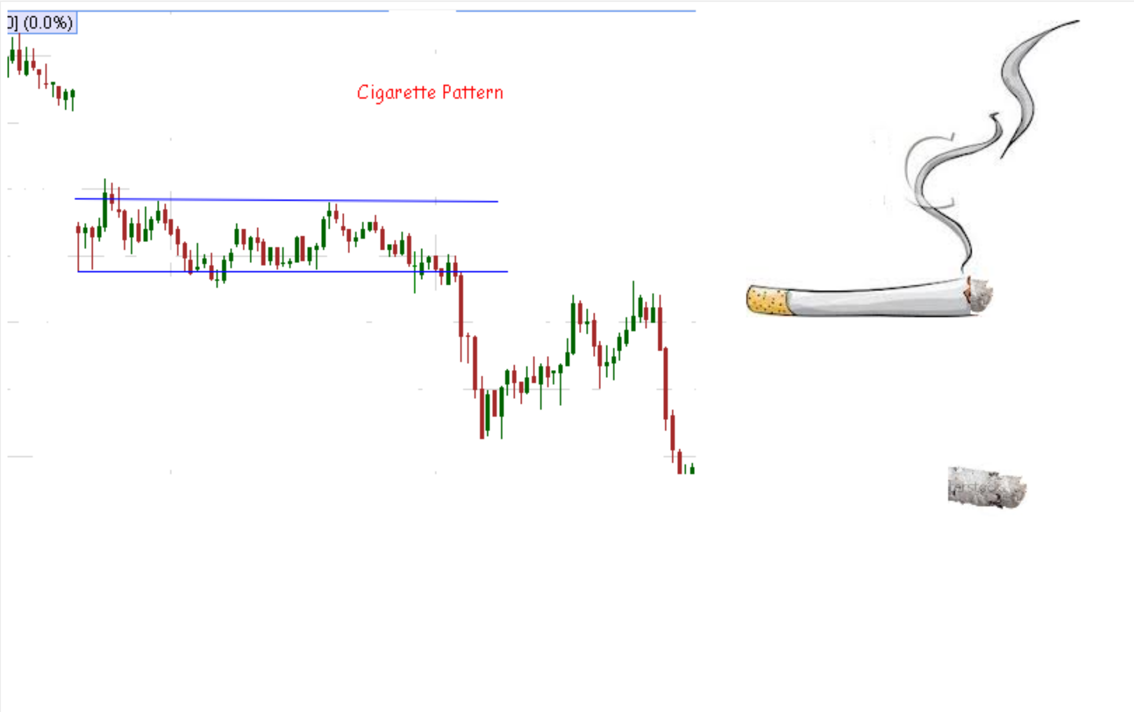
There is a substantial risk of loss associated with trading Derivatives . Losses can and will occur. My methods will not ensure profits

Friday, October 19, 2012

Cigarettes



Do you smoke? If yes pay attention to the "Cigarette" patterns that frequently occur in Nifty Futures. It may give you sufficient money to buy enough Cigarettes with which you can smoke your soul out. Non smokers can think of some noble cause like donating to some pain and palliative clinic for oral cancer patients.

I had mentioned about this pattern earlier. Many thought it was just a joke. No. It is real. It is actually a very tight trading range .Mostly this pattern appears immediately after the open. Usually a very narrow initial range continues for hours together. Range hardly exceeds 10 or 12 points. This happens because order flow remains more or less matched. This Cigarette like formation at the end can go up like a puff of smoke or fall down like the ash.

Most of the traders enter their position within the first half an hour of trading. As the time passes more traders join. These people will keep their stop loss orders just above or below the range. Some others will place limit orders at the extremes to capture the imminent breakout. Now there are clusters of orders above and below the range.

Finally some small imbalance pushes the price to an extreme and these orders start triggering causing an explosive move to that side. Almost always you may get a 15 to 20 point move within a few minutes. You must be very nimble to trade this. Keep your entry order a little far from the range extreme to avoid false breaks. You should book your profit immediately when the pull back starts. Don't expect a new trend. If the break out fails and price moves back into the range, kill the trade fast.Explore the possibility of reversing the trade as most of the time BOF of a range extreme will lead to a successful breakout of the other extreme

These moves will almost always come back. There are Algos sniffing around looking for such temporary imbalances. They will act within seconds and execute trades to exploit this price variance. Index arbitraging and cross exchange arbitraging are their bread and butter. Their action will make the market mean revert. Your paper profit may vanish.

Rush in where "Algos" fear to tread. But do not forget to rush out.

Posted by SMART Trader at 7:55 PM

7 comments:

Kamalesh P Langote October 19, 2012 at 8:49 PM

Actually I find this pattern very easy and comfortable to trade (does being an ex smoker help?)

I was short in the first hour and kept on adding more. Covered around 12.15-12.30 low and shorted again 1.00-1.30 levels.

The logic I use here is a hammer/ hanging man patterns for reversals. Two reversal bars are better and stronger than one!

Within a strong trend, I also look at complete reversal of most recent significant bar for profit booking/ initiation of positions (opposite direction).

You can try this approach...

Reply

Sunil Saranjame October 19, 2012 at 9:37 PM

Beautiful. Enjoyed!

Muchas gracias

Reply

Uday Dave October 20, 2012 at 12:12 AM

Fantastic...will never forget this pattern

thanks

Reply

SMART Trader October 21, 2012 at 7:30 PM

Kpl Sir

Now I am also noticing the Most recent significant bar. Works well
Thanks

ST

Reply

SMART Trader October 21, 2012 at 7:31 PM

@SS
@UR Dave

Thanks

ST

Reply

Gnanasekar December 8, 2012 at 9:04 PM

Dear ST,

I dont understand the most significant bar mentioned by the KPL and you.. Please enlight.. Thanks

Reply

SMART Trader December 9, 2012 at 11:55 AM

Sekar

Most recent significant bar could be a breakout bar or a selling climax. Usually this will be a wide range bar.If price reverses all the way back means the trend could be over. You can expect a consolidation or a complete reversal

ST

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