Let me show an example of a bullish trade:

Notice the green brick forming near the long-term support market. This is where I will look at both of the indicators, if they are oversold then this is another confirmation of a potential trend reversal.

Next, I will look at the Candlestick chart and confirm the entry and stoploss levels.

This is where I will be entering (the cursor represents the entry candle) and I will be keeping the stoploss below the swing low.

This way, you can easily target 1:3 risk to reward trades while using this strategy.

CONCLUSION

In conclusion, this setup is quite effective because the Renko charts provide higher probability reversal zones along with oscillators which add timing confirmation. This strategy also takes into account multiple factors/angles before executing an actual trade. The Renko charts, when used with multiple technical indicators, provide a structured approach to time entries based on role reversals.

3.6

DONCHIAN CHANNEL AND PULLBACK

Strategy video

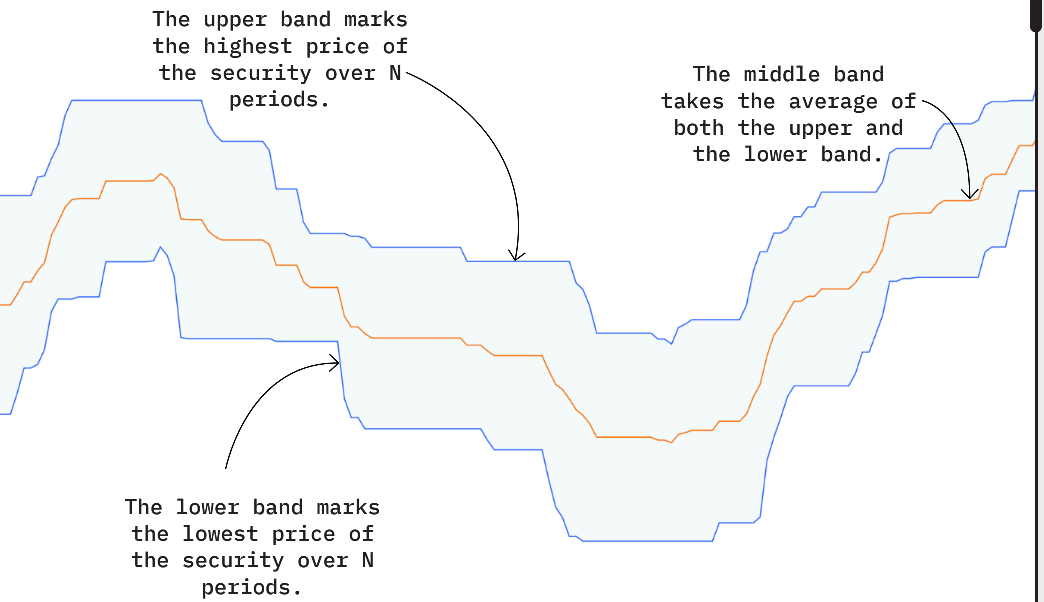
Often momentum traders find it difficult to trade the intraday segment due to high volatility and false signals. One such case is when the market is sideways and momentum traders get trapped at the extreme point. No trader has bought the market at the bottom or sold at the top. It is all about individual choices according to the perception of the market. When I started momentum trading, I was curious about how the market behaves before a rally or a fall. However, often, the market does not give a proper signal.

To avoid confusing momentum with the market being complex, an indicator-based strategy giving an edge is the need of the hour.

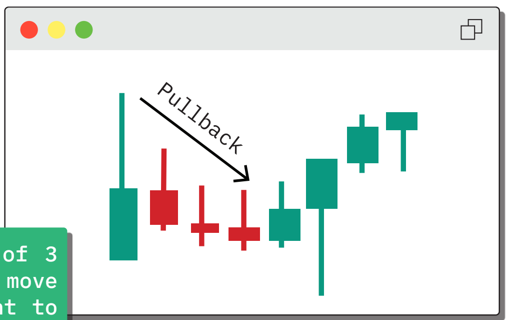
One such indicator-based strategy is taking trades at the pullback on the **Donchian Channel**.

Richard Donchian

Donchian channel is a technical indicator developed by futures trader Richard Donchian in the mid-20th century. He developed this indicator to identify trends. The Donchian channel consists of three bands, upper, lower, and middle.



When I started using the Donchian channel, my aim was to trade the highs and troughs of the market and make profits. However, I dug deep into the technicalities of the indicator to understand how it performs under various market conditions.

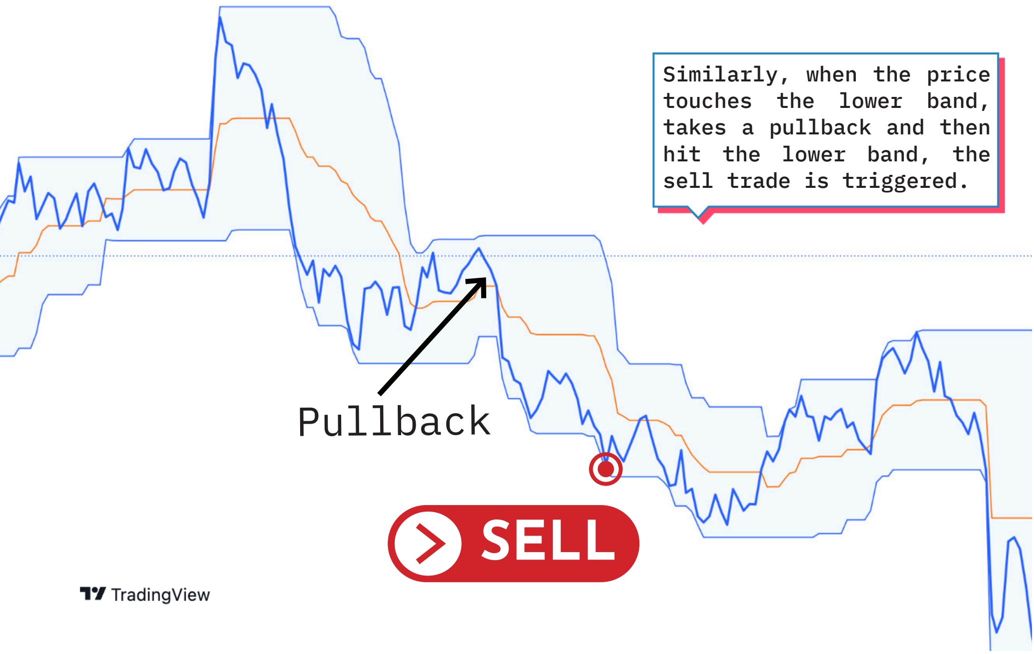


I observed that a pullback of 3 to 4 candles before a sharp move for the breakout is important to confirm the trade.

Furthermore, I tested this strategy on almost all timeframes to see how successful it can be. After backtesting for of 6 months, I understood that this can work on almost every time horizon but a pullback is needed.

THE STRATEGY

This strategy is deployed when the primary trend is about to exhaust and a short-term correction can be observed through the price patterns.

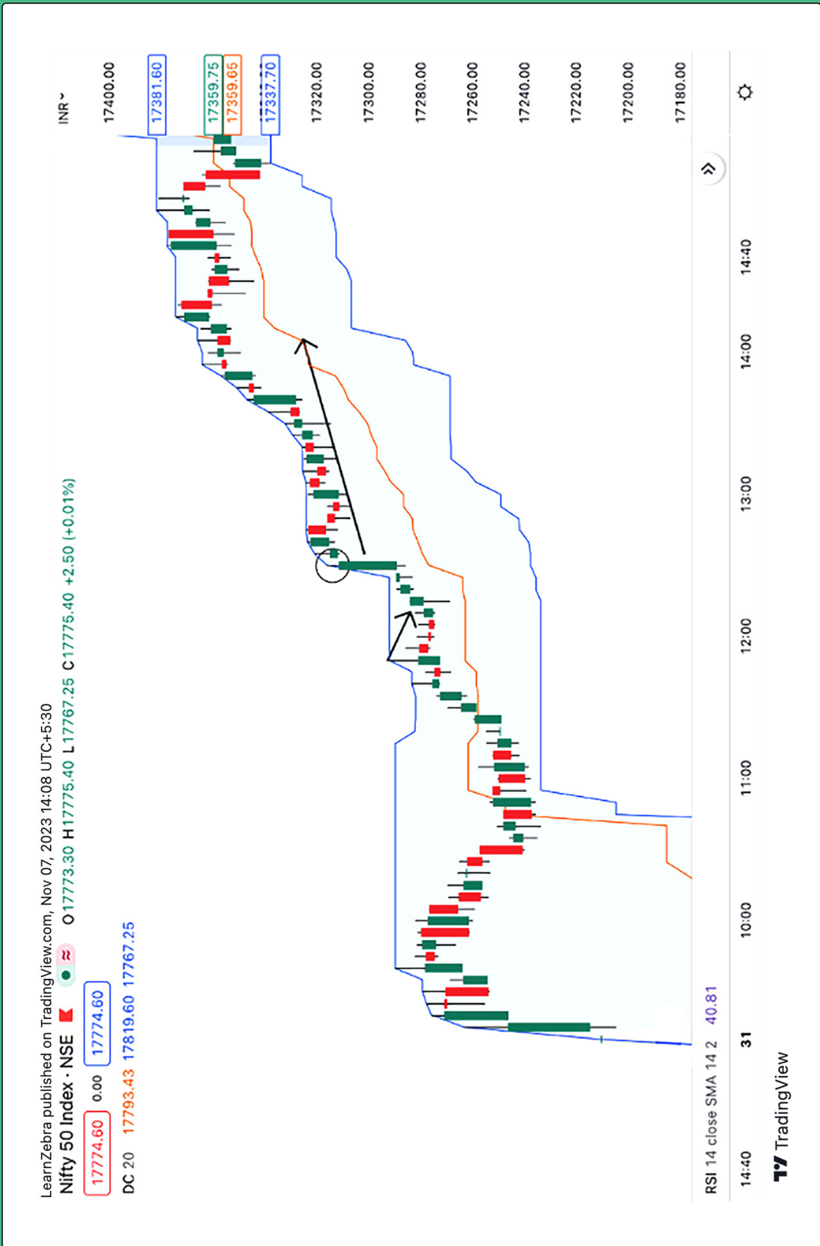


The limitation of this strategy is that you have to wait until the price takes a pullback. When the price makes explosive moves, it is likely that you might miss the trade as the price would move away from the pullback area. As a result, you are likely to get limited trading opportunities.

Indicators Alert Replay

ZEBRALEARN

THE EXECUTION



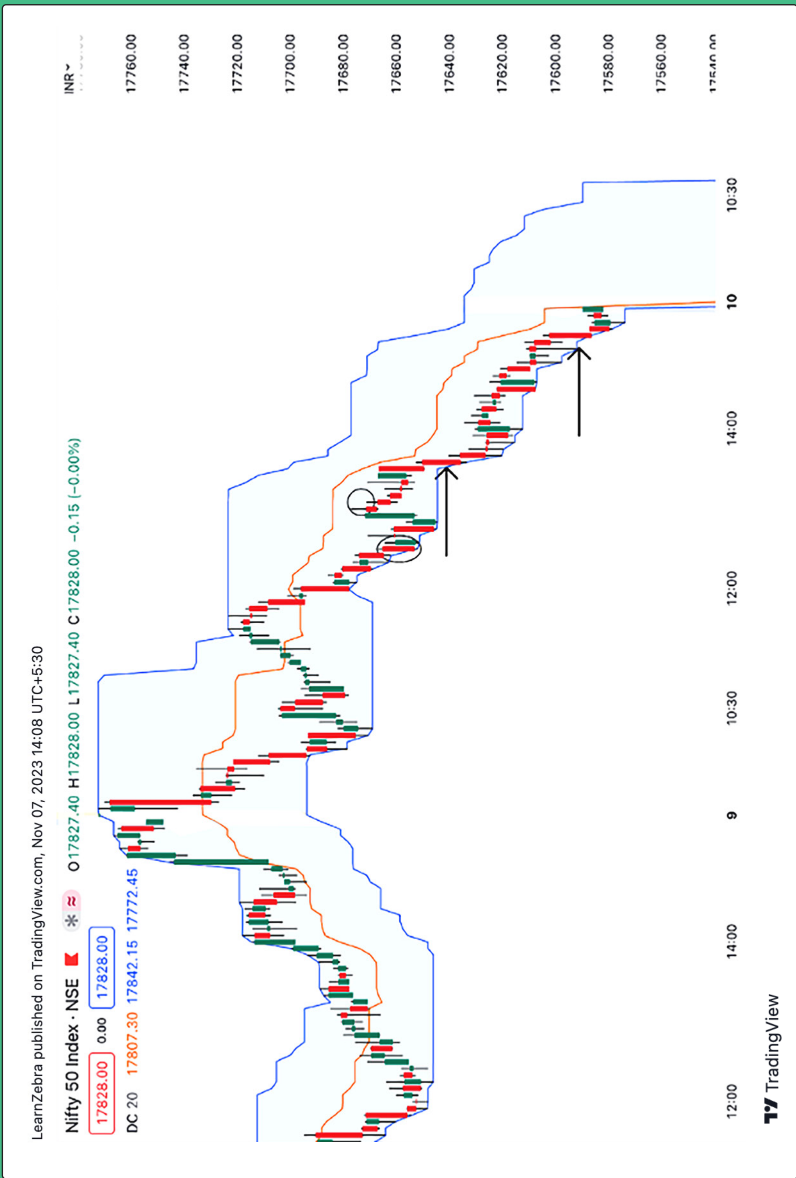
TO BUY USING THIS STRATEGY, TAKE THE FOLLOWING STEPS:

- Set the chart to your preferred timeframe.
- Apply Donchian Channel with default settings.
- Let the price touch the upper band and take a pullback.
- The pullback should be followed by a rise in the price and a breaking of the upper band.
- Once this pattern is spotted, the **BUY** trade is triggers.
- Place **STOPLOSS** below the middle band: trail the SL to the first candle's low when the market makes two bullish candles in a row.
- **TARGET** is typically 1:2 Risk to Reward ratio.

Note that in the above example, Nifty 50 touched the upper band at 11:45 p.m. followed by a pullback. The price then again touched the upper band and started to move up. This is the time we entered the trade. The stoploss was at the middle band, and typically, we booked a profit with a 1:2 Risk: Reward ratio. Also, if you tweak the execution a bit. I.e. trailing the stoploss till the breakout candle's low after the price makes two bullish candles, you will get a whopping Risk to Reward ratio of 1:4.

Indicators Alert Replay

TO SELL



ZEBRALEARN

TO SELL USING THIS STRATEGY, TAKE THE FOLLOWING STEPS:

- Set the chart to your preferred timeframe.
- Apply Donchian Channel with default settings.
- Let the price touch the lower band and take a pullback.
- The pullback should be followed by a fall in the price and a breaking of the lower band.
- Once this pattern is spotted, the **SELL** trade is triggers.
- Place **STOPLOSS** above the middle band: trail the SL to the first candle's high when the market makes two bullish candles in a row.
- **TARGET** is typically 1:2 Risk to Reward ratio.

In the above image, the market is in a downtrend, and on 9th March 2023 at 12:30 p.m., the price touched the lower band followed by a pullback till the middle band indicated the sell signal. Once the price touched the lower band again, we entered the trade. The stoploss was above the middle band. To increase the Risk to Reward ratio, the stoploss could be trailed till the first breakdown candle's high when the price formed to bearish candles in a row. This strategy of trailing the stoploss can reduce risk and provide a great trade opportunity.

3.7

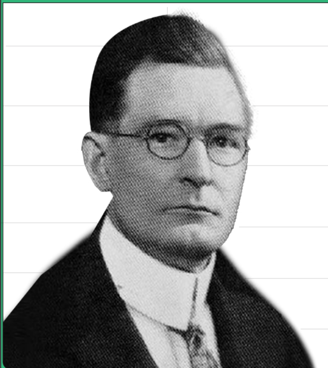
GANN FAN

Strategy video

In this chapter, the indicators I am going to use can be new to a majority of you so do pay attention. ***The strategy I am going to talk about requires the use of Gann Fan and the Linear Regression line.*** Don't worry, I will explain what these indicators are and what they do before explaining the strategy.

So let us get started.

GANN FAN AND THE LINEAR REGRESSION LINE

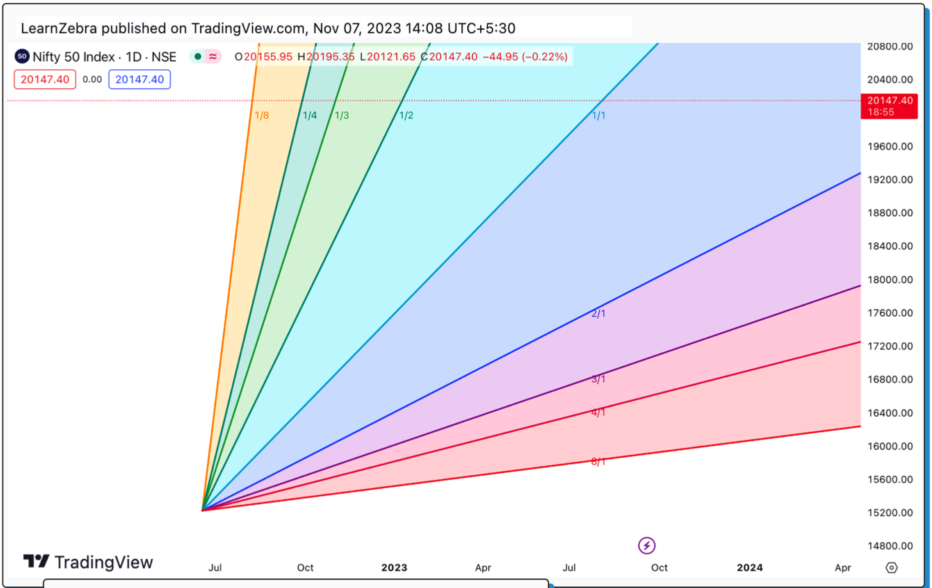


William Delbert Gann

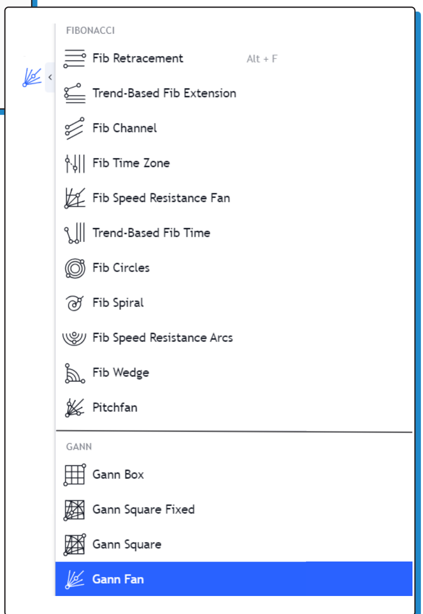
The Gann Fan is a technical indicator introduced by an American trader named William Delbert Gann. Gann is also considered as one of the pioneers of technical analysis because of his contribution in this field.

Gann has always been a controversial figure because he believed that the financial markets followed natural laws. His works mainly involved making technical tools based on mathematics, geometry, and astrology.

The Gann Fan, in simple words, is essentially a set of lines drawn on a price chart from one price leg to another. These lines are named as 1x1, 1x2, 1x4, 2x1. 3x1, 4x1, etc.

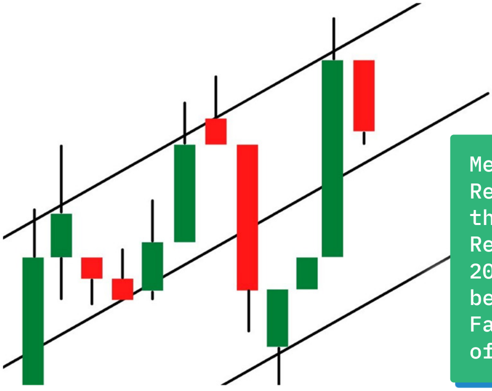


These lines represent the dynamic support and resistance on the price chart. I use this indicator to identify potential price targets, stoploss levels and also for spotting trend reversals.



We will also be using the Linear Regression Line. The Linear Regression Line helps us in identifying the mean of the current price leg.

LinReg 100 close 2 2



Meaning, a 20-period Linear Regression line will equal the ending value of a Linear Regression line that follows 20 candlesticks. This way, it becomes easy to draw the Gann Fan accurately with the help of the Linear Regression Line.

So now that you are familiar with these two indicators, let us look at the trading strategy.

TRADING WITH THE GANN FAN

You can use the Gann Fan on any intraday time frame. Here are the 3 steps.

STEP 1: Look for a price swing. If the market is in an uptrend, use the Linear Regression line from the bottom of the price leg to top and vice versa in a downtrend. Another thing to remember is, if you are not using the Linear Regression line properly, you will know it as the indicator won't calculate its value till you have chosen a proper price leg.

STEP 2: Once you know the mean value, plot the Gann Fan on the same price leg.

STEP 3: In case if the trend is up, buy whenever you see the price taking support from one of the Gann Fan’s levels and sell if the price is in a downtrend and you see it taking resistance from the Gann Fan’s levels.

You will understand it better with some examples. So, let me discuss some examples of this setup with you.

As you can see in the above image, after identifying the price leg, the Gann Fan projects its levels.

I can short the market when the price is taking resistance on 1x2 level and put the stoploss on the Gann Fan's level. In this case, I will put my SL on the 1x3 line. This way, I can easily have a 1:3 risk to reward ratio while using this setup.

You can even use Bollinger Bands to make this setup more effective.
Let me show you one example with Bollinger Bands.

I am using Bollinger Bands on its default setting. Traders usually sell the market whenever the price is higher than the Bollinger Bands and buy when the price is lower than the Bollinger Bands.

As you can see, the market is in a downtrend here. So, I am looking for the market to get a bit above the Bollinger Bands and hit a Gann Fan level. Once the market makes a red candle on the level, I will short.

NOTE

This setup is more effective when the upper band (in a downtrend) and the Gann Fan's level is similar. You can short once the market starts showing weakness. (a red candle). You can buy the market whenever the lower band and the Gann Fan's support level are similar.

CONCLUSION

The Gann Fan is an effective technical tool in finding dynamic support and resistance levels in a price chart. When combined with the Linear Regression Line and Bollinger Bands, it can give you a systematic approach leverage with market trend.

Autosave

Publish

Notes

CHAPTER 4

POSITIONAL STRATEGY

4.1

MOVING WITH MACRO TRENDS

Strategy video

One day, before starting my journey as a full-time trader, I sat with my stock market Guru and asked him to advise me. He took a moment, looked up at the sky and said,

Guruji
"Can you see anything above there?"

Aseem
"Nothing but a clean sky."

Guruji
"This blue sky is looking clean when observed from the Earth, but as you zoom in and try to see beyond Earth, you will find celestial bodies, comets, other planets, etc. and those are nothing but noise."

Aseem
"But Guruji, how is it related to the stock market?"

Guruji
"I am trying to infer a connection between the stock market and the sky by telling you that things looked from a macro perspective carry less noise, and if you really want to start your career in trading, do not get into the complexities. Rather, start observing the market from a macro level and trade accordingly".

This food for thought by Guruji made me go into self-reflection mode. I sat and realised, I cannot trade the daily markets and handle fluctuations if I do not understand the macro perspective of the market.

"How can I trade the market ignoring the daily noise?", I stumbled upon this and started researching trading styles. I then found a trading style where you keep trades open for several weeks to months. This trading style is called ***"Positional trading"***.

Other traders

Positional trader

With positional trading, you get to trade the primary trend of the market. Since it is positional trading, you don't have to rush to your computer screen every time a news pops up. There is less or very negligible screen time involved with positional trading.

As a novice, I looked for different technical indicators to use in my positional trades but none of them worked fine. The only tool I was left with was marking the daily highs and lows of the asset I want to trade. When done manually, it can be a demanding task, and you will get frustrated doing it daily. I called my Guruji to ask,

Aseem
"Guruji which indicator should I use?"

Guruji
"There is only one indicator which can help you mark crucial points of the asset, and that is the "pivot points".

I rushed to my computer, opened the charting software and applied the pivot point indicator. By then, it was clear to me that this is would assist me in trading the markets. For 3 straight months, I back-tested the pivot points on different stocks and found decent results.

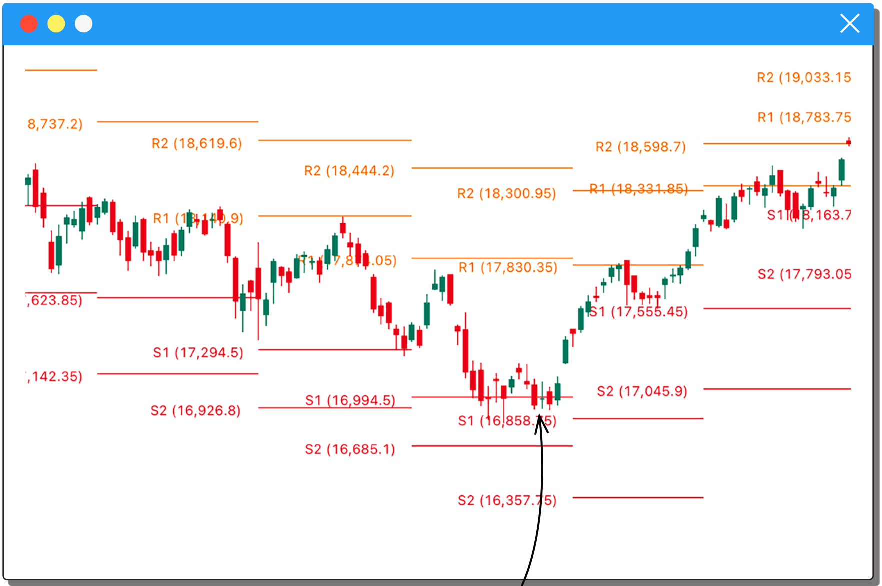
THE STRATEGY

With the mindset of helping novice traders, I am introducing my positional trading strategy here. The idea behind this strategy is to catch market swings exactly from the pivot points on the daily timeframe.

For positional trades, we can either go in cash or trade in futures. The only limitation with cash trades is that you cannot short-sell any asset, you can only build a long position. With the futures segment, you can also short-sell the asset. I.e. first sell then buy.

In this strategy, we will look for a stock to be near the pivot points.

If the stock is near the resistance, we can look for a bearish formation and take a short-side trade.



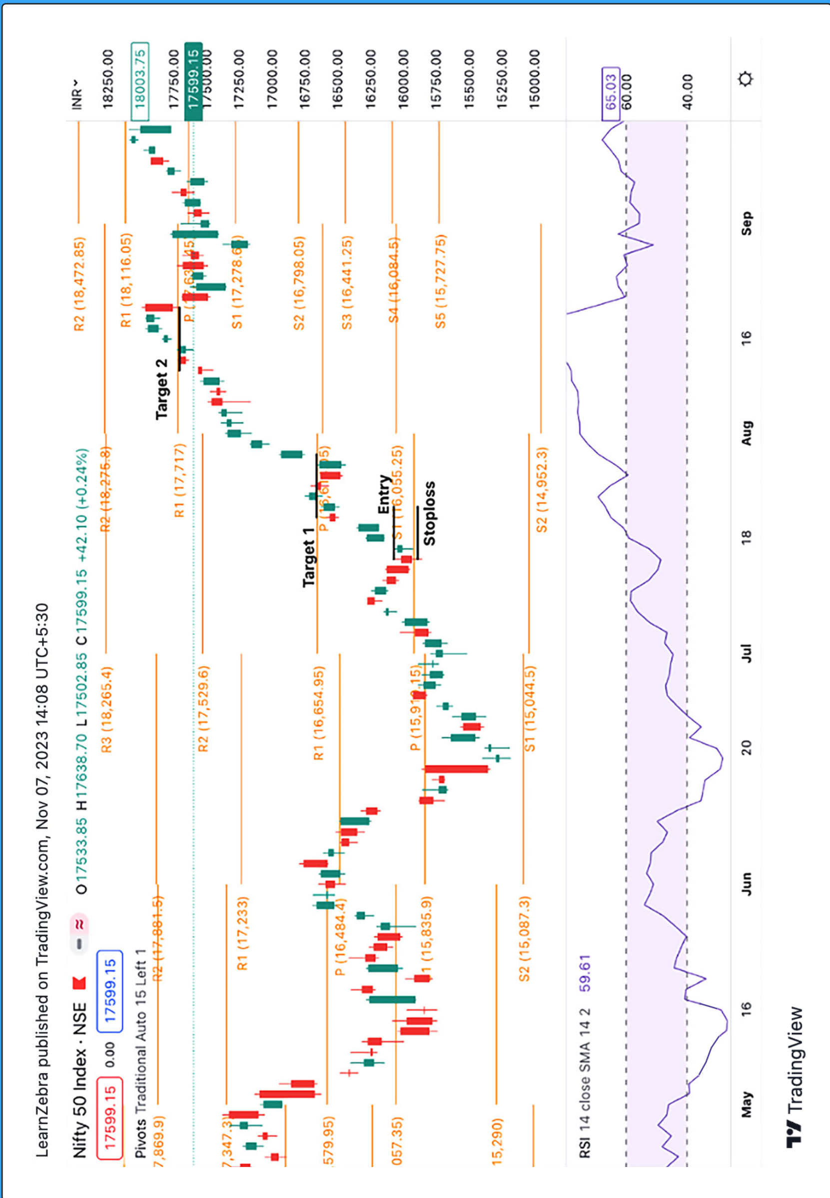
Similarly, when the stock is near the support, we can look for the price to turn bullish and take a long trade.

The probability of profits increases when the trades are taken on small corrections in the primary trend. For example, if the primary trend is downtrend, look for a correction in the price to hover near the resistance area. Similarly, when the price is in uptrend, look for a pullback at the support area.

Indicators Alert Replay

ZEBRALEARN

THE EXECUTION



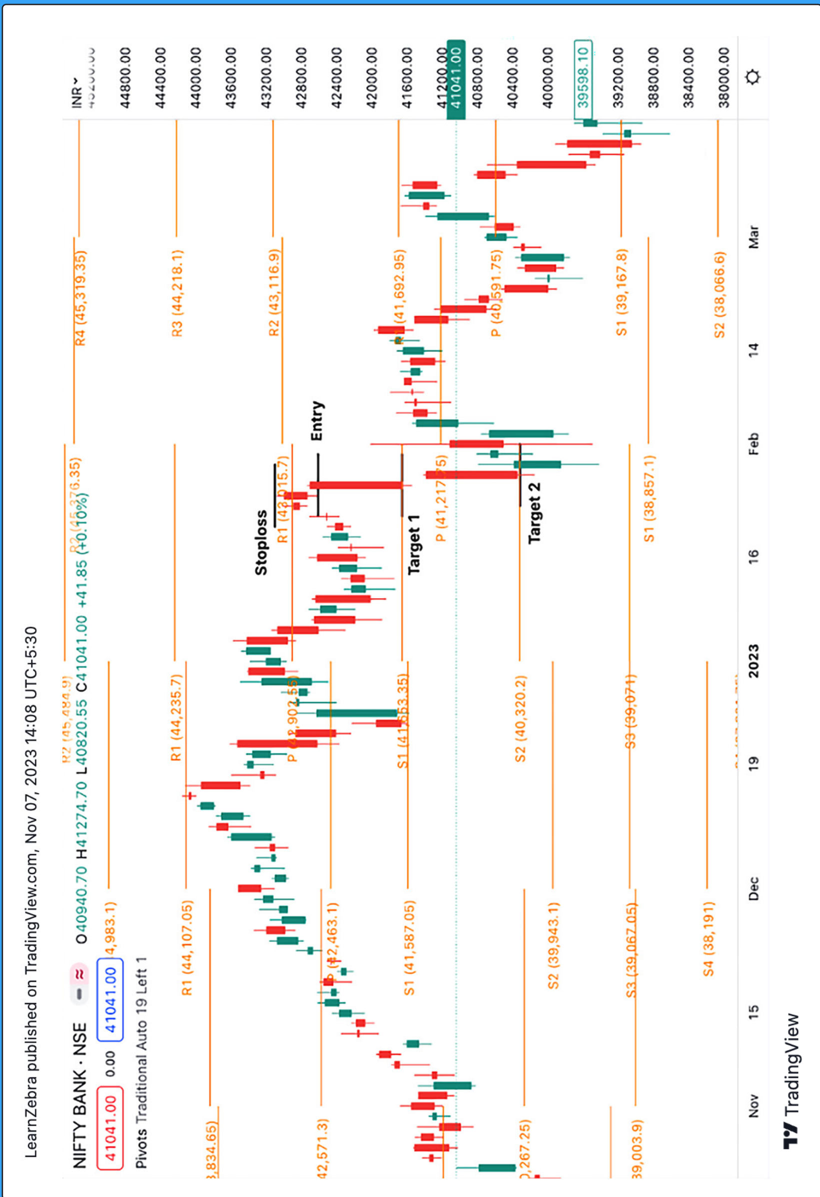
TO BUY USING THIS STRATEGY, TAKE THE FOLLOWING STEPS:

- Set the chart to a daily timeframe.
- Apply pivot points standard with pivot point and S1/S2 and R1/R2.
- Look for an uptrend.
- Wait for the price to take support on P, S1 or S2.
- Wait for a bullish candle to form.
- **BUY** above the high of the confirming candle.
- Place **STOPLOSS** below the support area.
- **TARGET** at the next pivot point or trail till you get a Risk to Reward ratio of 1:2.

In the above example, Nifty 50 was making lower lows but soon price saw a change of structure and started to move upside. At the very first pullback, it was clear that the market had turned bullish and it was time to wait for the price to take support on any of the support lines. On 18th July 2022, the market formed a Bullish Doji candle confirming an uptrend from the S1, we entered the trade keeping the stoploss just below the 15,915 level with target 1 at the 16,654 level and target 2 at the 17,717 level. The trade ran for almost a month and gave decent profit.

Indicators Alert Replay

TO SELL



ZEBRALEARN

TO SELL USING THIS STRATEGY, DO THE FOLLOWING THINGS:

- Set the chart to a daily timeframe.
- Apply pivot points standard with Pivot point and S1/S2 and R1/R2.
- Look for a downtrend.
- Wait for the price to face resistance on P, R1 or R2.
- Wait for a bearish candle to form.
- **SELL** below the low of the confirming candle.
- **STOPLOSS** above the resistance area.
- **TARGET** at the next pivot point or trail till you get a Risk to Reward ratio of 1:2.

From the above illustration, it is evident that this strategy works magic when used with a proper set of rules. As discussed, our entry point is triggered when the market faces resistance at either P or resistance areas. On 14th December 2022, Banknifty made it's high and then starts to go downward. But, our entry is triggered exactly near the pivot points when the price took a pullback around the 42,902 level. As soon as the market made a bearish candle around the Pivot point, our entry is triggered and you can see that we got both our targets hit in just two days.

4.2

SUPERTREND WITH RSI

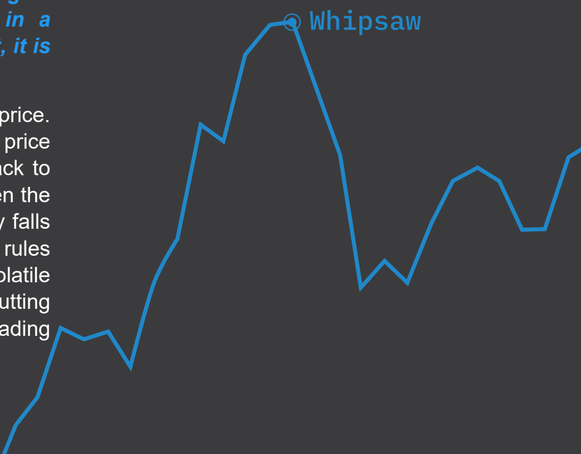
Strategy video

The nightmare of positional traders is unprecedented whipsaws. When they leave their positions overnight, they fear the market because any global event can impact their positions. Now, what a positional trader wants? Volatility in their favour, I would say. I have seen a lot of traders closing their trades in the middle when an event is about to happen.

The most important psychological trait of a positional trader is to be composed when the market becomes volatile.

I have seen traders booking 50% losses due to fear and then regretting when the market pivoted after hitting their stoploss and reaching their target. This usually happens when their confluences are contradictory or they randomly take a trade. ***With positional trades, you have to trust your strategies and wait until the market moves in a favourable direction. If a stoploss hit, it is okay to exit with a small loss.***

Whipsaws describe sudden spikes in price. These are explosive moves when the price suddenly falls below and then goes back to its original price level in no time, or when the price rises to a level and then suddenly falls to its original price. There is no set of rules for managing whipsaws during a volatile trading session. You can only resort to putting stoploss when the market starts trading against you.



ZEBRALEARN

From my experience in the market, I have observed markets with two indicators - ***RSI and Supertrend**. **RSI helps in knowing the market strength and Supertrend helps in knowing the market trend.***

It was the first week of March 2020, covid-19 pandemic was the talk of the town. Schools and offices were asked to shut their operations for one day, called the "Janta Curfew". This was the day when we were not allowed to go outside our houses. Everyone started to fear because casualties due to covid-19 were on a roll. When the world panics, it becomes visible on the chart: sluggish up moves by the market, high VIX, and big players liquidating their positions. When I saw the open interest in the Nifty 50 index, it was clear that the market might fall at any time. 6 months later when we were completely locked in our homes, which was just a beginning.

I decided to do some positional trading. So, I started looking for some stocks and one stock caught my attention - Kotak Mahindra Bank.

On March 12 2020, the Kotak stock opened gap down and started to plummet to the 1005 price level. 8 months after that it was completely range-bound. What's more important to notice is, when the price was in a consolidation, the RSI didn't move beyond the range of 40-60. Due to this, Supertrend was generating false signals. When I observed this pattern, I was curious to know how market would behave if the RSI go beyond 40-60 level. Since its a bigger timeframe, the market is not much noisy, and we can trust the market moves.

On 27 Oct 2020, Kotak Mahindra Bank had a breakout on the upside. With the breakout in price, we can see that the RSI moved beyond the 60 level and the Supertrend gave a bullish signal. The unconventional approach of the RSI states that if the RSI is below 40, the market is bearish, if the market is in the range of 40-60, the market is sideways, and when the market is above the 60 level, is bullish.

After testing out the RSI and Supertrend combination on different stocks, I began to backtest it thoroughly to get an edge over the strategy. The idea behind the combination of RSI and Supertrend is to get good positional trades and avoid getting false signals of an individual technical indicator.

THE STRATEGY

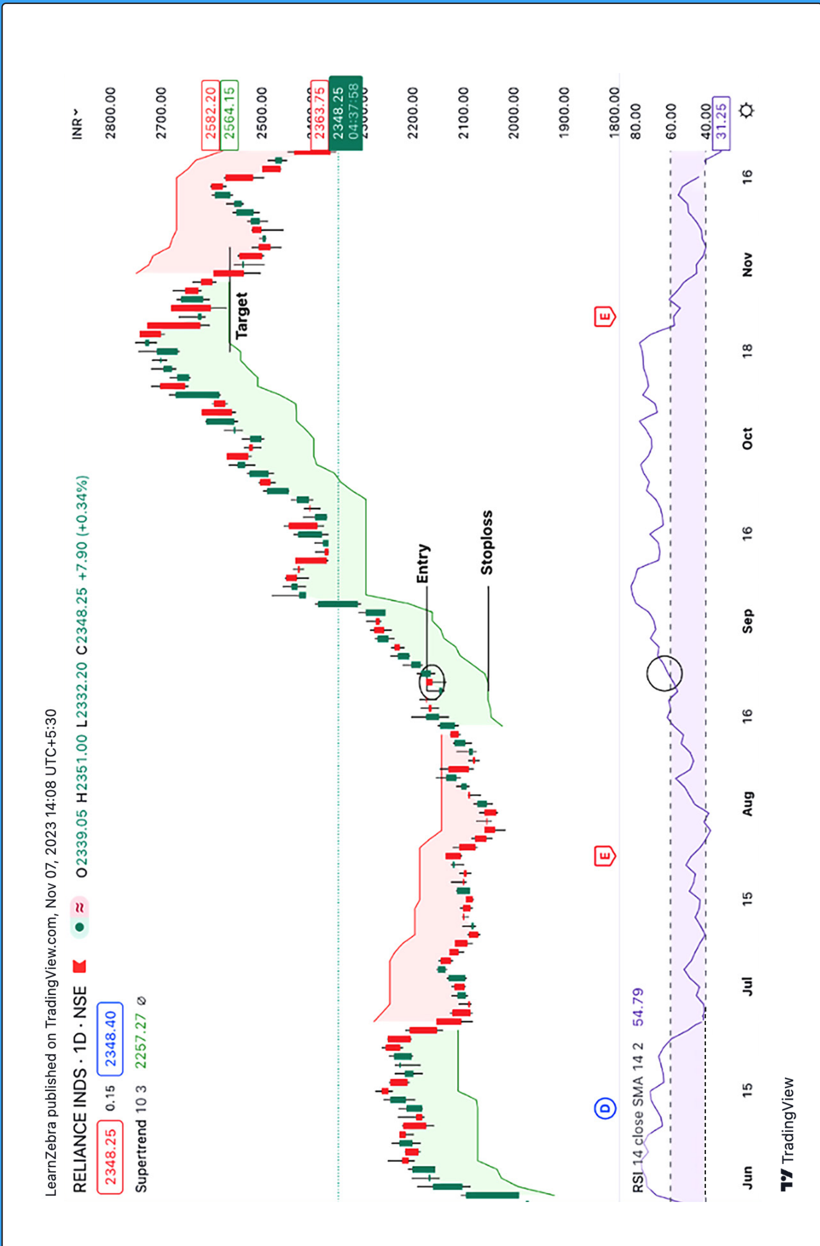
The strategy is a combination of two indicators, RSI and Supertrend. The RSI helps in identifying momentum and the Supertrend helps in identifying direction of the market.

With this strategy, we will look for positional trades that will run for a few weeks or a month. Also, if you want to execute a short trade with this strategy, it can only be possible in the derivatives segment: the cash market does not allow you to create a short position.

Indicators Alert Replay

ZEBRALEARN

THE EXECUTION



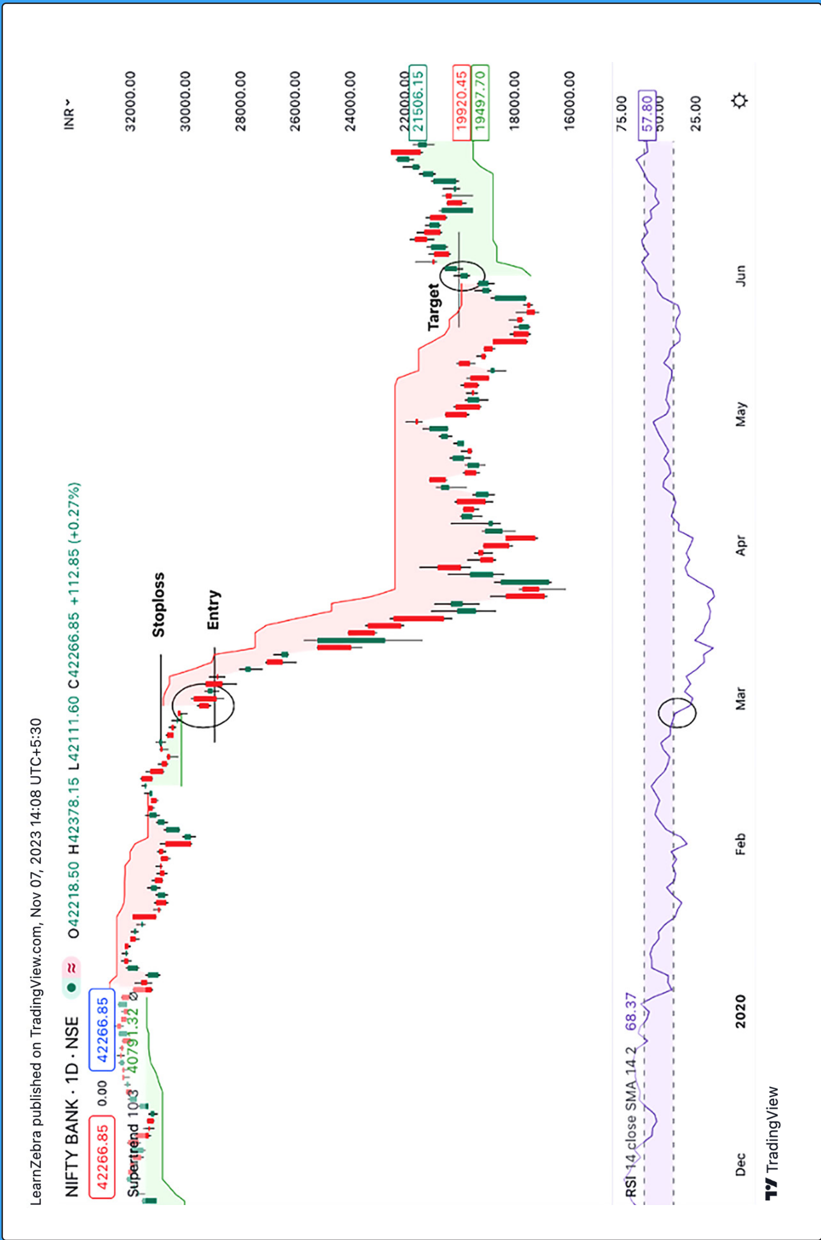
TO BUY USING THIS STRATEGY, TAKE THE FOLLOWING STEPS:

- Prepare a watchlist of stocks.
- Use RSI and Supertrend to filter out stocks.
- Look for stocks where the RSI is moving towards the 60 level and the Supertrend is turning bullish.
- If the price stays above Supertrend and the RSI crosses the 60 level, the **BUY** entry is triggered.
- Place **STOPLOSS** at the swing low, keep trailing it at the Supertrend level.
- **TARGET** is on a trailing basis- exit when the price closes below Supertrend.

On 24th August 2021, Reliance Industries broke its sideways range and made a bullish candle. The RSI crossed the 60 level from below and the Supertrend turned bullish. These confluences confirmed that the market was heading towards the upside and the rally was about to begin. The buy entry triggered at the high of the green candle and the initial stoploss was at the Supertrend. We kept trailing it and exited when the price closed below the Supertrend. With this strategy, we booked a profit of 3x the stoploss (1:3 Risk to Reward ratio).

Indicators Alert Replay

TO SELL



ZEBRALEARN

TO SELL USING THIS STRATEGY, TAKE THE FOLLOWING STEPS:

- Prepare a watchlist of stocks.
- Use RSI and Supertrend to filter out stocks.
- Look for stocks where the RSI is moving towards the 40 level and the supertrend is turning bearish.
- If the price stays below Supertrend and the RSI crosses the 40 level, the **SELL** entry is triggered.
- Place **STOPLOSS** at the swing high, keep trailing it at the Supertrend level.
- **TARGET** is on a trailing basis- exit when the price closes above Supertrend.
- You can only create a short position in the derivatives segment. I.e. stock/index F&O.

On 28th February 2020, BankNifty broke its consolidation range and made a bearish candle. With this, the Supertrend turned bearish and the RSI went below the 40 level. These confluences confirmed a selling trade. With this strategy, we entered the trade on 28th February 2020 and exited on 1st June 2020. The profit booked was almost 1:4 Risk to Reward ratio.

4.3 SECTORAL ANALYSIS : A POWERFUL WAY TO TRADE THE MARKETS

Strategy video

This chapter talks about the importance of Sectoral Analysis and how it is a powerful tool for trading the capital markets. ***We will also talk about a positional trading strategy which will help you in identifying stocks in less than 15 minutes!***
Sounds interesting, right?

But first let's understand Sectoral Analysis and its significance in the capital markets.

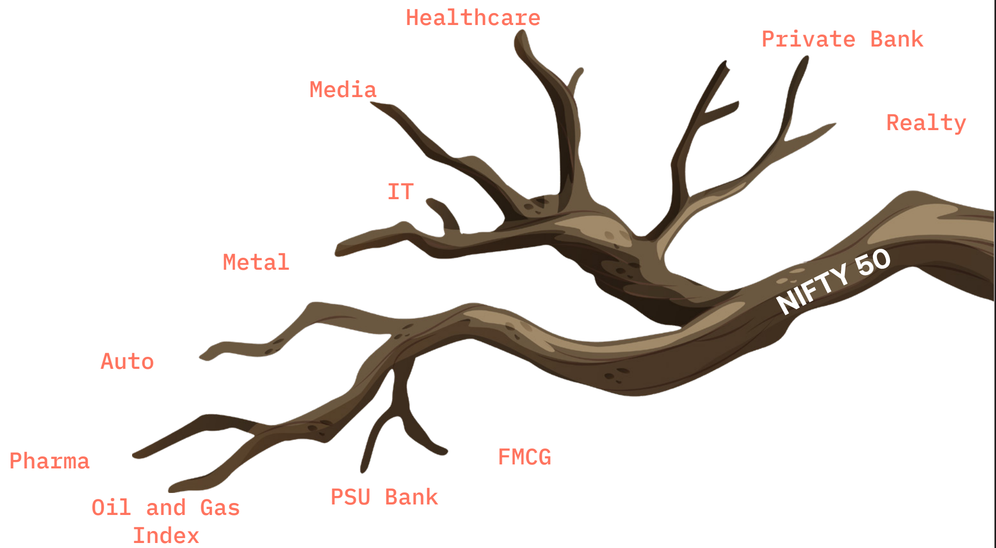
INTRODUCTION

A nation's economy is just like a flower. Just like a group of petals make a flower a group of sectors make an economy. Now, some of these sectors may be performing well while some not so well. As a positional trader, you always have to buy stocks from the sectors that are outperforming other sectors of the economy.

Sectoral Analysis requires evaluating and analyzing different sectors within the market to identify market trends and trading opportunities. This type of analysis plays a vital role in the capital markets. It helps you make better trading decisions as you understand and analyze different sectors of the market.

Some of the sectors categorized based on industries are - technology, healthcare, energy, FMCG, finance, etc.

Each of the above sector includes a group of companies that have a familiar field of operations. This is why it is crucial to know about different sectors in the market as each sector has different performance pattern and they might react differently to market conditions.



Some of the factors that can have an impact on a sector's performance include, economic conditions, government policies, geopolitical updates, technological advancements and consumer behavior.

DIFFERENT APPROACHES IN SECTORAL ANALYSIS

There are mainly 3 different approaches market participants use when they are analyzing sectors. They are –

1. Fundamental analysis of Sectors
2. Macro-Economic analysis of Sectors
3. Technical analysis of Sectors

1 Fundamental analysis of Sectors

Fundamental analysis of sector requires a person to evaluate the financial health and performance of companies within a specific sector or industry. An investor using this approach mainly deals with factors such as revenue growth, earnings, profitability, competitive position and market share of a company. The list also includes financial statements, industry reports and company related news to analyze the overall strength of a specific sector.