Second Chance Scalp

Why The Second Chance Scalp Works:

- In Play stocks that put in ranges can offer some nice range break trades, but when a range initially breaks, it can oftentimes "test" traders who were involved in the range break trade.
    - It's almost a game of hot potato where you have to be super skilled at reading the tape, timing the break, and then exiting as soon as the tape slows to really enjoy the range break trade.
- Another trade that sets up, but is a much easier trade with a higher probability of really working, and is an easier trade to take is a 2nd chance scalp.
    - The 2nd chance scalp occurs because of that initial rush out of range, but then on the pullback to the breakout point, we get to see if higher time frame buyers are actually there and will continue to buy the stock.
    - We get to see if prior resistance becomes support, giving us a great scalp, or if the move was just a rush of buying and will result in a failed breakout, trapping those who are stuck holding the bag.
- The 2nd chance scalp gives us a way to be a sniper.
    - It allows us to sit back and take a scalp grounded in the trading principle that old resistance becomes new support.

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

- Wait for a break
    - Watch for price to break through an area of resistance with a strong and clear move. A common way is to wait for the candle to close above a key level.
- Watch for a Retest
    - Once the level is broken, wait for the price to come back and "retest" the broken level, allowing us to see if old resistance becomes new support.
- Attack on entry-
    - Allow the 2nd chance to confirm by seeing buyers come back in through a candle that closes above a prior candle and enter our position.

The exact rules of stop placement:

- .02 below the low of the turn candle
    - We place our stop here because this low should line up with our old resistance that is now new support.

The exact rules of exit:

- <u>Half and Trail</u>: Set an initial profit target - trail the remaining using a short-term moving average
    - Sell ½ our position at our profit target: the high of the initial pullback that set up the 2nd Chance Scalp
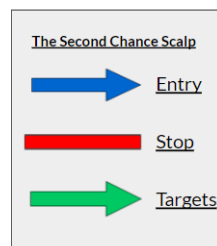
Second Chance Scalp

- Trail our stop for the remaining ½ of the position, giving it room to run, waiting for a 1-minute bar close below the 9 EMA on a 1-minute chart.

The Variables that increase the probability of the Second Chance Scalp working:

- Significance of the Level being broken
  - The more important old resistance was, the more important the new support becomes
- There is a visible increase in volume on the break of resistance combined with a low-volume retest of the prior resistance
  - It's a very visual clue, but a high-volume break shows us participation and a low-volume retest shows us a lack of urgency from the sellers above that resistance area.
- Trade occurring in the direction of the market
  - When looking for old resistance to become support, it can work even better when you have the market trending in the direction of our 2nd Chance Scalp. When SPY, QQQ, IWM are moving in the direction of our trade.

The Variables that can decrease the probability of the Second Chance Scalp Working:

- Over-extension on the initial break
  - If the size of the initial breakout move is more than the height of the prior range, it just may be too much for this scalp.
- This scalp fighting a bigger picture trend on the day

The ideal times of day to take the Second Chance Scalp

- Morning (9:59-10:44 am ET)
- Mid-Day(10:45-1:29 am ET)
- Afternoon (1:30 – 4 am ET)

When do we avoid the Second Chance Scalp entirely?

- If the action breaks back into range (back below resistance that should have become support) and does not recover in the next candle we avoid this trade entirely.
- NEVER take this trade a 3rd time, 2 strikes and we are out on this trade

Scalp Statistics

- 50-55% win rate
- 1.9 to 1 Reward to Risk ratio