

The  
**Technical Report**  
Private trading made professionally easy



A flag pattern: a bullish pattern in the shape of a flag indicating market excitement

Week ending Friday 14 October 2011

# The Technical Report

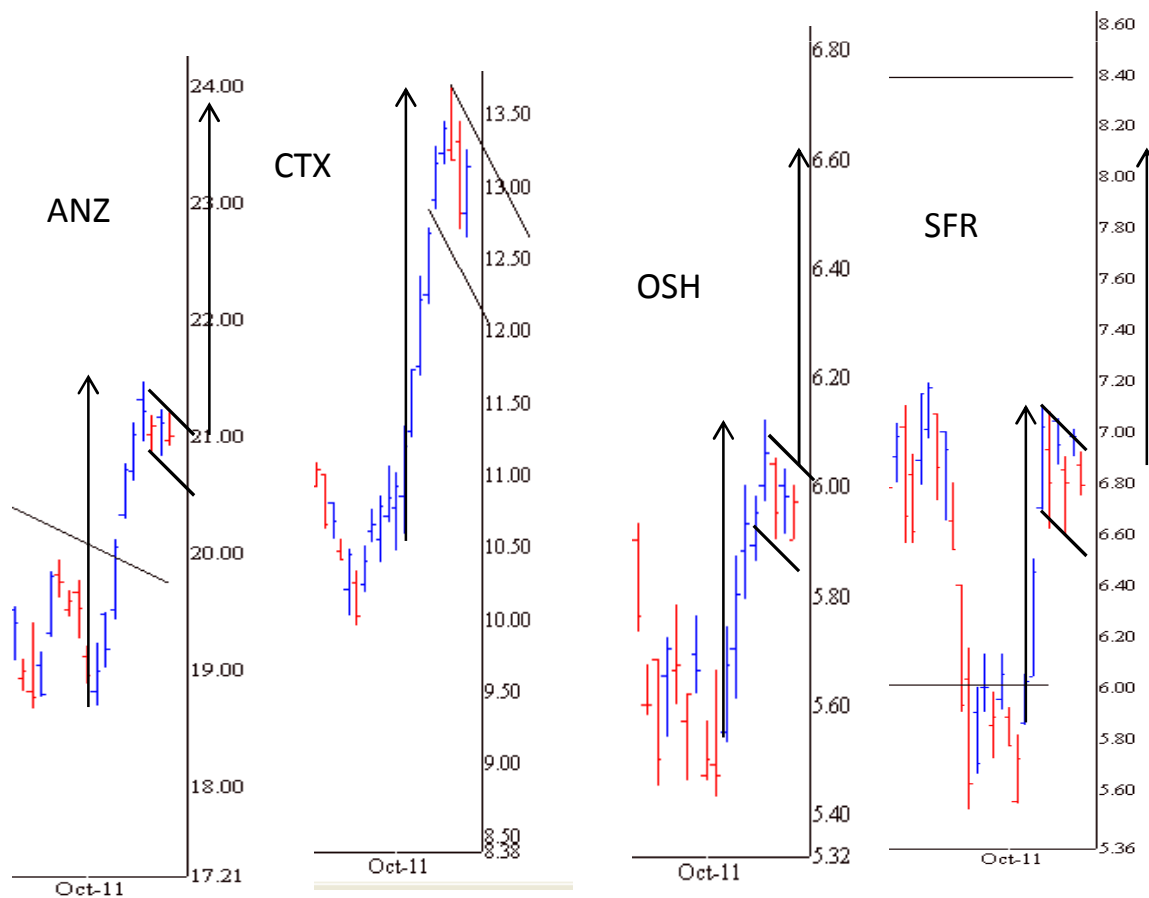
Private trading made professionally easy

## Flag pattern bonanza

Last week we talked about the bulls fighting back and waiting for resistance in the XJO to be tested and monitoring the GMMA and 55 day slow stochastic to help us identify if this fight back was genuine or a short term rally that would fall in a heap.

A week on, we are noticing a series of potential flag patterns forming in individual stocks. At the moment we have several flag patterns of interest. A flag pattern is a bullish pattern that has a high probability of success when it has supporting underlying sentiment. It often has a weak breakout and doesn't reach its upside target when the underlying sentiment doesn't break above 80 during the development of the pattern.

At the moment, the series of flag patterns which I can see forming in our market don't yet have positive underlying sentiment, but sentiment is rising and by the time the "flag" section of the pattern develops, we might have 4 or 5 flag pattern trades on our hands.



# The Technical Report

Private trading made professionally easy

## Breakout bonanza

Along side the flag patterns, we have a high number of reversal breakouts. It has not gone unnoticed that many of these upside breakouts from a downtrend are stocks we put on watch about 3 or 4 weeks ago as potentially crashing through the floor and making new lows, such as Harvey Norman (HVN). Many stocks are making similar upside breakouts like that shown in the HVN chart to the right.

These stocks include: TOL, ILU, UNS, MYR, LEI.

Many other stocks are getting very close. These include: MQG, GBG, IGO, JBH.

The reversal of many chart patterns from bearish to tentatively bullish is due in part to overseas news relating to the U.S. and European debt problems and plans to fix them.

Whatever the catalyst for the change in market perception, the fact is that the high number of flag patterns and breakouts in many of the ASX300 stocks, tells us that serious buyers are coming into the market. Serious buyers stick to the top 200 or 300 stocks and avoid the penny dreadfuls.

Serious buying of quality stocks will cause the XJO to rise and in turn, a rising index attracts players of all persuasions to the market.



This makes it a snowball effect. How long this snowball will roll before it melts is another question. We expect the XJO to test 4300 and we wouldn't be surprised if we close above this level by Friday next week. If we sell off, it tells us that the market is nervous about Europe which will announce their plans for debt restructure by next weekend. If the market gains throughout the week, it will be a signal that the smart money expects good news out of Europe.

Nervousness in the market shows up in the stochastic when it fails to break above 80 on the signal line. So we wait to get a bullish sentiment signal to indicate if nerves have been overcome or not.

# The Technical Report

Private trading made professionally easy

## Entry Update: Long VBA

In the meantime, we must trade opportunities as they come. However, they currently carry a high level of risk because the market awaits crucial information relating to the European banking sector which can easily cause global contagion.

Anyway, on Friday we entered VBA on the upside breakout of the ascending triangle pattern. VBA fits all our entry criteria. It has rising OBV, stochastic above 80 and a rising GMMA.

The problems with Qantas have put VBA in the spotlight as picking up the slack caused by flight delays and passenger overflow at Qantas terminals.

We have bought 30000 VBA CFDs at 33 cents with a stop at 30.5 cents. We are risking \$750. We are looking for an upside target of 40 cents, but in this market, which could go any which way by October 22<sup>nd</sup>, when France and Germany tell us the details of their rescue plan for Europe, we will aim for an exit between 38.5c and 39.5c. If we exit at 39 our potential profit is \$1800. This is not really enough profit against the risk we are taking but VBA fits what we look for because we have seen this set up work time and time again in the market. So we take the opportunity, look for a quick pattern based trade and quick profit and protect ourselves with a stop-loss if it all goes belly up.



# The Technical Report

Private trading made professionally easy

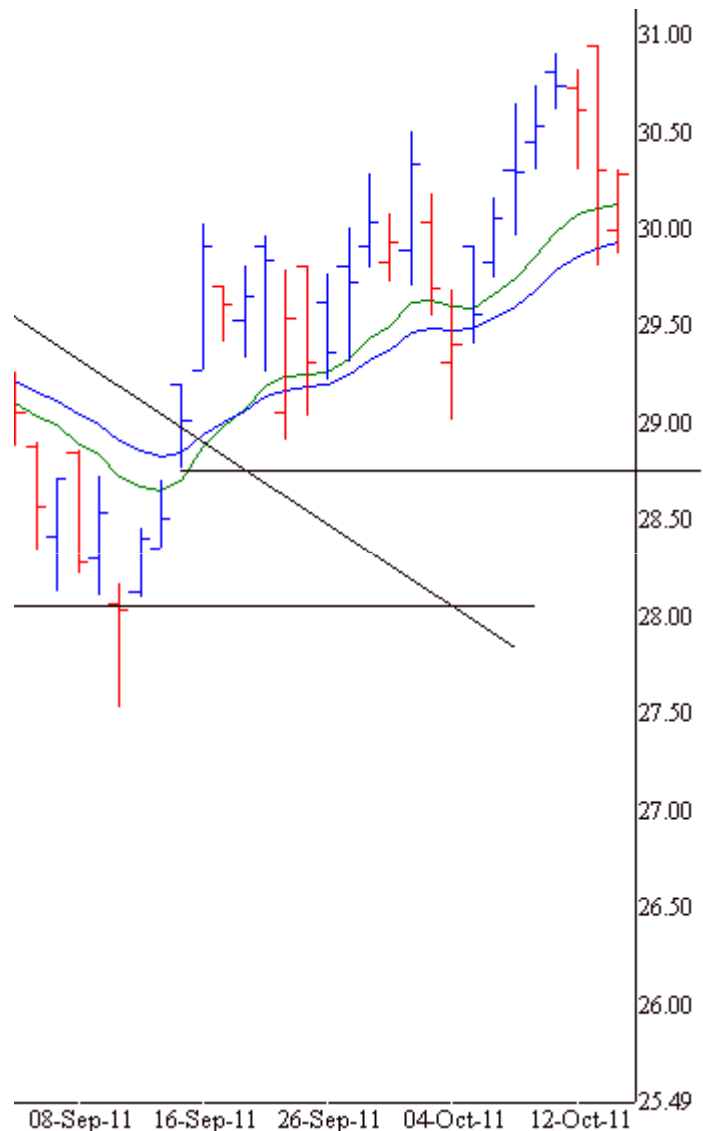
## Entry Update: Long ASX

We entered ASX on Monday as we flagged we would do in last weeks newsletter. We entered ASX based on a DEMAC style trade.

When we entered, the stock was in the 13-21 day EMA phase of its move under the DEMAC framework. It will move to the 21-34 day EMA next Wednesday.

Again, our analysis of a rising share price in ASX is dependant upon France and Germany making markets happy by the end of the week. If the market is happy, the rounding bottom pattern in ASX should continue.

We have bought 500 CFDs at \$30.50 with the intention to add to the position if and when the stock shows additional strength (E.G. getting above \$32).



# The Technical Report

Private trading made professionally easy

## On the watch list

FWD remains on our watch list. It wasn't until Friday that stochastic support turned positive on FWD. We would like to see it break \$12 to convince us that the market really likes this stock.

All the stocks listed in this weeks newsletter is on our watch list. But of them, CTX is a stand out because the stochastic is above 80. If and when we get a flag pattern breakout, we will enter.

The other stand out, is ANZ because the stochastic is close to breaking above 80 on the signal line.

In comparison, the stochastic in OSH is still down around 40 on the signal line and we would expect the flag pattern to fail, or if a breakout occurred, it would probably be weak and fall short of its upside target.

This week will offer us a chance to test our beliefs about the reliability and consistency of signals generated by the slow stochastic indicator. The comparison between OSH, ANZ, CTX and SFR will allow us to see if our preferred indicators are still working in the current environment.

I came up with the RCR, DEMAC, sliding scale risk model and application of the 55 day slow stochastic in different market scenarios when nothing else I was using was working. Trading and writing about these techniques forces me to test these techniques to ensure that they are still useful and productive. We will do that this week.

FWD with stochastic, GMMA and OBV overlay.

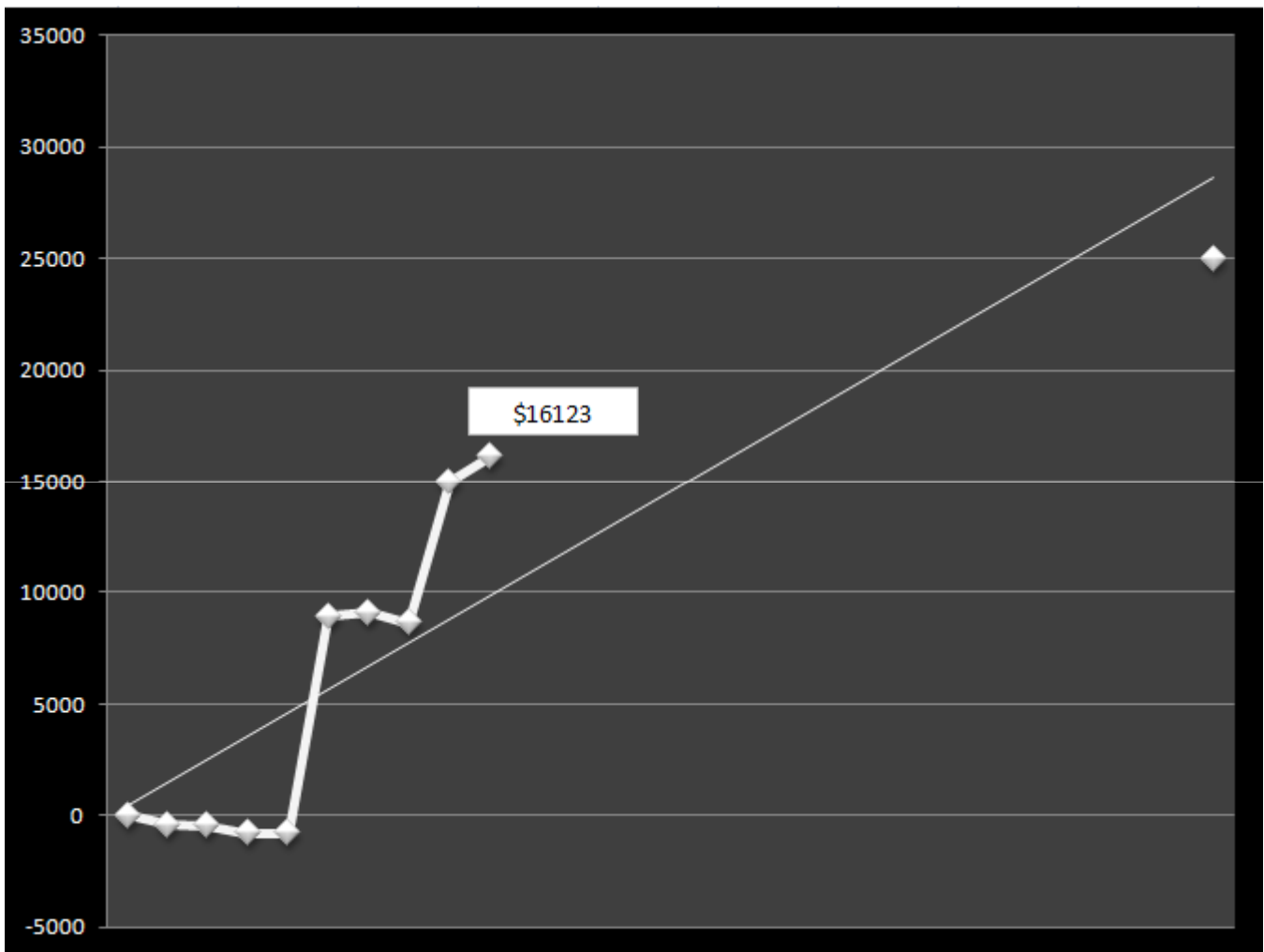


# The Technical Report

Private trading made professionally easy

## Accumulated Profit Trendline

---



Our trading goal is to achieve a NET 50% return based on a notional \$50K portfolio of cash over a 12 month period. We intend to loose no more than \$8000 over the course of the year.

We have currently made a Net return of \$16123, or 32.2%.

# The Technical Report

Private trading made professionally easy

---

We Provide Trader Mentoring and Coaching

Take our trading course



Sponsored by STPT Coaching

---

We also provide a range of trading presentations on CD that will teach you how to follow our trading techniques, our trading style and help strengthen your own approach to trading global markets.

For all this, please visit  
[www.stpt.com.au](http://www.stpt.com.au) for more information.

# The **Technical Report**

Private trading made professionally easy

## Disclaimer, Terms and Conditions

STPT Coaching is not a licensed investment advisor. This publication, and or website which is generally available to the public, falls under the ASIC Media Advice provisions. The information provided is for educational purposes only and does not constitute financial product advice. These analysis notes are based on our experience of applying technical analysis to the market and are designed to be used as a supplementary example to those trading examples shown in the book, Simple Tactics, Profitable Trading and show how technical analysis can be applied to a chart example based on recent trading data. This document may assist you in your personal judgment. It is not designed to replace your Licensed Financial Consultant or your Stockbroker. It has been prepared without regard to any particular person's investment objectives, financial situation and particular needs because readers come from diverse backgrounds, with diverse objectives and financial situations. This information is of a general nature only so you should seek independent advice from your broker or other investment advisors as appropriate before taking any action. The decision to trade and the method of trading is for the reader alone to decide. The author and publisher expressly disclaim all and any liability to any person, whether the purchase of this publication or not, in respect of anything and of the consequences of any thing done or omitted to be done by any such person in reliance, whether whole or partial, upon the whole or any part of the contents of this publication. Neither STPT Coaching Pty Limited nor its officers, employees and agents, will be liable for any loss or damage incurred by any person directly or indirectly as a result of reliance on the information contained in this publication. The information contained herein is copyright and for the sole use of trial and prepaid readers. It cannot be circulated to other readers without the permission of the publisher. This is not a newsletter of stock tips. Case study trades are notional and analyzed in real time. Please note that in the interest of timely publication, this document may be incompletely proofed.