



# **WARRIOR TRADING**

## **CHAPTER 7: THE DAILY CHART & POCKET THEORY**

# Daily Chart Patterns

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## Today You Will Learn

The Importance of the Daily Chart & The Predictability Factor

“Pocket” Theory

Trigger Points versus Support & Resistance

Significant Daily Technical Patterns

# The Importance of the Daily Chart

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Look Left!

A technical based trading approach relies upon the validity of a daily technical setup to produce an extreme move

If a stock lacks an identifiable daily technical setup you are unable to accurately predict, or anticipate a move

The **Predictability Factor** is a key element as it will allow for the anticipation of an impending move which reduces risk by minimizing exposure time

# Predictability Factor

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Predictability is an extremely useful tool as it ultimately reduces risk while maximizing profits

We can gain a high level of predictability by understanding technical patterns, price action, and volume analysis

Predictability is generally most useful while trading the open as this is the most volatile time of day where momentum is at its peak

Following a thorough review of stock movement in the pre market, we can gain a high level of predictability for movement at the open

# The Makeup of a Strong Daily Chart

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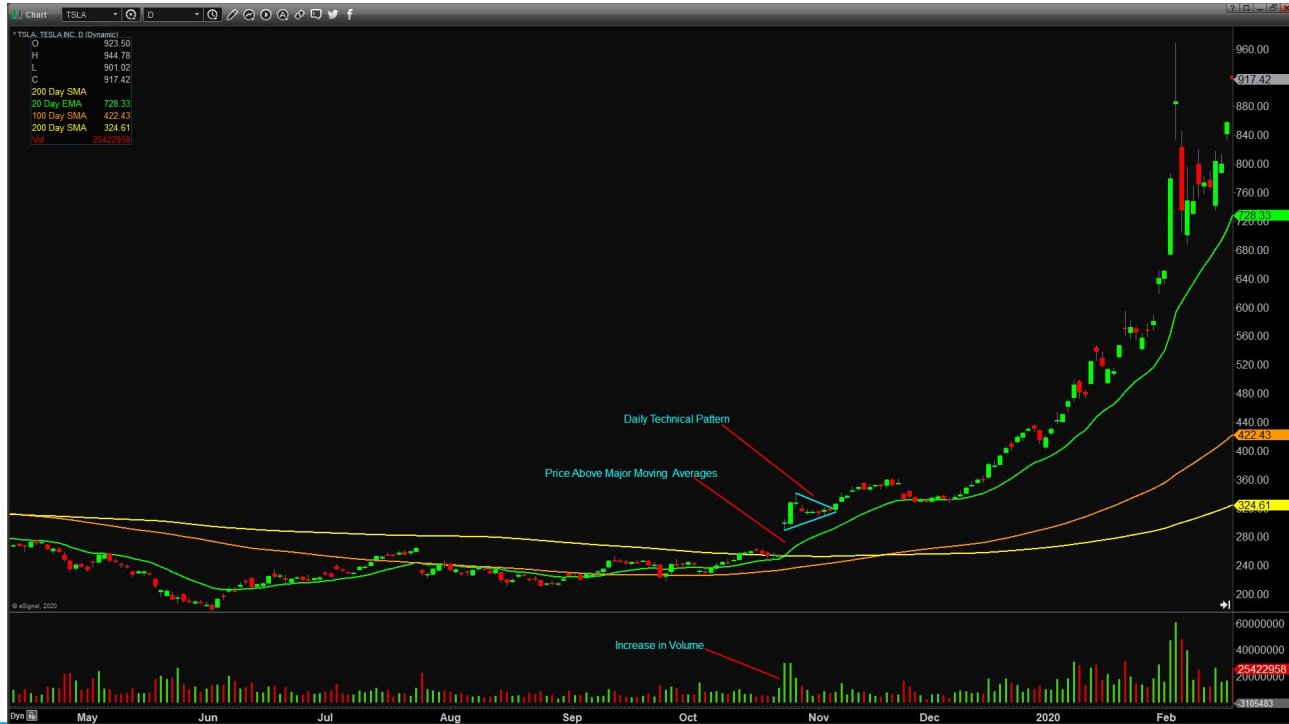
Price situated ABOVE all major moving averages

Daily technical pattern beginning to resolve

Increase in volume

"Pocket" theory criteria must be met

# The Makeup of a **Strong** Daily Chart



# The Makeup of a **Weak** Daily Chart

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Price situated BELOW all major moving averages

Increased volume

Daily technical setup beginning to resolve

“Pocket” theory criteria must be met

# The Makeup of a **Weak** Daily Chart





# Pocket Theory

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This concept is the core element behind what allows this trading strategy to produce a clean, predictable, & extreme move

This is **THE MOST IMPORTANT** concept you will learn in technical analysis as it is where the best opportunities exist which can be exploited for massive gains

# Pocket Theory

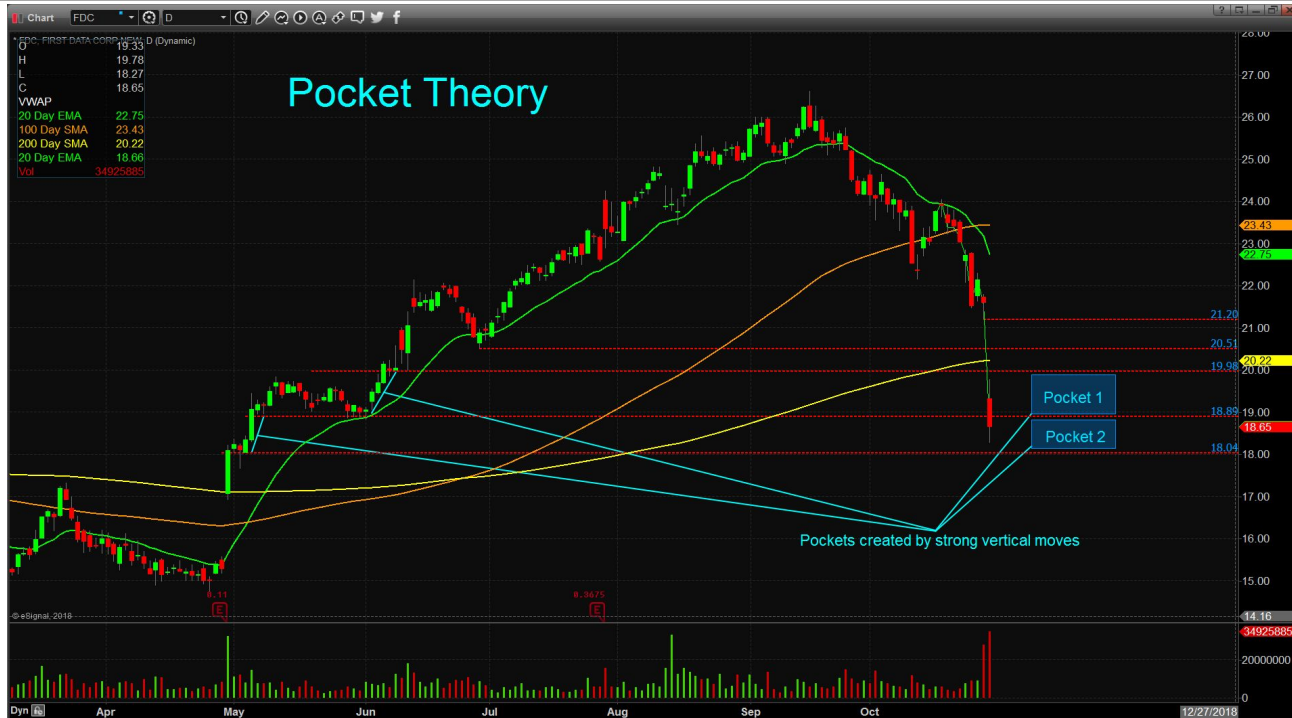
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Pockets are defined as areas of “clear air” that lie between significant levels of either support or resistance

The wider the range these pockets are, the more potential

When considering a stock for a trade this criteria takes precedent and must be the first to be referenced

# Pocket Theory



# Pocket Theory

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In order to determine whether or not a pocket is valid we must first reference the ATR (Average True Range) from the daily chart

If the distance between the support & resistance fully encompasses the ATR then that pocket is validated. If not, there is no pocket between the support and resistance levels

If there is not a valid a pocket present, beware, as the trade statistically will have very limited opportunity

# Step 1: Determine Support & Resistance



# Step 2: Identify ATR (Average True Range)



# Step 3: Validate Pockets



# Trigger Points

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A trigger point is a support or resistance level that is the entry point into a pocket

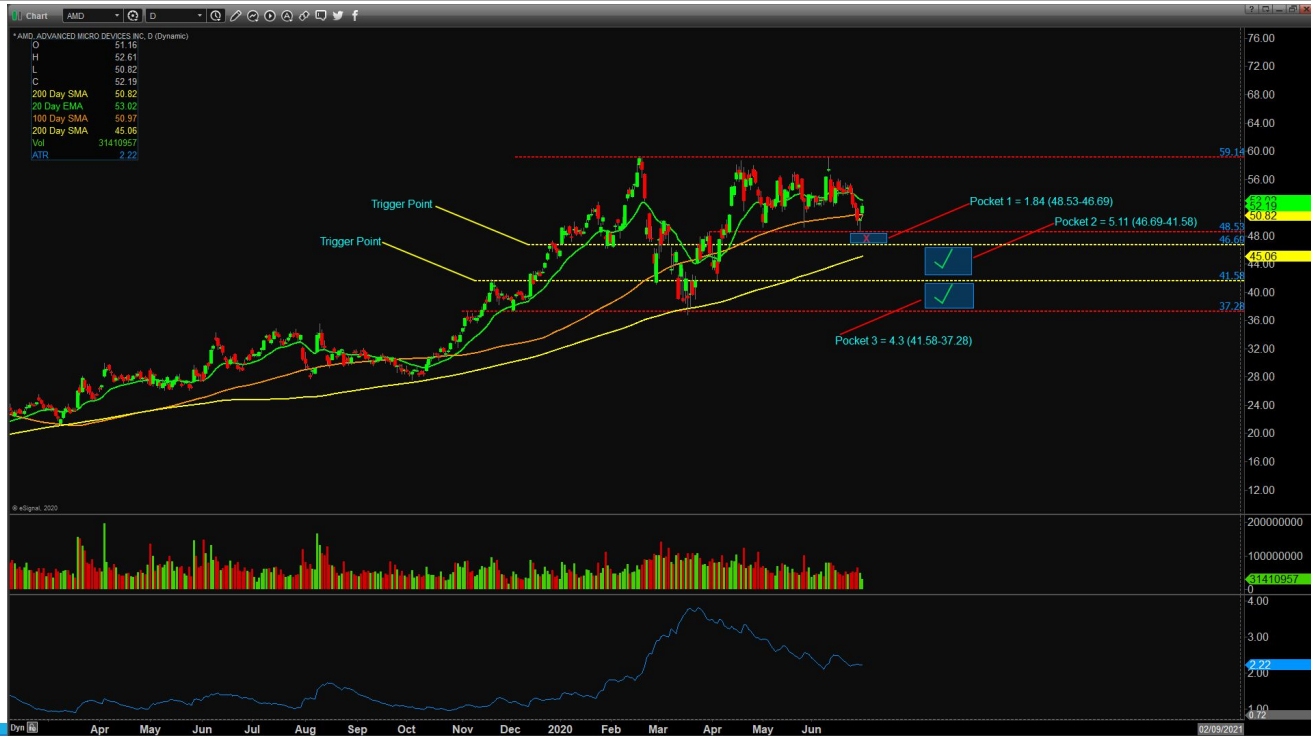
Once a trigger fires, there is a high probability for a retest which often will produce continuation patterns such as flags, wedges, etc

If the level is a valid trigger point you will see a **spike in volume** on the break

Keep in mind that trigger points ARE support or resistance levels and are used to gain an accurate read on direction, however, trade around them with discretion because of the volatility that occurs



# Trigger Points



# Support & Resistance

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Support & Resistance are significant levels on a chart where price action has experienced an **obvious** and **measurable reaction**

The more data included when establishing a support or resistance level the more validity the current point will have and also come with a more predictable outcome when tested

Support & Resistance levels must be derived ONLY from a longer term time frame chart such as DAILY, WEEKLY, or MONTHLY

# Significant Daily Technical Patterns

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Bull Flag

Bear Flag

Triangles

Ascending Triangle

Descending Triangle

# Bull Flag

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Bull Flags are a continuation pattern which are considered bullish setups as they resolve higher over 70% of the time

Each flag will rarely ever be a perfect formation, however, what is more important is that the basic requirements are met and that it ultimately resolves on an **INCREASED RATE OF VOLUME**

# Bull Flag



# Bull Flag



# Bull Flag Requirements

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**Flag Pole:** The initial, and often parabolic, move to the **UPSIDE**

**Volume:** Volume spike at the flag pole, then a decrease in volume throughout the pullback and consolidation and finally another spike in volume as the flag resolves higher

**Consolidation:** The period after the initial move up and before the resolution. Look for an orderly decrease in price that takes the form of a FALLING wedge or triangle

**Apex Point:** The point at which the upper and lower portions of the wedge or triangle formation of the flag meet and the pattern resolves higher

# Bull Flag Important Notes

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During the consolidation phase, the volume should appear as a “stair step” down. This is NOT a requirement, however, you do want to be sure the volume is much less than the initial move higher. If there is any random large spikes in volume during the consolidation this will **NEGATE** the flag pattern

**DO NOT** short a bull flag pattern that has failed

The more parabolic the initial move up, the longer it will take for the flag to resolve. Rarely will you begin drawing your flag pattern at the top of the flag pole. The top of the flag pole will extend beyond the start point over 90% of the time. Starting at the top of the flag pole will often produce an incorrect apex point



# Bear Flag

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Bear Flags are a continuation pattern which are considered bearish setups as they resolve lower over 70% of the time

Each flag will rarely ever be a perfect formation, however, what is more important is that the basic requirements are met and that it ultimately resolves on an **INCREASED RATE OF VOLUME**

# Bear Flag



# Bear Flag



# Bear Flag Requirements

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**Flag Pole:** The initial, and often parabolic, move to the **DOWNSIDE**

**Volume:** Volume spike at the flag pole, then a decrease in volume throughout the retracement and consolidation and finally another spike in volume as the flag resolves lower

**Consolidation:** The period after the initial move lower and before the resolution. Look for an orderly increase in price that takes the form of a RISING wedge or triangle

**Apex Point:** The point at which the upper and lower portions of the wedge or triangle formation of the flag meet and the pattern resolves lower

# Bear Flag Important Notes

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During the consolidation phase, the volume should appear as a “stair step” down. This is NOT a requirement, however, you do want to be sure the volume is much less than the initial move lower. If there is any random large spikes in volume during the consolidation this will **NEGATE** the flag pattern

DO NOT long a bear flag pattern that has failed

The more parabolic the initial move lower, the longer it will take for the flag to resolve. Rarely will you begin drawing your flag pattern at the bottom of the flag pole. The bottom of the flag pole will extend beyond the start point over 90% of the time. Starting at the bottom of the flag pole will often produce an incorrect apex point

# Triangles

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A converging range of price action that takes the form of a triangle clearly displaying **volatility compression**

A wedge, or triangle pattern, will often vary in its geometric appearance, however, this will not affect the resolution as long as range compression is present

These range compression patterns often precede **THE MOST POWERFUL** moves

# Triangle Requirements

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**Initial Range Expansion:** The starting points of a wedge are the widest points in range throughout the entire pattern

**Range Compression:** Successively shorter swings as price action approaches the resolution point

**Resolution Point:** The point at which the pattern resolves and range expansion occurs

# Triangle Variations

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**Ascending Triangle:** A triangular pattern that establishes higher lows with the same relative high, or, "flat top"

Ascending triangles with tight consolidation against resistance often lead to a break of that resistance

**Descending Triangle:** A triangular pattern that establishes lower highs with the same relative low, or, "flat bottom"

Descending triangles with tight consolidation against support often lead to a break of that support



# Symmetric Triangle



# Ascending Triangle



# Ascending Triangle



# Descending Triangle



# Descending Triangle



# Triangle Important Notes

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During the range compression phase the volume should be in an overall decline until the resolution point is reached

Once the range compression phase has completed and the price action is attempting to resolve, a spike in volume is a key element in confirming the continuation

DO NOT initiate a full position upon the resolution of the pattern. Often we will see retest of the triangle and that is when the risk is lowest to add a full position