When you develop yourself to the point where your belief in yourself is so strong that you know you can accomplish anything you put your mind to, your future will be unlimited

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Goals and Objectives

<u>My goal</u> is to trade well by finding setups that strictly meet the strategies outlined in this document, and executing them flawlessly.

<u>Objectives:</u>

- **Batting average:** >= 50%
- **Sharpe ratio:** >=2.0
- **Risk to Reward Ratio** >= 1:2
- **Risk Management Max. Loss** = 1R per trade, 3R's per session, 10R's per week, 18R's per month – stop trading when any of these is hit
- If I happen to hit my Max. Loss in the morning session (9:30 – 12:30) , then I am allowed only one trade in the doldrums and two trades in the afternoon (after 1:15). However, the combined morning & afternoon Max. Loss **cannot exceed 6R's**

- ## <u>Example:</u>

Sharpe Ratio= 2.0 Batting Avg. = 50%	Win	Loss
6 Trades/day	3	3
Per Trade	<u>2.0R</u>	<u>-1R</u>
Gross	<u>6Rs</u>	<u>-3Rs</u>
Sub-total	3Rs	
Weekly – Gross	15Rs	

Money & Risk Management

Goal: An Average daily goal of 2R’s gross yields 10R’s for the week, which is sufficient income for me

Protecting Profits:

Open positions		Realized Gains (P&L)	
When unrealized gains reach	**Then Protect**	**When realized gains reach**	**Then Protect**
2 R’s	Breakeven	4 R’s	Breakeven
3 R’s	1 R	5 R’s	4 R’s
4 R’s	2 R’s	6 R’s	5 R’s
5 R’s	3 R’s	7 R’s	5 R’s
6 R’s	4 R’s	8 R’s	6 R’s

Thus, as a risk management rule, the maximum unrealized profits I am allowed to give back on a single open position must always be <= 2R’s, regardless of the trailing stop method used. However, on realized gains, the maximum is < 4R’s.
Risk management is always job # 1

Daily Loss Limit & Risk Per Trade:
• Limit maximum risk per trade to 1/6th of the daily loss limit for the day
• Limit open exposure on all open trades to 2R’s: Thus, if 2 positions are open for a total 2R risk, then do not enter a third 1R trade unless/until the stop has been moved so as to protect at least 1R on one of the open trades

Maximum Loss Limit:

If Cumulative Loss =
3R’s at any time before 12:30: stop trading until 1:30 RT. Use lunch time to take a walk, exercise, rest from trading and the trading room.
6R’s at any time during the day: stop trading for the day
10R’s at any time during the week: stop trading normal share size for the rest of the week. Trade in only 2-share lots

Entry Requirements

Entry Rules:

- Trade fits a Strategy and has a clear Setup
- Re-entry: No more than once if trade was valid but stopped out (except for climactics)
- No anticipating: enter *only* when the stock hits the specified entry price, unless it's a base breakout/breakdown or the stock is on an uptick
- Do not chase the stock once it has moved enough so that the reward to risk is not longer sufficient
- If missed or passed on trade, continue to watch the stock for another entry
- Except for Power Trends: the trade cannot be taken if the next larger timeframe has put in 3+ consecutive up bars

Adding and Reducing:

Add and reduce only once the stop can be moved (or "reduced") on a PBS (PSS), PBO (PBD), or RBI (GBI) that could be taken as a new play under currently allowed Trade Strategies. Here, instead of taking profits on the trade, add sufficient shares (while reducing the stop) so as to bring the risk on the current portion of the trade (i.e., remaining shares from the original trade plus the added shares) to a maximum 1R risk

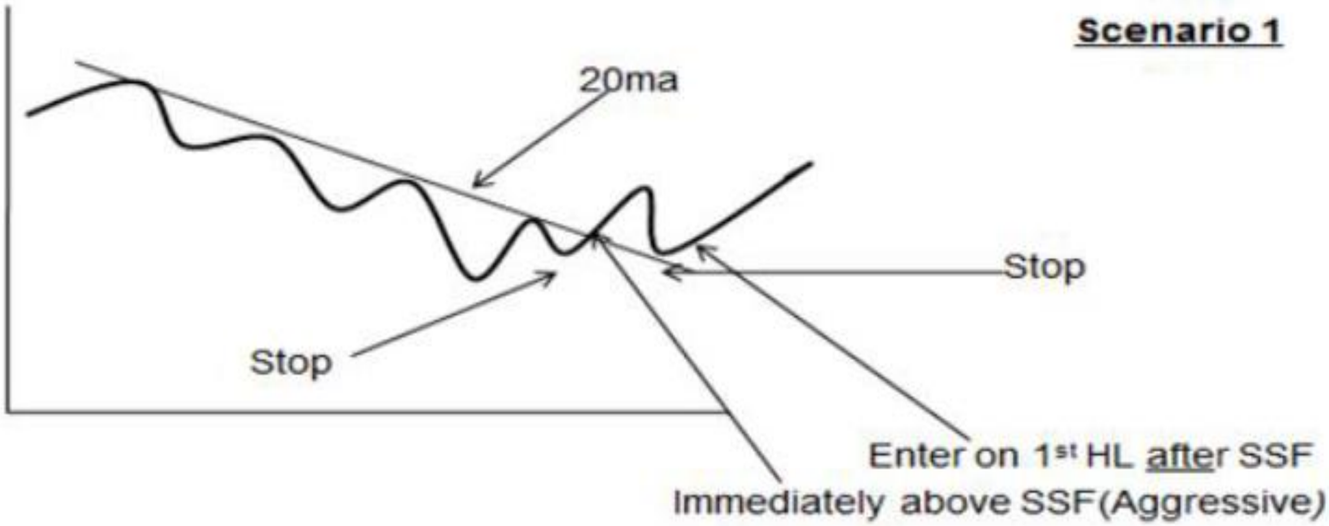
Entry Strategies (see next slide):

When the trade strategy is found on the 15-min or hourly chart, I will zoom down to the 1-min, 2-min or 5-min chart for an entry. Depending on how aggressive the strategy is, the following are valid entry strategies:

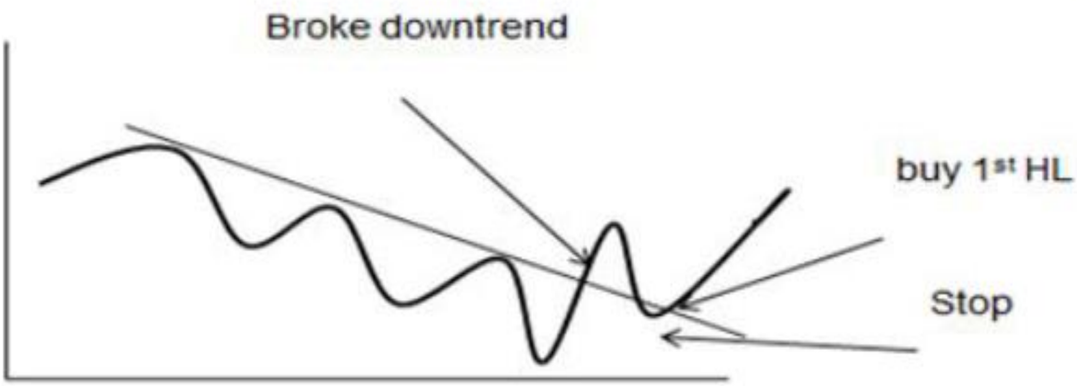
- Enter above prior bar's high (standard entry)
- Enter on a SS/BD failure
- Enter on 1st HL if the last rally broke downtrend
- Enter on 2nd HL if the last decline failed to make a new low
- Enter above a red bar's high (i.e., RBI)

Entry Tactics

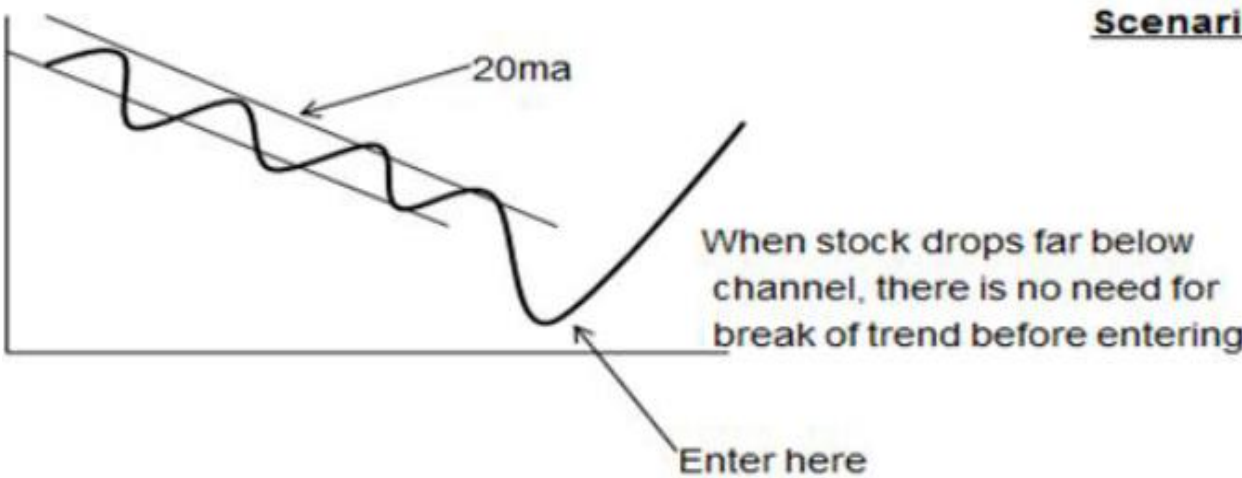
Scenario 1



Scenario 2



Scenario 3

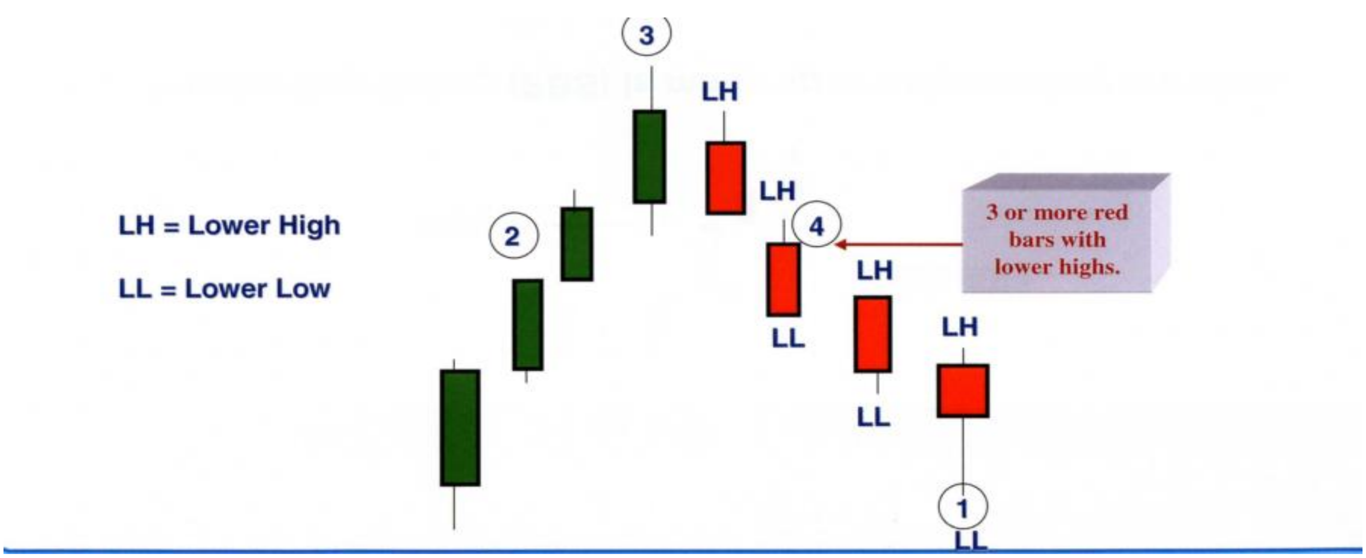


Gap Strategy

Refer to Separate PDF document

Pristine Buy Setup (PBS)

1. **Rising stock above a rising 20ma**
2. **3 or more consecutive lower highs or 3 or more consecutive red bars (having both is better)**
3. **Location: At price support and/or moving avg support**
4. **Retracement in the range of 40% to 60%**
5. **Reversal bar**
6. **Volume surge, Reversal Time (Optional)**



15-Min PBS Strategy

From a Pattern → Tradable Strategy

	General Requirements
	Must Have:
1	**The Pattern:** 1.Rising stock above a rising 20ma 2.3+consecutive red bars or LH's - having both is better (clean PB, no overlapping bars or GBIs) 3.Reversal bar 4.Location: At price support and/or moving average support
2	A compelling daily chart*
3	Price Void and sufficient reward to risk (minimum 2:1)
4	Relative Strength
5	Above a rising 20ma on 15-min, and 5-min chart
6	After 10:30 and before 3:15 (best time is between 1:30 – 2:30)
Q Q Q	• In a 5-min uptrend, or; • In a 15-min or 60-min uptrend and pulled back to support, or; • In a trading range (in which case go long when QQQ is at the bottom of the range)
	Can't Have:
1	1st buy after a climactic sell setup
2	1st buy after a square or rounded top
3	Daily has put in 3+ consecutive green bars
4	Basing at the bottom of the pullback (unless a shakeout forms, thus negating the short-term bearishness)

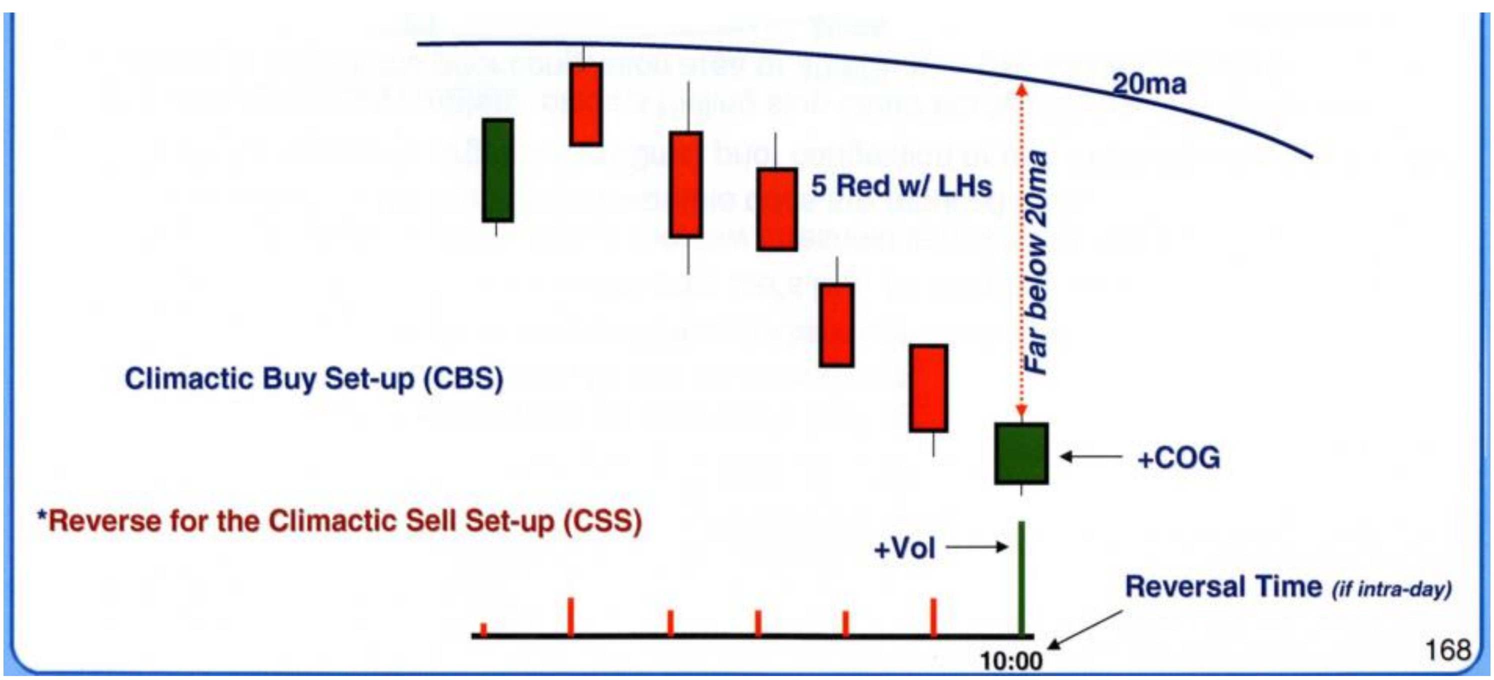
15-Min PBS Strategy

	General Requirements
5	Excessive pullback (not more than 60% of prior rally)
Q Q Q	• QQQ failing on last buy setup, or; • QQQ breaking down, or; • QQQ arriving at resistance • TRIN > 1.3 and trending up progressively
	Would like to have:
1	Reversal Time
2	-WRB, BT, NB, NRB forming at the end of the pullback
3	Volume surge coming at the end of the pullback
4	Volume decline on pullback
5	Timing with the market: QQQ also triggering a PBS or PBO
Entry	• $.02 above prior bar's high • If the stock is in a clearly defined 2-min or 5-min downtrend, make sure the downtrend has been broken before you enter AND the 15-min has also triggered • Note: if 2-min or 5-min became mini climactic or has put in a –WRB on volume, then there is no need to wait for downtrend to end before entering
Stop	• $.02 under 15-min pivot low
Target	• Prior pivot high • Note: If prior pivot high is far away, and there is significant resistance below prior high, then consider that resistance area as target 1 and the prior pivot high as target 2
Mgmt.	• AON to 75% to target 1 (then BBB on 1 or 2-min chart) • Stop B/E for back half once target 1 has been reached • Back half is managed on 5-min "significant" pivots until 75% to target 2 has been reached, then switch to 1 or 2-min BBB until target 2 is reached • Exception: If a topping sign forms, trail position BBB on 1 or 2-min chart

Climactic Buy Setup (CBS)

Pristine Climactic Buy Setup

1. **5 or more consecutive lower highs or 5 or more red bars (having both is better)**
2. **Reversal bar: BT, NRB, or +COG**
3. **Far below the 20ma**
4. **Volume increase (optional at times)**
5. **Reversal Time (if intra-day)**



Climactic Buy Setup (CBS)

From a Pattern → Tradable Strategy

	General Requirements
	Must Have:
1	**The Pattern:** 1. 5 or more consecutive lower highs or 5 or more red bars (having both is better) 2. Reversal bar: BT, NRB, or +COG 3. Far below the 20ma – min. 2% away from 20ma on 5-min chart 4. Volume increase (optional if Full Climactic) ~~5. Reversal Time (if intra-day)~~ 6. **WRB(s)**: parabolic price acceleration away from the 20ma to the point of exhaustion, with the last bar being the largest 7. The decline is climactic on at least 2 timeframes
2	Sufficient Reward to Risk (at least 2 to 1)
	Can't Have:
1	Recent breakdown on intraday timeframes (unless Full Climactic)
2	Basing at or near LOD
3	Today's daily bar is: a tier 1 gap, a Mortgage Gap, a Gap n' Crap, or showing a strong failure pattern
Q Q Q	• QQQ failing on last buy setup, or; • QQQ breaking down

Climactic Buy Setup (CBS)

	General Requirements
	<u>Would like to have:</u>
1	Volume surge (a big plus)
2	Reversal Time (RT)
3	Daily trend is down (better if extended, and best if climactic)
4	Stock just broke MS on as many timeframes as possible
Q Q Q	<u>Timing with the market:</u> •QQQ on an extended/climactic decline, or; •QQQ at support, or; •QQQ moving in the direction of the stock – not opposite
Entry	• If 5-min is picture perfect, then use 1-min or 2-min chart for entry (over the last bar's high) • If 5-min is not picture perfect, back off and look at the 15-min chart. If the 15-min chart is good, then use 5-min chart for entry • <u>Important Note:</u> If "Full Climactic", 5-min does not have to be "picture perfect" (i.e., +WRB on +Vol.) in order to use the 1-min or 2-min for entry
Target	• If Full Climactic, then TGT 1 = 20ma on 5-min chart…and TGT 2 = 20ma on 15-min chart • If Mini Climactic, then TGT 1 = 20ma on 1-min or 2-min chart…and TGT 2 = 20ma on 5-min chart
Stop	• LOD
Mgmt	• AON to 75% to target 1 (then BBB on 1 or 2-min chart) • Stop B/E for back half once target 1 has been reached • Back half is managed on 5-min "significant" pivots until 75% to target 2 has been reached, then switch to 1 or 2-min BBB until target 2 is reached • Exception: If a topping sign forms, trail position BBB on 1 or 2-min chart

Reminders

I pledge that:

- I am a patient person, I wait for plays to develop, and only act at the right moment
- I identify my edges objectively and within the guidelines of my Plan
- I predefine the risk and reward of every trade
- I completely accept the risk or I am willing to let go of the trade
- I act on my edges without reservation or hesitation
- I trade to acquire skill, not for the money
- I do not take a trade with a risk to reward ratio of less than 1:2
- If the trade is not worthy of taking full share size on it, I do not take it. I do not experiment wit questionable trade ideas
- I can re-enter only once after a loss in a single stock (except for Climactics where I can re-enter twice after original stop)
- I always use the correct share size. I never lose more than 2Rs on any trade
- When there is nothing to do in the market, I step away from computer, preferably go for a run. But, I can’t remain in the office
- I do not take bad trades simply because the stop is small. This is because even if the concept makes sense, I always end up getting caught up psychologically and, in the long run, it ends up costing way more than I initially thought
- I am allowed to risk more than 1R (up to a maximum of 2Rs) only on 1 trade per day. The excess shares can be exited at my discretion, but once exited, they cannot be put back on. The remaining shares, which must represent the right size, will be managed per this plan
- **I never violate my rules**

- **Reminders:**
- *Consistency in money management (i.e., only lose 1R on a trade), in trading style (i.e., trade only the patterns in my plan), and in life, will lead to great results. Inconsistency is the main cuase of most failures*
- *“You must be rigid in your rules and flexible in your expectations. Most traders are flexible in their rules and rigid in their expectations.”*

Reminders – T/A

A. During moving market environments, stocks tend to follow through or continue the most recently completed color-coded bar, ~80% of the time, as long as most of the color since the open (i.e., open of market, open of last bar, etc.) has been maintained. In other words, after a green bar, expect another green to follow through ~80% of the time, as long as 50% of the green is maintained and the stock has not gone climactic.

B. The market never accomplishes anything with just one bar. It needs at least 2 bars to regard something as being real or significant. Follow through by a 2nd bar is crucial, otherwise, the one bar event, no matter how apparently significant, is not yet real. In other words, a one bar breakout is only significant if followed through by a 2nd up bar. Similarly, a one bar breakdown is only significant if it's followed through by a 2nd down bar. Know that one bar events not followed through on tend to eventually produce strong opposite moves.

C. During *normal* market environments, stocks *cannot* move in the same direction more than 5 – 8 bars in a row. Stocks tend to stay trapped in a 3, 5 or 8 bar cycle ~80% of the time. 20% of the time, a stock's moves can top and bottom outside of this zone. In other words, after a 3-5 bar run (or sometimes 5-8), the market/stock tends to reverse, creating a nice trading opportunity. This means that neither the bears nor the bulls can consistently win more than 5 battles (bars) in a row. As such, after 3-5 green bars in a row, you should look to take advantage of an upcoming series of red bars, and the reverse is true.

D. If a stock fails to make a new low, after it has already made 3 or more lower lows, it will make a new high. Conversely, if a stock fails to make a higher high, after it has already made a series of higher highs, it will make a new low on the next move. Said differently, the first failed attempt to make a new low in a well established downtrend is the first sign that the balance of power has shifted from the sellers back to the buyers. The trend has likely changed and the first low in the new trend has been identified. Also, the first failed attempt to make a new high in a well established uptrend is the first sign that the balance of power has shifted from the buyers back to the sellers. The trend has likely changed and the first high in a new trend has been identified.

E. The market's biggest moves ignite from its smallest (tiniest) bars. In other words, explosive moves almost always originate from narrow range bars, and a cluster of small bars signifies the calm before the storm. You should commit more to trades that involve NRBs, as the combination of lower risk and bigger potential reward warrants it.

Management Tools

Initial Stop Loss & Exist Strategies:

A. Initial Stop:

1. Refer to Slides 13 – 19
2. Typically, $.02 below the entry bar's low, current pivot, or base consolidation

Initial Stop Rules:

1. The initial stop must always be determined prior to entering the trade
2. The initial stop must never exceed 1.25R
3. If 8/20ma is holding the stock, the stop must be placed on the other side of the moving avg.
4. I completely accept risk, know and believe that "THIS TRADE CAN EASILY STOP OUT." Otherwise, I do not put it on
5. I enter the initial stop order immediately after the trade is entered

<u>Note</u>: If the entry bar's low gets taken, it typically means that the current setup (i.e., PBS) has failed. As such, the trade should be exited. However, in setups where this is not the case, as in a PBO, the stop can be placed $.02 under the base

B. Exit Strategies (For Information Purposes Only):

1. <u>Reduce Initial Risk – **Time Stop**</u>: While the Initial Stop Loss was designed to be my worst-case loss, the Time Stop is designed to make sure I lose as little as possible. In fact, the Time Stop generally produces a small loss, or even no loss at all. I enter the market whenever I objectively find my edge and act on it. To help reduce the number of trades that stop out at the full 1R loss, I exit any trade if 3 bars on the strategy timeframe have elapsed and the stock has not moved in my favor. If the trade does not move in my favor shortly after I enter, it typically means that either the trade is not working because other participants do not agree with me (don't see what I see), or that I entered too soon. If it is the former, then by exiting, I have eliminated a 1R loss and the trade is considered a "scratch." If it is the latter, then I will continue to watch the trade for a possible re-entry

2. <u>Maximize Profits:</u> In order to maximize my profits, I am willing to give some of them back. This is best described by the saying that "you can't make money if you're not willing to lose." To achieve this objective, I employ three trailing stop methods, as follows:

Management Tools

i. **Pivot Trail:** A pivot is an area of support/resistance, defined for purposes of a pivot trail as consisting of either: (1) a *price consolidation* (i.e., a thin, narrow base consisting of at least 4 bars; or (2) a "*V*." In a long trade, the "V" forms when the price bars are falling, then turn around and start rallying. It is that bar in between that has 2 HLs on the left side and at least 1 HL on the right side that close above the high of the lowest bar in between. The more bars on each side, the 'stronger' the pivot is. Additionally, if the bars on each side have consecutive HLs, the stronger the pivot will be. That is to say, the more likely it would hold if prices were to retest that area. **Note:** the logic for using pivots for trailing a position or entering into a position is due to the fact that pivots represent support/resistance levels. As such, when these support/resistance levels are violated, then the definition of an uptrend/downtrend is violated, signaling the end of the trend. My rule is that I EXIT $.02 BELOW THE PIVOT'S LOW

If a pivot trail is used, then follow the following management method:

ii. **8/20ma Trail:** This method is used when (1) the stock is in a Power-Uptrend in the case of a long trade (rising stock > r8ma > 45˚ r20ma > 200ma) or is exhibiting a +POP (rising stock > 45˚ r20ma > 200ma), or (2) the stock is not necessarily in a Power Uptrend or showing a +POP, but begins to trend above the r8/r20ma after entering the trade. The r8/r20ma begins to act as support in that it either holds/contains the stock while it trends higher, or the stock rebounds off of the r8/r20ma on each pullback. My rule is that I EXIT $.02 UNDER THE LOW OF THE 1st BAR TO CLOSE BELOW THE r8/r20ma on the timeframe used for trailing**. However, a WRB break of the r8/r20ma is considered 2 bars. As such, I drill down to a smaller timeframe to determine the 1st bar that broke the r8/r20ma

iii. **Bar-By-Bar Trail:** This method is used when a logical stop under a pivot trail or an 8/20ma trail is > 2R's away*** from the current price and the trade is 20% or less away from target. My rule is that I EXIT $.02 UNDER THE PREVIOUS BAR'S LOW

** *The timeframe to use for an r8/r20ma trailing method is the largest timeframe where the stock is exhibiting a power trend. In other words, it is the largest timeframe where the stock is obeying the r8/r20ma*

****2R's Away from Current Stop:*** *As noted in the money management section, the maximum profits I am allowed to give back on a single open position must always be < 2R's, regardless of the stop method used. This means that my stop must always be <2R's away from current price. If there is no logical place to move my stop to, such as a pivot low or a r20ma, I will simply defer to this money management rule and exit entire position if it goes against me by 2Rs*

Management Tools

3. Protect Profits: This type of exit is used when the primary objective is to protect profits after the profit target has been reached.

   i. **Profit Taking at Target:** This method is used when the profit target has been reached. My rule is that once target 1 has been reached, I either switch to the bar-by-bar trail method on the 2-min chart and exit the front half $.02 under the last bar's low, or simply take profits on the front half. In theory, I never want to take profits, as this would be a direct violation of the rule to "cut your losses short, and let your profits run." However, when the stock is trading in such a fashion where each 2-min bar makes up ½R or more (i.e., bars are wide or overlapping, and as a result, letting the last bar's low get taken would cost me ½R or more), then taking profits at target without trailing them out is preferred

   ii. **Early Exit:** I am allowed to take profits on the front half, or exit the entire position either immediately or trail it out on the 1 or 2-min chart on a bar-by-bar basis if either of the following occurs:

   i. Time stop: Stock has not reached its target by the next major reversal time (10:00,10:30, 11:15, 1:30, 2:15), or market has reached its target and my stock has not

   ii. Change of trend on the 2 or 5-min chart of the QQQ, but only if the stock is not on its own page

Target Setting

Trade Management & Targets

<u>Factors that affect targets:</u>

1) Quality of the trend including price location relative to the moving averages, the moving averages' location relative to each other, distance between pivots (i.e., depth of retracements/rallies), and the existence of any WRBs and their effect on price
2) Proximity of support or resistance areas
3) Market environment
4) RS to market/sector
5) Whether the trade is taken in the direction of trend (the stock's & market's trend) or counter-trend
6) 6) The existence of trapped traders, and whether institutional selling took place or not

Note 1: Targets (and the initial stop) should always be set on the strategy timeframe, even though the trade might have been entered on the 1, 2, or 5-min chart

Note 2: Target 1 must represent at least a 1:1 risk to reward ratio

Note 3: On a market stock (i.e., AAPL, MSFT, CSCO, etc.), target 1 should be either target 1 for the stock based on the strategy employed or target 1 for the QQQ, whichever comes first

Note 4: Some trades have only one target

Note 5: On an EOD trade, since no real targets have been set, the stock is still to be trailed per this plan. However, when 2R's have been reached, the trade is locked to breakeven

Glossary

- **Add & Reduce**: adding shares and reducing the stop. This occurs once the stop can be "reduced" on a 1-min or 2-min PBS (PSS), BOP (BDP), RBI (GBI), or SS/BS failure, that could be taken as a new play under currently allowed trade strategies. Here, instead of taking profits on the trade, add enough shares (while reducing the stop) to bring the risk on the current portion of the trade (i.e., the remaining shares from the original trade plus the added shares) to 1R

- **Bearish Picture of Power (-POP)**: declining stock trading below a smooth 45˚ declining 20ma that is below the 200ma

- ***Bottoming Sign***: A Bottoming Tail (BT), Green Bar Reversal (GBR), Narrow Range Bar (NRB), or Narrow Body bar (NB). It is considered important only after a 3-5 consecutive bar decline on whatever time frame is being used
  A. **Bottoming Tail (BT):** a tail at the bottom of a candlestick bar that makes up more than 50% of the bar's height
  B. **Green Bar Reversal (GBR)**: a green bar with relatively normal size (i.e., similar in size to other bars formed on the chart)
  C. **Narrow Range Bar (NRB)**: a tiny bar with minimum topping tails that often represents "the calm before the storm"
  D. **Narrow Body (NB)**: a bar with topping tails on both ends and a narrow body at the center

Bullish Picture of Power (+POP): rising stock trading above a smooth 45˚ rising 20ma that is above the 200ma

- ***Buy Setup***: 3+ consecutive LHs or red bars have declined towards support (preferably minor support) with the end of the decline marked by a Bottoming Sign or a –WRB with *volume surge*, at or near the r8ma/20ma, prior price support, 50% retracement support, or support at an upward trend-line. Note that the buy setup is merely an entry into a bigger strategy. This is why a buy setup is different than a PBS, because the PBS is a complicated strategy that has various requirements (i.e., stock must be in an uptrend, .35 <TRIN > 1.3, etc.), while the buy setup looks at the last few bars with almost no regard to other timeframes, or even the market environment. Note that an RBI and a SS failure are also considered valid buy setups for entry purposes only

- **Clean/Solid Bar**: A green or red bar that is 1.5 times the size of the average bar of the last 5+ bars/days, with minimum to no tails on either side (tails <= 15% of the bar's length) – see 1st bar on 13-candles sheet

Glossary

- ***Climactic***: 5 or more consecutive bars with LHs (HLs for a short), accelerating parabolically away from the 20ma, and preferably the 8ma

- ***Downtrend***: 2 successive LHs and LLs, on whatever time frame is being used. Note that a break of an uptrend and a presumptive downtrend can be played after just 1 LL and 2 LHs when coupled with other factors. Note that caution is warranted on a long play when the 15-min chart of the QQQQ has yielded 3 or more consecutive green bars or is approaching major resistance (and on a short play when the 15-min chart has 3 or more consecutive red bars or is approaching major support)

- ***Extended:*** 4 or more consecutive bars with HLs (LHs in a decline), moving away from the 20ma without pulling back. This causes the moving average (i.e., 20ma) to lag behind price. Note that a stock can be extended, but not climactic, but not vice versa. The difference between an extended and a climactic stock is the parabolic price acceleration that must be present in a climactic stock

- ***Excessive gap up***: A gap is considered “excessive” to play if it gaps up 15% or more above overhead resistance on the daily chart

- ***Excessive gap down***: A gap is considered “excessive” to play if it gaps down 15% or more under support on the daily chart

- ***Excessive Pullback***: The pullback is “excessive” if it either retraces more than 60% of the distance to the preceding pivot low (high for a short) or violates minor support/resistance; thus, breaking the prior uptrend/downtrend

- ***Failed Buy or Sell Setup***: A failed setup is one that breaks the current pivot low, (i.e., minor support), of an uptrend or prior pivot high, (i.e., minor resistance), of a downtrend, on whatever timeframe is being used. When a setup fails in a lower timeframe, it provides an early indication that the trend is likely to reverse on the higher time frame. The buy setup/breakout failure can be used to enter short on an counter rally in a higher timeframe or at the top of a climactic advance. In fact, the buy setup/breakout failure is often a better, stronger entry than a 5-min sell setup (especially for CAS/CDB plays). This is because failed moves provide “shock value” which generate fast moves

  Similarly, in evaluating the current market trend, the failed setup in a lower timeframe can indicate whether the trend is likely to continue or reverse

For example, suppose there is a counter-rally into a declining 20ma on the 15-min chart of the QQQQ. A failed buy setup on the 5-min or even the 2-min chart would suggest the 15-min counter-rally is ending and can be used to enter short. On the other hand, a failed PSS on the 5-min or 2-min chart suggests that a change in the 15-min uptrend is possible, but does provide a valid short entry, as the actual change to the 15-min uptrend occurs only when the 15-min pivot low is taken out

- ***GBI***: A “GBI” or “green bar ignored” occurs when a red bar (preferably breaking down from a base on above average volume) is succeeded by a narrow green bar (preferably on low volume) whose price remains in the lower third of the preceding red bar. The green bar is said to be “ignored” when its low is subsequently taken out by a red bar.

- **Kamikazi Play**: a trade with low odds of success, but the high risk to reward ratio justifies taking it. In other words, the trade is likely to fail, and if does fail, the loss will be <= 1R. However, if the play works, potential reward is very high compared to the risk taken. Note that the Kamikazi play can be a valid strategy spelled out in the Plan, or a Wild Card Strategy. In either case, and similar to the Wild Card Strategy, if (and only if) the Kamikazi play is successful, then allow another one, but do not allow more than a 3R loss per week on such a trade. Study the reason the trade failed or worked and consider adding to Plan once the complete strategy is identified and is profitable

- **One day wonder (Zappa):** Today’s WRB is the first day in this direction. It’s completely unpredictable, out of nowhere, and is neither a base breakout nor a SSF. Looking to play a climactic when today’s bar is a “One Day Wonder” greatly lowers the odds than a stock that has been in an established climactic trend

- **Playable Lunch**: Lunch is playable on two rare occasions: 1) when the market has been in a tight sideways pattern through noon (dead movement all morning), in which case, the breakout can be played, or 2) the market has made (and is continuing to make) a strong, unidirectional move into noon, in which case a CDB/CAS can be played when the market’s trend is fading.

- ***Pinch Play (long)***: When the stock is basing tightly/trapped on the 2, 5, or 15-min chart between the r20ma and the 200ma, and the r20ma comes from underneath the 200ma and pinches the stock above the 200ma. The pinch works best when it occurs in the upper third of the day’s range, after consolidating for 8 or more small bars, [or 5 or more bars on 15-min chart]. Additionally, the price must be obeying the r20ma while consolidating, has HLs as it approaches the breakout point, and the overhead 200ma is flat or almost flat. Note that in any base, a shakeout bar or a breakdown failure is a plus. Also, note that while this is not a strategy that I take, a pinch play can be used as a possible entry for a valid strategy on a larger timeframe

Glossary

- ***Pinch Play (short)***: When the stock is consolidating on the 2, 5, or 15-min chart between the d20ma and the 200ma, and the d20ma comes from above the 200ma and pinches the stock below the 200ma. The pinch works best when it occurs in the bottom third of the day's range, after consolidating for 8 or more small bars, [or 5 or more bars on the 15-in chart]. Additionally, the price must be obeying the d20ma while consolidating, the consolidation has LHs as it approaches the breakdown point, and the 200ma beneath is flat or almost flat. Note that in any base, a breakout failure is a plus. Also, note that while this is not a strategy that I take, a pinch play can be used as a possible entry for a valid strategy on a larger timeframe

- **Pivot High**: it is the '□' shape which forms when the price bars are rallying, then turn around and begin to fall. It is that bar in between that has 2 LHs on the left side and at least 1 LH on the right side on a closed basis. The more bars on each side, the 'stronger' the pivot is. Additionally, if the bars on each side have consecutive LHs, the stronger the pivot will be. That is to say, the more likely it would hold if prices were to retest that area

- **Pivot Low**: it is the 'V' shape which forms when the price bars are falling, then turn around and start rallying. It is that bar in between that has 2 HLs on the left side and at least 1 HL on the right side on a closed basis. The more bars on each side, the 'stronger' the pivot is. Additionally, if the bars on each side have consecutive HLs, the stronger the pivot will be. That is to say, the more likely it would hold if prices were to retest that area

- **Presumptive Downtrend**: 1 successive LL and 2LHs, on whatever timeframe is being used. Note that a presumptive downtrend can be played only when coupled with other factors that point to lower prices (i.e., a recent BS failure, extreme RW, market starting to turn from a climactic advance, etc.)

- **Presumptive Uptrend**: 1 successive HL and 2HHs, on whatever timeframe is being used. Note that a presumptive uptrend can be played only when coupled with other factors that point to higher prices (i.e., a recent SS failure, extreme RS, market starting to turn from a climactic decline, etc.)

- ***RBI***: An "RBI" or "red bar ignored" occurs when a +WRB (preferably igniting out of a base on above average volume) is succeeded by a narrow, red bar (preferably on low volume) whose price remains in the upper third of the preceding green bar, without going above its high. The red bar is said to be "ignored" when its high is subsequently taken out by a green bar.

Glossary

- ***Relative Strength/Relative Weakness***: Relative Strength (RS) generally means that the stock is acting stronger than the market, and Relative Weakness (RW) that the stock is acting weaker than the market. To clarify the concept, the examples below only illustrate Relative Strength, although the converse of each example would be true for Relative Weakness. These examples show increasingly more extreme Relative Strength to the market. In the more extreme examples of Relative Strength, the stock is considered "on its own," meaning, almost completely unresponsive to the Market.

- 1. The Market makes a strong move to the downside, but the stock declines very little
- 2. The Market is on a significant pullback from an uptrend, but the stock maintains a strong uptrend without any significant pullback
- 3. The Market is in a narrow range, but the stock maintains a strong uptrend
- 4. The Market declines, but the stock forms a bullish consolidation or, demonstrating even more Relative Strength, rallies.

- **[Gap] Relative Strength /[Gap] Relative Weakness**: Generally, a stock has a Gap <u>Relative Strength</u> if the stock gaps up while the market gaps down; a stock has RW if the stock gaps down while the market gaps up. This gives the strategy added 'fuel' if the market fails to follow through on the same move (for example, the stock put in a MGU when the market gapped down. Now, if and when the market fails to go lower, the stock will skyrocket).

  After the day's open, a gapping stock shows RS by moving higher to fill an opening bearish gap (or by not moving lower to fill an opening bullish gap) while the market moved lower. Similarly, a gapping stock shows RW by moving lower to fill an opening bullish gap (or by not moving higher to fill an opening bearish gap) while the market moved higher

  Another way to think about Gap RS or Gap RW is by understanding the concept of "**<u>Shock Value</u>**." A stock is said to produce "Shock Value" if it propels people to act in a way they would not otherwise, using emotions rather than logic. For example, on a MGU, sold-out bulls might feel compelled to go long the stock because of what they perceive as an early sale and/ore a missed opportunity. Similarly, shorts might feel surprised or utterly shocked that their stock gapped up today when it broke down on heavy volume the day before, perhaps on what seemed to be negative news. These shorts will rush to cover, which only helps to intensify the move higher.

Glossary

The impact of this “Shock Value” is usually powerful enough to cause a stock to move “on its own,” independent of the market

A stock can also have RS or RW with respect to its index. If playing the index, such as the SMH, the index can also have RS or RW relative to the market

Lastly, other factors to be examined for indication of subtle RS to the market are the following:

1) <u>Moving Averages</u>: Compare the price location relative to the location of the moving average, the location of the 20ma relative to the 200ma, and slope of the 20ma relative to the market’s. This is particularly helpful when scanning 5-min thumbnail charts. For example, other than stocks consolidating at the high of the day, I can quickly look for stocks above a r20ma that is also above the 200ma

2) <u>Quality and Slope of Trend</u>: Compare the distance between the pivot lows and pivot highs, and the slope of the uptrend or downtrend to the market’s. For example, is the stock in a nice 45˚ uptrend when the market is also in an choppy uptrend with excessive pullbacks?

3) <u>+WRBs and –WRBs</u>: Compare any WRBs that formed in the stock to those in the market. For example, when a stock is in an uptrend, is it quickly negating a –WRB while the simultaneous –WRB in the market is quashing the price (forcing it to consolidate sideways for an extended period of time)?

- ***Reversal Times***: 9:35am, <u>10am</u>, <u>10:30am</u>, <u>11:15am</u>, 12pm-<u>1:30pm</u>, <u>2:15pm</u>-2:30pm, <u>3pm</u>, and 3:30pm. (The major reversal times are underlined.) Allow (+/-) 10 minutes of wiggle room

- ***Sell setup***: 3 or more consecutive HHs or green bars have advanced toward resistance (preferably minor resistance) with the end of the advance marked by a <u>Topping Sign</u> or a +WRB with <u>volume surge</u>, at or near the d8ma/d20ma, prior price resistance, 50% retracement, or resistance from a downward trend-line

- **Shakeout bar**: occurs when a base breaks down but then goes back up to the base and continues basing. This breakdown failure serves to clear out weak longs who would be sellers as soon as the breakout occurs, and to trap new shorts who will support the breakout by their covering. The higher the volume the on shakeout bar, the more there will be sold-out bulls and trapped shorts once the stock breaks out above the base

Glossary

- **Support types**:

  Price Support**:**

  a. Prior High Support (PHS): usually coincides with a 33%, 50%, or 64% retracement. In essence, this is a retest of minor support
  b. Prior Low Support (PLS): a 100% retracement of the prior rally (double bottom). In essence, this is a retest of major support and may mean that the trend is challenged

  Moving Average Support:

  a. Trending Moving Avg. Support: r8MA/r20MA
  b. Flat Moving Avg. Support: 200MA

  Retracement Support:

  a. 50% Retracement Support: often coincides with PHS
  b. 33% Retracement Support: signifies a very high demand for the stock

  Specialty Support:

  a. Prior Day Close Support (PDC)
  b. Far Below 20MA Support (i.e., climactic)

  Note: A reversal sign MUST accompany all support types in order to make them valid/playable. You must wait for a reversal sign to form before taking any action

- ***Topping Sign***: A Topping Tail (TT), Red Bar Reversal (RBR), Narrow Range (NRB), or Narrow Body (NB). It is considered important only after a 3-5 consecutive bar advance on whatever timeframe is being used

- ***Uptrend***: 2 successive HLs and HHs, on whatever timeframe is being used. Note that a break of a downtrend and a presumptive uptrend can be played after just 1 HL and 2 HHs when coupled with other factors. Note also that caution is warranted on a long play when the 15-min chart of the QQQQ has yielded at least 3 ore more consecutive green bars or is approaching major resistance (and on a short play when the 15-min chart has 3 ore more consecutive red bars or is approaching major support

- ***Volume surge***: Higher volume than the prior 5 or more bars and at least 50% higher than the average volume for the prior 10 or more bars

Glossary

- **Wild card Trade**: is a valid strategy that is not spelled out in the Plan. If (and only if) the wild card trade is successful, then allow another one; but do not allow more than a 3R loss per week on such a trade. Study the reason the trade failed or worked and consider adding to Plan once the complete strategy is identified and is profitable

Trading Psychology
Notes & Quotes

- I am a 98% stalker, and a 2% trader. I spend 98% of the day watching, and waiting for the right moment. Then I become a trader for a minute or two. And, once I put on a trade, I become a risk manager

- I know that buying at support, and shorting at resistance gives me an edge. While this is not a rule I have to follow, I pledge to let it be my primary buy/sell location

- If you want to lose fear, live in the present moment

- "Every Major Loss I have had trading has come from believing my current trade would be a big winner, so I did not follow the rules of the game. Adopt my belief system that, "<u>THIS TRADE WILL MOST LIKELY BE A LOSER</u>" and you sure as heck will protect yourself"

- "You must always assume you are incorrect until you are proven correct"

- Do what's right from the beginning. If you start messing around with random setups, you will soon be taking a lot of them and end up regretting it. Remember that taking a lesser quality trade just to trade is the mark of a novice

- Are you willing to lose money on the trade? If not, then don't enter. Be willing to lose money on every trade. Remember, you only win if you aren't afraid to lose, and really expect or are prepared to lose. You can only do that when you have truly accepted the risk on each trade

- You have to want consistency more than anything else, more than getting promoted, and more than making quick money. Otherwise, you will never make it!

- Trading is: Using technical analysis to find a moment in time when the odds are in your favor. Then trading becomes a matter of entry and management. In other words, it is: "Having the KNOWLEDGE to know when the odds are in your favor (i.e., your edge), the PATIENCE to wait for that moment, and then the DISCIPLINE to handle the trade properly when it goes in your favor, and properly when it goes against you"

- What good is there in being 'right' if you don't get paid for it? Make it count by losing small and winning big. I am in the stock market to make money not to be right, or be a hero (for example, bucking the trend or picking bottoms is trying to convince yourself that you are better/smarter than everybody else). No one can ever beat the market. I won't try

Trading Psychology
Notes & Quotes

- There is absolutely no secret to trading, no holy grail that would lead to riches. If anything, the real secret is learning to be aware of the emotions that cause you to abandon your trading plan. The trick is therefore not in controlling, but in becoming aware of your emotional reactions, and then understanding them

- <u>All that a trader has to do is</u>:
  – Identify Edge
  – Assess Risk vs. Reward
  – Monitor stream of thoughts

- To succeed in the stock market, you must "Reverse natural impulses: Instead of hoping, you must fear. Instead of fearing, you must hope. You must fear that your loss may develop into a much bigger loss, and hope that your profit may become a big profit"

- Your job is to listen to the market, and manage risk based on what the market is telling you. But, do not impose your own beliefs and say the market must act according to your beliefs about it. Always remain flexible and open to what the market is telling you

- Don't over-analyze, don't procrastinate, don't hesitate. If you do, you will lose

- Stop trading when you feel that you've become emotional (i.e., when you find yourself hoping, wishing, or wanting to recoup $ lost on a trade (i.e., take revenge))

- Think like a trader: look for things other traders will be looking for – don't try to be clever. If a trade doesn't jump out at you, it's probably not there. If you can't see it, who else will?

- Discipline is doing the right thing at the right time…..every time!!
  - Remember, the market pays you to be disciplined. Be disciplined every day, in every trade, 100% of the time

- Even the "Best of the Best" loses
  - Think like a winner. *Know that you can succeed!*

- Remember, trading the stock market isn't everything. It's only money. There are much more important things in life and you'd better not forget it

Technical Analysis
Notes & Quotes

- It is always better to trade in the direction of today's daily bar. Trading against the daily bar, when there is a clear bias in that bar (i.e., Solid Green), usually lowers the odds of success for the play

- Remember that the stock must have the proper pattern (e.g., be in a quality uptrend) before the pullback

- Usually, the stock that is hard to buy because it is giving you no time to buy is the stock you want to be in. If a stock let's you in easily, it is probably a loser. It is a almost a cliché, but is true that doing the comfortable thing (shorting tops or buying bottoms) never makes you a good trader. On the other hand, taking the uncomfortable trade (buying a new high or shorting a new low) will often yield to greater results

- You don't have to figure out where the market is going, just find "moments in time." For example, if the market is going to rebound at all, this is when it is going to do it (and go long), or vice versa

- Two times you have an edge: 1) When trading with the trend, and 2) When there is a shock value of some sort

- Never ask for anyone's opinion when you feel confident about a trade. Remember, you are not a follower, never born to be one, so stop acting like you need someone else to tell you what to do

- Bottoms are a process, not an event. Remember that! They are always found in hindsight, not when they occur. The best you can do is to buy a presumptive uptrend by buying the 2nd HL, but never attempt to buy the LOD or even the 1st higher low (unless it is a CDB or a guerilla tactic)

- On a climactic decline buy, we want it to break through support, because that means we used up a lot of sellers to break through support. These sellers won't be there on the way up. Additionally, once a stock breaks support, it invites new shorts and shakes out weak longs

- From failed moves come fast moves

- When playing the open, it is best to play in the direction of your morning bias of the market. For example, if the market gaps up into resistance on a novice gap, then perhaps you want to focus on shorts, even though the market opened much higher

Technical Analysis
Notes & Quotes

- When an equal low is made after multiple lower lows, and then that equal low later fails on a retest, be prepared to go long on the first buy opportunity (i.e., 55% retracement of a red bar). This is 2be’s & Sharma’s concept which can be played as a Wild Card Strategy

- Plan your trade, and trade your plan

- The trend is your friend

- Focus on buying only <u>First Pullbacks</u> to support area, not seconds or thirds

- The biggest mistakes you can make in trading are:
- – Trading against the trend without a valid strategy

  – Buying after a period of rallying as resistance is penetrated

  – Buying where supply exceeds demand (how do you know supply exceeds demand? Well, look to the left; did price reverse/decline the last time it got there?

- How do you know if it is a strong resistance/support area (i.e., large supply-demand imbalance)? Why, how did price leave that area that last time it was there: in strong fashion, or was it gradual?

- Find areas where prices could not stay there AND moved from there in a hurry. Buy a pullback or short a counter rally to these levels

- Let the market move first, and then react. But, never try to predict. But, at the same time, don’t react to what happens, think about it in advance. For instance, if this happens, this is what I will do…and try to place a limit order in advance when possible. This is not predicting market direction; this is simply planning in advance

- When taking some else’s play, you have to know what you're looking for before taking the play. For example, are you looking for a play to go long or short? Additionally, you should never take a trade that you don’t recognize, or don’t agree with

- Always know why you are entering (and exiting) a position – not just the setup, but the big picture including the overall strategy, market condition, etc.

- Don’t take a shakeout or RS play when the market is breaking down or falling to new lows

- Minor support after a pro gap is the most bullish area for the stock to advance.

- “Strategy” and “Tactic” are vey similar terms in trading. “Strategy” is the broader term. The “strategy” may be to buy a strong market when it pulls back to support; the “tactic” may be to use a PBS 15 minute buy set up to accomplish that. Setup is a sub category of the tactic, and refers to the smaller pieces that make up the tactic. For example, when looking for that 15 minute Pristine buy setup, we may be looking for the play to be setup with a rising moving average, or minor support.

Market Internals

TRIN

- TRIN is an inverse indicator. A TRIN reading of one means that the market is in balance, while a reading above one means more volume is moving into declining stocks (bearish) and vice versa. The TRIN can also be used as an oversold/overbought indicator when smoothed by a simple moving average – such as using an 8-day or a 21-day moving average.

Levels:

- **Extremes - Below .20 or Over 1.80**
- The trend of the TRIN is more important than the level
- TRIN useful for - trends, S/R levels, reversals, overbought/oversold indicator, etc.
- Quality trend: For bullish, you want NY TRIN to stay below 20 MA

TICK

- LEVELS:
- Neutral - Between -400 and +400
- Extended - Below -800 and Over +800
- **Extreme - Below -1000 or Over +1000**
- **Can serve as early indicator of buying/selling flurries**
- Look for extreme levels after extended runs
- Can set alerts for +/- 1000
- Watch TICK range for general bullish/bearish bias
- Watch for market discrepancies
- The important question is: how much time is it spending above zero, as this is bullish (it means more rising stocks than declining)

VIX

- The VIX is an inverse indicator. It is derived from the prices of ALL near-term at-the-money call and out-of-the-money call and put options traded on the S&P 500.
- The VIX is a measure of fear and optimism among option writers and buyers. When a large number of traders become fearful (when they want to buy a large number of put options, say, to hedge their long positions in stocks) then the VIX rises. Conversely, when complacency reigns, the VIX falls.
- The VIX is sometimes used as a contrarian indicator (especially at extremes) and therefore can be used as a measurement of how oversold or overbought the market is.
- Raw VIX readings are sometimes of limited value, unless you combine the VIX readings with some kind of overlay or other technical analysis studies. In recent months, however, the VIX has been consistently under 20 (similar to market conditions during the period 1991 to 1996)