

# THE **STOP** HUNTER.



**Newsletter: July 2015**



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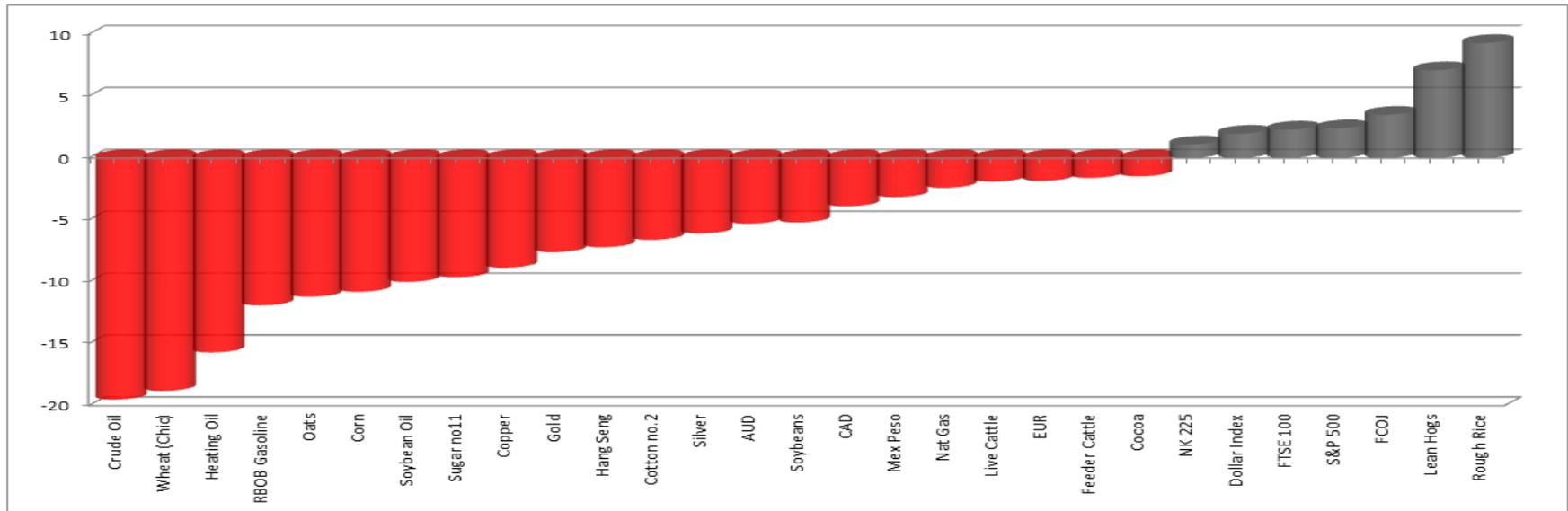
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## Month at a glance:

July Monthly Performance % change: performance: Bit of a commodities rout!





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## Trade of the month: RBoB Gasoline

RBoB Gasoline down 11.9% on the month.

This potential short trade entered its historically bearish period in the US due to underlying supply fundamentals, the COT was weak and technically the weekly and daily charts looked very bearish.

Traditionally Gasoline now stays weak until mid-September.





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## Technical Analysis Education 1:

### Trading the right timeframes

It can help to fit your personality to the market you are going to trade e.g. Forex is fast moving so could suit a certain mind set. Commodities trade a lot less so you may prefer more time to consider your trades.

This same process can also be applied to what timeframe to use in the charts. Each product also has its own personality and needs to be traded accordingly. Take a look at the following two charts. The first (left) is EURUSD in the 5 minute chart the second Lean Hogs in the same time frame (both over 1 days trading): Notice the difference!!



Hmmm! What would you trade intraday? Its all to do with liquidity. The EUR is very liquid and therefore creates in the shorter timeframe more reliable tradeable patterns. Lean Hogs hardly trades at all intraday – you certainly cant decipher the chart for a sensible direction!!

#### Rules:

It is quite simple and based off of common sense. The more liquid the product the lower the timeframe you can trade. Forex and Indices fit very nicely into intraday trading. Highly liquid stocks like Apple and Google also. Some commodities e.g. Oil, Gold, Corn also fit into the good day trading category.

When you get to some of the less liquid stocks or commodities e.g. Lean Hogs then these should only be traded off of the daily and weekly charts if you want to improve the consistency of your results.

Take a look at lean Hogs chart set to weekly: It looks a lot more tradeable / predictable:





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## Technical Analysis Education 1: Indicator matrix – what indicators should you use

Remember the rule of collinearity when putting together indicators on your chart?

It was the rule that you should never multiple count the same information. What do I mean by this? Never use two indicators together that are based off of the same underlying calculation and present the same result e.g. closing price.

Essentially you are just duplicating the same answer and not getting as many independently calculated answers off of your asset to give you the strongest decision making chance for success.

For example, you should be looking for price indicators based off of not just closing price but say the high/ low/ close or look to add a volume indicator or sentiment indicator. If all these independent indicators line up and say sell then you have more confidence to trade.

A bad combination: RSI/ROC/MACD

A good combination: Bollinger Bands/RSI/OBV

Some other combinations:

ADX / Oscillator / MAV

MACD / Stochastic

RSI/ Stochastic

Parabolic / DMI

Best to keep numbers of indicators used low, study their behaviour until you know them well.

The following table should be able to aid your chart making set up:

<u>Trend Indicators:</u>	<u>Momentum Indicators:</u>	<u>Volume Indicators:</u>	<u>Volatility Indicators:</u>
<u>Moving Averages to CP:</u>	<u>Momentum:</u>	<u>Compares CP and volume:</u>	<u>Price Compared to MAV:</u>
- MAV / 2 * MAV / 3 * MAV / Multiple	<u>CP Relative to Previous CP:</u>	- On Balance Volume (OBV)	- Bollinger Bands
<u>MAV Oscillators:</u>	- RSI	<u>Compares CP / Range / Vol:</u>	- Volatility
- MACD / histogram	- ROC	- Accumulation Distribution	<u>Based on daily High / Low Range:</u>
<u>MAV Overbought / sold:</u>	<u>CP relative to Range:</u>	- Chaikin Oscillator	- Chaikin Volatility
- Price Envelopes	- Stochastics	- Chaikin Money Flow	- Vol Ratio
- Bollinger Bands	- Williams % R		- Average True Range
<u>Directional Movement:</u>	<u>CP to MAV:</u>		
- DMI / ADX	- Detrended price oscillator		
<u>Stop &amp; Reverse:</u>	<u>CP to High / Low</u>		
- Parabolic SAR	- Williams Accum Dist		
<u>CP to MAV:</u>	<u>Range relative to Abs price movement:</u>		
- Detrended price oscillator	- Vertical horizontal filter		
- Commodity Channel Index			
<u>Others:</u>	<u>Others:</u>	<u>Others:</u>	<u>Others:</u>
- BBG Trender	- TD D Wave	- BBG Fear and Greed	- BBG Fear and Greed
- TD D Wave	- Elliott Wave		
- Elliott Wave			

Some notes on the above: CP stands for Closing price. It is fine to have an RSI and Stochastic together from the Momentum Indicators column. As you can see from above the RSI is built off of CP relative to the previous closing price and the Stochastic built relative to the price range. You can see though how you can put combinations together from different columns to build a strong decision making chart.

On top of the above you could also add independent 'Sentiment' indicators. Such as the CoT (Commitment of Traders) report for commodities or the CSI (Currency Strength Indicator) for FX.



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## Strategy Talk: Let your profits run!!

We are all aware of the way human nature can seriously impact your trading results! One of the hardest things to do in trading is to decide when to get out of a trade whether for the good or the bad. We also know that humans become bigger risk takers when they start to lose and more risk averse when they start to win. This in itself seriously impacts your trading. It is very common as soon as you start to make a small profit to take it and close your trade. When you are making a bigger profit and the market is up strongly is it the right time to get out? On the flip side when you start to lose you hold onto your position in the very slim hope that it will turn round – 99.9% of the time it never will and you sit on an even bigger loss!

***One of my golden rules: Trading is 80% psychological and 20% learned knowledge.***

How can you negate this and improve your trading results? It is ***simply all down to consistency and having a trading plan.*** If you have built your trading plan before you start to trade you can reduce this indecision. You build in parameters e.g. specific price targets – Fibonacci lines, trend lines, pivot points, highs or lows It could be risk/return ratio targets e.g. if you hit your 2:1 target.

It is ***also about clever trade management.*** Do you trail your stop loss up/down in line with the trade. Do you have a rule to move the stop to breakeven as soon as possible to give yourself a free bet. If your trade is near its first objective and think the trade still has some legs in it but aren't 100% sure bring up the stop really tight and say give back 20% of the profits in the hope that the trade will continue to make you money.

***Never, never make your initial stop loss bigger*** if the trade goes against you in the hope that the trade will re-bounce. This tactic is fatal. It's like doubling down at the Casino and we are not in a Casino!

***So to summarise:***

1. Before you even enter a trade define your objectives i.e. stops, targets, trade management.
2. Before step 1. make sure you have a trading plan in place and you know what your trade and risk management rules are.

There will always remain an element of doubt in any trade. That is what makes trading fun. ***What you are trying to do is put probability and statistics on your side over the longer term.*** If you have a sound plan in place in the first place, deviating from this plan will lead to failure. As you can see successful trading is not just about getting into a trade it is also about trade and risk management techniques and their proper application.

It is very difficult to do but you have to: ***Let your profits run and cut your losses short.***



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## The month ahead:

### **Equities:**

August is holiday trader season. That means lower volumes but sometimes more volatility and faster moves. So watch out!

### **Equity Indices:**

The FTSE 100 is range bound and the S&P500 / Nasdaq 100 hitting highs. So August could be a frustrating trading month with periods of stalemate. There are some seasonal plays available. The DAX (German stock market) is often bearish for August and the Kospi (South Korean stock market) turns bearish in the latter stages of the month.

### **Commodities:**

August is holiday month for many of the commodity trading fraternity. So this, can make the markets more illiquid and therefore more random. Gasoline and Soyabeans are traditionally weak in this period whilst Wheat, Gold and Cattle have been more bullish.

### **FX:**

As per commodities a potentially quieter month ahead. With the Greek issue more on the back burner some better trends may start to appear. The first part of the month looks weighed down with data from Australia and New Zealand towards the end of the month Canada. The majors USD,GBP,EUR,JPY don't look to be so active in regards major news stories coming out.



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Stories from the pit:

‘The best Trading movies of all time?’

A light hearted end to this months report.....

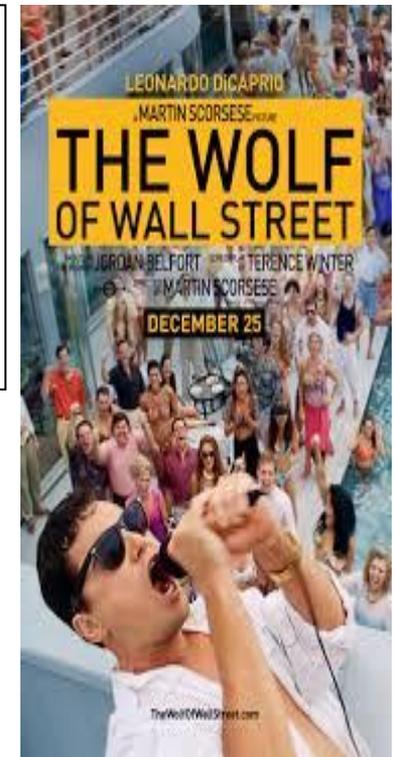
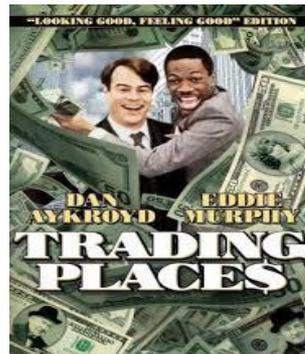
It's all down to personal opinion but I think the list here are the best movies made about trading.

I was inspired to get into trading by watching the first Wall Street film. More recently ‘The Wolf of Wall Street’ has rekindled an interest in the markets and got pulses racing!

If you have the time then I thoroughly recommend you take a few hours out to watch some of these films.

My top trading movie film list: (no particular order)

- Trading Places
- Wall Street (1 and 2)
- Rogue Trader
- Margin call
- The pursuit of happiness
- Enron: the smartest guys in the room
- Barbarians at the gate
- Inside Job
- Boiler Room





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Up coming events, offers and news:

## Core Trading Training Courses coming soon.....

We are now taking bookings for our course dates in August and September for our Core Trader Training Programme:

***Mon 24<sup>th</sup> / Tues 25<sup>th</sup> August Canterbury***

***Wed 23<sup>rd</sup> / Thur 24<sup>th</sup> September Canterbury***

## The Stop Hunter moves into new offices 1<sup>st</sup> of August.

Due to the expansion and location of the business The Stop Hunter has taken up new offices in the Canterbury Innovation Centre (on the University of Kent Campus).

This should now make it easier for our clients in East Kent and Sussex to come and visit us!

## One 2 One Training:

**Need on-going support?**

**Need to talk over your results and trading issues?**

**Want to identify your weaknesses?**

**Want to become a better trader?**

For those who have been on the Core Trader Training Course One2One training is currently only **£150 per hour**. Please contact us on 01227 467075 or via our booking enquiry form.



## Our new offices in Canterbury:

with full in house training resources and facilities



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