

# Investment Management

## Stocks and Investing Basics of Portfolio Management

# Starting Out

- Pick Great Companies ? HOW, We will discuss
- Buy and Hold - Persistence
- 8% loss and cut your losses
- Learn, Experience it and do it.
- Learn how to set up online Portfolio and follow it.

# How To? Getting Started

- Need an Account
- Online account or Live Person Broker?
- Hire an Investment manager? Or use an ETF, Mutual Fund or index fund
- No Margin
- If less than 10K, stick to 2-3 stocks
- If more than 10 K, 5-6 great stocks

# Stocks and Rules

- Stick to stocks worth more than 15-20 dollars. There is liquidity and coverage and volume on stocks worth money. Anything less than 5 bucks can be a penny stock.
- Over 15-20 dollars can be marginable if needed.
- Stick to your rules and risk that you will be suited for.
- Clients have their own suitability and risk tolerance. Thus, you must follow their wishes.

# Fundamental and Technical

- Fundamental analysis is crunching the numbers and reviewing the ratios
- Technical Analysis is charting and historical analysis.
- Support is what the price is holding up to.
- Resistance is the higher price that the stock has not gone to or over.
- These can be keys to sell and buy

# What to Buy

- Buy the best stocks.
- Back to back 20% or more growth.
- ROE of over 17% or higher for past quarters.
- Some magazines have a EPS Rating for earnings per share where a high number such as 99 out of 100 is best.
- Use a stock screener <http://screener.nasdaq.com/screener/>

# Relative Price Strength

- **Investopedia explains *Relative Strength***

It is calculated dividing the price performance of a stock by the price performance of an appropriate index for the same time period.

- [http://www.insidestocks.com/momentum.asp?code=BFCE  
RT](http://www.insidestocks.com/momentum.asp?code=BFCERT)

- We are talking about strength and momentum.

- Buy Stocks that are strong in their industry.

# Institutions and INFO

- Go to Yahoo Finance <http://finance.yahoo.com/q?s=YHOO>
- Look at Major Holders
- What Institutions are holding or buying?
- Have any insiders dumped stock?
- Who are competitors?



# Break Out

- Most everyone has made it big with break outs of stocks trading over 20 dollars
- When a new HIGH price is broken i.e. break resistance, then that has been the best buy point or pivot point.
- Look at volume of trading
- Buy at new high? 98 percent of investors don't do this, but this is when the momentum begins and a breakout happens

# Cup and Handle – Break Out

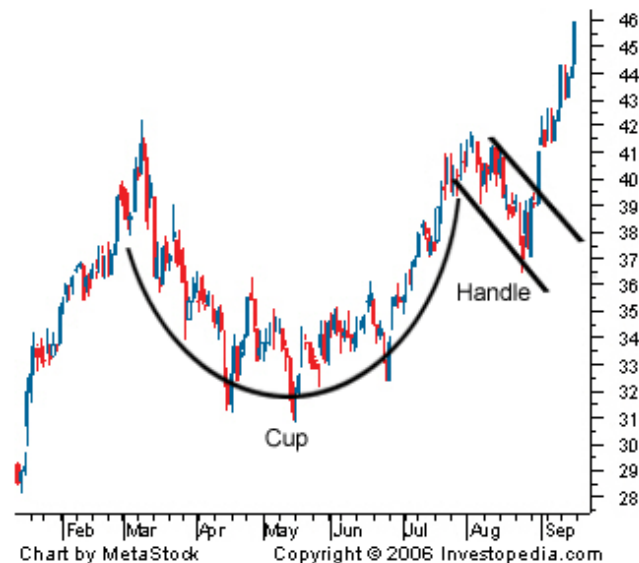
## Cup and Handle



### What Does *Cup and Handle* Mean?

A pattern on bar charts resembling a cup with a handle. The cup is in the shape of a "U" and the handle has a slight downward drift. The right-hand side of the pattern has low [trading volume](#). It can be as short as seven weeks and as long as 65 weeks.

As the stock comes up to test the old highs, the stock will incur selling pressure by the people who bought at or near the old high. This selling pressure will make the [stock price](#) trade sideways with a tendency towards a downtrend for four days to four weeks... then it takes off. Below is an example of a cup and handle chart pattern:

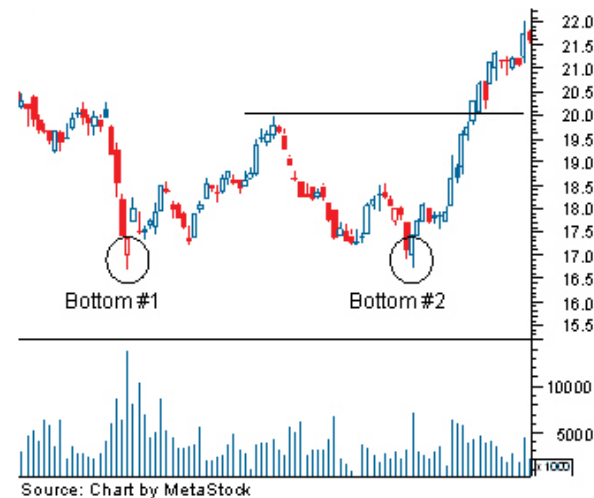


# Double Bottom

<http://www.investopedia.com>

## Double Bottom

This is the opposite [chart pattern](#) of the double top as it signals a reversal of the downtrend into an [uptrend](#). This pattern will closely resemble the shape of a "W".



Source: Chart by MetaStock  
Figure 2: Double-bottom pattern

The double bottom is formed when a downtrend sets a new low in the price movement. This downward move will find support, which prevents the security from moving lower. Upon finding support, the security will rally to a new high, which forms the security's resistance point. The next stage of this pattern is another sell-off that takes the security down to the previous low. These two support tests form the two bottoms in the chart pattern. But again, the security finds support and heads back up. The pattern is confirmed when the price moves above the resistance the security faced on the prior move up.

Remember that the security needs to [break](#) through the support line to signal a reversal in the downward trend and should be done on higher volume. As in the double top, do not be surprised if the price returns to the breakout point to test the new support level in the upward trend.

# OMG – Since Dec 2007

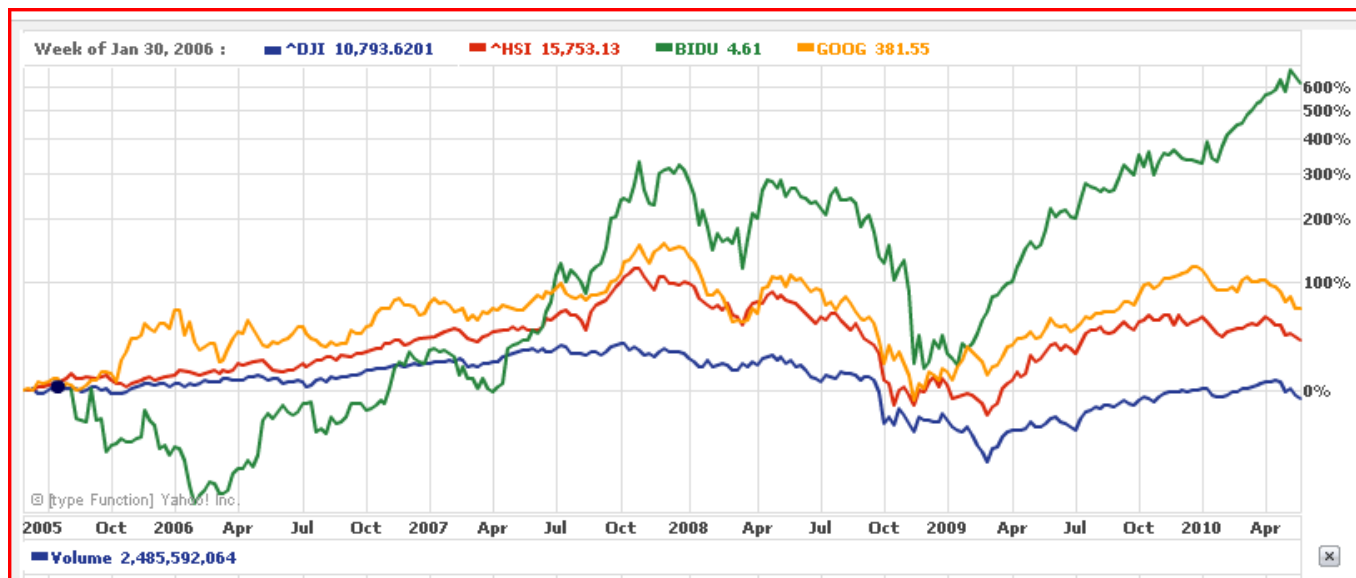


# Global Markets - China



# Opportunities

- While the USA may have been in a recession in 2008, some stocks held up well in the USA, China, EU and other places.
- There were great buying opportunities



# Defy the Market

- About 20 percent of stocks defy the markets
- Some are defensive
- When economy is bad, Wal-Mart does well...
- What sector is positioned to lead
- What is a market leader in that sector.
- Where are interest rates? If low, good for growth companies.
- What is regulation doing to the stocks you like?

# CAN SLIM – Mnemonic from IBD

- **7 Part Mnemonic** - The seven parts of the mnemonic are as follows:<sup>[1]</sup>
- **C** stands for **Current earnings**. Per share, current earnings should be up to 25%. Additionally, if earnings are accelerating in recent quarters, this is a positive prognostic sign.
- **A** stands for **Annual earnings**, which should be up 25% or more in each of the last three years. Annual returns on equity should be 17% or more
- **N** stands for **New product or service**, which refers to the idea that a company should have a new basic idea that fuels the earnings growth seen in the first two parts of the mnemonic. This product is what allows the stock to emerge from a proper chart pattern of its past earnings to allow it to continue to grow and achieve a new high for pricing. A notable example of this is [Apple Computer's iPod](#).
- **S** stands for **Supply and demand**. An index of a stock's demand can be seen by the [trading volume](#) of the stock, particularly during price increases.
- **L** stands for **Leader or laggard?** O'Neil suggests buying "the leading stock in a leading industry". This somewhat qualitative measurement can be more objectively measured by the **Relative Price Strength Rating (RPSR)** of the stock, an index designed to measure the price of [stock](#) over the past 12 months in comparison to the rest of the market based on the [S&P 500](#) or the [TSE 300](#) over a set period of time. <sup>[2]</sup>
- **I** stands for **Institutional sponsorship**, which refers to the ownership of the stock by mutual funds, particularly in recent quarters. A quantitative measure here is the Accumulation/Distribution Rating, which is a gauge of mutual fund activity in a particular stock.
- **M** stands for **Market indexes**, particularly the [Dow Jones](#), [S&P 500](#), and [NASDAQ](#). During the time of investment, O'Neil prefers investing during times of definite uptrends of these three indices, as three out of four stocks tend to follow the general market pattern.
- <http://screener.nasdaq.com/screener/>
- \* **CAN SLIM** refers to the seven-pronged [mnemonic](#) publicized by the American newspaper [Investor's Business Daily](#), which claims to be a checklist of the characteristics performing [stocks](#) tend to share before their biggest gains. It was developed by Investor's Business Daily editor [William O'Neil](#) who has reportedly made several hundreds of millions of dollars by consistently using its approach.



# Selling and Holding

- If there is professional i.e. institutional buying, that is a good indicator to buy.
- If there is professional selling, its time to sell.
- Good to check put/call ratio. If that is UP, then it is bearish.
- Where is the support.? Or Bottom? Buy/SELL
- Harry Dent has implied bottom of 3000
- What is the liquidated value or PE of a Stock?

# Indicators and factors to Consider

- EPS is up 25% is a must
- 6-12 quarters of earnings increases of 40% or higher
- Check the next quarter consensus
- If a turnaround, must be 2-3 great quarters where the EPS is at a new high
- Is there profit margin improvement. i.e. costs
- Is ROE 20% or more
- Price must be 15-20 dollars per share or higher

# Good to learn about

- Using online charts – Yahoo and Google
- Understand basic technical analysis
- Learn more about Ratios
- Dividends
- Splits
- When reporting earnings...

# Growth and Value

- Growth stocks generally have no dividend
- Examples – MSFT, Apple etc.
- Value – Where PE is low and stock price is low relative to industry sector
- Use ETFs to buy value in Mid and Small Caps
- No need to mess with Options or Futures
- These days you can buy 3X ETFs such as FAS

# Buying

- You can ladder in when buying
- Pick a few great stocks
- Know them well
- Great if you believe in the company too
- Get Google Alerts?
- Only need 2-6 great picks to follow in your portfolio

# Selling

- It is good advise to sell a stock that has a normal correlation to the market which has dropped over 8% from your purchase price.
- Focus on the 4-5 good stocks that you have.
- If you have a 20% run in a 2-3 week period, HOLD
- If you have over 40-50 Percent gain over a few months, it may be advisable to sell half unless the long term growth is sustainable.

# Global

- Over the last 20 years, global regional growth has been wild and made millionaires ..
- Brazil, Latin America, Russia, China, Taiwan, Africa, Korea and more.
- Many of these stocks trade on the American Exchange.
- Many of the companies have huge cost savings in labor, benefits, and materials.

# Who is Next?

- INDIA
- Indonesia
- Malaysia
- New China Stocks and New India Stocks that are listed on the USA exchange
- Parts of Africa who have the best legal systems and tax systems.



# What's Hot

- PDAs cell phones... IPOD
- IPAD
- Search Engines
- Software
- Education
- Health Care
- Travel, Job hunting, and more
- EBAY USA and EBAY in other languages
- Commodities – Gold, Silver, Copper etc.

## The Jobs of the Future

Occupations with the largest percentage growth expected through 2018:

- Biomedical Engineers 72%
  - Network Systems Analysts 53%
  - Home Health Aides 50%
  - Personal, Home-Care Aides 46%
  - Financial Examiners 41%
  - Medical Scientists 40%
  - Physician Assistants 39%
  - Skin-Care Specialists 38%
  - Biochemists, Biophysicists 37%
  - Athletic Trainers 37%
- Source: Labor Department 'Occupational Outlook Handbook'

# Various Types of Investments

- Stocks
- Bonds
- Money Funds
- ETFs
- Mutual Funds
- CDs
- Gold or metals
- Real Estate or REITS

# Investing for Others

- Much of what we are talking about is investment management for your portfolio.
- If you are a broker, then the agreement applies.
- If you are an investment manager, 2 agreements may apply.
- Investment Policy Statements apply.
- Discretionary investment accounts have special rules also.

# Blow Out

- Many people got scared and freaked out in the downturn and sold at Dow 8 Thousand. Some lost everything because they were on margin.
- Most have the same 1 dollar that they invested 10 years ago.
- QQQQ The investment is a unit investment trust designed to correspond generally to the performance, before fees and expenses, of the Nasdaq-100 index. The fund holds all the stocks in the Nasdaq-100 index, which consists of the largest non-financial securities listed on the Nasdaq Stock Market.



# QQQQ, Dow Jones, S & P



# USA, Latin America, China



# Laws that Apply – Of Course

- Confidentiality and Privacy  
<http://www.ftc.gov/bcp/edu/pubs/business/idtheft/bus53.shtm>
- No Self Dealing – Shadow and Front  
<http://www.investopedia.com/terms/f/frontrunning.asp>
- Conflicts of Interest <http://www.sec.gov/news/speech/spch051205css.htm>
- Suitability, Risk Tolerance, Objectives.. <http://www.sec.gov/answers/suitability.htm>
- Limitations on stocks and investments applying to account.
- Can't do anything without authority & permission.
- Protect Joint Accounts 401ks etc.
- Securities laws
- Investment Advisor Laws <http://www.sec.gov/investor/pubs/invadvisers.htm>
- Margin Rules and Laws <http://www.sec.gov/investor/pubs/margin.htm>
- Accredited Investors <http://www.sec.gov/answers/accred.htm>
- High Risk Investments, Options etc. <http://www.sec.gov/answers/options.htm>
- Binding Arbitration <http://www.sec.gov/answers/arbproc.htm>

# Conclusion

- Taxes are secondary to earning and growing and protecting your assets and money.
- Buy assets and Create appreciation and worry about taxes later.
- If you don't like taxes, move to a state with no income tax to mitigate ongoing state taxes, but buy a small home or rent.
- Fed taxes do not apply to long term holdings until you SELL.
- Invest each month and each year into IRAs, 401Ks, self directed accounts, annuities.
- Or, just invest your after tax savings.



# References

- 24 Essential Lessons for Investment Success by William O'Neil and CANSLIM
- **Beginners' Guide to Investing: Online Publications at the SEC -**  
<http://www.sec.gov/investor/pubs/begininvest.htm>
- **Get the Facts: The SEC's Roadmap to Saving and Investing -**  
<http://www.sec.gov/investor/pubs/roadmap.htm>
- <http://www.sec.gov/investor/pubs/takingstock.htm>
- **Beginners' Guide to Financial Statements.** This brochure will help you gain a basic understanding of how to read financial statements.  
<http://www.sec.gov/investor/pubs/begfinstmtguide.htm>
- **View More Information on Different Types of Investments:**  
<http://www.sec.gov/investor/pubs/investop.htm>
- [A Guide to Understanding Mutual Funds](#) – A publication from the ICI that explains mutual funds, describes how to establish realistic goals, and suggests questions to ask before you invest. (Provided in [PDF](#) format.)
- **Exchange-Traded Funds (ETFs) -**  
<http://www.sec.gov/answers/etf.htm>