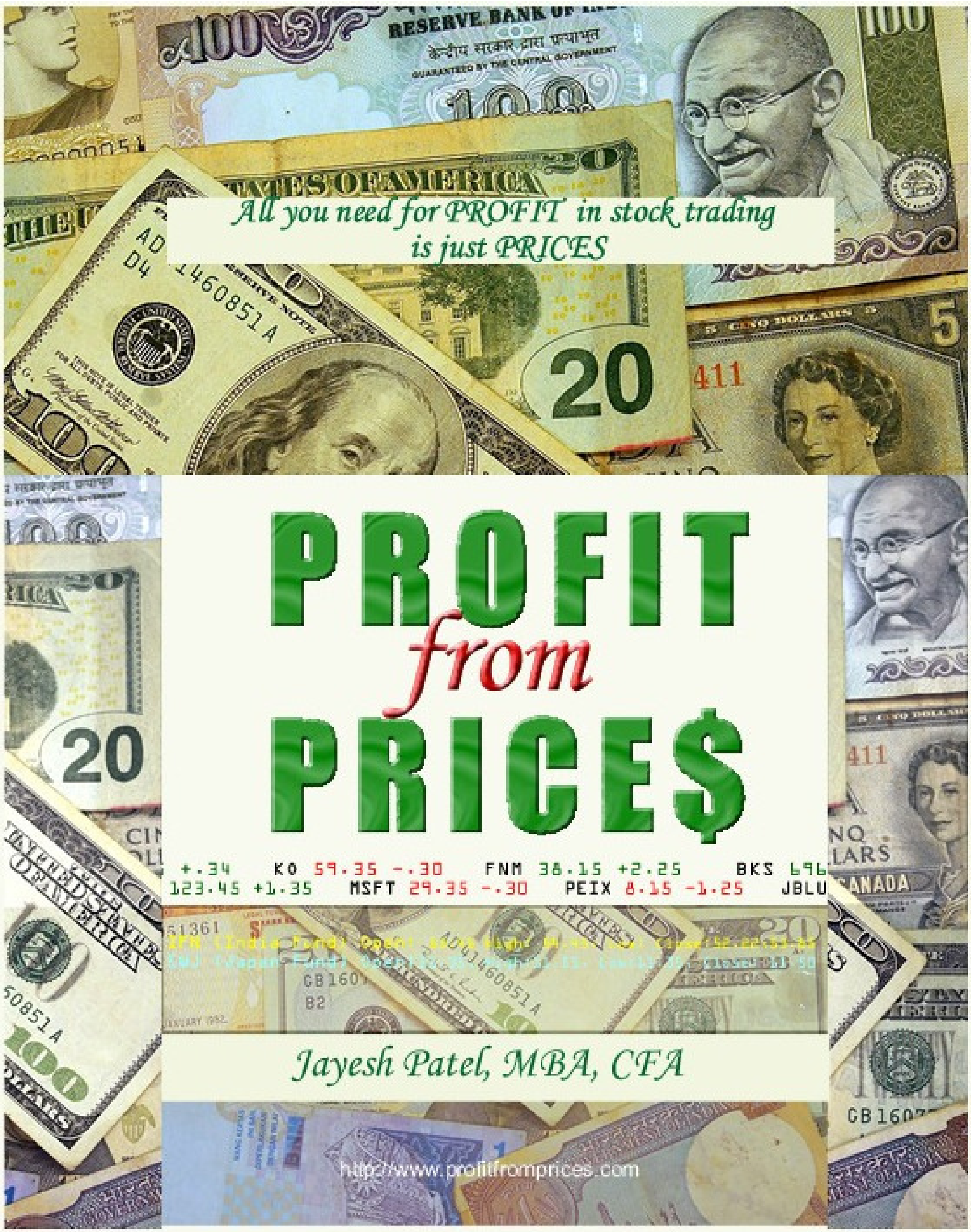

All you need for PROFIT in stock trading
is just PRICES
PROFIT
from
PRICE$
Jayesh Patel, MBA, CFA
http://www.profitfromprices.com

FEEDBACKS:

The **PROFIT FROM PRICES** eBook was briefly listed on eBay during Feb to March 2005 to get some feedbacks from users. It was sold for prices ranging from $9 to $15. **Here are the FIRST 10 feedbacks that were received on eBay about it. These are all voluntary, unsolicited feedbacks and no feedback is being blocked/hidden from you.**

Perfect score --> 10 out of 10 buyers rated this book as the BEST, EXCELLENT or VERY GOOD!

Comment	Buyer (feedbacks)	Date	eBay Item#
super info a MUST READ !!!!	alexander10000_0 (29)	Apr-02-05 10:41	4532454997
Absolutely the Best Technical Analysis and Marketing Timing Book Available	yeouyeou (344)		4536561214
BRAVO!!! J Patel knows his stuff, and can teach too! What a great find , thanks	member4851 (209)	Mar-21-05 17:05	4535643643
As good as it gets .. excellent product sold by friendly helpful seller. A+++++	colder99 (59)	Mar-21-05 20:01	4534539106
GREAT PRODUCT – GREAT TRANSACTION A+++++++++	bly1825 (94)	Mar-18-05 17:52	4532455346
excellent ebook and a must for all people in the stock market	sreenath73 (1)	Mar-05-05 00:55	4530894548
Outstanding transaction! I am very impressed with your book! Well done. A++++	ptyndallus (1498)	Feb-24-05 07:19	4526485181
Very kind and available seller. Excellent book, I can only suggest to buy it. TX.	alimargiallo (6)	Feb-21-05 04:34	4527402319
Excellent information, Highly recommend, Can Not beat the price, A++++, terrific	iinglij (151)	Feb-18-05 14:50	4528096780
Fast transaction, good communication, excellent ebook	aurorazone (7)	Feb-08-05 06:01	4524726870

Some other feedbacks:

Rated a Good Seller by mnot12b (1)
Stock trading strategy book investment J Patel CFA
(Mar 03 07:10 2005 PST)
Comment:
"Excellent! This book which is a complete trading methodology, including specific setups, gives more detailed trading information than books by "big name" authors costing 4 - 10 times the price. You can't go wrong buying this book." (Mar 12 11:42 2005 PST)

Rated by Buyer solomax (263 feedbacks on eBay) on May-23-05 on eBay Item# 4550044236
"Undeniably and w/o exaggeration one of the best book on stock trading. Great Work. AAA"

Hi Jayesh!

I had no problems downloading the book. I am still studying it. There is some good stuff in your book. I have read lots of stock market books, and yours is probably one of the best for anyone just starting out to trade. You give them the setups, where to place stop losses, and money management. Not much more that anyone could ask for. I will probably combine your ideas with things I already know in order to develop my own unique trading methodology.

I like Alexander Elder's triple screen, and I like some of the ideas espoused by Marcel Link in his book, "High Probability Trading". Your book is better than some books that I have paid $40 or more.

Thanks for a really good book!

- Keith Ray
Aug 19, 2005

NOTE- THIS A TRIAL VERSION OF **PROFIT FROM PRICES** BOOK. PLEASE PASS IT ON TO YOUR FRIENDS AND COLLEAGUES.

TO BUY THE COMPLETE VERSION, PLEASE VISIT US ONLINE AT HTTP://WWW.PROFITFROMPRICES.COM

THIS BOOK IS NOT AN INVITATION OR AN ATTEMPT TO INDUCE ANYONE TO STOCK TRADING.

STOCK TRADING IS A VERY HIGH RISK AREA AND REQUIRES CAPITAL, EXPERIENCE, DISCIPLINE AND SELF-CONTROL. IT IS NOT RECOMMENDED FOR MOST PEOPLE.

PLEASE TAKE INTO CONSIDERATION YOUR INVESTMENT OBJECTIVES, FINANCIAL SITUATION, CIRCUMSTANCES, FINANCIAL OBLIGATIONS, LIQUIDITY REQUIREMENTS AND INVESTMENT EXPERIENCE BEFORE YOU ENTER TRADING.

Last Update date: Sep 05, 2006

INTRODUCTION

BY JAYESH PATEL, MBA, CFA

The simple premise of this book is that everybody knows something about something, but the market knows everything about everything. The market is the sum total of all the players. It knows at any point in time the news, expectations and opinions held by every individual as well as the impact of every buy or sell decision he makes. This enormous amount of knowledge in turn gets reflected in the stock prices. Stock prices reflect every bit of information - public or private --, and the impact of every trading action of every market participant. The price of a stock is not just some number but it is an indicator of the aggregate/consensus view held by all the market participants at a given point in time. Prices reflect what all participants-- day traders, specialists, market makers, hedge funds, insiders, foreigners, individuals or institutions– are collectively thinking and how they are acting as of the moment!

As such, any market is a battleground where war between current, as well as prospective, buyers and sellers is fought; and to decide who is winning, we just need to look at the prices as of that moment. By paying attention to price fluctuations, we can determine who, buyers or sellers, is gaining control and what is the magnitude of the control. Based on this insight, there are moments when we can predict with pretty much confidence in which direction the stock prices are likely to go. Once we *know* in which direction prices are heading, we can make profitable trades! Most of you might doubt: Is it really possible to trade stocks just by looking at prices? **Yes. It is and this is what this book is about**. By learning some simple techniques, you also can profit from prices.

In this book, I will teach you how to unlock tremendously valuable information for trading stocks just by looking at the four daily prices and how to use it in trading stocks. The secrets I am going to reveal in this book are simple and logical. Not only that, they are very powerful and time-efficient for trading stocks. My exhaustive study of prices, and charts to some extent, reveal consistent patterns that can be profitably used for trading stocks or Futures contracts. Besides prices, I have used various other trading methods, tools and indicators. What I have found is that the four daily prices, OPEN, HIGH, LOW and CLOSE, give us much more than what we need to identify which stock to buy and when. They tell us of a change on the very same day it takes place. Profit From Prices (PFP) signals can be used as a stand-alone trading system; or if you have some strategy/system that works for you, these PFP signals will prove to be a great supplement.

What does a trader need for success in trading? I personally believe that there are three things which affect trading success:

1. Analytical skills, and a trading strategy, to find -- what to buy and when to buy. (This is the primary focus of this book. See Chapters 6 to 10.)

2. Trading Discipline and Money Management: Every trader in the marketplace has just one objective- to make money. However very few people are able to consistently make money in the market. When markets are rising, it seems easy to make money. However when they are trending down, they take away most of the profit or capital of many, if not most, individuals. Trading is a tough game with many traps. If a trader is not watching himself, his actions, his behavior or his emotions, he is likely to fall into some of these traps. To avoid such falls, it is imperative to be rational in trading decisions and to control emotions. This seems easy but as a matter of fact, emotions like greed, fear, hope, overconfidence, regret, etc., are very difficult to manage. If there is a trading position with profit, should it be held a little longer or should it be closed to book profit? If a trade is going into loss, should one wait for the prices to recover or cut the losses? Such decisions are tough to make without getting emotional. To be rational, and free our mind from emotions, is a tough job.

   So how should a trader trade stocks then? He should constantly strive for trading discipline; and, trading discipline can be achieved with strict money management rules. Every prospective trader should lay down a framework of policies and rules by creating a formal, well-defined trading plan. The plan should contain trading objectives and trading rules/guidelines based on one's financial situation, trading objectives and risk preferences. There should be rules or guidelines about how much fund to commit to trading, how to identify stocks for trading, how much fund to commit to each trade, when to close a position, how to control risk in trading and how to monitor trading progress. Such rules should be strictly adhered to. This can save a trader from taking large positions at high prices which seem to ruin most of the investors when market stages sudden reversals.

   In Chapter 1, we will briefly discuss some trading pitfalls and then in Chapter 2: Trading With A Business-Like Approach, we will discuss trading plans in some detail.

3. Luck: Despite of having excellent analytical skills and trading plans, there are millions of factors outside an individual's influence or control. As an example, there is no way to know for sure what Alan Greenspan will do about interest rates in the next Fed meeting. One has no idea what the next Unemployment, GDP or Inflation report will be, or how good eBay or Amazon's earnings will be! I label such uncontrollable, unpredictable events as LUCK. Certain events can cause a sudden change in the mood of the market and the direction of the stock prices. Though one might have entered into a *correct* trade at the *correct* time, it may go sour in the next moment for any reason. So what should one do when something unexpected happens that causes the stock price to move contrary to one's expectations/position? One can, and should, use a Stop-loss. (See Chapter 4: Stop-loss: How to Use It In Stock Trading.)

A word of caution: It is quite possible for any one to lose money in trading. There is no trading system out there in the world that is 100% accurate. Every trader or trading system fails somewhere. Likewise, the Profit From Prices method of trading is no guarantee for success in trading. Having said that, in this book, I am going to offer you the best of my knowledge about how to identify profitable trading opportunities - what to buy and when to buy. I am going to teach you a simple but very powerful approach to trade stocks just by looking at four daily stock prices. There are times when certain price patterns take place and by exploiting them with a suitable Stop-loss, you can expect to earn good profit.

I can assure you that you will not be disappointed by Profit From Prices signals. I am also not going to waste half of my book like most authors do in arguments over why my method is superior to other methods or why other methods do not work well. You be the judge. Read this to-the-point book and see for yourself how easy it is to trade stocks just by paying attention to *prices*.

Welcome to the wonderful world of Stock Prices!

Few Notes about This Trial Version

This trial version has chapters organized in a different order than what the real book has. If you are a trader and are curious just in PROFIT FROM PRICES theory, this trial version is tailored to your needs. Start reading the book as it appears.

If you want to feel the whole book, please start reading this book from pages 48 to 70 (Chapters 1 to 5) first. Then, please read pages from pages 5 to 47 (Chapter 6 to 10).

Sorry for this inconvenience. I am just trying to help you get the most out of your time.

Thank you for downloading this ebook.

TABLE OF CONTENTS

Few Notes about This Trial Version

This trial version has chapters organized in a different order than what the real book has. If you are a trader and are curious just in PROFIT FROM PRICES theory, this trial version is tailored to your needs. Start reading the book as it appears.

If you want to feel the whole book, please start reading this book from pages 48 to 70 (Chapters 1 to 5) first. Then, please read pages from pages 5 to 47 (Chapter 6 to 10).

Sorry for this inconvenience. I am just trying to help you get the most out of your time.

Chapter

6

TREND REVERSAL SIGNALS

Now we are beginning our study of various trading signals. In this chapter, I am going to explain some of my most favorite signals- Trend Reversal (TR) signals. In subsequent chapters, I will show you some Trend Continuation (TC) and Side-ways trading signals. In the end, we will look at some chart based powerful signals that can be easily identified on price charts.

TREND REVERSALS

Profit From Prices Trend Reversal signals are very powerful trading signals and offer attractive trading opportunities. They usually offer large profit potential with a close stop-loss. This means when a PFP trend reversal signal turns out to be right, it is likely to generate substantial profit. However, when it fails, the trading position can be closed with a small loss. Also PFP signals catch most of the trend reversals and the changes in market moods. However before we explore PFP trend reversal signals, I want to highlight the importance of previous chapter in this book. As mentioned in the previous chapter *Chapter-5 Introduction to Signals*, PFP signals come in different degree of strengths and they produce best results when used prudently. Hence I strongly recommend you to read Chapter 5 very carefully to understand how and when to apply and use a PFP signal. With those guidelines, you will be able to avoid certain positions that are more likely to result into losses.

When a reversal signal takes place after a long trend, it usually points to a major primary trend reversal. If the new trend indicated by the PFP reversal signal is also in the direction of the overall market trend, our signal is in Strong Form. However if it takes place after a trend of few days, say 4 to 20 days, or has some conditions fulfilled in a weak fashion, it should be usually taken as pointing to the beginning or an end of Reactions/Corrections. I will refer to it as Weak Form of the signal.

HOW TO FIND TREND REVERSALS

(Intentionally omitted from this trial version to keep it short.)

TYPES OF TREND REVERSALS

As per PFP theory, trend reversals take place either (i) during market hours when trading is taking place, due to sudden emergence of powerful buying or selling, or (ii) outside market hours (when trading is not taking place or the Market is closed) when some powerful news or event takes place. We can call these reversals intra-day and inter-day trend reversals respectively.

Intra-day reversals take place due to two reasons. First due to the release of some significant economical, political or general market related news or event(s) during market hours when trading is going on. This causes many traders to change their outlook on this stock. However some Intra-day reversals take place when influential traders, investors and/or institutions start buying/selling the stock to take advantage of its currently too high or too low stock price.

Intra-day trend reversals are the most powerful reversals and they catch most of the ordinary investors and traders by surprise. This total change in sentiment is reflected in prices but only a few market players are able to comprehend what is happening and are able to take advantage of such reversals **on the very same day**. To name a few signals that fall in this category and about whom we are going to learn are U-TURN, TURN AROUND, REVERSE and WEEKLY REVERSALS.

Inter-day reversals take place when markets are closed. They are mostly due to the same types of news/reasons/events that cause intra-day reversals but here the news/reasons/events are happening over night or when the market is closed. Unlike intra-day reversals, these reversals often take place due to some company specific news or announcement of earnings. In the USA and also in the most other countries, companies are prohibited from releasing material information during market hours. So most of such information is disseminated before or after the market hours. Then when the market opens and the stock starts trading on the next morning, there is usually a sudden jump or a fall in its price. However a higher or lower Open price is not a sufficient condition to term a day as a trend reversal day. One needs to watch the entire day's trading to see if the real buying and selling confirmed the change in sentiment indicated by the Open price. Some of the Inter-day signals, like JUMP START and FREE FALL, are also powerful indicators of trend reversals.

There is one important thing to keep in mind about any type of trend reversal signal. There must be noticeable increase in volume since the stock reached the high or low price from where it turned its direction. This makes Volume figures as important as the four daily prices for trend reversal signals.

Let us now look at our first PFP signal- U- TURN.

SIGNAL R1: U-TURN

U-TURN (BUY)

U-TURN (BUY) is one of my most favorite signals. As mentioned earlier, the (BUY) version of U-TURN takes place when a stock is in a down-trend and is likely to enter into an up-trend. It signals possibilities about the start of an up-trend.

Assume a stock is going down for quite some time. The following are quotes for the latest two days:

Today **22**, 27, 21, **26**
Yesterday (Previous Day) *25*, 26, **23**, *24*

Yesterday, the stock opened at 25$, touched a high of 26$ and a new recent low of 23$, and at the end of the day it closed at 24$. Now today, when market opens, this stock opened at 22$ (a price lower than the Previous Day's Low price of 23$) and started going down. Now when it is trading as low as 21$, there are signs of fresh buying which pushes the price higher. Not a big thing so far because this kind of buying could be seen several times during any trading session. However, when the stock manages to trade higher than today's Open price or 22$, we need to be vigilant for a likely trend reversal. Now if the stock keeps going up and closes for today at say 26$, which is higher than both Previous Day's Open price of 25$ and the Previous Day's Close price of 24$, we have a trend reversal signal! The stock that has been going down for the last few days and also during the first few hours today, somehow closed with a happy ending and a strong Close price. This reflects a 180-degree change in the sentiment. Hence we will call this signal a U-TURN (Buy) signal.

What makes U TURN a powerful Trend Reversal signal? As we know, when a stock is in a downtrend, sellers out-number or out-power buyers. In such circumstances, it is normal for the stock to keep making lower *Low* prices as time passes. This reflects bearish, negative sentiment or outlook for this stock. Now when trading starts for today, this stock opens at a price lower than Previous Day's *Low* price. This is common for any stock that is going down and it just indicates the continuation of the negative sentiment. Now if at some point in time during the session, the stock stages a reversal and starts trading higher. This is likely due to an emergence of fresh demand at current low price of the stock. Now how can we determine that the stock is really staging a reversal? To answer this question, the following tests can help us differentiate a strong reversal from a temporary emergence of buying. First, there has to be a noticeable increase in volume since this turning point. Second, it has to keep going up and cross Previous Day's *Open* and also the *Close* price. If both these conditions are fulfilled, we can be sure that the buying in the stock has been real and powerful. To take advantage of the currently low stock price, some players seem to have started buying it decisively despite the strong negative sentiment held by most other players. This buying must be significant because it not only absorbed what most players had to sell/offer, but buyers kept asking for more stocks even at higher prices. Today's demand not only absorbed the selling pressure, but it even pushed the price higher than the prices of the Previous Day! Isn't this a convincing reversal in stock prices?

This is a complete U-TURN in the stock price trend and now with a Stop-loss at Today's Low price, one can start taking long positions.

Key Points to remember: Current Trend- Down. Weak Open. Strong Bull Day. Increase in Volume.

Conditions:

1. The stock has to be in a continued downtrend.

2. Today's Low price (TDL) has to be the LOWEST price for the stock over the last few days. (If it is the lowest for the last few weeks, we are likely to have a strong *major trend* reversal signal- a strong form of U-TURN. However if Previous Day's Low price is the lowest for only the last three to ten days, we have a signal that is more likely to mark the beginning of a Correction or the end of a Reaction - a weak form of U-TURN).

3. **WEAK OPEN**: Today's Open price (TDO) has to be LOWER than Previous Day's Low price (PDL).
   TDO < PDL (The more the difference between TDO and PDL, the more powerful the signal is going to be)

4. Today's Close price (TDC) has to be HIGHER than Previous Day's Close price (PDC).
   TDC > PDC

5. Today's Close price (TDC) has to be HIGHER than Previous Day's Open price (PDO).
   TDC > PDO

6. Today's Volume has to be decisively HIGHER than the normal volume over the last few days or Previous Day's volume. If you don't see a jump in the volume today, the signal loses some of its strength.

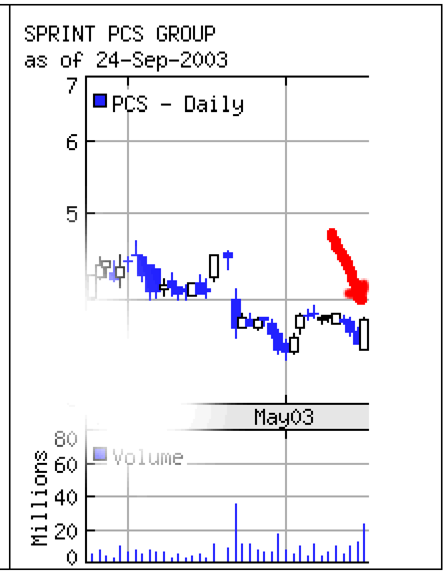
Stockfetcher.com syntax: "Show stocks where Close gained more than .15% percent over the last 1 day and open is more than .25% below the low 1 day ago and close is above the open 1 day ago and LOW reached a new 4 week low and volume gained more than 20% over volume 1 day ago"

Here is an example: See the prices below for PCS (Sprint PCS Co.) during May 2003.

When you look at the Chart, you will notice that the stock is in a downtrend (Condition 1). On the 16th, the stock opened at 3.50, which was lower than Previous Day's Low of 3.55 (Condition 3). During today's trading stock touched a low of 3.50 that was sort of the lowest price for the last five to ten days (Condition 2). At the end of the day, however the stock closed at 3.80, which was higher than Previous Day's Open (3.67) and higher than Previous Day's Close price (3.55) (Conditions 4 and 5). As you see, the volume on May 16th was also higher than the previous few days' volumes (Condition 6). Thus all the conditions were fulfilled here for a perfect U-TURN (BUY) signal.

Daily Prices with Volume for PCS

16-May-03	3.5	3.81	3.5	3.8	23705400
15-May-03	3.67	3.71	3.55	3.55	12393200
14-May-03	3.78	3.82	3.64	3.67	10333600
13-May-03	3.8	3.84	3.75	3.78	5211000
12-May-03	3.75	3.86	3.75	3.85	9816100
9-May-03	3.82	3.84	3.78	3.84	6566900
8-May-03	3.79	3.84	3.75	3.82	3851600



ACTION:

There are two primary variations of this signal as regards to Condition 2. The signal can take place at the end of a major trend as described above for PCS or it can take place at the end of a Correction or a Reaction.

In the first scenario, U-TURN (BUY) - in a Bear Market - is usually a very powerful signal and has the strength to change the current major trend from down to up-trend. Here you can expect the stock price or index to go up to the tune of 20%! So as soon as you have a U-TURN (BUY) in a major trend, you should be convinced of a trend reversal; and close short positions and you can also initiate fresh long positions to take advantage of this new emerging up-trend. So here in the case of PCS, Today's Low price was the recent lowest price so the U-TURN (BUY) today was likely to end the current down trend and initiate an up trend in PCS stock prices.

In the second variation, U-TURN takes place somewhere in the middle but not after a sustained trend. So Today's Low price may be the lowest price for only the last three to ten days, but not for the last few weeks! So the signal here may just mean the beginning or end of a Reaction/Correction. So what do you do here? You should not expect as much gain as you would in the first variation, but you can make new trades to take advantage of the price movement over the next three to ten days. If you understand major trends and Reactions/Corrections in prices, you will be able to distinguish these two variations and trade accordingly.

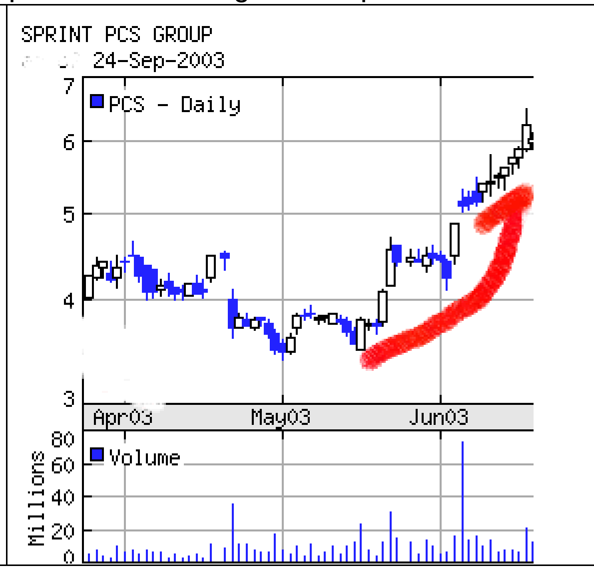
STOP-LOSS

As with any trading system, you must be alert to getting out of a position if the stock moves contrary to your expectations. The U-TURN signal works best most of the time but not always. If I were pressed for a figure, I would say it is correct around 75% of the time. So you should be watchful to protect yourself by selling your long position if the prices start going down. When to quit the position and book losses? It really depends on your risk-tolerance but I would advise you to keep a Stop-loss at Today's Low prices (minus 1%). Here in the case of PCS, we would keep a Stop-loss at 3.47.

See on the full Chart of PCS below what happened after the signal took place:

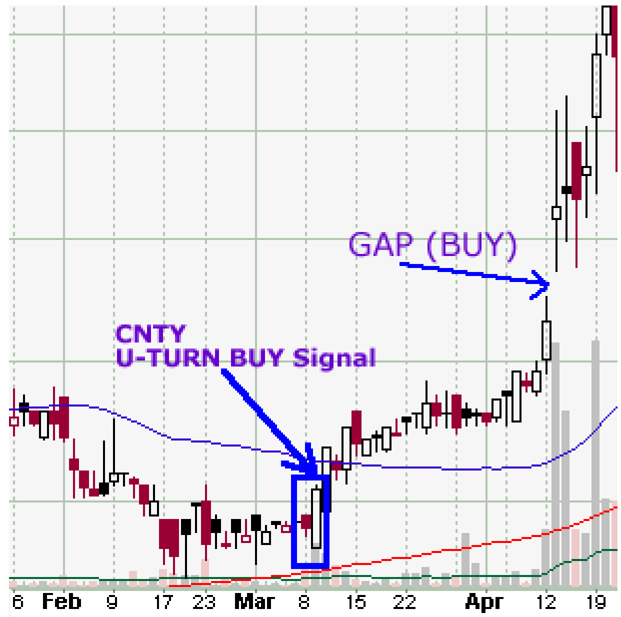
After giving a strong reversal U-TURN (BUY) signal on the 16th, the stock was a little idle for the next two days. This was an opportunity for people like us to take a long position.

Then on the next day the stock jumped up again and took us to our target of 4.20. On the next day, the stock continued its up movement and closed around 4.50 and then rested for some time. Then after a few days it restarted its journey and ultimately went as high as 6.50 within a month!



The beauty of this signal is that it tells you to take a position on the very day the stock is changing its course. You don't need a computer or any software to identify this or most other PFP signals. You can identify them just by looking at the daily prices of the stock on some websites. You can go Online and watch (and also download from the link at the bottom of the page) current as well as historical prices or charts on many website. One such website it Yahoo! Finance (http://finance.yahoo.com/q/hp?s=AMZN)

EXAMPLE 2: Look at the chart of CNTY below for one more example of U-TURN (BUY) signal. Take note of the increase in volume on the day of the U-TURN (BUY) signal. An explosive up-trend in the prices was seen immediately after the signal, which gave an 80% return over just a few weeks! Who would not like to ride this kind of trend from **the very first day** it begins? (You have not learnt about GAP signal yet but come back to this page after you have studied it.)



"Chart courtesy of StockCharts.com"

U-TURN (SELL)

Now it is time to look at how this powerful signal works in a reversed situation. Like the U-TURN (BUY) signal in a Bear market, U-TURN (SELL) signal is equally powerful to indicate a change in trend when a stock is going strong and is making new higher prices (in a Bull market). All of a sudden in a Bull trend the stock puts up a disappointing down day and surprises most people. Many people think this as just a Reaction and expect the stock to resume its continued ascending movement soon; but it does not happen most of the time when the reversal conditions of the U-TURN (SELL) signal are met.

Here are the conditions for the U-TURN (SELL) signal with Bearish implications in a Bull market. Please note that the signal discussed here takes place when the stock is in a up-trend (Bull market) but the signal actually indicates that the stock is about to enter into a Bear market or a down trend.

Key Points to remember:

Current Trend- Up. Strong Open. Strong Bear Day. Increase in Volume.

Conditions:

1. The stock has to be in a continued Up-trend.

2. Today's HIGH price (TDH) has to be highest price (TOP) for the stock in the last few days. **(If it is the highest for the last three or more weeks, we have a strong form of a U-TURN (SELL) signal. If it is the highest for the last three to ten trading days only, we have a weak form of U-TURN (SELL) signal. The strong form indicates a likely trend reversal for the current major trend; and a weak form is related to just the start of a Reaction or the end of a Correction.)**.

3. Today's Open price (TDO) has to be HIGHER than Previous Day's High price (PDH). **TDO > PDH** (The more the difference between TDO and PDH, the more powerful the signal is going to be)

4. Today's Close price (TDC) has to be LOWER than Previous Day's Close price (PDC).
   TDC < PDC

5. Today's Close price (TDC) has to be LOWER than Previous Day's Open price (PDO).
   TDC < PDO

6. Today's Volume has to be decisively HIGHER than the normal volume of the last few days or Previous Day's volume. If the above conditions are fulfilled, you will mostly see a decisive jump in stock volume today. If you don't see a jump in the volume today, the signal loses some of its strength.

Stockfetcher.com syntax: **"**Show stocks where Close dropped more than .15% percent over the last 1 day and open is more than .15% above the high 1 day ago and close is below the open 1 day ago and high reached a new 3 week high and close is above 2 and volume is more than 20% above volume 1 day ago and volume is above 500000**"**

ACTION:

There are two primary variations of this signal with regard to Condition 2. The signal can take place at the end of a major up-trend or it can take place at the end of a Correction.

In the first scenario, U-TURN (SELL) is a very powerful signal and has the strength to change the current major trend from up-trend to downtrend. Here you can expect the stock price or index to go down to the tune of 20%! So as soon as you have a U-TURN (SELL) in a major up trend, you should be convinced of a trend reversal; and you should close Long positions and you can also initiate fresh Short positions to take advantage of this new emerging down-trend.

In the second variation, U-TURN (SELL) takes place somewhere in the middle of but not after a sustained trend. So Today's High price may be the highest price for the last three to ten days, but not for the last few weeks! So the signal here may just mean the beginning or end of a Reaction/Correction. So what do you do here? You should not expect as much drop in prices as you would in the first variation, but you can make new trades to take advantage of the price movement over the next three to ten days. If you understand major trends and Reactions/Corrections in prices, you will be able to distinguish these two variations and trade accordingly.

STOP-LOSS

When to book losses in U-TURN (SELL) signals? It really depends on your risk-tolerance but I would advise you to keep a Stop-loss at Today's High prices (plus 1%).

Let us now take an example of a valid U-TURN (SELL) signal :

Daily Prices with volume for TIVO

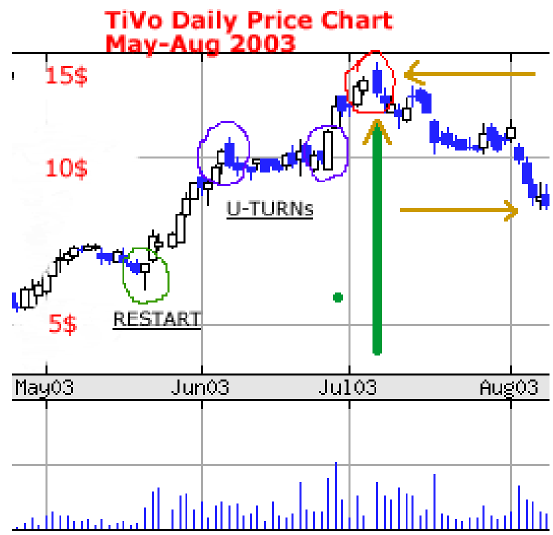
7-Jul-03	14.05	14.51	12.75	*12.88*	3768100
3-Jul-03	*13.05*	13.75	12.78	*13.5*	1194300
2-Jul-03	12.34	13.39	12.23	13.22	2675400
1-Jul-03	12.35	12.35	11.75	12.22	1048200
30-Jun-03	12.75	12.75	11.75	12.09	2388100

As you see on the Chart to the right, the stock was making new high prices day after day (Condition 1). However on July 7th, TiVo opened at 14.05, which was higher than the 13.75 of Previous Day's High (Condition 3). Also Today's High of 14.51 was the highest price over the last few weeks (Condition 2). After touching a high of 14.51, it started going down during the day and closed at a price that was lower than Previous Day's Open as well as lower than the closing price (Conditions 4 and 5). Volume was also very high on that day (Condition 6).

Thus we had a perfect U-TURN (SELL) signal on TiVo. If you were following this signal, you could have easily sensed the profit taking that happened in TiVo on that day and also would have sensed the intensity of supply/selling in the stock. It was obvious that despite the recent up-trend, sellers did not mind selling positions or shorting the stock even at lower prices during the day!

Let us look at the Chart on the right to see what happened after the U-TURN (SELL) signal occurred in the stock.

After making a TOP on the U-TURN (SELL) day at 14.50, the stock entered into a downtrend and went down to touch 8.00 in a week.



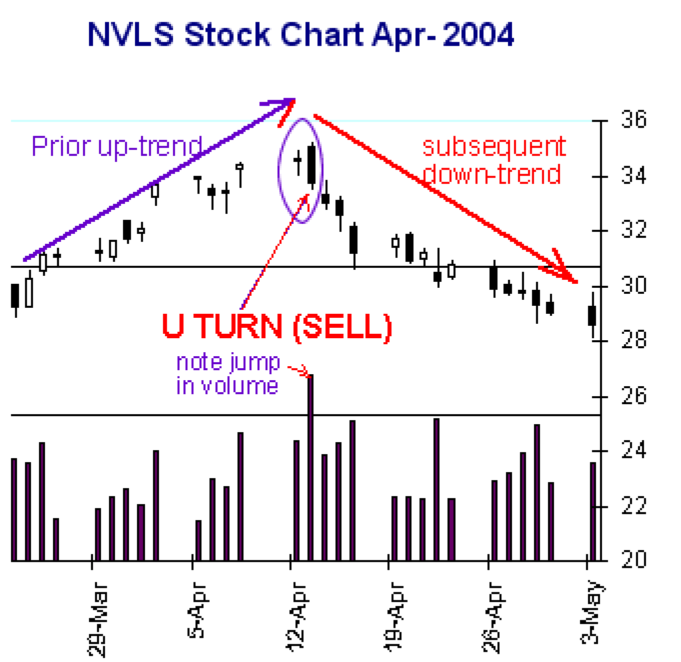
I would also like to mention one more U-TURN (SELL) signal on the Chart above. If you look at the beginning of June, there was a U-TURN (SELL) signal at a previous TOP price (slightly above 10$). This U-TURN signal did end the up-trend but the stock did not enter into a clear downtrend here. It just got into a Side-ways-trend. Thus you can see how U-TURN temporarily stops a major trend and starts a Reaction. Now if you look a little further on to the right (toward the end of the Side-ways movement), you will see a big white candle. This was probably another U-TURN (BUY) signal with Bullish implications (from bear to bull trend). However the day's low price wasn't the lowest price for the last few weeks! So it was a weak U-TURN (BUY) signal (Variation 2 discussed above) and was just pointing to the end of a Reaction and a resumption of the stock price movement in the direction of the major trend- an up trend.

We have not yet discussed RESTART and TURN-AROUND signals but I would like to show them on this chart. There was a RESTART signal at the end of the first Reaction in the Chart above- around the 6$ level. See how it marked the end of the Reaction and restarted the price movement in the direction of the major trend! Also there is the failure of a TURN-AROUND signal on June 30th (three days prior to the major U-TURN (SELL) signal we have discussed in the beginning of the section).

Let us now look at one more example of U-TURN (SELL) Signal. Look below at the chart of Nike, inc. (NKE) for the U-TURN (SELL) signal. As soon as we had our signal, NKE showed the end of its up-trend and entered into a nice downtrend. There wasn't any bad news about the company which prompted the down-trend but it was probably the action of some influential investors who might have seen this high price of 77$ as an opportunity to book profit or maybe they were smart hedge funds or short sellers who had started selling NKE!!! It does not matter to us who was behind this sell-off but our U-TURN (SELL) signal did tell us about this beginning of the fall in prices on the day when the stock hit its High price!

We have not yet learned about TURN AROUND (SELL) signal but you will find an instance of that signal a few days prior to U-TURN (SELL) signal on the chart. As you can notice, the TURN AROUND (SELL) signal was also effective and its stop-loss was never triggered. Thus, after TURN AROUND (SELL) signal, we had U-TURN (SELL) too after a few days at the same Top prices, and therefore was money for us in short selling NKE during April 2004!

"Chart courtesy of StockCharts.com"

Here is one more example of a U-TURN (SELL) signal. As shown on the Chart on the right, NVLS stock was in a strong up trend. When it was around the High of 35$, the company came out with stellar earnings. The stock was traded higher in after-markets. It also opened strong on the next day but closed significantly lower with a significant increase in volume. This was our U-TURN (SELL) signal. See on the chart, how the stock changed its course and touched a Low price of 28$ within 2/3 weeks!	

SIGNAL R2: JUMP-START

JUMP-START (BUY)

(Intentionally omitted from this trial version to keep it short.)

JUMP-START (SELL) also known as FREE FALL

(Intentionally omitted from this trial version to keep it short.)

SIGNAL R3: FULL STOP

FULL STOP (BUY):

(Intentionally omitted from this trial version to keep it short.)

FULL STOP (SELL):

(Intentionally omitted from this trial version to keep it short.)

SIGNAL R4: TURN AROUND

TURN-AROUND (BUY):

(Intentionally omitted from this trial version to keep it short.)

TURN AROUND (SELL):

(Intentionally omitted from this trial version to keep it short.)

SIGNAL R5: REVERSE

REVERSE (BUY):

(Intentionally omitted from this trial version to keep it short.)

TREND REVERSAL SIGNALS BASED ON WEEKLY PRICES

Most of the PFP signals use daily prices or daily price charts. However there are a few useful signals that use weekly prices. We will discuss these weekly signals now. These are also very powerful trend reversal signals, and are useful in predicting price movement over the next three or more weeks. (If you are not familiar with the distinction between daily and weekly prices, please read the previous chapter.)

There is one very important thing to remember about weekly signals. Unlike daily signals, (Intentionally omitted from this trial version to keep it short.)

SIGNAL R6: WEEKLY-REVERSAL

WEEKLY-REVERSAL (BUY):

DESCRIPTION: WEEKLY REVERSAL (BUY) signal is very much like the REVERSE (BUY) signal we just discussed. The only distinction is REVERSE uses daily prices while WEEKLY REVERSAL signal uses weekly prices. Both of these signals are also very easy to identify on price charts.

Conditions:

1. The stock has to be in a continued downtrend. This means that at least for the previous three or more weeks, the Weekly Low price has to be getting lower.

2. Previous week has to be a Bear Week. This means Previous Week's Close price has to be LOWER than Previous Week's Open price.
   PWC < PWO

3. This week (current week) has to be up till now a BULL WEEK. This means, the current price or This Week's Close (TWC) price has to be HIGHER than This Week's Open price.
   TWC > TWO

4. This Week's Low price (TWL) has to be significantly LOWER than Previous Week's Low price (PWL).
   TWL < PWL. (The more the difference between PWL and TWL, the more powerful the signal will be).

5. This Week's Low price (TWL) has to be the lowest price for the stock for the last few weeks.

6. Subsequent to fulfilling Condition 4 and 5, if the current price (also known as This Week's Close price (TWC) as the week progresses) is HIGHER than Previous Week's Close price, one can anticipate a WEEKLY REVERSAL (BUY) signal. If this week is over and we have a final TWC price, we must have TWC higher than

Previous Week's Close.
TWC > PWC

7. Volume is not as important for weekly signals as it is for daily signals mostly because weekly signals span across multiple days and hence the effect of volume associated with the reversal event does not get properly reflected in weekly volume. However if there is a noticeable pick up in volume since the stock made This Week's Low price, this acts as a powerful boost for the signal.

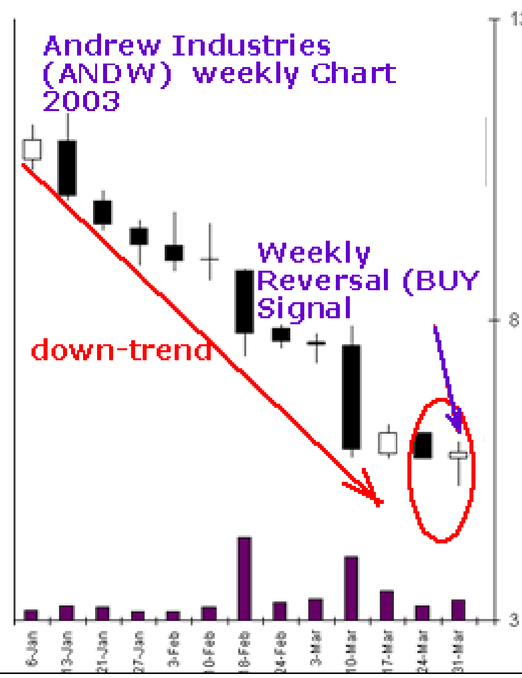
<u>Key Points to remember:</u> Current Trend- Down.Close- must be very strong. Week- Bull week. Volume- increase in volume is helpful. Low of this week should be the lowest.

Let us look at the weekly prices for ANDW (Andrew Industries) during March 2003.

31-Mar-03	5.69	5.97	**5.23**	5.79	1379780
24-Mar-03	6.11	6.11	5.68	5.69	951480
17-Mar-03	5.76	6.25	5.69	6.11	2001040
10-Mar-03	7.57	7.9	5.71	5.84	4259380
3-Mar-03	7.64	7.77	7.28	7.58	1421520

During this period, ANDW seems to be in a clear down-trend making lower low prices (Condition 1). Then during the early part of the March 31st, it continued to go down and made a low price of 5.23. This was not only lower than Previous Week's Low price of 5.68 (Condition 4) but it was also the lowest low price for quite a few weeks (Condition 5). Also the week of March 24th (Previous Week) was a Bear week because the stock had closed lower at 5.69 than the Week's Open price of 6.11 (Condition 2).

Here is the weekly Chart of ANDW.



<u>StockFetcher.com Syntax:</u> "Show stocks where Close gained more than .5 percent over the weekly close 1 week ago and close gained more than .5 percent over open and close gained more than 1% over close 1 day ago and weekly close gained more than .5 percent over weekly open and weekly Low 1 week ago is below weekly low 2 week ago and weekly close 1 week ago is below weekly open 1 week ago and weekly close 2 week ago is below weekly open 2 week ago and weekly low reached a new 7 week low and weekly low dropped more than 2 percent below low 1 week ago and volume is above 500000 and close above 2 and chart-display is weekly and close is 15% below 10 week high "

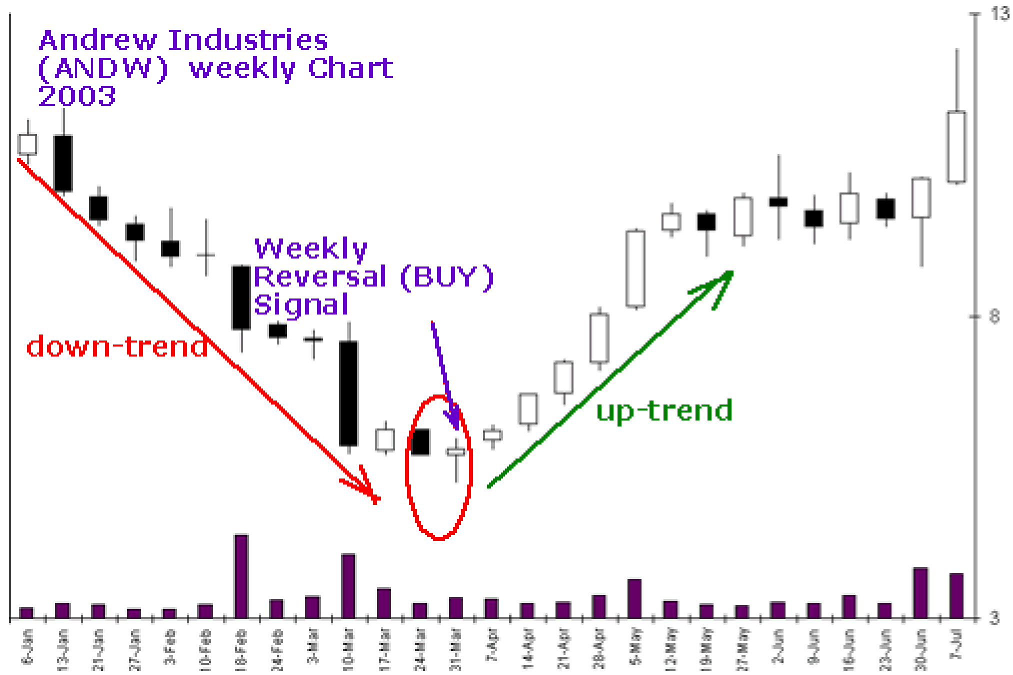
However during the week under review, after making a low price of 5.23, ANDW changed direction and started trading higher. When it traded higher than 5.69 (Previous Week's Close price), it fulfilled Condition 6. Also this price was higher than the current week's open (TWO) at 5.69. So there was a possibility that the current week could be a Bull week (Condition 3). So when the stock started trading higher than 5.69, there was a pretty good possibility for a WEEKLY REVERSAL (BUY) in ANDW. When the week ended, it actually closed at 5.79, which was higher than Previous Week's Close price. So almost all the conditions were nicely fulfilled for our signal WEEKLY REVERSAL (BUY) signal.

ACTION: A valid WEEKLY REVERSAL (BUY) signal indicates the end of the current down-trend and the beginning of up-trend. Hence if there are any open Short positions, they should be closed. Fresh Long positions should also be initiated. Sometimes when this WEEKLY REVERSAL (BUY) occurs only after a two/three weeks' downtrend making This Week's Low price the lowest only for the last three weeks or less, it is a weak signal and hence only open Short positions should be closed but for new Long positions, one should wait for other confirmations of trend reversal.

As mentioned earlier, there is no need to wait for current week's official Close (TWC) to act on this signal. If a stock makes a new Low price lower than the previous few weeks' low prices on Tuesday and then it starts going up and if on the following day Wednesday it trades higher than the Previous Week's Close price as well as This Week's Open price, one can assume it is a WEEKLY REVERSAL (BUY) signal and close current Short positions and/or open fresh Long positions as on that very Wednesday. When the reversal is sudden, then waiting till Friday may forfeit a big part of the opportunity. However if Friday's Close turns out to be lower than Previous Week's Close price, the signal has not materialized and hence one would need to abandon positions opened during the week. So sometimes an early bird catches the worm and sometimes it is the early bird who gets killed first! Unfortunately, there is hardly ever any risk-free trading opportunity for anyone.

STOP-LOSS: For positions in response to WEEKLY REVERSAL (SELL) signal, This Week's Low price (minus 1% or so) should be used as a Stop-loss. As in other signals discussed in this book, a Stop-loss is a **must** for this signal too.

Now let us look at what happened in the ANDW stock after our WEEKLY REVERSAL (BUY) signal. From the chart below, it is easy to see that the Weekly Low price (our Stop-loss) for the WEEKLY REVERSAL (BUY) signal was not broken at all. The stock actually started its upward journey then from that low price to touch a high price of 14.00 over the subsequent few weeks. (If you look carefully at the following chart, you will see quite a few successful weekly reversal signals with various degrees of strength.)



WEEKLY REVERSAL (SELL):

(Intentionally omitted from this trial version to keep it short.)

SIGNAL R7: 3-WEEK REVERSAL

3-WEEK REVERSAL (BUY):

(Intentionally omitted from this trial version to keep it short.)

3-WEEK REVERSAL (SELL)

(Intentionally omitted from this trial version to keep it short.)

Chapter

7

TREND CONTINUATION SIGNALS

In the previous chapter, we learned about Trend Reversal signals. It is time now to explore and learn about Trend Continuation signals. Trend Reversal signals happen only once in a while when the trend is reversing its direction; while on the other hand Trend Continuation signals take place while the stock is trading in a trend. Trend reversals are the most profitable trading opportunities but they occur less frequently. On the other hand, stocks spend most of the time in trends- up-, down- or Side-ways-, so if you are an active trader, you will have more trading opportunities with Trend Continuation signals than with Trend Reversal signals.

Now we are ready to jump onto the trend trading signals. (Intentionally omitted from this trial version to keep it short.)

SIGNAL C1: GAP

GAP (BUY):

This is a common signal. Most of you may already know of it or have at least heard about it. Most of the time, a stock trades in a continuous price range but sometimes it jumps to a higher or a lower level abruptly. This usually happens when because of some piece of news or some development, a stock opens for trading the next day too high or too low with a gap in prices. This is commonly referred to as a GAP. It is easier to spot a GAP on a chart but if you are following the four daily prices, it is not that difficult to find this incident in these prices too. If Today's Low is higher than Previous Day's High price, we have an upward gap. If Today's High is lower than Previous Day's Low price, we have a downward gap.

The GAP signal mostly occurs on a daily chart but sometimes it can be seen in weekly prices or a weekly chart too. Let us take an example of a GAP signal. Suppose a stock has the following daily prices for two consecutive days.

19-Aug-03	23.26	24.38	23.16	24.29	6866600
18-Aug-03	21.78	22.52	21.76	22.46	1913500

On 18th Aug, it traded between a high of 22.52 and a low of 21.76. Then on the next day, the stock trades between a high of 24.36 and a low of 23.16. As you notice, over these two days, the stock traded as high as 24.38 and as low as 21.76, but there was not one single trade that took place between 22.52 (Previous Day's High) and 23.16 (Today's Low price). This is called a GAP.

Conditions:

Here is the list of conditions required for an ascending GAP (BUY) signal to take place.

1. The stock has to be in an Up-trend. So for the last few days, the stock has to be moving higher.

2. Today's Low price has to be HIGHER than Previous Day's High price (a GAP condition). **TDL > PDH** The more the difference between, TDL and PDH, the more powerful the signal will be.

3. Today has to be a Bull day. Today's Close has to be HIGHER than Today's Open. **TDC > TDO**

4. It is desirable to have higher volume today in comparison with the volume of the last few days. This is not required but if it is true, it further strengthens the signal.

Key Points to remember: Current Trend- up-trend. Open- strong Open. Day- must be a Bull day. Volume- increase in volume is helpful.

Stockfetcher.com Syntax: Show stocks where low is more than 1% above the high 1 day ago and close is above the open and volume reached a new 3 day high and average volume (10) is above 200000 and close is above .40

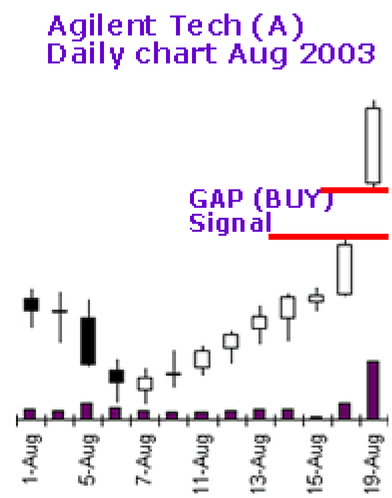
BRIEF EXPLANATION: The stock is in an Up-trend. This means its price is moving higher for the last few days indicating that buyers in the stock are demanding it even at a higher price and they are more aggressive than sellers. Now because of some good news or development overnight or maybe just for some psychological/emotional buildup, the stock opens strong for trading today at a price higher than yesterday's high price. As Demand and Supply in Economics would indicate, higher price should usually reduce Demand and/or increase Supply. So one would expect the price to go down. However if the stock trades higher than Previous Day's High price for the entire trading session today, we can confer that there was some powerful shift in the demand curve or the supply curve. This wasn't just some emotional or psychological build-up overnight. If the stock closes higher than today's opening price too making it a Bull day, we can be sure of an accumulation that happened throughout the trading today. What does this mean to us? This means the up-trend in the stock price is gaining further momentum so we can expect it to continue going up from the current level.

Let us take an example of A (Agilent Technologies) to understand this signal.

Daily prices for A:

19-Aug-03	23.26	24.38	23.16	24.29	**6866600**
18-Aug-03	21.78	22.52	21.76	22.46	**1913500**
15-Aug-03	21.66	21.87	21.54	21.78	481200
14-Aug-03	21.45	21.79	21.15	21.76	1246400
13-Aug-03	21.3	21.63	21.1	21.49	1232200
12-Aug-03	21.05	21.29	20.85	21.25	1085600
11-Aug-03	20.79	21.08	20.69	21.02	989900
8-Aug-03	20.73	21.02	20.52	20.69	1015700
7-Aug-03	20.48	20.78	20.31	20.67	1149200

During early August, the stock was in an up-trend (Condition 1). Then on the 19th, Agilent had a Low of 23.16 that was higher than the high price of the previous day at 22.52 (Condition 2). Also on the 19th, Agilent closed at 24.29, which was higher than that day's opening price of 23.26 making it a Bull Day. This fulfilled our second important condition (Condition 3). Volume on the 19th turned out to be higher than the previous few days' volumes, which gave a further boost to our signal. So all of our conditions were fulfilled for a GAP (BUY) signal.



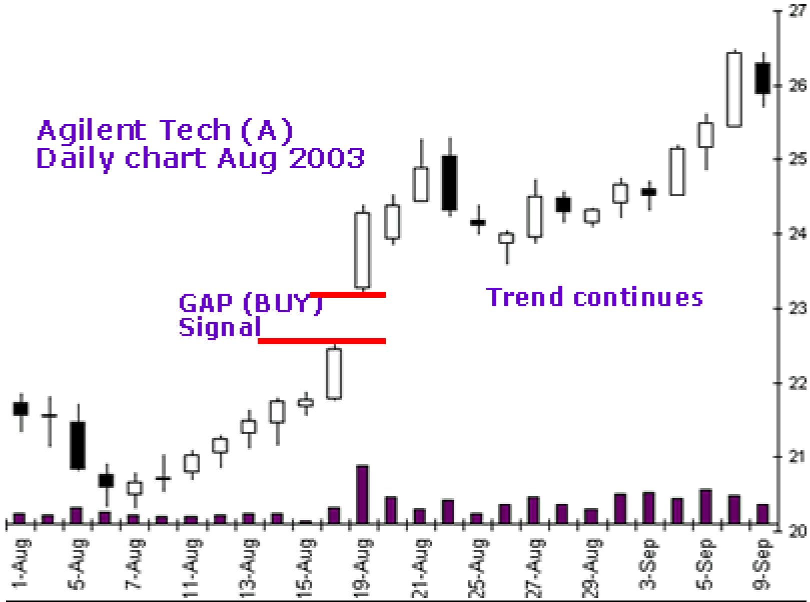
ACTION: When this signal takes place in an up-trend, you should close any short positions you may have in the stock. You can also initiate fresh long positions.

STOP-LOSS: It is not easy to suggest one price level for a Stop-loss for this signal. Possible Stop-loss levels are Today's Low price, Previous Day's High price or Previous Day's Low price. A reader should choose his Stop-loss based on his risk tolerance, the stock's volatility, market conditions and other factors.

Sometimes a gap is so large, a Stop-loss at Previous Day's Low price looks ridiculous. So I would leave it mostly to the reader. Having said this, I would ask my reader to keep some Stop-loss and not to ignore or overlook a Stop-loss for this signal.

I would also like to add one more thing here. After you buy any stock based on the GAP (BUY) signal, you should look for a Close price higher than the high price on the signal day over the subsequent three days. If this is not happening, you may close the position at the end of three days instead of waiting for your Stop-loss to be triggered.

PRICE OBJECTIVE: Now let us look at a complete chart of Agilent after the GAP (BUY) took place. As can be seen from the Chart below, the stock continued its upward journey. It did not trigger our Stop-loss and it did touch a new high price of 26.00.



GAP (SELL)

(Intentionally omitted from this trial version to keep it short.)

SIGNAL C2: RESTART

RESTART (BUY)

(Intentionally omitted from this trial version to keep it short.)

RESTART (SELL)

(Intentionally omitted from this trial version to keep it short.)

ACTION: When RESTART (SELL) takes place during a Correction, it indicates that stock is likely to continue in its major trend- downtrend, and you can expect it to not only cross the Previous Bottom but to also make a lower Bottom. In response to a confirmed RESTART (SELL) signal, you should close your Long positions and initiate fresh Short positions.

STOP-LOSS: Possible Stop-loss levels are Today's High price, or Previous Day's Close price. The recommended Stop-loss would be at Today's High price plus around 1%.

PRICE OBJECTIVE: Once this signal takes place, you can *expect* the stock to go below the last Bottom and make a new lower Bottom.

Chapter

8

MISCELLANEOUS TRADING SIGNALS

SIGNAL M1: MONDAY MORNING Signal

Here is one important signal that gives you almost one trading signal every week! This is a simple signal and all it takes to identify it are just two prices --Friday's Close (FC) and Monday's Open (MO) prices! Also because this signal is very simple, it tends to fail more often than the signals discussed earlier. However, the Stop-loss is very narrow for this signal and hence a losing position gets closed generally within a few hours with minimal damage to our portfolio. Thus the success rate may be lower for this signal, but this signal does have impressive payoffs. This signal provides many opportunities to earn profit two to three times more than the risk undertaken.

What is the logic behind this signal? There are certain justifications for this signal that make it a powerful indicator of the subsequent few days' price trend.

- Stock markets almost all over the world are usually closed on Saturdays and Sundays but, as we know, things do happen on these days. What I am referring to here are some natural, geographical, economical or some political events that take place between Friday night and Monday morning. So all that happens between Friday's Close and Monday's market opening gets reflected in Monday's Open price. So Monday's Open price vs Friday's Close price is a good summary of all that happened in between and how that impacted on stock prices.

- Also, thanks to holidays, a lot of regular traders as well as investors find time to analyze the market of the previous week. This is the time many people come up with their game plan for the next week and create a wish list of what they want to buy, sell or trade during the upcoming week. This, on the aggregate level, influences the market on Monday.

- From Friday night to Sunday night, there is time for parties and socializing. This is the time most interactions take place among friends, relatives, strangers etc and often people discuss stocks. Though this may be on a smaller scale it does influence the market of the subsequent week. This is one of the reasons behind strong market openings on Mondays in a bull market.

- Last but not least, influential weekly publications as well as private paid investment newsletters are published on Friday evenings and they try to reach individual's homes, and minds, during the weekends. I am referring to Barron's and thousands of other newsletters people subscribe to. They, and also the weekly Business section of almost every newspaper, talk about the market and individual stocks in detail, and influence/shape quite a few people's investment actions for the coming week.

This all gets reflected in Monday's market opening as well as in the trading throughout the day. So I think Monday's open price is a powerful indicator of the stock prices for the subsequent few days. Let us now explore how to apply this signal and how to trade stocks based on it.

As said earlier, this signal is not suitable for every one. It makes sense for traders who typically hold a position for a few days only, *from one to three/five days at most*! This signal is suitable for people who are in constant touch with the market and who can open/close positions without any hesitation within a few hours.

With this signal you get an indication to buy or sell a stock exactly **on Monday morning**. As soon as the market opens on Monday morning, you can execute a trade within the next few hours. Let us now see how to enter into a position using this signal.

1. First, you need to know what trend the stock is currently in. A stock can be in an up-trend, a downtrend, in a Reaction/Correction or in a Side-ways movement.

2. Then you need to know Friday's Close price.

FOR A RISING STOCK (IN A BULL/UP TREND)

CASE 1: If the trend is **up** and **M**onday Morning's **O**pen price (MO) is HIGHER than **F**riday's **C**lose (FC), you can take a long position as soon the stock/index trades HIGHER than the opening price. Keep a Stop-loss at Monday's Open price *minus* ½ % (preferred Stop-loss) or Friday's Close price *minus* ½ % (for people who hate to open and close positions too hastily).

Conditions:

1. Trend is Up (One quick way to find out is to look at the price chart and see the current price trend).

2. **MO > FC,** the stock price seems to be going up from today's opening level.

ACTION: You BUY this stock preferably after it starts trading higher than today's opening price level. As trading during the first 10-15 minutes of a day is usually unstable, it is also advisable to wait a few minutes (10 to 30) before you take any action. This gives the stock/market a little time so that trading can become normal and we are able to feel the trend for the day more confidently.

CASE 2: (Intentionally omitted from this trial version to keep it short.)

FOR A FALLING STOCK (In a Bear/Down-trend)

CASE 3: (Intentionally omitted from this trial version to keep it short.)

CASE 4: (Intentionally omitted from this trial version to keep it short.)

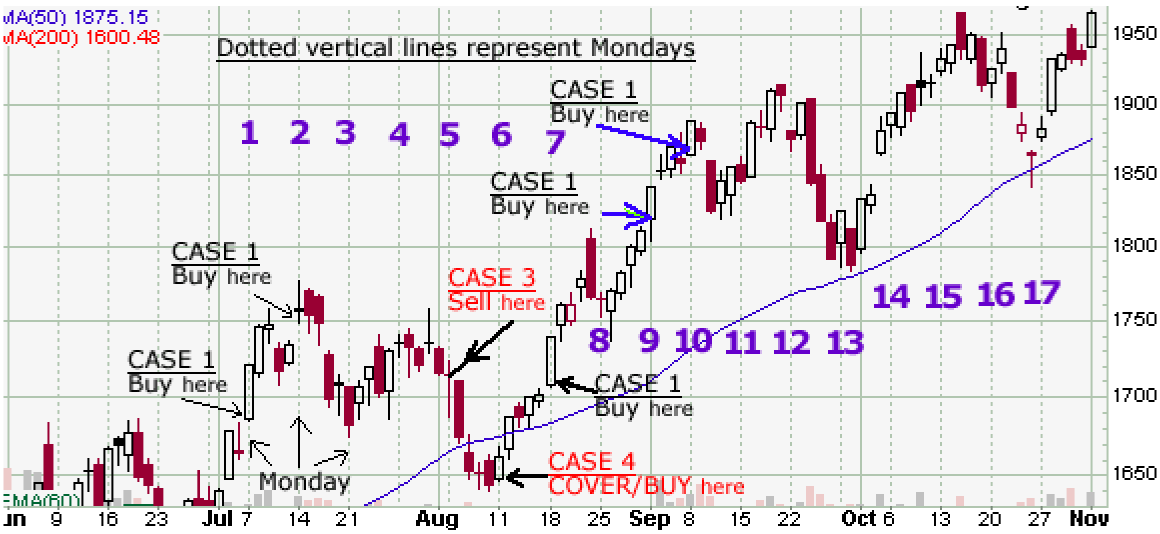


Chart courtesy of StockCharts.com.

Look at Number 1 above. On Monday, July 7th, IXIC opened significantly higher than previous Friday's Close level. So we would apply CASE 1 discussed above and would take long positions on that Monday morning. Now as you see IXIC kept going up over the next three days. So trades based on this signal would give good profit here.

(Intentionally omitted from this trial version to keep it short.)

SIGNAL M2: SIGNIFICANT DAY Signal

Let us add one more signal- a very simple signal. There is no complicated mathematical condition to remember. This signal has just two parts.

First, watch for a day of significant importance for the stock you are following. This can be a day that is psychologically important. Let me try to make a list of events that are likely to make a day a Significant Day.

- Initial Listing Day: This is the first day when an IPO starts trading. Applicable only to new listings.
- Split Day: When a stock starts trading at post-split rates.
- Earnings Release Day.
- Merger or Acquisition Announcement Day.
- First day of trading post-Merger or Acquisition.
- Federal Reserve meeting to decide on changing Discount/Fed Funds rate (applicable mostly to indices or ETFs, or interest rate sensitive stocks.)

- A surprise global or political event- a big earthquake, a sudden war, a terrorist attack or some significant announcement by the Government.
- A surprise market event- A day of significant development in other markets like a sudden rise/fall in some currencies, gold or a default by a major nation.

This list is by no means complete. In short, a day is a Significant Day when something that is material to a stock is scheduled to happen or there is some material announcement by the company itself.

Once a day is labeled as a Significant Day, its Open and Close prices are very important for us.

(Intentionally omitted from this trial version to keep it short.)

SIGNAL M3: DERIVATIVES EXPIRATION Signal

(Intentionally omitted from this trial version to keep it short.).

SIGNAL M4: VOLUME SPIKE

This is a short to medium-term trading signal and is applied when we see a **sudden and significant** jump in the trading volume of a stock. There are two other things that are usually seen on such days. (1) There is usually a larger than normal price fluctuation on such days. (2) This spike in trading activity is usually in response to some news or event that has material impact on the company.

Let me now try to quantify what I mean by sudden significant jump in Volume. By sudden I mean the jump in volume takes place almost unexpectedly. For days prior to the Volume Spike day, the stock had normal trading Volumes. By significant, I mean a jump in volume to the tune of more than three to ten times the normal daily volume. In quantifying a day as a Volume Spike day, we should also consider the nature of the stock as well. For a stock with an average volume of 1 million per day, a 3 million or more volume on any day is a sudden significant volume day. For an active stock like INTC or MSFT, a jump in volume by 100% also qualifies as a Volume Spike day. On the other hand, for a stock that has a daily volume of say 20,000 stocks, even a ten times jump in volume may not be enough to apply this signal. So you will need to determine if a day passes as a Volume Spike day. One suggestion is to look at the price chart of the stock. A real Volume Spike day normally stands out in a chart.

What causes sudden spikes in volume? There are two primary reasons: (1) Trends often climax with heavy trading activity and larger than normal volume. So when there is a sudden jump in volume after a sustained trend in one direction and there is no specific news to attribute this Volume Spike to, this is usually an indication of a reversal of trend. If we have one of our Trend Reversal signals, we have a nice trading opportunity in front of us. The Volume Spike day is likely to mark the beginning of a new trend. The jump in volume for a stock that is going up is usually an indication of large-scale profit taking or fresh short-selling at the prevalent high prices. Similarly, for a stock in a down-trend for a considerable time period, a sudden significant jump in volume without any news is usually due to bargain-hunting activity or short-covering to take advantage of the currently attractive stock price level. (2) Sometimes a jump in volume is attributable to some unexpected news, event or developments. Such events or news can alter demand and supply for the company's stock in a significant way. However at the end of the Volume Spike day, it is not obvious in which direction the stock's price will move from the current level. Is the bad news fully digested or does it still have some poison left to cause a further drop in stock price? Is the good news completely reflected in Volume Spike day's closing price? This is all difficult to predict. However if we watch a few sub-sequent days' trading activity, we can get some clues in most cases.

Let us now look at how to identify and act in response to a Volume Spike signal.

(Intentionally omitted from this trial version to keep it short.)

How to trade in response to a valid Volume Spike day?

(Intentionally omitted from this trial version to keep it short.)

Chapter

9

HOW TO TRADE IN SIDE-WAYS?

In this chapter, we will look at signals that are useful for stocks in Side-ways movement. As we know, a stock spends time in one of three phases:

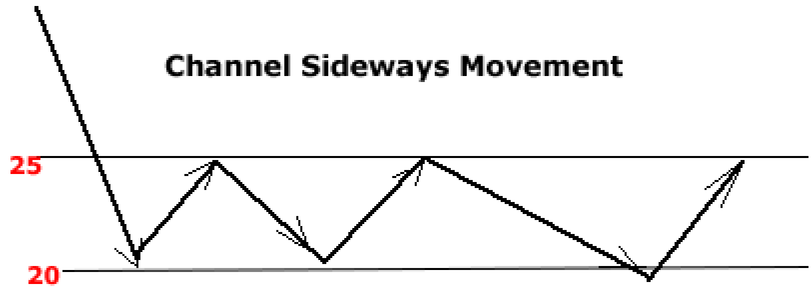
- UP-TREND: The stock price is going up making new high prices as time passes.
- DOWN-TREND: The stock is going down and is making new low prices as time passes.
- SIDE-WAYS Movement: The stock seems to be locked in a certain price range and it seems difficult for the stock to trade above or below this range. It seems to be fluctuating within this range, say 20 and 25 dollars. After going as high as 25 dollars, it starts drifting lower. However when it comes back to around 20 dollars level, some how Demand picks up and/or Supply dries up. Hence the stock starts trading higher. However it seems difficult for the stock to trade outside these two price levels- below 20$ and above 25$ in our case. We call this a Side-ways movement.

So far, we have seen signals that help us trade with Trend Reversals as well as Trend Continuations. Now we are going to see some signals for trading in a stock's Side-ways movements. Before we go further on with this topic, let us see how many types of Side-ways there are.

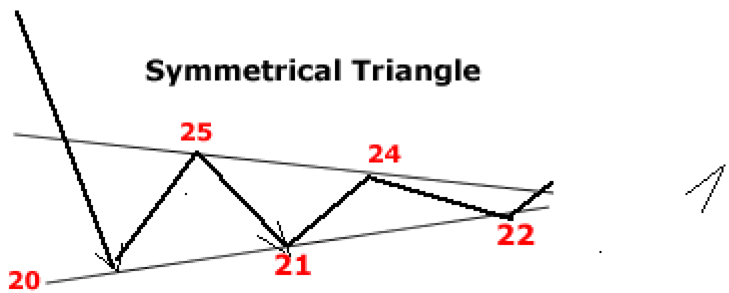
TYPES OF SIDE-WAYS MOVEMENTS

There are primarily three types of Side-ways movements:

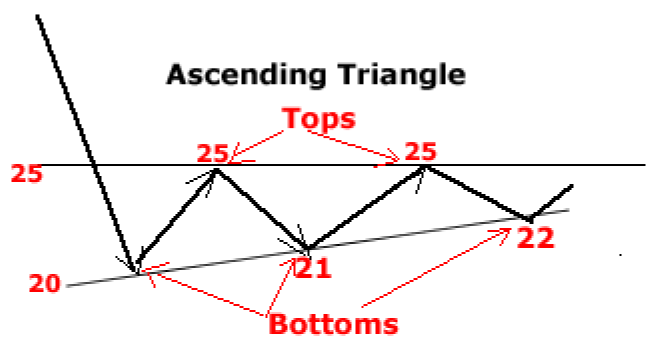
1. **Channel**: (Intentionally omitted from this trial version to keep it short.)



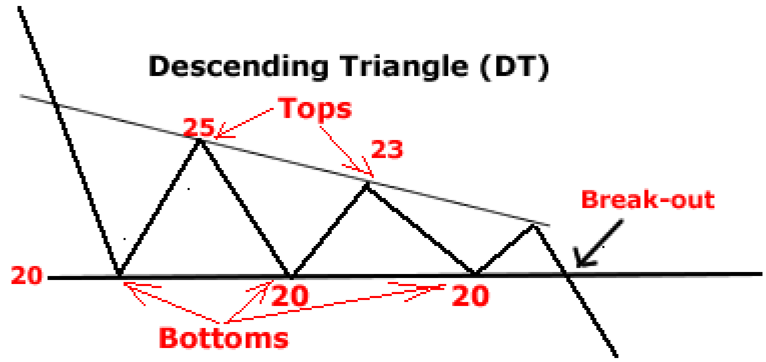
2. <u>Symmetrical Triangle (ST):</u> (Intentionally omitted from this trial version to keep it short.).



3. <u>Asymmetrical Triangle (AT)</u>: (Intentionally omitted from this trial version to keep it short.)



Similarly, a triangle can have Bottoms at one price-level but each subsequent Top at lower level as shown in the diagram below. We will call such formation a Descending Asymmetrical Triangle or a Descending Triangle in short (DT).



(Intentionally omitted from this trial version to keep it short.)

SIGNAL S1: TURN BACK

TURN BACK (BUY)

TURN BACK signal is primarily used for trading during short-term trends that usually last from two to ten days. This signal is based on Top and Bottom prices. As we know, a Top is the highest price a stock reaches between a short up- and a short down- trend. It is like a peak when you are looking at stock prices of a few days. Similarly Bottom is the lowest price that stock made over the last few days.

A TURN BACK during a down-trend signals a potential up-trend over the subsequent few days. Hence we call it a TURN BACK (BUY) signal. Similarly a TURN BACK that takes place during an up-trend creates the possibility of a subsequent short-term downtrend, and hence we will call it TURN BACK (SELL).

Conditions: To keep it simple, let us first look at the conditions that need to be fulfilled for a valid TURN BACK (BUY) signal:

1. The stock is currently in a short-term downtrend.
2. Today's Low price is LOWER than Previous Bottom (PB); Today's High price has to be HIGHER than that Bottom. (In short, today the stock has to have fallen through the last Bottom). **TDL < PB and TDH > PB**
3. Today is a Bull Day (Today's Close has to be HIGHER than Today's Open). **TDC > TDO**
4. Today's Close has to be HIGHER than Previous Bottom. This is also a very important required condition for this signal. **TDC > PB**

5. Today has to be the first or the second day on which the stock trades below the Previous (confirmed) Bottom.

TURN BACK (SELL)

(Intentionally omitted from this trial version to keep it short.)

BRIEF EXPLANATION: (Intentionally omitted from this trial version to keep it short.)

What does this signal mean? Every stock has some price level(s) with significant psychological/sentimental values attached to them. When it reaches that level, it may be getting too overvalued or undervalued in the eyes of many investors and traders, or when a particular level is broken, momentum traders may be jumping on to benefit from the ensuing trend. Hence such price levels are instrumental in emergence of fresh buying or selling. For me, Previous Top and Bottom prices also qualify as important price levels. These are the price points which in recent past have marked victory of buyers over sellers or vice versa. So a valid TURN BACK signal is a possibility of what happened the last time in the vicinity of this price level is likely to be repeated one more time. So in response to a TURN UP (BUY) signal, we can expect a short up-trend pushing prices higher towards the Previous Top level. Similarly in the case of TURN BACK (SELL), we can look forward to a short-term downtrend causing prices to drop to as low as the Previous Bottom.

ACTION: If the TURN BACK (SELL) takes place, you should close your long position in the stock and start short-term short positions with the price target of the Previous Bottom. Similarly in response to a valid TURN BACK (BUY) signal, you should close any existing short position and you can initiate fresh long position with the price target of the Previous Top price.

STOP-LOSS: For TURN BACK (SELL) signal, Stop-loss should be kept at Today's High price plus 1%, and for long positions in response to the TURN BACK (BUY) signal, Today's Low price minus 1% should be used as a Stop-loss.

PRICE OBJECTIVE: For the TURN BACK (SELL) signal, it is very likely that Today's High can be the next Top (which can only be confirmed after following the subsequent two/three days' price movement) and you can expect the stock to touch the Previous Bottom price level.
Similarly a TURN BACK (BUY) signal indicates that Today's Low price is likely to form the next Bottom price and you can expect the stock price to rise over the subsequent few days attempting to touch Previous Top's price level.

Let us take as an example VZ (Verizon, Inc.).

Daily prices of VZ:

Date	Open	High	Low	Close	Volume
5-Aug-03	35.85	35.85	34.96	35.05	7740800
6-Aug-03	35.46	36.44	35.32	36.05	8215700
7-Aug-03	35.97	36.06	35.26	35.35	6168500
8-Aug-03	34.76	35.76	34.51	35	6045100

Chart of Verizon (Aug-Sep 2003)

11-Aug-03	35.24	35.5	34.92	35.2	4910200
12-Aug-03	35.57	36.1	35.23	36.08	7718300
13-Aug-03	36.4	36.4	35.4	35.62	5061100
14-Aug-03	36.1	36.1	35.5	35.75	6283400
15-Aug-03	35.75	35.85	35.26	35.82	3117000
18-Aug-03	36.61	**36.61**	35.75	35.85	4196600
19-Aug-03	36.23	36.23	35.41	35.78	5766000
20-Aug-03	35.65	35.8	35	35.8	4670000
21-Aug-03	36.05	36.55	35.81	36.05	6177700
22-Aug-03	36.1	36.25	35.05	35.22	7230000
25-Aug-03	35.02	35.26	34.59	34.8	5056700
26-Aug-03	34.78	35.2	34.26	35.01	6410300
27-Aug-03	34.75	35.4	34.75	35.07	4671800
28-Aug-03	35.2	35.66	34.92	35.6	6076700
29-Aug-03	35.4	35.41	34.98	35.32	4265000
2-Sep-03	35.06	35.7	34.96	35.55	7194300
3-Sep-03	35.8	36.26	35.65	36.25	7870800
4-Sep-03	36.25	36.94	36.2	36.65	7699000
5-Sep-03	36.8	**37**	36.2	36.3	7698600
8-Sep-03	36.4	36.44	35.63	35.79	7673400
9-Sep-03	35.43	35.56	35.1	35.15	6660400

Look at Verizon's daily prices during Aug 2003. On Aug 6th, it formed a Top at 36.44 and entered into a short down-trend. Then on the 8th, it formed a Bottom at 34.51 and started an up-trend. On Aug 18th, VZ crossed the Previous Top of 36.44 and traded as high as 36.61. As the Previous Top (36.44) was crossed, we can apply the conditions to see if TURN BACK (SELL) signal takes place today.

As of the 18th, VZ was in an up-trend (Condition 1). The Previous Top (36.44) was crossed as VZ traded as high as 36.61 and as low as 35.75 (Condition 2). Now Today's Close of 35.85 was lower than Today's Open of 36.40 making today a Bear Day (Condition 3). Also after crossing the Previous Top (36.44), VZ closed below it (Condition 4). Today was also the first day since the formation of the Previous Top (36.44) and the subsequent Bottom at 34.51 (Condition 5). Thus all of our conditions for TURN BACK (SELL) are nicely fulfilled telling us to close any long position and to initiate fresh short position with Stop-loss at 36.51 and target price of 34.51 (Previous Bottom).

On August 26th, Verizon's stock price reached a low of 34.51(Previous Bottom) and fulfilled the requirement of Aug 18th TURN BACK (SELL) signal. Now interestingly enough, as of August 26th, VZ was in a down-trend as required for Condition 1 of TURN BACK (BUY) signal. The Previous Bottom (34.51) was broken as VZ traded as low as 34.26 and then as high as 35.20 (Condition 2). Today's Close of 35.01 was also higher than Today's Open of 34.78 making it a Bull Day (Condition 3). After having broken Previous Bottom of 34.51 and having made a low of 34.26, when VZ started trading above 34.51 (Previous Bottom), we could see a TURN BACK (BUY) signal forming (Condition 4). Aug 26th was also the first day since last Bottom of 34.51 and the subsequent Top of 36.61. This fulfilled our last condition too. Thus with all conditions fulfilled for a TURN BACK (BUY) signal, we can now close any existing Short position and initiate new Long position with price target of 36.61 (Previous Top) and Stop-loss of 33.99$ (Today's Low minus around 1%).

As you can see from the prices of the subsequent few days, VZ confirmed a new Bottom at 34.26 and made new higher High prices. On Sept 4th, it crossed Previous Top (36.61) making our TURN BACK (BUY) signal on Aug 26th a successful one. Now on Sep 4th, the stock closed higher than Previous Top (36.61) but on the next day (variation of Condition 5), it closed below 36.61. It was also a Bear Day. Thus once again we had a TURN BACK (SELL) signal pointing to a short-term down-trend with Stop-loss at 37.00 and target price of 34.21. The daily prices of VZ for subsequent days are not shown above, but it did not trigger our Stop-loss of 37.00. However it did break the last bottom of 34.26 and touched a low of 32.80 on September 23rd.

SIGNAL S2: NEXT TOP/BOTTOM

(Intentionally omitted from this trial version to keep it short.)

NEXT TOP Signal

(Intentionally omitted from this trial version to keep it short.)

NEXT BOTTOM Signal

(Intentionally omitted from this trial version to keep it short.)

Chapter

10

CHART-BASED SIGNALS

So far we have looked at signals that can be identified by applying certain formulas to various prices. For each signal we had a set of conditions and by testing those conditions with appropriate prices, we saw if some signal could be applied to the stock or not. Initially these conditions and signals may be hard to memorize but once you understand the underlying logic behind them, you will be able to identify most of those signals just by looking at a candle-stick or an OHLC (Open High Low Close) price chart.

The new signals we are going to discuss now can be seen only on charts. There are no *easy* mathematical conditions here. Instead, we will USE a few qualitative conditions to identify these new signals. If you are familiar with charts and technical analysis of market/stocks, probably you are already familiar with the signals that I am going to discuss here. These are patterns and Trend-line-based signals. If you are already familiar with them, you may want to skip this chapter. Unlike most other technical analysis books, I am **not** going to discuss every technical signal/method out there; and certainly I **am** going to describe my favorite signals that I find very useful.

Chart-based signals can be grouped into two classes and we will see them one by one.

CHART-BASED TREND REVERSAL SIGNALS

CH-TR1: ISLAND REVERSALS:

I(Intentionally omitted from this trial version to keep it short.)

ISLAND REVERSALS (BUY)

Conditions:

1. The stock is in a down-trend.

2. There was a GAP (SELL) signal in the stock yesterday. In other words, Previous Day's High was lower than Previous to Previous Day's Low price. (**PDH < QDL**).

3. Now today, you see a GAP (BUY). This means, Today's Low Price is higher than Previous Day's Low price. (**TDL>PDL**)

Important Note: Sometimes the second Gap signal takes place not on the next day but within 2/3 days. This weakens the signal a little but still it is powerful enough for one to initiate fresh Long positions.

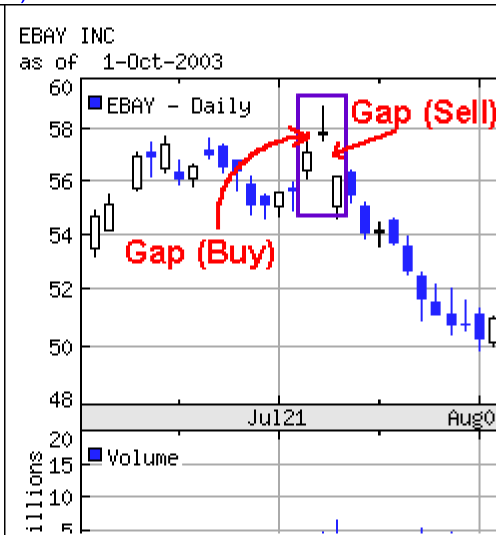
ACTION: You should close existing Short positions and initiate Long positions in the stock.

STOP-LOSS: Keep Stop-loss at the Low price of day(s) between these two Gaps.

ISLAND REVERSALS (SELL)

(Intentionally omitted from this trial version to keep it short.)

Date	Open	High	Low	Close	Volume
25-Jul-03	55.02	**56.16**	54.55	56.12	13069600
24-Jul-03	57.75	58.93	**57.58**	57.87	9696000
23-Jul-03	56.36	**57.48**	56.05	57.07	5815600
22-Jul-03	55.7	55.95	54.85	55.58	4868400
21-Jul-03	55.02	55.55	54.6	55.53	4126600



These prices are taken from a period when eBay was in a strong up-trend so it was normal to see Gap (Buy) signals. As you can see on the chart or from the prices above, there is an Up-Gap on July 24th, 2003. That day's Low price of 57.58 was higher than Previous Day's High price of 57.48.

Now if you look at the next day's prices, you will see a Down Gap. On the 25th, the stock had a High of 56.16 which was lower than Previous Day's Low price of 57.78. As you remember, this is a Gap (Sell) signal. Thus over three trading days, the stock had two opposite Gap signals. You can also see this on the Chart.

Thus, after making a new 52 Week High at 58.93 on July 24, 2004 and having an Island Reversal (Sell), eBay reversed its trend and entered into a Down-trend. Though it is not shown on the chart it took quite a few months for eBay stock prices to cross July 24's Top of 58.93.

One more example of Island Reversal (SELL) signal:

On the left side of the following Chart, you will see EGHT was in a strong up-trend (Condition 1). Then it had a Gap (Buy) signal as shown in the chart (Condition 2). The stock made a new 52 Week High on that day. Now on the subsequent day, the stock surprised everyone and opened lower than Previous Day's Low price. As you see on the Chart, there is a Gap (Sell) signal (Condition 3). Thus we had two opposite Gap signals over two days! This was a classic example of an Island Reversal signal.

Now when you look at the prices after the reversal signal, you will see that it indeed was a reversal. The EGHT entered into a down trend and never crossed the signal day's High price. So if one had Shorted the stock based on the Island Reversal signal, he would have made good money.

(There is one more signal in the EGHT Chart. Before the Island Reversal signal, the stock was in a steep up-trend and it had a nice FLAG signal. You will learn about it later in this chapter.)

Chart courtesy of StockCharts.com.

In the last two examples of eBay and EGHT, we had two gaps on two consecutive days. As I mentioned earlier, this is nice to have but not an absolute requirement. Depending on stock and situation, it is also acceptable if these Gaps take place two or even three days apart. Let us take an example to highlight this.

Look at the prices and Chart of TXN during April 2004.

Date	Open	High	Low	Close	Volume
6-Apr-04	29.76	29.80	28.86	29.16	28,419,400
5-Apr-04	30.41	31.01	30.12	30.94	9,378,000
2-Apr-04	30.5	30.6	30.14	30.41	13,790,200
1-Apr-04	29.36	29.98	29.35	29.9	10,293,400

As you can see from the Chart on the right, TXN was in an up-trend prior to April 2004 (Condition 1). Then on April 2, 2004, TXN had a GAP (BUY) signal because that day's Low of 30.14 was higher than Previous Day's High price of 29.98. (Condition 2). The next day the stock kept its upward march and there was no sign of looking back. Now on April 6, 2004, TXN opened lower and displayed a GAP (SELL) signal because April 6th's High price of 29.80 was lower than April 5th's Low price of 30.12 (Condition 3).

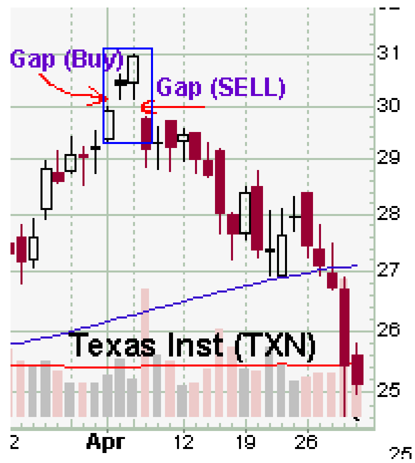


Chart courtesy of StockCharts.com.

Thus we had all three conditions fulfilled for Island Reversals but with one important variation. The two opposite Gaps were two days apart instead of one day! This makes the signal a little weaker but still it is one of the most powerful trend reversal signals out there. Now as we can see on the Chart, this signal showed its power. TXN subsequently entered into a down-trend and made a low price of 24 by the end of the month.

A few things to remember with regards to Island Reversals:

- When looking for an Island Reversal it does not matter if the days are Bull or Bear days. That means, when I mention Gap (Buy), you do not need to test for the day to be a Bull day nor for a Gap (Sell), the day does not need to be a Bear Day. Two Gaps in opposite directions are more important and critical for Island Reversals.

- You will mostly see a jump in volume around Island Reversal days and that adds to the strength of the signal.

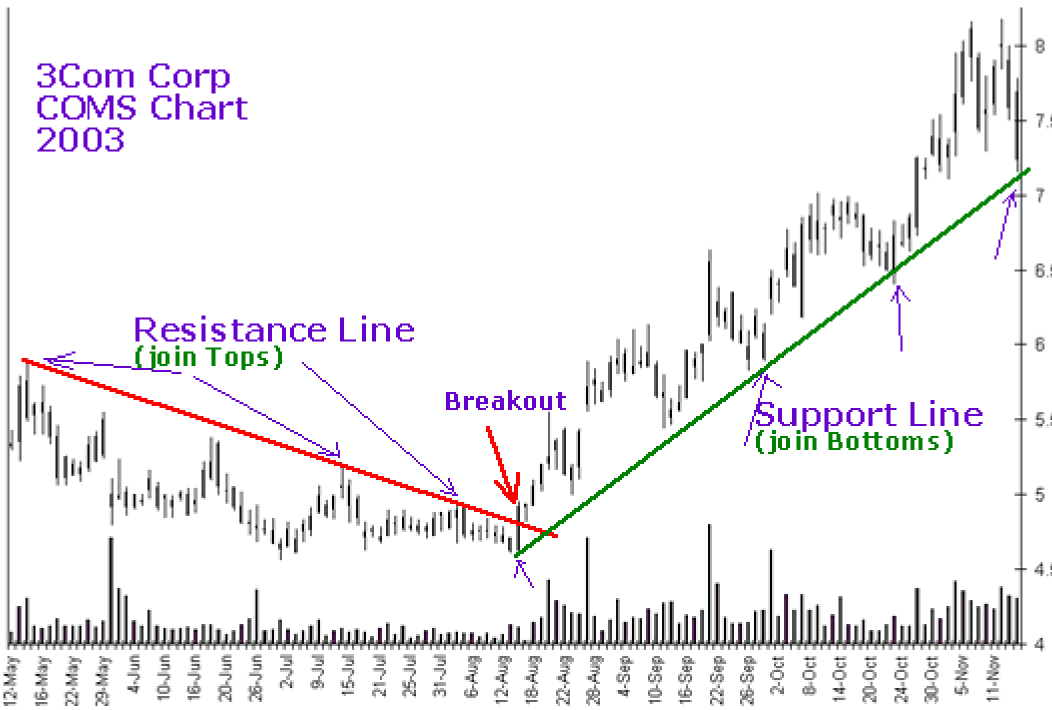
- When looking for an Island Reversal signal, make sure you are not looking at foreign stocks (including ADRs, GDRs or International country funds). Such stocks are more actively traded in their home countries and hence being based on price movements there, they often open with Gaps in US markets but those Gaps do not mean much from our analysis perspective.

- Look for Island Reversals after a sustained trend. If you get an Island Reversal (SELL) in a stock that is already in a down-trend, you should ignore that signal. There is no trend reversal implied!!!

CH-TR2: TREND-LINES

(Intentionally omitted from this trial version to keep it short.)

1. **Support Trend-line (ST)**: (Intentionally omitted from this trial version to keep it short.)
2. **Resistance Trend-lines (RT)**: (Intentionally omitted from this trial version to keep it short.)



Here is a recent Chart of COMS (3 Com Corporation) from Jun 2003 to Nov 2003. As drawn on the chart, it has one Resistance Line during its downtrend. Then during mid-Aug, there was a break out and for the first time in the last three or more months, COMS stock traded (closed) above the Resistance Line implying the likely end of the down-trend. Then as you will see on the chart, there was an up-trend in the COMS stock prices. Now as you join Bottoms days along the way, you will see a Support Line being formed. Whenever the stock entered into a Reaction, it found a support (buying) on or around the line.

There are a few things to keep in mind with respect to Trend-lines:

- Not all Tops (or Bottoms) will find resistance (or support) on the line. Some Tops (Bottoms) may be formed at some distance below (above) the line. The purpose is to draw a line that touches as many Top (Bottom) days as possible. In the Chart above, A and B do not precisely touch the support line; but I guess this is okay. It is NOT always possible to find charts on which we can draw a textbook style Trend-line(s). So, do not pursue perfection. Remember: Our goal in trading is to make money, and making money is hardly ever an obvious or easy thing!!!

- Drawing and analyzing a Trend-line is more of an art than a science! My Trend-line may be different than yours. Given the same chart, it is likely that different individuals will draw different Trend-lines on it.

- Some times it is okay if one or two Top (or Bottom) Days' High (or Low) prices are above (below) the Trend-line that is joining a significant number of Tops (or Bottoms). Here, rules can be bended to join Close prices for few Tops (Bottoms) instead of a day's High or Low prices. Look at day C marked in the chart above.

- Usually a break out from a Trend-line occurs with a significant increase in volume, and such increase in volume speaks well about the strength of the signal. However when we don't have this confirmation, we should look for an alternative confirmation -- the next two days' prices should stay above the Resistance Line (or below the Support Line).

- Frequently a stock after breaking a Resistance (or a Support) Line, comes back to touch the Line it broke but from the opposite side. This is normal behavior, and if it comes back, we can expect that Resistance (or the Support) Line to act as a Support (or a Resistance) line now. In such cases, when the stock price is about to touch the line but this time from the other side, it is a relatively safe trading opportunity with a close Stop-loss; but here you have to exercise a considerable amount of caution as sometimes this stock may keep trading under/above the broken Trend-line for a considerable period of time. I will illustrate this in an example later in this chapter.

-

ACTION: Trend-lines give us two types of trading opportunities: Trend Continuation and Trend Reversals.

Trend Continuation Signals: (Intentionally omitted from this trial version to keep it short.)

Trend Reversal Signals: (Intentionally omitted from this trial version to keep it short.)

CHART-BASED TREND CONTINUATION SIGNALS

CH-TC1: FLAGS AND PENNANTS

These are powerful trend continuation signals and are relatively easy to identify. They are more likely to occur in small to medium capitalization/volume stocks than in large capitalization stocks. They usually occur half way in a *rapid* trend. A Flag and a Pennant both are very similar in strength and in trading implications with only one difference- their shapes are a little different.

Let us first look at how these patterns take place in an up-trend. For simplicity, flags and pennants can be divided into three parts/phases:

1. Phase One is a sudden very rapid up-trend with extremely heavy volume. This trend lasts from one day to over ten to twenty days. This up-trend is outstanding on the chart.

2. Phase Two forms a consolidation. It seems as if the up-trend in Phase One is losing its steam. **Volume also gets lower day by day** and every day the stock **seems to be making lower low prices.** This price movement looks like a rectangle (flag) or a triangle (pennant) on the chart. This phase can last from around the same number of days as in Phase One to up to two or three times the number of days. **One important note: Even though the stock is making lower prices here, these prices are still much higher than prices we had before Phase One started in this stock.**

3. If you see a stock fulfilling these two conditions above, or the formation of this pattern on the chart, it is time to pay close attention to it. When its price crosses, with increasing volume, the Top price for the last few days, you can look forward to as much gain in the stock as there was during Phase One.

ACTION: You can exploit Flag/Pennant patterns in two different ways based on your risk tolerance and trading preferences.

1. If you like to take more risk for larger potential gains, you can BUY towards the end of Phase Two near the lower support line of the flag. You can buy as much stocks as you want quietly when nobody else seems to be interested in it! The risk of this approach is: the stock may never enter into Phase Three and you will have to close your position with a loss. The good side- if you are correct in your anticipation of Phase Three, you will have significant profit in a short period of time.

2. If you are risk averse, I advise you to keep an eye on the volume and price movement of this stock. As soon as the stock price picks up with significant increase in volume, you should jump on. The risk here is- you may miss getting on board in time as sometimes the stock may go up with a GAP or you may not be watching the stock at

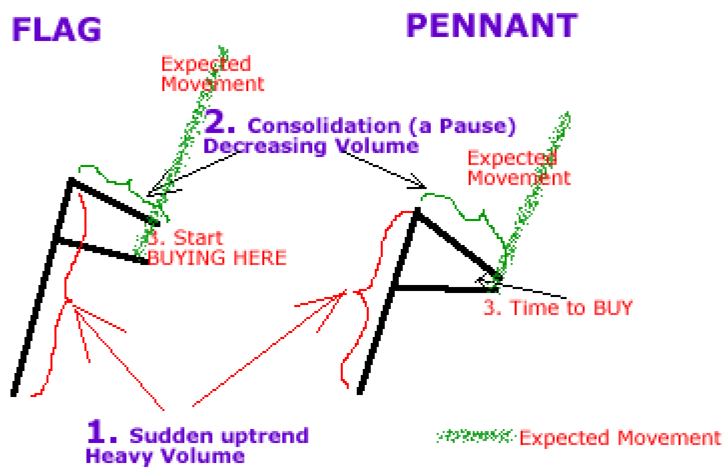
that very moment. The good side of this alternative is- you are more likely to be in profit, though smaller, than in the alternative 1 above.

I usually like to take a hybrid approach trading with Flags and Pennants. I buy half of my intended position as per alternative one. Then when Phase Three seems to start, I will add the remaining half.

STOP-LOSS: The recent Low price during Phase Two, minus 1%. Please keep in mind one specific risk here. As Flags and Pennants are more likely to be seen in stocks of small to medium sized companies, your position is subject to high volatility and a GAP in prices. Hence sometimes when the stock starts going in the reverse direction, you may not be able to close your position at the right time or at the right price level.

TARGET: When in Phase Three there is as much gain as there was in Phase One, book profit in your long position.

Look at the sketch below to understand the above reasoning:



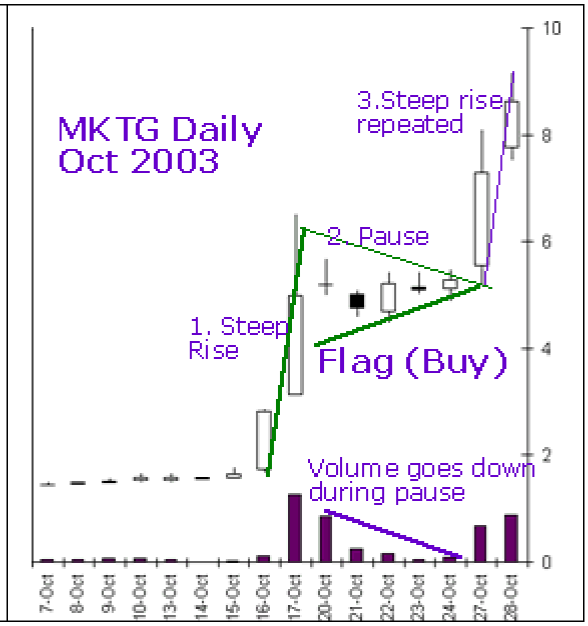
Pennants

This is a pattern that is formed usually exactly mid-way in a rapid up- or down- trend. Look at the prices and the chart of MKTG Services, Inc below.

Prior to October 2003, the stock wasn't moving! It was fluctuating between the 1 and 2$ level for a long time. Volume was also very low- around 10k to 20k per day. For traders, there was no fun/point in looking at or following this stock!

MKTG Services Inc.

28-Oct-03	7.74	9.14	7.51	8.62	355700
27-Oct-03	5.53	8.08	5.18	7.3	273600
24-Oct-03	5.1	5.46	4.87	5.29	32200
23-Oct-03	5.14	5.42	5.02	5.09	22500
22-Oct-03	4.68	5.42	4.48	5.21	65700
21-Oct-03	5.01	5.08	4.58	4.75	97600
20-Oct-03	5.16	5.67	4.99	5.2	343900
17-Oct-03	**3.11**	**6.5**	**3.11**	**5**	**508900**
16-Oct-03	**1.72**	**2.85**	**1.66**	**2.83**	**45100**
15-Oct-03	1.55	1.75	1.55	1.65	13100
14-Oct-03	1.55	1.55	1.54	1.55	500
13-Oct-03	1.51	1.65	1.48	1.57	19600



However something happened in this stock on the 16th of October! The stock broke away from its dull trading range, touched a high of 2.85 and closed at 2.83. When you compare this close to Previous Day's Close of 1.65, there was more than a 70% return in just one day! Then on the next day, it kept its upward journey and made a high of 6.50 and closed at 5.00. In terms of the high price of 6.50, this was a gain of almost **4.75** (Remember this figure) and in terms of return- it was a phenomenal return of 300% over just two trading days! The volume also jumped from a normal daily volume of 20k to 45k on the 16th and to 500k on the 17th! This kind of gain over just two trading days would make anyone dance with joy! If you had been watching this stock at that time, it is very likely that you would have expected the stock to go down from this level. If you were lucky enough to have made a purchase before this sudden jump, probably you would have closed your long position. Our common sense may even tell us to short this stock! But as you will see in a few moments, this wasn't the end of the story!

Over the next five trading days, MKTG sort of paused. The prices drifted a little lower and volume was also going down. It looked as though the story of this stock was over! Over Oct 22nd, 23rd and 24th, the stock kind of faced a resistance at 5.45. If you look at the Chart above, you will see the pattern of a pennant -- a straight line up and then a body of *narrowing price fluctuations and lowering volume.* Now on the 27th, MKTG was ready to finish its half-told story. It restarted its up-ward journey; and made a high of 8.08 and on the next day it touched a high of 9.18. If you look at the low price in the pennant of 4.48, we had another quick gain of almost 4.75 over the subsequent two days.

FLAG

See the Chart of AVSR (Avistar Communications) below for a few flag signals that took place during its phenomenal move from 50 cents to more than 3.50$ over a short period of time during October 2003.

Chart courtesy of StockCharts.com.

Here is another chart that has first a Pennant and then a Flag. EGHT (8x8) showed a rapid up-trend during third quarter of 2004 and had two of these patterns as shown on the chart below:

Chart courtesy of StockCharts.com.

INVERTED FLAG (IF) AND INVERTED PENNANT (IP) IN A SUDDEN DOWNTREND

(Intentionally omitted from this trial version to keep it short.)

Chapter

1

TRADING: SOME THOUGHTS

IRRATIONAL BEHAVIOUR

Most individuals usually research quite well for buying things like a camera, a TV or a mattress; however the same individual does not do enough research when he is buying stocks. Before purchasing a camera or a mattress, an individual looks at competing brands/models, compares their features, reads reviews and finally looks for the best price. In short, he seeks 'good deal' in most of his purchases- a great item at the best possible price. However, stock purchases by most individuals are done without enough research. This is evident from the fact that most individuals purchase stocks at either the wrong price or at the wrong time. Quite often stock purchases are done emotionally without putting much effort to determine if they constitute a good deal. Sometimes thousand of dollars are committed to a stock position based just on a few minutes talk with a friend or after reading a few lines in some article. Behind every stock purchase, one needs to determine: if it is a good deal- a good purchase at a good price; if the purchase is compatible with what he is looking for; if it meets his objectives; and if it is prudent with respect to his financial position, circumstances and liquidity needs.

TRADING IS A (SERIOUS) BUSINESS

Personally, I treat trading as if it is a business. Trading and any other business are both done for profit and they both require capital. Success in both of them depends on ability to sell at a price higher than what it is paid for. Business and trading both benefit from skills and experience and are affected by various external factors over which one has no or little control. One can fail in a business and similarly one can fail in trading too. Before starting any business, it helps to have a business plan outlining the initial and working capital required, strategies, contingencies and profit projections. In the same manner it is essential that a person has a trading plan *before* he enters trading. An ideal trading plan should include how much capital is spared for trading, what return/profit expectations are, what trade selection strategy would be used and how much trading volume would be required to attain trading goals. Once a person is in trading, like as for any other real business, he constantly needs to monitor his trading activities in the context of his trading plan and needs to make necessary changes in his trading behavior as well as in his trading plan. For a trader, it should be a constant endeavor to learn from his mistakes and from others' experiences. (See the next chapter for more details.)

THE GOAL IS TO MAKE MONEY

The ultimate goal of trading should be to make money. Individuals who are rational most of the time in their lives often make many irrational decisions in trading. Losing money in trading is not the only issue. Fooling oneself, knowingly or unknowingly, is a bigger issue. Most individuals prefer to look at/study their profit in profitable positions than to confront the losses in the losing positions. They keep talking to their friends about their best picks and hardly ever even mention their wrong picks. Instead of focusing on the overall portfolio return, they keep looking at individual profitable positions. They pay more attention to winners than to losers in the portfolio, and this makes them feel that they are doing better than what the reality is! Sometimes some people don't seem to be in the game to make money, but to fulfill other needs- psychological needs and gambling needs. It is a sad truth that most people enjoy boasting about their winners so as to feel good and impress people! Sometimes some trades are done just for the excitement and for proving oneself to be smart! This is all nonsense. If a person is in trading, his goals must be just one- to make money keeping risk under control.

TRADE FOR BIG PROFIT AND SMALL LOSSES

If a trading position generates profit/fun, an individual usually tends to *avoid any risk to the unrealized profit*. So at the first sign of a risk, a profitable position gets closed. The result is: a successful trade is often closed too soon. The result is small profit and short-lived fun. On the other hand, if the position is generating loss/pain, he will tend to wait for some miracle that can bring the price/fun back so he can profit or break even! The result is: A wrong decision turns into a marriage. He ends up waiting too long mostly letting losses get bigger and consequently shattering his peace of mind. In short, most of the time, profits are short and losses are big. How on earth with an average of around a 50% success rate in trades can one make money in trading with small profits and large losses? Traders should be doing the contrary –Going short on pain and long on fun having small losses and big profits: turning a correct relationship into a marriage but trying to sever any bad selection as soon as possible.

BE RATIONAL WHEN YOU TRADE

(Intentionally omitted from this trial version to keep it short.)

THE MARKET IS FORWARD-LOOKING

(Intentionally omitted from this trial version to keep it short.)

TRADING NEEDS TRAINING

(Intentionally omitted from this trial version to keep it short.)

TAKE RESPONSIBILITY FOR YOUR OUTCOMES (DON'T BLAME OTHERS)

(Intentionally omitted from this trial version to keep it short.)

TRADING BASICS- RISK VERSUS REWARD

(Intentionally omitted from this trial version to keep it short.)

Chapter

2

TRADE STOCKS WITH A BUSINESS-LIKE APPROACH

I believe trading is a business and hence I strongly recommend a prospective trader to treat his trading as if he were starting a new business. For any new business, a business plan is a must-to-have. Similarly, I strongly believe that a trader must have a trading plan. A business and trading both have considerable similarities. In a conventional business, we sell things at prices higher than what we have paid for them. The same objective is there in trading- buy low and sell high. Trading and business both require capital and are carried out with one objective- to earn profit. Success in both greatly depends on our ability to buy and sell smartly- buy as cheap as possible and sell as expensive as possible. Also, it is not difficult to see many businesses lose money or fail over time. Similarly, many traders also lose money in trading and are forced to quit.

Every business has considerable risk and hence a business plan is helpful in planning for the future. A business plan typically has some stated objectives and strategy about how to reach them. A business plan acts as a guide for its owner and keeps him focused on achieving his goals. The same can be said about a trading plan. It can help a trader formulate his goals and develop a strategy to reach them. Once formulated, it acts as a guide to keep efforts focused and as a control to keep one's behavior in check. As there is no one-plan-works-for-all business plans, there is no one-size-fits-all trading plans. What is good for one person may not work well for others! As no two people have exact similar skills, circumstances, constraints or preferences, there is no ready-to-use trading plan that will work for everyone. Every trader will need to create his trading plan by himself, and to provide some guideline, I will write about what I think should be included in a typical trading plan.

As most people usually don't bother to create a trading plan, let us think for a moment how they get into stock trading. As I know, most people start trading without putting any serious thoughts into it. Quite often, an individual hears a friend or a stranger talking about some impressive profit in some trades. This acts as a temptation for a novice to trade stocks for seemingly easy money. First, he starts by watching a few stocks, say around 6-8, but as time passes, his list gets narrower as stocks that are not doing well get dropped from his watch list. So after some time, he forgets about the stocks that were on his watch list but did not do well, and he keeps focusing only on those 2-3 stocks that are doing well. This fills him up with false *confidence* that he has exceptional stock-picking skills. At this point, he genuinely believes that he has skills necessary for success in trading and now he doesn't want to waste any time. He makes his first trade. It may be just a coincidence or there may be a lot of research behind it, but his first trade is more likely to be in profit than in a loss! Maybe that is a hidden law of Capitalism to bring more and more people into trading so as to keep the cycle of wealth rotation running smoothly! After the first trade, there is no looking back! Before one even realizes it, he is hooked up. He is addicted to stock trading! As there is no formal trading plan, in the end, most traders fall in known trading traps: small profit-big loss, taking positions against the trend and ignoring use of stop-loss. Hence I strongly advise that you must create a trading plan before you start trading.

As mentioned earlier, people enter trading without any plan or any idea about how they want to approach trading. To me, trading is like a business and like in any business one needs to do some thinking and planning before he gets into it. One has to decide how much money he wants/needs to start with, what his strategy is and what is his return objective. I strongly believe one should write down these things on paper before making any trade. This is like having a business plan/a game plan for succeeding in trading stocks.

Let me give you some ideas about what should be part of a good trading plan.

TRADING CAPITAL

There is no standard figure/amount that will work for everybody. It all depends on one's financial situation, circumstances, experience, investment objectives and risk tolerance. I think a novice trader should start with an amount from 5,000 to 20,000 dollars. <u>This starting amount has to be the amount that if one loses it all, it will not create financial hardship for him or for his dependents</u>. If it were all lost, it wouldn't cause much stress on one's bank account, retirement plans or on one's lifestyle. This is like a risk capital. Let me highlight the importance of this starting amount. There is a big difference between trading and any other business. In any other business, it is not difficult to determine when to call it quits. However in trading, I have seen people continue trading for a long time despite the fact that they know that they are not making any money! It may be that it is hard for one to accept the fact that trading is not for him or maybe it is the hope of winning in the end that is not letting him quit the game. Nevertheless it is very important for a person to accept his limits and understand that there are a lot of things for which one does not have the necessary skills, emotions and/or aptitudes. Every one of us can't be a successful auto mechanic, plumber or a heart surgeon! In the same way, stock trading may not be appropriate for every one of us! This is why it is important for a person to start with a pre-defined risk capital to test himself on trading, and then if successful, he can keep doing it. If he loses his risk capital, he will need to stay away from trading for a considerable time if not forever.

Write here: My risk capital is: ____________________$

TRADING OBJECTIVE

A businessman starts a business with some specific goals, objectives and expectations in mind. As I keep saying, trading is also a business but it is surprising to know that most traders do not have any specific trading goals or return objectives. (I am not talking about dreams of making millions. They are there in every trader.) Unless a person knows where he wants to go, how can he plan? Unless he plans, how can he get there? If a person has a goal, he can create a road map or a plan to arrive there. So it is essential for a trader to have a certain profit objective if he wants to be successful.

For a starting capital of 20,000 dollars, an objective could be to make 500/1,000/1,500/2,000 dollars every month. Or it could be like a 10, 25, 50 or 100% return per annum. So start with a figure that makes sense to you and then later in this Chapter you will see if this goal is achievable or not. If not, you will need to fine-tune it.

Write down here: My goal is a profit of _______per month or a ____% return per annum.

PLAN YOUR TRADES AND TRADE AS PER YOUR PLANS

How can a person plan his trading? How often should he trade? These are tough questions and there is no straight answer that fits all traders. However here are some guidelines and ideas. See if they make sense. If they don't, try to find your own road to reach to your trading objective.

To reach a specific Monthly Profit Target or Annual Return Objective, a trader needs to look at the following factors:

- Target Trading Odds or Trading Success Ratio (SR). If one has on average of around 6 trades profitable out of every 10 trades, his SR is 60%.
- Target or desired amount of profit in a successful trade- Profit per Trade (PpT).
- Target or desired amount of maximum Loss allowed in an unsuccessful trade- Loss per Trade (LpT).
- Target Trades per Month (TpM).

As an example, assume a trader who wants to make 1,000$ per month (Monthly Profit Target).

(Intentionally omitted from this trial version to keep it short.)

TRADING STRATEGY- WHAT TO TRADE AND WHEN

(Intentionally omitted from this trial version to keep it short.)

DAY-TO-DAY MONITORING OF TRADING ACTIVITIES

(Intentionally omitted from this trial version to keep it short.)

MISCELLANEOUS TRADING RULES

(Intentionally omitted from this trial version to keep it short.)

Chapter 3

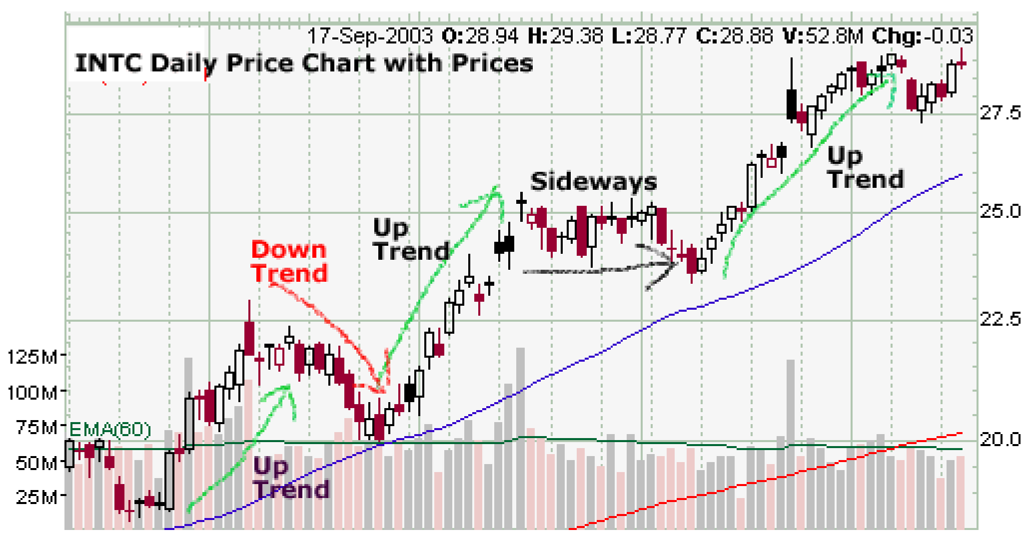
STOCK PRICE TRENDS

MAIN (PRIMARY) TRENDS

Stock prices are usually volatile. This means that constantly keep changing. Sometimes they seem to go up and sometimes go down. Sometimes they continue an upward movement for many days and sometimes their upward journey lasts just few seconds! Also there are times when they just move around some price level or within a range as if someone had locked them. So before learning about Profit From Prices signals, it is useful to understand and define stock prices movements.

Normally people think of just two types of stock price movements or trends: an Up-trend or a Down-trend. An up-trend or upward price movement is the one in which the price of a stock keeps going up. A down-trend is a trend in which a stock's price keeps going down. Besides these two trends, there is another price trend call the SIDE-WAYS trend. During Side-ways, a stock moves around some price level or within a specific range for considerable period of time.

Please look below at Intel's chart to see how its price is in an overall up-trend during this period. This overall trend that can last from few months to few years is called the Primary Trend. However, as we can see in the chart below, there are some periodic down-trends or side-ways movements during this primary up-trend. Such pauses, or minor/small trends against the primary major trend, are commonly referred to as reactionary periods or trends.



"Chart courtesy of StockCharts.com"

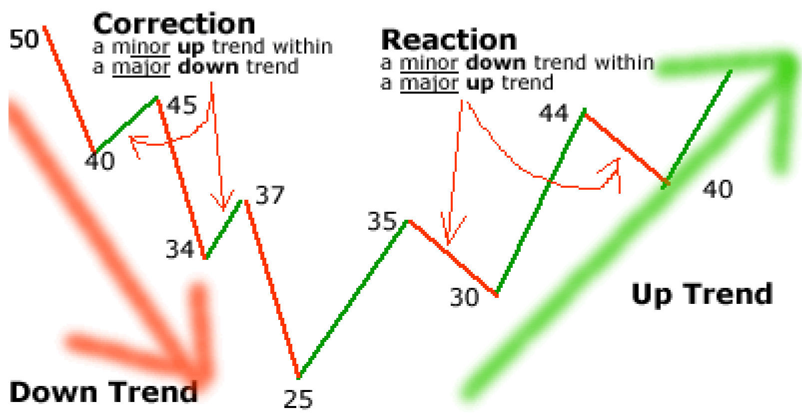
REACTIONARY TRENDS

Corrections and Reactions are short-term trends that take place within a major/primary trend.

As mentioned above, for a stock in a primary up-trend, there are a few days during which it seems to be going down. This small down-trend (or a side-ways trend) within a major/primary up-trend is called a **Reaction**. Similarly, a small up-trend in a stock that is currently in a major/primary down-trend is called a **Correction**.

These short-term trends can last from two days to a few weeks. These Reactionary trends (Reactions and Corrections) usually are rapid and have lower volumes.

Look at the figure below to see how Reactions/Corrections occur in a stock.



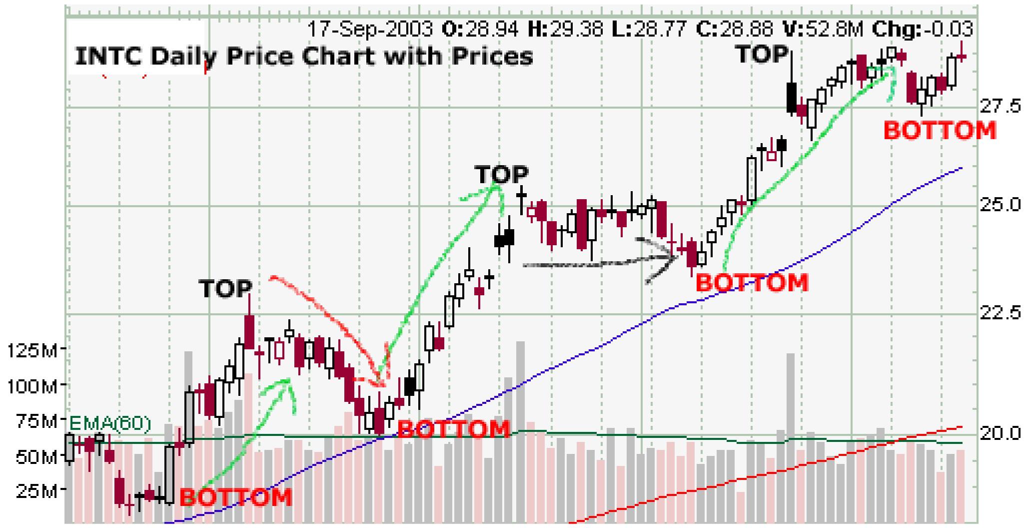
In conjunction with trends, there are two other widely used terms to describe stock price movements: Top and Bottom. These are the turning points at which the stock changes the direction of its trend. Very short term traders or day traders can see trends/reactions and Tops/Bottoms many times over a single day but as PFP signals are based on daily or weekly prices, we will confine our discussion generally to daily/weekly price trends.

TOPS AND BOTTOMS

TOP: A Top is formed when a stock that is in an up-trend changes its course and enters into a down-trend or goes Side-ways. The daily high price on the day this changeover occurs is called the Top (price). When you are looking at the historical prices or at a chart, it is straightforward to figure out various Tops most of the time. Sometimes, on the other hand, it is not clear particularly when a stock is in a Channel/Side-ways movement or fluctuating within some specific range of prices.

BOTTOM: A bottom is formed when a stock that is in a down-trend changes its course and enters into an Up-trend or goes Side-ways. The Low price on the day the bottom formed is called Bottom (price).

A stock during its course keeps making successive Tops and Bottoms. If the successive Tops and also Bottoms are higher than Previous Top and Previous Bottom respectively, then the stock is considered to be in a strong Up-trend. If successive Tops and Bottoms are formed at prices lower than Previous Top and Previous Bottom prices, it is a down-trend.



"Chart courtesy of StockCharts.com"

After getting this thumb-nail sketch of Tops and Bottoms, Up-trends and Down-trends, let us take a closer look at them.

(Intentionally omitted from this trial version to keep it short.)

How to identify a Top or a Bottom as soon as possible?

(Intentionally omitted from this trial version to keep it short.)

DAILY PRICE TRENDS

There are two other terms that will be used quite often in most PFP signals. Let us define them.

BULL DAY: A day in which the CLOSING price of a stock is HIGHER than the OPENING price is called a BULL DAY. The more the difference between Open and Close prices, the more useful it is. What is the significance of a Bull Day? It is a quick method to determine what happened *during* the day. The closing price higher than the opening price indicates that the Demand was more aggressive during the day than the Supply. The sentiment at the end of the day was more positive than it was at the beginning of the day. This fact taken alone may not give us solid information to get into a trade but when combined with some other tests, it is a very useful bit of information.

BEAR DAY: (Intentionally omitted from this trial version to keep it short.)

OPENING PRICE TRENDS

This is one more component of most of the PFP signals.

STRONG OPEN: At the beginning of the session on any day, most stocks start (or open for) trading around the Close price of the previous trading session. However there are days when the Open price is significantly different than the Close price of the previous day. When the Open price today is higher than the Close price of the previous day, we will call it a STRONG OPEN. This is a measure used in PFP signals to capture changes in sentiment. A STRONG OPEN tells us that people think more positively about the future price movement of the stock.

WEAK OPEN: (Intentionally omitted from this trial version to keep it short.)

Chapter

4

STOP-LOSS: HOW TO USE IT IN STOCK TRADING

One important dimension of any trading system is the ability to keep losses small. This is most of the times achieved with the use of STOP-LOSS. So let us spend some time to learn what a Stop-loss is and how one can use it in trading to his advantage.

Stop-loss is a widely used term in investment circles. As the name says, it is a price level at which one should stop or limit his losses in a position. Investing or trading is like gambling when one looks at from the outcome perspective. When a person gambles or speculates, he does not know what the outcome will be. He would hope the outcome to be in his favor but it could very well go against him. The same thing goes for investing or trading. When someone buys a stock, he might be thinking, and to a great extent hoping, that the stock price would go up, but it could very well go down. So what should a person do if the prices go contrary to one's expectations?

There are two alternatives: (i) He can continue to hold it believing, and hoping, that it will ultimately go up; or (ii) He can blame the unexpected mess on his wrong selection, bad judgment, bad timing or on circumstances/development beyond his control or imagination, and… get out of the position.

INTRODUCTION TO STOP-LOSS

It is a price level or a mechanism that forces a trader to take/book losses in a losing position instead of letting them grow any bigger. Ideally a Stop-loss level should be decided as soon as a trade is executed. If a stock say ABC is bought at 25$, Stop-loss for it can be kept at a price level somewhat lower than 25$. It can be 24, 23, 20 or even 15$. Let us assume the Stop-loss is kept at 20$. This means if the price of ABC, after buying it for 25$, goes below 20$, one should close the position by selling it. 5$ is the loss the buyer is limiting himself to. This might be little confusing for novice traders because it involves closing a position willingly at a loss! Remember: In a long position, the Stop-loss price is usually lower than the entry price.

Likewise if a trader Shorts *(what is this term? It means sell first even if you don't own the stock with the hope to buy it back later at a lower price)* ABC stocks at 25$, he should keep a Stop-loss at any price higher than 25$. Say if it was kept at 30$, this means if the price moves up contrary to the initial expectations of it going down, and touches 30$, one should call it a quit and square up the position. Thus, in a short sell, the Stop-loss price is higher than the price at which the stock was sold.

COST AND BENEFIT OF USING STOP-LOSS

The use of Stop-loss has its merits, and problems too. Let us take two examples to illustrate the cost and benefit of it.

Let us assume someone bought a stock like, CMGI or ARBA, around 150$-level during the Year 2000 boom period, thinking that it was a great company (Believe me there were many investors who believed so at that time). And if he continued to hold to that position during its downtrend (hoping that it would one day reach 200$!), he would have seen the stock price drop to as low as 1$ in 2002! In this kind of situations, one would wish if he had kept a Stop-loss and limited his losses to 5 or 10$ per share. This makes a strong case for the use of Stop-loss.

Now let us look at an opposite situation. Assume that the same person had bought Yahoo at split adjusted 10$ in October 1997 and kept a Stop-loss at 9$. Suppose the price went below 9$ and triggered his Stop-loss. He would be out of the long (buy) position in Yahoo at a 100$ loss. Then as time passed, Yahoo kept climbing up and ultimately reached as high as 500$ in January 2000. An initial 1,000 $ investment could have been worth 50,000$ if there were no Stop-loss were used! This is an extreme case against the use of stop-loss.

Should A Trader Use Stop-loss?

So a million dollar question is: Should you use Stop-loss or not? The answer is that it depends. If you are an investor with purely long-term perspectives and with a diversified portfolio, you should probably not. On the other hand, if you are a trader trying to capture a 5 or 10$ movement, you need to book your losses as quickly as you would normally book your profit.

As the saying goes, there is no free lunch in financial markets. So the use of a Stop-loss has its benefits and problems. In a few paragraphs below, I will try to show you how to get the maximum out of this Stop-loss and how to use it in your favor. Let us go back to the above two scenarios one more time.

Let us assume that that 1000$ position in Yahoo at 10$ price had no Stop-loss. Do you think the buyer would have continued to hold onto it until it touched 500$? It is very likely he might be out before it even doubled or tripled! I think most of the investors including myself would be pretty satisfied to have doubled or tripled our investment over a short period. Let us assume our buyer of Yahoo in this example is made of different material. Suppose he had guts to hold on to a winning stock and he watched Yahoo go up to 20, 50, 100, 150, 300$ level. I am curious to know what would have prompted him to sell Yahoo around that 400/500$ level. It is possible that his patience and guts may have glued him to that Yahoo position, even when the YHOO stock reversed its trend and price touched 10$ level back sometimes in 2002. This is an extreme example and I have mentioned it to highlight two things: Most of the investors get satisfied with small profits, and a new type of Stop-loss- **Progressive Stop-loss** that we will discuss later in this chapter.

What in the case of CMGI or ARBA? It is very likely that individuals who usually take small profits might have stayed in such losing positions all the way to zero! My point is: Most individuals play stock market like a D or F-grade student! When it comes to booking profit, they get easily satisfied with a few points of profit but when it is a loss situation loss, they are likely to hold on and stick to the stock too long. Most investors are more risk-averse (they hate the risk of profit going down) in the profit zone and less risk-averse (they tend to take a lot of risk in the hope that prices will go up someday) when in a loss zone. This asymmetrical behavior is typical for most investors. What is the end result? Small profits but big losses!!!! This is the reason I advise most traders to use stop-loss when they are trading stocks or Futures.

It is very much feasible that (small) profits in ten positions can easily be wiped out by two/three big losses! So even if a trader has 70 to 80% success rate in stock selection, we would hardly break if he does not stop his losses! I think this is one of the main reasons why our trading results in losses most, if not all, of the time! I think this makes a solid case for every trader to understand and learn to use a Stop-loss on every trading position.

HOW TO EFFECTIVELY USE STOP-LOSS

(Intentionally omitted from this trial version to keep it short.)

PROGRESSIVE STOP-LOSS

Stop-loss is mostly referred to a loss situation. **This should not be the case**. Stop-loss can also be used to a trader's advantage in a profitable trade when prices are moving the direction he wanted them to. A Protective Stop-loss level can be changed in the direction of the stock price. If one has taken a long position and the prices are going up, he can increase his stop-loss level. This makes it a **Progressive Stop-loss.** (The word "Stop-loss" word becomes deceptive in this context. Instead of relating to a loss, it is used to protect a profit).

Let me explain a Progressive Stop-loss in more details. Let us continue our example above. Assume that the trader bought the stock at 50$ after a Minor Bottom was confirmed at 45$, and kept a stop-loss with 5% distance which is 42.75$. This is the initial **Protective Stop-loss**.

(Intentionally omitted from this trial version to keep it short.)

Chapter 5

INTRODUCTION TO SIGNALS

MARKET ECONOMY- HEART OF THE CAPITALIST SYSTEM

(Intentionally omitted from this trial version to keep it short.)

STOCK PRICES- HEART OF THE STOCK MARKET

(Intentionally omitted from this trial version to keep it short.)

STOCK PRICES- DAILY AND WEEKLY

What I mean by prices are four different prices: **Open Price, High Price, Low Price and the Close price.** The movement of a stock over a day or a week can be summarized in these four different prices.

Open price: This is the price at which a stock starts trading for a day. For weekly prices, **Monday's Open price,** or Tuesday's Open price, if Market was closed on Monday, is the Weekly Open price.

High Price: This is the highest price the stock traded during the day. Similarly for weekly prices, this is the highest price the stock was traded during the entire week. In other words, the highest HIGH of all days of the week is that Week's High price.

Low Price: This is the day's lowest price at which the stock was traded. Similarly Weekly Low is the lowest price the stock had traded during the week. In other words, this is the lowest LOW of all days in the week.

Close price: The daily Close price is the last trade price for the day. The last closing price of the last trading day of the week, Friday or Thursday, if Friday was a Market holiday, is the Weekly Close.

Volume: This is total number of stocks traded for the day or for the week.

These four prices are usually displayed in following sequence: Open, High, Low, Close, Volume. In this book, this is how the prices are going to be listed.

Table 1. INTC (Intel Corp.) Daily Prices and how Weekly Prices are derived from it.

Daily Prices for INTC (Intel Corp). Bold Prices become weekly prices						
	DATE	OPEN	HIGH	LOW	CLOSE	VOLUME
Monday	25-Aug-03	**27.56**	27.76	27.07	27.24	52,037,500
Tuesday	26-Aug-03	26.96	27.74	**26.68**	27.71	65,213,400
Wednesday	27-Aug-03	27.61	28.08	27.42	28.02	58,217,200
Thursday	28-Aug-03	28.1	28.35	27.85	28.3	48,631,600
Friday	29-Aug-03	28.18	**28.65**	28.04	**28.59**	41,986,600
Tuesday	2-Sep-03	**28.77**	28.84	28.17	28.74	58,841,200
Wednesday	3-Sep-03	28.94	28.97	**28.04**	28.22	60,714,800
Thursday	4-Sep-03	28.32	28.74	28.04	28.6	63,744,700
Friday	5-Sep-03	28.83	**29.1**	28.37	**28.71**	68,429,900
Monday	8-Sep-03	**28.88**	**29.2**	28.8	29.18	52,154,000
Tuesday	9-Sep-03	29	29.13	28.66	28.79	49,792,900
Wednesday	10-Sep-03	28.44	28.49	27.63	27.66	57,999,300
Thursday	11-Sep-03	27.62	28.35	**27.29**	28.03	56,654,900
Friday	12-Sep-03	27.81	28.39	27.55	**28.34**	51,931,600
	DATE	**OPEN**	**HIGH**	**LOW**	**CLOSE**	**VOLUME**
Weekly Prices for the INTC (Intel) for above period						
WEEKLY	25-Aug-03 (Previous to Previous Week)	**27.56 QWO**	**28.65 QWH**	**26.68 QWL**	**28.59 QWC**	**266,086,300**
WEEKLY	2-Sep-03 Previous Week	**28.77 PWO**	**29.1 PWH**	**28.04 PWL**	**28.71 PWC**	**251,730,600**
WEEKLY	8-Sep-03 This Week	**28.88 TWO**	**29.2 TWH**	**27.29 TWL**	**28.34 TWC**	**268,532,700**
	WEEKLY	**OPEN**	**HIGH**	**LOW**	**CLOSE**	

FOUNDATION OF PROFIT FROM PRICES SIGNALS

As such, the Open, High, Low and Close prices for a day are just plain figures/numbers. Most people are unable to extract any useful information from them so it is not surprising to see them paying attention only to the Closing prices. For most people, the Open price is a totally useless number and so are High and Low prices often times. As I will show you in next few chapters, the four daily/weekly prices and trading volume numbers contain tremendous amount of information and it is not a complex science or math to extract and use it for trading stocks. <u>They tell us one very important thing: **How the demand/supply curves for any stock are changing and how we can predict future stock prices in certain situations.**</u>

In this book, I am going to show you how simple it is to read between the lines when you are looking at the four daily prices and trading volume of the last few days. Though modern investment world has started ignoring Open prices, it is a very important number when one compares it to previous day/week's Closing price or with the current day/week's Closing price. In this book, I will often refer to two primary tests that form the heart of the Profit From Prices theory. The first test is to capture changes in sentiment. By sentiment, I mean psychology and expectations. With this first test, I attempt to capture changes in perceptions, outlook and feeling about a stock by market participants. The second test is to summarize the actual trading activities during a session and to capture changes in Demand and Supply. In the first test, I try to measure changes in sentiment and in the second test, I want to see how people are actually acting or behaving in the market. Then I have some additional tests to quantify strengths of such changes and to determine what implications they hold for future price movement.

1. What happened while the market was closed, or when the stock was not trading? To answer this question, I compare Today's Open price (TDO) to the Previous Day's Close (PDC) price. If Today's Open price is higher than Previous Day's Close price, it tells me that there is a change in investor sentiment, and the change is for the better. Whatever happened overnight, while the market was closed, it has resulted in positive implications for the stock today: It has caused Demand to increase and/or Supply to dwindle. Why would buyers pay higher prices today for the same thing that was available previous day for less? No one in the market system likes to pay a penny more for the same thing. This is even more true for stock market. This happens only when someone is convinced of a bigger profit down the road than the additional amount he is paying in terms higher price. For this reason, I take a Strong Open as an indication of improvement in investors' sentiment towards it. (The reverse is true when Today's Open price is lower than Previous Day's Close price. Such Weak Opens mean deterioration of investor sentiments).

   There is one caveat: Only a strong Open is not sufficient reason to buy any stock. It does indicate improved sentiment but it is only half of the story. Improved sentiment has to result in higher demand and hence higher prices. This can be confirmed only after watching the full day's trading. So for this, I have a second test.

2. The second test is: What happened today during the entire market session? As an answer to this question, I compare a day's Open price to the Closing price of the same day. If Today's Close (TDC) is higher than Today's Open (TDO), I conclude that, during the entire session today, buying in the stock has been more powerful than selling. The sentiment at the close was at a level higher than where it was when the market opened or the stock started trading today. A comparison between the Open and the Close price for any day gives us the net summary of the war in the marketplace between buyers and sellers. If the stock closed at a price lower than where it opened at the start of the market session, it means that the sentiment in the stock deteriorated during the session.

   As I said earlier, these two tests though they provide useful information are not sufficient for entering into any trading position. So I have few more tests to augment the strength of my signals. When I explain various signals in the following chapters, I will show you these supplementary tests/conditions that take us few steps further and give us some quantitative information: how significant is the change in sentiment, how long it is likely to last, and what we should do to take advantage of it.

PROFIT FROM PRICES TRADING SIGNALS- AN INTRODUCTION

A PFP signal is an indication to buy, sell, book profit or book loss. They have different names as you will find later in this book. Let us first look at various components of a signal.

Every signal in this book will have typically following components:

1. Version- Buy Versus Sell: A stock can be traded in two different ways- Buy or Sell. Hence every signal in this book will be discussed in these two opposite market conditions- to generate a BUY signal or a SELL signal. First, we will see how to apply the BUY version of the signal to capture stock trading opportunities by going long (buying the stock). This will be labeled with suffix **(BUY)** because it gives a signal to buy the stock. Then we will discuss the same signal in the reverse market conditions to identify 'Sell' signals. They will be suffixed with **(SELL).** (BUY) signals can be used to close/cover existing *short* positions and/or to initiate fresh *long* positions. Similarly, (SELL) signals should be used for closing existing long positions and/or to initiate fresh short positions. As an example, U TURN is one of our signals. It will have two versions: U TURN **(BUY)** to give us buy signals and U TURN **(SELL)** to give us sell signals.

2. A set of tests/conditions: A signal can have from two to up to ten tests (conditions). When all or most of the important tests are fulfilled (are true) for a given signal, we have a trading signal. An example of a condition or a test is- Today's Open price is *lower* than Previous Day's High Price. Another example is- Today's Low price is the lowest price over last three to five days.

3. Action: Every signal has some specific implied action- to buy, to sell short, to cover a short position or to sell a long position.

4. Stop-loss: This is one more very important component of any Profit From Prices signal- the stop-loss. This is like an expiry date printed on most of the perishable items we buy in grocery stores. As time decays most of the food items, it also decays a signal. However unlike expiration on a specific date for a food item, a signal expires at a specific price level. This is called stop-loss about which we have already seen in the previous chapter. Our signal few days back might be a powerful one, but subsequent developments may have adversely affected the stock price. If there is some news or some people are suddenly dumping the stock, we have to incorporate it into our trading. Because our signal told us to buy, we should not blindly stick to a position. So when the stock price crosses the stop-loss level, we take it as a failure of our signal. Every signal we will discuss will have this component.

HOW GOOD IS OUR SIGNAL?

The Profit From Prices signals that we are going to study in the next few chapters vary in strength. Some of them are very powerful for short as well as for long term trading and some are good mostly for taking advantage of only the next few days' price movement. So before we get into individual signals, let us look at the factors that have significant influence on the strength of any PFP signal. I strongly advise you to take them into consideration before acting on any signal.

- Current Market Trend: Most stocks normally tend to move with the market and it is easier to swim with the trend than against it. Hence it is important that we pay attention to the overall trend in the market before we act on any PFP signal. The success of a trade in response to any PFP signal significantly depends on the current trend of the **overall market**. For a reversal signal to be strong, it should meet two conditions - first, it should take place after a strong trend in the stock itself and secondly, the new implied trend should be in the direction of the current trend in the general market. As an example, when we get a BUY Trend Reversal signal in a stock that has been consistently going down for the last few trading days while the overall market is going up, we should treat our signal as a strong signal. However if we get a BUY Trend Reversal signal after a small downtrend in the stock price and/or when the overall market is in a down-trend, we should take our signal with caution.

- Volume: PFP (Profit From Prices) signals attempt to fathom trends and trend reversals by looking at various prices. Based on various tests applied to prices, we can determine if demand and/or supply, and sentiment are changing. However to assess the magnitude or the strength of such changes, trading volume is a very useful indicator. It is the trading volume (number of stocks traded) that tells us how strong or significant the action of buyers/sellers is. For real trend reversals to occur, it is important that the counter-acting forces demonstrate significant power. This means that for a stock that is going down, an emergence of **decisively strong buying interest** is essential if the stock price is to really reverse its course and go up. Hence we would expect a significant increase in volume on the day a trend reversal signal takes place. Personally, as a rule, I expect at least a 30% jump in volume over the average volume of the last three to five days. The higher the jump in volume, the better it is. On the other hand, if a trend reversal signal occurs with no jump in volume, one should take that signal cautiously or even ignore it.

- The Stock: When we have a buy or a sell signal, it helps to take into consideration the nature of the stock itself before we make any trade in it. This helps us better understand and control risk versus rewards. Some of the things I look at are following.

    - High Volume Big Company stocks are better for trading: Price-based trading signals work best with high volume large market-capitalization stocks. Such stocks are widely followed by individuals as well as by institutions and hence they have an orderly, and efficient, market. As we know, insiders or people close to company management often trade with material non-public information and their actions have a larger impact on the prices of thinly-traded stocks than on heavily traded stocks. Also in small volume or small company stocks, sometimes some buyer's buying of a few thousand or a few tens of thousand of stocks may alter the price of the stock disproportionately. Also, in thinly traded stocks, some trading errors, or manipulations, can sometimes distort the High or Low price for a given day giving us *wrong* signals. For us, right prices are key inputs for our PFP signals and hence if inputs are wrong, our signal is more likely to fail. So it helps to prefer high volume large cap stocks for trading than small volume stocks.

- Avoid small or low-volume stocks in short-selling: It is true that a stock has limited room to go down (it can go down at most to zero) but has unlimited room to go up. This is one reason to avoid small cap stocks or low priced stocks in short-selling. Another reason is that many times some hidden news is not properly discounted in the prices of thinly traded or small company stocks. When such news is out or when some unexpected positive event takes place in a thinly-traded stock, it is not rare to find up-to a 500% jump in prices over a short period of time. Price movement of this magnitude rarely takes place in heavily traded stocks. So I personally avoid short-selling any stock that is quoted below 20$ or has average daily volume less than 1,000,000 stocks. So remember, when you are trading, trade only in efficient stocks- the stocks in which all information is reasonably reflected and it is really difficult for anyone to move the stock price in any direction by his wish or his personal trading actions.

- It helps to avoid stocks with pending company news or announcements: If there is an earnings release date scheduled over next few days for a stock, one should *generally* avoid trading in it. It is true that prices capture actions of all participants and many times they are able to tell us what the price is going to be. However earnings release by a company can surprise or shock the market causing a large unexpected movement in prices. Such events when they happen in our favor, they give us large profit but if they move the price against our position, we may not get time to exercise our stop-loss. My point is- if we know some event is scheduled that could affect the stock price in a significant manner in the near future, it is better to stay away from such uncertainty. It is true that we have to deal with uncertainty in trading all the time but it is prudent to stay away when we know the timing of the uncertainty. We want to make profit not by mere speculation but by controlling risk as much as possible.

- Take big price fluctuations with caution: Particularly for small cap low volume stocks, it is quite possible for it to open at a wrong price. Similarly during session sometimes the stock trades at a too high or a too low price. So blindly applying our conditions, we get a signal but the prices we used as input to our signal could be wrong/inaccurate. To give an example, for a stock that is normally fluctuating a dollar on a typical day, if there is a fluctuation or two dollars or more, one will need to check the prices to eliminate any trading accident or data processing mistakes. This sort of price movement validation can be done in the US markets by looking at intra-day or a five-day candlestick chart on http://finance.yahoo.com or on most brokerage websites. Any aberration in trading will stand out there on intra-day charts.

- It is more profitable to trade with the trend: I have already mentioned this earlier. If the overall market trend is up, it helps to act on *buy signals* than on *sell signals*. In other words, during bullish (good) general market conditions, a slightly weak buy signal might be more profitable than a strong sell signal.

- Make sure you feel comfortable with the stock you are trading: If there is a signal in a high risk Bulletin Board (BB) stock but if you do not feel comfortable with such stocks, you should avoid that trading signal. If you don't feel comfortable shorting technology stocks, avoid sell signals in them. The primary purpose of our trading is to earn money and the primary use of money is to us happy. So it is fine to maintain peace of mind by skipping few trading opportunities.

- Stop-loss: PFP signals are very timely. They tell us the day a material change in sentiment or demand-supply is taking place. However as you know, stock prices are constantly fluctuating. There is always something happening- economical, political or company-related news or developments. So even if there was an indication (signal) of powerful buying yesterday, it is likely that something might have turned the battle in favor of sellers again. There might be some negative comments or a downgrade by some stock analyst, some news report or it could be a company press release. Sometimes, the buying we felt may be just a spike- a one-day event. Such things can cause the signal to fail. As you know, markets are too dynamic for any person or system to make any perfect prediction.

  So what do we do in such situations? Any Buy signal we get is good as long as the stock price stays above the low price of the last one to five days (we call it *stop-loss* level). Similarly a Sell signal is good as long as the stock price stays below the high price of the last one to five days (I will narrow down this range to a specific number when we discuss each signal individually). So after buying a stock when it goes below this low price (stop-loss), we should close the position. Every signal is good as long the prices are in our favor. However when the stock price crosses the stop-loss, it means just one thing: **our signal has failed.** It is time to close the position and watch for another trading opportunity. We listen to the prices; we do not argue with them. After a Buy signal, when the stock trades below stop-loss, prices are telling us that sellers are still ruling and are in command. It is time we withdraw ourselves. It is okay to be on the losing side in a real battle for some grand cause; but stock market battle is always for money and we have freedom to switch parties. If we see buyers losing battle, why should we stay with them?

-

HOW TO ACT ON A SIGNAL

(Intentionally omitted from this trial version to keep it short.)

1. Trade Now: (Intentionally omitted from this trial version to keep it short.)

2. Wait for a Pull-back: (Intentionally omitted from this trial version to keep it short.)

   When should we wait for a pull-back? (Intentionally omitted from this trial version to keep it short.)

   How much pull-back should we wait for? (Intentionally omitted from this trial version to keep it short.)

3. Wait for a confirmation (Intentionally omitted from this trial version to keep it short.)

   When should we wait for a confirmation? (Intentionally omitted from this trial version to keep it short.)

   How long should we wait for? (Intentionally omitted from this trial version to keep it short.)

Don't Trade: (Intentionally omitted from this trial version to keep it short.)

HOW TO TRACK PRICES/GENERATE PFP SIGNALS

As you know by now, PFP signals for trading are generated from four daily prices and volume. In this section, I am going to give you some ideas about how to track prices for various stocks. Surprisingly enough, at my end, it has been an interesting evolution. Initially I started using a notebook in which I had one page devoted to every stock. I followed around 10 to 15 stocks. On each page, I would write down daily prices for a particular stock at the end of market session everyday. Then I used technology to make this tracking of prices easy by writing a software application. Currently this tracking of prices and using them for various PFP signals is pretty easy for me. I can say that this part is currently on autopilot!

(For any new thing we learn, first we have to try to master it/memorize it. But as we practice it more, it gets hard coded into our brain. In the end, we can do that same thing unconsciously, without putting any real effort into it. When we first learn how to drive a car, we have to be conscious about so many things! After few years of driving, the unconscious mind takes over the job and we drive car sometimes without even noticing! Same thing goes here too. After looking at prices for last few years, I can see most of the PFP signals directly on the stock price charts.)

As such, for a beginner, there are three alternatives for keeping track of daily prices.

Manual Tracking: You can get a notebook and create seven columns as shown below on a page. You can reserve that page for the stock you are following. This is exactly how I used to write/track daily prices and volume in 1998.

In the first column, enter date for which you are recording prices. At the end of every week, add one line titled weekly for weekly prices. Next four column would have Open, High, Low and Close prices followed by Volume. The last column is used for notes, remarks and signals. This method works great for beginners. At the end of the day, update prices for every stock you are following.

See an example below with Google stock prices during early 2005.

Date	Open	High	Low	Close	Volume	Notes
01/24/05	188.69	189.33	180.32	180.72	14,022,700	
01/25/05	181.94	182.24	176.29	177.12	10,659,200	Strong Open but closes low

01/26/05	179.27	189.41	179.15	189.24	12,307,900	Prices above previous day close of 177.12. **Full Stop (BUY) Signal**
01/27/05	188.76	188.86	185.20	188.08	6,627,400	Volume pretty low!
01/28/05	190.02	194.70	186.34	190.34	12,208,200	
Weekly	**188.69**	**194.70**	**176.29**	**190.34**		**Weekly Reversal (BUY)**
01/31/05	193.69	196.36	191.72	195.62	9,596,700	
02/01/05	194.38	196.66	190.63	191.90	18,839,000	
02/02/05	215.55	216.80	203.66	205.96	**32,799,300**	Earnings/**Significant Day**- a BEAR DAY. Sell below 203 with SL at 217. Also a **Failed GAP. SELL**.
02/03/05	205.99	213.37	205.81	210.86	12,988,100	Just a Pull back? Resumption of uptrend?
02/04/05	206.47	207.75	202.60	204.36	14,819,300	Weak Open plus A bear day
Weekly	**193.69**	**216.80**	**190.63**	**204.36**		
02/07/05	205.26	206.40	195.51	196.03	12,960,400	Breaking down…
02/08/05	196.96	200.02	194.53	198.64	11,480,000	
02/09/05	200.76	201.60	189.46	191.58	17,171,500	
02/10/05	191.97	192.21	185.25	187.98	18,982,700	
02/11/05	186.66	192.32	186.07	187.40	13,116,000	
Weekly	**205.26**	**206.40**	**185.25**	**187.40**		
02/14/05	182.85	193.08	181.00	192.99	**38,562,200**	High Volume. Weak Open but Strong Close. **U TURN (BUY)**
02/15/05	193.60	199.84	193.08	195.23	25,782,800	
02/16/05	194.70	199.33	194.30	198.41	16,532,300	
02/17/05	197.83	199.75	196.81	197.90	10,414,400	
02/18/05	198.51	198.84	196.66	197.95	8,485,900	Can' cross 200! Volume also going down
Weekly	**182.85**	**199.84**	**181.00**	**197.95**		A Nice week **Weekly Reversal (Buy) but price already too high from Low**

Using Technology: Technology generally makes life easier and we can benefit form it here too. Yahoo!Finance offers great tools for investors and its portfolio tool may prove quite useful for tracking prices too. Underneath every portfolio you create there, you will see a link at the bottom of it to download that day's prices for the securities in that portfolio. Then if you are familiar with Excel, you can program the conditions of certain PFP signals and generate Buy/Sell signals.

After manually tracking prices for a month, I decided to use technology in 1998. Having software background, it wasn't much difficult for me. However as I had done no programming for many years, I knew my limitations. So I asked a friend to teach me Power-builder development tool (thanks to Tushar Anjaria) and then I was on my way! The program I had written would import prices for data files, store them in database and then at click of a button, it would run most of my signals on the stocks in my portfolio! I was able to follow around 50 stocks everyday. It was working but it started getting tedious and restrictive.

Screening Website- www.stockfetcher.com: Around a year back (Feb 2004), I came across this website- http://www.stockfetcher.com- which offered simple English sentences to screen stocks. First I thought it might be just for traders using standard technical indicators like RSI, ROC, MACD, etc. but I found that its framework included comparison of simple prices! I tried with one of my signals and I was able to screen stocks that had that signal on that day! It was exciting as I could now screen through all 5000 plus US stocks everyday. This was what I was precisely looking for. Since then, I have subscribed to their website and for a 25$ quarterly payment, I enjoy running my signals on every NYSE/NASDAQ/AMEX listed stocks at the end trading every business day.

Stockfetcher.com also offers certain FREE access to non-members. For a free user, there are two restrictions. A free user can create and run his screens (another name for signals) on prices 3 days old. So if today is Thursday, his signals would be running on Monday's prices. The other restriction is that a free user can't save his screens. I would recommend every reader to visit and take a look at the http://www.stockfetcher.com/ website.

While discussing signals in subsequent chapters, I am going to include my stockfetcher.com syntax for that particular signal. I believe this will prove to be helpful to augment understanding of various PFP signals. After you have studied a signal, go to the Stockfetcher.com and use the signal syntax to find stocks in which that signal took place (Remember, as a free user you would be looking at 3 day old data). Please remember one thing- when you run a signal in stockfetcher, you will need to keep in mind what we have discussed earlier in this chapter. The stockfetcher syntax is not able to take into consideration current market-trend, nature of the stock, pending earning releases, etc. For such things, you will have to use your judgment. Also if a screen lists 20 stocks, you will need to use your judgment to pick 1 or 2 best candidates from them. As I have mentioned earlier, a weak BUY signal in a good market (up-trend) is better than a strong BUY signal when the overall market is going down. So if the market is down, the SELL versions of PFP signals will have more probability of being right than BUY signals. The reverse will be true when the market is strong. BUY signals will be more accurate than SELL signals.

One more thing I want to highlight here. The syntax I have mentioned here is too tight. I keep changing various numbers in them to get more, or sometimes less, stocks on my radar. So please feel free to make changes to them. It is quite possible that some of you might come out with better syntax than what I am currently using or have mentioned in this book.

(**Disclaimer**: I am not trying to sell stockfetcher services to you nor am I going to get any kind of financial compensation from Stockfetcher. I am just trying to show you a tool/framework which you can use to manage your stock selection during trading.)

Quick Instructions on how to use StockFetcher.com:

(Intentionally omitted from this trial version to keep it short.)

PFP SIGNAL TERMINOLOGY

PRICES: As we know, four daily prices form a critical input to our signals. For various prices, we will use a three-character symbol, as shown below.

1. The first character is optional and assumes T for Today, P for Previous, and Q for the day or week before previous.

2. The second character assumes one of the following values: D for Day, W for Week and M for Month.

3. The last character takes a value based on what price it is: O for Open, H for High, L for Low and C for Close.

Here is a list of acronyms that would be used throughout the book. They are easy to remember.

TDO = Today's Open price
TDH = Today's High price
TDL= Today's Low price
TDC= Today's Close price

PDO= Previous Day's Open price
PDH= Previous Day's High price
PDL= Previous Day's Low price
PDC= Previous Day's Close price

TWO= This Week's Open price
TWH= This Week's High price
TWL= This Week's Low price
TWC= This Week's Close price

PWO= Previous Week's Open price
PWH= Previous Week's High price
PWL= Previous Week's Low price
PWC= Previous Week's Close price

Similarly replacing P above with Q would give us respective prices for the day or week before previous. So QWO means the Week before Previous Week's Open price.

QWO= Previous to Previous Week's Open price
QWH= Previous to Previous Week's High price
QWL= Previous to Previous Week's Low price
QWC= Previous to Previous Week's Close price

Please see in the weekly price table above, what these symbols mean. These symbols are put next to weekly prices.

Few more terms used in this book are as following.

(Intentionally omitted from this trial version to keep it short.)

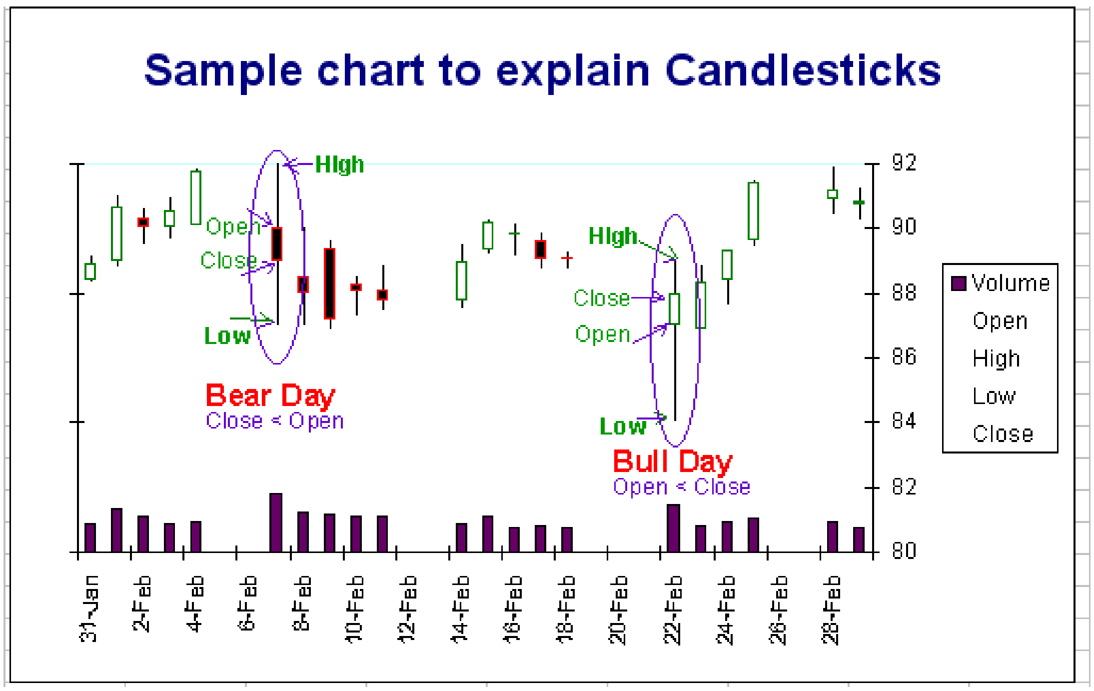
STRONG OPEN: (Intentionally omitted from this trial version to keep it short.)

WEAK OPEN: (Intentionally omitted from this trial version to keep it short.).

Candlestick charts: (Intentionally omitted from this trial version to keep it short.)

A candle has two parts: It has a body and two lines attached to it. The high point of the UPPER LINE is the High price for the day or week or the month depending on the chart you are looking at. Similarly the low point of the LOWER LINE is the Low price. The upper and lower points of the BODY reflect Open and Close prices depending on the type/color of the candle. The body is either filled (dark) or empty (white). Please see the chart below. When the body is filled (dark), the upper edge of the BODY (and not the line) is the Open price and the lower edge is the Close price. In other words, when the Closing price is lower than the Opening price, the body is dark to indicate that it was a BEAR day. Similarly when the body is empty (white), the upper edge reflects the Closing price and the lower edge reflects the Opening price. So such empty (white) bodied candles mean a BULL day, reflecting the fact that the Closing price was higher than the Opening price.

See a Candle Stick chart below for better understanding:



Chapter 11

SUMMARY

TREND REVERSAL SIGNALS

SIGNAL 1R: U-TURN

U-TURN (BUY)	U-TURN (SELL)
-Down-Trend -TDL< past three or more consecutive Lows* -TDO<PDL ** -TDC>PDC -TDC>PDO -TDV>NV/PDV*** Action: Strong form (a sustained trend), close SHORT positions and initiate BUY positions. Weak form (occurring mid-trend): You may want to close existing Short positions, and you may Buy this stock to take advantage of next few days' up-trend. Stop-Loss: At Today's Low, minus 1% Target Price: A gain of 20% for strong form. For a weak form: an up-trend in prices for next three to ten days.	-Up-Trend -TDH> past three or more consecutive Highs* -TDO>PDH** -TDC<PDC -TDC<PDO -TDV>NV/PDV*** Action: Strong form (a sustained trend), close existing LONG positions, if any, and initiate SELL positions. Weak form (occurring mid-trend): You may want to close existing Long positions, and you may Short this stock to take advantage of next few days' down-trend. Stop-Loss: At Today's High, plus 1% Target Price: A drop of around 20% for strong form. For a weak-from: a down-trend in prices for next three to ten days.

SIGNAL 2R: JUMP-START /FREE-FALL

(Intentionally omitted from this trial version to keep it short.)

SIGNAL R3: FULL-STOP

(Intentionally omitted from this trial version to keep it short.)

GLOSSARY

Word. [Click and type definition here.]

Accumulation. A time period during which market participants with a strong positive opinion/outlook for a given stock are buying /accumulating it. In other words, informed circles are getting in and weaker players are getting out.

Arbitrage. Simultaneous positions in two related assets to capture mis-pricing between them. An arbitrage is usually a pair of trades with no risk but guaranteed profit.

Ascending Asymmetrical Triangle (AAT). A triangle like pattern on the chart that has successive Bottoms go higher.

Asymmetrical Triangle. This is a hybrid of a Channel and a Symmetrical Triangle. Like a Channel, it has either a constant Top or a constant Bottom. As an example let us say the triangle has a constant Top. Now like a Symmetrical Triangle, the successive Bottoms are getting higher. This is called an Ascending Asymmetrical Triangle (AAT).

Bear Day. A Bear Day is a day when the closing price is LOWER than the opening price for the day.

(Intentionally omitted from this trial version to keep it short.)