

# TUTORIALS IN APPLIED TECHNICAL ANALYSIS

A publication of Guppytraders.com Pty Ltd since 1996 ACN 089941560

Offices and staff in Darwin, Kuala Lumpur, Singapore, Beijing Ph +61 8 89270061 Fax + 61 8 89270125

Box 40043 Casuarina NT Australia 0811 www.guppytraders.com. Email support@guppytraders.com

## The Australian Internet Trading Weekly with independent analysis

Weekly for Saturday April 02, 2005 Based on Thursday's Close 23 pages

Edited by Daryl Guppy with contributions from T D'Angelo, J Mitchell and P Rak

*Guppy Trading Essentials Chart pak, Metastock, Ezy Charts & SuperCharts. Data from JustData, Paritech, MarketCast & theNextView.*

### Stocks mentioned in this issue

CAG, APA, CCE, STW, XJO.

Note. The more computer icons appearing after a section heading, the more advanced the material.

## CONTENTS

- [Defensive Exits pg1](#)
- [Market Behaviour, RSI Divergence And Timing pg7](#)
- [Trading Statistics – April Performance pg10](#)
- [Positive And Negative Expectation Games pg12](#)
- [Readers' Questions: The Metastock Explorer/Using Moving Averages To Find New Trends pg14](#)
- [Chart Technique Briefs – Cape Range \(CAG\) pg19](#)
- [Newsletter Notes pg21](#)
- [Portfolio Case Studies – Money Management pg22](#)

## DEFENSIVE EXITS

By Daryl Guppy

### TRADERS GLOSSARY SHAKEOUTS

These happen when, on a single day, prices, usually on the open, spike dramatically below existing support level or trend line and on low volume. This is a false trend break because at the end of the day prices close above the trend line or support level. These false signals are difficult to manage when traders use an intra-day stop loss to manage a trade based on end of day signals. There is no easy solution to this problem, as it is difficult to tell at the time if the down spike is a genuine trend break or just a false panic driven move on very low volume.

Traders using intra-day stops may have little choice but to rejoin the trend on the next day as prices return to their previous levels. These false breaks, or shakeouts, are most common in very nervous or weak markets.

Surviving a significant market collapse calls for absolute trading discipline. We simply cannot tell how far this retreat is likely to go, so traders give trades no latitude. When the sell signal is triggered, we take an exit. This change in volatility turns our attention to shorter term trading tactics, because time has now become a significant risk factor. In coming weeks, we will show how to search for rally and rebound trades and locate short term, high probability patterns. These tactics deliver ongoing profits until the market re-establishes a more consistent trend behaviour.

We expect a certain percentage of trades to fail. The long up trend has distorted this relationship. Over the past year, traders have grown lazy as the market has simply carried many trades upwards. A series of failed trades in coming weeks as market conditions change will return the long term performance back to the average. Traders will do their best to avoid losing trades, but unless they adapt quickly to market conditions, the number of losing trades will increase.

We show how two of the case study trades are closed. The losing trade has a much greater impact than the slightly profitable trade. Despite this, our tight risk management rules mean that the portfolio realised return starting July 1, 2004 is reduced from 56.7% to 56.0%. This is still an acceptable return.

When markets dip, traders turn to well developed trading plans to make their decisions. A good plan allows for market action and sets logical conditions for trade exits and management. The objective is to avoid being 'shaken out' by what turns out to be a temporary price dip. **The objective is to also recognise a significant price dip and to take appropriate action.** We show in the notes below how each of the open case study trades is managed in relation to the current Index dip, and in relation to anticipated events, such as upcoming ex-dividend days.

### TYPE OF TRADE – OFFSET TREND LINE

We use an offset trend line after a stock goes ex-dividend we start by using just a single point and project the line parallel to the previous line. We watch for future price action to confirm that the line has been correctly placed. In some developments the new trend is slightly steeper. In other, slightly more shallow. We cannot verify this until a second retreat and rebound point is created.

If the trend is more shallow, as with the APA example, then we assess the continuation of the trade on these factors.

1) What is the nature of the trend as shown by the GMMA? If it is still strong, then we can readjust the parallel trendline without fear that this lower price point is the start of a new downtrend.

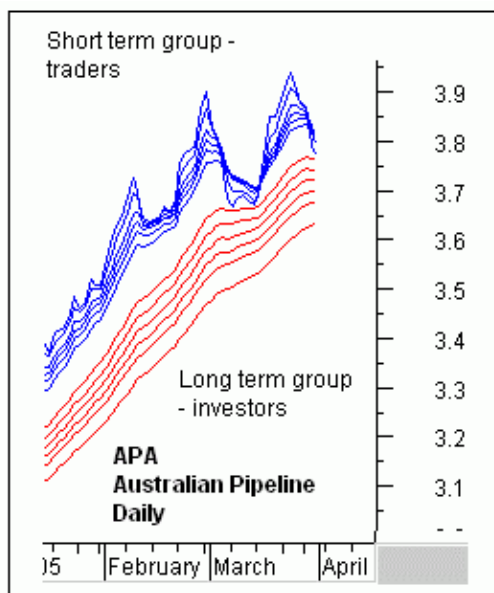
2) What is the risk? In this example the risk involved in lowering the trend line to take into account the new price action does not significantly increase the risk. It remains well within the parameters of the 2% rule. If the position of the new trend line had meant that risk grows to more than 2% then the trade is closed because this risk is unacceptable.

Plotting a parallel trend line provides a way to manage future price action. It does not provide a perfect solution, but it sets a framework against which we can assess developing price activity. Many of these trades are found using the peak to trough Metastock exploration covered in previous notes.

### Trading plan

The objective is to use an offset trend line once an ex-dividend or earnings downgrade rebound is established. **Stop loss is based on the value of the offset trend line.**

**This is the dominant exit signal and it is acted upon.**

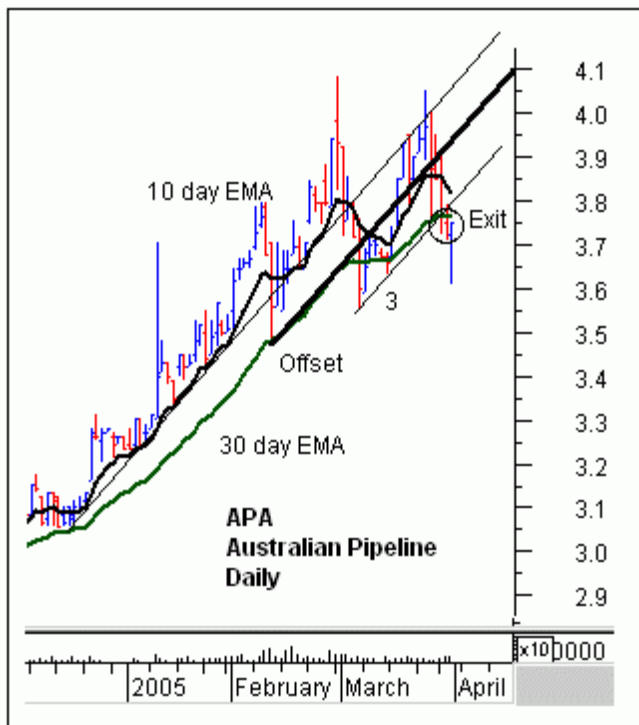


- Trade identification starts with GMMA trend strength
- No change. GMMA trend relationship remains sound.
- **This indicator sends contradictory signals and this is where it is important to prioritise the trading plan. We noted that the primary exit signal, once the trend line had been established, was a close below the trend line. As this trade is not yet profitable, our concern is to protect capital. If the trade was profitable, then we would upgrade the role the GMMA played in trade management. Until profitability is reached, the traders concern is to protect capital, particularly in the face of a broader market retreat.**

- Substantial price pullback must already have taken place. This allows the trader to observe the strength of the trend. This is shown in area A on the GMMA chart.
- Trend behaviour is also confirmed with 10 and 30 day moving average relationships. This is a backup indicator. It is not the intention to use a moving average crossover signal in managing this trade.

No change. 10 and 30 day signals remain valid. There is a small dip, but not enough to cause any concern.

**We repeat the management notes as applied to the GMMA. There is no 10 and 30 day MA crossover exit signal, but the trend line shows ongoing trend weakness. This trade is closed as a defensive measure in a weakening market.**



The offset trend line is plotted after the rebound has been proven. This may be adjusted as more of the emerging trend develops. Initially we use two points and plot the same slope as the original higher trend line. Entry is delayed until at least the second point is established. Traders wait for proof that the rebound is developing. The offset trendline is *initially* based on a single low point. This is similar to the way a lower trend line is plotted with a bullish flag.

The offset trend line is parallel to the original trend line and uses a single starting point. Traders look for a rebound from the projected trend line to *confirm* the placement of the line and a continuation of the trend in a way similar to that which prevailed before.

This new trend line has been confirmed by two points. **This means that any close below this trend line is treated as an absolute sell signal.** The trend line is no longer a potential guide. It is now a verified plot. The emerging

development of this offset trend retains the same slope as the original trend, but at a lower level. We show trend line 3 as a good emerging definition of the emerging trend. This is not relied upon by itself. It is combined with GMMA analysis.

**No change in use of trend lines. Sell signal generated.**

- Stop loss is based on the value of the lower trend line.

**Remains valid based on the new trend line plot. Trade is closed on the day following the trend line break.**

#### **Position size, stop loss and protect profit conditions**

For tutorial purposes, we add APA as an example of this strategy. Entry for tutorial purposes is made at \$3.70 with the stop loss at \$3.65. This is a low risk strategy because the amount at risk based on the stop loss point is \$272. At this entry price we add 5,450 shares for a total cost of \$20,165. This keeps the trade at the same size as previous trades in the case study portfolio. We do this so all trades are easily comparable.

**We added this trade as an example of the way to plot and use offset trend lines. The initial plot was based on an earnings release. Offset trend lines are typically used when a stock goes ex-dividend. Dividend value is \$0.055. Using the techniques discussed in this case study example, we will drop the offset trend line and stop loss values by \$0.055 on the ex-dividend day to avoid generating a false stop loss exit. (Correction from last week: E x Dividend date is March 4).**

**Trade is closed at \$3.73. This delivers a very small return, including dividend of \$463 or 2.3%. The trend failure is associated with general market weakness, but as traders we cannot afford to take the risk that the trend stumble is not genuine. Trading discipline is paramount. What we think, or hope, might happen is an issue that is separate from the instructions given by the trading plan.**

#### **Current Status**

**This case study trade is closed.**

## TYPE OF TRADE - COUNT BACK LINE TRADE MANAGEMENT

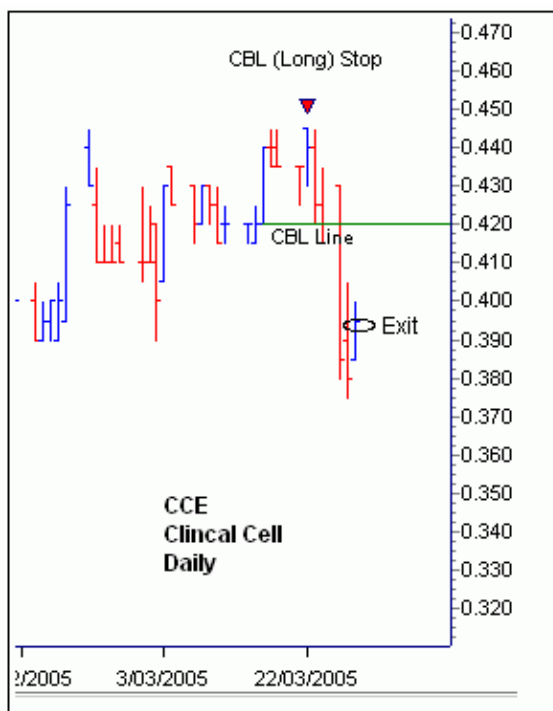


At the Continuing Professional Education module last week for the Society of Remisiers in Singapore we used an example of a count back line trade available in the SGX link. We have added this to the case study newsletter portfolio, based on the details made at the presentations. We use the same screen shot of Clinical Cell CCE as the used in the slide. The chart display is from the new Guppy Traders Essential Toolbox which reads Metastock data. This small program is designed to work alongside Metastock and will be available for download with the next 2 to 3 weeks.

### TRADING PLAN

The plan is to ride the trend using:

- A count back line as a stop loss and trend management tool
- **Trade closed below this level and generated an exit signal.**
- The straight edge trend line as the primary trend definition tool.
- **Trade closed below this level and generated an exit signal.**
- As the trend develops, to use the Guppy Multiple Moving Average to understand the nature of the emerging trend and to verify exit signals once the trade is profitable.
- **The broad market collapse destroyed this trade. Prices dropped quickly below the stop loss level. An exit was made on the next day.**



### Position size, stop loss and protect profit conditions

For tutorial purposes we buy an exact number of shares equal to \$20,000. Using the SGX link we do not have to buy in lots. We buy 48,300 for a total cost of \$20,044. The stop loss is based on the count back line as shown at \$0.39. **Until the value of the CBL moves up beyond our entry point at \$0.415, then this trade remains unprofitable.** This trade puts at risk \$800 when initially entered.

### Trade management

This trade is managed using the count back line as a trailing stop loss. There is no price objective, although a broad target is set at \$0.58 based on the resistance level on the weekly chart. The trade is also managed using the straight edge trend line. **A close below either of these indicators is a signal to prepare for an exit.**

- Current stop loss is \$0.42. This is calculated from the second most recent equal high at \$0.445. This is shown as point 1. The CBL calculation based on the most recent equal high – point 2 – is not used. The placement of the line is a correct calculation, but the stop loss should not be lowered. The initial exit trigger in this trade remains at the higher value of the stop loss at \$0.42. This is slightly above our entry price, so technically this trade is now profitable.

- Trade exit is at \$0.395 for a larger than expected loss of \$1,207. This is still within the acceptable limits of the 2% rule.

Trade status

Trade is closed

### TYPE OF TRADE - Exchange Traded Fund Strategy

Pullbacks are no longer consistent with the underlying trend. See the XJO notes for a more detailed explanation. Trend trade is on a close watch. This profoundly boring trade has become suddenly exciting.

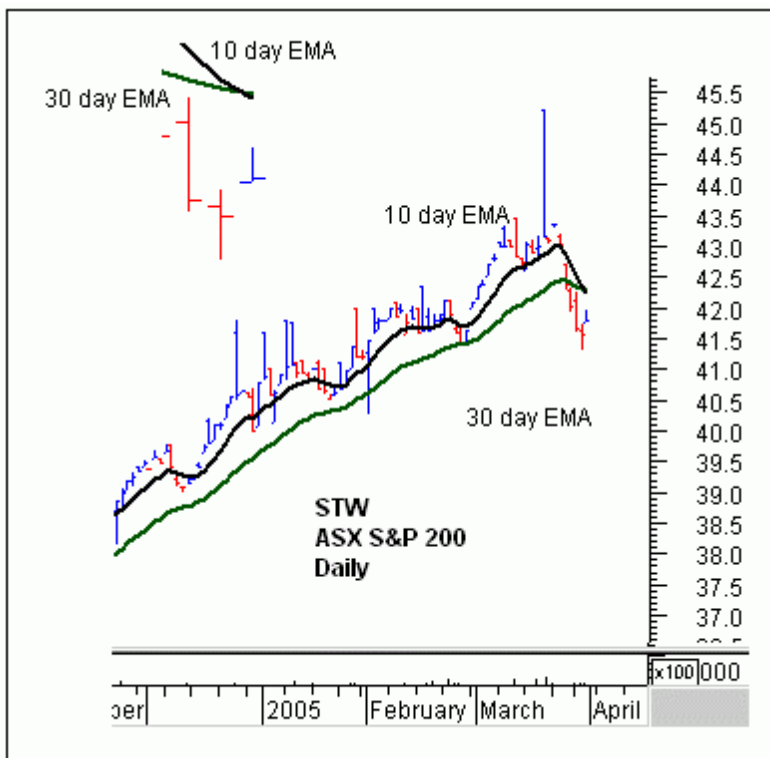
The key management of this trade is a 10 and 30 day moving average crossover. Based on the Thursday close, this indicator is on the cusp of crossing. Until the crossover is confirmed, this trade remains open. We will bring you management notes for this next week.

Pullbacks are all consistent with the underlying trend.

This remains a profoundly boring trade. It simply keeps going up. The main challenge with this type of trade is to develop the discipline to sit back and do nothing. Many traders have observed that trading, when implemented successfully, is quite boring. This is a good example of that observation.

The market offers a lower rate of return than that available from trading individual stocks, so why use an ETF strategy? This strategy offers two main advantages.

- Ease of management for exposure to the broad market.
- Access to dividends from the top 200 companies.



We note several points of market inefficiency in this fund. These spikes do not match the XJO performance. This market inefficiency can be helpful in making better than expected exits and entries. The danger is that as the XJO continues to stall there may be sudden STW dips. This is also market inefficiency at work.

Rather than repeat XJO analysis, we refer readers to the Market Outlook notes below as this underpins the management of these types of associated trades. The objective is to use the ETF as a proxy for the XJO. The trade is closed whenever the first crossover signal is generated on either the XJO or the STW.

This technique uses a simple trend analysis tool to confirm when a trend change has taken place. As the conditions develop we use defensive techniques to fine tune our decision making so that when the time comes we can take the appropriate defensive action. The purpose of the newsletter is to educate. Part of that education process means giving readers the opportunity to examine a range of strategies as they develop and unfold in real time. Equipped with this information, readers are more informed and can make a better choice about how appropriate a selected strategy is for their particular circumstances.

## Management notes layout.

These management notes provide an ongoing record of how a trade was identified, how it was entered, the management decisions made during the life of the trade, and finally the exit and evaluation of the trading strategy. We use colour highlights to make it easier for readers to select either the updated notes, or examine the decisions during the life of the trade example. **Each week the new notes are added and highlighted in bold blue.** The notes from the previous week are summarised and added to the existing notes in plain text. In some weeks we want to highlight an advance trading trigger mentioned in the previous week and acted upon in the current week. In this case we highlight the **relevant sections in bold green.**

To avoid crowded confusion on charts, we may delete the earlier chart comments from the latest version of the chart. Sometimes the text management notes may refer to a feature, ie circle A, that is not seen on the current chart. Readers will need to look at past issues to find the relevant management notes and chart with that feature.

We believe this layout method develops a useful reference of ongoing management of each case study trade. Readers can quickly see the new management notes while still having access to the previous management decisions.

Moneybags.com.au

BOOKS  
SOFTWARE  
EDUCATION

Get wise, Get wealthy.

Visit [Moneybags.com.au](http://Moneybags.com.au) for all your trading tools and education.

From 0 – 130 - Live

Discover the art of successful Property Investing

- find Positive Cashflow Properties
- Map your Journey to Success
- 4 hours of information-packed audio

Our Price: \$399

EzyProfessional Premium

Our Best Selling Software bundle

- EzyProfessional V5
- 12 Months Premium Data
- 12 Months Technical Support
- **6 Intra-day Market Snapshots**

Buy Now - Only \$899 - Save \$425.50

Books of the Month

All 4 Books by Alexander Elder  
All at 20% off

- Trading for a Living
- Come Into My Trading Room
- The Study Guides for both books

Buy 1 or buy the lot - all at 20% off

More Books @20% off

While they last!

- Reminiscences of a Stock Operator
- Next Step to Share Trading Success
- Option Volatility & Pricing
- Technical Analysis from A - Z
- A Wonderful Co. at a Fair Price

Moneybags Pty Ltd - [www.moneybags.com.au](http://www.moneybags.com.au) - Get Wise, Get Wealthy

Lower Ground Floor, 15 Bentham Street, Adelaide, SA, 5000  
Ph: 1800 010 141 Fax: 08 8217 4099 e-mail: [info@moneybags.com.au](mailto:info@moneybags.com.au)

[From 0 – 130 - Live](#)

[Books of the Month](#)

[EzyProfessional Premium](#)

[More Books @20% off](#)

**Moneybags Pty Ltd - [www.moneybags.com.au](http://www.moneybags.com.au) - Get Wise, Get Wealthy**

**Lower Ground Floor, 15 Bentham Street, Adelaide, SA, 5000  
Ph: 1800 010 141 Fax: 08 8217 4099 e-mail: [info@moneybags.com.au](mailto:info@moneybags.com.au)**

# MARKET BEHAVIOUR, RSI DIVERGENCE AND TIMING

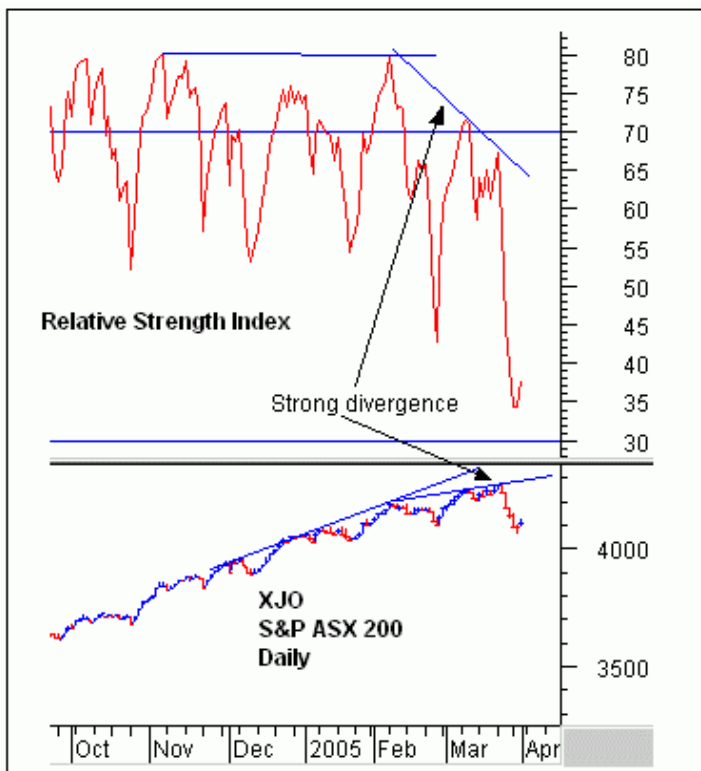
By Daryl Guppy

## **SUBJECT SUMMARY** **DIVERGENCE**

Divergence is an important concept because it suggests that the trader can look behind the first impression created by a chart, or market activity. When the crowd roars at a football match, we cannot tell which team kicked the goal, nor if this is a goal added to a high, or a low score. The roar tells us something happened, but we need additional information to determine its importance. When the roar comes after a low score, we know to ignore it because the goal is not a winning goal for a team that is so far behind. We see a divergence - nice roar, but a lousy single goal. If the roar is for a goal which takes the team to within a point of winning, then the facts support the case and we pay greater attention. Divergence warns us that all may not be as it seems on the surface.

One of the most reliable signals in technical analysis is the RSI divergence signal. Unfortunately, it is also one of the least useful in terms of timing. For several months we have noted the strong RSI divergence signal. A particularly strong divergence developed over the past few weeks, as shown by the extreme slope on the RSI. We did suggest, based on the statistical behaviour of the market, that an XJO retreat was likely to develop in February-March. The minor dip at the end of February did mislead us, even though the scale of the dip was not consistent with RSI analysis. The current major trend retreat is consistent with the RSI divergence signal.

Although this is a validation of this analysis technique, it is small consolation in terms of timing. The inability to provide even a broad time frame for price action is the major disadvantage of RSI analysis. This is why we have focused so strongly in recent weeks on the behaviour of the index as it approaches the support levels. The ability of these to hold, or not hold, is the critical leading indication of trend collapse in an environment where RSI analysis has revealed divergent weakness.



In the midst of all the negative market commentary, traders and trend traders will note two different features. First, traders have already been cautious, as noted in our weekly commentary. They have used shorter term trading opportunities as a way of managing the risk in a market that many believed was showing signs of weakness.

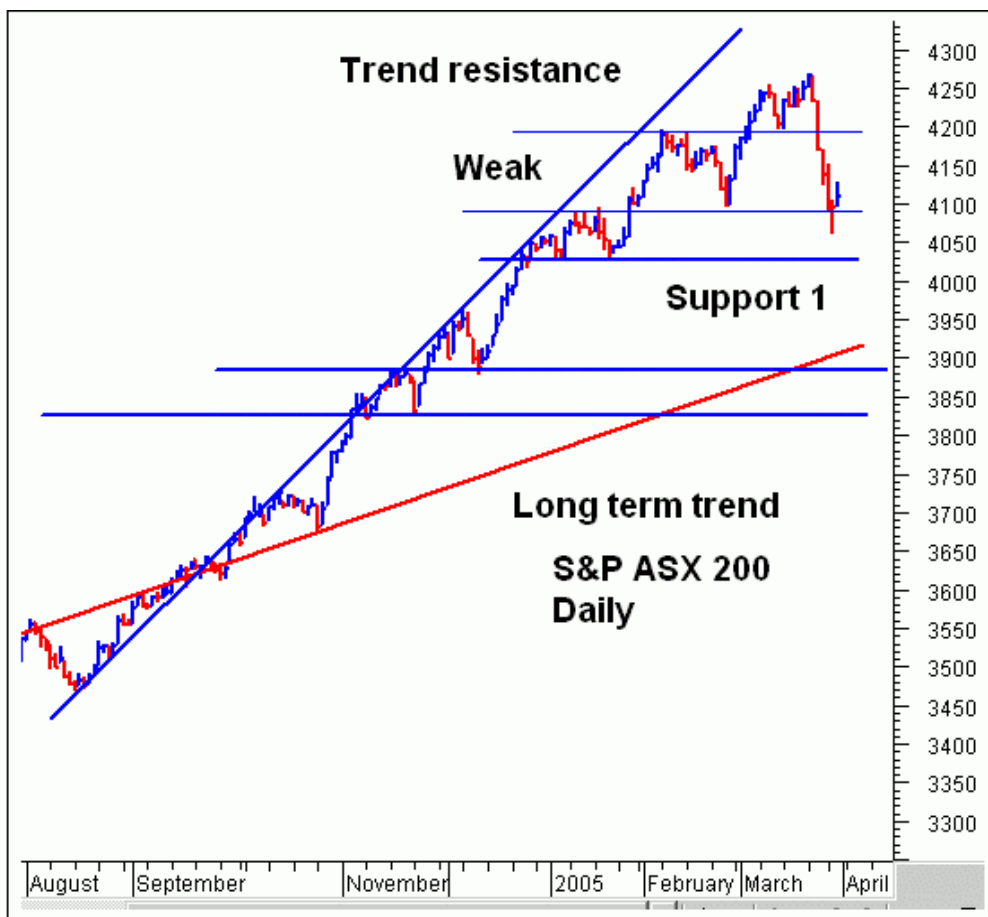
Trend traders now have the opportunity to apply the most difficult part of the trend trading technique. A trend trader enters after the trend has started and exits *after* the trend has ended. This is very easy in theory, but more difficult in practice, as the recent index activity shows. An exit on the strong down trend signals still locks in substantial profit for any trend trade opened in August 2004. These returns are likely to be much better than those experienced by the professional money managers.

The support level at 4190 failed to hold on the second retest this week. This underlines the primary technical problems with these market conditions. This is blue sky charting. The support level we identify is based on very little information. They provide a potential support level, but they must be tested and retested successfully several times before we can have confidence that they are genuine and effective. We have shown these two upper levels as weak and until there are successful re-tests we will continue to treat these as potential support areas.

**A continued market fall will use the 4090-4100 level as the next support base. This is a little stronger, but it has not been seriously tested on a pullback. We have to move back to 4030 to find a support area that has been tested more often. This sets our lowest figure for an index retracement based on support.**

The market can retrace as far as 3900, based on the current long term trend line values, and still remain consistent with a long term uptrend. **A retreat to these levels will cause serious pain for any investors, however, it is not inconsistent with the trend.**

**Traders will look for buying opportunities if the market probes towards support at 4030.**



We will continue to plot new support levels as the trend develops because we need to establish potential pullback areas. When the trend stalls, declines, or retreats, it is important to have a defined method of distinguishing between a temporary retreat and a major trend change. Just as a mountain climber uses pitons to secure each new step before advancing, so we use this support areas as a way of defining the potential damage from any slip.

This remains an incredibly robust trend. In an ordinary stock we would be less concerned about potential trend weakness. In an index that represents the broad market, we are more concerned because the index represents 200 stocks. The money flow required to keep hitting new highs is much more substantial than that needed to propel an individual stock. This makes these longer, sharp broad market trends more difficult to sustain. Hence we remain more cautious.

To put this shorter term analysis into perspective, we turn to the Guppy Multiple Moving Average display. We use the Guppy Multiple Moving Average as one of our primary trend analysis tools. A substantial retracement could take place and still remain consistent with the trend.

**The sections highlighted in green are the trigger conditions which confirm developing trend weakness. They also provide the conditions necessary to gauge the strength of any rebound or recovery rally.** The long term group continues to maintain a consistent parallel separation. **The strength of the trend is confirmed by the reaction of the long term group of averages as the index drops or retreats. The long term group has turned down quickly and begun to compress.** Traders are alert for significant compression in this group. **The degree of penetration by the short term group is a leading indication of trend strength.**

Penetration has been significant and is the first occurrence since August 2004. The rebound behaviour provides important clues about the potential for the trend to continue. As the short term group moved towards the long term group, we expected to see a rebound develop as occurred in February. This failure was the first important clue that this was a significant trend change. It was confirmed with the support resistance analysis as noted above. The pattern of rebound and retreat is crucial. Lower retreats signal significant trend weakness. This is the key feature traders now look for. If the short term group rebounds and holds above the long term group, then we look for a slowing of the trend and a recovery. Failure to move above the long term group confirms a developing downtrend with downside targets based on support in the region of 4030.

A strong bullish trend is suggested when the long term group of averages does not compress. It tells us investors are actively moving into the market and buying stocks as they fall in price because they believe that these are still good value. Traders may want to take short term profits, but investors take a longer view. Their reaction to price retreats creates the conditions for trend continuation.

The indicator suggests that this substantial index retreat is no longer consistent with the long term underlying trend. The GMMA is not a stand alone indicator. Our preference is to use it in conjunction with other indicator tools. These include the support and resistance levels, and the trendlines discussed above.

Each week we make a choice about the material we include and the subjects we cover. The selection is based on our outlook for the current and coming market. Our objective is to illustrate effective trading strategies that readers can apply to current market conditions. We do not identify recommended individual stocks. We identify opportunities and appropriate trading methods for them. Our outlook is not a forecast. It is a probability framework. Use it as just one part of the other information you are reading about the market. Our summary outlook will be included each week.

---

## GOT A QUESTION YOU WOULD LIKE TO ASK?

This is the only chat room where you will find Daryl Guppy and other recognised traders and authors. Post a question and get quality answers. Just visit and browse the discussion boards for educational information on trading techniques, using Metastock, and the questions that we all need to ask. This chat room has an international audience.



[www.stockmeetingplace.com](http://www.stockmeetingplace.com)

[www.stockmeetingplace.com](http://www.stockmeetingplace.com)

# TRADING STATISTICS – APRIL PERFORMANCE

By Daryl Guppy

## **SUBJECT SUMMARY** **MARKET STATISTICS**

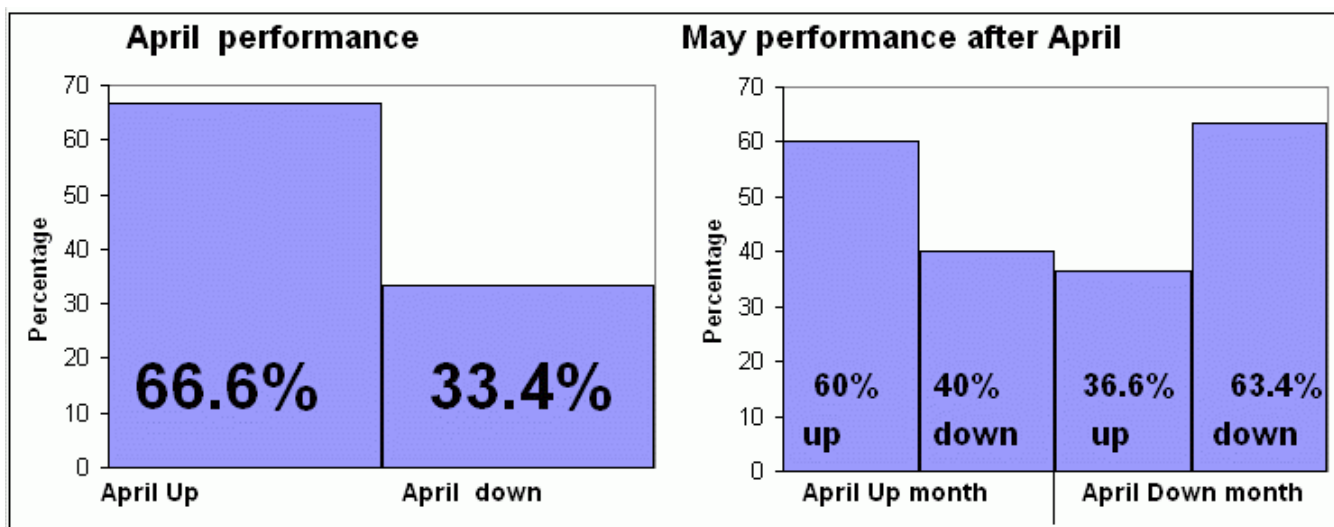
These statistics are compiled from a 15 year data base of the All Ordinaries, and later the S&P/ASX 200 commencing in January 1990. They include intra-month results where each month is assessed on a higher or lower close than its open. Inter-month analysis compares the relative performance of each month with the previous month or group of months. This tells us if this month closes higher than the previous month. It also gives us information about the potential for months to move as part of a multi-month trend.

These statistics are helpful in establishing a general view of the market and its average behaviour. Traders use this as a benchmark to assess current behaviour.

The start of the year is filled with holidays and special events, all of which have an impact on trading behaviour. Now that Easter has passed, we can return to a regular monthly assessment of the statistical behaviour with only the Anzac day holiday interruption. The statistical relationships for the same period last year are shown in (...).

April is an up month, closing higher in 66.6% of the past 15 years. (This is down from 72% average in 2004). On a very broad analysis level, February is often the start of a decline that grips the market in March and April. This is a common retreat pattern that follows a broadly rising market that starts around November the previous year and builds to the Christmas and January rally. Sometimes this rally carries through to February, but in most years it is followed by a decline in March.

Here is the interesting change. In 2004 April was the key down month in this extended Christmas rally period. The same impact is being observed in the current 2005 market with the end of March seeing a strong sell off. The retreat is a high probability event, but its occurrence is becoming increasingly delayed until late March or early April. This may provide a trading edge for some trading strategies.



We record a higher month if the close for the month is higher than the open for the month. A rising month does not tell us how high the market may go on average. The first diagrams show strategies based on the performance of the month.

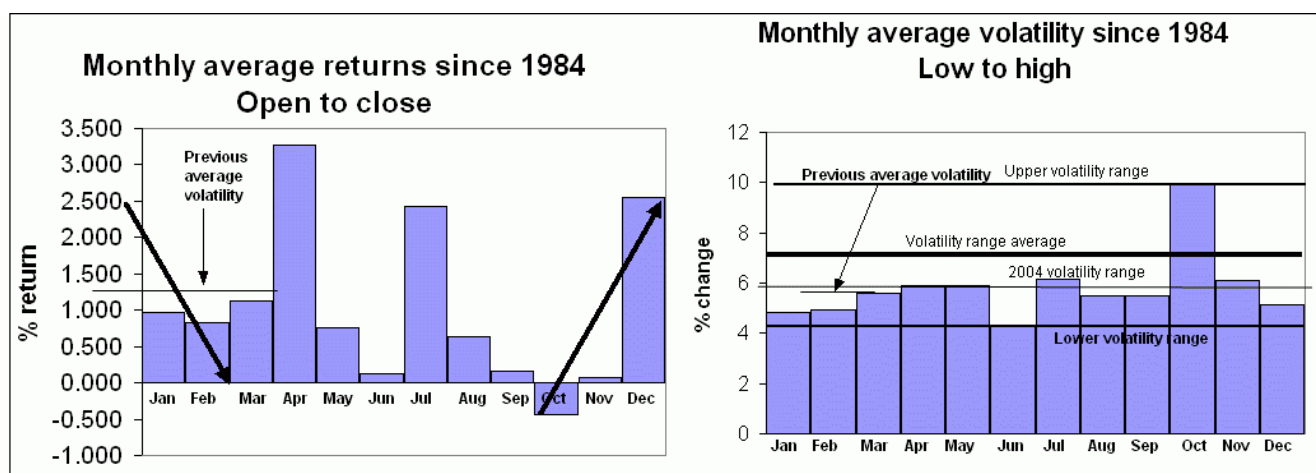
There are some combinations of months where a rise in one month has a high probability of leading to a rise in the following month. Traders are also interested in how the coming month activity is likely to impact on the following month. This is sometimes used to manage longer term positions. If the coming month is a rising month, then it is useful to know the statistical chances of the following month continuing the up trend. The second diagram shows strategies built around the performance of the following month.

If April is a down month, then there is a 63.4% probability that May will be a down month. (This is a change from last year with a 68% probability of a following down month). This change confirms that it is the late March and early April period that has become the Christmas rally retreat period, which is followed by a resumption of bullish trending behaviour.

If April is an up month, there is still a good bullish bias, with a 60% (60%) probability of May being an up month.

These rises and falls do not start at the beginning and the end of the month. These figures capture the overall monthly movement. A rising month may reach significant highs during the month and then collapse to finish marginally higher than the open of the month. This would still appear as a rising month although the trading result would be disappointing.

The average return chart tracks the difference between the open and close for each month. Despite the recent index falls, the updated diagram for March shows a decline in the monthly return. The previous 21 year value is shown by the horizontal line on the chart. The trend rises from the October low to a peak in December. The average monthly return falls in January and February.



Traders are attracted to volatility and the monthly volatility chart tracks monthly low to high results. It will always give a positive return because, by definition, the low is always lower than the high. Where there are big market moves, there is an increased probability of profiting from the changes in price. The previous 21 year volatility level is shown by the horizontal line.

This diagram shows the volatility range, but it does not show the direction of the price move. The market has an average 5.8% volatility up to the end of 2004. March volatility is 5.575%, which is close to the 2004 monthly average of 5.8%. This puts March towards the middle of the annual volatility band of 5.656 points that reaches from a low of 4.255 in June to a high of 9.911 in October. The rolling 12 month average, March 2004 to March 2005, is 5.8. This is a very small change compared to the 2004 volatility average.

Every market, as it opens, looks to another major market which has just closed for guidance. US traders watch European markets for an indication of how the trading day might unfold. European markets watch the activity in Far Eastern Asian markets, and to a lesser extent, Australian markets. Australian traders look to the US and NZ markets at the beginning of our trading day. The statistical relationships that exist in the US market are well documented. A knowledge of the basic relationships provides an advantage in understanding Australian market behaviour as we tend to broadly follow US behaviour.

April is the best DOW month in US market and has been since 1950 as noted in **The Stock Traders Almanac** published by Y Hirsch. After the min-month tax deadline, there is some weakness in the index. This may be compounded this year with the expiry of options on Friday April 15. The best six months of the year in US markets ends in April.

In post election years the NASDAQ closed up 6 out of 8 years and the end of April usually shows trend strength.

Trading statistics are a guide to how the market has performed, on average, over a 15 year period. They provide an indication of how the market may perform in the future and they also provide a reference point against which we can observe changes in market behaviour.

# POSITIVE AND NEGATIVE EXPECTATION GAMES

By Tom D'Angelo

## SUBJECT SUMMARY

### THE BUSINESS OF TRADING

Trading is a business. The trader deals in buy and sell contracts and has an inventory of shares that are the same as the 'stock' in a retail shop. His customers do not walk in the door. They are found throughout the country and are connected by a broker and an exchange which facilitates the sale of 'shares'. Every business has its profitable and less profitable sections. Trading is no different and our profits come from particular techniques and processes. Successful traders create a professional trading environment to manage their trading activities similar to a successful business.

Good software assists in this process. These articles explain how ManusRisco money management software is used to improve the business control and management of trading.

Failure to adopt a professional, disciplined businesslike approach towards speculation and investment will significantly decrease your chances of achieving long term profitability in today's volatile trading arena. These articles are designed to teach you how to create a professional trading environment so you can manage your trading activities similar to a successful business and make confident, disciplined trading decisions.

Over the next few weeks we will cover these topics:

- Introduction - How successful businesses are organised
- The Profit Centre business model applied to trading
- A professional, disciplined money management methodology
- **Positive and negative expectation games**
- Drawdown
- Return on Investment
- PTR / UTR
- Breakeven Analysis
- The edge: Who has it and how to get it.

In the previous three articles, we learned how to create a professional business structure designed to provide the information required to manage your trading similar to a successful business.

In this article, we will discuss positive and negative expectation games. A positive expectation game is simply a situation where you have the advantage and which will result in long term profitability if played using a disciplined money management methodology. A negative expectation game will result in the loss of all your trading capital in the long run. You may experience short periods of profit, but in the long run, you are guaranteed to go broke, regardless if you are gambling in Las Vegas or trading the Forex, stocks or futures.

The difference between Las Vegas casino games and trading, is that the casino advantage is "hard wired" into most of the games through unfavourable rules of payoffs, whereas the trader's advantage is constantly changing; a positive expectation situation may be becoming more positive or less positive, or a negative expectation situation may be becoming more negative or less negative.

The previous three articles described the business structure required to organise your trading results and provide the information necessary to determine when, where and why you have the advantage, or if you are playing at a disadvantage. If you do not organise your trading using proven business models, you will never be able to determine if you are playing as the customer or the casino.

There are many methods to determine if you have the advantage and one of the most popular is the Profit Factor. The Profit Factor is calculated as:

$$\frac{(\% \text{ Profitable Trades} \times \text{Average Unprofitable Trade})}{(\% \text{ Unprofitable Trades} \times \text{Average Unprofitable Trade})}$$

A Profit Factor greater than 1.00 indicates a profitable situation and a Profit Factor less than 1.00 indicates an unprofitable situation. If the trader adopts the business model described in previous articles, he can determine which Profit Centres are profitable and which are not. More importantly, a graph of the Profit Factor reveals the trend: Are you becoming more or less profitable, or are you becoming more or less unprofitable? Are you playing as the customer or the casino? Where are your trading strengths which should be capitalised on, and where are your trading weaknesses which should be eliminated?



A report which calculates all the statistics which comprise the Profit Factor statistic can be seen below.

Practice		Individual Trades Profit Factor Analysis ALL Trade Dates												
Trade Date	Symbol	Pos	# Traded	\$ P/L	% Prof	% Change	% Unprof	% Change	Avg Prof Trade	% Change	Avg Unprof Trade	% Change	Profit Factor	% Change
09/08/2004	ES	Buy	2	(\$ 318)	0 %		100 %				(\$318)		0.00	
09/08/2004	ES	Buy	2	\$ 182	50 %		50 %	(50 %)	\$182		(\$318)		0.57	
09/08/2004	ES	Buy	2	\$ 82	67 %	34 %	33 %	(34 %)	\$132	(27 %)	(\$318)		0.84	47 %
09/08/2004	ES	Sell	1	(\$ 209)	50 %	(25 %)	50 %	52 %	\$132		(\$264)	(17 %)	0.50	(41 %)
09/08/2004	ES	Buy	1	\$ 41	60 %	20 %	40 %	(20 %)	\$102	(23 %)	(\$264)		0.58	16 %
09/08/2004	ES	Buy	2	(\$ 318)	50 %	(17 %)	50 %	25 %	\$102		(\$282)	7 %	0.36	(38 %)
09/08/2004	ES	Buy	1	\$ 141	57 %	14 %	43 %	(14 %)	\$112	10 %	(\$282)		0.53	46 %
09/08/2004	ES	Buy	1	\$ 191	62 %	9 %	38 %	(12 %)	\$127	13 %	(\$282)		0.73	40 %
09/08/2004	ES	Buy	1	(\$ 209)	56 %	(10 %)	44 %	16 %	\$127		(\$264)	(6 %)	0.61	(17 %)
09/08/2004	ES	Buy	1	\$ 91	60 %	7 %	40 %	(9 %)	\$121	(5 %)	(\$264)		0.69	12 %
09/08/2004	ES	Sell	1	(\$ 209)	55 %	(8 %)	45 %	12 %	\$121		(\$253)	(4 %)	0.58	(15 %)
09/08/2004	ES	Buy	3	(\$ 252)	50 %	(9 %)	50 %	11 %	\$121		(\$252)		0.48	(18 %)
09/08/2004	ES	Buy	1	\$ 91	54 %	8 %	46 %	(8 %)	\$117	(3 %)	(\$252)		0.55	14 %
09/08/2004	ES	Buy	1	\$ 91	57 %	6 %	43 %	(7 %)	\$114	(3 %)	(\$252)		0.60	10 %
09/08/2004	ES	Sell	2	\$ 182	60 %	5 %	40 %	(7 %)	\$121	6 %	(\$252)		0.72	20 %
09/08/2004	ES	Buy	1	(\$ 109)	56 %	(7 %)	44 %	10 %	\$121		(\$232)	(8 %)	0.66	(8 %)
09/09/2004	ES	Buy	1	\$ 141	59 %	5 %	41 %	(7 %)	\$123	2 %	(\$232)		0.76	15 %
09/09/2004	ES	Buy	2	\$ 382	61 %	3 %	39 %	(5 %)	\$147	20 %	(\$232)		0.99	30 %
09/09/2004	ES	Sell	1	\$ 141	63 %	3 %	37 %	(5 %)	\$146	(1 %)	(\$232)		1.07	8 %
09/09/2004	ES	Buy	1	\$ 91	65 %	3 %	35 %	(5 %)	\$142	(3 %)	(\$232)		1.14	6 %
09/09/2004	ES	Buy	1	(\$ 259)	62 %	(5 %)	38 %	9 %	\$142		(\$235)	1 %	0.99	(13 %)
09/10/2004	ES	Buy	1	\$ 91	64 %	3 %	36 %	(5 %)	\$138	(3 %)	(\$235)		1.04	6 %
09/10/2004	ES	Buy	1	\$ 191	65 %	2 %	35 %	(3 %)	\$142	3 %	(\$235)		1.12	7 %
09/10/2004	ES	Buy	1	\$ 66	67 %	3 %	33 %	(6 %)	\$137	(4 %)	(\$235)		1.18	5 %
09/10/2004	ES	Buy	1	\$ 141	68 %	1 %	32 %	(3 %)	\$137		(\$235)		1.24	5 %

Only the information provided by a suitably designed business structure can provide the answers. If you trade in a haphazard non-businesslike environment, do you think you can intelligently and profitably manage your trading business? Do you think the lack of a professional business approach to trading is the primary reason for the tremendously high failure rate of individuals who decide to play the trading game?

A properly designed business structure is the foundation for producing the Analysis Reports that management (that is, you) requires to make the critical operating (trading) decisions necessary to successfully compete in the marketplace.

One of the most important Analysis Reports which can be produced from our business structure is the Drawdown report. Every trader should have a complete drawdown history at his fingertips at the beginning of each trading day. And what should the Drawdown report contain? Well, that's the subject of our next article.

Tom D'Angelo is the CEO of ManusRisco Inc. The money management methodology described in these articles is used by ManusRisco money management software which can be found at [www.manusrisco.com](http://www.manusrisco.com). This software adds an important business dimension to the business of share trading.

## READERS' QUESTIONS: THE METASTOCK EXPLORER/USING MOVING AVERAGES TO FIND NEW TRENDS

By Jason Mitchell

A recent reader's question gives us an opportunity to look at some basics of using the Metastock explorer and look at a few issues we need to consider regarding explorations. Bear with me and I'll try and make this seem easy...

The question was in regards to how to go about building a formula that looks for, as the reader put it, "stocks which are starting to move in either an upward or downward Direction". Their preference was to use the moving averages and the signals they were interested in were:

- Price Above a Moving Average (and the reverse).
- Shorter term Moving Average Crossing the Longer Term Moving Average.

## INDICATOR REVISION

### CALCULATING MOVING AVERAGES

Simple Moving Average = Add the closing price for the selected number of periods (ie 5) and divide the result by 5. Each day has equal weight in the calculation.

Exponential Moving Average = Apply a percentage of today's closing price to yesterday's moving average value. Most programs display the percentage value automatically once the moving average period is chosen. The percentage applied to yesterday's moving average value depends on the length of the moving average selected.

Weighted Moving Average = Calculate a weighting for each day in the data series. In a 5 day series, today's price has 5 times more weight than the data from 5 days ago. This is similar to the exponential moving average.

Variable Moving Average = This is an exponential moving average, but the smoothing factor depends on the volatility of the market. The aim is to adjust the sensitivity of the moving average so it does not give misleading signals in volatile markets.

Triangular Moving Average = Most weight in the calculation is placed on the middle portions of the data series. It is really a double smoothed moving average as is the same process used in Stochastic calculations for %D.

Volume Adjusted Moving Average = This uses changes in volume to modify the variable weighting used in the moving average calculation. The day with the most volume gets the highest.

Looking at these criteria allows me to illustrate a vital point when building explorations and that is they must be specific to the situation we are looking for. Otherwise they will bring up too many stocks that are not showing us the opportunity we are seeking.

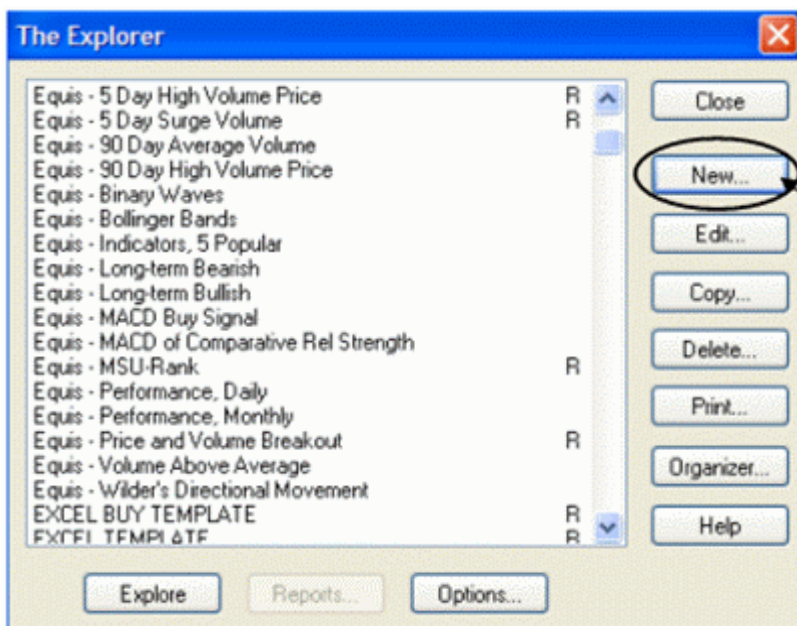
I mentioned that in the exploration we wanted to look for stocks "starting to move" or "starting to trend". Looking for the moving average crossover is somewhat consistent with what we want to find, as a moving average crossover does happen at the beginning of a trend. Not that all crosses lead to trends.

The other criteria we mentioned, regarding price above the moving average, is not specific. This could happen at any number of times including at the start of a trend, during a trend, just before the end of a trend or even in a downtrend. As such it is generally not that useful in actual explorations on its own. In order to look at building a formula with Metastock, we will look for a cross of the Moving Averages, as this is more in line with what we want to find.

To start building the exploration, open Metastock and then open the explorer. You can do this by pressing [Ctrl] [E] or by clicking on the logo that looks like a set of binoculars.

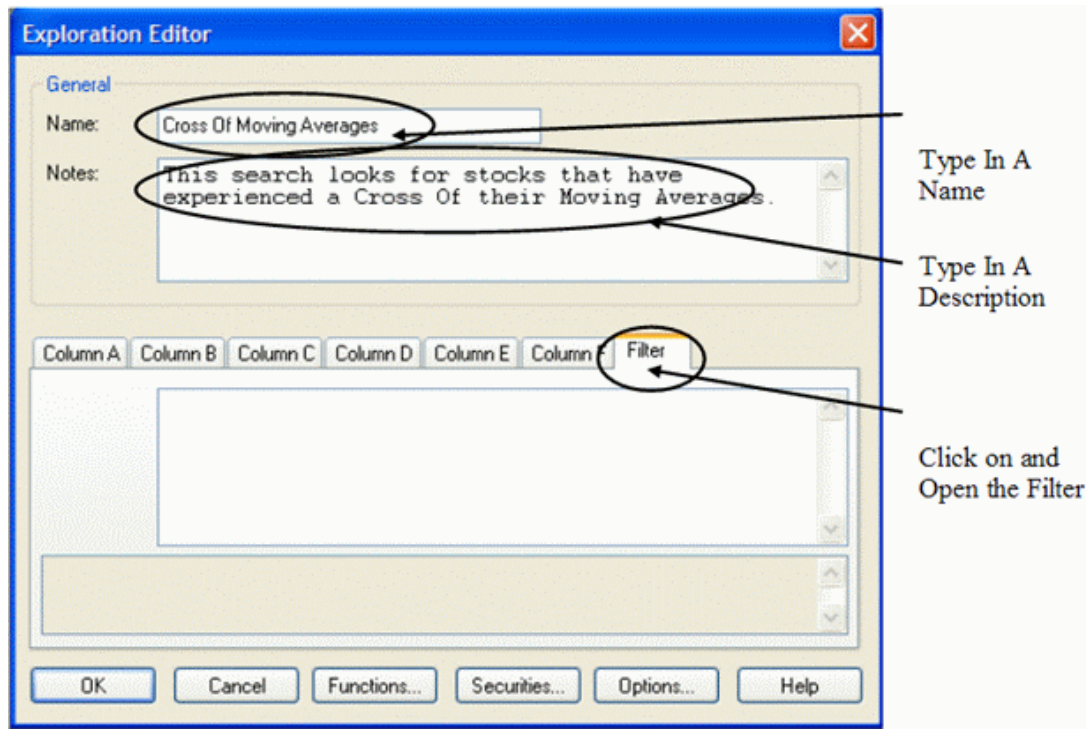


Once you have opened Metastock click on "New" to start a new exploration.



This will bring up the Exploration Editor where we actually create an exploration.

The first step is to give the exploration a name and type in a description. This is so when we come back later, we know what we're looking at. I have called it "Cross of Moving Averages". Once you have done this, click on the Filter tab.



We choose the filter tab, as anything we put in here acts as a filter. By putting the coding for a cross of two moving averages in here, we will get a list of all stocks that experienced a cross of the moving averages. In this example, we will use a 10 and 30 Day exponential moving average crossover.

The first thing I like to do when looking for a simple cross over is to name the two items that we will be looking for a cross of. As we are looking for a cross of the 10 Day EMA above the 30 Day EMA, we will name these indicators STMA and LTMA. Standing for - Short Term Moving Average (STMA) and Long Term Moving Average (LTMA).

To do this, type into the filter:

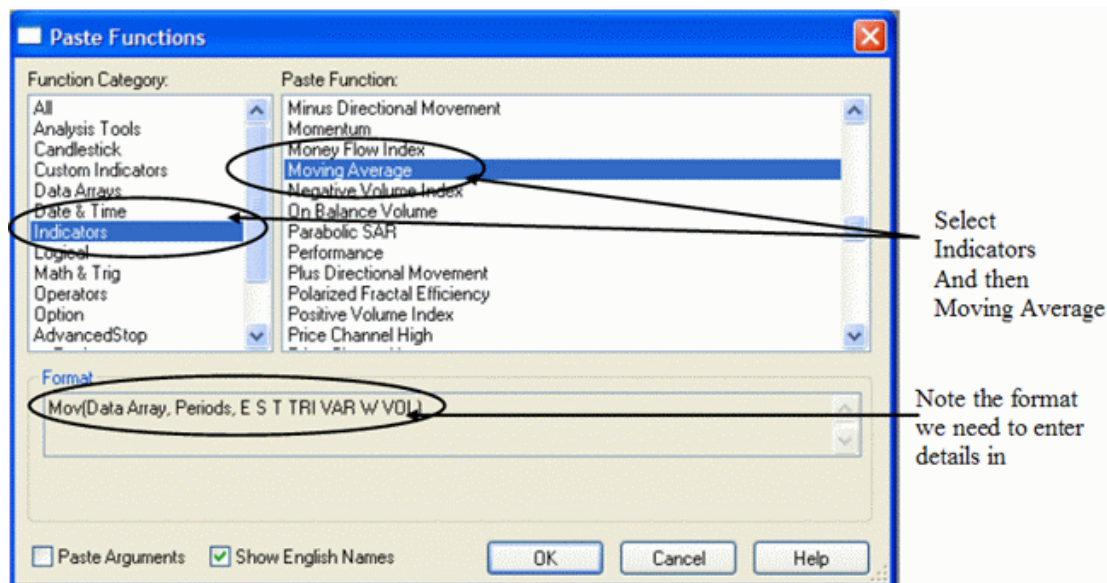
STMA:=

LTMA:=

Next, I need to tell Metastock what STMA and LTMA are equal to (it doesn't know yet). Move the cursor just after where you have typed STMA:=

The easiest way to tell Metastock what this equals, if you are not familiar with the Metastock language, is to use the Functions button at the bottom. Pressing this opens the following box. As we want to tell the program STMA is a moving average, we select "Indicators" from the left hand column and "Moving Average" from the left hand side (you will need to scroll down to find Moving Average).

When you have found moving average, highlight it with your mouse and note the Format box.

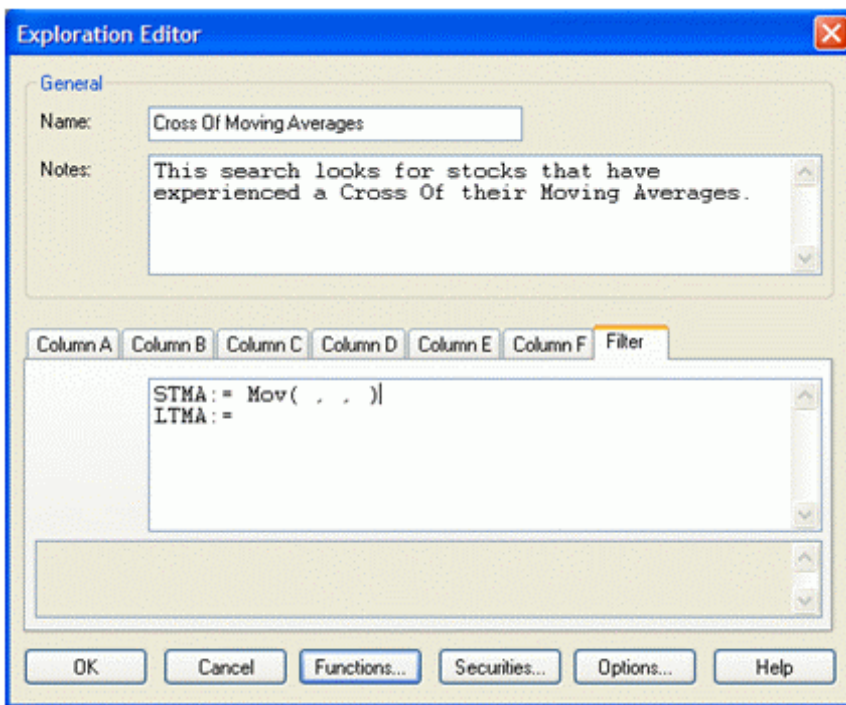


This tells us the order in which to put details into the formula. It has the words Data Array, which simply refers to a value. In our case, this is the close. The word Periods refers to the number of periods in our moving average, which is 10 in this

first instance. And the letters E, S, T, TRI, VAR, W, VOL refer to the type of moving average and whether it is an exponential (e) or simple (s) etc. We want an exponential moving average and so we will write “e” when the time comes.

Click OK to select the moving average and our Exploration Editor should appear with the words:

```
STMA:= Mov( , , )
LTMA:=
```



We noted what information we needed to type into the brackets when we looked at the format box earlier. We simply type the word “Close” in between the bracket and the first comma, the number 10 in between the commas and lastly put the letter “e” in between the last comma and bracket. This will give us:

```
STMA:=Mov(Close, 10, e)
LTMA:=
```

Before we tell Metastock what LTMA is, we need to let it know that we have finished telling it what STMA is. We do this by placing a semi colon after the formula (;) so our formula appears as:

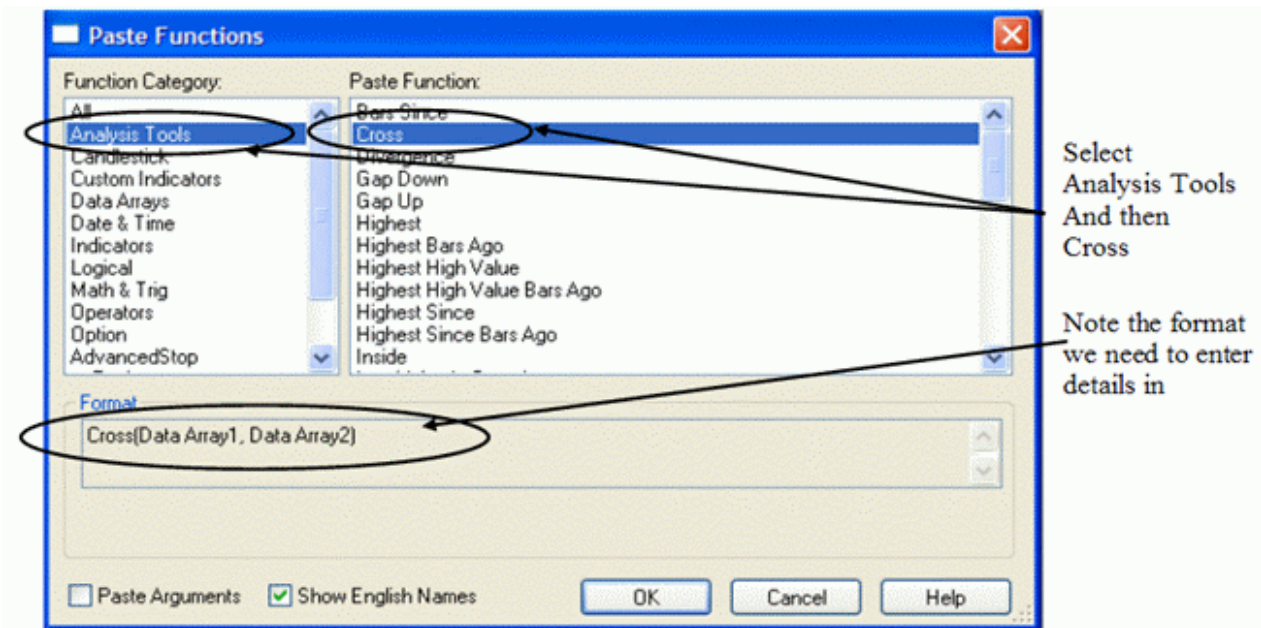
```
STMA:=Mov(Close,10,e) ;
LTMA:=
```

Now we are ready to tell it what LTMA is. Rather than going through the functions button, I find it easier to copy and paste the 10 Day Moving Average formula and then change the number. Highlight the words “Mov(Close,10,e);” from the first line and then paste it in to the second line. Now change the 10 in the second line to a 30 and we have:

```
STMA:=Mov(Close,10,e) ;
LTMA:= Mov(Close,30,e) ;
```

So far we have named the two moving averages. Or in “technical speak”, we assigned two variables. Now we have to tell Metastock we are looking for a cross of these two moving averages. Move the cursor to a new line and press the function button again to bring up the function’s box.

This time we want to find a cross of something. This is under Analysis tools. Choose Analysis Tools from the left hand column and then the cross function from the right hand column. Again, note the format that things need to be entered into the formula.



Click OK to paste the Cross Function into the box. Our formula should now read:

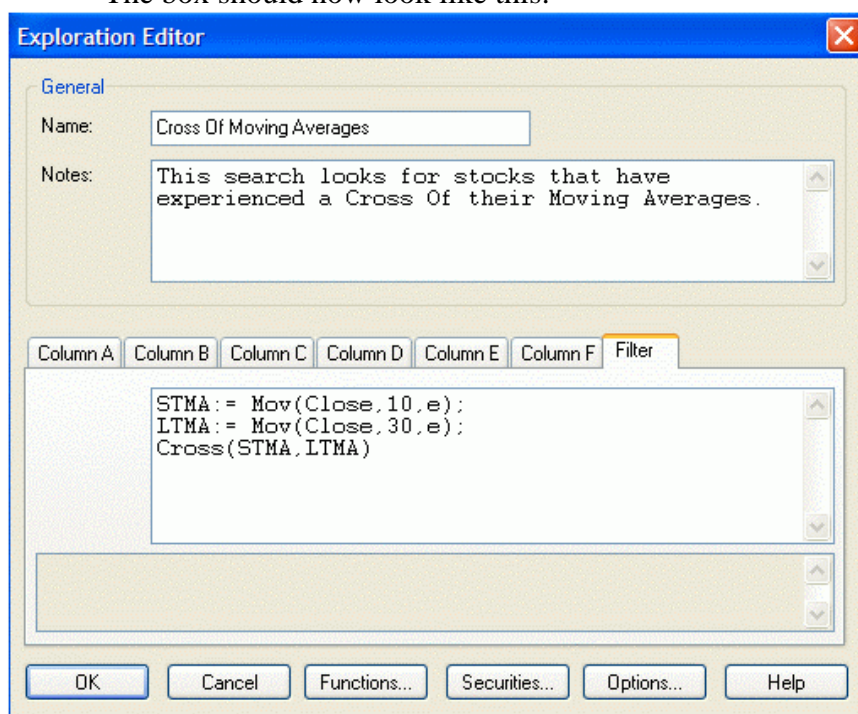
```
STMA:= Mov(Close,10,e);
LTMA:= Mov(Close,30,e);
Cross( , )
```

In the format box earlier, you would have seen it says Cross( DataArray1 , DataArray2). The word data array simply means a value. In our case, the values are the 10 and 30 day moving averages. The values could be just about any calculation however.

In the cross function, the Value which is named 1<sup>st</sup> is the value which will cross ABOVE the second value. In our case, we are looking for the 10 day moving average to cross above the 30 day moving average, so we need to put the 10 day moving average first.

As we named our moving averages, this next step is very easy. In between the first bracket and the comma in Cross( , ) insert the name we gave our 10 Day Moving Average, which was STMA. In between the comma and the second bracket, insert the name for our 30 day moving average, which is LTMA.

The box should now look like this:



All we need to do is Click on OK and we are finished building the exploration. Choose it from the normal list of explorations as you would any other and it will bring up a list of all stocks that have had a cross of their moving average on the date of the search. Note that when you run the exploration as we have described it, it should be run on a daily timeframe, otherwise the 10 and 30 will not refer to days. If it is searched on a weekly time frame, it will look at the 10 and 30 Week Moving averages.

Please note this will not find stocks that experienced a cross yesterday or two days ago,

unless you run the exploration on that particular date.

That wasn't so hard was it? In a short time we assigned two variables and searched for a crossover in two exponentially calculated moving averages of the closing price over differing periods. Sound complex, well it wasn't and if we think of it more along the lines of "we named two moving averages and looked for a cross in them", it seems a lot easier – not as impressive at a party, but easier.

I have included the original formulas as requested and a few variations for interest sake. These need to be included in the filter box, as with the search we built.

#### Price Above The Moving Average (Using the Closing price and 30 Day EMA)

*Close > Mov(Close,30,e)*

Note changing the number changes the length of the moving average. The number 200 instead of 30 would look for a close that is greater than the 200 day moving average. Please note, however, this does not mean there has been a cross of the close and the moving average – the close is just above it and could have been for one day or one hundred days.

#### Price Below The Moving Average

*Close < Mov(Close,30,e)*

#### Cross of The Close Above A Moving Average (Today)

*MA:=Mov(Close, 30,e);  
Cross(Close, MA)*

#### Cross of The Close Below A Moving Average (Today)

*MA:=Mov(Close, 30,e);  
Cross( MA, Close)*

#### Recent Cross of The Moving Averages (Bullish Cross) (In the Last 3 days)

*STMA:= Mov(Close,10,e);  
LTMA:= Mov(Close,30,e);  
Signal:=Cross(STMA,LTMA );  
Alert(Signal,3)*

*Jason Mitchell is a full time trader working from the Gold Coast Australia. His tools and strategies are developed to be easily applied in the markets and he is the founder of the popular trading newsletter the StarTrader Report. You can contact Jason through [www.StarTraderReport.com](http://www.StarTraderReport.com).*

---

## **CHART TECHNIQUE BRIEFS: CAPE RANGE (CAG)**

*By Petra Rak*

The weekly price bar chart of CAG shows a long consolidation pattern which started to develop at the end of a downtrend in February 2002, and has continued between a support around \$0.027 and a resistance around \$0.065. As part of the sideways movement, prices consolidated on a support at \$0.037 from mid November 04 to mid January 05, before bouncing away into the current uptrend, which is now moving towards the consolidation resistance around \$0.065.

The daily chart shows the detail of this uptrend, and in particular shows the recent development of an equilateral triangle above the upward trend line.

**INDICATOR REVISION**  
**EQUILATERAL**  
**TRIANGLES**

Some trends are ambiguous. Prices do make higher lows, setting the conditions for placing an uptrend line. Sometimes the price activity on the day also makes a lower high. More often prices work their way above the uptrend line, but fail to make new highs. This trend meets the conditions for placing a downtrend line. Both lines are valid, and they define an equilateral triangle. The market is uncertain as to the correct pricing for the stock. (This is not the same as valuation). Both sellers and buyers revise their valuations over time, but in opposite directions. Breakouts tend to be driven by external factors, hitching a ride with broader market conditions.

A few general notes on equilateral triangles: The pattern indicates indecision or uncertainty and commonly forms when news is expected, but buyers and sellers are balanced and uncertain whether upside or downside movement is more likely. Targets are set by projecting the height of the triangle upward from the point of breakout, such that as the triangle develops, the triangle target moves downward parallel to the slope of the upper triangle boundary. The likelihood of achieving the target is lower than in up sloping triangles, and equilateral triangles may break either way.

**UP CONDITIONS**

In the shorter term, the CAG uptrend remains valid, as indicated by the well spread and upturned long term GMMAs, and the continued trend line validity. Given this, the general implications of an equilateral triangle described above are somewhat more bullish in CAG, as triangle development within an ongoing uptrend with GMMA support increases the probability of an upside triangle breakout. The calculated triangle target is around the \$0.065 consolidation resistance (triangle height of 0.014 projected above an estimated breakout around \$0.05).

In the longer term, however, trend continuation above \$0.065 is uncertain, given the strength and persistence of the \$0.065 resistance.

Hence, traders will watch for a shorter term opportunity signalled by a bounce away from the trend line and out of the triangle pattern, with a target just below \$0.065. As any breakout approaches \$0.065, consolidation below this level is likely, and may result in a break of the current trend line (which would also confirm exit from any trades based on the trend). Traders will watch this behaviour, looking for a decisive breakout out of the long term consolidation. Such a breakout will set up a likely opportunity with an initial target at \$0.095, a likely resistance on the weekly chart.



## DOWN CONDITIONS

A downside triangle breakout through the upward trend line, or sideways movement through the tip of the triangle and the trend line, will signal the end of the current uptrend. In this case, the triangle pattern can be used to set a potential downside target around \$0.04, though if a retreat develops, there is a good probability that it will continue to the strong historical support around \$0.034.

Possible continued upside movement and potential new opportunities will be signalled by the development of a strong support to any retreat and a CBL breakout.

---

## NEWSLETTER NOTES

### REASONS FOR NOT SUBSCRIBING TO THE NEWSLETTER #4

**You already watch the news and read the papers. Why subscribe to the Guppy newsletter?**

It's not difficult to keep up with the news today. We are surrounded by the media and have easy access to net based news and financial channels like CNBCAsia. But there is more to staying ahead than merely knowing what is happening. You need insight. With insight you can evaluate the news and its impact on your trading tactics and strategies. With insight you understand the wider implications of current issues and behaviours and how they can affect your trading portfolio.

While others are catching up with current events, you are already planning ahead for the future and avoiding pitfalls. The weekly newsletter delivers insight to you each week. You have the opportunity to consider how other traders are analysing and trading the same markets that you are involved in. You are given insights into the way trading tactics are modified to successfully deal with the changes in the market. Armed with these insights you can trade better. This can make you money, or save you money by keeping you out of poorly performing trades and strategies.

News is everywhere, but insight is a rare commodity. Newsletter subscribers enjoy an insight edge not available from any other publication.

### GUPPYTRADERS TOOL BOX – RELEASE ON SCHEDULE

The new GuppyTraders Essentials Toolbox and charting program is in final testing stages. Toolbox pricing will be under \$100. We will also release a GTE Charting package. We will offer an attractive changeover path to those who wish to *changeover* from the original Market Analyst version of the GTE charting package or toolbox. We own the licensing and copyright to these products and they are no longer associated with Market Analyst. The new version of the GTE Toolbox, produced by Guppytraders, will be available in mid-April 2005.



#### Features include:

- **Full count back line capability. This is CBL for long side trading, and for short side trading**
- **GMMA display**
- **Parabolic trend line plots – including long side and short side plots. Also includes convex plots as shown in Leon Wilson books.**
- **Symmetrical and a-symmetrical saucer plotting**
- **Pattern price projection tools**
- **Darvas boxes including:**
  - **Modern**
  - **Classic**
  - **Ghost boxes – just click and add.**
- **An effective ATR plot that operates as a stop loss display as well as a standard indicator display option.**
- **ATR stop loss configured for both long side and short side trading.**
- **One click display of 1, 2 and 3 moving average combinations.**

The GTE Toolbox is designed to work with a variety of data formats. It is a small utility application that gives traders access to a selection of Guppy tools and indicators that might not be included in the charting program they are currently using. We are currently upgrading the GTE Toolbox and adding some new indicators and other enhancements.

If you want first access and leading development, then this is available through our weekly newsletter and the Guppytraders version of Guppy TradersEssentials toolbox and charting program. Please note that Market Analyst stopped working with GuppyTraders.com in mid-2004 as they made a decision to stop producing the GTE toolbox and the GTE Charting package. We no longer provide MarketAnalyst with access to updated tools and techniques. Market Analyst, like every other software developer, such as Bull Charts, Ezy Charts, Metastock etc, have access to our tools and techniques only AFTER they are in the public domain and published in books or articles.

## 12 MONTH SUBSCRIPTION RENEWAL OFFER OPEN TO RESUBSCRIPTION AT ANY TIME

With every 12 month subscription renewal we are including a free copy of either Martin Pring's, **Breaking the Black Box** (rrp \$45.95) or Robert Prechter's, **Conquer the Crash** (rrp \$39.95). We do have limited numbers of these books and once they are used, this 12 month subscription renewal offer will end. This offer is made each week to all those readers whose subscription periods are currently coming to an end. However, this offer is available to any subscriber who resubscribes for a 12 month period. If your subscription is due to end in May, then if you resubscribe now for 12 months, we will send you your choice of free book. Just note your preferred book in the Comments section on the order page.

## TRADING STRATEGIES WITH METASTOCK BY JIM BERG



This is a comprehensive guide that takes you step by step through a 2 day trading strategies workshop using Metastock software. This is excellent value and quality work.

The workbook is well set out with clear screen shots of the processes under discussion. The trading strategies include the Berg Volatility Indicator which has been featured in Technical Analysis of Stocks and Commodities magazine. The full coding steps for all indicators are included, along with detailed explanation of how the strategies are implemented. This guide is now available through our Guppytraders store at

<http://www.guppytraders.com/gup240.htm>

## ASK YOUR QUESTIONS IN THE CHAT ROOM

Thank you to newsletter readers who have participated in the new chat room. [www.Stockmeetingplace.com](http://www.Stockmeetingplace.com) is operated by a group in Singapore and their objective is to provide an independent forum, for the discussion of financial market trading issues. I have agreed to work with them exclusively. If you wish to ask me a question, discuss issues raised in the newsletter, or follow up on issues in my books, then post your question on [www.stockmeetingplace.com](http://www.stockmeetingplace.com)

I am confident that [www.stockmeetingplace.com](http://www.stockmeetingplace.com) will develop into a premier educational chat room which will attract a quality group of people who genuinely want to learn about the market and assist others. That is why I have agreed to exclusively participate in this chat room. This chat room has an educational bias where traders from around the world come to exchange ideas, swap exploration formulas and discuss trading techniques. I am active in several sections. If you want to ask me a specific question, this is the best place to go. You will receive a reply from me, and also additional information from StockMeetingPlace regulars. There are many solutions to any question and StockMeetingPlace taps into a wide range of trading experience.

## NEWSLETTER DELIVERY

If you have a question about delivery of the newsletter, the progress of an order or your subscription details please email [support@guppytraders.com](mailto:support@guppytraders.com) We will respond within 24 hours (a little longer over weekends).

## WHICH GUPPY BOOK?

Many people have asked this question. Here is a summary guide.

Want to know more about trading?	Share Trading	Beginner to experienced
Want to know more about charts?	Chart Trading	Beginner to experienced
Want to know more about tactics?	Trading Tactics	Beginner to experienced
Want to improve your trading results?	Better Trading	Experienced to professional
Want to master simple but powerful techniques?	Trend Trading	Beginner to experienced
Want to understand short term trading?	Snapshot Trading	Experienced to professional
Want to survive difficult markets?	Bear Trading	Beginner to experienced

## PORTFOLIO CASE STUDIES- MONEY MANAGEMENT

### PORTFOLIO CASE STUDIES - MONEY MANAGEMENT

Starting cash position \$100,000 - no brokerage or slippage 2% of risk = \$2,000

**NOTE** Entered date is the *newsletter date* which contains the case study discussion.

Stock	Price	Qty	Pur Value	Close	Cur Val
STW	\$36.390	550	\$ 20,015	\$ 41.79	\$ 22,985
		Newsletter date	11-Sep	Open Profit	2,970.00
			dividend Jan 6		464.48
			profit		3,434.48
MA trend manage				Percentage	17.16

Stock	Price	Qty	Pur Value	Close	Cur Val
<b>APA</b>	<b>\$3.700</b>	<b>5,450</b>	<b>\$ 20,165</b>	<b>\$ 3.7300</b>	<b>\$ 20,329</b>
		Newsletter date	26-Feb	Open Profit	163.50
			dividend march 4		299.75
				profit	463.25
Trend trade				Percentage	2.30
Security/Counter/Stock	Price	Qty	Pur Value	Close	Cur Val
<b>CCE</b>	<b>\$0.420</b>	<b>48,300.00</b>	<b>20,286.00</b>	<b>0.395</b>	<b>19,078.50</b>
		Newsletter date	26-Mar	Open Profit	-1,207.50
CBL trade				Percentage	-5.95

Sell APA for profit of \$463 or 2.3%.  
Sell CCE for loss of \$1,207 or -5.95%.

#### SUMMARY MONEY MANAGEMENT

**Overall profit to date since July 1, 2004 = \$56,030 or 56.0% return on trade equity.**

Profit 2003/04 = 48.7% return on trade equity. Profit 2002/03 = 75.9% return on trade equity.

Profit 2001/02 = 71.3% return on trade equity. Profit 2000/01 = 59.2% return on trade equity.

Profit 99/00 = 111.2% return on trade equity. Profit 98/99 = 102% return on trade equity.

Profit 97/98 = 94% return on trade equity. Profit 96/97 = 66.5% return on trade equity.

Direct investing in the stock market can result in financial loss. Historical results are no guarantee of future returns. Results reflect absolute trading stop loss discipline. Case study trades are monitored and managed in real time, and management reports are delivered every week in the newsletter. Except where noted, all case study trades are notional examples using reasonably attainable entry and exit points. Unlike an actual performance record, simulated results do not represent actual trading. Also, since the trades have not actually been executed, the results may have over or under compensated for impact, if any, of certain market factors, such as lack of liquidity. No representation is being made that any account will or is likely to achieve profits or losses similar to those shown. Full trade summaries, with charts, are provided every six months.

---

**DISCLAIMER AND COPYRIGHT** Guppytraders.com (ACN 089 941 560) Pty Ltd is **not** a licensed investment advisor. This publication, which is generally available to the public, falls under the ASIC Media Advice provisions. These analysis notes are based on our experience of applying technical analysis to the market and are designed to be used as a tutorial showing how technical analysis can be applied to a chart example based on recent trading data. This newsletter is a tool to assist you in your personal judgment. It is not designed to replace your Licensed Financial Consultant or your Stockbroker. It has been prepared without regard to any particular person's investment objectives, financial situation and particular needs because readers come from diverse backgrounds, with diverse objectives and financial situations. This information is of a general nature only so you should seek advice from your broker or other investment advisors as appropriate before taking any action. The decision to trade and the method of trading is for the reader alone to decide. The author and publisher expressly disclaim all and any liability to any person, whether the purchase of this publication or not, in respect of anything and of the consequences of any thing done or omitted to be done by any such person in reliance, whether whole or partial, upon the whole or any part of the contents of this publication. Neither Guppytraders.com Pty Limited nor its officers, employees and agents, will be liable for any loss or damage incurred by any person directly or indirectly as a result of reliance on the information contained in this publication. The information contained in this newsletter is copyright and for the sole use of trial and prepaid readers. It cannot be circulated to other readers without the permission of the author. **Each issue now incorporates fingerprint protection that enables us to track the original source of pirate copies.** Contributed material reflects the personal opinion of the authors and are not necessarily those of the publisher. Articles accurately reflect the personal views of the authors. Stocks held by the authors are marked\* and are not to be taken as a trading recommendation. This is not a newsletter of stock tips. Case study trades are notional and analysed in real time on a weekly basis. Guppytraders.com does not receive any commission or benefit from the trading activities undertaken by readers, or any benefit or fee from any of the stocks reviewed in the newsletter. Guppytraders.com is an independent financial education organization and research is supported by subscription fees.

**OFFICES;** Head Office, 22 Hibernia Crescent, Brinkin, **Darwin, Australia**, Level 36, Menara Citibank, 165 Jalan Ampang, **Kuala Lumpur, Malaysia**, Penthouse Level, Suntec Tower Three, 8 Temasek Boulevard, **Singapore**, RmB 30G Majestic Garden, No 6 Middle of Beisihuan Road, **Beijing, China**.