# ADR FOR EQUITIES

By Daryl Guppy

The Average Daily Range (ADR) is an important concept in the application of the ANTS trading approach. It's also relevant to other trading methods because ADR gives us an easy way to identify good trading opportunities. In many markets there is a 85% probability that today's price activity will reach 75% of the value of the 5 day ADR. If the 5 day ADR is 100 then there is a 85% probability today's price move will add 75.

We use this with Index trading, commodities and FX trading. We also use the ADR as a method of locating equity trading opportunities. Once ranked, these trades are executed using a derivative.

We start with the basic Metastock exploration. Coding is shown below. (The coding is not pretty. I am a trader, not a programmer. The objective is to first find the value of the 5 day average range of price. The structure of the ADR is repeated below. We use ANZ as the base example.
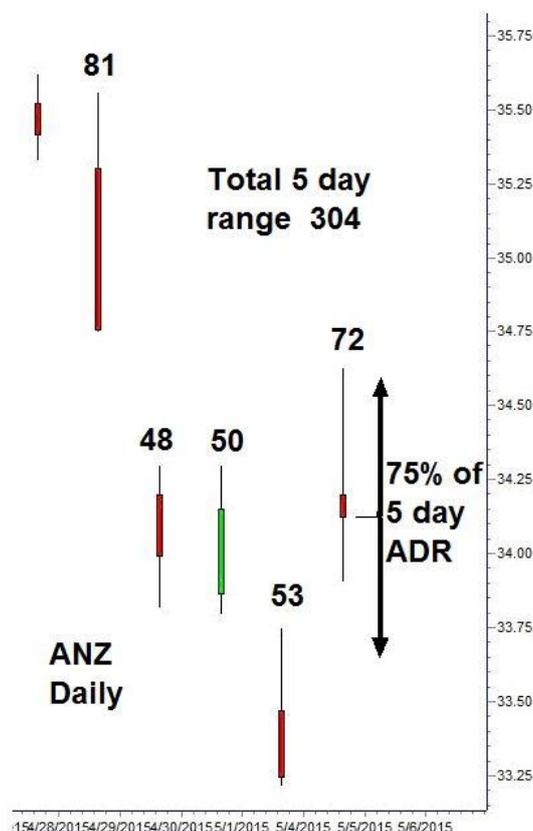
The high low range for 5 days is shown on the chart extract. The total range is 304. The ANTS trading strategy uses 75% of this value as the potential range for today's trading. There is a 85% probability that today's price move will reach 75% of the 5 day average range of price. The 5 days average value of 304 is 60.8. The 75% value of this is 46.

The ANZ chart highlights some issues with the application of 5 day ADR to equity markets. The issue is price gaps. In index and FX markets price gaps are unusual so the 5 day ADR calculation is easier to apply. As ANZ shows, the 5 day ADR calculation does not take into account the price gaps. However, on any given day, there is still a 85% probability that the price move from the open will be 75% of the value of the 5 day ADR.

If the ANZ price gaps down today and opens at $33.50 then the price can move 46 cents above or below the open price. If ANZ opens today and the same level as the close price shown at the chart at $34.12 then the price can move 46 cents above or below the open price.

This is a small move. Based on $34.12 it shows a 1.35% gain. It's not worth trading as a direct equity trade. However, as ANZ has 10% leverage this result is boosted to 13.5%. And this takes us to the next step in using the Metastock exploration.

It's not useful to rank extrapolation results based on the raw 5 day ADR. Whilst a move of $0.46 is not that useful in a $34 stock, it's much more significant in a $10 stock, particularly as stocks trading at this level often have 25% leverage.

The extrapolation is modified to express the gain of 46 cents as a percentage rise based on the current close price. Again, the figures are generally small, but they are boosted by derivative leverage.

We further refine the list by assessing stocks that fall between defied price ranges. The first list shows the results from stocks trading between $5.00 and $15.00 – call them mid cap and they usually have 25% leverage.

"5 day average range %" Explored 6/05/2015

Results | Rejects | Exploration

Security Name	ADR%	cents	close	Ticker
ASTROJAPAN-STAPL	3.8425	0.2025	5.2700	AJA
PXUTRUST PREF	3.4500	0.3105	9.0000	PXUPA
MINERAL RSRCS	3.3991	0.2325	6.8400	MIN
TPG TELECOM-FPO	2.9352	0.2580	8.7900	TPM
SILVER CHEF LMTD	2.8696	0.2640	9.2000	SIV
MONADELPHOUS GRP	2.8354	0.2790	9.8400	MND
NUFARM LIMITED	2.7866	0.2115	7.5900	NUF
SEVEN GRP-FPO	2.6815	0.1995	7.4400	SVW

The second list shows stock trading between $15.00 and $40.00. Call these blue chips and they usually have 10% leverage. You can create a separate reference list for stocks with 25% leverage, and 10% leverage as offered by your CFD provider.

"5 day average range %" Explored 6/05/2015

Results | Rejects | Exploration

Security Name	ADR%	cents	close	Ticker ...
SIRTEX MEDICAL	3.1753	0.6465	20.3600	SRX
ANSELL LIMITED	2.6336	0.6900	26.2000	ANN
MGLLN FN GRP LTD	2.2289	0.4440	19.9200	MFG
LEND LEASE-STAPLED	2.2246	0.3675	16.5200	LLC
JB HI FI LIMITED	2.1050	0.4050	19.2400	JBH
ISHR SPASX HIGH DIV	1.9931	0.3195	16.0300	IHD
ORICA LIMITED	1.8354	0.3735	20.3500	ORI
SONIC HEALTHCARE	1.7976	0.3570	19.8600	SHL

These lists are a starting point for closer chart examination. We look at the top 5 to 10 Average Daily Ranges in average terms. These are the stocks we are interested in trading. We apply the usually technical; analysis to refine the opportunity but we execute the trade using a CFD. These are designed as short term 1 to 3 days trades.

Below are the price moves on the day following this search. 0 means target was not achieved. You can see that the method is not effective with mid-cap stocks. However it has very good results with blue chip stocks. We think this is a function of liquidity and the concentration of trading activity as a result of ETF trading. This sample is typical of the results we have been obtaining in testing.

ADR EQUITY PERFORMANCE TRACKING

Midcap	code	today open	ADR 75%	Target	result
	AJA	5.29	0.2025	5.09	0
	MIN	6.82	0.2325	7.05	0
	TPM	8.59	0.2580	8.85	1
	SIV	9.19	0.2640	9.45	0
	MND	9.83	0.2790	10.11	0
Bluechip	code	today open	ADR 75%	Target	result
	SRX	20.00	0.6465	19.35	1
	ANN	25.92	0.6900	26.61	1
	MFG	19.20	0.4440	18.76	1
	LLC	2.56	0.3675	2.19	0
	JBH	19.10	0.4050	18.70	1

Blue chip reach target range %	90%
Midcap reach target range %	10%

ADR

Here is a reprint of the ADR calculation method from last week newsletter. It is used to estimate the potential price range for today's price activity. This creates a statistical relationship where there is a 85% probability of achieving 75%

of the value of the 5 day ADR. The higher the value, the greater the potential for price to move today. The ADR calculation's are used to identify and rank potential trading candidates. It becomes a search tool. ATR is a trade management tool. This is how ADR is calculated.

Find the 5 DAY AVERAGE DAILY RANGE of price low to high
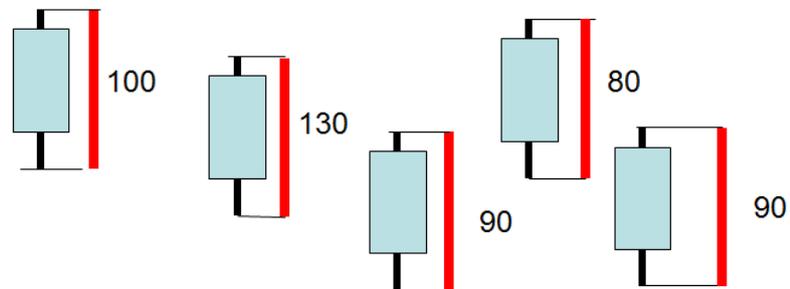
Day 1 calculation 100
Day 2 calculation 130
Day 3 calculation 90
Day 4 calculation 80
Day 5 calculation 90 TOTAL 5 DAY CALCULATION = 490/ 5 days

5 DAY AVERAGE DAILY PRICE RANGE = 98

Typically the ADR values for equities are also a small range. The trading pool is executed using a CFD so the small price move is translated into a larger return due to CFD leverage.

The ADR is the starting point for trade identification with equities. Once entered, the trade may be managed with Traders ATR.

METASTOCK CODING

It's not pretty, but it works.
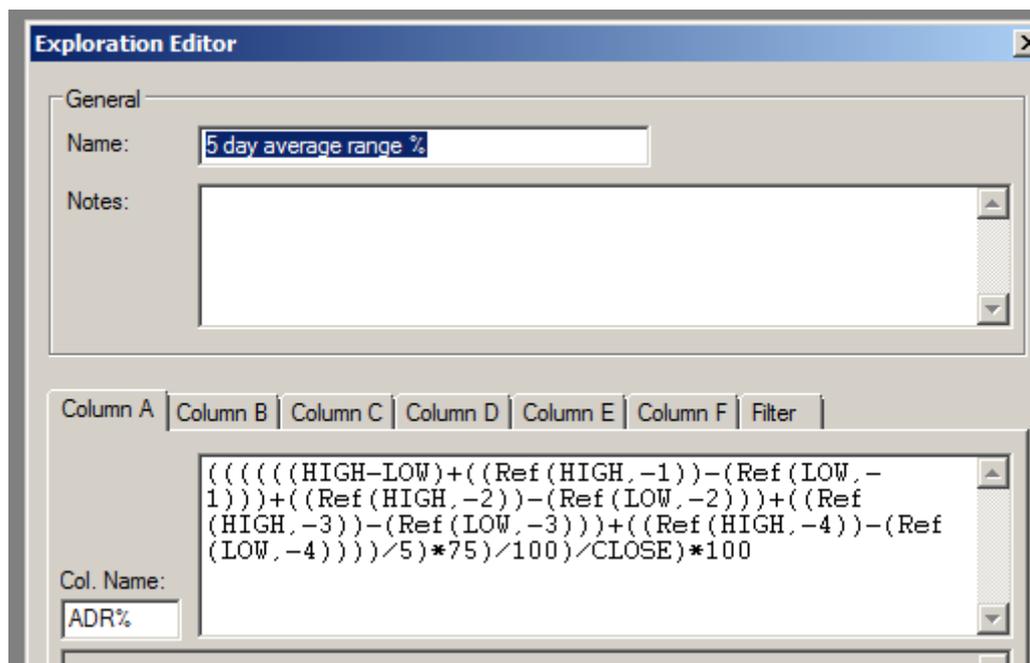
Exploration code

Col A: ADR%
((((((HIGH-LOW)+((Ref(HIGH,-1))-(Ref(LOW,-1)))+((Ref(H
IGH,-2))-(Ref(LOW,-2)))+((Ref(HIGH,-3))-(Ref(LOW,-3)))+
((Ref(HIGH,-4))-(Ref(LOW,-4))))/5)*75)/100)/CLOSE)*10
0
Col B: cents
((((HIGH-LOW)+((Ref(HIGH,-1))-(Ref(LOW,-1)))+((Ref(HI
GH,-2))-(Ref(LOW,-2)))+((Ref(HIGH,-3))-(Ref(LOW,-3)))+(
(Ref(HIGH,-4))-(Ref(LOW,-4))))/5)*75)/100
Col C: close
CLOSE
Filter
(colA/CLOSE)*100