Trading Strategy Desk® 4-Week Class

How to Trade

BROKERAGE: CLASSROOM SERIES
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Diversification and asset allocation do not ensure a profit or guarantee against loss.

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How to Trade: 4-Week Class

What to expect:

Week 1 - What to trade?
Week 2 - Research and analysis
Week 3 - How to trade
Week 4 - Managing risk and exit strategies
Week 1
What to trade?

Agenda:

- The trading plan
- Understanding and comparing investment types
- Portfolio management
- Style and sectors
- Position sizing
Guiding Principles

Risk Management

• While considering a trade, focus on the overall risk first and profit potential second
• When a trade goes against you, the focus should shift to managing the trade under the current conditions rather than the initial prediction

Trading Discipline

• Take steps to reduce emotional attachment
• Try not to think only in terms of gains/losses
• Trade what you see and not what you think
Have a Plan

Before placing a trade you should be able answer the following:

• Why you are entering this position?
• How much capital are you willing to allocate to any idea?
• What is the criteria for entry (at what price)?
• What is the criteria for exiting (for both the upside and downside)?
Common Investment Types

**Stock** - Securities that represent units of ownership in a public corporation.

**Bond** - An interest-bearing promise to pay a specified sum of money (the principal amount) due on a specific date.

**Exchange-Traded Fund (ETF)** - Represents an interest in a portfolio of securities that often seeks to track an underlying benchmark or index (for example, S&P 500 or Dow Jones Industrial Average), or other asset classes. ETFs are listed on an exchange and can be traded intraday at a price set by the market (which may be different than its Net Asset Value).

**Mutual Fund** - An investment that pools shareholders money and invests it toward a specified goal. The group's money is invested by a professional investment manager.
# Comparing the Types

<table>
<thead>
<tr>
<th></th>
<th>Mutual Funds</th>
<th>Stocks</th>
<th>ETFs</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Tradability</strong></td>
<td>Typically trades once per day at Net Asset Value</td>
<td>Can trade in and out during the day</td>
<td>Can trade in and out during the day</td>
</tr>
<tr>
<td><strong>Fees</strong></td>
<td>Fund expenses</td>
<td>Commission</td>
<td>Commission and fund expenses</td>
</tr>
<tr>
<td><strong>Tax flexibility</strong></td>
<td>Fund pays out dividends/distributions</td>
<td>Dividends, capital gains/losses when sold</td>
<td>Dividends, capital gains/losses when sold. Fund may pay out distributions</td>
</tr>
<tr>
<td><strong>Diversification</strong></td>
<td>Can invest in multiple companies and asset classes across various sectors, geographic regions, etc.</td>
<td>Purchasing ownership of one company</td>
<td>Can invest in multiple companies and asset classes across various sectors, geographic regions, etc.</td>
</tr>
<tr>
<td><strong>Trade strategy/time frame</strong></td>
<td>Longer term, often buy and hold</td>
<td>Any time frame, can implement fundamental, technical analysis</td>
<td>Any time frame, can implement fundamental, technical analysis</td>
</tr>
</tbody>
</table>
Portfolio Analysis

The overall allocation of your portfolio will help in defining your overall risk/reward profile

Before placing a trade, consider how it fits into your overall allocation

Target asset mixes illustrate how representative asset mixes reflecting different risk and return characteristics can be created to help meet investors’ needs and goals. You should choose your own investment mix based on your particular objectives and situation. Remember, you may change how your account is invested. Be sure to review your decisions periodically to make sure they are still consistent with your goals. These target mixes were developed by Strategic Advisers, Inc., a registered investment adviser and a Fidelity Investments company. Asset allocation does not ensure a profit or guarantee against loss.

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What is a Sector?

A sector is a grouping of stocks with similar characteristics.

<table>
<thead>
<tr>
<th>Symbol</th>
<th>Company Name</th>
<th>Security Type</th>
<th>Security Price</th>
<th>Sector</th>
<th>Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>BRK/B</td>
<td>BERKSHIRE HATHAWAY INC</td>
<td>Common Stock</td>
<td>$207.39 0.35%</td>
<td>Financials</td>
<td>Diversified Financial Services</td>
</tr>
<tr>
<td>JPM</td>
<td>JPMORGAN CHASE &amp; CO</td>
<td>Common Stock</td>
<td>$117.39 -0.52%</td>
<td>Financials</td>
<td>Banks</td>
</tr>
<tr>
<td>BAC</td>
<td>BANK OF AMERICA CORP</td>
<td>Common Stock</td>
<td>$20.25 0.00%</td>
<td>Financials</td>
<td>Banks</td>
</tr>
<tr>
<td>WFC</td>
<td>WELLS FARGO &amp; CO</td>
<td>Common Stock</td>
<td>$48.09 -0.35%</td>
<td>Financials</td>
<td>Banks</td>
</tr>
<tr>
<td>C</td>
<td>CITIGROUP INC</td>
<td>Common Stock</td>
<td>$69.37 -0.01%</td>
<td>Financials</td>
<td>Banks</td>
</tr>
<tr>
<td>HSBC</td>
<td>HSBC HOLDINGS PLC</td>
<td>Depository Receipt</td>
<td>$38.16 +0.47%</td>
<td>Financials</td>
<td>Banks</td>
</tr>
<tr>
<td>RY</td>
<td>ROYAL BANK OF CANADA</td>
<td>Common Stock</td>
<td>$81.01 0.00%</td>
<td>Financials</td>
<td>Banks</td>
</tr>
<tr>
<td>HSBC/PA</td>
<td>HSBC HOLDINGS PLC</td>
<td>Depository Receipt</td>
<td>$20.33 0.00%</td>
<td>Financials</td>
<td>Banks</td>
</tr>
</tbody>
</table>

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Because of their narrow focus, sector investments tend to be more volatile than investments that diversify across many sectors and companies.
What is a Sector?
The GICS structure comprises 11 sectors which can be further broken down into multiple industries.

<table>
<thead>
<tr>
<th>Sector</th>
<th>Market Weight</th>
</tr>
</thead>
<tbody>
<tr>
<td>Information Technology</td>
<td>22.19%</td>
</tr>
<tr>
<td>Health Care</td>
<td>13.74%</td>
</tr>
<tr>
<td>Financials</td>
<td>12.79%</td>
</tr>
<tr>
<td>Communication Services</td>
<td>10.48%</td>
</tr>
<tr>
<td>Consumer Discretionary</td>
<td>10.24%</td>
</tr>
<tr>
<td>Industrials</td>
<td>9.23%</td>
</tr>
<tr>
<td>Consumer Staples</td>
<td>7.54%</td>
</tr>
<tr>
<td>Energy</td>
<td>4.45%</td>
</tr>
<tr>
<td>Utilities</td>
<td>3.42%</td>
</tr>
<tr>
<td>Real Estate</td>
<td>3.25%</td>
</tr>
<tr>
<td>Materials</td>
<td>2.57%</td>
</tr>
</tbody>
</table>

**GICS** : Global Industry Classification

Market Weight is updated weekly from S&P Dow Jones Indices and represents the sum of the market cap of the companies in the applicable S&P 500 GIC sector index as a percentage of the total S&P 500 Index market capitalization.

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Business Cycle Analysis

Equity sector relative performance has tended to be differentiated across business cycle phases.

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Market capitalization is a measure of the size of a company, it is calculated by multiplying the number of common shares outstanding by the market price per share.

Valuation is the financial process of determining what a company is worth.

- Growth: More "expensive"—Their stock prices are high relative to their sales or profits.
- Value: Less "expensive"—Their stock prices are low relative to their sales or profits.
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Week 2
Research and Analysis

Agenda:

- Common methods of analysis
- How to find trade ideas
- Analyst opinions and reports

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Fundamental Analysis Defined
The study of a company

Measures used may include:
- Quality of management
- Labor relations
- Inventory control
- PE, EPS growth rates, debt
- Return on equity, assets, etc...

Helps you understand if the company is a “good” company:
- Does not help you with the timing of the investment
- Does not help you with the sell decision
- Does not help you quantify risk vs. reward

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Technical Analysis Defined

The study of past market data

- Stock prices are determined by supply and demand
- Shifts in supply and demand cause reversals in trends
- Trends and reversals in trend can be seen in charts
- Chart patterns tend to repeat themselves

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Past performance is no guarantee of future results.
How Does Technical Analysis Differ?

Primarily studies charts of market prices

What is factored into a price?

- All public information and economics
- Accounts for the emotional aspects of the marketplace
- Human behavior – fear, greed, crowds

Quantifies the capital risk in trading and investment decisions

Does not try to predict the future

- Trading decisions are made based upon a reaction to charts and information

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What to Trade
Demonstration

Stock and ETF screeners
Filter tools
Stock and ETF research snapshot
Analyst opinions and research

The Fidelity Stock and ETF screener is a research tool provided to help self-directed investors evaluate these types of securities. The criteria and inputs entered are at the sole discretion of the user, and all screens or strategies with preselected criteria (including expert ones) are solely for the convenience of the user. Expert Screeners are provided by independent companies not affiliated with Fidelity. Information supplied or obtained from these Screeners is for informational purposes only and should not be considered investment advice or guidance, an offer of or a solicitation of an offer to buy or sell securities, or a recommendation or endorsement by Fidelity of any security or investment strategy. Fidelity does not endorse or adopt any particular investment strategy or approach to screening or evaluating stocks, preferred securities, exchange-traded products, or closed-end funds. Fidelity makes no guarantees that information supplied is accurate, complete, or timely, and does not provide any warranties regarding results obtained from its use. Determine which securities are right for you based on your investment objectives, risk tolerance, financial situation, and other individual factors, and reevaluate them on a periodic basis.
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Week 3
How to Trade

Agenda:

• Understanding your available balances
• Trading on margin
• Placing a trade
• Finding your order status
Margin

Understanding Trading on Margin

A margin loan allows you to borrow against the value of securities you already own.

You can have purchasing power to buy more securities, make a large purchase, or use as a bridge loan for short-term liquidity needs.

Before using margin however, you must be aware of these risks:

- Amplified losses if the securities in your account decline in value
- Margin calls or liquidation of securities
- Losses greater than the original investment are possible
- Interest rates may rise, increasing the cost of your loan

Margin trading entails greater risk, including, but not limited to, risk of loss and incurrence of margin interest debt, and is not suitable for all investors. Please assess your financial circumstances and risk tolerance before trading on margin. If the market value of the securities in your margin account declines, you may be required to deposit more money or securities in order to maintain your line of credit. If you are unable to do so, Fidelity may be required to sell all or a portion of your pledged assets. Margin credit is extended by National Financial Services, Member NYSE, SIPC.
Pricing Defined

**Bid** - The highest price a prospective buyer is willing to pay for a unit of a security.

**Ask** - The lowest price a dealer or market maker will accept for a security.

**Last** - The last traded price

**Net Asset Value (NAV)** - The dollar value of one share of the security determined by taking the total assets of the security subtracting the total liabilities, and dividing by the total number of shares outstanding.
Equity Pricing

**Stock quotes** - Bought at ask price and sold at bid price. Last price is also shown.

**Mutual Funds** - Price shown will be the prior days NAV, when you buy or sell a fund you get the next available NAV which will be unknown at the time of trade.

**ETFs (Exchange-Traded Funds)** - Bought at ask price and sold at bid price. ETFs have a NAV that is used to calculate the underlying value, however this is not the price you would trade it at.
Order Types

Market Order

• A market order is an instruction to buy or sell at the next available price
• The order is only valid for the trading day (9:30 a.m.-4:00 p.m. ET)
• For liquid securities, executions are generally prompt

Limit Order

• A limit order is used to specify a price you are willing to trade at or better
• The order can be valid for only today, or up to 180 calendar days (GTC)
• Limit orders can be filled completely or in part
• Execution is not guaranteed
How to trade

Demonstration

Understanding your balances
Margin Calculator
Finding quotes
Trade ticket
Orders page
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Week 4
Managing Risk and Exit Strategies

Agenda:

- Managing risk
- Planning your exit strategy
- Monitoring your positions
Risk Management

Things to consider:

- Reduce overall portfolio volatility by diversifying amongst market capitalization, sectors, geography, and style
- Utilize proper position size
- Define your exit strategy at the time of entering the trade (for example: percentage price drop or technical level)
- Be consistent in your process for analyzing your entry and exit points
Position Sizing

Things to consider:

• Carefully consider how much capital you are willing to allocate into any trade
• Reduce concentration in individual positions and sectors
• Keep it small in proportion to your portfolio
• Go into a trade knowing how much you can and are willing to lose
• If you can’t sleep at night your position may be too large!
• Minimize emotional decisions through risk and position size management
Stop Orders

Stop Loss

- Generally used to help protect profits or prevent further losses
- Becomes a **market order** when the stop price is reached
- Ensures execution but not price

Stop Limit

- Generally used to help protect profits or prevent further losses
- Becomes a **limit order** when the stop price is reached
- Ensure price but not execution

Stop loss orders do not guarantee the execution price you will receive and have additional risks that may be compounded in periods of market volatility. Stop loss orders could be triggered by price swings and could result in an execution well below your trigger price.
Trailing Stop Loss / Trailing Stop Limit

Automatically adjust when the price moves in your favor

Either percentage or price amount can be used

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Trailing stop orders may have increased risks due to their reliance on trigger pricing, which may be compounded in periods of market volatility, as well as market data and other internal and external system factors. Trailing stop orders are held on a separate, internal order file, place on a “not held” basis and only monitored between 9:30 AM and 4:00 PM Eastern.
Technical Analysis for Exits

Support and Resistance

- You can use support and resistance areas to tell you if the trade is still valid
- A stop could be placed under a support area or above a resistance area
- Once the level is broken, the trade is invalidated and managing risk should be the priority

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Managing Risk and Exit Strategies

Demonstration

Fidelity Guided Portfolio Summary (GPS)®

Positions page

Trade Armor®
Key Takeaways

Things to consider:

• Have a method for choosing which investments to trade
• Decide how much capital you are willing to invest into any one trade
• Consider how that trade will impact your overall allocation
• Have a specific criteria for when to enter as well as when to exit (to both the up and downside)
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