits are the most difficult and frustrating part of your trading plan. At VectorVest, we have an entire 5-week course on “Knowing when to Exit” and much more education available at your fingertips in the VectorVest University. For many holding the position, if the share

maintains either a Buy or Hold Recommendation will be perfectly sufficient. That's what I try my best to achieve in the medium-term portfolio that I share at the Q&A sessions. Some of our members exit a strongly trending share when the VectorVest Buy changes to a Hold and move their money into another opportunity. Please [click here](#) to access the VectorVest University.

Old highs on weekly charts can make excellent profit objectives as can Fibonacci extensions of previous price retracements.

2022-12-09

The Psychology of Managing Risk

The core VectorVest methodology is simple and robust. I have written about the method often and summarized the metrics involved and some simple, but powerful, guidelines over the past two weeks. However, it's not the method that makes the money, it's the ability of the trader to follow the method that makes the money. It is the discipline to follow the method that makes the money. The discipline to follow the method after several small losses. Remember, the cornerstone of all trading systems is to avoid big losses.

I offer no apologies for writing about discipline frequently. Short-term swing traders will require more discipline and grit than longer-term players as their stops are invariably closer to the noise of the day-to-day market action. A case in point is my swing trade (spread bet) long of the US share Enphase Energy (ENPH). I bought in last week and the share shot upwards in the post Powell euphoria. I was up around 10% and brought my stop to the entry point and was unceremoniously stopped while addressing an investors meeting in Manchester on Tuesday 6th December. On the same day, I was also stopped out of XLE for a decent profit.

The best methodology in the world is useless if you don't have the discipline to follow it. We are rewarded for perfect execution of the system and those with experience of trading will know that this is much easier to write about than do. Whether it's a relatively aggressive swing trading system or the more passive position trading system, it is execution of that system that's vital to success.

We seem to have been hard wired by our creator to be poor at this job of trading and investing. As I keep saying at our Q&A webcasts. When it's time to buy, you won't want to. When it's time to sell, you won't want to. Please

ruminate on the last two sentences. They are very important to your success in this line of work.

There are many people on the internet that would like to sell you a system for many thousands of dollars that does not require the discipline that I write about. Be wary of these people. At best they don't know enough, to know they know nothing, and at worst are total scoundrels.

US based trading coach Brett Steenbarger reckons that the problem in following a simple set of trading rules starts because the person who plans and initially places the trade or investment is not the same person who manages the trade. This makes a lot of sense to me as I have witnessed large swings in trader personalities before placing the trade and during the trade on many occasions over the years. Another mind he says has taken over.

During planning of the trade/investment, the stage is static and the fears of being wrong and losing money that I have detailed here many times are not in play. We primarily use the left brain which is the analytical part. All is crystal clear at this point, but once the trade is active and the markets are open, all changes very quickly indeed. Anyone who has experienced this will attest to the increase in emotion as the daily candle jumps up and down and the financial news websites are full of good and bad news. Steenbarger makes the point that at this time when the decisions become more emotionally charged that we make these decisions with the older brain, known as the reptile brain. Steenbarger argues that there is a different person at the helm.

At the trade planning stage, the emotions are clarity, optimism and enthusiasm, but after entry, these can change to fear of loss, fear of a small profit disappearing, fear of being wrong again and even boredom. There cannot be anyone reading who has placed even a single trade who has not felt this change in emotion.

Becoming aware of the change is the first step in solving this problem and getting to the point where we can simply follow our rules.

You get better at making good decisions by making good decisions and, like press ups, you have got to get the reps in. It will take a batch of 30 reps

to get this process correct and that's the end point of all the courses I present for VectorVest. In any course that I present I challenge all the delegates to complete 30 trades without changing the initially agreed rules.

I feel that it's important that you consider the exercise as otherwise all the training, reading and effort is academic only.

1. Get your trading systems setup/setups boiled down to a few rules. These clearly show detail entry, stop, position sizing and managing the trade.
2. Let me have a look at them before starting if you wish.
3. Before starting make sure that you have mentally followed the rules for many imaginary trades. To my best knowledge Gary Player, the golfer, first wrote and spoke about his visualization techniques to improve his golf. Run a perfect trade through your mind frequently from start to finish. Mentally rehearse the move and rehearse what you will do if the market decides not to cooperate with your trade setup.
4. Resolve to follow those rules for a batch of 30 trades. I suggest that you start on a demo or simulated account. The biggest fear is being wrong and for most that fear easily initiates the emotional response that Steenbarger refers to.
5. Spend some quality time practicing "mindfulness" and being present. I recommend purchasing "Practicing the Power of Now" by Eckhart Tolle. Becoming present and focusing on this moment alone will help keep the analytical mind at the helm. Becoming and working on being "present" has helped my personal training and many other aspects of life greatly. As Rudyard Kipling said "If you can keep your head when all about you are losing theirs, etc."
6. Rarely does it take 30 trades. Somewhere between 8 and 13 trades, the inner resistance will cease. Unfortunately, few people make the journey to 13 trades with the same set of rules.

You are 8 to 13 trades away from the trader you wish to become.

2022-12-16

How to Build Consistency in 2023

As it's the end of the year (and it's not been a great year), I thought to put out an Essay about how to consistently outperform at the game of investing. I believe these guidelines are true for both short-term oriented traders and long-term investors trying to outperform benchmarks.

Let's look at 6 of my rules for your consideration over the holidays. The thoughts are, as always, focused on risk and risk management. Please remember, we are risk managers and not fortune tellers.

1. Be realistic in your expectations. The internet is choc a bloc with folk demonstrating how to turn 100 pounds into a million in several months, especially in the Forex space. This can be done in the same way as I can win the lottery next Saturday night. Anyone can put on a winning trade. However, to become consistent as a trader or investor and to outperform year-after-year is an art form. Over the last few weeks, I detailed the requirements needed for a high probability trading system. This included both the stocks fundamental and technical position plus the technical position of the overall market. Please reread the Essay of 2nd December 2022, before proceeding if you have not already done so.

2. Look for asymmetrical reward to risk opportunities. One of the main things to understand in trading/investing is that you will not be correct anywhere close to 100% of the time. You will have some successful trades, and some awful ones. In these Essays, I have written about expectancy on many occasions. In simple terms, expectancy just means making more on the winners than you lose on the poor trades and thus making a profit at the end of the year. We all need many large reward to risk trades to pay for all the (hopefully) small losers. The next point shows how to achieve this.

3. Cut losses and let profits run. This is advice we have all heard a thousand times. Walk on to a trading floor (hard to find these days I know) and ask a couple of seasoned traders what they do before setting up a trade. I can guarantee the answer will be “I will set up my stop-loss.” This is the best piece of advice I’ve ever been given. If you find yourself in a good and profitable trade, trailing stops will also help you to keep your profits running if the trend stays favorable. They will, of course, limit your downside if the trend reverses. The VectorVest Stop-Loss can be used as a trailing stop and that’s what I use in my medium-term trading portfolio that I discuss each Monday afternoon. There is a long and detailed discussion on trailing stops each month at the VectorVest UK (SWIC) National User Group session. Trailing stops are also studied in detail by the VectorVest ProfitLocker Pro trading system.

4. Size your positions correctly. The first step in this direction is to decide on how much cash is in your account. Then decide on how much of this you wish to risk on any single trade or investment. At VectorVest, we recommend that the maximum loss or risk should be 1% of the account size. So, if you have a £100000 ISA account then the maximum loss should be £1000 which when I went to school was 1% of the account size.

The next step is to look at your proposed entry point and the stop-loss level to be used. Let’s assume that you are using the VectorVest Stop-Loss in this discussion. Simply subtract the entry point from the stop-loss level to calculate the risk/share purchased. This is unique to each trade. I still get multiple emails each week about this process and will go through the sums once more.

For those who understand the following, my apologies.

Let N = number of shares to be purchased

$N * \text{Risk/share} = 1\% \text{ account size}$

$N = 1\% \text{account size} / \text{risk/share}$

If the position falls apart and you get stopped, you have lost 1% of your equity. Shake yourself off and move on to the next trade. For example:

Account size = £100000

1% = £1000

Assume an entry point of £10 and VectorVest Stop is at £8.50

Risk/share = £1.50 (entry point - Stop-Loss)

$N * \text{risk/share} = 1\% \text{ account size}$

$N = 1000 / 1.5 = 660 \text{ shares}$

We purchase 660 shares at £10 pounds each which means the deal is worth £6600.

If the share falls and hits its stop-loss, then we have lost £1000. Don't stress too much about the brokerage in the calculation. Just keep the loss to around 1% of the account and certainly no more than 2%.

5. Your portfolio should favor undervalued stocks that are growing earnings strongly and safely. The latter are measured by values of the VectorVest metrics RV and RS, respectively, and above 1.25 on a scale between 0.00 and 2.00 is favorable. You should be fully invested when the overall market is rising, especially so if the VectorVest Market Timing system known as Confirmed Calls has printed a Buy signal. When the overall market has printed a Confirmed Down signal, it's time to be careful. Stop all purchases and watch stops carefully.

6. Carefully define those nightmares, anxieties and doubts that hold you back. The philosopher Seneca wrote about deliberate meditation on the evils that we may encounter on any journey. To be successful, each of us needs to cultivate the courage to look at what we are afraid of. Author Mark Douglas defines his fears in trading as being wrong, losing money, missing out and leaving money on the table. These resonate with me very closely. We need to cultivate the courage to think about all the things that can happen, the things that are unpleasant to think about, the unusual and the unexpected. Invariably, when examined, these fears are of no consequence when studied in cold light, with logic and a simple trading plan. I get the objection from prospective VectorVest customers that they can lose all their money in the stock market. This fear can be paralyzing. Examine this fear with the logic contained in the

position sizing paragraph 4 above and this demon disappears. You can't let fear rule because there has never been a person who did anything of substance without dissolving many fears on the journey.

As I write on the morning of the 14th of December 2022, both the Primary Wave and the Underlying Trend on the VectorVest Composite UK are Up with a Confirmed Up in place. However, the DEW which is a medium-term Market Timing system turned down after the close on Monday 12th of December.

By the time this Essay is published the outcome of a huge week of data from the US, UK and EU will be public knowledge. I am preparing, as I write, for some large moves in the S&P500 index.

2022-12-23

Saving Hours of Work by Using the Comfort Index (CI)

As a technically orientated trader I have found that the only way to make money in the stock market is to find a trend in a stock, jump on its back, and go for a ride. These trends tend to last much longer than I or anyone else would calculate or imagine. Trending markets take on an energy of their own and simple trend following has produced many billionaires.

At VectorVest, we are not simple trend followers based on technical breakouts alone. That's a very difficult business psychologically with a hit rate of much less than 50%. It can be very profitable, if the reward is much higher than the initial risk, as the billionaires will attest. Big winners are few and far between because of the difficulty in handling a situation where you are wrong much more often than you are correct.

At VectorVest, we wish to jump on to the back of a trend in a stock that's growing earnings strongly and reasonably safely when the overall market is rising. If we integrate these three measures which are mathematically uncorrelated, then my experience is that I can push up the hit rate to a very acceptable level of much higher than 60%. This makes trading much easiest than following a technically based trading plan alone where hit rates of 40% are commonplace.

The three measures of analysis are...

1. Is the overall market rising or falling? I believe that this is 70% of the exercise. I use the VectorVest DEW Market Timing for this and go through all the VectorVest Market Timing signals in my Q&A sessions.

2. The stock should be growing earnings strongly and safely as measured objectively by the VectorVest metrics RV (Relative Value) and RS (Relative Safety). For a video discussion of these please refer to Lesson 1 of the Successful Investing Quick Start Course (SIQSC) which is built into VectorVest UK under the “Training tab.”
3. The stock should be rising in price and on a VectorVest Buy Recommendation. In addition, if the stock is in the throes of a strong long-term trend, then the probabilities of success improve, and the latter is measured by the Comfort Index (CI).

Buying a rising stock with strong growth fundamentals in a market that's rising is a sure way of building wealth with little fuss or effort.

Did you know that technical traders, both retail and institutional, spend days of their valuable time compiling a list of shares that are trending strongly? My definition of Technical Analysis is that it is the study of trends and turning points.

To gauge the longer-term trend of the share, we use a proprietary metric on VectorVest called the Comfort Index (CI). CI is an indicator which reflects a stock's ability to resist severe and/or lengthy price declines. CI is based solely upon a stock's long-term price history. It's a unique measurement in the Technical Analysis world and no one else has anything similar or as effective.

CI is also a measure of a stock's Price resistance to market downturns. This index is computed by comparing an individual stock to the up and down movement of the VectorVest Composite UK (VVC/UK) and is cast into a scale of 0 to 2.00. A stock with a CI above 1.00 or greater is more resistant to a downturn in the market, as measured by the VVC/UK.

There are many ways of using the CI, but here is a UniSearch that I use each day to keep my eye on the pulse of the market. It's a very simple UniSearch that finds shares with strong growth fundamentals that are also trending strongly. I refer the UniSearch as the DEW Swingers. It's a simple UniSearch with only a few lines of parameters for you to input.

Time of Search Stock CI - Comfort Index ≥ 1.20

Time of Search Stocks Rec -(Recommendation) $\leq$ Sell

Time of Search Stocks Watchlist = FTSE 350

These shares are then sorted by CI*GRT. GRT is the percentage annualized growth rate of the stock. This provides a measure of both earnings growth and the trend of the share. CI*GRT is not a standard metric on VectorVest UK, but can be generated easily using the Custom Field Builder. The UniSearch finds stocks with the best combination of a long-term strong trend and earnings growth and is a great place to go looking for winning investments or trades.

I have only used FTSE 350 shares in this UniSearch as these invariably have a high daily turnover (making entry and exit without slippage easier) and a low spread between the buying and selling price. An alternative to this approach would be to include the entire market with a volume filter. Also, conservative investors may wish to incorporate a line which adds Relative Safety.

Adding RS ≥ 1.00 will eliminate stocks with a poor track record of profitability. This exercise will be good practice for you over the holidays. Please remember the “Navigation Training Series” of videos that will help you navigate your way around the program and is located on the “Training tab” of VectorVest UK. There are three sessions on UniSearch.

The DEW Swingers as the name implies uses the DEW Market Timing System to inform us when it's safe to be in the market and when it is not. As I write on the 20th of December 2022, the DEW Market Timing system is on a Sell signal and the advice is not to Buy stocks at this time. It is very good advice. Please click [here](#) to see this week's video for more details.

In both the UK and US markets I use the UniSearch above to find candidates for swing trades each trading day.

I would like to take this opportunity to wish all reading a very Happy Christmas. David Paul

2022-12-30

The Explosive EPS UniSearch

A few weeks ago, in the VectorVest UK weekly webcasts, I mentioned a Delta UniSearch known as “Explosive EPS Stocks.” I run this UniSearch each weekend to find shares that are growing Earnings Per Share (EPS) strongly and especially those where EPS had been revised sharply upwards. A few emailed and indicated that they could not find the UniSearch and this Essay, I hope, will help with that.

In this context, Delta refers to rate of change of EPS as opposed to the use of the Greek term in the options world. As Ben Graham (Buffett’s mentor) said, “EPS is the engine that drives the share price.” It’s just a matter of time before the EPS increase shows up in the share price. If you wish to be a relatively short-term momentum trader, then it’s vital that you have a list of these shares at hand. Fortunately, the UniSearch tool on VectorVest does this easily with a few clicks of the mouse.

From the Home Page on VectorVest, click on the UniSearch tab on the main toolbar and then on the A-to-Z function at the top left-hand side of this page. This will display all the prewritten searches alphabetically. Then just scroll down until you see “Explosive EPS Stocks.” If you click on this, the UniSearch will be loaded in the main portion of the same page.

This UniSearch finds shares over 50 pence that have a traded volume of greater than 50000 shares that are on a Buy recommendation, where EPS has grown by more than 25% over the past 13-weeks. These stocks are then sorted by the master indicator VST Desc, bringing those stocks with the best combination of Value, Safety and Timing to the top of the list.

I have added a line of code to just consider FTSE 350 stocks as in last week’s Essay. I ran the UniSearch on Tuesday 27th December (which used data

from Friday 23rd December as markets were closed on 26th and 27th) and it produced a list of just seven stocks. This is valuable information especially for swing traders as focusing on hundreds of stocks with the clarity required for this task is difficult.

The UniSearch seems to have identified several stocks that were hit hard by the pandemic in 2020 that are now getting back to profitability in such a way that the current selloff hasn't had much effect.

Please experiment with the UniSearch. Firstly, increase and decrease the percentage although 25% gives good results. Some reading may wish to add lines such as Relative Safety, $RS \geq 1.00$. This will remove shares where the financial performance is haphazard or unproven. Also, adding the Comfort Index, $CI \geq 1.30$ (please see last week's Essay) to the mix will find shares that are in the throes of a long-term uptrend. As I have stated before on many occasions, the CI is a VectorVest secret weapon.

Removing the FTSE 350 filter and adding a filter which looks for stocks with a market cap of greater than 750 million (for example) will find many more stocks.

As often noted in these Essays, most stocks move up and down with the market averages and knowing whether the VectorVest Composite is moving up or down is a large part of the quest for profits. It's vital to know with some certainty which way the market is heading. In my experience, the least accurate predictions are made by the TV market pundits so be wary of these people. On VectorVest, we have several Market Timing methods that are totally objective and ego-free. As discussed on many occasions, I use the DEW Market Timing system which is defined as a medium-term Market Timing system which reacts quickly to the overall market cycles up and down. As I write, the trend of the overall market is Down and the advice on VectorVest is to "sit on hands."

Let's now focus on the present selection from the UniSearch which uses the end of day position before the Christmas holiday 2022. Out of the seven, the graphs of the following five stocks are speaking to me:

IAG.L the holding company of British Airways seems to be moving upwards at last. The share has weathered the storm of the past few months and seems to be retracing to a previous resistance level at 125p. Since October, IAG.L has rose on rising volume and when retracing in price, the volume traded is low. That's a good sign. When the overall market starts upwards again, this stock should move strongly.

HSX.L has bucked the downtrend on the overall market and is rising above a 21-day Moving Average (MA). Again, this share should move strongly when the DEW moves to an Up call.

CAN.L looks very strong and is pushing on a 3-year high and should breakout much higher when the overall market decides to become more positive.

SMWH.L is trading above a 21-day MA. The stock is a long way shy of the pre-covid high, but rising on good volume while retracing on low volume. A very good sign and a strong recovery play.

BSIF.L is an investment trust with strong "green" credentials. VectorVest predicts an EPS growth of 40% for this stock and sooner or later that will find its way into the share price. BSIF.L also pays an excellent yield of nearly 6%. The share looks to be a potent source of both income and growth.

Some rules to follow:

- 1. Market Timing is important.** Even companies that are growing EPS strongly will not advance when sentiment is down. As stated, often I use the DEW Market Timing system in my personal trading.
- 2. Run the Explosive EPS UniSearch at the weekend.** Remember, that low RS shares are not suitable for everyone. They need to be managed carefully as there can be many surprises with a share with an RS of less than 1.00.
- 3. The best shares will be in the throes of a strong trend already** and on a VectorVest Buy Recommendation.
- 4. Volume traded is an excellent leading indicator.** Look for up moves on rising volume and retracements on falling volume.

5. Assuming the general market is still positive, then I favor a VectorVest Buy signal plus a break of the last significant high as the entry.

6. Size any positions so that no more than 1% of your account is lost should the position move against you. Remember, we are risk managers and not fortune tellers.

2023-01-06

Cardinal Sins

I use the word “Cardinal” not in the religious sense, but rather the original meaning of the word which is a “Pivot.” The following sins if practiced regularly will pivot your account to the floor.

There are four major mistakes in the stock markets and in all markets. Of these, buying stocks that are falling in price would seem to cause the most misery and blown accounts. The problem is then compounded by averaging the losers. There is a temptation to average down to escape a loss akin to a drunk looking for another beer. The mistakes we make (yours truly included) are:

1. Focusing on the money/outcome as opposed to an intense focus on the process and execution of your trading plan.
2. Buying stocks that are falling in price and then trying to average our way out of jail.
3. Holding on to losers too long.
4. Ignoring overall market direction.

Over the weeks in these Essays, I have tried to communicate that successful trading and investing is all about the perfect execution of a repeatable trading plan. I have also written at length about the various VectorVest Market Timing models and how I believe that overall market direction is 70% of the exercise. In this brief note, let's look at the nuances of making sure we don't get tempted to purchase shares that are falling because, inevitably, they are falling for a good reason. The two for the price of one argument has bankrupted more share traders than anything else.

The subject is addressed in detail in Lesson 2 and 4 of the “Successful Investing Quick Start Course” which should be replayed as a part of this week's study. This repetition is necessary and vital because there are many

seemingly knowledgeable individuals who will advise pound cost averaging and advocate holding and adding to losing positions. I know I have over the years and the process is inevitably painful and embarrassing.

On some occasions, adding to losers can dig you out of a hole, but, sooner or later, the practice will ruin both your account and trading confidence. We have a very experienced investor and options trader from Oxford who shares the story of how once mighty Marconi fell from 19 pounds a share to a few pennies a share before going broke.

The TV Gurus say, “they are cheaper,” “you can buy more shares,” “pound cost average.” In the City of London, a very famous bond trader used to comment “stops are for busses” when asked about risk management. He is no longer in the business.

Adding to a losing position is arguing with the market. You are saying “I am right” and “you are wrong.” However, there is a temptation to average down that’s hard to explain, especially if it dug you out of trouble in the past. Add to winners not losers. Easy to write I know.

Even in the strongest of trends, markets rise by charting a series of rising lows. This is known by market technicians as “Peak and Through” progression. The question that’s posed by many old and new traders is, “Is this just a short pullback within a strong uptrend or the start of a major reversal?” I hope the following suggestions will help with putting some rules in place within your trading plan to answer this riddle.

1. Use the VectorVest Buy recommendation. If the share is on a Buy, then medium-term traders should ignore the day-to-day price action. Pullbacks within a strong trend should occur on falling and low volume. If the advance in price occurs on strong and rising volume and any pullback occurs on relatively low volume then that’s the strongest indication, that I know of, that the pullback is a pullback and not a trend reversal.

2. Since time began, I have been using moving averages to define the trend on stocks, bonds, and futures markets. I use a 21-day Exponential Moving

Average (EMA), a 55- day EMA and an 89-day Simple Moving Average (SMA). These can be added to the VectorVest charts, and a template saved.

Clearly when the 21 is above the 55, and both the latter are above the 89 the trend is upwards. Where the three averages cross, I refer to this as a “bowtie.” The averages tend to give the trend more leeway than the VectorVest Buy signal. Similarly, if the 21 is below the 55 and both are below the 89 then the trend is down, and you should stay away.

3. Over the years, I have noticed that even in the strongest of trends, the share price tends to pull back into the area between the 21 and 55 averages. I refer to this area as the “Zone” and those with knowledge of candle patterns may wish to add to positions in this area. A pullback into this Zone which is confirmed by a reversal candle pattern can be a powerful entry for traders to add to positions. More aggressive traders can use the pullback as an entry signal for a swing trade. The detail of the latter is a major part of my presentation at the Tampa Two-Day Investment Seminar.

Charles Dow in 1880 used no indicators, but did use price action to define trends. He was the first person to write about the price action within three types of a trend. These are Fast, Normal and Creeping.

A. Fast Trend. This is a great place to be as the price is surging upwards. Charles Dow said that if the next rising low was higher than the last high then the trend was “fast.” In this period breakouts work well.

B. Normal Trend. Here the price action has slowed and the next rising low pulls back to the last old high. This is the most common and known as a “kiss” or “sweet spot” on trading floors. Half the market will have placed their orders waiting for a pullback to the last old high.

C. Creeping Trend. This is where the next rising low is lower in price than that of the last old high and that’s a sure sign that the trend is running out of steam and, at best, heading for a consolidation and at worst a reversal.

I will show examples of Fast, Normal and Creeping trends on the 9th. Once you see the price action you will be listening to the market in its own language.

As I write on Tuesday 3rd of January 2023, the UK stock market has had a good period in relation to the US Market. A Confirmed Up signal is still in place and market breadth is improving. I use the DEW Market Timing system in my personal stock trading and this metric is currently on a Down signal. I will wait until this measure changes to Up in line with the longer-term measure before proceeding with any new purchases. I am looking to add to GAW.L and new purchases in LIO.L and KAPE.L should the DEW print a Buy signal.

2023-01-13

The Charts Never Lie, but There Are Plenty of Investors and Traders Who Can't Handle the Truth

In this Essay, I wish to focus on what it takes to become a consistently winning trader year-after-year, both in good years and in bad years. I started down this path by reading about the methods and characteristics of the big winners in the trading game around the world. When I did this years ago, the answers were confusing to say the least. Below, I have added the tag lines of several famous investors and traders.

"I haven't met a rich technician."

—Jim Rodgers

"I always laugh at people who say, I have never met a rich technician. I used fundamentals for 9 years and then got rich as a technician."

—Marty Schwartz

"Diversify your investments."

—John Templeton

"Diversification is a hedge for ignorance."

—William O'Neil

"Concentrate your investments. If you have a harem of 40 women, you will never get to know any of them well."

—Warren Buffett

"You have to understand the business of a company you have invested in or you will not know whether to buy more if it goes down."

—Peter Lynch

“Averaging down is an amateur strategy that can produce serious losses.”

—William O’Neil

“Don’t bottom fish.”

—Peter Lynch

“I believe the very best money is made at the market turns.”

—Paul Tudor Jones

This totally confused me some 30 plus years ago. These guys just didn’t agree on anything. I am sure many reading this will have gone down a similar path. All the above was put into context by the book “Market Wizards” by Jack Schwager around the end of the eighties. He interviewed many of the top traders in the US, including those that I quoted above. His conclusions were like my own in that each of the big winners had a radically different trading plan which suited their own personalities and beliefs about markets. Market Wizards is a great and must read.

The path to finding a trading plan that suits your personality and beliefs is a rite of passage in the trading/investing business. It will take a few weeks and months to get this into place and it needs to be written down on a single sheet of paper.

A great place to start would be to review the presentations at the recent Two-Day Seminar in Tampa. This will be available in the VectorVest University very soon.

In Market Wizards, Schwager concludes that there is no “Holy Grail” to making money in the markets, although my research shows that following the VectorVest edge is as good as it gets. Jack’s book got me thinking that if there is no common ground in how to make money, then what about common ground on the ability not to lose money. Eureka.

“My basic advice is not to lose money.”

—Jim Rogers

“I am more concerned about controlling the downside. Learn to take the losses. The most important thing in making money is not to let your losses get out of

hand.”

—Marty Schwartz

“I am always thinking about losing money as opposed to making money. Don’t focus on making money, focus on protecting what you have.”

—Paul Tudor Jones

“Rule 1. Never lose money. Rule 2. Never forget Rule 1.”

—Warren Buffett

“Learn how to take losses quickly and cleanly.”

—Bernard Baruch

“The majority of unskilled investors stubbornly hold on to their losses.”

—William O’Neil

Now I was getting somewhere. Although all these big winners in the market had radically different methods of making money in the markets, they all agreed on the importance of how to control their losses. That was the secret.

Learning how not to lose money is more important than learning how to make money. That’s why I have entitled this Essay “The charts never lie, but there are plenty of investors and traders who can’t handle the truth.” The price graph is tanking, and many are saying “let’s give it another day.”

Learning how not to lose money in the markets is fully discussed in Lesson 2 of the “Successful Investing Quick Start Course.” In Lesson 2 of the course, you will be taught how to accurately size your positions so as only 1% of your account is at risk should the trade go against you. In addition, I have gone through the math of position sizing in my second presentation at the Tampa Two-Day Seminar, in the Trading Psychology presentation.

In my view, to be a successful trader we need two main characteristics:

Firstly, we need a source of quality information on which to make decisions. VectorVest, and its mix of both technical and fundamental information, fills this requirement perfectly with little fuss. All the calculations are completed effortlessly for nearly the 2100 UK shares we cover. The data is presented in

a fashion that's easy to understand. Information is only useful when you can easily react to it.

Secondly, we need the self-awareness to focus on perfect execution of a simple trading plan and just do what VectorVest tells us to do. I totally agree that it's much easier to write and talk about than do, but that's what we get paid for.

A plan where we cut our losers quickly, never losing more than 1% of our equity on any single trade or investment. A plan where we let our winners run and avoid snapping at our winners after a few ticks of profit. A plan where we build a position in our winners by adding to these positions as they break upwards through old highs.

Professional golfers focus on perfect execution of every stroke. They invest heavily in mental training to this end. Special Forces practice and drill this skill so they can perform in the most challenging situations.

Trading and investing at a consistently winning level is no different.

Special Note: As of today, you will be able to view all of the VectorVest Model Portfolios that you love under the Viewers tab in the Trading System Viewer.

2023-01-20

Putting Simple Arithmetic to Work in Your Wealth Building Journey

In the 1980's, a fellow by the name of Ralph Vince started to research the effects of varying position size on investment and trading performance. A quick search on Google will reveal the books and papers that Vince has written over the years. His research is quite difficult for those not mathematically inclined, but the results are simple, and you have heard them frequently in these Essays.

If you have a trading system that's correct in its market calls 66% of the time, that's a fine system. If that system makes twice as much when its correct as it loses when its wrong, then you have a method of printing money forever. A 66% hit rate system can easily be attained if you tick all the VectorVest boxes. These are buying undervalued shares with good fundamentals that are rising when the market is rising. Please don't complicate what is essentially a simple process.

In a 66% correct system which has a positive expectancy (makes more when correct than it loses when incorrect) the trader still must face clustering and runs of good and bad trades. I spoke of these in my Trading Psychology talk during the Tampa Two-Day seminar on January 6th, 2023. In a 66% correct system, three bad trades occur every 9 trades and thus 9 bad trades every 27 trades. If you bet 1/3 of your capital on any single trade, you go broke every 27 trades. That's a sobering thought after the joy and jubilation of getting 27 trades under your belt. Remember, the bet size is the amount of money that you can lose if the share drops from your entry point to the stop-loss used.

To get through the clusters mathematically, and that means not going broke in them, the bet size needs to be less than 2% of your available capital.

At VectorVest, we advise a 1% bet size. When I present this in a seminar, I see faces drop. The body language in the crowd is that it's going to be a slow process to get rich. Nothing could be further from the truth as I will show below. First let me revisit position sizing. I know I have done it before, but it's the most important factor in becoming a consistently winning trader and investor, but alas, it's not as sexy as entry points, I easily concede. I received about 20 emails about the calculation after the Tampa event.

Let's assume you have an account of 100000 pounds.

1% of this capital is 1000 pounds. We should NEVER lose more than that in a single trade. Assume we buy a share at 10 pounds and use the VectorVest Stop-Loss at 8.50 pounds.

The risk/share is thus 1.50 pounds. I read this off the chart and it's unique to each trade. The stop needs to be well out of the price action traffic or it will be picked off by the pros and algorithms. The VectorVest calculated Stop-Loss does a good job in weaving that fine line between protecting your capital and making sure that you are not stopped out of a trending share prematurely.

Let N = the number of shares to be purchased

$N * \text{Risk/Share} = 1\% \text{ Account Size}$

$N = 1\% \text{ Account Size} / \text{Risk/Share}$

In my example $N = 1000 / 1.50 = 666$ shares

Buy 666 shares at 10 pounds each is the broker's order.

I was taught that by my first mentor in South Africa in 1981 and still perform the same calculation today. If the position falls apart, then I will lose 1000 pounds in our example which is 1% of my account size. I now have 99000 pounds remaining in my account. The next position will be sized on an Account Size of 99000 pounds.

My first mentor also taught me the power of the 1% rule. Here are some facts about the 1% rule:

1. If you are completely incorrect in each trade and apply the 1% rule, then it will take approximately 650 trades to take the account down from

100000 pounds to 100 pounds. Remember, if you lose the position is sized on the remaining capital. The 1% rule is simply sizing your position so as the maximum loss is 1% of your capital. You can at least have a little fun going broke.

2. If you have a system that has a 2 to 1 risk to reward ratio and apply the 1% rule, then it takes roughly only 35 trades to double your money. Only 35 trades to turn 100000 pounds into 200000 pounds. Remember, after you win 2000 pounds then the next position will be calculated on an Account Size of 102000 pounds and if the stop-loss is the same, it means that the 1% rule allows you to buy more shares.
3. If you have a system that has a 3 to 1 risk to reward ratio and apply the 1% rule, then it takes roughly only 23 trades to double your money. Remember, after you win 3000 pounds then the next position will be calculated on an Account Size of 103000 pounds and if the stop-loss is the same, it means that the 1% rule allows you to buy more shares.

These calculations were done decades ago, and certain unique assumptions were made, but the mathematical facts show strongly that if you apply the 1% rule, you must work hard to blow your account and not so hard to double it. When I was shown this in 1981, I could not sleep for a few nights it got me so excited.

The winners and the losers come along in runs and emotionally the clusters I wrote about in the first paragraph and at Tampa can be difficult to say the least. Size your positions correctly and allow the 1% rule and simple arithmetic to keep your mind centered and focused on perfect execution of each trade.

As I write on Wednesday 18th January, the trend situation on the VectorVest Composite UK is strongly positive with all measures of the trend printing a Buy signal.

2023-01-27

The Study of Trends and Turning Points

In a recent webcast, I mentioned the term Technical Analysis of the stock market. Although I use this term frequently, I have found from many subsequent emails from events that quite a few attending did not have a notion of what I was talking about. Let me try and clear up this confusion. At VectorVest, we study both the technical position of both individual shares and of the overall London market. Our objective is to buy rising shares in rising markets.

Martin Pring defines the term Technical Analysis well in his excellent text “Technical Analysis Explained.” He writes that Technical Analysis is the study of share price trends and turning points. As mentioned in the last paragraph, at VectorVest, we wish to buy into shares that are trending upwards when the overall market is trending upwards. That may seem simple (and it is), but there are many in the market being punished by buying into shares when they are falling. The 2 for the price of 1 has bankrupted more traders than any other mistake.

In the runup from the Covid low in March 2020, several very experienced traders that I know well, have lost millions of dollars short selling S&P 500 futures (betting the market will fall) in a market that was rising. Picking tops and bottoms is a big ego game and as I have written here before “Top and Bottom pickers become Cotton pickers” sooner or later. Swim with the stream. Over the past months, I admit, they have got some of their money back.

In Technical Analysis we can measure 3 aspects of the share price action of any stock.

1. Price trend.
2. Momentum (speed) of the Price.

3. Volume of shares traded at that Price.

On VectorVest, there are two measures of the trend of a share. RT (Relative Timing) measures the short-term trend of the share on a scale between 0.00 and 2.00. Above 1.00, the share is rising and the further above 1.00, the faster the share is rising. CI is the Comfort Index, and this metric measures the longer-term trend of the share again on a scale between 0.00 and 2.00. Once again, above 1.00, the longer-term trend is rising and the further above 1.00, the faster this is rising. In detail, the CI is an indicator which reflects a stock's ability to resist severe and or lengthy price declines.

These two metrics of RT and CI can be easily used within UniSearch to find strongly trending shares in seconds with no chart watching required or needed.

My first institutional desk head used to say that he had never seen a share trending upwards (above a 200-day moving average in his analysis) that had gone bankrupt. Similarly, the probability of a share with a high CI going to the wall is low.

On the 23rd of January 2023, FOUR.L has a RT of 1.44 and a CI of 1.56, showing that both the short-term trend and the longer-term trend are positive with both the short-term and long-term measure of the trend very strong. This objective analysis lends itself to clean and strong decision making. No chart watching is necessary for those who haven't the time or simply just don't like charts.

Over the years, I have written many times about the fundamental measures on VectorVest. These are Value, Relative Value (RV) and Relative Safety (RS). FOUR.L is at present fully valued with an RV of 1.67 and an RS of 1.43. FOUR.L is a share where the fundamental position and the technical position are both in excellent shape. What is more, the share was analyzed objectively in less than 30 seconds. I remain a happy shareholder and have added to the position along the way since a price level of £37. Swing traders should note that the technical target is around £50 with the share currently trading at £46.

Over a window of three years into the future, the RV metric tells us that there is plenty more in the tank for longer-term position traders.

As I write on the 23rd of January 2023, both the fundamental and technical position of FOUR.L are excellent. The technical position of the overall market is also positive. Remember, it is my belief that the overall market is 70% of the exercise in becoming a consistent winner in the stock market. Today the medium-term (DEW) and long-term trend (Confirmed Call) of the UK market are positive, but the shorter-term trend (Primary Wave) is Down. The advice on VectorVest is to sit on hands and not to buy stocks until the short-term trend turns back up.

I have spent years studying volume traded and its interpretation, relying heavily on the work of a technical analyst of yesteryear named Richard Wyckoff. I do my best to illustrate these timeless principles in the weekly Q&A sessions.

A Bull market is characterized by stock prices rising on increased volume and pulling back on falling volume. Shares rarely rise linearly, but rather chart a series of steps. In a Bull market, these steps should chart a series of rising low points. A pullback on falling volume to a rising low point means that the Bull market is intact and that we are, in fact, within a pullback and not a change in trend. This gives me confidence to buy into a pullback within the overall trend after confirmation of a low by way of a positive candle pattern.

Many people say that volume leads price, but, in fact, it is the lack of volume that causes the share price to rise. Why would anyone buy a share at 10 pounds if it were freely available at 9 pounds? Only if the supply at 9 pounds is no longer available will anyone pay 10.

For prices to rise, the volume at the lower price must be zero at the exact point of a turn. This may only last for a few minutes. In the futures markets that I traded in the past for a living, the volume traded on the FTSE 100 futures would dry up for around 30 minutes at each significant turning point.

A pullback in a share with a strong CI that has good fundamentals **ON LOW VOLUME** (assuming a positive general market) is a strong buying

opportunity. Remember the mantra. We wish to buy rising shares in rising markets. For the swing trader, a slight pullback on falling volume can finesse an excellent low risk entry into such a share. Once again, I try and cover these topics on Monday afternoons and presented some of the Wyckoff material recently at the Tampa Two-Day seminar.

On Monday afternoon, at the weekly Q&A session on the 30th of January, I will illustrate the role of price and volume analysis in predicting the fast moves seen recently in YU Group, YU.L. A careful observation of the chart over the past six months will show price advancing on rising volume and then pulling back to ideal entry points of falling volume. Please study in advance of the meeting.

VectorVest is the best of both worlds. The best of Technical analysis combined with the best of Fundamental analysis in the pragmatic search for consistent profits.

2023-02-03

Do You Keep a Journal of Your Trades and Investments?

In the daily battle that traders face in the markets, it is essential that they maintain the most valuable of personal commodities which is believing in themselves and having the confidence to succeed. Without these vital attributes, traders risk becoming prone to a host of trading errors.

They can become defensive, hesitate at crucial moments, trade nervously and suffer from bouts of self-doubt.

When asked by traders on what they should be doing to become winners I always answer, “Are you keeping a trader’s journal?” Invariably they are not. Invariably they look despondent and would have been much happier if I had replied with the details of a new trading indicator.

A trader’s journal is a tool for greater self-awareness which through time can help you in the battle to overcome yourself (e.g., snapping at profits or ignoring stops) and help lead to greater success as a trader. The objective of a well-maintained trader’s journal, used in a constructive and diligent manner, is to power one’s trading to a higher level by helping to develop a more structured and rigorous approach to trading, to build confidence and self-belief, and to help win the emotional battle one faces with themselves.

A trading journal is one of the most effective tools for performance management. It is where you record and review your trades and your actions in the heat of battle in relation to your trading plan. A journal can help you track progress as well as study mistakes made when entering or exiting a trade. In the long run, these reports can act as the foundation for better executions. Your job is to make better trades.

A successful career in stock trading has a lot to do with our psychology and mental state. Most stock traders experience certain emotions that could lead to unplanned actions. Having a trading journal allows you to take note of everything you felt and learned from a trade. This practice enables you to acknowledge your thoughts and emotional triggers behind every trade.

Documenting every trade/investment and the rationale behind all the decisions of the trade/investment can help define your strengths and weaknesses as a stock trader. Through these written observations, you can be your own adviser and reinforce better trading skills. Journaling also makes us more accountable for any errors. By acknowledging what you do best or what needs more improvement, you can grow your trading skills. It's very easy to repeat the same trading mistakes for much of a lifetime. I see it frequently when I examine retail accounts.

Many traders tend to lose money in the stock market because of unplanned moves or impulsive decisions. Detailed notes of these kind of seat of the pants decision making, can keep your emotions and decisions in check. This can help you become much more aware and take responsibility for the possible consequences. After developing a sound trading plan, making use of a trading journal is a great way to stick to a trading plan. On my travels, I find that many have great difficulty sticking to a trading plan and regularly jump between being traders and investors. If the last trade would have gone well by adopting a swing trade plan, they follow that for the next trade. If the result would have been better on the last trade by being a position trader, they adopt that approach for the next trade. The old saying that the definition of a "long-term trade is a short-term trade gone wrong" is true for many. Detailed notes of your behavior will force accountability or at least it has done for me.

A successful trader not only examines each trade, but also the progression of their trading performance. Through a trading journal, stock traders can hasten the path towards a more disciplined and profitable trading career. If you make a written record of your actions and feelings during the process of execution of the trade you can then quantify, scrutinize and enhance this

trading process. You can thoroughly keep track of your skills, weaknesses and emotional triggers. The alternative is to keep making the same mistakes for a generation.

2022 was a year that we will not forget in a while on many fronts. The fall of stock markets in 2022 was the first lengthy bear market that many new investors have experienced. The big winning stocks of the post Covid period were sold off by the market strongly and those that didn't obey the VectorVest Stop were given a lesson in risk management and much material for their new journal. It is far from certain that the bear market is over, but I am positive that we are a lot closer to the end of it than to the start of it.

It's a huge week of data from big tech, central banks and US job numbers. These will all be in the public domain by the time you read this. As I write on the 31st of January 2023, stock markets look overbought in the short-term and are susceptible to any poor news. Please note that perversely poor news for the stock market may be good news for Main Street.

Markets are set to close out a strong month which is in sharp contrast to last year's performance. While there's a saying that as January goes, so goes the year, this may simply be the latest market bounce higher. During this bounce upwards since the Confirmed Call Up in the first week of November, stock markets on both sides of the Atlantic have charted a "rising bottom" which is positive and the most positive aspect on the chart since the selloff started at the end of 2021.

However, the Fed, BOE and ECB are meeting during this week, and interest rates will likely continue to rise. The only ponderable is the rate of the increase and the future guidance provided by the respective central bank heads with Jerome Powell's comments being the most important by far. The US Treasury yield curve remains deeply inverted and predicting recession.

In times such as this, the only reality is the trend and as I write all measures of the trend of the VectorVest UK Composite (VVC/UK) are Up and I am sitting in my positions, but wary.

2023-02-10

Protecting Profits

We have had a good run, in the markets over the past few months since the Confirmed Up signal in the UK on 4th November 2022. The upswing since that time on the VectorVest Composite of both the UK and the US has charted a “rising bottom.” This higher low is very positive for these markets, but it is far from certain that the bear market of 2022 is over.

The bond market is still under the opinion that a recession is still on the way as there is, what bond analysts refer to, as “Yield Curve Inversion” in play. The latter where short-term debt is yielding more than long-term debt has been a predictor of recessions since 1945. The strong jobs number in the US, which completely wrong-footed economists last Friday, also adds to the feeling that central bankers are far from finished raising rates. As Capt. Bligh once remarked “beating will continue until morale improves.”

In the UK, all the VectorVest Market Timing systems are printing a Buy signal as I write on the 7th of February 2023. The situation is the same in the US. However, the VectorVest metrics of the Market Timing Indicator (MTI) and the Buy/Sell Ratio (BSR) are becoming overbought and getting to the peak of their emotional cycle. Even under the most positive scenario, stock markets on both sides of the pond are overbought in the short-term so be careful with new purchases at this time.

Over the last three months, since 4th November 2022, I have gone from a mostly cash position to being nearly 70% invested. Apart from a single gold stock (PAFL) all the positions are in the money. I am happy to hold these positions without worry if the DEW Market Timing system (a medium-term trading system) is positive and that's the situation as I write. If this keels over, then I will certainly stop all new purchases and watch stops like the proverbial hawk. If FOUR.L gets close to £50 in the meantime, I will take profits. I am

also well in the money in recent trades of Hostelworld (HSW.L) and Jet2 (JET2.L) and will exit those for quick and satisfying profits. For the rest:

The simplest and most direct way of restricting losses of capital appreciation is to use a stop-loss. This discipline requires that one determine ahead of time the price at which they will sell a stock. Ideally, this should be decided as you enter the trade and not emotionally in a crisis. How one does this depends upon their trading plan and beliefs. Exits are a pre-decided philosophy as opposed to mathematical certainty. VectorVest can help. VectorVest calculates a Stop level for every stock it covers. VectorVest uses a combination of moving averages, volatility and VST values to compute a Stop-Loss level. In the VectorVest system, any stock whose current price is below the Stop-Loss receives a “S” recommendation. This eliminates any confusion or contradiction between the VectorVest Stop and the VectorVest recommendation.

As I have written here many times, place the shares that you are holding into a WatchList. The shares are bought and paid for so the reason you bought them doesn't really matter anymore.

What does matter is whether they are rising or falling. For that reason, resort your shares by Relative Timing (RT) Desc. This will bring those shares that are trending upwards to the top of the list and those that are not to the bottom.

The work needs to be done at the bottom of the list. This is difficult and unfortunately most make the worst trading error at this point. The average trader/investor will easily find that the market has hypnotized them into making exactly the wrong decision. This is taking a profit on the winners and letting the laggards and losers run.

These quotes from “Reminiscences of a Stock Operator” say it so well. Sooner or later the book will be made into a blockbuster movie. It should be a must read by all interested in trading financial markets.

“I did precisely the wrong thing. The cotton showed me a loss and I kept it. The wheat showed me a profit and I sold it out. Of all the speculative blunders there

are few greater than trying to average a losing game. Always sell what shows you a loss and keep what shows you a profit.”

“A stock operator must fight a lot of expensive enemies within himself.”

—Edwin Lefevre

However, many stocks in this move from November have run well north of their VectorVest Stop and a considerable sum would be given back to the market if a selloff should occur. This is where taking partial profits can help. I offer the following for your consideration.

A simple plan to manage your trades is suggested as follows:

I am ignoring the entry point and the reason for entering in this Essay. I have covered entries many times in these Essays, each Monday afternoon at the Q&A sessions and in numerous workshops. Recently at VectorVest, we have published material on how to use the Near Perfect Indicator (NPI) for high probability entry points.

1. Use the VectorVest Stop-Loss and calculate the number of shares to purchase, so if the trading setup fails no more than 1% of capital will be lost.
2. If the share moves your way, exit half the position when you have made as much as you have risked. In simple terms, if I purchase 200 shares at 10 pounds with a stop-loss at £8.50 then I have risked £1.50 pounds per share. When the share price rises to £11.50. I have made as much as I have risked. At that point exit half (100 shares).
3. Increase the stop-loss to the initial entry point where, in theory at least, no money can be lost on the second half of the position.
4. Let the remaining half run using the VectorVest calculated Stop as a trailing stop. At this point, the VectorVest Stop can be below the initial entry point. When the VectorVest Stop increases above the entry point, then trail it upwards behind the price.

The methodology is far from perfect, but emotionally it's quite easy to put into practice. There is nothing more disheartening than a winning trade

turning into a loser which can easily happen if the present stock market rally is akin to the rest of the rallies we have seen since the start of the bear market at the tail end of 2021.

The result of the above method of taking partial profits is a swing trade type profit on half the position, but hopefully a “runner” on a high percentage of trades with the remaining half size position. The approach lends itself to this environment where the stock market, bond market and central bankers seem intent on playing a game of “chicken.”

2023-02-17

Trading with Discipline and Acting Without Hesitation, Trade After Trade

In trading seminars, I can see the delegates nod off as I mention the subject of trading discipline. I have heard it said that you have got to lose a lot of money before a typical trader concludes that they may be a part of the problem. In my experience, this is not far from the truth. Don't let that happen to you.

A disciplined technical approach **REQUIRES** that you strive to have **NO OPINION** of where the stock market is heading on a trade-by-trade basis. Remember, "It's not what you don't know that gets you. It's what you think you know that's just wrong that really gets you." Poorly quoted I know.

You must be free to trade on one side of the market one day and willing to be on the opposite side the next if your approach warrants it. Without that freedom and flexibility, your style can be compromised, much to your disadvantage. Virtually every mistake you make psychologically is caused by having an opinion on the markets on a trade-by-trade basis. It is best to trade on the assumption that your opinion (not your trading plan) is worthless. Think about it. The only opinion that counts is your position in the market. That position is quantified exactly and objectively by the VectorVest technical and fundamental metrics: Relative Value, RV, Relative Safety, RS, Relative Timing, RT, Forecasted Earnings Per Share, EPS and Comfort Index, CI. These are reality.

In my first institutional trading job, the desk head used to say, "Take off your opinions of where the market is going when you hang up your coat in the morning." When we feel that we know what's going to happen next and it

does not, then a wave of pain arrives. Many of you will have experienced what I have just written. This pain is responsible for many trading errors.

All trading pain can be removed by really, really believing that in one trade anything can happen. Remember that the VectorVest edge does a great job of predicting the future over a batch of trades but cannot predict the outcome of any single trade or investment. If you are correct 80% of the time, then you are wrong 20% of the time. On the next trade, you don't know whether it's one of the 80 or one of the 20.

In contrast, the amount that we believe that we can predict the outcome of any one trade will be directly proportional to the extent that we FAIL as a trader. The expectation that we know what's going to happen next is the source of all trading pain. Many people start to trade and invest knowing very little about the market and do very well.

In the beginning of their trading career, they have no expectation of being able to predict the market as they know nothing and have little experience. After a few months of trading, they slowly become gurus and now feel confident to predict the future on a trade-by-trade basis. Slowly the pain starts, and they find that trading errors of hesitation and picking trades start to surface.

The most common trading error is that of hesitation and picking trades. Our minds have two design characteristics:

1. Associate one moment with a previous moment
2. To avoid both physical and emotional pain

This is how we have been wired to learn from our experiences and mistakes and it works well in most areas of life. If you put your hand on a hot stove plate as a child, it hurt. For the rest of your days when your hand gets close to something hot you relive the childhood experience and very quickly elect to move your hand away to avoid the pain.

This programming gets in the way while we are trading. If we start to trade with any system, let's say the first trade is a winner and the second a winner. Sooner or later a bad trade is going to come along.

If we believe that we know what's going to happen next and, for most traders, this is the reason they put the trade on in the first place, then the loser is accompanied by PAIN.

The next trade comes along. When it's time to execute, our mind remembers the pain associated with the bad one. The mind is wired to avoid pain, so we find ourselves hesitating. In many people, this can be very subtle and subconscious. We have been hard wired not to be very good at this.

When a problem threatens to engulf you, there is nothing like irrelevant detail to keep your head above water. There are many internet predators that survive by finding traders in this mode late at night on the net and offer "the secrets to 99% winning trades" at 3000 a pop.

There is no method out there which can predict the market with anything approaching 100% accuracy. There are just too many variables around for that to happen.

Am I saying that we should forget about working on our analysis?

Of course not. Once we realize (and firmly believe with every fiber of our being) that, at the level of one trade, the market cannot be predicted, we can certainly work hard to get a better overall edge, but remember, the best analysts are normally the worst traders imaginable. They believe with arrogance that they know exactly what is going to happen next and when it does not, they sit in the position like lobsters in a hot pot.

Successful trading is about the perfect repetition of a simple process which should be set out on a single page document. Our job is to focus on perfect execution of the process and to make the very best trades. If we focus on the process, then the cash will take care of itself. If you have not got a trading plan, then it's time to put that right. Consider reviewing the Successful Investing Quick Start Course (SIQSC) and reviewing the Tampa Two-Day recordings. I

will help as best as I can in the weekly Q and A sessions. Also, please read last week's Essay on a suggested method of managing profits.

2023-02-24

Explosive Share Price Moves with the VectorVest RT40 Indicator and Divergence

Dr. DiLiddo, the founder of VectorVest, invented the use of a 40-day MA of the VectorVest Relative Timing (RT) indicator as a strong measure of a stock's momentum. The RT40 is mathematically massaged on a scale between 0.00 and 2.00 akin to all other metrics on VectorVest. Above 1.00, momentum is rising. A crossover of the 5-day RT and the RT40 is used as a faster measure of momentum rising. The entire technique has been researched and developed by Mr. Stan Heller and was presented in detail at the Tampa Two-Day Investment seminar in January 2023.

A Buy signal occurs when the RT5 crosses above the RT40, and on VectorVest using ProTrader, a scan can be run each day to find these. Alternatively, they can be easily eyeballed. In my opinion, some signals have a higher probability than others and that leads me on to the subject of divergence between the share price and the RT40. There are two types of divergences. Normal divergence and Reverse divergence.

Normal divergence is reasonably well known in the technical analysis community. Here, the share price charts a falling low while the RT40 charts a higher low. A crossover of the RT40 by the RT5 which is preceded by divergence is a very strong predictor of an explosive move. While it's possible to scan for the crossover, a divergence preceding the crossover must be eyeballed.

It's well worth the effort. Divergence is a leading indicator. The latter tells us that a move is afoot in advance of the move and there is precious few of these around.

Please study the daily chart of JET2.L on the UK database with the Near Perfect Indicator (NPI) layout loaded over the past year. The chart is included below. The RT5 and RT40 crossover on October 21, 2022, is marked with a red arrow. The price of JET2 is clearly charting a falling bottom at this point, but the RT40 has charted a rising bottom. Since the crossover, the share price has moved from £8 to £13.

An RT5 and RT40 crossover preceded by normal divergence is a powerful advance warning of a strong share price move where the risk to reward parameter is well in our favour.

I will now try to explain the concept of "reverse divergence" or "hidden divergence."

Reverse Divergence is not widely known even in the technical analysis community, and it predicts an extension of a current trend. Normal divergence is a reversal pattern (as we saw above in JET2), while Reverse divergence is a continuation of an existing trend.

To explain the concept with an example will save a thousand words. Please load a chart of HSW.L over the past year again using the NPI layout. The crossover of the RT5 and RT40 is again shown by the red arrow in the chart below.

Prior to the crossover, HSW.L has charted a rising bottom, while the RT40 has charted a falling bottom preceding the crossover. This is known as reverse divergence. Many find it hard to understand but keep at it. It's money in the bank when you get the concept. Some technical analysts refer to the pattern as a "slingshot" as the formation precedes a fast and strong move. I believe the pattern (which occurs on all momentum indicators) is the most predictive in technical analysis.

So far after the crossover, HSW.L has moved from 80p to 140p.

2023-03-03

The Seven Deadly Sins— Part 1

Recently, an extra chapter has been added by Dr. Bart DiLiddo to his book “Stocks, Strategies & Common Sense.” The entire book, including the new chapter, can be downloaded from the Welcome tab of VectorVest. The chapter is entitled “The Seven Deadly Sins of Investing” and starts on page 12 of the book.

Dr. DiLiddo defines a sin in the first paragraph:

“A sin, however, is a highly reprehensible act against religious or moral law. Sins occur under a wide variety of circumstances. Deadly sins spur other sins.

Consequently, Deadly sins have morphed into an insidious narrative, which is being used against you and inadvertently may be used by you. Therefore, it is vital that you know what they are and how to defend yourself against them.”

The Seven Deadly Sins of Investing are:

1. Hypocrisy
2. Deceit
3. Greed
4. Sloth
5. Wrath
6. Pride
7. Envy

These are huge topics, and, in this Essay, I will start with Sins 1,2 and 3 and tackle the rest over the coming months.

HYPOCRISY...FAILING TO FOLLOW ONES OWN RULES.

As I have written here a dozen times, 70% of the exercise to becoming a consistently winning trader is to trade with the overall market. Repeatedly, we hear (each afternoon on the TV) that this is impossible. Your financial adviser and the weekend papers will say the same.

I believed this story in my first few years of trading. In the period between October 1982 and April 1988, I traded the Johannesburg Stock Exchange while employed by a large organization. When I left to become a full-time trader in 1988 and there was no monthly cash coming in, this galvanized me to examine all my trades during the period and learn from them. I showed in this exercise that when the overall market was rising, I made money and when it was not, I struggled. This was a revelation to me at the time. Since that time, I have been very careful to trade with the market and VectorVest makes this exceptionally easy to do.

There are short-term systems for aggressive traders and long-term systems for investors. No subjective analysis is required, and each system can be easily viewed on the mobile app so even the busiest people can react to the ups and downs of the market. I primarily use, a medium-term Market Timing system, known as the DEW in my personal trading. I review all of the Market Timing systems in some detail for both the UK and the US each Monday afternoon at the UK Q&A session.

Before you believe the narrative on the TV each afternoon, just think on the UK market making a high point in 1969. After this time, it took the UK market 21 years to get back to that high point in real money. Have you got 21 years to wait? More recently, the UK market made a new high in 2000. The market then took 20 years to exceed this level without adding any inflation to the mix. However, along the way we had excellent multiyear trading moves from 2003 to 2007. Then March 2009 to January 2020 and from April 2020 to the start of 2022.

At VectorVest, we time the market with a system that has never failed. Heed the Color Guard!

DECEIT...LYING SO SOMEONE BELIEVES A FALSEHOOD.

An example of deceit that pervades the stock market is that a Price/Earnings ratio is a valid measure of value. These numbers are thrown around each afternoon by those who should have more sense. Some years back, a very good friend came back from a stint working for a major Wall Street bank with many years of bonuses tucked away to his home city of Cape Town. He actioned a major life goal, which was to start a fund for private investors in that city. Things went well for a few years and then he fell in love with a stock because it was on a low P/E of 3. That means he was paying a paltry 3 times earnings for the stock while the sector index was sitting around 14 times the earnings. He kept buying more and suddenly found out that the reason it was fetching only 3 times earnings was that earnings were zero and the company went bust. His fund holders ran for the hills, and he is back on Wall Street and a two hour commute each way. P/E is an awful way of measuring value. A stock with a P/E of 70 can easily be better valued than a stock with a P/E of 3 if the earnings growth is there to support it, but the P/E narrative runs throughout the stock market industry.

On VectorVest, the metric Relative Value (RV) is a precise measure of value, in that it looks at the future, while P/E looks at the past. RV is an accurate measure of the long-term price appreciation potential of a stock in relation to what a AAA Corporate Bond will pay over the same period of time. It incorporates a measure of future earnings into the calculation. RV includes the price of the share today, earnings growth, risk and corporate bond rates to arrive at a value on a scale between 0.00 and 2.00. In my investing and trading, I rarely look at stocks with a RV of less than 1.25. RV drives the share price.

The detail of how to value stocks is dealt with in detail in Chapter 4 of Dr. DiLiddo's book.

GREED...INTENSE DESIRE TO INCREASE ONE'S WEALTH.

There are many vendors on the internet who are either scoundrels or simply just don't know enough about markets. They sell worthless stock market futures and forex market get rich quick trading systems. They prey on the

vulnerable late in the evening after a bad day on the markets, saying that if you had done the following then you won't suffer a loss again. Most of these systems promise a 90% hit rate but are hazy on risk and reward. Years back, I attended a sales seminar of one of these guys. It was so full that the organizers had to use a west end cinema to house the people.

The pitch was simple in that the system was correct 90% of the time, which is seductive for sure. In the fine print of the system tester, I noticed that the risk per trade was 90 points while the target was 10 points. If you have read my Essays over the years, the concept of trading expectancy should be clear. If not, please revisit my talks at the Tampa Two-Day Investment Seminar in January 2023. Simple expectancy means making more cash when you are correct than you lose when you are wrong.

In ten trades:

$9 * 10 = 90$ points when correct

$1 * 90 = 90$ points when wrong

The much-hyped system, in fact, does not make any money and it was on sale for 3000 pounds.

In the UK stock market, there are many folks who on initial contact seem to be careful analysts and write and post on social media about small AIM type stocks. They were new to me when I returned to the UK, as they are not common in South Africa or at least were not when I left.

These influencers are incentivized by the companies to pump up share prices and they are everywhere on social media. Be very careful about taking tips from these people without subjecting their comments to a thorough VectorVest vetting.

Risk is always present and managing risk is the key to surviving and then thriving in the markets. I sometimes feel like a broken record as I emphasize this each Monday afternoon. Size your position so a maximum of 1% of your equity will be lost if the trade doesn't pan out. Focus on asymmetrical risk to reward positions. Positions where you should pocket 3 times your risk.

If you can be correct 60% of the time, then you have a business that has a positive expectancy, and it will make money for you on a consistent basis. Here are the sums again for 10 trades.

$6 * 3 = 18$ when you are correct

$4 * 1 = 4$ when you are wrong

In ten trades you make $18 - 4 = 14$

Thus, in each trade you make 1.40. That means in practical numbers that you make £1.40 for every £1 pound risked. Results equal happiness.

I will continue with the remaining sins shown above over the next month.

2023-03-10

Get the Basics Correct for Easy Progress in Your Trading Business

1. How much money is in your account? If you don't know how much money you have allocated to your speculative trading account, then you cannot size your positions correctly. If you cannot size your positions correctly, you are gambling and not trading.

2. Never risk more than 1% of your account in any trade. Use a stop-loss order for each position. The VectorVest program calculates a Stop-Loss for each share listed on the LSE and AIM each day. The risk is the amount of cash lost if the share should fall from the entry to the stop-loss level. As a rule, split your capital into 10 portions and then vow never to lose more than 10% of each position should that position move against you. Careful and disciplined risk management is the difference between winning and losing in stock trading. If you don't trust yourself to action the stop-loss, then orders can be placed on many trading platforms to accomplish this automatically. Never underestimate the power of the ego within us all to "give it another day." All disasters start with a single missed tackle.

3. Spread the ten positions across the entire market and don't hold any more than two positions out of the ten in any single sector or area of the economy.

4. Never let a profit turn into a loss. I advocate exiting half the position when you have made as much as you have risked. Then get the stop-loss to entry and let the second half run with the stop-loss trailing upwards behind the price. To illustrate, let's assume we purchase a stock at 10 pounds and VectorVest calculates that the Stop-Loss is 8.50. When the position has moved to 11.50, we have made as much as initially risked. At this point, bank half and

then move the stop to entry. You now can make money with NO risk on the second half and that's a great feeling.

5. Trade only in the very best shares. Those shares in my humble opinion should be undervalued by the market and growing earnings per share (EPS) strongly. Warren Buffett's mentor says that EPS growth is the engine that drives the share price. Ben Graham argues that companies that are growing EPS strongly can spend money on acquisitions, research into new and better products and attract the best talent. VectorVest, in a few keystrokes, can find undervalued shares that are growing earnings strongly. It's like a football team. Fill the team with great players and that alone will help the team do well. Fill your portfolio with shares with great fundamentals and you are well on your way to success.

6. Never buck the trend on any stock. The stock should be in a strong upward trend. Undervalued shares that are growing EPS strongly and breaking upward through a 52-week high are the basis of a very successful stock and simple trading system. On VectorVest, there is a unique and proprietary metric called the Comfort Index (CI). The CI finds shares that are in the throes of a strong upward trend with a single click. Shares with great fundamentals which also have a high CI can be built into a UniSearch in VectorVest and found easily. I am not suggesting that we do not buy a pullback in an upwardly trending stock with great fundamentals, but rather emphasizing the need to have a strong trend at your back.

7. Never buck the trend of the overall market. The most important thing to know is whether the market is rising or falling. Everything follows from that. Some traders and investors use a moving average on the indices to time the overall market. The problem is that markets move like fairground rollercoasters. They take a long time to rise but fall quickly. Moving averages on the indices don't do a bad job on the entry but tend to be slow when it's time to get out of the market and into cash or be short. This is due to the lagged nature of the moving average calculation. On VectorVest, we have several unique and totally objective Market Timing systems that react quickly

to market conditions. There are systems for swing traders and longer-term position traders and investors. There is a good time to be buying shares and an awful time to be buying shares and, for success, you need a system that's easy to use to tell you when. I review Market Timing of both the UK and US in the Q&A sessions each Monday afternoon at 1:30 pm UK time. As I write on the 7th of March 2023, the Primary Wave, DEW and the Confirmed Call signals on VectorVest are Up after being negative for buying stocks for several weeks. Focus on the present moment, manage this moment well and the future will take care of itself. For most of us, the present moment is a daily bar and the daily advice from the Home Page of the VectorVest program.

8. Trade only in active markets. Keep out of slow and illiquid stocks. Risk management is the core of consistency in stock market trading and if the share is poorly traded there may not be a bid in sight. A filter can be added to exclude shares with poor trading volume as a line within all the UniSearch variants on the VectorVest program.

9. The all new VectorVest Near Perfect Indicator (NPI) lays out a simple system for entry and exit to these stocks that are liquid and that have strong growth metrics. The technique was discussed in some detail at the latest Tampa Two-day livestream Seminar. I also cover the technique each Monday afternoon. The standard NPI layout is color coded and in its basic form dictates exact entry and exit criteria. The NPI combines a very strong measure of momentum with a high number of winning trades. The latter is the definition of a positive expectancy system. Combining the NPI signals with divergences between the price and the RT40 indicator can add to both the hit rate and the risk to reward. I have written about this in my Essay two weeks ago.

If you develop the patience and discipline to follow the above pointers, then your success as a stock trader is ensured.

2023-03-17

The Seven Deadly Sins— Part 2

Recently, an extra chapter has been added by Dr. DiLiddo to his book “Stocks, Strategies & Common Sense.” The entire book including the new chapter can be downloaded from the “Welcome” tab of VectorVest. The chapter is entitled “The Seven Deadly Sins of Investing” and starts on page 12 of the book.

Dr. DiLiddo defines a sin in the first paragraph.

“A sin, however, is a highly reprehensible act against religious or moral law. Sins occur under a wide variety of circumstances. Deadly sins spur other sins.” He goes on to say. “Consequently, Deadly sins have morphed into an insidious narrative, which is being used against you and inadvertently may be used by you. Therefore, it is vital that you know what they are and how to defend yourself against them.”

The Seven Deadly Sins of Investing are:

1. Hypocrisy
2. Deceit
3. Greed
4. Sloth
5. Wrath
6. Pride
7. Envy

These are huge topics. In this week’s Essay, I will continue with Sins 4 and 5 and then tackle the remainder over the coming weeks. Sins 1,2 and 3 were covered in my Essay of the 3rd March 2023.

Sin #4 SLOTH...LAZY, CARELESS, HALF-HEARTED BEHAVIOR.

Many speculators and lazy investors look for an “Easy Button,” where they can buy or sell anything based upon guesswork. Many put much more effort into planning their holidays than into planning their trades and investments. They are surefire losers, and unfortunately, there is a mass of false advertising on the internet which adds to the belief that “Easy Money” is possible over a length of time. Anyone can place a winning trade. A drunk off the street can place a few winning trades, but becoming a consistently winning trader and investor over a period of years and decades takes work, consistent effort and resilience.

Last week, I wrote about the basics of investing and trading with VectorVest where there is little or no guesswork. That would be a good starting point for a trading plan. Here are some pointers which will help you take responsibility for your trading.

1. Spend a weekend defining your trading plan.
2. Treat trading like a business.
3. Use the VectorVest metrics to define rising quality stocks in rising markets.
4. Protect your trading capital and size your positions carefully.
5. Study the markets and follow the Daily Color Guard Report and the weekend “Special Presentation.” Repeat the Successful Investing Quick Start Course frequently.
6. Always use a Stop-Loss.

At VectorVest, the prescription is simple and robust and based on hard cold objective numbers. The mantra of undervalued stocks that are growing earnings both strongly, and rising in price safely may seem boring, but it will make you a winner in the stock market and avoid sudden selloffs such as WAND.L that occurred last week. The stock was trading at 13 times the VectorVest calculated Value. Stock investing is not boring when you can live off it.

Take good care of your money or it will find a new owner. The starting point is a trading plan that's proven to make much more cash when its correct compared to when it is not. That's a trading plan with a positive expectancy.

WRATH...UNCONTROLLED FEELINGS OF ANGER, IMPATIENCE.

It is vital to control your emotions, rather than let them interfere with your trading decisions. It has often been said that fear and greed are the true motives behind market behavior, but other emotions, such as anger and disappointment are also powerful emotions that influence our decisions.

The four fears in trading are:

1. Being wrong.
2. Losing money.
3. Missing out.
4. Leaving money on the table.

Fear is probably the most frequently talked about feeling we face while trading. It manifests itself in several ways as noted above and could lead to many behavioral biases that eventually cause trading mistakes.

When a trade turns against you, the fear of losing your hard-earned money drags traders into delaying the realization of a loss, which eventually turns into bigger losses. When it comes to profitable trades, fear that the trend might suddenly reverse makes traders close winning trades too early. We seem to have been hard wired by the creator to get this process the wrong way around and let our losers run and snap at our winners. When you are in a losing position, there is always a ray of light, the slightest sign of hope that the trend will reverse in your favour and your loss will turn into profit.

Some years back, I investigated the trades of many thousands of traders. The objective was to get a handle on how the winners stayed winners over several months and years. At first, we thought it was knowledge, but quickly the results showed that not to be the case. We found that the consistent winners simply thought differently from the losers.

In an underwater position, the losing traders would become optimistic and give it another day/week/month while the winners would become quickly pessimistic in this losing situation and exit.

In a winning trade, the losers would become pessimistic very quickly while the winners would become optimistic. The losers would snap at their good trades, scared stiff that the money will disappear, while the winners would hold and add to positions that were moving in their favor.

In your next trade, please observe your thoughts and try and become optimistic about winning positions and become quickly pessimistic about losing positions. That's what the consistent winners in my study exhibited.

2023-03-24

Trend Within Trends

The overall UK market is represented in VectorVest by the Price of the VectorVest Composite UK (VVC/UK). It is an arithmetic indexed average of the over 2000 shares that we follow on the LSE and AIM.

In these Essays, I have reviewed the VectorVest Market Timing Systems on numerous occasions. I also review the Market Timing Systems each Monday afternoon at the weekly Q&A sessions. There are systems for short-term traders and systems for position traders and thus the title of this Essay.

Of vital importance is the change from a down market to an up market which takes place in a very ordered fashion. The change from an up market takes place in a similarly ordered fashion. The order of the turn in trend is repeated below from a situation where all the Market Timing Systems are printing Dn. That's where we are as I write on Tuesday 21st March 2023. It's a great opportunity to practice our skills in detailing the turn up from the current selloff which will occur at some point as sure as day follows night, especially as the markets on both sides of the Atlantic are printing mega oversold technical signals. The order is repeated below:

1. Primary Wave.
2. Green Light Buyer.
3. Green Light with a Black Star (RT Kicker system).
4. DEW.
5. Underlying Trend ($MTI > 1.00$)
6. Confirmed Call.

When will you jump onto the wagon? I firmly believe that being on the right side of the market is 70% of the exercise in successful stock market investing.

Aggressive traders will opt for the Green Light Buyer for example, while more conservative swing traders such as I, will wait patiently for the DEW to

print a Buy signal. There is no right or wrong here. Entering a small position with the Green Light Buyer and adding to that position when the DEW prints a Buy signal is an entry method favored by many of the experienced VectorVest UK subscribers. Adding to winning positions and culling losing positions quickly is the skill set used by the world's top traders. Unfortunately, we seem to have been programmed to do the exact opposite, and for more on that, please read last week's Essay on the Seven Deadly Sins of Investing.

The decision of which VectorVest Market Timing System to use is a vital part of your trading plan. In dealing with retail clients over the past 40 years, I have never met a trader that didn't have a strong internal resistance to committing a trading plan to paper. When you sit on an airplane it's common to hear the Captain say, "we are just finishing off the paperwork up here and we will be taking off in the next few minutes." That's his plan nearly done. We spend months planning our holidays and sit in long meetings with architects on the plans for a new house, but wing it with our portfolio. I see the latter daily and frequently any comments from your humble correspondent on this leads to an emotional outburst and angst in the air.

Experienced traders may have two plans for two different portfolios. An aggressive plan and a more conservative plan. My long personal experience suggests that it's best to keep these housed at two different brokers to avoid or help to avoid allowing a short-term trade that went wrong, turning into a long-term hold. The latter is much more common than you would imagine.

My own plan is relatively simple:

1. I use the DEW Market Timing system.
2. I look manually for stocks that are undervalued, growing earnings strongly and reasonably safely. This process was taught by Susan Thornborough at our Wednesday evening webcasts but can be easily written in UniSearch. To start with, have a look at "Super Stars" in the Prudent folder. In Super Stars, the Relative Safety (RS) is 1.25 and I am personally comfortable with reducing this metric to 1.10.

3. The candidate stock should be rising on price and on a VectorVest Buy Recommendation. I also filter the trend using my three moving averages 21ema, 55ema and 89sma. When the 21 crosses above the 55 and both cross above the 89 that's known as a "Bow Tie."

4. I make use of the Stochastic indicator to finesse an elegant entry point into the trend. This occurs when the Stochastic falls below 20 on a scale between 0 and 100. Many oscillators (RSI and MACD) can be used to finesse an entry and the Near Perfect Indicator signal defines a high probability entry point. I include several examples of the latter in the weekly Q&A presentations. A pullback to a recent swing high when the Stochastic is oversold would be first prize and it occurs frequently. Again, I point these out at the Monday Q&A sessions.

5. I use the VectorVest calculated Stop to size the position so that if the trade goes bad, I will lose only 1% of my capital.

6. To start with and in poor turbulent conditions such as is the case now, it's best to scale out of positions. My suggestion is to exit half the shares you own when the position has gained as much as the initial risk. Remember, the risk is the difference in cash between the entry point and the VectorVest calculated Stop-Loss. If you bought a share at £10 and the VectorVest Stop was at £8.50 then the risk is £1.50 per share bought. When the position moves north to £11.50 it's made in profit as much as the initial risk.

7. At this point, sell and bank half the position and at the same time increase the stop to the entry point on the remaining half of the position. Then do your best to let the second half of the position run using the VectorVest Stop-Loss as a trailing ratchet stop. Swing traders may use Fibonacci (FIB) extensions to plot high probability short-term targets especially in leveraged spread bets. Personally, I try and let my unleveraged share trades run with a trailing stop while using FIB extension on spread bets to sell into strength.

I hope this helps with your personal plan.

2023-03-31

The Seven Deadly Sins— Part 3

Recently, an extra chapter has been added by Dr. DiLiddo to his book “Stocks, Strategies & Common Sense.” The entire book including the new chapter can be downloaded from the “Welcome” tab of VectorVest. The chapter is entitled “The Seven Deadly Sins of Investing” and starts on page 12 of the book.

Dr. DiLiddo defines a sin in the first paragraph:

“A sin, however, is a highly reprehensible act against religious or moral law. Sins occur under a wide variety of circumstances. Deadly sins spur other sins.” He goes on to say. “Consequently, Deadly sins have morphed into an insidious narrative, which is being used against you and inadvertently may be used by you. Therefore, it is vital that you know what they are and how to defend yourself against them.”

The Seven Deadly Sins of Investing are.

1. Hypocrisy
2. Deceit
3. Greed
4. Sloth
5. Wrath
6. Pride
7. Envy

These are huge topics. In this week’s Essay, I will finish with Sins 6 and 7.

PRIDE...IRRATIONAL BELIEF IN ONE'S ABILITIES, REFUSES ADVICE.

Some years back I conducted a seminar on stock trading in Cape Town. At a 2-day event, I encountered a very arrogant and well qualified fellow who insisted that my focus on risk was for old men only. He thought that he could predict the market on a trade-by-trade basis. He was from a wealthy family with a large "home office" denominated in the main currencies of the world.

Within several months he lost most of it taking large, overleveraged bets in the forex and commodity markets.

As I have often repeated in these Essays, the market is random at the level of a single trade, but very predictable over a series of many trades. If you apply the VectorVest edge in a manner such as I presented in last week's Essay, then you will have many more winning trades than losing trades and the winners should be much larger than the losers. This is the basis of a positive expectancy system. The market still cannot be predicted on a trade-by-trade basis and what's more, that lofty goal is not necessary to make steady and reliable income.

Most fortunes are lost after a run of good luck. Between our ears we have a gland known as the pituitary. The pituitary is an endocrine (hormone-producing) gland that sits just beneath the base of the brain, behind the bridge of the nose. It is very small and is only about the size of a pea. It secretes hormones from both the front part (anterior) and the back part (posterior) of the gland. Hormones are chemicals that carry messages from one cell to another through your bloodstream. These chemicals are responsible for every emotional state that we encounter daily from falling in love, to the high we achieve when leaving the gym after a bout of exercise.

After a good trade, the pituitary gets to work and sends out chemicals into our blood stream which makes us as traders feel good after a win. When we get several wins in a row (a run of good luck that's got little to do with our talents and capabilities) these feelings increase and it's very easy to become euphoric and start to feel invincible. When this occurs, the reaction is

invariably to increase the bet size and wager much more than the VectorVest recommended 1% risk per trade. I know traders after a good run start to move up the risk to 5 to 10% plus of their capital on a single trade. They come back to the ground with a bang after a few losses. At the institutional level, many risk managers (not traders) monitor the susceptibility of the traders under their control to euphoria. One of the biggest differences between trading at the institutional level and the retail level is that at the retail level you must become both the trader and the risk manager and measure and manage your own susceptibility to euphoria.

To eliminate this Sin please follow the VectorVest edge of focusing on undervalued shares that are growing earnings strongly and safely that are on a Buy recommendation. Be very strong in the market when the market is rising and timid when the overall market is falling. Risk 1% on each trade and keep an up-to-date trade-by-trade written trader's diary and become aware of your thoughts. I have written about the benefits of a trading diary in my Essay of February 3rd, 2023.

ENVY...COVETING THE SUCCESS, STATUS, OR TRAITS OF OTHERS.

Over the years, I have met a lot of colorful characters in this business. Early on, one such character who had completed one of my early courses done at the University of Stellenbosch, just outside Cape Town, started his own hedge fund. I must admit to feeling quite jealous of the glamour, articles, and applause he was receiving in the financial press of that country. He seemed to have developed the ability to do what I said was impossible. He was predicting the market successfully on a trade-by-trade basis. Around six months later he was admitted to Pollsmoor prison and please just trust me that's not a place you ever wish to visit. I found out later that he was convicted of running a "Ponzi" scheme. The investment world is full of hot air. All that matters is your account and growing that account consistently year-after-year. There will be great years like 2020 and 2021 and poor years like 2022. The big winners will have the resilience to keep plugging away. My resilience is my biggest edge.

Each evening I get adverts from lots of vendors while I am trying to listen to some music on YouTube. Adverts on stocks, options and forex trading. The fellows are either on their Scottish castles or playing polo with Prince William. Many are selling the long-lost secrets of WD Gann for 5000\$ a pop. Try and forget about this smoke and mirrors and focus on consistently growing your own account.

On January 20th, 2023, I wrote an Essay entitled “Putting Simple Arithmetic to Work in your Wealth Building Journey.” This details how you can consistently grow a small account over a period of years without a lot of angst.

Take the Successful Investing Quick Start Course (SSQCS) which is built into VectorVest under the Training tab. My Essay of last week detailed a sample trading plan and I hope that you have committed your own version of such to a single sheet of paper.

2023-04-06

Growth Stocks and Value Stocks

One of the most interesting questions that comes up frequently at seminars and webcasts is “Why do we have a “B” rating, for example on FOUR.L, when its Price is currently higher than its VectorVest calculation of Value?” It’s a good question, one that comes up all the time.

Four conditions must be met for a stock to get a “B” rating:

- 1) Its Price must be greater than its Stop,
- 2) Its short-term price trend must be up, i.e., Relative Timing, RT, must be greater than 1.00 on a scale of 0.00 to 2.00,
- 3) Its VST-Vector, VST, must be greater than 1.00 on a scale of 0.00 to 2.00, and
- 4) Its Price must be rising faster than its Stop.

The answer lies within VST, our Value, Safety and Timing indicator, which incorporates Relative Value, RV. RV is an indicator of long-term price appreciation potential. For example, FOUR.L has an RV of 1.69, which is excellent on a scale of 0.00 to 2.00. This indicator is far superior to a simple comparison of Price and Value because it is computed from an analysis of projected price appreciation three years out, AAA Corporate Bond Rates, and risk. Chapter 6 of Dr. DiLiddo’s book, “Stocks, Strategies & Common Sense,” gives a step-by-step explanation of how the difference between Price and Value, Risk and Earnings Growth are used in computing RV.

This information is combined with our indicators, Relative Safety, RS, and Relative Timing, RT, using a vector formula to compute VST, our master indicator. Although RV, RS and RT for FOUR.L were all above 1.00 as of the 3rd of April 2023, it is important to understand that it is not necessary for RV and RS to be above 1.00 for a stock to get a “B” rating.

The bottom line here, is that a comparison of Price and Value indicates that FOUR.L is currently overpriced, but its RV of 1.69 indicates that it has favorable price appreciation potential. It is a perfect example of what I feel Dr. DiLiddo was thinking about when he made the title of Chapter 6 of his book, “High Growth vs. Low P/E Stocks.”

How can a share be trading well above its valuation and still have an RV of 1.69, I am asked repeatedly? I explain this very simply. If the share price stays at its present value and the earnings are booked at the rate VectorVest anticipates for FOUR.L (GRT = 42%) then sometime within a 3-year window FOUR.L will be significantly undervalued. So, the share in simple language has run past the current valuation, but over a 3-year horizon there is plenty of upside. FOUR.L has been very kind to me and for position traders there would seem to be much left in the tank.

Way back in 2012, Ted Baker (TED.L) was striding upwards. I was new to the VectorVest method and new to the UK market in general. I wanted to buy TED.L, but never did because its Price was well above Value. As time went by, I encountered many other hot stocks (e.g.

FEVR.L) that were just the same. They were overpriced, but just kept going higher and higher in price. Finally, I realized that all the ones I wanted to buy were stocks of companies with good business models and sky-high earnings growth rates.

It's of note that both stocks ran out of steam and fell hard in price when the earnings growth faltered. Investors in growth stocks need to be diligent and manage risk carefully and closely. If this is not for you, then please stay away from growth stocks.

My RV analysis now makes it easier for me to see which of these stocks I would consider buying. If Price was greater than Value and RV was well above 1.00 (I use a minimum value of 1.25 in my UniSearch), I would now consider buying it, although I knew it was selling at a premium price. I also knew that these stocks were in high demand from the price and volume data and savvy investors were willing to pay for the promise of future growth. These shares

should be bought as they are breaking upwards through a multi-week high when the overall market is positive.

Investing in growth shares is an exciting way to build wealth for hands on traders and investors. It will take more focus and dedication than the Worry-Free Investing Method (WFI) which focuses on undervalued stocks with high values of Relative Safety (RS), but should result in much higher gains over the years. As we are dealing with shares that are overvalued, stop-losses need to be actioned without fear or hesitation.

Have a great Easter weekend!!

2023-04-14

The Most We Can Hope For

The most we can hope for is to create the best possible conditions for success, then let go of the outcome.

“The essence of portfolio management is the management of risk, not returns,” said Benjamin Graham. Graham is the father of value investing and his book, “The Intelligent Investor,” is often cited as the primary inspiration of Warren Buffet and many other renowned traders and investors.

In simple terms, the asymmetric risk is the notion of taking a risk that will generate a profit that is bigger than the risk taken. I have written about the concept many times in these Essays as I view this concept as the most vital route to becoming a consistent winner. In other words, an asymmetric risk/reward profile happens when we have a disparity between the risk taken and the potential reward. A positive asymmetrical risk/reward profile happens when the potential profit is bigger than the potential loss. Risk a little, make a lot is the motto of a winning trader and investor.

If you risk £500 and have the potential to win £2,000, you have just made an asymmetrical trade. As per my many Essays on position sizing, you should have risked 1% of your capital to capture a gain of 4% of your capital.

The ability to find asymmetric trades is the true skill of trading. We all need to develop our skills to identify and then have the patience to wait for the best asymmetrical trading opportunities.

The most difficult part is to stay disciplined and let the asymmetric trading opportunities show up rather than force a trade.

Even though this idea is simple common sense, most people fall into the trap of making symmetrical trades on the stock market or worse.

Many investors commonly risk 1% of their capital in the pursuit of a 1% return on their capital. Or even worse, they risk 1% of their account in the pursuit of a 1/2% return. I haven't been able to make consistent money as a scalper risking a pound to make 50p. I am not saying it cannot be done, but to succeed, the trader needs a win rate that's hard to achieve in practice.

"After spending many years on Wall Street and after making and losing millions of dollars, I want to tell you this: It never was my thinking that made the big money for me. It always was my sitting. Got that? My sitting tight!"

—Jesse Lauriston Livermore.

This quote sums up what is required to build an asymmetrical risk/reward portfolio. The quote is taken from the book "Reminiscences of a stock operator." Much of the strength required to engineer asymmetrical risk/reward trades are emotional rather than analytical.

Stocks with the potential to massively appreciate, offer asymmetric risk/reward profiles. Stocks that are undervalued on VectorVest with a high Relative Value (RV) are excellent candidates for an asymmetrical risk to reward portfolio. Stocks like JD Sports (JD.L), Games Workshop (GAW.L) and Liontrust (LIO.L) have produced magnificent risk to reward trades and investments over the past few years and will do so again when the time is right. Many new stocks that we have never heard of will burst on to the VST ranking page as the new bull market begins. The latter may not be in place yet, but I am sure that we are much closer to the end of the bear market than we are to the start of it.

The basis of the VectorVest Investing technique is top focus on the very best shares. Those shares with an excellent Relative Value (RV) greater than 1.25 and a fair Relative Safety (RS) of greater than 1.10. This finds shares with the potential to increase their share price that have an outstanding track record of financial strength. This is a great place to be and a great place to start your search for high reward to risk opportunities. A simple UniSearch with these parameters will find stocks to this specification in a single mouse click.

To find an explosive move on a consistent basis (a drunk can get lucky) three facets of the market's behavior should be in place. These are, as often stated:

1. The overall market should be rising. Take your favourite stocks and overlay the Confirmed Call Market Timing System. The stock will invariably start to move with momentum as soon as the green arrow that indicates that a C/Up has been printed. As I write this Essay on the 11th of April 2023, KITW.L is the highest rated stock by the Master Indicator, VST. The stock is shown below. Please overlay the Confirmed signals from the drop-down menu on the bottom left of the screen. When the last C/Up was printed, KITW.L was trading at 169p. Since this time, the stock has risen to 273p. The initial stop was approximately 12p and thus to date the trade has achieved a risk to reward of $104/12=8.7$. I firmly believe that Market Timing is 70% of the exercise of finding asymmetrical risk to reward trades.



2. The stock should have strong growth fundamentals. I covered this last week and each week in the Q&A webcasts. The share should have a high metric for Relative Value and Earning Growth Rate (GRT). Last

November, KITW.L had an RV of 1.43 and a GRT of 27%. The share was much undervalued by VectorVest.

3. The share should be rising in Price and on a VectorVest Buy Recommendation. This occurred one day before the C/Up signal on KITW.L.

If the above are in place, then the mental game begins. I have found that most traders have no real problems in pulling the trigger and getting into the share. The real game begins at the first little pullback, down day, or piece of poor news. Most will snap at a small winning position. There appears a little devil on our shoulders shouting “take the money.” Here is a contrarian statement for all reading. You can go very broke taking quick profits.

Remember, the money is made by sitting and not thinking. Even the strongest stocks in the strongest markets do not rise in a straight line. They rise by charting a series of waves and a series of rising low points. Position traders will need to develop the discipline to sit through these as was the case in KITW.L as it proceeded upwards.

The VectorVest calculated Stop-Loss does a great job in keeping the position trader in these positions to financially benefit from high asymmetrical risk to reward trades. The VV Stop-Loss endeavors to weave a fine line between keeping you in a winning position and protecting your capital. Experienced traders will know that this is a very fine line indeed. The VV Stop-Loss has done an excellent job on KITW.L.

2023-04-21

The Study of Trends and Turning Points

My definition of technical analysis is that it is the study of trends and turning points. In technical analysis, there are only four things that can be measured. These are:

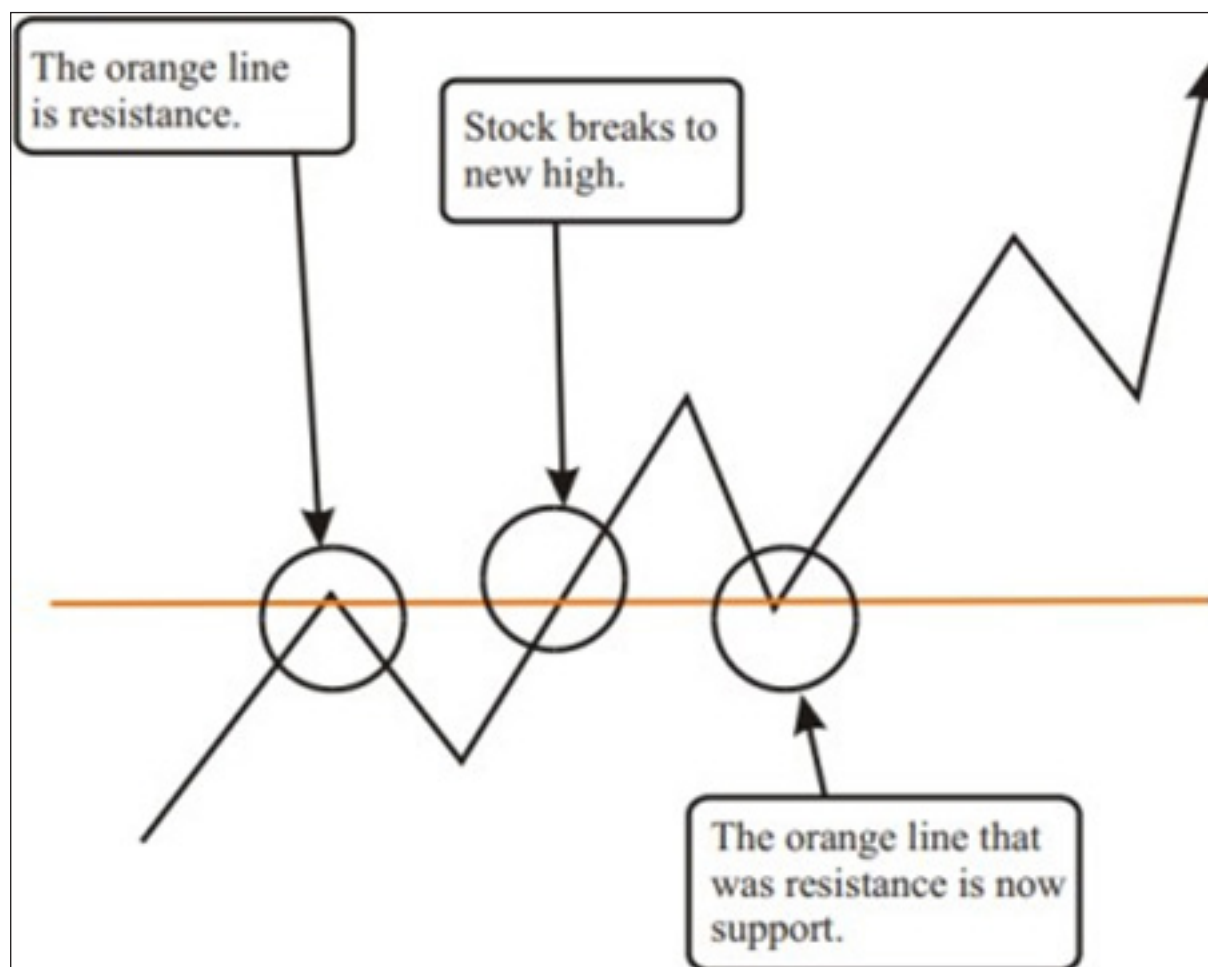
1. Price
2. Volume Traded
3. Momentum (First derivative of the share price)
4. Time (when the turn will take place or cycle theory)

Within 1 above, a key concept is that of support and resistance. This technique, which is exceptionally simple, is the basis of much of the analysis used by market makers and price makers such as the large funds. There are two main types of people in markets. Price makers and Price takers. We are the latter.

Support and resistance levels are important points in time where the forces of supply and demand meet. These support and resistance levels are seen by technical analysts as crucial when determining market psychology and supply and demand. When these support or resistance levels are broken, the supply and demand forces that created these levels are assumed to have moved, in which case, new levels of support and resistance will likely be established.

A key concept of technical analysis is that when a resistance or support level is broken, its role is reversed. If the price falls below a support level, that level will become resistance. If the price rises above a resistance level, it will often become support. As the price moves past a level of support or resistance, it is thought that supply and demand has shifted, causing the breached level to reverse its role.

In simple terms, if resistance is broken and the share breaks higher, then it's good practice to wait for a pullback to the old high or resistance point to enter. The technique has been around for years and 100 years ago Richard Wyckoff referred to the concept as a "sweet spot." The concept is shown diagrammatically below.



The technique can easily become the entry point of an excellent swing trading technique. Let's think of some filters to help the accuracy and improve the risk to reward and thus the overall expectancy of the technique.

Firstly, the stock should possess excellent growth metrics. On VectorVest, this translates into a Relative Value of greater than 1.00 with a forecasted EPS plot that's rising smoothly over a one- year period at least.

Secondly, the stock should be trending upwards strongly with a Comfort Index of greater than 1.00. In my case, I apply my three moving averages to the chart. These are 21ema, 55ema and 89sma. When the 21 is above the 55

and both are above the 89, then there is a strong trend in place and buying in, where previous resistance has now become support is a very profitable technique. Where the averages cross that's known as a "Bow Tie."

Experienced floor traders who use the technique would be taught to simply Buy the level (old resistance level) with no confirmation of a turn. More conservative traders may wish to enter after a green bar or candle pattern which confirms the turn.

Swing Traders need only a single technique to become profitable. This could easily be the technique. A recent example is shown below on the UK share Costain Group (COST.L).



Costain is a recovery stock which has suffered from many calamities over the past years.

Over the past year, forecasted EPS has risen from 8p to 11p. The Bow Tie where the moving averages crossed is shown by the arrow on the above chart. As COST.L broke above the obvious resistance, volume ticked up and that's a very good sign.

The share then pulled back to the previous resistance on low volume and that again, is a very good sign. Traders experienced in the sweet spot trading

technique (and that's all the institutional traders) would have been buying into weakness at 45p. Note the advance on very large volume from the entry point.

The Sweet Spot trading technique is as old as stock trading itself. It's hard to execute as we are buying after a period of weakness, where our mind keeps reminding us that it may not be a pullback, but a change of trend. Adding the VectorVest fundamentals plus a strong measure of the longer-term trend helps the accuracy of the technique as does a basic understanding of price and volume relationships. I have covered the latter on many occasions.

Although it's not a part of the setup, I am trying to communicate COST.L is now trading within a "ascending triangle" formation on low volume. That's saying to me that there are few sellers and sooner or later the probabilities favour more upside.

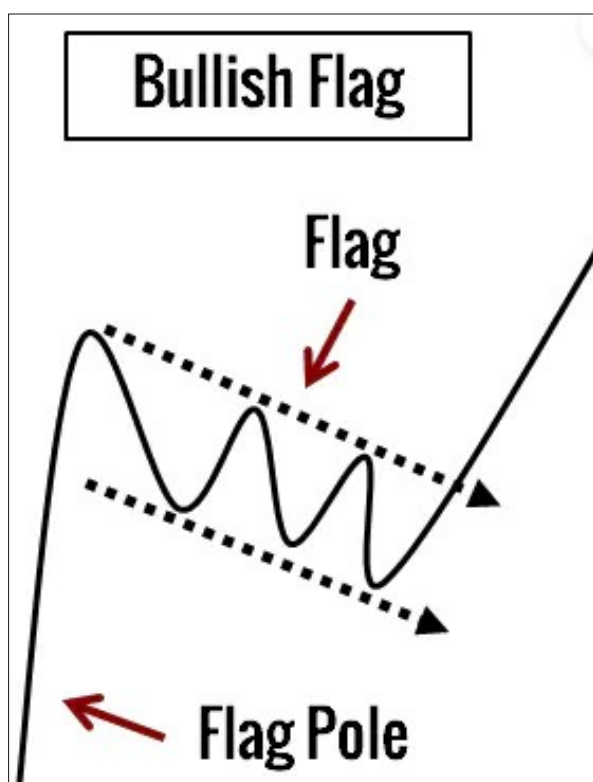
2023-04-28

My Favorite Trading Pattern

I am asked repeatedly about the trading setup that's made the most money for me over the years. I answer without hesitation, that it is the "Bull Flag." Many are disappointed by this. They are hoping for something much more complicated than a pattern that's discussed in pretty much every trading text and course. Please remember that my objective is to consistently make money and not to be clever or solve the puzzle.

The bull flag price pattern is a popular continuation pattern. In this Essay, I will try and describe the pattern and add several VectorVest guidelines to help you identify high probability opportunities and finally present a setup in action presently.

The bull flag is a classic price action pattern for trading pullbacks. A picture will save a thousand words and the pattern is shown diagrammatically below.



There are principles that a “Bull Flag” should follow to ensure consistent success and they are as follows:

1. There must be an existing bull or rising trend in place. The flag pattern does not pinpoint the start of a trend, but rather positions the trader to profit from a resumption of the trend after a sideways to down consolidation. The rise from the market low to the start of the flag pattern is known as the “Flagpole.” For the best results, the Flagpole should occur on rising volume. I also use my 21ema, 55ema and 89sma moving average system to indicate that the longer-term trend is still in place.
2. The flag pattern or pullback invariably has a sub structure of five waves, but in many cases, these are hard to spot. What is vitally important is that the pullback within the flag should occur on low volume relative to the volume visually seen in the Flagpole.
3. Fundamentals matter. In my WatchList of shares, forecasted EPS should be growing strongly and certainly over the last year, EPS should be rising from the bottom left to the top right of its window on my standard VectorVest layout as shown below. For a refresher on this, please review Lesson 4 of the Successful Investing Quick Start Course (SIQSC) which is located under the Training tab. In my investing and WatchList construction, I personally search for stocks with a Relative Value (RV) greater than 1.25 with a fair to good Relative Safety (RS) rating of greater than 1.10.
4. Over the last 12 years of working with VectorVest, I have noted that if forecasted EPS is rising when the stock is retracing (pulling back or falling) within the flag that this greatly increases the probability of a clean breakout and a successful trade. Fundamentals are vital and by combining the best of both worlds (fundamental and technical) we can achieve a positive expectancy system relatively easily. The only problem can be the discipline to wait or stalk these perfect trades.

5. The overall market should be positive for buying stocks. As often discussed here, I personally use the medium-term Market Timing system known as the DEW to indicate when it's safe to buy stocks and when it is not. All the VectorVest systems from short-term to long-term are discussed in much detail for both the UK and US markets at the weekly Q&A sessions. These are normally on a Monday afternoon but have been changed due to the bank holidays ahead. The next is scheduled for Wednesday the 3rd of May at 1:30pm UK time. As I write on the 26th of April, the DEW is on a Buy signal. Market Timing and knowing when it's safe to buy stocks is 70% of the exercise in reaping consistent profits.
6. The entry point is a close above the trendline defining the tops of the flag pattern. Use the VectorVest calculated Stop-Loss to size the position.
7. The Flagpole is used by chartists to calculate a technical target from the move. Simply calculate the height of the flagpole (from the low to the high prior to the flag pullback) and then add this to the breakout level. These targets will be calculated by most City analysts and are highly self-fulfilling.

Last week, I wrote about the “sweet spot” setup and how previous resistance can easily become new support. It's common for the flag pattern to find support at this level as we will observe below.



The above stock shown is the highest rated UK stock in the database as defined by our Master Indicator, VST. KITWL is in the throes of a strong upward move as defined by my visual examination of the moving averages and by the VectorVest metric, known as the Comfort Index (CI) which prints an excellent value of 1.62 on a scale between 0.00 and 2.00.

Please note that the share has retraced in a flag pattern to the previous old high. Also please note that volume rose in the move up during February and March 2023, while in the flag retracement volume is low. Over the past few days as the share has rose, traded volume has increased significantly. The share looks ready to break out much higher. I speak about probabilities and not certainties.

Last week, I wrote about COST.L and failed to point out the textbook advance from a flag pattern. The share is shown below with the blue vertical line showing the simple construction of the target for the trade. Targets calculated in this way are known by technical analysts as “measured moves.” Over the last few weeks, I have entered trades in FOUR.L and JET2.L using a Bull Flag pattern as the entry point, and they are all prospering.



2023-05-05

Finding a Friend in the Trend

I have written on many occasions about building a systematic edge as a precursor to becoming a successful and consistent investor or trader. If you do not have an edge in markets, you will likely lose in the long run. It is a mathematical certainty. What is an edge? Simply put, an edge is a system of discovering buying opportunities that results in your system making much more when it's correct than it loses when it is incorrect. As I have written here many times, this is referred to in trading books as a positive expectancy system. In other words, if you apply the system rules without fear or hesitation repeatedly, you most certainly will not win every trade, but you will come out ahead on the P/L over the long run.

In most seminars I ask the following question: Are casinos in the gambling business? The response is varied, but casinos are most definitely NOT in the gambling business. They have quantified their edge in the various casino games to several decimal places. The casinos have constructed rules and police these rules to ensure a positive expectancy system is in place.

Casinos are a great metaphor for your trading business. The casinos have a positive expectancy system, simply play the game and build cities out of the proceeds. The punter putting the one- pound coins into the slot machine is playing a negative expectancy system game. The longer they stay, the more broke they become.

VectorVest's edge is trend following. I personally only apply trend following techniques such as moving average crosses to shares with outstanding fundamentals when (and only when) VectorVest indicates that it is safe to buy shares. I focus on Relative Safety (RS) and Relative Value (RV). High levels (greater than 1.30 on a scale between 0.00 and 2.00) of RS finds shares with an excellent track record of sound and improving financial performance, while

RV levels of greater than 1.25 finds shares that are growing earnings strongly. As noted over the past few Essays, I believe that in this worrying period that our focus should be on shares with a safe track record that have the resources to survive and then prosper from the misfortune of others.

The VectorVest edge is a methodology our founder, Dr. Bart DiLiddo, and his instructors have taught for more than 30 years. It began when Dr. DiLiddo found his edge some 30+ years ago after reading a book called, “Follow the Leaders,” written by Mr. Richard Blackman. Dr.

DiLiddo said, *“This book changed the way I selected stocks and managed my portfolio. On January 14, 2000, I wrote an essay on my awakening and called it ‘Revelation.’ If there ever was an essay you should read, Revelation is it.”*

“Mr. Blackman believed in buying rising stocks in rising industries in rising markets. He advocated buying stocks that were breaking out to new highs.” Dr. DiLiddo wrote, *“I could not believe what he was saying because it was totally opposite to what I was doing. But when I thought about it and when I tried it, I became a believer.”*

THE PRIMARY WAVE. VectorVest’s method of trend following begins with market direction. Dr. DiLiddo’s early studies showed the week-to-week movement of the Price of the broad market, represented by the VectorVest Composite, was significant. When the Price of the Composite is higher than it was one week ago, the Primary Wave is Up and vice versa. It is a fast, yet reliable indicator of a short-term trend that has the potential to develop into a long-term trend.

THE TWO-WEEK RULE. VectorVest discovered a slower, but more reliable signal of market direction and it is obtained by analyzing the two-week movements of the Price of VectorVest Composite. When the Price goes up week-over-week for two consecutive weeks, it gives a preliminary signal of a sustainable uptrend and vice versa. When the trend is confirmed with a Confirmed call, subscribers are encouraged to get in early and follow the trend until it ends.

RISING STOCKS. The 3 main principles of trend following in stocks may surprise you. 1. Buy high, sell higher. 2. Trends in motion tend to stay in motion, so just follow Price. 3. Don't set firm profit targets, let your winners run.

The Comfort Index (CI) finds shares that are in the throes of a strong trend with little volatility. It is indeed a secret weapon. Shares with a high CI (>1.30) are showing a strong and persistent long-term trend. Buying high RS stocks that also have a high CI which are on a BUY recommendation is a simple and easy to follow trading system which can be set up on UniSearch.

The basic mindset or methodology behind a trend following system is that we're going to enter a position that is already persistently rising, such as a VectorVest Buy-rated stock and we're going to stay in that stock if Price continues to move higher instead of exiting prematurely. VectorVest calculates a sensible stop that allows the stock enough room to follow the overall trend but does not allow a substantial loss or give back too much profit if the trend breaks down.

As I write on the 3rd of May 2023, both the UK Market and the US markets are in a Confirmed Down Call. The latter are the longest-term measure of the trend of the VectorVest Composite of the UK and the US and should be taken very seriously. Please watch stops carefully.

2023-05-12

Ten Building Blocks and Five Questions to Build Your Personal Trading Plan

1. How much money is in your account? If you do not know how much money you have allocated to your speculative trading account, then you cannot size your positions correctly. If you cannot size your positions correctly you are gambling and not trading.

2. Never risk more than 1% to 2% of your account in any trade. Start using a 1% risk. If your broker allows them, please use a stop-loss order for each position. These are akin to jumping with a line on your first few parachute jumps. Remember, it's quite simple to jump out of an airplane once without using a parachute, but impossible to complete the jump twice. To have a long life as a trader, please use a stop-loss and manage risk carefully.

The VectorVest program calculates a Stop-Loss for each share we cover on the LSE and AIM each day. The risk is the amount of cash lost if the share should fall from the entry to the stop-loss level. Simply split your capital into 10 portions and then, vow never to lose any more than 10% of each position should that position move against you. Careful and disciplined risk management is the difference between winning and losing in stock trading. If you do not trust yourself to action the stop-loss, then orders can be placed on many trading platforms to accomplish this automatically. Never underestimate the power of the ego within us all to "give it another day." All disasters start with a single missed tackle. Hit the stops hard and low.

3. Spread the ten positions across the entire market and do not hold any more than two positions out of the ten in any single sector or area of the economy.

4. Never let a profit turn into a loss. A simple method of doing this is to exit half the position when you have made as much as you have risked. Then get the stop-loss to entry and let the second half run with the stop-loss trailing upwards behind the price. To illustrate, let us assume we purchase a stock at 10 pounds and VectorVest calculates that the Stop-Loss is £8.50. When the position moves upwards to £11.50, we have made as much as initially risked i.e., £1.50. At this point, sell half and then move the stop to entry. You now can make money with NO risk on the second half and that is a great feeling.

5. Trade only in the very best shares. Those shares, in my humble opinion, should be undervalued by the market and have strongly growing Earnings Per Share (EPS). Warren Buffett's mentor says that EPS growth is the engine that drives the share price. Ben Graham argues that companies that are growing EPS strongly can spend money on acquisitions, research into new and better products and attract the best talent. VectorVest, in a few clicks, can find undervalued shares that are growing earnings strongly. It is like a football team. Fill the team with great players and that alone will help the team do well. Fill your portfolio with shares with great growth fundamentals and you are well on your way to success.

6. Never buck the trend on any stock. The stock should be in a strong upwards trend and on a VectorVest Buy recommendation. Undervalued shares that are growing EPS strongly and breaking upwards through a 52-week high are the basis of a very successful stock and simple trading system. On VectorVest, there is a unique and proprietary metric called the Comfort Index (CI). The CI finds shares that are in the throes of a strong upward trend with a single click of the mouse. Shares with great fundamentals which also have a high CI can be built into a UniSearch in VectorVest and found easily. I am not suggesting that we do not buy a pullback in an upwardly trending stock with great fundamentals, but rather emphasizing the need to have a strong trend at your back. I find that sorting shares in UniSearch by a combination of CI and GRT finds opportunities that satisfy the requirements of pointers 5 and 6 easily and without fuss.

7. Never buck the trend of the overall market. The most important thing to know is whether the market is rising or falling. Everything follows from that. Some traders and investors use a moving average on the indices to time the overall market. The problem is that markets move like fairground rollercoasters. They take a long time to rise but fall quickly. Moving averages on the indices do not do a bad job on the entry but tend to be slow when it is time to get out of the market and into cash or be short. This is due to the lagged nature of the moving average calculation. At VectorVest, we have several unique and totally objective Market Timing systems that react quickly to market conditions. There are systems for swing traders and longer-term position traders and investors. There is a good time to be buying shares and an awful time to be buying shares, and for success, you need a system that is easy to use to tell you when. I have reviewed the VectorVest Market Timing signals in these Essays on many occasions and will do so again in the next Q&A session on 15th May 2023. Focus on the present moment. Manage this moment well and the future will take care of itself. For most of us, the present moment is a daily bar and the daily advice from the Home Page of the VectorVest program. As I write on the 9th of May 2023, the overall market is falling on both sides of the Atlantic and VectorVest advises not to Buy shares at this time.

8. Trade only in active markets. Keep out of slow and illiquid stocks. Risk management is the core of consistency in stock market trading and if the share is poorly traded there may not be a bid in sight. A filter can be added to exclude shares with poor trading volume as a line within all the UniSearch variants on the VectorVest program.

9. Doing nothing is much more difficult than it would seem. In the seminars (to keep people awake) I always joke that there is a neurological link between your butt and the mouse finger. When you put the former into the trading seat it immediately sends a message to the mouse finger to buy something. These impulsive buys, taken after 10 seconds in the trading seat, rarely fare well.

10. Maybe the most difficult part is letting winners run. In point 4, I suggested exiting half of the position when you have made as much as you initially risked. Then get the stop-loss to entry. The objective is then to let the second half run using the VectorVest Stop-Loss as a trailing stop. This will give the share lots of wiggle room on its ascent. Try not to micromanage the trade at this point. About 40% of all the trades taken will just keep running. Try your best to just let the ball do the work.

From the above, please take a clean sheet of paper and try and answer the following questions:

- A. When to Buy? Which VectorVest Market Timing system will you use?
- B. What to Buy?
- C. How much to Buy?
- D. How to manage the position?
- E. When to Sell?

2023-05-19

One Darn Thing After Another

Sir Winston Churchill used to say that life is just “One Damn Thing after Another.” Markets are no exception, but in markets and life these events rarely travel alone. Your mother who told you that bad things happen in “threes” was an astute observer of clusters of good and bad. I spoke at length about this clustering effect at the Tampa Two-Day livestream seminar and its effect on your trading. This presentation can be accessed from the VectorVest University.

The United States government is inching closer to its so-called debt ceiling X-date, when the Treasury could run out of cash and extraordinary measures to pay all government obligations. Both political parties remain at odds with no concrete solution to avoid a default.

The odds of the US government defaulting on its debt remain relatively low. A default will trigger economic disaster with both negotiating political parties having much to lose. Wall Street and the City of London are wary of what the ongoing debate means for equity markets and have priced the VectorVest Composite US and UK into a tight range over the past six weeks. It's as if the markets are on hold until a breakthrough can be made. On the S&P500, which I trade actively, the market has stayed around a level of 4110 within a handful of points for the last 6 weeks. I have curtailed trading until the index breaks out one way or the other.

The last time we had this situation was in 2011, but comparisons are a waste of time in my humble opinion. In 2011, interest rates were close to zero while the FED was expanding its balance sheet. With elevated inflation, interest rates at 5% and credit tightening, the backdrop is very different today.

On VectorVest US, all the measures of Market Timing from short-term to long-term are Down as of 16th of May 2023. I have a single position long in QQQ (Nasdaq100) that I have held for some weeks which was taken from a bull flag pattern. I devoted an entire Essay to this pattern several weeks ago. The chart of QQQ is shown below with the textbook 5 wave flag pattern marked.



Another worry is that Warren Buffett's conglomerate has sold its remaining shares in the world's largest chipmaker, TSMC, after the "Oracle of Omaha" sounded alarms about its home base of Taiwan. The quick sale was considered unusual because Buffett is known for making longer- term bets. When the situation changes, then reevaluating a position is a great lesson for us all.

TSMC is considered a national treasure in Taiwan, supplying semiconductors to global tech giants including Apple. TSMC's presence is seen as providing a strong incentive to the West to defend Taiwan against any attempt by China to take it by force.

In the UK, the VectorVest Composite has been in a tight range since the start of April 2023. However, the overall market has been stronger than in the US, with many measures of the trend of the Composite showing a Buy signal.

The Underlying Trend is Up and the DEW Market Timing system is Up, but the longest-term measure of the trend, the Confirmed Call is Down.

Based on the more positive mood in the UK, I have held on to those stocks purchased in the last up wave and remain around 58% invested. I won't buy any more stocks until the US situation is sorted out.

2023-05-26

Trading the Cup and Handle Pattern in Stocks: A Technical Analysis Approach

Introduction:

Technical analysis is a popular approach used by traders and investors to identify potential patterns and trends in stock prices. One such pattern that has gained attention is the cup and handle pattern. This Essay explores the cup and handle pattern, its formation, and how traders can effectively utilize it in their stock trading strategies. At the outset let me point out that the formation should be applied to stocks that are growing earnings strongly and safely. These stocks can be easily found in the VectorVest Stock Viewer or by running a simple UniSearch.

Understanding the Cup and Handle Pattern:

The cup and handle pattern is a bullish continuation pattern that typically occurs during an uptrend. It is characterized by a cup-shaped formation followed by a smaller, narrower consolidation known as the handle. The cup portion resembles a “U” shape, representing a period of accumulation or consolidation, while the handle forms a smaller downward or sideways price movement.

Pattern Formation and Confirmation:

The formation of the cup and handle pattern involves several key elements. Initially, there is an uptrend in the stock's price, which creates the left side of the cup. The stock then experiences a pullback, forming the bottom of the cup, before rallying to create the right side of the cup.

Following this, a smaller decline or consolidation forms the handle. I always add forecasted Earnings per Share (EPS) to my charts and have noticed that if EPS is rising as the cup and handle is developing then the probability of a successful outcome rises significantly.

Confirmation of the cup and handle pattern occurs when the stock price breaks out above the handle's resistance level. This breakout is considered a bullish signal, indicating that the stock is likely to resume its upward trend. Traders typically look for higher trading volume during the breakout, further validating the pattern's strength.

During the period from mid-August 2022 to mid-December 2022, KITW.L charted the cup of a cup and handle pattern. This was followed by the handle and the entry point from the handle which I have drawn with the short blue horizontal line on the chart. Please note how EPS was growing while the cup and handle was developing.

Trading Strategies:

1. Entry Point: Traders often enter a position when the stock price breaks out above the handle's resistance level. This breakout serves as a buy signal, signaling the potential for a further price increase. It is essential to wait for confirmation and verify the breakout with increased trading volume, ensuring the pattern's validity.

2. Stop-Loss: Setting a stop-loss order is crucial to manage risk. Traders typically place the stop-loss order below the handle's support level. Alternatively, the VectorVest calculated stop-loss can be used. If the stock price reverses and breaks below these levels, the pattern has failed and traders should exit the position to limit potential losses. Remember to size your positions correctly. If the setup should fail, then the most lost should be 1% of the entire account size.

3. Target Price: Determining a target price is essential for profit-taking. Traders often use a measured move approach to estimate the potential price target. This involves measuring the distance from the bottom of the cup to the handle's resistance level and projecting it upwards from the breakout point.

Additionally, traders may consider other technical indicators, support and resistance levels, or Fibonacci retracement levels to set their target price. I will illustrate the various methods used to establish a target price in the Q&A session on Tuesday 30th May at 1:30pm UK time.

4. Timeframe: The cup and handle pattern can take weeks or even months to form. Therefore, traders need to have a longer-term perspective when trading this pattern. Patience is crucial (as in most successful trading) as waiting for the pattern to fully develop and confirm is key to maximizing the pattern's potential profitability.

Conclusion:

The cup and handle pattern is a powerful technical analysis tool that can aid traders in identifying potential bullish continuation opportunities in stocks. Understanding the pattern's formation and confirmation and implementing effective trading strategies such as selecting entry and exit points, setting stop-loss orders, and determining target prices are essential for successful trading. As with any trading strategy, it is important to combine the cup and handle pattern with fundamental analysis defined by VectorVest to increase the probability of successful trades.

Please remember that the rising EPS is causing the share price to rise and the pattern follows. Focus on applying your trading pattern and edge to the very best shares and watch your performance improve.

2023-06-02

Neil Woodford's Fall and the Lessons that Private Investors Can Learn from It

Many years after the fall of Neil Woodford, investors in his fund are still waiting to get some of their cash back. Over the past week, the lack of progress in sorting out the mess made the front pages of the broadsheet financial press. Let's see what we can learn from the mistakes that Neil made.

For those outside the UK reading, Neil Woodford was what the popular press referred to as a "rock star" fund manager with 25 years of excellence and market beating returns. A few years back he started out on his own and attracted 11 billion pounds of investment into his Equity Income fund. It did not go well and since the beginning underperformed his peer group. Over the last months of the fund's active life, the amount under management had fallen to 3 billion and the cash was being pulled out so fast that the fund took the decision to suspend transactions.

Redemptions of cash were hampered by the fact that a large percentage of the holdings were in non-listed or very illiquid startup companies. Many of these companies have gone to the wall since Woodford's aid was stopped. As I write on the 31st of May 2023, there are articles appearing in the financial press that the mess needs to be sorted out and soon. I see little chance of investors getting their cash back any time soon.

What can we learn from this? Three things I feel.

1. If something is working for you then don't change it without a lot of testing and work. Mr. Woodford had a style of investing in large dividend paying safe stocks during his 25 years at Invesco, which outperformed the market and bought his reputation. The style is loosely referred to as "value investing" and very common at the institutional level. Over the period since

the start of his new endeavor there is no doubt that UK shares have lagged the USA probably because of Brexit. However, a fund made up of solid and safe and maybe unfashionable UK stocks should have maintained or increased its dividend in this period, and if Neil has stayed with the method he had used over the years, he would still be in business today with happy investors receiving regular dividend payments. His behavior after Brexit reflected a change of style of investing from value to growth which has failed or at least his investors have run out of patience before it could deliver. Although I am basically a trend following swing trader, I understand the temptation to experiment only too well and invariably it's a costly and embarrassing exercise. Please find a trading plan that you have tested and suits your beliefs. Then rinse and repeat. Please review the Successful Investor Quick Start Course for ideas if you are struggling to make a start. For a more detailed approach, the "Successful Investor Quick Start Course" run by the VectorVest education team has been well reviewed by many VectorVest UK subscribers both in the UK and South Africa.

I can hear many asking "Can I run a long-term portfolio and a short-term swing trading portfolio at the same time." You certainly can, but it's easy from personal experience to get confused.

Short-term swing trades that fail can easily be reclassified as long-term holds and similarly long-term holds that run quickly can be reclassified as swing trades. Before very long there is no plan at all. I have been there, I assure you, many times over the years. If you are new and learning the ropes, please construct a single plan and follow it. When that's running smoothly, then open a different account with another broker and begin a second approach.

2. If you take a bold and contrarian view, then invariably it's going to take quite a spell for you to be proved correct. That's what Mr. Woodford has done with a large part of his fund. As Keynes said, "the market can remain irrational longer than you can stay solvent." The share or asset is falling or ranging sideways for a reason. Charlie Munger says, "We have three baskets: in, out,

and too tough.” He continues. “We have to have a special insight, or we’ll put it in the “too tough” basket.” The next time you feel like buying a share that’s falling, think about Charlie and his baskets. Buy safe and undervalued shares that are rising when the overall market is rising. The VectorVest metrics will define these for you easily and with UniSearch the investor can pinpoint shares that suit their plan with a few clicks.

I have spent a long while managing money over the years and know from bitter experience that each investor will joyfully say that they understand risk. However, when the first monthly report is issued with red ink on the bottom line the phone line is invariably red also. Mr. Woodford’s reputation was many orders of magnitude higher than mine, but sooner or later with underperformance the investors have galloped away before his contrarian call has come to fruition.

3. Make sure that you are trading in liquid shares that are easy to exit. My first mentor used to say that the daily volume should be 20 times your exposure. For most FTSE 250 shares this is not an issue, but for some low market cap AIM shares this is a real worry even for a small account. Our advantage as small investors is that we are nimble. Also, don’t talk too much about the shares you hold. This adds to ego and makes it more difficult to cull the shares that don’t perform. Good investments and trades should go your way quickly. The inventor of the Stochastic indicator (a momentum trading oscillator) used to teach a 3-bar time stop. If he was trading a weekly chart (very common in the 1980’s when I knew him) he would give the trade 3 weeks to move into profit. If it didn’t move in that time and was above the initial stop-loss, he simply got rid of it arguing that the investment was a waste of opportunity. Let winners run and cull the losers is the mantra. Unfortunately, most of us do exactly the opposite. I discussed the psychology behind this at great length in these Essays.

2023-06-09

The Psychology of Managing Risk

The core VectorVest methodology is simple and robust. I have written about the method often and summarized the metrics involved and some simple, but powerful, guidelines over the past two weeks. However, it's not the method that makes the money, it's the ability of the trader to follow the method that makes the money. It is the discipline to follow the method that makes the money. The discipline to follow the method after several small losses. Remember, the cornerstone of all trading systems is to avoid big losses.

I offer no apologies for writing about discipline frequently. The best methodology in the world is useless if you don't have the discipline to follow it. We are rewarded for perfect execution of the system and those with experience of trading will know that this is much easier to write about than do. Whether it's a relatively aggressive swing trading system or the more passive position trading system, it is execution of that system that's vital to success.

We seem to have been hard wired by our creator to be poor at this job of trading and investing. As I keep saying at our Q&A webcasts. When it's time to buy, you won't want to. When it's time to sell, you won't want to. Please ruminate on the last two sentences. They are very important to your success in this line of work.

There are many people on the internet that would like to sell you a system for many thousands of dollars that does not require the discipline that I write about. Be wary of these people. At best they don't know enough, to know they know nothing, and at worst are total scoundrels.

US based trading coach Brett Steenbarger reckons that the problem in following a simple set of trading rules starts because the person who plans and initially places the trade or investment is not the same person who manages

the trade. This makes a lot of sense to me as I have witnessed large swings in trader personalities before placing the trade and during the trade on many occasions over the years. Another mind he says has taken over.

During planning of the trade/investment, the stage is static and the fears of being wrong and losing money that I have detailed here many times are not in play. We primarily use the left brain which is the analytical part. All is crystal clear at this point, but once the trade is active and the markets are open, all changes very quickly indeed. Anyone who has experienced this will attest to the increase in emotion as the daily candle jumps up and down and the financial news websites are full of good and bad news. Steenbarger makes the point that at this time when the decisions become more emotionally charged that we make these decisions with the older brain, known as the reptile brain. Steenbarger argues that there is a different person at the helm.

At the trade planning stage, the emotions are clarity, optimism and enthusiasm, but after entry, these can change to fear of loss, fear of a small profit disappearing, fear of being wrong again and even boredom. There cannot be anyone reading who has placed even a single trade who has not felt this change in emotion.

Becoming aware of the change is the first step in solving this problem and getting to the point where we can simply follow our rules.

You get better at making good decisions by making good decisions and, like press ups, you have got to get the reps in. It will take a batch of 30 reps to get this process correct and that's the end point of all the courses I present for VectorVest. In any course that I present I challenge all the delegates to complete 30 trades without changing the initially agreed rules.

I feel that it's important that you consider the exercise as otherwise all the training, reading and effort is academic only.

1. Get your trading systems setup/setups boiled down to a few rules. These clearly show detail entry, stop, position sizing and managing the trade.

2. Before starting make sure that you have mentally followed the rules for many imaginary trades. To my best knowledge Gary Player, the golfer, first wrote and spoke about his visualization techniques to improve his golf. Run a perfect trade through your mind frequently from start to finish. Mentally rehearse the move and rehearse what you will do if the market decides not to cooperate with your trade setup.

3. Resolve to follow those rules for a batch of 30 trades. I suggest that you start on a demo or simulated account. The biggest fear is being wrong and for most that fear easily initiates the emotional response that Steenbarger refers to.

4. Spend some quality time practicing “mindfulness” and being present. I recommend purchasing “Practicing the Power of Now” by Eckhart Tolle. Becoming present and focusing on this moment alone will help keep the analytical mind at the helm. Becoming and working on being “present” has helped my personal training and many other aspects of life greatly. As Rudyard Kipling said “If you can keep your head when all about you are losing theirs, etc.”

5. Rarely does it take 30 trades. Somewhere between 8 and 13 trades, the inner resistance will cease. Unfortunately, few people make the journey to 13 trades with the same set of rules.

You are 8 to 13 trades away from the trader you wish to become.

2023-06-16

Start Your Analysis with a Weekly Price Chart

A weekly chart comprises the opening price on Monday morning, the closing price on a Friday evening and the highest and lowest price recorded during the week. A weekly chart removes a great deal of the daily noise and will allow you to clearly see the support and resistance levels, price patterns and trends that can last for many months and years.

I start all my analysis with a 5-year view of weekly bars. Below the price plot I add forecasted Earnings per Share (EPS). First prize is to find a share that is trending upwards over this period with little volatility and EPS is moving smoothly from the bottom left to the top right of the window over a 3-to-5-year period. Over the years, we have had several guest presentations at our weekly Q&A webcasts and SWIC meetings which have fully described how visually building a

WatchList of such shares adds greatly to your success as both a long-term investor and a swing trader. The presenters refer to the shares from such a WatchList as “EPS Kings.”

Here is a tip for you. If you re-sort a WatchList, such as the FTSE 350, by the Comfort Index (CI) the latter will find these stocks for you easily and with a single mouse click. Big strong trends make lots of money and that's what the CI does without fuss.

Please spend some time this weekend looking at the FTSE 350 WatchList and re-sort it by CI. Using a weekly price chart since at least the end of the Covid period in April 2020, visually chose those stocks that are undervalued by VectorVest, that also possess a linearly growing forecasted EPS plot.

Much of this can be further automated in UniSearch and I will show the UniSearch that I use at the Q&A session on Monday 19th June. I am a little

old school (my son's distillation of my abilities) and enjoy going through the process manually, but I probably have more time to do this than many of you reading. UniSearch will automate the analysis so even the most time constrained people can find quality stocks in an instant. You can't know too much about this tool.

On completing this exercise and sorting the FTSE 350 by CI on the 13th of June 2023, BGEO.L emerges at the top of the list. I show the weekly chart since Covid below using my default layout. The green line study above the price is the VectorVest valuation while the blue line study in the window below the price is forecasted EPS. The stock is undervalued and has grown EPS from 267p to 733p linearly over the period.



The VectorVest metrics of RV and GRT show strong growth characteristics and are rated by VectorVest as excellent. The RS which measures the safety and predictability of the stocks' financial performance is rated as Good. Once again, this can all be done within UniSearch. For a full definition of all

the VectorVest metrics, please just right click on the stock and select “View Full Stock Analysis Report.” This will open in a separate window and all the metrics are defined in some detail. This report is generated for every stock in the VectorVest world database which is some 18000 plus equities and is updated daily.

BGEO.L is undervalued and growing earnings strongly and reasonably safely. The stock is in the throes of a strong upward trend. That is a great place to seek a high probability trade or longer- term investment.

Technically the trend is strong, but in the last few weeks BGEO.L has pulled back to test the last significant top. This is normal behavior in a bull market. What is significant though, is that the pullback has occurred on minimal and falling volume and that is a very strong sign that this is a pullback and not a change in trend. I have marked the falling volume on the above chart.

BGEO.L is currently on a Hold recommendation on VectorVest. Should this change to Buy and the Home page of VectorVest indicates that it's safe to Buy stocks, then BGEO.L looks highly probable for further upside.

The above is a simple process to find both swing trades and longer-term investments and it can be managed easily in a few minutes each day with maybe a little more at the weekend to spot new buying opportunities.

EPS Kings are an easy way to build a fortune in the stock market.

2023-06-23

Getting a Good Night's Sleep

The articles on health and longevity in the newspapers and supplements to these papers stress the importance of getting a good night's sleep to improve wellbeing.

In Investing with VectorVest, the metric that ensures a good night's sleep is Relative Safety (RS). This metric measures the consistency and predictability of financial performance. RS is a function of the following:

Earnings Consistency

Company Size

Price Behavior

Business Longevity

Dividend History

Debt to Equity Ratio and many other important accounting ratios.

RS is scored on a scale between 0.00 and 2.00. Conservative investors that don't like surprises should focus on stocks with a high RS. Many conservative investors, rather than sorting all the shares in VectorVest UK by the Master Indicator VST, sort by safety of earnings (RS) alone. This brings to the top of the list companies that have shown that they can make money and grow earnings safely and reliably over the years.

To further ensure a peaceful slumber, it's important to focus your investments on shares that are undervalued by the market. Many years ago, my grandfather used to tell my brother and I that the *"only way to make money in anything was to find the value of an asset and then pay less for it."* Many years later, I read the "Intelligent Investor" which is a book by Buffett's mentor, Ben Graham. He was saying the same. At VectorVest, Dr. DiLiddo teaches

that we should favor undervalued stocks. These are three very important and influential mentors in my life that have played a big part in building my beliefs about markets. As I often say, *“we don’t trade markets, but our beliefs about markets.”*

VectorVest calculates the value of each share we cover on the LSE and AIM each day. The algorithms that are used are fully discussed in Chapter 3 of Dr. DiLiddo’s book “Stocks, Strategies & Common Sense.” This book can be downloaded from VectorVest UK. You will find a link by clicking on the Training tab of VectorVest UK.

I personally need some growth in my stock portfolio to make me sleep peacefully. This is achieved by adding Relative Value into the mix. Relative Value (RV) measures the long-term share price appreciation potential of a stock in relation to an AAA rated corporate bond. RV is computed from:

Price

Value

Earnings Growth

Relative Safety

Corporate Bond rates

RV is computed on a scale between 0.00 and 2.00, with a value of 1.25 indicating that the share price should outperform the payment from a corporate bond by 25%.

Stocks that are undervalued and growing earnings strongly and safely are a good place to look for investments and this can be done in a few clicks by using UniSearch.

Last week’s presentation on UniSearch by the USA education team should be reviewed, plus the three videos on UniSearch within the Stock Navigation series. The latter has been renamed the “Software...How to videos” on the Training tab of VectorVest UK.

The UniSearch shown below was presented at the UK online User Group by Mark from Guildford some years back. He has added a volume filter and a line to eliminate all AIM stocks.

Long-Term Winners - RS Desc MARK

Run Search ↓↑ RS DESC, Symbol ASC Top 50 Return: Stocks

6/19/2023

Parameters

	Date/Time	Parameter	Operator	Value
	Time of Search	Stock Price - (Actual)	>=	50
	Time of Search	Stock AvgVol - (50 day moving A...	>=	50000
	Time of Search	Stock Exchange	<>	AIM Exchange
	Time of Search	Stock RV - (Relative Value)	>=	1.25
	Time of Search	Stock REC - (Recommendation)	<>	Sell
▶	Time of Search	Stock Price - (Split Adjusted)	<	Stock Value
•				

The “sort” is by RS with RV set at greater than 1.25. The price of the shares found will be less than the VectorVest valuation. Shares will have a price greater than 50p and be on a VectorVest Buy or Hold recommendation with an average daily turnover greater than 50000.

For some, using a filter that only considers FTSE 350 stocks is useful as many brokers will only place automatic stop-losses on shares within that index. This is certainly a useful feature if you are travelling or if you are honest enough to admit that you may dither and not honor the stop.

Just add a line in the UniSearch:

Time of Search...Stock WatchList...= FTSE350

I note that BGEO.L is on the list and that share was the subject of my Essay last week, plus my weekly blog. As I write on Tuesday 20th of June 2023, the share would seem to have bottomed out and is rising on strong volume. BGEO.L is trading at 3060p with a VectorVest Stop-Loss of 2877p.

Please copy this UniSearch into your copy of VectorVest UK. It has been a source of some excellent trades and investments for me over the past 11 years.

2023-06-30

Risk Management in a Very Difficult UK Stock Market

Successful traders understand the importance of trade management and focus on managing risk above all else. By using VectorVest and the trade plan I outlined in my Essay of May 12th, 2023, the success rate of our trades can be high, but still, we don't know what's going to happen on a trade-by-trade basis. If we are correct 80% of the time, then we are incorrect 20% of the time. On the next trade, we don't know if it's one of the 80 or one of the 20. The difference between successful and not-so-successful traders is understanding and applying a simple risk management strategy. Take full responsibility for your trading results and certainly don't blame the environment. You must own your success and your mistakes.

While risk management is a broad topic, it means one thing for our purposes here and that's summarized in a few words "Cut losers quickly" and never lose any more than 1-2% of your account in any single trade or investment. I have detailed this calculation many times in this forum. As correct position sizing is the mistake, I encounter on retail accounts repeatedly, I will repeat the simple mathematics here.

Know your exits before pulling the trigger to enter the position. The first exit is when we encounter those trades that fail to move our way. The second is the plan to manage winners. Let's manage our losers first. Most unfortunately fall at this first fence.

How much money is in your account?

If you don't know how much money is in your account, then you cannot size your positions, and if you cannot size your positions, then you are gambling and not trading or investing. I come across this all the time. The first step is to decide how much of your total capital you wish to allocate to your

trading business. For the sake of this example, I am going to assume that a new trader has 20000 pounds of capital to start their trading business.

1% of £20000 is £200 and this is the maximum loss that should ever be taken on any single trade or investment. If you are experienced, then this can be increased to 2%. I know shares can gap through stops, so please don't get your slide rule out. Losing 1.5% or 2.5% won't kill you. It's losing the lot, half, or a quarter of the lot, that will kill you both financially and mentally.

I use the VectorVest calculated Stop. Let's assume that the Buy point is 400p and the stop is at 340p. This is quite a wide stop, but if the entry level is after confirmation from a candle pattern or after a few green bars that's often the case. The Risk per Share purchased is thus 400 minus 340 which is 60p or £0.6. Number of shares to be purchased (N) * Risk per Share = 1% Account Size.

$$N = 1\% \text{ Account size} / \text{Risk per Share}$$

$$N = 200 / 0.6 = 333 \text{ shares}$$

$$\text{Total purchase price} = 333 * 4.00 = £1333$$

Pride and ego are the reasons that many just find it impossible to act on stop-loss levels and an even worse habit is to add to losing positions. Averaging as it is called can sometimes get you out of trouble, but sooner or later it will wipe you out. Some teachers of the trading game suggest framing your losses akin to the overheads in a normal business. The shopkeeper must pay his rent, lights and water bills.

Over the past months and based on discussions with VectorVest investors and traders, I have been managing these trades in the following manner. The approach has certainly helped, especially in the US markets where most of the trades went my way initially, but failed before charting new highs. Recently in the UK online User Group, Alan showed how this approach has helped his portfolio to stay positive in a difficult period for the UK stock market.

Resolve to risk no more than 1 to 2% of your account on any single trade and size the position as discussed above.

1. When the share has moved into the black by the same amount as the initial risk then take profits on 1/2 of the position and increase the stop-loss to the entry point. In the example above, the entry point was 400p and the stop was 340p. When the share moves to 460p then bank half and bring the stop-loss to entry on the second half. We are now able to make money on the second half of the position with little or no risk (assuming a liquid counter). This is a great position to be in emotionally.
2. The emotional consequences of allowing winners to turn into losers can be hard to stomach. This approach alleviated the difficult emotional of going to bed with a winner and the next morning at coffee time finding out you have a loser on your hands. I found this the subject of much angst when I was managing private client funds some years ago. Most of my leveraged spread bets in the US markets were managed in this way.
3. When the stop-loss on the second half of the position has been increased to the entry, the VectorVest Stop-Loss may be below the entry point. If the share continues upwards, then raise the stop when the VectorVest calculated Stop moves above the entry point.
4. Once the stop-loss on the second half of the position has been moved to the entry point then it is critical for the profitability of the approach that you sit tight on the second half of the position. Do your best to ignore small pullbacks. My advice is to sit tight until the stock prints a VectorVest Sell. Remember, with the stop ratcheting upwards with the VectorVest Stop you cannot lose any money and it pays to give the stock room to run. The 30% that keep trending are the 30% that make this system a big winner. If you cull the 30% too early, then it's difficult to get ahead quickly without these "runners."
5. Around the country many of our users have developed many ways of managing winning positions. I remember years back our then User Group leader in Birmingham did exceptionally well by holding positions if they stayed on a "BUY" recommendation on VectorVest. When a share changes from a "BUY" to a "HOLD" he exited. That's been very effective

and allowed him to exit winners at or very close to the top of the shares path.

6. Technically orientated traders use Fibonacci levels to project exits. The Fibonacci sequence is probably more useful for exits than entries although in the Swing Trading Course I look at both entry and exit levels using the sequence. I also instruct on these levels for UK shares most Monday afternoons at the UK Q&A sessions.
7. A common exit level for many swing traders is a multiple of the initial risk. I know many who have made millions in markets that exit when they have made 2.5 to 3 times the initial risk. Then the objective is to “rinse and repeat.

Over the weekend have a long think about your exit points. Try and get to a place where these are decided in advance of the trade being live.

2023-07-07

Eliminating Trading Mistakes. It Will Take Work and Practice

Our objective as traders and investors is to fine tune an investment and trading plan by BackTesting over a period of many years and market types. This is a rite of passage and the BackTester on VectorVest is ideal for this. When we find a method that suits our objectives and beliefs about markets then the focus should change to simply following the rules of the system. Following a simple set of trading rules without fear or hesitation is much easier to write than do. When the discipline is in place to follow a set of trading rules for a batch of trades then take steps to improve the plan as you get more experience. Most chop and change after a single losing trade. A batch of trades is somewhere between 20 to 30 trades.

I have been dealing with both retail and institutional investors for nearly forty years and the same mistakes come up repeatedly. Hopefully reading this will let you become aware of these potholes so you can simply drive around them. Here they are:

- 1. Thinking of the money first as opposed to focusing on the process of trading.** A friend of mine in South Africa says that you either “fall in love with the process of trading or leave the business.” Like a winning golfer, it’s vital to focus on perfect execution of each trade (stroke in golf). If you focus on the process, the cash will take care of itself. Focus on the process of following a simple, but robust set of rules such as I have detailed here over the past four Essays. I have noted over the years that many take a winning simple and robust system and ruin it by trying to make it perfect.

- 2. Buying shares that are falling in price has caused more blown accounts than anything else in the trading business.** The “two for the price of one” thought is very tempting and sucks us all in from time to time. Sometimes we get lucky, and the share turns, but when it doesn’t many accounts are blown. The market is like Santa Claus. It knows when you have been naughty and doesn’t bring any presents. If you simply focus on only buying shares that are on a VectorVest “Buy” recommendation, that will solve much of this mistake effortlessly. There are many techniques that define a rising stock. For example, if the stock is in the Midas Touch WatchList then that’s a stock that’s trending strongly. Also, the proprietary VectorVest Comfort Index (CI) will also find strongly trending shares.
- 3. Fundamentals matter in your search for consistency of returns.** Focus on undervalued stocks that are growing earnings strongly and reasonably safely. The VectorVest metrics of Value, Relative Value (RV), Earnings Growth Rate (GRT) and Relative Safety (RS) will quantify the fundamentals of a stock in a glance. Please review lesson 1 of the Successful Investing Quick Start Course (SIQSC) for a short, but excellent review of all these metrics and how to analyse any stock in 30 seconds. Please remember that strongly growing earnings will soon translate into a strongly growing share price.
- 4. Holding on to losers too long is the mistake that has cost most of us dearly over the years.** When I do a quiz at seminars and webcasts, holding on to losers comes up much more than any of the other mistakes. It happened to me in the early days. I put on my first trade in October 1982. From this time to around August 1984, I built up a large account for that time of my life from a very modest start. In 1984, I had done a lot of homework on a stock and was sure that the share was a ten bagger. The latter means that it should go up in price by 10 times. It didn’t, but I held on and pretty much gave away all that I had made over the previous 2 years. That was a very costly mistake that I have never made again. Just remember that if you are correct 80% of the time

then you are wrong 20% of the time. On the next trade you don't know whether it's one of the 80 or the 20. The ego has an immensely strong power over us and won't admit it is wrong. When you enter a position, the exits should already be defined. An exit if the trade goes wrong and if the trade behaves. "Get rid of the losers before they can do you any harm" is a trading motto that should be prominently displayed.

- 5. Don't ignore overall market timing.** There is a good time to be in the stock market and an awful time. It's important that you have this at your fingertips and that's why it's on the Home page of VectorVest and on the smart phone apps. Dr. DiLiddo says that "the most important thing to know is whether the market is rising or falling, everything follows from that." Markets rise slowly and fall quickly just like a fairground rollercoaster. As most know, VectorVest has several objective methods of determining the position of the overall market. Long-term systems for position traders and short-term systems for swing traders.

As I write this Essay on July 4th, 2023, the short-term trend (Primary Wave) of the UK market is Up while the Underlying Trend is Down. In VectorVest parlance that's an UpDn situation. The Underlying Trend has been confirmed by price action and that means there is a Confirmed Down in place. However, the advice which summarizes the direction, and the strength of the Primary Wave is advocating caution in buying stocks currently as only the Primary Wave is positive for the stock bulls. Traders buying stocks now should be well versed in position sizing techniques and have a proven non-emotional response to actioning stops without fear or hesitation. The ego is a fierce force in all of us. Ego just won't die. Tell your ego to take a hike.

2023-07-14

Clusters of Wins and Losses

If you have read my Essays over the years, then the concept of trading system expectancy should be no stranger to you. Let us assume you can call the share market correctly more than 50% of the time. Then, if your reward to risk is positive, then the market will write you a cheque for the rest of your days. This is not an easy Essay to take in, it may take several readings and a lot of thought to understand the concepts.

In a seminar that I presented to a large bank a few years back, I played my coin game simulation of the trading business. This game had a 2 to 1 payoff. If they risked a fiver and called heads or tails correctly, I would give them back 10 pounds. Clearly if they were incorrect in their prognosis, I would take the bet of 5 pounds. We started off with a pot of 100 pounds. It is a 50/50 game.

The room was full of CFA-rated analysts and highly qualified people, but with little trading floor experience. They had a positive expectancy system, but I must report that the roomful of analysts went totally broke within 15 minutes of playing the game. In ten throws of the coin, the following should be the result:

Correct $5 * 2 = 10$

Incorrect $5 * 1 = 5$

Thus, in ten coin tosses the result is $((52) - (51))/10 = 0.50$

If you bet a pound on each trade, then on average you should receive 50p back on each toss. A positive expectancy system.

In trading, there are two decisions at least in each trade. Is the asset going up or down (long or short)? How much do I bet?

The coin answers the first. I ask, "Heads or Tails?"

Then I ask how much do you want to bet? The answer is varied, but normally in my seminars it starts at about 20%. I spin the coin and play the game. Let us look at the probabilities. The latter is not as sexy as market direction and entry points, but they will keep you alive.

In the coin game, heads/tails have a probability of occurring 1 out of 2 coin tosses.

Unfortunately, there is a $1/4$ probability of two heads or two tails in a row and similarly a probability of $1/32$ of 5 tails or heads in a row.

If you bet 20% of your loot on one trade, then in a cluster of 5 poor trades the game is over. That is what happens to most traders. A run of poor trades takes them out prior to a run of winners starting even with a high expectancy system. Even if they have some cash left, the drawdown will leave them mentally scared and incapable of making a sound decision. The system will be long discarded.

I last wrote about this overtrading topic at the end of 2020, because of the great year that most of us had after the Covid swoon. After a good run of trades, it is my experience that position sizing is discarded and thoughts of invincibility take root. Remember, we are not playing chess in the stock market. In the game of chess, pretty much everything is defined. If you beat me then you probably have better skill than I or I simply made a mistake. In the stock market, there are many unknowns. The stock market is more akin to the game of poker in that we do not know what card will be dealt next.

I have written about clustering in previous Essays, where the UK market had been trading within a tight channel for several months. In this environment, it's highly likely to suffer a cluster of poor trades. At our Q&A session on Monday, an experienced investor and risk manager related how he had been stopped out for a small loss 4 times in a row. He was following the 1% position size rule and although it was tough mentally, the drawdown in the portfolio is acceptable.

Believe it or not, all the big losses in history occurred just after a run of winners as opposed to a run of losers. These clusters are mentally tough to

take, especially for highly analytic traders who are far from accustomed to being wrong in their prognosis.

Sooner or later position sizing errors will be punished and punished hard.

What can we do?

Let us think of some simple, but robust answers.

1. Resolve to not risk any more than 1% of your account in any 1

trade. If you have 5 bad trades in a row in a miserable market, then the drawdown will be acceptable. If you think 5% is too high, then scale back until it is acceptable. At the institutional level, 5% would mean a very cold stare from the risk manager. Many Forex traders that I know risk 1/3 of their account on a single trade. This makes them very consistent and not subject to P/L ups and downs. The bank likes this. If they are consistent, the bank knows that they can give the trader more money to make more money. If the P/L is up and down, the person is a gunslinger and a liability.

2. Try and get your hit rate up from the 50% level. This reduces the frequency of a cluster of bad trades. For me, the VectorVest method of combining fundamental analysis and technical analysis has increased my hit well above the 50% level. Our method of what I refer to as value momentum investing that I teach at the seminars and talk about at the Q&A webcasts has a hit rate approaching 70% and I am very proud of it. It looks at the fundamentals of the shares, the technical position of the shares and the technical position of the overall market. When all three are positive, I can call the future with a probability that is uncommon in this line of work.

Lastly, please spend some time internalizing the concepts that Mark Douglas teaches in his book "Trading in the Zone." It is not the easiest to read, but well worth the effort. We rarely trade markets, but rather trade our beliefs about markets. The late Mark Douglas will suggest for your consideration, beliefs that he feels are congruent with the realities of the market environment.

Learning how to think in probabilities is a very difficult exercise.

As I write on the 11th of July 2023, all the Market Timing signals on VectorVest UK are Down. The advice is Not to Buy stocks at this time. I have top sliced many of my positions and exited several. I am 40% in stocks now and 60% in cash.

2023-07-21

Some Thoughts for Your Trading Plan

I've written many times about the VectorVest edge in the stock market and will repeat it here for reference. I have also defined the key VectorVest metrics which define both the fundamental and technical position of a stock.

Buying safe (RS), undervalued stocks that are growing earnings strongly (RV) that are rising in price, on a VectorVest Buy Recommendation, when the Price of the VVC/UK is rising is a simple and proven trading plan. Put your stocks into a WatchList and re-sort the WatchList by RT. This will bring the stocks that are performing to the top and those that are not to the bottom of that list. Your job is to keep your hands off the winners at the top and cull the losers on a Sell Recommendation at the bottom.

My rules are as follows. Please consider these and see if they gel with your beliefs about markets.

- 1. No big losses (cut losses quick).** Size your position based on the VectorVest calculated Stop-Loss. If the share falls from the entry point to the Stop, then the maximum loss should be 1% of your account size. This is critical to your survival. Remember, we are risk managers and not fortune tellers. Missing tackles is a cardinal sin in speculation and in Rugby. Hit those Stops both hard and low and resist the temptation to "give it another day."
- 2. Never averaging down.** This is the most damaging mistake that any trader can make. The share is falling, and your initial position is underwater, and you are buying more of it. Sometimes averaging as it's called will work, but when it doesn't, your account is blown. Again "Never Average Down."

3. **Never buy stocks in downtrends.** The old “two for the price of one” has bankrupted lots of traders recently in the tech smash and since the dawn of trading time. Those who felt they could forecast a bottom in Meta and Peloton have been taught a lesson in humility. The adage is to never try and “catch a falling knife.” Rather wait and let it hit the sand and simply pick it up. The VectorVest Buy Recommendation will tell you exactly when it’s time to act.
4. **Avoid extended stocks.** Personally, I favor buying stocks upon a pullback within a strong uptrend to where previous resistance has become current support. If you study the chart carefully, the breakout upwards should occur on rising volume and the pullback to the new support on falling volume.
5. **Never let a good gain become a loss.** There are many ways of accomplishing this goal. The easiest has worked for me for many years. It’s simply to take some profit when you have gained as much as the initial risk. Let’s say you buy a stock at £10 and the VectorVest Stop-Loss is at £8.50. You have committed to exiting the position if the share price falls to £8.50 and have sized the position so as the maximum loss is 1% of your account size. The initial risk is £1.50 and thus when the share has risen to £11.50 the position has a profit of £1.50 per share purchased which is equal to the initial risk.

At that point, sell half of the position and increase the stop-loss on the 2nd half to the entry point. This means (in theory at least) that it’s impossible to book a loss on the 2nd half of the position and there remains the possibility of a big gain. It is essential that the 2nd half of the position is left alone to run.

I detailed the calculation required to size positions in my Essay of the 20th of January 2023.

6. **Nail down decent profits.** Exits are the most difficult and frustrating part of your trading plan. For many holding the position, if the share maintains either a Buy or Hold Recommendation will be perfectly sufficient. That’s what I try my best to achieve in the medium-term

portfolio that I share at the Q&A sessions. Some of our members exit a strongly trending share when the VectorVest Buy changes to a Hold and move their money into another opportunity.

Old highs on weekly charts can make excellent profit objectives as can Fibonacci extensions of previous price retracements.

2023-07-28

A Trader's Journey

When I first began trading, I heard all manner of objections from people I knew and respected who said all kinds of things, such as:

You should not become a trader because...

- It is risky.
- It is gambling.
- It is too difficult.
- It is manipulated.
- Computers run the game.
- You should keep your “real” job... That was my mother when I resigned from Anglo American in 1988.
- The suits run the game.
- Brokers will hunt your stop-losses.
- Technical analysis only looks at the past.
- You need a thorough education in economics and a CFA.

Most of these objections come from general ignorance about how trading and investing works, concern from loved ones for your financial well-being, or fear of being overshadowed by your success if you manage to make it work and make lots of loot.

I start all my trading talks showing the delegates that the first thing we need in our trading business is an edge which has a positive expectancy. This simply means that the system used should make more money when it's correct than it loses when it is incorrect. In effect, the winning investor and trader is setting themselves up to become the casino and not the punter putting the pound coins into the slots. I have written about a simple, conservative, but

robust edge in markets many times over the years with some rules for your consideration.

If you are truly committed to becoming consistently profitable as a trader and you have realistic expectations and a realistic plan to follow to get there, including seeking out a role model who can lead the way, then the sky is the limit over several years. I think that most people overestimate their goals over a year, but vastly underestimate what they can achieve over five years.

There are three core beliefs that all winning traders need to instill in their personal belief system at a deep subconscious level. The market will do its best daily to remove these positive beliefs and turn us all into market cynics. Please do not allow this to happen as there is a surplus of these fellows presently.

Belief 1

Money can be made in markets. Above, I started this Essay with the many objections that you hear from friends and colleagues when you mention that you are venturing into financial markets. Reading about traders and investors who have built fortunes in markets helped me build this positive belief in my early investing days. There are many excellent books which chart the progress of investors and traders just starting out in trading and how they have achieved success. I would recommend “How I made 2,000,000 in the Stock Market” by Nicolas Darvas. This is a great and simple read on how a dancer from New York built a fortune by trading in stocks over 50 years ago. Also, the book “Market Wizards,” written by Jack D. Schwager relates the stories of many outstanding traders who made a fortune in the markets. Money can be made in markets. Just follow the VectorVest basic rules and it is there for the taking. On VectorVest, click on the Training page and view the Successful Investing Quick Start Course. It lays out a plan on how to build wealth by using a robust analytical process.

Belief 2

I can make money in markets. There is an entire industry out there called the asset management industry which essentially says that money can be made in markets, but you cannot do it. They have multi-million-pound

advertising budgets and build an impressive story. Most of it is smoke and mirrors as most funds and trusts gloriously underperform the indices. This underperformance has motivated the rush to indexing and tracker funds. The managers know that they will not be able to outperform so they decide to be average. Be average and get paid. Just remember no one will take care of your money better than you.

On VectorVest, there is an extensive BackTester. Using this tool, we can test all of our proposed strategies over many years into the past. In this way, we can build a strong and robust set of systems and rules and much more importantly build a strong belief that, in a campaign of trades, these rules will be robustly profitable. This process is a rite of passage. On VectorVest, please click on the Training tab and then click on Software How-To Videos. This will open in a separate window which includes a section on BackTesting; among lots of other essential VectorVest topics. Everything that you need to make money and conclusively prove that “I can make money in markets” is included in this comprehensive training series.

Belief 3

I deserve to make money in markets. Successful traders and investors have a positive mental attitude and maintain that positive attitude every single day they trade and make decisions about their portfolio. It takes confidence in your abilities, confidence in your decisions, confidence in your charts and confidence in your system to succeed as a trader. Confidence hinges on your mental attitude. BackTesting as noted above will help, but it still takes resilience to handle the drawdown that comes with even the most positive expectancy system.

Your daily attitude affects your ability to perform successfully as a trader. If you stay positively focused, you will be able to assess your position with confidence and pull the trigger at the precise moment to ensure maximum profitability. If you allow negativity or self-doubt to eat away at your confidence, your performance will suffer. My performance certainly does. We

all have bad days, but I have never seen a person with a downbeat attitude become consistently successful over a period of more than a few weeks.

Once negative thoughts regularly creep into your thinking patterns, you start to second-guess your abilities, your decisions and your system. Pretty soon, you are making bad trades, you cannot pull the trigger and things start crumbling around you. The only way to succeed over many months and years is to refuse to allow yourself to be beaten down. You must maintain faith in yourself and confidence in your ability to succeed. Successful traders and investors succeed because they have a positive mental attitude and believe in themselves and their well-tested system. It is not the other way around. They are not happy because they succeed. They succeed because they are happy, enthusiastic and motivated individuals. A positive attitude gets positive results always.

Develop a positive mental attitude and your success will increase as your skills grow. A positive mental attitude will allow you to:

1. **Focus on making profitable trades.** Even if you have a losing streak, positive focus will allow you to turn things around and snap back into the profit zone.
2. **Focus on profit-making goals which are process orientated.** A positive focus on following your well researched process will give you the strength and courage to persevere when the going gets tough.

Whether it is through your actions or through your attitude, there is always a way to introduce a more affirmative perspective into your life. Stay focused on the positive possibilities and life will continue to grow more richly rewarding.

2023-08-04

Dr. David Paul



DR. DAVID PAUL

When Dr. David Paul joined VectorVest back in January 2011, little did we know what a gift he would become. We knew, upon interview, that he was well-versed in the stock markets, world-wide, that he communicated well and that he was intelligent beyond measure. However, what we didn't know, until he stole our hearts, was what wit, wisdom, knowledge and strength he possessed.

In the 12 years that David has worked with us, we came to know that he was a reserved man, but one that lit up when you put a microphone in his hand. We came to know that he was a very successful man, but a humble man as well. We came to know that he was a knowledgeable man, but one that would share that knowledge with any and every person he met.

David was the epitome of an educator, a visionary, a problem-solver and more than anything, a kind human being.

David taught all of us here at VectorVest so much and in so little time. We are grateful to David for the many years and many lessons he provided and we pray his eternal journey has been a delight to him and full of the love and inspiration he gave us all!

I know I speak on behalf of all of us when I say...David, you will be forever missed and treasured!

Until we meet again,

The VectorVest Family



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