Investor Centre

Trading Work Book February 2016

February was a big slow down, with some of the trades falling below 50% and the market moving erratically. The risk of a correction has gone from 63% to 43% with oil and gold rising and gold currently over the $1256 – over the critical $1250 zone. A fall of just $4 or $5 in oil may be enough to push the market backwards. March has started with a similar disposition and we are seeing our market carry very little insurance sentiment but a lack of bullish commitment on a rising $AUD that has accompanied gold prices.

At present, even small moves in oil of $1 or $2 up is seeing a rally in the US market.

Date	SOS	Open	Day Chase	10.30am	Informed drift	Mid Strad	Ambush	AST	Express	Tell
1/02/2016		-14			-14	-28				
2/03/2016		14			-14			-42		21
3/02/2016		14		-14	-14	21				30
4/02/2016		14	25		-14					-30
5/02/2016			-42			-14				
8/02/2016		14						14		21
9/02/2016		0	-30					-14		-30
10/02/2016		14			21					
11/02/2016		14			14	21				
12/02/2016		14		-14		-14				30
15/02/2016		21	-30			0				
16/02/2016		14			21					
17/02/2016		-14			-14	-14		-14		
18/02/2016		14			14	-14				
19/02/2016		14	20		14	21				
22/02/2016		14		14	14			14	-3	
23/02/2016		-21	-30			21				45
24/02/2016		21			21			-14		21
25/02/2016		-15								
26/02/2016		21		14		-15				
Total Points		153	-87	0	49	-15	0	-56	-3	108
Total Trades	0	19	6	4	12	11	0	6	1	8
Losses	0	4	4	2	5	7	0	4	1	2
Accuracy	**na**	**78.95%**	**33.33%**	**50.00%**	**58.33%**	**36.36%**	**0.00%**	**33.33%**	**0.00%**	**75.00%**

Total points for February were +87 Points.

Open trades and Tell Trades together totalled 171 points, the other trades deducted from that total.

Please note that this included 1 tell Trade 14 for 14 that succeeded but if the stop had been 10 points it would have failed.

FUD (Fear Uncertainty Doubt) Pattern

FUD is a pattern that can be applied to any major announcement that will affect the market. A typical FUD pattern will occur on RBA Tuesday's (The first Tuesday of the Month). Other events include elections such as the Australian and UK elections and the US Presidential elections. The bigger the event the larger the lead into it.

RBA Announcements and major Chinese GDP announcements have a 3 hour lead in.

Country elections have a 3 day lead in.

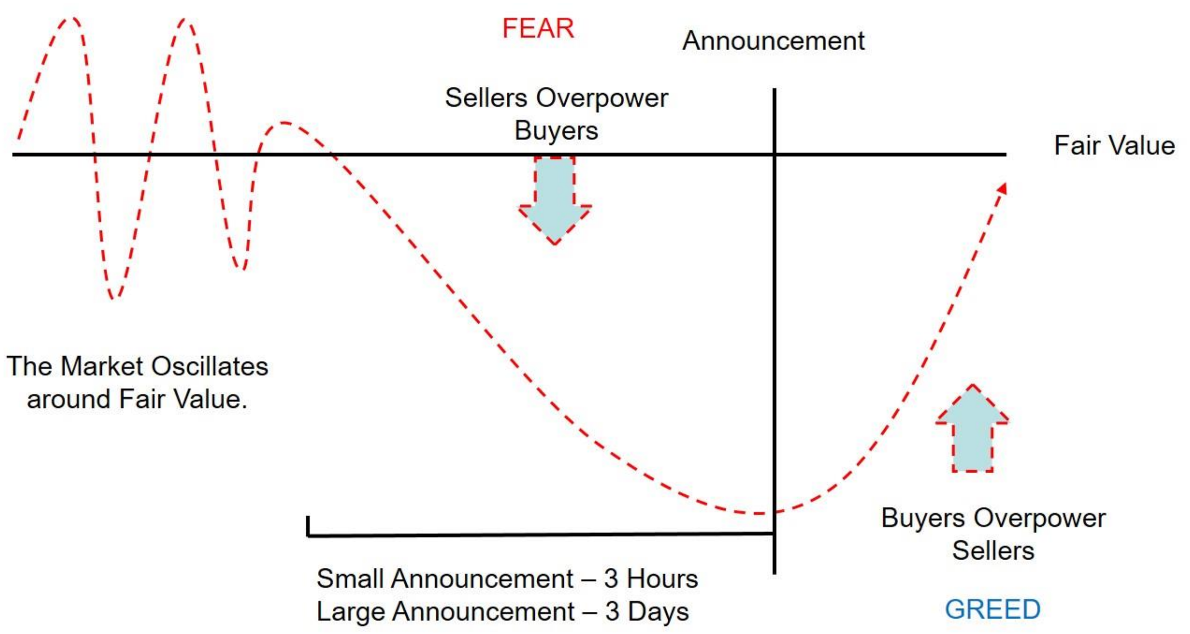
Coming into an announcement, FEAR becomes the dominate emotion. People worry about the outcome of the announcement and so sell. There is an increase in sellers prior to the announcement. However, the buyers tend to wait till after the announcement to make a more informed buying decision. They will postpone the buying till after the announcement. The result is that after the announcement buyers overpower sellers and drive the market back to fair value. Generally, this is regardless of the announcement.

In an Australian election, many believe that one party benefits the stock market or particular stocks more than the other party due to specific policies. However, when trading the Index, this has shown to be incorrect and the FUD pattern is highly consistent.

It is NOT 100% consistent. Some examples of failure are the 2010 Australian Election where Julia Gillard became leader of the Labour party and then the federal election resulted in a hung parliament (first since 1940). The expectation of an outcome and the subsequent lack of outcome sent the market down again (FEAR). Once a government was formed on the following Wednesday the market returned to its previous level – instigating a substantial 2 day rally.

On May 1 2012 the RBA cut 50 basis points off the Interest rate. The market was expecting a 25 basis point cut. After an initial rally lasting a few minutes, the market fell back quickly to previous pre-announcement levels.

FUD Theoretical



Example

Execution

Small Announcement

Where the market is above open you should go short at 11.00 (3 hours before) and run it into 12.30 (half an hour before the announcement). If the market has fallen well below open prior to 11.00, then this trade is less likely to come off and the market is likely to just flatten for the announcement. About 30 minutes prior to the announcement you should take a long position with a limit back to fair value. You generally need a stop greater than 15 points here because the market can be twisted by fund managers seeking stops at point of announcement.

Large Announcement

The market will oscillate coming into a significant Federal election (not a state election) and will be affected by normal market forces. However, it will have a tendency to fall into the election and this run starts 3 days out. The last day is generally a flat defensive day at a low price. We can go short at 12.00 on the day 3 days out with our risk being international markets rally.

Then on Friday before the election at 4.00pm we can reverse the position and go long for the weekend. Ideally we would have a guaranteed stop in place or RCS to protect us from an unexpected fall on the weekend with a long position.

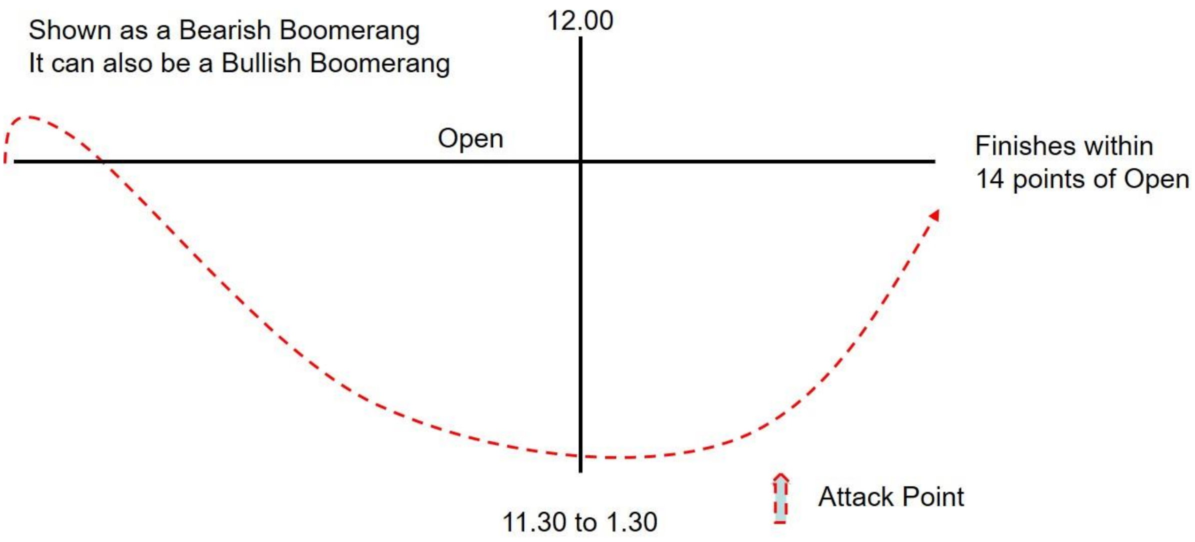
Boomerang

A Boomerang pattern occurs when the market is UNSURE of its value. It will open and move in a given direction till about midday and then return to the open price. This is often powered by Australian Institutions heading in one direction in the morning either buying or selling and then they leave the market and it drifts back to open on international sentiment.

The Boomerang is regarded as a DEFENSIVE pattern and often occurs near the top or bottom of a resent strong market move. As a Day candle it will appear as a “Doji”. It is like a question mark where the market questions its value at this level.

A Boomerang can go in either direction up (Bullish boomerang) or down Bearish Boomerang

Hypothetical Boomerang



Example

Express Redefined

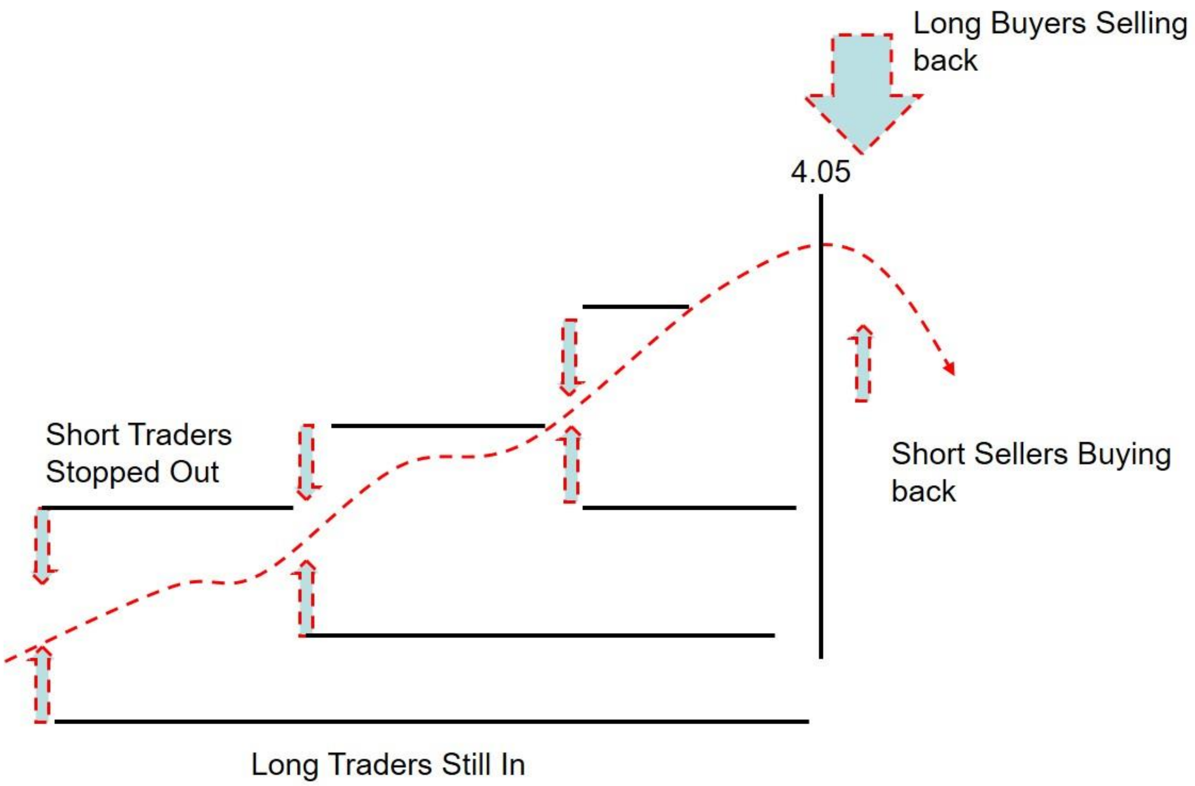
The Express is short for the “”Express Ride to Hell”” that occurs from 4.05 to 4.30 at the close out of the market AFTER XJO has closed. It is more volatile on Fridays and days where the US market is closed in the night or Our market is closed for a public holiday the following day. There are often a few points to be had if the market can be read. However, more than any other segment trade this trade is an art-form.

There are 2 types of Express. The 4.05 Express and the 4.12 Express.

4.05 Express

The 4.05 Express is an easy trade. It can be taken when the market has moved in a single overall direction without much retracement for an entire day or a large portion of the day. Where the majority of day traders are in the market in a single direction, they must do the opposite to come out after 4.05pm. So if the market has run up most of the day it will turn back on itself after 4.05 most of the time. The stop and limit for this trade are 14/14/

4.05 Express Hypothetical



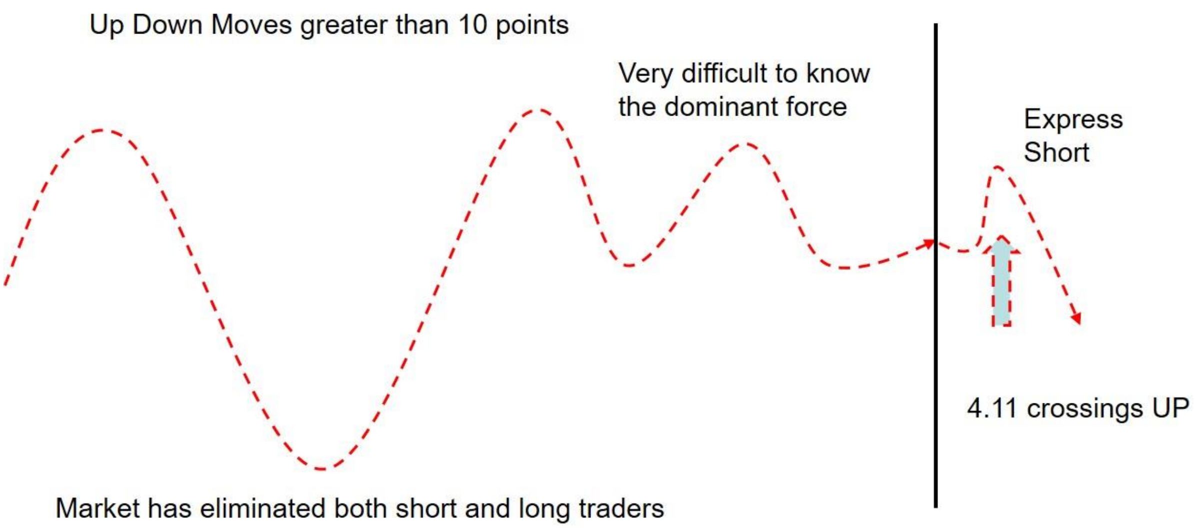
4.12 Express

The 4.12 Express is a much harder express to calculate. We join the market after Institutional Insurance Crossovers from the ASX crossings which occurs at 4.11. Then the market is in true close out. However, if we can not work out which is the dominate force Long Traders or Short Traders, coming into the express, then we have to wait for the crossings to give us a guide. The crossing will move the market about 4-8 points at 4.11. We can then go in the opposite direction for the express.

The 4.12 Express is less consistent than the 4.05 Express. However, we get a greater risk reward as our stop can be 8 pts but limit still 14.

Remember to close out the trade before 4.30pm.

4.12 Express Hypothetical



I am taking a break from Monday 13th March to Monday 4th April and so morning reports may be lodged early. Keep an eye on the time stamp.

Good hunting

Jody