

# TREND TRADING

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**Share Trading, Trend Trading, The 36 Strategies of the  
Chinese for Financial Traders, Guppy Trading, 趋势交易大师,  
图表与交易, 股市投资36计, 市场交易策略**



2011 AIA National  
Investors Conference



AUSTRALIAN  
INVESTORS  
ASSOCIATION

# PURPOSE

Show how simple charting and technical analysis  
is used to improve investment decisions  
We provide blind analysis to US fund managers

# Outline

- Market foundations
- What is technical analysis?
- Broad useful chart patterns for strategic portfolio position analysis
- Trend lines – simple of sophisticated? Need more
- Market movers – traders and investors

# **What is technical analysis?**

## **Your honest thoughts**

# What is technical analysis?



“uses nonsense like  
technical analysis, tea  
leaves, goat entrails, etc”



# What is technical analysis?

1. Chart analysis - patterns of psychological behaviour
2. Manipulated price analysis – use price as a number series, advanced statistical analysis
3. Order and prediction – cycles, waves, prediction



# ANALYSIS DIVISIONS

- Statistical analysis
  - probability of mathematical event repeating
  - may extend to predictions
  - data scanning
  - Compatible with created instruments
- Behavioural analysis
  - probability of market behaviour repeating
  - Eyeballing
  - Compatible with real markets



## DECEPTION 101

**OPPORTUNITY  
IS  
NOWHERE**

# AVOIDING DECEPTION

This message is brought to  
you by your amazing  
critical brain

# AVOIDING DECEPTION

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You 'see' what you expect  
to 'see'

# KNOW WHO YOU ARE

Warren buffet trick

Who is a trader?

Who is an investor?

What is the difference?

If you do not have dividends then you are a trader because

Your only return is from capital gain – so think like a trader

90% of US stocks do not pay dividends – including Buffet.

**T.A. = TRADING ADVANTAGE**

**If you cannot generate income  
via dividends then you are a  
trader so it pays to think like a  
trader**

# RELIABLE END OF TREND PATTERNS

Three reliable patterns

- 1.Head and shoulder
- 2.Rounding bottoms and tops
- 3.Parabolic

Apply to indexes and commodities,  
ETF and index trading

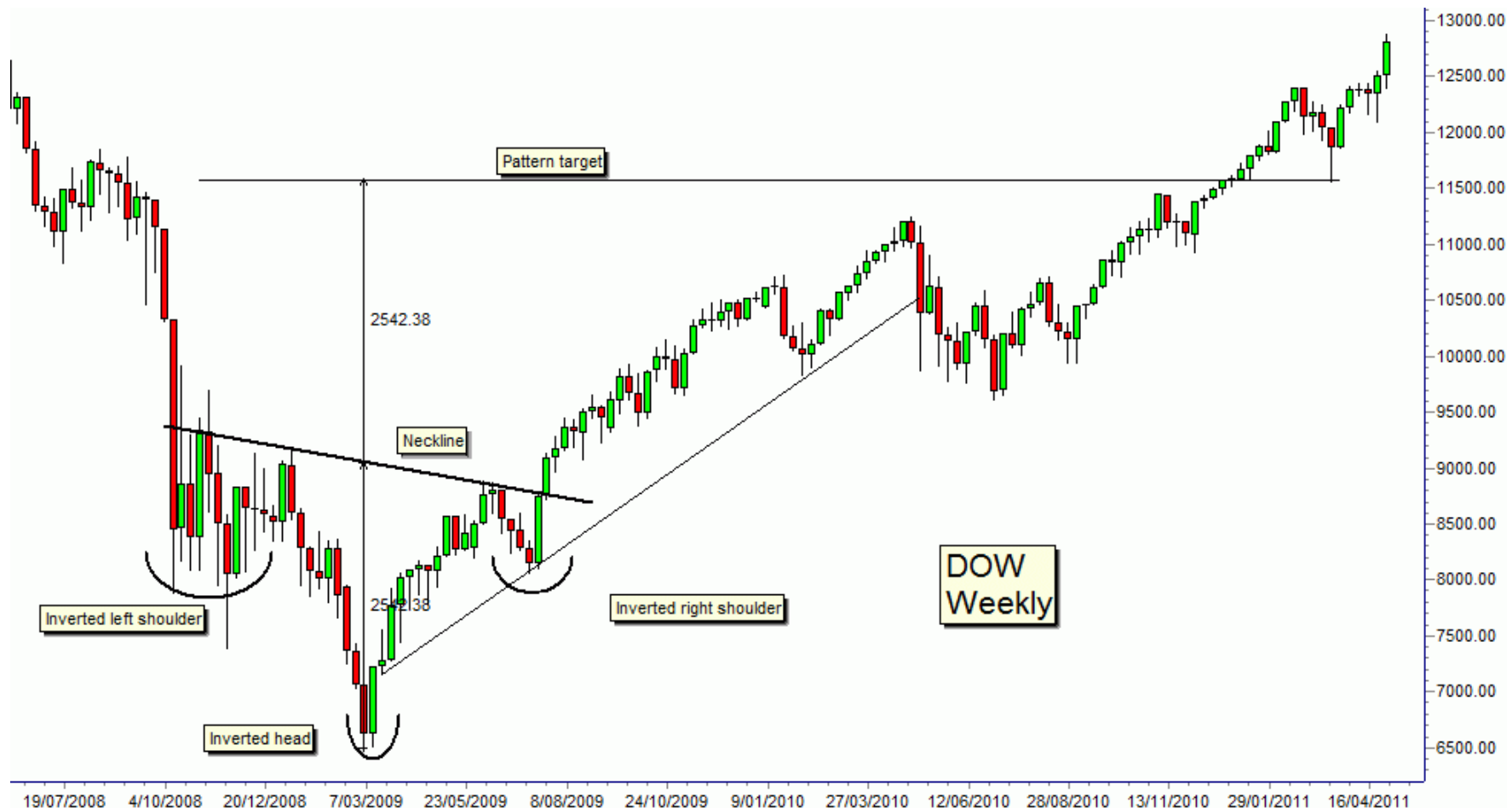
Use for portfolio adjustment

# head and shoulder

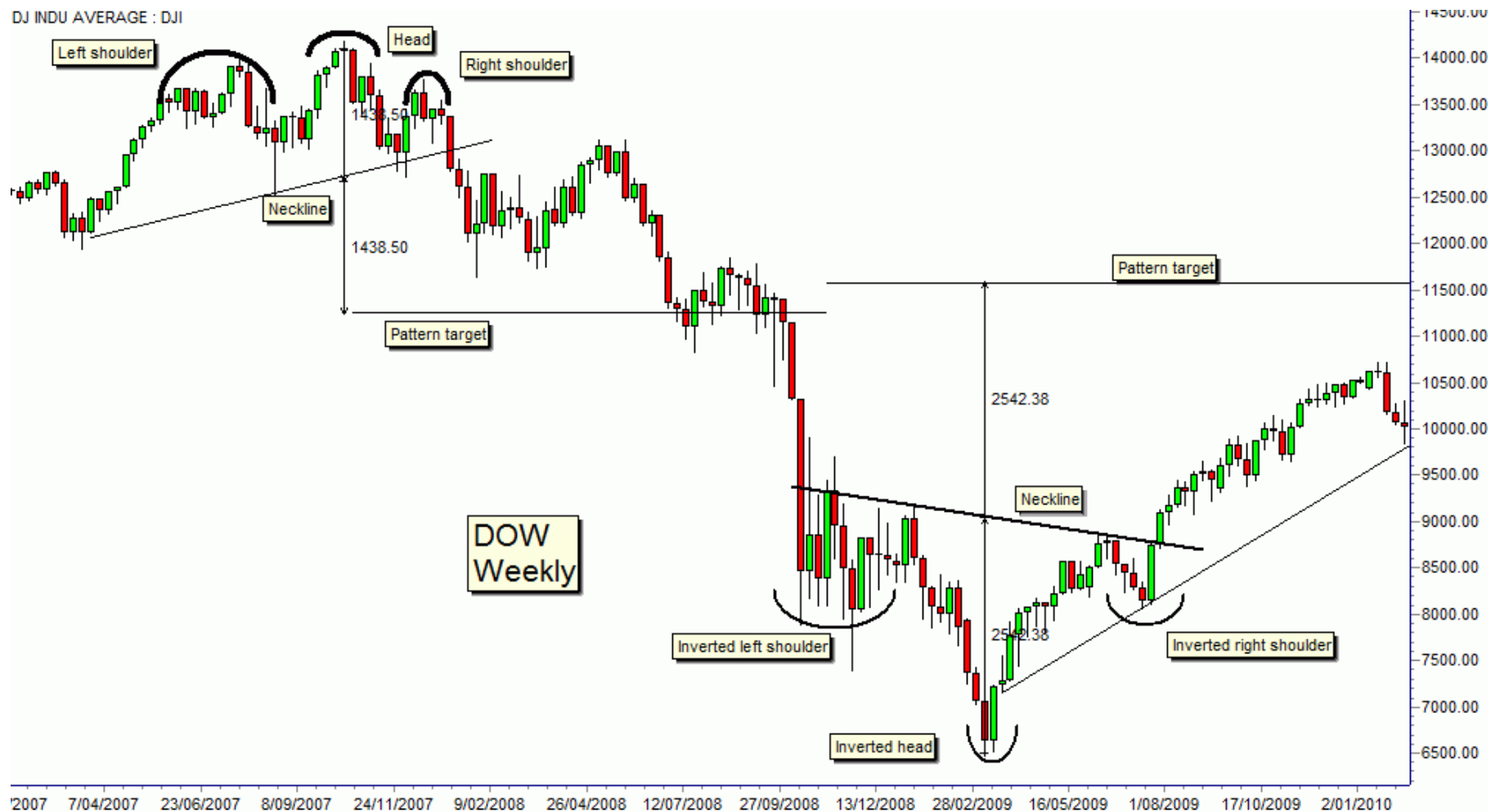




# Inverse head and shoulder



# Combination head and shoulder



# DOW HEAD AND SHOULDER



# Head and shoulder Rules

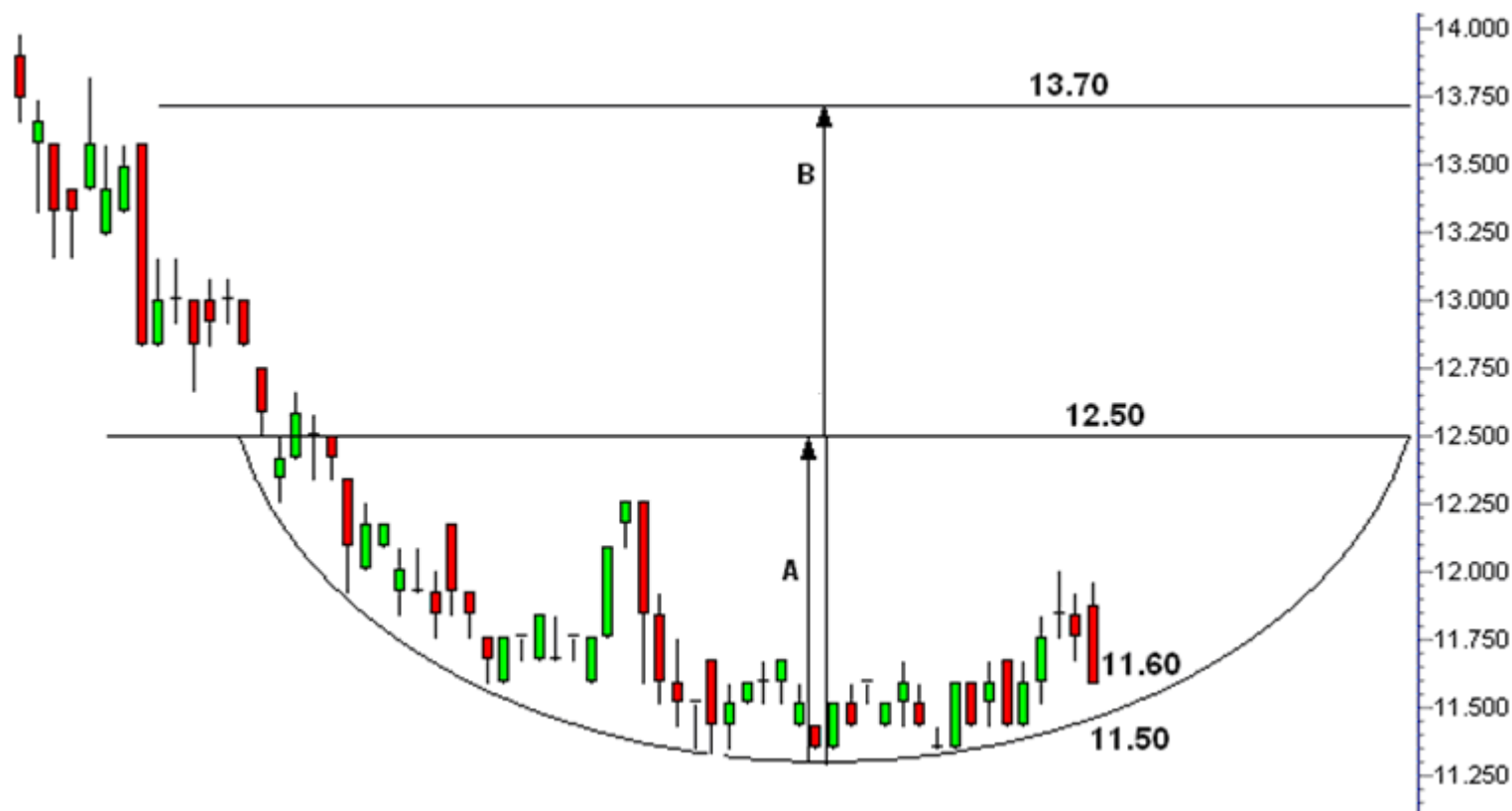
## Application rules

1. Shoulders are well defined with separate sub-trends
2. Head is clearly defined
3. Develop over 4 to 8 months
4. Slope of neckline is not important
5. Pattern confirmation above neckline
6. Pattern invalidation below shoulder
7. Minimum targets – measure from head
8. Confirm with historical support/resistance
9. Reliable used as end of trend pattern

# Rounding top



# Rounding bottom



# Rounding rules

## Application rules

1. Develops at the bottom of a downtrend or top of an uptrend
2. Price action is best defined with a curve
3. Curve starts from support or consolidation levels
4. 3 to 6 month pattern
5. Pattern depth is measured from midpoint of curve and projected
6. Minimum targets
7. Verify with support/resistance
8. Invalidated by fall below support/resistance



# PARABOLIC TRENDS

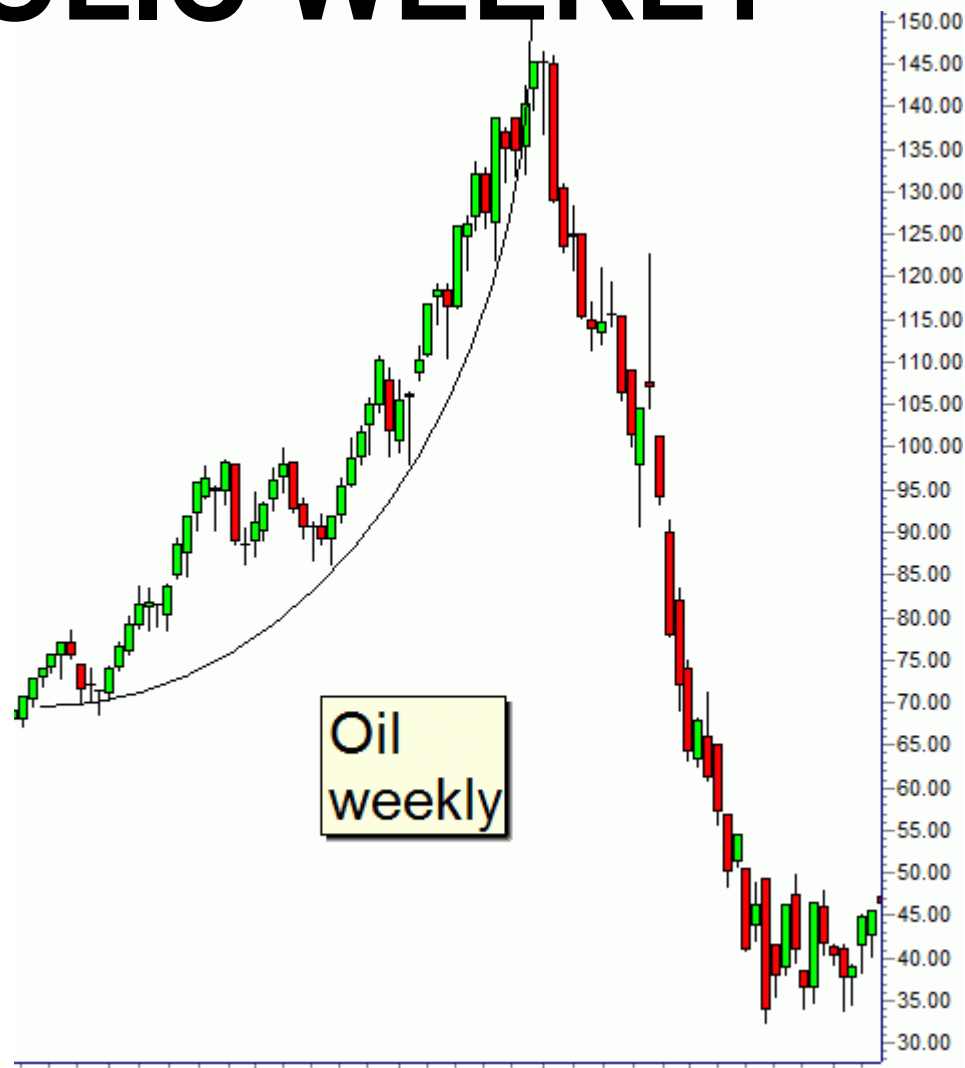
Look for

- Acceleration in price
- Conform with curve
- Vertical end date
- Late identification



# PARABOLIC WEEKLY

Commodity  
markets are  
vulnerable to  
this pattern



# SILVER PARABOLIC



# Parabolic trend rules

## Application rules

- Trend acceleration
- Three rebound points joined by curve
- Parabolic trend start point usually in middle of trend
- Pattern recognised about one third of the way into trend development
- Position of trend line does not change
- Curve becomes vertical
- Exact date for end of the trend
- End of trend followed by a rapid price fall

# CHART VERIFICATION

Use the chart to verify conclusions based on other information and methods

# TREND TRADING OBJECTIVES

- 1) To identify a strong, well established trend
- 2) Understand the impact of greed on trend trading decisions
- 3) Set entry and exit conditions to take defined returns
- 4) Identify 'weakness in strength' opportunities
- 5) Develop trend trading discipline

## TRADING ADVANTAGES

- 1) Lower risk of trend collapse
- 2) Longer term trades
- 3) Less pressure for quick decisions
- 4) Suitable for weekly monitoring
- 5) Strong trends outperform the market
- 6) No need to chase stock prices

## TRADING DISADVANTAGES

- 1) Requires strong discipline to leave profits behind
- 2) Complacency due to length of trade
- 3) Reluctance to act when profit is substantially diminished
- 4) Staying with a slow moving trend
- 5) Looking for the best exit
- 6) Believing low risk means no risk - in for the long term

# TREND LINES

Simple stupidity or sophisticated analysis?

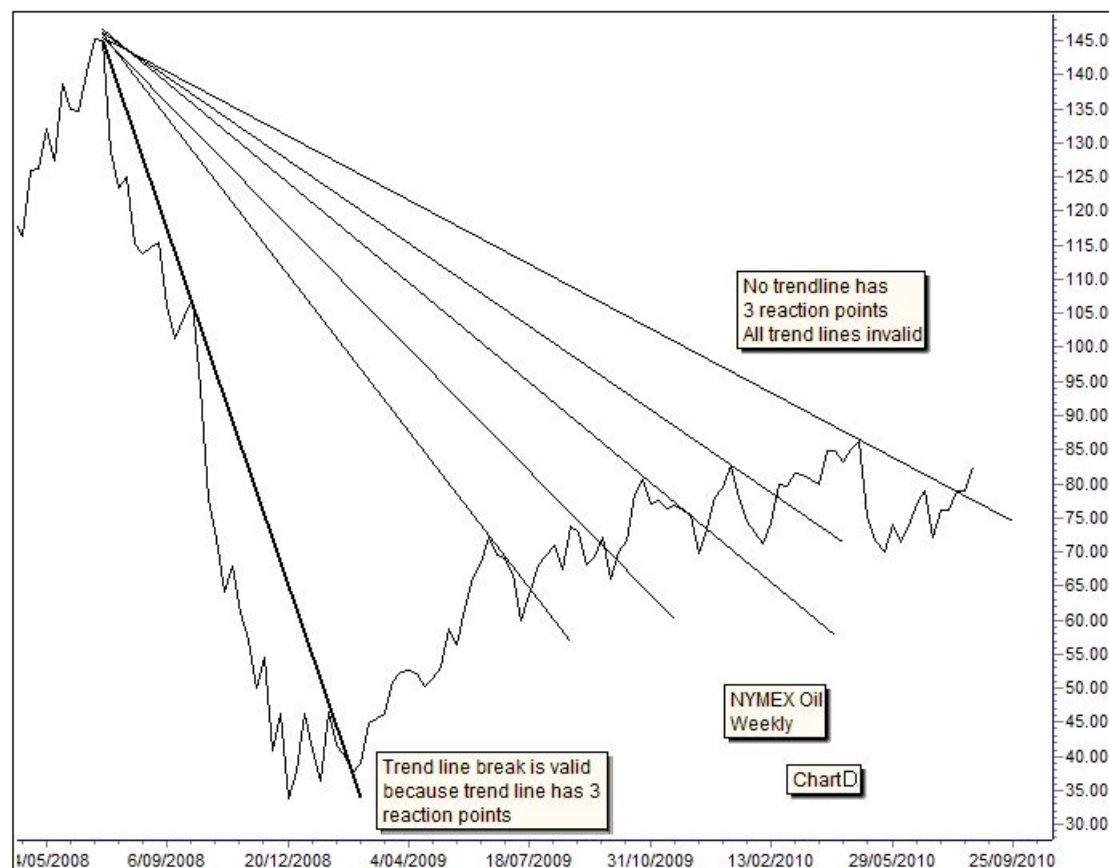
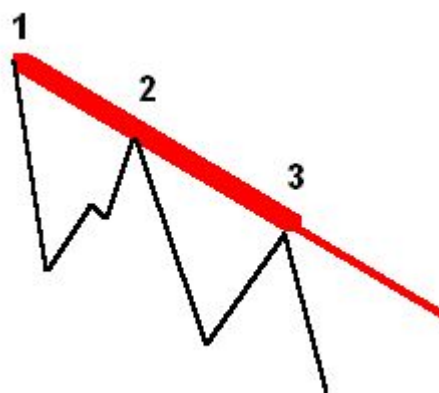
- Distinguish between significant and insignificant price activity in the trend environment



# TREND LINE



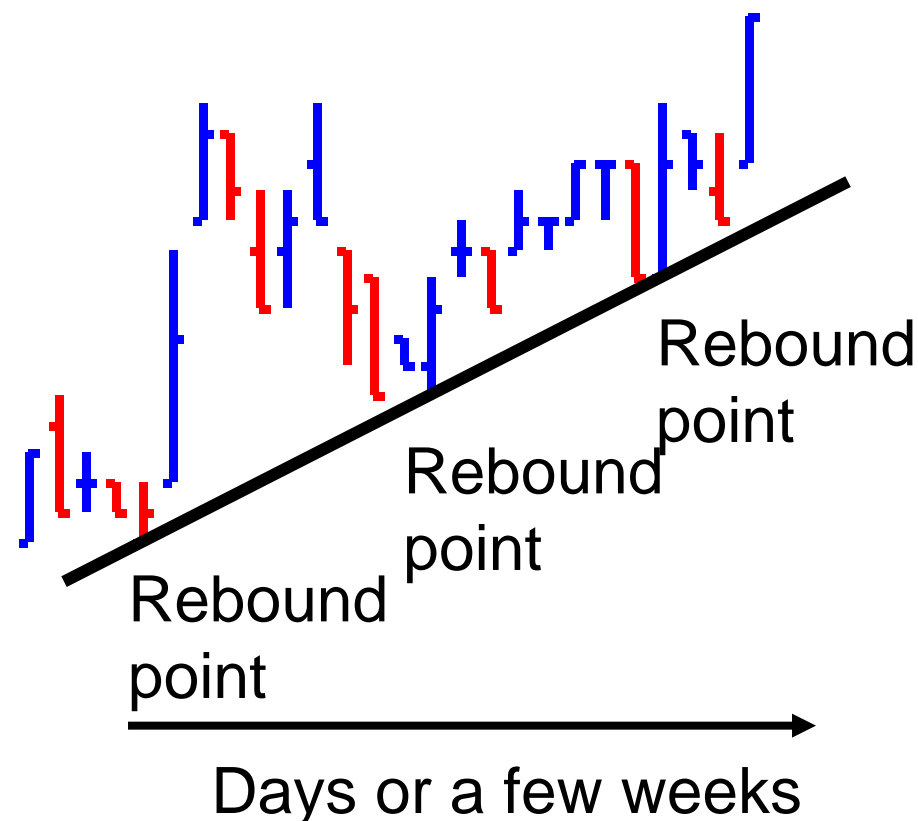
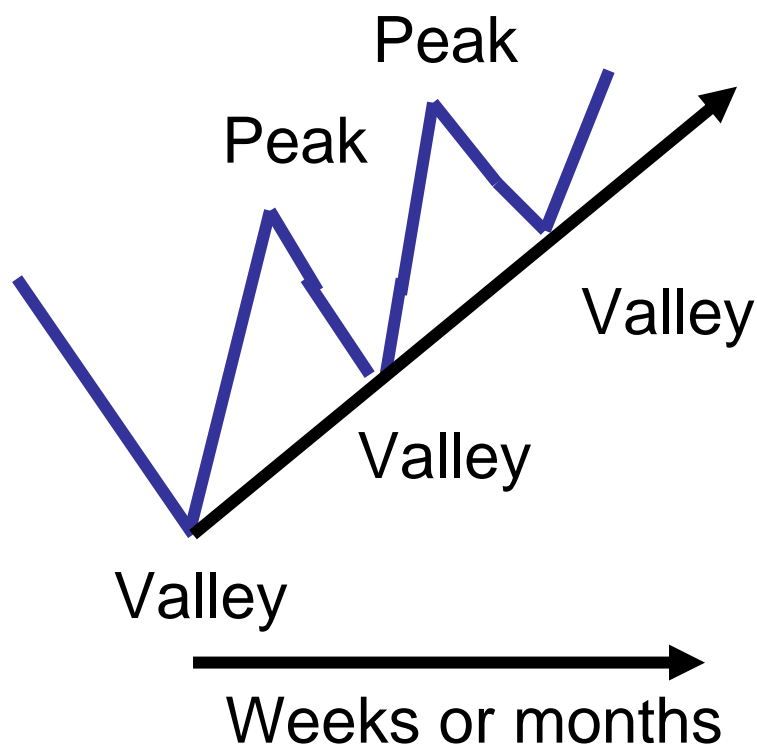
# TREND LINE, REALLY?



# Trend lines

## Trend development

## Short term trend development



# Trend lines rules

## Application rules

- Compatibility
- Use history to improve trend line placement
- Anchor point
- Three rebound points
- Use best fit placement
- Adjust position as trend develops
- No false signals

# MARKET MOVERS

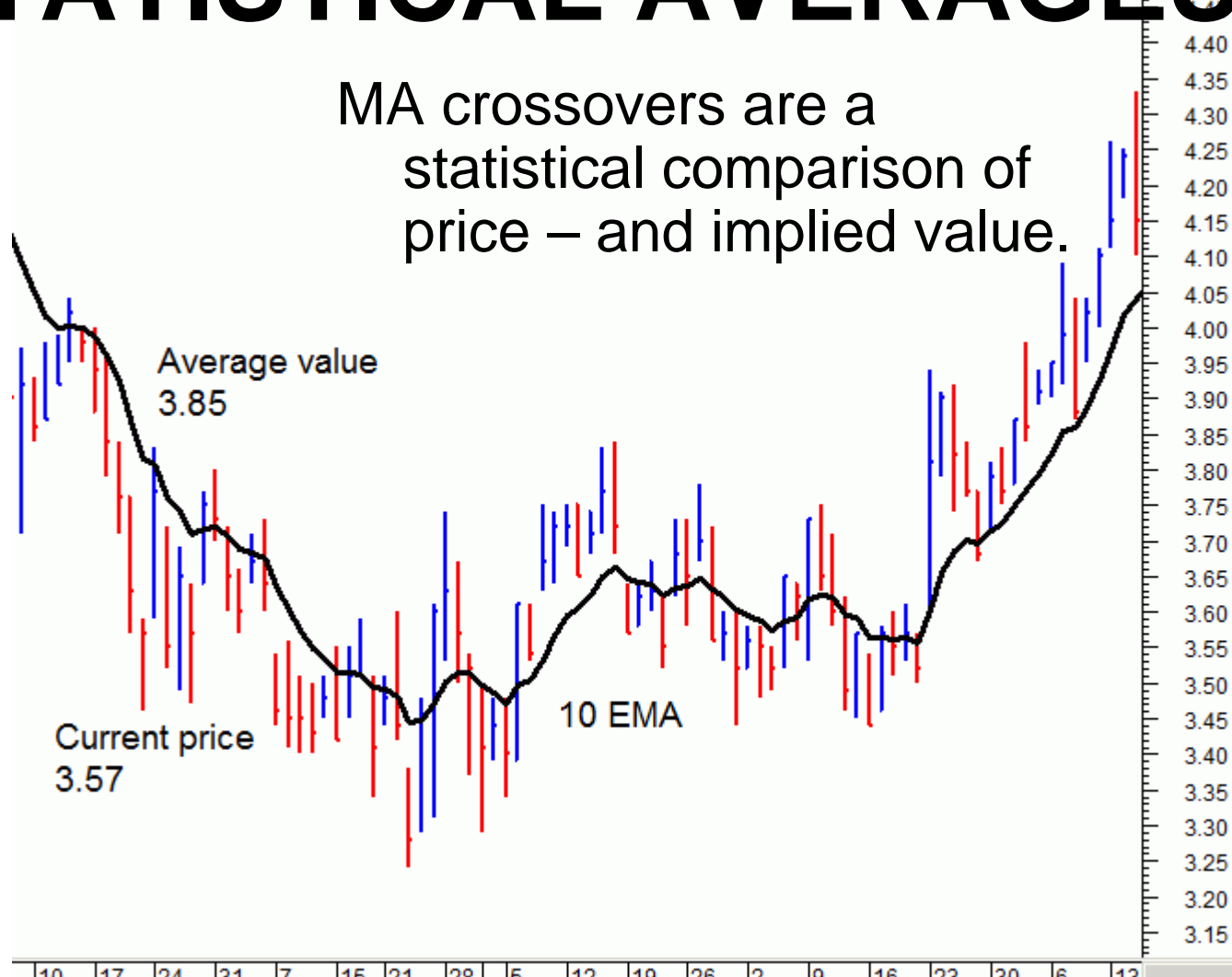
Bulls and bears  
Or  
Traders and Investors?

## GMMA

Brokerage reports

# STATISTICAL AVERAGES

MA crossovers are a statistical comparison of price – and implied value.





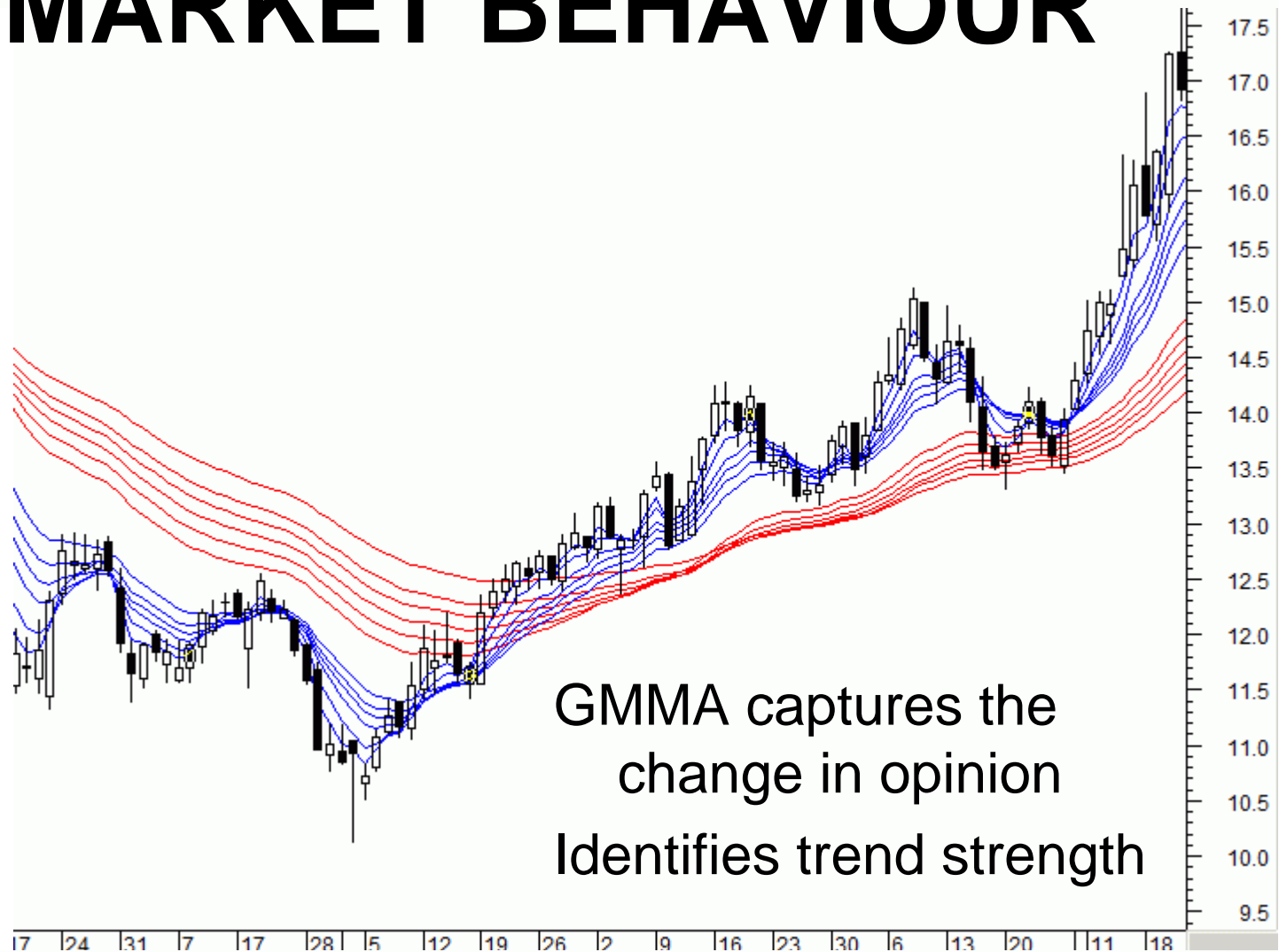
# BEHAVIOURAL AVERAGES

GMMA captures behaviour of two groups in the market





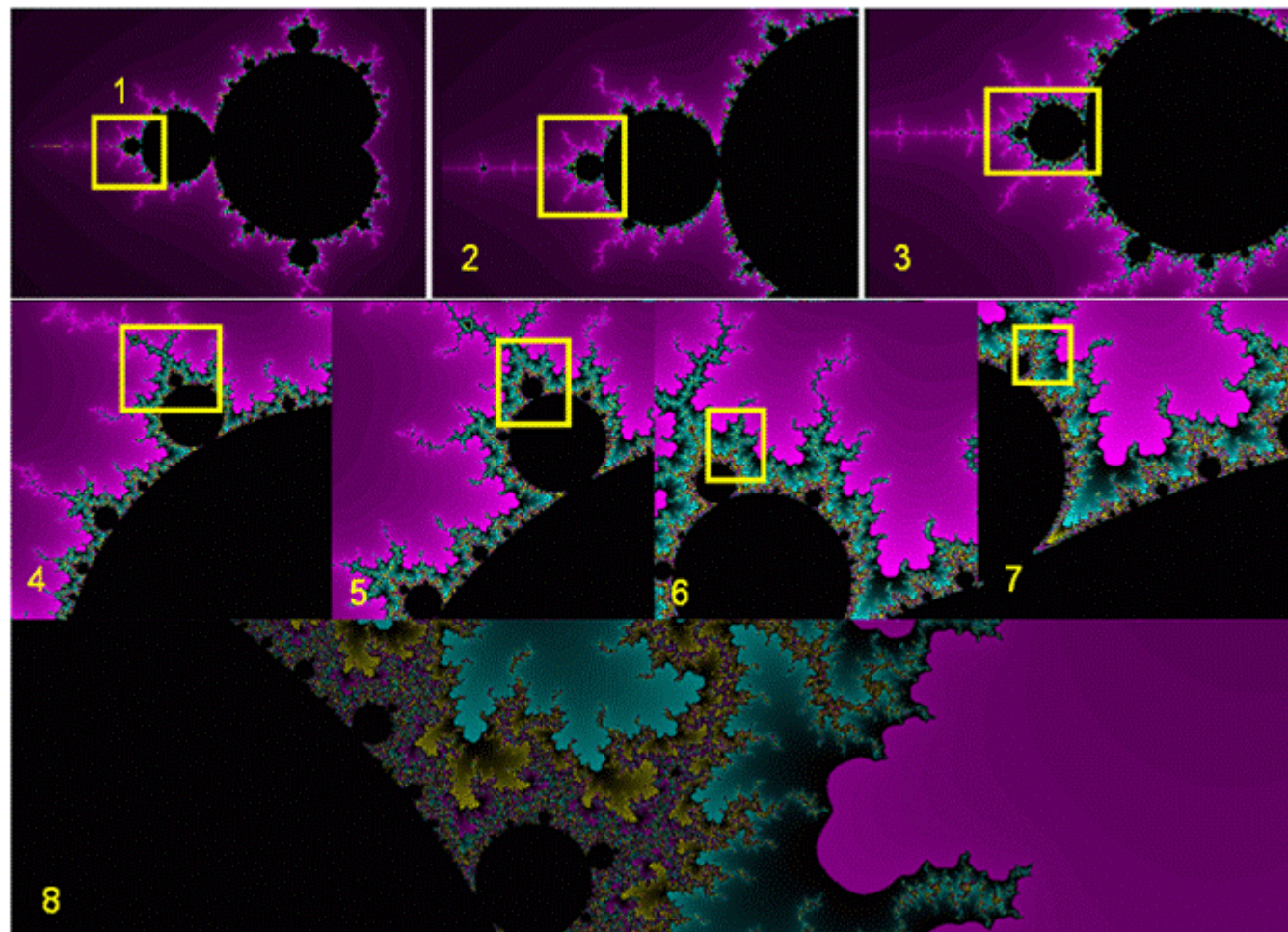
# MARKET BEHAVIOUR



# FRACTAL CHAOS

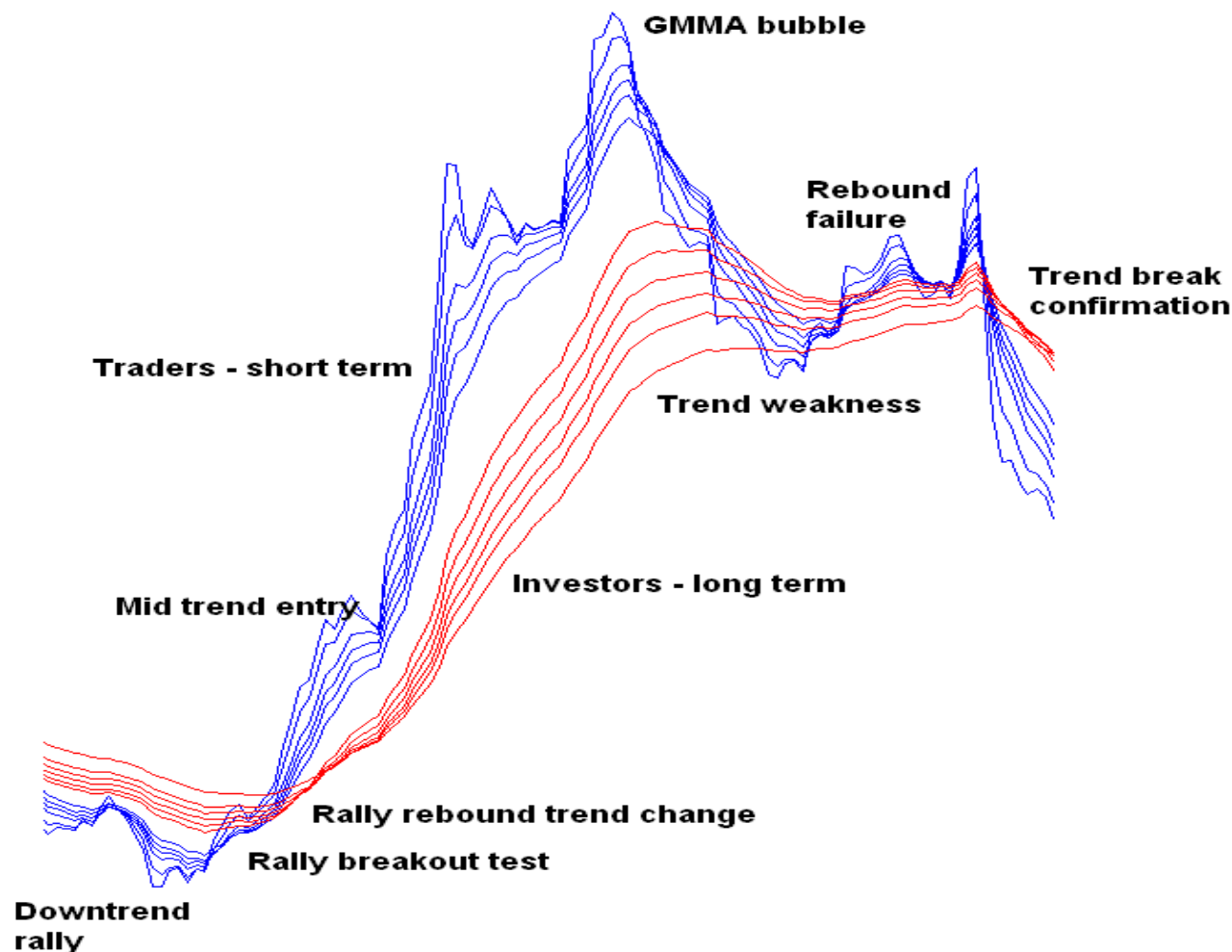
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GMMA  
shows fractal  
repetition of  
trader and  
investor  
relationships  
in multiple  
time frames  
and this  
reveals trend  
strength



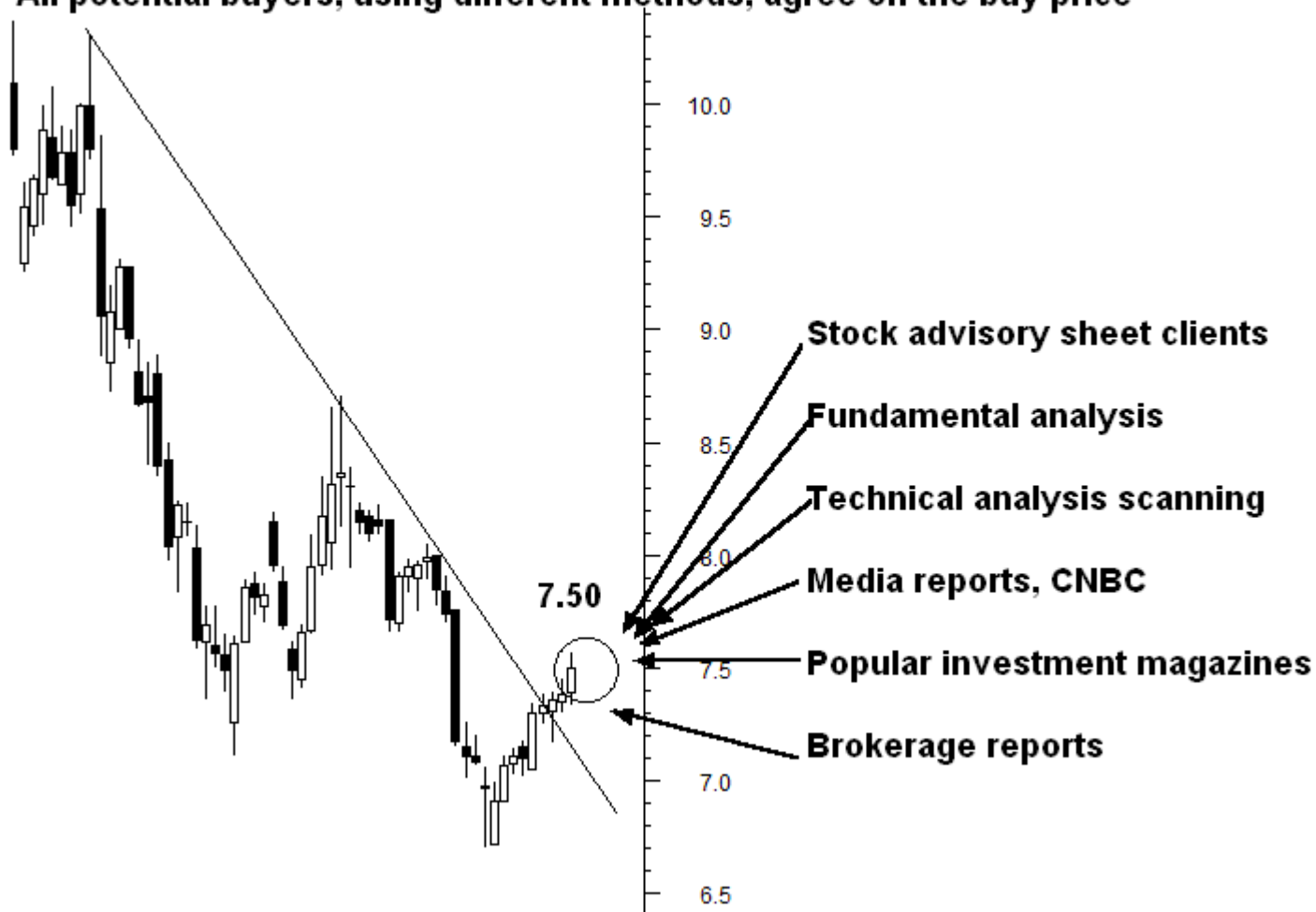
# GMMA APPLICATIONS

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# PRICE AGREEMENT AND ANALYSIS

All potential buyers, using different methods, agree on the buy price



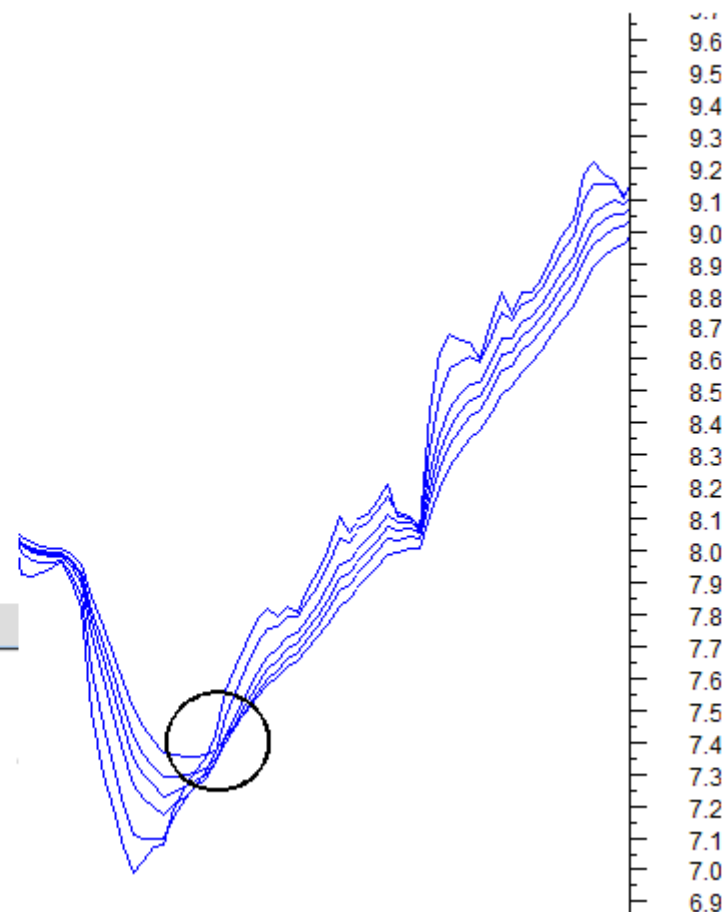


# TRACKING SHORT TERM VALUE

1. When there is agreement on price and value then we must outbid our competitors to buy stock
2. Traders are the most aggressive group of buyers

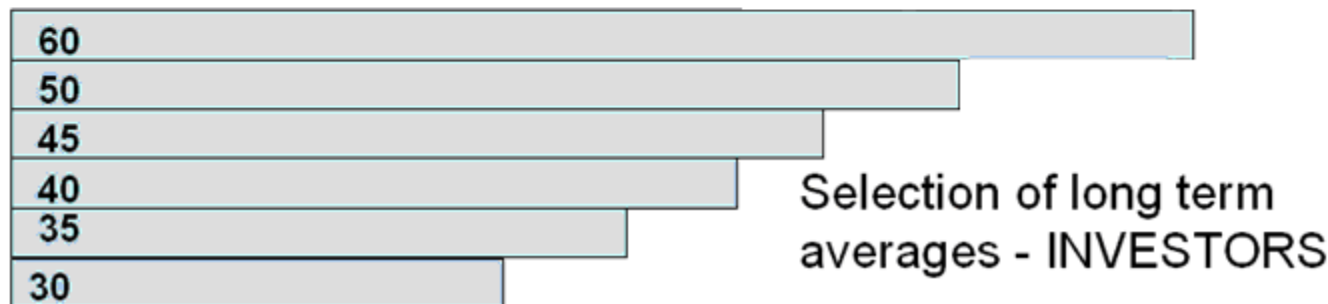
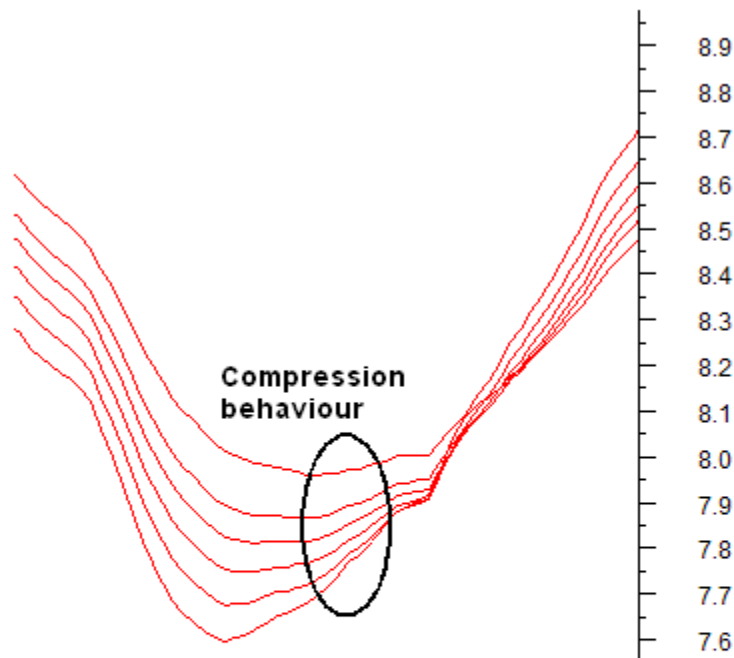


Selection of short term  
TRADERS



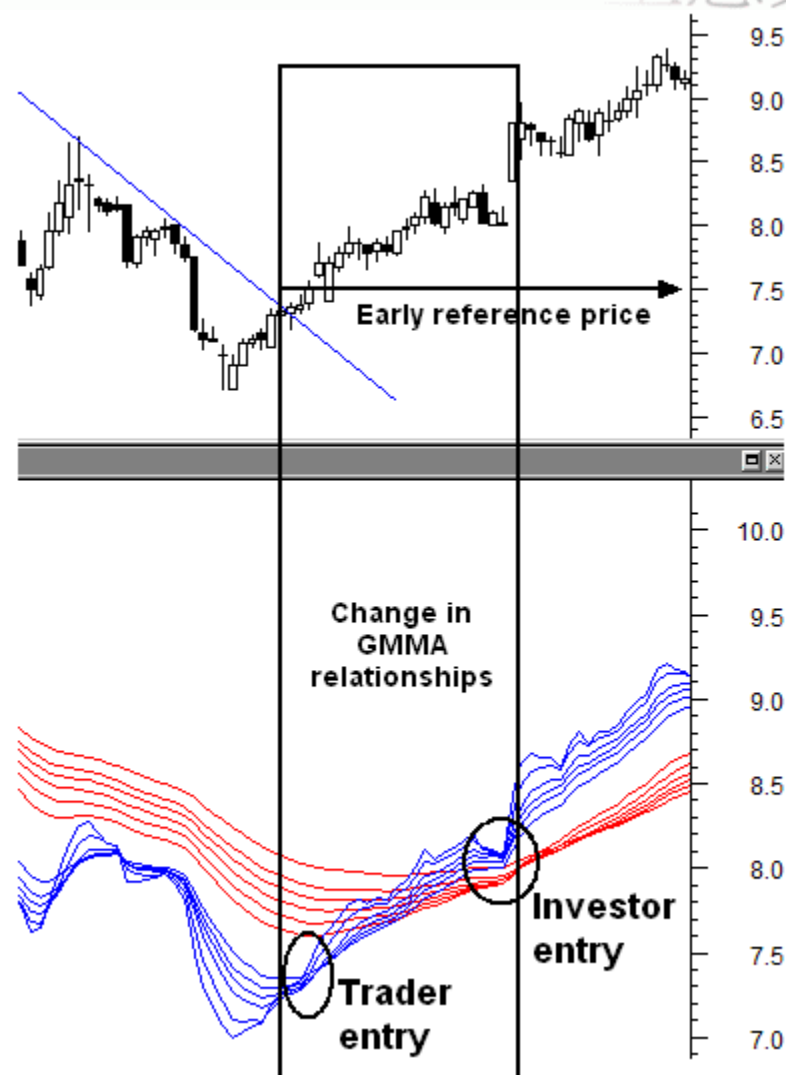
# TRACKING LONG TERM VALUE

1. When there is agreement on price and value then we must outbid our competitors to buy stock
2. Investors are slower to move
3. Their support is essential for any successful trend change



# GMMA RELATIONSHIPS

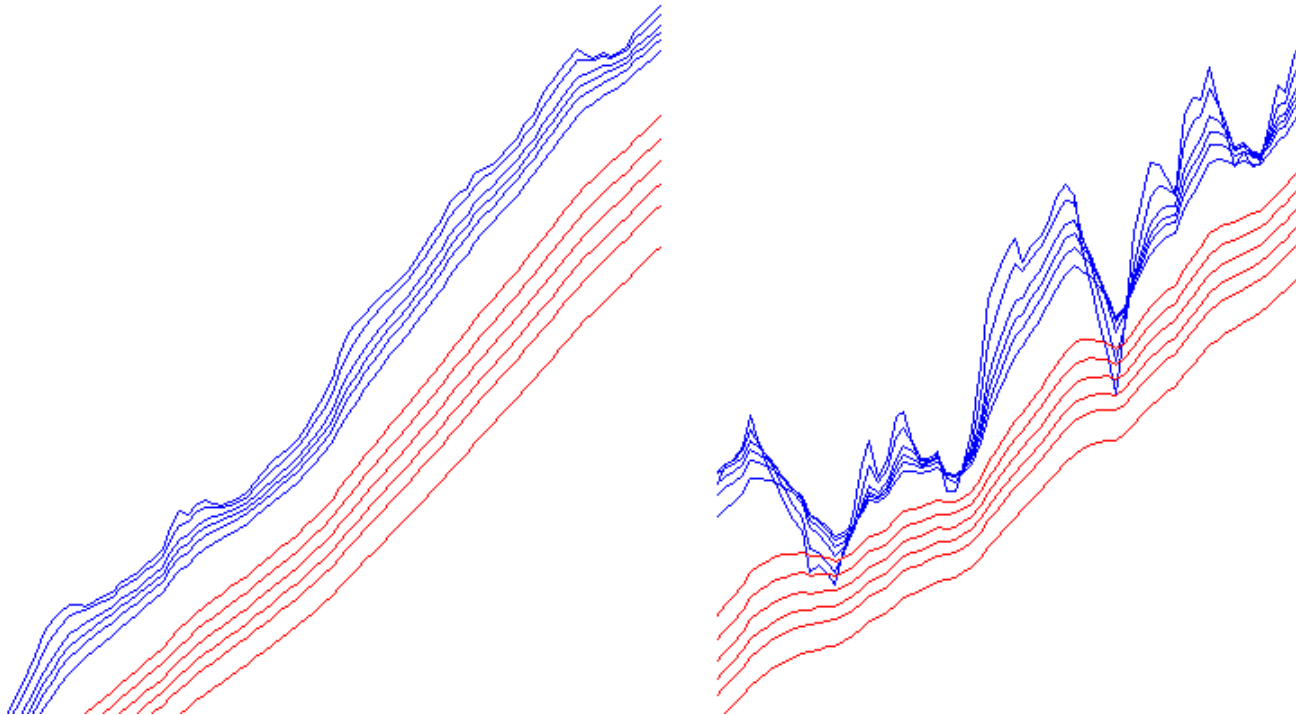
Improves understanding of  
behaviour of market participants





# GMMA trend character

1. Which stock has the strongest trend?
2. Which offers the lowest risk?
3. Which requires the least management

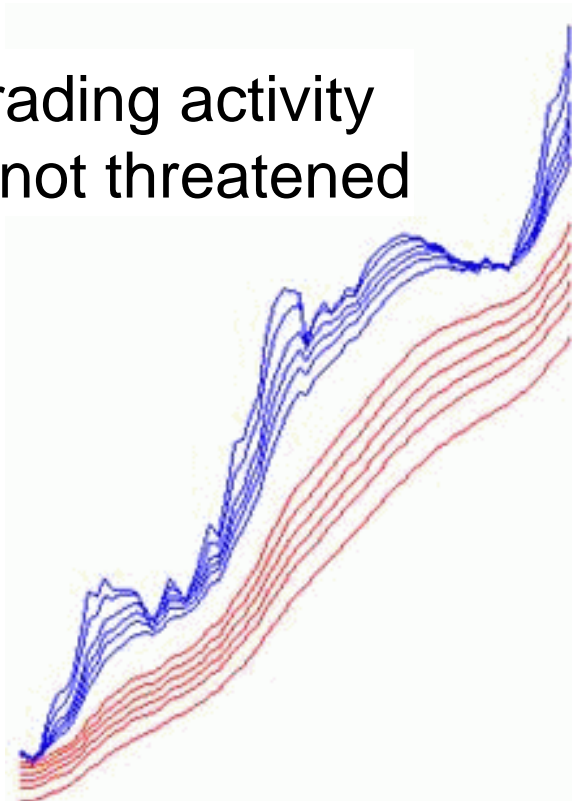


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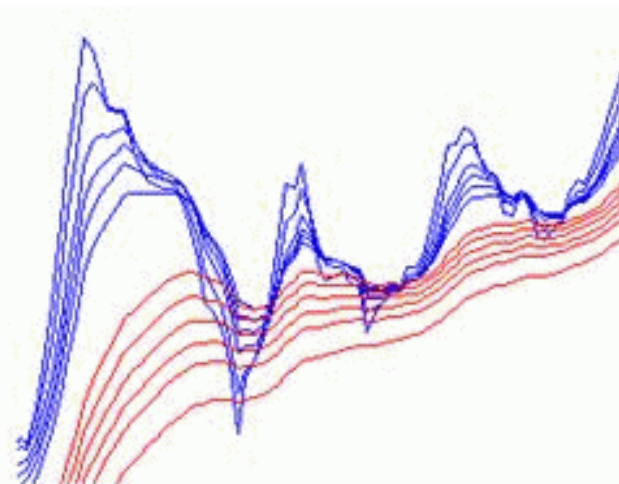
## GMMA TREND CHARACTER

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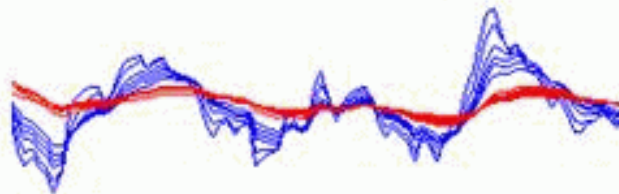
Little trading activity  
Trend not threatened



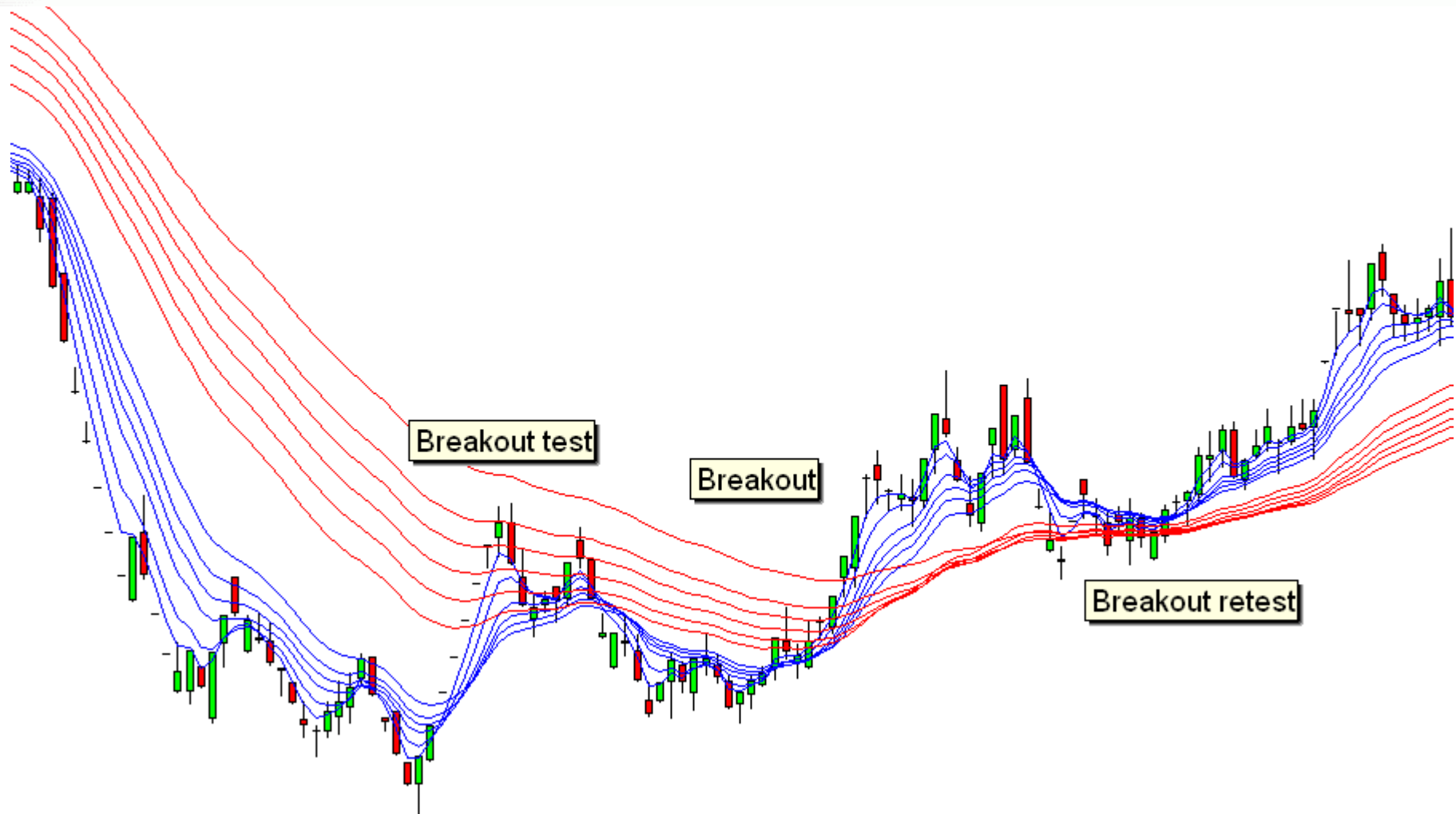
Substantial trading activity  
Trend often under threat



No trend behaviour



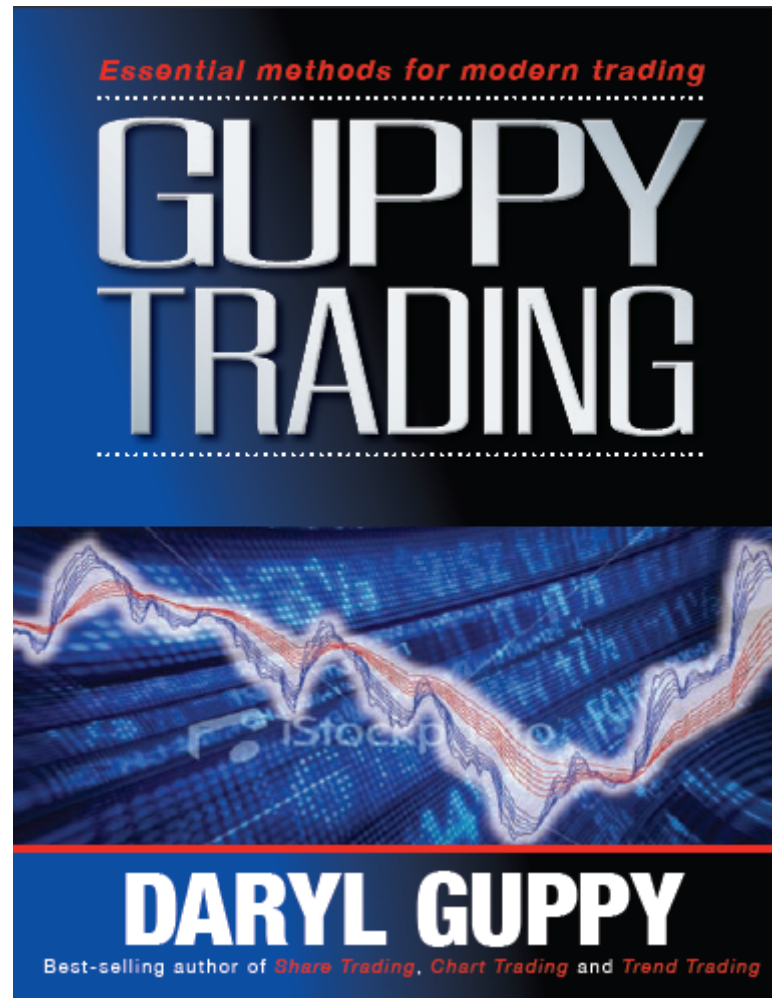
# GMMA TREND ANALYSIS



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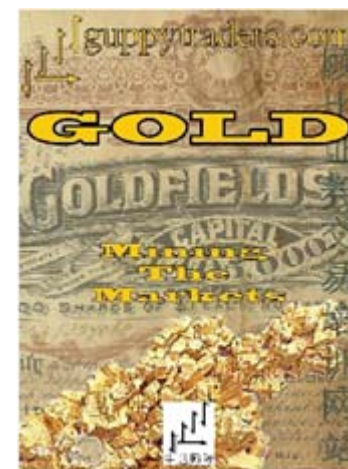
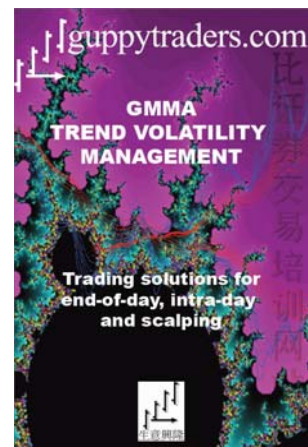
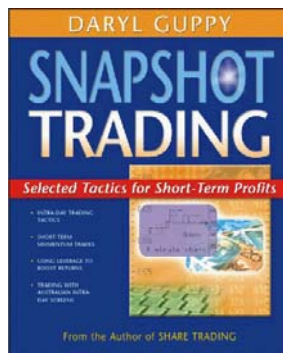
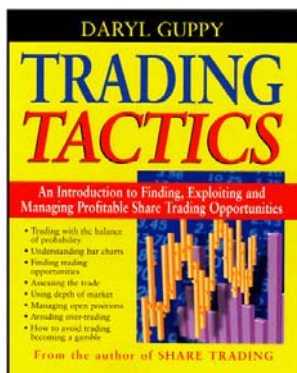
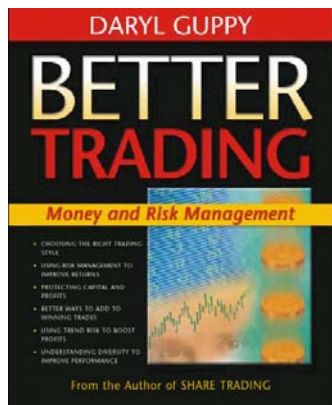
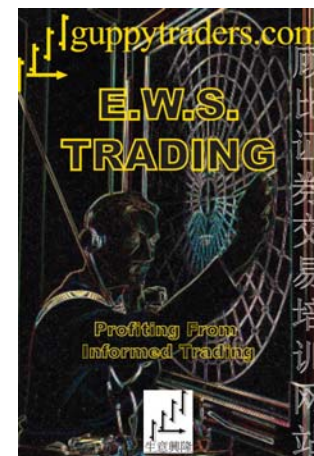
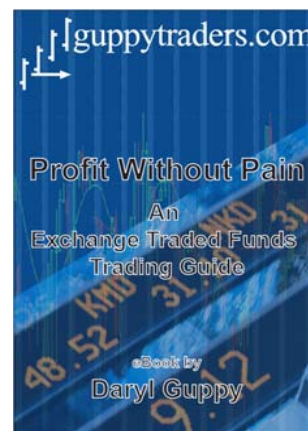
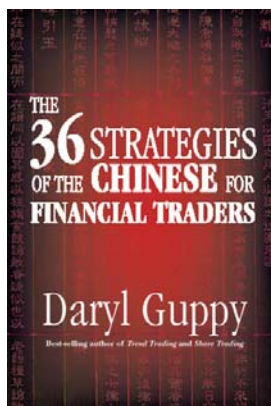
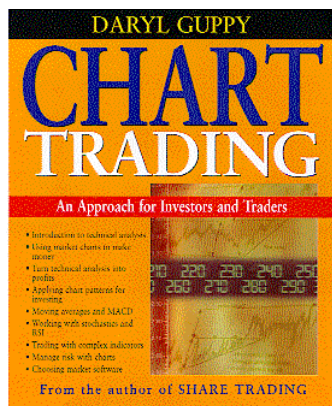
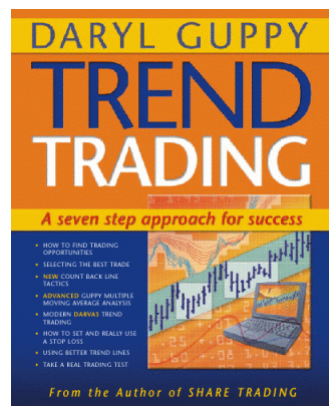
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# SURVIVAL AFTER THE GFC





# RESOURCES



Books

DVDs

# Weekly Learning update

1. Learn how to improve your trading
2. Learn the latest trading techniques
3. Explore first release indicators
4. Discover how other traders solve common problems
5. Learn the analysis and trading skills for execution with derivatives

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## TUTORIALS IN APPLIED TECHNICAL ANALYSIS

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