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Your Free Wrap today is based on an extract from Edition 618 of our weekly Mentoring-style '*Investing & Online Trading' Stock* Report

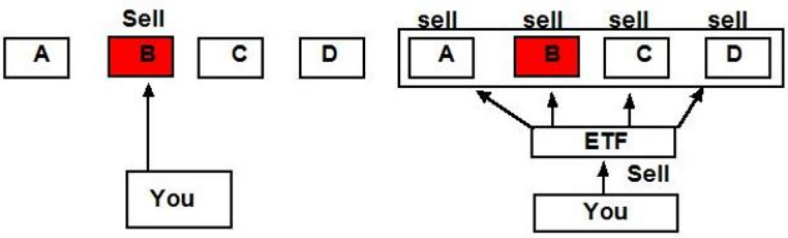
New! ETFs to be added

By Jim Berg and John Atkinson

1) "*What worked in the past does not work as effectively now…*"

Eleven weeks ago, in Edition 607 of our 'Investing & Online Trading Report', we republished an extract from Daryl Guppy's February 18th article titled; '*Why Today's Market is not Like the Market You Knew*', including;

> " We have a number of returning readers. These are readers who have traded prior to 2010 and then sat on the sidelines of the market for many years waiting for the volatility to disappear.
>
> We also have readers who are new to the market and discovering that markets do not behave in the manner suggested by the textbooks written prior to 2008.
>
> What worked in the past does not work as effectively now. Markets change and we must change the way we trade and invest. We have suggested many times that markets changed significantly in 2008-2009 and that we have to adjust our trading methods and thinking.'
>
> There are two dramatic new features in today's market and they influence the behaviour of every stock. They are High Frequency Trading (HFT) and Exchange Traded Funds (ETF). These have invalidated, or made less effective, many trading techniques. Together they have redistributed liquidity in the market and concentrated it in a small number of stocks.
>
> **KEY DIFFERENCES**
> We start with Exchange Traded Funds.
>
> Investors love these funds and they have been piling into them for years. Now ETF trading accounts for 70% of trading on the New York Stock Exchange. This trading literally holds up the market.
>
> We believe they account for similar levels of trading on the Australian Exchange. This means there is less liquidity in stocks that are not part of the ETF universe as traders are focused on ETFs and the ETF manager must trade the underlying stocks.



> Here's one of the impacts on liquidity. When you own a portfolio of stocks, A B C and D and one goes bad then you sell that one stock. Not so with an ETF. The ETF holds a basket of stocks that make up the index. Let's say they are also A B C and D. When they buy, or sell, then they must maintain the ratio mix.
>
> So when they sell they sell a little bit of every stock in their ETF portfolio. This includes the good performers and the bad performers. The result is that the good stock that you also hold suddenly drops as a result of ETF selling. This kills rational stop loss methods and it kills the idea of value investing…."

2) *"When in Rome, do as the Romans do"*

This is a popular quote for travellers which usually means when visiting a foreign land, *follow the customs of those who live in it.*

It can also mean that when you are in an unfamiliar situation, *you should follow the lead of those who know the ropes.*

That's why, in our weekly mentoring-style 'Investing & Online Trading Report', we recently commenced a new series of detailed ***'Continuous Improvement Quest'*** articles in which we progressively show the results of testing 6 alternative trial '*Quest*' exit strategies on recently closed notional trades from our weekly Report's notional portfolio - in today's changed market.

This testing is part of our ongoing continuous improvement process which we have carried out since we first launched the Report in 2005.

Our aim is to continually fine-tune and *reduce* the number and size of losses and also *increase* both the number and size of profits on ***shares*** traded in today's market.

In addition, for several years in that Report, in Jim's Home Study Courses and his weekend workshops, Jim has drawn attention to a few Exchange Traded Funds (**ETFs**) which have attracted his attention and which he has used for investing in his personal Self-Managed Super Fund, *in addition to shares*.

Well know Australian investor and fellow educator Alan Hull also wrote this week:

> " ...given our Stock market's narrow advance in recent times, ETFs are a very useful tool.
>
> Exchange Traded Funds are being used more and more by Australian investors as the core of their portfolios. And they are providing excellent returns with superior diversification. But there are a lot of products and a lot of misinformation for investors to sift through.

An ETF is a type of investment fund that can be bought and sold on a securities exchange market. In Australia, ordinary ETFs are '*passive*' investments that track an asset or market index (for example, the ASX200 Australian share index).

ETFs are available for a broad range of assets including Australian shares, international shares, fixed income products, foreign currencies, precious metals and commodities. They can be used as a way to diversify your investment portfolio, and usually have lower fees than a traditional managed fund.

Here are **4 key reasons to consider ETFs** in Share Portfolios include:

1. Liquidity

ETFs are bought and sold like stocks and shares on the Australian Stock Exchange (ASX). This facilitates the ability to get in and out of a position easily vs. Managed Funds which are often priced after the market closes.

Provided care is placed to check liquidity as part of the selection process, then investors and traders have the flexibility to exit quickly if the individual ETF or the overall market generates an exit signal - sometimes even quicker than if they were holding shares with low liquidity.

2. Diversification

In recent times we have observed some shares (including large caps) have dropped suddenly, often because there was insufficient demand from buyers.

Disciplined traders and investors may have exited when their stops were triggered – only to see the stock rebound strongly a few days later, after sufficient buyers returned to provide support.

When you invest in an ETF, you are investing in a *'basket'* of stocks, not one particular stock/ share, so this *helps you minimize stock specific risk,* spread your exposure and create a diversified portfolio.

3. Added Tax effective Bonuses?

The ETF industry is growing fast, with a large choice of ETFs available and more being added regularly, so there are many ETFs to choose from.

As part of your selection process, some of the factors to be considered when choosing from this ever growing list of ETFs include:

- What investments does the ETF track?
- Are there added tax effective bonuses which will help increase the total returns of the ETF*? For example:
  - ✓ Will franking credits apply?
  - ✓ Will dividends apply?

Please Note: As this information is of a general nature only, you should seek advice from your broker or other investment advisors as appropriate before taking any action. In particular, this may include consultation with your Taxation Advisor regarding any possible taxation implications from selling stocks, shares, Exchange Traded Funds (ETFs) or other instruments. (ShareTradingEducation.com™. P/L is not a registered tax agent and any reference to tax is incidental and must be confirmed with a registered tax agent .The decision to trade and the method of trading is for the reader to decide.

4. Jim Berg's Proven '*Weight-of-Evidence'*

Jim developed his profitable '*Weight-of –Evidence'* approach and JB Volatility Indicators through his own hands-on experience gained from successfully trading and investing various markets over now more than 30 years, 18 years of which as a professional Advisor.

As ETFs can be bought and sold like stocks /shares, then traders and investors can now also adapt and use Jim's Volatility Indicators and his common sense '*Weight-of-Evidence'* approach to help them choose:

1) **WHICH** ETF(s) to Buy?
2) **WHEN** to Buy the ETF(s) and, more importantly
3) When to **SELL** the ETF(s)

3) ETFs to Be Added to Signals Services and Weekly Report

A. Jim's Signals Services

Currently in his Investing and Trading Signals Services, Jim and his team scan the Australian market each night after the market has closed - to look for **SHARES** which pass his *'Weight-of-Evidence'* rules, including:

- ✓ Rising Trend
- ✓ JB Alert
- ✓ JB Blue Bar Volatility Entry Signal
- ✓ And other entry rules as taught in this Report
- ✓ Additional entry filters (e.g. Jim's fundamental criteria for Investing Signals)

Also each night, on behalf of Signals Members, Jim's team:

1. Monitors all *'open'* positions in a Master Log, including Stop prices, when to switch from Initial Stop to Adjusted Stop, Trailing Stop or Emergency Stop (as applicable), adjustment and stops to account for dividends, adjustment of Profit Targets and more
2. Then notify Signals Members of:
   - Any new entry Signals
   - Any new Exit Signals, including stop loss triggers and profit targets
   - Latest Stop Loss prices

During February to April 2017, we issued various Caution Notices. Then, on 6th- 7th May 2017, Jim announced to Members of his mentoring-style Report and his Australian Investing and Trading Signals Services of his intention to sell all shares and lock in profits on Monday 8th May 2017.

6 *out of Jim's* **7** Australian Trading Signals (i.e. **85.7%**) *and* **25** *of his* **26** Investing Signals (i.e. **96.1%)** which were open at that time were closed in notional Profit, i.e. *a* ***93.9%*** success rate overall#. Jim's latest market call was indeed again very timely and the Australian market – and particularly bank shares -have subsequently dropped significantly since#.

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Jim and his team continued to scan the market daily and from 8th May to Friday 2nd June there was a notable lack of confirmed entry signals in any *shares while the overall market fell.* However, in this week's Edition 618 of our Report we noted that 4 new Trading Entry Signals and 2 new Investing Entry Signals had been posted for Signals Members ready for Monday 5th June.

We also announced that ***in addition to*** **SHARES**, Jim now also intends to **ADD** a number of **ETFs** as part of his daily Trading and Signals Service, selected and monitored in the same way. This will allow traders and investors to:

1. **Diversify their portfolios**, while at the same time helping to reduce some stock specific risk
2. Help investors to **potentially increase their total returns** - by the addition of Franking Credits and Dividends where applicable
3. **Take advantage of rising trends in Indices** which may be outperforming the Australian market, e.g. as has occurred in the USA and some developing markets in recent years.

Also, it will allow them:

- ✓ To keep trading or investing here in Australia in overseas markets **without exchange rate concerns** and
- ✓ During times **when Jim announces a 'no go'** period for the Australian market

As part of his ETF selection process, Jim intends to take account of Liquidity in the individual ETFs and their underlying stocks/ Indices as this is a very important factor.

Right now, Jim is:

1) Looking daily for confirmed *'Weight-of-Evidence'* Entry signals into an Initial Watch list of ETFs which are in rising trends in Australia and USA
2) Planning to filter the ETF market to add other ETFs to his ETF Watch List progressively in time. This may include Asian/European developing markets, commodities, etc.
3) And is also planning to add other ETFs which are purposely designed to help traders make money in falling markets – so that he is prepared if/when the market switches to a falling trend.

Over the coming days and weeks ahead, in Jim's Trading and Investing Signals Services:

1. Signals Members will be notified of any new ETF Entry Signals on the day they occur.
2. Jim's team will then monitor all open ETF positions in the same way we currently do for shares – see above.

B. Mentoring-Style Report

As further education, in our weekly mentoring-style 'Investing & Online Trading Report'we also plan to:

1. Subsequently publish and comment on the results of those ETF Signals trades after they are closed and
2. Look for ETF trades for our Report's notional short term trading portfolio

Jim Berg's ETFs and Australian Stocks Signals

For more info. and to become a Member of Jim's Signals Services, click on the links below:

Jim Berg's Trading Signals for ETFs & Australian Stocks

Jim Berg's Investing Signals for ETFs & Australian Stocks

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Examples from the Australian and USA markets are provided to demonstrate that Jim Berg's principles may be used globally. This educational material is from an Australian source and complies with Australian law and not necessarily any other (local) law.

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