

This tutorial was originally titled “Daytrading the Bear”
and was recorded at the Online Trading Expo

Beating The Bear: *Short-Term Trading Tactics for Difficult Markets*

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The New Market Paradigm

- Bull mania, dart throwing, impulse trading, news stories, momentum trading is DEAD
- The Market has FILTERED out the novelty players and the ‘momentum’ daytraders
- The Bull was a fruitful age of marvelous bounty and plunder
- The Bear is the ICE AGE
- Focus and Discipline is Key to Survival

What Makes This Market Tougher?

- Lower Prices = Less movement (CSCO at \$90 moves much more than CSCO at \$17)
- Decimalization
- Lighter Volume = More Ranges = Less Liquidity = Less Followthrough = Less Profit

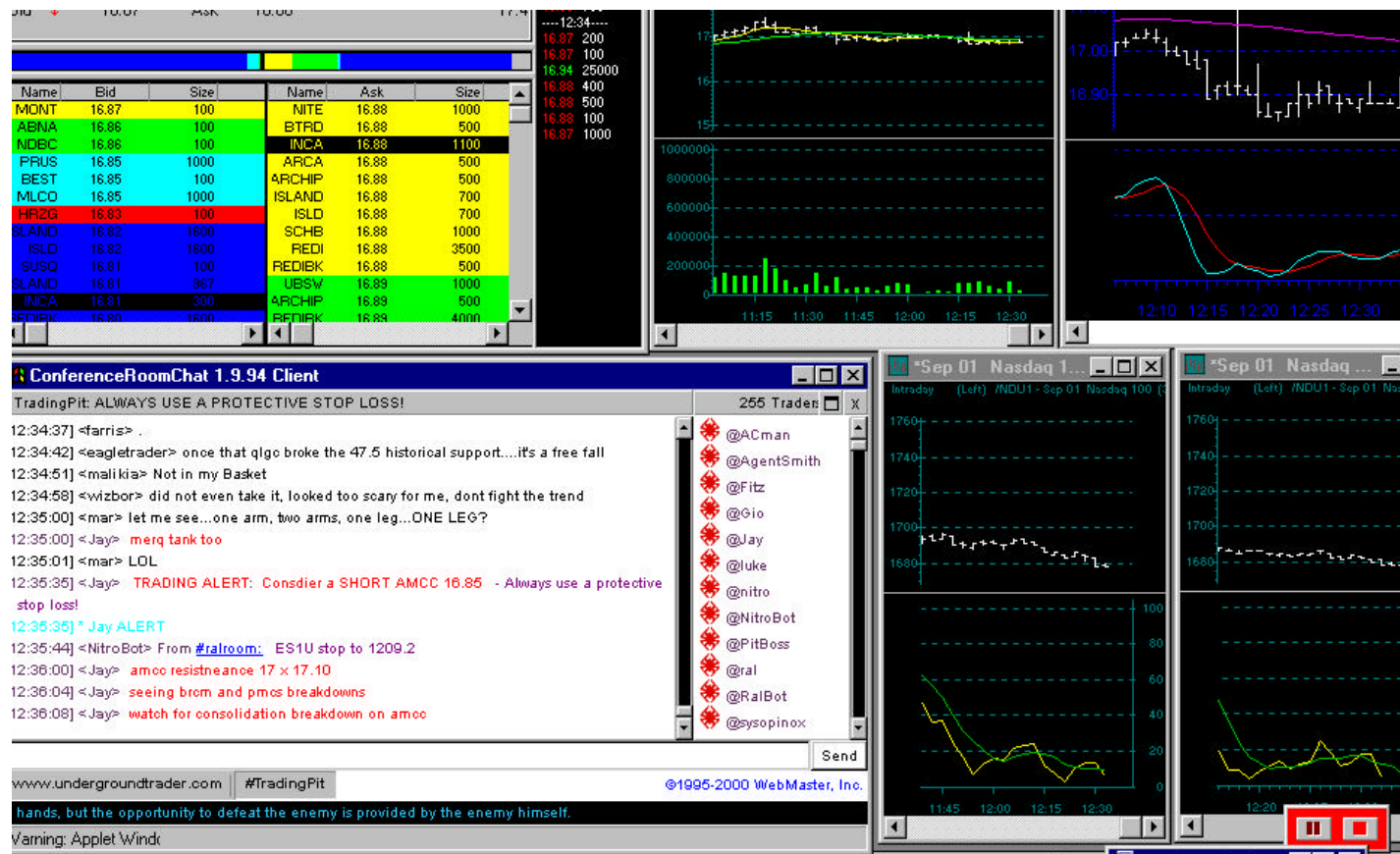
Quick Review Of Basket Trading

- The Key to making steady income and hitting daily profit goals is to PICK a set of BASKET stocks.
- Watch, watch, watch
- Impulse trading is a CARDINAL SIN
- Basket stocks should be tier 1 or tier 2 stocks with Volume and move with the Noodles (aka Nasdaq 100 futures)

The Tools

- 1 minute Stochastics for Nasdaq 100 Futures
- 3 minute Stochastics for Nasdaq 100 Futures
- 3 minute Simple Moving Averages Chart
- 1 minute Stochastics Chart
- Nasdaq Level 2

Basic Tools Setup



Decimalization

- Smaller profit increments
- More chippie panic
- More sweep orders
- .10 increment no ticks
- Crosslock Overshoots

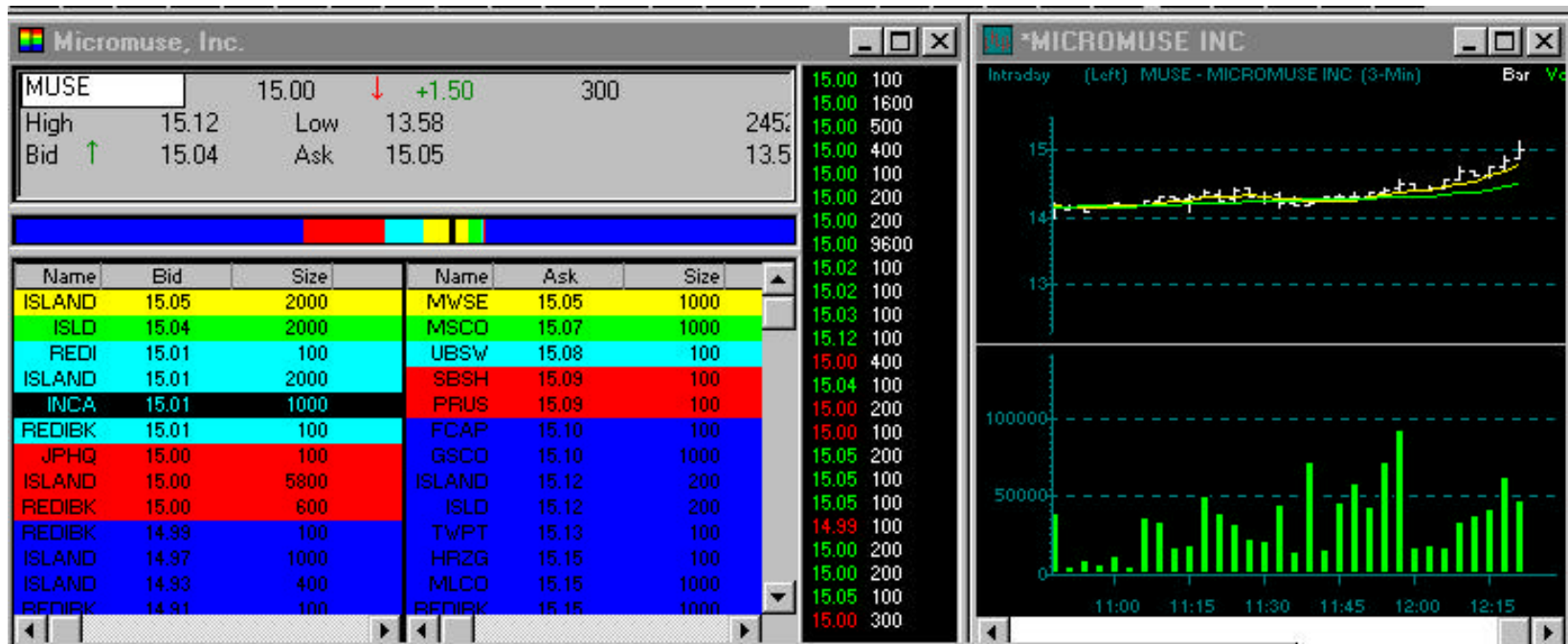
Watching the FULL CONTEXT

- Now more than EVER, you MUST watch the FULL history of your basket stocks and whatever stocks you play prior to any action
- You can NEVER take a stock's move out of its context = no impulse trading
- The more history you know about the stock, the higher up on the totem pole you stand
- “He who doesn't know who is the MARK... Is the MARK!”
- There are no Cliff Notes to this game anymore

Taking Profits

- Range, range, range, PANIC, wiggle, range, range, range
- Most stocks have limited followthrough on breaks and panics
- Usually the PEAK of the gains are made on the panic before stock stalls and RANGES again, therefore ALWAYS be prepared to take some PROFITS on the peak panic overshoots based on the mo ticks

Crosslock Overshoots



Apples and Oranges Dont Mix

- Scalps are FULL LOTS (usually shares 500-1000+)
- Swings/Range trading are SMALL LOTS (usually shares 200-500)
- Scalps based on 1 minute increment premises
- Swings/Ranges based on 3 minute increment premises
- Scalp 75% of shares (apples), Swing 25% (oranges)

Share Management Decimal Style

- What is the Difference between a 1 point stop loss and a 20 cent stop loss?
NOTHING! (If share management is implemented)
- 1 point STOP on 200 Shares = .20 STOP on 1000 shares
- RANGE/SWING vs. SCALP
- DEFINE THE TRADE BEFOREHAND

Determine Wiggle Equivalent

- CSCO in the 17's, a normal wiggle is $.10 =$
QLGC in the 30's normal wiggle $= .50$
- So 1,000 shares of CSCO $=$ 500 shares of
QLGC
- $.10 \text{ wiggle} \times 1000 = \100 on CSCO
- $.50 \text{ wiggle} \times 500 = \100 on CHKP
- So REMEMBER --- When scalping CSCO you play 1,000 shares,
when scalping CHKP you play 500 shares. Mentally need to also
remember that CHKP wiggles more and can NOT play .10 stops on
wiggles! Must give the trade TIME to Work <-- CRITICAL NEWBIE
ERROR!!

Paring

- Paring to Unload = Shaving off partial lots of your shares to lock in profits yet leave potential for more upside (ie: selling 50% then 25% and final 25% on an uptrend)
- Paring to Buy = Entering in partial lots of a stock (ie: buying 200 shares of CHKP 41.25 and 41.75 to avg long 400 at 41.50)
- Paring to Short = Shorting a stock in partial lots as it nears an exhaustion point (ie: Shorting 200 shares of CHKP at 41.25 and 41.75 to avg short 400 at 41.50)
- Pare ONLY when there is potentially more UPSIDE or DOWNSIDE, when paring, you switch to 3 min ma charts and 3 min noodles --- and keep swing stops not SCALP stops. No point in Paring a scalp if you are planning on taking a .10 stop loss on the remaining shares. If that is the case just take the SCALP because you are not allowing the Pared shares to play out.
- Paring helps to SOFTEN the blows. The pressure for EXACT tops and BOTTOMS entry and exit is relieved. Market makers and HEDGE traders PARE all the time.

The Fade and Transparency

- FADE = A buyside or sellside bias opposite of the 3 minute noodles trend
- Stocks either Oscillate or Fade with the noodles
- Transparency makes itself apparent on VOLUME or TIME
- Fades allow you a heads up on the Transparency
- The trader who realizes the Transparency the soonest will make the Profits - The NAME OF THE GAME IS FIND THE TRANSPARENCY BEFORE IT BECOMES TRANSPARENT
- When Transparency finally makes itself known, usually the profit potential is over, thus when everyone goes one way, look to the other

Spotting the Fade

- The Early Signs of a Sellside Fade = 3 minute noodles above 80 band and stock is selling or not rising
- The Early Signs of a Buyside Fade = 3 minute noodles below the 20 band and stock is holding supports or rising
- The later signs of a Sellside Fade = 3 minute moving averages downtrend
- The later signs of a Buyside Fade = 3 minute moving averages uptrend

Playing the Fade

- No Brainer Fade to SHORT = Noodles at high of the day above near 100 band, Stock are Low of the Day = Short on 1/3 min noodles reversal trigger
- No Brainer Fade to BUY = Noodles at low of the day near zero band, Stock at or near High of the Day = Buy on the 1/3 min noodles reversal trigger
- Mini pups on the 3 minute setup + 1 min reversal trigger = Beauty!
- Fades give you a heads up on Consolidations and PUPS
- The PRIMO spot to play the FADE is on a Consolidation looking to breakout or breakdown triggered by the noodles
- A 3 min PUP pattern will FADE the 5 period moving average on a break, always triggered by the 1 minute and 3 min noodles

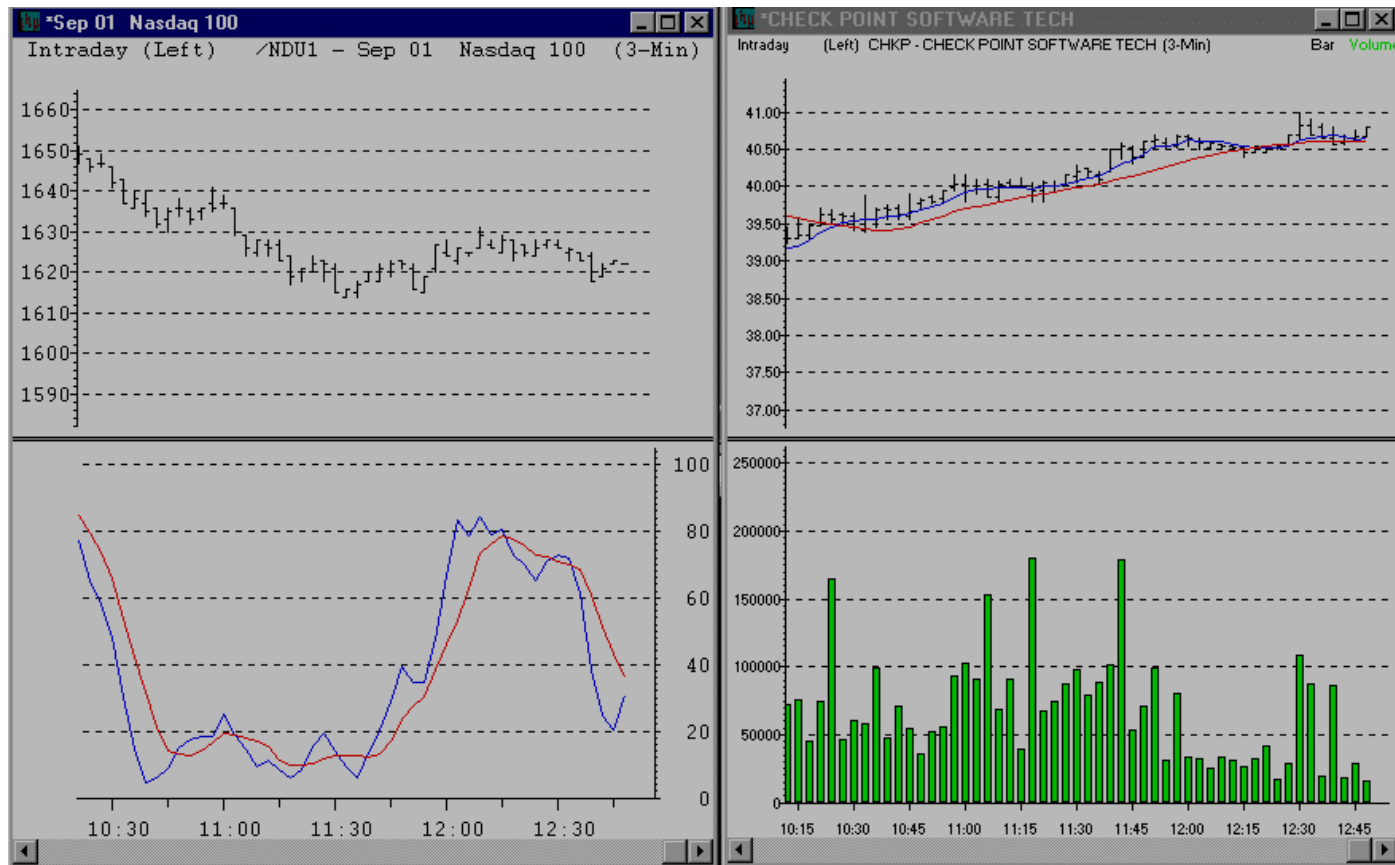
PUP (Power Uptik) Breaks

- PUP Breakout = set up initially as a 5 period flatline (the immovable object) and a rising 15 period (the unstoppable force) and the 5 period break higher triggers the breakout
- Inverse PUP Breakdown = setup initially as a 5 period flatline and slipping 15 period and the period break lower triggers the breakdown
- PUPS on the Noodles are used with Stochastics and are substituted with %d as the lead and equivalent to 5 period and %dslow is the laggard and equivalent to the 15 period
- 3 Minute PUPS are usually Triggered by the 1 minute stochastics and this applies to noodles ALSO, thus the 1 minute trigger is the entry

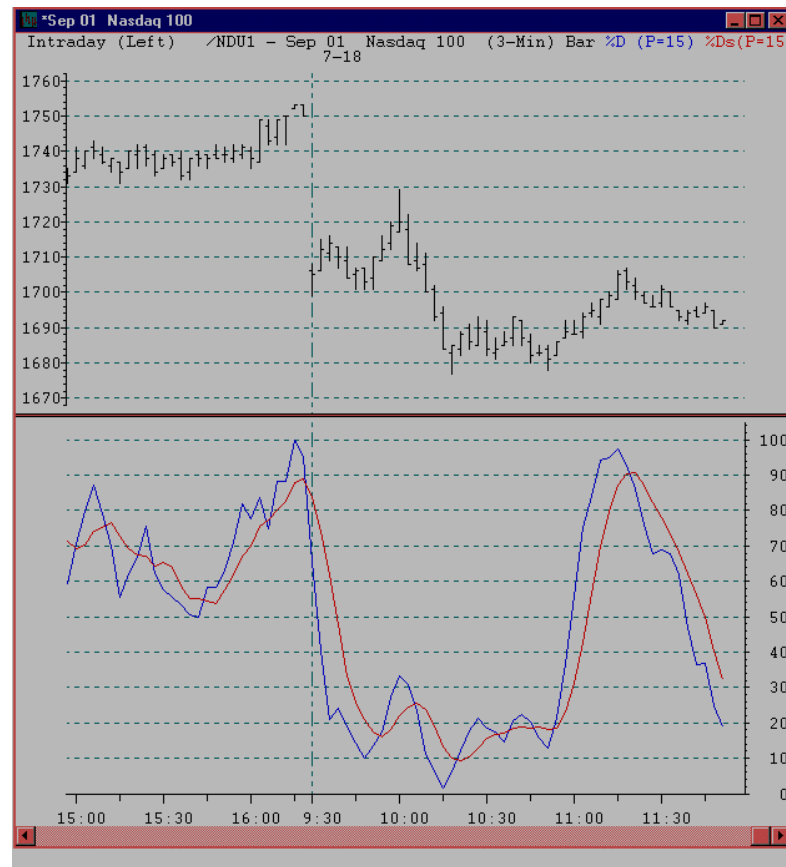
Inverse PUP Breakdown



Longside Trigger = Buyside Fade + 3 minute MA
PUP setup + 3 min noodles mini pup = BOOM!



3 Minute Noodles Inverse PUP Breakdown



Playing the TREND

- Oscillation players tend to have more trouble on TREND days because they overtrade the exhaustion or wiggles.
- For the most Part, Trend days are reserved for 3 minute ma range/swing trades
- Scalpers and Oscillation players need to limit their trades to the SIDE of the Trend. If the stock is uptrending then scalps should be made on the long side

Playing Oscillations

- Oscillating stocks move with the 3 minute and 1 minute noodles fluently within a range
- There is little to no FADING and therefore implies no serious insitutional activty allowing the market makers to simply go with the flow and adjust spreads with noodles
- Stick primarily to SCALPS since stocks will technically very little NET gains if you swing or range it - TAKE the PROFITS while its there

Rentry Into the Trend

- To renter into the longside trend watch the 1 min noodles and stochastics to wait for a coil, WHILE the 3 min noodles are still rising and 3 min ma charts are still rising
- The point of ENTRY will be the 5 period uptrend fade (ie: CIEN screencam short/long)

Playing the CounterTrend

- Countertrend plays can be played ONLY at or near an exhaustion resistance level usually $2.50 \pm .50$ and only on WIGGLE overreactions = stock is trading at least double wiggle room above the 5 period
- If stock is trading normal wiggle room or at 5 period, no countertrend trade
- A countertrend entry near a 11am/2pm mood shift reversal + extended extreme high bands + 5 period flatline and lower highs is your best bet
- Remember, countertrend plays are riskier and require RANGE trading shares with firm 3min premises and enough wiggle room without excessive damage because you are not only banking on a 5 period break but a 15 period crossover breakdown - Not a method for newbies!

11:00am and 2pm Mood Shift Phenom

- 10:30-11am a pre deadzone Mood Shift often occurs, look for a deadzone Countertrend to emerge in the markets. The best setup is when 3 min noodles are extreme extended in duration and over 80 band or under 20 band
- 1:30-2pm a post deadzone Mood Shift often occurs, watch for the Resumption of morning trend to emerge in the markets. The best setup is when 3 min noodles are extreme extended in duration and over 80 band or under 20 band
- These are common paradigms but not always set in stone so you MUST pay close attention. The clue will be the initial fading into 10:30am with lower highs or a mood shift reversal down or higher lows for a mood shift reversal up

Confidence and Comfort Zone

- Confidence comes from Familiarity and anticipating ahead the potential DOWNSIDE on your trade
- Comfort Zone is absolutely KEY - Unforced errors occur when traders move up their share size too fast thinking they can immediately duplicate paper trades or small lot share trades on a higher level
- Even in gambling, it is theoretically easy to turn \$5 into \$20, but the mistake is thinking you can duplicate that with \$5000 turning it into \$20,000 immediately (eg: going from 1,000 shares of CSCO to 5,000 shares must be done slowly)

The Transition to Larger Shares

- The Transition is VERY fragile and must be taken slowly
= raise sizes 100-300 shares (relative to stock) a week and continue to duplicate results once you are 80% consistent on trades
- Lastly, remember that you must manage the allotment of shares RELATIVE to the VOLUME and VOLATILITY (ie: trading 5,000 shares of CSCO when its consolidating in a .10 range during deadzone light volume is NOT wise)
- Make SURE the market can ABSORB the liquidity or you are faced with slippage on lighter volume which can eliminate some or ALL of your profits not to mention cause more panic

Putting it All Together ScreenCam I

- **SHORT VRSN 51.50 (ScreenCam);** Premises: **SELL SIDE Fader** (while noodles 3 and 1 minute were **RISING**, VRSN was selling) + Both 1 and 3min stochastics are peaking high bands + 3 min MA charts downtrending; Wiggle Room/resistance: 52 (VRSN is a thin and fast moving stock, 52 was prior support now resistance as noodles rose higher VRSN sold); Trigger: 1 minute noodles stochastics slip should set off the selling and 3 min noodles slip should compound the selling, VRSN is a **THIN** fast mover so I expect to be **PARING** the overshoot knowing that 50 x 50.50 are the absolute supports on any panic

Putting it All Together ScreenCam II

- **SHORT PRGN 23** (screencam); Premise: **SELL SIDE Fader No Brainer + INVERSE PUP BREAKDOWN** setup (while noodles are peaking out above 80/90 bands, PRGN is selling near lows of the day); Wiggle Room/resistance: 23.50; Trigger: 1 min noodles **FIRST TRIGGER** and 3 min noodles slip under 23 should trigger the **INVERSE PUP Breakdown** as the 5 period bidders retreat, PRGN should sell off harder on a **PANIC**. Also, apparent seller on **INCA** wants out and is **NOT** sitting around letting the **MM's** adjust spreads, rather he's just nailing every buyer and possibly inside cranking occasionally to suck in reversal players only to dump back on them. The 2.50 rules dictate that 22.50 is a support area overshoot pare already in mind with potential to move down lower if 3 min noodles continue to slip for this IS a inverse pup breakdown.

Putting it All Together ScreenCam

III

- BUY SUNW 15.25 (screencam); Premise: BUYSIDE FADER as Noodles slip + GAP FILL high of the day + 1 minute stichastics MINI pup; Trigger: 1 minute noodles stochastics reversal and further followthru is 3 minute noodles reversal back up; Resistance/Support: Resistance is 15.50 peak overshoot because of the super heavy float, I know that SUNW can only sustain so much of a pop before volume dissipates, thus goal is to look for clips on HEAVY shares on the noodles reversal yet PARING into the buyers under 15.50, Support is 15 with overshoot wiggle to 14.90

THE END

- Thank you and if you have any questions,
feel free to email
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