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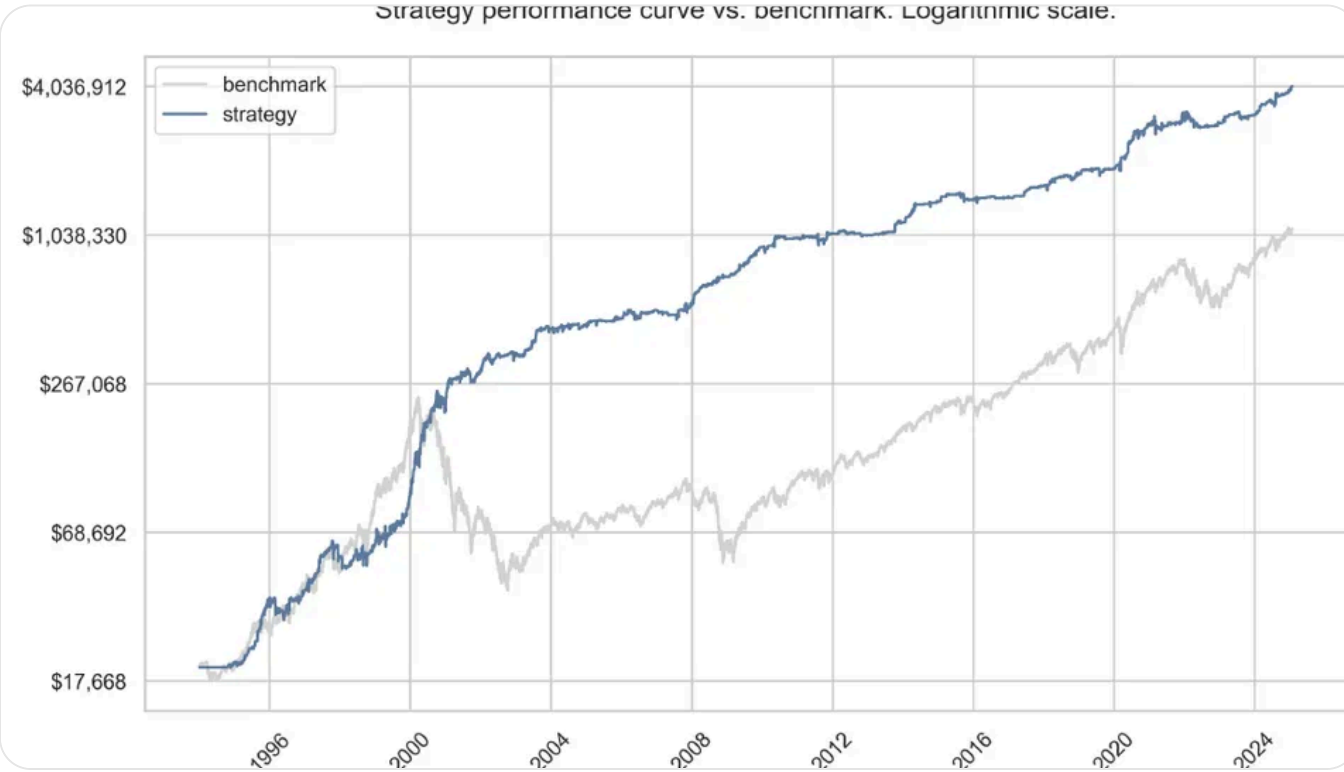
Buying Short-Term Dips in Stocks [backtester]

Peter



One of the core principles of successful trading is “Buy low, sell high.” Let’s explore a **mechanical trading system** built around this idea—buying temporary dips in otherwise uptrending stocks. Along the way, we’ll define the rules clearly, examine why it can be effective, and look at a **free backtester** you can use to tweak parameters and test variations.

What Does It Mean to Buy Short-Term Dips?

In English, this tactic is often referred to as “[buy the dip](#).” The principle is that **after a temporary drop** in a stock’s price—especially when the stock remains in a larger uptrend—prices frequently recover and continue higher.

This “buy low” window can become even more attractive when the price drop is **sharp** and **brief**, as short-term panic selling or tightly placed stop-loss orders can drive the price below its “fair value.” Once the selling subsides, **new buyers** often step in, potentially pushing the market higher again.

> *“Buy the Dip” means purchasing assets during short-term price drops, aiming to profit from a subsequent rebound as the long-term trend resumes.*

What Is a "Dip" in the Stock Market?

A **dip** is simply a **short-term decline** in a stock’s price while its overall trajectory remains **upward**.

For systematic traders, it’s crucial to have a **clear, mechanical** definition of a dip. One straightforward approach is:

1. The stock is **above** its long-term moving average (e.g., a 200-day MA).
2. The stock’s price falls by more than **3%** in one trading session (relative to the previous close).

Below is a Tesla (TSLA) example (green line = 200-day moving average). The green arrows mark daily closes that were more than 3% below the previous day’s close—each arrow indicates a **dip day**.

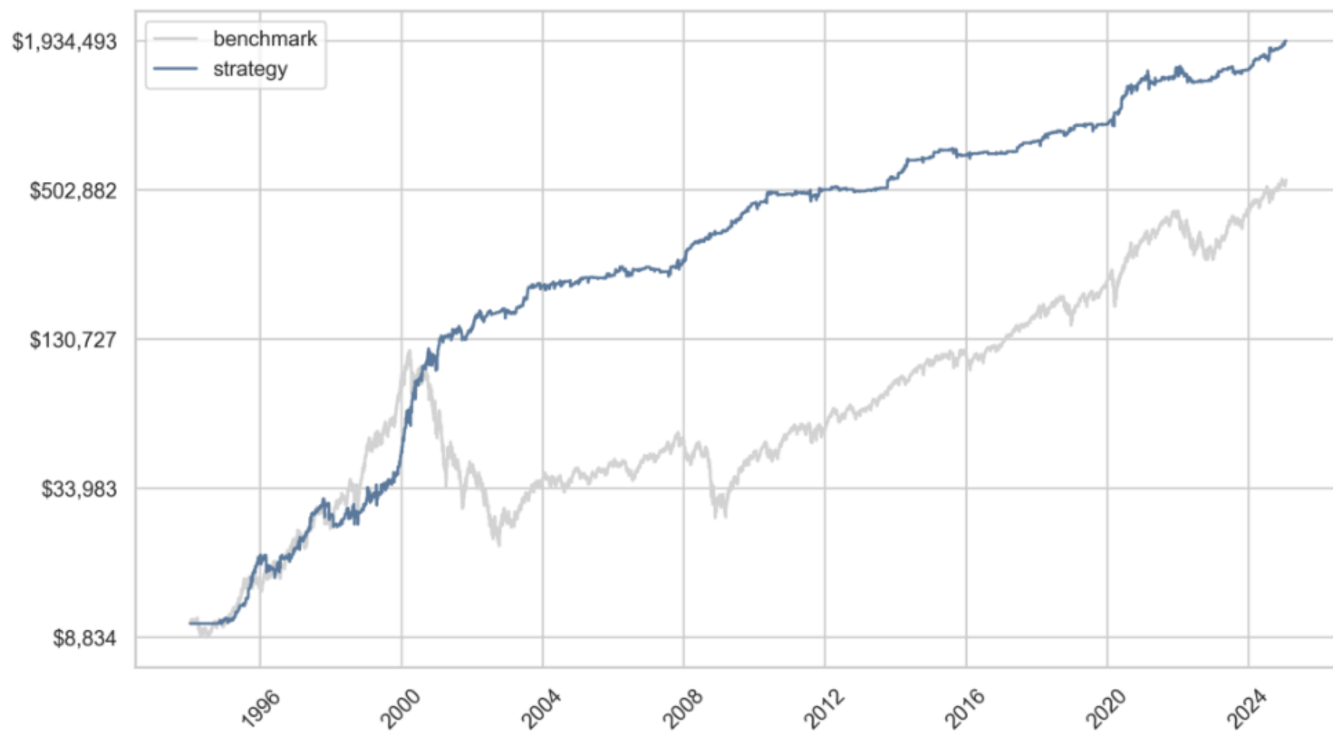
Why Does Buying After a Dip Offer an Advantage?

Most markets, including individual stocks, move in **waves** or **mini-cycles**. Buying during the **“lower point”** of a wave can provide a better entry price than buying near the top of that short-term swing.

Of course, no single rule guarantees that price won’t **keep dropping**. Hence, money management (position sizing, risk controls) is essential. However, for a stock trading above its 200-day average, the **risk of a total collapse** (e.g., bankruptcy) is lower. By systematically capturing these short-term dips, traders aim for **favorable entries** that can lead to profitable exits—assuming the rest of the trading plan is sound.

Below you will find one such plan, which you can backtest yourself with different parameters. Here is how its equity curve looks with default settings (commissions included):

Below is the strategy performance curve vs. the benchmark, displayed on logarithmic scale..



Trading Plan for Buying Stocks on a Dip

One example of a buy-the-dip strategy is published example that trades mean reversion using implied volatility.

However, 'buying the dip' can take various forms. One of the tactics I use in the markets, which even a beginner trader can apply, follows these rules:

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