



COLIN NICHOLSON

Building wealth through shares

Living with the Bear Market and Preparing for the Next Bull Market

**ASX Investor Hour
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Warning

The views expressed in this presentation are intended only for discussion and education.

They are not intended to be, nor are they suitable to be, acted upon as investment advice.

It is advisable to obtain investment advice from a licensed adviser before making any investment decisions based on my presentation.

I am not a licensed investment adviser.

I do not sell anything other than my writing.

Introduction

Application of my comments depends on:

The **kind of investor you are**

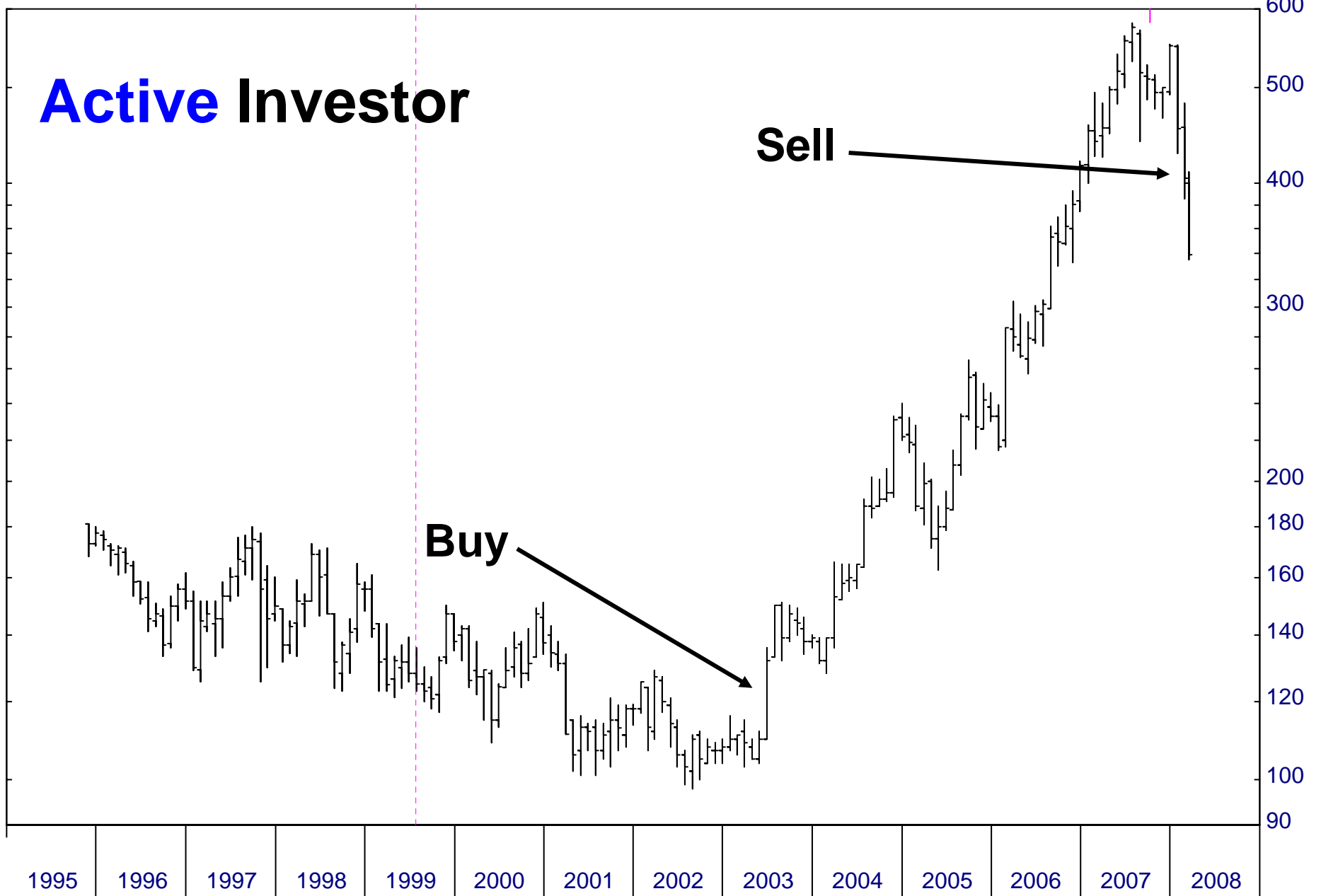
Your **investment plan.**

Two Basic Groups of Investors

1. **Buy-and-hold** investors
2. **Active** investors

A simple definition in terms of time frame...

Active Investor



Buy-and-hold Investor
e.g. Age 21 to Death
Chart covers the last 80 years



Basic Bear Market Strategy for Investors

Active investors

Should be mostly in cash

Buy-and-hold investors

Should be sitting pretty...

Buy-and-hold investors
should be sitting pretty

Why?

Because they simply harvest dividends...



The Bull Market and Since

Financial Year	All Ordinaries Accumulation Index Return
2003-04	+22.37%
2004-05	+24.75%
2005-06	+24.20%
2006-07	+30.28%
2007-08	-12.12%
2008-09 so far	-6.13%

The Bull Market and Since Growth of \$100,000 invested 1 July 2003

Financial Year	All Ordinaries Accumulation Index
2003-04	\$122,370
2004-05	\$152,657
2005-06	\$189,599
2006-07	\$247,010
2007-08	\$217,073
2008-09 so far	\$203,766

My method is **active investing**.

That is all I will talk about from now

Cautions

Involves market timing

Is not easy to do

Is more risky than buy-and-hold

Requires knowledge and experience

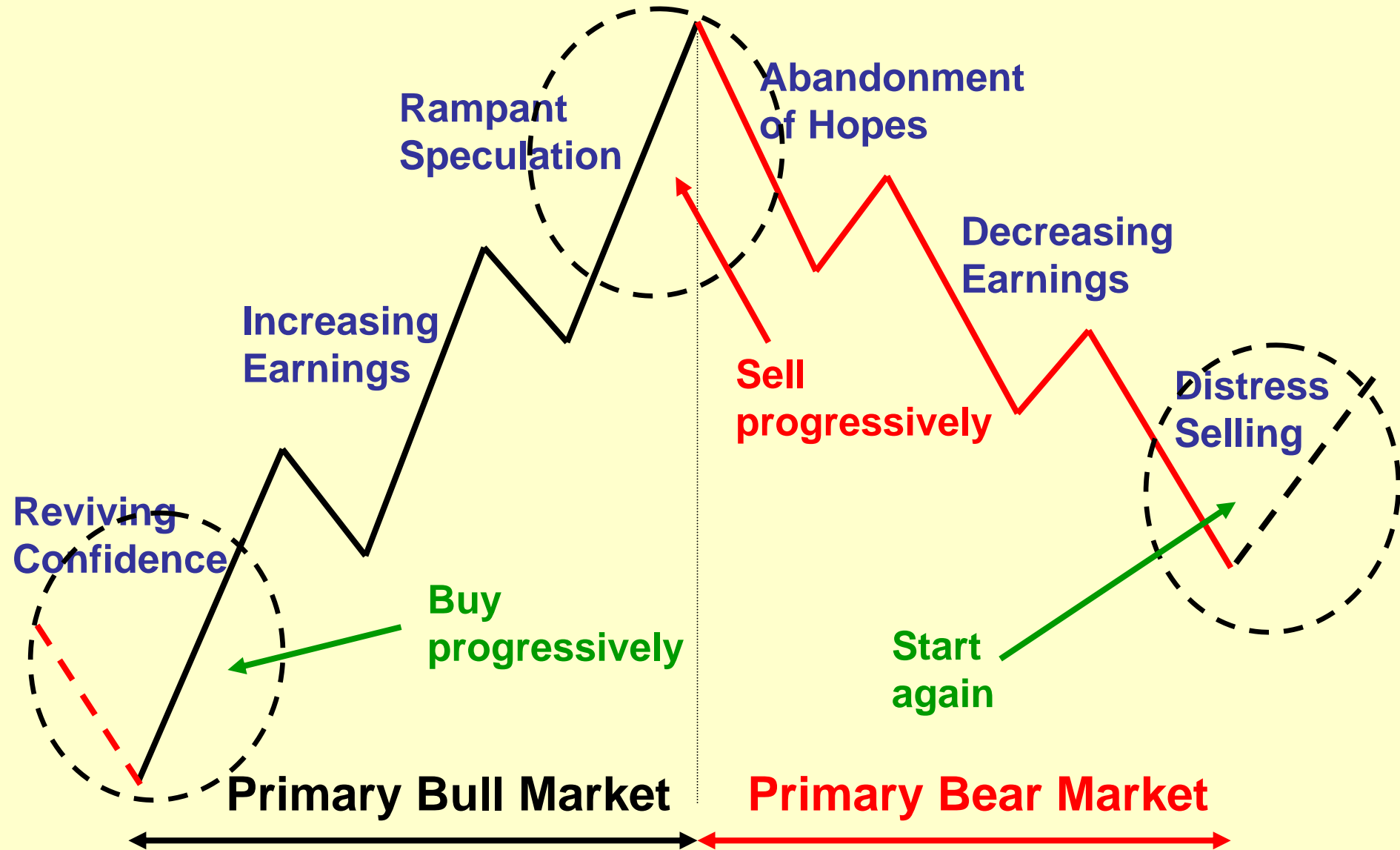
Cost of failure is devastating.

Active investors
should be in cash

Why?

Because the stockmarket is cyclical...

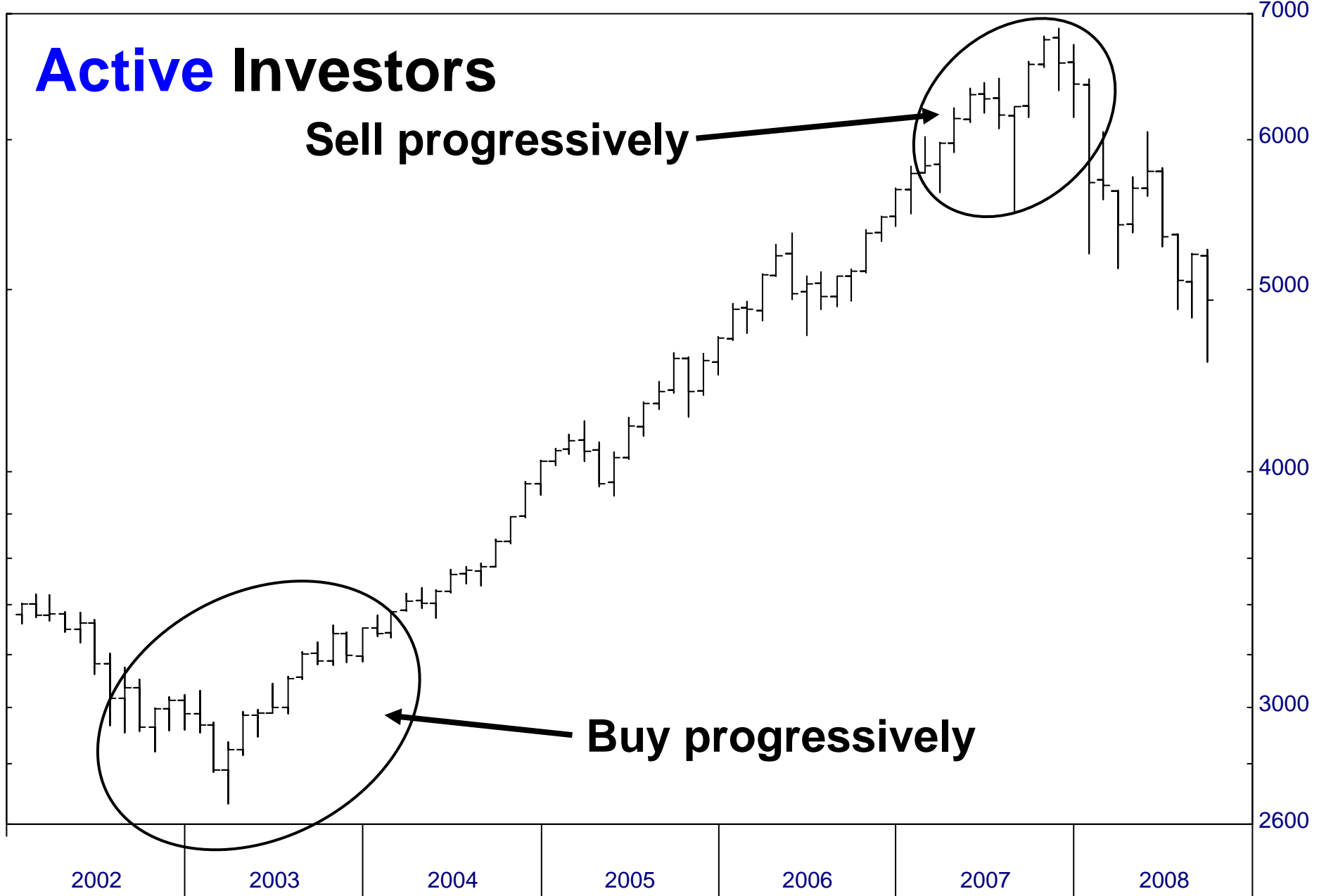
Dow Theory Market Phases



Active Investors

Sell progressively

Buy progressively



My Investment Performance

Year	%Return	Market %	Diff
2000/01	9.69	8.85	0.84
2001/02	2.11	-4.50	6.61
2002/03	20.61	-1.08	21.69
2003/04	17.48	22.37	-4.89
2004/05	26.88	24.75	2.13
2005/06	33.62	24.20	9.42
2006/07	45.25	30.28	14.97
2007/08	-5.11	-12.12	7.01
2008/09	1.20*	-6.13**	7.33

*After two months ** After three months

Value of \$100,000 invested 1 July 2000

Year	Colin	Market
2000/01	109,690	108,845
2001/02	112,004	103,946
2002/03	135,089	102,818
2003/04	158,702	125,819
2004/05	201,361	156,955
2005/06	269,059	194,932
2006/07	390,808	253,961
2007/08	370,838	223,181
2008/09	375,288*	209,500**

*After two months ** After three months

Three Important Bear Market Tasks

1. Review our written investment plan

Have a clear strategy for market exposure through the bull and bear market cycles

2. Develop a list of promising stocks to buy

Have clear criteria which stocks must meet
Continue to monitor these stocks

3. Improve our knowledge

Read books on

Investment strategy (incl. history)

Analysis (fundamental & technical)

Decision-making

Take courses.

Dow Theory Bull Market Phases



What Should we be Looking For?

1. **Bear market phase three** (distress selling)...

Signs of Bear Market Phase 3

(Distress Selling)

Significant fundamental under valuation

Unemployment

Bad news discounted

Low public participation

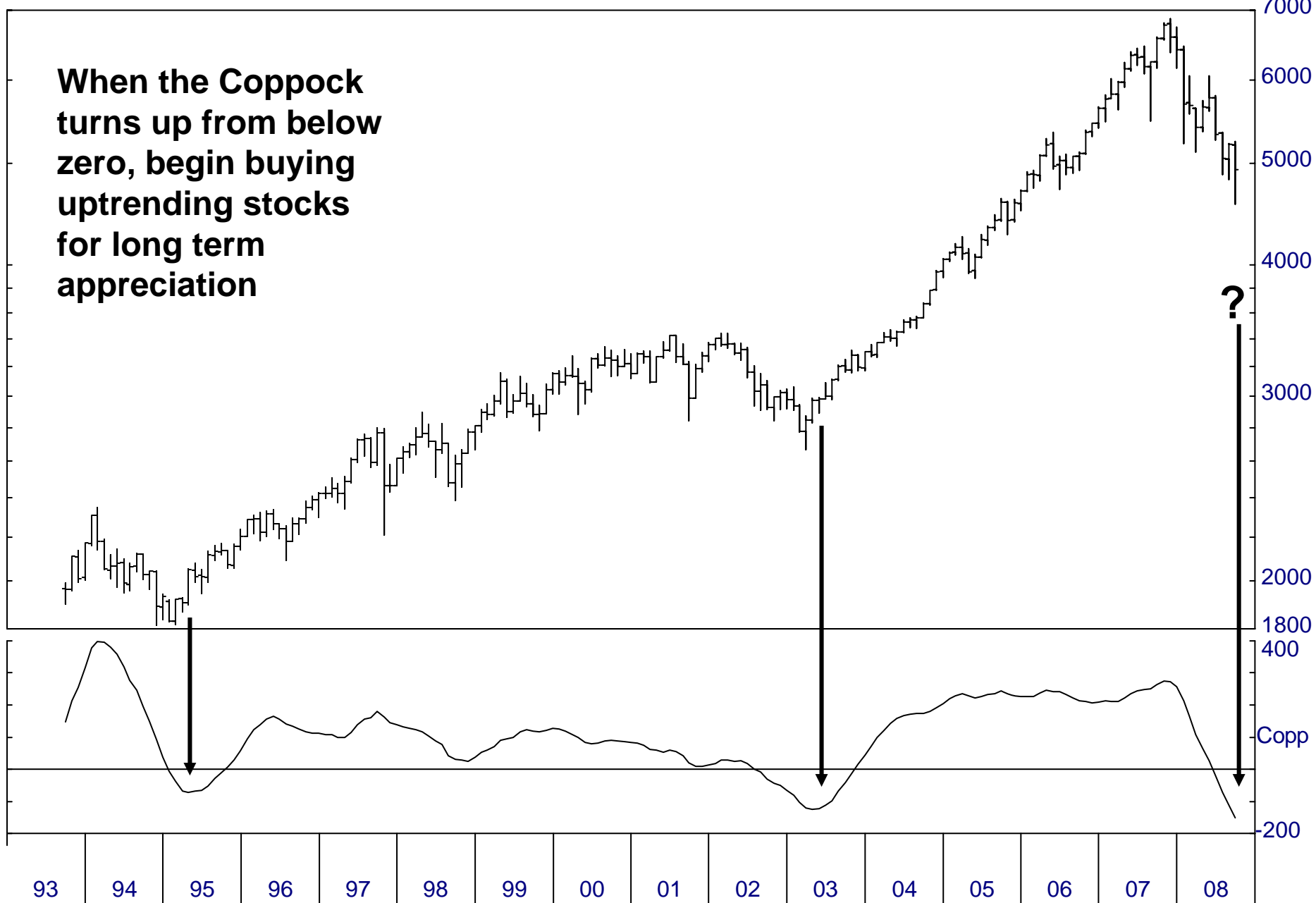
Decreased media coverage

Bankruptcies.

What Should we be Looking For?

1. **Bear market phase three** (distress selling)
2. And/or a **Coppock** indicator **signal**...

When the Coppock turns up from below zero, begin buying uptrending stocks for long term appreciation



What Should we be Looking For?

1. **Bear market phase three** (distress selling)
2. And/or a **Coppock** indicator **signal**...
3. Charts showing **upward trending stocks**
4. Which are **cheap**
5. The market begins to trend upwards...





Good Active Investors Have

Patience

Wait for the last phase of the bear market

Discipline

Clear criteria for which stocks to buy.

Strategy for the Year Ahead

Sell speculative stocks still held

Sell downward trending stocks

Diversify the portfolio

Focus on stocks with a margin of safety

Low PE ratio

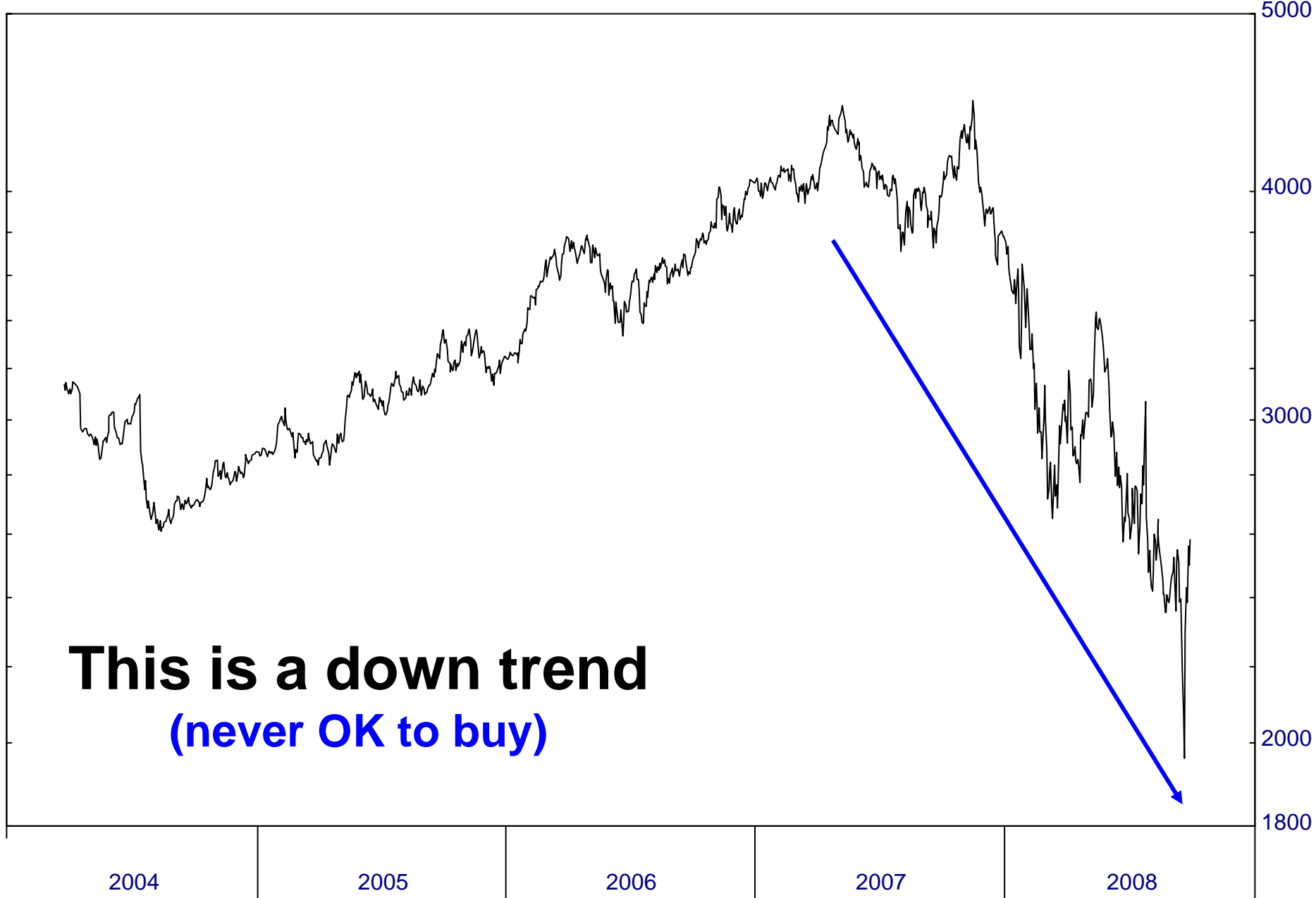
High dividend yield

Low debt to equity ratio

Only buy stocks trending up...

This is an uptrend
(OK to buy if cheap)





This is a down trend
(never OK to buy)

My complete Investment plan with examples and case studies

How to win on the stockmarket

The Aggressive Investor

Colin Nicholson

"My investment plan returned 33.6% in 2005/06, which was 9.4% better than the market return of 24.2%*. My book is a clear, simple and complete explanation, providing a model to develop your own winning method."

Colin Nicholson

*ASX All Ordinaries Accumulation Index (assumes re-investment of dividends)

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