

# THE **STOP** HUNTER.



**Newsletter: August 2015**



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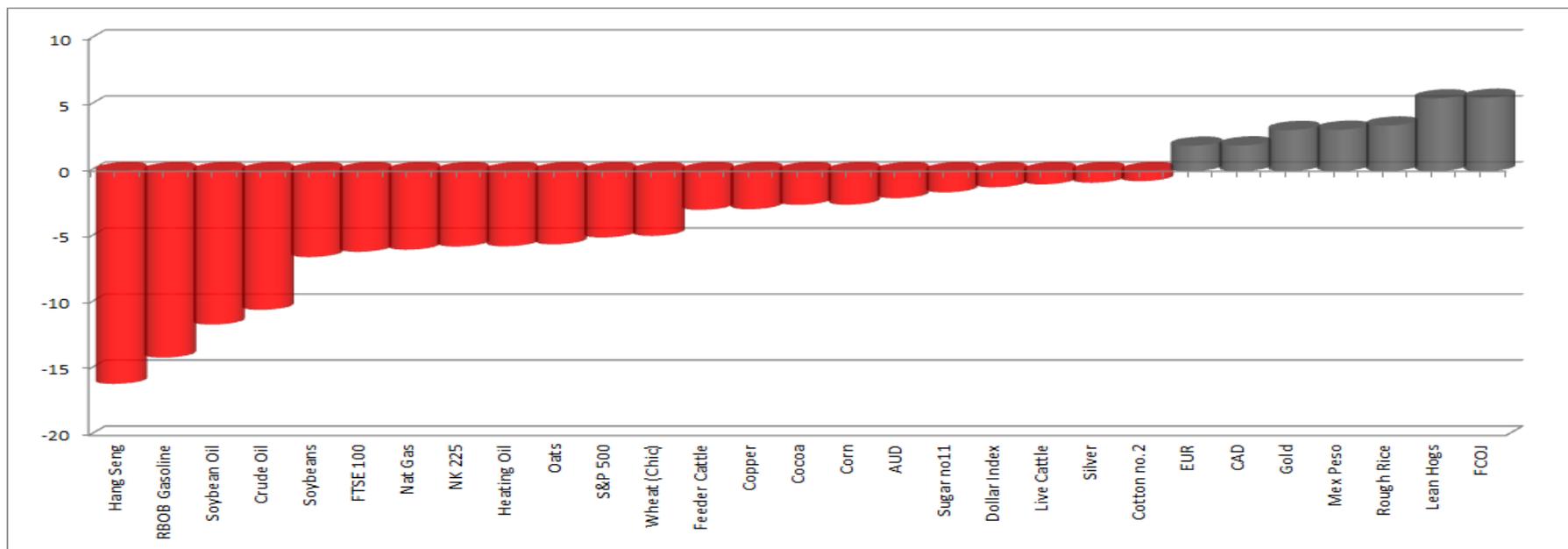
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## Month at a glance:

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## August Monthly Performance % change: Still commodities fall but at a slower pace!

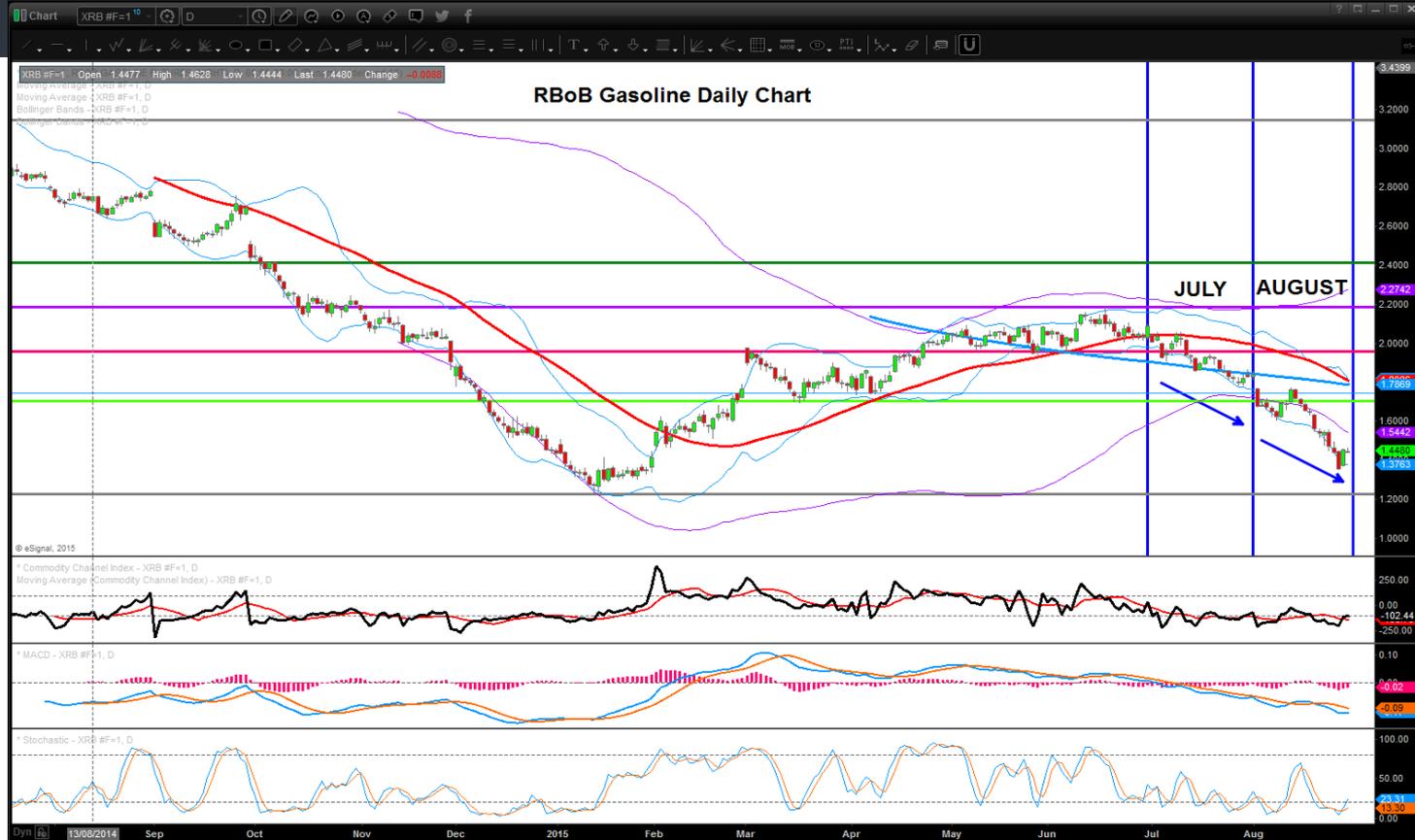




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Trade of the month:

**RBoB Gasoline**



RBoB Gasoline down 14.1% on the month.

For the second month in a row my pick of the month.

If you'd have been short from the start of July you 'd have picked up 26% by now!

It pays to watch the Seasonalities, COT and time your entry with the Technicals!



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## Technical Analysis Education 1:

### Chart patterns: trend continuation or reverse?

Some revision on price patterns,

An important part of your price analysis is to determine which way the markets are trending in. Remember that markets only really trend about one third of the time so there will be a large period of time when the asset in question is breaking away from its trend and more often than not is creating a sub-pattern to give you a clue as to whether that trend is going to continue or going to reverse.

These patterns are very useful in combination with oscillators, moving averages, pivot lines, Fibonacci lines etc. in trend direction determination.

So what patterns should we look out for?

#### Recent reversal Patterns Examples: FTSE100 Double Top Daily Chart



#### Categorisation of patterns:

##### Reversals Patterns:

Head and shoulders

Double/ Triple tops and bottoms

Saucers and spikes

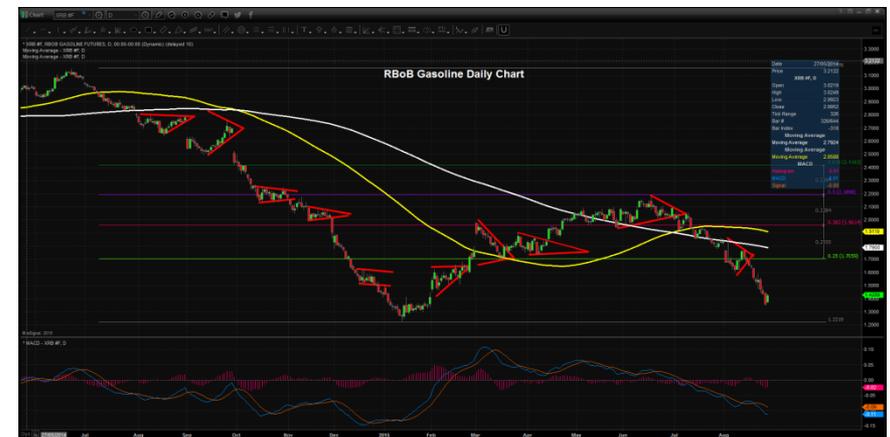
##### Continuation Patterns:

Triangles / Wedges :  
(Symmetrical / Ascending /  
Descending)

Flags / Pennants

For those who have completed the Core Trader Training Programme revert to Module 6: Technical Analysis for more information.

#### Continuation Patterns Examples: RBoB Gasoline Daily Chart





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## Technical Analysis Education 2: Key candlestick combinations to look out for

A great way of determining turning points on charts in any timeframe (especially the longer term ones > 60 mins) is to use candlestick charting techniques in particular combinations of candles which tell a certain story.

On their own I find them to be ok but can be better used in combination with either:

1. Support and resistance lines on the price for example: Pivot points, Fibonacci Lines, Moving averages, trend lines etc.
2. With oscillators. Do the combination patterns correlate to say for example a signal you're getting from the MACD or the Stochastics?

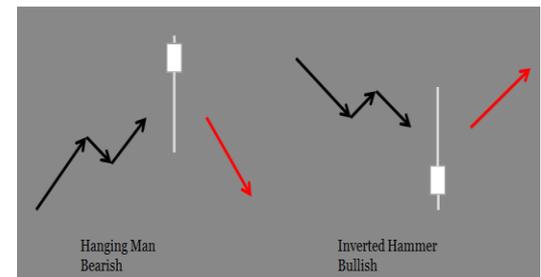
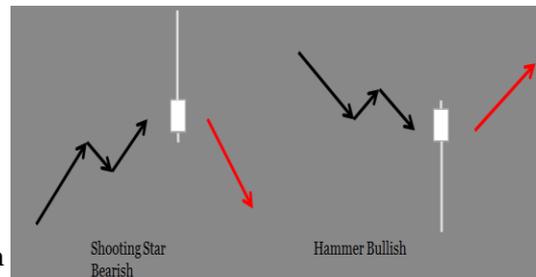
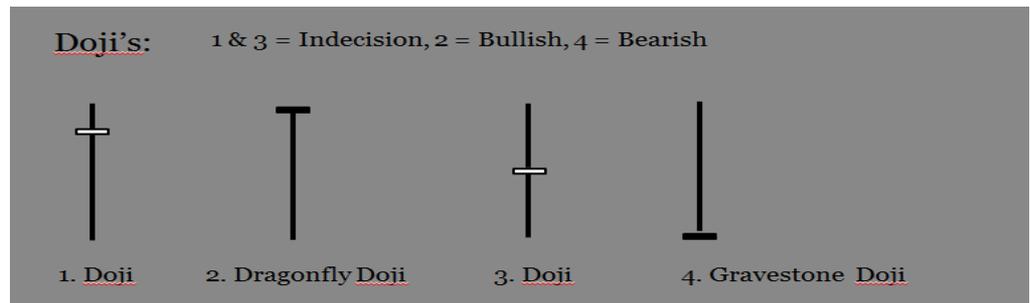
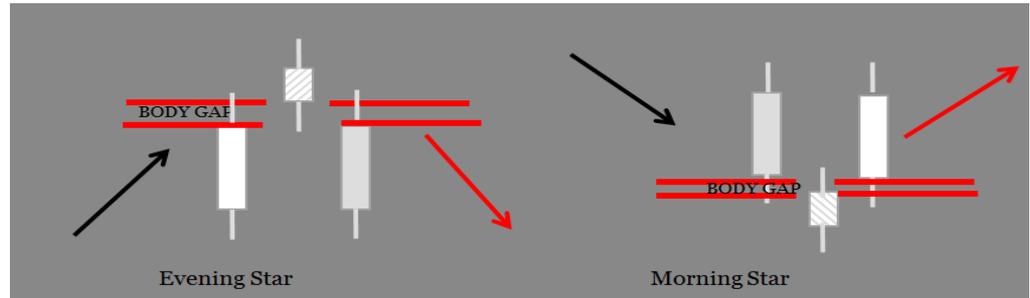
When adding this extra layer of confirmation over your trade analysis you can get much better and stronger signals for both entry and exit points.

There are hundreds of patterns in candlestick charting that can be used. I use just a handful which have served me well over the years. They are:

- Doji's
- Morning / Evening Star
- Hammers

When you're next looking at your charts see if you can spot them?

These patterns are not an exact science and don't always look just like they do in a text book but they do and can work:





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## Strategy Talk: Getting in is easy – managing your trade is the hard bit!

So you've decided that Crude Oil (WTI) is going down its early July 2015. I had come to that same conclusion based off my knowledge of the fundamentals (storage capacity at its highest for decades, mass over-supply and the possibility that Iran would start exporting) and add this to bearish technicals on the daily charts I sniffed a short opportunity! It would have been easy to just enter at the current market price and crossed my fingers but it gets a bit more scientific than that to aid your chances of success.

**Entry:** firstly I have seen an interesting triangle pattern developing right on a Fibonacci line so I place my Stop above these two things and my entry below the triangle. Once price breaks the pattern it gives me the confirmation I need to enter the trade. I don't just enter. Thought is given to the correct points of entry and stop exit and an order placed. (watch for round numbers etc) I also pre-define a target: in this case the previous lows at \$42 giving me a possible risk return of over 2:1 (very good).

**Note** at this stage I don't go into a shorter timeframe and start trading. My analysis was done on the daily chart and that is where you should trade.

**Entered:** The trade has been triggered. Oil has strong Fibonacci lines so my rule was to trail down the stop once the price had clearly broken through the next down Fibonacci line. I stay patient let my profits run.

**Exit:** once hit \$42 target. You could have brought the stop tight and stayed in the trade giving up some profit on the chance that the trend continued down.

Some rules to take from this example:

1. Carefully plan your entry: Stop Loss / Entry – don't just enter. You're looking for 3 things:
  1. Break of a set of criteria: in this case triangle pattern / Fibonacci lines.
  2. Validation through other oscillators that the price is coming down.
  3. Thrust: has the trade got the momentum / trend on its side?
2. Do not change timeframes to the shorter ones to get a bit of the action quicker and place your stops in this timeframe you will more than likely get taken out the game as you'll be too tight.
3. Stick to your pre-trade plan about management to exit and don't deviate: in this example using the shorter term Fibonacci's to trail down.





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## The month ahead:

### **Equities:**

Statistically September is the worst performing month for buying stocks on the US and UK market. Although the bias is towards short trades, these short trades don't massively outperform in this month. Often September can be a stale frustrating month.

### **Equity Indices:**

As above and with the impact of the latest financial markets rout in the latter part of August, Chinese economic woes, commodity markets struggling still hanging around, September could be a very interesting month to watch. The Nikkei 225 and DAX over September remain seasonally bearish on average.

### **Commodities:**

Quite a few seasonal plays in September: In Energies Gasoline should remain weak. Metals: Copper bearish. Meats: Lean Hogs turn more bullish, whilst Soybeans bearish and Oats and Rough Rice bullish in the Grains complex.

### **FX:**

A lot of data coming out of China early month which could prove volatile in the markets. USD is busy throughout news wise. CAD and AUD feature heavily first half and EUR, NZD the second half of September. I envisage August's market turmoil will roll over into September making especially the commodity based and emerging market currencies more volatile to trade.



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Stories from the pit:

## 'Historical market crashes my top 7 – putting things in perspective:



Thought it timely to look at prior market crashes and put this last few weeks noise into perspective! With the S&P500 down -11% in a week, a commodities rout and the Chinese economy looking perilously placed (Shanghai Comp Index -40% since early July) what have been some of histories big bubble bursting moments?

In no particular order other than by timeline: My top 7:

1. **Tulip Mania 1634 – 37 Netherlands.** One of the biggest crashes of all time. The nation had bought into this craze borrowing everything to participate. One tulip bulb cost at its peak the worth of a whole country estate. At its bottom the value of a carrot! Investors tried to close out and take profits at the peak and there were no buyers! Panic set in, prices plummeted very quickly the tulip market was dead!
2. **South Sea Bubble 1711 – UK(which was Global then!).** Stock prices in a fundamentally overvalued company crashed from £1000 to nothing in a very short space of time.

3. **1929 – Great depression – USA / Global.** 40% market drop in one month period. 92% by time hit bottom in 1932. Everyone piled into stocks, borrowing all they could. The herd mentality took hold. There was a lot of stock price manipulation tied in with a global economic depression which spelt disaster.

4. **1987 October 19<sup>th</sup> Global.** Biggest one day fall in the stock markets. 22.6%. Herd mentality, systems failures again led to mass panic.

5. **Asian Crisis 1989 onwards (Japan):** Corruption, business / government collusion sent property prices 70 times higher, stocks 100 times higher in 35 yrs. Government intervention to tidy things up led to a crash in Nikkei 225 of 30000pts and almost brought down the US as well.

6. **Dotcom Mar 2000 to Oct 2002 – USA :** Nasdaq fell 78%. Investors piled into stocks with no real substance – when these stocks gave back nothing the investors fled!

7. **2007-09 Credit/ Housing crunch - Global.** Think this one has been well documented! The S&P lost 57%, big banks went bust, the house price bubble burst, financial markets around the globe fell into turmoil. Still we're picking up the pieces today.

**An 8<sup>th</sup> on the way? China?** Major Chinese stock indices off 40% in a month after rising over 150% since the start of 2015. An economy struggling, debt increasing, a casino like stock exchange and a country that utilises huge amounts of the resources of the globe. Knock on effect to countries like Australia, Brazil, Turkey, South Korea, Singapore etc. could be huge. What is happening now resembles very strongly the event of Japan in the late 1980's early '90's. When China sneezes these days the World catches a cold!!

One thing to note is that these bubbles are coming around a lot more quickly!!



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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 28<sup>th</sup>/ Tues 29<sup>th</sup> October Canterbury***

## 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.

## Take advantage of The Traders Club Trading Surgery:

Once a month we run a drop in trading surgery for members to be able to discuss all their trading issues as a group and put questions to The Stop Hunter.

Look out for Septembers event to be held at our Canterbury offices later in the month.

Potential dates will be communicated to you in early September.

**Refer anyone onto our  
Core Trader Training  
Programme and receive  
£100 cash\*\*!**

(\*\*Terms and conditions apply)



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