STOCKMARKET MASTERY

Your Trading Club Online Course
Module 9

Module 8 – Understanding what trading is

Dennis Sahlström

Trading is the buying and selling of financial instruments to make a profit

A trading strategy is a set of predefined rules which combine to determine when, and how, a trader enters and exits a trading position

The first step is to decide which financial market you will be trading. There is the Forex market, the Crypto market, Commodities and the Stock Market

If your lifestyle doesn't support entering and exiting the market multiple times per day, opting for a strategy that only requires 20 minutes per day might suit your lifestyle and commitments more

The next step to building a trading strategy is to plan what your trigger will be to enter the market. For example, a technical trader may wait for a specific pattern to present itself on the chart before they size up an opportunity

Knowing when to exit the market is just as - if not more - important as knowing when to enter

As a trade is running its course, it is important to have a system to manage the position. More specifically, this is a set of rules helping to lock in profits as the trade is moving in our favour

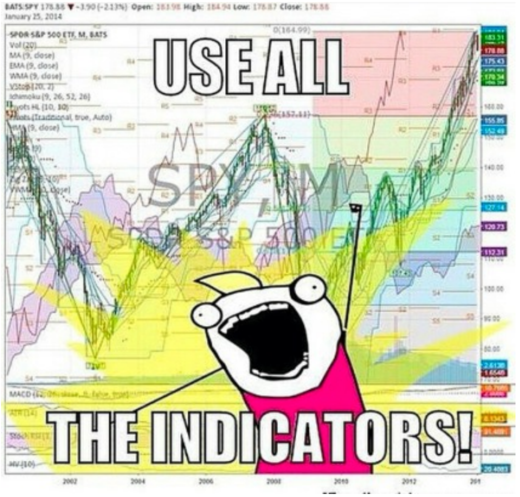
Module 8 - Understanding technical analysis

Dennis Sahlström

Technical analysis is the study of market data. The two major types of technical analysis are chart patterns and technical (statistical) indicators.

Our primary focus is looking at chart patterns and how these produce areas of support and resistance

Analysis paralysis



Analysis paralysis

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Module 8 – Understanding support and resistance levels

Dennis Sahlström

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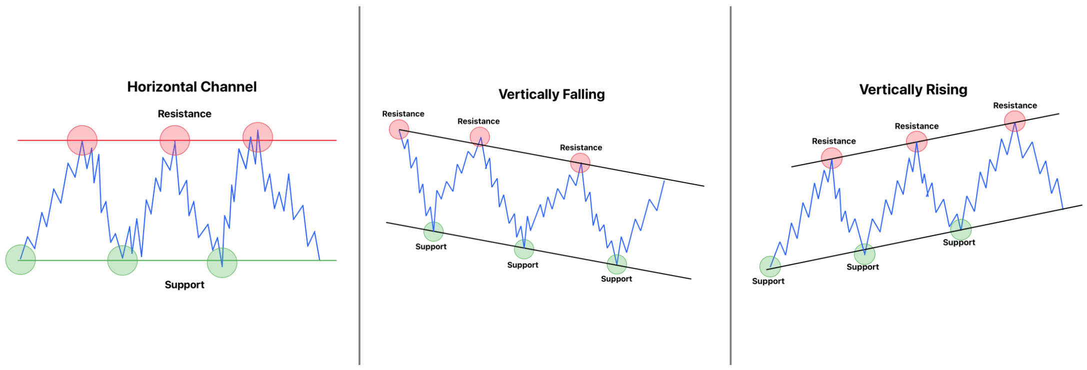
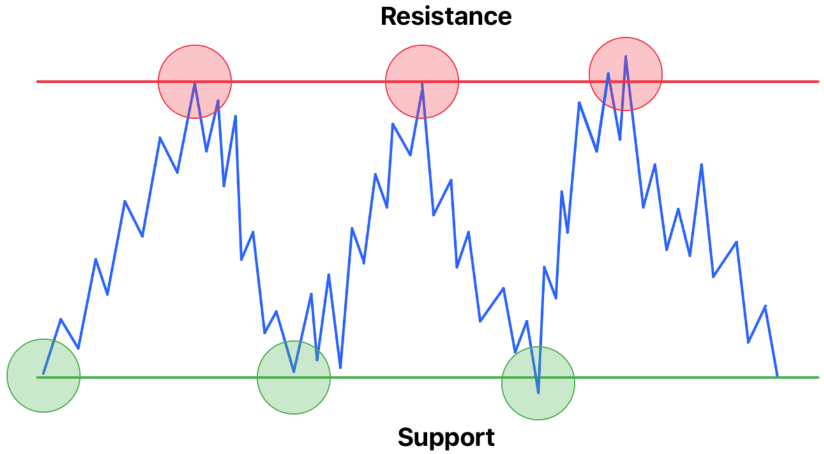
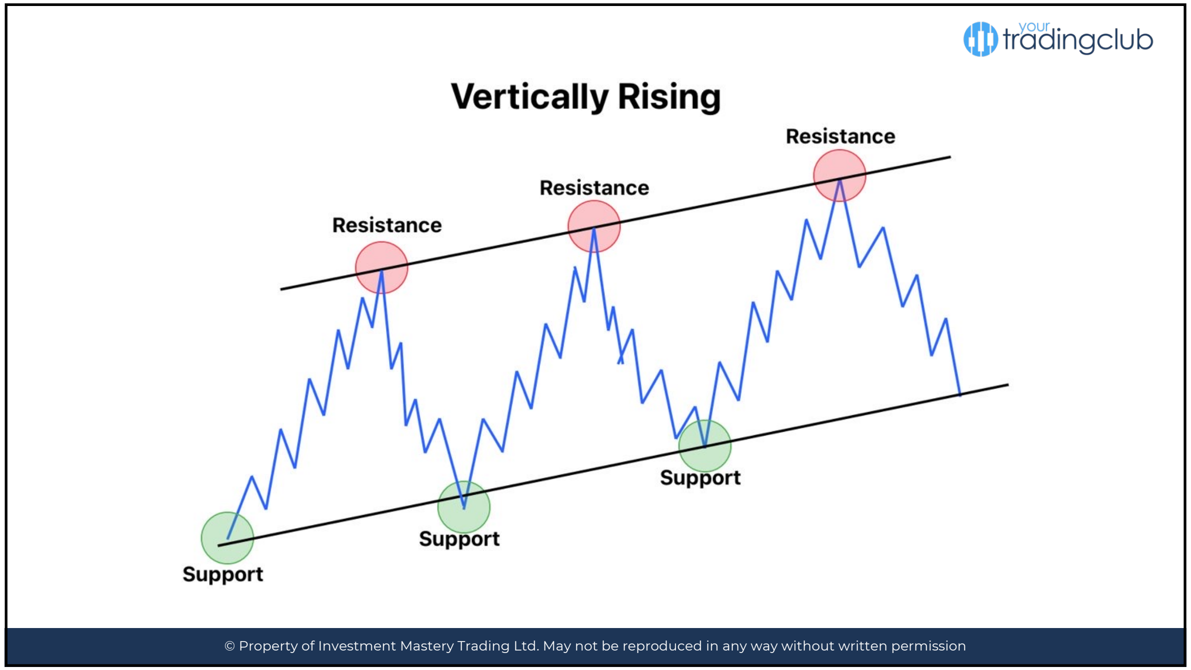
The support level is where the price regularly stops falling and bounces back up, while the resistance level is where the price normally stops rising and dips back down



Horizontal Channel

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Vertically Rising
Resistance
Resistance
Resistance
Support
Support
Support
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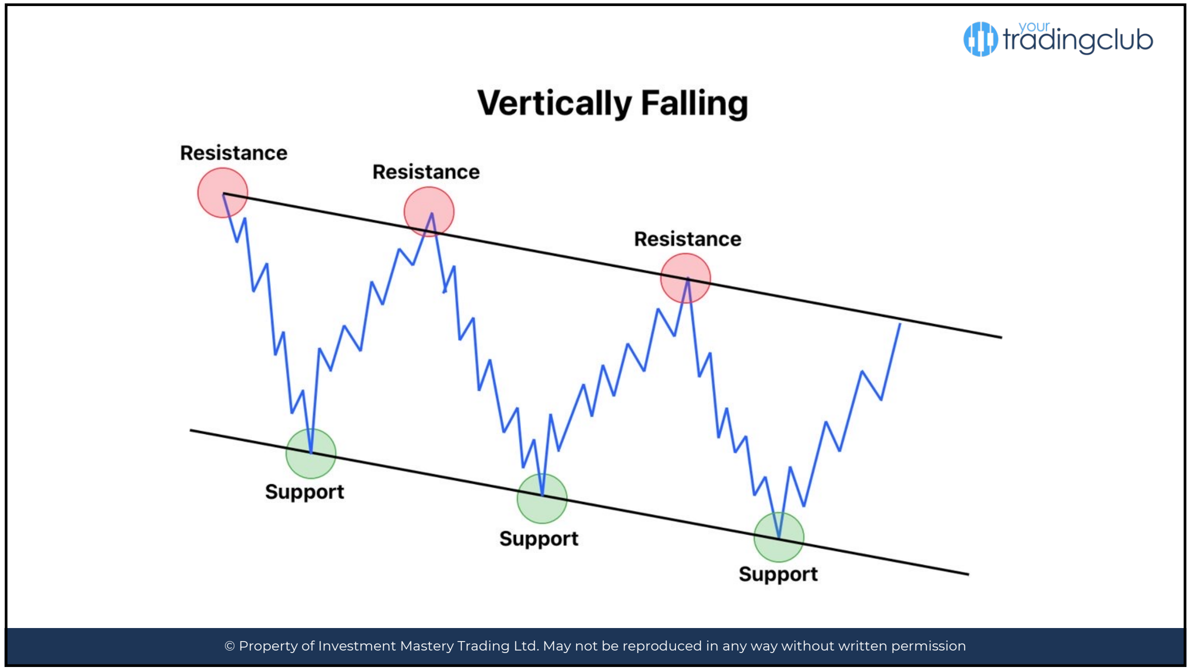
your tradingclub
Vertically Falling
Resistance
Resistance
Resistance
Support
Support
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Module 8 – Trading inside vs. outside support and resistance

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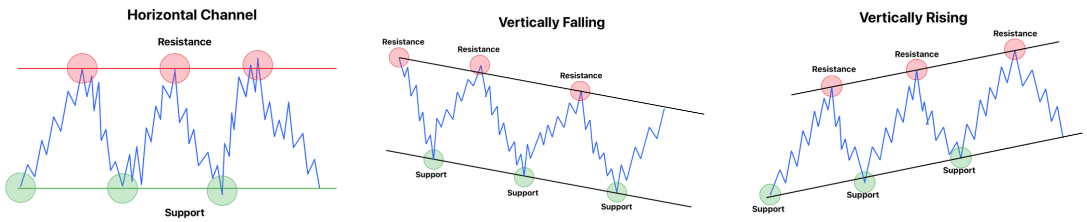
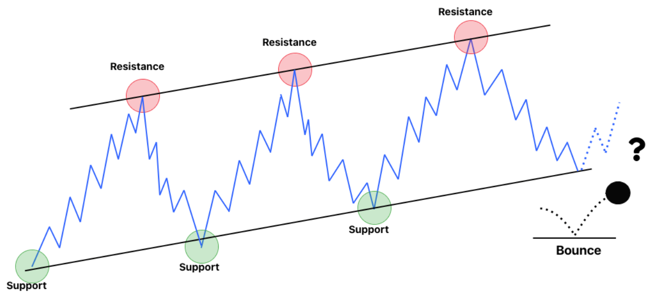


How can we use these patterns to make money from the markets?

- We can divide how to trade support and resistance levels into two simple ideas: the **Bounce** and the **Break**.
- In other words, trading **inside** the pattern, or trading **outside** the pattern

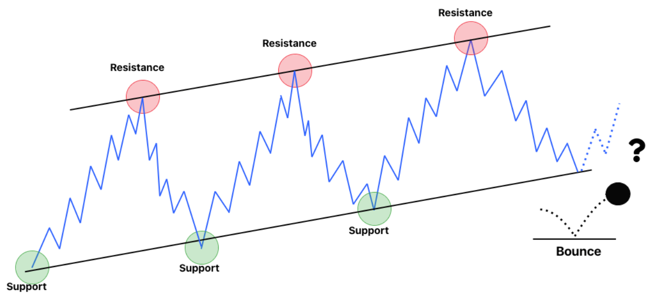
Trading the bounce, or inside the pattern

- This method of trading is expecting that the price is going to remain trading **within** the defined support and resistance levels that make up our channel, and anticipating **where the next bounce is going to come within the pattern**.



Trading the bounce, or inside the pattern

- This method of trading is expecting that the price is going to remain trading **within** the defined support and resistance levels that make up our channel, and anticipating **where the next bounce is going to come within the pattern**.



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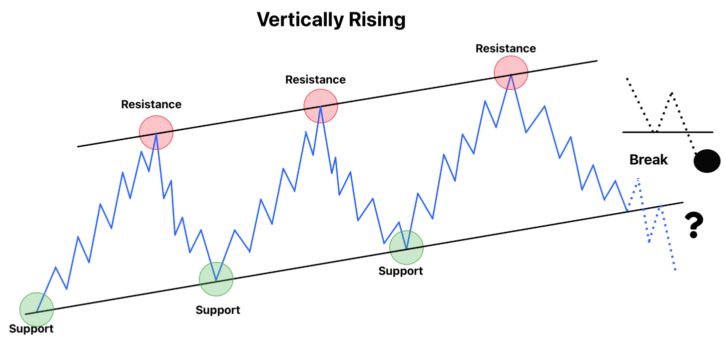
When trading the bounce…

- Since we are expecting that the price is going to remain trading within the pattern, **we only want to trade in the direction of the trend**.
- So, for a **vertically rising trend**, we only entertain **buying opportunities**
- For a **vertically falling trend**, we only entertain **selling opportunities**
- For a **sideways moving pattern**, since there is no overwhelming bias, we can entertain **both buying and selling opportunities**

Trading the break, or outside the pattern

- This method of trading is reacting to the price no longer respecting the integrity of the pattern and the support and resistance levels that make it up – essentially, **breaking** the pattern.



When trading the break…

- Since we are expecting that the price is going to start trading outside of the pattern, **we only want to trade in the direction of the trend**.
- So, for an **upwards trend**, we only entertain **buying opportunities**
- For a **downwards trend**, we only entertain **selling opportunities**
- For a **sideways moving pattern**, since there is no overwhelming bias, we can entertain **both buying and selling opportunities**

Module 8 - VCA fundamentals

Dennis Sahlström

Buffalo strategy walkthrough

1) Rules on how we are going to draw our lines

2) Rules on how we are going to enter

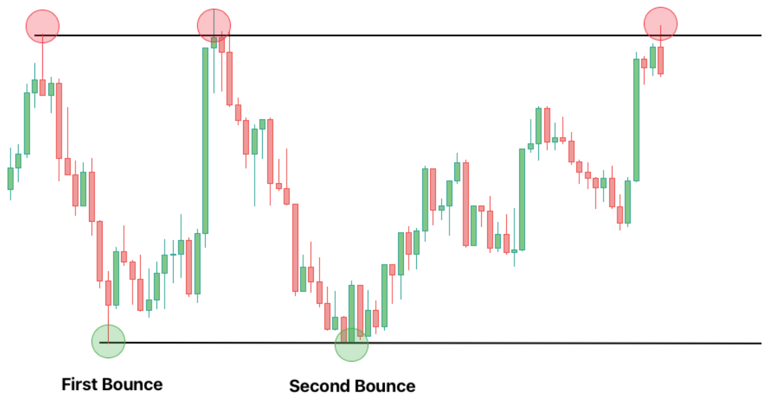
3) Rules on how we are going to exit (i.e., Stop further loss & where to take profit)

4) Rules on how we are going to manage our trade

Horizontal Buffalo focus (buying)

Rules on Identifying and Drawing

- **Timeframe:** Daily
- **Minimum No. of Bounces:** 2
- **How to Draw:** We attach our trendline to the wicks of our first and second bounce and extend the ray of the trendline to find our support line for the next potential bounce



Rules on Entering

- **Patience:** We wait for price to be touching our support line
- **Entry Technique:** We want to see a momentum shift in the direction we anticipate the price will go (up in this scenario)
- Therefore, we place an entry order above the high of the candle touching our support line

How to calculate the entry order (buying)

- We need to find the price of the high of the candle
- Once we have found the price, we are going to place our entry order 1% above the high
- We do this by taking the price of the high of the candle and we plus 1% to it (Candle high x 1.01)

Rules on Exiting (Stop Loss)

- **Exit Technique:** When, and if, we get triggered into the trade, we no longer want to see the price trade below the low of the candle we have calculated our entry order from. Therefore, our Stop Loss order will rest under the low of our entry candle

Important

- Our Stop Loss order is only activated once our entry order is triggered
- If we have a cluster of candles resting on our support, our stop loss will rest beneath the low of the lowest wick within the cluster

How to calculate the stop loss order (buying)

- Once we are in the trade, should we get triggered in, we do not want to see price fall beneath the low of the candle that we have entered from
- So, we are going to place our stop loss order 1% below the low of the candle touching our support line
- We do this by taking the price of the low of the candle and we minus 1% to it (Candle low x 0.99)

Rules on Exiting (Take Profit)

- **Exit Technique:** We are expecting this pattern to continue in a specific sequence (relatively equal highs and equal lows). Therefore, our minimum target needs to be for price to, at least, reach the resistance area. So, our take profit order would be around the resistance

How to calculate the take profit order (buying)

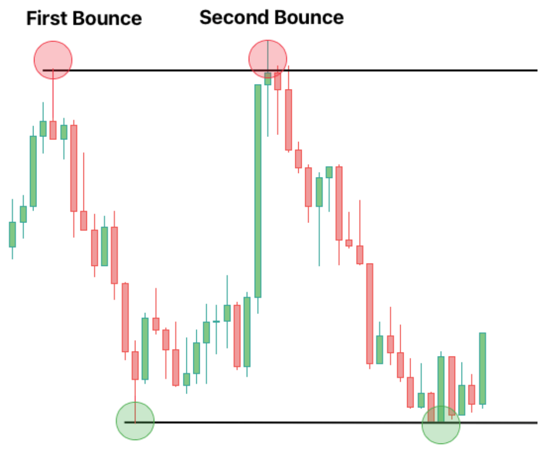
- We also want to give ourselves the best chance of price hitting our take profit
- So, we are going to place our take profit order 1% below the low of the resistance line
- We do this by taking the price of resistance line we minus 1% to it. (resistance line X 0.99)

Celebrate!

Horizontal Buffalo focus (selling)

Rules on Identifying and Drawing

- **Timeframe:** Daily
- **Minimum No. of Bounces:** 2
- **How to Draw:** We attach our trendline to the wicks of our first and second bounce and extend the ray of the trendline to find our resistance line for the next potential bounce



Rules on Entering

- **Patience:** We wait for price to be touching our resistance line
- **Entry Technique:** We want to see a momentum shift in the direction we anticipate the price will go (down in this scenario)
- Therefore, we place an entry order below the low of the candle touching our resistance line

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How to calculate the entry order (selling)

- We need to find the price of the low of the candle
- Once we have found the price, we are going to place our entry order 1% below the low
- We do this by taking the price of the low of the candle and we minus 1% to it (Candle low x 0.99)

Rules on Exiting (Stop Loss)

- **Exit Technique:** When, and if, we get triggered into the trade, we no longer want to see the price trade above the high of the candle we have calculated our entry order from. Therefore, our Stop Loss order will rest above the high of our entry candle

Important

- Our Stop Loss order is only activated once our entry order is triggered

- If we have a cluster of candles resting on our resistance, our stop loss will rest above the high of the highest wick within the cluster

How to calculate the stop loss order (selling)

- Once we are in the trade, should we get triggered in, we do not want to see price rise above the high of the candle that we have entered from
- So, we are going to place our stop loss order 1% above the high of the candle touching our resistance line
- We do this by taking the price of the high of the candle and we plus 1% to it (Candle low x 1.01)

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Rules on Exiting (Take Profit)

- **Exit Technique:** We are expecting this pattern to continue in a specific sequence (relatively equal highs and equal lows). Therefore, our minimum target needs to be for price to, at least, reach the support area. So, our take profit order we be around the support

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How to calculate the take profit order (selling)

- We also want to give ourselves the best chance of price hitting our take profit
- So, we are going to place our take profit order 1% above the high of the support line
- We do this by taking the price of support line we plus 1% to it (support line x 1.01)

Celebrate!

Vertically rising Buffalo focus

Rules on Identifying and Drawing

- **Timeframe:** Daily
- **Minimum No. of Bounces:** 2
- **How to Draw:** We attach our trendline to the wicks of our first and second bounce and extend the ray of the trendline to find our support line for the next potential bounce

Rules on Entering

- **Patience:** We wait for price to be touching our support line
- **Entry Technique:** We want to see a momentum shift in the direction we anticipate the price will go (up in this scenario)
- Therefore, we place an entry order above the high of the candle touching our support line

How to calculate the entry order (buying)

- We need to find the price of the high of the candle
- Once we have found the price, we are going to place our entry order 1% above the high
- We do this by taking the price of the high of the candle and we plus 1% to it (Candle high x 1.01)

Rules on Exiting (Stop Loss)

- **Exit Technique:** When, and if, we get triggered into the trade, we no longer want to see the price trade below the low of the candle we have calculated our entry order from. Therefore, our Stop Loss order will rest under the low of our entry candle

Important

- Our Stop Loss order is only activated once our entry order is triggered

- If we have a cluster of candles resting on our support, our stop loss will rest beneath the low of the lowest candle within the cluster

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How to calculate the stop loss order (selling)

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- Once we are in the trade, should we get triggered in, we do not want to see price fall beneath the low of the candle that we have entered from
- So, we are going to place our stop loss order 1% below the low of the candle touching our support line
- We do this by taking the price of the low of the candle and we minus 1% to it (Candle low x 0.99)

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Rules on Exiting (Take Profit)

- **Exit Technique:** We are expecting this pattern to continue in a specific sequence (higher highs and higher lows). Therefore, our minimum target needs to be for price to, at least, reach the previous high. So, our take profit order would be at the previous higher high

How to calculate the take profit order (selling)

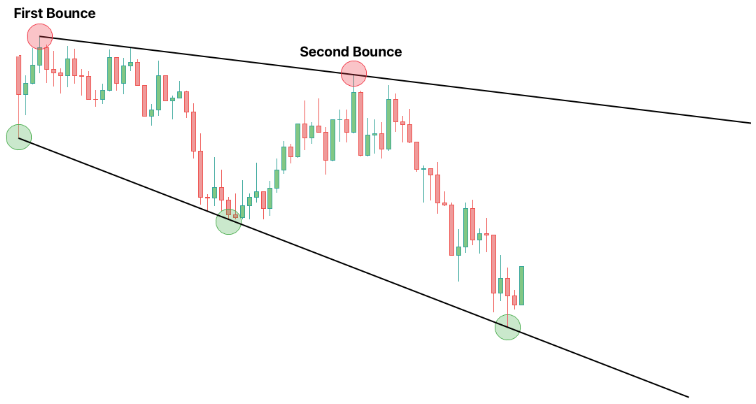
- We also want to give ourselves the best chance of price hitting our take profit
- So, we are going to place our take profit order 1% below the high of the peak at the previous resistance
- We do this by taking the price of the peak and we minus 1% to it. (peak price x 0.99)

Celebrate!

Vertically Falling Buffalo focus

Rules on identifying and drawing

- **Timeframe:** daily
- **Minimum no. Of bounces:** 2
- **How to draw:** We attach our trendline to the wicks of our first and second bounce and extend the ray of the trendline to find our resistance line for the next potential bounce



Rules on Entering

- **Patience:** We wait for price to be touching our resistance line
- **Entry Technique:** We want to see a momentum shift in the direction we anticipate the price will go (down in this scenario)
- Therefore, we place an entry order below the low of the candle touching our resistance line

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How to calculate the entry order (selling)

- We need to find the price of the low of the candle
- Once we have found the price, we are going to place our entry order 1% below the low
- We do this by taking the price of the low of the candle and we minus 1% to it (Candle low x 0.99)

Rules on Exiting (Stop Loss)

- **Exit Technique:** When, and if, we get triggered into the trade, we no longer want to see the price trade above the high of the candle we have calculated our entry order from. Therefore, our Stop Loss order will rest above the high of our entry candle

Important

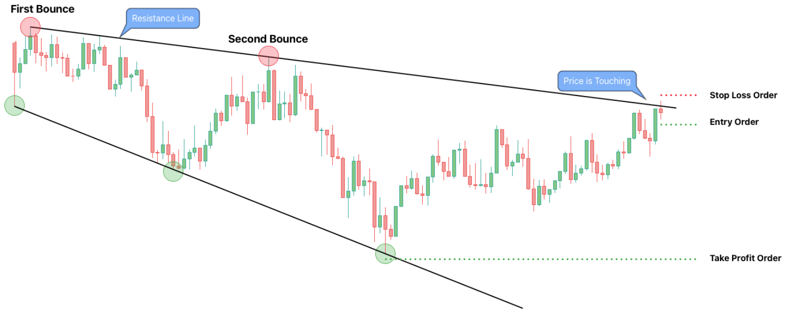
- Our Stop Loss order is only activated once our entry order is triggered
- If we have a cluster of candles resting on our resistance, our stop loss will rest above the high of the highest candle within the cluster

How to calculate the stop loss order (selling)

- Once we are in the trade, should we get triggered in, we do not want to see price rise above the high of the candle that we have entered from
- So, we are going to place our stop loss order 1% above the high of the candle
- We do this by taking the price of the high of the candle and we add 1% to it (Candle high x 1.01)

Rules on Exiting (Take Profit)

- **Exit Technique:** We are expecting this pattern to continue in a specific sequence (higher highs and higher lows). Therefore, our minimum target needs to be for price to, at least, reach the previous high. So, our take profit order we be at the previous higher high.



How to calculate the take profit order (selling)

- We also want to give ourselves the best chance of price hitting our take profit
- So, we are going to place our take profit order 1% below the high of the peak at the previous resistance
- We do this by taking the price of the peak and we minus 1% to it (peak price x 0.99)

Celebrate!


First Bounce
Second Bounce
Stop Loss Order
Entry Order
Take Profit Order Hit!

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Module 8 – Understanding Risk Management for Trading

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- Risk management refers to the processes that are put in place when trading to help keep losses under control
- Risk management can help prevent a trader from losing all their money on the account.
- Risk management should be applied by both beginners and experienced traders.

1% rule

- Before we trade any financial instrument, we must understand how we manage our risk when we are trading
- We minimise our losses by only risking 1% on any given trade

Calculating 1% risk

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Account risk

Account size / 100 = **Account risk**

10,000 / 100 = 100

So, our **Account risk** is 100.

Trade risk

Entry order – Stop loss order = **Trade risk**

100 - 95 = 5

So, our **Trade risk** is 5

Trade size

Account risk / Trade risk = **Trade size**

100 / 5 = 20

So, our **Trade size** is 20

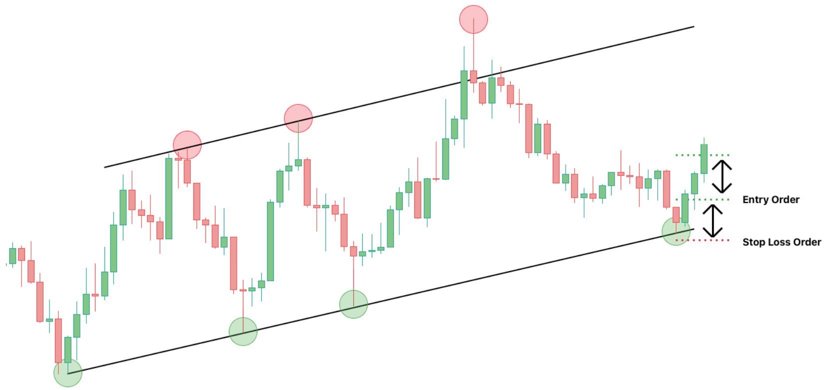
Module 8 - Understanding Trade Managment

Trade management is everything a trader does after a trade is opened until the trade is closed

Closing the trade on your terms is better than having the trade closed out because you can't stomach the loss anymore (capitulation) or because you are margin called and forced out

Risk to Reward


Take Profit Order
Entry Order
Stop Loss Order
First Bounce
Second Bounce
Support Line


Entry Order
Stop Loss Order

As a general rule, successful traders will not consider trades that have a risk reward ratio of less than 1:2, some will only go for trades with a risk reward ratio of 1:3.

Risk:Reward ratio	Win rate needed to be profitable
1:1	51%
1:2	34%
1:3	26%
1:4	21%
1:5	17%

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Managing your Stop Loss

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- Once a stock is nicely in profit it should never become a loser and be closed at a loss. Order management is a key part of trading
- There should only be three outcomes of your trades:
  - A small win
  - A small loss
  - A big win
- Big losses should not be showing up in your trading results

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Entry Order
Stop Loss Order

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New Stop Loss Order Placement
Entry Order
Original Stop Loss Order Placement

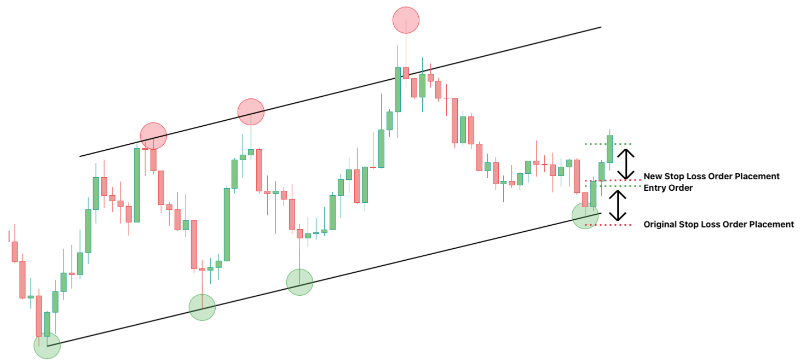
Module 8 – How to Manage a Buffalo Trade

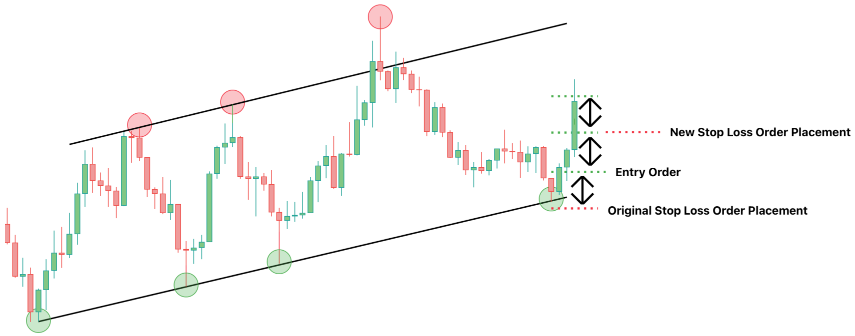
Managing a buffalo trade

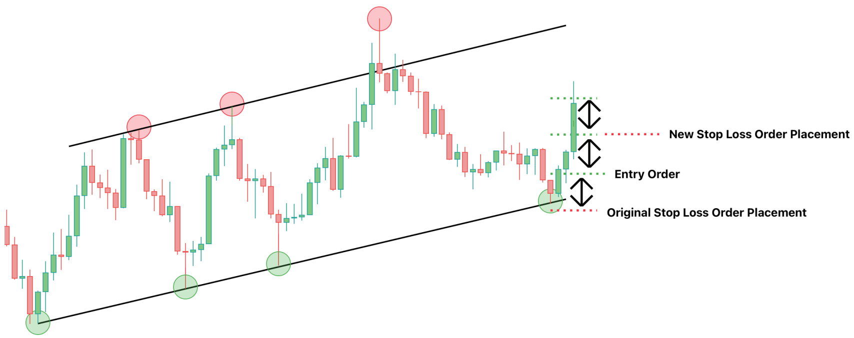
- Once a stock is nicely in profit it should never become a loser and be closed at a loss. Order management is a key part of trading
- There should only be three outcomes of your trades:
  - A small win
  - A small loss
  - A big win
- Big losses should not be showing up in your trading results

Managing your Stop Loss

- We will be moving our stop loss every one ratio it moves in our favour
- So, once we are at 1:1, in other words, the position profit is equal to the amount of risk we have on the trade, it is at this stage that we move our stop loss to breakeven




New Stop Loss Order Placement
Entry Order
Original Stop Loss Order Placement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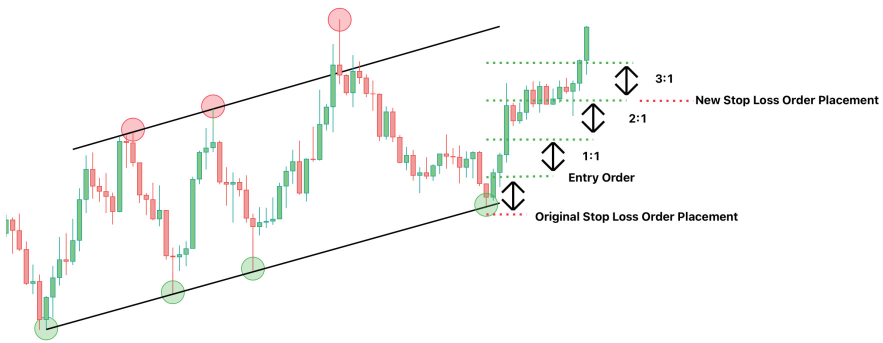

Calculating Risk/Reward Ratios

- Once we have our **Trade risk** (distance between our Entry order and Stop loss order), we need to find what our **Potential reward** would be.
- To work out **Potential reward**, we calculate the difference between our **Entry order** and our **Take profit order**.

To calculate our **risk/reward ratios**, we take our **Potential reward** and divide it by our **Trade risk**

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How to Calculate Risk/Reward Ratios?

- **Entry Order** is $100
- **Stop Loss Order** is $95.

Trade Risk = $5

- **Take Profit Order at** $120

Potential Reward is $20

Potential Reward/Trade risk

20$ / 5 = 5

Our risk/reward is 5:1! That means we are risking 1% to make a potential 5%

Module 8 – Validating the Trade

Validating a buffalo trade opportunity

As we are scanning our charts looking for opportunities, there are certain criteria that must be met before we eventually decide it is a trade we want to take

Validating support or resistance lines

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- For a **Vertically Rising Buffalo**, we want two clear bounces creating higher highs and higher lows
- For a **Vertically Falling Buffalo**, we want two clear bounces creating lower lows and lower highs
- For a **Horizontal Buffalo (Buy)** we want two relatively equal bounces at the same area creating relatively equal highs
- For a **Horizontal Buffalo (Sell)** we want two relatively equal bounces at the same area creating relatively equal lows

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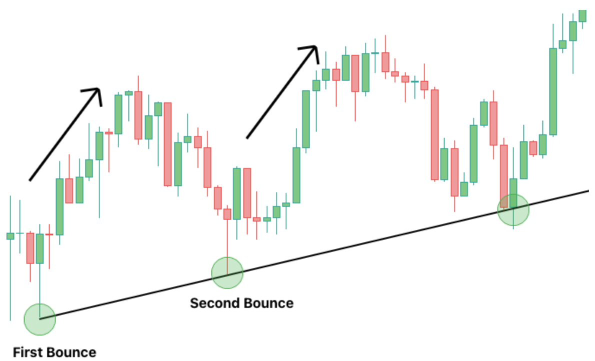

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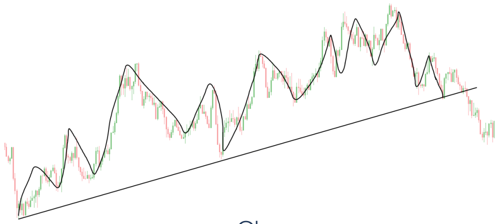
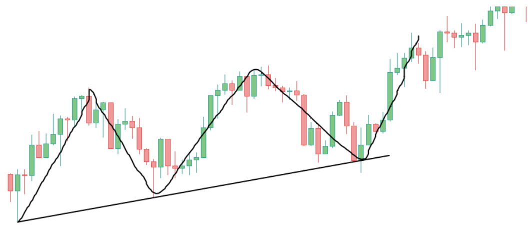
Clear pattern

- We want to see as clear a pattern as possible
- Not every chart is going to look picture perfect but as close to a clear trend as possible
- Furthermore, clear does not necessarily mean it will be a winning trade and unclear means it will be a losing trade. But the probabilities over time show that clearer trends translate to better performance

Not Clear



Clear



Earnings releases

It is possible that the earnings announcement does not impact our buffalo analysis and the trade may still be valid, but we must wait at least 3 days after the announcement is released before entering

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Trading volume

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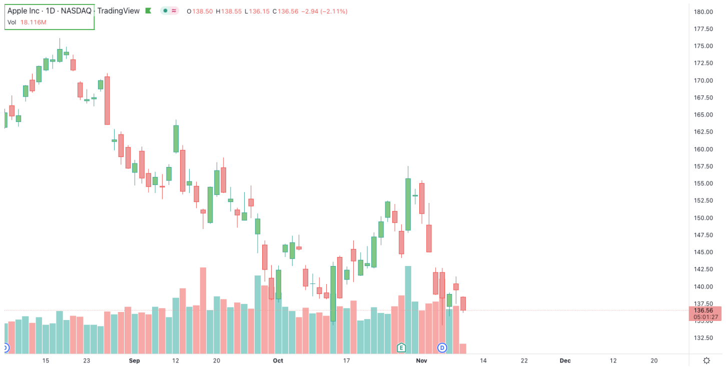
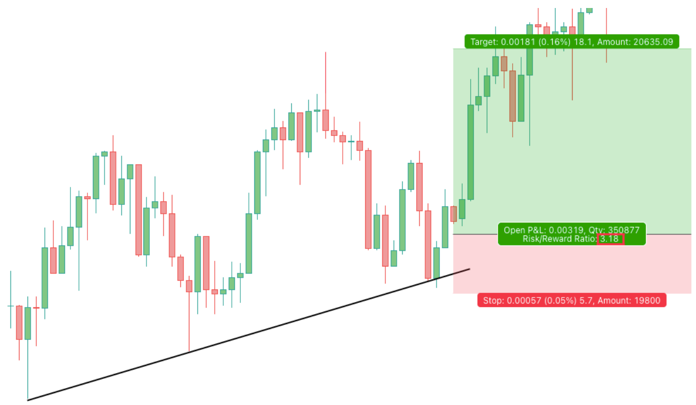
- Trading volume is defined as the number of shares traded
- Trading volume reflects overall market activity, indicating the amount of buying and selling
- Extremely low volume sometimes attracts scam artists who are determined to manipulate the price of the stock, because their trading will exert a greater influence
- Therefore, we want trading volume to exceed **200K**



Minimum 3:1 Risk-to-Reward Ratio

- To increase your chances of profitability, you want to trade when you have the potential to make 3 times more than you are risking. If you give yourself a 3:1 risk-to-reward ratio, **you have a significantly greater chance of ending up profitable in the long run**.
- A trade is, therefore, only valid if it can achieve a minimum of a 3:1 risk-to-reward ratio



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Module 8 – One Last Thing

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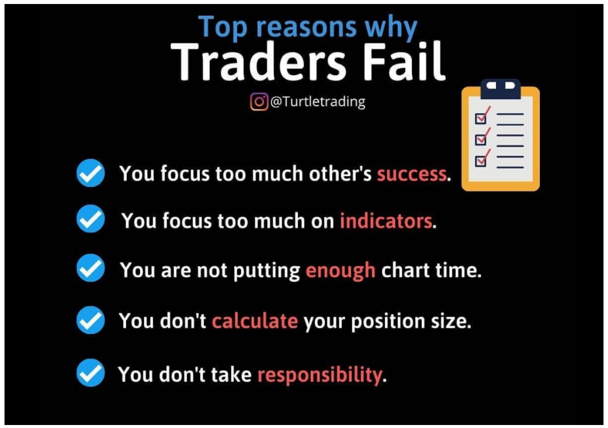
Reasons Why Traders Fail



Excercise

- Login to Club and Find the Buffalo Watchlist
- Do your analysis on Tradingview and calculations with the calculator
- Enter the trade in your broker