

Exchange Traded Fund Portfolio User Guide

A Trend Following Trading System for liquid ETFs

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1 Overview

The Exchange Traded Fund (ETF) Portfolio trading system is a medium-term (weeks to months holding period) trend-following system that can take both long and short positions in the following ETFs:

BBH	Biotechnology
BDH	Broadband Internet
OIH	Oil Services
RKH	Regional Banks
RTH	Retail
SMH	Semiconductor
UTH	Utilities

These particular ETFs were selected because they are relatively liquid (i.e. have a reasonable trading volume per day), and are not overly dominated by one particular ETF constituent company. If you are uncomfortable taking short positions (or you want to trade this system in an IRA account that does not allow shorting) then it is possible to simply take the long signals and ignore the short ones.

The system works by applying various proprietary trend-measuring indicators to the individual components of each ETF and then aggregating them into a signal that can be used to trade the ETF itself. The actual calculations used to determine these indicators are proprietary to PMKing Trading and will not be disclosed to subscribers.

Actual trading signals may be generated at any time during market hours, although it is acceptable for all entries and exits to be acted on at the next open for customers who do not want to trade intra-day.

As with any trend-following systems, the ETF Portfolio system will only work when the instruments it trades are in strong up or down trends, at other times when they are moving in a sideways-range the system will suffer repeated small losses. Since it is impossible to determine in advance when an instrument will change from sideways to trending it is recommended that you persevere and trade this system through all market types rather than trying to predict when it will become profitable.

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NONE OF THE TRADING SIGNALS IS TAILORED TO YOUR SPECIFIC CIRCUMSTANCES AND SHOULD NOT BE CONSIDERED AS FINANCIAL ADVICE. IT IS RECOMMENDED THAT YOU SEEK PROFESSIONAL ADVICE FROM A REGISTERED INVESTMENT ADVISOR BEFORE BUYING OR SELLING ANY ETFS.

2 Understanding the Trade Signals

Every time a signal or other change is generated for the ETF Portfolio you will receive email with the subject 'PMKing Trading ETF Portfolio Signal' from etfs@pmkingtrading.com to the email address you used to subscribe to the system (and you use as the user name to access the password protected area of pmkingtrading.com)

The signals will be one of the following types:

- Long Entry
- Short Entry
- Add to Long
- Add to Short
- Exit Long
- Exit Short
- Adjust Stop

Each will now be described.

2.1 Long Entry

A signal to enter a new long position in one of the ETFs:

Signal Date: Enter Long [BBH|BDH|OIH|RKH|RTH|SMH|UTH] at EntryPrice with InitialStop at StopPrice

EntryPrice will be the price you enter for your entry stop (i.e. the price must be higher than this for a long entry).

StopPrice will always be lower than **EntryPrice** and is usually entered as a separate Good Til Cancelled (GTC) order with your broker.

For example:

11/28/5 Enter Long OIH at 130.00 with initial stop at 112.47

2.1.1 Calculating Your Position Size

To calculate position sizing for this trade we take the difference between the stop and the entry price (130.00-112.47) which is 17.53 and divide this into the dollar amount of risk you want to take per position. For example if you are using 2% risk and a \$100,000 account then that would be \$2000 per position. $2000/17.53 = 114$ so rounding down to the nearest 100 shares gives you the answer 100. Therefore you would purchase 100 OIH at the next open. Note that generally ETFs can only be traded in round lots of 100. If your position-sizing means you should trade less than 100 shares of an ETF then currently there is too much risk for your account size in that position and it should be skipped (or your allocated capital increased).

Once your position was open you would put in the sell stop order:

Sell 100 OIH at 112.47 Good Til Cancelled

As subsequent signals were generated, the stop price may be changed and you would have to update your order with your broker. The initial size of the trade becomes one 'unit' and this unit size should be used for subsequent addition signals.

2.2 Short Entry

A signal to enter a new short position in one of the ETFs.

Signal Date: Enter Short [BBH|BDH|OIH|RKH|RTH|SMH|UTH] at Price with InitialStop at StopPrice

EntryPrice will be the price you enter for your entry stop (i.e. the price must be lower than this for a short entry).

StopPrice will always be higher than **EntryPrice** and is usually entered as a separate Good Til Cancelled order.

2.3 Add to Long

A signal to add to a current winning long position:

Signal Date: Add to Long in [BBH|BDH|OIH|RKH|RTH|SMH|UTH]

Only currently winning trades are ever added to, and usually only up to 2 additional units of the same size as the initial position.

Remember to adjust your stop order for the new position size in this position.

2.4 Add to Short

A signal to add to a current winning short position:

Signal Date: Add to Short in [BBH|BDH|OIH|RKH|RTH|SMH|UTH]

Only currently winning trades are ever added to, and usually only up to 2 additional units of the same size as the initial position.

Remember to adjust your stop order for the new position size in this position.

2.5 Exit Long

A signal to exit a long position:

Signal Date: Exit Long in [BBH|BDH|OIH|RKH|RTH|SMH|UTH]

Enter a market order to exit this entire position immediately (or at the next open if you do not trade intra-day). Don't forget to cancel any GTC stop orders for this position.

2.6 Exit Short

A signal to exit a short position:

Signal Date: Exit Short in [BBH|BDH|OIH|RKH|RTH|SMH|UTH]

Enter a market order to exit this entire position immediately (or at the next open if you do not trade intra-day). Don't forget to cancel any GTC stop orders for this position.

2.7 Adjust Stop

A signal to adjust the stop for a current long or short position:

Signal Date: Adjust stop for [BBH|BDH|OIH|RKH|RTH|SMH|UTH] to StopPrice

Adjust your GTC stop order for the ETF to the specified price.

3 Viewing the Current Portfolio Status

You can always view the current status of the ETF Portfolio system by logging onto the password-protected area of pmkingtrading.com.

3.1 Logging into the web site

Go to <http://www.pmkingtrading.com/ETF>

You will be prompted for the user name and password you were assigned when you subscribed to the service. If you have any problems logging in or have forgotten your user name or password then please contact us using the details listed in the Support section of this user guide.

The page you get to when you have logged-in is split into 3 sections:

- Recent Signals
- Current Position Charts
- Current Sample Portfolio

Each of these will now be described.

3.1.1 Recent Signals

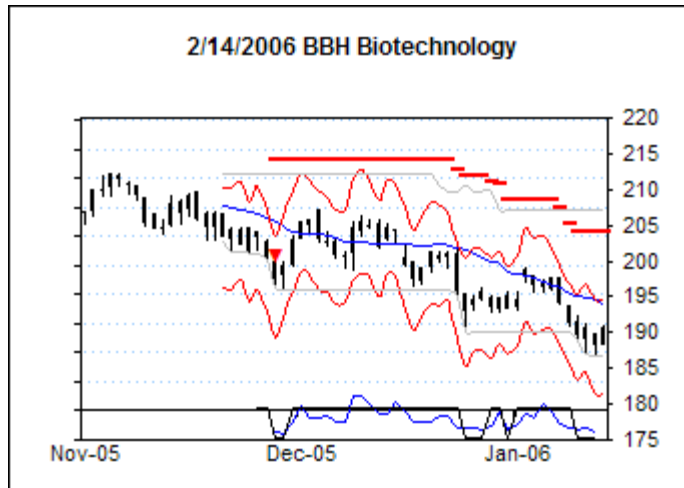
This is the section that lists any recent trading signals with the latest ones at the top. For example it might say:

2/15/6 Exit Long in OIH

The most recent signal will be listed first, along with recent previous signals. Some short commentary for the reason behind the signal may also be provided.

3.1.2 Current Position Charts

This section shows all current positions plotted on a chart with various indicators. An example chart is shown below.



This is a chart of a Short position in BBH Biotechnology. The key to the indicators on the chart are shown below:

Upper Indicators

- ▼ Short Entry (Red Dash)
- ▲ Long Entry (Green)
- Wide Stop (Red)
- Adaptive Moving Average (blue)
- Volatility Bands (Red)
- High/Low Bands (Grey)

Lower Indicators

- ETF Strength (Blue)
- Long/Short Entry Signal (Black)

Calculation and usage of these indicators is proprietary to PMKing Trading but subscribers may ask for full disclosure of all methods if they desire explanations.

3.1.3 Current Sample Portfolio

The last section of the page shows the current sample portfolio assuming a 1-2% risk and \$100,000 starting equity and is included so you can check that your current positions match ours (i.e. you have not missed any signals).

Entry Date	ETF	Side	Full Size	Current Size	Average Cost	Cost Basis	Stop Style	Initial Stop	Current Stop	Initial Risk	Exit Price	Value	P/L	Current Risk
11/11/05	RTH	Long	100	100	98.24	9824	Tight	89.52	93.06	-872	96.99	9699	-127	-518
11/18/05	BDH	Long	500	400	19.91	7964	Tight	17.89	19.74	-1010	20.46	8184	218	-68
11/28/05	OIH	Long	100	100	130.05	13005	Tight	112.47	133.30	-1758	136.96	13696	689	325
12/19/05	BBH	Short	100	100	196.95	19695	Wide	217.62	204.14	-2067	191.37	19137	556	-719
2/14/06	UTH	Short	200	100	113.78	11378	Wide	119.49	119.49	-1142	113.78	11378	-2	-571
Totals:						61866					-6849	62094	1334	-1552

An explanation of each of the columns is given below:

Entry Date	Date the position was first entered
ETF	The ETF bought or sold
Side	Long or Short entry
Full Size	How big the position could get if all units are added
Current Size	Current number of shares in the position
Average Cost	The average amount paid for all shares in the position
Cost Basis	The average cost times the number of shares
Stop Style	Whether we are currently using Tight or Wide stops for this position
Initial Stop	The stop price when the position was first entered
Current Stop	The stop price right now
Initial Risk	The difference between the entry price and the initial stop times the number of shares
Exit Price	The price you would get if you exited when the portfolio summary table was created
Value	The position value based on the exit price
P/L	The profit or loss for the position based on the exit price
Current Risk	The profit or loss you would receive if you exited the position at the current stop price

Please contact us if you have any questions regarding the meaning of the values shown in the current portfolio table.

4 Stop Adjustment

Stops for each position start off 'Wide' and are always represented by the --- line on the chart. Under certain circumstances a stop may become 'Tight' and will then be a combination of the other indicators on the chart (Adaptive Moving Average, Volatility Bands, or High/Low Bands). Calculation and usage of these indicators and the way stops are determined for each position is proprietary to PMKing Trading.

You will receive a signal at the end of the day with new stops for each of the open positions in the ETF portfolio if they have changed.

5 Changing Your User Name or Password

Please email us at etfs@pmkingtrading.com if you would like to change your username or password for your access to the ETFs page.

6 Support

If you have any questions please use the details below to contact us.

email: etfs@pmkingtrading.com

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