Short Term Trading Strategies

In this chapter, I will share with you some of my favourite winning strategies I personally use. These strategies had been through extensive back-testing and provided me with good returns in live trading all these years. I am sharing them with you so that you can focus on trading well rather than engaging in an endless search for a holy grail.

Different strategies are suited for different time-frames. I believe there is no one size fits all strategy. There are a few factors to consider when you are deciding your trading time frame:

1) Trading experience: The lesser experience you have in trading, the longer time frame you should choose. Trading intra-day chart (5 or 15mins) is the same as a daily chart. However, instead of making a decision on 1 day, you have to make a decision in every 15min.

2) Time: The lesser time you have to devote to trading, the longer the time frame you should trade. If you are working full time, it makes no sense to trade intraday as you need to be at your computer to watch your position. This is unless you are trading a market in a different time-zone like US.

3) Money: The lesser money you can afford to lose, the longer should your time horizon be.

Most people are better off investing in long term than trading, because of the 3 factors mentioned above. However, for the few who aspire to trade full time, doing it part time first is the way to go. I strongly suggest to get a mentor if you aspire to go down this route and it is not an easy route. In a short while, I will show you another way where you can with less experience, time and money still trade profitably using a time proven, back tested trading system.
Below is how I define my time-frames:

- Intra-day trade – position open and close within the same trading day
- Swing trade – position open and close within 5 trading days
- Position trade – position open and close for 2 weeks or longer

**Illustration of position and swing trading**

**Intra-Day Trading**

I do not do intra-day trading because trading is not my full time job. It is not cost effective for me to sit down in front of the computer to trade for long hours. When you trade in front of the computer, you are trading your time for money. However, I have done and is still doing is algo trading, which I programmed the computer to trade on my behalf. Instead of working in the market, I work on the system that work on the market. That is how I leverage and use technology to be more productive.
Swing Trading Strategy

For swing trading, the intention is to identify, follow and trade the trend. Swing traders look to make profits within 5 trading days. Daily candles are frequently used for Technical Analysis, which determines the key entry and exit decisions in swing trading. For swing trades, traders generally buy the dips in an uptrend or sell the peak in a downtrend.

Remember the famous saying “The trend is your friend”? By trading the trend, you are riding the momentum of the market, which gives an edge to traders. It is like swimming alongside with the current rather than against. You should know how tough it is to swim against the current and eventually you will choose to give up due to exhaustion. Remember that as a trader, we must always have an edge over the market to be successful. This is just like a casino having an edge over the punters.

For new traders, you may not understand exactly what is up and down trend. To qualify as uptrend, we are looking for higher highs and higher lows.

![Uptrend Illustration](image)

*Figure 19: Illustration of market in uptrend*

On the other hand to qualify as downtrend, we are looking for lower highs and lower lows.
There are times where there are no higher highs or lower lows made. Under such situation, the market is moving sideways or otherwise known as consolidation.
For trend trading, you have to identify 2 things:

1) Current trend, which I call *tide*. 

*Illustration of tides*
2) Dips in an uptrend and rally in a down trend, which I call *wave*.

*Illustration of waves*

I am using Simple Moving Average (SMA) to help read and identify trends. The parameters I frequently used are 20 and 40. A Moving Average (MA) is the average value of a security’s price over a set period.
Identify market trends using moving averages

The parameters used for Moving Averages often mean something to some individuals or institutes. 20 SMA is the traders most dominant MA which can be used in all time frames. 50 SMA is mostly use by banks and institutes and it is used on daily time frame most of the time. Some traders use 50 SMA and 40 SMA interchangeably and thus is up to individual preference. 200SMA is what many called the investor line and serves as a good support and resistance especially on 15mins charts.

- 10 or 20 SMA – Traders’ Line
- 40 or 50 SMA – Banks and Institutions’ Line
- 200 SMA – Investors’ Line

Based on my experience, it is not the number or parameter you are using on your charts. Rather, it is what the numbers means and how you use or perceive it in accordance to your trading strategy. Some traders like to use 21SMA as 21 is a Fibonacci number. To them, they may have a good understanding on Fibonacci numbers and thus believe that the number 21 means something in the
equity market. To me, it does not really matters if the number is 20, 21 or 19. Once again, it is how I interpret the number, what it means to me and how I use it to define my setups. Thus do not be too concern with exactly what number to use and dwell into endless research for the “HOLYNUMBER”.

There are many ways to use a Moving Average (MA). Take for example, many traders use MAs for crossover setups or to analyze a trend.

There are many ways to use a Moving Average (MA). Take for example, many traders use MAs for crossover setups or to analyze a trend.

![Crossover set-ups](image)

**Crossover set-ups**

But for me, I don’t really use it as a signal to buy or sell. Instead I will read the gradient of the MA to analysis the strength of a trend. If the 200SMA is sloping up, it is telling me that the long term investors are bullish about that particular stock. With 20SMA sloping up, it is telling me that the short-term traders are bullish about the stock. If 20SMA is sloping up, 50SMA is flat while 200SMA is sloping down, it is telling me that the short-term traders are bullish; the banks are neutral while the investors are bearish about the stock. The chart must be able to tell us a story and the story told will help traders like us to make a better decision.

Other than the slope, you can also inspect the sequence of the MAs. A bearish trend is considered established when 200, 50 and 20 MAs are aligned respectively as shown in the chart below. The opposite is true for bullish trend.
Alignment of Moving Averages to determine market trend

If the sequence of the MAs is 50, 20 and 200 respectively, a trend is yet to be established and you may wish to stay at the sideline while waiting for an opportunity. Do not be too eager to enter a trade when the signal to enter is not shown.

Studying the space between the MAs is another option. If the MAs are far apart, it acts as an “insulator”, which also means to say that the current trend is very strong. Under such condition, when the price drop into the MAs, it will likely bounce off and resume its prior trend.
Determine strong market strength using Moving Averages

In contrast if the MAs are narrow, it may signify that the trend is weak and a change in trend may occur. As such, you have to be cautious when entering a trade under such condition.

Determine weak market strength using Moving Averages

Personally, I felt it is not good enough by just identifying the tide as we may end up buying the top of an uptrend or selling at the bottom of a downtrend. As such, we should always aim to buy a dip or pullback in an uptrend and to sell a rally in a downtrend.

I am using CCI(5) to effectively identify a dip (in an uptrend) or rally (in a downtrend). Basically, CCI measures the current price level relative to an average price level over a given period of time, which in my case is 5 days. CCI is relatively high when prices are far above their average. CCI is relatively low when prices are far below their average. In this manner, CCI can be used to identify overbought and oversold levels.

The reason why I used CCI as compared to momentum indicators (which is frequently used by many other traders) is that the latter took only 2 points to compute the value. Momentum and rate of change (ROC) are simple technical analysis indicators displaying the difference between today’s closing price and the close N days ago. With that, it is evident to me that CCI provide more stories about the market, as it takes into account the values for every past N day. This will make a big difference in your studies, especially when you are looking at shorter term.
The reason why I used 5 as my parameter in CCI is because the equity market has a certain pattern which repeats itself. Generally the uptrend market has around 5-7 candles up followed by 3 candles down and vice versa for downtrend. If the tide is up and there are 3 candles going up and 5-7 candles down, it may signal a change or reserve in trend. Also not to forget, there are 5 trading days in a week. Traders like to open their position being of the week and close their trades before end of the week. As such, using 5 as my CCI parameter resonates with me better as compared to other numbers. You can of course have another set of numbers that suits your strategies.

CCI will generally oscillate between overbought (+100) and oversold (-100) and we study CCI closely to observe how price has pullback.

Below is the chart and description on my setup for **Bullish Swing Trade**.

*Example of bullish swing trade*

1) 20MA and 40MA must be sloping up (with 20MA above 40MA). Having a space between the MAs further indicates the strength of the trend.
2) Wait for price to pullback to 20SMA. Take note that during very bullish or bearish situations, price may not pullback to 20SMA but only pullback to 10SMA. Thus we need to be flexible at times as trading is an art, not just science. If price pullback to 10SMA and CCI is at -100, it is still a possible setup.

3) Look out for meaningful pullbacks to buy on a dip, which means we must wait for CCI be at -100.

4) Next look for buy zone, which is the region between 20 and 40MA. When price is inside this zone, it means getting ready to enter a trade. It is important we do not anticipate.

5) Buy when price trades 1 bid above previous day’s high. The high of previous candle is the most bullish point for previous day. If today high can conquer previous day’s high, it means today is more bullish than previous.(At this time, your CCI not necessary be at -100, but it should visited -100 before)

6) Stop loss at 1 bid below previous day low or today’s low, whichever is lower.

For any strategies, traders must always lookout for a Payoff Ratio of more than 1 before entering a trade. That means to say the amount of potential profit made will generally be more than what you would potentially lose if the trade went sour. More on Payoff Ratio will be shared in a later chapter.

For this swing trading strategy, we always buy at the point where the price made a pullback after a bull run and we believe that the trend will continue thereafter. Before taking the trade, we identify the previous high as our profit target and the previous day or today’s low as our risk (stop-loss). With that, we calculate the Payoff Ratio. The general rule of thumb is to have the Payoff Ratio to be 2, or at least 1. Having a Payoff Ratio of 2 simply means that if the trade is a winning one, we will make $100 (for example) and if it happens to be a losing trade, we will lose $50.
In general, ensure that what you will likely to win is going to be more than what you likely to lose if the trade happens to be a losing one. Couple this with a strategy with Probability of Win of at least 0.5; you will definitely be profitable in a long run if you do the Math. More on Probability of Win will be discussed later.

Sometimes, the price can be so bullish that the CCI did not pullback to the oversold region, but to the neutral region (at 0). You can still enter such trades under such circumstances. It is optional and you can still make the trade depending on your comfort level and/or experience. I know we are always looking for ideal setup conditions to be sure that the trade will make you money. But to be honest, you do not always see ideal or textbook situations in the stock markets. Even if the setup is ideal, it does not mean this trade will definitely be a winning one. Whatever your decision is, you must never fail to ask yourself what is the Payoff Ratio before making a trade.

For this strategy, the opposite applies for bearish trades.

*Example of bearish swing trade*

Summary for Swing trading Setup
### Bullish Setup

1. Sloping up Moving Average
2. 20 MA above 40 MA
3. CCI goes to <-100
4. Low touch 20 MA and goes below the 20 MA
5. Close above 40 MA
6. Buy 1 bid above prior day high
7. Sell to close 1 bid below prior day low

### Bearish Setup

1. Sloping down Moving Average
2. 20 MA Below 40 MA
3. CCI goes to >100
4. High touch 20 MA or goes above 20 MA
5. Close below 40 MA
6. Sell 1 bid below prior day low
7. Buy to close 1 bid above prior day high

---

**Key Chart Patterns to Note**

I will like to share with you some key chart patterns which will be most useful to you when using my swing strategy.

1) **Measured Pullback**

   The pullback must be regular and controlled with small candles.

   ![Example of measured pullbacks](image)

   **Example of measured pullbacks**

   When you observe a big tank as pullback, it is best to give this potential entry a miss. Such volatile price action will likely indicate a change in a trend.
2) Strong Trend With Higher Highs or Lower Lows

This swing strategy adopts “The Trend Is Your Friend” methodology. Hence it is important that the trend identified is strong before making an entry decision. In a bullish trend, ensure that the price hit higher highs or lower lows for bearish trend.
A strong bearish trend making lower lows

The chart below depicts some examples where the trend is unclear and entering trades like this will get you nowhere. I will advise you to stay away from making a trade until a clear trend is developed. Do not be too eager to enter a trade and keep looking for “creative” opportunities to make a trade, which is a common mistake most ammeter traders make. Remember a bullish trend has higher highs and higher lows while a bearish trend has lower lows and lower highs.

Price in consolidation
3) Parabolic Movement

Price should progress gradually and steadily as shown in the charts below to be qualified as a good potential entry.

*Beware when you see price moving in a parabolic manner. Such drastic movement will most likely result in large “aftershocks” with high volatility. Some may view this profitable, but it is definitely not my cup of tea.*
Exit Strategy for Swing Trade

Once I made an entry, my first profit target will be at the previous high (for bullish trades). I will take progressive profits when price hit my first target.
For this strategy, I will enter all positions (according to my risk management rules) once the buy signal is given. More on Position Sizing will be shared in a later chapter. For exiting, I will do so by scaling out. Meaning if the price reaches the previous high or 1 bid below previous high, I will take 30% off the table.

Next I will study candlestick patterns and will exit another 30% if a doji (which represent a possible trend reverse), bearish engulfing, or any bearish reversal candlestick pattern appears. Lastly, I will exit all position if the price closes below the low of a doji, which may signify a change in trend direction. The reverse applies for bearish trades.
Exits using candlestick patterns

Below are some reliable candlestick patterns which I will use to scale out or close a trade.

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Doji</strong></td>
<td><strong>Graveyard Doji</strong></td>
<td><strong>Dragonfly Doji</strong></td>
</tr>
<tr>
<td><img src="image" alt="Doji" /></td>
<td><img src="image" alt="Graveyard Doji" /></td>
<td><img src="image" alt="Dragonfly Doji" /></td>
</tr>
<tr>
<td><strong>Bearish Engulfing</strong></td>
<td><strong>Bearish Engulfing</strong></td>
<td><strong>Bullish Piercing Pattern</strong></td>
</tr>
<tr>
<td><img src="image" alt="Bearish Engulfing" /></td>
<td><img src="image" alt="Bearish Engulfing" /></td>
<td><img src="image" alt="Bullish Piercing Pattern" /></td>
</tr>
<tr>
<td><strong>Dark Cloud Cover</strong></td>
<td><strong>Evening Star</strong></td>
<td><strong>Morning Star</strong></td>
</tr>
<tr>
<td><img src="image" alt="Dark Cloud Cover" /></td>
<td><img src="image" alt="Evening Star" /></td>
<td><img src="image" alt="Morning Star" /></td>
</tr>
</tbody>
</table>

Examples of candlestick patterns

Many times in the equity market, price closes above previous swing high or below previous swing low. This is commonly named as “Breakout”.
Many traders who are scanning for stocks will generally think that this is a good chance to trade a breakout strategy. This means they are looking for price that hits higher than the previous swing high, and believe that price will continue higher. A bullish trade entry will be made the next day once market opens. Nevertheless, such price movement frequently calls for a false breakout and price starts to reverse. As such, it is a good time for me to exit for profits (when price is at or near previous swing high) as I had already entered much earlier according to my swing strategy and I am already in profit. In general, this swing trade strategy I am using does not trade the breakout but to trade retracement. Nevertheless, I do not mean
that breakout strategy does not work. You can make a neat profit if price goes your way after a breakout. But my experience is that the Probability of Win for breakout strategy is very low. Many traders chose to give up after suffering a couple of losses. I rather adopt a strategy with higher Probability of Win.
Examples of false breakout

Every time when price gaps up significantly, it is a good idea to lock in profits as well. How significant is it depends on the stock’s history as it is in relative to its past data. As a trader, it is important that we also study the pattern and movement of the stock we are trading. Understand its behaviour so that we will be taken by surprise.

Example if today is the 4th day of my trade and stock price gaps up say by 2%, I will take partial profits. If price gaps up and reverse to previous day high, I will also scale out of position.

**The key idea is to scale out of position progressively.**

Profit-take after a gap up
My time frame for swing trades is 5 days. This means that I will exit all positions within 5 days regardless of the price. This is what I call, **Time Stop**. According to experience, if price do not reach my profit targets within 5 trading days, it most likely will not be going anywhere. Under such condition, I will drop this stock (regardless if I am in profit or loss) and use the capital for other opportunities. Do not waste your time and money on a stock that does not make money for you. Exit gracefully as suggested by Time Stop, and carry on your trading journey rather than keep on hoping.

Below are more examples of my swing trade setups.
Importance of Stop Loss

Stop loss is a very important element in trading. Although important, it is frequently ignored (on purpose) by many traders. The reason why many ignored the need for a stop loss is because they refuse to admit that their trades went wrong. They rather hope that the price will get back to their favour and thus turning a loser into a winner. You may be lucky once or twice, but in a long run you will suffer for being so “optimistic”.

You cannot be successful in trading by hoping or turning a swing trade into a long term investment. In my honest opinion, you cannot gain success in trading unless you are able to embrace the important of setting a stop loss in every trade you made. Many traders learnt this the hard way; do you want to be one of them?

Now, I will share with you how I set my stop loss every time I make a swing trade.

- 1st stop loss - initial stop loss
Upon entering a trade, stop loss is immediately set at previous day candle low for bullish trade or previous day candle high for bearish trade.

**Determining stop-loss upon entry**

- **2\(^{nd}\) stop loss – breakeven stop**
  - If price move up (for bullish trade) or down (for bearish trade) for about 5% in your favour, shift stop loss to breakeven, i.e. at entry price.

- **3\(^{rd}\) stop loss – trailing stop**
  - When price move more than 5% in your favour, set your stop-loss to previous candle low for bullish trade or previous candle high for bearish trade. This will act as an insurance to protect your profits.

- **4\(^{th}\) stop loss – time stop**
  - Close all positions after 5 trading days (excluding entry day), even if the price have yet to hit our target or stop loss. Also, a lot of people are doing contra and they have to buy and sell within 5 days, so as to profit from the contra gain.

Can you see how structured my stop loss is and how it fused into my swing trading strategy seamlessly? For whatever strategies you are using, always have a stop loss
plan in place, **B E F O R E** making a trade! More often than not, traders decided to cut loss only when the amount loss is too much for them to bear. Do get your trading psychology right before making any trades.

**Position Trading Strategy**

For my position trading strategy, I will be in a trade for 2 weeks or longer. I will be trading the weekly charts for position trading and this strategy is good for traders who are not able to monitor the market daily. I use 2 different strategies for position trading, which I will share now.

**Cross-over Strategy**

For this strategy, I will use 10EMA and 50EMA to trade the cross-over. Such cross-over trades are pretty reliable on weekly charts and they are easy to implement.

Enter a bullish trade once 10EMA cross above 50EMA.

Enter a bearish trade once 10EMA cross below 50EMA.
Examples of cross-over strategy

**K39 Strategy**

K39 is also commonly known as Stochastic 39. As the name suggests, we will be using Slow Stochastic indicator with K parameter set as 39. We do not need the signal line for this strategy.

The setup will be as follows:

1) Look for K39 line to be above 50 for bullish trade or below 50 for bearish trade.

2) Price must trade above previous candle high for bullish trade or below previous candle low for bearish trade.

3) Check On Balance Volume (OBV) line for convergence (direction in conjunction with price) to confirm entry.

On Balance Volume (OBV) measures buying and selling pressure as a cumulative indicator that adds volume on up days and subtracts volume on down days. It is a
simple indicator that uses volume and price to measure buying pressure and selling pressure. Generally, if price is going up, OBV logically should be going up and down if price is going down.

Examples of K39 strategy with reference to OBV

From the chart above, we can get ready to enter a bearish trade when Stochastic 39 cross below 50 mark and OBV cross below signal line (red). Execute the trade when price trades below the previous candle low. Same explanation applies to the chart below.
Which Strategy to Use

I always have many questions by traders asking me which are the best strategies to use. Which time frame is the best? Are there sure win strategies that can make abundance of income without much hard work?

There are no sure win strategies or what many call holy grails. No matter how good the strategy is, there are bound to be losing trades or if not, losing streaks. I saw too many traders giving up a sound strategy after encountering 2 to 3 losses. When a new strategy is adopted, they change strategy again after some losses. This will go on over and over again until either the trading account is empty, or they just got too disappointed.

To me, a strategy is good when Probability of Win is more than 0.5 and Payoff Ratio is more than 1. There will be losing trades along the way, but it is no brainer that your trading account will grow consistently in a long run. The next question that arises is how a trader knows if the strategy used has a good Probability of Win and Payoff Ratio. This is where extensive back-testing is required and traders need to be diligent in doing this. If you want to be successful in trading, you have to put
in the effort and hard work. There is no such thing as easy money and be aware of empty promises!

**Learning Points**

- Trading is like an art, not science. Do not be too caught up in looking for the ideal setup
- The trend is your friend
- Follow your trading plans and not anticipating trades
- When it comes to trading, know your time frame
- There are 4 different types of stop loss namely, initial, breakeven, trailing and time stop
- Always know your stop loss BEFORE making a trade
- Move your stop to breakeven when you start to make money
- Do not give up too soon as success is just round the corner
Exercise

1) What is your ideal Payoff Ratio requirement to enter a trade?

______________________________________________________________________

______________________________________________________________________

2) What should your minimum Probability of Win be for the strategy you are adopting?

______________________________________________________________________

______________________________________________________________________

3) What is/are your Stop-Loss plan(s)?

______________________________________________________________________

______________________________________________________________________