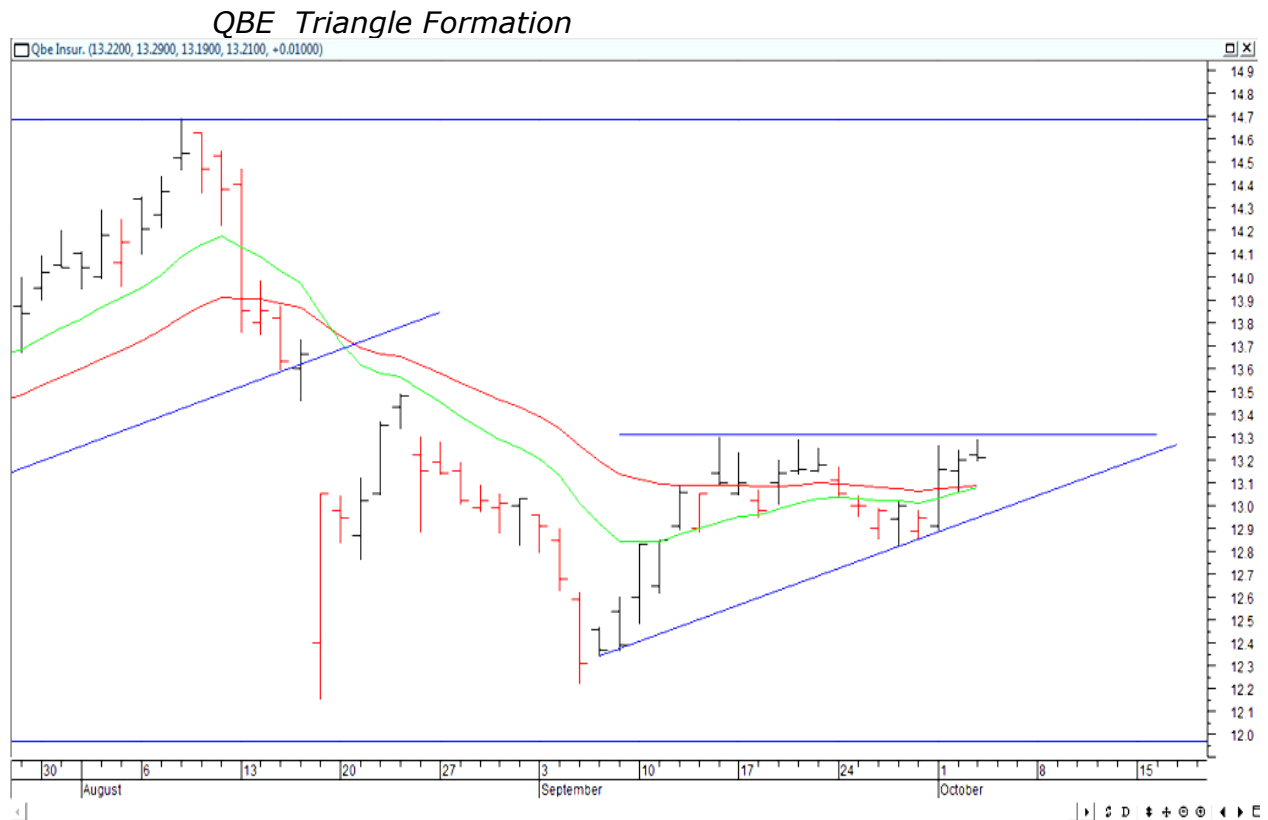


MY TRADING - PART 2

By Simon Mawby

I am a very visual based trader and so also favour chart pattern trading. The most reliable of all the patterns I trade are triangle set ups. If the triangle set up corresponds with a support/resistance line then this adds to the validity of the trade. The psychology behind the formation of triangles is very closely linked to the formation of lines of support/resistance with the main difference being triangles can form at any time and not necessarily at historically significant price levels.

The formation of a triangle creates a temporary level of price agreement (support for down sloping, and resistance for up sloping) which when broken has a high probability outcome. My personal preference is to trade these triangles when they are confirmed by other chart based set ups or important price points. Even if the projected price target is not fully achieved, it is rare to be stopped out at a loss. The two charts below show a personal trade taken in QBE where an up sloping triangle formed after price had rejected the line of support at around \$12 on two occasions before rising and forming the triangle. The fact that price had rejected this historic level twice was a precursor to an expected reversal from the short term down trend.



The QBE pattern had set up perfectly and with it now entering the final third of its development a move above the horizontal line at \$13.30 should follow. The following chart shows exactly how the trade played out along with all the relevant entry details and calculations. Price broke through the upper barrier very strongly

which presents two possible trade choices. Enter the next day or wait for a potential retest and rebound confirmation of the pattern.

QBE can be a very fast moving share and so I decided to enter at the open the next day. As shown, QBE did pullback to test the \$13.30 level before rebounding strongly and reaching its target in just 7 days. The triangle had a height of 96 cents, a top of \$13.30 which then gives a projected target of \$14.26. My stop was a close below the triangle top at \$13.30. The trade details are shown below. The profit figure is around \$3800 for 11 trading days and the trade was completed using CFD's.

QBE Triangle Completed Trade



QBE			Position Size		CFD 10% Margin
			\$20,000	\$ at Risk	
Entry	\$13.50				5000 \$6,750 \$1,000
Stop	\$13.30	Number of shares	1,481	5000	
Risk (R)	\$0.20	Total Cost	\$20,000	\$67,500	
Target	\$14.26	Risk Amount	\$296.30	\$1,000	
R Multiple	3.80				

QBE required a 10% margin, so the actual capital used was \$6,750. The profit figure therefore equates to over a 56% return on capital. You must be extremely vigilant with your stops when trading CFD's as leverage goes both ways and heavy losses can mount quickly.

My other favoured pattern trades are head & shoulders, rounding tops & bottoms, flags and congestion breakouts. I must agree completely with Daryl's recent comments concerning the ongoing changes and difficulties with trading in the Australian equity market. Patterns and setups that were very reliable only a few years ago now seem to fail with great regularity and a greater percentage of profitable pattern trades fail to meet their target. The small end of the market is almost totally devoid of capital thus increasing the risk profile of this once highly liquid area. A look at the Small Companies ETF (SSO) actually shows it has been in a downtrend since March. The post GFC environment is a vastly different market which forces traders towards the larger cap more liquid shares or to look for new trading areas.

Searching

The majority of my share trades are found by eyeball scanning a group of approximately 200 shares located in my favourites folder, which over many years have offered reliable chart based set ups. The list was once predominantly mid to low tier shares as they offered the best price leverage, however in recent years due to the lack of capital now spent in this area the list now contains mostly mid to large cap shares. The post GFC market is a vastly different beast and must be traded as such.

I undertake a complete eyeball scan of this list only once a week or even once a fortnight depending on how active the market is. Once you have a list of favourites formed you become very familiar with each shares support and resistance levels. As they approach one of these levels I then monitor them daily for potential trade developments.

Most pattern trades develop slowly so these are generally picked up in the weekly eyeball scan. Any shares of interest are noted in my trading diary and then I monitor them daily.

One of my favourite set ups I like to trade is a breakout from a brief period of congestion. This can be traded from both the long and short side. Below is a Metastock Exploration I have written to find suitable candidates for trading from the long side. It is based on shares having a period of consolidation of at least 4 days followed by a breakout. The *rate of change* of the high must lie between +7 and -7 percent. This figure is based on many years of trial and error and captures shares which have paused mid trend or at levels of resistance and have just broken free signally a potential breakout trade. When the market is running hot, this is a great search tool and will find many excellent trades.

5 Day Consolidation Breakout - Long

Finds stocks where the high is the highest for the preceding 4 days, and the close is equal to or higher than the 4 day highest close.

The rate of change of the 4 day high has not varied by more than 7%.

Volume is greater than 50,000 and the 10 day Exp moving average is above the 30 day Exp moving average (i.e. the trend is up)

The low of the breakout day is higher than the lowest low of the previous 4 days

Column A : Close

Column B : High

Column C : Ref(HHV(H,4),-1) {preceding 4 day high}

Column D : Ref(LLV(L,4),-1) {preceding 4 day low}

Column E : VOLUME

Column F : Ref(ROC(H,4,percent),-1) {rate of change of preceding 4 day
highs}

Filter : colA>=colC AND colB>colC AND L>colD AND V>500 AND
Mov(C,10,E)>Mov(C,30,E) AND colF>-7 AND colF<7