

## **STI HEAD AND SHOULDER PATTERN CONTINUES**

*By Daryl Guppy*

The Straits Times Index has confirmed a head and shoulder reversal pattern. It fell to 3149 before a rebound developed. The rebound is in the context of a strong downtrend so there is still the potential to reach the head and shoulder projected target near 3110. The STI continues to fall.

October often sees a sharp dip followed by a rapid rebound rally. However the STI has an end of trend pattern and this is more powerful. Traders look for a sustained move above 3220 as proof that the rebound rally has developed. This looks to be a low probability.

October is a month for the brave. Markets typically retreat in late September or early October. Each time the reason is different. This year it's ISIS, Ebola and the fear the market has moved up too far. Whatever the reason, the behaviour in October is often repeated. We remember the falls. We are not so good at remembering the snap back rebounds that follow the falls. October unusually ends higher for the month than it opened.

There are two trading strategies. The first is to use derivatives to trade short as the market falls. The second is to use derivatives to trade the rebound. The strategy can be implemented using an Index trade, or with heavyweight stocks that closely mimic the behaviour of the index.

These sharp volatility turns and dramatic trend reversals mean that time in the market has become a major risk factor. It one of the reasons we have turned to trading alternative markets which are not as susceptible to the activity of HFT and ETF trading. We apply the ANTSSYS approach and this has attracted a lot of national and international interest.

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