

Kase Standard Mini-Trading Lessons Series – Lesson 1.1 – Introduction

Over the years, Kase has published a series of Mini Trading Lessons or “minis”, on the last page of our Commentaries. The minis explain varied topics primarily relating to technical analysis.

Throughout the last decade we have taken most our material from speeches given, articles written, and classes taught by Kase and Company personnel. Rather than publish similar material on an ad hoc basis, we combined our earlier lessons with previously unpublished material into a comprehensive guide.

Our current plan is to break the series into six sub-sections. Each sub-section will address topics relating either to technical analysis or hedging.

The lessons are compounded, so that each new lesson will incorporate the ideas taught in previous lessons.

1. Introduction
2. Technical Indicators
 - a. Chart Types
 - b. Entry Signals
 - c. Exit Signals
 - d. Stops
 - e. Chart Selection

Technical indicators are “algorithms;” mathematical formulas based primarily on price, occasionally including market-generated factors such as volume.

Such algorithms, when plotted on a screen, are called technical indicators. The indicators are either scaled to price and plotted directly on the price chart, or in a separate sub-graph below the price.

Technical Indicators Moving Average (on Price) and MACD (Sub-graph)



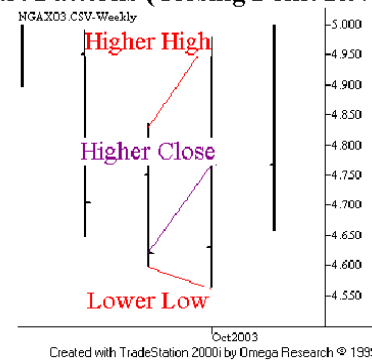
3. Patterns
 - a. Candlestick Patterns
 - b. Reversal Patterns
 - c. Breakaway Patterns

- d. Continuation Patterns
- e. Gaps

Price activity has reoccurring formations called Chart Patterns. These can either be a single bar, small groups of two or three bars, or larger-scale patterns formed by many bars where it is the overall shape of a pattern that is defining.

The example below shows a one bar pattern called a closing point reversal. This pattern, when found in a bear market, involves a lower low, higher high and higher close than the previous bar.

Chart Patterns (Closing Point Reversal)



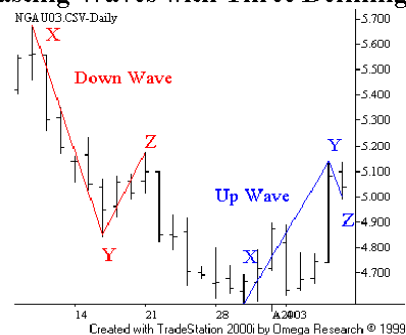
4. Forecasting

We forecast the market by combining data from the Trading Indicators and Chart Patterns into Wave Analysis, often called Elliott Wave analysis and Fibonacci numbers.

The chart below shows an example of how waves are defined by three points, x, y and z. Point x is the origin of the wave, point z is the peak or valley, the end of the wave, and point y is the retracement or corrective portion of the wave.

A down wave is shown in red and an up wave in blue.

Forecasting Waves with Three Defining Points



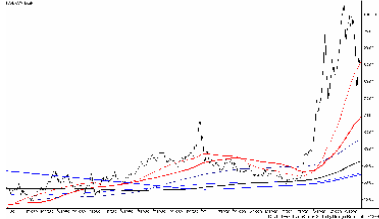
5. Hedging

The Kase HedgeModel employs a statistical approach to hedging.

One of the challenges in using a statistical approach to hedging is determining what lookback length to use in calculations. The chart below shows various moving averages. The red moving averages are for shorter lookback lengths and the blue moving averages for longer.

If we define a bullish market as one being above the averages and a bearish market as one being below, we can see that the definition changes based on which average is used. Kase overcomes this issue by using variable lookbacks.

Hedging (Several Lookback Lengths)

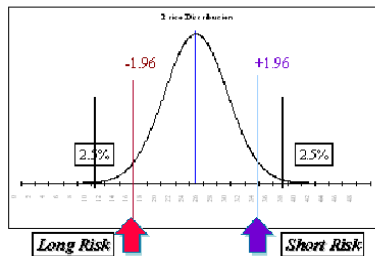


6. Statistics and Financial Engineering

Financial engineering is the use of mathematical and statistical modeling to assess probable price behavior and relationships.

We will discuss the basics of statistics, Value at Risk, Monte Carlo simulations, options pricing models and basis and regression analysis. For example, the chart below shows a normal bell curve, and marks the 2.5 and 97.5 percentile points at 1.96 standard deviations above and below the mean. Industry participants use either the 2.5% or 5% risk points as a standard for measuring risk. At the “long risk” point, there is only a 2.5% chance that the holder of length will lose money.

Bell Curve with 2.5% Confidence Levels



Summary

There are approximately fifty lessons, but new sections may be added with either new topics or in depth studies of existing ones. As Kase develops new studies and techniques these will also be added.

We will also continue our periodic “Focus on Trading”, special essays by Cynthia Kase, and our semi-annual Scorecard. Focus on Trading is a detailed review of the trading methodologies used under immediate market conditions, and often tie this series into the current lesson topic. The special essays are topics of interest, usually on the philosophy of technical analysis, while the Scorecard evaluates the accuracy of the Analysis and Outlook sections of this Commentary.

If there is a topic that you wish to see discussed please telephone the call center at (505) 237-1600 or email us at kase@kaseco.com.