This tutorial was originally titled “A Technician’s Approach to Day Trading” and was recorded at the Online Trading Expo.

Technical Analysis for Short-Term Traders

Martin J Pring

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The principal difference between Day Trading and other forms of trading is the time frame.
Technical analysis assumes that prices move in trends.
Trends have a tendency to perpetuate.
Look for the weight of the evidence; (several indicators, to indicate a reversal.)
In technical analysis we are dealing in probabilities, *never* certainties.
First trade 50% loss!

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<thead>
<tr>
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<th>Profit/Loss Amount</th>
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Next trade 50% gain

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Next 3 trades make 10% each

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4 trades make 80%

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Still not back to break even???

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The Indicators
1. Peak and trough analysis
Rising peaks and troughs is bullish
Rally fails to make a new high.
Declining peaks and troughs now signaled.
Rising peaks and troughs now signaled.
Price falls below breakout point, but rising peaks and troughs still intact.
Rising peaks still intact

But series of rising troughs no longer in force.
Rising peaks and troughs now broken.
New high!!
What constitutes a legitimate peak or trough?
100% of the advance
Retracement should be about 1/3-2/3 of the previous move.
Retracement far less than 1/3-2/3 of the previous rally.
1/3 or more of the time taken to form the rally.
S&P Composite

15-minute bar

High
S&P Composite

15-minute bar

High

Low
S&P Composite

15-minute bar

New reference high
S&P Composite

15-minute bar

Still intact
S&P Composite

15-minute bar

Still intact
S&P Composite

15-minute bar

Downtrend continues
S&P Composite

15-minute bar

New reference high
S&P Composite

15-minute bar

Downtrend still intact
S&P Composite

15-minute bar

Rally meets resistance
S&P Composite

15-minute bar

Possible reference low
S&P Composite

15-minute bar

Possible reference low
S&P Composite

15-minute bar

... and this one.
S&P Composite

15-minute bar

New reference low
S&P Composite

15-minute bar

New downtrend signaled
S&P Composite

15-minute bar

Neutral trend
S&P Composite

15-minute bar

Above previous high

Below previous low
S&P Composite

15-minute bar

Two benchmarks
S&P Composite

15-minute bar

Uptrend confirmed
S&P Composite

15-minute bar

Sell signal
Microsoft

15-minute close

Clear-cut break
Microsoft

15-minute close

Clear-cut break
Microsoft

15-minute close

Selling climax
Microsoft

15-minute close

Crucial level
Microsoft

15-minute close

New reference low
Microsoft

15-minute close

Sell signal
Microsoft

15-minute close

Reference high
Microsoft

15-minute close

Breakout on good volume.
Microsoft

15-minute close
One and Two Bar Price Patterns
All one and two bar price patterns must be preceded by a short-term up or down trend.
One and two bar patterns are usually short-term reversal phenomena.
These patterns indicate exhaustion, where market psychology has reached a short-term extreme.
Outside bars
Outside bars are reversal patterns that indicate a change in sentiment.
S&P Composite

5-minute bar

Outside bar
S&P Composite

5-minute bar

Outside bar
S&P Composite

5-minute bar

Outside bar failure
S&P Composite

5-minute bar

Outside bar failure
Inside Bars
Inside bars indicate that prevailing momentum has dissipated because buyers and sellers are now equally matched.
S&P Composite

5-minute bar

Inside bar
S&P Composite

5-minute bar

Inside bar
S&P Composite

5-minute bar

Inside bar
Two Bar Reversals
Two bar reversals indicate a dramatic change in sentiment..
S&P Composite

5-minute bar

Price closes near high after a sharp run up.
S&P Composite

5-minute bar

Price opens near previous close.
S&P Composite

5-minute bar

Price closes near its low and that of the previous bar.
December 1998 S&P

5-minute bar

Two bar reversal
December 1998 S&P

5-minute bar

Two bar reversal or outside bar??
Westvaco

15-minute bar
Westvaco
Key Reversal Bar
A very strong signal of a reversal in sentiment.
Characteristics

1. Price opens the bar strongly in the direction of the prevailing trend.

2. Trading range of the bar is extremely wide.

3. Price should close at or close to the previous close.
The key reversal bar should be accompanied by climactic volume.
December 1998 S&P

5-minute bar

Key reversal bar
December 1998 S&P

5-minute bar

Emotional trading
Merrill Lynch

5-minute bar

Mega volume
Exhaustion Bars
Characteristics of Exhaustion Bars

1. A wide trading range following a sharp price move.

2. The close is higher than the opening in a downtrend or the opening is lower than the close in an up trend.

3. The close is more than half way up the bar in a down trend, and more than half way down in an up trend.
December 1997 NYSE Composite

5-minute bar

Exhaustion bar
December 1997 NYSE Composite

5-minute bar

Exhaustion bar
December 1997 NYSE Composite

5-minute bar

Inside bar
December 1997 NYSE Composite

5-minute bar

Exhaustion bar
December 1997 NYSE Composite

5-minute bar

Almost inside bar
Pinocchio Bars
Pinocchio bars give us a false impression of what is really going on.
March 1997 S&P Composite

10-minute bar

Pinocchio bar
March 1997 S&P Composite

10-minute bar

Most of bar outside of the recent trading range
March 1997 S&P Composite

10-minute bar

Pinocchio bar
March 1997 S&P Composite

10-minute bar

Whipsaw break
December 1997 NYSE Composite

10-minute bar

Exhaustion = Resistance
Placing Stops
The order is executed immediately the price is touched and there is no opportunity to second guess.
The disadvantage is that locals and market makers can "go" for your stop.
Advantages of Placing Stops

1. Mentally preparing for the worst.

2. Decision more likely to be made with a more balanced judgment.

3. A correctly placed stop is usually executed at a better price.
For liquidation of long positions, the best point to place a sell stop is below support and for covering a short one above resistance.
December 1997 Corn

10-minute bar

Do not place stops at support
December 1997 Corn

10-minute bar
December 1997 Corn

10-minute bar

Place them below support
December 1997 Corn

10-minute bar

Place them above resistance
10-minute bar

..but just in case you are wrong place a sell stop below support.
December 1997 Corn

10-minute bar

Break takes place just before the session close.
December 1997 Corn

10-minute bar

Breakout
December 1997 Corn

10-minute bar
December 1997 Corn

10-minute bar

Enter partial profit taking stop at level of previous high.
December 1997 Corn

10-minute bar

Start of gap also represents resistance.
December 1997 Corn

10-minute bar

Price reverses at resistance.
Merrill Lynch Vs S&P Composite

Joint breakout
Merrill Lynch Vs S&P Composite
Merrill Lynch Vs S&P Composite
Merrill Lynch Vs S&P Composite
Merrill Lynch Vs S&P Composite
Merrill Lynch Vs S&P Composite
Merrill Lynch

3-month breakout
June 1997 Bonds

15-minute bar

Extreme point of emotional bars often represents a key pivotal point.
June 1997 Bonds

15-minute bar

Support not violated
June 1997 Bonds

15-minute bar

Extreme bar
June 1997 Bonds

15-minute bar

Support point
June 1997 Bonds

15-minute bar
June 1997 Bonds

15-minute bar

Support eventually violated
June 1997 Bonds

15-minute bar

Extreme of gaps often = support/resistance
June 1997 Bonds

15-minute bar

Reaction reverses close to gap extreme
Price gaps up at the opening
Opening range is a trading range.
Price breaks to the downside.
Merrill Lynch

3/9/99 $87.31 MERRILL LYN

88
86
84
82
80
78
76
Volume - max: 1038

1038
750

Tue  Wed
Opening range resolved on the upside.
Merrill Lynch

Gap opening
Violation sets the scene for the rest of the day.
Amazon

Gap opening
Amazon

3/9/99 $129.18 AMAZON COM INC (amzn) 5 Days Log

Gap opening
Amazon