

The Disciplined Investor Podcast summary – Conversation with Brian Shannon

Quick recap

Andrew and Brian Shannon discussed their personal and professional lives, including their upcoming trips and their journey into technical analysis and charting. They also delved into the importance of understanding market trends, timeframes, and risk management strategies in trading and investing. Lastly, they explored the concept of VWAP, its evolution, and its significance in understanding supply and demand dynamics in the stock market.

Summary

Technical Analysis and Charting Journey

Andrew and Brian Shannon discussed their journey into technical analysis and charting. Brian shared how his interest in technical analysis began with a newsletter, the Cabot Market Letter, and later with Stan Weinstein's book, "Seekers for Profiting in Bull and Bear Markets". He also mentioned his experience at Lehman Brothers, where he learned to marry technical analysis with fundamental analysis. Andrew highlighted the importance of sparking interest in others, as evidenced by a recent experience where someone mentioned that Andrew's podcast had helped them further their financial education. The conversation also touched on Brian's process-focused approach to investing, which involves analyzing trends and not being swayed by news or speculation.

Understanding Market Trends and Inertia

Brian Shannon from Alpha Trends discussed the importance of understanding the market's message and the concept of trend continuation. He emphasized that once a trend is established, it is more likely to continue than to reverse, drawing parallels with the laws of physics. Brian also highlighted the significance of anticipating potential scenarios and managing risk. He used the example of Roblox to illustrate how a stock can remain stagnant for years if it doesn't scare investors out on the way down. Andrew agreed with Brian's points, adding that the concept of inertia is crucial in understanding stock trends. They concluded the discussion by suggesting that investors should focus on stocks emerging into an uptrend rather than those in a stagnant phase.

Timeframes in Trading and Investing

In the meeting, Andrew and Brian discussed the importance of timeframes in trading and investing. Brian explained that different traders have different timeframes, such as day traders, swing traders, and investors, each with their own approach and risk management strategies. He illustrated this with examples of looking at charts for different timeframes, from a 1-minute chart for day traders to

a monthly chart for investors. Brian also shared his own approach as a swing trader, focusing on stocks in an uptrend above the 20, 50, and 200-day moving averages, and using the daily timeframe to identify potential support levels. Andrew agreed with Brian's explanations and emphasized the importance of understanding one's own timeframe when investing or trading.

Stock Buying Strategy and Management

Brian discussed his strategy for buying stocks, focusing on the 30-minute and 15-minute timeframes. He explained how he sets his buying and selling points based on the stock's performance, using the volume-weighted average price (VWAP) as a guide. He also mentioned his practice of reducing risk by selling off part of his position and adjusting his stop-loss points. Andrew asked about the number of stocks Brian could manage at once, to which Brian responded that he typically enters 2 to 3 new positions per day and manages around 6 to 7 open positions in a healthy market. Brian also noted that when he has too many winning stocks, it often signals a market pullback.

Trading Strategies and Chart Preferences

Andrew and Brian discussed various aspects of trading, including the use of different time frames and chart types. Brian shared his preference for using a 65-minute chart, which he believes provides a better understanding of market trends. Andrew suggested that Brian's approach might be unique and encouraged him to share his insights with others. They also discussed the use of tick charts, which Brian found to be more suitable for high-frequency trading programs. Additionally, they touched upon the use of point and figure charts, which Brian occasionally uses for a broader market perspective. The conversation ended with Brian explaining his preferred method of viewing multiple time frames simultaneously, which he believes aids in his trading strategy.

Understanding VWAP and Market Dynamics

Andrew and Brian discussed the concept of VWAP (Volume Weighted Average Price) and its evolution over time. Brian explained that VWAP was initially used as a benchmark for fair pricing in the market, but he took it a step further by introducing the concept of anchoring VWAP to specific events or time periods. He emphasized that VWAP is a sentiment indicator, showing who is in control of the market at any given time. Brian also highlighted the importance of VWAP in understanding supply and demand dynamics, and how it can be used to predict market movements. The discussion concluded with Brian explaining the three categories of VWAP: time-based, event-based, and price-based.

Origins of Anchored VWAP Indicator

In the meeting, Andrew and Brian discussed the origins of the Anchored VWAP (Volume Weighted Average Price) indicator, a technical analysis tool used in the stock market. They credited its creation to physicist and technical analyst Paul Levine, who developed it as part of his work on the Market Interpretation, Data Analysis System (MIDAS) in the 1990s. Levine's work was based on the

methodology of Professor Trader Kevin Haggerty, who used volume weighted average price curves in the 1980s. Brian Shannon, the founder of Alpha Trends, popularized the Anchored VWAP and helped bring it into mainstream technical analysis. Brian emphasized the importance of keeping technical analysis simple, focusing on supply and demand, price, volume, and multiple timeframes.