# The Elliss Big Money Index

The Elliss Big Money Index (EBMI) is a unique technical indicator. It is the only FORWARD forecasting FUNDAMENTAL indicator and it is only available in the Australian Stock Market.

The EBMI is a measure of INSTITUTIONAL BUYERS in an individual stock. Institutional buyers can be identified in the market. However, they are NOT a measure of volume as we will see. We can identify them via transaction size. Tracking the transaction markets from the ASX allows us to identify individual LARGE BUYERS in the market. We can identify them as BIG MONEY. We know a few things about BIG MONEY:

1) They are BUYING and they are not buying to lose money.
2) They are buying today as a call to action because they believe that the share price is likely to be higher tomorrow (otherwise they would buy tomorrow).
3) Big Money buyers are likely to be more informed than the retail market and the average investor.
4) They are likely to have direct information about the company that may not be public knowledge.
5) Historical evidence indicates that these EBMI are generally buying as they believe there is a short-term potential for capital gain (rather than from long-term investment.

We can call these BIG MONEY buyers – lucky guys. As we will see, there are literally thousands of examples where they have just bought in at the right time – just before the stock goes up.

EBMI is not full-proof. It does not detect Institutions where they buy in small regular parcels as individual transactions. This is more expensive for an institution but if they do this we will not detect them with this indicator.

There is NO EBMI SELL indicator. Institutions do go to the trouble of breaking up sell activity into small parcels and the EBMI sell (which does exist) is far less effective than the EBMI Buy. The primary reason that Big Money Investors go to more trouble and expense to hide Sell parcels is that the true definition of Inside trading is not buying before good news its Selling before bad news.

# A brief history of the ASX

Prior to 1987, each state had its own stock exchange. Hence we had the Sydney stock exchange, Melbourne stock exchange, Brisbane Stock exchange, Adelaide Stock exchange, Hobart stock exchange and Perth stock exchange. These all traded the same stocks : BHP, ANZ, etc. but exchange had different prices.

**1987** The Australian Stock Exchange began a consolidation process with one of the most advanced composite exchanges at that time. SEATS (Stock Exchange Automated Trading System) commenced implementation to merge all the Australian exchanges

**1990** SEATS becomes fully operational and all orders are automated and executed in the first in first out order system. This represented the fairest stock exchange system in the world. It allowed bid and ask information to become available:

Level 1: Last Traded Price – available to all and broadcast publicly by the ASX

Level 2: Bid and Ask – Available to all and broadcast to subscribers

Level 3: Depth of Market – available by specific subscription form the ASX and controlled by the ASX.

Level 4: Buyer Seller Identification – available to ASX participants (Owners of the ASX – brokers). This Level 4 access allowed brokers to identify WHO was buying and how many they were buying such as Mac Quarie bank buying 100,000 BHP shares etc.. This was deemed extremely useful information and was only available to major shareholders of the ASX – not the public.

**1996** ASX demutalises – allowing major institutions to become ASX participants (formerly ASX Brokers only).

**1998** ASX lists on the ASX as a public company and Australian institutions become major share/holders (formerly ASX participants) with access to level 4 Information (exclusively).

**2000** ASX become a major shareholder of IRESS (20%). IRESS (IRE) is an execution platform for institutions that supplies proprietary stock-market information for members.

**2003** ASIC enquiry into inside trading pinpoints the ASX as the major inside trader with ASX participants gaining market sensitive information through the Level 4 system of transaction monitoring that is NOT available to the general public through the Enhanced Signal E (ASX participants only).

Choices for the ASX were to allow the public access to the information or to randomise the information so that individual buyers and sellers could not readily be identified. ASX participants decided that the information was too advantageous for the general public and consequently chose to randomise the data -assigning random numbers to identify individual buyers. This disguised the identity of corporate buyers in the market – BUT NOT THEIR TRANSACTIONS.

**15th December 2003 ASX** Announcement – Changes to Broker and Institutional IDs in Signal E (Enhanced).

ASX
AUSTRALIAN STOCK EXCHANGE

**MARKET INFORMATION NEWS**

IN THIS EDITION

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*ASX Market Information - Information solutions from the source*

This announcement advised that Broker and Institution accumulation and T+3 (iceberg) orders emanating from a single source could no longer be identified and the identifiers were to be randomised. Nb – the public report deleted any reference to the enhanced signal E for ASX participants from the original ASIC report and you can note the pages missing from the report.

**2006** ASX mergers the SFE into its operation and it ceases to operate as a separate entity.

## Buyer Identification Ceased after 2003?

The original transaction marker system and the T+3 (transaction marker 3 day system) still operates (now as T+2) in SEATS. Each buy opens a transaction with a RANDOM NUMBER IDENTIFIER and this number (identity) is tracked for 3 days (T – today + 2 (days)). The entity can acquire using this number for up to 3 days before the number is closed with the transaction and a new transaction needs to be initiated.

The entities like MacQuarie Bank, Australian Futures Fund, AMP, ANZ Super Number 1 Fund etc.. are deleted and replaced with Random numbers. They accumulate the number of shares required and when the transaction is completed (or the T+2 requirement expires) the transaction is closed. The transaction tracking system is still fully operational and this information is available through interpretation from ASX Signal E.

Instead of MacQuarie Bank (before December 2003) we would see a random number 1765. The institutions deemed that this information was no longer useful and it did not identify the entity. However, if you see Random Number 1765 accumulate 1,000,000 BHP shares at $30.00 over 3 days to the value of $30,000,000 we can assume that this is NOT a small investor or trader or private individual and we can identify this transaction 1765 as an institutional buyer and label them BIG MONEY.

**Investor Centre is the ONLY company that continues to track the transaction markers and this is the driving signal for the BIG MONEY Index**

## Accumulation Vs Volume

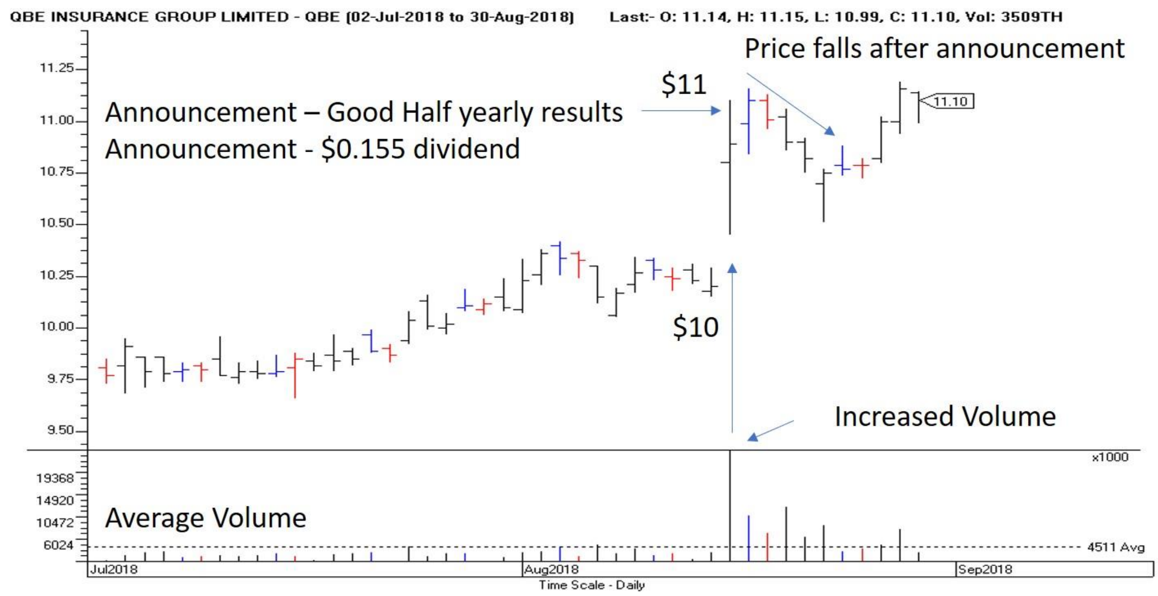
Volume is a common tool for technical and fundamental analysts. This tracks the Number of Shares for a period – generally a day. Where the number of shares increases above the average for the day this is regarded as a high activity day and is indicative of something happening. This has traditionally been considered a favourable sign in stocks. It has also been the only indication of increased volatility and potential for a stock to rise.

However, while volume has some uses, the “WHO is BUYING” question is very important here. A lot of SMALL parcels is indicative of the RETAIL market. The Retail Market is generally regarded as uninformed and tends to buy into a stock in the last 20% of any run.

An example of increased volume often occurs when a company makes a favourable announcement such as increased profitability. This attracts large volume but is generally small retail parcels.

Statistically, favourable announcement in top 200 stocks in Australia generally see stock prices jump up and then fall for 2 or 3 days. For the price to fall we must assume that someone is selling into these favourable announcements – otherwise the price would not fall.

QBE Announcement Example




This is a typical example of RETAIL volume where we get a volume spike that identifies a technical even t in the market place.

Transaction size indicates how much is accumulated by LARGE BUYERS. Now a large buyer may keep an order to BUY open for up to 2 additional days.

A Large Buyers will generally NOT race into the market and BUY all available stock. This would immediately drive the price up. A large buyer will normally set a BUY order well below the market price and then accumulate small parcels of shares as they over the course of 1 to 3 days.

This would occur as follows:

Customer 1 wishes to BUY 1,000,000 shares at $10.00. This is a single purchase of $10,000,000. It is about 50% of the average daily turnover for the stock. If he bought at market – he would shift the market price over $10.50 taking our depth of market.

Instead – Customer 1 places an UNDISCLOSED order to BUY at $8.00 and then when the market opens he selectively buys small parcels above.

The Market Opens- Customer 2 wishes to sell 1000 shares at market – the current bid is $10.00

Customer 1 Buys 1,000 shares at $10.00.

Customer 1 is allocated Transaction marker number 1. He has acquired 1,000 of 1,000,000 shares and his transaction REMAINS OPEN.

Customer 2 is allocated Transaction marker number 2. He has sold 1,000 of 1,000 shares. His transaction (for 1,000 shares to sell) is complete and his transaction market goes to the ASX clearing house.

Volume 1,000

Customer 3 sells 2,000 shares of 2,000 at $10.00. His transaction completes (for 2,000 shares to sell) and transaction market number 3 goes to the ASX clearing house.

Customer 1 buys 2,000 shares of 1,000,000 shares at $10.00. He now has 3,000 of 1,000,000 – Transaction marker number 1 remains OPEN.

Volume 3,000

Customer 4 sells 4,000 chares of 4,000 at $10.01. His transaction completes and transaction marker number 4 (for 4,000 shares to sell) goes to the ASX clearing house.

Customer 1 buys 4,000 of 1,000,000 at $10.01. He now has 7,000 of 1,000,000 – Transaction marker number 1 remains OPEN

Volume 7000

Course of sales: 1,000, 2,000, 4,000.

The process continues.

Finally – within 1-2 days Customer number 1 accumulates the last of the transaction.

Customer 876 sells 5,000 of 5,000 at $10.21. His transaction completes and transaction marker number 876 goes to the clearing house (for 5,000 shares to sell).

Customer 1 buys the last 5,000 having already accumulated 995,000 for the day and his transaction marker for 1,000,000 shares completes – going to the clearing house Transaction marker #1 purchased 1,000,000 shares.

Volume appears NORMAL. – 2,323,400 shares for the day (average 3,000,000).

Course of Sales appears normal – small parcels: 1,000, 2,000, 4,000, 5,000 etc.

We know very little about Customer #2 through #876.

We know a lot about Customer #1.

He bought 1,000,000 shares valued at more than $10,000,000.  He is not a small investor.

We can make some assumptions about Customer #1:

1) He is not buying these shares to LOSE money.
2) He is likely to be more informed than the retail market.
3) He believes the price will be higher in the short-term future – otherwise he would wait to buy at a later date.
4) It is probably not his last $10,000,000 so he is likely to put more money in if the market starts to fall.  This is called price support.

Identifying Large Transactions.

The Investor Centre data servers filter all transactions in the ASX every day.  They follow the transaction markers whish are still broadcast by the ASX on signal E.  Investor Centre runs a filter over each stock to identify what is a large transaction for that stock.

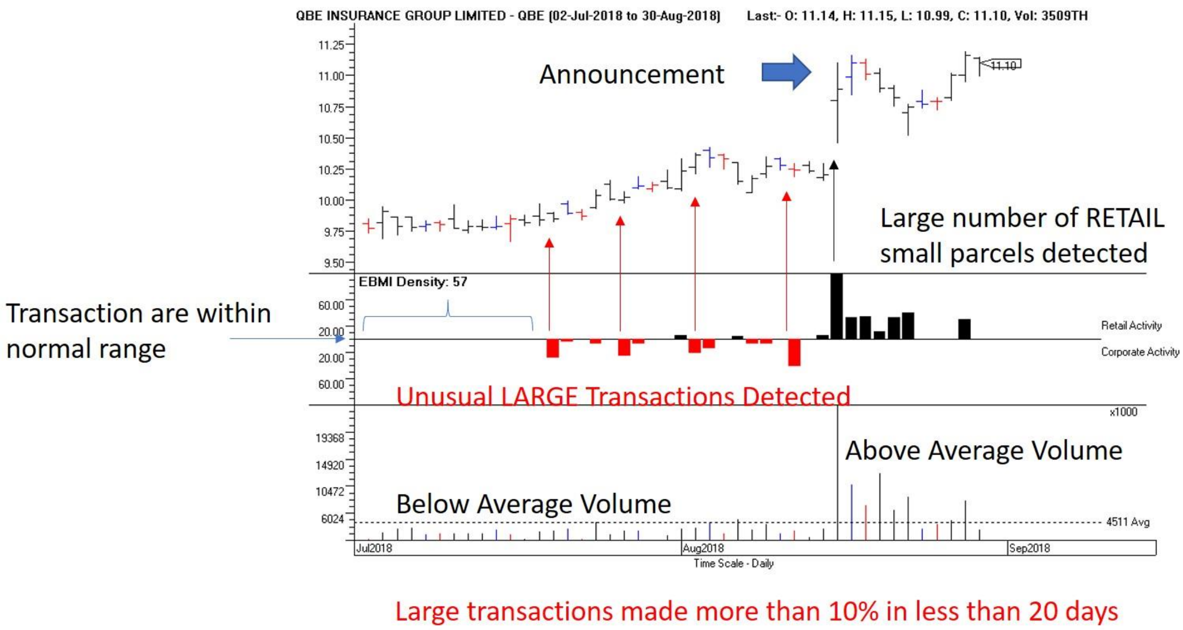
Obviously, 1,000,000 shares at $0.01 is not the same as 1,000,000 shares at $10.00 so we are not looking for a large numerical value so much as an unusual size transaction that is significantly greater than the average transaction.

This data is then downloaded by IC Investor end users and displayed on the IC Investor software as a histogram chart.

The BLACK upper bar represents unusual Retail activity.

The RED lower bar represent unusual BIG Transaction activity detected in a stock.

No Upper BLACK bar or lower RED bar indicates that most of the transaction were within the NORMAL Range for that stock.




Assumption:

We do not actually know when these large transactions actually SELL because they go to the effort of actually breaking up the parcels and cannot be detected in the same manner. However, we do know from 15 years of experience that these Big Money spikes often pre-empt announcements and strong moves in the market.

We also know that these strong moves in the market start with a flurry of activity as they are announced to the RETAIL market with a surge in volume, but they generally go down from this level. This indicates that sellers overpower buyers on good news – which seems counter intuitive on a fundamental basis – implying that people are looking for short-term returns rather than long-term investment.

This confirms the old broker adage:

**"Buy on Rumour, Sell on Fact"**

## EBMI Availability

EBMI data is only available on intraday and daily data for the Australian Stock Exchange (ASX). Intraday data is generally not effective. After the market closes, the large transactions can be passed through to the clearing house and reported. This becomes viable after 4.30pm as end -of-day data.

It is possible for an EBMI signal to appear during the day on intraday data and then disappear at the end of the day. This occurs when a broker initiates a large purchase of a stock during the day. This is identified as a single entity purchasing a large quantity of stocks beyond the average profile of the stock. Then at the end of the day the broker advises the clearing house of multiple owners of the purchase – literally breaking them up into smaller parcels. This can eliminate an intraday EBMI signal that was very pronounced during the day. It is best

It is possible due to the T+2 capability of the ASX that a signal will not be seen today as the transaction has not completed but it will be visible tomorrow in yesterdays data. The transaction is reported as closed as at its inception date.

It is best to look at EBMI data and scans AFTER 4.30pm each day.

EBMI is not available for weekly or monthly data. IC-Investor will display the last 1500 days of data. However, using the HISTORY window on the tool bar, you can view EBMI on a daily basis in its current format since 2013.

We requested data from the New York Stock Exchange (NYSE) to calculate EMBI on US stocks. The NYSE required us to provide information relating to what we were doing with the data. We provided the information of stock profiling of corporate activity and NYSE declined to allow us access to this information.

## 7 Rules for Elliss Big Money Index (EBMI)

1. The Trend is Your Friend
2. Smart Money – But NOT All Knowing
3. Rare Signal
4. History of Success
5. EBMI Timing
6. Size does Matter
7. NO ASX Announcements

### 1. The Trend is your Friend

EBMI indicates large transactions in a stock. This indicates someone is BUYING a lot of stock in very large parcels. However, these large buyers are most likely institutions, particularly in Top 50 stocks. Many of these purchases have proved to be the stock themselves – reacquiring some of their own shares from the market.

This is a sound methodology to follow if the stock is basically FLAT or RISING.

However, if the stock is FALLING – this is potentially dangerous. The EBMI may indicate a change in trend and a good time to buy. It could also indicate that the large transaction is an attempt to average down on institutional holdings (buying more at a lower price to average your holding cost down). This is NOT a good time to BUY.

The stock should be FLAT or RISING. The stock should NOT be in solid DOWN-TREND. Following EBMI on a falling stock is an unknown and there are often better choices in the market.

### 2. Smart Money – Not All-Knowing

There is a huge amount of evidence to indicate that these large transactions know beforehand of a potential rise in the value of the stock. We are not necessarily saying “Inside Trading” – they just seem to be very lucky guys.

While they seem to know a lot more about individual stocks than the general public, they are NOT ALL-KNOWING. In other words they may know of an upcoming favourable announcement but they do NOT KNOW about a sudden down-turn in the market.

Some events that have dramatically affected our market that EBMI had no knowledge of include some recent events:

- North Korean Missile tests at 7.00am Australian time
- Greece declaring bankruptcy on a Sunday night

- US aircraft striking Russian aircraft assets and planes in Syria
- US President Trump putting tariffs on Chinese goods.
- The UK voting to leave the E.U.

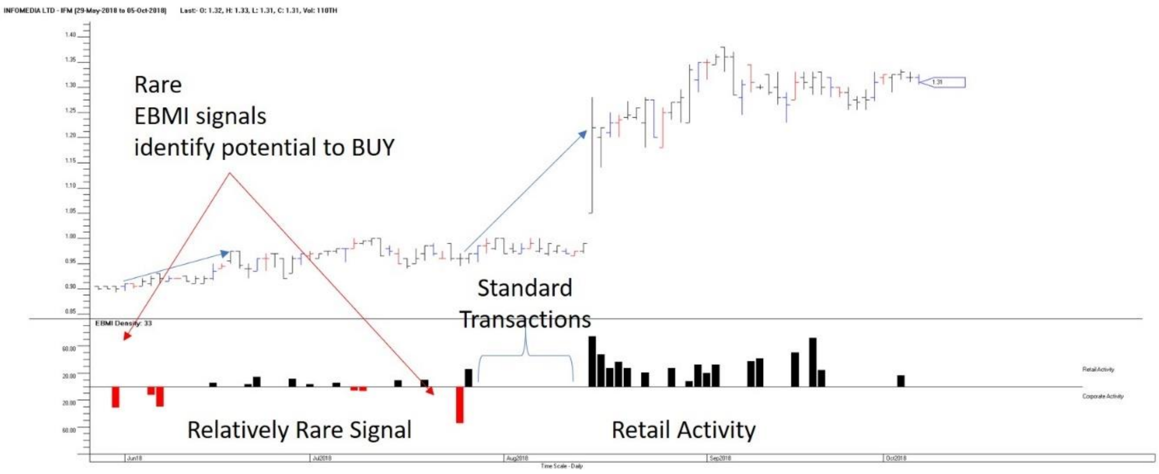
These are just a few examples in recent years where world events have incited fear in the market and SELLERS have overpowered buyers in the market – with most instruments falling in value. The fear of these events generally overpowers any EBMI potential in the large majority of stocks.

## 3. Rare Signal

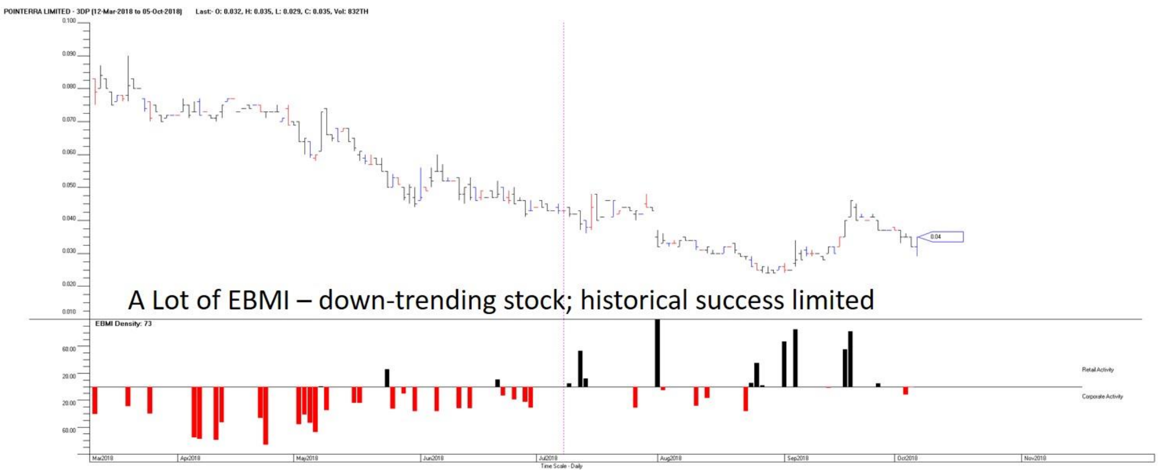
The EBMI should be identified occasionally in the history of a stock. EBMI is a signal that should be easily differentiated from normal trading. Investor Centre applies a filter to each stock to filter out the noise and display the day as dominated by retail sales or EBMI large transactions. This filter is designed to filter out standard deviation transactions and this can be seen as the central black line.

If we are seeing a large number of EBMI signals over an extended period, this is a confusing signal and requires substantial interpretation. It is generally NOT a useful signal.

We want to see a small number of signals in about 200 days of data to establish that there are significant differences between Normal, Retail, and Big Money transactions.




Infomedia (IFM) is a GOOD EXAMPLE of EBMI. Over 150 days there were a few significant EBMI signals that represented good times to buy. There are also periods where the filter has blocked out the noise of standard transactions indicating that the filter is working effectively. It also has periods of large retail activity



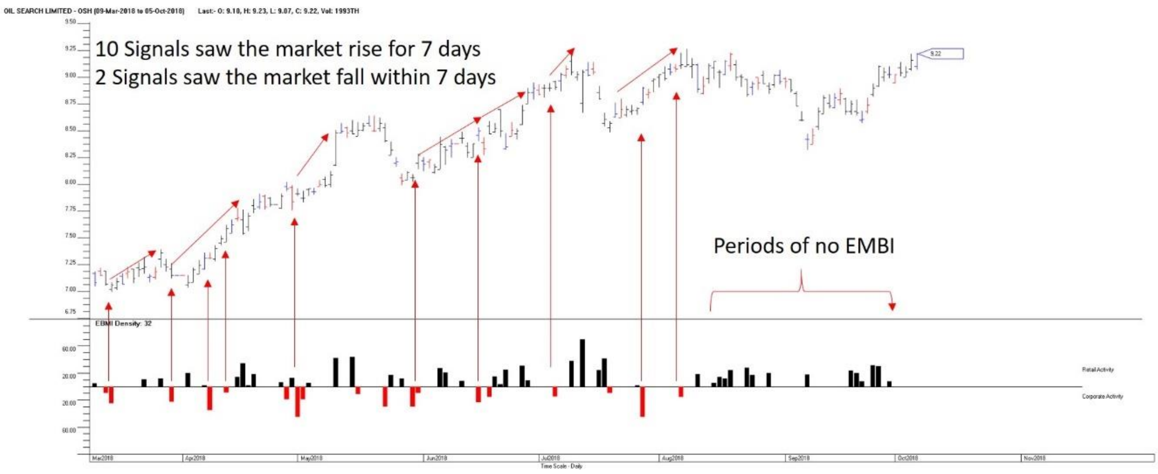
Pointerra Ltd (3DP) is a BAD EXAMPLE of EBMI.  We have a large number of EBMI signals that are not easily interpreted.  We also have a number of retail spikes that either take the stock up or down. The stock is also consistently moving down with lower highs – it is in down-trend.

## 4 History of Success

Ideally, the stocks with EBMI will exhibit a history of previous success.  In a perfect scenario, over the course of about 250 days we would have about 4 or 5 good examples of EBMI occurring in a financial instrument.  We would also see that more than about 66% of them resulted in the market going up with a short period of time (less than 30 days) – indicating that these EBMI signals are:

1) Generally, more informed than the rest of the market.
2) Looking for short-term profits in the market.

We need to remember that they will not necessarily get every move right because while they seem to know a substantial amount about an individual stock, they are not overly informed about world markets.




Oil Search (OSH) has a long history of success with EBMI. Even then it does not always get it right but the success rate is well and truly over 80% for the last 15 years. Rather than having an advanced knowledge of Oil Search, in studying these EBMI on this stock over many years, we believe that the Oil Search share price is related to major moves in West Texas Light Sweet Oil, and the EBMI entity here can front-run potential rises in the Oil price and capitalise on increased share value.

Only 2 of the above 10 signals were related to OSH announcements and the other 8 were WTLI Oil price movements.  We also believe that this stock indicates US government forward buying of Oil Reserves which it has accurately predicted every year.

In some respects that is even more useful than just knowing that the stock is likely to rise.

## EBMI Timing

EBMI Timing is hard to judge.  We don't know if the EBMI spikes are the same people (entities) over and over again or different entities.  However, once we have a historic record of success – we find in a large number of stocks that the time between EBMI indication and success seems to be a similar time period.

This indicates that the entity that capitalises on whatever information it obtains, is able to obtain this information in the same way at about the same time almost every times.

We define EBMI as a short-term tactical indicator. These signals do not seem to indicate a sudden decision by a long-term investor to participate in a stock.

The signal generally indicates a short-term potential to profit that does not generally seem to identify likely market rises much greater than 30 days. However, we can not be sure when the entity (or entities) that cause the EBMI spike exit so this is not truly known.

We have arbitrarily classified two different types of EBMI:

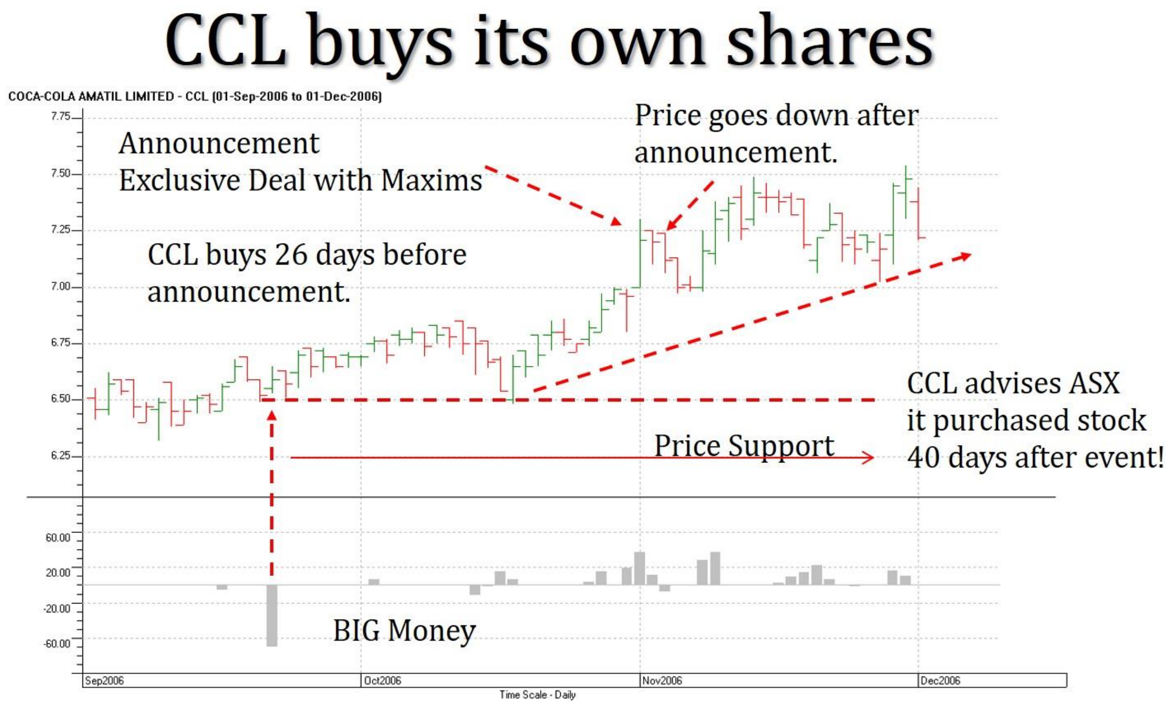
1) Friendly EBMI
2) Hostile EBMI

## Friendly EBMI

Friendly EBMI is regarded as identifiably related to the stock. It could be directors or related to directors, associated companies, or even the company itself. It is generally recognised that anyone taking 20 trading days (1 standard month) or more of market exposure is not liable for Inside Trading prosecution.

There have been no known cases of ASIC inside of Trading prosecution that have occurred where the defendant has carried 20 days or more of risk to the market.

A CLASSIC Example of Friendly EBMI




In this classic example, we detected an unusually large EBMI spike on CCL with no ASX announcement. We published this as a recommendation to BUY when I was supplying stock recommendation articles to Sanford Securities and Commonwealth Bank (Comsec). In this instance we were able to track the process of what happened as we believed that the transaction was made by a single entity and was a substantial uptake in share holding that would ultimately be revealed.

26 Days later, CCL announced an exclusive deal with Maxims – a major distribution chain, which saw the share price jump from $7.00 to $7.30 and then proceed down for the next 3 days – indicating that sellers overpowered buyers in the market.

The EBMI spike was detected at $6.50 - $6.57 which indicates a potential of 12% gain over a 26 day period.  Once again – we do NOT know if these shares were sold on the announcement.  We only know that there was a favourable announcement and that the price went down after this – indicating sellers overpowered buyers.

40 Days after the EBMI spike, we got a rare opportunity to actually understand the mechanics of the situation.  CCL announced to the ASX that it had purchased a large amount of its own shares from the market back on the EBMI date and was belatedly advising the ASX due to a delay in paperwork.  The EBMI was CCL buying its own shares.

CCL had carried 26 days of market risk and there were no significant ramifications for CCL in the delay in announcement.

## Hostile EBMI

Where the EBMI appears within a very short time before a major announcement, we label this hostile EBMI.  It is likely that information has leaked out to someone just before the announcement and they have purchased a large parcel of shares for a short-term capital gain.

It is unlikely that these purchases can be directly related to directors, board members, associated companies etc. because of the risk of inside trading.  The primary ASIC inside trading prosecutions have been where major shareholders of a company have purchased shares in an acquisition company just prior to the acquisition announcement.  There are a myriad of examples of this.

It is important to remember that the EBMI signal just indicates "lucky Guys".  We do NOT know when they sold, if they capitalised on the transaction and if they actually knew of any announcement before hand.

If you consider how this might happen – one easy explanation is that a company decides to do a major announcement that they have increased their potential profit.  In making ready for the public announcement, they have shareholder briefs and media releases prepared prior to the event.  The very fact that they document and prepare these reports creates a potential information leak that could be as simple as the local printer reading the report and advising his rich uncle a few days prior to the event.  The potential for hostile leaks is endless.


In the above example you can see that the EBMI was a very rare signal. St George Bank was dominated by mostly retail signals and virtually no identifiable corporate transactions. We have one huge spike identified just prior to the announcement of the acquisition of the St George by Westpac. It occurred on a below average volume day which was one of the reasons we were able to detect it as we believe this was multiple entities, but they became visible due to lack of retail depth.

It is unlikely that these entities were related directly to Westpac or St George and may have become aware of the announcement from leaking information prior to the event. Obviously, the merger announcement would have had a large process for information to leak into the market including the preparation of media releases etc.

In this instance, once again, we do NOT know that these entities sold on announcement. We do know that they were “lucky” enough to get in prior to the announcement and if they were directly related to WBC or SGB – they certainly risked prosecution from ASIC for inside of trading.

24% gain in 7 days is good money in anyone’s book.

## Size does Matter (EBMI)

The size indicates by the EBMI bar is indicative of the number of large transactions involved. This operates very much as a volume bar with the longer the bar the greater the number of EBMI Transactions.

The EBMI density indicates the strength of the EBMI signal. Basically we can work on the following Premises:

1) A small very rare EBMI signal is more significant than no Signal
2) A large EBMI signal is a more significant signal than a small signal where both are visible in history.

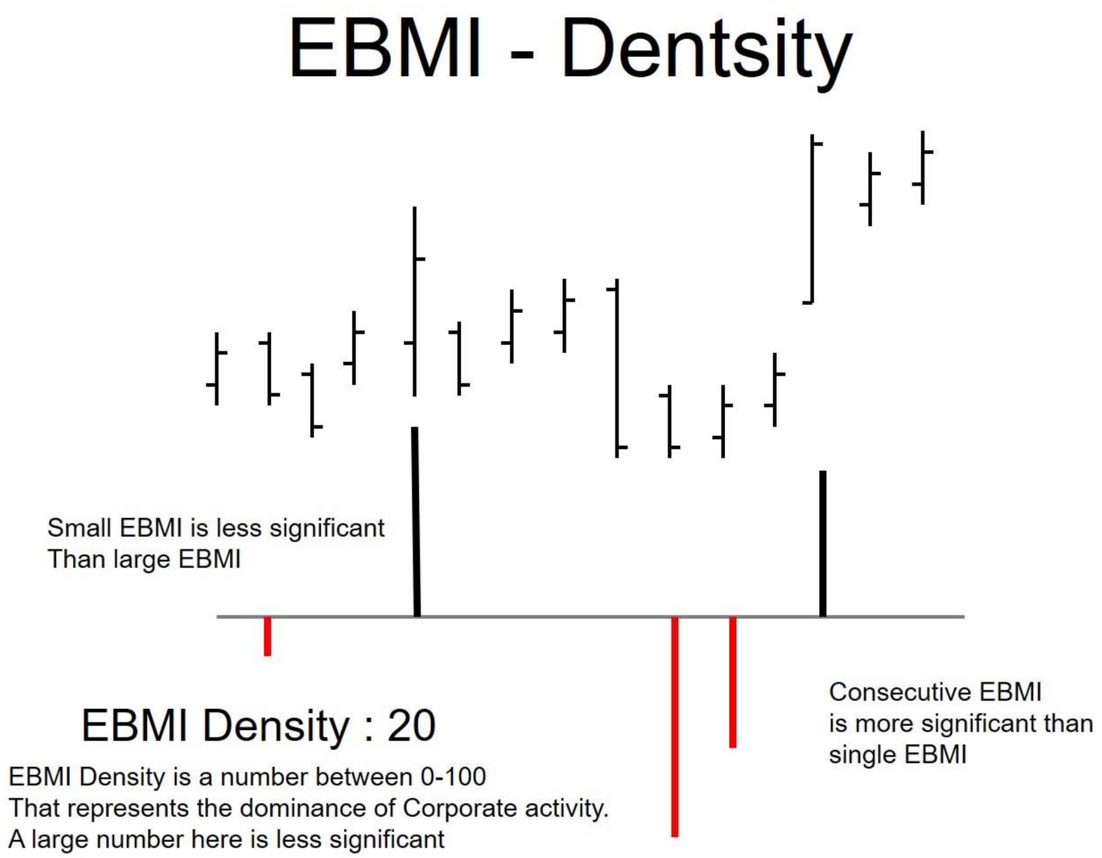
3) EBMI signals on consecutive days are more significant than a large single signal as this is indicative of transaction held open over multiple days and so are very large.

## EBMI Density

EBMI is a number between 0 and 100 where 0 represents NO detectable corporate activity and 100 represents that most transactions are deemed to be corporate based with very little retail trading. Stocks with very high EBMI Density are stocks where institutions control most of the share script and dominate most of the purchases and sales.

Numbers above 45 are deemed to be relatively high and EBMI is UNLIKELY to represent a potential for short-term capital gain and more likely to represent institutional and fund manager activity as large parcels of shares are traded.

Numbers below 20 are deemed to be RARE signals and accompanied with the other rules – have an increased chance of success.




# No ASX Announcements

History has shown that an ASX announcement where a company is advising the retail public of some "Good News" – generally sees the market fall after these announcements. History has also shown

The best EBMI signals occur with no significant price change in the underlying stock and average or below average volume and NO corresponding ASX Announcement.

When pursuing an EBMI signal, there should be NO ASX announcement that explains the EBMI signal. We have to treat every ASX announcement as an advertisement which says "BUY THIS

STOCK". We have very few examples where there was a short-term benefit in following a positive ASX announcement and buying into the market.

Everyone who is anyone seems to have bought BEFORE the ASX announcement and seems to sell into the announcement – looking for retail buyers to exit their positions.

Some Announcements examples that explain EBMI rendering them useless:

1) Another company taking up a major position as a top 20 share holder
2) A listed company exchanging its own stock for an acquisition or interest in another company listed or unlisted.
3) A stock re-acquiring its own shares at market.
4) Directors ending escrow period for shares
5) Preferential options being actioned before expiry
6) Preferential shares being exchanged for normal shares
7) Employee options exchanged for stock

Any of these announcements are generally detrimental to the short-term market as they are well known in advance by a large number of Big Money Investors and the share price is likely to have moved in front of these events. The announcement heralds the end of positive price action rather than the beginning of price action.

Check for announcements with Comsec or the ASX website [WWW.ASX.COM.AU](http://www.asx.com.au).

It can even be beneficial if you have entered a trade using EBMI to then follow the stock and be alerted to company announcements – even director and top 20 shareholder changes.

## EBMI Exits & Stops

The EBMI is really the only forward-looking fundamental indicator in existence. It advises us when other MORE INFORMED large INVESTORS are buying, and they are doing that to make money. This makes it a highly effective ENTRY SIGNAL.

However, there is NO EBMI SELL signal.

Exit signals that assist with using the EBMI BUY signal are:

### Time to Expiry

If there has been no significant price action within 30 days – considering exiting the stock. Generally, EBMI signals are generated by enthusiastic buying for a short-term future event. It is uncommon for this to be a significant EBMI for a long-term investment strategy.

The exception to this rule is where a stock share price has been increasing to the point where managed funds must acquire it as it has revalued its position in a sector or index. This is a beneficial medium-term entry point.

### ASX Announcement in the 30 day period.

If the company makes a positive announcement in the 30-day period after EBMI is witnessed – it is generally a good exit point. Quite often, a stock will be available at a lower price 2-3 days after the announcement. Even if you are intending to hold the stock over the medium-term, it is often better to re-acquire the stock a few days after the announcement.

The exception to this rule is most commonly found in Banking and Finance sectors and the Bio tech sectors.

Publicly listed stocks that are generally the target of a bank acquisition – most notably smaller banks. These stocks tend to move up from their initial announcement and then flat-line at the takeover price.

Bio-Tech stocks – particularly small ones that have made a major discovery/breakthrough announcement often send the share price up and this continues to climb afterwards, giving no chance for re-entry.

Trailing Stop Exit

Following the EMBI signal with a Trailing Stop Loss can be beneficial and requires no work. This allows for the stock to run up into some expected good news and follows the overall flow of the market – which has an expectation of being up because you are following a historically proven signal (we assume).

The vale of the Trailing stop will alter from stock to stock and can be set based on the stocks. Two generic trails for Top 500 stocks are:

1) 2.5 Average True Ranges. The ATR indicator is useful for measuring the volatility of the individual stock.
2) 10% of the price. This gives a fixed loss scenario and can be effective with smaller stocks. Sometimes 10% is a big ask particularly in Top 20 stocks so a small percentage can be selected in this instance.

Technical Indicator Exit.

While the EBMI tends to outclass most technical indicators as an entry system, technical indicators can provide excellent exit strategies. Some exits strategies to consider are:

1) 30 day Moving Average break down
2) MACD (12,26,9) crossover
3) LRI 21 day break down
4) Slow Stochastic (10,5,3)

Divergence oscillators such as the Stochastic and RSI can be less effective for EBMI signals as there is evidence that the market often weakens in the afternoons before announcements and this may be artificial in nature. It is detrimental to take these signals when the market is being deliberately held back and you find your sell triggered 3-5 days before the market jumped up enthusiastically.

A list of historic and recent examples are available at:
www.Investorcentre.com.au/EBMI

Jody Elliss uses the EBMI as part of his stock selections for Global Reporter – a yearly subscription for $440 per annum or a monthly subscription for $40 per month.

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