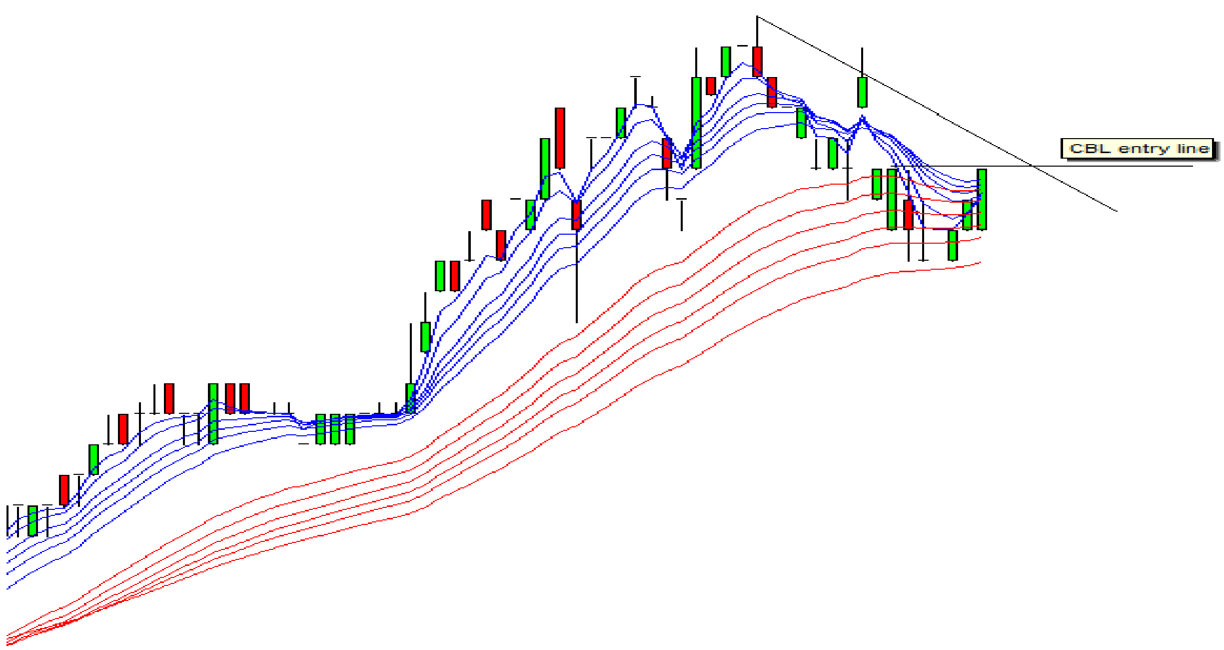
THE EYES HAVE IT

By Daryl Guppy

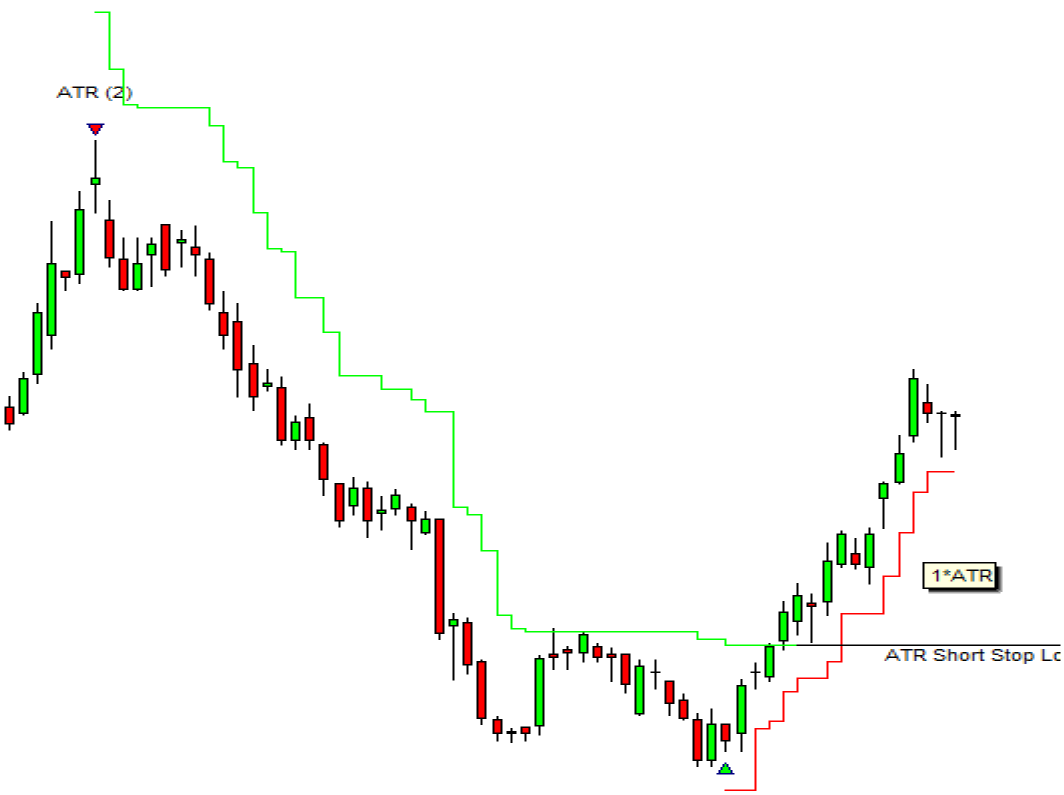
Our preferred method of finding opportunities in the market remains the eyeball approach. We start with a list of stocks culled from a variety of sources. It may be a mention in the Financial Review, a collection suggested in Smart Investor, or stocks covered in newspapers. Let's say it's BHP. We look at BHP, and then we scroll through the entire B data folder. If it's Woodside, then we scroll, through the entire W data folder. It doesn't take long, but over a week or so we end up looking at virtually every stock in the market.

Sometimes we find opportunities that are ready to develop. The chart below shows a strong GMMA trend with a rebound development. A close above the CBL line and a move above the downtrend line is an entry signal. This trade will use a CBL or 1*ATR stop loss.

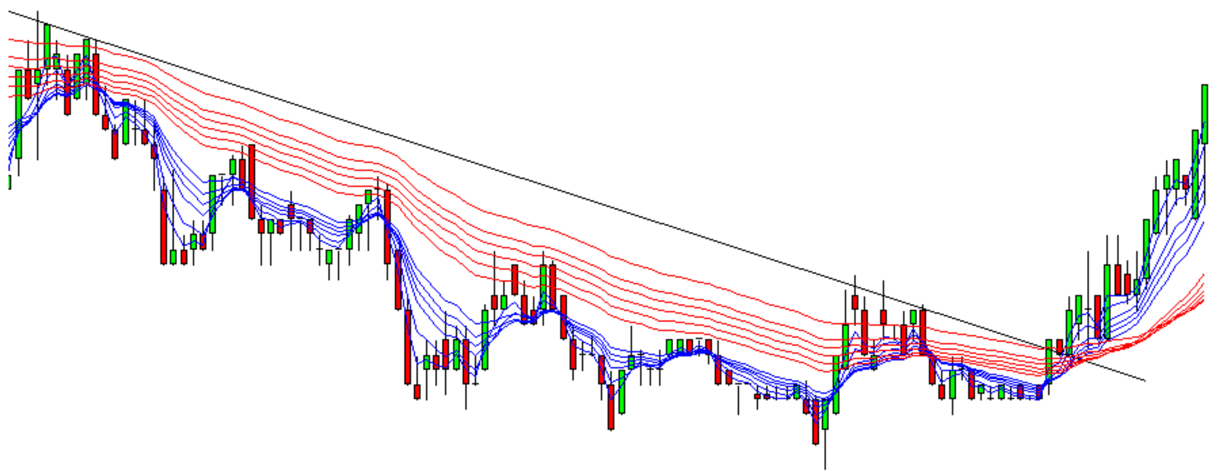
Once the signal is generated we will decide if this is a stock trade, or better executed via a CFD to maximise the returns. If volumes are low, then a CFD trade is preferred as there is greater return from a small position. As this trade is developing we have not identified the stock. It's the pattern of trend and rebound that is important.



For a variety of reasons, we missed the breakout on the second chart. It's a well defined breakout trade opportunity using traders ATR. The pullback to the ATR provides a low risk entry point. We have buy orders ready near to the ATR value. If the price falls below the ATR then there is just a small loss. This trade can be executed directly with the stock, or using a CFD to maximise returns. As we may enter this trade, we have not identified the stock.



The third chart shows a good breakout. This is a GMMA trade. The objective is to enter when price is near the lower edge of the short term GMMA. Liquidity is a problem, so this trade is more suited to a CFD where even a small position can generate good profits. As we may enter this trade, we have also not identified the stock.



Why haven't we entered some of these trades earlier? The answer is simple. There are many opportunities, but limited time and capital. We simply cannot trade every opportunity. We watch how common price behaviours develop and this gives us the confidence to enter new trades as they are identified. It's the pattern of price activity and trend development that is critical to success. How it is traded – equity or CFD – is a trade execution choice. We prefer CFDs in the current market because they boost returns over a short term time frame and this removes a major risk in the volatile market.