Ask Me Anything

eResearch Corporation is pleased to provide an article by Keith Richards of **VALUETREND**.

In this article, Mr. Richards provides some guidance as to how to structure and maintain a stock portfolio.

The article is reproduced below, beginning on the next page, or you can go directly to it at the following link: ***http://www.valuetrend.ca/ask-me-anything/***

You can also visit the **VALUETREND** website at the link below:
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Thursday, August 10, 2017

Ask Me Anything

By: Keith Richards (bio at end)

I am a fan of Sam Harris' "**Waking up**" podcast for his insight into science, logic, ethics, and reason. He can be a bit controversial in some areas – but he is not afraid to hit sensitive subjects head-on using a logical approach – whether that approach is painful or not. I do not always agree with him, but I still like to hear his viewpoints and those of his guests.

I particularly like his "Ask me anything" podcasts where loyal fans write in and ask him a huge variety of questions.

In the spirit of Sam's podcasts I would like to open the floor to my readers to "Ask me anything" on the subject of investing, risk management, portfolio management and technical analysis. You can even ask fundamental analysis questions, and I'll get Craig Aucoin (resident CFA for ValueTrend) to inject his two cents worth.

You can ask as simple a question as you wish. But feel free to ask the hard stuff! I will do my best to get as many questions covered as I can. If this format proves popular, I will do it again in the future.

Please post your questions below and I will cover them on Mondays blog.
To start the ball rolling, here are a few opening questions:

How many stocks should you own, and what percentage of each stock should you own?

Early in my career, I researched this subject in order to extract the best risk/reward ratio from the basket of stocks I would hold. I read studies by Ibbotson & Associates and others. These studies demonstrated the "sweet spot" for reducing risk while offering positive alpha (assuming you pick good stocks!) at 20-30 stocks. ValueTrend holds about 20 stocks in the equity platform when fully invested – and less when we go heavily into cash.

From there, you need to decide what amount of your capital goes into each stock. You can:
- Divide it up equally.
- Allocate according to the volatility of the security.

We allocate according to potential risk. Simply by noting the support levels below your buy point, and given that a stock will usually stop near those support levels, can give you downside projections. Looking at resistance (unless it is an uptrend and at new highs), you can determine next-level targets for potential reward calculations. You can allocate smaller percentages of capital to the higher risk/reward positions, and more capital to lower risk positions. With 20 stocks, our median stock position is 5%. We will vary 2% outside of that per stock (3% for higher risk positions or 7% for lower risk positions). If it is a sector ETF we can hold up to 10%. Create your own rules for your positions based on your risk/reward calculations.

If you like math, **here** is a research paper covering the "ideal" number of stocks on various markets.

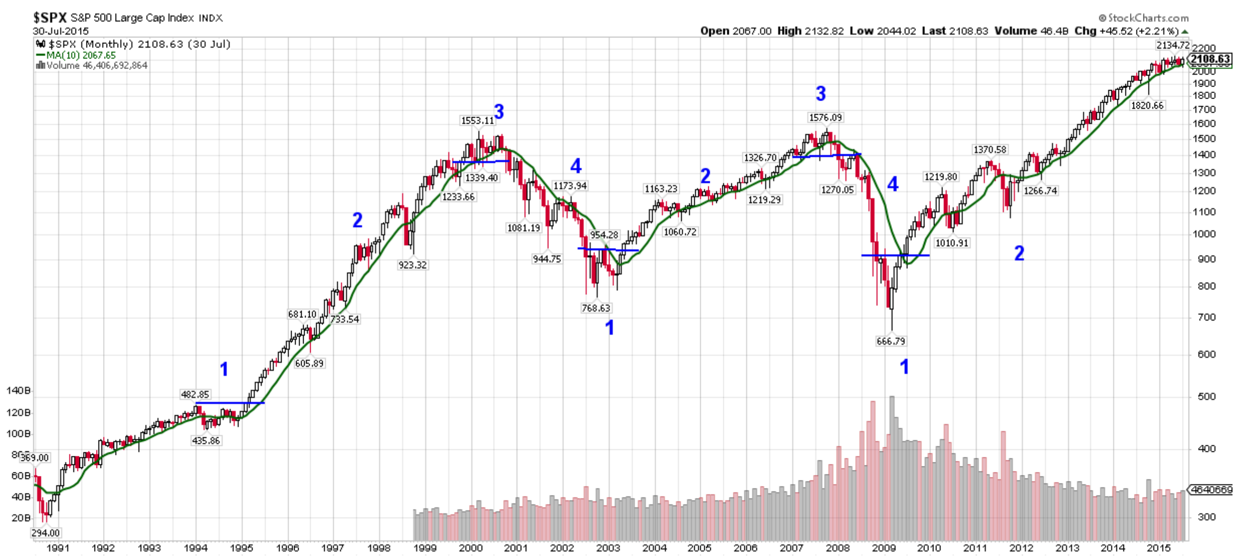
How many time frames should I view?

Don't just look at one time frame. We start at the weekly chart and then move to the daily chart. The indicators and trend will show you the mid- and long-term diagnostics on those two time-frames. Sometimes we even look at the monthly charts—but that is more to get a big picture idea of the trends and cycles working behind the scenes. We trade off of the weekly and daily charts.

How many indicators should I use?

Use at least three indicators.

- One technical indicator should help you confirm the trend. For example, using the 200-day moving average on the S&P 500 would have saved your bacon in all the recent bear market downturns—see the chart below (green line). I have also marked the 4 phases of the market – as discussed in past blogs and per my book **Sideways**.



- Then apply a **momentum** indicator such as Rate of Change, RSI, MACD, etc. Use a momentum study to look for divergences or overbought/oversold conditions.

- Finally, I like using a **moneyflow** indicator such as the Accumulation/Distribution line or On Balance Volume to get a feel for the up-day volume vs. down-day volume. You want to know who is in charge (buyers or sellers). I would recommend you read my book Sideways to get a handle on where these indicators fit in.

By the way, limit the number of indicators you use. Many traders get analysis to paralysis. They need so much confirmation from so many indicators that they cannot pull the trigger . Use indicators that work well together without duplicating each other.

That is it for this “Ask me anything” introduction. Please post a reply with a question below with your questions.

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See **About The Author** on the following page.

ABOUT THE AUTHOR

ValueTrend Founder and Owner, Keith Richards, has been in the securities industry since 1990. ValueTrend manages over $100 million through a discretionary investment service for high-net-worth clients.

Keith Richards has been in the securities industry since 1990 and is a highly regarded member of the small, exclusive community of Chartered Market Technicians in Canada. Mr. Richard's articles appear regularly in INVESTORS DIGEST, MONEYLETTER, GLOBE AND MAIL, and the TORONTO STAR newspapers.

His appearances on BNN Television have inspired producers to acknowledge him as **"one of [our] most accurate technical analysts."** Mr. Richard's first book, SMARTBOUNCE: 3 ACTION STEPS TO PORTFOLIO RECOVERY, is available in bookstores and directly through his blog page **www.valuetrend.ca/blog/**. His second book, SIDEWAYS: USING THE POWER OF TECHNICAL ANALYSIS TO PROFIT IN UNCERTAIN TIMES was released in late 2011. He has been critical of the commission-based, follow-the-pack approach to investing – where brokers succeed regardless of performance.

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