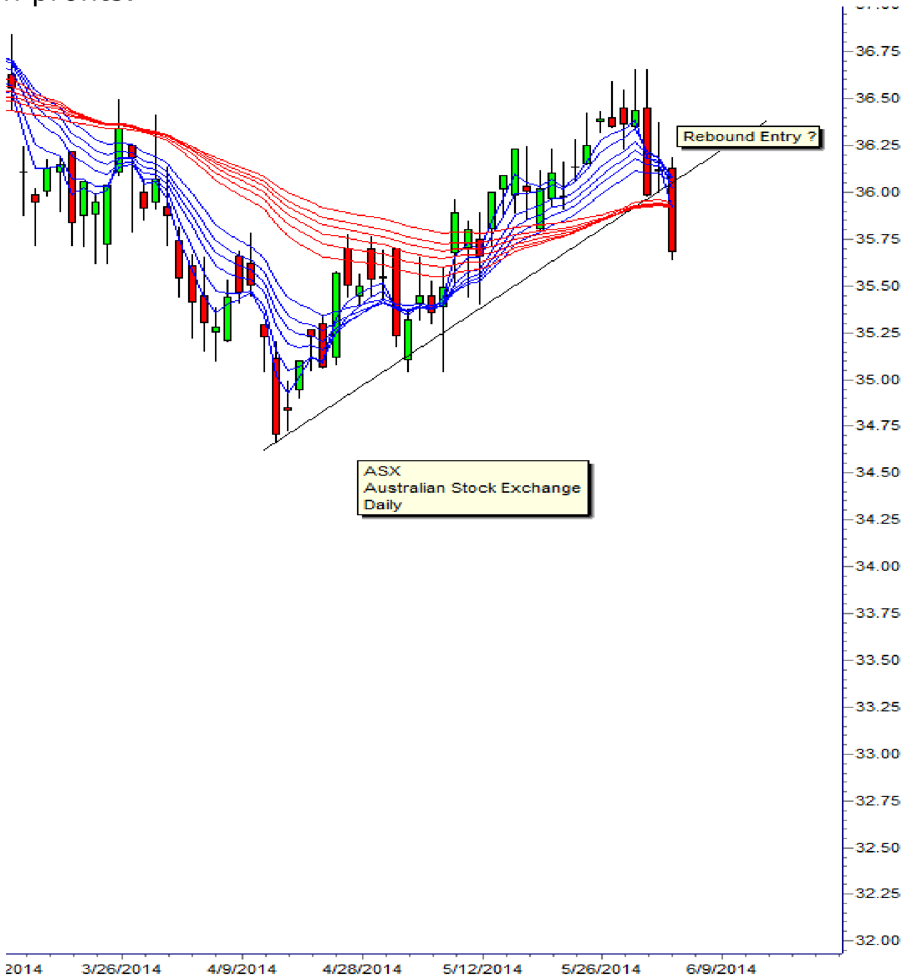
AGGRESSIVE ANTICIPATION LOSERS

By Daryl Guppy

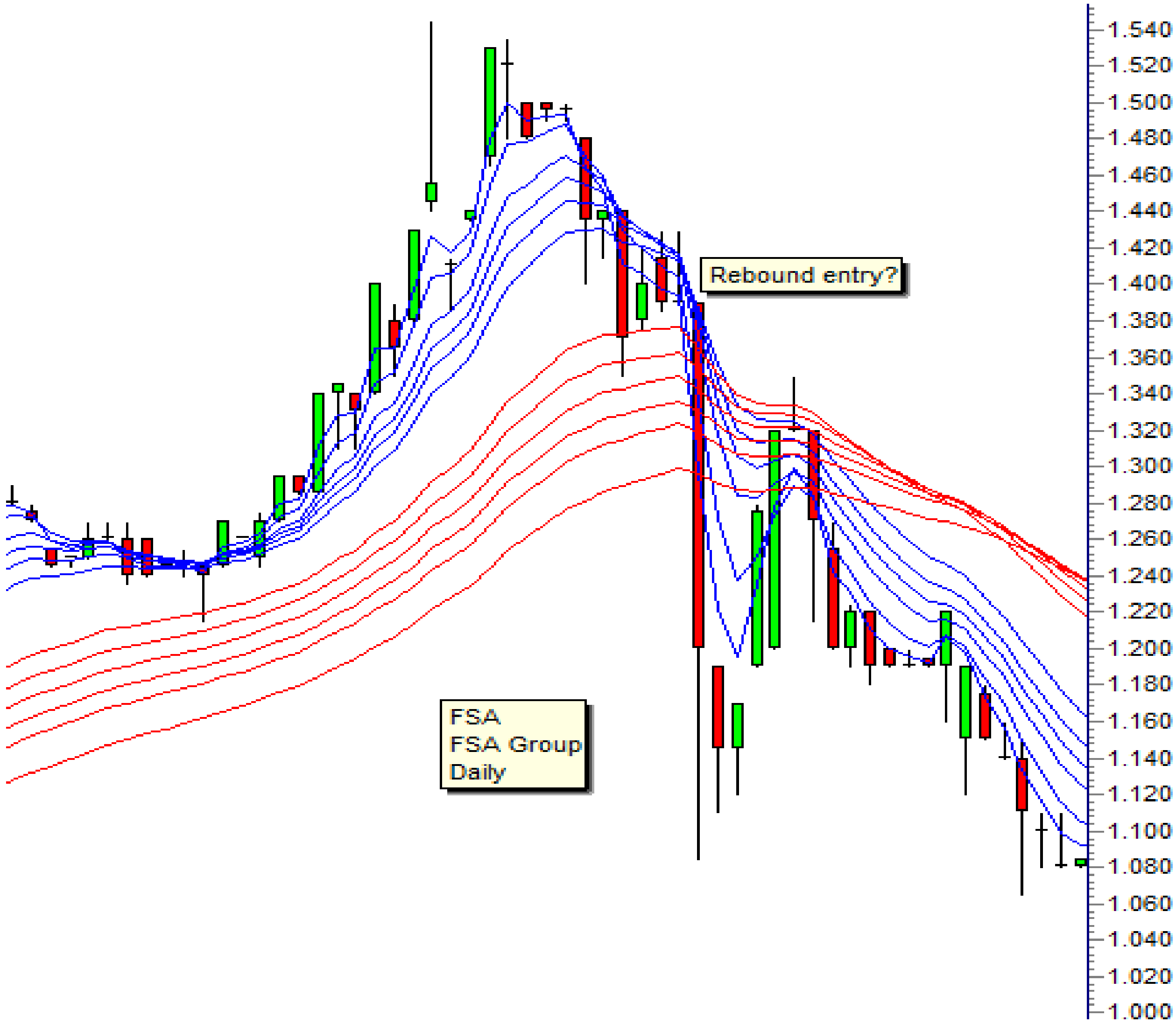
Aggressive traders buy in anticipation of events happening. They go for a large profit and with it and increased risk if the trend does not develop as expected. Cautious or conservative traders wait for events to develop and then buy. They surrender some potential profit or return for greater certainty that the new trend is developing. Previously both of these approaches were valid. Recent volatility in the market shows that the cautious approach is more desirable. The propensity for sudden collapses of trend increases the risks associated with aggressive trading.

This means traders must change their strategies. The result is later entries and exits taken at defined return targets. It's more dangerous to let the trend run. Yes, you do miss some extended trends, but you also avoid nasty shocks that destroy open profits.



Here's some examples of the problem. We cannot always offer good trading solutions but by identifying the problem we can avoid being caught in similar situations.

This is a classic GMMA rebound trade. The price has pulled back to the trend line so traders plan to enter in anticipation of a rebound. Instead prices fall dramatically below the tend line triggering stops.



The FSA chart shows a strong long term GMMA separation. It’s a classic GMMA rebound entry opportunity. However the break below the long term GMMA was rapid and accelerated on low volume.

TAP has a similar structure to FSA with the loing term GMMA aqell sperated. In the previous reterat the rebound was rapid and sustained. There is no indication with the most recent retreat that the market condition was different.

The conclusions in this modern market are clear.

- Enter a trend rebound trade AFTER the rebound has developed
- Use tight intraday stops on the entry rather than end of day stops
- Use tighter trailing stops to protect profits
- Maximise returns by using a derivative such as a CFD or warrant.

A casual glance at the order lines will show many instances of 1 share on offer or wanted to buy. This is evidence of High Frequency Trading. The HFT trade activity has increased the volatility in the market by removing the liquidity in even previously well behaved mid-cap stocks like ASX.

This is the drought and flooding rain effect. Stocks with low or erratic trading volumes are subject to the drought and flooding rain effect. Because trading is low, or non-existent, the only way a new buyer can get stock is to bid higher. Low prices and no volume can indicate disinterest in the stock. It can also show that the existing shareholders are happy with the stock so they are not prepared to sell at the current bid. They can be enticed only by higher bids.

This unwillingness to sell creates a drought situation. On the chart, prices move sideways for an extended period with no volume. It looks like a sleepy stock.

The stock can fire up into action on very low volume. Just as in the desert, a little rain rapidly creates a flood situation. Because of the reluctance of sellers, it means buyers must bid very much higher to get stock. This creates rapid price movements. These floods can provide very good returns on quite low trading volume.

The reverse also applies, and low volume stocks can drop quickly on very low volume when a single seller decides to get out.

We cannot change the market behaviour, so traders must change their trading methods.