



WARRIOR TRADING

CHAPTER 10. REVERSAL TRADING STRATEGIES

INTRO TO REVERSALS & SHORT SELLING

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Today you will Learn

- How to use Short Selling & Reversal Trading Strategies. These are both great or mid-day and afternoon trades, especially on days when momentum is a big slower.
- If you are a trader who prefers a slower moving strategy, Reversal Trading allows more time to evaluate potential trades before pulling the trigger. Reversal traders are often much slower as well.

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Why Is This Important?

- Reversal trades provide the opportunity for massive profits because the best reversal can offer 10-20 cent stops and multi-point runs. Reversals are best on higher priced stocks which means it's not a strategy that can be easily traded by students with smaller accounts.

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Reversal Example



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The Advantage of Reversals

It's difficult to anticipate when stocks will make big moves, but we know that almost all big moves eventually are corrected.

We look for reversal opportunities on stocks that have just made extreme moves to the upside or the downside. Our stop will always be at the high or low or day which means our risk will be very low relative to our profit potential.

Instead of trying to predict the next big mover, we let the moves happen, find them on our scanners, then short the tops or buy the bottoms.

In order to trade reversals you must be able to identify them in real-time, and understand your risk vs reward!



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What Goes up Must Come Down



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Only Trading Extremes

The key for success with Top and Bottom Reversals is that we must trade extremes.

I look for indicators of extremes including:

- High RSI (above 90), Low RSI (below 10)
- A candle outside the Bollinger Bands
- 5-10 Consecutive Candles ending with Pin Bar or a Doji



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You Will Learn

1. How to find reversal setups using Stock Scanners
2. How to Read Bollinger Bands to find Extremes
3. Using Pin Bar Candle Sticks to take an entry
4. Understanding where to set stops & profit targets
5. How to trail your winners



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How to Find These Setups

Using High of Day and Low of Day Scanners with RSI Filters

The screenshot shows two side-by-side scanners from the Warrior Trading platform.

V5 / V8 Reversal Hybrid Scanner:

Time	Symbol	RSI 5	V5	T	15	V8	Strategy Name
12:21	NFLX	82.5	5	15.8M	1.42	529.8	117 V8 Top Reversal
12:21	NFLX	82.5	5	15.8M	1.42	529.8	117 V5 Top Reversal
12:19	NFLX	81.7	4	15.3M	1.39	561.6	130 V8 Top Reversal
12:19	NFLX	81.7	4	15.3M	1.39	561.6	130 V5 Top Reversal
12:18	NFLX	80.3	4	15.0M	1.36	518.6	120 V8 Top Reversal
12:18	NFLX	80.3	4	15.0M	1.36	518.6	120 V5 Top Reversal
12:17	NFLX	79.0	4	14.8M	1.35	479.2	112 V8 Top Reversal
12:17	NFLX	79.0	4	14.8M	1.35	479.2	112 V5 Top Reversal
12:13	SHPG	11.9	-6	2.03M	8.57	421.3	-13 V8 Bottom Breakout
12:13	SHPG	11.9	-6	2.03M	8.57	421.3	-13 V5 Bottom Breakout
12:06	SHPG	12.6	-5	1.96M	8.50	478.2	-16 V8 Bottom Breakout
12:06	SHPG	12.6	-5	1.96M	8.50	478.2	-16 V5 Bottom Breakout

RSI extremes:

Time	Symbol	5 Min RSI	Consec Crds	Vol Today (%)	Vol 15 Min (%)	Rel Vol
12:51	SIGM	5.4	0	524K	434.4	1.92
12:50	AXTA	15.3	-6	1.5M	261.8	2.70
12:50	SIGM	6.1	0	518K	402.3	1.92
12:45	CLR	31.9	-7	1.9M	81.8	1.13
12:43	OIL	24.8	-8	549K	36.7	0.95
12:43	FLR	22.9	-7	862K	53.0	1.33
12:42	SIGM	6.8	0	504K	610.5	1.91
12:42	OIL	25.4	-8	546K	35.8	0.95
12:42	FLR	25.0	-7	856K	48.3	1.33

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Reversal Trading Process

- 1) Find a stock on your Reversal Scanners
- 2) Check the news and breakdown the daily chart for support/resist
- 3) Choose a potential entry based on one of our setups.
- 4) Now that I know the price you want to enter, I'm watching the Level 2 and Time & Sales to confirm a flow of buyers, and to confirm no big sellers on the ask. I'm watching the Level 2 when I enter the trade.
- 5) Once I'm in the trade I'm still watching the Level 2, but I also check back at the chart to keep checking the low of the last candle, that will continue to be my stop, unless I see an earlier exit indicator.
- 6) I'll start selling when I hit my first profit targets.

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The Reversal Setups

1. Candle outside Bollinger Bands and/or Pin Bar
2. First candle to reverse after 5+ red/green 5min candles
3. First Candle to reverse after 10+ Consecutive Red/Green 1min candles
4. Over/Under a whole dollar or half dollar
5. Reversal off Daily Support or Resistance



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Profit Targets

I set profit targets first at the 20ema on the 1min chart. If I'm taking a bottom bounce that has already started to curl off the bottom, I there isn't room to profit between current price an 20ema, I will wait for it first break and hold over the 20ema.

1st Profit Target: 20ema on the 1min chart

2nd Profit Target: 9ema on the 5min chart

3rd Profit Target: 20ema on the 5min chart

4th Profit Target: VWAP



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Exit Indicators for All Reversal Strategy trades

I will begin to sell if:

- 1) I see Heavy Resistance on the Level 2 in the form of a big seller, I bail out by selling on the bid.
- 2) I stop seeing buying, and I'm just seeing a lot of selling on the Time & Sales, I bail out by selling on the bid.
- 3) If my first profit target has touched, I sell half by selling on the Ask , and adjust stop to breakeven for remainder.
- 4) If 2nd or 3rd profit targets are hit, I continue to sell small pieces on the Ask.
- 5) If my entry is on the 5min chart, typically I will sell on the first red candle on the 5min chart, unless I'm already up so much that I can afford to hold through the pullback.
- 6) Since I expect an immediate breakout, if we don't get it, I'll get out breakeven.



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Notes about Overall Market

Be conscientious of overall market strength, and especially market wide reversals. It's important to be mindful of the overall market when you are doing reversal trades. If biotechs are tanking and the whole sector is weak, we have to be careful about jumping into a bottom bounce too early. This is the same with market strength of weakness.

If for example airlines are dropping, I will keep charts up of 4 airlines and see which one looks best for a reversal. When it starts to bounce, I'm going to want to see all airline stocks also start to bounce. That tells me the sector is reversing.

If the market is extremely strong, I pick the one that meets my reversal criteria in the best way, and use that one for the reversal trade



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Breakout or Bailout

Remember the Breakout or Bailout Mentality!

If it doesn't start working in the first 5min of entering the trade, I often just bail out breakeven. I expect immediate resolution from these patterns!



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Live Trading Examples

During this Chapter I'll show several Live Trading Examples.

I will continue to upload live trading examples specifically to this chapter, and to our general archives of Live Trading Archives. You can continue to check out the latest examples as long as you continue to remain a member of the Warrior Pro Courses.



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SETUP 1: CANDLES OUTSIDE BOLLINGER BANDS

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Setup 3. Candles Outside Bollinger Bands

CANDLE OUTSIDE BOLLINGER BANDS



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Candles Outside Bollinger Bands

Entry: Shorting the first candle to make a new low, or buying the first candle to make a new high. Candle outside Bollinger band is preferred because it shows extremes.

Target: I look for a return to the 9ema, then the 20ema, then the VWAP.

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

Stop Loss: High of day / Low of day.

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

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Candles Outside Bollinger Bands



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Top Reversal (with pin bar)



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Top Reversal (with pin bar)



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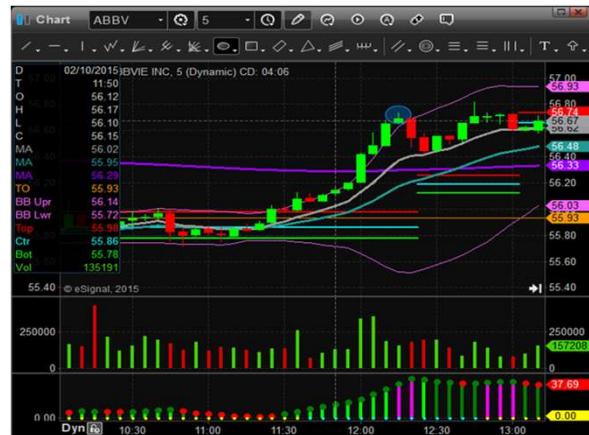
Top Reversal (with pin bar)



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Top Reversal (with pin bar)



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Top Reversal (with pin bar)



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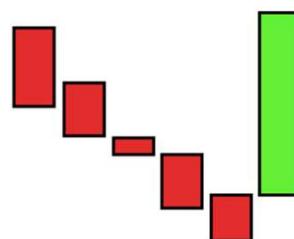
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SETUP 2: 5+ CONSECUTIVE 5MIN CANDLES

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Setup 5. 5+ Consecutive 5min Candles

5 MIN CANDLE TO MAKE A NEW HIGH



First 5 min candle
to make new high
after 5 consecutive

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5+ Consecutive 5min Candles

Entry: Shorting the first candle to make a new low, or buying the first candle to make a new high. Candle outside Bollinger band is preferred because it shows extremes.

Target: I look for a return to the 9ema, then the 20ema, then the VWAP.

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

Stop Loss: High of day / Low of day.

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5+ Consecutive 5min Candles



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5+ Consecutive 5min Candles



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5+ Consecutive 5min Candles



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5+ Consecutive 5min Candles



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Live Example: Shorting \$GM

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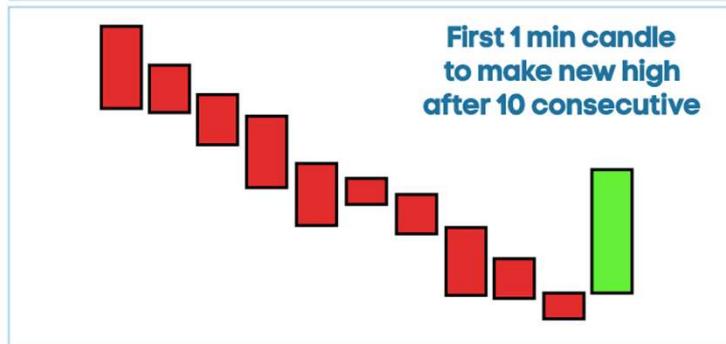
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SETUP 3: 10+ CONSECUTIVE 1MIN CANDLES

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Setup 6. 10+ Consecutive 1min Candles

1 MIN CANDLE TO MAKE A NEW HIGH



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10+ Consecutive 1min Candles

Entry: Shorting the first candle to make a new low, or buying the first candle to make a new high. Candle outside Bollinger band is preferred because it shows extremes.

Target: I look for a return to the 9ema, then the 20ema, then the VWAP.

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

Stop Loss: High of day / Low of day.

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

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10+ Consecutive 1min Candles



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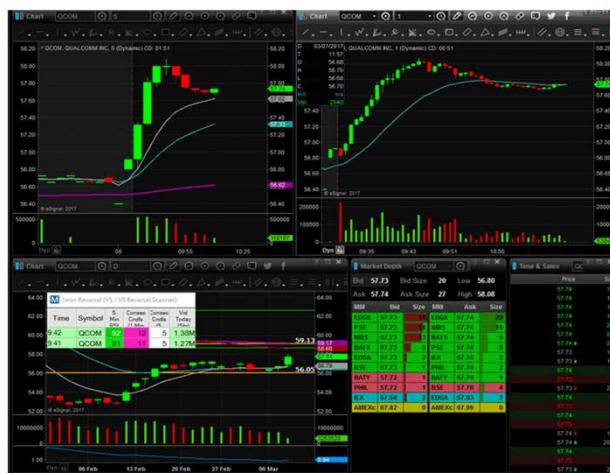
10+ Consecutive 1min Candles



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10+ Consecutive 1min Candles



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10+ Consecutive 1min Candles



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10+ Consecutive 1min Candles



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Live Trade: Bottom Reversal on \$NCLH

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SETUP 4: WHOLE DOLLAR & HALF DOLLAR ENTRIES

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Setup 7. Whole Dollars or Half Dollar Entries

WHOLE DOLLAR ENTRY



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Whole Dollar & Half Dollar Entries

Entry: I look for the price to cross the whole dollar or half dollar, then when it comes back and crossed going the other way I take my position.

Target: I look for a return to the 9ema, then the 20ema, then the VWAP.

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

Stop Loss: High of day / Low of day.

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

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Whole Dollar and ½ Dollar Entries



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Whole Dollar and ½ Dollar Entries



I wait for the stock to break below the whole dollar of \$79. That shows continued weakness. However, if it were truly weak, it wouldn't be able to get back above the whole dollar. As soon as we break above the whole dollar, we get long at \$79.

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Bottom Bounce ½ Dollar Entry



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Bottom Bounce ½ Dollar Entry



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Live Trade: Half Dollar Drop on \$CLST

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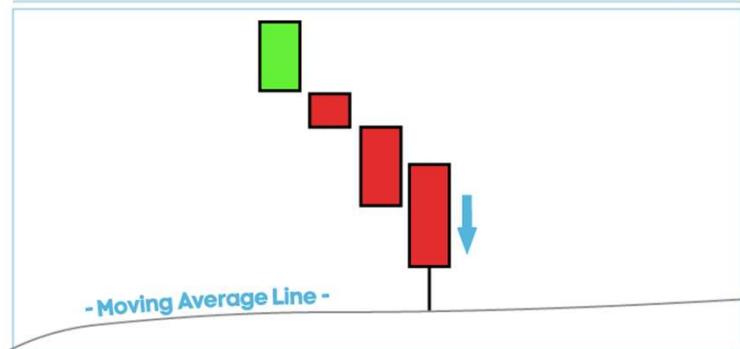
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SETUP 5: DAILY SUPPORT/RESISTANCE LEVELS

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Reversal Setup 8. Reversal off Daily Support/Resistance

BOUNCE OFF MOVING AVERAGE



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Whole Dollar & Half Dollar Entries

Entry: I look at the daily resistance level and when the stock begins to get close I may take a starter position, then add as the price begins to show resistance/ support at that level.

Target: I look for a return to the 9ema, then the 20ema, then the VWAP.

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

Stop Loss: High of day / Low of day.

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

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Reversal/Short off the 200ema on the Daily



Resistance at 200ema on the Daily

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Reversal/Short off the 200ema on the daily



Resistance at 200ema on the Daily

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