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TUTORIALS IN APPLIED TECHNICAL ANALYSIS

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The Australian Internet Trading Weekly with independent analysis
INCLUDES SEMINAR DETAILS!

Weekly for Saturday April 30, 2005 Based on Thursday's Close 19 pages
Edited by Daryl Guppy with contributions from T D'Angelo, and P Rak
Guppy Trading Essentials Chart pak, Metastock , Ezy Charts & SuperCharts. Data from JustData, Paritech, MarketCast & theNextView.

Stocks mentioned in this issue

AZR, XJO, Shanghai Index, Jiangxi Paper (600053).

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

CONTENTS

ON A WATCHING BRIEF

By Daryl Guppy

TRADERS' GLOSSARY

WATCHLISTS

Watch lists are a fundamental tool for all traders. They are a list of stocks which the trader is interested in. They can be selected by many means, from hot tips, from eyeball scans, from complex technical explorations, from brokers' tips and newspapers. The list contains a group of stocks which the trader watches over the following days or weeks.

Some lists include stocks that are currently held. Others include just speculative holdings, or investment sections of the portfolio. The list might include stocks that have good trading potential and we want to watch them, ready to jump when money becomes available.

Watch lists allow the trader to efficiently organise his analysis of the market and quickly keep up to date with stocks of interest to him. Stocks in a watch list are automatically up dated with each new day's data.

Traders who are not trading short remain on a watching brief. Those who still have open positions use this period to manage the best possible exits on any temporary rebounds. As shown in our market notes, we retain a bearish outlook with downside head and shoulders pattern targets.

For traders, the key issue is the nature of market activity once the target area is reached. A sideways pattern will call for different trading strategies. A short rebound will signal the application of momentum trading strategies. A failure of support at the target area will call for more short positions using CFDs or warrants.

We monitor the market and prepare tactics for each of these strategies. We will show how these decisions are reached in the coming weeks.

We close the last of the old case study trades this week. Despite closing a trade at a loss last week, our tight risk management rules mean that the portfolio realised return starting July 1, 2004 is 59.6%. This is still an acceptable return.

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.

BOOK REVIEWS

By Daryl Guppy

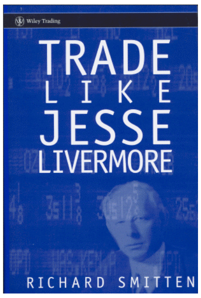
SUBJECT SUMMARY
TRADING BOOKS

Many trading books are expensive. There is nothing more annoying than spending $80 to $120 on a trading book only to find that it is not particularly useful. The objective in these book reviews is to give you some idea of the content and usefulness of new trading books as they are released.

All reviews are based on our reading of the book. The comments are not culled from the back cover copy. If we review a book, it means we have read it.

Our focus is on the more expensive books because these are the ones where we really do not want to make a purchasing mistake. The reviews are written from the perspective of a trader. These reviews, and reviews of over 260 trading books, are also posted on the web site under the Traders Reading button.

TRADE LIKE JESSE LIVERMORE by Richard Smitten



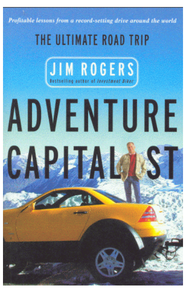
This book has the capacity to be particularly useful. Instead it is repetitive and contains a significant number of reprints from his earlier excellent biography of Livermore. In this book, the reader is entitled to expect a detailed explanation of Livermore's trading methods in a way that will allow the reader to implement and test the ideas. Instead, the book fails to explain the core issues of interest to the reader.

A key underpinning of the Livermore trading method is the use of Pivotal Points. Although these are talked about, nowhere was I able to find a working definition of these. The illustrations are also devoid of useful information. It is not explained how a pivotal point is defined in either chart terms, or in terms of the number tables that Livermore kept. The reader is unable to define how these pivotal points are calculated or established.

The discussion of One Day Reversals is interesting. It is unfortunate that the one day reversal bar identified in the chart example 4.17 does not actually meet the conditions described in the caption. The high of the current day is not higher than the high of the previous day.

There is some good general information in the book regarding trading strategies and tactics. Much of what is covered was significant in Livermore's day because he was amongst the first to understand these relationships. Today, many of the observations are more widely accepted. It doesn't make them less significant, but there are less repetitive resources that cover the same ground.

ADVENTURE CAPITALIST by Jim Rogers



At heart this is a travel book. In many travel books, the author throws in a few cultural observations of his own. Rogers throws in financial observations which encompass broad sweeping panoramas. Some observations are banal, some intriguing, and a few perceptive – and many revealed on the unnoticed political and cultural biases of the author. It is the broad financial analysis that Rogers is very good at. For most readers, translating these observations into a specific investment or trading strategy is virtually impossible.

Read this for broad background brushwork. The relationships he observes will impact on the way some companies trade in your home market. Understanding some of these relationships may help to decide on a macro level that the commodity boom driven by Chinese demand is sustainable, so buying shares in a resource company is a useful strategy. I'm not sure we need Jim Rogers to alert us to this, but his observations are useful confirmation of other trends we observe.

This is quite an interesting travel book.

RE-LISTING AND TRADING

By Daryl Guppy

TRADING METHODS

IPO TRADING

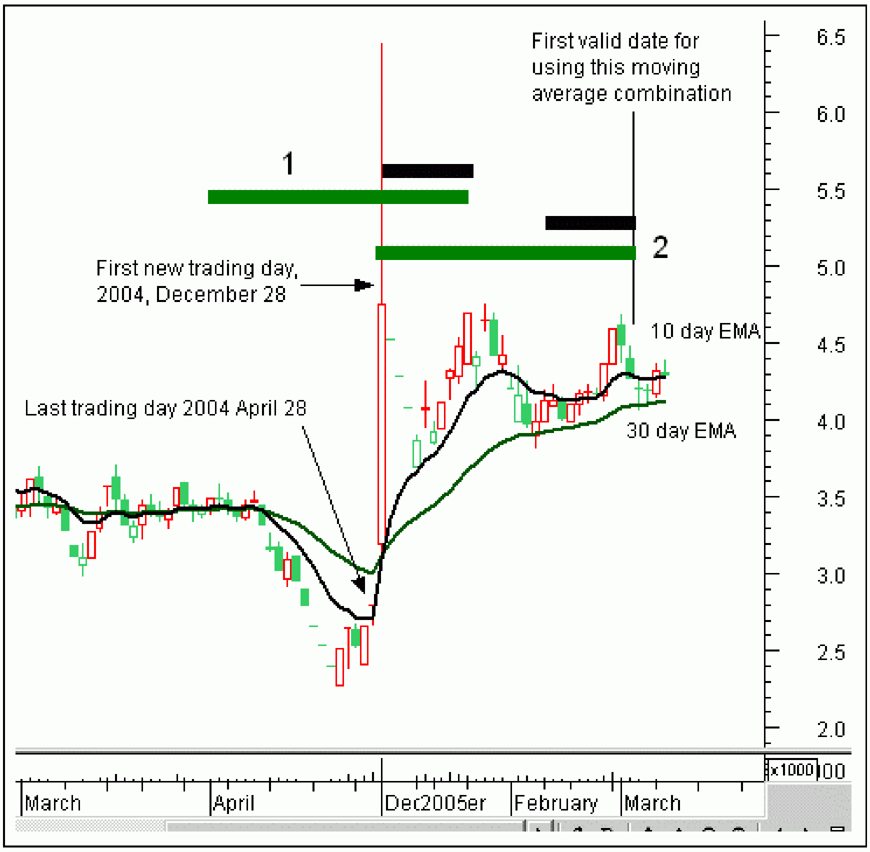
An Initial Public Offering (IPO) creates chart history. Many have emotional appeal, but this does not guarantee profitable trading. Trading is enhanced when the demand/supply equation is out of balance. This is shown by lots of positive press coverage in the lead up to the IPO.

Better IPO trading relies on money management techniques to select an entry point and ride the price action until the stop loss conditions are met. High probability float trades are taken based on the price action of the first week, but again they rely on money management to set stop loss points to protect profits.

There are two ways for a new company to list. The first is as a new listing, and we apply IPO trading management rules to these. The second is a backdoor entry where a company buys a company shell that is de-listed from the exchange. This makes re-listing very easy. The re-listing provides some problems for traders because there is an existing series of price data. This article looks at how traders handle this analysis situation. The same applies to a company that has returned to trading after an extended period of suspension. Both of these situations have become more common in recent months.

How do we apply technical analysis to a security that has started trading after an extended period? This type of security has two characteristics. If the break from listing, or trading, has been extended, then the security is almost like an IPO, but not quite. In the intervening 4 or 6 months, many factors will have changed, so investors will approach the security differently. This gives the security two characteristics.

- First, the previous history of the security can be used in some ways to help understand how the security may behave in the future now that it has started to trade again. Many of the technical analysis tools we routinely apply to securities cannot be applied in this situation.
- Second, it is a new trading period, so the security can be analysed in the same way as an IPO which has no previous trading history.

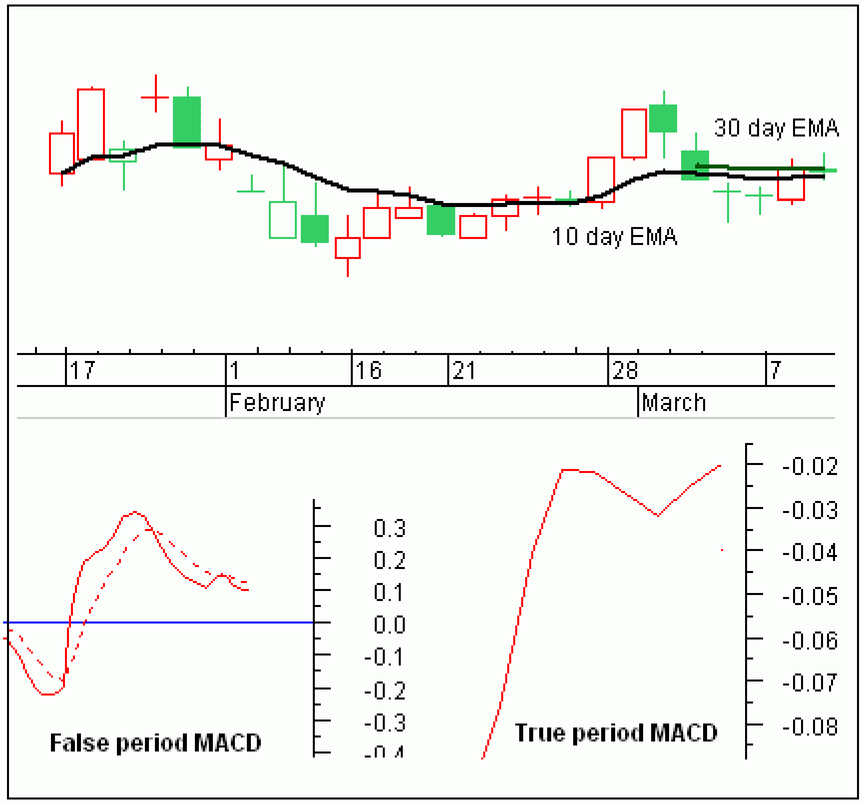


The correct way to display this situation on a chart is to show only the traded days. We do not show an 8 month gap in the chart. We start with an obvious observation. Many technical analysis methods cannot be applied in understanding how this security might behave. Those analysis methods which rely on the use of moving averages in their calculations cannot be immediately applied to the new trading period, because the calculation may include price information from the period before the new period of trading.

If we apply a 10 and 30 day moving average plot to the Jiangxi Paper chart, it looks as if there has been a bullish moving average crossover signal. This is misleading and inaccurate. The diagrams explain why this is inaccurate.

There is an 8 month period where this security did not trade. When we apply the 30 day moving average calculation on the first date when new trading commences, - December 28 – then we include the previous 30 days prior to the last day of trading in April 2004. Diagram 1 shows the situation 10 days after the security has been re-listed. The 10 day segment of the moving average calculation includes 10 of the new trading days in 2005. The 30 day calculation includes 20 days from the period prior to April 2004. This distorts the calculation of the average.

We cannot apply a moving average calculation accurately until there are, in this example, 30 trading days of new trading available for inclusion in the new calculation. This is six weeks after trading commences because the calculation uses *30 trading* days.



In any chart display, it is very difficult to show a new calculation when old data is included. We have extracted just the trading information since December 28 and displayed this on a second chart. The second chart shows what the true moving average relationship is if we include only the new trading data since 600053 started trading again on December 28. This is not a particularly bullish picture. If we use the full chart we get a very misleading idea of the strength of the new trend. This also applies when we use any indicator that is based on moving averages, such as a MACD, RSI, Stochastic, Williams%R and other indicators that use a time series in the calculation.

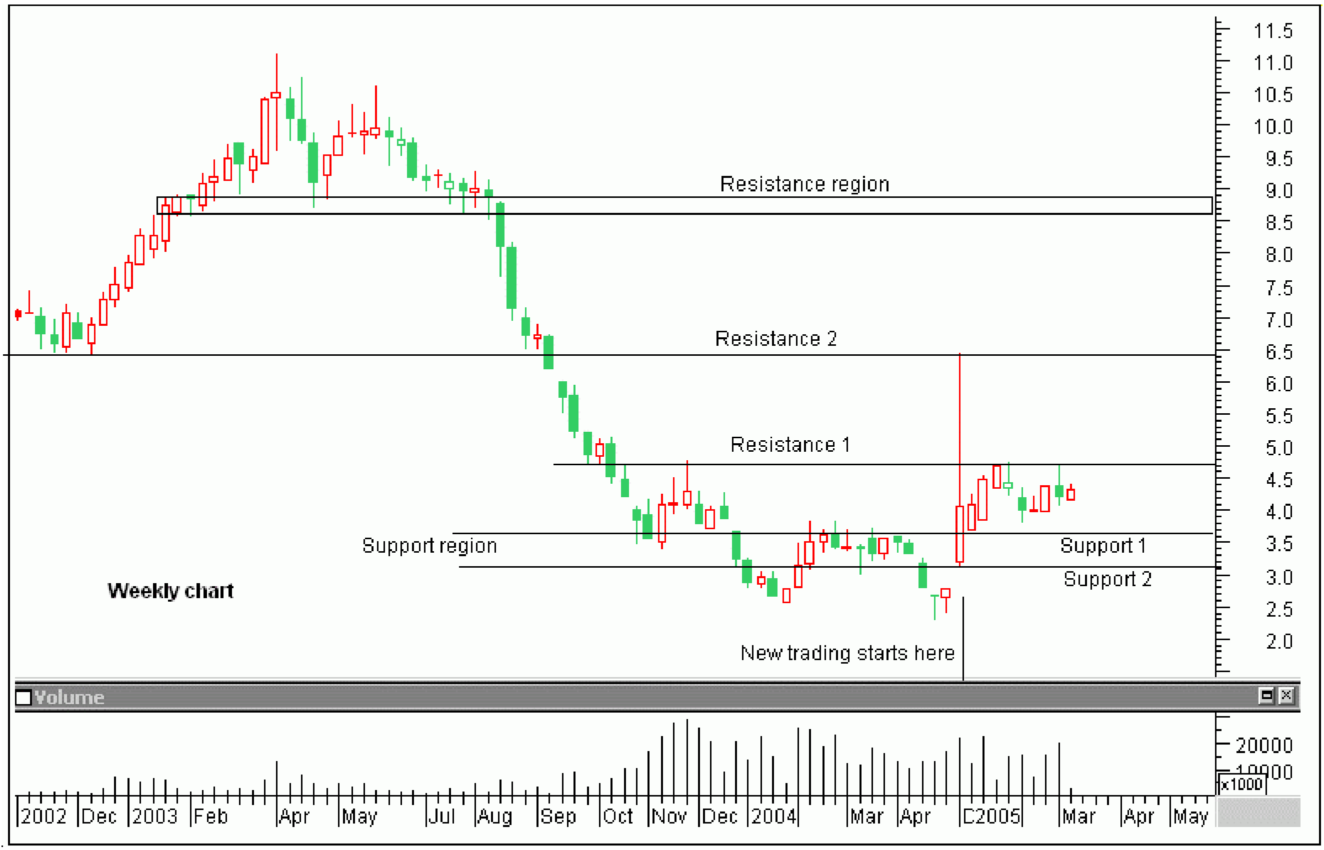
The lower chart extract shows how the MACD appears if we use the full price data. It is very different from the MACD display when we use just the true new trading data from December 28.

Although we cannot use technical analysis in this situation, we can use basic chart analysis, particularly support and resistance concepts. Here we can validly use price data from before April 2004 and apply it to the new chart developments in 2005. We can do this because many of the people who purchased Jiangxi Paper in 2003 and 2004 still own the security. They know what price they paid. It may have been $4.00, $7.00 or even $10.00. The price they paid for the security is their reference point when they come to decide if they have made a loss or a profit. This behaviour creates the support and resistance defense levels. It provides a guide from the past about how the market may react in the future now that the security has started trading again.

We use the support and resistance levels as shown to develop a framework for managing a new trade in Jiangxi Paper. The most important of these are the support 1 and support 2 lines. Together they form a support region. When 600053 started trading in December, it used support 1 as a starting point. On the first day it moved up very quickly and stopped at resistance 2. This was the same price level that provided support for 600053 when it started trading in 2002. This is no co-incidence. It shows how important and enduring these support and resistance levels are on a chart.

This also tells us that the first significant price target for 600053 is at $6.50. As soon as it hits this level, many people who own this security will sell because this is the price they use as a reference point in deciding about their investment in this security.

Price is now trading between support at $3.70 and the resistance level at $4.75. This was also the high in 2003, November and a supporter low in 2003 September and October. There are many people who purchase stock at around this level. They have been sitting on loss since then. For many months they thought they had lost everything when the security stopped trading. Now many of them will sell when prices move back to $4.75 just so they can get their money back. This makes this a strong resistance level and puts a cap on price rises. It may take many weeks before prices can rise above and stay above this level.



The strongest support level is at $3.70 and this is used as a stop loss for this trade. A close below this level is a strong signal to prepare to exit the trade at the best price possible. It is most likely that prices will move around this level and give a slightly higher exit price. The support level at $3.15 – support 2 – is a weak level. If prices fall below this level, it is a strong signal to sell quickly.

Using this information and analysis, we set these levels on the daily charts and use them to develop a trading plan. This trading plan is similar to those we apply to an IPO listing where there is no previous price history. In these trades the objective is to protect trading capital using financial risk management.

As soon as a pre-determined amount of money is lost, the trade is closed. Later, when the trend is more developed and when it can be easily defined using traditional charting tools, we use these for the management of the trade and setting stop loss points.

In this example, the only difference between the weekly chart and daily chart analysis is the plot of a potential trend line. We use this with caution because we need more evidence that this trend line is correct. This evidence will come from another price retreat and rebound from this level.

This trend line acts as an early warning trigger in the trade. A close below this trend line can be used as an alert to watch price action carefully as it gives towards the stop loss support level at $3.70. Based on a trade entry at $4.00, the $3.70 stop loss line is acceptable.

The sloping trend line also establishes an upward sloping triangle pattern. The base of this triangle is measured as shown by the double headed arrow. This value is projected upwards from the horizontal edge of the triangle pattern. It gives a price target of $5.85. This is an initial breakout target for this trade. Once prices reach this target and move above it, traders will use this as a new protect profit level and try to exit at the best price possible between $5.85 and the resistance level at $6.50.

INDEX BRIEFS – SHANGHAI INDEX, CHINA

By Daryl Guppy

SUBJECT SUMMARY

CHINA, CHINA, WHY CHINA?

These Shanghai index notes are a regular six weekly feature of the Asia newsletter. Some readers have asked why we continue to track the Shanghai Index regularly. The answer is simple. China has rapidly become the driving economic power in the region. The demand for commodities, for energy and for products continues to grow rapidly. The sustainability of this demand underpins the performance of our market. Inevitably we will be more fully exposed to the Chinese economy, particularly so when the Yuan becomes more easily convertible. The industries of China are not just an opportunity, they are also a threat. Chinese industry is actively seeking expansion opportunities and partnerships overseas. Sometimes this is to lock in prices as with arrangements with Australian miners. Other times it is the active development of markets for higher end goods.

When the DOW sneezes, some economies get a cold, but when Shanghai wobbles, our market stumbles. Understanding the performance of the China market helps us to understand the underpinnings of our own market. We expect to see this relationship become more pronounced over the coming years. We are the only Australian newsletter that provides ongoing technical analysis of this market. Our analysis is also published every fortnight in Beijing Securities Weekly on Stocks which is one of the largest Chinese financial magazines. This gives readers a trading edge that is not available elsewhere.

This remains a market for traders because there is no clear trend break. We start with a long time view and then look at how this index rise can be traded. We also look at the conditions which will signal a continuation of the rally. Finally we show the confirming signals for a genuine long time trend change.

The long time view starts with the index peak in 2004, April. From this peak we draw four trend lines. These form a fan pattern. This is a leading indication of a trend reversal, but it does not tell us when the trend will change.

These trend lines are important because they provide support and resistance areas. The market rises to resistance, then falls back to support. From November to February the market remained trapped between trendline 2 and 3. In February the index lifted above trend line 3, but then fell back. The new trend line 4 now acts as a resistance level. The market now uses trend line 4 as a resistance level and trend line 3 as a support level.

A good trading strategy is to buy when the index starts to bounce away from trend line 3 and sell if the index starts to fall away from trend line 4. Experienced traders notice that the current position of trend line 4 is almost the same as the long term support defence level between 1260 and 1300. This is shown as circle 5. This increases the probability that the index will retreat from this defence level.

We could also use the Guppy Count Back Line to signal an exit from this trade, but this will delay the exit. The best profit comes from selling when the index hits the resistance at trend line 4 because there is a high probability that the index will fall.

Aggressive traders will sell as the index moves into circle 5 and they will buy again when the index falls to trend line 3. This could be as low as 1120.

Eventually the index will move above trendline 4 and start a new rally. This is similar to what happened in November and February when the index moved above trend line 2 and then trend line 3. Each time the market had a large range day just before the breakout. The distance between the low and the high for the day was very large. Traders look for this relationship again.

Traders watch for evidence that the index is falling away from trend line 4. If this does not happen, then when the index successfully breaks out above trend line 4, it is most likely to peak within 7 to 10 days. This is a habit of the index. Then we expect the index to fall back, and use trend line 4 as a defence support level. The high of the peak will set a new fan trend line. This is likely to be the final fan trend line. If this happens in the next week, then the index will use the defence level at 1260 for support.

A genuine long time trend change will only be confirmed when these four examinations are passed.

1) An index move above trend line 4 and the resistance level at 1300.
2) A close above the Guppy Count Back Line.
3) The Guppy Multiple Moving Average indicator shows compression on the long term group of averages and they also turn upwards. The short term group must move above the long term group and start to separate.
4) A new uptrend line can be plotted after a successful index retreat and rebound.

This remains a good market for traders who have the discipline to sell and take short time profits. It is not a good market for investors because the long term trend is still down. The fan pattern shows it is slowly changing to an uptrend.

Note: I have just returned from 10 days working in China. This analysis was also given on CNBC Squawk Box on Thursday morning and it also appears in this week's edition of Beijing Securities Weekly.

READERS' QUESTIONS: PTR / UTR

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 facilities 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 previous articles, we learned how to create a Profit Centre structure designed to organise our trading results similar to a successful business. We also took a look at the Drawdown and Return on Investment reports which can be created from the trading results we entered into our Profit Centres.

In this article, we will take a look at trading efficiency and the Profitable Trade Ratio (PTR) and Unprofitable Trade Ratio (UTR).

The PTR is the current profit per contract (or profit per share) divided by the cumulative profit per contract (or share). For example, assume we had the following three profitable trades:

3 contracts	**+ $ 500**	**Profit per contract $ 167**	**Cuml profit per contract $167**
3 contracts	**+ $ 100**	**Profit per contract $ 33**	**Cuml profit per contract $100**
2 contracts	**+ $ 600**	**Profit per contract $ 300**	**Cuml profit per contract $150**

The PTR equals the current profit per contract divided by the cumulative profit per contract. For example, the PTR after the second trade equals 33 / 100 = .33. The PTR after the third trade equals 300 / 150 = 2.0

You would like to see the PTR above 1.00 and increasing as shown between the second and third trades. This indicates that your current profit per contract is greater than the cumulative profit per contract. You do not want to see the PTR below 1.00 and decreasing. Use the same technique for stock trades

The UTR is calculated in the same manner. For example, assume we had the following three unprofitable trades:

4 contracts	**+ $ 500**	**Loss per contract $ 125**	**Cuml loss per contract $ 125**
2 contracts	**+ $ 300**	**Loss per contract $ 150**	**Cuml loss per contract $ 133**
1 contracts	**+ $ 100**	**Loss per contract $ 100**	**Cuml loss per contract $ 129**

The UTR equals the current loss per contract divided by the cumulative loss per contract. For example, the UTR after the second trade equals 150 / 133 = 1.13. The UTR after the third trade equals 100 / 129 = .78

You would like to see the UTR below 1.00 and decreasing, as shown between the second and third trades. This indicates that your current loss per contract is smaller than the cumulative loss per contract. You do not want to see the UTR above 1.00 and increasing. Use the same technique for stock trades.

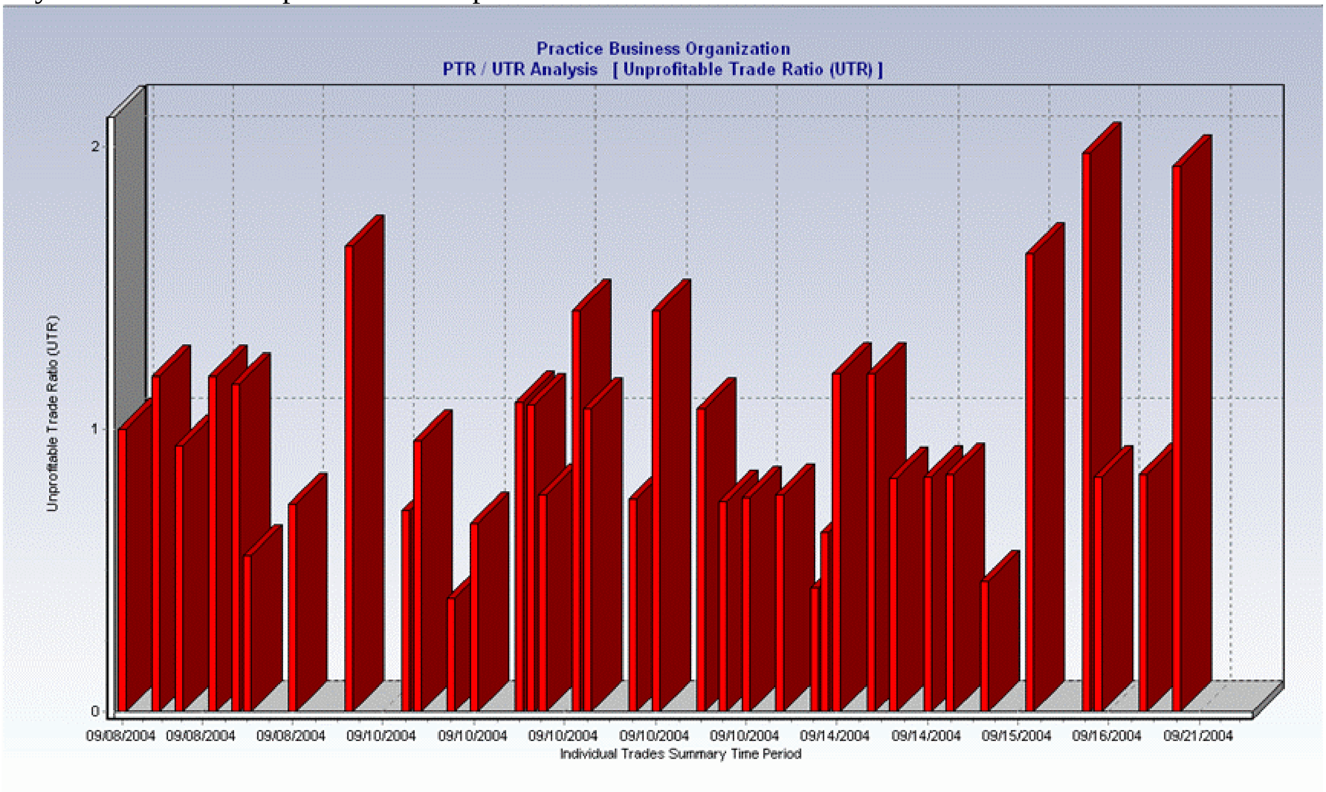
The real value of the PTR and UTR is the trend revealed by charts. Charts display the actual value of the statistic as well as the direction. You would like to see the PTR above 1.00 and increasing and the UTR below 1.00 and decreasing.

An increasing PTR and decreasing UTR indicates a trader who is becoming more efficient, and vice versa.

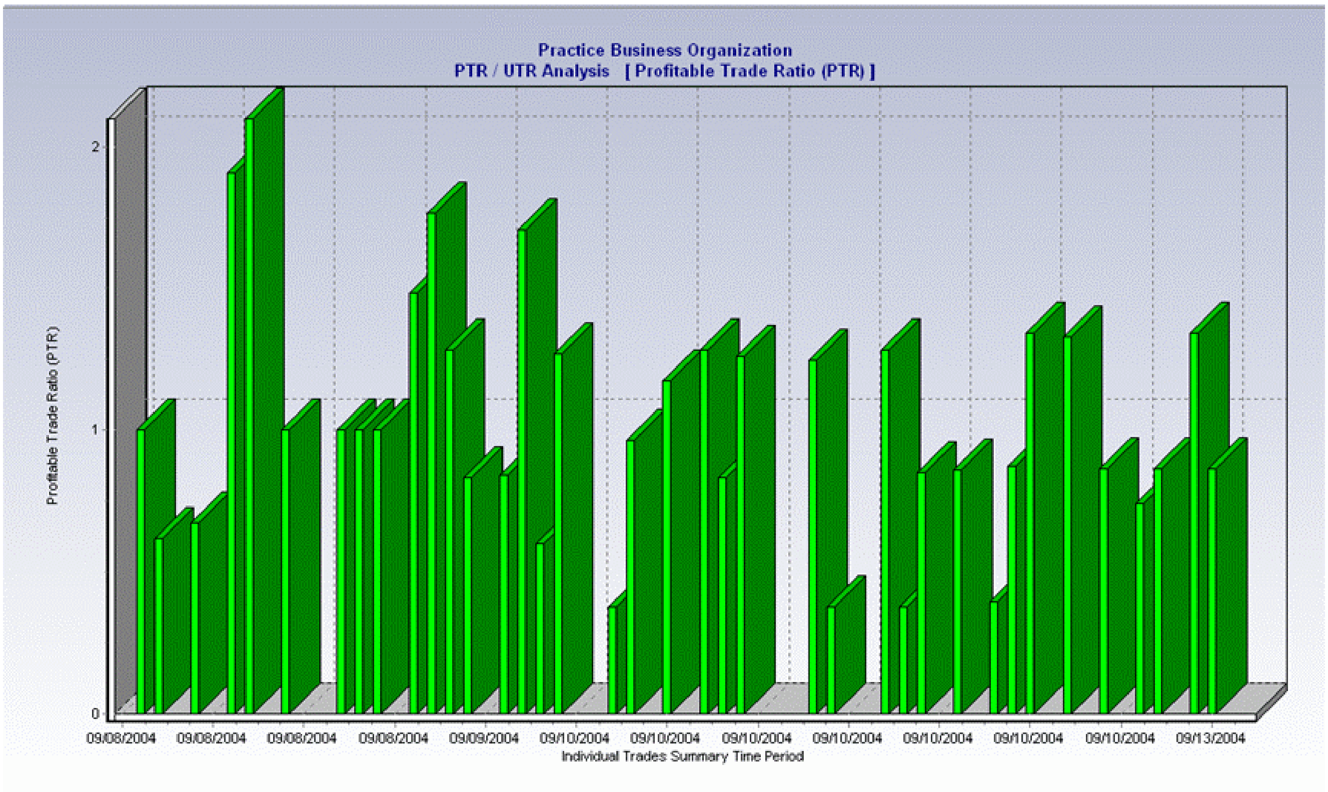
If the PTR is decreasing, try to determine why your current profit per contract is not as large as your cumulative profit per contract. Possibly you are not letting your profits run or your profit objective has been reduced compared to prior trades.

If the UTR is increasing, try to determine why your current loss per contract is larger than your cumulative loss per contract. Possibly your stop losses have gotten too large compared to prior trades.

The first image displays a graph of the UTR which is beginning to trend above 1.0, which is a warning sign that your current unprofitable loss per contract is starting to become too large compared to your cumulative unprofitable loss per contract.



The second image displays a PTR which is levelling off at about 1.0. However, you would like to see the PTR above 1.0 and increasing, which indicates you are becoming a more efficient and profitable trader.



A report which calculates all the above statistics can be seen below.

Practice

Individual Trades PTR / UTR Analysis
ALL Trade Dates

Trade Date	Symbol	Pos	# Traded	$ Profit	Profit per Contract	Cum Profit Per Contract	PTR	# Traded	$ Loss	Loss per Contract	Cum Loss Per Contract	UTR
09/08/2004	ES	Buy						2	($ 318)	($ 159)	($ 159)	1.00
09/08/2004	ES	Buy	2	$ 182	$ 91	$ 91	1.00					
09/08/2004	ES	Buy	2	$ 82	$ 41	$ 66	0.62					
09/08/2004	ES	Sell						1	($ 209)	($ 209)	($ 176)	1.19
09/08/2004	ES	Buy	1	$ 41	$ 41	$ 61	0.67					
09/08/2004	ES	Buy						2	($ 318)	($ 159)	($ 169)	0.94
09/08/2004	ES	Buy	1	$ 141	$ 141	$ 74	1.91					
09/08/2004	ES	Buy	1	$ 191	$ 191	$ 91	2.10					
09/08/2004	ES	Buy						1	($ 209)	($ 209)	($ 176)	1.19
09/08/2004	ES	Buy	1	$ 91	$ 91	$ 91	1.00					
09/08/2004	ES	Sell						1	($ 209)	($ 209)	($ 180)	1.16
09/08/2004	ES	Buy						3	($ 252)	($ 84)	($ 152)	0.55
09/08/2004	ES	Buy	1	$ 91	$ 91	$ 91	1.00					
09/08/2004	ES	Buy	1	$ 91	$ 91	$ 91	1.00					
09/08/2004	ES	Sell	2	$ 182	$ 91	$ 91	1.00					
09/08/2004	ES	Buy						1	($ 109)	($ 109)	($ 148)	0.74
09/09/2004	ES	Buy	1	$ 141	$ 141	$ 95	1.48					
09/09/2004	ES	Buy	2	$ 382	$ 191	$ 108	1.77					
09/09/2004	ES	Sell	1	$ 141	$ 141	$ 110	1.28					
09/09/2004	ES	Buy	1	$ 91	$ 91	$ 109	0.83					
09/09/2004	ES	Buy						1	($ 259)	($ 259)	($ 157)	1.65
09/10/2004	ES	Buy	1	$ 91	$ 91	$ 108	0.84					
09/10/2004	ES	Buy	1	$ 191	$ 191	$ 112	1.71					
09/10/2004	ES	Buy	1	$ 66	$ 66	$ 110	0.60					
09/10/2004	ES	Buy	1	$ 141	$ 141	$ 111	1.27					

The professional and profitable trader always knows if he is becoming a more or less efficient trader. He also knows where his breakeven point is. Do you know how to calculate your breakeven point? Well, next article we will find out.

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 This software adds an important business dimension to the business of share trading.

CHART TECHNIQUE BRIEFS: AZTEC MINING (AZR)

By Petra Rak

INDICATOR REVISION
COUNT BACK LINE (CBL) CONSTRUCTION
Count Back Line construction - long side - buy low, sell high.

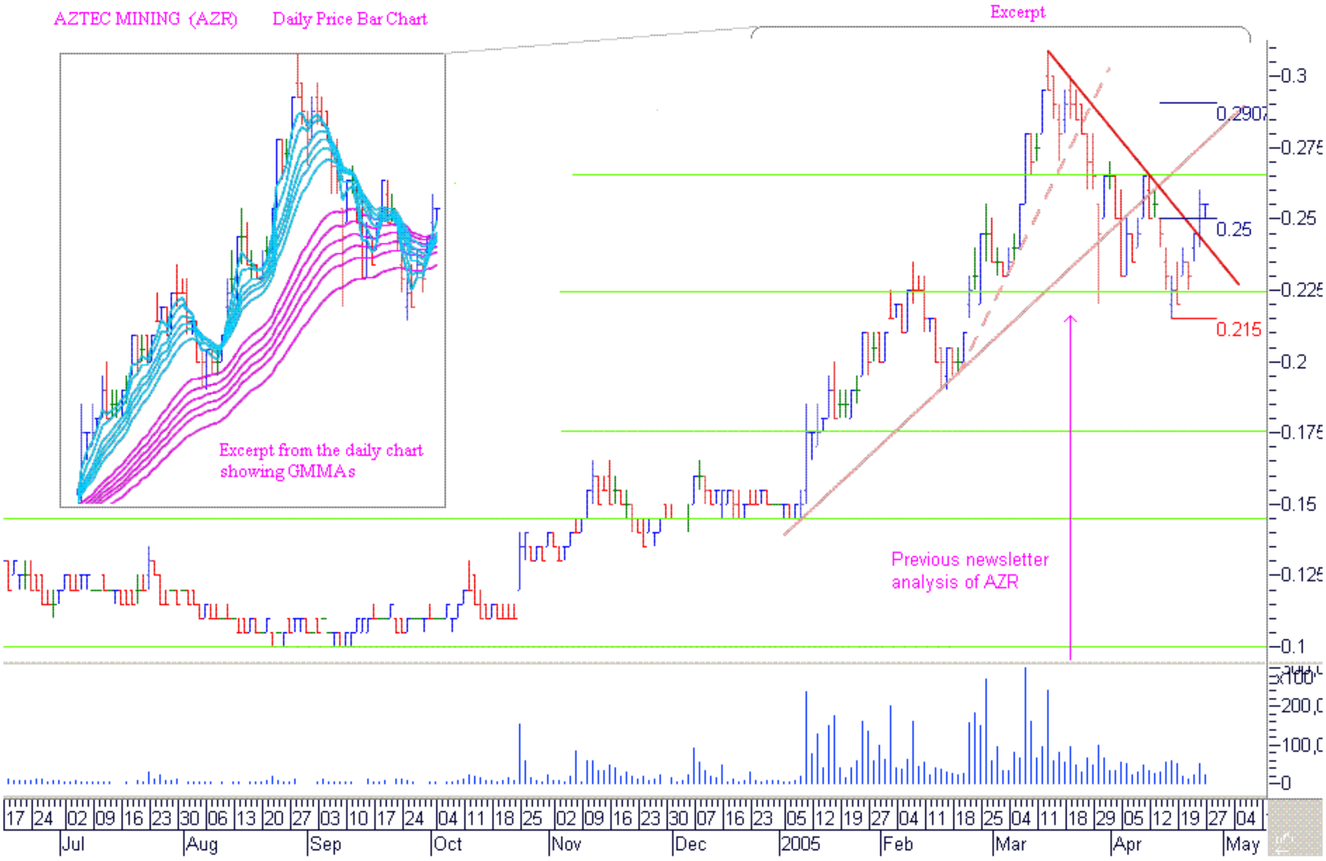
The CBL is a short term resistance or support line calculated, in a falling trend, by counting back two higher highs, and then projecting a horizontal line to the right. A close above this resistance line suggests the intermediate down trend has changed. Closes above or below the line are used to fine tune entry and exit points.

To reduce whipsaws the technique is used when a trend break has been signalled initially by a trendline break or assess the trend change using a Guppy Multiple Moving Average.

AZR was previously covered in these analysis notes on 26th March 2005. We now return to this stock, an example of the impact of recent market weakness on a previously strong uptrend.

To recap, for most of the second half of 2004, AZR traded in a sideways channel between $0.10 and $0.14. In November, a breakout above the $0.14 resistance pushed prices into a higher consolidation, between $0.14 and $0.165. This breakout indicated potential future upside movement, but was still within a long term trading band (see weekly chart) below $0.175. The uptrend commenced in January on a breakout from the consolidation and developed in two stages, of which the second was a steeper, shorter term trend.

In our last analysis the trend remained strong, but we were looking for a trend confirmation signal through a bounce away from the steeper trend line in the next week, which would have signalled a potential new opportunity. This bounce did not develop, and AZR fell through the steeper trend line in late March. In this event, our next point of interest was the shallower, longer term trend line, where an ongoing support would have signalled continuation of the overall shallower uptrend. However, shortly after the break of the steeper trend, AZR also fell through the long term trend line, but did find support at a historical resistance around $0.225. A down-sloping triangle developed above this support, but broke upward in the last two trading days, indicating ongoing sideways movement between the $0.225 support and a $0.265 resistance.



UP CONDITIONS

The failure of the down-sloping triangle to break downward (the highest probability) confirms the sideways movement, and indicates that the recent retreat is ending. This is further signalled by the rise above the CBL breakout line at $0.25, and by the GMMAs as the short term group has not fully fallen through the long term group and both groups are now starting to turn upward.

Hence, ongoing support at $0.225, followed by a breakout above $0.265 will signal likely trend continuation and a potential opportunity. (The rise above the CBL breakout line could be interpreted as a potential opportunity at present, however, in the current unsettled market this would be aggressive, particularly as even if the downtrend does not resume, the sideways movement may turn out to be lengthy.) Trend continuation will be confirmed by a decisive breakout above $0.3, the resistance marking the previous trend high.

DOWN CONDITIONS

In contrast, a fall through the $0.225 support will indicate the end of the sideways movement and continued downtrend development, with possible downside supports at $0.165, and below this, $0.14 and $0.10.

SIMPLY BETTER TRADING
Making and Keeping Profits in Nasty Markets

GET THE BEST OUT OF THE MARKET BY USING EASY TO MANAGE TRADING TECHNIQUES AND BETTER RISK MANAGEMENT TO BEAT A 27% MARKET RETURN!

In the 12 months to the end of February 2005 the market added 27%. This is the type of investment and trading return that should have been achieved in this period, either in your own trading, or by your fund manager. (Even a simple Exchange Traded Fund strategy outperformed the market with access to full dividends from the top 200 companies).

This is the starting point for measuring return, but simply better trading tactics can improve these returns further with better analysis and better application of stop loss and protect profit strategies. This seminar will teach you how the Guppy trading tools and indicators are combined with effective risk management to improve your trading results in the changing market conditions. We use material also used when we teach international professional traders and dealers. You can learn how they use risk management in their trades. It is risk management that underpins continued trading success.

THE TOOLS. Do you really know how to use these most effectively together? The Count Back Line and the Guppy Multiple Moving Average form the core of a propriety trading technique developed by Daryl Guppy and covered in his books. The first session details how these two indicators are used to identify and manage trades. Our focus is on applications in current market conditions. We will apply them to trades nominated by you.

MANAGING RISK. Learn what works and why. Traders need to understand the relative effectiveness of various technical based stop loss techniques and the way these need to be applied appropriately to different types of trades. Few traders take the time to calculate risk reward ratios, yet these form a significant way of selecting trades and identifying the best opportunities. We compare, evaluate and apply several techniques used to set financial stops, protect capital stop loss and a protect profit stop. We show you what works and why.

SEMINAR VENUE DETAILS Includes a light meal

SYDNEY	Tuesday June 14	BRISBANE	Wednesday June 15
MELBOURNE	Wednesday June 22	PERTH	Thursday June 23

DETAILS ON: http://www.guppytraders.com/gup173.htm

NEWSLETTER OUTLOOK – THE BEAR FACTS

By Daryl Guppy

There is essentially no change from last week. The head and shoulders pattern remains the dominant influence on the market. Traders wait for targets to be hot and then prepare for rebound strategies.

The message from the financial press is that falls in the DOW are leading to copy-cat falls in the Australian market. Nothing could be further from the truth. The weakness in the Australian market has been building for weeks. Technical analysis indicators, such as RSI and Advance/Decline analysis have given clear advance signals of market weakness. Now classic chart pattern analysis is confirming this.

It is an irrelevant distraction to keep an eye on US market behaviour when there are so many clear bearish signals in the Australian market. The most significant questions for traders is not IF a trend change is developing, but HOW FAR the emerging downtrend will carry the index before it hits rebound points. Armed with this information traders can make better trading decisions and start counting profits while others who follow the mainstream analysis are still wondering why they lost money.

The market continues to give mixed signals about the nature of the emerging trend conditions, so this week we focus purely on the bearish interpretations. We start with the relative strength indicator.

This is a classic RSI divergence signal and the chart will probably appear in many trading books in years to come. When we use the RSI indicator, the features that count for analysis purposes are found in the Zones of Significance – in this case above the 80 line. What happens between the 20 and 60 trigger lines is essentially meaningless.

The two circled areas show the RSI peaks. When joined with a trend line they show a downtrend. The corresponding peaks on the XJO index chart show a rising trend. This means the two trends are diverging. This divergence signal is an early warning of trend weakness. 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. The inability to provide even a broad time frame for price action is the major disadvantage of RSI analysis. 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.

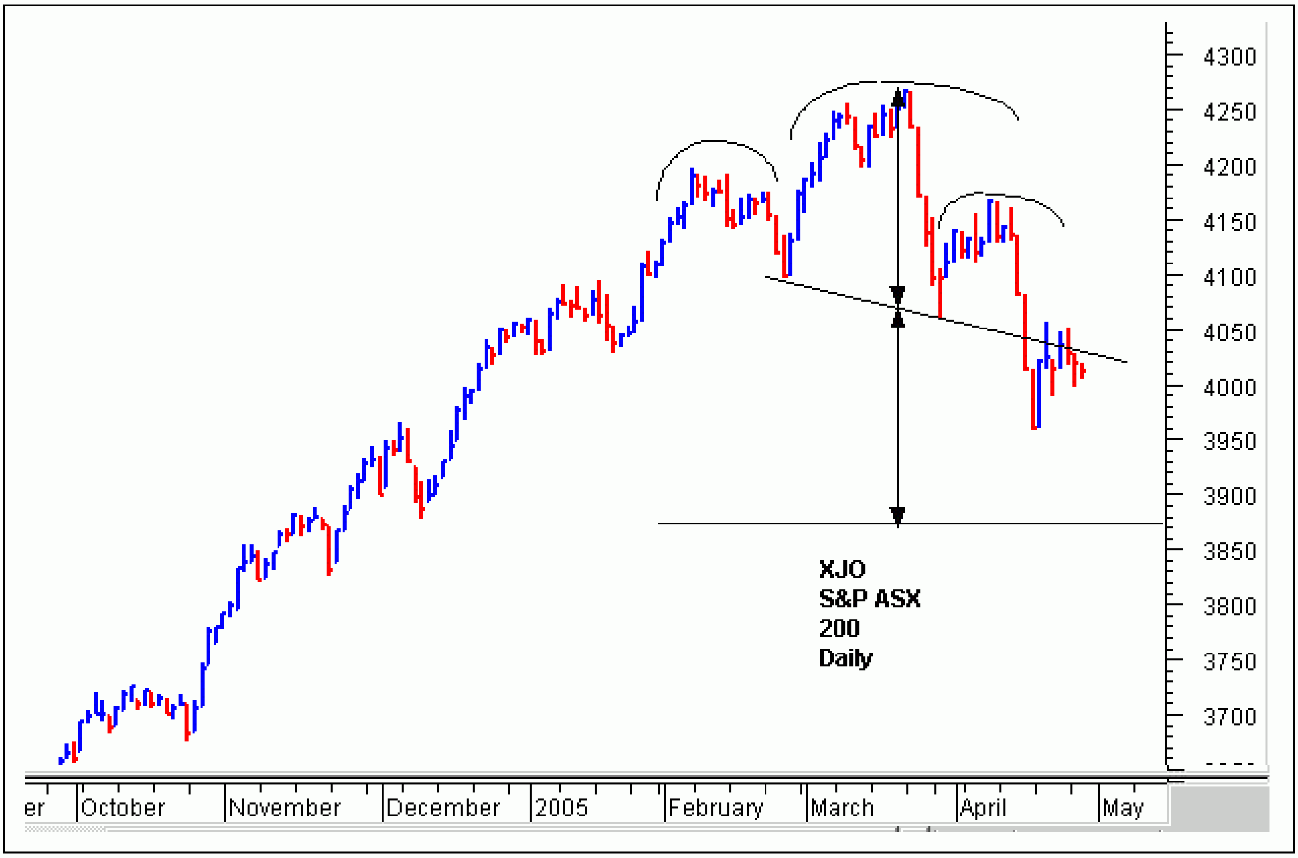
Note that the lower RSI peak below the 80 line is no longer a divergent, or leading signal. It is a confirming signal of trend weakness. It confirms the placement of the RSI trend line.

Need more confirmation? The Advance Decline chart compares the ratio of stocks closing higher to those closing lower for each day. In a bull market, most stocks close higher than the previous day. In a bear market, most stocks close lower. At bull market change points we see a decline in the number of stocks closing higher.

Classic chart analysis remains a simply powerful tool. The events of the past week have confirmed the development of a head and shoulders reversal pattern. Although the preliminary conditions were present for this pattern in recent weeks, it is not until the right hand shoulder is completed that we can plot the pattern with confidence.

The pattern consists of four elements.

- A left shoulder
- A head
- A right shoulder
- A neckline, which in this case slopes downwards.



The pattern is applied by measuring the distance between the head and the neckline, and then projecting this downwards from the neckline. The downside target is approximate, and is best verified against a nearby established support area. Full confirmation of the pattern comes when prices drop below the neckline after forming the right hand shoulder.

The pattern is not used as a timing tool. It does allow the trader to set an estimated potential bottom for the price decline, as shown with the GTE Toolbox display. How the market behaves once this target level is reached is an entirely different question. The power of the pattern lies in its ability to confirm a trend change, and to set potential downside targets. (Readers who wish to explore this pattern in more detail can find a series of excellent articles by Alex Douglas in the July 2003 editions of the newsletter).

The head and shoulder pattern gives a downside target of around 3860. This also matches the support levels we have identified in previous market outlook notes. These targets can be reached quite rapidly, and in so doing inflict significant financial damage on those who fail to heed the early trend weakness signals.

Sounds frighteningly impossible? Readers with access to the Kuala Lumpur Composite Index can see the usefulness of this technique. In our sister publication, the Asia and China newsletter, we noted the head and shoulders pattern in February and set the downside targets at 860. They were hit this week.

This is a bearish analysis. It is not necessarily our view, but it does form a background to understanding market behaviour that signals the need for defensive trading tactics.

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.

NEWSLETTER NOTES

REASONS FOR NOT SUBSCRIBING TO THE NEWSLETTER #8

Brokers are now publishing sell recommendations.

It is true. As the bear market probed for a bottom in 2002, brokers produced an increase in sell recommendations. A whopping 7.3% of brokers' recommendation contained the word sell. This figure also includes those brokers who cannot bring themselves to write 'sell', so they use "underweight" instead. This is used as evidence that the cosy relationship between brokerages, analysts, and companies is now broken and that they are independent of each other.

Sell recommendations have but disappeared as the market has shown some signs of resilience.

Trust underpins the market. Investors must be able to assume that the companies that are listed are honest in their business, that the accounting is honest, that management is honest and that the audit is honest and reliable. Several links in this chain were broken in 2000-2002 and they remain broken, but perhaps forgotten.

The market is more than just listed companies. It includes those who provide analysis of companies and their market activity. The established market analysis industry often has a hand in the wallet of the companies they analyse. The companies have a hand in the wallet of the brokerages who employ the analysts. When someone is holding you by the wallet, it is difficult to be independent. Evidence to the HIH insurance inquiry highlighted the way the company refused to deal with brokerages and analysts who had written nasty things about HIH. These were analysts who suspected the truth about HIH finances.

When investors have to complete an analysis of brokerage analysis to remove the taint of bias, then another important link in the chain of trust is broken.

The new watchwords for trading and investment are to be frugal with your trust and verify everything. Easy to write, but how do you gather the skills necessary to undertake this task? We suggest there are two ways.

- Charting and technical analysis is not just a way of trading the market. It is also a way to understand what is happening. It is a tool that can be used to verify other types of information produced by analysts using different methods. The purpose of this newsletter is to teach readers how to use these tools more effectively. We do this by examining case studies and highlighting approaches that work, and approaches that do not work.
- Establishing the level of analysts' independence. Who pays the analysts' wages? What income stream, current or future, do their employers get from the companies being analysed? Does the employer benefit when readers trade the shares in the companies mentioned? What is the balance of buy and sell recommendations? Do they ever admit a mistake, or do they just quietly forget to ever mention again the stocks that 'bombed'?

There are some very good analysts, and there is some very good research done by those who work for brokerages and other research institutions. These five questions are designed to help you decide if there is a potential conflict of interest and if there is, the extent to which it may 'skew' the analysts report. The answers to these questions have become a mandatory disclosure in the US. Australia has yet to follow suit.

Here is our disclosure statement for these questions

Who pays their wages?

Our wages are paid by subscribers to the newsletter.

What income stream, current or future, do their employers get from the companies being analysed, including advertising?

None. We do not receive advertising from stocks mentioned in the newsletter. We do not get commissions, pick up back door contracts, or get taken out to lunch.

Does the employer benefit when readers trade the shares in the companies mentioned?

No. There is no commission or brokerage stream, no finder fee, no kickbacks or payment that comes from any trading or investment decisions made by our subscribers.

What is the balance of buy and sell recommendations?

We do not give recommendations. We discuss the tools and techniques that allow readers to make better decisions. We do highlight the technical conditions that generate a buy or sell signal, and we always include risk management analysis to set stop loss sell points.

Do they ever admit a mistake, or do they just quietly forget to ever mention again the stocks that 'bombed'?

Yes. We follow-up up on all the case study examples, including those that 'fail' in the sense that they are closed at a loss. Each 6 months we publish full results of ***all*** the case studies.

We are one of the very few independent newsletters dedicated to teaching readers the skills necessary to improve their chances of market survival. We value our independence and we believe that readers value this as well.

GUPPYTRADERS TOOL BOX – RELEASE ON SCHEDULE (ALMOST)

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 by the end of April 2005. (OK, we got a little enthusiastic with progress).

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 and Alfred Frost's, **Elliott Wave Principle** (rrp $49.95). 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 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

I am confident that 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 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
xx	$0.000	-	$ -	$ -	$ -
		Newsletter date	11-Sep	Open Profit	0.00
			dividend Jan 6		464.48
				profit	464.48
				Percentage	#DIV/0!

SUMMARY MONEY MANAGEMENT

Overall profit to date since July 1, 2004 = $59,922 or 59.9% 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.

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