



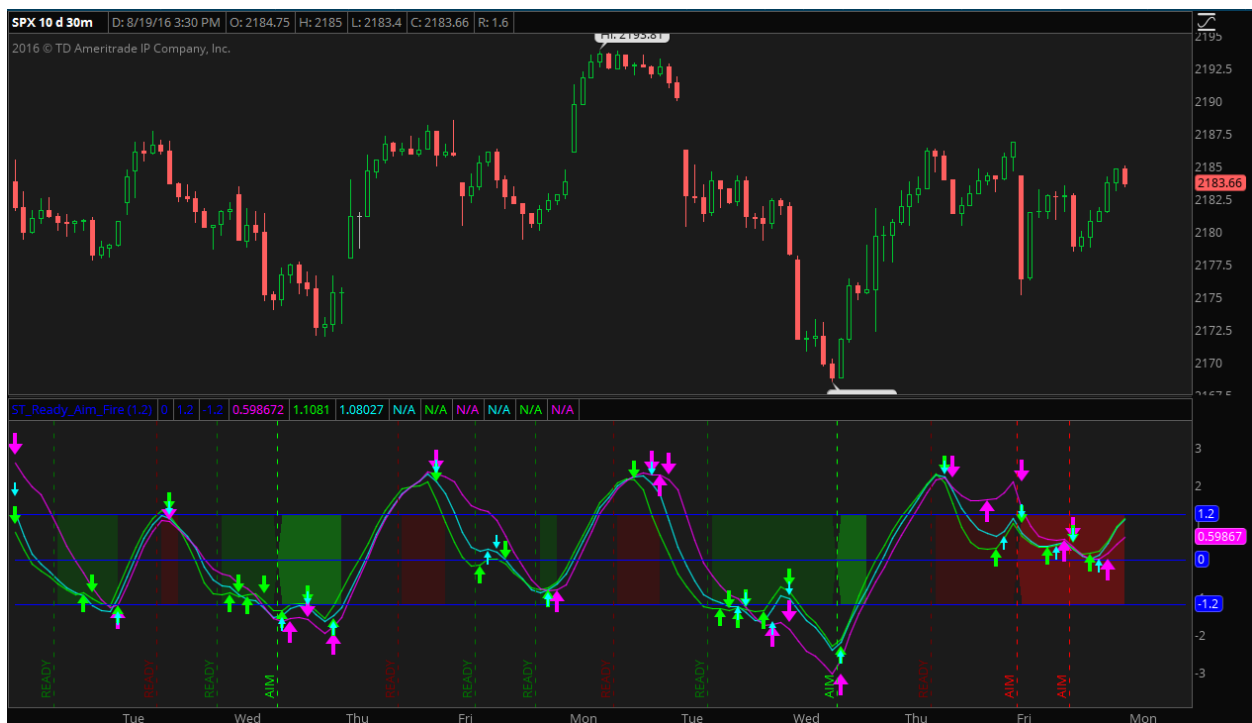
ST_Redy Aim Fire! Usage Guide

Ready, Aim, Fire! is designed to spot short-term trading opportunities as markets begin to turn. At the most basic level, it can give very specific buy and sell signals. However, like many technical indicators, there is also tremendous power to the subtle signals it generates. The more time one spends watching the market in conjunction with the indicator, the more one sees how variations in the patterns convey important information about the attractiveness of a trade.

This guide will show you the basic setups using Ready, Aim, Fire! and it will go beyond to describe the many variations in the signals and how they alter the interpretation.

Indicator Components

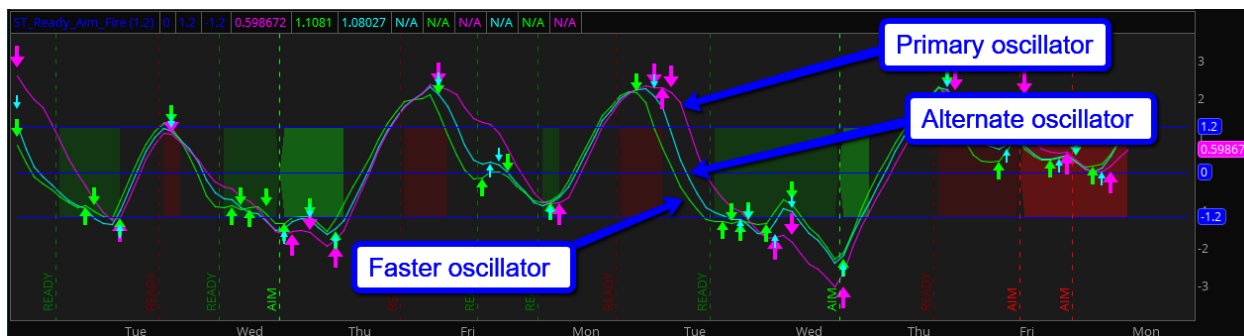
Visually, there are many different components to the indicator. Before we dig into what all the components signal, let's get familiar with all of them.



Oscillator Lines

The Ready, Aim, Fire! indicator has three oscillators. We are primarily focused on the magenta line. The way it behaves will help us to identify turning points. The other two lines can, at times, provide supporting information. The green line is more sensitive and therefore can give signals earlier than the magenta line. The cyan line uses a different, alternate calculation which can help confirm moves.

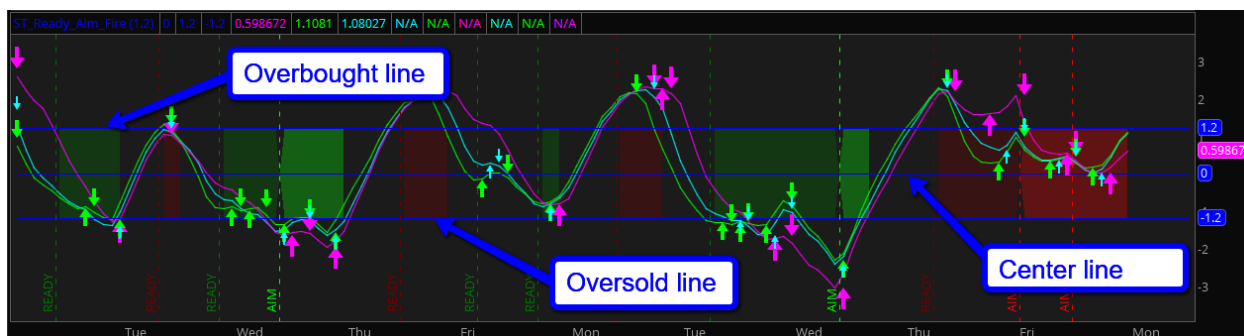
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Horizontal Lines

There are three blue, horizontal lines which are important to interpreting the oscillator lines:

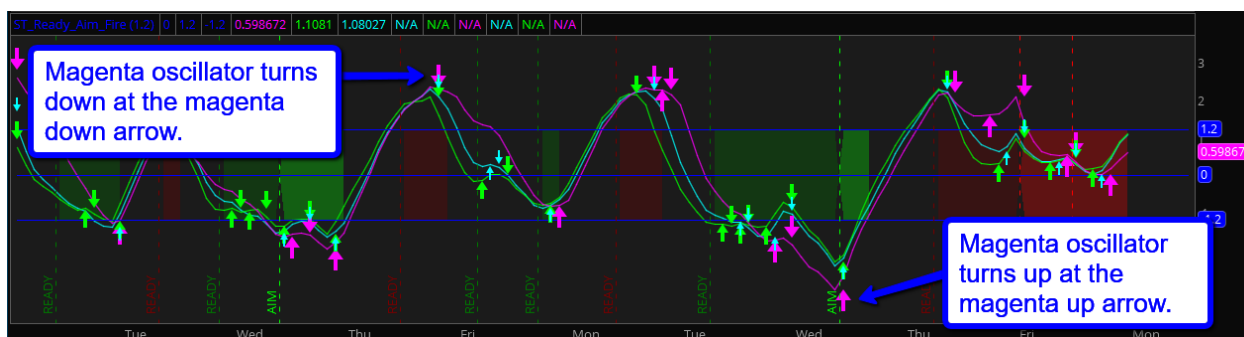
1. An overbought line near the upper portion of the indicator panel.
2. An oversold line near the lower portion of the indicator pane.
3. A center line between the overbought and oversold lines.



Turn Indicators

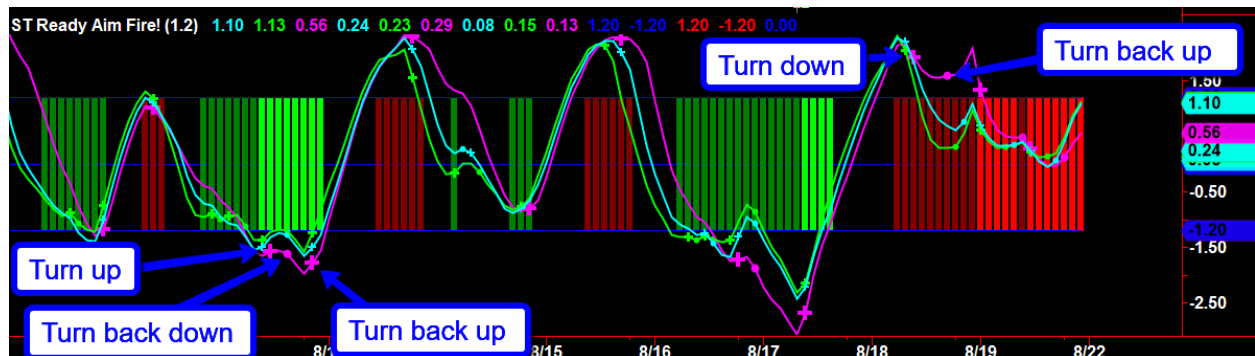
As we dig into the interpretation of the indicator we will see that it is important to notice when the oscillator lines turn from down to up and from up to down. There are visual indicators to highlight these turning points. While these visual cues may differ significantly from one platform to another, they all serve to highlight the situations which will provide the most actionable signals which we'll discuss when we move on to discuss interpretation of the indicator.

In ThinkOrSwim, arrows the same color as the oscillator line point out the locations where the oscillator turns.



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TradeStation doesn't provide a way for indicators to draw arrows on the chart. Instead, Ready, Aim, Fire! uses plus signs and circles to indicate the turns. However, neither of these indicates the direction in the same way as an arrow. In general, we care most about turns down from high levels and turns up from low levels. So the more visually prominent plus sign represents a turn down when it appears above the center line but represents a turn up when it appears below the center line. The less prominent circles have the opposite interpretation and represent a turn the opposite way.



Vertical Lines



Vertical lines provide the "Ready" and "Aim" signals

- Dark red lines signal a bearish "ready."
- Bright red lines signal a bearish "aim."
- Dark green lines signal a bullish "ready."
- Bright green lines signal a bullish "aim."

Using Magenta Turn Indicators

The turn indicators are the "Fire" in Ready, Aim, Fire! They represent the signals that markets have turned in a potentially significant way. Most of the time, focus should be primarily on the major levels represented by the magenta arrows. We'll discuss later how the less significant levels add a more nuance to our interpretation.

For the most part, we also only care about sell arrows which occur above the overbought line and buy signals which occur below the oversold line. Again, there are some exceptions which we'll discuss later, but for now let's only consider signals outside these levels.

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As traders we are often looking for indications of support and resistance. We can look to Voodoo Lines, Fibonacci clusters, moving averages, trendlines, pivot points and more. But even when we can identify levels, the question always remains whether price will continue through a level or turn there. The turn indicators were originally created to help answer these questions and it is that usage which we'll dig into first.

The important thing to remember is that the turn indicator arrows will give many false signals if they are used by themselves. For good results they must be used in combination with other indications. Taking sell signals at resistance and by signals at support is one way to do this.

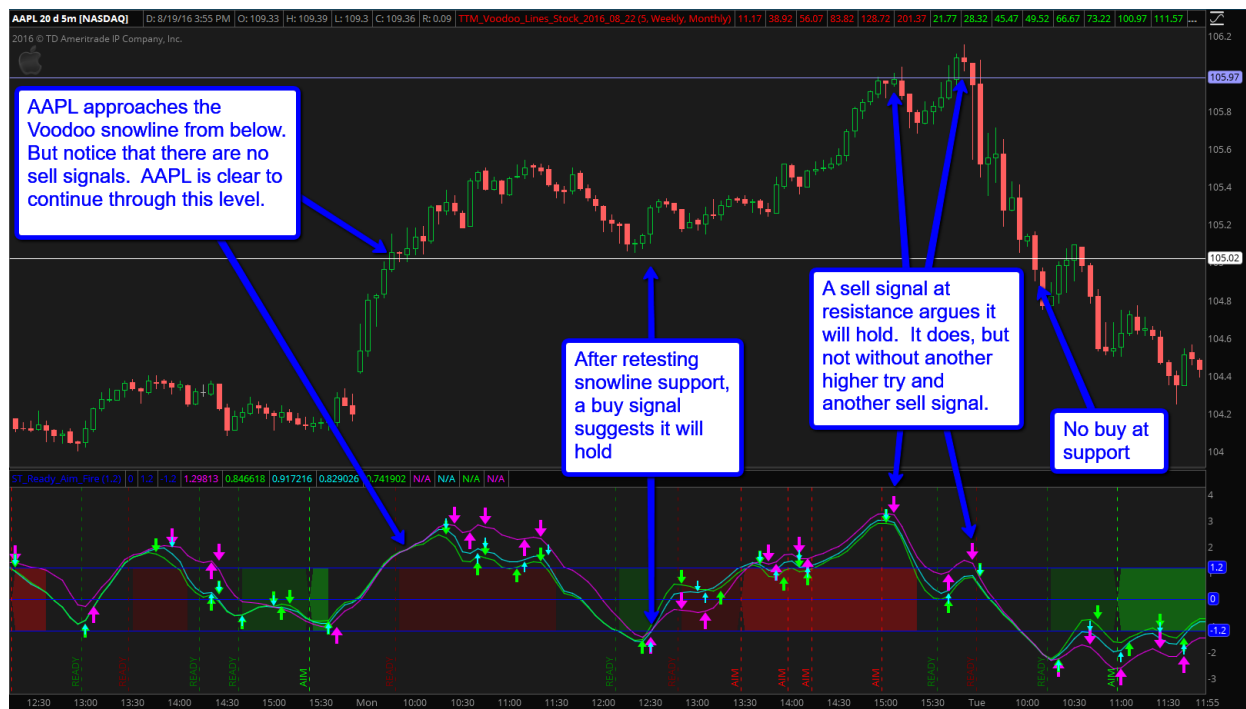


A five-minute chart of AAPL shows an example of how to do this in conjunction with Voodoo Lines. As AAPL approaches the Voodoo treeline, the magenta down arrow occurring above the overbought level suggests that AAPL will turn down. Similarly, an up arrow in oversold suggests that Voodoo skyline support will hold.

There are other signals that occur in overbought and oversold but since they don't occur at support and resistance they should be ignored. Also, signals with aren't in overbought or oversold should be disregarded.

As we know, support and resistance don't always hold as in the example above. Our next example shows AAPL moving through Voodoo support and resistance.

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Notice that while AAPL pauses briefly as it approaches the snowline there and a small upper wick is visible on the first five-minute candle to touch the line. However, there is no turn indicator and AAPL continues through. A common pattern with Voodoo Lines is that when price breaks a level, it often retests the level from the other side to indicate whether it will remain on the other side. In this case, AAPL retests the snowline from above. Not only does it hold, but a magenta up arrow in oversold tells us that it is likely to hold.

Not every indication is perfectly clean and the behavior at the Voodoo skyline shows an example of something one might see. A sell signal at the skyline says AAPL should turn down. It does briefly, but then heads slightly above the skyline before turning back down, again with the aid of a magenta arrow. Notice that even with the slightly higher travel, the Ready, Aim, Fire! told us to respect resistance.

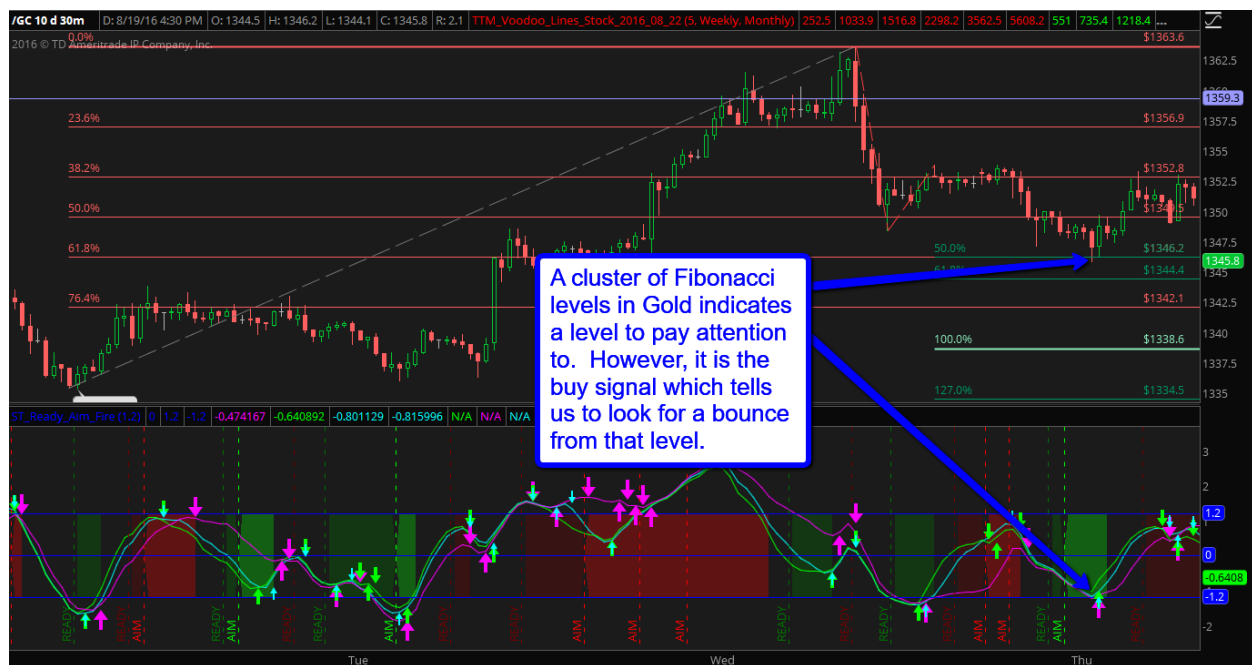
Lastly, notice that AAPL again approaches the treeline from above, coming back down from skyline resistance, there is no buy signal and AAPL continues back down below the level.

Here is another example using Tony LaPorta's pivots.

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Here is another example incorporating Ready, Aim, Fire! with Fibonacci clusters in Gold.



And one more example from a daily chart of VRX.

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The important take-away from all of these examples is that they all use some other source of support or resistance. Support or resistance on its own doesn't tell you whether it will be obeyed by price. Arrows on their own will give false signals. Nothing can eliminate false signals, but combining the two shifts the odds in your favor and the turn indications work with many types of support and resistance.

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Ready, Aim, Fire!

While the turn indicator arrows shouldn't be taken on their own, using them as the "fire" signal along with the ready and aim lines can make a fully self-contained signal within a signal indicator. This section describes the basic mechanics of the indicator. Not all signals are of equal quality, however, so it is advised to also study subsequent sections which discuss how to identify higher quality signals.

The general mechanics for trading using the indicator are pretty straightforward. For a Ready, Aim, Fire! buy:

1. Wait for a dark green Ready line.
2. Wait for a bright green Aim line. It is OK if multiple Aim lines appear, the process remains on track.
3. A magenta up arrow in oversold following an Aim line represents a buy signal.

The rules are similar for sell signals using red Ready and Aim lines and sell arrows in overbought territory.



That is all there is to it. And while one can effectively use the indicator exactly as shown alongside a trade management strategy, as one gets more experience with the indicator, it is possible to identify patterns which suggest a signal is more or less likely to lead to a successful trade. The remainder of this guide is concerned with helping to identify things one might watch.

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Evaluating Signal Quality

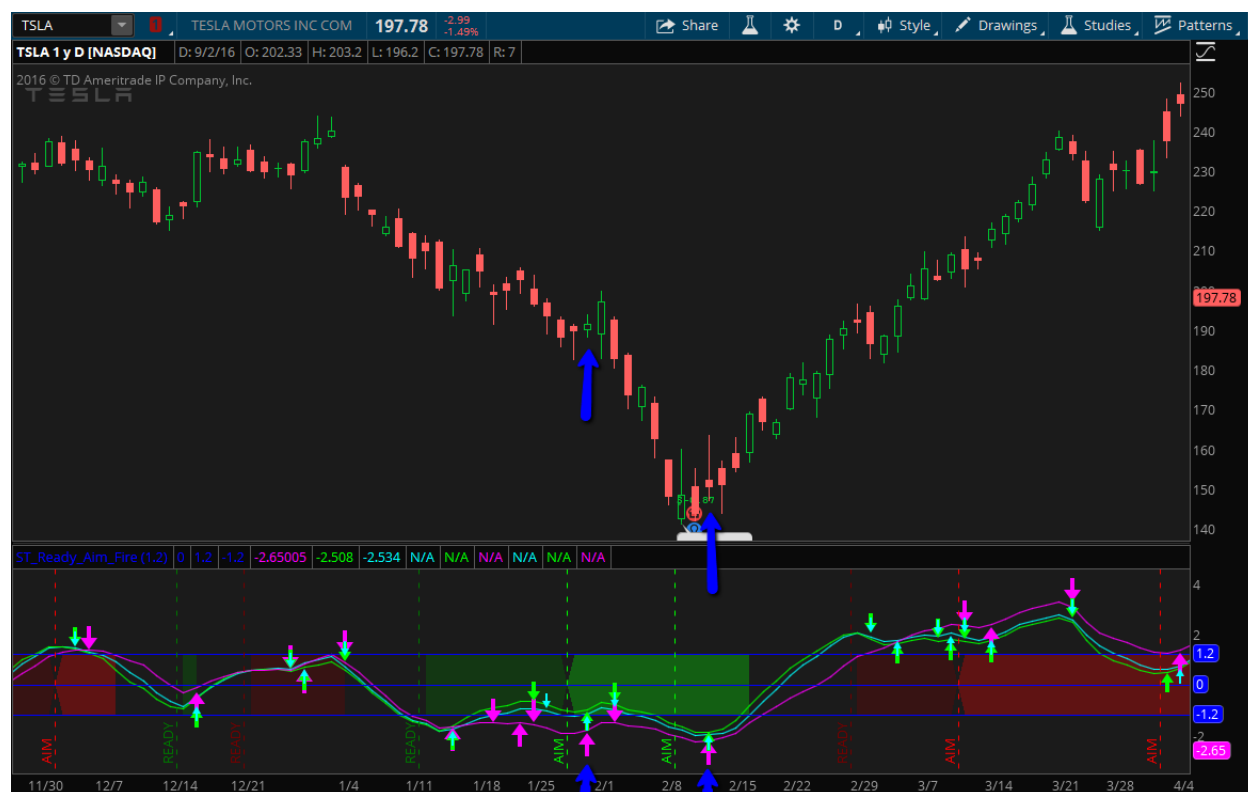
As you gain experience with Ready, Aim, Fire! you may discover certain patterns which more often lead to better setups and others which suggest less successful ones. Please don't take any of these to be hard and fast rules. Instead, these should be considered suggestions for a starting off point for things to pay attention to when starting to observe the subtle signals which are most meaningful to you; the symbols and timeframes you trade; and how to interpret the signals in combination with other indicators you watch.

Because the combination of indicators, instruments, and timeframes is unique to each trader, developing your own skill at interpreting the subtle signals can become part of your trading edge.

Number and Proximity of Signals

Let's revisit the NFLX daily example we looked at above. Notice that not far before the signal which worked, there was a valid Ready, Aim, Fire! signal which didn't work. While the only requirement for a valid signal is a magenta arrow in overbought or oversold, the better signals generally tend to have the magenta, green, and cyan arrows occurring at nearly the same time, all of them being in overbought or oversold, and occurring from similar levels.

In this case, the signal which worked had all of the arrows occur at exactly the same bar, all were in oversold, and the level within oversold was similar for all arrows. In the failed signal, both the green and cyan were not yet in oversold.



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Also notice how tight together the lines are for the successful signal and how they are more spread apart for the failed signal. Even if all the lines were in oversold, closely clustered signals often seem to work better than those spread out.

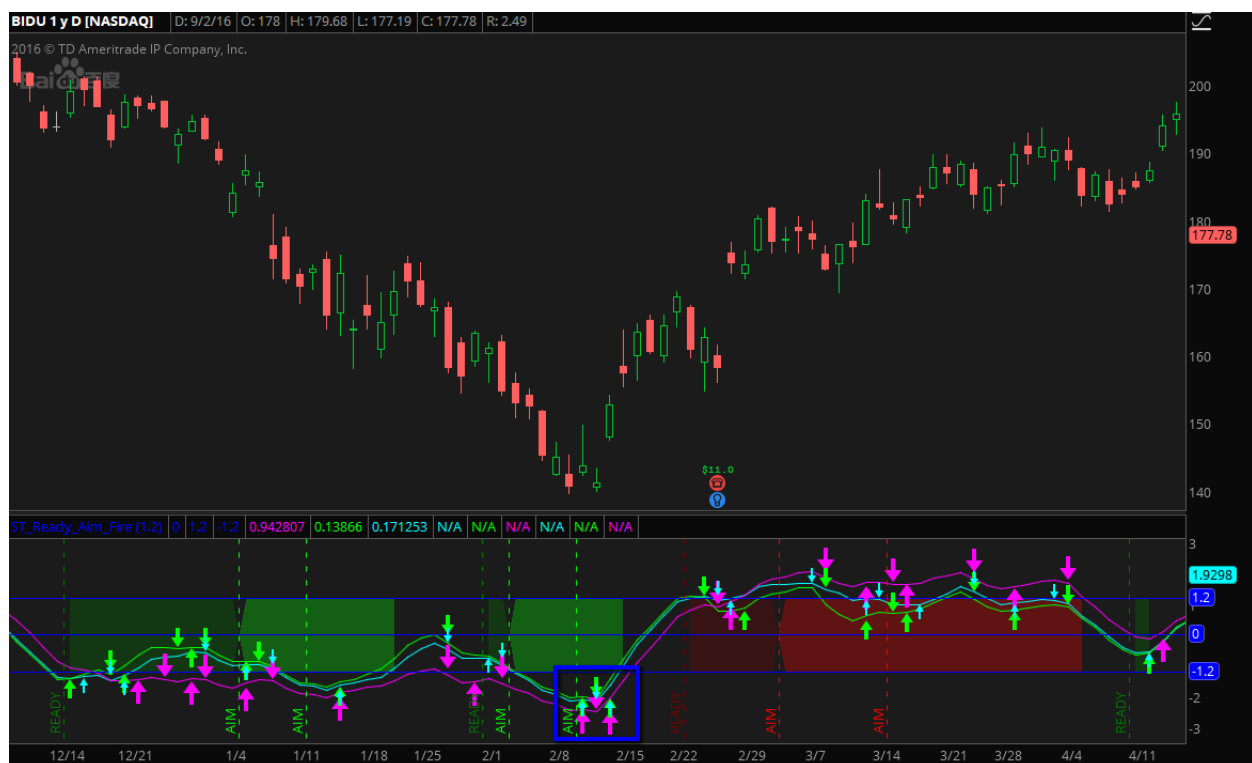
When signals don't all occur on the same bar, situations where they all turn within a bar or two seem to be preferable to those where the signals occur at very different times.

Overbought and Oversold

The level of +1.2 and -1.2 for overbought and oversold are arbitrary. In general signals which occur further away from the center line seem to work better than those which occur closer. That means that one might consider taking a trade where the signal is very close to but quite in overbought or oversold territory, especially if there are other reasons to like the trade. Similarly, someone very selective might prefer signals which are further in overbought or oversold, perhaps as far as +/- 1.8 or even +/- 2.0.

Cluster Signals

Sometimes a cluster of up and down arrows in tight proximity end up leading to good trades. The chart below shows a classic cluster by in BIDU. Notice how all the signals are close together and occur in oversold. Since, by definition, clusters start with a signal which doesn't work, some traders like to see the lines move out of oversold or overbought before joining a trade from a cluster signal.



Read, Fire, Aim

While often an expression to describe environments where people go off half-cocked, Ready, Fire, Aim signals shouldn't be dismissed entirely. That is, there are times when one might like to take a buy or sell signal after only seeing a Ready but not an Aim. In other words, it is reasonable to think that a buy or

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sell occurring after a ready but not an aim is more likely to work than one which occurs without either. Since it might not be as good as a fully qualified Ready, Aim, Fire! signal, one might look for other reasons to support taking a trade.

Putting It All Together

We started out by discussing two ways to use Ready, Aim, Fire: just the turn signals at support or resistance, and self-contained using the Ready and Aim signals to qualify good signals. When starting out it can be helpful to think this way, but realize that there really is a continuum quality of the signals.

That is, if having support or resistance improves the quality of a signal and having a ready and/or aim indication first improves the quality of a signal, then having a full Ready, Aim, Fire signal at support or resistance is even better than either alone. There are many ways to go about deciding whether a signal is good enough to take or not and the edge from this indicator can come from how each trader chooses to integrate it into trading decisions.

Predecessors to this indicator have existed for several years and I have seen it used many different ways. I have seen some traders use it to time buying decisions for stocks they have researched fundamentally. Others scalp the futures intraday in combination with watching correlated markets and market internals. I have even seen it used as the foundation for fully automated swing trading systems. The basics are all here as a starting point.

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