

TACTICAL INDICATOR SUMMARIES

By Daryl Guppy

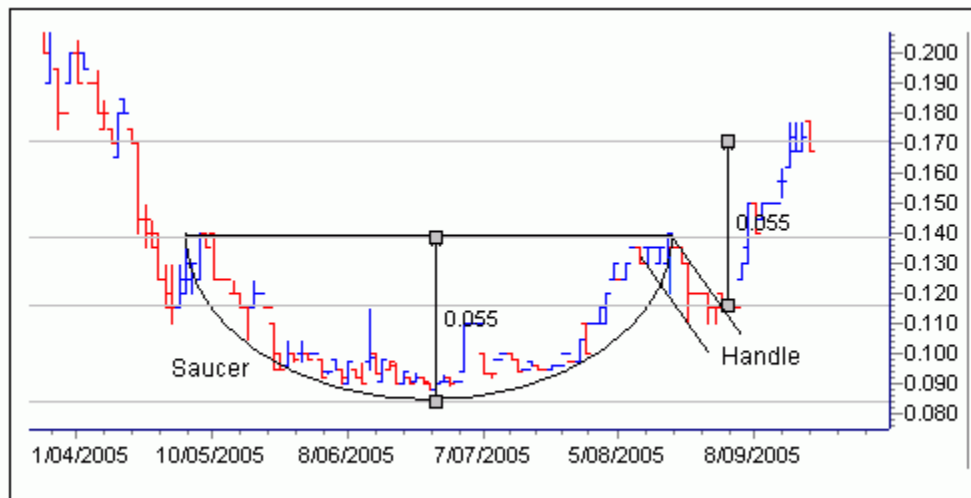
In recent weeks we have seen many new readers come on board and they have generated a demand for background notes on the indicators we mention in the newsletter and the essential tools of technical analysis. These summaries are designed to explain how various indicators are applied to trading opportunities. The notes include tactics and rules for using and applying or constructing each indicator. The notes finish with a summary of the advantages and disadvantages of each indicator. These notes describe the way we use these indicators in our trading and are designed as a short reference guide.

INDICATOR – LONG TERM SAUCER AND HANDLE PATTERN

This is a breakout development from a rounding bottom. The rounding bottom may be symmetrical or asymmetrical. Symmetrical saucer curves are defined using a single curve tool. Use the GTE saucer tool. Asymmetrical saucers are defined using a combination of parabolic curve segments. Use the GTE parabolic tool.

APPLICATION

This applies to a failed breakout at the end of a saucer pattern. Prices move to the right of the saucer line, and then declines. This pullback may also appear within a few days after a successful breakout above the lip of the saucer. The decline is 'flag-like' and is defined with two parallel lines. Use the GTE Parallel line tool. This is the handle. Prices then break above the upper edge of the handle and the uptrend resumes. These are breakouts from long term patterns lasting months so the achievement of target objectives may also take a similar time period. The target price is based on projecting the height of the saucer above the upper edge of the handle at the point at which the new breakout occurs. Use the GTE Price Range tool to reposition and recalculate the price target.



TACTICS

- Trade from the breakout above the upper edge of the handle. This pattern is not traded in anticipation of a breakout.

- Target is the height of the saucer, projected from the point of the breakout from the handle pattern. This may give a lower or higher target than the original saucer pattern target projections.
- Management of the handle breakout trade depends on the nature of the trend shown in the breakout. They have no common characteristics.

RULES

- The saucer must be validly defined
- The handle is defined by a straight edge trend line, and most effectively by an upper and lower trend line.
- The height of the saucer from the base to the lip is measured. This height is then projected upwards to set a breakout price target.
- On the day of the breakout, the stop loss is the lowest low in the handle pattern.
- On the day after the breakout, the stop loss is the value of the handle at the point of the breakout.
- On subsequent days the stop loss is based on the nature of the trend development in the breakout.

ADVANTAGES

- Reliable targets based on projecting the height of the saucer from the point of breakout from the handle.
- Upside projection targets are reliable, particularly if they match existing resistance levels.
- A second opportunity to join powerful trend reversals

DISADVANTAGES

- A long term pattern, so the achievement of any of the price targets may also take a long time. This may be weeks or months.
- The breakout above the handle does not have a clear trend pattern. Subsequent price activity may be very difficult to manage and trade.