ADJUSTING TRADING PLANS

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These are trade management notes from our sister publication. They are useful because they show the way traders adjust trading plans as price action develops.

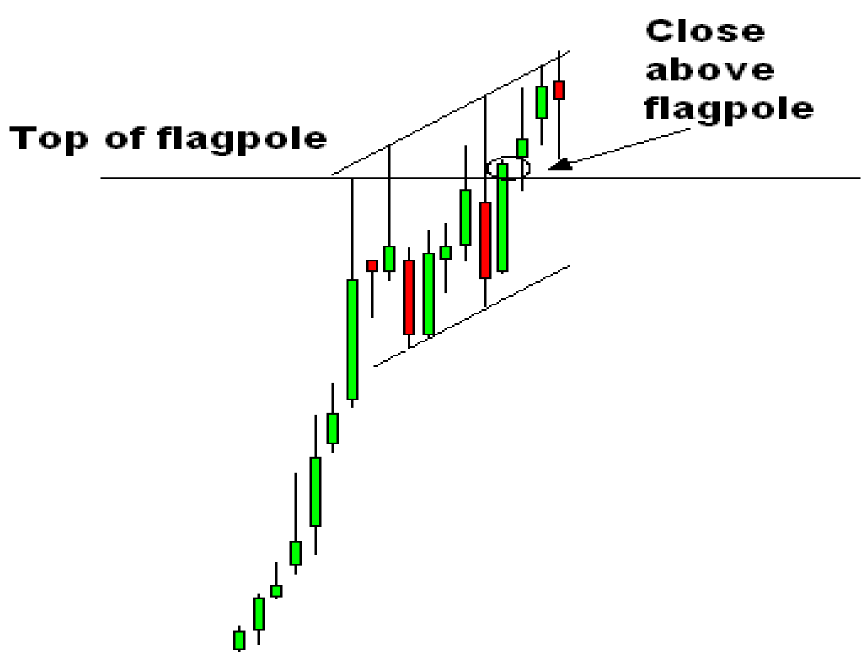
The SAI* flag pattern breakout has stalled. This has become an increasingly common feature of flag patterns. More patience is required.

The SAI* bullish flag may be developing into a typhoon flag pattern. This pattern is shown by the red lines on the chart. The typhoon flag has a different development pattern. It is not used to set an upside target. This is a trend continuation pattern. The pattern is confirmed with continued trading inside of the typhoon flag pattern.

The Typhoon flag has these characteristics:

- Starts with a flagpole
- Upper trend line plotted first
- Lower parallel placed from low of pattern
- Reference line is the horizontal line drawn from the high of the flagpole
- Aggressive confirmation entry is close above reference high line

The typhoon flag pattern is confirmed when the price moves above the value of the horizontal line drawn from the top of the flag pole.



Setting the stop loss in a typhoon flag uses the value of the horizontal line as a reference point. Entry 1 is made when the price retreats from the upper edge of the flag and rebounds from the horizontal line. The value of the horizontal line, placed at the peak of the flagpole, is used as the stop loss.

Entry 2 is made after the bottom edge of the typhoon flag moves above the horizontal line. In this situation the lower edge of the typhoon flag is used as the stop loss.

Which pattern is correct? The patterns can only be invalidated by further price action. The typhoon pattern is validated when price continues to move within the up sloping trend channel. The typhoon flag is invalidated with a strong breakout above the upper edge of the typhoon flag. In this situation we would use the bullish flag as the dominant pattern and trade with the original trade plan.

Real trading does not develop like text book trading. As the trade develops it is often necessary to redefine the trading plan.

SAI* is a breakout from a flag pattern. Chart patterns have three purposes

1. Capture market behaviour
2. Used to calculate price targets – measured moves
3. Calculate exact risk/reward ratios

The bullish flag pattern has three parts.

1. This pattern consists of a flagpole created by large price range days
2. A price retreat over 4 to 10 days. This is the flag. It is defined by downward sloping parallel sides.
3. Breakout target is calculated by measuring the height of the flagpole and projecting this above the upper edge of the flag.

The SAI chart has a stop loss on the upper edge of the flag near $4.20. The upside target is near $4.68. It’s a strong chart pattern, but a disappointing 11% return. It’s an easy decision to trade this via a CFD with 20% leverage.

CFD leverage %	0.20	**Portfolio**	$ 100,000.00	**2% risk**	$ 2,000.00
LONG		**MOTHER**		**CFD**	
Name	Buy price	qty	Face value	**CFD cash cost**	**Cash Risk**
SAI	**$ 4.26**	11,700	**$ 49,842.00**	$ 9,968.40	702
Stop loss	**$ 4.20**		$ 49,140.00		
Close/Target	**$ 4.24**		$ 49,608.00	Balance	**-$ 234.00**
Interest cost	$ -			Buy comission	$ -
day 2	$ -			Sell commission	$ -
day 3				Carry cost interest	$ -
day 4				GSL cost	$ -
day 5				**CFD PROFIT**	-$ 234.00
				CFD%	-2.35

The trade was entered near $ 4.26. With a $4.68 target the base return is reduced to 9.8%. The CFD trade return is 49%. For case study purposes we spend $9968.40 to add 11,700 shares. Face value is $48,842.00. An exit on the stop loss with put at risk $702 or less than 1% of total trading capital. If the pattern fails to reach its targets then we still have a good profit.