

The TRADER'STM Journal

www.tradersjournal.com

VOLUME 3 ISSUE 12

Systematic Trading – What Does It Mean and What Style Is Right For You ?

Gold ETF Impact

Copper – The
Picture in 2008

Historical Testing
Of Efficient Markets

TRADING TOOLS:
Bow Ties
MACD
Vic's 2B Pattern
The Codex Toolbox

SG\$9.80 / A\$9.95 / HK\$68 / RM\$19.80

ISSN 1793-2149



9 771793 214905

MICA(P) 229/05/2007



SURI DUDDELLA

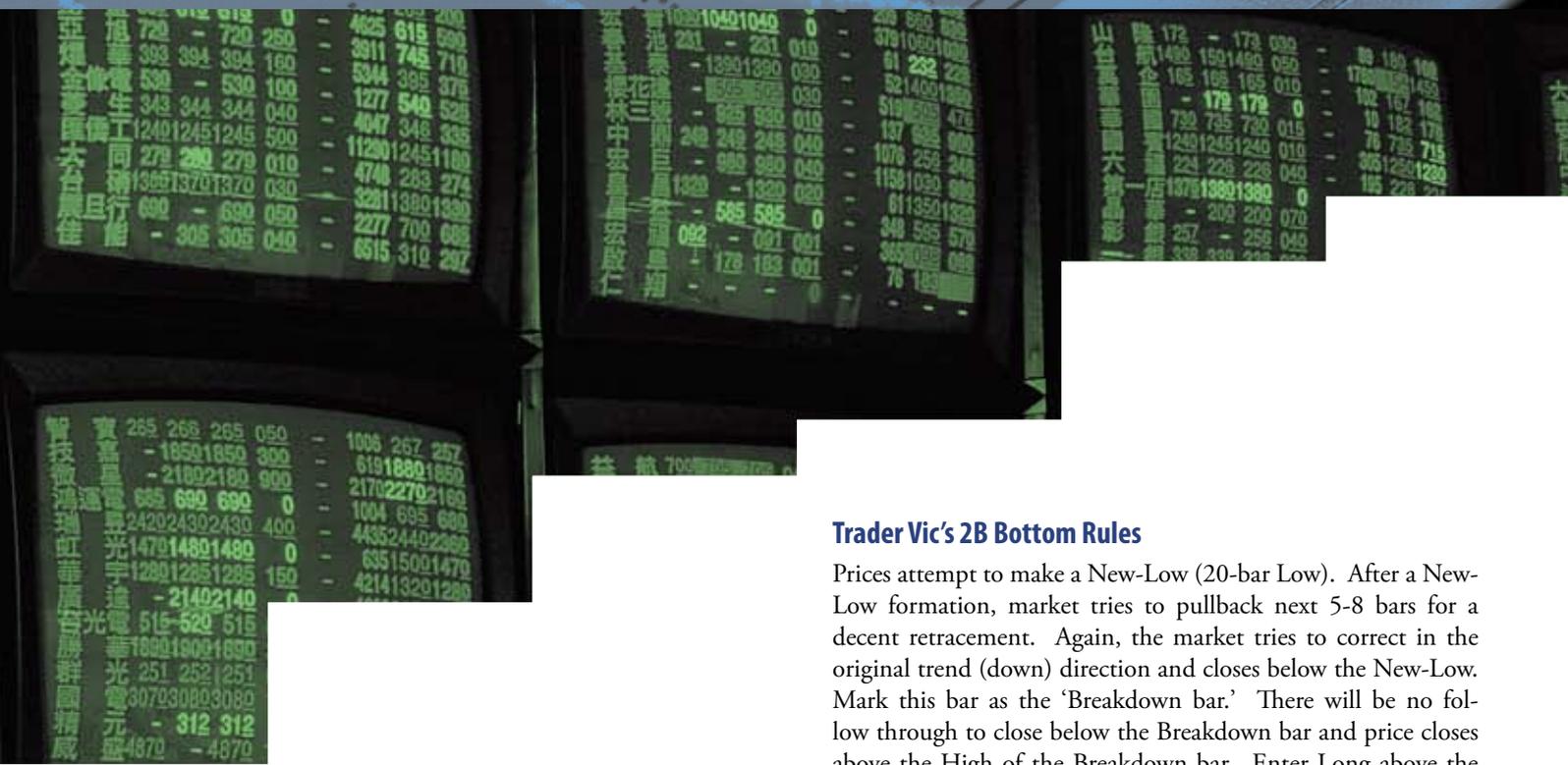
Trader Vic's '2B' Patterns

Suri Duddella takes a look at Trader Vic's 2B pattern

Pinciples of Professional Speculation written by Victor Sperandeo also known as Trader Vic, analyzes one of the powerful top/bottom reversal techniques. Trader Vic describes this technique, "In an uptrend, if prices penetrate the previous high, but fail to carry through and immediately drop below the previous high, the trend is apt to reverse." The converse is true for a downtrend. This pattern is also called "spring." The 2B setup looks like a micro "M" pattern and signals trend reversal when prices stop making higher-highs in an uptrend.

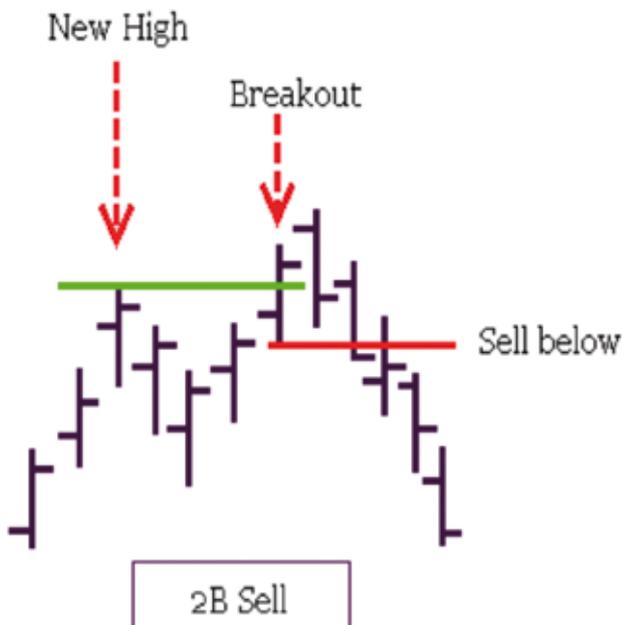
The 2B pattern rule applies when prices make a new high or new low; they pull back for a healthy retracement. After the retracement, the price tries to re-test the 'new' high or low. When this test of new high or new low fails and the market does not maintain the prices above the new high or below the new low, it signals a potential trend reversal. This setup is very powerful and signals the beginning of a correction.

The 2B patterns are widely visible in intra-day setups and for intraday trades it is very valuable to spot the trend tops and trend bottoms. Traders also can validate the two bottoms or two tops patterns with Volume occurring at peaks or troughs. If the volume on the second peak or second bottom is less than the prior swing, it signals a divergence and potential 2B formation.



Trader Vic's 2B Top Rules

Market is in an uptrend and makes a New High (20 bar High). The market attempts a pullback (decent retracement) for the next 5-8 bars. After the retracement, price attempts to trade above the New High and closes above New High. Mark this bar as the 'Breakout bar.' There is no follow-through to close above the Breakout bar's High as prices close below the low of the Breakout bar. This completes a '2B Top' pattern and signals a potential short trade. Place a stop above the recent Swing-High. Target the Swing-Low prior to the New-High.



Trader Vic's 2B Bottom Rules

Prices attempt to make a New-Low (20-bar Low). After a New-Low formation, market tries to pullback next 5-8 bars for a decent retracement. Again, the market tries to correct in the original trend (down) direction and closes below the New-Low. Mark this bar as the 'Breakdown bar.' There will be no follow-through to close below the Breakdown bar and price closes above the High of the Breakdown bar. Enter Long above the High of the bar closed above the Breakdown bars' High. Place a STOP below the recent Swing-Low. Place a Target near the Swing-High prior to the New-Low.

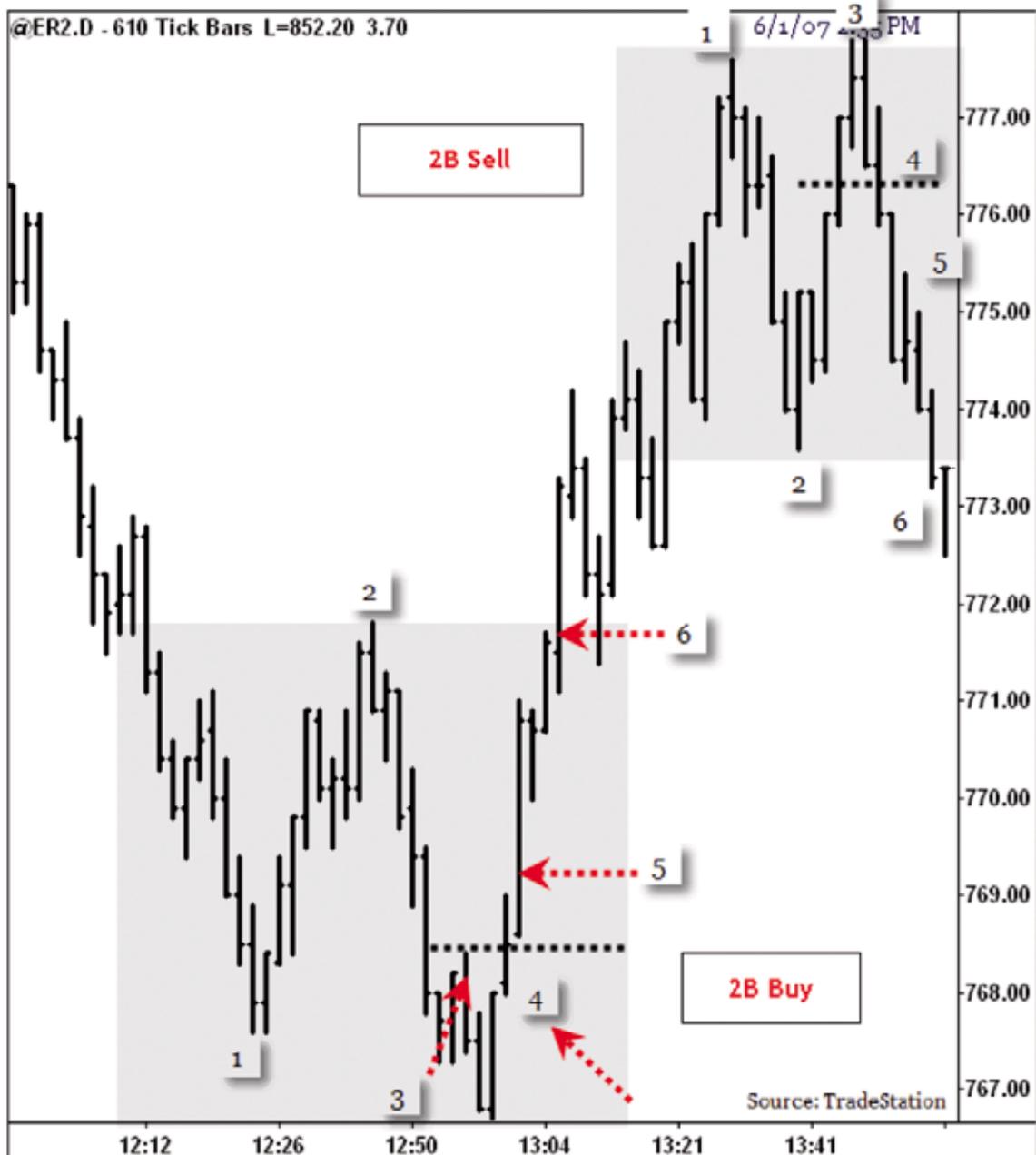


Trade: The market attempts to test a recent new high or low, but does not hold the prices above this range. Trades orders are entered to sell the low of the bar trying to breakout or buy the high of the bar trying to breakdown.

Target: The target is usually the 'swing low' prior to the new high or 'swing high' prior to the new low.

Stop: Protect your 'long' trade entry by placing a 'stop' below the recent low and protect the 'short' trade entry by placing a 'stop' above the recent high.

Trading 2B Patterns



2B Buy Setup

1. New Low
2. Decent Retracement
3. Another bar close below Bar 1 Low
4. Mark High of Bar 3. Wait for Close above 4.
5. Long above the High of 4
6. Target previous Swing Highs

2B Sell Setup

1. New High
2. Pullback
3. Another bar Close above Bar 1 High
4. Mark Low of Bar 3. Wait for Close below 4
5. Short below the Low of 4
6. Target Previous Swing Lows

Trading 2B Bullish Pattern



Trading 2B Bullish Pattern

This example illustrates a 2B 'bullish' reversal pattern from the ER2 5-minute chart. ER2 made a new low at 780.5 at Bar 1 shown in the chart. After a new low, ER2 reversed its trend and rallied back to 784 for a healthy pullback. ER2 attempted to test the new low again at 780.5 at Bar 2 to close below the new low. As the market continued to consolidate around the breakdown levels, a long trade is anticipated. A reversal and close above the high of Bar 2 triggers a 2B 'reversal'. At Bar 3, ER2 reversed and closed above the high of Bar 2 signaling a "long" trade.

1. Enter a "long" trade above the high of Bar 3.
2. Place a "stop" order below the recent Low at 778.5.
3. Place a target at the "swing high before Bar 1 at 786.5.

Trading 2B Bearish Pattern

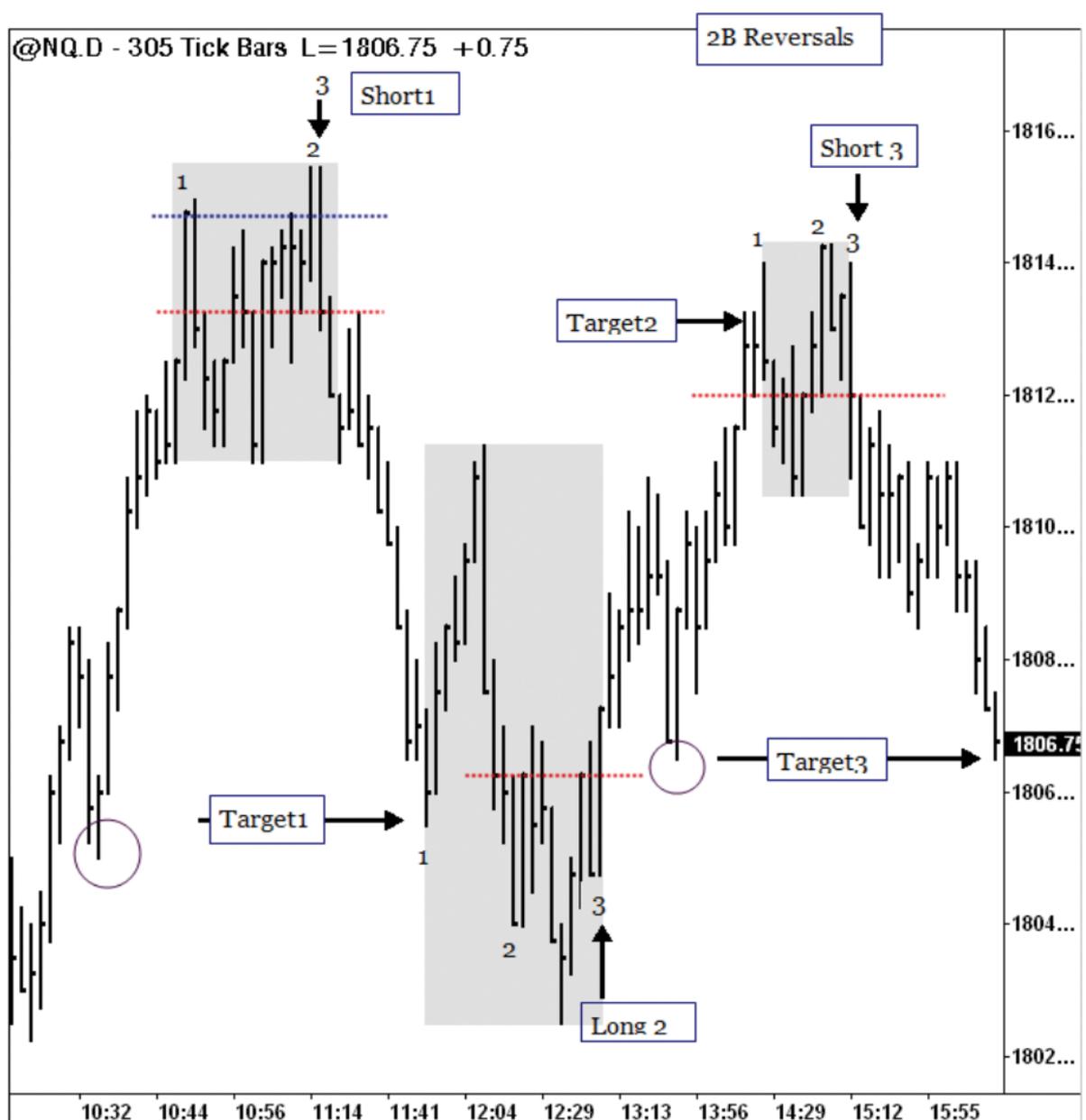


Trading 2B Bearish Pattern

This example shows Trader Vic's 2B 'reversal' pattern from the Russell E-mini (ER2) 5-minute chart. ER2 made a new high at 788 and retraced a few bars, but never closed below the low of the new high from Bar 1. After a pullback, ER2 rallied back to test the new high at Bar 2. After testing the new high of Bar 1, ER2 could not hold a price above the new high bar and closed below the breakout Bar 2's low. This signaled a short trade at 787.7 after Bar 3.

1. Enter a "short" trade below the low of the Bar 2 at 787.7.
2. Place a "stop" order above the high of the breakout Bar 2 at 789.
3. Place a target at the "swing low" prior to Bar 1 at 783.5.

Trading 2B Bullish Pattern



Trading 2B Reversals

This example shows a series of 2B 'bullish' and 2B 'bearish' reversals. The first example explains a 2B 'sell' reversal setup for a short trade below the close of bar (3). The target is set at the 'swing low prior to bar (1)'. The 'stop' order is set at the high of bar (2). The second setup shows a 2B 'bullish' reversal. A 'long' trade is triggered above the high of bar (2). The target is placed at the 'swing high' prior to bar (1). The 'stop' order is placed below the 'swing low' prior to bar (3). The third setup is a 2B 'short setup' similar to the 2B 'short setup' at Short Trade 1.

Suri Duddella is the author of a new book called Trade Chart Patterns Like The Pros. Suri is a private trader and has been trading the futures and equities markets full-time for the past 12 years. Suri can be reached at suriNotes@gmail.com and his website is: <http://www.suriNotes.com>