# HIGH PROBABILITY ETF TRADING:

## 7 Professional Strategies to Improve Your ETF Trading



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# CHAPTER 1

# Introduction – High Probability ETF Trading

From 2005 to the time of this writing in early 2009, one of the fastest growing segments in the financial markets has been the ETF arena. What started slowly with just a small handful of ETFs in the 1990's has now exploded into ETFs available in nearly all sectors and for trading most major countries.

And the ETF product growth continues. For example, a number of fund companies have launched ETFs that allow you to trade both on the long side and on the short side. And you can also trade up to two times leverage and three times leverage in many ETFs.

What was once considered an alternative to mutual funds has in reality become the go-to products for hedge funds and professional traders. You only have to look at the intra-day volatility along with the rapidly increasing volume to know that "investors" are not the main force behind the growth of the ETF industry. The traders are.

There are very few ETF strategy books available today (as of early 2009). The few that are out there focus on things like expense ratios and the management behind the ETFs. Maybe these are important things for investors but this information is of little use in making day-to-day trading decisions for ETFs.

What we hope to do here in this strategy book is to provide you with seven high probability ETF strategies you need to know.

Each strategy comes with exact rules and is backed by years of statistical test results. There will be no opinions or guessing coming from this book. There's an exactness to the strategies and you'll be able to take them and apply them immediately to your trading.

Everyone knows that in real estate the key to success is "location, location, location!" In our opinion in trading, and especially ETF trading, its **"quantify, quantify, quantify!"**

Before we move to the strategies let's first look at a few important things:

1. What is High Probability Trading? It's trading using strategies which have historically been successful a high percentage of the time. With ETF trading, we like strategies that have been correct on average at least 65% of the time (obviously the higher the percentage correct, the better) with good average gains per trade (which means all trades combined-both winning and losing).

   In *High Probability ETF Trading* most of the strategies you'll learn have been correct in the 70%-80% range for many years, with the TPS strategy (Chapter 8) being correct almost 90% of the time on the broad universe of ETFs we tested.

**2.** The test results begin on January 1993 or since the ETF has been publicly traded, whichever is furthest back, and runs through December 31, 2008 (the last full year through the time of this writing). We tested each strategy on 20 of the more popular (measured by volume) non-leveraged, non-inverse ETFs as of the end of 2008.

**3.** All the tests are simulated and are not real trades. Also slippage and commissions have not been factored in but dividends and splits have.

**4.** We intentionally left out leveraged ETFs and inverse ETFs for the following reason:

The trading history of most inverse and leveraged ETFs is too short versus the ETF universe we tested. That means that the testing sample size on them would have been too small (as of the end of 2008) to provide credible test results. Over time though, as the sample size increases, we'll go in and test the strategies on the leveraged and inverse ETFs. Please use extra caution if you decide to apply these strategies on those ETFs.

**5.** You should be able to start trading the strategies in this book immediately. They're easy to understand and straight forward. If you don't understand a strategy, feel free to call the TradingMarkets office at 213-955-5858 ext. 1 and someone will be able to assist you. TradingMarkets cannot and will not give individual advice but we can discuss the strategies and the execution of the strategies.

**6.** If you want to receive the daily set-ups from this book, you can subscribe to them on the HighProbabilityETFTrading.com website or at TradingMarkets.com. You can also call 213-955-5858 ext 1 for a free trial.

**7.** We believe that ETF trading will become even bigger overtime. Why? A few reasons.

First, after the poor performance by so many professional money managers, investment advisors and mutual fund managers in 2008, individuals now know they can do a better job of growing their own money.

Second, ETFs don't have the same corporate risks as individual stocks. Stocks can and do go to zero. ETFs usually don't. Corporations miss earnings, have bad things announced overnight, etc. and many times gap 20%, 30%, 40%, 50% or more lower. ETFs rarely do.

For example, when 9/11 occurred, look at where the SPYs opened when the markets reopened. They dropped about 8%. 9/11 was a horrible event, yet the SPYs lost only 8%. Many individual stocks though opened lower by 25% or more. There's obviously more risk in stocks than there is in ETFs and therefore we expect more traders and investors to continue to gravitate to ETFs. You may already be doing so with your own trading.

**8.** With this said, this does not mean ETFs do not carry risk. Many do, especially the leveraged funds. Please be sure you fully understand the risks involved in each ETF you trade and understand that markets can and do move in ways that they haven't in the past. There's no guarantee that these strategies will work in the future so caution as well as risk control must be used at all times.

**9.** Among the 20 most popular non-leveraged and non-inverse ETFs by volume we tested for this book are:

| | |
|---|---|
| DIA | Diamonds Trust, Series 1 (ETF) |
| EEM | iShares MSCI Emerging Markets Indx (ETF) |
| EFA | iShares MSCI EAFE Index Fund (ETF) |
| EWH | iShares MSCI Hong Kong Index Fund (ETF) |
| EWJ | iShares MSCI Japan Index (ETF) |
| EWT | iShares MSCI Taiwan Index (ETF) |
| EWZ | iShares MSCI Brazil Index (ETF) |
| FXI | iShares FTSE/Xinhua China 25 Index (ETF) |
| GLD | SPDR Gold Trust (ETF) |
| ILF | iShares S&P Latin America 40 Index (ETF) |
| IWM | iShares Russell 2000 Index (ETF) |
| IYR | iShares Dow Jones U.S. Real Estate (ETF) |
| QQQQ | PowerShares QQQ Trust, Series 1 (ETF) |
| SPY | SPDR S&P 500 |
| XHB | SPDR S&P Homebuilders (ETF) |
| XLB | Materials SPDR (ETF) |
| XLE | Energy Select Sector SPDR (ETF) |
| XLF | Financial Select Sector SPDR (ETF) |
| XLI | Industrial SPDR (ETF) |

**10.** There are certain rules we abide by that are directly from test results we've found over the years in both stocks and now ETFs. These are our golden rules of trading and the closer you abide by them, the better chance you have of being successful. Many of these rules have more than a decade's worth of statistical results which can be found in our previous book *Short Term Trading Strategies That Work*.

These rules are:

**1.** Only buy ETFs above their 200-day simple moving average.

**2.** Only short ETFs below their 200-day simple moving average.

**3.** Buy ETFs on pullbacks, not breakouts.

**4.** Short ETFs into short-term strength.

**5.** Use dynamic exits. Meaning use an exit that adjusts with current price. This will become clearer when you learn the strategies.

**6.** ETF correlations change faster than most people believe they do. For example, in most of 2008 as oil prices rose, the SPYs dropped. Then in October 2008 the opposite occurred. As oil prices rose, the SPYs rose. Correlations constantly change.

**7.** Sector ETFs tend to move from overbought to oversold better than individual stocks.

**8.** Country ETFs tend to move from overbought to oversold (and vice versa) better than Sector ETFs.

**9.** ETF products are being constantly created. The more you keep abreast of these developments, the better your trading

If you need further information on ETFs and the strategies in this book, go to TradingMarkets.com and click on the ETF tab on top, or call toll free 1-888-484-8220 ext.1 (outside the U.S. call 1-213-955-5858).

You can also find additional tools and products to help you further apply the strategies in the back of this book.

Let's now move to the first of the seven strategies in *High Probability ETF Trading*.

# CHAPTER 2

# The 3-Day High/Low Method

We'll open this book with a very simple yet effective high probability ETF Trading strategy.

Most trading revolves around identifying how overbought and oversold a security is based upon its closing price. This is a correct way to look at the market but you can broaden it by also looking at the highs and lows of the security each day.

The **3-Day High/Low Method** looks for ETFs which have made lower highs and lower lows for three consecutive days.

For example, let's assume the market is above the 200-day. If Thursday's (today's) high and low price at the end of the day is lower than Wednesday's high and low price, and Wednesday's is lower than Tuesday's, and

Tuesday's is lower than Monday's than we'll want to go long today at the close on the ETF on which this has happened. This will be clearer when we look at some examples.

Here are the long side rules of the 3-Day High/Low Method:

**1.** Today the ETF is above the 200-day moving average.
**2.** Today the ETF closes below its 5-day moving average.
**3.** Two days ago the high and low price of the day is below the previous day's high and low.
**4.** Yesterday the high and low price of the day is below the previous day's.
**5.** Today's high and low price is below yesterday's.
**6.** Buy on the close today.
**7. Aggressive Version** – Buy a second unit if prices close lower than your initial entry price anytime you're in the position.
**8.** Exit on the close when the ETF closes above its 5-day simple moving average.

Here are the results.

**Table 2.1. 3-Day High/Low Method Basic Version Long Results from ETF Inception to 12/31/08**

| ETF | Trades | Average % P/L | Avg. Trading Days Held | % Winners |
|---|---|---|---|---|
| DIA | 47 | 0.27% | 3.2 | 72.3% |
| EEM | 31 | 0.91% | 3.3 | 83.9% |
| EFA | 25 | 0.63% | 3.2 | 84.0% |
| EWH | 47 | 0.72% | 4.0 | 74.5% |
| EWJ | 32 | 0.46% | 3.7 | 71.9% |
| EWT | 27 | 0.42% | 3.9 | 77.8% |
| EWZ | 43 | 1.66% | 2.6 | 81.4% |
| FXI | 17 | 0.89% | 3.4 | 64.7% |
| GLD | 18 | 0.79% | 4.0 | 72.2% |
| ILF | 36 | 1.79% | 2.6 | 88.9% |
| IWM | 40 | 0.50% | 3.4 | 72.5% |
| IYR | 39 | 0.01% | 3.6 | 82.1% |
| QQQQ | 41 | 0.88% | 3.3 | 73.2% |
| **SPY** | **64** | **0.91%** | **2.7** | **87.5%** |
| XHB | 4 | 0.76% | 3.5 | 75.0% |
| XLB | 37 | -0.29% | 3.9 | 64.9% |
| XLE | 51 | 0.66% | 3.5 | 74.5% |
| XLF | 32 | 0.38% | 3.4 | 78.1% |
| XLI | 35 | 0.41% | 3.5 | 65.7% |
| XLV | 43 | 0.36% | 2.9 | 79.1% |
| **Grand Total** | **709** | **0.66%** | **3.3** | **76.9%** |

**Table 2.2. 3-Day High/Low Method Aggressive Version Long Results from ETF Inception to 12/31/08**

| ETF | Trades | Average % P/L | Avg. Trading Days Held | % Winners |
|---|---|---|---|---|
| DIA | 47 | 0.51% | 3.2 | 78.7% |
| EEM | 31 | 1.23% | 3.3 | 87.1% |
| EFA | 25 | 0.89% | 3.2 | 88.0% |
| EWH | 47 | 1.12% | 4.0 | 78.7% |
| EWJ | 32 | 0.75% | 3.7 | 78.1% |
| EWT | 27 | 0.82% | 3.9 | 81.5% |
| EWZ | 43 | 2.14% | 2.6 | 88.4% |
| FXI | 17 | 1.39% | 3.4 | 70.6% |
| GLD | 18 | 1.13% | 4.0 | 77.8% |
| ILF | 36 | 2.10% | 2.6 | 91.7% |
| IWM | 40 | 0.81% | 3.4 | 82.5% |
| IYR | 39 | 0.26% | 3.6 | 82.1% |
| QQQQ | 41 | 1.40% | 3.3 | 82.9% |
| **SPY** | **64** | **1.12%** | **2.7** | **90.6%** |
| XHB | 4 | 1.09% | 3.5 | 75.0% |
| XLB | 37 | 0.10% | 3.9 | 73.0% |
| XLE | 51 | 1.01% | 3.5 | 82.4% |
| XLF | 32 | 0.68% | 3.4 | 90.6% |
| XLI | 35 | 0.69% | 3.5 | 71.4% |
| XLV | 43 | 0.49% | 2.9 | 86.0% |
| **Grand Total** | **709** | **0.98%** | **3.3** | **82.8%** |

The test results are very good. Over 76% of the signals have been profitable using the basic strategy since the inception of the combined ETFs and over 82% of the trades have been successful using the aggressive version. What we also like is that all the ETFs have been profitable since they started trading through 2008 using the aggressive method. And the SPYs have been profitable 90.6% of the time this strategy has signaled.

Here are a few examples of what the long side set-ups look like.

**Example 2.1 – EEM Basic Version**

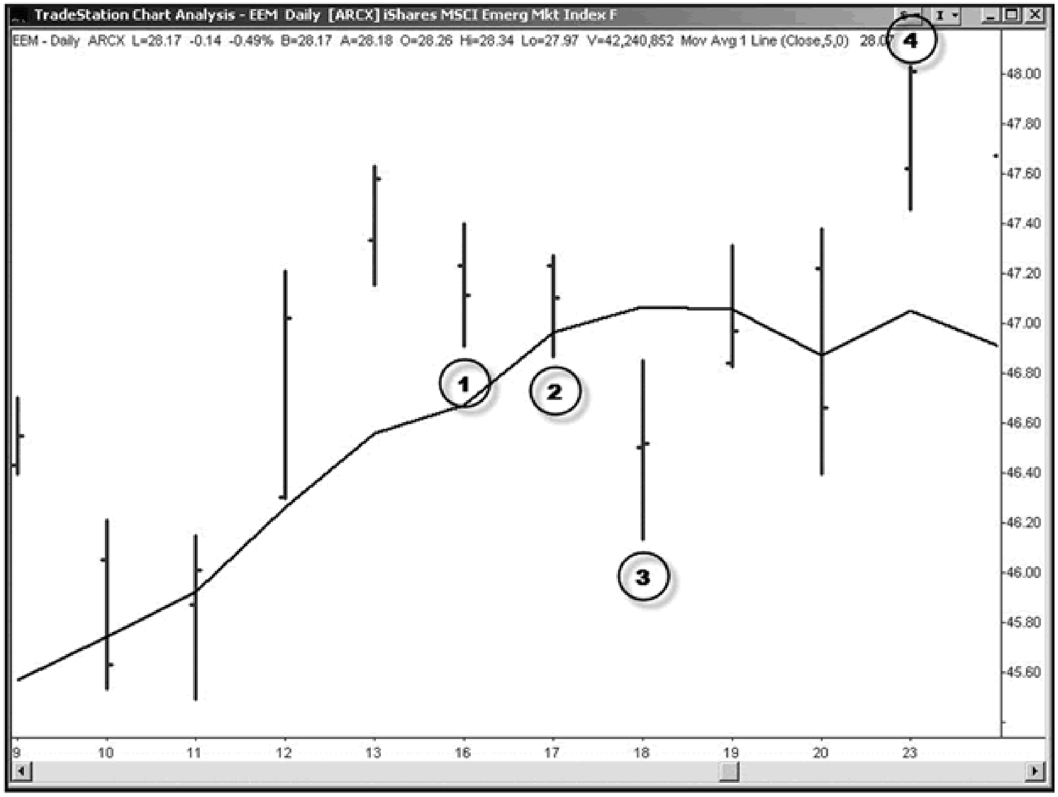


*Chart created on TradeStation®, the flagship product of TradeStation Technologies, Inc.*

1. EEM is above its 200-day MA (not shown) and has a lower high and a lower low for the day.

**2.** The next day it has another lower high and a lower low versus the previous day.

**3.** For the third day in a row there's a lower high and a lower low. Buy on the close.

**4.** EEM rallies to above its 5-day MA and you lock in the gains on the close.

Here is an example of the aggressive version.

**Example 2.2 – EWZ Aggressive Version**

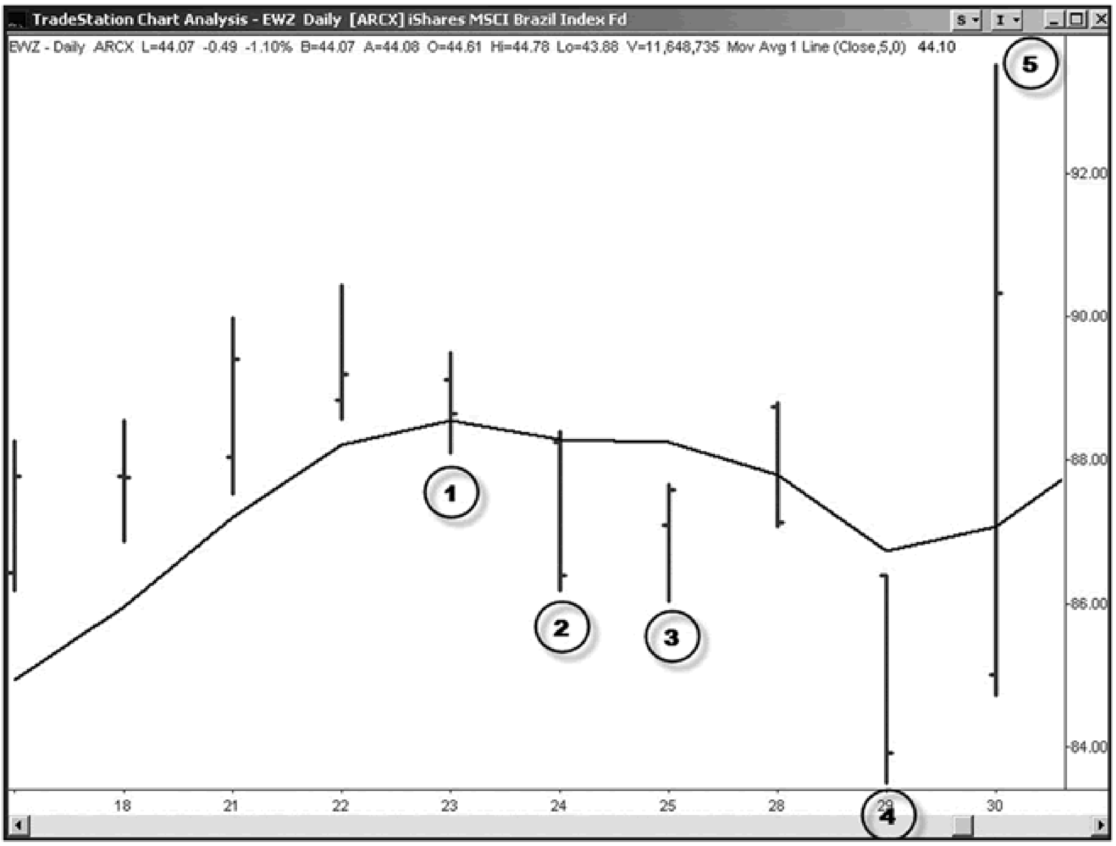


*Chart created on TradeStation®, the flagship product of TradeStation Technologies, Inc.*

**1.** EWZ is above its 200-day MA (not shown) and has a lower high and a lower low versus the previous day.

**2.** A second consecutive day with a lower high and a lower low.

**3.** A third consecutive day with a lower high and lower low on the close and we buy.

**4.** EWZ closes lower than our original entry and we buy a second unit on the close.

**5.** EWZ has a big rally the next trading day and closes above the 5-day MA. Exit on the close.

Please note that in this example the gains were greater intra-day, and this is where you need to know ahead of time whether or not you're going to trade with discretion (exiting intra-day), or whether you want to stay as disciplined as possible and trade with the rules.

We can show you many examples that are up intra-day, (and the urge to lock in the gains is great!), and the ETF continued running higher through the end of the day. The test results throughout this book are based upon waiting to exit on the close and take into account the intra-day scenarios.

On the short side the rules are reversed.

1. The ETF is below the 200-day moving average.
2. Today the ETF closes above its 5-day moving average.
3. Two days ago the high and low price of the day is above the previous day's.
4. Yesterday the high and low price of the day was above the previous day's.
5. Today's high and low price was above yesterday's.
6. Sell short on the close today.
7. **Aggressive Version –** Short a second unit if prices close higher than your initial entry price anytime you're in the position.
8. Exit on the close when the ETF closes below its 5-day simple moving average.

Here are the results:

**Table 2.3. 3-Day High/Low Method Basic Version Short Results from ETF Inception to 12/31/08**

| ETF | Trades | Average % P/L | Avg. Trading Days Held | % Winners |
|---|---|---|---|---|
| DIA | 25 | -0.16% | 4.6 | 60.0% |
| EEM | 6 | -0.21% | 5.0 | 50.0% |
| EFA | 17 | 0.04% | 3.3 | 64.7% |
| EWH | 24 | 1.12% | 3.3 | 83.3% |
| EWJ | 38 | 0.18% | 4.3 | 63.2% |
| EWT | 26 | 0.77% | 3.5 | 73.1% |
| EWZ | 16 | 2.29% | 3.1 | 81.3% |
| FXI | 8 | 0.95% | 3.1 | 75.0% |
| GLD | 2 | 0.38% | 5.0 | 50.0% |
| ILF | 5 | 1.62% | 3.8 | 60.0% |
| IWM | 23 | 1.14% | 3.1 | 73.9% |
| IYR | 23 | 1.95% | 4.0 | 78.3% |
| QQQQ | 27 | 0.55% | 4.1 | 66.7% |
| **SPY** | **32** | **0.67%** | **3.4** | **84.4%** |
| XHB | 12 | 3.63% | 2.6 | 83.3% |
| XLB | 19 | 0.91% | 3.6 | 68.4% |
| XLE | 23 | 1.00% | 3.6 | 65.2% |
| XLF | 27 | 1.75% | 3.1 | 77.8% |
| XLI | 27 | 0.64% | 3.2 | 74.1% |
| XLV | 20 | -0.23% | 4.1 | 60.0% |
| **Grand Total** | **400** | **0.88%** | **3.6** | **71.5%** |

**Table 2.4. 3-Day High/Low Method Aggressive Version Short Results from ETF Inception to 12/31/08**

| ETF | Trades | Average % P/L | Avg. Trading Days Held | % Winners |
|---|---|---|---|---|
| DIA | 25 | 0.18% | 4.6 | 68.0% |
| EEM | 6 | 0.09% | 5.0 | 50.0% |
| EFA | 17 | 0.32% | 3.3 | 70.6% |
| EWH | 24 | 1.68% | 3.3 | 87.5% |
| EWJ | 38 | 0.56% | 4.3 | 68.4% |
| EWT | 26 | 1.34% | 3.5 | 84.6% |
| EWZ | 16 | 2.78% | 3.1 | 81.3% |
| FXI | 8 | 2.11% | 3.1 | 75.0% |
| GLD | 2 | 0.59% | 5.0 | 50.0% |
| ILF | 5 | 3.43% | 3.8 | 80.0% |
| IWM | 23 | 1.43% | 3.1 | 78.3% |
| IYR | 23 | 2.16% | 4.0 | 82.6% |
| QQQQ | 27 | 1.08% | 4.1 | 66.7% |
| **SPY** | **32** | **0.89%** | **3.4** | **84.4%** |
| XHB | 12 | 4.28% | 2.6 | 91.7% |
| XLB | 19 | 1.27% | 3.6 | 78.9% |
| XLE | 23 | 1.36% | 3.6 | 73.9% |
| XLF | 27 | 2.05% | 3.1 | 81.5% |
| XLI | 27 | 0.98% | 3.2 | 77.8% |
| XLV | 20 | 0.10% | 4.1 | 80.0% |
| **Grand Total** | **400** | **1.29%** | **3.6** | **77.3%** |

Here is an example of what the basic short set-up looks like.

**Example 2.3 – XLE Basic Version**

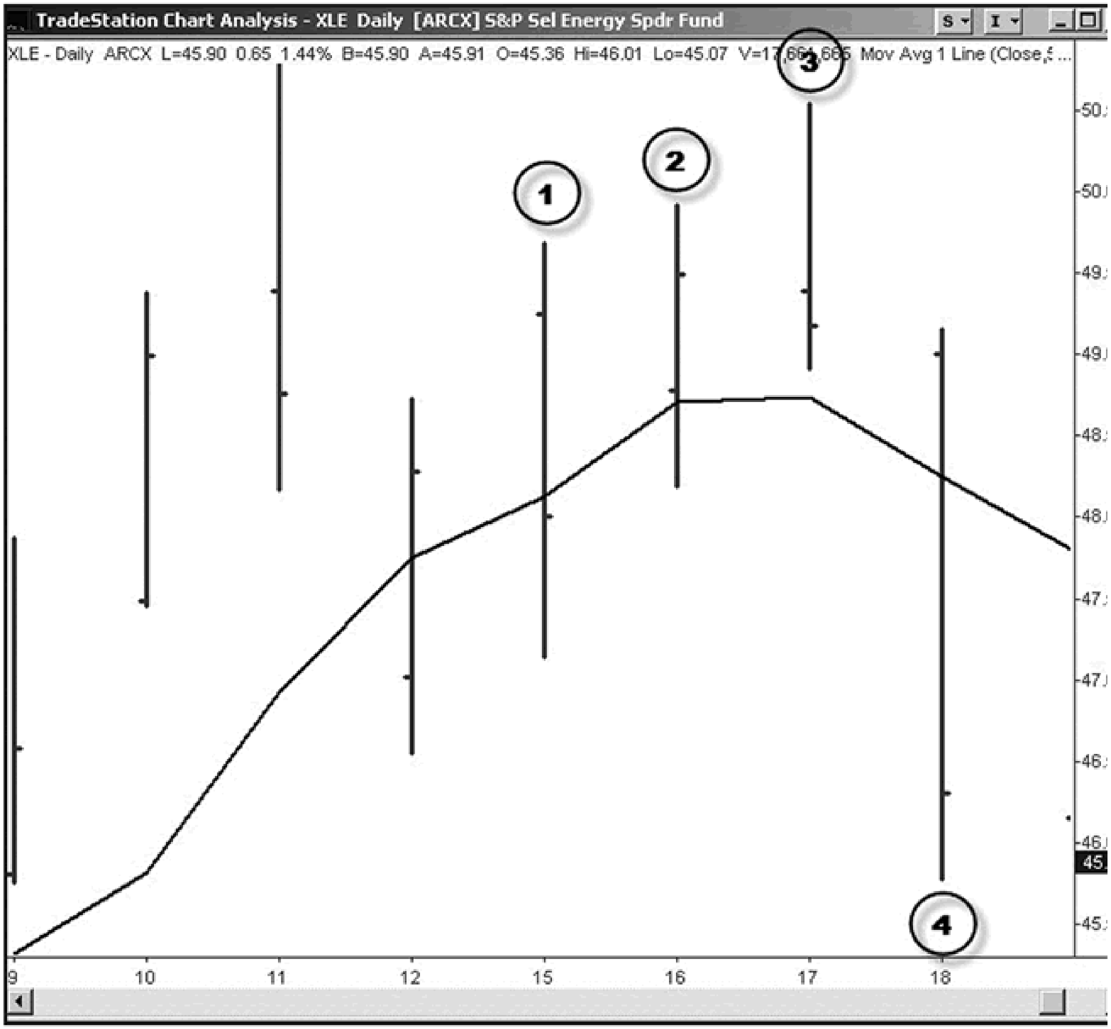


*Chart created on TradeStation®, the flagship product of TradeStation Technologies, Inc.*

**1.** Here's XLE below the 200-day MA (not shown) with a higher high and a higher low.

**2.** A second day of a higher high and a higher low.

**3.** A third consecutive day of a higher high and a higher low. Sell short.

**4.** A healthy sell-off occurs the next day and XLE closes under the 5-day MA telling us to lock in the gains on the close.

**Example 2.4 – XLF Aggressive Version**

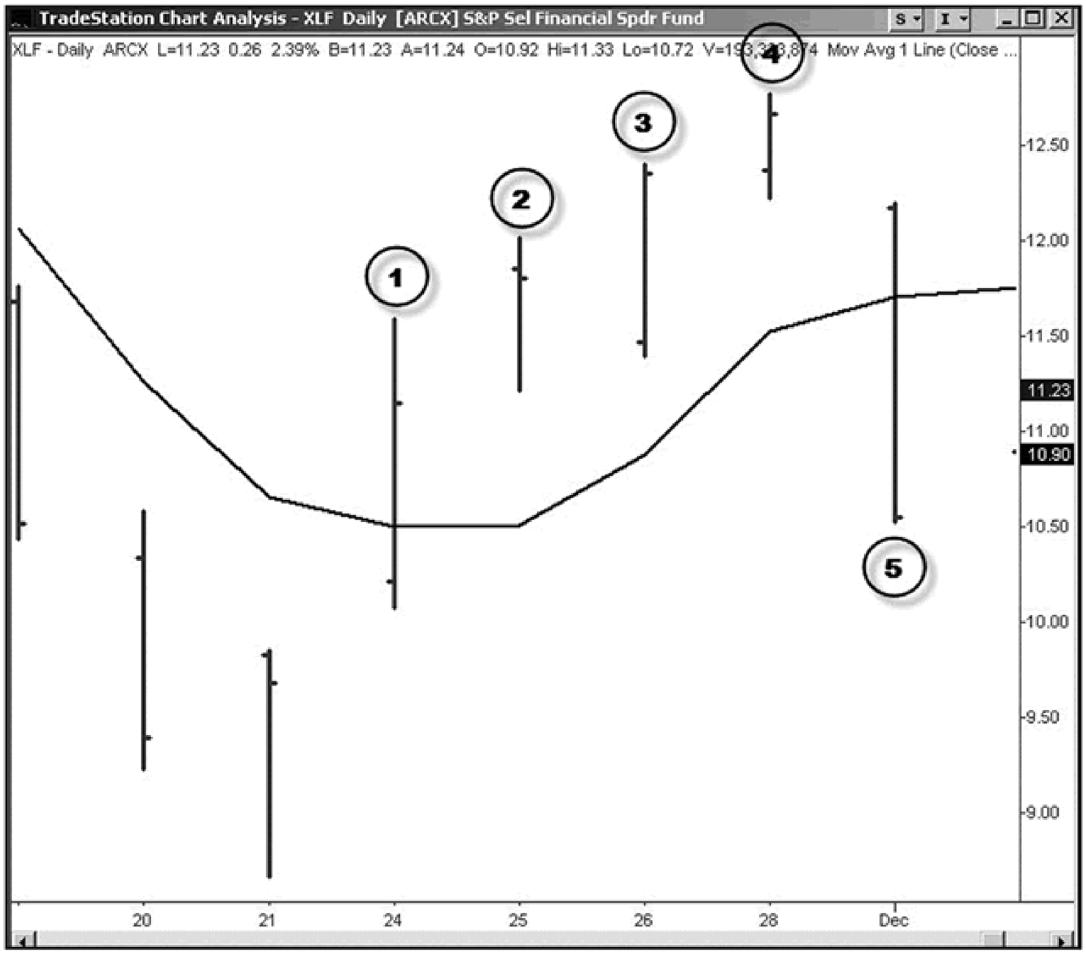


*Chart created on TradeStation®, the flagship product of TradeStation Technologies, Inc.*

**1.** Here is the very popular ETF XLF closing below its 200-day MA (not shown) with a higher high and a higher low.

**2.** Another higher high and a higher low.

**3.** A third higher high and a higher low. Sell short.

**4.** A higher close than our entry and you can see how overbought this ETF is. It's risen over 40% from its lows a week ago! Sell short again.

**5.** Reversion to the mean (and gravity) kicks in and the financials sell-off significantly the next day. Lock in your gains on the close.

## Summary

As you see, the 3-Day High/Low Strategy is a very simple high probability ETF trading strategy to apply to your trading. Like every strategy in this book, it identifies overbought ETFs under the 200-day and oversold ETFs above the 200-day. The key to trading ETFs is to properly identify them when they are at overbought and oversold levels and have historically reversed. The 3-Day High/Low has done a great job of doing this.

Now let's move to our next high probability ETF trading strategy.

# CHAPTER 3

# RSI 25 & RSI 75

The RSI 25 strategy was first created by us in 2003 and published in 2004 (the RSI 75 portion on the short side is new). Since 2004 it has become popular among many traders and as importantly it has performed extremely well since first being published.

When we first published the strategy, it was primarily intended for the SPY and the QQQQ as those were the ETFs that most traders focused on. Over the next few years, as the ETF industry grew and many hundreds of ETFs went public and became actively traded, we found that the RSI 25 strategy was applicable to nearly all ETFs.

To use this strategy, you first need to know what RSI is. RSI is a technical indicator found in most charting packages. It can also be found on popular financial websites like Yahoo Finance.

RSI looks at the strength of a security. The stronger the security has been, RSI looks at the strength of a security. The stronger the security has been, the higher its RSI reading is up to 100. The weaker the security has been, the lower the RSI reading is down to 0.

Most charting packages use a 14-period RSI. You should not as it has at best only a small edge when it comes to trading most strategies.

You should ideally look to change the RSI period to a lower number as that is where you start seeing the bigger edges appear. For the RSI 25 strategy we use a 4-period RSI. This means you change the setting on your charting package to a 4-period (if you ever need help with this, you can call our office at 213-955-5858 ext. 1).

What the RSI 25 strategy does is wait for the 4-period RSI to drop under 25. When this happens it means the ETF is in a strong pull-back (it's oversold) and at a level where it has historically risen from. And if the ETF continues to drop significantly further, we buy a second unit.

Here are the rules and we'll then look at the test results.

1. An ETF is above its 200-day moving average.
2. The 4-period RSI closes under 25. Buy on the close.
3. **Aggressive Version** – Buy a second unit if at anytime while you're in the position the 4-period RSI closes under 20.
4. Exit when the 4-period RSI closes above 55.

Let's look at the test results on the long side going back to the inception of trading on the universe of 20 popular and actively traded ETFs.

**Table 3.1. RSI 25 Basic Version Long Results from ETF Inception to 12/31/08**

| ETF | Trades | Average % P/L | Avg. Trading Days Held | % Winners |
|---|---|---|---|---|
| DIA | 46 | 0.70% | 6.8 | 76.1% |
| EEM | 28 | 1.47% | 6.3 | 85.7% |
| EFA | 32 | 0.92% | 5.6 | 81.3% |
| EWH | 58 | 1.55% | 6.3 | 70.7% |
| EWJ | 48 | 1.25% | 5.4 | 72.9% |
| EWT | 37 | 1.65% | 5.6 | 81.1% |
| EWZ | 40 | 1.93% | 6.4 | 82.5% |
| FXI | 16 | 1.19% | 7.0 | 75.0% |
| GLD | 21 | 0.21% | 7.6 | 71.4% |
| ILF | 36 | 2.11% | 5.5 | 86.1% |
| IWM | 40 | 0.92% | 6.1 | 77.5% |
| IYR | 33 | -0.03% | 6.2 | 66.7% |
| QQQQ | 39 | 1.09% | 7.1 | 71.8% |
| **SPY** | **84** | **1.23%** | **5.2** | **82.1%** |
| XHB | 4 | 0.27% | 7.0 | 75.0% |
| XLB | 46 | 0.43% | 6.7 | 71.7% |
| XLE | 53 | 1.33% | 6.4 | 83.0% |
| XLF | 39 | 0.66% | 6.6 | 79.5% |
| XLI | 41 | 0.55% | 6.4 | 75.6% |
| XLV | 45 | 0.51% | 6.2 | 64.4% |
| **Grand Total** | **786** | **1.06%** | **6.2** | **76.7%** |

**Table 3.2. RSI 25 Aggressive Version Long Results from ETF Inception to 12/31/08**

| ETF | Trades | Average % P/L | Avg. Trading Days Held | % Winners |
|---|---|---|---|---|
| DIA | 46 | 0.89% | 6.8 | 78.3% |
| EEM | 28 | 1.92% | 6.3 | 89.3% |
| EFA | 32 | 1.27% | 5.6 | 81.3% |
| EWH | 58 | 1.96% | 6.3 | 75.9% |
| EWJ | 48 | 1.66% | 5.4 | 81.3% |
| EWT | 37 | 2.10% | 5.6 | 86.5% |
| EWZ | 40 | 2.62% | 6.4 | 87.5% |
| FXI | 16 | 2.49% | 7.0 | 75.0% |
| GLD | 21 | 0.64% | 7.6 | 81.0% |
| ILF | 36 | 2.48% | 5.5 | 88.9% |
| IWM | 40 | 1.27% | 6.1 | 82.5% |
| IYR | 33 | 0.45% | 6.2 | 78.8% |
| QQQQ | 39 | 1.62% | 7.1 | 84.6% |
| **SPY** | **84** | **1.48%** | **5.2** | **89.3%** |
| XHB | 4 | 0.82% | 7.0 | 75.0% |
| XLB | 46 | 0.77% | 6.7 | 73.9% |
| XLE | 53 | 1.78% | 6.4 | 84.9% |
| XLF | 39 | 1.07% | 6.6 | 82.1% |
| XLI | 41 | 0.95% | 6.4 | 80.5% |
| XLV | 45 | 0.94% | 6.2 | 75.6% |
| **Grand Total** | **786** | **1.48%** | **6.2** | **82.2%** |

A few things stand out here. First, the basic version has had over 76% of its trades being profitable on 786 signals. Ideally if we're going to be high probability ETF traders, we want our trades to be correct at least 65%-70% of the time and this certainly has been the case with the RSI 25. With the aggressive version, the percent correct jumps up to over 82% of the time.

Also, the average gain per trade (not just winning trades – all trades including the non-winning trades) is over 1% per trade (1.48% per trade in the aggressive version) which is also excellent, especially when it comes to ETFs which are often much safer than stocks.

Here is an example of a basic RSI 25 trade on the long side.

**Example 3.1 – ILF Basic Version**

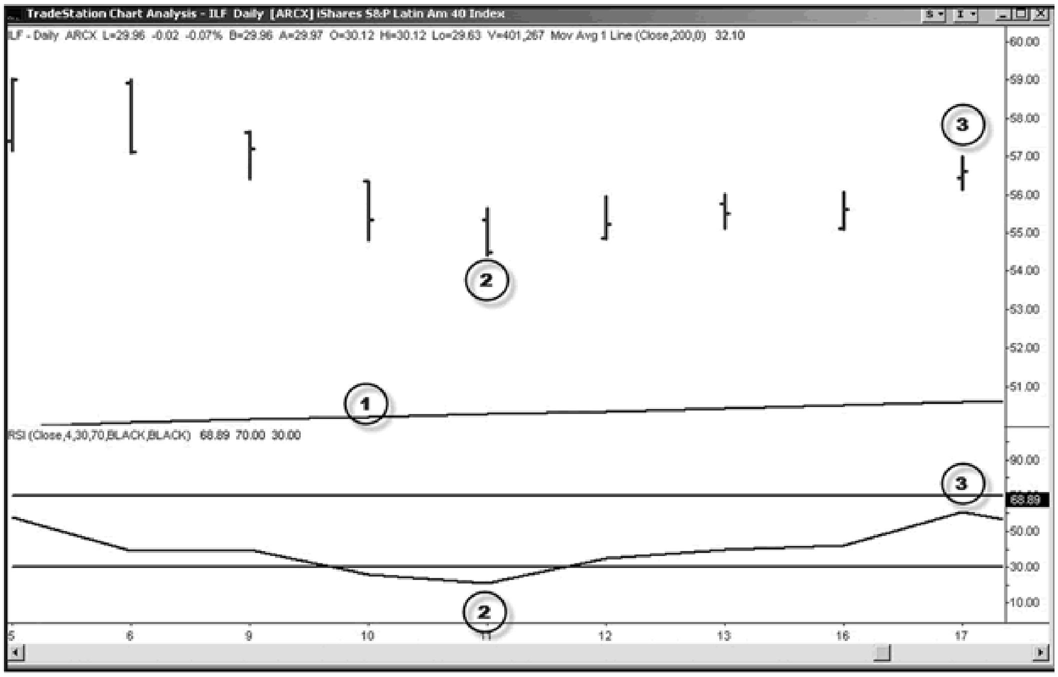


*Chart created on TradeStation®, the flagship product of TradeStation Technologies, Inc*

**1.** The iShares Latin American 40 Index is trading above its 200-day MA.

**2.** The 4-period RSI closes under 25. Buy on the close.

**3.** The 4-period RSI closes above 55 four trading days later. Lock in the gains on the close.

Here is an example of the aggressive version.

**Example 3.2 – FXI Aggressive Version**

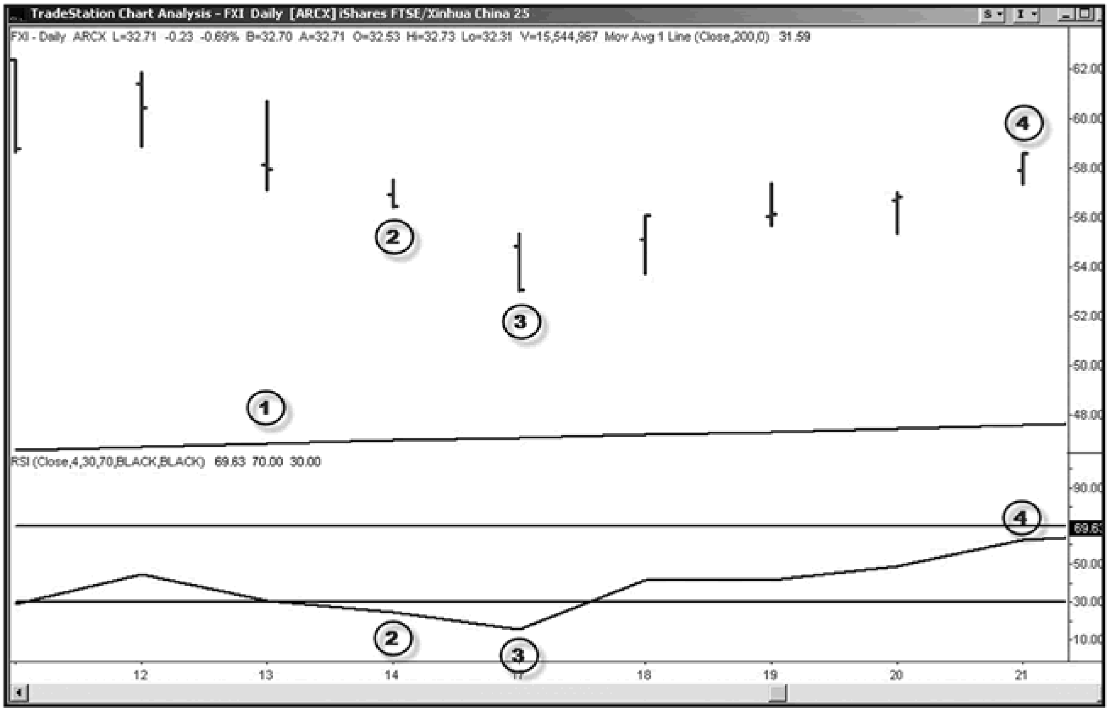


*Chart created on TradeStation®, the flagship product of TradeStation Technologies, Inc.*

**1.** FXI is above its 200-day MA.

**2.** The 4-period RSI is below 25. Buy on the close.

**3.** The 4-period RSI closes below 20. Buy a second unit on the close.

**4.** FXI rallies over 7% in 4 trading days and the RSI closes above 55. Lock in your gains on the close.

Let's now look at trading this strategy on the short side using the RSI

75 strategy. To do this, we'll inverse the rules.

1. The ETF is trading under its 200-day moving average.
2. The 4-period RSI is above 75, sell short on the close.
3. **Aggressive Version** – Sell short another unit if the ETF has a closing 4-period RSI above 80 (we're shorting into a further overbought condition).
4. Exit the position on the close when the 4-period RSI closes under 45.

Let's look at the results on the short side

**Table 3.3. RSI 75 Basic Version Short Results from ETF Inception to 12/31/08**

| ETF | Trades | Average % P/L | Avg. Trading Days Held | % Winners |
|---|---|---|---|---|
| DIA | 20 | 0.11% | 8.8 | 50.0% |
| EEM | 4 | 2.15% | 11.0 | 75.0% |
| EFA | 15 | 1.91% | 4.8 | 73.3% |
| EWH | 27 | 0.88% | 7.5 | 74.1% |
| EWJ | 42 | 1.18% | 6.8 | 69.0% |
| EWT | 22 | 0.01% | 8.9 | 54.5% |
| EWZ | 21 | 2.23% | 6.1 | 66.7% |
| FXI | 5 | 3.49% | 6.2 | 100.0% |
| GLD | 5 | -0.92% | 8.4 | 60.0% |
| ILF | 3 | 8.93% | 3.7 | 100.0% |
| IWM | 21 | 1.34% | 6.9 | 76.2% |
| IYR | 17 | 1.59% | 8.4 | 70.6% |
| QQQQ | 26 | 0.84% | 8.1 | 61.5% |
| **SPY** | **30** | **0.68%** | **8.5** | **63.3%** |
| XHB | 12 | 4.53% | 4.8 | 91.7% |
| XLB | 26 | 1.51% | 7.3 | 76.9% |
| XLE | 13 | 1.03% | 7.5 | 61.5% |
| XLF | 24 | 1.88% | 7.3 | 66.7% |
| XLI | 28 | 1.45% | 6.4 | 78.6% |
| XLV | 22 | -0.41% | 9.1 | 50.0% |
| **Grand** | | | | |

**Table 3.4. RSI 75 Aggressive Version Short Results from ETF Inception to 12/31/08**

| ETF | Trades | Average % P/L | Avg. Trading Days | % Winners |
|---|---|---|---|---|
| DIA | 20 | 0.51% | 8.8 | 55.0% |
| EEM | 4 | 2.32% | 11.0 | 75.0% |
| EFA | 15 | 2.32% | 4.8 | 93.3% |
| EWH | 27 | 1.29% | 7.5 | 77.8% |
| EWJ | 42 | 1.76% | 6.8 | 78.6% |
| EWT | 22 | 0.86% | 8.9 | 54.5% |
| EWZ | 21 | 2.90% | 6.1 | 66.7% |
| FXI | 5 | 3.79% | 6.2 | 100.0% |
| GLD | 5 | 0.03% | 8.4 | 60.0% |
| ILF | 3 | 9.09% | 3.7 | 100.0% |
| IWM | 21 | 1.83% | 6.9 | 85.7% |
| IYR | 17 | 2.11% | 8.4 | 70.6% |
| QQQQ | 26 | 1.74% | 8.1 | 73.1% |
| **SPY** | **30** | **0.94%** | **8.5** | **70.0%** |
| XHB | 12 | 5.53% | 4.8 | 91.7% |
| XLB | 26 | 1.96% | 7.3 | 84.6% |
| XLE | 13 | 1.42% | 7.5 | 76.9% |
| XLF | 24 | 3.06% | 7.3 | 79.2% |
| XLI | 28 | 1.85% | 6.4 | 85.7% |
| XLV | 22 | 0.35% | 9.1 | 59.1% |
| Grand | | | | |

As we see, the RSI 75 on the short side has correctly predicted the direction of our basket of ETFs over 68% of the time for the basic version and over 75% of the time for the aggressive version. The average gain per trade on the short side is high with the aggressive version averaging 1.84% per trade for all trades.

Let's now look at some examples of the RSI 75. First is an example of the basic version.

**Example 3.3 - EEM Basic Version**

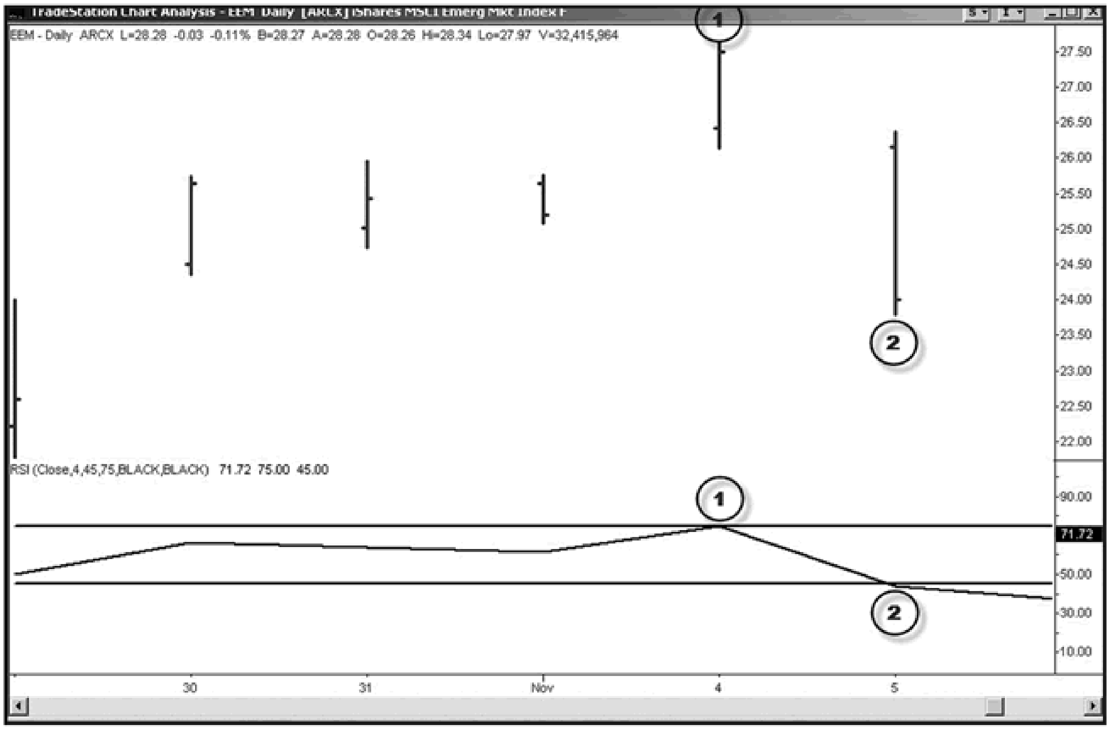


*Chart created on TradeStation®, the flagship product of TradeStation Technologies, Inc.*

**1.** The iShares Emerging Markets ETF (EEM) is well under its 200-day moving average (not shown) and has a 4-period RSI reading above 75. Sell short on the close.
**2.** The next day, the ETF drops sharply losing over 10% and the RSI closes under 45 triggering a signal for us to lock in the gains on the close.

Now, let's now look at an example of the aggressive version.

**Example 3.4 – IYR Aggressive Version**

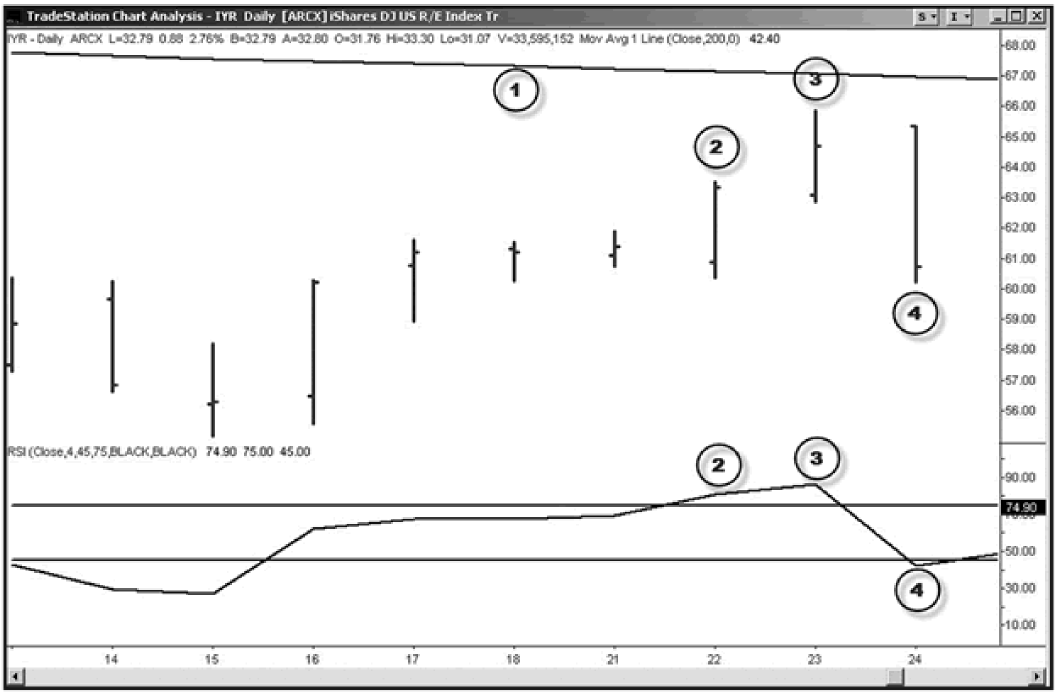


*Chart created on TradeStation®, the flagship product of TradeStation Technologies, Inc.*

**1.** The iShares U.S. Real Estate Index (IYR) is below its 200-day MA.

**2.** The 4-period RSI is above 75. Sell Short.

**3.** The 4-period RSI climbs above 80 on the close (look how overbought the ETF is. It's risen almost 20% from its lows in six trading days). Short a second unit.

**4.** Overbought ETFs rarely stay overbought for too long. The Real Estate ETF collapses the next day and the RSI drops under 45. You lock in your gains of almost 10% on the close.

## Summary

The RSI 25 and RSI 75 Strategy allow us to find ETFs which are oversold in a longer-term uptrend above their 200-day MA and overbought in a longer-term downtrend. The percent correct, especially on the long side, has been solid and has shown strong, yearly consistency on the universe of the most actively traded ETFs. As we earlier mentioned, this strategy was originally published in 2004 for the SPYs and the Q's and it's great to see it is now applicable to so many actively traded ETFs.

Now let's move to the next high probability ETF trading strategy, the R3 Strategy.

# CHAPTER 4

# R3 Strategy

In 2003, we started applying research using the 2-period RSI. Our 2-period RSI research has grown immensely since then and as you will see from many of the strategies in this book, it can be applied to many different aspects of your trading.

The R3 Strategy, which primarily uses the 2-period RSI, was also first published by us in 2003 and it remains popular among the traders who have had access to it since then. The rules are simple and the results are excellent across the basket of the most liquid ETFs.

**Here are the R3 Strategy rules for buys:**

1. The ETF is above the 200-day MA.
2. The 2-period RSI drops three days in a row and the first day's drop is from below 60 (the examples will make this clearer).

3. The 2-period RSI closes under 10 today. Buy on the close.
4. **Aggressive Version –** Buy a second unit if prices close lower than your initial entry price anytime you're in the position.
5. Exit when the 2-period RSI closes above 70.

On the following page are the test results.

**Table 4.1. R3 Basic Version Long Results from ETF Inception to 12/31/08**

| ETF | Trades | Average % P/L | Avg. Trading Days Held | % Winners |
|---|---|---|---|---|
| DIA | 42 | 0.17% | 6.1 | 66.7% |
| EEM | 19 | 0.91% | 5.4 | 78.9% |
| EFA | 29 | 0.85% | 4.6 | 82.8% |
| EWH | 46 | 1.18% | 5.3 | 71.7% |
| EWJ | 37 | 0.90% | 4.6 | 75.7% |
| EWT | 30 | 0.85% | 4.7 | 80.0% |
| EWZ | 39 | 1.94% | 4.5 | 79.5% |
| FXI | 15 | 1.19% | 6.3 | 60.0% |
| GLD | 14 | 1.07% | 6.2 | 78.6% |
| ILF | 33 | 1.78% | 4.6 | 84.8% |
| IWM | 38 | 1.00% | 4.7 | 76.3% |
| IYR | 35 | 0.17% | 4.8 | 71.4% |
| QQQQ | 40 | 1.24% | 5.5 | 65.0% |
| **SPY** | **73** | **1.16%** | **4.4** | **84.9%** |
| XHB | 5 | 0.22% | 4.4 | 60.0% |
| XLB | 43 | 0.24% | 5.5 | 65.1% |
| XLE | 45 | 1.20% | 5.1 | 82.2% |
| XLF | 34 | 0.46% | 5.0 | 70.6% |
| XLI | 36 | 0.80% | 4.8 | 83.3% |
| XLV | 47 | 0.63% | 5.1 | 76.6% |
| Grand | | | | |

**Table 4.2. R3 Aggressive Version Long Results from ETF Inception to 12/31/08**

| ETF | Trades | Average % P/L | Avg. Trading Days Held | % Winners |
|---|---|---|---|---|
| DIA | 42 | 0.36% | 6.1 | 73.8% |
| EEM | 19 | 1.20% | 5.4 | 84.2% |
| EFA | 29 | 1.07% | 4.6 | 82.8% |
| EWH | 46 | 1.63% | 5.3 | 76.1% |
| EWJ | 37 | 1.29% | 4.6 | 78.4% |
| EWT | 30 | 1.24% | 4.7 | 86.7% |
| EWZ | 39 | 2.48% | 4.5 | 84.6% |
| FXI | 15 | 1.74% | 6.3 | 73.3% |
| GLD | 14 | 1.19% | 6.2 | 78.6% |
| ILF | 33 | 2.14% | 4.6 | 87.9% |
| IWM | 38 | 1.20% | 4.7 | 78.9% |
| IYR | 35 | 0.38% | 4.8 | 74.3% |
| QQQQ | 40 | 1.66% | 5.5 | 80.0% |
| **SPY** | **73** | **1.38%** | **4.4** | **89.0%** |
| XHB | 5 | 0.67% | 4.4 | 80.0% |
| XLB | 43 | 0.61% | 5.5 | 69.8% |
| XLE | 45 | 1.58% | 5.1 | 86.7% |
| XLF | 34 | 0.87% | 5.0 | 76.5% |
| XLI | 36 | 1.00% | 4.8 | 83.3% |
| XLV | 47 | 0.84% | 5.1 | 80.9% |

Let's look at a few examples. Here is the basic version.

**Example 4.1 – ILF Basic Version**

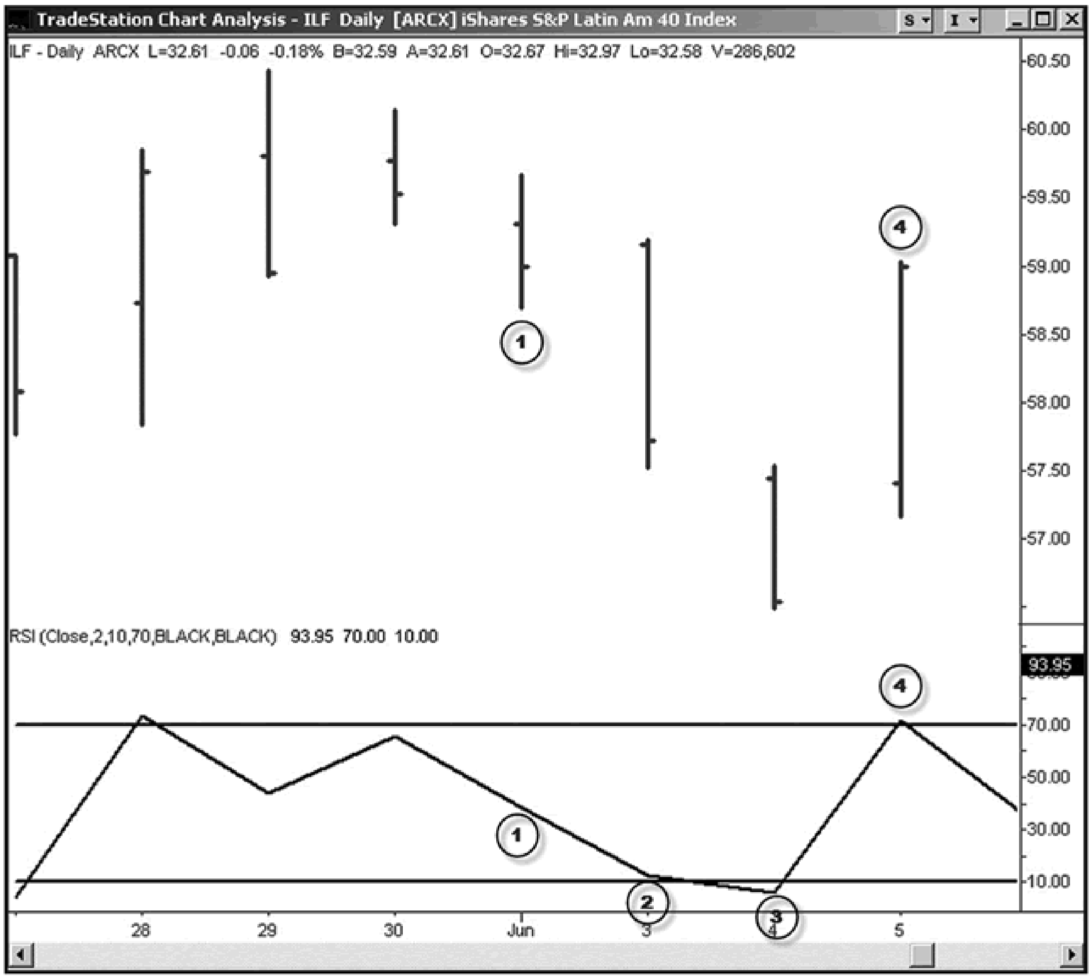


*Chart created on TradeStation®, the flagship product of TradeStation Technologies, Inc.*

**1.** ILF is trading above its 200-day (not shown) and has its first drop in its 2-period RSI which is also under 60.

**2.** The 2-period RSI drops a second day in a row.

**3.** The 2-period RSI drops a third day in a row and is under 10. Buy on the close.

**4.** ILF rallies sharply from the previous day's low and the RSI closes above 70. Lock in your gains on the close.

Here is an example of the aggressive version.

**Example 4.2 – EWZ Aggressive Version**

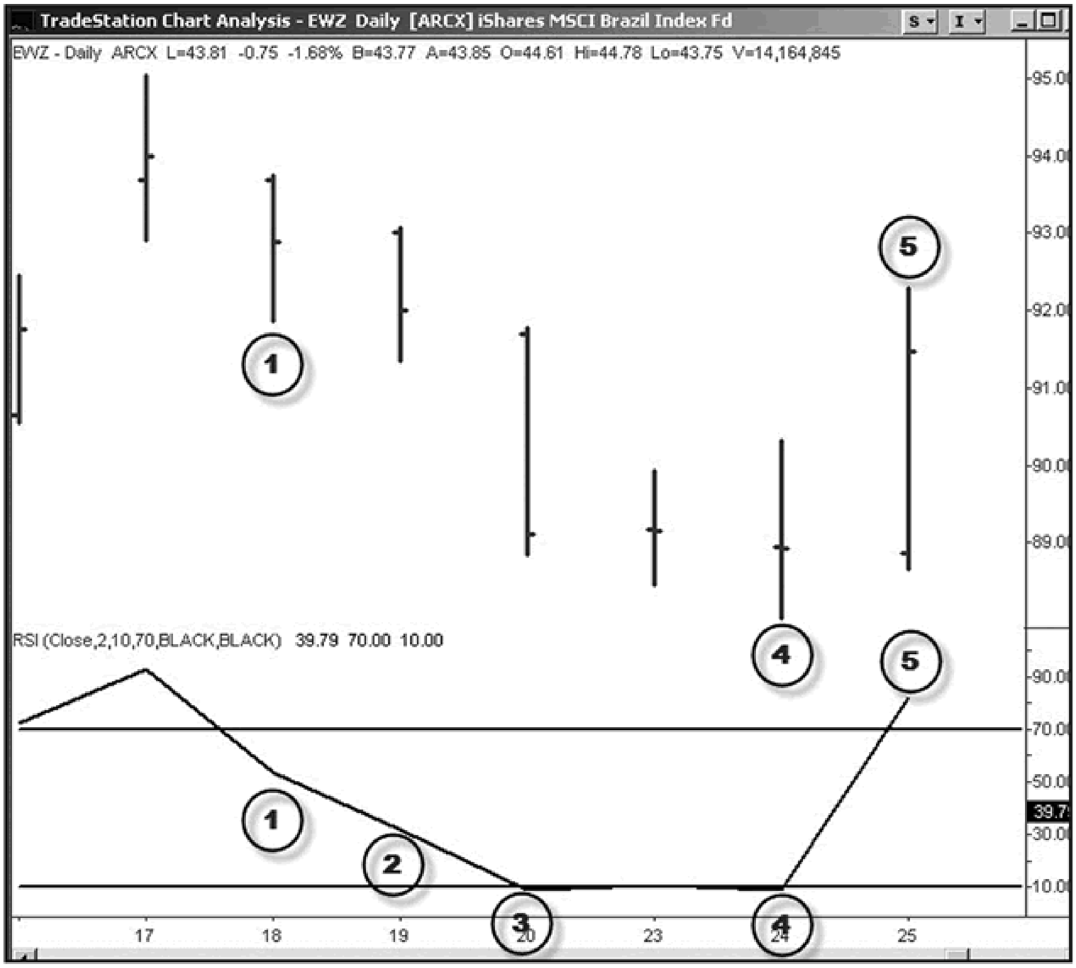


*Chart created on TradeStation®, the flagship product of TradeStation Technologies, Inc*

**1.** EWZ has its first day of its 2-period RSI dropping under 60.

**2.** A second day drop in the 2-period RSI.

**3.** The 2-period RSI drops for a third day in a row and is under 10. Buy on the close.

**4.** Prices close lower than the entry from two trading days ago. Buy a second position.

**5.** EWZ rallies and the 2-period RSI closes above 70. Lock in your gains on the close.

For R3 shorts, the rules are as follows:

1. The ETF is below the 200-day MA.
2. The 2-period RSI rises three days in a row and the first day's rise is from above 40 (the examples will make this clearer).
3. The 2-period RSI closes above 90 today. Sell Short.
4. **Aggressive Version –** Short a second unit if prices close higher than your initial entry price anytime you're in the position.
5. Exit when the 2-period RSI closes below 30.

On the following page are the test results.

Table 4.3. R3 Basic Version Short Results from ETF Inception to 12/31/08

| ETF | Trades | Average % P/L | Avg. Trading Days Held | % Winners |
|---|---|---|---|---|
| DIA | 22 | 1.16% | 4.8 | 77.3% |
| EEM | 3 | -0.62% | 7.0 | 0.0% |
| EFA | 13 | 2.05% | 3.8 | 76.9% |
| EWH | 24 | -0.09% | 6.3 | 75.0% |
| EWJ | 40 | 0.90% | 5.0 | 72.5% |
| EWT | 16 | 0.47% | 6.2 | 68.8% |
| EWZ | 20 | 1.61% | 5.4 | 70.0% |
| FXI | 3 | 1.81% | 2.0 | 100.0% |
| GLD | 5 | 1.38% | 5.0 | 60.0% |
| ILF | 3 | 3.24% | 4.3 | 66.7% |
| IWM | 22 | 1.58% | 4.9 | 81.8% |
| IYR | 14 | 2.84% | 4.5 | 78.6% |
| QQQQ | 26 | -0.24% | 6.2 | 57.7% |
| **SPY** | **34** | **1.13%** | **5.2** | **70.6%** |
| XHB | 9 | 4.46% | 4.4 | 88.9% |
| XLB | 17 | 0.79% | 6.1 | 76.5% |
| XLE | 20 | 2.12% | 5.1 | 65.0% |
| XLF | 22 | 1.65% | 4.7 | 63.6% |
| XLI | 24 | 1.36% | 4.2 | 83.3% |
| XLV | 24 | -0.05% | 6.4 | 45.8% |

**Table 4.4. R3 Aggressive Version Short Results from ETF Inception to 12/31/08**

| ETF | Trades | Average % P/L | Avg. Trading Days Held | % Winners |
|---|---|---|---|---|
| DIA | 22 | 1.42% | 4.8 | 77.3% |
| EEM | 3 | -0.33% | 7.0 | 33.3% |
| EFA | 13 | 2.23% | 3.8 | 84.6% |
| EWH | 24 | 0.49% | 6.3 | 83.3% |
| EWJ | 40 | 1.25% | 5.0 | 77.5% |
| EWT | 16 | 0.76% | 6.2 | 75.0% |
| EWZ | 20 | 2.34% | 5.4 | 70.0% |
| FXI | 3 | 2.11% | 2.0 | 100.0% |
| GLD | 5 | 1.59% | 5.0 | 60.0% |
| ILF | 3 | 3.57% | 4.3 | 66.7% |
| IWM | 22 | 1.84% | 4.9 | 86.4% |
| IYR | 14 | 3.07% | 4.5 | 78.6% |
| QQQQ | 26 | 0.61% | 6.2 | 65.4% |
| **SPY** | **34** | **1.31%** | **5.2** | **76.5%** |
| XHB | 9 | 5.37% | 4.4 | 88.9% |
| XLB | 17 | 1.04% | 6.1 | 76.5% |
| XLE | 20 | 2.52% | 5.1 | 70.0% |
| XLF | 22 | 2.28% | 4.7 | 68.2% |
| XLI | 24 | 1.69% | 4.2 | 83.3% |
| XLV | 24 | 0.55% | 6.4 | 66.7% |
| Grand | | | | |

Let's look at an example of the basic version.

**Example 4.3 – DIA Basic Version**

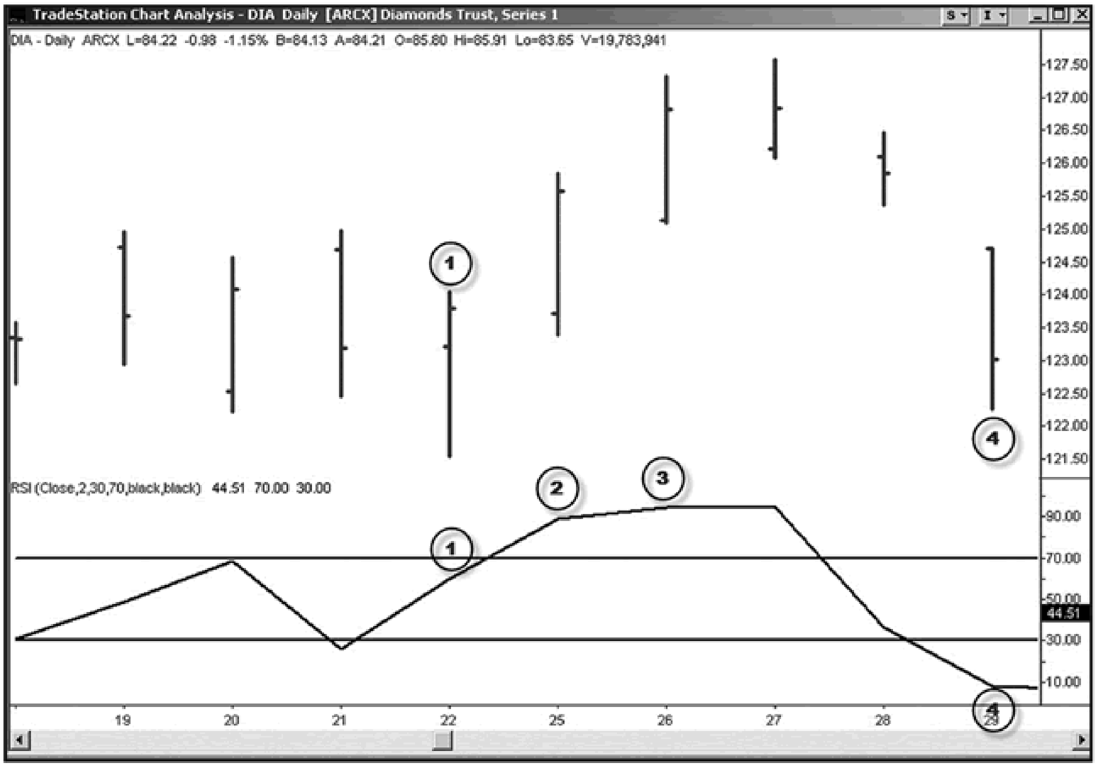


*Chart created on TradeStation®, the flagship product of TradeStation Technologies, Inc*

**1.** The 2-period RSI on DIA closes above 40 and is higher than the previous day.

**2.** The RSI closes higher for a second consecutive day.

**3.** The 2-period RSI closes higher for the third consecutive day – sell short.

**4.** DIA sells off sharply – lock in your gains.

And here is an example of the aggressive version.

**Example 4.4 – DIA Aggressive Version**

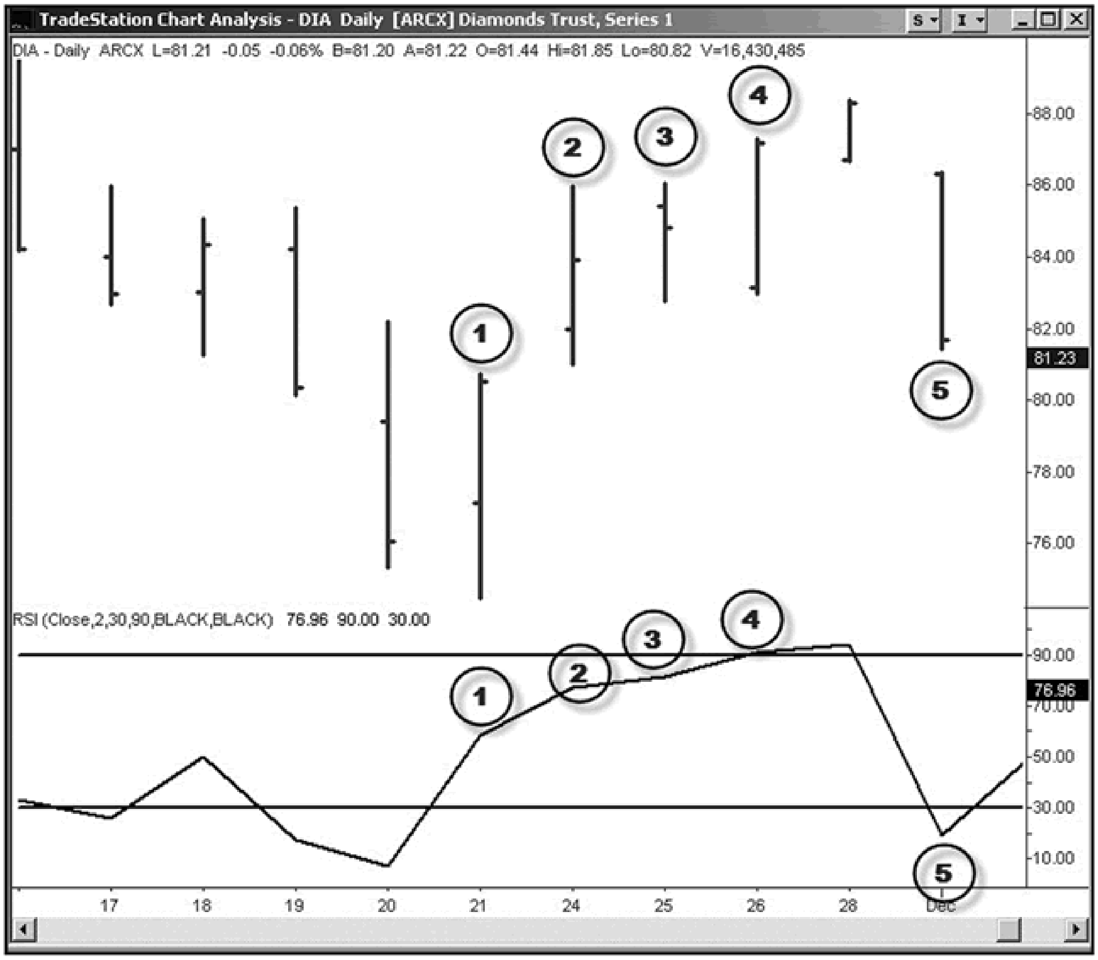


*Chart created on TradeStation®, the flagship product of TradeStation Technologies, Inc.*

**1.** DIA is below its 200-day MA (not shown) and the 2-period RSI has its first up move which closes above 40.

**2.** The second up move for the 2-period RSI.

**3.** The 2-period RSI rises again and we sell short.

**4.** Prices move even higher and the market becomes <u>even more overbought</u>. Short a second position.

**5.** The Dow has a large decline and DIA loses over 7% of its value. Lock in your gains as the 2-period RSI closes under 30.

## Summary

The R3 Strategy gives you one of many ways to use the 2-period RSI to your advantage. With historical results above 70% correct on the short side and 80% correct on the long side, it does a very good job of pinpointing the ETFs that are at extreme short-term levels and likely to reverse in the near future.

Now let's move to our next high probability strategy.

# CHAPTER 5

# The %b Strategy

Many years ago, John Bollinger created what is now one of the most popular indicators for traders known as Bollinger Bands. Traders throughout the world apply Bollinger Bands to their trading using them many different ways and John has deservingly received tremendous respect and admiration for this great creation.

One of the components within the Bollinger Bands algorithm is known as %b. Without going too deeply here into the algorithm, the %b basically measures how overbought or oversold a security is. The higher the %b reading, the more likely that the market has moved higher. The lower the %b reading, the more likely the market's trend has been lower. **Traders ideally want to buy low %b readings and sell higher %b readings**.

Using this knowledge, we created a strategy in 2004 to trade the SPYs and Q's. The strategy has continued to perform very well over the years since it was first published. It's now applicable to most major ETFs and has been correct over 70% of the time in predicting the direction of the majority of actively traded ETFs.

Here are the rules behind the %b Strategy:

1. The ETF must be above its 200-day MA.
2. The %b must close under 0.2 for 3 days in a row. If this occurs buy the ETF on the close.
3. **Aggressive Version** – Any additional day while you're in the position, if the %b of the ETF closes again below 0.2 buy a second unit on the close.
4. Exit when the %b closes above 0.8.

Let's look at the test results.

**Table 5.1. %b Strategy Basic Version Long Results From ETF Inception to 12/31/08**

| ETF | Trades | Average % P/L | Avg. Trading Days Held | % Winners |
|---|---|---|---|---|
| DIA | 67 | 0.44% | 4.4 | 74.6% |
| EEM | 28 | 0.77% | 5.0 | 82.1% |
| EFA | 44 | 0.61% | 4.0 | 84.1% |
| EWH | 66 | 0.68% | 4.7 | 68.2% |
| EWJ | 63 | 0.47% | 3.8 | 73.0% |
| EWT | 42 | 0.72% | 4.3 | 81.0% |
| EWZ | 51 | 1.92% | 3.7 | 74.5% |
| FXI | 19 | 1.74% | 4.8 | 73.7% |
| GLD | 27 | 0.18% | 4.9 | 74.1% |
| ILF | 40 | 1.20% | 4.1 | 82.5% |
| IWM | 50 | 0.76% | 4.1 | 74.0% |
| IYR | 49 | 0.18% | 4.3 | 77.6% |
| QQQQ | 56 | 0.79% | 4.0 | 71.4% |
| **SPY** | **111** | **0.79%** | **3.9** | **82.0%** |
| XHB | 7 | 0.66% | 3.6 | 85.7% |
| XLB | 54 | 0.20% | 4.4 | 70.4% |
| XLE | 66 | 1.35% | 3.7 | 87.9% |
| XLF | 52 | 0.37% | 4.3 | 76.9% |
| XLI | 57 | 0.25% | 4.7 | 70.2% |
| XLV | 65 | 0.50% | 4.2 | 73.8% |
| Grand | | | | |

**Table 5.2. %b Strategy Aggressive Version Long Results From ETF Inception to 12/31/08**

| ETF | Trades | Average % P/L | Avg. Trading Days Held | % Winners |
|---|---|---|---|---|
| DIA | 67 | 0.59% | 4.4 | 77.6% |
| EEM | 28 | 0.95% | 5.0 | 85.7% |
| EFA | 44 | 0.82% | 4.0 | 86.4% |
| EWH | 66 | 0.90% | 4.7 | 69.7% |
| EWJ | 63 | 0.76% | 3.8 | 81.0% |
| EWT | 42 | 0.98% | 4.3 | 81.0% |
| EWZ | 51 | 2.17% | 3.7 | 88.2% |
| FXI | 19 | 1.92% | 4.8 | 73.7% |
| GLD | 27 | 0.23% | 4.9 | 77.8% |
| ILF | 40 | 1.45% | 4.1 | 85.0% |
| IWM | 50 | 0.86% | 4.1 | 72.0% |
| IYR | 49 | 0.36% | 4.3 | 79.6% |
| QQQQ | 56 | 1.05% | 4.0 | 75.0% |
| **SPY** | **111** | **0.95%** | **3.9** | **85.6%** |
| XHB | 7 | 0.91% | 3.6 | 85.7% |
| XLB | 54 | 0.47% | 4.4 | 77.8% |
| XLE | 66 | 1.59% | 3.7 | 93.9% |
| XLF | 52 | 0.61% | 4.3 | 82.7% |
| XLI | 57 | 0.47% | 4.7 | 73.7% |
| XLV | 65 | 0.68% | 4.2 | 80.0% |
| [illegible] | | | | |

These **4 simple rules** have correctly predicted the direction of the ETFs we tested over 75% of the time in the basic version and over 80% of the time with the aggressive version. In the SPYs, it's been correct over 85% of the time in the aggressive version. And on the Energy ETF (XLE), it's been correct 93.9% of the time!

Here is an example of a basic %b trade.

**Example 5.1 – GLD Basic Version**

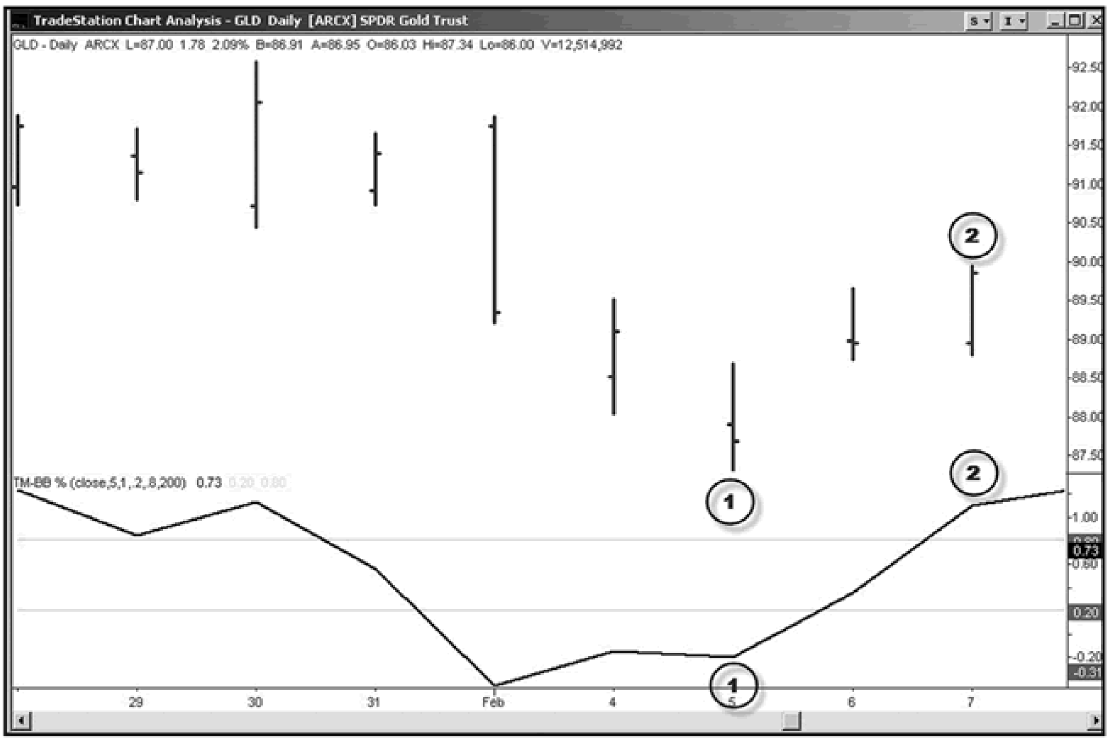


*Chart created on TradeStation®, the flagship product of TradeStation Technologies, Inc.*

**1.** GLD is above its 200-day MA (not shown). And today is its third trading day in a row with its %b reading under 0.20. Buy.

**2.** Two trading days later GLD rallies higher and the %b reading closes above 0.80. Lock in your gains.

Let's look at an example in ILF with the aggressive version.

**Example 5.2 – ILF Aggressive Version**

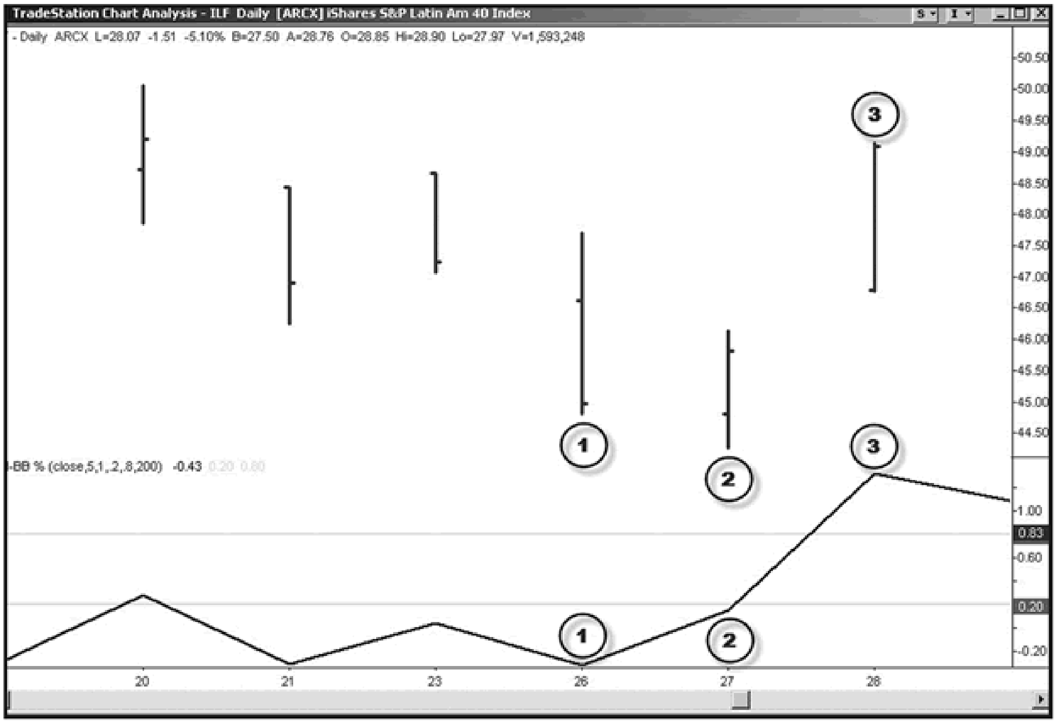


*Chart created on TradeStation®, the flagship product of TradeStation Technologies, Inc.*

**1.** ILF is above its 200-day MA (not shown). The %b reading is under 0.20 for three consecutive days. Buy.

**2.** Even though ILF rises for the day, the %b is again under 0.20 for another day. Buy a second unit on the close.

**3.** A sharp rally in ILF as the oversold condition attracts heavy buying. The %b rises above 0.80 on the rally and you exit profitably on the close.

Now let's look at the %b on the short side. Here are the rules.

**1.** The ETF closes below its 200-day MA.

**2.** The %b closes above 0.80 for 3 days in a row.

**3.** Short on the close.

**4. Aggressive Version** – If the %b is above 0.80 any additional day you are in the position, short another unit on the close.

**5.** Cover your short when the %b closes under 0.20.

Let's look at the results.

**Table 5.3. %b Strategy Basic Version Short Results from ETF Inception to 12/31/08**

| ETF | Trades | Average % P/L | Avg. Trading Days Held | % Winners |
|---|---|---|---|---|
| DIA | 36 | 0.35% | 4.6 | 63.9% |
| EEM | 10 | 0.90% | 7.0 | 60.0% |
| EFA | 20 | 0.88% | 4.0 | 60.0% |
| EWH | 46 | 0.39% | 4.3 | 67.4% |
| EWJ | 67 | 0.60% | 4.5 | 70.1% |
| EWT | 33 | 0.63% | 5.2 | 72.7% |
| EWZ | 24 | 1.50% | 4.5 | 66.7% |
| FXI | 9 | 0.13% | 3.7 | 66.7% |
| GLD | 7 | 1.34% | 5.9 | 57.1% |
| ILF | 6 | 3.84% | 3.7 | 100.0% |
| IWM | 36 | 1.06% | 4.2 | 72.2% |
| IYR | 25 | 1.61% | 5.0 | 72.0% |
| QQQQ | 48 | 1.21% | 4.5 | 70.8% |
| **SPY** | **48** | **0.74%** | **4.1** | **77.1%** |
| XHB | 15 | 4.63% | 3.1 | 93.3% |
| XLB | 33 | 0.91% | 4.2 | 66.7% |
| XLE | 34 | 1.38% | 4.0 | 73.5% |
| XLF | 42 | 1.07% | 4.0 | 69.0% |
| XLI | 37 | 0.78% | 4.7 | 75.7% |
| XLV | 30 | -0.18% | 5.6 | 56.7% |
| **Grand** | | | | |

**Table 5.4. %b Strategy Aggressive Version Short Results from ETF Inception to 12/31/08**

| ETF | Trades | Average % P/L | Avg. Trading Days Held | % Winners |
|---|---|---|---|---|
| DIA | 36 | 0.62% | 4.6 | 72.2% |
| EEM | 10 | 1.31% | 7.0 | 60.0% |
| EFA | 20 | 1.14% | 4.0 | 75.0% |
| EWH | 46 | 0.98% | 4.3 | 78.3% |
| EWJ | 67 | 1.00% | 4.5 | 73.1% |
| EWT | 33 | 1.08% | 5.2 | 72.7% |
| EWZ | 24 | 1.79% | 4.5 | 70.8% |
| FXI | 9 | 2.11% | 3.7 | 77.8% |
| GLD | 7 | 1.21% | 5.9 | 57.1% |
| ILF | 6 | 3.75% | 3.7 | 100.0% |
| IWM | 36 | 1.28% | 4.2 | 75.0% |
| IYR | 25 | 1.92% | 5.0 | 72.0% |
| QQQQ | 48 | 1.79% | 4.5 | 75.0% |
| **SPY** | **48** | **0.98%** | **4.1** | **79.2%** |
| XHB | 15 | 4.75% | 3.1 | 93.3% |
| XLB | 33 | 1.17% | 4.2 | 75.8% |
| XLE | 34 | 1.57% | 4.0 | 79.4% |
| XLF | 42 | 1.84% | 4.0 | 78.6% |
| XLI | 37 | 1.10% | 4.7 | 81.1% |
| XLV | 30 | 0.14% | 5.6 | 63.3% |
| **Grand Total** | **606** | **1.34%** | **4.5** | **75.4%** |

Here is an example of the basic version on the short side.

**Example 5.3 – XLB Basic Version**

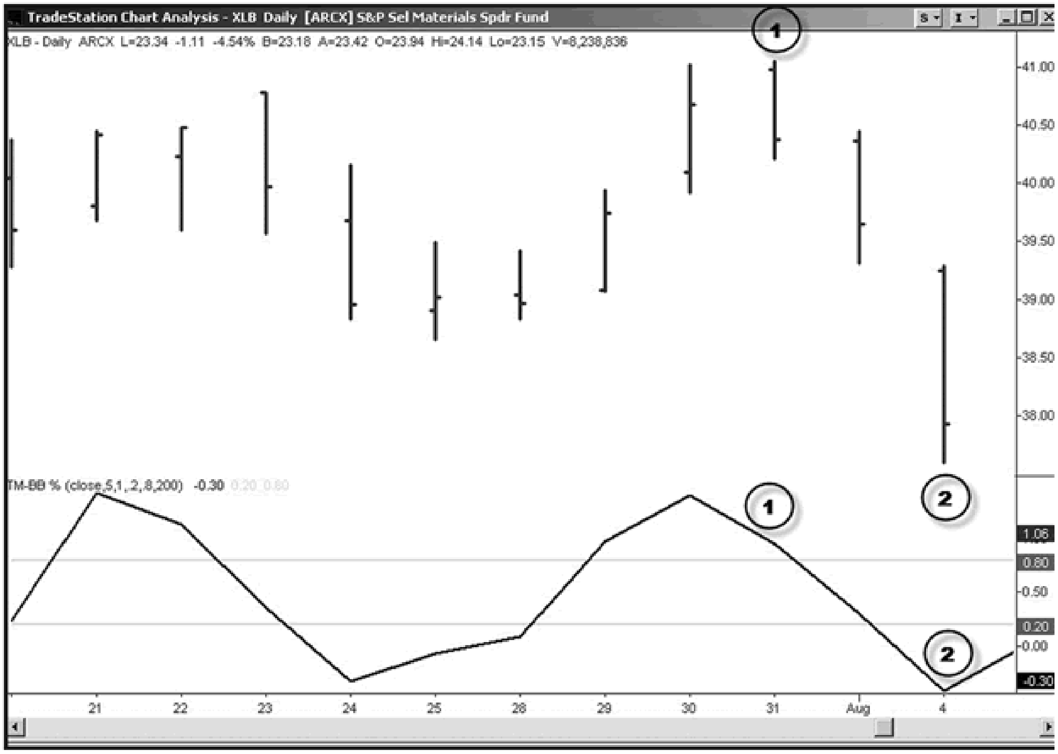


*Chart created on TradeStation®, the flagship product of TradeStation Technologies, Inc*

**1.** XLB is below its 200-day MA (not shown) and its %b is above 0.80 for three consecutive days. Sell short.

**2.** XLB sells off over the next two trading days and profits are locked in as an exit signal is triggered when the %b closes under 0.20.

Here is the aggressive version.

**Example 5.4 – XHB Aggressive Version**

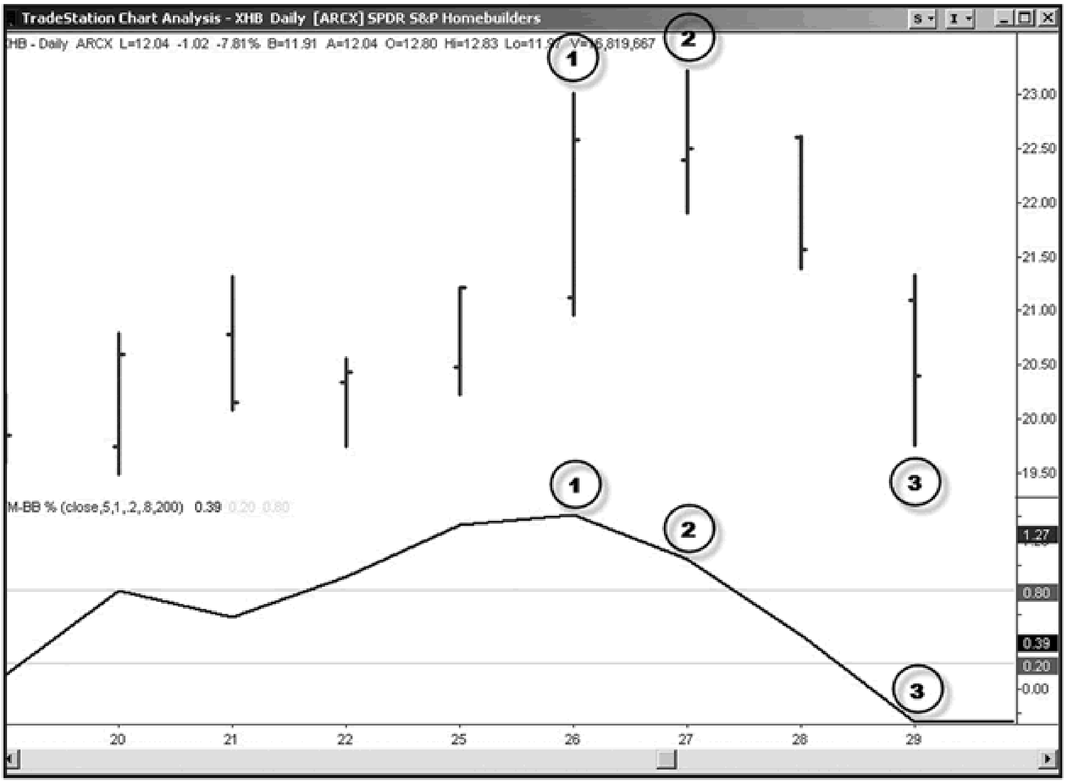


*Chart created on TradeStation®, the flagship product of TradeStation Technologies, Inc.*

**1.** XHB is below its 200-day MA (not shown) and has three consecutive days where its %b reading is above 0.80. Sell short.

**2.** While still in the position, the %b has another reading above 0.80. Sell short another unit.

**3.** XHB loses almost 10% of its value as the overbought condition leads to a healthy sell-off. The %b closes under 0.20 and your gains are locked-in at the close.

Over 70% of the signals on the short side have been profitable during the entire testing period. On the aggressive version 75.4% of the signals have been successful. The average gain per trade has been 1.34% per trade for under a week hold (wouldn't it be nice if you could make 1.34% per week in all your investments!).

## Summary

As you can see, the %b strategy has done a very good job of identifying ETFs which have pulled back and are due to rally, and ETFs which have been overbought and then proceeded to sell-off. Along with being correct so often, it's also done a good job of quickly getting out of a trade as the average holding period has been approximately 5 trading days.

Also, every ETF tested on the long side was profitable since each began trading (meaning since they were taken public) up through the end of 2008.

Now let's move to the next high probability ETF strategy.

# CHAPTER 6

# Multiple Days Up (MDU) and Multiple Days Down Strategy (MDD)

We'll now learn a very simple strategy which has been net profitable in the majority of the ETFs since each ETF was launched. The strategy is called the **Multiple Up Days and Multiple Down Days Strategy**.

As we discussed earlier, regular plain vanilla ETFs rarely (if ever) go to zero. The Multiple Down Days and Multiple Up Days Strategy looks to buy ETFs which are trading above their 200-day simple moving average and have dropped multiple days in a row, or a number of days within a certain time period. What that means is we want the ETF to drop at least 4 out of the past 5 days. If we get that, we know we have an oversold ETF and one that has historically risen from that point over the next week or so.

For the short side we want the reverse to occur; we want the ETF to rise multiple days when it's below its 200-day MA. This tells us the ETF is overbought.

Here are the rules on the long side:

1. An ETF is trading above its 200-day moving average.
2. The ETF closes below its 5-period moving average on the entry day.
3. The ETF must drop 4 out of the past 5 days. This means closing prices were lower than the day before for 4 out of the past 5 days. If this happens we buy the ETF on the close today.
4. **Aggressive Version –** Buy a second unit if prices close lower than your initial entry price anytime you're in the position.
5. Our exit is on the close when the ETF closes above its 5-period simple moving average.

Let's look at the results on our universe of ETFs first on the basic version (with no scale-in) and then on the aggressive version (with the scale-in).

**Table 6.1. MDD Basic Version Long Results from ETF Inception to 12/31/08**

| ETF | Trades | Average % P/L | Avg. Trading Days Held | % Winners |
|---|---|---|---|---|
| DIA | 64 | 0.17% | 3.5 | 67.2% |
| EEM | 39 | 0.85% | 3.1 | 82.1% |
| EFA | 50 | 0.73% | 2.9 | 88.0% |
| EWH | 63 | 0.62% | 3.8 | 71.4% |
| EWJ | 59 | 0.56% | 3.2 | 76.3% |
| EWT | 46 | 0.02% | 4.2 | 56.5% |
| EWZ | 47 | 1.45% | 2.9 | 78.7% |
| FXI | 25 | 0.88% | 3.1 | 72.0% |
| GLD | 29 | **-0.00%** | 3.8 | 72.4% |
| ILF | 47 | 1.04% | 2.7 | 80.9% |
| IWM | 53 | 0.44% | 3.5 | 71.7% |
| IYR | 54 | **-0.17%** | 3.4 | 74.1% |
| QQQQ | 52 | 0.76% | 3.2 | 69.2% |
| **SPY** | **110** | **0.50%** | **3.3** | **74.5%** |
| XHB | 7 | 0.48% | 3.6 | 85.7% |
| XLB | 64 | 0.33% | 3.5 | 71.9% |
| XLE | 74 | 0.92% | 3.1 | 81.1% |
| XLF | 60 | 0.11% | 3.6 | 60.0% |
| XLI | 56 | 0.30% | 3.3 | 71.4% |
| XLV | 72 | 0.31% | 3.5 | 76.4% |
| **Grand Total** | **1,071** | **0.50%** | **3.3** | **73.6%** |

**Table 6.2. MDD Aggressive Version Long Results from ETF Inception to 12/31/08**

| ETF | Trades | Average % P/L | Avg. Trading Days Held | % Winners |
|---|---|---|---|---|
| DIA | 64 | 0.41% | 3.5 | 75.0% |
| EEM | 39 | 1.12% | 3.1 | 87.2% |
| EFA | 50 | 0.91% | 2.9 | 92.0% |
| EWH | 63 | 0.94% | 3.8 | 76.2% |
| EWJ | 59 | 0.84% | 3.2 | 84.7% |
| EWT | 46 | 0.51% | 4.2 | 67.4% |
| EWZ | 47 | 2.03% | 2.9 | 85.1% |
| FXI | 25 | 1.17% | 3.1 | 72.0% |
| GLD | 29 | 0.34% | 3.8 | 75.9% |
| ILF | 47 | 1.48% | 2.7 | 85.1% |
| IWM | 53 | 0.73% | 3.5 | 77.4% |
| IYR | 54 | 0.10% | 3.4 | 74.1% |
| QQQQ | 52 | 1.23% | 3.2 | 80.8% |
| **SPY** | **110** | **0.78%** | **3.3** | **85.5%** |
| XHB | 7 | 0.96% | 3.6 | 85.7% |
| XLB | 64 | 0.63% | 3.5 | 76.6% |
| XLE | 74 | 1.20% | 3.1 | 86.5% |
| XLF | 60 | 0.38% | 3.6 | 71.7% |
| XLI | 56 | 0.55% | 3.3 | 78.6% |
| XLV | 72 | 0.54% | 3.5 | 83.3% |
| **Grand Total** | **1,071** | **0.82%** | **3.3** | **80.3%** |

These results are very consistent, especially for such a simple strategy. All 20 of the ETFs have been profitable, since they've been public, using the aggressive version. What is also very good is that with the aggressive version, 4 out of every 5 signals have been profitable with an average holding period of less than 4 days. This is the type of high probability set-up you want to see in your ETF trading.

You can also trade variations of this strategy. This means 4 (or 5) out of six days being lower also shows excellent test results. The concept is the same and the results on a net basis remain positive in the testing.

Let's look at a basic example of the MDD Strategy.

**Example 6.1 – XLE Basic Version**

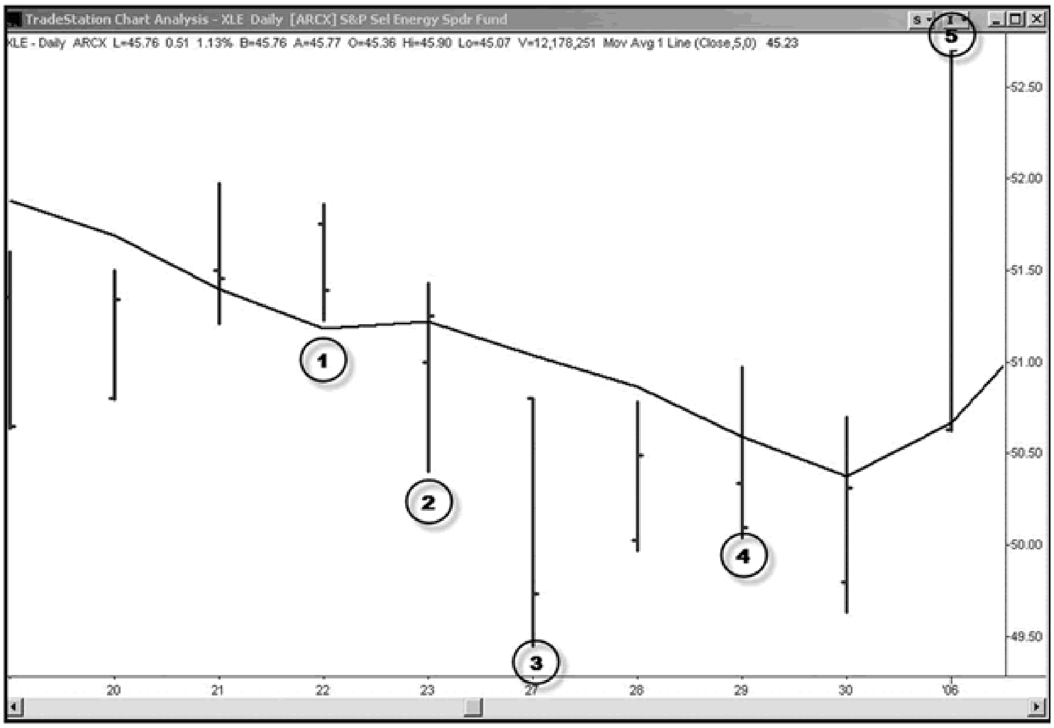


*Chart created on TradeStation®, the flagship product of TradeStation Technologies, Inc.*

**1.** XLE is above its 200-day (not shown) and the ETF closes lower than the previous day.

**2.** A second day of a lower close.

**3.** A third day of a lower close.

**4.** A fourth day of the past 5 days with a lower close than the previous day and we buy on the close.

**5.** XLE moves sharply higher closing above its 5-period MA. Lock in gains on the close.

Let's now look at an example with the aggressive version.

**Example 6.2 – EFA Agressive Version**

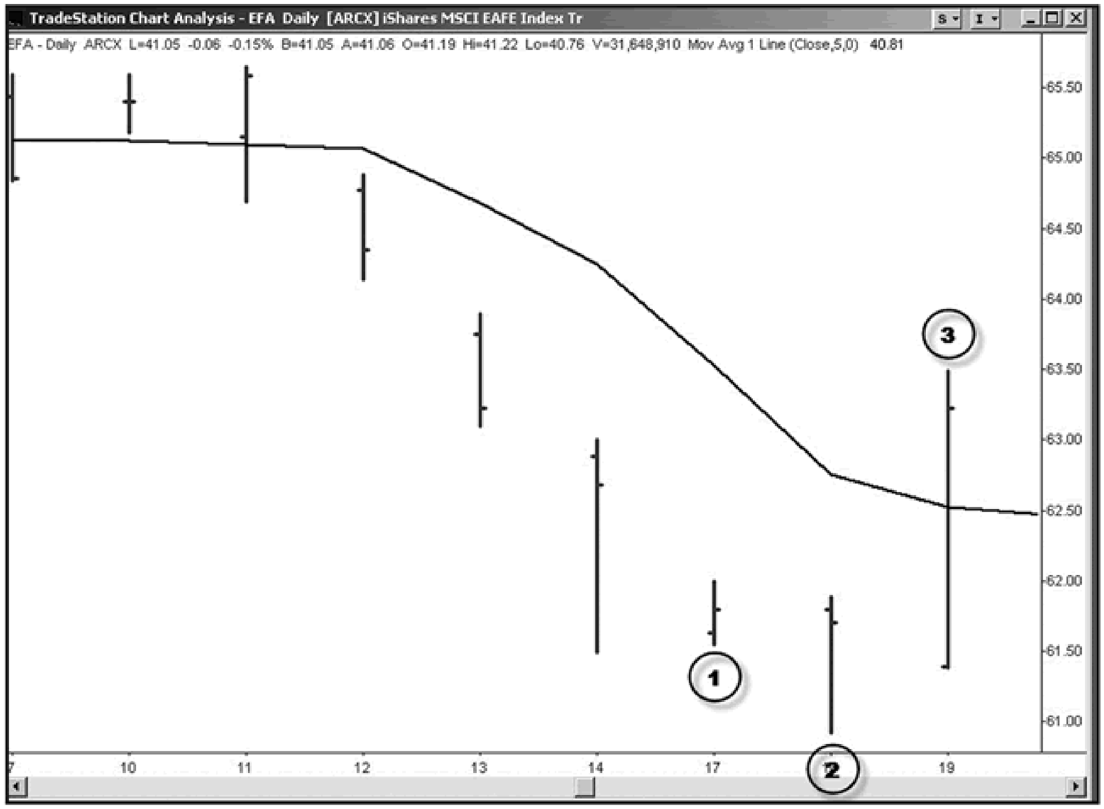


*Chart created on TradeStation®, the flagship product of TradeStation Technologies, Inc.*

**1.** EFA is above its 200-day MA (not shown) and has its fourth lower close in the past 5 days. Buy on the close.

**2.** The next day EFA closes even lower and using the aggressive version, you buy again on the close.

**3.** EFA rallies higher, crossing above the 5-period moving average and triggering an exit signal on the close.

Now let's look at this strategy on the short side.

**Multiple Days Up (MDU)**

The same concept can be applied to ETFs which are below their 200-day MA and have moved higher multiple days in a row. Let's look at the rules.

1. The ETF closes under its 200-day moving average.
2. The ETF closes higher four out of the past five days.
3. The ETF closes above its 5-period moving average.
4. **Aggressive Version –** Short a second unit if prices close higher than your initial entry price anytime you're in the position.
5. Exit when ETF closes under its 5-period MA.

Let's look at the results.

**Table 6.3. MDU Basic Version Short Results from ETF Inception to 12/31/08**

| ETF | Trades | Average % P/L | Avg. Trading Days Held | % Winners |
|---|---|---|---|---|
| DIA | 44 | 0.78% | 3.5 | 77.3% |
| EEM | 9 | 0.13% | 4.9 | 44.4% |
| EFA | 20 | 0.37% | 3.6 | 60.0% |
| EWH | 49 | 0.31% | 3.5 | 71.4% |
| EWJ | 56 | 0.21% | 3.9 | 69.6% |
| EWT | 42 | 1.12% | 3.4 | 76.2% |
| EWZ | 29 | 0.90% | 3.6 | 65.5% |
| FXI | 10 | 0.59% | 3.6 | 70.0% |
| GLD | 4 | **-0.69%** | 6.0 | 25.0% |
| ILF | 4 | 0.61% | 3.5 | 75.0% |
| IWM | 41 | 1.31% | 2.6 | 73.2% |
| IYR | 23 | 1.99% | 3.9 | 78.3% |
| QQQQ | 48 | 0.80% | 3.5 | 66.7% |
| **SPY** | **50** | **0.88%** | **3.5** | **80.0%** |
| XHB | 12 | 0.89% | 3.6 | 75.0% |
| XLB | 33 | 1.14% | 3.1 | 75.8% |
| XLE | 27 | 1.61% | 2.9 | 74.1% |
| XLF | 43 | 0.98% | 3.1 | 67.4% |
| XLI | 42 | 0.72% | 3.4 | 69.0% |
| XLV | 43 | 0.17% | 3.6 | 67.4% |
| **Grand Total** | **629** | **0.80%** | **3.4** | **71.1%** |

**Table 6.4. MDU Aggressive Version Short Results from ETF Inception to 12/31/08**

| ETF | Trades | Average % P/L | Avg. Trading Days Held | % Winners |
|---|---|---|---|---|
| DIA | 44 | 1.01% | 3.5 | 84.1% |
| EEM | 9 | 0.69% | 4.9 | 55.6% |
| EFA | 20 | 0.71% | 3.6 | 65.0% |
| EWH | 49 | 0.88% | 3.5 | 75.5% |
| EWJ | 56 | 0.61% | 3.9 | 71.4% |
| EWT | 42 | 1.41% | 3.4 | 81.0% |
| EWZ | 29 | 1.58% | 3.6 | 65.5% |
| FXI | 10 | 1.32% | 3.6 | 70.0% |
| GLD | 4 | -0.15% | 6.0 | 25.0% |
| ILF | 4 | 1.90% | 3.5 | 75.0% |
| IWM | 41 | 1.58% | 2.6 | 85.4% |
| IYR | 23 | 2.47% | 3.9 | 82.6% |
| QQQQ | 48 | 1.37% | 3.5 | 72.9% |
| **SPY** | **50** | **1.13%** | **3.5** | **80.0%** |
| XHB | 12 | 1.96% | 3.6 | 83.3% |
| XLB | 33 | 1.43% | 3.1 | 81.8% |
| XLE | 27 | 1.94% | 2.9 | 77.8% |
| XLF | 43 | 2.09% | 3.1 | 83.7% |
| XLI | 42 | 1.01% | 3.4 | 78.6% |
| XLV | 43 | 0.49% | 3.6 | 76.7% |
| **Grand Total** | **629** | **1.25%** | **3.4** | **77.1%** |

What we see is that the Multiple Days Up Strategy has correctly predicted the direction of the basket of ETFs on the short side over 70% of the time on the basic version and 77.1% on the aggressive version – holding the position an average of under four trading days.

Let's now look at two examples on the short side.

### Example 6.3 – DIA Basic Version

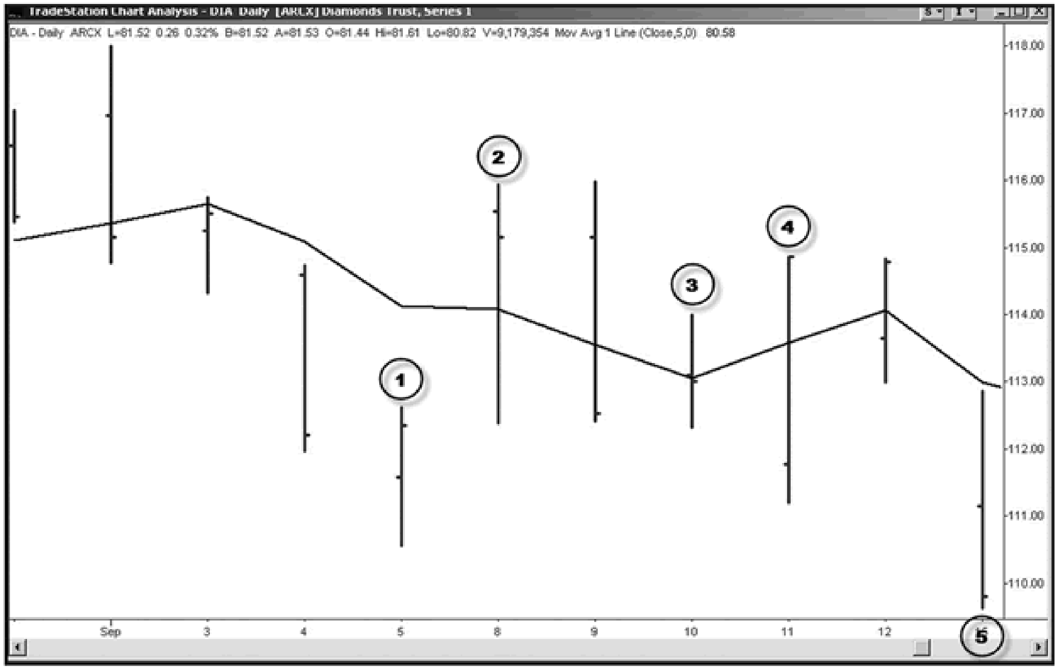


*Chart created on TradeStation®, the flagship product of TradeStation Technologies, Inc.*

**1.** The Diamonds (DIA) are trading under their 200-day MA (not shown) and close higher for the day.

**2.** They close higher a second day in a row.

**3.** They close higher than the previous day again making this 3 of the past 4 days with higher closes versus the previous day's close.

**4.** Another higher close making 4 of the past 5 days closing higher than the previous day's close. Sell short on the close.

**5.** DIA sells-off almost 5% from our short entry and finishes the day under the 5-day MA triggering an exit on the close.

## Example 6.4 – GLD Aggressive Version

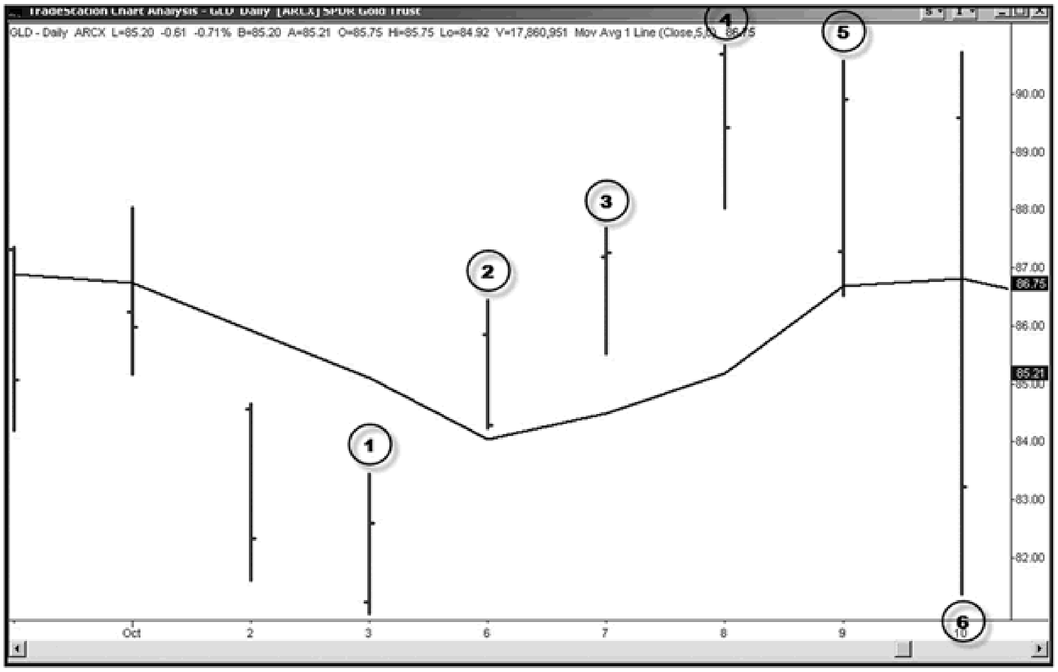

*Chart created on TradeStation®, the flagship product of TradeStation Technologies, Inc.*

**1.** The SPDR Gold Trust (GLD) is below its 200-day MA (not shown) and rises for the day.

**2.** A second day up.

**3.** A third day up.

**4.** GLD closes higher for the fourth day in a row. This satisfies our rule of 4 higher closes out of the past 5 trading days. Sell short on the close.

**5.** Another higher close, we short a second position as the ETF is very overbought.

**6.** GLD loses over 7% of its value the next trading day closing under the 5-day MA. Lock in your profits on the close.

## Summary

What we really like about this strategy is it's so simple yet historically it's been so effective. You don't need expensive software, and non-quantified analysis to find ETFs with healthy historical edges. The MDD/MDU Strategy is a great example of this and as you can see, it is a solid strategy which has done very well for many years.

We'll now move to our next high probability ETF strategy.

# CHAPTER 7

# RSI 10/6 & RSI 90/94 Strategy

In this chapter we'll look at another high performing ETF strategy which is the RSI 10/6 and the RSI 90/94 Strategy.

What is a RSI 10/6? It's an extreme pullback on an ETF. All the strategies presented in this book look for ETFs to pullback and then snapback and the RSI 10/6 usually identifies larger pullbacks. The percentage of time it occurs is less often than some of our other strategies but the percentage correct is very good, especially in the SPY.

Let's look at the RSI 10/6 rules and then we'll look at its short side component, the RSI 90/94.

**Long Rules**

1. The ETF is trading above its 200-day moving average.
2. We buy when the 2-period RSI of the ETF goes under 10. This tells us the market has pulled back in an uptrend.
3. We buy a second unit if the ETF closes with an RSI reading under 6.
4. We exit our position on the close when the ETF closes above its 5-period moving average.

Let's look at the results and then we'll look at some examples.

**Table 7.1. RSI 10/6 Long Results from ETF Inception to 12/31/08**

| ETF | Trades | Average % P/L | Avg. Trading Days Held | % Winners |
|---|---|---|---|---|
| DIA | 63 | 0.49% | 3.8 | 76.2% |
| EEM | 35 | 0.79% | 4.0 | 82.9% |
| EFA | 41 | 0.68% | 3.6 | 82.9% |
| EWH | 76 | 1.21% | 3.9 | 77.6% |
| EWJ | 61 | 1.11% | 3.4 | 82.0% |
| EWT | 47 | 1.40% | 3.8 | 85.1% |
| EWZ | 58 | 1.77% | 3.5 | 77.6% |
| FXI | 20 | 1.21% | 4.2 | 80.0% |
| GLD | 26 | 0.49% | 4.6 | 73.1% |
| ILF | 53 | 1.93% | 3.0 | 88.7% |
| IWM | 58 | 0.98% | 3.6 | 86.2% |
| IYR | 50 | 0.05% | 4.0 | 74.0% |
| QQQQ | 56 | 1.13% | 3.8 | 80.4% |
| **SPY** | **117** | **1.04%** | **3.3** | **86.3%** |
| XHB | 6 | -0.61% | 5.5 | 66.7% |
| XLB | 62 | 0.28% | 4.1 | 74.2% |
| XLE | 68 | 1.25% | 3.8 | 85.3% |
| XLF | 53 | 0.53% | 4.3 | 77.4% |
| XLI | 58 | 0.61% | 3.6 | 82.8% |
| XLV | 67 | 0.53% | 3.9 | 80.6% |
| **Grand Total** | **1,075** | **0.93%** | **3.7** | **81.0%** |

As you can see, the majority of the set-ups in our universe of popular ETFs have been successful since they were launched. Many of the ETFs have been individually triggering RSI 10/6 signals about 6-8 times a year which give us ample opportunities to make money when we are trading a basket of 20 ETFs.

Now let's look at two examples of the RSI 10/6 so you can see what the set-up looks like.

**Example 7.1 - EWZ**

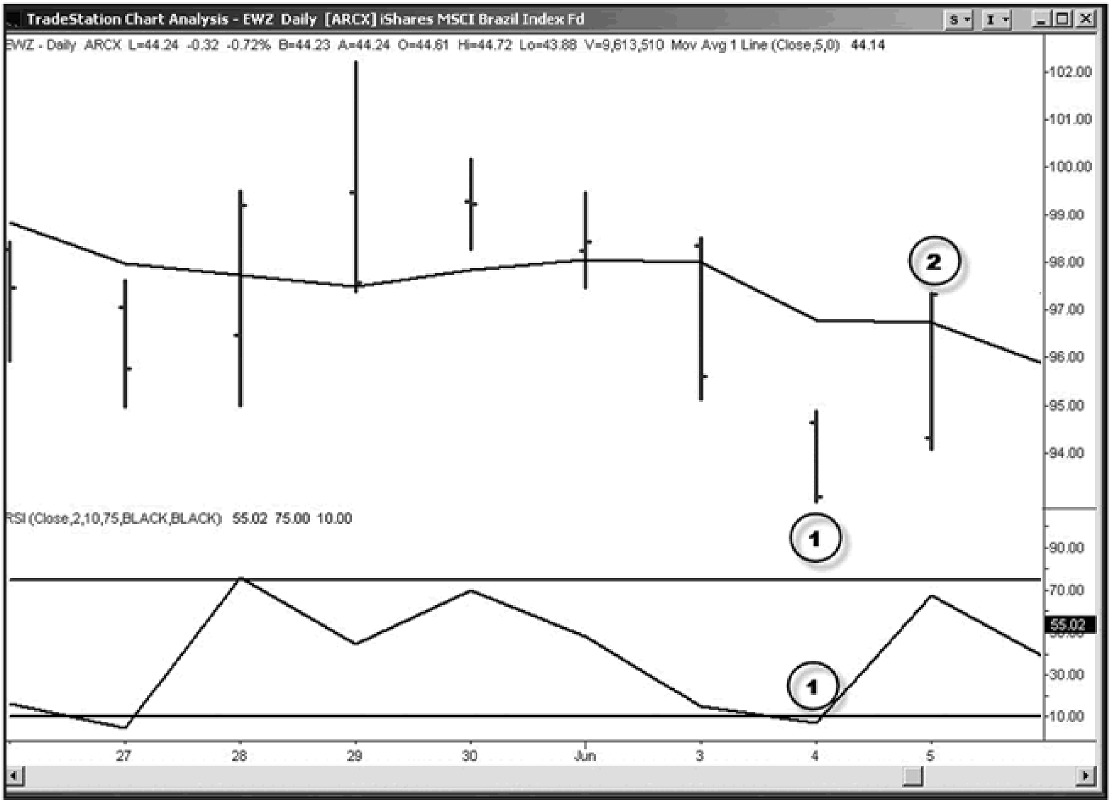


*Chart created on TradeStation®, the flagship product of TradeStation Technologies, Inc.*

**1.** The iShares Brazil ETF (EWZ) is above its 200-day (not shown) and has a 2-period RSI reading under 10. Buy on the close.

**2.** A quick rally higher the next day, closing above the 5-period MA and you'll lock in your gains on the close.

**Example 7.2 – FXI**

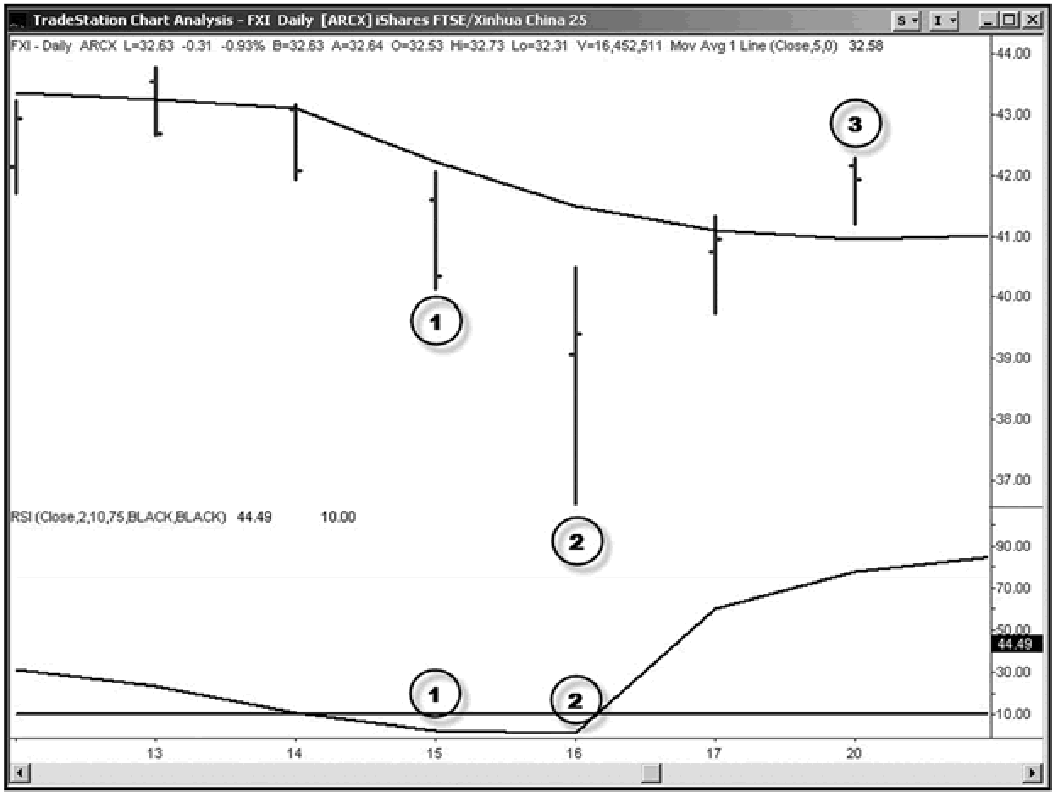


*Chart created on TradeStation®, the flagship product of TradeStation Technologies, Inc.*

**1.** FXI is above the 200-day and the 2-period RSI is below 10. Buy on the close.

**2.** The 2-period RSI drops under 6 and a second position is taken on the close.

**3.** FXI rallies over the next two days and closes above its 5-period MA. Lock in your gains on the close.

On the short side, the inverse of an RSI 10/6 is an RSI 90/94. Here are the rules:

1. The ETF closes under its 200-day MA.
2. The 2-period RSI closes above 90.
3. Short on the close.
4. If at anytime the 2-period RSI closes above 94, short another unit.
5. Exit when the ETF closes under its 5-period moving average.

Here are the results for this strategy.

**Table 7.2. RSI 90/94 Short Results from ETF Inception to 12/31/08**

| ETF | Trades | Average % P/L | Avg. Trading Days Held | % Winners |
|---|---|---|---|---|
| DIA | 34 | 1.08% | 3.7 | 79.4% |
| EEM | 5 | 2.00% | 4.4 | 40.0% |
| EFA | 19 | 1.64% | 3.2 | 78.9% |
| EWH | 37 | 1.09% | 4.2 | 73.0% |
| EWJ | 66 | 1.08% | 4.1 | 75.8% |
| EWT | 34 | 1.97% | 3.5 | 79.4% |
| EWZ | 27 | 2.40% | 3.4 | 77.8% |
| FXI | 7 | 2.73% | 2.6 | 85.7% |
| GLD | 7 | 0.48% | 5.1 | 57.1% |
| ILF | 5 | 5.55% | 3.0 | 80.0% |
| IWM | 30 | 1.31% | 3.5 | 70.0% |
| IYR | 23 | 3.16% | 4.0 | 82.6% |
| QQQQ | 35 | 1.24% | 4.6 | 68.6% |
| **SPY** | **47** | **1.30%** | **3.7** | **76.6%** |
| XHB | 14 | 3.62% | 3.3 | 85.7% |
| XLB | 36 | 1.21% | 4.3 | 72.2% |
| XLE | 29 | 1.64% | 3.8 | 79.3% |
| XLF | 37 | 2.39% | 3.7 | 81.1% |
| XLI | 38 | 1.31% | 3.4 | 86.8% |
| XLV | 36 | 0.38% | 4.0 | 63.9% |
| **Grand Total** | **566** | **1.56%** | **3.8** | **76.0%** |

As you can see, every ETF has shown a net profit on the short side using this strategy since they've gone public and the average gain per trade on the short side is also very strong.

Let's look at a few examples on the short side.

**Example 7.3 – IWM**

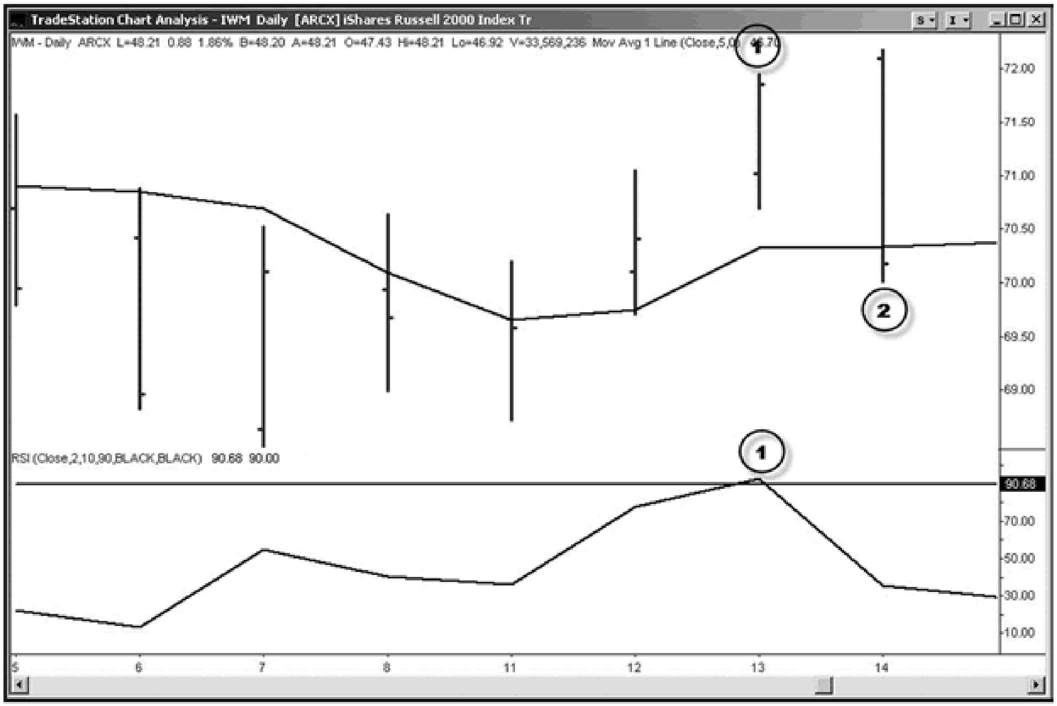


*Chart created on TradeStation®, the flagship product of TradeStation Technologies, Inc*

**1.** The iShares Russell 2000 Index (IWM) is trading below its 200-day MA (not shown) and has a closing 2-period RSI reading above 90. Short on the close.

**2.** IWM sells-off the next day closing under its 5-period MA. Lock in the gains on the close.

**Example 7.4 – EWJ**

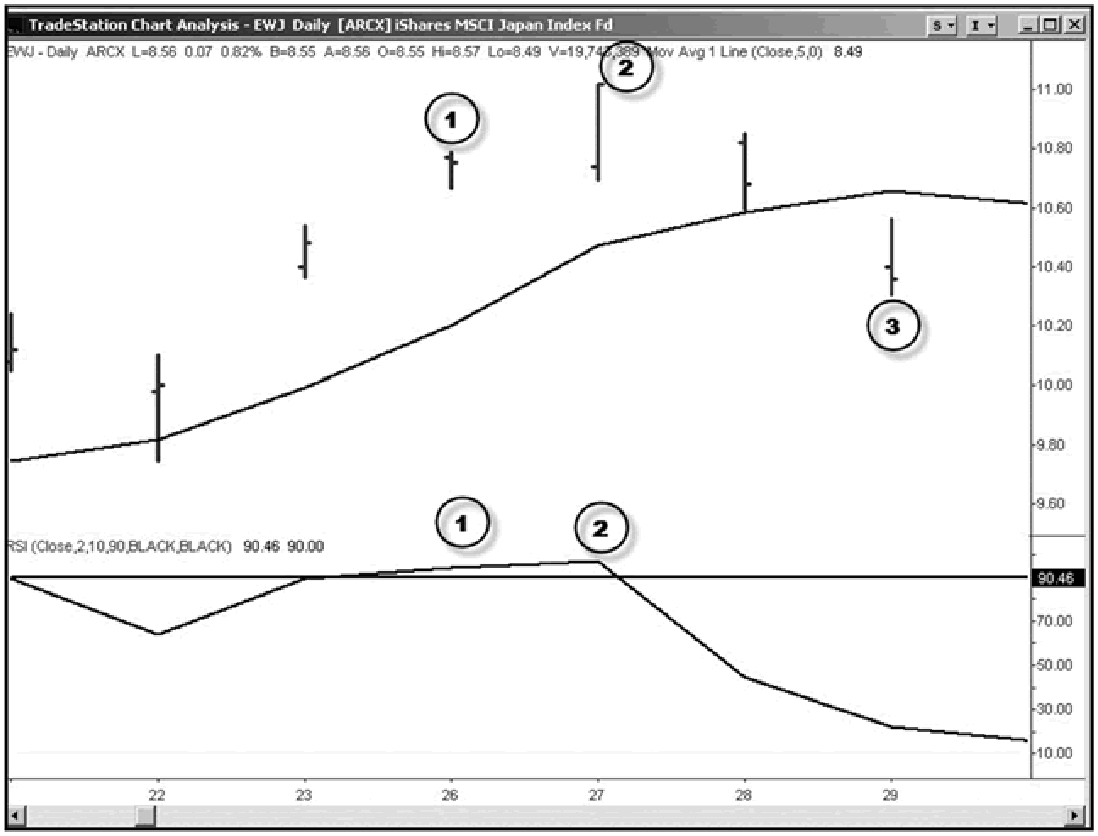


*Chart created on TradeStation®, the flagship product of TradeStation Technologies, Inc.*

**1.** The 2-period RSI for EWJ is above 90. Sell short.

**2.** EWJ rallies further taking the ETF to very overbought conditions with a 2-period RSI above 94. Sell short a second unit.

**3.** EWJ closes under its 5-period MA and you lock in the gains on the close.

## Summary

The RSI 10/6 & RSI 90/94 is an excellent strategy to trade ETFs with. Like all the high probability strategies in this book, these levels are not magic numbers (the research is very robust) and you can be flexible with your levels. You can pretty much apply any combination beginning at 10 or lower as the first entry and subtract 3, 4, or 5 from that number as your second entry level (meaning 10/7, 9/4, 5/2, etc) for ETFs. The same holds true on the short side.

Let's now move to an introduction to TPS, possibly the best ETF strategy we have created.

# CHAPTER 8

# An Introduction to TPS℠

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We're going to end this book with research and a strategy that is new and is the most powerful ETF strategy taught in this book. The strategy is called TPS℠.

What does TPS stand for?
T-Time
P-Price
S-Scale-in

What TPS does is combine time, price and scaling-in to give the highest percent correct on the ETFs of any strategy we've created or ever traded. It basically identifies when an ETF is overbought or oversold and then averages into the position as it becomes more overbought and more oversold.

Before we get to the rules, let us first give you some background

Since 2006, we've run a private research group called Chairman's Club, which is made up of high-end professional traders from around the world. The group includes people who run hedge funds, trade for hedge funds, run or trade for major proprietary trading firms and also successful individuals who manage their own money. These people pay a substantial membership fee (five figures) to join and renew annually. They are amongst the better and smarter traders in the world and it's an honor for us to have the opportunity to work with them each year.

TPS was first taught to the Chairman's Club members in 2008 and has since been expanded. As part of this expansion, full protection for the ETF positions and literally <u>tens of thousands of variations</u> of TPS have been published and presented to the Chairman's Club members. **To put this in perspective it would take thousands of pages (meaning an encyclopedia) for us to publish the complete TPS findings and the many ways to trade it.**

Therefore it's impossible for TPS to be published in its entirety in one chapter. But we felt it was important for you to see the concepts behind it and then you can decide whether or not you want to go further in trading, researching and/or learning more about TPS. In the past year, much of our ETF trading and research has been focused on TPS as we feel it provides the most flexibility of any strategy we've developed.

Here are the basic rules behind TPS. <u>Please remember again that there are literally thousands of variations which can be traded</u> with TPS.

Here are the TPS rules on the long side:

**1.** The ETF is above the 200-day.
**2.** The 2-period RSI is below 25 for two days in a row. Buy 10% of your position on the close.
**3.** If prices are lower on the close than your previous entry price, any day you're in the position, buy 20% more of your position (again you're **averaging in**).*
**4.** If prices are lower on the close than your previous entry price, any day you're in the position, buy 30% more of your position.*
**5.** If prices are lower on the close than your previous entry price, any day you're in the position, buy 40% more of your position.*. Using this 10%, 20%, 30%, 40% scaling-in approach (also known as 1-2-3-4) you now have a full position in a very oversold ETF.
**6.** Exit on the close when the 2-period RSI closes above 70.

Before we show you the test results let's look at what we've done on the long side (on the short side we do the exact opposite).

*Do not take a new position anytime the ETF closes under the 200-day MA.

1. We wait for an up-trending ETF (above the 200-day) to become oversold by waiting for the 2-period RSI to close under 25 for two consecutive days. We then dip our toes into the water by only buying 10%.
2. We then wait for the ETF to close lower and become more oversold another day and then commit only 20% more.
3. We then wait for the ETF to become even more oversold as prices drop further and then we commit 30% more.
4. We then wait for the ETF to become even more oversold another day and commit 40% more. This gets us to a full position.
5. We exit when our position (no matter if we have 10% or up to 100%) moves higher getting the 2-period RSI above 70.

Time, Price, and Scale-in is combined to get us in and out of the position.

The results? On the majority of all <u>equity ETFs</u> traded (through the end of 2008) you'll see results on the long side from as low as 80% correct all the way up to 95% correct. This includes country ETFs, sector ETFs and any type of non-leveraged, non-inverse equity ETF that has been created since the inception of trading for each through 2008. And this is on thousands and thousands of TPS set-ups. <u>This is high probability trading at its best</u>.

Let's look at the test results.

**Table 8.1. TPS 1-2-3-4 Long Results from ETF Inception to 12/31/08**

| Symbol | # Trades | Avg. % P/L on Cash Invested | Avg. Trading Bars Held | % of Winners |
|---|---|---|---|---|
| DIA | 68 | 0.74 | 6.34 | 86.76 |
| EEM | 36 | 1.91 | 6.25 | 86.11 |
| EFA | 51 | 1.21 | 5.43 | 92.16 |
| EWH | 81 | 1.82 | 6.17 | 85.19 |
| EWJ | 68 | 1.41 | 5.35 | 88.24 |
| EWT | 52 | 1.72 | 5.92 | 88.46 |
| EWZ | 57 | 2.97 | 4.91 | 91.23 |
| FXI | 23 | 2.72 | 6.61 | 91.30 |
| GLD | 31 | 0.82 | 6.58 | 83.87 |
| ILF | 47 | 2.37 | 5.23 | 95.74 |
| IWM | 62 | 1.24 | 5.50 | 83.87 |
| IYR | 60 | 0.82 | 5.85 | 86.67 |
| QQQQ | 59 | 1.73 | 5.98 | 89.83 |
| **SPY** | **133** | **1.27** | **5.08** | **93.98** |
| XHB | 5 | 1.13 | 5.40 | 80.00 |
| XLB | 65 | 1.25 | 6.11 | 84.62 |
| XLE | 72 | 1.77 | 5.86 | 90.28 |
| XLF | 59 | 1.10 | 5.59 | 91.53 |
| XLI | 64 | 0.95 | 6.27 | 89.06 |
| XLV | 66 | 0.86 | 6.09 | 84.85 |
| **Grand Total** | **1159** | **1.45** | **5.77** | **88.78** |

Here is what the TPS set-up looks like on the long side.

**Example 8.1 – EWZ**

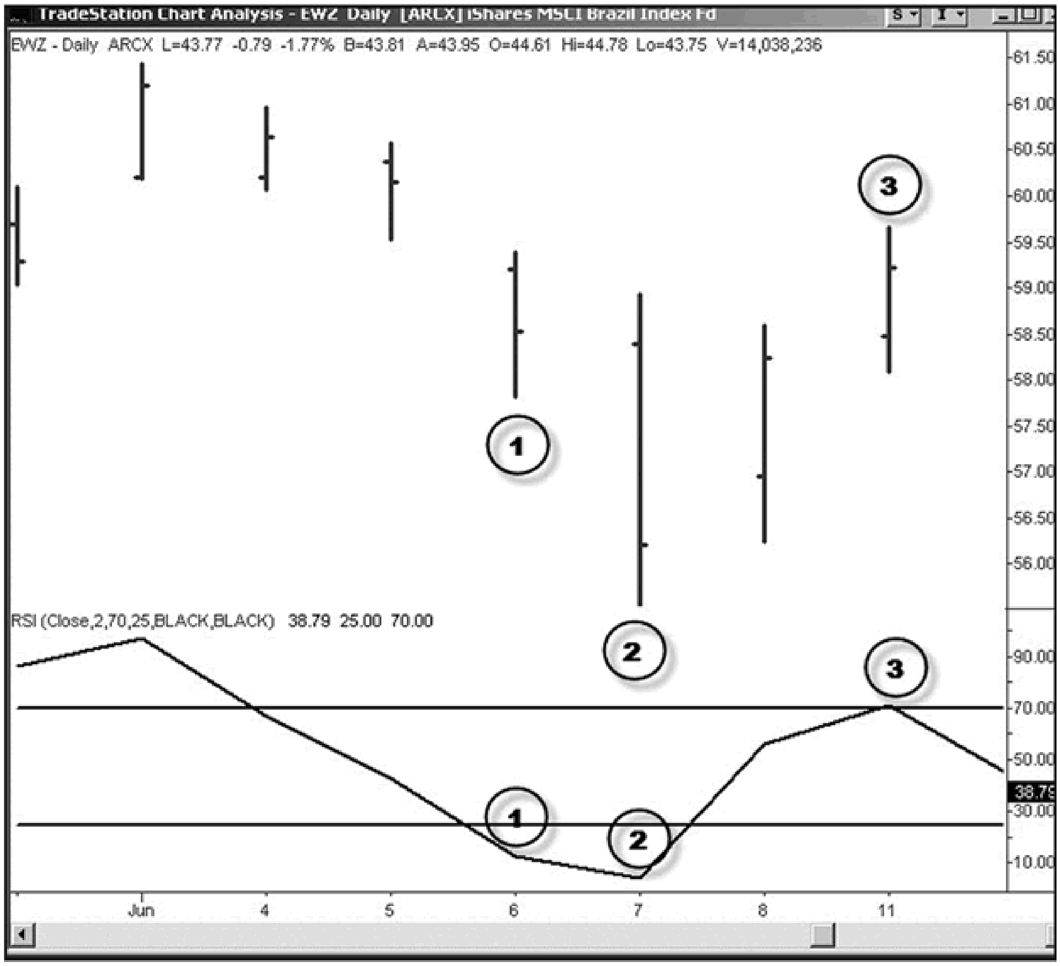


*Chart created on TradeStation®, the flagship product of TradeStation Technologies, Inc*

Here is an example of an ETF which reverses almost immediately.

**1.** The ETF is above the 200-day MA (not shown), and the 2-period RSI closes the first day under 25.

**2.** Today is the second consecutive day of the 2-period RSI close under 25. Buy 10% on the close.

**3.** The oversold condition quickly reverses and EWZ has a healthy 2-day rally and profits are locked in as the RSI closes above 70.

**Example 8.2 – EWZ**

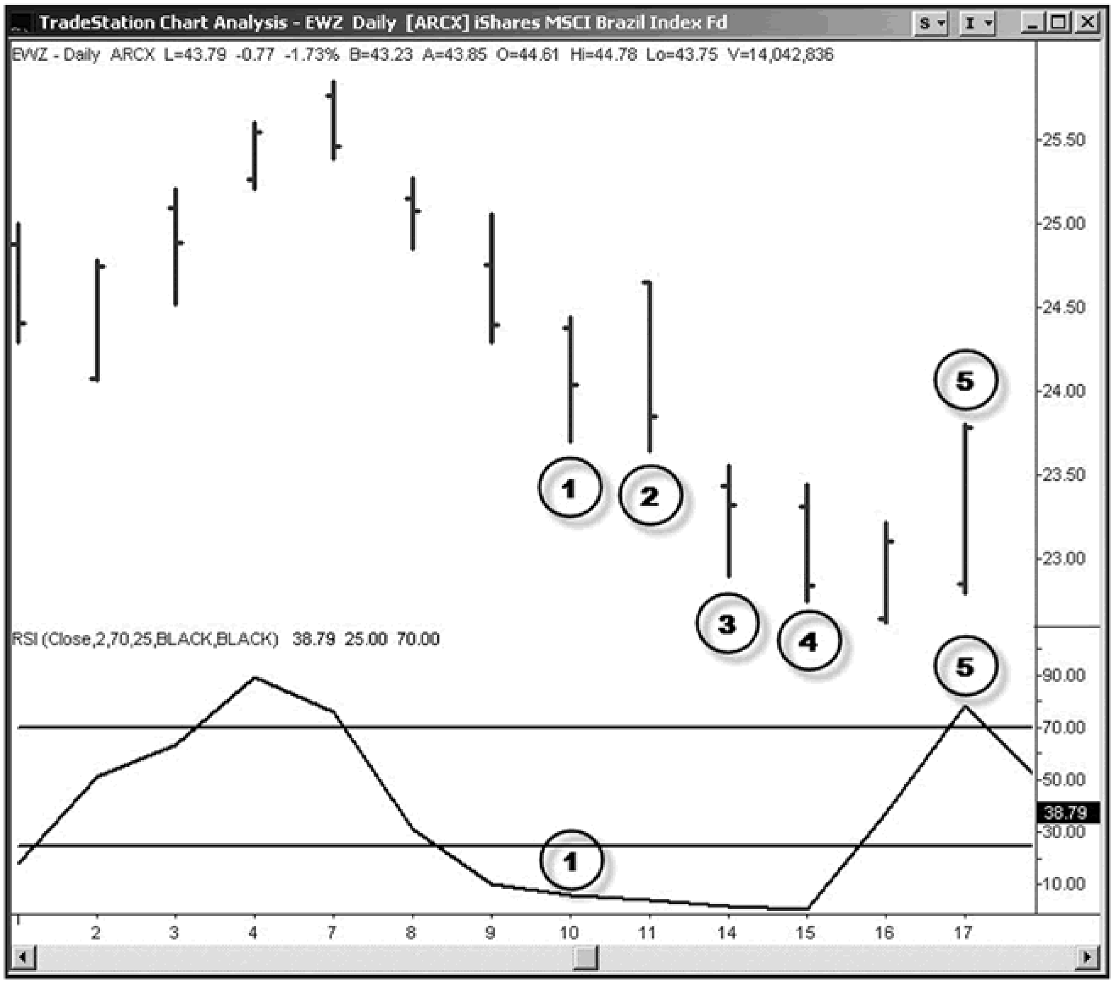


*Chart created on TradeStation®, the flagship product of TradeStation Technologies, Inc.*

Here is an example of a full 100% scale-in. This means we get to a full position using the TPS approach.

**1.** The 2-period RSI is under 25 for two consecutive days. Buy 10% on the close.

**2.** Prices close lower than the first position entry. Buy 20% more on the close.

**3.** Prices close lower than the second entry price. Buy 30% more on the close.

**4.** Prices close lower than the third entry price (and look at just how oversold this ETF is). Buy 40% more getting you to a full 100% position.

**5.** Lock in your gains as EWZ rallies and the 2-period RSI closes above 70.

What you are doing is "AVERAGING INTO" a position. The lower prices go the more capital you are committing to it. And the beauty of this is that because of your position sizing (committing less capital early on with the idea of buying more lower if you have the opportunity) your average cost is often much lower and your risk is also much lower. You're willing to give up potentially large gains from early positions (due to your smaller initial position) with the idea of having cash available to buy lower if it does go lower and the knowledge that historically over 88% of these trades have been profitable on the long side in many of the more actively traded ETFs.

Here are the TPS rules on the short side:

**1.** The ETF is below the 200-day.
**2.** The 2-period RSI is above 75% for two (2) days in a row. Short 10% of your position on the close.
**3.** If prices are higher on the close than your previous entry price, any day you're in the position, short 20% more of your position (again you're averaging in).*
**4.** If prices are higher on the close than your previous entry price, any day you're in the position, short 30% more of your position on the close.*
**5.** If prices are higher on the close than your previous entry price, any day you're in the position, short 40% more of your position on the close.*
Using this 10%, 20%, 30%, 40% scaling-in approach you now have a full position in a very overbought ETF.
**6.** Exit on the close when the 2-period RSI closes below 30.

Here are the results for TPS shorts.

*Do not take a new position anytime the ETF closes above the 200-day MA.

**Table 8.2. TPS 1-2-3-4 Short Results from ETF Inception to 12/31/08**

| Symbol | # Trades | Avg. % P/L on Cash Invested | Avg. Trading Bars Held | % of Winners |
|---|---|---|---|---|
| DIA | 41 | 1.00 | 6.12 | 73.17 |
| EEM | 8 | 2.08 | 5.63 | 37.50 |
| EFA | 19 | 2.25 | 5.58 | 84.21 |
| EWH | 46 | 1.70 | 7.02 | 82.61 |
| EWJ | 69 | 1.61 | 5.88 | 82.61 |
| EWT | 38 | 1.80 | 6.18 | 76.32 |
| EWZ | 32 | 3.91 | 6.25 | 81.25 |
| FXI | 8 | 3.67 | 3.25 | 87.50 |
| GLD | 6 | 1.46 | 6.33 | 66.67 |
| ILF | 7 | 6.63 | 4.14 | 85.71 |
| IWM | 38 | 1.69 | 5.76 | 86.84 |
| IYR | 25 | 3.10 | 6.04 | 88.00 |
| QQQQ | 49 | 2.02 | 5.82 | 79.59 |
| **SPY** | **55** | **1.49** | **6.04** | **85.45** |
| XHB | 16 | 4.06 | 5.56 | 87.50 |
| XLB | 36 | 1.52 | 6.83 | 77.78 |
| XLE | 29 | 2.30 | 6.17 | 79.31 |
| XLF | 47 | 2.06 | 5.98 | 78.72 |
| XLI | 39 | 1.77 | 5.15 | 87.18 |
| XLV | 40 | 0.82 | 6.75 | 72.50 |
| **Grand Total** | **648** | **1.97** | **6.04** | **80.56** |

And here is what the TPS looks like on the short side.

**Example 8.3 – SPY**

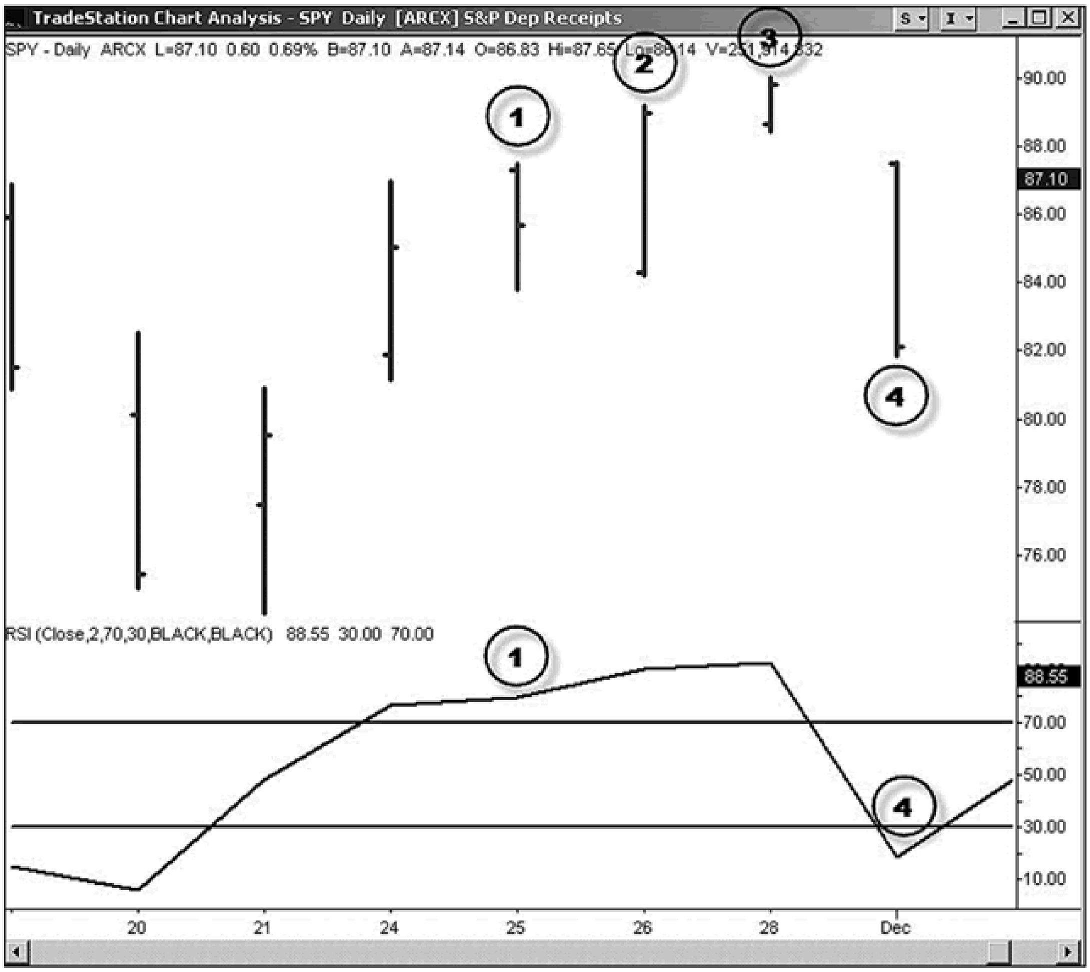


*Chart created on TradeStation®, the flagship product of TradeStation Technologies, Inc.*

**1.** The SPY is under the 200-day (not shown) and the 2-period RSI is above 75 for the second consecutive day. Sell short 10%.

**2.** The SPY closes higher. Short another 20%.

**3.** The SPY becomes even more overbought as prices rise again and close above the second entry's close. Sell short another 30%. This gets you to 60% short with ½ your position (the 30% piece) getting short above $90, which ultimately becomes the short-term closing high.

**Example 8.4 – DIA**

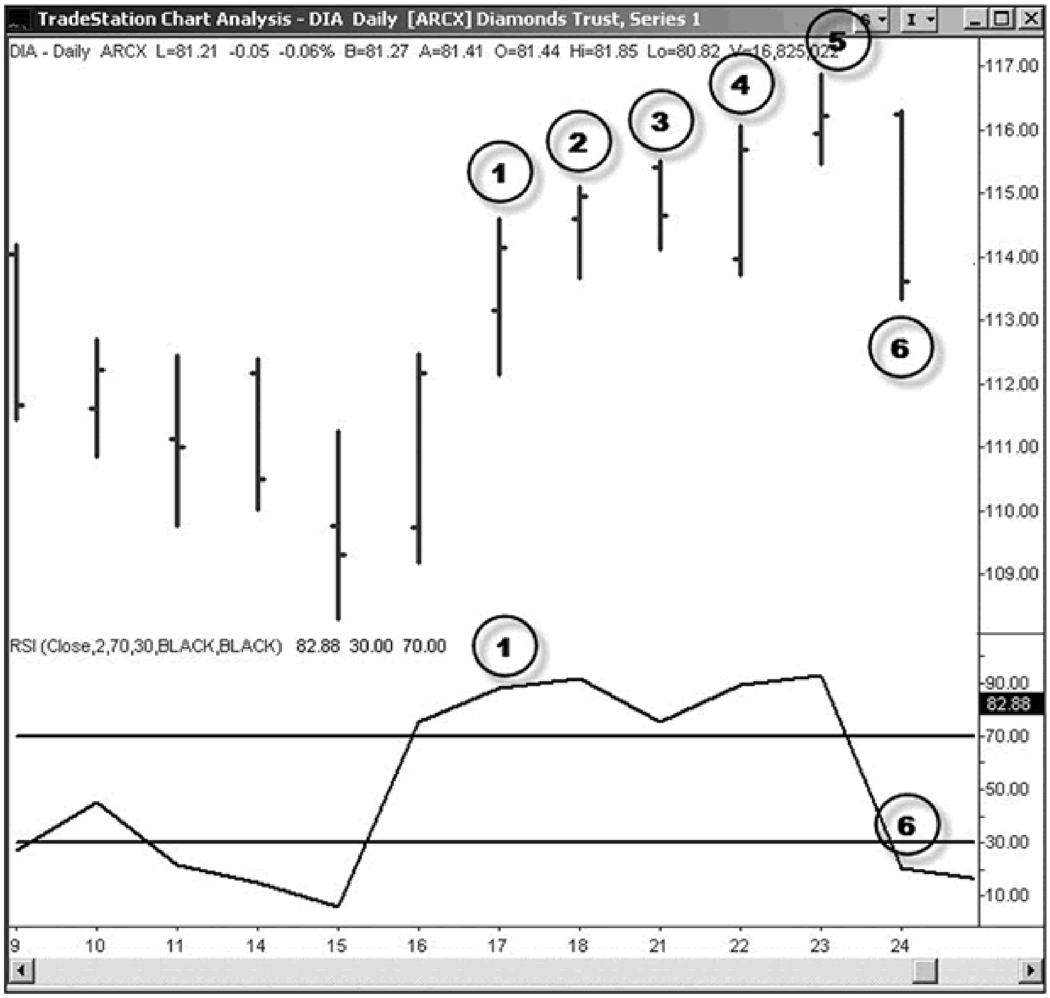


*Chart created on TradeStation®, the flagship product of TradeStation Technologies, Inc*

**1.** DIA is below the 200-day (not shown) and today is the first day with the 2-period RSI above 75 (the day before was just under 75).

**2.** The 2-period RSI closes above 75 for the second consecutive day. Short 10%.

**3.** DIA closes lower than the previous entry. Do nothing today.

**4.** DIA closes higher than the second entry. Short another 20%.

**5.** DIA continues to rise and become even more overbought giving us the opportunity to get short another 30%, right at the short-term high.

6. A sharp sell-off and we lock in our TPS gains as the 2-period RSI closes under 30.

## Summary

As we mentioned, there are literally tens of thousands of variations to trade TPS. You can adjust the scale-in using other combinations (meaning getting to 100% can be done many ways), you can use different RSI levels to enter the position, you can adjust the number of days you want the RSI to be above and below the entry levels, and you can adjust the RSI exit levels. We've tested nearly every imaginable combination and there are tens of thousands of these variations that show positive results going back to the inception of trading on the more actively traded non-leveraged, non-inverse ETFs through the end of 2008.

As we stated in the beginning of this chapter, it would take an encyclopedia in order to cover all the ways to trade TPS. The key here is that you have a good start and if you want to go further with TPS, you can find the information on HighProbabilityETFTrading.com and also on TradingMarkets.com. Or call us at 888-484-8220 ext. 1 (outside the United States call 213-955-5858 ext. 1) and an account manager will be able to guide you to software, services and courses available to further your TPS trading knowledge.

# CHAPTER 9

# Think Deeper

As this ETF book was being completed, a new book was published which ties directly into what you have just learned.

The book we're referring to is titled *The Talent Code* by Daniel Coyle but the sub-title does a better job of describing what the book is about; Greatness Isn't Born. It's Grown. Here's How.

In the book Coyle provides ample evidence that most people who are great at what they do are not born great. Yes, some are born with the natural talent but the overwhelming majority of people who have succeeded at the highest levels of most professions didn't get there from genetics. They got here through a process he refers to as "Deep Practice".

It's now widely known that it takes approximately 10,000 hours of "deliberate practice" in order for someone to achieve total mastery in a given field. This research was originally published by a group of psychologists in the 1990's, I described the study in one of my books, (*Connors on Ad-*

*vanced Trading Strategies* in 1998) and thanks to Malcolm Gladwell's bestselling book *Outliers*, the knowledge has now become mainstream.

What Daniel Coyle has done is gone further with this research. Where "deliberate practice" leaves off, Coyle picks up with what he calls "deep practice."

What is Deep Practice? It's basically the process of "thinking deeper" as you are practicing a skill. How does one **think deeper**? Coyle explains that it begins with the *Holy Shit Effect* (his words). He says it's the "heady mix of disbelief, admiration, and envy we feel when talent suddenly appears out of nowhere"

But before that talent appears, there's a three step process that every successful person has gone through in order to attain that level of greatness.

The first of the three steps is referred to as "Chunking It Up". This is absorbing everything that needs to be mastered and then breaking it into smaller chunks. And then from there you begin the process of practicing each of the many pieces.

Using this ETF book as an example, it means reading all the ETF strategies, understanding how ETFs trade above their 200-day versus below their 200-day, understanding that buying into pullbacks and selling into strength has consistently been a superior way to trade ETFs and then from there deciding upon which of the strategies fit best for you. From there you then go to the second step.

Coyle research leads him to not be a proponent of <u>mindlessly practicing</u> something hour after hour, and day after day. He discusses getting "into the zone" while you're practicing and then practicing only while you're still in the zone. Muscle memory is built while you're in the zone and then the knowledge is stored.

The third step is an extension of the second. It's "Learn to Feel It". What this means is <u>total concentration</u> while you're practicing. You're so locked in that you're feeling the trades as you're studying the set-ups. You feel what it's like to be in the trade, you see the intra-day movements, the overnight moves, the daily moves, the winning trades, the losing trades, the trades that you scaled into, the trades that went many days, and the trades that were profitable immediately. You feel this over and over again until it becomes a permanent part of you. What you're doing is you're ***thinking deeper***. And as you reach this level of mastery, every trade that arises from the signals in the future gets easier and easier and easier. Doing this enough times and trading in the proper way over a sustained period of time leads you to the ultimate level of mastery.

Obviously, we'd recommend you read *The Talent Code*. It's excellent and it should have a positive impact on your trading and on anything else you are looking to master in life.

And, if you would like to begin the first step of *thinking deeper*, we'll work directly with you. Here's how to start:

**1.** Choose your favorite ETF strategy (or strategies) from our book.

**2.** Choose a handful of your favorite ETFs that you trade (as many as you like).

**3.** Then identify, *in writing*, the following:

a) the ETF symbol and the strategy you applied
b) the entry date of the signals (look back as many years as you like)
c) the entry price
d) the exit date and exit price
e) the profit and loss on each trade.
f) and if you want to **think even deeper**, write out any special observations you made on the trades while you are doing this exercise.

Then take this information, place it into a spreadsheet or word document, and email it to us at thinkdeeper@highprobabilityetftrading.com (or thinkdeeper@hpetf.com).

Within 3 trading days we'll let you know how well you did and we'll answer any questions you may have from doing this mastery exercise.

The goal now is to ***Think Deeper*** while applying the strategies in this book. Mastering the strategies by doing this exercise will be the first step to you eventually becoming a great ETF trader. And if you have any questions while you're doing this exercise, please feel free to call 1- 213-955-5858 ext 1.

# CHAPTER 10

# Putting the High Probability ETF Trading Pieces Together

You're now in possession of seven high probability ETF trading strategies. Each strategy can be traded both on the long side and the short side in order for you to trade both in bull markets and in bear markets.

You've learned that the 200-day moving average is a good indicator to guide you as to whether to be long or short an ETF. And you've seen over and over again that it's best to be buying oversold ETFs on pullbacks above the 200-day MA and to be shorting overbought ETFs below the 200-day. Though there is no guarantee of future returns, this has been a consistent theme in ETFs going all the way back to 1993.

In our opinion, ETFs are safer than common stocks because they do not have the same corporate risk as stocks. Unleveraged ETFs will likely never give you the potential short-term outsized gains as stocks (individual stocks can and do move 20% or more in a few days). But they do provide you with more safety and as you can see from the historical results, they have been highly predictable once they've become overbought and oversold.

The ETF market is growing larger. When we first started working on this book in 2008, there were only a handful of liquid inverse ETFs and there was no such thing as a 3x ETF. As we were finishing up writing this book, there were dozens of liquid inverse ETFs, a 3x ETF (FAS) was on some days the most actively traded ETF (surpassing the SPYs), and ProShares had just filed to bring public 93 more 3x ETFs. We believe this growth will continue as traders, especially professional traders, (along with the investment professionals) make ETFs their vehicle of choice.

We'll end this book now by answering pertinent questions you may have. And if at anytime you need anything answered directly please feel free to email us at L.Connors@TradingMarkets.com.

## Can I apply these strategies to inverse and leveraged ETFs?

The strategies were tested on non-inverse and non-leveraged ETFs. Because the inverse and leveraged ETFs are so new, and many trade differently than the straight ETF we would advise using caution.

## What about stops?

If you are successful using stops, continue to use them. But based upon many years of test results, they are an expensive form of insurance.

One of the reasons the test results are so strong for each strategy is the fact that stops are not used. As we quantified in our book *Short Term* ance of most strategies. They tend to whip traders around, stopping out positions that often then reverse and turn profitable. They also do nothing to protect you from overnight risk.

We feel that position sizing, and options hedging are two examples of better and less expensive forms of insurance (protection).

## What happens when many ETFs are overbought or oversold in a day? How do I choose which ones to trade?

This is a good question and we could spend hours getting to the complete answer. But to start view them as the following:

Choose Country Fund ETFs over Sector ETFs. Choose Sector Fund ETFs over Commodity/Currency/Bond Fund ETFs.

Country Funds tend to be safer and have the highest historical test results for being correct.

Then the best path to take is to choose the ETF with either the highest RSI at the time (on the short signals) or the lowest RSI (for the long signals). Another path is to look at the historical results and go with the ETF which has performed the best.

Also, the daily signals, along with the updated historical results for every actively traded ETF can be found in our High Probability ETF Trading Software available at www.HighProbabilityETFTrading.com

## What about ETF options?

ETF options are becoming increasingly popular among traders, especially professional traders.

The strategies in this book lend themselves well to options trading. When the % correct has historically been so high, they especially lend themselves to strategies like credit spreads and ratio spreads. Exploring that path may prove to be fruitful for you.

## What about correlation risk?

Correlation risk is when multiple securities move in the same direction at the same time. This is a risk you should be especially aware of with ETFs.

For example, there are many energy ETFs. Usually when a few are overbought, nearly all become overbought at the same time. If you take 6 ETF positions all related to energy, you are basically assuming almost 6 times the risk versus if you were in 6 uncorrelated ETFs.

Another example is in the U.S. Index ETFs: SPY, DIA, IWM, and QQQQ are highly correlated. Signals in all four will tend to occur at the same time and taking positions in all four at the same time is basically quadrupling your exposure to the U.S. markets.

Being aware of correlation risk is important as it was the reason so many money managers failed in 2008. They didn't understand how correlated their holdings really were. The more you understand correlations, the better a trader you will be.

## What else is important to successfully trade ETFs?

Execution. This means putting together a plan as to how you are going to take the strategies and apply them to your trading. And then executing the trades over and over again. As easy as it sounds, it's very difficult to do in real life.

There is so much noise that's competing against you when the signals trigger. CNBC, "expert's opinions", economic reports, etc, are going to come into play when the signals occur. The historical results account for everything that has happened since the inception of each of the 20 more liquid ETFs. They assume every trade is taken. They hear no noise.

Your success in trading ETFs will be based upon which strategies you choose, the proper position size of each strategy, and the way you trade the strategy – meaning whether you use 1x, 2x or 3x ETFs or use options. And if you choose options, it will be whether you decide to buy calls and puts, sell calls or puts, place on debit spreads, or use ratio spreads or credit spreads… as you can see the list of variables is seemingly endless.

And it also comes down to how well you execute your trades. The less noise you hear, the more likely your results will replicate how the signals perform in the coming years. All of this needs to be accounted for and the better you do this, the better your results are going to be.

## Can I use these strategies on stocks?

The strategies in this book are intended for ETFs. Many of the concepts are derived from high probability equity trading strategies, but stocks have very different risks than ETFs.

## Where can I find additional ETF information?

There are a number of good sites to expand your ETF knowledge. We'll list three but there are many more than this.

IndexUniverse.com does a good job consolidating the industry information in one location.

SeekingAlpha.com does a good job of aggregating bloggers who discuss ETFs.

ETFTrends is also another good aggregator of information.

These are only three of the many that are out there and as time passes many more sites will play prominent roles.

Also, our site TradingMarkets.com covers ETFs each day and HighProbabilityETFTrading.com does the same. Each also provides you with tools and further education that you can use for your daily ETF trading and education.

## Finale

We hope *High Probability ETF Trading* has been helpful to you and the many strategies in the book work well for you as you apply them to your ETF trading. Also, if you need more information, go to www.HighProbabilityETFtrading.com or call 213-955-5858 ext. 1.

If you have any questions, please feel free to email us at L.Connors@TradingMarkets.com

## GLOSSARY

# High Probability ETF Trading Important Terms

%b is derived from Bollinger Bands, the popular technical indicator created by John Bollinger. Bollinger bands consist of a moving average of closing prices, an upper price band that is two standard deviations above the moving average and a lower price band that is two standard deviations below the moving average

%b is a calculation based on the distance between the upper and lower Bollinger bands. The parameters we use are length of 5 and standard deviation of 1. The specific formula is below:

%b = (Close – Lower Bollinger Band) / (Upper Bollinger Band – Lower Bollinger Band)

**2-Day RSI**

The 2-day RSI refers to the Relative Strength Index when set to read only the past two days of price action. See "Relative Strength Index."

when set to record the past five days of price action.

For short term ETF traders, the 5-day moving average is an effective exit signal. Long trades are exited when the ETF closes above the 5-day moving average. Short trades are exited when the ETF closes below the 5-day moving average.

**200-Day Moving Average**

The 200-day moving average refers to the simple moving average (SMA) when set to record the past 200 days of price action. The 200-day moving average is a widely followed technical level by professional and institutional traders and investors.

For making high probability short term ETF trades, we never buy ETFs below the 200-day moving average and never sell short ETFs above the 200-day moving average. This is one of the most consistent findings in our ETF research going back to 1995.

**Moving Average**

A moving average is a technical indicator that traders and investors use to smooth price action and help reveal the underlying trend of a market.

There are several types of moving averages. The most basic – and the one we use – is the simple moving average (SMA). The simple moving average is the sum of the closing prices over a specific period divided by the number of days in that period.

For example, a five-day simple moving average would be the sum of the closing prices of the five most recent trading days, divided by five; a 200-day moving average would be the sum of the 200 most recent closing prices divided by 200, and so on. Each day the most recent closing price is added to the equation and the most distant day is dropped off.

**Overbought**

An overbought market is a market that typically has moved dramatically higher in a relatively short period of time. Overbought conditions can be detected through technical oscillators like the Relative Strength Index, or through price patterns such as consecutive highs or gap ups.

**Oversold**

An oversold market is a market that typically has moved dramatically lower in a relatively short period of time. Oversold conditions can be spotted by technical oscillators such as the Relative Strength Index, as well as in patterns like multiple lows or gap downs.

**RSI(4)**

RSI(4) refers to the Relative Strength Index when set to read only the past four days of price action. See "Relative Strength Index."

**Relative Strength Index**

The Relative Strength Index (RSI) is a popular momentum oscillator developed by J. Welles Wilder in the 1970s. The RSI compares the magnitude of a market's recent gains to the magnitude of a market's recent losses.

A simple formula calculates this price action into a number between 1 and 100. Markets with RSIs closer to 1 are considered oversold. Markets with RSIs closer to 100 are considered overbought.

RSI = 100 – (100/1+RS)

RS = Average of x days up closes / Average of x days down closes

The RSI is generally set for 14-periods. However, for short term ETF trading, we have found that a shorter time period is much more effective. See "2-day RSI", "RSI(4)"

## High Probability ETF Trading Tools

All of the below can be found by going to
HighProbabilityETFTrading.com

**High Probability ETF Trading: The Software**

Our High Probability ETF Software helps you apply the tested strategies from *High Probability ETF Trading* to your ETF trading each day.

The tool runs in your Web browser and enables you to access our proprietary strategies for ETF analysis and strategy evaluations. The Software also shows you the trading strategies presented in *High Probability ETF Trading* including the R3 Strategy, %b Strategy, RSI 25 Strategy along with other strategies including TPS, Connors Research's proprietary method of "scaling-in" to the high-probability trading opportunities.

When you begin, you see the ETFs with the most volume and the corresponding signals based on each of the seven strategies presented in *High Probability ETF Trading*. You are then able to further analyze an ETF based on your specific trading goals. For instance, if you are looking specifically to trade the R3 Strategy, you can sort the ETFs to see only R3 signals. If you find a combination of the R3 Strategy and RSI 25 Strategy to be best for your trading style, filter the table of ETFs to find ETFs that match the parameters you set. Then use The Software to see test results for specific ETFs for those strategies. The flexibility of The Software enables you to find the strategies from *High Probability ETF Trading* that are most aligned with your trading style.

• The initial login screen is very clear and simple with red and green signals for specific ETFs. This is particularly useful to anyone new to trading ETFs and looking for basic information in a straight-forward matter.

• The Software saves you time testing and implementing trading models and strategies for traders who already have experience trading ETFs.

• With integrated proprietary research (such as the index the ETF follows and related ETFs like the inverse and leveraged ETF versions of the particular ETF), advanced traders will find the back testing, research and percent correct calculations to be critical to their trading success.

Take a free, one-week trial to The Software by calling 1-888-484-8220 ext. 1 or (international direct dial 213-955-8585 ext.1) or go to www.HighProbabilityETFTrading.com to sign up now.

Monthly Cost: $ 295
Annual Cost: $2,950

## High Probability ETF Trading: The Seminar

The *High Probability ETF Trading Seminar* is a 2½ day course on trading ETFs. You'll walk away from this online seminar knowing more about ETFs than 99% of professional traders.

What You Will Learn

- **Directional Trading:** Learn the best way to scale in and out of positions with strategies that have tested to be over 90% accurate since 1993.
- **ETF Arbitrage and Pair Strategies:** Learn directional arbitrage, directional pairs arbitrage, and the brand new structural arbitrage strategy.
- **ETF Monthly Income Program:** Find ETF covered call positions with potential annualized returns of over 150%, along with options spread positions that have been profitable up to 96% of the time.
- **Country Based ETFs:** See why they are better to trade than commodity ETFs and why they can be safer and more reliable than other ETFs.
- **ETF Risk Protection:** Learn how to protect your trades without using stops.
- **Inverse and Leveraged ETFs:** The rise of 2X and 3X ETFs, which ones to trade and which to avoid (and there are many to avoid).
- **Materials Included:** Over 11 hours of class material and over 300 pages of class material.

For more information about *High Probability ETF Trading: The Seminar,* call us directly at 1-888-484-8220 ext. 1 or for international direct dial 001-213-955-5858 ext. 1. You can also contact us at www.HighProbabilityETFTrading.com to purchase or register for the next live seminar.

## High Probability ETF Trading: Daily Alerts

As a buyer of this book, you are entitled to receive the daily ETF setups from ***High Probability ETF Trading*** for free for one week. This includes complete analysis of the ETF markets each day, suggested entry and exit prices from the strategies presented in this book, along with looking at leveraged and inverse ETFs.

To start your free trial, call toll-free 1-888-484-8220 ext. 1.
(International callers dial 213-955-5858 ext. 1).

Monthly Cost: $195
Annual Cost: $1950

## High Probability ETF Trading Courses: TPS

Introduced in Chapter 8, TPS (Time, Price, Scale-in) is a proprietary strategy of Connors Research. TPS was initially revealed in part to members of Chairman's Club in late 2008 and in early 2009 TPS was discussed as part of the ETF Seminar. We believe this to be one of the strategies with the highest probability of accuracy while offering the greatest flexibility for traders.

The High Probability ETF TPS Trading course will expand on the strategies in *High Probability ETF Trading* so that you can see the benefits of making TPS the core of your trading portfolio.

- **1-2-3-4 or 2-3-5?:** These are just two of the many examples of the core of the TPS strategy representing the percentage that you are looking to scale in to the position.
- **Reversion to the Mean:** Shown to be successful in trading ETFs, we look for ETFs that are likely either oversold or overbought and due for a correction. Reversion to the mean also explains why country-based ETFs are preferred over equity, currency and bond related ETFs.
- **Insurance for your TPS Positions:** Full or partial, entering a trade knowing the risk you are taking on is beneficial for traders at every level.
- **4 Strategies for ETF Options:** This portion will include strategies for credit spreads and ratio spreads, rolling SPYs, RSI 30-70 for ETFs, covered calls on Ultra-ETFs.
- **Money Management Techniques:** By dividing your portfolio into distinct businesses or styles of trading, along with maintaining a cash reserve, ensures that you will be able to take opportunities as they present themselves.

• **Build your ETF Portfolio:** Maintaining a balanced portfolio enables you to trade ETFs not only on the long and short side, but also includes leveraged and inverse ETFs while minimizing your risk exposure.

Call us directly at 1-888-484-8220 ext. 1 or for international direct dial 001-213-955-5858 ext. 1 or register for the next live course at www.HighProbabilityETFTrading.com.

## High Probability ETF Trading: Add-on Modules

**Add-on Modules for TradeStation Users**

If you are a TradeStation user and would like to find a way to trade the strategies in the *High Probability ETF Trading* book quickly and efficiently, you can order the official add-on module for the High Probability ETF Trading book.

This module was programmed by 25-year TradeStation programming veteran Stuart Okorofsky to ensure that the results you receive from these indicators and scanners are accurate. The add-on module will only take minutes to install and get up and running. It includes strategies, RadarScreen indicators, and TradeStation Scanner indicators for the following strategies:

%b
R3
RSI10/6 & RSI 90/94
RSI 25 & 75
3-day High/Low
MDD/MDU
TPS

These indicators will allow you to scan your custom selected list of ETFs for potential setups within seconds every night. Additionally, you will receive suggested entry and exit levels with each signal.

Order today by calling toll-free 888-484-8220 ext. 1 (outside the U.S. dial 213-955-5858 ext. 1) or go to www.HighProbabilityETFTrading.com.

**Add-on Module for AmiBroker Users**

If you are an AmiBroker user and would like to find a way to trade the strategies in the *High Probability ETF Trading* book quickly and efficiently, you can order the official add-on module for the High Probability ETF Trading book.

This module was programmed by co-author of High Probability ETF Trading, Cesar Alvarez to ensure that the results you receive from these indicators and scanners are accurate. The add-on module will take less than a minute to install. It contains an exploration that will scan the universe of ETFs for signals on the following strategies:

%b
R3
RSI10/6 & RSI 90/94
RSI 25 & 75
3-day High/Low
MDD/MDU
TPS

Use this module to scan ETFs nightly after the market closes for potential setups for the upcoming trading day. When finished, you will receive a complete report which includes suggested entry and exit levels with each signal. You can export this list to an Excel file for easier sorting.

To order, call us toll-free at 888-484-8220 ext. 1 (outside the U.S. dial 213-955-5858 ext. 1) or go to www.HighProbabilityETFTrading.com.

One-time Cost: $495

## Other Books by Larry Connors

***Short Term Trading Strategies That Work*** Released in November of 2008, the book sold out and went into its second printing by January of 2009: $49.95

*"This is a book that you will keep on your trading desk at all times because the quantified strategies presented have a very high probability of success, and that is what professional trading is all about."* - Kevin Haggerty, professional trader and former Head of Trading at Fidelity Capital Markets

***How Markets Really Work***: $49.95

***Street Smarts: High Probability Short-Term Trading Strategies***: $175

To order any of these books, call 1-888-484-8220 Ext. 1. Each book also comes with a free trading strategy report and a free one week trial to Larry Connors' Daily Battle Plan.

# Additional Trading Resources from Larry Connors

**Larry Connors' Daily Battle Plan**

Each morning you have access to Larry's daily market insights both online and in audio. Included are the top set-ups he sees with an extensive focus on ETFs. You will see how Larry applies the ETF strategies from this book on a daily basis.

For a free one week trial to Larry Connors' Daily Battle Plan, call toll free 1-888-484-8220 ext. 1 (or international direct dial 213-955-8585 ext.1), or go to the TradingMarkets.com website to register for a free trial.

Monthly Cost: $149
Annual Cost: $1,495

**TradingMarkets Swing Trading College**

Throughout the year, Larry conducts a 14-week, in-depth course on Swing Trading which remains one of the most popular courses taught by us.

The course is limited to 50 traders at a time and is taught online for 1-2 hours per evening after the close of the U.S. markets. All sessions are also recorded for you to watch any time in the future in order you to fully master these strategies.

The *Swing Trading College* covers equity trading, ETF trading, options trading, and E-mini trading. It also includes 4 weeks of live trading with the profits going to the charity of the class's choice.

For more information on the *TradingMarkets Swing Trading College*, please contact us at 1-888-484-8220 ext. 1 (international direct dial 213-955-8585 ext.1) or visit www.TradingMarkets.com.

Course Fee: $3,995

Here is what past students of the Swing Trading College (STC) had to say about it:

*Dear Larry,*

*The Swing Trading College has been the best investment I've made yet in learning how to trade. STC has taught me to have clearly defined entries & exits with an amazingly high percentage of winning trades… the way Larry interacts with the class makes me feel like I know him personally… I would highly recommend this class to anyone who is serious about trading for a living or just trading to make extra money. On a scale of 1-10, I would rate Swing Trading College an 11.*

*Sincerely,*
*Alex Hildebrandt*

*The STC is the best course I have ever taken. It was a total eye-opener for me. The systematic, quantified approach taught to high probability trading can be used profitably for years to come.-- MI*

*"The Swing Trading College is unique among trading education because it gives detailed rules with backup and testing. This allows you to put it into practice quite profitably. There is no uncertainty in the process. It gives you just the facts. This is the gold standard for trading educa-*

*This is not a buy low and sell high approach to the market... you learn to take advantage of the market's own internal signals. I recommend this course for anyone that wants to spend a lifetime making money from the market. – WB*

## Larry Connors' Chairman's Club

Larry runs a professional trading research group which gets together on a quarterly basis to discuss the latest research that Connors Research has developed. Among others, the group includes; money managers, professional traders and head traders of firms from around the world. Admission is by invitation only and based upon experience, knowledge, and your ability to contribute to the group.

If you are interested in learning more about *Chairman's Club*, please contact Larry Connors at l.connors@tradingmarkets.com for more details.