

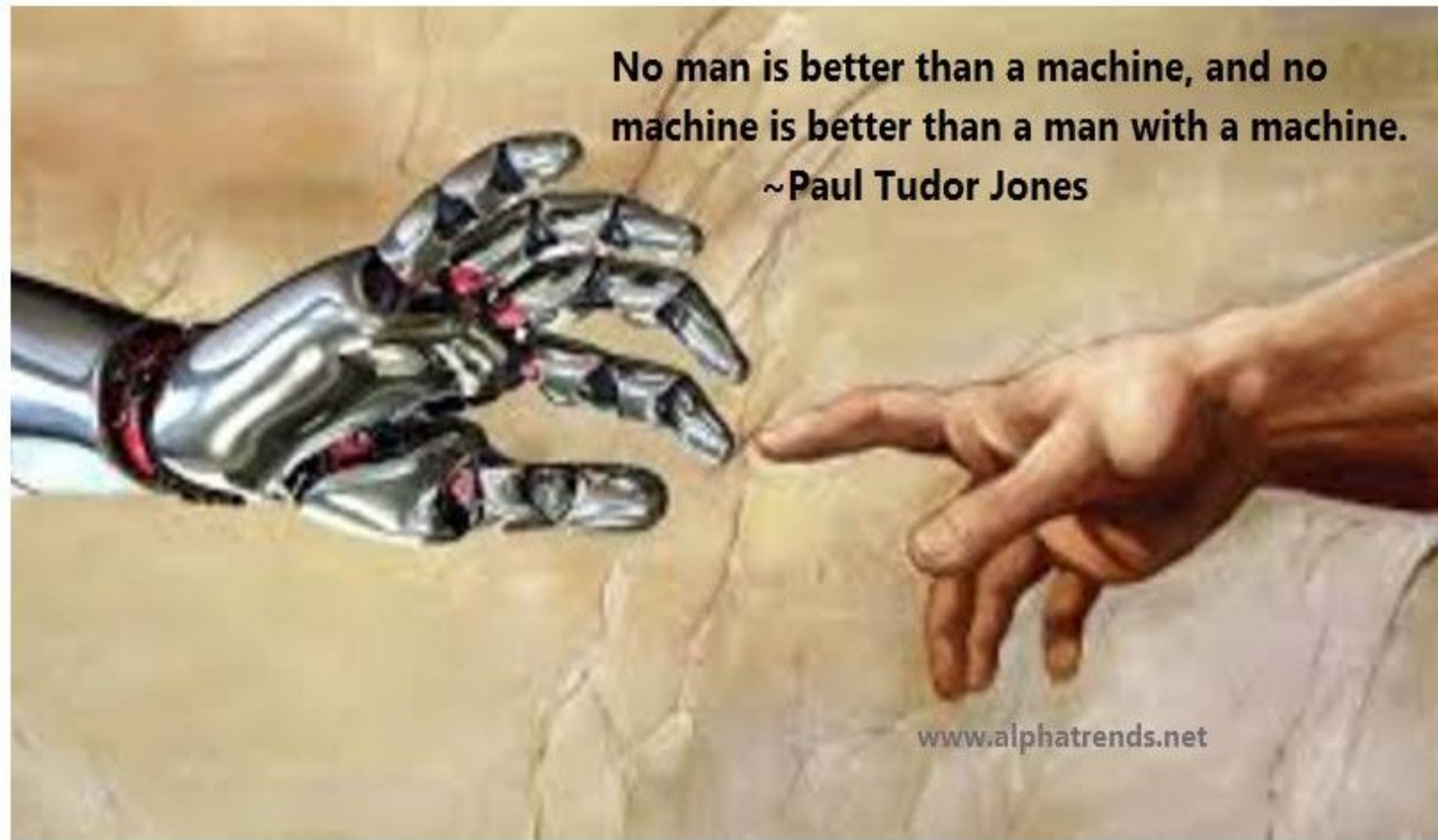
The Search for the 'Holly' Grail



Brian Shannon @alphatrends
www.alphatrends.net

Sunday October 1, 2017

Man vs Machine? or Man AND Machine!



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alphatrends

Brian Shannon, CMT

Joined Jul 16, 2009

Pro trader. Author of Technical Analysis Using Multiple Timeframes
www.technicalanalysisbook.com Most stocks I mention on stockwits are short term.

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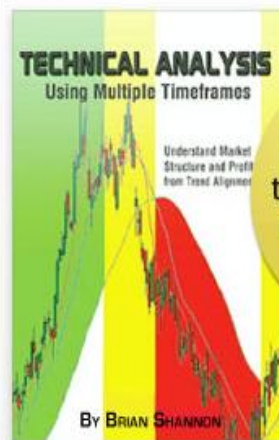


FAST COMPANY

THE TRADERS' MAGAZINE
TECHNICAL ANALYSIS OF **STOCKS & COMMODITIES**

**TECHNICAL ANALYSIS
USING MULTIPLE TIMEFRAMES**

BY BRIAN SHANNON



**"TOP 10
trading books
ever written"**

PURCHASE

WHAT WE WILL COVER

1 - Who is Holly?

2 - Market Structure Review

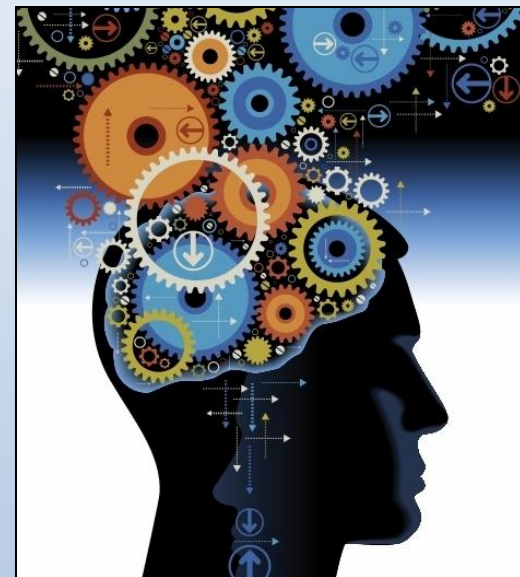
3 - Short Sales – Why, How and When

4 - Short Squeeze

- Why they occur
- Short Interest
- Days to cover
- How Accurate is the short information?

5 - Two Types of Short Squeezes

- Knee Jerk
- Structural



1 - Who Is Holly?

→ www.trade-ideas.com ←



User Friendly Artificial Intelligence Designed to:

- Back test strategies before you commit \$\$\$ to trades
- Simplify search for setups with statistical edges
- Automate the entire trading process
- Help you become more profitable



Technical analysis allows us to objectively observe price action so we can minimize the impact of emotional decision making

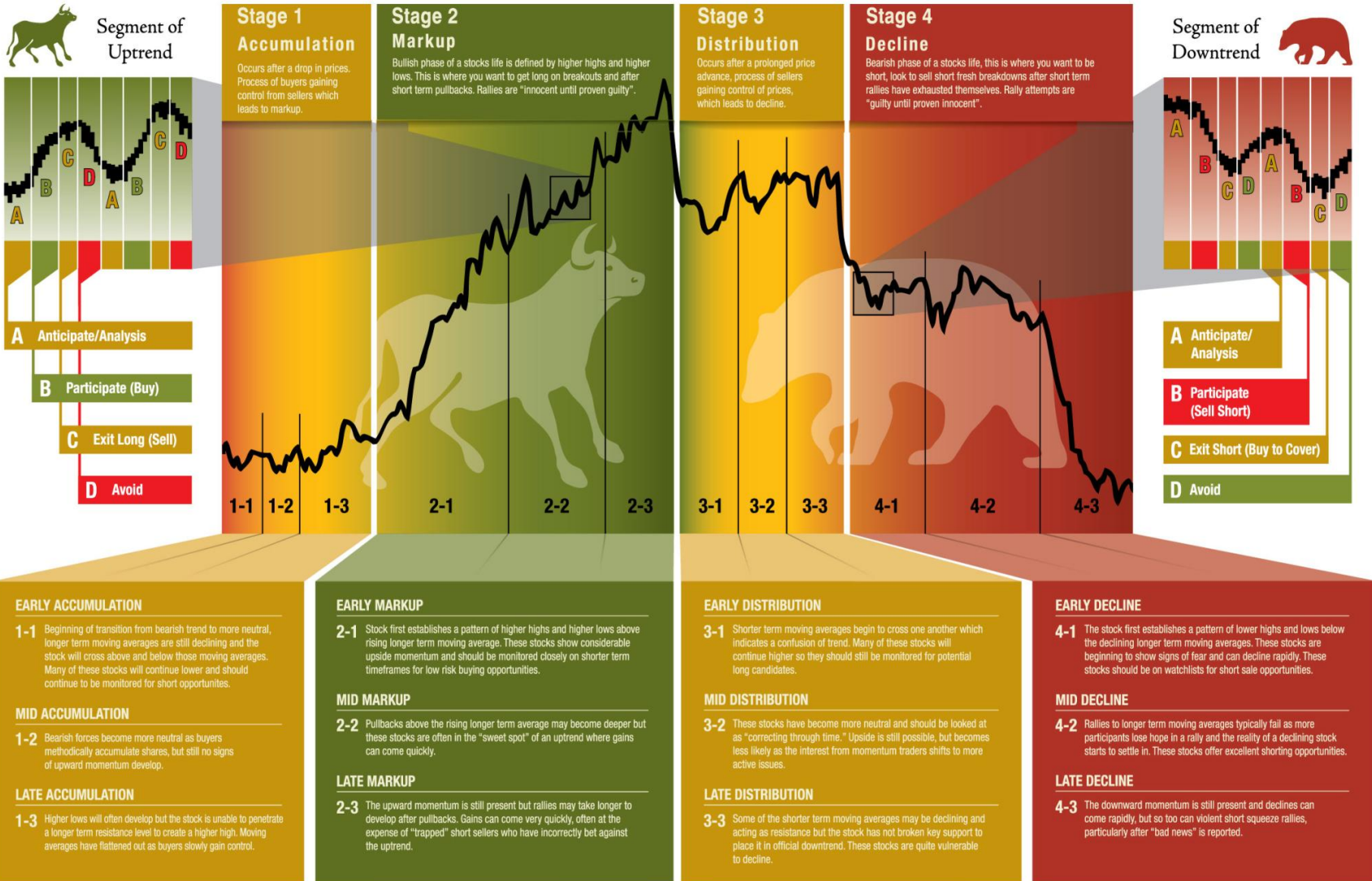


Listen to the message of the market, not your emotions!

2 – Market Structure Review

ALPHATRENDS - Understanding Market Structure

Actionable Education for Profits



Understanding Market Structure - The Four Stages Graphic

Plan of Action:

STAGE 1 - ACCUMULATION

Anticipate Long/Cover Short

STAGE 2 - MARKUP

Participate Long/ Avoid Short

STAGE 3 - DISTRIBUTION

Exit Long/ Anticipate Short

STAGE 4- DECLINE

Participate Short/ Avoid Long



ANTICIPATE
PARTICIPATE
EXIT
AVOID

3 – Short Sales

- Borrow stock from broker to sell(short) and buy back at a lower price to profit
- Always use a buy stop
- Stocks typically decline much faster than they rise (fear vs greed)
- Stick to stocks in a Stage 4 Decline, Stocks in a downtrend are “guilty until proven innocent”
- It is a bonus if there are “bad fundamentals” in the underlying company, but not essential to make a good short (news follows trend)
- Seriously consider buying some back on “bad news” (who is left to sell)



Selling Short

- Be skeptical of takeover rumors in down trending stocks
- Do not chase lower, ask “where has it come from & potential to go?”
- Consider options strategies to implement bearish ideas, limit losses if market moves against you
- Timing even more important than with longs when primary market trend is higher
- Try not to be influenced by “obvious” reasons (market is only up because of Fed) There is ALWAYS something to worry about.
- If sector and market do not agree with the setup in the individual stock, adjust position size to compensate



Selling Short

Don't get caught in the emotional cycle



Same emotions for short sellers but at opposite times than longs

Selling Short

Short Sales The Right Way

Plan of Action for Trend Participation:

Primary Trend

DAY

Identify Trade Candidate

Stage 4 Decline

guilty until proven innocent

Intermediate Trend

65/30/10 Minute

Plan your Trade

Stage 1 Accumulation –Exit

Stage 2 Uptrend – Avoid

Stage 3 Distribution – **ANTICIPATE**

Stage 4 Decline – **PARTICIPATE**

Short Term Trend

10/5/2 Minute

Trade your Plan

Fine tune your timing



Selling Short

Identify the trade candidate on a larger timeframe



Establish a **RISK** / **REWARD** Scenario

Before Entry, Answer 2 Important Questions:



1- Where has stock come from?

RISK

Has it expended a lot of energy, is it extended, what is volume pattern, where does stop go? **DO NOT CHASE!!**

2- Where does it have the potential to go before likely resistance (long) or support (short) is found?

REWARD

There must be enough profit potential relative to *perceived* risk

Selling Short

Plan and execute the trade on an intraday timeframe



Short Selling

The two timeframes together

PLAN on the longer timeframe



Execute & manage risk on shorter timeframe

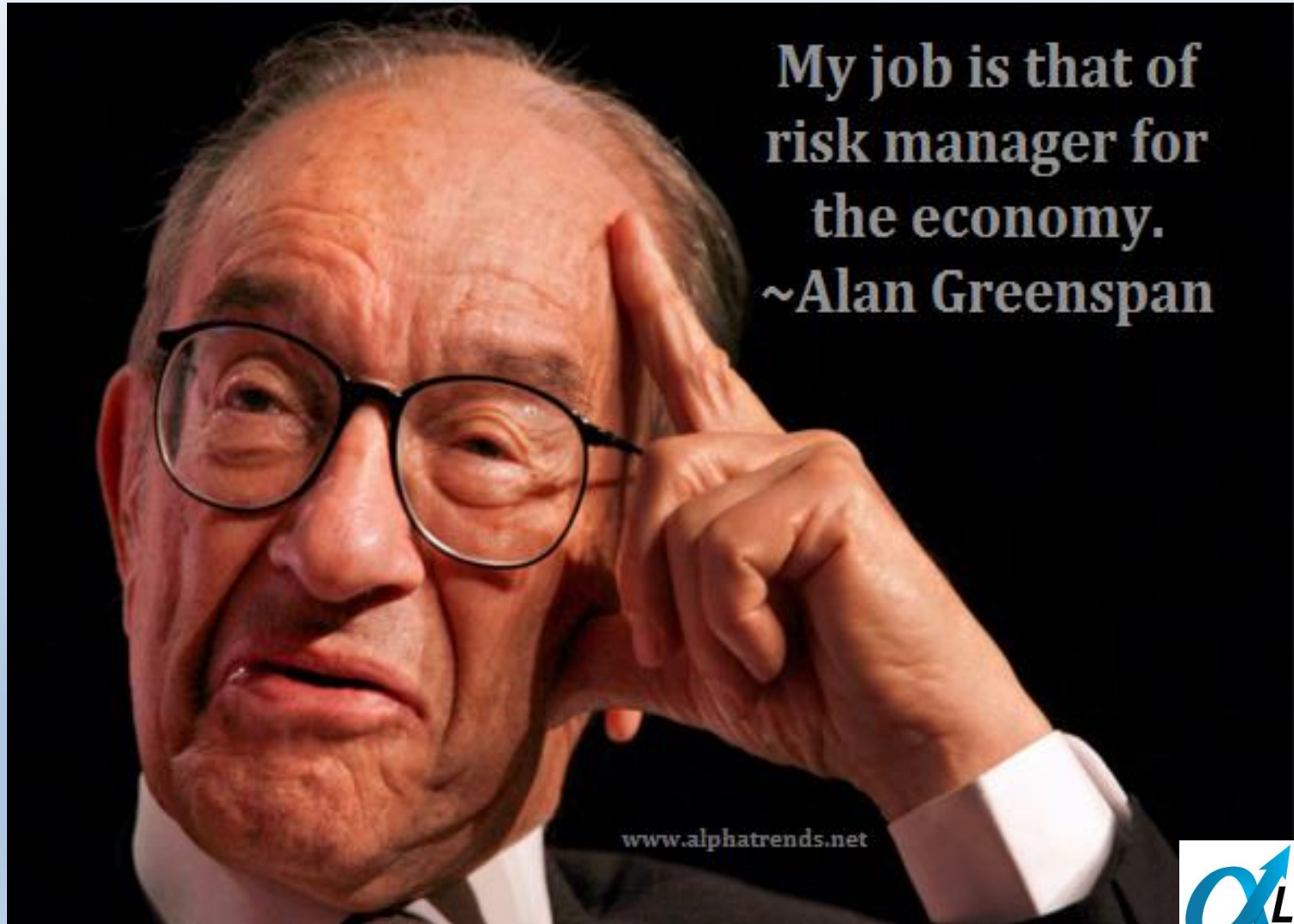


Short Selling - Risks

- Short sales are more difficult than going long
- Only short stocks in a downtrend (downtrend definition)
- “Unlimited” potential for loss
- Some of the sharpest rallies occur in downtrends (don’t fall for them long)
- Do not short after a 2-3 days of decline
- Be quicker to take partial profits than when long
- Do not short “obvious” ideas, especially if they are still in an uptrend



Risk Management is Job #1!!



My job is that of
risk manager for
the economy.
~Alan Greenspan

www.alphatrends.net

Selling Short

We manage risk by lowering stops to just above the most recent & relevant lower high



4 – Short Squeeze

- A rapid run-up in price within a heavily shorted stock which is exaggerated by short sellers covering their bearish positions
- FEAR of unlimited upside
- Stocks in an uptrend are “innocent until proven guilty”
- Double demand – “natural” longs and shorts trying to cover
- Lack of supply- stocks near all time highs do not have “trapped longs” looking to get out at breakeven



Short Squeeze Dynamics - Short Interest

- Total number of shares sold short and not covered (representing future demand)
- Updated by the exchanges 2x per month
- Available at www.nasdaq.com www.finviz.com www.shortsqueeze.com

Publication Schedule for 2017

	Settlement Date	Due Date- 6 p.m.	Dissemination Date after 4 p.m., ET
September	9/15/2017	9/19/2017	9/26/2017
	9/29/2017	10/3/2017	10/10/2017
October	10/13/2017	10/17/2017	10/24/2017
	10/31/2017	11/2/2017	11/9/2017
November	11/15/2017*	11/17/2017	11/27/2017
	11/30/2017	12/4/2017	12/11/2017
December	12/15/2017	12/19/2017	12/27/2017
	12/29/2017	1/3/2018	1/10/2018

Significant lag time between settle date of trade and when numbers are publicly reported

Short Squeezes

TERMINIOLOGY- Short Interest Ratio (SIR)
aka Days to Cover

$$\text{Short Interest} / \text{Average Daily Volume} = \text{SIR}$$

Short Interest Ratio (SIR) is the amount of days it would take shorts to cover their bearish bets based on the most recent average daily volume.

Short Position	Daily Volume	S.I.R*
2 Million Shares	2 Million Shares	1
2 Million Shares	500,000 Shares	4
2 Million Shares	250,000 Shares	8*

Days To Cover (SIR) Numbers may vary on different sites, depends on # days used in average volume calculation

*over 5 Days to Cover is generally significant



Short Squeezes



Short interest ratio can change without a change in number of shares sold short because the average volume may change

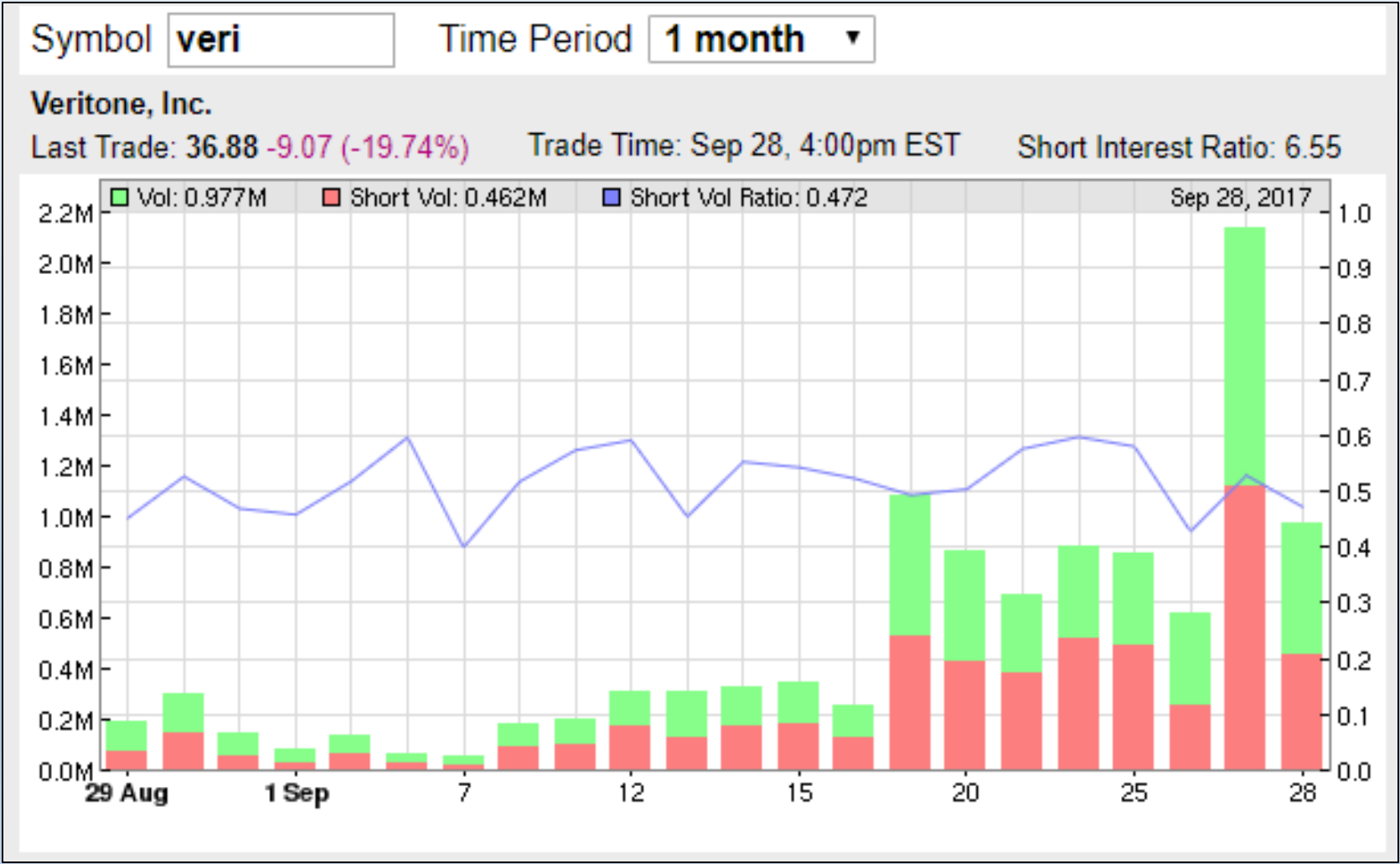
How accurate is the short information as reported by regulatory agencies?



“Markets can remain irrational longer than you can remain solvent.”
~John Maynard Keynes

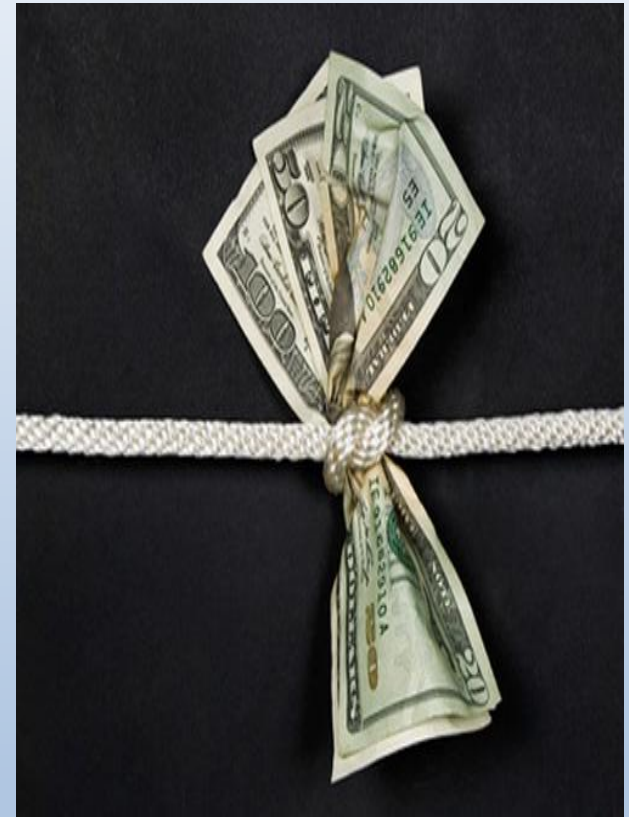
Daily Short Trading – More Active Than Most People Realize!

www.shortvolume.com



Short Squeeze Stock Characteristics

- Up trending stock or one near a breakout (double demand and less supply)
- Often strong fundamentals (revenues & earnings)
- Often a “fad” stock
- Know approximate level where short position was initiated
- High (over 5) Short Interest Ratio (SIR aka Days to Cover)
- High percentage of floating shares short (more than 5-10% gets my attention)



5 – Two Types of Short Squeezes

1 - Knee Jerk Short Squeeze

Characteristics:

- Stock in Stage 4 Decline
- Longer term sellers in control
- Declining moving averages
- Rumor motivated, takeover, upgrade
- Violent upside brings in emotional participants
- High likelihood of failure
- Guilty until proven innocent



Short Squeeze Dynamics - Knee Jerk Squeeze

- Rallies in Downtrends Can Come Quickly But Typically Fail

- Stocks in Downtrends are “Guilty Until Proven Innocent”

- Always be aware of the next bigger timeframe



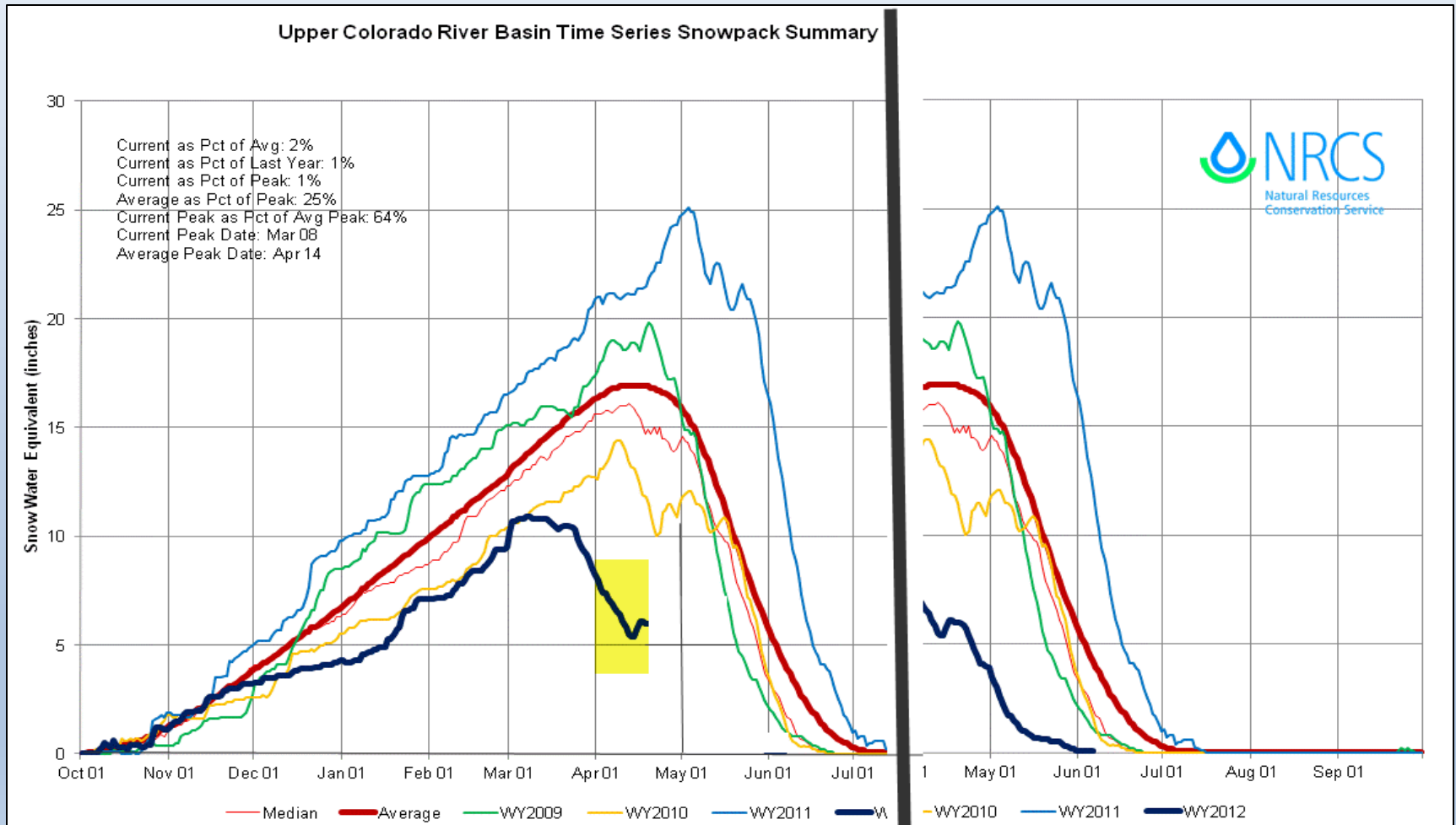
Knee Jerk Short Squeeze? SHAK



Knee Jerk Short Squeeze

Rallies in downtrends can be violent but most of them get “snow packed” quickly

Stocks in Downtrends are considered Guilty until Proven Innocent!

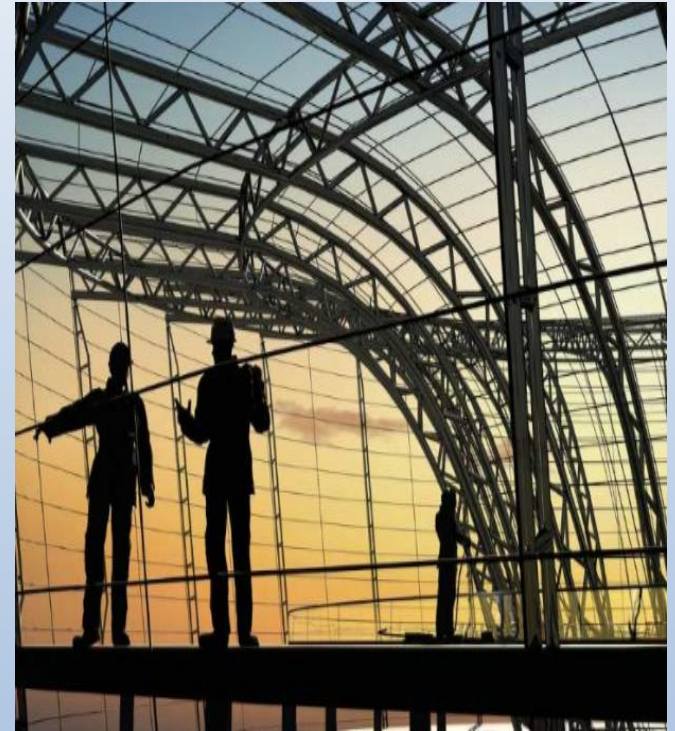


Short Squeezes

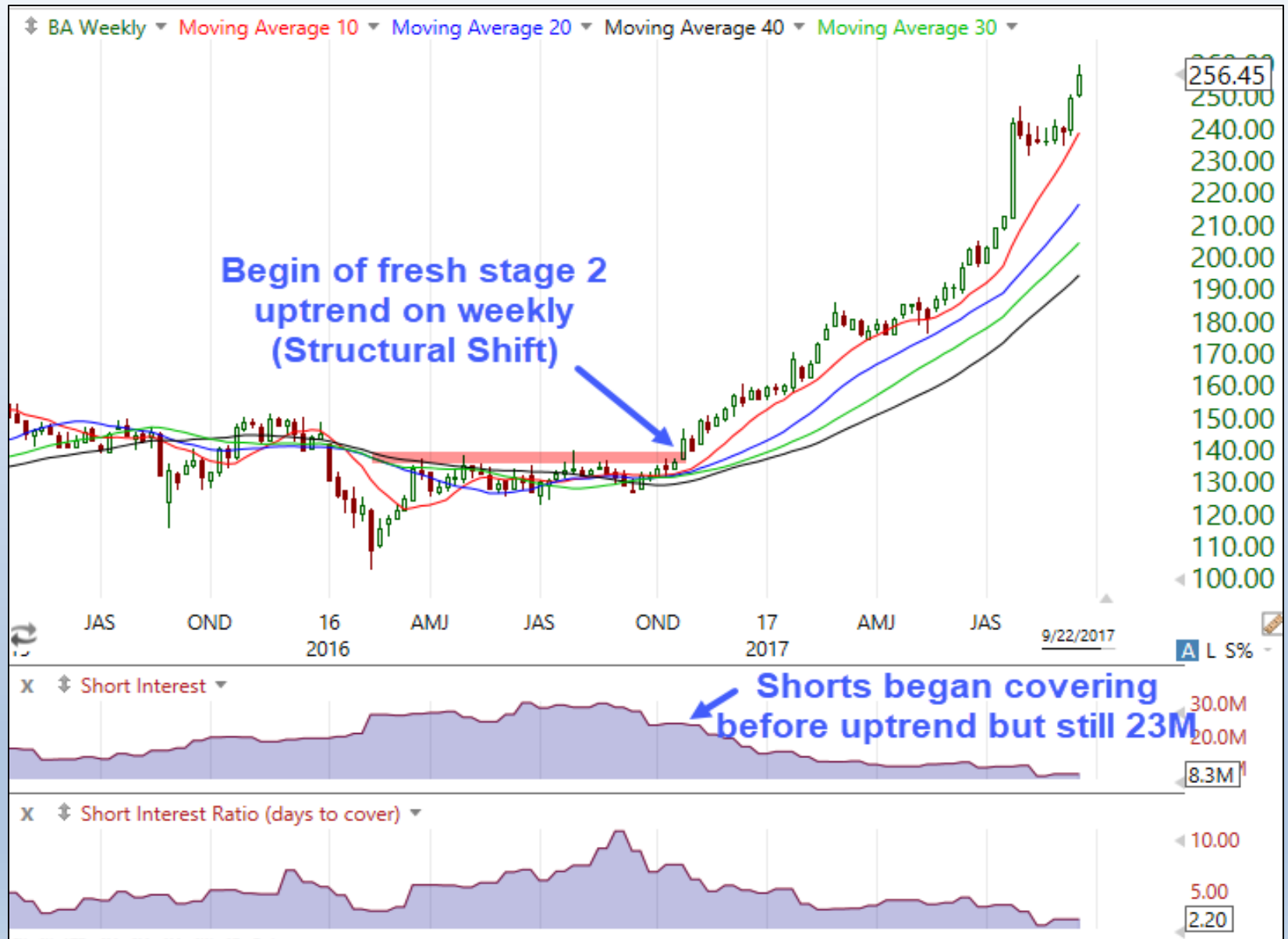
2 – Structural Short Squeeze

Characteristics:

- Longer term transition from Stage 1 Accumulation to Stage 2 Uptrend
- Above rising moving averages
- Shorts in real trouble as buyers gain control of long term trends
- Fear of unlimited losses
- Stock is “Innocent until proven guilty”



Structural Squeeze - BA



Structural Squeeze- LRCX



Structural Squeeze Potential- FEYE



Structural Squeeze Potential- CARS

I would be nervous if I was short



Risks In Short Squeeze Candidates

- Short sellers aren't stupid (especially in biotech stocks)
- A lot of assumptions in data due to staleness
- We don't know if the position is hedged or part of a more complex position
- Mitigate Risks with options strategies, position size, etc.
- Job number one is always to manage risk!

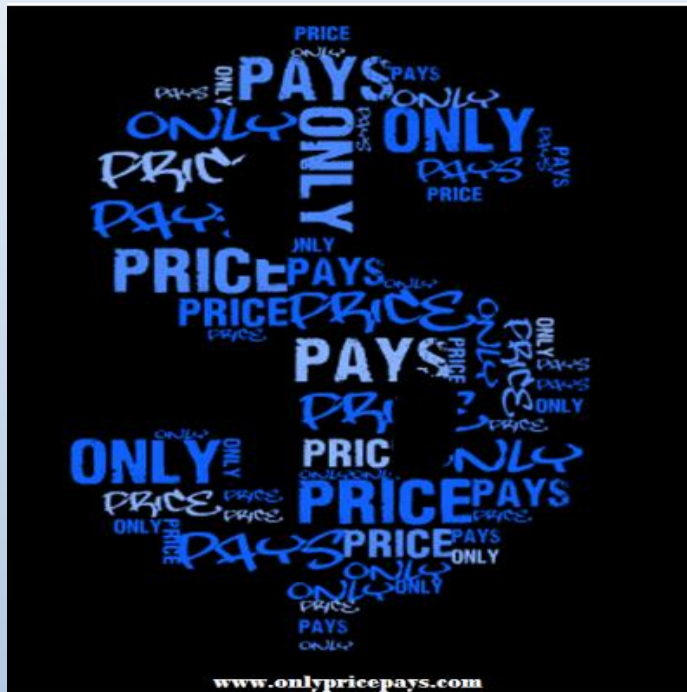


Thank You for Attending



Thank you to Trade Ideas

Follow Brian on Twitter @alphatrends



Technical Analysis Using Multiple Timeframes
by Brian Shannon is available exclusively on
Amazon.com

