

## STA DIPLOMA PART 2 EXAMINATION, INSTRUCTIONS

YOU HAVE 3 HOURS TO COMPLETE THIS PAPER.

DO NOT WRITE YOUR NAME ON THE PAPER, BUT MAKE SURE THAT EACH SHEET, INCLUDING THE CHARTS, HAS YOUR CODE NUMBER AT THE TOP OF THE PAGE.

**PLEASE ENSURE THAT YOU ARE USING THE CORRECT CODE NUMBER –  
ASK THE INVIGILATOR IF NECESSARY**

**Exam rules:** The usual exam rules apply. Mobile phones, iPads, etc. must be switched off, and may not be left on top of your desk\*. Only simple calculators, without internet access, are permitted.

The smoking of E-cigarettes is not allowed.

**ENFL:** If English is not your first language, you may wish to write 'English not first language', or simply 'ENFL', on the first page of your answer paper.

**Exam questions:** Read questions carefully - marks are often lost by candidates not reading a question properly and so not dealing with what the question is actually asking. You are strongly advised to pay close attention to the wording of Question 1, as this is not necessarily exactly the same in every examination.

**Exam answers:** In general, at this advanced level examiners look not only for knowledge but also for the *application* of that knowledge - for reasoning, for conclusions, and for advice to investors when required.

The answer to SECTION 1 (Question 1) should show a high standard in chart analysis and a written report (as if for a client) based on that analysis. There is some flexibility here: candidates wishing to avoid writing large amounts of text may consider using summary bullet points or 'grids' within the written report. They may also express some of their opinions on the actual charts, alongside their other chart annotations.

Chart annotations combined with a written report meeting all requirements of the question can earn up to 50 points (up to 34 for analysis, interpretation and reasoning, and up to 16 for providing logical forecasts and appropriate advice). Up to another 10 points can be gained for a clear and professional structure to the report.

For the SECTION 2 and SECTION 3 answers candidates can gain up to half their marks by demonstrating knowledge. An ability to reason and apply/interpret is needed to achieve higher marks, however.

**Examinations must not be written in pencil, and candidates should try to present legible work.**

With regard to trend lines etc. on charts, you may wish to draw lines in pencil first, but you should then draw over these with a ballpoint pen. You may use different colours for emphasis if you wish.

Please note: Answer sheets that are not readable because of bad handwriting or excessively muddled presentation may be subject to delayed marking. In extreme cases they could be refused.

**ALL CHARTS AND ANSWER SHEETS, INCLUDING ROUGH NOTES,  
MUST BE HANDED IN TO THE INVIGILATOR AT THE END OF THE EXAM.**

\*Please note that the STA cannot be held responsible for the loss of any personal property.

## STA DIPLOMA PART 2 EXAMINATION - QUESTION PAPER APRIL 2018

**ANSWER SECTION ONE** (the compulsory QUESTION 1), AND **ONE** QUESTION FROM SECTION TWO, AND **TWO** QUESTIONS FROM SECTION THREE. To pass the exam, a minimum mark of 35/60 for the compulsory QUESTION 1 is required, as well as 60/100 for the paper overall. **TIME ALLOWED: 3 HOURS.**

### **SECTION ONE - QUESTION 1: Compulsory**

**(Pass mark 35 points, maximum 60 points)**

**A client has requested a technical report on the index and the share shown in your Question 1 chart pack. You are asked to provide long-, medium- and short-term analysis and forecasts on both index and share, followed by suitable investment/trading strategies for the *share only*, also in all three time frames.**

- Analyse and annotate all three index charts (numbered 1, 2 and 3) and at least four of the six share charts (numbered 4 to 9). Patterns, targets etc. should be clearly labelled, and trend lines placed accurately.
- Then write your three time frame client report, on both the index and the share, based on your analysis.
  - When you reach the part where you suggest long- and medium-term strategies for the share, you should include a comment on what would cause you to change your advice.
  - For your short-term (share) trading strategy, a stop loss level is needed.
  - 'Stand aside' is acceptable as advice but should not be used excessively.
  - You should also try to offer an opinion on the share's likely future performance relative to the index.

- Read questions in the below sections carefully - there could be several elements that you need to answer.
- You may draw diagrams to support your answers even if illustrations have not been specifically asked for.

### **SECTION TWO: Answer only ONE question from this section**

**(Maximum 20 points)**

**2)** John Murphy said about Elliott Wave Theory 'the key is to view EWT as a *partial* answer to the puzzle of market forecasting'. Do you agree with this view? If so, what other techniques should be combined with EWT? If you disagree, explain why EWT is all that is needed.

**3)** Your clients, who are traders using daily data charts, have asked you to write a guide on how to combine candle chart reversal patterns with momentum indicators. Your report should contain at least two buy signals, two sell signals, and offer advice on the placement of stops for each signal. Diagrams are essential.

**4)** The use of 'traditional' bar chart patterns (head & shoulders etc.) is sometimes viewed as a little simplistic but there are some clear advantages. However, there is also the well-known *disadvantage* of subjectivity: analysts may 'see' different patterns and maybe even offer different interpretations.

Explain the advantages of pattern analysis and then offer some solutions to the problem of subjectivity.

### **SECTION THREE: Answer only TWO questions from this section**

**(Maximum 10 points per question)**

**5)** Dow Theory. Choose two of the six basic tenets and briefly discuss how they are still relevant today.

**6)** Point & figure charts. Draw a diagram of a 3-box reversal chart to show three aspects of the horizontal count: calculation, activation, cancellation. Then briefly discuss one crucial disadvantage of p&f charts.

**7)** Cycle properties. With the help of diagrams, explain wavelength, amplitude, and left and right translation. Give the reason for translation and say how understanding it can help you in your work.

**8)** Indicators. Some professional analysts like to combine the use of Stochastics with their MACD analysis. What are the advantages of doing this?

**9)** Sentiment and contrary opinion. Choose one measure of investor sentiment, explain its construction and describe how it can help you in your work.

**10)** Market Profile©. Outline the concept of standard deviation (note: a detailed mathematical calculation of SD is *not* required) and then explain how the Point of Control on a Profile chart relates to this concept.

## CHARTS FOR APRIL 2018 EXAMINATION

|         |       |   |
|---------|-------|---|
| Chart 1 | INDEX | Monthly bar chart, logarithmic scale, with 12-month and 3-month exponential moving averages   |
| Chart 2 | INDEX | Weekly bar chart with 40-week and 10-week simple moving averages; weekly MACD   |
| Chart 3 | INDEX | Daily bar chart with Bollinger Bands; daily MACD  |
| <hr/>   |       |   |
| Chart 4 | SHARE | Monthly bar chart, logarithmic scale, with 12-month exponential moving average; monthly volume with 12-month exponential moving average   |
| Chart 5 | SHARE | Weekly candle chart with 40-week and 10-week simple moving averages; relative performance with 40-week and 10-week simple moving averages |
| Chart 6 | SHARE | Daily point & figure chart (3-box reversal) with 20-column moving average   |
| Chart 7 | SHARE | Daily bar chart with 200-, 50- and 20-day simple moving averages; volume and OBV (on balance volume)                                      |
| Chart 8 | SHARE | Daily bar chart; 14-day RSI; relative performance   |
| Chart 9 | SHARE | Daily Ichimoku chart  |

**Some index and share prices are typed into charts to help with ease and speed of analysis. These prices are rounded. Candidates may also use rounded numbers in their own calculations.**



















