

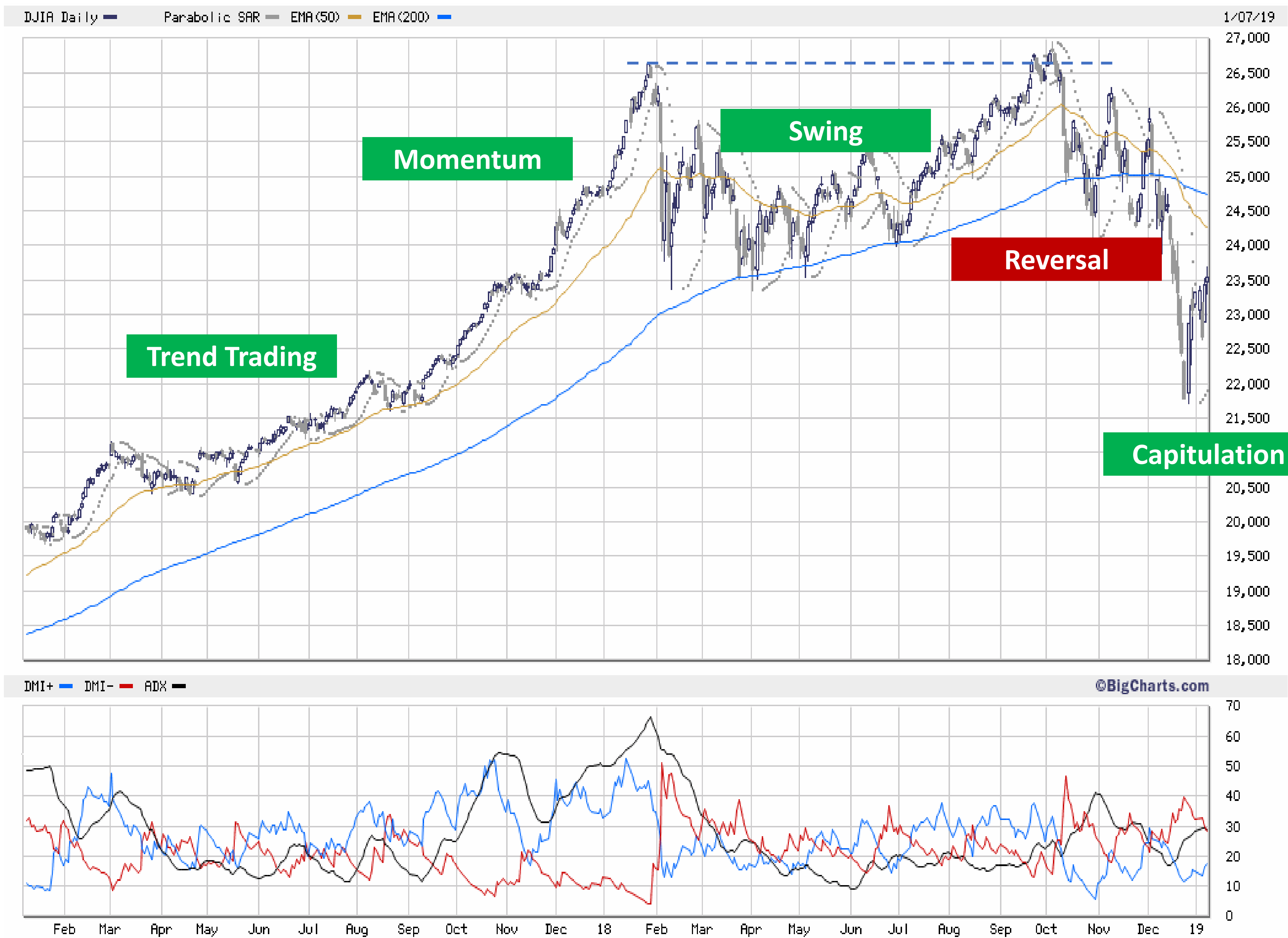
EKL

Trading Survival 101

5 Strategies You Need To Know



06-24-2019



SHORT TERM TRADING

Trend Following

- Trend Trading (45°, 60°)
- Momentum (90°)
- Swing Trading (Bounce)

Countertrend Trading

- Capitulation
- Reversal



CAPITULATION

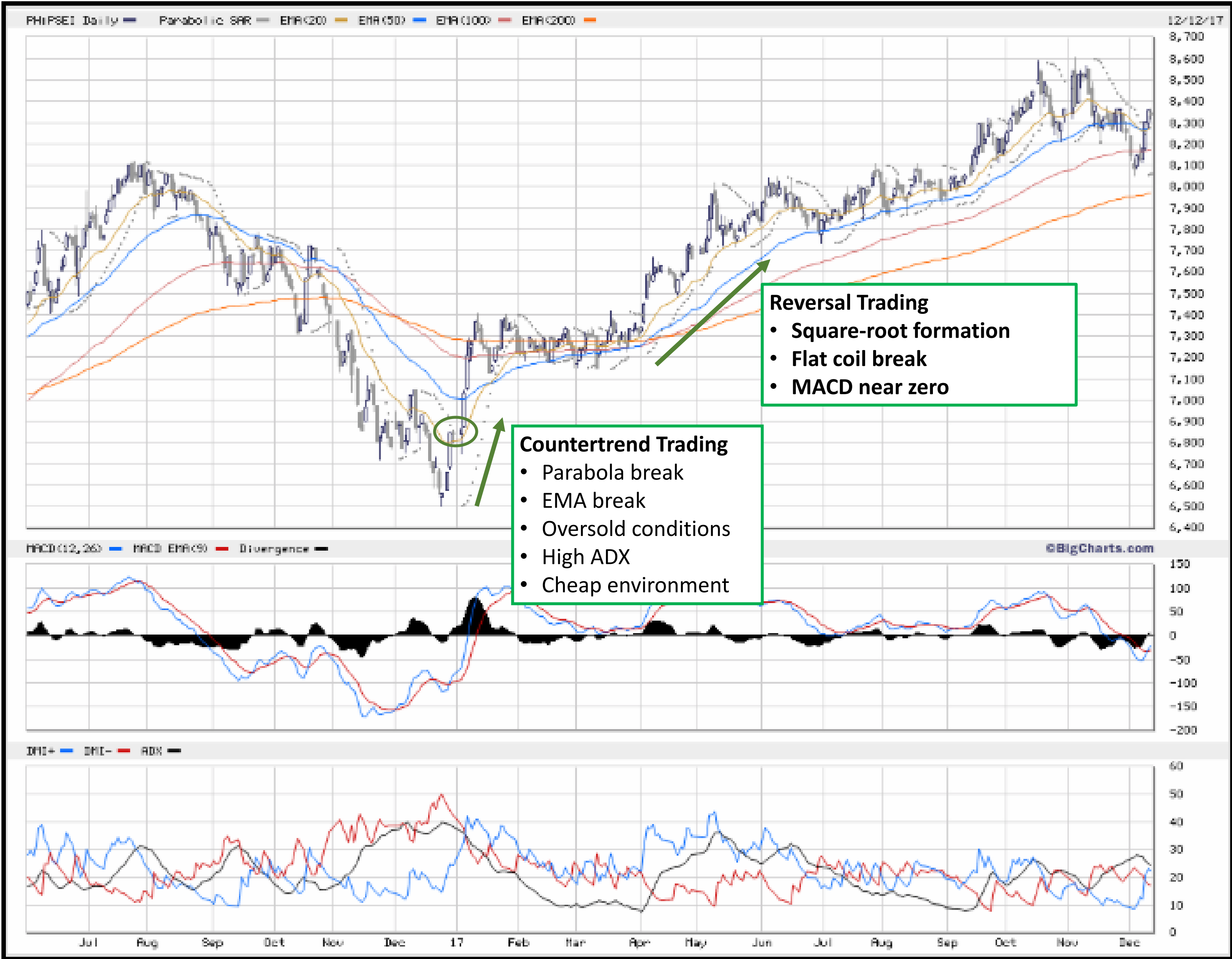
Mean Reversion

Countertrend Trading: Mean Reversion

What is countertrend trading?

When all your quality issues have gone down a lot, there is an opportunity to ride the quick snapbacks of mean reversion.

Reversal trading comes after the patterns have formed. Before that happens, you can ride the first round with a countertrend setup.



Countertrend trading: the first signs of reversal



Key criteria :

☑ **Market has gone down significantly.**

When you find the need to do countertrend trading in a bull market, you might be looking at the wrong stock. But if the whole market has gone down, posing **systemic risk**, it's a good time to find quality issues that might reverse.

☑ **EMA and Parabola break**

Price needs to confirm the first signs of reversal. Technical indicators like the 10-day EMA and parabola can be your basis.

☑ **Insider buying**

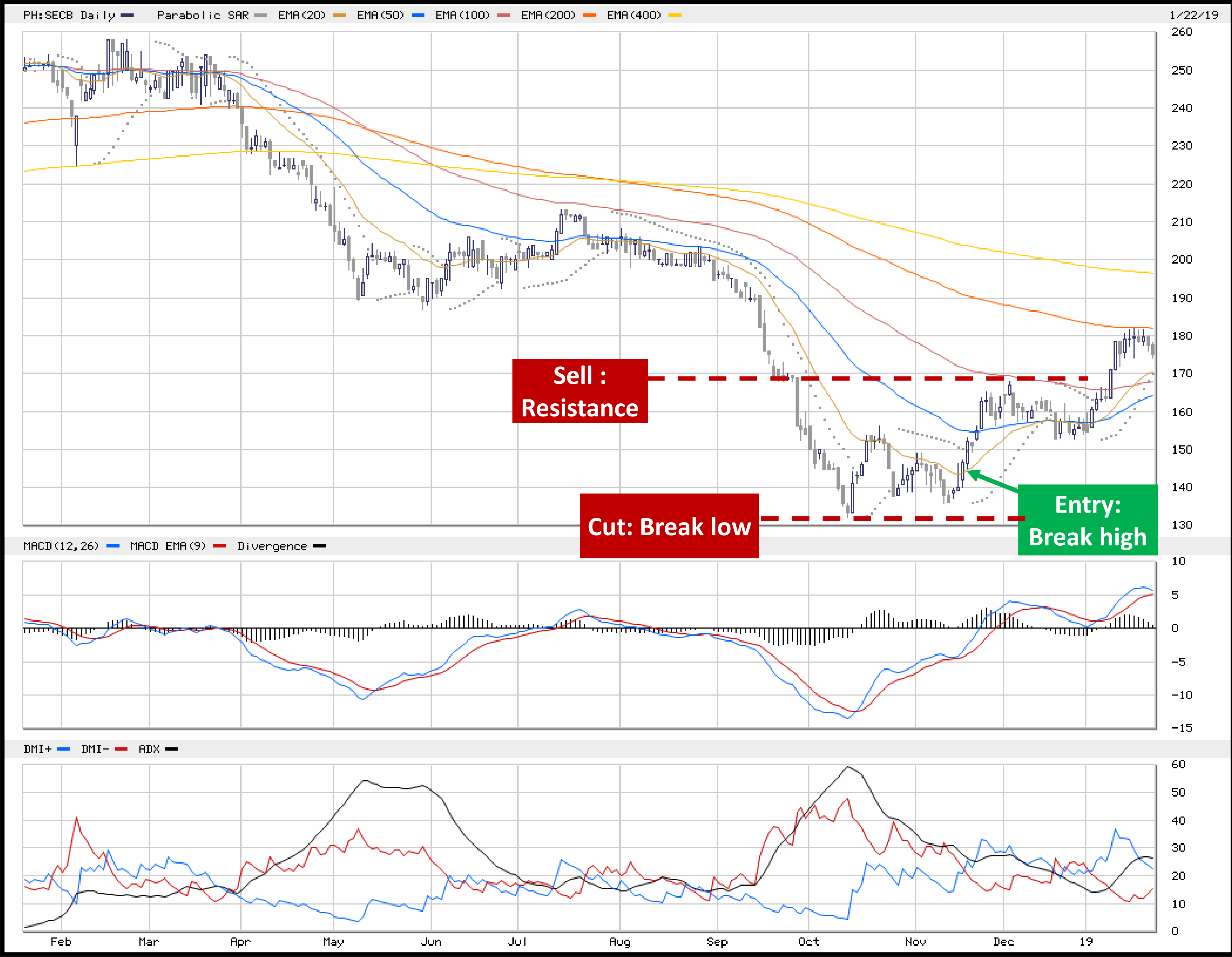
When there's blood in the streets, it gets harder to bet the ranch with full conviction. Cheap stocks can get cheaper. Fundamental problems are announced only after the stock has been sold down. You have one cheat that will confirm your thesis on buying: the insiders. If the owners have the confidence in their own company, they'll aggressively accumulate while the price is cheap.

☑ **Discounted valuations**

On a bull market, you trade what you see in the prices. When everything is sold off, you start switching to **trading what you think**. Check whether the company's valuations is cheap in terms of historical P/E and P/B. Check whether the balance sheet and prospects are strong. This way, you're **trading the reversion to mean valuations**.



Exhibit 1: SECB



- ✓ Discounted valuations from mean
- ✓ Market down significantly from the highs
- ✓ 20-day EMA break
- ✓ Market risk-on

Entry	143.50
Cut loss	132
VAR	1%*
# of shares	870
Gross amount	Php 124,845

**All computations are based on a Php 1 million portfolio.*

Exhibit 2: AGI



- ✓ Discounted valuations from mean
- ✓ Market down significantly from the highs
- ✓ 20-day EMA break
- ✓ Market risk-on

Entry	11.85
Cut loss	11.50
VAR	1%
# of shares	28,500
Gross amount	Php 337,725

Exhibit 3: HK:700



- ✓ Discounted valuations from mean
- ✓ Market down significantly from the highs
- ✓ 50-day EMA break
- ✓ Market risk-on

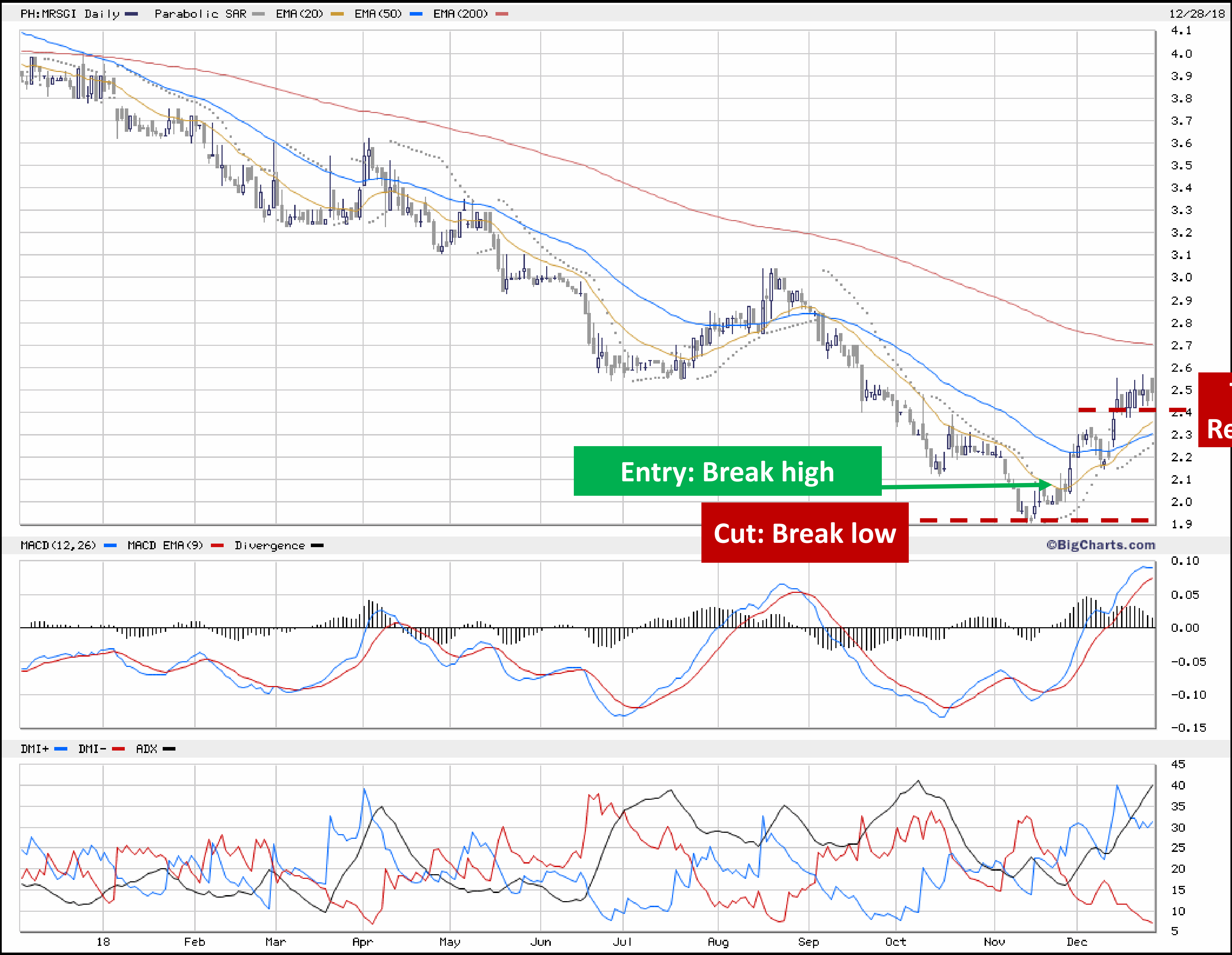
Exhibit 4: FGEN



- ✓ Discounted valuations from mean
- ✓ Market down significantly from the highs
- ✓ 50-day EMA and parabola break
- ✓ Cheap valuations
- ✓ Insider buying

Entry	15.35
Cut loss	14.1
VAR	1%
# of shares	8,000
Gross amount	Php 122,800

Exhibit 5: MRSGI



- ✓ Market down significantly from the highs
- ✓ 20-day EMA and parabola break
- ✓ Cheap valuations
- ✓ Insider buying

Entry	2.13
Cut loss	1.90
VAR	1%
# of shares	43,500
Gross amount	Php 92,655



REVERSAL

V, W, L

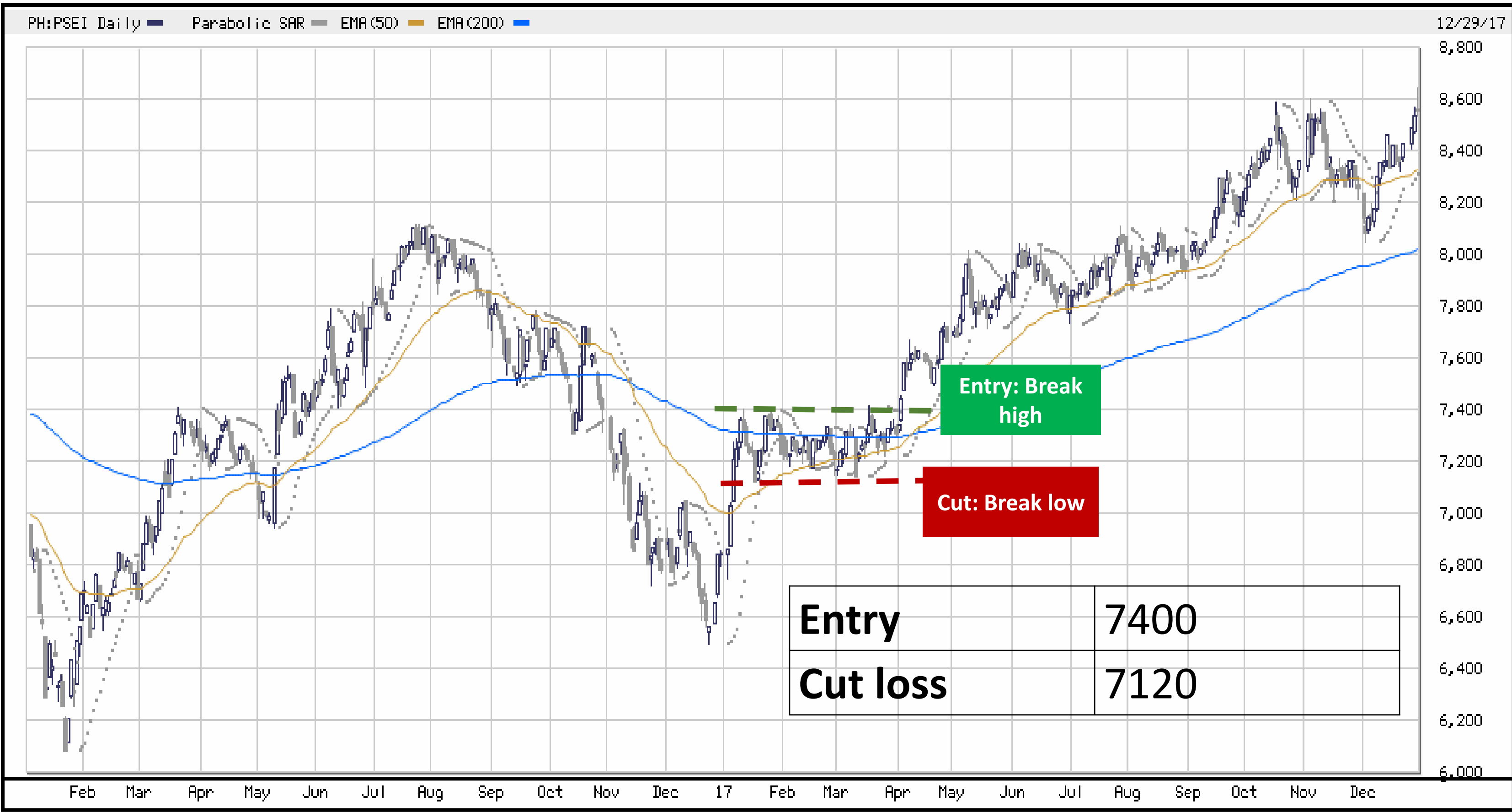
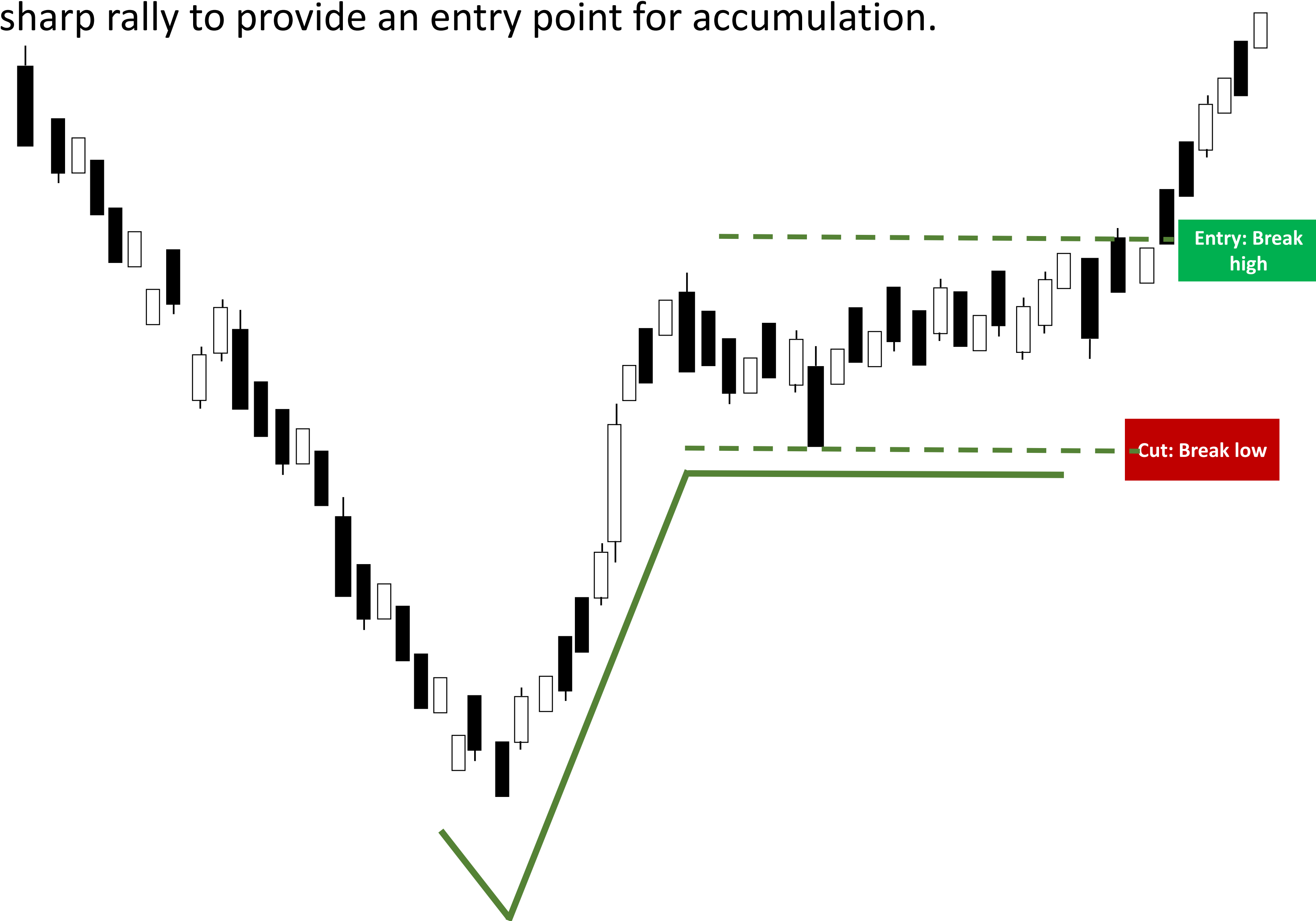
Reversal Trading

The biggest meat in the market doesn't just come from the top. It comes from riding big trends from start to finish. Knowing the rules for reversals (1) provides an entry point for trend changes and (2) signals an exit when the trend breaks.

To simplify reversals, they come into three forms: the **V, W and L**.

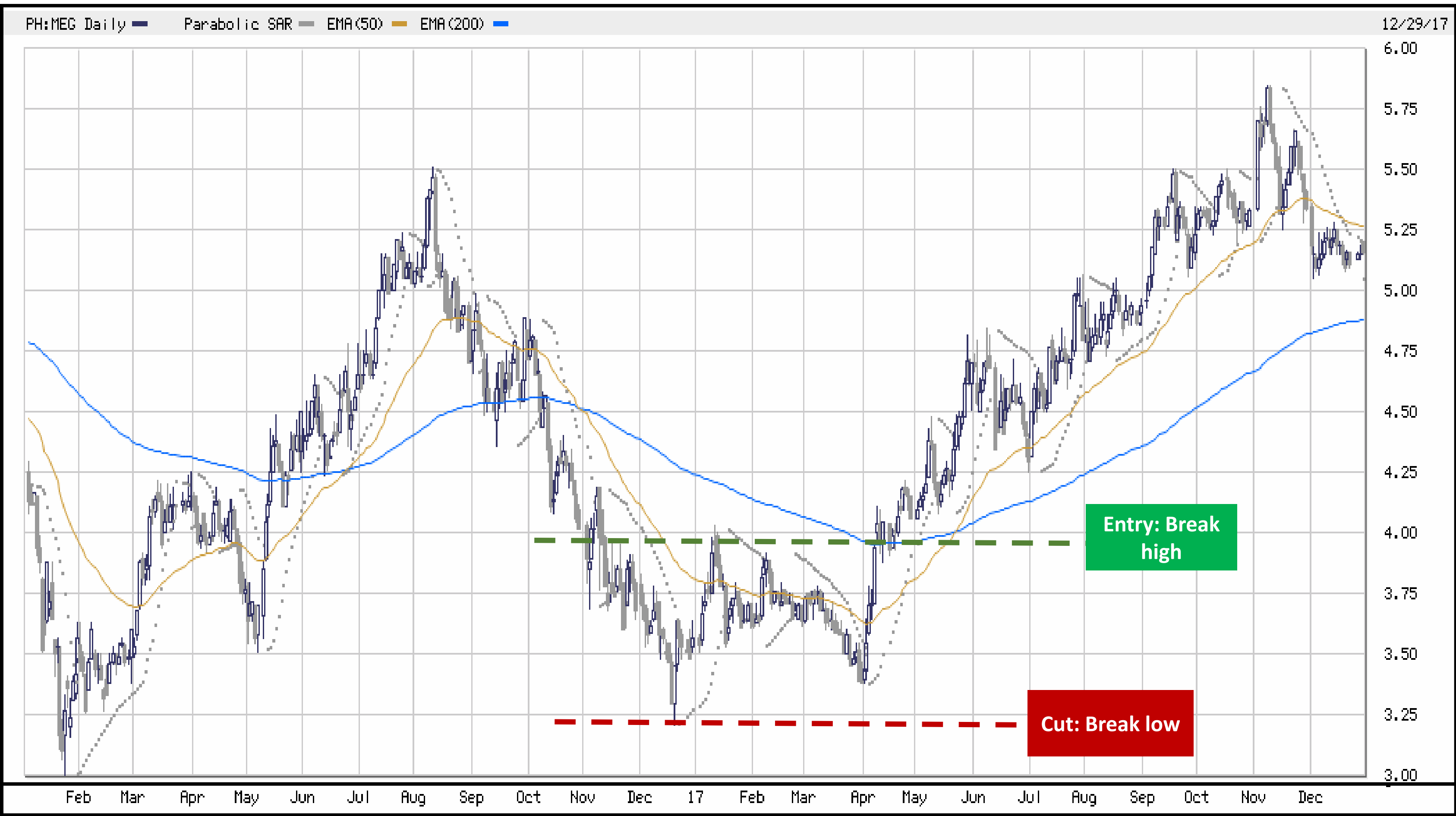
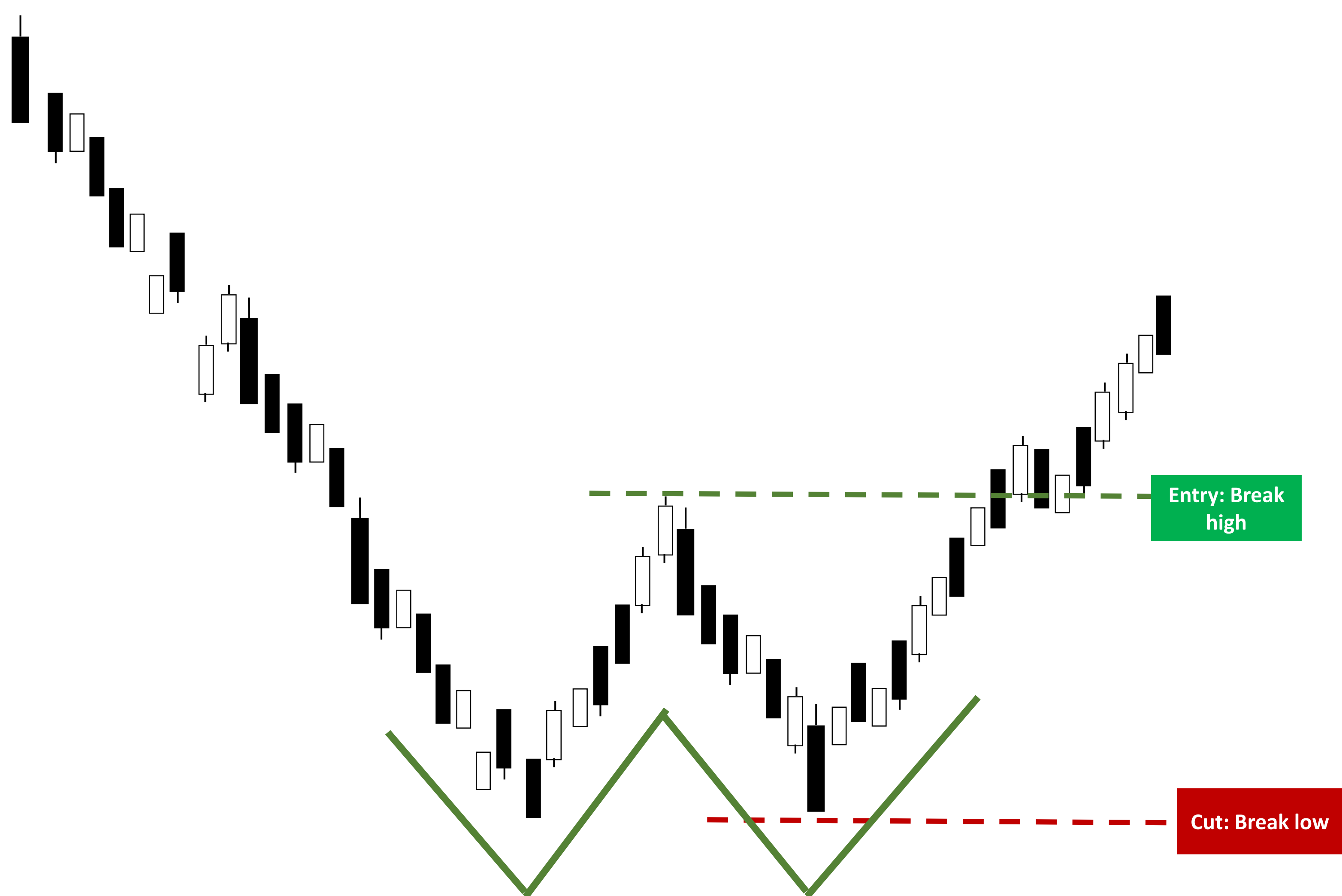
1. V (square root)

The V-rally is the strongest of the three, pausing sideways right after the sharp rally to provide an entry point for accumulation.



2. W (double bottom)

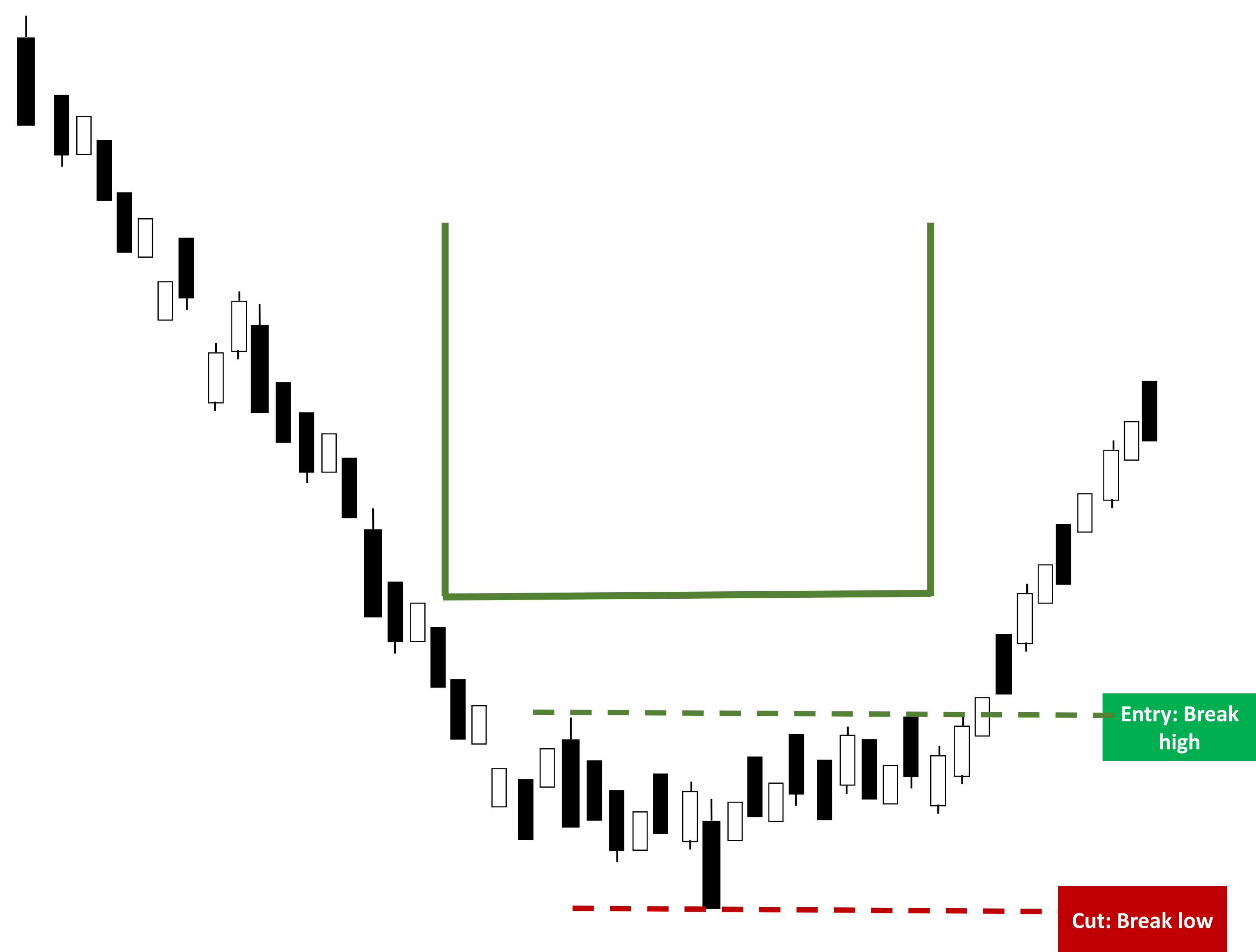
Not all stocks get to bounce permanently after the first rally. Some need a double bottom retest before reversing.



Entry	4.20
Cut loss	3.30
VAR	1%
# of shares	11,100
Gross amount	Php 46,620

3. L to U

The weakest of the three is the L as it pauses at the bottom before becoming a U.



Entry	2040
Cut loss	1700



TREND TRADING

45°, 60°

Swing Trading vs Trend Trading

The debate differentiating swing and trend trading can go on for days, but semantics aside, we differentiate the two mainly by its execution objective.

	TREND	SWING
MARKET	Strong bull	Weak bull, range, bear
ENTRY	Pullbacks, pauses, pattern breaks	Support levels
SELLING	Sell half on resistance, trail stop on balance	Sell on resistance
OBJECTIVE	Maximize the full trend	Take profit from the range
EMA	10,20,50 day EMA	100,200 day EMA

Trend Trading

Trend trading is basically following uptrending prices and buying every time the prices pause or go down with controlled profit-taking. When a stock price goes up, normal human instinct is to look in profit.

Magnitude and Duration

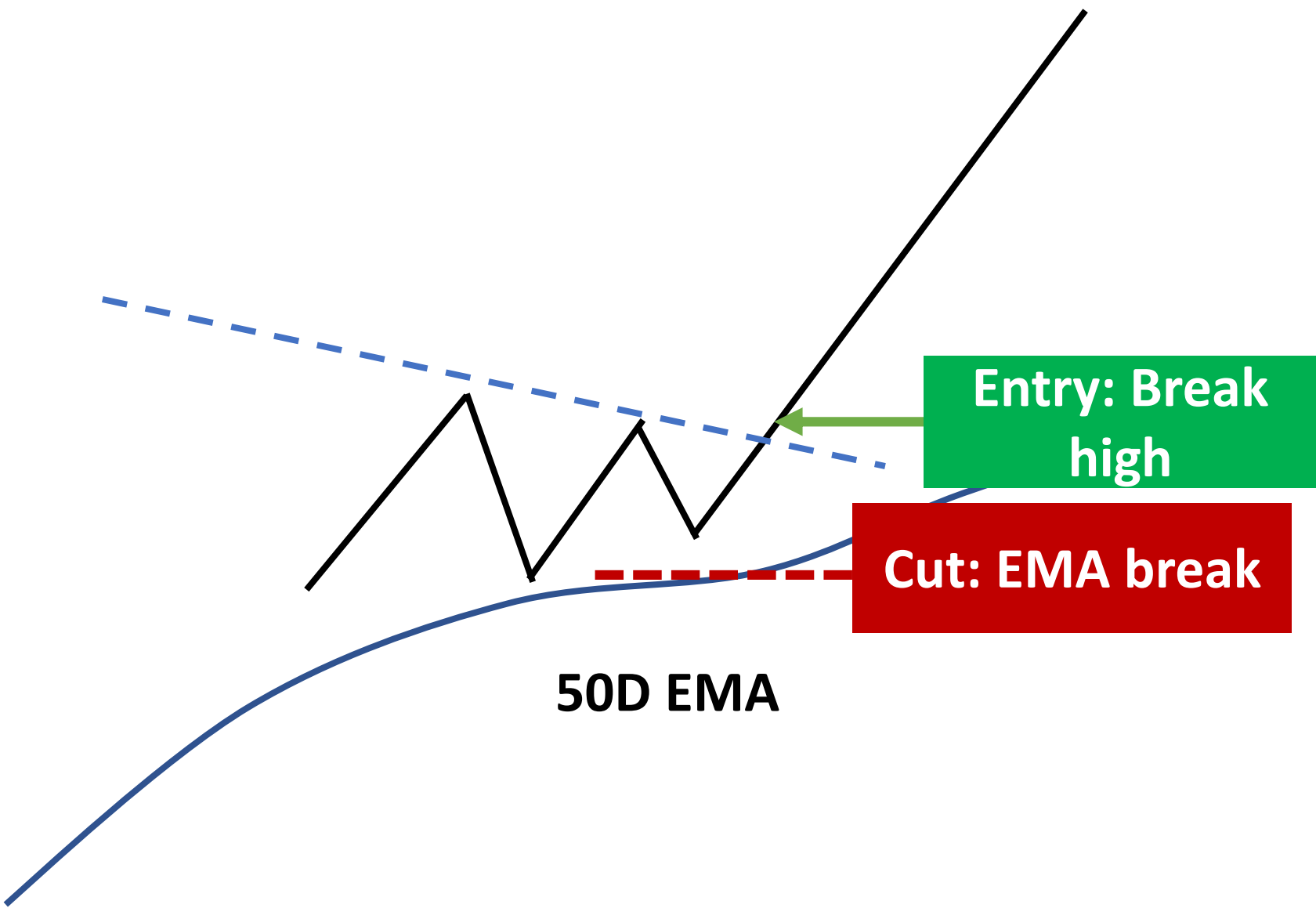
Magnitude is the quick run-up, or the sharp price change in a short period. This results in overbought conditions. **Duration** is the pause that comes after this. This unwinds the overbought condition through **time** or **price**. Duration through time is price pausing while duration through price is the pullback.

Coil

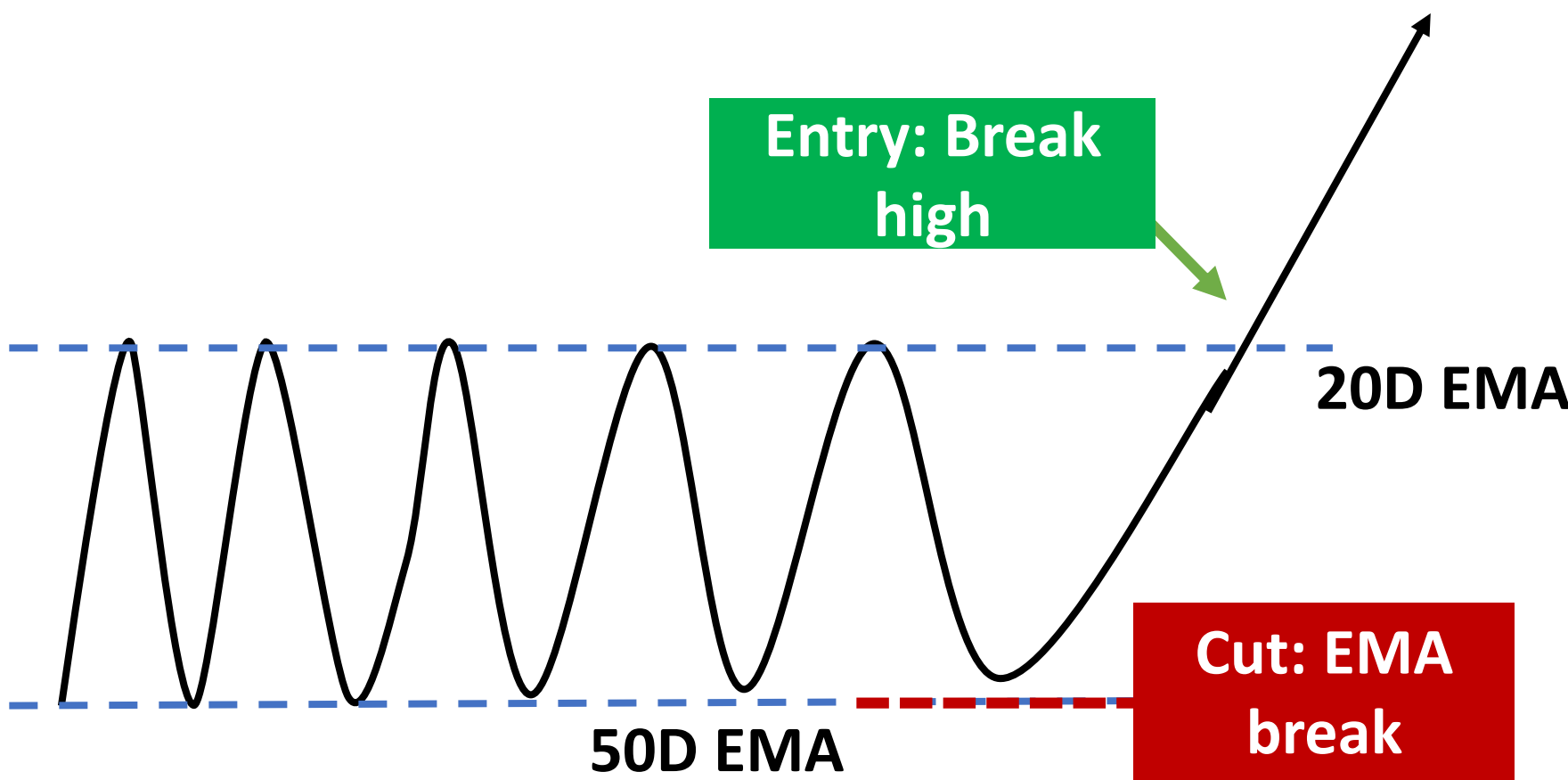
The unwinding of prices form coils. This is when the stock changes hands, preparing it for the next run-up.

10, 20, 50 – day EMA

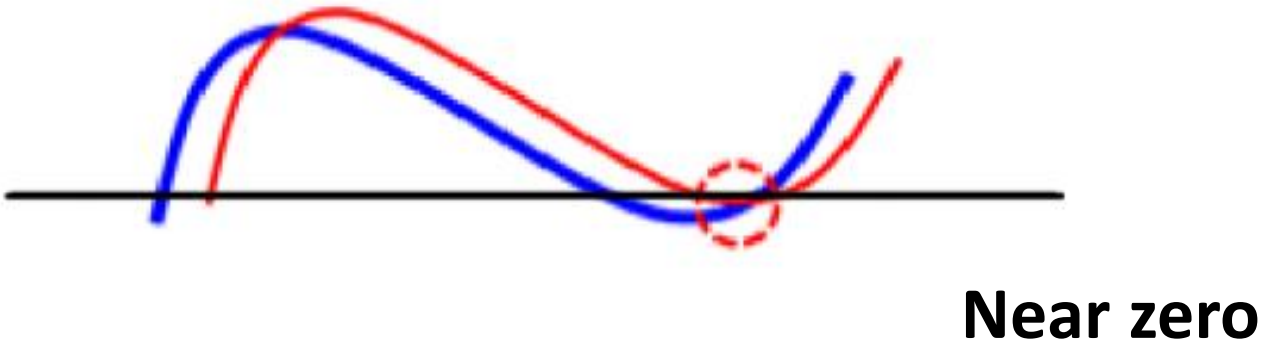
Falling Coil: duration through price



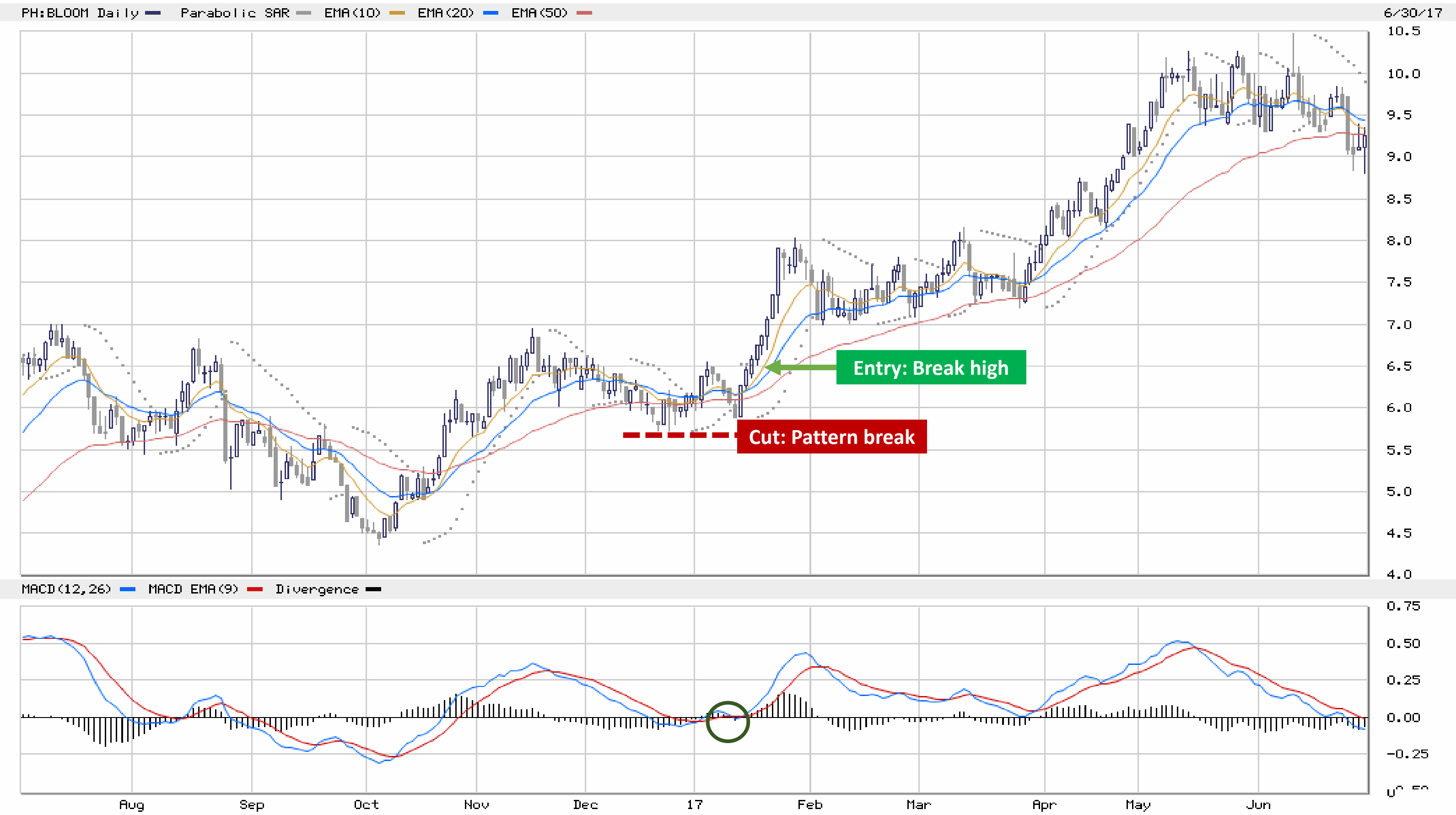
Flat Coil: duration through time



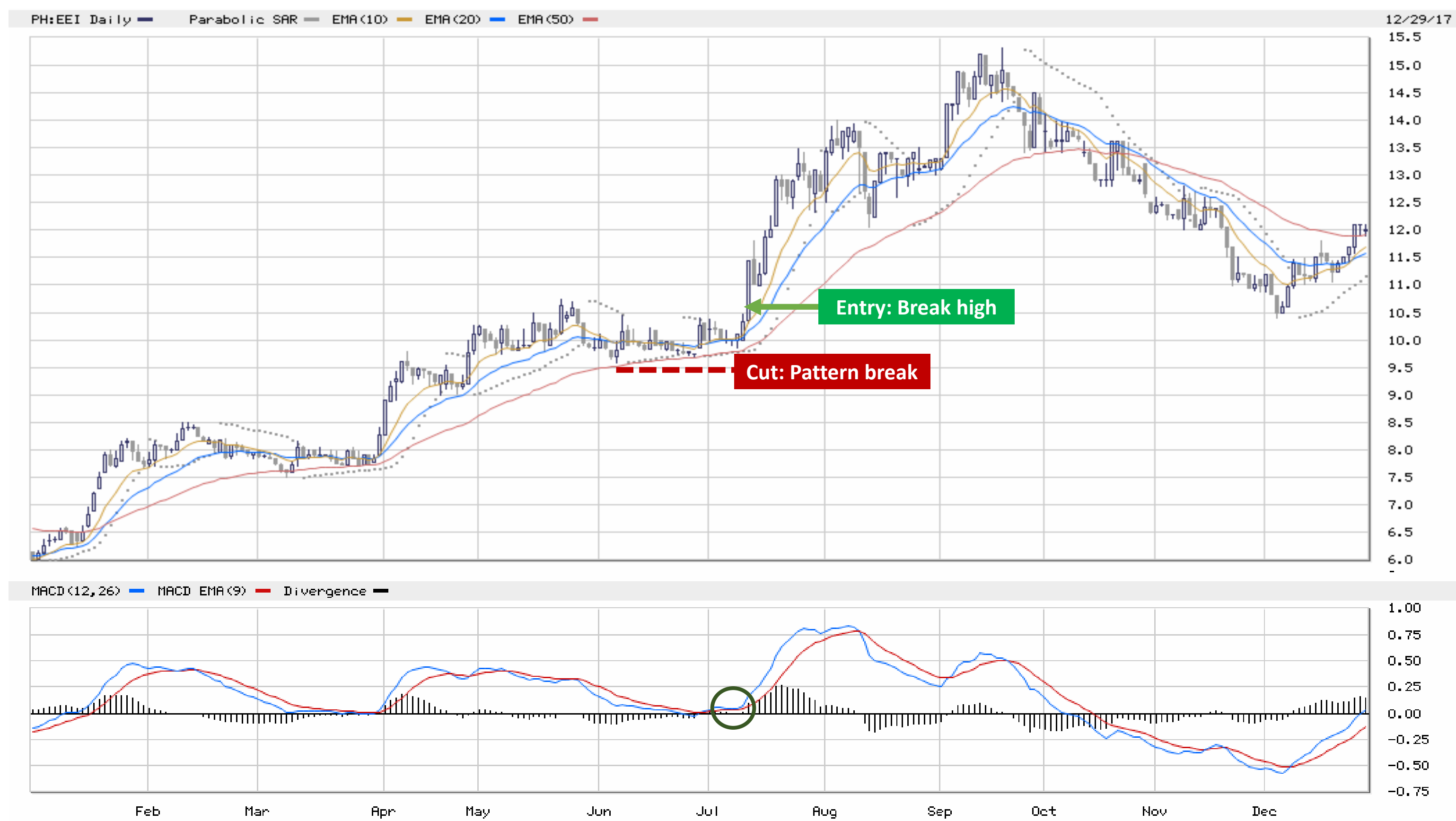
MACD



Enter coils when it quiets down, evident when the MACD crosses near zero.

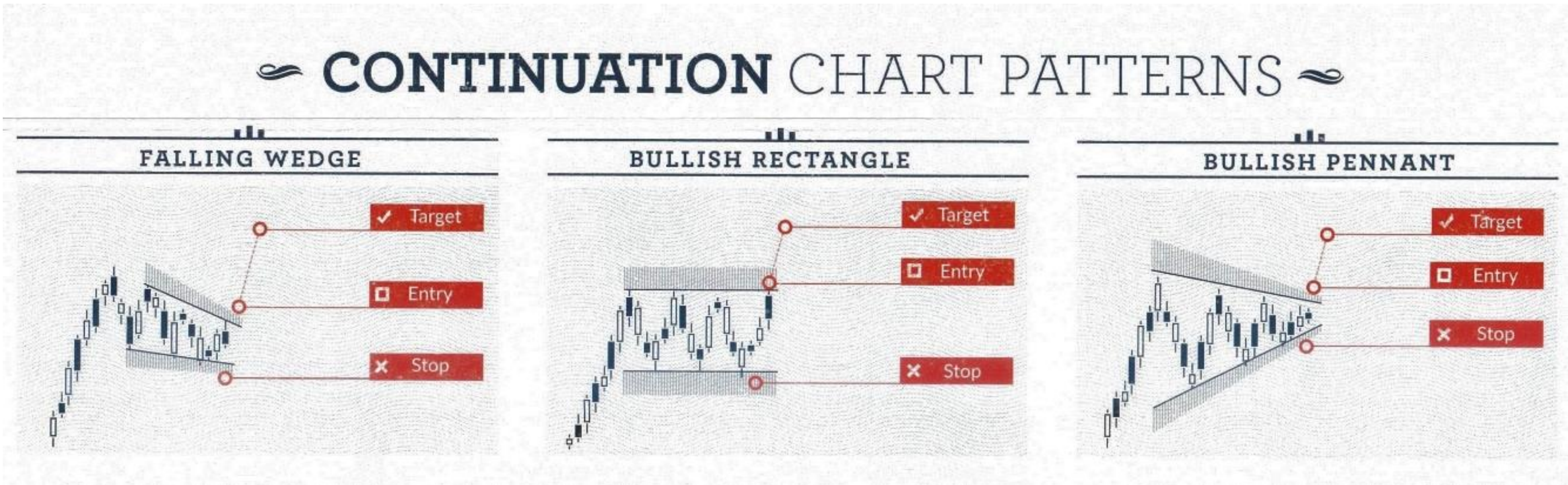


Entry	7.65
Cut loss	7.20
VAR	1%
# of shares	22,200
Gross amount	Php 169,830



Entry	10.50
Cut loss	9.80
VAR	1%
# of shares	14,200
Gross amount	Php 149,100

Coils work well for your position trades as it can take a bit of time, but harbors a low risk-reward ratio. A trending market gives your coils a better chance of the next magnitude.

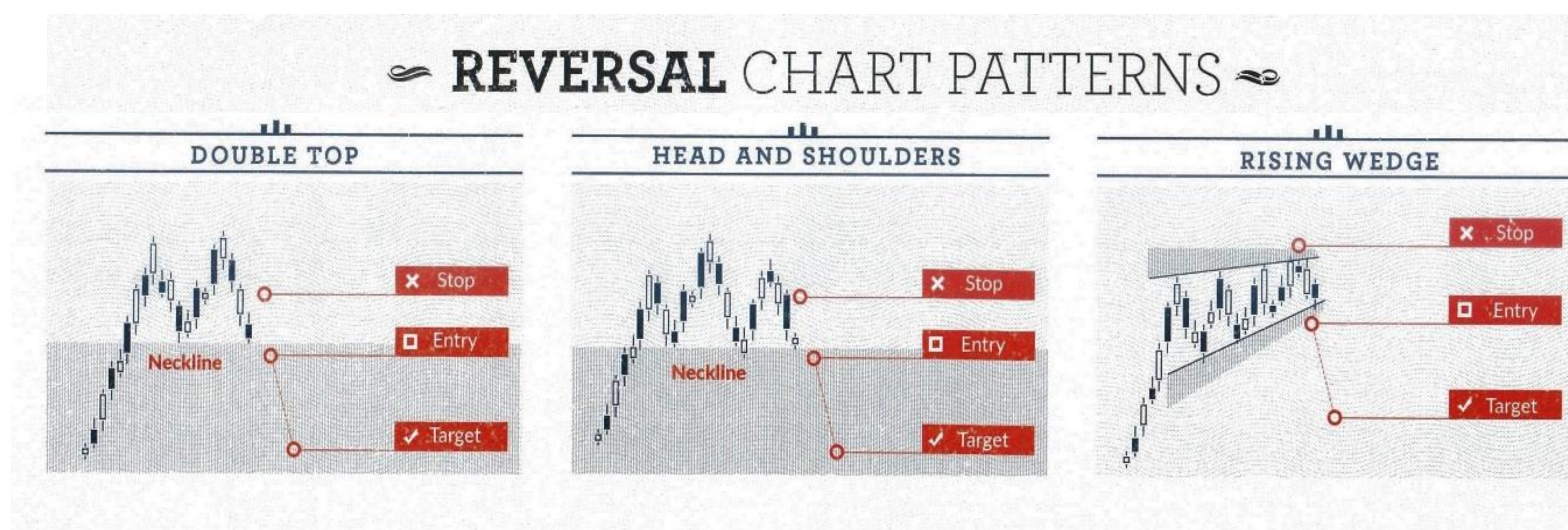


In reference to classic charting, coils hold the same principle as continuation patterns like the falling wedge, bullish rectangle and the bullish pennant. They all hold the same concept of price unwinding before the stock goes into magnitude again.

Exiting Trending Stocks

The main objective is maximizing the whole trend, though we cannot blame traders if they'd like to take profits at certain points. It will differ from trader to trader, but the **general rule** is to take half on the first resistance, and trail the balance using the 50-day EMA.

Exiting on Topping Patterns



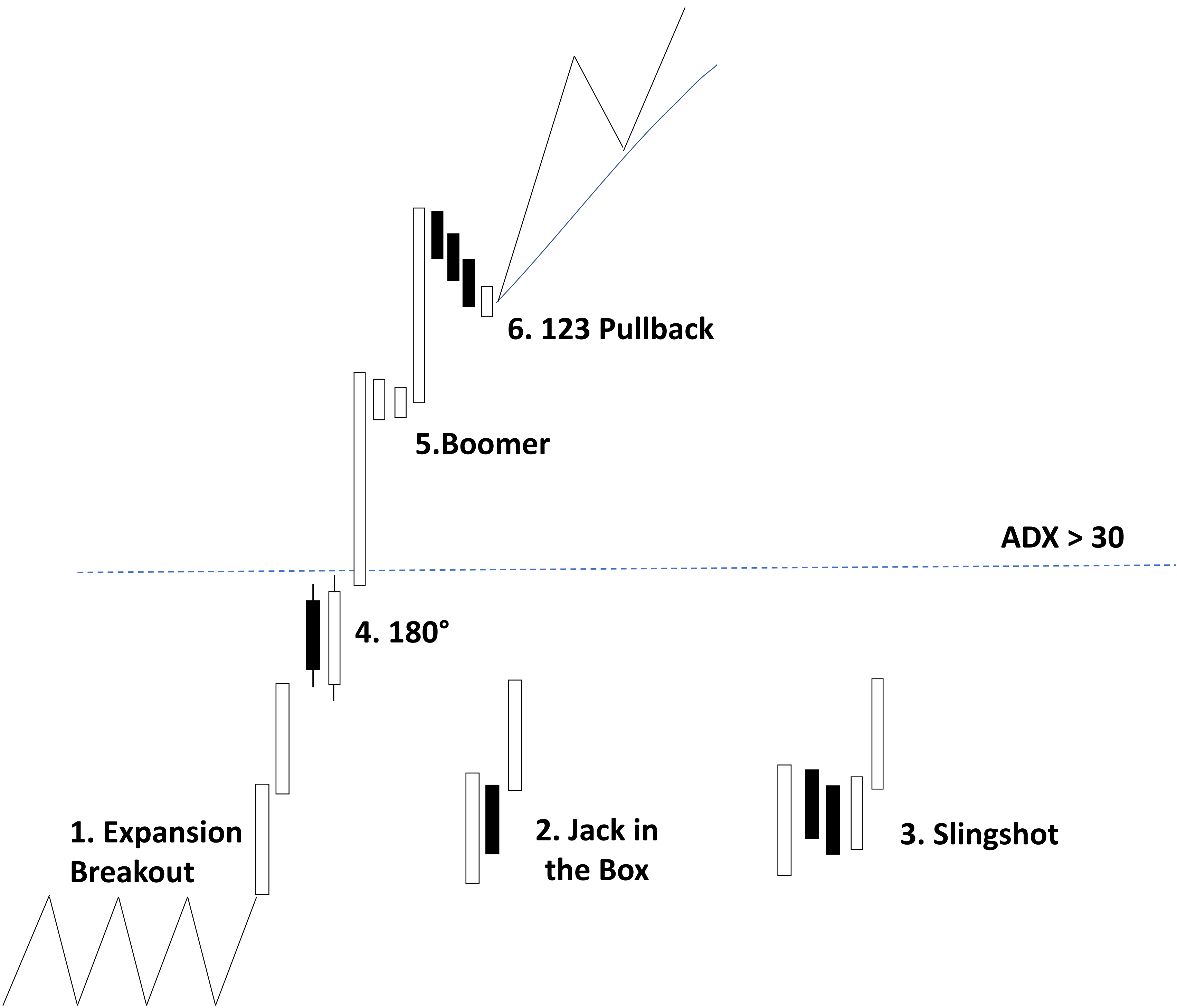
Aside from using the 50-day EMA, you should also be wary of possible topping pattern that may signal the reversal of a trend. Since shorting is not permitted for Philippine stocks, use the topping patterns to signal your exit.



M O M E N T U M

90°

Momentum setups



Source: *Hit and Run Trading 1 & 2* by Jeff Cooper
Trend Trading for Living by Thomas Carr (page 158)

5, 10, 20– day EMA

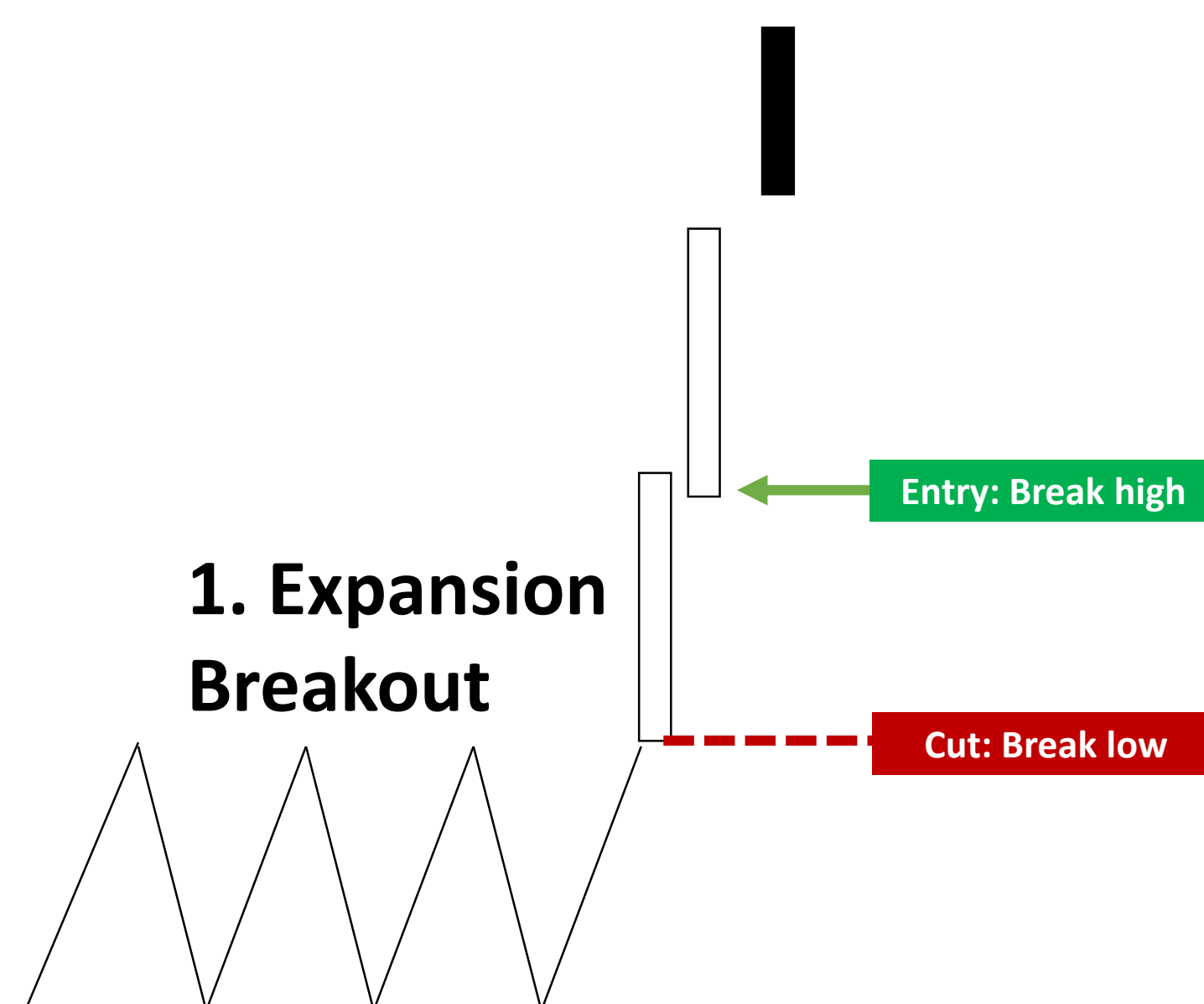
Round 1: Expansion Breakout

An Expansion Breakout tries to catch the next move right after the first price surge. This high risk – high reward setup lets you get a premiere night pass for a new alpha.

Jeff Cooper's Expansion Breakout is characterized by:

- 2-month calendar high
- Range expansion larger than the past 9 trading days

In the Philippines, wherein there is less overall market liquidity, alpha stocks are easier to push. This is why a local Expansion Breakout needs to be backed by significant liquidity. Also, be wary of the usual pump-and-dump strategies of local players and don't fall for the trap of being converted into an "investor" once the price goes against the plan. Respecting your stop losses is very crucial in momentum trading.





Entry	32.7
Cut loss	21.6
VAR	1%
# of shares	900
Gross amount	Php 29,430



Entry	1.62
Cut loss	1.40
VAR	1%
# of shares	45,500
Gross amount	Php 73,710



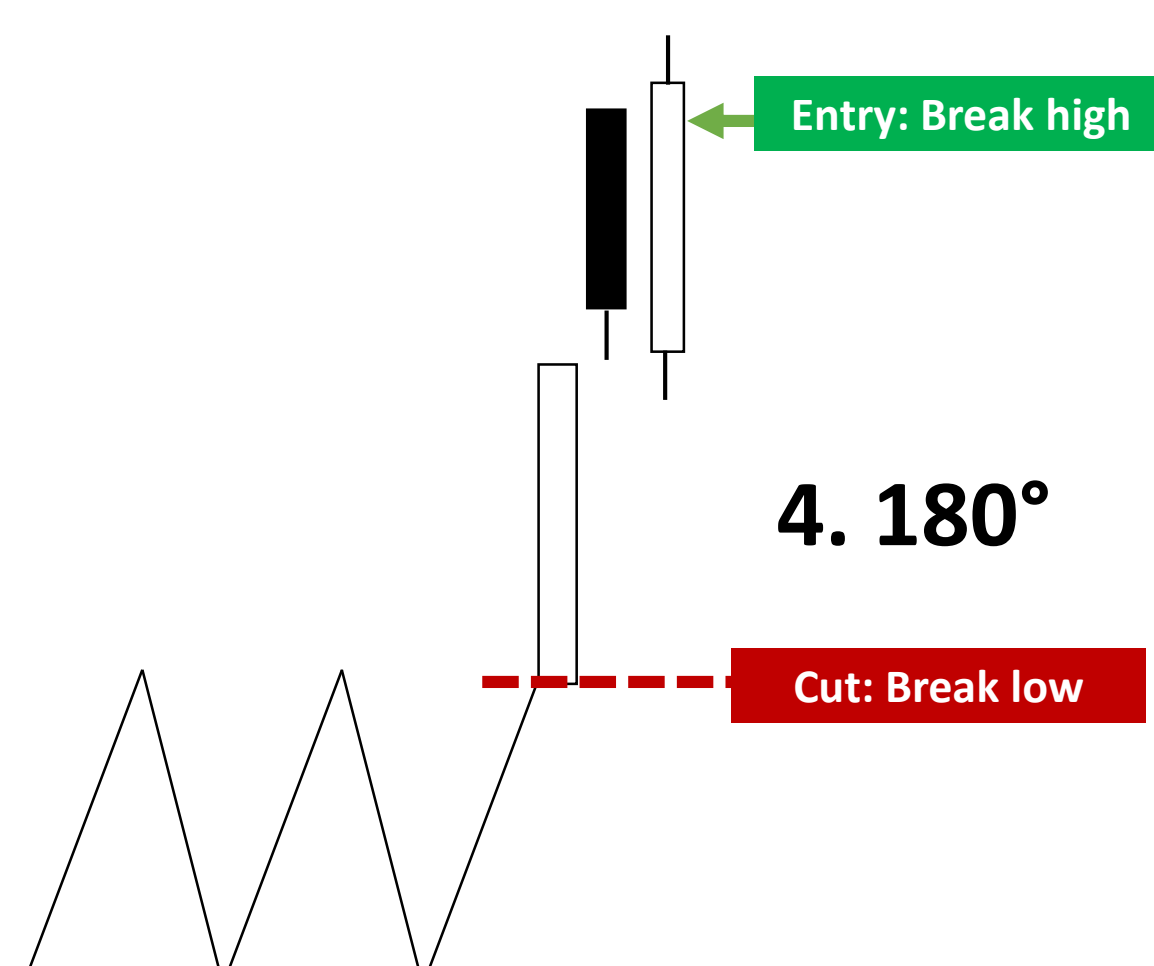
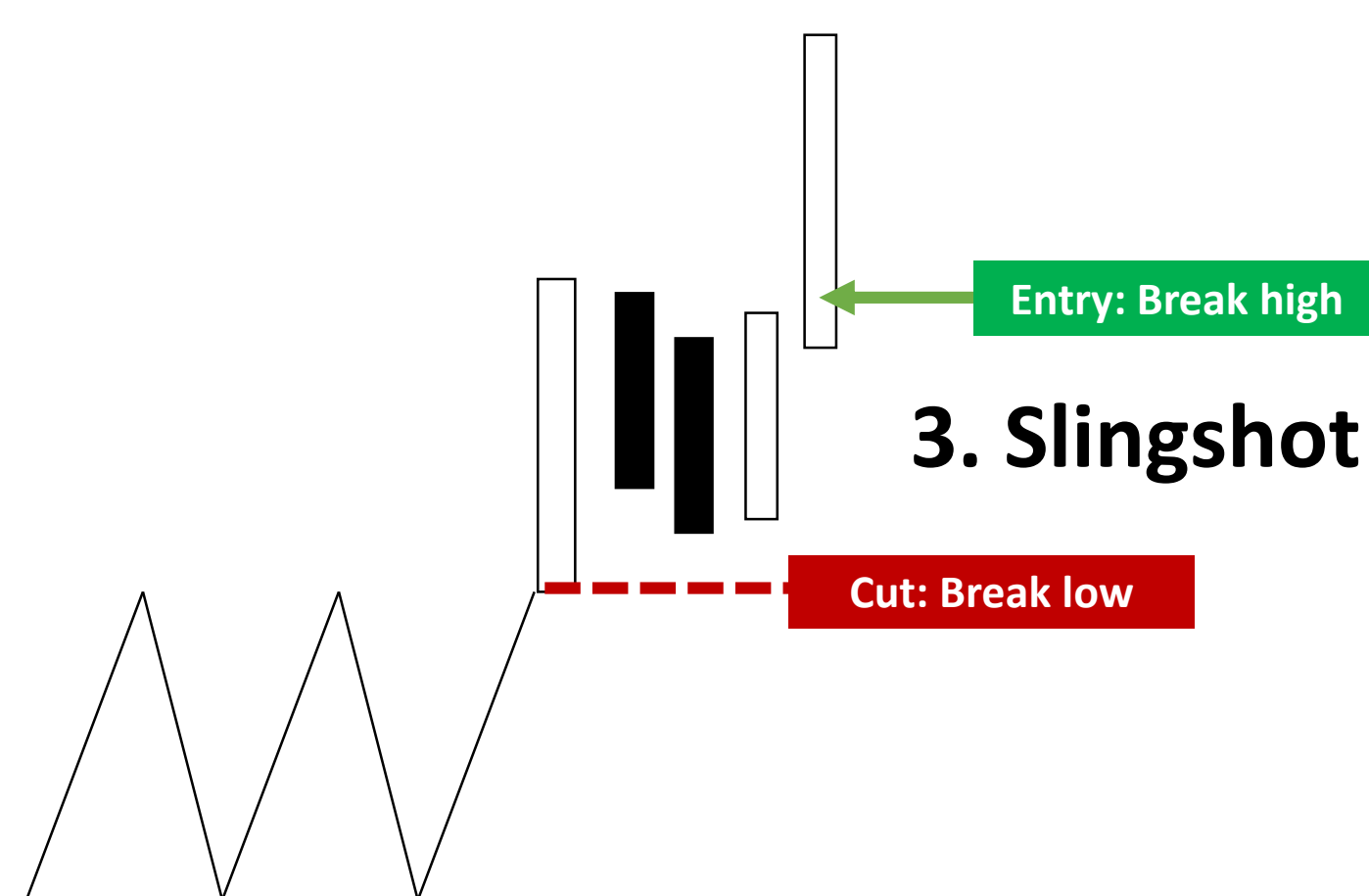
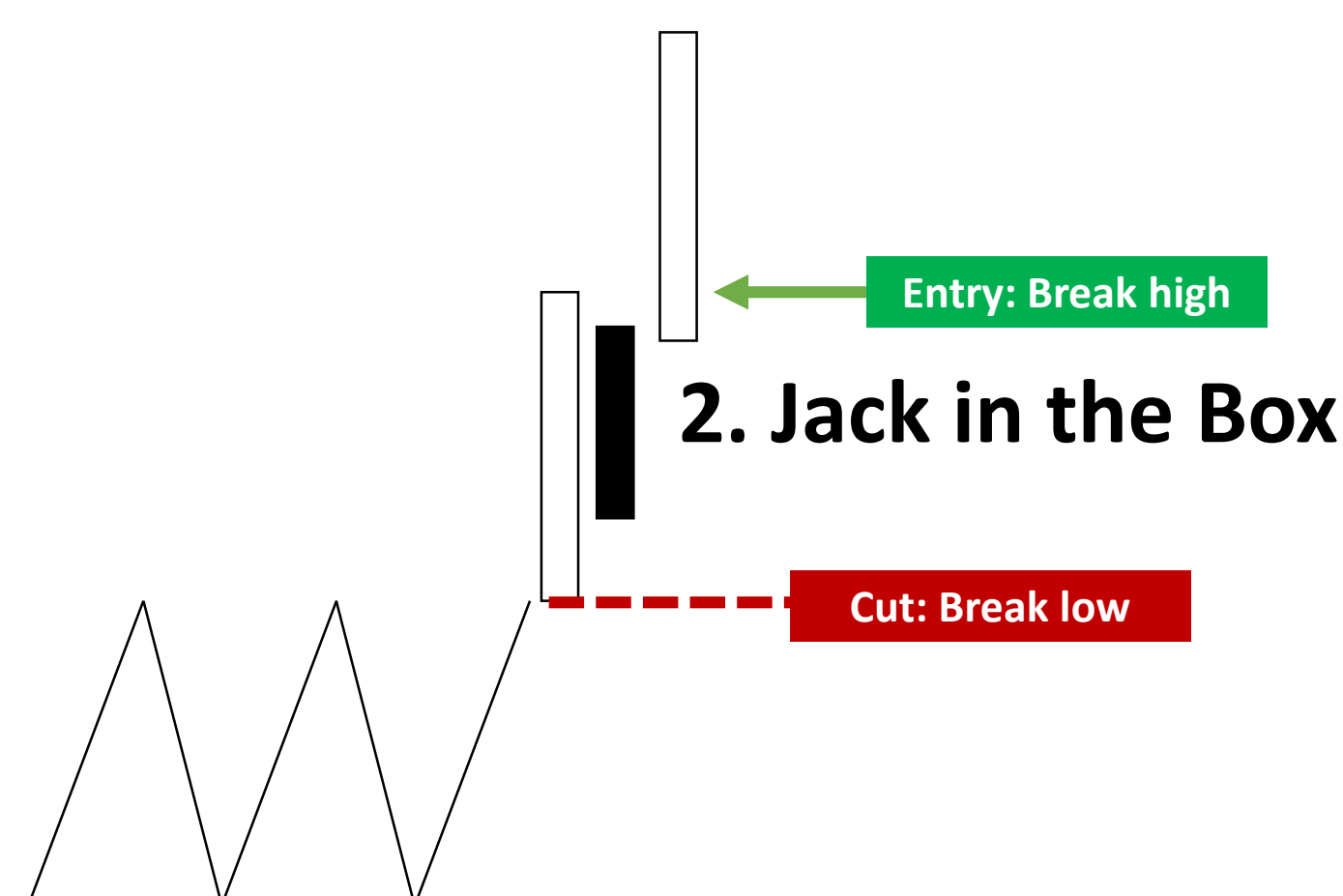
Entry	4.21
Cut loss	2.85
VAR	1%
# of shares	7,350
Gross amount	Php 30,943.50

No need to be in such a hurry especially for Expansion Breakouts. If it's a bagger, there would be plenty of chances to add more. Don't be tempted to deviate and allocate more than you're willing to risk.

Round 2: The First Pause

Not all Expansion Breakouts surge continuously each succeeding day. Anything with extreme pressure needs rest to sustain itself for the next run. This is the underlying concept for the Jack-in-the-Box, Slingshot and 180°. Don't get intimidated by the jargons. In trading, the underlying concept is a lot more important than the nitty-gritty of setup rules.

Give a breakout some leeway to rest, then put your stop on confirmation of the next surge after the pause days. Whether or not you have an existing position from the Expansion Breakout, this is a chance to add more or initiate a new position.





Jack in the Box

Entry	0.68
Cut loss	0.60
VAR	1%
# of shares	125,000
Gross amount	Php 85,000



Entry	1.07
Cut loss	0.80
VAR	1%
# of shares	37,000
Gross amount	Php 39,590



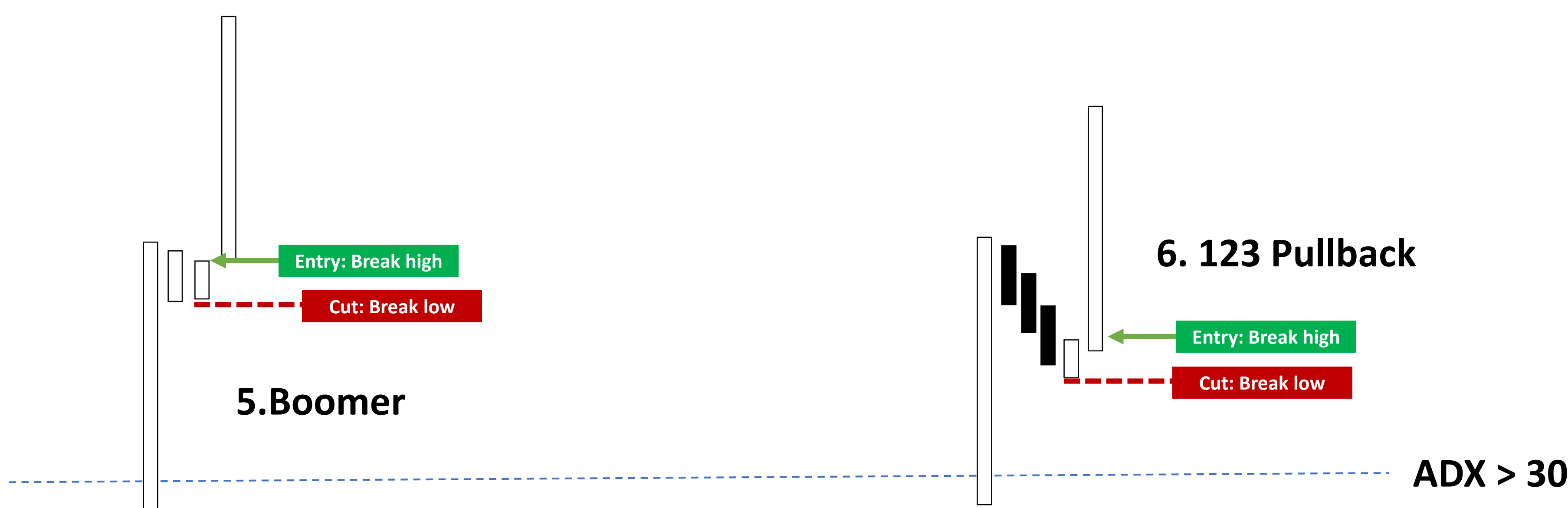
Entry	5.21
Cut loss	4.45
VAR	1%
# of shares	13,150
Gross amount	Php 68,511.50



Entry	0.43
Cut loss	0.33
VAR	1%
# of shares	100,000
Gross amount	Php 43,000

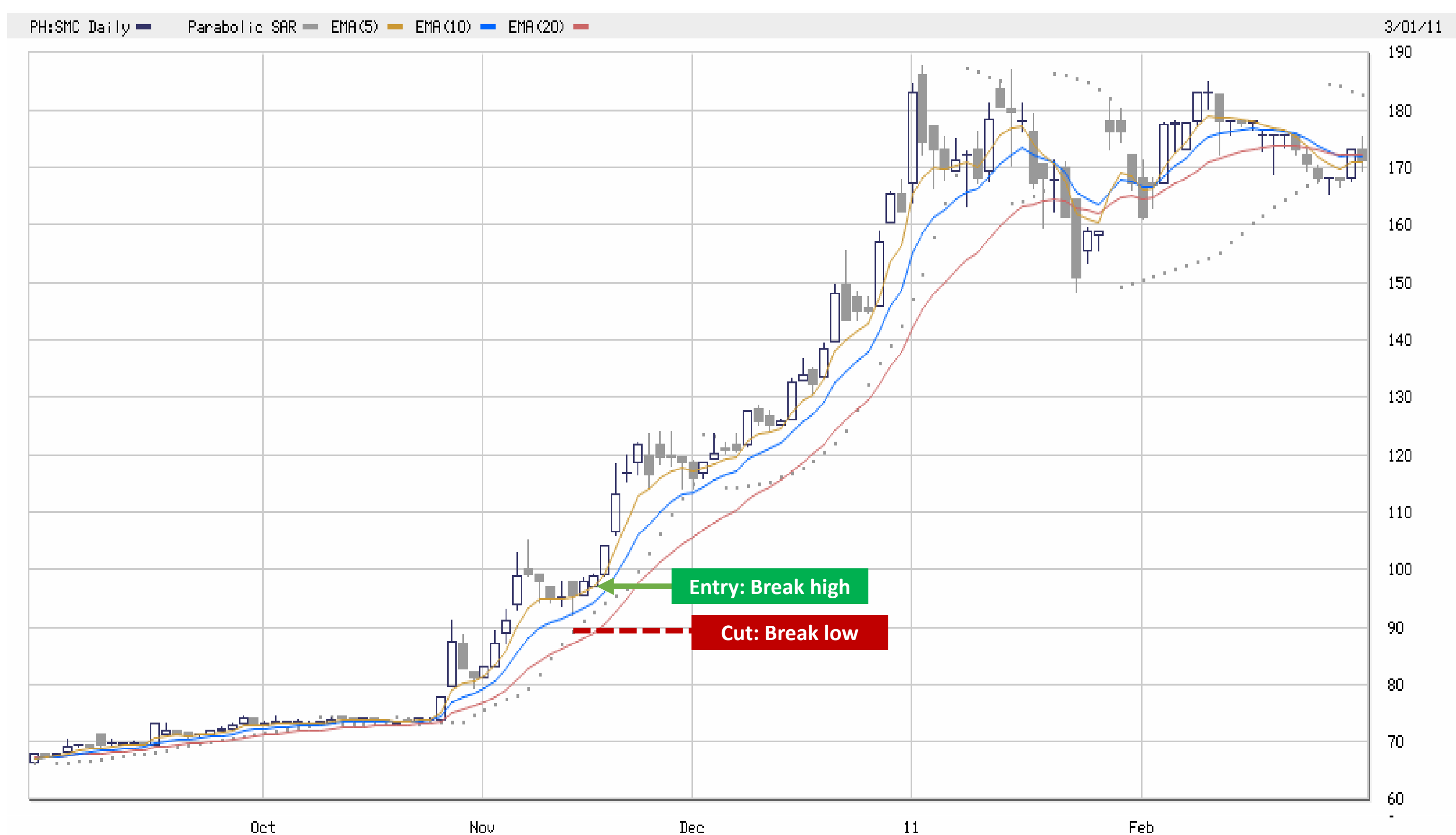
Round 3: Flags and Pullbacks

ADX, or the Average Directional Index, is a technical indicator that measures the relative strength of a trend. Once above 30, it confirms the strength after the breakout. Pauses and pullbacks in a strongly uptrending stock is a chance to buy.



Entry	100.1
Cut loss	88
VAR	1%
# of shares	820
Gross amount	Php 82,082

After the first entry point for HVN as an Expansion Breakout, it exhibits a perfect boomer. This provides a chance to double your position with a right setup. Do note that as a surging stock goes further upwards, there's also more chance of exhaustion, a downside risk.



Entry	95.05
Cut loss	90
VAR	1%
# of shares	2,000
Gross amount	Php 190,100

Exiting Momentum Stocks

In order to lock in profits, use the **sell half methodology**. After a good surge, you can take some profits by selling half of your position and riding the balance to maximize it.

General rule for selling a stock is once it breaks the trend. In the case of momentum stocks, the break of 10-day EMA can be a basis for a trail stop. A trail stop is a moving exit price. This helps you ride the big surge while protecting some of your profits.



GUNS (Gap Up News) versus GUNNS (Gap Up No News)

Probability Game in Breakouts

The stock market is always a probability game, but you can skew it to your advantage by qualifying the breakouts you buy. Important factors include **catalysts, buyers, and liquidity**. Breakouts with big news moving on the first day have a bigger probability of continuation. Insiders and big institutions buying coupled with good volume also improves the breakout’s chances.

Momentum: Gap Up News



851 SHARES    

Holcim Philippines to be put on auction block?

By: [Doris Dumlaog-Abadilla](#) - Reporter / @philbizwatcher Inquirer Business / 08:16 PM January 28, 2019

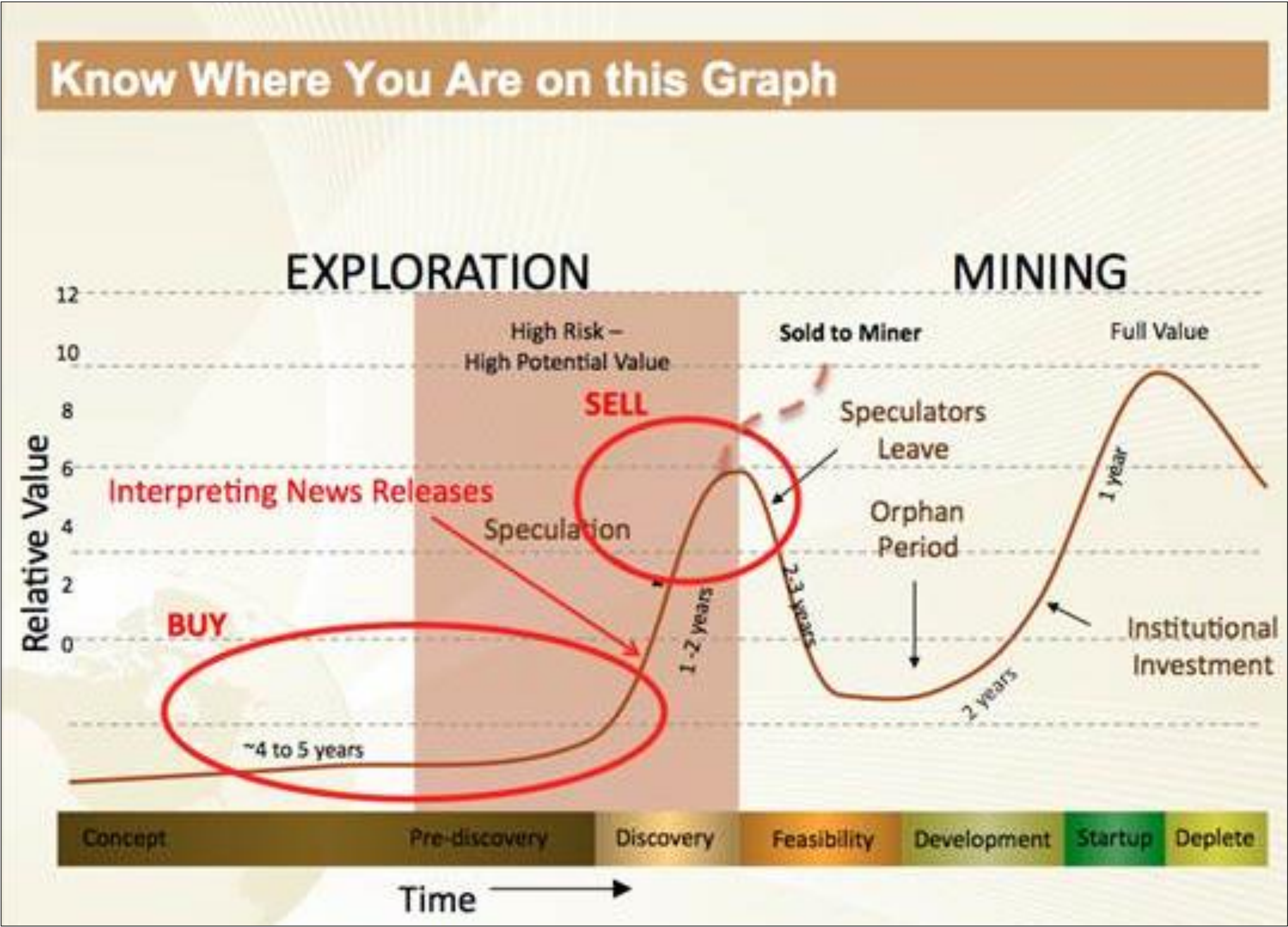
HLCM-Indo Acquisition		
Acquisition Value	\$	1,750,000,000
Capacity - MT		14,800,000
EV/Ton		\$125
	HLCM-PH	CHP
Current Market Cap	₱ 52,842,691,989	₱ 13,352,166,317
Capacity - MT	10,000,000	5,700,000
Fair Acquisition Value \$	\$ 1,250,000,000	\$ 712,500,000
Fair Acquisition Value Php	65,000,000,000	37,050,000,000
% from FV	23.01%	177%
Fair price / share	₱ 10.07	₱ 7.13
Current price / share	₱ 8.59	₱ 2.64
Holcim currently expanding to raise capacity to 12mn		

A potential acquisition is an example of a good catalyst. Comparing the transaction price from the Indonesian Holcim sale gives us an idea of an acceptable price of buying the breakout. These quick computations can improve your conviction to size up and hold.

Momentum: Gap Up No News



The Art of Speculation



Life Cycle of a Junior Mine

“Buy on rumors, sell on news” can be especially true for momentum stocks. Prices are pushed when there’s a big uncertainty on the company’s future. Once news come out confirming these speculations, the stock usually plummets. This is based on execution risks that it will face in order to lock in the speculated value.



SWING TRADING

Bounce play

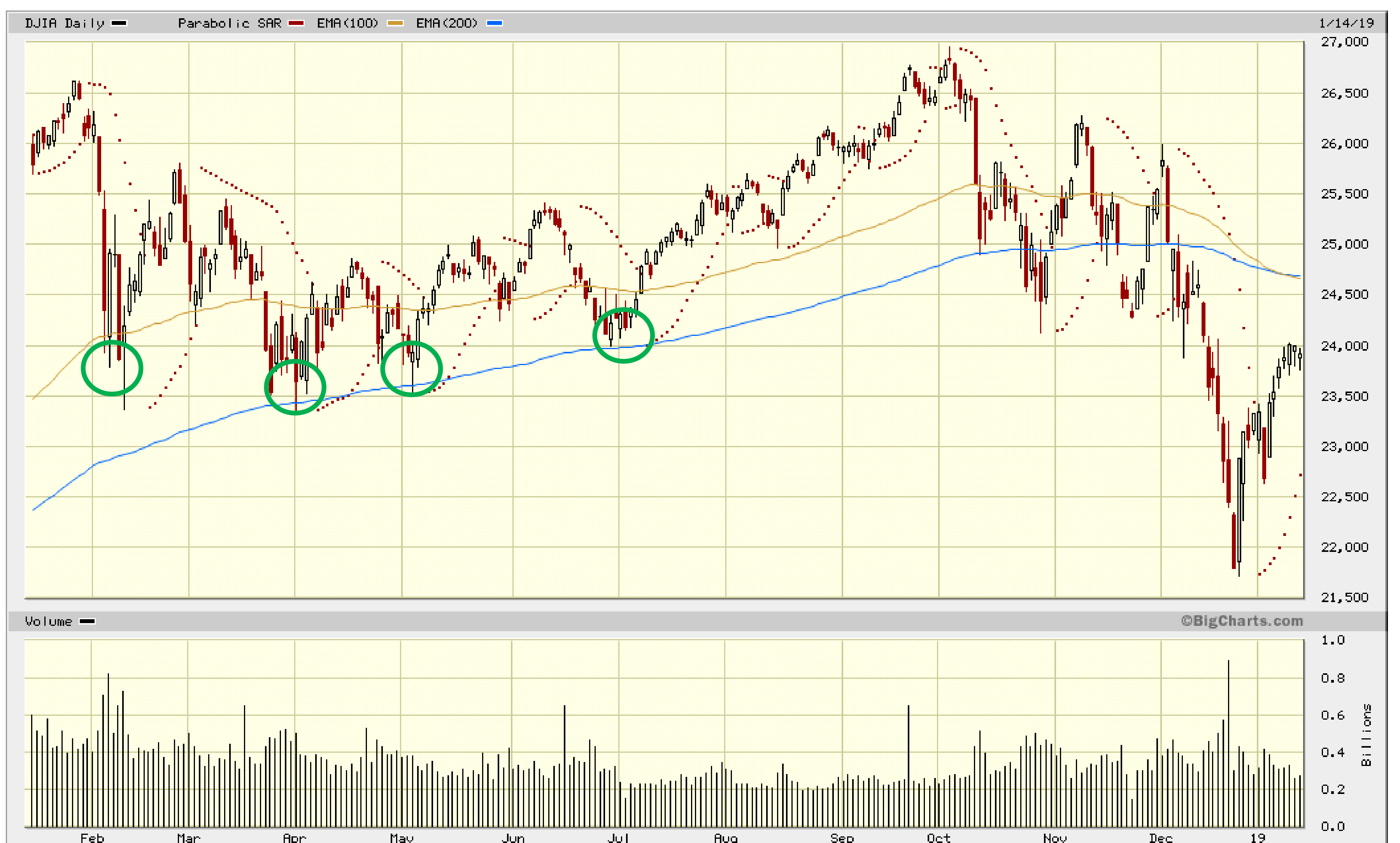
Swing Trading

Swing trading is an umbrella term for **buy low, sell high**, taking advantage of oversold conditions. You enter the trade with an objective of getting profit from the swing movement going up. When stocks go down to support levels, you treat it as a buying point. When it hits resistance, you sell.

This is the opposite of momentum trading. For momentum trading, you buy the strength and sell the weakness. For swing trading, you **buy the weakness and sell the strength**.

When stocks break their uptrend into deeper support levels, it switches from a trend trading stock into a swing trading play. The first sell-off causes a **retracement**. If the stock is strong enough to swing back up into new highs, it gets back onto its trend. Otherwise, it goes back down and does a **retest** on the previous support levels. Some stocks take some time even after the retest. It goes into duration, which forms a **reset**.

100, 200 – day EMA



1. Retracement: Range Trading

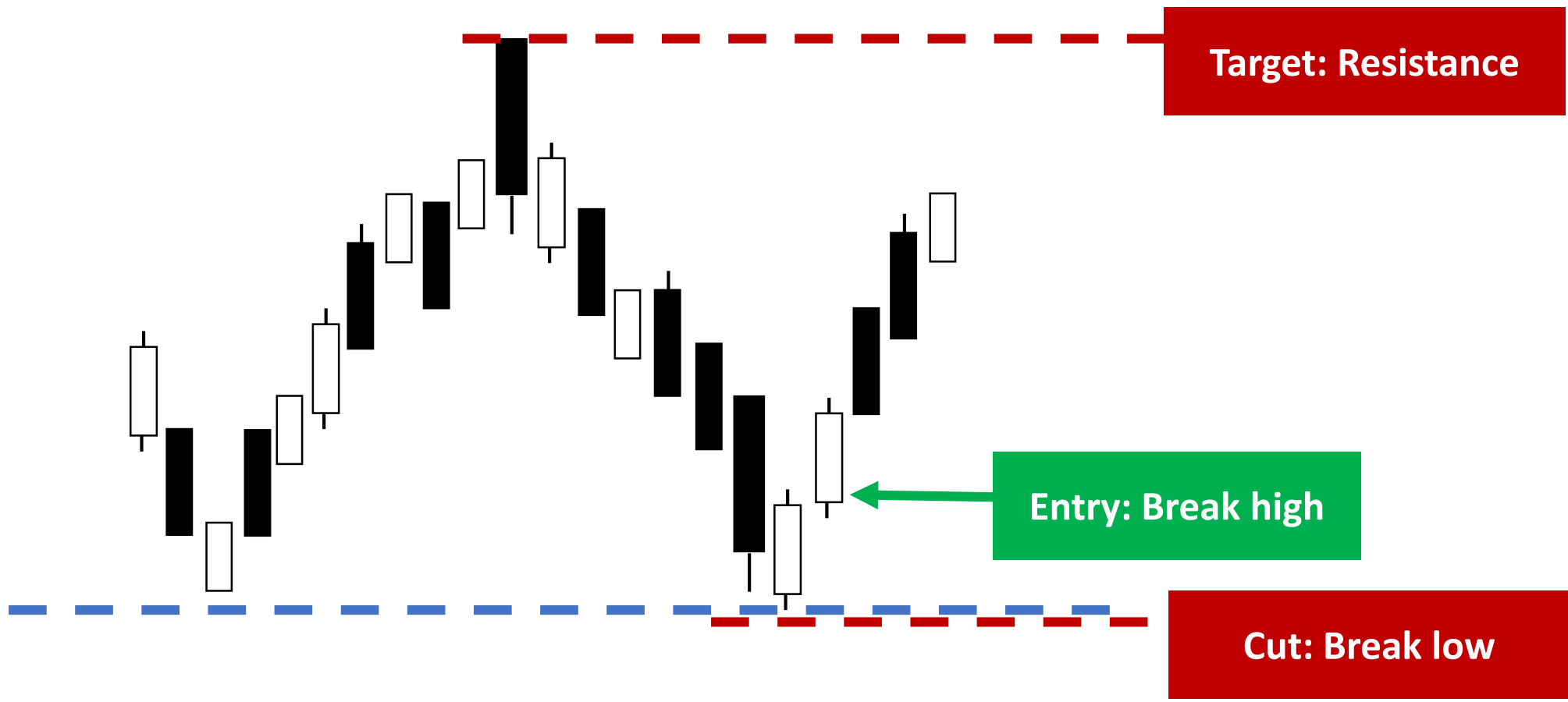
Retracements to the support levels give a range trade opportunity. Support levels can be either the trend lines or the EMAs for intact long-term trends, while pattern supports for rangebound stocks.

EMA range trade



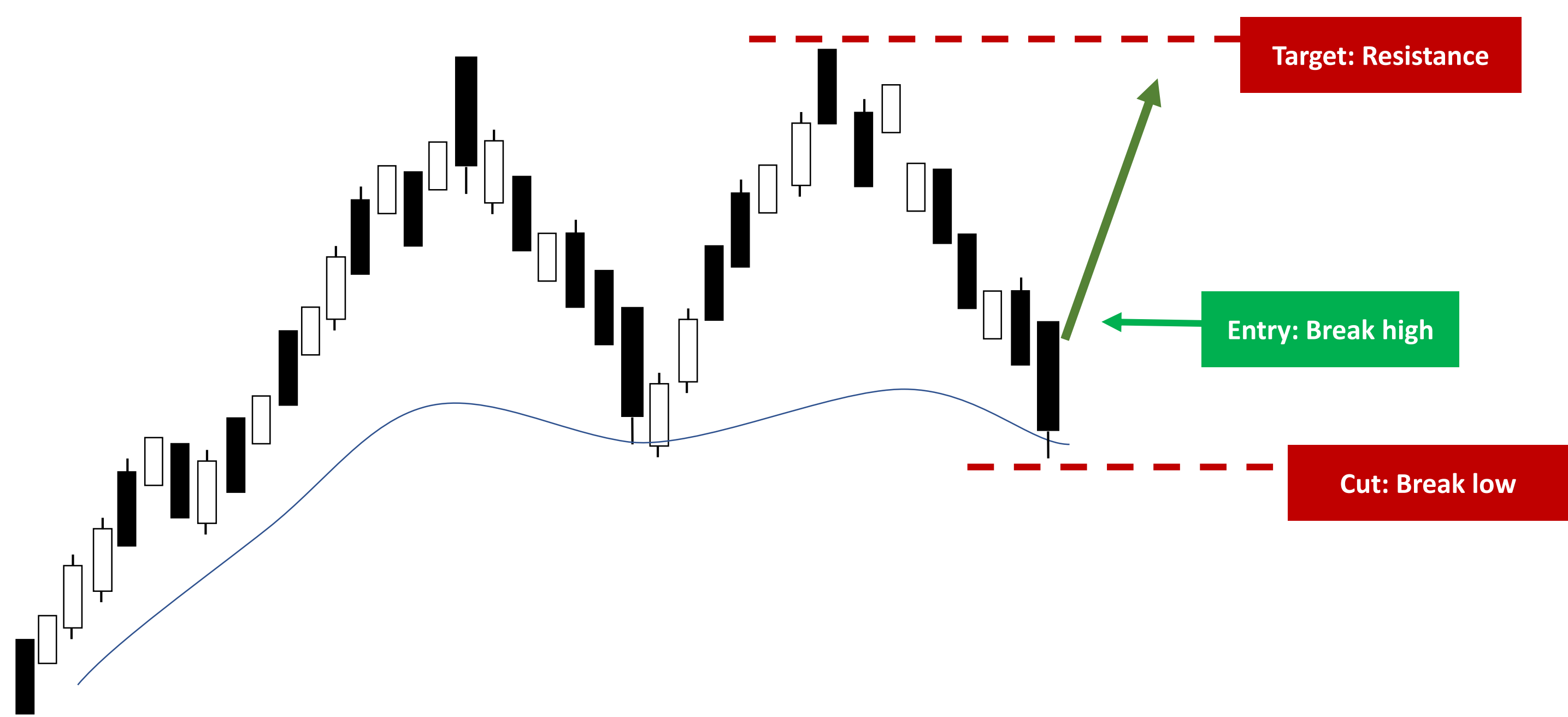
Entry	12
Cut loss	11
VAR	1%
# of shares	10,000
Gross amount	Php 120,000

Pattern range trade

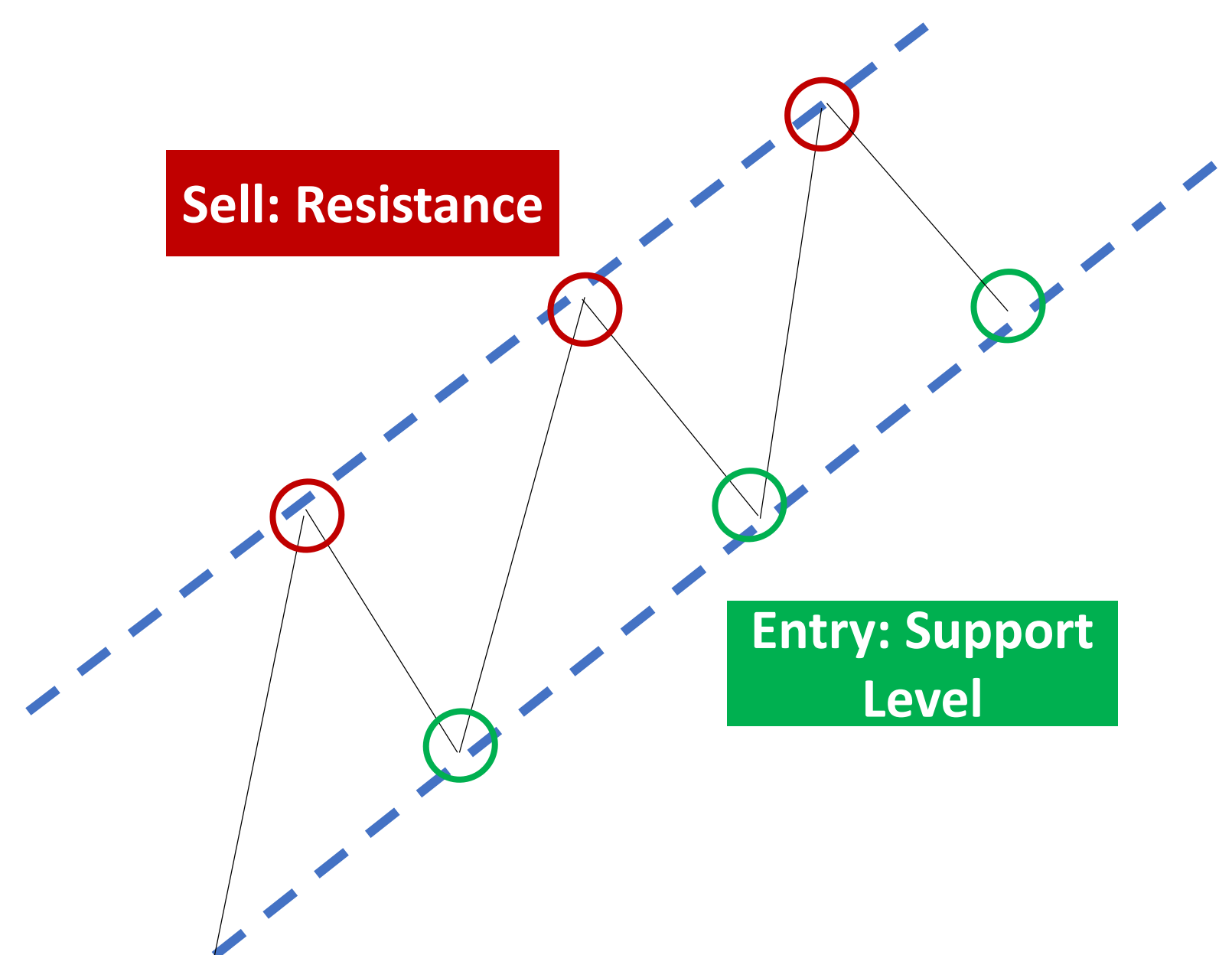
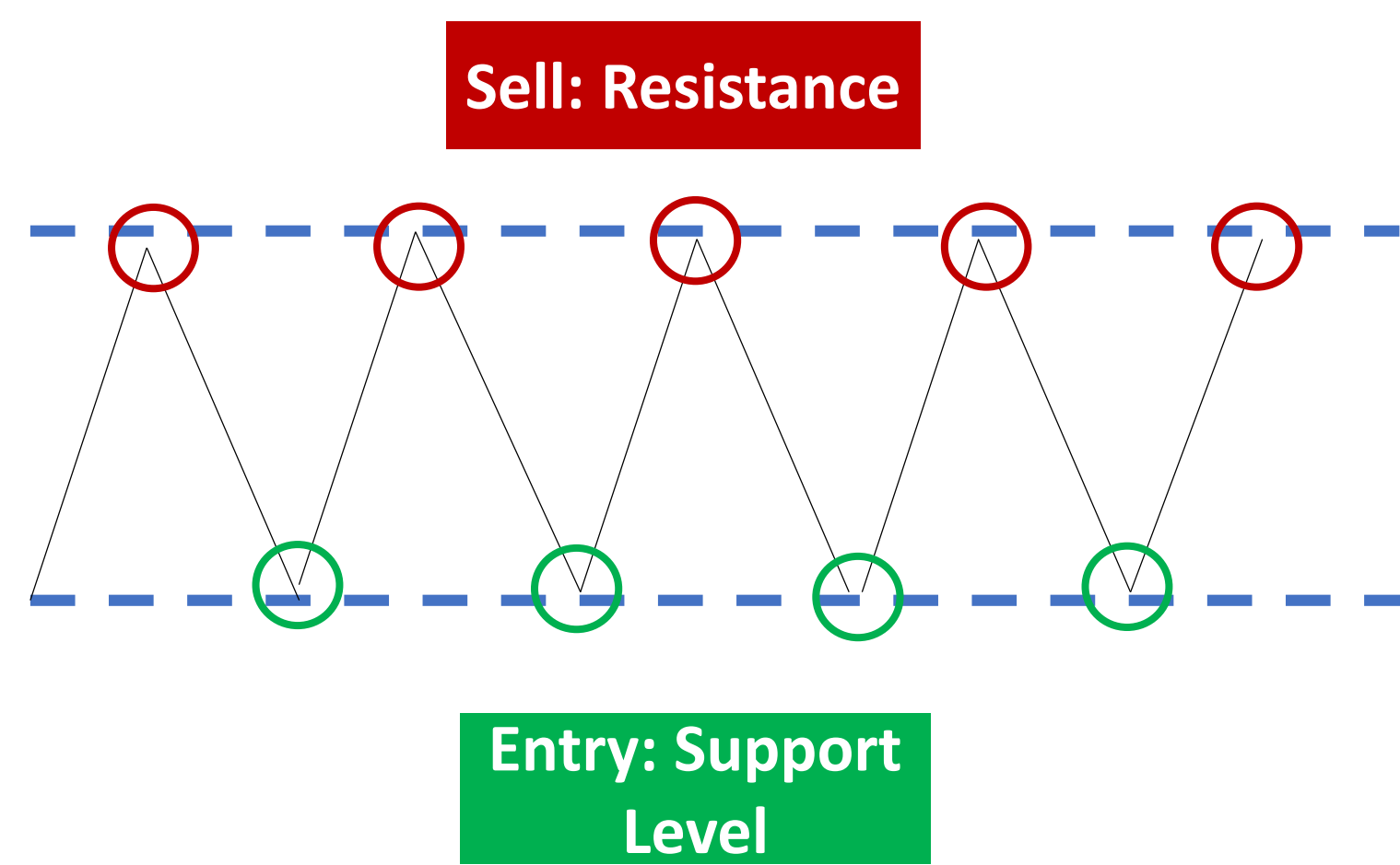


2. Retest

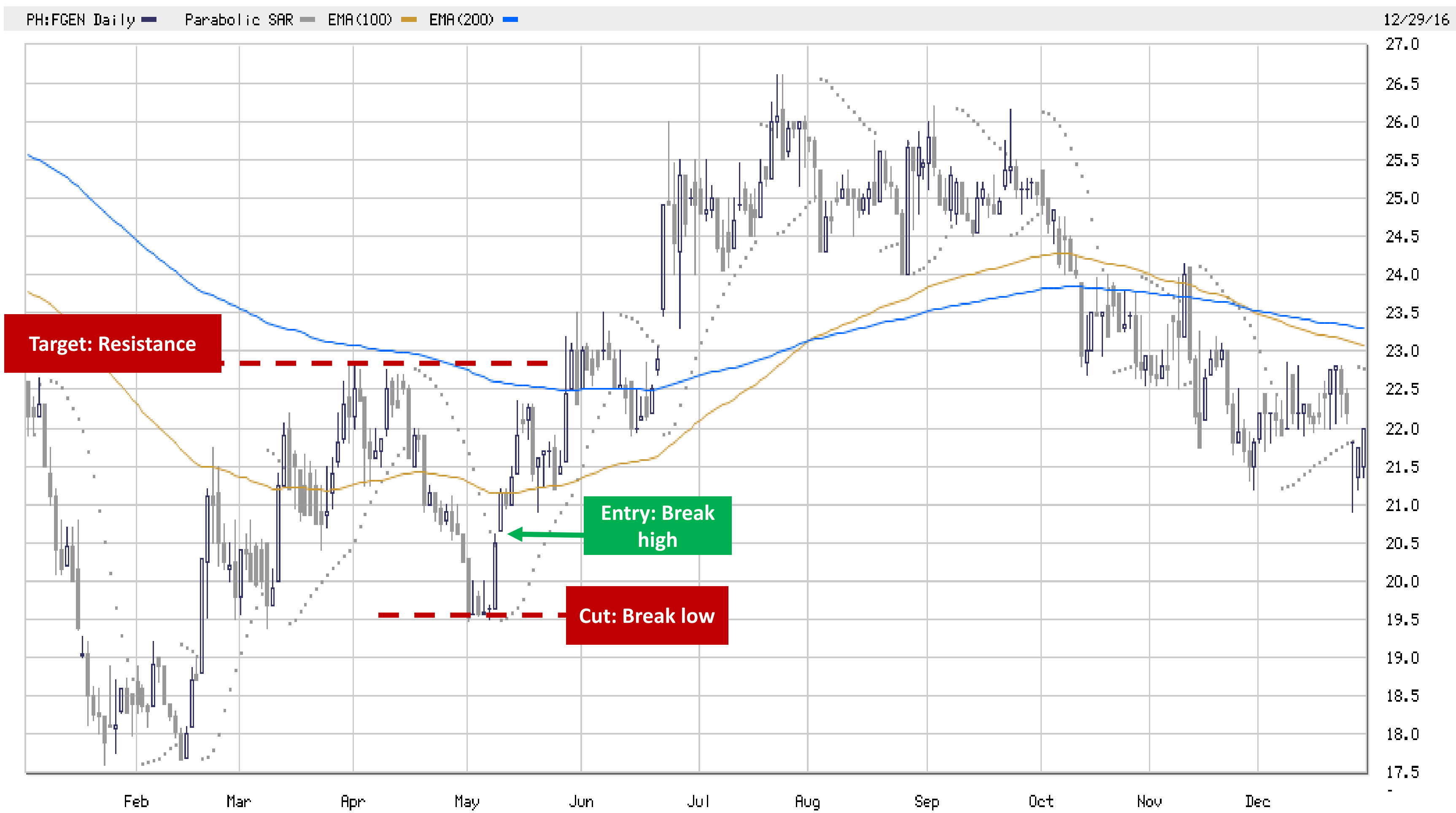
After failing to go into bounce from the support level, giving a chance to profit from the movement between the support and resistance.



Entry	255
Cut loss	243
VAR	1%
# of shares	830
Gross amount	Php 211,650



Range trades for the retracement and reset offers a low risk-reward because of the very tight cuts. **When the support breaks, always remember to honor your cut loss.**



Range trading applicable in any market

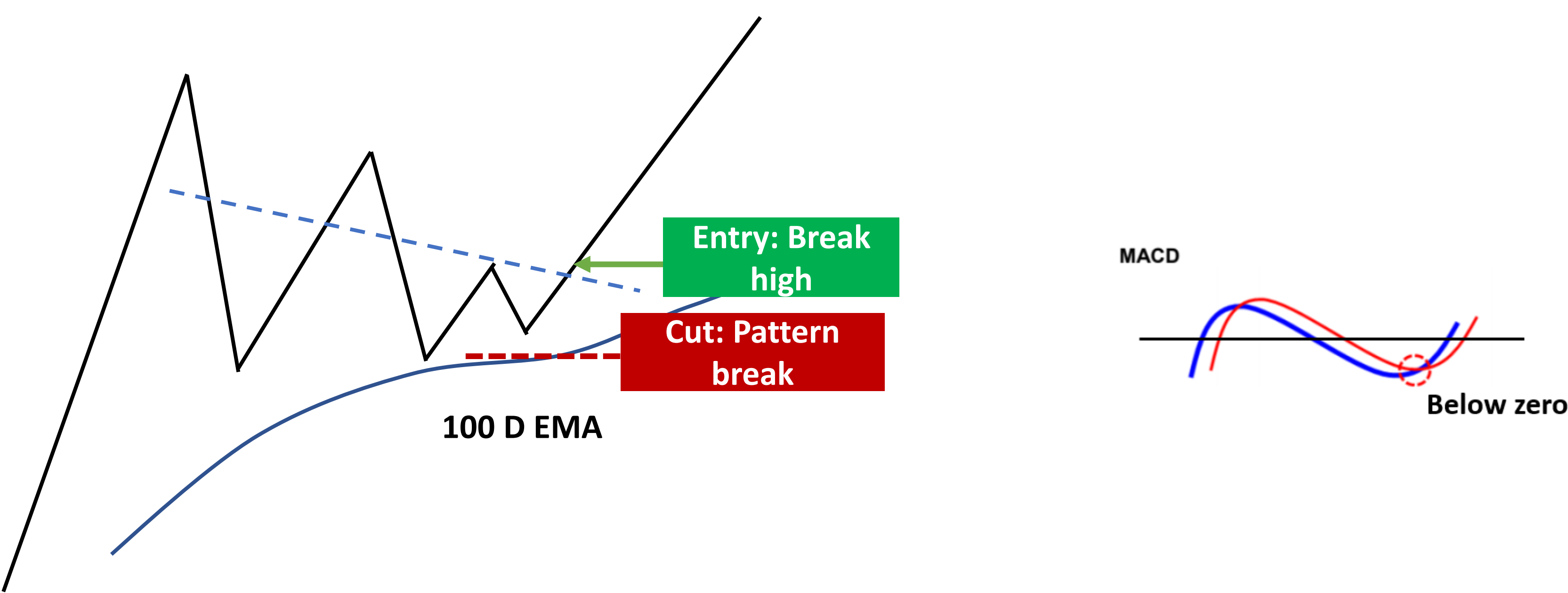
One important thing to note is that range trading can be done for any market condition. In sideways markets, when momentum and trend trading give you lower probability, range trades are the most optimal.



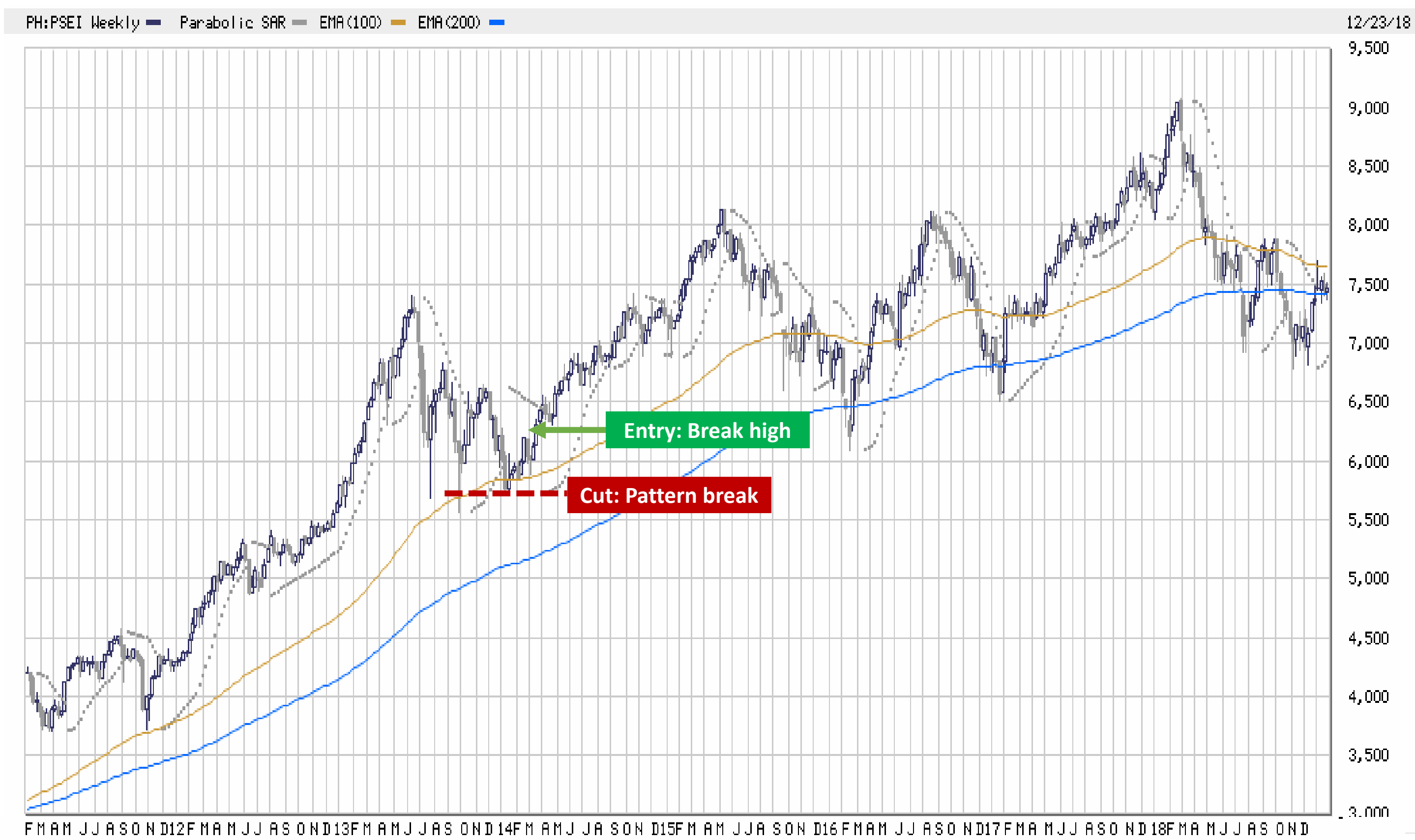
Swing trading below 400-day EMA

3. Reset: 100 or 200-day coil

Failure after the second retest makes way for the reset, a deeper variation of the coil from trend trading. It follows the same principle, giving the stock some time in duration to rest before trying to do another round of magnitude.



The reset is a deeper version of the coil that takes more time. The price reaches the 100-day or 200-day EMA while the MACD is below zero.



PSEi weekly chart

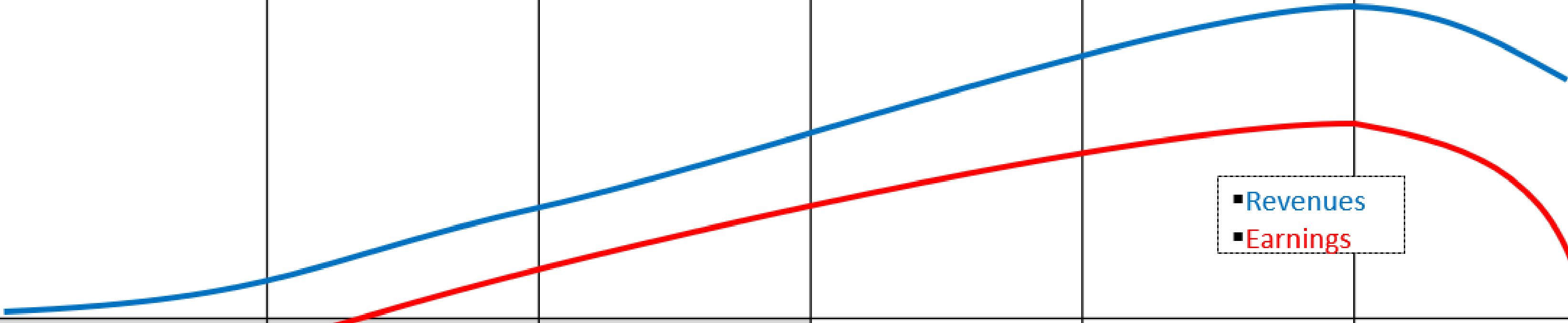
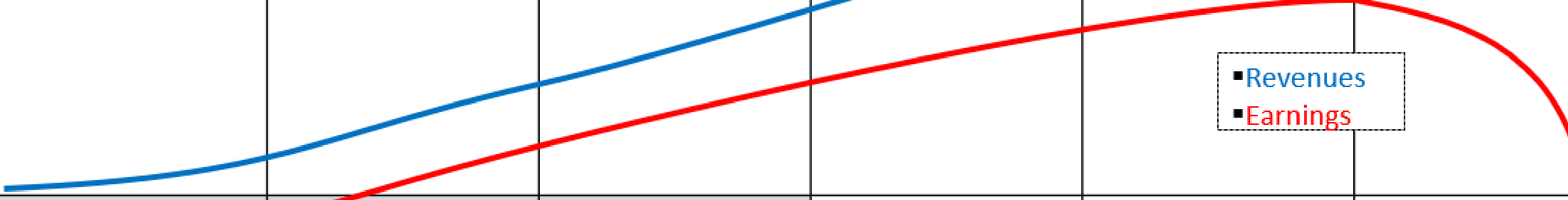
Entry	6360
Cut loss	5858

Fundamental Supplement

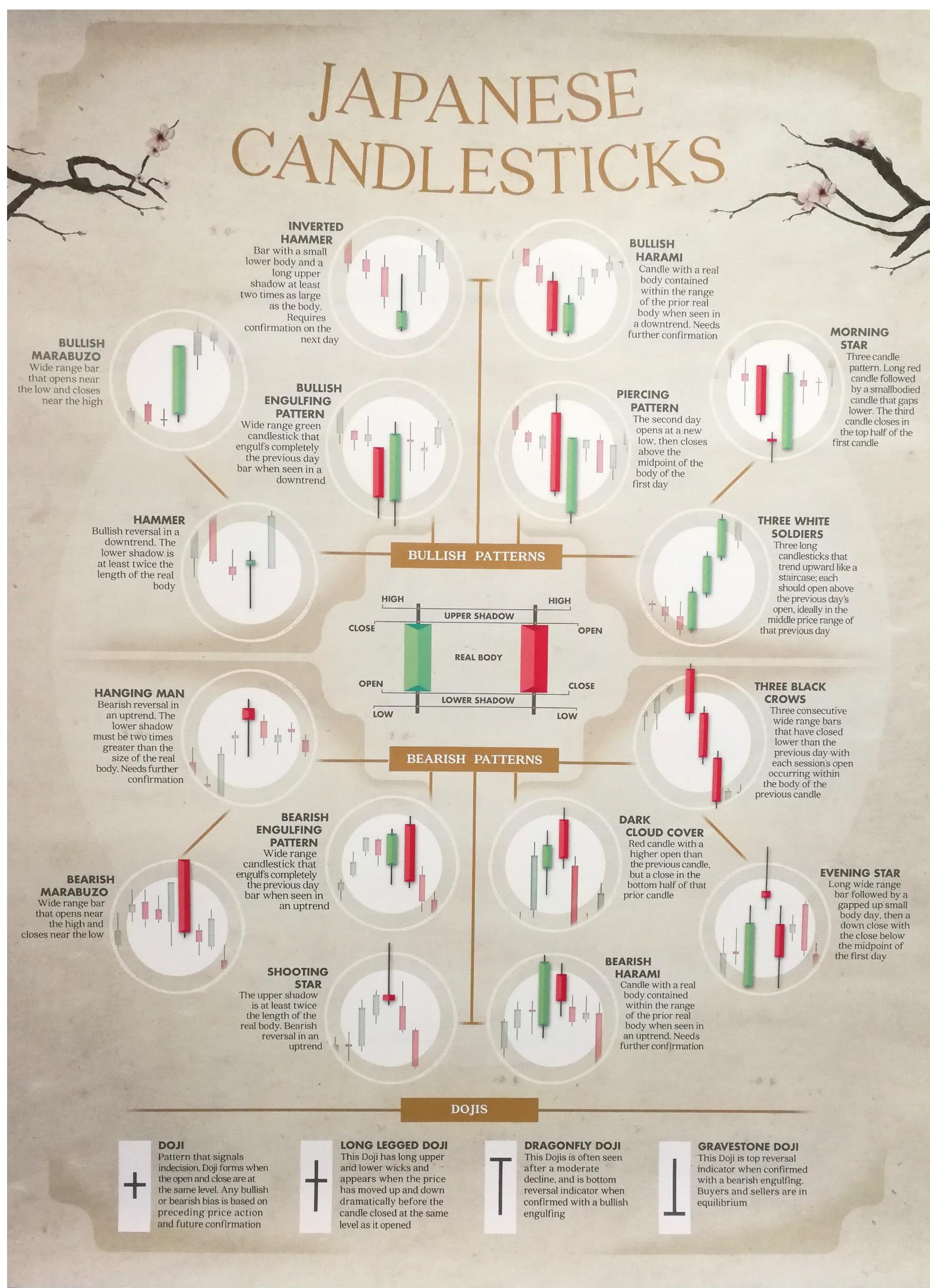
At the end of the day, stocks represent companies and go hand in hand with their growth. Technical analysis should be used within the context of the stocks we trade. **Market capitalization** and **growth** are both important in setting expectations. A \$2-billion company can more easily double than a \$200-billion one. Same case, explosive movements are more warranted for faster-growing companies.

Corporate Life Cycle - PSEi

1: Start-up	2: Young Growth	3: High Growth	4: Mature Growth	5: Mature Stable	6: Decline
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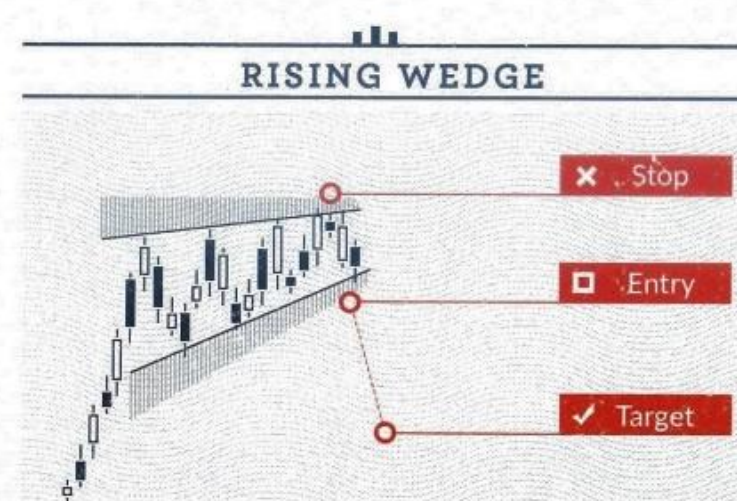
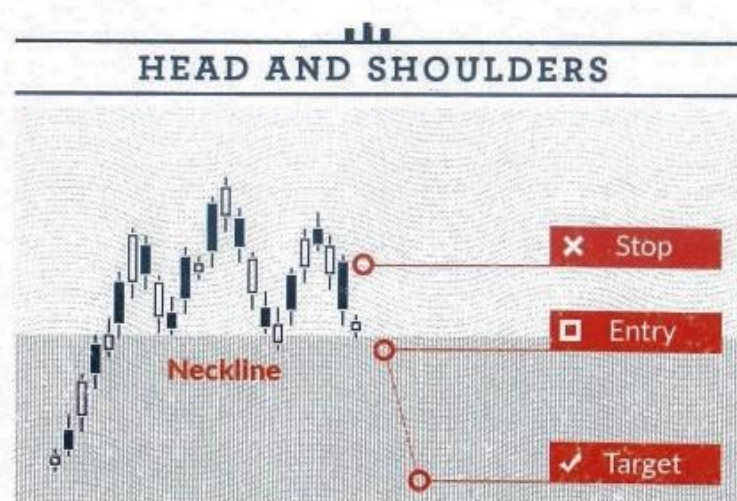
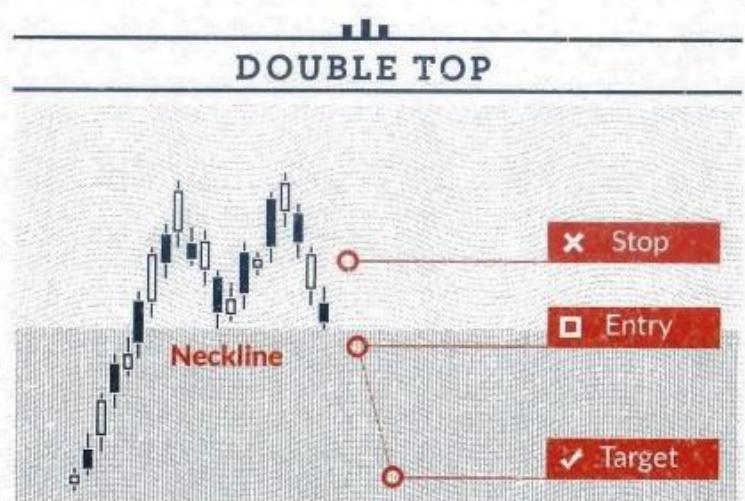
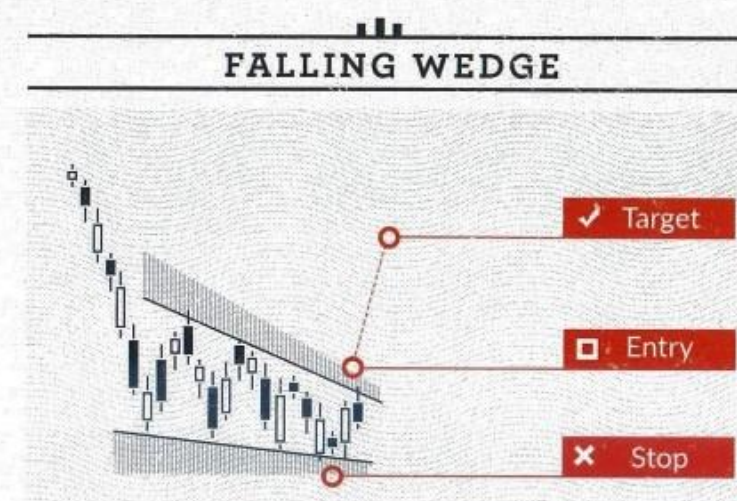
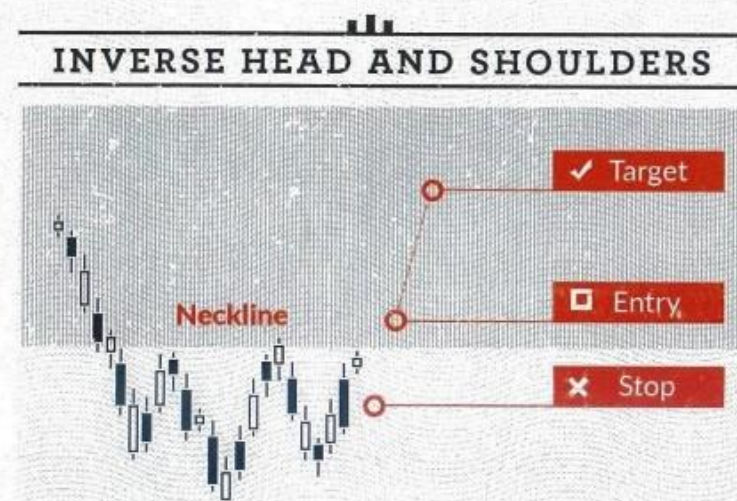
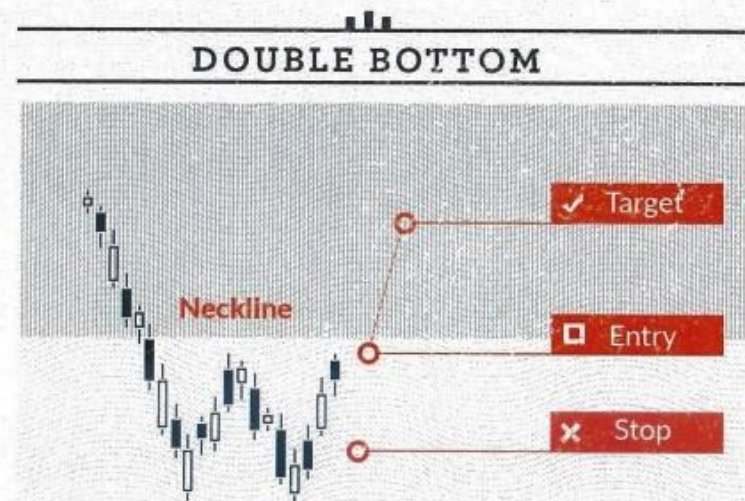
	1: Start-up	2: Young Growth	3: High Growth	4: Mature Growth	5: Mature Stable	6: Decline
						
INVESTING	New Product development	Market testing and build-up	Scale up production	Augment capacity + New Products	Maintain capacity + Acquisition	Reduce capacity
FINANCING	Equity funding. Debt only if desperate	Equity, public market option	Equity mainly, with some debt capacity	Debt capacity increases	Debt capacity maximized	Debt scales down with the firm
DIVIDEND	Cash burn, with equity infusions	Cash burn maximized	Beginning of positive cash flows	Cash buildup, if not returned	Peak cash returns	Cash return from asset divestitures

References

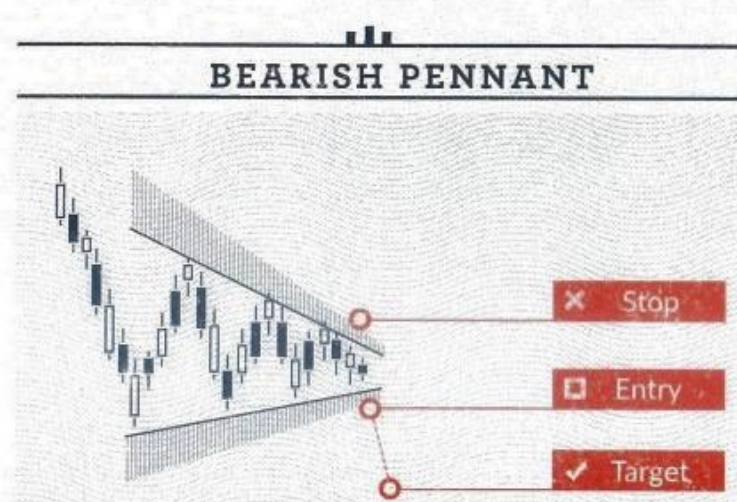
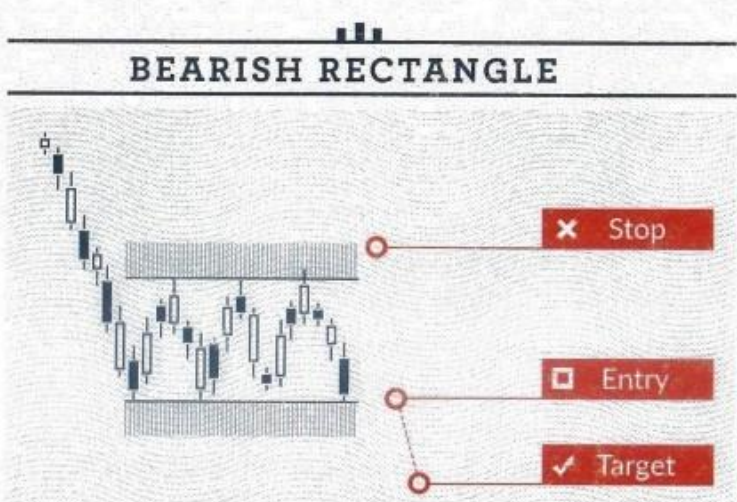
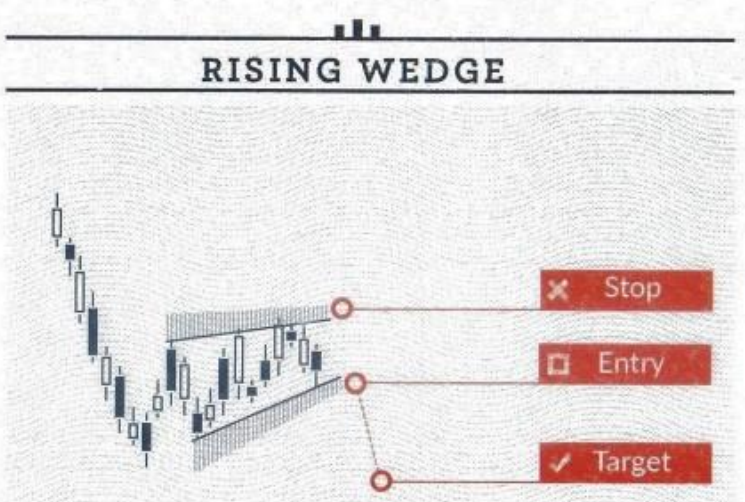
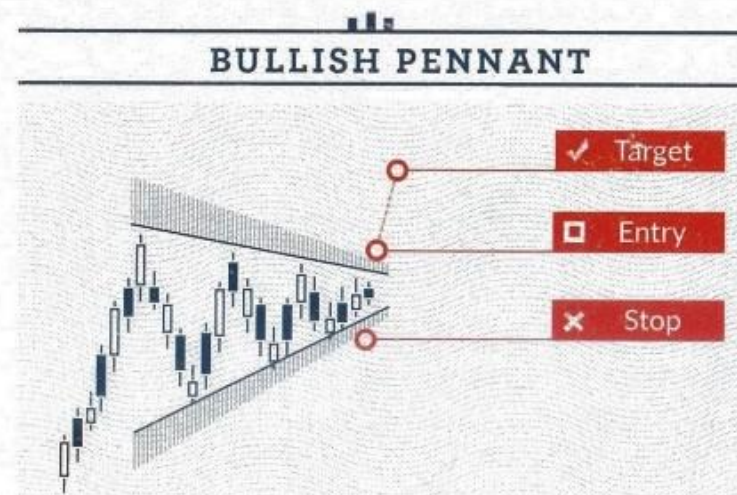
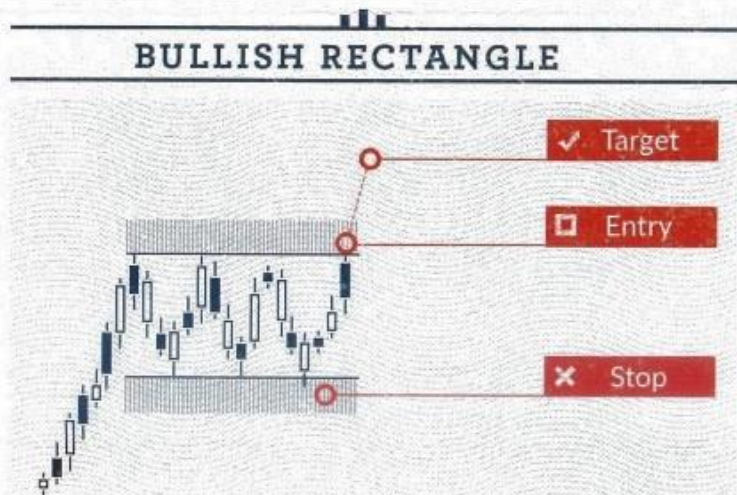
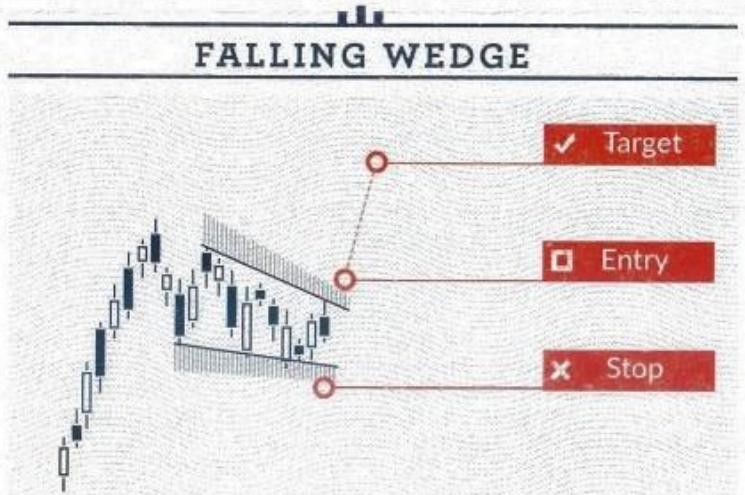


CLASSIC CHART PATTERNS

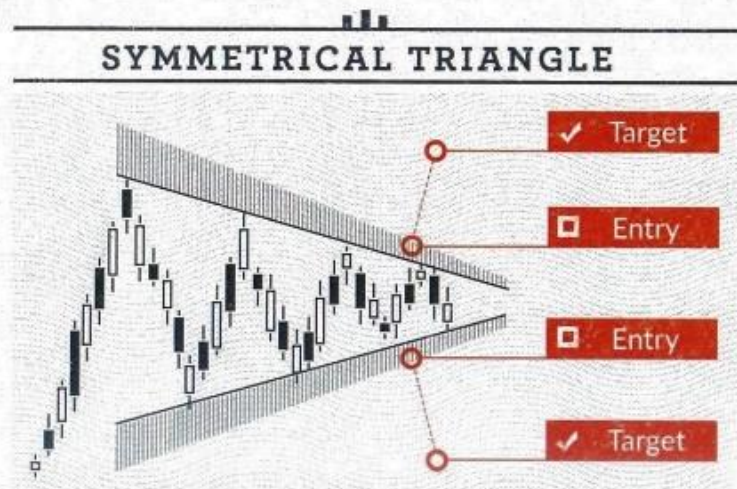
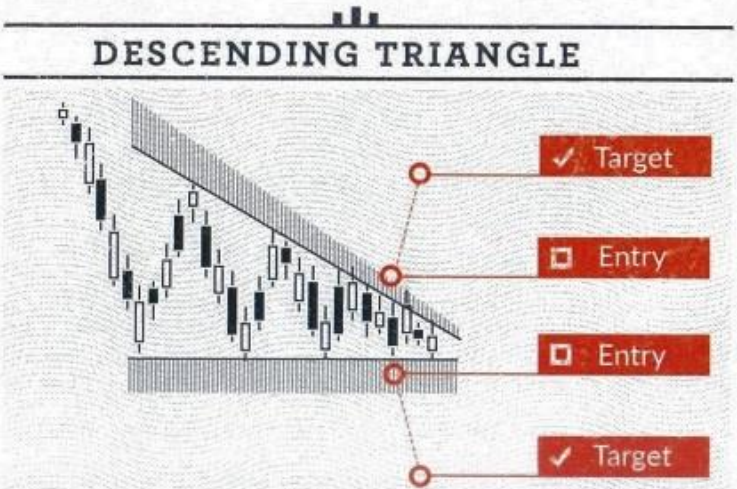
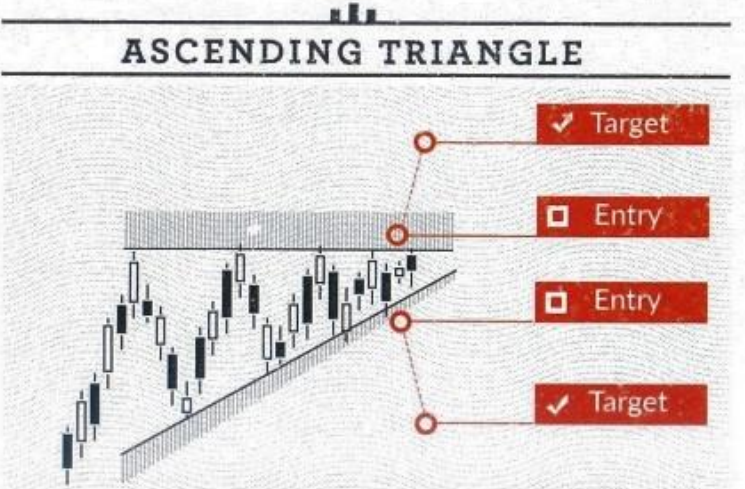
REVERSAL CHART PATTERNS



CONTINUATION CHART PATTERNS



NEUTRAL CHART PATTERNS



FTSR Framework



Source: Caylum Trading Institute

1. **Fundamentals:** the study of business value
2. **Technicals:** the study of market price
3. **Sentiment:** market crowd psychology
4. **Risk:** managing upside and downside

***Luck favors the
prepared mind.***

-Louis Pasteur