Investment Mastery
Your Route to Financial Freedom

Trading & Investing Online Course

Learn to invest the profitable way…
The hands-on, practical 'as long as it takes' workshop for 'beginners'

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Investment Mastery Trading and Investing Online Course Unit 3 of 5

Unit 3

- Buy Zone Sell Zone Strategy
- Buffalo Trading Strategy
- How to make money when markets go DOWN
- The 2 Golden Rules of Investing
- How to Enter the trade – Stop and Limit orders
- How to Exit the trade – Stop Loss and Take Profit orders
- The 2 secrets of Trading
  - Risk Management
  - Risk:Reward Ratios
- Why we only ever risk 1% of our account
- Emotions in trading: Are these emotions stopping you?

Buy Zone Sell Zone - NOTES

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But WHY are we buying near the top?

Concept 3a: Buy-Sell Zone
TIME dependent ie Monthly or weekly

6

Concept 3b: Buy – Sell Zones
PRICE dependent by setting alerts

- 10 Minutes whenever it occurs
- Aiming at <25% / Year on average

7

Medium Term Trading

5. Leveraged Trading
(10 mins a day)

4. Buffalo Trading
(10 mins a day)

3. Buy-Sell Zone
(10 mins a week)

2. Value Cost Average
(10 mins a month)

1. Dollar Cost Average
(Fully automated)

TRADING
More time
More money

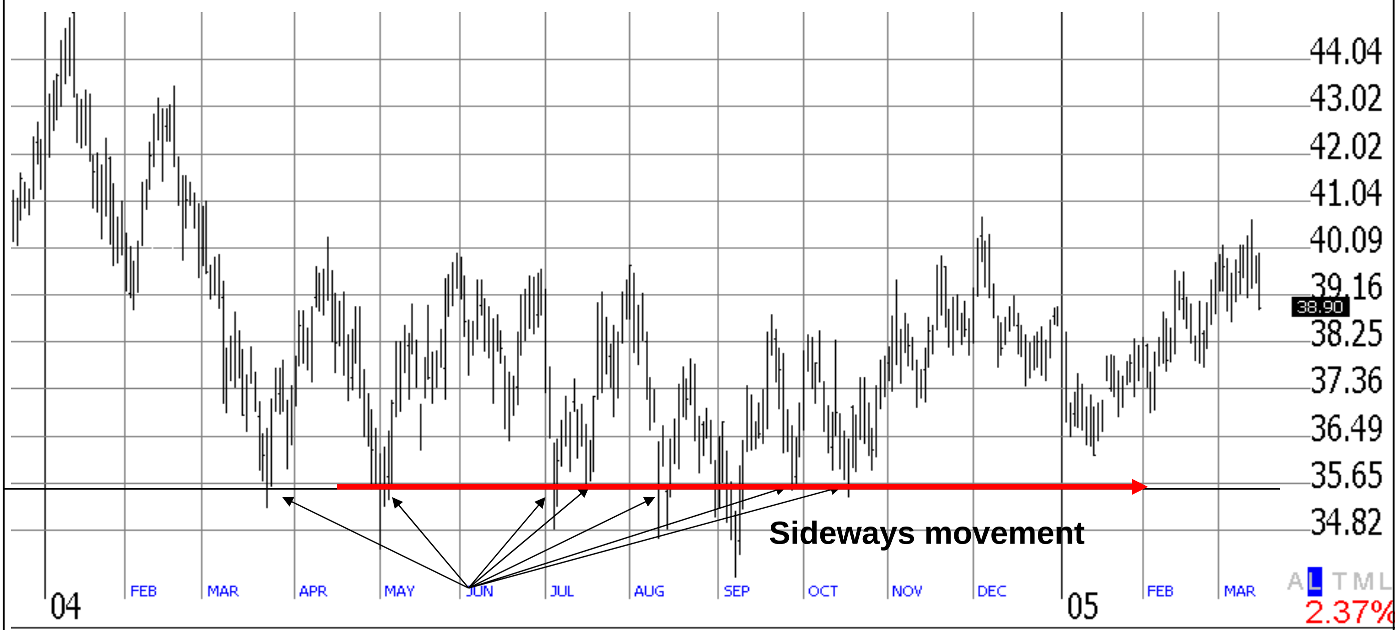
INVESTING
Zero time

INVESTMENT MASTERY

Strategy 4
Trading: Buffalo

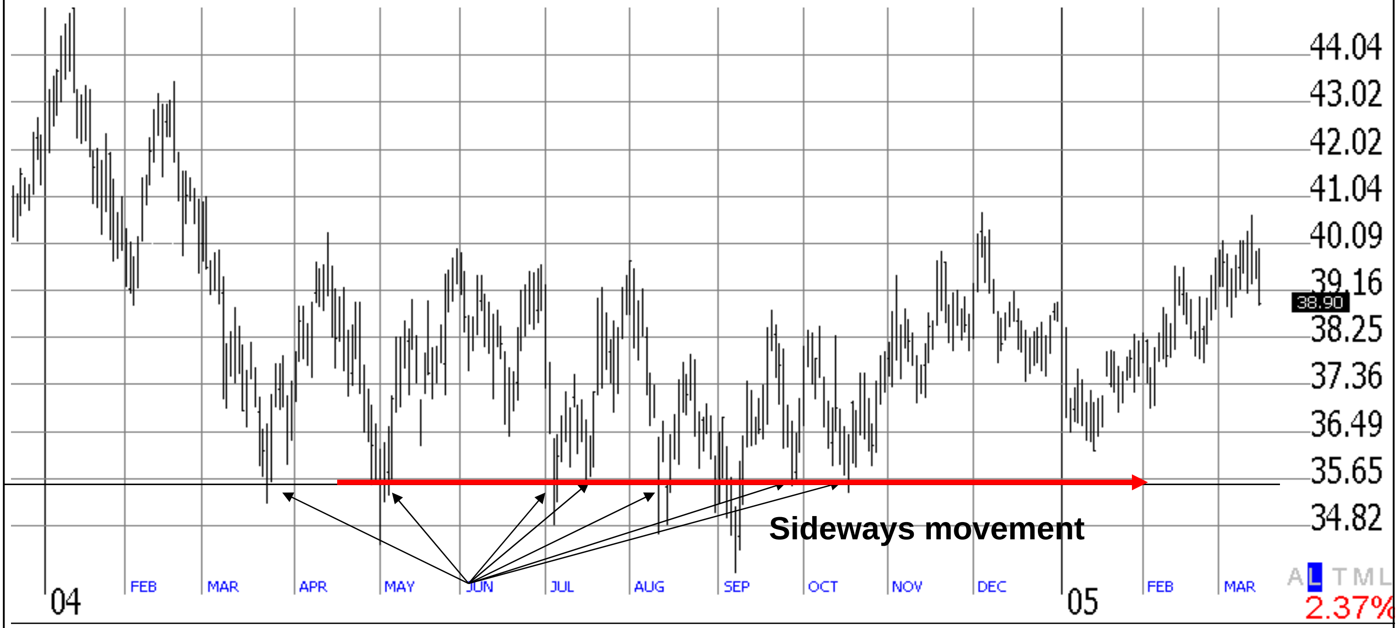
Making money from Channelling / Rolling / Oscillating / Ranging stocks

Stock is hitting same level of support, but over 10 months, price is within a range



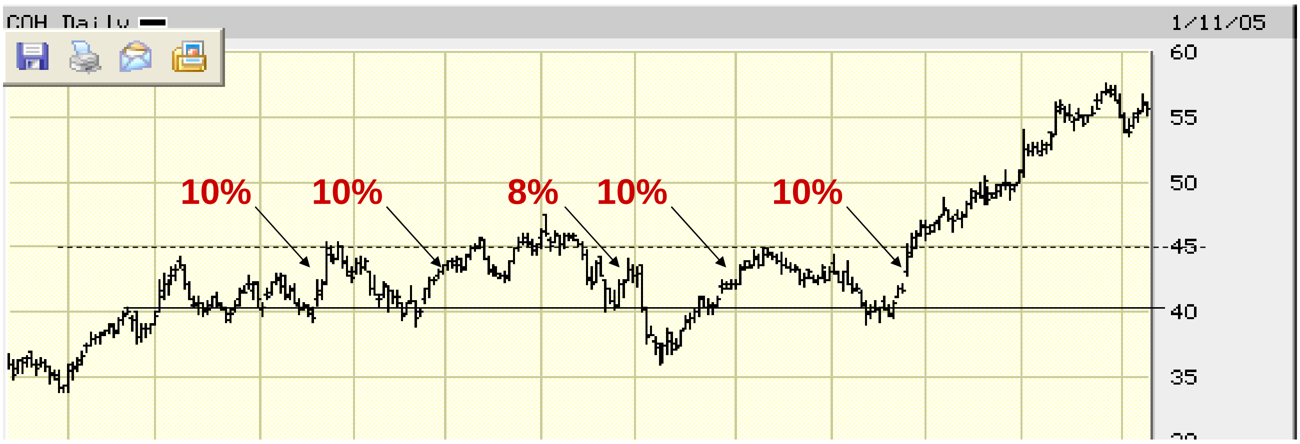
Over 10 months 'buy & hold' gives 0%, but buying & selling gives 50%

EXAMPLE 1

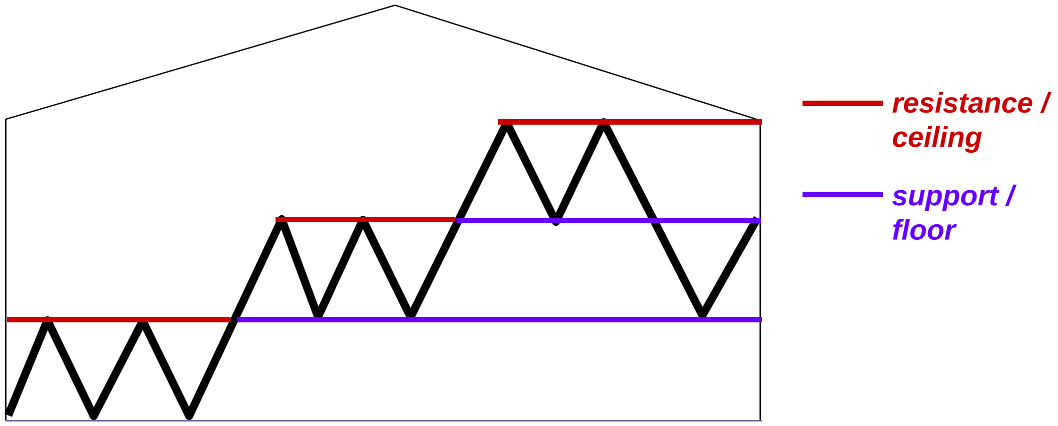


Over 7 months buy & hold = 0%; buying and selling 50%

EXAMPLE 2



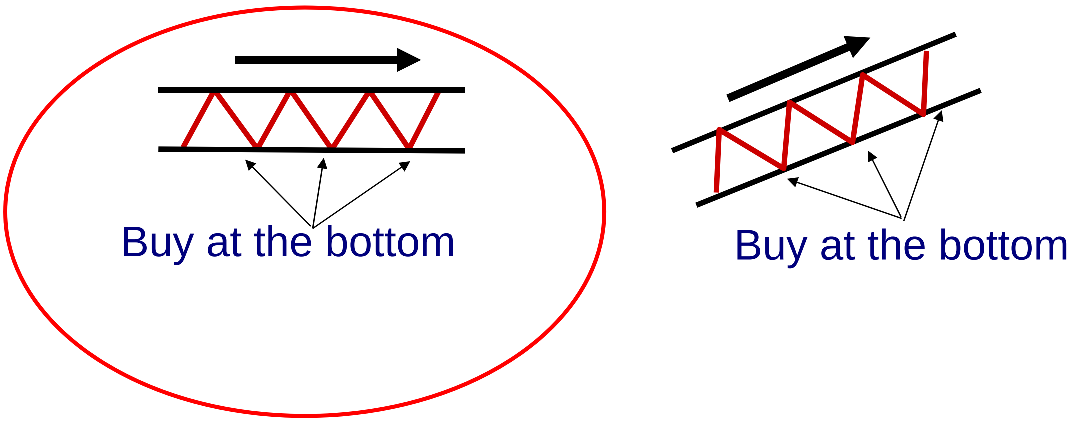
Support, resistance and trendlines



- **Support**: where the share price is resistant to moving BELOW a certain price level – support is 'strong' if price has approached this level and turned back many times over last 2–3 months
- **Resistance**: where price is resistant to moving ABOVE a certain price level
- **Trendline**: the lines we draw to show us the trading range between support and resistance

Find a trading range

- We are looking for a trading range / channeling
- Buy near the support in lower half of the range



We are looking for a Channelling Stock over a 12 month period

First decide on a time frame to fit your lifestyle

- How much time do you have?
- How much money do you want to make?
- How much risk do you want to take on?
- We will always assume you are using a daily time frame unless we discuss otherwise

Terms

Fundamentals

- The HEALTH of the company
- Tells you WHICH stock to buy
- Long-term view

Technicals

- The PERCEPTION of the market
- Tells you WHEN to buy
- Short-term view

Without looking at technical charts, you could buy at the top of a range!

You need both fundamentals to ensure the stock won't crash AND, technicals TOGETHER to ensure you are buying near the bottom of the range

5 Steps for Buffalo Strategy

1. Find Stocks with good fundamentals
2. Draw all Support and Resistance Lines you see
3. Ensure you follow the 7 Rules/Criteria for Buffalo
4. Enter the trade (using either Limit OR Stop Order)
5. Set your Exit points (using Stop Loss AND Limit Orders)

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Step 1: Find stocks with good 'fundamentals'

- When we are looking to buy a stock, we need good fundamentals
- Fundamentals show you the health of the company – they help choose WHICH company to buy
  - Revenue increase
  - Margin increase
  - Profitability increase
  - Good Management
  - Good R&D expenditure
  - etc

Fundamentals – we do the boring stuff for you

- We source the best fundamental companies in America from a variety of sources:
  - A variety of stock screeners
  - Subscription to various leading providers who specialise in fundamental analysis
  - We are looking for:
    - Companies showing superior earnings and profits
    - Strong price performance
    - Leadership within their industry

Step 2: Do the Technicals – draw your support & resistance lines

- Draw <u>all</u> the support lines following the rules on the next slide
- If there are several support lines, draw them all
- Draw the resistance lines also, the more touches the better

Rules for drawing support and resistance lines

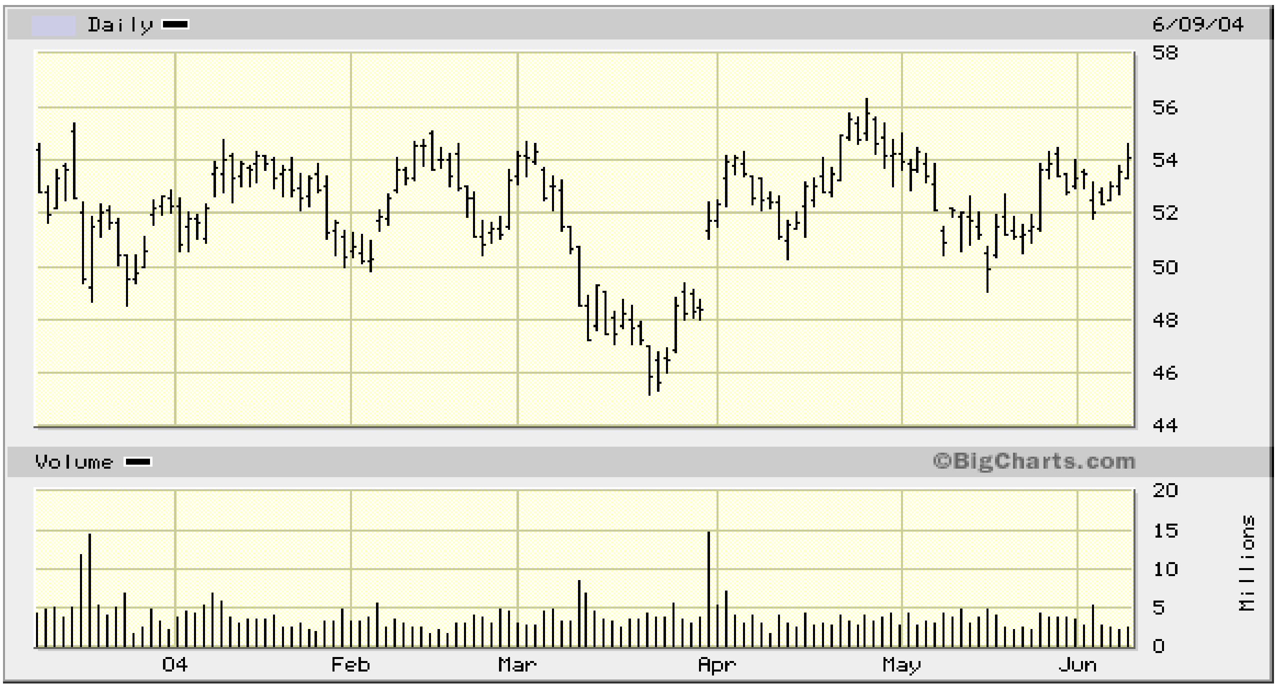
- Start from the bounce furthest to the right and draw a line joining up the bounces on the left
- Draw a line that touches as many bounces as possible
- The strongest lines:
  - are the horizontal lines
  - have the most bounces (the more the better)
  - have big bounces, so the larger the bounces the better

INVESTMENT MASTERY

Example of drawing support and resistance lines

INVESTMENT MASTERY

Practice:
draw support & resistance - 1



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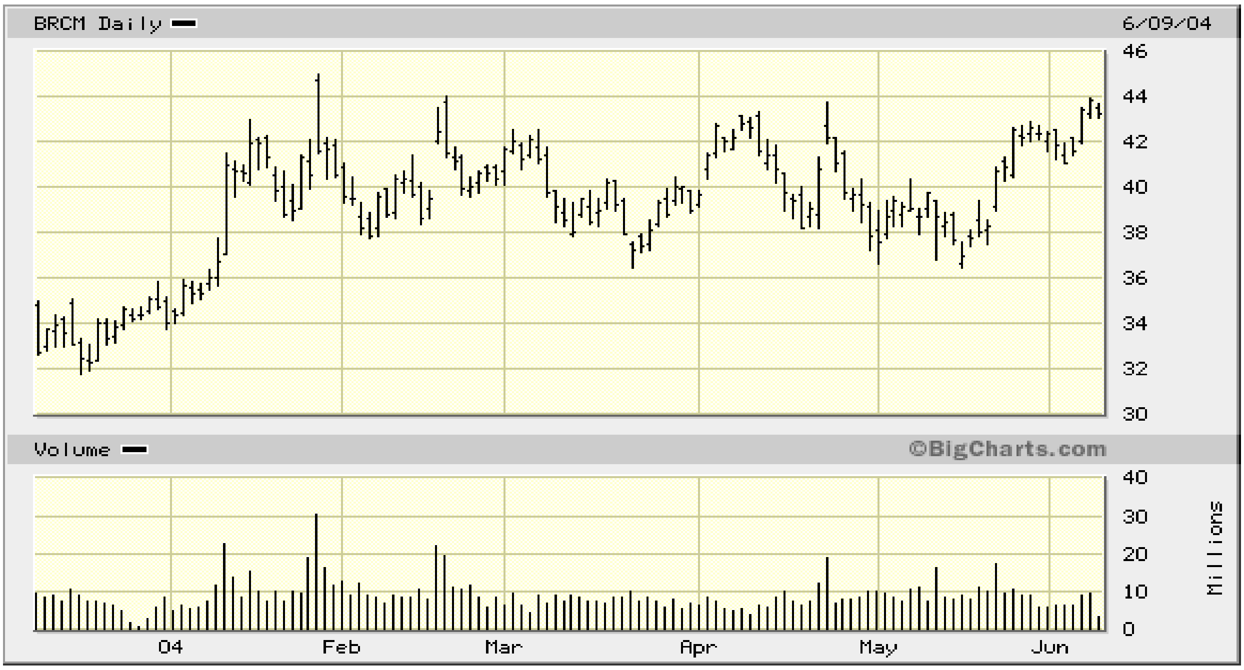
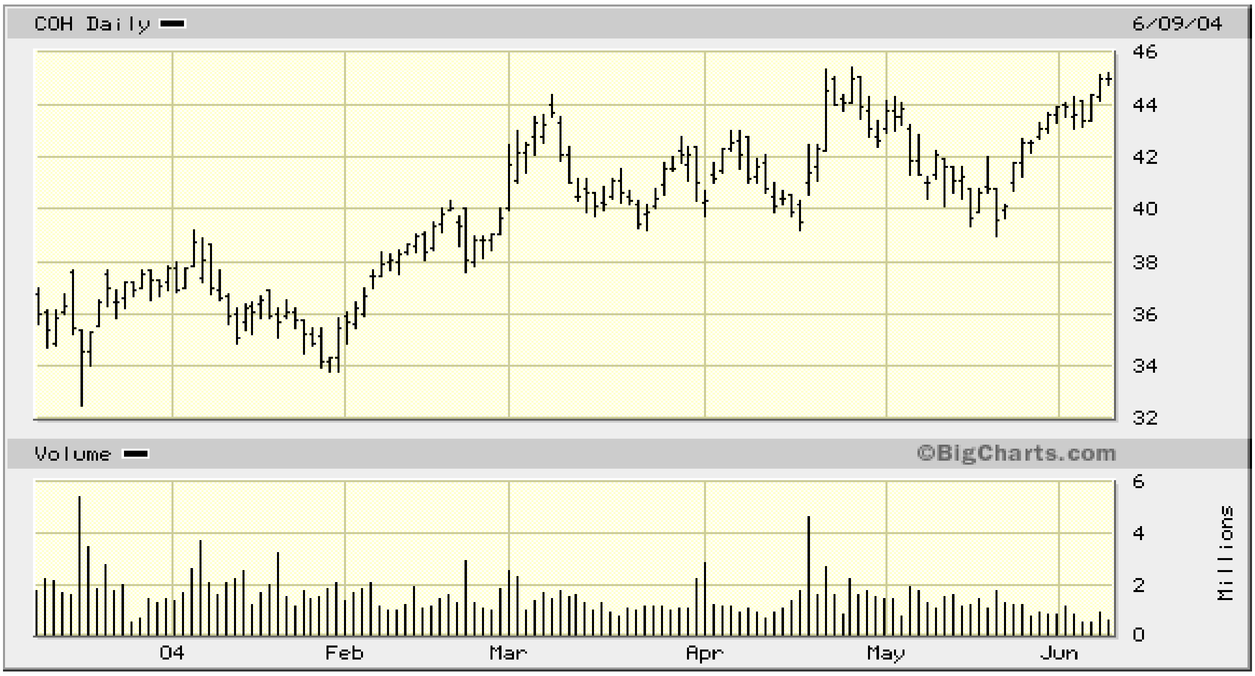
Practice:
draw support & resistance - 2



Practice:
draw support & resistance - 3



Importance - significance of 2 support/resistance lines

- 2 support lines are better than one
- We enter on the outer line
- We exit on the inner
- This is the same whether you go long or short

EXERCISE

Time for you to

PRACTISE

Charting software

- Either use your broker's charting software. In the video we are showing www.tradingview.com

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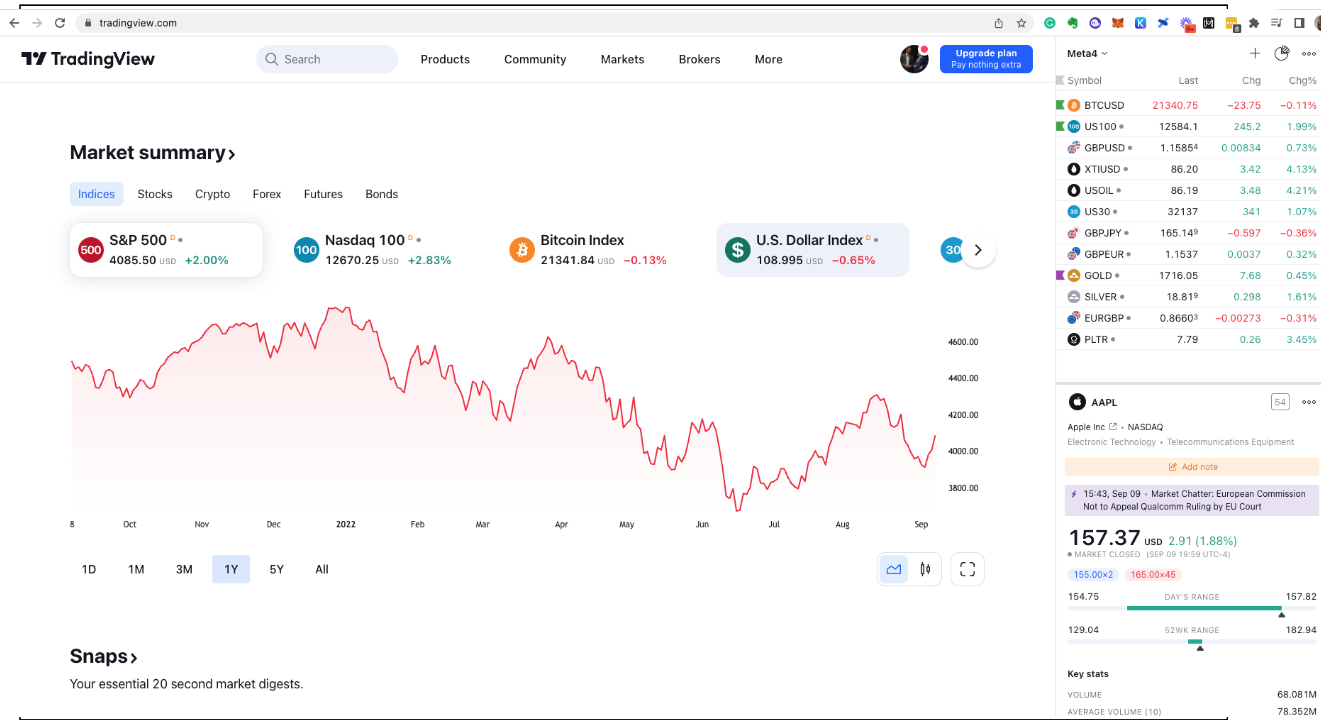
INVESTMENT MASTERY

For charts click Quotes- Streaming Charts



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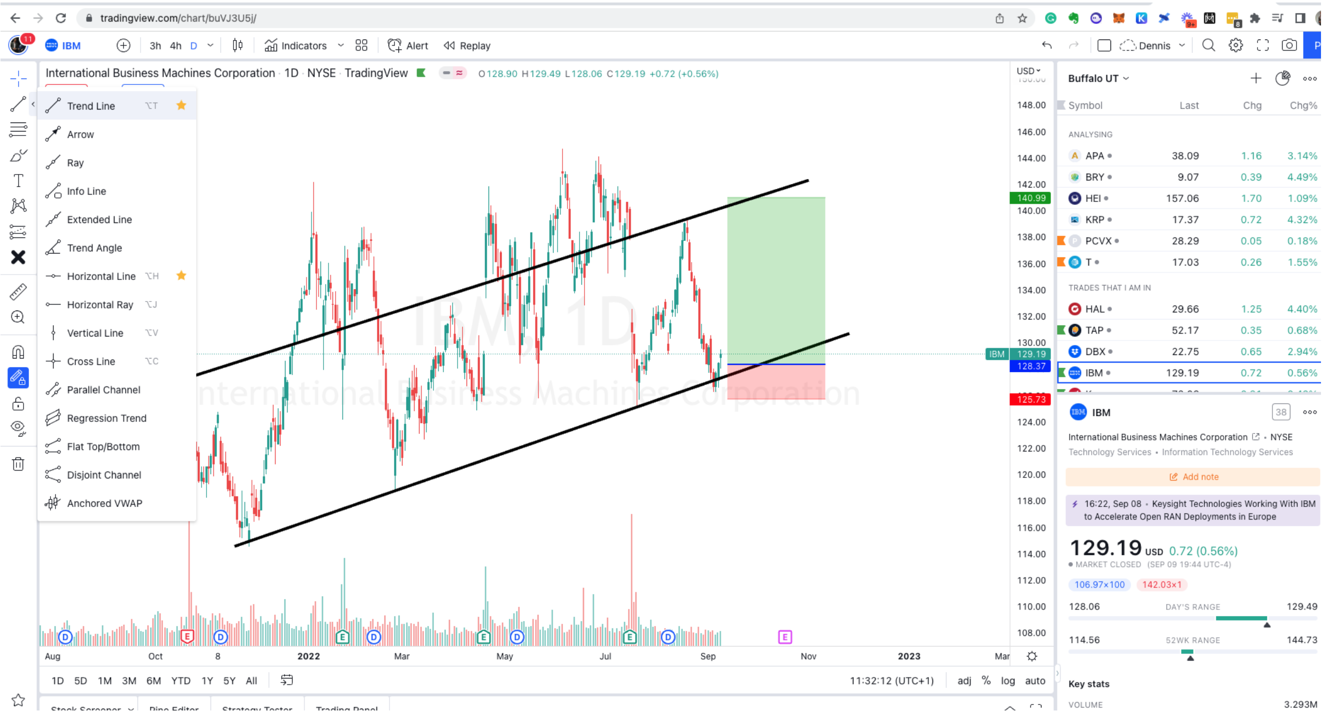
To draw your lines, go to either ‘Trendline’ or ‘Channel’



INVESTMENT MASTERY

Step 3. Before entering the trade, ensure that the ‘set-up’ fits all our criteria

- There must be strong support (3 bounces minimum)
- Ratio minimum 3:1
- Clear pattern (sideways, up or down but clear)
- Stock must not be entering earnings period (1-2 weeks B4)

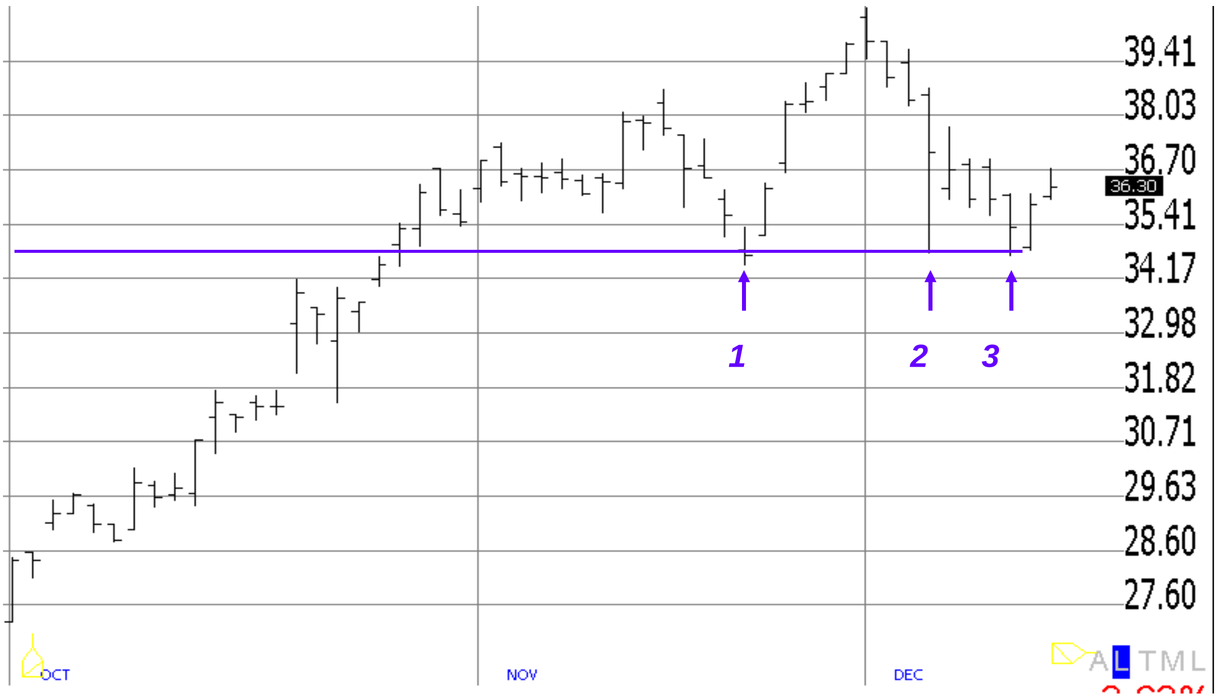
What are we not interested in?

- Stocks with insufficient touches
  - Minimum 3 bounces
- Charts trending up too steeply
  - Beware of stocks trending up more than 50% in 6 months
- Charts trending down in any way
  - We want to use them differently, making money going down (see later)
- Stock entering earnings period
  - 1 – 2 weeks before

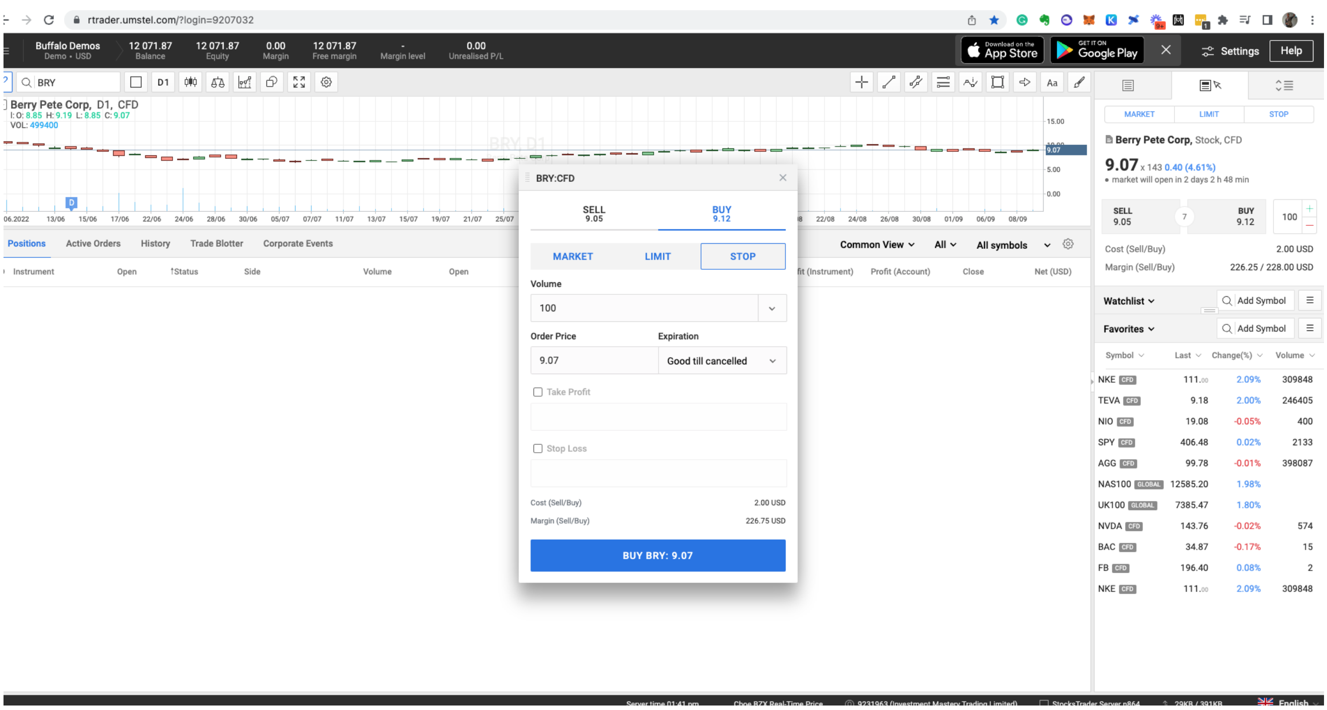
Step 4: Entering the trade on a horizontal Buffalo stock

- With horizontal Buffalo stocks, after 3 clear bounces, you can set a Stop order to enter the trade
- You can do this when the last candle is touching outer support and resistance

A stock that has 3 bounces has good support



Set a STOP order to buy or to sell



Set a STOP order to Buy 1% (x1.01) above the Support Line in advance!

Selling Short - NOTES

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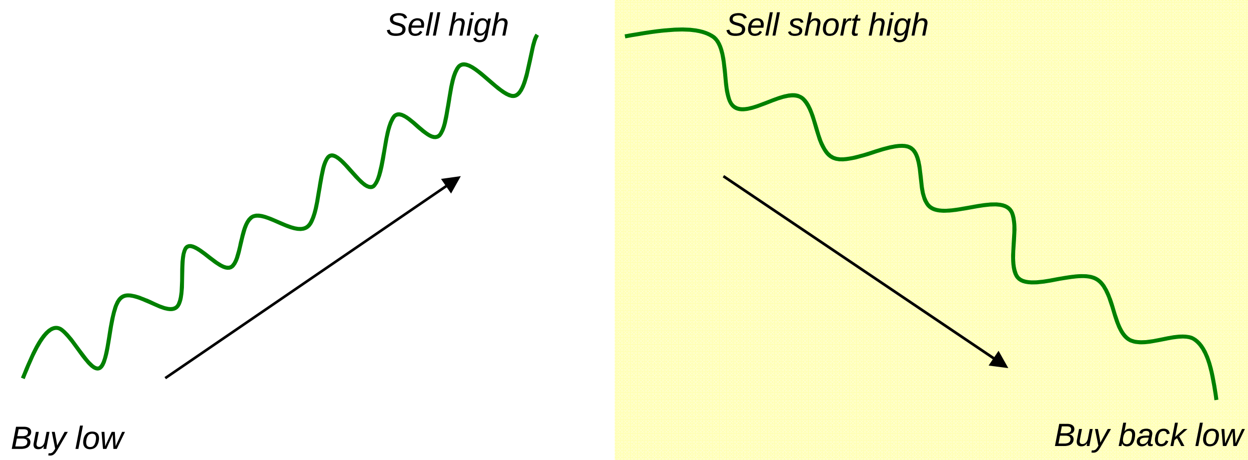
Most people don't know you can make money when stocks go down

- **We borrow the stock we <u>don't own</u> from our broker (they LEND it to us)**
- **We expect the stock to go down**



INVESTMENT MASTERY

When to use a STOP order to enter the trade SELLING SHORT

Entering - BUY

- Stop
  - Buy only when stock climbs above a chosen price
- Market
  - Buy now at best price
- Limit
  - Buy only when stock falls to a chosen price

Entering - SELL SHORT

- Limit
  - Sell short only when stock climbs above a chosen price
- Market
  - Sell now at best price
- Stop
  - Sell short only when stock falls below a chosen price

- **Use either 'Stop' order when entering a trade**
- **Use Good until Cancelled (GTC)**

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STOP order to Sell Short 1% (x 0.99) below last candle touching the Resistance line

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The order was ready. We bought at 32 and sold at 40.32: 25% in 4 days

INVESTMENT MASTERY

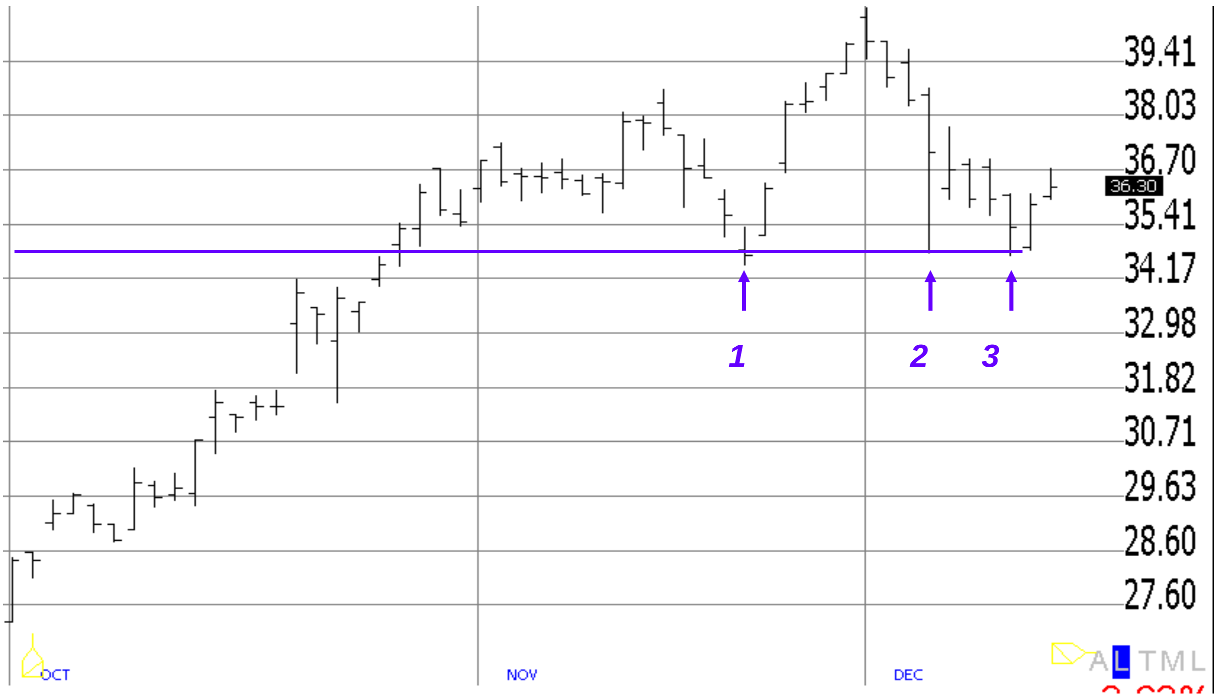
When to use STOP orders to enter the trade

Entering - BUY

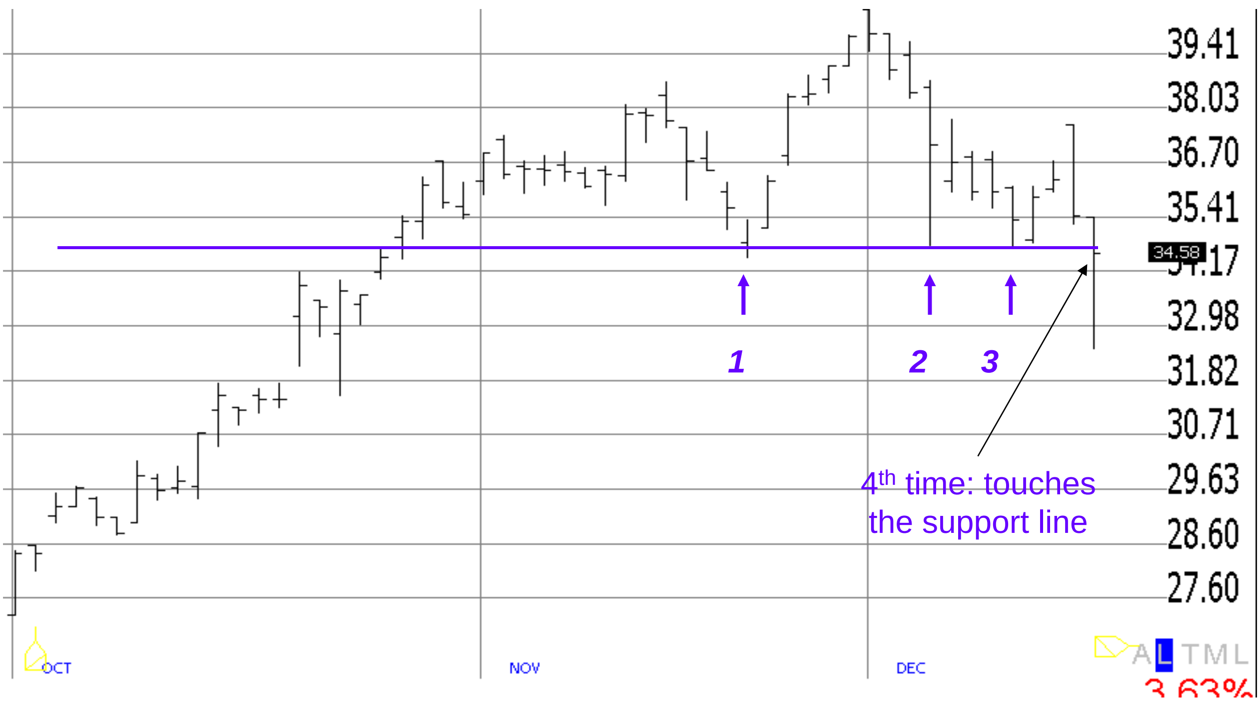
- Stop
  - Buy only when stock climbs above a chosen price
- Market
  - Buy now at best price
- Limit
  - Buy only when stock falls to a chosen price

- **Use either 'Stop' or 'Limit' order when entering a trade**
- **Use Good until Cancelled (GTC)**

Example of entering with a STOP
This stock has 3 bounces has good support

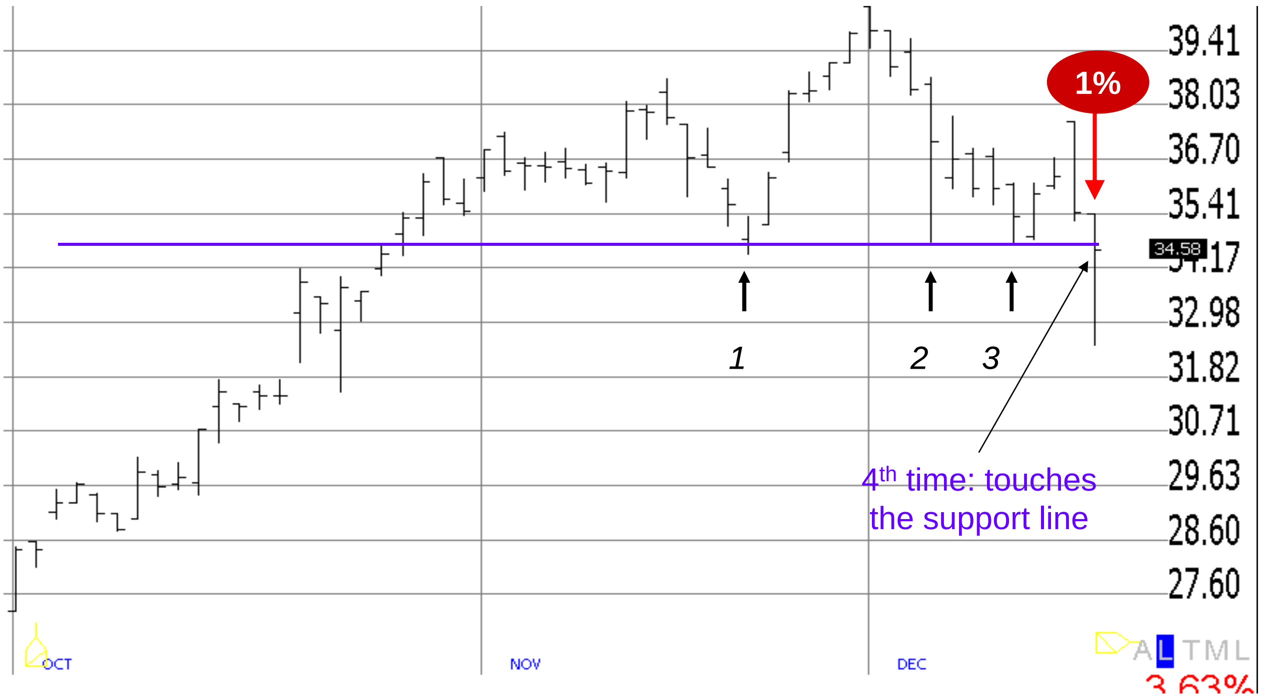


The 4th time it comes down,
the bar must touch the support line



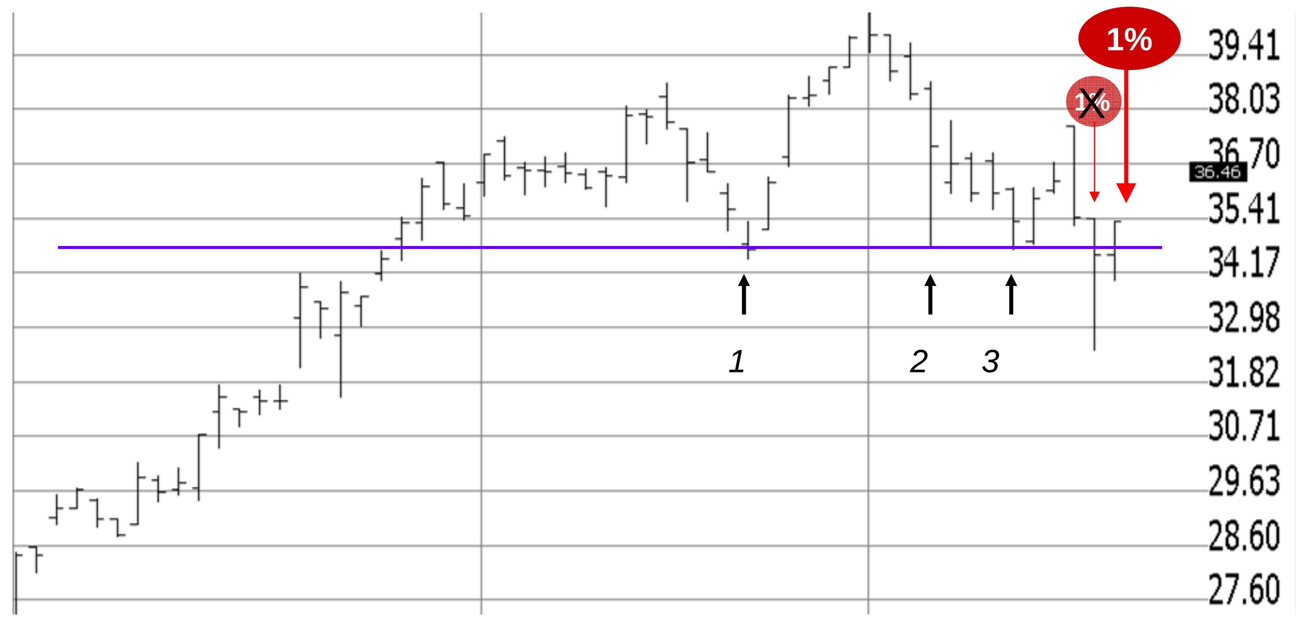
INVESTMENT MASTERY

Place an order to trade at 1% above the high of that same bar



INVESTMENT MASTERY

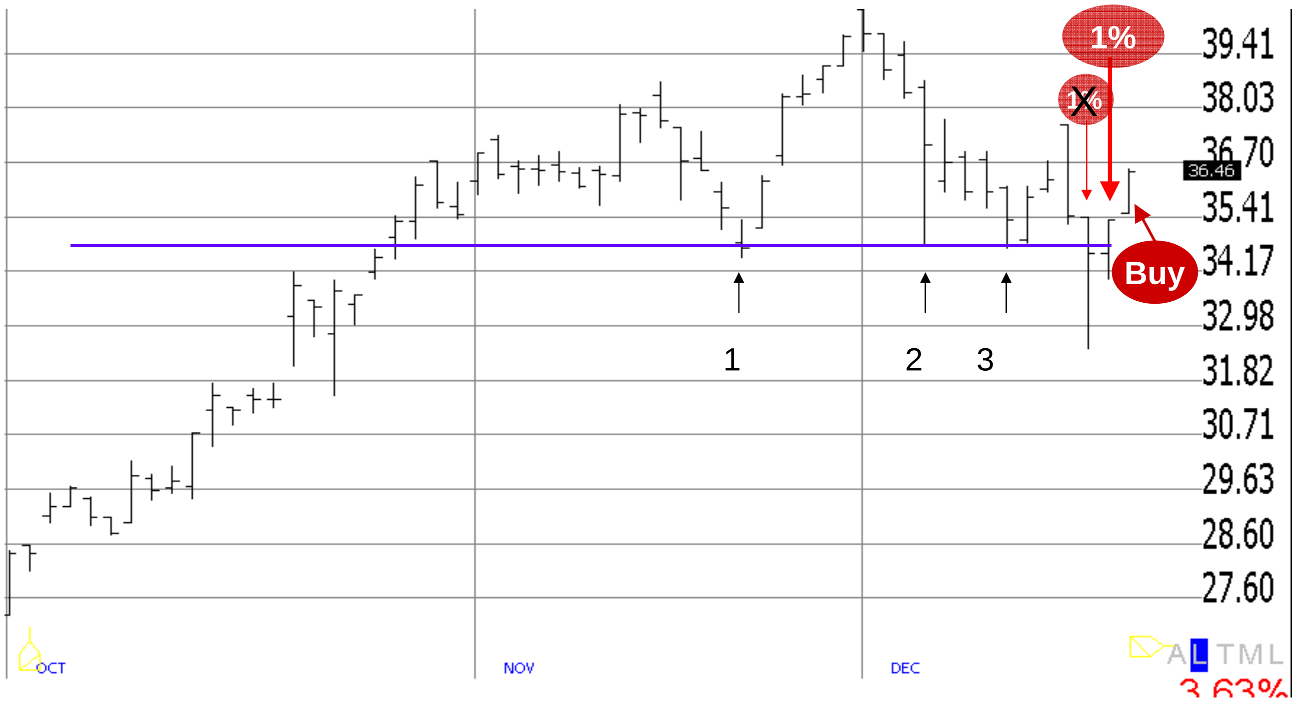
If the next day's high is lower, modify the order 1% above new high*



The new bar needs to be above or be touching the support line. In this example it is touching

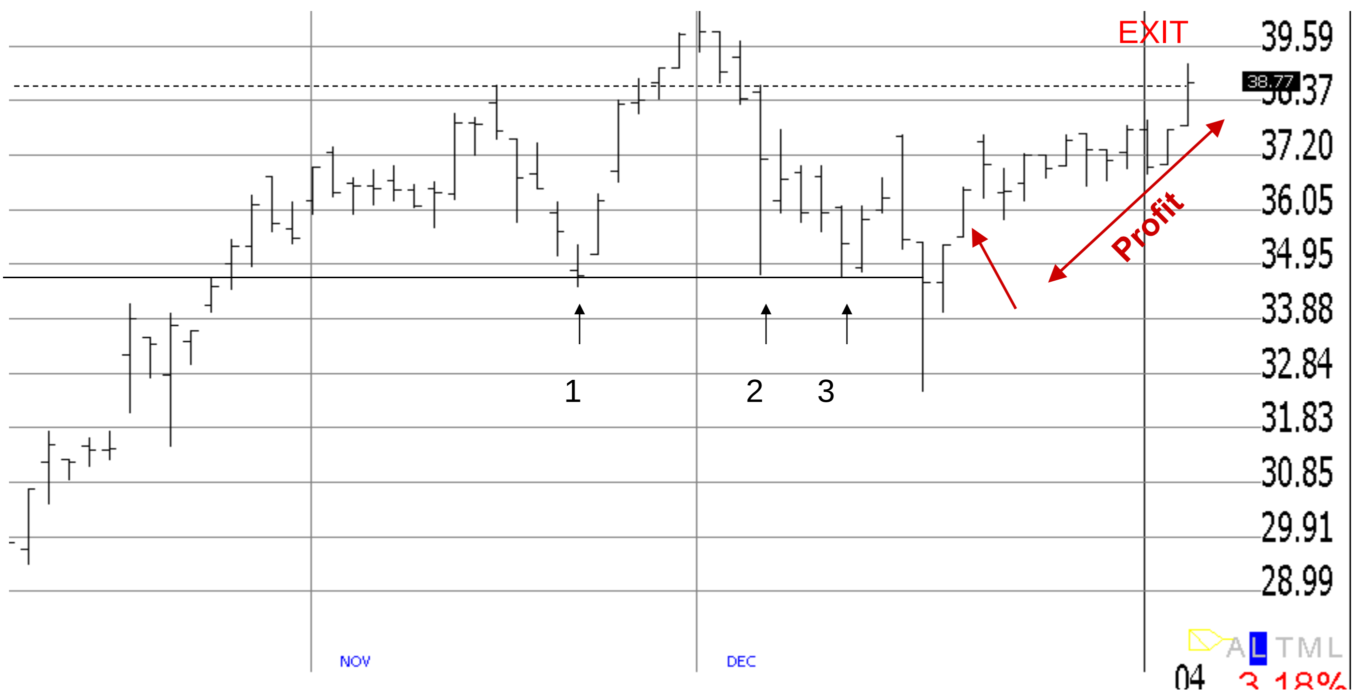
INVESTMENT MASTERY

At 1% above the previous day's high, the broker will buy …



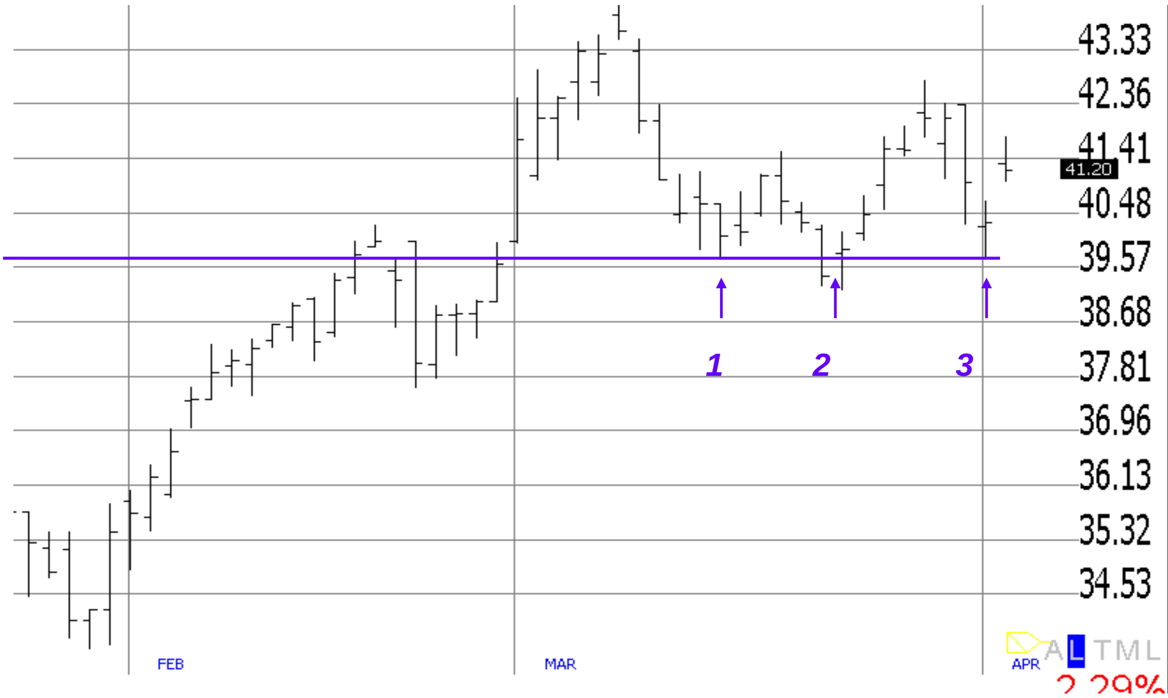
INVESTMENT MASTERY

… and up she goes!



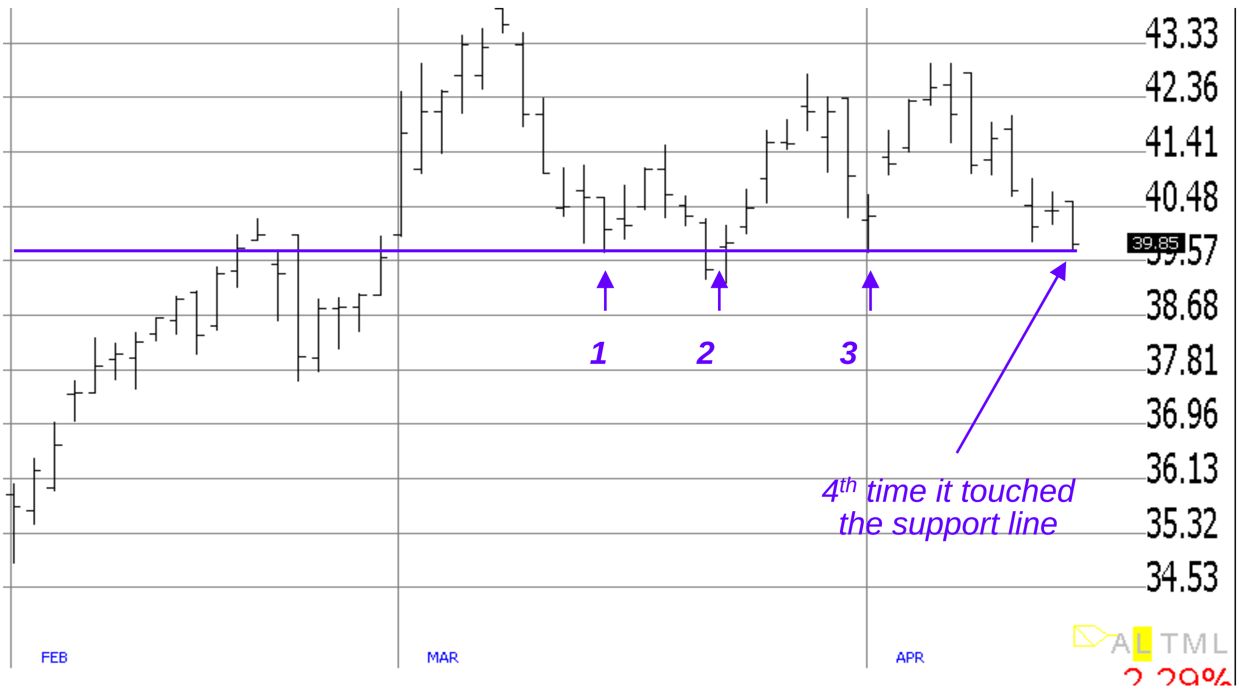
INVESTMENT MASTERY

Another example of 3 bounces



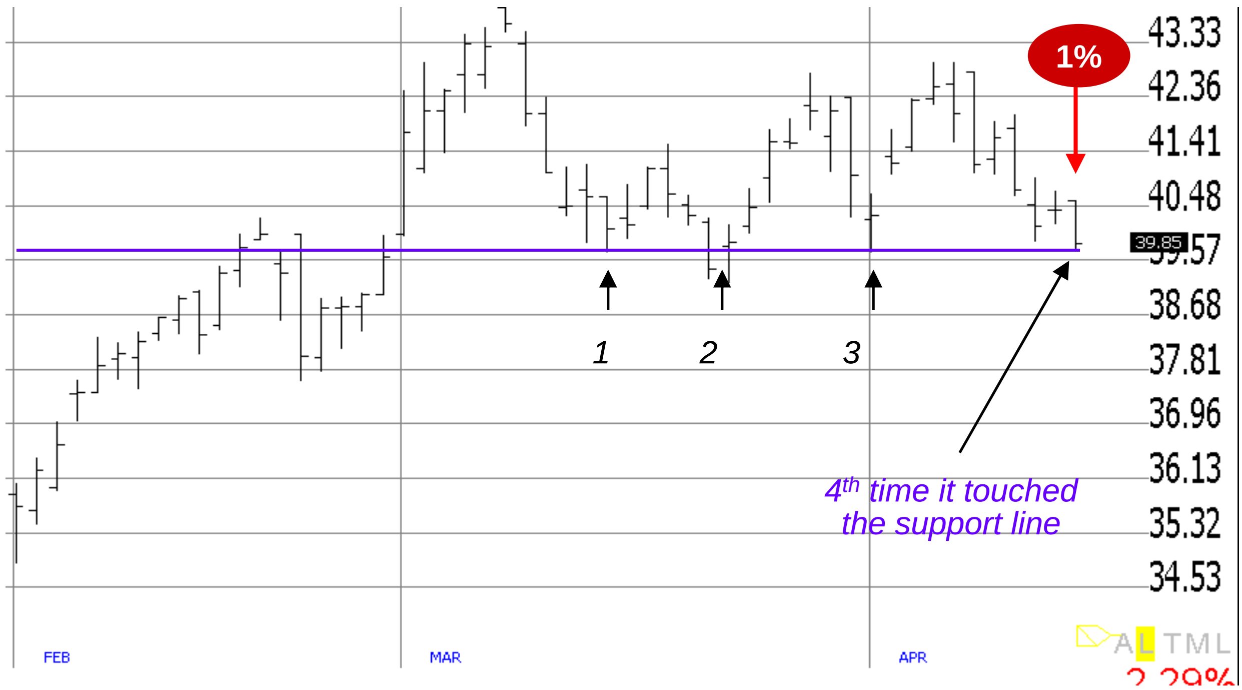
INVESTMENT MASTERY

The 4th bounce has to touch the support line



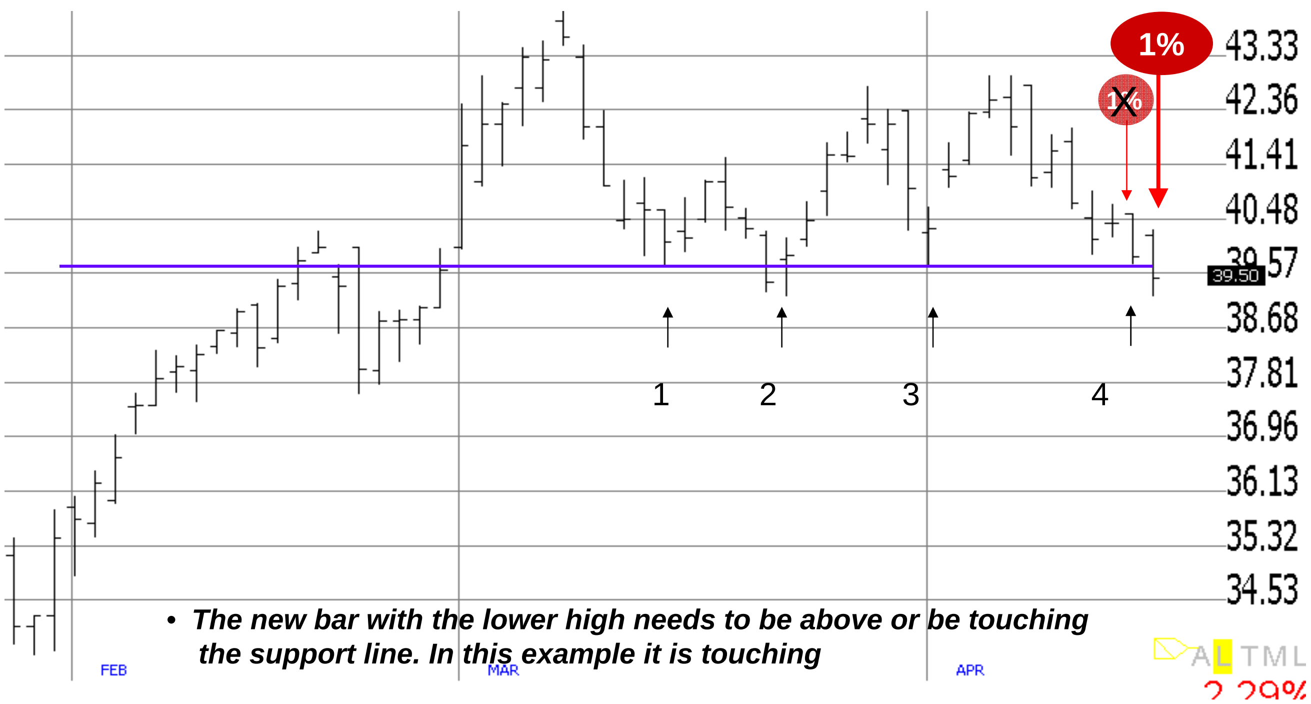
Investment Mastery

Place an order to trade at 1% above the high of that same bar



Investment Mastery

If the next day's high is lower, modify the order 1% above new high*



- ***The new bar with the lower high needs to be above or be touching the support line. In this example it is touching***

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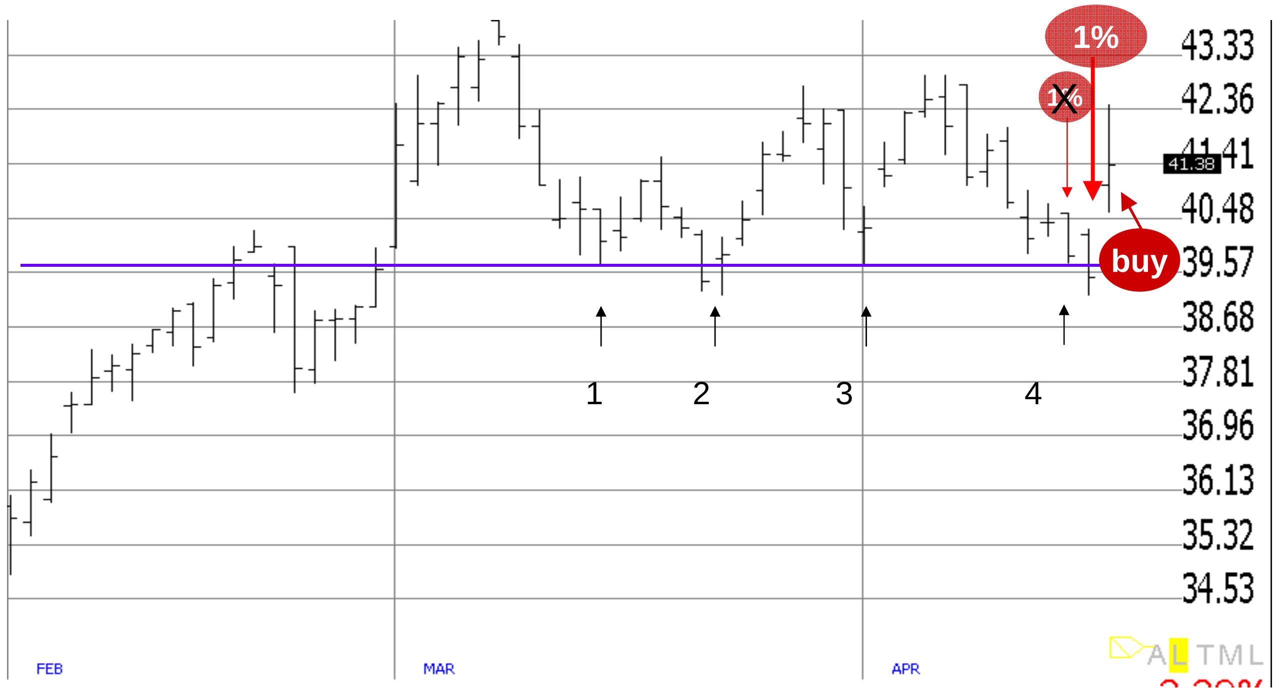
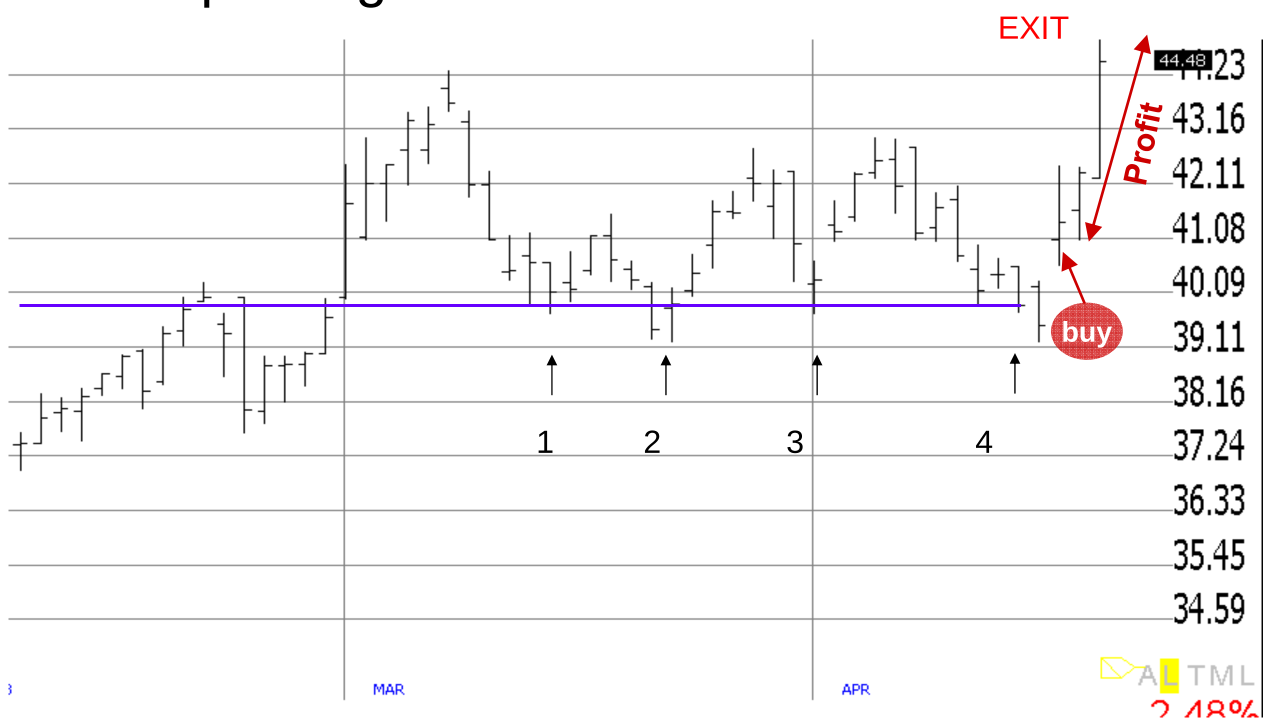
Investment Mastery

At 1% above the previous day's high, the broker will buy …



Investment Mastery

… and up she goes!



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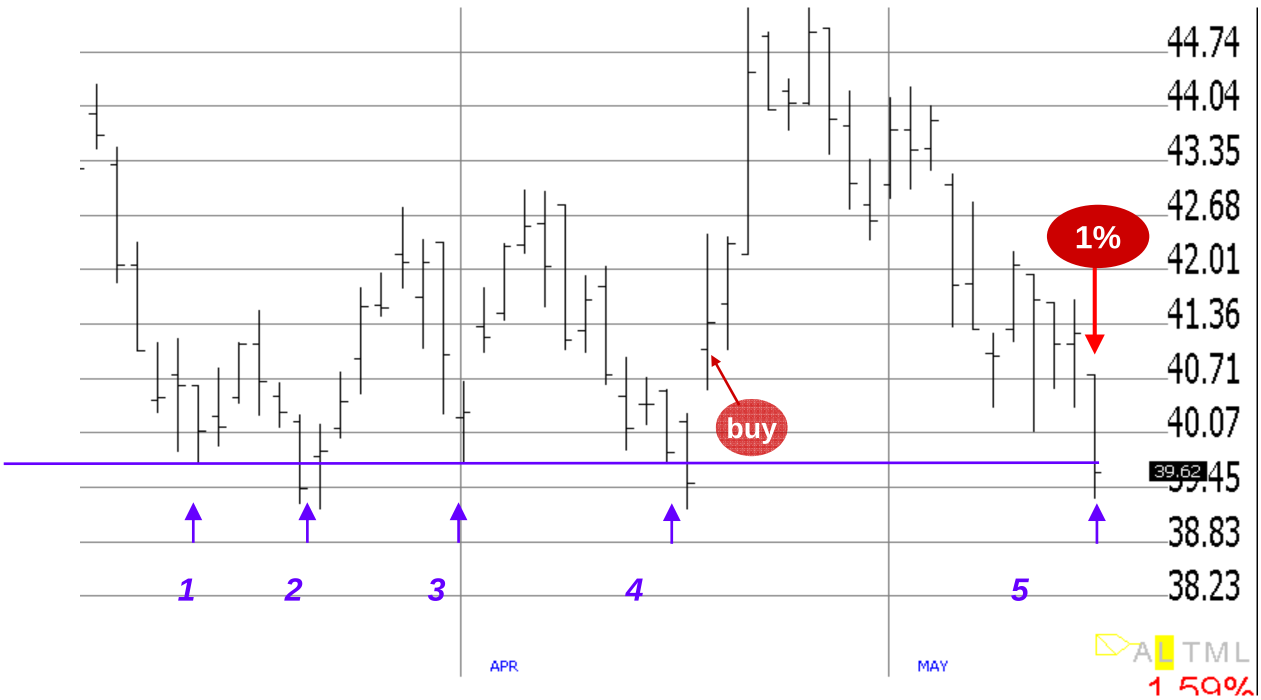
In this example, the stock came down a 5th time to touch support line

Investment Mastery

Place an order to trade at 1% above the high of that same bar



INVESTMENT MASTERY

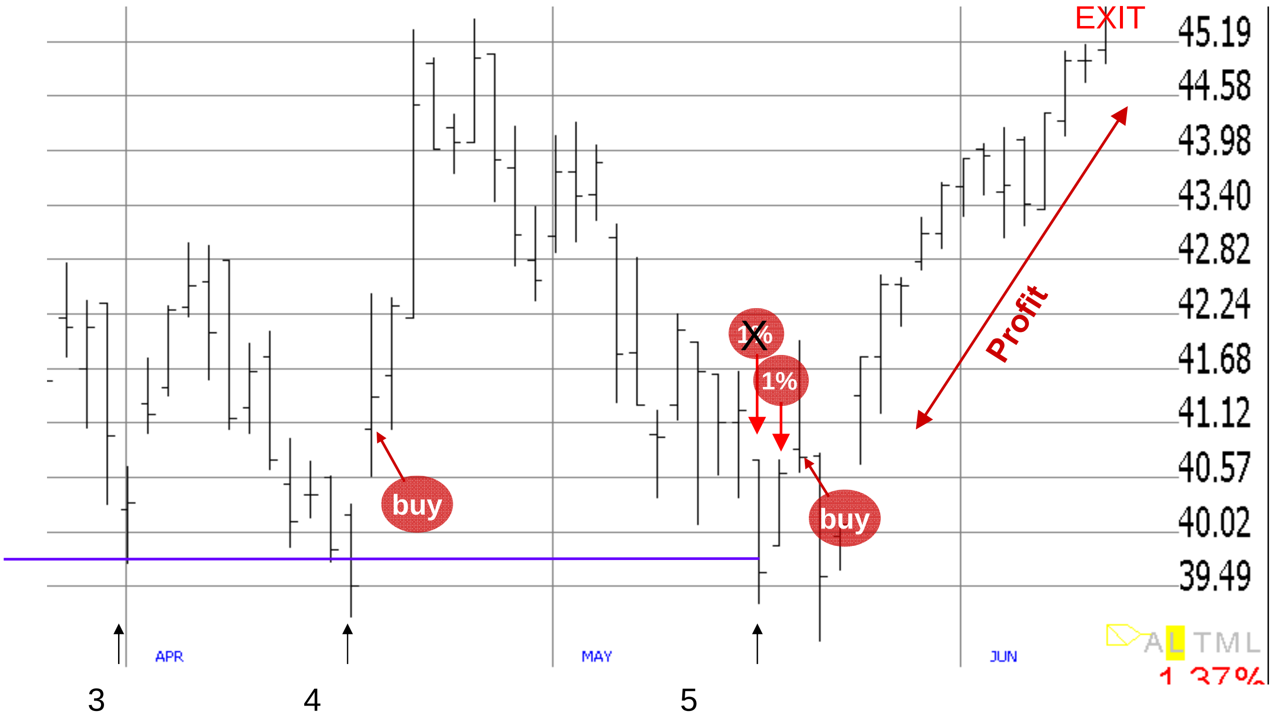
If the next day's high is lower, modify the order 1% above new high*

The new bar needs to be above or be touching the support line.
In this example it is above the line

INVESTMENT MASTERY

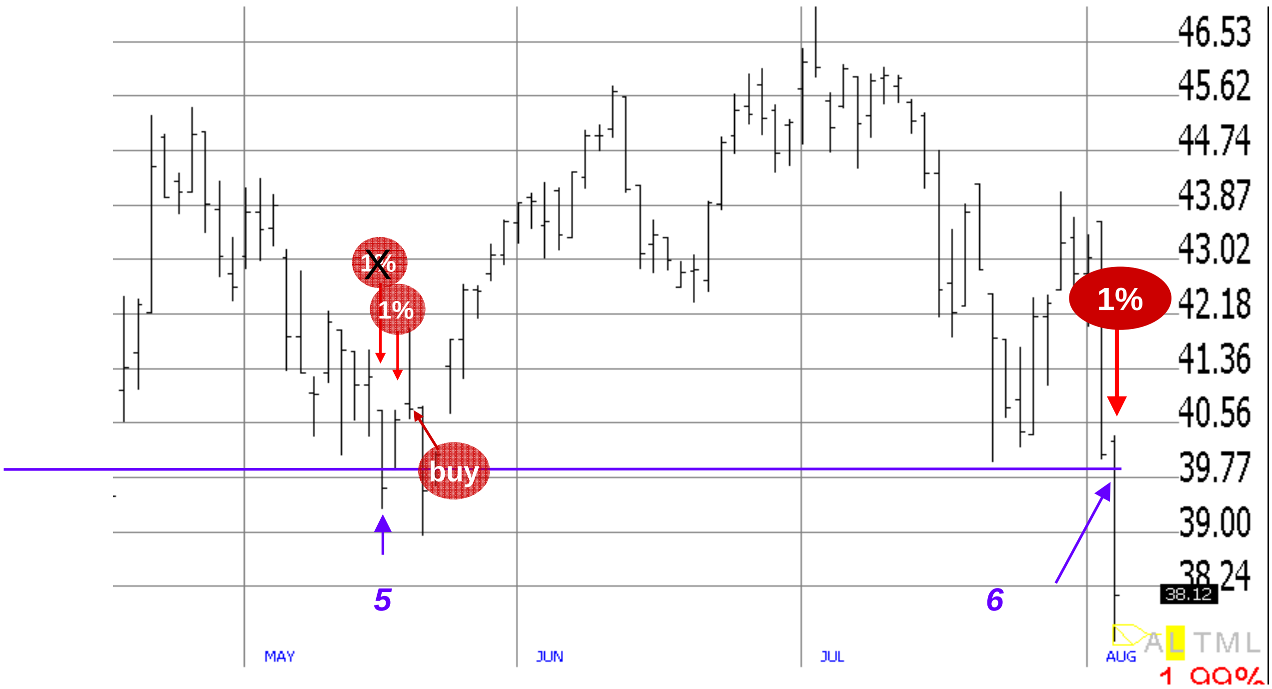
At 1% above the previous day's high, the broker will buy …

… and up she goes!

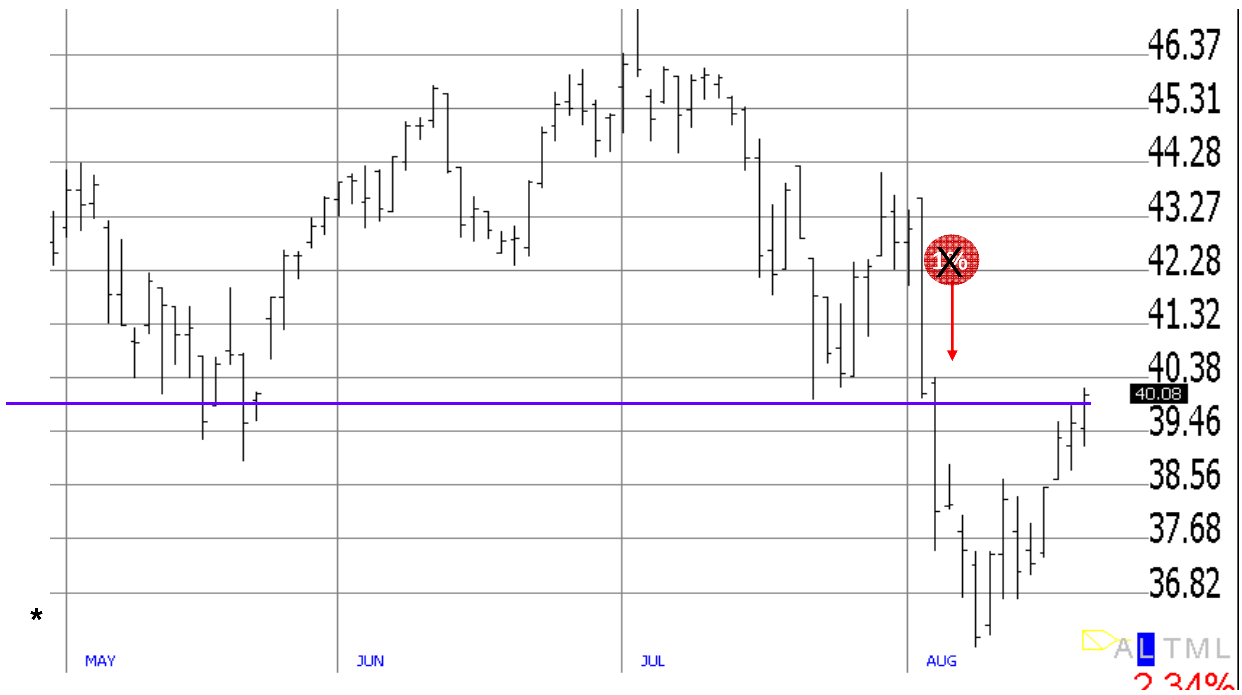


In this example there was one more touch of the support line

Place an order to trade
at 1% above the high of that same bar



The new bar needs to be above or be touching the support line. In this example the bars move down and are not touching the support line.



Conclusion on when to use LIMIT vs STOP orders to enter the trade:

- STOP
  - Use in Horizontally rolling Buffalo with 2 bounces
    - get in on 3rd (you can enter earlier because it counts as the 3rd bounce)
  - Use in Vertical Rolling Buffalo
- We do NOT use limit orders for Buffalo. That is only for investing with VCA.

5. How to EXIT the trade

Rules for exiting the trade

- **2 golden rules of investing:**

  - **Let your profits run**
  - **Cut your losses short**

- Never allow a profitable trade to become unprofitable

Secret to Trading: Risk Management - NOTES

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Secret to Trading: Risk-Reward Ratio - NOTES

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INVESTMENT MASTERY

INVESTMENT MASTERY

When trading (not when investing) we exit the trade by using a Stop Loss

Never ever trade without a STOP LOSS

Types of Orders when exiting the trade - **always** use 'Stop' order' for your stop loss

Exiting - BUY TO COVER

- **Stop (called a 'stop loss')**
  - **Buy only when stock climbs above a chosen price**
- Market
  - Buy now at best price
- Limit
  - Buy only when stock falls to a chosen price

Exiting - SELL

- Limit (or 'Take Profits')
  - Sell only when stock climbs above a chosen price
- Market
  - Sell now at best price
- **Stop (called a 'stop loss')**
  - **Sell only when stock falls below a chosen price**

- **Always use 'stop' orders when exiting**
- **Use Good until Cancelled (GTC)**

Exiting the trade: Set a STOP Loss below the lowest part of the range

Example Up Trending

Example Down Trending

INVESTMENT MASTERY

Horisontal Placing both entry & exit orders at 'One Triggers Two'. Example: Stop Order

	Order 1				Order 2 STOP My Losses				Order 3 LIMIT My profits			
	Entry	%	Calc	Entry price	Exit 1	%	Calc	Exit price	Exit 2	%	Calc	Exit price
A	If Buy	+ 1% Above high of bar	x 1.01 above high of bar	= Result 1	Sell	1% below low of range*	x 0.99	= Result 2	Sell	1% below resistance line	If 1%, x 0.99	= Result 3
B	If Sell Short	- 1% below low of bar	x 0.99 below low of bar	= Result 1	Buy to Cover	1% above high of range*	x 1.01	= Result 2	Buy to Cover	1% above support line	If 1%, x 1.01	= Result 3

* Range means from <u>when it started doing the pattern</u>. Could be 3 months – 2 years

- Always remember the ratios when placing your order
- Use this slide when practicing today and tomorrow!

INVESTMENT MASTERY

Up- and Down trending Placing both entry & exit orders at 'One Triggers Two'. Example: Stop Order

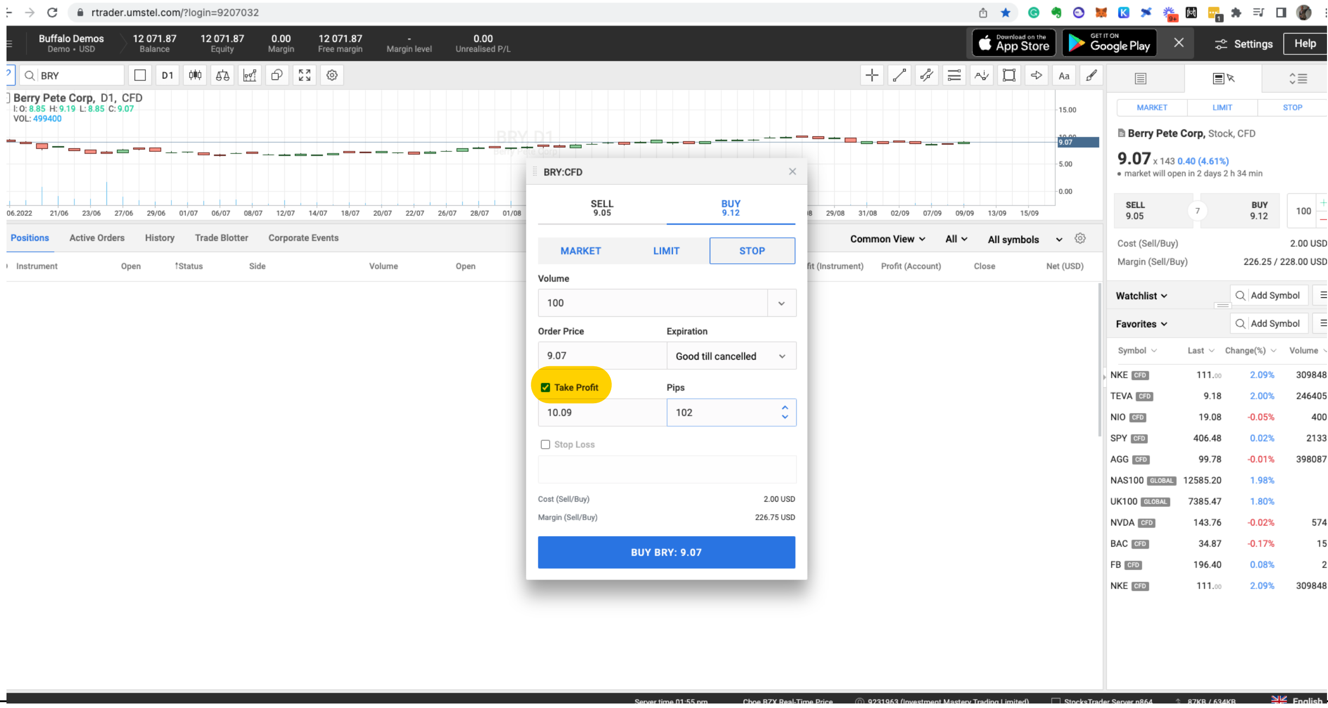
	Order 1 Entry Price				Order 2 Stop Loss				Order 3 Take Profit			
	Entry	%	Calc	Entry price	Exit 1	%	Calc	Exit price	Exit 2	%	Calc	Exit price
A	If Buy (UTS)	+ 1% Above high of most recent candle touching outer support	x 1.01 above high of candle	= Result 1	Sell	1% below low of current bounce	x 0.99	= Result 2	Sell	1% below inner resistance line	If 1%, x 0.99	= Result 3
B	If Sell Short (DTR)	- 1% Below low of most recent candle touching outer resistance	x 0.99 below low of candle	= Result 1	Buy to Cover	1% above high of current bounce	x 1.01	= Result 2	Buy to Cover	1% above inner support line	If 1%, x 1.01	= Result 3

- Always remember the ratios when placing your order
- Use this slide when practicing today and tomorrow!

INVESTMENT MASTERY

Automate THE process using LIMIT orders to take profits automatically using One Triggers Two

Part 1 – entry order



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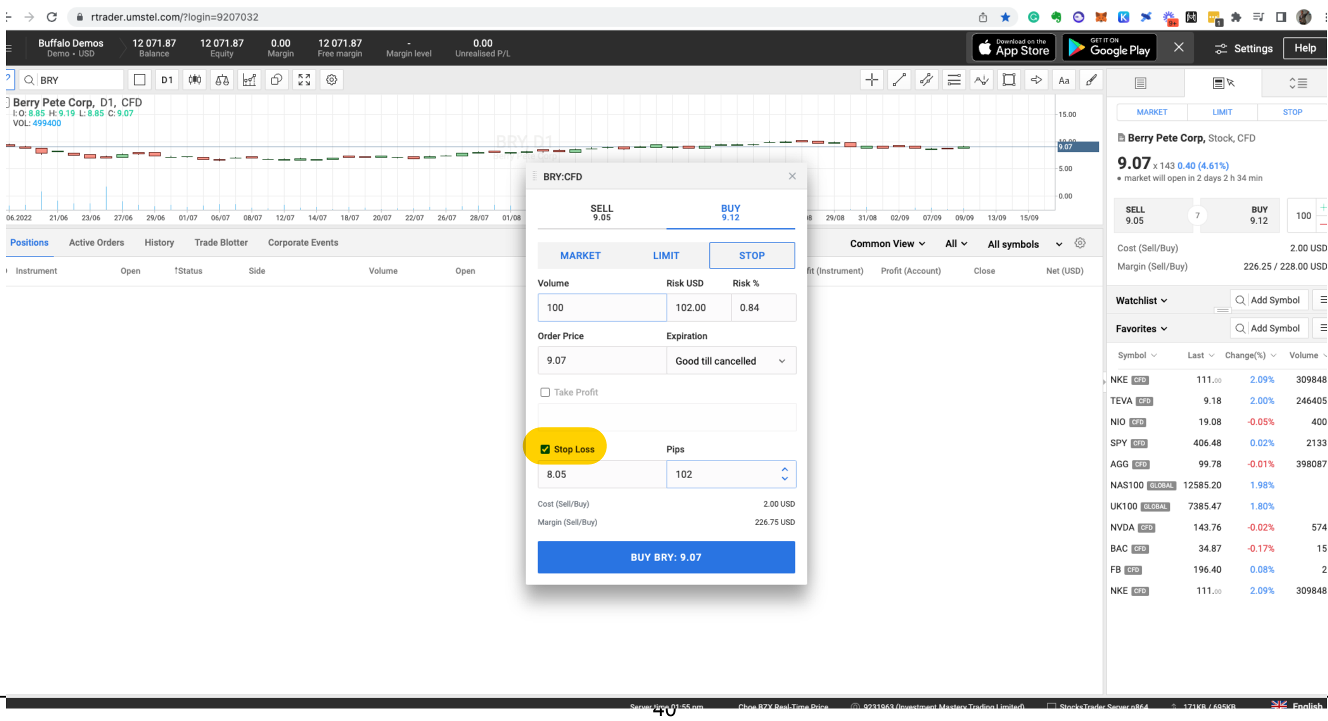
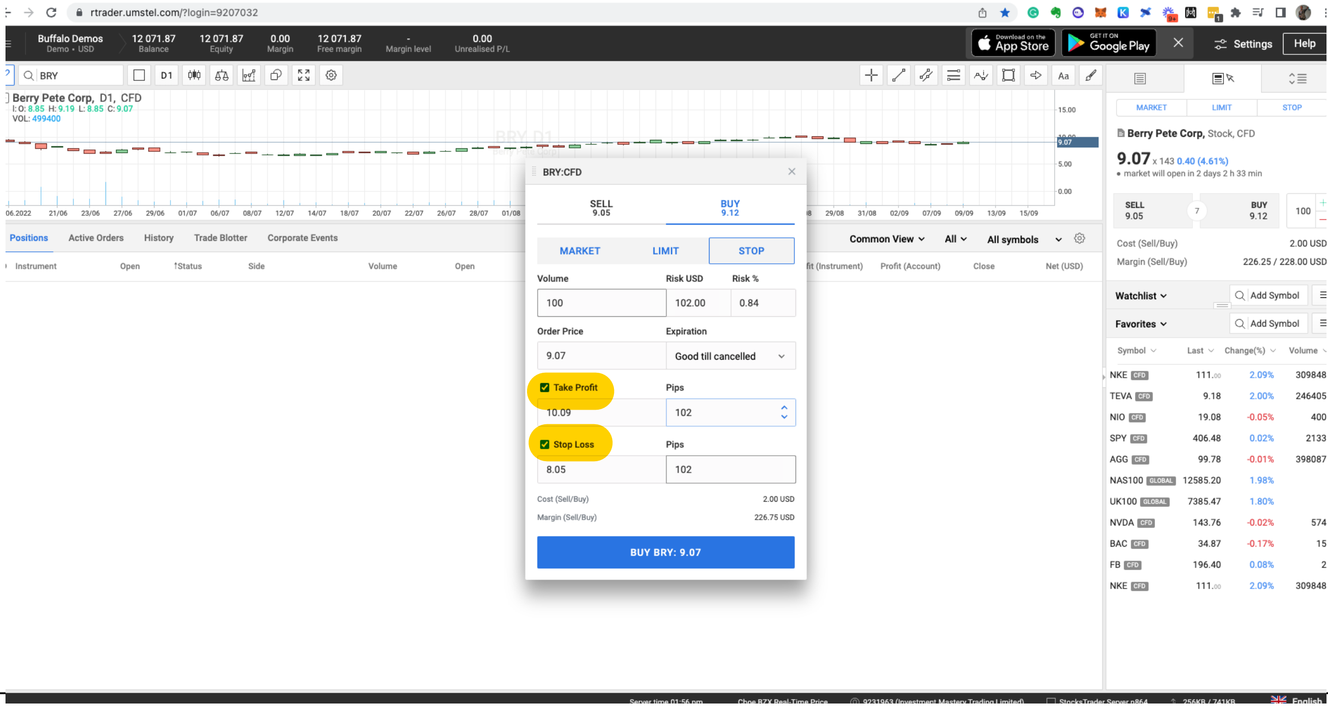
Place the stop loss as usual

Part 2 – stop loss order

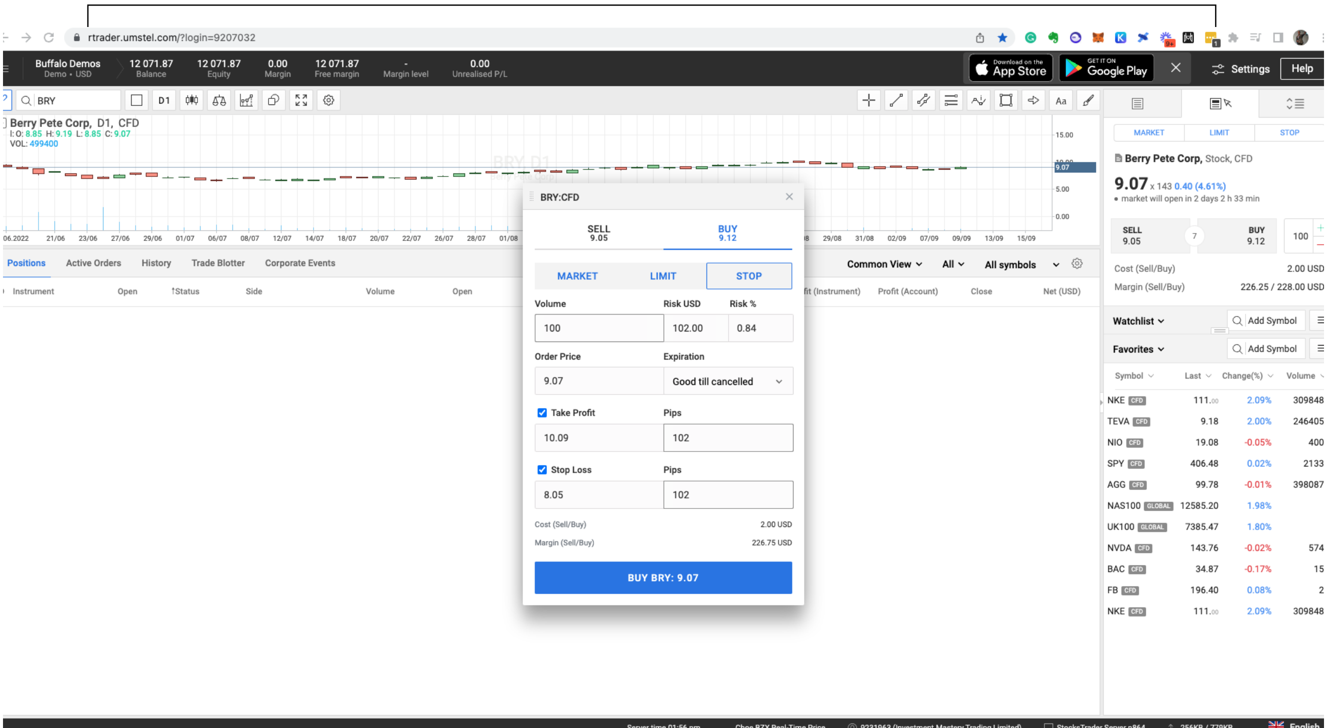


But this time add a ‘take profit’ LIMIT order

Part 3 – take profit order



At this point we check the Ratios (see next slides) before submitting the trade



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Now you know HOW to place a trade you are ready for the 2 secrets of trading

- Ratios
  - When we lose we want to lose small, when we win, we want to win big
- Risk Management
  - We never want to risk more than 1% of our entire portfolio on any 1 trade
  - So if we have 5 trades going on, we are only risking 5% of our entire portfolio

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Ratios

The Secret of Trading

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Ratios

- Make sure the ratios are at least 2.5:1 but 3:1 and 4:1 or more is better
- This means you need to ensure you have chance of winning much more than losing

£	££	£££	
‘2.5’ gain	‘3’ gain	‘4’ gain	Etc...
‘1’ loss	‘1’ loss	‘1’ loss	

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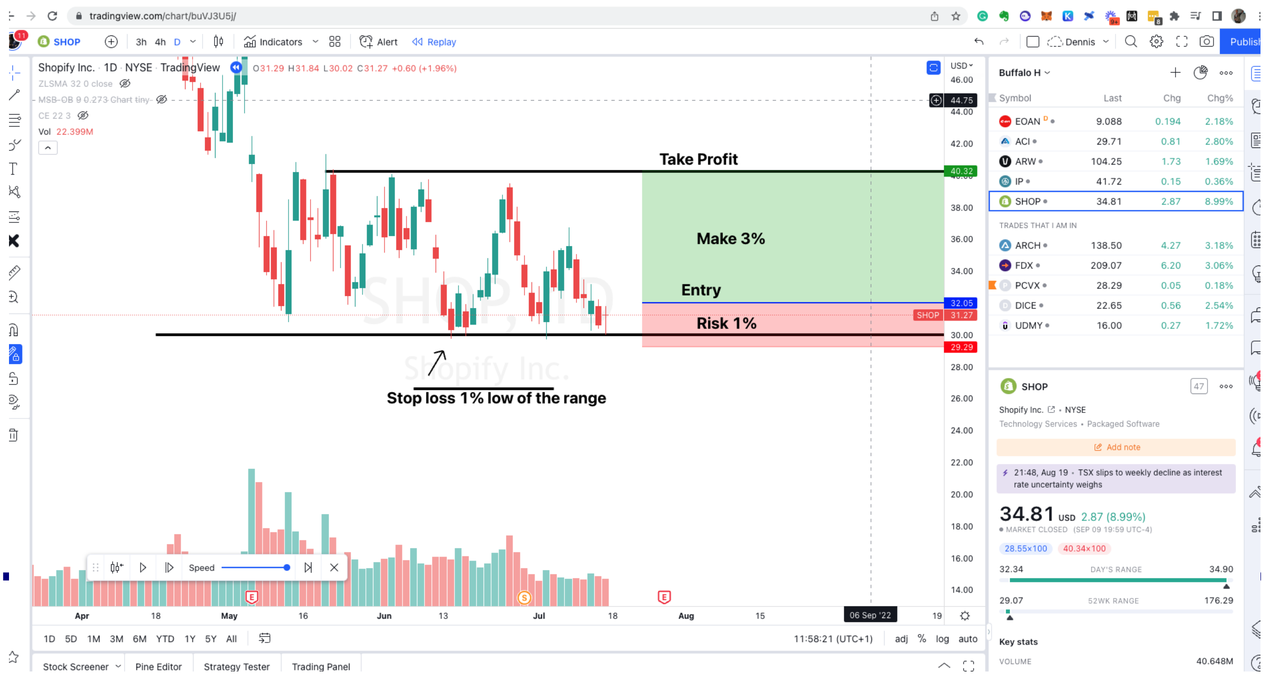
What is the Ratio between how much we are losing vs. how much can we make?



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Check that we are able to win 3 times more than we risk

Risk Management

The most important part of trading

A trader is placing 2 trades at the same time

Account: $25,000

Trade 1

Entry price = $7.50

Stop Loss = $6.90

Spent $5,000 to buy 667 stocks.

Potential loss = **$400**, which is **1.6%** of the whole account

Trade 2

Entry price = $61

Stop Loss = $58.50

Spent $5,000 to buy 82 stocks.

Potential loss = **$205**, which is **0.82%** of the whole account

1 Win should easily cover 1 Loss
… or so it seems …

- In theory, if we close trades with 3:1 ratio, 1 win should cover 3 losses. We should be breakeven after 4 trades.
- 1 win on Trade 2 = **$615**
- 3 losses on Trade 1 = **$1200**

That's why risking just 1% of the entire portfolio on every trade is crucial

Account Size = $25,000

Risking 1% per trade

Entry price = $21.20

Stop Loss = $19.10

Account Risk = $25,000 x 1% = **$250**

Trade Risk = entry price – stop loss = $21.20 - $19.10 = **$2.10**

Calculation of 1% Risk:
So that the 3:1 Ratio can really kick in

Trade size = amount of stocks

$$\textbf{Trade size} = \frac{\text{Account Risk}}{\text{Trade Risk}} = \frac{\$250}{\$2.10} = \textbf{119 stocks}$$

Therefore, the amount of capital in this example is 119 (amount of stock we are buying) x 21.20 (entry price) = $2,522

Exit the trade (continued)

- Once you are well in profit, move the stop loss up to entry point
  - Can't lose money now
- Once the stock reaches the resistance line, raise the stop loss right underneath
- Once you are near your target price, i.e. 9%, move the stop loss up right under it
  - If it continues up, great
  - If it comes down, the broker will sell
- If stock suddenly moves up by large margin, raise stop loss right underneath it to lock in profit (5%+ in a day)

EXERCISE

Time for you to

PRACTISE

Placing a Trade - NOTES

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INVESTMENT MASTERY

Placing a Trade cont: - NOTES

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INVESTMENT MASTERY

Emotions in Trading – are these emotions stopping you? - NOTES

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INVESTMENT MASTERY

Emotions in Trading – are these emotions stopping you? Cont: - NOTES

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INVESTMENT MASTERY

CFDs

(Contracts for Difference)

What are CFDs?

- CFDs are a way of making money from share price movements without owning the share itself. You simply own a contract which you buy at one price and sell at another, making (or paying out) the difference - hence the name, Contracts For Difference.

So how's that different from conventional share dealing?

- When buying a contract you do not own the underlying instrument, you are betting on which direction you think the price will move in
- Instead of buying shares, you are purchasing contracts.

The pros of trading CFDs

- You only need to pay a percentage of the stock (known as the Margin Requirement) up front. For stocks the Margin Requirement starts from 5%. That means you could take a €20,000 position and you only need to provide €1,000 initially.
- You can place a Guaranteed stop loss when trading CFDs. Which means if the market were to gap against you, you would still be taken out of that trade at your stop loss price.

Risk Management
CFDs

Example of trading a UK stock (CFD calculation)

- Imagine that you have looked at "BP" as a share you wanted to trade. You want to buy at £4, with a stop loss at £3.
- To work out how many shares you should be trading, you will need to know the following:

1) Account Risk = How much of your account you are risking

2) Trade Risk = Difference between your entry price and stop loss

Then you can work out:

3) Trade Size = How many shares to buy/sell

1) Account Risk

Account Risk = Account Size x % Risk

Calculation:

- Account size: €10,000
- % Risk = 1%
- Account Risk = €10,000 x 0.01(1%) = €100

Account Risk Calculation Cont.:-

- Now you need to convert your account risk in euros into the currency that the share is trading in
- In our example we convert euros into British Sterling as the share is trading on the London Stock Exchange
- EURGBP price is currently at 0.8600, this in turn means €1 = £0.86
- Therefore:
- Account Risk = €100 x EURGBP price

  = €100 x 0.8600 = **£86**

2) Trade Risk

Trade Risk = Difference between entry price and the stop loss

Calculation:

- £4 (EP)- £3 (SL) = **£1**

INVESTMENT MASTERY

3) Trade Size

Trade Size = How many shares to buy/sell

Calculation:

- Account risk / Trade risk = Trade size
- £86/£1 = 86 Shares

You need to buy 86 shares in this example

INVESTMENT MASTERY

Traditional Vs CFD Requirements

Traditional Trading:
In order for you to place this trade you would need to buy 86 shares in BP at your entry price

- Amount of shares x Entry price = Margin Requirement
- 86 shares X £4 = **£344**

CFD Trading:
In CFD trading you only need to typically put down 5% of the traditional trading margin requirement.

- 5% X Traditional Margin Requirement
- 0.05 X £344 = **£17.2**

Therefore:

That’s a difference of **£326.80**. Which means we have a lot more capital in our account to get into more trades.

WHICH ALLOWS US TO MAKE MORE MONEY!!

Example of trading a US stock (CFD calculation)

Imagine that you have looked at 'Apple' as a stock you wanted to trade. You want to buy at $ USD 380, with a stop loss at $ USD 377.50.

To work out how many shares you should be trading, you will need to know the following:

1) Account Risk = How much of your account you are risking
2) Trade Risk = Difference between your entry price and stop loss

Then you can work out:

3) Trade Size = How many shares to buy/sell

1) Account Risk

Account Risk = Account Size x % Risk

Calculation:

- Account size: €10,000
- % Risk = 1%
- Account Risk = €10,000 x 0.01(1%) = €100

Account Risk Calculation Cont.:-

- Now you need to convert your account risk in euros into the currency that share is trading in
- In our example we convert euros into US Dollars as the share is trading on Nasdaq
- EURUSD price is currently at 1.3100, this in turn means €1 = $1.31
- Therefore:
- Account Risk = €100 x EURUSD price

  = €100 x 1.3100 = **$131**

2) Trade Risk

Trade Risk = Difference between entry price and the stop loss

Calculation:

- $380 (EP) - $377.50 (SL) = **$2.50**

3) Trade Size

Trade Size = How many shares to buy/sell

Calculation:

- Account risk / Trade risk = Trade size
- $131/$2.50 = 52 Shares

You need to buy 52 shares in this example

INVESTMENT MASTERY

Traditional Vs CFD Requirements

Traditional Trading:
In order for you to place this trade you would need to buy 52 shares in Apple at your entry price

- Amount of shares x Entry price = Margin Requirement
- 52 shares X $380 = $19,760

CFD Trading:
In CFD trading you only need to typically put down 5% of the traditional trading margin requirement.

- 5% X Traditional Margin Requirement
- 0.05 X $19,760 = $988

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Therefore:

That's a difference of **$18,772**. If you are not using CFDs you can not trade this with €10,000!

Meaning you would miss the potential to make money on this stock !!!

Spread betting
(If you do not live in UK, you can skip this part)

What is spread betting?

- Spread betting is a method of speculating on the price movements of an instrument without actually owning what you are trading
- You do not own what you are trading
- You are betting on which direction you think the price will move in. Instead of buying shares or contracts, you would be betting in £'s per point movement in the price (a point may be 1p, 1c, 100th of a c or a $ depending on the instrument you are trading).

INVESTMENT MASTERY

What is spread betting cont.:?

- The spread betting firm makes money through the spread ie. The difference between the buy and sell price
- If the current value of the FTSE is 4524 then a spread betting firm might quote a spread of 4523/4525
- If you buy the FTSE £1 per point at 4525 you would instantly register a loss of £2 as 4523 would be the price that you could sell back at. From then on, for every 1 point change in the quotation, your profit or loss would fluctuate by £1.

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Why is it called spread betting?

- The term spread betting is used because there is an additional spread around the market price (they make their money on the spread, hence the word) and the reason it is called a bet is because if that term is used it means you are exempt from all capital gains taxes!
- YES TAX FREE!!!

Is spread betting more risky?

- Spread betting is no more risky than normal trading on stocks
- However, when spread betting you are using leverage, so if you don't have a good risk management, you can lose money quickly
- As well as risk management, you can also do the following:
  - Hedge by buying some stocks and selling short others
  - Use a guaranteed stop loss.

What is guaranteed stop loss?

- Whereas a normal stop might suffer from *slippage*, a guaranteed stop as its name suggests guarantees a certain exit price
- Slippage is the difference from where a stop loss level is placed and where the actual order is filled
- Ex. if you enter a stop (not guaranteed) to sell £2 of the FTSE at 4300 the actual sell price might be 4297 and the 3 point difference is slippage, costing you £6 more than you thought in this example. A guaranteed stop would have prevented this
- On September 11th terrorist attacks on Manhattan, the stock exchange closed for 12 days but a guaranteed stop loss would have guaranteed an exit price, which a normal stop would not have been able to do
- The downside is that you have to pay an upfront fee (extra points on the spread) as you get filled, which cuts into your profit.

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The pros of spread betting

- The profit that you make is currently free from UK and Irish Capital Gains Tax and Income Tax
- Low transaction charges - the only cost being the spread (the difference between buy and sell prices) and the cost of funding. The cost of financing long-term spread betting positions has also been reduced substantially in the last few years which means that
- Many spread bettors are now happy to hold positions for up to six to eight months
- You only deposit a small portion of your market exposure - this gives you leverage which has the potential to increase your returns
- You can still make a profit in falling markets - provided that you predicted the markets were going to fall rather than rise.

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The pros of spread betting

- Another great benefit of using IG is that your trading account is held in your native currency (either GBP or EUR), where this comes as a major benefit is when you trading overseas markets. For example, US stocks, normally you would have to exchange your money into USD before you could trade those stocks, and therefore lose out on a fairly poor exchange rate. Also when bringing back any profits from the US you would once again lose out by once again have to use a poor exchange rate. So being able to trade world wide markets without having to pay an exchange rate is a major benefit.
- Leveraged. You can keep your capital tied up in other investments, without need to liquidate unless you suffer loss.
- An added benefit of trading with IG is the fact that this broker will not let you lose more than you have in your trading account (if you are following our rules on risk management, you will never get to a stage where this could even remotely be possible). So in other words, IG will not give you a margin call (asking you to deposit more money into your account), which other brokers can and will do.

The cons of spread betting

- No dividend payments. As discussed above, we are not holding the underlying stock and therefore we are not a registered shareholder, so no dividend is paid.
- The need to rollover on daily bets. If you roll over on a daily basis, you incur further spreads, although if you tell your broker that you will always roll over automatically at the end of the day, they will charge you less than the entire spread when rolling over that day and every day

Risk Management Spread betting

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Account Risk calculation

- **Account Risk = Account Size x % Risk**

Example :

- *Account Size: £10,000*
- *% risk: 1%*
- *The calculation is:*

Account Risk** = £10 000 x 0.01 = **£100

- *This means you will NOT lose more than 1% or £100 on the trade*

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Trade Size calculation

- To work out how many £ per point you should be trading with (trade size), you will need to do the following calculation
- Lets imagine that we have a valid trade and your stop loss is 50 points away from the entry price. That means that the trade risk will be 50pts. This gives you the information you need to work out the £ per point
- The calculation is:

Trade Size = Account Risk / Trade Risk

- **Trade Size** = £100 / 50pts = **£2 per point**
- You would now place the order using £2 per point

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Example of trading a UK stock (Spread Betting calculation)

- Imagine that you have looked at "BP" as a share you wanted to trade. You want to buy at £4, with a stop loss at £3.

- To work out how many £ per point you should be trading, you will need to know the following:

1) Account Risk = How much of your account you are risking

2) Trade Risk = Difference between your entry price and stop loss

Then you can work out:

3) Trade Size = How many £'s per point

INVESTMENT MASTERY

1) Account Risk

Account Risk = Account Size x % Risk

Calculation:

- Account size: £10,000
- % Risk = 1%
- Account Risk = £10,000 x 0.01(1%) = £100

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2) Trade Risk

Trade Risk = Difference between entry price and the stop loss

Calculation:

- £4 (EP)- £3 (SL) = **£1**
- **£1 = 100 points**

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3) Trade Size

Trade Size = how many £'s per point

Calculation:

- Account risk / Trade risk = Trade size
- £100/100pts = £1 Per Point

You need to buy at £1 Per Point in this example

INVESTMENT MASTERY

Traditional Vs Spread Betting Requirements

Traditional Trading:

In order for you to place this trade you would need to buy 100 shares in BP at your entry price

- Amount of shares x Entry price = Margin Requirement
- 100 shares X £4 = **£400**

Spread Betting Trading:

In Spread Betting trading you only need to typically put down 5% of the traditional trading margin requirement.

- 5% X Traditional Margin Requirement
- 0.05 X £400 = **£20**

INVESTMENT MASTERY

Therefore:

That's a difference of **£380.00**. Which means we have a lot more capital in our account to get into more trades.

WHICH ALLOWS US TO MAKE MORE MONEY!!

Example of trading a US stock (Spread Betting calculation)

Imagine that you have looked at 'Apple' as a stock you wanted to trade. You want to buy at $ USD 380, with a stop loss at $ USD 377.50.

To work out how many £ per point you should be trading, you will need to know the following:

1) Account Risk = How much of your account you are risking
2) Trade Risk = Difference between your entry price and stop loss

   Then you can work out:

3) Trade Size = How many £'s per point

1) Account Risk

Account Risk = Account Size x % Risk

Calculation:

- Account size: £10,000
- % Risk = 1%
- Account Risk = £10,000 x 0.01(1%) = £100

INVESTMENT MASTERY

2) Trade Risk

Trade Risk = Difference between entry price and the stop loss

Calculation:

- \$380 (EP) - \$377.50 (SL) = **\$2.50**
- **\$2.50 = 250 points**

INVESTMENT MASTERY

3) Trade Size

Trade Size = How many shares to buy/sell

Calculation:

- Account risk / Trade risk = Trade size
- £100/250 = £0.40 Per Point

You need to buy at £0.40 Per Point in this example

Traditional Vs Spread Betting Requirements

Traditional Trading:

In order for you to place this trade you would need to buy 64 shares in Apple at your entry price

- Amount of shares x Entry price = Margin Requirement
- 64 shares X $380= $24,320

Spread Betting Trading:

In Spread betting trading you only need to typically put down 5% of the traditional trading margin requirement.

- 5% X Traditional Margin Requirement
- 0.05 X $24,320 = $1,216

Therefore:

That's a difference of **$23,104**. If you are not using spread betting you can not trade this with £10,000!

Meaning you would miss the potential to make money on this stock !!!

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CFD & SPREAD BETTING GAME

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What does the game shows us?

Large balls represent traditional trading, where you need to tie up a large portion of your capital to place a trade.

The small balls represent CFDs or Spread Betting, where you are able to place many more trades at the same time because less capital is need to place these trades.

Therefore by using CFDs you are able to control the same amount of money and have the opportunity to have more successful trades, **which means you can make more money!!**

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List of Brokers (traditional trading)

- Robomarkets
- Roboforex
- Interactive Broker
- Etoro
- Avanza (ISK)
- Nordnet (ISK)

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List of Brokers (Spread betting)

- IG
- Interactive Brokers

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List of Brokers (CFD)

- Robomarkets
- IG
- Interactive Brokers
- Etoro

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Getting started

- Open an account
- Fund account (minimum £500 or €500)
- Re – read the rules & risk management
- Familiarise yourself with the trading platform
- Practice placing trades (on a demo account if possible)
- Keep journal of trades
- Stay on demo account until you are making consistent profit
- Go live

Jargon buster – Overview

- **Stock market:** Market for buying and selling shares of a company. If you buy a share of a company, it means you own a tiny part of it. The reason companies sell shares on the market is to rise money for expansion, pay for equipment, fund projects
- **NYSE/NASDAQ:** 2 of America's main stock exchanges.
  New York Stock Exchange
  NASDAQ consists mainly of technology stocks
- **Market Index:** Group of share from which the average movement is calculated to see if the market is generally moving up or down.
- **FTSE 100:** (Financial Times Stock Exchange). Largest 100 companies on the UK stock market (by market cap) When market has moved up down so many points, this is because the FTSE 100 companies have moved up or down by this much.
- **DJ30:** Equivalent to the UK's FTSE, in America Dow Jones Industrial Average / DJ30 = 30 of the largest US companies, represent in value about a 1/5 of US stocks.
- **Fundamental Analysis:** Method use to evaluate the worth of a share by studying the financial data of the company. E.g Looking at earnings / profits, sales, management
- **Technical Analysis:** Uses just the share's price and volume information, and the chart patterns that these form to decide whether the share is likely to go up or down

Jargon buster – General

- **Ask:** The current price for which a security may be bought (purchased)
- **Buying power:** The dollar amount a securities that a client can purchase using only the (special memorandum) account balance and without depositing additional equity.
- **Bid:** The current price at witch you could sell your stock.
- **Initial public offering (IPO):** A company's initial public offering, sometimes referred to as "going public", is the first sale of stock by the company to the public.
- **Fill:** An executed order; the price at which an order is executed.
- **Limit Offer:** An order to buy or sell when a price is fixed.
- **Long:** Establishing ownership of the responsibilities of a buyer of a stock; holding securities in anticipation of a price increase in that security.
- **Margin:** An account in which purchase of stock may be financed with borrowed money.
- **Market Maker:** A broker or bank continually prepared to make a two-way price to purchase or sell a security or currency.
- **Market Order:** Instructions to the broker to immediately sell to the best available bid or to buy for the best available offer.

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Jargon buster – General cont.:

- **Open Trades:** Current trades that are still held active in the customer's account.
- **Range:** The difference between the high and low price during a given period.
- **Selling Short:** Selling a security and then borrowing the security for delivery with the intent of replacing the security at a lower price.
- **Stops:** Buy stops are orders that are placed at a predetermined price over the current price of the market. The orders becomes a "buy at the market" order if the market is at or above to the price of the top order.
- Sell stops are orders that are placed with predetermined price below the current price. Sell stop orders become "sell at the market" orders if the market trades at or below the price of the stop order.
- **Stop Loss:** Risk management technique in which the trade is liquidated to halt any further decline in value.
- **Tick:** Minimum fluctuation of a stock.
- **Trailing Stop:** A stop-loss order that follows the prevailing price trend.

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Jargon buster – Charting

- **Breakout:** The point when the market price moves out of the trend channel.
- **Channel:** In charting, a price channel contains prices throughout a trend.
- **Resistance:** A price level at which rising prices have stopped rising and either moved sideways or reversed direction
- **Support:** A historical price level at which falling prices have stopped falling and either moved sideways or reversed direction
- **Technical** A form of market analysis that studies demand and supply for **Analysis:** securities and commodities based on trading volume and price studies. Using charts and modelling techniques, technicians attempt to identify price trends in a market.
- **Trendline:** A line drawn that connects either a series of highs or lows in a trend. The trendline can represent either support as in an uptrend line or resistance as in a downtrend line.
- **Trending Market:** Price moves in a single direction, generally closing at an extreme
- **Volume:** Shares trades for a given market or stock.

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Fundamental vs Technical Analysis

Fundamental Analysis	Technical Analysis
❑ The HEALTH of the company	❑ The PERCEPTION of the market
❑ Tells you WHICH stock to buy	❑ Tells you WHEN to buy
❑ Long-term view	❑ Short-term view

Without looking at technical charts, you could buy at the top of a range!

You need both fundamentals to ensure the stock won't crash AND, technicals TOGETHER to ensure you are buying near the bottom of the range

Fundamental Analysis

Criteria that should be evaluated when considering a particular stock investment:

1. PEG ratio
2. Earnings growth
3. Debt ratio
4. Institutional ownership
5. Other …

1. PEG Ratio

- Is a valuation metric that compares a company's price-earnings ratio with its projected growth rate of its earnings for a specified time period (ie 5 years)
- Institutional analysts make the predictions
- PEG around 1, indicates fair value
- PEG higher than 1 indicates over valued
- PEG below 1 indicates under valued
- When we have different PEG ratios from analysts, we do not invest - the company's growth is uncertain

Finding PEG ratio on Yahoo Finance

QUOTES
Summary
Order Book
Options
Historical Prices
DERIVATIVES
Warrants
Investment Products
CHARTS
Interactive
Basic Chart
Basic Tech. Analysis
NEWS & INFO
Headlines
Company Events
Message Boards
Market Pulse
COMPANY
Profile
Key Statistics
SEC Filings
Competitors
Industry

Microsoft Corporation (MSFT) - NasdaqGS

27.61 23 Jan 21:00

Key Statistics

Data provided by Capital IQ, except where noted.

Valuation Measures	
Market Cap (intraday)[5]:	232.38b
Enterprise Value (24 Jan 2013)[3]:	178.68b
Trailing P/E (ttm, intraday):	14.92
Forward P/E (fye 30 Jun 2014)[1]:	8.68
PEG Ratio (5 yr expected)[1]:	1.17
Price/Sales (ttm):	3.21
Price/Book (mrq):	3.38
Enterprise Value/Revenue (ttm)[3]:	2.47
Enterprise Value/EBITDA (ttm)[6]:	6.21

Financial Highlights	
Fiscal Year	
Fiscal Year Ends:	30 Jun

2. Earnings Growth

- The key word most investors want to hear is growth and, specifically, growth in earnings (Profits)
- Earnings typically refer to after-tax net income
- Earnings growth = annual rate of growth of earnings
- If a company's earnings aren't growing, the company won't survive for very long unless it has a huge reserve and can live off its "fat"
- We are looking for five-year earnings growth between 15% and 30% per year
- Companies that exceed a 30 per cent earnings growth rate can find it extremely difficult to sustain a high growth-rate over the long term

Finding Earnings Growth

COMPANY
Profile
Key Statistics
SEC Filings
Competitors
Industry
Components

ANALYST COVERAGE
Analyst Opinion
Analyst Estimates
Research Reports

OWNERSHIP
Major Holders
Insider Transactions
Insider Roster

FINANCIALS
Income Statement
Balance Sheet
Cash Flow

EPS Trends	Current Qtr. Mar 14	Next Qtr. Jun 14	Current Year Jun 14	Next Year Jun 15
Current Estimate	0.63	0.67	2.70	2.91
7 Days Ago	0.63	0.67	2.70	2.91
30 Days Ago	0.66	0.69	2.67	2.91
60 Days Ago	0.66	0.69	2.67	2.91
90 Days Ago	0.66	0.69	2.67	2.92

EPS Revisions	Current Qtr. Mar 14	Next Qtr. Jun 14	Current Year Jun 14	Next Year Jun 15
Up Last 7 Days	1	1	0	0
Up Last 30 Days	8	8	25	17
Down Last 30 Days	1	0	0	2
Down Last 90 Days	N/A	N/A	N/A	N/A

Growth Est	MSFT	Industry	Sector	S&P 500
Current Qtr.	-12.50%	9.70%	N/A	10.40%
Next Qtr.	1.50%	35.70%	3,756.30%	19.90%
This Year	1.90%	15.10%	26.20%	8.30%
Next Year	7.80%	49.20%	35.00%	11.50%
Past 5 Years (per annum)	11.18%	N/A	N/A	N/A
Next 5 Years (per annum)	7.45%	18.01%	17.84%	9.78%
Price/Earnings (avg. for comparison categories)	13.27	-46.25	4.67	22.61
PEG Ratio (avg. for comparison categories)	1.78	0.49	22.10	3.43

3. Debt Ratio

- Debt Ratio is a financial ratio that indicates the percentage of a company's assets that are provided via debt. It is the ratio of total debt (the sum of current liabilities and long-term liabilities) and total assets (the sum of current assets, fixed assets, and other assets such as 'goodwill')
- We are looking for Debt Ratio below 35 percent
- if debt levels are excessive, it can be difficult for managers to raise sufficient cash to finance continued expansion
- Without expansion into new markets, corporate growth eventually slows down
- Companies with lower debt often have better prospects for future expansion and can weather financial storms

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Finding Debt Ratio

More On GOOG

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Order Book
Options
Historical Prices

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Warrants
Investment Products

CHARTS
Interactive
Basic Chart

Google Inc. (GOOG) - NasdaqGS

Add to Portfolio | Like | 9

741.50 23 Jan 21:00

Balance Sheet

Get Balance Sheet for: GO

View: **Annual Data** | Quarterly Data

All numbers in thousands

Period Ending	31 Dec 2011	31 Dec 2010	31 Dec 2009
Assets			
Current Assets			

$$\text{Debt Ratio (\%)} = \frac{\text{Total Liabilities}}{\text{Total Assets}} = \frac{14{,}429{,}000}{72{,}574{,}000} \times 100 = 19.90\%$$

SEC Filings
Competitors
Industry
Components

ANALYST COVERAGE
Analyst Opinion
Analyst Estimates

OWNERSHIP
Major Holders
Insider Transactions
Insider Roster

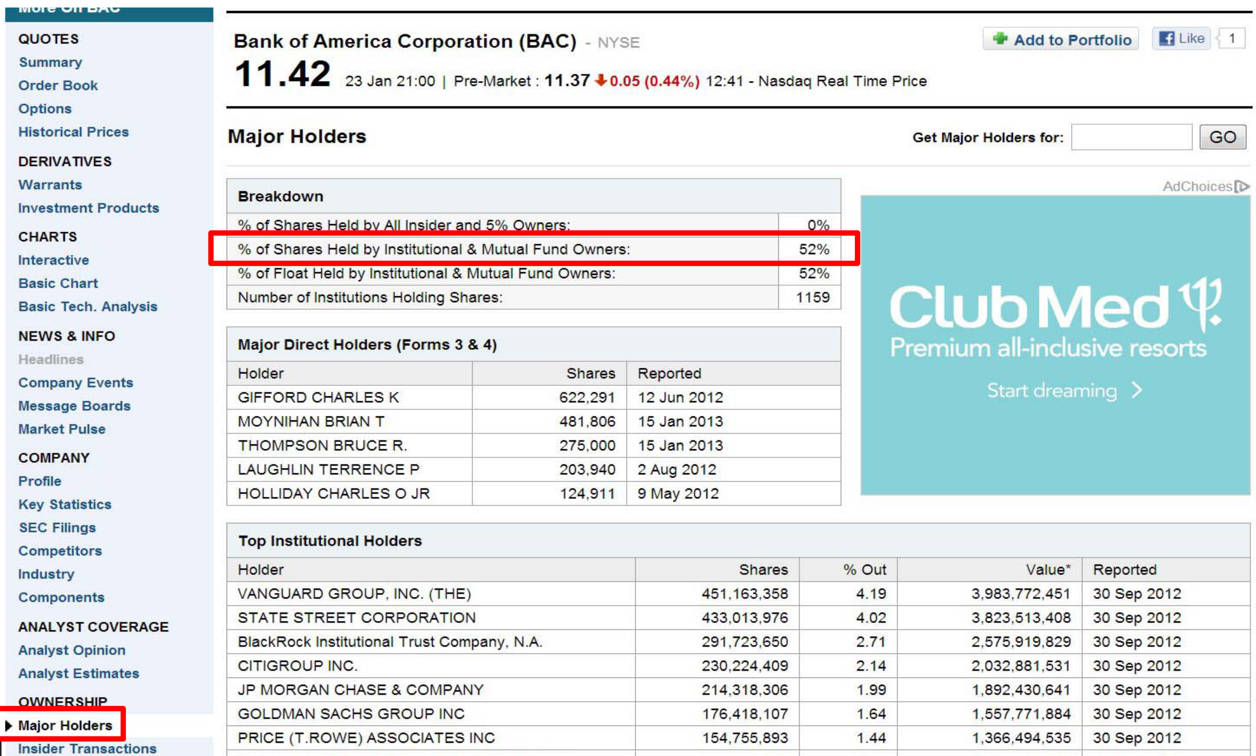
FINANCIALS
Income Statement
Balance Sheet
Cash Flow

	31 Dec 2011	31 Dec 2010	31 Dec 2009
Accumulated Amortisation	-	-	-
Other Assets	499,000	442,000	415,000
Deferred Long Term Asset Charges		265,000	263,000
Total Assets	**72,574,000**	**57,851,000**	**40,497,000**
Liabilities			
Current Liabilities			
Accounts Payable	7,148,000	6,137,000	2,462,000
Short/Current Long Term Debt	1,218,000	3,465,000	-
Other Current Liabilities	547,000	394,000	285,000
Total Current Liabilities	**8,913,000**	**9,996,000**	**2,747,000**
Long Term Debt	2,986,000	-	-
Other Liabilities	2,199,000	1,579,000	1,704,000
Deferred Long Term Liability Charges	331,000	35,000	42,000
Minority Interest	-	-	-
Negative Goodwill	-	-	-
Total Liabilities	**14,429,000**	**11,610,000**	**4,493,000**
Stockholders' Equity			
Misc Stocks Options Warrants	-	-	-

4. Institutional ownership

- We are looking for Instit. Ownership between 5% and 65%
- Percentage institutional ownership is the percentage of outstanding shares that are owned by mutual funds, pension plans and other institutional investors
- Most well-known stocks have at least 40 per cent institutional ownership. Typically, upwards of 70 per cent of the daily trading on the New York Stock Exchange is on behalf of institutional investors
- Stocks with a relatively small level of institutional sponsorship offer the best return potential
- When 'Wall Street' analysts identify a stock and institutional money flows in, price growth can be dramatic

Finding Institutional ownership



More On BAC

QUOTES
Summary
Order Book
Options
Historical Prices

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Key Statistics
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Competitors
Industry
Components

ANALYST COVERAGE
Analyst Opinion
Analyst Estimates

OWNERSHIP
Major Holders
Insider Transactions

Bank of America Corporation (BAC) - NYSE

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11.42 23 Jan 21:00 | Pre-Market : 11.37 0.05 (0.44%) 12:41 - Nasdaq Real Time Price

Major Holders

Get Major Holders for: GO

Breakdown	
% of Shares Held by All Insider and 5% Owners:	0%
% of Shares Held by Institutional & Mutual Fund Owners:	52%
% of Float Held by Institutional & Mutual Fund Owners:	52%
Number of Institutions Holding Shares:	1159

Major Direct Holders (Forms 3 & 4)

Holder	Shares	Reported
GIFFORD CHARLES K	622,291	12 Jun 2012
MOYNIHAN BRIAN T	481,806	15 Jan 2013
THOMPSON BRUCE R.	275,000	15 Jan 2013
LAUGHLIN TERRENCE P	203,940	2 Aug 2012
HOLLIDAY CHARLES O JR	124,911	9 May 2012

Top Institutional Holders

Holder	Shares	% Out	Value*	Reported
VANGUARD GROUP, INC. (THE)	451,163,358	4.19	3,983,772,451	30 Sep 2012
STATE STREET CORPORATION	433,013,976	4.02	3,823,513,408	30 Sep 2012
BlackRock Institutional Trust Company, N.A.	291,723,650	2.71	2,575,919,829	30 Sep 2012
CITIGROUP INC.	230,224,409	2.14	2,032,881,531	30 Sep 2012
JP MORGAN CHASE & COMPANY	214,318,306	1.99	1,892,430,641	30 Sep 2012
GOLDMAN SACHS GROUP INC	176,418,107	1.64	1,557,771,884	30 Sep 2012
PRICE (T.ROWE) ASSOCIATES INC	154,755,893	1.44	1,366,494,535	30 Sep 2012

Other fundamental criteria

- Dividend Yields
  - Annual Dividends Per Share / Price Per Share
- Margin Growth
  - Is the difference between the cost of making a product and the price you are selling it, increasing?
- Price
  - Institutions tend to report on companies only above $5

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ters: 5 | Descriptive(1) | Fundamental(4) | Technical | All(5)

xchange	Any	Index	Any	Sector	Any	Industry	Any	Country	Any
arket Cap.	Any	P/E	Any	Forward P/E	Any	PEG	Low (<1)	P/S	Any
P/B	Any	Price/Cash	Any	Price/Free Cash Flow	Any	EPS growth this year	Any	EPS growth next year	Any
PS growth st 5 years	Any	EPS growth next 5 years	Over 25%	Sales growth past 5 years	Any	EPS growth qtr over qtr	Any	Sales growth qtr over qtr	Any
idend Yield	Any	Return on Assets	Any	Return on Equity	Any	Return on Investment	Any	Current Ratio	Any
uick Ratio	Any	LT Debt/Equity	Any	Debt/Equity	Under 0.3	Gross Margin	Any	Operating Margin	Any
et Profit Margin	Any	Payout Ratio	Any	Insider Ownership	Any	Insider Transactions	Any	Institutional Ownership	Over 30%
stitutional ansactions	Any	Float Short	Any	Analyst Recom.	Any	Option/Short	Any	Earnings Date	Any
rformance	Any	Performance 2	Any	Volatility	Any	RSI (14)	Any	Gap	Any
Day Simple ing Average	Any	50-Day Simple Moving Average	Any	200-Day Simple Moving Average	Any	Change	Any	Change from Open	Any
20-Day igh/Low	Any	50-Day High/Low	Any	52-Week High/Low	Any	Pattern	Any	Candlestick	Any
Beta	Any	Average True Range	Any	Average Volume	Any	Relative Volume	Any	Current Volume	Any
Price	Over $10								Reset (

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Investment Mastery Trading and Investing Online Course Part 3 of 5

INVESTMENT MASTERY

Unit 3

- Buy Zone Sell Zone Strategy
- Buffalo Trading Strategy
- How to make money when markets go DOWN
- The 2 Golden Rules of Investing
- How to Enter the trade – Stop and Limit orders
- How to Exit the trade – Stop Loss and Take Profit orders
- The 2 secrets of Trading
  - Risk Management
  - Risk:Reward Ratios
- Why we only ever risk 1% of our account
- Emotions in trading: Are these emotions stopping you?

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