ShareScope

Alpesh Patel Special Edition

Alpesh's guide to getting the best out of his system

Introduction

Welcome to the Alpesh Patel Special Edition of ShareScope. It is a series of systems that I have used for many years, developing my own stock-picking filters and analytic settings ("radars"), and which has proved consistently successful for me. I want it to save you hours and hours of searching for trades and make you much more than it costs. It has done that for me!

Now, the Alpesh Patel Special Edition does not pick sure-fire winning trades and investment ideas every time. It picks trades and investment ideas that already meet specific criteria that I require as a starting point. These are criteria which I have settled upon over years of investing and shorter-term trading.

I may still find reasons not to like some of the opportunities highlighted by my filters but I will tell you the warning signs that I look for.

I have used this system for years now to target 25% growth per annum. It's important to stress the word TARGET. I set my sights high. Each year from 2004 to 2010, I picked a basket of stocks for a 12-month buy and hold. In fact, all I did was list the stocks in my Alpesh Patel Value/Growth filter on the day I gave the tips. Using this method I achieved a compound annual growth rate of 16.8%. Not 25% but I'll take 17% every year and I'm sure you would too. Bear in mind, we had the credit crunch during that period. The FTSE All-Share provided a 4.7% annual gain over the same period.

Of course, no matter how good the fundamentals or the price momentum of a share, unexpected events can always occur. That's why it's important to keep an eye on the news stories in ShareScope and set appropriate stop losses. I'll cover this in more detail in each section.

> **RISK WARNING:** Spread betting and CFD trading are forms of trading on margin - they typically require the deposit of a small percentage of the total trade value. Profits and losses can quickly exceed the initial deposit because the financial outcome is determined by the price movement on the total trade value. Ensure you understand the risks as these products are not suitable for everyone. These products are only suitable for persons over 18. Speak to your broker for more information before you decide whether to use them or not.

Overview of the system

There are FOUR components to the Alpesh Patel Special Edition:

- **Alpesh Table** – which displays a range of momentum measures and includes my proprietary Value/Growth Rating, Bullish Momentum Rating and Overall Rating. This is loaded into one of your List Table settings.

- **My four analytical "Radars"** – four Graph Settings which focus on different aspects of technical analysis. These are loaded into four of your Graph settings. Each radar also includes my proprietary Alpesh Ratings displayed in the top left corner.

- **My four proprietary data mining filters** - Value/Growth, Momentum/Value, Bullish Momentum and Bearish Momentum. These are added to your library of data mining filters.

- **My exclusive monthly newsletter** in which I discuss the macro environment, pass on research and present my current investment and trading ideas. This will pop up in ShareScope on the day it is published. You can also access this from the InfoCentre option on the View menu. My newsletter summaries the hours and hours of research I have done for the month ahead and becomes my bible for TV interviews and trading. It has the best of the research from everything I have read from all the private banks, Bloomberg and hedge fund sources.

How to access the Alpesh Patel Special Edition

When you subscribe to the Alpesh Patel Special Edition, a wizard appears in ShareScope which installs the components of the system step-by-step. Most of these components can be found on the Alpesh toolbar which is displayed just above ShareScope's Settings toolbar near the bottom of the screen:

To access each feature, simply click on it.

If you can't see the APSE toolbar, Go to the Tools menu, then Options. You should have an Alpesh Patel tab. If you don't please call Support on 020 7749 8504. If you do, click on this tab and the following dialog will appear:

Make sure the **Enable Alpesh Patel Special Edition** and **Show Toolbar** options are both ticked.

NOTE: On the ShareScope Graph toolbar (running down the right-hand side of the ShareScope screen) there are three buttons with D, W and M on them. Click on these buttons to change your graph to daily, weekly or monthly periods. These buttons are only available when looking at a price chart.See below:

How I use the system

Here is a summary of the different ways you can use the Alpesh Patel Special Edition:

If you are looking for investment ideas:

1. Use my Value/Growth filter for 12 month buy and hold picks – stocks that show undervaluation and growth. I look at the charts with my Momentum radar to ensure the MACD is rising on the monthly chart or at least moving sideways
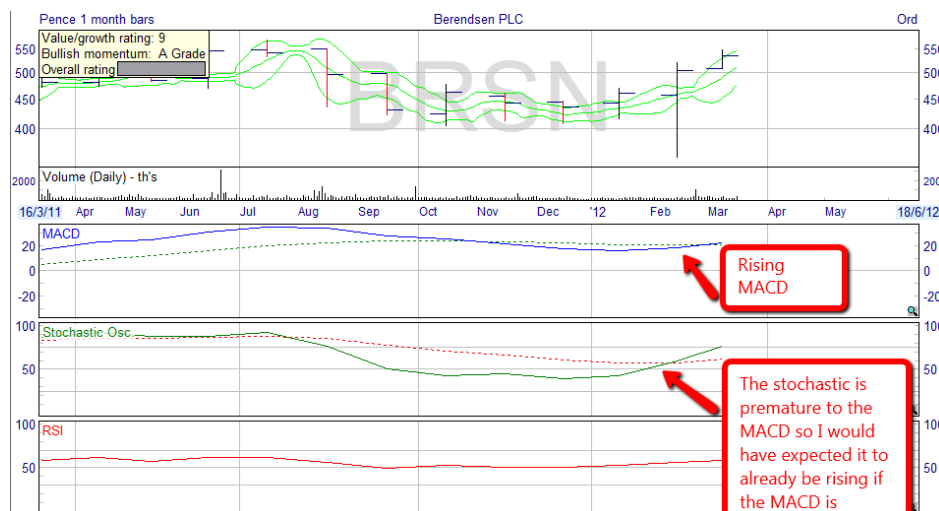
2. Or use the Alpesh Table with any list (e.g. FTSE All-Share) and sort by Value/Growth rating or Alpesh Overall rating. Look for highly-ranked companies with a PEG below 1 and the weekly and monthly MACD rising.

If you're looking for trading ideas:

1. Look at my Momentum/Value, Bullish Momentum and Bearish Momentum filters. Look at each opportunity with my Momentum radar. You will not find in these lists every stock that has gone up recently – it is a shortlist to save you time. I run through each stock in the graph view to see which I like best. I want to see the weekly MACD flat or rising for a bullish signal and Stochastic having risen and still rising.
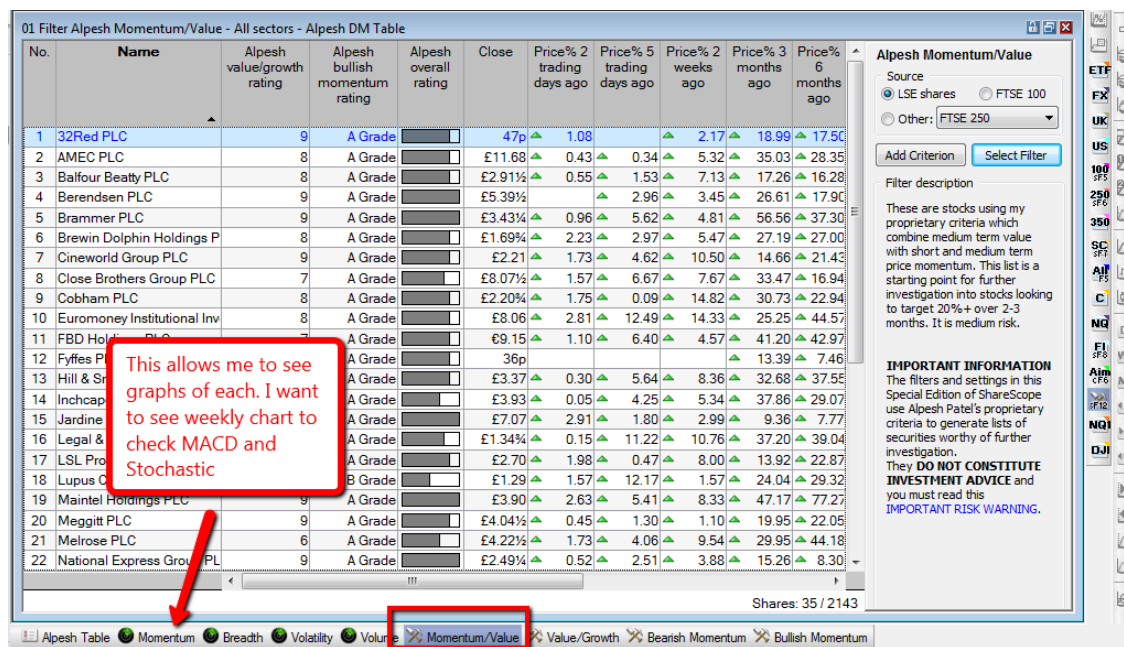
2. Use my Alpesh Table and sort by 2-day % price rise to find the short term movers. Look for rising MACD on daily and weekly charts using my Momentum radar.

Pence 1 week bars — Ashmore Group PLC — Ord

Value/growth rating: 8
Bullish momentum: A Grade
Overall rating

Having clicked on Momentum radar, I see a rising MACD and Stochastic on the weekly chart. I would have prefered to have got in at 'A' though where the trend just started.
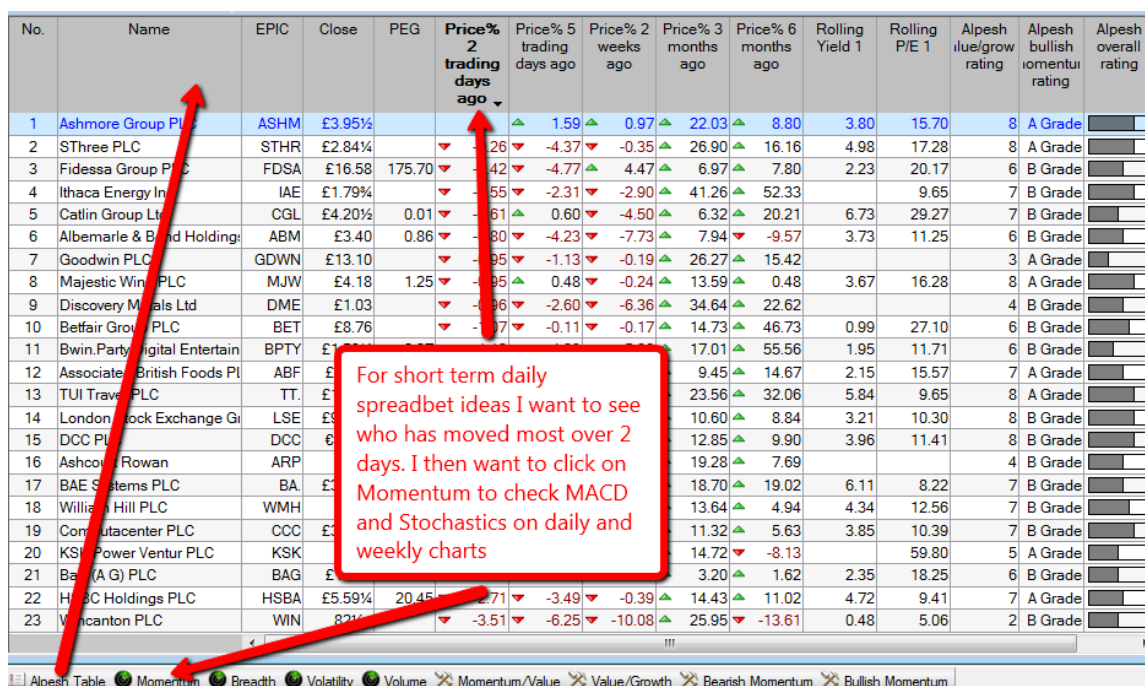
3. For medium-term trades, use the Alpesh Table and rank by Alpesh Value/Growth rating. Look for a rating of 7-9 and then look for rising weekly and monthly MACD on my Momentum radar.

Pence 1 month bars — Prudential PLC — Ord

Value/growth rating: 8
Bullish momentum: A Grade
Overall rating
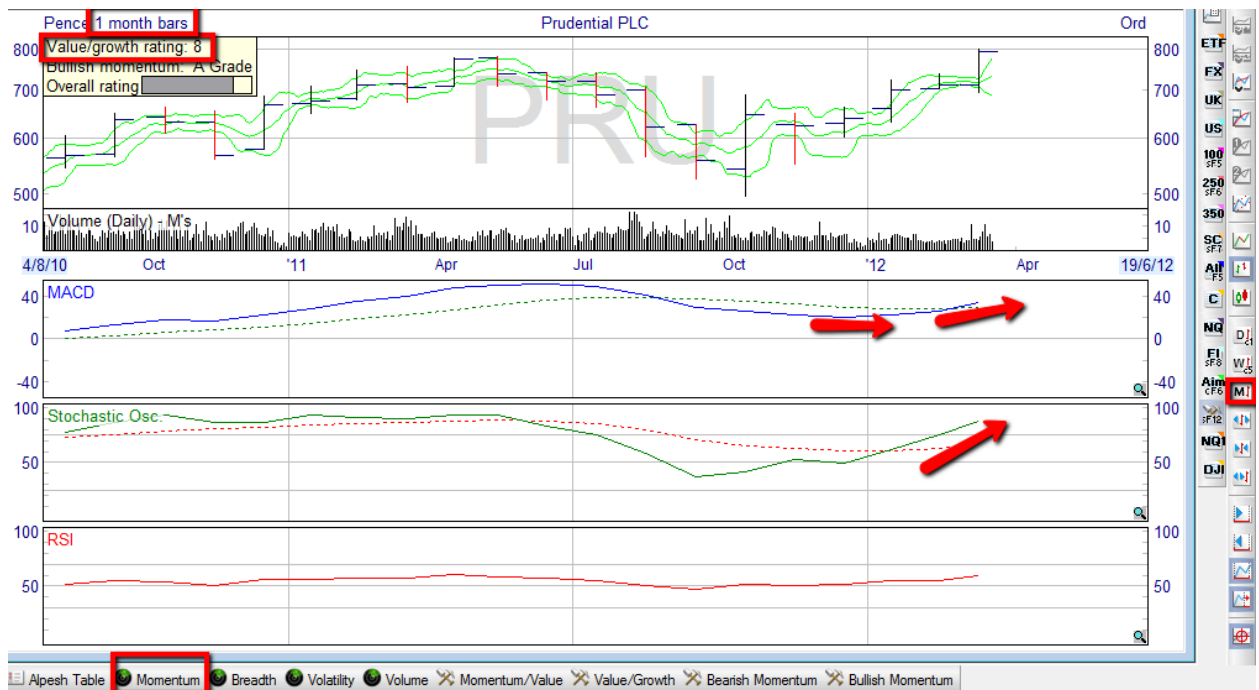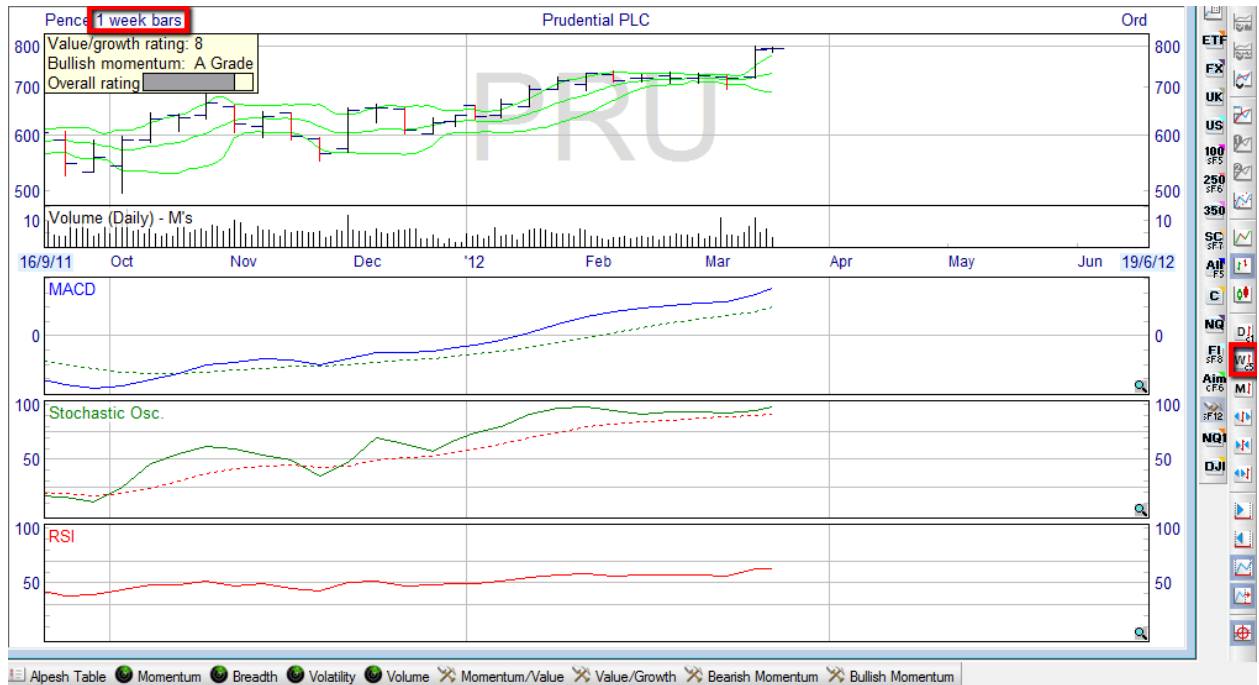
4. Use my Momentum radar to scan through any list of stocks, or other instruments (e.g. forex), looking for bullish or bearish divergence (learn more about this in the Momentum Radar section).

www.sharescope.co.uk   Chart (c) ShareScope
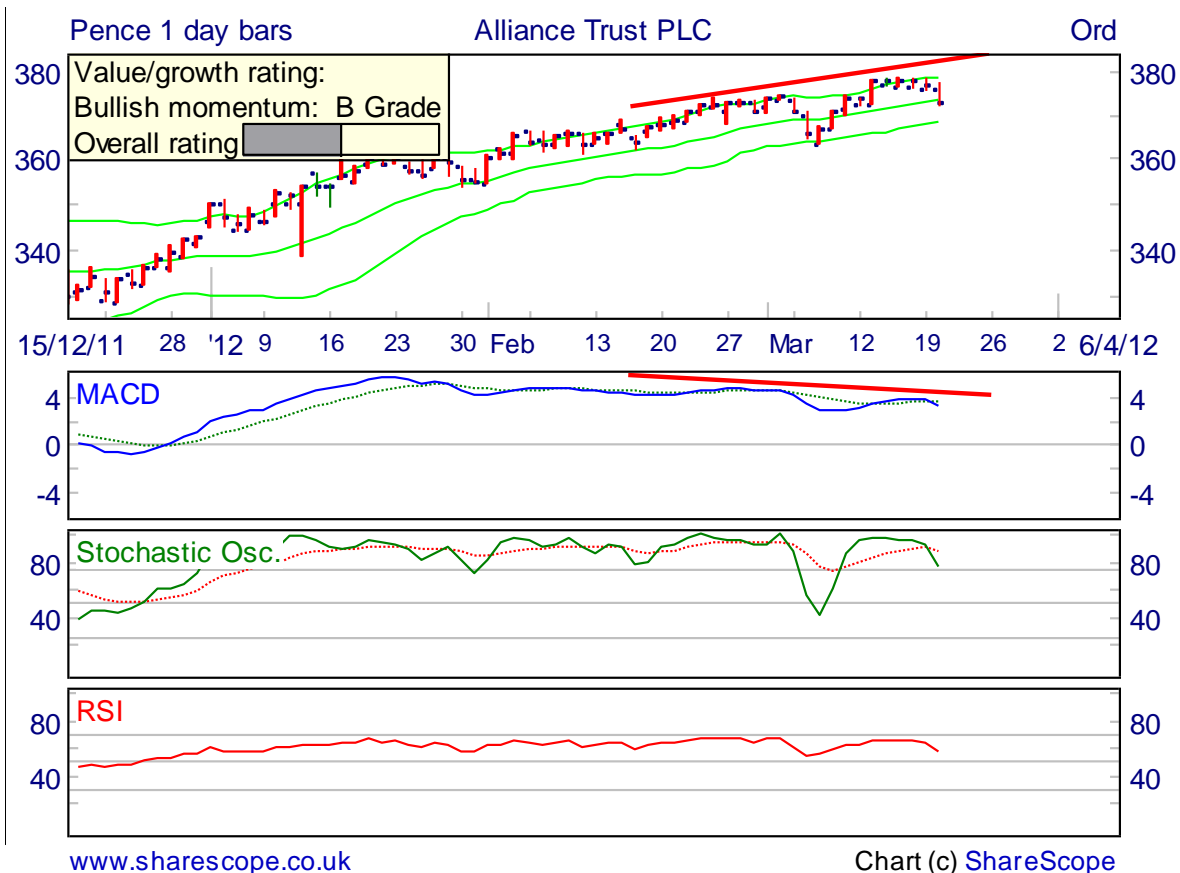
5. Look for charts where the daily, weekly and monthly MACD is going up, ideally from a low base - these are mega-trends! On the daily chart, the MACD can be flat to rising, supported by a rising weekly and monthly MACD. This usually means we are going to see a prolonged rally as the daily buyers are supported by the weekly and monthly ones. Ideally the Value/Growth rating should be 7 at least too to give extra comfort that the momentum is supported by fundamentals. WPP below is a good example. The next three charts show Daily, Weekly and Monthly price bars.

Alpesh Ratings

These ratings are displayed in the top left corner of my radar screens (see example below) and as columns in the Alpesh Table. They enable you to further evaluate not just the stocks that appear in my filters but any stocks – such as your current holdings.

- **Alpesh Value/Growth Rating:** rates stocks from 1 to 10 (10 being best) on the value and growth criteria used for my Value/Growth filter. Note that the filter also looks for momentum as well which is why the filter does not include all the stocks with high Value/Growth ratings.

- **Alpesh Bullish Momentum Rating:** assesses stocks for bullish momentum, grading from A to C (A = Very Strong, B = Neutral, C = Weak or No Momentum). Note that this rating looks at momentum over a longer time frame than the Bullish Momentum filter. That is, the Bullish Momentum Rating grades highly stocks with good recent momentum whereas the filter looks for stocks that have just turned up.

- **Alpesh Overall Rating:** this is my overall rating for a stock based on valuation, growth and technical criteria. It is displayed as a rating histogram, rather like ShareScope's sector ranking.

- **Alpesh Stock Comment:** hover the cursor over the Alpesh Overall Rating histogram and my Stock Comment will appear explaining why I have given the stock its particular rating. See example below:
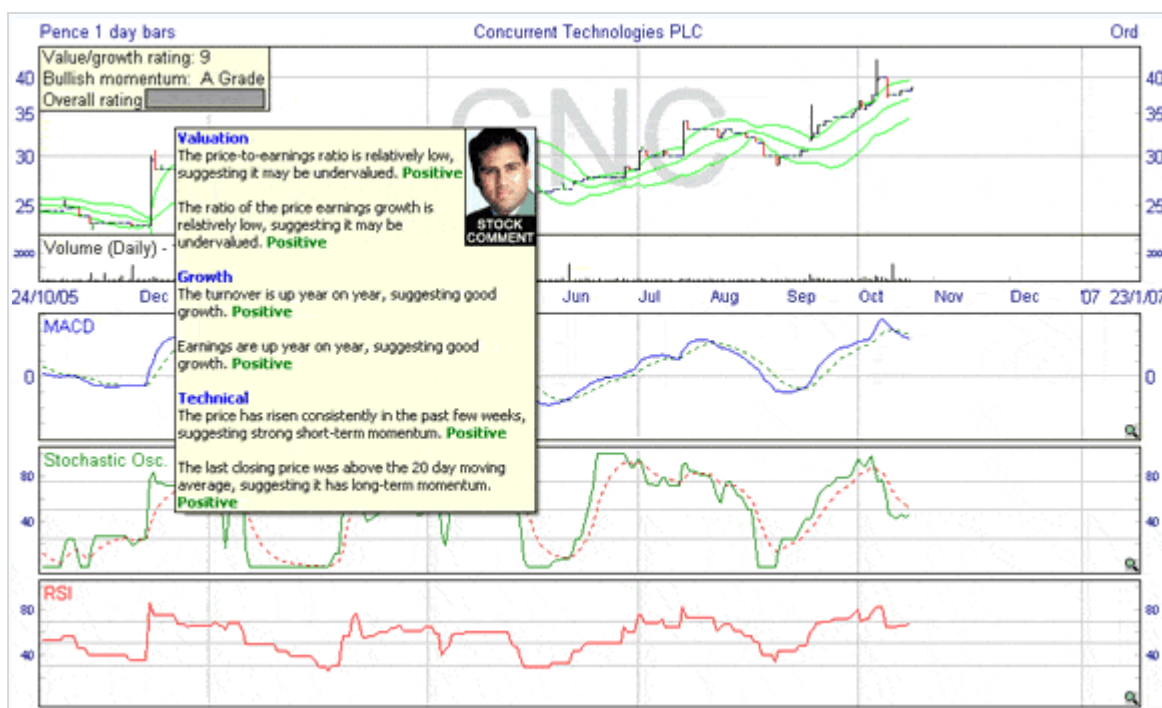
No.	Name	Alpesh value/growth rating	Alpesh bullish momentum rating	Alpesh overall rating	Close	Price% 2 trading days ago	Price% 5 trading days ago	Price% 2 weeks ago	Price% 3 months ago	Price% 6 months ago
1	Asfare Group PLC	9	A Grade		£1.06		▼ -2.30	▼ -2.30	▲ 15.85	▲ 37.22
2	Chieftain Group PLC	8	A Grade		£1.47		▲ 1.73	▲ 3.52	▲ 21.99	▲ 10.94
3	Compass Group PLC	7	A Grade		£2.79¾	▲ 0.63	▲ 1.18	▲ 3.61	▲ 12.35	▲ 14.42
4	Concurrent Technologies PL	9	A Grade		38½p	▲ 1.32	▲ 2.67	▼ -2.53	▲ 16.67	▲ 27.27
5	Dairy Crest Group PLC	7	A Grade		£6.15	▲ 0.16		▲ 5.13	▲ 21.30	▲ 35.84
6	e2v technologies PLC	9	A Grade					44	▲ 19.85	▲ 28.34
7	First Derivatives PLC	9	A Grade					53	▲ 13.78	▲ 28.80
8	Go-Ahead Group (The) PLC	7	A Grade					30	▲ 12.00	▲ 9.21
9	Huveaux PLC	7	B Grade					92	▲ 22.16	▲ 11.48
10	International Power PLC	9	A Grade					00	▲ 18.82	▲ 10.16
11	Maintel Holdings PLC	8	A Grade						▲ 26.21	▲ 9.58
12	Maxima Holdings PLC	9	A Grade					83	▲ 23.78	▲ 12.76
13	Parkwood Holdings PLC	9	A Grade					23	▲ 19.23	▲ 15.53
14	SHL Group PLC	8	A Grade					70	▲ 38.17	▲ 12.60
15	Smith (DS) PLC	8	A Grade					46	▲ 17.94	▲ 12.09
16	Telford Homes PLC	9	A Grade					79	▲ 15.01	▲ 42.86
17	Trifast PLC	8	A Grade					32	▲ 20.09	▲ 23.96
18	UCM Group PLC	8	A Grade					45	▲ 55.56	▲ 50.54
19	Waterline Group PLC	9	A Grade					43	▲ 43.65	▲ 39.23

Valuation
The price-to-earnings ratio is relatively low, suggesting it may be undervalued. **Positive**

The ratio of the price earnings growth is relatively low, suggesting it may be undervalued. **Positive**

Growth
The turnover is up year on year, suggesting good growth. **Positive**

Earnings are up year on year, suggesting good growth. **Positive**

Technical
The price has risen consistently in the past few weeks, suggesting strong short-term momentum. **Positive**

The last closing price was above the 20 day moving average, suggesting it has long-term momentum. **Positive**

STOCK COMMENT

NOTE: Alpesh's Stock Comment and Rating is generated directly from the data in ShareScope using Alpesh's algorithm. These will be updated dynamically when you update ShareScope.

Alpesh's Value/Growth Filter

Medium risk – 6-12 month holding period – target 25% return

This filter is for buy and hold investors. It identifies stocks which look like they will rise steadily over the next 6-12 months based on positive growth indicators, excellent value and price momentum. I recommend you view the results of this filter with the Alpesh DM Table setting.

01 Filter Alpesh Value/Growth - All sectors - Alpesh DM Table

No.	Name	Alpesh value/growth rating	Alpesh bullish momentum rating	Alpesh overall rating	Close	Price% 2 trading days ago	Price% 5 trading days ago	Price% 2 weeks ago	Price% 3 months ago	Price% 6 months ago	Capital (£m)	Rolling PEG 1	Rolling P/E 1	Rolling Yield 1	1 year forecast EPS	Most recent ROCE (%)
1	Associated British Foods PLC	7	A Grade		£12.06	0.17	-1.79	-1.79	8.06	11.05	9,547.6	0.84	15.57	2.15	88.58	13.1
2	Babcock International Group PLC	8	B Grade		£7.56½	0.40	1.27	1.34	3.91	18.48	2,716.7	0.75	12.71	2.80	62.05	
3	Brewin Dolphin Holdings PLC	7	A Grade		£1.57¼	0.58	3.49	2.34	24.74	18.45	389.6	0.47	15.53	4.54	12.18	77.0
4	Euromoney Institutional Investor PLC	8	B Grade		£7.23	0.07	-6.23	1.12	11.49	29.34	890.5	0.42	14.85	2.69	60.90	
5	Galliford Try PLC	9	A Grade		£5.95	0.68	6.25	19.12	25.00	37.97	487.0	0.31	12.00	4.19	58.55	10.7
6	Petrofac Ltd	9	A Grade		£15.72	-1.57	-1.13	2.34	9.78	16.36	5,436.3	0.92	15.70	2.05	97.60	84.5
7	RPS Group PLC	8	A Grade		£2.27½	1.16	-0.74	3.41	22.91	13.24	497.5	0.93	13.69	2.45	16.17	52.8
8	TUI Travel PLC	7	B Grade		£1.98%	0.51	-1.10	-1.58	20.28	29.03	2,221.5	0.29	9.68	5.81	25.49	

Alpesh Value/Growth

Source: ○ LSE shares ○ FTSE 100 ● Other: FTSE 350

[Add Criterion] [Select Filter]

Filter description

These are stocks using my proprietary criteria which combine medium to longer term value with medium to longer term company price growth. This list is a starting point for further investigation into stocks looking to target 25% over 6-12 months. It is medium risk.

IMPORTANT INFORMATION
The filters and settings in this Special Edition of ShareScope use Alpesh Patel's proprietary criteria to generate lists of securities worthy of further investigation. They **DO NOT CONSTITUTE INVESTMENT ADVICE** and you must read this IMPORTANT RISK WARNING.

You don't need to do any further analysis with this filter although I do like the monthly MACD to rising or at least flat. In previous years when I have given annual stock picks, I have simply taken the stocks from this filter on the day.

But remember, my target return is based on holding a basket of these stocks. For various reasons, individual stocks may bomb (think of at BP in 2010). I recommend holding 14 stocks from the filter, ideally purchased over a month. However, the Value/Growth filter may contain dozens of stocks which, in practical terms, may be too many for you to buy. So which ones should you invest in? I like to choose a mix of FTSE 350 stocks and smaller caps (including some AIM stocks). You can change the source list right at the top of the filter bar underneath the filter name (see highlight on the image above).

If there are more stocks than this in the filter, try the following:

- Look in my newsletter for the stocks I prefer.
- Sort by Alpesh Overall Rating (in the Alpesh DM Table).
- Check recent news for each stock for positive or negative sentiment.
- Do not focus on specific sectors – you need to be diversified.

If the stocks you select achieve the target growth ahead of schedule, there is nothing to stop you taking profits or half-profits early. I set a 25% stop loss.

> **NOTE:** My Value/Growth Rating, which appears in the Alpesh DM Table and on the Alpesh Radars, is based on the growth and valuation criteria used in this filter but NOT the momentum criteria. This is why the stocks in this filter are not just those with the highest Value/Growth Rating. They will have a good combination of Value/Growth and Bullish Momentum Ratings.

Momentum/Value Filter

Medium risk – 2-3 month typical holding period – target 20% return

This is a data mining filter that I use to identify stocks that are both strong on price momentum and well supported on valuation grounds. The idea is that because they are well-valued, the momentum should not peter out.

Now these moves may play out over a couple of months or a couple of days. However the filter can also pick out stocks that have already run out of steam. With this filter, unlike my Value/Growth one, I look at the chart of each stock using my Momentum Radar to decide whether to trade or not.

There are two essential criteria: firstly, the price must be in an upward trend; it may have flattened out but the overall trend must be up. Secondly, the daily MACD must be going up.

My filter automatically excludes stocks under 30p but any stocks under 100p outside the FTSE 350 have to be considered as having a riskier profile. Of course, it always pays to check company news for contract losses, resignations, scandal, detrimental legislation, etc.

I would also suggest that you add Ex-dividend flags to your charts so you avoid trading just before the stock goes ex-div.

See **Trade Management** for how I determine my entry point, stop loss, profit target and exit strategy.

The ideal Momentum/Value trade has the following attributes:

- The price is rising in a relatively straight line.
- Price volatility is low which means a reduced risk of being stopped out.
- The MACD is rising and isn't at historically high levels - suggesting that there is scope for further rises.
- RSI and Stochastic are also rising but this is not essential. They are premature indicators and can have 'topped' out in advance.

However, it is rarely this straight-forward so let's look at some examples from the filter.

Attractive: You can see here that the stock is starting to rise again steadily. The MACD also confirms that as it too is rising.
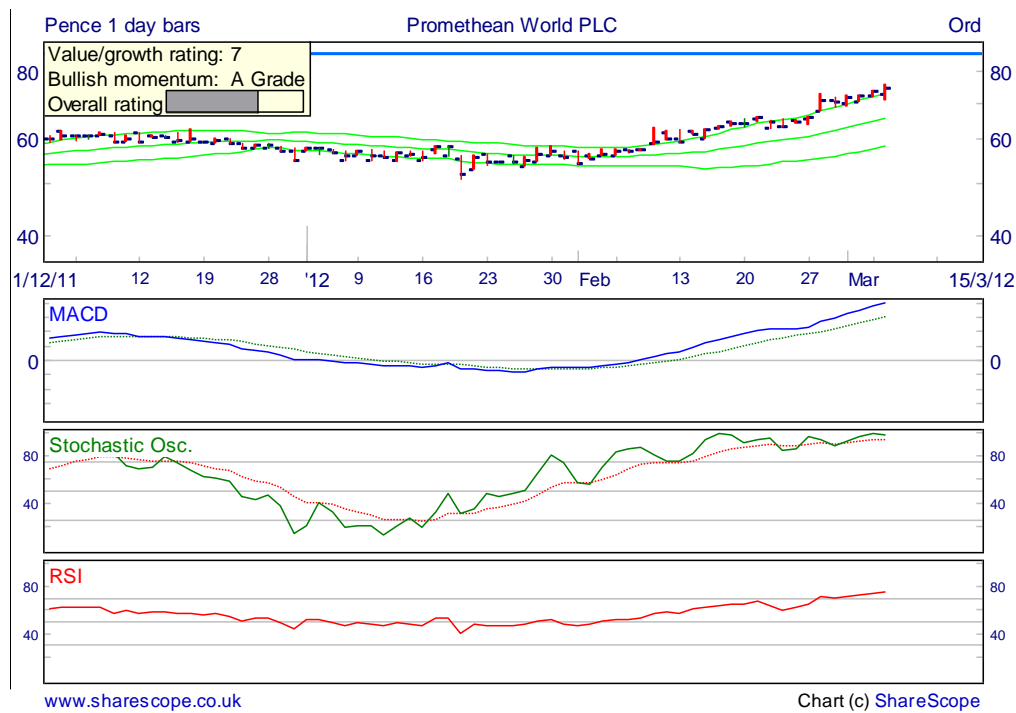
If I am concerned that the MACD (and RSI in this case) are looking extended then I check that the weekly MACD is still relatively low:
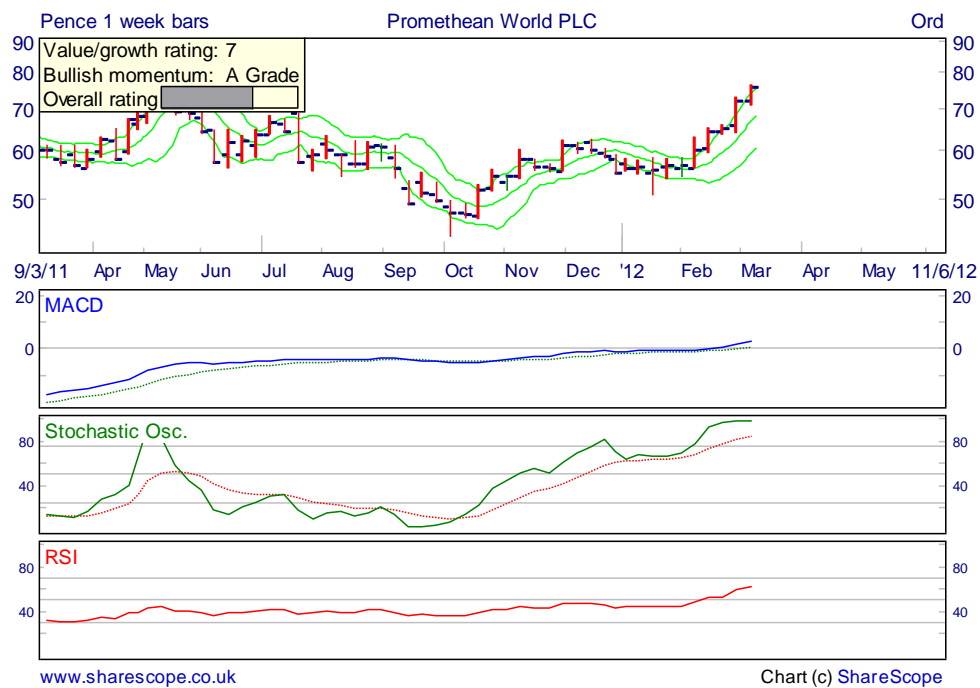
Less attractive: Since being in the filter, this stock has risen sharply. We have to be careful with it in the short-term because clearly it cannot keep on going up vertically.
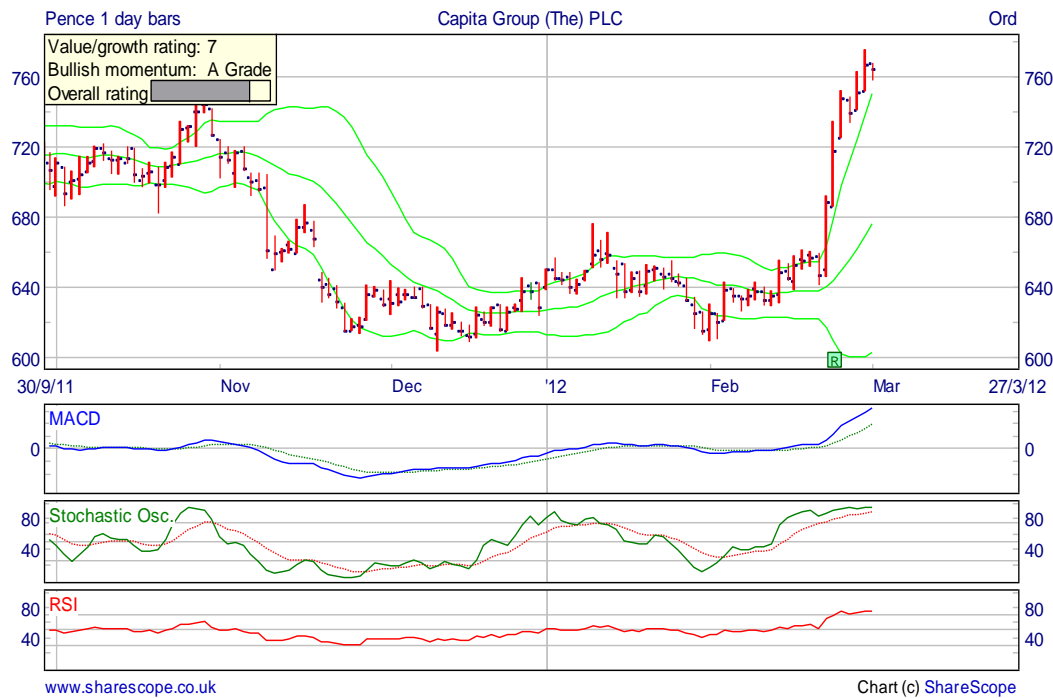
Less attractive: I would avoid illiquid stocks like this - they will usually have a wide bid/offer spread as well which will eat into your profits.
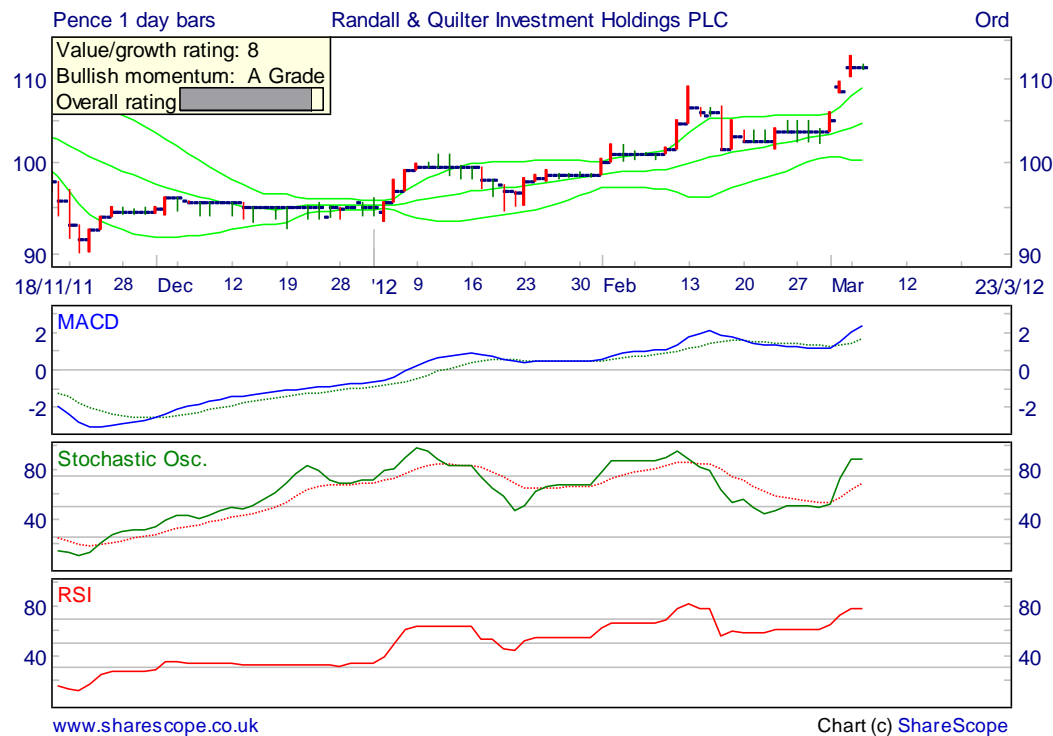
Bullish Short-term Momentum Filter

Medium-high risk – 1-3 month typical holding period – target 20% return

This filter finds short-term bullish trading opportunities – ideal for spread-betting. It picks out instruments which have positive short-term price momentum. We are hoping to catch the wave and ride it for a short time – anywhere from a week to 3 months. As this filter ignores fundamentals, it is higher risk than my Momentum/Value filter.

I look at the Bullish Momentum filter when I am bullish on the broader market and want to take a quick advantage. This filter serves another clever purpose: if there are no stocks in it, I turn a little bearish about the market (and turn to the Bearish Momentum filter).

By default, my filter searches the entire database of LSE shares but because there are no fundamental measures involved you can use this filter with any instruments – stocks, indices, commodities or foreign exchange. You can choose the list of instruments (the "source list") searched by the filter in the Data Mining view.

It is important to look at the price chart of each instrument. Some of the instruments in this filter may have already made their move.

See **Trade Management** for how I determine my entry point, stop loss, profit target and exit strategy.

**The ideal Bullish Momentum opportunity has the same attributes as for Momentum/Value trades:**

- The price is rising in a relatively straight line.
- Price volatility is low which means a reduced risk of being stopped out.
- The MACD is rising and isn't at historically high levels - suggesting that there is scope for further rises.
- RSI and Stochastic are also rising but this is not essential.

Let's look at some examples:

Attractive opportunities:

FirstGroup PLC chart — Pence 1 day bars, Ord

Value/growth rating: 5
Bullish momentum: B Grade
Overall rating

MACD

Stochastic Osc.

RSI

23/9/11 Oct Nov Dec '12 Feb Mar 4/4/12

Chart (c) ShareScope

Halfords Group PLC chart — Pence 1 day bars, Ord

Value/growth rating: 6
Bullish momentum: B Grade
Overall rating

MACD

Stochastic Osc.

RSI

30/9/11 Nov Dec '12 Feb Mar 5/4/12

Chart (c) ShareScope

Chart: Tesco PLC — Pence 1 day bars, Ord

Value/growth rating: 7
Bullish momentum: B Grade
Overall rating

Indicators: MACD, Stochastic Osc., RSI

Date range: 5/10/11 – 6/4/12

www.sharescope.co.uk   Chart (c) ShareScope

Bad choice stock: possibly already made its move.

Of course, if you don't look at the filter every day some opportunities may have been in the filter for several days. Look at the chart below: the price and momentum indicators have turned down.

Chart: F&C Asset Management PLC — Pence 1 day bars, Ord

Value/growth rating: 4
Bullish momentum: B Grade
Overall rating

Indicators: MACD, Stochastic Osc., RSI

Date range: 30/9/11 – 30/3/12

www.sharescope.co.uk   Chart (c) ShareScope
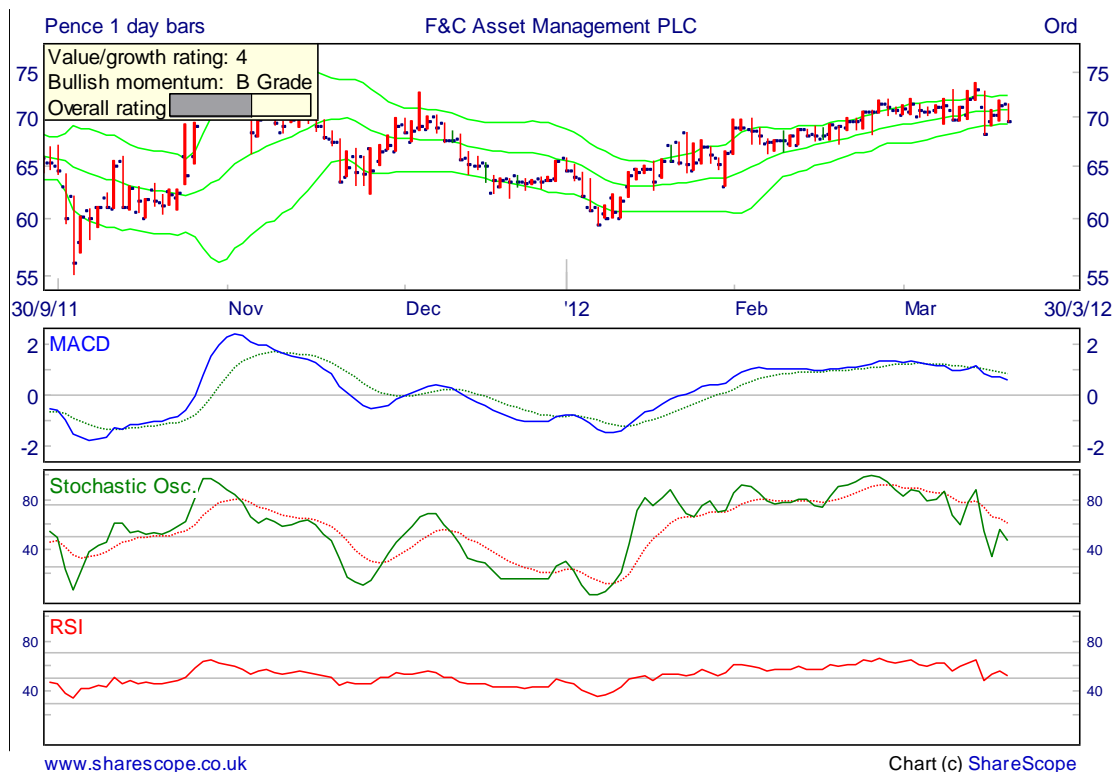
Bearish Short-term Momentum Filter

Medium-high risk – 1-3 month typical holding period – target 20% return

This filter picks out stocks that have shown recent downward price momentum. These stocks are different because we are looking to "short" them either using Contracts for Difference (CFDs) or by spread betting. We are hoping to jump onto the avalanche and hop off near the bottom.

The criteria I have chosen identify stocks that have been declining in price but which are also somewhat overvalued.

These stocks are higher risk and I always check the news looking for something negative which might explain the fall.

These moves could take several days to several months. Note, however, that these stocks may have already made their move.

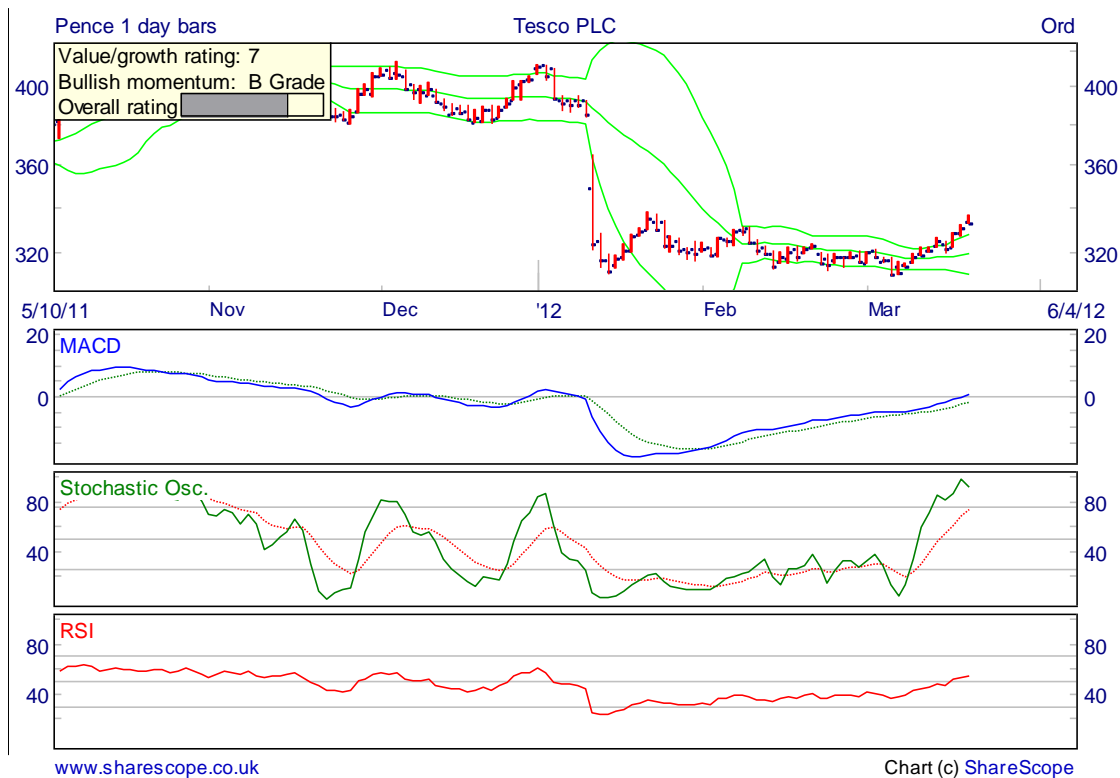See **Trade Management** for how I determine my entry point, stop loss, profit target and exit strategy.

Let's look at some examples:

Good choice stock: smooth falls, momentum for falls clearly in place.
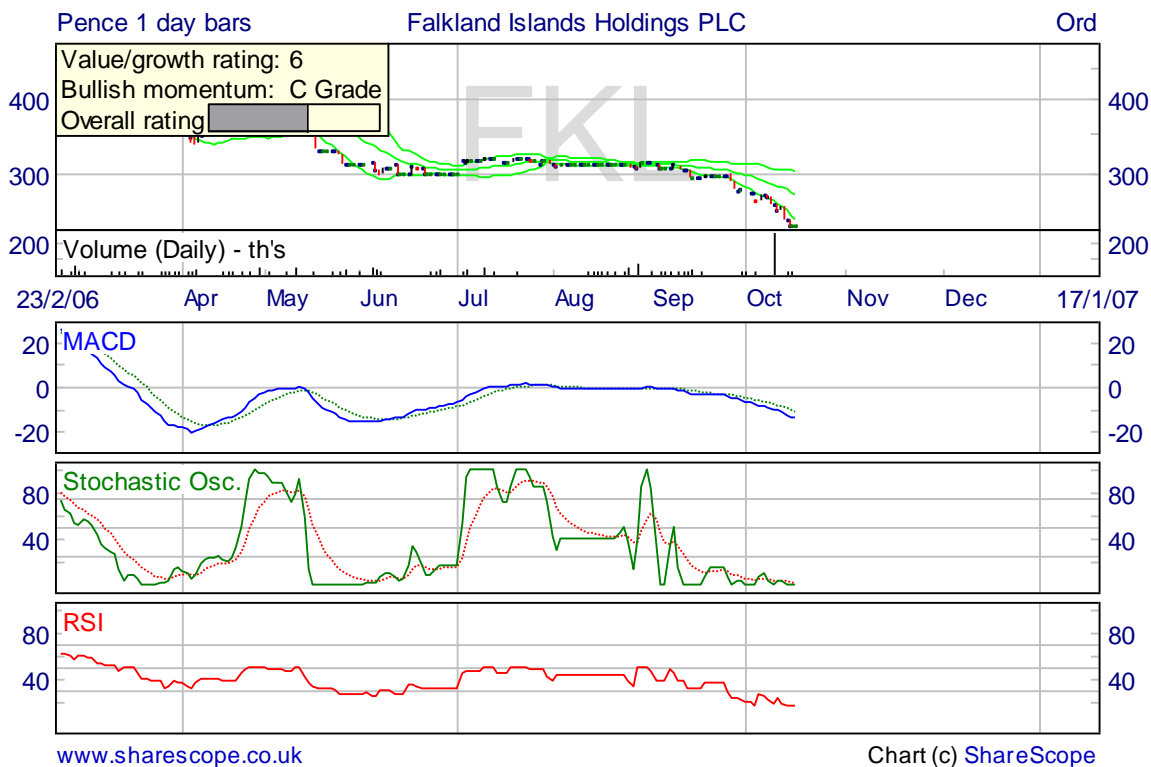
Bad choice stock: whilst the stock has fallen, I am concerned about its last day rise.

Pence 1 day bars   British Energy Group PLC   Ord

Value/growth rating: 6
Bullish momentum: C Grade
Overall rating

Volume (Daily) - M's

15/8/06   21   29   Sep   11   18   25   Oct   9   16   23   30   Nov   15/11/06

MACD

Stochastic Osc.

RSI

www.sharescope.co.uk   Chart (c) ShareScope

Alpesh Patel's Momentum Radar
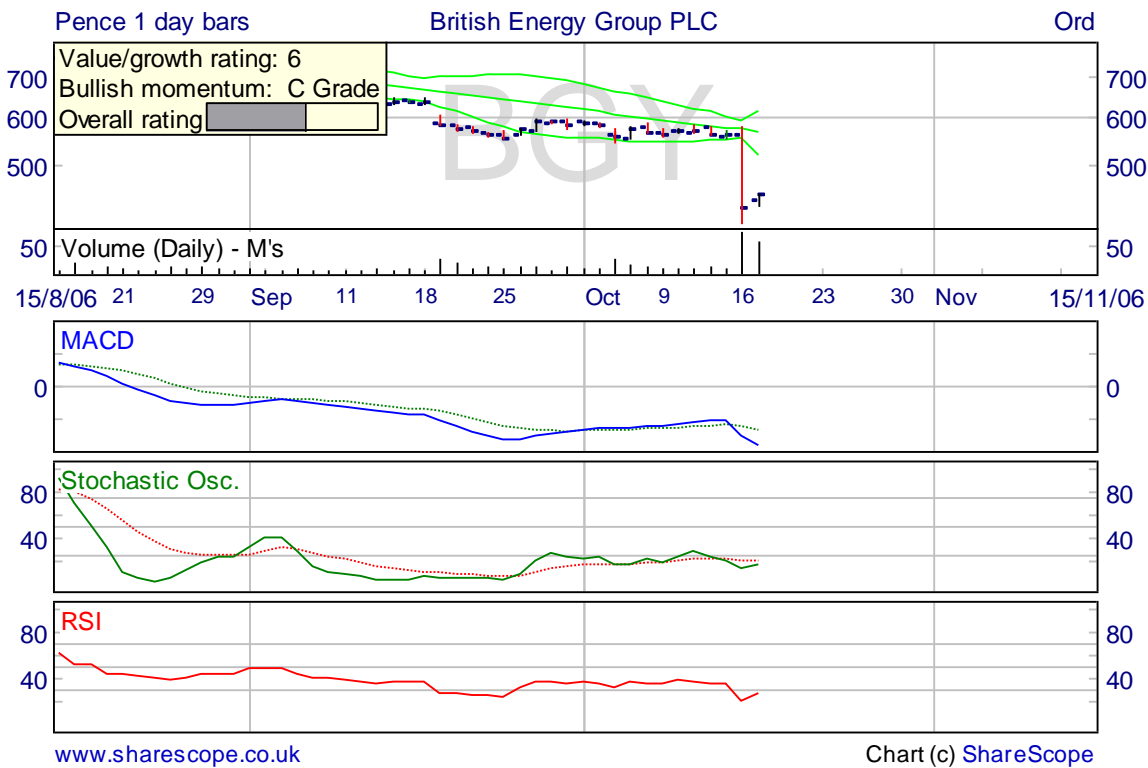
This radar is for people who want to analyse stocks the way I do. It is the radar I use most often. Not only do I use the Momentum Radar to analyse the opportunities found by my filters but I may scan through any list of stocks looking at their charts with this radar. Out of every 100 stocks I examine like this, usually only a few will have a sufficient clear signal and risk/reward profile.

This radar uses MACD, Stochastic, RSI and Bollinger Bands. You can read more about these indicators in ShareScope's Help. This radar also uses daily OHLC bars which you can easily switch to weekly and monthly bars.

The primary indicator is the MACD which can highlight divergences. Divergence often comes before a reversal in price direction (see below).

I use the MACD to confirm my view of a stock and I use the Stochastic and RSI to support the MACD. I have also found that when the Bollinger Bands (the green lines on the chart) are constricted like a bottleneck, this can indicate a sharp price move is about to happen. The more supporting signals you can find, the stronger the opportunity.

Bullish Divergence

For bullish momentum, the price is making lower lows but the MACD has made a higher low. See the illustration below:
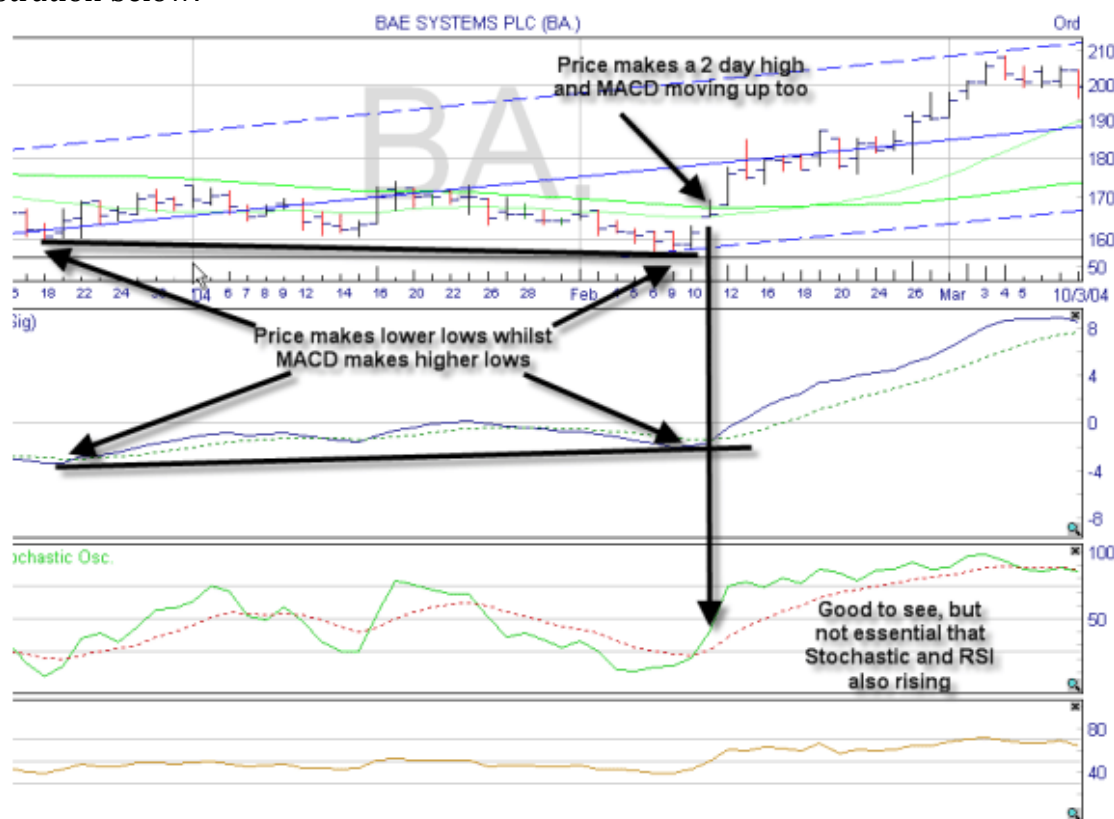


In this example, the stochastic and RSI are also exhibiting divergence. This is good to see but not essential. I always check the company news (press \ on your keyboard) to ensure there is nothing negative and ideally recent comment is positive.

Bearish Divergence

Bearish divergence is when the price makes higher highs but the MACD makes lower highs. This signal is suitable for shorting.
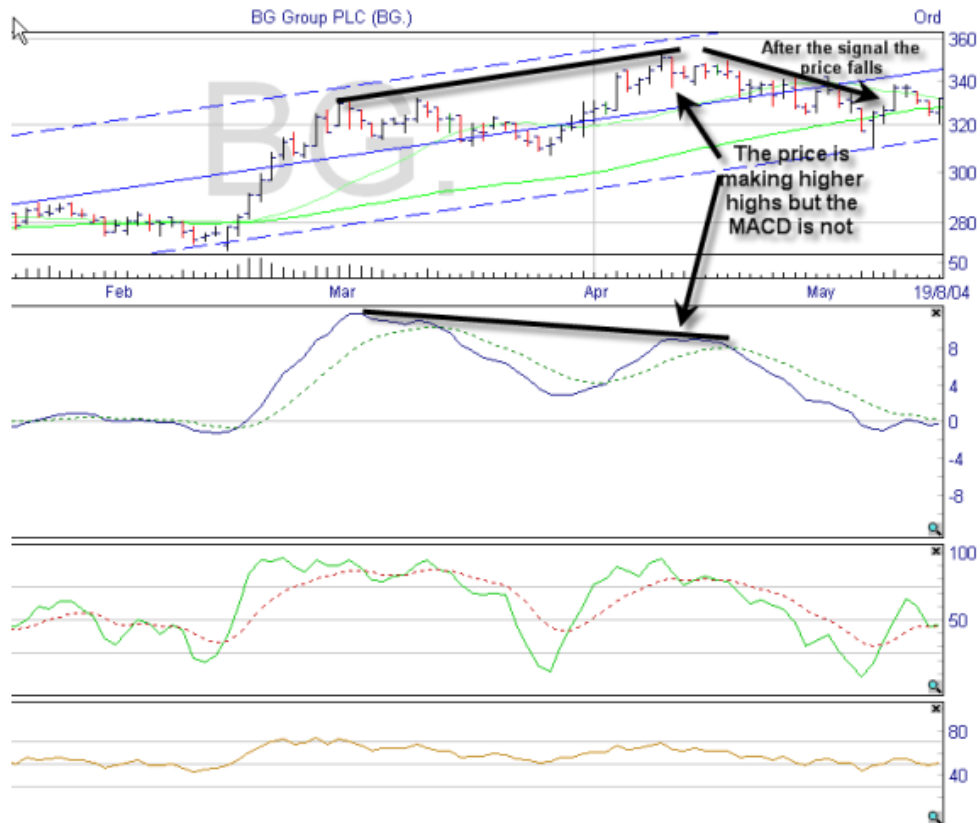
Alpesh Patel's Market Breadth Radar

I don't use this radar very often but it can give you a feel for how the broader market is performing. In a buoyant market most shares rise and in a falling market there is downward pressure. I am loathe to be very bullish on any one particular stock if the overall market is weak.

> **NOTE:** This radar is only suitable for analyzing UK equities as the indicators are calculated relative to the FTSE 100.

The **New Highs-New Lows (NH-NL)** market graph looks at the difference between how many shares are at a price high and those that are at a price low. If the line is above 0 then there are more shares making new highs than there are making new lows. If the line is ascending than this gap is increasing. This is a bullish sign. If the line is descending, this is a bearish sign.

New highs-New lows can be a lead indicator sometimes for laggard stocks (those lagging their sector index) - *i.e.* if the New Highs-Lows indicator rises then individual laggard stocks can soon follow suit.

STIX and Overbought/Oversold you can read in the same way as *New Highs-New Lows – a rising line* is bullish in the short-term and a falling line is bearish. Look also at historical values for both indicators to gauge how relatively overbought or oversold the share is.

I examine the *Correlation* to the FTSE 100 indicator because I want to ensure that the stock is not so highly correlated to the FTSE 100 that I may as well have an index tracker. I look for a value below 0.7.
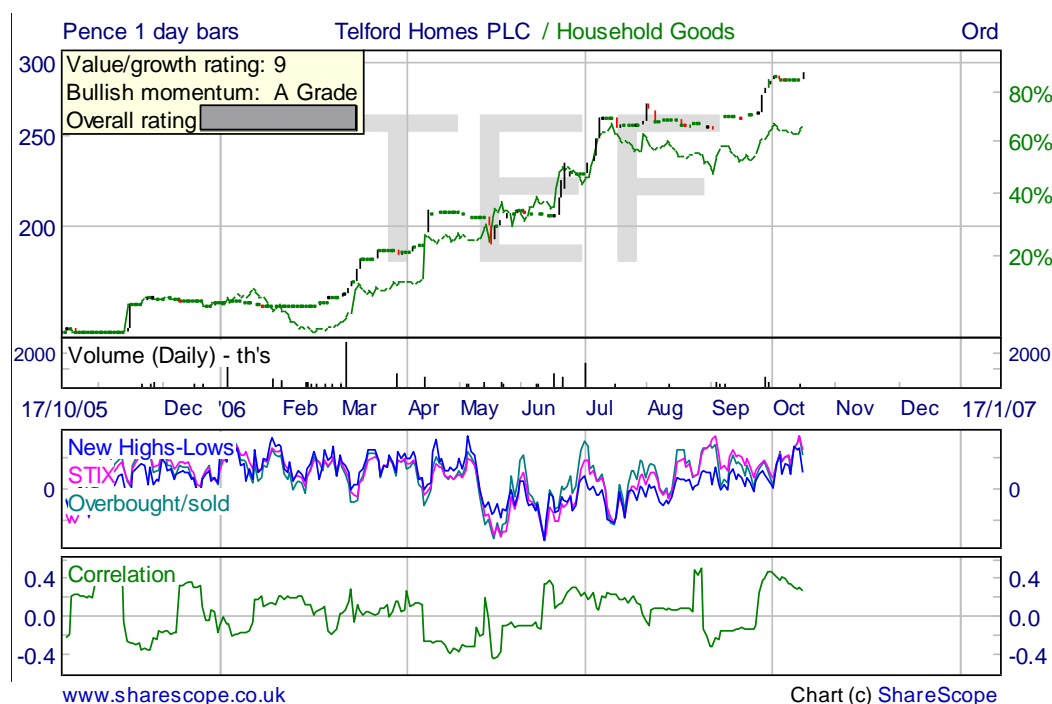
> **NOTE:** The scale on the indicator windows ONLY relates to the first indicator displayed e.g. New Highs-Lows. You just need to look at the direction of the trend rather than the value.
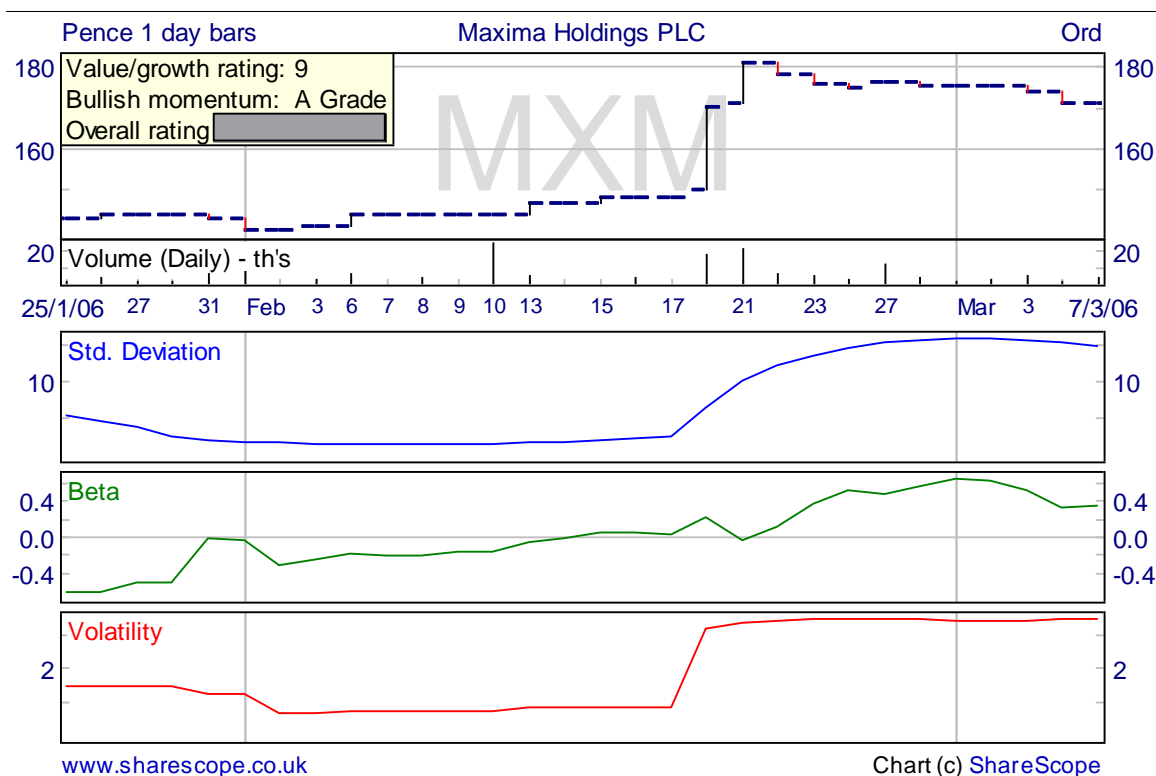
Alpesh Patel's Volatility Radar

Volatility makes for profit. As prices rise or fall we have the opportunity to make money. Equally volatility can give rise to risk and loss. Consequently I have chosen the various volatility indicators I use with great care over a number of years.

These indicators are used in different circumstances to get a better picture of the stocks that I am interested in and a better understanding of what I may be letting myself in for. There are no hard and fast rules - these are just parts of the bigger picture.

The *Standard Deviation* tells me how far the price is moving from its average (the average as measured over my proprietary outlook period). In general terms, if the standard deviation figure is relatively high to what it has been in the recent past then it can suggest the price is about to retrace and resume to a level it has recently traded at over the past couple of weeks.

Equally, if I was looking at a short-term fortnight trade and the standard deviation is near a relative low, then I have the indication that it may well be about to move upwards.

Good example of above: high standard deviation after a sharp rise suggests a period of calm and not much share price move.

www.sharescope.co.uk

Chart (c) ShareScope

Pence 1 day bars   **Maxima Holdings PLC**   **Ord**

Value/growth rating: 9
Bullish momentum: A Grade
Overall rating

MXM

Volume (Daily) - th's

19/7/06   Aug   7   14   21   29   Sep   11   18   25   Oct   12/10/06

Std. Deviation

Beta

Volatility

www.sharescope.co.uk   Chart (c) ShareScope
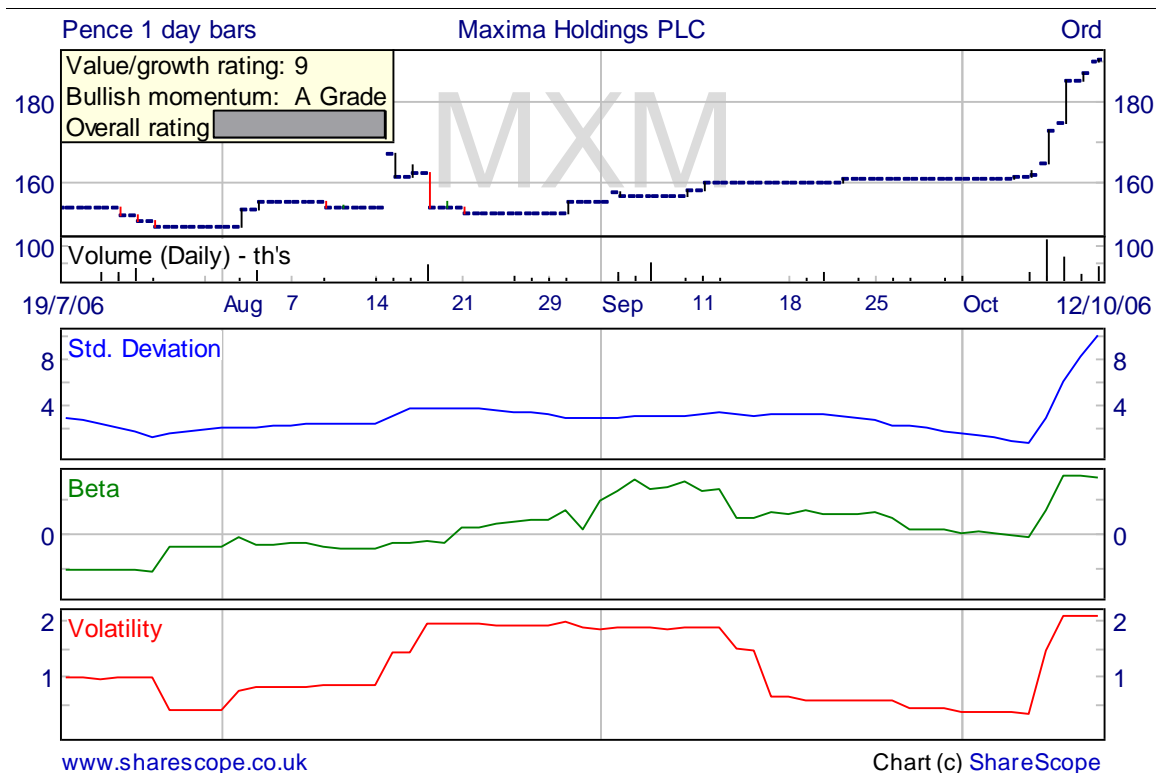
In the above graph, the standard deviation had reached a relative low before the price rises sharply.

The *Beta* is another measure of volatility of the stock, but this time compares it to the market as a whole. I look at this to get a feel of how much more risk (volatility) this stock may be giving me relative to the rest of the market. The beta of a share is a measure of the degree to which it is expected to rise and fall in proportion with the rise and fall of an index (by default the FTSE 100 is used for the index). If the number is greater than one then, on past performance, it is expected to go up faster than the index when the index is going up and go down faster when the index is going down. If the beta is relatively low then it indicates that the share price is largely independent of the movement of the index. So in a bull market, high beta shares can be expected to rise more quickly than the index - and in a bear market they can fall more quickly.

The *Volatility* indicator is there for a similar reason. The volatility indicator measures the degree of movement, up or down, of a share price. The more rapid the movement, the greater the volatility. Higher volatility is generally believed to indicate higher risk. An ideal share has high growth with low volatility.

Alpesh Patel's Volume Radar

I don't put too much emphasis on volume but I sometimes use this radar to seek supporting signals.

First up are the *Positive* and *Negative volume* indices. The positive volume index focuses on days where the volume has significantly increased from the previous day's trading. It tries to determine what smart investors are doing. When trading volume is high it is thought that inexperienced investors are involved. Whereas on slow days, "shrewd investors" quietly buy or sell the stock.

When the positive and negative volume lines cross each other that can often signify the start of a new trend in my experience. See the example below.
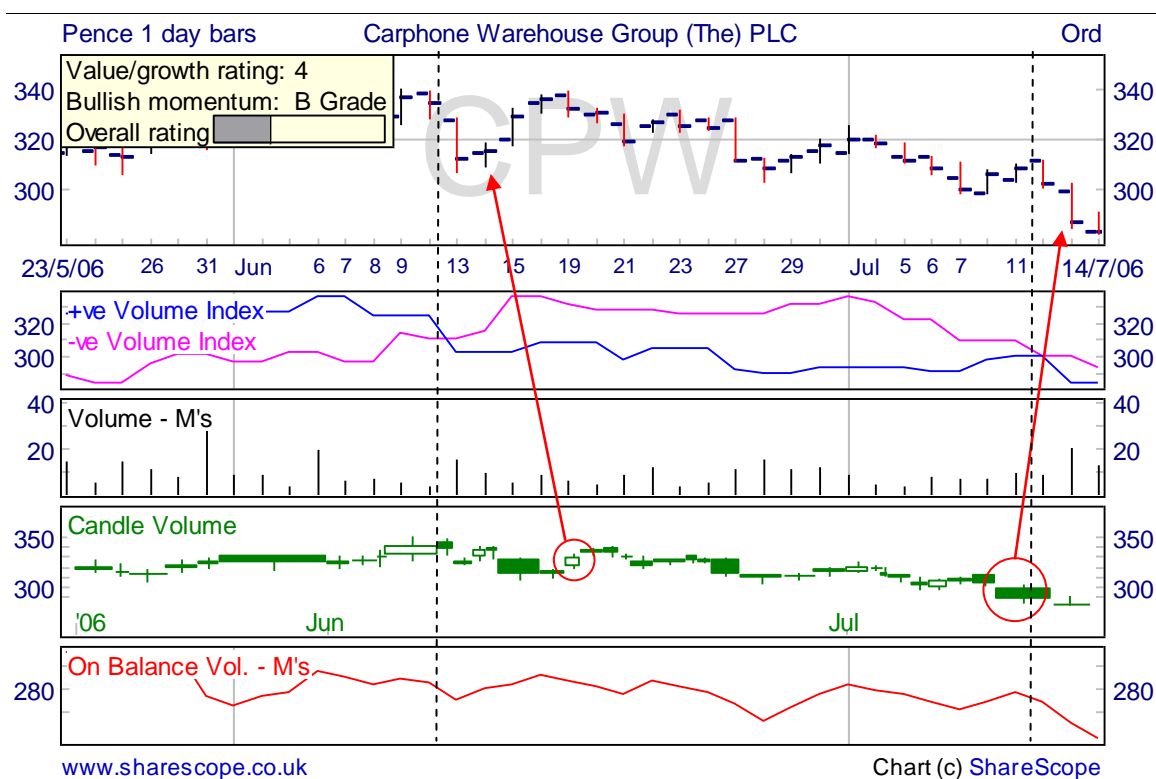

The *Candle volume* chart shows me Japanese Candlesticks but sized according to the volume traded. This means that the candles are not necessarily in line with the date axis. A price move made up on more volume suggests the move has more legs. A move on shallow volume would suggest the move may lack strength and one should not read too much into it. On the chart above the downturn on July 13th is made on significantly greater volume than the upwards move on the June 14th.

You shouldn't put too much weight on such readings as sometimes high volume means everyone who wants to buy or sell has done so and the trend is about to change.

The key is to look for large volume and appreciate that it means a sizeable move may still be in the offing.

On Balance Volume is a favourite with many volume followers. It is actually a momentum measure. Granville, the creator of this indicator in 1963, went on to explain his theory by stating that when volume increased or decreased dramatically without any corresponding change in the issue's price, then at some point the price would "spring" upward or downward. The idea is that smart money is buying from retail investors whilst the price is still fairly static and that it will subsequently therefore rebound.
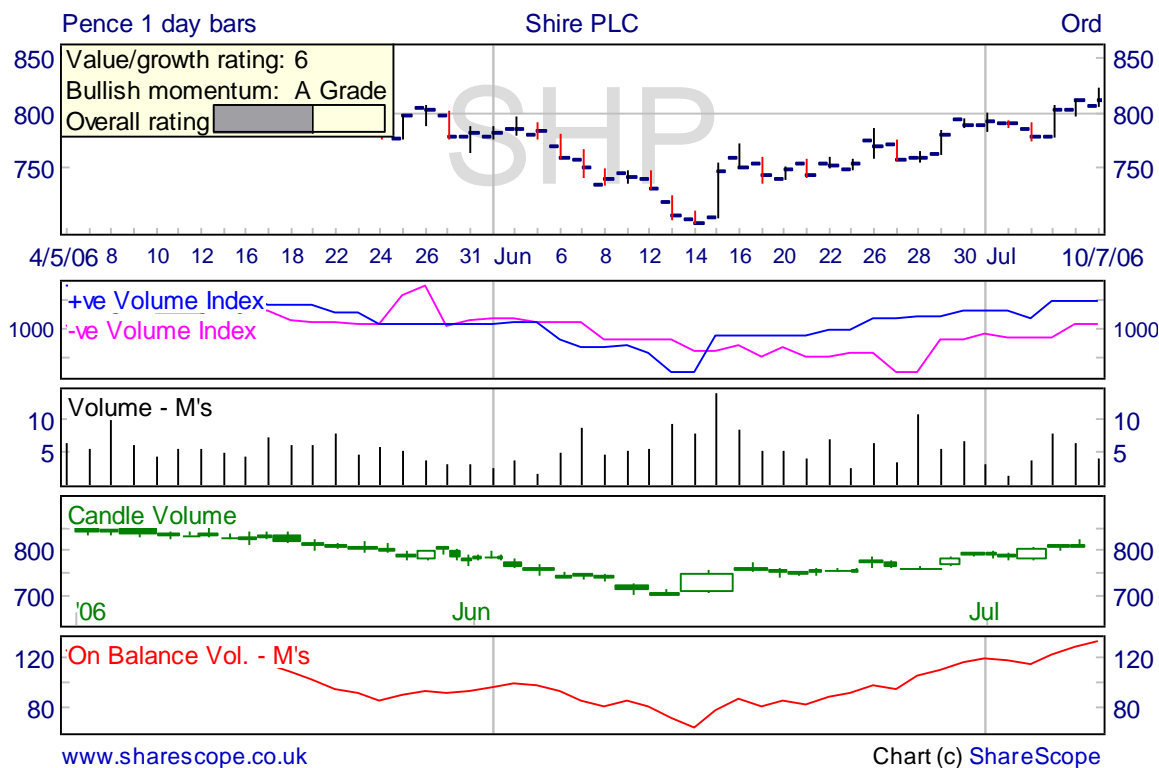
Trade Management

Stick to these rules and you'll have a better chance of success.

Risk Management

Most investors and traders fail through lack of risk and money management. In order to open a trade you of course need to believe that the trade will be successful. But the reality is that many trades will not succeed. By understanding this, you should be able to take a more level-headed approach. Never risk more than a fraction of your capital on a trade or investment.

There is a very simple calculation you can do to determine the maximum amount you should trade per point on a spread bet.

First determine the maximum amount of money that you are willing to risk on a trade. I recommend 3% of your trading funds. If you have £1,000 in your trading account, then you should not lose more than £30 on any one trade. Now, you need to calculate where your stop loss will be set. Let's say that your stop loss is 20 points below your entry point. To calculate the size of your bet, divide £30 by 20 to get £1.50. Thus, if the trade goes bad and you get stopped out, the maximum you can lose is £30. (20 points x £1.50).

If you are just starting to trade and have a small amount in your trading account then your bet size and consequently your potential profits can seem very small.

DO NOT BE TEMPTED TO INCREASE YOUR BET SIZE.

By carefully managing your risk in the way I have described, your trading capital will gradually increase and you will in time be able to place larger bets.

Trade Management

Here is my 10 point plan for managing your trades.

1. Once you have identified a trading opportunity, decide upon your entry point. For me this will be if the price goes above the high of the previous day (it may take a day or two for this to occur).

2. Next, and before you open a position, determine a suitable stop loss. I generally pick a point below a recent support level (in the case of a bullish trade). Sometimes if that is not possible to discern I pick a level I call 2N - that is, twice the average daily range. So if the price, over the past couple of months, moves on average around 10p daily, then my stop loss would be 20p from entry. This approach will prevent you from being stopped out by normal daily volatility. Two times daily range would suggest a change in direction. ShareScope Plus and Pro users can use add the **Average True Range** indicator to graphs to see the average daily range over a specified period.

3. Now look at the number of points between your entry point and your stop loss. For example, if your entry point is 350p and your stop loss is 330p you have a 20 point difference. This is your RISK.

4. Make sure that there is potential for AT LEAST the same amount of profit from the trade. This is your risk/reward ratio and it must be at least 1:1. It is important that you are realistic about this. For example, the timeframe for Momentum/Value trades is 1-3 months. Extrapolate the trend over this time period and consider how low or high the MACD is. Alternatively, look for recent resistance levels that the price may retrace to. Don't convince yourself the profit potential is there if it isn't clear - move on to the next opportunity.

5. Once you are satisfied with the structure of your trade, calculate your bet size based on your risk and the money management rules above and open your position.

6. Whilst a trade is in play, we are looking for exit points. I get nervous if a 2 day low occurs – that is, the price moves lower than it has done on both of the previous two days. If it is a large price move, it may form more than a 2 day low (e.g. a 5 day low).

7. For Momentum/Value trades (1-3 months timeframe), I first check the weekly MACD. If it is still rising, I am happy to stay in the trade. If it is flat, I take half profits but stay in the trade. I'll close my position if a 3 day low occurs (i.e. the price goes below the 2 day low that triggered my caution).

8. For shorter-term divergence trades and my Bullish Momentum trades, I check the daily MACD. If it is flat or going down, I exit the trade. If the MACD is still going up, I'll take half profits and stay in the trade. I'll exit if a 3 day low occurs.

9. For Bearish Momentum trades, you'll be looking for a 2 day high and then a 3 day high and a flat or rising MACD.

10. If the overall market is very nervous, or if there is significant negative news for a stock I'm trading, then I'll exit on a 1 day low.

You can use these tactics with end-of-day or intraday charts. With intraday charts, you will be able to act upon 2 and 3 day lows as soon as they occur.