

TRADER UNIVERSITY

THE BIG BOOK OF STOCK TRADING STRATEGIES



MATTHEW R. KRATTER

The Big Book of Stock Trading Strategies

Bonus Materials

Rubber Band Stocks Strategy Resources

How to screen for stocks that are closing below the lower Bollinger Band

You can sign up for the paid custom screener at <http://www.stockcharts.com> (I have no affiliation with them, but have heard good things about them from my readers). It currently costs \$24.95/month, but they do offer a free 30-day trial.

How to Trade the Rubber Band Stocks Strategy in a Small Account and Boost Returns

You can boost the strategy's returns, or trade the strategy in a small account, simply by purchasing deep in-the-money call options whenever you get a buy signal—instead of purchasing the stock itself

For example, let's say that you've just gotten a buy signal on stock XYZ (a fictional stock), which has just closed at 51.00, which happens to be below the lower Bollinger Band (combined with very negative investor sentiment).

You buy 400 shares of the stock at 51.00, then sell it when it closes above the middle Bollinger Band (let's say that this happens at 56.00).

You make 5 points on 400 shares, or \$2,000 (before commissions, which should not be more than \$10 roundtrip if you are using a good discount broker).

That's a great trade (9.8% return), assuming that you have the initial \$20,400 to buy the stock.

So what should you do if you don't have that kind of capital?

One solution is to take a look at call options that are 3-6 months from expiration, whose strike price is about 5 points lower than where the stock is trading.

So in this case, we would look at the 46.00 strike call options that are about 4 months from expiration. We see that they are offered at 6.55 at the ask. For \$2,620, you can buy 4 contracts (\$2,620 divided by 100 divided by 6.55 is 4 before commissions, which should be minimal).

If the stock rallies to 56 in the next 2-3 weeks, time decay on the options should be minimal. Because they are already deep in the money, they should move approximately 1 for 1 with the underlying stock.

So if XYZ moves from 51 to 56, the options should trade up from 6.55 to 11.55, which will make you about \$2,000 on your trade (5 points times 100 times 4 contracts), before commissions.

That's a 76% return on your money (before commissions, which should be less than \$20 roundtrip).

Not bad considering that we only would have made 9.8% if we had traded the stock instead.

Is there a risk?

Yes.

Because we are trading options, we will make more money on the upside, and lose more money on the downside, due to the increased leverage of the options.

When trading the Rubber Band Stocks Strategy using options, it is more important than ever to trade with a firm stop loss, and to follow the other risk management techniques that I detail in the book.

Questions, or comments?

Please write to me at matt@trader.university

Rocket Stocks Strategy Resources

List of stocks hitting new 52-week highs:

<https://www.barchart.com/stocks/highs-lows/highs#/timeFrame=1y>

List of stocks hitting new all-time highs:

<https://www.barchart.com/stocks/highs-lows/highs#/timeFrame=alltime>

List of stocks where the 50-day moving average is crossing above the 200-day moving average:

https://www.finviz.com/screener.ashx?v=111&f=ta_sma50_cross200a&ft=3

You can take each stock ticker and use this link to look at its chart:

<https://www.tradingview.com/chart/7PeD7Qrd/>

To use the chart, just enter the ticker in the upper right hand box, press enter, and then double-click on the symbol to have it load on the chart. This will enable you to see where the stock is trading relative to its 50-day and 200-day moving averages.

This screener will allow you to find stocks that are hitting new 52-week highs that have a market cap under \$10 billion and a short float of 10% or more:

https://finviz.com/screener.ashx?v=111&f=cap_midunder,sh_short_o10,ta_highlow52w_nh&ft=4

Day Sniper Day Trading Strategy Resources

You can access the free video tutorial for the Day Sniper trading strategy here:

https://www.youtube.com/watch?v=fdw_a6RaU3Y