

*Last Call/First Call*

# The Last-Hour Trading Technique

*This trading strategy can be used to enter the market in the last hour of the trading day and exit in the first hour of the next.*

*by Ashwani Gujral*

**T**hey say 95% of daytraders lose money, but that's not the case anymore if you are operating in the right time zone of the day and in the right stocks. In fact, it is possible to daytrade the markets with 80% accuracy.

The overall volatility of markets seems to be increasing every year, so the more time spent in markets leads to greater risks being taken. It has now become possible to slice the trading

day into the most active and profitable time periods and least profitable and active time periods.

The AG last-hour technique is a "Buy today, sell tomorrow" or "Sell today, buy tomorrow" daytrading strategy. This can be used for entry in the last hour of the trading day and exiting in the first hour of the next trading day.

I have conducted real-time backtesting of the strategy in the last year. The strategy has a documented backtesting accuracy within given parameters of about 80% odds of getting 2% or better on a daily basis. The beauty of this strategy is that you always have a play for the day, and you do not have to watch a quote screen all day.

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## WHAT'S SO SPECIAL ABOUT IT?

The first and last hours of any trading day are the most active in terms of price and volume. The activity in the last hour happens because most large institutions operate in the post-lunch session. There are also up and down swings during the day, with the market revealing its hand only in the final hour.

The first hour of a trading day is also interesting and active but for a different reason, in that stocks that have closed strong or weak in the previous session tend to open in that direction as well. This happens because technical analysts, newsletter sellers, and retail traders look at daily charts for breakouts. Thus, a strategy can be created where you buy and/or sell with the big institutions and book profits when the rest of the market tries to get on the bandwagon.

The Indian markets open at 9:15 am and close at 3:30 pm local time. So the techniques described here are from that point of view, where the first hour is 9:15–10:15 am and the last hour is 2:30–3:30 pm. These principles can be applied across all markets and time zones.

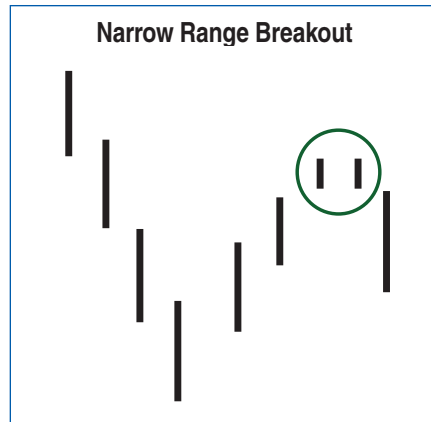
## THE CONTEXT OF THE MARKET

Sitting out the market till the final hour allows you to be absolutely clear about the trend for the day. By the last hour, you know which side you need to act on — that is, which side you need to look for shorting candidates or going long. If the market is moving:

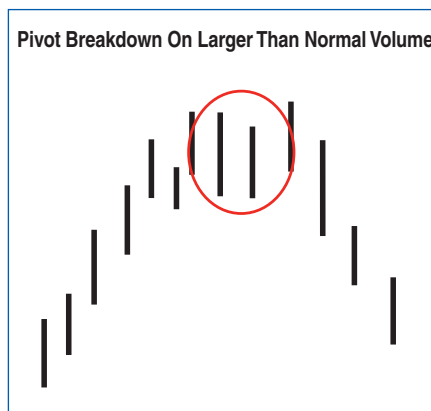
- Higher throughout the day or keeping a positive bias, you look for stocks to buy
- Lower for the day or keeping a negative bias, you look for stocks to sell. If it is a narrow range-style day, reduce your volume to half.

## HOW DO YOU SELECT THE RIGHT STOCKS?

By the last hour, it is clear which is the strongest or weakest group, what stocks are breaking down or out on the daily charts, and on what kind of volume. A larger than usual volume means a volume bar that around the last hour is greater than closing volumes of most days. The greater the volume, the better the move. I have found that it is possible to identify at least one idea that works because there is action somewhere in the market, and you only need one good idea to work in the market everyday. I tend to use two setups to

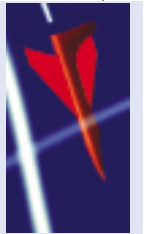


**FIGURE 1: NARROW RANGE BREAKDOWN/BREAKOUT.** These give large moves in a particular direction.



**FIGURE 2: BREAKOUT/BREAKDOWN OF PREVIOUS UP/DOWN PIVOT**

**The first and last hours of any trading day are the most active in terms of price and volume.**



select a particular stock:

- 1 A narrow range breakdown/breakout on larger than usual volume (Figure 1). Narrow range breakouts and breakdowns give large moves in a particular direction. The move is significant in the other direction if a narrow range occurs after a significant move in one direction.
- 2 Breakout/breakdown of previous up/down pivot on larger than usual volume (Figure 2).

This is done by having a market watchlist that lists gains or losses in various stocks according to minimum traded volume criteria. It takes about half an hour to scan through the 20 top losers or gainers on that list. I would rather choose a high-beta stock than a dead defensive. We only have a couple

of hours and we need to make the most of it. You can add your own high-probability setups.

## FOR BEST RESULTS

In order to come up with the best results in the tradables and the situation at hand, you may want to consider these variables:

- All of the analysis here should be done with a view on the kind of market we are dealing with. Is it a bull market, a bear market, or a sideways market?
- Which groups or sectors are leading and which are lagging?
- Which stocks have been the best and worst performing?
- The breakout/breakdown bar should be at least 3% up or down from the previous close.
- On the chart I usually have the 20- and 30-day simple moving average (SMA) to give me an idea of the location of price on the chart.
- A Donchian channel makes it easier to see whether a pivot or a narrow range is getting broken on any time frame. I use an ordinary 20-period channel.
- Try to get 7% to 8% on three to four days in a month, although average profits will be 2% or more.

(JET AIRWAYS.EQ-NSE - JET AIRWAYS (INDIA) LTD.,D) Dynamic, 0:00-24:00



**FIGURE 3: JET AIRWAYS, DAILY.** The stock breaks down from a narrow range on December 8, 2011. This is a signal to go short.

## This strategy sharpens your daytrading skills by keeping you away from the choppiness.

- Choose at least two stocks. If one of the two works, it will make your day.
- The technique fails 20% of the time, so get out fast when you realize something is not working.
- All exits must occur in the first hour of the following trading day.

All of these variables are used as additional information, which may or may not be used with a trigger. Having a set

of variables to consider like this helps in choosing the best stocks to go short or long.



### EXAMPLES

Figures 3 through 6 display examples of how you can apply the last-hour trading to your own work. In Figure 3, which is a daily chart of Jet Airways, a leading player in the Indian airline industry, you see that on December 8, 2011, you get a signal to go short after the stock breaks down from a narrow range. If you look at the five-minute chart in Figure 4, you will see how the stock performed during the last hour of trading and the first hour on the following trading day. At 2:30 pm on December 8, 2011, the sell signal was taken. There

(JETAIRWAYS.EQ-NSE - JET AIRWAYS (INDIA) LTD.,5) Dynamic, 0:00-24:00



**FIGURE 4: FIVE-MINUTE CHART OF JET AIRWAYS.** At 2:30 pm on December 8, 2011, the sell signal was taken. During the first hour of trading on December 9, the price of Jet Airways fell on large volume.



**FIGURE 5: JUBILANT FOODWORKS, DAILY.** On December 15, 2011, the stock takes out the upside pivot with larger than usual trading volume.

was a narrow range breakdown on the daily chart, the market was in a downtrend, and the airline group was weak. During the first hour of trading on December 9, 2011, the price fell on large volume.

If you look at Figure 5, the daily chart of Jubilant Foodworks, a multinational food service that runs the Domino's Pizza chain in India, you'll see that on December 15, 2011, the stock takes out the upside pivot with larger than usual trading volume. The (long) trade was entered on the bar that surged on high volume (Figure 6) and easily made the 2% gain within the first 10 minutes of the following trading day.

### ALL IN TWO HOURS

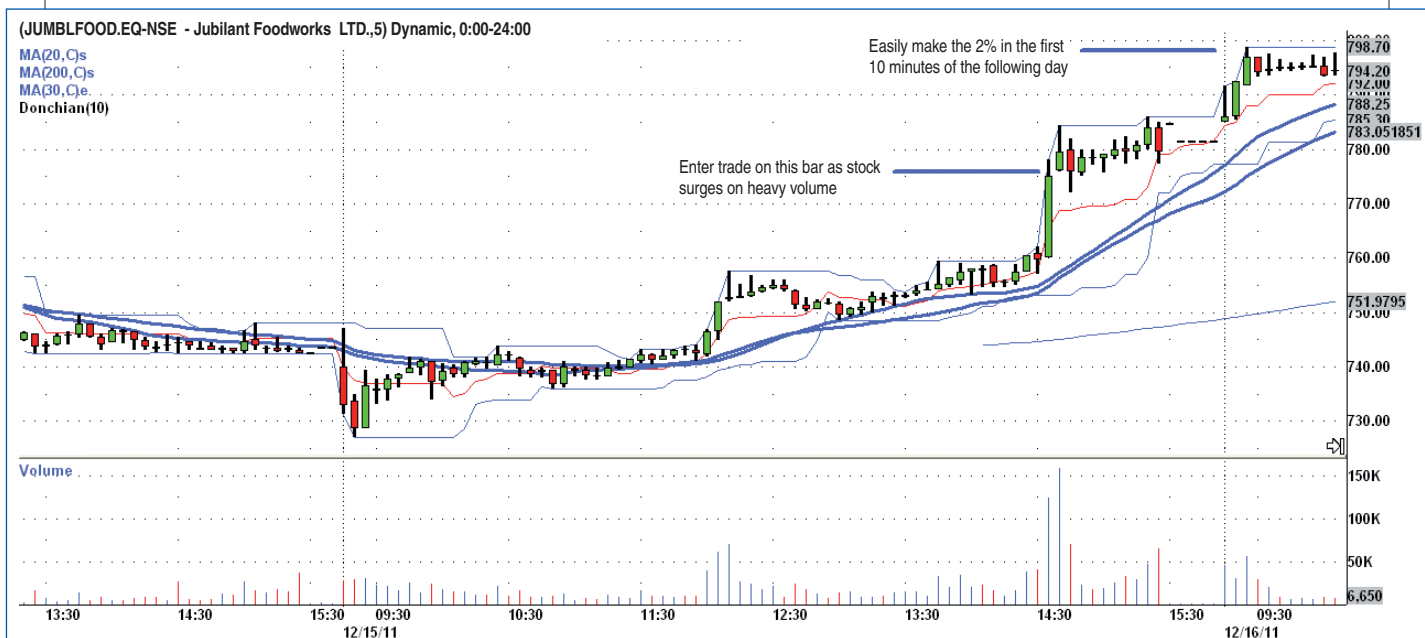
Most daytraders lose money because they crave too much action. Losing trades happen during the dull period of the

trading day. If nothing else, this strategy sharpens your day-trading skills by keeping you away from the choppy period in the market and makes you a net profitable trader. It is most profitable to participate in the market only during these two hours. It is as if you were participating in a trending market in any other time frame.

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**FIGURE 6: FIVE-MINUTE CHART OF JUBILANT FOODWORKS.** The long trade was entered after 2:30 pm on December 15 on the bar that surged on high volume. A 2% gain was made within the first 10 minutes of trading on the following day.