FINDING OPPORTUNITY

By Daryl Guppy

Our objective is to identify sustainable trading opportunities. We use two methods that can be applied in any market. The second method was mentioned in the Singapore Master Class.

1) Eyeball search. Every time a stock is mentioned in the media we look at the chart. We also regularly look at a collection of charts. Many of these appear in the MARKET CONDITIONS section of the newsletter.
2) We run an exploration scan using Metastock. In the past we did this frequently. Now we run this every two or there weeks, or when market conditions change substantially.

These notes cover the way we use the search results. First we update the indicator called DEAD DAYS. This is designed to remove stocks that have stopped trading. The code is at the end of the newsletter. The values in yellow are adjusted for each scan. Then we run SEARCH 1 to find all actively trading stocks that are trading above $1.00 and have volume of more than 150,000. These results are then scanned with the ATR CROSS search which finds stocks that have broken above the ATR value in the past 5 days.

Once the final list is complied we run a visual scan, selecting those stocks that look most interesting. 9 stocks pass the test. Some like IPP are too far advanced. They go on a watch list waiting for a price pullback. Others offer better trading opportunities.

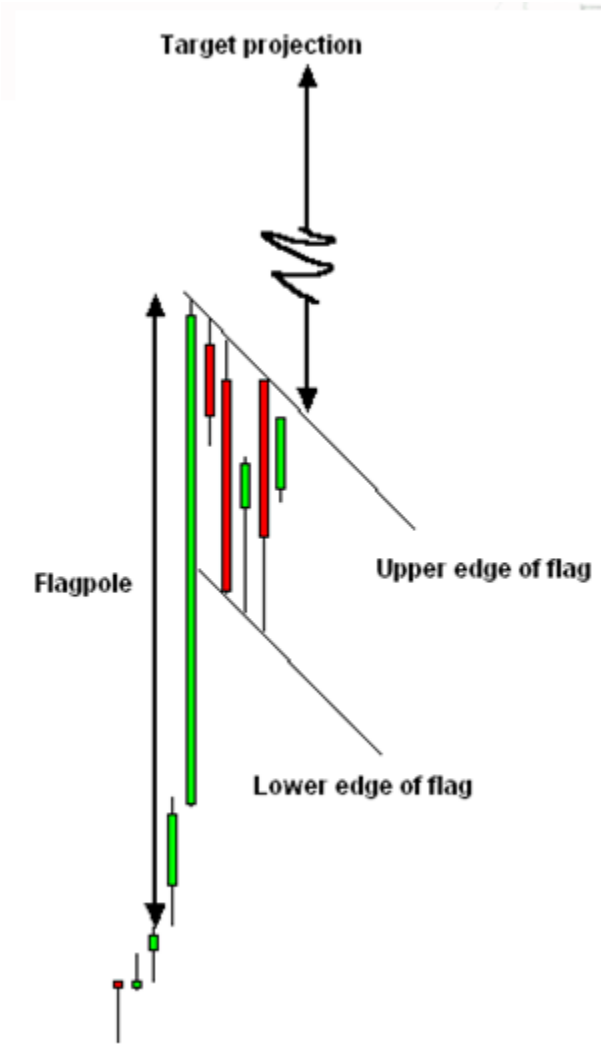
The first chart that attracted our attention in the eyeball scan was SAI*. This is a breakout from a flag pattern. As we noted in the Singapore Master Class workshop last week, Chart patterns have three purposes

1. Capture market behaviour
2. Used to calculate price targets – measured moves
3. Calculate exact risk/reward ratios

The bullish flag pattern has three parts.

1. This pattern consists of a flagpole created by large price range days
2. A price retreat over 4 to 10 days. This is the flag. It is defined by downward sloping parallel sides.

3. Breakout target is calculated by measuring the height of the flagpole and projecting this above the upper edge of the flag.



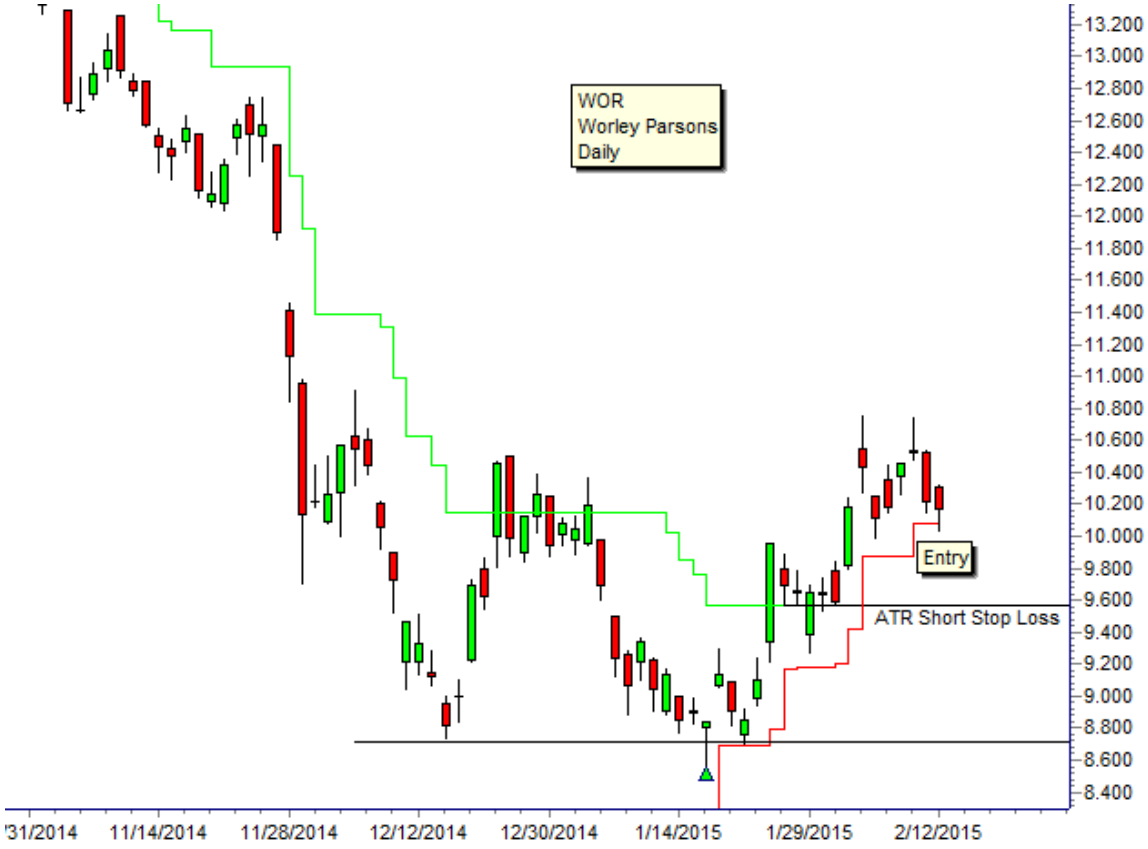
The SAI chart has a stop loss on the upper edge of the flag near $4.20. The upside target is near $4.68. It's a strong chart pattern, but a disappointing 11% return. It's an easy decision to trade this via a CFD with 20% leverage.

CFD leverage %	0.20	Portfolio	$ 100,000.00	2% risk	$ 2,000.00

LONG		MOTHER		CFD	
Name	Buy price	qty	Face value	CFD cash cost	Cash Risk
SIA	$ 4.26	11,700	$ 49,842.00	$ 9,968.40	702
Stop loss	$ 4.20		$ 49,140.00		
Close/Target	$ 4.68		$ 54,756.00	Balance	$ 4,914.00
Interest cost	$ -			Buy comission	$ -
day 2	$ -			Sell commission	$ -
day 3				Carry cost interest	$ -
day 4				GSL cost	$ -
day 5				CFD PROFIT	$ 4,914.00
				CFD%	49.30

The trade was entered near $ 4.26. With a $4.68 target the base return is reduced to 9.8%. The CFD trade return is 49%. For case study purposes we spend $9968.40 to add 11,700 shares. Face value is $48,842.00. An exit on the stop loss with put at risk $702 or less than 1% of total trading capital. If the pattern fails to reach its targets then we still have a good profit.

We also have a personal preference for breakout trading so WOR* fits into this category. This is an ATR trade developing from a double bottom pattern. The short ATR was broken on Jan 23. The long side ATR moved above the short ATR on February 4. The current pullback in WOR brings to near to the value of the ATR stop loss so this is a safer low risk entry. We use ambush orders to make an entry at $10.10. The target is $12.10 based on the previous resistance level. There is no close below the ATR line so the trade remains open.



For case study purposes we add 1,980 shares for a cost of $20,000. The entry is near to the stop so the risk is just $79.21 or 0.07% of total trading capital. The target of $12.10 gives a 19.8% return with the prospect of a dividend if held until the end of March.

Stock code	**WOR***
Total investment pool money in account	100,000
Your investment risk for this trade	2,000
Average entry price	**10.10**
Stop loss	**10.060**
Cost of trade	**20,000.00**
Number of shares buy	**1,980**
Loss if sell at stop loss	79.21

Risk % of total investment pool money	0.08%
Planned Profit exit price	**12.100**
Profit	**3,960.40**
Trade profit %	19.80%

These are the method we use for trade identification and selection. Over the next few weeks we will track how these case study trades develop.

DEAD DAYS INDICATOR
DayOfMonth()=10 AND Month()=2 AND Year()=2015

SEARCH 1
ColA = volume
ColB = price
Filter
Fml("deaddays") AND colA >=150000 AND colB >=1.00

ATR CROSS (in FILTER)
Daze:=7;
Multiplier:= 2;
Displacement:=LLV(HIGH + Multiplier*ATR(Daze),5);
ReferenceLine:=If(Ref(C,-5)<PREV AND Displacement >PREV, PREV, Displacement);
(C>ReferenceLine AND Ref(C,-1)<Ref(Referenceline,-1)) OR
(C>ReferenceLine AND Ref(C,-1)>Ref(Referenceline,-1) AND Ref(C,-2)<Ref(Referenceline,-2)) OR
(C>ReferenceLine AND Ref(C,-1)>Ref(Referenceline,-1) AND Ref(C,-2)>Ref(Referenceline,-2) AND Ref(C,-3)<Ref(Referenceline,-3)) OR
(C>ReferenceLine AND Ref(C,-1)>Ref(Referenceline,-1) AND Ref(C,-2)>Ref(Referenceline,-2) AND Ref(C,-3)>Ref(Referenceline,-3) AND Ref(C,-4)<Ref(Referenceline,-4)) OR
(C>ReferenceLine AND Ref(C,-1)>Ref(Referenceline,-1) AND Ref(C,-2)>Ref(Referenceline,-2) AND Ref(C,-3)>Ref(Referenceline,-3) AND Ref(C,-4)>Ref(Referenceline,-4) AND Ref(C,-5)<Ref(Referenceline,-5));