



David Jenyns has hunted down the greatest minds in various industries.



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And he's asking them the questions
YOU want answered...

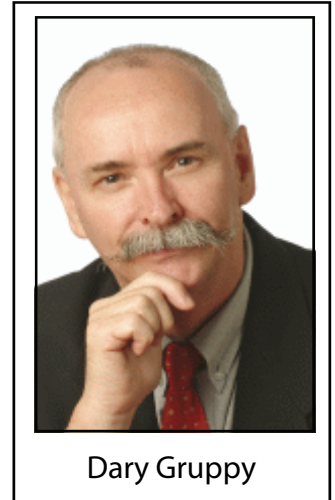


Name: Daryl Guppy

Industry: Trading

Website: Guppy Traders

Daryl Guppy's Bio: Daryl Guppy is founder and Director of www.guppytraders.com Pty Ltd. He is an active private position trader trading equities and associated derivatives markets. His most recent book is *The 36 Strategies of the Chinese For Financial Traders*. He is the author of several books including *Share Trading and Trading Tactics* and *Bear Trading and Chart Trading* (Also available in Chinese as) and *Trading Asian Shares and Market Trading Tactics* and *Better Trading and Better Stock Trading* (Also available in Italian as *Lo specialista del Trading*.) *Snapshot Trading* examines short term trading strategies. (Available in Chinese early 2008) *Trend Trading* has become a best seller and is available as. in a Chinese language edition published in Beijing.



Daryl Gruppy

He developed the Guppy Multiple Moving Average Indicator which is included in Metastock, OmniTrader and other charting programs. He delivers accredited courses for the Singapore Stock Exchange and Society of Remisiers, Singapore. He is an appointed foundation member of the Australian Government Shareholders and Investors Advisory Council. He is a regular technical analyst commentator and guest host on CNBC Asia Squawk Box.

As a technical trader he relies mainly on chart and live market information to make trading decisions. He is the publisher of a weekly Internet newsletter *Tutorials in Applied Technical Analysis*, which explains technical analysis techniques and shows how they are applied to current markets. There are Australian, and Asia & China and India editions of the newsletter, with each concentrating on local market solutions and trading education.

He is a regular contributor to the Sydney Futures Exchange magazine, *Your Trading Edge*, the US trading magazines *Technical Analysis of Stocks and Commodities*, *Active Trader*, *Working Money*, *Bridge Trader*, *Australia's Shares* and *Personal Investment* magazines, Singapore's *Smart Investor* magazine and *The Edge* business weekly and *Personal Money* in Malaysia. He has a regular column in *China's Weekly On Stocks* magazine and in *Shanghai Securities News*. (Chinese language only) He also contributes to *Poland's Professionally Investor* and provided sector analysis on the Singapore, Hong Kong, Malaysia and Philippines markets for *i-invest* handbooks.

Interview Transcript Below.

David Jenyns: Hi guys, David Jenyns here from www.meta-formula.com. I'm extremely lucky and honoured today to be interviewing one of my personal mentors. I've watched Daryl's work for a very long time. If you don't know who Daryl Guppy is you must be hiding under a rock. If you check out his bio page it's unbelievable. He's written so many books. I think the latest one is *The 36 Strategies of the Chinese for Financial Traders*. That's the most recent one. I love also there's *Trend Trading*, there's *Share Trading*, *Bear Trading*, so many different books. He's a contributor in numerous trade journals. He's a regular contributor to CNBC in China, is it?

Daryl Guppy: It comes out of Singapore but it goes globally through to the US and Europe as well.



David Jenyns: Yes, so suffice to say Daryl really knows his material and we're very lucky to grab him. He's actually in Melbourne just for a short time for the Traders' Expo and I thought I'd take the opportunity and see if I could get some questions answered for you guys, so thank you for joining us.

Daryl Guppy: No problems.

David Jenyns: I'll dive straight in, Daryl. I suppose one thing I'm trying to work with helping traders achieve is designing a trading system that really matches their style. A lot of people are finding the stumbling block in that they still don't know what a complete system looks like. I know you trade using various strategies but if we try to just isolate one of the trading systems that you use and if we could talk through the process of what makes up this trading system. Maybe starting with the market, maybe we start picking a market and go from there?

Daryl Guppy: Well that's always the important point. What you do is you pick the sort of opportunity. All of us are accustomed or comfortable with particular types of opportunity. That might be that you're happier to be an intra day trader or a short term trader or a break out trader or a trend trader or a position trader that you wanted to join in anticipation of the market changing or after the market's changed.

So you've got to identify where you're comfortable for a start because that's the important point. It's not finding a system or designing a system, what's important is that you have to create an approach that is appropriate for the current market conditions. So if you're trying to use what you used in 2006 or 2007 now, you won't have any success. If you try and use what you used in 2008 and apply that now it won't have any success. Some of it will succeed but most of it won't.

So there's always a challenge to adapt and adjust your trading style and approaches to suit the market conditions. The big thing that came out of 2008 was a significant change in the nature and the character of the market. The market has become much more volatile. We still have what we call an underlying secular trend, so it's still going up broadly or down broadly but there are lots of what we call volatility wipes. So you'll get days where the market will move three or four or five or ten per cent.

Go back to 2006. The Dow did a 3% rise, it was all over the front page of the newspaper. It was massive headlines, we all sat back in shock. Three percent now, that's not particularly important. So these are giving us massive wipes in trend trades, in break out trades, so you have to adjust what you're doing to what the market is telling you that you must do. Now there are times when you will not be able to trade that market, where your particular comfort isn't anywhere near what the market's doing. It's a good time to take a holiday. But when the market comes back and gives you the sorts of opportunities that you can take advantage of, that's the time to come back in.

David Jenyns: I think the hard thing that a lot of traders have is identifying, ok, well that market's changed and they've read all the books and they hear you need to have a trading plan, you need to be following your trading plan. When you're at a point of indecision, that's when you revert back to your trading plan. How can you build something into your trading plan that allows for change? You want to follow your rules, but ok, the market conditions have changed.

Daryl Guppy: The rules are independent of the market conditions. So the rules are relatively simple, and that is, you don't lose money. If you're going to lose money, you lose a very small amount.



Daryl Guppy (continued): So that's the basic ground plan. What you do on top of that is another question. And that's where all the different techniques and processes come in.

But the market has this really simple score book. If you're in touch with the market, if what you're doing is consistent with the market, you make money. If you're not, you lose money. That's when you tell if the market is changing, because you use a technique that has been successful and suddenly you find that instead of going from a 70% success rate, it drops down to 50% or 30% so that you're taking more trades but fewer of them are being successful. That tells you that the market conditions have changed.

If you assume that your analysis is correct, that your exploration is correct, you're turning up the right sorts of opportunities, material that has worked in the past, that stops working, that's a change in the market, not necessarily a change in you.

There's one very important exception to that. That is that if you have been through a traumatic event, it may be the loss of a family member or something similar, in my case it was having my office wiped out by a flood in 1998, a car accident or something like that, what it does is it changes your relationship with risk.

David Jenyns: Once bitten, twice shy kind of thing.

Daryl Guppy: That's right, and when you come to the market, even though it's not related to the market, when you come to the market, the levels of risk and the type of risk that you were comfortable in handling, you may find that you can't handle. If you're still using the same methods, nothing wrong with the methods, the analysis, the techniques, but the way in which you react to risk, the way in which you act on your stops, before your stops often, that will change the result.

David Jenyns: I suppose then having those sets of rules and you're following it, ok, you're starting to see your trading system might dip. Ok, we need to change our rules. The other thing as well, let's say, having excellent money management in place you can sustain a string of losses. Let's say, I don't know if you do much back testing or anything like that or you look back to previously what you've been trading, at what point do you go, ok, I've now had seven losses in a row or ten losses in a row, at what point do you pull the pin and say, right, this strategy is changed and it's not just part of the normal market aberration and that's just part of trading, losing?

Daryl Guppy: It's difficult to say and that depends to some extent on experience. There's no hard rule that says 7.5 failure sets it up, I've got to change my system. You're looking at the way market conditions are changing and that includes things like volatility, it includes trend persistence and trend continuity. It looks at impacts of other factors, other instruments that are coming in, whether that's taking speculative money out of particular secular trading.

So for instance you go back, five, six years, most of the speculative money was sitting in warrants. That market is now dead. That speculative money has shifted to CFDs. So you can still apply the same techniques in trading warrants, but they will not be as successful because your range of choices is more limited and the market reacts differently because of the lower liquidity. But you can't take the methods you used in trading warrants, the time decay factor for instance, and transfer those to CFDs because they're a different instrument and a different set of behaviours.



Daryl Guppy (continued): So trading is a whole combination of different features. As I said, it does give us an easy way to assess whether we're succeeding or failing, we make money or we lose money. When you make that change, that depends again on your own feelings about the strength of what you're doing. So our core methods remain the same over years. It's like a tool box. You take a tool box, you can use the same tool box to work on a motor bike, on a bicycle, on a car, or on a truck. You've got to work out in the market whether it's a car or a truck or a bicycle and select the appropriate tools from your tool set.

So you don't want to try and develop new skills, and there are a limited range of skills that can be developed, what's important is the application of those particular sets of skills.

David Jenyns: Well at the moment, like you said, we've seen a big shift in the way the markets have been moving, they're a lot more volatile than they've ever been. What sort of trading are you now adopting if we walk through a system? Are you still looking to trade unleveraged stocks or are you doing CFDs like starting off with picking a market first, Forex? Where do you start and then perhaps we can talk through what methods you're trading at the moment.

Daryl Guppy: Ok, you're looking at top down, you look at what the market is doing. So what sort of opportunities is the market offering at this point in time? One of the things the market has at the moment is a fairly high compatibility with certain types of pattern trade break outs. So you look for those. That's an eyeball scan. Rather than sit down every day and go through all the stocks that are listed, what you're doing is you're looking at other sorts of stocks and you'll see these patterns jump out. They go on a separate list.

If you're looking at the market at the moment, at this point in time the market has had a good run and is now consolidating. There is a reasonable danger that we will do a retracement in time and price, similar to what happened in Shanghai in the last couple of weeks. That means that we're looking at maybe a 10, 15% price retreat, I think October is a good time to do that sort of thing, followed by a sideways consolidation and a continuation of the trend.

So that sets our strategy. If it says open positions, we've got to be prepared to cut and lock in profits. If they're new positions we have to be prepared to cut quickly and take a small loss. That's number one. Number two, when the market drops, if we're going to get a correction in price, in other words it's going to fall very rapidly, what we're looking is for stops to retreat back to solid underlying trends. What is a solid underlying trend? Ok, we define that with a multiple moving average, so it comes back to the lower edge of that. That tells us we're ready to sit there and watch for a price rebound to develop.

Now we look at Shanghai market, because Shanghai market in behavior is leading what's happening in the world, it's moving much earlier, usually three to four months prior to behaviours we see in the US and other associated markets and ourselves. So we can see that once we get this correction in price finished, the correction in time is created with a whole series of short term rallies. That means we need to shift our focus to the short term rally trade.

Now whether we do that by looking at, say, let's say the banks for argument's sake, the ANZ pulls back, ok, how do we trade that rally? The most effective way to trade the rally is to shift into a leveraged derivative rather than to trade the underlying. We might get a 5% return out of ANZ if we trade ANZ but we might be able to generate a 15 to 20% return if we traded on a leveraged basis.



Daryl Guppy (continued): But it's not an investment because the probability is that the market will have the price correction, we'll now look for the time correction, rally, retreat, rally, retreat. It gives us an opportunity to trade short on the down side if we wish, if that's our particular skill set. Once we see a break out above the top of that trading band, then that sends a signal for a re-continuation of the up trends. That's when you position yourself to be able to take advantage of those longer term up trends. So you would be looking for defined trading band breakouts as a trigger signal to end up in longer term trades.

David Jenyns: What you've explained right there is one of the things that have really set you out among the pack as far as your expertise. You've mapped out what the market's doing, you've got the different strategies and we're talking multiple markets. A lot of people, especially when they're first starting out are going to have trouble identifying that sort of insight that you just gave just then. How can we break that down? Where should someone focus?

I think we were talking about, ok, what stage are we in at the moment with the current climate? Ok, we're looking for those breakouts. Are we saying, how about we start out with stocks, you only look for breakout patterns, just get breakout patterns and let's do this right for this time in the market? Is that right?

Daryl Guppy: Yes, that's right. The market has thousands of opportunities to lose money. They're there every day. So what you need to focus on, particularly when you're starting, is a particular set of processes or opportunities which suit you exactly that you know you've got a great deal of success with. You sit down and you trade paper trade. A lot of people talk about paper trade, it's a waste of time. It's not real and all the rest of it. That's garbage, that's back testing, and we were talking about back testing before and I didn't answer your question. The answer is, I don't back test significantly.

You tell me where we can pull out a bit of history, that's the same behaviours or even similar behaviours to 2008. It's not there. We can't go back to the 1930s, the 30s are different, different behaviours, different instruments, different levels of volatility. You go back to after the tech crash, again, not there. So the market is unique in a very significant extent. When major changes take place, you can iron those changes out. That's what a lot of back testing does.

So we'll start from 1901 and we'll move it forward to 2009 and 2007 and what that does, it makes 1930 look about that big, and it makes the collapse in 1987 look about that big and it makes that collapse in 2007 look about that big, so it looks very small in longer term charts. So what we've just been through also looks about that big. That's not quite true, I've just lost a fortune and a half of my grandmother's inheritance money, that's pretty important to me at that point of time. Historically it is a small blip, but in real time it's a major blip.

So when we back test, we back test systems that reduce the impact and significance of major market events of 1930, 1987, 1960 and so on, then you don't have a system that really works. It's not adjusted to what's actually happening now. So that's one of the key factors.

So how do we back test? What you look for is compatibility. In other words you've got an approach, an idea, you go back and you look at twelve months of data. If I acted on this signal over that twelve months, how many false signals would it give compared to the number of valid signals? This is on individual stocks, not on the market as such.



Daryl Guppy (continued): When we look at an index, the key factor with an index is index is made up only of winners, not of losers. So it's always going to go up. It's a wonderful thing, it can only pick winners, retrospectively it's always going to go up and just drop the losers. People say, the market is always going to go up, I can't possibly lose. Talk to people who bought Citibank, or GE or HIH in Australia, all of these, they've got lots and lots of problems.



Citibank for example, looks really good because what it did, it fell down below the trigger level for the Dow. So the only way that they could continue to remain as a Dow component, they did what they called a one for twenty reverse split. We call it capital reconstruction. So you own twenty shares? Now you've only got one. While officially, the price increases, it remains as part of the Dow, it's a winning stock. Not quite true.

In terms of back testing, I'm looking for compatibility, in a current market over a twelve month time frame. Normally, let's say prior to 2008, we'd look for compatibility over two or three years. Although the market for 2005 through to 2008 looked like it was similar, looked like it was the same, there were subtle changes that were taking place. As we went through 2007, you could see the market accelerating, you got clear warnings in November 2007- December 2007 that we were moving into a bear market. We called that in a number of international publications as well as Australian publications. We said at the time, ok, you go to cash, you close out positions, you move to short term trading because time is the risk factor in the market.

So you've got to look at the changes that are taking place. You do that by short term back testing. Take the stock, take the method, apply. In the past, has it given reliable signals? If the answer is yes, then here's a high probability it will continue to give those reliable signals into the future.

David Jenyns: So, we've picked our market, we've identified that we're going to be looking for some breakout opportunities. We do a little bit of back testing of that method over the last twelve months to see what sort of results. Everybody wants to know, we talked about breakout, what are some easy breakouts? Are we talking about breaks above previous high? At what point are you looking for consolidation, just so someone can sink their teeth into an actual entry signal.

Daryl Guppy: You can go and buy a million dollar ruler, it would cost you about 5c. In other words, a straight edged trend line is one of the most powerful tools in the market. So if I'm looking for a break out, I'm looking for a combination of three factors. First I'm looking for a trend that can be defined with a trend line. There are lots of trends out there that can't be defined with a trend line. Ok, I'm not interested in those.

David Jenyns: When you say defined, just touch the line at least three times?

Daryl Guppy: At least three times. You've got a marker that's moving down. I can define the upper edges of that trend with a straight edged trend line.

David Jenyns: And the time frame?

Daryl Guppy: Let's go back six months, or go back twelve months, but say six months for a minimum. There's a clear trend, there are no sudden spikes that are above it and dip below it and there is not a lot below the trend line. It's clear, when you see it, you'll see it. If you've got to sit down and ponder...



David Jenyns: Then it's probably not there.

Daryl Guppy: No, go to another stop. There are lots of choices out there. Find the stop that gives you the clearest compatibility with the method you want to use because what that means is when the exit signal comes, there is no room for prevarication, there's no room for saying, well, if I just adjust this it will be ok. So that's what you're looking for. So number one, do I have a stock that can define the downtrend with a clear trend line? No arguments about where it ought to be, whether it should be up here or down here, there, that's where it is, four, five, six, ten connect points, no breakouts above it. That's number one.

Number two, can that trend also be defined with a GMMA, a Guppy Multiple Moving Average? Does it give me a good set of solid, reliable signals, no false breakouts? That's the key factor. If there have been no false breakouts in the last six months from that relationship, then when I get a crossover or a signal that's telling me the GMMA is compressing across multiple time frames, then I know it has a higher probability of reliability. So that's what I'm looking for.

So I've got number one, the trend line, number two, the GMMA. The GMMA I'm maybe looking at a test, a retest, maybe a third, fourth test. So when I've got a price that closes above the trend line, and I've got a GMMA compression relationship across two sets of moving averages, two time frames, then it increases the probability that trend break is genuine. On top of that, I then want to define that breakout with price volatility. For that I use a count back line. You can use something like $2 \times 1 \times \text{ATR}$.

David Jenyns: I got the count back line from you, it's fantastic, especially in stop loss as well.

Daryl Guppy: That's right, but we're using it here as an entry point. What we're looking at here is the price has to rise by more than its normal volatility. It's essentially what it is. It's a self adjusting volatility measure. So once it moves above there, it's my entry signal. I've got three things lined up in a row.

Now let's look at those three things. What does the trend line do? The trend line defines what's happening purely with price, it's not related to any other calculation, it's purely a chart recognition pattern. Multiple moving average is a technical analysis factor, it's just taking price and it's manipulating the values for price. So it's measuring this trend in a different way.

Then you've got a count back line which is measuring volatility based on price. So you've got three different measures that are giving you three independent conclusions about what's happening with the trend. So when that breakout develops, there's a higher probability that breakout will be successful, not a hundred per cent guarantee, but a higher probability.

If there's another stock out here that has pretty similar relationships but there are a couple of days where it's spiked well above the trend line or where we've seen a GMMA compression and failure and so on or the count back line hasn't been successful, I'm not interested in that stock.

I haven't got enough money to trade a thousands stocks. I've got money to trade one stock, so part of the process is to find the stock that is most compatible with the techniques that I want to use, that hasn't in the past given false break out signals, given false signals of any description and it's compatible with all of my approaches. So when I enter it, there's a high probability it will continue to be compatible moving forward.



David Jenyns: Do you look at volume as well?

Daryl Guppy: Volume is unimportant. Why? All of the material that is written on volume really goes back to the 1930s, 1940s. If you take The Wall Street Journal, The Wall Street Journal in the 1940s was about the same size, you've probably got a suburban newspaper somewhere, one of those free advertising things that is about that thick.

David Jenyns: Yes, like Beat magazine or something like that.

Daryl Guppy: That's right, that was The Wall Street Journal in the 1940s. Now, before it went back online, they're looking at weighing more than 2kg. So that tells you that the flow of information has increased exponentially. We know that, but more importantly the access to that flow of information has increased dramatically. All the volume work is really based on the idea that information is restricted, that it's only the large players that really have access to it. So if you look at large volume, it's the large players in operation. Jesse Livermore did it. He always said, look at the volume because in his day it was the large traders that set the scene on a limited number of stocks. So it's an old fashioned idea that belongs to old markets. I'm not trading in 1930, I'm trading in 2009.

So what happens with volume? You know yourself, you use Metastock, you do all sorts of scans. What are you looking for? What's your basic scan? Price and volume. How many other people are doing exactly the same thing?

David Jenyns: Probably everyone.

Daryl Guppy: Out of price and volume, what is the more important thing?

David Jenyns: Obviously price.

Daryl Guppy: That's right, so you're scanning for price, you're looking for instances for all those stocks that have increased more than 10% today.

David Jenyns: Yes.

Daryl Guppy: Then you'll do a secondary scan for the volume on those stocks. But price is your first thing. So is everybody else. You're all doing the same thing. They see the price going up 10%. It's like the schoolyard fight. How did you know a schoolyard fight was on? Did anyone tell you?

David Jenyns: You looked for a crowd.

Daryl Guppy: Suddenly, there's a crowd. The same, the price is the fight. When you find a 10% increase in price for argument's sake, you can guarantee that there are lots of other people doing exactly the same thing. Tomorrow, they'll be there. That's what creates the volume. So what happens now, that's the most important change in this particular discussion that's taken place, let's say, between 1930 and 2009. In 1930, price followed volume; in the twenty-first century, volume follows price. So it's a major change in what happens in markets.

Volume becomes important only in terms of can we get into this trade. I wanted to trade at this size. Ok, the market is not deep enough for me to be able to do that. I've got a choice, do I reduce my trading size or do I look for another stock?



David Jenyns: Yes, excellent. So we talked about identifying the market, we talked about making sure that our strategy matches what's happening, we talked about some entry rules that you identify prior. We're making sure we're trading with the trend.

Daryl Guppy: Ah, but we're not trading with the trend, that's the key factor. In a breakout trade, you're trading against the trend.

David Jenyns: The longer term uptrend.

Daryl Guppy: In a breakout trade we are betting against the trend because the prevailing trend has been down and we're saying, ah, that's about to change. We're walking against the lights.

David Jenyns: We're waiting for the breakout above and then we're looking to make sure the volatility is there as well, using the count back line. To identify these trading opportunities exhibiting that criteria, I can't imagine you're eyeballing every chart. Do you have those basic things coded in and you're scanning the market for things exhibiting that criteria?

Daryl Guppy: We have a number of explorations that we do that get us to the general area quickly. The GMMA scan that you developed a few weeks ago and finalized for us, allows us to do that much more quickly so we can find all of those stocks where we've got a GMMA crossover taking place within the last three day period. So once we see that compression crossover developing, that goes on what's called a stock pool. So on my stock pool list one, we've got all those stocks that need that technical scan. Then we can go back and look at those visually and say, do they meet our down trend line scan? If the answer is yes, ok, that goes on stock pool list two.

In three days it's too soon for a count back line signal, so we look at our stock list tool, we watch that over the next three, four, five, six, ten days, once we get a CBL confirmation, then that becomes a trade opportunity.

David Jenyns: So we enter into the trade because we've identified it now and we've been watching it, it ticks all of our boxes, we're into the trade. Obviously, just before you get into the trade, you want to do position sizing, and figure out your initial stops and trailing stops. Can we talk through how that happens?

Daryl Guppy: Position sizing, the basic rule we use is that you don't put at risk more than 2% of total capital on a single trade. Now what that means of course is not that you've got \$100,000, you only take a \$2,000 position, what it means is that the difference between your entry point and your stop loss exit point, the total loss is not more than 2% of your total trading capital. That's the key factor.

How do you decide that? Ok, what do we use to define the trend breakout? We've used trend line, GMMA and count back line, or price volatility. So when we take our position, we're using the same methods. Because we're looking at the breakout, we can't use a trend line to define the rising trend, there is not enough price data at this stage. So we can't use that method. Sometimes you can, but often you can't.

So you've got to use price volatility. So we use the count back line to set a trailing stop loss. We take the highest high that's developed after the new breakout, do the calculation, there's my stop loss point. So my plain entry point is here, my stop loss point is here, put that onto a spread sheet,



Daryl Guppy (continued): work out what my maximum position size is. That's the first thing. Given my entry and my exit and my risk control, then I can spend \$100,000. Unfortunately, I haven't got \$100,000, I can only spend \$10,000. So I will take a \$10,000 position and that actually reduces my risk.

The first calculation is the maximum position size. I enter here, I exit here and I lose 2% of capital, that's my maximum size. Then I usually scale back from that. What that means is that I may say, take a \$10,000 position at this point and I can exit here and I'll only lose \$300, or 0.3% of my total trading capital.

It's like an airbag in a car. You hit the stop, the market's gapped through it which is what it tends to do these days, so it closes 2 or 3c lower but because your original stop was only 0.3% of capital you might actually blow it out to maybe 1% of capital. So you're still only 2% limit. So you adjust your position size to also reduce your risk in another sense as well. So it allows you for gapping activity, it allows you for overnight volatility.

David Jenyns: Now we were talking about current volatility of the market and I think one of the ways that you talked about for combating that, I'm assuming we're setting, especially if you're needing to scale your position sizes back like that, you must be having your stops set reasonably tight?

Daryl Guppy: The stops are set reasonably tight in relation to the trend volatility. Before 2008 we assumed that trend volatility was the same as price volatility. When you use count back line, average true range, all these sorts of approaches, they are using price volatility as a proxy for the behavior of trend volatility. That was pretty good.

When we're using a trend line, we're doing exactly the same thing. We put the trend line under a rising set of prices and we say this defines the volatility of price, we don't expect price to drop below it, and this also defines the rising trend. So price volatility is the same as the trend. Two thousand and eight destroyed that. It still hasn't happened in 2009. So what we developed in 2008 as a short term solution to volatility in markets we are now finding applies in a longer term basis, and we call it a trend volatility line.

What happens is that we use the relationships in the Guppy Multiple Moving Average. GMMA is for ease of comprehension as it were, defining what traders are doing and what investors are doing. We know that investor behaviour defines the trend. The wider the separation, the stronger and more stable the trend. Trader behavior can drop quite dramatically into that long term group. As long as it doesn't penetrate below, then the trend is probably pretty much in place.

So what we do is first of all, we use trend volatility, TVL, as our way of managing our exposure to the trade. It doesn't define the beginning or the end of the trend. It tells us what we need to do in relation to our entry point. If you make an entry, it's like everybody, you've done all this research and you buy the stock. You hope that you've made the right decision. Then later on you become more confident that you've made the right decision and you eventually become certain that you've done the right thing.

You can define those points exactly. So take your entry point. What we do is, and this is all in the Trend Volatility DVD that explains it in much more detail. So you take your entry point and you essentially draw a horizontal line. That's your reference point, that's your break even point. While



Daryl Guppy (continued): price is above there, that's ok. If it hits that level, and you get out, then you're going to get out at break even. That's your entry price, plus whatever you paid to get in, plus whatever you have to pay to get out.

When that entry point, when that break even line is equal to the lower edge of the short term GMMA, you can be much more hopeful that you have confidence that your trade is developing correctly. When they intersect the upper edge of the long term GMMA you move into a situation from hope to confidence. When it intersects the lower edge of the long term GMMA you can be very certain that you have made the correct decision that the trend is stable and reliable.

That gives us positions where we can scale into a trade with exact points. No guess work, that's where we do it and that's where we do it. Or you just take your single position from the beginning and you don't scale in but you have a measure of your change from hope to confidence to certainty. But then what's important is, we then need to define the trend volatility, not the price volatility. We do that by looking at both the amplitude of the trend and the duration of the trend. Amplitude we simply get by, we've got this break even line coming across, once it intersects the lower edge, the long term GMMA we draw a vertical line to the upper edge of the long term GMMA. It's much easier to see on the DVD. That gives us the amplitude of trend volatility, not of price, of trend volatility.



So the more strongly supported that trend is, the greater the amplitude. Then we draw a horizontal line. Now at this stage it just projects into the future. But when that horizontal line intersects the lower edge of the rising GMMA, that tells us it's time to change the stop loss calculation for the trend. So amplitude is the distance between the lower and upper edges and that horizontal line is the duration, the amount of time that that current stop loss is relevant to this trend. That will be quite different to any short term stop loss adjustments you might make related to price.

David Jenyns: Interesting.

Daryl Guppy: It's telling us about the trend, not about price behavior. Again, repeat the behavior, amplitude, duration, amplitude, duration. Typically at the end of a long term trend what happens is the long term GMMA begins to compress as investors join sellers. So they will take profits, investors will think, oh, we have to get out as well, so you see this compression developing. When the compression develops, what you'll find is a tightening of the stop. The amplitude decreases, the duration might increase particularly as the trend begins to move sideways, but it may then go up of course, in which case your amplitude will increase again, but if it drops below that, you're out of the trade. So you're defining the trend, not the price.

David Jenyns: Yes, once we've defined that trend and we've figured out that volatility and we've drawn our line across and said this is the point at which our original stop loss falls away and now our trailing stop loss kicks in, at that point can you explain through again just how that trailing stop loss works?

Daryl Guppy: Yes, so what you've got, it's time to adjust your stop. You know that because the horizontal line has intersected the lower edge of long term GMMA. So you draw a vertical line to the upper edge of the long term GMMA. That gives you the amplitude. That's how much you need to adjust your stop by. This projection tells you how long that stop needs to be in place. So with



Daryl Guppy (continued): the count back line or ATR for instance, you may be changing your stop every three or four days. With TVL you may be changing your stop every six, ten, twelve, fifteen days because although price has done this, the trend is still stable. You're measuring the trend, not the price. That's the key difference.

David Jenyns: I'm going to have to look at that on the DVD. That was Trend Volatility.

Daryl Guppy: Trend Volatility, the TVL DVD, yes.

David Jenyns: Excellent, I'll have to check that out.

Daryl Guppy: There is a lot more detail. We originally developed it for short term intra day trading.

David Jenyns: To reflect the current climate.

Daryl Guppy: To reflect what was happening in 2008, because 2008 it was an interesting learning experience for lots of us. A lot of people just lost money in 2008 and didn't learn anything. That's not good. You can lose money, that's ok if you learn, and TVL came out of that particular process.

What we found is that, first that we were using it on index trading, on short term basis, one minute charts, that we could then improve our exposure by capturing the trend by three time frames higher. So we applied it to a three minute chart and verified our exit signals on a one minute chart against our three minute chart that was in the longer term trends. Then we found we could change that in from a one day trade to multi day trades. We also found that we could apply that to an end of day chart; in other words, for example where each candle represented one day rather than one minute or ten minutes or whatever.

So for instance let's take a stock we're trading in Singapore at the moment, using the techniques I've just discussed, we got into that particular trade. We used TVL as our trend management method, that's currently sitting on 150% return and that's been an open trade for the last six, six and a half months. That's had tremendous volatility in price which has given many false shake outs. But we're still sitting there because we've defined the trend.

The key factor is the trend volatility line does not define the trend, it defines how we manage the trade based on our entry point. So it's not an objective definition of the trend, but it's an objective management of our exposure. So if I enter at \$1, your TVL will be in a different position than if I entered at \$1.10 but it's still valid, it still gives us a way to understand the trend volatility, not the price volatility.

David Jenyns: Monitoring that volatility and basing your system around that makes so much sense because obviously when the market is more volatile, you need to give the stock more room to move. As it starts to compress, that's logical, that's when you want to be tightening everything in.

So we really talked through I think pretty much from start to finish how you would design a trading system. We talked a little bit about the back testing as well, which is more you do it over the last twelve months. When traders out there are in their system design process and they're going through, what sort of characteristics should they be looking for? They're mapping out their strategy, what sort of draw down, how many strings of losses, even some ball parks?



Daryl Guppy: There are no ball parks. I say that for the simple reason that each of us has a different appetite or capacity for risk. So you have what you would want to call a freeze or a flinch point which I've written about in Better Trading. If you can't stand on the bridge out here and throw away \$2000 and not flinch, then you can't trade with a stop that's going to lose you \$2000. We all have a different capacity and when you first start trading, often you're coming in with limited amounts of capital and each dollar is pretty precious.

So if you really can't come to grips with the idea that you've just lost \$1000, then if your stop is set where you're going to lose \$2000, then you're not going to act on it. It doesn't matter what your systems testing does, it doesn't matter what all of your research does, the reality is, when it comes time to act, you will not act.

So you must decide and you must discover as quickly as possible what your flinch point is. Now if your flinch point is \$1000, then when you enter your position, you need to make sure that the maximum loss that you're going to incur is less than \$1000, otherwise you won't act, even though technically, theoretically, on the spreadsheets, it's all correct. So you need to adjust.

As your trading becomes more skilled, as you have more success, then your flinch point will grow larger. So you'll get to the point, \$2000, ok, \$20,000, not a big problem. But if you start off with the theoretical results and find you can't act, that's when you've got problems.

David Jenyns: Start where you are. I feel like we've talked through that system design really well. We might shift gears slightly and I've just got a few other questions if I may. We talked a little bit at the start of our interview here about where you saw the current climate and how you imagine things developing.

I know you do a lot of work over in China and China is a great leading indicator and barometer on what's going to happen in the rest of the world as are some of the other emerging economies. China is really I think at the front of that. The market gets smacked, the market has bounced back so strongly. What are your feelings on where the market will head, the current climate as you see it?

Daryl Guppy: There is a ghost in the room. The ghost is 1930. The market collapsed in 1929. In 1930 the market staged a 47% recovery.

David Jenyns: It sounds familiar.

Daryl Guppy: And then it collapsed and made new lows. Then it recovered again and made another 27% recovery. The low point of the market is not 1930, not 1929, not 1928 but 1927. We think it went poof, that was it, but in fact it continued to fall with major rallies in that process. If you take the peak in 1929, that peak in the Dow was not achieved again until 1954.

David Jenyns: Wow.

Daryl Guppy: If you're in the market for long term, well this is a generational thing, several generations to get through.

David Jenyns: But the markets always go up, Daryl.

Daryl Guppy: That's still measuring the winners. So that's the ghost in the background. People



Daryl Guppy (continued): like Mark and others are saying, this potentially could be a bear market rally, a prolonged bear market rally. That's a possibility.

David Jenyns: There's the stimulus as well.

Daryl Guppy: In the Depression people did the same sorts of things. Not to the same extent but there were all sorts of factors and the best stimulus following 1930 in fact was World War 2 because you had this massive ramp up of production. It was a consumer led recovery because everything is instantly destroyed and must be replaced, planned obsolescence at its best. That's what really dragged the markets out of the depression period. So that's the ghost in the room. On a very broad level, there is that possibility of a major retrace. But things are different, they always are. History repeats, but never in quite the same ways.



That's what makes China interesting because of the correction in price, a rapid, rapid fall of 10 - 15% and the correction in time that takes us back to the underlying trend. That's what we're looking for in the US markets and our markets.

We look at Korea KOSPI for instance. China can't be traded by people outside China, it's only restricted to domestic trading. So if you look outside of China, you look at KOSPI and KOSPI is leading market for behaviour that we see in the rest of the world. If you look at KOSPI breakout, you had this downtrend, you had this equilateral triangle that developed and then a breakout from that.

KOSPI lead that, Korea did that first. Then it developed a trading band. The breakout from the trading band, you project it up once. You hit that target. You project it up twice, you hit that target. The same thing happened in many other markets. You saw it to a lesser extent in the US. The rest of the markets outside of the US are following this behaviour, so is Australia. We are now sitting at the top of that third band.

David Jenyns: Interesting.

Daryl Guppy: So what we're doing is watching what's happening in Korea because that Korean market behaviour gives us a reliable leading indicator as to what's likely to happen here. So when Korea goes down, for instance, hits the bottom of that current trading band, and sits there, that's the sort of behaviour we're likely to see repeated here. John Murphy wrote *Intermarket Technical Analysis* and he was looking at platinum and gold and so forth. That's ok. If we look at the world market, we see the same sorts of behaviours.

See when you wake up in the morning and you turn on CNBC, the first thing you're looking for is what happened with the Dow and the S&P. When the markets in Asia open, they look to see what's happened with the Dow, they look to see what's happened in Australia and Japan because we've got the same time, except when it's daylight saving.



Daryl Guppy (continued): We look at what's happening in Australia and Japan. When India opens, it looks at what happened with the Dow in Australia and Asia. When Europe opens, it looks at what happened in the Dow, etc; the influence of the Dow is progressively reduced as we look back. For us the most recent market is closed is the Dow, so that's where we look. For Asia, the most recent market that is opened is Australia, plus the Dow. We do that all the time, every market is self referential. Go back and read George Soros The Alchemy of Finance. It's a reflexive system.

David Jenyns: Something I find interesting as well, we talked about Korea and the way their market moves. Where do you see Japan falling into it? Is it a real leading indicator?

Daryl Guppy: Not at all, and this again is another factor. Korea has only become important in the last twelve or eighteen months, not before that. Before that, that relationship didn't exist. Now we go to daylight saving in Australia shortly. Look at what's happening in Australia, look at what's happening in the Nikkei. What you'll tend to find, what's happened in the past is that you can look at the Australia open, and its behaviour and that's duplicated in the Nikkei. So you can develop a strategy for the Australia open on index trading and apply that to the Nikkei an hour later and trade it successfully.

We currently do that between Australia and Hong Kong. We look at what happens in Australia and we find that's pretty much duplicated in the openings in Hong Kong, unless there's been a major event in China. So we can test the strategy on Australia in the first hour of opening and apply that strategy in Hong Kong in the first hour of opening. Global markets are interrelated. We're a long way from the rest of the world and too often we're disconnected from the rest of the world, but in fact the rest of the world gives us all sorts of trading strategies that we can apply here.

Just as we have leading and lagging indicators, leading and lagging stocks, some stocks develop patterns more quickly than others, then you have leading and lagging markets. What you see here, happens there. If you can test it here in theory, you can apply it in reality there.

David Jenyns: Excellent.

Daryl Guppy: New instruments like CFDs give us that advantage. Before it was exceptionally difficult. It was very difficult to trade foreign indexes. You had to deal in futures or have separate accounts all over the place. Now you can go along to IG markets, to CMC to City Index whatever. You can trade all those indexes from one desk. The world's there. You've got a world of opportunity.

David Jenyns: Yes, it makes it incredibly easy.

Daryl Guppy: Life's much easier.

David Jenyns: Some people find that hard as well though because they don't know where to start.

Daryl Guppy: You just have one technique. Look at the average bank robber.

David Jenyns: Tell me about the average bank robber.

Daryl Guppy: How many techniques does he have?

David Jenyns: One I imagine.



Daryl Guppy: That's all he needs. He robs ATMs. He doesn't rob the bank next door. That's too difficult, he's just concentrating on ATMs. In Sydney aren't they blowing them up or something? Or putting cameras in them.

David Jenyns: Credit card skimmers. He just has one method.

Daryl Guppy: He just has one method. We're a thief in the market. What we're doing is we're trying to take money from the market, preferably without hurting anybody.

David Jenyns: And to use it for good like Robin Hood.

Daryl Guppy: That's right, for our own good. But that's what we're doing, we're trying to take money from the market. So you don't need a multiple set of techniques. How many can openers do you need? You just need one. So what you're doing, you're using that technique to find the opportunity that matches. A stupid thief will hold up a taxi trying to get hold of money. He doesn't know where the money is located. So he's got the technique right, stock giving you money, but he's in the wrong place.

So it's the same in the market. We have to first of all develop the technique, the approach that we are most comfortable with. We talked about break out trade. Let's just concentrate on that. So break out trade. So what I need to do is find a break out.

So I've got a whole range of technical scans that will help me identify, whether that is a Google Map, and I can apply it to an Australian market, I can apply it to a foreign market, because a break out is a break out. It doesn't matter whether it is on an index, whether it's on a commodity, whether it's on stock, whether it's a gold mine, whether it's a bank, it's all the same. That's they way they behave.

David Jenyns: I haven't actually heard that analogy there. It does provide some good insights. I suppose just coming to the tail end of the interview I have got a few subscribers who sent in some questions. So I might fire those past you if I could. Robyn Mosby actually wanted to know if you're familiar with Dr Bill William's moving average and the MACD and how does that compare to the GMMA?

Daryl Guppy: The key differences, Bill is on about chaos and has done a lot of valuable work in that area. But we need to take another step which is what the GMMA does. The GMMA looks like it's simple calculations and it is. It's only twelve exponential moving averages. What it picks up is volatility clustering in the market, points of volatility where they come together because a market is an inherently unstable system. So this is an extension of chaos theory. In chaos theory, part of what we're looking at is fractal frontiers, we're looking at volatility clustering and the way it creates instability, the degree or level of volatility.

What we do with the GMMA is put that into a trading solution. That I think takes it a step beyond what Bill Williams is doing. Bill is saying, here's what's happening, and his understanding of chaos and so on is excellent, no question about it. But he's using older methods to measure new phenomena is perhaps the best way of putting it. The methods he's using to measure are not new measures for new phenomena and I think that's where GMMA steps in.



The market is a fractal and there's another theory that talks about fractal behaviour in the market and again theoretically it's very good but in trading terms it doesn't give us the solutions we want. If I can sidetrack for a moment, ATR, average true range is a perfect example. You go to Metastock and you can view a wonderful display of ATR that does this. It's perfect, it's a correct calculation of average true range. It's absolutely useless for trading.

If I put ATR on a price chart, it goes up and it goes down. How do I use it as a stop? First rule of a stop, never lower your stops of a rising trend. ATR is telling me to lower my stop. So what we do, in our trader's application of ATR which we use in our own charting programs, is that the ATR never goes backwards. It rises, if the value of the ATR drops, we just simply keep on moving horizontally. The stop doesn't adjust.

Once the ATR value rises above that level, then we readjust the ATR stop. So our ATR goes horizontally, not up and down. It's the difference between the theoretical application and the trading application.

So when you're looking at some of the work that Bill Williams does with MACD etc, it's good work, but I find it more difficult to directly apply it in a trading situation.

David Jenyns: Excellent. I hope that answers your question Robyn. The next one I've got is from Aru and he wanted to know how to avoid non trending markets.

Daryl Guppy: How to avoid non trending markets. Look at the chart. If you're not too sure, find someone who has got a young child. Promise them a kit kat and tell them, take a look at this chart, is it going up, down or sideways? A kid who has absolutely no preconceptions and no money involved apart from the kit kat will say, it's not doing anything, it's going sideways or it's going up or it's going down. Give him the kit kat and you've just saved millions of dollars.

Really what's happening in a non trending market, you cannot see a clear trend. If you can't see a clear trend, look at the chart, it's not going up or down, ok, it's not trending. That's all you need to know. There are some charts that are too messy to be able to trade. I was doing a training class in Singapore a couple of weeks ago for brokers and dealers. They were saying what about DBS which is a major Singapore development bank, a major bank.

It's a good blue chip stock but it is untradeable because you cannot apply any analysis method that will give you clear, consistent entry and exit points for a stop loss management method. So from my perspective, it's a stock I wouldn't be involved in, because once I'm in it, there's no method I can have that will reliably tell me this is the time to get out or this is the time to stay in. There are lots of messy stocks like that in the market. You have 1000, 1800 stocks to choose from, you only have to trade one or two. So find the one that is most attractive and trade it.

David Jenyns: Excellent. I've got a final question here from Joe Nemeč. He wanted to know what formula/system is most accurate in predicting a stock's next day price range? That's the holy grail Daryl.

Daryl Guppy: In predicting the next price range or the next stock activity, there are a couple of chart patterns that will give you a high level of probability. But there is nothing there that is reliable and consistent. You've got to decide in the market whether you're a gold digger or you're a pirate. What a gold digger does, he's looking to uncover gems out there, all he's got to do is find



Daryl Guppy (continued): them. By finding them before someone else, they're his. I spend a lot of time chasing gold, physical gold. Believe me there is an awful lot of dirt between the gold. It takes a lot of time and a lot of effort. Yes, you get some good rewards, but, hey, it's hard work.

That's the same in the market. There is this belief, that goes back to the 1930s, that if we have information before someone else, we can make a fortune. It's called inside trading, but when we do it, that's ok. We call it just more skill, or whatever. That's our thinking. So if we can develop an indicator that will tell us when the market is going to move more quickly. Think about the hours that have been spent taking a moving average combination, let's say 10 and 30, and trying to adjust it so that the crossover signal is moved back in time so that it is equal or coincides with the actual change in trend, or better still a bit further back so it gives us early warning.

What's the result of fifty years of computer analysis? The result is zero. We're not there.

David Jenyns: When you apply it to real time, it doesn't work.

Daryl Guppy: It doesn't work. So that's the gold digger. I'm trying to find something no one else knows and don't tell anyone because that's my claim.

I'm a pirate. The largest resources of gold were discovered by the Spanish in South America. You can go and watch all sorts of wonderful films about the deprivations people went through to try and get hold of this gold. What they eventually did is put it onto ships. There was an annual treasure fleet that travelled from South America via the Philippines back to Europe.

David Jenyns: You're going after that ship, aren't you?

Daryl Guppy: We're going after that ship. In other words I want other people to find the gold for me, put it all together, then I'll join them. That's what we're trying to do. I'm not interested in trying to find the gold, we're pirates, not gold diggers.

David Jenyns: Hearing some of these questions and some of the questions I'm sure you get all the time and all that you've learned over the years, you're an avid reader and studier of markets, looking back now, it's that age old question, if I'd known what I know now...

Daryl Guppy: I still make just as many mistakes. That's one of the key factors. It's the difference between trading and other sorts of things. If I go and sit an examination, then once I pass the exam that's it. I don't have to resit. In the market we have an exam every day. It has no relationship to what we did yesterday or the day before. So our success is always conditional upon the success of our next trade or the next trade or the next trade. There is never any mastery of the market. It doesn't exist.

What happens is you have to constantly adjust, modify, change because markets change and you also change. You're not the same at fifty as you were at thirty as you were at twenty. This is due to the fact that you have more money, or more experience or that you've been through a variety of different experiences, your reactions become different. Actually your reactions become slower, you're not as fast on the mouse as you used to be. All these come into play.

So you as a trader undergo development. Your needs change. So what you saw as an attractive opportunity twenty years ago is not the same as it is ten years ago, it's not the same as it is now.



Daryl Guppy (continued): Then the markets change, the behaviour of the markets, the volatility of the markets, trending continuity, all of that changes. The instruments change. When the instruments change, the methods you can use to trade, then that changes flows in money in the market. So money that used to be in some sectors of the market is no longer there.

For instance, what defines blue chips these days? Go back ten or fifteen years, blue chips were those stocks that were held by investors, by rich people. Now they're held by funds and fund managers. They've got different characteristics to individuals. What's the relationship in the speculative market? What's left in the spec market? What happens when we talk about dark pools working in a market? What impact does that have? What happens when we talk about multiple exchanges when Chi-X come and works alongside ASX? Where does the institutional money go, it goes to Chi-X, it doesn't go to ASX. When it goes to Chi-X, when does that trade get reported back to the underlying market?

How can we find the best price? Do we end up in the situation like we have in the US where you can trade five or six different trading platforms, different markets and where you can't get the best execution price because they've gone to the elite? All these factors challenge the nature and character of market behaviours. We've got to adjust all the time.

David Jenyns: Yes, I suppose it has to make you incredibly humble as a trader because you constantly have to learn, when you find, oh, I haven't got this right and continue to evolve. The final question I usually like to finish up on the interviews because especially with you having studied so much and continue to study, you really do have your finger on the pulse. Who are some of the people you keep an eye on as they're developing their material? Where are your new sources that you're helping to develop, the insights you're getting?

Daryl Guppy: I am fortunate. I do a lot of work on CNBC. They're bringing in top traders and investors, fund managers all the time as guests. I'm talking with them both on air and off air about various odds and ends, so that helps broaden the perspective to some extent. I'm looking at material being written. I'm working with individual traders, that's part of the reason I like doing seminars and workshops because students are giving me feedback, giving me ideas and by forcing me to explain my thinking, that helps me to improve my thinking.

The market again, is not about secrecy, it's not about gold mines, it's about sharing. There's a book by Alvin Toffler called Powershift, not one of his most popular books, in fact the second half of it is really not particularly useful. The first half is ok, but there is one sentence which he wrote which is most important. It says that everyone can use the same information at the same time and make money. That's the key underlying difference in the market.

None of us have an advantage. We all get the same information at the same time and ninety per cent of us get it wrong. You get the same end of day information, you cannot act until the market opens tomorrow morning, we're all using the same tools. We're all using the same charting techniques, we're all using the same analysis methods, but reaching different conclusions. So why are we reaching different conclusions? It's not related to the tools, it's not related to the market, it's related back to ourselves, the way we see what's happened.

So if we can improve the way we're seeing and we do that by talking, by understanding what other people are doing, then we can improve ourselves.



David Jenyns: Excellent. I think you've provided so many tremendous insights along the way. I know you talked about just one sentence in that book. I feel like if someone watched this interview a few times they'd find many fantastic sentences there. I really appreciate your time. If people want to find out more about you, they can go to www.guppytraders.com. That's a fantastic way to see what you're up to. Are there any other ways they can get in touch with you?

Daryl Guppy: Usually just go through Support. I tend to travel a little bit so I try to keep on top of my emails. It's not always as successful as I would like but we always answer all our emails within twenty-four hours. If the staff can't answer it, it comes through to me and I will answer it. But of course there is a range of DVDs and books and so on and you're handling some of those, so you might find that useful.

David Jenyns: Alright guys, well I know you've really enjoyed that interview. I'm going to see if I can talk Daryl into organizing a special deal for you guys, so stay tuned and I'll be in contact about that. Thanks for tuning in and I hope you enjoyed it.

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