TUTORIALS IN APPLIED TECHNICAL ANALYSIS

A publication of Guppytraders.com Pty Ltd since 1996 ACN 089941560

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The Australian Internet Trading Weekly with independent analysis

Weekly for Saturday November 15, 2008 Based on Thursday's Close 25 pages
Edited by Daryl Guppy with contributions from P Rak
Guppy Trading Essentials Chart pak, Metastock , Ezy Charts & SuperCharts. Data from JustData, Paritech, CMC Markets, Almax & theNextView.

Stocks mentioned in this issue:
TCL, DOW, XJO

Note. The more computer icons appearing after a section heading, the more advanced the material.

CONTENTS

- Depression Triggers pg1
- Readers' Questions – Volume Manipulation pg5
- Market Exam 6 pg7
- ETF Strategy Introduction pg13
- Skinning Dead Cats pg18
- Chart Briefs – Transurban Group (TCL) pg20
- Newsletter Outlook – Dead Cats pg21
- Newsletter Notes pg23
- Portfolio Case Studies – Money Management pg24

DEPRESSION TRIGGERS

By Daryl Guppy

SUBJECT SUMMARY
RECESSION AND DEPRESSION

A recession as an economic slowdown that may last for 6 to 18 months.

A depression is an economic pullback that may lasts from 2 to 4 years. In both cases the market moves in anticipation of the event. The market fall develops before the fundamental signs of a recession or depression become evident. The market leads the confirmation of conditions.

The market also leads the recovery. In a recession the market will develop strong trending behaviour many months prior to the official confirmation of the end of a recession. This recovery provides trend trading opportunities.

In a depression the market will develop a long term consolidation pattern. This is an investment period and lays the foundations for generational fortunes. Trend trading opportunities do not develop for several years. This consolidation and accumulation phase concentrates on creating income flow from dividends. The fundamental end of a depression is not recognised until many months after the market has already reacted.

The key question facing markets is the difference between recession and depression. The market is hovering near significant support levels. The closest of these we have called recession support targets. The lowest of these we have called depression targets. Many analysis have compared this situation to the market collapse in 1929. This week we look at the charts from the 1929 period. In particular we look at the similarity of behaviour.

The first chart shows how we anticipate this market may develop a recovery and failure pattern that leads in to a depression scenario.

The second chart is the weekly DOW for 1929 through to 1930. The significant features are these:

- The rapid fall is followed by a rebound and rebound failure.
- The primary rebound failure occurs rapidly with another market collapse.
- The pile driver low is retested with 12 months
- Support, defined by the pile driver low, is not successful

The pink circle shows the comparable position of today's market. This remains a period of high volatility but the market reduces volatility and moves into a more clearly defined trending behaviour. This pattern of behaviour suggests that a rebound from the current support levels may persist for around 20 weeks. The important feature is the rapid failure of the trend line followed by a rapid failure of the pile driver low support level. This failure is made more severe because the pile driver low support does not equal any previous historical support level.

The failure of pile driver support brings the really bad news. The low of the market develops in 1932, about three years after the 1929 crash. The key trigger is the failure of support set by the pile driver low. The real disaster is that it takes 25 years for the market to exceed the high of 380 set in July 1929. This is why the Depression is referred to as a generational event. The current situation has a potential to have the same generational impact.

Our task is to trade in all market conditions. The longer term DOW chart suggests several different types of trading strategies. They are:

- Area 1. Short term volatility trading
- Area 2. Trend trading, but close all position when index trend line is broken
- Area 3 Consolidation rebound trading, short term
- Area 4, 5, 6, 7 Rally trading within the context of the developing fan trend line pattern.
- Area 8 Investment for long term recovery. The trigger is when the market moves higher than the previous rally peak in area 7. This is the most important trend reversal signal.

Of course the market can be successfully traded from the short side throughout this period. It can also be traded from the long side. American master trader Jessie Livermore developed his trading skills through this long term Depression period.

Note that the fan trend line is a long term reversal pattern. It is not a Gann fan line. The fan trend line captures the way resistance levels become support levels. This fan line pattern and rebound support behaviour is developing in the Shanghai market.

The key trigger that separates a recession from a depression is the behaviour of the rebound from the pile driver low. After the 1987 crash the rebound quickly developed strong trending behaviour. The move above the mid way point in the market fall signalled a continuation of the uptrend. This is recession behaviour. Depression behaviour is when the market fails to move above the midpoint of the extreme fall area.

On the current DOW chart this suggests the area near 12000 is the most important level. Failure to move above this level suggests a depression scenario may develop. A sustained move above 12000 signals a recession. There is one caution in this analysis. The DOW has not yet developed a confirmed pile driver bottom pattern on the weekly chart. The low of this pattern will determine the mid-point resistance level that is used to signal a recession recovery.

Markets will not behave the same way as in 1930, but they will develop in a similar fashion. There is a high probability that these behaviours will develop in shorter time frames.

A shorter version of this analysis is in our CNBC notes this week.

Be on the look out for Daryl on CNBC Asia Squawk Box

Wednesday November 19th, 7am to 10am Singapore time

and 1pm on CNBCTV18 Mumbai time.

READERS' QUESTIONS - VOLUME MANIPULATION

By Daryl Guppy

SUBJECT SUMMARY
VOLUME

Volume is the fuel driving the market. It is usually shown as a histogram, with solid bars. Volume charts yield clues when volume is out of character. Unusually high, or unusually low. High volume on a lower close indicates selling pressure - people want to get out and nobody is eager to buy so the price falls. High volume on a higher close indicates buying pressure - people want to get in, but nobody will sell so they have to bid higher. Volume becomes erratic as the liquidity of the stock falls. Large blue chips have high liquidity - there are large scale trades every day. A small speculative stock has low liquidity - there are sometimes no trades for days on end. Volume significance depends on the normal liquidity of the stock.

Volume is particularly significant in short term trading. The price and volume relationships provide a guide to the type of buying or selling activity that is developing. There are four types of activity.

- The first is a type of share manipulation. This is often called a pump and dump scheme in American markets. The manipulator buys a significant volume of shares. Others see the price movement and join the rally. The manipulator then sells to these new buyers and captures a quick profit. The price is 'pumped up' and then the shares are 'dumped' or sold to unsuspecting buyers.
- The second is the volume activity associated with the development of a genuine rally that may last for 5 to 10 days.
- The third type of activity is genuine accumulation. This is an investment trend. This occurs when buyers come into the market with the intention of building an investment position. Their buying leads to the development of a steady uptrend.
- The fourth type is a news event rally. A leading indication of this is a rise in volume that does not show a rise in price. This suggests people are buying in anticipation of the news. There may be rumours in the market. When the news is released the price and volume rise very quickly. This is a short term trade opportunity, so the trade is closed as soon as momentum declines. This may be 1 or 2 days after the news announcement.

PRICE MANIPULATION

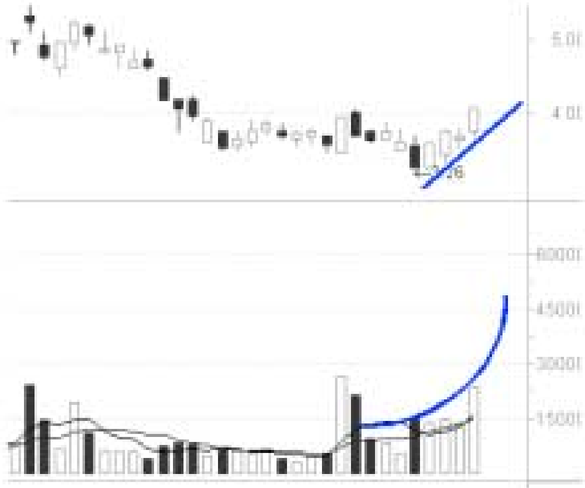
Recognition rules

- Stock has a history of very low trading volume

- Volume suddenly increases dramatically and is often associated with just a few trades during the day.
- Price increases by 10% or more
- Very fast price rise is associated with sudden very high volume
- There is no news event that might explain the price rise
- Gap up activity is often followed the next day by a fall in price.

Trading rules

- Buy when the price begins to increase on day 1. Use intraday charts to identify opportunity.
- Sell on day 2 or day 3 of the price move.



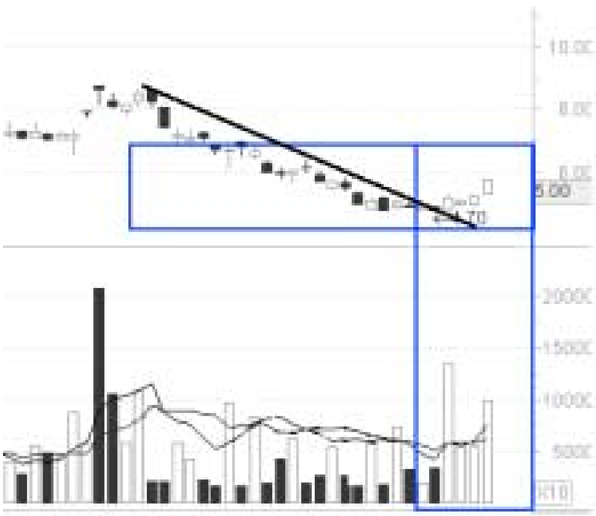
RALLY

Recognition rules

- Stock has a history of good trading volume with well defined rises and falls
- Volume increases for several days
- Price moves slowly, and then accelerates. This is defined with a parabolic trend, or a trend line
- Volume increases as the price begins to move more quickly

Trading rules

- Enter when price rebounds from the trend line
- Use resistance targets as exit points
- Watch momentum and volume decline



INVESTMENT

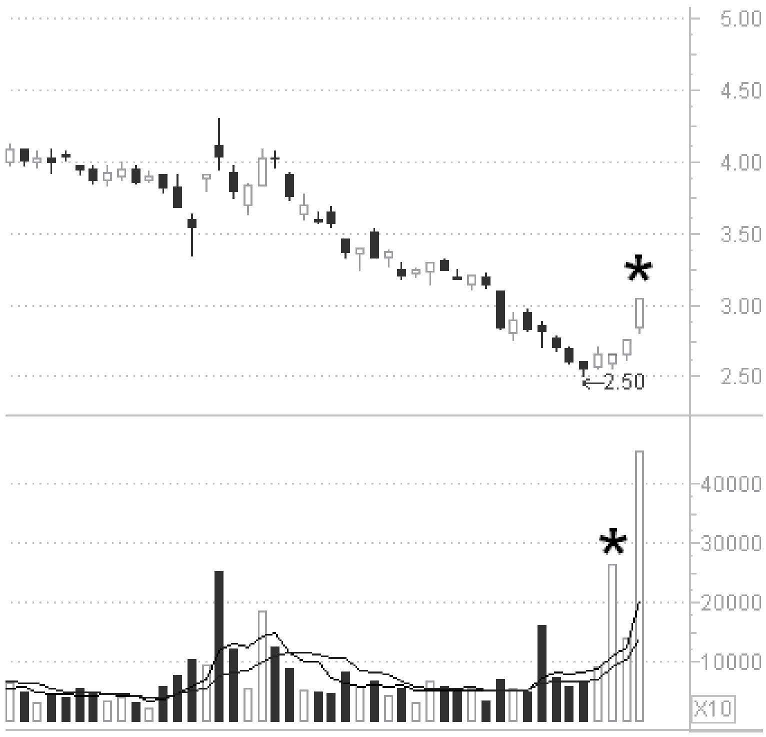
Recognition rules

- Volume increases slowly. This is steady, consistent buying
- Buying volume is larger than selling volume
- Price moves in a consolidation band
- Price rise is slow.
- The new trend is defined with a trend line and there are many successful tests of the trend line
- Volume remains steady when the price falls. This shows investors are buyers. Confirm this with the GMMA indicator.

Trading rules

- Buy as price rebounds from the lower edge of the consolidation area
- When trend is defined with a trend line, buy when price rebounds from the trend line
- Use the lower edge of the long term GMMA as a stop loss
- Enter when price moves above the downtrend line
- Add to position when GMMA crossover develops
- Add to position after the first successful test of the long term GMMA support after the GMMA crossover.

NEWS EVENT RALLY



Recognition rules

- Volume increases before the news announcement, but price does not rise
- Volume increases on the day of the news event
- Price accelerates quickly. This is a momentum rise

Trading rules

- Enter when price reacts to the news release
- Use resistance targets as exit points
- Sell 1 or 2 days after the news announcement when momentum declines

Recognising the correct price and volume relationship allows traders to make a better decision about the best trading or investment approach to use for the trade.

MARKET EXAM 6

By Daryl Guppy

In challenging markets it is a good time to think about the foundations of our trading approaches. This is the sixth instalment of ‘revision’ questions to help this process of rebuilding trading plans and approaches. Each week we will provide a list of 10 new multiple choice questions. We will also provide the answers to the previous weeks questions. There are 100 questions.

SUBJECT SUMMARY
MARKET EXAM

Every day and in every trade, the market gives us an examination. The results are unforgiving. Get the examination question correct and the market gives you money. Get the examination question incorrect and the market takes money from you. Every trading decision to buy, or sell, or just observe is a test of all the skills and knowledge and experience you have accumulated. Unlike on-the-job training, the market gives you no latitude for error, for past successes, or experience. Every test is for real, and every test pass or fail carries the same consequences. It is a demanding task. Over ten weeks we give you a less demanding test – at least in terms of consequences. These questions are designed to help you to evaluate your knowledge about trading and help to identify areas where you may need to do some more homework.

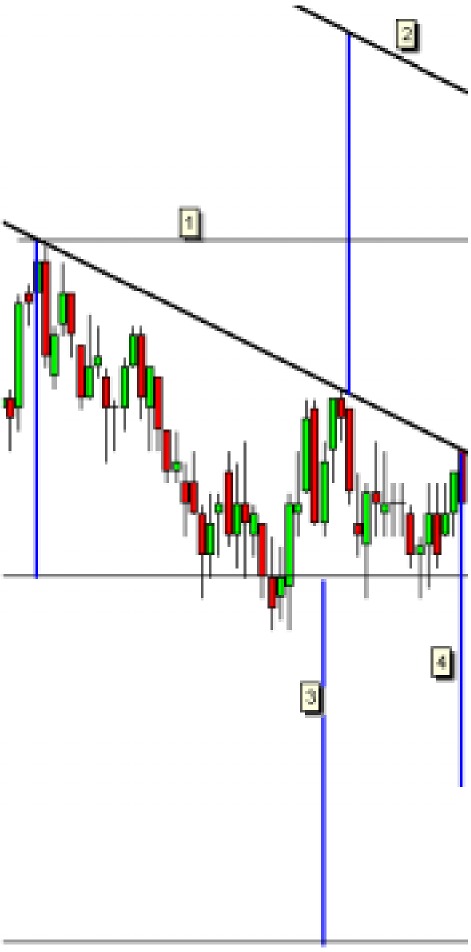
We will not be providing an introduction lesson for the questions. The questions based on moving average analysis will not follow an article on moving averages. The intention is to test your existing knowledge of ideas, concepts and methods relevant to trading. You may find some gaps caused by forgetfulness, or by simple lack of knowledge. This discovery is useful because it provides a focus for areas of additional research.

Answers to last week's questions are below. Answers to this week's questions, and a new set of questions, appear next week.

REVISION QUESTIONS 51-60

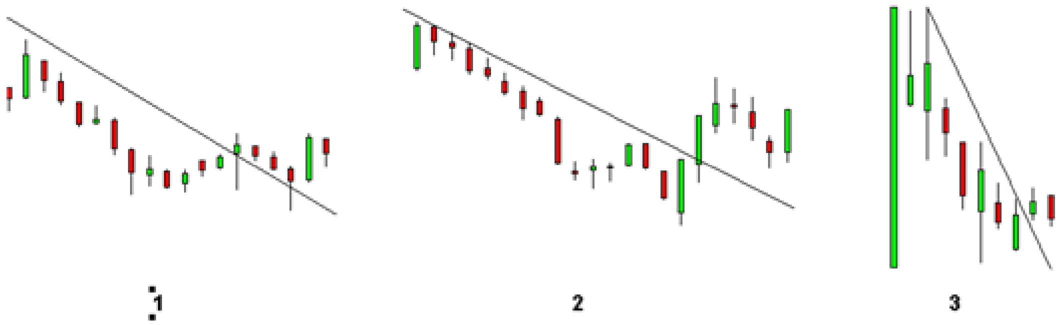
51) Which is the correctly plotted upside target for the triangle?
1. Line 1
2. Line 2

52) Which is the correctly plotted down side target for the triangle?
1. Line 3
2. Line 4



53) Select the IPO chart with the correct entry signal. Use a volatility indicator calculation.

1. Chart 1
2. Chart 2
3. Chart 3



54) What is a divergence on a technical indicator?

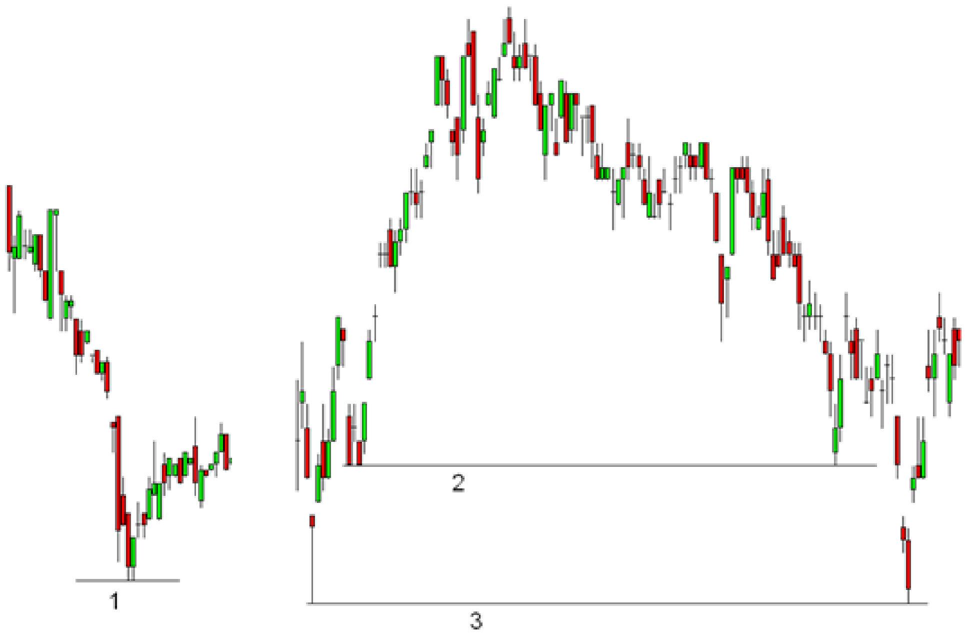
1. A divergence is when the price of a stock trends in one direction and the indicator goes the opposite trend direction.
2. A divergence is when the stock price goes up and the indicator goes down.
3. A divergence is when the price of a stock trends in one direction and the indicator trend in the zone of importance goes the opposite trend direction.

55) Identify the valid divergence.

1. Line 1
2. Line 2
3. Line 1 and 2
4. Not a valid divergence shown on the chart.

56) Where is the pivot point low?
1. Point 1
2. Point 2
3. Point 3
4. Point 4

57) Where is the correct double bottom?
1. All line are double bottoms
2. Line 1
3. Line 2
4. Line 3
5. Line 1 and 2
6. Line 1 and 3
7. Line 2 and 3
8. None of the lines show a double bottom



58) Which line is the correct measurement for the double bottom?

1. Line 1
2. Line 2
3. Line 3

59) Where is the Rally?

1. All show a rally
2. Chart 1
3. Chart 2
4. Chart 3
5. Chart 1 and 2
6. Chart 1 and 3
7. Chart 3 and 2
8. No chart has a rally

60) What is the first step to successful trading?

1. Make a profit
2. Know how to assess the trade risk.
3. Knowing what are we looking for in a trading opportunity
4. Knowing what are we trying to do in the market
5. Know how to prove the opportunity
6. Know how to assess the trade potential.
7. Knowing what are we trading
8. Know how to determine the position size.

ANSWERS FROM LAST WEEK 41-50

41) What is the theoretical benefit of having stock in different sectors?
   1) This gives portfolio diversity and reduces risk.

42) What is the benefit of trading the strongest stock in the strongest sector?
   3) There will be a lot of volume, and the stock will move rapidly.

43) What is Systemic Risk?
   2) Systemic Risk is the risk the entire market may fall.

44) What is cumulative Risk?
   1) Cumulative Risk is where we have more than one open trade, and applying the 2% rule to all our open trades the actual risk to our portfolio increases. If the entire market were to fall this is how much we lose.

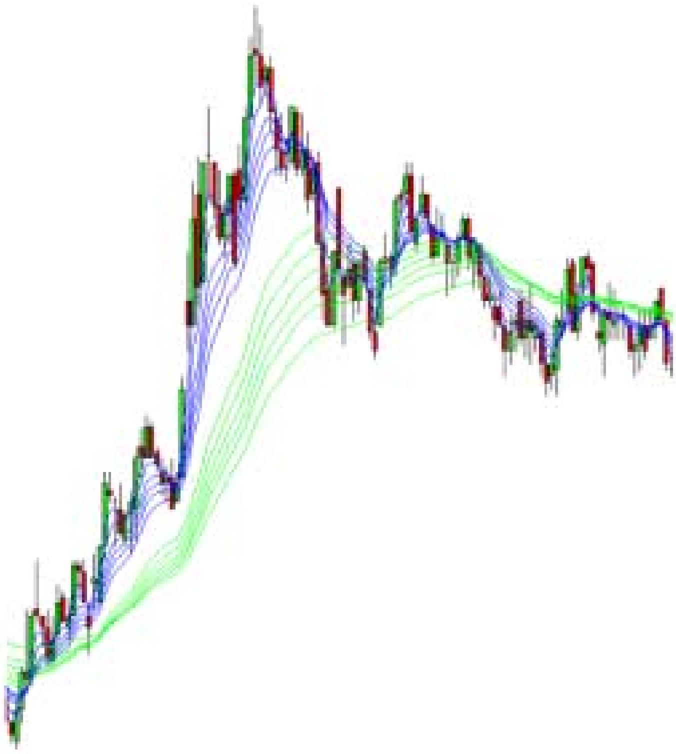
45) What is our preferred spread of Portfolio Capital across the three stock types; blue chip, mid cap and volatile?
   3) 4/7 blue chip, 2/7 mid cap and 1/7 volatile

46) We should only use money we are prepared to lose when we invest in speculative stocks.
   3) No. Every trade should be given close attention and traded as though it's the only open position we have. We trade to make money.

47) Should we sell better performing stocks to make up for poorer performing stocks?
   2) No. We should sell the losing stocks and follow the better performing stocks to their full profit potential.

48) What is the difference between a moving average line and a Linear Regression Line?
   3) The Linear Regression Indicator plots a line that is statistically fitted to the price data, one data point at a time, rather than being an average of that set of data.

49) This is a chart of an important bank stock. The fundamental analysis said this bank had a very good future. All the brokerages said this bank had a very good future.
Analyze the chart and select the best action.
   4) Wait for a clear end to the downtrend and then buy.



50) Select the chart with cup chart pattern
4) Chart 4

Next week we bring you the answers and a new set of 10 questions.

YOUR SCORE CARD

Keep this scorecard updated and calculate your performance percentage.

Quest	Ans	Quest	Ans	Quest	Ans	Quest	Ans	Quest	Ans	%
1		2		3		4		5		
6		7		8		9		10		
11		12		13		14		15		
16		17		18		19		20		
21		22		23		24		25		
26		27		28		29		30		
31		32		33		34		35		
36		37		38		39		40		
41		42		43		44		45		
46		47		48		49		50		
51		52		53		54		55		
56		57		58		59		60		
61		62		63		64		65		
66		67		68		69		70		
71		72		73		74		75		
76		77		78		79		80		
81		82		83		84		85		
86		87		88		89		90		
91		92		93		94		95		
96		97		98		99		100		

ETF STRATEGY INTRODUCTION

By Daryl Guppy

Every market upturn and downturn brings with it new trading instruments. The speculation tool before the market collapse in 2001 was the covered warrant. We still have them, but the warrant market is a shadow of its former self. The speculative tool for 2007-2008 was the CFD. It remains to be seen if these will continue to exist as a liquid trading tool in years to come.

SUBJECT SUMMARY
EXCHANGE TRADED FUNDS

An Exchange Traded fund (ETF) is traded in the same way as a single stock. The ETF itself holds a basket of stocks that match the index and sub index area that it trades. The S&P ASX 200 ETF tracks the performance of just the 200 stocks in this index. The fund uses a variety of methods to exactly match the performance of the index. Some ETF's guarantee to perform exactly as the index does. These listed securities are designed to match the performance of an established stock market index. Unlike investing in a single share, they give the trader, or investor, exposure to all the companies that comprise an Index. The ETF brings to benefits of diversification.

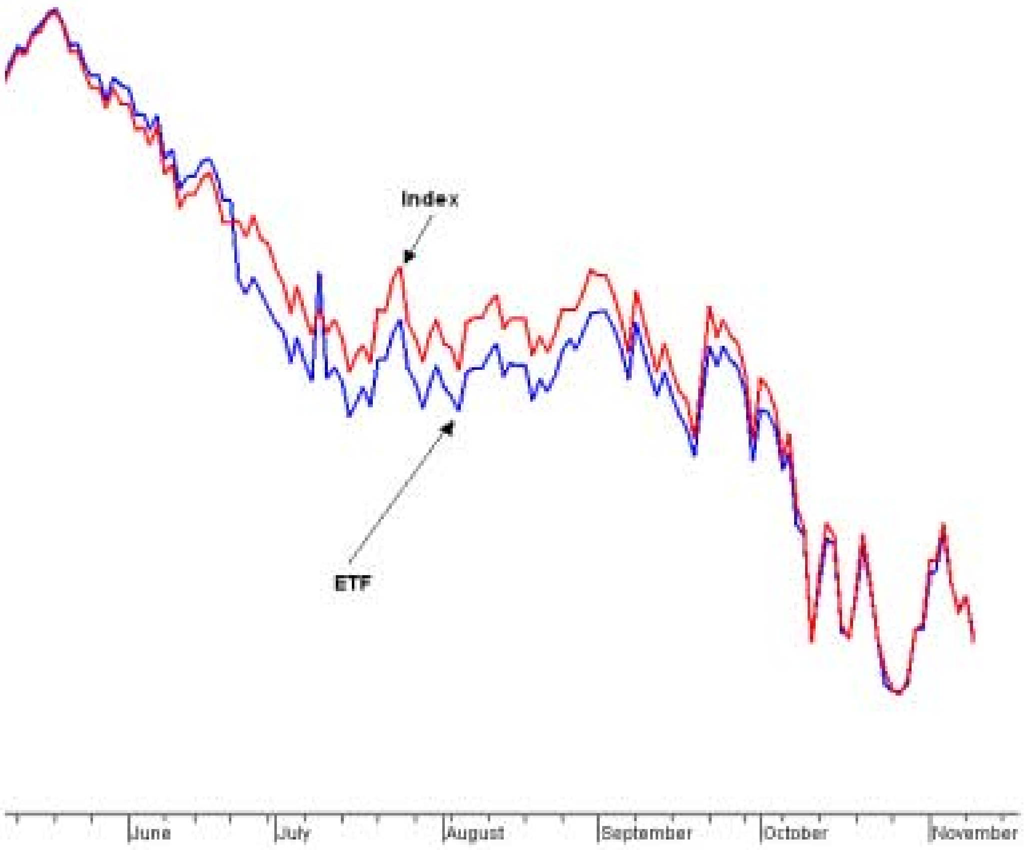
Looking forward into 2009 we look for the new trading instruments that will develop. Our analysis suggests that the Exchange Traded Fund (ETF) will becoming increasingly important in a portfolio. This is not primarily designed as a trading instrument, but there are trading methods which can be applied which enhance the performance of the ETF.

Fund Name	ASX Code	Composition
iShares S&P Asia 50 Index Fund	IAA	50 stocks in Hong Kong, Korea, Taiwan and Singapore
iShares MSCI BRIC Index Fund	IBK	Reflects the performance of publicly traded securities in Brazil, Russia, India and China
iShares MSCI Japan	IJP	Reflects the performance of the Japanese equity market
iShares MSCI Emerging Markets	IEM	Leading companies in 22 emerging countries and 10 industry sectors
iShares S&P Global 100	IOO	100 large transnational companies with minimum capitalisation of US$5bn
iShares S&P 500	IVV	US large-cap stocks across a range of industries
iShares S&P Midcap 400	IJH	US stocks capitalised at US$1bn to US$4bn
iShares S&P Smallcap 600	IJR	US stocks capitalised at US$300m to US$400m
iShares MSCI EAFE	IVE	Reflects European, Australasian and Far East market's performance
iShares S&P Europe 350	IEU	350 stocks in 17 European markets and 10 industry sectors
iShares FTSE/Xinhua China 25	IZZ	Reflects the leading 25 companies in the fast-growing China market
iShares MSCI Hong Kong	IHK	Representative of the Hong Kong market
iShares MSCI South Korea	IKO	Reflects the main South Korea market
iShares MSCI Singapore	ISG	Tracks the Singapore market
iShares MSCI Taiwan	ITW	Reflects the performance of leading Taiwan-based companies
iShares Russell 2000	IRU	US small-cap stocks

In Australia we currently have access to 15 ETF products, many listed through the i-Shares structure or the StreetTracks structure. ETFs have been around for decades, so why do we think they will become increasingly important?

An ETF is a un-leveraged derivative. It trades on the exchange in the same way as an ordinary share. Although it is a derivative, there is no contract expiry or time decay. The objective of the instrument is to track the performance of the underlying index. This tracking is achieved in the background with the ETF manager actively buying, selling and hedging the underlying stocks so the ETF closely tracks the performance of the index.

It's not an exact tracking, but is very close. In Australia, Citigroup and Susquehanna have been appointed as Market Makers in the iShares listed on ASX. The Market Makers are required to make two-sided markets in the iShares within the maximum spread and the minimum quantity specified by the exchange. Additionally a list of the stocks held in each ETF are published daily on the iShares website.



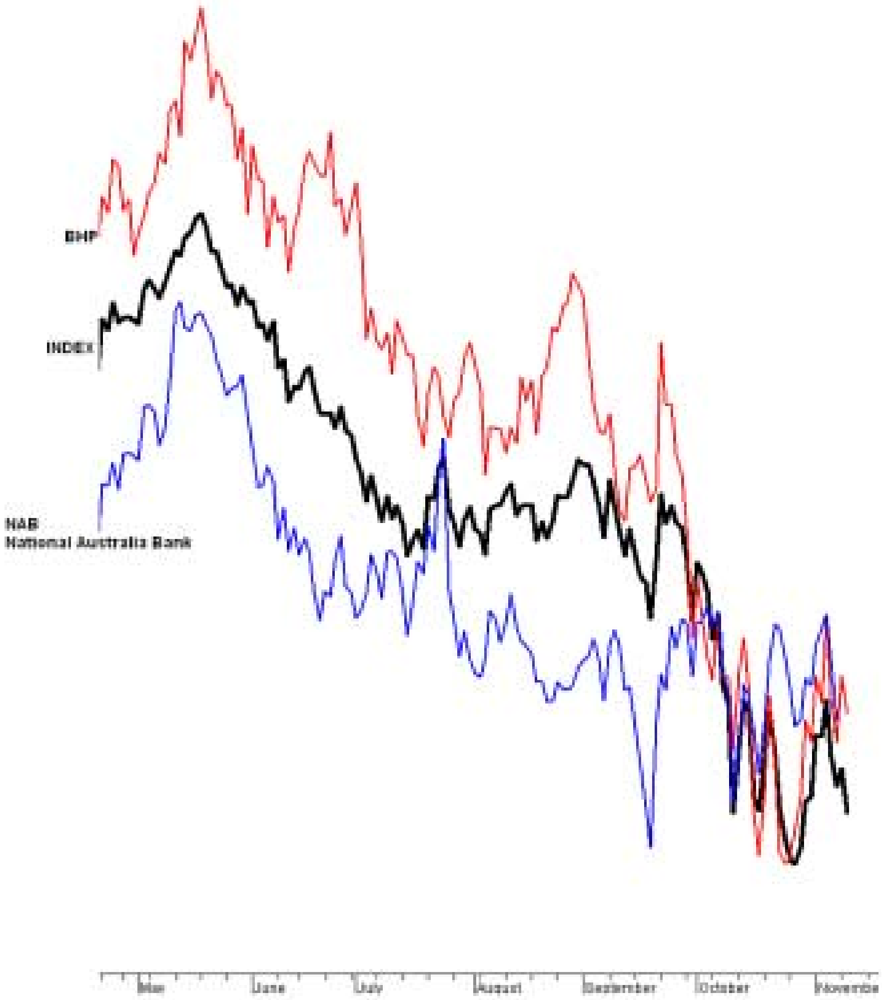
When everybody wants Alpha performance – performance that is better than the underlying market performance – then why settle for beta performance – matching the gain or loss in the market?

There are 3 parts to this answer.

- Matching market performance is a better result than that achieved by 95% of fund and investment mangers. In a bull markets 95% of managers deliver lower returns than that of the market. In a bear market, 95% of fund mangers lose more than the market fall. When their management fees are added, the performance results are even worse.

- The myth that the market always rises is only true when trading an ETF. The composition of most indexes changes regularly. The XJO index components are adjusted every quarter. Underperforming stocks are dropped. Outperforming stocks are added. The index is only every made up of winners, and in this sense the market (index) always rises.

You could track this index performance if you buy every stock within the index. However you need to buy and sell regularly to keep your portfolio components exactly the same as the index. Apart from cost, time and effort, there is a significant taxation and brokerage impact. The ETF does all this work, and presents a single instrument with a single buy or sell price set by the market.



The ‘market always rises’ myth is further distorted by the belief that this strategy can be implemented via single stock. The thinking suggests that if you buy a ‘quality’ stock then it will also always rise in the long term. In reality the influences on the price behaviour of an individual stock are always different to the influences on the group of stocks that make up the index. They may outperform, or underperform.

- We use the ETF to obtain alpha performance. This is made possible because the ETF delivers all of the dividends paid by the underlying stocks that make up the index. If we use the ETF which tracks the XJO 200 index then we have to track 400 dividend payments a year. The ETF consolidates these payments into two ETF dividend payment periods. Effectively you get the dividend payment for each of the stocks in the index, but at two defined payment periods. The payment of collective dividends means the ETF outperforms the underlying index.
- The ETF provides a low risk and steady reward model for investment. The risk is the same as the market risk. The reward is also the same as the market and after the volatility of 2008, many investors will look on this as a favourable combination in 2009. The objective in the trading strategies which we will discuss in the coming weeks is to retain the low risk profile of the ETF but increase the reward component. We have been using ETFs as a superannuation portfolio component for several years.

ETF analysis leads to 14 analysis and selection strategies. They are:

- Swiss roll – 2 strategies
- Dividend strip – 3 strategies
- Yield trading – 3 strategies
- Beta beaters– 2 strategies
- International – 2 strategies
- Arbitrage – 2 strategies

We use five trade management strategies for profit lock in ETF trading. They are:

- Accumulation
- Capital profit
- Currency boost
- Zero cost averaging
- Currency lock forward

In the coming weeks we will explain these trading and trade management strategies.

For more details on this offer, please go to this link

http://www.guppytraders.com/08xmasoffer.htm

SKINNING DEAD CATS

By Daryl Guppy

SUBJECT SUMMARY
STRATEGY

Strategy is broad picture understanding of the market. Strategic analysis helps to understand where we are located, and where we may be heading. It's not a prediction, but the analysis takes into account a broader range of external factors that often are not part of trading decisions.

Tactics are the methods we use to get from where we are to where we want to be. They are the exact tools and techniques we use to take advantage of situations that develop as we expected.

Strategy allows us to position ourselves on the correct side of the market trend. We expect a fall, or expect a rise. Strategic understanding tells us which toolbox to use and which combination has a higher probability of success. Tactics are the methods we use when we apply the tools to extract a profit from the market.

We also use the 36 Strategies of the Chinese to help identify more specific strategic situations within the broader context of market strategic analysis.

The dead cat bounce this week skinned many traders. We remain flat, although increasingly tempted by market rally behaviour. It is becoming clear that Western financial markets are in significant trouble. When US analysts are suggesting that DOW heavyweight General Motors will have a share value of zero in 2009 it confirms the seriousness of the current market condition.

As discussed elsewhere in the newsletter, we are teetering on the brink of a very serious economic crisis and this will have a dramatic impact on trading and trading methods. Understanding these methods is our current focus and we bring you our research as it develops. This is taking time, and it simply means that we are not yet ready to explore specific techniques and model them in the case study management portfolio. You will find articles along these lines in the newsletter in coming weeks. Success in the next market condition will depend on a good foundation. It's time to flush out and forget the mistaken methods that relied on the rising tide of the bull market.

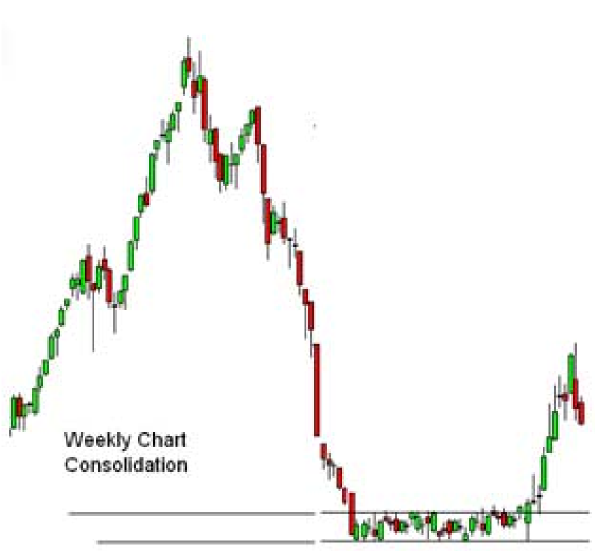
We have an advantage in our research. For the past year we have watched the China market collapse for around 65%. We produce a weekly trade advisory, and a daily trade advisory for trading only from the long side. The methods and techniques we developed in this market condition are relevant to the current market condition in Australia. When we come to examine possibilities here we do not start form ground zero and a state of denial that the market is somehow irrational so recovery is just around the corner. We start from an accumulated base of experience.

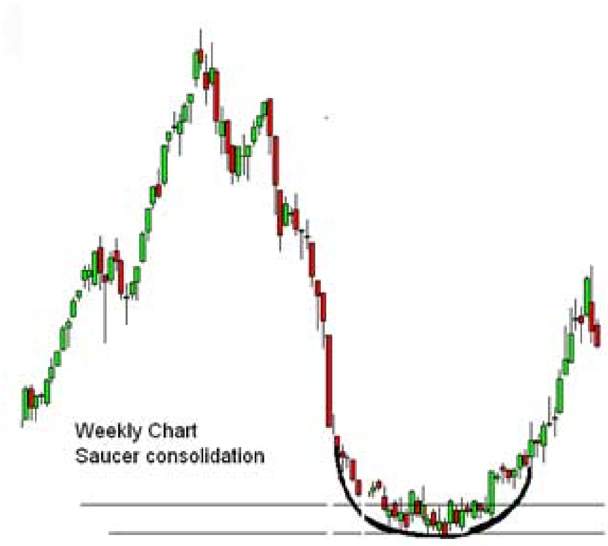
RECOVERY PATTERNS

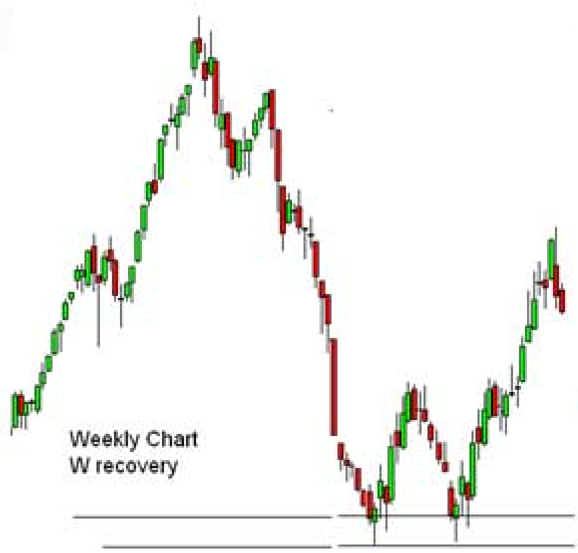
For case study purposes we remain flat. For newsletter purposes we continue to include articles designed to help readers understand the current market situation and to explore options for survival and recovery. Put the hard numbers on vague thoughts and hopes and it helps to develop better responses.

The generic chart shows how we expect the DOW recovery to develop. We show where we are located on this chart development at the moment.

We reprint the examples of other market recovery patterns. The 'on the floor' recovery pattern shown as the long term recovery chart is the pattern we are currently developing with the DOW.







At Guppytraders.com we have lots of experience in trading falling markets from the long side. We gathered this in 1997 trading the Malaysian market. We have honed these skills in 2008 with our daily real time trade advisory, SanZhiHua, for Mainland Chinese traders trading the Shanghai market. This is a market that has fallen 60% and with 3 new stocks introduced every day for long side trading it has tested and developed long side trading skills.

The key conclusions:

- Uptrend's become very unreliable
- Trend breakouts collapse quickly when they fail
- Volume backed rallies fail quickly
- Average profit targets are small, around 10% to 15%
- Momentum is king

In the coming weeks we will bring you examples of the application of these strategies.

CHART BRIEFS - TRANSURBAN GROUP (TCL)

By Petra Rak

INDICATOR REVISION
TRADING CHANNELS

The walls of a trading channel are defined by support and resistance. These walls may be horizontal, or sloping. In either case they tend to be parallel. A support level is created when the supply of stock runs into a wall of demand. A resistance level is created when the demand for stock runs into a solid block of supply of that stock. Trading channels provide trading opportunities based on the consistent price movement between the walls of the channel. In a horizontal channel the returns are often low, 10 to 30%. In a sloping channel the returns are often larger because the upper point of the channel rises during the trade.

The daily chart of TCL shows a developing consolidation channel. TCL was discussed in these newsletter notes in mid August, when a potential trend reversal was identified, but was not expected to progress due to a likely overhead resistance at a long-term downward trendline (visible on the weekly chart and not pictured here). We return to TCL as a relatively rare example of a stock which is maintaining a solid support in the current market.

As was likely, the reversal uptrend has now been completed, but instead of a fall to previous downtrend lows the brief retreat found support reasonably early and developed into a consolidation between $5.00 and $5.95. This development is significant in light of the long-term downtrend on the weekly chart (not pictured) as the effect of the consolidation is that TCL is currently challenging the long-term downward trendline, and an ongoing consolidation will decisively trade to the right of the trendline and out of the long-term downtrend. This has the potential to set up a new future reversal without the context of a long-term overall downtrend which marred the previous reversal attempt in August.

Currently, the most recent rebound from the consolidation floor is approaching the channel roof and can be defined using a short-term straight-edge trendline (shown dashed on the chart).

UP CONDITIONS

At present, trading opportunities in TCL require either a decisive break above the channel roof at $5.95 or alternatively another bounce within the consolidation channel (which is potentially tradeable, with a maximum return of just above 15%). Given the market, a retreat followed by an intra-channel rebound is the more likely opportunity as the probability of a breakout through a strong resistance and into a new uptrend is low in the current bearish context. This is especially the case given the strong support and resistance control evident in this stock, which is shown both by the current consolidation and the consolidation earlier this year in the higher consolidation band between $5.95 and $6.95. If a breakout from the current channel does eventuate, there is a good probability that prices will rise to the $6.95 resistance, where a new consolidation may develop.

Beyond these short-term opportunities, it is significant that either of the above developments would result in an overall breakout through the long-term downtrend on the weekly chart, and so set up a positive context for future opportunities.

DOWN CONDITIONS

As noted above, an upcoming retreat back to the channel floor at $5.00 is currently a reasonable probability, and traders active in the current market may look for a rebound from this level and into a new potential short-term intra-channel uptrend. As always (but especially if traders remain in the current market) very tight risk management and stop loss control is critical for any trades.

Conversely, failure of the channel floor will abolish the consolidation and confirm an ongoing long-term downtrend. The nearest underlying historical support occurs around $4.15.

NEWSLETTER OUTLOOK – DEAD CATS

By Daryl Guppy

SUBJECT SUMMARY
XJO INDEX
We use the S&P ASX 200, or XJO, in these notes because this is the benchmark index followed by fund managers and institutions. The All Ordinaries is a popular headline figure, but it is the XJO that underpins professional assessment of the market.

The 3500 level is the critical support level for the XJO. The market is still moving towards this level. Sharp rebounds are not trend changes. They are part of a volatility struggle that indicates indecision and confusion. This creates whipsaw trading conditions with many false rallies. Our outlook does not change and it is summarised below.

The rebound from 3700 had a low probability of success because the rebound is not from an historical support level. The rebound also has a low probability of success because investors did not join the buying. The long term GMMA does not show evidence of compression. This tells us that investors are sellers – not buyers.

This did offer short term trading opportunities, but it has not altered the direction or strength of the trend. The rally may be part of a long term trend consolidation and reversal. We look for a series of higher peaks following the retreat. This may develop over the next 6 to 2 weeks.

There are three features of caution with the current market behaviour. The first is that we have not seen any climax selling. This suggests there is still room for the market to fall further and test the long term support level seen on the monthly chart. The second feature is that this consolidation development is above the long term support level. This suggests there is a high probability the consolidation will develop a downward bias. Think of this as a gentle curve moving towards the long term support level. It has the potential to develop as a saucer style recovery pattern as shown in the management notes.

The third feature is the development of rallies within this pattern. Many of these will be break out rallies. They are not the development of new up trends. The better news from this behaviour is the ability to trade these rallies and generate profits from long side trading. Volatility remains significant.

The XJO has achieved the head and shoulder pattern target. In other markets, this achievement has not been marked by a rebound recovery. This is the danger with the XJO. The head and shoulder target does not match any historical support level, and this increases the probability of a market retreat towards historical support at 3500. The first genuine support level is near 3500, but bear markets have a habit of testing the lower levels of trading bands. The lower level is near 2800. These provide the recession target levels. Treat the fake-out rallies on the daily chart as trading opportunities. In this environment it's the monthly chart that is most useful for a strategic view of market developments.

Each week we make a choice about the material we include and the subjects we cover. The selection is based on our outlook for the current and coming market. Our objective is to illustrate effective trading strategies that readers can apply to current market conditions. We do not identify recommended individual stocks. We identify opportunities and appropriate trading methods for them. Our outlook is not a forecast. It is a probability framework. Use it as just one part of the other information you are reading about the market. Our summary outlook will be included each week.

NEWSLETTER NOTES

TOO MUCH MATERIAL

Is this a time for feverish trading, or for careful strategising? We favour the latter, and this has meant some lengthy articles in the newsletter.

Every week we face a challenge to keep the newsletter length down to around 20 pages and to include a balance of articles. These must balance the needs of experienced readers and those with less experience. It must balance the need for theoretical discussions of new techniques and ways to explore the market, and the need to assess practical approaches relevant to developing market conditions. We must balance the types of techniques we cover – intra day, position trading and longer term trading – with the markets they are applicable to – equities, warrants, futures, options – and the interests of our readers. Readers' feedback tells us that most weeks we get the balance about right.

Most weeks we have slightly more material than we can use. This week we have much more material than we can use in a single issue and we have to put some articles on hold so we can include discussion and analysis of emerging types of opportunities.

CHINA AND CMC

CMC markets include many Hong Kong Listed Red Chip CFDs. These are stocks that are jointly listed in China and Hong Kong. This provides one way for foreigners to trade the growth of China markets. It could cost traders thousands of dollars to learn how to trade the Chinese market. We provide a short-cut on the learning curve with an English language version of our trade advisory weekly.

Each issue covers around 20 to 30 stocks each week, but does not include some of the fundamental commentary included in the Chinese language edition. Red-K-Line includes Shanghai or Shenzhen Index analysis every week which is not included in the Chinese language edition.

- Red-K-Line is essential reading for traders interested in understanding how China trading is different from trading in Western financial markets.
- Red-K-Line teaches you which strategies work in Chinese markets.
- Red-K-Line is essential for expats who are interested in trading the China market.
- Red-K-Line is essential reading for those who want to be ready to participate in China market trading when the market opens

With a real-time success record of 72%, Red-K-Line is the most successful China market trading weekly publication available in English.

Full newsletter details are available on www.guppytraders.com/RKLChina Email chinaorders@guppytraders.com for a free sample copy of Red-K-Line, English version.

VERSION 3 UPGRADE OF GUPPYTRADERS TOOL BOX AND CHARTING ARE AVAILABLE FOR FREE TRIAL DOWNLOAD FROM WWW.GUPPYTRADERS-ESSENTIALS.COM

These products are now available for downloading and purchase.

Upgrade features include:

- **Trend Volume Analysis tools. 3 new indictor tool sets for advanced volume analysis – Find Trend Volume, Plot Trend Volume, Count Trend Volume**
- **Alan Hull's tools. A combination of the 4 essential Hull tools - Rate of Return, Range Indicator, Hull Moving Average and Hull Multiple Moving Average**
- **Jason Mitchell's JICD% Indicator. First released in our newsletters, this indicator gives a trading advantage.**
- **Classic candle and bar chart displays, and continuation display. Make sure you are trading on genuine candle patterns.**
- **Invert chart function as discussed in Trend Trading and Trading Tactics. Eliminate your bias with this tool.**
- **Reset display trigger on close or low for ATR**

The GTE Charting program and Toolbox is designed to work with a variety of data formats. The toolbox is a small utility application that gives traders access to a selection of Guppy tools and indicators that might not be included in the charting program they are currently using.

WHICH GUPPY BOOK?

Many people have asked this question. So, here is a summary guide:

Want to co-ordinate your trading?	The 36 Strategies of the Chinese for Financial Traders	Beginner to experienced
Want to know more about trading?	Share Trading	Beginner to experienced
Want to know more about charts?	Chart Trading	Beginner to experienced
Want to know more about tactics?	Trading Tactics	Beginner to experienced
Want to improve your trading results?	Better Trading	Experienced to professional
Want to master simple but powerful techniques?	Trend Trading	Beginner to experienced
Want to understand short term trading?	Snapshot Trading	Experienced to professional
Want to survive difficult markets?	Bear Trading	Beginner to experienced

PORTFOLIO CASE STUDIES – MONEY MANAGEMENT

Starting cash position $100,000 – no brokerage or slippage 2% of risk = $2,000

NOTE Entered date is the ***newsletter date*** which contains the case study discussion.

Stock	Price	Qty	Pur Value	Close	Cur Val
			#VALUE!		#VALUE!
Trend breakout		Newsletter date	22-Aug	Open Profit	#VALUE!
				Dividend	0.00
				profit	#VALUE!
				Percentage	#VALUE!

Stock	Price	Qty	Pur Value	Close	Cur Val
no open trades	$0.000	-	$ -	$ -	$ -
Resistance breakout		Newsletter date	8-Aug	Open Profit	0.00
				Percentage	#DIV/0!

SUMMARY MONEY MANAGEMENT

Overall profit to date since July 1, 2008 = $35,360 or 35.4% return on trade equity.

Profit 2007/08 = 116.7% return on trade equity. Profit 2006/07 = 106.7% return on trade equity.

Profit 2005/06 = 94.2% return on trade equity. Profit 2004/05 = 104.3% return on trade equity.

Profit 2003/04 = 48.7% return on trade equity. Profit 2002/03 = 75.9% return on trade equity.

Profit 2001/02 = 71.3% return on trade equity. Profit 2000/01 = 59.2% return on trade equity.

Profit 99/00 = 111.2% return on trade equity. Profit 98/99 = 102% return on trade equity.

Profit 97/98 = 94% return on trade equity. Profit 96/97 = 66.5% return on trade equity.

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