

London Academy of Trading

Level 5 Diploma in Applied Financial Trading

Sample Examination

Time Allowed: 1 hour 15 minutes

Students should answer ALL questions in this paper

Section 1 (28 marks)

Section 2 (40 marks)

Section 3 (32 marks)

No calculators are required in this examination.

SECTION 1 [28 marks]

For each of the multiple-choice questions below, identify the correct answer and give a brief (1-2 lines or a simple diagram) explanation of your answer.

Note that there is only one correct answer for each question & there is no negative marking.

1. From a trading psychology perspective, how would Snake Bite Effect make you behave when trading?

- Make you slow to cut losses from bad trades
- Make you take your profits too quickly
- Make you take less risk
- Make you take more risk

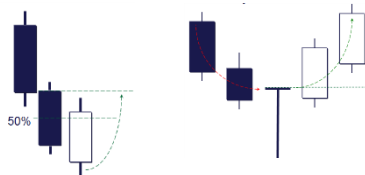
Marks [4]

Snake Bite Effect is caused by a series of losses, leading to lost confidence and less risk on future trades

2. Which of the following Japanese candlestick patterns both indicate bullish reversals?

- Hanging Man & Hammer
- Piercing Pattern & Dragonfly Doji
- Bullish Engulfing Pattern & Shooting Star
- Gravestone Doji & Inverted Hammer

Marks [4]

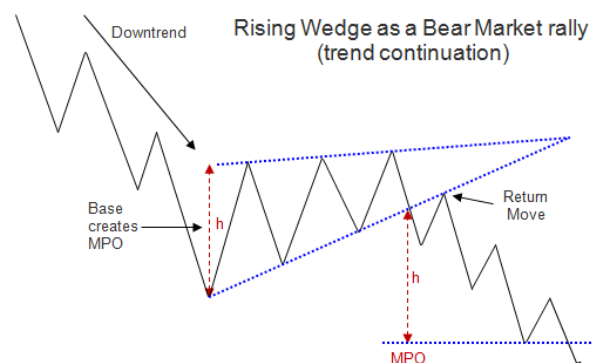


Draw diagrams or mention that Hanging Man, Shooting Star & Gravestone Doji are all BEARISH reversals

3. How is the Minimum Price Objective of a Rising Wedge pattern calculated?

- The base-to-apex distance, projected vertically from the breakout point
- The base-to-apex distance, projected vertically from the apex
- The vertical height of the base projected vertically from the apex
- The vertical height of the base projected vertically from the breakout point

Marks [4]



Draw simple daigram

4. When incorporating volume into a trading strategy, which one of the following situations is potentially bullish?

- a. Price falling & volume falling
- b. Price going sideways & volume rising
- c. Price going sideways & volume falling
- d. Price rising & volume falling

Marks [4]

Price falling and volume falling suggest that sellers are still in control, but selling energy is fading, suggesting a potential reversal of downtrend (i.e. bullish reversal)

5. Which one of the following is provided by the Slow Stochastic on a daily chart?

- a. It indicates the size of the daily trading range
- b. It illustrates the momentum of price movements
- c. It shows the relationship between two asset prices
- d. It indicates an increase or decrease in daily volume levels

Marks [4]

Most oscillators are based on price momentum.

Slow stochastics have nothing to do with volume or relationship between two assets.

Slow stochastic uses the high-low range for several events, not the daily trading range.

6. What is the average weekly traded volume of the global FX market?

- a. \$5,340,000,000
- b. \$5,340,000,000,000
- c. \$26,700,000,000
- d. \$26,700,000,000,000

Marks [4]

Average DAILY volume is \$5.4 trillion, hence average WEEKLY volume is $5 \times \$5.34 = \26.7 trillion.

7. Which one of the following is considered to be a secondary indicator?

- a. Trend line analysis
- b. Japanese candlestick analysis
- c. Momentum analysis
- d. Fibonacci extensions

Marks [4]

Trend lines, candles and Fibonacci are primary indicators.

----- End of Section 1 -----

SECTION 2 [40 marks]

ANSWER ALL QUESTIONS IN THIS SECTION

1. Relative Strength Index

- a. When looking at price charts, what information about price action does the Relative Strength Index (RSI) provide? **Marks [2]**
- b. Briefly explain how the RSI can be analysed to illustrate this? **Marks [6]**
- c. Explain why traders might use the RSI indicator to help their trading decisions. **Marks [2]**

- A
- a. The RSI indicates the strength, momentum or velocity of market prices.
 - b. It illustrates this with Overbought (>75%) or oversold (<25%) readings, bullish/bearish divergence (price and RSI going in opposite directions), by giving buy signals (RSI breaks above 25%) or sell signals (RSI breaks below 75%) or by “charting” the RSI itself with simple trend lines and patterns.
 - c. RSI can be used to warn of potential reversals of a trend or to confirm buy/sell signals within a sideways trend (either answer will get 2 marks)

2. Filters

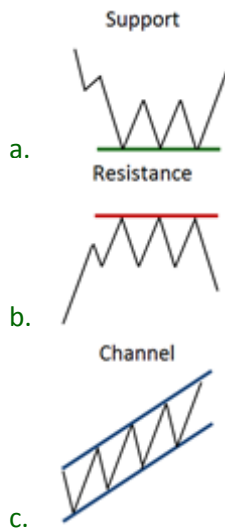
- a. When a price breaks below a support level, what types of filters can be used to confirm that the breakout? **Marks [3]**
- b. What other filter criteria would identify an IMPULSIVE breakout? **Marks [5]**
- c. Why would you want to use filters when trading? **Marks [2]**

- A
- a. Time and price filters
 - Time filters – wait for a predefined period of time after the breakout to ensure it is sustained
 - Price filters – wait for a penetration through a support or resistance level by a pre-defined amount
 - b. For an impulsive break-out, look for at least two of the following conditions:
 - Long bar
 - Close at extreme low
 - Big volume
 - Gap
 - c. Filters are used to make sure it's not a false break (i.e. to make sure you don't sell just before the price recovers).

3. Illustrate the following chart features with labelled diagrams and explain what is happening in terms of investor supply/demand to cause each of these situations to occur:

- a. A support level **Marks [3]**
- b. A resistance level **Marks [3]**
- c. An uptrend channel **Marks [4]**

A



Support: Demand overcomes supply with more demand to spare as buyers take control over sellers at a “good value” price & push the price higher.

Resistance: Supply satisfies all demand with more supply available as sellers take control over buyers at an “expensive” price & push the price down.

Increasing demand as buyers are willing to pay higher price on each successive pullback, but sellers also take over temporarily at short term resistance levels as profit takers (temporarily) increase supply at each new high to cause small price pullbacks.

4. In foreign exchange markets, each currency is given an ISO4217 code.

- a. How are standard ISO codes constructed? **Marks [2]**
 - b. Give three examples of currencies with non-standard ISO codes. **Marks [3]**
 - c. If EURUSD is trading at 1.2785 and GBPUSD is trading at 1.5846, calculate the current price of EURGBP. Show your workings. **Marks [3]**
 - d. A bank quotes a price of AUDUSD 0.8152-55 to a client. Given this price quote, at what price would the client buy USD? **Marks [2]**
- a. First two letters = country, third letter = currency. E.g. GBP (Great British Pound)
 - b. EUR, MXN, RUB, etc.
 - c. $\text{EURGBP} = \text{EURUSD} / \text{GBPUSD} = 1.2785 / 1.5846 = 0.8068$
 - d. Buying USD = selling AUD, hence client trades on the bid price, 0.8152

----- **End of Section 2** -----

SECTION 3 [32 marks]

- a. Draw a detailed labelled diagram of a Symmetrical Triangle price pattern, together with an explanation of price action before, during and after the pattern, including any investor behaviour that may affect price action.

Marks [16]

- b. Identify the price level(s) at which you would enter the market and give details of how you would manage your risk and follow your trade to its conclusion.

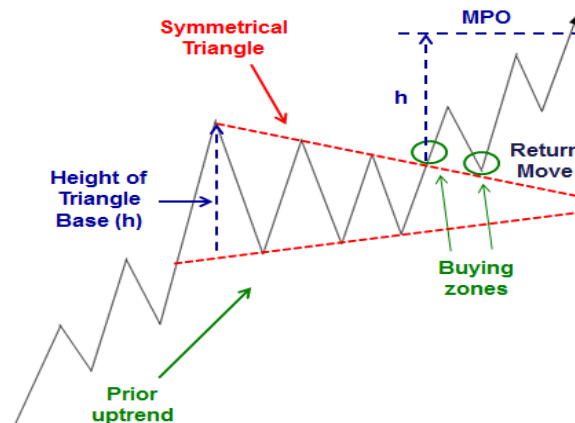
Marks [8]

- c. Explain how other technical indicators could be used to enhance your decision-making process throughout the formation of the pattern and onto its price objective.

Marks [8]

Symmetrical Triangle

- a. Diagram....



- A prior uptrend is required, but then buyers and sellers become balanced with neither party in control.
 - The symmetrical triangle is created when this sideways price movement narrows to form a triangle pattern, with one line sloping upward and one downward.
 - Expect the triangle to prompt a continuation of the prior trend, but there's potential for the price to breakout on the wrong side, as the buyers and sellers are both prepared to accept a worse price as the pattern evolves.
 - Breakout should occur between $\frac{1}{2}$ and $\frac{3}{4}$ distance through the triangle, ideally around $\frac{2}{3}$ distance.
 - Initial target (MPO) = height of triangle base ("x") projected from the breakout point
 - A Return Move or Retest back to the triangle before the price moves up towards the MPO.
 - may provide a potential 2nd buying opportunity
- b. Trading:
- If an upward breakout occurs (as expected), buy just after the breakout above the top triangle line.
 - If the price breaks downwards out of the triangle, then sell short.
 - Use time/price filters and/or long bar/close at extreme/high volume/gap to confirm a reliable breakout
 - The Return Move back to touch the triangle may provide a potential 2nd buying opportunity
 - Initial stop loss should be placed around the axis of triangle or just below most recent low

- If the return move finds support on the triangle and the price starts to move higher, then stops can be trailed up to a level just below the retest low
- Use a trailing stop (below successive pull-backs lows) to continue to reduce risk and ultimately lock in profit as the price increases
- Taking profit:
 - a. Take 100% of profit at MPO
 - b. Sell 50% of position at MPO & hold 50% for a further move upwards to another target (maybe 161.8% of the MPO) or simply keep trailing the stop upwards until a pullback hits your stop
- c. Other technical indicators: include oscillators, volume & OBV.
- Oscillators should show increasing momentum as the triangle forms (for an upward breakout and vice versa for a downside break).
- Volume/OBV should increase on the breakout leg of a pattern (decreased volume as prices decline within the triangle and then increased volume as prices increase).
- Big volume on the breakout would increase the chances of a reliable breakout.

END OF PAPER