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CHAPTER 4. DAILY CHART PATTERNS

PART I: DAILY CHART PATTERNS

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Today you will Learn

- The anatomy of a Strong Daily Chart
- Moving Average Support and Resistance
- Half Dollar & Whole Dollar Support and Resistance
- Former Runners
- Daily Windows
- Drawing Support and Resistance Trend Lines
- Daily Flag Patterns

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Why Is This Important?

Understanding the criteria of a strong stock to trade means understanding what strong daily chart looks like, and being able to differentiate this from a weak daily chart.

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Key Levels

We learn to anticipate the breakout levels on a chart where volume will come in.

By anticipating these, we have our orders ready to buy just before or just as volume begins pouring in.

This allows us to get the max profit with the min amount of time waiting.

Key Levels are based 100% on technicals, but are only valid on stocks with high relative volume.

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Daily Charts

Some Traders believe you MUST have a strong daily chart in order to trade the stock

I used to believe that, but I've found strong intraday stocks with the right catalyst can override a poor daily chart.

With that said, the perfect setup has a strong Intraday and a strong Daily Chart



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7 Steps to a Strong Daily Chart

1. Price should be above the 9ema and 20ema.
2. Ideally the price will also be above the 200ema, but this is not required.
3. Ideal entries are often at ½ and whole dollars, especially in a strong market.
4. Ideally the stock has a history of being a former runner.
5. Ideally there should be large windows of no resistances
6. There should be no ascending or descending resistance.
7. Daily Breakout Flag Patterns or Breakout Consolidation Patterns are preferred.



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Don't worry about Daily Chart Watch Lists

I do my homework each night, but it's not scanning through daily charts looking for a setup.

Typically a great daily chart will end up having very little volume and poor follow through UNLESS it has a catalyst.

Instead of making a daily chart watch list, spend your time reviewing trades you've taken on the 5min chart.

The criteria for a good daily chart should ONLY be applied to the right type of stocks to trade (as per Chapter 3).

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1. Moving Averages



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Moving Averages



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Moving Averages



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2. Price Above 200ema



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Resistance at the 200ema



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Resistance at the 200ema



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Resistance at the 200ema



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Resistance at the 200ema



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Resistance at the 200ema



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The screenshot displays a trading platform interface with a candlestick chart for 'SUPER LEADER GAMING INC. S (Dynamic)'. The chart area has a black background with a white grid. The price is plotted on the left y-axis, ranging from 1.50 to 6.50. The x-axis represents time, with labels for 2015, 2016, 2017, 2018, 2019, and 2020. A purple trend line is drawn across the chart, showing a general downward trend from approximately 6.50 in early 2015 to around 2.50 in early 2020. The chart includes candlestick data with green bodies for upward price movement and red bodies for downward movement. A volume indicator is visible at the bottom of the chart, showing green bars for buying volume and red bars for selling volume. The top of the chart shows a toolbar with various trading tools and indicators.

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Resistance at the 200ema



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Resistance at the 200ema



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3. Whole Dollars & ½ Dollars

It's very important to note that almost all stocks, and especially stocks under \$10.00, will have at least a small trigger at whole dollars and ½ dollars. **These are psychological areas of resistance.**

A stock at 3.99 will see a lot of resistance at the whole dollar of 4.00. Once it breaks that level, if it has high relative volume, we will almost always see a quick break and a 10-20 cent squeeze. When we have daily triggers that also coincide with whole dollars and ½ dollars they are even stronger.

When we see intraday chart patterns consolidating around whole dollars and ½ dollars they are worth keeping a close eye on.

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Whole Dollars & ½ Dollars



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Whole Dollars & ½ Dollars



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Whole Dollars & ½ Dollars



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4. Former Runner Breakout

A stock that was a recent former runner and has been consolidating around the moving averages is something many traders will be watching either for a technical breakout or a breakout due to a press release.

Always watch the first daily candle to make a new on a former runner.

These can result in some of the biggest winners because the former runners often have a cult following.

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Former Runner Breakout



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Former Runner Breakout



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Former Runner Breakout



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Former Runner Breakout



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Former Runner Breakout



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Former Runner Breakout



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The Opposite of a Former Runner



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5. Daily Windows

Daily windows with no resistance are "pockets" of opportunity on the daily chart.

These windows are formed by large gaps, or tall candle sticks.

A good window has the Average True Range of a stock in open area.

The best setups have several big windows lined up.

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Daily Windows



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What is Average True Range (ATR)

Average True Range is the average price range of a stock in a typical day.

For some stocks this will be as low as 15-20 cents of average range, while other stocks will have an average range exceeding 5.00 a day.

When we look for windows and triggers, we look for gaps/windows that are larger than an average day.

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Daily Resistance Levels

When I look at daily charts, I look UP and to the LEFT when I'm looking to go long. For shorting, I look DOWN and to the LEFT.

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What is a Trigger?

A trigger is the price right where a window begins.

It's the price (to the penny) on the Daily Chart where you think a massive breakout could occur.

This Trigger should be extremely obvious. Every retail trader should be able to see it!

The more obvious, the more likely it will resolve as we expect!

Don't over complicate this.

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Trigger vs Resistance?

When you look at a spot on the chart and you think it's a trigger, could it also be a point of resistance?

A true Trigger will have at least a large amount of room until the next area of resistance.

This makes the Trigger powerful!

If the next resistance is 10 cents away, there is no power. Nobody cares

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Daily Chart with a Gap Window



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Good Daily Chart with a Gap Window (Gap Fill)



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Good Daily Chart with a Gap Window (Gap Fill)



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Good Daily Chart with a Gap Window



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Good Daily Chart with a Gap Window



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Good Daily Chart with a Long Candle Window



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Good Daily Chart with a Long Candle Window



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Bad Daily Chart (no windows / MA Resistance)



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Bad Daily Chart (no windows / MA Resistance)



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Bad Daily Chart (no windows / MA Resistance)



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Nice daily window but has MA Resistance



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Bad Daily Chart (no windows / MA Resistance)



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Bad Daily Chart (no windows / MA Resistance)



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6. Support/Resistance Trend Lines

Support and resistance trend lines can be well respected, however, they can also be subjective. Different traders may draw trend lines in different places, and as a result not see the same obvious "breakout points".

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Support / Resistance (Ascending)



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Support / Resistance (Descending)



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Support / Resistance (Ascending)



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Support / Resistance



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How to Draw a Trend Line

In addition to the support, resistance, and triggers formed by candlestick highs and lows, we also find support and resistance from trend lines.

Trend lines are angled lines that connect several candles.

A trend line gains validity the MORE times it's been tapped. Just like a flat top breakout, the more times we tap, the more validity the resistance level has.

If your trendline only has 2 taps, it might not be very strong.

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7. Daily Breakout Patterns

Daily Flag Patterns offer, without a doubt, some of the best opportunities.

Flag Patterns are pullback or consolidation periods, after a significant breakout. The best pullbacks will be on stocks where the original breakout was a 50% move or greater. These stocks can have a technical breakout when the flag pattern breaks to the upside.

A flag pattern is almost always consolidating ABOVE the 9,20 and 50emas.

Typically a flag pattern that we look at is on a former runner. The Former Run is what created the Flag Pole.

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Daily Flag Patterns



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Daily Flag Patterns



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Daily Flag Patterns



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Daily Flag Patterns



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Chart Patterns

Tomorrow we'll begin looking at Intraday Chart Patterns

Including:

Bull Flags & Bear Flags

Flat Tops & Flat Bottoms

Moving Average Pullbacks & Pops

and, the ABCD Pattern

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Setting up Charts

We're setting up our charts to give us the best understanding and context for current price action.

This allows us to make well educated decisions and reduce our risk as traders. One again, returning to the importance of finding risk management opportunities.

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Steps you can take today

These are steps you can take today to find strong daily charts.

- 1) I keep my charts simple using just my Exponential Moving Averages as indicators.
- 2) Looking at daily charts, you want to see large pockets of no resistance.
- 3) Start looking at daily charts of all the stocks I'm trading each day to see if you can breakdown nearby resistance levels.

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Blank slide for additional
note-taking

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