

# The Wizetraders'

## Guide to Effective Day Trading

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# Foreword

I had the pleasure of speaking about day trading at WizeFEST 2002. After the convention I prepared a small document addressing the subject of proxy Wizemen and have since received numerous phone calls and e-mails. First of all, there is obviously considerable interest in day trading. Secondly, based upon the questions that I am asked over and over, traders want very specific answers to a multitude of questions. The purpose of this expanded publication is to answer many of these questions which I receive daily. It's really a short course in day trading with WizeTrade, and it is my sincere desire to bring everyone up to speed in the art of day trading. Yes, day trading is an art. There is a sixth sense, or a rhythm to day trading. Those who have it do better than those who do not, but everyone who applies the principles outlined in the next few pages has to potential for consistent success in this endeavor.

There is another reason for writing this publication. Since Wizefest, I continually hear references to Mel's Method. What I have been recommending is not a trading method, but alternative chart settings. You will discover, after looking through this material, that I use many trading methods or systems. Day trading need not be a haphazard, frantic occupation and, maybe together, we can take some of the mystery out of short-term trading.

Some of you are already master Wize traders and are hauling in thousands of dollars everyday. You probably know most of the following information and have mastered the techniques needed to execute your favorite trading strategies. If that is the case, just reach over and press the delete key on your computer. I know that I have learned a lot compiling this information, which has forced me to rethink the whole trading process and, gain new perspectives in regard to the day-trading profession. I believe that everyone will gain new insights into trading after reading this e-book. In fact, there is information contained herein that I guarantee will be new to every one of you.

I hope to follow-up this project with an update when the situation warrants. In the meantime, I wish each of you immense success at your chosen full- or part-time profession.

Mel Raiman

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# 1: Let's Take Care of Business

## Day Trading is a Business

This first chapter is where we take care of some business before getting to the good stuff. I'm aware that some readers are new to Wizetrade as well as new to day trading. So here we go: trading on-line is fun, it's just like a computer game with one major difference, there is a lot of money at stake. So, unless you have money to burn, you had better approach day trading as business. I realize that many readers want to get to important subjects such as which light should be used to exit a trade, but if you have never run your own business, you need to hear it.

## Record Keeping and the IRS

Investing is not a business according to the IRS. If you are an investor, holding stocks for years at a time (buy and hope), then you are required to pay capital gains. Trading, however, is a business and the people who work in the field are called traders. If trading is your full-time occupation, you should be registered with the IRS as a "Market to Market Trader." As a registered trader, your income is simply ordinary income and you have a wide range of allowable business deductions. Also, the filing process is actually far easier. I found the forms on the IRS web site, printed them out (search for *market to market*), and attached them to my tax return; it's just that simple to register.

Secondly, you need records, unless you enjoy audits. At the market close, every day, I fill in my trades on Microsoft Excel. When tax time rolls around, I print out all of the trades and attach them to my return. Why audit me? I've already supplied all of the information. If you supply the brokers statements, you may have a problem since they are not formatted as round trips, that is complete trades. I wrote two formulas, one for longs and one for shorts, and simply fill in the boxes every day. It takes just a few minutes, but my records are ready at tax time.

Type	Stock	Share	Price	Date	Fee	Date	Shares	Price	Fee	P/L
SHORT	NTAP	2000	\$11.21	07/10/01	\$7.00	07/10/01	2000	\$10.80	\$7.75	<b>\$834.75</b>
LONG	OPWV	2000	\$21.21	07/11/01	\$7.00	07/11/01	2000	\$21.40	\$8.43	<b>\$364.57</b>
SHORT	NTAP	2000	\$10.46	07/11/01	\$7.00	07/11/01	2000	\$10.41	\$7.71	<b>\$114.71</b>
SHORT	GDT	2000	\$29.81	07/11/01	\$12.00	07/11/01	2000	\$29.40	\$8.99	<b>\$840.99</b>
SHORT	MRL	2000	\$16.21	07/11/01	\$12.00	07/11/01	2000	\$16.10	\$8.09	<b>\$240.09</b>
SHORT	NETA	2000	\$10.36	07/11/01	\$17.00	07/12/01	2000	\$10.36	\$7.11	<b>\$24.11</b>
LONG	NETA	2000	\$10.71	07/11/01	\$14.00	07/12/01	2000	\$10.95	\$17.00	<b>\$449.00</b>

## A Little Common Sense Can't Hurt

I'll leave cash management to other sections of the publication and other people's books. You do, however, need a modicum of common sense, perhaps a touch of fear. A few weeks ago I trained a new Wizetrade user. She called me a few days later and thanked me for recommending a stock. It turns out she made \$2,200 trading 10,000 shares of a \$2 stock. There is not doubt that the potential for profit is greater, the more shares you hold, but so is the risk. Personally, I hate to paper trade. If I'm trying a new trading method, I'll trade 100 shares, that makes it real money. If it goes against me a dime, I lost \$10, not \$100. On the other hand, I generally don't exceed 1000 shares on any trade, perhaps I'm just a coward, but I've had too many trades go against me over the years. I can't stand the pain, but I can stand a little while a stock does a brief retracement (and Aussie Rob says stocks are boring). So, if you are new to trading, or new to Wizetrade, make your first real trades with just a small amount of shares. This will keep you out of trouble. I believe that all of the experienced Wizetraders have already discovered that Wizetrade is not that easy; Wizetraders must make a lot of decisions and maintain a mental image of eight charts plus a lot of other information. I should mention, however, that Wizetrade is the finest trading platform bar none. The information the trader receives cannot be matched by any other trading system.

## **2: Day Trading**

### **Precision is the Key**

#### **Day Trading is More Than A Time Frame**

I assume that you are either already a day trader or are considering day trading if you are reading this e-book. Day trading is unlike other trading methods where the various time frames often define trading styles. For example, position traders often hold stocks for months, intermediate traders for weeks, and swing traders for days. Day traders, however, cannot be characterized as holding stocks for one day. There are instances calling for a trade that lasts just a few minutes, or perhaps a few hours. I have had profitable trades last just seconds. I think you get the idea; day trading is a catchall term that encompasses many different trading strategies which take place within a one-day trading period. There will be instances in which what began as a day trade develops into a swing trade, and other possibilities for overnight holds, but in general, this publication addresses day trading strategies.

As you read about the multitude of strategies and tactics that day traders use, (you can't use them all), it will be your decision to adopt those, or the one, that best fits your temperament. Many day-trading strategies are presented in detail which include chart settings, chart interpretation, execution of the trades, and most importantly, how a trader finds trades, or the best stocks to trade for a particular strategy. New strategies appear all the time, so please let me know if you have something you would like to have added to the next version of this publication.

Traders who are most successful are specialists who use just one or two trading techniques and become experts in their execution. Focusing on one or two strategies will bring repeated success. Every time someone brings out a new strategy, we run to it, hoping for the magic bullet. Well, I have not found any magic bullets, but I have identified a number of tactics that bring repeated success. Knowing how to execute a particular strategy and being able to find the stocks that are ready to move when you want to trade is the most difficult situation facing most day traders. The bulk of the messages that clutter message boards has to do with finding or identifying trades. At various times I have traded in a network of trading buddies using instant messaging. I heard over and over: "have you got a trade," or "I need a trade." The good news is there are now some highly effective techniques for identifying stocks that are ready to trade—whenever you need a trade. I think you will enjoy and profit from these new developments in finding stocks that are about to, or have just begun to rally, long or short.

There are numerous advantages to day trading as well as disadvantages. Because day traders make more trades than, say, position traders, there are more opportunities for error. Another disadvantage is that day traders often miss the really big moves that some stocks make. Therefore, some day traders let successful day trades develop into swing trades. Confirmed day traders, however, always close their positions before the market closes. An advantage to day trading is not holding stocks overnight. In this market, anything can happen which might cause stocks to gap against you at the open. I am wired as a day trader and just hate worrying about a position when the market is closed.

Finally, if you wish to day trade, you should be willing and able to sit in front of a computer all day and monitor a trade. If you cannot, then you can trade in the intermediate or long-term time frames.

#### **You Must Have Goals and a Little More about Cash Management**

All trades have goals. If you have a J.O.B., then your goal may be to simply make a little extra now and then. Of course, if you have a J.O.B., then you probably should not be day trading. If your goal is to earn a specific amount each day to build a retirement nest egg, pay some of your bills, or provide a regular income, you can easily compute what you must average each day to accomplish this goal. There are 240 trading days in the calendar year. If you want to earn a gross income of, for example, \$50,000 per year, then divide this sum by 240 which is \$208 per day. To this you must add your trading costs. If your round trip is about \$15 and you make an average of one trade per day, then you must average \$223 per trade. Now, use this information in your cash management. Let's say that you find a great trade and are about to put on a trade. Suppose you buy 100 shares—not very many shares—then this stock must move \$2.23 in order for you to achieve your goal. It



is not very realistic to expect to profit this much on your average trade (in your dreams). Parenthetically, many day traders subscribe to the 2.5% rule, that is, on average, you should not expect to get more than 2.5% on a trade. That indicates that if you are trading a \$30 stock, you really should not expect to get more than 75¢ from the trade. Actually, you don't know what you will get from the trade since there are so many variables. To be on the safe side, you probably should buy any where between 500 and 1,000 shares, if you hope to get your day's pay from this trade. Either that, or plan on making more than one good trade during the day. Let's complicate the matter, perhaps the ask for the stock is \$75—"oh no, I can't afford it." Well, if you have a small trading pool, then you might plan to trade stocks that are lower priced. Actually, there are many lower priced stocks that have a fairly good Average True Daily Range.

*Average True Range*—the difference between the daily high and low price of a stock averaged over a number of days. The price of a stock does not govern its range, although higher-priced stocks tend to have greater ranges. Sometimes, stocks with huge Average True Ranges are more volatile, which is something to consider. Examples would be ABC which has a \$2.45 Average True Range (and can be highly volatile) and ADM (Archer Daniels Midland) which is a \$12 stock with a 20¢ Average True Range). My on-line brokerage has a stock screener which allows me to search for the highest Average True Ranges within any price range. Further, I can select the Beta range, which will keep the volatility of the stocks within a pre-selected range of volatility. If you wish to find the Average True Range of a Stock, go to <http://barchart.com>, enter a stock symbol, and then click on *Technicals* on the left side of the page.

The bottom line is that you have to select stocks to trade that have the potential to generate a reasonable profit while, at the same time, being in a price range that will allow you to purchase a reasonable number of shares (or sell short). Personally, I don't thrive on *extreme* intra-day volatility (the trader needs a seat belt), on the other hand, I hate watching paint dry, therefore, I tend to look for stocks that have a point or more Average True Range or find a stock that is rallying (more on that later).

If all of the above seems overwhelming, we will address the whole issue of finding the best stocks to trade later in this e-book. Once you decide on how you will trade every day (your trading plan), and what strategies you will employ, all of the above becomes second nature through repetition. That is why it is important that you become a specialist. It is imperative that you have a trading plan before the open of each market. Just hoping to stumble across a good trade during the day, perhaps by listening to the daily Wizetrade broadcasts, is a sure fire way not to develop a steady income.

## **The Importance of Fundamentals to Day Traders (Don't Send Me An Annual Report)**

Every trading day I try to find the stocks that are driving the market. A few days ago I found one that was screaming long on huge volume. When I found the stock, it was already up about two points, it finished the day up \$4.60 from the open. That's a screamer—a WOW! (I'll tell you later how I find these stocks every single day.) I had never traded this stock before and the name was not familiar. I thought it was a retail store from the name. Was I ever wrong, it turned out to be a global positioning satellite manufacturer. No matter, it had what I *needed* and *wanted* in a day-trading stock: a huge increase in relative volume (momentum) and was taking off. The Wizetrade charts were vertical and separated. I had no plans to invest in the company, or attend the annual meeting. I wanted a trade. I did not now the PEG, the PE, cash flow, EBIT, dividend, etc. Furthermore, these fundamentals really did not matter to me at the time. The only thing that mattered was that it was in the first stages of a huge rally. Parenthetically, it was flat the next day, but that's OK, I found a different screamer to trade. I believe you get the point, fundamentals absolutely do *not* matter to the day trader. Well, how about the following:

## **The Importance Technical Analysis**

I hate to think of the hundreds of hours I devoted to learning technical analysis and the 3-4 hours I spent every evening working on setups based on my knowledge of technicals. Now, Wizetrade is my technical analyst. It tells me what a stock is actually doing, in real time, in up to eight time frames. I still find

it comforting to know where support and resistance are, but beyond that, I trust in the Wizetrade charts. An equity may have a golden cross, or make a double bottom, but all that really matters is what it is doing now. I used to subscribe to a day traders' setup service. Every day these professional traders would present a list of stocks to trade along with the triggers (pivot points) for going long and short. I noticed that the daily setup list always stated that if you have the "red light—green light system, just follow the lights." I finally found out that they were referring to Wizetrade. In fact, these professional traders were already trading Wizetrade.

## Long Versus Short

It is helpful and profitable to be able to go both long and short. If you are new to trading you need to read this, if you are experienced, skip ahead. Going long simple means buying a stock and selling it when it is at a higher price (buy low, sell high). Shorting allows the trader to make a profit on a stock that is dropping in price. There are traders who only go long and others who only go short. One advantage of shorting is that when stocks drop, it is often a very quick and significant move.

Let me briefly explain how a short works. First of all, you must have a margin account with your brokerage. A margin account allows you to borrow stock from the broker (you can also trade on credit). When you short a *stock* you are actually borrowing the stock from the broker, hence the margin account, even if you have the cash in the account to cover the trade. The trade begins by borrowing the stock and selling it; the term used is *selling short*. Since you initiated trade by selling short a borrowed stock, the cash from the sale is placed in your margin account. You are going to have to buy back this stock and return it to the broker; your trading goal is to buy it back at a lower price than you sold it. You get to keep the difference. When you buy back the stock, you *buy to cover*. That's about it. Reading the Wizetrade charts is the same, just upside down. There are a few other things you need to know. Sometimes your trade will be refused because your brokerage does not have shares available to sell short. One other important point, after placing your order, you must have an up tick, that is, the price of the stock must move up (a penny will do) before they will fill your order.

**The big boys don't have this rule; it was instituted to keep the small trader out of this lucrative portion of the market. Why not have a down tick rule that forces the trader to wait for a down tick before entering a long? I love symmetry.**

## Market Versus Limit Orders and Other Information About Getting In and Out of Trades

Although we will address dealing with market makers and specialists later, at this point, keep in mind that orders for selling short should not be *at the market*, but placed as a *limit order*. When sending a market order to sell short, you are giving a license to the market makers to fill you at any price (what ever the market price is when they get around to filling your order). This is particularly risky for a short because you won't get filled until there is an uptick. Suppose the stock falls a point without an uptick while you are waiting to get filled—remember, you can NOT cancel a market order—and you finally get filled at the bottom. If you had placed a limit order, the price would simply have dropped past your limit without filling. At that point, you should cancel or modify the limit (you don't want to get filled when the stock is on the way back up two hours later) and file a new limit at a lower price. I always set my limit just below the bid. That's right, you sell short at the bid price, not the ask. Maybe the next paragraph will clarify buying, selling, selling short, and buying to cover.

At what price do you buy and sell for longs and shorts? Aussie Rob once mentioned an easy method for remembering: "you always get the worst price." When you want to go long, what to you pay, the bid or the ask. Which is the worst price—the ask—that's what you pay. When shorting, you want to get the highest price. You guessed it, you sell short at the bid, or the lowest price. When you are ready to buy to cover, you want the lowest price; right again, you get the highest price, that is, the ask. You always get the worst price. Easy isn't it?

There are many instances when I place orders at the market (a market order). For example, when I am trading a highly liquid (high volume stock) with a small spread, I usually go in and out at the market on longs. I also use market orders to exit short positions (buy to cover). It's just entering shorts that is particularly difficult. That is also the reason that Wizetrade recommends trading only highly liquid stocks for

shorts. If there is a lot of action, you won't have to wait forever to get filled. The general rule is a minimum of 300,000 shares of average daily volume for longs and 600,000 minimum average daily volume for shorts. I generally look for stocks that trade a million or more shares a day.

Here is another rule of thumb: for every thousand shares you plan on trading, the stock should trade a million shares a day on average. Remember, it is easy to get into a trade, but you want to be able to get out when ready to sell. Also, low volume stocks tend to have higher spreads (the difference between the bid and the ask).

## Stocks Have Individual Trading Characteristics

Stocks have personalities. One advantage to trading the same stocks all the time is you learn how they trade. I have often traded MSFT (Microsoft) and know that the spread is always 1¢ or 2¢. Recently I made several trades on BBY (Best Buy). On BBY there might be a very tight spread, but, when the specialist senses a rally, he or she raises the ask price a dime or so (in the NYSE trades are executed by a specialist; the NASDAQ uses a system of market makers). This is aggravating (polite language) if you are just about to enter, but great if you are already in the trade. If you are trading a stock for the first time, you often don't know how it will move. Some stocks are incredibly volatile, others trade as smoothly as silk. These *personalities* actually reflect how many traders are on the stock, the personality of the market maker and other factors. The more day traders, the more volume, the more volatility. I can assure you that you won't have this volatility trading food stocks, but then the potential for big moves won't be there either.

I guess you have gathered that I like highly liquid stocks with an acceptable Average True Range and a small spread. When the spread is penny or two, I just go in *at the market*. When the spread approaches 8¢ or 9¢ I am unwilling to pay the ask price. If I really want in, I split the spread, that is, I send a limit order between the bid and ask and hope to get filled. Often, the stock starts to move and I don't get filled. At that point, if I really want in, I just cancel the limit and send a market order. If it starts moving too fast, I just pass on the trade. Another rule: never chase a trade.

Here is a situation you may have faced, or will face. Orders are being filled above the ask; you cannot trust the market maker to fill you at the ask. What you should do here is place a limit order a penny above the ask. The rules state that you become first in line to get filled, at the best price, which is the ask. This often works but not always. I desperately wanted to get into S (Sears) and placed a limit above the ask. I was ignored; I waited about two or three minutes—no stock—then the stock rallied and I just passed on the trade. I no longer trade S, it's on my blacklist because of the personality of the specialist. He had his plans for a rally and just ignored me.

Throughout the rest of this e-book, we will address trading issues, but now it's time to move on to the nuts and bolts; the good stuff; you know, what light do I use to exit.



# 3: Setting the Lights

## No, You Don't Trade the Colors, You Trade the Charts

I had a gentlemen tell me recently that he went long when all the lights were green. Wouldn't it be great if it were that simple? It is not and he has lost a lot of money. I used WizeTrade for quite a while before I realized that I really did not understand it. Keeping track of eight charts, timing entrances and exits, finding trades that are setup properly, and monitoring the market is tough. Furthermore, the longer the trade, for example a position trade can be very long, the more room there is for slippage, the shorter the trade, the less room for slippage. If you are a scalper trying for pennies, then your level of precision must be close to perfect. If you don't want to handle these situations, then do not adopt those strategies calling for super-high-levels of precision. I'll illustrate several situations and how they might best be handled. In the process, we will establish some *rules*. In the end, however, your success will come down to your skill level at identifying trades, interpreting the lights and their relationships, and timing.

**“Successful trading is really very simple. Buy a stock at the right time and sell it at the right time.”**

When I first installed WizeTrade, I used a traditional light or chart setup which can be used for position, intermediate, or swing trades. This setup, which is illustrated below, employs the *Three Wizemen* as direction indicators, calls for a cross on the day chart that is no more than two-days old for day trading, and a relatively new 150-minute chart.

Typical Swing Trade Setup



### The Problem of Using a Swing-Trade Setup for Day Trades

Let me make it clear that if you intend to swing trade, you must use the above setup and follow the rules calling for a strong month, week, and a fresh cross on the day. My experience using the above setup for day trading has been relatively unsuccessful. I was trying to line up too many charts, that is, get too many ducks in a row. I forever had stocks *on my radar* but seemed to always miss the fresh crosses. Furthermore, I kept noticing that the stocks that were rallying for the day often had unacceptable Wizemen (see chart above). Every now and then everything was in place and I had a nice trade, but not often enough. Throughout these early experiences with WizeTrade, I noticed that I could trust the long minute charts in regard to the short-term direction of a stock. A fresh cross on the 150 to the upside almost always meant the stock would rally long, despite what the three Wizemen, which are long-term trend indicators, said. I can't tell you the number of longs and shorts that I have missed because *I was following the rules* and did not take trades because of the Three Wizemen. The new chart setups that I developed changed the whole situation. As an example, I recently traded MO (Phillip Morris) long for \$1.16 on a strong 150 against a red day light.

I trade for a living, I trade every day, and I trade in every type of market. I cannot afford to sit around waiting for a trade. I can't afford to pass up good trades just because of some long-term indicator. You get the idea. The Three Wizemen are much longer-term indicators and take time to catch up with the short-term trends of a cycling or channeling stock, which are the day-traders' bread and butter. The principle of trading with these Three Wizemen is absolutely sound and will protect the investor (not the trader), but the system is impractical for the day trader. The day trader must be nimble and able to change direction at all times, but at the same time, execute safe, low-risk trades.

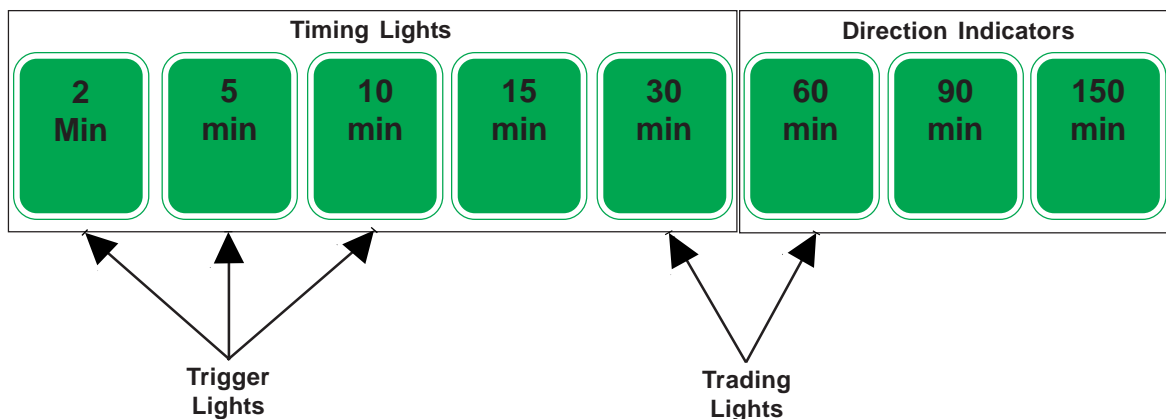
## The Rationale for using Proxies for the Three Wizemen (A Transfer of Power)

We are now going to look at a new paradigm that shifts the powers of the three Wizemen closer to the short-term lights, that is, the short term direction of a stock. In order not to confuse the issue, we will refer to these substitute or proxy Wizemen and the *three direction indicators*. In fact, my day-trading setup no longer allows me to see the Three Wizemen. Because the longest lights are now minute lights, they assume added importance for the day, or even shorter term. In fact, they help me focus on what I am really most interested in, trades that will take place in very short period of time, always less than a day. There is always some give and take; the day trader using this setup gives up any thought of remaining in the trade for a long period of time, but gains in increased reliability in the short term. If the trade is going well near the close, the trader can switch to a swing-trade setup and decide on whether or not to let the trade continue as a swing trade, but that is not the subject of this e-book.

With this new light setup, it is far easier to identify trading setups, continually trade the same stocks long and short, and short a stock that has just completed a long rally. I truly believe that using this setup is safer and helps the day trader *focus* on those issues most important to entering a short-term trade.

There are several Wizetraders who have been experimenting with day-trading light setups. I have traded at least six different setups including one exotic set of charts based on Fibonacci numbers and a series of ratios. In the end, I have settled on a rather traditional set of charts that work just fine. For the purpose of presenting examples with consistency of continuity, the following *generic day trading setup* will be used. Of course, you are free to experiment with any setup you feel is appropriate (also see light setups on page 31). If you select to trade very volatile, high speed, short term scalps, you might wish to have more short-term minute lights. I found that I was being shaken out of perfectly good trades by the short term lights, so I have gradually placed more importance on the longer-term minute charts.

### Generic Day Trade Setup



The illustration above is of a generic day-trading setup. I have named the various parts of the setup so that we can refer to them in the following examples. Please understand that there are other setups; one that comes to mind is the strategy used by John Tuma that uses the 1, 2, 3, and 5 minute-lights for the short minute charts. I often use an 8-minute light instead of the 10, but for training purposes, please bear with me as we work with this generic setup.

## Defining the Day-Trading Setup

I know what you are going to ask. Why do we need so many timing lights, or trigger lights or direction indicators? I used to be a college professor and I'm way ahead of you. The answer is that for any particular strategy you might use just one trigger or one trading light, but because we are going to present many strategies, we will have different triggers, timing lights, etc. That is the reason that I recommend becoming proficient in just a few strategies, because the rules and procedures change as you switch from strategy to strategy.

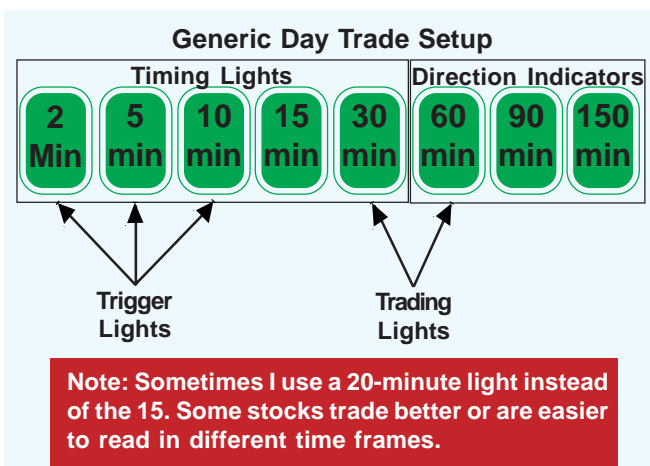
The following define the components of a generic day-trading setup:

**Direction Indicators:** these three indicators replace the traditional three Wizemen. Remember, you do NOT trade the colors, you trade the charts. The colors are a heads up that something may be happening in the charts. In this example, all three Direction Indicators are green; you guessed it, we may have a long. If you wish to have the least amount of risk in a trade, don't trade against the Direction Indicators. Heck, we've already eliminated the traditional Three Wizemen, you don't want to fudge on the substitutes.

**Timing Lights:** these charts are used to fine tune entrances, give a heads up on the continuation, or change of direction of a trade, or to fine tune the exit from a trade. They also forewarn of a possible entrance as they move from left to right: *the wave*. I sometimes switch the 2-minute chart to 1-minute to catch the last little bit of a trade, or finely tune an entrance.

**Trading Lights:** usually one of the middle indicators such as the 30-minute or 60-minute chart. The trading lights or charts play a key role in the decision to enter or remain in a trade.

**Trigger Lights:** A trigger light, usually a fresh cross in the direction of the trade, is used to time the entrance. Mark McDonnell says: "I like to have something to hang my hat on." This is the hat rack. I always like to enter a trade on a brand new something. Why so many triggers, because different types of trades call for longer or shorter lights. Have you ever wanted into a trade as you watched a stock climbing steadily, only to enter and have the 10-minute light go red? It's happened to me more than once. That's what happens when you don't get a fresh cross on the trigger. So much for nomenclature, let's address how they are used in real trades. (Also, see page 31 for additional information on using the lights and setups.)



tinued direc-

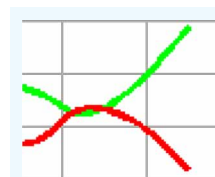
## 4: Using the Charts to Manage A Trade

### Green is Up and Red is Down

I once had a phone call from a friend I had trained who was trading GILD. He told me what he was in for and I was proud of him; I thought he was in a profit in a short. Wrong. He was long and losing big time. Silly me, when I spotted the red Direction Indicators I just assumed he was short. When questioned about why he was long, I was told that: "there are just too many things to remember." Fair enough. I just boiled it down for him: *green is up and red is down*.

There are specialty trades in which you trade against the Direction Indicators. For the time being at least, we are going to address standard vanilla trades (Bb trades for you musicians), your everyday garden variety going long and short with the lights. I can usually evaluate a potential trade in just a few seconds. Beginning on the right, I click through the charts evaluating, making mental images, looking at the volume and indices, and ultimately making a decision on whether or not this is worth taking, or what signals I will have to wait for before pulling the trigger.

The longest Direction Indicator simply needs to be in the direction of the trade. If you plan on a long, then it has to be green; even an embryonic cross will do. It goes without saying that a strong cross, or even divergence only strengthens your position. The 90-minute chart (see example) helps to make a decision since it may be easier to interpret than the 150 or 180 (many traders are also using the 130). After looking at the 150, the next key Direction Indicator is the 60—it has to be strong—period. If is embryonic, lying on its side, or just taking the day off, I usually pass on the trade, unless I see unusual strength developing in the 30. I refer to the 60 and the 30 as the trading lights. They are very close to where I am going to be working (trading) and will be a deciding factor in whether I pursue the trade any further. In regard to the 60, it has to be strong, but not too overextended; if it has been running for three days I will usually pass. A few black boxes are OK, however. Oh how I love to find a fresh, strong cross (no gator mouth) on the 30. If I find a fresh 30, and everything to the right is



Example of a gator mouth. Lines pointing in different directions indicates that there is a tug or war between buyers and sellers.

acceptable, I know I have a trade. The 30 and the 10 will let you know in a hurry how the stock is doing, right now. If the 30 has been running a few boxes, then I check the 10-minute chart. Here is where it gets tricky.

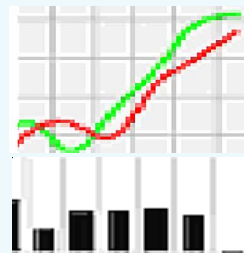
Note: If you are new to trading and/or Wizetrade, you may think it takes a long time for the lights to change. If the time is right, the lights can switch in a heartbeat. I was watching a stock (MXIM), which was all red when it rallied. In a matter of three or four minutes the 150 went from a short to a long as did the 2 minute light and everything in between. Wizetrade sensed the increased buying pressure and volume increase and flipped all the lights. The stock rallied for \$1.74 in a very short time.

If the 10 is fresh, I might get right in, especially if the 30 is strong and getting stronger and we have increasing volume. If the ten is out a box or two or more, but still strong or getting stronger (diverging lines) I might look at shorter lights, even the 2-minute chart, for a quick recycle and new entrance. Remember, I prefer getting into a trade on a fresh something. I will even go down and get an entrance from a 1-minute chart. If the ten has been running for a while, then I will probably wait for a retracement and a new entrance. The trader has to make a lot of decisions—quickly.

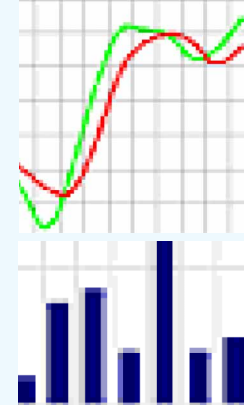
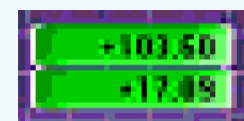
## Managing and Exiting A Trade

If I timed my entrance properly, I usually move quickly into profit. Using the 8-minute chart instead of the 10-minute will often get you into place before the stock really starts to move. This has happened to me numerous times and each time I think that I made a mistake, nothing is happening, and then the stock takes off—amazing—and very helpful in getting into a trade before the market maker senses a rally and starts to raise the ask. Once in a trade, some traders simply trade the 8- or 10-minute chart. Try to keep track of the lights around the trade as well as the volume. Many traders keep the QQQs and SPYs up on Wizetrade to see if the market is pulling back or rallying. Watch out for greed. Once you are in a profitable position you should not take a loss on a trade. Earlier I discussed a trade on big MO (Philip Morris). I started to get concerned when the 5-minute light went red, then the 10, and finally the 30. MO began pulling back but I remained in this trade. Why? Because the 30-minute chart went flat but did not pull back, because this occurred in the middle of the day when most stocks retrace a little, and most importantly, because the 60-minute chart was diverging, that is, getting stronger. The strengthening 60-minute chart was the deciding factor. There would have been nothing wrong with getting out and taking a \$720 profit, but by following the charts, I closed my position for \$1160 (this is called *leaning on a stock*).

I'd like to give a *rule* for exiting, but there are too many valid reasons. First of all, it depends on what kind of trade you are on. A few weeks ago I was on a short-term scalp (maybe a five-minute trade) and exited when the 1-minute chart started to converge. All the lights were green. The second I got out, everything went red. I knew the stock and how it traded. I knew that it could give up 50¢ to 70¢ in seconds, so I was ready for it. This style of extreme scalping requires you to have a seatbelt on your chair and a barf bag. Another reason for closing a trade is reaching a goal; you may remember that I mentioned the 2.5% limit used by many traders. Sometimes I leave just because I am satisfied with the profit and the volume is dropping and the charts are flattening out, it's the reversal period (lunch), the market is starting to tank, the 30 is converging and the 2 is pulling back—any number of reasons. Once I took \$300 from SLAB because my wife needed help with something. I returned to the computer only to find out SLAB had made a six point move (the story of my life). If you are trading a particular curve such as the 30 and the 10 changes to red, begin looking at the short timing lights for a possible exit. Don't give up a lot of profit; you can always reenter a trade later if the stock begins a new run.



Here is a 30-minute chart that you should NOT enter on. It is overextended and converging with falling volume.



This is an example of a strong entrance on the 10 with good indices and increasing volume.

## Setting Stops

Before entering a trade, you should already know at what point you will exit if the trade goes against you. Are you willing to draw down \$100 before exiting? If that's the case and you draw down that much, then you should take the loss. That's a mental stop. I only use mental stops because market makers have a nasty habit of stealing stock (if you can hide your stops on Level II, go ahead and use them). Those price spikes that occasionally stick up or down on bar charts are not problems with your signal feed. Here is an example. You bought XYZ at \$15 and it's now \$16. You wish to protect yourself so you set a stop at \$15 so that you will at least protect your trading capital. You plan to raise the stop as the price goes up; suddenly the price drops a point or two for a few seconds and your stock has been sold at \$15. What a deal, the market maker bought your \$16 stock for \$15—I try not to give market makers that opportunity. On the other hand, if I must leave the screen, I will set a very tight stop and remove it when I return.

## Forcing A Trade

As we finish this section on trading, there are several little items worth mentioning to those of you who are new to day trading. First of all, don't force a trade. Forcing a trade occurs when something is not right, but you really want to trade. You take the trade any way hoping that it will work out—it rarely does. Trading against the indices (S&P, DOW, NASDAQ), entering a trade when the lights going back and forth between red and greed (buyers and sellers are almost equal), taking weak signals, entering when your trading chart (light) is overextended—these are some of the reasons leading to poor trades. There are times the market is so bad I just pass. For example, the afternoon before the start of the Labor Day weekend. The volume just dried up. It just wasn't worth the risk.

# 5: The Most Important Factor in Finding A Trade

## **PC + RVI = M — The Formula for Guaranteed Success**

This formula is my way of stating that there are only two important criteria for finding a long or short that really make any difference. The first has to do with price change; if it is a long, the price must be ramping up. That's often what the gainers and losers in Wizetrade show you: which stocks have gone up the most. If many stocks are going up, it's difficult to select the best trade, even by looking at the volume. Volume is a relative measure. If Microsoft has gone up 30¢ by 9:40 (AM) on 100,000 shares, that's not as significant as some small cap stock, that usually trades 200,000 shares per day on average, trading 70,000 shares in the open. In reality, it is the small cap stock that will probably make the biggest move on this trading day, maybe become a one-day wonder. It's not which stock trades the most volume, but which stock has the greatest relative volume that matters. However, there is no way for you to make this judgment in the first few minutes of the market since you cannot compute each stock's relative volume. As you read on through this e-book, I will actually tell you how to do this, and, by having this information, be able to select the very top stock, or stocks, for the day. You see, *price change combined with an huge increase in the relative volume equals momentum*. When you find a stock that has both, you will find charts that have separation and angle, sometimes with the green line standing straight up. These are the stocks we talk about after the market. These are the ones that move 2, 3, or more points in the morning and climb four points or more during the day. There are many systems in use by traders to find these stocks in a hurry every day. Recently, the message boards have had a lot of chatter about *rockets*. This system actually works to the extent that you will probably find decent trades. Actually, all of the day-trading systems that are going to be covered by this publication work. However, finding the really BIG TRADES, the screamers, is elusive, and only occasionally did I stumble over them, until recently. As you read on, I'll let you in on a system that will bring you PC + RVI = M stocks all day long. Stocks that are just beginning a rally, at the open, or at any time throughout the day. It's easy to run gainers and losers or Wizefinder at the open and find trades, but many of these stocks quickly run out of steam. Finding a stock that is just starting a new rally at 10:27, or 12:15, or 2:05 is really tough, unless you park yourself on a stock. The good news is this problem may have been solved, so read on. We address methods of finding trades in the next section.

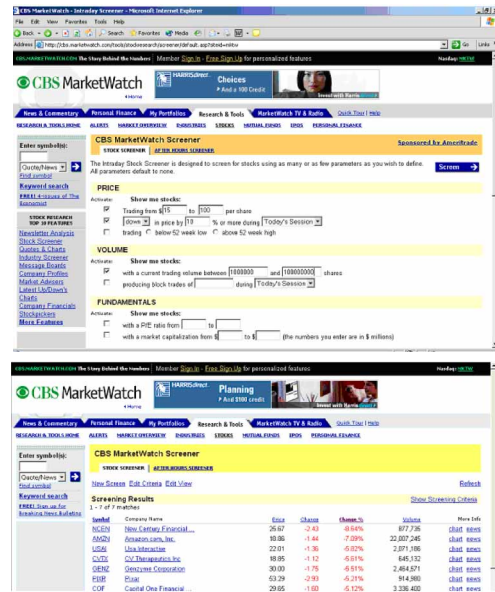
# 6: Tools of the Trade: Finding A Trade

## Do I Need A Broker?

I once trained a new trader and was on the phone for hours, covering much of what you have already read. When we finished he asked: "Will I need a broker?" Yes—and there are a lot of other handy tools available to the Wizetrader, some of which, if you have been paying attention, have been hinted at several times. Following are some of the resources available to you that will be mentioned when we define trading strategies (presented in no particular order):

### Intraday Scanner from CBS Marketwatch

This is an excellent financial web site for kinds of trading information ([cbs.marketwatch.com](http://cbs.marketwatch.com)). Keakadog (real name Jack) has a strategy for the open that calls for having stocks that have had a 10% move the previous day. He has a relatively involved method for selecting these stocks. I find that this scanner can get me what I need in a hurry. You can select longs or shorts, your volume requirements, percent of increase or decrease, and lots of information (see screener on right). Once the data appears, you can sort by clicking at the top of any of the columns. If, for example, you want to see the largest price move rather than percent, then click on the prices. There is no charge for any of these web sites.



### Finding the Volatile Stocks and More at Lycos Finance:

<http://finance.lycos.com/home/research/mostactive.asp>

This is another site that will provide data to the day trader such as: largest range, most volatile, unusual volume, and unfilled gaps.

### Other Useful Web Sites

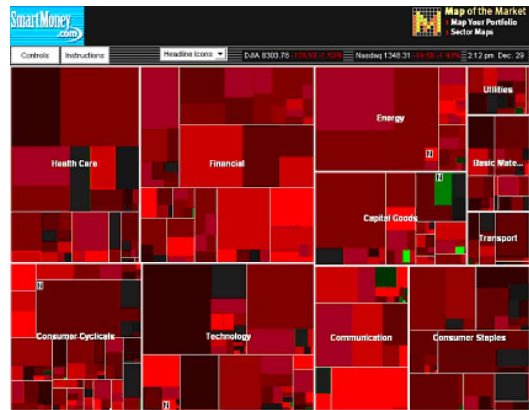
I have book-marked dozens of sites for one reason or another. I mention a few of them here, but don't want to confuse new traders. The fastest way I know of to find support and resistance is to go to [www.stockconsultant.com](http://www.stockconsultant.com). Just type in your stock and find all the support and resistance points and lots more about any stock. You can also get support and resistance at [www.barchart.com](http://www.barchart.com). Price, support, pivot and resistance are given after you select a stock and click *opinion*. The days of drawing lines are over folks.

The VIX is a volatility index for the markets. When the VIX goes over 40, start watching for a rally. You can find the VIX at [www.cboe.com](http://www.cboe.com).

### Map of the Market ([www.smartmoney.com](http://www.smartmoney.com))

Each box represents a major player in the overall market. On the day that this *snapshot* of the Map of the Market was taken, I seriously considered shorting (black represents stocks that are going sideways and red, stocks that are tanking). By placing your cursor on a box, you will be given information about the particular equity such as the name, stock symbol, amount and percent of gain or loss. A further click will bring you to more information about the company including a quote, average daily volume, and a chart.

The stocks are grouped by sector and industry groups so it is possible to drill down to, for example, to tech, then chips, and then—you get it. So if retail is hot, you can drill down to the stock that has made the biggest move for the day. This information is not in real time, that is, it appears with a twenty-minute delay, so it is no very timely for day traders.



## Pre-Market Action

Every morning I watch the stock shows, switching back and forth looking for interviews from the trading floors. I try to get a feel about how the markets will open, what the latest financial reports say, (usually about 8:30 EST), upgrades and downgrades, the pre-market indices, and maybe a heads up on some report that is expected later in the day. I guess it helps a little, but not much.

NASDAQ has a Pre-Market Heatmap, shown on the right, which visually represents what the NASDAQ 100 are doing in the pre-market. The Heatmap Strategy, which is addressed in the next section, utilizes this map which can be found at [www.nasdaq.com](http://www.nasdaq.com) and then following the links.

Nasdaq-100 Pre-Market Heatmap®



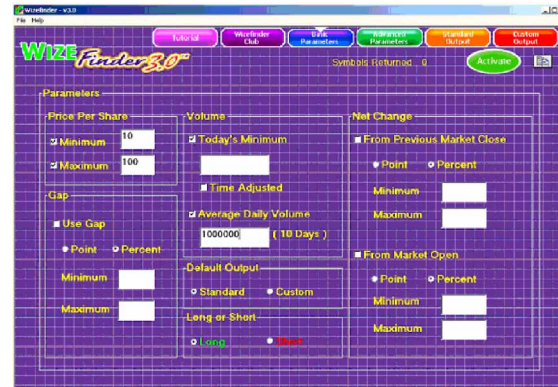
## 7: Tools of the Trade Part II: Finding A Trade In Real Time Do I Need A Plan?

I used to trade the same stocks everyday. My plan has changed and I start the trading day with a blank Wizetrade. Every day traders approach finding trades differently. If you don't believe me, look at some of the posts on the message boards. Let me mention a few approaches to finding a trade. Some traders trade just a few stocks all the time, other have a group of fifteen stocks loaded in Wizetrade and look for fresh crosses on the 150 or 180 (some use the 130). They then move the best longs or shorts to the front page depending upon whether we are having a positive or negative day. Others are waiting for e-mails from Delta Alerts, while some traders are on the message boards. There are two primary message boards: if you have Wizefinder you will find a club link by logging in after 9:30 EST and reading the posts for the day (good music to trade by at times). Others are on the Yahoo site which you can find by following links from [Wizetrade.com](http://Wizetrade.com). You can do all of the above while listening to the daily broadcasts and training from Wizefinder.

In the past I traded with a group of buddies and we communicated by using Yahoo's instant messaging. After a while, this drove me to distraction. Now I trade in quiet, in an organized, methodical manner. It's a business after all, not a carnival.

What do some of our serious brethren do? You know, the ones who are posting their finds (you can find your own—why wait for postings)? Some people wait about ten minutes after the start and run Wizefinder. Remember, this section is to let you know some of the typical tools that Wizetrader's use, not to describe the strategies.

In your Wizetrade database, you have up to 500 stock symbols. I've had as many as 900 and it worked fine, (if you work in Tech Support, please note that I cleaned it out and now have only about 300). These stocks should be your favorites, not the ones that came pre-loaded from the Wizetrade. They should be in your price range and meet your volume and other parameters. After specifying your scan requirements in the parameters section, many traders run the Gainers and Losers to see what's running. Several strategies are built around this tool and are addressed in Trading Strategies after this section.



## HotScans

I want to share an experience with my fellow Wizetraders that has completely changed my day-trading. I planned on releasing this e-book back in early December, but I wanted to test HotScans before commenting on its reliability and validity. For those of you who forgot your statistics, reliability refers to a software program generating consistent results. Validity has to do with searching for the right information or data, in this case. Validity would be poor, for example, if it found shorts when I was looking for longs. There are many scanning programs on the market and I wanted to be absolutely certain that this was the best—in a new league.

In early October I was invited to be a beta tester for HotScans which is not a new firm, just a new product. It is produced by MarketGauge® which is already an industry standard for the “professionals.” After agreeing to participate, I took part in numerous conference calls with their programers who asked me exactly what is that I want to find. That is easy. All Wizetraders who are day traders could have told them in a heart beat what they hoped to find every trading day, but rarely found. What the heck—I told them. The people with whom I was dealing at MarketGauge® turned out to be former pit traders, market makers, hedge fund managers, and professional traders (as in trading companies). These are the *big boys* whom we always like to kid about as in *the market maker drove the price down so his friends could get in cheaper, or, did you see the price he got in at; who does he know?* I did a little research and following are excerpts from a review of MarketGauge® published in the prestigious *Stocks and Commodities* magazine:

[MarketGauge provides traders with capabilities and access to data that until recently were the exclusive domain of professional traders.](#) It's true that there is an increasing number of excellent stock screening and market analysis web sites and software packages on the market; it is equally true that MarketGauge takes a back seat to none.

- David Penn, Staff Writer for *Stocks and Commodities*

It was the intent of MarketGauge® to produce a similar product geared exclusively for the use of professional day traders. This was a pipe dream to me. I had described the perfect real-time trade finder to the programers and other professionals, and then, sort of forgot about the software. Then one day I received an e-mail with the link that would take me into the special web site that had an operating version of HotScans. It was a down day (DOW down -177 and the NASDAQ down -47). I started looking for longs, IN THE MIDDLE OF THE MORNING! The first thing I did was enter my parameters at the top of a blank page; you know the drill, price range, volume requirements, exchanges, etc. Then I pushed *run* and voila, 25 trades appeared, ranked from strongest to weakest trade. I pushed again—this time there were a few changes. I had selected *Rallying Now* from among the many trading choices. I stopped trading and tested HotScans for the rest of the day. I checked out more than three-dozen recommendations. Every single one of them had a great rally. The worst was good for about 50¢, the best ran a point or two. They all had strong crosses, separation, and great volume. Can you image, great longs on an extremely down day? Of course, I also found stocks tanking, that is, great shorts. Sure, you can find screamers at the open, but I was finding them during lunch, at 1:45 PM—any time I pushed the button. I was so euphoric that I wanted to call every trader I knew. Of course, as a beta tester, I was not allowed to tell anyone.

I'm going to describe a few of HotScans' many features. When HotScans is later mentioned as a means for finding a trade in a specific strategy you will already be familiar with the tool.

Let me tell you a little about how HotScans works. It's web based so I do not have to load any software. I log in to HotScans in the morning and reduce it to the tool bar. Whenever I want to trade I just click on the tool bar and push run. The returns are filtered and ranked, so the best trades are probably on the top, but I am getting ahead of myself.

Symbol	Price	Last 20 Min % Price Chg	Last 20 Min Vol. vs. Avg.	Today's % Price Chg	Today's Vol. vs. Avg.	More
FE	32.80	0.2% ↑	778%	0.3%	24%	More
NEAD	11.70	4.8% ↑	436%	4.2%	18%	More
FBC	51.12	0.2% ↑	426%	-3.9%	22%	More
FAI	38.35	0.3% ↑	427%	0.2%	2%	More
Z	10.31	1.3% ↑	413%	-1.7%	222%	More
D	54.84	0.3% ↑	396%	1.6%	4%	More
THO	12.17	1.1% ↑	347%	-5.3%	16%	More
BSH	18.89	1.1% ↑	334%	-2.1%	-31%	More
CAC	25.99	0.3%	322%	1.4%	-17%	More
PLTR	22.30	0.6% ↑	328%	-1.1%	272%	More
COG	24.21	0.3%	322%	-3.9%	36%	More
CLAS	44.30	0.4%	315%	0.6%	4%	More
NEO	44.80	-0.6%	298%	0.8%	-18%	More
ENR	23.80	0.6% ↑	257%	1.6%	5%	More
LAVI	18.12	4.7% ↑	244%	-4.6%	61%	More
AVC	14.11	0.2% ↑	212%	0.2%	1%	More



HotScans works in time increments; if you run a five-minute scan looking for rallying stocks, you can pick up stocks that have just received, for example, a fresh cross on the ten. What has amazed me is that with the thousands of stocks on the three major exchanges, there is always some stock making a move. It might be a stock that was flat or down all day, but now it is beginning a rally. The same is true for shorts, they are just as easy to pick up, even in an up market. Although you may select a 5-minute scan, you can elect to have the program show you, and scan, another time frame in another column. Therefore, if you pick up a stock that is beginning to rally, you can also check on how it has performed since the open, during the last hour, or perhaps for the past twenty minutes.

The results of a scan are displayed in vertical green or red bars. A green bar represents an increase in price movement or relative volume, a red bar graphically represents a decrease in price or relative volume and are always displayed for each time frame selected. One bar represents the least movement and five the maximum. Occasionally a stock will be displayed with a "+" sign after the five bars—this is a screamer. Earlier I mentioned a stock that had a \$4.60 move; it had five green bars with a "+" on both price and relative volume—a certain winner. These are the stocks that are in play, the stocks that are driving the market at that particular moment, or for that matter, the day. **A stock with solid signals will run at the open and keep on running all day.** The following may help to clarify what is meant by the term relative volume:

**Relative Volume** is a term that refers to the volume of a stock during a specific time frame as compared to, or relative to, the volume this stock typically has for that time frame. For example, if the average daily volume for a stock is 470,000 shares but on this particular day it is 1.7 million shares, there is a large increase in the stock's relative volume. Relative volume can be found for shorter time frames. For example, if a scan reveals that for the past twenty minutes a stock has had a 6,000% increase in relative volume, as compared to the average volume for that period, concurrent with a price increase, this indicates that a significant rally is under way. Scans can be run for periods as short as five minutes, thus alerting the trader to fresh rallies, usually coinciding with a fresh cross on a 10 or 30 minute chart on WizeTrade. Because of the large number of stocks in the three major exchanges, rallies are available almost all of the time and can be short or long.

In addition to scanning for rallies (*Rallying Now*) in various time frames, scans may also be run for falling stocks and stocks with *Big Volume Now*. I ran *Big Volume Now* towards the close of the market and found the stocks most likely to gap the next morning, easy as pie. HotScans is also developing a whole series of presets that are trading strategies in themselves: *Opening Range Breakout Up*, *Opening Range Break Down*; *Day Traders At New Highs*; *At New Lows*; *Gaps Falling*; and *Gaps Following Through* are just a few of them. Links will take the trader to Hot Stocks, Hot Groups, and Hot Sectors—another feature which will soon be available, allows the trader to access a select group of the two-hundred best stocks to day trade based on average volume, bid and offer, opening range versus average trading range, total point range, among other criteria. By linking to this group, you will know instantly which of these *MarketGauge 200* are having the biggest intraday moves on big volume. To reiterate, every signal I have taken was validated by WizeTrade and followed through as a profitable trade.

Does this sound complicated? My learning curve lasted about twenty minutes. It's very intuitive and I needed no instruction. In fact, there was no tutorial for the beta test (there is one now), and I did not need one. A little common sense won't hurt, however.

Let's look at an actual trade that I took before Christmas. I was looking for a long on one of those all too often dreary trading days with no volume and negative indices. The scan, which you can view on the next page, came up with twenty-five potential trades (it was mid morning), some long and some short; the scan was on the setting *Big Vol. Now*. On the next page, I will interpret the results of the first two returns from the scan.

What are you waiting for? Turn the page.

The first stock to come up was FE on the *Big Volume Now* scan. Its current price is \$32.89. It has lost 9¢ or 0.2% for the day. The fourth column shows one grey bar and one red bar. Every column has a grey bar, this is the relative price or relative volume against which the comparisons are made. So, if you run a scan and find only a grey bar, there has been no change. Anyway, there is one red bar which indicates a little bit of price movement to the downside. In the next column there are five green bars indicating a maximum increase in relative volume; in fact, there has been a relative volume increase of 778% during this twenty-minute time frame. One quick glance and I new that I was at the beginning of a very powerful short rally. I did not want a short, so I moved to the next line.


Select Scan	Monitor Additional Time Frame	Daily Gauges	Min. Price	Max. Price	Today's Daily Volume Avg. Vol.	Last 20 Min Vol. vs. Avg.
Big Vol. Now (20 Min.)	Add'l Time Frame	<input checked="" type="checkbox"/>	10	60	10000	70000
Run Scan!	<a href="#">Prev. Page?</a>   <a href="#">Next Page?</a>	<a href="#">More Filters</a>   <a href="#">Hide Filters</a>   <a href="#">Pop Out!</a>   <a href="#">Help</a>	Updated: 12:12:20 PM			

Sym	Price	Price Chg	Last 20 Min % Price Chg.	Last 20 Min Vol. vs. Avg.	Today's % Price Chg.	Today's Vol. vs. Avg.	More
FE	32.89	0.09	-0.2%	778%	0.3%	24%	<a href="#">More</a>
BEAS	11.70	0.58	4.6%	520%	5.2%	-18%	<a href="#">More</a>

This was what I was looking for, a long. I'll interpret the columns for you: BEAS was at \$11.70 and up 58¢ for the day. It was now mid to late morning and I wanted another trade before lunch. Not really a good time to enter a long, unless it had strong signals. BEAS had 3 green bars under *% of price change* for the scan period and was apparently ramping up. Other columns revealed that although volume was down a little for the day, it was very heavy during the period of the scan which was twenty minutes. I clicked BEAS into Wizetrade and viola (that's twice I used that word), a rally was getting underway. I got in for about a twenty-five minute trade which produced about 80¢ and went to lunch. With this kind of relative volume, it's never like watching paint dry.

Let me mention one other trade. On the second day, I looked for a long. I found a stock but failed to notice that it was down -\$3.86 for the day. I loaded it into Wizetrade only to discover that it had been a short since the open where it gapped and ran down for hours. It was 12:30 EST and was rallying to the upside. What did I find? Right, a dead-cat bounce. This particular trade was good for more than a point. I bet you know what came next—right—a short. This was the setup for the next short as the stock returned to its overall trend. Since that time I look for these signals and have been able to find reversals, or dead-cat bounces throughout the trading day: no muss, no fuss.

There are far too many features to cover in this e-book without becoming a tutorial for HotScans. If you would like to take a look at this revolutionary product, go to [www.marketgauge.com](http://www.marketgauge.com) and look for the HotScans link.



### HotScans

[Home - Scan Summary](#) | [Hot Stocks](#) | [Help](#)

Preset Scans: [Rallying Now](#) | [Falling Now](#) | [Big Volume Now](#) | [Opening Range Break](#)  
["Day-traders" at new highs](#) | [at new lows](#) | [Gaps falling](#) | [Gaps following through](#)

Customize Scan Filter Criteria:

Select Scan	Monitor Additional Time Frame	Daily Gauges	Min. Price	Max. Price
Rallying Now (20 Min.)	5 Minutes	<input checked="" type="checkbox"/>	10	250

Run Scan! | [Prev. Page?](#) | [Next Page?](#) | [More Filters](#) | [Hide Filters](#) | [Print](#)

Sym	Price	Price Chg	Last 20 Min % Price Chg.	Last 20 Min Vol. vs. Avg.	Last 5 Min % Price Chg.	Last 5 Min Vol. vs. Avg.
ADRX	14.84	0.13	2.3%	50%	1.6%	33%
AEM	14.93	0.26	1.5%	68%	0.7%	17%
PDG	11.47	0.34	1.2%	55%	0.3%	28%
NEM	29.58	0.73	1.1%	64%	0.6%	35%
ABX	15.75	0.30	1.2%	60%	0.2%	33%
ECS	11.62	0.51	1.1%	43%	0.3%	16%
NBTY	18.32	0.63	1.0%	478%	1.0%	437%
GFI	14.41	0.34	1.0%	123%	0.5%	54%
CMX	17.00	0.10	0.9%	34%	0.9%	14%

HotScans draws on more than a month of historical data to evaluate a stock's relative volume, minute by minute. A quick glance at this shows a stock, NBTY, that has experienced a relative volume increase of 437%, and for the past five minutes, is the strongest stock rallying at this particular minute in any of the three major exchanges.

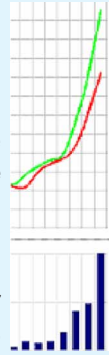
## 8: Day-Trading Strategies

Following are many of the day-trading strategies in use by Wizetraders. I selected a handful of strategies that work well using the Wizetrade platform. Some of these strategies work best at the open or only at the close, others require special light settings; I'll point out any special requirements as we go through them. Often, there are one, two, or more methods for finding these trades, so I'll try to identify these also. Finding good trades has been *the missing link*; using Wizetrade to enter and exit a trade is rather straight forward, finding a great trade is far more difficult. In the end, it is up to you to define and adopt a trading style and have a trading plan which best matches your personality and resources.

We will begin the trading day with a gap up at the open:

### Charlene's Method and Finding Stocks That Will Gap at the Open

<b>Description</b>	The purpose of this trade is to find stock that will run up or gap up in the open. Technically, this is not a day trade since the entry is as the close of the previous market. Traders often refer to this strategy as <i>overnight trading</i> .
<b>Advantage</b>	Requires only about an hour (maybe a little more) each day
<b>Disadvantage</b>	Market may go against you at the open; there is always a degree of risk in holding a stock overnight. This method works best when there is a rally on the open.
<b>Caution</b>	Check <a href="http://www.earnings.com">www.earnings.com</a> to make certain you are not holding a stock that is going to announce the following morning. Also check the news on the stock.
<b>Finding the Trade</b>	Find stocks with a fresh cross on the day and watch the short minute lights: 1, 2, 3, 5, and 10 especially. If the lights have good angle and separation (at least 1 o'clock) and there is good volume, buy just before the close. Charlene likes to take profits no more than 40 minutes into the open.
<b>Optional Method</b>	Run HotScans looking for stocks that have significant increases in relative volume and price (5 green bars and possible a "+"). In the last 10 minutes, run the scan in the 5-minute mode ( <i>Big Vol, Now</i> ) and check for stocks that have an increase of more than 1000%. Place your best choices in Wizetrade and check the short minutes lights, if they continue screaming into the close, you have stocks that have a high probability of gapping and/or running in the open. Check them in Wizetrade and use the three Wizemen for confirmation.



### Jack's System (Keakadog)

from notes posted on the Wizetrade Users Site (Yahoo)

<b>Description</b>	Jack trades the first hour or so of the market (sometimes longer from his posts) and returns in the afternoon to look for potential trades for the next day. [Ed. Note: For those of you new to day trading, the big action is at the open and again during the last hour of the market. The open (first half hour) can be very volatile and risky and is avoided by many traders.] For those of you who have watched the <i>Boot Camp Video Series</i> , Jack's system continues to evolve. His original system called for finding setups before the market opened. The following information comes from a series of posts on the message boards
<b>Advantage</b>	Requires only about an hour (maybe a little more) each day
<b>Disadvantages</b>	No real disadvantages except it does require good trading skills and has a very time-consuming process of finding trades.
<b>Finding the Trade</b>	Jack says he uses Wizefinder as the principal means for finding setups for his morning list of starters. [Ed. Note: his original method called for finding stocks with a huge percentage move from the prior day that also had volume in the millions. The simplest method for screening for these stocks is to use the screener

on [marketwatch.cbs.com](http://marketwatch.cbs.com).] He also uses [smartmoney.com](http://smartmoney.com), CNet's tech stocks top five high and lows each day and [Investor's.com](http://Investor's.com) but finds IBD not very helpful. All of his picks from Wizefinder and other sources are percentage and volume based. He places a great deal of emphasis on volume. He does not have a set goal, rather he tends to stay with the lights until they give him exit signals. "Instead of trying to work every nickel and dime out of the process, I try to remember to take some of it off the table. That is why I am in and out of some trades several times. I don't need to get it all, just the biggest part of it!"

Jack mentioned that he often uses the Gainers and Losers window looking for stocks that have made at least a 5% move. He moves all of his potential choices into Wizetrade for evaluation. (Jack uses the Three Wizeemen.) He also mentions: "If any of the picks go south quickly, I'm out of it and take my losses rather than ride them down." He also mentions the importance of staying glued to the computer when in a trade.

Jack says: The first site I head to each morning (or the night before) is Wizefinder. Next, I go to [smartmoney.com](http://smartmoney.com). Go to the Market section then lick on Market Movers. A new screen will pop up which will give you ten options for the stocks and the lists for the [three major exchanges]. I use 600,000 shares as the minimum volume and percentages above 5% to choose the stocks using the ten options to cull for Wizetrade candidates; usually there are a small number of both long and short candidates resulting from this process every day. Next, I run them through Wizetrade to remove the weakest links and use the charts to rate the survivors as trading candidates.

In regard to Wizefinder he says: I set my parameters between \$5 and \$25 and daily volume of 600,000, although I do look at the Wizefinder selections between 35¢ and \$5 just to see if there are any stocks in this group. Here I may allow a trading volume of 300,000. My logic here is that if they show as a long candidate with the 180, day, week and month all showing good separation, I may take the risk. I wait until the market open to see how strong the direction is. I do not short this way. In other words, the cost is cheap and it usually does not cost me much when I'm wrong. I just get out and move on to something else. However, When I'm right, these are usually my best dollar plays of the day.

## Rockets

<b>Description</b>	Rockets are those stocks that should shoot up in the open and possibly carry on through the day.
<b>Advantage</b>	The process of finding rockets is relatively quick. Setup work is not required the previous evening. Many Wize traders are claiming success with Rockets.
<b>Disadvantages</b>	You are trading in the open. There is no way to check for relative volume. This method works best when there is a rally on the open. Results are dependent on how relevant your database is. Also, the database is restricted to 500 stocks. You cannot screen the entire market using your database.
<b>Finding the Trade</b>	Run Gainers and Losers about 9:35 (EST). In order not to eliminate stocks at the open, go the parameters section of Wize trade and set volume to 8,000 and open up the spread. Run Gainers and Losers on Wize trade; the first stock to come up with volume is your rocket.
<b>Optional Method</b>	Run HotScans looking for stocks that have significant increases in relative volume and price (5 green bars and possibly a "+") beginning about 9:35 (EST). Run the scan in the 5-minute mode ( <i>Rallying Now</i> ) mode. Place your best choices in Wize trade and check the short minutes lights. You may not be able to catch the trade since they will be moving very fast. This is your decision; you may want to wait for a pullback and a new entrance. These are the stocks that will move up all day.



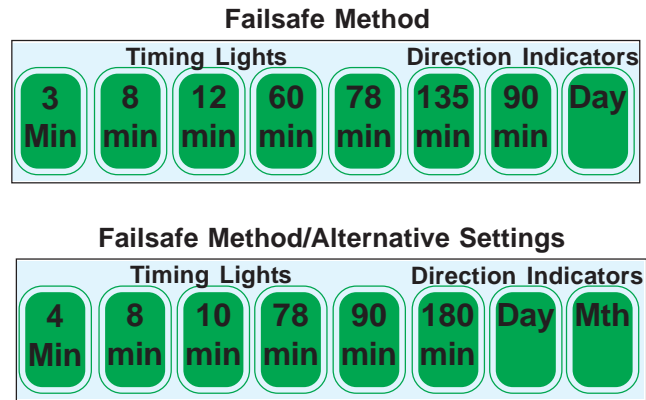
## Fail-safe Method

(notes from the message boards)

### Description

The Fail-safe Method is in use by several experienced traders with success. They caution that this is strictly a day-trading method. If you are familiar with the 8 Steps to Success, or have not used the Wizetade method successfully after paper trading for a month, this method may not be for you. It has been used

for both shorts and longs profitably. Trade in the direction of the "D" lights which are the three longest minute lights. Use the lower minute lights, the "T" lights, to time your fresh cross 8 minute fresh-cross entry or exit. Obviously, if the three Wizemen are in sync with the "D" lights, you are far better off, but that is not a requirement. Timing the entry or exit with the overall market's daily pivots is more important. Once you are comfortable with going in the direction of the "D" lights you can trade against them which is more risky but often very profitable. Remain aware of the location of previous support and resistance on the Wizetrade chart when you set objectives entries and exits. As with any system new to you, try paper trading first until you gain the comfort level you require. (SongmanV)



### Finding the Trade

This is a day-trading light setup and does not address finding trades.

### Optional Method

Steve writes: "My lights are **1 2 4 8 12 24 78 D**. I rarely use Three Wizemen If you're a beginner, I would suggest you use 3WM until you get the hang of this. I watched these stocks for a few months before I became comfortable with the style I trade. I do however always use FAST. Sometimes I enter on the open using the 1-minute light. For the most part I will use the fresh 2. For my exit strategy I get out when I'm satisfied with my profit or when the trade STARTS to go against me. I don't use any stop orders because my trades happen quickly for the most part so I stay at the computer and in my case, watching my profits go down is the best stop I can use. The way I trade is a *little risky* and I wouldn't recommend it for beginners. I play the ups and downs in these stocks which means that all my lights are rarely in agreement. As I stated in my previous post, I spent a lot of time just watching the way these stocks move and doing nothing but that. The best advice I can give you is take your time with this. You will make your share of money soon enough so don't jump in unprepared."

**SCALPING:** If you are new to day trading, many of the techniques, such as the two above, involve sclapping. This term originally applied to fighting for the difference between the the bid and the ask (spread) but has come to mean simply taking very short-term trades. There are day traders who buy at the open and remain all day, possibly trading one of the longer signals such as the 150, 90 or 60. The trades that we are covering at the moment sometimes involve trading the very short lights. These are the trades which carry the most amount of risk.

## Trading on the 5-Minute Trend, or FASTER

**Description** This system of fast trading is often referred to as John Tuma's Method. John brings to the day trader the ultimate in fast scalping with his FASTER method. *[The following description comes from a handout John distributed at the 2002 Wizefest.]*

**Execution** Some stocks tend to have long smooth runs during the day and others seem to be very unstable. These runs can last from 20 to 45 minutes. The key is being able to find the stocks that behave this way and then identify when these runs start. The runs are found using the fast technique. It uses the same concept as the day, week, and month with the exception that it is much *faster*. In addition to having long smooth runs, the stocks need to have significant variations when they are moving. I look for three things in a stock. It must have large volume, significant variations in price every day, and it must have several long smooth runs each day. With this technique, you don't care what the market is doing or what the stock is doing. All you care about is that each stock varies about 10% each day and it has long smooth runs on the five-minute chart. You must watch your stocks and wait for all the lights between the 1- and 5-minute to be the same color. What I have found is that if the 5-minute charts are strong, up or down, with good separation and the 1-minute is not converging, that trend will probably continue for another 2 to 10 minutes. Sometimes it may go for 20 to 30 minutes.

**Finding Stocks** John uses Wizefinder to find stocks; these are his parameters:

- Trades at least 5 million shares, on average, per day.
- Less than \$10 in price. I use a \$10 maximum because you can buy a lot of shares with a small amount of money. In addition, the spread is very small, typically no more than 2¢.
- The price of the stock varies about 10% every day. All you care about is the percent of change. To determine the variation, enable the pop-up screen in the parameters section of Wizetrade. Slide the cursor across the bottom of the 1-day chart and look at the high and low for each day. Just estimate 10% as you check each stock. A 10% change in \$5.68 stock is roughly 60¢. That is, it might vary between \$5.23 and \$5.79. Don't get hung up on exactly 10%, we are looking for about 10%.
- The stock makes long smooth runs with good separation on the 5-minute chart. (A long run is 20 to 40 minutes.) A good example is SEBL and a bad one is PALM.
- The lower the price is, the higher the volume needs to be.

[John buys in 1000 share lots of less than \$20,000. For example, \$9.76 = 2000 shares; \$4.25 = 4000; \$2.56 = 6000. He only buys 5000 - 6000 shares on high volume stocks. He doesn't buy more than 6,000 because these trades move too fast.]

**Execution** John sets his lights to 1, 2, 3, 5, and 8 plus the Day, Week and Month. To identify 5-minute trends, wait for the 5-minute lights to turn. You need to have a fresh cross on the 5-minute chart with good angle and separation (FAS). Once you have FAS on the 5-minute chart, look at the 1-minute chart. It must have good angle and separation and not be converging. John says: "Be patient. Don't jump in too fast. These runs happen several times each day. Wait for them. Make your buy or sell decision only on the 1-minute chart (never on the color of the light)."

Once you are in the trade, look only at the 1-minute chart. To decide when to get out, watch the angle of change. The lines on the 1-minute chart are always moving and usually rapidly. The green and red will switch many times during a long run. If you are long, watch the angle of the green line. If it goes flat or close to flat, keep watching. It can go to a 4 o'clock angle and that's OK. If it changes sharply (greater than 4 o'clock) get out. A 1¢ change on 6000 shares is \$60. The

beauty of this technique is that you will ride the gains as long as they go, but will get out quickly if it turns around. You minimize your losses this way. The gains far outweigh the losses.

### Other Information

To use this trading strategy, it is imperative that you have a direct access (ECN) trading platform with level II data feed. (John uses Carlin Equities.) John always uses market orders and mentions that because of the high volume of the stocks he trades, upticks occur very rapidly (important when shorting).

### Stocks

Examples of the stocks traded by John Tuma in JNPR, SEBL, JDSU, FLEX, SUNW, CIEN, NTAP, NXTL, ORCL, Q, BEAS, VRSN, SANM, RATL, and BRCD.

### West-Coast Offense

(notes from the message boards)

#### Description

Markie writes that this is a good scalping strategy for the last half hour of the market. It may work well for the folks who have a view of the Pacific Ocean and don't want to get up too early to day trade.

#### Execution

With one hour left in the session, go into Wizefinder and search for NASDAQ only stocks with the highest percentage gain for the day. Look for a well-developed day with good separation (no bounces). Look for stocks that are \$10 and up with a minimum volume of 500,000 (average daily volume). Then, with 45 minutes left in the market, start watching for lots of good scalps.

Note: This is also a potential entry into a swing trade. If you plan to hold overnight, then you should have entered the trade on a fresh cross on the Day with strong Week and Month charts.

### Shorting Tips

(notes from the message boards)

*[Jim on Shorting in response to someone who had just taken a loss in his first short]*

Shorting is not upside-down-buying long. It is easy to short (using a limit entry). But it is not easy to set the stop for shorting. It requires strong character for you to execute the cover (accepting a loss) when based only on a signal bell you set on an eSignal chart. The WizeTrade short interval graphs themselves provide one of the best stops for a short position. If you were wrong, WizeTrade will show it. Because of the uptick rule, right from the start you will have a small market move against you plus the spread and commissions. Count on having three charges against your account for shorting.

Here is how I set a stop for my day-trading account. I try to limit my losses to around \$100, which on 500 shares I consider to be 20¢ from the entry point. On 300 shares I would allow 30¢ (\$90). You would only enter a short when the stock is running high volume. Of course, you look at the recent top and the general market. One-minute eSignal volume colors will switch from generally green to generally red. You want to see the change of stock

Gary writes about using the TICK and TRIN for timing your entry. This applies to any pick when you are going long. It's difficult to make money in this very volatile market so you want to have the odds in your favor. There are 3 leading indicators which I recommend you watch during the trading day. They are the TICK, TRIN, and S&P Futures index. I will keep this short but in general before you buy your stock check the TICK and make sure it's positive (number of stocks ticking up is greater than the number of stock ticking down on NYSE). The TRIN measures volatility and has an inverse relationship to the TICK. When advancing stocks dominate volume flow, the number reads under 1.0. When declining stocks command volume flow, the number exceeds 1.0. You want the TICK positive (usually a range of 200 to 600) and the TRIN below .9 when you execute your trade. Also when the TRIN exceeds 1.5, watch for stocks to rebound and when TRIN is less than .4 watch for a sell off. Similarly, when the TICK approaches 1000 watch for a sell off and when it's -600 to -1000 watch for a rebound. Also watch the trend of the S&P futures index on 5 minute chart. (\$TICK and \$TRIN)



ownership from strong hands to weak hands. This means you have to pick the turn down closely. Two signals that will greatly increase your likelihood of a successful short position are: (1) having the TRIN index somewhere around 0.40 (Ed. note: information about TRIN can be found at [http://www.stockcharts.com/education/What/IndicatorAnalysis/indic\\_TRIN.html](http://www.stockcharts.com/education/What/IndicatorAnalysis/indic_TRIN.html)), and (2) having mysterious high volume spikes appear in the stock, along with very little price motion (one-minute chart). There is one rule that must be followed when shorting: DO NOT ever short a quiet market. Do not break this rule. This means shorting in the Dead Zone can be the riskiest time of the day. A quiet market can explode to the upside at any moment. Before taking a stock down, market makers will often run the stops of the shorts. No use taking you along for the ride. There can be a dramatic rise off a quiet market. If the stock is going down, this raid on the stops is all over in a few minutes. A sight to behold. The market is crooked? The market makers will give you head fakes to sucker you into taking a short position and then run the stops against you? Naaaaahhhh. Don't even think of it. They are nice guys. They aren't that desperate for easy money (not). With any luck at all you just might get a short away somewhere near the end of a panic short covering rally. (MACD and CCI help here.) But once all the shorters have bought back their positions, the stock may turn and then fall like a stone. Shorting such a downside leg is very difficult.

**Keeping tabs on the QQQs and/or index, plus volume will give you the signals everytime.**

### The Heatmap Strategy

**Description** The Heatmap Strategy appears to be a straightforward, relatively easy tactic to implement. However, it appears by all the chatter on the message boards, that a number of Wizetraders have added their own twists. These variations and commentary will be presented here. This is a strategy to play the market open.

**Procedures** The original method, which I was taught, was to evaluate the NASDAQ pre-market Heatmap ([NASDAQ.com](http://NASDAQ.com) and follow the links). I remember Mark McDonnell saying that you should look for a stock that has moved at least 2.5%, with the best volume possible. If you are going long, then you won't enter at the open unless all of the indices are long; if you plan on shorting a stock, then all of the indices should point to a short opening.

I always thought of this as a strategy to play at the open. However, the following is from Vic West (message board): "With all other indicators correct for a heatmap play, you enter in pre-market around 9:15AM and exit quickly after the open. It is pre-market gap strategy. [Uh Oh, it's now a pre-market gap play.]

However you decide to play this strategy, there are a few things to consider:

**Cautions** First of all, a market maker friend of mine told me that he thinks only pros should play in the pre-market. "It's far too dangerous for all but the professional trader."

You must enter with a limit order.

Consider that the heat map shows only one-hundred NASDAQ stocks, not the entire NASDAQ or the entire market, so you are limiting your choices for a run up or gap up at the open.

This is a tough market and if you enter pre-market, the indices have a nasty habit of late of flipping or turning against you at the most inopportune times.

Finally, I have used this strategy a number of times with the intention of entering at the open. Many times, a stock that is displaying strength in the pre-market just doesn't perform as advertised. So use this strategy with a great deal of caution.

If you are looking for a gap in the open, you might wish to consider Charlene's Method or the optional HotScans method at the previous close.

## Breakouts/Breakdowns

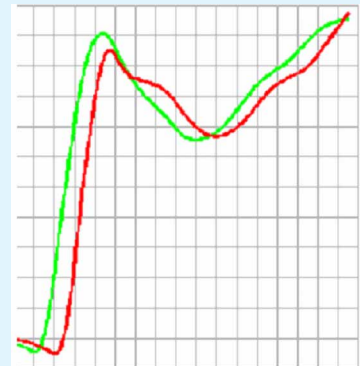
**Description** A fellow trader named Mike Gorchav developed this system about a year ago and we traded it exclusively for quite a while, at least until we tired of all the preparation. The purpose of this strategy is to have a steady stream of trades all day. All of these trades are break outs or break downs because of the method in which this strategy is structured,. Personally, I prefer playing reversals, second stage rallies, and rallies, but; I used the system with some success for quite a while.

**Procedures** The following steps must be followed, some every evening:

1. Make a list of about 50 of your favorite trading stocks. In Mike's case, he chose the 50 stocks that had the greatest volume. I picked stocks with reasonable volume that had the largest average daily range. I also limited my selections to stocks that traded at least 1-million shares on average per day.
2. Once you have chosen a list of stocks, you need not change them every evening, but you are free to add or delete stocks from the list.
3. Every evening or after the market, you must set a trigger to buy or sell short for each of the stock on your list. Each stock will have two triggers, one for longs and one for shorts. For a long trigger add 6¢ to the current day's high. For short triggers, subtract 6¢ from the current day's low.
4. Set up alerts. Many trading platforms allow you set up alerts. Some are sophisticated and have popups, others send e-mails. There were days when I had so many alerts I couldn't look at them all.
5. At the open, eliminate any stocks that gap. Period. They are not in play for the day.
6. When you get an alert, treat it as any potential WizeTrade. Evaluate the charts, look at the indices, and be sure to check the volume. Most of the time these are profitable trades since they are breaking up or down past short term resistance or support.

## Follow-up or Secondary Runs

**Description** I have repeatedly observed that when I find a stock that is in play (food stocks—not) that is, a stock that is driving the market on a huge increase in relative volume, the stock will often pull back and give the trader a second trading opportunity. Earlier I mentioned a stock that I found after it had already run up 2 points (\$2). Later in the morning it pulled back on the 10-minute light (8-minute for you sophisticated traders) and commenced another run for \$2.60. This isn't your every-day rocket, this is **the monster of the day**. When you find it, stay with it no matter what.



**Finding the Trade** In this case, I'm looking for a *one-day-wonder*. Since I'm a day trader and will NOT hold overnight, I really am not concerned about what happens the following day. I'm looking for a stock that will move at least 2 points or considerably more before the close. On a good day, which I'll define as any day with volume sustaining throughout the day, not just the open, I run HotScans ([www.Marketgauge.com](http://www.Marketgauge.com)) about 10 minutes into the open. I'll run both *Rallying Now (or Falling Now)* and *Big Volume now* and compare notes on the top 2 or 3 stocks. (Note: HotScans updates automatically every minute so you can just watch it.) I look for huge increases in relative volume, 1000% or more—and I've got a monster long or short to play all day.

## Stalking and Variations on Stalking

### Description

Sometimes I refer to this strategy as *parking on a stock*. This past September, I followed one stock for a solid week, paper trading the 30-minute chart. It was a stock with a large daily range (it may have been AMGN) and tended to be going somewhere all the time, up or down. Allowing for slippage when it changed direction, and assuming 1000 shares per trade, the stock would have earned the trader between \$12,000 and \$15,000 in one week (going long and short). "But I miss the fresh crosses you say." Not if you only trade one stock. Does this sound too good to be true? Does this sound easy? It's not. It's really emotionally tough. There are periods when nothing is happening and that little voice says: "Let's take a quick peek at LLTC, or COF, or MXIM, or KLAC---"uh oh, missed a fresh cross AGAIN!" I once stalked EBAY for three hours and it did not move more than a penny in either direction (it finally gave up 50¢ at the close).

### Variations

Another way to insure relatively good and frequent trades is to put up 2, 3, or 5 at the most stocks on your first page. How about four stocks and the QQQs, or the TRIM, or the SPYs if applicable? No other stocks; nothing just around the corner on the second page that will tempt you to take quick peeks. These might be the same stocks every day. There are advantages to trading the same stocks. You get to know them and how they trade, and I have found this to be a very satisfying method of trading.

**"In all my months of research and couple months of trading, I came upon a style that best fits me. I stalk stocks. I play QLGC, KLAC, MXIM and some other tech stocks because of their volatility. I've watched these stocks religiously for the last 7 months or so. I trade in 1000 shares lots and only need a 10¢ move to make \$100. If you look at those stocks I play, they move \$1.50 + almost every day. I have Wizetrade to show me the trend and I watch these stocks every day, so it's not hard to make my goal of \$300-\$500 a day. Add the numbers up, and you come out with \$6000 a month. This did not happen overnight. I started trading with Wizetrade in June and now I often make more than my goal. This works for me. What works for you may differ and you may be successful or you may not. Wizetrade is a trading TOOL and when used correctly, can be a very powerful tool. This is just one man's experience and let me add, a very happy man."**

-Steve

from a chat room message (Wizetrade Users' Group)

Another variation on the same theme is to have three pages of stocks. After the market has shaken out during the first ten minutes, use the up and down arrow keys on Wizetrade to scroll through the 150 (130, 180) and see which stocks have a fresh cross or strong 150 at the open. Depending on the indices (long or short) move your best potential trades to the first page. Stay there. No peeking. You WILL get some trades during the day. (I'm, going to ask George Thompson, the software architect, the put a *page lock* on future upgrades.)

Since there is not setup work, you have your evenings free. Another bonus, you will tend to have several trades throughout the day. I know I shouldn't have to mention this, but please don't pick three semiconductor stocks, or four biotechs. I know one Wizetrader who trades only the gold stocks. If you mix it up, you have a much better chance of finding something that's moving for the day. I like to have a financial, a semiconductor, a biotech, maybe a home builder, or maybe a retail stock. It's your choice, but don't put all your eggs in one basket. If you just have, for example, only chip stocks, you will find that they trade almost in lock step anyway, so you will only get one trade when they all move together.

# Rallies, Reversals, and Dead Cat Bounces

Finding Shorts and Longs All Day Long

## Introduction

Have you noticed that most of the strategies used by Wizetraders, and for that matter all day traders, focus on the open and the close? That's because it has been so difficult to find good trades once we are well into the market (see Stalking). As mentioned earlier, being a beta tester for HotSans ([marketgauge.com](http://marketgauge.com)) has been an eye opener. The last three or four months have changed the way I trade throughout the day. I used to work on setups and try to catch a good trade with momentum at the open, sometimes at the close. I'd spend long hours watching a few stocks during the day hoping for an entrance, often to be disappointed. That's changed. Now I find potential trades throughout the day, usually when I want them. With about 7,000 stocks trading in the three major exchanges, there is almost always a stock making a move on huge relative volume. The problem has been finding these moves in time to get a trade. HotScans has solved this problem—but I get ahead of myself.

## Definitions

A rally simply defines a stock making a big move (long or short). Not a situation where you might be *forcing a trade*, or the charts aren't strong enough. A big move has momentum. Remember, **price change + high increase in relative volume = momentum** (see p. 17 for definition). These are the trades that most day traders want. Simply put: great longs or shorts. However, these trades occur under different circumstances and you should understand the different types of rallies so that you can setup your search for them.

## Types of Rallies

Following are some of the different situations under which rallies may occur:

1. A stock runs up, pulls back hard, then **reverses** into another rally.
2. A stock has been a short and then reverses to a long (**dead cat bounce**).
3. A stock has been trading flat and suddenly **breaks up or down**.
4. A long reverses and becomes a strong short.

## Setting Up HotScans

Hot scans allows you to screen within certain parameters. First of all, you select the price ranges, for example \$5 to \$15. Next, you check your volume requirements. HotScans asks if you wish to include the overall daily trend; I always check this box. Another box asks how often you wish the program to refresh: your choices range from never to every 10 minutes. I set mine at one minute. Finally, you can click on the Pop Out. This creates a free-floating box which you can overlay on the Wizetrade software. That's it, you are done. (But you didn't tell me how it works! OK, I'll do that in the next section.)

## HotScans Setups

If you checked *Display Daily Gauges*, you will immediately be able to evaluate how the stock has been doing since the open. This includes the current price, price change since the open, percent of price change, and today's relative volume versus average volume. The green and red bars are explained on page 18. A quick glance at the example to the right shows the first stock has had a huge increase in both daily relative volume as well as percent of price change.

**HotScans**  
Home | Hot Stocks

Presets Scans: [Rallying Now](#) | [Fallon Now](#) | [Big Volume Now](#) | [Opening Range Breakout -UP](#) | [Break Down](#) | [Day Traders - new intra-day highs](#) | [new intra-day lows](#) | [Gap falls](#) | [Gaps following through](#)

Select New Scan or Customize Scan Filter Criteria:  
Select 2nd Time Frame:  
Rallying Now (5 Min.) | 20 Mins. |  Display Daily Gauges

Run Scan | [More Filters](#) | [Hide Filters](#) | [Pop Out](#) | [Help](#) | Updated: 8:42:56 PM

**Rally Now (5 Min.): Greatest Percent Price Change UP In Last 5 Min.**  
Table Sorted by: 5 Min. Percent Price Change

Sym	Price	Today's Chg	% Price Chg	Today's Vol. vs. Avg.	5 Min. Chg	Last 5 Min. % Price Chg	Last 5 Min. Vol. vs. Avg.	Prev. Chg	Previous Per. % Price Chg	Previous Per. Vol. vs. Avg.	More
CH	11.39	0.59	5.2%	96%	0.17	1.6%	892%	0.00	0.1%	156%	<a href="#">More</a>
DELL	31.91	1.29	4.2%	93%	0.31	1.0%	960%	0.12	0.4%	453%	<a href="#">More</a>
CMH	11.90	-0.20	-1.7%	28%	0.09	0.8%	96%	-0.08	-0.6%	77%	<a href="#">More</a>
LOW	38.00	0.27	0.7%	-14%	0.20	0.6%	436%	0.01	0.1%	59%	<a href="#">More</a>
L	10.20	0.04	0.4%	13%	0.05	0.6%	983%	0.03	0.4%	156%	<a href="#">More</a>
SSE	34.40	0.49	1.3%	131%	0.16	0.5%	3,217%	0.11	0.3%	406%	<a href="#">More</a>
AS	19.35	-0.35	-1.9%	23%	0.09	0.5%	2,312%	0.03	0.2%	642%	<a href="#">More</a>
HTA	64.40	0.09	0.1%	-18%	0.23	0.4%	190%	0.12	0.2%	55%	<a href="#">More</a>
COH	30.75	0.40	1.3%	87%	0.10	0.4%	956%	0.12	0.4%	155%	<a href="#">More</a>
EAS	22.55	0.34	1.5%	893%	0.07	0.4%	483%	0.05	0.3%	214%	<a href="#">More</a>
PM	27.08	-0.51	-1.8%	-25%	0.08	0.3%	113%	0.00	0.0%	23%	<a href="#">More</a>
X	16.95	0.43	2.6%	185%	0.05	0.4%	184%	-0.05	-0.2%	407%	<a href="#">More</a>
SOV	14.25	-0.23	-1.6%	12%	0.04	0.4%	158%	0.03	0.3%	517%	<a href="#">More</a>
COX	32.17	0.02	0.1%	80%	0.09	0.3%	-18%	-0.03	-0.1%	33%	<a href="#">More</a>
ZN	10.94	-0.04	-0.4%	9%	0.03	0.4%	-14%	-0.06	-0.5%	153%	<a href="#">More</a>
SPR	22.41	0.40	1.8%	39%	0.08	0.3%	72%	0.01	0.1%	137%	<a href="#">More</a>
BE	18.72	0.00	0.0%	51%	0.05	0.3%	779%	-0.07	-0.3%	326%	<a href="#">More</a>

Customize Basic Filter Criteria (Applies to all scans):  
Min / Max Price: 10 / 70 | Volume: 100000 | Avg. Vol.: 1000000 | Market Cap.: > 100 MI | Exchange: All | Sectors & Groups: Sectors & Groups | Refresh: 1 min

Save settings as default |  Restore default settings

Now we get to the good part. In addition to the daily data, you can have two more columns (sets of data) which have filters. In other words, you can control the searches. I'll give a few examples of how I use these filters to find specific trading opportunities.

### Setting the Filters

Just to orient you, the first set of data quickly indicates how the stock has been performing for the day. If the scan indicates the stock has been strong all day, you can expect to have very strong long-minute lights. You are in an overall long trend. A quick look at the number of green bars will let you know how strong that trend really is.

The second set of columns shows price change (amount and percent) and strength for the rally period you selected. Again, you can quickly judge how strong the movement is by looking at the green bars. You can also see, for example, the amount of change in the relative volume. I like rallies that have more than 300% to 400% change in relative volume, or higher. You may select the time frame for the filter. Suppose you choose 5-minutes; you will find stocks that have been moving on huge relative volume for the past five minutes. So you quickly realize that you have a stock with a strong daily up trend that has been rallying for five minutes. It gets even better.

You have a third set of columns (data) which also has a time filter. This allows you to see how the stock has performed in the time frame just before you ran the scan, that is, a period of time (which you select) before the scan. Suppose you choose twenty minutes. You may find that there has been little change or a light retracement, then at this point, you already know what you will find before going to the Wizetrade charts: a stock in a strong daily long trend that has rested for a while (consolidated or slightly retraced) that is beginning a new rally.

By using the filters, you can come up with almost any kind of trade. Yesterday the market was short (downward trending) and I like to play "V" shaped reversals, sometimes called *dead-cat bounces*. I set the filter on the 2nd column for 5-minute rallying now. The filter in the 3rd column was set to scan a 30-minute time frame. I ran a scan (about 3 seconds) and noticed that IBM was down a few points. It had really been hammered. The second set of data indicated that it was rallying strongly as a long (more than 900% increase in relative volume), and the 3rd set of data showed that in the period before the rally, IBM was dropping like a rock. I loaded IBM in Wizetrade and found a strong reversal. (If you wish to view this trade, go to January 15th, IBM.) I caught one or two boxes on the 8-minute chart in Wizetrade. From where I caught it, it moved more than a point. The long-term lights were still red (typical in a dead-cat bounce) and IBM eventually reverted to a short. A great short by the way—two trades for the price of one.

Therefore, by looking at the daily trend first and setting your two filters, you will know ahead of time what kind of trade you will find. I know that I must sound like a pro, but my learning curve, that is, the time it took me to learn the system, was less than five minutes.

It is my understanding that many of these setups will have presets, thus eliminating the need to use the filters unless you are looking for something out of the ordinary.

## 9: Some Final Thoughts

When I began writing this e-book, I wanted to explain which light to use for an exit, now I realize that to really do justice to the art of day trading, it would take a five-hundred page book. I hope that you have found this information useful, possibly thought provoking, or at least not boring. If you are new to trading or day trading, perhaps this information will serve as some sort of an orientation to the profession since I endeavored to present an overview. As I wrote, I was constantly aware of more and more information that might be included, but there were other considerations as well. Since there are so many graphics imbedded in what was created as a postscript document, I had to keep it small enough to qualify for e-mailing. This final document is about 40 MHz and compressed to a barely acceptable size in PDF format.

I did not cover all the day-trading strategies that a pro might use. For example, there are techniques for playing the news, earnings announcements and on and on. But, I did try to present a range of useful strategies that many day traders employ. It is important that you identify the one or two that work best for you and stick with them. Become an expert and you will profit.

We are trading in a very difficult environment as I write this final page. This only hones our trading skills. If you can succeed even a little in this market, and develop your skills to the fullest, there is little doubt that you will be immensely successful when the market gradually returns.

I know that when we meet at the next Wizefest, I am going to be asked several questions over and over. I might as well answer them now. I have been trading with Scottrade. Periodically there are disasters. They goofed recently and cost me \$105. I've had three great completed trades canceled, the trading platform disappear from the Web, and more horror stories than you would care to hear. Suffice to say, I have switched to direct access trading (<http://directaccesselite.com/>) which my professional trader friends (guys who trade for hedge funds) believe is the most sophisticated trading platform available today. (If you call for a price, ask for the MG rate.)

I trade on a relatively powerful computer; this makes all the difference. Since I bought the new computer and XP Pro, I have never had to re-boot during the trading day. I defrag and clean out cookies and other rubbish at least once per day. I also have a program running called AdDelete which stops cookies and popup ads (free download). I had the computer built for me with a dual-head video card so that I can run two monitors. I'm also setting up a second computer to run my e-mails. Originally I had DSL but had constant problems so I switched to cable and it has been great. So much for equipment. I have returned to watching traditional charts since they give me a quick heads up when a stock begins to move. I have difficulty in catching these moves on WizeTrade since I cannot see the charts. I can also spot setups much more easily on a bar chart.

Although I covered many trading strategies, some of them scare me to death. In fact, some of them are so risky that the pros won't touch them. If you are a new trader, I would avoid the first few minutes of the market and certainly keep out of the pre- and after-markets. Sure, you'll win some, but you may also take a real beating, I know I have. The older I get and the more experience that I have under my belt, the more conservative I become. This is a profession and as I approach each trading day, I do not want an adventure, thank you. It's all about managing risk.

I know that you will ask me about my light setup. I have several. In fact, I have experimented with so many day-trading setups I've lost count. I'm going to mention briefly some conclusions that a friend and I have reached after more than a month of analyzing the best way to use WizeTrade for day trading. This friend is a professional with decades of experience using many types of setups. I do, however, wish to make these observations in the context of what I hear in the WizeTrade Users' Group e-mails. First of all, I see more light setups that Kelloggs has corn flakes. Everyone seems to be searching for the right setup. Furthermore, few seem very confident in the signals, and some are trading the 1-minute lights. Heck, WizeTrade might just as well have been built with a 1, 3, and 5. Maybe the following will help a little since everyone seems to be searching for the perfect *method*.

The lights (charts) have certain mathematical, that is, proportional relationships. You don't really need too many lights. These relationships apply to any light setup. Within a light setup, you will have the chance to trade within different time frames from long day trades to quick scalps. However, the relationships and function of the lights will not change.

Each light should be some percentage of the next light. If you are using a 180, for example, the next lights should be considerably smaller, otherwise a move in a shorter light will destroy the trend in the longer light while recycling, or as my friend says, "you will be forever chasing your tail" (waiting for setups). Each light, depending on how much of a move you wish to capture, plays a specific role in the decision-making process. If you wish to shift to shorter lights, all the the roles shift, but the relationships remain the same. I'd like to say that your light setup governs your trading style, but in fact, you take what you get. You can only take what the market gives you. That is, you can only play the signals as they arrive; I believe that some people keep tinkering with the lights hoping they will get a trade. Example: "I have a red 180, maybe if I change it to a 130 it will be green"—I've been there, have you? How about this one: "the 180 is embryonic, maybe if I change it to a 130 it will be stronger."

In the following setup the relationship (proportion) of the lights to each other, and how you play them as a system or method for trading, is one that makes sense.

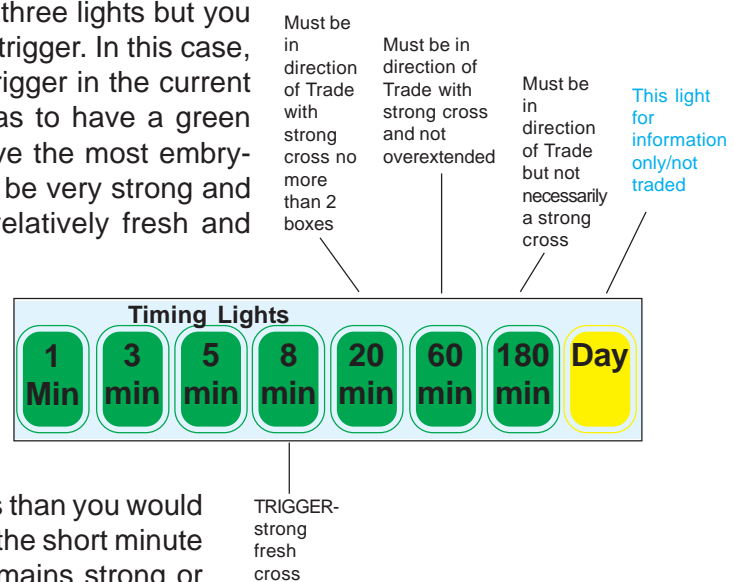
I show the Day Chart since there is room for it and also because it may indicate the overall strength of a stock's trend. However, I will day trade against the day light; it is NOT in play.

The three primary trading lights are the 180, 60, and 20. Notice the relationship; each is one-third of the preceding light, that is, they are well spread out. Each of these lights has a role to play in the *system*.

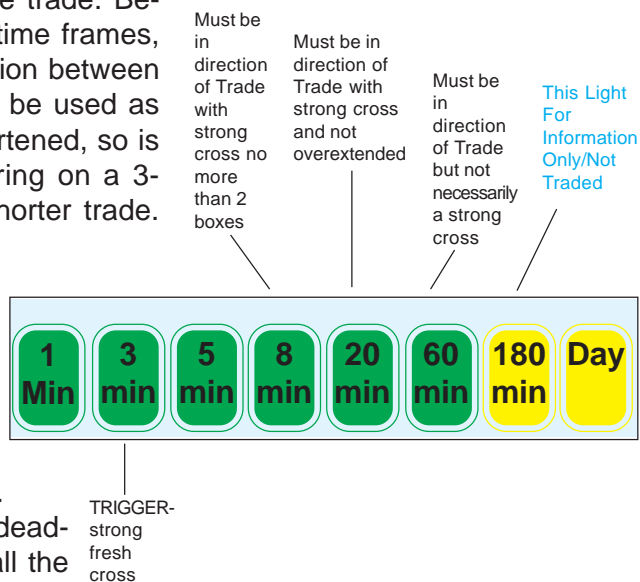
You could actually trade just these three lights but you need one more light to act as the timing trigger. In this case, either the 5 or the 8. The 8 is a better trigger in the current example. In this setup, the 180 only has to have a green signal (not pointing down), and can have the most embryonic of crosses. The 60, however, must be very strong and not overextended. The 20 should be relatively fresh and you enter on a fresh cross on the 8-minute chart. Ideally, the 8 and 20 will cross at about the same time. The 1 and 3 play no real role except for a heads up and possibly finessing the exit. This kind of setup has the potential to develop into a longer trade allowing you to capture much larger moves than you would if you allow yourself to be shaken out by the short minute lights. Forget them, trade the 60 if it remains strong or diverges. If not, try to follow the 20. If the 8 turns red, so what; you might be shaken out with 20¢ on what might be a point move. Let the 8 recycle, that's what it does for a living, try to follow longer lights if your goal is to capture the bigger moves.

Suppose you see this setup but the 8 is strong and getting stronger and you missed it. Quite honestly, by waiting for the 8 to recycle you might miss a huge move. Well, you can take this trade, just move your trigger to a shorter light such as the 5, 3, or even the 1. Just be aware that this might be a much shorter trade because you entered late. Be ready to sell or cover when you lose the 8.

It is important that as a day trader, you are aware of your trading style and your goals. Ask yourself, do I want to capture the big move or do I just wish for a quick scalp? Your answer will dictate how you use this above example and setup. Following is another example which might make the method a little clearer as you interpret setups in WizeTrade.



Here is an example of the same light setup but the roles of the lights have been shifted over one light (a move to shorter lights). Notice that the longest light, for trading purposes, is now the 60 which only has to be in the direction of the trade. Because the lights have been shifted to shorter time frames, and in order to keep the mathematical proportion between the trigger and the 8-minute light, the 3 could be used as the trigger. Each time the time frames are shortened, so is the potential length of the trade. When entering on a 3-minute light, the trader should expect a far shorter trade. Moving the lights again would begin to qualify as the setup for the FASTER method mentioned earlier in the trading strategies section. Also, the shorter the time frame used, the more nimble you have to be, thus increasing the risk of the trade. Using a 20-minute light, for example, as your longest indicator doesn't give you much of a trend within which to trade.



I should also mention that when playing a dead-cat bounce or a “V” reversal, that’s probably all the signal you are going to get.

The amount of risk you are willing to assume is part of your trading style. Only you know your skills and your pain tolerance threshold. If you are new to day trading, I would suggest taking the most conservative approach. The safest style of all is trading with the three Wizemen in your favor, but I rarely find everything lined up perfectly. By working with just minute lights, at least you have the opportunity to trade frequently, and profitably I might add.

Here are a few rules of the many dozens that a day trader must observe:

- Don't watch too many stocks, focus, focus, focus.
- Always get a fresh cross on some light and know ahead of time what your goals for the trade are.
- Be patient; it takes time for a trade to set up.
- Don't force a trade; if it's not ready, wait or pass.
- Stocks trade better on different lights; change your lights if necessary until you find the one that makes it easiest to trade a stock.
- Don't anticipate a cross, even if you see the price running up, wait for the right signal.
- Don't average down. Building a position is fine, however.
- Avoid stocks where the run is *long in the tooth*.
- Avoid breakout fakeouts and breakdown fakeouts.
- Don't worry about the price, worry about the charts.
- Fine tune (time) your entrance; timing really is everything.
- Don't change your style if it works for you.

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Since I started trading, I have met some of the finest people in the world. I have friends and contacts throughout the United States. I hope that I have the opportunity to meet you.

Mel Raiman

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