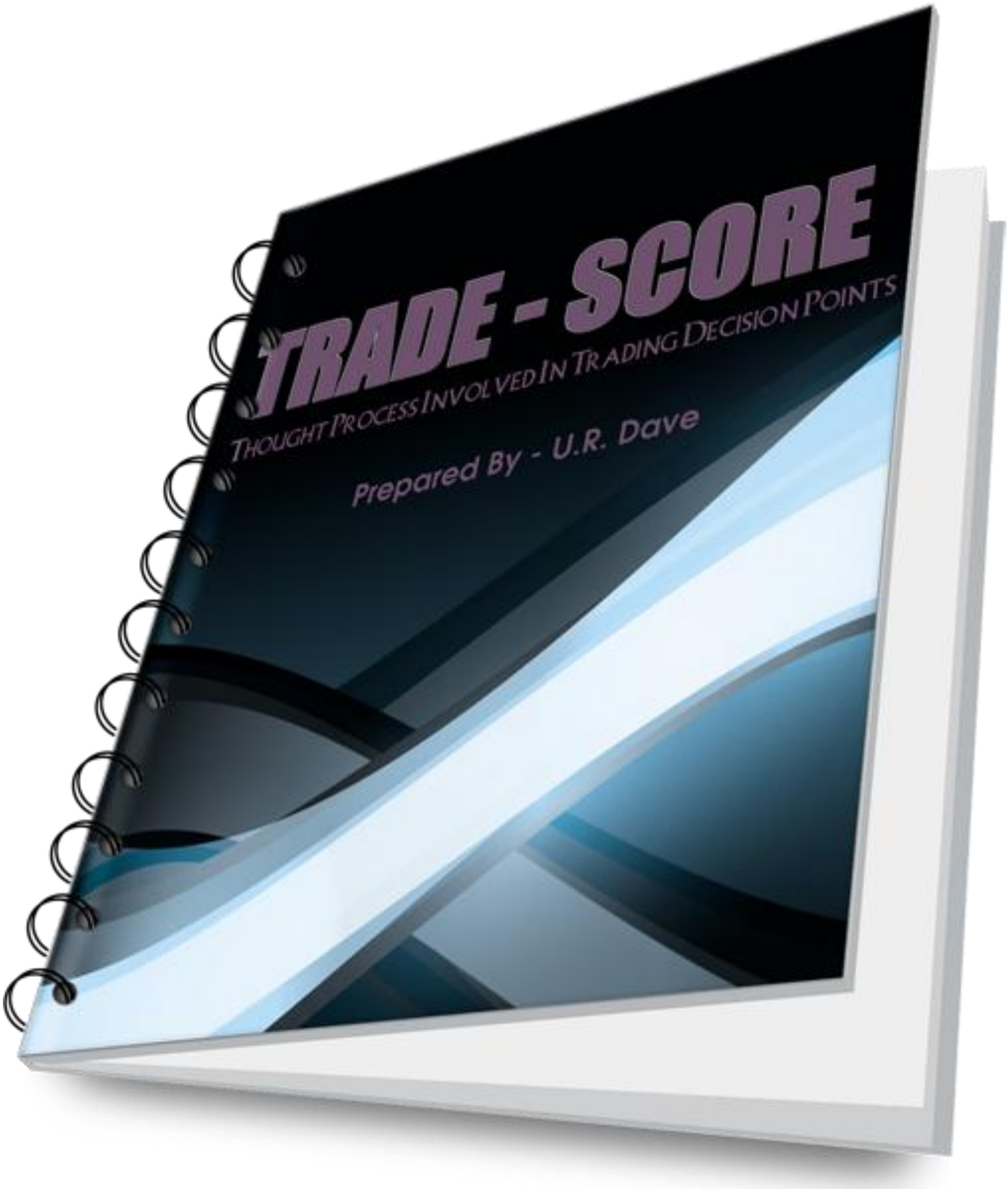
TRADE - SCORE
THOUGHT PROCESS INVOLVED IN TRADING DECISION POINTS
Prepared By - U.R. Dave

ABOUT ME

My name is U. R. Dave. I am not a full-time trader. I trade as and when I get a chance to trade from my busy present job. I work as a manager in an ITES-BPO company. I prefer to day trade Nifty Future 3-minute chart.

I have started maintaining my trading journal through my blog
http://charttechnicals.blogspot.in

I welcome all of you to visit my blog.

TRADE – SCORE

Thought Process Involved In Trading Decision Points

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Thought Process Involved In Trading Decision Points

Here I am trying to write about the system which I use to day trade Nifty futures. I have learnt this system from Mr. Rajesh, also known as SMART Trader. He is a full time trader and writes his blog and shares his trades and thoughts regularly on http://www.niftynirvana.blogspot.in/. He has pioneered and developed a new approach to day trading Nifty futures called Decision Point Trading. Here are the details about the Decision Point Trading System in very, very brief. Please be aware that most of the contents in this write-up are taken from Niftynirvana blog, and I thank SMART Trader for all his support and guidance.

Brief Introduction of Trading System:

We all know theoretically 70% of the time markets will be trading in a range. They are in a trend only at the remaining 30% of the time. It is very difficult to know exactly where the trend will start and where it is going to end. By the time we know a trend has started it is too late to enter and we are not able to capture a major portion of it. So it is better to trade the markets as if it is in a range 100% of the time, then we are going to be correct 70% of the time. I assume the market is in a range all the time and for me a trend is a breakout of a range extreme. A prolonged trend is a series of range breakouts whereas the range is a series of range breakout failures.

Trade Location:

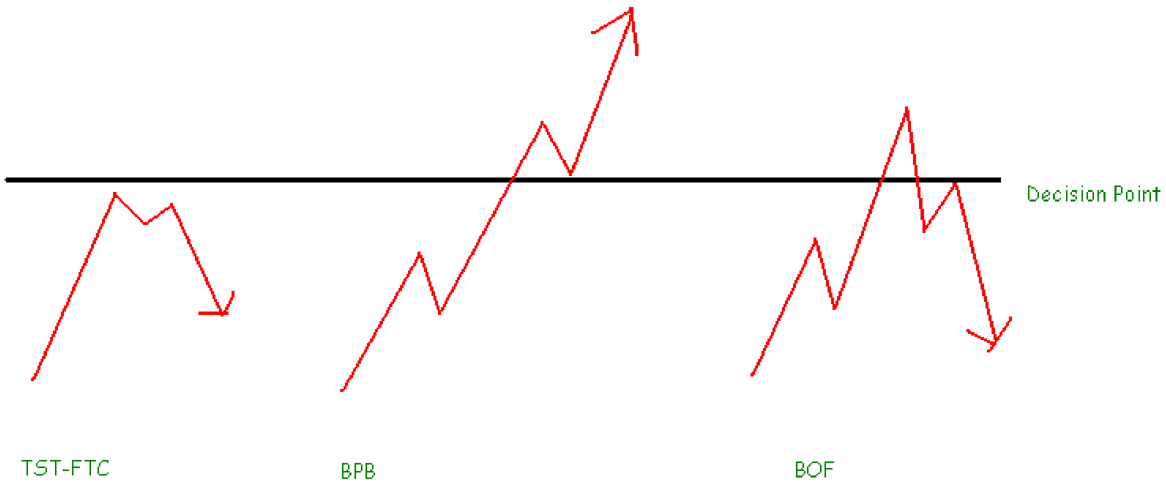
Every range extreme is not tradable in my scheme of things. I would like the range extreme to match with trader decision points (DP) which are Day open (DO), previous day high (PDH), previous day low (PDL), previous day close (PDC), big round number (BRN), round number (RN), high of the day (HOD), low of the day (LOD), etc. In other words, I would like to trade at the confluence of the range and DP.

Trading Tactics:

I trade around trader decision points. I trade the acceptance and rejection of price at these areas and always trade away from the decision points.

Decision points are price levels where the market strongly reacted earlier. Most of the time, they are proven price levels. But market will always create new DP levels. Traders are creatures of habit and you can expect them to react at these price levels again.

These are my three favourite trade setups when price encounters a decision point.



1. Price stalls just before the DP and there is no attempt to break the level. In other words it is failure to breakout. It is called TST or FTC.
2. Price breaks the level and pulls back. Pull back find support at the breakout level and the new level holds. This is a signal to trade with the trend. If the level holds price can only do one thing that is to go to the next DP. This setup is called BPB.
3. Price breaks above the DP but fail to hold the level. There is strong opposing order flow on the other side and price gets rejected. Naturally it has to come down to a lower DP where new buying emerges. This is called a BOF.

Decisive Action:

Now having defined the structure/location and identified the tactics to trade, we need massive action. We need to acquire the ability to take the right action at the right time.

As a discretionary trader, I use my feel and read of the market to make on-going decisions. I use some simple guidelines to analyse the market contextually. On the surface discretionary trading will look simple, but it may take some time to develop complex mental maps and achieve automaticity.

I use the guidelines as described in the Cheat Sheet of TRADE - SCORE to analyse the market and take trading decision. My thought process during market hours is based on these guidelines. These guidelines help me to take a decisive action.

I trade Nifty Futures intraday and for that I use 3-min chart. I have stuck to a single instrument and single time frame.

I have prepared a cheat sheet to help me analyse and take trading decision, which is as follows:

CHEAT SHEET OF TRADE

TRADE (T-Trend/Market Bias. RA-Range. D-Decision Point. E-Entry Pattern.)

Trend/Market Bias	**Big Picture (Before Market Open)**	1) Zoom out the chart and figure out what it is doing over the last few days, trending or range bound.
		2) Are there any significant levels from where it reacted? If yes, notice how it reacted and mark them on the chart.
		3) Daily in Rally/Decline Mode?
	Trend Strength (Before Market Open and on Ongoing Basis Through the Day)	1) What is the origin of move? After BOF or reversal after a climatic move.
		2) Trend or Counter trend? How long travelled? How many trouble areas cleared?
		3) Vertical exhaustive move or consolidations in between?
Trend/Market Bias (immediately after market open)	**How it opened and where**	Gap up/down, full gap up/down, Above or below PDC, trend or counter trend
	Inside/outside?	Whether it is inside or outside the previous day's range
	Day open and initial move	What is the initial move, up or down. Price above or below the day open
Range	**Current Range**	Identify the current range and see where the current range stands, above or below the previous range
	Within Established or Probable Range	Identify whether it is within established range or probable range
	Last DP crack Up/Down	Where was the last DP crack, on upside or downside, successful crack or failure?
Decision Point	**Analyse the Strength of DP**	1) Number of earlier attempts to break the DP
		2) How long price stayed at the level
		3) How the rejection took place
		4) How far the price moved away on previous attempt
		5) Presence of Layer over Layer
		6) Confluence of levels
	Confluence of Current Range & DP	Identify if there is any confluence of range and DP
Entry Pattern	**BO, BOF, TST, BPB**	Select the entry pattern

Now I will go into further details of the steps involved, step by step for better understanding.

Step-I:

Trend/Market Bias	Big Picture (Before Market Open)	1) Zoom out the chart and figure out what it is doing over the last few days, trending or range bound.
		2) Are there any significant levels from where it reacted? If yes, notice how it reacted and mark them on the chart.
		3) Daily in Rally/Decline Mode?

Description of Steps:

1) If market is trending up, prefer to buy the pull backs, range lows. Similarly if trending down, prefer to sell the pull backs and range highs.

2) Significant levels are any such levels from where market reacted strongly. For example, say market was rallying and stopped rallying at a particular point and made that point a high and then started declining. We will have to take notice of that peak. This peak/high becomes significant if reaction/fall from that peak/high is more from that point, let say fall of 40 to 50 nifty points or more.

3) In rally mode prefer longs and shorts work well in declines.

Step-II:

Trend/Market Bias	Trend Strength (Before Market Open and on Ongoing Basis Through the Day)	1) What is the origin of move? After BOF or reversal after a climatic move.
		2) Trend or Counter trend? How long travelled? How many trouble areas cleared?
		3) Vertical exhaustive move or consolidations in between?

Description of Steps:

Following steps are useful to assess the strength of trend.

1) Look at the origin of move/start of the trend. The move that starts after a strong BOF of a level is usually the strong one. A move after a BOF will have much more strength than a move after a TST or FTC as there will be trapped traders trying to exit.

2) Assess if the current move/trend is in line with the overall trend or against it. Prefer to go with the trend.

The trend gets exhausted after it has travelled a lot. If it has already moved 30-40 points in Nifty Futures, early entrants will start booking their profit on the first sign of a resistance. This will slow down the move.

If it has cleared more trouble areas, it is better. It denotes strength.

3) If the move is almost vertical without any consolidation, it is likely to exhaust. The move that has consolidations in between is the preferred one. If price consolidates just before the DP for a while, it will attract stop orders above this consolidation. Once price breaks above this, these stops may trigger and provide enough order flow to break the DP.

Some Other Factors to Assess the Trend Strength:

Extensions. Notice how far an impulse wave moves over the previous one. Compare with the previous extension. If it is more, trend is accelerating.

Dips. Watch how deep the pull backs are. Compare with the earlier one. Deeper pullbacks denote less strength.

Angle of the move. Looking at the angle of the move we can see whether the trend is slowing or gaining momentum.

Step-III:

Trend/Market Bias (immediately after market open)	How it opened and where	Gap up/down, full gap up/down, Above or below PDC, trend or counter trend
	Inside/outside?	Whether it is inside or outside the previous day's range
	Day open and initial move	What is the initial move, up or down. Price above or below the day open

Description of Steps:

Gaps and full gaps, inside or outside. Inside gaps or market open happening inside prior days range do not need any special treatment. Let the market trade and interact with a Decision Point .We can trade the price action around DP as usual. When the price gaps outside the previous day range, called full gaps or outside gap, it is a major transition and a change of sentiment. Price is likely to continue moving in the direction of impulse.

Initial move is the first directional move after the market opens. Initial move becomes significant if market respects it and moves in the direction of the initial move. For example, if the trend is up and initial move is also up and the price stays above the open, it is likely that it is going to go up.

Step-IV:

Range	Current Range	Identify the current range and see where the current range stands, above or below the previous range
	Within Established or Probable Range	Identify whether it is within established range or probable range
	Last DP crack Up/Down	Where was the last DP crack, on upside or downside, successful crack or failure?

Description of Steps:

Identify the current range and compare it with the previous range. If the current range is above previous range, it means prices are going up. If it engulfs the previous range on upside, it again means prices are going up.

Identify whether the current price is within established range or probable range. Prefer the range that has established. BO or BOF of DP at or around established range will be the significant one.

Look where was the last DP crack. If the last DP crack was on the upside and the prices are going up, they are expected to go up further.

Step-V:

Decision Point	Analyse the Strength of DP	1) Number of earlier attempts to break the DP
		2) How long price stayed at the level
		3) How the rejection took place
		4) How far the price moved away on previous attempt
		5) Presence of Layer over Layer
		6) Confluence of levels
	Confluence of Current Range & DP	Identify if there is any confluence of range and DP

Description of Steps:

1) Number of earlier attempts to break the DP. Fresh levels are likely to hold. Levels become weak after many attempts.
2) How long price stayed at the level. Price will run away if the demand and supply imbalance is significant. Otherwise it will hang around.
3) How the rejection took place. Price will behave as if it touched an energized fencing, if the level is very strong.
4) How far the price moved away on previous attempt. More the better. Rejection could be of lesser magnitude on subsequent attempts.
5) Presence of Layer over Layer. If LOL exists first level may yield and second will hold.
6) Confluence of levels. For example if IR High is also PDH, this level may hold well.

Confluence of the current range and DP. If there is a confluence of established range and DP, it becomes very significant. Any trade signal generated at this confluence is likely to yield. Even the trades taken at confluence of probable range and DP, are the preferred ones.

Step-VI:

Entry Pattern	BO, BOF, TST, BPB	Select the entry pattern

Description of Steps:

Select the proper entry pattern. Eliminate low probability ones. Most of the BO fails and are of the low probability. BPB and BOF work well.

Trade only at Decision Points.

Entry preferably on break of a potential Flip Zone (to ensure two layers of defence).

BPB entries preferably only on the first BPB of the move (to avoid over extended moves).

Counter Bias Trades preferably on BOF (ensure orders from trapped traders). CT trades are always low probability ones. BOFs are usually taken in an established range targeting the other extreme, on exhaustion or after a climatic move or on critical mass getting trapped in a powerful BOF.

Now, after having analysed the market and looked for the potential trade opportunity, next task is to assess the probability of trade success. When price approaches a DP, I visualize the trade. My preference for trade should always be in the direction of current Market Bias. Then I "SCORE" the trade before making a decision to act.

CHEAT SHEET OF SCORE

SCORE (S-Space. C-Critical Mass. O-Order Flow. R-Risk. E-Exit Plan.)

Space	Is there sufficient space for the trade to move? Where is the FTA? How to deal with the FTA? Whether we should target the FTA or enter on break of it?
Critical Mass	How day traders are positioned? Are they in profit? When they are going to book profits? Where they will panic? Who is in control of the Market?
Order Flow	Where are the orders? Where other traders will keep their stops? Where we should enter to ride these orders?
Risk	How much we are risking on the trade? Where to place stop? What should be our position size? Is it within our comfort level? Ensure RR is favourable.
Exit Plan	This includes TP, Reentry and reversal of trade which includes a TRAP.

Space: Trade needs space to move. This is one of the most important things to consider before entering a trade. First we need to identify the FTA (First Trouble Area). Trouble areas are potential barriers to price movement. It can be recent swing high/low, flip zone, a round number, or a consolidation border. Ensure enough space. Decide whether to target the FTA or enter on break of it. If space is less, wait till FTA clears.

Critical Mass: Critical mass plays major role when we take reversal trades. Whenever there is 40 to 50 points of move in one direction, it is safe to assume that critical mass has positioned them in that direction. All the three patterns I trade are reversals. While BOF and TST are directional reversals, BPB is a minor reversal of a pull back or counter trend move. For a reversal to succeed there are three conditions.

i) Those who entered earlier in the move are in profit now. They fear the reduction in their profit and start booking profits causing a pullback.

ii) Now those who entered late start to panic and start exiting their position in order to prevent loss. Physical stop loss orders of many traders start triggering. This further fuels the reversal move.

iii) A new group of traders expects a reversal and enter. These momentum traders will strengthen the reversal.

The greater the number of traders that are positioned in a particular direction, greater the force of reversal. We must ensure that sufficient number of positions are created in the current direction before attempting to trade a reversal.

Order Flow: Order flow analysis is a mind-set. It is about anticipating future orders and making decisions on it. I don’t need actual orders on our DOM to do this. It is all about projecting the future price move based on other trader’s behaviour. It is very important to know who is in control of the market at the moment. Real order flow trading involves anticipating where large enough traders are going to enter and exit en masse and acting there without hesitation allowing their orders to move our position to profit. We need to enter where there is enough order flow to support our direction and exit where there is opposing order flow.

Risk: We would need to hide Initial Stop behind a DP, so we need to assess our risk before taking the trade. If we are risking 10 points, we need to ensure a profit of at least 10 points for the risk reward ratio of 1:1. It is always preferable that reward is more than the risk.

Exit Plan: This includes Target Price, possibility of re-entry and reversal trade. For Target Price, any of the following guidelines can be used depending on one’s preference. I would prefer to trail the trade using pivots and flips to get the maximum reward.

Target Price	Scratch if price crack flip and settle
	Trail using flips and pivots
	Exit at the next DP or exit on reasonable profit
	Always consider strength of the move before the exit

I would not comment on Reentry and Reversal of trade. I believe these are the trader's preference. Some would like to consider re-entry and reversal of trade while some would not. I personally do not feel comfortable immediately re-entering into the trade or reversing the trade. I would like to take some time off the screen, wait out and clear my mind after the trade.

We need to keep in mind this is not Holy Grail. Trade may fail and will fail even if we thoroughly assess the price action and follow all the guidelines and take all the precautions.

Thanks for reading and spending your time.

U. R. Dave

EXAMPLE OF TRADE USING CHEAT SHEET OF “TRADE” AND “SCORE”

Chart Used For Example is Nifty future 3-min Chart Dated 14/02/2014. Please note in the first example of trade I have ignored IRH and IRL as DP and trading around them for better demonstration of thought process involved.

Step-I:

Trend/Market Bias	Big Picture (Before Market Open)	1) Zoom out the chart and figure out what it is doing over the last few days, trending or range bound.
		2) Are there any significant levels from where it reacted? If yes, notice how it reacted and mark them on the chart.
		3) Daily in Rally/Decline Mode?

1) It seems to be trending down over the last few days.
2) Significant levels are high of 6130 and low of 6000 as marked.

3) Daily seems to have just started declining down.
   Conclusion of Step-I: It seems market is going down. Look to sell at range highs and pull backs.

Step-II:

Trend/Market Bias	Trend Strength (Before Market Open and on Ongoing Basis Through the Day)	1) What is the origin of move? After BOF or reversal after a climatic move.
		2) Trend or Counter trend? How long travelled? How many trouble areas cleared?
		3) Vertical exhaustive move or consolidations in between?

We will analyse it later when the price approaches a DP.

Step-III:

Trend/Market Bias (immediately after market open)	How it opened and where	Gap up/down, full gap up/down, Above or below PDC, trend or counter trend
	Inside/outside?	Whether it is inside or outside the previous day's range
	Day open and initial move	What is the initial move, up or down. Price above or below the day open

Opened counter-trend gap up inside previous day's range.
Conclusion: Trade around DP as usual.
Will decide about initial move once initial range forms.

Step-IV:

Range	Current Range	Identify the current range and see where the current range stands, above or below the previous range
	Within Established or Probable Range	Identify whether it is within established range or probable range
	Last DP crack Up/Down	Where was the last DP crack, on upside or downside, successful crack or failure?

Now as the initial range has formed, lets assess it further.

Initial move is up and price is trading above DO.
Current range is above previous range.
It is a probable range.
No DP crack yet.
Conclusion: Seems to be going up.

Step-V:

Decision Point	Analyse the Strength of DP	1) Number of earlier attempts to break the DP
		2) How long price stayed at the level
		3) How the rejection took place
		4) How far the price moved away on previous attempt
		5) Presence of Layer over Layer
		6) Confluence of levels
	Confluence of Current Range & DP	Identify if there is any confluence of range and DP

Strength of DP (PDL PDC BRN): i) Virgin level. Ii) Confluence of levels. Iii) Price has not revolved around there.
Conclusion: Strong DP, likely to hold.

We will wait for the price to approach the DP.

NIFTY 02-14 (3 Min) 14/02/2014

Now it approaches DP. As expected, this DP acts as strong support. Now, the new range envelopes the initial range.

Assessment: Our initial assessment in Step-I was that we sell at range highs and pull backs. Then we thought the price was going up as initial move was up. Then we found this DP the strong one and expected it to hold.

Entry pattern: It is TST, low probability one.

Lets assess the strength of trend.

Trend/Market Bias	Trend Strength (Before Market Open and on Ongoing Basis Through the Day)	1) What is the origin of move? After BOF or reversal after a climatic move.
		2) Trend or Counter trend? How long travelled? How many trouble areas cleared?
		3) Vertical exhaustive move or consolidations in between?

Origin of the move is not BOF or reversal after a climatic move—not strong one.

Trend move. Traveled 30 points. Cleared one FTA, i.e. IRL. Almost vertical with small consolidation.

Assessment of TRADE: Though the overall trend is down, other factors are in favour of going long, like opening gap up above PDC, initial move up, strong DP, range establishment at DP, and not so strong current trend. But it is counter-trend and entry pattern TST is the low probability one.

Now lets assess SCORE and see whether it favors.

Space: FTA is IRL, very close from current price, and then IRH. So it is better to wait for the crack of IRH.

Critical Mass: Not sure about it as it is just the initial phase of trading for the day and has just moved 30 points from the top.
Order Flow: Since there is no BOF at DP, there will not be enough order flow at DP. Next order flow will be only above IRH.
Risk: It favours if we target at least IRH as TP.

SCORE assessment: Does not favour going long at the DP.

Final Assessment: Not to go long at TST of PDL PDC BRN. BOF or BPB could have been favourable.

Now see ultimately what was the result….

As you can see, though it moved up, even after two hours it could not reach to the target area, IRH.

Now lets see whether we get any other opportunity to trade….

As we see price has approached the DP, lets assess again using TRADE and SCORE.

Trend: Down. Sell highs.
Range: Range between IRH and IRL now seems to be the established one. We know any trade taken at the confluence of established range and DP is the preferred one and likely to yield.
Strength of DP (IRH): Seems to be working as a flip if we include previous day's price action too. Moved away 30 points from here. No confluence of levels and no LOL—not so strong one.
Entry Pattern: Could be BPB or BOF.
Strength of trend does not seem strong, no momentum on up side.
TRADE assessment: Sell range highs, DP is not so strong, DP is the preferred area for trade (range established), possible pattern to sell would be BOF, strong pattern.

Space: FTA is around 6020. Possible space is up to range low, i.e. around 6000. So entry should be below FTA.
Critical Mass and Order Flow: It would be favourable if there is BOF. Whoever bought at day low around PDL would like to book if BO of IRH fails, thus creating order flow for short position. Plus there will be trapped traders from BO.
Risk: Favourable, reward is greater than risk.
Exit Plan: TP around PDL with preference for trailing.

Final Assessment: Both TRADE and SCORE favour going short on BOF of IRH. So lets short it below FTA 6020 with SL behind the DP (IRH) at 6032.

Now we are in the trade…..lets see whether the price reached to the target or our SL got hit…

Wow, it seems to have reached where it supposed to. Initially after the entry it seemed to resist to go down but ultimately reached to TP. Now we will trail the position and shift the SL to this big BO candle at 6010, with the hope of further move down.

Lets see what happens next…

Our revised SL to 6010 protected and it has attempted to go further down, but now it seems to have stalled at day low and the candle has failed to close below day low. We need to trail the SL to DP, in case it bounces back. So trailed to DP @ 5999.

Lets see what happens next…

SL got hit, booked out at 20 points profit.

<u>Conclusion</u>: There were two trading opportunities so far in the day. One we did not feel comfortable trading and other one we took which succeeded. Sometimes, it may still happen that even after assessing the situation and following all guidelines as mentioned in TRADE and SCORE, trade fails. But that is the reality of the market and we have to move on and look for another opportunity.

DISCLAIMER: The above trade example is just for demonstration purpose. You need to use your own discretion.