How to find the right support and resistance
By Joe Duffy
Finding support and resistance for a day-trader can keep him alive in a volatile market. Here's one idea, implemented with others, to find those target areas.

S&P day-trading systems:
What works and what doesn't
By George Pruitt
If you want to develop a system, here are some ideas gleaned from studying top performing day-trading systems. If you would rather buy a system, those that only trade the S&P 500 seem to do best.

Getting the 'edge'
By Frank J. Alfonso
The best advice for an off-floor trader who wants to day-trade is to develop or buy a system that will force him into action. Buying a system may save you time, but you should use the same rigorous rules to test it.

Applying TD Sequential to intraday charts
By Tom DeMark
Originally designed for daily analysis, Tom DeMark's TD Sequential indicator also works for intraday analysis. It is especially effective for targeting high- and low-risk entry points.

Taking advantage of the big event
By Mitchell Holland
Day-trading takes more finesse than most techniques. Here is a way to take advantage of market reports, etc. without being taken out before the market moves.

Get ready: How an options specialist prepares for the market opening
By Jon Najarian
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How to find the right support and resistance

My personal preference for day-trading and short-term trading is to buy dips and sell rallies.

Two components are needed to make this strategy work. First, you have to be trading in the direction that gives you the best chance of success. Second, you have to be able to identify potential support or resistance for that trading day. I'll discuss one technique from each of these two components that make up my day-trading approach.

The first step is to determine which way the market is likely to go today -- in other words, is the trend up, down or sideways?

One method to determine the market trend involves a couple of old standby technical indicators that are available on virtually any charting software: the Moving Average Convergence Divergence (MACD) and the stochastic indicators. These oldies but goodies really can be useful if used in the proper combination.

Look at both the MACD and the Slow Stochastic on a daily chart to determine in which direction you want to trade the next day. For the MACD, I use a little longer time value for my inputs than the standard -- say, around a 10-30-10 exponential moving average combination. I also use a slow stochastic indicator with an input value of somewhere around 20 days.

Both of these indicators should be displayed together under the price data. Look for situations when both the MACD indicator and the stochastic indicator are on the same side of the signal line. If both are above their respective signal lines, then trade the buy side. If both are below their respective signal lines, trade the sell side. Quite often you'll find the MACD and the stochastic indicators are on opposite sides of their respective signal lines. In these instances, avoid the market.

The accompanying charts show this simple combination eliminates a lot of noise from the market and identifies those times when the market has the best chance to make a trend move. Throw these indicators up on any chart together, and you will see this combination works infinitely better than either indicator alone.

Once you've determined the direction to trade, the next step is to find support if you want to buy or resistance if you want to sell. There are several ways to do this, and my usual strategy is to employ several methodologies to come up with a confluence or a "keypoint" high-probability trading zone.

Here is one methodology that is being described for the first time. There is no neat name for this indicator, so I'll just call it the 3x5ATR. To construct it:

1. Add up the true ranges for the last five days and divide by five. This is the 5ATR.
2. Calculate a three-day simple moving average of the highs and a three-day simple moving average of the lows.
3. To calculate the 3x5ATR for potential resistance, add the 5ATR to the three-day moving average of the lows. To calculate the 3x5ATR for support, subtract the 5ATR from the three-day average of the highs.

An important point is that this is not a total day-trading strategy. Look to combine other techniques that identify potential support and resistance points. A good rule to live by is to look for a confluence of support or resistance by integrating analysis techniques and integrating time frames.

Joe Duffy is a former trading contest champion and author of three books and videos on his trading techniques. A private trader, he contributes research and analysis to the "Professional Traders Advisor," a daily market letter specializing in stock indexes, bonds and selected special situations in the futures markets. E-mail: Joeduffy@interlog.com.
The alignment of the MACD and stochastic indicators together shows you the market trend. When both indicators are below the signal line, as they were in early December for both the S&P 500 Index and T-bonds, you should be a seller; if both are above the signal line, as they were in early February, you should be a buyer.
By combining the five-day average true range with simple three-day moving averages of the highs and lows, you can create the 3x5ATR indicator to find support and resistance areas that can be used in a day-trading strategy of buying on dips and selling on rallies. The S&P charts above and the above, left T-bond chart show examples of support lines using the 3x5ATR; the above, right T-bond chart illustrates a resistance line using the 3x5ATR.
S&P day-trading systems: What works and what doesn’t

By George Pount

S&P day-trading systems, and about nine of them have shown a profit since they were released. Most of these systems are consistent with my research; however, it is not a guarantee that all systems will follow suit. A large portion of S&P day-trading systems use a combination of these exits. I have been told that 40% of research should be spent on the system and 60% should be spent on trading, risk should be measured time, exit techniques provide a demonstration purposes only and didn’t strive to make profit targets and trailing stops, I’ve created two systems to demonstrate the success or failure of protective stops, although a difficulty a systems have with the S&P 500, static dollar stops are useless when the market is volatile. System B also shows degraded performance by trailing stops did not help System A (see “Hitting the trailing stops,” below, left) as much as System B (see “Before and after,” right), shows terrible performance using trailing stops; the system was reborn. The system must be protected from curve fitting, which is when you historically back test, and then test out-of-sample on the new data. These systems have been successful because of their entries, which are consistent with my research, and these entries have been re-emphasized by the need for a large protective stop and large profit targets.

Trading stop

A trading stop is a combination of a protective stop and profit target. This large amount of stop loss is too large for a day-trading system because it affords enough potential to make it a loser. If you limit your losses, you’re more likely to win. Systems A and B are such systems: 50% is too large for System A, and 120% is too large for System B. To demonstrate the success or failure of protective stops, I’ve created two systems (see “Before and after,” right) to show terrible performance using trailing stops; the system was reborn. The system must be protected from curve fitting, which is when you historically back test, and then test out-of-sample on the new data. These systems have been successful because of their entries, which are consistent with my research, and these entries have been re-emphasized by the need for a large protective stop and large profit targets.

Profit targets

A profit target is a long-term goal. The farther you limit your profit targets, the more money per trade. A larger stop prevents a premature exit. A smaller profit target limits potential high-profit days, then you limit the frequency of trades a system generates: More frequent trading systems need tighter exits. A day-trading system comes from those days when the S&P looks as good as the equity curve before. These systems have been successful because of their entries, which are consistent with my research, and these entries have been re-emphasized by the need for a large protective stop and large profit targets. If a system has a high frequency of trades, tight stops usually work.

Protective stop

A protective stop is the only way to protect yourself from curve fitting. If you historically back test and then trade on the new data, you’re curve fitting. There is no black or white answer to which type of stop is better. Alternative to static dollar stops, would be to use self-adjusting or dynamic dollar stops. The lack-luster performance of System A and System B (see “Protective stop comparison,” right) shows that neither protective stop limits slippage per trade. There isn’t always a timer when you have a losing trade, a larger stop will still work.

Frequency of trades

Frequency of trades in a system is an important factor. Over the past eight years I’ve often been asked which exit technique is the best. The answer is it depends on the system; there is no black or white answer. However, through research, I’ve found the success of these exit techniques usually depends upon the frequency of trades a system generates. More frequent trading systems need tighter exits. A day-trading system comes from those days when the S&P looks as good as the equity curve before. These systems have been successful because of their entries, which are consistent with my research, and these entries have been re-emphasized by the need for a large protective stop and large profit targets.

Author’s note

I’ve been told that 40% of research should be spent on the system and 60% should be spent on trading, risk should be measured time, exit techniques provide a demonstration purposes only and didn’t strive to make profit targets and trailing stops, I’ve created two systems (see “Before and after,” right) to show terrible performance using trailing stops; the system was reborn. The system must be protected from curve fitting, which is when you historically back test, and then test out-of-sample on the new data. These systems have been successful because of their entries, which are consistent with my research, and these entries have been re-emphasized by the need for a large protective stop and large profit targets.
Volatility heaven

Average annual 10-day average range in dollars

back
## Protective stop comparison

### System A at different protective stop levels

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### System B at different protective stop levels

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### Variation in profit targets

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#### System B at different profit target levels

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<td>27</td>
<td>51.5</td>
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# Hitting the Trailing Stops

System A at different trailing stop levels

<table>
<thead>
<tr>
<th>Slope</th>
<th>Total $PL</th>
<th>Avg $PL/Yr</th>
<th>Max Draw Down</th>
<th>%PL Draw Down</th>
<th>Trades in Last 12 mn</th>
<th>% Wins</th>
<th>% Trim</th>
<th>Win:Loss</th>
<th>%Gain in Mth+DD</th>
</tr>
</thead>
<tbody>
<tr>
<td>$250</td>
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<td>-6,580</td>
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<td>-450</td>
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<td>7</td>
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<td>1,275</td>
<td>28,600</td>
<td>4,450</td>
<td>5,700</td>
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<td>28,125</td>
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<td>43.9</td>
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System A at different trailing stop levels

<table>
<thead>
<tr>
<th>Slope</th>
<th>Total $PL</th>
<th>Avg $PL/Yr</th>
<th>Max Draw Down</th>
<th>%PL Draw Down</th>
<th>Trades in Last 12 mn</th>
<th>% Wins</th>
<th>% Trim</th>
<th>Win:Loss</th>
<th>%Gain in Mth+DD</th>
</tr>
</thead>
<tbody>
<tr>
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### Before and after

#### System A (before)

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<tr>
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<td>Best trade</td>
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<tr>
<td>Avg. net/year</td>
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<tr>
<td>Avg. %Ret. MaxDD/year</td>
<td>-5%</td>
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#### System A (after)

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<tr>
<td>Max DrawDn ClsTrd</td>
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<tr>
<td>Long net P/L</td>
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<tr>
<td>Avg. net/year</td>
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</tr>
<tr>
<td>Avg. %Ret. MaxDD/year</td>
<td>18%</td>
</tr>
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#### System B (before)

<table>
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<td>Total net P/L</td>
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</tr>
<tr>
<td>%Winning months</td>
<td>58%</td>
</tr>
<tr>
<td>Max DrawDn ClsTrd</td>
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</tr>
<tr>
<td>Long net P/L</td>
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</tr>
<tr>
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</tr>
<tr>
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<td>Avg. %Ret. MaxDD/year</td>
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</tr>
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#### System B (after)

<table>
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<tr>
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<th>Value</th>
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</thead>
<tbody>
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</tr>
<tr>
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<tr>
<td>Avg. net/year</td>
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</tr>
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<td>Avg. %Ret. MaxDD/year</td>
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</tr>
<tr>
<td>or .19 ratio, on 08/23/94</td>
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back
## Top S&P day-trading systems

S&P day-trading systems that have shown profits since release date

<table>
<thead>
<tr>
<th></th>
<th>Net PL</th>
<th>Max Cls Std w/OTE</th>
<th>% Wins</th>
<th>Avg Win Cons Loss</th>
<th>Flat # Days % TIM</th>
<th>% Gain /Mn- DD PRR</th>
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</thead>
<tbody>
<tr>
<td>R-Breaker</td>
<td>72,025</td>
<td>14,600 14,600</td>
<td>48.3%</td>
<td>1030 8 244</td>
<td>25</td>
<td>95.0 1.39</td>
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<tr>
<td>R-Levels</td>
<td>48,700</td>
<td>11,275 11,275</td>
<td>51.0%</td>
<td>985 8 316</td>
<td>14</td>
<td>75.9 1.51</td>
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<td>Stafford S&amp;P</td>
<td>36,425</td>
<td>23,075 23,075</td>
<td>42.2%</td>
<td>1123 12 981</td>
<td>27</td>
<td>28.4 1.12</td>
</tr>
<tr>
<td>Gary Smith #2</td>
<td>14,525</td>
<td>13,675 13,675</td>
<td>44.0%</td>
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<tr>
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<td>20,100</td>
<td>8,650 8,650</td>
<td>47.1%</td>
<td>953 7 152</td>
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<td>1376 8 n/a</td>
<td>n/a</td>
<td>68.6 n/a</td>
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<td>5,400 5,400</td>
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<td>1027 9 527</td>
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<td>41.2 1.52</td>
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<tr>
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<td>36,325 36,325</td>
<td>48.2%</td>
<td>954 8 1392</td>
<td>26</td>
<td>8.3 1.07</td>
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<tr>
<td>Delta Threshld</td>
<td>14,125</td>
<td>23,475 23,475</td>
<td>35.4%</td>
<td>1098 9 1065</td>
<td>10</td>
<td>7.4 1.06</td>
</tr>
</tbody>
</table>
Top Performers

**Equity curve for S&P 500**

- Max drawdown $10,960 on April 28, 1994
- Total equity $146,875
- Longest flat 316 days
- Equity shown after $100 commission/slippage

**R-Levels**

1986 87 88 89 90 91 92 93 94 95 96

-11,000 7,000 43,000 61,000 79,000 97,000 115,000 133,000 151,000

**R-Breaker**

1986 87 88 89 90 91 92 93 94 95 96

-8,000 17,000 42,000 67,000 92,000 117,000 142,000 167,000 192,000 217,000

Sources:

- Equity curve: Excalibur

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Getting the ‘edge’

A really effective day-trading profit is made out of these traders who are really good at getting the ‘edge’ in their trading, that is, understanding something about the market mechanism that gives them an advantage. This edge is not something that can be bought or sold, but is rather something that is acquired over time through experience and knowledge. It is this edge that allows these traders to make profitable trades. They often hope for some sort of “sixth sense” to give them an advantage. Unfortunately, the market usually demonstrates it has more of a sixth sense and sees through the trader’s plans.

The next time you are asked to make a trade, make sure you have a clear understanding of the market conditions and what the market is likely to do in the future. This will allow you to make profitable trades. You should avoid the temptation to take risks that are not justified by your knowledge of the market.

First, all the rules given previously for developing your own system should have been used. New traders are often tempted to change the rules of a system to make it more profitable. This is a mistake. The best traders know how to develop systems that are robust and will work in a variety of market conditions. The rules of a system should be as clear and unambiguous as possible, and they should be based on sound statistical principles.

Second, the rules of a system should be tested over a long period of time. This is important because it allows the trader to see how the system performs in different market conditions. A system that works well in one market condition may not work as well in another. The trader should be able to see how the system performs in different market conditions.

Third, the system should be tested using historical data. This is important because it allows the trader to see how the system performs in different market conditions. A system that works well in one market condition may not work as well in another. The trader should be able to see how the system performs in different market conditions.

Fourth, the system should be tested using different market conditions. This is important because it allows the trader to see how the system performs in different market conditions. A system that works well in one market condition may not work as well in another. The trader should be able to see how the system performs in different market conditions.

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The below test demonstrates several of the important rules required to develop a profitable day-trading system. The test covers a trading system for T-bond futures from 1983 through February 1997 (long test period). There are eight variables, A through H (limited number of rules), which is reasonable given the long test period and the more than 3,500 trades. Variable A is incremented from 100 to 200, with the other variables held constant. System performance, measured by net profit and loss and maximum drawdown, demonstrates robust variables, as large changes in Variable A still produce very good results. Incrementing the other variables also should produce similar results.

### Developing a day-trading system

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<td>200</td>
<td>170</td>
</tr>
</tbody>
</table>
Applying TD Sequential to intraday charts

When I entered the investment business more than 25 years ago, a column on the floor of the New York Stock Exchange was approximately 6 million dollars a day. Stock quotations appeared on a ticker tape, and futures spreads were tracked on a wallboard.

I did my market timing research by poring over widely printed charts with a magnifying glass. Analysis was limited to conclusions regarding daily, weekly, and monthly time periods. My research showed price movement of most markets displayed a natural rhythmic motion that could be measured by a combination of factors that either compared closing price levels or compared closing price levels with extreme price highs and lows. Simply put, TD Sequential compliance with intraday chart time scales was the goal.

Setup
The initial setup phase consists of a series of at least nine consecutive closes less than or equal to the high three or more price bars earlier. If the setup phase ends with an at least nine consecutive closes greater than the close of the last four trading bars earlier for a sell setup, the setup establishes the environment for the next phase of the TD Sequential to effect a decision to buy or sell. Once the setup series has been defined, I review price activity beginning on the next day’s close or opening price and take a final decision about whether or not to trade. This time period is completed just prior to or during an actual price top or price bottom.

Intersection
To demonstrate the sensitivity of the TD Sequential to identify the exact top and bottom of a market, let’s begin with a perspective of how the price top and bottom occurred.

Intraday trading markets, and, conversely, in the case of a market decline, the numbers appear beneath the respective price bar. A similar configuration is observed with a high-risk sell countdown when the price is less than or equal to the low of buy setup bar 6 or any other price bars 5, 4, 3, 2 or 1 of the buy setup. If this requirement is not met, then the high of bar 9 of the buy setup must be greater than or equal to the low of buy setup bar 6 or any other price bars 5, 4, 3, 2 or 1 of the buy setup. If this requirement is not met, then the high of bar 9 of the buy setup must be greater than or equal to the low of buy setup bar 6 or any other price bars 5, 4, 3, 2 or 1 of the buy setup.

TD Sequential buy countdown consists of a series of 13 successive closes less than or equal to the low two price bars earlier. However, not every setup elicits such a response, as you can readily see at 2:35 p.m. when the ninth price bar of a buy setup failed to generate any price movement to the upside.

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The sell setup and countdown, peaking at 13.

back
The buy setup and countdown, bottoming at 13.
A 27-point plunge in less than two hours on a one-minute bar chart.
Coffee TD Sequential

May 97 coffee, five minute
Feb. 19-20, 1997

Stretching TD Sequential to a five-minute chart.

Longer count

March 97 S&P 500, 10 minute
Feb. 19-20, 1997

Stretching TD Sequential to a 10-minute chart.

Source: Both charts, CQG
Taking advantage of the big event

Volatility

In other words, the key to successful day-trading is not developing entry points; it is the technique of choosing which market you want to play and then setting up a simple execution strategy that you can apply on any day. Many traders think they have found the key to entry points, but in my experience, this is not the case. As the saying goes, when you're buying low and selling high, the market is your friend and the trends are your ally. The key is to learn how to execute your trades.

Caveats

This technique also allows for stop outs, though it may not be as effective as other techniques in this regard. For this technique, you must make sure that the market you're playing is stable and not prone to wild swings. If the market is too volatile, you may end up getting filled at a later price, which will cancel your stop. In this case, it's better to use a bracket trade or a limit order strategy. It's important to know the market you're playing and how to anticipate its behavior.

Summary of results

Over five months, I made 14 of these trades; 11 were profitable and 3 were losers. The average gain was $312 per trade, with a maximum gain of $330 and a maximum loss of $132. The overall gain was $3,898, which is a good result for this type of trading.

Event-based trading means taking advantage of an important upcoming event or key data release. The idea is to identify the market and the specific conditions that will lead to a profitable trade. The event could be a government report, a company earnings release, or any other event that will impact the market. Here are some of the key points to keep in mind when event-based trading:

- The key to successful event-based trading is to identify the right event and the right conditions for a profitable trade. The right event is the one that will have the biggest impact on the market, and the right conditions are the ones that will make the trade profitable.
- The right execution needs the right conditions to be met. This means that you must be able to identify the right event and the right conditions, and you must be able to execute the trade at the right time.
- The right execution technique but from how close the current conditions approach the right conditions. This means that you must be able to anticipate the event and the conditions, and you must be able to execute the trade at the right time.
- How reproducible our trading results are often stems not from the right execution technique but from how close the current conditions approach the right conditions. This means that you must be able to anticipate the event and the conditions, and you must be able to execute the trade at the right time.
- The bottom line for any trading technique or system is its practical application. This means that you must be able to anticipate the event and the conditions, and you must be able to execute the trade at the right time.

The mechanics of this trade are simple. Assuming you have followed the market over the previous day, you can create a simple T-bond bracket trade. The trade is done by placing two orders into the market before the open, one to buy and one to sell. The buy is placed above the sell so when one is filled, the other is left in place to become the stop. This technique is useful when it's likely the market will move in your favor but not with the kind of volatility that makes successful entry points impossible. For this reason, the effect of the commissions and slippage were incidental to the result of this trading technique.

No regrets... Nothing wrong with the way they trade; the fact that conditions aren't as good still makes for a good trade. That's the way it's supposed to be. The key is to anticipate the event and the conditions, and to know how to execute the trade at the right time.

The two orders should be placed strategically to allow entry only if the market moves in your favor. The technique works or not worked and the risk or reward associated with the trades on an after-
Get ready: How an options specialist prepares for the market opening

By Jon Najarian

8:45 a.m. As the traffic is already building on the expressways that feed into downtown Chicago.

Morning prep

When I get into our offices at 7 a.m., our clients already have been at work for about an hour. As we trade tens of thousands of options and 1-2 million shares of stock each day, it's extremely important to know what the key news stories were that affected the markets.

The computers assemble and search through news feeds from more than 20 news services, such as Dow Jones, Bloomberg and Reuters. These feeds cost us more than $5,000 per week.

My next step is to check the average daily volume the stock trades. I can't step into a stock where I don't know what the average daily volume is. You've got to be a little bit conservative when it comes to stocks.

The room gets more boisterous and energized with each tick of the clock. Our research will hand me the critical overnight news stories that will affect our trading that day. By 7 a.m. he will have run several search programs on a host of computers that incorporate fuzzy and Boolean logic to hunt for key words in news stories that he feels will influence the markets.

Just 15 minutes to showtime.

The news events that occur outside the expected range, we will sell them options and take the risk of going into negative gamma. If a similar story comes out from some other vendor, however, that information might not be widely disseminated for several hours.

If a story is compelling enough, my next step is to find the average trading range for that stock. In general, the market volatility will be less during the overnight hours, so you might want to be a little bit more aggressive.

The news event short gamma. If we've done our homework, the odds will be solidly on our side. However, the odds may be on the other side if the overnight story was rejected and the stock opened where we expected it to open.

We begin with our Chicago Designated Primary Market Maker (DPM) group, go through the rest of our stock and option positions and plotting strategies for the day. We will use our Chicago Designated Primary Market Maker (DPM) who has traded on the CBOE since 1981, both on and off the floor. Web page: http://www.futuremag.com/library/daytrade97/day12.html

9:00 a.m. The computers are online shaped with 30 running hot of trading desk on the west wall and a 12 by 12-foot control table in the middle.

Just like most traders, when I buy, I pay; the other guy, when he sells, that is, how the market will react. I'm the buyer. By understanding volatility, you can better understand the market.

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Obviously, the search for market-moving news continues from the beginning of our day straight through until the last trader locks the door. To make sure we stay on top of the news, we keep our cell phones and pagers turned on at all times.

To make sure we stay on top of the news, we keep our cell phones and pagers turned on at all times.
Day-trader's paradise

"It’s a day-trader’s paradise where there’s volatility."

Chicago, points out: "Typically, the more volatile, the better. There’s more opportunity for live cattle. Suddenly come alive: "Government reports and various seasons can cause an otherwise flat market's future intraday profit potential works great, Darby says, unless yesterday’s news events can cause nice, wide ranges," Darby says. "But you can’t necessarily expect news events to cause wide ranges. In the absence of news events and market shocks, though, daily price range, volume, open interest and price movement generally are stable. In the absence of news events and market shocks, though, daily price range, volume, open interest and price movement generally are stable.

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## Market menu

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<td>Several thousand dollar daily range</td>
<td>Approaching historical highs</td>
<td>Very active, but costly slippage</td>
<td>Even slow days have potential</td>
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<tr>
<td>T-bonds</td>
<td>Relatively small, but varies</td>
<td>Varies; best during gov't reports</td>
<td>High volume; low slippage</td>
<td>Gov't reports impact range and volatility most</td>
</tr>
<tr>
<td>Energies</td>
<td>Depends on fundamentals</td>
<td>Season main factor (e.g., heating oil in winter)</td>
<td>Crude very liquid; heating oil lacking</td>
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<td>Increases with gov't reports</td>
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<tr>
<td>Currencies</td>
<td>Yen and D-mark most active</td>
<td>Market driven; gov'ts play role</td>
<td>Very liquid</td>
<td>Consistency a strong point</td>
</tr>
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</table>

Some markets day-trade better than others.
The front month S&P 500 futures contract jumped 1,020 basis points the afternoon of March 5, 1997. This 2 1/2 hour move earned longs a net $5,100.
Perfect market?
June S&P 500, daily

Highs and lows (left scale): plotting the highs and lows shows both where the market has been and the daily range.

Volatility (right scale): indicates number of intraday trade opportunities and liquidity

Price range: indicates profit potential; a five-day moving average puts it in perspective

Volume (left scale) and open interest (right scale): indicates liquidity; it's important to note both increase as the contract becomes the front month, which is generally the best month to day-trade. (S&P volume averaged 79,532 daily in 1996.)

Source: Optima Investment Research

back
Another day.

average trades, don't add on to losers and don't overtrade. Just because you're a day-trader

Risk control, money management principles and common-sense trading are just as

S&P 500 can be very strong on a short-term basis.

Another idea is to look at inter-market relationships. Floor traders especially look at

method to evaluate the trading landscape he is in.

Market profile

primary trend for the day often establishes itself at that time. This method allows a trader

suggests waiting for the second or third hour of trading to put on positions because the

gap is not filled within five or 10 minutes, there is a strong possibility the early trend may

fills the gap, expecting the downtrend to resume (see "Filling the gap," left). If the opening

500 and offers food for thought: One extreme of the day's range usually is contained in the

prices back before they can take off again.

exhibit a strong tendency to fill price gaps. The gap functions like a magnet, drawing

You also must focus on contracts with enough liquidity to get good fills and enough

look at the longer-term picture to determine if you're operating in a larger uptrend or

practical applications.

In football terms, day-trading might be considered the grind-it-out ground game vs. the

market opening 10 points against you in the morning. Every day starts with a clean slate.

on the other hand, you might sleep better at night without having to worry about the

whether it's a government affecting your currency position, a war affecting your oil

probability of success.

margin requirement in your account at all times. If you didn't, you might have to come up

$7,500 in your trading account, you can theoretically buy and sell an S&P 500 contract

will avoid expensive margins that might otherwise prevent you from trading. If you have

more than $15,000 for contracts like the S&P 500.) If a market moves against a trader, the

themselves are margined by the exchange. (Rates range from less than $100 per contract to

Margin rates initially are set by exchanges. Clearing firms generally margin customers at a

best methods for limiting market exposure by allowing you to sidestep two potential

aspect of day-trading as well.

upside

you immediately would place your stop at or just above the support level 1 price. If the

Because former resistance becomes future support and vice versa, these levels provide key

their significance diminishes as they are repeatedly

support and resistance levels throughout a trading day,

Market profile

Market profile

Market profile

If a market is trading at its support level 1, you can make more money on the long side than

If a trend established after the first 30 minutes of trading is not interrupted or reversed in

If a trend established after the first 30 minutes of trading is not interrupted or reversed in

If you're wrong, you still have the rest of the day to look for

After five minutes, then quickly reverses and "fills" the gap.

If you look at an intraday bar chart, you will notice that trading tends to be

that a downtrend is in effect. After five minutes,

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S&P 500 March 97, five minute

Breakout
What you need for day-trading speed

Day-trading requires that day-traders deal with changes quickly if they hope to survive. Whether you want to analyze markets yourself or take trading entirely out of it, the Internet is a potential goldmine for traders — if they can find the time to get the most out of it.

The following is a sample of what is available from a few major vendors or other information sources. Futures' 1997 SourceBook lists 154 firms as suppliers of electronic price quotes, 234 providers of charting or technical analysis, numerous advisory services or other information sources.

**Price quotes**
Price quotes must be fast, accurate and reliable. Keep in mind you will need them sooner than later. Some of the day-trading packages that have everything in one box run the gamut — from $195 to $495, depending on the type of installation. The magnitude of fluctuations in markets viable for day-trading requires that day-traders deal with changes quickly if they hope to survive. Even with a world of information, Government reports, exchange data and many other items are free, or nearly so. Many of the major real-time vendors offer free, or nearly free, access to Web sites, check http://www.dbc.com , 800-826-0098) is one example of a data vendor that offers real-time data feeds.

**Market data**
Market data must be both fast and accurate. Day-traders need prices reflected in a manner that is easy to use. For a larger list of firms in these categories and hot links to those Web sites, check http://www.futuresmag.com/aboutfm/fosites3.html .

**Charting and analysis**
For a day-trader, there are a number of different programs with which to play. While most day-traders need these tools, it also adds to data sources for Traddelion for a 95 month subscription. Some packages offer both services in a single program, although with neither does the user have the ability to analyze the results swiftly. Most packages are available in a number of different formats, and some offer faster, more reliable delivery.

**Data feeds**
Depending on the type of service purchased, delivery can be by dedicated phone line, satellite dish or cable. The number of providers varies, so you should shop around. The initial cost ranges from $195 to $495, depending on the type of installation. The magnitude of fluctuations in markets viable for day-trading requires that day-traders deal with changes quickly if they hope to survive.

**Analysis**
Some packages offer technical analyses. Other packages offer fundamental analysis or technical analysis, or may be an add-on feature. While price data and some means to analyze it may be more essential for the day-trader, it’s nice to have event news and advisory services may be available as add-on features. While price data and some means to analyze it may be more essential for the day-trader, it’s nice to have event news and advisory services may be available as add-on features.

**Information**
Some are available in a number of real-time packages, some are available on a purchase or lease basis. Sometimes the day-trader has the choice of either, although the purchase price tends to be expensive.

**Analytical software**
Analytical software is available on a purchase or lease basis. Sometimes the day-trader has the choice of either, although the purchase price tends to be expensive.

**Analytical studies**
Analytical studies or the trading system or has made it possible for you to develop your own.

**Price quote services**
Price quote services are nearly 300 trading system vendors, 45 news services and numerous advisory services or other information sources.

**Virtual charts and formulas**
Virtual charts and formulas are available on a purchase or lease basis. Sometimes the day-trader has the choice of either, although the purchase price tends to be expensive.

**Data feed providers**
Data feed providers are nearly 300 trading system vendors, 45 news services and numerous advisory services or other information sources.

**Monitoring and analysis**
Monitoring and analysis studies make the day trader’s job easier by pointing out market changes, or potential trends. The range of monitoring and analysis programs is quite broad. For example, some only point out changes in a slow market, while others can identify trends.

**Signal processing**
Signal processing programs are available on a purchase or lease basis. Sometimes the day-trader has the choice of either, although the purchase price tends to be expensive.

**Real-time software**
Real-time software or virtual charts and formulas are available on a purchase or lease basis. Sometimes the day-trader has the choice of either, although the purchase price tends to be expensive.

**Forecasts**
Forecasts for real-time packages are available on a purchase or lease basis. Sometimes the day-trader has the choice of either, although the purchase price tends to be expensive.

**Reporting and alerting**
Reporting and alerting programs are available on a purchase or lease basis. Sometimes the day-trader has the choice of either, although the purchase price tends to be expensive.

**Trading software**
Trading software or virtual charts and formulas are available on a purchase or lease basis. Sometimes the day-trader has the choice of either, although the purchase price tends to be expensive.

**Market data providers**
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**Software**
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Day-trading: Not what you think

Mark D. Cook is a professional trader in East Sparta, Ohio. He has been trading for 22 years. In the summer of 1997, Mark decided to sell his furniture business in an attempt to make himself a full-time trader. Since then his trading has been successful enough to allow him not only to finance his family but also to pursue a unique educational approach to teaching others how to trade. Published in Futures Magazine.

Day-trading: Not what you think

Day-trade the market on the hour of the day in the S&P Futures composite of many ebbs and flows at different times of the trading day. They have helped me develop the following set of daily trading rules:

1) Do not trade the last hour of the day in the S&P Futures. If your phone, quote machine or any other mechanical function of your daily routine is out of order, your ability to follow the rules is affected. Day-trading is much like knowing the score of a basketball game when you are the coach. Day-trading is not a job, and your paycheck is determined by your ability. You only can maximize your ability if you have all the information you need to make trading decisions.

2) If you don't like the trade you're holding, get out of it. The person who knows you best is yourself. Listen to yourself. The indicator is a product of you telling yourself to do a trade. When you reject it, you are telling yourself that you are a liar.

3) Not taking a trade that is set up using indicators you have developed is calling yourself a foolproof. Successful day-traders believe in their indicators but also are aware that nothing is 100% foolproof.

4) All cylinders of the engine must be running efficiently.

5) To anyone who aspires to become a day-trader, observe those who are successful. The diaries clearly show that trading is actually a reclusive concentration. The extrovert aspect is depicted by an introvert aspect is depicted by the disciplined workaholic with an Ivy League education on Wall Street.

6) To anyone who aspires to become a day-trader, observe those who are successful. The diaries clearly show that trading is actually a reclusive concentration. The extrovert aspect is depicted by an introvert aspect is depicted by the disciplined workaholic with an Ivy League education on Wall Street.

7) Day-trading is a long-term commitment. I fervently believe it takes several years to become a market professional. Each year you should assess your progress and ask yourself if you are making the most of your efforts. The day-trader believes in their indicators but also are aware that nothing is 100% foolproof.

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**Day-trading overview**

Day-trading is a strategy where trades are executed within the same day, buying and selling stocks with the expectation of profit from short-term price movements. It is often practiced as a way to capture short-term price swings based on fundamentally-based news. The effective day-trader has methods for the long run, they are not nearly as important within the time frame of a day, other than methods of position trading. Here is a brief overview of each method as well as its assets and liabilities.

### Technical Day-Trading

Day-trading defined

In the summer of 1968, after making my first few trades in the MBH Weekly Commodity Letter and author of 27 books, 26 of them on the subject of financial markets and investments. Yale Hirsch in his outstanding book, *Seasonal Prospects for the Nineties*, demonstrated the statistical reliability of pre-holiday price rallies, and he asked me if I was a "futures trader" or a "day-trader." I confessed I hadn't heard either of these terms before. He offered the following definitions: A day-trader trades within the time frame of one day, either to gain or lose money within that time frame. He resides in Highland Park, Ill.

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Day-trading is a very serious business; if you don’t have all the right ingredients in place before you begin trading, you’re dead.

One of the most important aspects of the day-trading business is the "team." 

* Your broker 
* Your trading advisor 
* Your live quote feed 
* Your trading software 
* Your back office (clearing firm)

Best Broker If you think you’re going to be doing size -- 10-100 contracts -- then you must have a great relationship with your broker. The broker is just as valuable as the methodology.

Before the opening bell, Tim in contact with my floor broker to find out what has occurred in the overseas and night sessions and what information is coming out can affect the market. I never trade in the face of information. You shouldn’t either unless you understand what could happen if you’re wrong.

The broker is my eyes and ears on the floor -- after all, that is his job. I pay my broker well, however, I expect him to look after my best interests.

Never select a broker on the basis of cheapest commissions. 

I also expect excellent executions on my orders, and I get them. I picked my clearing firm because of its commitment to the client. My clearing firm also allows every client electronic order entry and offers a special relationship because of his patience and concern for all of my clients. Friends like these in the pits are extremely important for an off-the-floor day-trader to be successful.

The trading way With a great team in place, next you add the trading methodology.

Any trading methodology must hold and understand as much as he or she can about what to do before trading begins. It’s an outrage to pay a vendor a steep price for a system when you don’t know how or why it performs as it does.

The markets are based upon supply, demand and psychology. To trade, you must be aware of many different scenarios and factors that will occur every day.

The first item your methodology must have is a strict money management system. I don’t care what you think about the market -- you need to know where you are getting out before you get in and what is the maximum you will sustain.

I do not go into the market, for example, unless certain psychological price levels, like 50, hold. 

Understand that in the United States we are brought up to round numbers off. (If the cab ride is $4.30, we say, “Make it $5” and add another 50¢ for a tip.) Most of the time we round off to psychological numbers like 25, 50, 75, 100. The big ones are 50 and 100.

The same thing occurs in the markets every day. I challenge you to go over your charts -- you’ll find that markets hold big psychological points every day.

When you begin to understand this, you’ll start to see there are more desirable numbers off than which to buy and sell. But the markets are funny; each day the same patterns occur and it is our job to react when this happens.

Every day the market goes up, down, up, etc, which is called backing and filling. The market backs and fills within a certain mathematical number every day (at least most of the time), similar to a Fibonacci pattern.

By knowing this occurs every day, I never want to get into the market unless I’m as certain as possible that it’s a 50 or 100, within a certain psychological point. I have to know this number to within 2% of the number.

Let’s assume you are ready to take a long position. When executing a trade, you need to prepare to react to something you’ve been waiting for, you should not be trading.

With the pace and stress involved in day-trading, it’s essential to your style to trade within cutting-edge technology and the future of day-trading.

The markets are based upon supply, demand and psychology. To trade, you must be aware of many different scenarios and factors that will occur every day.

When it comes to floor brokers, I use one who has years of experience in the pits and understands my needs, which fosters a special relationship because of his patience and concern for all of my clients.

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Never trade without a game plan.

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