

This tutorial was originally titled "Secrets to Successful Short-Term Trading" and was recorded at the Online Trading Expo

Day Trading Wizard

Using High Probability Support and Resistance Levels

with Tony Oz

We have discussed the importance of research, strategy and execution to successful trading. Here are some of the points you should include in each one of these stages.

Analyze the overall market first. You must know the direction the market is going in. It is good to take a look at the daily chart of both the Dow and the Nasdaq and see where short term support and resistance levels lie. Write down these levels and monitor them throughout the trading day.

Analyze which sectors are strong and which are weak. You want to be the strongest sector in a bull market and the weakest sector in a bear market. Monitor the money flow from one sector to the other.

Once you have a CLEAR idea as to which direction the market is going and which industry is the one to be long or short, analyze individual stocks and write out a trading plan for each candidate you have. Follow the guidelines featured in the video.

Always trade in your comfort level and do not put all the eggs in one basket.

Adhere to your trading plan's price targets and stop loss. Sell at least a part of your position at your price target to put yourself in a win/win situation.

If a stock gaps up over your entry price, do not chase it. If you still like it try and buy a pullback.

In choppy markets, take quick profits. In trending markets, squeeze your winners. Be diversified if you are taking overnight positions.

While managing your trades, keep an eye on the major indexes, including the bond market.

When your position is in the money, move your stop to break-even. do not let a profit turn into a loss. "In the money" is different for each and every stock, depending on volatility. For instance, being up a point or two on JNPR is not really being in the money, because the stock can move 20 points in 10 minutes, so a one to two point movement is a must wiggle However, being up a point on a stock like CSCO or MSFT means that you are in the money, so do not let that position turn into a loss.

Trail your stop with a logical risk reward ratio. For instance, if you buy XYZ stock at 75 and your price target is 95, and the stock is trading at 90, you can't let the stock fall back to 80.

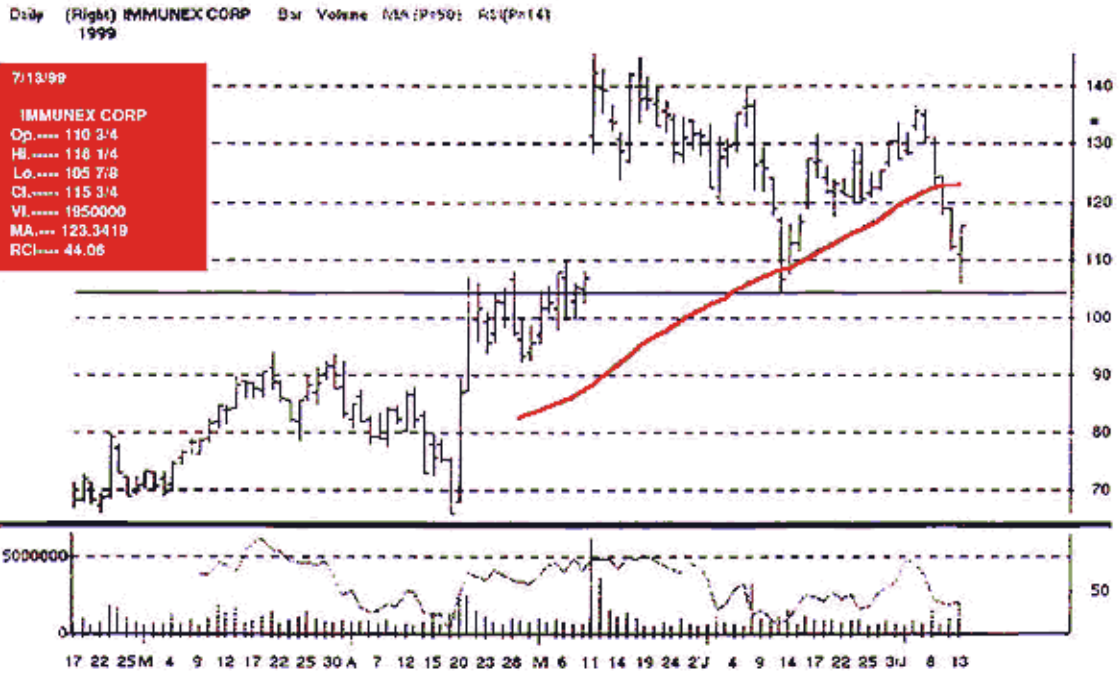
You can't risk 10 points to try and capture 5 points. In this case, I would be stopped out at 87-88 1/2 depending on the volatility of the stock and if I feel that the stock may go over 95.

Time stops are to be placed as well. This has to do with the opportunity cost of sitting in a trade for a longer period of time than the time frame you have allowed for the trade.

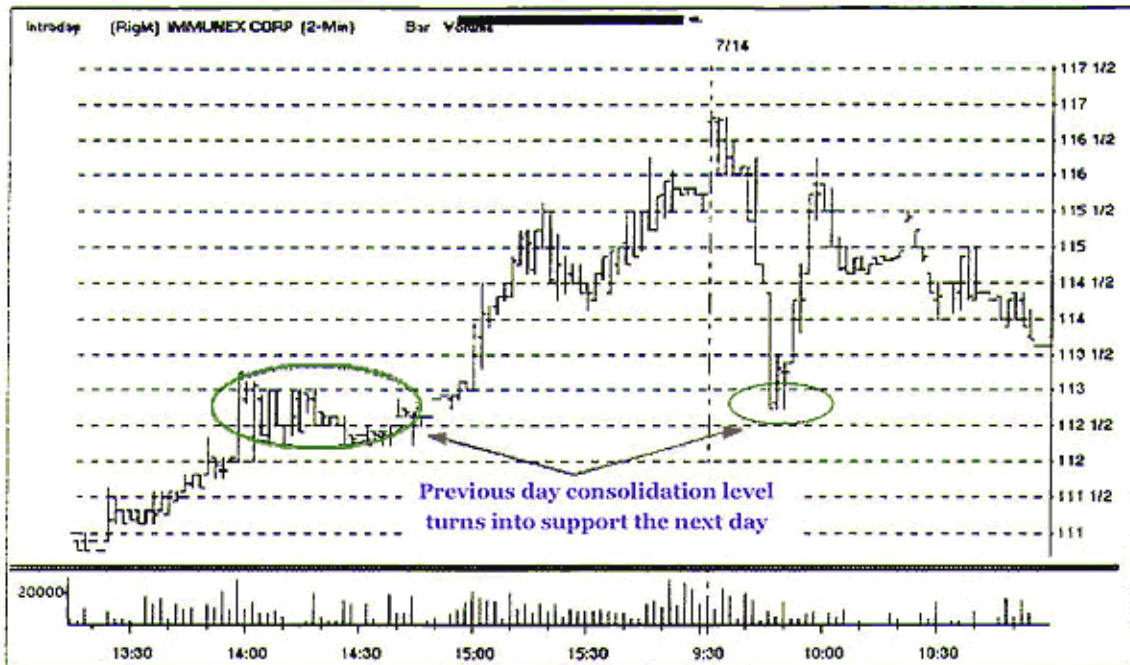
Entry Points

A good entry point makes a trade much easier. There are two basic types of entries I look to make. Buying at intraday support levels, or once a stock traded at a higher price than the previous day's high (or a lower low, for a short position, and/or shorting at intraday resistance levels.)

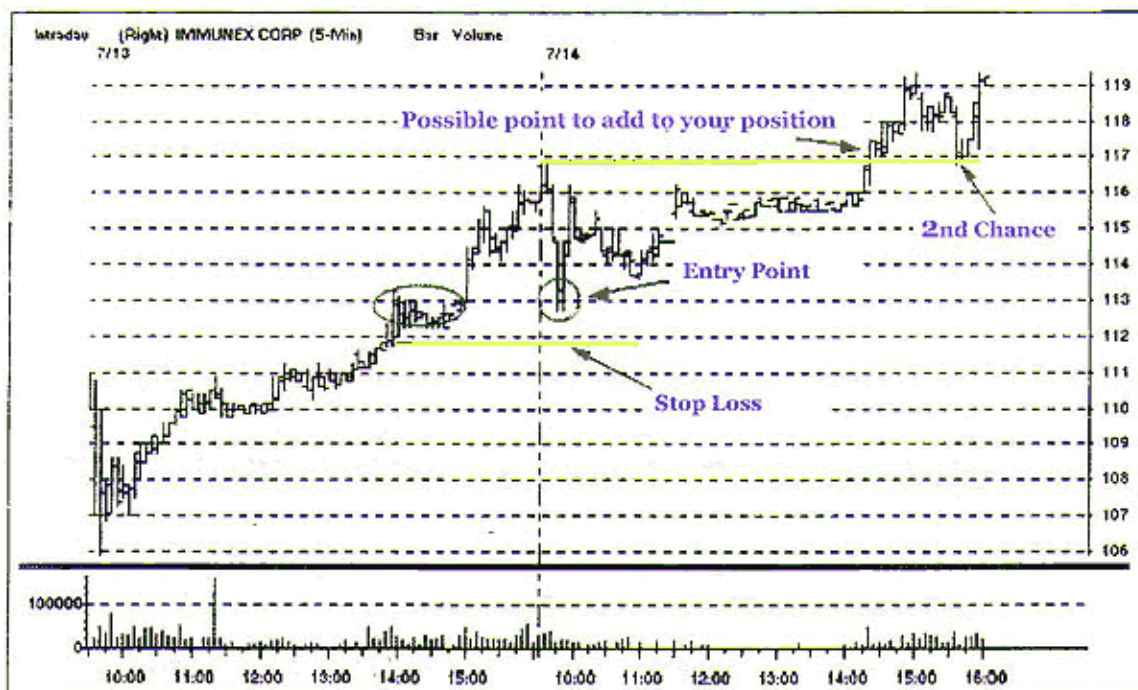
Let's look at IMNX It had a reversal day on big volume, closed at the top of its trading range and looked good for a long position. The chart below is the exact same chart as I saw while doing my research.



We will use a multi-day intraday charts to find support and resistance levels. The next chart will show the entry points.



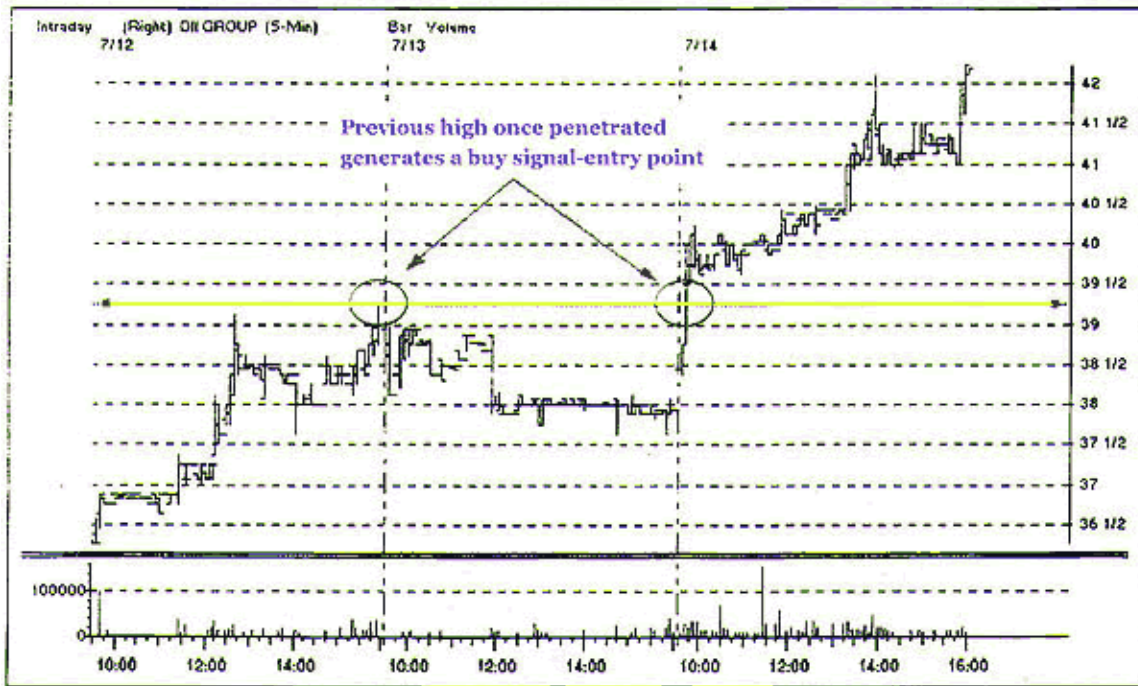
IMNX gaped up open the next day and sold off. In this case, we can identify a consolidation period between 112 1/2 to 113, the previous trading day. This consolidation period which was resistance for the stock, becomes support, once it is successfully penetrated and tested again. These are TA rules (theories). So if you find a stock you like, you should look at an intraday chart and identify where support and resistance levels are and plan your entry accordingly.



The second common question is, where to set the stop loss? This is the 100 Million dollar question, however, I normally like to place them just below support as shown in this case. The second entry point will normally be at the breakout point, or the pullback from the breakout, as shown in the chart above. The stock went up to 130 1/2 three days later.



DIIG had a 52-week breakout. Here is what happened the next couple of days.



The next day, the stock did not trade higher than $39 \frac{1}{4}$ which was the previous day's high and 52-week high. It was trading in a range between $37 \frac{3}{4}$ - 39 . The following day, the stock took off in the morning and traded higher than $39 \frac{1}{4}$, and continued to $42 \frac{3}{8}$. In this case, it was a great play to buy the breakout. The stock continued its move up and hit 45 the next day. These are the two strategies

I normally use to enter position support levels or over resistance levels. many professional traders like to buy a stock once it trades higher than the previous day's high. I use both methods.

Classic Times

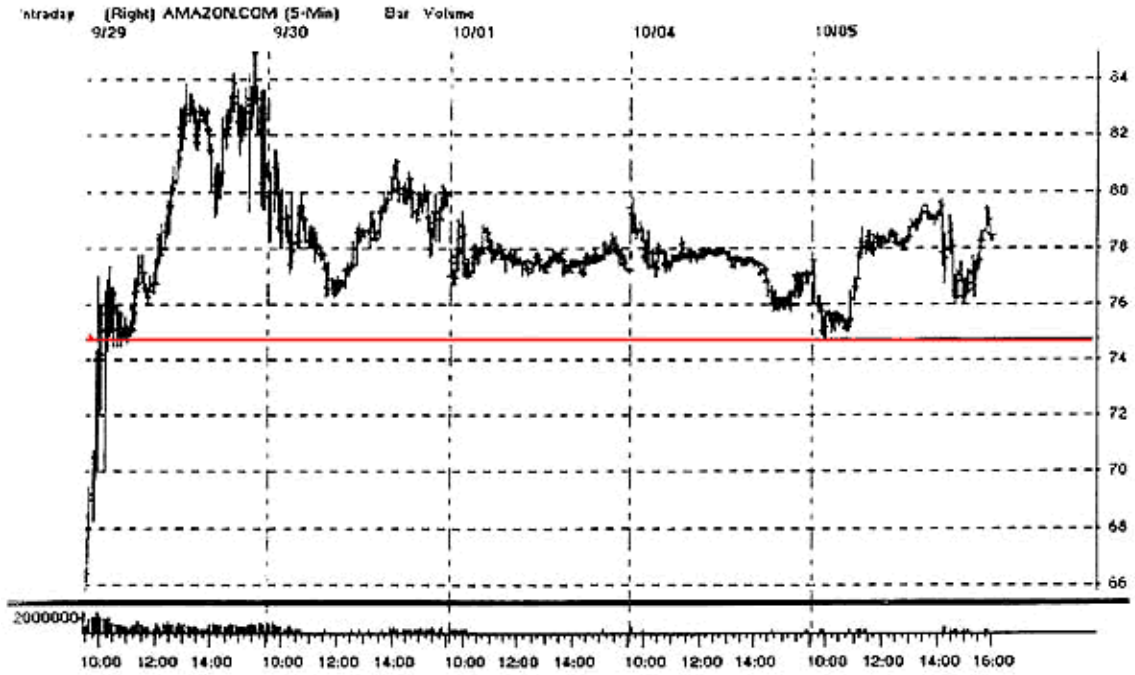
Trading the open is always dangerous. However, in today's market, most stocks run out of the gate at the open and make the biggest part of their move, early. The S&P futures play a major roll as to the open of the market. The first half an hour is very volatile. The key time of the day is at 10-10:30 EST. This is the time that reversal may occur. A pullback is likely, so if you missed you entry point, look to buy on this pullback.

If the market holds its initial direction, then the initial move from the open is real and the trend for the day might be strong. I like to enter my positions between 10-11:30. Then comes lunch time when things slow down, but I am still alert, looking for potential plays. This will be the time, where I will run my intraday scan and look for possible entry points for different candidates.

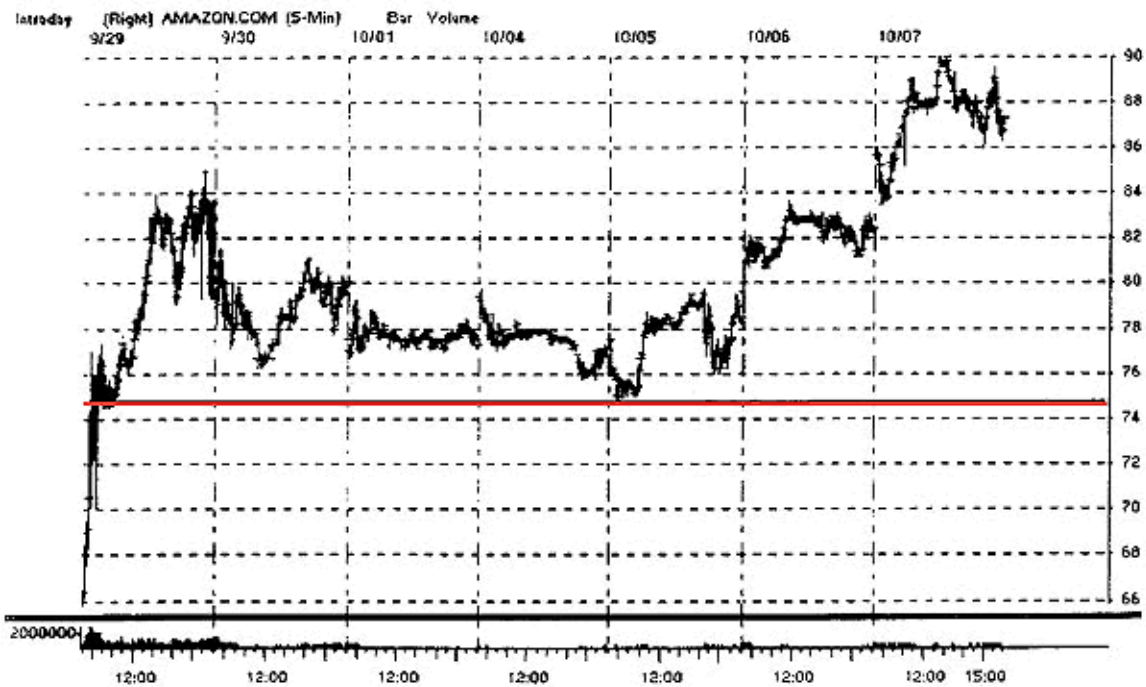
Following lunch time around 14:00-15:00 volume picks up and stocks are moving. The last hour is where program trading can kick in, volatility increases and the last 20 minutes will clue us in as to where traders are positioning themselves going into the next trading day.

During all of these times, you should monitor the support and resistance levels for the major indexes and see if you can make a high percentage trade.

Recent Trades



AMZN had a big day on 9/29/99 and sold off the next three days. On the fourth day, 10/5/99, AMZN hit 75, which was the price I was looking to enter a long position. I entered the stock at $75 \frac{1}{4}$, my stop loss was at $4 \frac{1}{4}$ and my price target was 90-95.



AMZN went all the way up to 90. and sold off back to 86 1/8. I was trailing a stop and got out at 88 1/4. I was waiting for the stock at 86 1/16, but it missed me, as it only went down to 86 1/8.



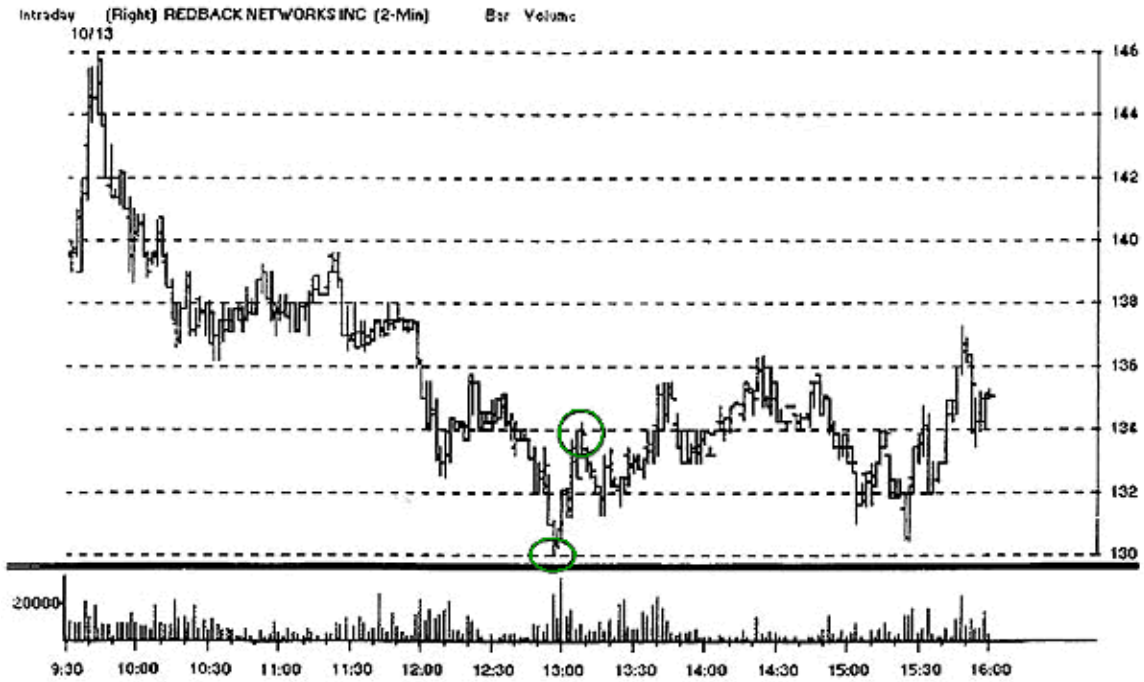
Note that support was at 86, but I was willing to pay a 1/16 more at 86 1/16. but the stock stopped at 86 1/8 and went up to 89 1/2. In hindsight, I should have

had my order at 86 1/4.

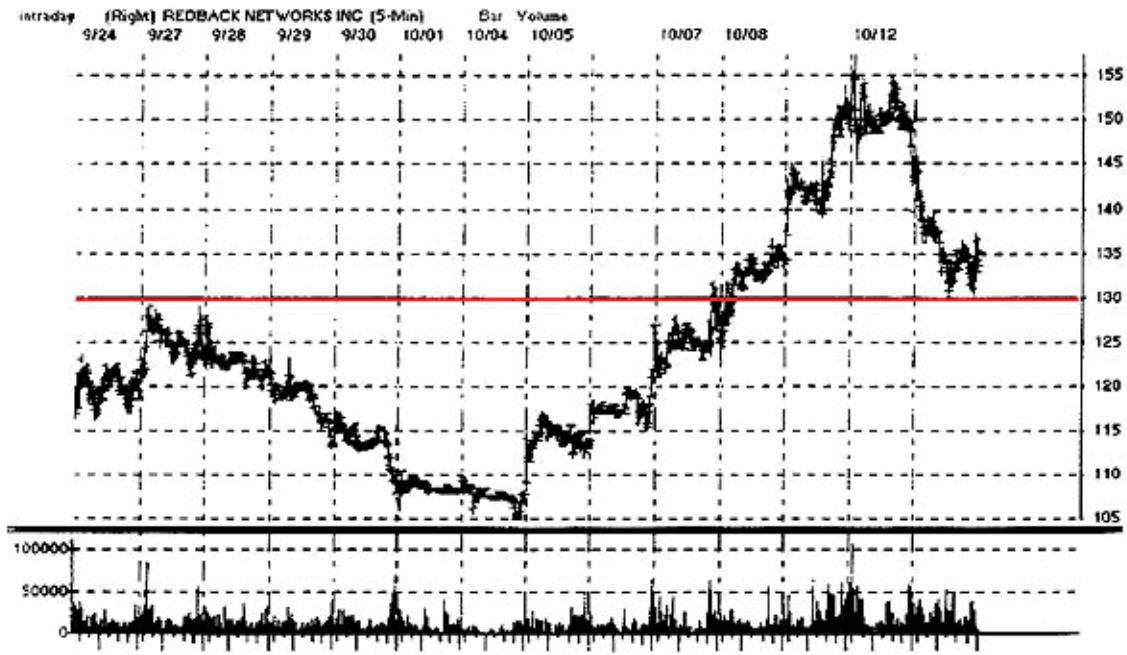


Here was another great entry. AMZN gapped up open and sold off. It hit $83 \frac{1}{2}$, which was the previous day's high. Resistance became support in this case and AMZN bounced at that price and gained $5 \frac{1}{2}$ points in 40 minutes.

The art of playing support and resistance can be seen in the following intraday trades. On 10/13/99 RBAK sold off and hit 130 on the low. I entered RBAK at $130 \frac{3}{8}$ and sold at $133 \frac{7}{16}$ five minutes later. Notice the volume spike where I entered, which was a good sign for a short term bottom. The circles show my entry and exit.

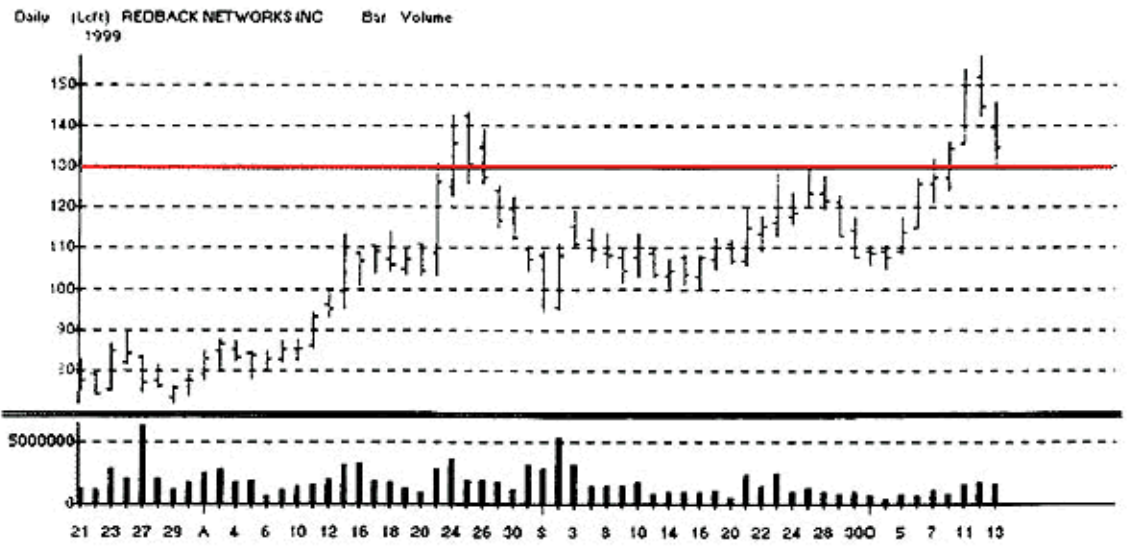


If you want to know why I bought where I did, look at the chart below.



130 was resistance on 9/27/99, it was successfully penetrated on 10/8/99, and held once tested again on 10/13/99. I was only looking for the quick bounce play, so I got out with 3 1/16 quickly.

Here you can see the daily chart, which was what I was looking at, at the time.



You can see the 130 top becoming support, once tested again.



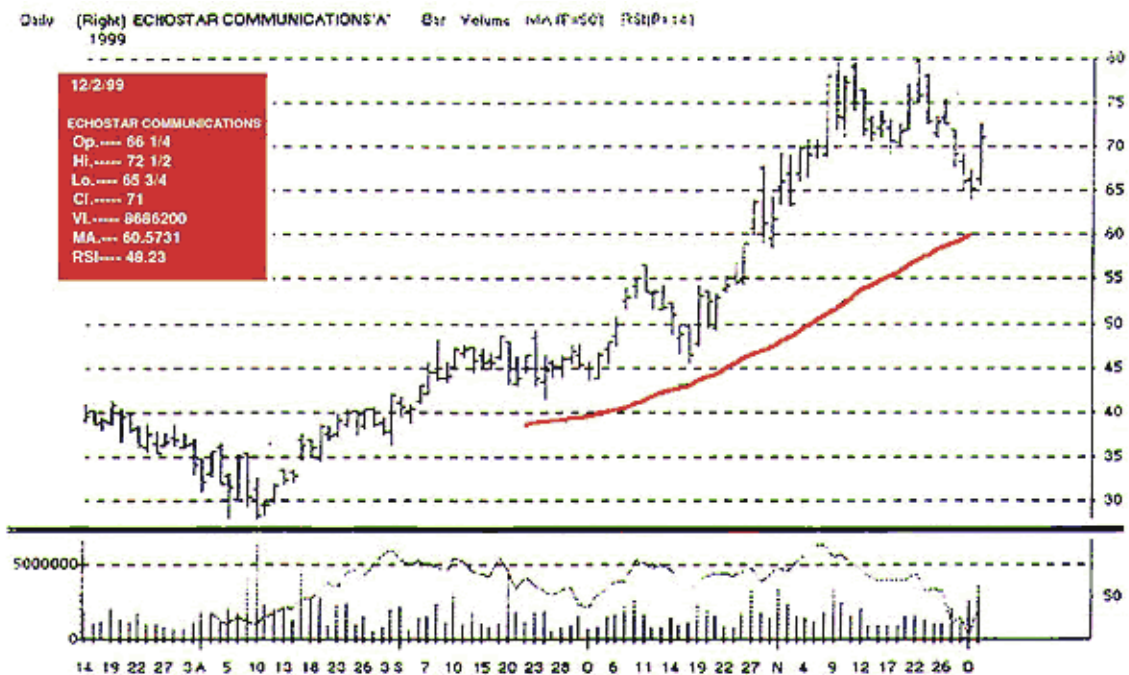
PHCM had a monster day on 10/13 and sold off from a high of 226 to 213 1/4. I entered the trade at 213 9/16 and sold it at 216 9/16, three minutes later. I had my order in and got a fill once the stock fell down hard. It is tricky to play these fast movers and stand at the face of a selloff trying to catch a falling knife. You need to be quick and experienced in order to execute these trades. Study them, paper trade them, before you put your money in.



Here is one that didn't work quite as well as the other did. I bought this one at 95, as the stock pulled back from 100 3/4. I was expecting a bounce back to 98 plus. The stock immediately went back to 96, but did not have the strength to go higher. It went below my purchase price and I sold it at 93 7/8, which was my stop loss.

In Depth Case Studies - December 1999

DISH - Setup



DISH had a strong up day on higher than average daily volume. From the look of the chart I felt that DISH could realistically challenge the all time high at 80.

Trading Plan

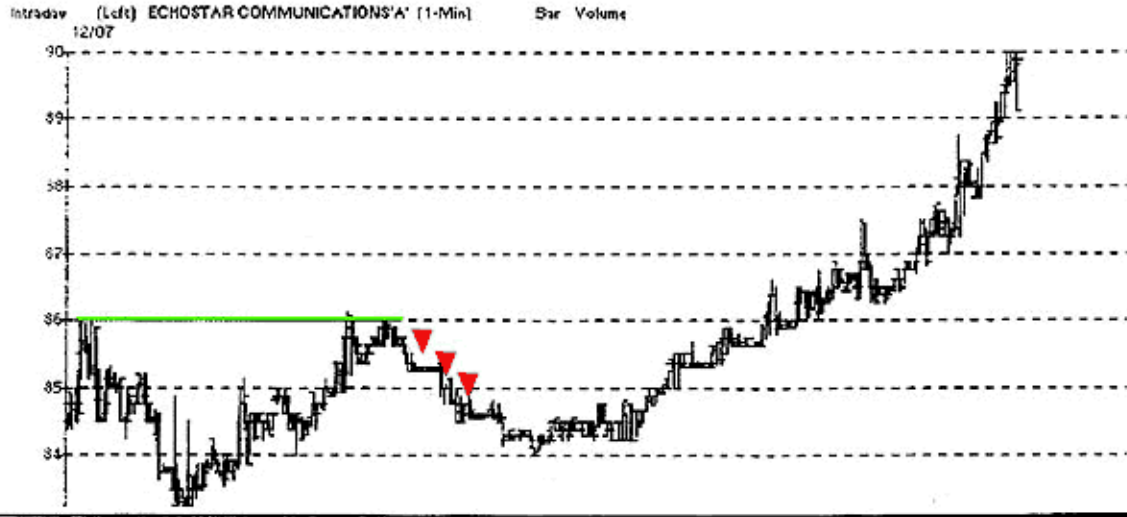
Stock Symbol	Current Price	Target Price	Time Frame	Entry Point	Stop Loss	Risk/Reward
DISH	71	90-100	2 Weeks	72 3/4+	69 5/8	5.5-8.7

My desired position is 400-1200 shares. I will be looking to buy the stock in phases as it proves itself to be strong. Resistance is at 80, but I feel that the strength of the market should help DISH penetrate the highs and set new highs. I expect the new high to be 12%-20% higher than the high at 80.

Trading the Plan



DISH gapped up at the open. I am waiting to see if it will pull back. It did trigger my entry price, but it opened almost two points higher than it closed, so I decided to wait and observe the action. The stock was strong and after a minimal pullback, it went up to 75. I bought 500 shares at 74. The stock pulled back and was holding together. It was on pace to trade 7 times its average daily volume and DLJ was a serious buyer all day long. I bought another 200 shares at 74 1/8. I bought an additional 200 shares at 75, and I bought another 300 shares at the close at 75 1/16. The stock closed strong on seven times average daily volume. I felt that it was an 80% chance trade to be able to sell the stock at a higher price the next trading day.



DISH again gapped up and went up to 85, and closed at 83. Let's look at what happened that day in more detail.

Intraday Technical Patterns



The stock opens around 77 and trades down to 76. It bounces back up to 77 and loses steam, It looked like a double top was forming, so I sold 2/3 of my position at 76 9/16. My strategy was that I was willing to sacrifice a point or so and buy if it was to trade higher than 77 1/2. And it did. I tried to buy back 400 shares, but I only got a partial fill of 315 shares at 77 7/8. Once DISH broke out of the ascending triangle, I bought 400 shares at 78 7/16. The stock seemed to have

some problems at 79, so I sold 315 shares (I hated that odd-lot) at 78 15/16. The stock then took off and went to an all time high at about 85. I was waiting for a pull back, and I bought 400 shares at 80 3/8. The stock went up to 83 1/2 and came back down, so I sold 200 shares at 82. I went long 1000 shares overnight.

Here is what happened next:



The stock goes up to 86 and is trading down. It goes back up to 86 1/8 and it goes down again. I was afraid of a double top pattern so I started selling. I sold 600 shares at 85 9/16. I sold 100 at 85 and 300 at 84 3/4. I was planning on buying back my position if the stock traded over 86 1 1/2. And it did. In fact it went to 90 and 98 the next day. However, I did not buy back into it, because YHOO just popped on my screen and I was trading YHOO at the time. We will look at YHOO next, but first let's study DISH further.

3 - Day Look



Next Day Support Play



The perfect entry on 12/9 was $86 \frac{1}{2}$ which was $\frac{3}{8}$ higher than the $86 \frac{1}{8}$ top from the previous day, early morning resistance levels. You had to have your limit order to buy at $86 \frac{1}{2}$ in place before the stock came down to that level, because the bounce was very quick. This bounce was good for $8 \frac{3}{4}$. Let's look at the final numbers of this trade.

Stock Symbol	Position Taken	Share Number	Avg. Entry Price	Avg. Exit Price	Time Held	Profit/Loss
DISH	LONG	1200	See Report	See Report	3 Days	+\$9,975

Although I did buy and sell more than once. I look at this trade as one round trip. In hindsight, if I would have held the original 1200 shares I bought and sold at 85. I would have made about \$2400 more than I did. The next example will show why I did not enter DISH again.



YHOO was running really hot and I was watching it very closely. It hit 330 intraday and was pulling back to 315 where it found a bottom. It then traded up to 325 and back down to 318. The 318 bottom was higher than the 315 bottom and I was looking to see if YHOO can trade higher than the previous top at 325. I bought 200 shares at 326 5/16 and I went on one of the wildest rides I have had in my trading career. I sold the stock at 348 7/8, 12 minutes after I bought it. I made 22 9/16 in 12 minutes, which was VERY exciting.