Rubber Band Scalp

Why the RubberBand Scalp Works:

- In Play stock makes an extended directional move. It grinds down in a very controlled way.
  - Sort of feels like sellers are slowly but very consistently pressing the price lower; they are selling but not rushing
- Then sellers start to accelerate their selling, they are more urgent to get their position sold
  - The sell program starts rushing and getting sloppy with their execution, they care more about being done with the sell order than they do about getting good prices.
- This creates an unsustainable amount of selling pressure, and once that sloppy sell order has ended, we expect the stock, the rubber band, to SNAPBACK and price to return to normalcy.
  - It's not the extension that makes this trade work, it's the sloppiness of the acceleration that creates the opportunity for us and makes this trade work when the rubber band starts to SNAP back.
- We wait for the extension to try and stretch as far as it can, and then we observe for a moment when it just can't extend any further and we start to see a distinct SNAPBACK, a clear change in the participants involved in the stock and we take advantage of the aggressive sell program ending and ride the SNAP back up.
- This works the exact same way, but in reverse for short trades.

The exact rules of Entry (all rules the exact same, just inverted for short scalps):

- Aggressively buy when a SINGLE green candle clears the highs of 2 or more preceding candles (a "double bar break")
- We enter as soon as that SNAPBACK candle takes out the highs of the prior continuation candles
  - Enter aggressively, paying the offer, without waiting for the candle to close.
- This is a 2 Strikes and we are OUT scalp.
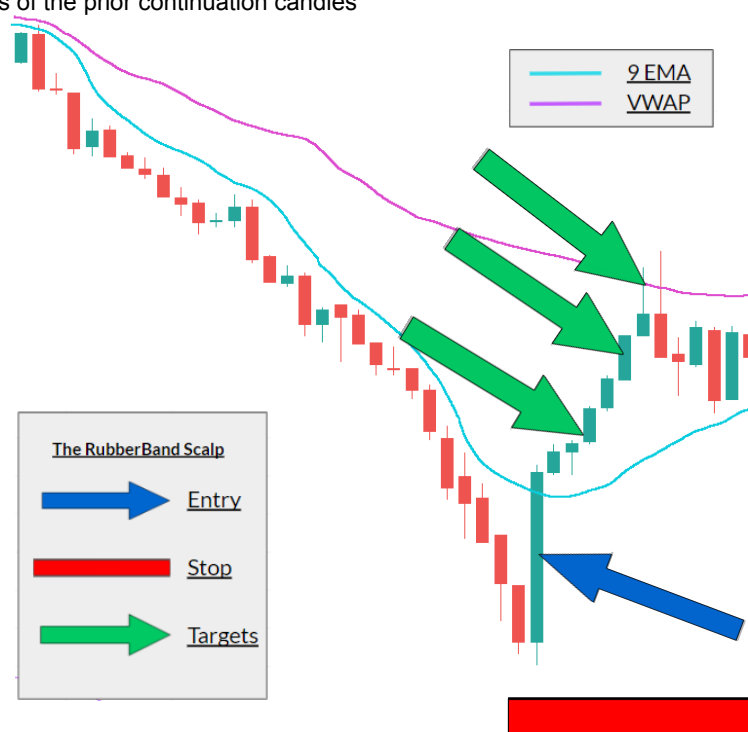 - We can give this scalp 2 entry attempts in the stock in a day.

The exact rules of Stop placement:

- Hard stop .02 below the low of the day
  - We are expecting the sell program to be done
  - Since the SNAPBACK candle almost always marks the low of the day, the stop is usually right below this candle.

The exact rules of Exit:

Exit in 1/3rds to let the rubber band extend in our favor

- Exit 1/3 of position at 1:1 R/R from entry to stop
- Exit 1/3 of position at 2:1 R/R from entry to stop
- Exit final 1/3 of position into VWAP

The RubberBand Scalp

→ Entry

▬ Stop

→ Targets

9 EMA
VWAP

Rubber Band Scalp

Factors that Increase the odds of success:

- RVOL > 5 +
    - RVOL (relative volume) tells us generally how In Play the stock is; 5+ RVOL is typically a very In Play stock
- Price down > 3 ATRs from the open
    - This is a really solid extension typically and one that will have lots of participants involved.
- Volume and Range of 1-minute candles increase on the last "leg" lower
    - Showing the increase in acceleration of the sloppy sell program
    - It also shows an increase in volatility
        - Volatility = opportunity for us as traders
- SNAPBACK bar is one of the 5 highest volume bars on the day
    - This can confirm the strength of the snapback for us, showing how many traders are aligned with the scalp we are making.

Factors that Decrease the odds of success:

- Fresh breaking negative news in this stock against the trade
- Trade offered on Day 1 of a break of a higher time frame range

The ideal times of day to take this Scalp:

- The best times of day for this scalp are:
    - Morning (10-10:45 am EST) after an accelerated extension from the open
    - Mid-Day(10:45- 1:30 am EST) after a morning extension accelerates lower
- Special note about the Open (9:30 – 10 am EST)
    - This trade can show up on the open IF it's already extended on a higher time frame (hourly or daily chart) and then accelerates the extension during the opening session.

When do we avoid this scalp entirely?:

- If the stock is not extended from VWAP and there is no clear acceleration from the trend
- Don't fade a cleanly trending market
    - When the Market (SPY, QQQ, IWM) is down-trending in a steady way (similar to the consistent trend portion of this trade), we want to avoid this trade as it's simply a cleanly trending market and far less likely to give us the Rubber Band effect we want to take advantage of with this scalp.

Scalp Statistics:

- 60-65% win rate
- 1.6 to 1 Reward to Risk ratio