The Jim Berg Entry and Exit System.

Note. *The description below is given for educational purposes only in order to show how this may be used with AmiBroker charting software. As described here it is not a complete trading system since it does not include risk management or position sizing. Do not trade if you do not thoroughly understand how to manage risk.*

This is a description of the volatility based trading system developed by Jim Berg. Jim is an experienced trader and his method caught the attention of many people when he used it to win the Personal Investor Magazine trading competition in 2002, a difficult year in the Australian market. During that year the market declined by about 20% but Jim managed to produce a return of (if I remember correctly) some 30%, a huge outperformance of the market.
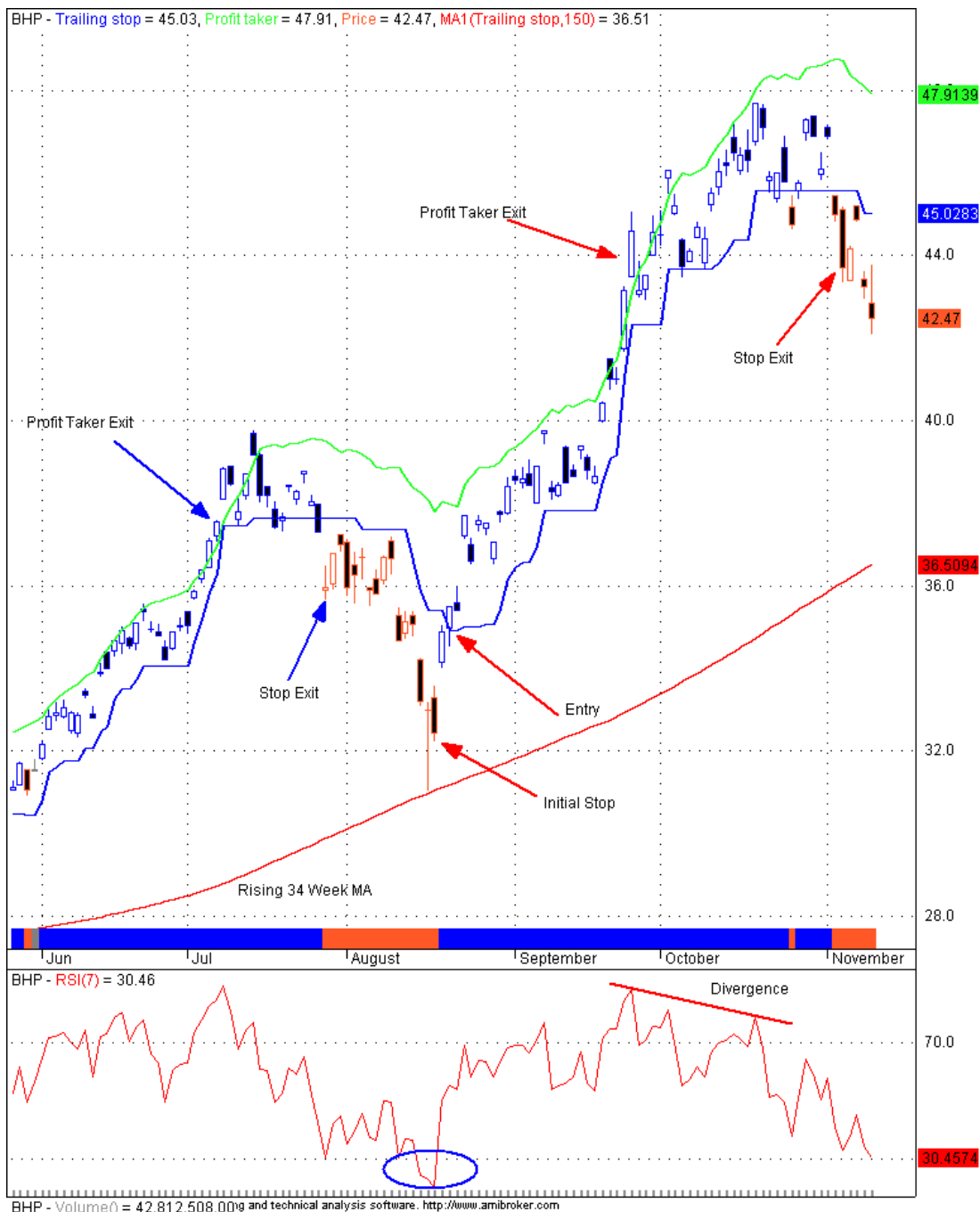
In his system he uses the volatility indicator 2ATR(10) for the entry signal as well as the trailing stop and also uses it to produce a profit taker line on the chart to indicate when prices have moved up suddenly. This can be a signal to take profits before a possible retracement to more normal price movements. The system is set up for long trades only.

The system is described in 'Stocks and Commodities' February 2005 issue in an article called 'The Truth About Volatility' by Jim Berg. In this article the coding for Metastock is given. This has been recoded for AmiBroker by Thomasz Janeczko, the originator of AmiBroker. It can be found on the AmiBroker website but to access it you need to have bought AmiBroker since it is in the members section. The instructions for getting it into AmiBroker are at the end of this article.

Like most good trading systems it is not complicated and does not rely on too many indicators. There is a series of criteria that are used to signal a trade. The first of these is that the stock must be in an uptrend and this is shown when it is trading above a rising 34 week moving average. As an example have a look at the chart of BHP (next page) and notice the red line (the 34 week MA) is rising and BHP is trading above it. So BHP is a candidate for a trade. I use a 150 day MA which gives much the same results since it is equivalent to a 30 week MA

Below the main chart is another indicator, the 7 day RSI. This is the Relative Strength Indicator and for an excellent article describing this indicator go to the 'Help' section of AmiBroker, click on the 'Search' tab, type in RSI and click 'Display'. You will notice that there are dotted lines at 30 and 70 showing 'Oversold' and 'Overbought' conditions. What we are looking for are occasions where the line of the oscillator dips below 30. This happens in the middle of the chart and I have marked it by the blue ellipse.

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BHP - Trailing stop = 45.03, Profit taker = 47.91, Price = 42.47, MA1(Trailing stop,150) = 36.51

BHP - RSI(7) = 30.46

BHP - Volume() = 42.812.508.00ng and technical analysis software. http://www.amibroker.com

The next step is to look for the candles to change colour to Blue and on the next day we look to enter the trade. It is best not to chase prices up but to see if it is possible to get in at a price not too far from the price range of the day when the colour change took place. The initial stop is set below the last low which is the low that gave the Oversold signal of the RSI.

You should note that the entry signal for this system is not necessarily when the candles move above the blue 2ATR(10) line (as it does when we use the Chandelier line) but when the candles change to the blue colour. This is because of the slightly different way the system is coded compared to the Chandelier indicator.

The 2ATR(10) stop line follows the price up but continues to track horizontally for 15 days when prices fall to provide a stop line for a long trade. If this was not done the line would fall with falling prices and never give an exit signal.

Getting back to the trade that is signalled on the chart, we can see that it is possible to enter at about $35 and that the initial stop is at $32.20 (first red arrow on the chart).

In fact the previous candle has a lower 'tail' but I am ignoring it as it was simply due to a technical problem which shut down the Sydney Futures Exchange for a while at the worst possible time. It is therefore a complete aberration and a lucky break for those who noticed it and were able to buy shares at ridiculous prices for a very short time.

The initial risk for this trade was therefore about $2.80. It is not advisable to take the trade if the initial risk is more than 10% of the price. In this case the $2.80 risk is less than 10% of the share price.

Another line on the chart is the lime green one which is usually above the prices. This is the 'Take Profit' line. When prices close above this line it can be used as a signal to lock in profit. Notice that on the chart there are two occasions I have marked where this signal might be used to take a profit. In each case this resulted in a better exit than waiting for the stop line to take us out of the trade. This is not always the case and sometimes it will take you out of a trade which then goes on much higher.

The profit taker signal needs to be used with discretion. In a stock which is undergoing a rapid repricing because of good news it's use may be less likely to lead to good results than in a stock which is in a steady uptrend.

This profit taker is also suitable for short term trades where it is important to get a good profit quickly. But remember that it is important to think of the profit in terms of the risk/reward ratio. If the profit is not at least twice the initial risk of the trade it may be better to let the trade continue until the reward (profit) is large enough to justify taking the initial risk.

The 'Take Profit' line is calculated to be 2ATR(10) above the 13 period exponential moving average of the closing prices. This sounds to be quite a complicated thing but when you stop to think about it is not too difficult to comprehend. All that is done here is to calculate a 13 day (or week when using weekly charts) exponential moving average of the closing price. 'Exponential' means it is a slightly more complicated calculation which makes the resulting line more responsive to the most recent prices rather than the more distant ones. Then the 2ATR(10) value is added to this to move the line up above the prices and away from the 'noise' of the market. This gives a signal to indicate that prices have moved up more quickly than the usual range of price movement. It is assumed then that the price has gone up too quickly and often it will retrace to a more normal range or it may be that the trend has gone too far and will be more likely to change. Notice that again it is a volatility based indicator line

Going back to the BHP trade, it soon took off as the panic subsided and new highs were made. On 29 September the price at the close was well above the profit take line and the next day the profit could be taken at prices above $43.50. After that the price fell slightly and then rose again to a high of nearly $48. By then in real time it would look as if the profit take exit was not an advantage but as things developed it became clear that it was in fact a good move.

The system has the 2ATR(10) trailing stop line to protect profit and this signals an exit if the price closes two consecutive times below the line. On 25 October it does close below the line but the next day is above again so the trade continues. Then on 5 November there is a second consecutive close below the line giving an exit at about $43.50, which happens to be much the same price as the profit take exit on 30 September. In this case the profit take exit would have saved us a month's exposure to market risk.

Also note that on the left of the chart the two blue arrows illustrate another example where the profit take exit would actually have been at a higher price than the stop exit. It should also be noted that both of these two exits would have got us out of the market before the dramatic drop in prices in August.

Another interesting point is the divergence between the peaks of the RSI and the price. The line drawn on the RSI pane shows the RSI making lower highs while the price is making higher highs.

This can be a signal that the trend is running out of momentum and in view of this warning it might have made good sense to get out of the trade after the first close below the trailing stop line. This would have made the trade a little more profitable. While this might help to manage the trade it is not part of the JB system.

At the bottom of the price chart you will notice the coloured ribbon which changes colour as buy and sell signals are given. It is not part of the coding given for MetaStock but Thomasz has added it as an extra feature in AmiBroker. This can be useful when quickly moving from chart to chart in a watchlist of shares which are in an uptrend and suitable candidates for trading with this system. In AmiBroker charts open so quickly that it is possible to scan through the charts rapidly looking for a change of colour at the end of the ribbon. It is then possible to pause at those charts which have a small patch of blue at the end of the ribbon and see if it is ready to trade.

The Jim Berg system can also be used on weekly charts for longer term trades. For these trades the system uses fundamental criteria as well as charting to select trades. You would need to get these fundamental filters by subscribing to his website www.sharetradingeducation.com but please note that it needs a paid subscription and that once you subscribe there will be monthly charge automatically deducted from your credit card. (At least that was my experience when I subscribed for a while some time ago). It is possible to unsubscribe at any time so it may be worth a look for those who are interested in getting further information about his trading system.

He uses the same data supplier as I do and this comes with free charting software which is rather rudimentary when compared to AmiBroker. However the data is very good and works very well with AmiBroker. It is my opinion that AmiBroker together with a subscription to PremiumData is a better and more cost effective package. (I would remind readers that I have no financial interest in any of these things – I make my money trading the market, not selling things connected with trading.)

Jim also offers lists to use with MetaStock but when using AmiBroker with PremiumData more extensive lists are supplied and maintained and work ever so much better than anything MetaStock can do.

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Summary

To select trades using the Jim Berg system:

The share must be trading above a rising 34 week Moving Average.
Look for the RSI to dip below 30.
Enter a trade the day after the candle (or bar if you prefer) changes to blue in colour.
The initial stop is just below the latest low which caused the RSI to dip under 30.
If the risk is greater than 10% of the price don't take the trade and preferably buy inside the range of the day the buy signal was given, even if it means waiting a few days before placing the trade to see if it comes back to the preferred buying price.

To exit:

Exit immediately if the price moves below the initial stop. (Last low before the trade was signalled.)
If prices move up sufficiently the trailing stop (blue line) comes into play and the exit is taken once the price closes two times in succession below the line. (It is my suggestion that once the price has moved above the entry price by the amount of the initial risk that then the blue line could become the exit criterion.)
In short term trades exit the next day after the price has closed above the 'take profit' line (and I would suggest to do this only if the profit is at least twice the initial risk.)

There are other refinements which can be added to this system but these are the main features. Remember that strict risk management is to be used.

I would also warn that any trading system, no matter how good, will not be profitable unless you are able to trade it in a disciplined fashion. Also this is a system for trading long so there are times when

this system may not work. If you are not able to trade shares with consistent profits then under no circumstances use leveraged products like CFDs. You will simply lose your money more quickly.

Instructions

These instructions are only for those who have paid for AmiBroker – I could give you the code but that would not be fair since AmiBroker gives access to this for subscribers only.

To get the Berg system code go to the Members' page of the AmiBroker site (On the left of the AB home page go down to 'Member zone' and you will need to have paid for AmiBroker to get a password etc to enter) and scroll down through the "Stocks and Commodities Traders' Tips" till you get to the one for Feb 2005 'The Truth about Volatility' and click on this. Highlight and copy the code there (all of it) and go to AmiBroker and open the 'Formula Editor'. Paste the code in there and go 'File>Save as>Save in' and from the drop down box select C:\Program Files\AmiBroker\Formulas\ Custom and save the file as Berg (or whatever you like to call it).

To use it click on the 'Charts' tab in Workspace (usually on the left of AmiBroker) and click on the + beside 'Custom' and now in the list you should see 'Berg' (or whatever you called it). Make sure you have open a sheet where you would like this to be (Select one from the tabs along the bottom - make sure it is one which does not have something you want on it) and now right click on 'Berg' and click 'Insert'

Now the Berg trading method will be on a pane on the sheet you selected. I would now right click inside the unwanted pane(s) on the sheet, click on 'Pane' and click 'Close' to leave only the Berg method on the sheet.

Once that is done go to 'Indicators' under the Charts tab in Workspace and click on the + beside it and find 'RSI Relative Strength Index' from the list and right click on it. Click on 'Insert' and there it is in a new pane at the bottom of the sheet. At the same time a 'Parameters' box should have opened and in that highlight the 15 and type 7.
Now click on the 'Axes & Grid' tab, scroll down to 'Levels' and select 30/70. Then click OK.

You should now have the Berg chart on the top and the RSI below it.

The chart will display bars, not candles, but this is easy to change.

Right click on the chart and click 'Edit formula' and in the code is the following line:

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Plot( C, "Price", Color, styleBar | styleThick );
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Where is says **styleBar** highlight 'Bar' and type in 'Candle'. Make sure nothing else is changed. (If you make a mistake and don't remember what the code was, click close and '**No**' to make sure you don't save errors you made. Then start again.)   If everything is good click 'Close' and 'Yes' to save the change. The chart should now display candles.