

Leon Wilson – Trading Success

*A talk given by Mary de la Lande to the
BullCharts User Group Meeting on 13 February 2008*

1. Who is Leon Wilson? His Books and where to get them.
2. Book 1: “The Business of Share Trading”
3. Book 2: “The Next Step to Share Trading Success”
4. Book 3: “Break Through Trading”
5. What’s in BullCharts.
6. Q & A

Who is Leon Wilson?

Leon Wilson is the author of three highly respected books "The Business of Share Trading" , "The Next Step to Share Trading Success" and "Break Through Trading". He also produces two weekly reports on the stock market called "Tech Charts" and "Tech Sectors". These are available on a subscription basis. For details of these reports and cost see his web site -

<http://www.wilsontechstats.com/aboutus/aboutus.htm>.

His web site also contains a number of useful links and information on share trading. Leon lives in Tasmania.

Leon is responsible for a number of everyday trading tools which many now take for granted, such as the ATR safety net, GMMACD, Minimum entry technique, directional index, relative% and ROC parabolic trailing stops, just to name a few. The majority of these tools and strategies have been included in BullCharts.

Book 1: “The Business of Share Trading”

- This book covers topics “From Starting Out to Cashing in on Trading the Australian Market”.
- **Part I looks at the Basic Principles and Techniques.**
 - **Reality Check** – are you suited to share trading?
 - **Basic Nuts & Bolts** – assessing whether to use Fundamental Analysis, Technical Analysis or both.
 - **Tools of the Trade** – computers, isp, software, data, and trading capital.
 - **What should I trade?** Shares - Blue chip, Mid-cap or speculative. Short selling, Exchange traded options, warrants, futures, CFDs, currency etc.

Part I - Basic Principles and Techniques.

- **The BeST Trading Plan** (Business of Share Trading). Leon sets out his own trading plan in detail and notes that it took over 12 months for his plan to develop.
- **The BeST Style and Structure** covers the type of trading Intra-day, Short term (Momentum), Position and Buy and Hope! And whether your financial structure should be sole trader, Partnership, Corporation or Trust.
- **Record Keeping** – Trading records, Expenses, Income, Assessment sheets, Trading logs, Trade calculations, purchases and operating expenses.

Part I - Basic Principles and Techniques.

- **In Need of Direction** – looks at up-trends, down-trends and non-trending stock. There are stable and unstable trends, and accumulation and distribution.
- **Primary Analysis Basics** – does all the hard work and reveals the genuine opportunities. Types of charts include Line, Bar, Candlestick and Point and Figure. **Primary Analysis Tools are directly derived from, or based directly on, price action or liquidity.** Examples are trend lines, support and resistance lines, chart patterns, price bar/candlestick charts and point and figure charts, volume or any other method where data is not manipulated.

Part II – Indicators and Opportunities.

- **Secondary Analysis Basics.**
Indicators – are used for confirmation only and, in reality, indicators only give you added confidence in your decision making process.
 - Indicators are assessed according to usefulness under specific market conditions.

Scoring Table	
✓ ✓ ✓ ✓ ✓	The Perfect Indicator
✓ ✓ ✓ ✓	Better than most indicators available
✓ ✓ ✓	Reasonable indicator for most applications
✓ ✓	Not the flashiest choice, but does allow for suitable interpretation on some occasions
✓	Better than no indicator, and even this is debatable.

Part II – Indicators and Opportunities.

Volatility Indicators:

Bollinger Bands

✓ ✓ ✓ ✓	Reversal Trading
✓ ✓ ✓ ✓	Break-out Trading
✓ ✓	Trend Trading

Average True Range

✓ ✓	Reversal Trading
✓ ✓	Break-out Trading
✓ ✓	Trend Trading
✓ ✓ ✓ ✓	Stop Loss Application & Position Sizing

Part II – Indicators and Opportunities.

Individual Strength:

On Balance Volume (OBV)

✓ ✓ ✓	Reversal Trading
✓ ✓ ✓	Break-out Trading
✓ ✓ ✓	Trend Trading

Negative Volume Index (NVI)

✓ ✓	Reversal Trading
✓ ✓	Break-out Trading
✓ ✓	Trend Trading

Part II – Indicators and Opportunities.

Momentum:

Relative Strength Index (RSI)

✓ ✓ ✓	Reversal Trading
✓ ✓ ✓	Break-out Trading
✓ ✓ ✓	Trend Trading

MACD

✓	Reversal Trading
✓	Break-out Trading
✓ ✓ ✓	Trend Trading

Part II – Indicators and Opportunities.

Momentum:

MACD Histogram

✓ ✓ ✓	Reversal Trading
✓ ✓	Break-out Trading
✓	Trend Trading

Directional Movement (ADX Group)

✓ ✓	Reversal Trading
✓ ✓	Break-out Trading
✓ ✓ ✓	Trend Trading

Part II – Indicators and Opportunities.

Momentum:

Stochastic Oscillator

✓ ✓	Reversal Trading
✓ ✓	Break-out Trading
✓ ✓	Trend Trading

Rate of Change (ROC)

✓ ✓ ✓	Reversal Trading
✓ ✓ ✓	Break-out Trading
✓ ✓ ✓	Trend Trading

Part II – Indicators and Opportunities.

Momentum:

Price Oscillator

✓	Reversal Trading
✓	Break-out Trading
✓ ✓ ✓	Trend Trading

Trend:

Moving Average

✓	Reversal Trading
✓	Break-out Trading
✓ ✓ ✓	Trend Trading

Part II – Indicators and Opportunities.

Trend:

Multiple Moving Averages (MMA)

✓ ✓	Reversal Trading
✓ ✓	Break-out Trading
✓ ✓ ✓ ✓	Trend Trading

Future Price Action:

Fibonacci Retracement

Time Cycles

Other:

Gaps & Volume Spikes

Part II – Indicators and Opportunities.

- **Secondary Analysis Basics.**

Trading Opportunities – There are only three situations where you can trade successfully.

They are:

- Trend Trading
- Break-out Trading
- Reversal Trading

Part II – Indicators and Opportunities.

TREND TRADING – The BeST approach.

STEP 1

- Price action must be above the 21 day Moving Average, and above the 150 day Moving Average; or
- Price action must be above the 21 day Moving Average and the short term group of Moving Averages is above the medium term group of Moving Averages with the representation as multiple moving averages.

Part II – Indicators and Opportunities.

TREND TRADING – The BeST approach.

STEP 2

- If volume is above the 5-day moving average and the 5-day moving average is greater than the 50-day moving average then proceed to Step 4.
- If volume is above the 50-day moving average but below the 5-day moving average and the 5-day moving average is greater than the 50-day moving average, proceed to Step 4.
- Otherwise go to Step 3.

Part II – Indicators and Opportunities.

TREND TRADING – The BeST approach.

STEP 3

- If volume is below the 50-day Moving Average then step aside and wait for price action and volume to gain market support.
- On Balance Volume must be increasing to confirm the presence of buying pressure. OBV must be above the 13-day moving average.

Part II – Indicators and Opportunities.

TREND TRADING – The BeST approach.

STEP 4

- Secondary analysis tools must confirm the underlying strength of current price activity – no confirmation, no trade. If so proceed to step 5.
- Leon uses the following secondary analysis tools to assess a stock's current trend strength:
 - ADX group of indicators (Directional Movement)
 - On Balance Volume (OBV)
 - Multiple Moving Averages (MMA)
 - Relative Strength Index (RSI)
 - Price Oscillator

Part II – Indicators and Opportunities.

TREND TRADING – The BeST approach.

STEP 5

- Before placing an order on the market, calculate position size in accordance with risk management procedures. Calculate stop-loss criteria prior to entry.

STEP 6

- Trade Entry at Maximum Allowable Position Size.

Part II – Indicators and Opportunities.

BREAK-OUT TRADING – The BeST approach.

Ideally, a break-out trade develops after the stock has experienced a pause in trend action such as consolidation, accumulation or similar non-trending price activity.

For non-trending price action, Leon applies the 3% rule: Price action must be at least 3% above the line of resistance, trend line or pattern top before he will enter the trade.

Part II – Indicators and Opportunities.

BREAK-OUT TRADING – The BeST approach.

STEP 1

- If the period of consolidation is fairly short in duration and price action is still above an upward trend line, Leon does not apply the 3% break-out rule. Proceed to Step 3.
- Otherwise, apply the 3% break-out rule regardless of the duration. Proceed to Step 2.

Part II – Indicators and Opportunities.

BREAK-OUT TRADING – The BeST approach.

STEP 2

- The low price must be a minimum of 3% above the line of resistance. If so, proceed to Step 4. If price action is not 3% above the line of resistance then wait for additional periods for confirmation.

STEP 3

- The low price must be above the line of resistance, pattern top or similar. Price action must still be above the upward trend line. If the low price is above the line of resistance and the upward trend line, proceed to Step 4.

Part II – Indicators and Opportunities.

BREAK-OUT TRADING – The BeST approach.

STEP 4

- Price action must be above the 21 day moving average. If price action is above the 21-day moving average then proceed to Step 5.

STEP 5

- If volume is above the 5-day moving average and the 5-day moving average is greater than the 50-day moving average then proceed to the secondary analysis tools. (Step 7).

Part II – Indicators and Opportunities.

BREAK-OUT TRADING – The BeST approach.

STEP 5 (cont.)

- If volume is above the 50-day average but below the 5-day moving average and the 5-day moving average is greater than the 50-day moving average, proceed to Step 7.
- Otherwise, proceed to Step 6.

STEP 6

- If volume is below the 50-day moving average then wait for price action and volume to gain market support.

Part II – Indicators and Opportunities.

BREAK-OUT TRADING – The BeST approach.

STEP 6 (cont.)

- On Balance Volume (OBV) must be increasing to confirm the presence of buying pressure.

STEP 7

- Secondary analysis tools must confirm the underlying strength of current price activity – no confirmation, no trade. Secondary analysis tools are: Bollinger Bands, OBV, MACD-H & Stochastic Oscillator (21,7,9). If secondary analysis confirms trend strength, calculate position size and place market orders.

Part II – Indicators and Opportunities.

REVERSAL TRADING – The BeST approach.

A reversal trade, according to Leon, is where price action has reversed the trend direction without a period of consolidation, accumulation or any obvious period of non-trending price activity.

STEP 1

- If price action has broken above a downward trend line, proceed to step 2, or
- If price action has broken from a bullish chart pattern, proceed to Step 2. The break-out from a bullish charting pattern must also break above the downward trend line.

Part II – Indicators and Opportunities.

REVERSAL TRADING – The BeST approach.

STEP 2

- If price action is in the purchase section of the count-back entry indicator, proceed to Step 3. (Otherwise proceed no further).

STEP 3

- If price action is above the 21-day moving average, proceed to Step 4.

Part II – Indicators and Opportunities.

REVERSAL TRADING – The BeST approach.

STEP 4

- If volume is above the 5-day moving average and the 5-day moving average is greater than the 50-day moving average, proceed to secondary analysis tools (Step 6).
- If volume is above the 50-day moving average but below the 5-day moving average and the 5-day moving average is greater than the 50-day moving average, proceed to secondary analysis tools. (Step 6).

Part II – Indicators and Opportunities.

REVERSAL TRADING – The BeST approach.

STEP 4 (cont.)

- If volume is below the 5-day moving average and the 5-day moving average is less than the 50-day moving average, proceed to Step 5.
- If volume is below the 50-day moving average but greater than the 5-day moving average, proceed to Step 5.

STEP 5

- If volume is below the 50-day moving average, wait until the price action is supported by volume, then proceed to Step 6.

Part II – Indicators and Opportunities.

REVERSAL TRADING – The BeST approach.

STEP 5 (cont.)

- On balance volume (OBV) must be increasing to confirm the presence of buying pressure.

STEP 6

- Secondary analysis tools must confirm the underlying strength of current price activity – no confirmation, no trade.
- Secondary analysis tools used are Trend lines, OBV, Count-back entry, MACD-H, Bollinger Bands, RSI, Stochastic Oscillator. If these tools confirm trend strength, calculate position size and place market orders

Sifting the Gems from the Junk.

Manual Search

Use BullScan: Closing price is greater than 20c and less than \$5 and volume is greater than 200,000 every day in the last three days.

For a trending stock look for: Appearance of a new high; a break-out from a bullish or continuation charting pattern (ascending triangle, flag, pennant etc);

For a break-out trade look for:

Break-out from a trading channel or a period of retracement; Break-out from charting pattern (i.e. symmetrical triangle, flag, pennant, etc); Break above a significant line of resistance; Break-out from a period of accumulation.

Sifting the Gems from the Junk.

Manual Search (cont.)

For a reversal trading opportunity look for:

Break above a downward trend line; occurrence of bullish chart patterns at trend conclusion (i.e. ascending triangles, double bottoms, compression wedges, etc).

Trending Stocks

Use BullScan: Low price of today is greater than the Moving Average of today; Low price of yesterday is less than the Moving Average of yesterday; Price Oscillator of today is greater than 0. (PO periods are Short 21 day, long 150 day)

Sifting the Gems from the Junk.

Trending Stocks (cont.)

Finding stocks making new highs is a common search in trending markets. All these stock have underlying support either medium or long term trend.

Use BullScan: The closing price of today is the highest it has been in 21 days; the closing price of today is greater than the Moving Average of today; the Volume of today is greater than 200,000 and the Price Oscillator of today is greater than 0.

Sifting the Gems from the Junk.

Break-out

Use BullScan - **Breakout**: Closing price of today exceeds the Closing Price of yesterday by more than 5% but less than 1000%; Volume of today exceeds the volume of yesterday by more than 30% but less than 1000%; The Low Price of today is greater than the Moving Average of today; the Low Price of yesterday is less than the Moving Average of yesterday and the Volume of today is greater than 200,000.

This scan includes a crossover of price action above the short-term moving average so that there is an early warning. It eliminates stocks that are experiencing heavy trading activity near the conclusion of a trend.

Sifting the Gems from the Junk.

Reversal

Use BullScan – **Breakout2**: Low is greater than previous Low; Previous Low is less than Low of 2 bars ago; High is greater than previous High; Volume is between previous Volume + 30% and previous Volume + 1000% and Close is between 0.2 and 100. *This scan looks for a common low point.*

- Use BullScan – **Reversal System -%B**: Bollinger %B (Close, Simple, 14, 2) * 100 crosses above 0; Volume is greater than 50 bar exponential MA of Volume; 5 bar exponential MA of Volume is greater than 50 bar exponential MA of Volume; Volume is greater than or equal to 100,000 and Close is between 0.2 and 100.

Part III – Bringing it all Together.

Trade Management

- **Contingent Stop Adjustment** - automatic sell order.
- **Stop Loss Triggered exit.**
- **Developing Weakness.**

Position Sizing and Stop-Loss Management.

- Risk Management
- Stop Loss indicators

Synchronising, System Testing & Paper Trading.

Book 2: “The Next Step to Share Trading Success”

This book continues where *The Business of Share Trading* left off.

Detailed and practical explanations are accompanied by comprehensively annotated charts. It discusses:

- Trading patterns and parabolic trends
- Effective position sizing and management
- Bollinger Bands, moving averages and reversal trading
- Trading with strength, retracements, Darvas, ADX and many other methods
- Mechanical & discretionary trading
- Shorting the market with CFDs

Book 3: “Break Through Trading”

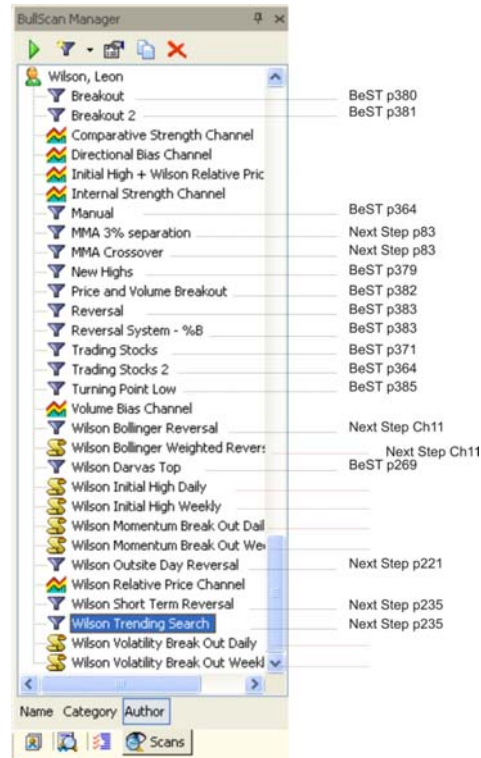
Breakthrough Trading builds on the previous book. In what he believes to be a world first, Wilson has succeeded in adapting common and popular indicators (including volume) to price action. Instead of viewing a non-price based indicator such as the relative strength indicator in a separate box at the bottom of the chart, Wilson explains how it can be plotted as a channel in price action- creating the Wilson channel.

Moving beyond default settings and combining the channels with various entry and exit strategies can dramatically improve your yearly returns.

What's in BullCharts?"

BullScans

There are a number of scans, some of which are Bullscript and others are Trade Simulations.



What's in BullCharts?"

Indicators

There are a large number of indicators, some of which are variations of Guppy's.

