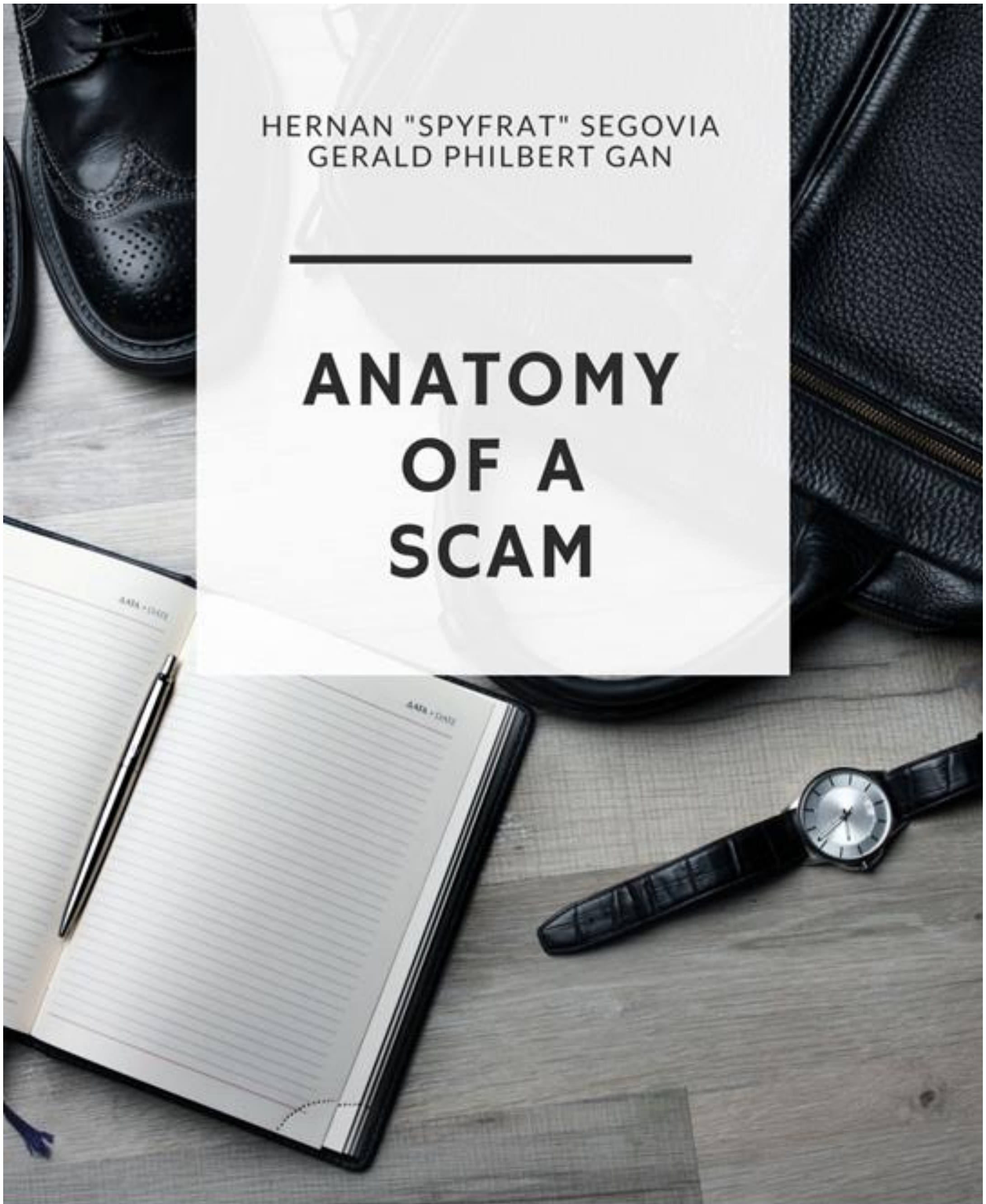
HERNAN "SPYFRAT" SEGOVIA
GERALD PHILBERT GAN

ANATOMY OF A SCAM



Stock market teachings, advice, notes and general thoughts from "Spyfrat", one of the Philippines' premier traders.

FOREWORD

"People make mistakes, that's why pencils have erasers.". This is the favorite quote of a man with great ideas. He does not endorse pencils, nor erasers, but he is a man of wise words. Born on August 1971 in Negros Occidental, Hernan Fernandez Segovia brought a change to this world. A young boy with imaginative ideas, he liked to do reckless things with his two older brothers. Because he was a very active child, he would sometimes come home with scars. In 1979, their family decided to move in Iloilo City. He graduated primary and secondary school in Central Philippine University, and proceeded to take Electrical Engineering in college.

He met Arlyn Whitfield Demerin, his wife and first and only girlfriend, in his college years. He never thought that during those years, a particular interest would be a great part of his life. Hernan Segovia loved Mathematics - that's why he took Engineering as a course, and the Stock Market Industry took his attention. He was curious about the idea on how the stock prices go up and down, buying & selling, and how to gain profit from stocks. He graduated as an Electrical engineer, passed 2 licensure examinations thereafter but he decided to follow his passion.

Hernan Segovia has been a Stock Market Broker and Chartist for twenty-four years. He is known online as Spyfrat, a passionate mentor in the stock market industry. When he was 25, he became a self-made millionaire. But as a young trader then, he was prone to mistakes, thus, he lost all the profit he made two years after that. In the year 2000, he was the only Asian who was awarded hall of famer by the Money.com. In 2001, he became a millionaire for the second time. He planned to retire, and engage to other businesses, but he lost his profit into bad business investments. Despite these, he didn't quit. He continued to work harder, and harness his skills in stock market trading. He has been invited as a speaker, as an advocate of financial literacy for many times. He was part of forum Stock Market Pilipinas, and co-founded SMP Charity Foundation together with Oliver Azarcon or commonly known to the SMP community as Commander Ollie. He is a former contributor of Bookaka.com and presently with BoH Society together with Jojo Gaston, Tony Soliven and its Founder Jet Mojica. Since 2016, Hernan has been mentoring more than 1,000 Market enthusiasts. One of his students is his 13-year old son doing Foreign Currency trading - who is up more than hundred-percent since April.

Despite his perseverance to become super rich, he never reached it. Lots of money and success mattered to him the most, until he realized that material things are temporary - it would never bring true happiness. Contentment and happiness can only be found in the family. The greatest lesson that he learned is that having contentment is a success. He quite regretted that in the past, he deprived himself from sleep by continually trading until the wee hours in the morning. He did not saw his eldest daughter grow as a person she is now. But as he said, pencils have erasers for a reason; mistakes are opportunities to become better.

Now, Hernan F. Segovia is happily married with his wife of 27 years, Arlyn Segovia, with three children, Lei, Arianne and “Lars” Nash. He is focused in documenting all his notes and theories specially in parabolics not only on local stocks but in other markets and investment instruments as well. He’s continuing to be the passionate and lovable "Spyfrat", and becoming the best father in the world. In fact, to his children, he is already the best father in the world.

Written by Arianne Segovia, daughter, sometime in the middle of 2018.

<u>CHAPTER 10: THE ANATOMY OF PARABOLIC THEORY</u>

"The Parabolics – The mother of all chart patterns. Both a foe and a friend. Can make a beggar a bagger and vice versa." – Hernan Segovia

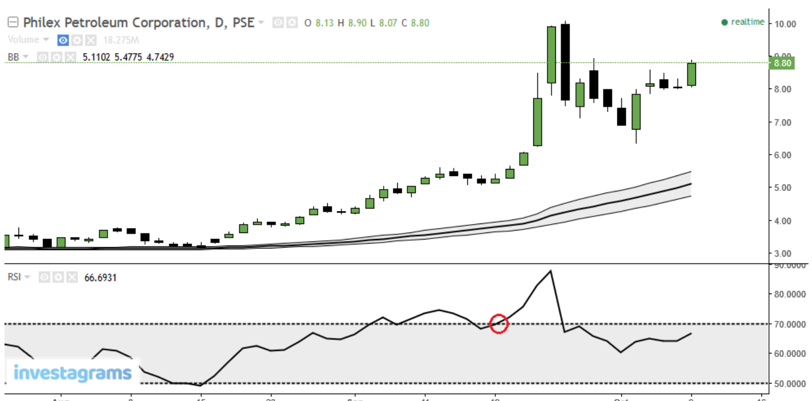
The **Parabolic Theory** was developed and honed by Hernan 'Spyfrat' Segovia and is an integral part of the **Spyfrat Trading System**. It's important that we discuss this first, as not only does it provide you with a good foundation that you can actually use to start trading, but as you will see in future chapters, parabolic theory also ties in to numerous other theories and is a vital cog in making the entire **Spyfrat Trading System** flow.

PARABOLIC

Before we can delve into **Parabolic Theory**, first we need to understand how to recognize when a stock has gone parabolic or has entered into parabolic status.

A stock is considered to be parabolic once its RSI reaches above 70 (i.e. if RSI exceeds 70 on a weekly time frame, then a stock is considered to be parabolic on the weekly charts; if RSI exceeds 70 on a monthly chart then a stock is considered to be parabolic on the monthly charts, and so on). Parabolic status exists only in a high RSI environment.

Once a stock reaches parabolic status on a specific time frame (i.e. daily, hourly, weekly, etc.), there is a decent probability that prices could go even higher. In the example below, you can see what comes about when a stock's RSI surpasses 70 (indicated by the red circle) and goes parabolic on the daily time frame.



Should you decide to enter into a position on a stock that has gone parabolic, be very aware of its high volatility. From the example above, it is also plain that prices sometimes wildly fluctuated anywhere from 10% to 30% in a day. While the price is driven up exponentially, the trade-off is the extreme volatility. Be sure that you know this going in to avoid potentially disastrous consequences.

Trading stocks that have entered into parabolic status can be profitable, as long as you understand the inherent risks and take into account the possibly of intense swings.

PARABOLIC THEORY

Parabolic Theory on the other hand, revolves around the concept that when a stock's weekly RSI and daily RSI are both above 70, there is a high likelihood that the stock's price will continue to increase at a steady (sometimes frantic) pace. Ideally, the weekly RSI should also be greater than the daily RSI (see example and further notes below). Based on the example below, you can clearly see how price shot up once both the weekly RSI and the daily RSI crossed (red circle) and then exceeded 70.

**As you can see from this chart, the weekly RSI (on the left) and the daily RSI (on the right) are both higher than 70, and the weekly RSI is higher than the daily RSI.*

If the daily RSI surpasses the weekly RSI while both are above 70, then the stock is considered to be **PHR** or **Parabolic High Risk**. This suggests that the stock in study possesses high volatility. If you are positioned in a stock currently at **Parabolic High Risk**, it is recommended that you either place a trailing stop or you start taking profits slicing upwards.

Should the weekly RSI drop below 70, it is also considered prudent to be wary of your trailing stop as sudden drops in prices might occur.

Here is an example of a **Parabolic High Risk** set-up. The daily RSI reached parabolic status before the weekly RSI and far exceeded the weekly RSI's value. While that resulted in an initial explosive spike or run-up, it also rapidly led to a sudden steep decline, so be sure to set your trailing stop(s) or to start taking profits slicing upwards to help minimize your risks and protect your gains.

As you can see from this chart, the daily RSI – value above 80 (on the left) far exceeded the weekly RSI – value above 70 (on the right) leading to **PHR.*

If both the weekly RSI and the daily RSI go over 80 (regardless of which one is higher) then the stock is considered to be **ePHR** or **Extreme Parabolic High Risk** (see example below). This suggests that the stock in study is toppish, tremendously volatile and risky, prone to panic and likely to trigger a deep correction. If you are positioned in a stock currently at ePHR, it is recommended that you SELL ON SIGHT. Don't wait for the stampede, as once panic selling sets it, bid anomaly will occur and bid volume will dry out, which leads to "**paraburst**".

Paraburst (as defined by Mr. Jiego Mojica of BoH Society) is a cataclysmic event that takes place at the end of a parabolic run. While the actual distribution phase from a parabolic may vary by degrees and time duration, as this is typically a function of commitment by sponsors and participation of the investing public, the ending characteristic is the same with sharp declining bursts that are extremely painful.

As you can see from this example, ALCO initially had trouble breaking through the parabolic wall but when it was finally able to break through, prices started to climb sharply which soon led to both daily RSI and weekly RSI values going above 80, thus putting it in **Extreme Parabolic High Risk** status. What follows after should come as no surprise. A quick **paraburst** followed by a steady decline which the stock has yet to fully recover from.

As you can see, the daily chart (on the left) suffered a more pronounced **paraburst post-**ePHR**, eating up a lot of the gains, though the continuing decline in price is more evident on the weekly chart (on the right).*

As a reminder, **paraburst** is not your garden variety correction that ought to be instantaneously bought on dips. The drops are sharp because sponsors are normally gone, early adopters who were not able to sell near the top often do so at any price to preserve gains, while late comers who've been sucked in are there to fuel the decline.

At some point on the deep retracement, sponsors can re-emerge to initiate a relief bounce (which are often tradable and quite profitable if you're coming in fresh), but such bounce are brief, with the math still in favour of sponsors, before the stock recommences its descending spiral. While other times, the sponsors just never come back.

There is a certain criminality to it, sure, but it is what it is. The best thing you can do is to know the drill.

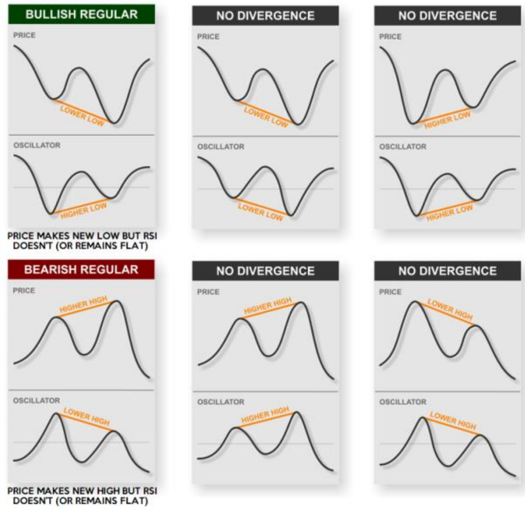
Again… **Parabolic**. **Paraburst**.

Before we move on, let me just answer that 'NO', not all stocks that go parabolic will reach **PHR** and **ePHR** levels. That's why it's imperative to place a trailing stop loss to help protect your gains. Also 'NO', **Parabolic Theory** does not work 100% of the time.

CHAPTER 12: THE ANATOMY OF DIVERGENCE

"Human reason can excuse any evil; that's why it's so important that we don't rely on it." – Veronica Roth

People often ask how we can anticipate the movement of the market. The short answer is we never can. If we could, we'd all be rich. But, we can use divergences as a signal to alert us that change might be coming. Many traders look to the RSI traditionally for its overbought and oversold levels. While using these levels can be helpful to traders, they often overlook points of divergence that is also imbedded in RSI. Divergence is a potent tool that can spot potential market reversals by comparing indicator and market direction. Divergence suggests where ulterior motives may lie. The Chinese have a stratagem called 'Hide a Knife in a Smile'. It simply means to plot your moves in deepest secret and unleash them at speed so there is no chance for reprisals, counter-attack or other ways of defending. In the market, we try to identify this with divergence analysis.



A bearish divergence occurs when prices continue to form higher highs (typical in a bull market) while the RSI is forming significantly lower highs (indicating weakness in the trend). The indicator in this case is indicating that investors are becoming less bullish and therefore the market is overextending itself or "overbuying" to the upside.

A bullish divergence occurs when the RSI is making higher lows (becoming less bearish) while the price action itself is establishing lower lows. The indicator is considered as a more reliable representation of investor sentiment and is indicating that the market is overextended or "oversold" to the downside.

Below is an example of a classic bullish divergence. Though the price formed a lower low, the RSI pretty much stayed level, signalling a bullish divergence. Sure enough, price rose soon afterwards.

**Bullish divergence in the JFC chart.*

Below is an example of bearish divergence. Though the price formed a higher high, the RSI formed a lower high, signalling a bearish divergence. Sure enough, as expected, price began to fall soon afterwards.

**Bearish divergence on the FGEN chart*

It is important to stress that bullish or bearish divergence are alerts. They are there to make you look, and not necessarily act. Ultimately, your actions should still be determined by price action. Divergences sometimes don't come to fruition and acting prematurely might lead to remorse.

Señor Spyfrat primarily uses classical or regular divergence, so we will not be tackling hidden divergence in this book. Should you wish to learn more about hidden divergences, multiple resources are available online.

The next part is specific to the **Spyfrat Trading System**. Divergences are ignored if and when the stock is in parabolic status. It's a natural part of an uptrend, and the parabolic status minimizes or nullifies their typical effect. One can use the current Parabolic RSI High as resistance or wall.

There is one exception to that rule. It is of high importance to note though, that if during the previous price high, the RSI exceeded 70 (hence the stock enters into parabolic status), then when price sets a new high, this time around the RSI does not exceed 70, that's considered a *STRONG BEARISH DIVERGENCE* (coined by Pethuel Pomaloy) which we will call Pethuel Bearish Divergence. PBD is a parabolic top divergence which typically triggers a deeper pullback than a regular bearish divergence.

In the example above, you can see how LMG's previous high was above RSI 70, but the new high didn't exceed RSI 70, creating a *PETHUEL BEARISH DIVERGENCE*, which led to calamitous results.

Once again, divergences are there to make you look… to make you wary. You don't always have to act instantaneously, but be prepared to act fast should the need arise.

INTERACTIVE ACTIVITY
Pethuel Bearish Divergence

Conditions for a Pethuel Bearish Divergence

PBD conditions:

1. A first RSI high that triggered a parabolic (i.e. RSI(30) greater than 70).

2. A second RSI impulse that is bearishly divergent from the RSI high in (1) but below 70 level.

Typically triggers a deeper pullback than a regular bearish divergence.

Use parabolic RSI theory to trade.

1) Spotting the Pethuel Bearish Divergence. Case: $TEL

2) Spotting the Pethuel Bearish Divergence. Case: $WTI

3) Nov 19, 2019. $PPG (prev closed at 13.14) changed name to $ACEX. One catalyst of an impulsive play is a change in company's name. $ACEX opened at 13.28 and strongly went to 13.92. At the time of this post, it is currently down ng 7%. Why?

4) Fractal Case

Fractal Thesis: Perfect mimicry of price structure from point A to point J. What do you think will happen next?

5) For our Final Word ...

Ang taong di marunong lumingon
sa kanyang pinang- galingan...

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