



# The Visual Investor

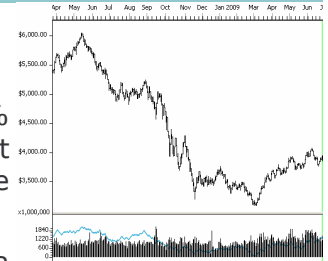
## Goodbye and Good Riddance

The Australian market closed at 3947.8 down 1385.1 point or almost 26% for the 08/09 financial year. By any measure a disastrous year, but considering the market was down 42% during the March lows, the recovery thus far has been very welcome indeed.

The market has been range trading for over a month now with a combination of weak US economic data and the usual end of financial year machinations weighing on the Australian Indices. The question on everyone's lips is of course where to from here?

With quarterly reporting from the US and the Australian annual reporting season about to start we expect that this July may start quietly with the institutions holding off on major investment until the bad news is out of the way. How much bad news is yet to be told is anyone's guess.

Some positive news, or at least getting the 'dirty financial laundry' out in the open should start to give the market some directional impetus later this month or early in August. If the trend proves positive, we could be in for some major gains later this quarter, but as always expect the unexpected and don't forget those stops.



Bring on 09/10!



### MARKET VIEW

Frank Watkins

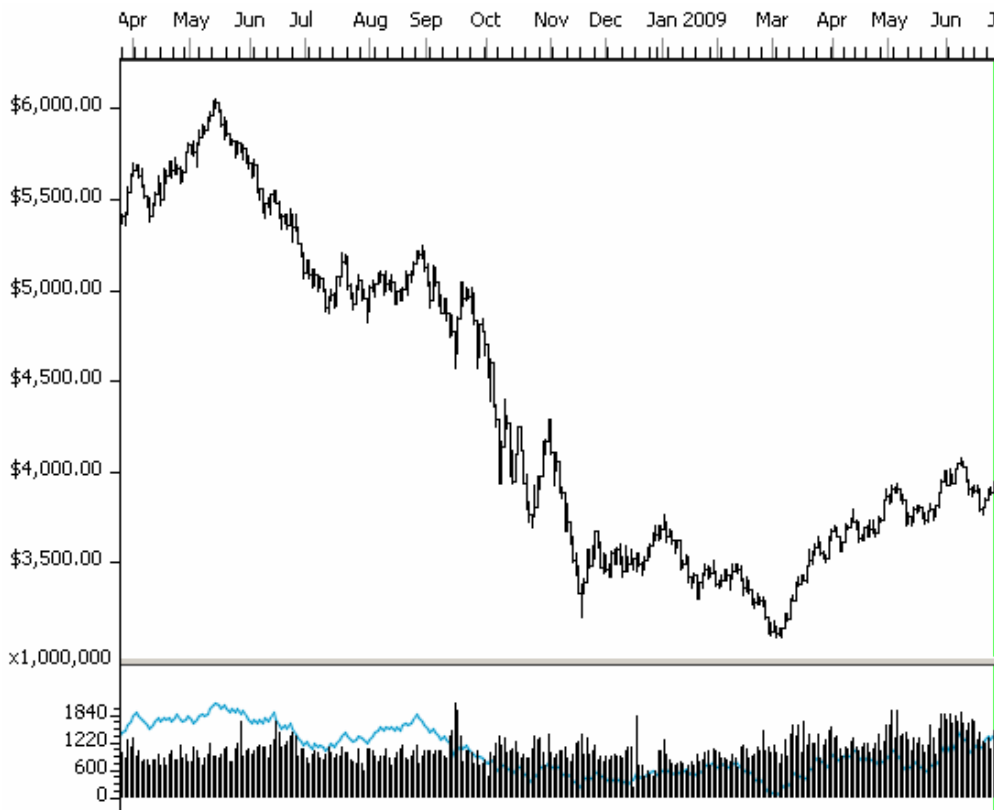
The financial year from 1<sup>st</sup> July 2008 to 30<sup>th</sup> June 2009 saw the All Ordinaries Index fall 25.9%. The current calendar year from January has the XAO up 7.8% and during June it rose 3.54%. These figures indicate to me that the worst is over. The March to June rally has caught many by surprise. Many are still sidelined waiting for the market to settle down a bit before stepping back in. Unfortunately sitting on cash is not producing a reasonable return. It is a very difficult investment environment at present. For the "long-term" investor cash, real estate and dividends returns are at very low levels.

July can often be a very strong month however this year we need to contend with issues that we have not encountered in the past. Recent US unemployment figures sending reverberations around the world's markets. China is in negotiations over iron-ore prices. Rumors still surround the banking sector with talk of enormous debt yet to be exposed. These factors, among others are contributing to a great deal of uncertainty. One issue that the market does not handle well at all is uncertainty. Hopefully the annual reporting season over the next few weeks will either expose or bury these rumours. While I expect a bit of volatility and uncertainty during the next quarter I feel there are enough signs (such as recent car sales figures) to suggest that the worst is behind us. Some strong profit results will boost the confidence.

June was a very busy month for Pro Trader, attending the Brisbane Trader's Expo and running workshops in Perth, Brisbane, the Gold Coast and Auckland. The Expo proved to us that the general industry has not learned from it's mistakes. The buy, hold and pray method seemed to be the best advice still going around. The best bit of analysis came from one of Australia's "leading broking firms" when he showed figures suggesting that the recent world global crisis could become as bad as the 1930's depression "because in 1930 America was 25% of the world GDP but today it is only 12% of the world GDP. ??????"

From our viewpoint we still feel it is important to concentrate on "the perfect trade" and to run with stop losses in place. Active management is imperative.

# Broking Issues



Remember your risk level in any trade is the amount of money you are willing to spend to find out if you are right or wrong.

Index Performance for June		
XAO	+134.5	+3.5%
XJO	+136.9	+3.6%
XPJ	+19.6	2.7%
XMJ	-14.0	-0.1%
XIJ	+14.7	+2.8%
XHJ	+608.2	+8%
XNJ	+82.9	+2.8%

The All Ordinaries closed out May at 3947.8 having started the month at 3813.3. It was a choppy trading month with high volatility in the Materials sector. A big issue this month was RIO's rights issue which appears to have been highly successful. We predicted that June, as usual, would be very variable due to end of year book squaring activity and we look forward to some positive moves once our reporting season is out of the way.

## Stop Losses

A stop loss is a vital part of the traders risk management arsenal. A stop loss order is an order to sell a stock once it trades at or below a particular price level. In practice a stop loss order is an alert that becomes a market order at or below the stop loss level.

This presents an issue in the case of RIO mentioned above. In an automated system, your order will be transacted automatically once your stop loss level is reached. In the case of RIO however, when the shares traded ex-rights issue (XR), the ASX automatically adjusted the price down by about \$30. The rights were then trading on the market as RIOR for about \$30. But what happens if you have an automated stop loss in the system and you don't realise that RIO was going to trade XR?

Depending on your online platform and how you've set it up, possibly your shares would have been sold unnecessarily. When RIO went XR, our trading screens were showing a price fall of almost \$30, i.e. the trading system didn't take account of the value of the rights. Our human dealers had already taken this into account. Perhaps a reason to be wary of automated stops?

**Does your broker offer conditional orders to help you optimise your entries and exits?**

**No ... then isn't time you got another broker?  
Phone Pro Trader Securities on 1800 123 015**

# Company Profile

## Definition

This month's term is **Price Earnings Ratio (PE)**. This is the relationship of the current share price to recent earnings. Simply divide the price of the share by the earnings of the share.

### GICS Industry Group Codes

1010	Energy
1510	Materials
2010	Capital Goods
2020	Commercial Services & Supplies
2030	Transportation
2510	Automobile & Components
2520	Consumer Durables & Apparel
2530	Hotels Restaurants & Leisure
2540	Media
2550	Retailing
3010	Food & Drug Retailing
3020	Food Beverage & Tobacco
3030	Household & Personal Products
3510	Healthcare Equipment & Services
3520	Pharmaceuticals & Biotechnology
4010	Banks
4020	Diversified Financials
4030	Insurance
4040	Real Estate
4510	Software & Services
4520	Technology Hardware & Equipment
5010	Telecommunications Services
5510	Utilities

## Bluescope Steel BSL



**BlueScope Steel Limited** is a major steel company in Australia and New Zealand. They supply steel products to a range of industries including the building, construction, manufacturing, automotive and packaging industries.

This is a stock whose fortunes are very much linked to the overall performance of the economy and has shown strong growth since 2004. In February, BSL announced a Net Profit After Tax (NPAT) of \$407M up \$116M on the corresponding 2008 period. While forecasting a difficult second half, the company was hopeful that the Federal Government's stimulus package would see some improvement in economic activity.

The company has embarked on cost management program aimed at delivering \$150 million in savings.

This may be one for your watch list. The recent volume activity is interesting, and we would be looking for entries if it trades above the \$3.00 level.

**Have you registered for our SMS trading alert service? It's FREE to Pro Trader Securities clients so why miss out, contact your adviser today and register to get alerts on potential trades straight to your mobile phone!**

# Technical Issues

Following on from our Broking Issue regarding corporate actions such as rights issues, we have an issue regarding data. This was one that came up recently with the RIO rights issue. When a company issues rights, the ASX will adjust the share price to reflect the new 'value' of the shares. They do this by producing a dilution factor which is applied to the share price, and also the historical data. This process is known as back adjusting the data.

We will often get calls from members complaining that our data is wrong and that there is a different price on the ETrade site, for example. This is because we get our adjustments directly from ASX when they are applied. Our data system automatically updates the historical data and disseminates it to you when you update. This process often takes a longer period of time on the online trading platforms.

The ASX will apply a dilution factor for many corporate actions including:

- Splits
- Bonus Issues
- Rights Issues
- Reconstructions or capital consolidations
- Returns of capital or special dividends
- Calls on contributing shares or installment receipts

Normal dividends will not cause an adjustment to be made.

It's important to note that the adjustment to the historical dataset will mean that if you bought a share at say \$2.00 on December 1st, when the dilution factor is applied it may show a completely different price for that date. For example, if a 1 for 2 capital consolidation occurs, your purchase price for December 1st would show \$4.00.

## Windows Tip

To undo an edit process such as a copy and paste operation or a text edit, we can use the Control + Z keys. Holding down the Ctrl key and pressing the Z key will step backwards in the edit process undoing any previous edits. A handy operation if you mess up!

## Software Tip

If you want to move the green cursor line more than one day at a time, hold down the Shift key while clicking the navigation arrow. The cursor will move through the data ten days per click instead of one. If you wish to move it to a particular day, position your mouse cursor where you want to go, and hold down the Ctrl key while clicking your mouse.

# Financial Planning

## Are you a share trader or share holder?

Being classified as a share trader for tax purposes means you are in the **business** of share trading. This depends on the following:

- The nature of your trades - is the purpose to make a profit?
- The repetition and regularity of the trades.
- Is this similar to other businesses which trade in shares?
- Are you running like it like a business, eg, accounting records?
- Is the volume of trades sufficient, and is there sufficient capital employed?

### 1. Nature of trading and the purpose of profit making

You might be thinking this is a stupid question? Of course I am trading to make a profit! We need to consider the general context about a business overall versus a hobby. It would generally be a given you are trying to make a profit but we need to look at the nature of the trades you make, ie, are you approaching it in a businesslike manner. A **share trader** is someone who carries out business activities for the purpose of earning income from buying and selling shares.

A **share holder** buys shares so as to earn income from dividends. They are not carrying on business activities.

You must consider the facts of your situation, eg, how are you going about share trading or do you have a business plan? For Pro Trader clients a business plan might show, for example:

1. what types of scans you do and the criteria you use
2. what types of buy signals you consider
3. entry points
4. exit points
5. stop losses
6. profit targets

### 2. Repetition

Repetition is important. Repetition is the frequency of transactions.

### 3. Run like a business and the keeping of records

For Pro Trader clients it would be reasonable to expect a share trading business to involve all of the 6 points mentioned above. Daily scans and even a number of scanning techniques would be appropriate. Your qualifications, expertise, training, or skills in this area would be relevant to determining whether you are running a business. You would need to keep records of all transactions.

### 4. Volume of trading

The greater the volume the more likely it is that you are running a business.

### 5. Amount of capital used

This is not as critical with share trading as it is possible to run a business with a small amount of capital.

### The difference between a share trader and a share holder

A share trader is someone who carries on a business for the purpose of earning income **from buying and selling shares**. This means that profits/losses are included as normal income (no capital gains), shares held are trading stock. This means unrealised losses can be written off at the end of the year. However, unrealised profits have to be included in income. The costs in buying/selling are deductible and dividends are still income.

Depending on your income and tax situation it may be advantageous to be classified as a trader.

### **Example – Share trader**

Simon is retired. After speaking to a friend Simon decides to become a share trader. Simon sets up a proper home office – a dedicated room. He has a computer and access to the internet.

Simon uses \$150,000 of his own money and borrows another \$75,000. He buys a Pro Trader membership and decides to attend one of Pro Trader's workshop on how to set up trading rules. He spends time learning how to use the software. Simon sets up a business plan using at least the 6 points stated above.

Simon conducts daily scans and assesses developments in equity markets. Simon also subscribes to financial newspapers, investment magazines and stock market reports so as to obtain a general understanding of financial markets. Simon's objective is to find shares that will increase in value in the short term so he can sell at a profit.

In the year ended 30 June 2008 we have the following facts:

Simon had 70 share transactions - 45 buys and 35 sells.

The average buy was 1,000 shares at an average cost of \$2,000.

The average sell was 1,500 shares at an average price of \$4,000.

All the transactions were conducted through a broker

Simon held the shares for an average of 14 week.

Simon lost \$15,000 after expenses.

Simon shows all the factors that someone would expect in carrying on a business. Simon's intention was to make a profit – even though he made a loss. His trading was regular and repetitive. His ran his trading a business-like manner. The volume of shares turned over is high, and he has injected a significant amount of capital into the business.

**WARNING:** The above is a guide only. You should consider speaking to a registered tax agent about your personal circumstances or visit the Australian Tax Office web site for additional information.

### **GENERAL ADVICE WARNING**

The information contained in this publication may be regarded as general advice only. That is, your personal objectives, needs or financial situations were not taken into account when preparing this publication.

You should consider the appropriateness of any general advice we have given you, having regard to your own objectives, financial situation and needs before acting on it.

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