

# PLAYING IT SAFE

*By Alexander O'Malley*

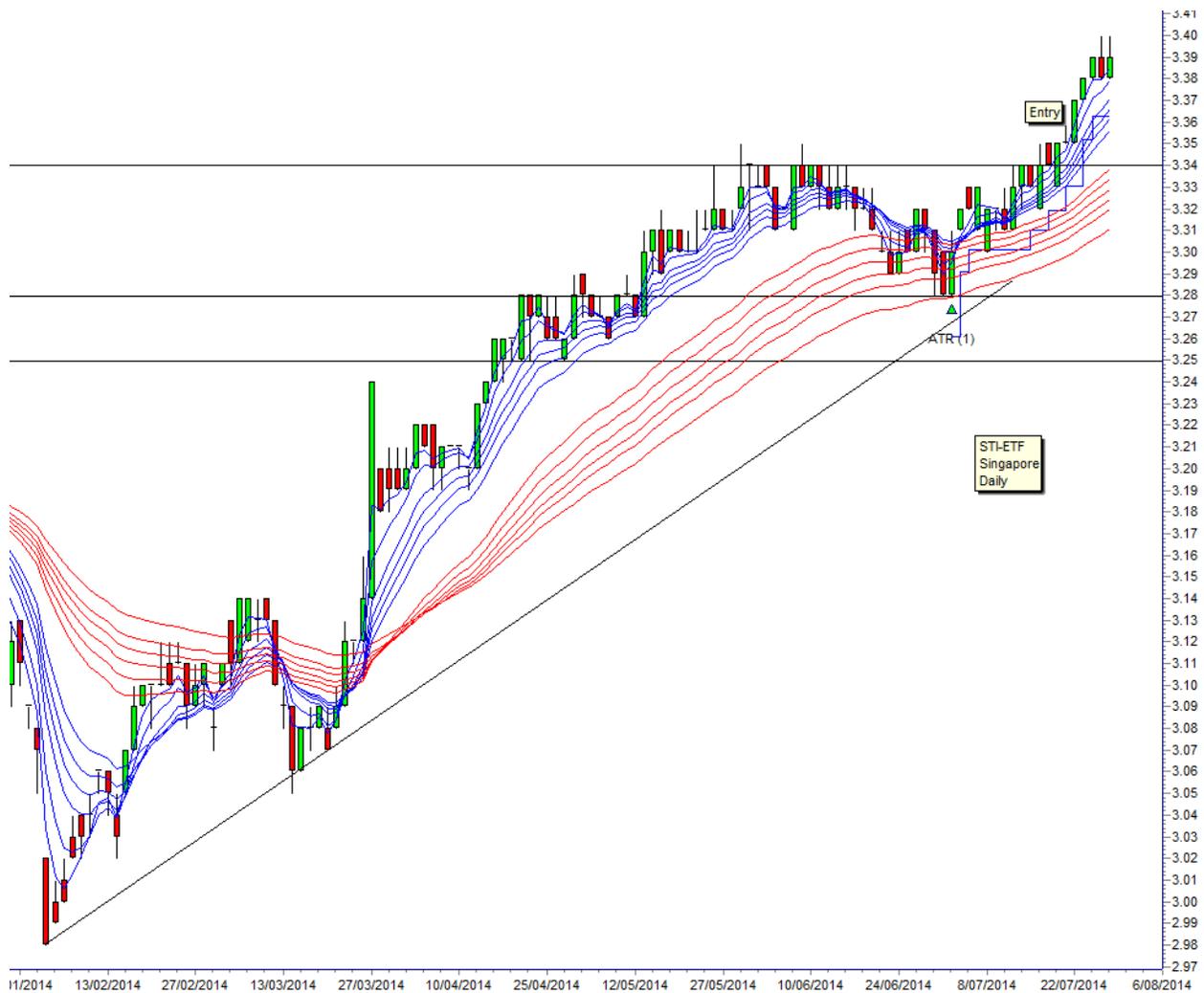
With the market how it has been over the last few months making aggressive entries into the market can cause more harm than good to our trading capital. Traders need to be cautious. This is about survival. The longer we are able to trade in the market the higher probability that we will be able to continue to make a profit from the market. This does not mean staying in each trade longer, what this means is putting the balance of probability on our side when we do enter the market. We want to find trades that are going to make us a safe profit. This means that we sacrifice some trend movement to be sure that we are making the correct decisions. We do this by confirming trend direction in breakouts and chart patterns before entering.

## **Conservative ETFs**

The STI has rallied strongly and allowed traders to take advantage of some robust breakout opportunities over the last week. If we look at the STI-ETF chart we can see the initial breakout occur two weeks ago when price rebound off the \$3.28 support level and pulling back from the \$3.34 resistance level. This rebound was not taken as at that stage we were looking at a possible sideways trading band situation. To enter this trade we look for confirmation of trend continuation.

We get this when price breaks above the \$3.34 resistance level. Until we get this confirmation of a breakout any entry into this position needs to be aware that there was no certainty that price would be able to break above that level. Traders entering into this trade before the breakout was confirmed were making an aggressive entry and needed to have a tight stop loss in place to reduce any losses that a failure to break above the \$3.34 resistance level would have given. We chose a conservative entry after the breakout above the resistance level was confirmed.

Additionally we look at the GMMA relationships for continued trend strength. We can see at the point of breakout that both the long term and short term groups are separating. The long term group compressed but did not turn over during the pullback towards the \$3.25 support level. This tells us that investors are still bullish on this chart, and that the pullback had a low probability of initiating a trend change. The separation in the short term GMMA group tells us that traders are excited about this breakout and are looking to push prices higher. This coupled with the breakout confirmation gives an entry into this chart a higher probability of success.



This trade was found using an eye-ball search, of a short list of stocks that we keep careful eye on. Every trader scans the entire market looking for trading opportunities, but they should also have a dedicated list of stocks that they check every day for any possible trading opportunities. This list can be 10 stocks, 20 stocks or 50 stocks. Whatever the number they are a group of stocks that you feel you have a solid understanding of how they move and they have proven themselves to be compatible with your trading strategies in the past. This helps to increase the probability of success of your trades and gives you a foundation on which to build trading capital.

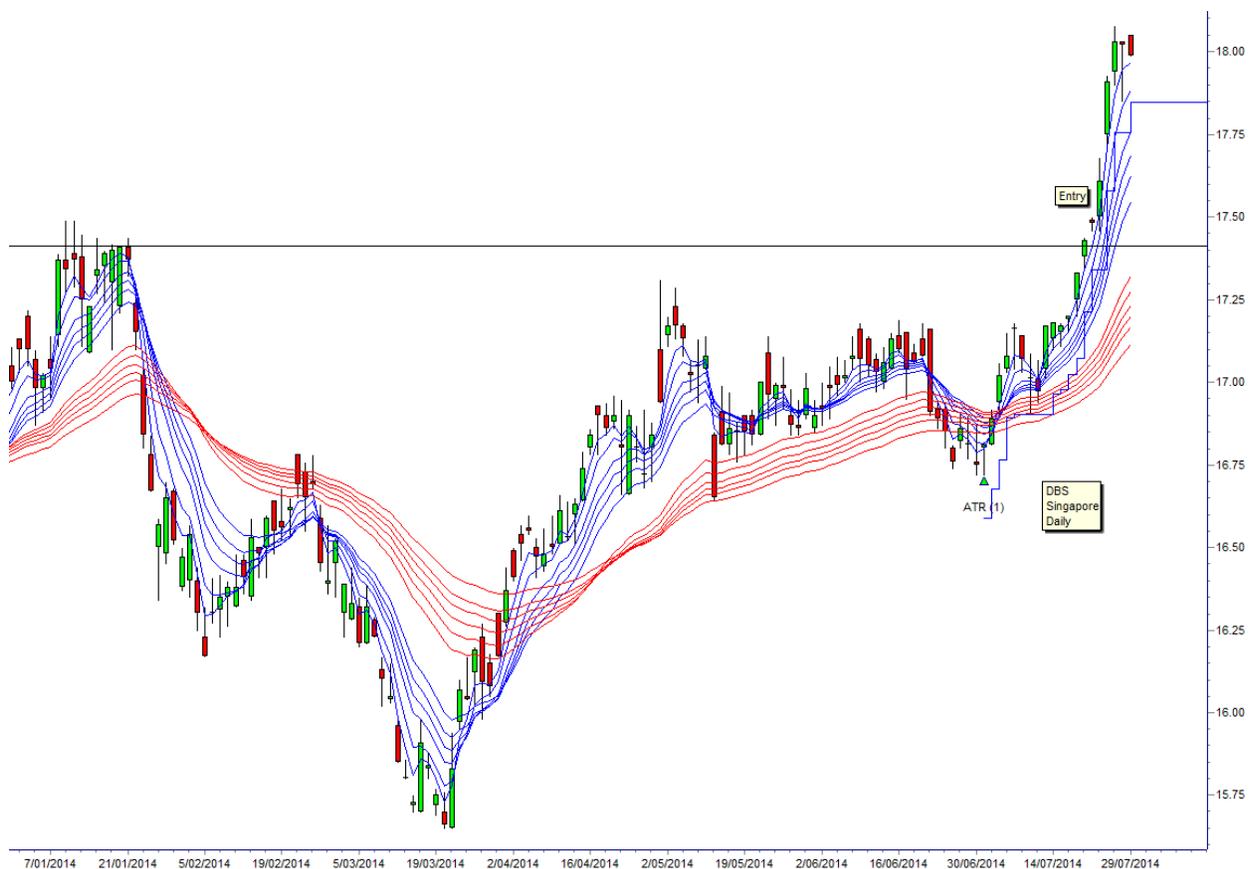
STI-ETF was entered at \$3.35, spending \$19,933 to acquire 5,950 shares. Our stop loss is set at the value of the 1xATR currently at \$3.365, putting no trading capital at risk. STI-ETF is currently trading at \$3.39, putting this trade in a profit of \$238.00 or 1.19%.

### **Conservative Warrants**

Much like the STI-ETF trade we are looking at conservative entries using leveraged instrument like a warrant. A warrant is a force multiplier in the market. This means that we still trade an individual stock as though we were buying an

equity position, but we fill the order using a warrant to leverage the returns our analysis has already given us. We do not change the way we trade but simply change the way we execute and the DBS trade is a good example of this.

When making a conservative entry we waited until we saw the breakout on the STI before looking to make an entry into an individual stock. The reason for this is we wanted to capture a good solid breakout at the lowest possible risk. If we had entered an individual stock before the breakout on the STI then we would run the risk of any breakout failing our individual stock falling dramatically. As we were looking to leverage our returns by using a warrant, this would have also leveraged our losses. However once the breakout was confirmed we could enter into an individual stock with a higher degree of certainty that any breakout pattern we traded had an even higher probability of success because it was following the pattern of the over all market.



The DBS trade was found using the same method we found the STI-ETF trade. DBS is part of our small basket of stocks that we check every day for trading opportunities, because we know the trading methods and techniques we use are compatible with how the stock performs. We can see that the breakout on the STI matches the breakout in DBS, moving above the \$17.41 resistance level. By having a breakout above the resistance level on the STI as well as a breakout above a resistance level on the equity stock we increase our probability of success of this breakout pattern even though it has already started to move. We make our entry on the next day once the breakout on both are confirmed and use a trailing 1xATR stop loss.

DBS was entered using the Macquarie Bank warrant U3XW, spending \$9,984 to acquire 48,700 warrants at warrant quoted price \$0.205. Our stop loss is set at the value of the 1xATR trailing stop loss, currently at warrant quoted price \$0.21 putting no trading capital at risk. U3XW is currently trading at \$0.225, putting this trade in a profit of \$974.00 or 9.76%.