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Your Trading Edge

THE MAGAZINE FOR TRADERS & INVESTORS IN CFDs, STOCKS, OPTIONS, FUTURES, FOREX & COMMODITIES

Mar/Apr 2017

DOES MEDIA INFLUENCE FINANCIAL MARKETS?

THE MILLION DOLLAR MISTAKE THAT TRADERS MAKE

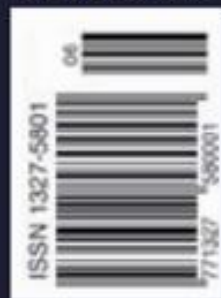
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3 SHORT-TERM TRADING STRATEGIES YOU CAN USE FOR QUICK GAINS

THE MOST IMPORTANT INVESTING LESSONS FROM WARREN BUFFETT- THE WORLD'S GREATEST INVESTOR

Volume 22, No.2



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3 Short-Term Trading Strategies

You Can Use for Quick Gains

By Ashley Jessen





3



Quick profits, fast moving markets and riding the momentum are three key reasons why traders gravitate towards short-term trading like a moth to the light.

Short-term trading continues to rise in popularity due to the ability to make quick gains in any market type. Every day there are stocks, indices, FX and commodities which are breaking out or catching a fast move.

Today we'll look at three of the most popular short-term trading strategies you can use for quick gains. In respect to the timeframe used, we'll be classifying short-term trading as not only positions held during the day, but also up to several days at a time.

We are not focussing on pure intraday here. Instead, we are looking for opportunities to ride the momentum for 1-5 days.

What are the advantages of short term trading?

1. There are a lot of opportunities for short-term breakouts, so hundreds of stocks to chase every day.
 2. The news is always happening, so there are lots of opportunities there too.
 3. You set clear exit points, so you know your risk and potential reward before executing any trades.
- Let's get into the first strategy.

Short-term strategy number 1 – Breakout trading

Breakouts happen every single day. Low cap stocks, large cap stocks, FX pairs and Commodities. Breakouts occur every single day.

In this particular strategy, we are going to focus on a chart pattern known as an ascending triangle breakout.

Take advantage of your visual nature

Humans are visual creatures. Take a walk down a major road in Sydney, London or Monaco and see if anything beautiful stands out. It could be a beautiful woman, a top of the line sports car or perhaps a breath-taking scenery. No matter what, your eyes will be drawn to it.

And so with trading, one of the easiest ways to find opportunities is through patterns. Our minds are wired to find patterns in everything.

In this case, we are looking for a specific pattern setup where the lows are getting higher, but it keeps hitting a common resistance point. Often the resistance point will be at a round number such as \$0.50, \$1, \$2 or \$20.

You will see in the example below, Galaxy Resources (ASX:GXY) was in an uptrend, lows getting higher but struggling to break through the \$0.50-\$0.52 level. Fourth time lucky in this case.

What about volume leading up to the breakout?

One of the more subtle hints of a strong ascending triangle breakout



How much will the market likely rise?

Solid ascending triangles will rise 1-5% on the day of the breakout and last 1-5 days on average. Once the short, sharp rise takes place, profit takers step in. As a result, the trade will often test the previous resistance and turn it into support.

To nail this strategy, look for opportunities where the breakout is moving into 'blue-sky territory'. Investors and traders are extremely optimistic when stocks are breaking into new 12-month or all-time highs. These are the best breakouts.

Short-term strategy number 2 – News trading

Trading the news is one of the most common strategies for Forex traders. It involves knowing what major news items are about to happen on the instruments you are tracking.

Here are a few ways people trade the news in different markets

- Reporting season for stocks
- Non-farm payroll data with Forex
- Interest rate decisions with Forex
- Weather reports with soft commodities
- Presidential elections in various countries (Trump's win in the US resulted in a 2,000 point move in the Dow Jones index)

Short-term trading strategies centre around technical analysis, but news trading requires a thorough understanding of the economic news coming out. This is more aligned with the fundamental trader.

The best news traders

However, the best news trader will be an excellent fundamentalist and have a keen eye on the technical levels. The best analysts will have a foot in both camps.



is lower volume leading up to the breakout. This indicates many traders/investors are willing to hold, which means less selling. Often they know something good is brewing and want to sit tight.

In this strategy, we are looking for a break through resistance and a strong close above.

Ascending triangles work brilliantly, as fewer people want to sell and for those who aren't already in, they have to keep paying a higher price.

In a nutshell, that is the exact make-up of the market. It reaches a point where the demand is very strong (could be coupled with positive news), and the smart money is not willing to sell. The only way to jump on board this freight train is to pay a higher price, hence the breakout opportunity.

You can see on the 5-minute chart of the Euro Dollar below when the non-farm payroll data came out; there was a 74 pip move from high to low. The Average True Range (ATR) leading up to it was 14 pips, then jumped to 22 pips within the hour. A 57% jump in volatility.

Volatility is crucial for short term traders. Without volatility, your money is just bobbing around like a cork in the ocean.

The top five market events to trade in Forex are:

1. Central banks rates decision
2. Gross Domestic Product (GDP)
3. Inflation data (CPI)
4. Unemployment rates with the biggest being the US non-farm payroll data
5. Federal Open Market Committee (FOMC) meetings

If trading stocks are your cup of tea, then reporting season is your volatility windfall.

Fear and greed

Fear and greed are the big drivers of the market, and when an announcement hits, both those emotions rule the trading. As a result, markets overshoot to the upside or downside, representing an opportunity for the switched on short term trader.

Let's now take a look at the third strategy for short term trading.

Short-term strategy number 3 – Oversold in an uptrend

One of the most common characteristics of successful short-term traders is they trade in the direction of the longer-term trend.

To keep things simple, don't go long a stock (even for a short-term trade) unless the price is currently above the long-term moving average. In this case, we can select either a 100 or 200-period simple moving average.

Our next goal is to buy weakness in this uptrend and sell strength (to take profits).



How do you find these magical up trending stocks which are oversold?

The fastest way is to run a scan using a software such as Metastock, AmiBroker or MetaTrader 4.

Here is the code for Metastock I use on a daily basis.

1. $ATR(30)/Mov(C,30,e) > 0.0165$ AND
2. $C > 0.2$ and
3. $C < 20$ and
4. $Mov(C,100,e) > Ref(Mov(C,100,e),-1)$ and
5. $Stoch(9,3) < 30$ AND
6. $Fml("Turnover 50 day") > 450000$

Line 4 is my filter for uptrending stocks. I want to see the 100-period moving average rising today compared to yesterday.

Line 5 is highlighting stocks that are oversold. I am looking for stocks where the stochastic is less than 30. You can change this to 25 or 20. Doing so will result in fewer stocks daily.

Lines 1,2,3 and 6 are there to filter for minor things like volatility, price and daily turnover. I want to find stocks that are moving at least 1.65% per day. This filters out the slow-moving stocks like property trusts. The turnover gate (line 6) is important too, as I want to be able to trade liquid stocks and get in and out with ease.

Find the pullbacks

The beauty of this scan is that it's simple and an excellent way to find trending stocks that just pulled back.

You can apply this style of scan across any time frame and code it into Metastock and scan across Forex, Index and Commodity instruments.

Above is an example of a stock on the ASX meeting the scanned criteria above.

Not only does it meet the scan criteria above, but it also forms an ascending triangle. This meets our first criteria for a short-term strategy for quick gains.

So there you have it. Three short-term strategies you can use to ride the momentum for quick gains.

Some other pointers to keep in mind when trading these short-term moves:

- Never trade against the trend.
- Momentum changes quickly.
- What appears to be a breakout can end up being a false breakout and require quick action.
- Look for a solid reward to risk ratios of two or three to 1.
- Apply sensible money management and never risk more than 1% on any one trade.
- The market is unpredictable and will do what it wants. Follow the market, not what you think will or should happen.
- 'Buy the rumour and sell the fact' is applied by professional traders every single day.
- Keep good records. Note down every trade and journal about your thoughts before entering a trade.

As always, all the best with your trading. 📈

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.