

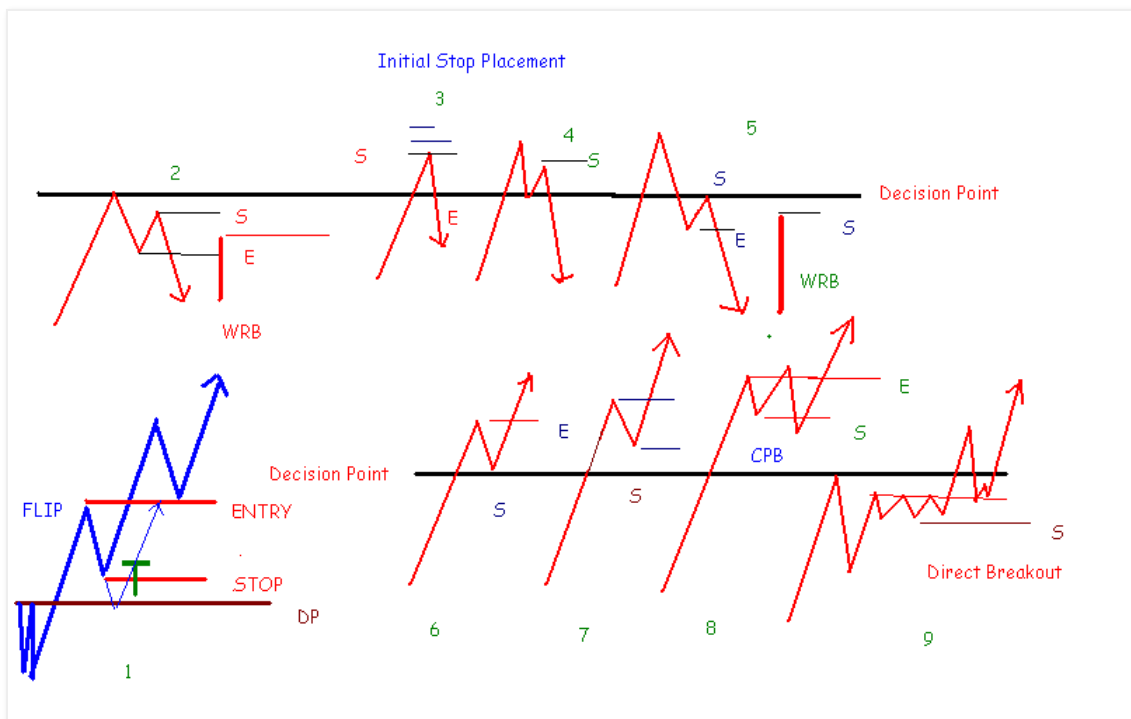


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There is a substantial risk of loss associated with trading Derivatives . Losses can and will occur. My methods will not ensure profits

Saturday, October 5, 2013

Initial Stops



Initial stop placement is always a problem area for traders, especially if you are a single lot BPL trader like me. Many times Market will take away our stop before going in our direction. Nothing is more frustrating than this. We can't help. It is all in the game. How can we place more effective stops? Let me share some thoughts.

I always trade away from DP so that I can hide my initial stop behind a DP. But it may not be possible always due to RR considerations. So we have to think about alternatives. We will have a look at some scenarios

Look at Pic 1. Price breaks a DP and pullback forming a swing high. Now there are three ways to enter into this pullback. 1. At DP on pull back with stop below DP. 2. Entry on a formation say a pin bar with a stop below it. 3. On break of swing high with a stop below the pull back low. Mostly I go for the third type. I expect this broken swing high to act as Flip and give support on the way down. If the swing low is very far I scratch on break of the Flip. If RR permits ideal stop is always below the DP

Pic.2. deals with a TST. Ideal stop is above DP only. But I wait for a swing low formation and short below it to have two layers of defense, a Flip and a swing point. Stop can be placed above second push swing high if DP is too far. If the bar which triggered the entry is a WRB we can place the stop above this bar also.

Pics 3,4,5, refers to a BOF. For a BOF the best stop is always above the extreme. There is no point in keeping stops much above the extreme because once price moves above the extremes, stops will start triggering and price may move up causing more loss to you. As per the situation keep stop losses above DP, swing High or WRB high.

Pics 6,7 &8 relates to a BPB. As you know the ideal stop is below the DP. Alternatively it could be below a swing low. But there is always a danger of a complex pull back happening. Only way to avoid it is to have stop below the DP or exit the trade on break of the Flip as a scratch.

Pic . 9. While trading a direct breakout always be well aware of this trap. Price attempts to break a range high many times creating a lot of stops above this area. Before the breakout ,price consolidates just below the range high forming another narrow range high. After the breakout price will pull back to this consolidation high breaking the range high to the down side. We will think it as a BOF and exit. Others will short the BOF. Price will reverse from the consolidation high with a vengeance trapping the majority.

There are no hard and fast rules for price action trading. Price action will unfold in million ways. The ability to think and adapt to the changing market conditions is very critical in trading.

10 comments:



Sunil Saranjame [October 5, 2013 at 9:56 PM](#)

Hi ST, what is your opinion about using ATR based stops?

The 14 period ATR on 3 minutes is around 13 now so a 2 ATR stop "should" work but many a times that is also gone. Maybe a 3 ATR? but then we are leaving too much on the table.

Thanks,

Reply

Anonymous [October 5, 2013 at 10:05 PM](#)

Thank You very much sir for this post..

Guptak03

Reply



SMART Trader  [October 5, 2013 at 10:27 PM](#)

SS

I do not use volatility based stops at all.

I prefer structure based or to be precise order flow based stops.

Imagine we are going long on a BOF trade and our entry is 8 points above the extreme low.

There could be tons of orders below the extreme low. Stops of new longs as well as new shorts. Once these orders start triggering there will be a momentum move down This may take out the 1,2or even 3 ATR stops. We may end up losing 39 points instead of 8

We must exit the trade when the net order flow turns unfavorable, whether it is TP or stop out

ST

Reply

Anonymous [October 7, 2013 at 12:27 PM](#)

Very nice article...just like your other articles...simple and clear..

Thanks for posting all these valuable info...

I wanted to ask you a question...Where do you learn all these from?

Thanks

Rajiv

Reply



SMART Trader  [October 7, 2013 at 12:59 PM](#)

Rajiv

Where else from?

WWW only

ST

Reply

Anonymous [October 7, 2013 at 7:25 PM](#)

sir reply plz

Reply



SMART Trader  [October 7, 2013 at 7:48 PM](#)

Rajiv

Actually the method is a cocktail of so many concepts I read and learned from the internet over the years

This is my own thing and this is the only place I write about this

ST

Reply

Anonymous [October 17, 2013 at 11:13 AM](#)

Dear Sir,

Words fail me to express my gratitude for this wonderful post and believe it or not I was going to write to you for posting your thought process on this topic. There you answered my prayer.

Please, if possible and convenient, make pdf files of your important posts.

Thanks a lot again.
Siddarth

Reply



Trekkie June 7, 2014 at 9:11 PM

Hi ST,
Please can you tell under which situations would you go for a type 3 trade and where exactly would you be entering? This is a really awesome chart that you have done up. Thanks a lot.

Reply

▼ Replies



SMART Trader June 7, 2014 at 10:41 PM

S Roy

Type 3 trades happen when there is an immediate price rejection.
Usually I enter on break of the BO bar low

ST

Reply

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