

TECHNICAL PATTERNS & OPTION STRATEGIES

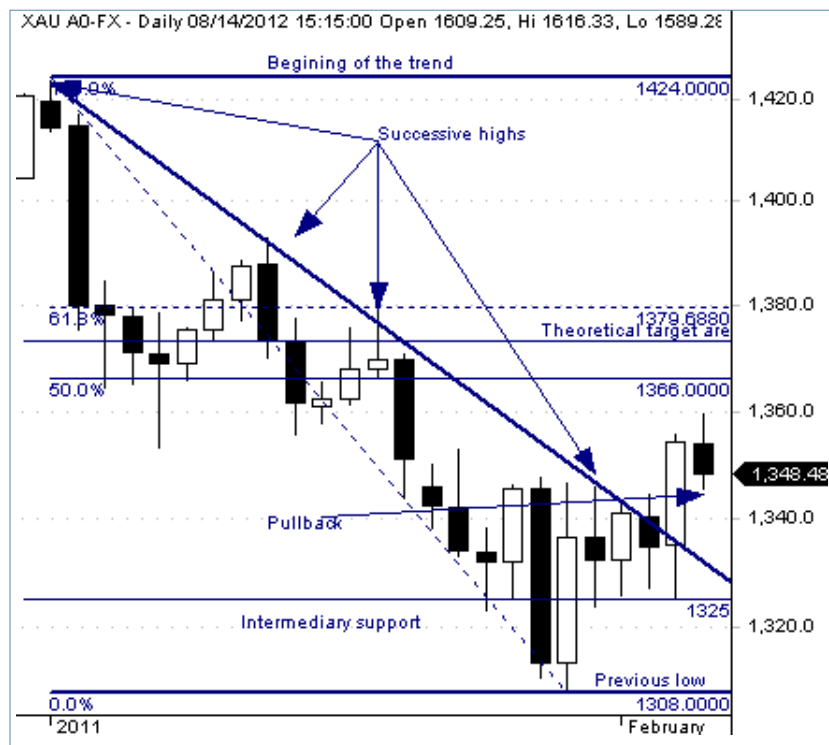
AUGUST 14, 2012

GOLD : The downtrend is over, but how high will it go?

The declining trend line is certainly one of the simplest tools used by technical analysts. It is well suited to a reversal trading strategy, as a push above the trend line is a strong signal of a change in trend: a potential market bottom. A declining trend line is a straight line drawn downward along successive highs but the chart must be in a logarithmic scale (as opposed to a standard scale). The signal is validated when the price breaks above the trend line.

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Upside breakout of a declining trend line: GOLD FEBRUARY 2011



ADAPTED OPTION STRATEGY: LONG RISK REVERSAL

The simultaneous purchase of a call with a Strike at 1360: halfway between the current price (1348) and the theoretical target (1372.8) and the sell of a put with a Strike around the previous low area (1310). The position is initiated during the pullback after the validation of the signal by a daily close above the declining trend line.

⇒ For more details about: LONG RISK REVERSAL see next page

LONG RISK REVERSAL: Leg 1	
Trading Symbol	GC
Option Type	CALL
Option Strategy	BUY
Strike	1360
Expiration	Mar 11

LONG RISK REVERSAL: Leg 2	
Trading Symbol	GC
Option Type	PUT
Option Strategy	SELL
Strike	1310
Expiration	Mar 11

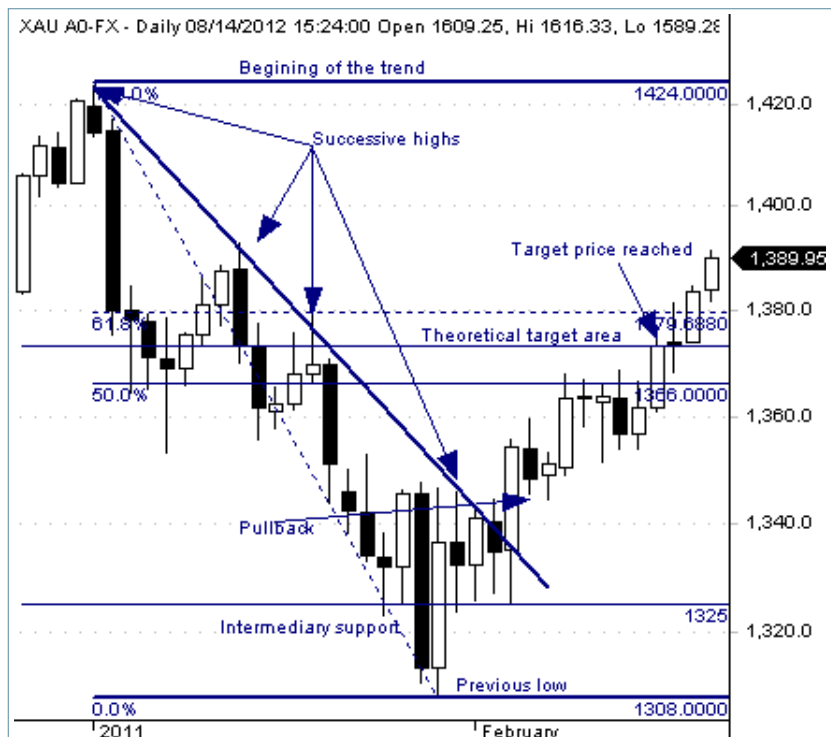
POTENTIAL UPSIDE PER CONTRACT

The initial buy signal occurs when the price breaks above the declining trend line (1340). Confirmation of the buy signal occurs on the pullback consolidation to the former declining trend line after the breakup; fresh long positions should be taken near this level (1348). There is now strong evidence for the start of a bullish trend (recovery from the previous downtrend). The upside potential can be gauged with the help of a Fibonacci retracement numbers (50% and 61.8%) of the previous down leg (impulsive move) from 1424 to 1308. (1424-1308=116). 50% retracement is thus: $1308 + 116 * 50\% = 1366$. 61.8% retracement is thus: $1308 + 116 * 61.8\% = 1379.688$. Halfway target strike price is: $(1366 + 1379.688) / 2 = 1372.8$. The call option strike is halfway between current price (1348) and theoretical target (1372.8), thus 1360.

POTENTIAL DOWNSIDE PER CONTRACT

The price fails to form the new bullish trend either before or after the pullback rally and falls back below the former declining trend line level invalidating a recovery move. In a worst case scenario, the position is closed quickly following the price drop below 1325 (intermediary support).

ACTUAL OUTCOME

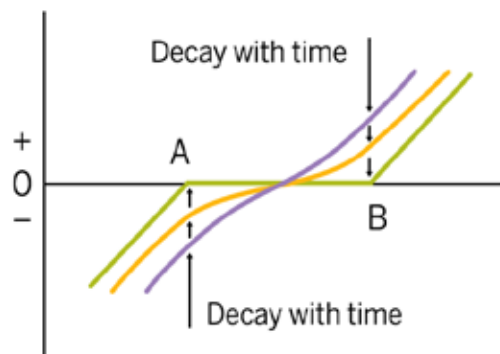


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LONG RISK REVERSAL: further insight into trading this strategy

Pattern evolution:



When to use: When you are bullish on the market and uncertain about volatility. Normally this position is initiated as a follow-up to another strategy. Its risk/reward is the same as a LONG FUTURES except that there is a flat area of little or no gain/loss.

Profit / Loss characteristics: Profit increases as market rises above the long call strike price. Profit at expiration is open-ended and is based on the exercise price of B +/- price received or paid to initiate position. Loss increases as market falls below the short put. Loss at expiration is open-ended and is based on the exercise

Decay characteristics: Time decay characteristics vary according to the relationship of the call strike price, put strike price and the underlying futures price at the time the position is established. The position is time decay neutral (not affected) if the futures price is exactly mid-way between the call and put strike prices; long time decay (benefits from time decay) when the futures price is closer to the call than the put strike price and short time decay (time decay erodes the value of the position) when the futures price is closer to the put than the call strike price.

Upside breakout of a declining trend line happening now in the markets



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