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There is a substantial risk of loss associated with trading Derivatives . Losses can and will occur. My methods will not ensure profits

Saturday, May 4, 2013

Trend Days

Trend is your friend till it bends. All trading methods barring few option strategies need directional price move. I have written about the importance of trading with the trend in an earlier post ([Read](#)). Even though my trend definition is different from the conventional one ([Read](#)), as far as possible I do try to stay with the trend.

Statistically, Markets trend one out of ten days. These days are called Type 1 days ([Read](#)) where market moves all the day in one direction and closes at an extreme. If we are able to enter early on a type 1 trend day, we can really make our whole month.. There are certain advantages trading these moves. Due to high directional conviction, these days offer very high probability setups where we can size up our positions and also avoid getting caught on the wrong side.

These days are very dangerous also. Being range bound traders our tendency is to fade the moves. Unless we identify the trend days earlier we will get killed, trying to fade these moves. Is there a way to identify these days earlier?

Sure. There are certain clues that may warn us about a trend day..

- Usually Asian Markets influence the open. Strong move against other Asian Markets at open shows directional conviction.
- Breakout from a range can trigger a sustained move. Pay attention to higher timeframe ranges also. Open above or below the previous day range may move further
- Large [opening gap](#) can trigger an extended move. Market may channel after the gap. Counter trend outside gaps are very reliable as they trap positional traders.
- We must pay attention to above average initial volume. This could be due to the activity of Investors and higher timeframe players entering in a big way.
- Earlier low volatility, narrow range days. There could be volatility expansion after the prolonged compression. You might have read about NR4 and NR7 concepts.
- Day after type 2 reversal days. Type 2 days are reversal days. This happens when price hits a strong higher time frame decision point during the day and reverses. This will show as hammers or shooting stars on a daily chart. We can expect a trend day after a reversal day

As you know, there are no certainties in Markets. We will do well if we pay attention to these signals regularly.

Posted by [SWARTTrader](#) at 7:39 PM



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