Trade Setups

Trading Ideas Introduction

This is the part where we finally start to work all this theory into trading strategies. We've spent a lot of time building up our war chest to get to this point, but I need to take the time to talk about some key issues before we do this. I am aware that most of you will probably not take my advice, but I couldn't consider myself a reputable teacher if I don't say my piece.

It is very important that you understand that learning these techniques are not straight forward and simple. This whole process is going to take work on your part. Please, Please, Please do NOT start trading these ideas until you have learned them thoroughly and traded them in a simulated environment. Chances are, you are only going to get discouraged because you will be making the wrong reads or not picking up on ones that you should be seeing. Please give it time. I understand you want to get started and you want to make money, but there is absolutely no reason to put real money at risk when you have no idea what you're doing yet. You need to be patient. It will come.

OK, with that said, let's get to the fun stuff.

Trading Ideas

After thinking long and hard, I've made a decision regarding how I want to teach this. At first, I intended to teach the trading segment by going through individual trade setups and going through playback examples in the video. I have, however, changed my mind. I have decided that it will be more beneficial to you to get the trade setups given to you first. After that, we can replay days in their entirety instead of hopping from day to day to see specific examples of any given trade setup.

What I hope to accomplish with this approach is to make the transition from learning to live trading much easier. Learning by cutting and pasting doesn't make sense does it? Letting a whole day unfold, making reads and identifying trades will translate much better to live trading. I hope you agree. Let's start talking about some trading ideas then.

Basic Trading Ideas

Every trade we take will use a support or resistance level to back it up. Hopefully by now you understand why this is important. It helps us to achieve solid trade placement with regards to limiting risk and maximizing gains. For example, if we're buying just above a support level, our stop-loss order can be placed just under support. Our target order can be placed just under the next resistance,

which maximizes profit because we have the greatest distance between our entry and the next level, which we expect to slow or possibly halt the move we're in.

How you manage your trades will depend on your own personal rhythm and style. It is very important that you develop your own groove. Otherwise, you will never feel truly comfortable trading this methodology. The idea is to take these tools and twist them all into something that puts your own personal touch on it and make it your own.

One note I must make before going into the individual trades is that these trades are supposed to coincide with a separate technical timing system. You can take them without a timing system but I believe this results in more confusion. Being able to get your timing down with indicators makes decision making a bit easier. So, if you haven't decided on a timing system now is the time to do so. I am using the Watts System which can be found on my links page. If you like being the stubborn type, you are also free to go it without one of course.

That said, let's look at the three basic trade setups.

Bread & Butter

I named this trade because this is the one you will always seem to be taking. This is essentially a pull back into either a previously formed balance area intra-day or a longer term cluster level. This trade looks to take advantage of a failure rejection against a level at the outer edge or mean, with a majority taking place at the outer edge. Because the best entries tend to be at the outer edge this trade will require a bit of aggressiveness. The ideal risk point is outside the other edge and the ideal target is at the next two levels in the direction of the trade. In case the trade goes bad, we are banking on the fact that odds do not favor a pass-through rejection, which would result in a full stop out. If the failure rejection (i.e., successful trade) does not occur, our stop placement should allow us to remain in the trade to monitor for acceptance. Upon acceptance, you then have the decision to scratch the trade, take a small profit or loss, or stand pat and hold the position.

The Edge

This trade corresponds to acceptance at a level in a trend. The pullback occurs after a trend moves into a previously established level to the outer edge and gives a reaction. As price rotates back to the other edge we look for signs of acceptance. The pullback to the other edge should trigger a system signal. Upon a reaction at the edge, we enter in the direction of the trend. If the situation is indeed acceptance, we should, in the very least, get a rotation back to the mean or other edge with which to take profits, trail stops, etc. If the trend continues, price should hold the lower edge, build balance, and eventually make

an imbalance shift in the direction of the trend again. Note that this trade tries to take advantage of the relationship acceptance gives. Price reacts at one edge, rotates to the other edge and will rotate within those parameters until balance shifts again. Also, please note that this trade occurs as price enters INTO A PREVIOUSLY ESTABLISHED LEVEL. The process must be, price makes a new leg in the trend, enters the cluster, passes the edge, then the mean, then stops at the outer edge. Then it pulls back to the other edge where you take the trend entry.

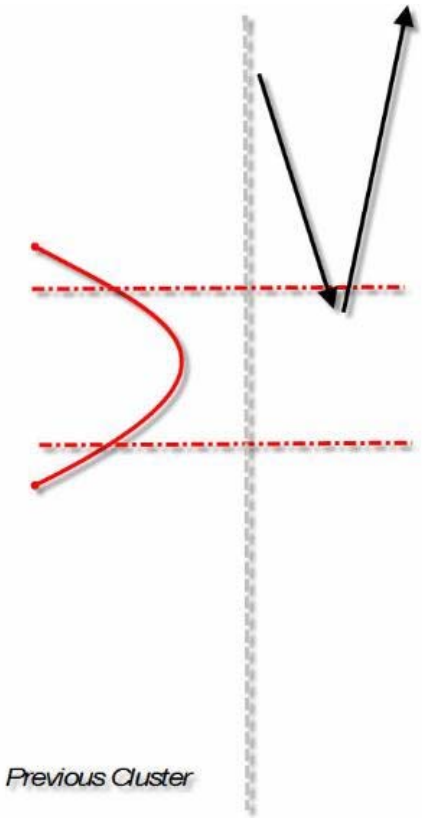
Double Pass-Through

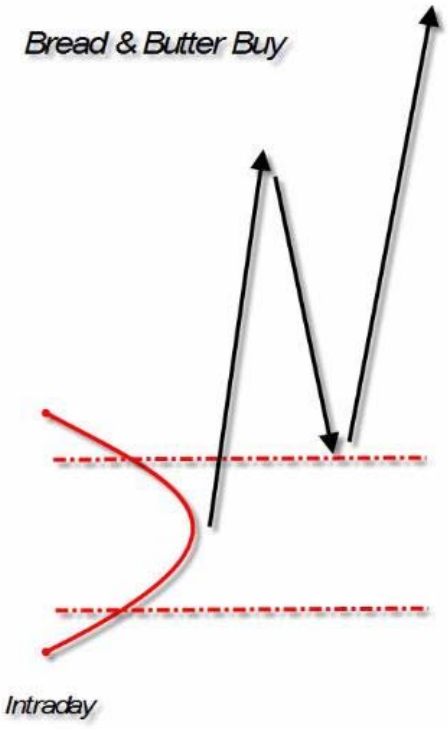
This trade tries to take advantage of the low odds of two pass-through rejections occurring in a row. This is a borderline advanced skill, however. A level that gets passed through sets up a great opportunity to anticipate either a failure rejection or acceptance on a test back into it. The problem, however, is that not having a read on whether it's going to fail-reject at the edge or mean, or accept at the other edge will give us some problems. However, I solve this by trying it twice. I will take a trade looking for either circumstance. I feel confident doing this because I believe in the rarity of the double pass-through rejection so much that I feel it's worth trying it twice.

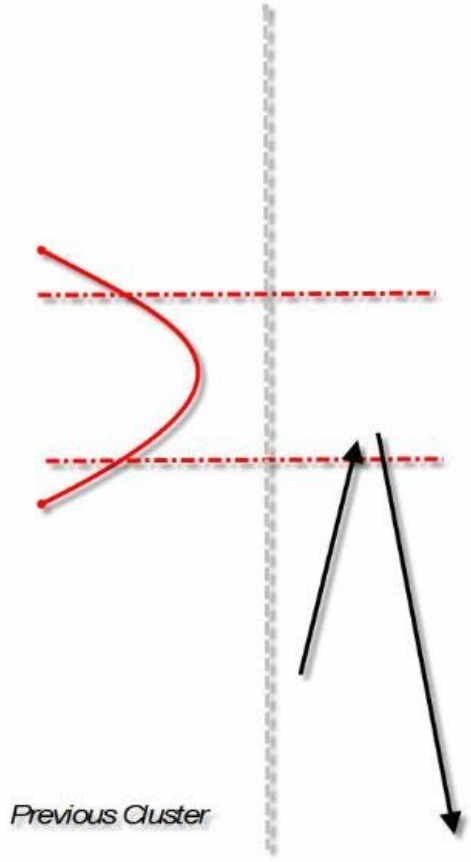
Conclusion

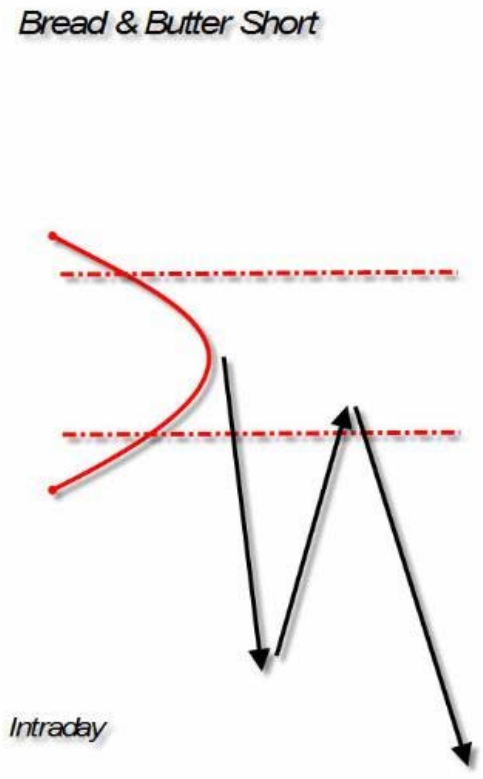
We now have some trading ideas based on the key factors we developed in our theory segment. We can clearly see the link between the two. So now, let's get to the good stuff and do replays with the emphasis on trade execution.

Also, please review the diagrams regarding the trade setups. Describing them with words can be rather confusing to some. The graphics should clear any issues you have. Please do NOT continue farther if you do not understand what these trade setups are. It’s better to wait a day or two and get it straight in your head than to continue with the wrong understanding.

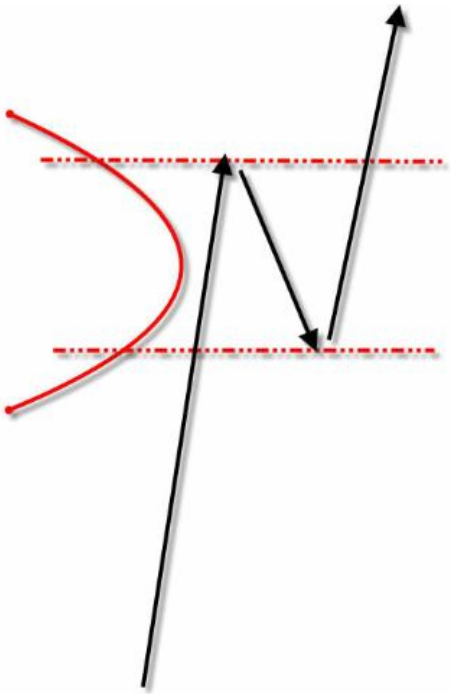

Previous Cluster


Bread & Butter Buy
Intraday


Previous Cluster

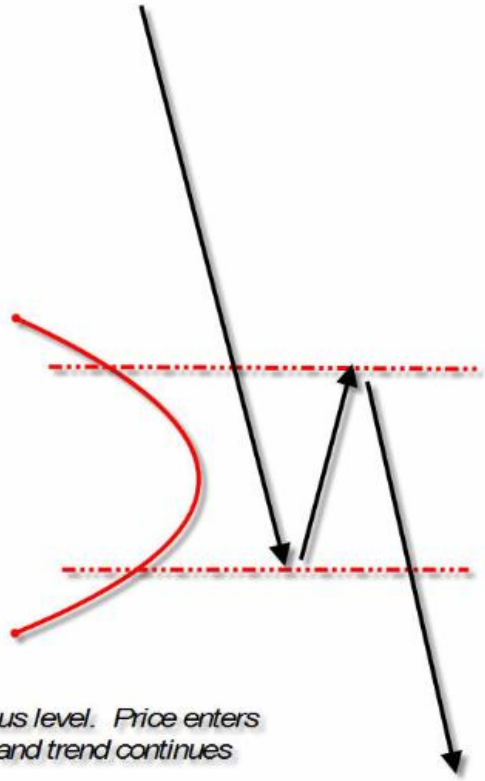

Bread & Butter Short
Intraday

Edge Long



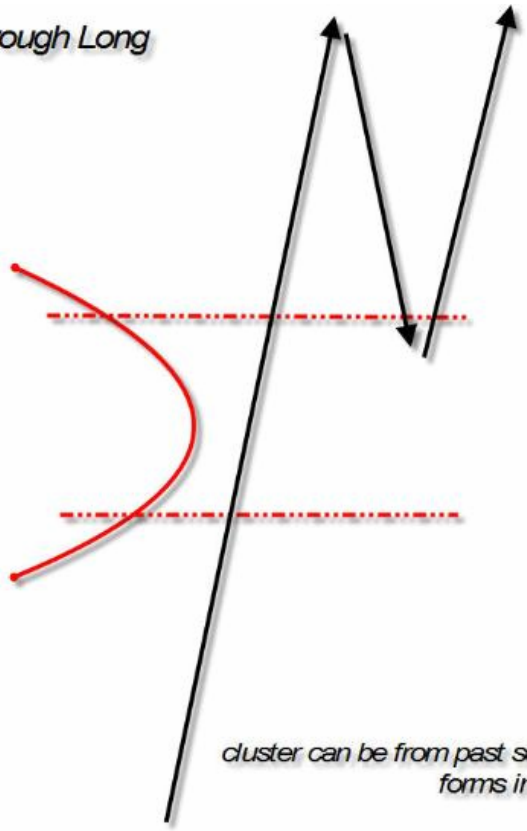
cluster can be intraday or any previous level. Price enters into the cluster, makes a rotation, and trend continues

Edge Short



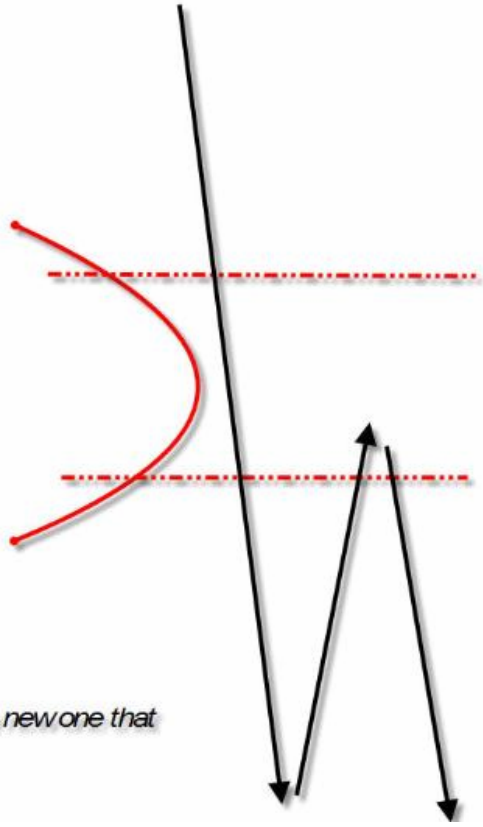
cluster can be intraday or any previous level. Price enters into the cluster, makes a rotation, and trend continues

Double Pass-Through Long



cluster can be from past sessions or a new one that forms intraday

Double Pass-Through Short



cluster can be from past sessions or a new one that forms intraday