STRATEGIC SWING TRADER

EARNINGS ENGINE

Using the Strategic Swing Trader Method for Trading Earnings

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T3 LIVE

The Earnings Strategy

Using Technical Analysis to Trade Earnings

Introduction

It is no secret that stocks follow earnings. Put more accurately, stock prices follow earnings growth. However, until now, there was no accurate way to know how investors would react to earnings announcements.

We all know that stocks (and any moving object) follow the path of least resistance. As such, when an up trending stock has pulled back to support and rising 20ma, the stock should have higher odds of gapping up in the direction of the trend.

This is the idea behind the Earnings Play!

T3 LIVE

SECTION 1

THE FOUNDATION

The Earnings Strategy

Using Technical Analysis to Trade Earnings

The Basic Unit

However, to truly understand the logic behind the Earnings Strategy, we need to discuss the basic way in which all stocks move. This is called the Atom or Basic Unit.

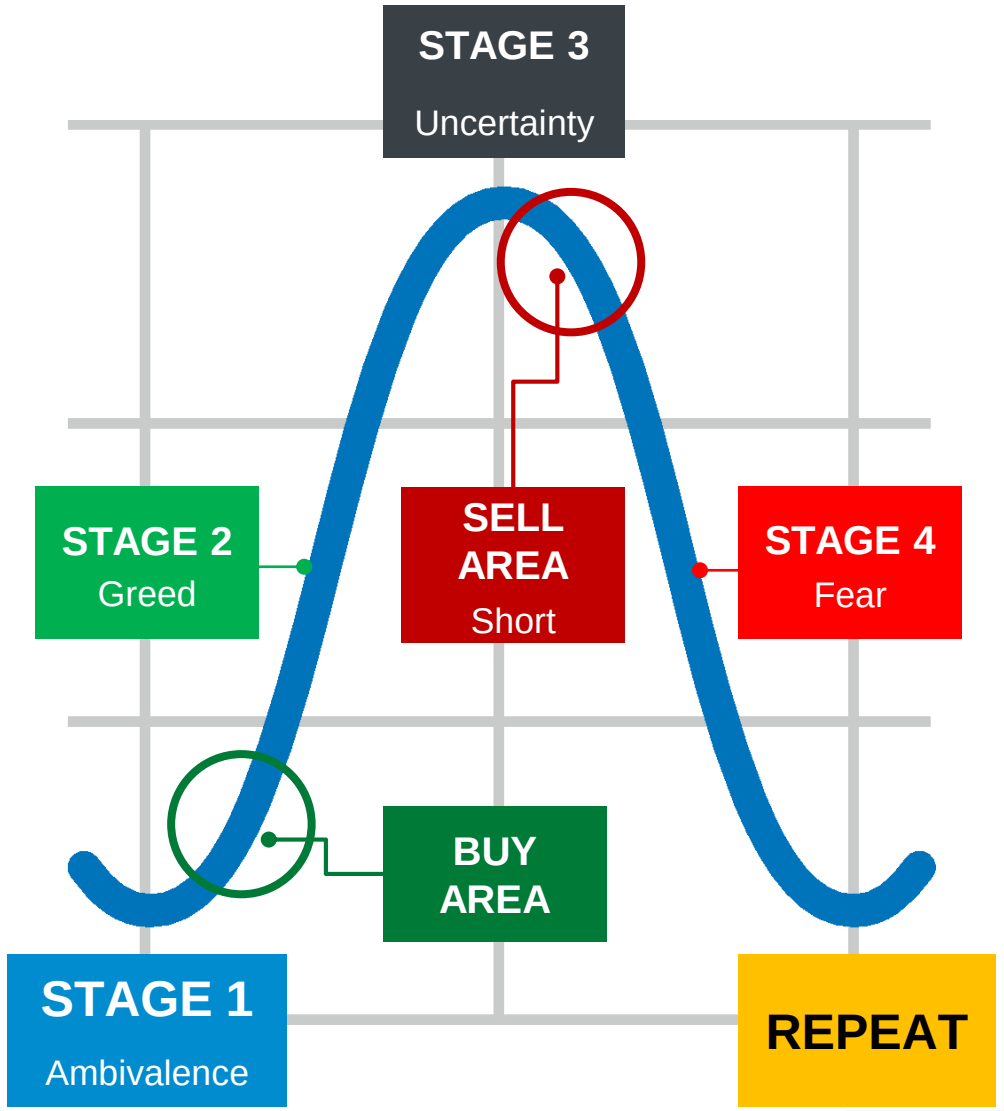
If you have studied the Pristine Method, you should have no problem recalling this. But, if you have never taken Trading the Pristine Method class, this will be important information, without which, I don't think you can be successful trading earnings.

So, let us begin!

T3 LIVE'S MASTER TRADER KEY #1

The Basic Unit/Atom

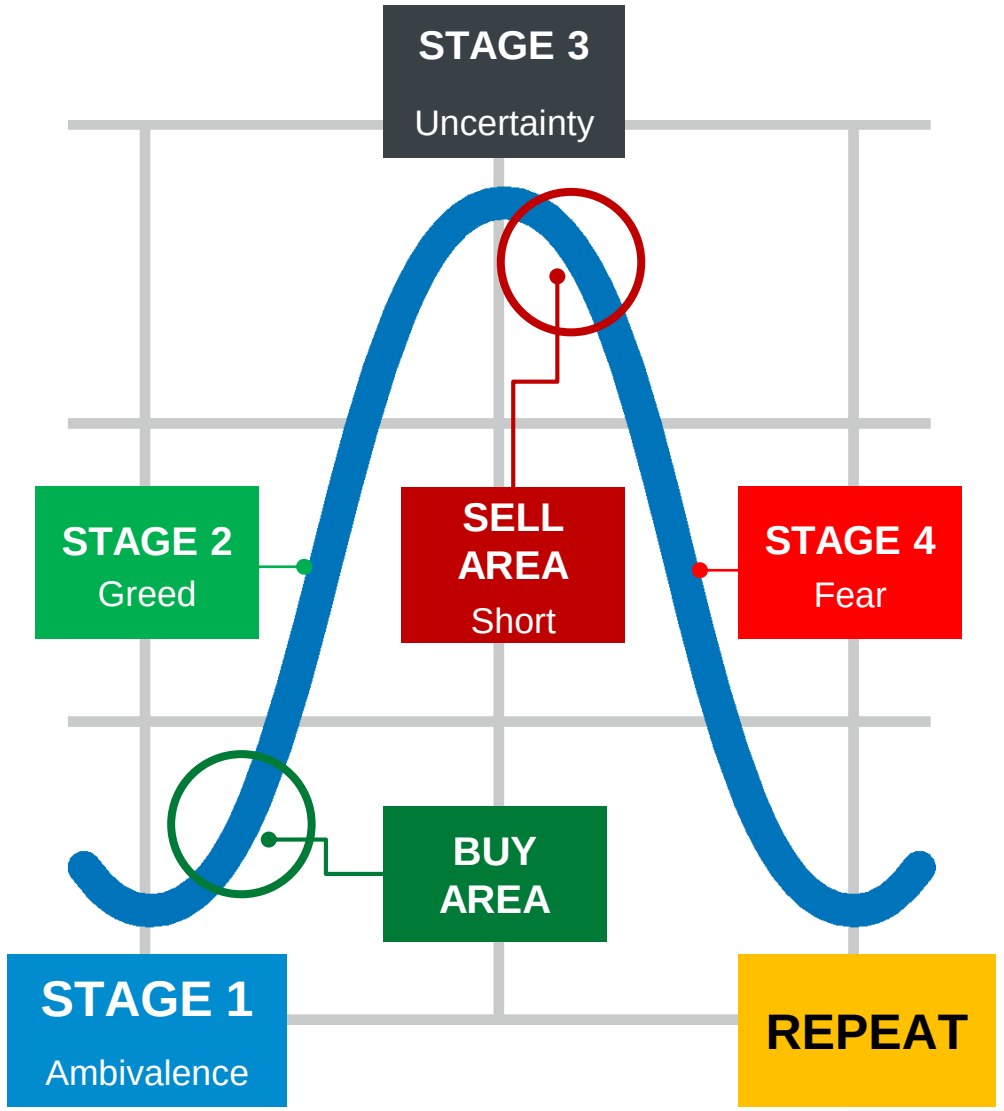
- The picture you see to the right is the only complete movement a stock or the market can make. There is no other movement possible.
- The entire life of a stock and/or a market is comprised of this cycle repeated time and time again.
- This cycle forms the basis for one's ability to predict future price movements based on the laws of psychology and probability.
- This cycle, sometimes referred to as the Basic Unit, helps the T3TT know the current status of the stock or market as well as what is likely to occur next.
- The key to trading successfully is knowing where you are in the cycle.
- This cycle is comprised of four distinct stages, which in turn are ruled by four distinct emotions.



T3 LIVE'S MASTER TRADER KEY #1

The Basic Unit/Atom

- In **Stage 2,** the T3 Live Trained Trader (T3TT) focuses on buying most of the time.
- In **Stage 4,** the T3 Live Trained Trader (T3TT) focuses on selling/shorting most of the time.
- In **Stages 1 & 3,** the T3 Live Trained Trader (T3TT) can focus on both, buying and shorting.
- **Stage 1** back to **Stage 1** can span over decades (macro), or over minutes (micro), depending on the time frame.
- This Cycle/Unit is made up of only three (3) primary trends.



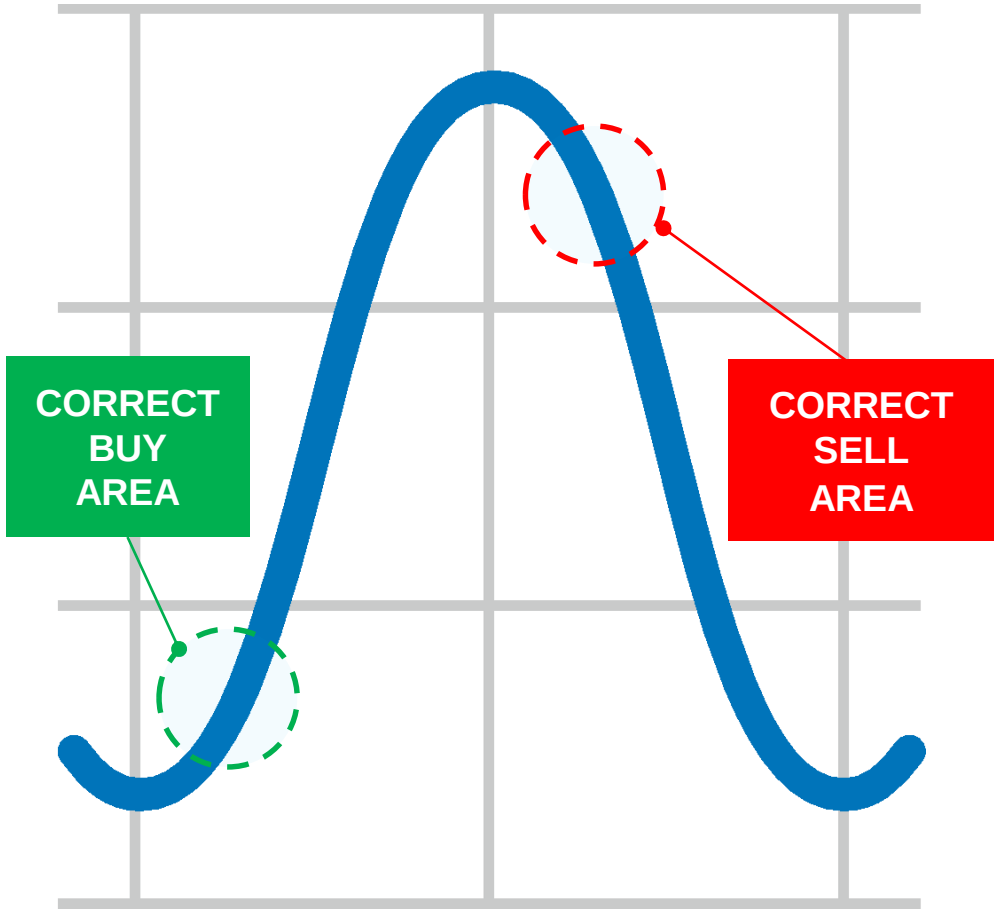
T3 LIVE'S MASTER TRADER KEY #1

The Basic Unit/Atom

The Only Way To Win:

Traders who win consistently - no matter what time frame - have simply learned to play the cycle/unit in this manner:

They buy somewhere during the start of Stage 2 and sell somewhere before Stage 4 begins.



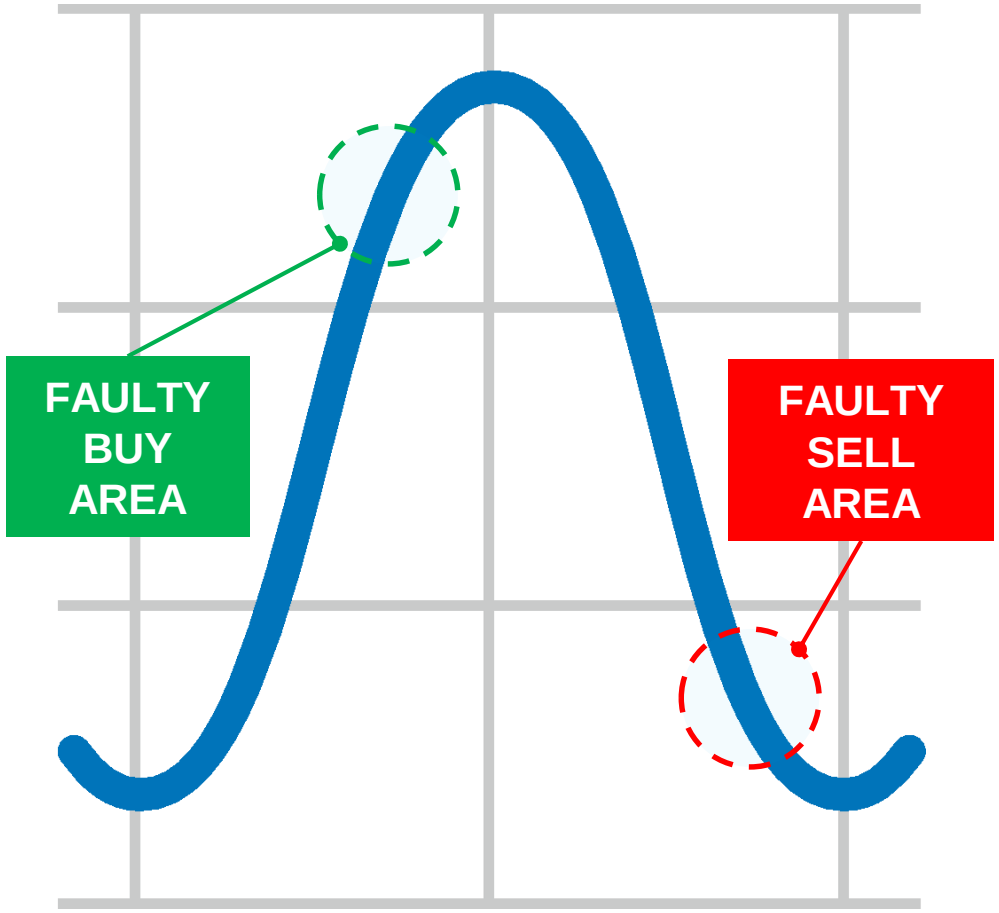
T3 LIVE'S MASTER TRADER KEY #1

The Basic Unit/Atom

The Only Way To Lose:

Traders who lose unconsciously playing the stock cycle in this faulty manner:

They buy somewhere after Stage 2 is proven to all and they sell after it is obvious they were wrong.



The Only Movement Possible

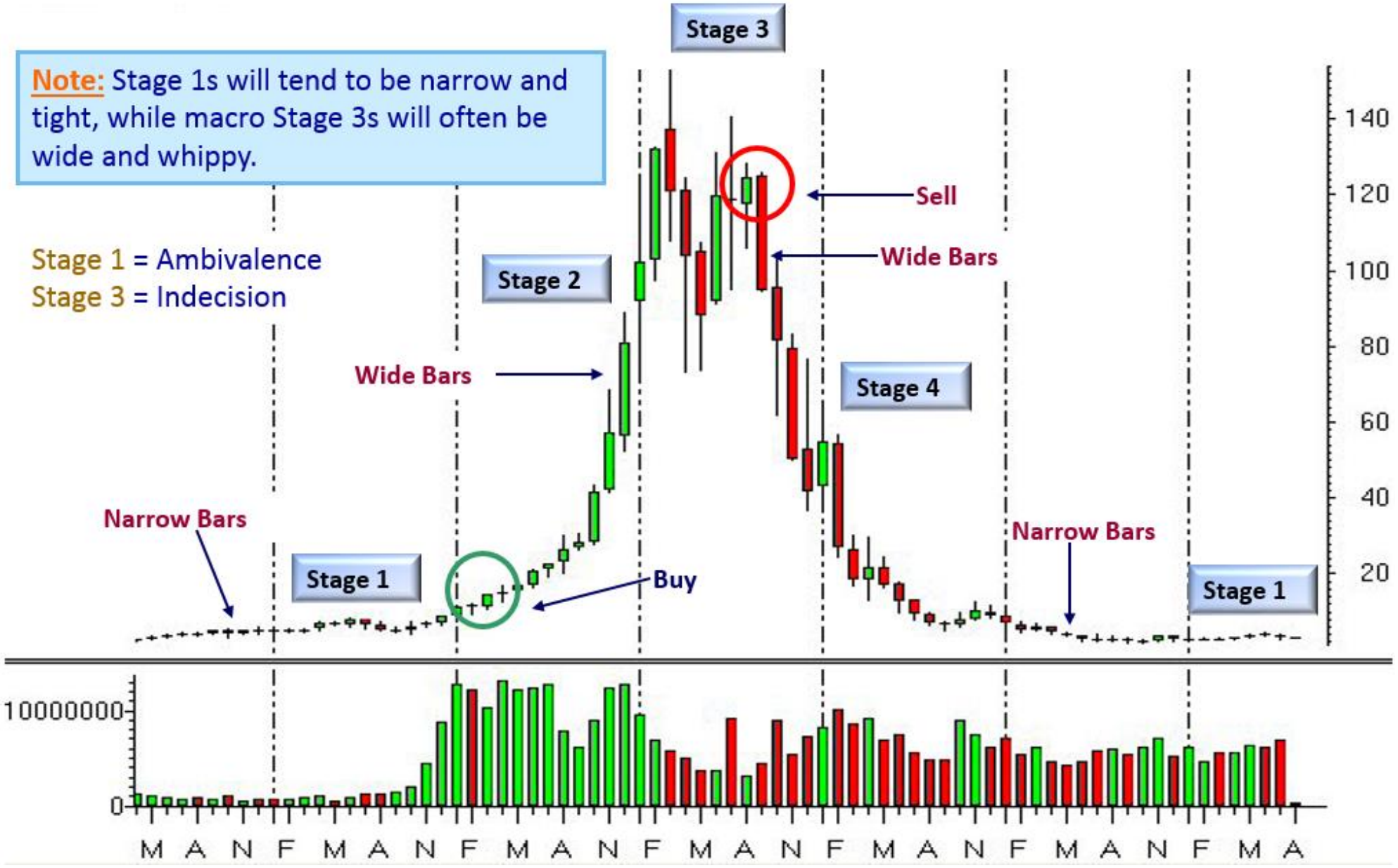
Monthly Chart

The Only Movement Possible

Monthly Chart

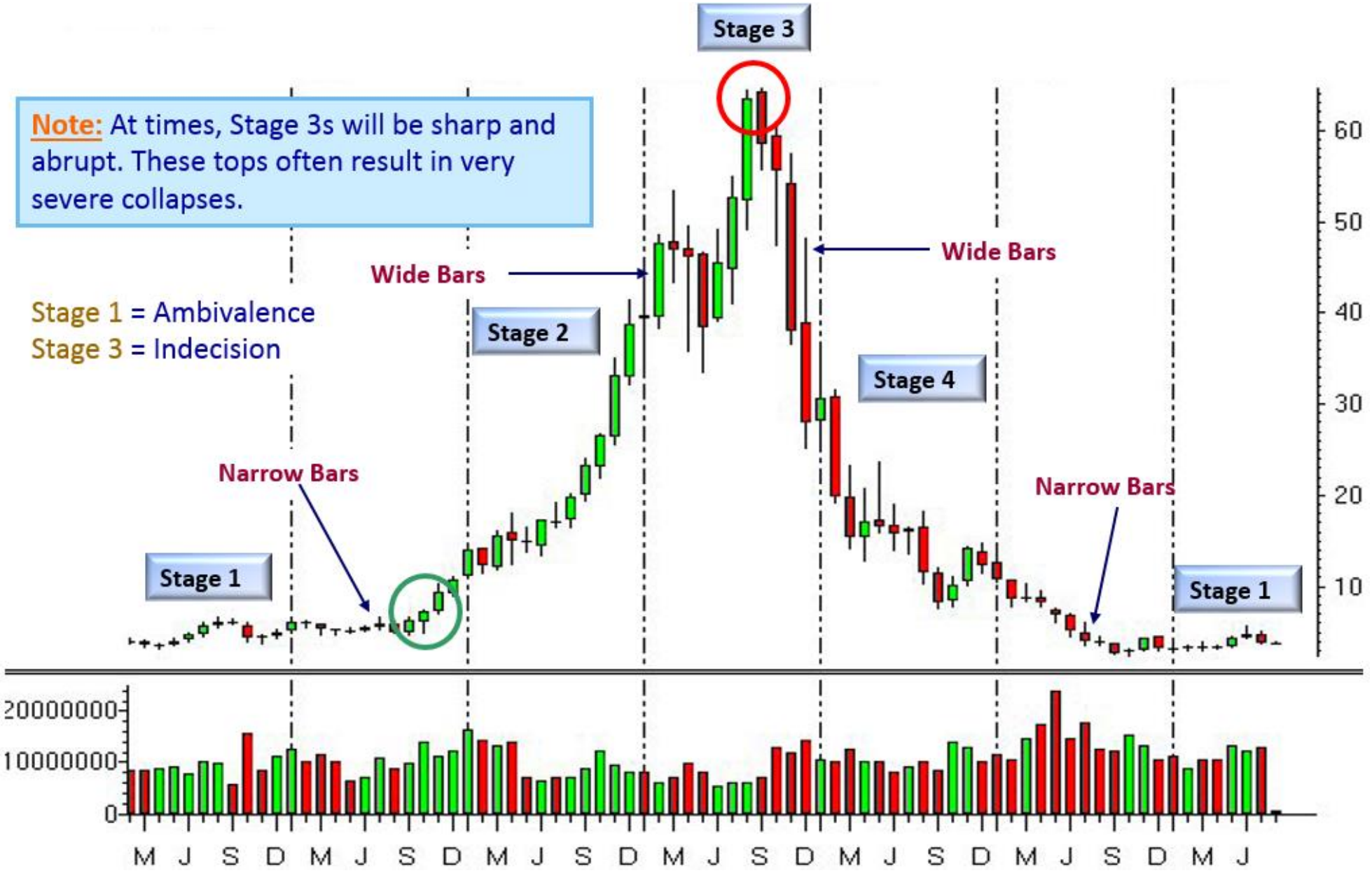
The Only Movement Possible

Monthly Chart



The Only Movement Possible

Monthly Chart

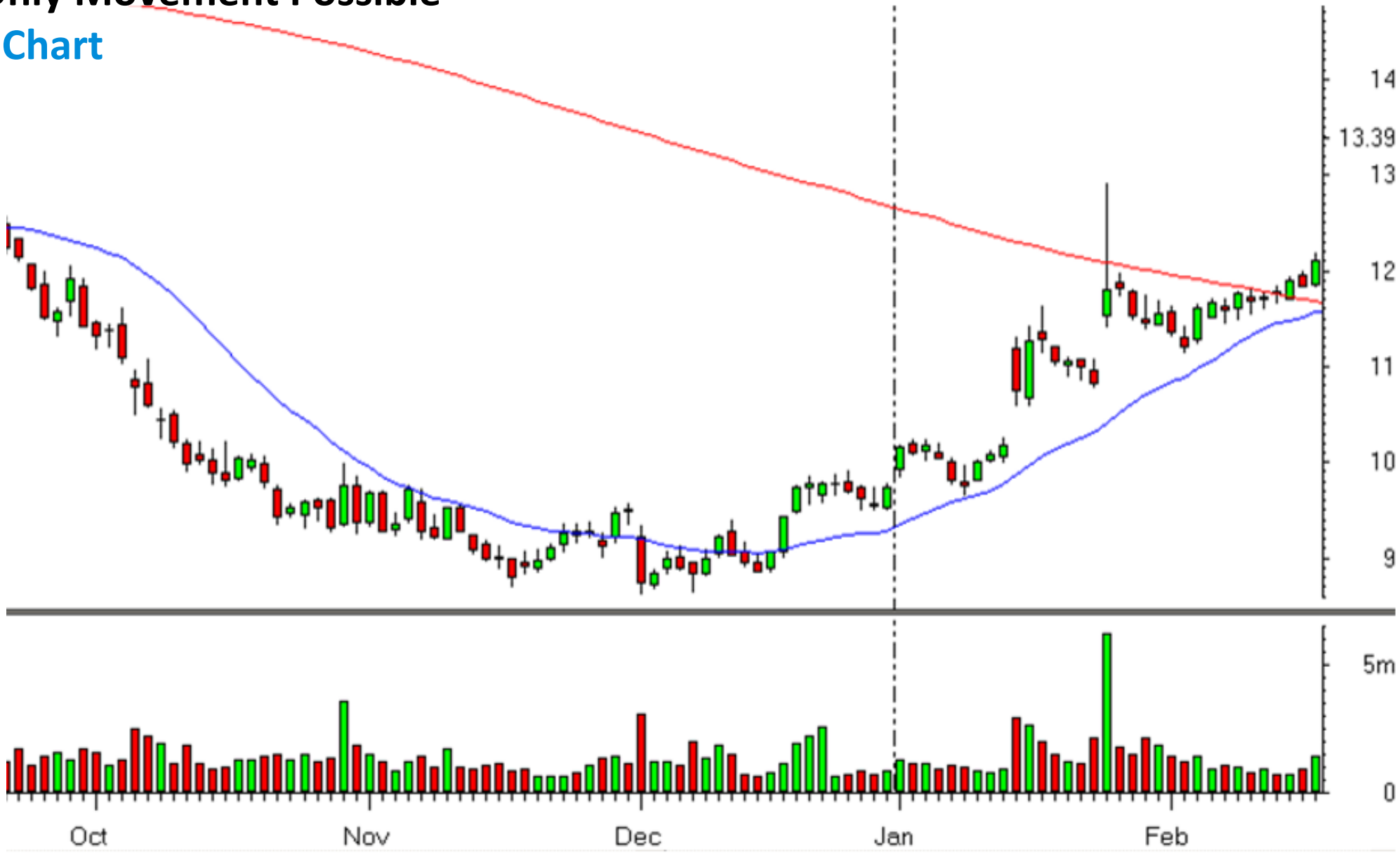


The Only Movement Possible

Daily Chart

The Only Movement Possible

Daily Chart



The Only Movement Possible

Daily Chart

T3 LIVE'S MASTER TRADER KEY #1

The Basic Unit/Atom

There is only one cycle in existence. Stocks and/or the market can do nothing else but repeat this cycle over and over. ***No other movement is possible.*** This is the master key to predicting future stock movements. Remember it!

This cycle is made up of four (4) distinct stages, which in turn are driven by four (4) distinct emotions or psychological states. ***The 4 stages must, and always do, occur in the same sequence.*** This is also an important key to price prediction based on the laws of probability and psychology.

Stage 1, the bottoming period, is driven by **Ambivalence.** This is the stage during which traders are indifferent and largely uninterested in participating. The interest level is low because of the prolonged poor market condition of the preceding Stage 4.

Stage 2, the bullish period, is driven by **Greed.** This is the stage during which traders will make the most money. The mindset that dominates Stage 2 is one that wants to be in the game, at any cost, which is why the 'Greater Fool' Theory rules. **Most participants will make money during Stage 2, except those who come in too late and/or those who stay too long.**

T3 LIVE'S MASTER TRADER KEY #1

The Basic Unit/Atom

Stage 3, the topping period, is driven by **Uncertainty.** During this stage, bullish sentiment begins to change, ***as a growing number of players begin to doubt the stock's (market's) ability to continue its upward momentum.***

Stage 4, the bearish period, is driven entirely by **Fear,** which typically escalates or crescendos into a climax near the bottom. Most traders will lose money during this stage. Those who have held on too long begin to exit in an attempt to keep some of their gains.

Those who have entered late typically exit late; but like a herd, they tend to exit all at once, which in turn creates the climactic part of the decline. ***Once the last batch of traders exits, the worst is over.*** More downside may still occur, but the negative momentum will have subsided after the climax.

Important: There is only one way to lose. If a trader thoroughly understands the only error that leads to losing, he will be more prone to avoid it.

T3 LIVE'S MASTER TRADER KEY #1

The Basic Unit/Atom

A stock, or any market, can only be in one of the 4 stages at any given time. **Note: A stock can, however, be in different stages in different times frames.**

Identifying which stage a stock is in is vital to successful trading. It helps to reduce losing trades, and adds a quality to one's decision making that is unrivaled. **Note: T3 Live Trained Traders (T3TTs) never place trades without first knowing in which stage those trades are being done.**

The T3TT will make most of his big profits during Stage 2 and Stage 4. **Note: Momentum trading and ANR management styles work best in stages 2 & 4.**

Keep in mind that each stage calls for a specific trading strategy. **Note: The T3TT has Stage 1 tools, Stage 2 tools, Stage 3 tools and Stage 4 tools.**

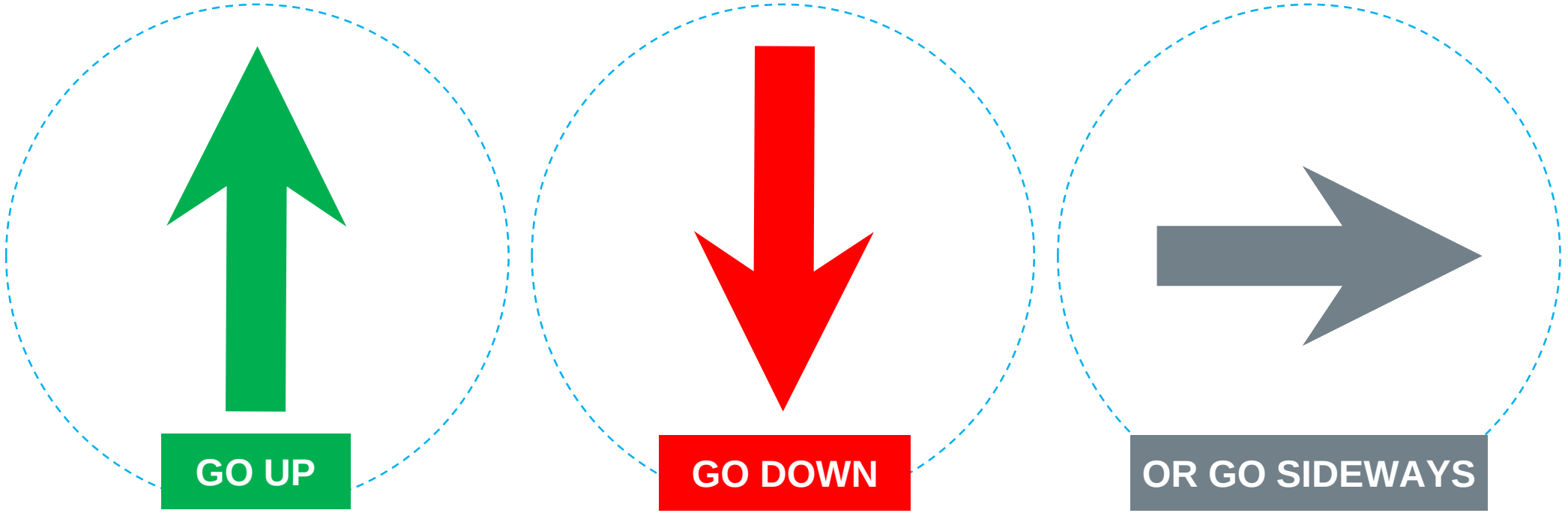
All a trader needs to do is learn how to handle himself in each of the 4 stages. **Note: The T3TT who knows how to handle himself in all 4 stages has about 85% of the market's activity covered.**

The T3TT trades with the flow of each stage 90%+ of the time. **Note: Using the appropriate trading tools and tactics, the T3TT only goes against the flow of each stage roughly 10% of the time.**

THE ONLY 3 DIRECTIONS

Master Trader Key #2

THE PRICE OF A STOCK CAN ONLY

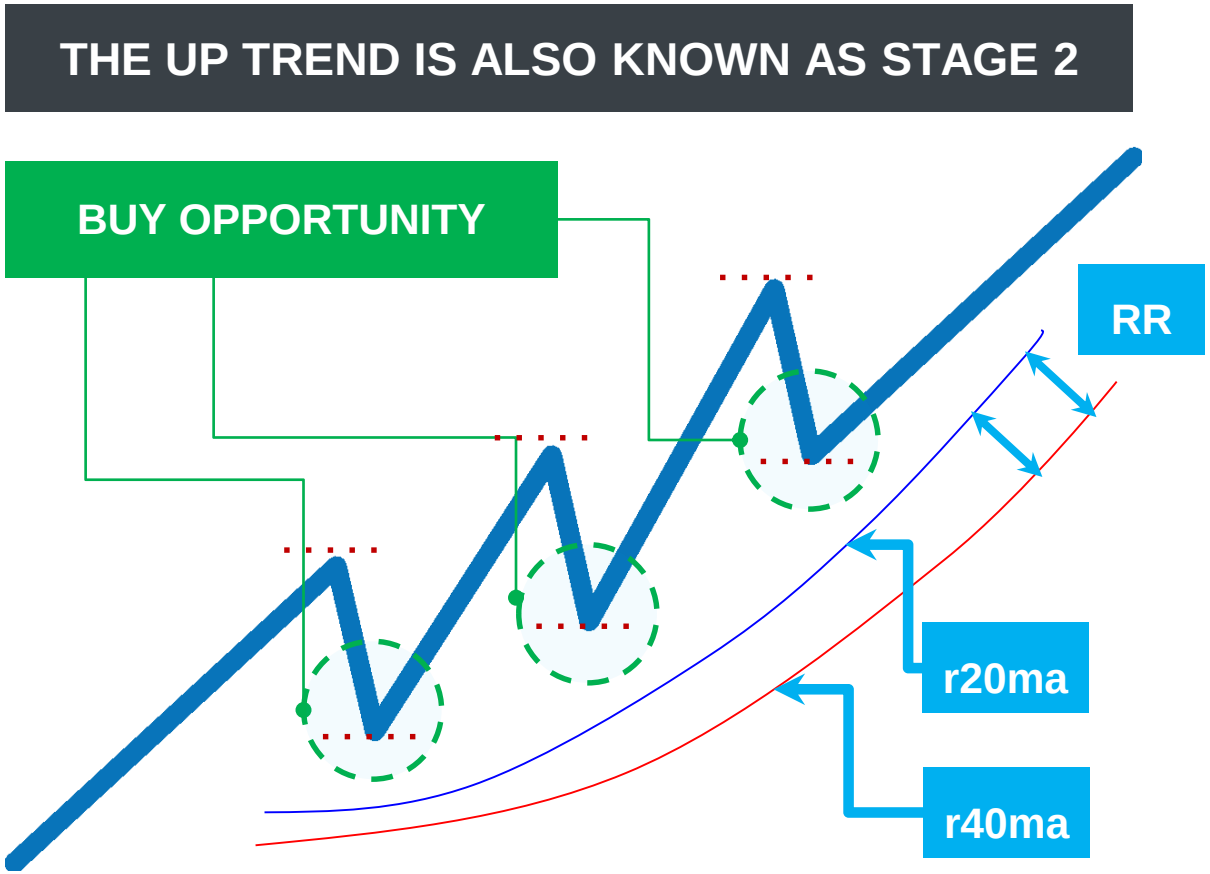


Note: In reality, there are only two trends. What we refer to as the Sideways Trend is nothing more than a temporary pause or pit stop between the two most dominant trends, the Uptrend and Downtrend.

STAGE 2: THE UPTREND
Definition

- Higher pivot highs
- Higher pivot lows
- A rising 20-period moving average (r20ma)
- A rising 40-period moving average (r40ma)
- A relatively even space in between the two rMAs

*** Higher highs and lows refers to ‘pivots’ being higher**

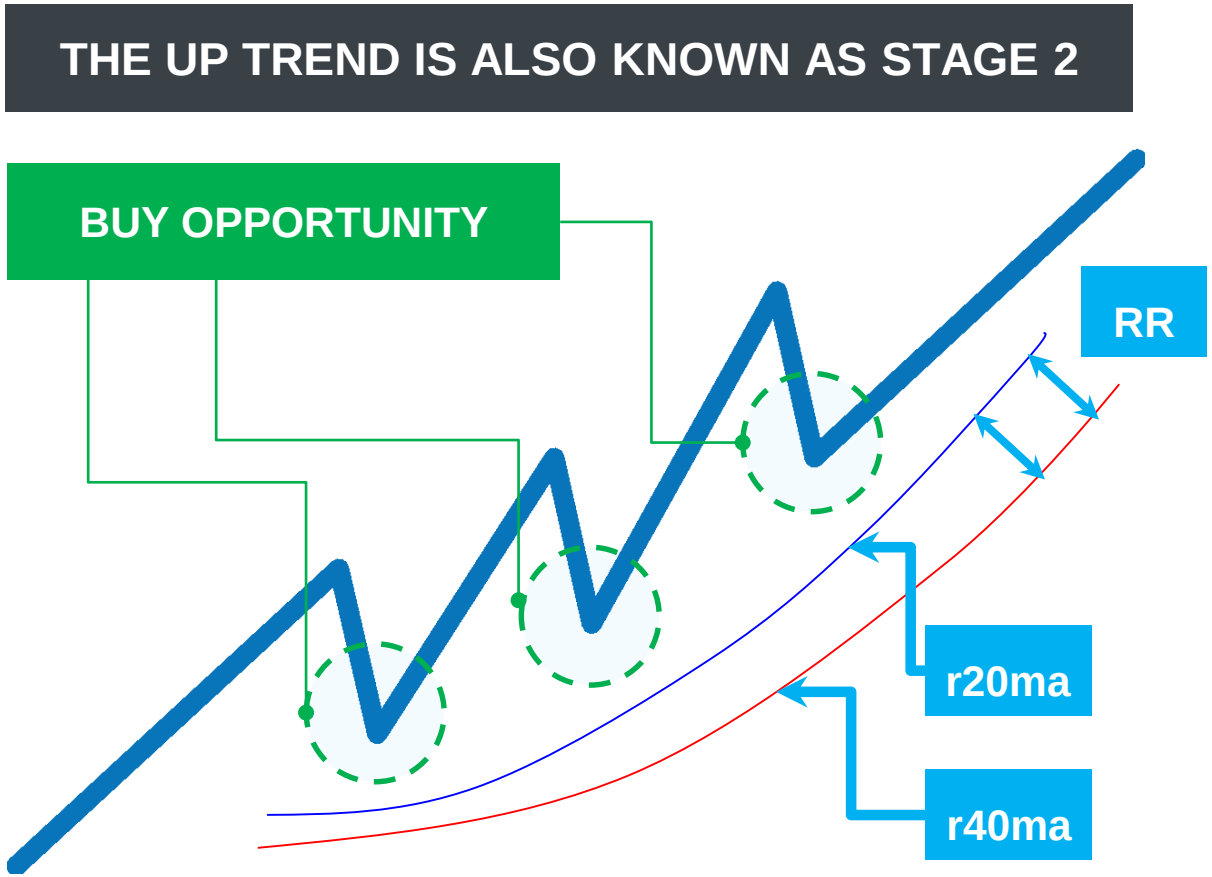


STAGE 2: THE UPTREND
Definition

Trading Tip: On smaller time frames the 8ma and 20ma can be used to see the ‘railroad tracks’

Trading Tip: Once the above T3 Live Up Trend criteria are met, the T3TT’s sole objective is to buy every single dip/pullback and breakout in the Stage 2 Up Trend. Not one should ever escape the T3TT.

Trading Tip: Scan your Trading Universe and make a list of stocks currently trending in a powerful Stage 2.

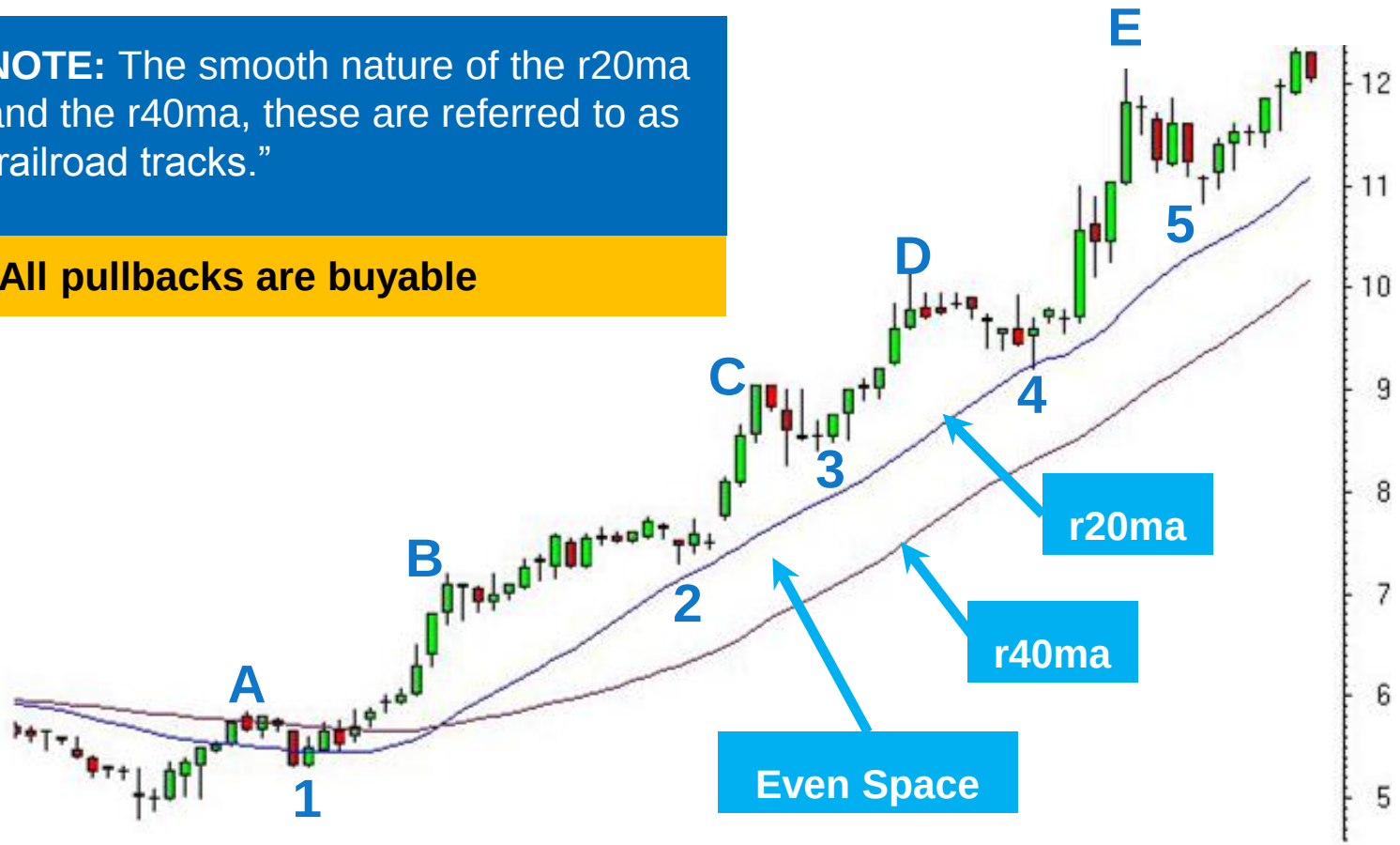


STAGE 2: THE UPTREND

Definition

NOTE: The smooth nature of the r20ma and the r40ma, these are referred to as "railroad tracks."

***All pullbacks are buyable**



UPTREND CRITERIA		
1	Higher Highs	**(A – E)**
2	Higher Lows	**(1 – 5)**
3	Rising 20ma	**r20ma**
4	Rising 40ma	**r40ma**
5	Even space between the 20ma & 40ma	**(Railroad Track)**

ALL PULLBACKS ARE BUYABLE!!

STAGE 2: THE UPTREND
Definition

NOTE: The smooth nature of the r20ma and the r40ma, these are referred to as "railroad tracks."

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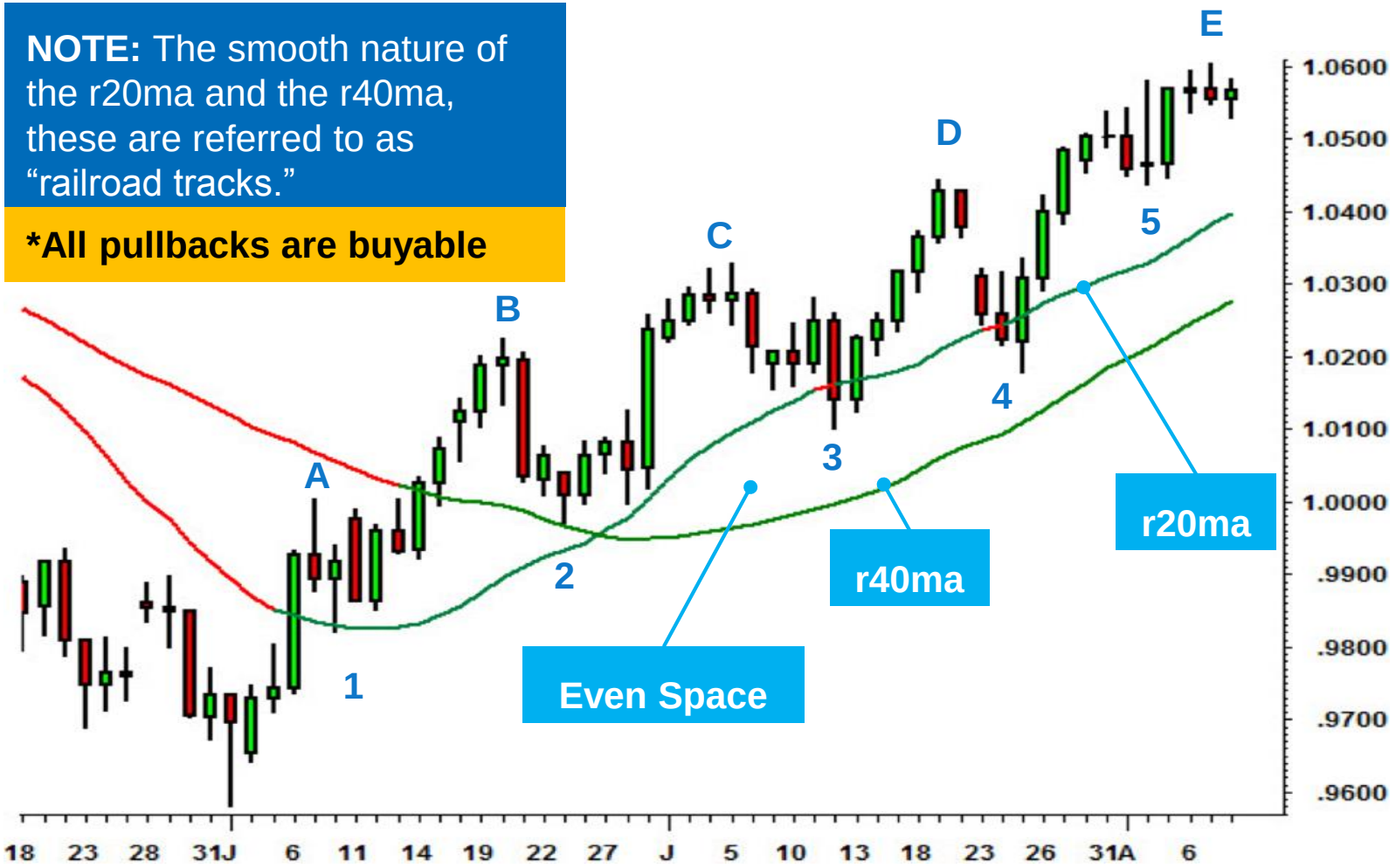

UPTREND CRITERIA		
1	Higher Highs	**(A – E)**
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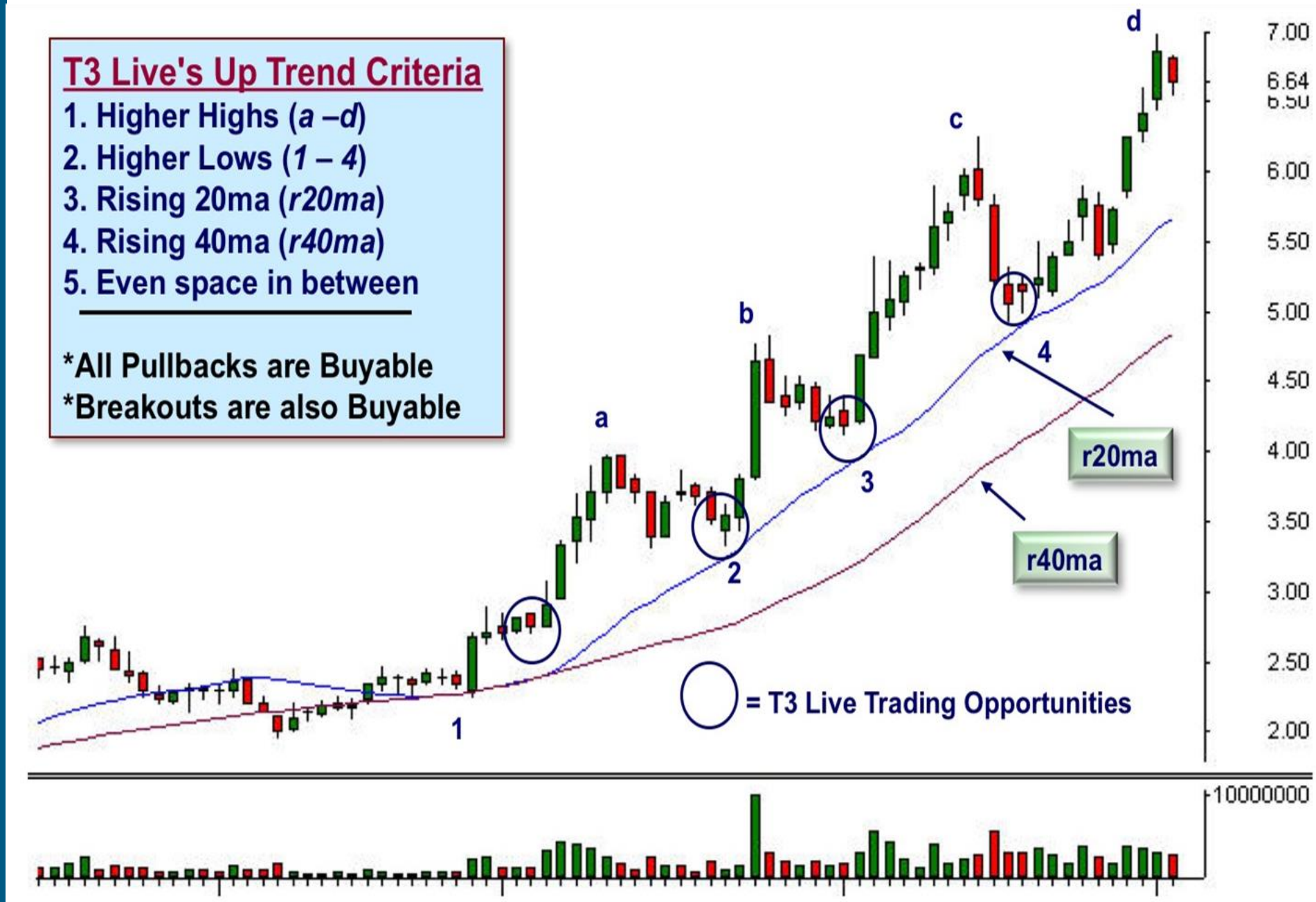
3	Rising 20ma	**r20ma**
4	Rising 40ma	**r40ma**
5	Even space between the 20ma & 40ma	**(Railroad Track)**

ALL PULLBACKS ARE BUYABLE!!

T3 LIVE

STAGE 2
THE UPTREND

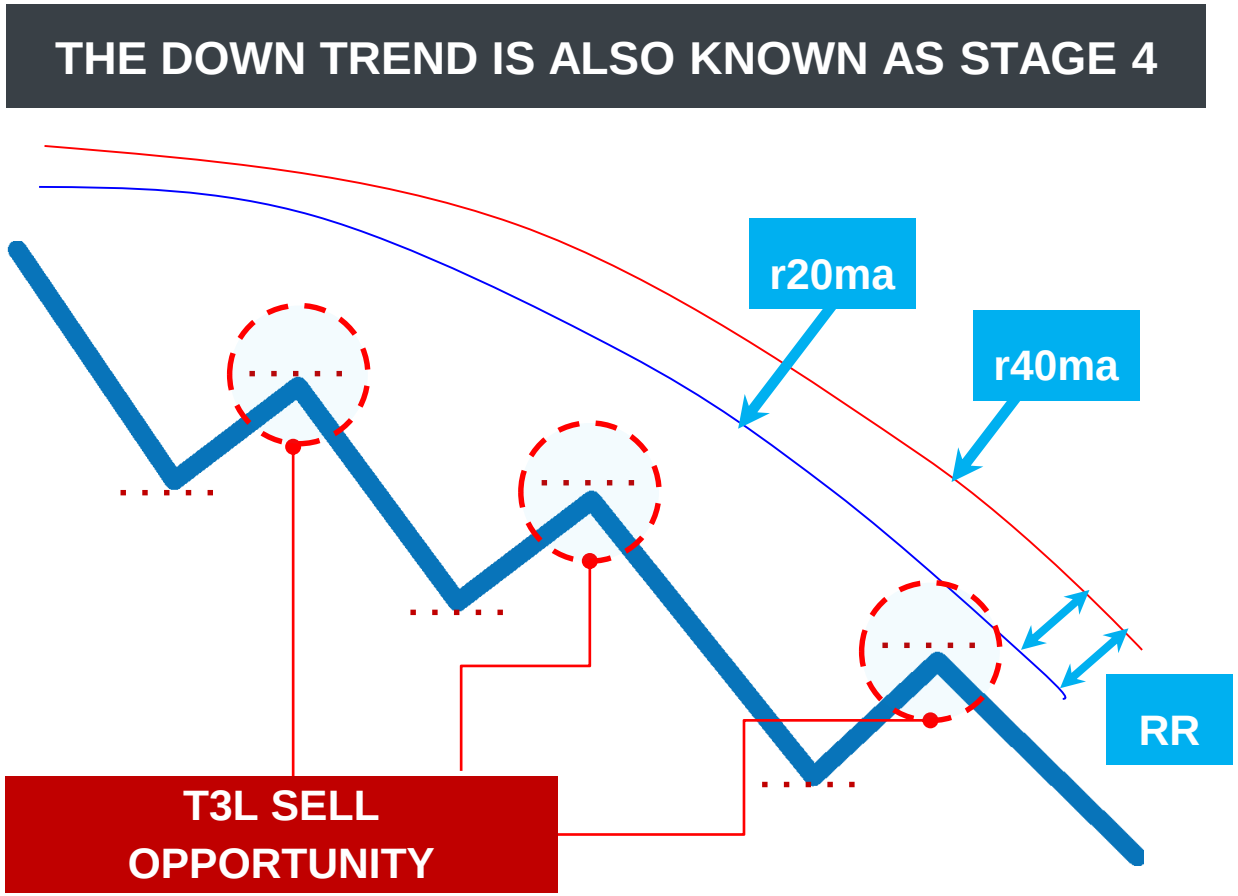


STAGE 4: THE DOWNTREND

Definition

- Lower pivot highs
- Lower pivot lows
- A declining 20-period moving average (d20ma)
- A declining 40-period moving average (d40ma)
- A relatively even space in between the two dMAs

*** Lower highs and lows refers to ‘pivots’ being lower**



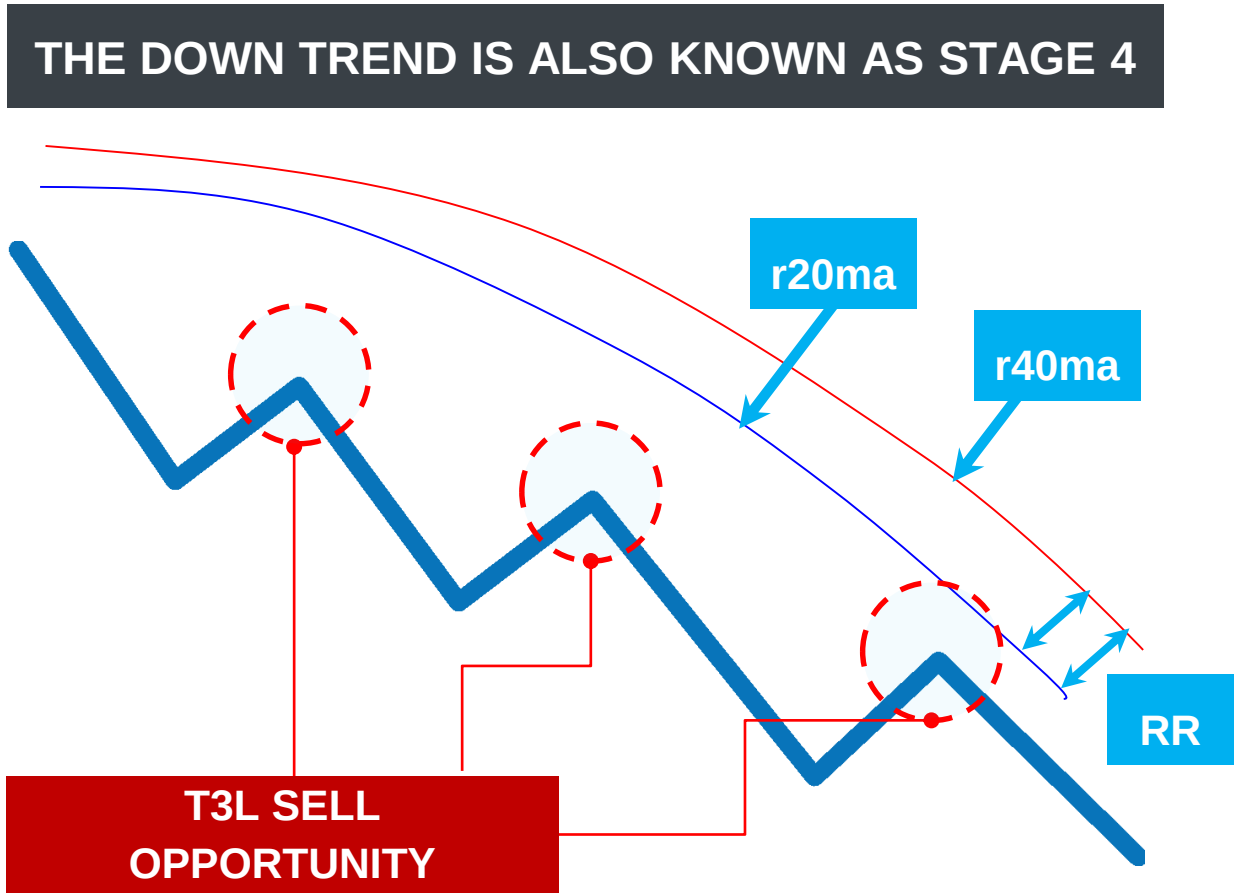
STAGE 4: THE DOWNTREND

Definition

Trading Tip: On smaller time frames the 8ma and 20ma can be used to see the ‘railroad tracks’

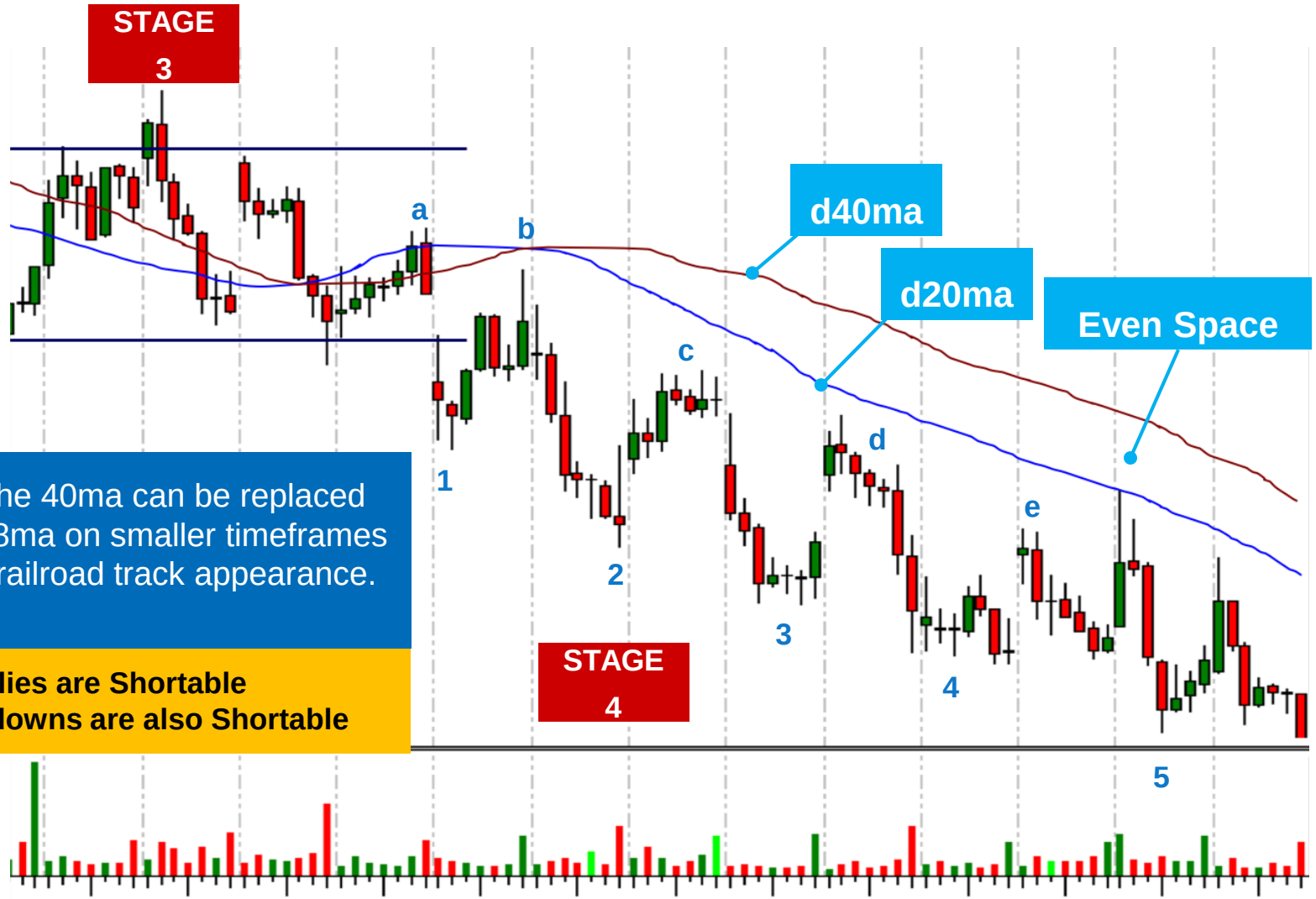
Trading Tip: Once the T3 Live Down Trend criteria are met, the T3TT’s sole objective is to sell short every single rally and breakdown in the Stage 4 Down Trend. Not one should ever escape the T3TT.

Trading Tip: Scan your Trading Universe and make a list of stocks currently trending in a powerful Stage 4.



STAGE 4: THE DOWNTREND

Definition



Note: the 40ma can be replaced by the 8ma on smaller timeframes for the railroad track appearance.

***All Rallies are Shortable**
***Breakdowns are also Shortable**

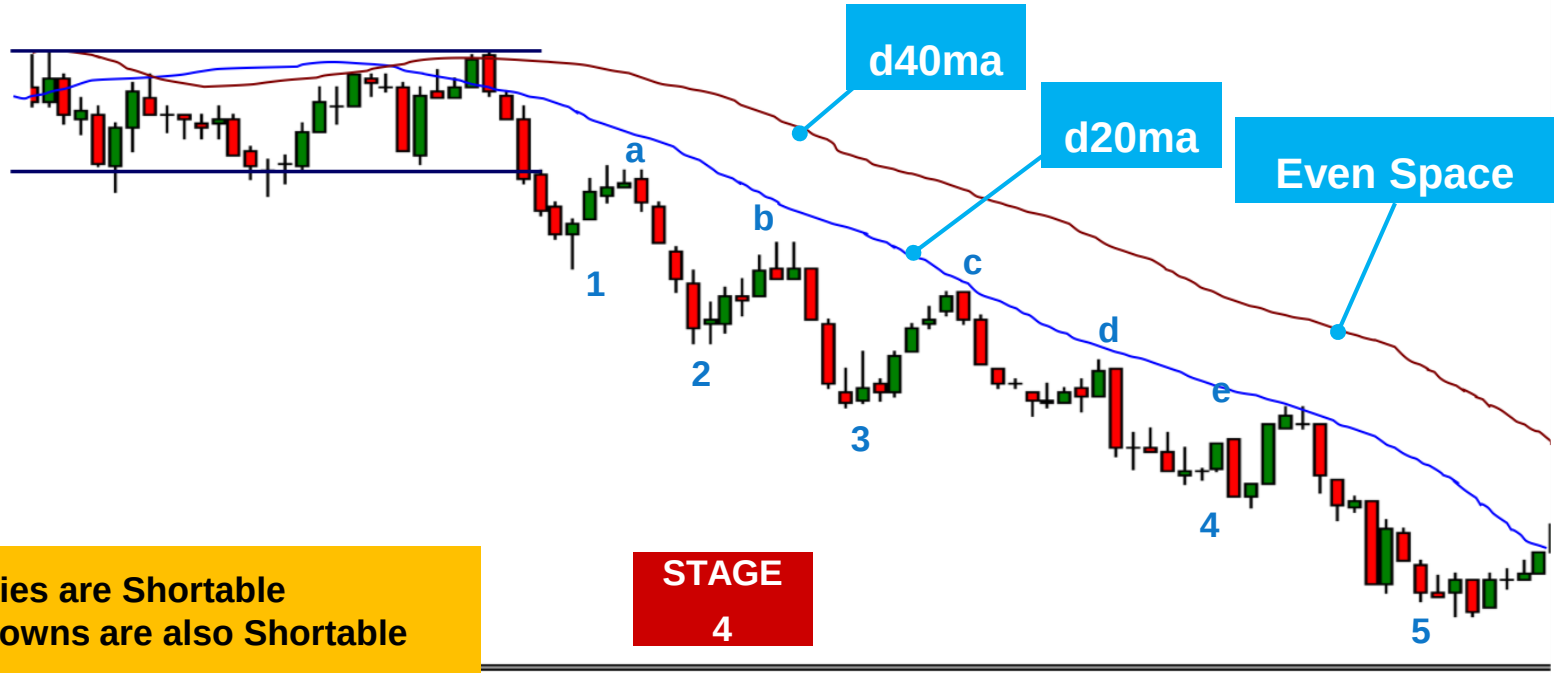
DOWNTREND CRITERIA		
1	Lower Highs	**(a – e)**
2	Lower Lows	**(1 – 5)**
3	Declining 20ma	**d20ma**
4	Declining 40ma	**d40ma**
5	Even space between the d40ma & d20ma	**(Railroad Track)**

ALL RALLIES ARE SHORTABLE!!

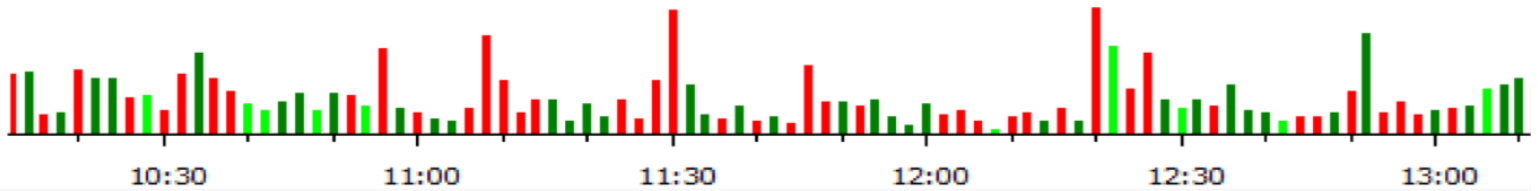
STAGE 4: THE DOWNTREND

Definition

STAGE 3



STAGE 4



*All Rallies are Shortable
*Breakdowns are also Shortable

DOWNTREND CRITERIA		
1	Lower Highs	**(a – e)**
2	Lower Lows	**(1 – 5)**
3	Declining 20ma	**d20ma**
4	Declining 40ma	**d40ma**
5	Even space between the d40ma & d20ma	**(Railroad Track)**

ALL RALLIES ARE SHORTABLE!!

COMBINING MASTER TRADER KEYS I & II

Putting It All Together

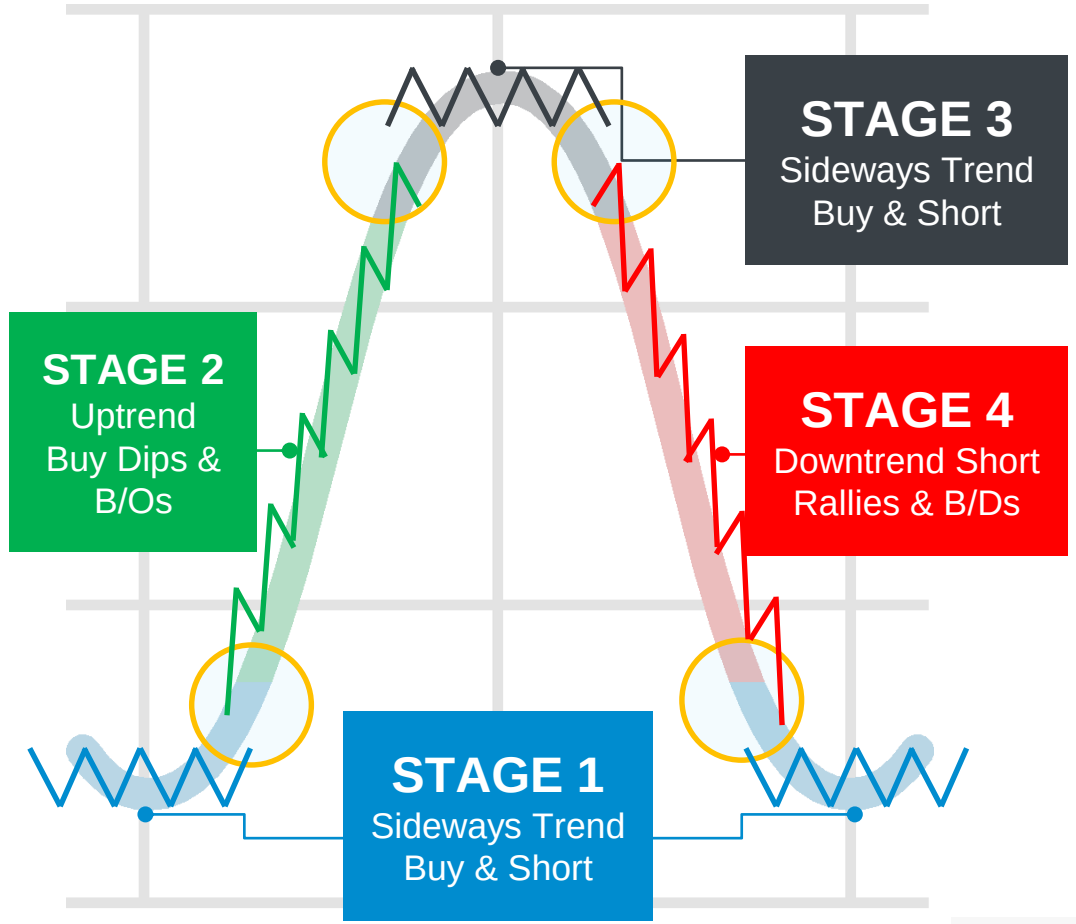
There is only one Cycle or movement a stock can make. We call this the Unit or Atom.

This Cycle is largely comprised of 4 stages (1, 2, 3 & 4).

These 4 stages are made up of 3 primary trends (Up, Down & Sideways).

Each trend should have its own matching trading actions.

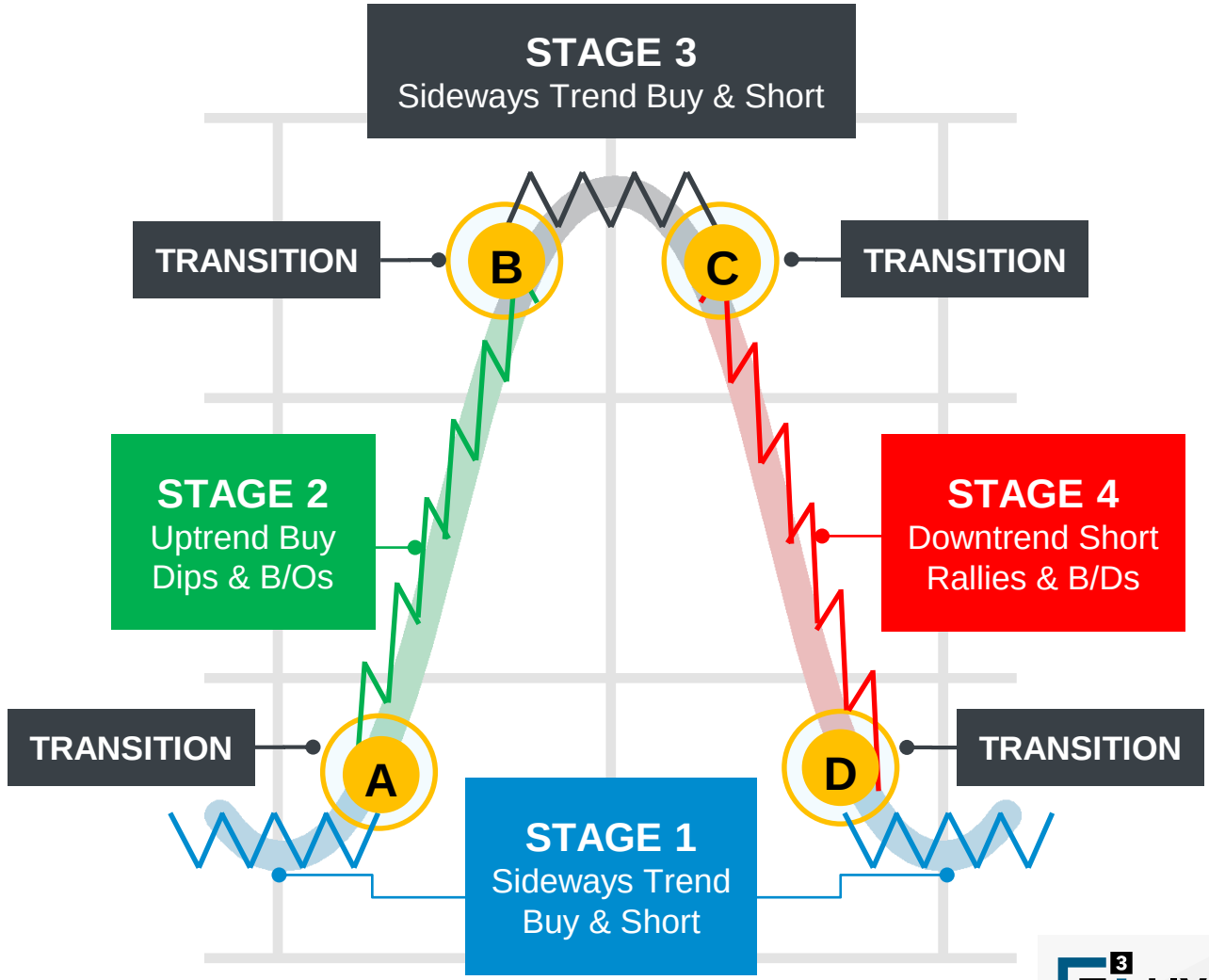
The T3TT scans to find the powerful Stage 2 and Stage 4 trends.



COMBINING MASTER TRADER KEYS I & II

The highest degree of mastery can be attained when the trader can not only identify the stages, but can tell with great likelihood, at the earliest moment, when they are about to change.

Note: we call the period in between the stages a transition. We will discuss these next.



INTRODUCTION TO
Transitional Analysis

In this section, we show the trader how to dramatically increase the odds of success by understanding transitional phases A, B, C, and D. Understanding transitions will make sure that the trader plays on the right side of professional market makers and specialists. Trading truly becomes closer to a science once one knows how to properly identify and exploit the moments that provide opportunity in the four transitional phases.

In fact, the highest degree of trading mastery is attained once the four transitional phases are mastered, as they represent the most unpredictable and volatile segments of the market's cycle. In this section we show how to identify at the earliest moment when one stage may be changing to another.

However, for purposes of the Earnings Strategy, we are only interested in playing Transitions A and C, and mostly only through breakouts/breakdowns.

So, let us begin!

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The Transition A Play

Using a Breakout Entry

CONCEPT

Towards the end of Stage 4, stocks often start correcting through time, rather than price, by basing sideways.

This basing action is a healthy occurrence as it signals the end of Stage 4 and the possibility of a transition back to a Stage 2 uptrend.

During Stage 1, the 20ma will flatten out and start going through price. However, at some point, the 20ma will start to curve up leading to a Breakout Play with an entry above the base, and a stop below it.

The Transition A Play

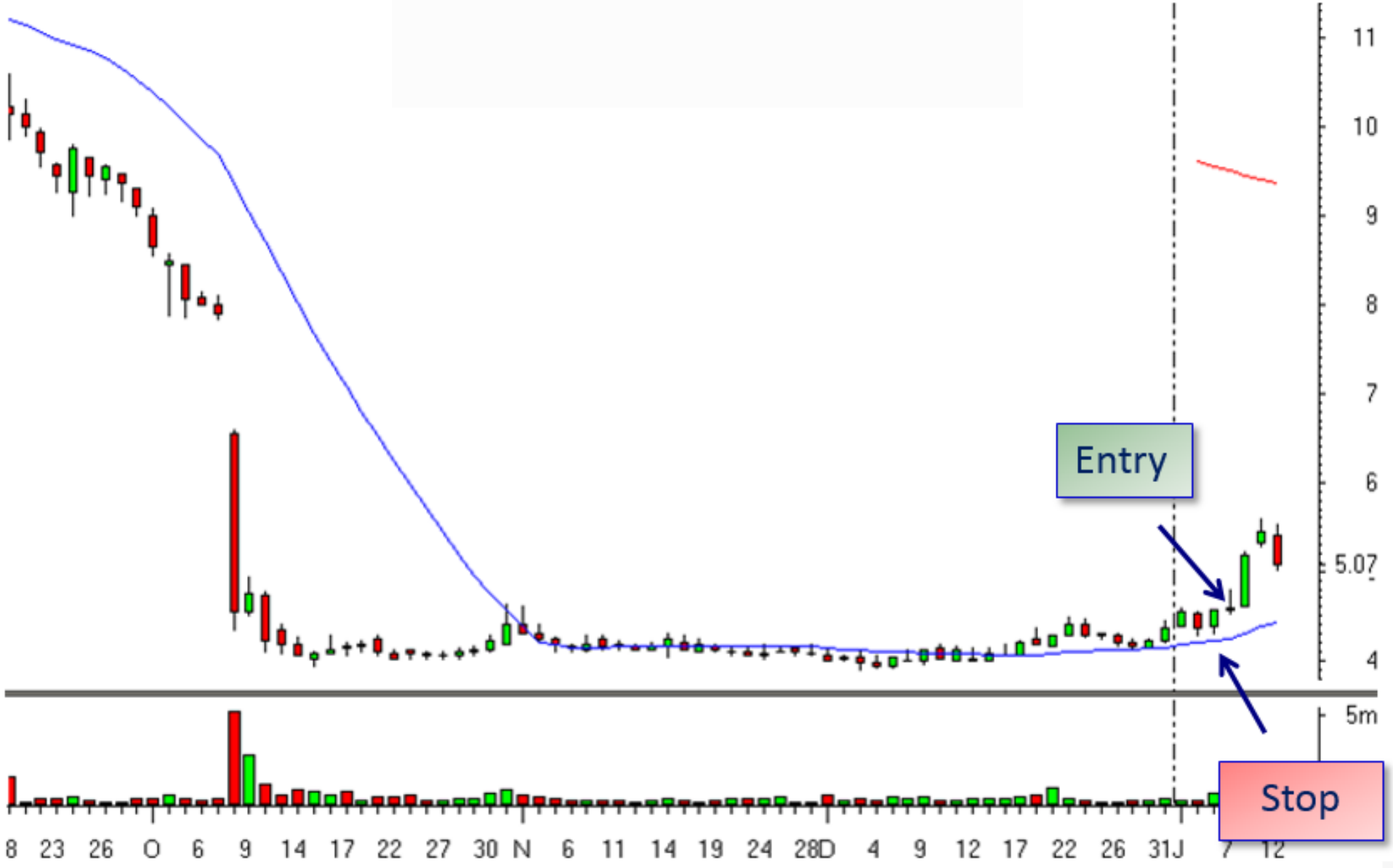
Daily Chart

The Transition A Play

Daily Chart

The Transition A Play

Daily Chart



The Transition A Play

Daily Chart

The Transition C Play

Using a Breakdown Entry

CONCEPT

Transition C is the mirror image of Transition A, except in the opposite direction as it is a bearish pattern.

Once the daily rally has exhausted itself, stocks will often develop long (usually rounding) bases, which signal distribution.

When that happens, the rising 20ma goes flat. But, just before the stock breaks down, the 20ma will usually start to point down. Once that happens, the stock is likely ready to transition lower and begin its Stage 4 downtrend.

T3 LIVE

Transition C

Daily Chart

Transition C

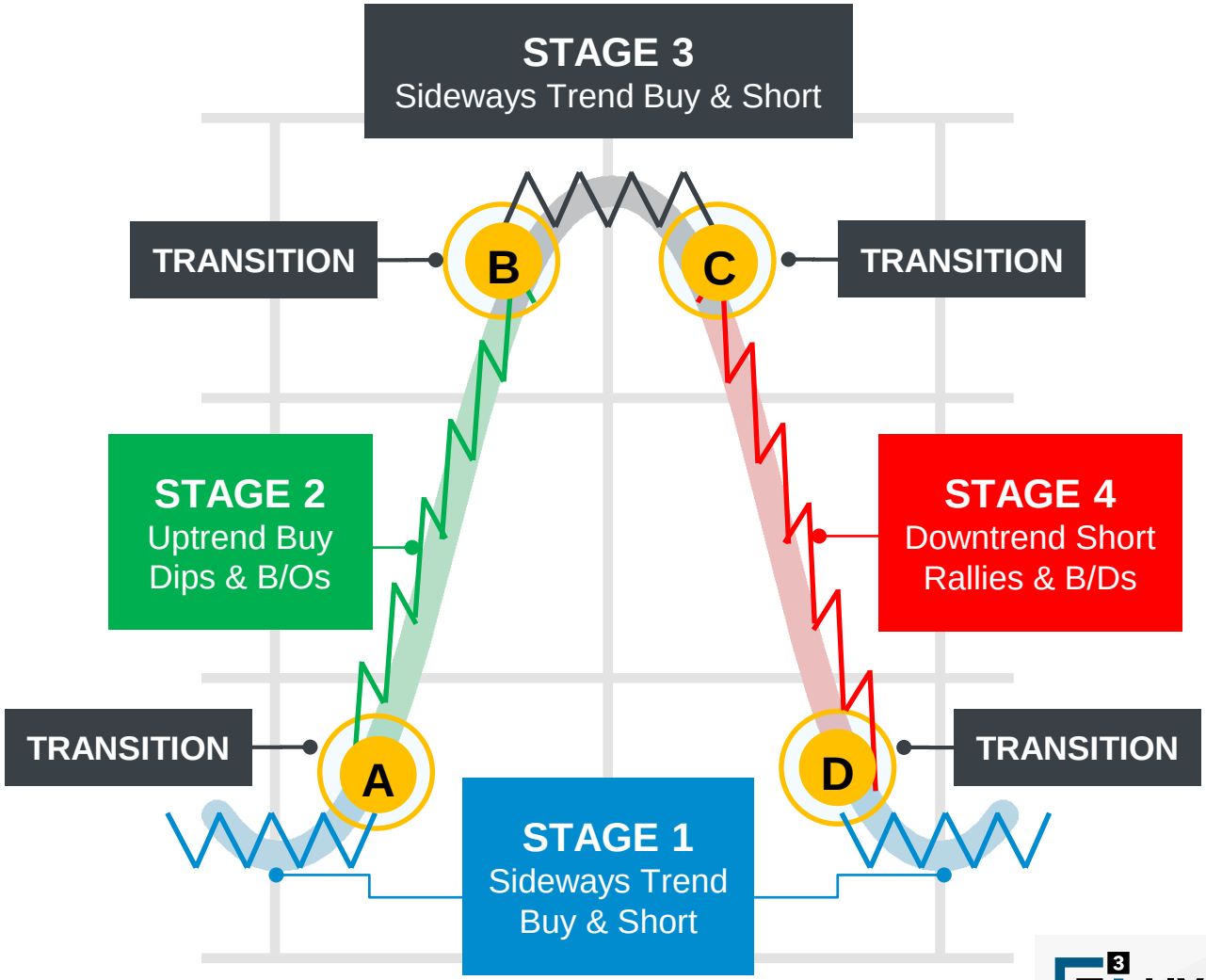
Transition C

Transition C

SUMMARY (IMPORTANT)

So far, we have learned the following:

1. Stocks move in a 4 stage cycle
2. Stage 2 is a bullish uptrend and is played long by buying dips (to r20ma/support) or through breakouts.
3. Stage 4 is a bearish downtrend and is played short by shorting counter-rallies (to the d20ma/resistance), or through breakdowns.
4. Stages 1 and 3 are usually ignored/not traded due to their choppy, sideways price action.
5. Transitions A, B,C, & D is how stocks transition from one stage to the next.
6. The 4 stages always occur in the same sequence.



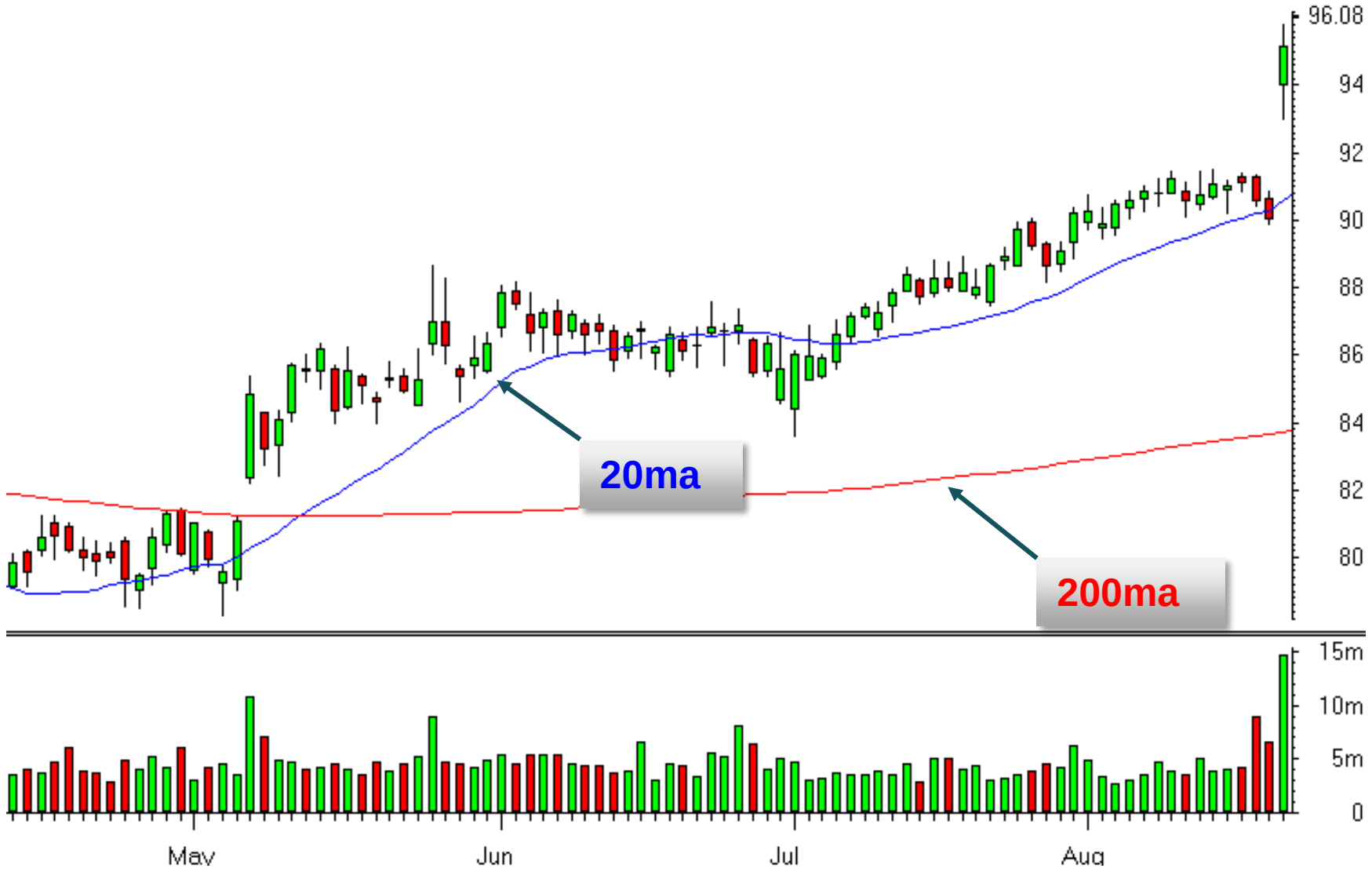
SECTION 2

THE FIRST PATTERN:

The Pullback Play

The Earnings Strategy

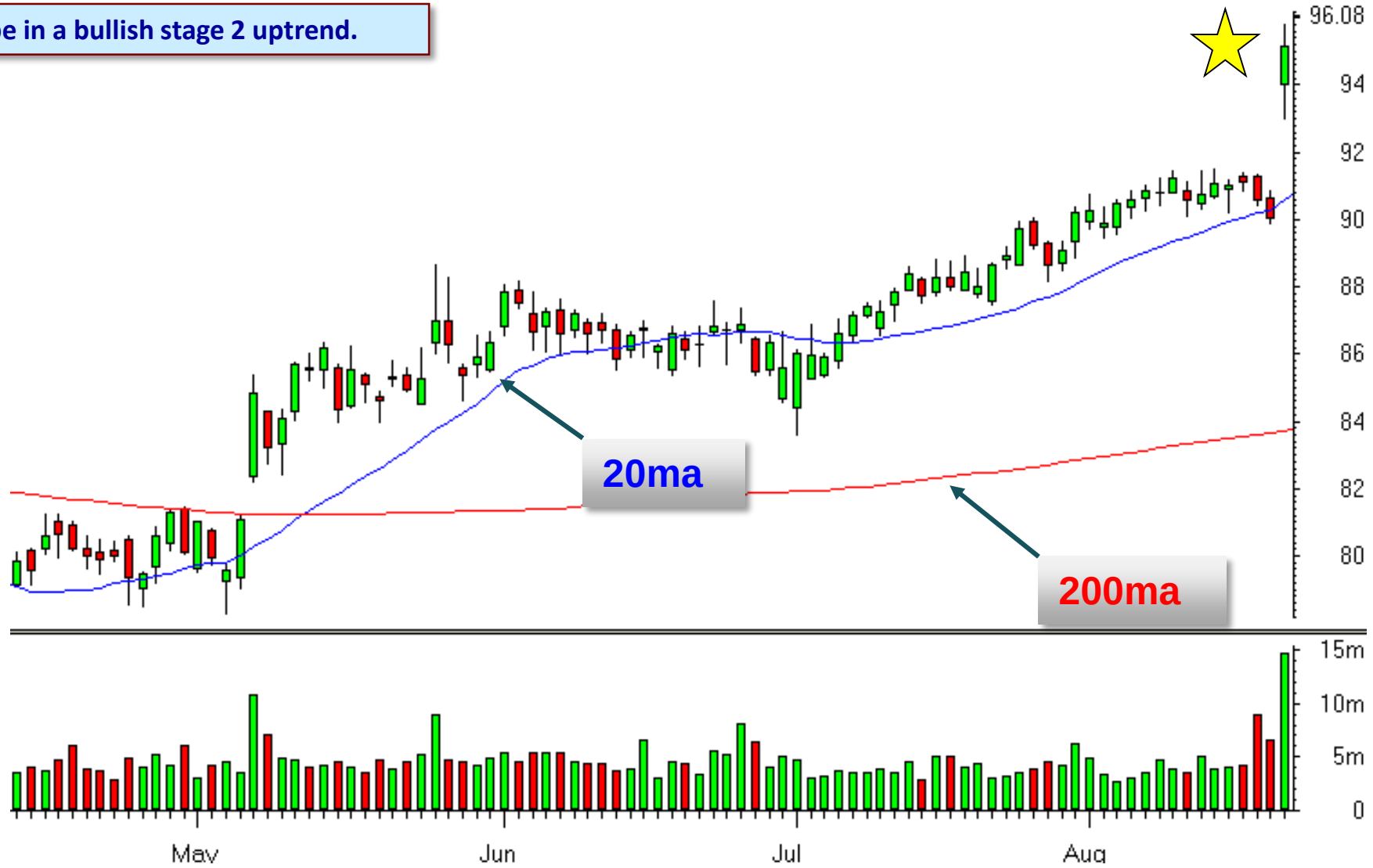
Daily Chart – The Pullback



The Earnings Strategy

Daily Chart – The Pullback

Criteria # 1: The stock must be in a bullish stage 2 uptrend.



The Earnings Strategy

Daily Chart – The Pullback

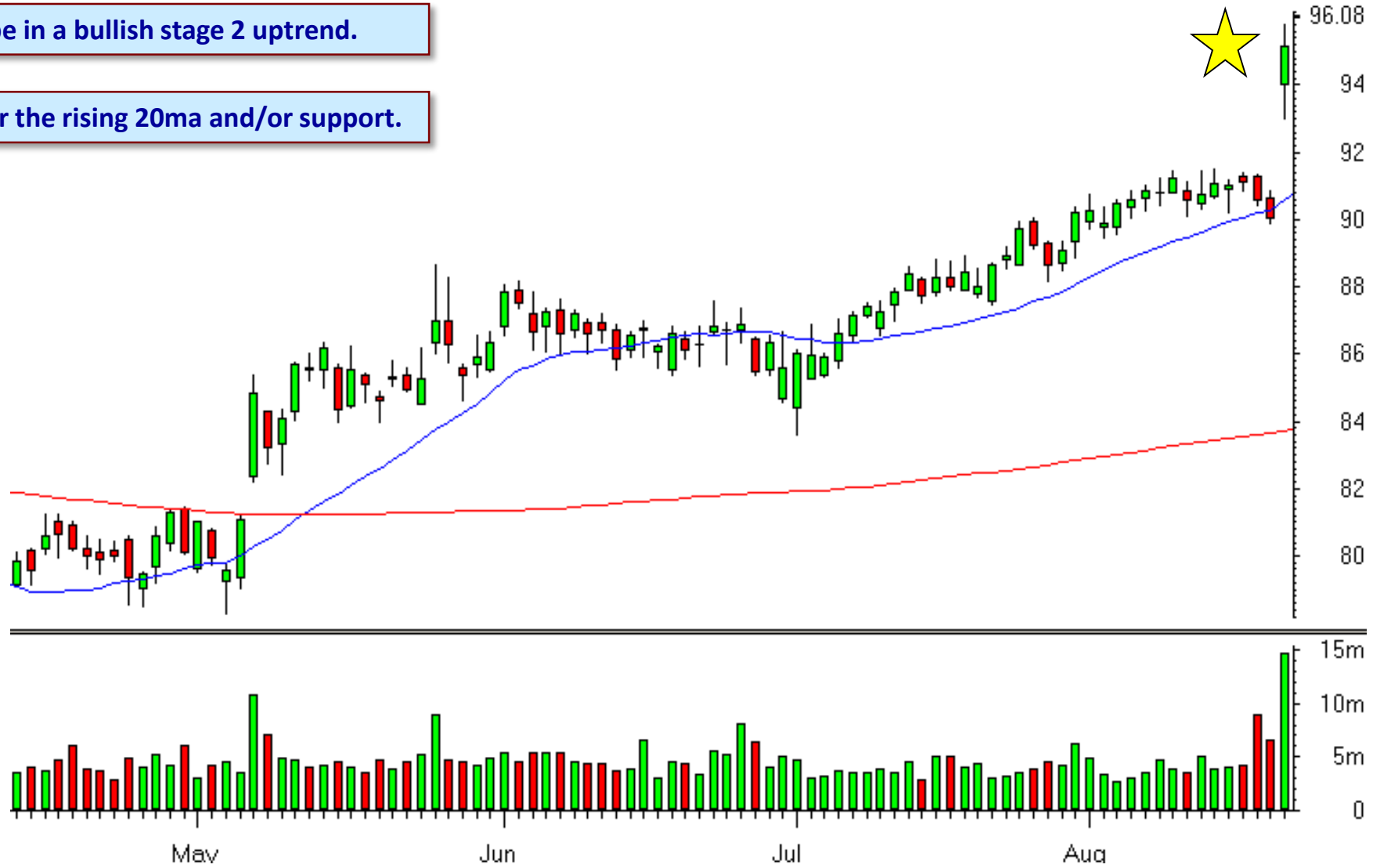
Criteria # 1: The stock must be in a bullish stage 2 uptrend.

The Earnings Strategy

Daily Chart – The Pullback

Criteria # 1: The stock must be in a bullish stage 2 uptrend.

Criteria # 2: Price is at or near the rising 20ma and/or support.



The Earnings Strategy

Daily Chart – The Pullback

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Criteria # 2: Price is at or near the rising 20ma and/or support.

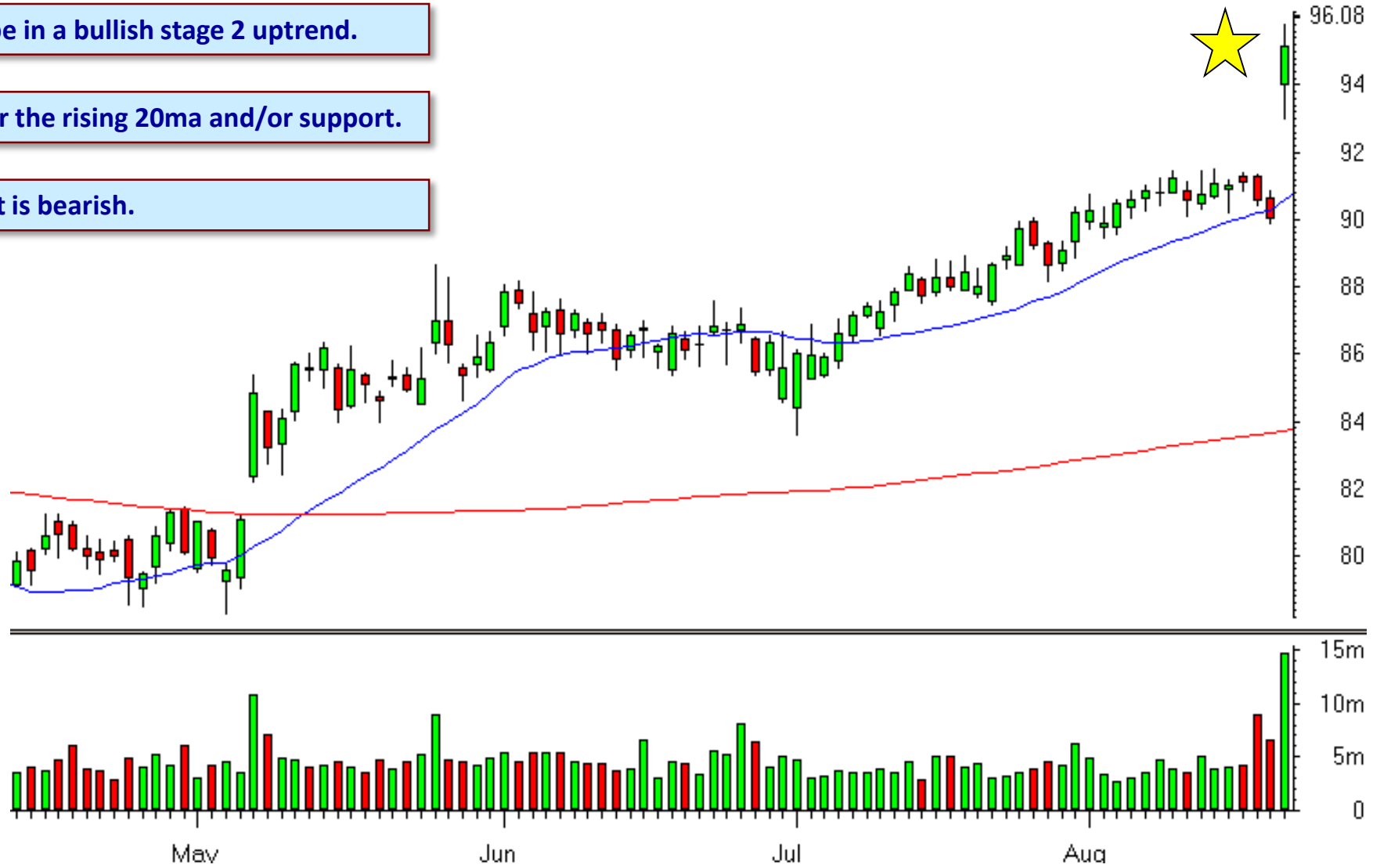
The Earnings Strategy

Daily Chart – The Pullback

Criteria # 1: The stock must be in a bullish stage 2 uptrend.

Criteria # 2: Price is at or near the rising 20ma and/or support.

Criteria # 3: Trader sentiment is bearish.



The Earnings Strategy

Daily Chart – The Pullback

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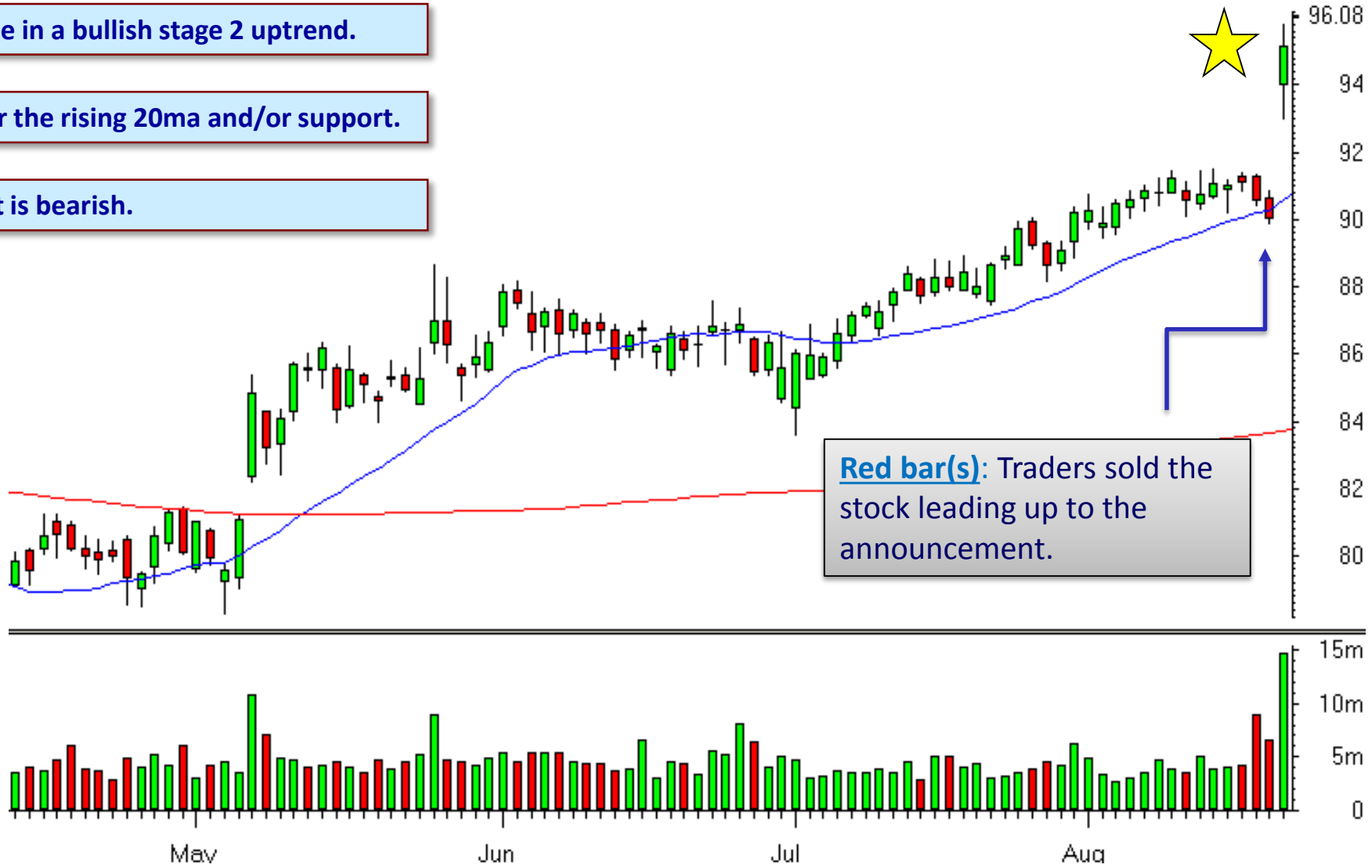


The Earnings Strategy

Daily Chart – The Pullback

Criteria # 1: The stock must be in a bullish stage 2 uptrend.

The Earnings Strategy

Daily Chart – The Pullback

Criteria # 1: The stock must be in a bullish stage 2 uptrend.

Criteria # 2: Price is at or near the rising 20ma and/or support.

The Earnings Strategy

Daily Chart – The Pullback

Criteria # 1: The stock must be in a bullish stage 2 uptrend.

Criteria # 2: Price is at or near the rising 20ma and/or support.

Criteria # 3: Trader sentiment is bearish.

The Earnings Strategy

Daily Chart – The Pullback

Criteria # 1: The stock must be in a bearish stage 4 downtrend.

Criteria # 2: Price is at or near the rising 20ma and/or support.

Criteria # 3: Trader sentiment is bearish.

The Earnings Strategy

Daily Chart – The Pullback

Criteria # 1: The stock must be in a bearish stage 4 downtrend.

The Earnings Strategy

Daily Chart – The Pullback

Criteria # 1: The stock must be in a bearish stage 4 downtrend.

Criteria # 2: Price is at or near the declining 20ma and/or support.

The Earnings Strategy

Daily Chart – The Pullback

Criteria # 1: The stock must be in a bearish stage 4 downtrend.

Criteria # 2: Price is at or near the declining 20ma and/or support.

Criteria # 3: Trader sentiment is bullish.

The Earnings Strategy

Daily Chart – The Pullback

Questions:

1) What type of trend preceded the gap?
2) Was it extended?
3) What was sentiment?

The Earnings Strategy

Daily Chart – The Pullback

Questions:

1) What type of trend preceded the gap?
2) Was it extended?
3) What was sentiment?

The Earnings Strategy

Daily Chart – The Pullback

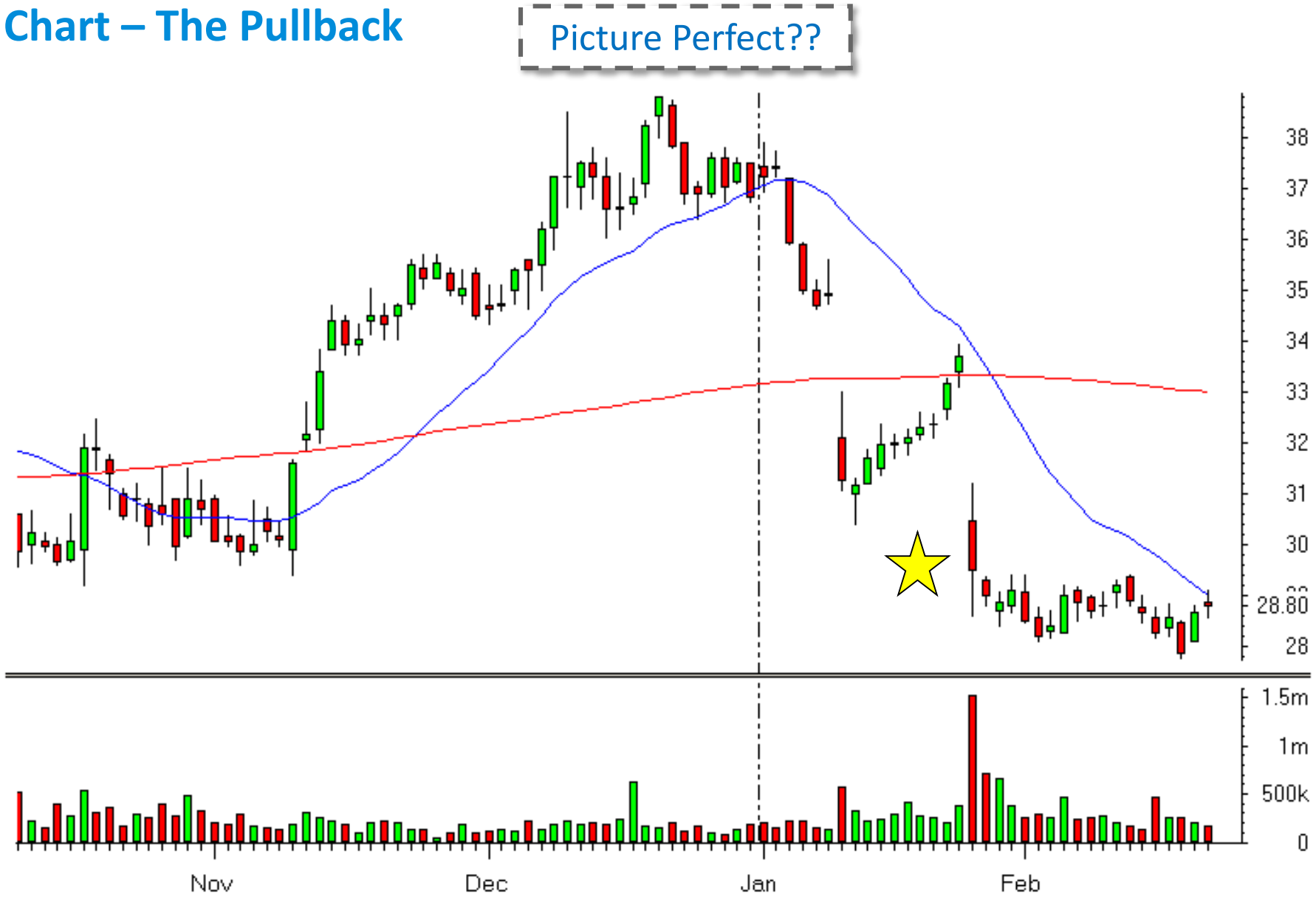
The Earnings Strategy

Daily Chart – The Pullback

Picture Perfect??

The Earnings Strategy

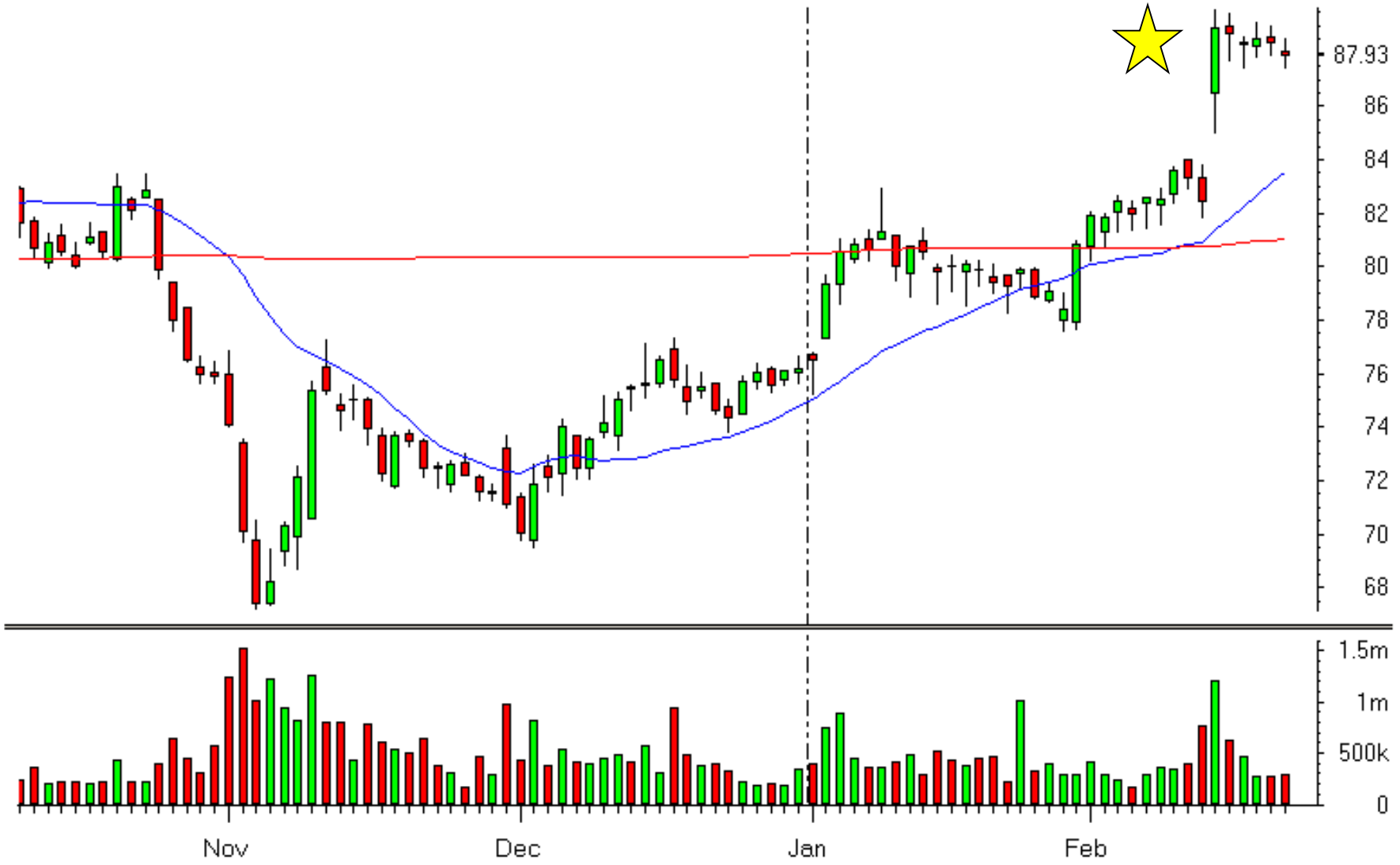
Daily Chart – The Pullback



The Earnings Strategy

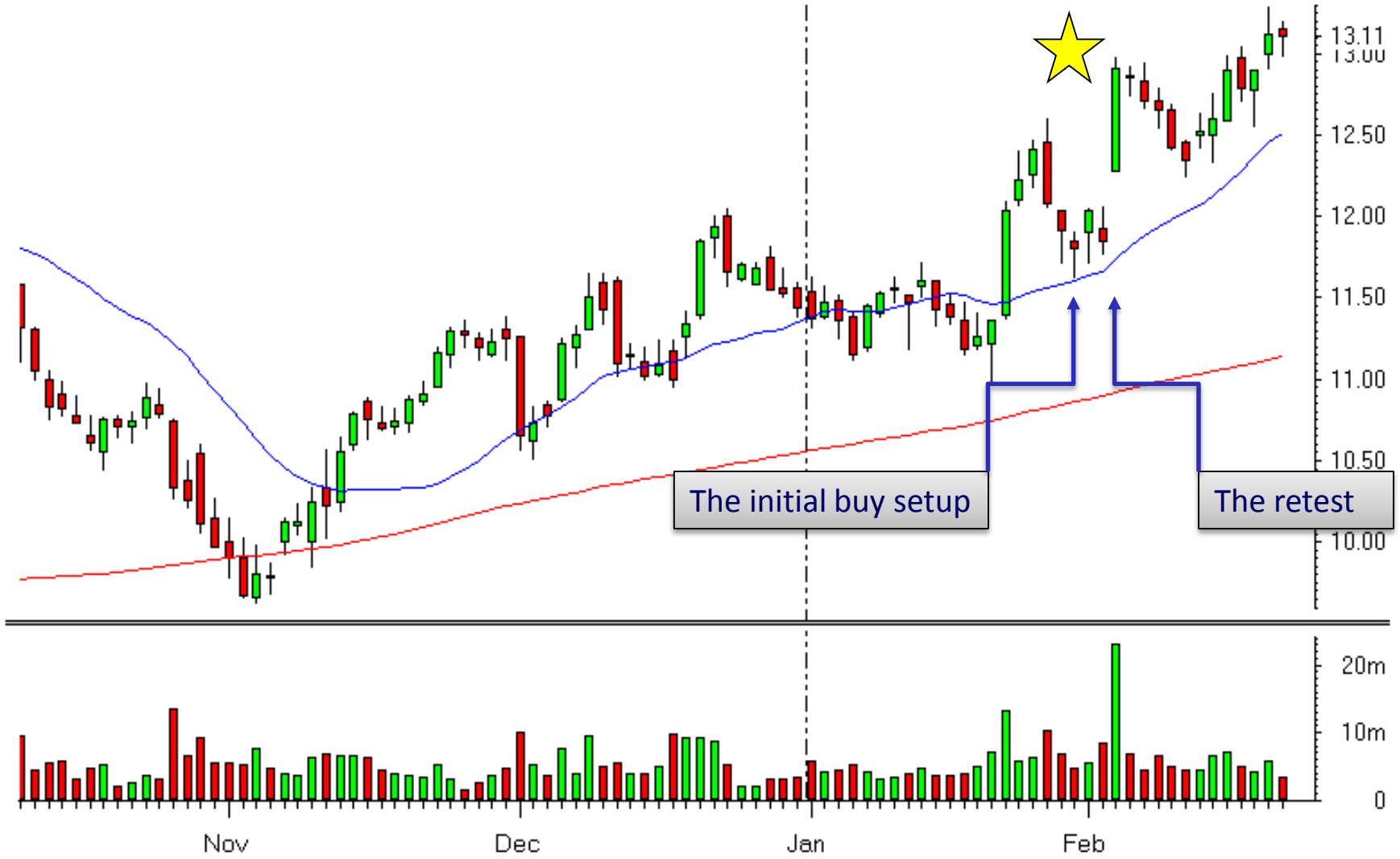
Daily Chart – The Pullback

Picture Perfect??



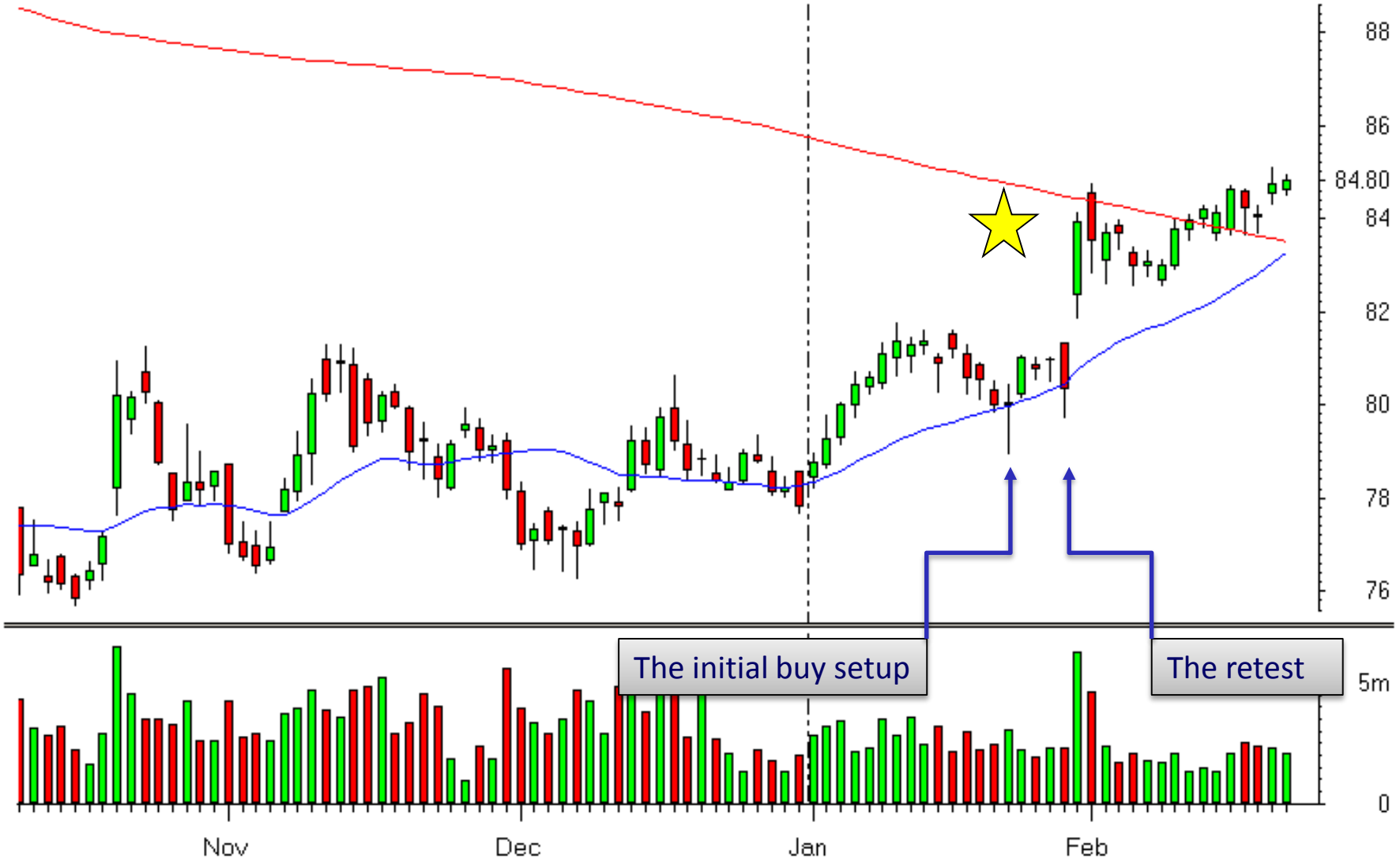
The Earnings Strategy

Daily Chart – The Retest



The Earnings Strategy

Daily Chart – The Retest

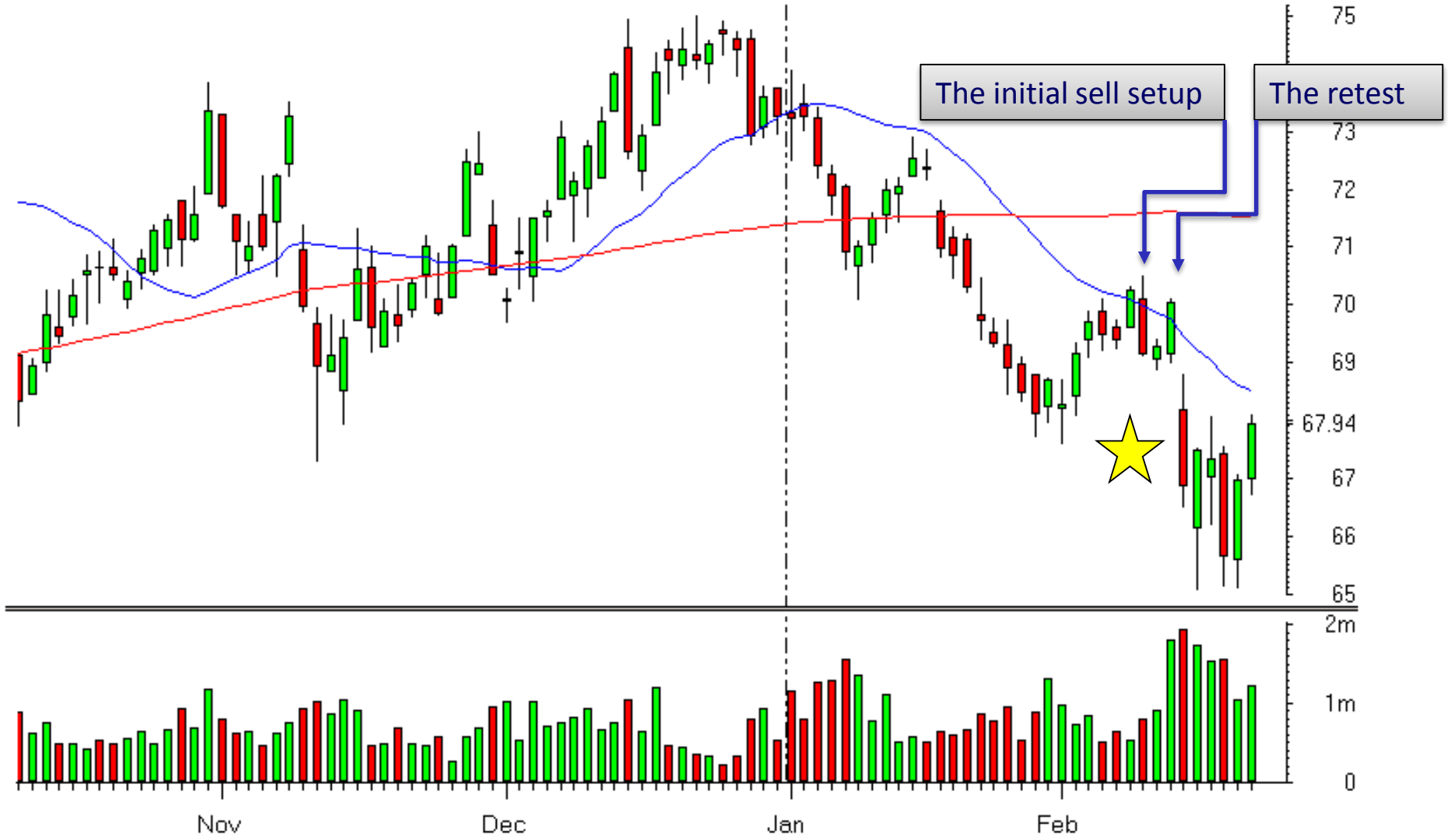


The Earnings Strategy

Daily Chart – The Retest

The Earnings Strategy

Daily Chart – The Retest



The Earnings Strategy

Additional Setups

CONCEPT

While a simple pullback to a 45° 20ma is the principal pattern to look for, it might be hard to find at times. This could be due to the price action of the market itself (i.e., very volatile and extended), or other factors that may have to do with the sector. It’s important to learn other viable patterns, as they will come in handy when the Pullback Pattern is not available.

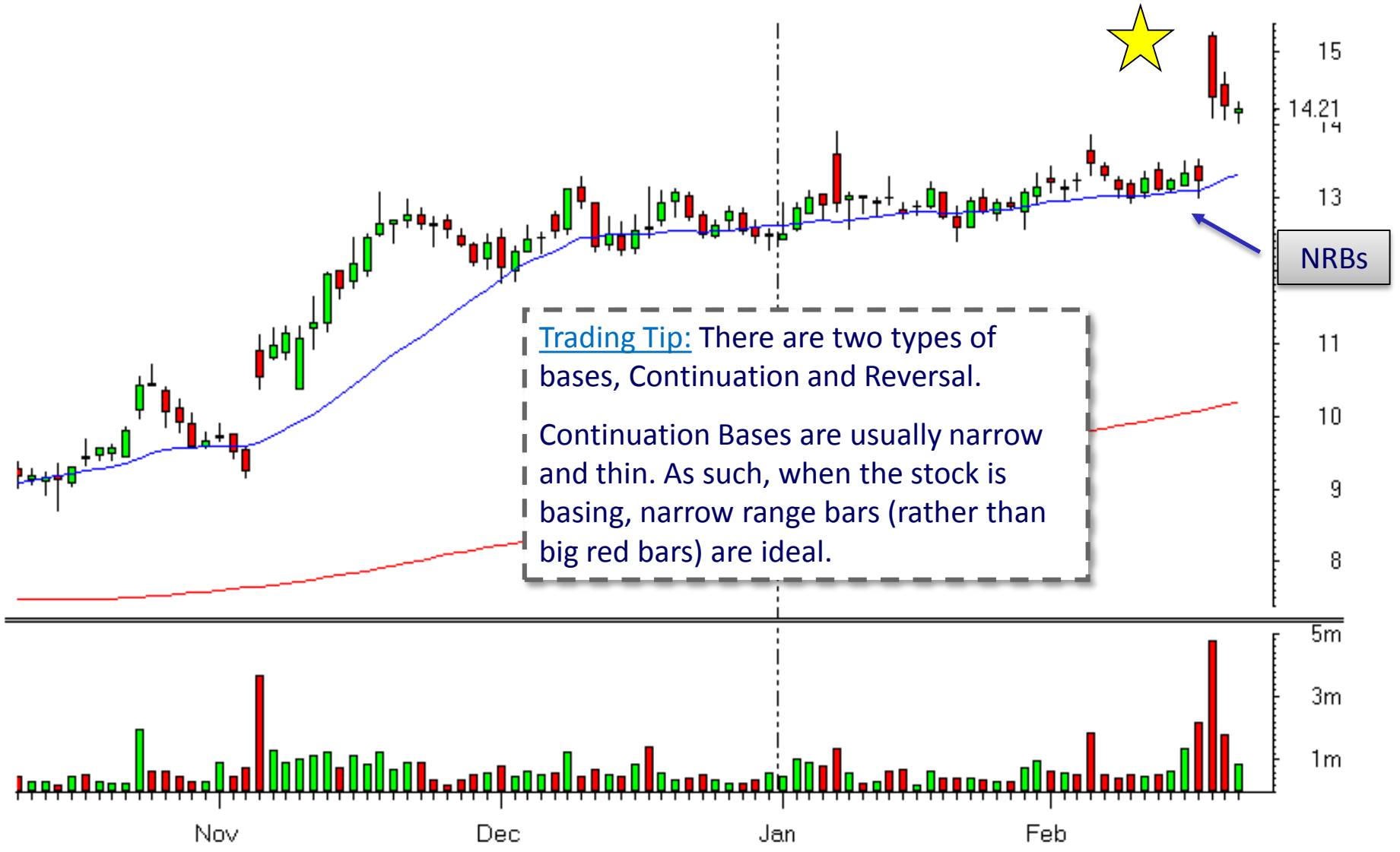
SECTION 3

THE SECOND PATTERN:

The Breakout Play

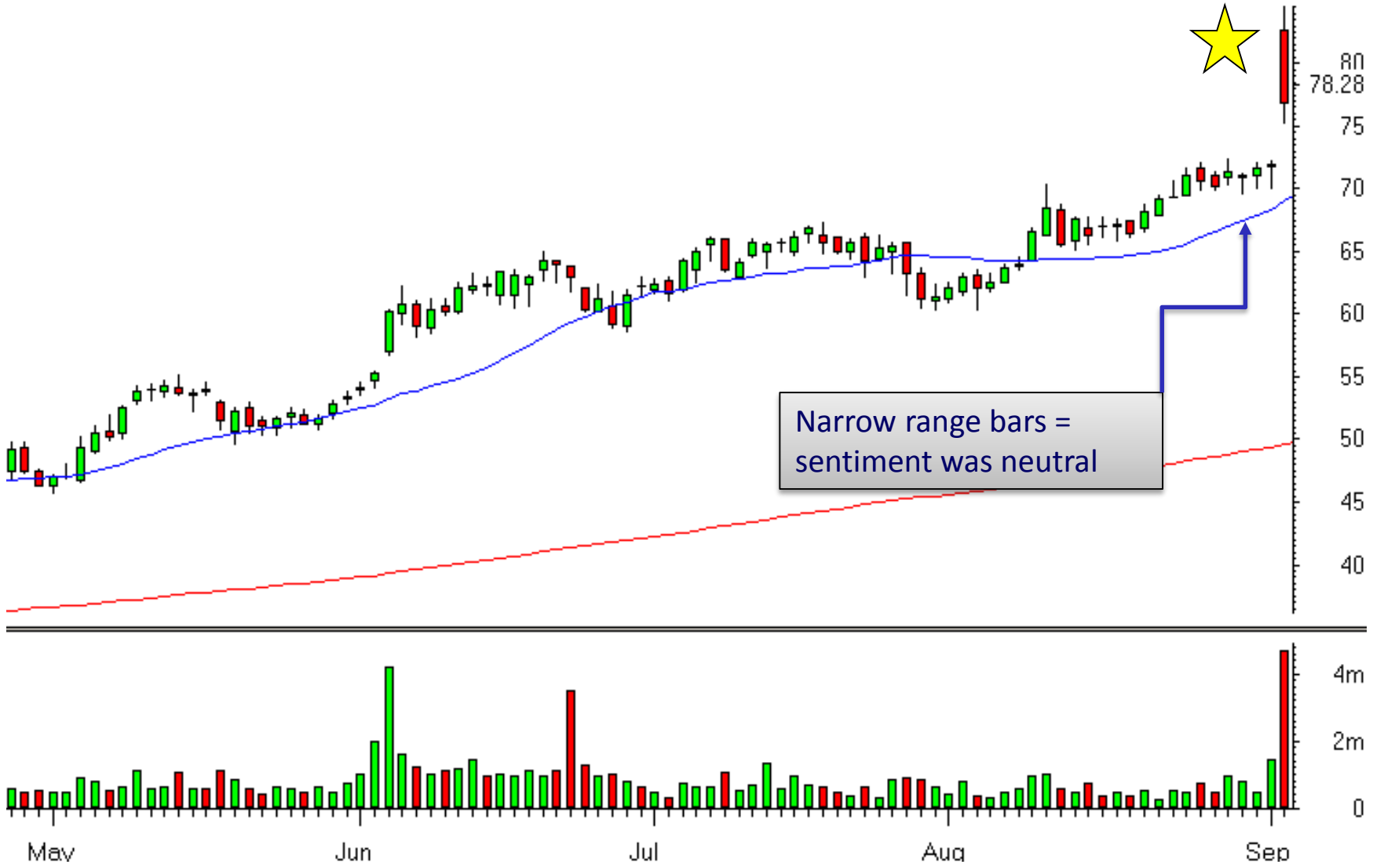
The Earnings Strategy

Daily Chart – The Breakout



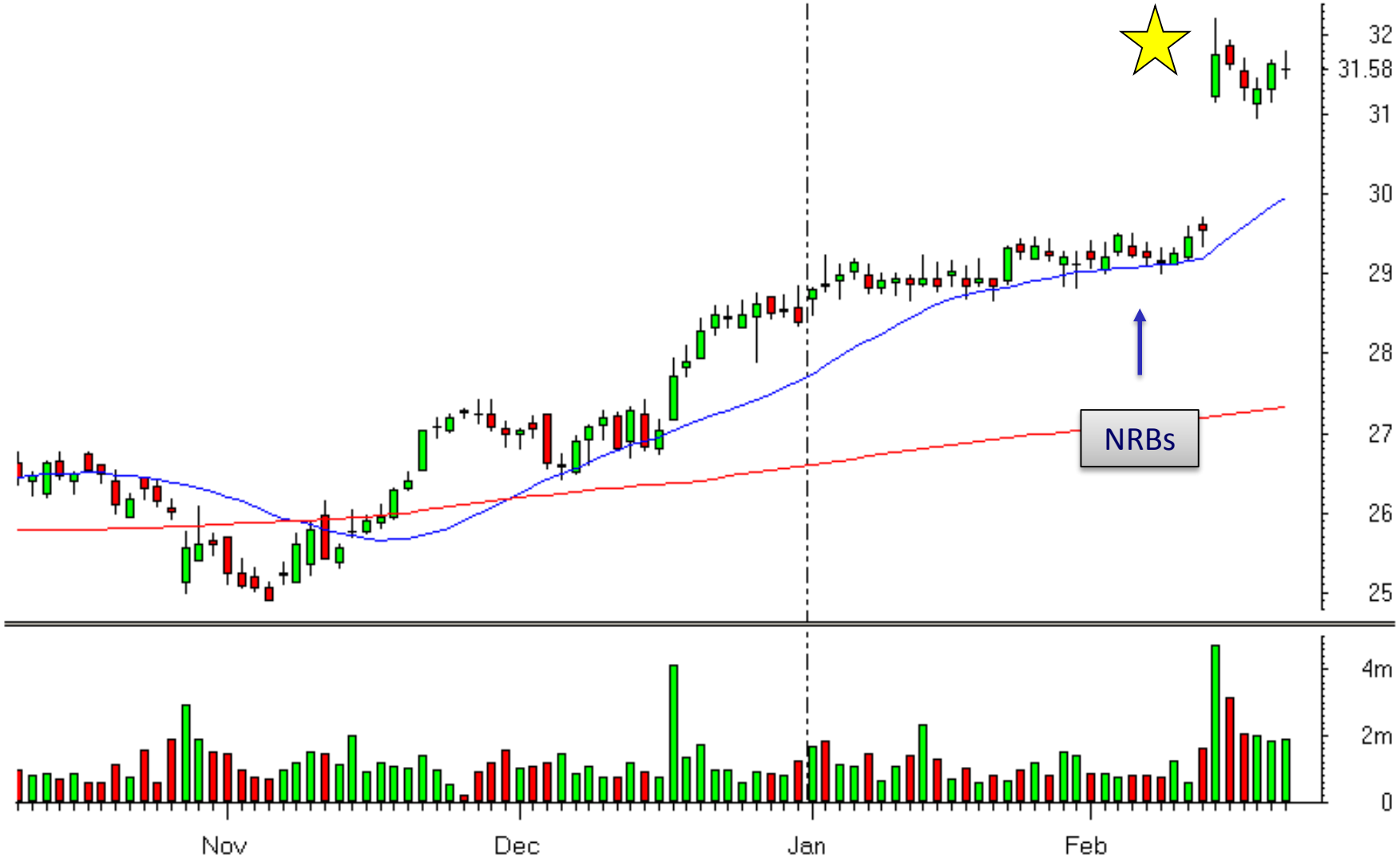
The Earnings Strategy

Daily Chart – The Breakout



The Earnings Strategy

Daily Chart – The Breakout

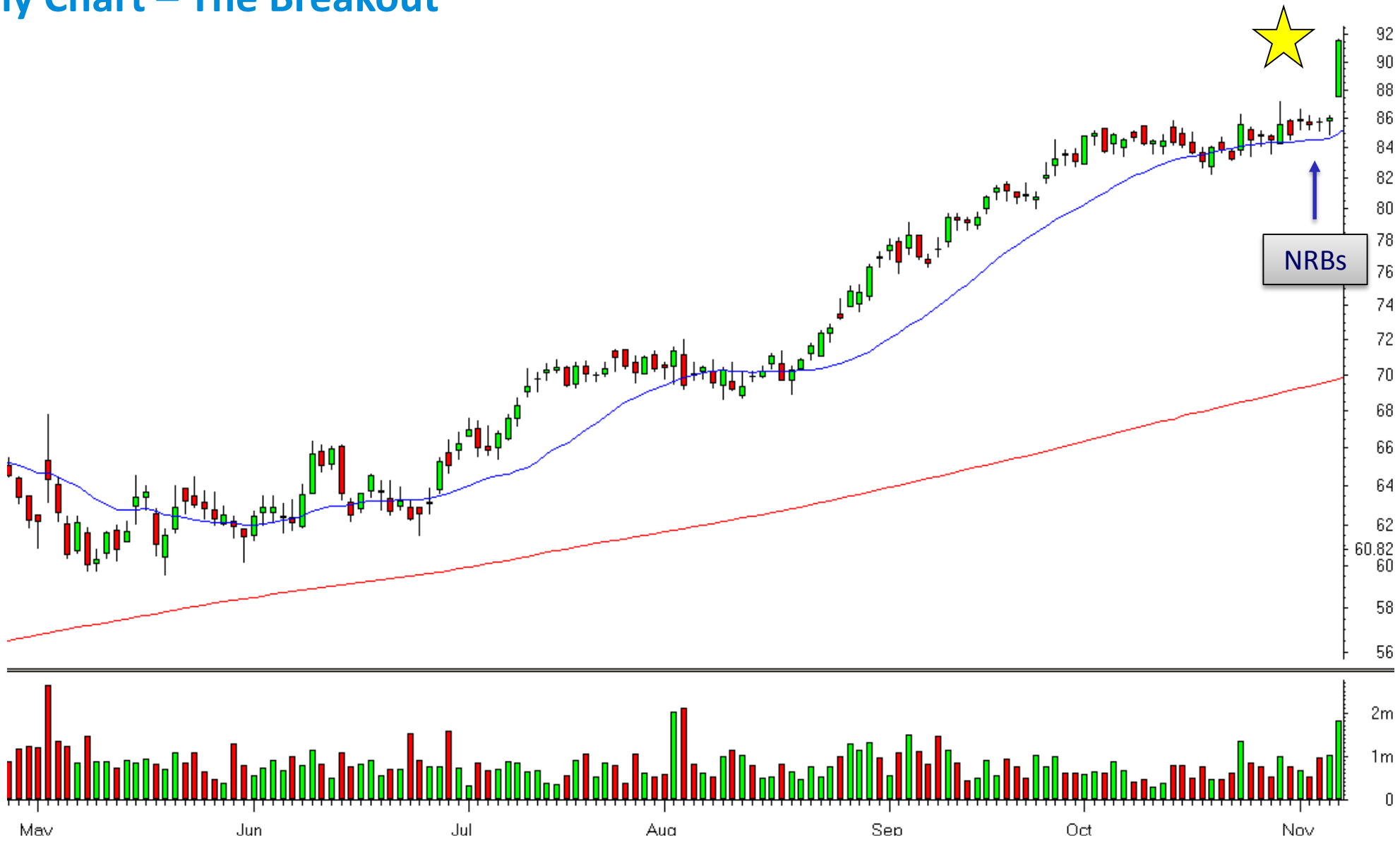


The Earnings Strategy

Daily Chart – The Breakout

The Earnings Strategy

Daily Chart – The Breakout



The Earnings Strategy

Daily Chart – The Breakout

The Earnings Strategy

Daily Chart – The Breakout

The Earnings Strategy

Daily Chart – The Breakout

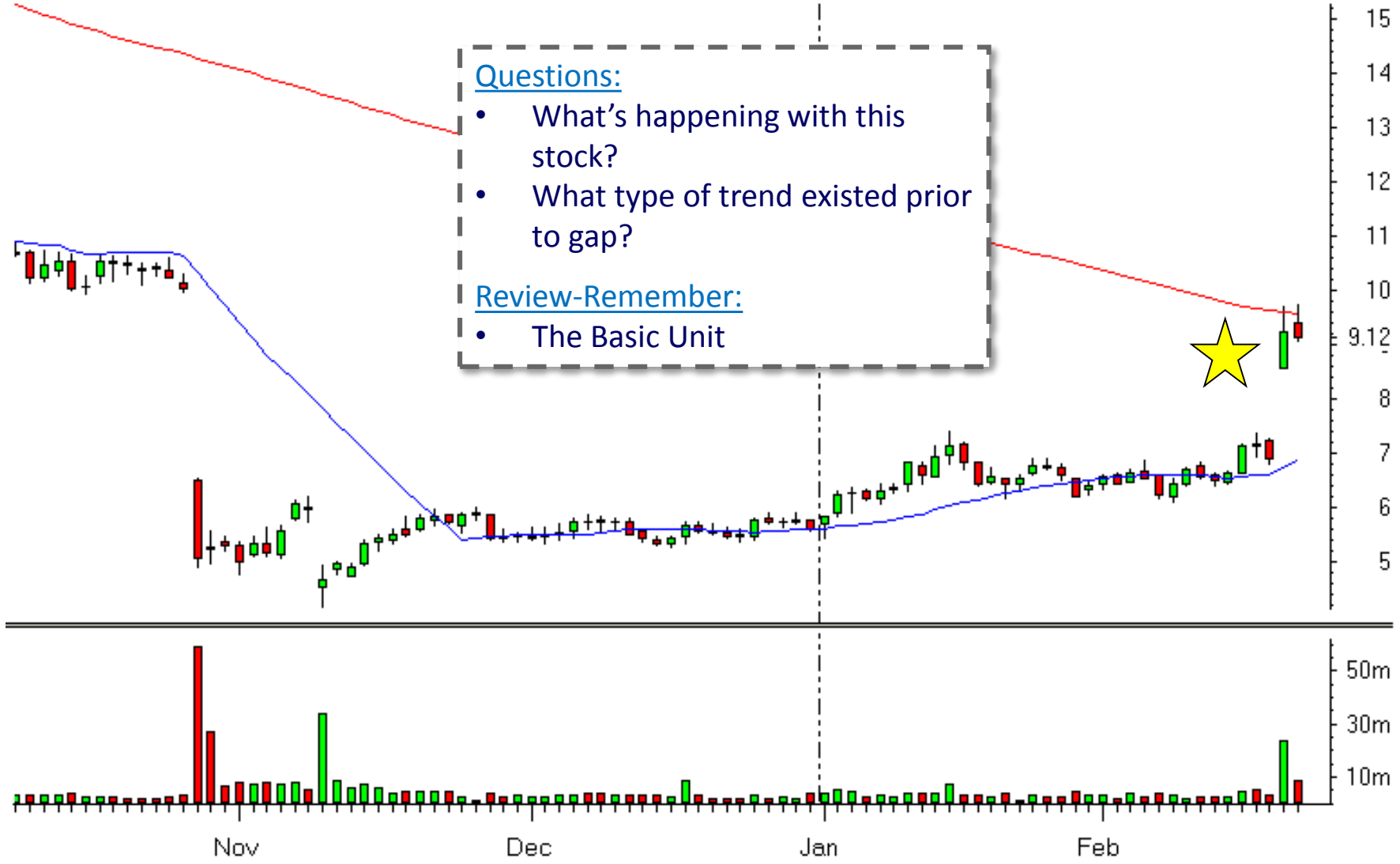
SECTION 4

THE THIRD PATTERN:

The Transition A

The Earnings Strategy

Daily Chart – The Transition A



The Earnings Strategy

Daily Chart – The Transition A

Questions:

1) What type of trend preceded the gap?
2) Was it extended?
3) What was sentiment?

The Earnings Strategy

Daily Chart – The Transition A

The Earnings Strategy

Daily Chart – The Transition A

The Earnings Strategy

Daily Chart – The Transition A

The Earnings Strategy

Daily Chart – The Transition A

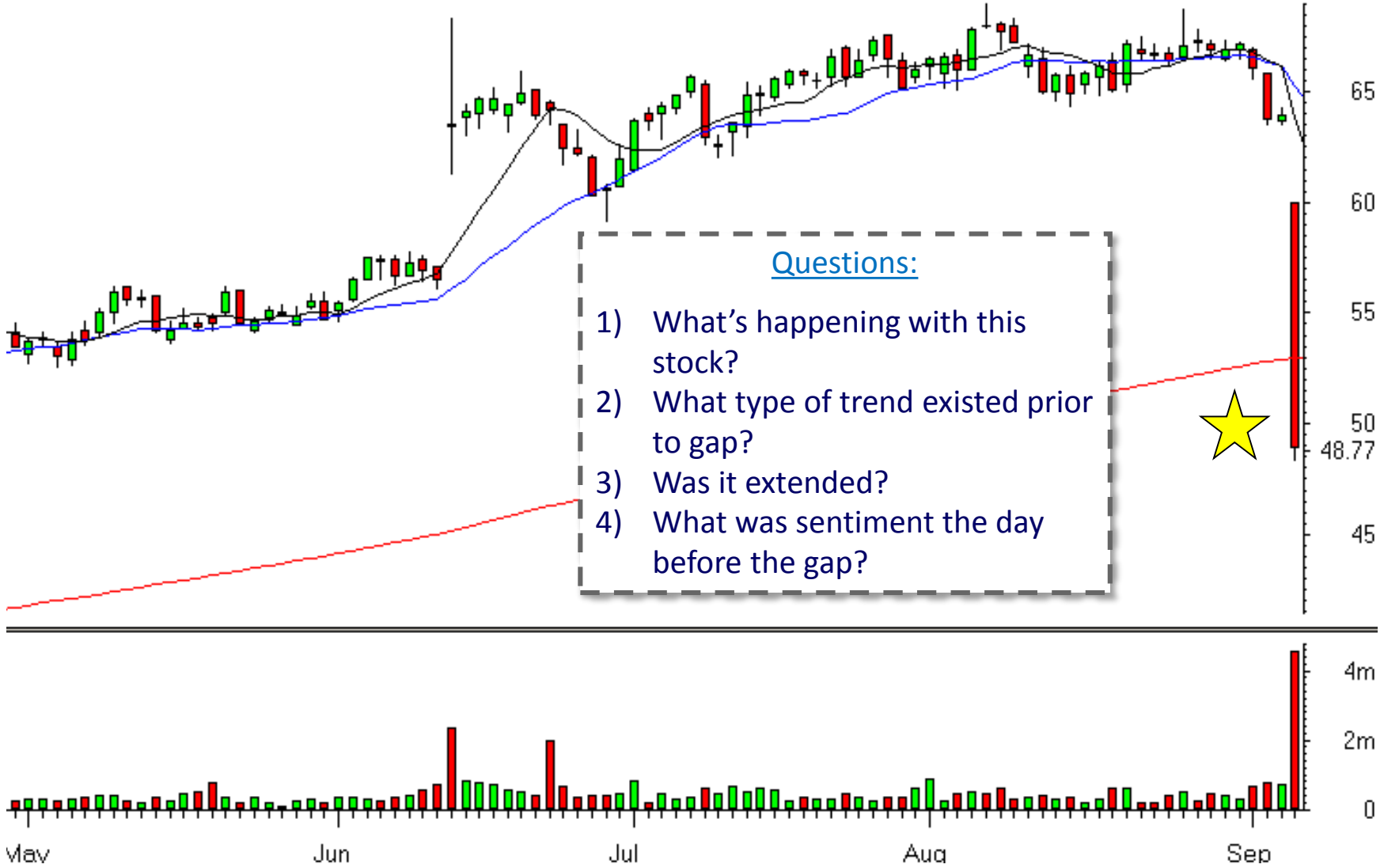
SECTION 5

THE FOURTH PATTERN:

The Transition C

The Earnings Strategy

Daily Chart – The Transition C

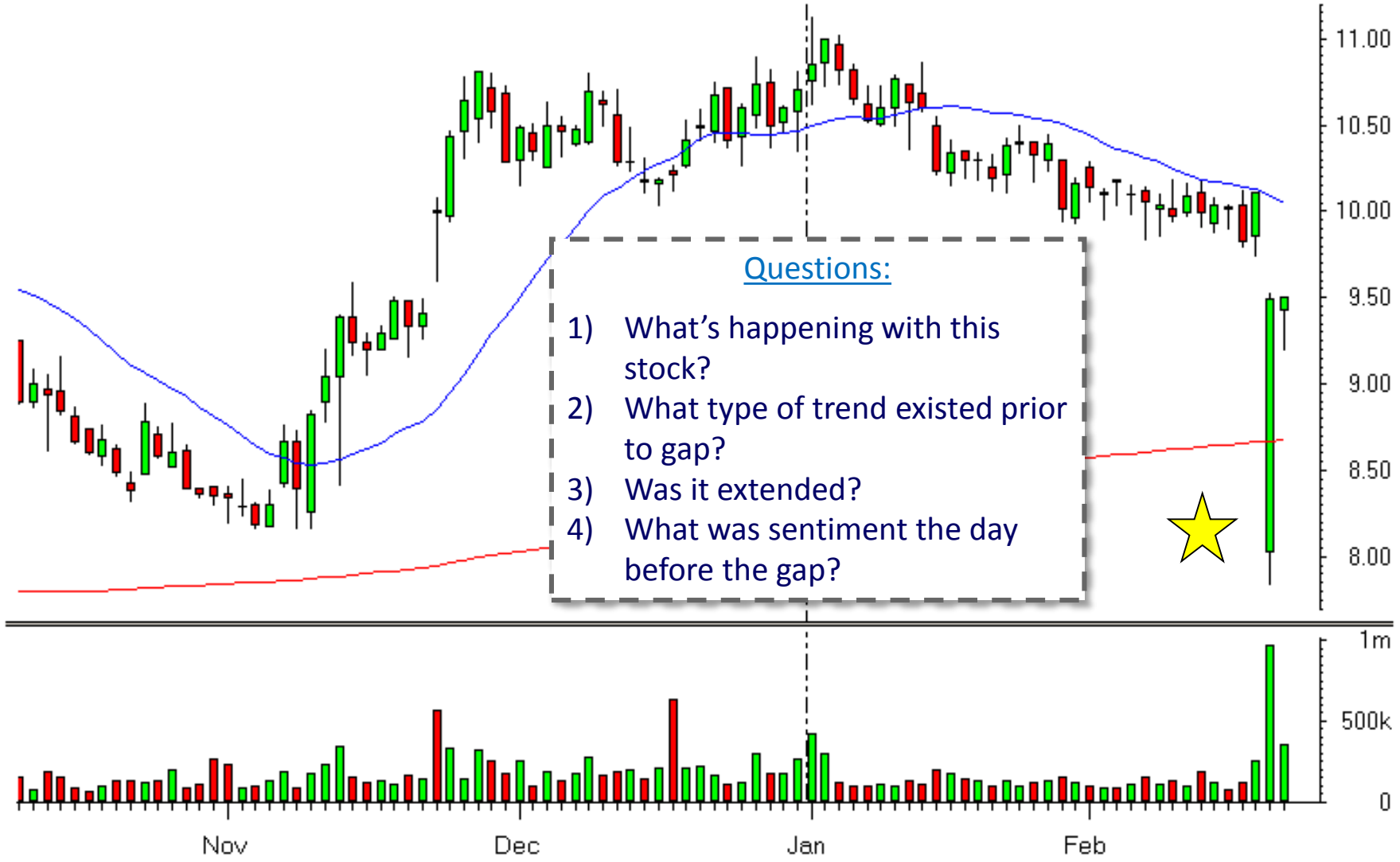


Questions:

1) What's happening with this stock?
2) What type of trend existed prior to gap?
3) Was it extended?
4) What was sentiment the day before the gap?

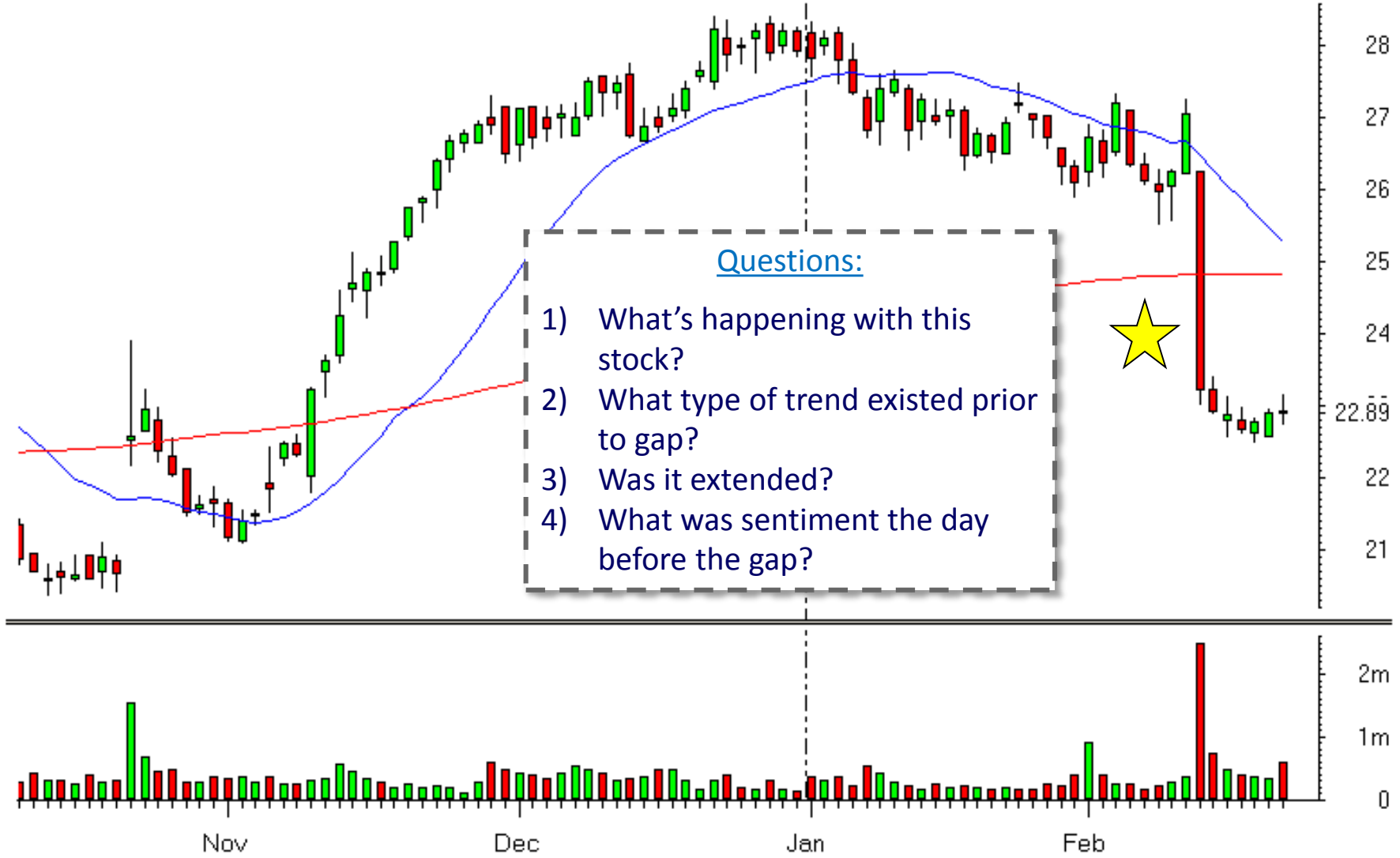
The Earnings Strategy

Daily Chart – The Transition C



The Earnings Strategy

Daily Chart – The Transition C



The Earnings Strategy

Daily Chart – The Transition C

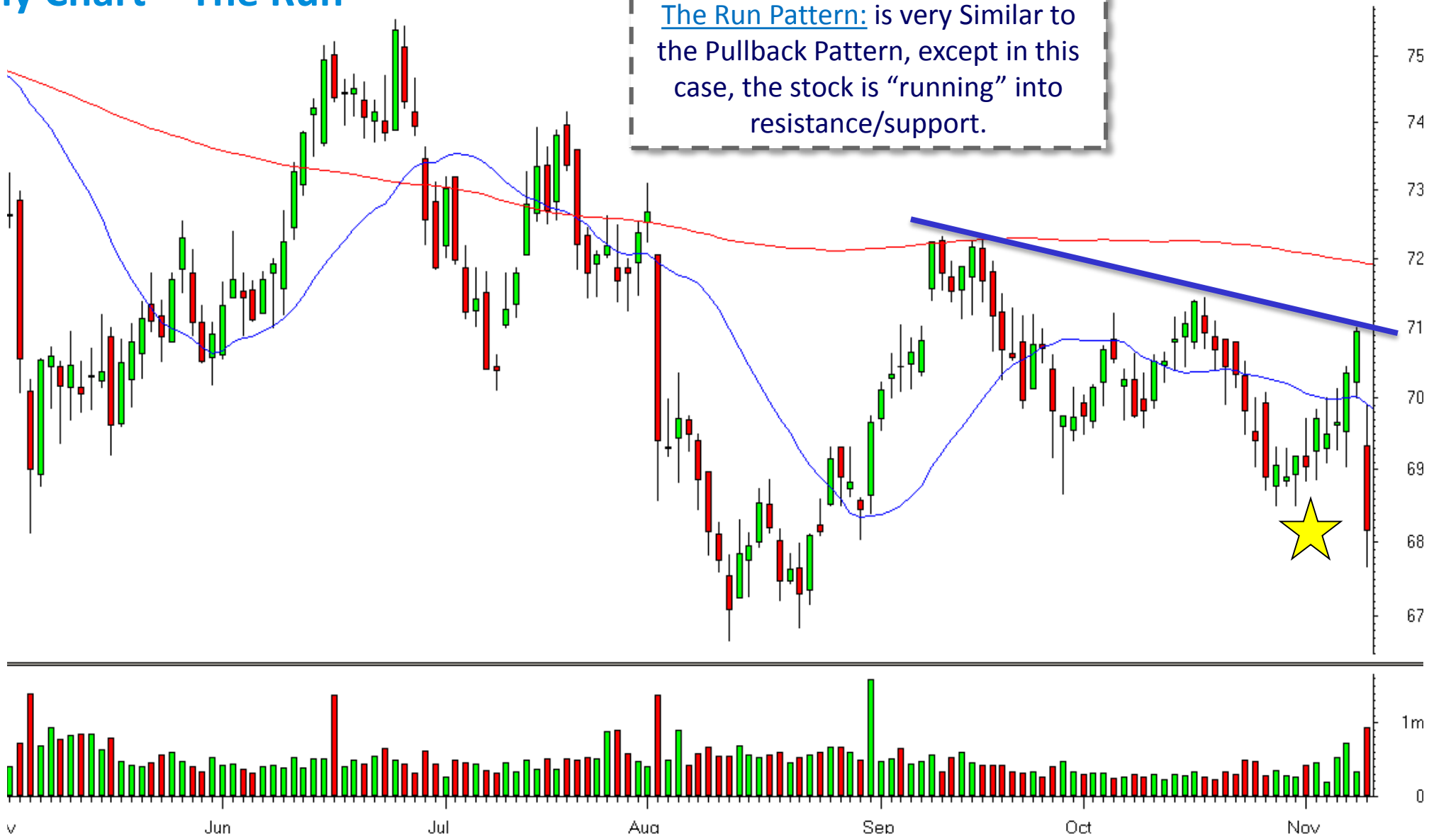
SECTION 6

THE FIFTH PATTERN:

The Run Play

The Earnings Strategy

Daily Chart – The Run



The Earnings Strategy

Daily Chart – The Run

The Earnings Strategy

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Daily Chart – The Run

The Earnings Strategy

Daily Chart – The Run

The Earnings Strategy

Daily Chart – The Run

The Earnings Strategy

Daily Chart – The Run

The Earnings Strategy

Daily Chart – The Run

SECTION 7

THE SIXTH PATTERN:

The Unfilled Gap

The Earnings Strategy

Daily Chart – The Unfiled Gap

Issues:

1) Flat 20ma
2) Price above 20ma

Discuss:

1) Unfilled gap
2) Resistance @ “Top of the base”

The Earnings Strategy

Daily Chart – The Unfiled Gap

The Earnings Strategy

Daily Chart – The Unfiled Gap

The Earnings Strategy

Daily Chart – The Unfiled Gap

The Earnings Strategy

Daily Chart – The Unfiled Gap

SECTION 8

TRADE METRICS:

- Scanning
- Entries
- Management
- Share-Sizing

TRADE METRICS

Stock Selection

SCANNING

There are multiple free and paid websites that offer an Earnings Calendar. I have tried most of the ones available online and found finviz.com to be the best (most complete and accurate).

Once the earnings list is generated, it gets exported to Excel for further sorting. Initially, it's sorted by date – only stocks reporting today after market close (AMC) and tomorrow before market open (BMO) are selected.

T3 LIVE

TRADE METRICS

Stock Selection

SCANNING

Once you have this list, sort it further by volume (from highest to lowest). Remove anything below 150K. Then sort the list again by sector and industry.

What you will end up with is a list of companies reporting earnings today AMC and tomorrow BMO, sorted by volume, sector, and industry.

Sorting the list in this fashion gives us an edge. It allows us to focus on the most liquid stocks, but also gives us a good idea of which stocks look the best within each sector, and industry/sub-sector.

T3 LIVE

TRADE METRICS

Stock Selection

SCANNING

Once you have the list sorted, start scanning for daily patterns as discussed earlier.

Delete anything that is pattern-less or even looks questionable. Keep only the symbols that have a clear setup. Note – depending on whether you are a day trader or not, you ideally want to have completed the scanning by about 1pm. This would allow you to still trade from 1 – 3pm, and dedicate the last hour of the day to narrowing the list down to a few symbols.

Let’s run through an example together.

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TRADE METRICS

Entries & Order Types

THE ENTRY

There are no specific entry patterns or prices to look for. Just enter at the end of the day. Note, it is sometimes possible to get a better price than EOD price by stalking the stock on the 1min chart and entering early. But, I found the practice too distracting and the reward too insignificant. As such, I usually just submit a market order as close to the end of day as possible (i.e., last 5 minutes of day).

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TRADE METRICS

Entries & Order Types

THE ENTRY

I use TWS platform for trading earnings as it gives me several advantages. For example, through its global configuration, by choosing a dollar amount to be used on every trade, the amount of shares for each symbol is automatically calculated by TWS.

What's more, when it comes to order entries, TWS has available the OPG (At-the-open) and MOC (Market-on-close) order types, which facilitate the process of entering and exiting.

Let's run through an example together.

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TRADE METRICS

Sizing & Order Types

SHARE SIZING

Unfortunately, since there is no way to predict how big or small the gap will be, it's impossible to determine the correct share size. As such, the best way to control the risk per trade is by controlling the dollar amount invested in each position.

Having said that, the average gap for the last 500 plays was precisely 5%. Assuming a desired $500 risk per trade, the $ amount invested into each trade should $10,000.

Therefore, if the stock was trading at $100, then 100 shares would be the correct share size, $200, then 50 shares, $10, then 1000 shares, etc.

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TRADE METRICS

Trade Management

MANAGEMENT

The positions are held overnight and managed the next morning as follows (assuming a long position):

Step 1: Wait for 1st 5-min to complete.
Step 2: Set stop below 5-min bar's low (LOD).
Step 3: If the stock breaks the 5-min low, the position is exited immediately.
Step 4: If the 2nd 5-min bar breaches the high of the 1st 5-min bar (i.e., makes a new HOD), keep stop at LOD. Do not manage the play. Exit at end of day.

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TRADE METRICS

Trade Management

MANAGEMENT

Step 5: If the 2nd 5-min bar does not break the high or low of 1st bar (i.e., an inside bar), manage position bar by bar on 5-min chart (i.e., keep raising stop as new 5-min bars form) until it is trailed out.

Note: The bulk of the gains is made through the gap, not through the management. If you find this management too cumbersome, feel free to close all positions at the open without any management at all.

T3 LIVE

WARNING!!

Due to the extreme volatility that is associated with trading earnings, utmost caution is warranted. Your share size should be extremely small until you are profitable trading this strategy.

Questions?

Please reach out to me:

sami.abusaad@t3live.com

Thanks!!

T3live.com/swing

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