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**Your Free Wrap today is based on extracts from this week's Edition 581 of Jim Berg's 'Investing & Online Trading' Stock Report**

## Review of 26 Closed Signals Trades in August (Part 3) By Jim Berg and John Atkinson

### 1. Introduction

Over the last two weeks, in Editions 579 and 580 of our weekly '[Investing & Online Trading Report](#)' we featured the *daily charts* for all of the 26 notional trades from Jim's Australian [Trading Signals Service](#) which were closed during August 2016.

For comparison purposes, where applicable, we also added the charts and results of the corresponding Exits for those notional trades using the same Entry Signals – when managed as Investing Signals *using weekly charts*. For those positions which were still open as at 31<sup>st</sup> August 2016, we included comments as to their open profit/loss status at that time.

Please refer to the Introduction commencing Page 2 in Edition 579 for more info.

### 2. Aims

The following recaps the principles and aims of Jim's common sense '*Weight-of-Evidence*' approach:

**1. Big Picture:** Wait for a confirmed overall rising market, i.e. *without Jim's 'Caution' in place in our Report*

#### 2. Which Shares to Buy:

- a) In strong markets, preference to combine fundamental & technical analysis, e.g. using [Oraclescan](#) and experts picks/ Momentum Picks, etc. together with Jim's JB Volatility Indicators
- b) Must be in a rising trend by Jim's 3 trend criteria
- c) Wait for a correction within that rising trend
- d) Must pass confirm Jim's 4 strict entry criteria

#### 3. Trade Management:

In our Report and other resources, Jim teaches two time frames:

##### 3.1 Short Term Trading:

- Managed using *daily charts*
- Initial Stop, Adjusted Stop and Trailing Stop used to minimise losses and protect profits, with exits triggered in **1-2 days**
- JB Profit Taker and Profit Target for short term profit taking
- Aims to:
  - Keep losses to max. 10% and preferably 1-5% and
  - Grab 10-15 % profits in about a month

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### 3.2 Longer Term Investing

- Managed using *weekly charts*
- Weekly Initial Stop, Weekly Trailing Stop used to minimise losses and protect profits, with exits triggered in **1-2 weeks**
- Emergency Stop added (*once trailing stop is in place*) to save investors waiting for 2 weeks if the price falls quickly, with exit triggered in **1 day**
- Short term profit taking does not apply
- Aims to:
  - Keep losses to max. 10% and preferably 1-5% and
  - '*Let profits run*' if trend continues to rise

Losses are normal in trading and investing, as it is impossible to be consistently profitable all of the time.

To test and measure the profitability of a Trading or Investing Plan, Jim recommends to tabulate as many '*paper*' and '*real*' trades over as large a time period as possible, in order to develop a statistically representative sample.

Jim suggests 2 Key Performance Indicators (KPI) for profitability - to ideally aim to achieve:

- i) A **success rate of at least 50%** for beginners and preferably 65% for more experienced traders and investors in stronger markets (i.e. by definition, *expect losses to occur 35% to 50% of the time*)
- ii) A **Profit-Loss Ratio of 2: 1** or better, i.e. Profits to be at least twice the losses

### 3) 2016 Overview

In Australia, the ASX200 (**XJO**) has been in a rising trend since 6th May 2016, but Jim has had a '*Caution*' in place in our [weekly mentoring-style Report](#) - due to his concern of the charts' divergence from the Banking Index (**XBAJ**). As a result, in our Report:

1. Our notional short term trading Report has remained *closed*, in line with the practice we have adopted since we launched our Report in 2005, i.e. the portfolio is open only if the overall market is in a confirmed rising trend.
2. However, in recent months, by request we have posted JB Alert Signals for the USA and Australian markets; "*...for the benefit of those Report Members who wish to look for potential entries themselves in these markets.*"

For Jim's [Australian Trading Signals](#) and [Investing Signals](#) Services we have continued to post Entry and Exit Signals, along with additional Caution warnings. Since the rising trend began in May 2016:

1. The priority for fundamental analysis was downgraded in preference to locating shares from:
  - a. Jim's monthly '*Momentum Picks*', as published in our weekly Report and from
  - b. Throughout the whole market - with a market cap of at least \$350 million and which are in rising trends and match all of Jim's documented entry criteria.
2. The general timing of when to switch from an Initial Stop to Trailing Stop generally was changed when the market is in a falling trend or '*Caution*' period (*see Page 21 in Edition 577 for details*).

3. In our weekly Report, Jim originally developed his 16 Day Trading Rules to switch Stops if the Initial Stop is still in place after 16 Days. For his Signals Service, this was increased to 30 days to give shares more time (*again see Page 21 in Edition 577 for details*).

In Edition 574 we presented the results for the 10 Trading Signals notional trades which were closed in July, with a **90% success rate** - which far exceeded the KPI target of 50% success rate for beginners in a good market, or 65% for more experienced traders above.

We explained that these results were achieved after the Brexit decision in late June and during the July rally which followed the traditional sell-off in June.

#### 4) August 2016

During August, the market retraced. In particular, in Editions 579 and 580 we drew attention to increased volatility and some unusually large gaps down overnight (primarily associated with seasonal reporting).

In particular, we showed the 4 very unusually large trade losses for our Investing Signals in August, similar to that which we first experienced with another in July (*see Ed 574*), resulting in 4 early exits and trade losses closer to **-20%** than Jim's target of **-10%** or less.

In Edition 579 we highlighted;

"The percentages above refer to the *Trade Profits and Trade Losses*, i.e. the percentage profit or loss on the amount invested on each trade.

We also need to consider the amount of profit or loss each position generates as a percentage of the whole portfolio.

Most Money and Risk Management books specify that each position should not put at risk more than 2% of the total portfolio.

For those traders and investors who use the 2% Rule, sometimes they will have some trades which may fall much more than expected, at which time their portfolio losses will be considerably larger than their targeted 2% portfolio risk.

Jim's approach is deliberately more conservative for this Report and his Signals Service - because his individual trade loss of 10% equates to NOT 2%, but *actually 1.25%. ....How?*

Consider a \$100k portfolio split into 8 equal positions of \$12,500k, so each position comprises 12.5% of the portfolio.

If any trade is exited at a 10% trade loss, this equates to 10% x 12.5% of the portfolio = **1.25%**

As mentioned above, individual trade losses may hopefully be closer to 1 to 5%, so the impact of such losses on the whole portfolio is often far less than 1% and considerably less than the 2% usually quoted by other educators.

Correspondingly, for those weekly trades which were exited at close to 20% in August, while being significantly more than usual, each impacted about 20% x 12.5%, or 2.5% on the whole portfolio."

However, also during August, several notional trades were closed with good notional profits, as detailed in Jim's charts in Editions 579 and 580 and summarised in Table 1:

TABLE 1

Jim Berg's Australian Trading Signals Service								
CLOSED Notional JB Trading Signals During						Aug-16		
Entry				First Exit* - Using DAILY Charts				
Chart Shown in Edition No.	Trade No. #	Entry Date	Entry Price	Exit Trigger*	Exit Date	Exit Price	Time in Trade (weeks)	Notional Result %
579	1	12/07/2016	\$3.96	Initial Stop	4/08/2016	\$3.63	3.3	-8.3%
579	2	5/07/2016	\$9.50	Trailing Stop	4/08/2016	\$9.36	4.3	-1.5%
579	3	5/07/2016	\$14.22	Trailing Stop	5/08/2016	\$13.50	4.4	-5.1%
579	4	1/07/2016	\$72.08	Trailing Stop	5/08/2016	\$76.10	5.0	5.6%
579	5	28/06/2016	\$11.99	Trailing Stop	5/08/2016	\$12.17	5.4	1.5%
579	6	1/07/2016	\$111.92	Trailing Stop	8/08/2016	\$115.74	5.4	3.4%
579	7	18/07/2016	\$8.64	Trailing Stop	11/08/2016	\$8.43	3.4	-2.4%
579	8	11/07/2016	\$5.12	Profit Target	12/08/2016	\$5.89	4.6	15.0%
579	9	1/07/2016	\$5.15	Profit Target	12/08/2016	\$5.93	6.0	15.1%
579	10	31/05/2016	\$4.50	Trailing Stop	12/08/2016	\$4.64	10.4	3.1%
579	11	1/07/2016	\$68.21	Profit Target	17/08/2016	\$78.44	6.7	15.0%
579	12	14/04/2016	\$8.81	Taken over/suspended	19/08/2016	\$9.15	18.1	3.9%
579	13	16/08/2016	\$9.57	JB Profit Taker	19/08/2016	\$10.75	0.4	12.3%
580	14	12/07/2016	\$2.98	Trailing Stop	19/08/2016	\$2.84	5.4	-4.7%
580	15	16/08/2016	\$5.51	Initial Stop	22/08/2016	\$5.32	0.9	-3.4%
580	16	6/07/2016	\$9.78	Trailing Stop	22/08/2016	\$9.74	6.7	-0.4%
580	17	25/07/2016	\$9.83	Trailing Stop	22/08/2016	\$9.74	4.0	-0.9%
580	18	18/07/2016	\$14.20	Profit Target	23/08/2016	\$16.33	5.1	15.0%
580	19	25/07/2016	\$1.63	Trailing Stop	23/08/2016	\$1.65	4.1	0.9%
580	20	5/07/2016	\$123.70	Profit Target	24/08/2016	\$142.26	7.1	15.0%
580	21	6/06/2016	\$5.51	Profit Target	25/08/2016	\$6.34	11.4	15.1%
580	22	17/08/2016	\$8.14	Initial Stop	25/08/2016	\$7.25	1.1	-10.9%
580	23	15/08/2016	\$13.26	Initial Stop	29/08/2016	\$12.54	2.0	-5.4%
580	24	5/07/2016	\$2.74	Trailing Stop	29/08/2016	\$2.76	7.9	0.7%
580	25	8/08/2016	\$4.30	Initial Stop	30/08/2016	\$3.70	3.1	-14.0%
580	26	1/07/2016	\$11.90	Trailing Stop	31/08/2016	\$12.03	8.7	1.1%
Average							5.6	2.5%

\* Either Daily Initial Stop, Adjusted Stop, Daily Trailing Stop, JB Profit Taker or Profit Target

\*\* Excluding brokerage costs & dividends received

{# Please Note:

1. Stock codes and details of Jim Berg's Trading Rules are excluded from Sample Editions of the Report. They are presented in full to subscribing [Report Members](#) .}
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Table 2 summarises these closed notional trades from Jim's Trading Signals Service in August, based on notional \$12,500 positions:

TABLE 2

Total No. of Profitable notional trades =	15			
Total No. of Losing notional trades =	11.0			
Success rate =	57.7%	(Aiming for > 50% and preferably 65% in better markets)		
Total Gross Notional Profits	\$15,348			
Total Gross Notional Losses =	-\$7,136			
Win-Loss Ratio=	2.15	to 1	(Aiming for min. of 2 to 1 in better markets)	

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Of the 11 notional losses, 9 were under Jim's targeted 10% maximum of money invested, one was **-10.9%** and one was **-14%**. The latter was equivalent to 1.74% of a notional \$100k portfolio, i.e. 0.5% more than the 1.25% targeted by Jim, but still under the 2% limit recommended in other educators' money & risk management books.

Of the 15 notional profits, 7 achieved profit targets **10%** to **15%** in 4.6 to 11.4 weeks, while the other profits were locked in using Jim's Trailing Stop.

As mentioned above, to test and measure the profitability of a Trading or Investing Plan, Jim recommends to tabulate as many 'paper' and 'real' trades over as large a time period as possible, in order to develop a statistically representative sample. Table 3 therefore updates the results from Edition 574. It now shows the notional results for all the closed Trading Signals in 2016 -2017, as at 31<sup>st</sup> August.

**TABLE 3**

Jim Berg's Australian Trading Signals Service			
SUMMARY: 2016-2017 Closed Notional JB Trading Signals as at 31st August 2016			
Description	Jul-16	Aug-16	Total To date
Total No. of Profitable notional trades	9	15	24
Total No. of Losing notional trades	1	11	12
<b>Success Rate</b>	90.0%	57.7%	<b>66.7%</b>
Total Gross notional Profits	\$13,261	\$15,348	\$28,609
Total Gross notional Losses	-\$2,225	-\$7,136	-\$9,361
<b>TOTAL overall notional Net Profit</b>	<b>\$11,036</b>	<b>\$8,212</b>	<b>\$19,248</b>
<b>Overall Profit-Loss Ratio</b>	<b>6.0</b>	<b>2.15</b>	<b>3.06</b>
	to 1	to 1	to 1

*Please Note:* All percentages shown are % of the amount invested per trade. The past performance of STE products is not and should not be taken as an indication of future performance. Caution should be exercised in assessing past performance. STE's service, like all other financial services, is subject to market forces and unpredictable events that may adversely affect its future performance. Clients may not all achieve the exact same return, based on trade selection, timing, market volume and other market factors

There was a record number of new Entry Signals in Jim's Trading and Investing Signals Services during July and August\*\*, so obviously from a money and risk management perspective alone, it was not physically possible for any individual trader or investor to enter all of them.

However, Table 3 above shows the results for 2016-2017, as at 31<sup>st</sup> August, exceed Jim's two suggested Key Performance Indicators (KPI) for overall profitability, as explained on Page 2.

Next week, we will also look at the closed and open notional trades from Jim's Investing Signals Service during August 2016.

**\*\*Latest update:**

For the first time since 30 June (i.e. just after the end of year and Brexit decision & before the July rally), following the end Aug-Sept reporting season and the recent correction in the XJO, there were **7 new Entry Signals** posted for Trading & Investing Signals Members' review and research, ahead of the ASX Open on Monday 19 September.



Click on these links for more info on Jim Berg's Australian:

1. [Trading Signals Service](#) and
2. [Investing Signals Service](#)

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