A Practical Guide

to Swing Trading

by Larry Swing

Forewords by Suri Dudella (sixer.com),

& Sergey Perminov (optionsmart.com)

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Dedicated to my wife and our two children. My dear wife's support made it possible for me to devote the time necessary to develop my web site and write this guide.

To all the new and experienced swing traders that read this book …

May the swing be with you.

Larry Swing

1 Table of Content

Introduction

This book is a simple, practical guide to *swing trading*. For years I have been reading books and exploring web sites that are dedicated to swing trading. Yet, I could not find any simple description of how to enter and exit a trade. So I developed some basic rules that have been published on my web site www.mrswing.com. I call these rules **The Master Plan**. Over the years, thousands of investors have used my **Master Plan** to **swing trade**. It is my firm belief that a **swing trader** must trade with discipline. While it is important to keep things simple, the rules of the **Master Plan** might seem a little intimidating. The main reason I wrote this book was to make **swing trading** more accessible to the beginner. These rational behind swing trading and the entry and exit rules are presented very clearly – both the beginner and the experienced swing trader will now have a simple guide to follow.

To quote Albert Einstein: "Things should be made as simple as possible, but not any simpler". This is the principle I followed while writing this book.

> Why does swing trading work?
>
> Because you are trading in the direction of the trend. You wait for a pullback before entering the trade, and you enter only if the stock shows a sign that it's price will continue in the direction of the trend.

The main objective of a **swing trader** is to profit from **swings** in price movement over the course of several days. While we might trade every day, we are **not** day traders. As **swing traders**, we have the patience to wait until our profit goals have been reached. Fortunately, the wait is not too long. A typical trade is only in play from a few days to a few weeks. When a trade is closed, the funds go into the next trade.

Money management is very important in swing trading. I divide my trading capital by 15. This is the amount that I put into each trade. As the total account grows, the amount of each trade grows. If you can handle a larger number of

trades, you might increase the number of trades that are active to 20. Of course you can also start with 2 or 3 trades at a time.

Each day I identify 20 to 25 candidates for swing trading. If I have 10 trades active and enough additional investment capital for 5 more trades, I pick the best 10 from my list of 25, and place the orders. Only some of orders will get filled. I don't worry about running out of money – if there is no cash left in the account, additional orders will simply not get filled. (Make sure that your own account works this way, otherwise, your brokerage firm might fill the order and expect additional funds within the next few days.)

You must make a personal decision as to whether you want to trade on margin or not. If you are more conservative, you will only trade with the cash that you have on hand. As I discuss later in the book, margin is necessary for **selling stocks short**, so it is important to have your account approved for margin trading, even if you don't plan to trade on margin.

The stocks I identify as good **swing trading** opportunities are made available each day through my **MasterSwings** service. Once a week, my picks are made available on my website – www.mrswing.com – or by e-mail, through my free **MrSwing Lite** service.

Swing trading should be both profitable and fun. Through the guidelines outlined in this book, you can achieve both of these simple objectives.

2 About the book

2.1 Who should read this book

- If you (like many investors) are disenchanted with buy-and-hold investing, swing trading may be right for you. Even if you invested in great companies, it is likely that the value of your investments has diminished substantially over the past few years.

- If you're not a stock market expert, yet would still like to make money in the stock market.

- Day trading requires both stock market expertise and the ability to constantly watch the market. If **day trading** is not for you, **swing trading** might satisfy your needs.

- If you are disciplined and patient – the swing trading methodology outlined in this book will teach you how to trade successfully with very little risk. However, you must carefully follow the **Master Plan,** and you must be patient – profits come slowly, but surely. The total value of your investment account will go up. This is in sharp contrast to the buy-and-hold strategy, where losing money is more common than we would like to admit.

Swing trading allows you to accumulate small gains weekly, ultimately making money through a disciplined, low-risk trading approach. While swing trading is not for everyone, this book will help you determine if swing trading is right for you. It provides a treasure map to the pot of gold which is found at the end of the rainbow.

2.2 How to get started swing trading

- Read this book
- Open an account with an online discount broker (recommendations are provided)
- Select a method for identifying swing trading opportunities
  - subscribe to a service like **MasterSwings** and get several swing trading suggestions each day
  - use **MrSwing Lite** and get free swing trading suggestions each week

- use **SwingTracker** and identify swing trading opportunities yourself, whenever you'd like

- Use the **Master Plan** to enter and exit your trades

- Be disciplined and have patience

2.3 What will this book teach you

- the rational behind swing trading
- how to identify stocks to swing trade
- when to enter a trade
- when to exit a trade
- how to maximize profits and minimize risk
- what tools are available to help you select stocks and monitor your progress
- what books to read to learn more about swing trading

The best part of my **swing trading** method is that you do not have to watch your positions during the day. Simply enter an order to buy or sell short, give your discount broker the buy order and two sell orders and go back to your daily life.

2.4 Prefaces

Suri Duddella, siXer.com

Traders and investors study markets through price charts. These powerful visual tools offer a common language for all stocks, options, and indices. The theory behind this is called **Technical Analysis**. **Technical Analysis** begins with a simple observation that all market activity is reflected in the activity of price and volume over time. These three pieces of information create a profound visual representation when properly presented in a chart.

Prices rise and fall, with rising prices being stimulated by greed and falling prices by the awakening of fear. This emotional war between greed and fear generates a swinging price movement that provides a perfect opportunity for **swing trading**. **Swing Traders** capitalize on the emotions of others while they carefully control their own emotions and systematically enter and exit trades. Swing Traders recognize the levels of support and resistance. They understand the concepts of momentum and volatility and can identify a trading range or channel.

Equity trading provides a natural arena for **Swing Traders**. As price seeks an equilibrium state, Swing Traders seek to exploit direct price thrusts as they enter positions at support and resistance. By examining chart pattern characteristics they make money in both trending and range bound markets. Swing Trading is a classic strategy that involves holding stocks for a short period of time, typically between a few days to a few weeks. Unlike day trading, Swing Trading is independent of time – nevertheless, some Swing Traders will exit a slow-moving position and move onto the next opportunity.

Swing Trading is very popular among short-term and medium-term traders. It offers many virtues compared to the hyperactivity of day trading. With recent changes in SEC regulations that affect the way brokerage firms administer margin to 'Day Trading' accounts, many day traders have moved away from day trading towards a swing trading style.

Larry Swing has developed a wonderful software program called **SwingTracker** that allows users to scan all listed stocks using his **Swing Trade Identifiers** to identify swing trading opportunities. The program allows the user to monitor their trades in real-time. His technical analysis concepts of **EquiVolume** and **Force Index** coupled with his Swing Trading tactics are a marvelous contribution to the swing trading community.

Larry Swing has mastered the art of **Swing Trading**. His website – www.mrswing.com – not only presents the theoretical underpinnings of swing trading, but provides a detailed road map of how to use them. This book – A Practical Guide to Swing Trading – communicates the essence of his ideas in a simple and straightforward way. It describes the tools necessary to identify swing trading opportunities, and the guidelines needed to implement his strategy.

This book is filled with innovative, important trading techniques. This book is a great asset to both beginner and experienced swing traders.

Suri Duddella

President & CEO

siXer.com, inc.

Dr. Sergey Perminov, OptionSmart.com

Nowadays, when the number of online traders is growing very fast, the need for a good book is obvious. Larry's new book provides a unique combination of professionalism and simplicity, presented in an easy-to-read style. This kind of book is currently in short supply.

Larry writes about real trading situations, explaining how to reduce risks and enhance returns. The book contains practical examples and explanations how to handle the various scenarios that might arise. I feel comfortable saying that this is the best practical manual for swing trading that I have ever read.

His focus on short-term (swing) trading is very understandable. In the current, turbulent market environment, many people consider "buy-and-hold" investing to be an outdated strategy. However, they are not sure what else to do. **Swing Trading** offers a real opportunity to produce profits while keeping risk under control.

The algorithms that Larry uses in **SwingTracker** are great at identifying **swing trading** opportunities – they are extremely valuable to both beginners and experienced swing traders.

Larry covers the whole process of swing trading, from soup to nuts. He even recommends brokerage firms that have features which are particularly useful to swing traders.

Not only does this book introduce a set of helpful tools and tips, it describes way of thinking about trading and philosophy that allows the reader to feel confident about swing trading which leads to success and profits.

Dr. Sergey Perminov

OptionSmart.com

Founder & CEO

3 Meet Larry

Larry Swing graduated from the university with a B.A. in Computer Science, specializing in artificial intelligence. He started his career as an Information Technology Researcher in the field of robotics and expert systems. He later changed direction somewhat, moving into the field of computer-driven multimedia. This background formed a foundation from which he developed his 'no non sense' approach to **swing trading**.

MrSwing runs a free educational website – www.mrswing.com – where he provides specific instructions on how to **swing trade**. He provides a free newsletter – **MrSwing Lite** – that identifies many swing trading opportunities each week. Larry has developed charting software – **SwingTracker** – that comes with a real-time data feed to assist investors that need an inexpensive method to identify swing trading opportunities and monitor their progress.

www.mrswing.com also has a free **SwingLab** that lists the criteria he personally uses to identify stocks that are good swing trading candidates.

MrSwing provides the investment community with a wonderful educational resource. One can learn about the essentials of technical analysis, with instructions on how to apply these principles to **swing trading**. Over the years, Larry has developed a fairly large library of books that discuss the principles behind swing trading specifically, and making money in the stock market in general. These personally recommended books can be purchased at www.mrswing.com.

Hundreds of thousands of investors visit www.mrswing.com each year. Here is what they have to say about the web site, the educational material and his **Master Plan**.

> *Since I found your web site and started trading using your guide lines, I am up over $5000 in one month. That is a big change from what I usually make.   John F. Famularo, USA*

> *Your selections look every bit as good if not better than subscriptions sites that charge up to $100/month.   Paul Bondy, USA*

> *I really like your website. Thanks for all the information you provide.   Dallas Davison, US*

> *Thanks for your terrific site and great plan! Thanks again and happy (swing) trading! Richard Gorsline, USA*

Nice to see you offer this service. I think your style is one of the safest ways to make money. David DeFina, USA

Love the SwingTracker program and software for daily real time market data. Larry Skrine, USA

I am impressed with your site and your subject matter. I have been taking recommendations from your swing lists, following your Master Plan and doing pretty well. Stephanie Kemper, USA

Your Newsletter is great. I thank you for your wonderful work, and wish you all the best in the future. God bless you. Gnanam Nesan

I love SwingTracker ... nice program ... Bob Russel, USA

Some of the SwingLab scans (e.g., candles) are excellent, as are many of the analysis features. All things considered, I think SwingTracker is a great tool which I would not want to be without. Jim Spears, USA

I'd like to thank you for putting such a great site on the web. I have learned more about short term trading from your site than from all the other sites put together! Plus SwingTracker is a great trading tool. Roger Uglow, UK

I have loved going over your list for the last two weeks. I'm a new subscriber and your picks are saving me a ton of time (something I don't have much of). Thanks a million. Scott Smith, USA

Nice to see you offer this service, I think your style is one of the safest ways to make money. David DeFina, USA

...wouldbe, couldbe and wannabe a successful swing trader ... thanks for the site !!!! Andrew McCain, Australia

This site offers traders the ability to discipline themselves and the resources they need to succeed in the art of swingtrading! Highly Recommended! We endorse MrSwing. Oliver Velez and Anthony Nunes, Pristine.com

...there's something I'll always be grateful to you about: this month I realized I stopped trading on emotional impulses! I always knew emotion was THE enemy but I never could come up with a systematic and meaningful swing entry and exit strategy. Even though I could detect the moves, I was getting out with a bad timing by not defining risk in a proper manner. Anyway, thanks MrSwing, you're the master!! Arie Bensimon, Israel

Thanks for your help, four years of research and 500 web sites later, this is one of the most useful! Jon Sproule, Canada

Well, you sure know how to cut the greed, I almost heard "grab another fifty as fast as you can!" Vive le Master plan, I'll stick to it this week with more affordable stocks though! But hey, The Plan is a major "How to". When you're through with MA's and Fibonacci toolbox, you got a good feel of the music, but still not dancing. I'm a novice so your money management principles are crucial. Everywhere you read "be careful not to be greedy but don't fear, protect your principal" … but HOW? It's like this doctor that always prompted his patient to get better and never told him how. Guess where the patient is now! Although the plan is rather "mishna" style, I would have handled prior trades more successfully with it. Arie Bensimon, Israel

I really do appreciate your web site. I have gone to many others for advise/information and always felt that the message given was lacking. After examining your system, your information on how to Swing Trade offers a solid but flexible alternative to Swing Trading that I have studied in the past. Ross McKnight, USA

I should be paying you! Paul J. Krupin, USA

Larry is and has been involved in the development of many interesting IT tools used by thousands of traders world wide. Check out www.mrswing.com or www.swingtracker.com or www.releaz.com or www.stockchartz.com or www.eboox.net for more information.

3.1 Contact

If you have any questions about the ideas presented in this book or any other swing trading related matters, you can contact me by email: larry@mrswing.com or visit www.mrswing.com for more information. I personally answer all emails.

4 An Introduction to Swing Trading

To make money in the stock market it is necessary to have a disciplined approach to trading. We also believe that it is also important to keep things simple. While our goal is to keep things simple, the trading rules might initially seem a bit complex. However, once you learn the rules and you trade with discipline, you will make money in the stock market.

Swing trading allows you to make money when the market is bullish, or bearish, or just going sideways. That is why it has a distinct advantage over other approaches to investing. The goal is to make money, not to rest one's hopes on the future of a stock, a sector, or the economy.

4.1 What is Swing Trading

Everyone is familiar with waves. A wave alternates from positive to negative, then to positive and negative, and so on. Waves are found in nature – you see waves when you throw a rock into a lake. Sound is transmitted in waves. And when stock prices change, they follow a wave-like pattern. The wave is rarely as orderly a sine wave, but they are waves nevertheless, and we use these waves in Swing Trading.

4.2 Let's Look at an Up Trends

The chart below shows the price movement of Myriad Genetics (MYGN) in an uptrend. Notice that after the price moves up, it takes a rest, or pulls back. When we **swing trade** an uptrend, we buy on the pull-back.

An uptrend can be identified by a series of higher highs and higher lows (the bottom of each pull-back). In other words, an uptrend is a series of successive rallies with each rally going higher than the previous one and each pull-back stopping above the previous one.

The price movement looks more like the zig-zag of a saw blade than a sinusoid, but once an uptrend is established the pattern tends to repeat itself. In **swing trading** we capitalize on the predictability of the pattern. We **buy** during the **pull-back** to increase our chances of making a profit.
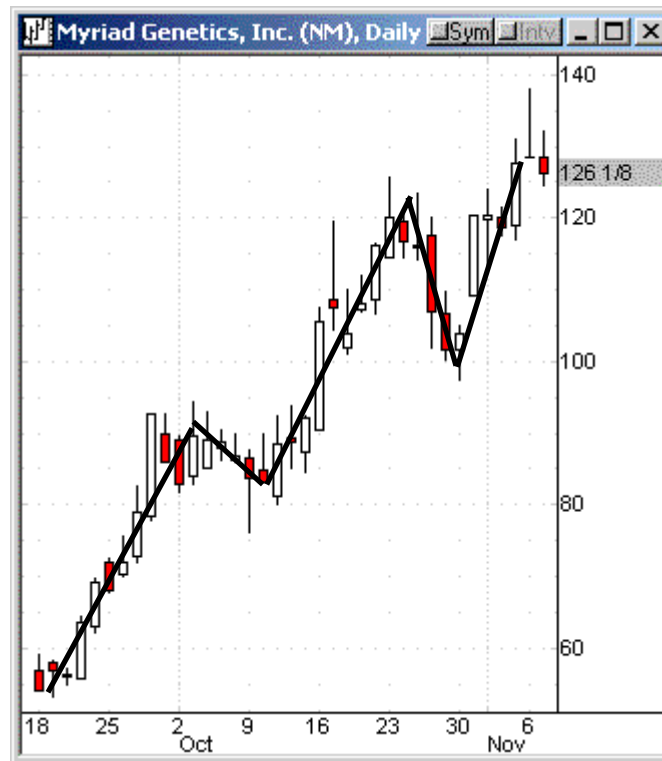
Figure 1 : up trend

4.3   Let's Look at a Down Trend

The chart below shows the price movement of Verisign (VRSN) in a downtrend. Notice that after the price moves down, it takes a rest, or pulls up. The price movement follows a zig zag pattern.

A **downtrend** can be identified by a series of lower lows and lower highs (the peak of each pull-up).

When we *swing trade* a downtrend, we **sell short** during a **pull-up**. If you are unfamiliar with **selling short**, we discuss it in the next session.

Figure 2: down trend

4.4   The Steps in Swing Trading

First, restrict your selection to the universe of stocks that fulfill certain criteria. Choose stocks that …

- Have a price of at least $7
- Have an average daily volume of at least 500,000 shares

Then …

STEP 1 – Identify a stock that is in an uptrend or a downtrend.

STEP 2 – For stocks in an uptrend, identify those that are experiencing a pull-back. For stocks in a downtrend, identify those that are experiencing a pull-up.

STEP 3 – Once an appropriate candidate is identified, place a limit order to buy (uptrend) or sell short (downtrend) the stock based on the **Master** Plan.

STEP 4 – Once a stock has been traded (a position opened), place a stop-loss order to limit downside risk and place a limit order to identify the price at which you will take profits. (Ideally, these two orders are placed together as an

OCO (One Cancels Other) order; this is sometimes called an OCA (One Cancels All) order.

STEP 5 – At the end of each day, adjust the stop loss prices based on the **Master Plan**.

4.5 What Can You Expect?

First – only a portion of your trades will be executed. The **Master Plan** is designed to only trade stocks that initially move in the anticipated direction. If the price moves in the opposite direction (continues pulling back or pulling up), the trade is not placed.

Second – you will be holding positions for a limited amount of time. While **swing trading** is not day trading, you are only holding positions until targets are met.

Third – some of your trades will result in losses, however losses are minimized by the **Master Plan** which raises the stops as the stock price rises; this is known as **trailing stops**. Being disciplined, and following the **Master Plan** will insure that profits exceed losses which means **you will make money**.

4.6 How Do You Identify Stocks that are Appropriate for Swing Trading?

All of the methods that are used to identify stocks that are appropriate for **swing trading** are based on **technical analysis**. Technical analysis is a way of using historical price/volume patterns to predict future behavior. It is not necessary to have a detailed understanding of **technical analysis** in order to **swing trade**. There are tools available that can assist investors at every level – from novice to expert. While there are many sources of information and tools that help identify **swing trading** opportunities, this book will focus on those provided at www.mrswing.com. Once you understand the principles, you can explore other sources of information.

4.7 What Tools are Available?

The tools fall into several categories.

- Subscriptions services that provide daily swing trading recommendations – www.mrswing.com offers a service called **BestSwings**. Larry Swing uses technical analysis and pattern recognition software **(SwingTracker)** to identify candidates for **swing trading**. Every evening, subscribers receive e-mails that identify several different types of patterns that are conducive to **swing trading**. Aside from showing you the pattern, the email indicates the current price, the entry price, the target (limit) price for taking profit, and the stop loss price for limiting downside risk. This service can be used by investors at all knowledge levels.

  An example of a **BestSwings** email alert for ZIGO is shown on the next page. A candlestick chart shows the recent price action, and a table indicates the closing price and all three action prices – the price to buy (using a buy stop order), the target price which is 7% above the purchase price (using a buy limit order), and the protective stop price which is approximately 4% below the purchase price (using a sell stop order). The 20- and 50-day moving averages (MA) are also shown so that you can more easily visualize the direction of the trend.

  The rational behind these prices are discussed in the section entitled **The Master Plan**.

ZIGO		
(Zygo Corp)		
Close	BUY ABOVE	Stop
16.41	17.17	16.48
7% Target	Resistance	Support
18.37	17.65	13.36

ZIGO (10/3/03) Close 16.39 (-0.15)
MA(20) 14.77 MA(50) 12.07

Vol. 0.2964M

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- **Software that scans historical stock prices and identifies swing trading patterns – SwingTracker** is a real time charting program available at www.mrswing.com that is designed to identify **swing trading** opportunities. While **SwingTracker** has many features (described in the Appendix), the **scan** feature is used to identify stocks whose price action show patterns that make them good candidates for swing trading.

  The **scan** feature allows you to identify patterns based on price history, volume history, moving averages, technical indicators, candlestick criteria, and fundamental company characteristics. **Scan** criteria are saved in a **scan library** so they can be used over and over again. A scan scenarios (also called a **template**) can be used to evaluate patterns in over 6000 stocks on the NYSE, the AMEX, and the NASDAQ. This evaluation happens in real time.

  During the day, you can use **SwingTracker** to watch the price and volume behavior of individual stocks. You can easily monitor stocks on a **favorites** list, and set alerts to tell you when particular prices are reached. These features are available from other services, usually at a higher cost than SwingTracker.

Since **SwingTracker** was designed by Mr. Swing, it comes with the ability to identify his favorite swing trading patterns, including those used to identify stocks for the **MasterSwings** service.

We will describe some of the criteria used to select **swing trading** candidates in the section entitled **Pattern Recognition Criteria**.

- **MrSwing Lite** is a free newsletter that is published once a week – it identifies several stocks that are good **long** and **short** swing trading opportunities. You can look at the price pattern and obtain the necessary quote information (previous day's high, low and close) using web sites like www.yahoo.quotes.com or www.stockchartz.com.

  Not surprisingly, MrSwing recommends using **SwingTracker** to examine the price patterns and quote information because it is specifically designed for swing trading. Choose the tools that suit your needs and your budget.

5 Pattern Recognition Criteria

While looking at a chart can often tell you whether a stock is appropriate for **swing trading**, it is very time consuming to look at charts, particularly if you look for opportunities every day. Another way to identify good stocks is to use software that can scan all of the listed stocks based on a series of algebraic equations that represent the characteristics of a good chart pattern. I use SwingTracker to accomplish this task.

Before discussing the specifics of **pattern recognition criteria**, we'll briefly consider the measures used in the algebraic equations. Some of the measures are simple descriptive variables (e.g., the high price for the previous day or the average volume over the past 20 days). Other measures are based on **technical analysis** which is discussed in more detail in the Appendix. **Technical analysis** has many different indicators from a simple moving average to a complex oscillator. It is not necessary to have an in-depth understanding of technical analysis to be a successful swing trader, however, it is helpful to have a rudimentary understanding of how we approach swing trading pattern recognition.

5.1 Technical Analysis Measures used to Recognize Swing Trading Patterns

To begin with, we typically restrict our selections to stocks that are at least $12 in price, having an average (20 day) daily volume of at least 500,000 shares. Since market makers can more easily manipulate low price, low volume stocks, we stay away from them.

For **long swings** we are interested in identifying stocks that are in an uptrend. One of the indicators we use is a **simple moving average** (SMA). A moving average is simply the average closing price for a particular number of days. It's called a moving average because on each new day, the current day's price is added to the average while the oldest price is dropped. We typically focus on three moving averages, those based on 10 days, 20 days and 50 days. All moving averages smooth the price movement and make it easier to identify trends. It is also significant to know where today's price is relative to the moving averages and whether the shorter time-frame moving average is above or below the longer time-frame moving average. Two indicators that a stock is in an uptrend are:

- Today's closing price is above both the 10-day and 20-day moving averages
- The 10-day moving average is above the 20-day moving average

When looking for a **long swing**, we would like to identify stocks that are experiencing a brief decline (pullback). We can identify a 3-day pullback as follows.

- Today's high price is lower than yesterday's high
- Yesterday's high is lower than the high the day before

We also use a technical indicator developed by Dr. Alexander Elder called the **Force Index**. This index combines the magnitude of the price change with the direction of the change and the trading volume. In order to confirm the relative force behind an uptrend and a pullback, we use a 3-day moving average and a 13-day moving average of the Force Index. The following conditions demonstrate that the bears have been winning the short-term battle while bulls are dominating the longer frame:

- The 3-day moving average of the Force Index is less than 0, and
- The 13-day moving average of the Force Index is greater than 0

Another technical indicator we like to use is the Directional Movement Index (DMI) that was developed by J. Welles Wilder Jr. It is used to determine whether a stock is trending or not trending (i.e., moving sideways). In **SwingTracker** we provide the two components of this indicator – the Positive Directional Index (+DI) and the Negative Directional Index (-DI) – along with a 20-day moving average based on these two measures (ADX). An uptrend is confirmed if …

- ADX is higher than 30
- +DI is greater than –DI

Our most successful pattern recognition formulas are available to all visitors (free of charge) at www.mrswing.com in the **SwingLab** section of the web site. You can copy the formulas into **SwingTracker** and scan all listed stocks at any time.. These are the same formulas that provide the **MasterSwings** recommendations. The formulas will be built into the next version of **SwingTracker**.

6 The Master Plan – Entry and exit rules that insure successful swing trading

> 💰 **The secret to swing trading success is:**
> **Confidence, Discipline, Focus and Patience**

6.1 WHAT is the Master Plan

The **Master Plan** is a set of rules that determines when to enter and exit a trade. At first, it might seem a little complicated, but once you have place a few trades using the system, you'll realize it's really quite simple. The best part about the **Master Plan** is that you don't need to use judgment. The rules are mechanical. Two obstacles to successful trading are the human emotions of fear and greed. By following the Master Plan, these emotions will not influence your behavior, nor will they interfere with your success.

To keep it simple, we'll first focus on the **long** trade. The rules for a **short** trade are simply the mirror image of the rules for a long trade. An example of a **long swing** opportunity is shown below. The price has declined (pulled back) and you are bullish on the stock.

6.2 Taking a Profit and Preserving Capital

An important aspect of the **Master Plan** is setting a profit target and preserving capital. The approach is fairly conservative – the profit target is approximately 7% with a potential loss capped at 4%. The actual profit is likely to be more than 7% while a loss is likely to be smaller than 4%. Here's how it works.

- Once the target price is reached (7% above the entry price), half of the shares are sold, locking in a 7% profit. The other shares remain invested to benefit from any further increase in price.

- If the price moves against the trade, the maximum loss tolerated is 4%. This preserves capital for future trades.

- Typically, more trades will produce a profit than a loss. The net result is profit.

- The movement of the entire market is very powerful. When the market is moving with your trades, a very high percentage of your trades will be profitable.

- When the entire market is moving against your trade, a higher than expected percentage of your trades will lose. The **stop loss** protects you from excessive losses.

6.2.1 Profit is taken using a "sell limit" order – once the price is reached, the specified number of shares are sold.

6.2.2 Capital is protected using a "stop loss" order – when the stop price is reached, all the shares are sold.

- ▪ Buying AFTER the open is BETTER
- ▪ Wait a few moments to allow the market to breath normally

6.3 When to Enter the Trade

Using the **Master Plan**, swing trading opportunities are identified after the market closes. Trades are entered in the morning, usually within the first half hour of trading. When you enter the trade (and the decision rule you use) depends on whether or not the stock has gapped up or down from the previous day's closing price. According to the **Master Plan**, a stock is considered to have gapped up when it opens 50 cents or more higher than the previous day's close; it is considered to have gapped down when it opens 50 cents lower than the previous day's close. **Most frequently**, the stock price will open **within** 50 cents of the previous day's close, neither gapping up nor gapping down.

- The most common occurrence – the stock opens within 50 cents ($0.50) of the previous day's close – the order can be placed a few minutes after the market opens.
- Occasionally a stock gaps up 50 cents or more compared to the previous day's close – the order is placed at least 30 minutes after the market opens.
- Occasionally a stock gaps down 50 cents or more compared to the previous day's close – the order is placed approximately 5 minutes after the market opens.
- To summarize, if the stock gaps in the **same direction** as the trade, wait **30 minutes**, and if the stock gaps in the **opposite direction** of the trade, wait **5 minutes**.

6.4 How to Enter the Trade

As with **when to trade**, **how to enter** depends on whether the stock gaps up/down or not. Typically, the stock price doesn't gap up or down and the entry price is based on the previous day's prices. When the stock gaps up or down, the entry price is not based on the previous day's prices, but on the current day's prices. Whether

based on the previous day's prices or the current day's prices, the entry rules are the same.

- **The most common occurrence – the stock opens within 50 cents ($0.50) of the previous day's close** – buy the stock the moment it trades **6 cents** (1/16) above the previous day's high. This can be accomplished by using a **buy stop** order. This increases the likelihood that the price is moving in the direction of the **bullish** (long) trade.

- **Occasionally a stock gaps up or down 50 cents or more** – buy the stock the moment it trades **6 cents** above the high of the **new day**. This would be **30 minutes** after the market opens for a **gap up** or **5 minutes** after the market opens for a **gap down**.

6.5 What to do After the Trade is Executed

Once the trade is executed, the exit orders are placed.

- The profit order – a **sell limit** order is placed at a price that is 7% above the entry price.

- The capital preservation order – a **sell stop (stop limit)** order is placed at **4% below** the entry price **OR 6 cents below** the low of the day that was used for the trade (whichever is higher) – for a stock that opened without a gap the previous day sets the prices; for a stock that opened with a gap, the price action before the day (high and low) sets the prices.

6.6 What to do the Day After the Trade is Executed

As with **when to trade** and **how to enter**, the following day's activity depends on whether the stock gaps up/down or not. If the stock price doesn't gap up or down, the **stop loss** is changed based on the previous day's prices. If the stock gaps up or down, the **stop loss** is changed based on the current day's prices. Whether based on the previous day's prices or the current day's prices, **stop** loss rule is the same.

- **When the stock opens within 50 cents ($0.50) of the previous day's close** – if **6 cents** below the previous day's low is higher than yesterday's **stop loss**, raise the **stop loss** to this new price**.**   This is known as raising the **trailing stop**, which further limits the downside risk.

- **When the stock gaps up or down 50 cents or more** – wait **30 minutes** for a **gap down** or **5 minutes** for a **gap up** – if **6 cents** below the today's low is higher than yesterday's **stop loss**, raise the **stop loss** to this new price**.**

6.7 What happens if the Trade is Not Executed

Let's say that you are receiving recommendations from **MasterSwings** or **MrSwing Lite** and your trade is not executed on the day the order is placed. You can repeat the process for up to 5 trading days.

- If the stock gaps up or down, wait the appropriate amount of time (30 minutes for a gap up and 5 minutes for a gap down) – determine the entry and exit prices based on the current day's prices.

- If the stock opens within 50 cents of yesterday's close, the entry and exit prices are based on the previous day's prices.

The chart on the following page should make the trading rules clear.

Long Swing

Stock Opens with a Gap

No

Yes — **Gap Up**

Yes | **Gap Down**

- Okay to place order when market opens
- Buy stop 6 cents above yesterday's high
- Sell stop at whichever is higher – 4% below entry price or 6 cents below yesterday's low
- Sell limit for half the shares at 7% above the purchase price

Wait 5 Minutes

Wait 30 Minutes

- Buy stop 6 cents above today's HIGH
- Sell stop at whichever is higher – 4% below entry price or 6 cents below today's low
- Sell limit for half the shares at 7% above the purchase price

Stock is Purchased

No – Repeat for up to 5 trading days

Yes

Next Day Stock Opens with a Gap

Repeat until the position closes. Sell stop closes the 2nd half of the position.

No

Yes **Gap Down**

Yes — **Gap Up**

- Sell limit for ½ the shares remains the same
- Sell stop – whichever is higher – yesterday's stop loss or 6 cents below yesterday's low

- Wait 30 minutes
- Sell limit for ½ the shares remains the same
- Sell stop – whichever is higher – yesterday's stop loss or 6 cents below today's low

- Wait 5 minutes
- Sell limit for ½ the shares remains the same
- Sell stop – whichever is higher – yesterday's stop loss or 6 cents below today's low

Visit: http://www.mrswing.com/   or   email: larry@mrswing.com

6.8 Once half the shares close at a 7% profit, the other half remains open to "ride the wave". When do we close the second half of the trade?

A **trailing stop** is used to close the 2nd half of the trade. Remember that a **trailing stop** is used to raise the **sell stop** (stop loss) during the trade. The same rules apply (see 6.**6** above). The shares are sold when the price drops to 6 cents below the low of previous day (no gap on open) or the current day (gap on open).

6.9 The Short Swing – how we make money when we think the price of the stock is going down

A **short swing** is used to make money when a stock's price is predicted to go down. We **sell short** the stock. For those unfamiliar with **shorting** stocks, we sell the stock without having previously owned it. Additional detail about shorting stocks can be found the Appendix. For now, it is only necessary to know that our goal is to sell the stock and buy it back at a lower price.

While anyone can sell short, you must make sure that your brokerage account is approved for trading on **margin**.   If you do not have a **margin account**, simply fill out the necessary forms with your current brokerage firm or open an account with one of the firms recommended for **swing** trading.

A **short swing** is a mirror image of a **long swing**. The price of a stock in a downtrend tends to have periodic, short-term rallies (pull-ups) as the price moves lower. The set up for a **short swing** is the brief rally (or pull-up). The decision rules in the **Master Plan** help enter the trade when the stock is resuming it's downward path.

A chart showing a downtrend that is conducive to **short swing trading** is shown on the next page.

Notice in the chart below that the downtrend is interrupted by short-term rallies (pull-ups). The trade is placed after a short-term rally (or pull-up), once the stock resumes its downtrend.

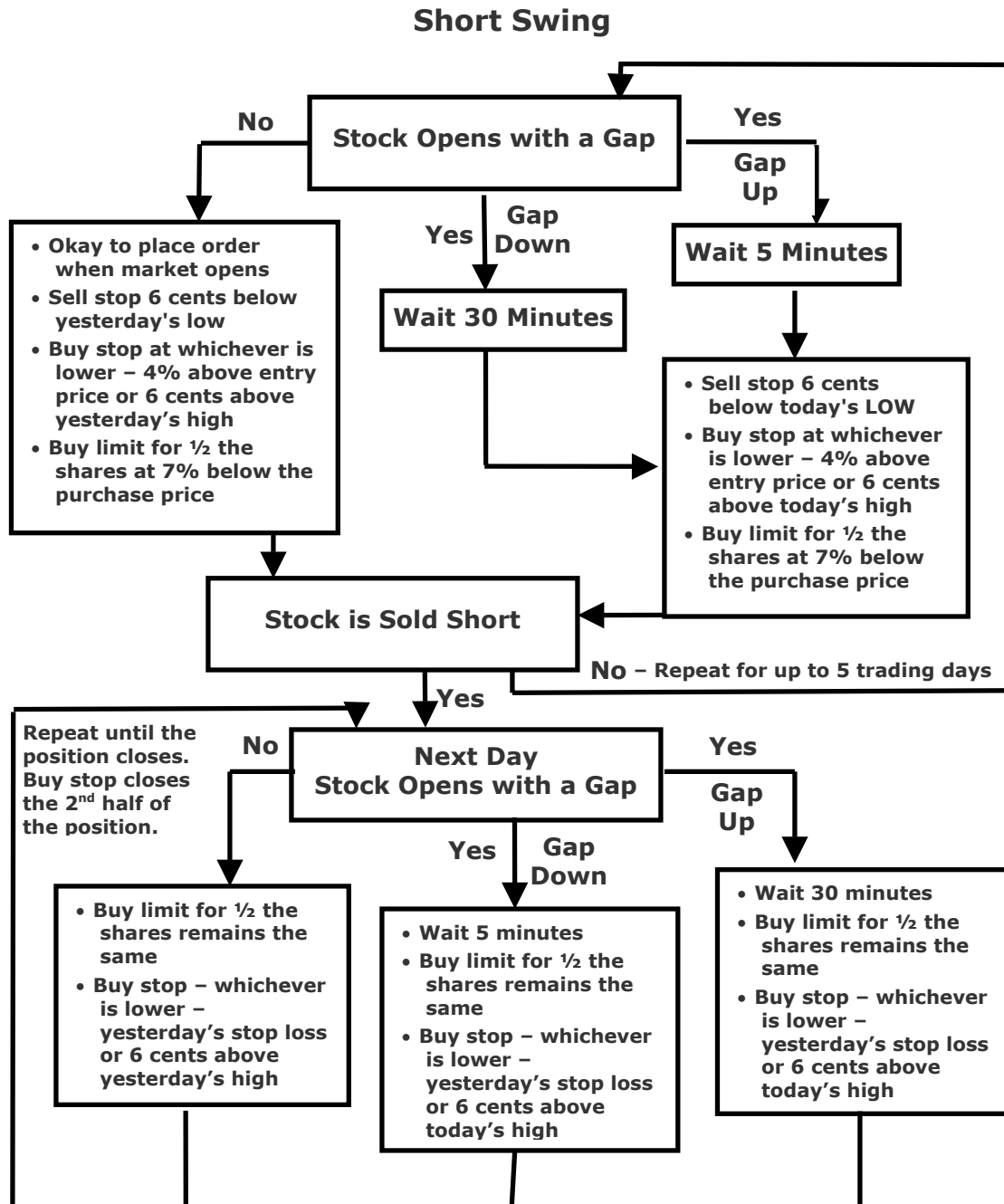The trade is entered on a day when the price falls below the low of the previous day.

The rules for entering and exiting a **short swing** are shown schematically on the next page.

While the rules might seem somewhat complicated, several brokerage firms make the process quite easy. **Interactive Brokers** – described in the next section – allows you to enter the three components of the trade all at the same time. For a **short swing** they are:

- A **sell stop** to sell the stock when the price moves below the **stop price**
- A **buy stop** to buy back the shares if the price moves up 4%
- A **buy limit** to lock in profits (on ½ the shares) when the price drops 7%

The schematic diagram provides instructions for how to adjust these prices on the second day, third day, and so on, based on whether the stock has been **sold short** or not. The schematic provides exit instructions as well.

Short Swing

Stock Opens with a Gap

No

Yes Gap Down

Yes Gap Up

Wait 5 Minutes

Wait 30 Minutes

- Okay to place order when market opens
- Sell stop 6 cents below yesterday's low
- Buy stop at whichever is lower – 4% above entry price or 6 cents above yesterday's high
- Buy limit for ½ the shares at 7% below the purchase price

- Sell stop 6 cents below today's LOW
- Buy stop at whichever is lower – 4% above entry price or 6 cents above today's high
- Buy limit for ½ the shares at 7% below the purchase price

Stock is Sold Short

No – Repeat for up to 5 trading days

Yes

Repeat until the position closes. Buy stop closes the 2nd half of the position.

No

Next Day Stock Opens with a Gap

Yes Gap Up

Yes Gap Down

- Buy limit for ½ the shares remains the same
- Buy stop – whichever is lower – yesterday's stop loss or 6 cents above yesterday's high

- Wait 5 minutes
- Buy limit for ½ the shares remains the same
- Buy stop – whichever is lower – yesterday's stop loss or 6 cents above today's high

- Wait 30 minutes
- Buy limit for ½ the shares remains the same
- Buy stop – whichever is lower – yesterday's stop loss or 6 cents above today's high

7.1 optionsXpress

optionsXpress is a discount broker that has many features to help the **swing trader**. While the name suggests a specialist in options, you can trade **stocks**, **bonds**, and **mutual funds** as well. **optionsXpress** also has a unique autotrading service called **Xecute**^{SM} which we use for several of our services including **QQQ Swings**, **OEX Swings**, **DIA Swings** and **SMH Swings**. In the near future you will also be able to trade our **OptionSwings** service using **Xecute**^{SM}. If you are a subscriber to one of our services, our trade recommendations go directly to **optionsXpress** and they can automatically place the buy and sell orders in your account. This is particularly convenient for subscribers who are unable to watch the market.

For **swing traders**, **optionsXpress** has a feature called **One Cancels Other** (OCO). Once the trade is placed, both closing sell orders can be placed simultaneously (the limit and the stop order) – when one is executed, the other is cancelled. By the time this book is published, **optionsXpress** will also have a feature that allows a buy and sell order to be placed simultaneously. They continue making improvements based on the needs of their customers.

Autotrading means that **optionsXpress** can executes your QQQ Swing trade recommendations automatically based on your specifications in your brokerage account and sends QQQ Swings trade alerts.

optionsXpress offers additional features that are valuable to all investors:

- Streaming real-time quotes including after hours prices
- High-speed execution
- Low commissions (e.g., $19.95 for stocks, $14.95 for mutual funds and up to 10 options contracts)
- State-of-the-art charting, technical analysis and order entry
- Up-to-the-minute commentary and market statistics
- features specifically designed for options traders – the ability to place easily trade calls, puts, spreads, straddles, strangles, butterfly's etc.
- tools specifically designed for options traders including Option Dragon (a screening tool) and Option Pricer
- Options can be traded in retirement accounts and custodial accounts

You can open an account at http://www.optionsxpress.com/

8 The Essentials of Technical Analysis

8.1 Intro

We humans have a very hard time making fast decisions with complicated info. That is why, as human traders, we try to simplify trading as much as possible, in order to scan fast & accurate trading opportunities in a few seconds. As Albert Einstein used to say: keep things as simple as possible nut not any simpler!

The following Technical Analysis (TA) tools are part of the daily charting arsenal:

- Candle stick

- Volume

- Equivolume

- MA (???)

- Force Index

- DMI

- Up/Down/In/Out

- ...

8.2 Why does Technical Analysis work?

Simply because the large professional traders cannot help leaving behind considerable evidence regarding their opinion on the direction of the market: volume provides clues as to the intensity of a given price move...

The key is psychology: you trade people, not stocks. People never change...most traders keep on making the same mistakes again and again...luckily for us. Read this again and think about it!

8.3 The Basics

A stock price is determined by an exchange between buyers and sellers. If there happens to be more buyers than sellers then the market goes up. On the contrary, if there happens to be more sellers than buyers then the market goes down. Logical!

The price at which a stock is offered affects the trader's decision. If a trader is long and the stock starts to decline, the trader could be forced to close his position. If short, he might do likewise on a rising stock.

When a trader takes a long position, he becomes a potential seller, while short positions are held by potential buyers. As prices change due to buying and selling pressure, information about the condition of the stock is revealed by the combination of price and volume action.

8.4 Japanese Candle sticks

In the 1600s, the Japanese developed a method of technical analysis to analyze the price of rice contracts. This technique is called candlestick charting. Steven Nison is credited with popularizing candlestick charting and is now recognized as the leading expert on their interpretation.

Candlestick charts display the open, high, low, and closing prices in a format similar to a modern-day bar-chart, but in a manner that extenuates the relationship between the opening and closing prices. Candlestick charts are simply a new way of looking at price; they don't involve any calculations.
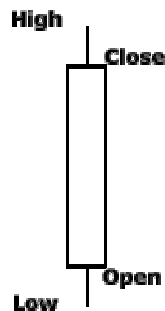
Figure 3: An open candle stick chart
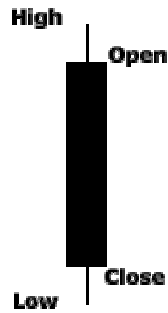
Figure 4: a closed candle stick chart

8.5 Volume

Volume is simply the number of shares traded during a given timeframe (e.g., hour, day, week, month, etc.). The analysis of volume is a basic yet very important component of technical analysis. Volume provides clues as to the intensity of a given price move.

High volume levels are characteristic of market tops when there is a strong consensus that prices will move higher. High volume levels are also very common at the beginning of new trends (i.e., when prices break out of a trading range). Also, just before market bottoms, volume will often increase due to panic-driven selling.

Volume can help determine the strength of an existing trend. A strong up-trend should have higher volume on the upward legs of the trend, and lower volume on the downward (corrective) legs. Similarly, strong downtrends usually have higher volume on the downward legs of the trend and lower volume on the upward (corrective) legs.

8.6 Equivolume

Equivolume displays prices in a manner that emphasizes the relationship between price and volume. Equivolume was developed by Richard W. Arms, Jr., and is explained in greater detail in his book "Volume Cycles in the Stock Market"

Instead of displaying volume as an "afterthought" on the lower margin of a chart, Equivolume combines price and volume in a two-dimensional box. The top line of the box is the high for the period and the bottom line is the low for the period. The width of the box is the unique feature of Equivolume - it represents the volume for the period.
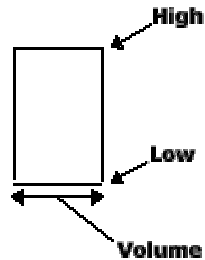
Figure 5: Equivolume

The shape of each Equivolume box provides a picture of the supply and demand for the security during a specific trading period. Short and wide boxes (heavy volume accompanied with small changes in price) tend to occur at turning points, while tall and narrow boxes (light volume accompanied with large changes in price) are more likely to occur in established trends.

Especially important are boxes that penetrate support or resistance levels, since volume confirms penetrations

A "power box" is one in which both height and width increase substantially. Power boxes provide excellent confirmation of a breakout. A narrow box, due to light volume, casts doubt on the validity of a breakout in question.

We always look at volume in relation with price movement:

Volume	**Trend Reversal** ▪ **Above-Average Volume with LITTLE price movement** ▪ **Above-Average Volume after a huge advance or decline** **Trend Continuation** ▪ **Above-Average Volume with STRONG price movement** ▪ **Above-Average Volume with breakout** ▪ **Below-Average Volume with NO price movement**
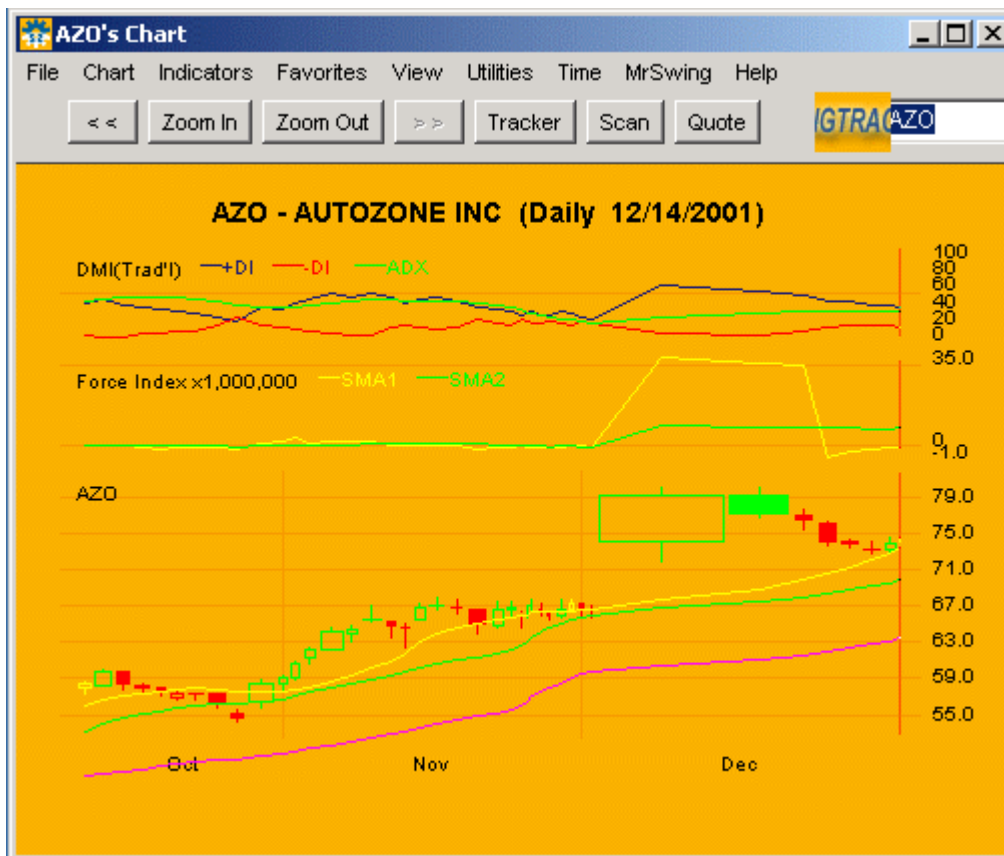
Figure 6: Volume

8.7 Moving Averages

A Moving Average (MA) is an indicator that shows the average value of a security's price over a period of time. When calculating a moving average, a mathematical analysis of the security's average value over a predetermined time period is made. As the security's price changes, its average price moves up or down.

Simple MA = (P1 + P2 + … + Pn) / n
where **P** is the price being averaged and **n** is the number of days in the MA

There are five popular types of moving averages: simple (also referred to as arithmetic), exponential, triangular, variable, and weighted. Moving averages can be calculated on any data series including a security's open, high, low, close, volume, or another indicator. I use only the 10-20 & 50 day simple MA on closing prices.

TRENDS	UpTrend:

	- Higher Highs & Higher Lows - Rising MA10 & MA20 - Higher volume on the upward legs - closing prices ABOVE the MA20 & MA50 - an Uptrend stock will find support at either the 20 or 50 day MA DownTrend: - Lower Highs & Lower Lows - Falling MA10 & MA20 - Higher volume on the downward legs - closing prices BELOW the MA20 & MA50 - a downtrend stock will find resistance at either the 20 or 50 day MA

[SwingTracker©](SwingTracker)

8.8 Force Index

Force Index is an oscillator developed by Dr. Alexander Elder in his excellent book: "Trading for a Living".

Force Index combines the three most essential pieces of market information:

- the direction of price change

- its extent

- its trading volume.

It provides a new, practical way of using volume to make trading decisions.

Force Index	**Force Index = Volume(today) * (Close(today) - Close(yesterday))**

Although Force Index can be used raw, I prefer to smooth them with moving average:

Larry's Index	FI-3days MA & FI-13days MA

A 3-day MA of Force Index is a very sensitive indicator which shows the short-term battle between the bulls and the bears. And the 13-day MA of Force Index identifies the longer-term battle between bulls and bears.

Force Index	BUY opportunity : ▪ FI-13MA => 0 ▪ FI-3MA <= 0 ▪ UPTREND SELL opportunity: ▪ FI-13MA =<0 ▪ FI-3MA >= 0 ▪ DOWNTREND

Figure 7: moving index

8.9 Directional Moving Index

The Directional Movement Index (DMI) is a trend-following indicator developed by J. Welles Wilder, Jr., designed to determine whether a security is in a trending or non-trending market. Since the market is in a strong trend only about 30% of the time and in sideways about 70% of the time, this indicator is used to capture the period when the market shows significant trending or directional behavior.

The calculation of the DMI is fairly complex and consists of three lines:

DMI	**+DI**: current positive directional index, the range of highs divided by the price range over the last day and previous close, smoothed over a given number of periods.
	-DI: current negative directional index, the range of lows divided by the price range over the last day and previous close, smoothed over a given number of periods.
	ADX: modified moving average of the difference of +DI and -DI divided by the sum of +DI and -DI, multiplied by 100.
	UpTrend:
	▪ ADX > 30 the higher the better
	▪ +DI > -DI
	DownTrend:
	▪ ADX > 30 the higher the better
	▪ -DI > +DI

8.10 Up/Down/In/Out

Up/Down/In/Out is a chart overlay available on SwingTracker (software I recently developed) that color-codes individual bars or candlesticks based on price movement. It relates the current high and low price with the previous high and low price.

Up (Green) indicates the current high is higher than the previous high and the current low is higher than the previous low.

Down (Red) indicates the current high is lower than the previous high and the current low is lower than the previous low.

In (Yellow) indicates the current high is lower than the previous high, and the current low is higher than previous low.

Out (Blue) indicates that the current high is higher than the previous high, and the current low is lower than the previous low.

9 SwingTracker

SwingTracker 4.0 is quote, scan and charts software designed specifically for Swing Traders. In addition to our acclaimed features like real-time intraday technical charts, sophisticated stock tool and dozens of technical indicators, we have the following special features for swing traders:

- Equivolume and ForceIndex indicators as described in my education section

- Build your own stock scans, or use the ones I describe in "SwingLab" to find your own

- Real-Time Swing Alerts

9.1.1 Features

- **Real-Time Quotes and Charts**

Focus on specific market time periods quickly with the Zoom feature.

Access historical data with daily, weekly and monthly charts all the way back to 1990.
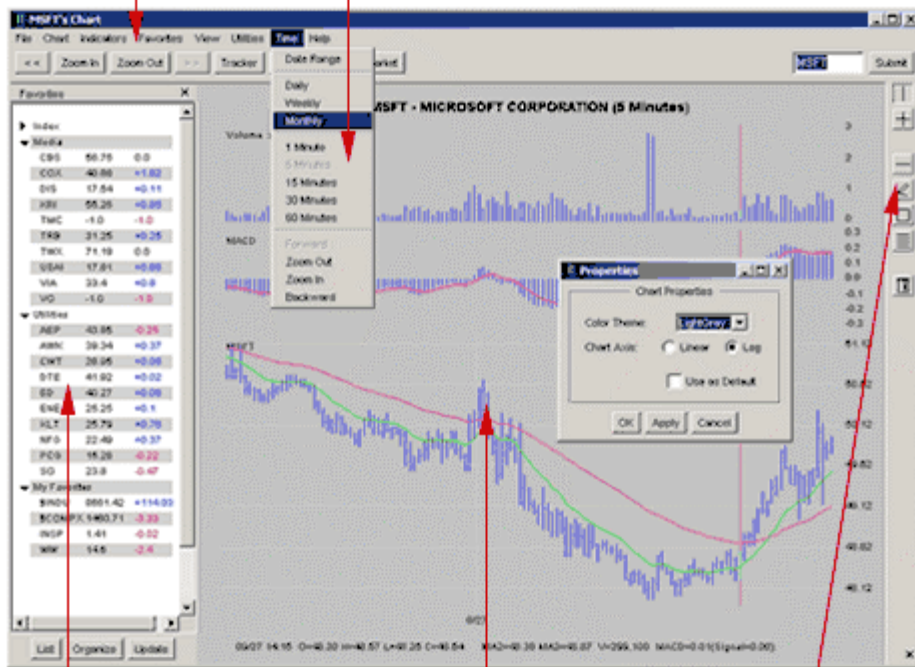
Receive detailed real-time quotes throughout the trading day.

Click on a specific bar and see the price data displayed at the bottom of your screen.

Use the Toolbox to draw trendlines or point to a specific trading bar.

SwingTracker allows you to watch the market unfold in real time with customized Real-Time Quotes and Charts updated by the minute.

- **Real-Time Watchlist**

Maintain a list of favorites and watch them update instantly on your monitor.

Use the Quote button to receive detailed stock information including bid and ask prices.
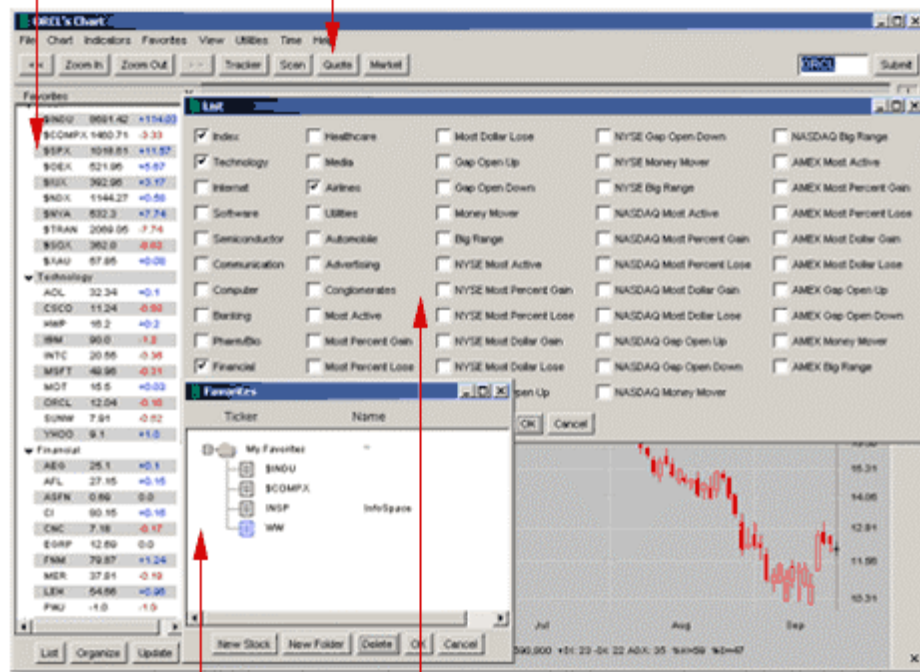
Maintain a customized list of your most used folders in the easy-to-find Favorite window.

Open the List window to access real-time lists of industries, most active stocks and top gainers and losers.

Track dozens of stocks and indices simultaneously with a dynamic SwingTracker Real-Time Watch List. This set of personalized "favorites" is easy to organize. Simply choose a symbol and you'll receive up-to-the-minute information on that stock as it happens. Choose from more than 50 lists, including Most Actives, Top Gainers/Losers, Indices, and Industry Groupings.

- **Stock Scan**

Choose from hundreds of criteria then scan to determine the stocks that are best for you.
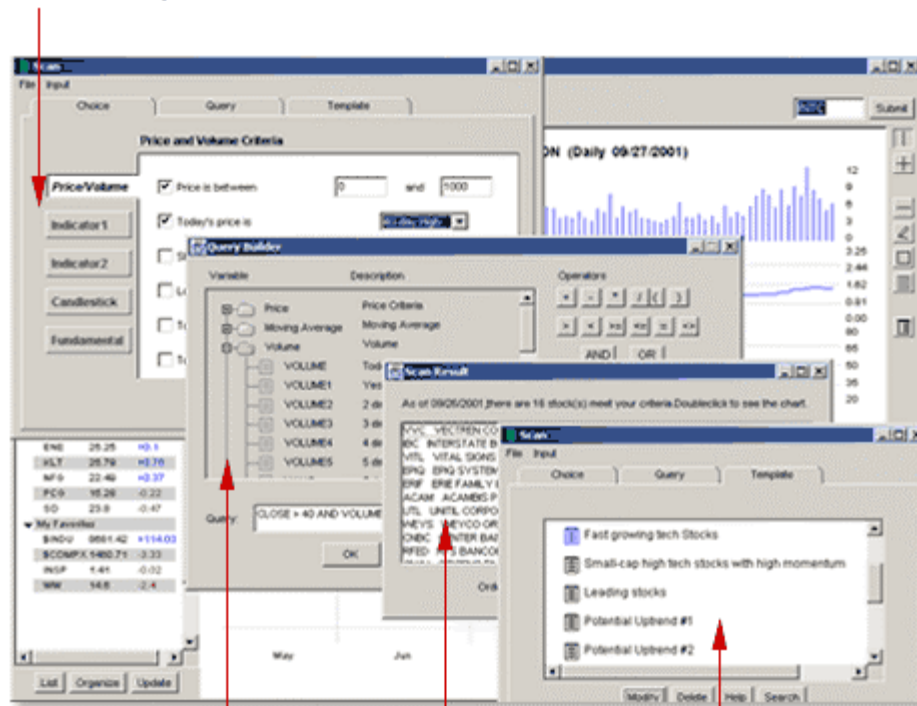
Create your own scan formulas with the easy-to-use Query Builder interface.

Sort your scan results by price, volume, market cap and more.

Save your favorite scans as templates to use anytime.

Find new investing opportunities with SwingTracker's sophisticated Stock Scan. This powerful and easy-to-use software allows you to search using more than 100 criteria, including price, volume, and fundamental information. Stock Scan also utilizes our proprietary candlestick recognition engine to determine specific patterns. And every search can be saved or modified with just one click.

Can you make money swing trading?

YES, we enjoy a high percentage of winning trades because the charts pattern used have been back-tested. The risk parameters are highly defined; The swing trader is a disciplined user of trading STOPS. This is only TRUE when you apply a solid trading plan, like our MASTER PLAN.

- **Portfolio Tracker**

Create multiple real-time portfolios and calculate total profit and loss by day or overall.

Set high and low price alerts for every stock in your portfolio.
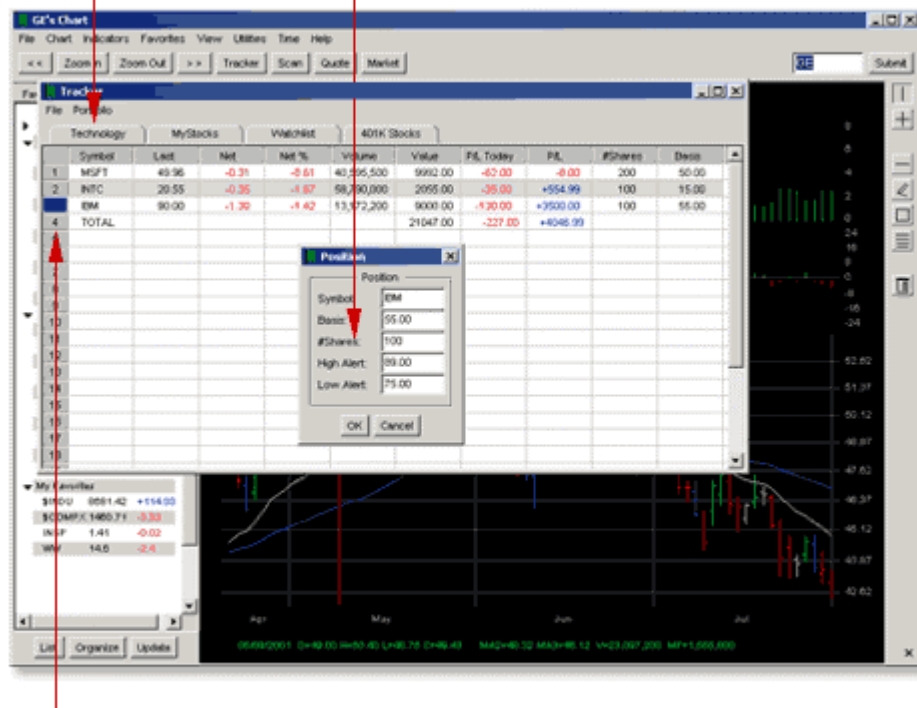
Receive audio and visual confirmations when an alert is reached.

Manage and protect your existing profits with SwingTracker's Portfolio Tracker. The tool allows you to monitor up to six different portfolios in real time. You can also set high and low alerts, purchase price, and the amount of your holdings to continually monitor your bottom line.

- **Technical Indicators**

View up to four technical indicators at a time for each stocks

Customize your parameters to determine how moving averages and other indicators.

See chart overlays including moving averages and paraboic SAR.

Accurate technical analysis is essential to today's trading. SwingTracker Technical Indicators allow you to view up to four indicators simultaneously, including our proprietary indicator, IQC Zone, Relative Strength Ranking, and Money Flow.

Do you monitor all list stocks every day? How do you pick one to play?

NO ! I execute our swings scans every single day and select approx. 25 stocks i like!!

THEN? I divide my portfolio into 15 equal pieces & the first 15 (of the 25 stop orders) that pass the swing test are traded, i.e. I only risk 6.66% on each trade.

Technical analysis is widely considered essential in limiting risk and maximizing profit as part of any trading and investment strategy. SwingTracker has dozens of technical indicators available for real-time and long-term analysis.

Available Technical Indicators

With price volatility at an all-time high, it is becoming increasingly important for the investor to recognize patterns in the movements of the stocks they own or are interested in purchasing. The interpretation of market activity using technical analysis provides clues to the investor as to the future behavior of the price.

Generally speaking, the technical investor will use a combination of price, volume and time-sensitive technical indicators to maximize their profits. Here is a complete list of technical indicators utilized by SwingTracker, IQC Corporation's award-winning technical analysis charting software.

Overlays

- Bollinger Bands
- Linear Regression
- Moving Average
- On Balance Volume (OBV)
- Parabolic SAR
- IQC Zone
- Up/Down/In/Out

Indicators

- Average True Range
- Breadth Advance/Decline
- Commodity Channel Index (CCI)
- Directional Moving Index (DMI)
- Equivolume
- Force Index
- Moving Average Convergence/Divergence (MACD)
- McClellan Oscillator
- Momentum
- Money Flow
- Relative Strength Ranking (RSR)
- Relative Strength Index (RSI)
- Relative Strength Index Classic (RSI Classic)
- Stochastics

- Ultimate Oscillator

- Volatility

- Volume and Volume Average

- William %R

Other Interesting Features

- Provides real-time access to financial information anywhere in the world.

- Works side-by-side with your Internet browser.

- Offers a variety of tools that give you the ability to draw trend lines, retracements, and much more.

- Displays information on related stocks quickly and easily.

- Takes advantage of offline capabilities for daily, weekly, and monthly charts.

- Saves time, money, and space with server-maintained databases.

10 FREE SwingLab

SwingLab works alongside with SwingTracker, my real-time charting software. One of the best features of SwingTracker is the "Scan" feature, which lets you build your own stock screens to find the specific stocks you'd like to swing trade.

> Why does swing trading work?
>
> Because you are trading in the direction of the trend. You wait for a pullback before entering the trade, and you enter only if the stock shows a sign that it's price will continue in the direction of the trend.

I will show you some of the formulas I use, and how I use them. There is also a step-by-step description of how to set the screens up.

On www.mrswing.com, you will find regular update in the SwingLab section of the site. Let's get started.

10.1 Starting with SwingLab

Swing traders seek pivot points in stocks - gaps, breakouts and reversals - with a 1 to 5-day time horizon. Here are some of the scans that I use... if you find one that you like, send it to swinglab@mrswing.com with your name, and we may add it to our growing library on our website.

10.1.1 Starting to swing...

All the scans presented here are End-of-Day. These scans are best executed & analyzed before the opening of the market! So you have all the time in the world to be prepared to swing these stocks like a PRO.

Let's start with our first scan: this is the first scan we execute every single trading day.

Swings

**the stock must be experiencing a minor decline/pullback
within the context of a uptrend**
or
the stock must be experiencing a minor rally as part of a downtrend

| Title:	FORCESWING LONG	We use this scan to search for stock that has been in an uptrend but experiencing a minor decline/pullback. With this scan we try to detect stocks for potential **long** swing trades.	
Code:	MAV20 >=**500000** AND	we stay away from stocks that trade less than 500,000 shares of the 20-day Volume Average to ensure liquidity (sometimes we use 250,000 instead, depending on market conditions)	
	CLOSE>**12** AND	to be sure we do not trade cheap stocks (sometimes we use 7$ instead, depending on market conditions)	
	CLOSE > SMAC10 and CLOSE > SMAC20 AND	to be sure the stock is still in an uptrend	
	HIGH < HIGH1 and HIGH1 < HIGH2 AND	the stock must be experiencing a **3 day decline/pullback** within the context of a **uptrend**	
	FORCE3<=0 AND FORCE13>=0 AND	the **short** term battle is now won by the **bears**, but still the **bulls** are in **control** of the **longer**-term **battle**	
	ADX20>30	to be sure the stock is still **trending**	
(s):	swings	**long**	

Only trade what you like !

| Title:	FORCESWING SHORT	**We use this scan to search for stock that has been in an downtrend but has experiencing a minor rally.** With this scan we try to detect stocks for potential **short** swing trades.	
Code:	MAV20 >=**500000** AND	we stay away from stocks that trade less than 500,000 shares of the 20-day Volume Average to ensure liquidity (sometimes we use 250,000 instead, depending on market conditions)	
	CLOSE>**12** AND	to be sure we do not trade cheap stocks (sometimes we use 7$ instead, depending on market conditions)	
	CLOSE < SMAC10 and CLOSE < SMAC20 AND	to be sure the stock is still in an downtrend	
	LOW > LOW1 and LOW1 > LOW2 AND	the stock must be experiencing a **3 day RALLY** within the context of a **DOWNtrend**	
	FORCE3<=0 AND FORCE13>=0 AND	the **short** term battle is now won by the **bulls**, but still the **bears** are in **control** of the **longer**-term **battle**	
	ADX20>30	to be sure the stock is still **trending**	
Type(s):	swings	**short**	

10.1.2 Cut and Paste

Here is how to cut and paste SwingLab scans into SwingTracker. To build your own, just type a formula into Step 4.
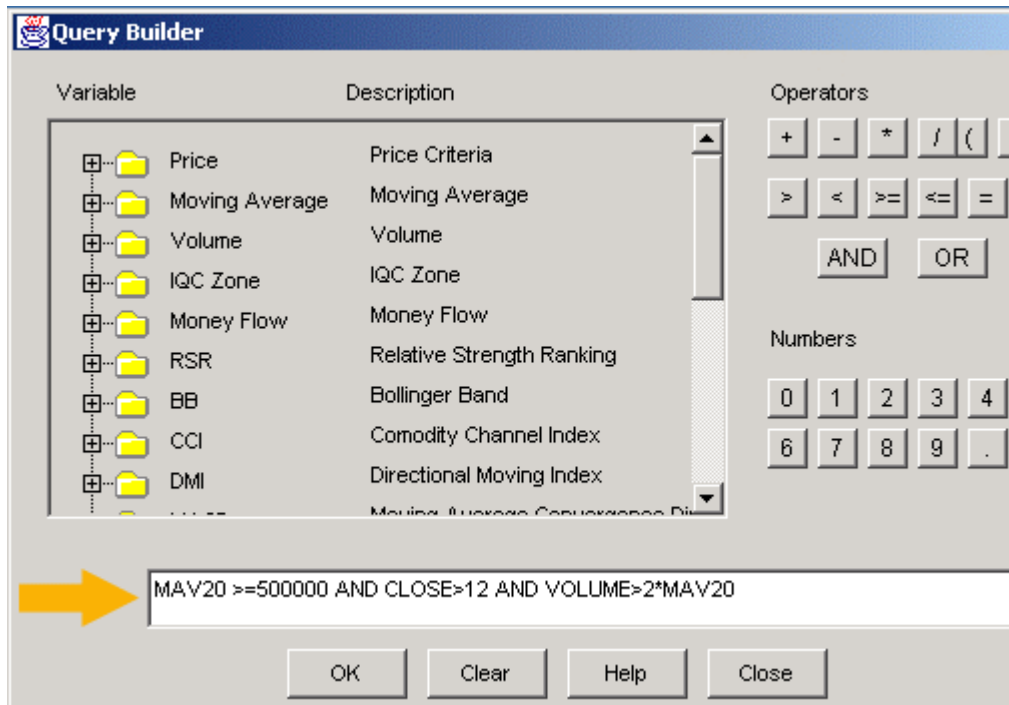
1. Open SwingTracker (runs on Windows & Mac OS)
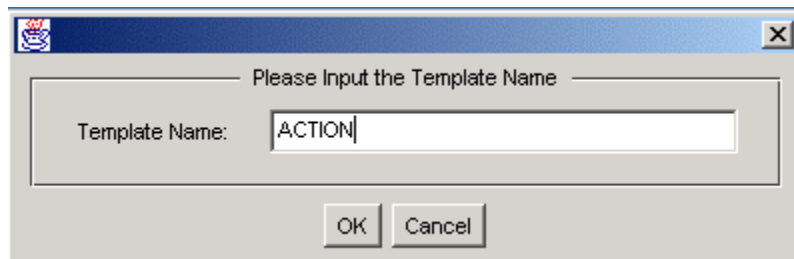
2. Click on the SCAN button
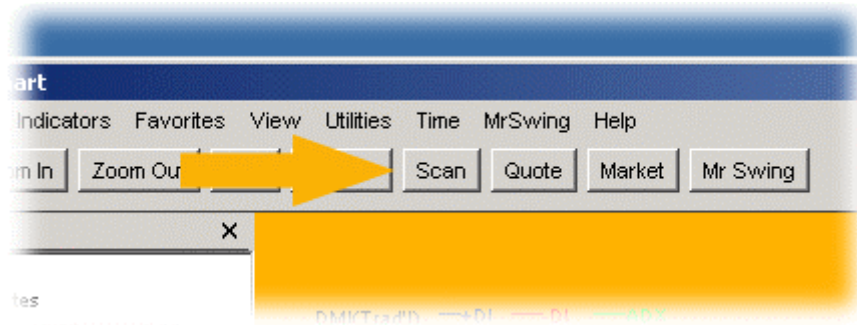
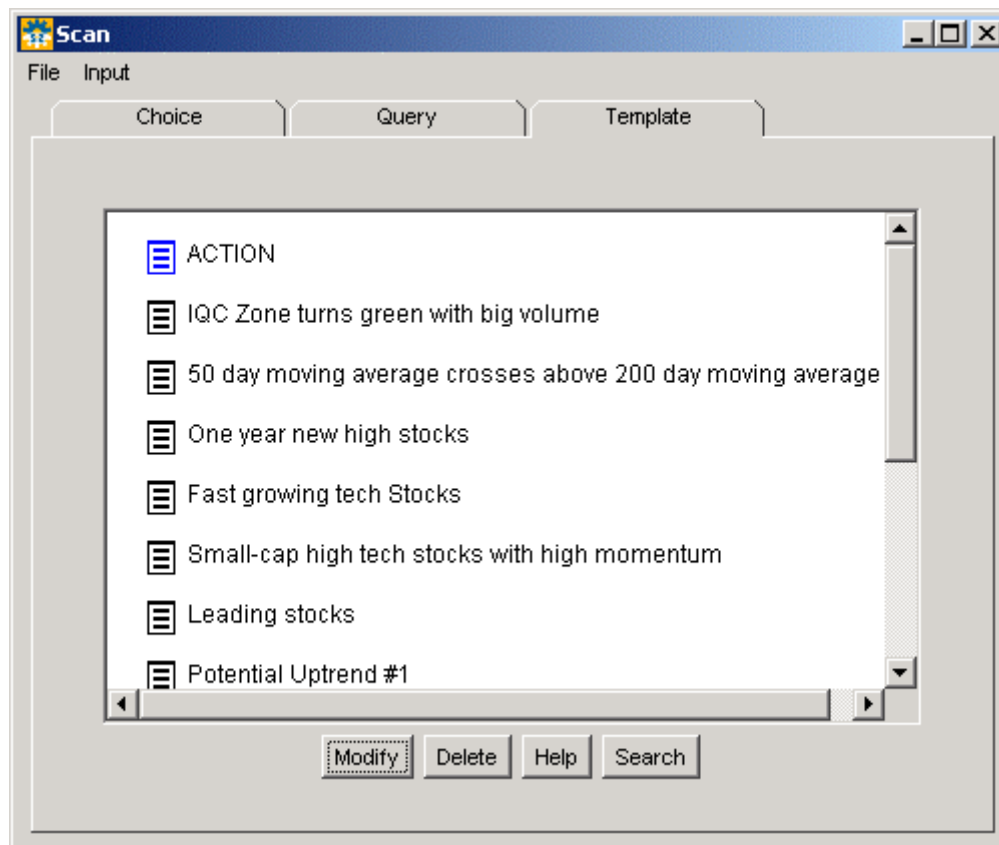**3. Then Click on the Query button & Add Criteria**
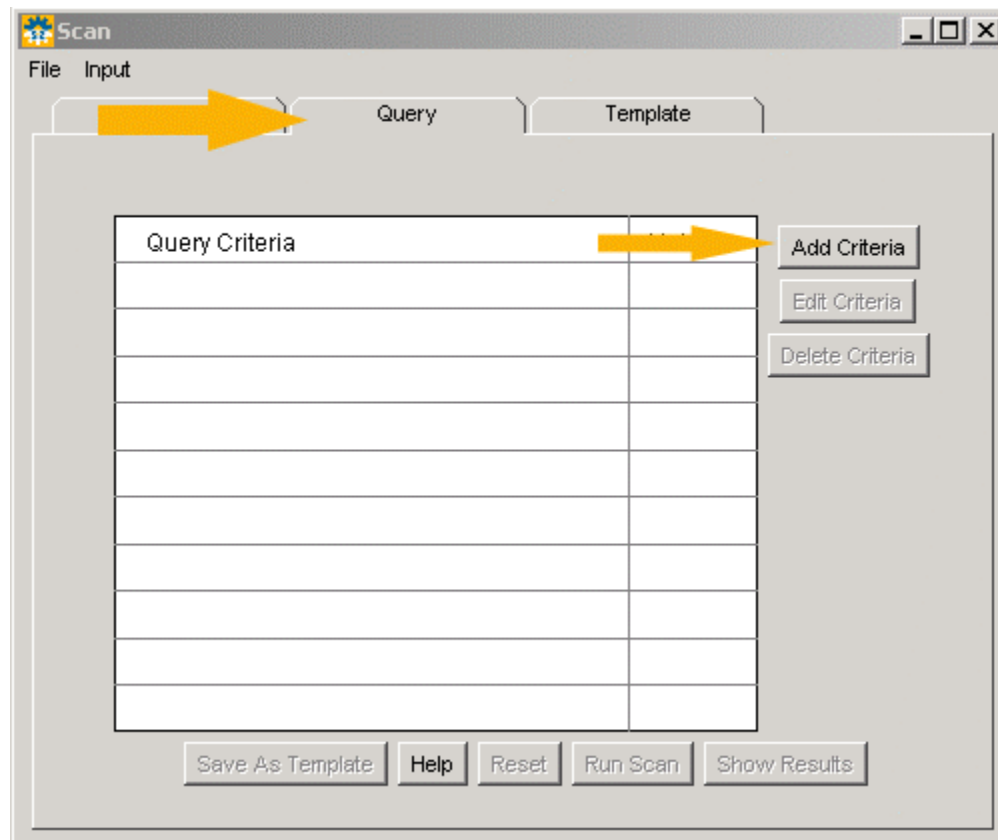
4. Paste (CTRL-V) the code into query & press OK

5. Run & Save the Template

6. Once Saved, will it always be part of your swinging templates!

7. Press Search and analyze/enjoy the results!

8. Only trade what you like!!!

11 Case Studies

Trade: **DFXI**

Date: 04/26/2002

Reasons for trade/setup: CLOSE > SMAC50 and CLOSE > SMAC20 (to be sure the stock is still in an uptrend) and HIGH < HIGH1 and HIGH1 < HIGH2 AND (the stock must be experiencing a 3 day decline/pullback within the context of a uptrend) and FORCE3<=0 AND FORCE13>=0 (the short term battle is now won by the bears, but still the bulls are in control of the longer-term battle)

Swing Entry price: $42.48 (High of yesterday $42.42 + $0.06)
Stop Loss price: $41.35 (order $0.06 below the low of the previous day $41.41 - $0.06)

Target: $45.45 (entry price +7%)

Exit: $45.45 (05/02/2002) & $43.44 (05/02/2002)

Reason for exit: $45.45 at a **7%** gain on the **long** swing trade & $43.44 trailing stop low of yesterday $43.50 - $0.06

Profit/loss: $1.965 = ($2.97 + $0.96)/2 or gain of 4.63%

Trade: **PFG**

Date: 04/12/2002

Reasons for trade/setup: CLOSE > SMAC50 and CLOSE > SMAC20 (to be sure the stock is still in an uptrend) and HIGH < HIGH1 and HIGH1 < HIGH2 AND (the stock must be experiencing a 3 day decline/pullback within the context of a uptrend) and FORCE3<=0 AND FORCE13>=0 (the short term battle is now won by the bears, but still the bulls are in control of the longer-term battle)

Swing Entry price: $27.26 (High of yesterday $27.20 + $0.06)
Stop Loss price: $26.35 (order $0.06 below the low of the previous day $26.41 - $0.06)

Target: $29.17 (entry price +7%)

Exit: $27.94 (04/18/2002)

Reason for exit: $27.94 trailing stop low of yesterday $28.00 - $0.06 & Target of 7% never met

Profit/loss: $0.68 or gain of 2.49%

Trade: **PTEN**

Date: 03/26/2002

Reasons for trade/setup: CLOSE > SMAC50 and CLOSE > SMAC20 (to be sure the stock is still in an uptrend) and HIGH < HIGH1 and HIGH1 < HIGH2 AND (the stock must be experiencing a 3 day decline/pullback within the context of a uptrend) and FORCE3<=0 AND FORCE13>=0 (the short term battle is now won by the bears, but still the bulls are in control of the longer-term battle)

Swing Entry price: $26.84 (High of yesterday $26.78 + $0.06)
Stop Loss price: $25.94 (order $0.06 below the low of the previous day $26.00 - $0.06)

Target: $28.72 (entry price +7%)

Exit: $28.72 (03/28/2002) & $29.99 (04/03/2002) at open

Reason for exit: $28.72 at a **7%** gain on the **long** swing trade & $29.99 trailing stop low of yesterday $30.31 - $0.06

Profit/loss: $2.515 = ($1.88 + $3.15)/2 or gain of 9.37%

12 Appendix A–Short Selling

Traditionally the premise of investing is that you buy an asset and hold it until it rises enough to make a sizable profit, it doesn't get much easier than that. What about the times you come across a stock that you wouldn't invest a cent in, you know that thing is doomed, a sure loser. If you knew that the stock was going to decline wouldn't be nice to be able to profit from its decline.

Well you can profit from the decline of a stock and although it sounds easy, there are substantial risks and pitfalls that you need to watch out for. The mechanics of a short sale are somewhat complicated and the investor's risks are high so it is important that you understand the transaction before getting into it. Let's dive in!

12.1.1 What does it mean to sell short?

If you sell a stock you don't own, you are selling short. (Yes, it's legal.) You are now short the stock.

A short seller sells a stock that he believes will fall in value. A short seller does not own the stock before he sells it. Instead, he borrows it from someone who already owns it. Later, the short seller buys back the stock he shorted and returns the stock to close out the loan. If the stock has fallen in price since he sold short, he can buy the stock back for less than he received for selling it. The difference is his profit.

Short selling allows investors to profit from falling stock prices. "Buy low, sell high" is the goal of both short selling and purchasing shares ("going long"). A short sale reverses the order of a typical stock purchase: the stock is sold first and bought later.

For example, in September 1987, Bob thinks IBM is overvalued. She sells short 100 shares of IBM at $175 per share. The stock market crashes in October and IBM's shares fall to $125 per share. Bob buys back 100 shares of IBM and closes out the short sale. Bob gains the difference between the sales proceeds and the purchase costs and pockets $5,000 from the short sale, excluding transaction costs.

12.1.2 Where Does The Broker Get The Stock?

The short answer is from other customers. Oddly enough, he doesn't have to ask permission!

Short selling is a marginable (???) transaction. In plain English, that means you must open a margin account to sell short. This is the same account you would use if you want to use your stocks as collateral to borrow money from your broker.

When you open a margin account, you must sign a hypothecation / rehypothecation agreement. This hypothecation agreement says you will pledge your stocks as collateral against your loan. The re-hypothecation agreement allows your broker to loan your stocks to a bank, or to other customers!

12.1.3 How Do I Sell Short?

Unlike a stock purchase transaction, which involves two parties (the buyer and the seller), short selling involves three parties: the original owner, the short seller, and the new buyer. The short seller borrows shares from the original owner, and immediately sells them on the open market to any willing buyer. To finalize ("close out") the short sale transaction, the short seller must then go out into the stock market and buy the same amount of shares as he sold so that the broker can return them to the original owner.

To sell short you first must set up a margin account with your broker. A margin account allows you borrow from your brokerage company using the value of your portfolio as collateral. The general rule is that the value of your portfolio must equal at least 50% of the size of the short sale transaction. In other words, If you have $1,000 worth of stock in your margin account, you can borrow $2,000 of stock to sell short.

To sell a stock short, you must borrow stock. To initiate a short sale, you simply call up your broker and ask to sell short a specific number of shares of your selected stock. Your broker then checks with the Margin Department to see whether the shares are available or can be borrowed from another brokerage, usually while you wait on the phone for a minute. If they are available, the brokerage borrows the shares, sells them in the open market, and puts the proceeds into your margin account. To close out your short sale, you tell your broker that you want to buy the same number of shares that you shorted. The broker will purchase the shares for you using the money in your margin account, return the shares and close out the short sale transaction.

While your short sale is outstanding, your account will be charged interest against the value of the short position. If the stock you shorted goes up in price, or the value

of the stock you are using as collateral goes down in price, so that your collateral is less than the "maintenance" requirement (usually 30% of the value of the short position) you will be required to add money to your margin account or buy back the stock that you sold short. You must also pay any dividends issued by the company whose stock you sold short.

12.1.4 Up Tick Rule

To sell your stock short, you must adhere to the up-tick rule. The transaction before your short sale must have been executed at a higher price than the transaction before it. In other words, the transaction before your short sale must be an up-tick.

In practice, you cannot short a stock that is already falling in price. Otherwise, short selling would amplify the decline.

12.1.5 Why Sell Short?

The two primary reasons for selling short are opportunism and portfolio protection. Occasionally investors see a stock that they believe has been hyped to a ridiculously high level. They believe that the stock price will fall when reality replaces the hype. A short sale provides the opportunity to profit from the overpriced stock. Short sales are also used to protect an investor's portfolio against a market downturn. By shorting stocks that the investor believes will fall sharply when the market as a whole falls, investors can help insulate the value of their portfolios against sudden market drops.

Zitel provides an example of opportunistic short selling. In 1996, Zitel was caught up in a wave of investor enthusiasm because it has a stake in a company that fixes the computer glitch that causes computers to interpret dates in the next century (2000s) as dates in this century (1900s). This problem, known as the "Year 2000" problem, suddenly became a hot topic of conversation and made it to the covers of Time and Newsweek. In September 1996, Zitel was selling for $7 per share. By December, the shares topped $70. At this point, many investors thought the stock was overpriced and saw an opportunity to make money by selling it short. If an investor had sold short in December 1996, he could have bought the stock back for $15 per share in April 1997. Selling short would have allowed the investor to take very profitable advantage of the opportunity presented by the overpriced Zitel stock.

Short selling is also used to protect portfolios against erosion due to a broad market decline. Short sellers make money when stock prices fall. An investor can diversify a long portfolio by adding some short positions. The portfolio will then have positions that make money both when prices rise and when they fall. This reduces the volatility in the portfolio's returns and helps protect the value of the portfolio when prices are falling.

By shorting carefully selected stocks that are priced near their peak but that will fall sharply if the market falls, an investor can use the profits from the short sales to help offset losses in his long position to protect the value of his portfolio.

For example, Bob has most of his wealth tied up in stocks which she has bought because she expects them to appreciate in price. But she is concerned that the stock market is vulnerable to a sharp drop and wants to protect his savings while staying invested in the market. She knows that market drops are often caused by a change of investor sentiment from optimism to pessimism. She identifies businesses that are not worth much today, but whose stock price is high because people hold high hopes for their future prospects. These stocks should be especially susceptible to a negative shift in sentiment since optimism is what principally drives their stock price. She then sells these stocks short. If investors become more pessimistic and the market falls these stocks should fall more than most. Larry can use the profits from these short sales to offset losses in the rest of his portfolio. This will help to protect the value of his portfolio.

13 Appendix B– Ressources

Read On, Discover, Learn, and Prosper

For your Progress, I'm enclosing a list of recommended reading. This is trimmed down so it will conveniently start your thinking, facusing, and pursuing the questions and anwsers you need to maximize your performance and opportunities in trading and in your career for the rest of your life. Enjoy and prosper!

I highly recommend the following Books on (swing) trading written by expert traders or excellent pedagogues. I hope you will enjoy them as much as I do.
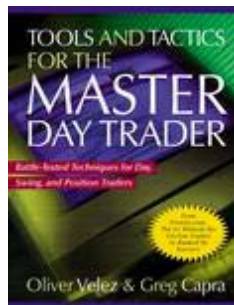

A no-nonsense, straight-shooting guide from friend/founder of Pristine.com, designed for active, self-directed traders. Provides potent trading strategies, technical skills, intuitive insights on discipline, psychology and winning methods for capturing more winning trades, more often.

great book, one of my favorites… bravo Oliver great job…
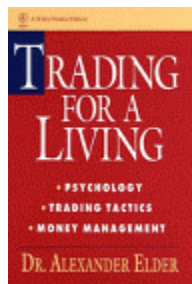
Top notch book integrates three major areas of trading; psychology, trading tactics and money management into a coherent framework for success. Unique approach combines the author's trading success with his decades of experience as physician and psychiatrist.
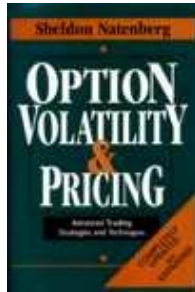
Tells you how to identify mispriced options and construct volatility and "delta neutral" spreads used by the pros. Using a non-technical trading approach, he leads the reader into the real world of option trading and applies his well developed pricing and volatility theories into practical, tradable strategies. Here are advanced techniques for the serious trader.

For a regularly updated list of my preferred reading, visit:

http://www.mrswing.com/en/prefered_book.html

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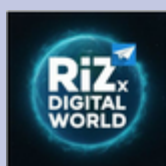https://linktr.ee/rizxdigitalcreator

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