LOUISE BEDFORD: ME… DEMOTIVATING? | **HOW TO TURN YOUR PROFIT INTO LOSSES**

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EXAMINING THE KEY ISSUES OF 2016

HAS OIL FOUND A BOTTOM?

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HOW CHINA'S TRANSITION COULD WORSEN THE OIL GLUT & STIR THE AUSTRALIAN DOLLAR

FINDING A HOLY GRAIL SYSTEM

TRADERS STORY | TRADING WITH THE COMMITTEE

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Maximising Your SMSF Trading Opportunities in a Bear Market

Markets have been brutal in 2016 and many traders are possibly trading their own self-managed super fund (SMSF). Therefore, I'll be discussing how to maximise trading opportunities with your SMSF during a bear market.

Setting up a SMSF is easier than ever before and you no longer need $200,000 or more to cover the yearly fees. Now you have companies that have removed a lot of the manual paperwork and conduct their audits and setups electronically, saving you both time and money. Online brokerage consistently hovers around the $19.95 per trade or lower, so you have that working in your favour as well.

Let's take a look at some statistics that welcomed in 2016 and the Chinese year of the Monkey.

- The S&P500 was down 5.07% in January
- Since the year 1900, there have only been 12 other Januaries that were down more than 5%.
- More than half of the world's global Indices are now officially in a bear market
- The Aussie SPI index was down 4.28%
- 21.5% of the top 200 ASX stocks gained ground whilst an incredible 78.5% fell in value

Here are some of the worst ASX top 200 performers for January:

- Whitehaven Coal (WHC) -41.42%
- Slater & Gordon (SGH) -30.23%
- Ten Network (TEN) -29.41%
- Worley Parsons (WOR) -28.78%
- Santos (STO) -16.40%
- BHP Billiton (BHP) -15.14%

It's not all bad news though. Here are a few of the top gainers:

- JB Hi-Fi (JBH) +21.47%
- Medibank Private (MPL) +16.74%
- Treasury Wines Estates (TWE) +10.89%
- M2 Group (MTU) +9.48%
- Bluescope Steel (BSL) +4.29%

So if your portfolio lost ground in January it would be safe to say you are not alone. It would also be fair to say, if you are reading the YTE magazine then you are likely to be in the top percentile of traders. The warning signs were there with the Aussie 200 Index consistently hitting lower highs and lower lows since May 2015. In addition, the 200 period moving average started trending lower in June 2015.

What is the goal of your SMSF?

Establishing the goal and mindset behind the trading system(s) you dedicate to your SMSF is important and should not be overlooked. Some of the goals you may focus on are:

- Steady returns which outperform the index
- Never to have a negative year
- Minimal drawdown (If targeting 15% yearly return, then a drawdown of 4 to 7% is enough)
- How much money you will allocate to cash
- Whether you trade both local and international shares or just the local market
- Run an end of week system and an end of day system

Building your SMSF trading system(s)

With your goals and mindset leading the way, you now need to develop your trading system(s) that will dictate how you will trade your SMSF monies.

Here are the key parameters you need to take into account:

Know the market conditions

Markets move between trending, range bound and volatile breakout styles of markets. No one trading system will ever work across all market conditions. As a wise trader, you need to be aware of what the current market condition is and understand how your trading system(s) will perform across each market type.

In an ideal world, having three separate trading systems to cater to each market type would be nice, but most of us have time constraints. You should at least be aware that your trend following system is likely to get chopped in and out during a range bound market and there is no need to panic. In 2016, markets have been volatile and bearish.

Know your timeframe

Unless you have the luxury of being semi or fully retired, your time is going to be limited. In this case you need to focus on end of day or even end of week trading systems. Your intraday systems may be fantastic on paper, but if you cannot watch the markets in line with the style of your trading system, you are going to achieve maximum frustration instead of maximum returns.

Initial stop & trailing stop loss and how that ties in with your money management

During volatile and bearish markets, your long only trading system should have the safety of sensible initial and trailing stop losses. Your initial stop loss should be based on the volatility of the stock by using the Average True Range (ATR) indicator. Technical points, such as support lines, can be fine, but during volatile markets, an ATR based stop will be better.

For strong money management, your ATR based stop will help you calculate your position size. You should not be risking more than 2% per trade but during volatile bear markets, you may want to scale that back to 0.5% to 1% risk per trade.

Calculating your position size is simple. Use the following formula:

Risk per trade divided by stop loss size. So if you have $100,000 in your SMSF and you are risking 0.5% and your stop loss size on say AGL is $0.70 (2xATR), then you would purchase 700 shares ($12,740 total position) - $500/$0.70. In this case we rounded down from 714 shares.

This leads on to your trailing stop. Ideally, we'd all like to have trend following systems that keep us in trades which push higher for days and weeks on end. However, during a volatile bear market you need to consider your options carefully. If you continue to run wide stops then you are going to be giving back a lot of open profit. Table 1 illustrates some alternative trailing stops you may want to consider.

Bull Market Trailing Stop	Volatile Bear Market Trailing Stop
3 ATR (Chandelier Exit)	2ATR
20 day lowest low value	7 day lowest low value

Table 1.

Remember, minimising your losses is more often than not a deciding factor in how profitable you are rather than outright winners.

Do all stocks fall during a bear market?

Fortunately, not all stocks fall during a bear market. We certainly do have to be more selective but there is often a reasonable selection of steady up trending stocks we can place excellent risk reward trades on. In fact, a lot of money rotates from one sector to another as we saw with the likes of A2 Milk Company (A2M), Bega Cheese (BGA) and Farm Pride Foods (FRM) during November and December last year. In addition, a number of mobile and wireless technology stocks catapulted higher at the later part of 2015.

I've been recording the total number of ASX Top 200 stocks which are above their 100-day simple moving average (SMA) since 2012. As I write this article, only 60 stocks are above their 100 day SMA.

In fact, there have only been 5 other times on the ASX top 200 stocks since 2012 with so few stocks above their long term moving average as highlighted in table 2. The worst was on the 27th of June 2013 when only 25 stocks were above their own 100-day SMA.

Period with 60 or less stocks below 100SMA	Subsequent rise	Percentage Rise
15.5.12 - 27.6.12	1134 points in 217 days	28.2%
11.6.13 - 1.7.13	688 points in 102 days	14.4%
9.12.13 - 18.12.13	452 points in 106 days	8.8%
4.2.14	586 points in 151 days	11.5%
3.10.14 - 23.10.14	596 points in 91 days	11.6%

Table 2.

So the reality is, we are sitting on a relatively extreme move and historically; markets have rallied from these oversold levels. Will it be the same this time? I suggest you let your stop losses dictate your answer.

Can't handle the heat?

During these uncertain times you may want to consider sitting on the sidelines. It might be the case that your current systems do not fit a volatile bear market. Sitting on the sidelines is still a position. Markets will eventually turn and your systems will dictate when excellent risk reward opportunities are available. Look for solid 2 to 1 reward to risk opportunities and if you cannot see them, stay out.

Running your daily or weekly scans

The greatest opportunities are made available at times of extreme moves. For this reason, I cannot stress enough how you should remain vigilant with your regular scans of the market. You could use Metastock, AmiBroker, eSignal, Phoenix AI or Tradestation to run your scans. I personally prefer and use Metastock and run a select number of daily scans to seek out opportunity. The types of scans I run for my SMSF are:

- Up trending stocks now oversold
- Up trending stocks making two-day highs
- Stocks showing strong momentum ready to breakout

A running stops system

Ever witnessed a capitulation in a stock only to see it rally hard shortly after the massive sell-off? These types of trades represent opportunity to you and your SMSF. As you are a savvy trader, you will know that many traders put conditional stop loss orders in place when certain technical levels are broken, such as support trendlines.

Some stocks have sparse volume on the bid and as such these market or limit to sell orders hit many levels lower to ensure the stock is exited. This can produce an exciting run. You may want to consider placing a buy limit order at a 'silly level' below the current price. So if the run happens, you get set at a position well below current market prices. As with any trading system, you need to test the theory before throwing money at it.

In conclusion, I hope you can see that even during a volatile bear market, there are fantastic opportunities to push your SMSF forward. And by remaining vigilant during these times, you will get presented with the best potential opportunities available.

About the Author:

Ashley Jessen is the author of CFDs Made Simple and Chief Digital Strategist of ProfileBooster.com.au, a company dedicated to helping finance and professional services companies drive more leads, convert more sales and boost the authority through intelligent PR, content and media distribution.