

# **THREE TYPES OF TRADING OPPORTUNITIES**

*By Daryl Guppy*

At heart we remain chart pattern traders. Every week we go through a list of stocks – a stock pool – looking for developing patterns. Every time we look at a stock, perhaps because it's been mentioned in The Edge or some other publication, we look for chart patterns. When long term patterns are developing we shift the stock to a different watch list. In these notes we look at several of the most common patterns in the current market and explain the trading methods.

## **IN THE CUP**

This pattern is an example of this approach. Price developed a long term rounding bottom or saucer pattern. The left side of the pattern starts in December 2015, although it cannot be identified until the pattern is more fully developed in February 2016.



The first trade opportunity is from the base of the pattern to the lip of the saucer near \$0.145. It's easy to see historically, but not possible to reasonably trade in real time. It's the peak of this rally that sets the upper edge of the saucer pattern and that's the useful feature of the next breakout.

Using these methods and these patterns we set a buy order at \$0.15, just above the lip of the saucer.

Pattern trades have defined targets. The depth of the saucer is measured and projected upwards. This gives a target near \$0.22. Note that this is also a minor historical support level. We sell at \$0.22 and this delivers a 46.67% profit.

We would love to say the exit is closer to \$0.26, and get a 76% profit but that is not the way these chart patterns are traded. These patterns are traded as defined targets, with sell orders positioned in advance. In volatile markets, such as we have now, there is a high probability price will just touch the target level and then collapse. Getting the sell order first in line gives a considerable advantage.

## **RAILROADING**

Many stocks have created long term consolidation patterns. The market fall has paused, the stocks have moved sideways, so traders wait for a breakout to develop. Again this is a long term pattern with this example. The sideways pattern started in October 2015. The upper resistance level near \$3.15 has been tested several times, with a minor breakout. In this situation the buy order is placed just above the peak of the previous false breakout level. The trade is entered near \$3.24.



Again, this type of trades is a pattern trade with a target projected from the width of the trading band. This gives a target near \$3.70. Note again how this target level matches a previous resistance level.

The trade plan has a pre-positioned sell order at \$3.70 and is first in line. This is not a very profitable trade, only 14.2%, so some traders will choose to execute these types of trades using a CFD so they can enjoy the benefit of leverage.

These consolidation breakout patterns are common in the current market.

## **TRADE THE LAZY WAY**

We subscribe to a number of publications, or tip sheets. Quite simply, why should we do this work when for a few dollars we can get the results from other people. Call it lazy, but we call it time efficient.

Additionally, we also know that many other people read the same publications so all their recommendations have a ready made crowd to trade with. This helps overcome liquidity problems.

We note all the recent additions and then apply basic chart and technical analysis. We have discussed these methods recently in the newsletter, particularly showing readers how to weed out bad recommendations.



There are three features which make this a useful breakout trade.

- 1) The classic and clear GMMA compression and breakout signal. This gave an entry around \$2.75. The trend break is confirmed with the GMMA relationships.
- 2) The move above the long term downtrend line. Here we show just one anchor point, but on the full chart the position of the line is confirmed. This delivered an entry signal around \$3.10.
- 3) The 1\*ATR provides a reliable method to manage the stop loss in this trade.

We use an entry near \$3.35. Unlike the chart pattern trades, there is no upside target for this type of trade. There is resistance near \$4.00 so traders will watch for price weakness at this level. We use this as the suggested price target for the risk and reward calculations. The main method for management of this type of trade is the 1\*ATR line. A fall below this line triggers an exit.