

# Mastering the Market

Finding Your Edge as  
an Individual Investor

July 15th, 2017





# Grayson Roze



Author, **Tensile Trading** (Wiley, 2016)

Author, **Trading for Dummies** (Wiley, 2017)

Business Manager, **StockCharts.com**

Co-Founder, **StockMarketMastery.com**

**Swarthmore College**, Economics and Psychology, B.A.



# Today's Agenda

- My story
- Me as an investor
- A brief dive into Technical Analysis
- What's my edge?
- Finding your edge
- Sharpening your edge



# As the program says...

- How to intelligently evaluate the market and find top-performing stocks, ETFs, and mutual funds using modern price charts
- The importance of finding your edge
- Trading strategies for beginners and seasoned investors alike.













MSFT Microsoft Corp. Nasdaq GS  
17-Aug-2016

© StockCharts.com

Open 57.54 High 57.68 Low 57.23 Close 57.56 Volume 18.9M Chg +0.12 (+0.21%) ▲









zuimmerz



Cyclicals / Apparel Retailers

Thursday 22-Jun-2017

Open:	<b>11.75</b>	Ask:	P/E:	<b>12.53</b>	Options:	<b>yes</b>
High:	<b>12.15</b>	Ask Size:	EPS:	<b>0.95</b>	Annual Dividend:	<b>N/A</b>
Low:	<b>11.65</b>	Bid:	Last Size:	<b>9761 shrs</b>	Yield:	<b>N/A</b>
Prev Close:	<b>11.80</b>	Bid Size:	VWAP:	<b>11.93</b>	SCTR (Small):	<b>3.3</b>

▲ **+0.85%**  
 Chg: **+0.10**  
 Last: **11.90**  
 Volume: **601,224**



# What Hooked Me . . .

- A new reason to care
- *“Voting with your money”*
- Charting made it easy
- Two unique displays of freedom
  - Income as a teenager
  - Income as an adult
- Applied Academics





Wiley Trading Series

+WEB  
SITE

# TENSILE TRADING

THE 10 ESSENTIAL STAGES  
OF STOCK MARKET MASTERY

GATIS N. ROZE  
GRAYSON D. ROZE

WILEY

A detailed **10-stage roadmap**  
to help investors develop  
their own consistently profitable,  
**high-probability** investment system

Available Online, in Stores and as an eBook

WILEY



# Your Roadmap to Success





**Fundamental  
Analysis**



**Technical  
Analysis**



# RATIONAL ANALYSIS

Combining fundamental and technical analysis strategies to form a **stronger, more balanced, more objective** analysis approach





# AS AN INVESTOR

- Appropriate climate
- Strong technicals
- Shorter-term potential
- Decision making history
- Longer-term belief



# AS A TECHNICIAN

- **Trend**

(20 + 50 + 200 + 425 period MAs)

- **Relative Strength**

(Stock v. Market / Sector v. Market / Industry v. Sector / Stock v. Industry + SCTR<sub>s</sub>)

- **Money Flow**

(Volume / CMF / On-Balance Volume)

- **Momentum**

(MACD / RSI)



What is

# Technical Analysis

Anyways?

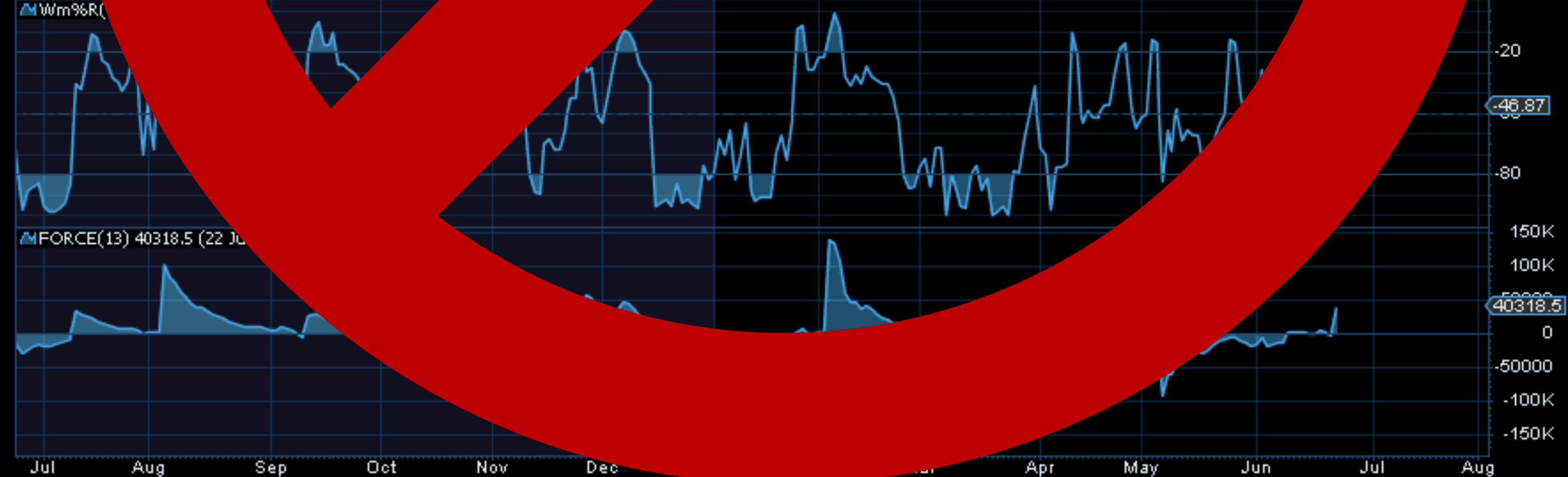


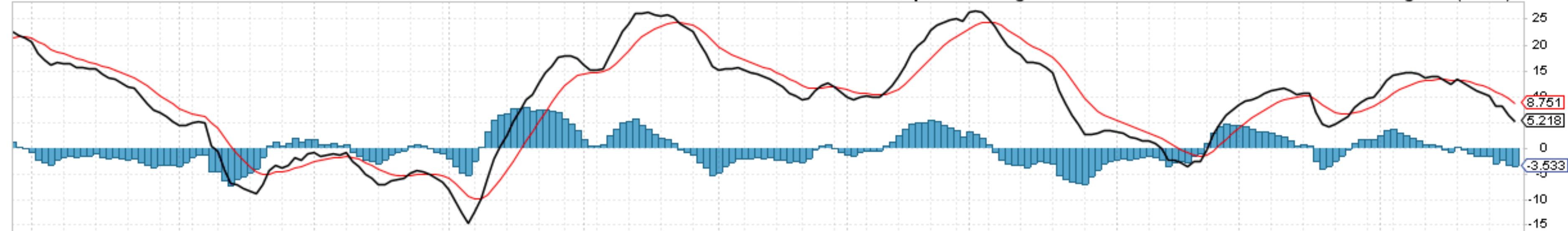


# TECHNICAL ANALYSIS

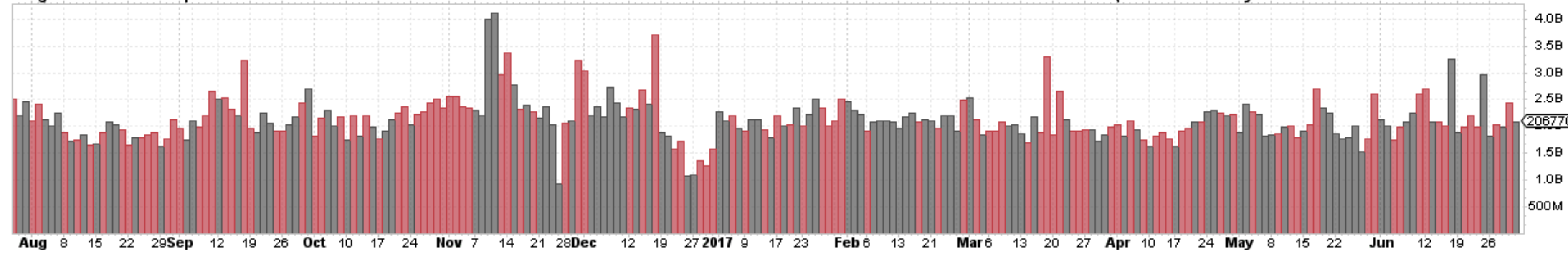
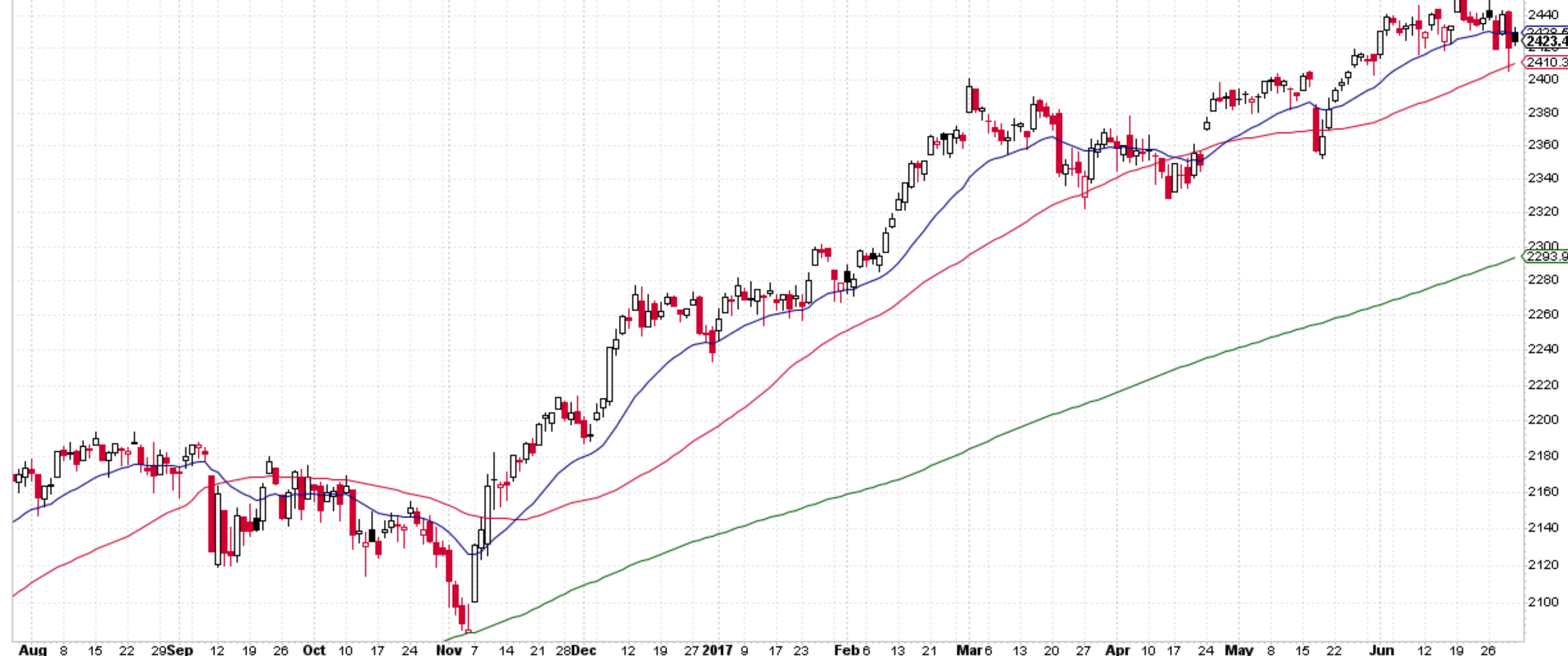
- A broad collection of tools and strategies
- At its core: **Data Visualization**







\$SPX (Daily) 2423.41





# Why and how do I use TA?

- To watch **what** is **happening**
- To remain as **consistent + unbiased** as I can



Two groups.

5 hours.

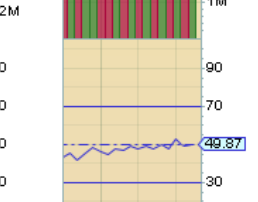
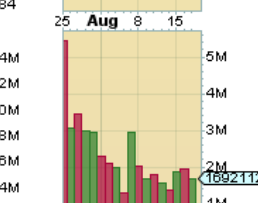
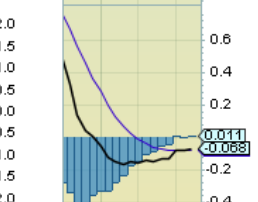
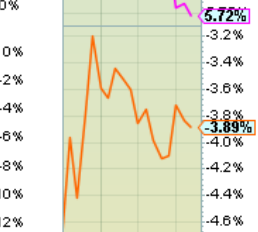
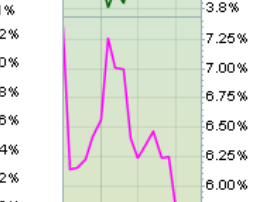
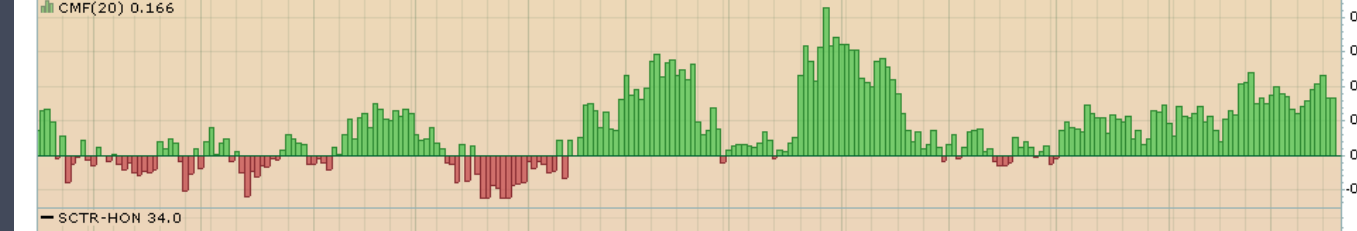
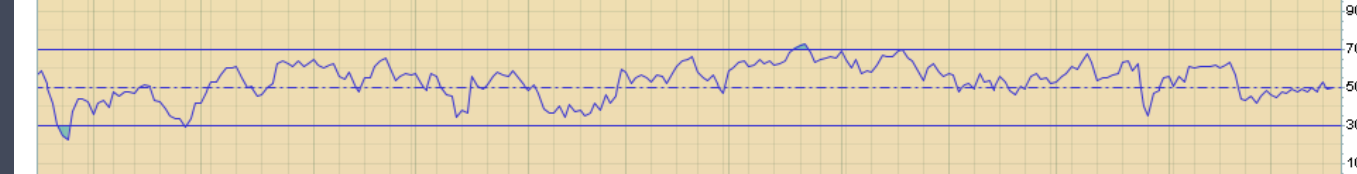
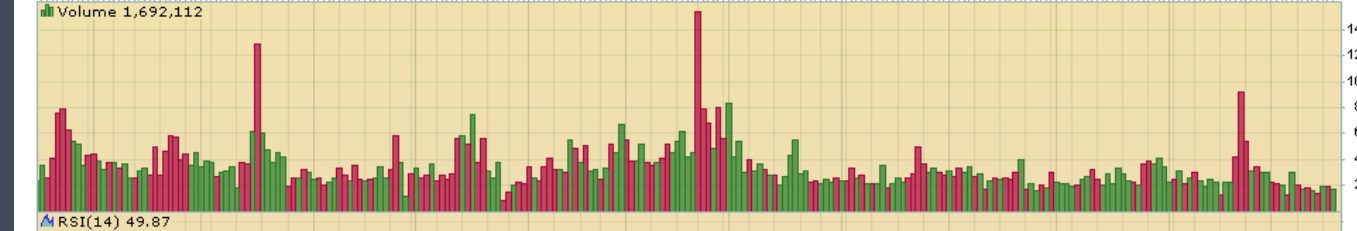
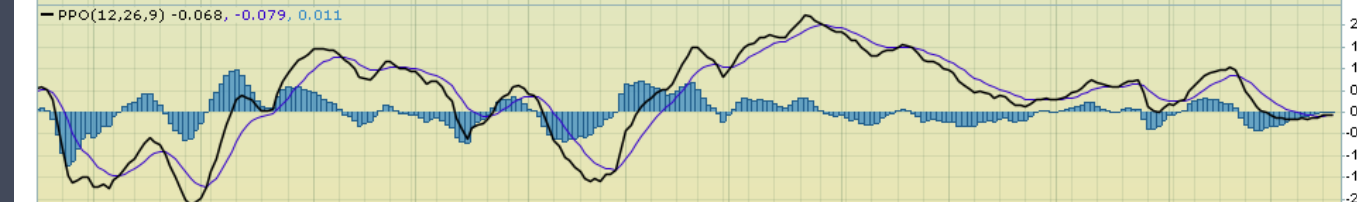
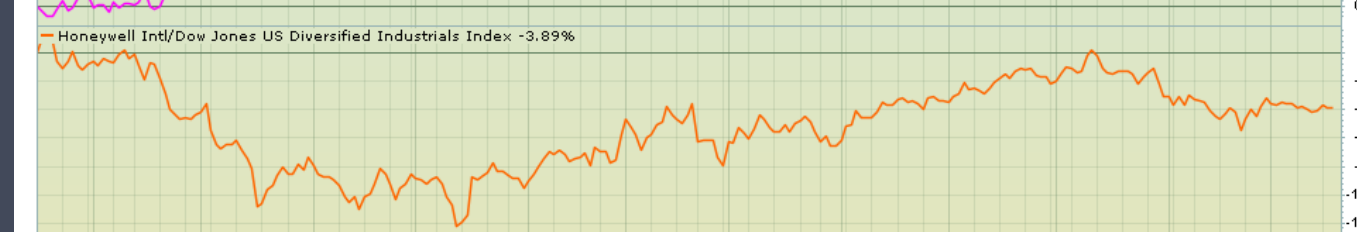
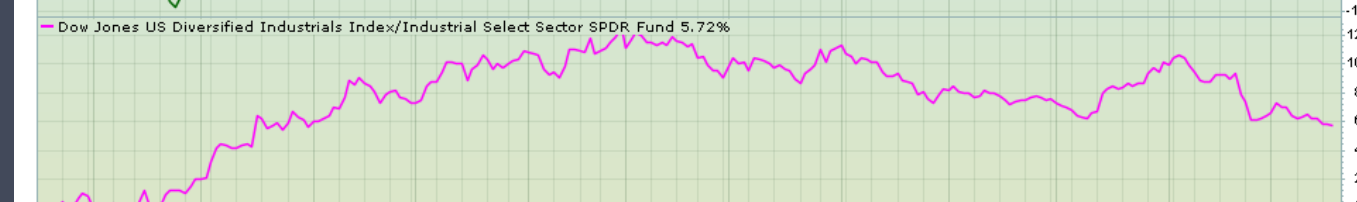
**Who wins?**





# As a Technician

HON Honeywell Intl NYSE  
Industrial / Diversified Industrials  
Open: 115.60 Ask: P/E: 18.12 Options: yes  
High: 115.87 Ask Size: EPS: 6.39 Annual Dividend: 2.38 Chg: +0.13%  
Low: 115.08 Bid: Last Size: Yield: 2.06% Last: 115.78  
Prev Close: 115.64 Bid Size: VWAP: 115.49 SCTR (Large): 34.0 Volume: 1,692,112  
Honeywell Intl/Vanguard Total Stock Market ETF 6.65%

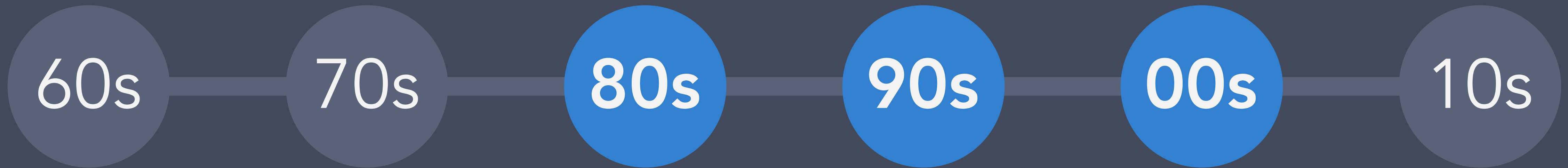


So...  
what is  
my edge?





# The MILLENNIALS...



# The Millennial Experience

\$SPX S&P 500 Large Cap Index INDX

17-Aug-2016

© StockCharts.com

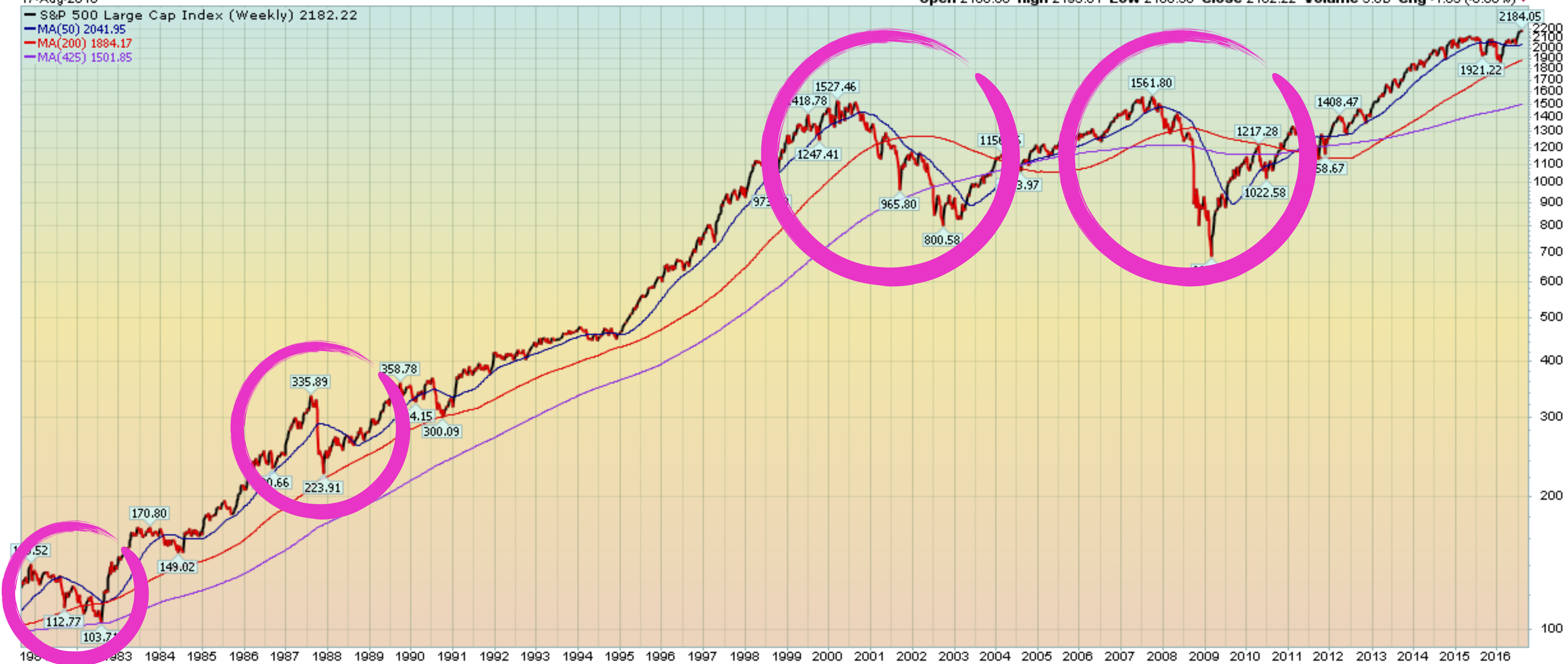
Open 2186.08 High 2193.81 Low 2168.50 Close 2182.22 Volume 5.6B Chg -1.83 (-0.08%)

S&P 500 Large Cap Index (Weekly) 2182.22

MA(50) 2041.95

MA(200) 1884.17

MA(425) 1501.85





# 90s Kids . . .

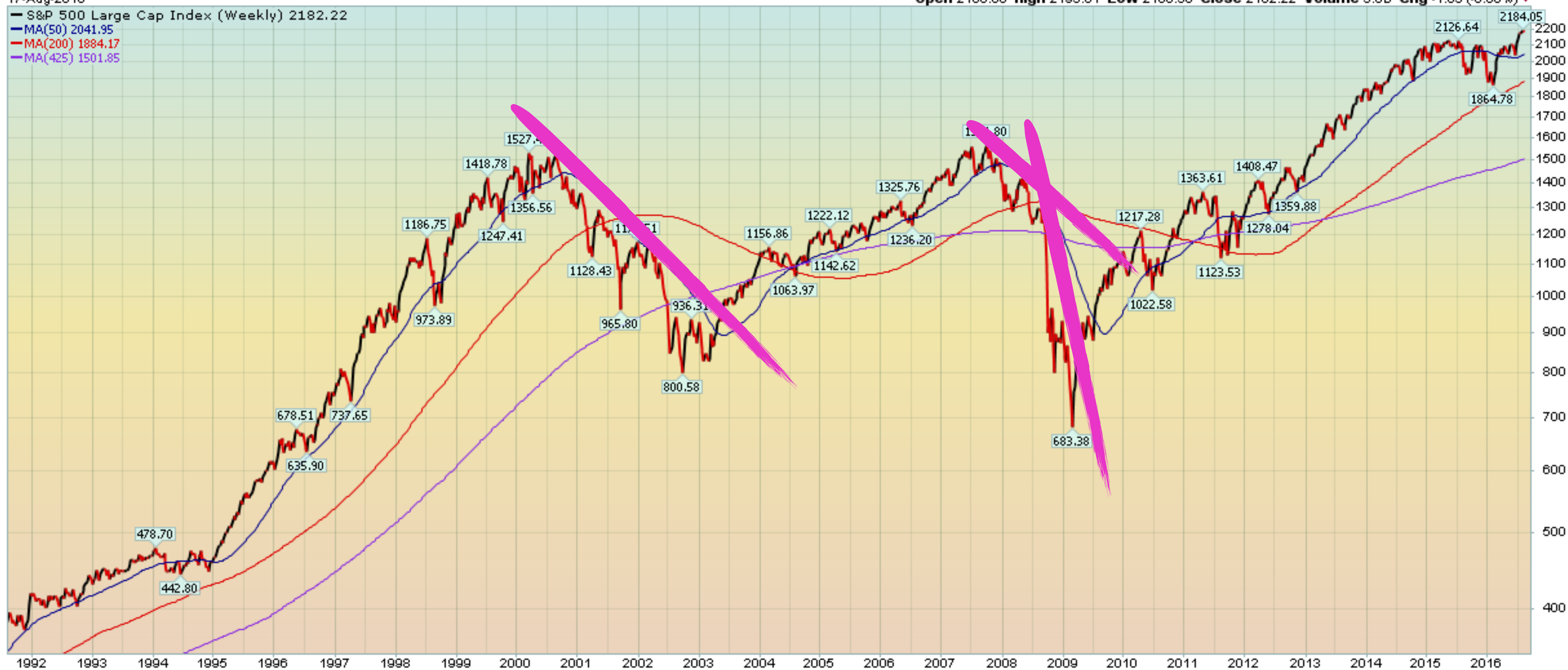
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— MA(425) 1501.85



# \$SPX S&P 500 Large Cap Index INDX

9-Mar-2009

© StockCharts.com

Open 680.76 High 695.27 Low 672.88 Close 676.53 Volume 5.3B Chg -6.85 (-1.00%)





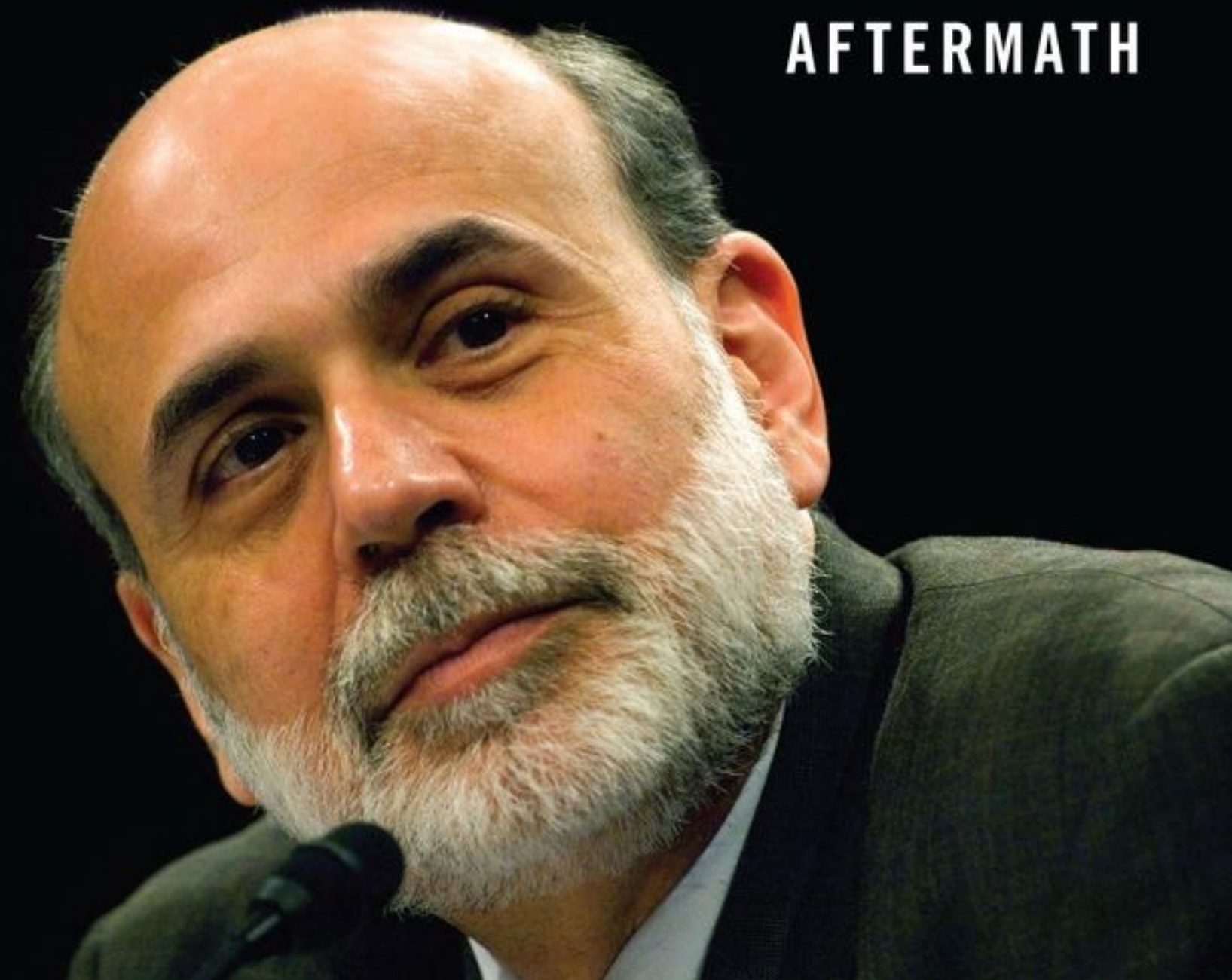








**BEN S.  
BERNANKE**  
**THE COURAGE  
TO ACT** A MEMOIR OF A  
CRISIS AND ITS  
AFTERMATH





CHRISTIAN  
BALE

STEVE  
CARELL

RYAN  
GOSLING

BRAD  
PITT

FROM THE AUTHOR OF 'MONEYBALL' AND 'THE BLIND SIDE'

AN ADAM MCKAY FILM

# THE BIG SHORT

IN CINEMAS JANUARY 22



THIS IS A  
TRUE STORY





# Market Recovery

\$SPX S&P 500 Large Cap Index INDX

17-Aug-2016

© StockCharts.com

Open 2186.08 High 2193.81 Low 2168.50 Close 2182.22 Volume 5.6B Chg -1.83 (-0.08%)

— S&P 500 Large Cap Index (Weekly) 2182.22  
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# 100 Years of the Dow

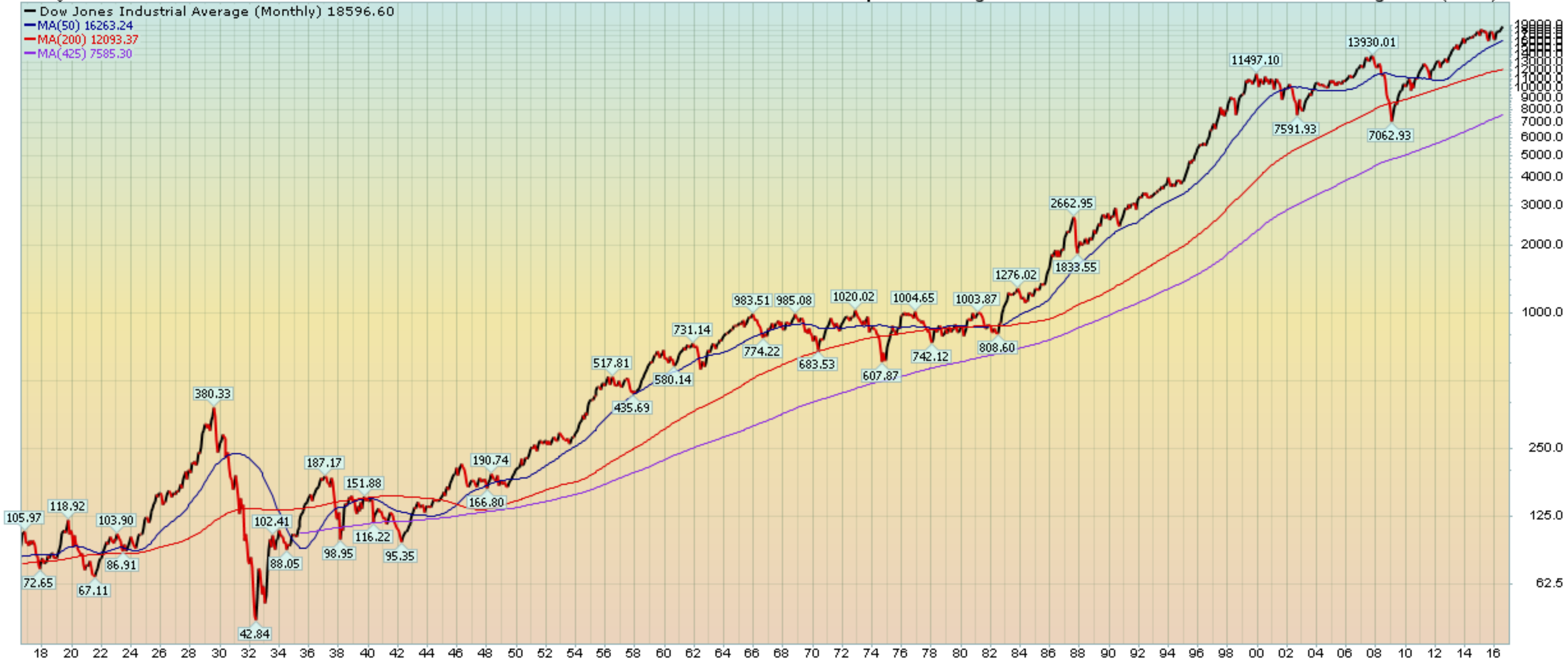
\$INDU Dow Jones Industrial Average INDEX

18-Aug-2016 11:03am

© StockCharts.com

Open 18434.50 High 18668.44 Low 18247.79 Last 18596.60 Volume 3.6B Chg +164.36 (+0.89%) ▲

— Dow Jones Industrial Average (Monthly) 18596.60  
— MA(50) 16263.24  
— MA(200) 12093.37  
— MA(425) 7585.30





# My age gives me....

A unique view of the developing business world, with an understanding of products, trend changes, consumer demands and opportunities with which many others may not be as in tune.



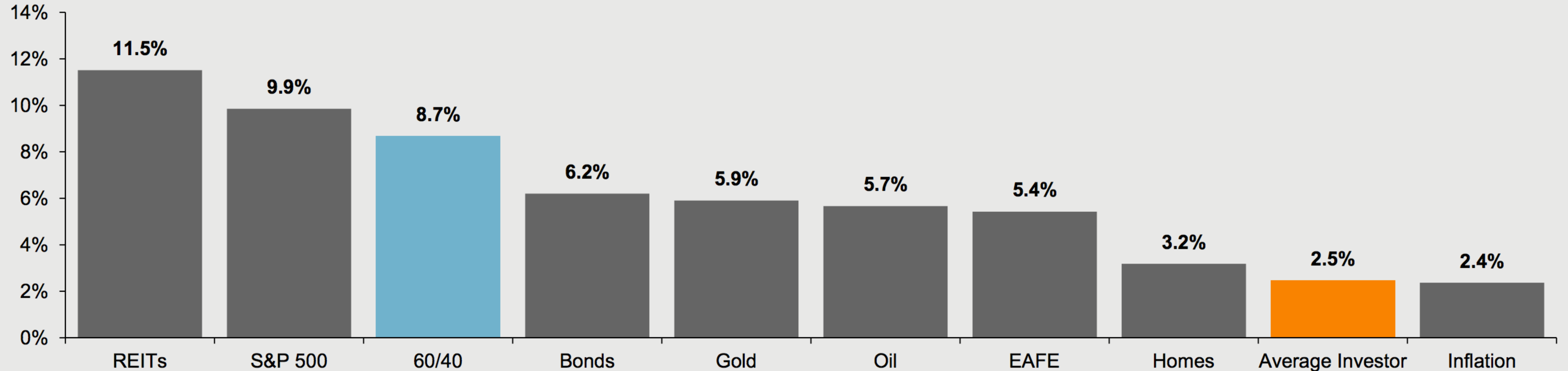
# But beyond age....

- Long-term faith in equity markets
- The miracle of compounding
- An intentional, describable, repeatable system
- Patience, discipline, and a “**peaceful mind**”





## 20-year annualized returns by asset class (1995 – 2014)



Source: J.P. Morgan Asset Management, (Top) Barclays, FactSet, Standard & Poor's, (Bottom) Dalbar Inc.

Indexes used are as follows: REITS: NAREIT Equity REIT Index, EAFE: MSCI EAFE, Oil: WTI Index, Bonds: Barclays Capital U.S. Aggregate Index, Homes: median sale price of existing single-family homes, Gold: USD/troy oz, Inflation: CPI. 60/40: A balanced portfolio with 60% invested in S&P 500 Index and 40% invested high quality U.S. fixed income, represented by the Barclays U.S. Aggregate Index. The portfolio is rebalanced annually. Average asset allocation investor return is based on an analysis by Dalbar Inc., which utilizes the net of aggregate mutual fund sales, redemptions and exchanges each month as a measure of investor behavior. Returns are annualized (and total return where applicable) and represent the 20-year period ending 12/31/14 to match Dalbar's most recent analysis.

Guide to the Markets – U.S. Data are as of September 30, 2015.

**J.P.Morgan**  
Asset Management

Let's take a  
quick pit stop  
in **psych class**





# Your Roadmap to Success



Barry Schwartz:

# The paradox of choice



TEDGlobal 2005 · 19:37 · Filmed Jul 2005

44 subtitle languages ?

View interactive transcript



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Psychologist Barry Schwartz takes aim at a central tenet of western societies: freedom of choice. In Schwartz's estimation, choice has made us not freer but more paralyzed, not happier but more dissatisfied.

Interactive transcript



Barry Schwartz

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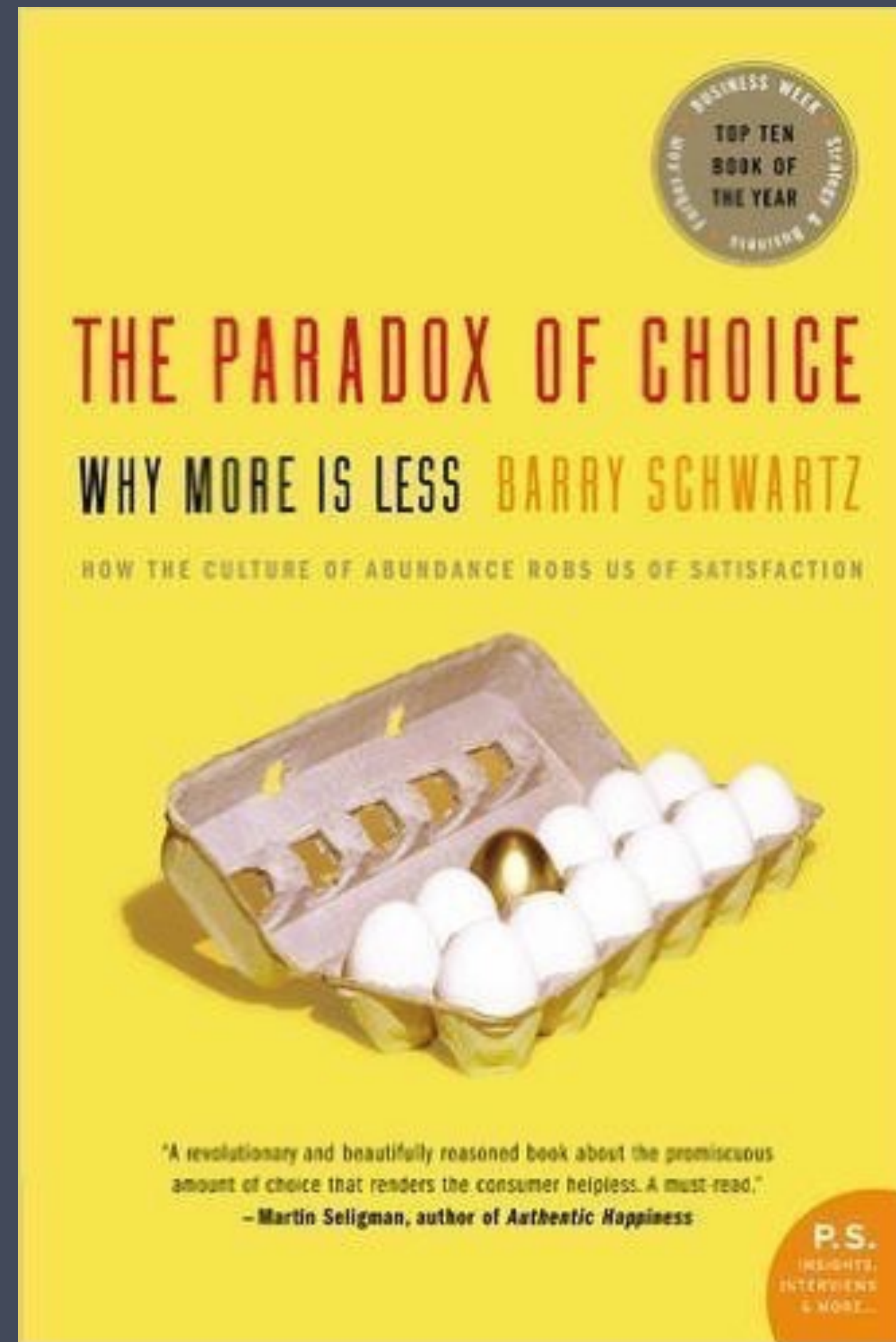


# WESTERN INDUSTRIAL SOCIETY

// The way to maximize the welfare of our citizens is to maximize individual freedom, and the way to maximize freedom is to maximize **choice** //



# The Paradox of Choice



Barry  
Schwartz





# THE JAM STUDY

**24 choices** vs. **6 choices**



**30% purchase rate**

**10x INCREASE**



Soup of the day  
Red pepper, and Tomato  
Soup  
Served with bread and butter

Special of the day  
Goats cheese and  
Vegetable frittata,  
with carrots, mushrooms,  
sugar snap peas and tomato.  
Served with a side salad  
and homemade  
Chutney



# NEGATIVE EFFECTS

- **Paralysis** rather than liberation
- **Dissatisfaction** in high-choice environments



# CHOICE OVERLOAD





# COGNITIVE BIASES

// The innate tendencies of the human mind to think, judge, and behave in **irrational** ways that often violate sensible **logic**, //  
sound **reason** or good **judgement**.



# CONFIRMATION BIAS

// The tendency to over-weight, seek out, or more readily recall information in a way that **confirms** our **preconceived beliefs**, while simultaneously undervaluing or **ignoring** information that **disproves** our // preconceived beliefs.





# AVAILABILITY HEURISTIC

// A common mental shortcut that causes individuals to rely on **immediate information** or examples that come to mind **first** when evaluating a specific topic, //  
concept, method or decision.



# SUNK COST FALLACY

// The tendency to irrationally include **sunk costs** (costs that have already been incurred and are irrecoverable) as a factor in our forward **decision making.** //





# ENDOWMENT EFFECT

“ The tendency to place greater value on a good that we **own** than that which we place on an identical good we do not own. ”



# Why does this matter?

Understanding these psychological inefficiencies is the first step towards combating and overcoming their adverse effects.

**PLUS** . . . their relevance to investing in the financial markets is profound!





# To recap...

- Long-term faith in equity markets
- The miracle of compounding
- An intentional, describable, repeatable system
- Patience, discipline, and a “**peaceful mind**”



So...  
how do  
you find  
**your edge?**





# Well fortunately...

- You care.
- You know yourself.



# But ask yourself

- Are you putting your knowledge to work?
- Do you have a **system** in place? A methodology? An organized approach to investing?





You find  
your edge  
by crafting  
your **system**



You sharpen  
your edge  
by fine tuning  
and **tailoring**





# What's a *system*?

- Intentional
- Describable
- Repeatable
- **Appropriate**



**Fundamental  
Analysis**

**YOU!**

**Technical  
Analysis**



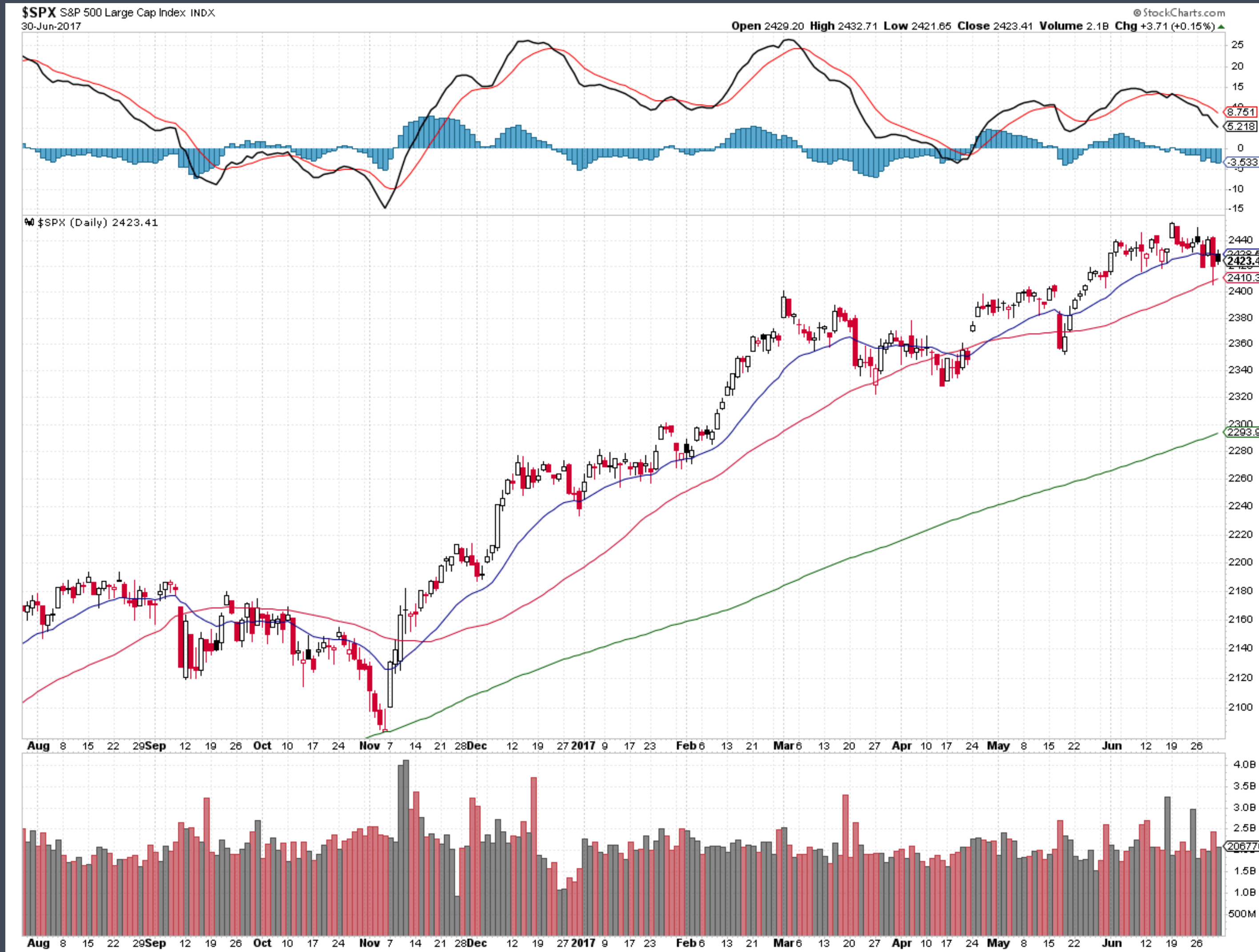


Now...

What can I  
leave you with?



# Basic chart analysis is easy!





# Resources

- **ChartSchool** (StockCharts.com)
- Investopedia
- **Trading for Dummies** (now on Amazon)



# Let's talk technicals

- **Trend**
- **Relative Strength**
- **Money Flow**
- **Momentum**





# Trend

- “A general direction in which something is developing or changing”
- Markets, indexes, stocks and ETFs all trend
- Trend is easy: **Up, Down or Sideways**



# 100 Years of the Dow

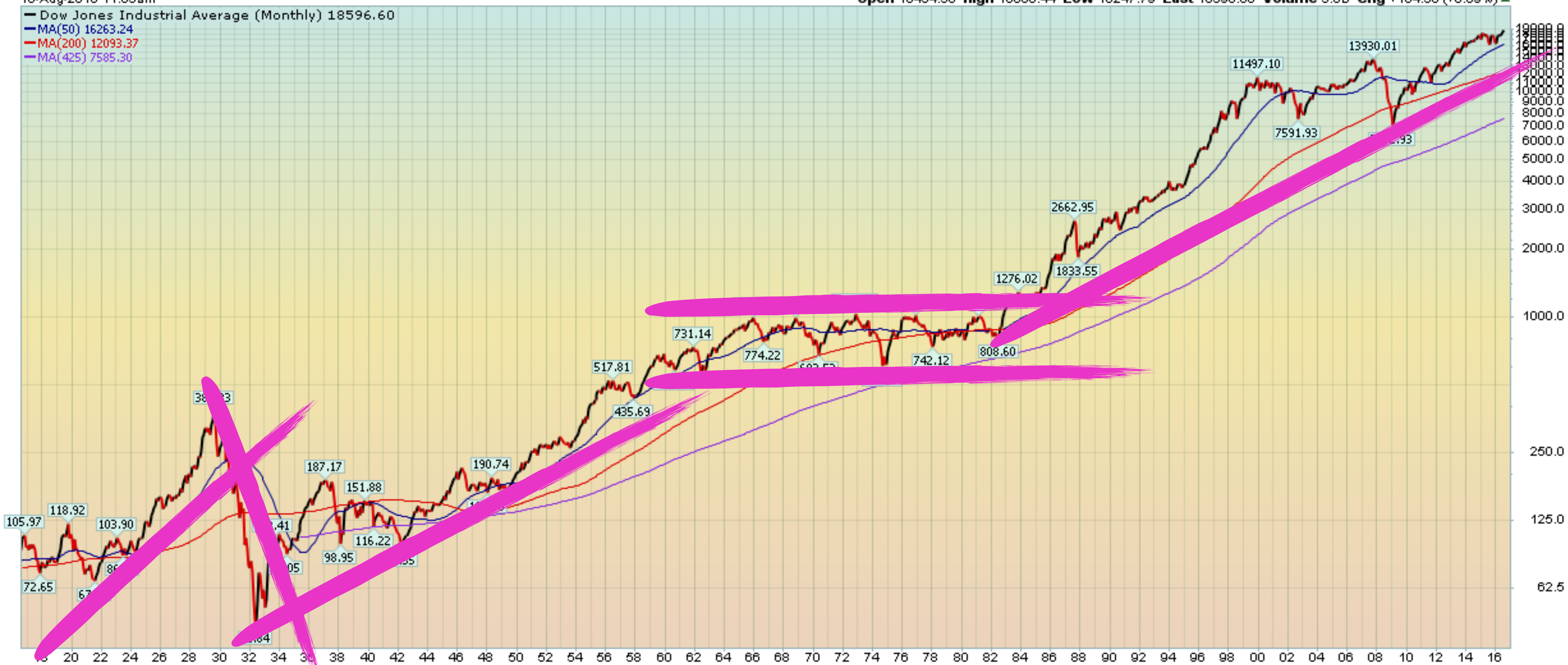
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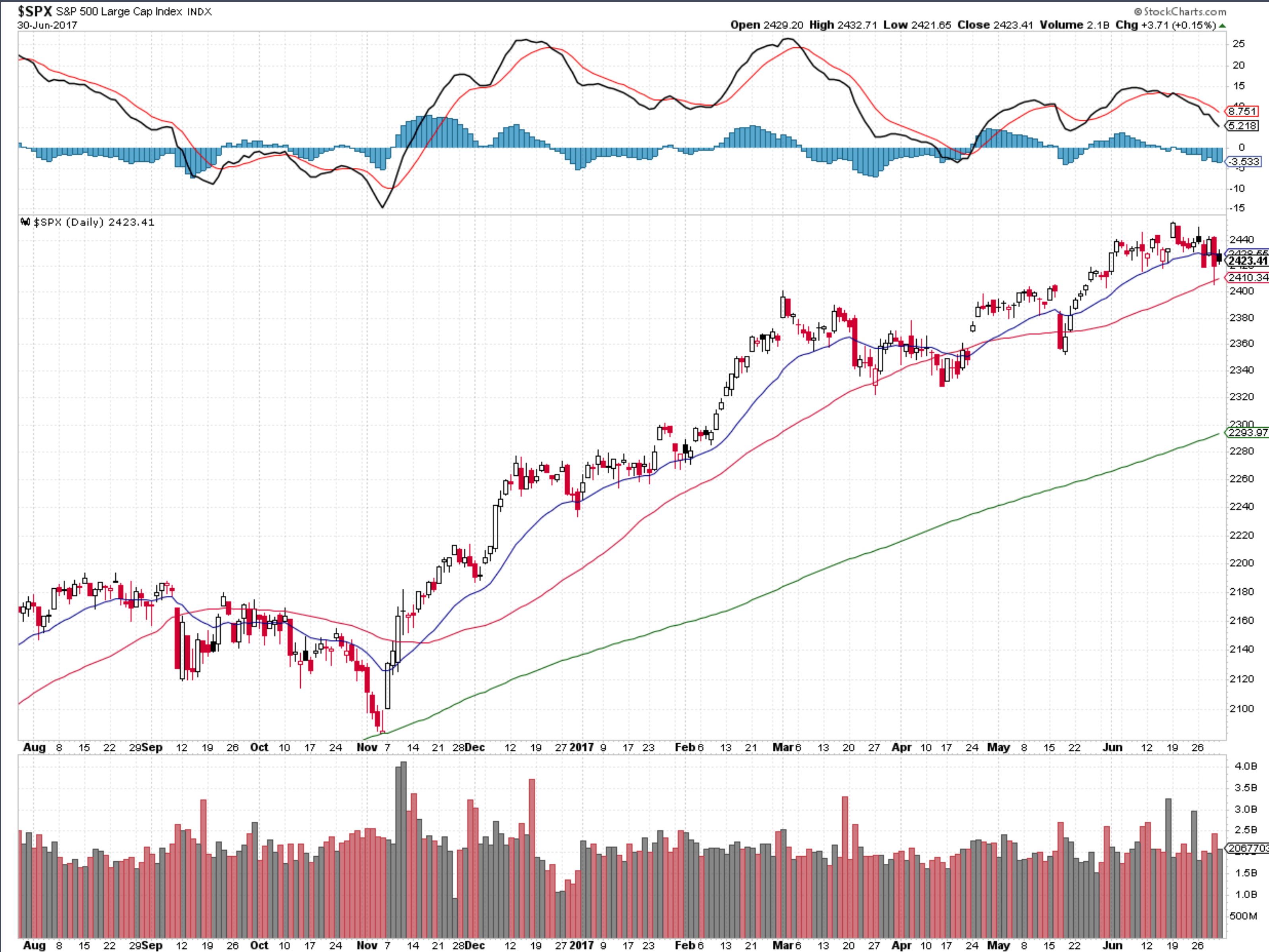
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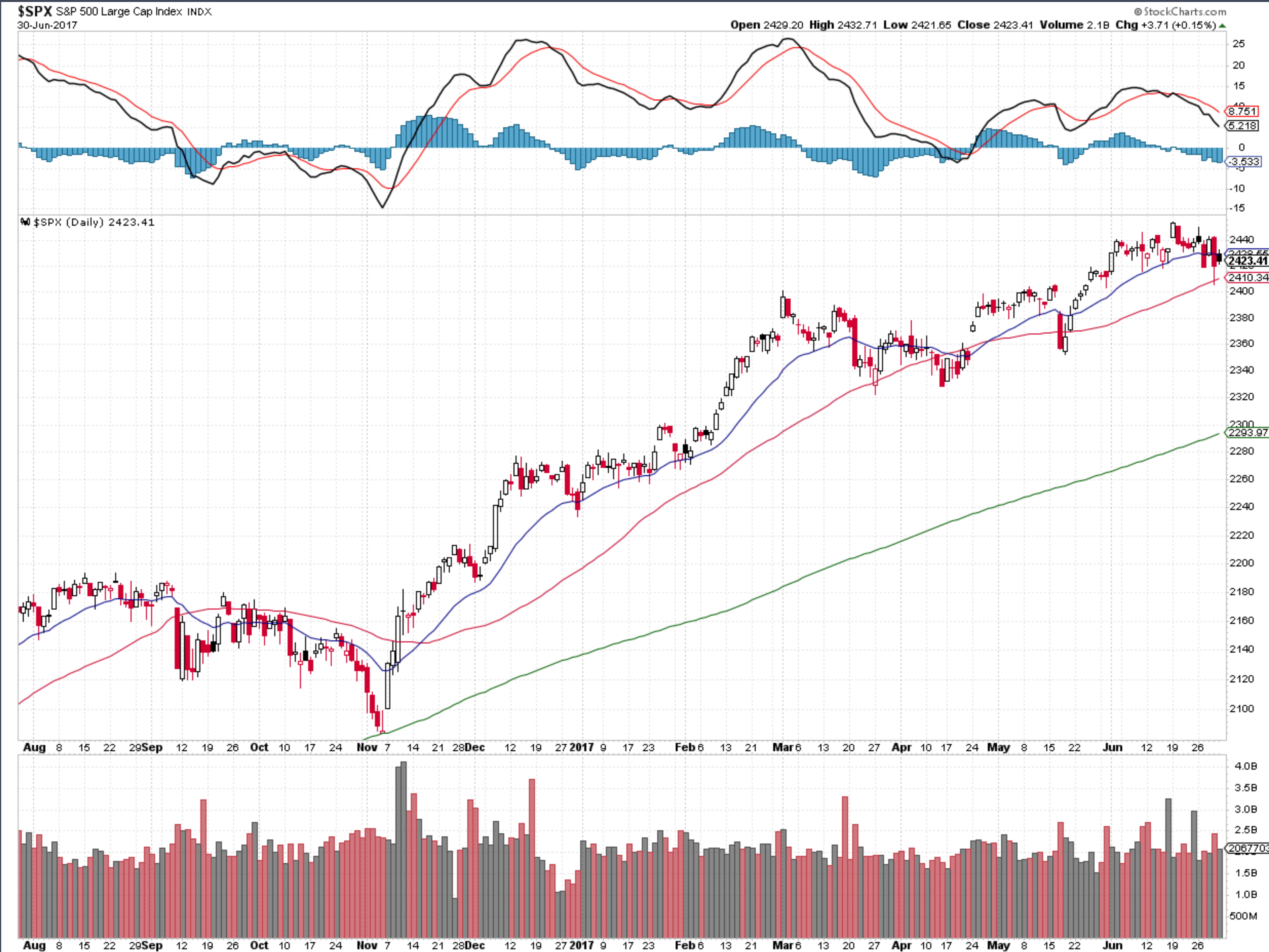




Moving  
Averages  
help you  
see trend



20-day  
50-day  
200-day





# Relative Strength

- “A measure of the price trend of a stock or other financial instrument compared to another stock, instrument or industry. It is calculated by taking the price of one asset and dividing it by another.”
- In short: **how does A compare to B**



# Relative strength tools

- Sector Summary
- SCTR<sub>s</sub>
- PerfCharts
- Top Down Analysis





# Sector Summary

A series of adjustable price history tables that allow you to drill down into the market's major sectors, industry groups and stocks

<https://StockCharts.com/freecharts/sectorsummary.html>



# SCTRs

A unique ranking system that assigns a number from 0 to 100 to all securities in a specific group, allowing for direct (and instant) relative strength comparisons

<https://StockCharts.com/freecharts/sctr.html>





# PerfCharts

An interactive, customizable price charting tool that allows you to dynamically compare the performance of up to 10 different ticker symbols on the same chart

<https://StockCharts.com/freecharts/perf.php>



# The Fantastic Four

Select "Price - Performance" under "Indicators", then add:

- **`$$SYMBOL:VTI`**
- **`$$SECTOR:VTI`**
- **`$$INDUSTRY:$$SECTOR`**
- **`$$SYMBOL:$$INDUSTRY`**





# The Sisters Strategy

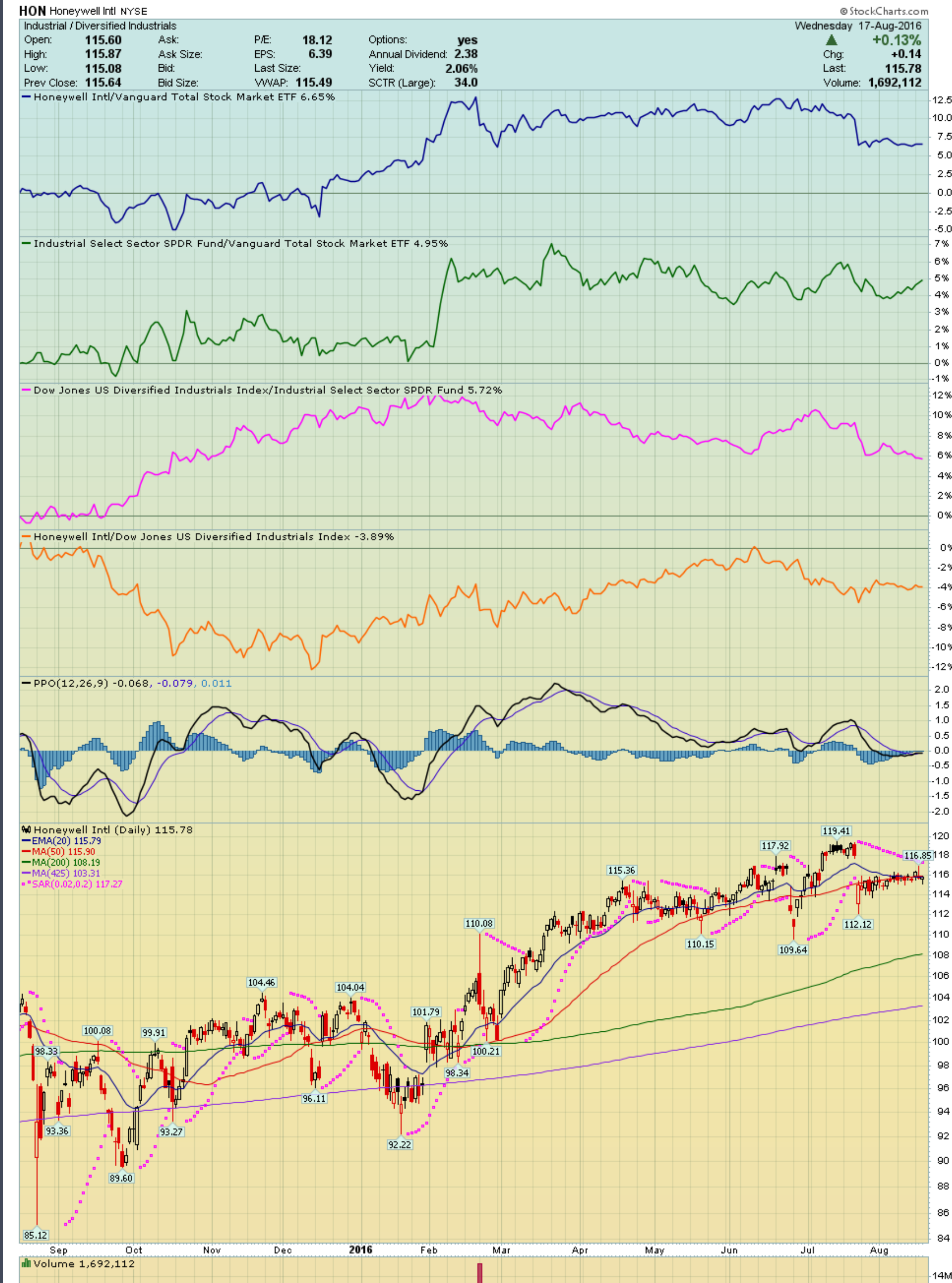
**There's never just one cockroach in the kitchen...**

If one sibling gets sick, chances are the whole family will catch whatever is going around.

<https://StockCharts.com/freecharts/perf.php>



# Relative Strength Charted





# Money Flow

- Calculated by averaging the high, low, and closing prices, and multiplying by the daily volume. Comparing that result with the number for the previous day tells you whether money flow was **positive** or **negative** for the current day.
- **Positive money flow = strong support**



# Momentum

- Physics class wasn't useless?!
- Momentum is simply the study of how prices are changing
- The most common: **the MACD**



Oh...

And one other  
helpful tool!





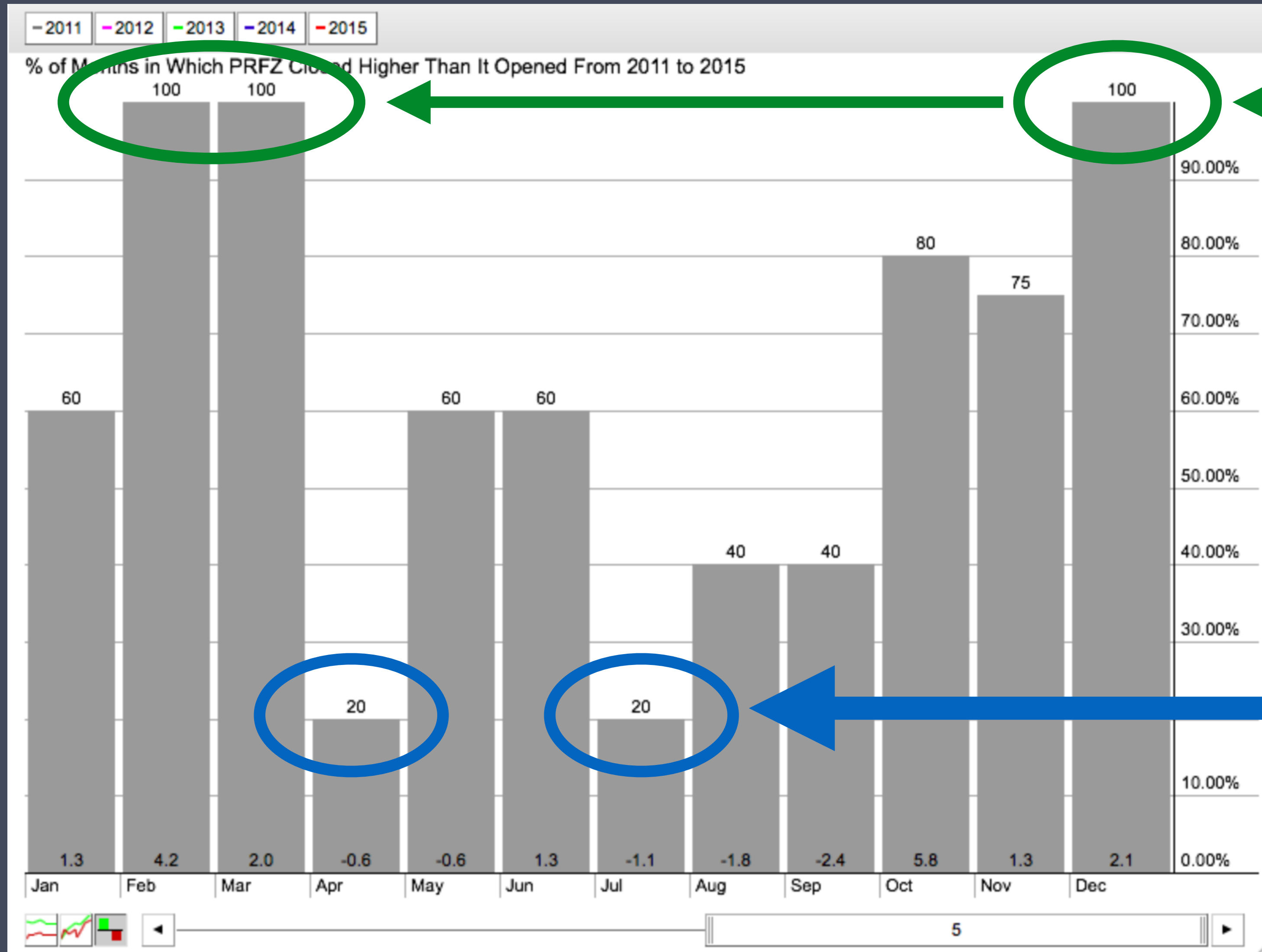
# Seasonality

Uses simple historical price data for an index, stock, ETF or other security to determine seasonal patterns or tendencies that are likely to repeat

<https://StockCharts.com/freecharts/seasonality.php>



# Rebalancing with Seasonality



**SELL HERE**  
(Dec / Feb / Mar)

**BUY HERE**  
(Apr / Jul)



And while  
we're on  
the topic  
of **selling**...





Trend

Relative Strength

Money Flow

Momentum

**All still apply!**



(reversing) Trend

(fading) Relative Strength

(negative) Money Flow

(weakening) Momentum



# The 3 Peaks Approach

A simple **watch and react** selling strategy

If a stock prints 3 lower highs (lower peaks) on consecutive rallies, it's time to **sell**





# The Sisters Strategy

There's never just one cockroach in the kitchen...

If one sibling gets sick, chances are the whole family will catch whatever is going around.

<https://StockCharts.com/freecharts/perf.php>



# So, what'd we cover?

- My story
- Me as an investor
- A brief dive into Technical Analysis
- What's my edge?
- Finding your edge
- Sharpening your edge

