

FOLLOW THE RIGHTS ISSUE TRADE WITH NOBLE

By Daryl Guppy

Unfortunately we could not sell the rights issue at \$0.27 when prices peaked as we have not yet been allocated the shares. At the current price, we still have a 100% profit on the rights trade.

We use an aggressive rights trading strategy for this portfolio example.
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 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.



Full details of tactics for trading rights issues are given in another article in the newsletter this week.

For case study purposes we add 68,966 shares at \$0.11 for a total cost of \$7,586.26. 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	0.22
Profit	7,586.26
Trade profit %	100.00%

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 is 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.