Trading Plan 2014-10-12

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Right At The Open Play – Example Long Side

Complex Retrace/Reversal Play – Pre-Entry rules and tasks

Complex Retrace/Reversal Play – Entry rules and hard stop

Complex Retrace/Reversal Play – Money Management

Complex Retrace/Reversal Play – Example Short Side

Complex Retrace/Reversal Play – Example Long Side

Stock scanning tasks

Stock criterias

Shutdown rules

Other rules

Contact informations

Current objectives

Short Term Objective

Being able to generate 100$ by trading in the Friday PMs

Mid Term Objective

Being able to replace my daily average income by trading in the Friday PM – 35$*36.5/5 = 255$

Long Term Objective:

Adding a second trading day of trading while reducing my daily job week to 3 days per week

Current risk criteria's

Maximum trades per day: 4

Maximum daily risk: 60$

Daily target: 100$

Maximum risk per trade : 20$ To be manage by getting 100, 200, 300 or even 400 shares

Maximum risk for 100 shares: 20$ - 0.20$ per share
Maximum risk for 200 shares: 20$ - 0.10$ per share
Maximum risk for 300 shares: 21$ - 0.07$ per share
Maximum risk for 400 shares: 20$ - 0.05$ per share

Jim Dalton's concepts – Markets in Profiles

The next section will explain in no particular order, all the concepts that are explained and teached in the book ''Markets in Profile'' and in Jim Dalton's webinar.

Bracket and balance area on time based chart

In this section I will try to define what is the difference between a bracket an a balance area

JCP Weekly #3 C=8.23 Chg=0.09 DChg=0.09 2013-11-04 00:00:00 H=8.71 L=7.63 O=8.50 V=169547696 OI=0 B=0.00 A=0.00 0x0 0 BV=0 AV=0 DV=0

Bracket is occuring after a trend. The height from low to high defines the bracket itself (not the timeframe of your chart). It is your intermediate bracket.

Inside the bracket or on the edge of the bracket we will find balance areas. They are also brackets on the short term

When balcance areas start to be closer from each other (or even overlapping) this means that the current trend is loosing strenght.

Balance area near bracket extreme that are getting smaller (or thighter) can lead to breakout

When we have difficulty seeing the brackets and the balance areas you have to change the timeframe on your chart. You can go higher of lower, this will allow you to validate who of the markets participants might be in control …

Markets participants

1- Scalpers: In and out within seconds or minutes trying to make 0.01$ per share, even trying to be flat to collect rebate. They provide liquidity to the other market participants
2- Day Trader (I prefer Intraday Trader): They are trader that will be in the market from minutes to hours. They never carry position overnight
3- Short Term Trader: They will keep position from 1 day to 3-5 days. These guys wants to play the balance areas inside the bracket. They get in at the extreme of a balance area to get out at the other extreme of the same balance area
4- Intermediate term Trader – Swing Trader: They will keep position from 2-3 days to 8-10 days. These guys are playing the entire bracket range.
5- Long Term Investors: These guys are attached to their securities. They will hold for months to years. They do leave big volume print in the market

When more than on market participants are active at the same time it creates volatility. For example, when an extreme of a balance area occurs at the same level as the bracket extreme, 2 groups of market participants will be active, at the same time.

New highs or lows that shuts off activity – leading to return towards value area Versus new highs or lows that brings new participants – leading to breakout

- Study 1

Dalton is repeating all over his book and all over his webinars that new highs or lows has to attract new participants in order to generate breakouts. On the other hands he also specifies that new highs with low volumes (not attracting new participants – nobody responding the advertisement of new prices) will leed to a return to the previous balance area or value area or even to the other extreme of the last balance or value area. This is also call as responsive buyers or sellers that likes to play the bracket or the balance area. On both situations, a certain amount of volume is coming into play. What he never shows is what is a good volume sample size of "new participants" versus "responsive volume". We do know that "new participants" volume is bigger than "responsive" volume but by how much ? I think that he keeps this information for his training and I am ok with that. Or it might be somewhere in other seminars that I did not looked into yet. Anyways, I will try to find some example and see what I can find out by myself… But I want to study it on a daily basis. This means what is the kind of volume when the previous day high or low is rejected to create an inside day when comparing to a new high or low that attracts new business and generate a breakout of the previous day's high or low.

Here is the plan: I will use JCP (one of stocks inside my trading universe stock list) which is JC Penney and for each day of this week I will monitor high and low of the previous day and the volume reaction at these levels to generate a kind volume sample size for "responsive volume" (leading to value area return) versus volume sample size for "attracting new business volume" (leading to breakout)

October 6th 2014

October 6th is a breakout day. Price broke below previous day low between 10:00 AM and 10:30 AM. The 30 minutes chart volume was averaging about 1.7 time its average volume (SMA100). The 3 minute charts was getting 3 to 4 times higher than average volume spikes

October 7th

October 7th did bounce at the open off the previous day low. Volume bar 1,2 and 3 on the 3 minute chart (which are the bars where price were flirting with the previous day low) gave us an average of 1.6X the average volume.

October 8th

October 8th gave us 2.2X above average for 5 bars in a row when reaching previous day low and 3X and more when reaching the same level for the second time for a breakout on huge volume ...

October 9th
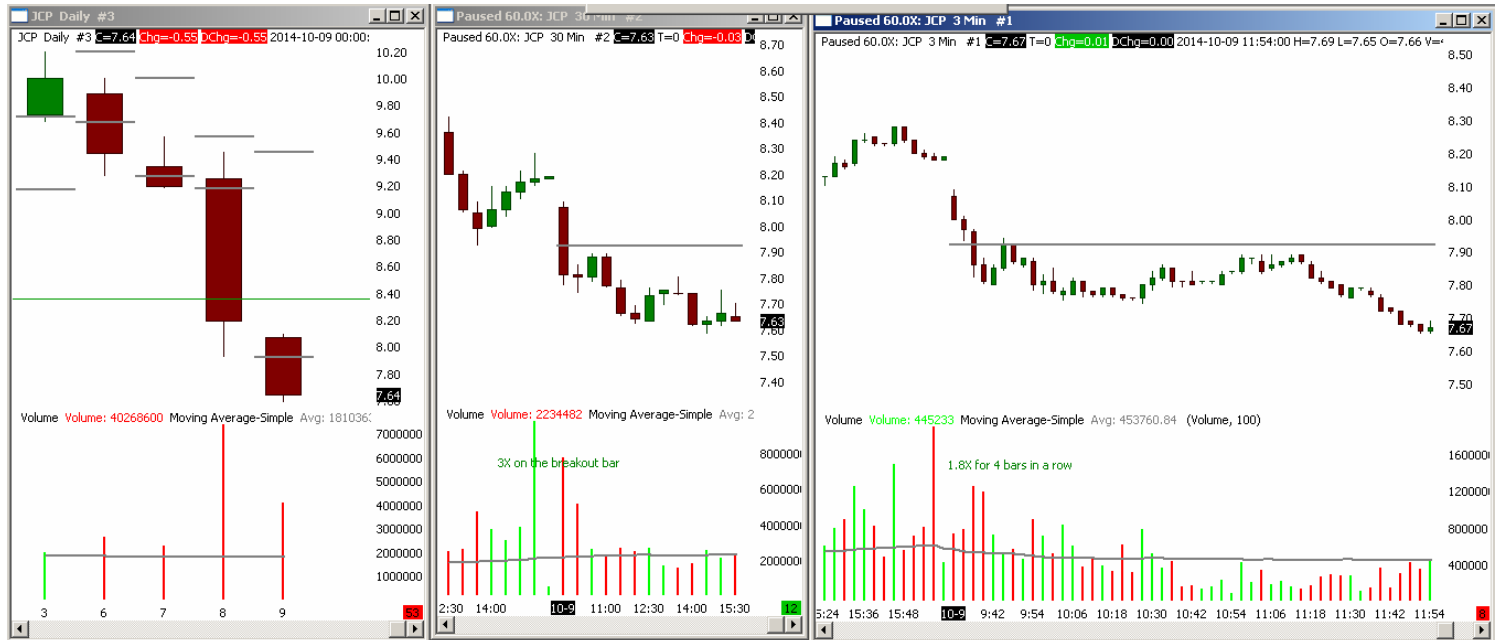
October 9th is another day that the previous day low has been broke. The 3 minutes chart shows an average of 1.8X time the average volume for 4 bars in a row while the 30 minute chart has a 4X volume bar

October 10ᵗʰ
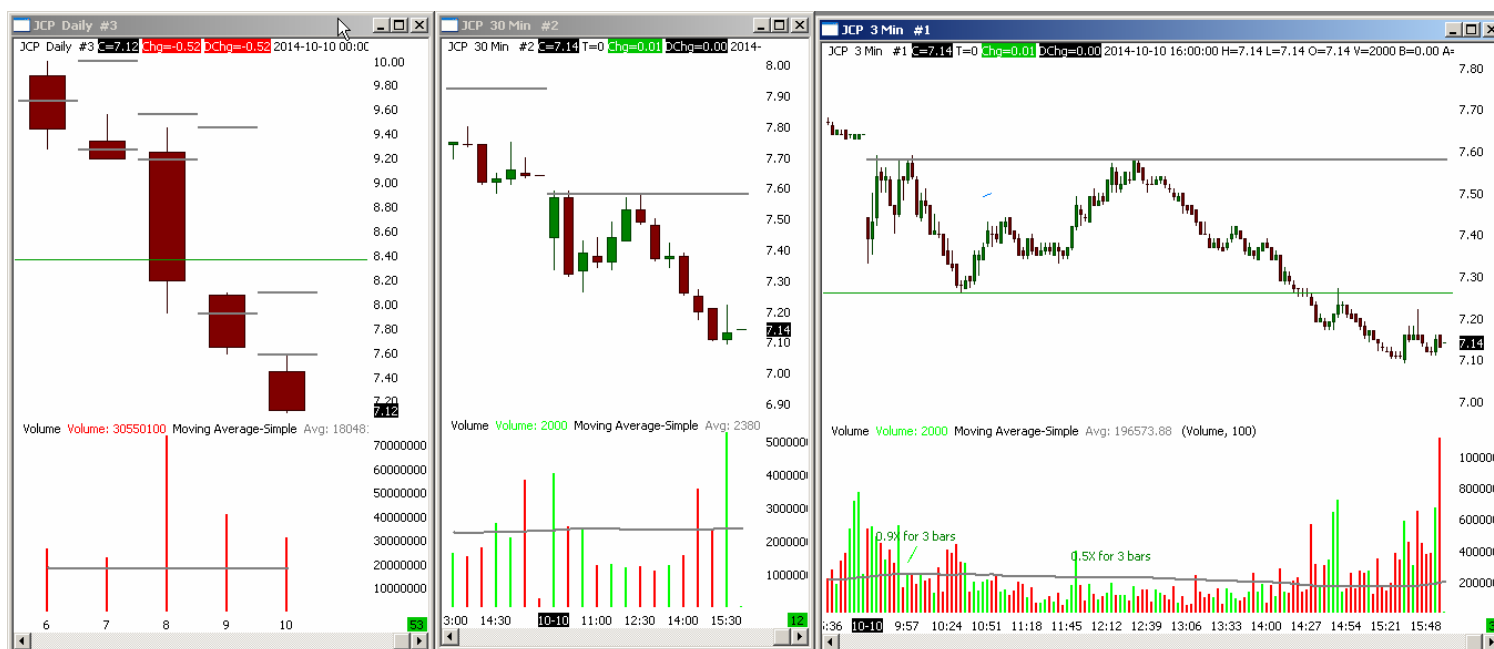
On October 10th we gapped down under the previous day low. The previous day low reference level act as resistance. On the 3 minute chart we can see around 9:59 that volume was below average (0.9X for the 2 bars that went above the said reference line. Then, around 12:30 it wsa even worst, all volume were in average of 0.5x the SMA100 volume line when reaching the previous day low which was at the same time the current day high. On the 30 minute at 12:30 both candlestick were at 0.5X of the SMA100 line !

The next table will try to capture near by reference levels volume information – 3 minute chart

Date - Time	Reference Level	Number of bar crossing the reference level	Volume avg for touching bars	Volume avg in % when referencing SMA100	Result
Oct. 6 9:30 – 9:36	LOPD	2	700 000	4 times the SMA	Bounce but stay at the ref. level
Oct. 6 10:06-10:09	LOPD	2	390 000	2.5 times the SMA	Bounce but stay at the ref. level
Oct. 6 10:21	LOPD	1	345 000	2.2 times the SMA	Breakout
Oct. 7 9:30 – 9:39	LOPD	3	338 000	1.7 times the SMA	Level did resist
Oct. 8 10:12 – 10:15	LOPD	2	431 000	2.0 times the SMA	Bounce but stay at the ref. level
Oct. 8 10:48 -1057	LOPD + LOD	3	2 300 000	5 times the SMA	Breakout including shakeout on both side of the reference level
Oct 9 9:36	LOPD	1	1 200 000	2.2 times the SMA	Breakout but stayed around – below for a while
Oct 10 9:36	LOPD	1	492 000	2.0 times the SMA	Level did resist
Oct 10 9:57 – 10:00	LOPD	2	250 000	1.0 times the SMA	Level did resist and return in other direction

AS what I can see with that short sample based of previous day high or low only (because current day high and low, previous day close, previous and current day value area and poc could all be reference level that can be studied) I can see that volume below 2.0 times the SMA100 has a good chance of being "responsive volume" that will act as a return into the original direction while volume above the 2.0 times the SMA100 has a good chance of being "new participants being attracted" that leads to breakout. I will now study the previous week of JCP but with daily market profile.

-Study 2

For this study we will use Daily Profile chart instead on dail bar chart. I will also add the previous day close as reference line as well as current day high and low. Each time we will reach the proximities of one of our reference levels (prior day high, low or close or current day high or low or any mix of these) I will try to gather volume information in order to evaluate breakout possibilities versus return to value possibilities.

September 29th, 2014
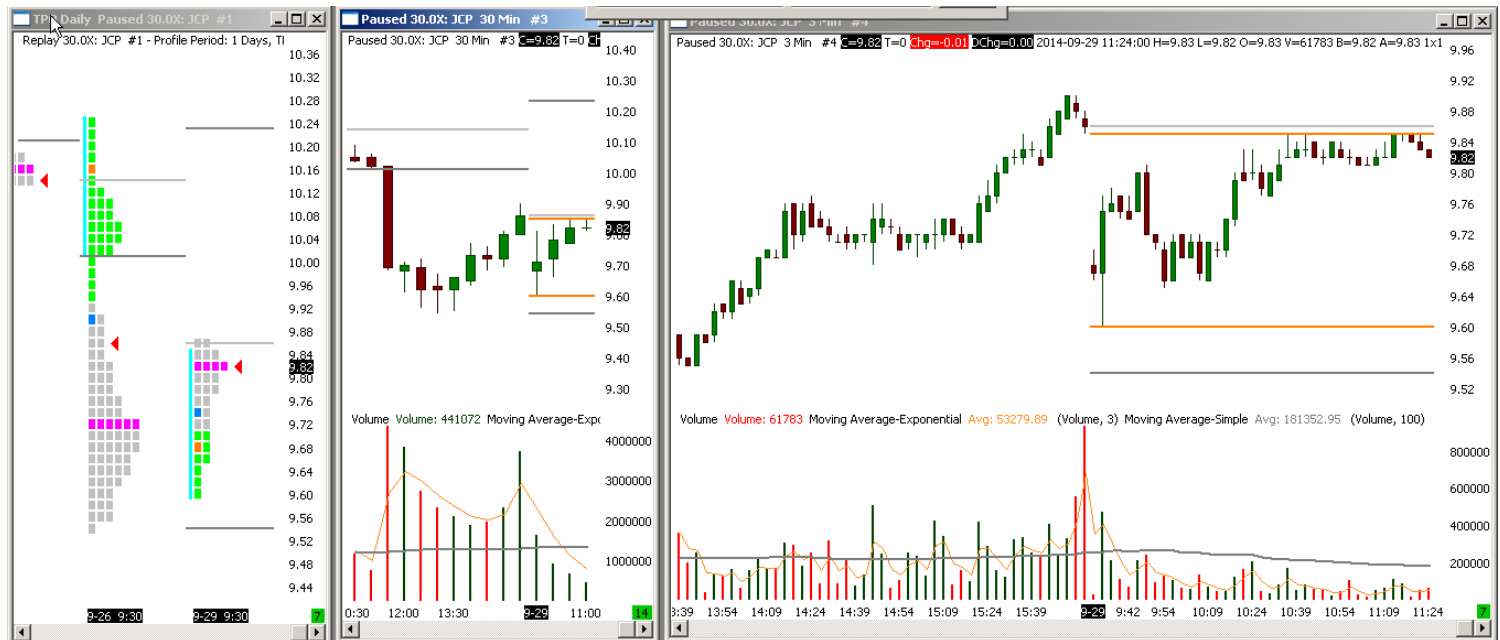
On September 26th (previous day) we can see that 2 auctions occurred during the day. The range from 9.92 to 10.00 with a balance areas above and below is clearly telling us that 2 auctions we in place on that day. The 5 squares between 10.00 and 9.92 also indicates that it could be excess on both profile since you need only 2 square to have an excess and 5 included 2 times 2 squares … I will have to figure out what a square mean in term of value (0.01$, 0.02$ or whatever) but I will leave that for later. Gray lines on the 3 charts are previous day high low and close (lighter gray is the close) while orange line on the 30 and 3 minute charts are the current day high and low. The Profile value area blocks or squares in gray are the value area while the green blocks means outside value area. The orange block is the open while the pink blocks (line) is the point of control line. The red arrow is the close.

We did went through HOD around 10:24 on some volume increasement (went from an average of 90 000 from the previous 4-5 bars) to 195 000 for the 2 bars the broke HOD. Then we pushed near the previous day close (1 tick below) and stayed below that reference for about 15 bars with an average light volume of 75 000.   The price being near these 2 levels are definitively not attracting any volume at all for that period.
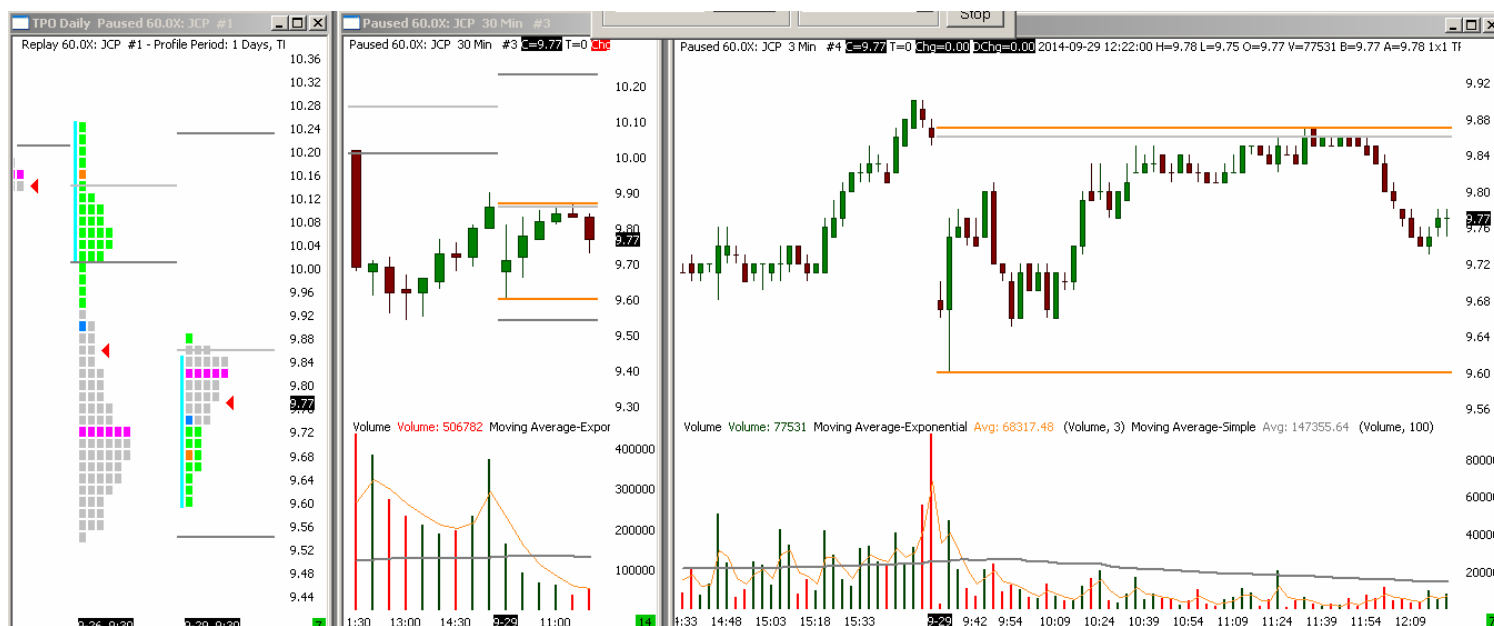
Then, at exactly 11:33 a single print green block appears on the daily profile at the same time than crossing the previous day close and pushing the current HOD. 5 to 7 bars from 11:39 to 11:54 with ultra thin volume (average of 35 000 for these 5-7 bars). Small return to the other extreme of the value area a 0.10$ move …

My stock universe

These are the only stocks I am allowing myself to trade. They are stocks that I like to trade and they do have a minimum of 10 million shares traded in average every day. The short term tick size has been selected for each of these symbol based on high activity day – not extra high volume day but good trading day. From these days, the short term tick size is selected to get a minimum of 45 seconds per bars in average from 9:30 to 10:30. If the day is very active and your minimum tick size is too fast, increase your tick size to get your 45 second target. The opposite – lowering your tick size if your chart is too slow – is totally interdicted. If you have to lower your tick size it is because y€ou are in front of a non active trading day for that particular trading instrument and you do not want to trade stocks when it is not active.

Symbol	ST Tick Size	Sector
ABX	300	Gold
CSCO	700	Hardware
DAL	100	Major Airlines
FB	600	Internet
GG	200	Gold
GRPN	250	Internet
JCP	800	Retail
JPM	400	Banking
LCC	100	Major Airlines
MSFT	800	Software
POT	200	Chemicals
QCOM	150	Telecom
QQQ	100	NASDAQ
SPY	800	SP500
YHOO	300	Internet