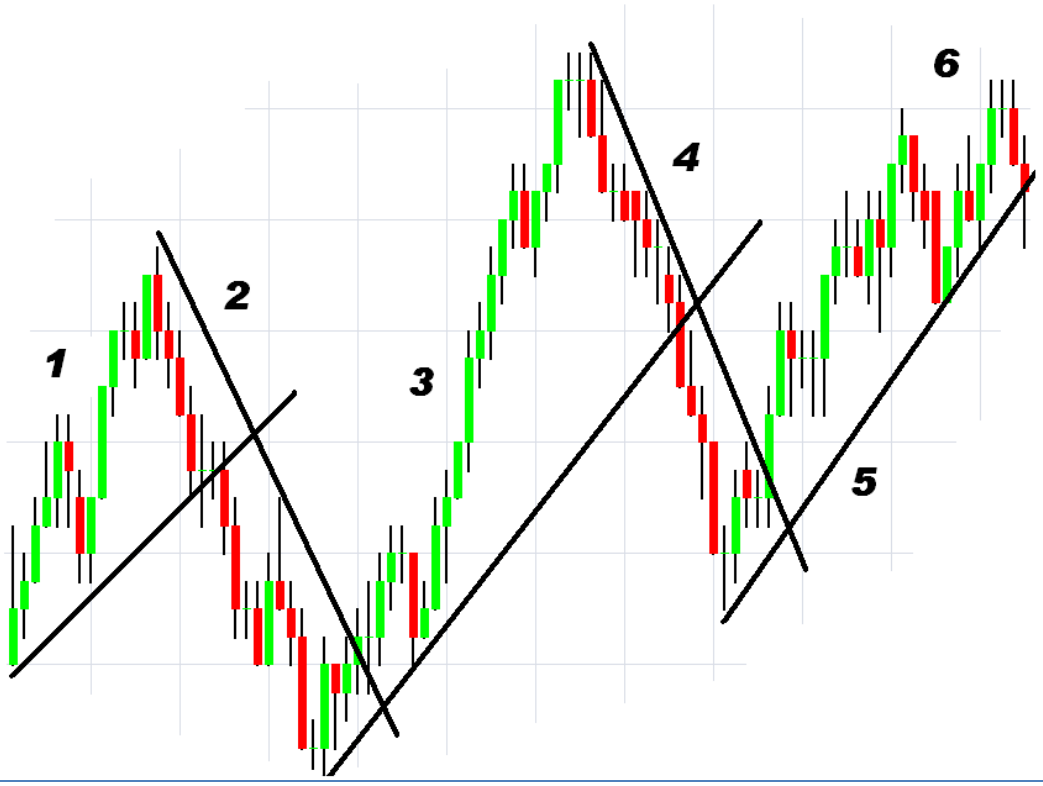
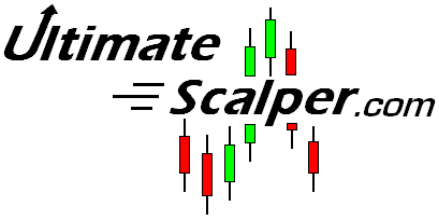
Ultimate Scalper

"An Intraday Trading Methodology"





"an intraday trading methodology"

Ultimate Scalper LLC

Required Legal Disclaimer

Risk Disclosure Statement for System Traders:

Commission Rule 4.41(b)(1)(I) hypothetical or simulated performance results have certain inherent limitations. Unlike an actual performance record, simulated results do not represent actual trading. Also, since the trades have not actually been executed, the results may have under- or over-compensated for the impact, if any, of certain market factors, such as lack of liquidity. Simulated trading programs in general are also subject to the fact that they are designed with the benefit of hindsight. No representation is being made that any account will or is likely to achieve profits or losses. There have been no promises, guarantees or warranties suggesting that any trading will result in a profit or will not result in a loss.

Hypothetical performance results have many inherent limitations, some of which are described below. No representation is being made that any account will or is likely to achieve profits or losses similar to those shown. In fact, there are frequently sharp differences between hypothetical performance results and the actual results subsequently achieved by any particular trading program.

One of the limitations of hypothetical performance results is that they are generally prepared with the benefit of hindsight. In addition, hypothetical trading does not involve financial risk, and no hypothetical trading record can completely account for the impact of financial risk in actual trading. For example, the ability to withstand losses or adhere to a particular trading program in spite of trading losses are material points which can also adversely affect actual trading results. There are numerous other factors related to the markets in general or to the implementation of any specific trading program which cannot be fully account for in the preparation of hypothetical performance results and all of which can adversely affect actual trading results.

The methods described in this manual are for educational purposes only. Past results are not necessarily indicative of future results. The author and publisher assume no responsibility for your trading results. Trading involves a high degree of risk. No recommendation is being made to buy any stock, commodity, option or other financial instrument. Consult your financial advisor before starting any investment system.

Table of Contents

Introduction

First of all, I would like to thank you for purchasing my course on day-trading the S&P E-Mini's. I believe that anyone with the right amount of patience, discipline, desire, and dedication can make a very nice professional-level income by day-trading the E-minis. There is also no limit to the income you can generate. For the person who puts forth the effort, day trading can be a very satisfying and rewarding career or hobby.

In this manual, I will show you how I trade the E-mini's successfully, with exact entries and stops. My methods are simple, just like trading should be. You do not need a bunch of fancy indicators that some people are leasing or selling. You do not need to sit in some boring trading room day after day month after month listening to some so called expert calling trades. I know these things because I have purchased courses and sat in on similar rooms to see if there was something worthwhile I was missing. Sadly, what I witnesses in most cases was not worth the price. There are however some very legitimate teachers doing a good service to traders and teaching methods with actual value. I say this because although you will learn a very valuable tried and true trading method in this course, you may chose to further your education. Not everyone trades the same way. There are many successful systems and methods. Please be careful in purchasing courses. If you find something that works for you consistently day in and day then you are already successful.

I am not a salesperson, teacher, or writer, but I will try my best to fill this manual with useful information and with as little fluff as possible. I started trading in the late 80's, before computers. I would watch the real-time coffee futures price quotes from a device that looked like a portable hand-held TV. Each day I would draw charts by hand on graph paper, and learned to create my own trading strategies. Back then, you needed to pick up a phone and call your broker to place an order, then wait for him to call you back with your fill price. It was a time-consuming process to say the least, especially when the price was still moving while you were waiting for them to answer your call. I remember saying to myself "If there was a way I could just press a button to enter a trade and another button to exit, this would be easy and I would be rich."

Welcome,

Today it's just as easy as that to place a trade, even easier. You can literally press one button and place your entry, exit, or stop orders with just one click. This course was written for the most novice beginners who know little or nothing about trading. It will give them the education they need to get started, learn some important basics, and teach them a simple yet powerful method that can lead to a successful career as a day trader. For those who are more experienced, please be patient or skip directly to the Method.

E-mini S&P

The S&P 500 index is a basket of 500 companies stocks used as a leading indicator for US equities. It is a common benchmark for the entire US market. In 1982 the S&P 500 futures contract began trading on the market. It was then and still is today a very volatile investment vehicle that often requires large amounts of capital to open and trade an account. In 1997 the E-mini S&P 500 futures contract began trading. The E is for Electronic, because it is traded fully electronically. The mini is because it is 1/5 the size of the original S&P 500 futures contract. This allows more players to participate in the game and take advantage of all the benefits of the original S&P 500 with less capital investment and risk. The E-mini S&P is our instrument of choice and is what this course will teach you to trade. E-mini S&P futures are the world's most actively traded stock index futures contract. For more specific information on the E-mini S&P 500, please go to the website www.cme.com. There you will find everything there is to know about E-mini S&P 500 contract.

So how do you trade it? Unlike stocks, the E-mini's are traded in contracts instead of shares. You can enter a trade with a "buy" betting that the contract will go up in value (going long), or you can enter a trade with a "sell" betting that the contract will go down in value (going short).

The symbol for the E-mini S&P 500 is **ES** and it is traded in four specific contract months each year: March, June, September, and December. Each contract month also has its own symbol:

March-**H** June-**M** September-**U** December-**Z**

As an example, the March 2010 E-mini S&P contract started trading on 12/19/08 with the last trade being 03/19/2010. This contract would look like this on your computer:

ESH10

The website www.cme.com will have all the accurate symbols, months, dates and trading hours.

Always make sure that you are trading the right contract month. Your broker will be able to help you with all this information. Usually, the contract to trade is the one expiring next.

The E-mini S&P is open for trading 23.25 hours per day seven days a week. The best times are from 9:30AM to 4:15PM Eastern Standard Time (EST). Your broker will have more information on the hours you will be allowed to trade according to your account.

ORDER TYPES

The following are the most common and basic order types that you will be using in your trading. There are many more order types and combinations of orders to make your trading simpler and more efficient. These may seem confusing at first (just by reading through them), but once you start practicing in the simulation account, they will become very easy to understand.

Market Order

This is the most common order to place when you just want to get in or out of a trade right now, ASAP. A market order does not specify a price; it is executed immediately at the best possible price available. This order is used to get in or enter a new trade or to get out of or exit an existing trade.

Limit Order

The limit order is an order to buy or sell at a specified price or better (higher for a sell, lower for a buy). Limit orders to buy are placed below or at the current price, while limit orders to sell are placed above or at the current price. A Limit Order is used to enter a new position or to exit an existing one. Be aware that, even though you see the market traded your limit price several times, this does not guarantee a fill at that price. The reason is that on a Limit Order you are only guaranteed to be executed if the market trades through the Limit Price.

Example:

- When buying, if the order price is lower than (below) the current market price, it is a Buy Limit.
    - As an example, with the market trading at 1135.0, Buy 1 ESH10 1135.0 Limit. The order can only be filled at the stated price (1135.0) or lower.

- When selling, if the order price is higher than (above) the current market price, it is a Sell Limit.
    - As an example, with the market trading at 1135.0, Sell 1 ESH10 1135.5 Limit The order will only be filled at the stated price (1135.5) or higher.

Stop Order

Stop orders are used for several purposes:

- To enter a new long or short trade.
- To protect your profit on an existing long or short trade.
- To minimize a loss on a short or long trade (Stop Loss).

This order becomes a "Market Order" when the specific price is reached and does not guarantee that you are going to get in at your exact price -why? Because it becomes a market order. A "Buy Stop" order is placed above the current market and is elected only when the market trades at or above, or is bid at or above the stop price. A "Sell Stop" order is placed below the current market price and is elected only when the market trades at or below, or is offered at or below the stop price.

Example:

- When buying, if the order price is higher than the current market price, it is a Buy Stop.
  - As an example, with the market trading at 1135.0, Buy 1 ESH10 1136.0 Stop. This order can only be filled at the "Market", after the Market trades (or is "offered") at 1136.0 or higher.

- When selling, if the order price is lower than the current market price, it is a Sell Stop.
  - As an example, with the market trading at 1135.0, Sell 1 ESH10 1134.0 Stop. This order can only be filled at the "Market", after the Market trades (or is "bid") at 1134.0 or lower.

The E-mini S&P 500 is quoted as a number that moves up and down, just as a stock price moves up and down. The smallest increment the equity can move up or down is .25, or one tick. That one tick, or .25, is equal to $12.50 per contract. One point is equal to 4 ticks or $50. per contract.

Example:

- If you enter a trade by buying (going long) one ESH10 contract at 1135.0 and then you exit the trade by selling that one contract when it reaches 1136.0 you have made 1 point or $50.

- If you enter a trade by selling (going short) one ESH10 contract at 1135.0 and you then exit the trade by buying that one contract when the price reaches 1134.0 you have made 1 point or $50.

In both examples above you have made a one point gain equal to $50 for the one contract you traded. If you had traded two contracts it would have been a $100 gain, five contracts a $250 gain and so forth.

Trading Platforms Charts and Brokers

As stated before, the E-mini is traded electronically. All trades will be placed on your computer through a trading platform and charting software. Long gone are the days of the phone call to the brokers trading desk, and the nail biting wait for them to call you back with your fill price. The trading platforms available today will have fully customizable charts and order entry windows simplifying the entire trading process.

A computer is essential in the business of trading E-mini's. Make sure you have a powerful enough computer to handle the software you will be running and the real-time data it will be processing. I recommend something with at least 2 mega bytes of RAM as an absolute minimum, but the more the better. I wouldn't go any slower than a 3.2 GHz processor as well. You defiantly do not want your computer running slow or crashing while you have money on the line. A high speed internet connection is pretty much a must. I would avoid dial up if at all possible. The extra money spent for high speed will far outweigh the losses you will incur in your trading for slow internet or dropped connections.

Many professional traders use multiple screens or monitors. In this way they can view a variety of different charts and symbols, or whatever else they need to make their trading more productive. I don't recommend splurging on multiple monitors right away. I personally use only one 24-inch monitor. I view either three charts at once, or one chart and the order entry window, or two charts and shrink the order window until I need it.

Searching for the right broker can seem like an overwhelming task. Just type in Futures Brokerage or E-mini broker in any online search engine and you will find plenty to choose from. My advice is to select the charting software or trading platform you wish to use first. I recommend visiting several websites and possibly trying an online demo or watching a free video, if offered.

Once you have done all the research and selected the software you want to use for your charts and order entry, choose the brokerage company that is compatible with that package. Some companies combine their services to include trading platform, charts, and brokerage service all together.

NOTE: "Ultimate Scalper LLC is not affiliated with ANY broker or trading platform".

Two of the most commonly used trading platforms today are NinjaTrader and Tradestation. I have personally been using Tradestation since the early 90's and have been very happy with them and their products over the years. The software is easy to learn and easy to trade with. They provide an overwhelming amount of customizable indicators and studies. Their order entry window is also very easy to use. They also have a great account simulator that lets you practice in real time without risking any money.

I highly recommend that you trade a simulated account for at least a month if you are practicing every day, otherwise a longer period of time would be advisable. Make sure that you are comfortable with the software along with placing different types of orders. I would not go live with actual money until you see consistent profits on a daily basis.

Although I have never used NinjaTrader, it is also a very powerful and popular trading platform. They offer simulated trading accounts as well. There is a list of brokers that work with NinjaTrader on their website. Below are the links to both the Tradestation and NinjaTrader websites.

NOTE: Although there are exceptional trading platforms such as NinjaTrader and others, I personally have not used them. I do believe their software allows you to customize indicators and charts according to my system specific input settings, however I cannot guarantee it.

www.Tradestation.com www.NinjaTrader.com

Please do research as many companies as you need until you find one that will suit your needs. Just about any software package and or trading platform will work with the method of trading that you will learn in this manual.

Brokers will charge you a fee for their service. You can expect to pay around $2.50 per side per contract, or $5 a round turn. What that actually means is for every contract you trade it is $2.50 to enter a position and another $2.50 to exit. This is just an average, you can find lower fees by shopping around. Some brokers will give discounts on volume of contracts traded. Obviously, the more contracts the lower the commission.

There will also be minor exchange fees to pay. You will be able to find all the associated fees and fee schedules at your broker's website.

Some brokers will advertise very low account minimums to get started trading the E-mini. I wouldn't recommend opening an account with less than $5000. I cannot stress this enough:

"PRACTICE ON A SIMULATED ACCOUNT FIRST BEFORE TRADING WITH REAL MONEY!"

Teaching you to use the trading platform and charts is beyond the scope of this course. Once you are set up with the company of your choice, they will provide tutorials, videos, and demos. There will most likely be a whole section dedicated to getting started and training on their website. Remember: These companies are fighting for your business. It is their job to teach you how to use their products, and in most cases will even assign an account rep to handle all your questions and point you in the right direction.

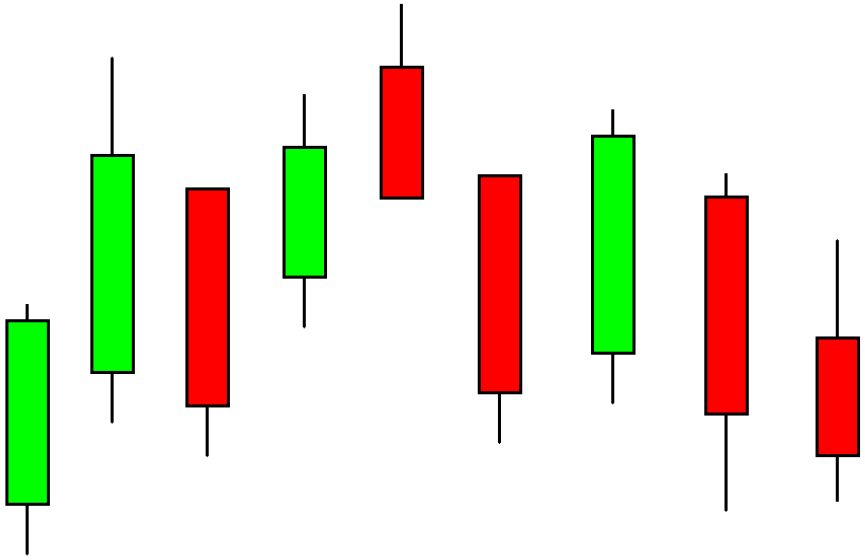
Charts & Candlesticks

Since you are going to spend a lot of time looking at charts, I think now is a good time to talk about them. Charts are your way of visually seeing what the security of your choice is doing in a graphical format. Over time, the more you look at charts of a specific investment instrument, the more you will begin to notice its patterns and that it actually has a personality.

Charts come in a variety of different styles and timeframes. You can easily get overwhelmed at all the information there is out there about charts, chart patterns, candlesticks, and more. There are dozens of courses and books devoted to each of these topics. Don't worry: You don't need to know much more than what I will teach you here in this manual. Profitable trading does not need to be complicated, nor do methods and systems that work.

Let's look at an example of a chart and become familiar with it. Below we have a drawing of what a 5 minute candlestick chart would look like for a period of 45 minutes. This is referred to as an "Intraday Chart" because the timeframe displayed is less than one day and represents what is going on inside that day. Each candle represents 5 minutes of time and what the price did in those 5 minutes. There are 9 candlesticks because we are looking at 45 minutes worth of data -45 divided by 5 equals 9.

ESH10 -5 MIN



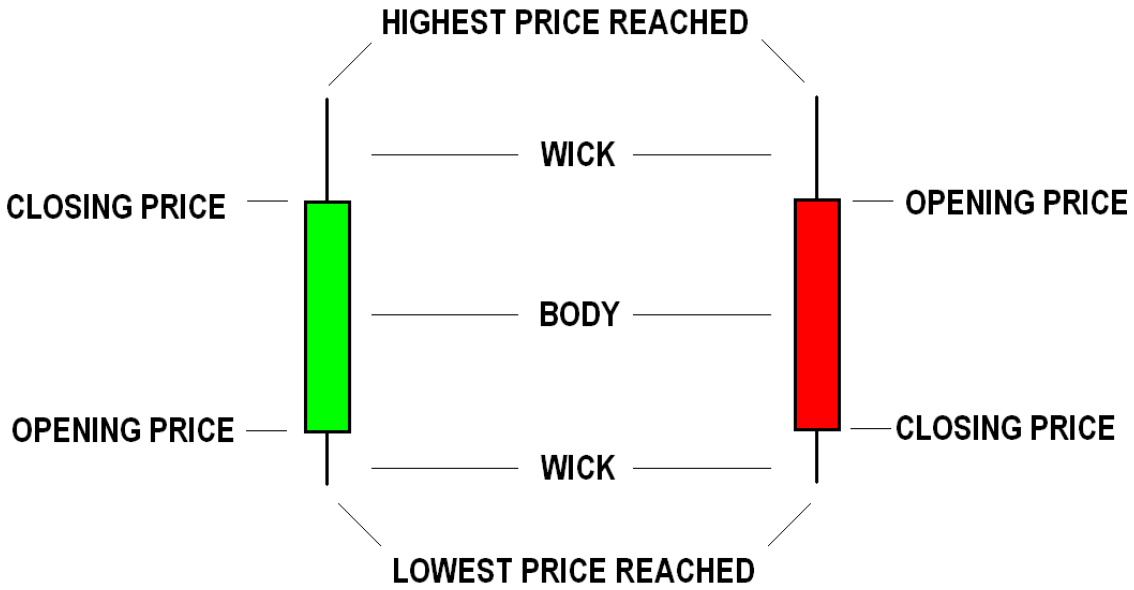
Now let's break it down further and look at the individual candlesticks.

In the diagram below we have two candlesticks. On the left we have a green (bullish) candlestick: This is where the opening price of the candlestick is lower than the closing price of the same candlestick. The opening price formed the lowest part of the candlestick body, and then the price traded down to the lowest price of the candlestick forming the bottom tip of the wick. Then the price moved back up, through the opening price, all the way to the top of the upper wick to form the high of the candlestick. The price then traded back down to finally close and form the top of the body of the candlestick.

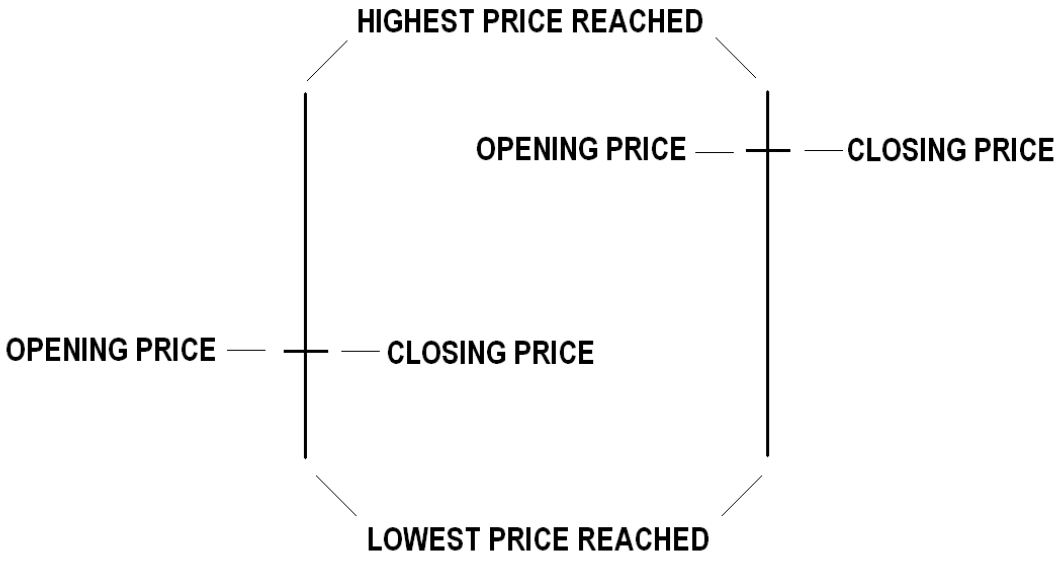
On the right we have a red (bearish) candlestick: This is where the opening price is higher than the closing price for the candlestick. The opening price formed the top of the candlesticks body. Then the price traded up to form the top of the wick. The price then traded back through the opening price, down to form the lowest part of the wick. The price then traded up and closed above the low and formed the bottom of the candlesticks body.

The body of the candlestick will always be the area in between the opening price and closing price.

If the candlestick opened at the lowest price and closed at the highest price there would be no wicks on that candlestick.



If the opening price was the same as the closing price there would be no body for that candlestick, just a wick with a horizontal line where the open and close took place. This is referred to as a Doji, and in some instances indicates a possible reversal of trend direction, or indecision in the market.



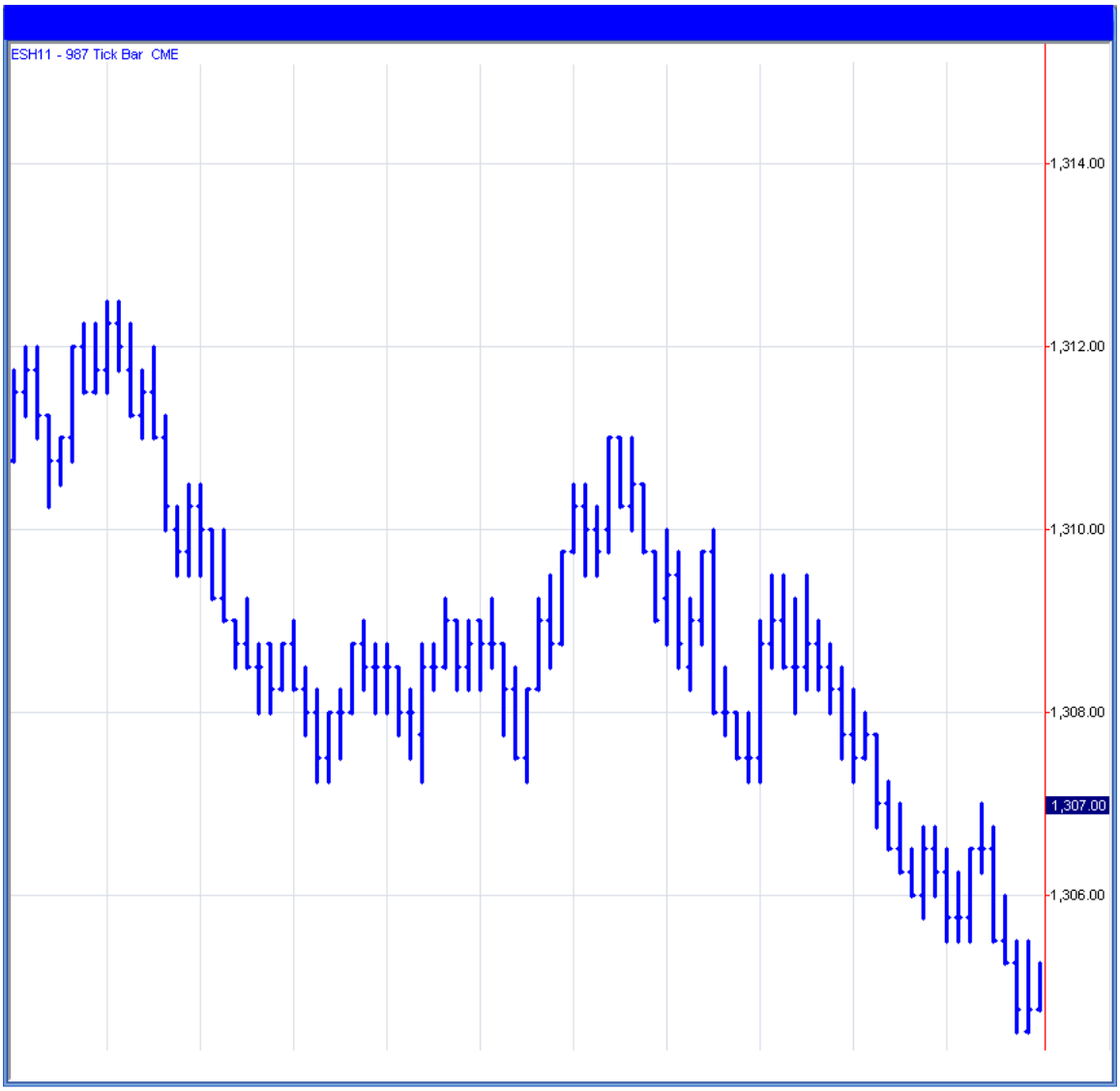
This all may seem a little confusing right now if you are new to charts. Don't worry, after looking at charts in real time and watching the software paint candlesticks right before your eyes, it will only take a few minutes before it becomes very clear.

There are more ways to display price information on a chart other than with candlesticks. I also use the Open High Low Close Bars on some charts because they help me to see opportunities in price patterns. The OHLC Bars are very simple and easy to understand.

In the diagram below if the OHLC Bars, you can see that they are pretty simple. There is a small horizontal ledge that protrudes from the left side representing the opening price and a similar one on the right side representing the closing prices. The high and low of the bars are simple the top of the bottom of the bars.

The majority of the diagrams in this manual will have charts displayed with candlesticks. As previously mentioned, I use the OHLC bars to see certain patterns develop more clearly. I use these bars mainly with the 3 and 5 minute time frame charts and will get into how I actually use them later on.

Below is an example of an OHLC Bar chart.



As previously stated, there are many different time frames that traders use to analyze a specific equity. There are daily charts where each candlestick represents an entire day of trading data. There are weekly, monthly, and yearly charts as well. Day traders use a variety of different charts and timeframes. We talked about the 5 minute time frame and gave a simple example above. Other charts that are commonly used amongst day traders are the 1, 3, 15, 30 and 60 minute timeframe charts.

There are two other types of charts commonly used by day traders: These are the volume charts and tick charts. Unlike the minute chart that paints each candlestick according to the time frame specified, the volume chart is based on a specific "volume of contracts traded" to paint a candlestick. The tick chart is similar in that it paints the candlestick according to the amount of "ticks" specified.

In my experience over the years, I have analyzed and traded with all sorts of different charts. In my opinion, the easiest charts for me to analyze are the tick-based as well as time based charts. Therefore the methods I will teach in this course will be based on those two chart types.

I will look at daily charts as well as other types of charts during the day, before the market opens and after it closes. However, the main charts I use to make my trading decisions and place my actual trades are on the tick and or minute time frame charts.

Below is an actual "tick" chart for the E-mini S&P March 2010 contract.

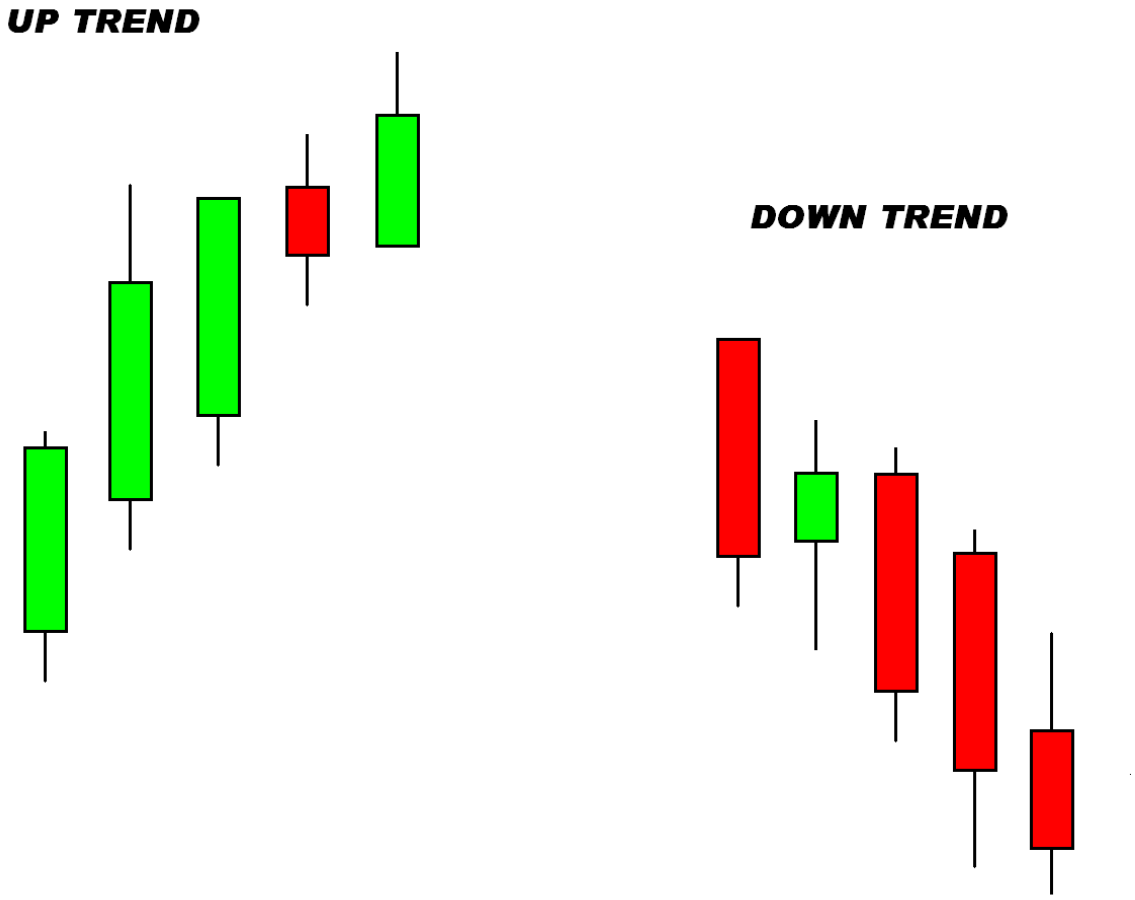
The Price Scale is displayed on the right margin of the chart from lowest on the bottom, to highest at the top. The current candlestick is always the one furthest to the right. As price moves up and down, tick by tick the candlestick is being formed. Once it reaches the pre-determined amount of ticks, the candlestick is completed and another one is started to the right of it.

You should now have a basic understanding of candlestick anatomy and how they form price charts over a period of time. This will all be very easy for you to understand once you actually start looking at charts for yourself.

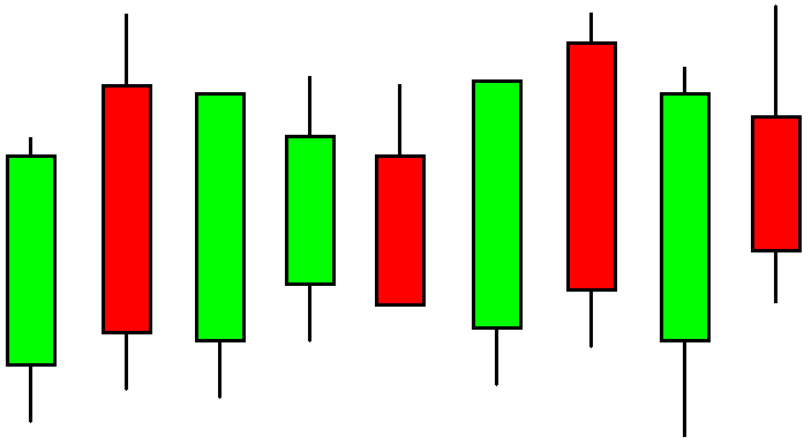
Trends

A trend can be defined as the general price direction of an asset or equity over time. There are three basic trend directions to be familiar with: up, down, and sideways. An uptrend is usually comprised of a series of candlesticks with higher highs and higher lows. A downtrend is just the opposite: a series of lower highs and lower lows. There will often be areas of counter-trending candlesticks (pullbacks or corrections) within a trend forming peaks and valleys.

Price also moves sideways from time to time with no up or down bias. This area can also be referred to as sideways congestion.



SIDEWAYS (CONGESTION)



Trends can be classified as long term, intermediate, short term, micro and mini trends -all depending on what timeframe you are looking at. The following is an example of how I personally classify timeframes and is by no means the only way to classify them. It is all subjective to the actual traders themselves. Please understand that there is always a larger trend happening than the one you are currently looking at. Conversely, there will almost always be a smaller one as well.

***Long term trends*:** yearly, monthly, weekly

***Intermediate trends*:** daily, hourly, 45, min, 30 min

***Short term trends*:** 10, 15 min, 5000 tick, 2000 tick

***Micro trends*:** 1, 3, 5minute, 300 tick, 500 tick, 1000 tick

When you look at different time frames, you will notice that they each tell a different story. Different time frames may very well have trends going in different directions. You may be looking at a daily chart and clearly see that it has been in an uptrend for days. However, when you zoom in on an intraday chart with an hourly or 30 minute timeframe, you might notice that it is in a complete downtrend.

As a day trader, it is very important to know what the market is doing in different time frames. I personally always have a good look at the daily chart before, after, and during a trading session so I have a bigger picture of what is really going on.

Below is the same ESH10 tick chart we had a look at previously. Since it is a 1000 tick chart (similar to what I use as my primary trading chart in one of my methods) the trends are Micro trends.

In position #1 we see price is in an uptrend, followed by a downtrend in position #2. In position #3 is another uptrend followed by yet another downtrend at position #4. In position #5 there is another uptrend that goes into a sideways congested area at #6.

Theses micro trends have enough of movement to generate a good size profit. They are perfect little trends for day trading and can be good for 5 points or even more.

In the above chart you can clearly see that the micro trend direction changes 5 times, as previously noted. However, even though the micro trend changes several times, the larger trend is still an upward (bullish) direction. You can see this by stepping back and looking at the bigger picture of the chart, or using trend lines (available in all charting software) and drawing a trend channel around it.

Trend Lines

Trend lines are one of the most basic technical analysis tools available to the trader. They are simple to use and, as previously mentioned, they are available in most all charting software packages.

Years ago, when I first started out drawing my own charts by hand, I couldn't help but notice that just about all trends -no matter up or down- shared something in common that practically jumped right out at me.

Underneath an uptrend there seemed to be an imaginary diagonal line moving upwards with the trend. As the candlesticks would form, some of them would touch the imaginary line but never break through it. Then other candlesticks would bounce off the line and some would trade above the line and never come close to it. This would happen the entire way up a trend. Over and over, price would come down and test the imaginary line but not break it, then continue on trading higher. Ultimately, the trend would change direction and break through the imaginary line.

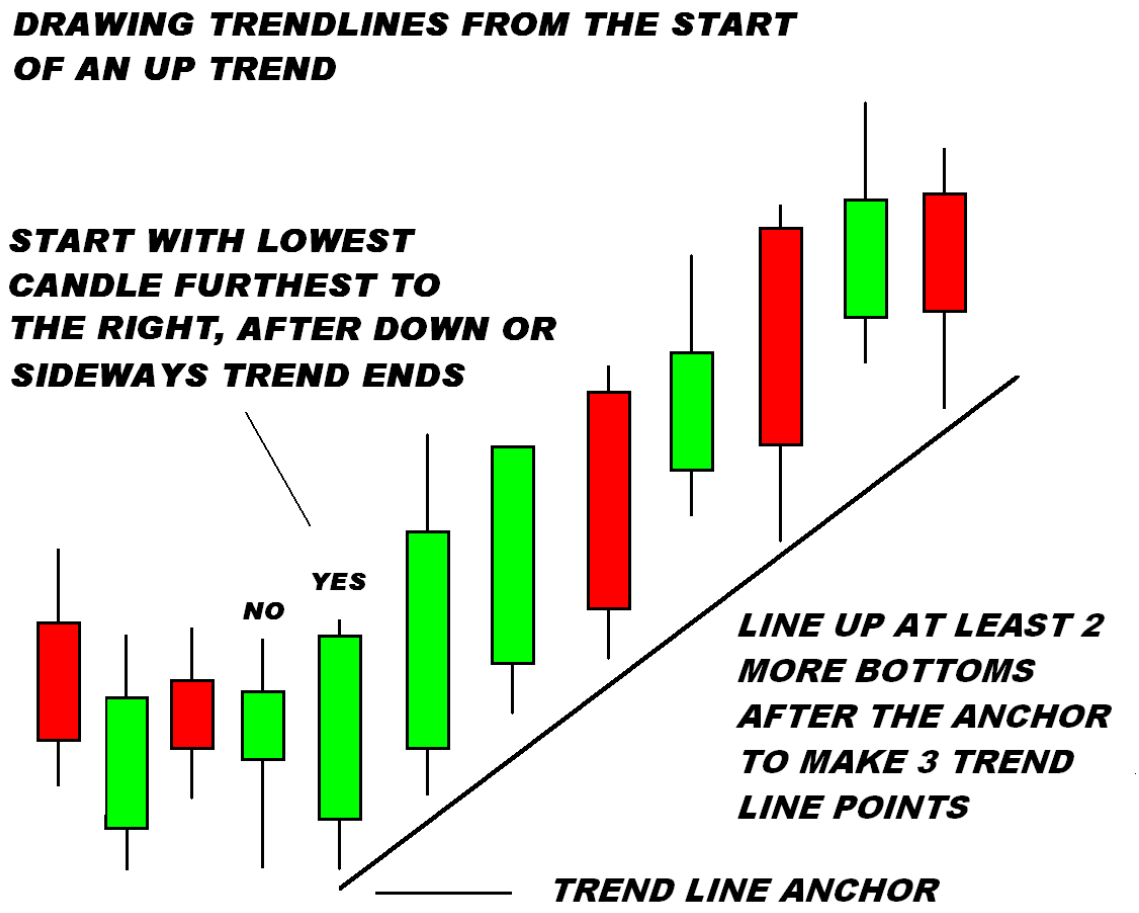
The same thing would happen in a downtrend, except the imaginary line would now be on top of the candlesticks in a diagonal line moving downwards. Just like the uptrend, the price would bounce off the imaginary lines but this time with the highs of the candlesticks bouncing off the line.

Back then I would just use a ruler and pencil to draw in the imaginary line on my chart. Today it's so easy to just click your mouse and draw perfect trend lines under all your up-trends and above all your down-trends.

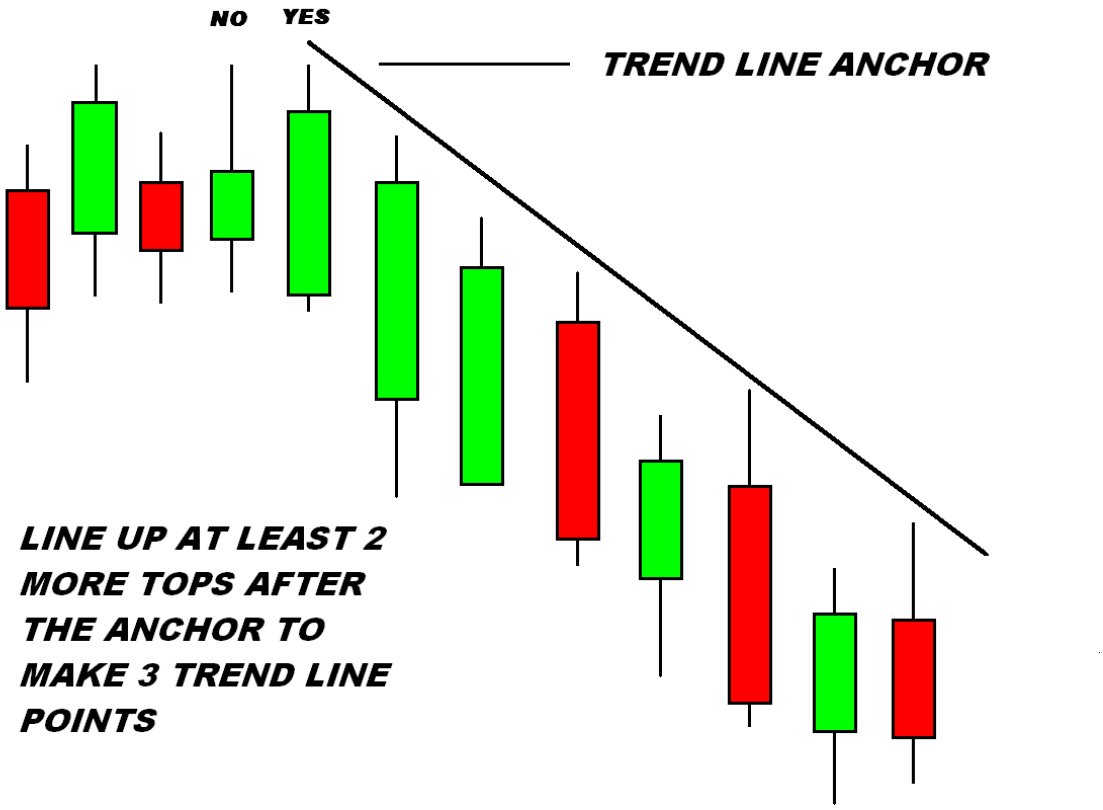
I was drawing lines on every trend I could find. What I noticed was that, when the trend changed direction, it would on most occasions break through that trend line that I had drawn. Now I draw trend lines all the time. Trend lines are subjective, depending on the trader drawing them. Most likely, each trader will draw them differently. I use them as a stand-alone trading system that I will get more into later on. I also use them as confirmation for other trade entries and trend changes.

In the diagrams that follow you can see how I draw my trend lines. A trend needs to be pretty well established before you are able to draw the lines.

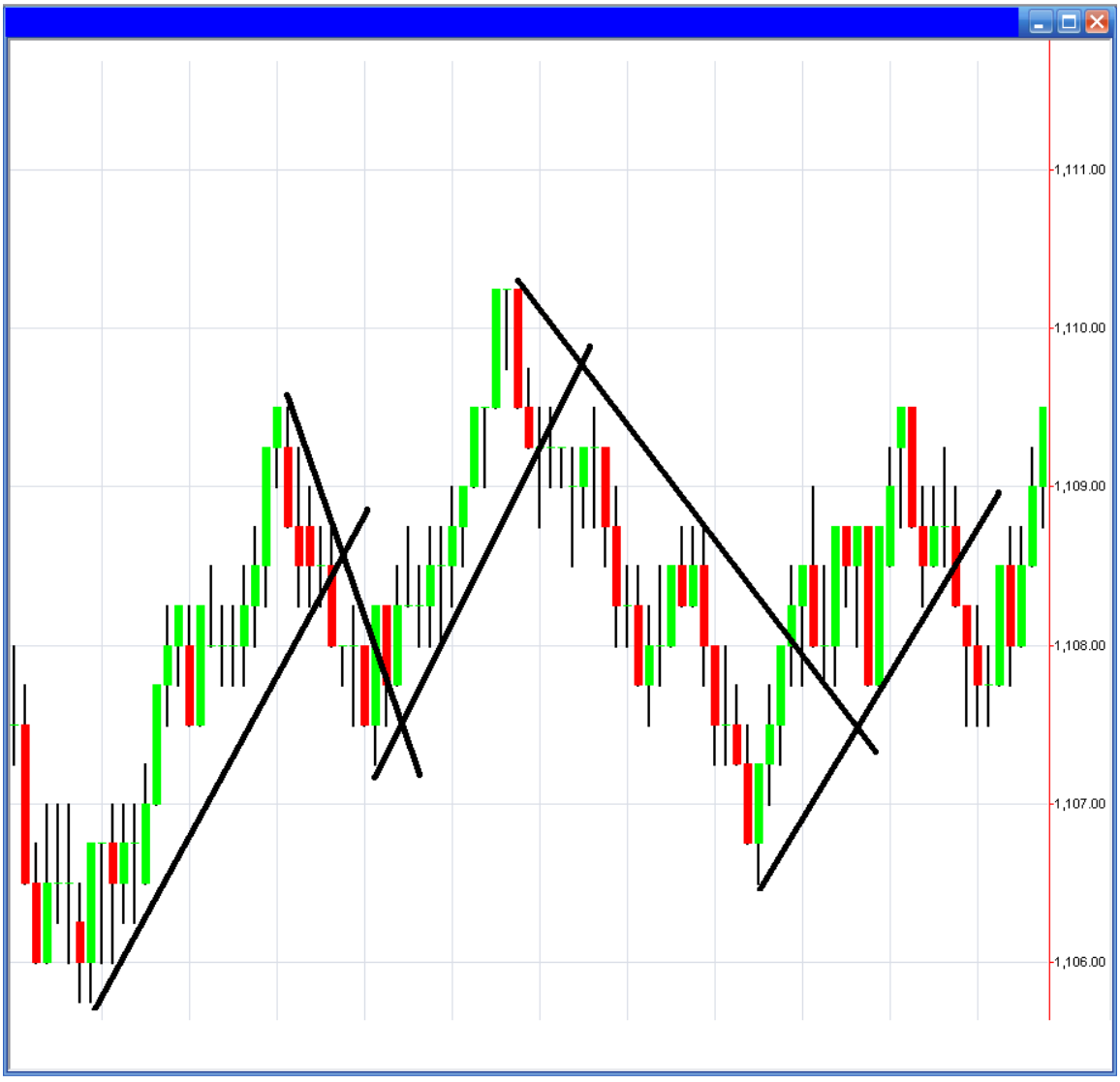
TREND LINES MUST CONNECT IN 3 SPOTS, THE ANCHOR OR STARTING POINT, PLUS AT LEAST 2 MORE POINTS.



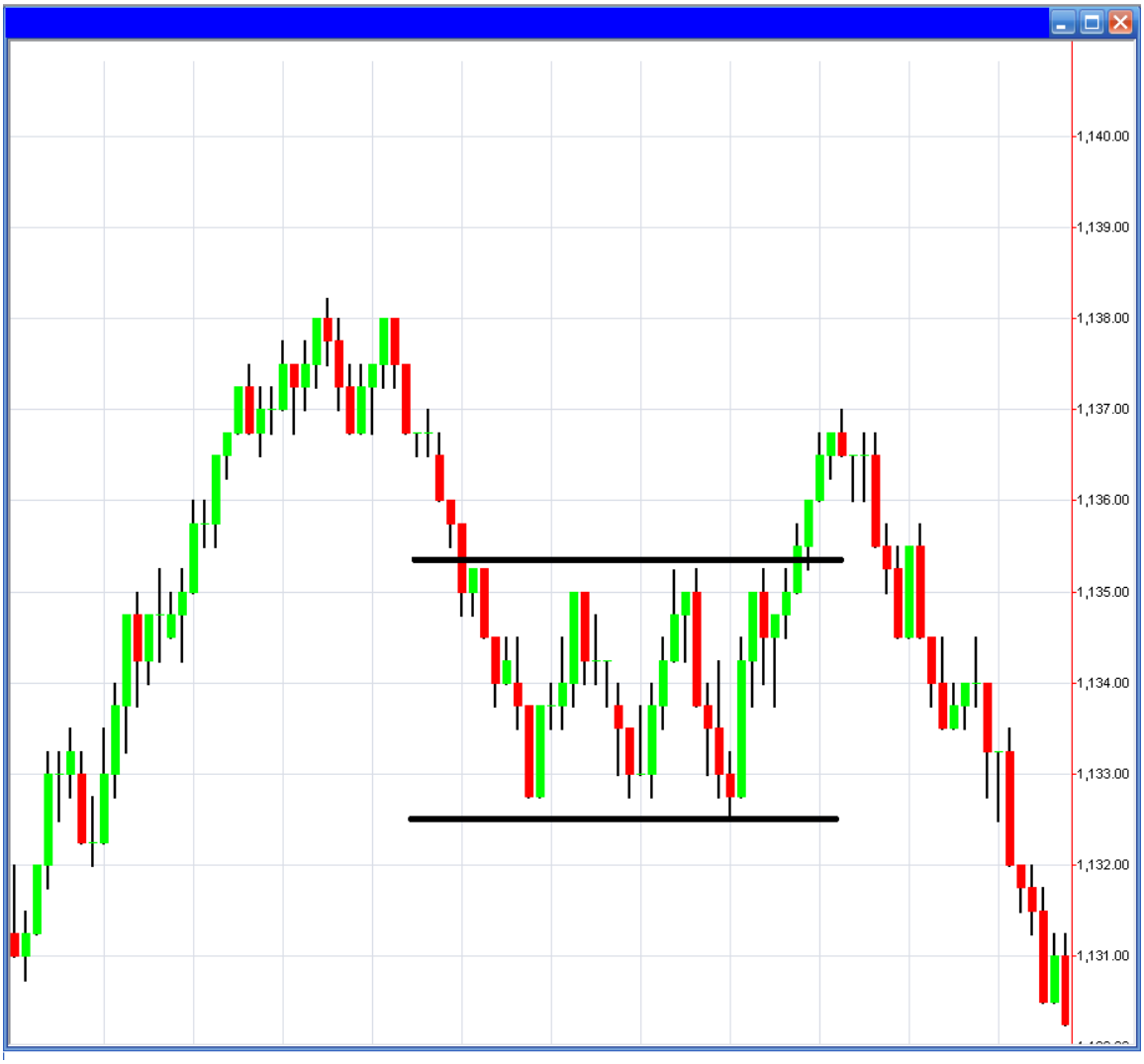
DRAWING TRENDLINES FROM THE START OF A DOWNTREND - START WITH HIGHEST CANDLE FURTHEST TO THE RIGHT, AFTER UP OR SIDWAYS TREND ENDS



Let's take a look at some actual examples starting with the ESH10 chart that we have already seen a number of times. Notice how each time the trend changes direction it breaks a trend line.



Trend lines are also very useful for identifying sideways trends, chop, or congestion. Price bounces off the tops and bottoms of sideways trend channels similar to the way they bounce off trend lines in an up-trend and down-trend. Look at the following actual charts and see how horizontal trend lines can be placed around them.



Trend lines will help to give you an idea of where the price may be headed. They can also help to spot areas where the price may bounce off and head in the opposite direction. As mentioned before, it takes practice drawing trend lines and they are subjective to each individual trader.

On some days, the micro trends will form very nice upwards and downwards trend channels. These are especially helpful in spotting price turnaround targets. Take a look at the following actual examples. The price seems to just bounce off the trend channel lines drawn and reverse course in the opposite direction. This can be very helpful.

Support and Resistance

Not unlike trend lines, support and resistance is one of the most widely used concepts or tools in a trader's toolbox. Just like the trend lines, support and resistance is a simple concept that will also incorporate the drawing of lines on a chart. It seems like single individuals have their own definition of support and resistance and their own way of computing where they are on a given chart. I will show you a simple and effective way of drawing these lines that have worked well for me over the years. Again, every topic we discuss in this course whether it is trend lines, candlesticks, support and resistance, or something further on down the line, will have many different definitions and opinions by traders around the world. There are literally dozens of books on each and every topic discussed in this course. I will only show you useful techniques that actually work for me, have always worked and will continue working for years in the future.

Support

Support is simply a lower price level or price area that gets touched or visited a number of times but does not get crossed. Price tends to linger or bounce off this area but has a hard time passing below it. When we notice this occurrence we draw a horizontal line at that level and call it support. The trend lines we draw on the bottoms of sideways trends or channels are a form of support.

Resistance

Resistance conversely is a higher price level or price area that gets touched or visited a number of times but does not get crossed. The price tends to linger or bounce off this area but has a hard time passing above it. When we notice this occurrence, we draw a horizontal line at that level and call it resistance. The trend lines we draw on the tops of sideways trends or channels are a form of resistance.

Our main goal in using support and resistance lines is to find key areas through the day where price may tend to try and reach (test), pass beyond (break out), or make a turn around.

We usually draw these lines on our chart sometime before the market opens. I personally draw them the night before and re-check them before the market opens on the days that I am trading. This is a very simple technique and very easy to do. You will be amazed at the accuracy of the lines you draw.

To draw the lines, we first need to squeeze the most recent day's data to fit on one screen. Let's say the marked just closed for the day so I would want to have that day's trading chart displayed to fit along the whole screen. If you are doing this in the morning before the market opens, then you would want yesterday's data. It is also possible to use the last three days worth of trading data, if you would like. This takes a lot of scrunching of data to fit three days worth of charts on one screen. It is really a matter of preference, I use one to two trading sessions. Below is a chart with one entire day of trading data scrunched to fit on one screen.

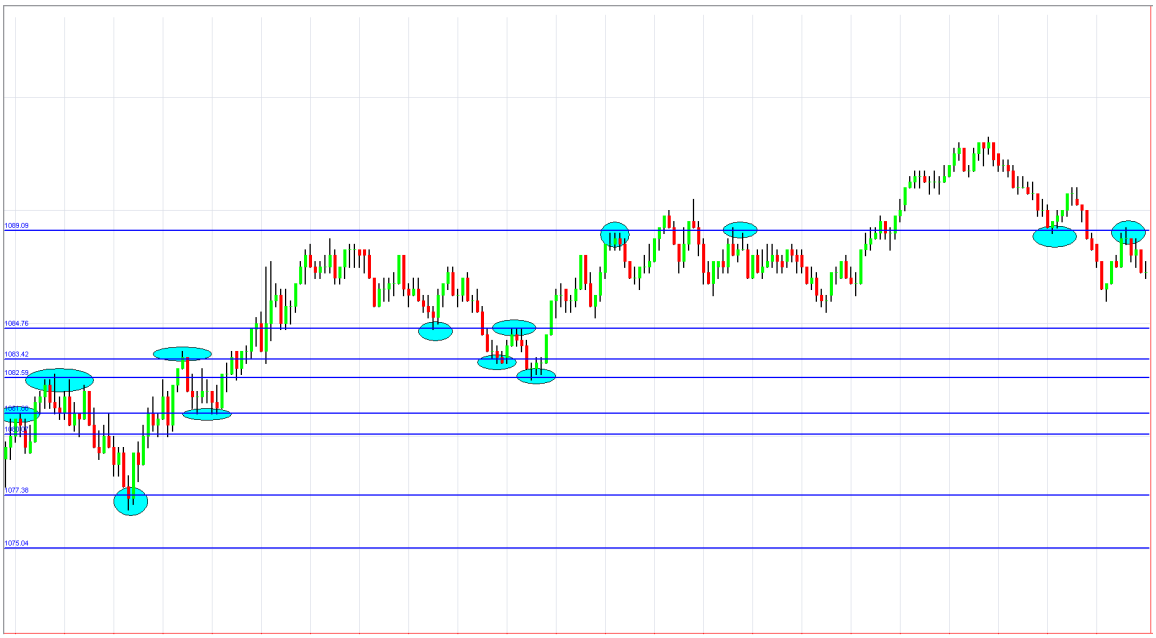
Looking at the chart below you will notice many pointy tops and pointy bottoms. Areas where price traded upwards reached a high price (top) and then made a turn and headed back down in the opposite direction. At the same time we are looking for areas where the price traded down to form a low (bottom) and made a turn up. Tops and bottoms: That's what we are looking for.

Our goal is to find tops and bottoms that intersect at the same price or price range. We want to be able to draw a horizontal line through any top that lines up with at least one bottom, and any bottom that lines up with at least one top.

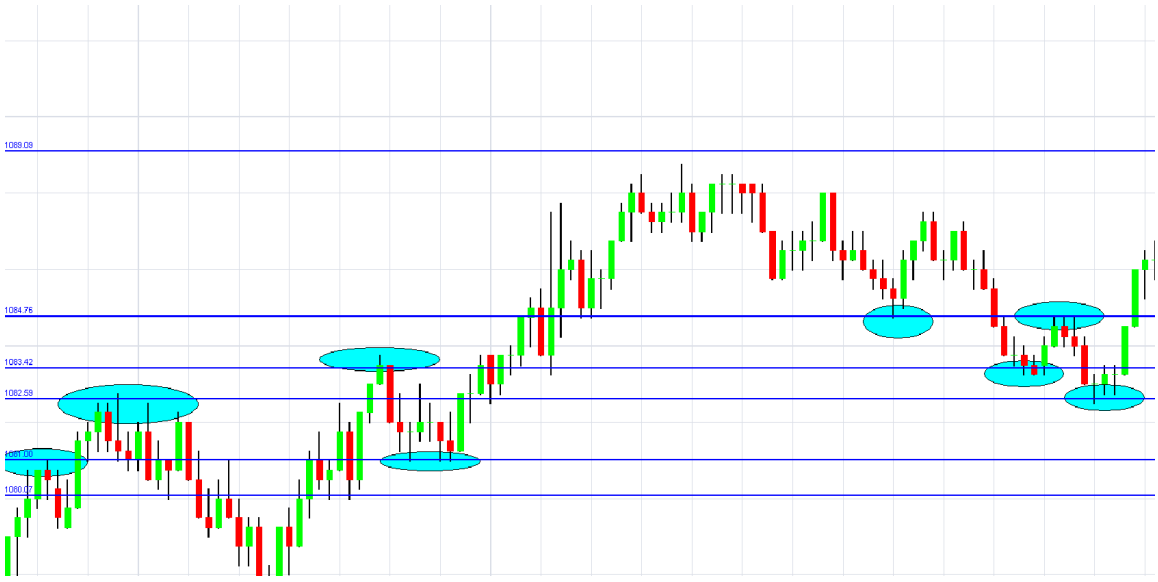
The charting software you use will let you draw horizontal lines across the entire screen and drag them up and down as necessary. This makes it easy to find matching tops and bottoms. Start by drawing a horizontal line at the top of the screen and drag it down looking for tops and bottoms that intersect. Ultimately, these lines will project themselves far into the future.

Now take a look at the same chart below with lines drawn through the matching tops and bottoms. These lines will extend into the next days trading charts and mark significant areas of support and resistance. Remember that the chart below is scrunched up (zoomed out) to show an entire day worth of candlesticks. This makes all the new support and resistance lines we just finished drawing look very close together. When you un-scrunch (zoomed in) the data, they will become more spread apart and useful.

The diagram below shows the same chart with the data zoomed in, just a bit. This will help you to see how and where I place my horizontal lines. Follow the lines across the screen and you will see that each one intersects at least one top and one bottom. Note the blue ellipses. The bottom two lines have matching tops and bottoms as well, however they are not visible since I have basically zoomed in and there ellipses are outside of the current range.



This is the same chart just zoomed in a little closer to avoid any confusion on how the lines are drawn. A few ticks above or below the line are acceptable. You will find that just like all the other lines you draw, the more you draw them the easier it will become.



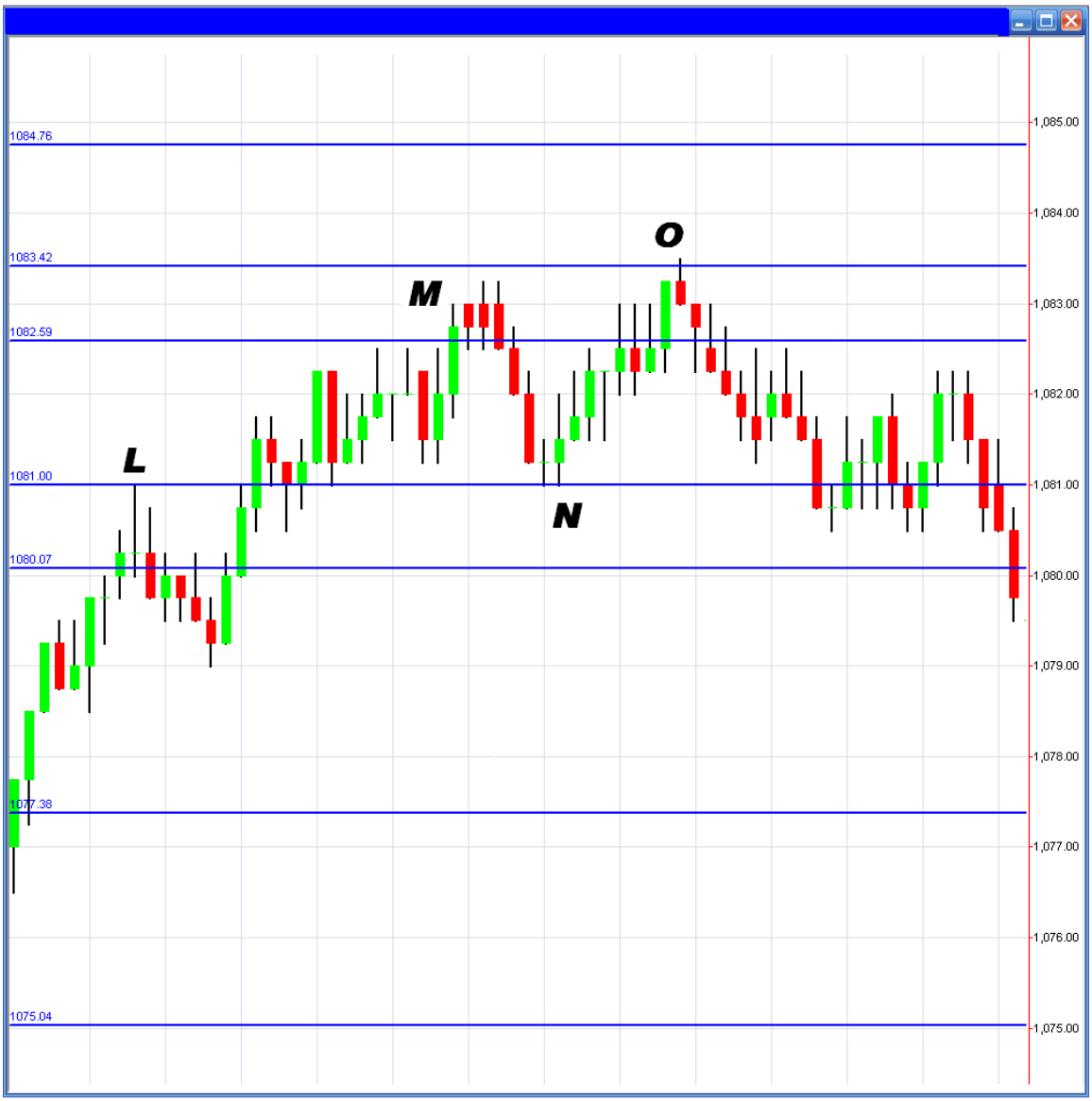
Now that we have the lines on our chart, lets take a look at how we use them. As previously mentioned, the lines will extend far into the future on your chart until they are deleted. The lines that are below the current price action are generally referred to as Support. The lines above current price are Resistance. When the price breaks through a support line to trade below it, that line then becomes a resistance line. When price breaks out of a resistance line and trades above it, that line then becomes a support line.

The examples that follow are taken from the very next day's price action for the lines we have just completed. Please keep in mind that I did not go through many charts to find perfect examples for this manual: I want it to be as real as possible. This just happens to be the data taken from the last two days' price action while writing this chapter.

Looking at the chart, we see that the price started out the day by opening below all the support and resistance lines we have drawn the previous day. The price trades upwards and hits the first resistance line at **" A"** then bounces off and pulls back just a bit. The price then trades back up to test the resistance line again, and this time breaks through it at **"B."** Then price trades up to the next resistance line at **"C"**, bounces off and pulls back to an area of support. Remember: When the price is above a line that line is support, if the price is below a line, that line is resistance. Next, the price trades up to re-test the resistance line at **"D"** has trouble breaking through and once again pulls back to support at **"E."**

Later in the same day, you can see the price bouncing off a resistance line several times before trading up to the next area of resistance at **"F."** The price then pulls back, bounces off support at area **"G",** shoots back up to re-test and break the resistance line at **"H,"** and trade a tick or two above the next line at **"I**." The price loses momentum and pulls all the way back to support at area **"J",** before shooting up and bouncing off resistance at **"K."**

Although the support and resistance lines are not perfect, they can help determine levels where the price may be headed and when a bounce or pullback may occur.



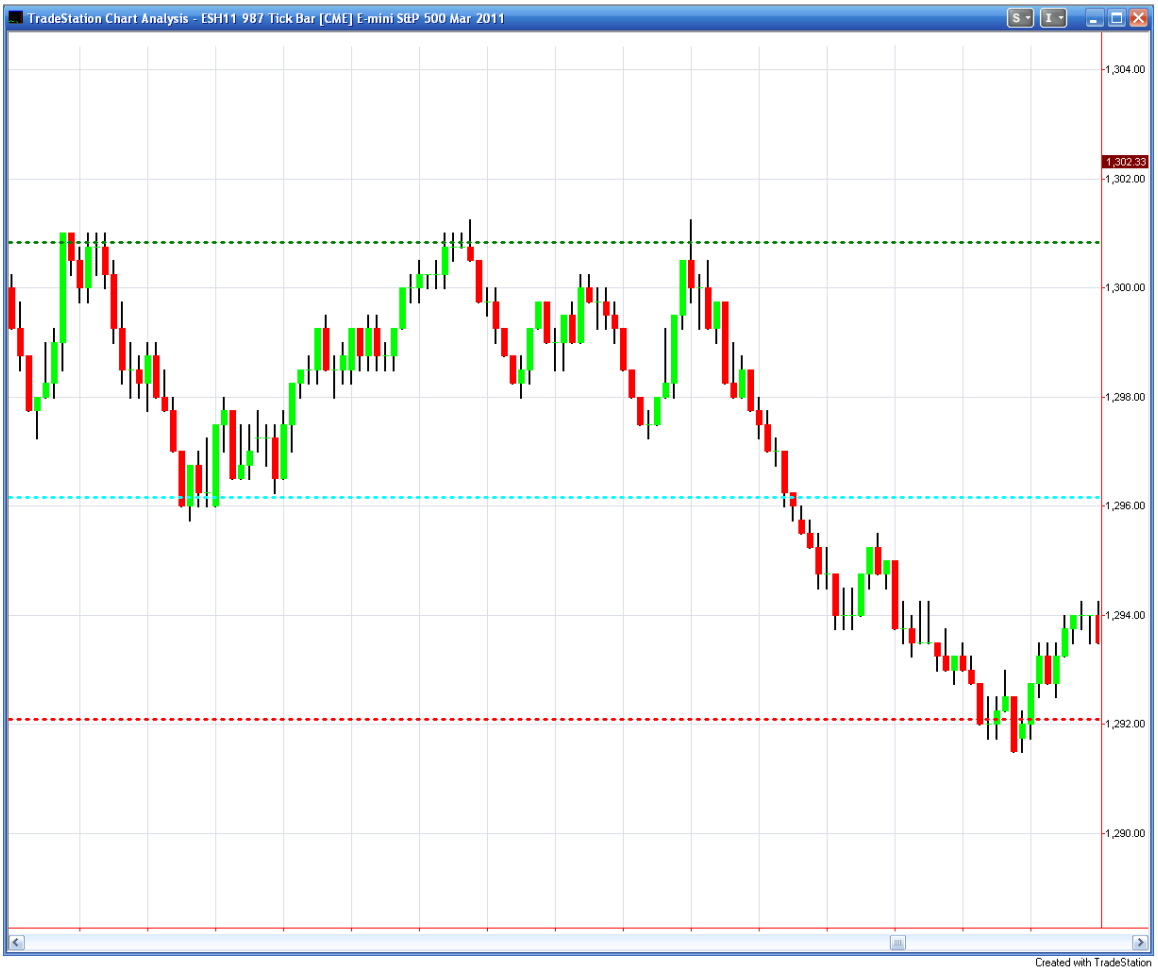
This is later on in the same day. Walk yourself through the chart and take notice how price interacts with the support and resistance lines. Price trades up touches then bounces off at **"L"**, then pulls back before breaking thru resistance on its way up to **"M"**. Then price pulls back and bounces off support at **"N"** before it trades up to re-test resistance at **"O"** then bouncing off and pulling back.

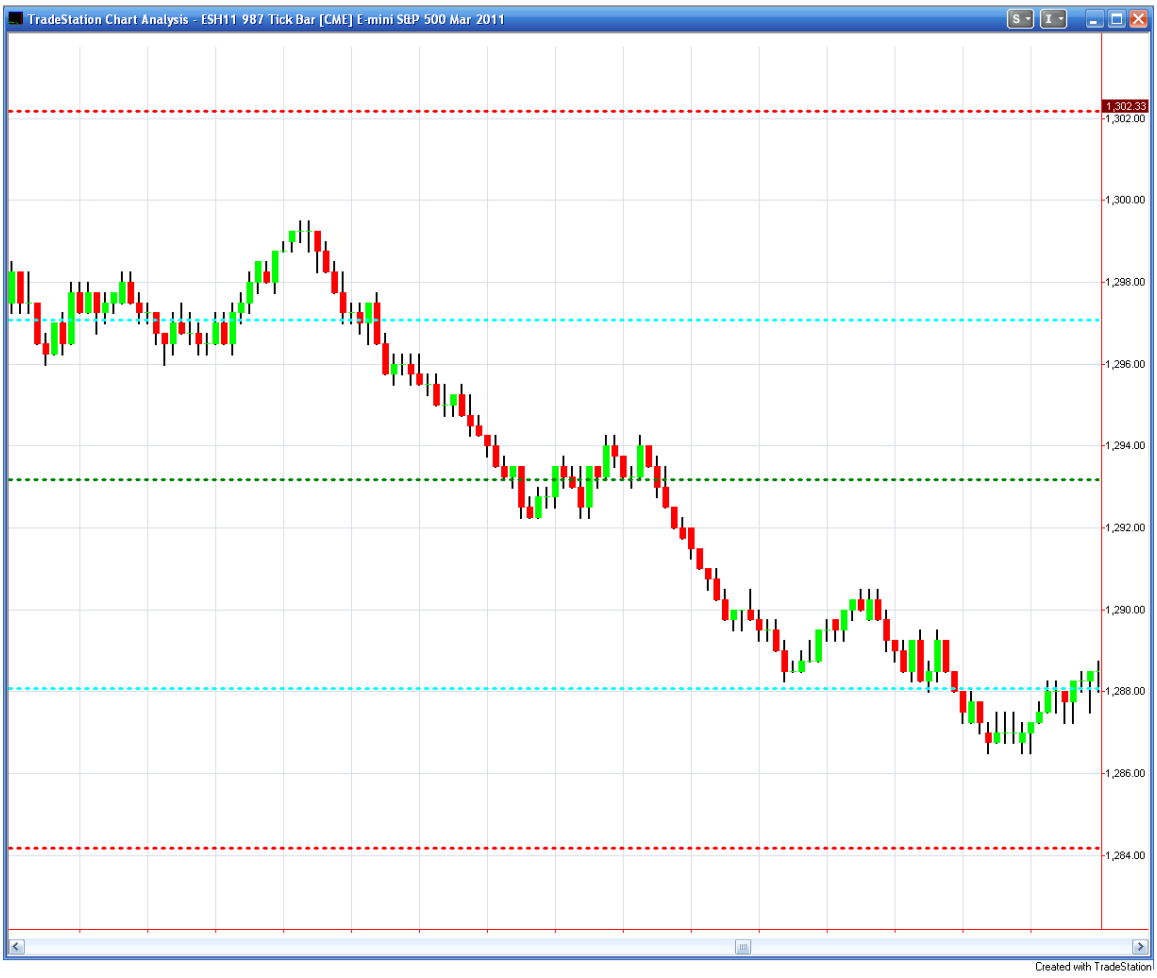
Once you become comfortable drawing support and resistance lines like these you will be amazed at how accurate they can be, and how they will help in your decision making.

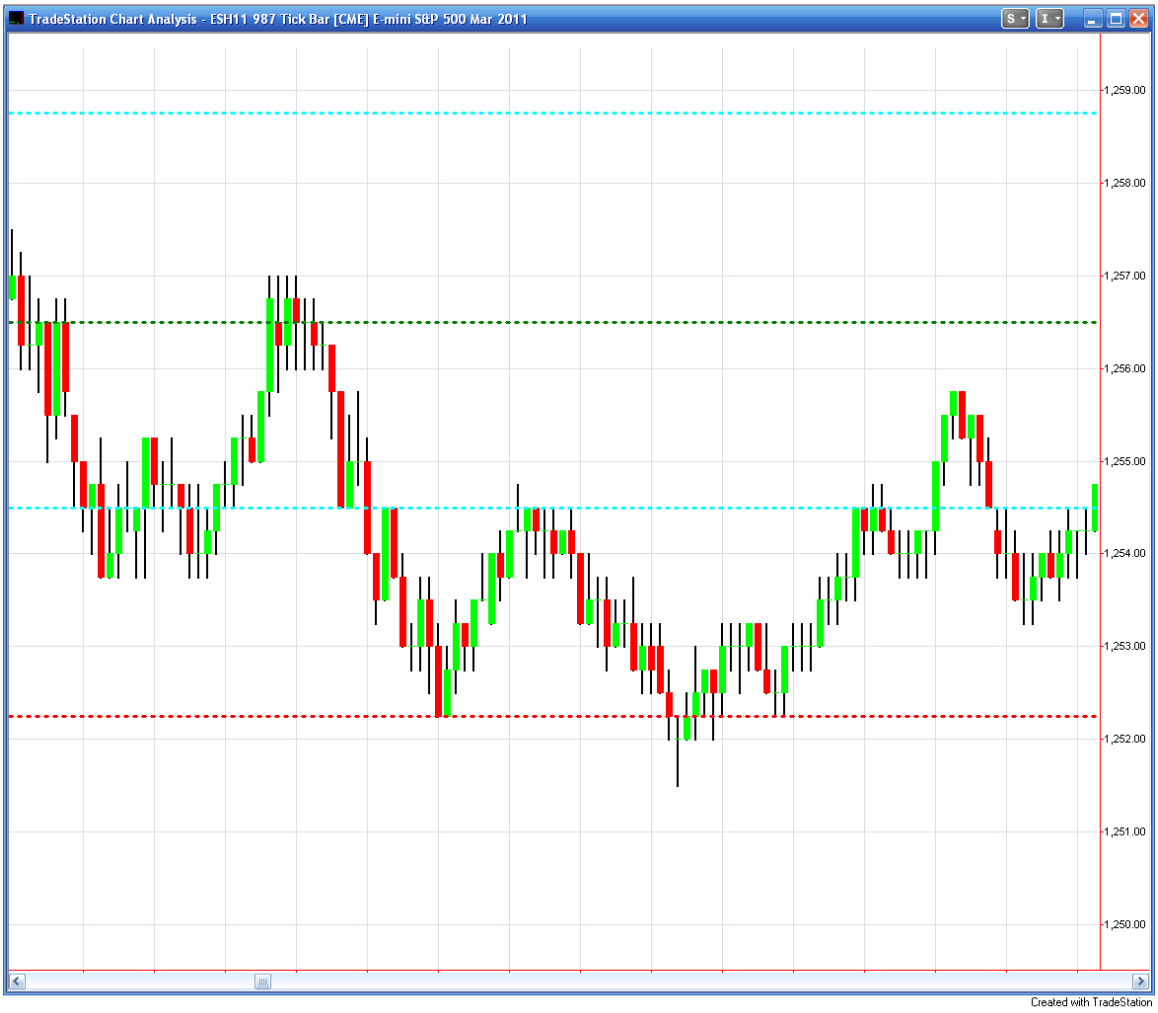
Floor Trader Pivots

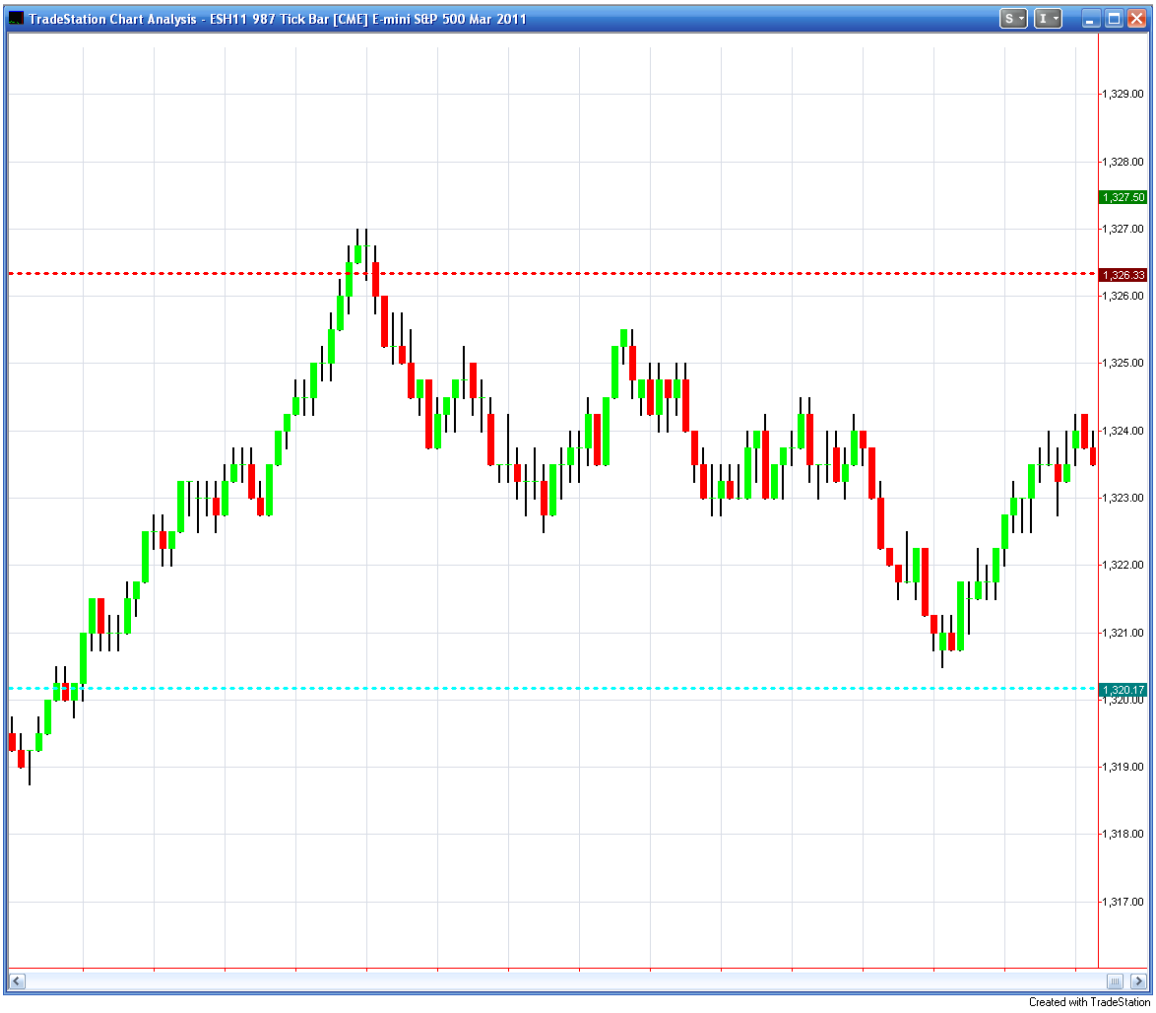
There is another form of support and resistance lines available on most trading platforms that I would like to cover. These are called “Floor Trader Pivots”, and can be found under the list of indicators in most charting programs. These lines are calculated and generated by the computer so they are very easy to apply. Although they are calculated a different way and are specific for each individual day, they work in the very same way as the lines I just showed you how to draw. Floor Trader Pivots are usually a set of 5 to 7 lines horizontally displayed across the chart in certain colors. The middle line is the called the pivot. Each line above the pivot is a resistance line, while the lines below are the support lines.

The following diagrams are actual charts with the “Floor Trader Pivots” displayed. Take notice of how price interacts with the support and resistance lines. The dark green line in these examples represents the Pivot line.









As you can see, the Floor Trader Pivot lines can be quite a helpful tool in your decision making process. Just as in the support and resistance lines I showed you how to draw earlier, price loves to test these lines, bounce off or break through them. I find when price approaches and/or touches one of these lines, it often presents the best trading opportunities when combined with my methods.

When you use the Floor Trader Pivot lines in conjunction with the support and resistance lines previously discussed, together they create very powerful targets and turning points. When you have lines overlapping or in close proximity to one another, they become more significant.

Indicators

There are literally dozens if not hundreds of indicators included in your charting software. Indicators are visual tools you can display on your charts. They are intended to help determine a variety of things such as trends, momentum, over-bought and over-sold situations, and a multitude of other trading variables. The Support and Resistance lines you learned about in the last section are also indicators. It is far beyond the scope of this course to teach you about all the different indicators out there. There are a multitude of books on practically each and every one. Most charting software will have explanations and definitions of the different types. It is easy to become overwhelmed and confused by all the different indicators. I use very few in my trading. There is really no need to have a bunch of indicators cluttering up your charts.

The 50 EMA Indicator "The Tornado"

I use an exponential moving average (EMA) on all my charts. I am pretty sure that just about all charting software packages out there will have the capabilities of displaying an EMA. Moving Averages are one of the simplest and most widely used indicators out there. Without going into great detail about how the indicator is calculated, it is basically a price average over the number of periods or bars specified by the user and displayed as a line on your chart. I use the 50 period EMA. Look at the next chart: You will notice the 50 EMA displayed as a blue line across the chart.

The EMA will give you a basic visual idea of which way the price has been trending, or if trending at all. Notice how in the first half of the chart the price was going up and so was the EMA. Then, about half way into the chart,the price started a decline and so did the EMA. Since it takes the last 50 candlesticks of data to create the EMA, it will lag the actual price movement a bit.

It's easy to see at a quick glance what direction the market has been trending by looking at the EMA. Although it would be great to always take trades in the direction of the EMA, unfortunately that is not the case or it is not that simple. Since the EMA lags price so much, it is hard to take a trade solely on the direction that it is pointing. When you do get an entry signal that is going in the same direction with the EMA, it is usually a good confirmation for your entry decision.

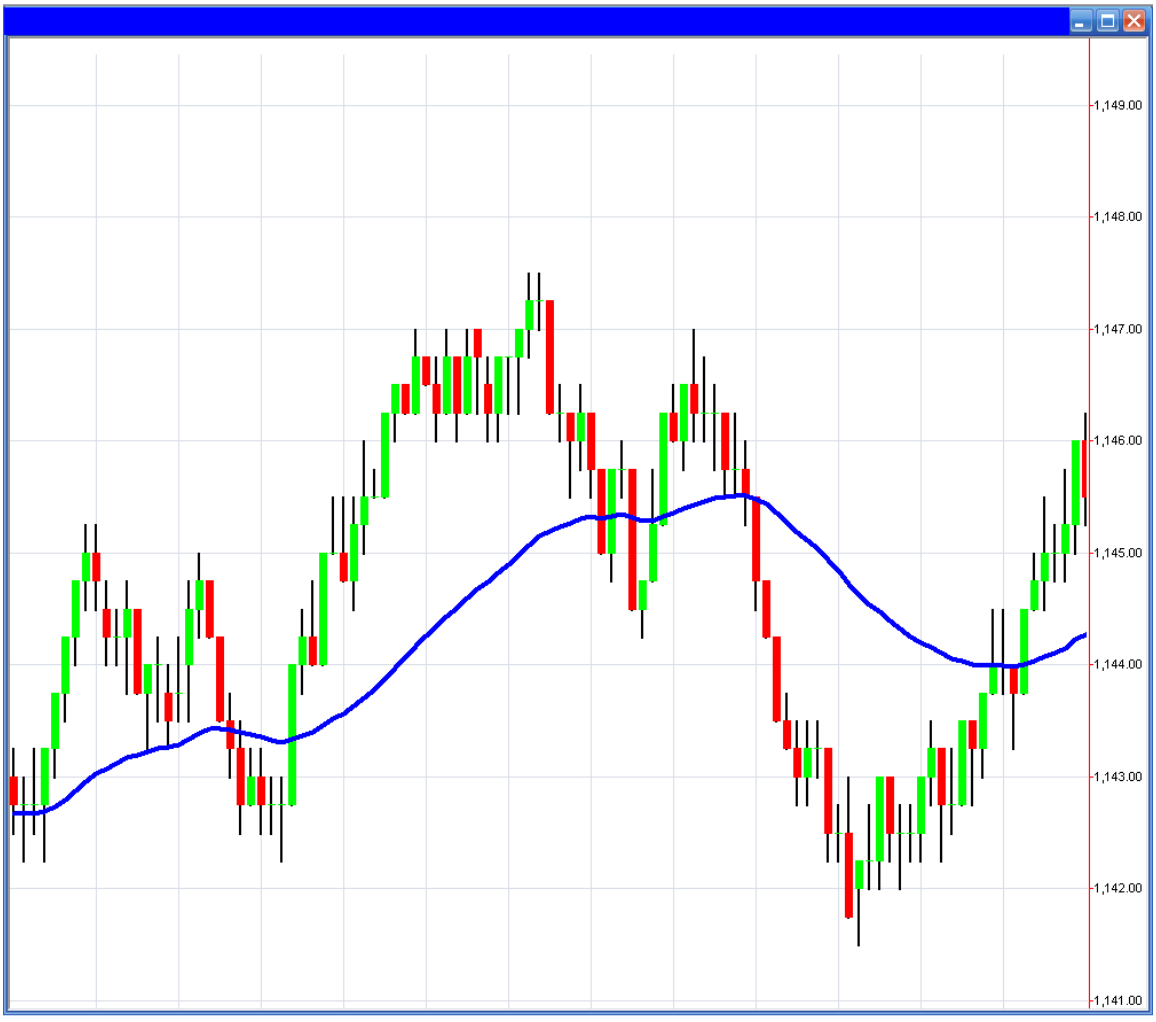
The 50 EMA is valuable to me in ways other than just the direction of the trend. I call it the "tornado" for a reason. I envision the 50 EMA as a virtual tornado across my chart depicted by the blue line. A tornado in real life pulls in objects that are close by or near to it. Sometimes the objects that get pulled in go around and around inside the tornado, before getting thrown or spit out of its hold. On my chart the candlesticks are the objects. Over and over, the candlesticks will get pulled into the blue EMA line. Sometimes the candles will get tangled up in the blue line before getting spit out in either direction. Other times the candles will get pulled into the blue line then bounce off. Maybe you will come up with your own analogy of how the price and candles interact with the blue line, but to me the tornado works great.

Look at a couple more charts and get an idea of what I mean. Although the candlesticks get away from the blue line, they always seem to want to come in contact with it again.

In the previous chart you will notice that, although the price goes up and down quite a bit, there is no definite up or down trend. Notice how many times the candlesticks touch or pass through the blue line. Even when they get far away from the EMA (blue line) at times, they always tend to meet up again.

This helps me in my decision-making process. Let's say, for example, that the price is way below the blue line and I get a signal to enter with a buy or go long. Knowing that the price is below the blue line, I would feel more confident in my decision to enter a trade betting price will go up. The same would be true if the price was far above the blue line and I got an entry signal to go short or sell. I would feel more confident the trade would work in that scenario as well.

Below is one more example of the 50 EMA. Notice how the price always seems to stray away from the blue tornado and then come back to it. Sometimes the price bounces off the blue line, gets tangled up, or breaks right through it.



I become cautious when the price is trading just under or above the 50 EMA. If the price is just under the blue line without more than a point or so before touching it and I get a buy signal, I may not take the trade. In this situation, I feel that the price may bounce off or get tangled up in it. This would be the same if the price was just above the blue line and I got a sell signal. In either case, if the signal was really nice and I felt good about it, I may take the trade. It's just something to consider.

Volume

No course on trading would be complete without touching on the subject of Volume. As with just about every indicator, there are magnitudes of different opinions, ideas, and ways to use and benefit from each. I like to keep Volume simple, and use it in a way that actually works for me time and time again.

It is important to pay close attention to what volume is telling you. When there are many buyers and/or sellers participating in a rally or sell off, it is that volume of contract transactions that can give the market the push it needs to reach new highs or lows. Many times when the market tries to test and/or re-test previously reached levels, it is the volume of transactions that will determine the outcome.

There are two main ways in which I use volume. The first is what I call VPT or Volume Probability Test. This helps me determine if the price has the volume it needs to break through previously set highs or lows. The second is what I call either a "Final Upward Push" or a "Final Downward Push." I will get into greater detail on both of these methods, but first let me show you how I set up the volume indicator.

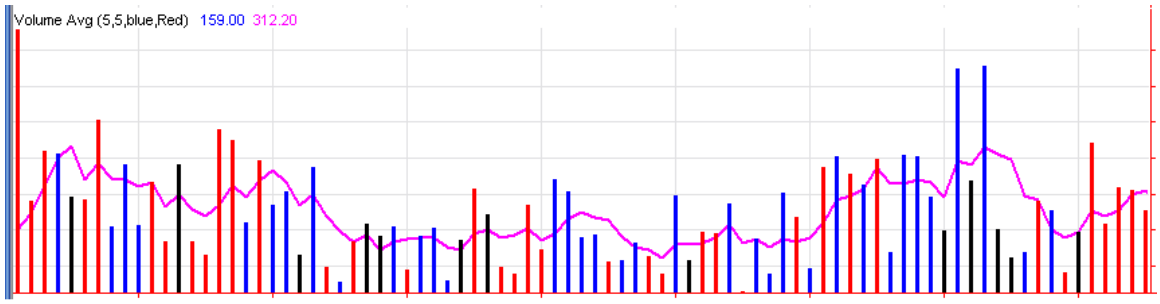
Volume works best on charts that are displaying a time frame such as a "1-minute" chart, "daily", or "weekly" type of charts. In my opinion, volume does not work so well on a "tick" chart. Since the main system I trade is on a "tick" chart, I do not have a volume indicator displayed on it. Instead, I have a separate window set up next to the "tick" chart displaying a "1-minute" or a "3-minute" chart. Since I have a 24-inch monitor, displaying two charts side by side is not a problem at all.

There should be various different volume indicators to choose from, depending on your charting software. I currently use “Tradestation” as my charting and trading package and the indicator there is called “Volume Average.” I then format the colors and parameters to suite my liking and make the lines a little thicker and easier to see. Under the Inputs tab I format the indicator as follows:

Inputs	
AvgLength	5
AlertPct	5
Up color	Blue
Down color	Red

Please note that all software packages vary and yours may be different, this is just an example of how it will look in some cases.

Below is an example of what the actual volume indicator looks like by itself. The red and blue bars display the volume of the price candle associated with it. The higher up the bars go, the more volume is associated with that particular candlestick. When the candlestick closes at a higher price than the previous candlestick, the bar is colored blue. Conversely, if the candle closes lower than the previous candle, the bar is red. The magenta line that passes through all the red and blue volume bars is the plotted average volume of the last 5 bars.



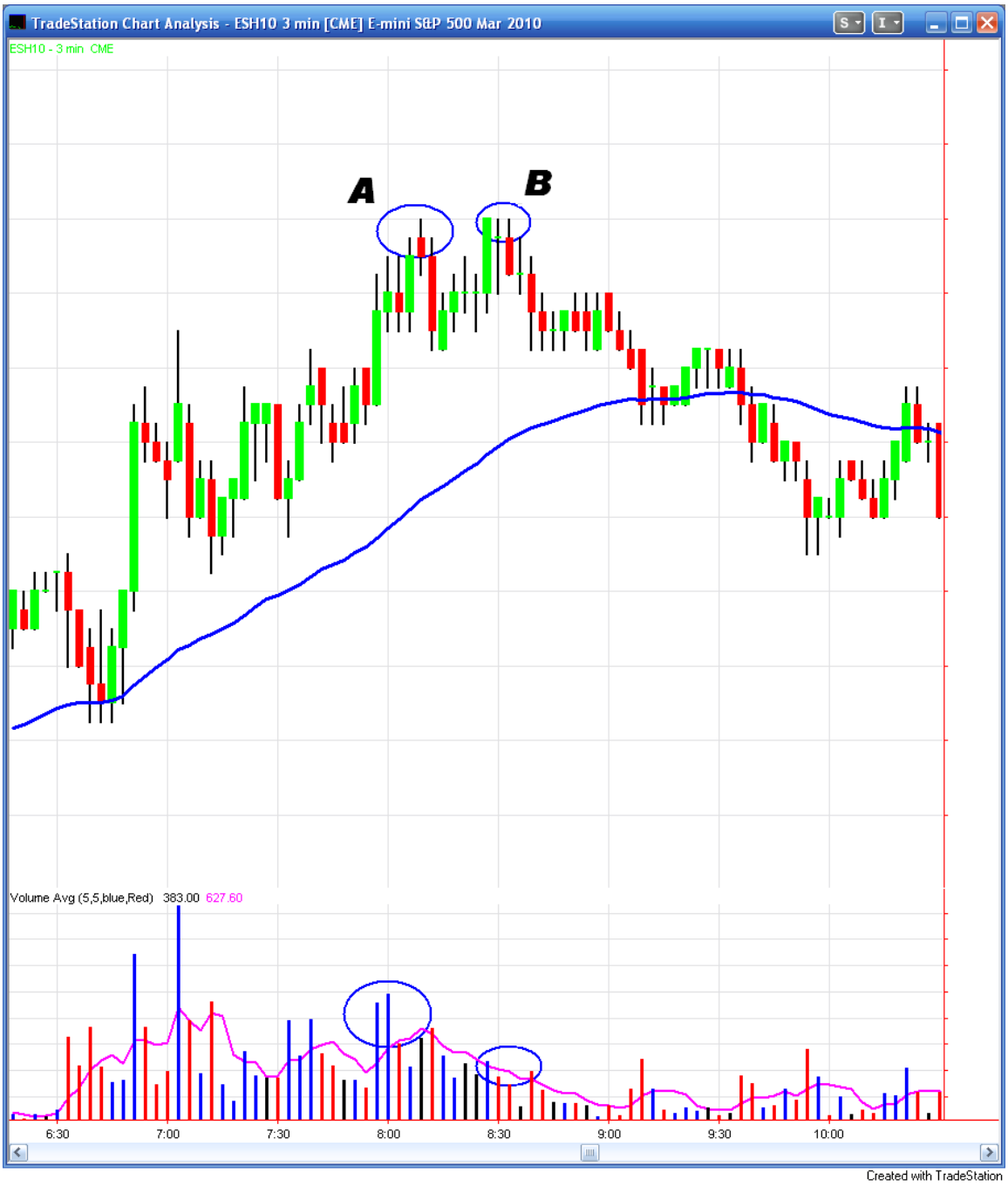
As I previously mentioned, I use the indicator on a "1-minute" chart and sometimes a "3-minute" chart. Those are the time frames that I have noticed work best with the "tick" chart that I follow.

Volume Probability Test

The markets are consistently striving to set new highs and/or new lows. Previously set price levels will continually be tested and re-tested until a breakout of the level is either successful, or fails enough times to initiate a change in direction. By using the volume indicator, in many cases, we can predict the probability of a level test passing or failing.

Take a look at the next example with the volume indicator displayed on a "3-minute" chart. Notice that price makes a new high at area "**A**" with the ellipse around it. The volume that corresponds to that new high is circled by the ellipse, directly below it in the volume indicator. The price then pulls back just a bit for a few candles before re-testing the level at area "**B**". Although the price is able to reach the same level as it did in area "**A**", it has little chance of going much further due to lack of volume.

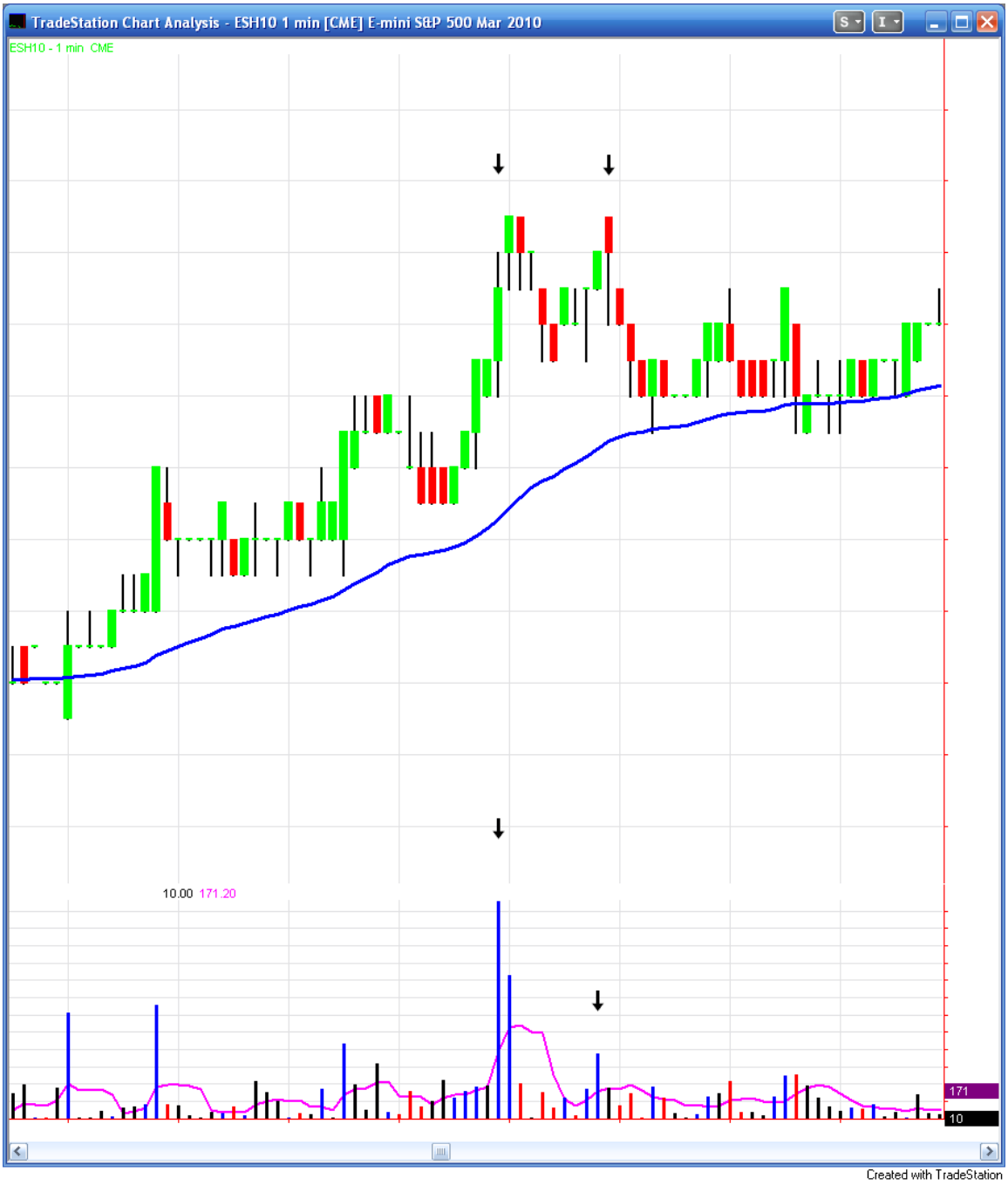
Notice the volume circled by the ellipse under area "**B.**" There is considerable less volume than when the price reached that same level previously. Since the price wasn't able to pass through the previous top, it changed direction and started to trade lower.



The next chart shows an example of how volume plays a part in the outcome of a price as it tests a lower level. In area "**C**" the price makes a new low, followed by a pull back. The corresponding volume for that low is easily seen in the indicator directly below it. When the price tries to test that low, as seen in area "**D**", it clearly does not have the same amount of volume as area "**C**" did. The test failed and the price changed direction to trade higher.

The testing and test failures of highs and lows or tops and bottoms can create some of the best trading opportunities out there.

The next two charts are more examples of the Volume Probability Test. Take note of the arrows pointing out the highs, lows, tests, and their corresponding volume.



Final Upward Push and Final Downward Push Bars

The previous diagram is a "1-minute" chart showing a beautiful example of a volume probability test where the price failed to move higher than the first top due to lack of volume. The price made a nice move lower, immediately following the test failure.

This chart also displays a very nice example of a "Final Upward Push". Notice in the Volume indicator the largest blue bar with the arrow pointing down at it. In an uptrend making new highs, a large stand out blue bar such as this one is a "Final Upwards Push" bar. You can expect shortly after such a large blue bar like this one, that the price will trade lower. In this example the price trades downwards on the very next candle. The price trades even further down following the test failure.

The same holds true for the "Final Downward Push" bars, except that they will be red. When the price is in a downward move making new lows and you see a red "Final Downward Push" bar, you can expect that the market will soon turn upwards.

Take a look at the next chart. The down arrows are pointing to the red or blue volume bars that identify the final up or downward push bars. The arrows pointing up are the corresponding candlesticks that make up the push bars. Look at what happens to the market after each final push bar.

Notice that, from left to right, we first have a “Final Downward Push” bar. The market is trading down and making a new low. Then, in the volume indicator, we have a large red spike of a volume bar. This is a perfect example of a “Final Downward Push” bar. The market makes an immediate turn upwards on the very next candle.

The market trades up for a while and is making new highs. Then in the Volume Indicator you notice a blue spike. This is not as large of a volume bar, as the previous example, but it is still larger than the other bars around it. The market makes a turn to the downside, shortly following the final upward push of the large blue bar.

The next Volume bar to stand out is a red final downward push bar, followed shortly after by a move upwards.

The next several charts are more examples of the “Final Upward and Downward Push” bars. Notice that some make an almost immediate change in direction, while others take several more candles to make a turn.

I personally do not take trades solely on Volume Probability Tests, nor do I take them on Final Up or Downward Push bars by themselves. Instead I use these great tools in conjunction with the other confirmation signals previously discussed in this manual.

So far in this manual we have covered many excellent confirmation signals that I have been successfully incorporating in my trading year after year. Everything I have shown you thus far has withstood the test of time. None of these tools are fly by night techniques that may work for a few months then fade away. What I have shown you will work today and far into the future for years to come.

Even though these tools and techniques are not the actual trading systems or methods I am teaching in this manual, I use each and every one to help make my trading decisions. This does not mean that you can't or shouldn't take a trade when you get more than one confirmation signal indicating a possible move in a given direction. When used together, these powerful tools can produce many spectacular trading opportunities.

Look at the chart that follows:

Note: This is not some chart that I searched through days of data to find. This chart is the current up–to-the-second real time data that is displayed and happening right now on my computer screen, as I'm writing this manual.

Hopefully, by now you should be able to spot some opportunities that could have been taken on this chart. However, if you don't see them jumping right out at you, don't worry: In time they will.

We are going to break this chart down and go over a couple of possible opportunities. There may even be more trades on this chart than we will cover here, but I want you to see some basics that we have already discussed.

Starting from the far left, the first thing that we notice is a "Final Upwards Push" bar. The blue down arrow is pointing at the blue volume bar and the blue up arrow is pointing at the corresponding candlestick.

The market starts to trade downward almost immediately following the "Final Upwards Push." Notice how it gets tangled up in the 50 EMA (Tornado) then makes a break out below it. At this point I see the tops of the candles lining up in an almost perfect diagonal line. This just screams at me to draw a trend line across the tops, connecting them. I always say to myself, "When something is so perfect, it's bound to get broken," and it usually does.

As the price breaks downward below the 50 EMA, it makes a red volume bar that stands out from the others just a bit (red up and down arrows). I wouldn't call it a huge "Final Downward Push," but something to be aware of. A few bars later, the market does take a turn upwards. It touches and then breaks through the trend line we drew only moments earlier. I could have made a trade to go long (buy) at this point. I had a "Final Downward Push" followed by a trend line being broken. I would have been a little cautious about being so close to the 50 EMA though.

The market continues a bit higher as it tangles with the 50 EMA. As I look at the candles, I again notice how beautifully lined up the bottoms are. This prompts me to add another trend line connecting the bottoms to form an upwards diagonal just waiting to be broken. Shortly after a large blue volume bar appears signaling a "Final Upwards Push". This is a far better example than the previous "Final Downward Push."

A few candles after the "Final Upward Push," the price breaks below the new trend line. Since the price didn't get very far away from the 50 EMA to the upside after previously breaking through it, I believe it will now trade further below and test the previously set low. This sets up a nice opportunity to take a trade to the downside (sell) or go short the market.

The price makes a nice move to the downside. Several red candlesticks later, a red volume bar spikes up almost off the chart. This is the best example yet of a "Final Downward Push" bar. If I haven't taken profit from the trade, I am now considering it. I can exit the trade now or at least move my stop loss to lock in any gains. The price moves up a few ticks before it makes another move down. Again I get a "Final Downward Push" bar. At this point, if I am not out of the trade, I move my stop loss lower or just exit the trade with a buy. I am expecting a move to the upside shortly.

The price makes a quick jump to the upside but not without making a new low first. In this chart I have put a circle around the new low and three downward blue arrows pointing at its underlying volume.

With all the excitement of the short trade, I failed to notice how nicely the candle tops had lined up at the beginning of the down move. By drawing the downward trend line we can now see what the market was doing. After the price made a new low, the market traded right up to the trend line, touched it, and then bounced off. Since the price failed to break through the trend line, it would now have a new objective. TEST THE RECENTLY SET LOW.

Sure enough, the price trades right down to test the recent low. It matches the exact same price as previously set (noted by the circle around it). Take a look at its volume (where the three black arrows are pointing down). Can you see the difference from the previous lows volume? Much less volume decreases the likelihood that the downward move will continue.

The test had failed and the market pushed upwards. Notice that at this point the price is far enough below the 50 EMA to make the trade worthwhile. This gives me a confirmation signal that it is probably ok to go long (buy). The price breaks the trend line to the upside. I now feel confident to enter a trade with a buy. Since the market had a hard time pushing lower than the previously set low, I place my stop loss one tick below that price.

Once you begin studying charts and watching data in real time, start applying what you have learned so far. There is no doubt that you will see profitable trading opportunities, multiple times a day.

Go through and draw trend lines and channels, as well as support and resistance on as many charts as you can. Soon you will be able to spot patterns and analyze charts like a pro.

When the market is open, the simulator is the best place to learn and practice placing entry, exit, and protective stop loss orders.

Remember, anyone can pick up and read a manual on how to fly a jet airplane. However, without many hours of practice in a simulator and other instructional devices, the results could be fatal. The same is true with most other valuable and worthwhile skills. Trading is a skill that must be learned, practiced, and developed.

SYSTEMS

In this section, I will be explaining five systems and two subsystems:

1. The Double Top & Double Bottom System
    - The Triple Top & Triple Bottom System
2. The Overbought & Oversold System
3. The Histogram System
4. The Sling Shot System
5. The Trend Line Breakout System
    - The Coffee Break System

These systems, or methods, are the basis of this entire manual. I will show you how I make a living trading these bread–and- butter systems. You will learn exactly how I trade them on a day-to-day basis for consistent profits. I will provide many actual chart examples of the different trade set ups with particular focus on the "Double Top Double Bottom" system. I will explain this system first with greater detail since it is a bit more involved than the other methods yet involves many of the same principals and indicators. I will also include in this system how I set up my computer screen and the different time frames and charts used. It is not complicated, and anyone with the right amount of desire, dedication, and patience can learn to master it in time. Most of the chart examples show entries of the "Double Top Double Bottom" method. I really want you to get a good grasp of this system first; it will make learning the others very easy.

You can then look back over the many chart examples and see where the other systems would have presented trading opportunities. Don't worry; there are still actual chart examples of the other systems as well.

If you are a current trader, starting from this section of the manual: Welcome. If you have been reading along up until now, then welcome back.

Please bear with me, for I most likely will be repeating concepts over and over at times. I just want to make sure that they are explained enough times for everyone at all levels to understand.

Each of these trade setups usually occur at least two to three times a day, while some days producing even more opportunities. Some trade setups happen more frequently than others.

I have two categories in which I classify systems under. The trend following systems, and the trend reversal systems.

The Trend Following Systems: In these systems the trend has already turned from the previous direction and is in either the early stages or well established in its new direction. These systems chose specific high probability entry points along this new trend. The systems in this category include:

1. The Sling Shot System
2. The Histogram System
3. The Trend Line Breakout System
4. The Coffee Break

The Trend Reversal Systems: In these systems, the signals generated are attempting to catch the precise beginning of a new trend direction. In essence, with the trend reversal systems we are attempting to buy at the very low of a new uptrend and sell at the very high of a new downtrend. The systems in this category include:

1. The Double Top Double Bottom System
2. The Triple Top and Bottom System
3. The Overbought Oversold System

I incorporate all of these systems in my trading. Each system has its good and bad points. I find the Trend Following Systems to be a bit more accurate. I try to take advantage of them as much as possible. I also love the Trend Reversal Systems, nothing beats getting in at the beginning of a trend. I will present all these systems to you, but by no means are you required to use them all. Once you start to practice on the simulator, choose the systems that best suit your trading style. It may only be one system. There is no reason why you can't make a professional level income only trading the Sling Shot System for example; I find it to be spectacular.

I personally try to scalp anywhere from 1.5 points to 2.5 points a day on average. Those are not huge gains, and by no means, is that all you can capture in a day or per trade, for that matter. That is an average. I am a very conservative trader. I like to get in, make my money, and get out. In most cases these trade set ups will produce much greater gain potential, sometimes catching a trend that will last for hours. Remember that 1 point (4 ticks) in the ES equals $50 with one contract. For me 1.5 points to 2.5 points represents $375 to $625 a day with five contracts.

I don't trade a lot of contracts per trade, usually 1 to 10, depending on the set up and how confident I feel about it.

I sincerely recommend trading with only one contract when you are finished with the simulator and start using real money for the first time.

Please stay in the simulator until you are making consistent profits day after day for a minimum of at least a month. I cannot stress this enough. Also please remember this: although the simulator is based on real time data, it still is a bit easier to trade than real life. Trust me on this one.

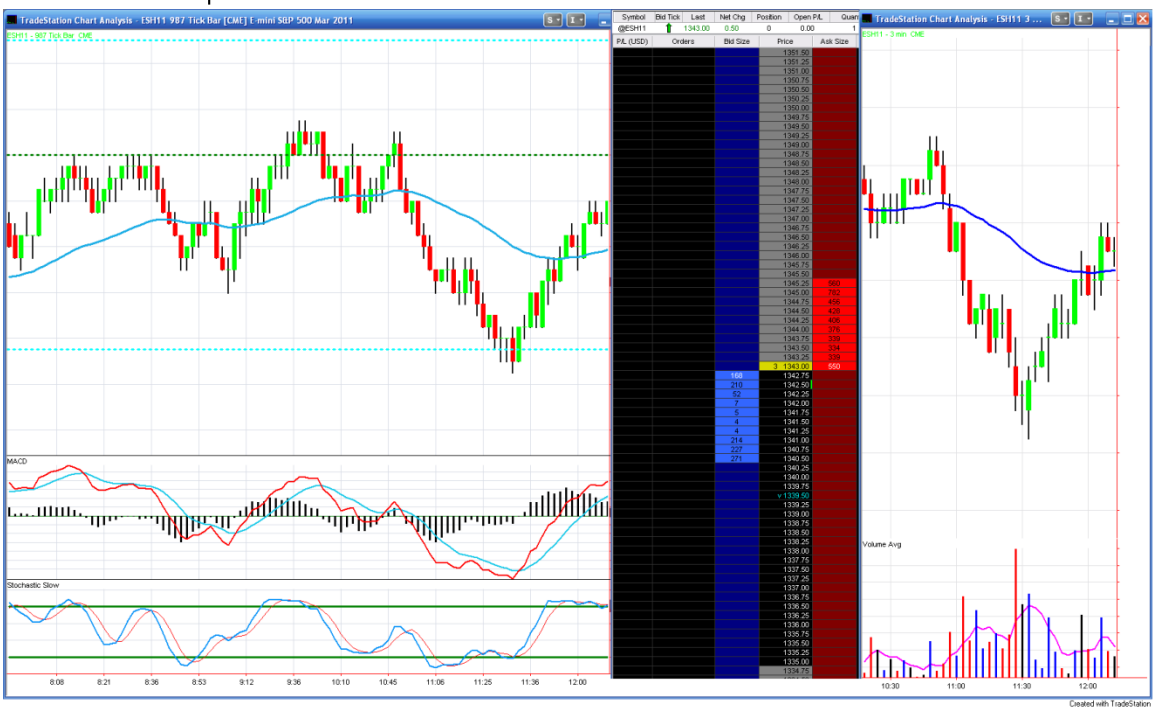
NOTE: The chart examples provided are from my actual computer screen. I have my settings on Pacific Time zone since I am on the west coast most of the time.

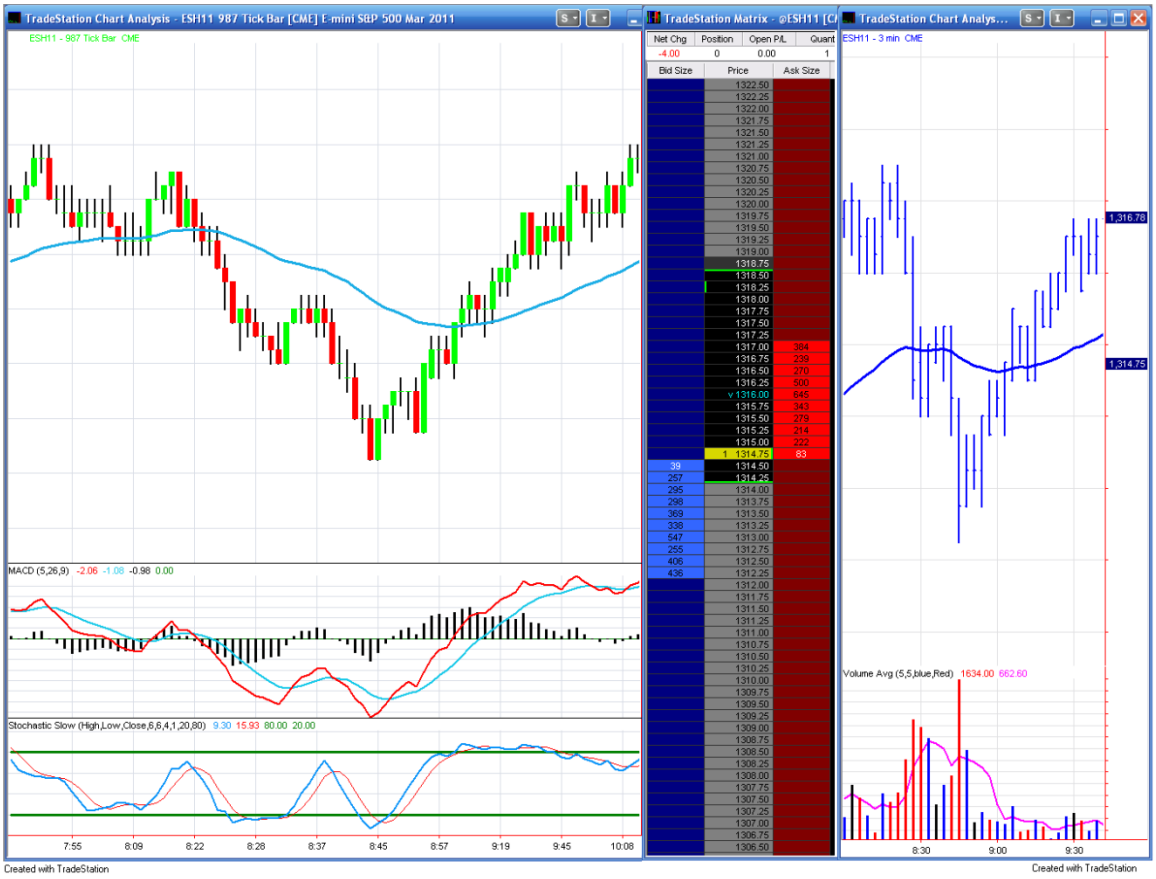
The Ultimate Scalper Systems

THE DOUBLE TOP DOUBLE BOTTOM SYSTEM

The system is based on the E-mini S&P contract symbol ES. I have a computer screen displaying two ES charts side-by-side. The chart on the left displays the ES in a 987-tick format. I use this as my main system chart. The chart on the right has the ES in either a 3 or 5 minute Bar or Candlestick chart. Separating the two charts is the order entry window where I place the actual trades. See diagram below. I use the chart on the right for confirmation signals such as the Final Upward or Downward Push bars via the Volume indicator, as well as just another time frame to be aware of and monitor. I also use the right side chart to alert me of any Trend Line Breakout System opportunities I will further discuss later in this manual. Since the chart on the right is more for reference and confirmation signals I will not be showing many examples of it in this section. Previous sections in this manual that show charts in the 1, 3 and 5-minute time frames with a volume indicator are exactly what I have displayed on the right side chart. All further system explanations and examples are of the chart that I have displayed on the left side of my computer screen ONLY, until we reach the section on The Trend line Breakout System, or unless otherwise specified.

Below are actual examples of how I may have my computer screen set up. The chart on the right is a minute chart in either candlestick or bar format.





As previously mentioned, I have the ES displayed in 987-tick format using real time data only. I use the 987 because it belongs to the Fibonacci sequence of numbers. Fibonacci numbers are often used in the analysis of financial markets and there are even systems and indicators derived from its principals. The 233-tick is a very widely used Fibonacci format in day trading the ES. Once you become experienced, you may want to experiment with this fast paced setting. I find that it works very well but I personally like the 987 better because it slows things down a bit.

NOTE: When starting out you may want to experiment with a 2000 tic chart. This setting will slow the action down and have fewer false signals on the Trend Reversal Systems.

I also have one Exponential Moving Average on my chart, along with two indicators displayed at the bottom. I ALWAYS have the Floor Trader Pivots and/or the self generated support and resistance lines (that I explained how to create in a previous section) displayed on my chart.

NOTE: I am leaving the Support and Resistance lines and Floor Trader Pivots out of the chart examples in an effort to keep them less cluttered and easier to follow.

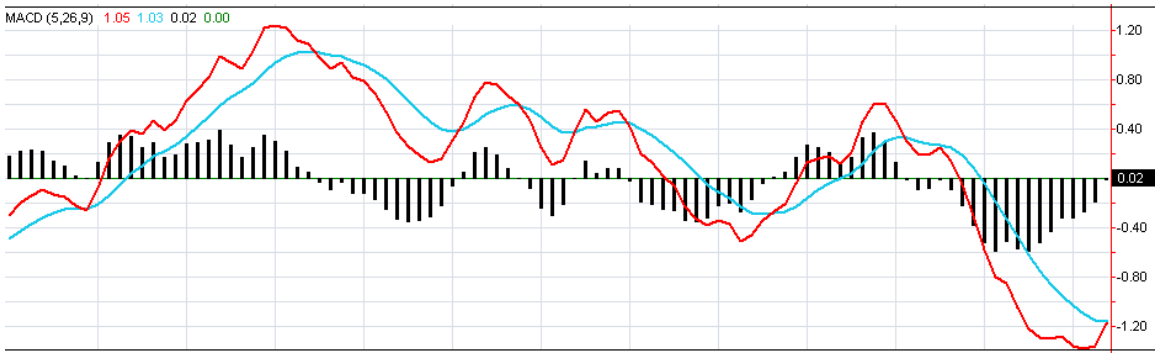
The Exponential Moving Average (EMA) is the same 50 EMA (Tornado) as discussed earlier in the manual. With the 50 EMA displayed across my screen I can get an idea of the market direction and sentiment without switching to a larger time frame. Just look at its direction to see where the market is going: Is it up? Or is it down? I also keep the 50 EMA displayed on my screen for all of the other benefits previously discussed earlier in this manual.

MACD Indicator

This is the Moving Average Convergence Divergence, or more commonly referred to as the MACD. This is by far my most useful and favorite indicator of all. There are a multitude of different ways to use this indicator and an unlimited amount of different settings. There are books and courses devoted to this one indicator alone. I will show you how I use this wonderfully versatile indicator to make consistent profits in the ES on a daily basis with my settings and techniques.

To define each aspect of the MACD is beyond the scope of this manual. The charting package you use will most likely have definitions for the indicator and its parts. I will show you the ways in which I use this indicator to make successful trades.

Below is an example of the MACD and its parts:



As you can see, the MACD consists of two lines: a red (MACD) line, and a blue (MACDAve) line. The colors and thickness of the lines are customizable according to the charting package and your liking. There is also a histogram (MACDDiff) that runs through the middle of the indicator; I have it displayed in black. At the upper left side you will see the indicator name and its very important settings. The settings I use are as follows (5, 26, 9).

Inputs	
FastLength	5
SlowLength	26
MACD Length	9

The MACD is such a wonderful tool because it helps us to identify the convergence and divergence, hence the name Moving Average Convergence Divergence. Both convergence and divergence are widely used in the trading community with many systems and techniques being based around their principals.

When two objects are coming together, they are said to be converging between one another. Conversely, when two objects are moving apart they are said to be diverging from one another. These concepts are very simple and basic. Now let's apply them to our trading.

When the price and the MACD move together, they are in sync. For example: If the price climbs higher and makes a new high or top and the MACD also climbs higher and makes a new high or top, they are in sync.

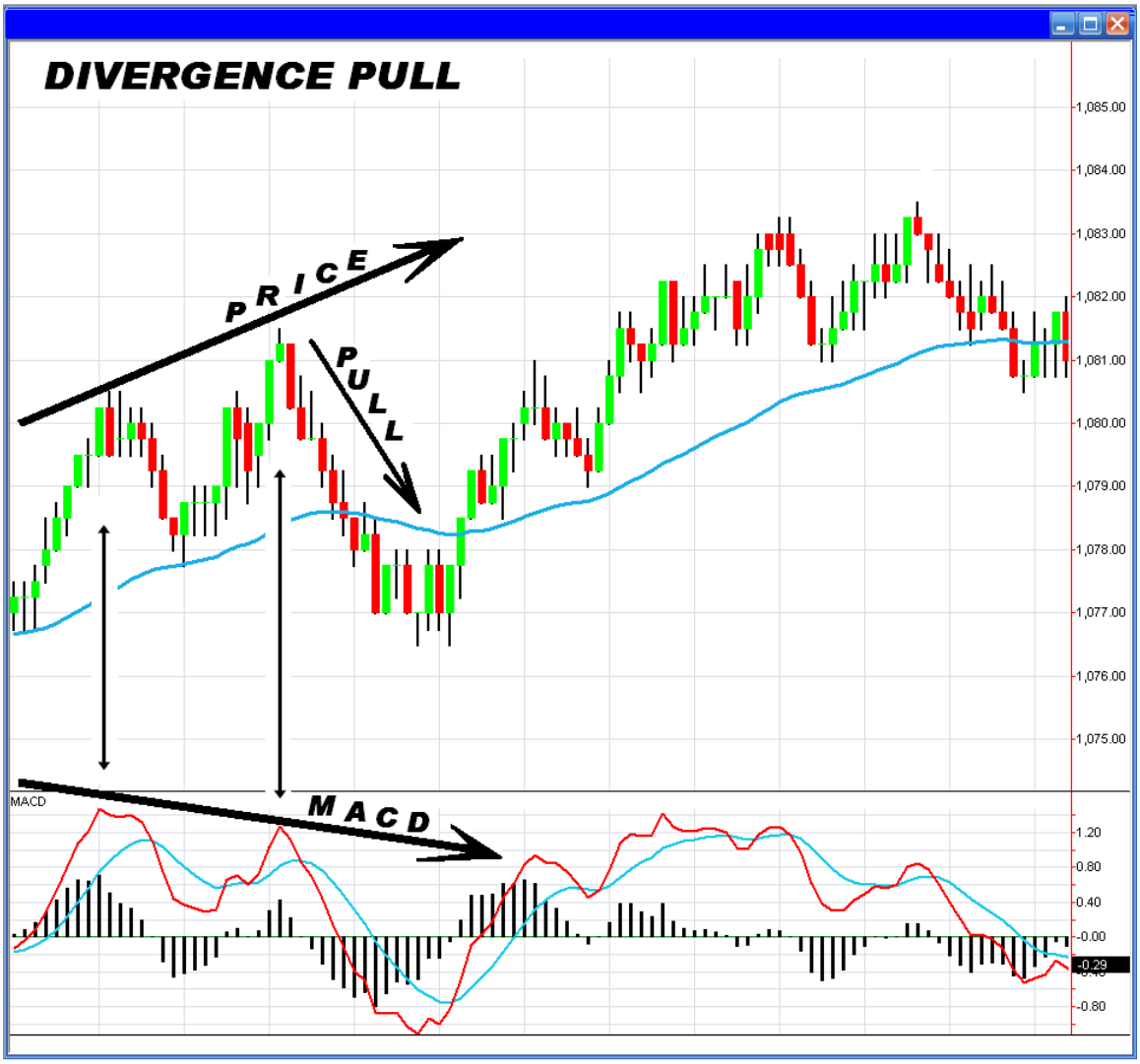
Let's say that the price climbs higher, making a new top, but this time the MACD doesn't climb along with it, instead it makes a lower top. They are now diverging from one another. The price top goes higher and the MACD top goes lower: This is divergence.

Now let's say that the price trades lower to make a new bottom, but the MACD bottom is moving higher towards the price. They are now converging towards each other. The price bottom moves lower and the MACD bottom moves higher, this is convergence.

Convergence Divergence Push Pull

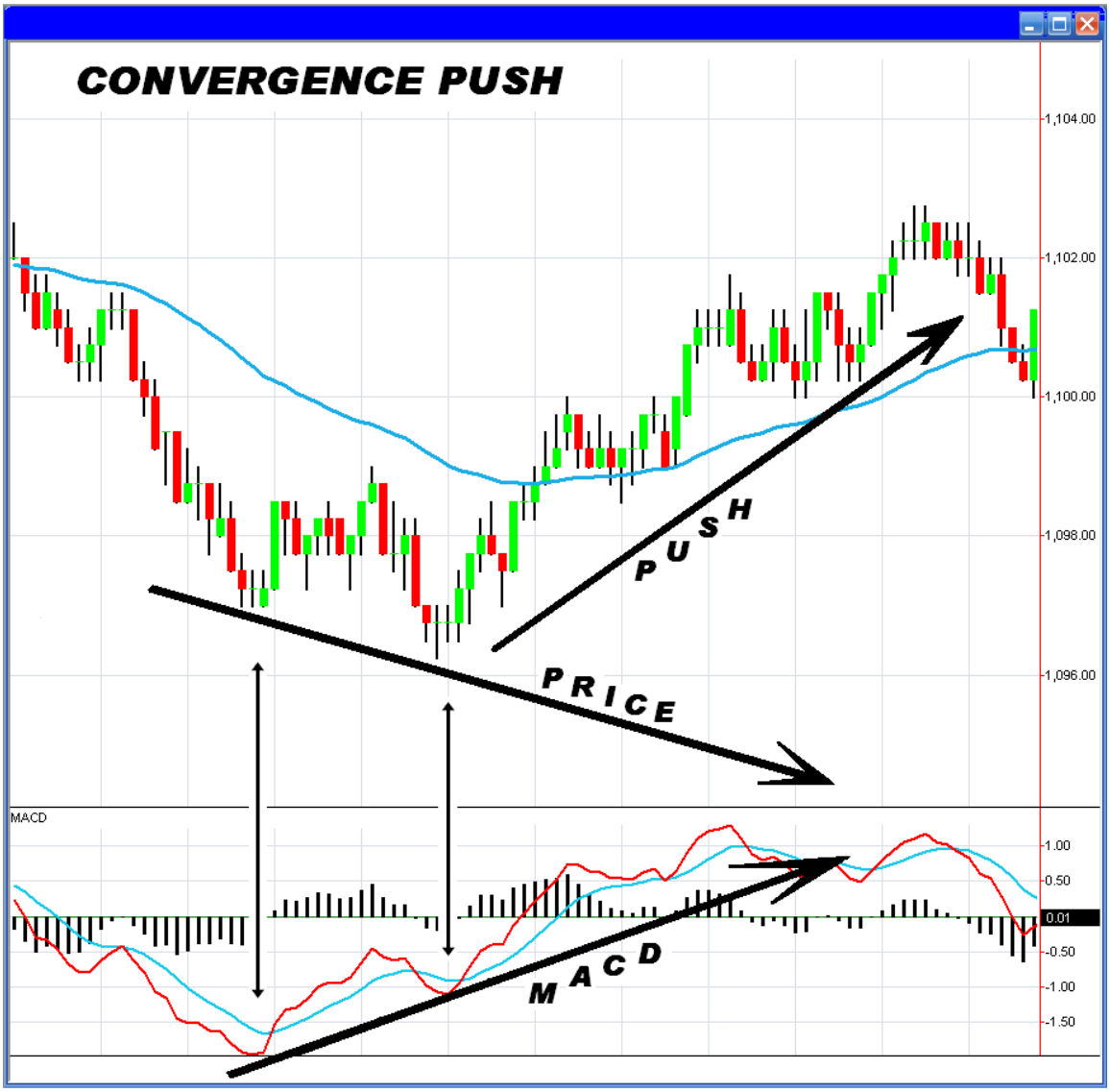
When the price makes new highs but the MACD stops making new highs in sync with price, and instead makes lower highs, I call this Divergence Pull. I imagine the MACD pulling the price down along with it.

In the diagram below, you can see that the price made a top followed by an even higher top, as noted with the line drawn above them labeled PRICE. Take a look at the corresponding MACD below the price. The first MACD top was in sync with the price but the second MACD top made a lower top as the price made a higher top. As you can see by the line above the MACD tops, price and MACD are clearly diverging from one another. When this occurs, I call it Divergence Pull. The price seems to get pulled downwards by the MACD. If you look closely further on down the chart, you will notice that this happens again.



When the price makes a new bottom, but the MACD stops making new bottoms in sync with price, and instead makes higher bottoms, I call this a Convergence Push. I imagine the MACD pushing the price upward along with it.

In the diagram below you can see that the price made a new bottom followed by an even lower bottom, as noted with the line drawn below them labeled PRICE. Take a look at the corresponding MACD below price. The first MACD bottom was in sync with the price but the second MACD bottom made a higher bottom as the price made a lower bottom. As you can see by the line below the MACD bottoms, price and MACD are clearly converging towards one another. When this occurs, I call it Convergence Push. The price seems to get pushed upward by the MACD.

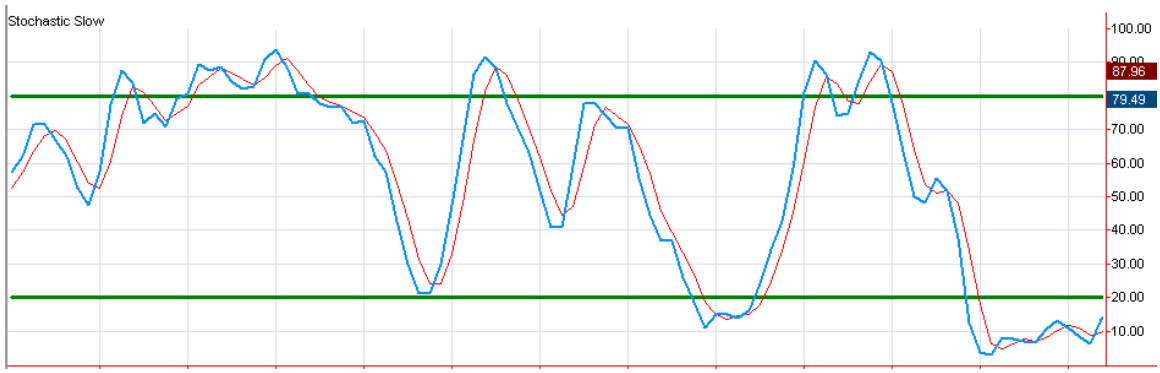


The MACD sits at near the bottom of my chart, along with another indicator we will be discussing next.

Stochastic Slow Indicator

The Stochastic Indicator is another excellent tool with a variety of different uses. The indicator can be helpful in identifying turning points in a market. Not unlike our earlier discussion on volume, when the price makes a new high without a new high in the Stochastic it may indicate the end of that run. The Stochastic Indicator is also a very popular tool in identifying over-bought and over-sold conditions.

Below is an example of the Stochastic Indicator and its parts:

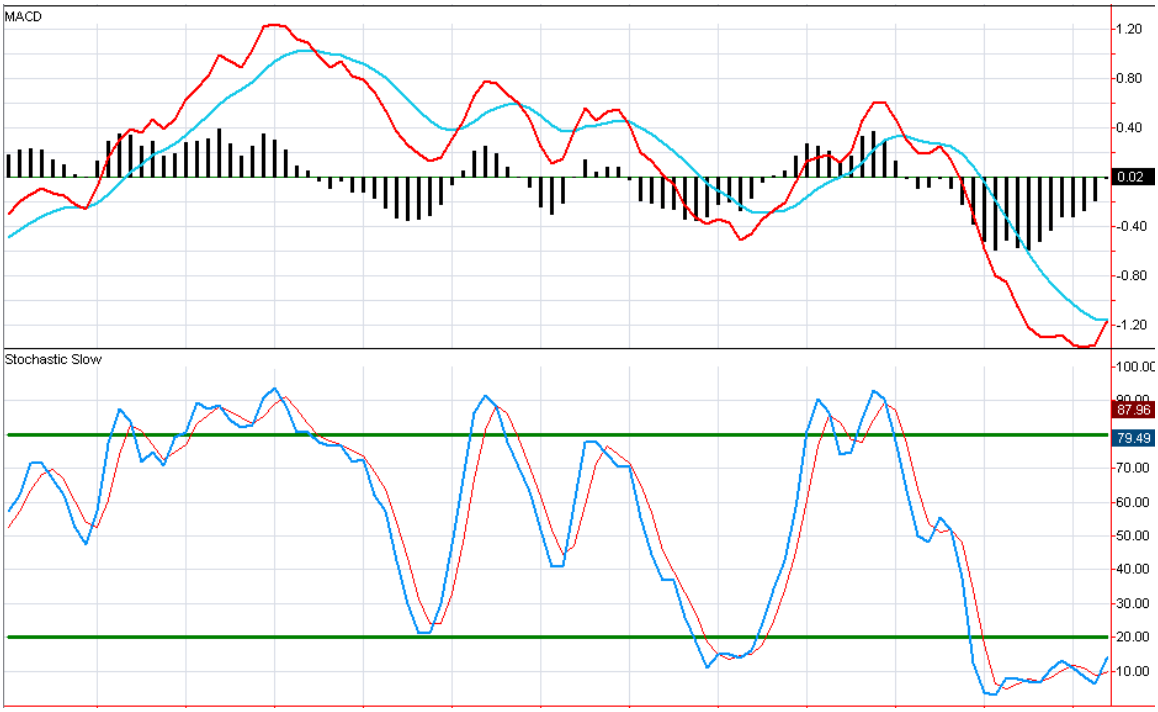


Looking at the Stochastic slow indicator you will notice that, just like the MACD, it also has two lines: a smooth-moving red line and a faster-moving blue line. There are also two horizontal green lines. These two green lines represent overbought and oversold areas. When the blue and red lines are above the upper green line the market is thought to be overbought and should soon change direction from up to down. Conversely, when the red and blue lines are below the lower green lines, the market is thought to be oversold and should soon turn upwards. In the upper left hand corner of the indicator you will find the indicator name and its settings, just like in the MACD.

The settings I use for the Stochastic Slow indicator are as follows:

Inputs	
PriceH	High
PriceL	Low
PriceC	Close
StochLength	6
SmoothingL1	6
SmoothingL2	4
SmoothingType	1
Oversold	20
Overbought	80

I have the Stochastic Slow Indicator at the very bottom of my chart, with the MACD indicator sitting directly above it as shown in the diagram below:



Together the MACD and Stochastic indicators provide me with powerful trading opportunities. I can feel confident in taking advantage of them on a consistent basis.

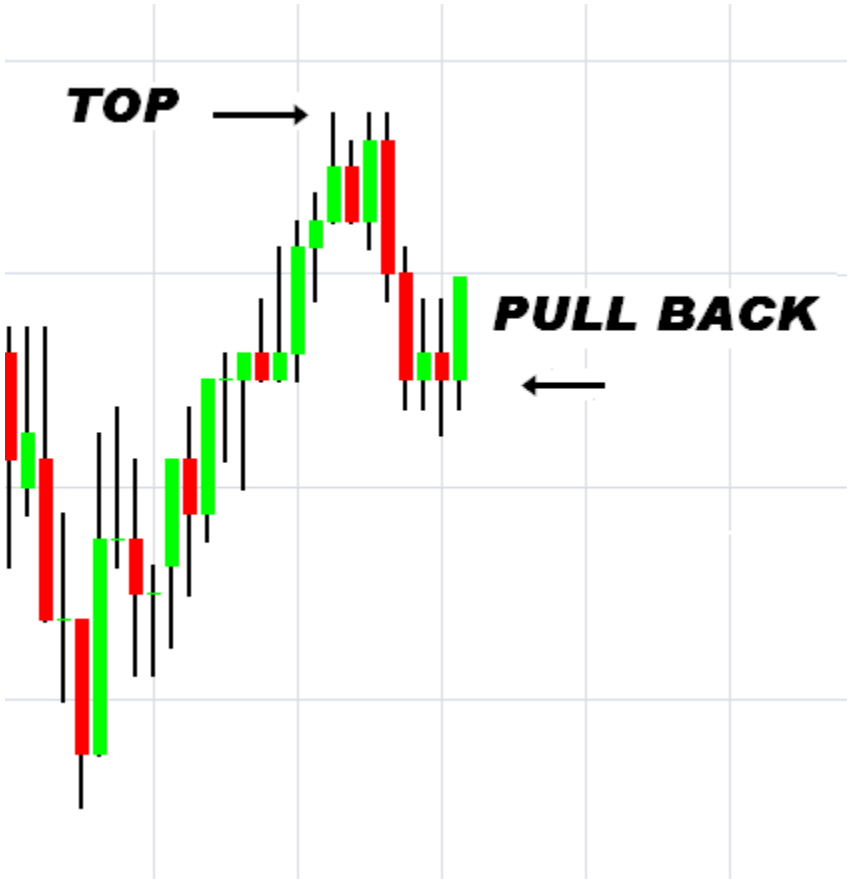
Double Tops and Double Bottoms

Before I explain exactly how I use these indicators, I must first introduce other key-variables in the system. These are tops and bottoms. Other common terms for tops and bottoms are highs, lows, peaks, and pivots. For the purpose of simplicity, I will stick to tops and bottoms and/or highs and lows.

The first thing we need in order for this system to work is to find a top in an up-trending market, or a bottom in a down-trending market.

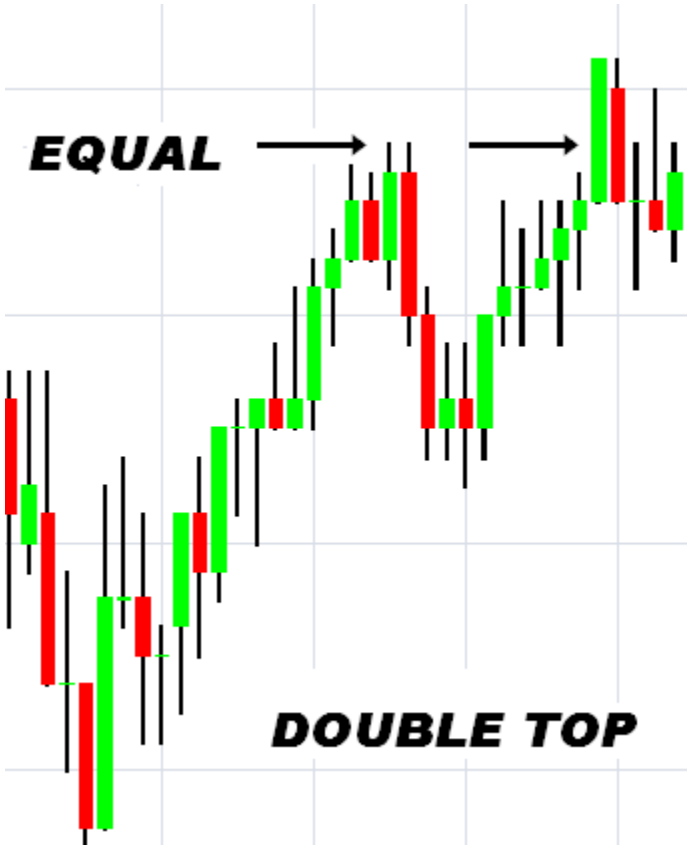
In the example that follows, you will see that the price continues to climb higher and higher until it reaches a point where it stops climbing and it makes a change in direction. That highest point or price reached is the top. In a down-trending market it would be the same, just reversed: The price would descend lower and lower until it reaches a point where it stops and makes a change in direction, leaving a bottom.

Next, the price must make a pull back from the recent top or bottom. Notice how in our example the price pulled back from the highest price and left a clearly visible top in place.

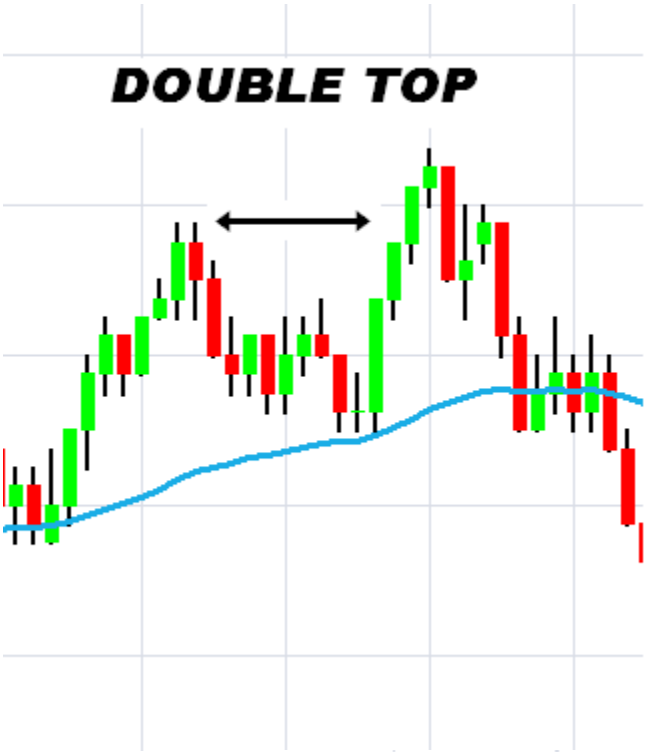


After the pullback the price must then trade in the direction of the recent top or bottom and at **least equal its highest (for a top) or lowest (for a bottom) price**. If this happens, we now have a double-top or double-bottom.

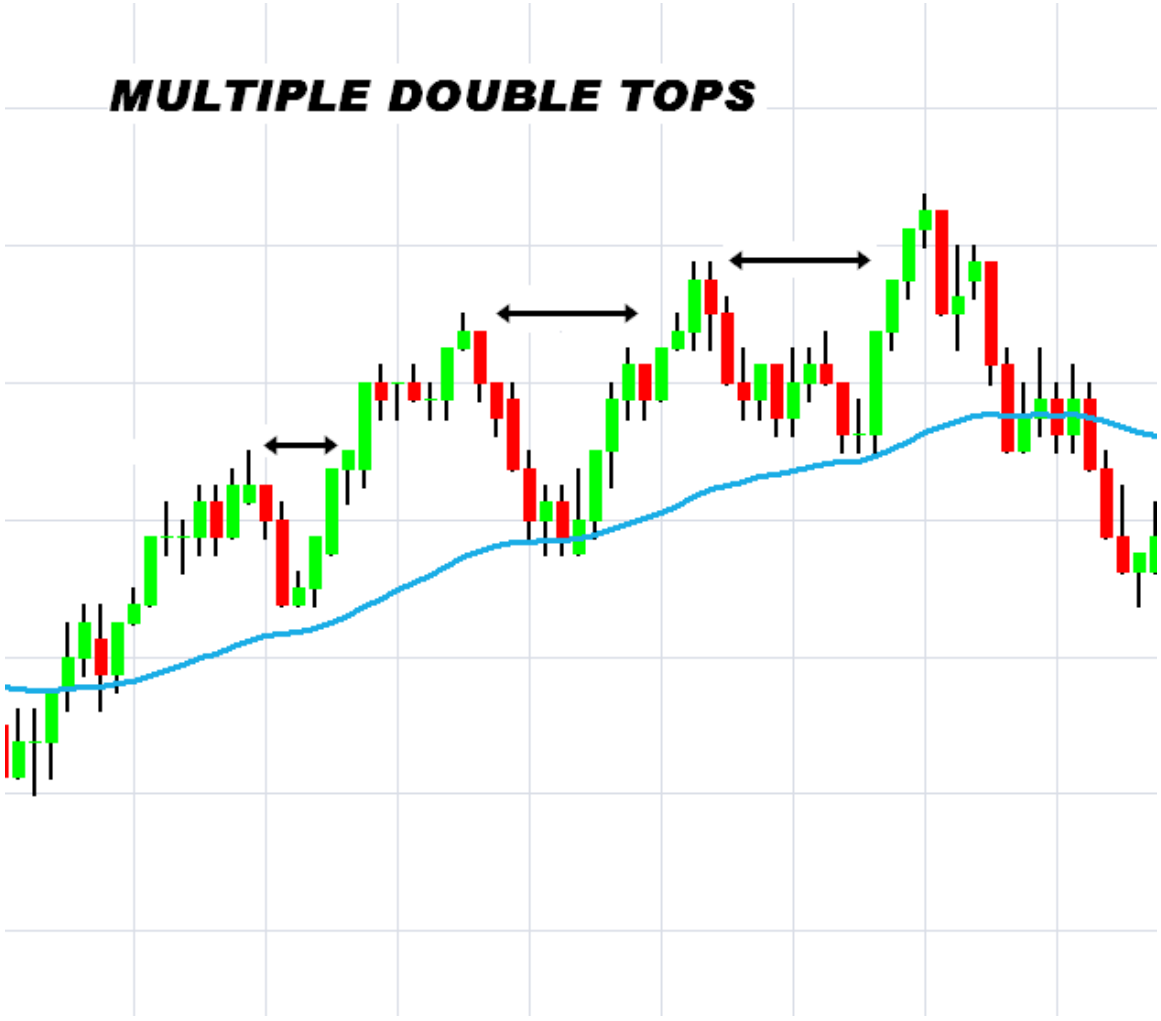
In the diagram, you can see how the price climbed back up to test the previously set high or top. In doing so, it reached the exact same high price set by the previous top. At that moment, when it reached the exact same price as the previous top, it became a double-top, as defined in "The Ultimate Scalper" system. The price then surpassed the previous top and continued to climb a bit higher. That is perfectly OK. We now have the double-top that we are looking for. The same holds true for a double-bottom, just in reverse.



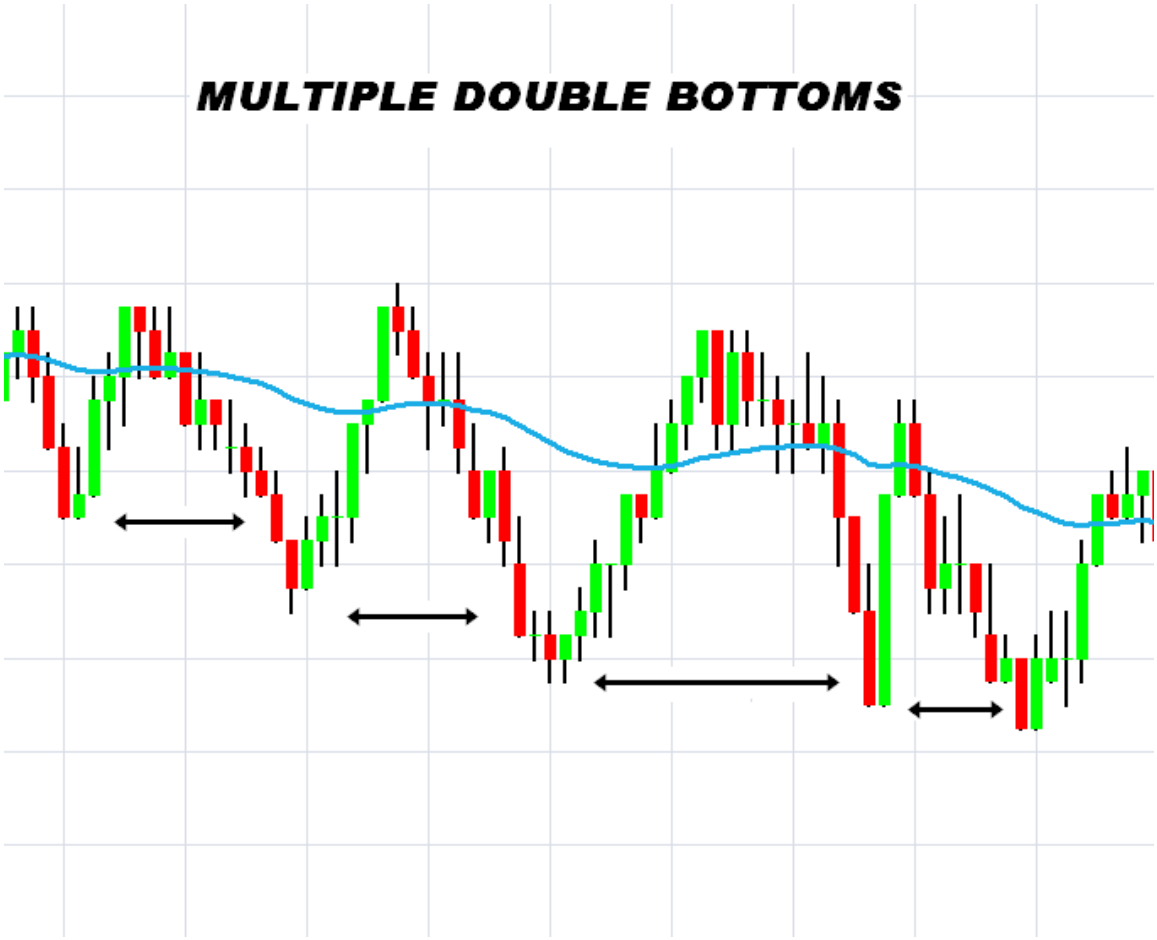
The following diagrams are more examples of double-tops and double-bottoms. Notice that, with just a quick glance at the 50 EMA, you can see in which direction the market is headed or trending



In the examples that follow, you will see that the market is continually making new tops in up-trends and new bottoms in down-trends. This is not uncommon. Highs and lows will always be tested, leaving us with a never-ending supply of new tops and bottoms.



In the next chart, there are multiple double-bottoms that have formed as the market traded downward. There are also two double-top examples in the same chart that I did not mark, can you find them?



We have now covered all of the key elements in the trading system. Next, I will define the system and go over exactly how I use everything to make it work.

System Definition & Conditions

When a double-top is formed and the MACD and Stochastic of the second top is and remains lower than the MACD and Stochastic of the first top, enter the market with a SELL order at the close of the first candlestick that bends the MACD downward after it closes. Place your stop loss order one tick higher than the highest price reached by the second top.

Conversely:

When a double-bottom is formed and the MACD and Stochastic of the second bottom is and remains higher than the MACD and Stochastic of the first bottom, enter the market with a BUY order at the close of the first candlestick that bends the MACD upwards after it closes. Place your stop-loss order one tick below the lowest price reached by the second low.

These are my definitions of the trading system as short and sweet as possible. Don't worry if it sounds confusing: It really couldn't be any easier. I will go over it step by step and will provide you with countless examples.

In order to perform this system with the best chances of success, there are three conditions that MUST BE MET in order to execute on the "GO SIGNAL."

CONDITION 1

There must be a completed double-top or double-bottom pattern.

CONDITION 2

For a double-top pattern: The MACD of the second high in the double-top must be and remain lower than the MACD level of the first top.

For a double -bottom pattern: The MACD of the second low in the double-bottom must be and remain higher than the MACD of the first low.

CONDITION 3

For a double-top pattern: The Stochastic of the second high in the double-top must be and remain lower than the Stochastic of the first top.

For a double-bottom pattern: The Stochastic of the second low in the double-bottom must be and remain higher than the Stochastic of the first low.

GO SIGNAL

For a double-top pattern: The first candlestick to bend the MACD downward at its close.

For a double-bottom pattern: The first candlestick to bend the MACD upward at its close.

1, 2, 3, GO!!!!

While watching the market in real time, the first thing we must look for to perform this method is the price to make a new top or bottom. For the purpose of simplicity, I will describe my methods using a "TOP" formation first.

After noticing a top being formed, we pay special attention to where the MACD and Stochastic were at the moment the top was created. We then watch for a pullback. A pullback can be anywhere from just a few candlesticks that trade lower than the recent top, to a larger U or V shaped valley being created over time.

When the price finishes with the pullback and trades back up to test the top, we, again, pay close attention to the MACD and Stochastic levels. We are looking to see that the MACD and Stochastic do not reach the levels they previously reached during the formation of the first top.

When the price equals the same level as the first top creating a double-top, we have what we need to satisfy Condition 1.

Once Condition 1 is satisfied, we can easily see if the current MACD is lower than it was at the creation of the first top. If it is NOT lower but higher, then we leave it alone and wait for the next opportunity. However if the MACD is lower than the previous level, we have satisfied Condition 2.

Next, we check the Stochastic and make sure it is also lower than the previous level. If it is not lower, we leave it alone and wait for the next opportunity. If it is lower, we have just satisfied all three conditions and now await the GO SIGNAL.

Once all three conditions have been met and satisfied, we focus our attention on the MACD. Depending on your platform settings, the end or tip of the MACD may be fluctuating up and down, along with the price during the formation of the current candlestick. What is important for us is which way the MACD is pointing at the CLOSE of the next few candlesticks. For a GO SIGNAL, we need the MACD to be pointing downwards at any angle. A MACD that points horizontally does not qualify. The first candlestick that causes the MACD to turn downwards at its close is the GO SIGNAL. Enter the market with a sell order and place your stop loss one tick above the highest price reached by the second top of the double top.

The diagrams that follow are actual screen shots and examples of how I would apply the system in the conditions displayed.

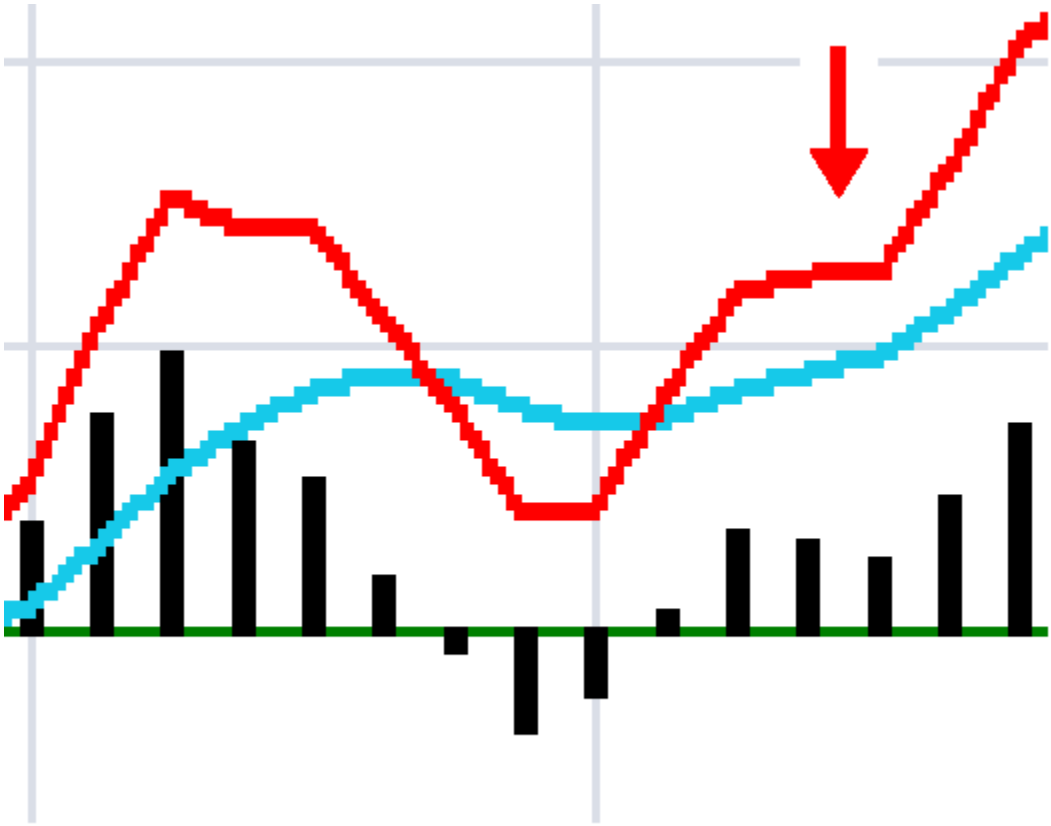
There may be other examples of trades and setups in the following examples that I do not mention. I first want to get the basics across with the clearest examples possible.

In the first chart, you will notice that a double-top has formed at area **"A."** Look at the arrows pointing to each top and their respective MACD formations below. Here you can clearly see that the MACD of the second top is higher than the MACD of the first top. This does NOT satisfy the desired condition. We are looking for the second MACD to be LOWER than that of the first top. We leave this possible setup alone and wait for the next one.

In the diagram below of the MACD and Stochastic, I would just like to clarify a few points to make sure that you understand what you are looking at, and what to look for. The circles in blue represent the two MACD tops for the respective price tops in the chart above. When we are looking at tops and double-tops in price, there will usually be a corresponding peak or top-like formation in the MACD and Stochastic. Sometimes there will be no formation in the MACD or Stochastic at all, even though there is one in price. What we are doing with the MACD and Stochastic is comparing their current levels with the current price action against previous levels.

In the next chart, you will notice another double top has formed at area **"B."** This time the MACD of the second top is LOWER than that of the first top. This is exactly what we want. We then look down at the Stochastic and notice that it too is lower at the second top than that of the first top. This also is exactly what we are looking for. So far we have met all three conditions needed to enter a trade. However, we do not get a "GO SIGNAL": There was no candlestick that caused the MACD to point down at its close. Instead, the closest the MACD came to pointing down was to point horizontal. That is not good enough. So, even though we had all the conditions met, we leave this setup alone and wait for the next one.

This is a close-up of the MACD from the chart above. Notice that it did not point down at all. There was a candlestick that caused it to close horizontal, but that just isn't good enough to place a trade. We need a downward pointing MACD to go short (sell).

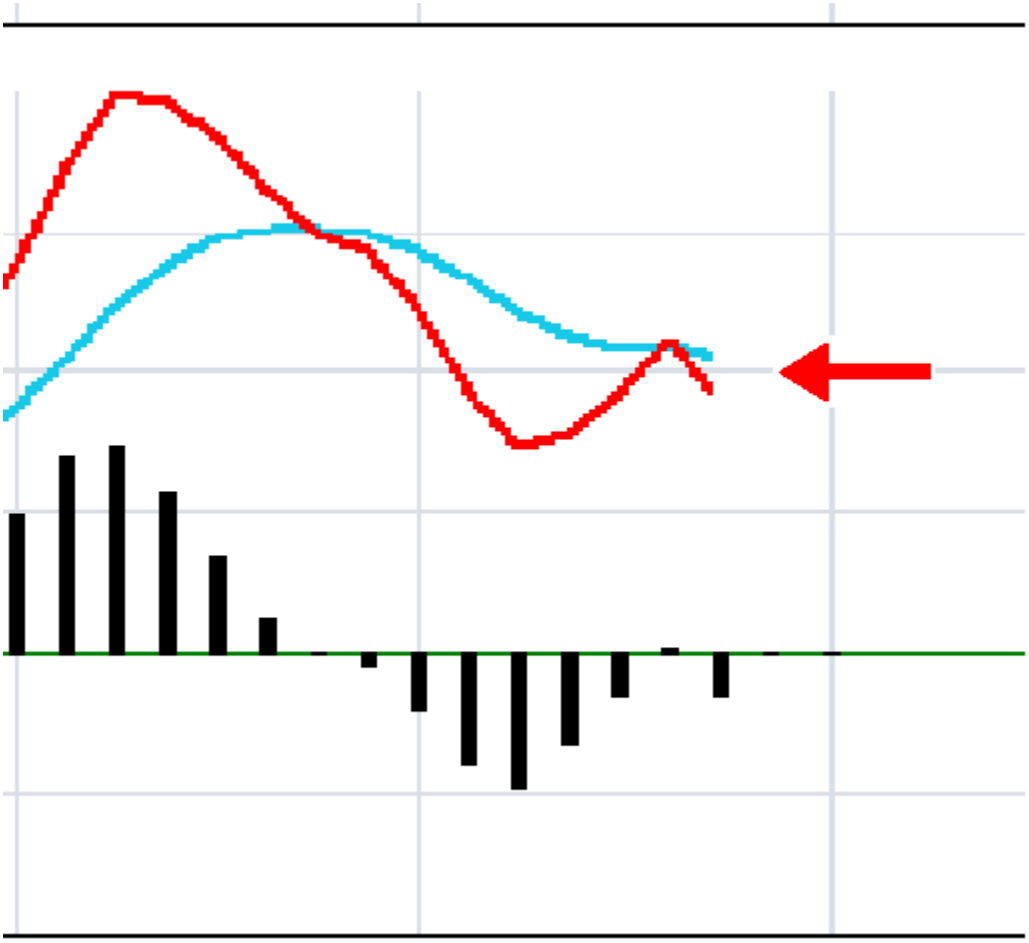


Next, you will see that the price started to climb back upwards, creating higher highs and higher lows until a new top was formed. Notice also that the MACD and Stochastic climbed higher as well.

After the pullback, the price climbed higher to test the previous high. In doing so it reached the same price as the first top, therefore creating a new double-top at area **"C."** This time, the MACD and Stochastic of the second top are both far below that of the first top. This is exactly what we are looking for and again it satisfies all three conditions.

The very next candlestick closes red and bends the MACD so that it points down. This is our "GO SIGNAL."

We now enter the market with a sell order right after the candlestick closes. The next diagram is a close up of the MACD pointing down at the close of the candlestick.



At the same time the sell order is placed, a stop loss order should also be placed. You can set up the order entry panel of your platform to automatically place the stop loss for you at a certain point spread on every trade. Then after the orders are placed and the trade is live, you can go back and adjust the stop loss to the proper location. In the following diagram you will see exactly where I place my stops. They should go 1 tick above the highest price reached by the second top of the double-top. Why the second top? In many instances the second top will be higher than the first top. Placing the stop above the highest price reached will prevent it from being triggered or executed as easily. I have found that if the trade is a good one and will work, the price may trade right back up to the high on several occasions without breaking through and triggering the stop that sits one tick above.

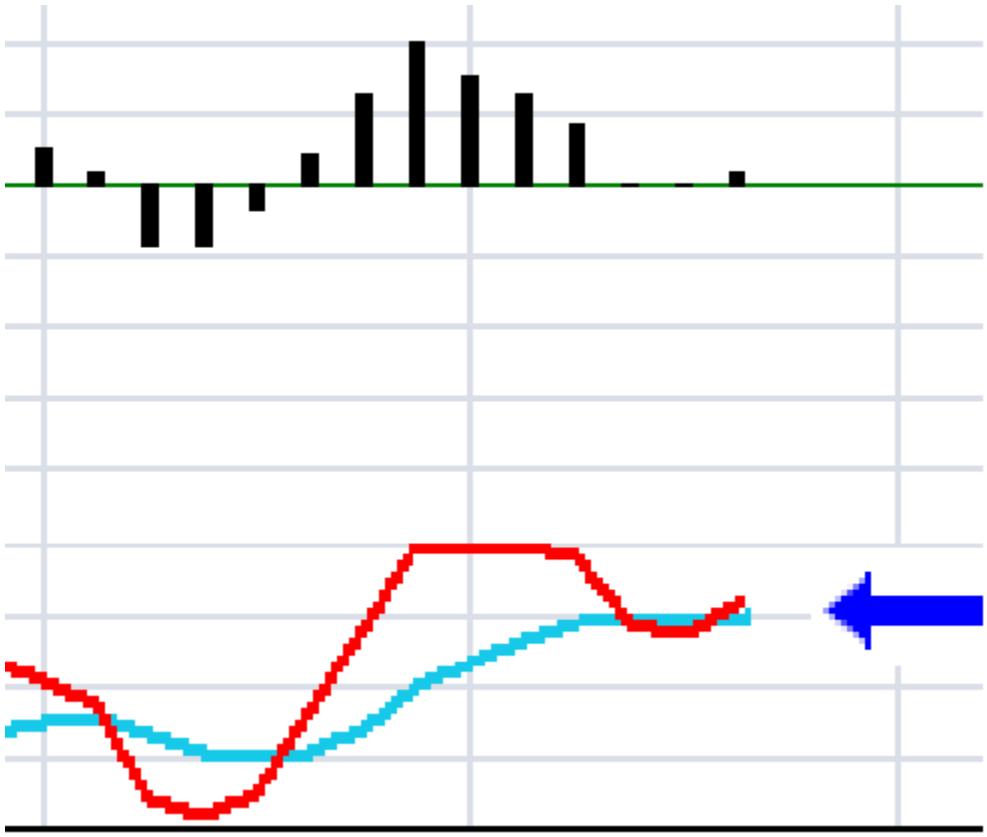
As you can see in the next chart, the setup worked perfectly and went on to be a profitable trade.

The double-bottom formations work the same way as the double-tops do -just upside down. In the next example we see that the price has just made a new low and is now starting to pull back.

After the brief pullback the price trades down to test the previous low and, in doing so, it creates a double-bottom formation at area **"D."** Notice the MACD in the second bottom is clearly higher than that of the first bottom. The Stochastic of the second bottom is also just a bit higher from the first bottom. This completes all the conditions necessary to take a "GO SIGNAL" once we get one.

At the close of the very next candlestick we get a “GO SIGNAL.” Notice that the tip of the MACD is turned upward. Even though it is just slightly turned up, it still qualifies as a good “GO SIGNAL.” We enter the market with a buy (long) order, immediately following the close of the candlestick that turned the MACD upwards.

A close up of the MACD turned up. Even though it's pointing up just slightly, it still qualifies as a "GO SIGNAL."



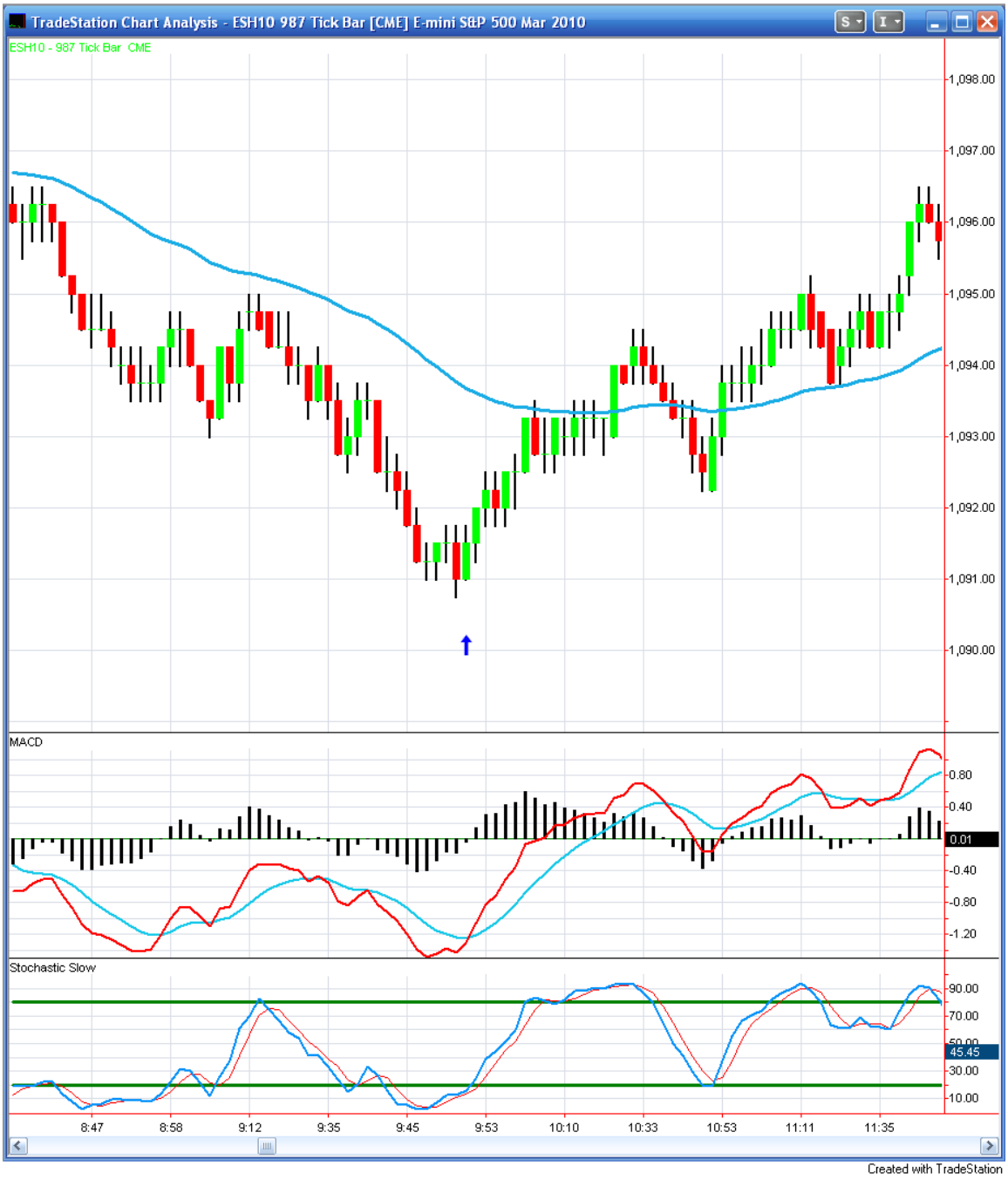
As previously mentioned, you can place a stop loss order simultaneously along with your buy order. Once you are in the market, it is easy to move your stop loss around if so desired. Place the stop loss 1 tick below the lowest price reached by the second bottom as seen in the diagram below.

This turned out to be a winning trade with a beautiful setup.

The previous two examples were actual trades that took place, not something that I just created or searched out for the purpose of this manual. The following examples are actual charts showing this same setup in both long and short trade situations. The arrows on the following charts point to candlesticks that have generated a "GO SIGNAL." Trades were taken on the close of those candlesticks. Study the setups on each chart. Look where the MACD and Stochastic are in relationship to their corresponding price formations. Some setups show the Stochastic of the second top or bottom to be just about equal to that of the first; in cases like these, it is a judgment call whether or not to take the trade. **To increase your chances for success**, make sure the Stochastic is **LOWER** on the second top of a double top formation, and **HIGHER** on the second bottom of a double bottom formation. Not two trade setups are or will ever be exactly the same. The more you study these charts, historical data charts, and watch real time charts in the simulator, the easier it will become spotting these setups.

There are five other systems included in the Ultimate Scalper day trading Methodology. It is important to get a good grasp on this system first since it is the most complicated of the seven. Most of the other systems use the exact same charts, timeframes and indicators. There are no new settings to program or learn.

Double Top and Double Bottom Chart Examples



TRIPLE TOPS AND BOTTOMS

Triple Tops and Bottoms are similar enough to the Double Tops and Bottoms System that I will include them in this sub category instead of an entire separate system.

Sometimes Double Tops and Bottoms don't work out as planned because the market isn't quite ready to give up on a certain price level, and requires more testing. Sometimes three or more tests of a level are required. Other times we don't get all the parameters met on a Double Top or Bottom as we would like, yet opportunities for profit still exist. These are two situations where a Triple Top or Bottom entry can get you in on a potentially profitable opportunity. The only criteria I like to see on a Triple top or Bottom entry are as follows.

For Triple Tops:

1. The MACD of the third Top is lower than the MACD of either the first top or second top or both.
2. The Stochastic of the third top is lower than the Stochastic of either the first top or second top or both.
3. Price of the third top may be higher, lower or equal to the price reached by any of the previous two tops.
4. Enter the market by selling at the close of the first candlestick that bends the MACD downward on the third top.

For Triple Bottoms:

1. The MACD of the third Bottom is higher than the MACD of either the first bottom or second bottom or both.
2. The Stochastic of the third bottom is higher than the Stochastic of either the first bottom or second bottom or both.
3. Price of the third bottom may be higher, lower or equal to the price reached by any of the previous two bottoms.
4. Enter the market by buying at the close of the first candlestick that bends the MACD upward on the third bottom.

Take a look at the diagram that follows. Notice there are three tops labeled 1, 2 and 3. The first two tops make up a Double Top that worked for a small profit. Then price changed direction and traded higher to retest the previously made high. Price ran out of steam before reaching the previous tops high and in the process made a nice Triple Top.

Take a look at the next diagram. It looks complicated but it's really not. The three tops to the left are similar to what happened in the chart above except the first two tops did not meet the Double Top criteria. The third top didn't equal the price of the second top before it made a turn lower. This created a nice Triple Top opportunity. Before we talk about the group of tops to the right, can you pick out the very nice unmarked Double Bottom that separates the two groups of tops? Excellent! Ok, look at the group of four tops to the right. The first three are marked in black numbers, while the last three are marked in red. The 2nd and 3rd tops of the first group of Triple Tops (black numbers) are the 1st and 2nd tops of the second group of Triple Tops (red numbers). Sharing tops is ok.

Below are more examples.

Now let's look at a few examples of Triple Bottoms. Like the other systems, they work the same way just in reverse.

THE OVERBOUGHT OVERSOLD SYSTEM

This is one of my simplest yet most powerful entries. It uses the same indicators and settings as my "Double Top Double Bottom" entry so there is no need to flip thru different screens to trade it. I can stay focused on one screen and have multitude of system entries to trade. This is a trend reversal system, and can signal some very big moves.

System Entry Definitions:

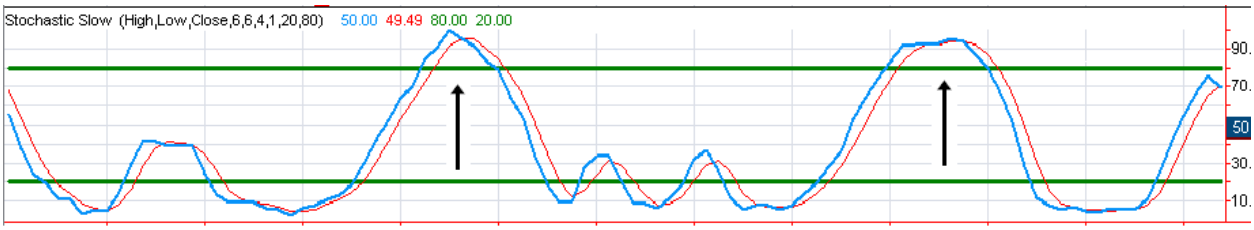
For a long trade: When the Stochastic is in the oversold area below the 20 line, I buy at the close of the first candlestick that bends the MACD upwards.

For a short trade: When the Stochastic is in the overbought area above the 80 line, I sell at the close of the first candlestick that bends the MACD downwards.

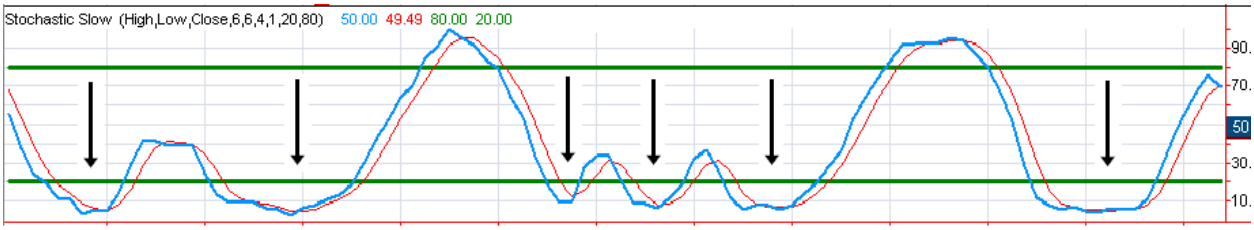
I first look for the Stochastic to be in either the overbought (above the green 80 level line) or oversold (below the green 20 level line) areas of the indicator.

Note: colors are customizable and may be different depending on what charting software you use.

Below are examples of the Stochastic in the overbought area. Notice the black arrows pointing to the areas where the Stochastic has broken above the green 80 level line, and is overbought while it remains up in that area.



Below are examples of the Stochastic in the oversold area. Notice the black arrows pointing to the areas where the Stochastic has broken below the green 20 level line, and is now oversold while it remains down in that area.



Once the Stochastic is in either the over bought or oversold areas, I focus my attention on the MACD. I am looking for the first turn downwards of the MACD when the Stochastic is overbought. Conversely, I am looking for the first turn up in the MACD when the Stochastic is oversold.

When the Stochastic is in the overbought area, I take a short trade or sell the market after the first candlestick to close bending the MACD downwards. Below is an example of where the MACD first got bent downward after the Stochastic entered the overbought area. I enter a sell order immediately following the close of the candlestick that did this. REMEMBER it is the FIRST downwards bending of the MACD after the Stochastic enters the overbought area.

I place my stop loss one tick above the most recent highest high price reached.

When the Stochastic is in the oversold area, I take a long trade or buy the market after the first candlestick to close bending the MACD upwards. Below is an example of where the MACD first got bent upward after the Stochastic entered the oversold area. I enter a buy order immediately following the close of the candlestick that did this. REMEMBER it is the FIRST upwards bending of the MACD after the Stochastic enters the oversold area.

I place my stop loss one tick below the recent lowest low price reached.

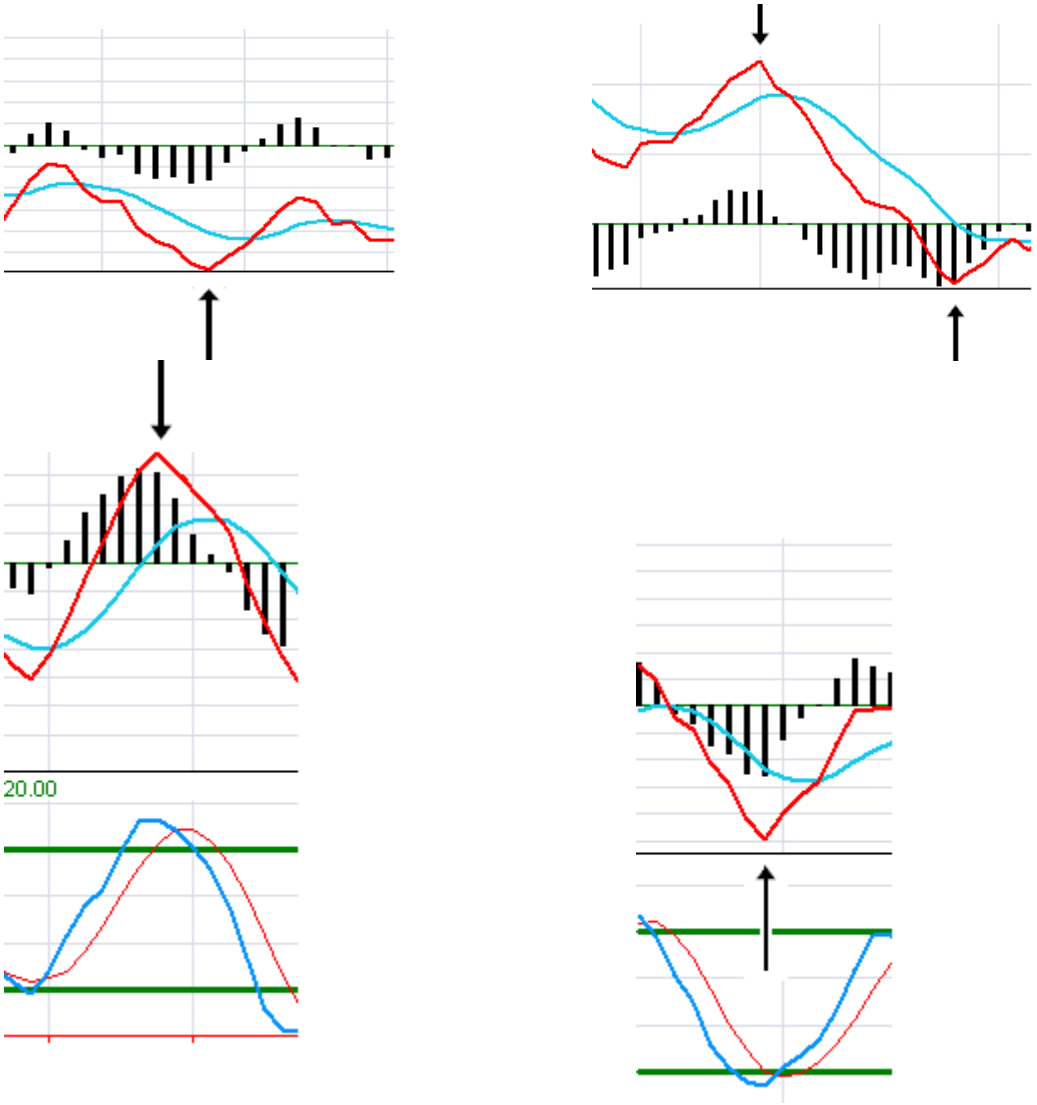
There are times when the market is not quite ready to make a reversal when you get a signal to take a trade using this system. Try to use other confirmation signals to help filter out those instances.

Overbought Oversold Chart Examples

Below is a chart displaying the many trades that were generated by this system in just over a one hour period. The red down arrows represent the short trades while the blue up arrows represent the long trades. There is one magenta up arrow that represents a losing trade. Take notice of the circles around the overbought and oversold areas of the Stochastic and the bending of the MACD that corresponds with each trade. These trades can be counter trend trades as well as with the trend.

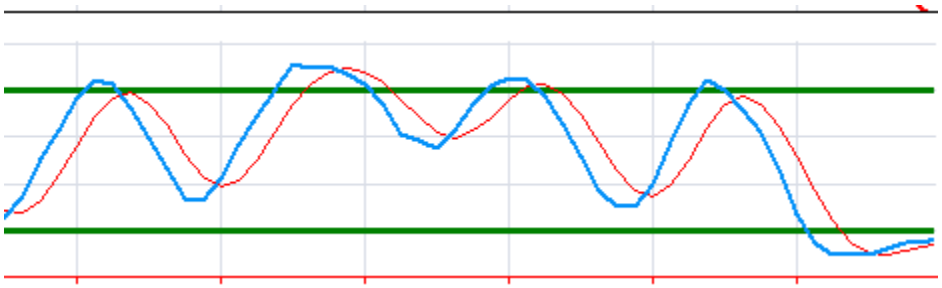
Special Considerations when Trading this Method

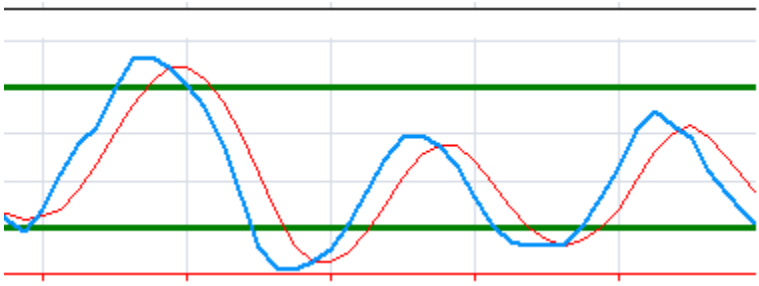
When trading with the Overbought and Oversold method, there are certain considerations I take into account before taking a trade. In the four diagrams below, take a look at the black arrow pointing to the MACD. Notice how the MACD makes an aggressive turn creating a sharp point or 90 degree angle. These are the MACD turns I like to see when I make a trade using this system. The system calls for the FIRST turn of the MACD when the Stochastic is in the Overbought or Oversold areas to enter with a trade. Many times you may get a week FIRST turn that bends the MACD just a little and turns out to be a bad trade. Then it will be followed by a stronger pointier turn that creates a 90 degree angle, sharp point or an aggressive turn in the direction of the trade. It is these pointier aggressive turns or 90 degree angle turns that I take my trades on.



When the market is erratic and creating choppy or wiggly patterns in the MACD and Stochastic indicators, I don't trade this system. Look at the following diagram of the MACD and Stochastic and notice the choppy zigzag behavior. Situations like these create false signals and loosing trades.

Instead, I like to take my trades when the Stochastic is flowing smoothly. The next two examples of the Stochastic indicator is how I like them to look, smooth and flowing like waves. Having a smooth less choppy and erratic MACD is also preferable.





When using this method, your odds for success are increased if you take trades in the direction of the 50EMA. However, this system will often signal a trade at the very beginning of a new trend direction, much sooner than the 50 EMA is capable of displaying. Getting a signal at the beginning of a new trend is the beauty of this system. While many trades will work going against the 50 EMA, I always find the ones going in the same direction to have a higher success rate. With that being said, I personally take trades going with and against the 50 EMA. There are many fantastic scalping opportunities going against the 50 EMA as well as opportunities when the trend direction changes altogether. Just be aware that when trading against the 50 EMA, the current trend direction indicated by the indicator may not be quite over yet.

The following 9 charts contain examples of trades taken with the "Overbought & Oversold System".

Notice in this last chart example how price bounces off the Resistance line of the Floor Trader Pivots at the same time an Overbought System signal is generated.

THE HISTOGRAM SYSTEM

Sometimes, the Double-Top Double Bottom and/or Over Bought and Sold systems do not meet my required conditions to enter a trade. When this happens, and I still believe there is an opportunity to go long or short according to other confirmation signals, I enter a trade using the Histogram System. This method is very simple. I use the same settings for the MACD and Stochastic indicator as I do for the Double Top and Bottom system, so nothing needs to be changed. I always have the histogram displayed along with my MACD indicator. Most charting packages allow you do this. I also keep the histogram bars a little thicker than the default settings and color them black. This helps me to see them more clearly. Below is an example if the histogram portion of the MACD indicator.

Histogram

Notice that the histogram is comprised of vertical bars, both above and below the horizontal line that runs thru the middle of it. Each vertical bar is formed by the relationship between the red MACD line and the blue MACDAve line, and the price candlestick that correlates with it. There is usually a series of vertical bars on one side of the horizontal line before switching to a series on the other side. Trades are placed when a series of bars on one side switch to the other side.

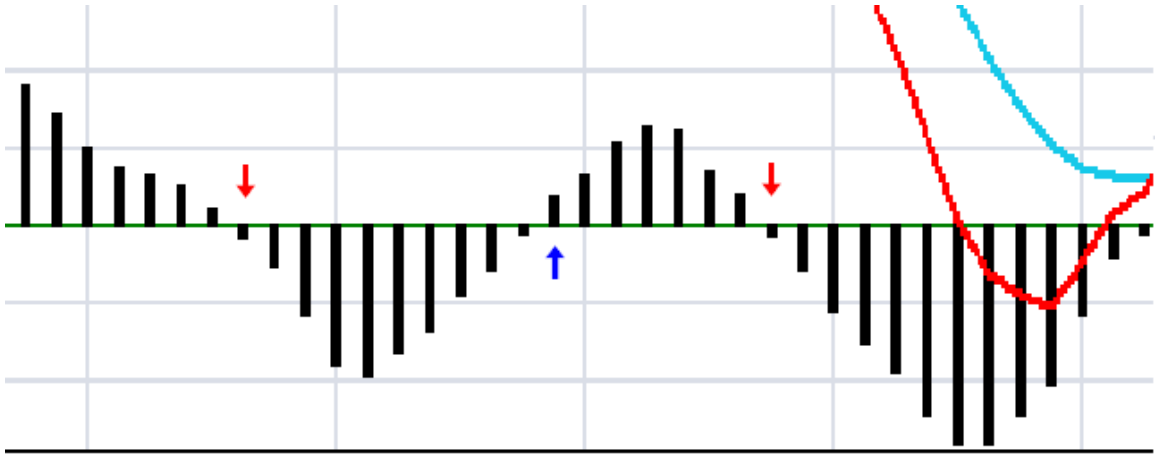
System Entry Definitions:

Long Trades: A long trade (buy) is entered upon the first histogram bar to form on the top-side of the horizontal histogram line after a series on the bottom side ends. The buy order is placed at the close of the associated candlestick of that particular histogram bar.

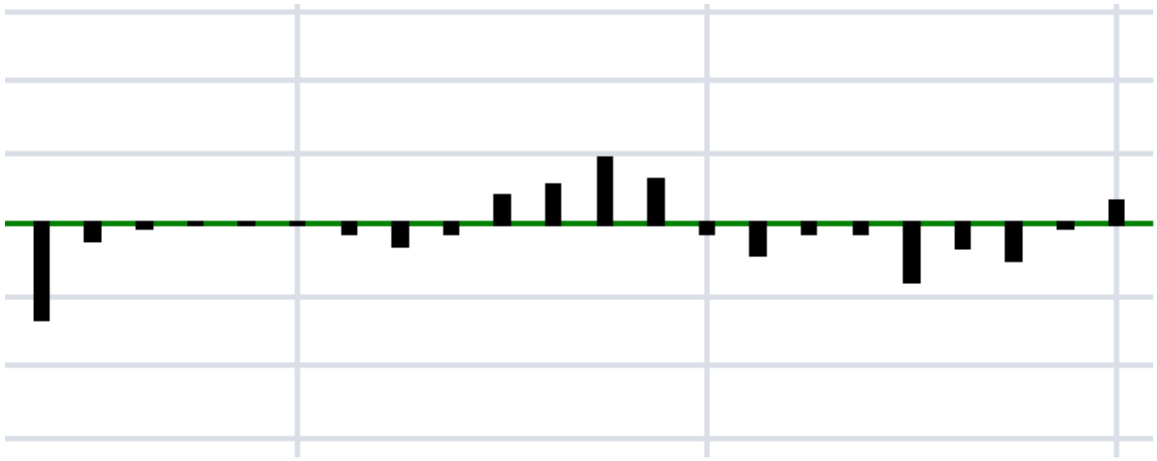
Short Trades: A short trade (sell) is entered upon the first histogram bar to form on the bottom-side of the horizontal histogram line after a series on the top side ends. The sell order is placed at the close of the associated candlestick of that particular histogram bar.

Take a look at where the red and blue arrows are placed in the histogram below. Two short (sell) trades were placed at the close of the candlesticks that correlate to the histogram bars with the red arrows. One long (buy) trade was placed at the close of the candlestick that correlates to the histogram bar with the blue arrow.

I only trade this method when the histogram resembles the diagram below. Notice how the histogram cycles in waves from top to bottom and back to top again. You can almost envision a straight line from the slope of one series of bars right into the slope of another. This makes for a more reliable entry with better odds for success. Take notice of where the trades were placed.



I try to avoid trading this method when the histograms look like broken or missing teeth as in the diagram below.



Histogram System Chart Example

Look at the following chart: There is a red downward arrow at the short trades and a blue upward arrow at the long trades generated by the histogram system. The magenta colored arrows with the balls are losing trades.

THE SLINGSHOT SYSTEM

The Slingshot system is a method I use when the market has already turned and is now trending either up or down. We can classify this as a trend following system. Since some trends can carry on for quite a while, there may be multiple entry opportunities within a single trend.

During a trend there are usually areas where price has pulled back just a bit before resuming the trend direction. These pullbacks are exactly what we need to take advantage of the slingshot opportunity.

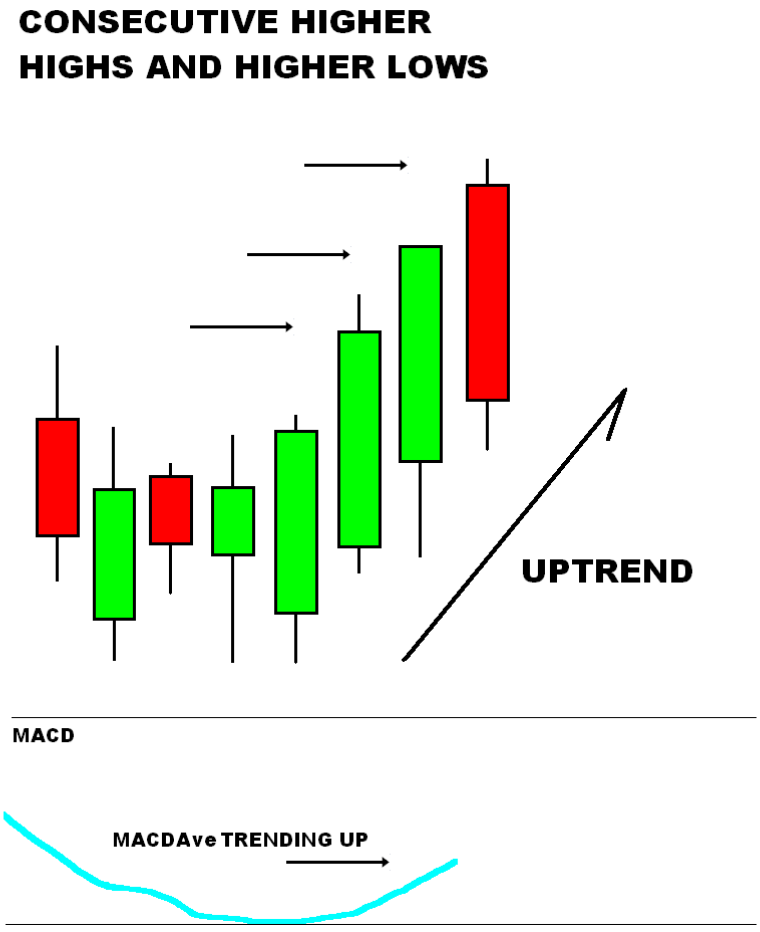
We will use the MACD indicator and price movement to determine our entries with this system. You may recall in the previous section describing the different parts of the MACD indicator that there is also a blue line called the MACDAve line. This blue line moves slower and smoother than the red MACD line we have been using up to this point. During a trend either up or down, this blue line may remain relatively steady in the direction of the trend. Minor pullbacks in price from the trend direction may bend the red MACD line while having no affect on the blue MACDAve line. This is the situation we look for. In a strong trend, the blue MACDAve line will usually continue the same direction unaffected by small pullbacks in price.

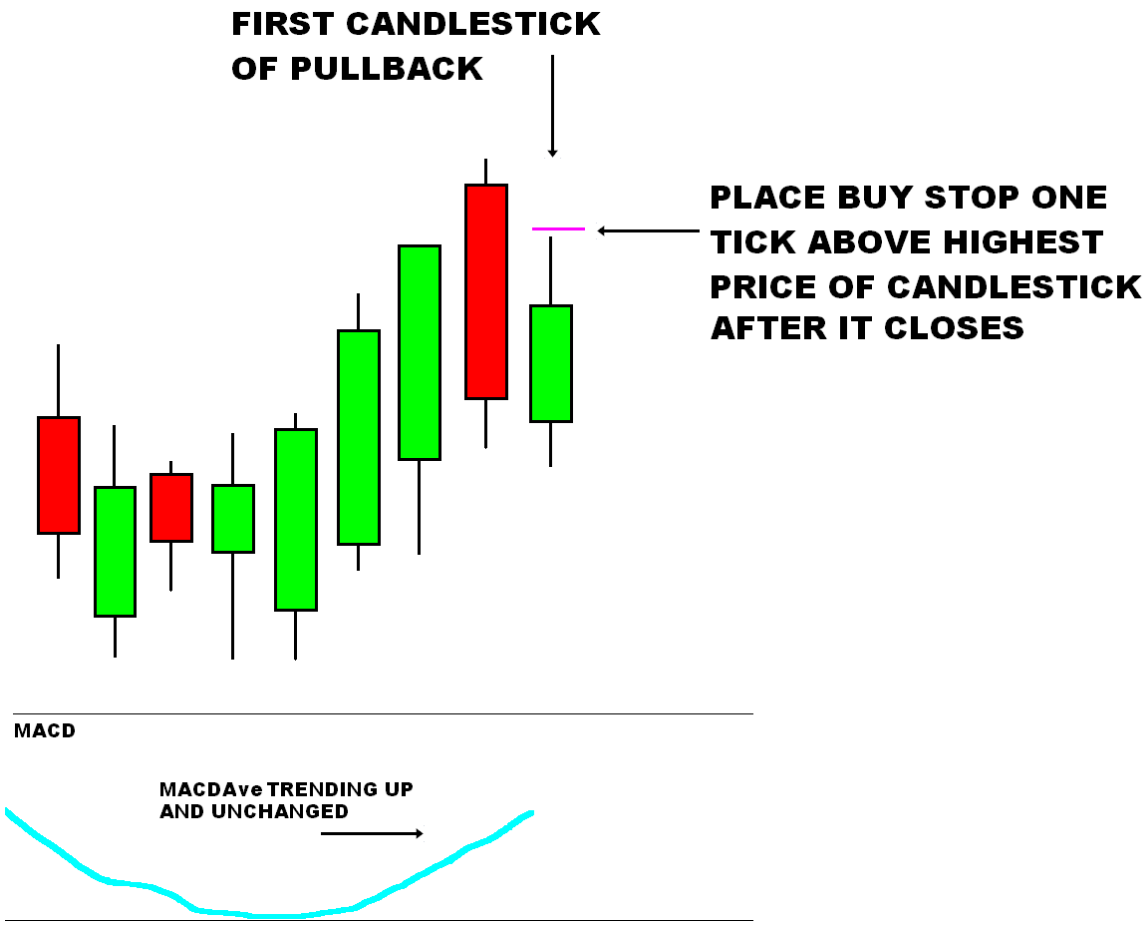
Slingshot Entry Definitions:

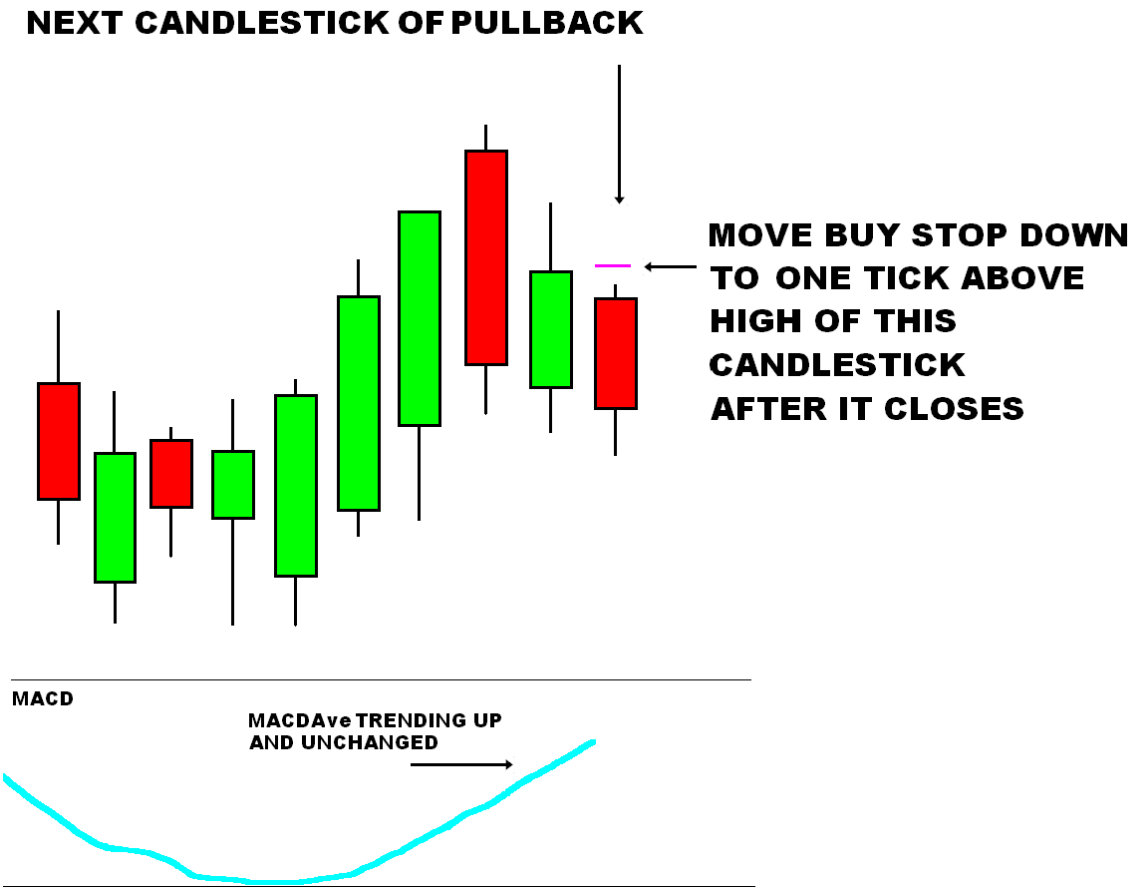
Up Trends: When price pulls back while in an upward trend and the blue MACDAve line continues unaffected in the trend direction, place a buy stop order one tick above the highest price reached on the pullback candlestick. Continue to move the buy stop order to one tick above the high of each consecutive lower pullback candlestick high until the order is filled, or the blue MACDAve line starts to turn. Place stop loss order one tic below the lowest price reached during pullback.

Down Trends: When price pulls back while in a downward trend and the blue MACDAve line continues unaffected in the trend direction, place a sell stop order one tick below the lowest price reached on the pullback candlestick. Continue to move the sell stop order to one tick below the low of each consecutive higher pullback candlestick low until the order is filled, or the blue MACDAve line starts to turn. Place stop loss order one tic above the highest price reached during pullback.

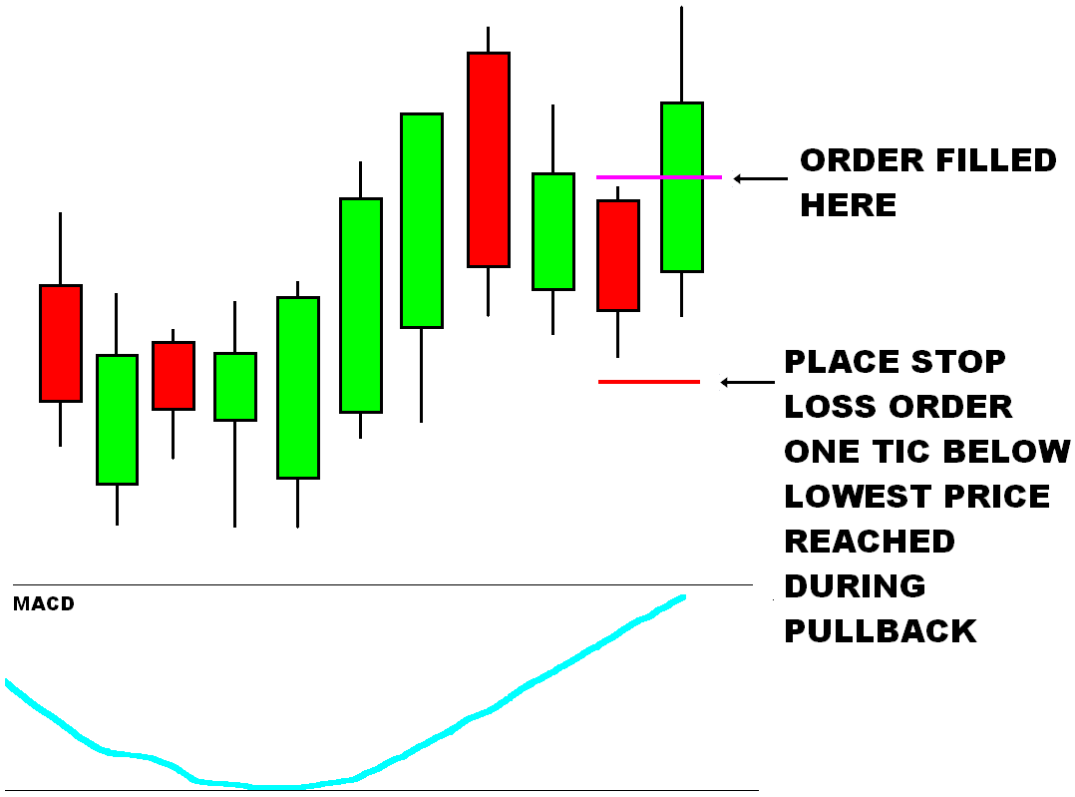
This is not as confusing as it sounds, and is actually quite simple. Look at the next five diagrams. The red MACD line of the MACD indicator has been left out of the diagrams. The blue line displayed is the MACDAve line. The diagrams show an example of an uptrend buying situation. The downtrend of the Slingshot method is handled in the exact opposite way.

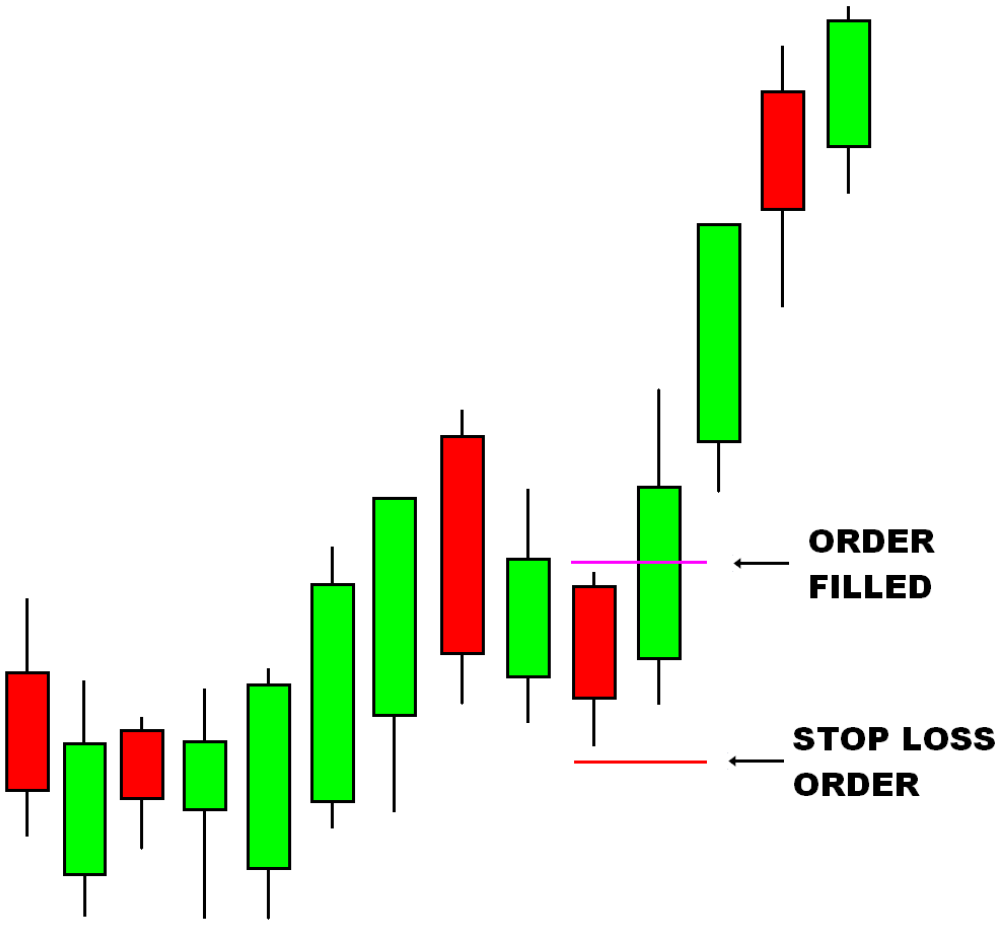






PRICE SLINGSHOTS IN ORIGINAL TREND DIRECTION FILLING BUY STOP ORDER AND SHOOTING HIGHER

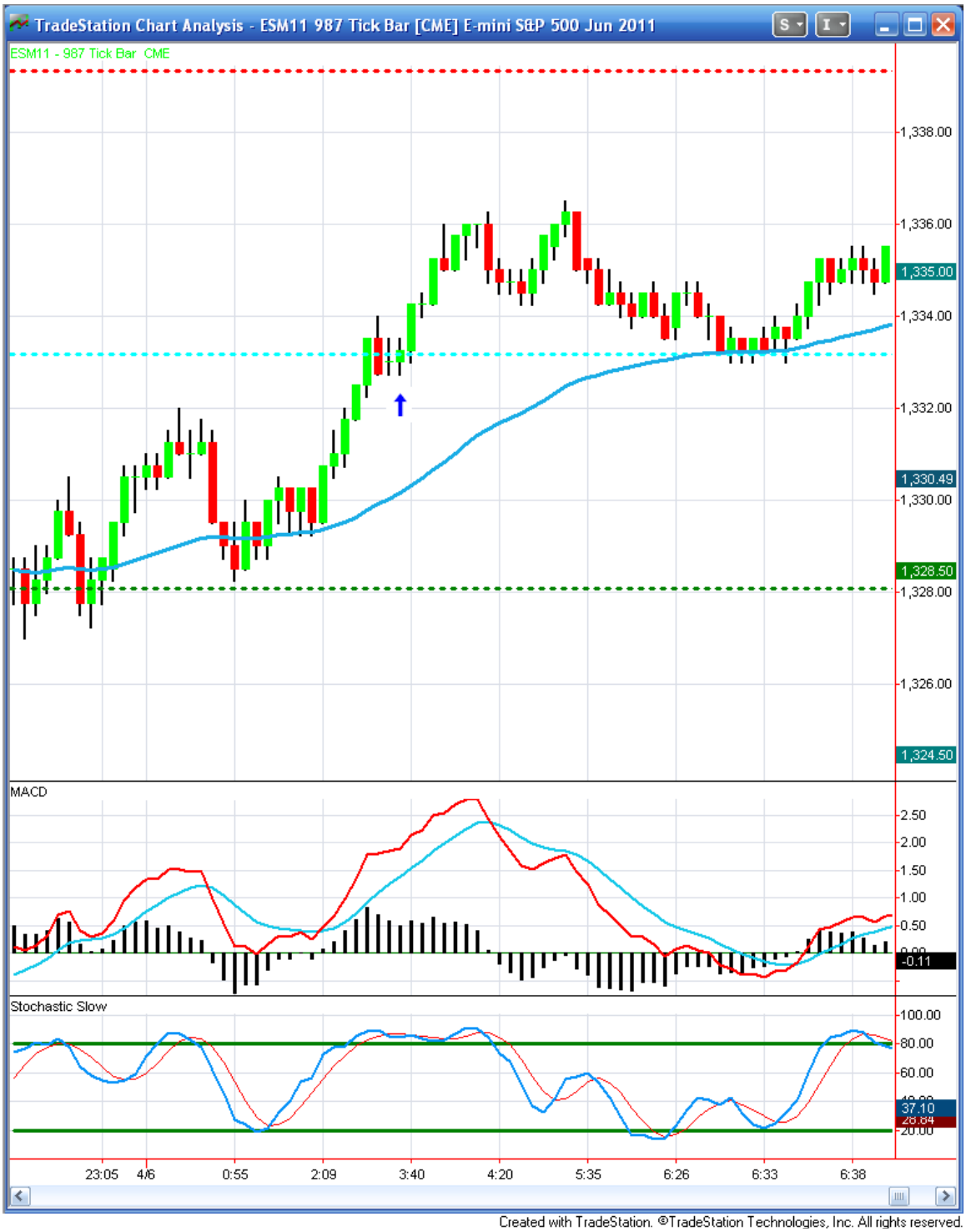




As you can see by the previous diagrams, the system is relatively simple. Once you notice the pullback happening in a trend you are following, wait until the pullback candlestick closes and place your "stop order". The pullback may be only one candlestick, or could be several. Keep moving your stop order accordingly after the close of each new pullback candlestick. When the pullback is over, price will shoot thru and fill your stop order while resuming the trend. I really like this system because there is usually not much waiting for profit or price to go your way after your order has been filled. The momentum of price movement after the market decides the pullback is over can very well make this your favorite entry method.

Sling Shot Chart Examples

Below are some actual chart examples of the slingshot system.



TREND LINE BREAKOUT SYSTEM

This is one of my oldest and most favorite systems. It didn't take long after I started studying charts of the S&P 500 futures contract to see obvious patterns reoccurring. Previously in this manual I touched on the significance of trend lines and how they define the diagonal support and resistance lines of trends. When these lines get crossed or broken, it usually signifies the end of that trend and the beginning of an opposite trend or sideways range. If this is the case, then there must be opportunity to profit, and there is. In my previous discussion on trend lines I was using them as confirmation signals to help support and confirm a trading strategy or entry. Trend lines are very good at helping you see that a trend has in fact ended, or set new parameters for itself. While this system concept is very easy to grasp, it does create certain challenges that need to be mastered in order to succeed.

When I use the Trend Breakout method as an actual system to place trades, I usually am looking at the 3 and or 5 minute bar charts. I find these time frames along with the simplicity of bar charts help spot excellent Trend Breakout opportunities. With that being said, you will still find many Trend Breakout opportunities with candlestick tic charts. I find that it takes a bit of practice to draw trend lines on candlestick charts. The tic charts will also provide you with many Trend Line Breakout opportunities, and if you choose, you can also display the tic charts in bar format. As previously mentioned, I have my computer screen displaying two different charts. On the left side of my screen is the 987 or 2000 tic chart, and on the right I have a 3 or 5 minute bar chart displayed for this system as well as the Volume indicator.

Uptrend Breaks to the downside: During an uptrend, draw a trend line connecting a minimum of three perfectly aligned price bar bottoms or lows. When the trend line gets broken, place an order to sell the market. Place a stop loss order one tick above the previous high of the trend or at your comfort level.

Downtrend Breaks to the upside: During a downtrend, draw a trend line connecting a minimum of three perfectly aligned price bar tops or highs. When the trend line gets broken, place an order to buy the market. Place a stop loss order one tick below the previous low of the trend or at your comfort level.

In both cases if the breakout turns out to be a false breakout, then the trend line must be re-drawn.

Although this system is very reliable, there are a number of factors that discourage traders from implementing it.

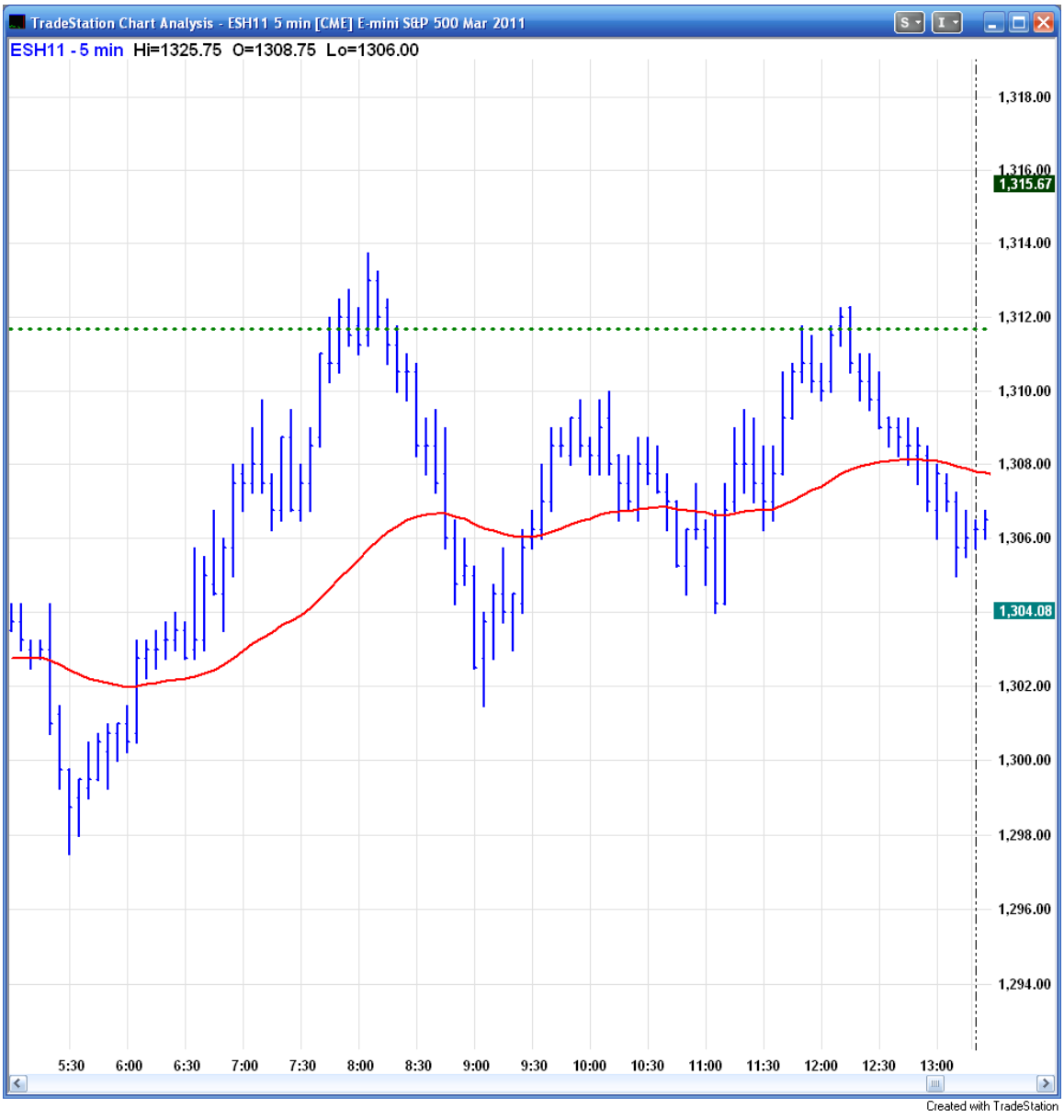
1. Learning to draw accurate trend lines.
2. Where to anchor the trend line.
3. Where to place the stop loss.
4. False breakouts

Drawing accurate trend lines just takes practice, and you must stay true to yourself. You cannot force a trend line to fit, it will either line up just right almost perfect or it will not.

In my previous section on trend lines I touched on where to anchor the lines. Please go back and review the short section I have on trend lines. Once you get smart on drawing trend lines you will find other places to anchor the lines. As previously mentioned each trader will draw lines differently. With practice you are sure to master this wonderful trend line tool.

The stop loss placement can be tricky in this system. After your order is filled price may take a while to actually take off in the desired direction of your trade. I always like to place my stop loss one tic above or below a previous significant price point depending on if I'm going long or short. Stay within your comfort zone.

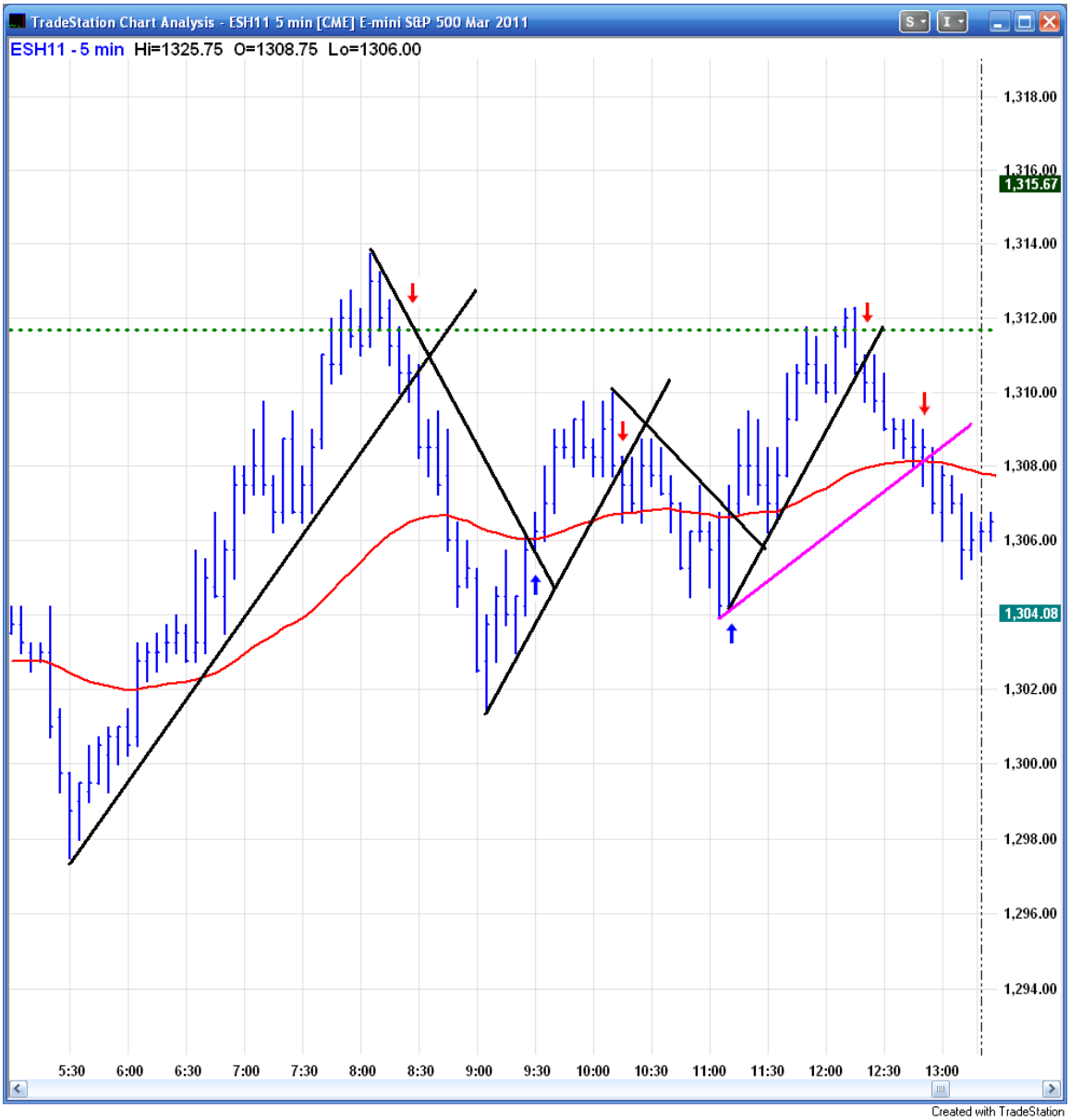
Take a look at the following chart. It is an actual 5 minute bar chart of the ES displaying the entire days trading session 6:30 to 13:00 pacific. See if you can pick out where the trends actually changed direction. Could drawing trend lines have helped spot trend changes or better yet have made you any profit? Do you see any invisible lines?



In the chart that follows you can see how the trend line was drawn. The trend line was anchored using a low set at 5:30 am before the market began its regular session. The other black arrows along the trend line are other points that lined up nicely along the trend. When price finally broke thru the trend line marked by the bar with the red arrow, price traded downward forming a new downtrend.

In the preceding chart notice the anchor was set at the high of the last trend. This is usually where you would anchor a trend line. Sometimes there will be two bars with the same high n price, in these situations you would chose the one furthest to the right for a downtrend as previously stated in the prior section on trend lines. The very next bar makes a good point along the trend line that will later on match up with a bars high to make the 3rd spot along the line. Both of these points are marked by a black arrow. The very next bar after the 3rd trend line point (black arrow) is a breakout bar. Here is where a buy order would be placed noted by the blue up arrow.

The next chart displays the trend lines that were drawn for the rest of the trading session. The blue up arrows are long positions and the red down arrows are the shorts. Notice the last uptrend; it has both a black up trend line as well as a shallower magenta colored trend line. Since the lowest part of the previous downtrend was a price bar followed by a relatively similar bar in price but not equal, I anchored the magenta line off the lowest price bar and anchored another trend line from the very next price bar. This made for two different selling points, both that were profitable.



Trend lines not only provide you with excellent trading opportunities throughout the day, but they can also be used as a forward looking indicator as well. If you are able to anchor a trend line and have a first point rather close to the anchor, this can provide you with valuable information. When a trend line is formed, but not yet broken, it is basically giving you a line into the future that price will eventually meet back up with. You will notice this the more you experiment with the trend lines. To see what I mean, look near the end of the first trend line in the previous chart. Notice how the price bars traded away from the trend line only to meet back up with it shortly after. This is forward looking. Take a look at the next trend line. Notice in the downtrend, price started to drop very steeply pulling away from the trend line. Then price came back up to meet with it before finally breaking out. This is forward looking. Use it to your advantage.

Some key points about the Trend Line Breakout System:

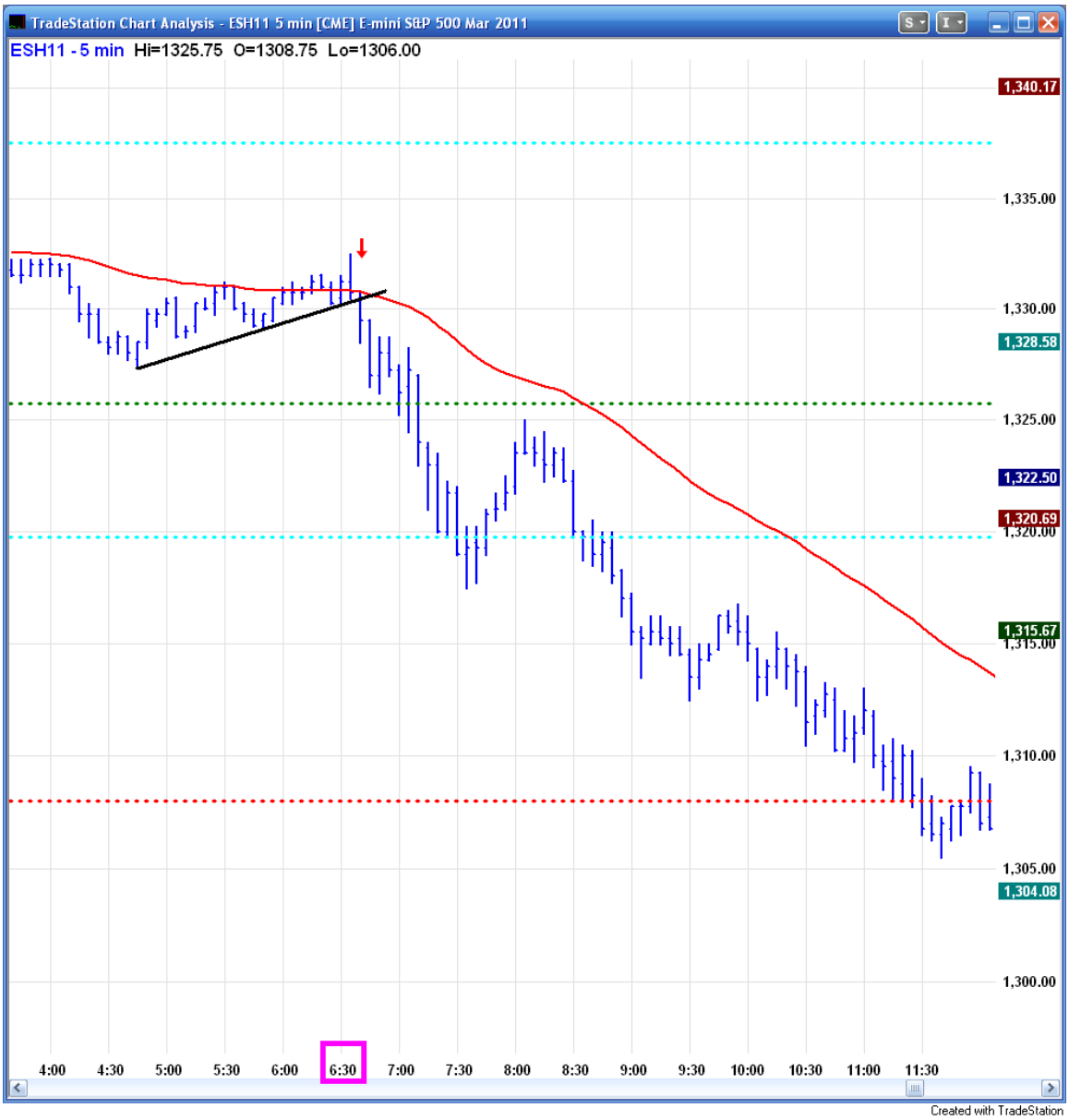
1. There must be at least three points (price bar highs or lows), INCLUDING the anchor, where the trend line touches and lines up perfectly.
2. You can and should use the high of the last uptrend or low of the last downtrend as your anchor point. You may also use the very next bar if it is equal or somewhat close to the same high or low price.
3. Avoid drawing steep trend lines either up or down. I use roughly a 45 degree max angle. The more shallow the trend line, the more accurate the breakout.
4. Do not force a trend line to fit, if it doesn't line up almost to perfection it is not a good line.

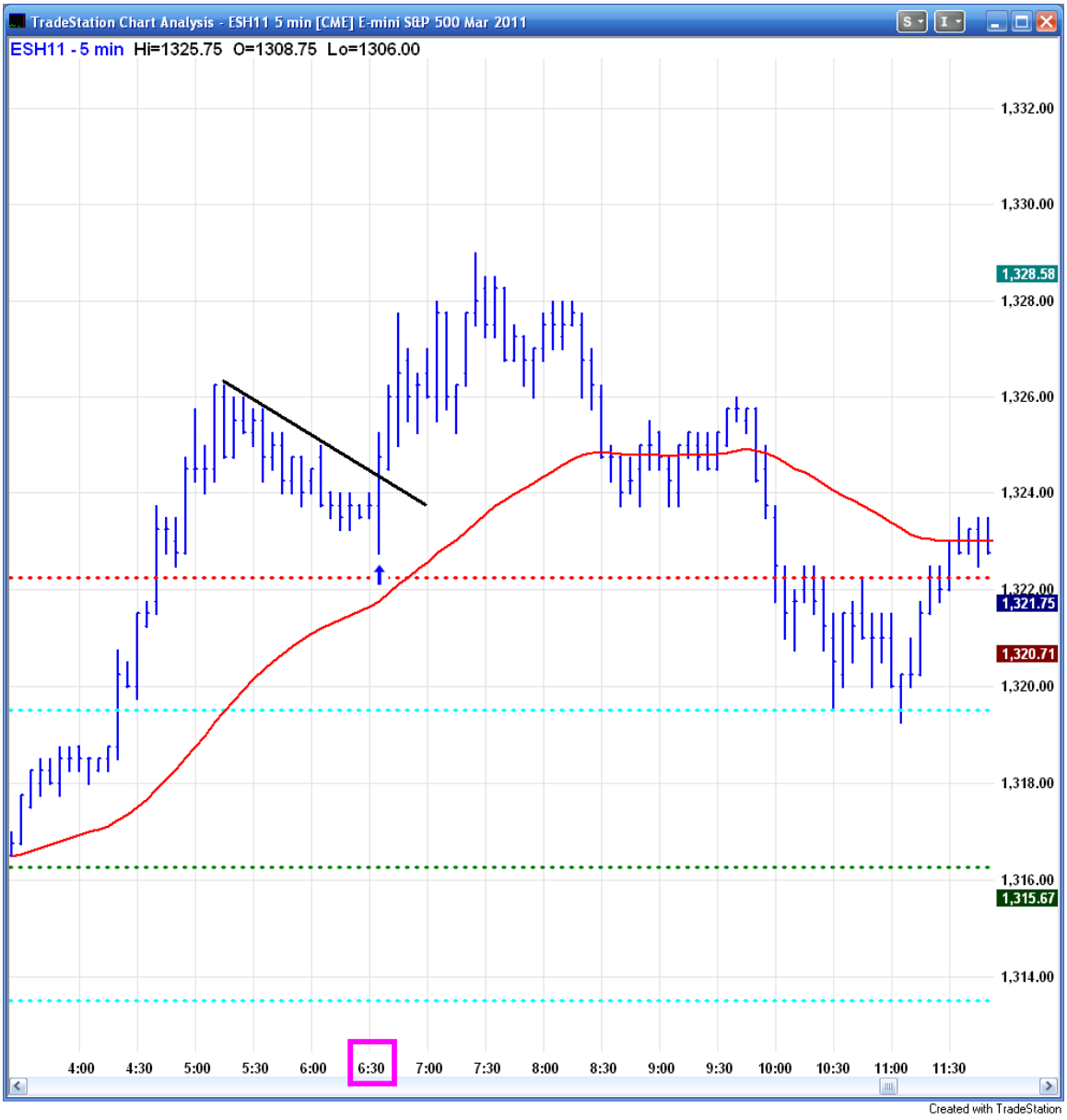
The Coffee Break

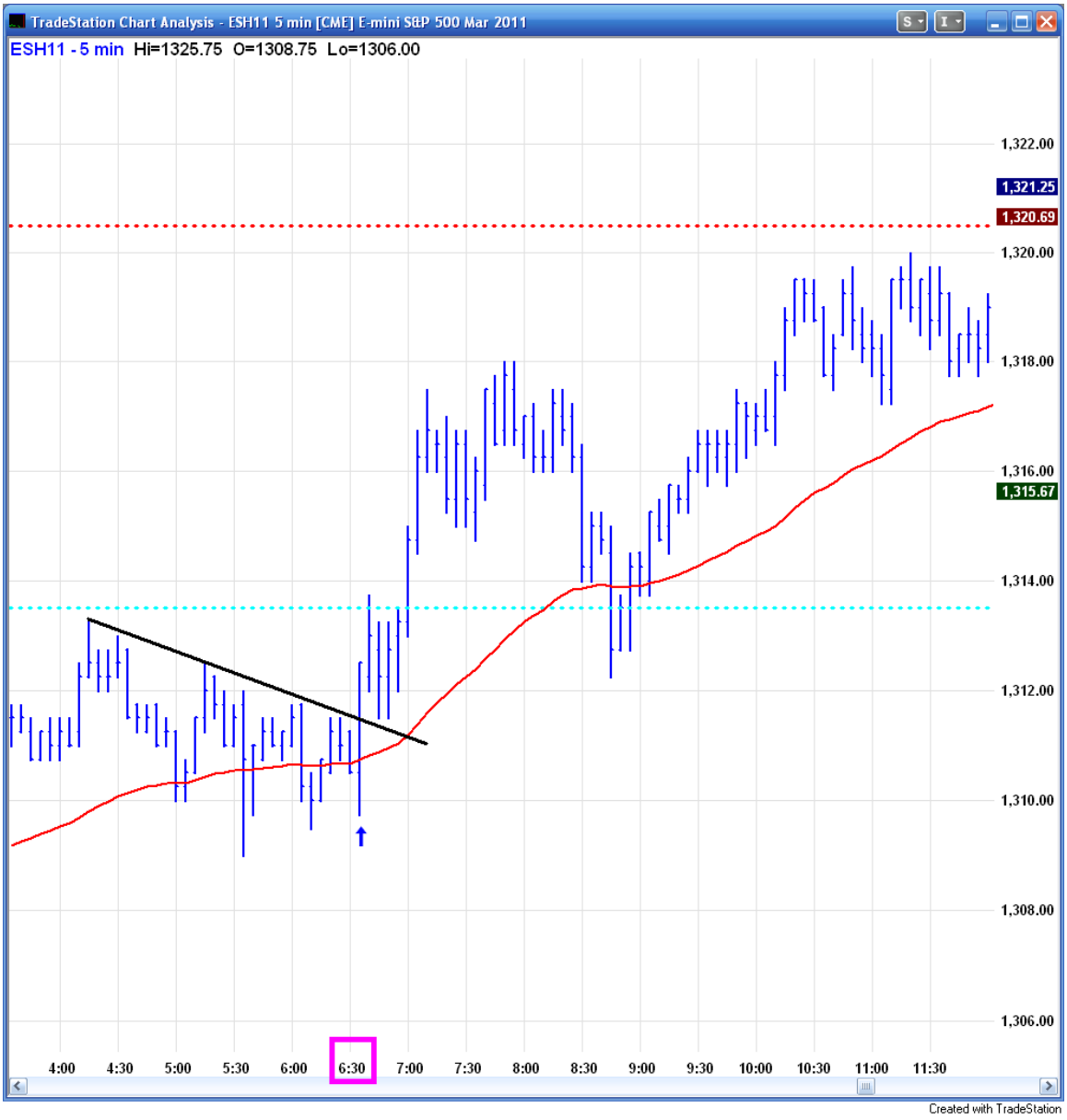
This is my early morning or market opening system. I refer to it as the Coffee Break because when the trade is over I still have coffee in my cup to sit back and enjoy. The system is basically the same as the Trend Line Breakout method except I look for a trend line to form before the market opens for the regular session. This gives me some clues to what direction the market may take off in shortly after the market opens. The market is very active in the first part of the day especially after the market opens. This part of the day is usually very volatile. Price may jump in one direction for a few bars then make a drastic turn in the opposite direction. Watching the market before it opens can give you some clues as to where it may go right from the start. I look to see if there are any definite trend lines I can draw before the market opens and or shortly after it does.

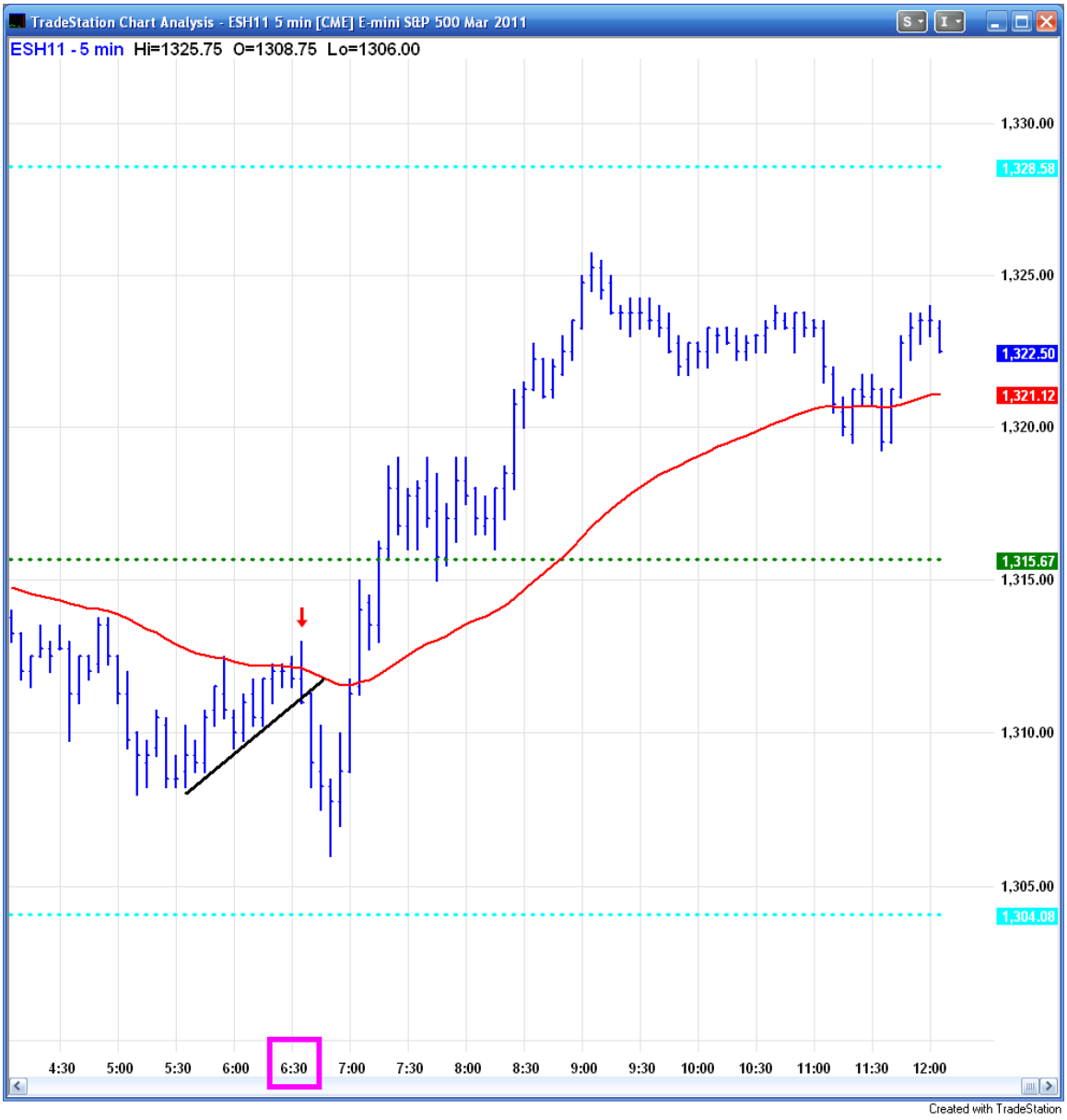
The next few examples are of actual 5 minute bar charts that show before market trend lines I was able to take advantage of. I only show the trend line for the Coffee Break method, see if you can find other good places to draw trend lines on these charts. You may recall from earlier that I am on Pacific Time. 6:30am is when the market opens in my time zone and I have my charts set to local time. When you get good at this you can literally be done with your trading day before you finish your coffee. Enjoy!

Actual Coffee Break Chart Examples









Tips for Trading Success

- Always draw trend lines on your charts to help you visualize market direction along with Support and Resistance areas. When broken they will provide you with not only confirmation signals, but trading opportunities as well.

- Use the custom Support and Resistance lines you learned to draw in the early part of this manual. When used in conjunction with the "Floor Trader Pivot" lines they become powerful target and turning point areas. Pay special attention when the Support and Resistance lines are in close proximity to the "Floor Trader Pivots" lines. When this happens, there is usually something significant about that price level. You can expect price to test the area and possibly reverse course there.

- Always have the "Floor Trader Pivot" lines displayed.

- Always be aware of "Final Upward" and "Final Downward Push" bars, They will indicate a direction change is eminent. Use them as confirmations signals with the "Double Top" and "Double Bottom" as well as the "Over Bought" and "Over Sold" systems.

- I find that the better trades are in the first and last few hours of the trading session. During the lunchtime hour of the exchange time zone, price sometimes finds itself in sideways channels with lots of choppiness and false signals.

- When starting out, you may want to use the 2000 tic chart. This will slow things down just a bit with less false signals. Some students prefer this time frame to the 987 tic. Experiment with both and use what works best for you.

- You do not need to trade every system in this course to be successful. Choose and trade the ones you like. I give you all the best systems that I use to provide you with an arsenal of trading opportunities. Some system setups are more consistently successful than others. The list below represents a survey from previous students of what systems they like the best and use the most.

    1. Slingshot
    2. Histogram
    3. Double Top Double Bottoms
    4. Triple Top and Triple Bottoms
    5. Trend Line Break Out
    6. Over Bought and Over Sold

Conclusion

I truly believe that with the right amount of dedication and practice in learning these methods and systems, that anyone can become a successful day trader. These are very simple and easy to implement straight forward systems that capture consistent profits year after year.

Although I have presented a lot of valuable information in this manual, there is still much to learn. Try not to get overwhelmed. Start slow; please use the trade simulator of the company you chose for as long as it takes to feel completely comfortable before risking any money. You have the opportunity to make a professional level income from just studying this short manual. Do yourself a favor and dedicate the time to learn it right by practicing first. The hardest part about day trading is being able to control your emotions. You must be able to accept the fact that you will have trades that lose money. You must be ok with that fact. You must be able to say this from the heart for every trade:

"I am willing, and it is ok if I lose (X) amount of money in hopes of making (XY) amount of money in return on this short term investment trade"

And

"I just lost (X) amount of money on this trade, but not because I was wrong. I did the right thing by placing my stop loss in the proper place. I followed the system correctly and my stop loss saved me from further losses."

Once you are honestly ok with saying these phrases as you trade, the rest is easy.

It's important to set goals and limits for yourself. Start with small realistic goals like anywhere from$50 to $200 a day in profits. Then stop trading for the day. Also set a limit on how much you can lose in a single day. For example; if you are down $200 to $250, just stop trading for the day. The market will be there tomorrow to trade try again. There is no reason why you should be trading when upset or not in the right state of mind.

Videos

Originally, when I first decided to create this manual and share my trading techniques, I was only going to disclose and teach my "Double Top Double Bottom" method. I felt that it alone was well worth the price of the course and easy enough for anyone to learn and become extremely successful. Then, after half way thru writing the course and much thought, I decided to also disclose my "Histogram" method. I wanted to make sure my students had another opportunity to get in the market if they missed the double top or bottom. Also if they were having a hard time finding double tops and bottoms, or there were not many forming up that particular day, they would have another method to enter the market.

Then, after most of the manual was already written, I again decided it would not hurt me at all to disclose one more of my favorite methods. In fact it would help my students become even more successful and put another simple yet powerful technique in there trading arsenal. I went ahead and disclosed my "Overbought Oversold "method along with the others to give my students three very simple yet consistent easy to learn and implement methods for day-trading the E-Mini S&P.

While watching the videos, you will notice I sometimes refer to a certain method as the primary, secondary or bonus entry. These videos were produced when there was only going to be the "Double top Double Bottom" along with the "Histogram" methods included in the course. After adding the "Overbought Oversold" method, I decided those videos were too good to get rid of, so I have included them.

Today there are even more systems included in this course. I have added ALL of the systems and methods that I personally use to day trade the E-Mini S&P. If there are still some older videos in the course, it's because they still have learning value. Please disregard whether I call them primary secondary or bonus systems. I add new videos all the time and will eventually upgrade the course as needed. The important thing is for you to learn the different trade setups, entries and exits.

Good Luck and Happy Trading!

The views and opinions in this manual are solely those of Ultimate Scalper LLC.

Charts in this manual were created using Tradestation wherever specified.

Other charts, diagrams and graphics were created by the Author.