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# *How to Easily Make Money Day or Swing Trading Stocks Online*

*Hanging on to it is the hard part*

08/28/05

A Comprehensive Guide to Day and Swing Trading Online

## Introduction

### About the guy writing this book

I have been trading stocks off and on since 1994. Back then I was clueless. Ah, I can remember it well. I thought trading was all about buying a well known company then hoping the price would rise higher than what you paid for it. Well, I was partly right. We want the price to rise, but hoping aint gonna cut it. I called my "discount" broker, told him to buy "X" amount of shares of GE. I paid my \$35.00 commission then waited, and waited, and waited for the price to rise. I finally sold, and after paying another \$35.00 commission I think I just about broke even. Then came the dotcom boom which I entered right before the crash. What impeccable timing I have. Can you say Etoys? I bought a number of shares through that same broker, again paid my \$35.00 commission, only to watch my investment crash and burn. I lost a lot on that one. In 2001 I lost my job as an IT professional due to downsizing. I thought to myself, "now what do I do?" No one was hiring in my area at the time. IT jobs were far and few between. I got it...DAY TRADING!! Yeah, that was the ticket. Heck I saw all those guys on TV making millions. Yeah that's it! I got all setup to trade online. Fast Computer, DSL connection, a trading platform, online broker...all systems go.



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*"I can guarantee with confidence the following: reduced risk and higher profits. That's what it's all about, isn't it?"*

Keep these things in mind when trading:

- There is no "Holy Grail".
- The Market is 10% mechanics, and 90% Psychology.  
*Fear and Greed rule the Market*

I immediately bought a well known company (you will never guess which one...yes GE again) then waited and waited and waited for the price to rise. It did. Hallelujah!!! I sold, netted my profit, paid my commission which at \$10.99 X 2 sure beat the discount broker. The good news was that I netted a whopping \$94.00. I was really proud of myself. The bad news was that it took almost 2 weeks. That means I was making \$47.00 a week. Not good. I needed to do better. There had to be a way. I then went on a quest to find "The Holy Grail." I scanned hundreds of websites; read a ton of books all promising the road to riches. Some were good some were not so good. I tried and tested just about every system out there. There are black boxes, red and green blinking lights, you name it. Bottom Line? There is no "Holy Grail." I do not guarantee an easy road to wealth and riches in this book. No one can guarantee that. I can guarantee with confidence the following:

- reduced risk
- higher profits

That's what it's all about, isn't it? I possess a B A degree in Psychology. I can honestly tell you that trading stocks is 10% mechanics and 90% psychology. Fear and Greed rule the Market. It's easy to make money trading; the hard part is not giving it all back. The one question that is asked over and over is ...."if the system is so good, why doesn't the author just make all of his money day trading, why go through all the trouble of writing a book?" The answer is easy. I have developed a skill. One which I am willing to share. Am I that altruistic? You bet I am. I don't like seeing traders make costly mistakes. Been there done that. I have read countless postings on message boards where the traders had no idea what they were doing. I have helped many of them for free. I also however, don't mind the extra \$\$ in my pocket. The

Market can be volatile and therefore I do not trade every day. Having another source of income to supplement my trading account is just fine by me.

Let's decipher The title of this book "How to Make Money Day or Swing Trading Stocks Online", "Hanging on to it is the hard part". Is making money trading stocks easy? Well, yes and no. You must have a trading plan, and follow it religiously. You have probably read this many times...ad nauseum..."Plan your trade, trade your plan" (I have other clichés' peppered throughout this book, please find a way to forgive me) There are rules which must be followed. Are they all written in stone? No. Can they be bent here and there? Yes. Are there some rules that must always be adhered to? Yes. If you follow the rules, have discipline and patience I guarantee that you will make money. Guarantee? Yes. How can I guarantee anything? I can, because I did it and am still doing it. If I can do it, anyone can. (oops another cliché). I will be the first to tell you that I am no Stock Market or trading guru. I just follow the rules laid out in this book. They work. Now let's talk about the sub title. "Hanging on to it is the hard part". This is where the difficulty of trading comes into play. You follow the rules, plan your trade, trade your plan, you make your profit. Then what? You let it all slip away. Why? Because you got greedy. This is the traders Achilles' heel. Overcoming greed my friend is the hard part. Too many traders initially make nice profits only to lose everything due to greed. The trading system you are about to learn will enable you to overcome this greed, and hang on to your profits. You must however adhere to the rules. Do I cover all there is to cover regarding trading? No. Why not? This book would be umpteen billion pages long if I did. Then what would happen? You would get all excited, read about ¼ of it, put it down and it would start collecting dust somewhere in your "My Documents" folder. I am going to cover all the pertinent aspects of my trading system. You the reader will need to do plenty of homework on your

own. You will also need to practice, practice. practice. How do you get to Carnegie Hall? (another cliché , sorry, well I am not really sorry). I will do my part, but I expect you to do your part. This book is unlike any other you have read. I try to make it interesting as well as fun and entertaining. Learning something new can be frustrating and tiresome. Stay with me, and you will be a 90% better trader than you are now. Trust me on this.

### **What the Heck is Day Trading Anyway?**

Day Trading involves buying large amount of shares of a given stock (200-whateverucanafford) and holding for seconds, minutes, hours. (When I day trade a stock, I usually hold the stock the entire day or until my sell signals tell me to exit. I don't like the quick in and out momentum plays since they inherently contain too much risk for my style of trading.) The trade is entered and exited the same day. We will not be discussing holding for seconds which is also known as scalping. Scalping is neither for the weak of heart nor for the less experienced trader. So you newbie's out there, ....don't even think about it. I know of one scalper who consistently makes at least 1K a day trading 10,000 shares of CSCO (both long and short) for a .10 profit. Again, this is something for the experienced trader and I do not recommend due to the risks involved. My system also works for swing trading which is holding a given stock for a few days up to a few weeks. The profit potential is greater with swing trading but so is the risk. (Who knows what will happen tomorrow? If oil hits \$80 a barrel, or your stock gets downgraded, your trade could be sunk) With day trading, profit potential is lower, but the risk is lower as well since you do not have to worry about waking up to bad news the next day.

### **What will the student get out of this book?**

I want you to write down the following:

*I want you to write down the following:  
"My Goal is to Reduce Risk, Maximize Profits, and to Protect My Capital at All Times."*

- ***My Goal is to Reduce Risk, Maximize Profits, and to Protect My Capital at All Times.***

If you walk away with anything from this book, I want it to at least be this goal. Now hang it on your mirror, keep it in your pocket or wherever, just make sure that you look at it several times a day. Always write down your goals; it works. "Why does it work?" You ask. It works because your subconscious mind rules your conscious mind. Huh? Are we trying to achieve Zen here? No not really. Think of it this way; your subconscious mind is constantly working away, sorting through all the stimuli with which you interact during your waking hours. It's always turned on, even when you are asleep. Who do you think makes up those goofy dreams? The subconscious mind directly affects the conscious mind. When you write down a goal, you are more or less sending it via FedEx to the subconscious mind. The subconscious then leads the conscious to achieve that goal. It's multitasking in the background, while you are doing other things. It will point the conscious mind in the right direction and cause you to do things to achieve that particular goal. My Mother wanted to buy a second hand car. She looked and looked for what she wanted but ran into one disappointment after another. She then wrote down what she wanted; the exact make model year and color. Within a few weeks Walla!; she found exactly what she was looking for. Sort of spooky isn't it? Trust me, it works.

**What will the author get out of this book? (besides money)**

My goal is to exceed the reader's expectations, by providing a new, more powerful way to approach trading. I am looking forward to the thousands of fan letters I hope to be receiving after you guys improve your trading skills and start making big \$\$\$. If you follow what I lay out in this book to the letter

and control your emotions while trading, **you will make money.**

### **Summary**

What have we learned so far? Let's look at a play by play. The author couldn't trade his way out of a hat. Sometime in 2001 after he lost his IT job, he made \$97.00 trading GE. Fed up with his lousy trading skills, he went on a quest to find the "Holy Grail". He found no "Holy Grail", and states he cannot guarantee an easy road to wealth and riches by using his system; although he will guarantee less risk and more profits. He stated that Fear and Greed rule the Market and that the Market is 10% mechanics and 90% Psychology. He said he knows this because he has a B.A. in psychology. He says he is altruistic. (personally I don't believe that he is) Then he defined Day Trading (whoopee like I didn't know what it meant). He told the newbie's not to scalp; then went on to tell about a guy that makes \$1,000 a day doing the exact thing he just told them not to do. He made us write down a goal stating that we "will reduce risk, maximize profits and protect our capital at all times", and then told us to stick it on our mirror. Then he started to rant on about this conscious vs. unconscious err I mean subconscious minds thing. His mom bought a car, and he wants to exceed our expectations and improve our trading skills with some powerful new method and expects fan letters. Close enough? Oh, he also said something about FedEx but I forgot what it was.

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## Some Really Important Stuff

**Trading capital, hardware, internet connection, online broker, trading platform**

Ready, Set, Go! Not so fast there pardners. We need to setup a check list first. The following are a must:

- ✓ At least 10K to 20K of trading capital which does not include the

mortgage payment or little Johnny's future tuition.

- ✓ A reliable computer with a fast processor and enough memory to easily handle multi-tasking. Have a backup PC in place if possible.
- ✓ 2 to 3 monitors (you can get by with 1 but will need to do a lot of flipping through screens)
- ✓ A high speed Internet connection (DSL, Cable)
- ✓ An online broker
- ✓ Trading platform

A trading account of at least 10K to 20K is recommended for day/swing trading since the concept involves purchasing a large number of shares of a given stock for a limited period of time (seconds, minutes, hours, days, weeks,). You can get by with fewer than 10K (I did) but trading will be a challenge unless you use margin. Margin will double your buying power. It has its upside as well as its downside. Note: I do not recommend the use of margin for new traders.

You will need a fast reliable computer which will handle multitasking. At this writing, a fast Pentium P4 w hyper-threading processor with at least 512 megs of memory will suffice. I personally recommend 1 gig of memory. You do not want to be in a trade with a 20% profit going only to have your computer lock up when you are trying to sell. It's not a bad idea to have a back up system in place either. If you do get stuck, most online brokers have phone support, so you still will be able to sell, albeit not as quickly.

You should have at least 2 monitors in your setup, since you will be looking at many charts, Level II, news items, throughout the day, not to mention trade execution.

A high speed internet connection such as DSL or Cable is a must. I personally

*"Real time charting is an absolute must!"*

use DSL and have found it fast and reliable. You can get by with dial up (56K) but I don't advise it. Again, when exiting a trade for profit, speed is of the essence. You don't want a slow unreliable internet connection. It could cost you big \$\$.

There are plenty of online brokers to choose from. Most offer competitive pricing and tools such as real time charting, Level II screen, etc. I personally use Ameritrade. [www.ameritrade.com](http://www.ameritrade.com) They have quick reliable phone support in case you experience a problem. All trades are \$10.99 including limit orders. You will be using limit orders which I will cover later. There are plenty of good brokers out there so do some shopping around. The Market is getting competitive so commission prices are coming down.

Last but not least is a trading platform from which you will do most of your transactions. It is comprised of real time intraday charts, Level II screen, stock portfolios, and watch lists. The existing data feed provided by your online broker will hook into it. Some online brokers provide these tools at no cost, some do not. I use Medved Quotetracker [www.quotetracker.com](http://www.quotetracker.com). The free beta version provides real time charting for up to 2 days. ***Real time charting is an absolute must!*** The registered version which is \$60.00 per year (a great value) has real time charting for up to 10 days. Their technical support is top notch with lightning fast response time. One time I emailed a problem at 2:00AM and received a response within minutes from Jerry Medved himself.

### **Summary**

We discussed the tangible things needed to day/swing trade. Trading capital, hardware, high speed internet connection, online broker, trading platform etc. 10K to 20K trading capital is preferred. The use of margin is frowned upon by the author esp. for new traders. Do not trade with the rent money. Real time

charting is a must.

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## Thar's Gold in Them Thar Hills!!

**NASDAQ Index, stock screening**

What do we do next? Let's see if we can mine some of that gold. GOLD! GOLD I say!! (What is he talking about? Has he lost his mind?) I am talking about stocks, yes STOCKS! The modern day goldmine with plenty of gold for the taking....that is if you know how to safely mine the gold. (profit) How do we get there from here? First we must find the mine. We need a map. Anyone have a map? Wait I do right here. Let's see now...ummmm. It says the gold mine is named NASDAQ. Yes that's it, I heard all about that place. The gold flies fast and furious out of there. OK we found the mine, now where is the gold? Let's look inside the mine, there is gold lying all about just waiting for the taking. There is pure gold, and not so pure gold. We need to find the purist gold possible. The following is our criteria:

Longs:

- ✓ Stock price = or > \$10.00
- ✓ Volume = or > 1M (500K min)
- ✓ Index = NASDAQ or COMP
- ✓ Beta = or > 1.5

Shorts:

- ✓ Stock price = or > \$20.00
- ✓ Volume = or > 1M (500K min)
- ✓ Index = NASDAQ or COMP
- ✓ Beta = or > 1.5

*"Your goal is to have a list of no more than 10 stocks that you know inside and out. You want movers. Stocks that move a point or more every day provide great trading opportunities. You will be trading these same stocks over and over."*

Now that we have our criteria, how do we find the stock candidates? One word...stock screener, or is that 2 words? Yes it is 2 words. Errr sorry.

There are lots of stock screeners out there both technical and fundamental. Some are free, some are expensive. Free is good. I prefer free. Ameritrade provides a program called Advanced Analyzer free of charge for active traders. It has a built in stock screener which provides screens for just about every any scenario you can think of. Another good screener is Vector Vest's Pro Trader [www.vectorvest.com](http://www.vectorvest.com) It is a little on the pricey side but good nonetheless. Another is [www.stockfetcher.com](http://www.stockfetcher.com). It has a small monthly fee. CNBC provides a good fundamental technical screener.

<http://moneycentral.msn.com/content/Investing/Findhotstocks/P38816.asp>

You will need to find the one that is best suited for you so you will need to do some experimenting. Your goal is to have a list of no more than 10 stocks that you know inside and out both technically as well as fundamentally. Ideally, they should be from the same sector/industry. This will make it easier to keep up with the news and earnings. Also, you want movers. Stocks that move a point or more every day provide great trading opportunities. You will be trading these same stocks over and over. That's not to say you can't trade other stocks, but it's good to have a core of stocks that you are very familiar with. I have traded Varian Semiconductor (VSEA) over and over for about 3 yrs now with only a handful of losses.

How do you know if a stock is a mover? Beta! Volatility is measured by the **beta coefficient**. This is the measure of a stock's risk. The beta coefficient is calculated by dividing a given stock's historical returns by historical returns of the stock market. The higher the beta coefficient is, the better because the volatility of that stock is higher than the Market. A stock with a beta coefficient of 1.2 will move 20% more than the Market. This is extremely important because it ensures that the stock which is being traded will provide



the highest possible number of trading opportunities. Daily volume should be more than 1 million shares (500K min) a day. Stocks trading at this volume have high liquidity. This ensures us that when we want to sell or buy shares, there will be buyers and sellers available. We want the stock price to be over \$10.00 per share and under \$100.00. Stocks priced under \$10.00 don't move all that much, and stocks over \$100.00 take up a big chunk of capital to trade and also may have wide swings a la Google. My range is usually between \$10.00 and \$80.00. Please, please stay away from penny stocks. I am sure you heard the story of Uncle Bob who bought Xerox when it was .10 and made a fortune. Those stocks are far and few between. If you want to gamble with them, you are better off learning how to count cards, then going to Las Vegas and playing Black Jack. There is a reason they are penny stocks. It usually means the company is a startup or is not doing very well. Go check the Yahoo message board for WEL or better yet, check a 3yr chart. They were contracted under Halliburton to fight the oil fires in Iraq during the present Iraq war. The stock went from under .50 to around \$4.00 or \$5.00, had everyone buzzing and buying. Then it crashed. I think it's around a dollar something today after a reverse split. Most penny stocks are pump and dump schemes. The pumper buys the shares cheap, hypes up the stock, then sells them to you before the price tops out. So my advice is to stay away.

Ok, enough of that. We need to find a stock screener. I know..let's Yahoo.

I think they have a stock screener, and it's free. Free is good!

Ready??...**FIELD TRIP!!**



[Click on car to go to Yahoo Finance](#)

Are we there yet? Everyone one with us? If you couldn't make it by car, copy and Paste the following url into your web browser by going to File/open.

<http://screen.finance.yahoo.com/newscreener.html>

OK, we are at the Yahoo stock screener. Input the following:

- ✓ Exchange = NASDAQ
- ✓ Sector = Technology
- ✓ Industry = Technology/Semiconductor Equipment & Materials
- ✓ Current Price = or > 10
- ✓ Avg. Daily Vol = or > 500K
- ✓ Beta = or > 1.5

You should have found my 2 favorite stocks to trade. VSEA and KLAC. Both these stocks tend to move a point a day. Semis are my favorite stock to trade because of the price movement. Most follow the COMP and the Philadelphia Semiconductor Index or ^SOXX or SOX indices.

Charting programs allow you to compare the price movement of a given stock against any of the indexes. If you trade a semi stock, confirm that it trades in the same direction as the COMP and SOX. We will get to this in more depth later. So there you have it. Don't tell me you can't find stocks to trade. Feel free to experiment with the screener. Use criteria that works for you. Again, as I stated above, not all of my trading rules are written in stone. I will let you know the ones that are. The only thing I ask is that newer traders not stray very far from the nest until they get more flying time under their belts. OK?...OK! Put these stocks in a watch list for further filtering. Yes, we are going to narrow them down even more. OK everyone back from Yahoo? Any stragglers out there? We are moving on to our next event.

**Summary**

The NASDAQ is our index of choice. We discussed the criteria required for stock screening. We want to find stocks that move a lot. (at least a point a day) The 2 standout variables are beta and volume. We then plugged all the variables into the Yahoo Finance stock screener and now have a list of semiconductor stocks that meet our requirement as trading candidates. Most semiconductor stocks follow the COMP and ^SOXX indices. Not all of the authors trading rules are written in stone. The author will let you know which are and which are not.

# The Really, Really, Good Stuff

Charts, Momentum Indicators, Support and Resistance

OK, is everyone back? I think we lost one person. Either they are still at the Yahoo site or fell into the Vortex. Gee I hope it's not the latter.

We are now about to take on the serious stuff. No more fooling around. This is it. The "Meat and Potatos". I am talking charts, momentum indicators, support and reistance. You cannot, I repeat, cannot trade successfully without a thorough understanding of all the above. We are going to take another field trip, this time we will be visiting investopedia.com They have a lot of informaiton at that site plus a trading simulator. So explore. We are going to learn the momentum indicators inside and out, one by one. This field trip is going to be brutal, so what do you say we take a ½ hr break? I am getting a little bleary eyed myself. I will see you shortly.

TAKE A ½ HOUR BREAK

Alright I see that everyone is back except the person we lost at Yahoo. We are now going to learn about the following momentum indicators.

- ✓ MACD
- ✓ Stochastics
- ✓ RSI
- ✓ CCI

There are a slew of momentum indicators out there. I have narrowed them down to the above list. I found these to be the most effective. We are going to use these indicators for confirmation when entering trades on the long side. I am not going to explain how to enter on the short side. If you want to short then just do the opposite of what I recommend for longs. I am not about to repeat my self over and over just to say the opposite of what I was saying



about longs. You can figure all that out for yourselves and it's less writing for me as well. Do you think this is easy? Before going any further, I would like everyone to click on the bus and go to [investopedia.com](http://investopedia.com). Go over each indicator one by one. Take notes. You don't need to understand all the technical stuff, just get a good overview. I will see you back here in about 1 hr.



[Click on bus for field trip to investopedia.com](http://investopedia.com)

Alright. Is everyone back? Is the Yahoo guy still MIA? Did you get a good basic understanding of all the indicators? Let's move on and review.

### **MACD**

MACD is a lagging momentum indicator which detects swings in a stock price. It will signal both bullish and bearish conditions. MACD (Moving Average Convergence Divergence) is without a doubt the most powerful indicator out there. It will identify short and long term up trends as well as downtrends. It shows the relationship between two moving averages of prices. MACD is calculated by subtracting the 26-day exponential moving average (EMA) from the 12-day EMA. A 9-day EMA of the MACD, called the "signal line" is also used. MACD is a lagging indicator, in that it lags behind the stock price. This is important. The settings we will use for MACD are 9, 15, and 5. You will find that the standard is 12, 26, and 9. I find the settings of 9, 15, and 5 are faster and tend to get you in and out of a trade before the general populace does. The following is very important. It is considered bullish when the MACD crosses up over the centerline or "0". When the MACD starts to pull away from the signal line, this indicates that the stock is getting overbought however there is lots of buying pressure. This is what we want to see. We also want to see the histogram bars getting taller. If MACD has crossed up

over the signal line, the histogram bars will be above 0. If MACD has crossed down over the signal line, the histogram bars will be below 0. If it pulls away from the signal line but is below 0 this indicates the stock is oversold. Again, the histogram shows the divergence. **For our long positions, we want to find stocks where the MACD is crossing up over the signal line as well as crossing up through the centerline. This indicates lots of buying pressure.** The up move should be good for 5 to 7 bars depending on the time frame of the chart. On a daily chart that would be 5 to 7 days, on a 60 minute, 5 to 7 hrs. We must however confirm the move with the other indicators. **For our short positions, we want to find stocks where the MACD is crossing down over the signal as well as crossing down through the centerline. This indicates lots of selling pressure** The down move as in the up move would be good for 5-7 bars. Stocks with MACD crossing up over the signal line but below 0 are in a short term uptrend. Stocks with MACD crossing down over the signal line but above 0 are in a short term downtrend. MACD can also be used to show divergences from price. If the stock price keeps moving up, but MACD starts to move down, the divergence means the stock price is losing momentum.



*We will not however enter a long position when MACD is below the signal line and falling. We always want to wait for the crossover whether MACD be above or below 0.*



**figure 1. MACD for VSEA 1 month daily chart**

Look at the MACD on the 1 month daily chart for VSEA (figure 1.) You can see how the MACD (blue line) first crosses below then above the signal line between the 8<sup>th</sup> and 9<sup>th</sup>. We always want to be on the look out for these crossovers. Price trends usually begin with crossovers. We would not necessarily enter here, first because MACD is below 0, and 2<sup>nd</sup> we need more confirming signals. So we don't ever enter a trade until we have enough confirming signals. (More on that later.) It then moves up with a widening divergence from the signal line (red line), crosses over down, and starts to cross up again. Now look at the price movement. Do you see how MACD follows the price action? Look at the first crossover up, and then check the price. Now we could enter a day trade here, but we are going to set the following rule:

***For less risk, we will only enter a trade on the long side when MACD is above 0, has crossed up over the signal line, is rising and gaining***

*momentum (per histogram) on both the daily and intraday chart 5 day 60 charts. Bias is always to the upside when MACD is above 0. This rule is bendable as far as entering a long trade when MACD is below 0, but be aware that long trades with MACD below 0 contain more risk. Bias is always to the downside when MACD is below 0. We will not however enter a long position when MACD is below the signal line and falling. We always want to wait for the crossover whether MACD be above or below 0. Our settings for MACD are 9 15 5*

Therefore we would consider this stock as a day or swing trade candidate once the MACD crossed "0" or the centerline after the first crossover up. We could enter at the crossover, but MACD is below 0 and therefore our risk level is increased. Do you remember the goal I asked you to write down? Nuff said.

If we entered on the 10<sup>th</sup> we could have exited on the 14<sup>th</sup> when MACD had the most momentum. (note the histogram bar) We always want to exit the trade before MACD starts to lose momentum. We want to sell into strength. MACD keeps losing momentum but also keeps rising; we could hang on until the 20<sup>th</sup>, but would have taken on some additional risk since stock price was becoming overbought. Below you will see why it would be best to exit on the 14<sup>th</sup>.

### **Stochastics**

Stochastics is a leading momentum indicator which measures the relationship between an issue's closing price and its price range over a predetermined period of time. Stochastics will tell you if a stock is overbought or oversold, and also what the immediate short term trend is. You will notice 2 lines (%K %D) which rise and fall depending on whether or not there are more buyers or more sellers. %D is more important than %K, however %K leads %D. A rising %K and %D indicates an uptrend, while a falling %K and %D indicates a

down trend. We want to look for %K and %D to be rising above 20 but below 80. Ideally we want to see both indicators moving in the same direction. This confirms a positive uptrend. There are slow and fast stochastics, both use 2 parameters. There is also full stochastics which uses 3. We will opt for full stochastics with a setting of 6 5 5. This setting is a little smoother than default settings. If the available chart does not have full stochastics we will use slow stochastics with a setting of 6 5. Fast stochastics whipsaw and give too many false signals.



**Figure 2. Stochastics for VSEA 1 month daily chart**

Notice how %K (red line) crosses above %D (blue line) between the 8<sup>th</sup> and 9<sup>th</sup> of September. (Figure 2) Now look at how the stock price trends up following the stochastics all the way to the 14<sup>th</sup>. Do you see how the price dropped on the 15<sup>th</sup>? (remember our first choice to exit above was the 14<sup>th</sup>?) A clue that the price may drop was given between the 13<sup>th</sup> and 14<sup>th</sup> when stochastics went flat, dropping slightly and were above 80. Anytime

stochastics are above 80 they are at extremes, and caution is now the prevailing word of the day. Then there was a crossover down between the 14<sup>th</sup> and 15<sup>th</sup>. Notice how between the 16<sup>th</sup> and the 21<sup>st</sup> stochastics dropped but the price rose. This is a divergence which does not happen very often. Usually when stochastics drop, so does the stock price. You can almost bank on it. From the 21<sup>st</sup> to the 28<sup>th</sup> stochastics kept falling and now so did the stock price. Between the 28<sup>th</sup> and the 29<sup>th</sup> there was another crossover up and the stock price rose once again. We want to see a stochastics crossover up from 20 or above. %K crossing up over % D with both lines rising from above 20. This would be a confirming or buy signal. We want to be wary when stochastics are extremes at 80 or higher. This would be a caution or sell signal. We will now set the following rule:

*We will only enter a trade on the long side when stochastics are rising from above 20 on the daily and intraday charts. This is bendable here. Sometimes when a stock price has a lot of momentum stochastics can stay pegged at 80 or above for a long time. We can enter these positions but must be very cautious and must be aware of any crossovers down. We need to keep a close eye on price and MACD. As long as MACD is rising and gaining momentum we are usually OK. Ideally we want to enter after the crossover and while both lines are rising from above 20. For short positions we want to enter when stochastics crossover down from 80. Our settings for stochastics are 6 5 5 We want to use full or 3 period stochastics as opposed to slow or fast stochastics which both use 2 periods. If we do not have a chart which has full stochastics then we will use slow stochastics with a setting of 6 5.*

**RSI** (Relative Strength Index)

RSI is a leading oscillator which compares the magnitude of a stock's recent gains to the magnitude of its recent losses on a scale from 0 to 100. It measures the internal strength of the stock. Generally, if RSI rises above 30 it is considered bullish for the underlying stock. Conversely, if the RSI falls below 70, it is a bearish signal. We want to see RSI rising between 30 and 70 for a confirming buy signal. If RSI rises above 70 then the stock is considered to be overbought and would now become either a sell signal or a "proceed with caution" signal. Conversely if RSI is below 30 the stock the stock would be considered oversold and this would signify a buy signal. We want to see RSI rising from 30 but below 70 for solid confirmation.

Also watch for divergences between RSI and the stock price. If the stock price is rising but RSI is falling, this could mean a short term downtrend. If the stock price is falling but RSI is rising a short term uptrend could be in the making. We will be using RSI as a secondary confirming signal. Our primary confirming signals will be provided by MACD and stochastics.



**APPROVED**



**Figure 3. RSI for VSEA 1 month daily chart**

On August 10<sup>th</sup> you can see as RSI rises from 30, the stock price rises as well. A steady uptrend within this range would be a confirming signal.

*We will enter a trade on the long side when RSI is rising from above 30*

### CCI (Commodity Channel Index)

CCI is an oscillator that is in effect a gauge which measures a stock's current price in comparison to its statistical mean. CCI will fluctuate between +100 and -100. (on some charts it's +200 and -200). A reading of -100 shows that the stock is oversold, and a reading of +100 shows the stock is overbought. Ideally we want to see the line trending up above 0 towards the +100 mark.

CCI is best used with the monthly/daily chart (1 month 1 day) however; I use it on my intraday charts as well. CCI is also a leading indicator. If the stock price is rising, but CCI is falling, the stock price will most likely fall as well.



**Figure 4 CCI for VSEA 1 month daily chart**

Note rising CCI between 08/08 and 08/15. Also note stock price.

*We will enter a trade on the long side when CCI is rising above 0 towards +100 or +200 on the daily chart.*

### **Support and Resistance/Bollinger Bands**

Support and Resistance levels are our bread and butter. We will determine our profit potential and our entries and exits based on them. Basically support and resistance levels are where the buyers and sellers have a showdown. Nobody wins and like the "Black Knight" scene in "Monty Python and the Holy Grail", we say...."Ok, we will call it a draw". (Haven't seen that movie? Put this course away, and go rent it now.)



**Figure 5 Support and Resistance for AAPL 1 month daily chart**

On the daily chart for AAPL the last closing price was 45.74. Now let's determine support and resistance from here. What I normally do is look across the chart at all the opens, closes, highs, and lows. I then look for a common line and take an average in my head. This line would consist of opens, closes, highs and lows. With the price at 45.74 we could say that resistance is at 46. After 46 we have resistance around 46.30, 46.50, 47, and 48.33 which is a key resistance level since it is the 52 week high. Once this level is broken, you can almost bank on the stock price going higher. We now must determine support. Look from left to right. See all the opens and closes at around 44. There were some highs above 44 as well. The big picture though shows 44 would be support on average. Now there would be closer support and resistance if we would use an intraday chart. We would be

more concerned about intraday s/r levels for entries and exits. If we were to put on a trade here, we first would want to see 46 broken again, then buy there or a little below on a retrace is possible. Our target exit price could then be 47 giving us a profit potential of 1.00. Of course we would not be putting on any trade until we had enough confirmation.

### **Bollinger Bands**

I sometimes use Bollinger Bands as support and resistance cheat sheets. They can be good for longer term s/r levels. They also show if a stock is overbought or oversold. If the stock price is near, touching or above the upper BB, it is said to be overbought, if it is doing the same at the lower BB it is said to be oversold. The bands are self-adjusting and widen during volatile price action and contract during tighter trading ranges. An increase in price action may follow a tight narrowing of the Bollinger Bands.

## ***Putting it all together***

My system uses the following:

- ✓ MACD
- ✓ Full or slow stochastics
- ✓ RSI
- ✓ CCI
- ✓ Bollinger Bands
- ✓ 20 SMA
- ✓ 4 and 7 SMA
- ✓ Increasing Volume

I trade high beta stocks with most being from the semiconductor sector. I look for stocks that move at least a point a day. I primarily trade a handful

of stocks that I know very well. One stock that I trade repeatedly is VSEA. I have traded it many times in 3 years and have had very few losses with it. I have traded it both long and short.

This following is my nightly routine:

I will check a stock on a monthly/daily stock to get the big picture. I want to see if it is trending up, down, or sideways. Trends usually last 5 to 7 bars/days on a monthly. I will look at the last 5 days/bars. I want to see an uptrend with at least 1 higher high and higher low preferably 2. I then want to make sure of the following:

- MACD is trending up above 0 crossing up over the signal line with histogram bars getting taller.
- Stochastics %K is rising up and crossing over %D with both lines rising from above 20.
- 4/7 SMA crossover
- RSI is rising and is between 30 and 70
- CCI is rising above the 0 line towards + 100. (+200 on some charts)
- Stock price is at or above the 20 DMA
- Stock price should be in the middle to upper range of the Bollinger Bands
- Increasing Volume
- Pending News

I try to confirm the trend with as many momentum indicators as possible, but primarily focus on MACD, and slow stochastics. I use RSI and CCI as secondary confirming signals. Once everything looks good on a monthly, I then focus on the 5 day 60 intraday. This will tell me what the stock price is most likely to do the next day. I want to see same setup as I see on the monthly/daily. Again, the trend will last 5 to 7 bars, or hours on the 5 day

60. In order to plan my entry and exits, I first determine profit potential by finding support and resistance levels on the monthly daily and 5 day 60. If a stock is trading at support at 20.00 and resistance is at 21.00, the profit potential is 1.00. Because the price action tends to get volatile at resistance I will not take the entire 1.00 but 70% of it. (I want to get out before resistance because things tend to get volatile there) I also have my stop in place which is usually a little bit below the next support level. (there are many ways to use stops. Always use real stops and not mental stops, since you tend to talk yourself out of them) My planned exit would then be \$20.70.

I fine tune my entries and exits by using the 2 day 15, 10, 5, 3, 1 minute intraday charts along with Level II. I usually can get within pennies of the high of the day or at least the afternoon. I want to enter as 5 day 60 indicators are rising. I want to see the same in the 2 day 15 min chart. (the 2 day 15 min chart leads the 5 day 60) I then drill down to 2 day 5 and 3 min charts and wait until they bottom. When 2 day 5 is just about bottomed I will then look to buy when 2 day 3 starts to turn up. I have a rule: Never buy when 2 day 5 and 3 min charts are high, never sell when they are low. Wait on them if need be. If entering and they do not bottom, then do not chase.

If I entered this trade at \$20.00, I could put a sell limit order in at the time of the trade for \$20.70 or watch the momentum indicators on the intraday charts for more profit. I may want to take some profit at 20.70, put in a stop, and let the rest run. It all depends on the circumstances. Is the Market strong, (I also chart out the COMP (^IXIC), and watch the TICK and TRIN) is the stock gaining momentum and volume etc.?? ***I always want to exit my trade before MACD starts losing momentum, and sell into strength.*** I watch the 5 day 60 and 2 day 15 min charts. When MACD and stochastics are topping out on both, I then look to exit. I drill down to a 2 day 3 minute chart

and make sure that is topped out as well. All the while, I am watching bid and ask prices that are coming up on level II. I then put my limit order in for the price that I think I can get. ***Always use limit orders. Only use market orders if you need to get out of a trade in a hurry.***

The bottom line is that I try to take as much risk out of a trade as possible. I take smaller, but consistent profits. I take no chances, but take no prisoners either. This is a very low risk trading system but may be adjusted to fit your risk tolerance.

Example of a recent Swing trade:



## Figure 6 VSEA 1 Month Daily The Perfect Storm!

You can see on 8/11 (Figure 1) that in the 5 day price trend there were higher highs and higher lows, volume was increasing, stochastics had a crossover up, MACD had a crossover up. There was also a 4/7 crossover up. RSI and CCI were also rising. Support was at 43, resistance was 44. Next resistance was 44.20 (52 week high) then 45 which you need to see on a 2yr weekly chart. First price target was 44, second target was 45 depending upon the strength of the indicators and if indeed 44.20 resistance was broken. All the confirming signals were there. Crossovers are the key. Trade entered on Monday 8/15 at 43.30 (stop in place at 42.45, support at 42.50, gave some breathing room here) and exited on Tuesday 8/16 at 44.70. We want to look to enter when indicators are rising, and then sell into strength as they top out and before they begin to weaken. When entering or exiting, we want to see the same setup (or as close as possible) on the 5 day 60 and 2 day 15 minute real time charts.



**Figure 7 VSEA Intraday 5 day 60 chart**

On the 5 day 60 chart (Figure 2) note stochastics rising and the MACD crossover up around 11:45PM on Monday. The entry was made here at 43.30. Indicators started to weaken toward the close, but I did not sell due to the strength of the daily chart, and also because 44.20 key resistance was indeed tested and broken. Then on Tues note another stochastics crossover up with rising MACD. The trade was exited here, selling into strength at approximately 9:33AM at 44.70, below 45 resistance and before indicators lost momentum.

**We take profits as they are handed to us. We don't want to over stay**

our welcome. We want to make trading as mechanical as possible as to take the emotions out of it. We enter and exit the trade when the indicators tell us to do so, or when our profit objective is met. Emotions will cause us to lose profits every time. Fear and Greed rule the Markets. Overcoming that duo is not easy. It takes practice, patience and dedication. Follow the rules and you will prosper.

By the way....whatever happened to that Yahoo guy anyway??

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## More stuff you need to know

### Candlestick Charting

Review at <http://stockcharts.com/education/ChartAnalysis/candlesticks.html>

### Chart Patterns

Review at <http://stockcharts.com/education/ChartAnalysis/index.html>  
<http://clearstation.etrade.com/education/cover.shtml>

### TICK and TRIN for NASDAQ (USQ TICK, USQ TRIN)

Review TICK (Index) and TRIN at <http://www.investopedia.com/dictionary/>

### Stop Loss

Review Stop Loss at <http://www.investopedia.com/dictionary/>

### Money Management

Review Money Management at <http://www.investopedia.com/university/tm/MoneyManagement/MoneyManagementPart1.asp>  
<http://clearstation.etrade.com/education/cover.shtml>

### Trading platform and real time charting

Download free beta version of Quotetracker [www.quotetracker.com](http://www.quotetracker.com)

## Online Broker

Sign up for free Scottrade Demo Account.

<https://www.scottrader.com/agreements/register.asp>

## News

[www.briefing.com](http://www.briefing.com) [www.cnnfn.com](http://www.cnnfn.com) [www.marketwatch.com](http://www.marketwatch.com) [www.cnbc.com](http://www.cnbc.com)

## Fundamentals

<http://finance.yahoo.com>

<http://moneycentral.msn.com/investor/srs/srsmain.asp?Symbol=EBAY>

*Look for stocks with a rating of 6 or better.*

## Charting note: parameters for indicators can not be changed

Setup [www.bigcharts.com](http://www.bigcharts.com)

Plug in any ticker symbol then click "Interactive Charting".

After that, setup the following,

Time Frame

1 month 1 day

Indicators

Moving Averages

SMA 3 line. then put in 4 7 20 in the box to the right

Upper Indicators

Bollinger Bands

Lower indicator 1 MACD

Lower indicator 2 Slow Stochastic

Lower indicator 3 Toggle between Volume + and RSI

Chart Style

Price display Candlestick

Chart Background Default

Chart Size Medium

Then click "store chart settings"

Then click draw chart. Make sure MA's at the top of the chart say 4 7 20.

Sometimes it doesn't take and you need to re-enter them.

If you do not see these choices, there are little orange triangles next to Time Frame, Indicators and Chart Style. You need to click on them, and the drop down boxes will become visible.



**Mentoring available via Yahoo or Windows IM. Please contact Bob at [woodmanblues@hotmail.com](mailto:woodmanblues@hotmail.com) for further details.**

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