THE STOP HUNTER

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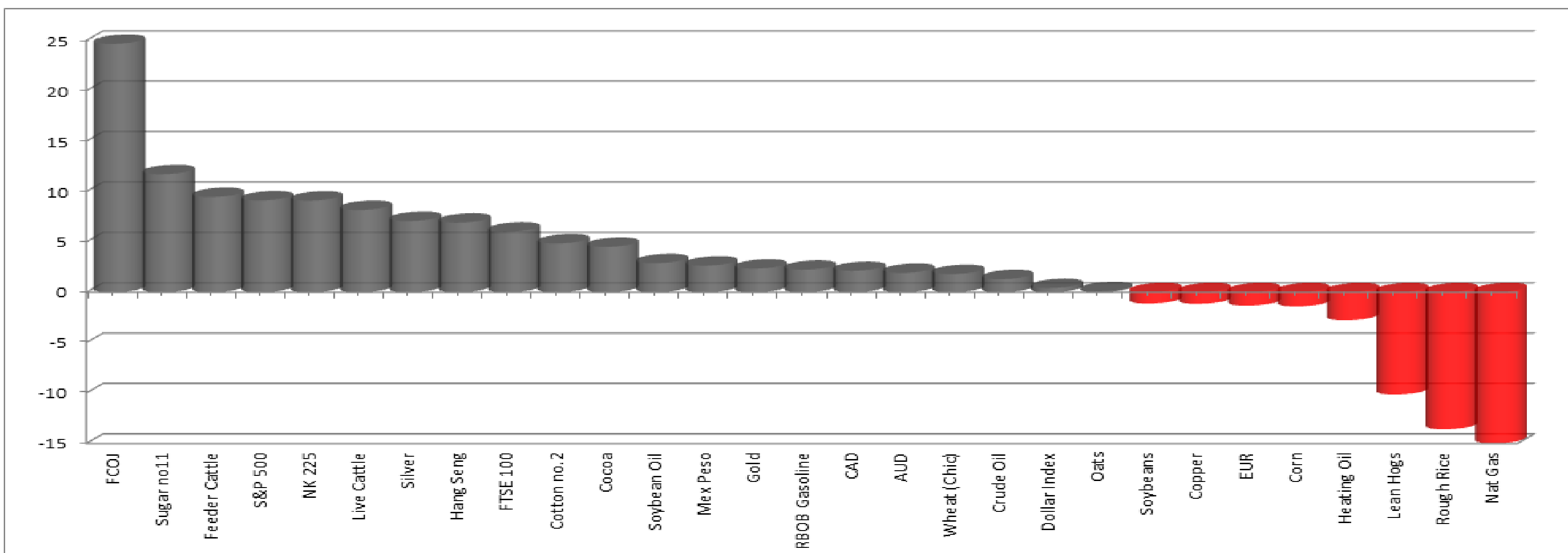
This issue:

Month at a glance:

October Monthly Performance % change: More positive month across sectors.



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Trade of the month:

FCOJ Orange Juice

FCOJ Orange Juice:

Up a staggering 24.64% over October in a traditionally bullish period that is normally driven by hurricanes. This time, by speculative demand and other fundamental factors.

The outlook still remains bullish for November but currently the price is taking a sideways breather.

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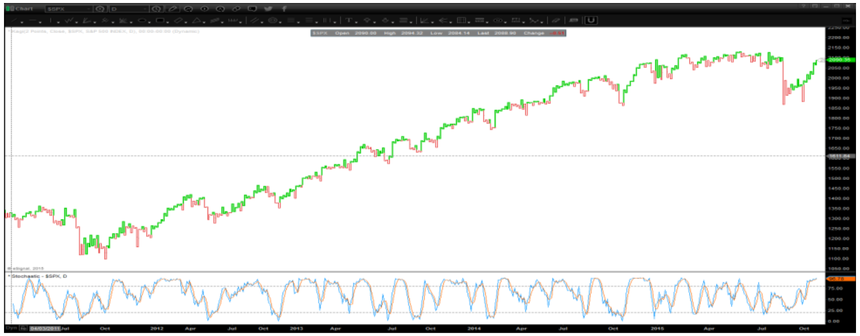
Technical Analysis Education : Ancient Japanese trading methods for the 21st century

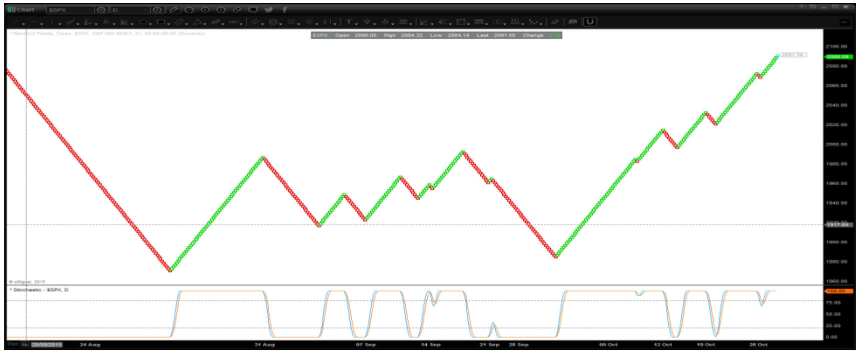
Technical Analysis you will come to realise is a much bigger world out there than you first realised! You can become a highly successful trader / analyst focusing on very small areas inside technical analysis e.g. Point and Figure charting. Another Technical Analysis Pandora's box is the area of Japanese Charting methods. You will be aware of the Candlesticks and Homma the founder of these methods but there are some fabulous very interesting and profitable techniques out there rarely discussed and some of these I want to introduce very briefly here. (I will use the NS&P500 Daily chart to illustrate these techniques.)

Candlesticks: we're all very familiar with these!
Heikin Ashi: an average of 2 candles approach – gives smoother trends.
Renko: charts that ignore time and focus solely on price changes that meet a minimum requirement. Very similar to Point & Figure charts. Instead of X-Columns and O-Columns, Renko charts use price "bricks" that represent a fixed price move. They move up or down in 45 degree lines with one brick per vertical column. Bricks for upward price movements green, down red.
Kagi: again based on price action and ignore time. Invented in the late 19th century. Instead of X-Columns and O-Columns, Kagi charts are line charts that change direction when prices move a required amount. There is also the added aspect of yin and yang as the lines change thickness when prices break above a prior high or below a prior low.

Kagi chart: I use a 'Western' stochastic tool to confirm entry /exit.

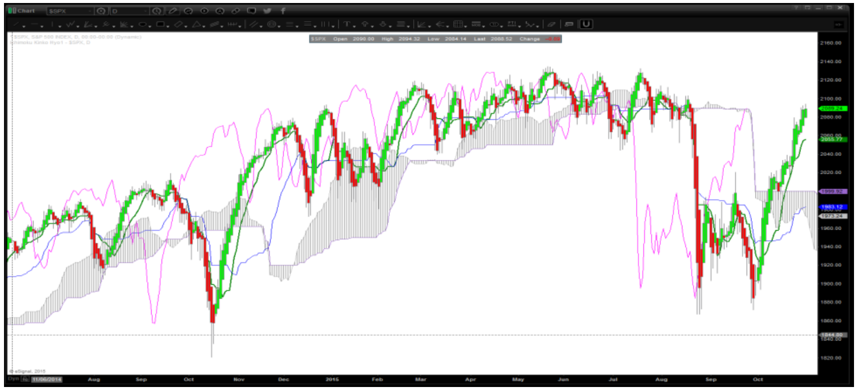


Renko chart: notice how clear cut the trends are. I use a 'Western' stochastic tool to confirm entry /exit.



Ichimoku: The Ichimoku Cloud, also known as Ichimoku Kinko Hyo, is a versatile indicator that defines support and resistance, identifies trend direction, gauges momentum and provides trading signals. Ichimoku Kinko Hyo translates into "one look equilibrium chart". With one look, chartists can identify the trend and look for potential signals within that trend. It looks complex but it isn't in practice!

An Ichimoku / Heikin Ashi chart of the S&P500:



If you'd like to learn more about these ancient methods get in touch with me at info@thestophunter.co.uk

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Risk management: A refresher

Risk Management – Is the art of staying in the game! This should form part of your trading plan – NO EXCUSES! This is an area you should have firmly sorted before you start to trade. If you don't have a consistent risk management plan you will lose – simple as that.

Its about preventing catastrophic loss and giving you the best chance to succeed. If you have an edge in your trading strategy and can deploy sound risk management techniques then you stand a good chance of ending up a winner. Some typical question you may ask: How much do you risk of your funds? We know that a sensible plan is to stick with between 1% and 3% of your overall portfolio per trade per trade e.g. if you have a £10000 pot you should risk between £100 and £300. How many positions should I have on at once: Simply don't take on what you cant handle. Be sensible! You could set a rule that you're only ever going to risk a maximum of 15% of your overall portfolio on open positions. Or if you have a successful strategy maybe use something like the Kelly Criterion below. Below are just some of the techniques you could implement into your trading plan to define the levels of risk you want to take:

Two great techniques taken from the world of gaming theory:

Risk of Ruin (RoR): What's your chances of losing it all?!

(1-(W-L))/(1+(W-L))^U
W/L = win /loss percentage
U = Capital units

Obviously you don't want to lose 100% so you may set yourself a max limit of 30% of your portfolio value. (In the trade known as the 'Drawdown')
RoR is greatest: up-front when you start trading, if you have a small balance, lack of skills or trade for a long period of time without success.

Lets look at 2 examples: (Both have a 30% drawdown)
Trader A: £50k pot, 10% risked per trade, 60%/40% win/ loss ratio, 3 capital units: = 30% RoR
Trader B: £50k pot, 1% risk per trade, 60%/40% win / loss ratio, 30 capital units: = 0.000005214% RoR
So you can see what you have to do!! Increase your W/L ratio or reduce your trade size.

Kelly's Criterion:
How many trades do you have on at once, how much of your portfolio do you want to put at risk, per trade?
This can be used as a guide per strategy and weight it according to its performance.
You need a strategy with a positive expectancy or trading is pointless!!
Expectancy = (probability of win * Av. Win) – (Probability of Loss * Av. Loss)
Kelly % = W-(1-W)/R
R = av. W/L ratio and W = historical win %
Example: 60%/40% Win / Loss ratio average risk return = 2:1
=33.3% – so you could use 33.3% of your capital on a particular strategy – so if I've got lots of potential trades on I know how many to put on!
There are different ways of applying the Kelly approach model.

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Strategy talk – Master these 5 key 'human' areas to improve your trading results

In the heat of battle you're going to make mistakes. Most will come at the beginning of your trading journey. As long as you learn from these errors then all well and good. A lot of these mistakes come down to who YOU are. I see some of the same mistakes played out over and over again. So I thought it useful to list 5 key areas that you can recognise and work on so that you can improve your results and not fall into these negative traps:

1.Trading Strategies / Plan

Trading can be tiring and exhausting – it's a rollercoaster of emotions.
You don't have a trading plan.
You don't understand that plan.
You are making rookie mistakes - not setting stops correctly , fat finger errors, rushing trades - not giving them a chance.
Maybe the markets you trade don't suit you - FX intraday is a different kettle of fish to trading Lean Hogs weekly!
Are you over-trading?
You are not following the rules of the game!
No consistency: this is the secret to longer term trading success!

2.Situational

Slumps: They will happen. As long as you can dissect your results and learn from the slump all well and good.
Pressures: If you're being unrealistic in your expectations and not setting yourself achievable goals you will suffer!
Family: You do have to factor in your lifestyle to your trading. Again, be realistic,

3.Personality

Some people aren't disciplined and controlled. Some act like compulsive gamblers, whilst others act like a rabbit in the headlights! Are you mentally in the right place for trading?

4.Mental

Environment – not in your ideal trading state, the physical environment around you isn't conducive for trading. Getting in the trading zone is important: Like a professional sportsmen you have to be focused to succeed: you have to be prepared.
Distractions – can't deal with: your real job, family, lifestyle etc.
Boredom - often the problem of the gambler. They need to be doing something or they feel they aren't getting anywhere: they will lose.
Fatigue – no energy. Trading can be tough mentally and physically - you have to stay sharp.

5.Emotional

Anger – frustration over losses, you think the market is out to get you: its not!
Mistakes: fat fingers.
Over confidence – the ego has landed! Sometimes you get off to a good start in your trading career. It all appears easy – no ego control. Normally from my experience, the bigger the ego the worse the trader!
Can't accept losses
Greed – can't run profits / cut losses: this can ruin a good trading strategy straight away!
Fear – Hesitation: You have to be in it to win it! Some people talk the talk but simply just can't handle doing it for real!, continued losses: I know that for example I can lose 7 out of 10 trades and still be a winner – because I have a plan, know my results, trading style etc. I can handle losses! Performance and results: as previously, people suffer from trading paralysis!
Too much risk taken
Loss of confidence: you've just lost $1m on one trade, you've wiped out your annual profits – how are you going to come back from that?
Doing too much for the sake of it (over trading): You're playing catch up, you've lost a lot, you feel you've just got to trade your way out of this mess! Or, you haven't got a plan so you go into it blindly and trade for trading's sake! All recipes for disaster.

As you can see there is a lot to take in if you don't want to become a bad trader and it is easy to fall into some of these trading traps. Most of the above in my opinion are easy fixes. You just have to get the school of hard knocks experience under your belt, be realistic, keep learning, be consistent, and follow the rules of the game. Over time you will develop into the trader you want to become if you mange to avoid these pitfalls!

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The month ahead:

Equities:
November and then into December are statistically the best months to trade equities to the long side. The markets have taken a bit of a battering over September / October and a small recovery seen over the second part of October may show signs of exhaustion / ranging before moving on again. Also watch out for Thanks Giving toward the end of the month – another good time to buy stocks.

Equity Indices:
The indices obviously follow suit from the underlying equities. November / December are a global phenomenon and buying strength can be found in the Hang Seng, Nikkei 225, S&P, FTSE, Kospi and DAX. Any interest rate changes (or lack of) may skew any positive outlook.

Commodities:
There appears to be a slowdown in the commodity slump currently. Not to say it wont continue as the fundamentals still don't look good in many areas. Traditionally November sees Copper, Gold, Nat Gas, Cotton, Cocoa, Sugar bullish and Wheat, Crude Oil, Gasoline, Heating Oil bearish

FX:
A ranging US Dollar could see cross currencies swing within wide ranges. The other thing to watch out for is if any of the major currency countries will up their interest rates before year end. Unlikely but key candidate could be GBP. USD more likely in 2016. Traditionally CAD has been strong in November.

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Stories from the pit: Christmas is upon us!

It's almost that time of year to roll out my favourite one off trade of the year: the Santa Rally trade!

Historically this is a winner but you have to be careful! If you'd have followed some of the strict rules around entering this trade that many have published then you'd have probably lost in December 2014.

This year that approach would have mostly lost because up until the 16th of December, the FTSE 100 was very bearish and in a steep down trend and I'd say very difficult to trade. If though you overlaid the concept of the rally with some technical analysis then again it turned out to be a winner!

For those who don't know, one of the behaviours of the FTSE 100 almost every Christmas time is to go up. Most people enter this trade on specific dates and exit it on specific dates. I think the trade is actually a bit more difficult to execute than that though and following this approach blindly will lead to more losers than winners.

I on the other hand worked on those first principles but married it up to technical analysis for my timing for the entry and exit of the trade and ended up a winner.

I made 216 points on the trade a very good return! (Buy at 6306 sell at 6522) See the chart below for the trade – 60 minute chart, UK FTSE 100 Index. The blue line and inside the blue circle mark my entry and the yellow line and yellow circle mark my exit.

FTSE 100 60 minute chart from 2014 above. Keep this strategy on your radar towards the end of November. It is by no way a guaranteed cert and other outside factors can always negate any edge that may have been found previously but you can certainly put the odds more strongly in your favour.

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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 November for our Core Trader Training Programme:

Wed/Thu 18th / 19th November 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 811731 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 Novembers event to be held at our Canterbury offices later in the month.

Potential dates will be communicated to you in early November

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

(Terms and conditions apply)**

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Disclaimer:

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