

HOW TO USE NOBLE FAN PATTERN

By Daryl Guppy

We do not normally provide trading notes in advance, but the situation with Singapore listed Noble Resources makes this unavoidable. These notes expand on comments I made on CNBC and Channel News Asia in the past few days.

Noble, like many other stocks, is very exposed to the commodity complex and has been battered over the past year. Other victims include RIO, BHP, Fortescue Metals, Santos, Woodside petroleum. But this is coming to an end.

The commodity complex is developing a significant turnaround. This turnaround benefits established producers and commodity trading houses like Noble. It does not benefit exploration companies, or companies with greenfield projects.

The gold chart is a good example of how this turnaround develops. The most important feature on this chart is the breakout from the fan trend line pattern.

Gold is a proxy for the entire commodity complex and we see this behavior reflected in oil and silver charts.

The upside target for gold is now the historical resistance level near \$1340. This is the short term target and the fan trend line breakout behavior suggests this target can be quickly achieved.



The weekly gold chart shows a series of fan downtrend lines. This is a very long term trend reversal pattern. The four downtrend lines have a common starting point from the high in 2012 October.

These are not Fibonacci fan lines. These are a series of downtrend lines with a common starting point. The pattern usually contains between four and five downtrend lines. This has been a dominant feature on the gold chart since 2013 so the pattern cannot be ignored. This is a long term trend reversal pattern. It was seen on the Dollar Yen chart prior to the very powerful breakout in 2012 November. This pattern often ends with a very fast and strong breakout as has been also shown on the gold chart.

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



This suggests that the breakout above the final trend line on the chart is the beginning of a new uptrend. The current pullback is a buying opportunity with a rebound from the support level near \$0.27. The immediate upside resistance is near \$0.47. A short term trade from \$0.28 to \$0.47 gives a 67% return. This return can be further magnified using a CFD or a warrant.

Stock code	NOBLE
Total investment pool money in account	100,000
Your investment risk for this trade	2,000
Average entry price	0.28
Stop loss	0.26
Cost of trade	20,000.00
Number of shares buy	71,429
Loss if sell at stop loss	1,428.57
Risk % of total investment pool money	1.43%
Planned Profit exit price	0.47
Profit	13,571.43
Trade profit %	67.86%

The fan pattern has developed a base near \$0.27 so this sets the stop loss at \$0.26. The aim in this type of trade is to enter after the rebound develops from the support level. For case study purposes this is an entry near \$0.28 with a stop loss near \$0.26. This buys 71,429 shares for a total cost of \$20,000. An exit at the stop loss puts the loss at \$1,428 or 1.4 % of total trading capital at risk.

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. .