



# WARRIOR TRADING

## CHAPTER 11. SHORT SELLING MOMENTUM STRATEGY

### SHORT SELLING A MOMENTUM STOCK

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## Today you will Learn

How to take short positions on momentum stocks. When I talk about momentum stocks I'm typically referring to stocks moving up, but these strategies can be traded on stocks with momentum going down.

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## Why I Don't Short Often

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1. Availability of shares to borrow
2. Cost to reserve shares when they are available
3. Short Sale Restriction
4. Higher Risk
5. Not Suitable for beginner traders (my students)

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## Why Is This Important?

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- Even if you choose not to be an active short seller, seeing the market through the eyes of a short seller can make you a better long trader. It will help you better understand places short sellers go short, set stops, and cover for losses.
- While in a trade to the long side, I often think about what a short seller would think of this current price action. When I'm short, I think about what a long trader would think of the current price action. It's good to have this added perspective.

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## Shorting Momentum Setups

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1. Short Selling a False Breakout
2. Shorting Trend Reversal
3. Shorting a Halt Resumption
4. Shorting a Bear Flag
5. Shorting at VWAP

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SETUP 1: SHORTING A FALSE BREAKOUT

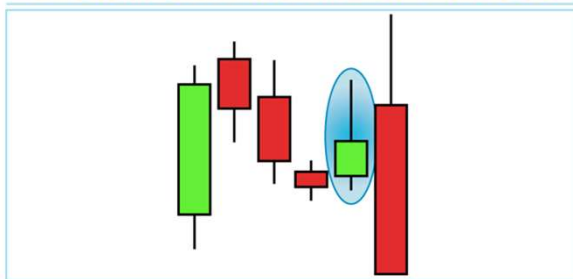
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## Setup 1. Shorting a False Breakout Trap

### FALSE BREAKOUT TRAP



### FLAG PATTERN FALSE BREAK



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## False Breakout Trap Setup

**Entry:** As a long biased trader, when I see a long setup do a false breakout and fail, this is the place to sell the long position and flip short.

**Target:** The false breakout should give 10-20 cents, but as much as 50 cents if the stock is already parabolic and very extended.

**Risk Factors:** Risk is that I am trading against the overall trend, and it could bounce right back up and keep going. Have to bail out if it doesn't work.

**Stop Loss:** High of day.

**Notes:** Finding shares available to borrow is the biggest challenge with this setup.

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## Bull Flag Trap



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## Bull Flag Trap



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## Bull Flag Trap



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## Bull Flag Trap



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## Bull Flag Trap



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## Bull Flag Trap



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## Bull Flag Trap



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## Live Trade: Half Dollar Drop on \$CLST

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## **Live Trade:** Shorting at a hidden seller (false breakout)

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SETUP 2: SHORTING A TREND SHIFT

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## Setup 2. Shorting a Trend Shift

### BREAK BELOW MOVING AVERAGE



### SHIFT IN A TREND ENTRY



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## Trend Shift Short Setup

**Entry:** When the stock breaks below the 20ema on the 5min chart and cannot get back above it, that is a good place to take a starter with a stop above the 20ema.

**Target:** This is a trending trade that could fade all day. Potentially good for big moves.

**Risk Factors:** Risk is that I am trading against the overall trend, and it could bounce right back up and keep going. Have to bail out if it doesn't work. Holding for long periods of time increases exposure risk.

**Stop Loss:** Above the 20ema.

**Notes:** Finding shares available to borrow is the biggest challenge with this setup.

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## Trend Shift Short



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## Trend Shift Short



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## Trend Shift Short



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## Trend Shift Short



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W 3.22  
H 3.22  
L 2.33  
C 2.34  
VWAP 2.30  
M 3.10  
BB Upper 3.56  
BB Lower 2.27  
RSI 40.00  
MACD 0.10  
MACD(9) 0.31

Stop 2.70  
Stop 2.15  
LONG at 2.65  
LONG at 1.975

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3000000  
2000000  
1000000  
0

0.40  
0.20  
0.00  
-0.20  
-0.40

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## Trend Shift Short



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SETUP 3: SHORTING A HALT RESUMPTION

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## Setup 3. Shorting a Halt Resumption (inverse is the dip trade on false halts or first halt going up)



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## Reversal out of a halt

**Entry:** After several halts going up, we often begin to expect a halt coming back down, this can be an opportunity to go short with a stop at the high. Alternatively, after halts going down (whether at low of day or simply after a big drop) there is sometimes the opportunity to go long for a bounce.

**Target:** Depending on the position of the stock, I often have larger profit targets, but will be quick to bail if it doesn't work.

**Risk Factors:** It's catching a falling knife and shorting a strong stock, it's very risky.

**Stop Loss:** Typically within 30-40 cents.

**Notes:** Finding shares available to borrow is the biggest challenge with this setup for the short side, but bounces long wouldn't have the same issue.

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## Live Trade: \$RKDA Shorting a Halt Going Down

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## Live Trade: Shorting in the SIM for +\$200k in profits

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**Live Trading:** 9 halts going up then a big halt going down!

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**Live Trading:** False Halt then Drop

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## Steps you can take today

**These are steps you can take today to trading Parabolic Stocks.**

- 1) Parabolic stocks can be extremely risky. If you start chasing these stocks up, remember, they can come back down VERY quickly.
- 2) If you're going to short, keep tight stops. Don't allow yourself to hold and hope. These stocks (like DRYs) can be irrationally strong.
- 3) Don't be a follower. Don't just follow what I trade, or what anyone else trades. Build your watch list, and take the trades on your own. If we are trading the same stocks and the same setups, let that be confirmation that you are looking at the right stocks.

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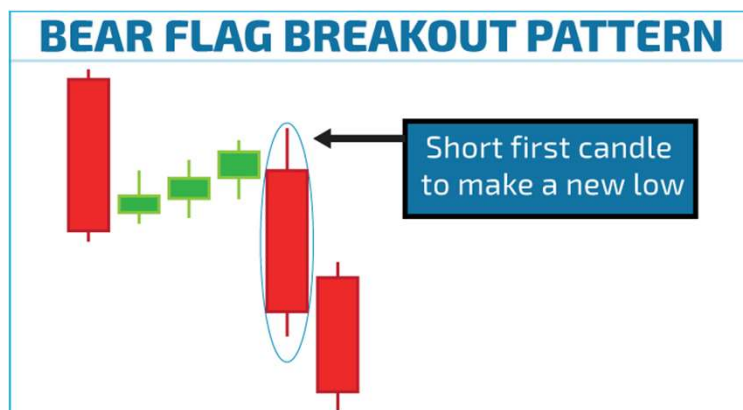
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**SETUP 4: SHORTING BEAR FLAGS**

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## Setup 4. Shorting Bear Flags



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## Shorting Bear Flags

**Entry:** I look for the first candle to make a new low (the inverse of a bull flag setup)

**Target:** I look to cover on a flush and look at daily support/resistance levels.

**Risk Factors:** The only risk would be the trend reverses, but in this case, shorting bear flags is trading with the trend.

**Stop Loss:** High of the most recent pop up (top of bear flag)

**Notes:** Finding shares available to borrow is the biggest challenge with this setup for the short side.

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## Bear Flag Breakdown Pattern (1min)



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## Bear Flag Breakdown Pattern (5min)



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## Bear Flag Breakdown Pattern (5min)



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## Live Trading: Shorting Bear Flags

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### SETUP 5: SHORTING AT VWAP

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## Setup 5. Shorting at VWAP

**Entry:** The stock should have been very weak earlier in the day, then bounced back up to the VWAP, if it's unable to break the VWAP, or breaks but fails, then the entry is a short with a stop just above the VWAP.

**Target:** I look to cover on a flush back through low of day.

**Risk Factors:** The biggest risk is that if the stock breaks VWAP it could surge powerfully.

**Stop Loss:** Stop is at the VWAP, or just slightly above it.

**Notes:** Finding shares available to borrow is the biggest challenge with this setup for the short side.

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## VWAP Fade (short) on APDN



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## VWAP Fade (short) on APDN 1min chart



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## VWAP Fade (short)



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## VWAP Fade (short)



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## VWAP Fade (short)



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## VWAP Fade (short)



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## VWAP Fade (short)



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