OWN THE MARKET

PIVOTBOSS

SWING TRADE PRO

TRADE AND RISK MANAGEMENT

with Frank Ochoa

COURSE AGENDA

OWN THE MARKET PIVOTBOSS

PART I: FOUNDATIONAL SWING TRADING CONCEPTS

Four Market Phases

Understanding Value

Identifying Value Opportunities

Pivot-Based Moving Averages

Pivot Range Analysis

Volume-Weighted Average Price

PART II: SWING TRADING SETUPS AND ENTRY TECHNIQUES

The Importance of Trade Location

Pro-Style Entry Techniques

Intraday Entry Techniques

Indicator-Based Setups

Candlestick Setups

Range-Based Setups

PART III: TRADE AND RISK MANAGEMENT

Forecasting Accurate Targets

Scaling and Trailing Techniques

Defining Trade Risk

5 Rules of Risk Management

Proper Position Sizing

Defining Portfolio Risk

TRADE MANAGEMENT

TRADE MANAGEMENT

Trade Management involves every aspect of managing a position, from targets, trailing stops, loss stops, scaling techniques, and more.

FORECASTING TARGETS

SCALING TECHNIQUES

TRAILING TECHNIQUES

ADR STOPS

THE FREE TRADE TECHNIQUE

PUTTING IT TOGETHER

FORECASTING ACCURATE TARGETS

FORECASTING TARGETS

The PivotBoss approach to taking profits relies upon forecasting targets based on average price movement and utilizing actual profit targets.

- Average price movement provides a price-based method to forecasting targets
- Trading to high-probability targets yields consistent results
- Using profit targets allows you to more easily incorporate risk management measures
- Trading to profit targets is the PivotBoss preferred approach

PRO-STYLE TECHNIQUES FOR TARGET FORECASTING

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ADR SWING TARGETS

Utilizes multiple-day ranges to forecast reliable targets

1. *Simple; effective*
2. *Can be used for any style of trading and in any timeframe*
3. *Price-based; self-adjusts to current volatility*
4. *Success rates over 70%*

ADR WEEKLY TARGETS

Utilizes weekly price range to forecast reliable targets

1. *Simple; effective*
2. *Great for swing trading and range forecasting*
3. *Price-based; self-adjusts to current volatility*
4. *Uses average weekly ranges for targets*

ADR SWING TARGETS

ADR Swing Targets use average price movement and multiple-day ranges in order to forecast reliable and accurate targets.

ADR SWING TARGETS

Utilizes multiple-day ranges to forecast reliable targets

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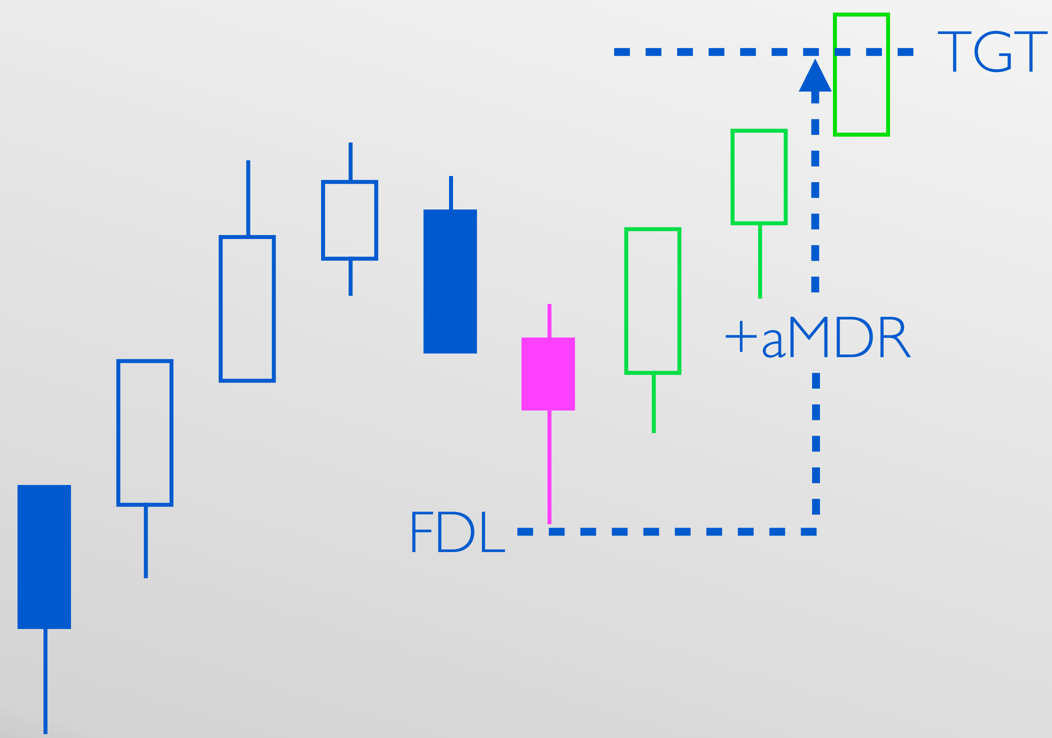
ADR SWING TARGETS



WHAT IS THE ADR METHOD?

The ADR Method is a simple, yet powerful, method used for forecasting targets using average price range in any timeframe.

- Helps you forecast targets with a high degree of accuracy (>70%!)
- Auto-adjusts to current market volatility and behavior
- Simple; effective - and it works!
- The Real-Time and Swing Editions of The ADR Method teach the entire methodology

WHY SHOULD YOU USE ADR TARGETS?

Average Daily Range has been used by professionals for years, because it provides a price-based approach that relies on current price behavior.

- Provides a simple, price-based approach that incorporates recent price behavior
- Self-adjusts to current volatility
- Helps provide reasonable price range expectations for the upcoming period of time
- Allows you to easily forecast bull and bear targets, regardless of timeframe
- Allows you to anticipate market behavior, including breakouts (expansion) and range markets (compression)

WHAT IS ADR?

Average Daily Range (ADR) is calculated by averaging the sum of the daily ranges over a given period of time.

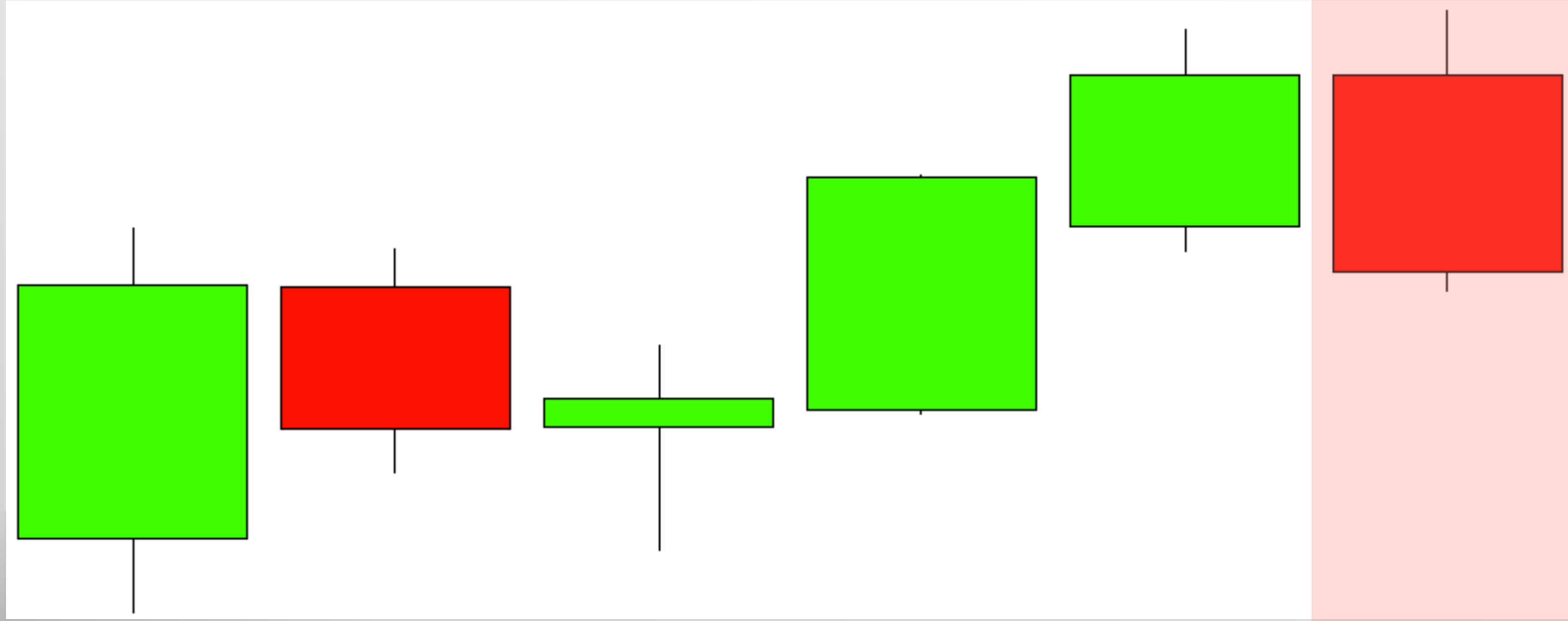
- Daily range refers to the High minus the Low of the day, including extended hours trading
- ADR refers to averaging the daily ranges over a string of days
- The ADR Method primarily uses a 5- or 10-day calculation, but other periodicities can be used
- ATR can be a valid substitute for ADR, but it includes gap data in the value

CALCULATING THE ADR

Numerical Formula:
AVERAGE((H-L), 5)

ADR (5)
29.45

Day 1	Day 2	Day 3	Day 4	Day 5	**Day 6**
44.25	25.75	23.75	27.75	25.75	**32.25**



MULTIPLE DAY RANGES

A Multiple Day Range (MDR) uses the highest high and the lowest low over a given number of days to identify the range.

- The highest high minus the lowest low over a given number of days
- The MDR, and its average, is used to identify great swing targets
- The ADR Method primarily uses a 3- and 5-day calculation, but other periodicities can be used, like a 10-day

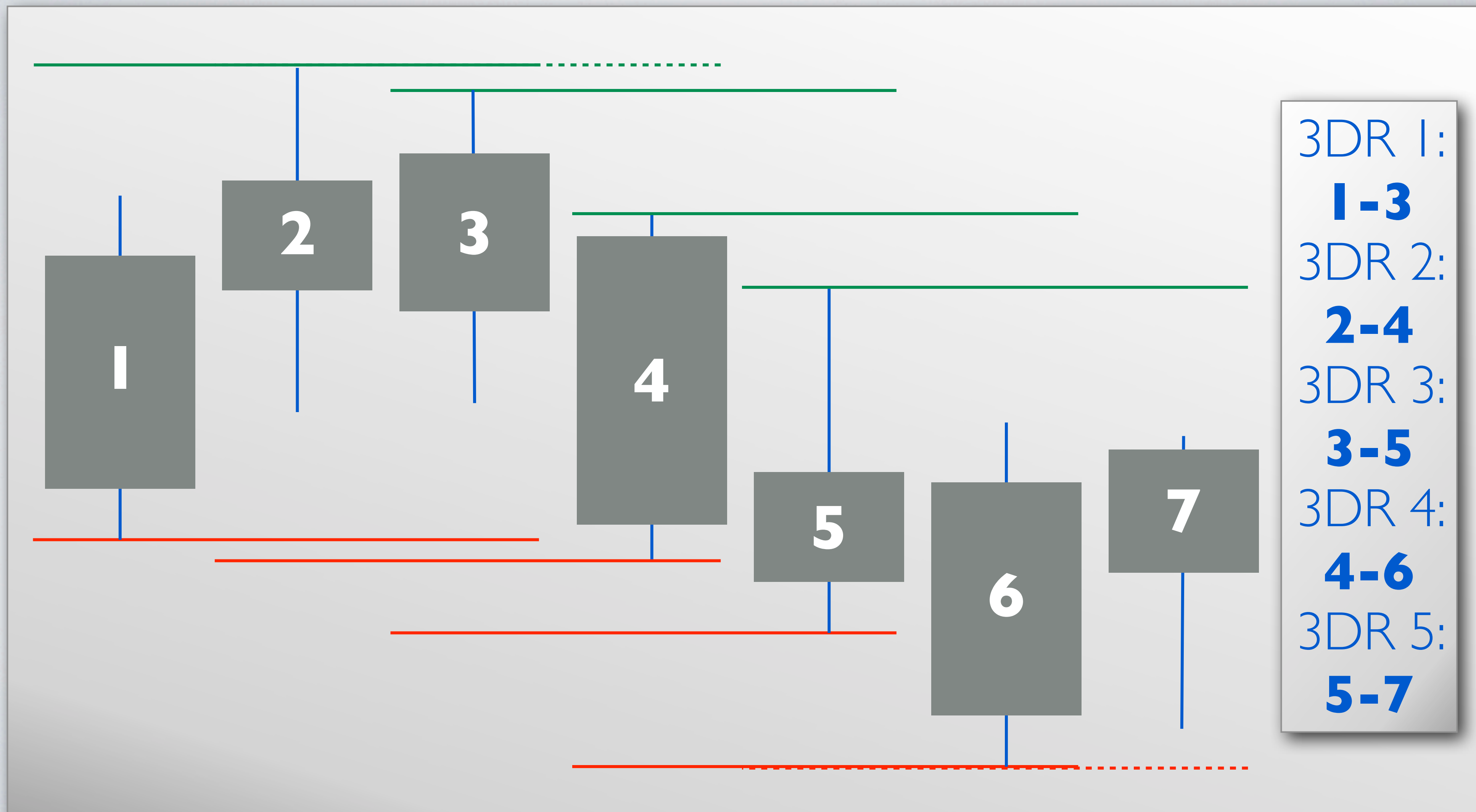
MDR PRICE FORECASTING

MDRs help temper your expectations for price movement and provide a price-based method for forecasting reliable targets.

- Provides reliable price extremes for the upcoming n-number of days
- Regardless of direction, bull and bear targets give you great approximations for your trades
- The Method takes into account abnormally high/low range MDRs, which allows you to forecast better targets

CALCULATING THE MDR

The MDR calculation uses a "rolling" method, whereby the oldest day in the string is dropped when a new day is added.



CALCULATING THE AVERAGE MDR

Numerical Formula:
AVERAGE((HHV(3)-LLV(3)), 5)

3DR 1	3DR 2	3DR 3	3DR 4	3DR 5	=	**Avg 3DR (5)**
26.25	37.00	60.75	57.00	45.50		**45.30**

FORECASTING WITH MDR

The 5-period average 3-day range of 45.30 indicates that the price range of the upcoming 3 days should be around 45.30...<u>on average</u>.

In the actual example above, the price range of the next 3 days was 46.50.

USING MULTI-DAY RANGES

The swing edition of the ADR Method uses 3- and 5-day ranges to forecast targets, but 7- and 10-day ranges should also be used.

- 3- and 5-day ranges help forecast swing targets 3 and 5 days out
- The Method projects the expected range over the next 3 (or 5) days according to recent price behavior
- Can be easily adjusted for longer term swing trades
- 7- and 10-day ranges should be used for trade expectancies of up to two weeks

BASE CALCULATIONS

We will utilize two base calculations from the ADR Method for this course: Normal and Normal Lite.

NORMAL CALCULATION

Projects Avg MDR higher from the FDL, and lower from FDH

1. *Uses 100% of Avg MDR*
2. *BULL: FDL + Avg MDR*
3. *BEAR: FDH - Avg MDR*
4. *Accuracy of ~45%*
5. *Use as a secondary target*
6. *Use 3-, 5-, and 10-day ranges*

NORMAL LITE CALCULATION

Projects 75% of Avg MDR higher from the FDL, and lower from FDH

1. *Uses 75% of Avg MDR*
2. *BULL: FDL + (Avg MDR x .75)*
3. *BEAR: FDH - (Avg MDR x .75)*
4. *Accuracy of ~70%*
5. *Use as the primary target*
6. *Use 3-, 5-, and 10-day ranges*

NORMAL

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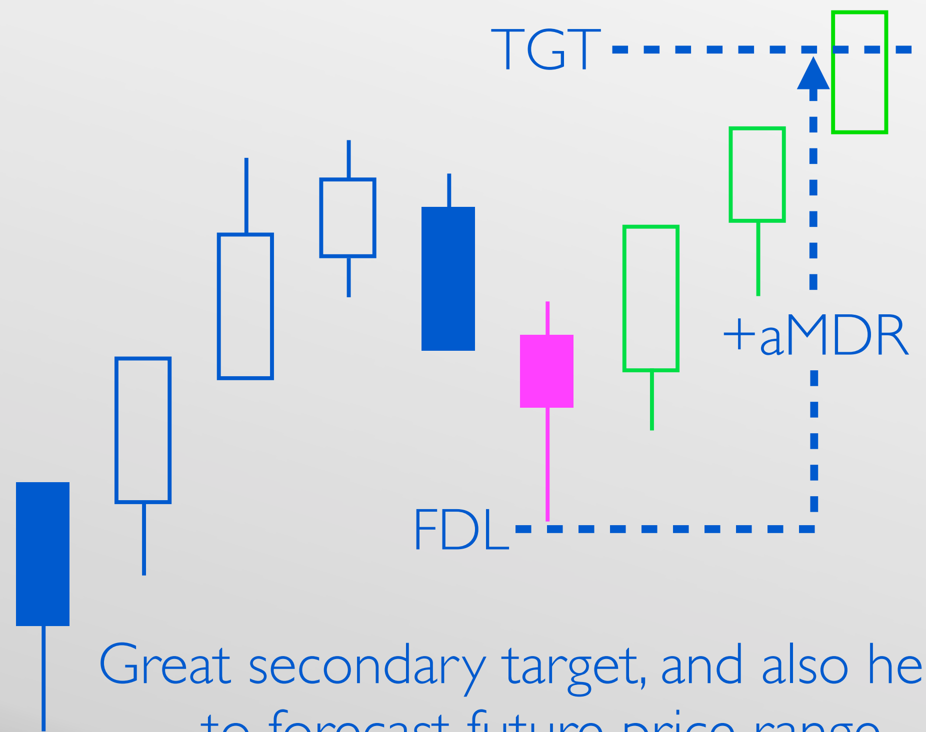
The Normal calculation projects the average MDR higher from the First Day Low (FDL), and lower from the First Day High (FDH).

NORMAL CALCULATION

Projects Avg MDR higher from the FDL, and lower from FDH

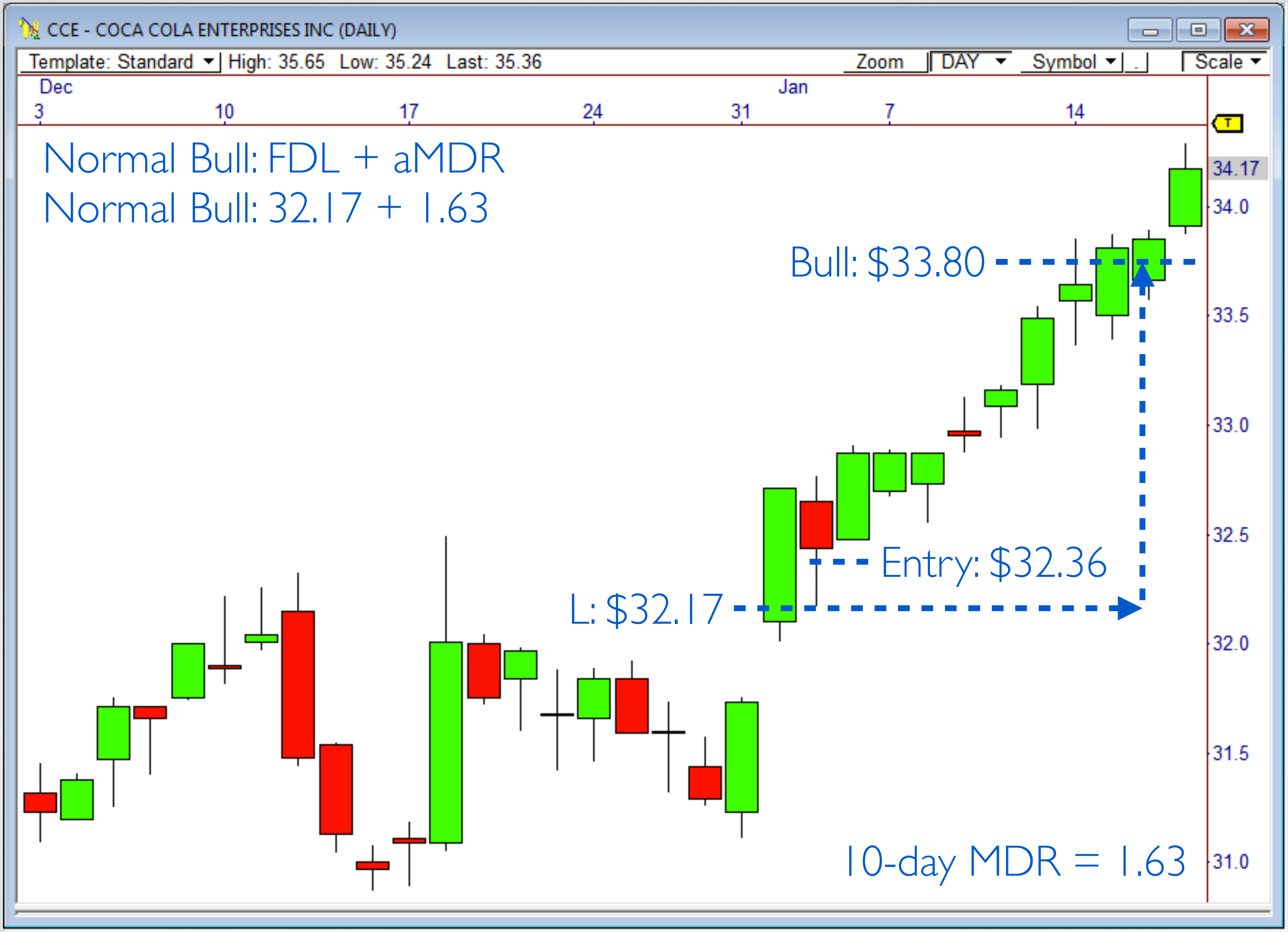
1. Uses 100% of Avg MDR
2. BULL: FDL + Avg MDR
3. BEAR: FDH - Avg MDR
4. Accuracy of ~45%
5. Use as a secondary target
6. Use 3-, 5-, and 10-day ranges

The Normal calculation projects 100% of the Avg MDR



Great secondary target, and also helps to forecast future price range

NORMAL APPLIED



NORMAL APPLIED

NORMAL LITE

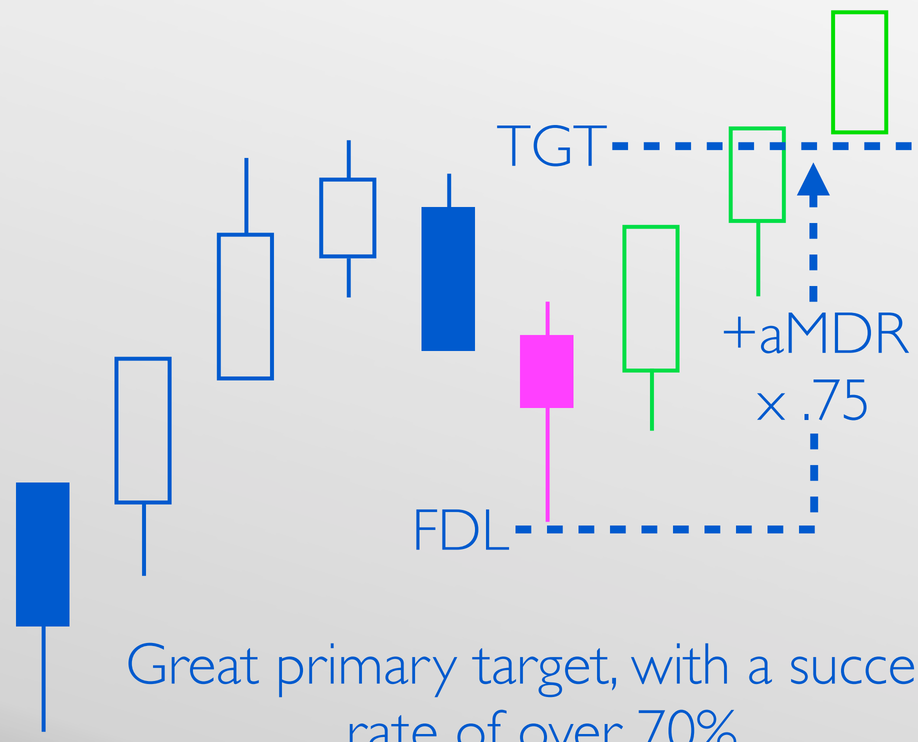
The Normal Lite calculation projects 75% of average MDR higher from the First Day Low (FDL), and lower from the First Day High (FDH).

NORMAL LITE CALCULATION

Projects 75% of Avg MDR higher from the FDL, and lower from FDH

1. *Uses 75% of Avg MDR*
2. *BULL: FDL + (Avg MDR x .75)*
3. *BEAR: FDH - (Avg MDR x .75)*
4. *Accuracy of ~70%*
5. *Use as the primary target*
6. *Use 3-, 5-, and 10-day ranges*

The Normal Lite calculation projects 75% of the Avg MDR



Great primary target, with a success rate of over 70%

NORMAL LITE APPLIED

NORMAL LITE APPLIED

ADR WEEKLY TARGETS

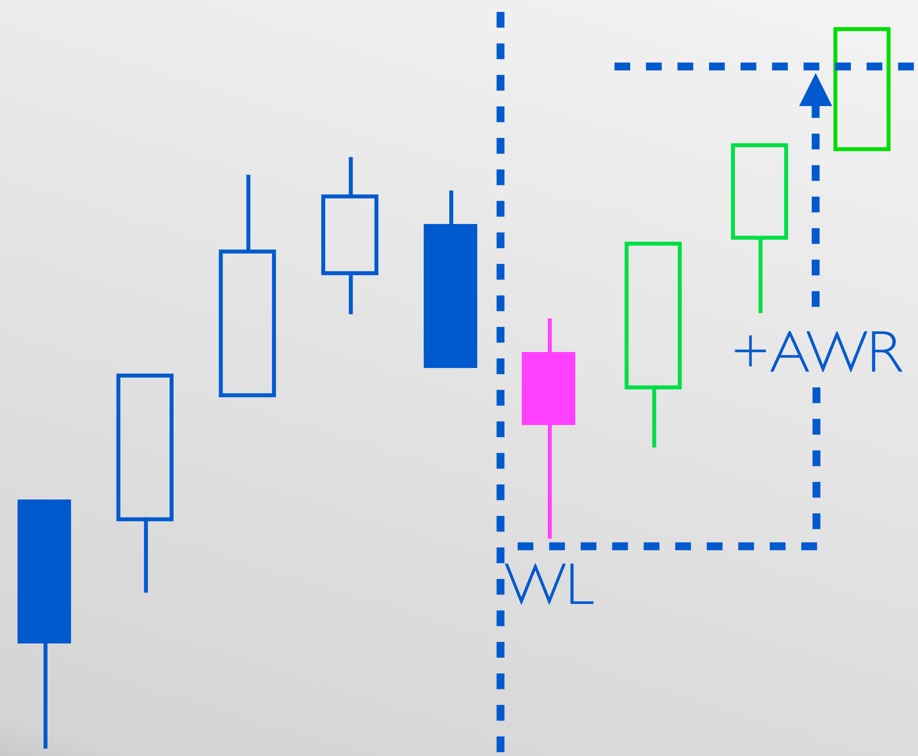
ADR Weekly Targets use Average Weekly Range (AWR) in order to forecast reliable and accurate targets on a week by week basis.

ADR WEEKLY TARGETS

Utilizes weekly price range to forecast reliable targets

1. *Simple; effective*
2. *Great for swing trading and range forecasting*
3. *Price-based; self-adjusts to current volatility*
4. *Uses average weekly ranges for targets*

ADR WEEKLY TARGETS



AVERAGE WEEKLY RANGE

Average Weekly Range (AWR) is calculated exactly like Average Daily Range, but uses weekly bars instead.

- Weekly range refers to the High minus the Low of the week
- AWR refers to averaging the weekly ranges over a string of weeks/months
- A 5- or 10-period calculation works best, as it includes the most recent price behavior

AWR FORECASTING AND TARGETS

Like MDRs, AWR helps temper expectations for price range and provides a price-based method for forecasting targets for the week.

- Use AWR to forecast potential price extremes for the upcoming week
- Identifying the potential price range for a given week helps to manage price range expectations
- Projecting targets from Monday's high/low provides solid targets for the week
- Using a confirmed high or low for the week helps to pinpoint the best targets

BASE CALCULATIONS

The base calculations for forecasting with Average Weekly Range are consistent with all other ADR Method calculations.

INITIAL FORECAST

Projects AWR higher and lower from the prior week's closing price

1. *Uses 100% of AWR*
2. *BULL: PWC + AWR*
3. *BEAR: PWC - AWR*
4. *Used to determine range expectations for the next week*
5. *Average price range suggests that price should remain within the projected range during the week*

BASE TARGET CALCULATIONS

The standard Normal and Normal Lite base calculations are used for targets

1. *Normal [uses 100% of AWR]*
   - *BULL: WL + AWR*
   - *BEAR: WH - AWR*
2. *Normal Lite [uses 75% of AWR]*
   - *BULL: WL + (AWR x .75)*
   - *BEAR: WH - (AWR x .75)*

THE INITIAL FORECAST

ADR WEEKLY TARGETS

ADR WEEKLY TARGETS

ADR WEEKLY TARGETS

ADR STOPS

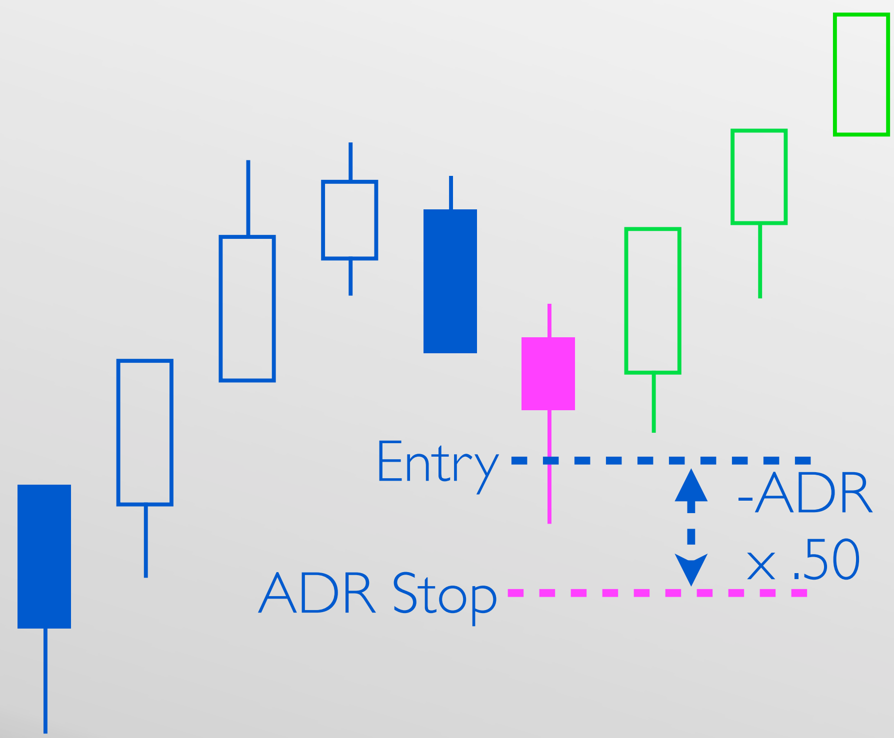
ADR Stops offer a simple, price-based method for calculating loss stops based on current market volatility and recent price behavior.

ADR STOPS

Uses a percentage of average price range

1. *Simple; effective*
2. *Great for any style or duration of trading*
3. *Price-based; self-adjusts to current volatility*
4. *Use 50% of the Average Daily Range (ADR)*

ADR STOPS



ADR STOPS

ADR Stops use 50% of the 5- or 10-period Average Daily Range, which should be calculated before each session.

- ADR Stops allow you to define your trade risk according to the most recent price movement
- Allow for easy integration with your preferred risk management approach
- Use 50% of Average Daily Range
- Calculate the ADR Stop value each day
- Easy to calculate; easy to implement

ADR STOPS

CVX - CHEVRON CORP NEW (DAILY)
Template: Standard
High: 116.26 Low: 115.065 Last: 116.16
Zoom
DAY
Symbol
Scale
Jul
2
9
16
23
30
Aug
6
113.55
113
112
111
110
109
108
107
106
105
104
ADR (10): 1.91
ADR Stop: ADR/2 = .96
N Bull: $109.96
Entry: $105.58
ADR Stop: $104.62

ADR STOPS


QQQ - POWERSHARES QQQ TRUST SERIES (DAILY)
Template: VWAP High: 68.23 Low: 67.765 Last: 67.97
Zoom DAY Symbol Scale
Sep Oct
Nov
28 1 8 15 22 31 5 12
VWAP (4 - Quarterly, 1)
ADR Stop: $68.32
E: $67.94
Bear: $65.90
69.5
69.0
68.5
68.0
67.5
67.0
66.5
66.0
65.5
65.0
64.5
64.0
63.5
63.0
62.5
62.24
ADR (10): .76
ADR Stop: ADR/2 = .38

SCALING AND TRAILING TECHNIQUES

SCALING & TRAILING

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Using high-probability price-based ADR Targets provides the flexibility to scale and trail positions in a variety of ways.

SCALING

Using 2-, 3-, and 4-Part scales at ADR Targets

1. *Scaling provides flexibility*
2. *Scaling reduces risk*
3. *Scaling creates a habit of booking profits*
4. *Scaling improves the trader psyche*
5. *Scaling can also lead to "risk free" trades*

TRAILING

Trail price using an ATR-based approach

1. *Simple; effective*
2. *Consistent approach*
3. *Price-based; self-adjusts to current volatility*
4. *Use a 1-ATR trailing stop for short-to-med term trades*
5. *Use a 1.5 to 2-ATR trailing stop for longer term trades*

SCALING TECHNIQUES

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Scaling out of trades provides great benefits, including risk reduction, consistently booking profits, and improving trader psychology.

2-PART SCALING

Scaling out of your trade in two parts

1. Scale 1/2; 1/2
2. Scale 2/3; 1/3
3. Scale 1/3; 2/3
4. Scale 1/4; 3/4
5. Scale 3/4; 1/4
6. Scale 1/2; Trail 1/2

3-PART SCALING

Scaling out of your trade in three parts

1. Scale 1/3; 1/3; 1/3
2. Scale 1/2; 1/4; 1/4
3. Scale 1/4; 1/4; 1/2
4. Scale 1/4; 1/2; 1/4
5. Scale 2/5; 2/5; 1/5
6. Scale 1/4; 1/4; Trail 1/2

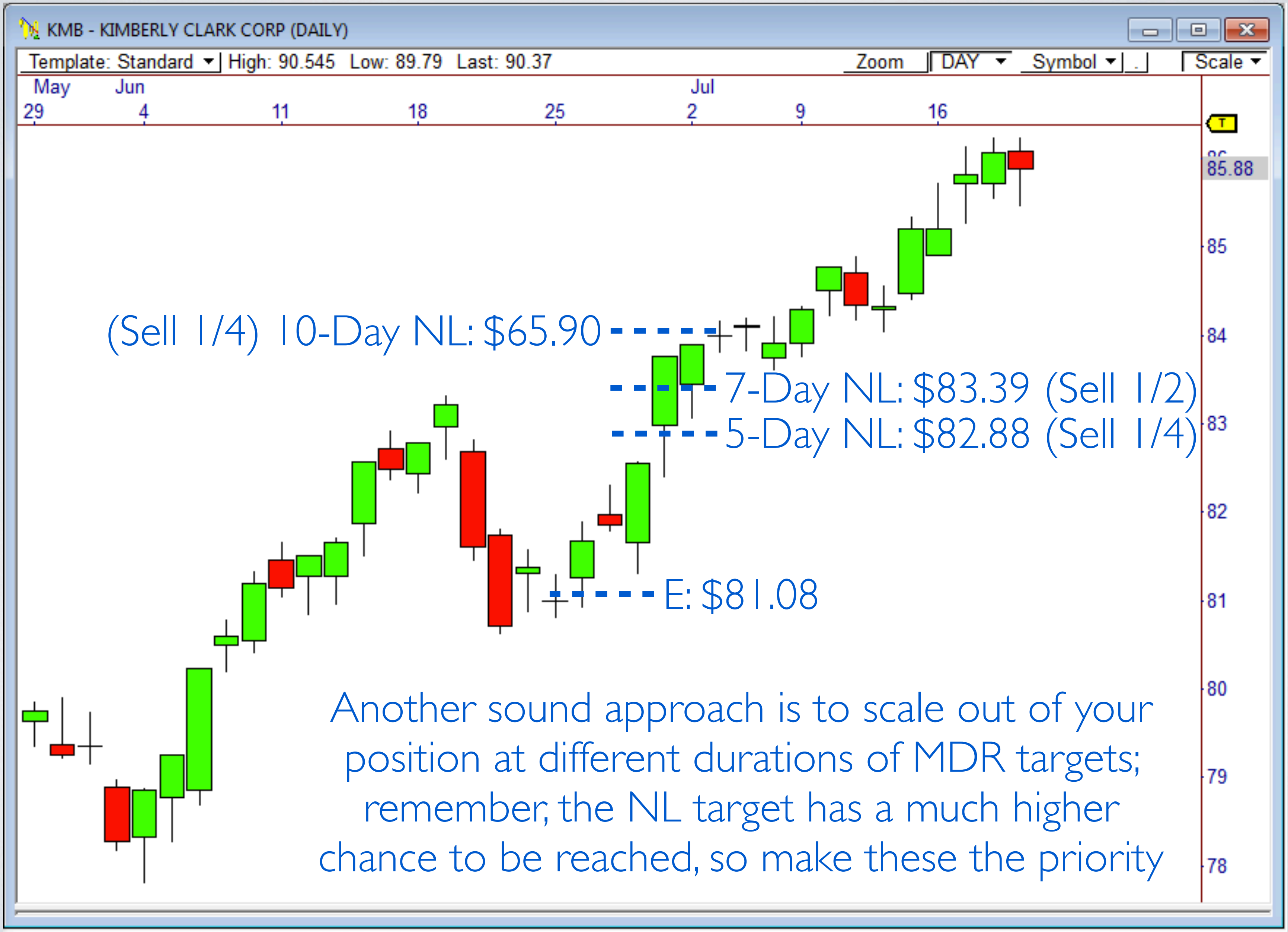
4-PART SCALING

Scaling out of your trade in four parts

1. Scale 1/4; 1/4; 1/4; 1/4
2. Scale 1/5; 1/5; 1/5; 2/5
3. Scale 2/5; 1/5; 1/5; 1/5
4. Scale 1/4; 1/4; 1/4; Trail 1/4

2-PART SCALING

3-PART SCALING



Another sound approach is to scale out of your position at different durations of MDR targets; remember, the NL target has a much higher chance to be reached, so make these the priority

4-PART SCALING

FREE TRADE TECHNIQUE

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The Free Trade Technique is a 2-part scaling technique that allows you to position yourself with a risk-free trade after an initial favorable move.

- A conservative 2-part scaling technique; defensive approach
- Allows you to eliminate risk from your trade after an initial favorable move
- Allows you to “dip your toe” into the trading waters
- Allows you to proceed with caution during volatile markets

FREE TRADE TECHNIQUE

An easy scaling technique that helps position yourself for a risk-free trade

1. *Calculate your risk on the trade (Entry price - Stop Loss price)*
2. *Project this amount higher from your entry price (Free Trade Zone)*
3. *When price reaches your FTZ, sell half of your position*
4. *Leave your original stop for the last half of your position*
5. *You now have a free trade; you lose no money if you are stopped out*

FREE TRADE EXAMPLES

Learn to trade...

...with house money

EXAMPLE 1

1. Risk Per Share: $1.50 (Entry Price - Stop Loss Price)
2. Free Trade Zone: $42.50 (Entry of $41 + $1.50)
3. Sell Half: Sell 1/2 the position at $42.50
4. Keep Half: Let 1/2 ride with original stop loss of $39.50

EXAMPLE 2

1. Risk Per Share: $0.75 (Entry Price - Stop Loss Price)
2. Free Trade Zone: $22.50 (Entry of $21.75 + $0.75)
3. Sell Half: Sell 1/2 the position at $22.50
4. Keep Half: Let 1/2 ride with original stop loss of $21.00

FREE TRADE EXAMPLE

FREE TRADE EXAMPLE

TRAILING STOPS

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While the PivotBoss preferred method of trade management involves playing to profit targets, trailing stops can have a big impact.

TRAILING

Trail price using an ATR-based approach

1. *Simple; effective*
2. *Consistent approach*
3. *Price-based; self-adjusts to current volatility*
4. *Use a 1-ATR trailing stop for short-to-med term trades*
5. *Use a 1.5 to 2-ATR trailing stop for longer term trades*

TRAILING TECHNIQUES AND TIPS

Trailing stops can be quite powerful, and knowing how to use them creatively can be a huge advantage

1. *Use a 1-ATR trailing stop for most of your trades*
2. *Use a 1.5 to 2-ATR trailing stop for long term trades. Consider moving to a weekly chart, too.*
3. *Consider using a trailing stop at the beginning of a new Markup or Markdown phase*
4. *Use a trailing stop on the last step of a scale, preferably on the lightest scale portion*
5. *Consider trailing on the 2nd half of a Free Trade*

SCALING & TRAILING

SCALING & TRAILING

TRAILING FOR BIG GAINS

THE FREE TRADE TRAIL

THE FREE TRADE TRAIL

RISK MANAGEMENT

RISK MANAGEMENT

Trading success is not about how you trade, but how well you lose and how well you manage risk.

- Risk is unavoidable, so you must actively control/manage it
- You cannot control the markets, but you can control your money and your risk on each trade
- Risk management optimizes your trading capital
- Take care of your risk first and foremost, and the profits will come

RISK MGMT TOPICS

"The whole secret to winning in the stock market is to lose the least amount possible when you're not right." - William O'Neil

5 RULES OF RISK MGMT

PROPER POSITION SIZING

DEFINING PORTFOLIO RISK

DEFINING TRADE RISK

THE COIN TOSS EXERCISE

The Coin Toss Exercise is used among educators to teach probabilities, and is also used to introduce risk management to traders.

Regardless of how you enter a trade, risk management is the biggest component to profitable trading.

COIN TOSS EXERCISE

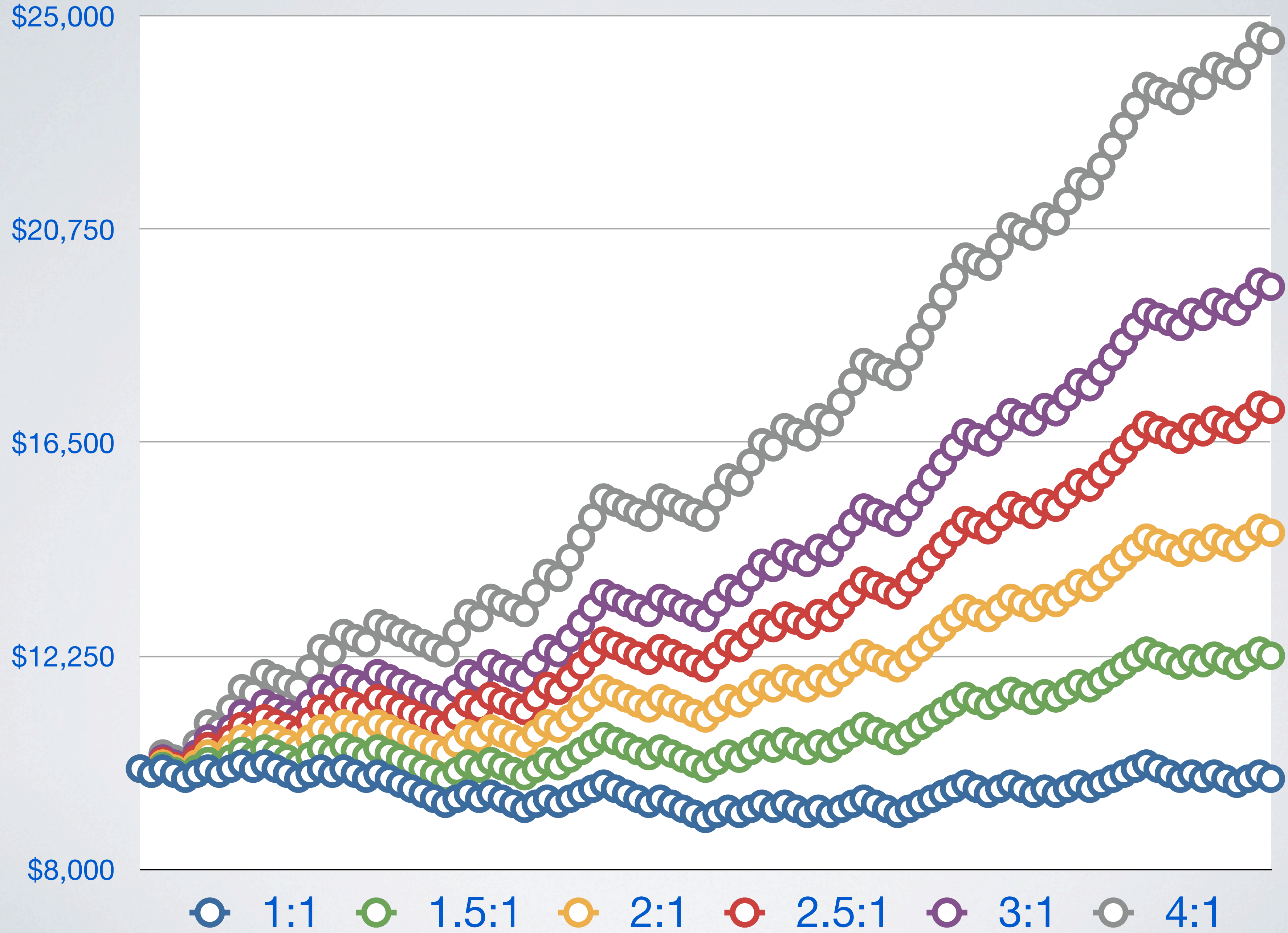
Flip a coin 100 times and write down the results of each toss

1. Each "Heads" is a winning trade
2. Each "Tails" is a losing trade
3. Each winning trade makes $200
4. Each losing trade loses $100
5. Calculate your results

My results:

49 winners (+$9,800)
51 losers (-$5100)
Net: +$4,700

COIN TOSS RESULTS



LIVE APPLICATION

The next step of the Coin Toss Exercise is to engage the market using your preferred Reward:Risk ratio, triggering live (or simulated) trades.

The goal of the exercise is to make triggering entries and applying risk management a machine-like routine, without emotion nor deviation.

COIN TOSS EXERCISE: LIVE APPLICATION

Trigger each entry by flipping a coin. Do this ten times and write down the results of each trade.

1. Each "Heads" is a LONG trade
2. Each "Tails" is a SHORT trade
3. Each trade uses a profit target of 2 points
4. Each trade uses a stop loss of 1 point
5. Calculate your results

Prop Firms use this exercise for new traders, typically on the ES (6ticks/3ticks)

5 RULES OF RISK MANAGEMENT

5 RULES OF RISK MANAGEMENT

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Risk Management is the most important aspect that separates professional traders from the rest.

5 RULES OF RISK MANAGEMENT

Risk Management rules to trade by:

1. *Use the 2 Percent Rule*
2. *Use a pre-determined Reward:Risk ratio*
3. *Always know your risk/exit before you enter a trade*
4. *Never add to losing positions*
5. *Limit your losses to a daily amount*

DEFINING PORTFOLIO RISK AND PROPER POSITION SIZING

THE 2 PERCENT RULE

The 2 Percent Rule is a basic tenet of risk management among professional traders that states you should risk no more than 2% of your trading capital on any one trade.

- Risk no more than 2% of your trading capital on any one trade
- Provides an easy and consistent risk management approach
- While 2% is the Rule for Pros, retail traders should also consider 1%
- The 2% Rule encompasses Portfolio Risk, Position Sizing, and Trade Risk

194 LOSERS IN A ROW

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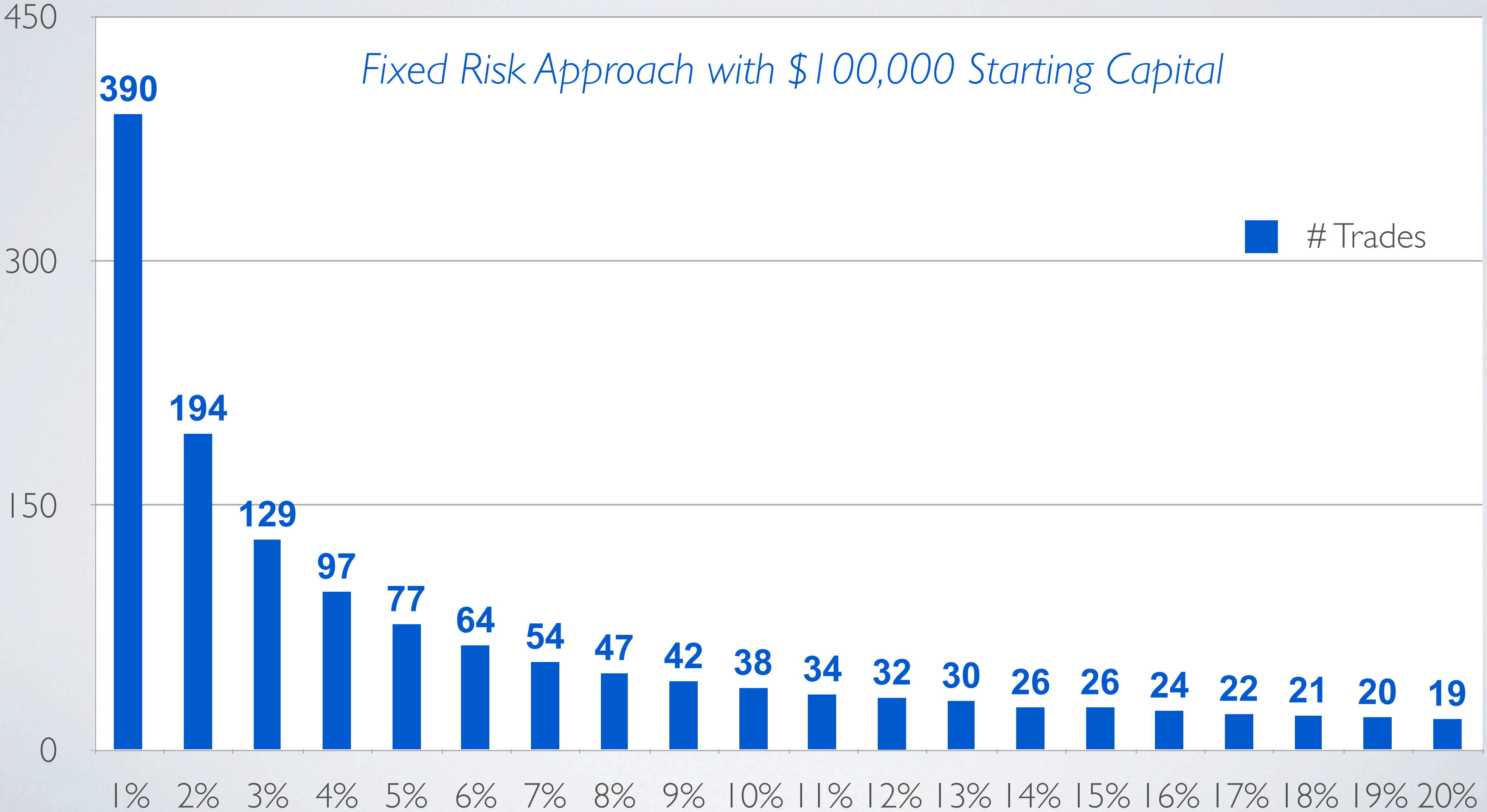
A Fixed Risk approach to risk management optimizes your trading capital and keeps you in the game longer.



APPLYING THE 2% RULE

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The 2 Percent Rule is easy to incorporate into your trading plan, and will help you establish a consistent implementation of risk management.

THE 2% RULE

Risk no more than 2% of account value on one trade

1. *Calculate 2% of your account (Capital at Risk)*
2. *Subtract trading commission & slippage from Capital at Risk (Maximum Permissible Risk)*
3. *Calculate the difference between your entry and stop prices (Risk Per Share)*
4. *Divide Maximum Permissible Risk by Risk Per Share to arrive at the amount of shares you can trade*
5. *Recalculate after every trade, as each new trade requires your new trading balance*

CAPITAL AT RISK

The Capital at Risk for various account sizes

$10,000: *$200*
$20,000: *$400*
$30,000: *$600*
$50,000: *$1,000*
$75,000: *$1,500*
$100,000: *$2,000*

2% RULE EXAMPLES

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Do not think about how much money you can make on a trade...

...Instead, think about how much money you can lose if you are wrong!

EXAMPLE 1: $20,000 ACCOUNT

1. Capital at Risk: $400 ($20,000 x .02)
2. Maximum Permissible Risk: $390 ($400 - commish)
3. Risk per Share: $1.25 (Entry of $25 - Stop of $23.75)
4. Number of Shares Allowed: 312 shares

EXAMPLE 2: $50,000 ACCOUNT

1. Capital at Risk: $1,000 ($50,000 x .02)
2. Maximum Permissible Risk: $980 ($1,000 - commish)
3. Risk per Share: $1.75 (Entry of $63 - Stop of $61.25)
4. Number of Shares Allowed: 560 shares

2% RULE & ADR STOPS

ADR Stops allow for an easy way to incorporate risk management measures like the 2% Rule into your trading approach.

USING THE 2% RULE WITH ADR STOPS

1. *Calculate 2% of your account (Capital at Risk)*
2. *Subtract trading commission & slippage from Capital at Risk (Maximum Permissible Risk)*
3. *Calculate the current 5- or 10-period ADR*
4. *Divide the current ADR by 2 (Risk per Share)*
5. *Divide Maximum Permissible Risk by Risk Per Share to arrive at the amount of shares you can trade*
6. *Recalculate after every trade, as each new trade requires your new trading balance*

GETTING STARTED

Getting started with proper Trade and Risk Management can simple; even the simplest form of trade/risk management is better than none.

GETTING STARTED

3 Steps to getting started with a Trade & Risk Mgmt approach:

Step 1: Start using the 2% Rule, with ADR Stops
Step 2: Use the Free Trade Technique, with ADR Targets
Step 3: Start with a Reward:Risk ratio of 3:1

FINAL THOUGHTS

Trade and Risk Management do not provide the sizzle of some other aspects of trading, but these affect your bottom line the most.

- Trade Management relies on a pre-determined plan; build your plan & stick to it
- Monitor your plan periodically; adjust and improve it as necessary
- Risk Management is the "Holy Grail" of trading; the most significant contributor to consistent profitability
- Develop your Risk Mgmt approach and stick to it! Consistency is key to a winning solution

CONTACT ME!

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SWING TRADE PRO

TRADE AND RISK MANAGEMENT

with Frank Ochoa