



T TradingEveryDay™
With The RIGHT Focus...

DAY TRADING STRATEGIES

Volume II - Momentum Plays

by Leroy Rushing

Day Trading Strategies

Volume II - Momentum Plays

Key Points:

- With experience, you will develop these basic techniques into your own precise analytical system
- The stock market is volatile, and therefore you cannot expect perfect results 100% of the time
- To avoid being “knocked out of the game” you need to develop a solid trading plan and the discipline to follow it!

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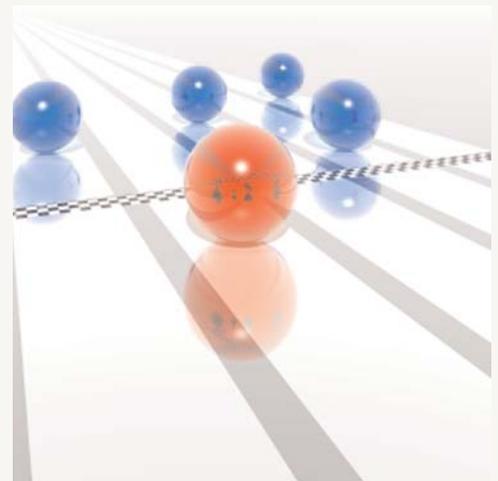
Introduction

Day Trading Strategies Vol. II will show you some of the basic techniques that Professional Traders use every day to make money. As with any discipline, the more experience you gain, the better you will become at identifying the patterns discussed in this e-Book. And, with experience, you can delve deeper into the technical analysis for better precision in your own analysis for better results.

The information and methods contained in this series are tried and true, but you should understand that *no system can give you perfect results 100% of the time*. The stock market is, by its very nature, extremely volatile. Even the most precise systems can only indicate what will *likely* happen; there are no crystal balls to predict the future of any stock at any moment. For your reference, most Professional Traders feel that a 65% success rate is a good target to obtain and maintain. Success rates of 80% of your trades or more are difficult to attain much less maintain.

It is also important to note that the vast majority of beginner traders fade away after just three months. There are several reasons for this, but overwhelmingly the biggest reason is the fact that *beginner traders tend to enter the stock market unprepared*. You need:

1. A solid trading plan,
2. The discipline to follow it, and
3. The ability to stop trading altogether if



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Key Points:

- Keep your risk tolerance very low as you continue your day trading career
- Do not engage in multiple trades until you gain more experience and become more comfortable trading
- Develop your own trading methods and hone your skills by *paper trading before you start putting money on the table!*

things just are not going your way.

For these reasons, it is highly recommended that 1) you keep your risk tolerance low to minimize losses as you are developing your technique, and that 2) you follow only one trade at a time. You would also be well-advised to paper trade before you start trading with your own money to get a feel for the stock market and to begin developing your technique.

This e-Book, Momentum Plays, is the second volume in the Day Trading Strategies series. The techniques contained herein are proven strategies, but *there are no guarantees for your success*. Following these guidelines will help improve your trading techniques, but ultimately the information and methods contained here are merely tools for you to use. As you would with any power tools, read these instructions fully and proceed with caution to minimize your risks!

Note About This e-Book: Throughout this e-Book, we will refer mostly to “stocks,” though it is important to note that these techniques are equally valuable for futures, options, e-minis, and other trading products. Simply adapt the guidelines here to your trading vehicle(s).

Please note also that **day trading and swing trading are inherently risky ventures**. TradingEveryDay recommends that all beginners fully understand the risks they are about to undertake, and that they properly prepare themselves with complete risk management, money management, business, and trading plans before initiating any trades.

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Key Points:

- Momentum Plays are positions that follow the identified price trend
- Most high-volume stocks follow a discernible Market Cycle
- By identifying trend reversals, you can predict (and profit from) likely swings in the market cycle

What are MOMENTUM PLAYS?

As the name suggests, momentum plays are *positions that follow the identified price trend*. If the price trend is indicating upwards, then we are looking at a "Buy" signal. If the price trend is indicating downwards, then we are looking at a "Sell" or "Short" signal. It really is that easy.

What can be a bit difficult is identifying what the next trend will be. Professional Day Traders have several techniques at their disposal to find trend indicators, so that they can make their momentum play and (hopefully) initiate a profitable trade.

Catching the Market Cycle Wave

The first thing we need to understand is that most stocks and futures - those with sufficient volume for us to consider as day trading vehicles - display a definite **market cycle pattern**. The market cycle looks very much like a wave with an ever-oscillating crest and trough. Review any 1-year chart, and you can see this up and down pattern. A stock price might be trending upward or downward over this period, but regardless. It will still display the characteristics of a market cycle along the way.

This is where the first tenet of stock trading comes in:

Buy Low, Sell High

Look at the same 1-year chart, and it is quite apparent that traders who opened a position just before the price went up or down would have done quite well for themselves. The question is, are there market indicators that would allow us to predict a trend reversal?

The answer is yes. Momentum plays identify trend reversals and give possible buy or short signals that allow the savvy trader to get in near the beginning of the trend reversal to minimize risk and maximize their profits. However, first we need to understand the different phases of the market cycle and how they are

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Key Points:

- There are 4 phases to the market cycle: basing, advancing, topping, and declining phases
- Basing: Flat prices, low volume
- Advancing: Prices shoot upwards, high volume, sometimes one or more pullbacks before big gains
- Topping: Buyers and sellers reach equilibrium again, chaotic price fluctuations, time to get out!

characterized before we can study the market indicators.

Identifying the 4 Phases of the Market Cycle

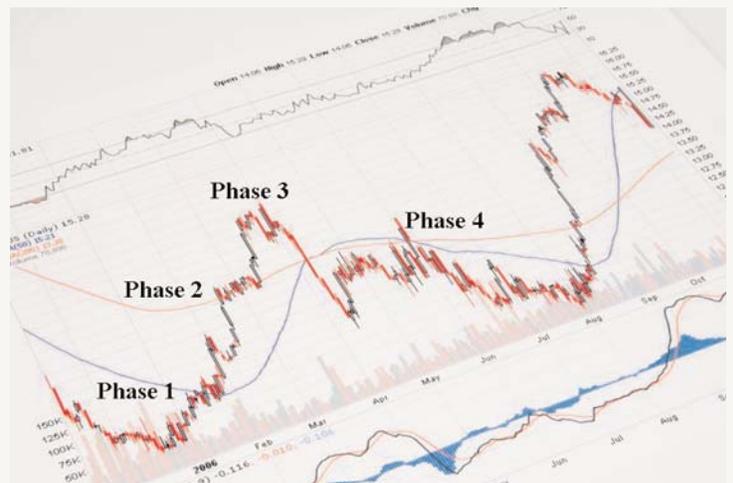
There are 4 phases to the market cycle:

1. the Basing Phase,
2. the Advancing Phase,
3. the Topping Phase, and
4. the Declining Phase.

The **Basing Phase** is characterized by relatively flat price fluctuations and not much volume. Generally speaking, buyers and sellers are in equilibrium accounting for the lack of price movement, which in turn accounts for the low volume (not many traders are interested in a stalled stock price...!). Near the end of this first phase, volume will start to increase as traders anticipate the move upward. However, it is not worth opening a position until your charts give you strong signals - you might find the low you are looking for, but you could be holding the position for too long before it starts to actually move.

The **Advancing Phase** is where the breakout actually occurs, pushing the price upwards. The beginning of this trend is usually marked by a burst of trading volume. It is also normal for a rally to stall with at least one pullback before shooting upwards.

The **Topping Phase** occurs when the initial buyers into the upward trend



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Key Points:

- **Declining: Sellers outweigh buyers, stock price declines, dangerous place to hold stock**
- **Eventually, stock reaches basing phase once again**
- **Market cycles can occur during any time frame from hours to years**

start to close their positions. Typically, there are some late bandwagon jumpers still trying to get on the upward swing, but eventually the sellers and buyers reach a temporary equilibrium once again. The main differences between the Topping Phase and the Basing Phase is that the Topping Phase has much higher volume, and the stock price, although on average flat, is characterized by relatively large price swings (as indicated by longer bars on your charts).

In the **Declining Phase**, sellers outweigh buyers. This can be a very dangerous place to be if you are still holding stocks. The subsequent sell-off can come fast and furious - the bottom can literally drop out of your position leaving you to sell at reduced prices. It is very important that you close your buy positions before the stock price enters the Declining Phase.

On the other hand, this is an excellent time to open a short position. In fact, the indicators for the Declining Phase are usually stronger and more reliable than those of the Advancing Phase, giving you perhaps a better opportunity at a low-risk, high-odds position.

Eventually, the sell-off stops and the stock price enters the first phase once again with buyers and sellers in equilibrium, and trading volume low.

Two Last Points About Market Cycles

One other thing we need to understand about market cycles is that *they can occur during any time frame*, from intra-day trading to monthly or even yearly charts. As day traders, we are not interested in



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Key Points:

- Candlestick bar charts are great charting tools for planning momentum plays
- Candlesticks show us high, low, open, close, and trend
- Generally, green bars signify an upward trend, and red bars signify a downward trend, but your trading software may use its own color scheme

long-term market cycles, so instead we focus on what is happening *right now*.

It is important to note that the techniques described in this e-Book can be used for day trading, swing trading, futures, or even long-term trading. However, the longer the time period, the greater the risk that some news will be released to knock it out of that cycle and into a new one, possibly leaving you in an unprofitable position.

Lastly, *you will notice* in the examples throughout this e-Book that we use *candlestick bar charts*. This is a much more precise way of charting than line or bar charts because it tells us the high, low, open, and close of a stock for any time period, plus it indicates the general trend using green bars (for upward - sometimes depicted with white bars or another color) and red bars (for downward - sometimes depicted with black bars or another color). As we shall see, this is vital to implementing successful - and profitable - momentum plays.



Use the Bullish Momentum Plays in Phase 2 - Advancing, and Bearish Momentum Plays in Phase 4 - Declining. You should not have positions in Phase 1 or especially Phase 3 as this will open you up to unwarranted risks including risk of capital loss. The closer to the beginning of Phase 2 or 4 you open a position, the greater your profit potential.

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Key Points:

- Engulfing Chart Pattern occurs when the real body of the current candlestick “engulfs” one or more previous bars
- The bigger the current bar and the more previous bars engulfed, the better the signal
- The longer the previous trend, the better the signal

Momentum Play Strategies

There are several ways to predict a trend reversal. As mentioned above, usually the downward or bearish indicators are stronger and more reliable than the bullish indicators. At the same time, there is greater risk of missing the Declining Phase trend because it happens faster and does not tend to have the one or more pullbacks before continuing as with the Advancing Phase. Of course, opening a short position has its own inherent risks, so the individual trader will need to evaluate his or her own risk tolerance before implementing any trading strategy.

Engulfing Chart Pattern Plays - An Overview

The Engulfing Pattern occurs when:

- The real body of the current candlestick bar is larger than that of the previous time period, with a higher open and a lower close (see figure).
- The highs and lows of the current time period also tend to be higher and lower than the previous time period.

The larger current bar seems to "engulf" the previous bar, hence the name. This pattern is usually a sign of a price trend reversal, and a good indicator for a potential trade.

Generally speaking, the bigger the engulfing pattern, the better the indicator. Engulfing two previous bars is better than just one bar, engulfing three previous bars is a better signal than two bars, etc.

It is also important to note how long the previous trend lasted before the reversal. Again, the longer the previous trend, the more likely that a trend



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Key Points:

- There are two types of engulfing patterns: **bullish and bearish**
- **Even trades with strong trend reversal signals can go bad, so stick to your risk management plan *at all costs!***
- **Once you see a pattern form, you must plan your Entry Point, Stop-Loss Point, and Profit Target *before* you enter a trade**

reversal will occur, and the higher it will tend to go.

There are 2 types of Engulfing Chart Patterns:

1. The Bullish Engulfing Pattern, which signals that the downward price trend may be reversing upward. This is further signified by a green bar preceded by a number of red bars.
2. The Bearish Engulfing Pattern, which signals that the upward price trend may be reversing downward. This is further signified by a red bar preceded by a number of green bars.

In both cases, the larger, opposite color bar indicates that the apex of the price trend may have been reached, and that the market cycle is about to swing the other way.

How to Use Engulfing Chart Patterns

As with initiating any trade, the Professional Trader will use caution when opening a position. These tools indicate where *possible* trading opportunities exist, but are no guarantee of a successful trade. Even trades that have the strongest trend-reversal signals can go bad, which is why you must have a strong risk management plan in place for each and every trade you enter.

Using Bullish Engulfing Patterns

When the trader sees a Bullish Engulfing Pattern form, this is a signal that a reversal upward in the price trend may occur momentarily. However, in itself, it may not be an entry signal. Once the pattern is identified, the trader should start to plan the trade including:

- Entry Point
- Stop-Loss Point
- Profit Target

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Key Points:

- Deltas help you manage risk by building in a price cushion to “confirm” the reversal before entering a trade
- Your Stop-Loss Point is the most important aspect to consider - keep at about 50% to 62% of the previous bar
- Marker lots are like “test balloons” - small positions that may be risky but profitable

The *Entry Point* depends on several factors, but most importantly will depend on your risk tolerance. Generally speaking, the entry point could be price action at any point above the engulfing bar's high. You can also wait to "confirm the trend" by building a delta into your entry price.

For example, if the \$25 mark represents price action above the previous high, then you could build in a \$0.25 delta into your trading strategy. Your entry point then would be when price action hits \$25.25. You may choose to use a fixed amount delta (like \$0.25) or a percentage delta (like 1% of the indicated entry point) - there is no "correct" way to determine your delta, though it is important to remain consistent in your approach and only adjust your delta when a problem is identified.

Your *Stop-Loss Point* should be about 50% to 62% of the previous red bar. For smaller positions, you may choose to put your stop-loss in below the low of the previous red bar. Again, ultimately your choice will depend largely on your risk tolerance and risk management plan, so adjust these numbers accordingly.

For your *Profit Target*, you may use the prior pivot high as a range, though again you may adjust this target with a built-in delta depending on your risk tolerance.

There are several variations on this technique that can be used to reduce your risk and to maximize your profit potential. For example, you may open with a marker lot (a small lot, like a "test balloon," to measure the market conditions) at the engulfing pattern signal - riskier in terms of protecting capital, but with a higher potential for profit. You may also close part of your position before you reach your



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Key Points:

- Trade conservatively and *preserve your capital above all else!*
- Bearish Engulfing Patterns are similar to Bullish, except that they may happen faster.
- Do not try to catch the trend by getting in earlier - stay on top of your position at every moment for best results

profit target to ensure a "breakeven" trade. This will lower your risk, but will also lower your profit potential.

In any case, you should constantly move your stop-loss upward to reach the breakeven point as quickly as possible.

Again, much of this will depend on your risk tolerance and risk management plan, but **TradingEveryDay** recommends that you:

1. Trade conservatively,
2. Keep your risk tolerance extremely low, and
3. Preserve capital above all else.

This is especially true for beginner traders.

Using Bearish Engulfing Patterns

The techniques for using Bearish Engulfing Patterns are exactly the same:

1. Mark your entry position at a point below the previous green bar's low (with or without your own delta),
2. Mark a stop-loss exit point at 50% to 62% of the previous green bar's price action range (or above the previous green bar's high for smaller positions),
3. Aim for the prior pivot low as a profit target,
4. Adjust targets based on your risk tolerance, and
5. Move your stop-loss to the breakeven point as quickly as possible.

There is one slight but very important difference between using the Bearish Engulfing Pattern versus the Bullish Engulfing Pattern. As mentioned above, the price action at the Topping Phase of a market cycle is extremely chaotic, and sell-offs occur much faster than buy-ins. In other words, if you wait too long to open your position in a Bearish Engulfing Pattern, **you may find that you have missed the trend reversal altogether. This does not**

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Key Points:

- It is possible to catch a Bullish Engulfing Pattern on the way up, and a Bearish Engulfing Pattern on the way down
- Piercing Chart Patterns are similar to Engulfing, except that it only “pierces” the previous bar by 50 to 99%
- Also usually accompanied by higher volume

mean, however, that you should try to get into the market earlier as this will increase your risk dramatically. What it does mean is that you have to be more active in your trading activities, and be ready to move as soon as the price action hits your pre-determined entry level.

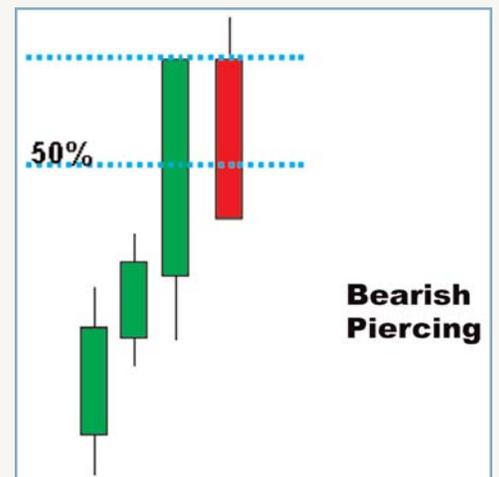
Finally, as you may have figured out at this point, it is possible that you can catch a stock in a Bullish Engulfing Pattern, close your position, and then reopen shortly thereafter in a Bearish Engulfing Pattern. As exciting as this sounds, it is important to keep emotions out of your actual trade decisions. Don't adjust your targets to make them fit your desires - if the numbers honestly work in your favor, you can celebrate once you have closed your final position.

Piercing Chart Patterns - An Overview

Piercing Chart Patterns are similar to Engulfing Chart Patterns, except that rather than "engulf" the real body of the previous time period's bar, it "pierces" it by 50% or more, but less than 100%. Piercing Chart Patterns can also be Bullish or Bearish. Like the Engulfing Chart Patterns, the Bullish Piercing Pattern is denoted by a green candlestick preceded by a number of red bars, whereas the Bearish Piercing Pattern is denoted by a red bar preceded by a number of green bars.

It should be noted, too, that the Piercing Chart Pattern is a weaker signal than the Engulfing Pattern, but can still be a useful signal. The further the trend reversal bar pierces the previous time period's bar, the stronger the signal. Higher volume leading up to and during this reversal bar can also be used as an indicator that the reversal is truly taking place.

Again, Bullish Piercing Patterns may be characterized by one



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Key Points:

- The initial signal is when the current bar goes above the 50% mark of the previous bar
- You can spread the risk by entering at different points
- You may also use an Opening Range Breakout Strategy to confirm the trend

or more pull-backs as it hits reversal resistance. But, as the market cycle theory denotes, this is less likely to occur in a Bearish Piercing Pattern - be extra careful to close your position well before the Declining Phase begins!

How to Use Piercing Chart Patterns

Because the Piercing Chart Pattern is a weaker signal than the Engulfing Chart Pattern, greater care must be taken to confirm the trend reversal before committing to a significant position. There are several ways to protect your capital while maximizing your profit potential for both Bullish and Bearish Piercing Patterns.

Using Bullish Piercing Patterns

Generally speaking, *the initial signal of a potential trend reversal is when the current bar goes above the 50% mark on the previous period's candlestick bar.* Again, the further past this point, the more likely that the trend will continue.

Once the price action starts to trade above this point, it is time to plan your:

- Entry Point
- Stop-Loss Point
- Profit Target

When using the Engulfing Pattern, we mentioned that some traders may find it beneficial to *spread their risk by entering at two different points.* This is highly recommended using the Piercing Pattern. You may choose to place a marker lot at or just above the piercing bar's close and then plan a partial lots (an incremental position about one-third to one-half your normal trading size) once the price action goes above the previous bar's high.

Another approach for day traders and swing traders would be to *use a 5-minute, 15-minute, or 30-minute Opening Range Breakout Strategy.* If the price action continues to move upward past the selected time period's high, then this would be your buy signal. The more conservative trader will wait longer to confirm the trend

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Key Points:

- Move your stop-loss to your breakeven point as quickly as possible
- Bearish Piercing Patterns are the reverse of Bullish, though they may occur faster

reversal before entering into a trade. However, this will likely mean lower profits, and increases the risk of reaching the Topping Phase of the market cycle before hitting your profit target. (Opening Range Breakout Strategies are discussed in greater detail in Volume I of this series, found at www.tradingeveryday.com).

You may also choose to *use a delta to reduce your risk*, either as a fixed amount above the indicated buy price, or as a percentage of the stock's price at that entry point.

Like the Engulfing Pattern, your Stop-Loss Point should be 50% to 62% of the previous bar, or at the bar's low for smaller positions (including your initial marker position, since the slightest dip in price during the time frame could trigger your stop-loss...!). Again, for best results it is highly recommended that you track your position and move your stop-loss to the breakeven point as quickly as possible to reduce your capital risk and increase your profit potential.

Also like the Engulfing Pattern, use the prior pivot point high for your Profit Target. However, since the Piercing Pattern is not as strong a signal, you will want to keep a closer eye on the price action, constantly adjust your stop-loss upwards, and be aware that the trend reversal could fall apart before it really gets going.

Using Bearish Piercing Patterns

The same techniques apply here as they do with the Bullish Piercing Pattern. The red trend reversal bar will "pierce" the previous green bar at a point between 50% and 100% of the time period's real body. Once the price action hits the 50% mark, this is your first signal that a price reversal may be occurring. Be aware that if it is indeed a reversal, it may come



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Key Points:

- You may find that what looks like a Piercing Chart Pattern using one time frame may actually appear to be an Engulfing Char Pattern using charts broken into a different set of time frames
- Always be aware of what the market is doing, especially when you have a position open

faster than that of a Bullish Piercing Pattern due to the market cycle theory, so it pays to be prepared in advance to avoid losing profit potential!

Once you have identified the short signal, plan your Entry Point, Stop-Loss Point, and Profit Target. Again, the approach you use will depend on your risk tolerance and risk management plan. However, it is highly recommended to be more conservative in your trading (and more "hands on" with your trade) than with the Engulfing Pattern since the Piercing Pattern is a weaker signal. Use a delta, an Opening Range Breakout Strategy, marker entries, or any combination to reduce your risk. Move your stop-loss to your breakeven point as quickly as possible to protect your capital and maximize your potential for profit.

On that note, your Profit Target should be the prior pivot point low. Remember that this may come a lot faster (i.e. you may be closing your position a lot faster) than with the Bullish Piercing Pattern, so keep careful track of your position.

One Last Observation About Piercing Chart Patterns

You may have realized that since the Piercing Pattern is sort of a "partial" Engulfing Pattern, you may find that by looking at different time frames the trend reversal is indeed the stronger Engulfing Pattern.

For example, you may notice a Bullish Piercing Pattern by looking at a 5-minute chart. In waiting for confirmation, you see that it is indeed a trend reversal, and you make your play.

However, if you look at the same time frame using 15-minute bars, that Bullish Piercing Pattern may look more like a fully developed Engulfing Pattern. This just goes to show that it is very important to be aware of what the market is doing, and look at the market in different ways so that you can get the edge and reduce your risks.

Bull/Bear Trap Chart Patterns - An Overview

Bull and Bear Trap Chart Patterns are similar to Engulfing and

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Key Points:

- Bear and Bull Traps are also similar, but make a full gap above or below the previous bar
- This is a stronger signal than the Engulfing Pattern
- Still, build your weight of evidence by making sure that the volume is increasing by using a marker lot or an Opening Range Breakout Strategy

Piercing Chart Patterns. The main difference is that in these scenarios, the current bar actually gaps the previous bar during the trend reversal, and may gap or engulf several other bars. As such, this is a stronger signal than the Engulfing Pattern that the observed trend reversal is real and will continue.

However, it is important to emphasize once again that **nothing is guaranteed**. *Build your weight of evidence* to confirm that you are indeed looking at a trend reversal by using your risk management tools. Both Bear and Bull Trap Charts should be accompanied by a sharp increase in volume - be especially suspicious of a Bull or Bear Trap Pattern that has low volume as this may be simply a statistical blip. Also note that these two patterns normally occur between days and not during intra-day trading.

Using the Bear Trap Chart Pattern

The "bear trap" springs when a sudden price trend reversal *gaps* up above the previous time period's candlestick. With the bearish trend reversed, you are free to plan a bullish entry. The actual signal is when the current open price is above the previous time period's close.

As with the techniques used above, when this occurs you should start planning a long entry into the market, taking into account your:

- Entry Point
- Stop-Loss Point
- Profit Target

Like the other techniques described above, there are several ways to gauge your Entry Point. In this scenario, it is probably best to use a 5, 15, or 30-minute chart to confirm the trend reversal rather than choose a specific entry point.



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Key Points:

- Conservative traders use longer time frames - always a good idea for beginners
- The Bull Trap is a bearish signal
- Use a combination of risk management tools to reduce your risk and increase your likelihood for profit

This is because with such a strong buy signal, the price can start moving upward quite quickly; your goal is simply to ensure that the trend continues. Aggressive traders will make a decision based on a 5-minute chart, while conservative and beginner traders should use either a 15-minute or 30-minute chart. If the price continues to increase through these time periods, you have found a potentially strong trade.

Aggressive traders may also enter with a marker lot as soon as the possible Bear Trap Pattern has been identified. This allows you to maximize your profits, but the smaller marker lot size does not expose you to an extreme amount of capital risk.

Your Stop-Loss Point should initially be 50% to 62% of the previous bar or its closing point for smaller positions. However, you should actively track your stock upward to quickly meet your breakeven point to reduce your capital risk and increase your potential for profit.

And, as like previous methods, the prior pivot point high is a good Profit Target, though you should continually track this stock upwards due to high volatility.

Using the Bull Trap Pattern

The Bull Trap Pattern is a bearish signal marked by a gap down from the previous time period's bar. You should employ the same approach: map your Entry Point based on your risk management plan using:

- Deltas,
- A combination of marker and partial lots,
- Trailing Stop-Loss Points, and/or
- A pre-planned Opening Range Strategy.



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Key Points:

- 3-Bar Reversal is the “grand-daddy” of all momentum plays
- 3-Bar Reversal plays have many different variations
- This pattern may seem to “engulf” a number of bars as well

Use the prior pivot point low as your Profit Target.

Like previous techniques described in this e-Book, the downward pressure is usually stronger than the upward pressure, so price action can move much faster. Keep on top of the trend, move your Stop-Loss Point to breakeven as quickly as possible, and be aware of your Profit Target at all times. Both Bear and particularly Bull Trap Patterns are very volatile, so despite the fact that it is a "strong" signal of a trend reversal, its chaotic nature can quickly turn on the snoozing trader - don't end up as the one in the trap!

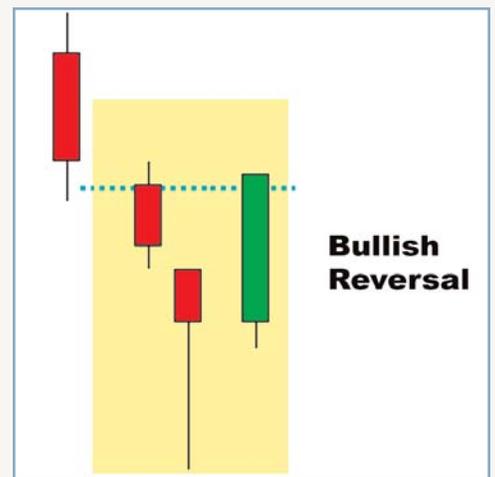
3-Bar Reversal Strategies - An Overview

The 3-Bar Reversal Strategy is actually the "grand-daddy" of all the other movement plays we've described already. In other words, these techniques are all variations on this simple but effective technique. However, and perhaps paradoxically, Trading EveryDay has found that by explaining the variations first and then the 3-Bar Reversal, people seem to grasp the concept more easily.

Like the variations, there are 3-Bar Bullish Patterns and 3-Bar Bearish Patterns. As the name suggests, this technique uses the current candlestick compared with the two previous bars to determine a possible trend reversal. However, it is the first and third (current) bars that are most important in this technique.

Using the 3-Bar Bullish Reversal Pattern

A 3-Bar Bullish Reversal Pattern forms when the current bar totally negates the previous two bars. The first and second red bars represent the continuing downward trend while the third (current) green bar indicates the possible reversal. Note that the real body of the reversal bar is larger than the first bar, and



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Key Points:

- Again, use volume, relative price change, and previous trend to measure your weight of evidence
- Stop-Loss Point remains between 50 and 62%

that the closing price is above the first bar's open. In this sense, it actually "engulfs" the first bar. The wider the range represented by the second and third bars, the stronger the signal.

Other factors that modify the strength of the signal include increased volume, and the relative price change between the first bar's open and the third bar's close (a wider margin is better).

Once you have identified a 3-Bar Bullish Reversal Pattern, you must plan your:

- Entry Point
- Stop-Loss Point
- Profit Target

Your Entry Point will depend largely on your risk tolerance. Again, you may use a combination of deltas, percentage/fixed points above the signal point, and opening range strategies to confirm the trend reversal before committing to the trade. Aggressive traders may open a marker lot at the first signal point to maximize profit potential, depending on how strong the 3-Bar Bullish Reversal Pattern is.

Your Stop-Loss Point should fall between the 50% to 62% range of the second bar, or at the closing point of the second bar for smaller positions. Trail this stop-loss upward to your breakeven point as quickly as possible.

Profit Target for a 3-Bar Reversal Bullish Pattern is also the prior pivot point high. Although this technique is relatively more stable than some others described in this e-Book, it is still recommended that you follow your position closely to avoid any nasty



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Key Points:

- **3-Bar Reversal technique is a little more reliable than other techniques, but still important to keep alert and aware of your position**

surprises.

Using a 3-Bar Bearish Reversal Pattern

Again, the techniques in this approach are the same: choose your Entry Point based on your risk management plan, include a Stop-Loss Point at 50% to 62% of the second bar (or its opening price for smaller positions), move your stop-loss to breakeven as quickly as possible, and aim for the prior pivot point low as your Profit Target. Again, the 3-Bar technique is a little more stable than others, but the bearish tendencies are still stronger than the bullish ones. Keep a close eye on your position and be ready to close it once you have hit your Profit Target or risen above your Stop-Loss Point.

Day Trading Strategies

Volume II - Momentum Plays

Key Points:

- Momentum Plays work well with most risk management plans
- The larger the reversal bar, the stronger the signal
- The longer the previous trend, the more likely a reversal

Things to Remember When Using Candlestick Bars and Momentum Plays

As you have no doubt noted, the techniques applied to the variations discussed are very similar. They are also very flexible, and work well with almost any risk management plan and day trading or even swing trading strategy.

Here are some of the key points you should keep in mind when using any of these momentum play techniques:

KEY POINT #1:

The Larger the Reversal Bar, The Stronger the Signal

If the potential reversal bar covers a wide price range in its real body (i.e. the margin between the opening and closing prices of the time period), it is more likely that the trend reversal will continue. The candlestick tails, which mark the intra-period highs and lows, can also be indicators, but should only be relied upon as secondary evidence - the real body of the bar is your source of substantial evidence.

Also, with Engulfing Patterns, the more previous bars that are engulfed by the current candlestick, the stronger the signal. With Bull or Bear Traps, the wider the gap, the stronger the signal.

KEY POINT #2:

The Longer the Previous Trend, the More Likely a Reversal

For example, a Bullish Engulfing Pattern that appears after 17 consecutive red bars is a stronger signal that the trend will reverse than one that appears after just 5 red bars. Also, the larger the net loss of a stock price during that trend, the better chance that the



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Key Points:

- Increased volume should precede trend reversals
- There are many Momentum Play variations to explore
- A strong risk management plan is key to successful momentum plays

reversal is signaling a "bounce back" in the stock price. The opposite is also true for Bearish Patterns.

KEY POINT #3:

Increased Volume Should Precede Trend Reversals

Usually price action reversals are signaled by increased volume just before the reversal. This is especially true of bullish trends. Further, bullish trends may have longer periods of increased volume than bearish trends, and may be subject to one or more pullbacks before the price action moves upwards. This is still possible for bearish trends, but less likely.

Be suspicious of trend reversals that do not have matching increases in volumes before or particularly during the "reversal" as these are more likely statistical blips than evidence of a reversal.

KEY POINT #4:

There Are Many Momentum Play Variations to Explore

Chances are that as you start to use these momentum play strategies in your own trading, you'll notice new patterns - and figure out how to use them. There are near-limitless approaches, mostly because your own risk and money management plans will determine your Entry Point, Stop-Loss Point, and Profit Target, among other things. You can also develop more refined chart techniques that look closer at the candlestick tails, define options depending on current and past volume, and a host of other variables that can impact your trade.

In other words, this e-Book is meant to be an introduction to momentum plays. Once you make these techniques your own, explore other patterns and techniques to optimize your trading success!

KEY POINT #5:

A Strong Risk Management Plan is Key to Successful Momentum Plays

Your number one goal should be to protect your capital at all costs. For that reason, beginner traders should be especially conservative in their trades. Use one or more of the following risk and money management techniques to reduce your risks:

Day Trading Strategies

Volume II - Momentum Plays

Key Points:

- **Beginner traders should not have more than one position open at a time**
- **Actively manage your stop-loss points to reach your breakeven point faster**
- **Start by paper trading - learn your craft without risking your own capital!**

- Deltas
- Trailing Stop-Loss Points to Move to Your Breakeven Point ASAP (use fixed stops, percentage stops, time-frame stops, or technical analysis stops - just be consistent in your plan)
- Opening Range Breakout Strategy (using 5, 15, or 30-minute time frames to "confirm" the trend reversal)
- Marker and Partial Lot Strategies
- All Other Risk Management Tools at Your Disposal!

Beginner traders should not have more than one position open at a time, but closely track each position to be ready to move in case of a stop-loss trigger or reaching your profit target. You should also actively manage your stop-loss points so that you reach your breakeven point as quickly as possible.

TradingEveryDay also **strongly recommends** that you paper trade any new technique you are planning to use before entering the market. Again, your primary concern is to protect your capital so that you don't lose it all and get knocked out of the game. Even seasoned, professional traders will paper trade new techniques, testing them and fine-tuning them before actually risking their capital. If your theory is wrong, better to find out before you put your money on the table!

Once you have gained experience and feel more comfortable with your momentum trading techniques and capabilities, you will naturally take on more risk and cash in on greater rewards. Just don't forget that **90% of beginner traders are wiped out within three months**. Do everything you can to make sure that doesn't happen to you!

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About Leroy Rushing Jr.

With two Master's degrees in Business Administration (Finance) and Science (Statistics), professionally trading stocks is almost a natural vocation for me. By applying my knowledge of business and mathematical principles to the stock market, I found that I could reduce my investment risk by "deconstructing" a stock using chart analysis and market indicators.

But it wasn't always a walk in the park. I found that there are other variables, like the emotional and mental state of the trader, that play a large part in the trading process. I've developed a plan that helps traders find the right trades, and find the courage to make the right decisions.

In my previous corporate life, I was also responsible for providing leadership and training to others in the company. That extensive experience has become the basis of my coaching program today.

I encourage you to [contact me](#) with any questions you may have about my products or services. And don't forget to [register for a Free Consultation/Training Session](#). I will give you the guidance and support that you need to improve your knowledge, skills, and mental focus for higher profitability.

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