

# THE **STOP** HUNTER.



**Newsletter: September 2015**



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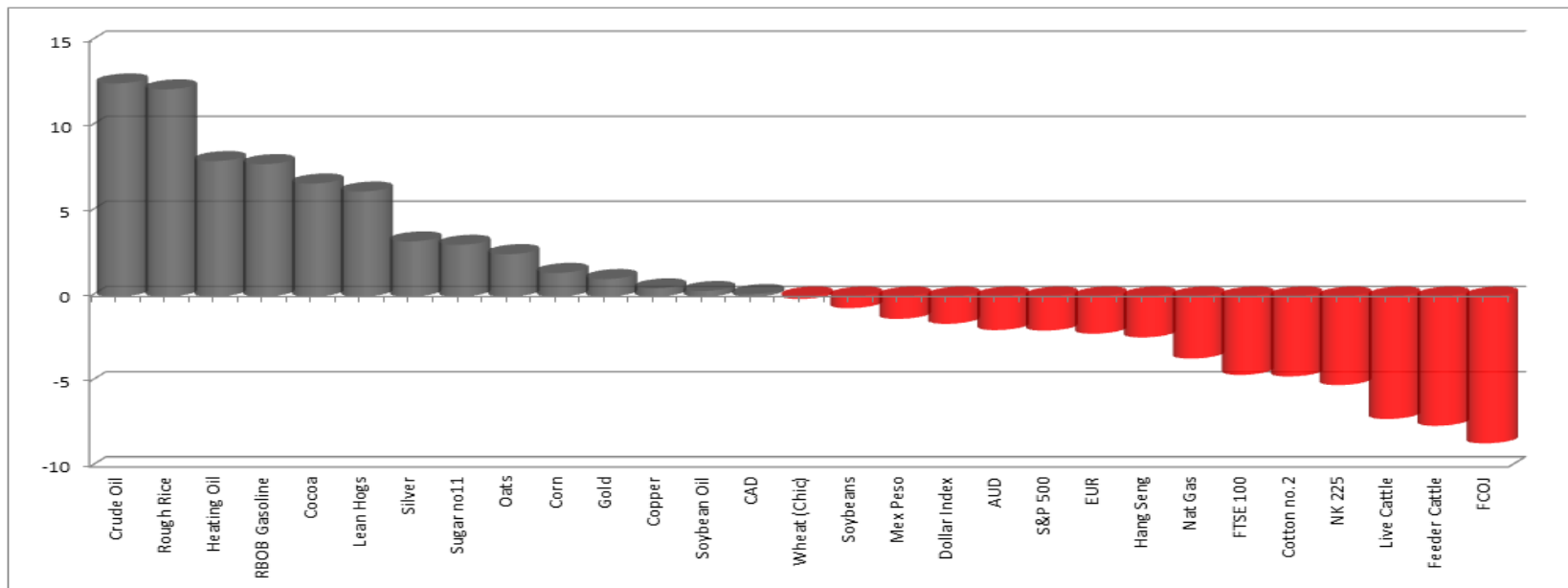
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## Month at a glance:

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## September Monthly Performance % change: More balanced month. Energies recover?!





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## Trade of the month: Rough Rice

### Rough Rice:

Up 12.17% over September. El Nino fears and supply fundamentals keep driving the price upwards.

Currently stalling around the 13.00 level as it hits longer term resistance going back to December 2014.

Look for possible breaks above and next target in the longer term 15.40.





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## Technical Analysis Education 1:

### Channels and Bands

Channels and Bands are crucially important as you will read later in the article on Contrarian trading and also for recognising when a market is overbought or sold. They are like mean reverting tools. What do I mean by this? It's a bit like stretching an elastic band. You see how far it can stretch before it pings back to its normal shape. It's the same concept with bands and channels. They are measuring how far price is away from the normal (mean). Why is this useful? It's very useful for watching for market reversals or turning points. The mean reverting concept doesn't always play out and prices can continue to stretch themselves further from the expected normal. But eventually though at some point the price will become over-stretched.

- Sometimes it is good to plot several series of envelopes around a MAV
- Bollinger Bands (BB) are basically envelopes that use a standard deviation – a good volatility measure.
- When BB's narrow it is often followed by a sharp price breakout.
- BB's: when the price breaks a band this is a sign of strong momentum and the trend can continue.
- BB's: When the price returns through the band expect a trend pause unless this crossover is associated with a trend line break in which in this case the crossover probably represents exhaustion.

What are some good tools to use and investigate further?

- Bollinger Bands
- Price percentage Envelopes
- Channels e.g. Donchian
- Keltner Bands
- Starc Bands

Generic guidance:

- Envelopes: moving averages plotted at equidistant levels above/below a moving average (MAV).
- They provide useful support and resistance levels

Example: Daily GBPUSD chart utilising Bollinger Bands:





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## Technical Analysis Education 2: Fibonacci: What is it? Why use it?

Simply, its one of the best tools for predicting support and resistance levels and price targets on your charts. It works across all markets, but from my experience works better on the longer term charts e.g. 4hr, 1 day, 1 week.

It is a bizarre concept from a 13<sup>th</sup> century Italian mathematician - but it works! It has become a self-fulfilling prophecy. In trading terms it is based on the behaviour of groups following patterns and lends itself perfectly to trading.

It generates movements importantly that you can anticipate in advance by using the appropriate analytical mechanisms.

### Simple rules for creating Fibonacci lines.

1. Depends on your trading time period.
2. Look for a high and low and connect them.
3. For longer term lines look for highs/lows over a far greater period. Shorter term lines over more recent highs/lows
4. Works in all timeframes
5. It is subjective though – but you will instantly see when you draw the lines if they fit the asset you're potentially trading.
6. Almost all the charting software I know has Fibonacci functionality

Some further types of Fibonacci methods you may like to investigate: Extensions, Time, Circles.

### Example: WTI Crude Oil

Note the longer term Crude Oil Fibonacci lines drawn between highs and lows of June '08 and Jan'09 which looking forward from that point gave some great support and resistance levels. I've also drawn on a more short term Fibonacci series between May and August of this year. Again this was done to find support and resistance zones for shorter term trades.





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## Strategy Talk: The Contrarian Trader!

Who is he and why do we need to know about him? Firstly the word 'contrarian': somebody disposed to taking the opposite position. So does that mean our trader does the opposite to everyone else? Not at all. He's far more clever than that!

Does this sound familiar? "Whenever amateur traders/ investors become 'massively' one sided in their expectations about the future direction of any given asset: whether it be a stock, commodity, currency etc. the market will move in the opposite direction to that which is anticipated by the masses!"

Lets put it another way. If all the non-professionals are hugely bullish on a stock and pile into it to the point where they are fully invested who is left to buy? There is nobody else left to create any demand. Therefore the stock has become over-valued. The professional trader is waiting to take advantage: he is the one with the deep pockets! Any small increase in supply will now bring the price down. It is the contrarian trader who recognises these key pivotal points and takes advantage of them i.e. he is taking the opposite position to the masses but at the right time.

Learning some of the skills and tools of the contrarian trader uses can seriously aid you trading.

### Contrarian techniques:

In terms of technical analysis its all to do with recognising when the indicators: whether they be the RSI, Stochastic, CCI etc. are at extremes i.e. overbought/ sold levels and are likely to turn. Knowing / recognising Candlestick reversal patterns on daily/ weekly charts tied in with the indicators will only strengthen your point of view.

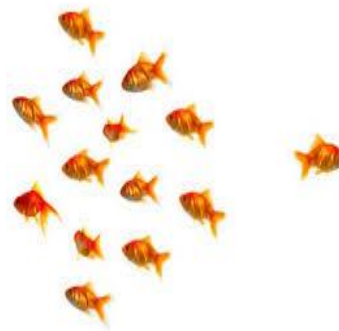
Other such TA tools: Donchian / Bollinger Bands, 52 week high/ lows on stocks or advancers/ decliners on stocks.

Sentiment also plays a key part and is often difficult to quantify. On Commodities you could use the COT, Futures Open Interest levels, Stocks the VIX, Currencies a CSI.

You could also follow advisory opinion. A popular source is the Investors Intelligence report which gives a bullish/bearish consensus ([www.investorsintelligence.com](http://www.investorsintelligence.com)) For FX and for that matter most markets, following economic sentiment gauges which you can find on Forex Factory for example. ([www.forexfactory.com](http://www.forexfactory.com))

And don't forget one of the oddest sentiment/ contrarian gauges: Women's hemlines! As hemlines rise so does the stock market. As they get lower the stock market falls – that's the idea anyway! It is difficult to justify this concept although it does follow some logic: The more pessimistic we become the more conservative we get. The more optimistic we become the more adventurous/ risk takers we become.

There are many tools available to allow you to quantify a 'contrarian' opinion in any liquid market. 'Calling the turn' as it is know is extremely difficult to do but by understanding and utilising these methods you can only improve your trading capabilities.





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## The month ahead:

### **Equities:**

Statistically October is the turning point for when stock markets turn Bullish. It can often be a weak trading month so trade timing is highly important for success. US and UK stock markets are currently spluttering their way downwards off of numerous factors but weighing heavily on their minds is a future interest rate decision.

### **Equity Indices:**

October sees traditionally the worlds global markets coming into a period of strength all the way through to the end of December. So look for opportunities to the upside and any re-bound buy-ins from any short term bearish downside. China, US interest rates and a slowing global economy may still weigh heavily on any bullish sentiment.

### **Commodities:**

Can Oil recover from its lows? Traditionally the Energy complex is quite bearish October - Gasoline should remain weak. Metals: Copper, Gold, Silver bearish. Meats and Grains : a mixed bag. Cocoa can turn bearish ahead of the winter bullish period. We're also entering hurricane season for Orange Juice.

### **FX:**

Again like September a lot of data coming out of China early month which could prove key for the markets. USD is busy throughout news wise. CAD and AUD feature heavily first half and NZD the second half. EUR looks quiet. Continued global indecision and direction will again make these markets hard to trade and more unpredictable. Emerging markets will suffer if there is any continued Dollar strength and Chinese bad news.



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Stories from the pit:

## Legendary Traders: Jesse Livermore:

Every now and again in the Monthly Newsletter I will highlight a legendary trader which I think is worth you further investigating their methods, personality, behaviour, trading approach etc. This month I'm going to look at Jesse Livermore. Perhaps one of the most famous traders of all time.

He was a US Stock trader who had both disasters and amazing successes. At one point almost losing his whole fortune. There is so much you can learn from him especially around trading psychology. He made his techniques public. These rules earned him mega Dollars and other traders as well who since have followed his methodologies. Essentially though he found that if he stuck to his rules he won if he deviated he lost and badly. His fortune was estimated at \$14bn in today's money.

Read Reminiscences of a Stock Operator by Edwin Lefevre. It is essentially Livermore's story told through the character Lawrence Livingstone and does quite a good job of dissecting Livermore's actual trading approach.

Born 1877, in his early teens he left home for Boston to escape a career in farming and got a job working for Paine Webber a stock broker. He was an instant success. His trading style? He was a learner from his own mistakes and successes!

Some of his trading theories:

I have highlighted/ italicised in bold some of the key words / concepts that should be taken on board and applied to your trading:

- **Focus on markets as a whole**, rather than on individual stocks. **Greater success comes from determining the direction of the overall market than attempting to pick the direction of an individual stock without concern for market direction.**
- Adopt a buy-and-hold strategy in a bull market and sell when it loses momentum. **He always had an exit strategy in place.**
- Study the fundamentals of a company, the market and the economy. **Livermore separated successful investors from unsuccessful investors by the level of effort they put into investing.**
- Ignore insider information; **make your own independent analysis.** Livermore was very careful about where he got his information and recommended using multiple sources.
- **Embrace change in adapting investing strategies to evolving market conditions.**







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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:

***Thu 29<sup>th</sup> / Fri 30<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 Octobers event to be held at our Canterbury offices later in the month.

Potential dates will be communicated to you in early October.

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

(\*\*Terms and conditions apply)



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