

WIN THE RIGHTS ISSUE TRADE WITH NOBLE

By Daryl Guppy

This trade has suddenly changed direction with the suspension of Noble and the announcement of a 1 for 1 rights issue at \$0.11. We take a small loss and position ourselves for a large gain. Normally we apply this tactics when the rights issue is for a lesser number of shares than the total we already own, but we can apply the same method in this Noble situation.

This is how it works:

- Rights entitlement is calculated from shareholdings on Thursday June 2. We are entitled to 68,966 new shares at \$0.11 for a total cost of \$7,586.26.
- We sell 68,966 shares at \$0.25 for a total of \$17,241.50.
- This is a \$2,758.62 loss on trade 1 – the original trade. That’s 13% or 1.38% of total trading capital.

Stock code	NOBLE 1
Total investment pool money in account	100,000
Your investment risk for this trade	2,000
Average entry price	0.29
Stop loss	0.27
Cost of trade	20,000.00
Number of shares buy	68,966
Loss if sell at stop loss	1,379.31
Risk % of total investment pool money	1.38%
Planned Profit exit price	0.25
Profit -	2,758.62
Trade profit %	-13.79%

- We are committed to buy 68,966 Noble shares at \$0.11 – Trade 2 the rights issue.
- The new Noble rights issue shares must rise to \$0.15 for us to cover the loss on Noble trade 1.



Why do this? It's a very aggressive strategy. We demonstrate it for these reasons;

- The target for ex-rights trading is \$0.205 and this is a 86% return on the trade.
- The rights issue is well underwritten.
- The commodity complex is showing signs of long term trend reversal.
- Noble is well positioned as a commodity trader to benefit from this commodity complex reversal.

For case study purposes we add 68,966 shares at \$0.11 for a total cost of \$7586.26. The stop loss is at \$0.09 and this puts \$1,379 of capital at risk, or 1.4% of total trading capital.

Stock code	NOBLE RIGHTS
Total investment pool money in account	100,000
Your investment risk for this trade	2,000
Average entry price	0.11
Stop loss	0.09
Cost of trade	7,586.26
Number of shares buy	68,966
Loss if sell at stop loss	1,379.32
Risk % of total investment pool money	1.38%
Planned Profit exit price	0.15
Profit	2,758.64
Trade profit %	36.36%

The commodity complex is developing a significant turnaround as shown by the fan chart pattern. This turnaround benefits established producers and commodity trading houses like Noble.

A fan pattern develops as a trend starts to change direction. It is most commonly seen in a downtrend. The pattern occurs when prices are re-valued upwards, but the direction of the trend does not change. This appears on the chart as a shift sideways. The old resistance level acts as a new support level. The new resistance level does not run parallel to the old support level. Instead it broadens away in an expanding wedge. As price action moves horizontally in time the price uses the new resistance line as a limit area. A break above this is often decisive, making a new high before pulling back to use the old resistance level as a new support level.

Fan lines are drawn from a single starting point. They reflect a slowing of the trend, but not necessarily a trend reversal. Traders look for other signs of bottom and reversal prior to trading in anticipation of a new trend. Fan lines tell the trader the downtrend is slowing. This is not a Fibonacci fan.

The fan pattern appears on the Noble chart. The fan pattern is not as clear cut, but it is the dominant pattern on the chart.

The fan pattern is a long term trend reversal pattern so it's unrealistic to expect a sudden change in trend – although as the Dollar yen showed in 2012 November, the breakout can sometimes be very rapid.. This pattern can be seen on many of the commodity sensitive stocks so the Noble case study trade is an example of the trading strategies. .