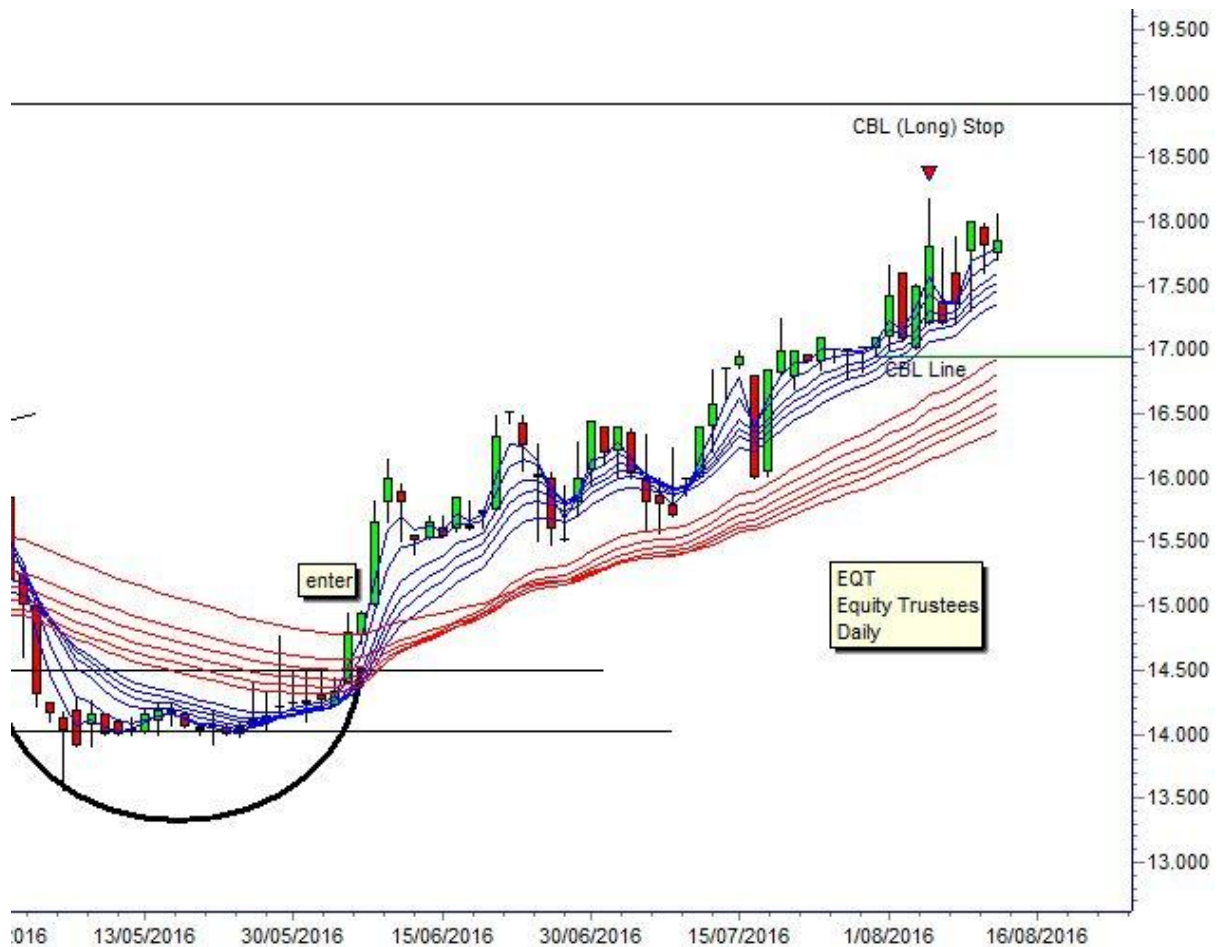


STOP LOSS IN A STEADY TREND

By Daryl Guppy

This is a steady trend with an 18.6% open profit. This case study trade is an example of the way a chart pattern – inverted head and shoulder pattern– is used to identify the trade and set a strategic exit target. The trend breakout is confirmed with GMMA analysis. The trade is actively managed using a count back line.

The countback line stop loss for EQT is unchanged. The value of the CBL line is near to the value of the upper edge of the long term GMMA.. The GMMA shows strong support for the trend continuation. The count back line stop loss to manage this trade. The sell order is placed just below the trade target. This ensures that the position is fully closed when the price reaches the inverted head and shoulder projection target of \$18.90



This EQT example has two confirming patterns and each pattern can be used to verify the conclusions of the other pattern.

The first pattern is the inverted head and shoulder pattern.

The distance between the head and the neckline is measured and gives an upside target near \$18.90. The second pattern is the pattern of support and

resistance. This has a strong consolidation band between \$14.00 and \$14.50. Above this is a resistance level near \$15.70. The next resistance level is near \$18.90. This is where the gap-down started and this upper level is often a future target for the trend recovery.

In this chart two separate methods verify the \$18.90 target level. The trade method is straightforward and aggressive. For case study purposes we take an entry near \$15.05 as the breakout develops above the consolidation band. The stop loss is a close below \$14.50. This buys 1,329 shares for a cost of \$20,000 and puts 730.90 at risk or 0.73% of total trading capital.

Here's the marked to market update on the case study trade performance.

Stock code	EQT
Total investment pool money in account	100,000
Your investment risk for this trade	2,000
Average entry price	15.05
Stop loss	14.50
Cost of trade	20,000.00
Number of shares buy	1,329
Loss if sell at stop loss	730.90
Risk % of total investment pool money	0.73%
Planned Profit exit price	17.85
Profit	3,720.93
Trade profit %	18.60%

The target is \$18.85, just below the pattern calculation target. This level is used as it increases the probability the trade will be executed at this level. Price will probably reach \$18.90, but the danger is that just few shares might change hands at this level. By setting the advance sell at \$18.85 we are guaranteed the full trade exit will be achieved if the price reaches the \$18.90 pattern target level.