THE BLUEPRINT

THE OPTIONS CARTEL

The Options Cartel Blueprint:

Introduction

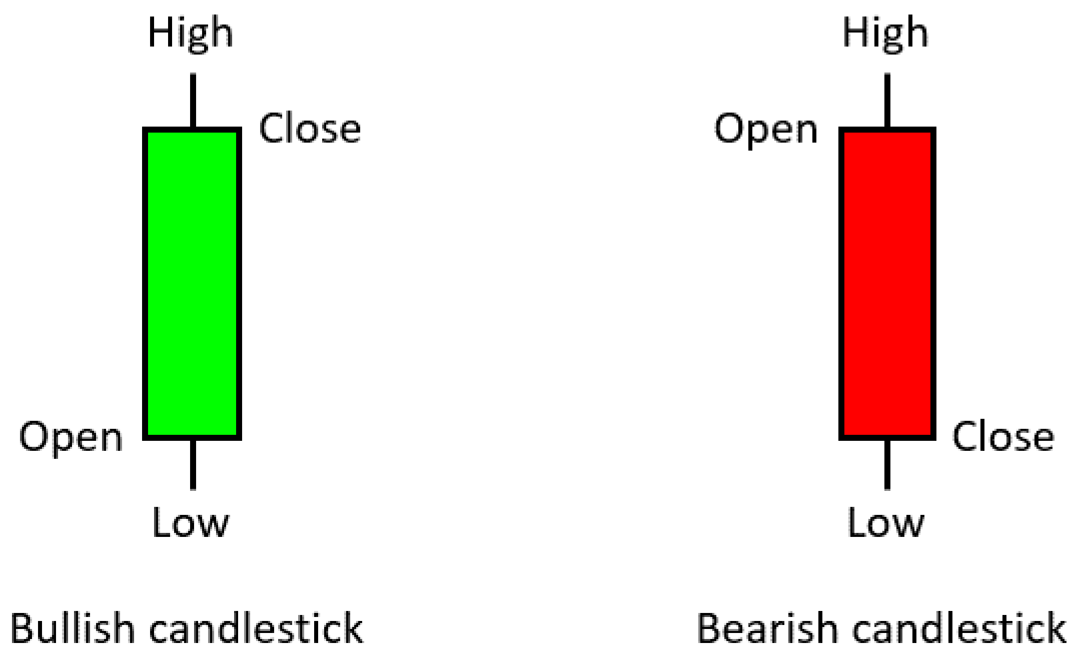
“My name is Sean Rechtman, my interest in stocks originally began as a hobby, within time, it has progressed to become a lifestyle that I have grown passionately for. Within two years, I came to master my craft... spending countless hours studying charts and backtesting strategies. As a result, I have developed a trading strategy that has been extremely effective for not only me, but countless other traders, leading to seven figures in profit. My goal is to be able to teach everyone how to become a self-sufficient trader, while providing the tools for success.”

"My name is Yousuf, my trading journey began three years ago. Since that first trade, I've been passionately devoted to mastering the craft of trading, dedicating countless hours. My path took a pivotal turn when I met Sean and joined The Options Cartel. Under this mentorship, I delved deep into the stock market, and the guidance not only transformed me into a profitable trader from complete beginner but also led me to my current role as an analyst at TOC. My ambition now extends beyond personal success; I aspire to be a mentor and teacher for beginner traders. I'm committed to teaching the skills I've accumulated over the years, guiding others from their first steps to profitability in trading."

Candlesticks

Basic Concepts

Candlestick charts are a fundamental tool in technical analysis. This chapter will cover the basics of candlesticks, their significance in trading and how to interpret various candlestick patterns

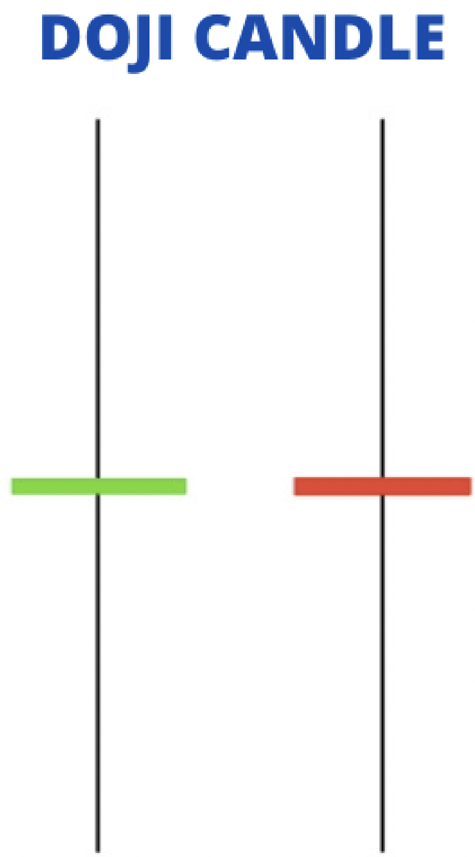


Description:

- **Open**: The price at which a stock starts trading during a time frame.
- **Close**: The price at which a stock ends trading during a time frame.
- **High**: The highest price reached during the time frame.
- **Low**: The lowest price reached during the time frame.
- **Body**: The difference between the open and close prices. (Green indicating close is higher than open, Red indicating close is lower than open)
- **Wicks**: The lines extending from the body, representing the range of prices (high and low) during the time frame.

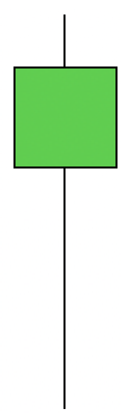
Types of candle sticks:

- **Bullish Candlestick:** Close is higher than opening price – typically in a green color
- **Bearish Candlestick:** Close is lower than opening price – typically in a red
- **Doji Candlestick:** Close is right at open, nearly equal – indicating indecision (can be red or green)

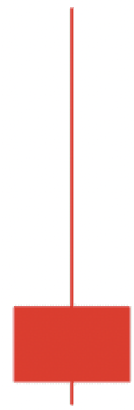


Interpretations of Candlesticks:

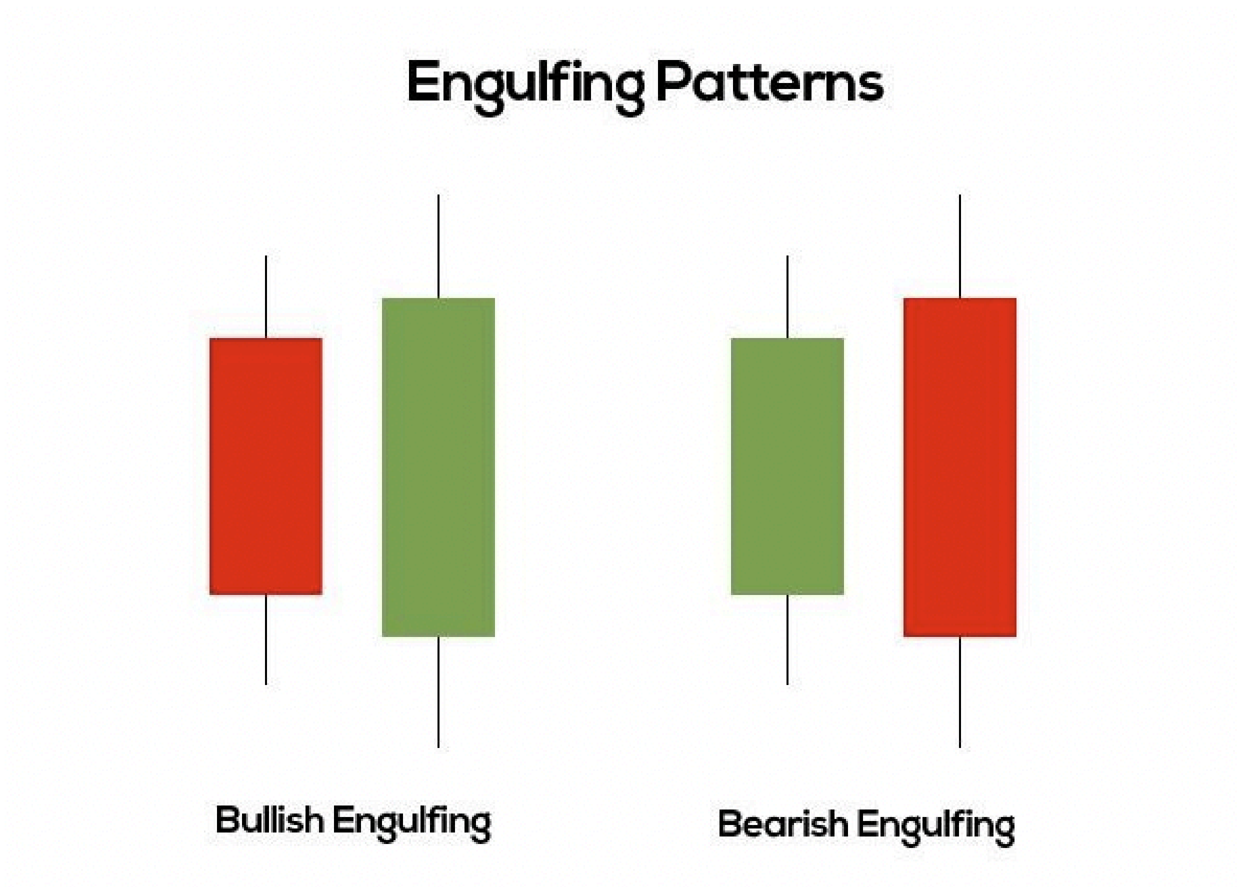
- **Hammer**: Bullish reversal pattern that forms usually after a downtrend, smaller body and a long lower wick – indicating that buyers came in and pushed price higher at close, after opening selling occurred.



- **Shooting star:** Bearish reversal pattern that usually forms at the top of an uptrend, smaller body and a long upper wick – indicating that sellers came in and pushed price lower at close, after opening buying occurred



- Engulfing Candle: A bullish engulfing candle occurs when a smaller bearish candle is followed by a larger bullish candle that entirely engulfs the previous candle // A bearish engulfing candle occurs when a smaller bullish candle is followed by a larger bearish candle that entirely engulfs the previous candle



Being able to interpret these candlesticks will help you identify potential reversals and changes in trend.

Application

Identifying trend

- **Higher highs and higher lows:**

Higher Highs occur when the peak of the price movement is higher than the peak of the previous price movement. It signifies that buyers are willing to pay increasingly higher prices, indicating bullish sentiment and strength in the market.

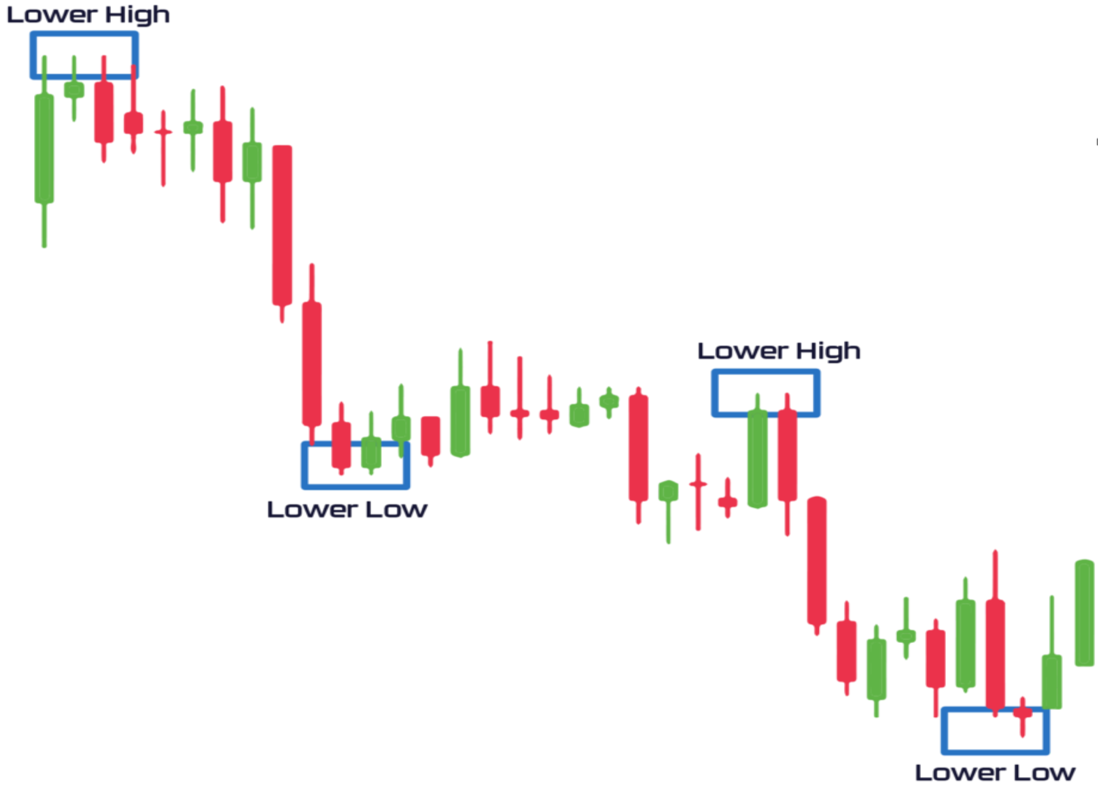
Higher Lows occur when the trough of the price movement is higher than the trough of the previous price movement. It indicates that buyers are stepping in at higher prices during pullbacks, supporting the upward trend.

Higher Highs and Higher Lows identify and confirm an uptrend.

- **Lower highs and lower lows:**

Lower Highs occur when the peak of the price movement is lower than the peak of the previous price movement. It signifies that sellers are dominating the market, pushing prices down and indicating bearish sentiment.

Lower Lows occur when the trough of the price movement is lower than the trough of the previous price movement. It indicates that sellers are consistently pushing the price down during rallies, reinforcing the downward trend.



Lower Highs and Lower Lows identify and confirm a downtrend.

Entry points

- Ideally we want to use Higher Lows to get a long entry & use Lower Highs to get a short entry

Indicators:

Indicators are tools that help us analyze a chart. They are not a magic pill or secret sauce as some traders portray them as. They just give us extra guidance. We mainly use two indicators: Exponential Moving Averages, and Volume Profiles.

-Exponential Moving Averages-

The Exponential Moving Average is an indicator that tracks the price of a stock over time. The EMA is a type of weighted moving average that gives more weighting or importance to recent price data.

Key takeaways

Exponential moving averages are designed to see price trends over specific time frames such as 50 or 200 days, hours or minutes.

Compared to simple moving averages, EMAs give greater weight to recent (more relevant) data. Computing the exponential moving average involves applying a multiplier to the SMA (simple moving average).

The EMAs I personally use are the **8, 21 & 50.**

Implementation of EMAs in trading

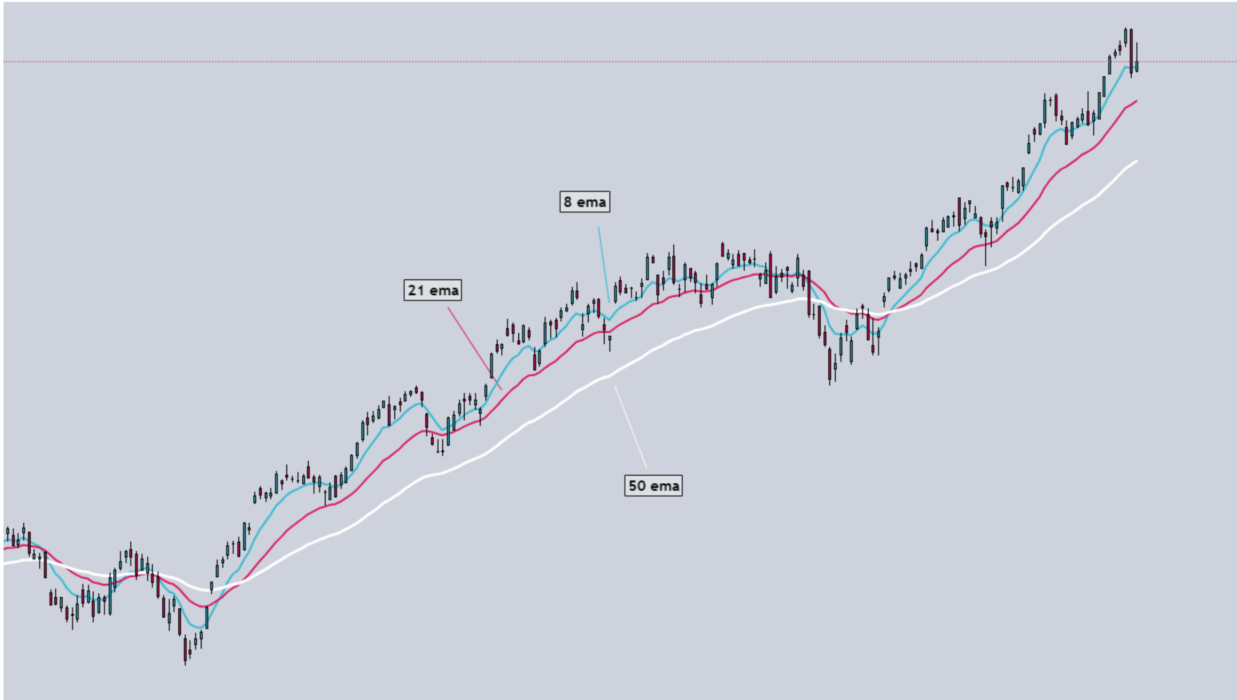
EMAs can be implemented into your trading in a couple different ways.

Trend Identification: EMAs help identify the direction of a trend. A rising EMA indicates an uptrend, while a falling EMA indicates a downtrend. By comparing short-term and long-term EMAs, traders can gauge the strength and direction of a trend.

Trend signals: EMA crossovers can be used as signals to trend changes. When a short-term EMA crosses above a long-term EMA, it can signal a start or continuation uptrend. Conversely, when a short-term EMA crosses below a long-term EMA, it may indicate more selling to come.

Support and Resistance: EMAs can act as dynamic support and resistance levels. Prices often bounce off these levels once above it, and we can just continue to ride the EMA as long as we never close below it. Vice versa, when in a short, we can ride a trend lower as long as we stay below the EMA.

Choosing the Right Time Frames: The choice of time frames for your EMAs depends on your trading style. The main ones I use are the 8-day and 21-day for short-term trading, and sometimes the 50-day.



-Volume Profile-

A volume profile refers to a level at which a significant amount of stock trading volume has occurred previously. These levels can act as **supply** or **demand**.

Support / Demand:

When price is decreasing into a volume shelf (an area on the vol profile that is relatively larger), you can expect that price will likely catch a bid again... Price is approaching a level of where it has been previously accumulated, and will likely be accumulated:

Volume shelves that look like this, can act as "launchpads for price"

Resistance / Supply:

When price is increasing into a volume shelf, you can expect it to act as resistance since traders are selling to break even their positions, which were just at a loss, increasing supply, making it harder for the price to continue upward.

Personal favorite way of using it:

Using volume shelves as launchpads for price

This is just a mini thread about the basics of Volume Profiles, will be expanding more on it soon.

Volume

Volume is at the heart of both Sean and I's analysis. Volume is what paints the picture for us. Volume validates price action. Understanding how to interpret volume has completely flipped the script of both of our trading journeys… And we have never looked back since. Think of volume as fuel to price.

Understanding Volume:

Volume: The total amount of shares traded for a stock under a certain time frame. Volume gives us a measure of liquidity–market activity. When volume is high, this indicates strong interest in price at this level, with a high amount of shares being traded. Low volume indicates lack of interest.

Analyzing Volume

Volume as confirmation: Price movements accompanied by high volume are more sustained & valid as there is more fuel behind the move. This likely reflects institutional & big money interest. On the other hand, price movements on low volume indicate no interest as the move has no big money fuel behind it. We want to position ourselves with the institutions “the market makers”; as they are the ones that move prices.

A wide spread up candle with high volume indicates very strong buying interest, confirming the upwards move. A wide spread down candle with high volume indicates very strong selling interest. Narrow spread candles with low volume are also valid… little price movement is accompanied by little trading activity.

Volume Anomalies

These occur when there is a discrepancy between price and volume.

A **wide spread candle with lower volume** is an anomaly. Strong effort is needed for the market to have a wide spread candle… If a wide spread candle appears without corresponding high volume, it suggests that market makers are not participating in the move. This lack of confirmation warns of a potential reversal.

A narrow spread candle with high volume is another example of an anomaly. This type of candle suggests that effort is being made but it is not being reflected in price. In an uptrend, this could indicate institutions selling into strength, a potential top could be setting. On the other hand, in a downtrend, a narrow spread candle with high volume could be institutions buying up the lows and that volume being stopping volume.

Valid

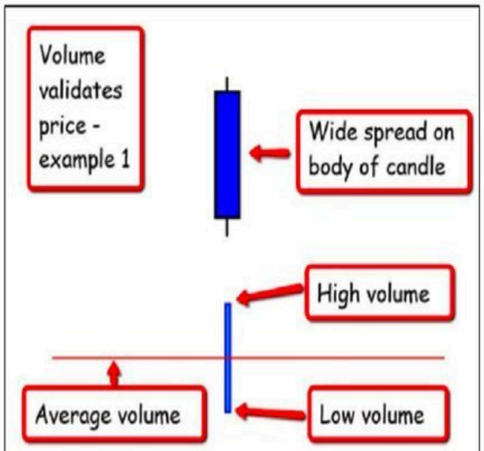
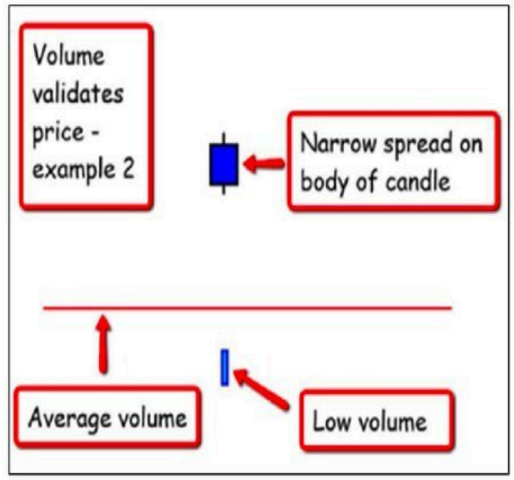
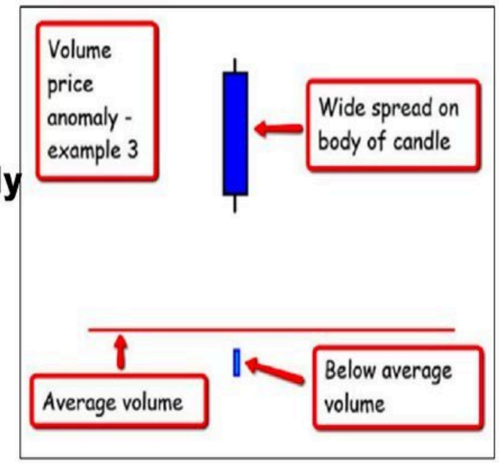
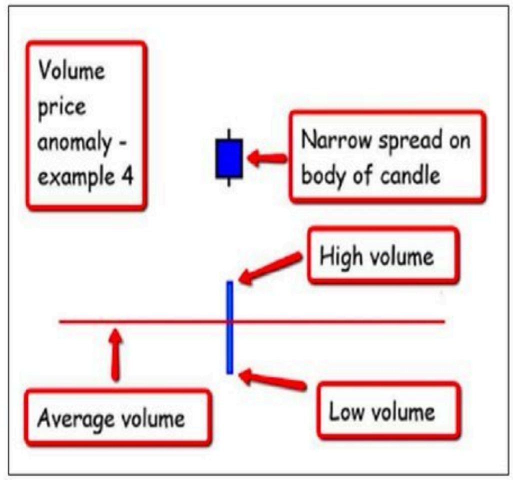


Fig 4.10 Wide Spread Candle, High Volume



Anomaly





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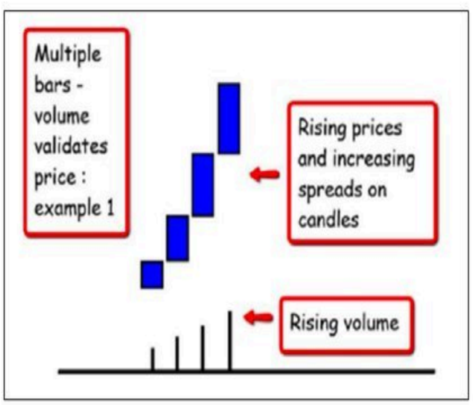
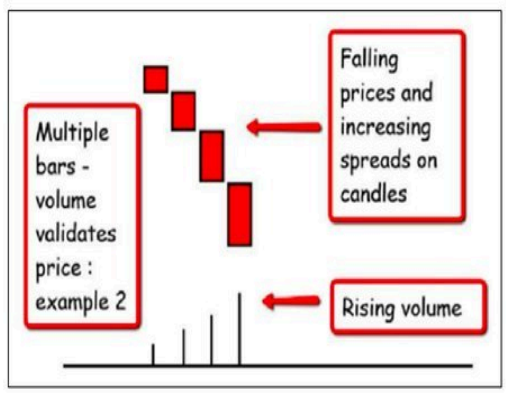
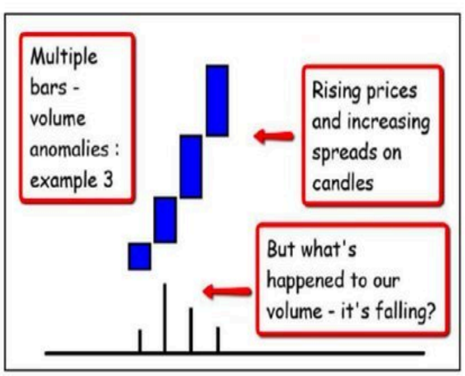
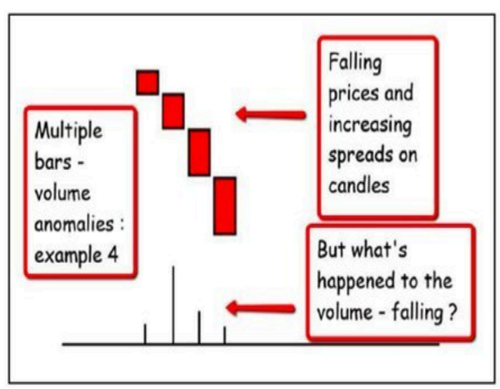




Anomaly





Volume is one of the most important if not the most important factor of our technical analysis, it is what gives us a true edge in the markets and enables us to position ourselves with the big money. Make sure to understand the volume basics, later in this eBook, we will dive deeper into using volume.

Volume Price Analysis

Volume and price action Analysis

As a full time options trader I have explored many different strategies, I am not here to tell you that volume analysis is the “best” one out of them all.. Because there is no such thing as the “best strategy”.

However I will be documenting and sourcing some of the ways that I use volume and price action analysis in my trading to really give me an edge especially while trading options.

To begin we have to understand how stock options work.. At this point you should know the basics of stock options and how they work. However, we will be discussing a more crucial understanding of options.

Yes there are Greeks and factors that the overlying options contracts obtain, yet most do not truly know how to take advantage of the movement of option contracts.

It is not as simple as, price moving up or moving down to make profits. There are ways to be ahead of most and take advantage of supply and demand within options contracts.

From countless hours of watching how options contracts react to different price movements I have noticed patterns that have helped me in my personal options trading journey.

Options contracts move the most whenever there are events, data, and volume… however most of the time these events like earnings or economic data are priced into the contract by way of implied volatility.

Theta	Gamma	Delta	Open Int	Impl Vol	Mid	% Change	Last	Ask	Bid	Strike
09 Jun 23 (W) 100									Calls	6 D
-0.0980	0.0500	0.8407	102	118.31%	5.05	-31.51%	5.00	5.20	4.90	27.5
-0.1071	0.0550	0.8121	454	117.43%	4.65	-36.80%	4.50	4.80	4.50	28
-0.1162	0.0598	0.7807	95	116.85%	4.25	-35.82%	4.30	4.40	4.10	28.5
-0.1251	0.0642	0.7467	172	116.58%	3.90	-43.26%	3.79	4.00	3.80	29
-0.1333	0.0681	0.7106	102	116.60%	3.55	-46.56%	3.42	3.70	3.40	29.5
-0.1407	0.0712	0.6729	768	116.88%	3.20	-41.82%	3.20	3.30	3.10	30
-0.1471	0.0735	0.6343	602	117.41%	2.98	-45.19%	2.85	3.10	2.85	30.5
-0.1522	0.0749	0.5954	510	118.16%	2.65	-44.79%	2.65	2.75	2.55	31
-0.1561	0.0755	0.5568	387	119.09%	2.40	-47.56%	2.36	2.50	2.30	31.5
-0.1586	0.0754	0.5191	667	120.19%	2.15	-46.00%	2.16	2.20	2.10	32

Now if there was a way to get these contracts before–or right about the time when demand explodes and the implied volatility peaks we would want to take advantage of that.

The easiest way to do this without guessing or getting lucky is by analyzing volume and also how price reacts to certain levels.

For example, whenever a stock trades on low volume throughout the day but suddenly gets “new flows” and higher than average relative volume you can expect a quick move in price and also a big influx of demand in the options contracts.

This can also apply to daily or weekly patterns that form in charts, if we see a higher than average volume day forming it is likely that big money will continue to keep their flows on.

Everyone is so interested in being on the side of banks and big money and liquidity etc. there's many ways to hide orders hitting tape, whether it be dark pool orders, market on close orders, or block orders. Simple volume analysis allows us to see all of this without overthinking and keeping things super simple.

Accumulation and distribution

Accumulation and distribution are the most simple volume patterns to identify, using technical analysis and volume analysis we can determine some patterns to the volume. This allows us to pick up on when institutions start to take a position or offload a position

Accumulation volume refers to institutions accumulating a position. Easiest way to determine if accumulation is taking place is to look at the volume patterns.

Accumulation usually takes place at the lows of a range and you can notice significant volume compared to regular trading days, indicating an anomaly in volume.

On this chart we can see that accumulation patterns were taking place.Higher volume as price gets bought up off the lows and lower volume on normal trading days indicating accumulation is happening.

Distribution volume indicates unusually heavy selling by institutional investors, the heavyweights who largely set a market's direction. We can take a look at the volume patterns to determine if institutions are distributing.

Distribution usually takes place at the highs of the range and will begin with a failed breakout to grab liquidity.

On this chart we can see high volume out of the highs of the range once price failed to breakout above the previous highs.

Institutions will use these failed breakouts to trap traders and grab liquidity to unload their positions.

The volume captures this all happening in real time, and we can start seeing the patterns take place.

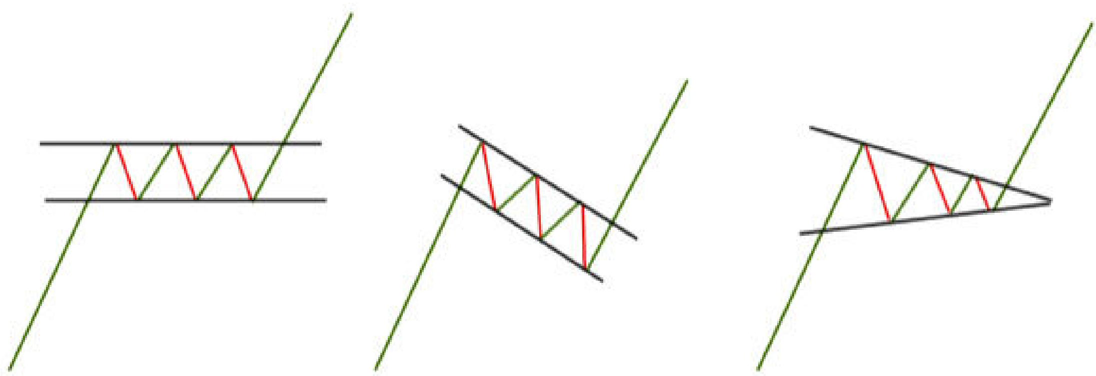
Price will continue to move down off the highs of the range as volume increases and volume anomalies appear on the biggest down days.. Indicating that the selling is institutional.

By learning these volume patterns and applying them on our scans, we can be on the side of the institutions and watch them accumulating/or distributing a position in real time.

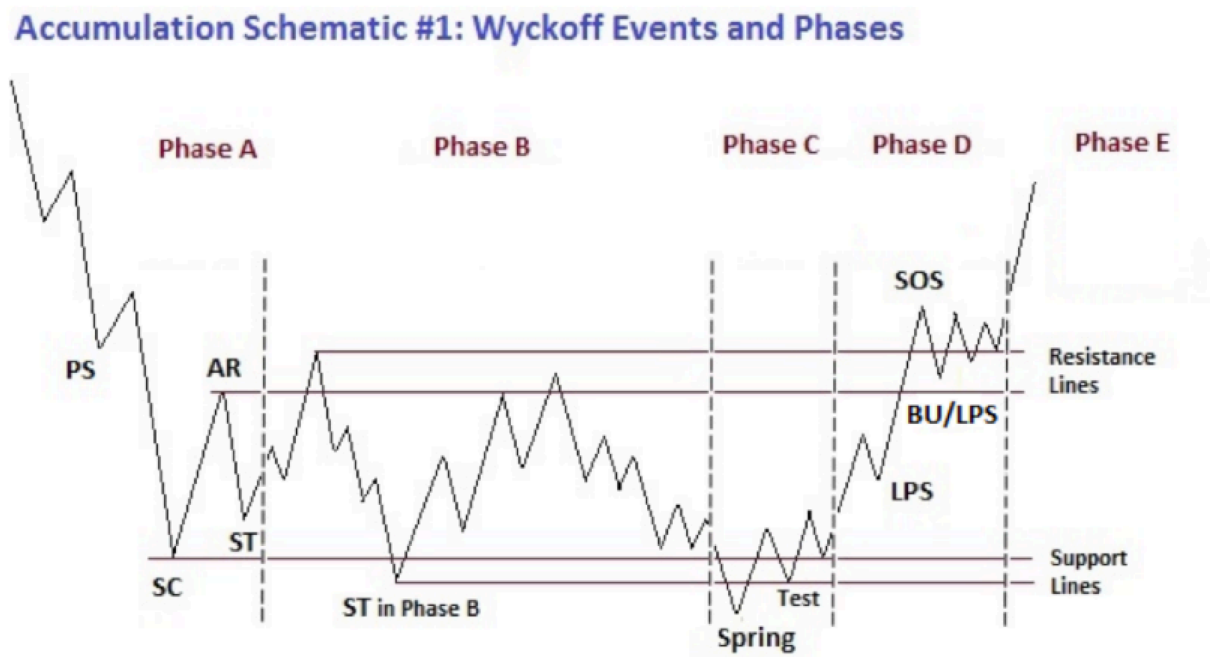
Combining volume analysis with price analysis
Once we understand these volume patterns and can truly gauge what is happening under the hood of the stock market, we can start combining volume analysis with simple price action patterns.

When looking for price action patterns, you want to start looking for a range, a base, or any tight consolidation that has occurred over a period of time.

This can be anywhere from a simple bull flag

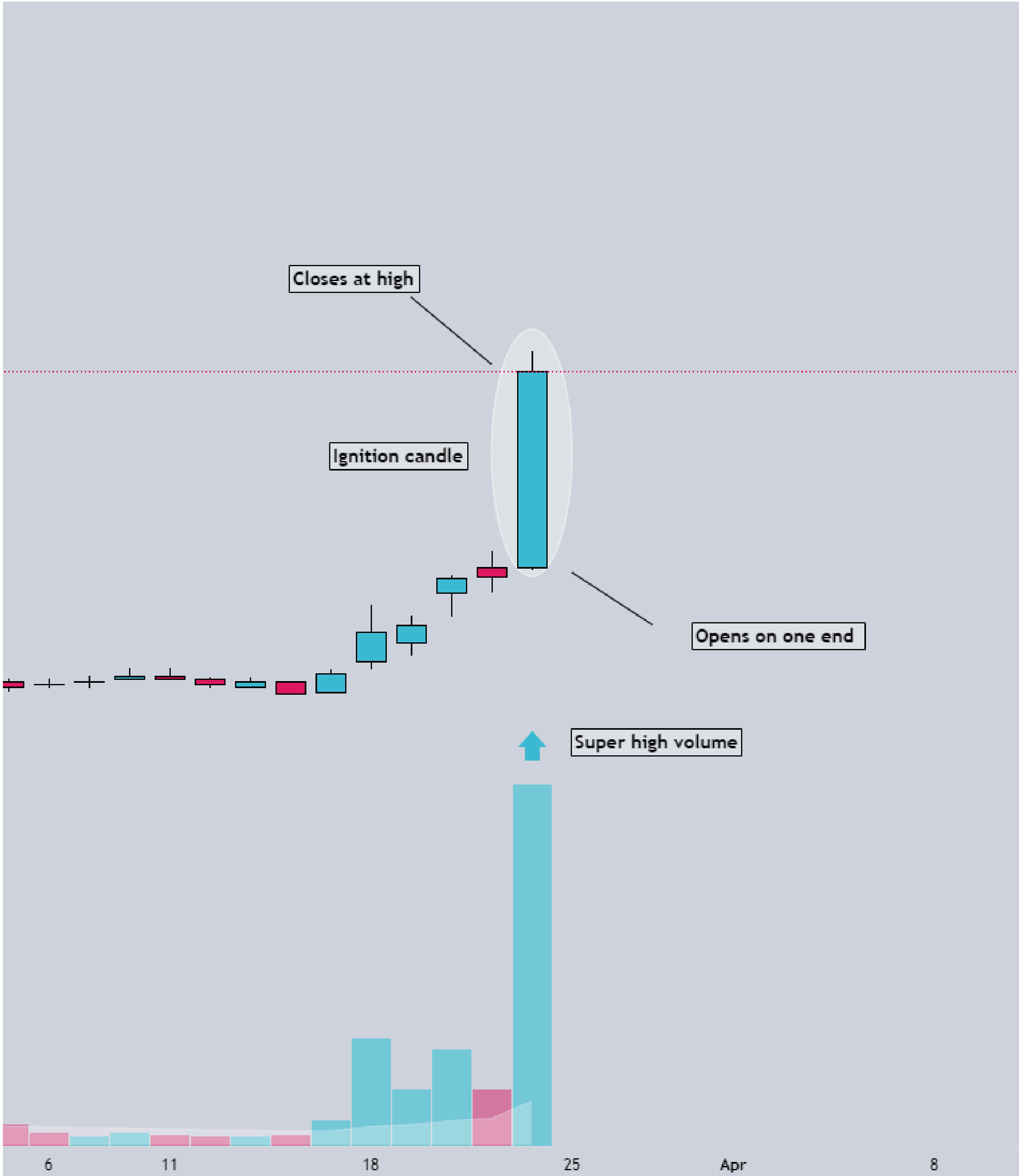


To a complex wyckoff method base



The point is to find these patterns and then analyze the volume within these patterns.

What we are looking for is an ignition candle, an ignition candle is defined as a bar or candle which moves aggressively in one direction–it has a larger range than most bars. Opens on one end and closes at the other with higher volume.

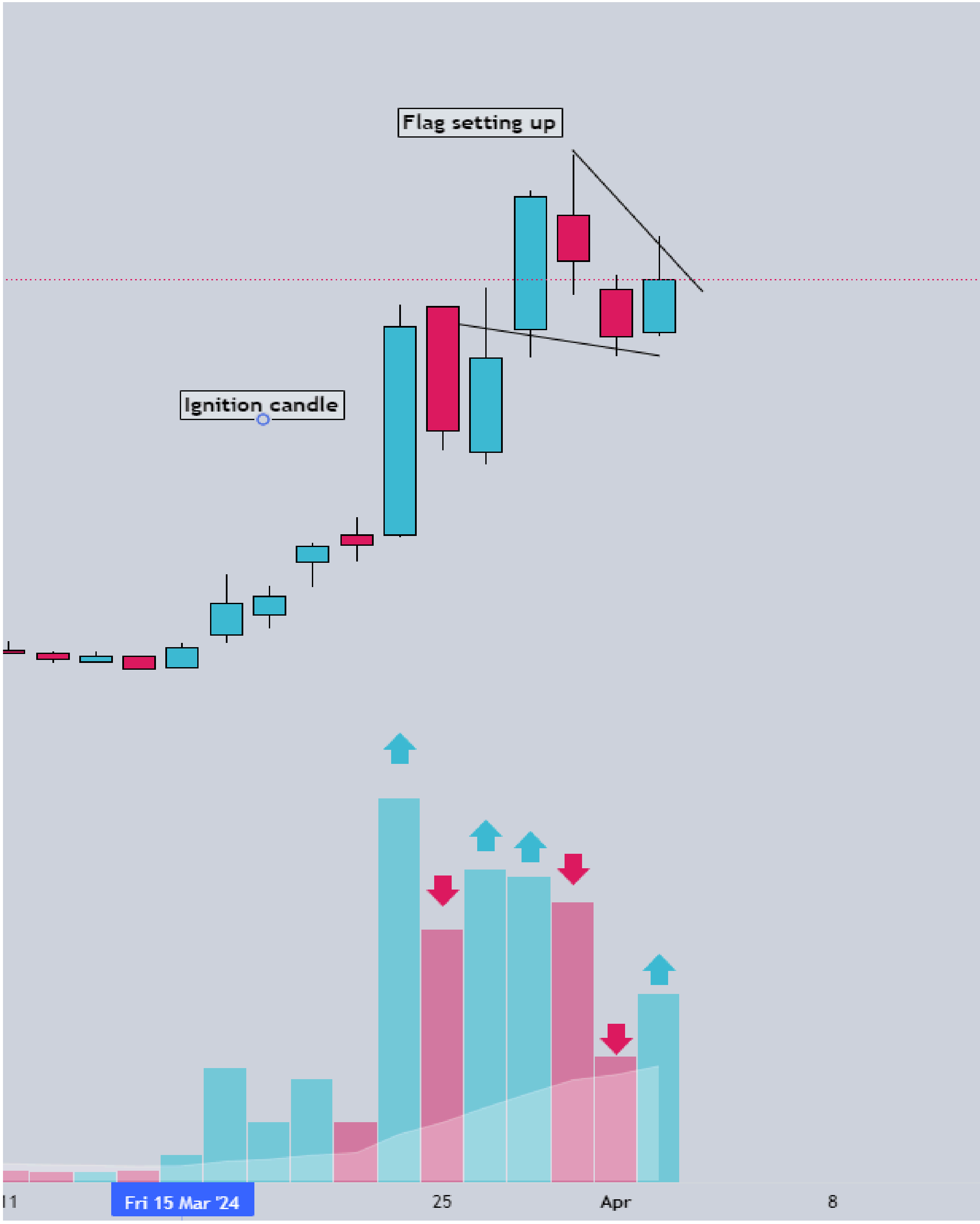


In this chart we can see an ignition bar formed with super high volume (+200% average volume) and a big average daily range.

Once we identify an ignition bar we put the stock on the watchlist and wait. Now I know it sounds stupid that we did all this work to find charts with these ignition bars.. But the most important part of this strategy is waiting and identifying a pattern.

Sometimes you will scan for a stock and the pattern will already be there, sometimes you will see just the ignition candle and have to wait.

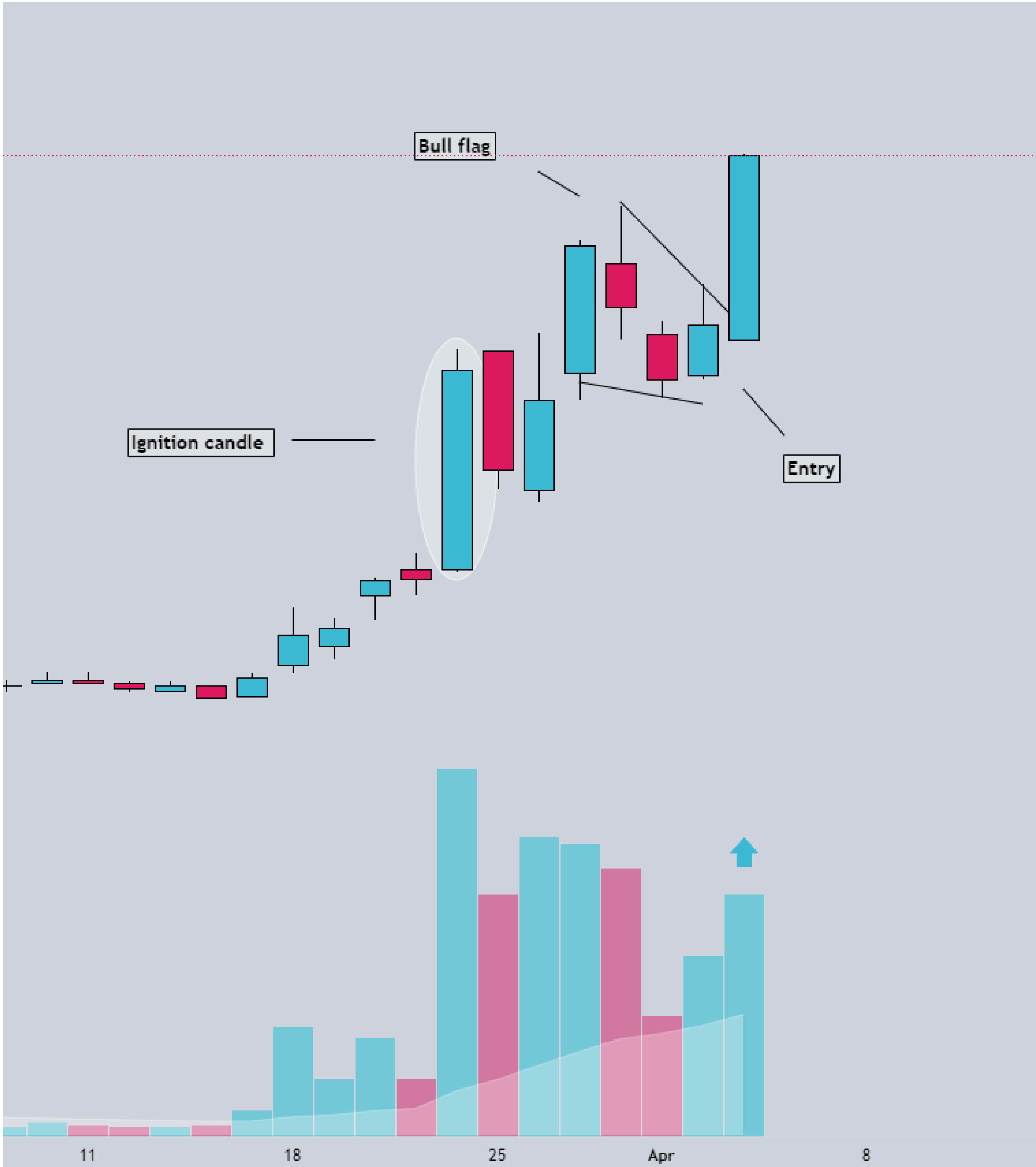
Now comes the most important part… identifying the pattern.



After just a few days we can start seeing a pattern develop… as price pulls back volume is lower than the previous bar that is in the direction of the ignition candle(Upside). As price continues to move in the direction of the ignition candle(Upside) volume increases.. Then again it continues to decrease as price pulls in and increases as price moves in the direction of the ignition candle. Once we spot this pattern we can assume that institutions are beginning to accumulate and have not sold any of their positions. How would we know that? Because the volume tells us.. If institutions unload their positions we would see a reflection in price and volume. Volume would be higher as price pulls back.. But since volume patterns are showing accumulation we know that institutions are continuing to add into important spots and want to move this stock higher.

Once that has been established we look for our price action patterns… in this specific example price has formed a tight 3 day flag. Usually we would look for a bigger base, as the bigger the base the bigger the move.. But in this case the ignition candle was so aggressive that the stock looks ready to go.

Once the volume and price pattern have been established we can look to buy a call option before the stock has really started to move so we can take advantage of a lower implied volatility on the options contracts.



Next bar is a continuation bar that makes new highs and we knew the probability was high all along.

These setups are repeatable because of the fact that we are following institutions. Once you realize how important volume is, you can really get an understanding of how price moves.

Piecing it all together

Now that you have our exact strategy from top to bottom

Support & Resistance

Support: Support is a price level where a downtrend can be expected to bounce due to a concentration of demand or buying interest. As the price of the stock drops, demand for the shares increases, thus forming the support line.

Once an area or point of support has been identified, those price levels can serve as potential entry or exit points because, as a price reaches a point of support it will do one of two things—bounce back away from the support, or violate the price level and continue in its direction—until it hits the next support level.

Support levels act as high probability areas where buyers want to buy the asset. For this reason purchasing an asset at this level is the "best bang for your buck". Since everyone else wants to buy the asset in this area... there is high probability, the key level you identified will act as a bottom.

How to chart support:

Charting support is very simple as it's basically drawing all the low points that the price of the stock has made.

Price respected the support level and bounced every time it touched it.

How to use support in your trades:

Enter long after the price has bounced off support. This basically means you're catching the bottom of the price. Always wait for confirmation of bounce off support level.

By entering long at a support level you can potentially catch the reversal moving up.

Trendlines

Support can be either horizontal or diagonal Draw your trend lines with support at the lows.

In this example, we can establish a clear uptrend in price. Price is making higher highs and higher lows... this means whenever price touches our support trendline a possible long entry opportunity is presented, if the level holds.

If the support level does not hold, and price breaks below support, we can assume a possible downtrend is beginning.

Exit your long position on the break of a support trend line.

A break of support is a good indicator of the beginning of a downtrend. You can take advantage of this and take a short position.

Resistance: Resistance is a price level where an uptrend can be expected to reject due to a concentration of supply or selling interest. As the price of the stock increases, supply for the shares decreases, thus forming the resistance line.
Once an area or point of resistance has been identified, those price levels can serve as potential entry or exit points because, as a price reaches a point of resistance it will do one of two things—bounce back away from the resistance, or violate the price level and continue in its direction—until it hits the next resistance level.

Resistance levels act as high probability areas where sellers want to sell the stock. For this reason purchasing an asset at this level is extremely risky as this can be considered a potential top. Since everyone else wants to sell the asset in this area... there is a high probability that the key level you identified will act as a top.

How to chart resistance

To chart resistance, draw all the high points(highs of a stock) that the stock's price has made.

Price respected the resistance level and rejected every time it touched resistance.

How to use resistance in a trade

Enter short after the price has rejected the resistance level. Entering a short at resistance will allow you to essentially time the top of the asset. Always wait for confirmation of rejection off resistance level.

By entering short at a resistance level you can potentially catch the reversal moving down

Trendlines

Resistance can be either horizontal or diagonal Draw your trend lines with resistance at highs

Figure 2.2

In this example, we can establish a clear downtrend in price. Price is making lower highs and lower lows... this means whenever price touches our resistance trendline a possible short entry opportunity is presented, if the level holds. If the resistance level does not hold, and price breaks above(resistance), we can assume a possible uptrend reversal is beginning.

Exit your short position on the break of a trend line.

A break of resistance is a good indicator of the beginning of an uptrend. You can take advantage of this and take a long position.

Supply & Demand

Supply- A supply zone is the specific price range where sellers want to sell/short the security. More specifically big institutions; who control market movements. Price in a market only moves because of two reasons - it is important to understand the auction process and how it works.

Auction process

Two types of markets

Balanced - Market participants agreeing on price. There is an equilibrium between buyers and sellers which creates massive liquidity (sideways/consolidation)

Imbalance - Market participants not agreeing on price. Demand exceeds supply or supply exceeds demand. This creates an illiquid area of price since all the orders were in favor of the sellers, or buyers

If you have supply > demand, you will have a massive drop imbalance and there will be unfilled orders sitting at the origin location that did not get filled the first time, since price fell to fast

In this example price had a massive drop imbalance because supply(sellers) exceeded demand(buyers) thus leaving over unfilled sell orders in the origin location. This creates an overhead level of supply where looming sell orders exist. When price revisits the same level where the origin imbalance was created, the unfilled sell orders begin getting filled. This makes supply zones inherent resistance levels where price will struggle to get above - since supply exceeded demand.

These levels are more broad than a resistance line, however very similar. The only difference is that zones encompass a larger area.

Imagine supply zones as large resistance areas with a huge concentration of sellers.

How to chart supply

The best way to find supply zones is to look at a candlestick chart. Here is the order of things to do to spot supply zones:

Look at the chart and try to spot a massive drop imbalance . It is important that price moves a lot. Establish the base (beginning) from which price started the quick move. Usually, before a large move you have a small sideways move- that is where your supply zone is.

The areas above show a basing period for the stock, then a steep move to the downside. These are the exact things we are looking for to identify supply. Price needs to be balanced for a period of time(consolidating), then have a massive drop imbalance that signifies sell orders will be left over in the origin location.

Draw a rectangle(zone) on the basing candle(candle before drop imbalance), from the candle body to the top of the wick as shown.

How to use supply zones while trading

Enter a short position when supply zone gets rejected

Price gets rejected at the supply zone and a reversal of price occurs, always wait for confirmation.

Enter a long position when supply zone get broken into-thus turning supply into demand:

Price breaks the supply zone and continuation of the trend continues. Supply is now turned into demand and becomes fuel for the stock to keep pushing.

If price breaks above the supply zone it could turn supply into demand and keep rallying. So make sure to keep a stop loss above the supply zone when you have a short position.

Trading zones is an extremely effective strategy especially in an uncertain market where price can move sideways. Supply and demand zones allow you to play any trend; up or down

Demand- A demand zone is the specific price range where buyers want to buy/long the security. More specifically big institutions; who control market movements. Price in a market only moves because of two reasons - it is important to understand the auction process and how it works.

Auction process

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Imbalance - Market participants not agreeing on price. Demand exceeds supply or supply exceeds demand. This creates an illiquid area of price since all the orders were in favor of the sellers, or buyers

If you have demand > supply you will have a massive rally imbalance and there will be unfilled orders sitting at the origin location that did not get filled the first time since price rose to fast

In this example price had a massive rally imbalance because demand(buyers) exceeded supply(sellers) thus leaving over unfilled buy orders in the origin location. This creates a level of demand where looming buy orders exist. When price revisits the same level where the origin imbalance was created, the unfilled buy orders begin getting filled. This makes demand zones inherent support levels where price will likely bottom - since demand exceeded supply.

These levels are more broad than a support line, however very similar. The only difference is that zones encompass a larger area.

imagine demand zones as large support areas with a huge concentration of buyers

How to chart demand

The best way to find demand zones is to look at a candlestick chart. Here is the order of things to do to spot demand zones:

Look at the chart and try to spot a massive rally imbalance. It is important that price moves a lot.

Establish the base (beginning) from which price started the quick move.

Usually, before a large move you have a small sideways move- that is where your demand zone is.

The areas above show a basing period for the stock, then a steep move to the upside. These are the exact things we are looking for to identify demand. Price needs to be balanced for a period of time(consolidating), then have a massive rally imbalance that signifies buy orders will be left over in the origin location.

Draw a rectangle(zone) on the basing candle(candle before the rally imbalance), from the candle body to the bottom of the wick as shown.

How to use demand zones while trading

Enter a long position when prices bounces off of the demand zone.

Price bounces off the demand zone and a reversal of price occurs.(always wait for confirmation)

Enter a short position when the demand zone gets broken into-thus turning demand into supply.

Price breaks the demand zone and continuation of the trend continues. demand is now turned into supply and becomes fuel for the stock to keep pushing downwards.

Stop loss

Stop loss for a long position should be below the demand zone.

If price breaks blow the demand zone it could turn demand into supply and keep dropping. So make sure to keep a stop loss below the demand zone when you have a long position.

Trading zones is an extremely effective strategy especially in an uncertain market where price can move sideways. Supply and demand zones allow you to play any trend; up or down.

Patterns

We use patterns to identify potential reversals and continuations in trend.

Bullish Patterns

Pattern 1: -Ascending triangle-

An ascending triangle is a chart pattern used in technical analysis. It is created by price moves that allow for a horizontal line to be drawn along the swing highs, and a rising trendline to be drawn along the swing lows. The two lines form a triangle, traders often watch for breakouts from triangle patterns.

How to trade ascending triangles:

1. Entry

Enter long off a Support bounce or break above of resistance to catch the move up. Use the stocks volume as confirmation of breakout.

2. Stop loss

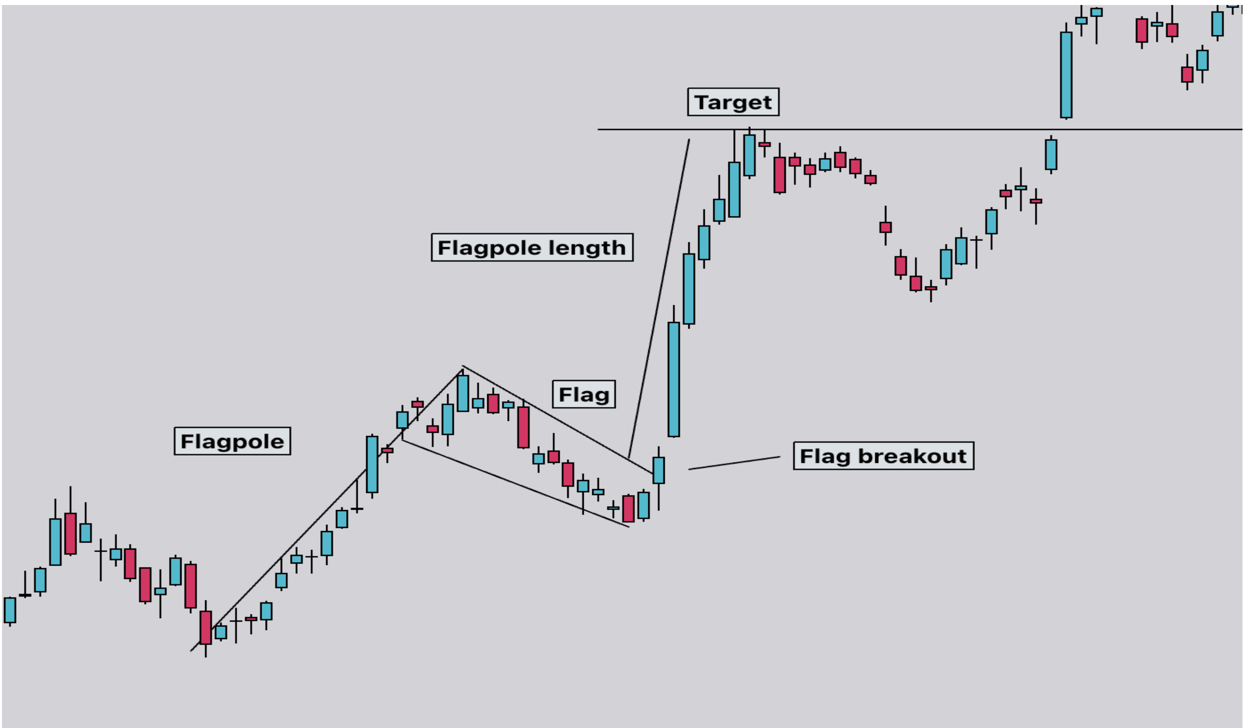
Stop loss should be set at a loss of support

3. Profit target

Profit target can be measured by the height of the ascending triangle to the breakout point. Exit the trade when your profit target is hit.

Pattern 2: -Bull Flag-

Bullish flag formations are found in stocks with strong uptrends. They are called bull flags because the pattern resembles a flag on a pole. The pole is the result of a vertical rise in a stock and the flag results from a period of consolidation.



How to trade bull flags

1. Entry

Enter at a break of resistance to catch the move up. Use the stocks volume as a confirmation of breakout

2. Stop loss

Stop loss should be set at a loss of support

3. Profit target

Profit target can be determined by finding the length of the pole and adjusting it to the breakout point. Exit the trade when your profit target is hit.

Pattern 3: -Inverse Head and Shoulders-

An inverse head and shoulders, also called a "head and shoulders bottom", is similar to the standard head and shoulders pattern, but inverted: with the head and shoulders top used to predict reversals in downtrend. This pattern is identified when the price of a security meets the following characteristics: the price falls to a trough(shoulder) and then rises; the price falls below the former trough(head) and then rises again; finally, the price falls again but not as far as the second trough(shoulder). Once the final trough is made, the price heads upward, toward the resistance found near the top of the previous troughs(neckline).

How to trade inverse head and shoulders

1. Enter

Enter long at break of resistance. Use volume as confirmation of breakout.

2. Stop Loss

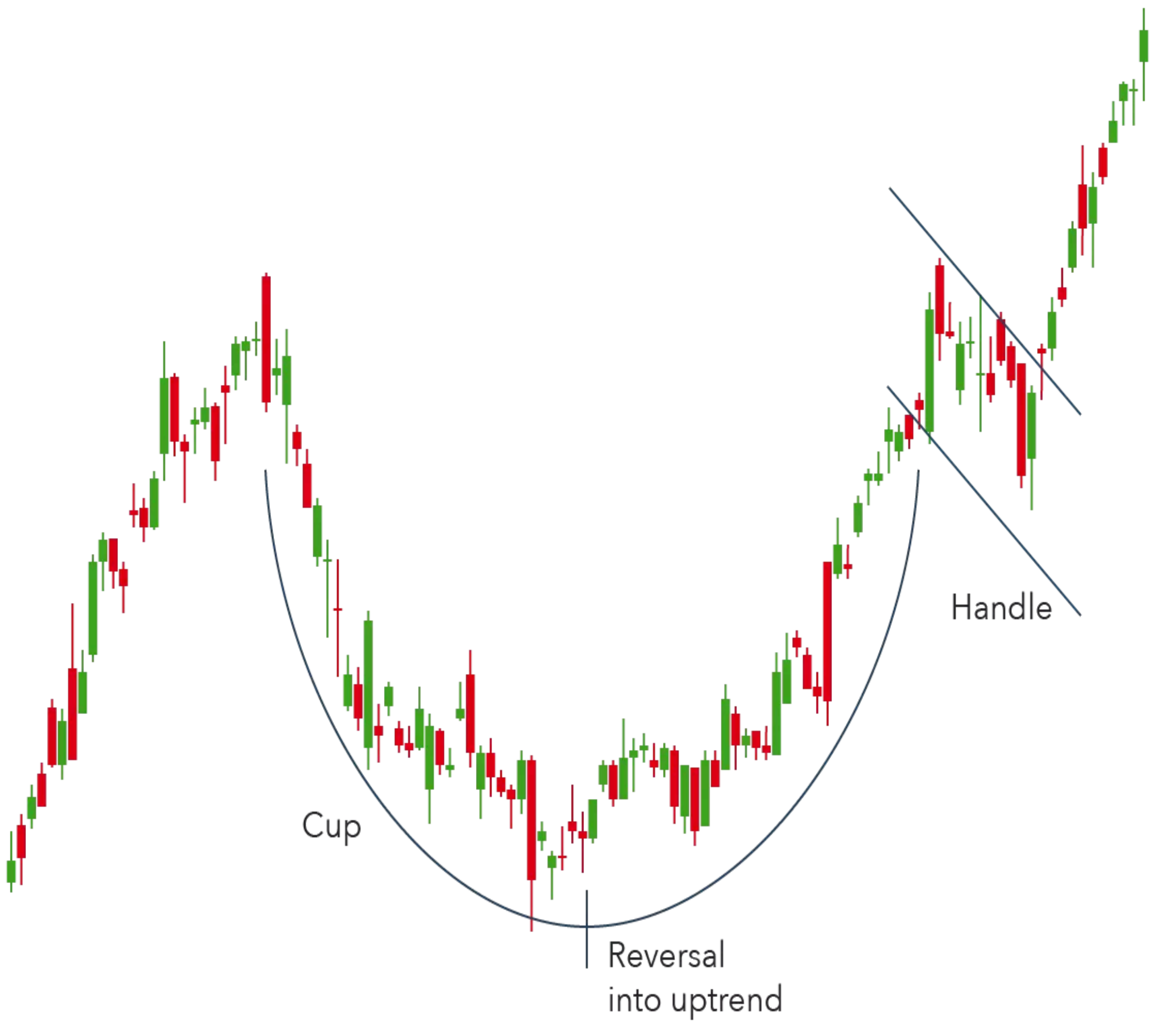
Stop loss should be set at a loss of support

3. Profit target

Profit target can be measured by the height of the head of the inverse head and shoulder and then placed at the breakout point. Exit the trade when your profit target is hit.

Pattern 4: -Cup and Handle-

A cup and handle price pattern on a security's price chart is a technical indicator that resembles a cup with a handle, where the cup is in the shape of a "u" and the handle has a slight downward drift. The cup and handle is considered a bullish signal, with the right-hand side of the pattern typically experiencing lower trading volume. This pattern usually takes a longer time to form(1-52 weeks).



How to trade cup and handle

1. Enter

Enter long once the price breaks resistance. Use volume as confirmation of breakout

2. Stop Loss

Stop loss should be set at a loss of support

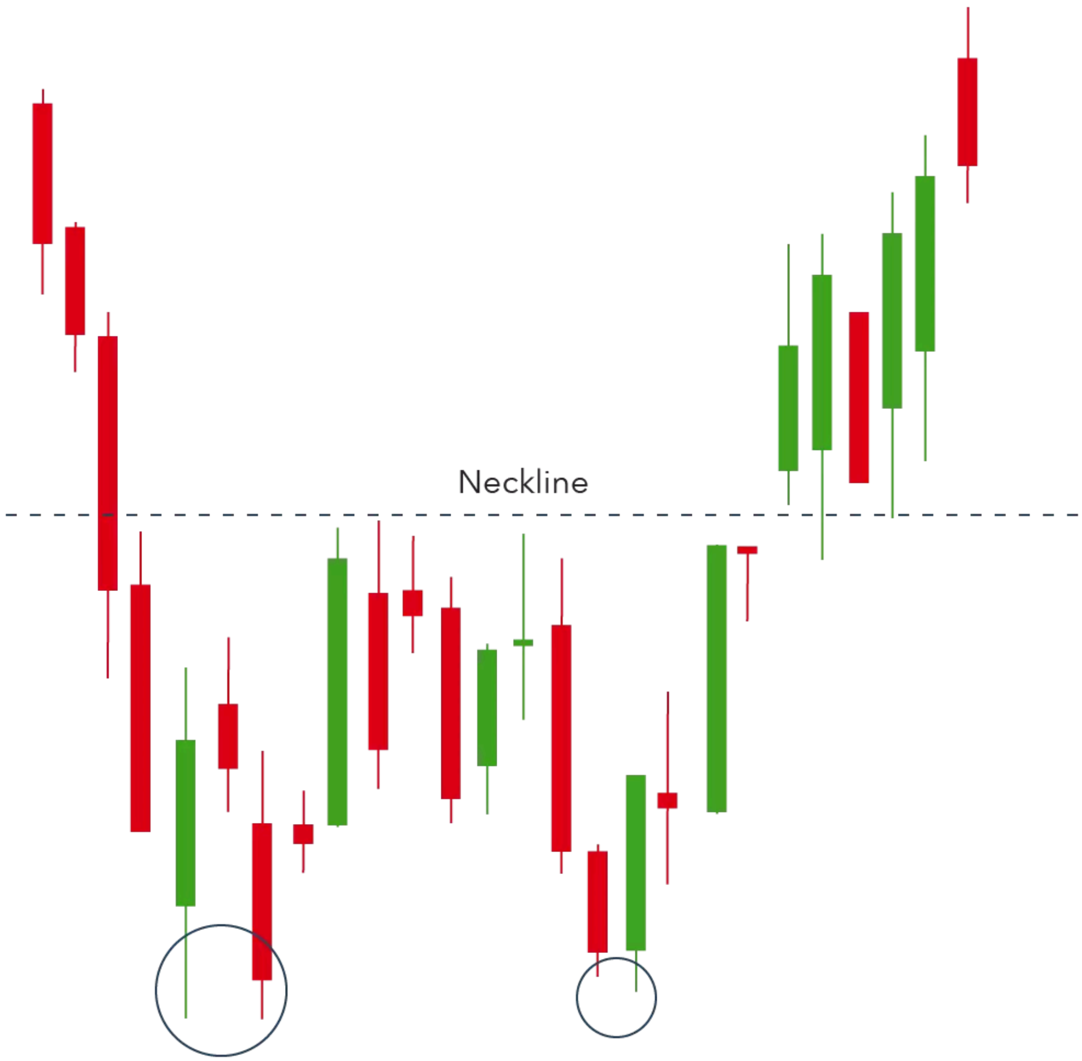
3. Profit target

Profit target can be measured by the height of the cup, then placed at the breakout point. Exit the trade when your profit target is hit.

Pattern 5: -Double bottom-

A double bottom pattern is a technical analysis charting pattern that describes a change in trend and a momentum reversal from prior leading price action. It describes the drop of a stock, a rebound, another drop to the same or similar level as the original drop, and finally another rebound.

Usually takes the form of the letter W



How to trade a double bottom

1. Entry

Enter long on the support bounce or break above resistance to catch the move up.This inherently lets you catch the bottom of the reversal buyers will be present at this level and volume should have a good spike.

2. Stop Loss

Stop loss should be set at a loss of support

3. Profit Target

Profit target can be measured by the height of the W shape in between the two bottoms.
Profit target can be measured by the height of the W shape in between the two bottoms.
Exit the trade when your profit target is hit.

Pattern 6: **-Falling Wedge-**

The Falling Wedge is a bullish pattern that begins wide at the top and contracts as prices move lower. This price action forms a cone that slopes down as the reaction highs and reaction lows converge.

How to trade a falling wedge

1. Entry

Enter at a break of resistance to catch the move up. Use volume as a confirmation of breakout.

2. Stop loss

Stop loss should be set at a loss of support

3. Profit target

Profit target can be determined by finding the length of the Wedge and adjusting it to the breakout point. Exit the trade when your profit target is hit.

The patterns listed above are bullish patterns that usually lead to a reversal in trend to move higher or a pattern that continues higher.

Bearish Patterns

Pattern 1: -Descending triangle-

A descending triangle is a bearish chart pattern used in technical analysis that is created by drawing one trendline that connects a series of lower highs and a second horizontal trend line that connects a series of lows. Watch for a move below the lower support trend line because it suggests that the downward momentum is building and a breakdown is imminent.

How to trade descending triangles

1. Entry

Enter short off a resistance rejection; or break below support to catch the continuation of the downtrend. Use volume as confirmation of breakdown.

2. Stop loss

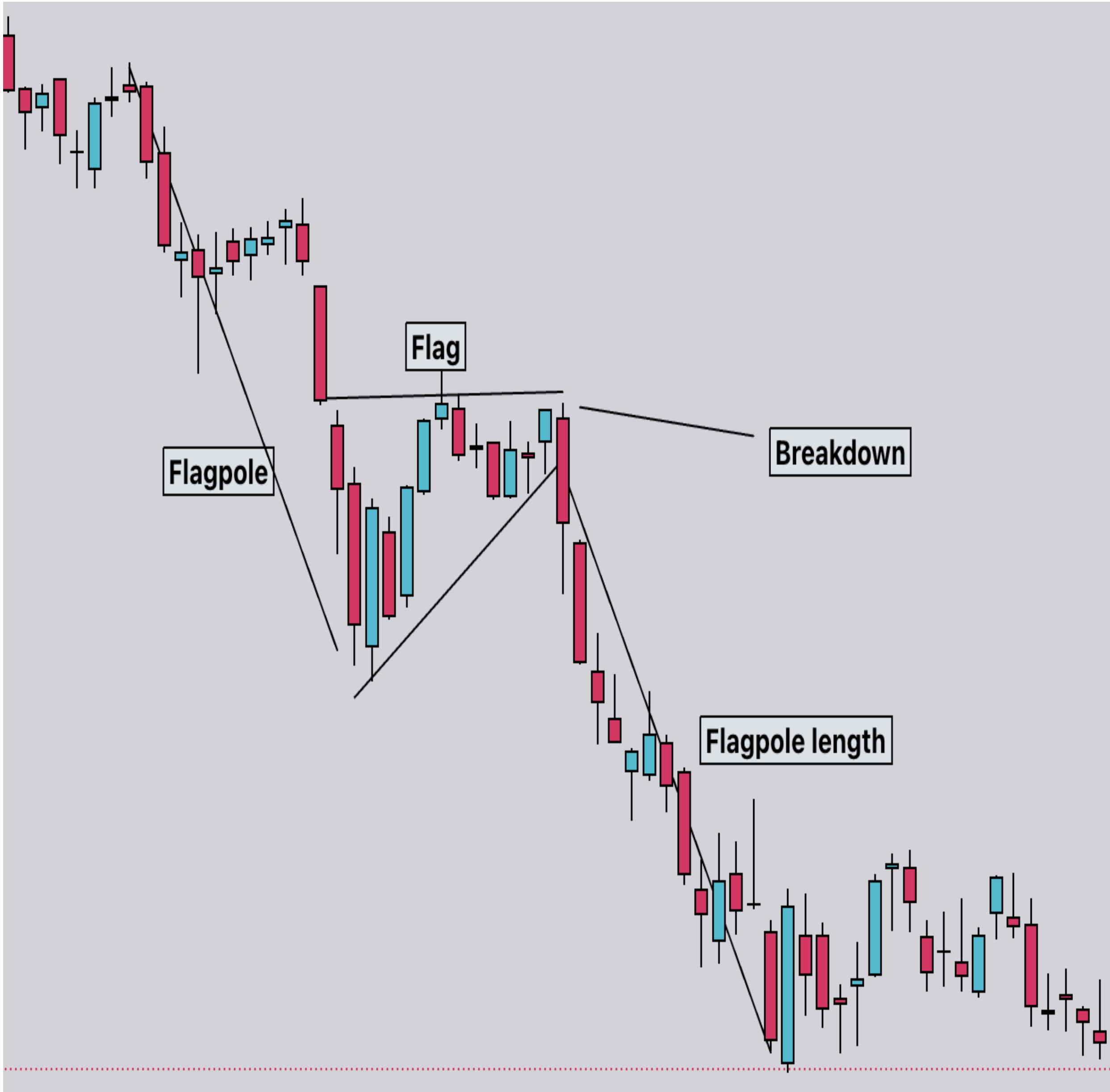
Stop loss should be set at a reclaim of resistance.

3. Profit target

Profit target can be measured by the height of the descending triangle. Exit the trade when your profit target is hit.

Pattern 2: -Bear Flag-

Bearish flag formations are found in stocks with strong downtrends. They are called bear flags because the pattern resembles an upside down flag on a pole. The pole is the result of a vertical drop in a stock and the flag results from a period of consolidation.



How to trade bear flags

1. Entry

Enter at a break of support to catch a continuation of the downtrend. Use the volume as a confirmation of breakdown

2. Stop loss

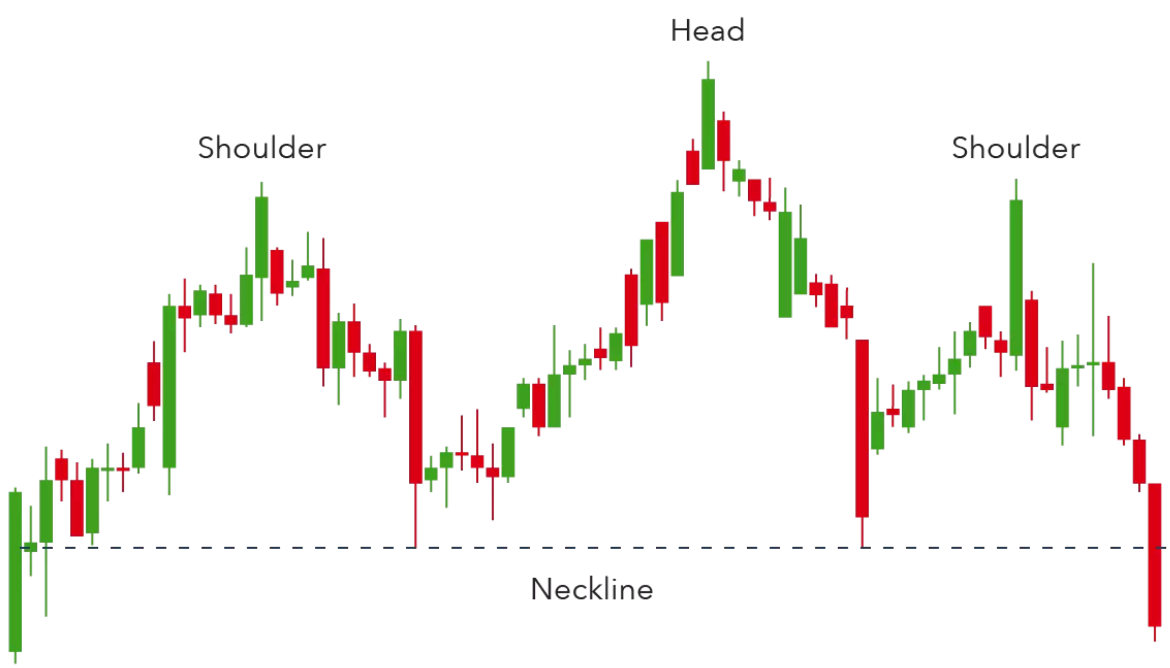
Stop loss should be set at a reclaim of resistance.

3. Profit target

Profit target can be determined by finding the length of the pole and adjusting it to the breakout point. Exit the trade when your profit target is hit.

Pattern 3: -Head and Shoulders-

A head and shoulders pattern is a chart formation that appears as a baseline with three peaks, the outside two are close in height and the middle is highest. In technical analysis, a head and shoulders pattern describes a specific formation that predicts a bullish-to-bearish trend reversal. The head and shoulders pattern forms when a stock's price rises to a peak and subsequently declines back to the base of the prior up-move. Then, the price rises above the former peak to form the "nose" and then again declines back to the original base. Then, finally, the stock price rises again, but to the level of the first, initial peak of the formation before declining back down to the base or neckline(support) of chart patterns one more time.



How to trade head and shoulders

1. Entry

Enter short off break below support to catch the continuation of the downtrend. Use the stocks volume as confirmation of breakout

2. Stop Loss

Stop loss should be set at a reclaim of the neckline.

3. Profit target

Profit target can be measured by the height of the Head of the head and shoulder and then placed at the break point.

Pattern 4: -Double top-

A double top is an extremely bearish technical reversal pattern that forms after an asset reaches a high price two consecutive times with a moderate decline between the two highs. It is confirmed once the asset's price falls below a support level equal to the low between the two prior highs. A double top can be used to play a reversal of a bullish trend after a retest of an already established-tested resistance. Usually takes the shape of M.

A double top is tradeable in that it provides a clear entry point, and profit target.

How to trade double tops

1. Entry

Enter short the resistance rejection ;or break below support to catch the reversal. This inherently lets you catch the top of the reversal sellers will be present at this level and volume should have a good spike

2. Stop Loss

Stop loss should be set at a reclaim of the neckline.

3. Profit Target

Profit target can be measured by the height of the M shape in between the two bottoms. Exit the trade when your profit target is hit.

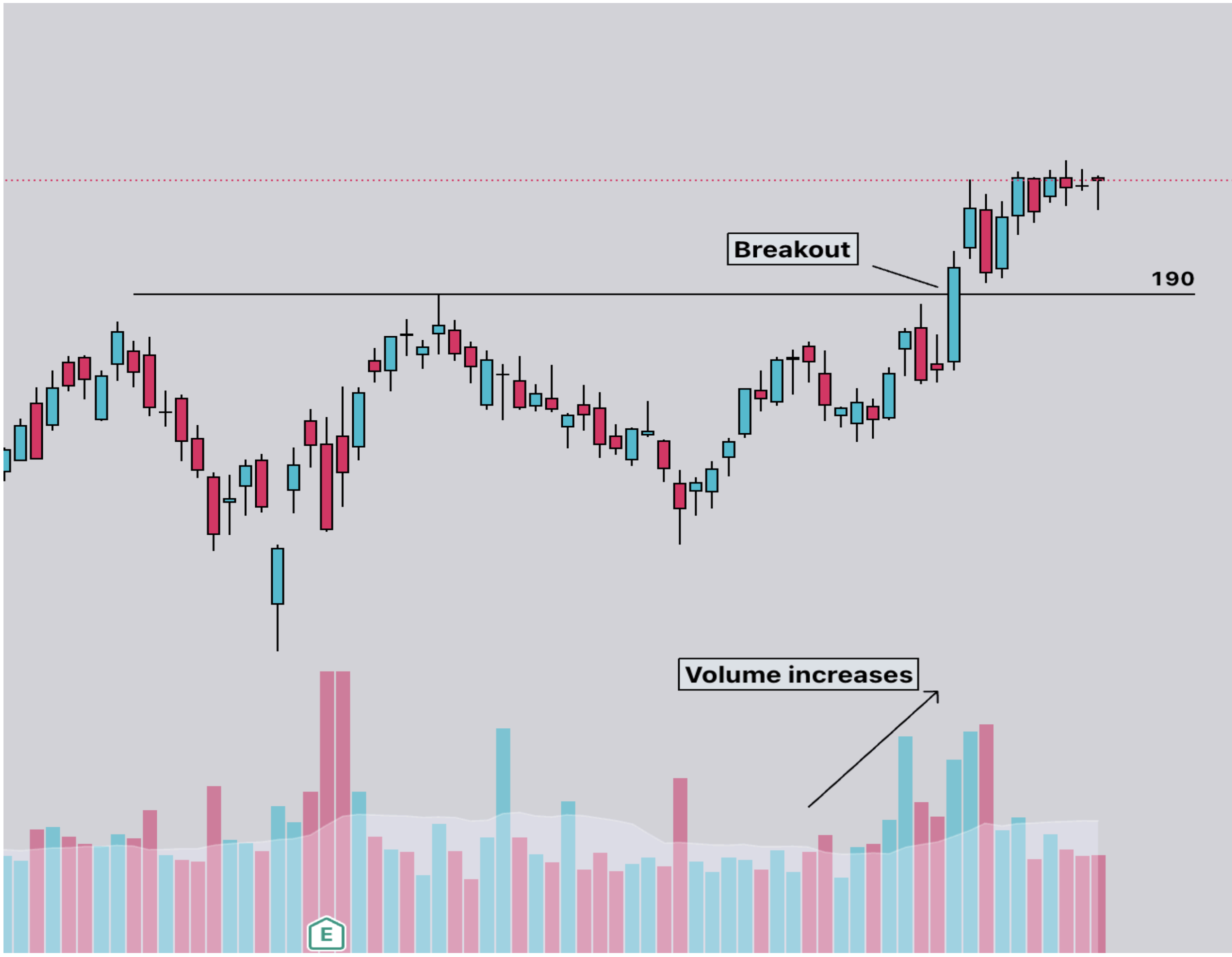
The patterns listed above are bearish patterns that usually lead to a reversal in trend to move lower or a pattern that continues lower.

Breakouts

A breakout is a stock price moving outside a defined support or resistance level with increased volume. When a breakout occurs the volatility picks up creating a larger move to either side of the breakout. This can generate quick profitable trades or longer trades that are extremely profitable. The most explosive breakouts occur in a pattern, but can happen in any market environment.

Key takeaways:

A breakout is a potential trading opportunity that occurs when an asset's price moves above a resistance level or moves below a support level on increasing volume. Always stick to your plan and don't let emotions get to you during these trades, be able to cut losses quickly and re-assess if something goes against your plan. Go long when price breaks and reclaims above resistance, go short when price breaks below and loses support, Volume increase is one of the main ways to identify a perfect breakout



Trading breakouts

Entering long (bullish breakout)

Depending on the time frame used; when a price candle closes above resistance, a long position can be entered.

In this example price broke out of a bullish pennant pattern over resistance on the 4h time frame. Price then closes above resistance and signals a long entry with an increase of relative volume on the breakout.

Entering short (breakdown)

Depending on the time frame used; when a price candle closes below support, a short position can be entered.

In this example price broke a bearish flag pattern below support on the 5 minute time frame. Price then closes below support and signals a short(put) entry with an increase of relative volume on the breakout.

Confirmation

Confirmation helps you distinguish between a valid breakout and a fake-out. A fake-out occurs when price seems to be breaking out of a defined range but then reenters that trading range for something known as a "false breakout".

This occurs often and can result from a couple different reasons.

Lack of volume - If there is not enough volume when the breakout occurs the buyers or sellers might not be able to push price below a defined range due to lack of momentum.

Regions of support or resistance are very well defined and cannot be broken below or above(for the time being).

How to confirm a breakout

1. Volume

Most important confirmation of a solid breakout The volume for the candle that broke support or resistance should be relatively greater to other candles around that specific time of day

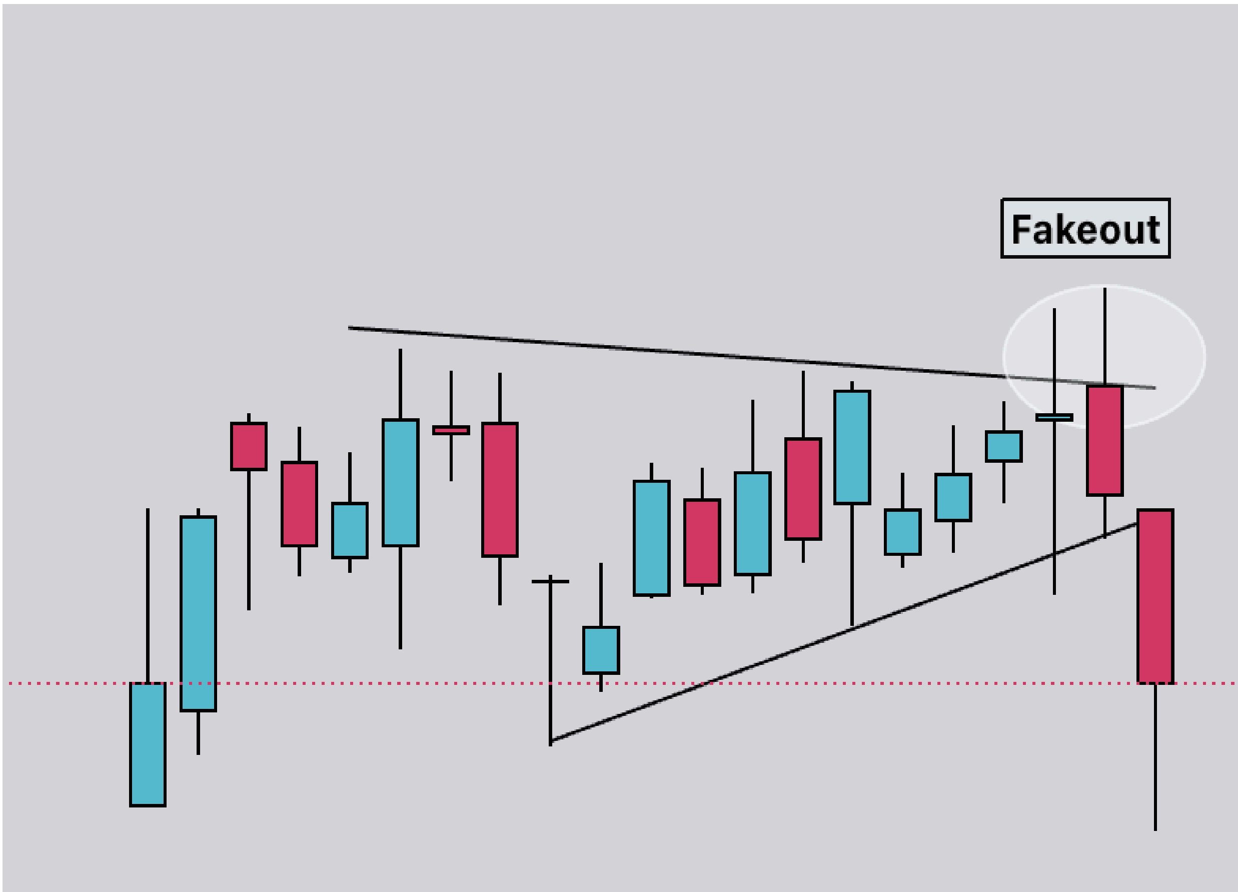
Volume in this example is noticeably larger than previous volume candles, thus signaling a greater exchange in units of that asset. This can indicate that a lot of buyers or sellers are entering a range of price and can break that defined range. That is why volume is one of the best confirmations of a breakout.

2. Next Candle Close

Next candle close refers to the next candle that opens above or below a support or resistance level, needs to close below that support or above that resistance level to confirm a breakout. When the "Next Candle" closes above or below the defined range it confirms that price has successfully taken out either the buyers or sellers in that range. This can be used for any time frame - However the bigger the time frame the more accuracy that will follow suit. The daily candle closing or opening above support or resistance is one of the leading indicators to larger degree breakouts. This strategy makes it so you are not susceptible to "wick breakouts". Meaning when price breaks a level but then immediately wicks back into that level.

In this example (Figure 3.2) price begins to breakout of a falling wedge pattern. The circled candle which is the "Next Candle", Closes above the resistance which confirms that price has pushed sellers out of that resistance region... which eventually leads to a reversal of trend to the upside. (5m time frame)

-Fake out-



Price was showing a potential breakout out of an ascending triangle bullish pattern. However it could not maintain above resistance and was then pushed back into the trading range. This resulted in a wick being left over by that candle that shows price tried breaking that level but could not maintain above.

Use volume and next candle close confirmation to confirm a continuation of a move.

-Retest-

As we know from the support and resistance lessons, price can always break a defined support or resistance level; thus turning that level into either Support to resistance or resistance to support.

When a stock price breaks a resistance level, old resistance becomes new support - vice versa for support to resistance.

In the majority of trades a stock will always come back to test a level it has broken. This leads to an amazing entry if that level holds - as you are confirming that the level broken is now either new support or new resistance which can lead to a continuation of the trend.

Price initially breaks out of the defined resistance level in the ascending triangle pattern. This generates a big move to the upside, however price then later comes back down to test the old resistance as support to continue a move even higher. This is when you would enter the trade; requiring patience for a better risk for reward scenario. Price needs to hold the defined retest region whether support or resistance, and then continue the move in the direction of the original trend

Steps to follow when trading breakouts

Identify a pattern - Whether bullish or bearish a pattern is necessary to help identify the direction the stock might move. The stronger the support or resistance level is the greater the breakout will be. So look for defined regions that have acted on price for a while; therefore leading to an even greater move when price breaks out.

Waiting for a breakout - Just because you have a setup that looks good does not mean you should enter the trade before the actual breakout occurs - This strategy requires patience for the best results.

Confirm breakout - Watch for volume and next candle close confirmation to confirm a breakout -

Set a reasonable target for the trade - Know where your target is for the trade. Either using the patterns designated price target or fibonacci price targets discussed in the fibonacci section; always have a plan for what you want to happen in the trade.

Allowing price to retest - This is one of the most important steps to high success - doesn't need to be used but highly recommended - In the majority of your trades, the stock will test the level it has broken.

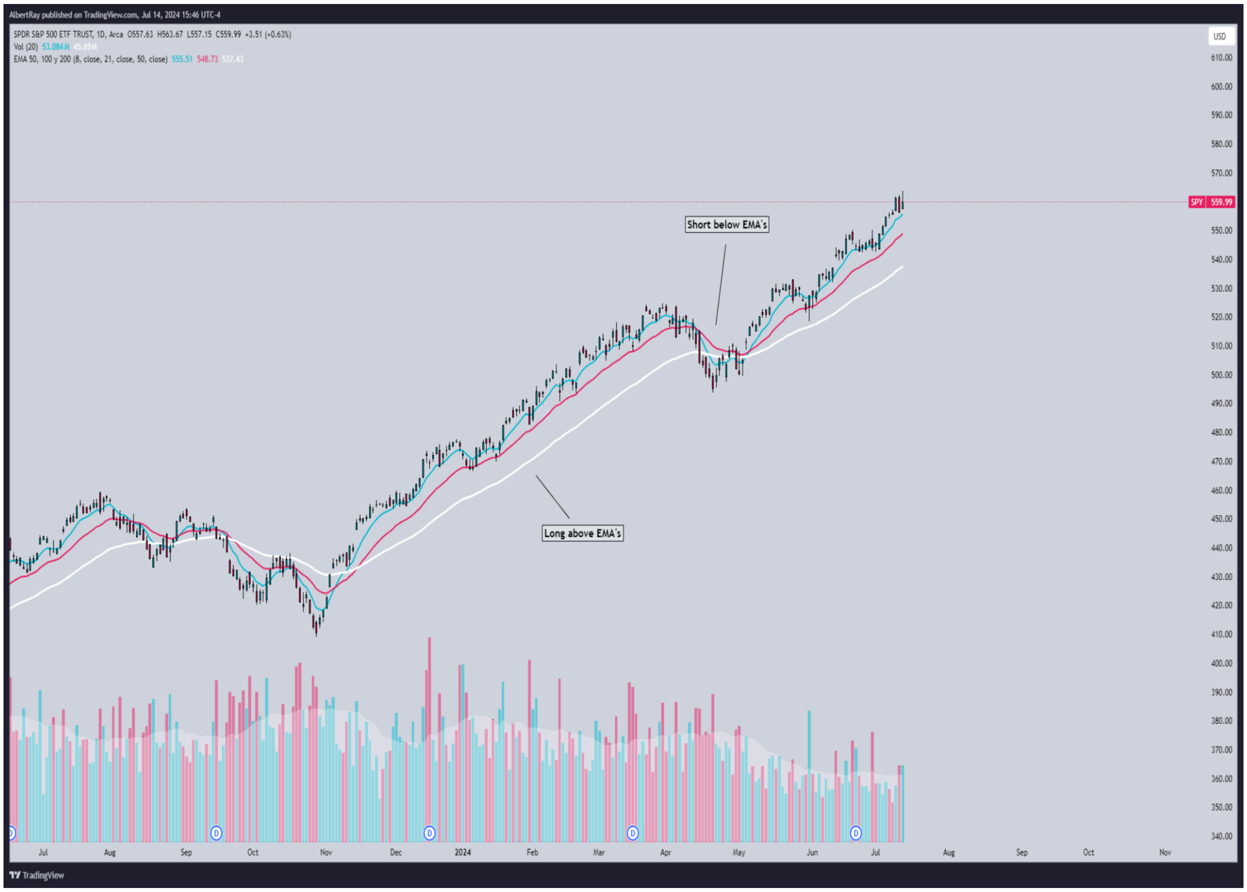
Recognizing pattern failure - Be able to understand when your pattern fails - When price comes back to retest the level it broke through and cannot hold that level. The pattern has failed and you should now exit the trade and reassess your plan. This is just apart of trading and controlling emotions, not everything will always go to plan.

Patience - This strategy requires patience but is very rewarding when you are patient. Follow all of these steps to reduce the amount of emotions that play into your trades.

Exit at your target - Always exit at your target for the trade if it is reasonable - Trust yourself and your ability.

How to scan for stocks

One of the most important parts about our strategy is finding leading names in leading sectors. We believe strong names with average setups are better than weaker names with amazing setups. The setup is not as important as the name but it does serve a purpose in providing a great entry and risk reward opportunity. When scanning for stocks you want to first figure out what the trend of the overall market is.



If the markets are above the 8,21 and 50 EMA's then we know the market is in a strong bullish uptrend

If the markets are below the 8,21, 50 EMA's then we know the markets are weaker and we should either look for weak names to short or de risk entirely

Knowing and applying these simple rules, keep you from trading against the market and makes your trading a lot more simple. The goal of breakouts is to catch momentum.. Think about how hard it will be to catch momentum when trying to trade against the overall stock market--it's not impossible but it's a lot harder.Never trade against the trend, and always use the moving averages as guide to how the market is holding up

Above the 8 EMA= Lots of momentum and breakouts should be following through

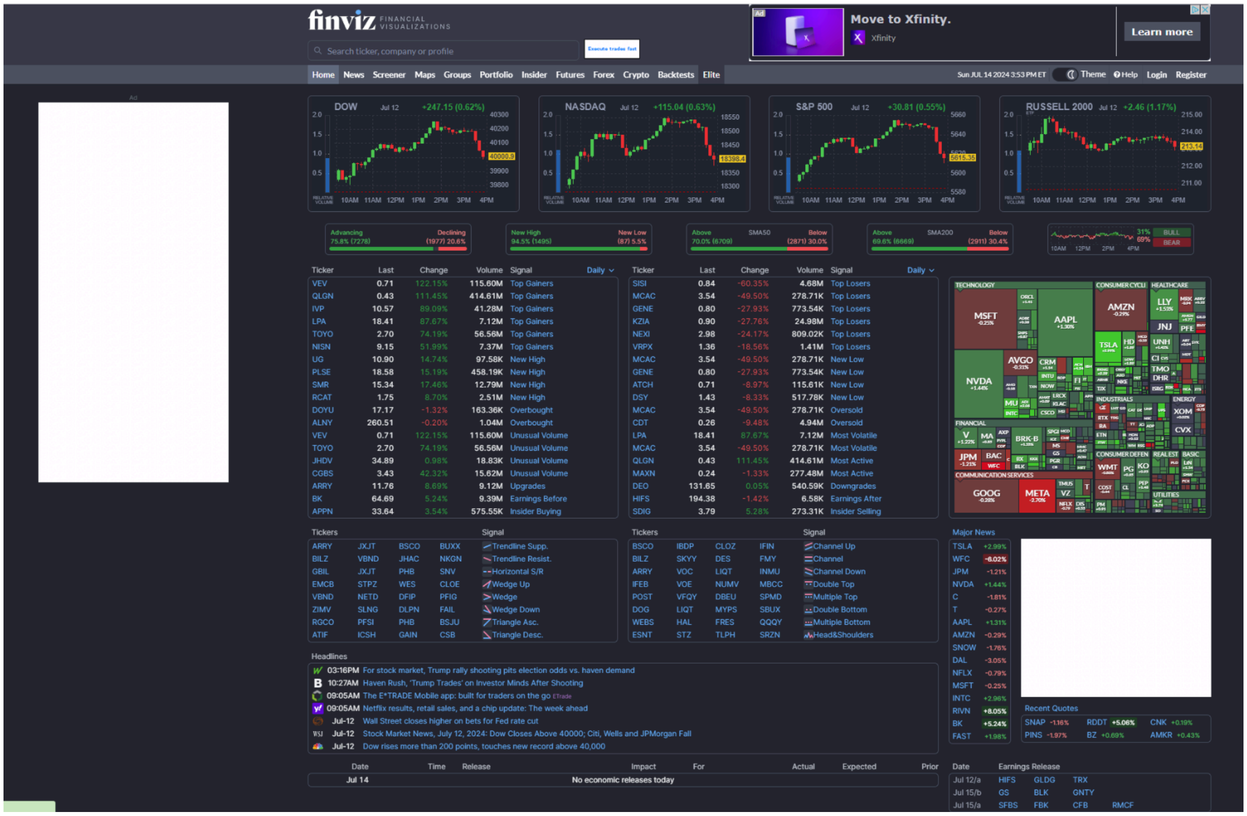
Below 8 EMA/ Above 21= Strong trend still intact but market need time to digest and rebuild

Below the 21 EMA/ Above the 50= Trend still intact but buyers need to step up(These are better dip buying conditions as the 50 EMA usually serves as a great reversal spot). Under all the moving averages= Look for short setups to form and de risk from longs until a reclaim of the moving averages. Now that we know what trend the market is in we can move on to finding the strongest sectors in the market

The most important factors to our scan are going to be strong stocks and lots of volume. The simplest way to scan for strong sectors is to use a heatmap. We like to use FinViz as its a free website and gives you all the information you need in a clean and simple layout

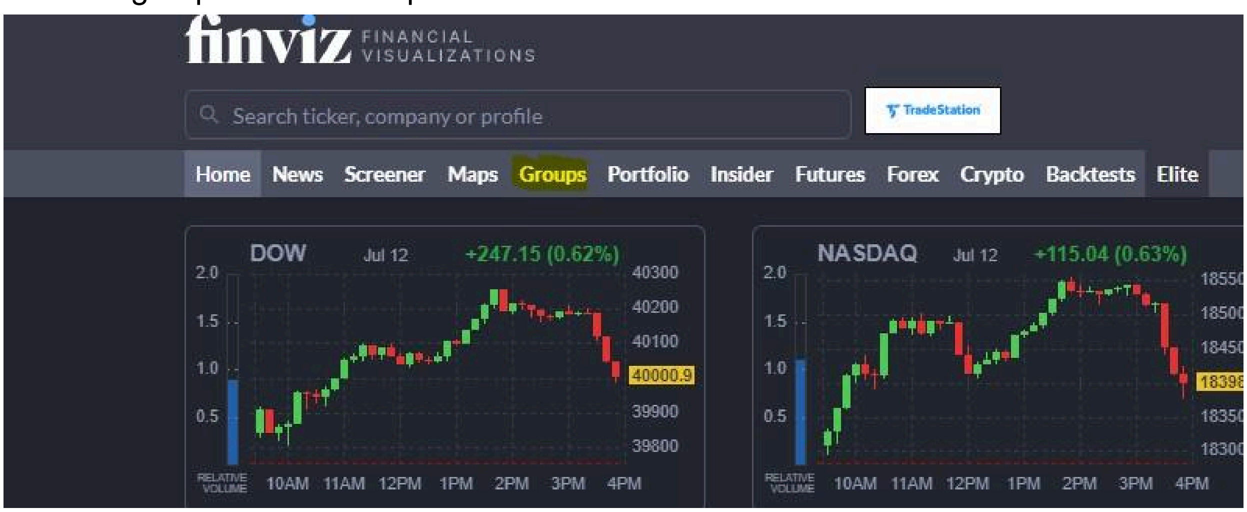
Step 1.

-Head over to https://finviz.com/



Step 2.

Click the groups tab at the top left

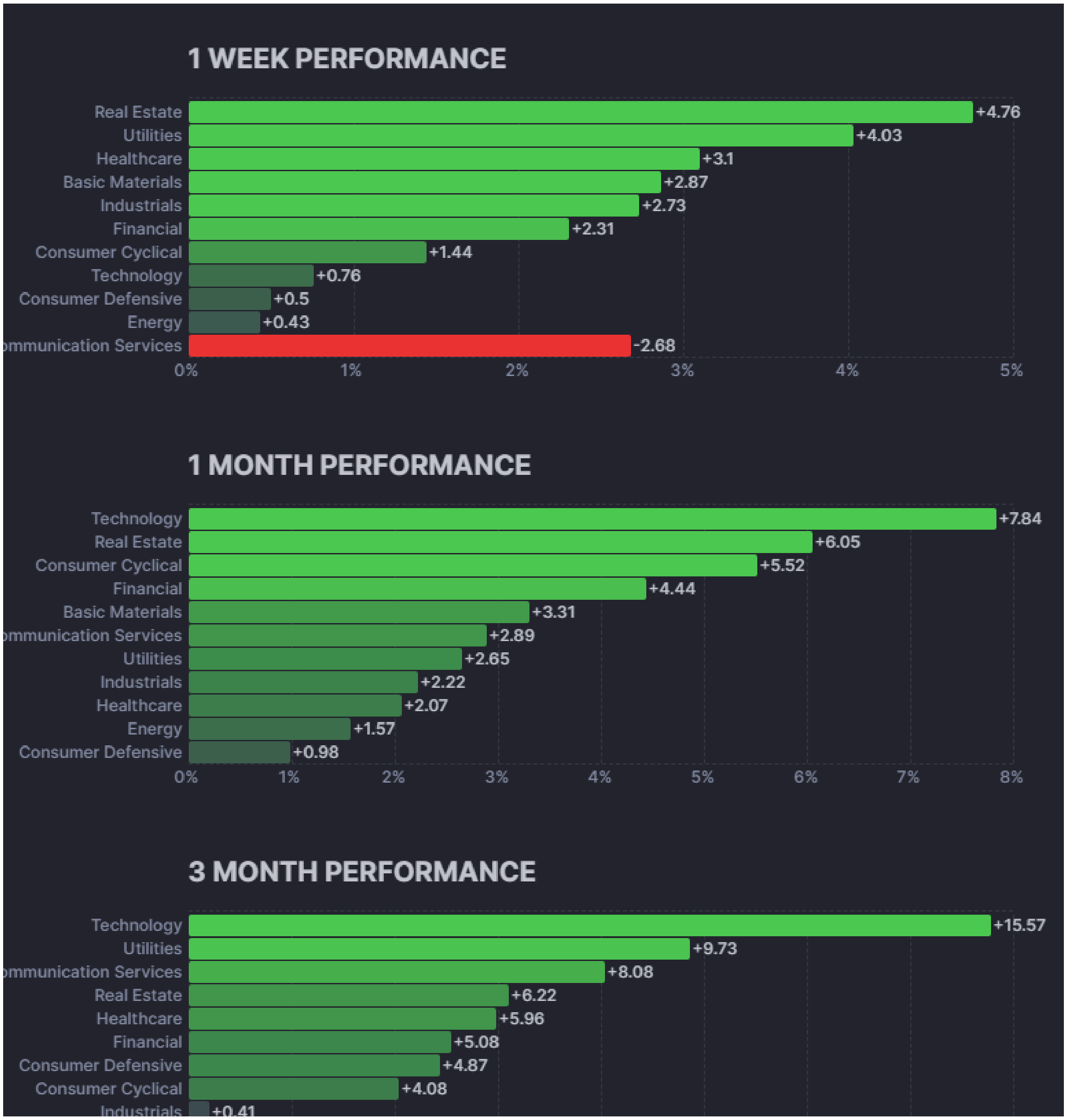


Step 3.

A page will pop with heat map and a list of the top performers in the last

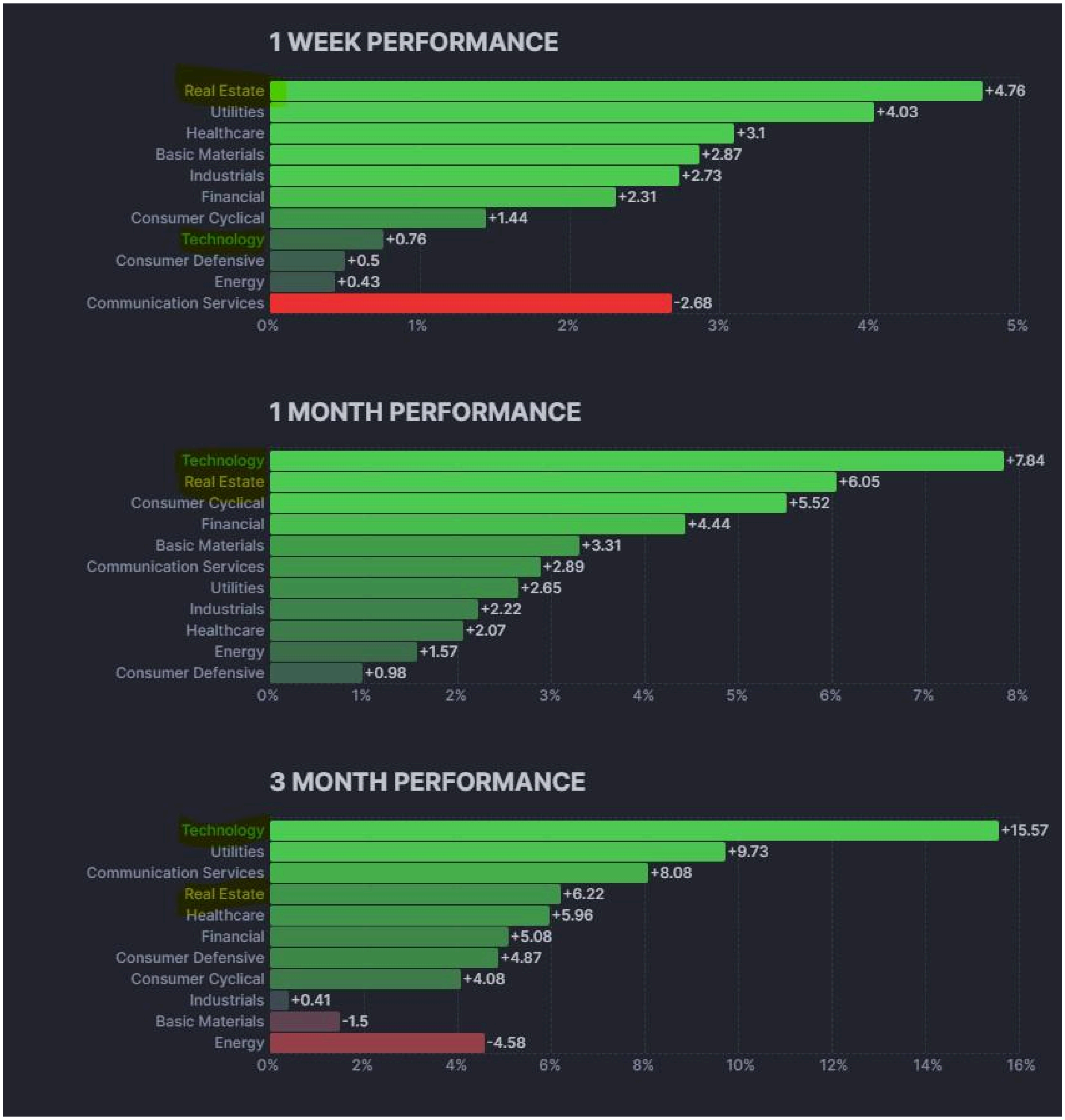
Week/Month/3Month/Half year/Year

We want to focus on some of the most recent leaders and sectors that are emerging so pay attention to the 1 week, 1 month, and 3 month performance periods



Step 4.

Now we want to look at the top 5 performers for the 3 periods and see if any of them overlap



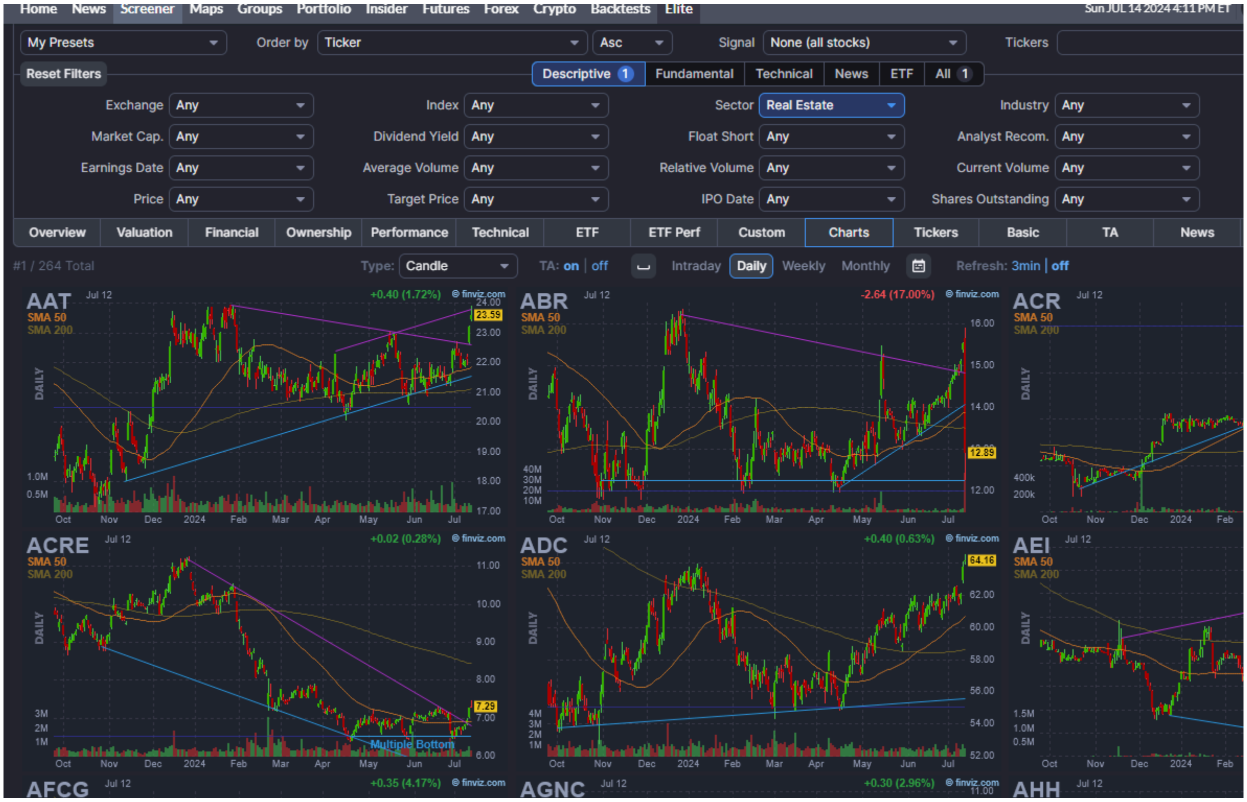
You can notice the only overlap that occurs is with real estate

Technology is not too far behind either, it just had a slower week. But I would still focus on technology and real estate as the strongest sectors as technology has been super strong over the last 3 month and 1 month period

Step 5.

Click on the sector you chose(Real estate)

You will now get a list of all the stocks in this sectors and be able to see charts for these stocks

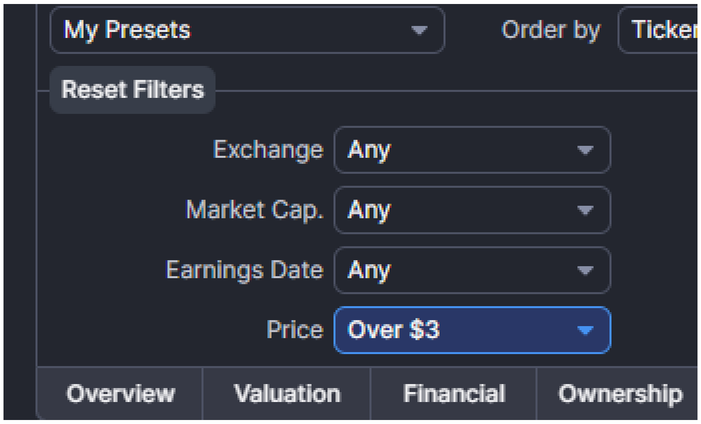


You can that there are 264 total stocks in the sector

We want to narrow down this list:

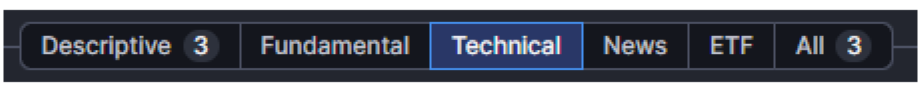
-Most liquid stocks
-High volume
-Leaders in the sector

To do this, we want to select: Price | Over $3. This keeps us away from penny stocks as they are no good for options trading

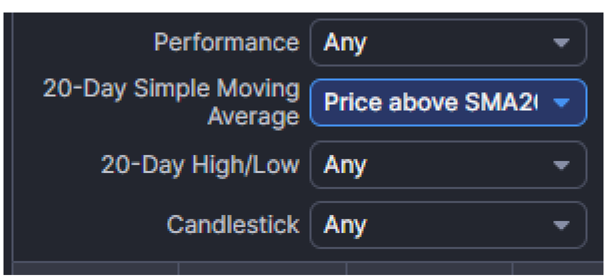


Next select: Average volume | Over 500k. This keeps up trading liquid names with a standard amount of volume

Lastly we want to head over the the: Technical section



Now we select: Price over SMA 20. This gives us the leading names in the sectors as these stocks are above the 20 SMA. (There is no EMA options on FinViz unfortunately but i've found that the 20 SMA is not too far off from the 21 EMA so it will do)



We should now have a more narrowed down list of stocks. In this case we went from 264-123

This is still a large amount of stocks but we narrowed it down to the strongest names and the most liquid ones

Step 6.

Now you have to start manually scanning these names

Here's what we look for to add a stock to our watchlist:

1. Big base setting up near the highs
2. Compression in the stock via a chart pattern
3. Breakout that just occurred

Ideally we are looking for stocks that have not broken out yet, but if a stock is just now starting to breakout you can add it to your list for relative strength and look for pullbacks and patterns to develop on it.

Once you scan through and find big bases that are setting up to breakout

Use a charting platform like https://www.tradingview.com/ to create your watchlist and add all of the names you found

Here are some examples of names i chose:

$EXR

Setting up in a big base near the highs

Has gotten some great volume over the last 2 days

Looks ready for continuation

$HST

Setting up in a tight wedge

Just now reclaiming the moving averages and getting super compressed

Inside day printed

Now that we have a few names from the real estate sector we can move onto the next sector which was technology and repeat the process

The goal is to have an idea which sectors are getting flows through the week and stick to those strong sectors and strong names

You can now add these names to a "focus list"

FOCUS LIST

ZS	201.90	5.98	3.05%
SMCI	909.96	20.74	2.33%
EXR	161.92	3.01	1.89%
HST	18.18	0.32	1.79%

Below are a few examples of setups we look for

You want to see something similar when scanning through FinViz or TradingView

Setups we look for

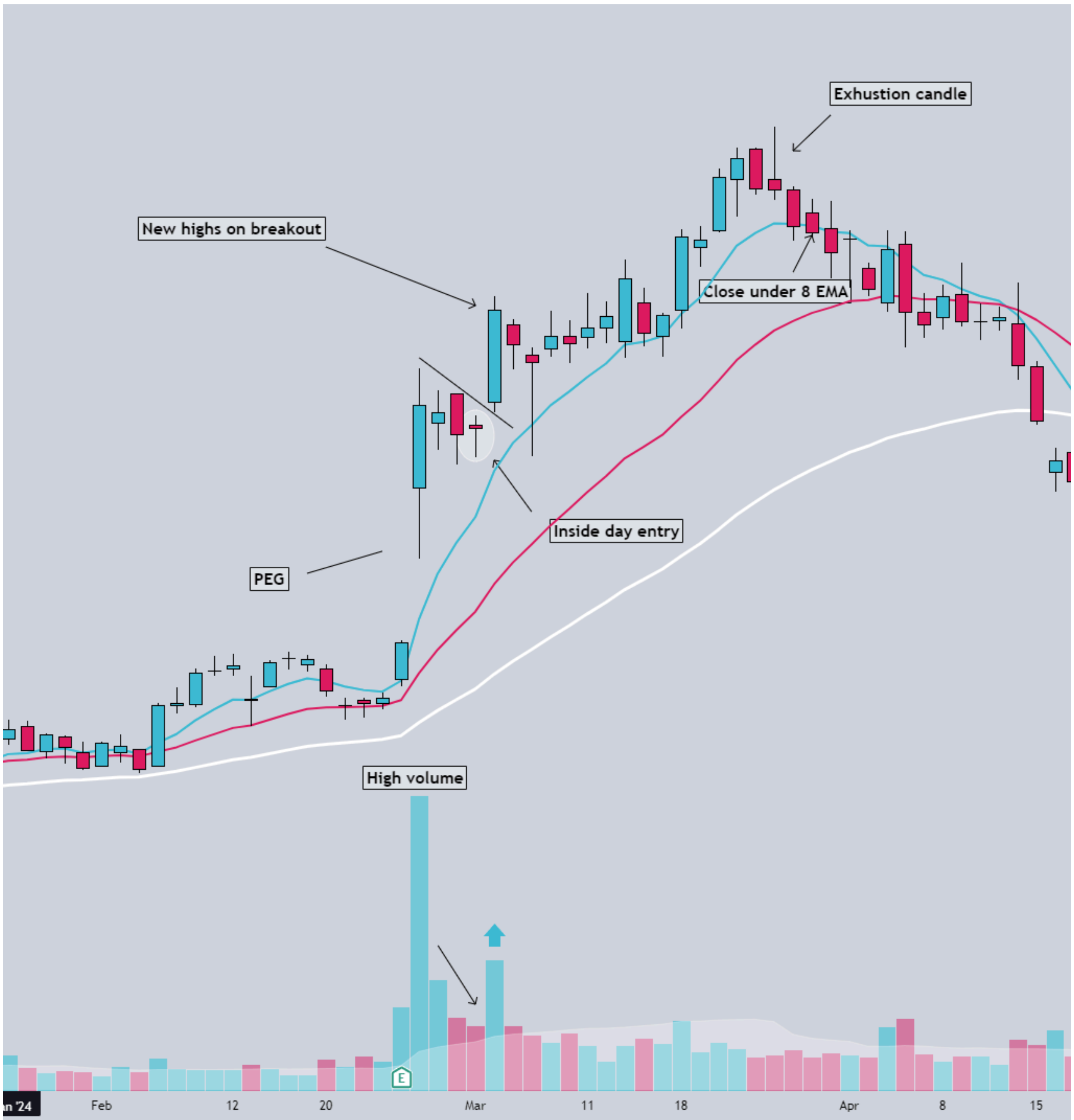
In this section we will go over some of our favorite daily setups that we look for

1. **Bullish PEG (Power earnings gap) base:**
   - This setup is one of the least stressful to trade, because essentially we are placing our money in a stock that has been bought up by institutions already.
   What to look for:
   - Gap up postER
   - Consolidation phase: Pennant, flag, wedge over a week or two usually
   - Bullish Volume patterns (Higher volume on the buying days, with low volume pullbacks/consolidation)
   - We hold the 8/21
   For Entry:
   - Break of the consolidation phase for breakout trade
   For Stop:
   - LOD if shorter expiry
   - Daily close under 8EMA if longer expiry
   For Targets:
   - New highs breakout of base

- Previous levels of resistance
- Exhaustion candles
- Ride the 8EMA till we lose it

Examples:

$HIMS



2. Accumulation base at the lows:

- An accumulation base is characterized by a large consolidation phase of price, usually at the lows. This set up offers multiple different trades, my personal favorite is waiting for price to expand out of the base.

What to look for:

- Price is consolidating at the bottom of a trend

- Volume patterns start to shape up, (Increased volume on the move higher, followed by lower volume pullbacks)

- Large volume shelf forming with a drop off in supply overhead

For Entry:

- Price reclaims the top of the range by closing above it

- Price retests top of range and holds

For Stop:

- Price enters back into the range

For Targets:

- Next areas of supply (usually previous areas of support)
- Ride the EMAs

Examples:

$HOOD

3. Big base at the highs breakout:

- This setup is one to look for when markets are super hot with leading sectors. It provides us with entries for a continuation trade.

What to look for:

- Price is consolidating near ATHs
- Volume patterns are bullish (Very important)
- Price is flagging into the 8EMA

For Entry:

- Flag inside day entry on 8EMA
- Daily close above range highs

(Both work, just depending on your trade style)

For Stop:

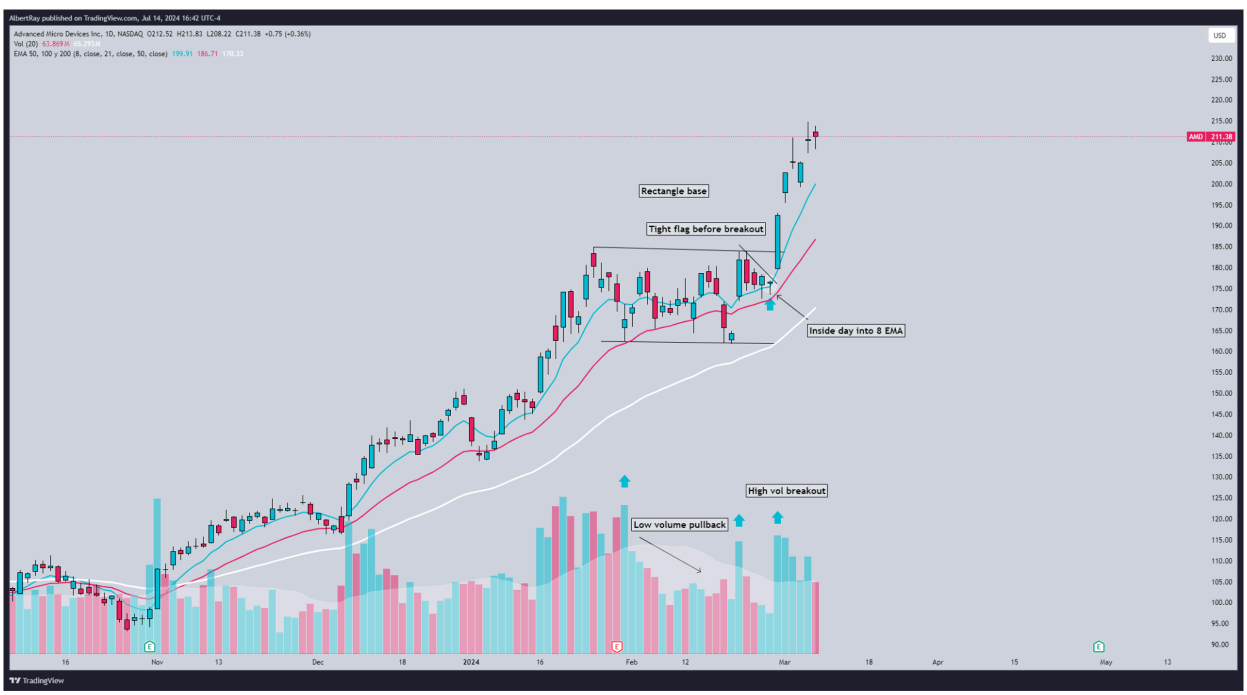
- LOD or daily close under 8EMA

For Targets:

- Previous ATHs
- Ride until exhaustion starts to show and take trims on the way there

Examples:

$AMD



$NVDA


AlbertRay published on TradingView.com, Jul 14, 2024 16:44 UTC-4
Highs of base
High volume breakout
TradingView

Risk Management

Now that we've covered how we can use technical analysis to our advantage we have to understand the most important concept of trading--risk management.

Risk management boils down to 3 rules:

•How much are we willing to risk per trade?
•*Where is our stop loss if a trade doesn't go our way?*
•What are our rules to make sure we are taking the best trades possible?

My 3 Rules:
I. Sizing I have a tier system of risk as follows-- *My main position sizing is 3-5%* of my account (I will use this size if i have super high conviction in the trade)

Second tier is half size which will be 1-2% of account size(Will use this if I am looking to scale into a position over time).

Third tier small size tier risking 0.5%-1% of account(Will use this size if the market environment isn't optimal for my trading style).

Last tier is lotto size, risking 0.1%-0.5% of my account(I will use this sizing for earnings trades or when trading 0DTE).

Now everyone's account sizing is different and if you cannot follow these rules then make your own. Use my rules as an example to fit your own style into your rules. Just make sure to not take stupid risks like sizing more than 10-20% of account on a single trade. A good way to know if you have too much size, is if you get nervous in a trade. if you are sized correctly you should be emotionless.

II. Trade plan/stop loss Before you enter any trade you need to ask yourself 3 things. *-Where will I stop out of the trade if it doesn't go my way? -Which sizing will i use? -Where are my targets if the trade goes my way?* For me: My stop loss will always be a key pivot near my entry.. If I have full size on the position I cap my loss at 25%. This means that even if the stop loss level wasn't hit i will exit the trade if i am down more than 25-30%. This can be due to theta decay on the option or bid/ask pull. Regardless of any questions asked, I will exit the position. The most important thing is to build a habit and have discipline to stick to the rules you create or else it is pointless to have rules.

My targets for a trade will be key levels at which price has respected in the past. I also implement a system that requires me to take base hits.. I will always trim at least 1/4 of my position at aa +25% gain. This way I can lock in some profits but have enough size to let the rest of the trade play out. This helps keep you consistent instead of always looking for unrealistic gains.

III. Trading rules You will pick up these rules overtime by testing out what you do best and what you do worst. For example: I trade very badly during lunch hours, so to keep me from trading during these hours I created a trading window between 9:30-11 EST. If I do trade during low volume/lunch hours it will only be on a tier of smaller sizing to keep my risk in check. You will need to learn what works best for you from experience. Here are some of my rules:
•Don't trade the first 10 minutes of open(If trade only smaller size)
•If market environment is choppy or overextended only trade with smaller size
•Have to lock in 1/4 of profits if position hits +25%
•Set a stop loss at breakeven or trail if position is up more than +30%
•If have a lot of profits on the week, begin to trade with smaller size
•Only trade lotto size on earnings trades and 0DTE's

The goal is to have all these rules engraved into your head, but if you need to write them down and look at them before every trade then do that. Remember everyone has different personalities and different styles that they prefer... so adjust your rules based on your own habits and strengths/weaknesses. Now that you have **risk management** down you are ready to piece together all the puzzles to become a consistent and successful trader

Physcology

Psychology plays a crucial role in trading and can often be the determining factor between success and failure. Here are some important tips:

1. Create a plan:
Creating a strict set of rules and guidelines to follow while trading, keeps your risk management in check. I respect price, important levels, and utilize moving averages to follow the trend and momentum.

Most importantly, you want to enter each and every trade with a game plan. When the market opens, you should already have a list of stocks you are going to be trading at certain levels, depending on the price action you observe. By doing this, you are able to react to what the market is providing you, rather than to be searching for opportunities.

2. Taking the right approach:
Trading success comes from showing up and getting the job done. This includes forming an effective plan, observing the markets, and aiming for consistent profits. Many traders will search for some kind of a secret sauce, but consistent work and effort is the closest to it.

Find the right strategy that works for you, and implement it. Don't be afraid to execute and always start off small to gain experience and fine tune your approach.

3. Everyday is a new day:

Don't try to fix Monday's losses on Tuesday, the worst thing a trader can do is size up after losing.If you have a bad trading day, don't come into the next day trying to make up for it… every day is a fresh start.

Maximize the opportunities that are in front of you, and stay disciplined and objective. Managing risk properly is most important while trading. If you are trying to make up for losses, you will not be able to manage risk properly. Trading is a marathon not a sprint, take it one day at a time.

4. Avoid digging yourself a hole:
When trading goes wrong and you find yourself on a losing streak, trade smaller… Everyone will have slumps and make mistakes. Focus on becoming profitable again, to gain confidence and as you keep getting consistent start sizing back up.

Too many people are stuck in the mentality of thinking way too short term. There are 252 trading days in a year, it's all about not digging yourself a bigger hole. The easiest way to go from being down 10% to 20% to even 50%, is trying to size up to make up for losses quickly. Take is slow, and enjoy the process along the way.

5. Let price do the talking:

Too many traders are infatuated with the idea of predicting price movements. Our goal as traders is not to predict what price is going to do but take advantage of high probability setups, and manage our risk. The worst thing you can do is think that every trade needs to go your way. No one is ever right 100% of the time. Be able to accept that price might go the other way, and be prepared to take action.

You have to accept that losing is a part of the game, just keep your losses small and learn something new from them. The only way to perfect your craft is learning from mistakes and gaining experience over time.

6. Know your personality:
Are you a short term swing trader, a long term investor, someone who likes to scalp? Maybe you are all of the above, there are many different approaches to trading and different styles.
Find which one works best for you and focus only on that one style and strategy.

7. Keep things simple:
Don't get caught up chasing bright shiny objects, you don't need to know 100 different strategies and 5000 different tickers. You can make the most money when you focus on a couple of your strongest strategies and a rotation of tickers you know well. After all, price has a personality, because emotions and psychology determine where price will move.

Once you have a core strategy in place and you are profitable using it, you can start branching out and expanding your tool box. But don't overcomplicate things before you make money.

8. Execution first, money will follow:

Ever heard the saying: “When you are good at something, the money will follow”? If you get good at something, eventually the money will come. Focus on developing your skills and then properly executing the strategies you learn.

You want to develop a set of strategies that work for you and can give you consistent profits… Once the consistency is honed, the money will follow.

9. Develop a strong mindset:

A strong mindset is as equally as important as your trading plan if not more important. Without a strong mindset the proper execution will be lacking. Think like a person who trades for a living, don't think about what can come: private jets, yachts, super cars… Instead think of what you can lose.

If you are trading for a living your paycheck can be negative at times. Keep the worst case scenario in mind and be able to avoid it, when the time comes. Because while its important to win, it's also equally important to not lose. For every $1000 you lose, you need to earn another extra $1000. Creating a mindset of capital preservation and discipline will keep you from throwing away money.