

From the Editor, Issue 19. 28/5/10

Introducing the new Rivkin Trading Report



The Rivkin Trading Report is a new daily report, created by traders for traders.

Introduction

The Rivkin Report was established on 21 April 1997 with the express purpose of providing independent advice on stock market investing. In 2010 we continue that tradition of independent investment advice with the introduction of a new service, the Rivkin Trading Report.

What Is the Rivkin Trading Report?

The Rivkin Trading Report is a daily subscription service, created by traders for traders, focusing on shorter-term price movements. Importantly, we cover both long and short trading opportunities, which enables us to profit in both rising and falling markets, a critical feature in today's uncertain economic climate. The report has been designed to trade a wide range of markets, including:

- ASX 300 listed stocks
- Major Australian indices
- ASX sectors
- Major global equity indices
- Commodities
- Foreign exchange

Although the Report is primarily suited to CFD traders, it also appeals to equity, options and futures traders.

What is the aim of the Rivkin Trading Report?

We aim to make money for members from trading the

financial markets. We follow a strict trade plan, which is based on trading a model portfolio. We identify, filter and recommend trades with specific entry, stop, and target levels based on a risk and return criterion.

We also provide timely market commentary and educational articles explaining trading concepts, risks and practical issues involved with trading.

What are the differences between The Rivkin Report and Rivkin Trading Report?

The Rivkin Report uses fundamental analysis in developing trade recommendations. Fundamental analysis considers the valuation of a stock, quality of management, industry dynamics and so forth, resulting in The Rivkin Report being more suited to investors.

Alternatively, The Rivkin Trading Report employs technical analysis to formulate trades. In short, we aim to identify short term price trends and patterns. The Rivkin Trading Report is suited to shorter term traders with an average holding period of one to two weeks.

Why should I trade and what can I expect from trading?

The Rivkin Trading Report undertakes a more active approach, because we believe we can achieve higher returns than passive investing. Profitable trading does not require markets to continually rise. Profits can be made **Continued** ►

Introducing the new Rivkin Trading Report. cont...

from a wide range of markets that are either falling or rising. Although this does require some additional time, trading does not need to be a full time job. Trading is a rewarding experience, although patience and discipline are required, especially during a string of losses.

You should allocate around 15 to 20 minutes per day to place and manage your trades.

How do we identify trades?

The best risk/reward adjusted trades are those that are trending strongly and are moving out of a consolidation zone:

- Trending stocks give the highest potential of rapid gains
- Buying/selling near a consolidation zone allows a tight stop loss price to be calculated

You can see a good example of a trending stock in **Chart One**.

Chart One: Trends and Price Patterns



Source: Bloomberg, Rivkin

Supporting technical indicators are used to validate trade ideas or identify potential changes in a trend before other traders are aware of them. We use various momentum indicators such as the RSI and stochastics in our trade selection process. For example, when a stock is rising, often when it is finally nearing the end of its run, it will start losing momentum, just as an aeroplane that is heading vertically eventually loses momentum.

Changes in momentum or momentum divergence can present excellent trade opportunities. You can see this in **Chart Two**.

It is important to accept that technical analysis is not a forecasting tool. Markets are subject to noise, randomness, news flow and left field events. Technical analysis merely allows us to identify and rank risk-adjusted trades. Through the process of repetition in finding and placing trades, we will aim to make money from the markets.

Chart Two



Source: Bloomberg, Rivkin

As a rough guide, we will trade somewhere between 8 and 15 times a month. However, the number of recommendations all depends on what opportunities are available. Market conditions are constantly changing, ebbing and flowing from high activity to static. Because we attempt to capture trending moves, more trades will become available when markets are moving and less when prices enter a range.

What is the format of the Rivkin Trading Report?

The Report is issued at least once per day, every day the Australian Stock Exchange is open. The report is accessible via the Rivkin website: www.rivkin.com.au.

Usually we issue a morning report and an afternoon report to ensure members are kept up to date with the markets and our trade positions. A snapshot of the daily report is shown in **Illustration One** on the following page.

Each report contains a trading update, along with new trade recommendations and commentary on open positions. For ease, trade recommendations and open positions are summarised in table format, which you can see in **Illustration Two**.

How will the recommendations work?

Every trade recommendation will state the following information: what to buy or sell, the volume to trade, the method of entry, the entry price, a stop loss price and a target price.

Once a recommendation becomes open, we will actively manage the position on a day-to-day basis until it is closed out. If we make changes to our stop loss or target levels, you will be informed.

We recommend you have your stop loss and target orders placed in the platform at all times. **Continued** ➤

Introducing the new Rivkin Trading Report. cont...

Illustration One

RIVKIN TRADING REPORT 28 MAY 2010 - MORNING
Please read the [Rivkin Trading Report User Guide](#) before using this product.

TRADING UPDATE

Our trading screen is nothing but green this morning, with equities, commodities, and the AUD all posting strong gains overnight. Let's take a look at the numbers.

From US equity markets, the Dow Jones added 284.54 points (+2.85%) on Thursday to close at 10,258.99, while the S&P500 and Nasdaq Composite gained by 3.29% and 3.73% respectively. Given the evidence of divergence between the S&P500, both momentum indicators and the VIX Index, we have been calling for an intermediary low to form over the past week. The strength of Thursday's candle confirms this view.

In terms of an upside target, we would expect, as a minimum, S&P500 levels to retrace between 50 to 61.8% of the decline from the May high of 1173 to the recent low at 1140. As evident on the chart, this retracement zone lies above current prices between 1107 and 1122, so we expect this strength to carry into Friday, and possibly early next week.

The breadth of the advance was very strong, with 492 (98.4%) of the 500 constituent stocks making up the S&P500 closing the day up, while only seven (1.4%) stocks declined. In addition, all 10 sub-sectors closed the day up, led by the basic materials and the financials, which gained by 4.89% and 4.32% respectively.

With equities up, it was not surprising to see the VIX index close lower, dropping 15.24% to finish the session at 29.68.

While it is likely to be a strong day for our market today, we would not expect the ASX200 to rally as much in percentage terms as the US markets managed to do so overnight. The ASX SPI200 (June) futures rallied 65 points in overnight trade, suggesting a 1.48% gain on market open. Remember though, the ASX200 added 70 points on Wednesday when the US closed largely flat the session before.

More importantly, it is very likely that the ASX200 will set new highs above 4395 today, which, from a technical perspective, will confirm a change in trend to up on the daily chart.

To commodities, and the CRB Index jumped 4.89 points to close at 257.72, led largely by the energy complex. Of the 19 commodities that comprise this index, 14 closed up, with crude oil (+4.25%), heating oil (+4.00%), RBOB Gasoline (+3.59%), and Natural Gas (+2.75%) leading the way. Coffee gained slightly to close at 134.75 US cents per pound.

To the currencies, and the US Dollar weakened against most of the majors, with only the Japanese yen (+1.23%) gaining overnight. The so called commodity currencies of Australia, New Zealand and Canada were the strongest performers, appreciating by 3.64%, 3.15%, and 2.18% respectively. The US Dollar Index closed on Thursday at 86.273, leaving open the potential for a double top reversal pattern to form, should the most recent low at 85.131 be taken out (see the morning report from the 26th for further details).



Illustration Two

Current Recommendations

Status	Ticker	Buy/Sell	Entry Type	Currency	Entry Price	Stop Loss	Target	Risk Reward	Risk (\$AUD)	Units	Your Volume
Pending	USCOFFEE Jul 10	Sell	Stop	USD	129.50	134.90	119.00	1.94	\$976.73	15	3

The Risk column is based on risking \$1,000 per trade with no slippage on the entry and exit price, and does not account for small variations in exchange rates on overseas trades. You can vary the volume size under your account details by entering your portfolio size and % risk per trade or entering the dollar value you wish to risk per trade. We recommend risking no more than 2% of your trading capital on any one trade. Contract sizes vary between trading platforms; the above recommended volume relates specifically to the Rivkin Securities CFD platform. These are suggested volumes only and units are rounded up if we calculate an untradeable parcel size.

Open Positions

Entry Date	Ticker	Long/Short	Currency	Current Price	Entry Price	Stop Loss	Target	Profit/Loss (AUD Gross)	Units	Your Volume
24/5/10	BHP	Long	AUD	38.97	37.39	36.25	40.75	\$1,088.62	689	138
24/5/10	Aussie Mining Index	Long	AUD	11,670.00	11,146.00	10,880.00	12,175.00	\$1,048.00	2	0
24/5/10	Aussie Banking and Finance Index	Long	AUD	4,450.00	4,336.00	4,210.00	4,630.00	\$570.00	5	1

The Risk column is based on risking \$1,000 per trade with no slippage on the entry and exit price, and does not account for small variations in exchange rates on overseas trades. You can vary the volume size under your account details by entering your portfolio size and % risk per trade or entering the dollar value you wish to risk per trade. We recommend risking no more than 2% of your trading capital on any one trade. Contract sizes vary between trading platforms; the above recommended volume relates specifically to the Rivkin Securities CFD platform. These are suggested volumes only and units are rounded up if we calculate an untradeable parcel size.

Our stop loss order is non-negotiable. It is not a level where we just think about getting out. If prices trade at our stop loss level, we exit and move on. However, we will be more flexible with our target. Depending on how the trade unfolds, we may exit either under or above our initial target level. This will also save you from having to follow the market throughout the day.

Table 1: Rivkin Trading Report Performance 1 December 2009 (inception) to 28 May 2010

Performance Figures	Last Updated: 28 May 2010
Original Account Balance	\$50,000.00
Gross P/L - Closed Positions	\$18,275.33
Total Brokerage	\$2,545.86
Hedging	-\$2,358.00
Net Account Balance	\$63,371.47
Return	26.74%
No of trades	91
Win %	50.57%
Breakeven Trades	4
Average Winner	\$1,115.22
Average Loser	-\$716.15
Win/Loss Ratio	1.557
Expectancy	0.210
Max % Drawdown	14.29%
Average Days in Trade	8.10

Most of our trade recommendations will enter via a stop order. A stop order only gets triggered if a stock rises or falls to a target level before the buy or sell order is triggered. Stop orders are highly useful in allowing trades to be activated without needing to watch a screen throughout the trading session.

What is the performance?

Initial testing of the Report began on 1 December, 2009. The results are shown in **Table 1**.

As you can see, the Report has executed a relatively large number of trades and the holding period is short at just over 8 days on average. A net return of 26.74% has been achieved against the S&P ASX200 Accumulation return of -5.5%.

One of the key figures is 'Expectancy'. Expectancy is the weighted average profit, taking into account both the winners and losers. Our expectancy has been 0.21, meaning that for every \$1,000 traded we have made \$210.

Good investing,



Kristian Dibble
CEO, The Rivkin Report