

Trading Plan 2014-10-18

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Current objectives

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Current objectives

Short Term Objective

Being able to generate 100\$ by trading in the Friday PMs

Mid Term Objective

Being able to replace my daily average income by trading in the Friday PM – $35\$ \times 36.5/5 = 255\$$

Long Term Objective:

Adding a second trading day of trading while reducing my daily job week to 3 days per week

Current risk criteria's

Maximum trades per day: 4

Maximum daily risk: 60\$

Daily target: 100\$

Maximum risk per trade : 20\$ To be manage by getting 100, 200, 300 or even 400 shares

Maximum risk for 100 shares: 20\$ - 0.20\$ per share

Maximum risk for 200 shares: 20\$ - 0.10\$ per share

Maximum risk for 300 shares: 21\$ - 0.07\$ per share

Maximum risk for 400 shares: 20\$ - 0.05\$ per share

Jim Dalton's concepts – Markets in Profiles

The next section will explain in no particular order, some of the concepts that are explained and taught in the book "Markets in Profile" and in Jim Dalton's webinar.

Bracket and balance area on time based chart

In this section I will try to define what is the difference between a bracket an a balance area



When we have difficulty seeing the brackets and the balance areas you have to change the timeframe on your chart. You can go higher or lower, this will allow you to validate who of the markets participants might be in control ...

Markets participants

- 1- Scalpers: In and out within seconds or minutes trying to make 0.01\$ per share, even trying to be flat to collect rebate. They provide liquidity to the other market participants
- 2- Day Trader (I prefer Intraday Trader): They are trader that will be in the market from minutes to hours. They never carry position overnight
- 3- Short Term Trader: They will keep position from 1 day to 3-5 days. These guys wants to play the balance areas inside the bracket. They get in at the extreme of a balance area to get out at the other extreme of the same balance area
- 4- Intermediate term Trader – Swing Trader: They will keep position from 2-3 days to 8-10 days. These guys are playing the entire bracket range.
- 5- Long Term Investors: These guys are attached to their securities. They will hold for months to years. They do leave big volume print in the market

When more than on market participants are active at the same time it creates volatility. For example, when an extreme of a balance area occurs at the same level as the bracket extreme, 2 groups of market participants will be active, at the same time.

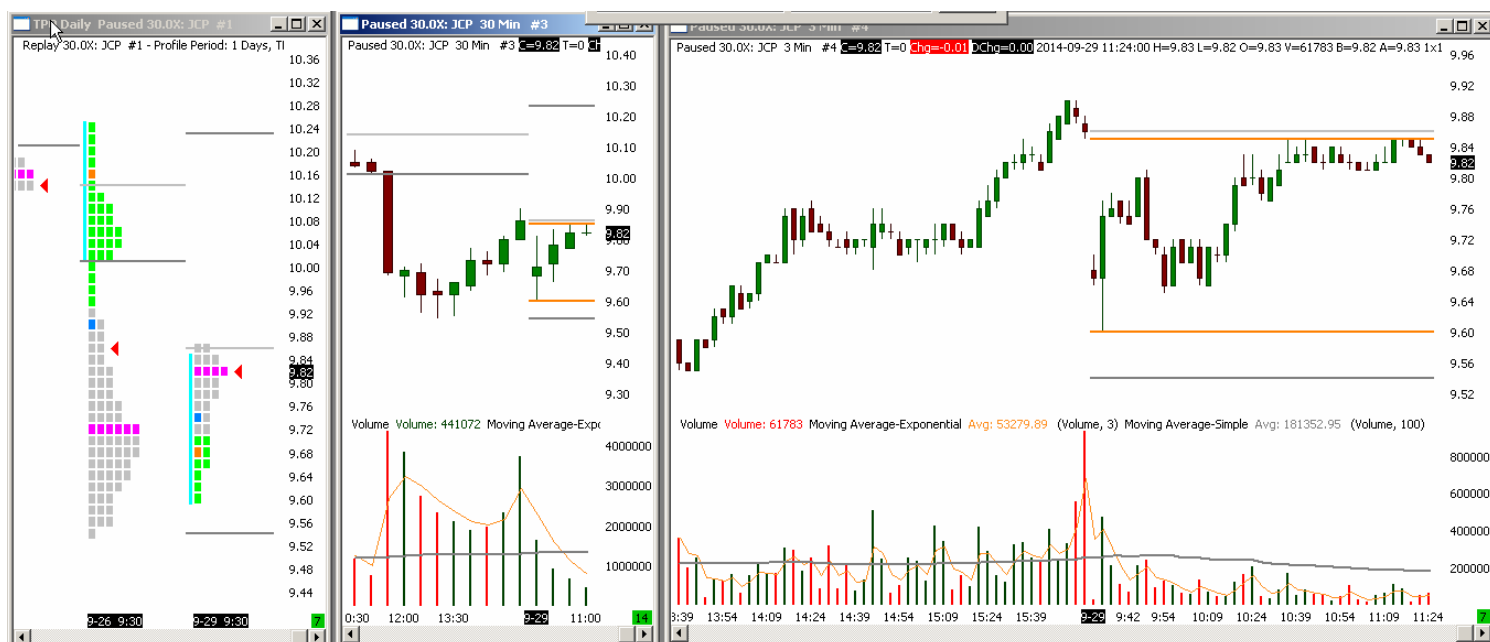
Study 1 - New highs or lows that shuts off activity – leading to return towards value area versus new highs or lows that brings new participants – leading to breakout

This section will try to find examples where we breakout above or below previous day high or low (and assess the volume size required to do so). At the same time, we will observe the opposite (when previous day reference levels) acts against a breakout (or the breakout fails) and leads to a return to the value area. The next screenshots are order over time but not in order over date ... For now.

Dalton is repeating all over his book and all over his webinars that new highs or lows has to attract new participants in order to generate breakouts. On the other hands he also specifies that new highs with volume declining (not attracting new participants – nobody responding the advertisement of new prices) will lead to a return to the previous balance area or value area or even to the other extreme of the last balance or value area. This is also call as responsive buyers or sellers that likes to play the bracket or the balance area. On both situations, a certain amount of volume is coming into play. What he never shows is what is a good volume sample size of "new participants" versus "responsive volume". We do know that "new participants" volume is bigger than "responsive" volume but by how much ? The next section will try to make light on this volume assessment ...

A daily profile made of 30 minutes bar with a 3 minute time based candlestick chart will be used for our little study. Volume will be on the lower section of the 3 minute chart with a reference level line at 200 000 shares. The previous day high, low and close will also be reference line levels on the 3 minutes chart

September 29th, 2014

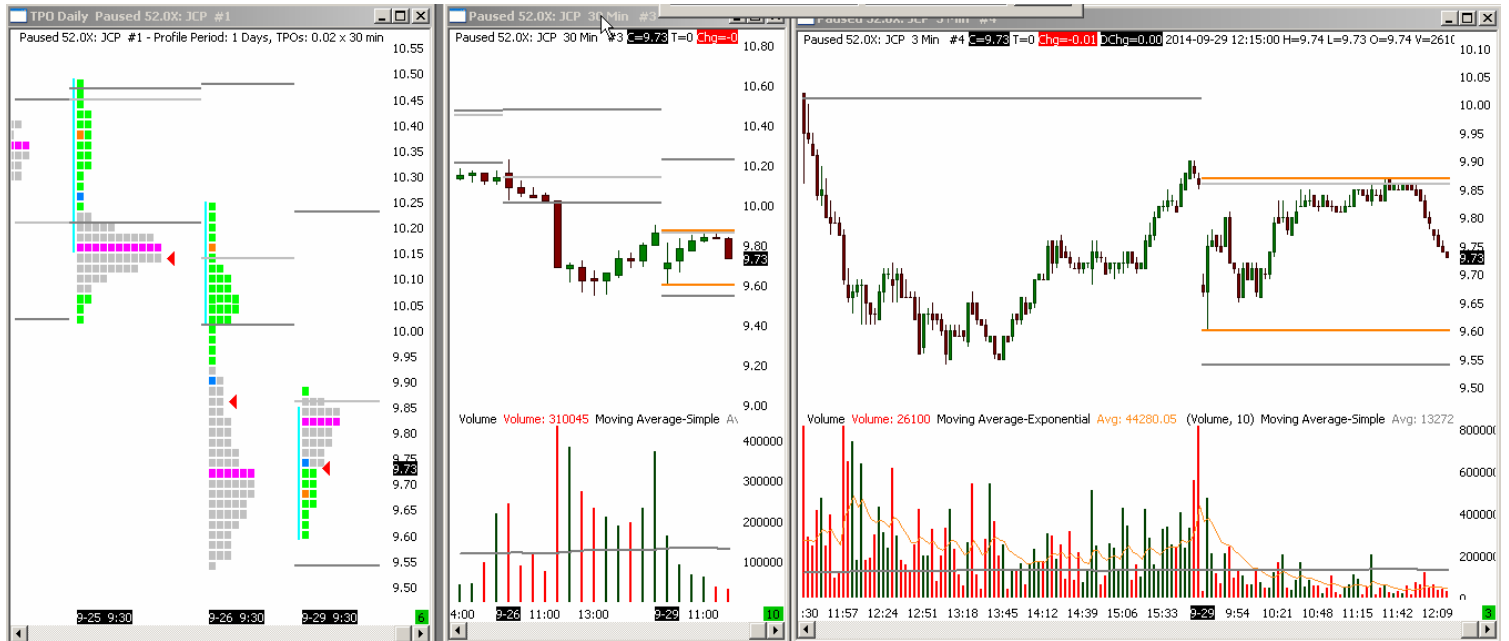


On September 26th (previous day) we can see that 2 auctions occurred during the day. The range from 9.92 to 10.00 with a balance areas above and below is clearly telling us that 2 auctions we in place on that day. The 5 squares between 10.00 and 9.92 also indicates that it could be excess on both profile since you need only 2 square to have an excess and 5 included 2 times 2 squares ... I will have to figure out what a square mean in term of value (0.01\$, 0.02\$ or whatever) but I will leave that for later. Gray lines on the 3 charts are previous day high low and close (lighter gray is the close) while orange line on the 30 and 3 minute charts are the current day high and low. The Profile value area blocks or squares in gray are the value area while the green blocks means outside value area. The orange block is the open while the pink blocks (line) is the point of control line. The red arrow is the close.

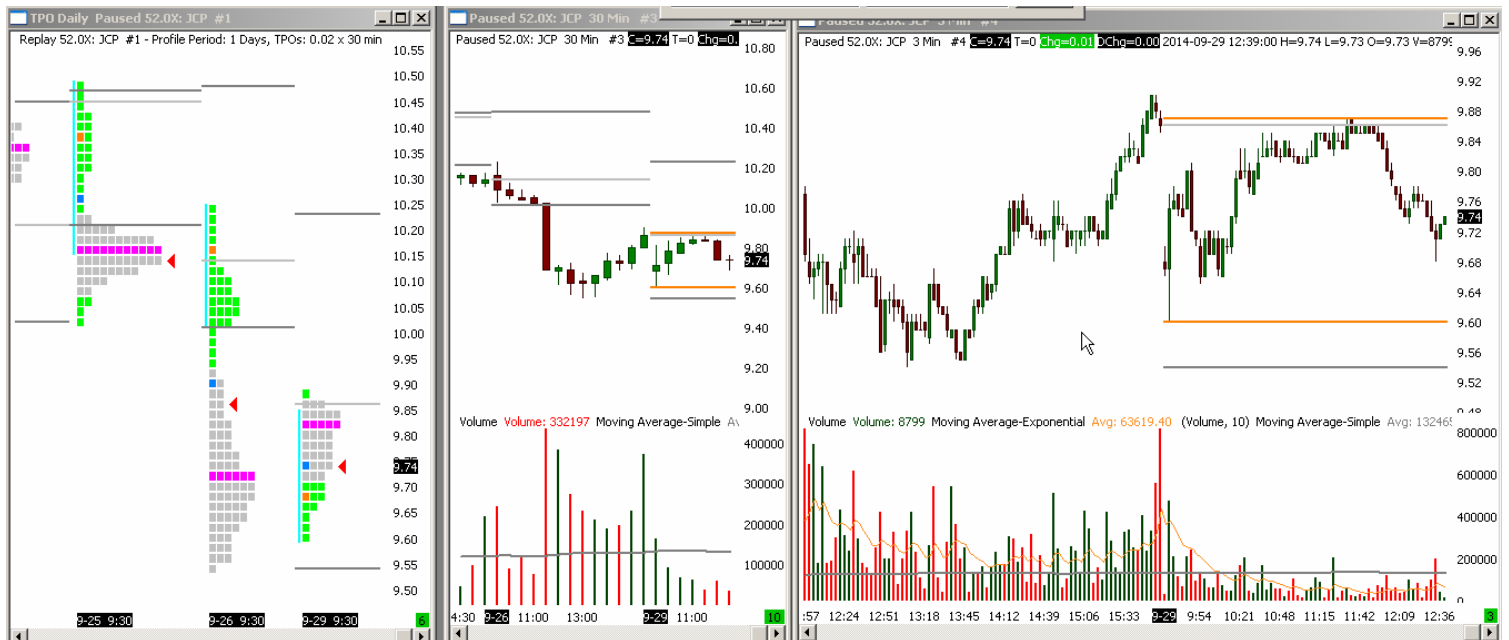
We did went through HOD around 10:24 on some volume increasement (went from an average of 90 000 from the previous 4-5 bars) to 195 000 for the 2 bars the broke HOD. Then we pushed near the previous day close (1 tick below) and stayed below that reference for about 15 bars with an average light volume of 75 000. The price being near these 2 levels are definitively not attracting any volume at all for that period.



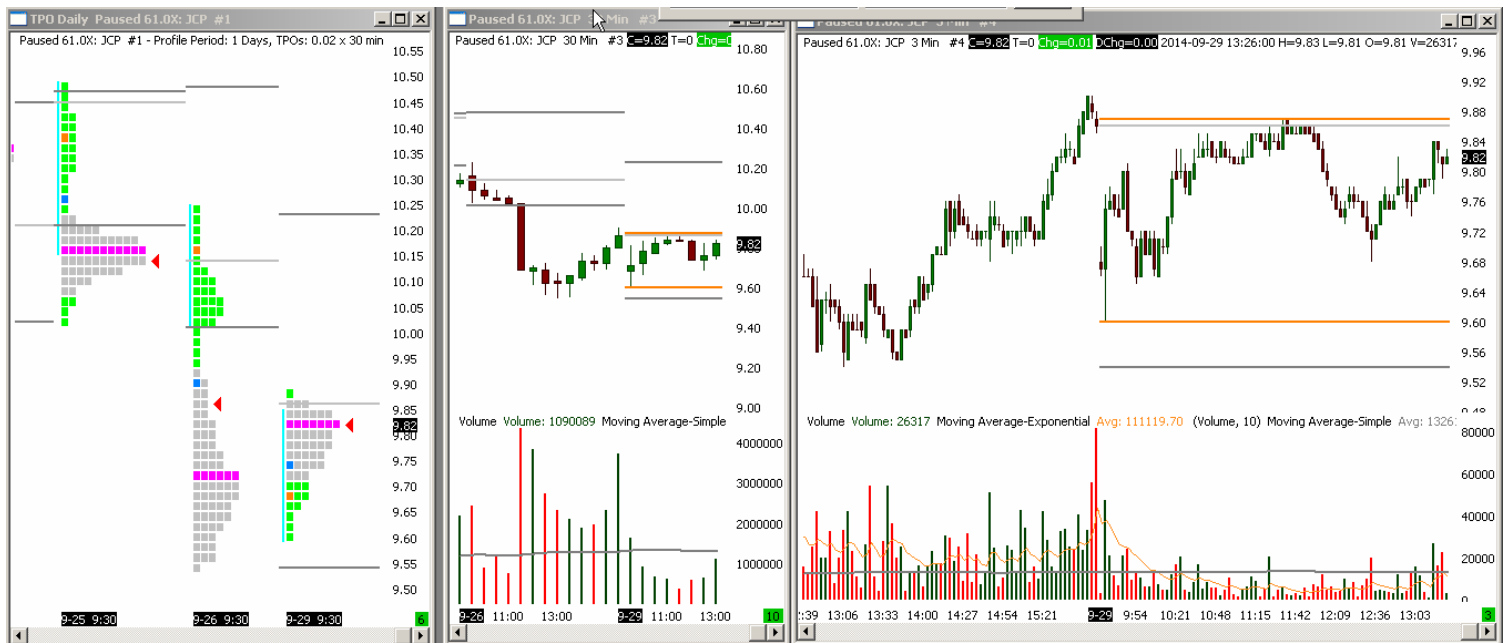
Then, at exactly 11:33 a single print green block appears on the daily profile at the same time than crossing the previous day close and pushing the current HOD. 5 to 7 bars from 11:39 to 11:54 with ultra thin volume (average of 35 000 for these 5-7 bars). Small return to the other extreme of the value area a 0.10\$ move ... The profile is an inside day while current VA is situated in the higher portion of the previous day VA and the POC of today is higher the one in the previous day ... Conflicting information here ...



This is the next move. I did some adjustment on the volume moving averages on my 3 minute chart. I took the 30 minute SMA1000 volume line and transferred it on my 3 minute chart (which gave me a SMA1000 on the 3 minute chart) for a better long term moving average (LTMA). This will give me a straighter line for future volume assessment. Also, I did fix the volume range from 0 to 800 000 on the 3 minute chart in order to keep a constant visual reference of market participants activity. We are outside the current day VA at the previous day POC level.



Then a candlestick with a tail and volume about 1.5 time higheg than average at the current open level and yesteday's POC. Price are still in the low portion of the daily profile far from the POC



This was enough to push price back to the POC level with some volume response at the 9.82 level, volume again around 1.5 times the LTSMA.

It has been now 2 study session that I spend trying to search for the answer to my question and I think it is more related to instant volume size than relative to a moving average or specific volume size. Unfortunately for me, the answer to my question is not that obvious and simple to find out. The next charts will show reference levels acting as resistance and being broken in not particular order. Then, I will try to make a recap and separates the breakout from the failed breakout and assess relative volume to current instant or close relative bars in the past.

September 30th, 2014



The profile is showing higher value than the previous day and now we are breaking 3 reference levels – YHOD, YC and LOD. Lets add some bars ...



Volume for all bars that did cross the YC and YHOD and pushed down LOD were average to 1.2 time the average size when comparing to previous volume bars.



And here is the final result. We are at the other end of the value area, time to get out.

Ok, another example later in the day:



We are going through yesterday's reference while today LOD is not reached yet. But volume did not attract anything at all ... And the profile is on the LVA.

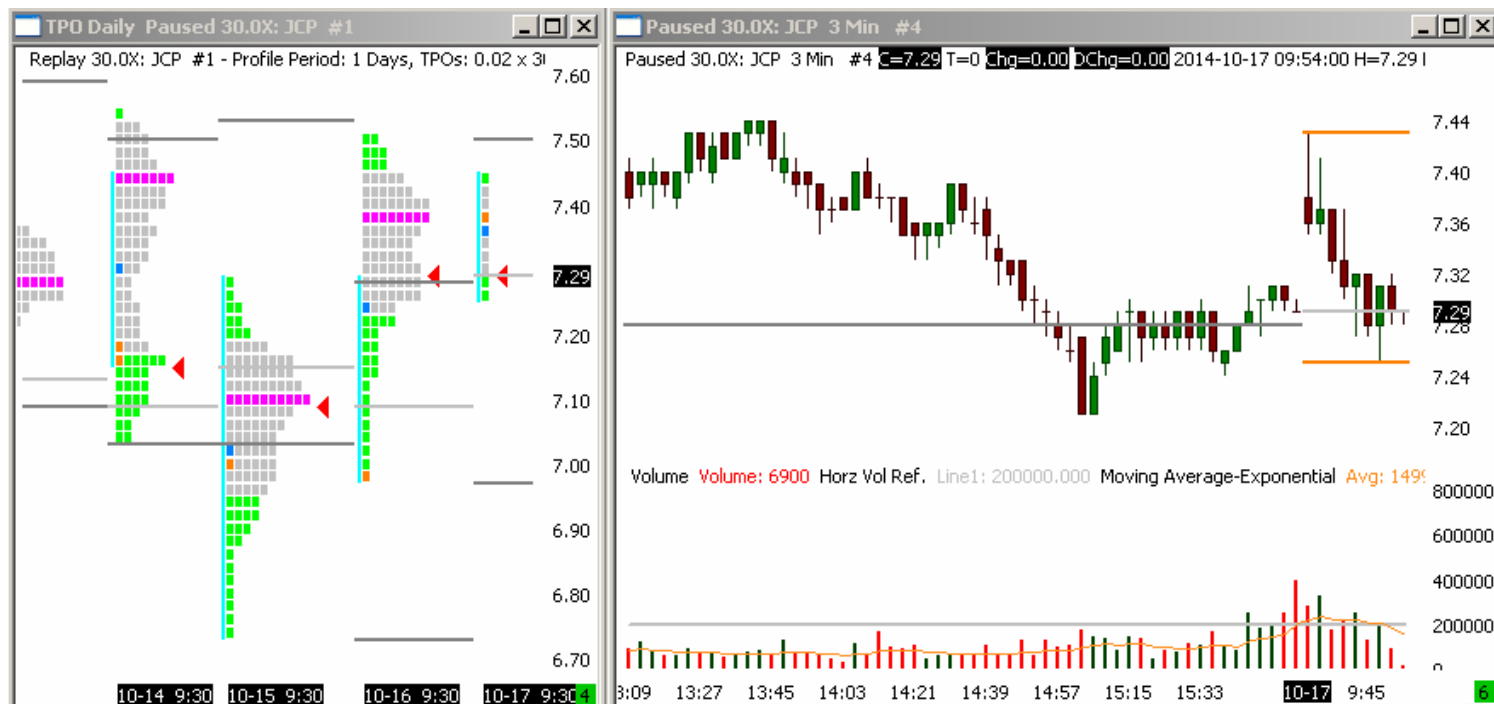


Now 5 bars later still lower volume and still in the LVA of the profile ... And then ...

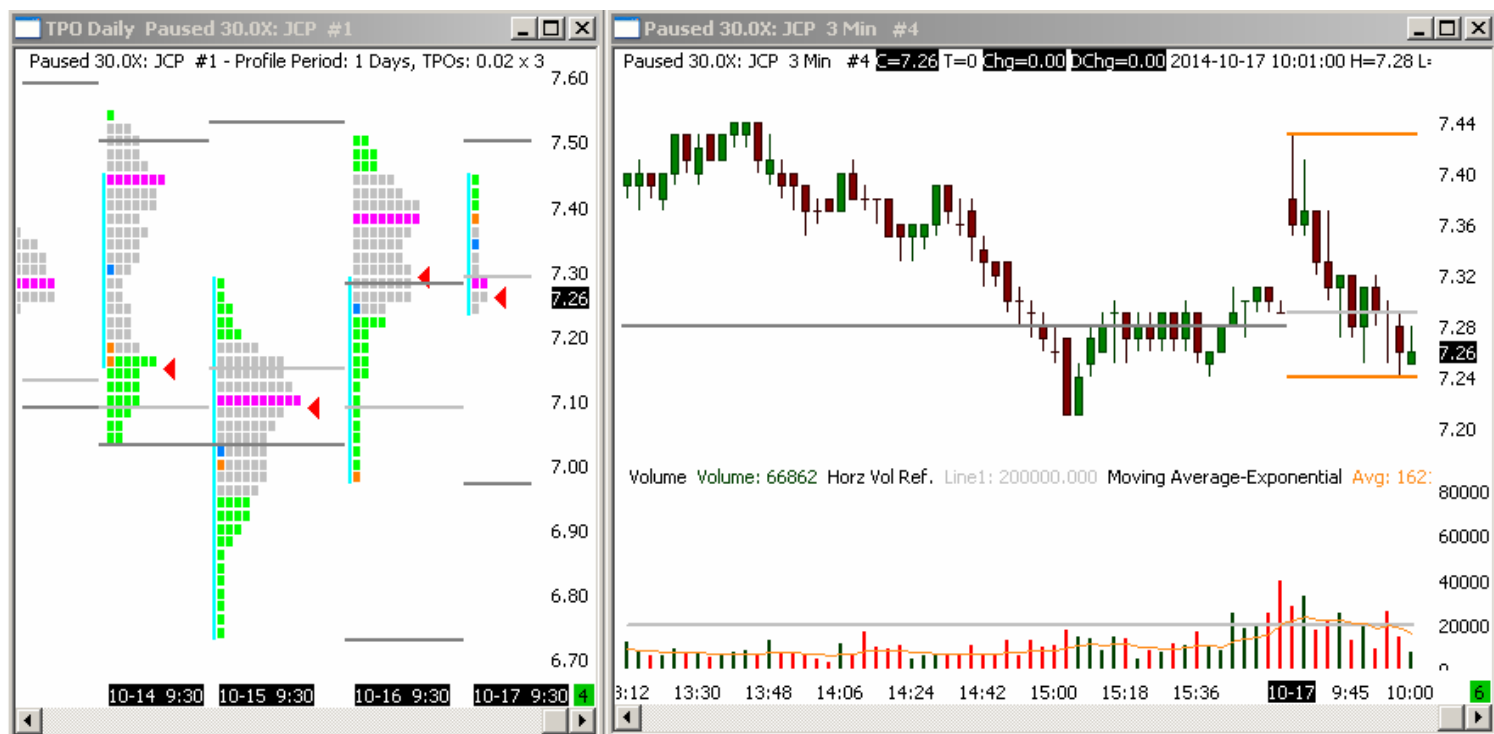


Price went above yesterday references, added some volume and you and the profile is now at VAH ... All on thin volume, way below the 200 000 volume gray line. Let's watch another day now.

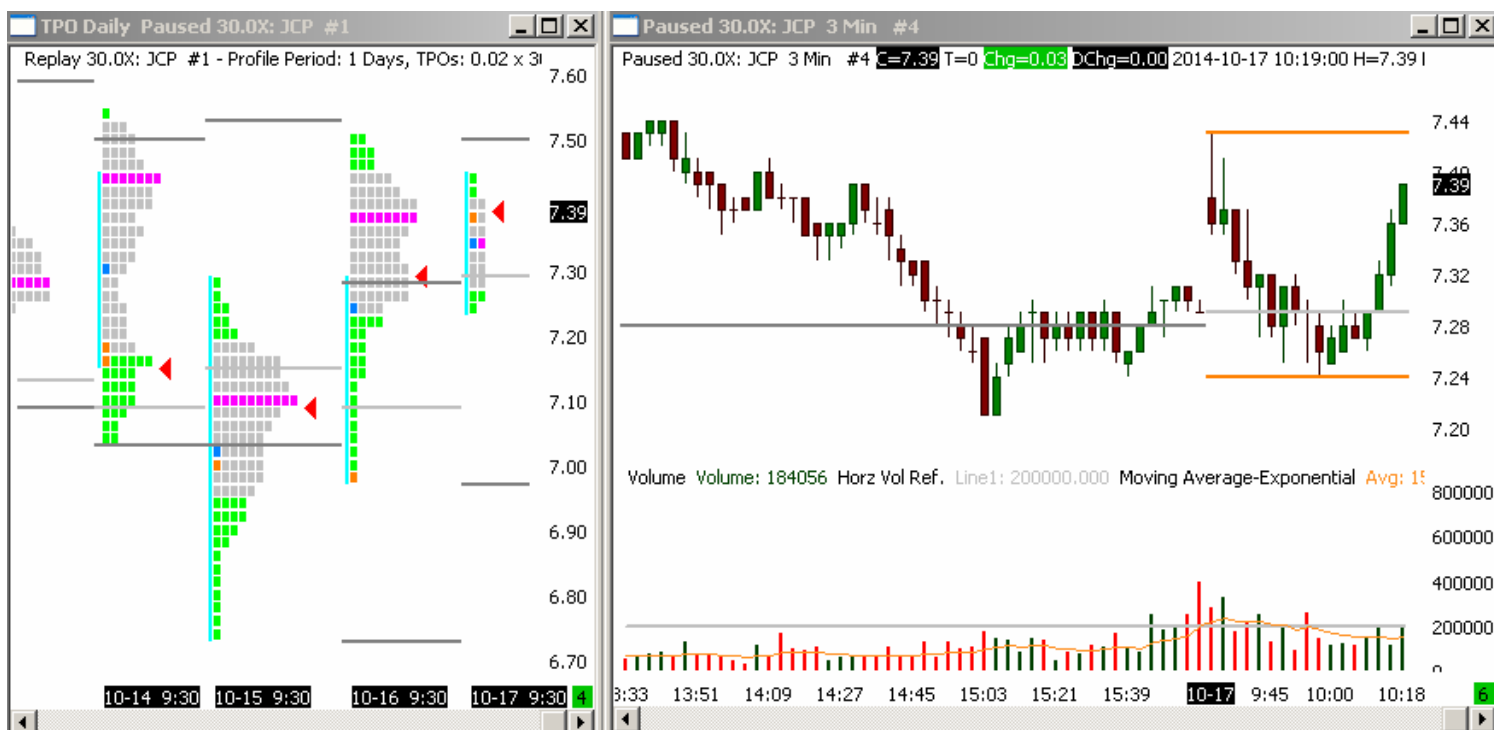
October 17th, 2014



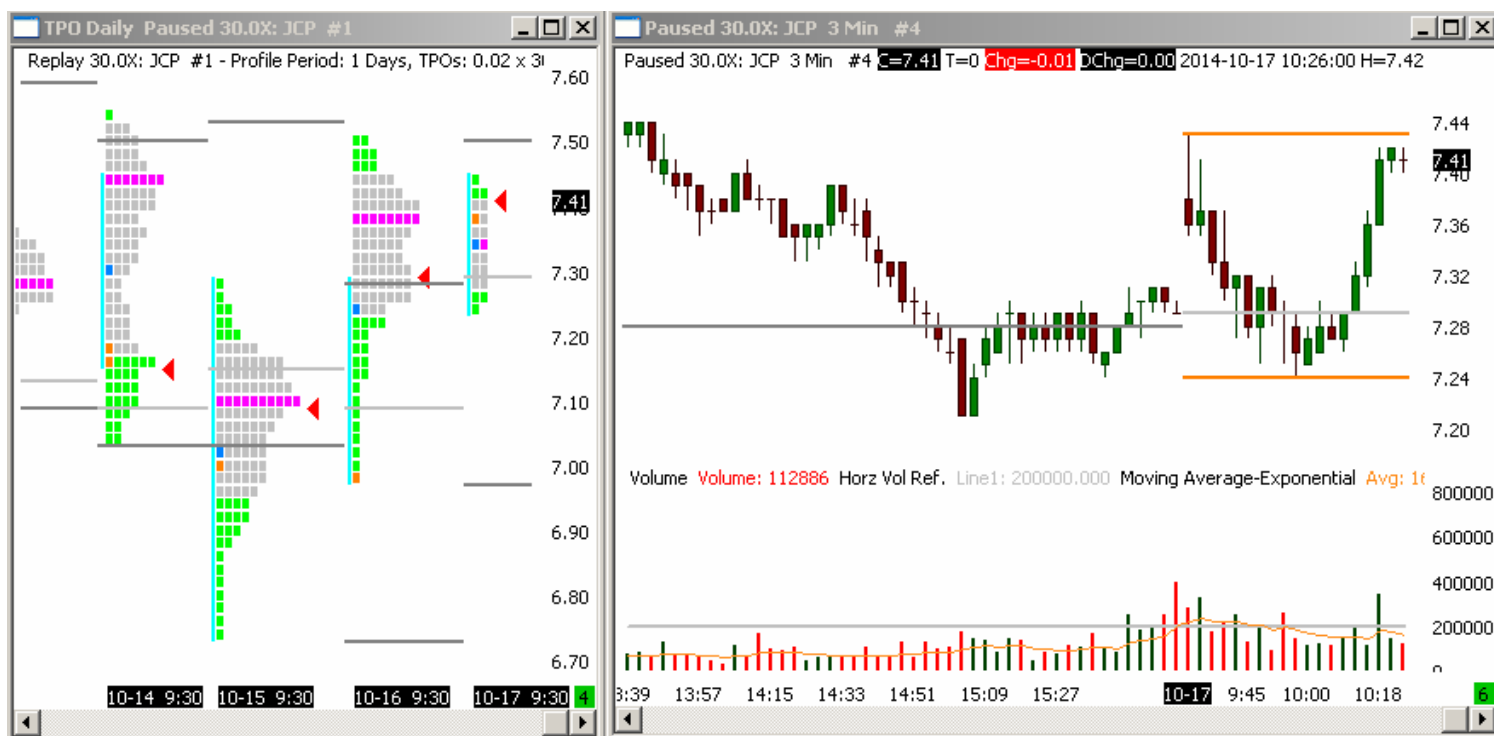
We are definitely inside the previous day and inside yesterday VA. We are now at LOD and YC with volume declining en comparing to the open



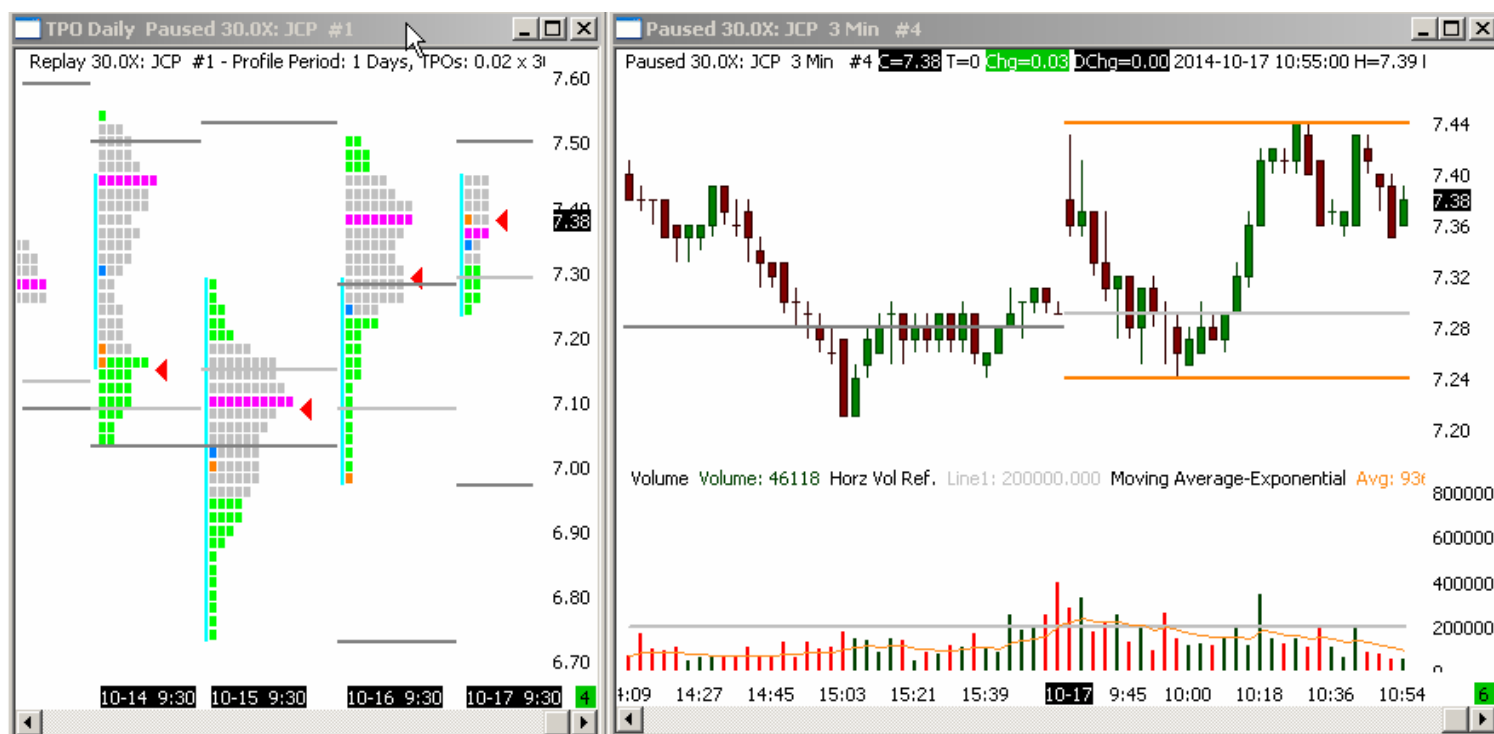
LOD is pushed a little bit more while showing 2 candlesticks with tail all on light volume.



And now at the other end of the VA and near the HOD, still on volume below the 200 000 bars



Now and near HOD, one green bar is putting a 380 000 volume bar. This is probably what Dalton calls Responsive volume ...



And now, HOD is pushed up by one tick on thin volume and a second try is attempted all on declining volume (look at the MA of the volume, the orange line ...)



Now on the low side of the profile in the green section still on light volume, might be time to get out if you entered short ... POC is now lower than YPOC. So, even the VA seems to be in the same section, at least the POC comparison tells us lower value ...

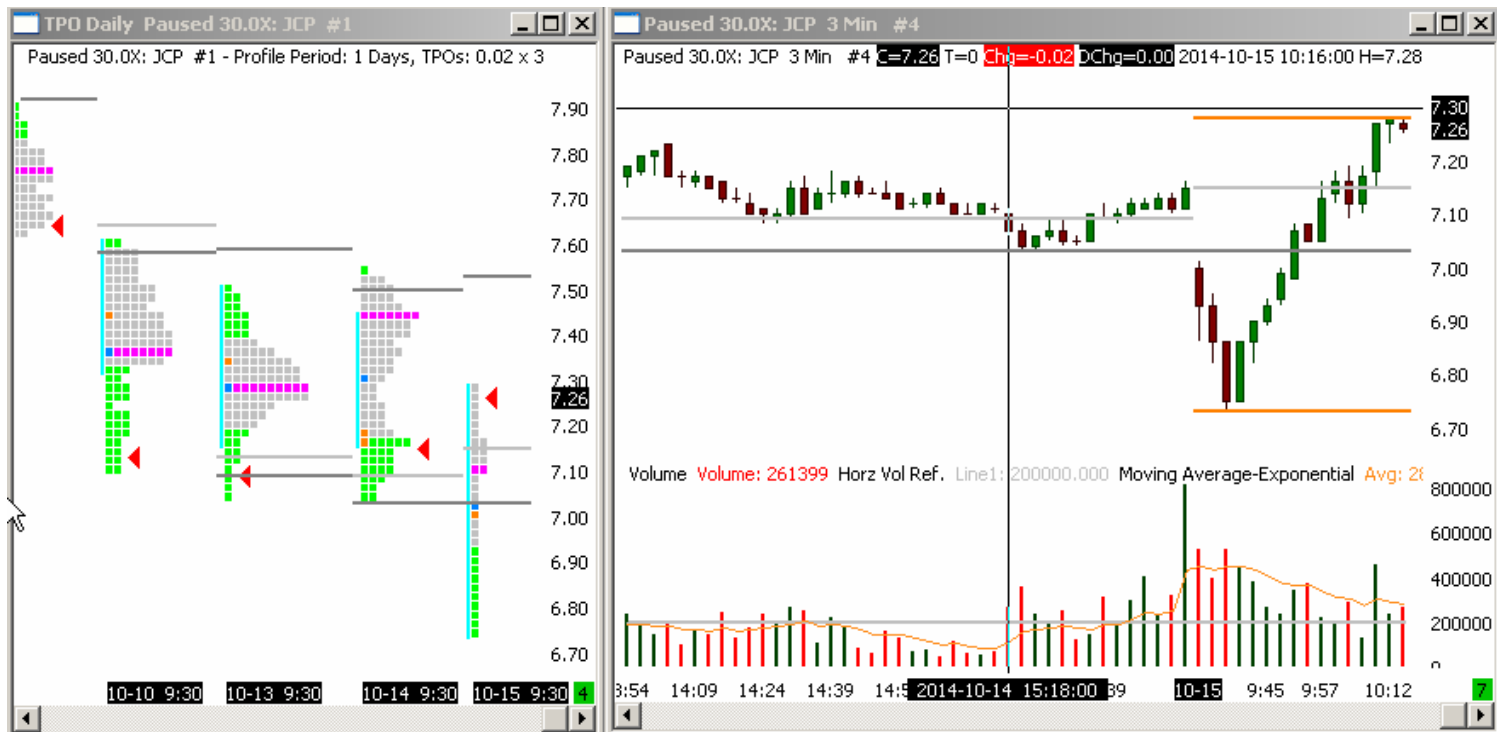


Still pushing the LOD towards YLOD on 100 000 volume as average.



It did stop there and went back near the previous day's close, all on light volume. LOD was pushed by light volume.

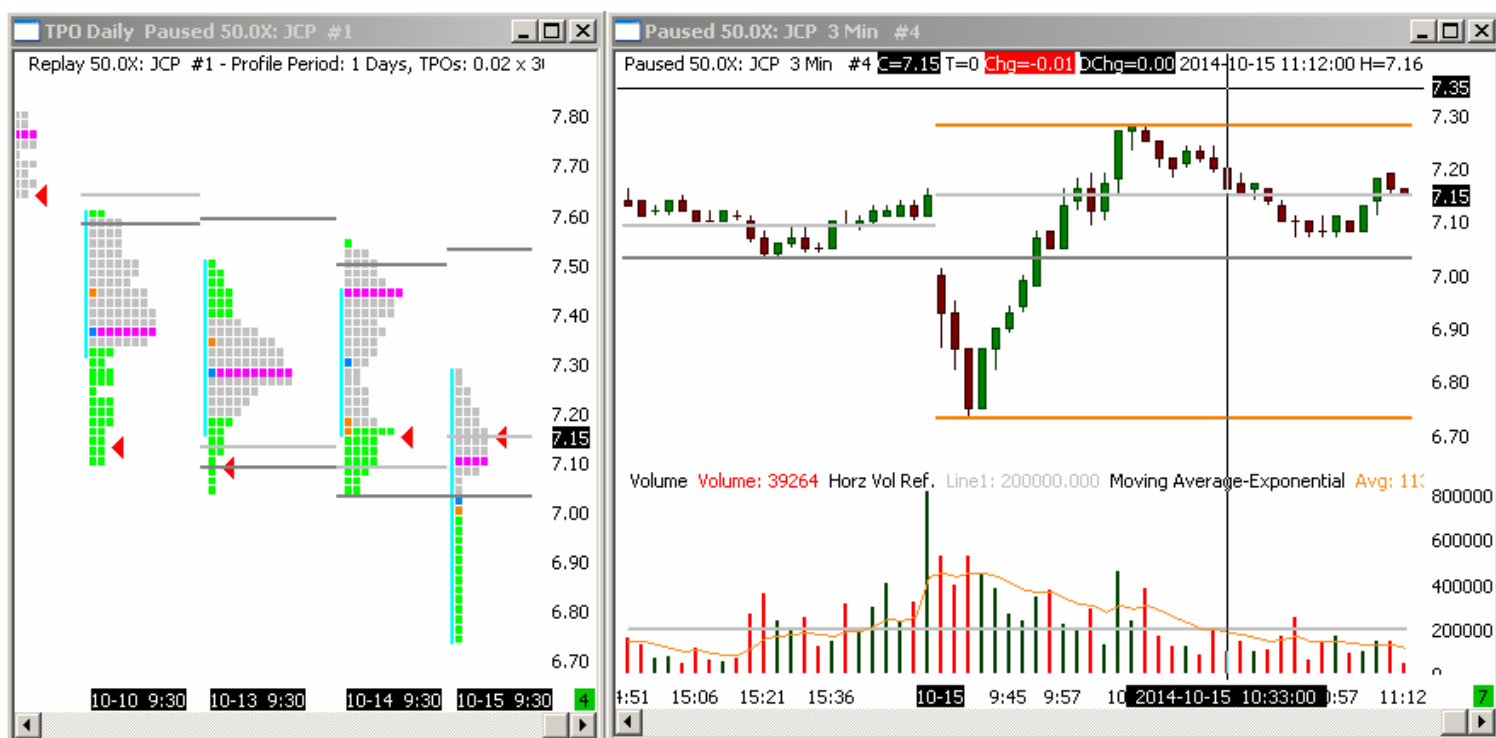
October 10th, 2014



VA and PC is now lower than yesterday. Even if the POC was higher it would still be lower than previous day POC. Volume is clearly going down by looking at the MA and we crossed yesterday's close and we are pushing the HOD. Not a good sign that we are attracting new participants ... And one volume bar at 450 000 showing response ...



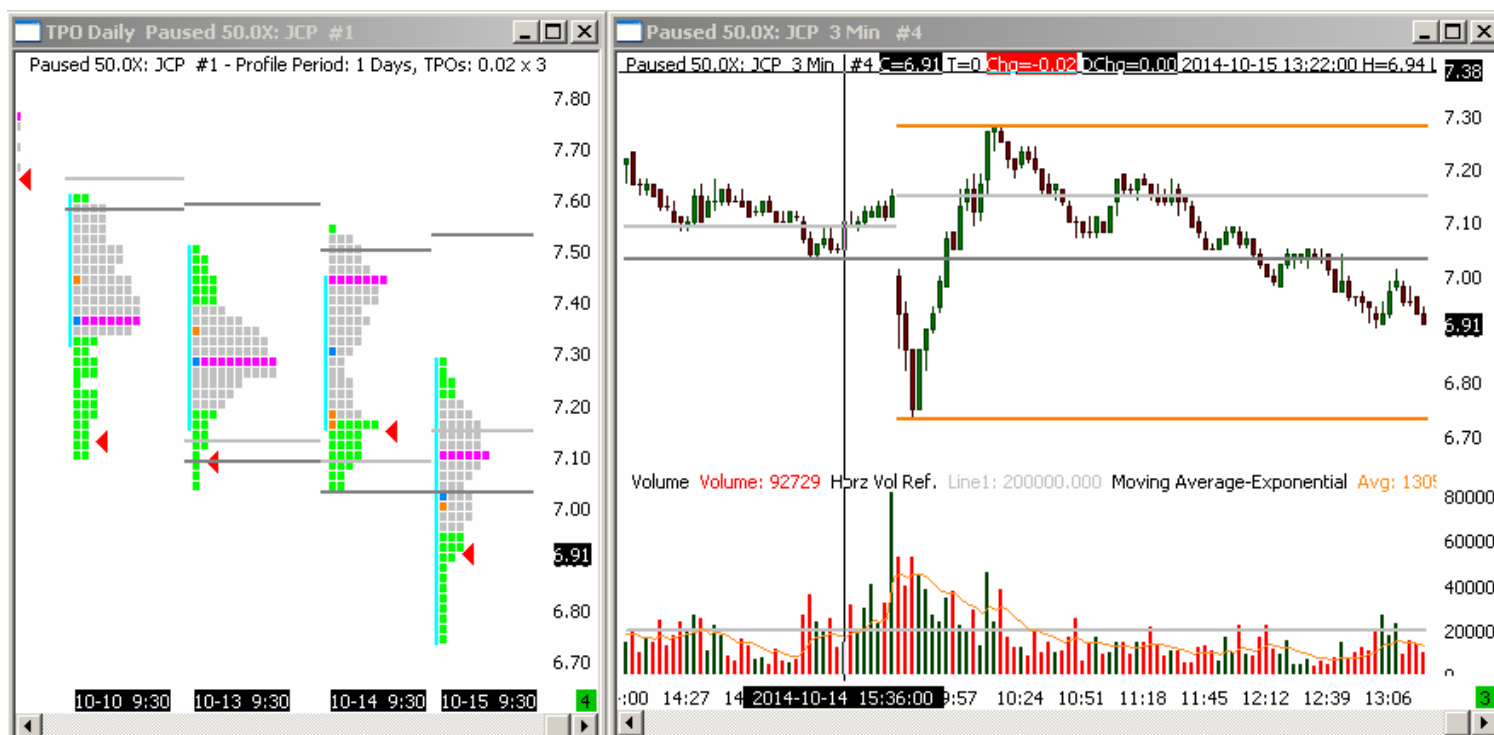
Now a second volume burst around 395 000



Now our profile has a P shape which is bearish. Lets wait because YLOD is at the same level than the 2 other previous day ... And VA and POC are clearly showing lower value when comparing to yesterday ... Also, the slope of the VA is also bearish ...



We went below YLOD with not that much of volume but when it moved back above look at the so thin volume like if nobody was there to move it back ... And the profile is building a lower VA ... Finding acceptance base on time, no rejection of the zone ...

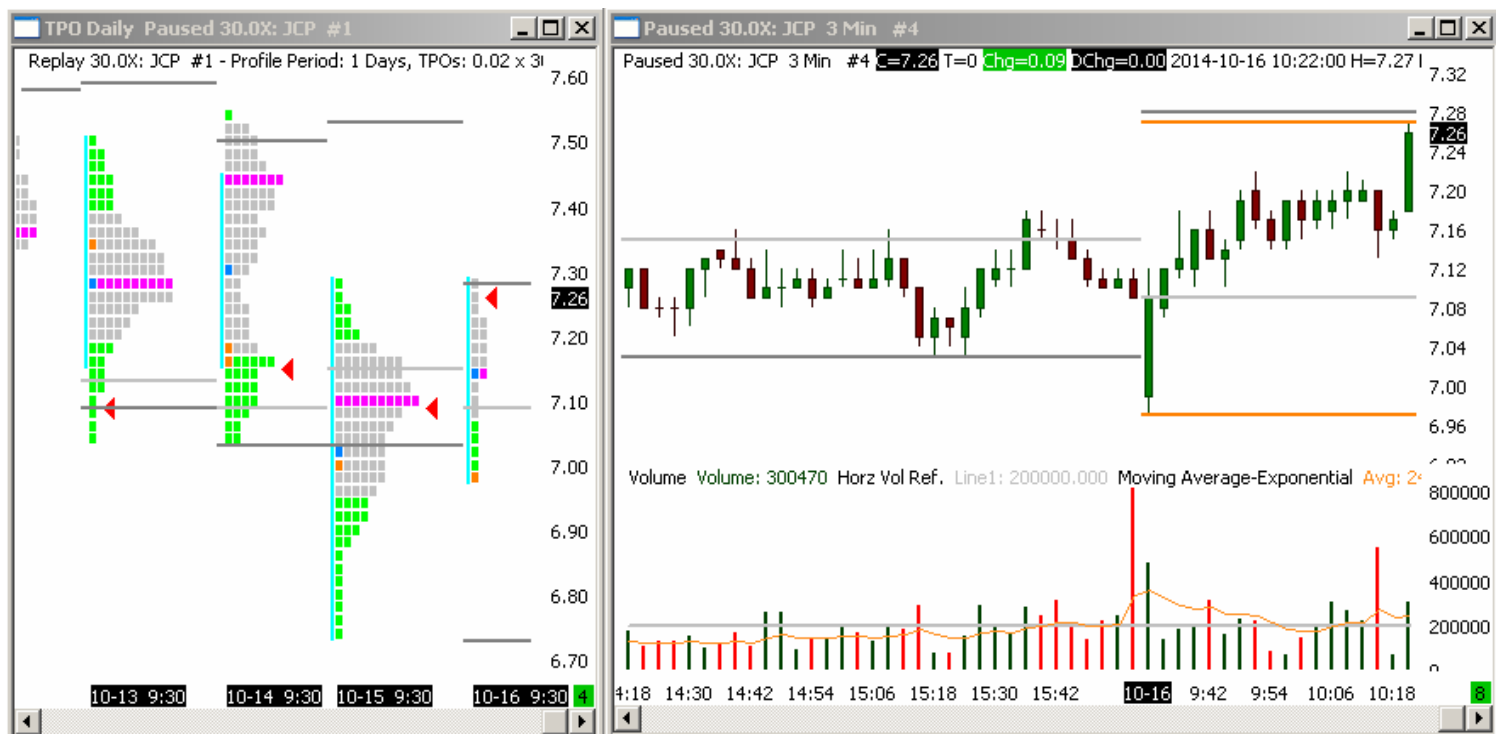


Look at the profile. It did enlarge its VA towards the bottom while some volume really kicked only around 13:06. Now in the green on the profile

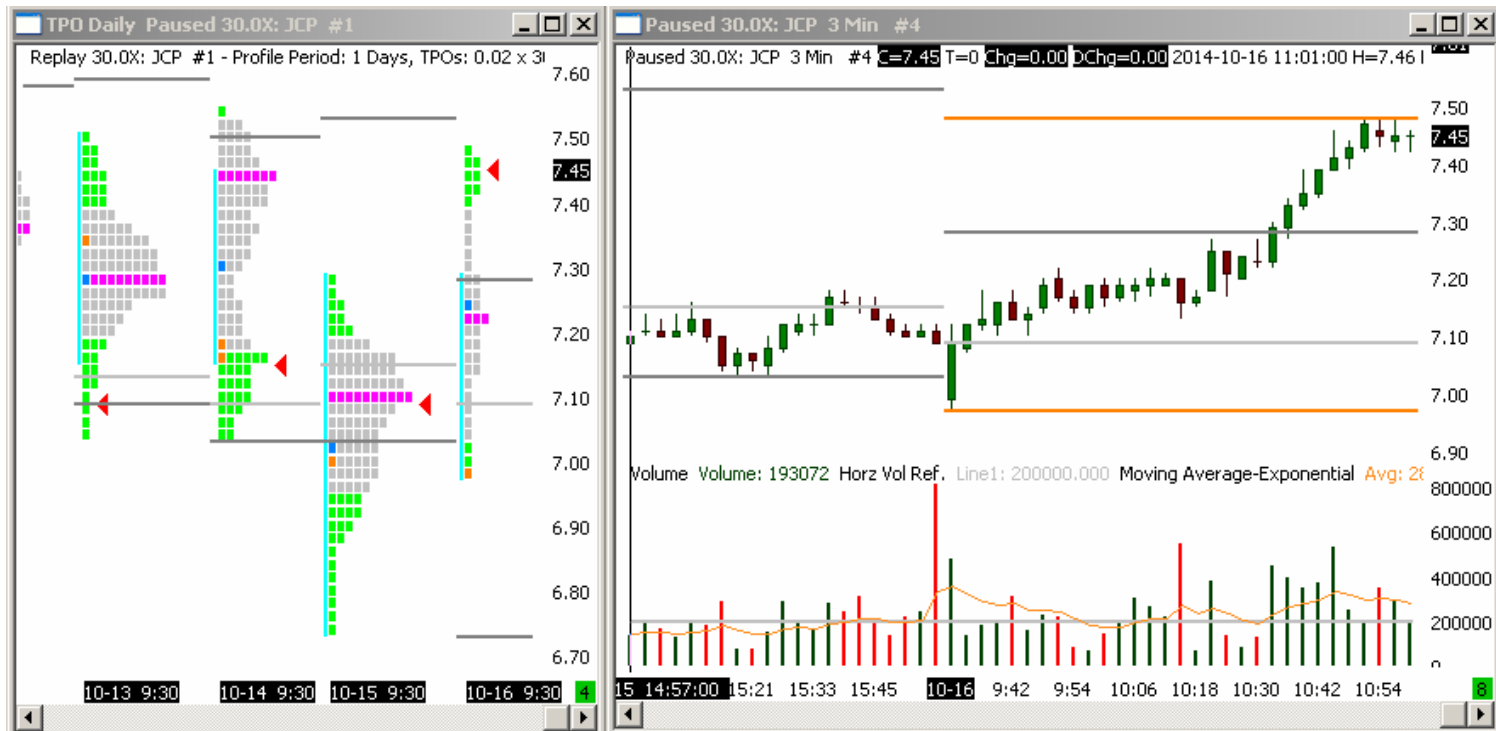


And on the 13:06 volume at no particular level (except for the fact the were outside the profile VA on the low side) the stock did reverse to the up side
 Ok I do have one with more volume for a breakout example.

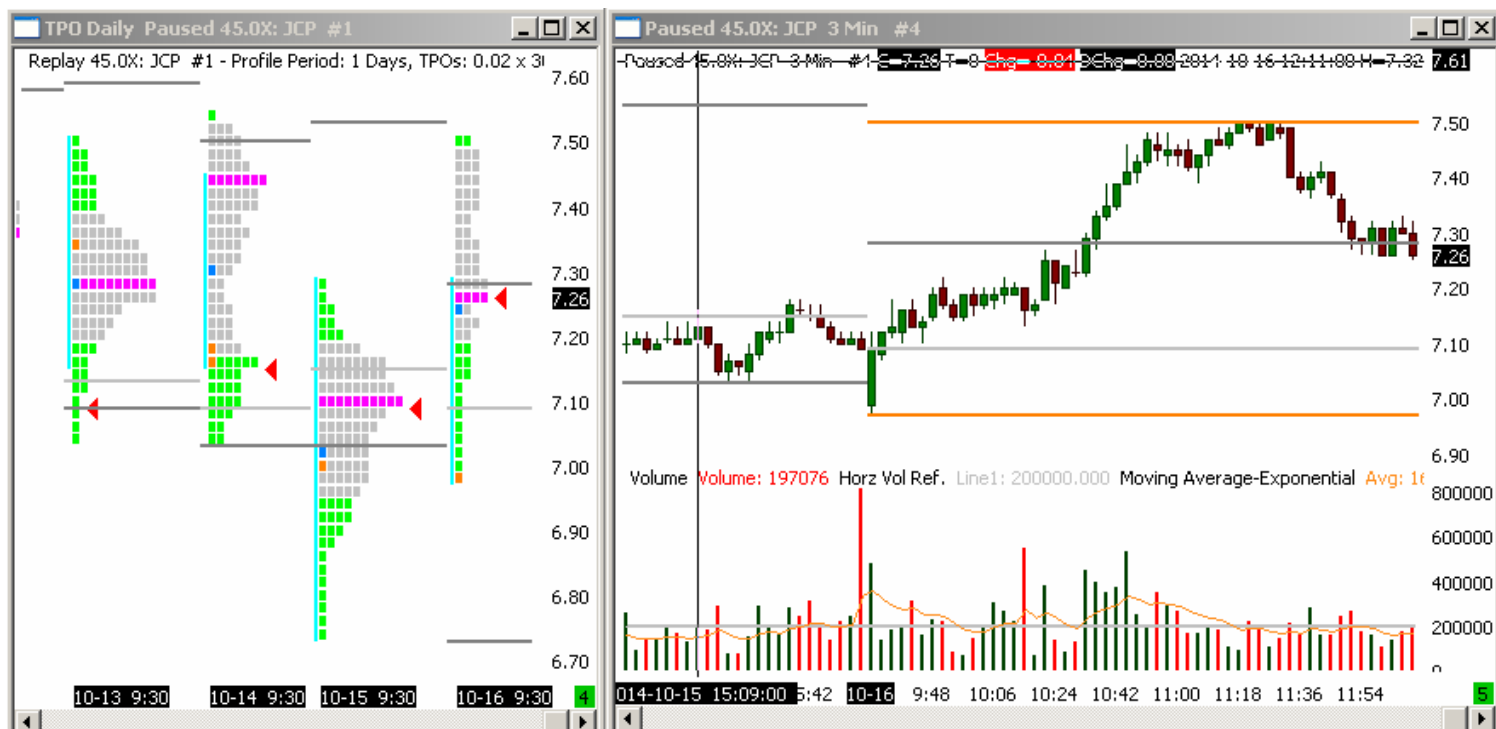
October 16th, 2014



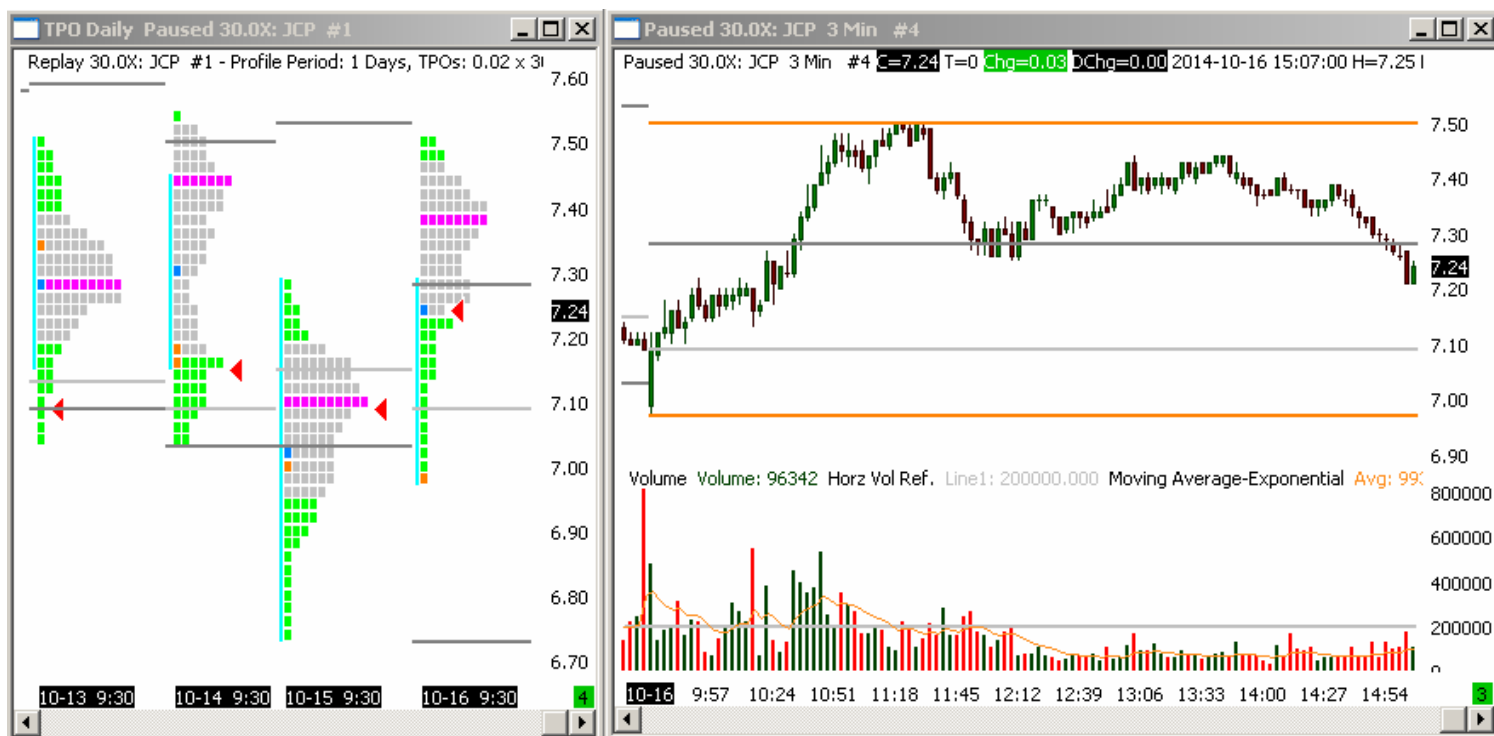
First, the volume of the previous days close bar (913 000) is totally engulfed by the 1st two bars at the open on smaller volume (about 600 000) which result in the YC being support. Then some volume at HOD and finally, a big one (600 000) on a red bar at 10:12. The bar after barely made 100 000 while staying at the low. The last bar on this chart is going to YHOD while pushing HOD on a 325 000 volume bar. Lets see what happens next ...



Now numerous bars (between 10:33 to 10:42) above 400 000 did pushed JCP to crossed the YHOD to start building a higher VA.



Now at the level that took 5 bars of 400 000 volume each (YHOD) but the profile is not in the green. But it is in its lower portion while POC is in there too ... We do have a huge tail on the profile with a poor high at the top, 2 bullish factor, with higher value than yesterday, with all that and a retrace to the reference level maybe being in the low portion of the profile is enough ...

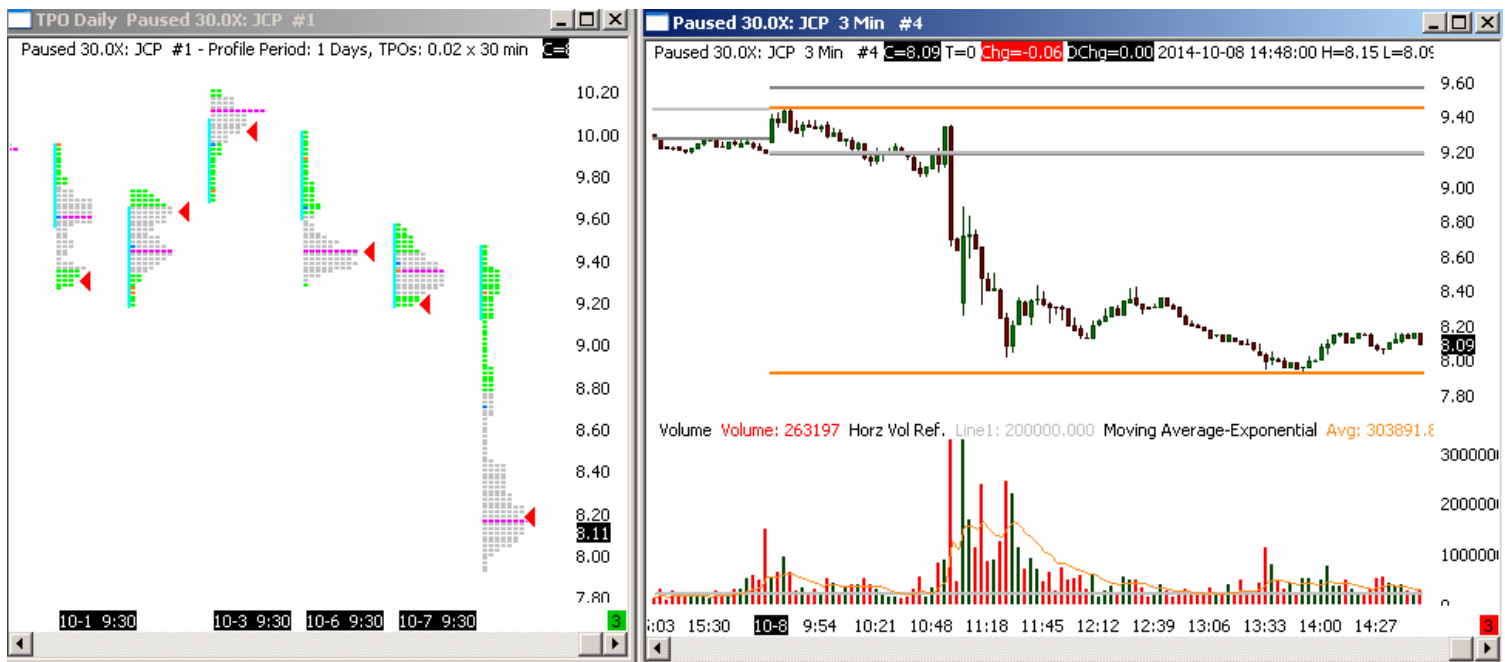


Ok not waiting to be in the green section of the profile would not have make anything good, it did not went to HOD ... But now we have another opportunity and we are in the green. On thing against us is the P shape but all other fact are bullish ...



Now the profile is building acceptance lower ... A sign that our P shape might have more power than all others ... And the day is over. At least it would not have been a loser

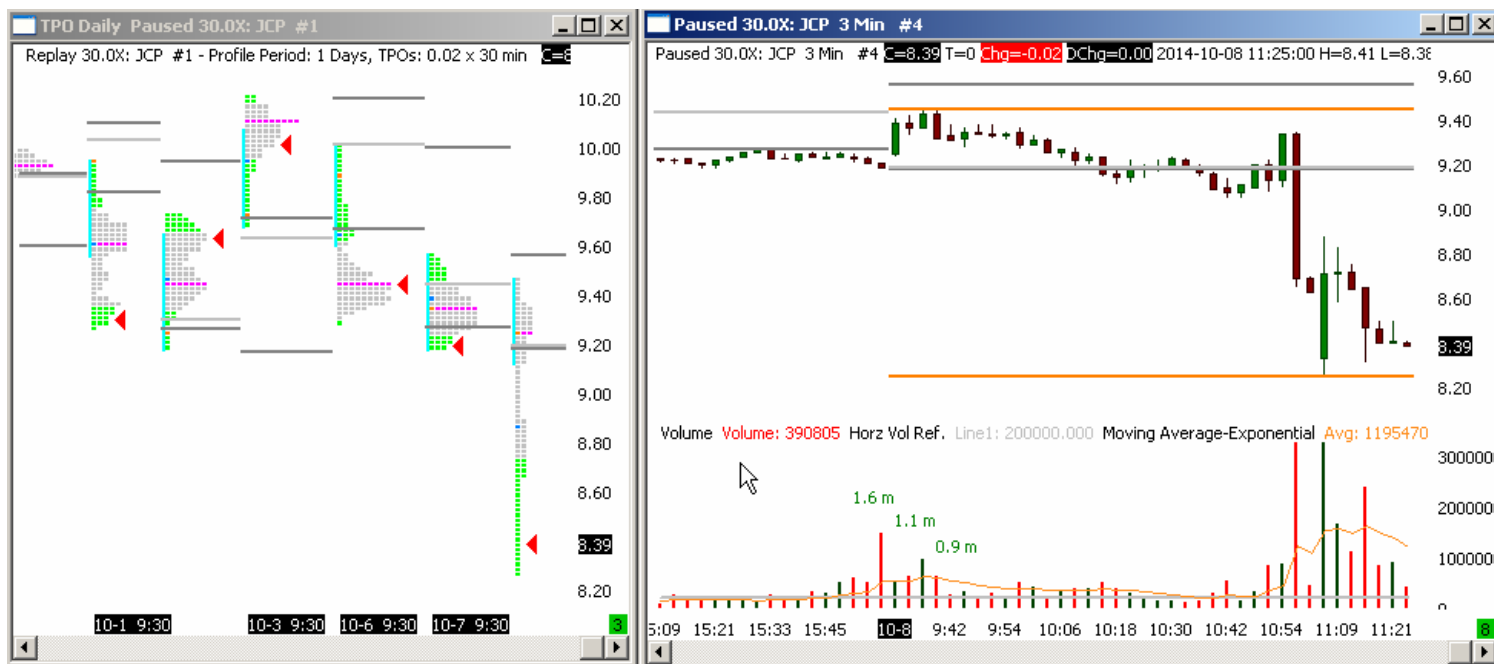
October 8th 2014



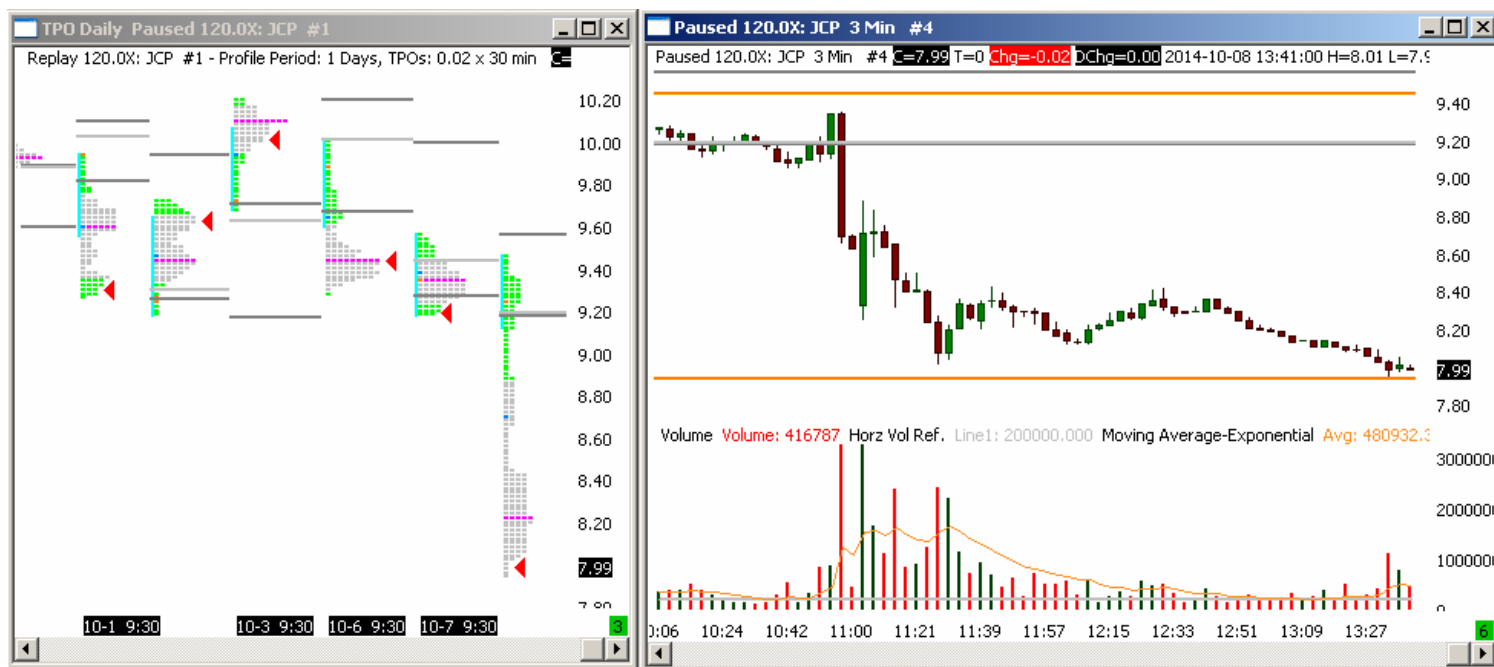
This is the entire day on October 8th. I had to change the scale on the volume section by more than 4 times ... On all other days I had a fixed scale of 800 000 shares per 3 minutes bars. On that day, I had to move the top of my scale to 3 600 000 ... So on this chart I think we do have a nice opportunity of seeing price advertisement that is bringing a lot of new participants while at the same time and seeing a responsive volume that act as resistance ... Lets evaluate the open ...



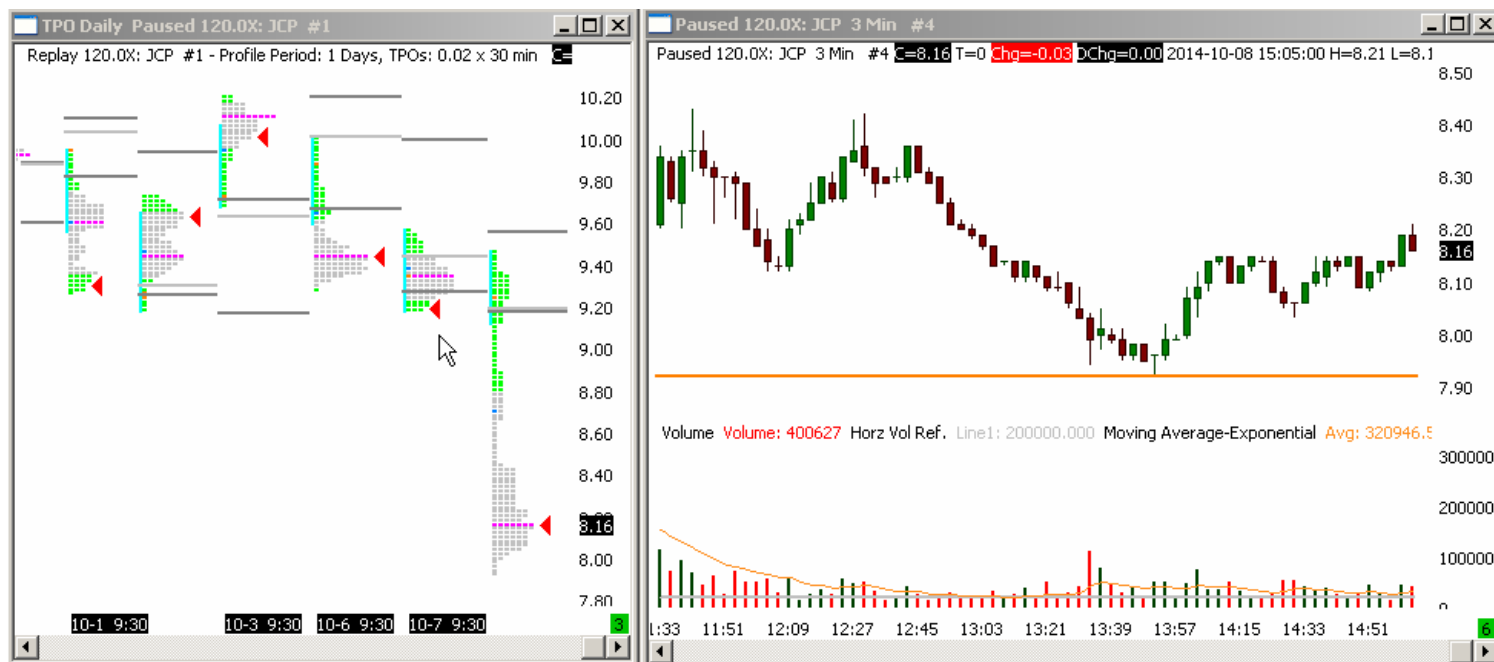
First of all, there was an abnormal volume at the previous day close (1.6 million shares traded on the last 3 minute bar of the day). The previous day profile was symmetric with slope showing that the value area was migrating lower. The biggest volume of the day occurred at 9:36 on a bar that did push HOD. The immediate bar that followed did completely engulfed the higher volume bar of the day with a smaller volume. Then, 5 bar averaging 200 000 of volume followed by a 550 000 bar. Let see what happens next ...



When arriving at the previous day close (which is the level where 1.6 m shares were traded at the close) we find some responsive volume in the 400 000 shares area that did brought the stock above the said reference level line. And then suddenly, 2 bars near 1 M shares and one huge 3 M share red bar ...



Here we see LOD being pushed with volume near doubling the recent volume but not as big as the break down volume. And probably at least 3 to 4 time smaller than the break down volume. Look at the position of price in the profile ...



And now see what happens next, return to the center of the VA and at the POC level. Being against the major trend and all factors (lower POC, lower VA than previous day) I think that reaching POC is fair enough ... 9.97 would have been a nice entry while POC was at 8.16, not a bad trade ...

What can we say now about volume assessment when approaching key reference levels? First, it is clear to me that there is no reference number that can be used like the horizontal line I did draw at 200 000 shares on my 3 minute chart. I will keep my line at 200 000 but I am saying that I cannot use it to reference volume level when it is time to figure out if we are in presence of responsive volume versus new participant volume. Also, trying to follow a MA for volume is also difficult and did not lead to add any major edge. Volume assessment has to be done with the context of the current and near past volume size bars. This is what I did learn. Volume has to be compared to the open, previous day close and current day volume. In order to get a feel as for volume size, you will have to look at the prior day close volume, then at the next important volume spike (which will occur within the first 30 minutes usually) and deal with that size to evaluate if this sample size did act as resistance of key reference levels or did act as a break down. From there and only from that moment on that day you do have a volume size as reference. If the 1st important size did act as not being able to break, then this would become your responsive volume size reference number (for example 300 000 shares) for that day and a way bigger volume size would have to come in order break on that day. On the other hand, if you see near same size volume sample (same as initial volume size) at another reference level (or at the same) you can assess that this is responsive volume that will lead to return to value area. I will try to develop an approach that will measure that initial volume size for the day. That initial volume size would either be a responsive volume size (volume that did act as a no breakout) or a volume size that would be a breakout volume size (volume that did act as breakout volume). And from this initial volume size we will be able to reference new volume size that will come later during the day to evaluate if they can be breakout or responsive volume ...

My stock universe

These are the only stocks I am allowing myself to trade. They are stocks that I like to trade and they do have a minimum of 10 million shares traded in average every day. The short term tick size has been selected for each of these symbol based on high activity day – not extra high volume day but good trading day. From these days, the short term tick size is selected to get a minimum of 45 seconds per bars in average from 9:30 to 10:30. If the day is very active and your minimum tick size is too fast, increase your tick size to get your 45 second target. The opposite – lowering your tick size if your chart is too slow – is totally interdicted. If you have to lower your tick size it is because you are in front of a non active trading day for that particular trading instrument and you do not want to trade stocks when it is not active.

Symbol	ST Tick Size	Sector
ABX	300	Gold
CSCO	700	Hardware
DAL	100	Major Airlines
FB	600	Internet
GG	200	Gold
GRPN	250	Internet
JCP	800	Retail
JPM	400	Banking
LCC	100	Major Airlines
MSFT	800	Software
POT	200	Chemicals
QCOM	150	Telecom
QQQ	100	NASDAQ
SPY	800	SP500
YHOO	300	Internet