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THE NUTS-AND-BOLTS OF PRACTICING ELLIOTT WAVE TRADING | TRADER'S STORY

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HOW TO LOCATE THE BEST DAY TRADING STOCKS?



HOW TO LOCATE THE BEST DAY TRADING STOCKS?

How to Locate the Best Day Trading Stocks?

By Ashley Jessen

Fast moving stocks, quick profits and done by 11am! What could be better for a day trader than hitting profit targets by the time the crazy first hour of the market opens is over? Day trading for a living is definitely the hardest way to make an easy living. But if you are going to head down this path, there is one thing that stands head and shoulders above all others. You must find stocks that are moving.

In this article, I'm going to take you through 3 of the best scans you can run to shortlist your opportunities for the day ahead.

1. Scan for stocks breaking into new recent highs

Scanning for stocks breaking into new recent highs is one of the fastest ways to find stocks that are likely to explode in the next few trading sessions.

Blue sky territory is one of the most popular trading phrases for traders covering all time frames. Blue sky refers to the stock now sitting at a level it has never been before.

You would be hard pressed to find a disappointed investor or trader, as the stock is at the highest point ever in its history. This is a good sign.

Having said that, traders will refer to 'blue sky territory' for a stock, even if it is hitting the highest price in the last 30, 60, 90 or 200 days.

Euphoria among all current holders of the stock is common. There will be a scrambling among those who are late to the party

and are wanting jump on board as well.

This is the ultimate climate for a day trader. Longer term investors are thinking this stock is going to the moon and short term traders are jumping on the breakout.

As a result of this 'euphoria', you get a chance at a solid 3-5- day run on the stock, creating momentum and a great day trading opportunity.

So what sort of new highs should you scan for?

Time period, opportunity is very important. So the longer you highlight stocks that are moving. The ATR is a volatility indicator, telling us how much a stock is moving on average over the last X periods of time.

Therefore, it is important to adjust the new high/new low scan to suit the amount of opportunity you can realistically handle on a daily basis.

What is the code in Metastock?

Cross(C,Ref(HHV(H,90),-1))

CLOSE<Ref(LLV(L,90),-1)

As you can see, the code is looking for the highest high or lowest low over a 90-day period.

Again, feel free to adjust the code accordingly or find the equivalent scan for the charting software you are using. Metastock is my preferred charting software and I've been using it since the year 2000.

HOW TO LOCATE THE BEST DAY TRADING STOCKS?

'Volume is used to confirm price movement. When price moves with strong volume, the market is more likely to follow through, whether it is a reversal or a matter of following the trend. Volume shows the demand for the stock or commodity and determines the strength of the trend.'

2. Scan for stocks with rising daily volume
You may have heard the saying 'follow the smart money' and 'smart money leaves clues'. There is no better way to identify where the smart money is placing its money, than by looking at the volume.

Marcel Link put it succinctly in his book 'High Probability Trading' when he said:

Volume is a great precursor to major market moves, especially in stocks that have been beaten down for more than six months or even over a few years.

The smart money has an uncanny ability to identify value within quality stocks. You will notice on the charts, a stock may be in a downtrend for a year, which then experiences six months of sideways consolidation, followed by increasing volume.

As a rule of thumb, this is the smart money starting to average in to a well-heeled position in order to ride the next wave up.

On an end of day basis, this scan bodes well in conjunction with a new 60-90-day high. You have a stock that has been consolidating and getting accumulated, which then breaks into a new recent high on rising volume. This situation is ripe for a strong break to the upside.

Running a daily scan to identify opportunities

The situation mentioned above is ideal, but the rising volume scan I am referring to here is a little different.

Instead of looking at opportunities that may be a precursor to a strong 3-6 month move, we want to identify stocks with momentum over the next 1-3 days.

To do this, we run a scan, which locates stocks where the volume has been rising for the last 2 days.

This type of scan is brilliant at the low end of town, i.e. the speculative stocks.

What is the code in Metastock?

VOLUME>Ref(VOLUME,-1) AND

Ref(VOLUME,-1)>Ref(VOLUME,-2)

As you can see, we want yesterday's volume to be more than day 2, and day 2 volume to be greater than day 1.

You will be amazed at the kind of stocks that get brought up when you run a scan like this. It is not uncommon for this scan to identify low cap stocks that move 10-50% over the next 5-20 days.

Remember, the smart money leaves clues and volume is one of the biggest clues possible.

3. Use the Average True Range (ATR) to identify stocks that are moving

The Average True Range (ATR) indicator is the perfect indicator to identify stocks that are moving. The ATR is a volatility indicator, telling us how much a stock is moving on average over the last X periods of time.

Every stock scan I run in Metastock also includes a volatility minimum. So, I look to remove all stocks that aren't moving enough on a daily basis.

For example, property trusts are traditionally very slow moving stocks. It wouldn't be uncommon for most property trust stocks to move less than 1.5% per day.

As a day trader, slow moving stocks are like watching paint dry. No one wants to do that. Instead, an active trader wants to see movement.

So when you are scanning the market, be sure to identify stocks that have a high ATR reading at the very least.

You may want to identify stocks that are moving more than 2.5% per day as the minimum and have no upper range.

What is the code in Metastock?

ATR(10)/C>0.0165 AND ATR(10)/C<0.045

The code above is looking for stocks that are moving at least 1.65% per day, but no more than 4.5% per day. This scan is more for a swing trading system and not so much for day trading. So, for day traders reading this article, change it up to highlight stocks moving 2.5% with no upper limit.

Remember, your job as a day trader is to locate opportunity, so go for stocks that have displayed their ability to move on a daily basis.

If day trading is your thing, you need to find stocks that are moving. Hopefully these three scan ideas provide some food for thought or another string to your bow as a short term trader. ☺

Feel free to let me know what scans are working for you via twitter @ash_jessen. Would love to hear how you scan the market to identify your trading opportunities.

Ashley Jessen is the author of *CFDs Made Simple* and CEO & Co-Founder of *ProfileBooster.com.au*, a company dedicated to helping finance and professional services companies drive more leads, convert more sales and boost the authority through intelligent PR, content and media distribution.