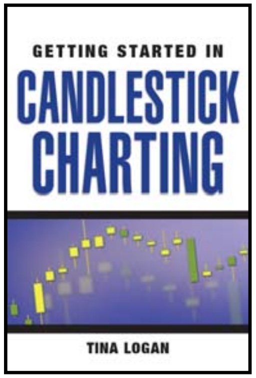
EFFECTIVE SWING TRADING

Presented by Tina Logan

Tina Logan is an active trader, trainer, and author of the following books:

***Getting Started in Candlestick Charting* (Wiley & Sons, 2008)**

***Profiting from Market Trends* (Wiley & Sons, 2014)**



Tina has also written many eBooks on charting and trading-related topics including:

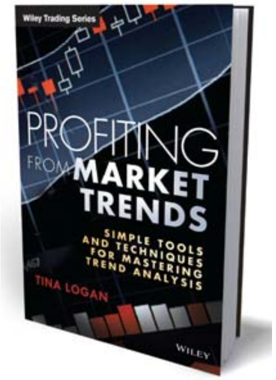
Chart Analysis

Organizing Your Trading Activities

Trade Management (including Risk & Money Management)

Trading Strategies & Techniques

Top Down Analysis



For more information, visit Tina's website at: www.tinalogan.com

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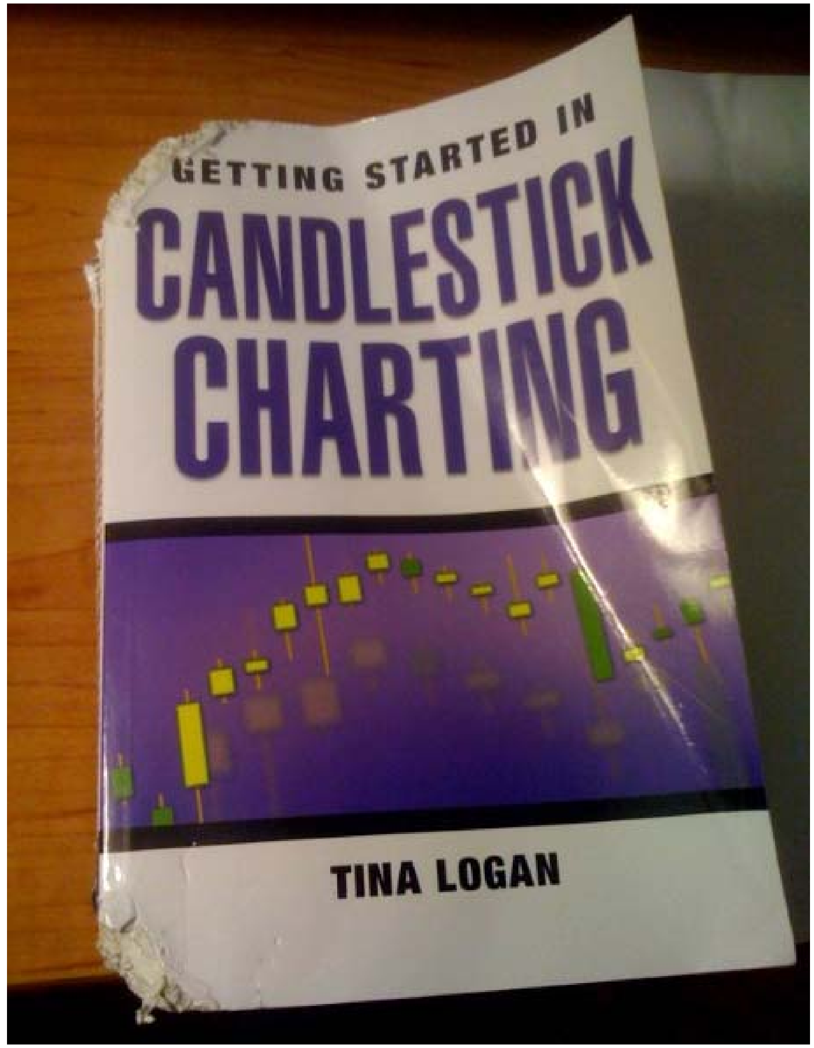

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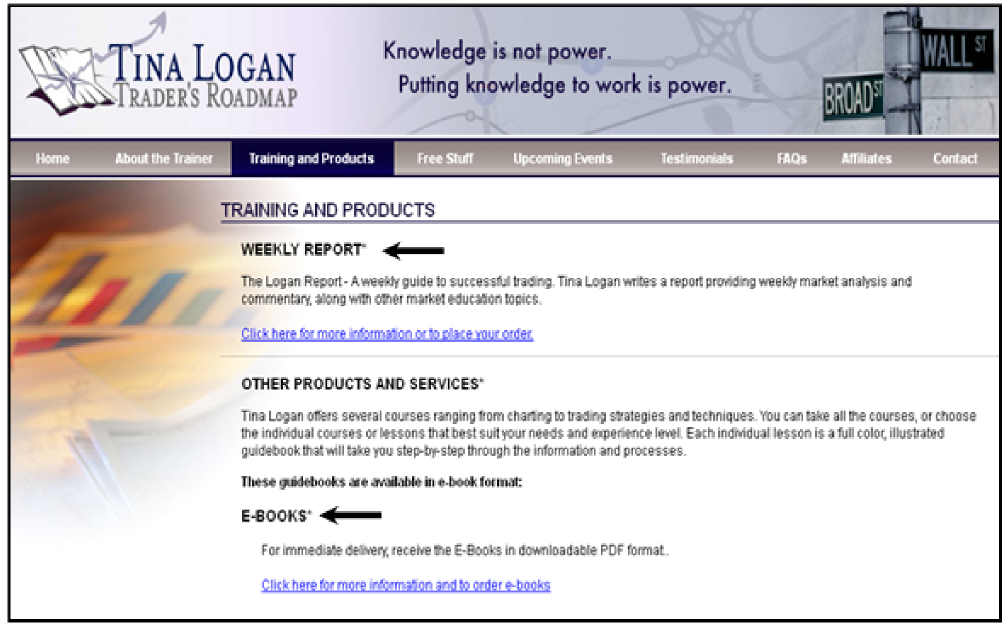

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- ***Lock & Reload* trading method combines two trading styles. For instance, swing trading around a core position, or day trading around a swing or core position.**
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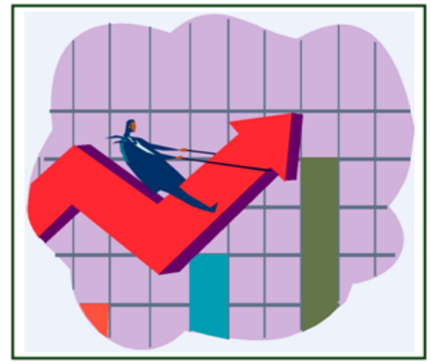

Lesson 5
Lock & Reload Strategy

Lesson 6
Trading with Candlesticks

Tina Logan's Chart and Market Analysis Style

I focus primarily on price (candlestick charts), volume, and volatility (P-V-V). I analyze trends, including identifying support-resistance areas on charts, and look for setups that provide low risk, high reward trading opportunities.

I utilize top down analysis to monitor the broad market environment and to determine where money is flowing (e.g., sector analysis).

I use indicators for various purposes, such as the following:

- **Trend analysis**
- **Support and resistance (e.g., moving averages)**
- **Warnings (e.g., divergence)**
- **Confirmation**
- **Scanning**

I do not enter or exit a trade based *solely* on a signal from any indicator. Price action and analysis of the surrounding chart landscape is what pulls me into, or pushes me out of, a trade.

TRENDS

THE MARKET MOVES IN TRENDS

LONG-TERM (LT) TREND

A price move that lasts from about six months to a year or longer on the daily chart. Some long-term trends remain in force for a few to several years (e.g., see the weekly chart of SPY). A long-term trend may also be referred to as the major trend, or a bull or bear market. Most long-term trends are strung together by a series of intermediate-term trends in the direction of the major trend, separated by corrections against the trend and/or periods of consolidation.

INTERMEDIATE-TERM (IT) TREND

A price move that lasts from a few weeks to a few months on the daily chart. Some intermediate-term trends can last as long as about four to six months before a significant setback occurs. An intermediate-term trend is often strung together by a series of short-term trends, separated by minor setbacks (e.g., bases-flags, pullbacks).

SHORT-TERM (ST) TREND

A price move that lasts from a few days to a few weeks on the daily chart, but seldom longer than three weeks. A short-term trend may also be referred to as a price swing. Price swings occur within trends and trading ranges. They are the premise behind swing trading.

Long-Term Uptrend – Viewed on Daily Chart

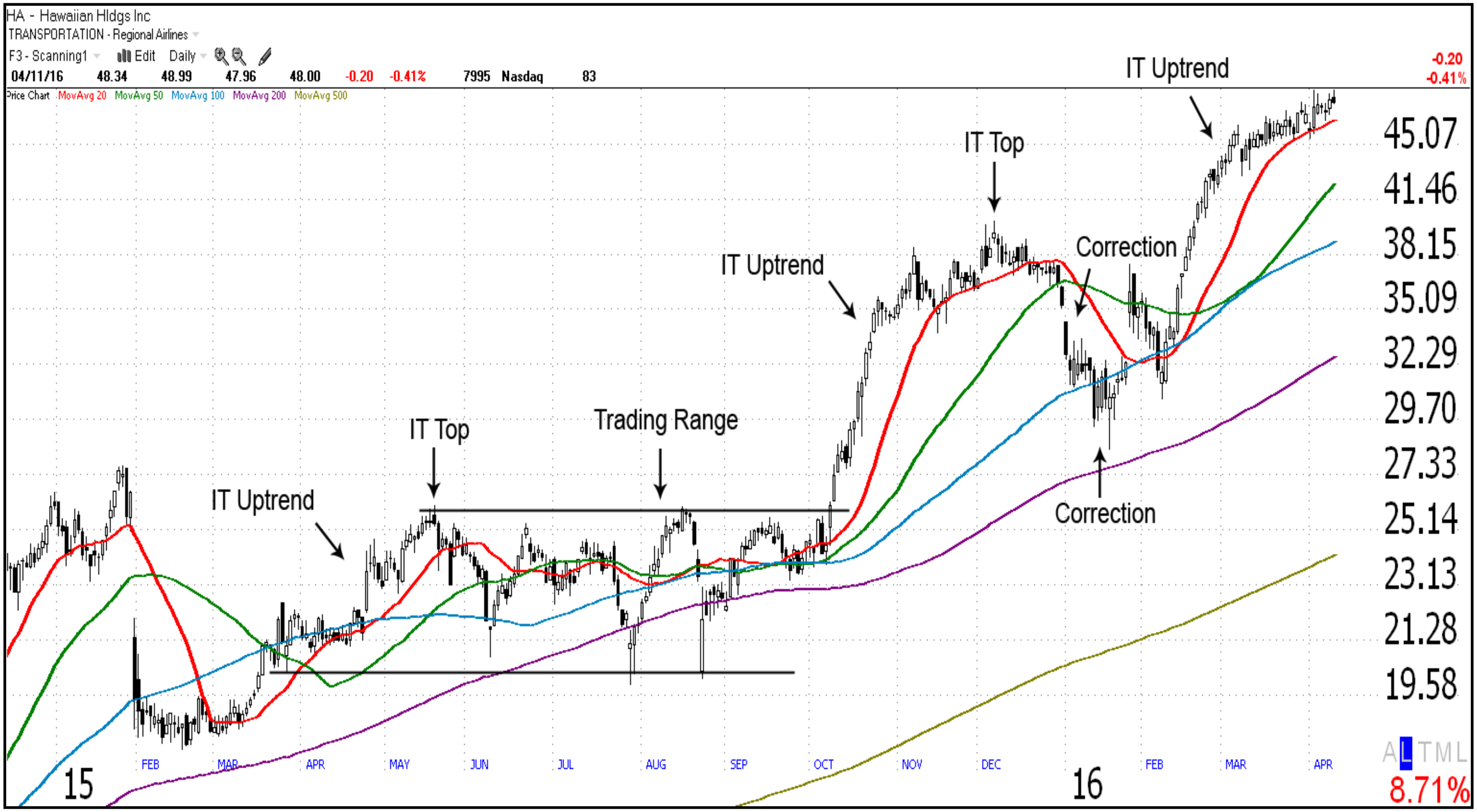

Figure 1.1
A close look at a long-term trend reveals shorter movements within it.

Long-Term Uptrend – Viewed on Weekly Chart

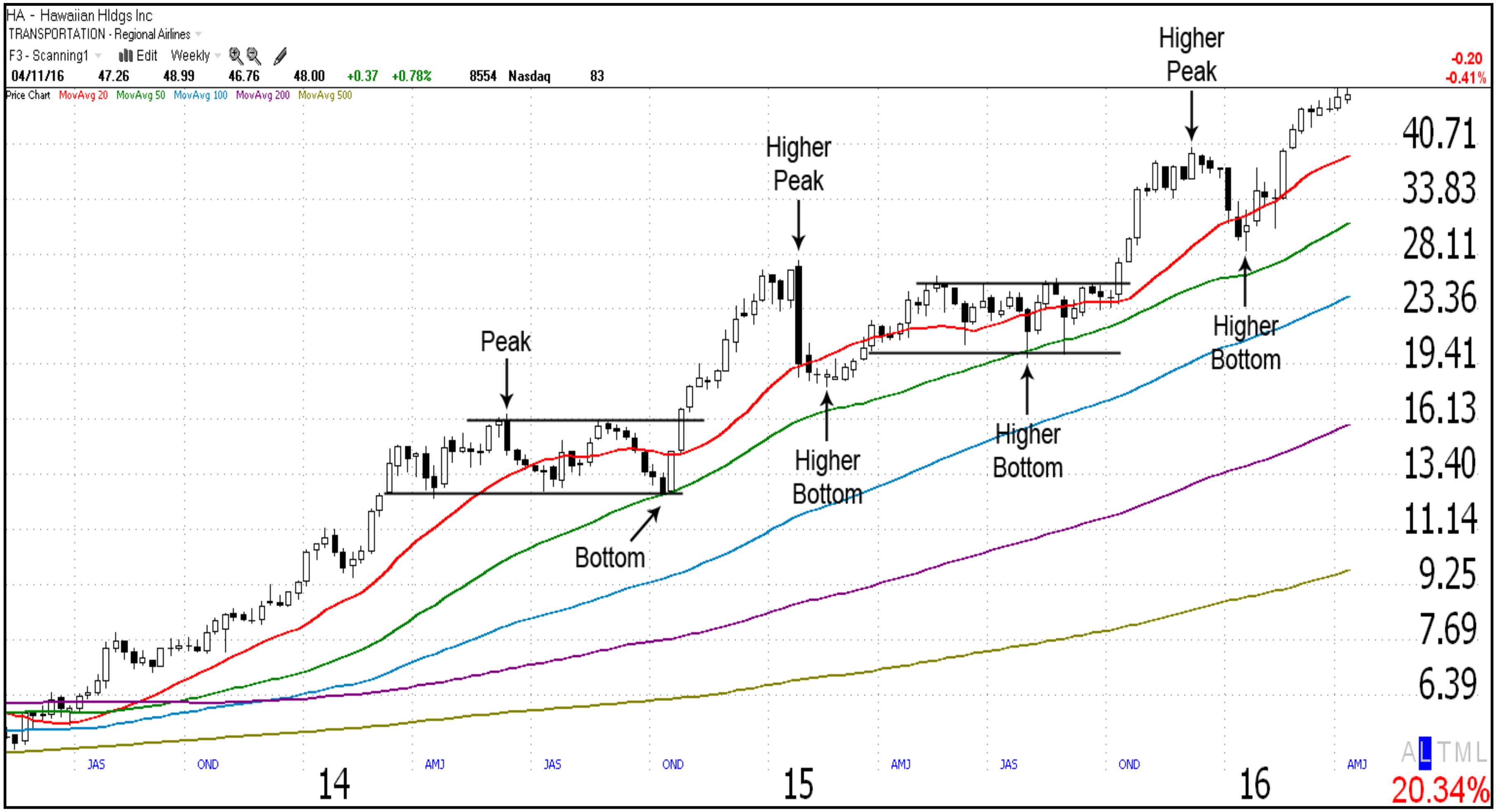

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Figure 1.2

Prominent peaks and bottoms on the weekly chart identify the direction and slope of the major trend.

Long-Term Downtrend

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Figure 1.3
Long-Term Downtrend – Daily Chart (Left) and Weekly Chart (Right)

Intermediate-Term Uptrend Viewed on Daily Chart

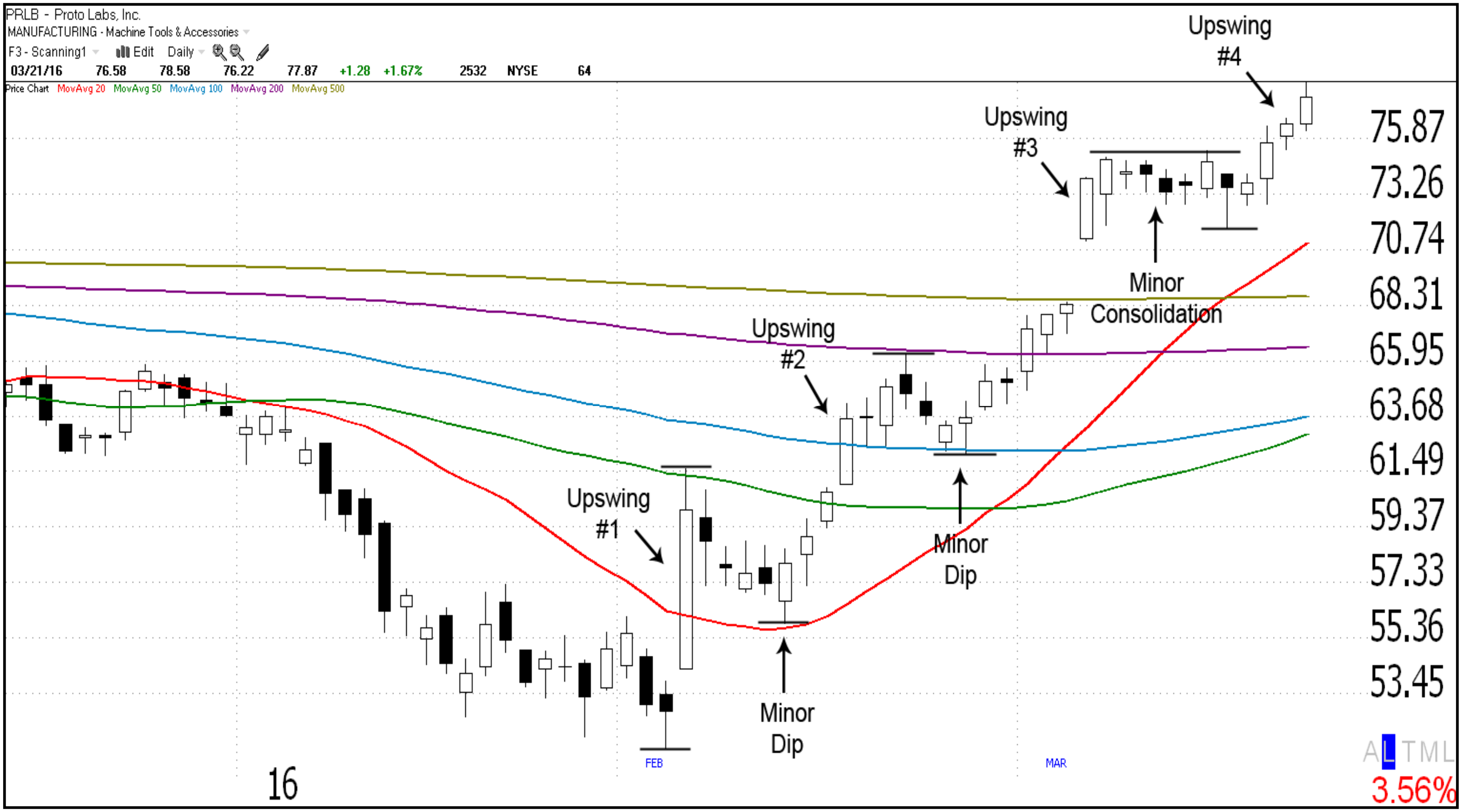

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Figure 1.4

This intermediate-term uptrend is strung together by a series of short-term moves (price swings)..

A Trading Range on the Daily Chart

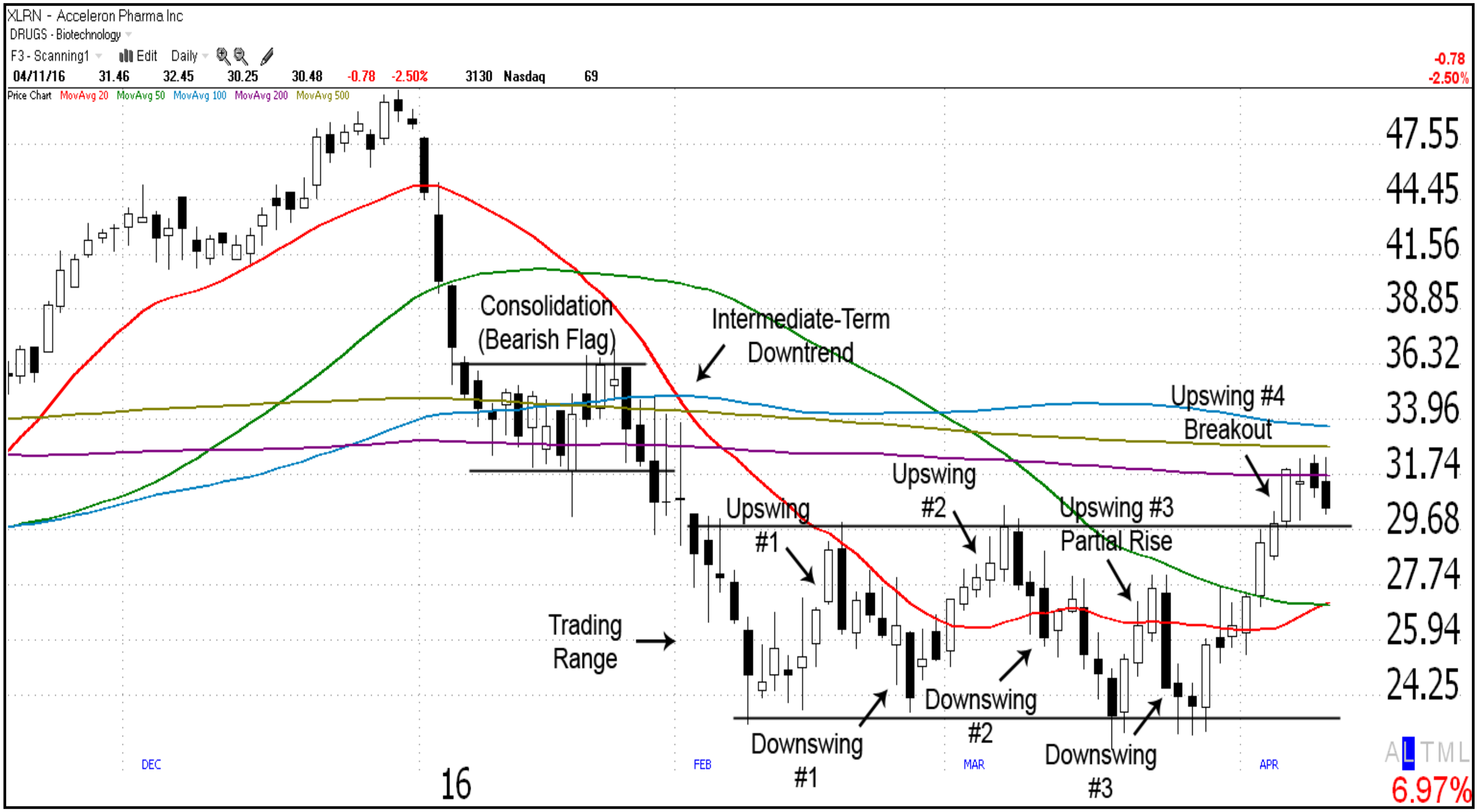

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Figure 1.5
Price swings occurred within a trading range.

REVERSION TO THE MEAN

Reversion to the mean is a statistical concept suggesting that a value eventually moves back toward the average, or mean. Let's apply that concept to price. As a general rule, price does not deviate too far from the average, and when it does it becomes vulnerable to a change in direction.

I pay attention to the proximity of price to the 20-period simple moving average (SMA). When price swings away from that moving average, the likelihood (*probability*) increases that price will change direction, at least temporarily, rather than continuing to move farther away from the average.

For price swings within an intermediate-term trend, look for reversion to the mean on the daily chart as illustrated on the left in Figure 1.6. For price swings within a long-term trend, look for reversion to the mean on the weekly chart as illustrated on the right in Figure 1.6.

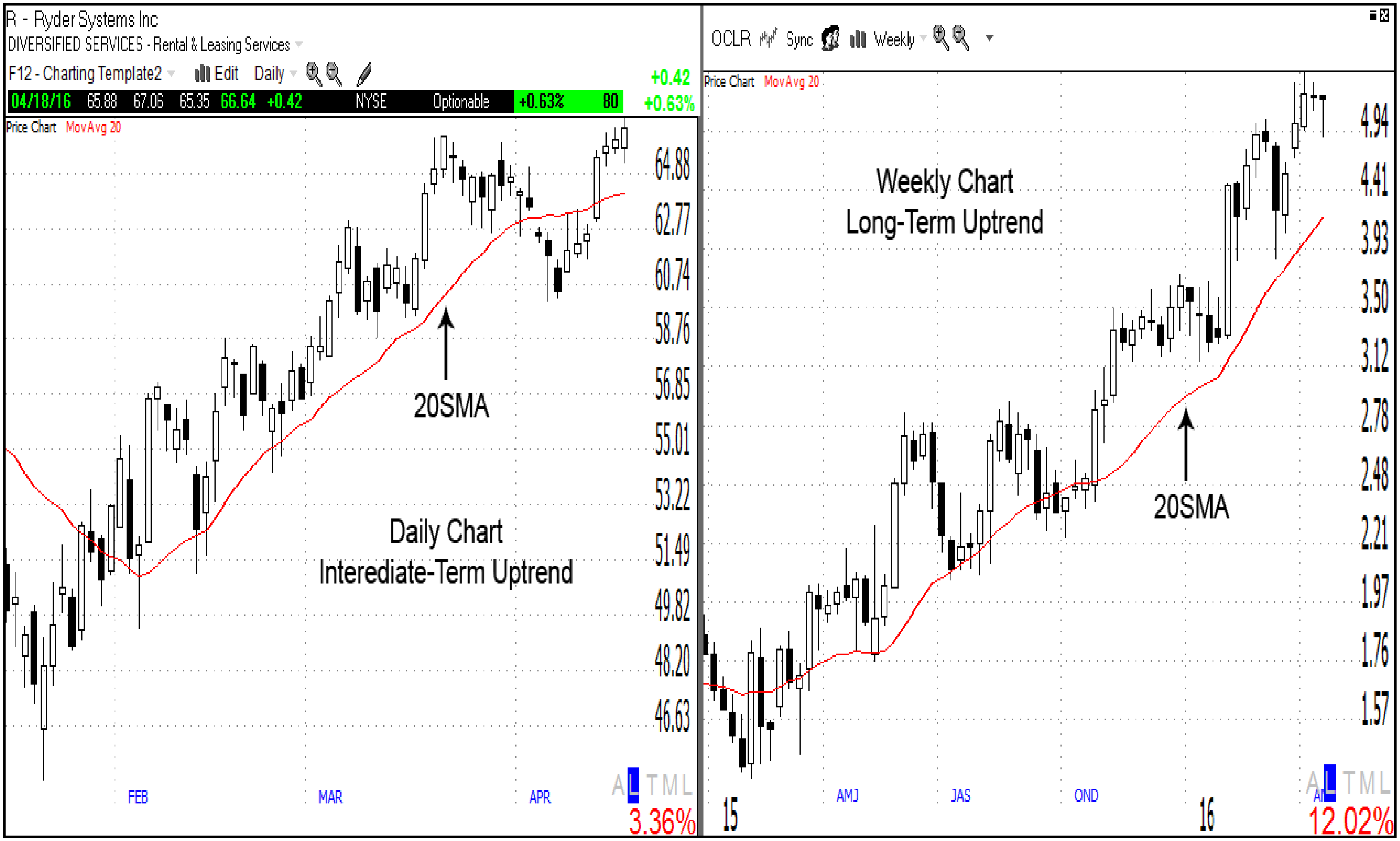

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Figure 1.6
20-Period SMA – Reversion to the Mean

SUPPORT AND RESISTANCE

Support and resistance levels are established as a trend develops, and during periods of consolidation. There are minor support and resistance levels, and major ones. In addition to support or resistance formed by past price action, a strong moving average (e.g., 50- or 200-period) may act as a barrier when tested.

When price moves to/near a support or resistance area, it is referred to as a test of support or resistance. When that level is tested and holds, a stock's move is halted, at least temporarily. Price may reverse direction, or move sideways, at/near a support or resistance area. When a support or resistance level does not hold, it is referred to as a breakdown (below support) or breakout (above resistance).

An understanding of these important concepts is crucial for chart analysis, trade selection, and trade management. Traders recognize support as a level where buying pressure may be sufficient to overcome selling pressure (demand exceeds supply). They recognize resistance as a level where selling pressure may be sufficient to overcome buying pressure (supply exceeds demand).

Traders initiate trades, and take profits on open positions, at/near support and resistance levels that are visible on charts. Several examples of visible support and resistance levels are illustrated in Figure 1.7.

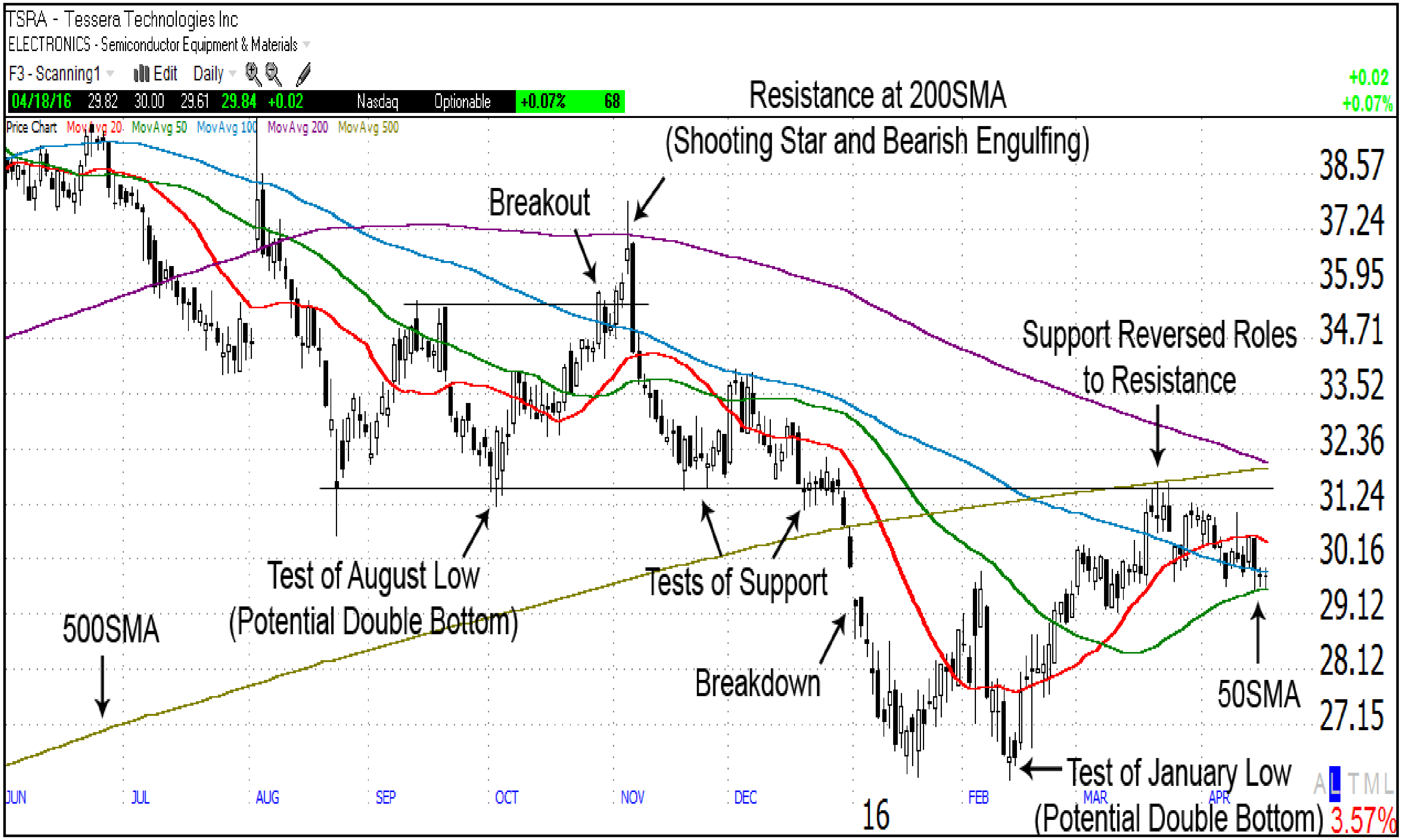

Figure 1.7

Support and resistance levels were created by price action and strong moving averages.

STYLES, STRATEGIES, AND SETUPS

A trading *style* refers to the intended duration of a trade. A *setup* is a price formation—the reason for taking the trade. Example: Swing trading is a short-term style. A bullish flag that forms in an uptrend is a price setup. The steps a trader takes to find that setup, and execute trades based on it, is what comprises a *strategy*. The existence of trends provides the foundation for various trading methods.

TABLE 1.1: TRADING STYLES

Style	*Description*
Core Trades	Positions are held from a few weeks to a few months, and sometimes for several months (or even more than a year in some cases). Traders often employ trend-following strategies for their core positions.
Swing Trades	Trades are held from a couple of days to a couple of weeks, but not longer than three weeks. I refer to a trade held longer than three weeks as a core position. Swing traders tend to strive for precision entries and exits paying attention to the reward-to-risk ratio of the trade.
Hit-and-Run Trades	Trades are typically held for only one day beyond the purchase day. In other words, they are held overnight and exited during the following trading session. Trades held for one or two days fall into this category.
Day Trades	Trades are opened and closed within the same trading session. Day traders may employ scalping methods, or they may trade intraday swings and/or trends, but they exit their trades before the close of market.

SWING TRADING

SWING TRADING

Swing trading is an active style of trading that capitalizes on short-term trends (price *swings*) that occur frequently on charts. Traders attempt to profit from directional price moves, either up or down, that typically last for only a short period of time. This style of trading is commonly conducted on the daily time frame, and is appealing to traders who wish to trade actively but prefer to avoid the rigor of day trading.

Swing traders capitalize on the emotional reactions (and over reactions) of market participants. The emotional crowd's behavior is imprinted on charts in the form of price action, volume, and volatility. Identifiable price patterns form repeatedly on charts. Astute chartists recognize those opportunities and profit from them.

Successful swing trading is not a matter of chance. Success evolves from a strong base of knowledge of technical analysis and sound trade management techniques, including proper focus on risk management.

TENETS OF SWING TRADING

Listed in Table 1.2 are some important tenets of swing trading. Understanding them can lead to development and execution of profitable swing trading strategies.

TABLE 1.2: KEY TENETS OF SWING TRADING	
Swings are of Limited Duration	Most price swings last from a couple to several bars. Swings of about three to five bars are very common. Shorter swings may occur in a choppy market. Longer swings may occur on breakout moves, and during strong surges early in a new trend.
Swings are Also Trends	A swing on one time frame will look like an intermediate-term trend on a lower time frame, and a long-term trend on an even lower time frame.
Swings Occur on All Time Frames	Although swing trading is often executed using the daily chart, "swing" is a concept not a time frame. Swing trading techniques can be utilized on all time frames making this style applicable to short- and long-term trading methods.
"Swing" Provides Context	The concept of price swings provides context when analyzing charts and developing trading strategies.

PRICE SWINGS ARE LIMITED IN DURATION

There will always be exceptions, but generally, upswings tend to last for only a few bars before getting overbought on a *short-term basis.* The short-term overextended condition can be alleviated by any of the following:

- **A brief <u>pause</u> within the swing may slow the move down a bit allowing another price surge to occur (see Figure 1.8). The result is basically a longer-than-normal swing, or back-to-back swing moves separated by one to a few consolidation days.**

- **A <u>pullback</u> against the trend (see Figure 1.8). Price turns back against the trend retracing part, or sometimes all (or more) of the prior swing move.**

- **A small <u>base</u>—a period of minor consolidation (see Figure 1.9). Price may move sideways from a few to several days in a relatively tight, shallow formation. If preceded by a sharp move, the setup may be referred to as a flag or pennant.**

As a general rule, unless there is a catalyst that is propelling a stock, price generally swings for about three to five bars before pausing, pulling back, or moving sideways. Sometimes longer than average moves occur, and even a parabolic (vertical) move may occur at times. However, the *probability* is higher that the stock will "rest" after a short-term directional move. That creates the wavelike movements within the trend.

Short-Term Overbought Conditions

The overextended conditions were alleviated by minor setbacks. Those setbacks allowed the trend to rest up for another move. They also created new entry opportunities.

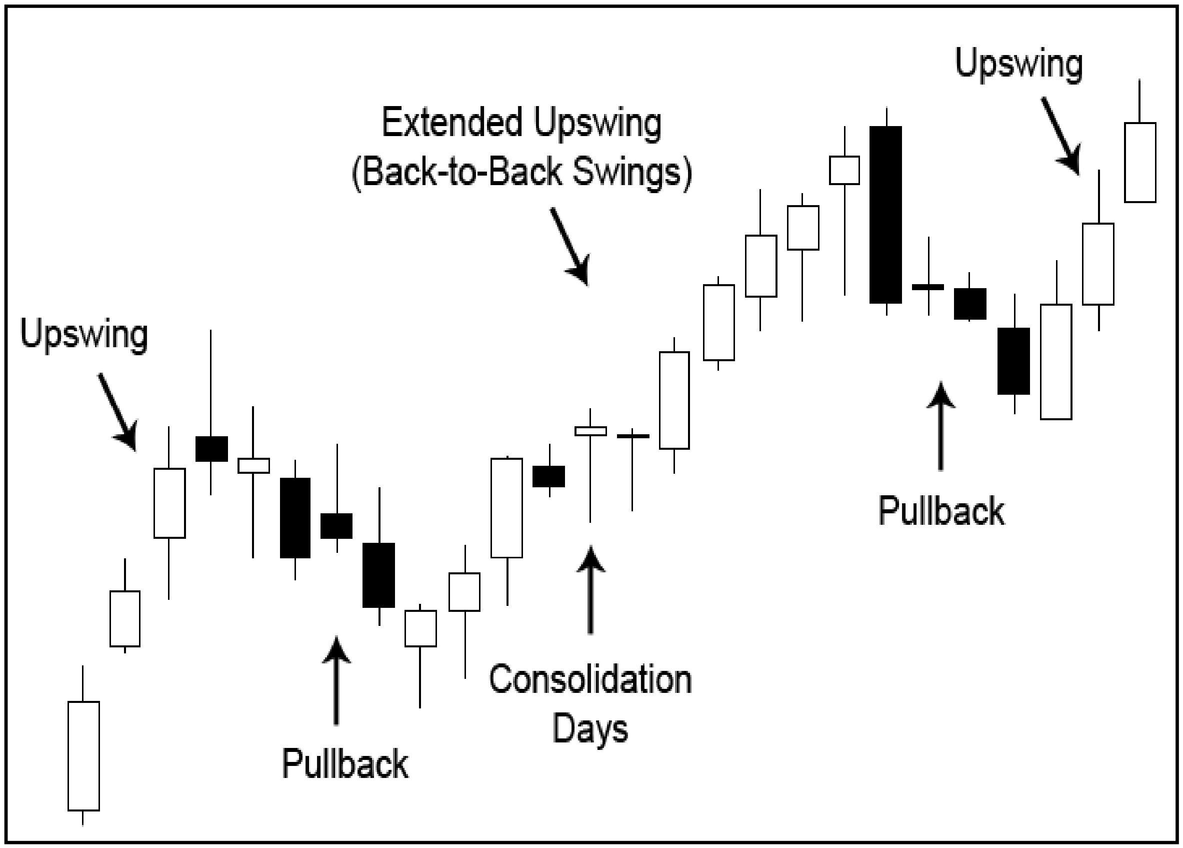

Figure 1.8
Upswings Followed by Pullbacks

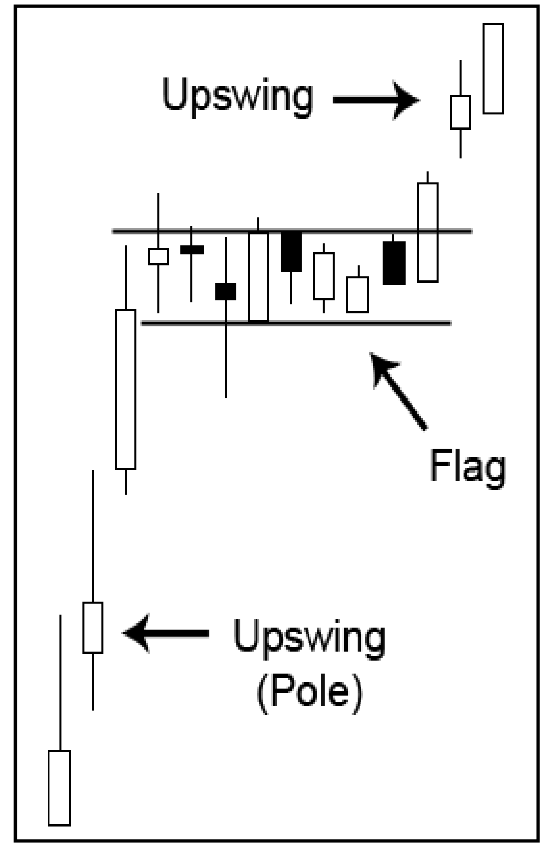

Figure 1.9
Bullish Flag

Focus on Probability

Probability refers to the likelihood of something occurring. For instance, when an upswing occurs, the probability becomes lower with each higher close that price will rise another day.

Higher probability part of a swing:

Bar 1 up = First day of move up

Bar 2 up = High probability

Bar 3 up = Good probability

Bar 4 up = Lower probability

Bar 5 up = Even lower probability (but may occur more in a strong stock or market)

Lower probability part of a swing:

Bar 6 up = Low probability

Bar 7 up = Very low probability

Bar 8 up = Extremely low probability

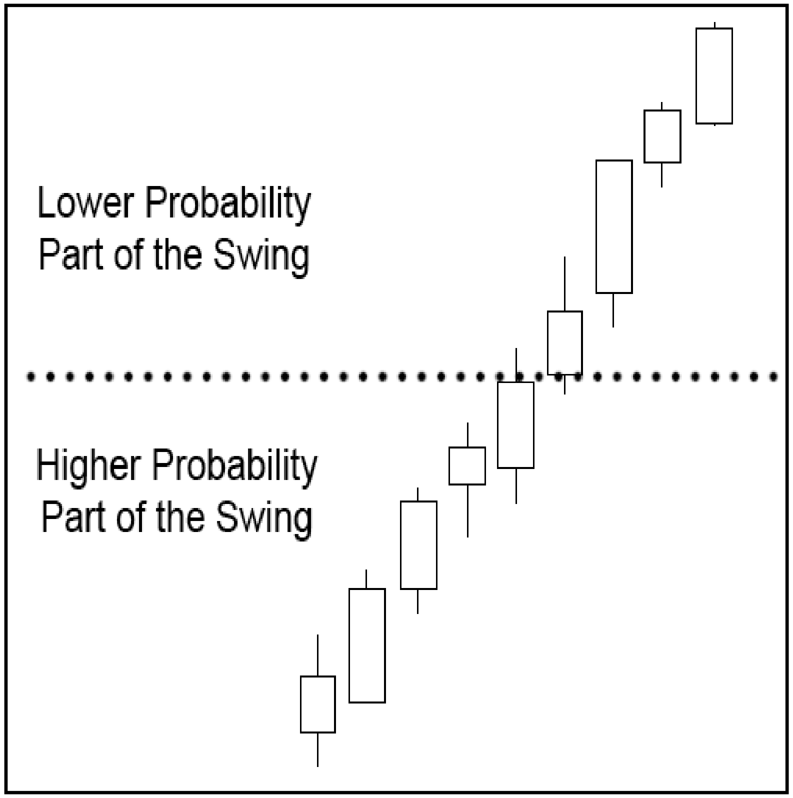

Figure 1.10

Measuring a Price Swing

Where does a price swing start, and where does it end? I consider the total move for an upswing to be the distance from the bottom (lowest price) at the swing low to the top (highest price) at the swing high. If there are shadows at the swing high and/or swing low, they are part of the swing. Vice versa for a downswing.

Ignore the shadows, or not? It is often said that the shadows at the top and bottom of a price swing are not important and traders should focus on the *closing high* of the upswing rather than the very high, or the *closing low* of a downward swing rather than the very low.

In fact, when the price percent change is calculated, the closing prices are typically used. When looking at a move in the rear-view mirror, it may seem insignificant. However, a trader with a live trade may have held through those extremes.

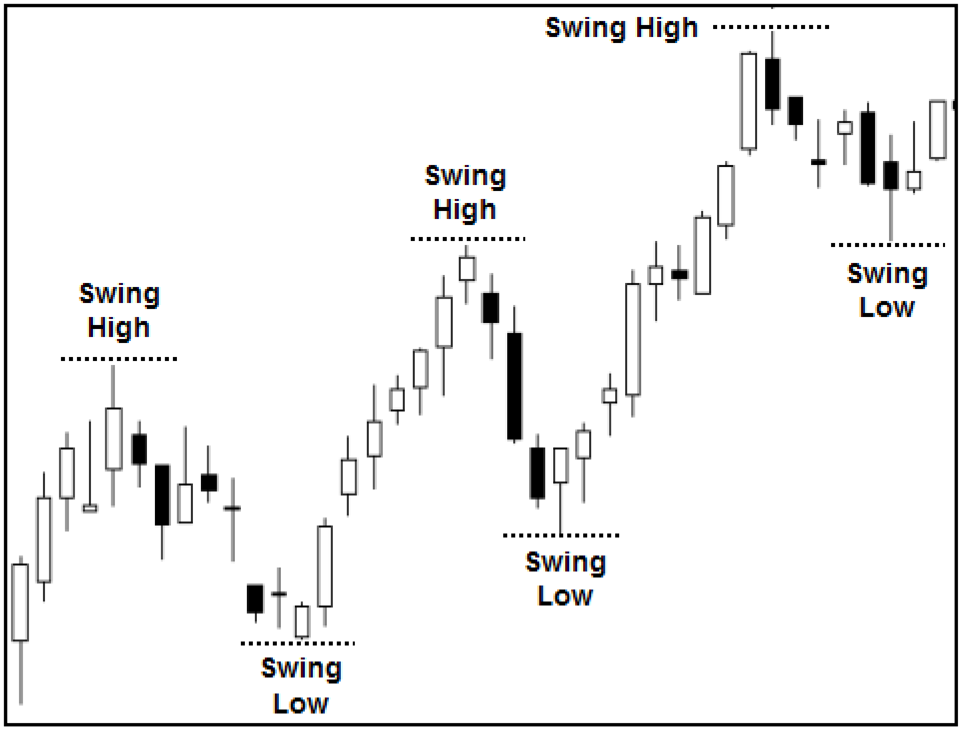

Figure 1.11
Price Swings

The upper and lower shadows represent the extremes of the swing. However, if there is a shadow at the end of a price swing, it provides some important information.

Consider this: *A short-term swing on one time frame is equivalent to a longer trend on a lower time frame* (see Figure 1.12) because there are many more bars in a daily trading session on intraday charts. Thus, the top of the upper shadow at a swing high is the reversal point of an uptrend intraday, and vice versa.

TABLE 1.3: INTRADAY TIME FRAMES	
Time Frame	***Number of Bars per Day***
60-Minute (Hourly)	7
30-Minute	13
15-Minute	26
10-Minute	39
5-Minute	78
2-Minute	195
1-Minute	390
Tick	Reflects each movement in price

Swings = Trend on Lower Time Frames

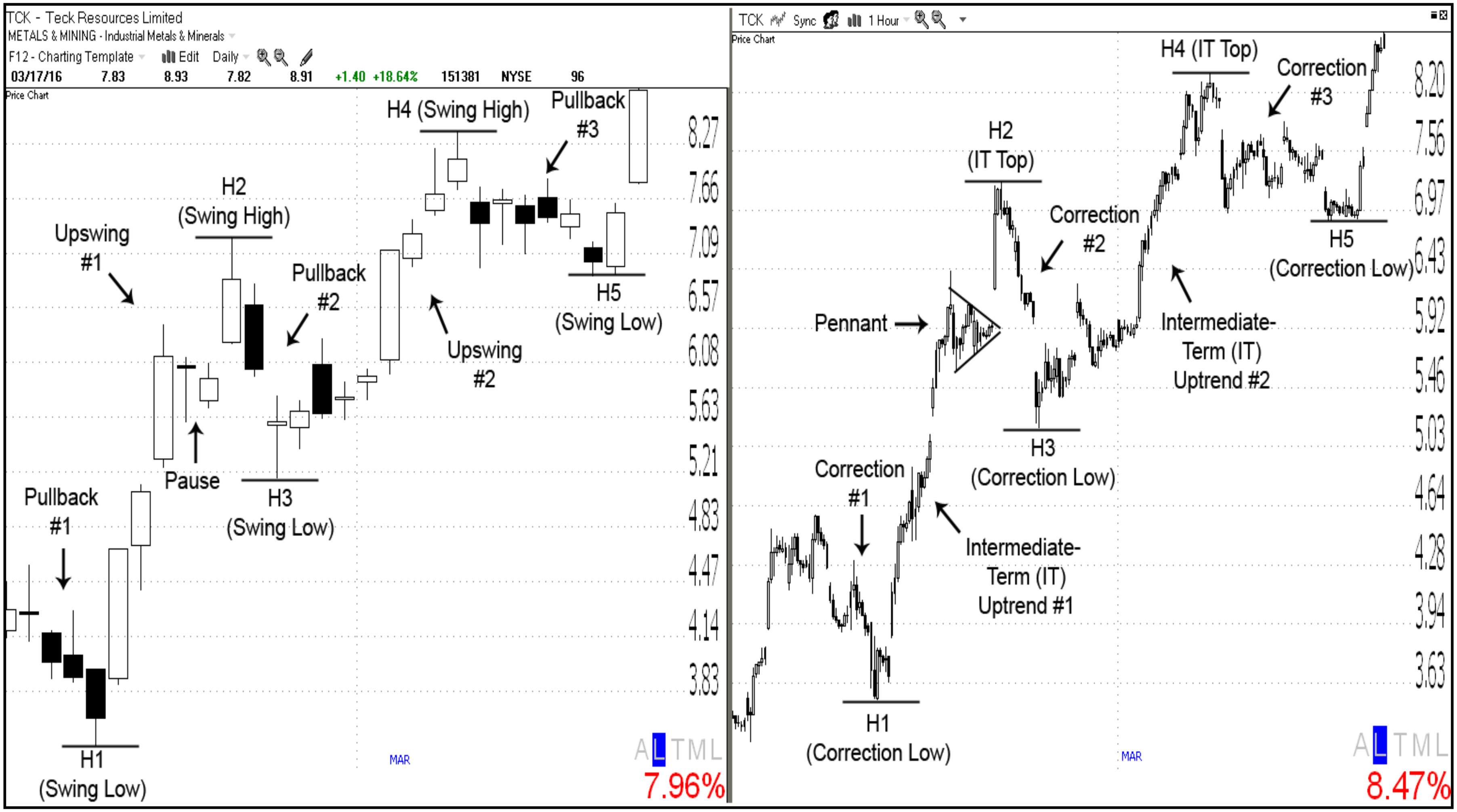

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Figure 1.12
Teck Resources, Ltd. (TCK) – Mid-January to Mid-March 2016 – Daily Chart (Left) and Hourly Chart (Right)

Impact of Volatility

There are various measures of volatility (e.g., standard deviation, average daily range). The logarithmic price scale may also be used as a gauge of volatility.

Logarithmic "Log" Scaling: If price moves up or down by one gridline, that is an *x* percent move for that stock, with *x* being the percentage indicated in red in the lower right corner below the price scale (e.g., 1.93%). That percentage can be used as a quick gauge of volatility. *Note:* This technique works in TC2000 V7, but may not work the same in V12+ and/or other charting platforms. Consult with your provider.

Arithmetic

Monetary change/gridline

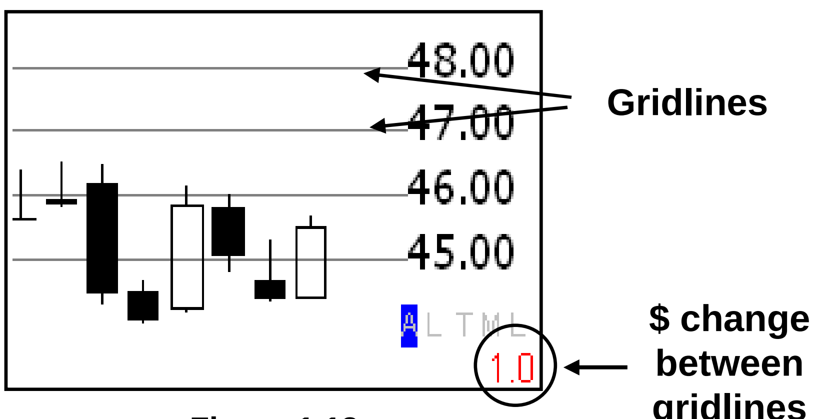

Figure 1.13

Logarithmic

Percentage change/gridline

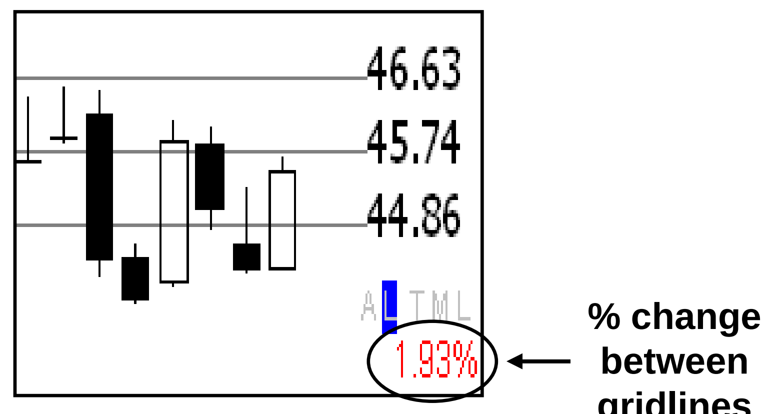

Figure 1.14

Whether the shadows matter depends on what action a trader took and how volatile the stock is!

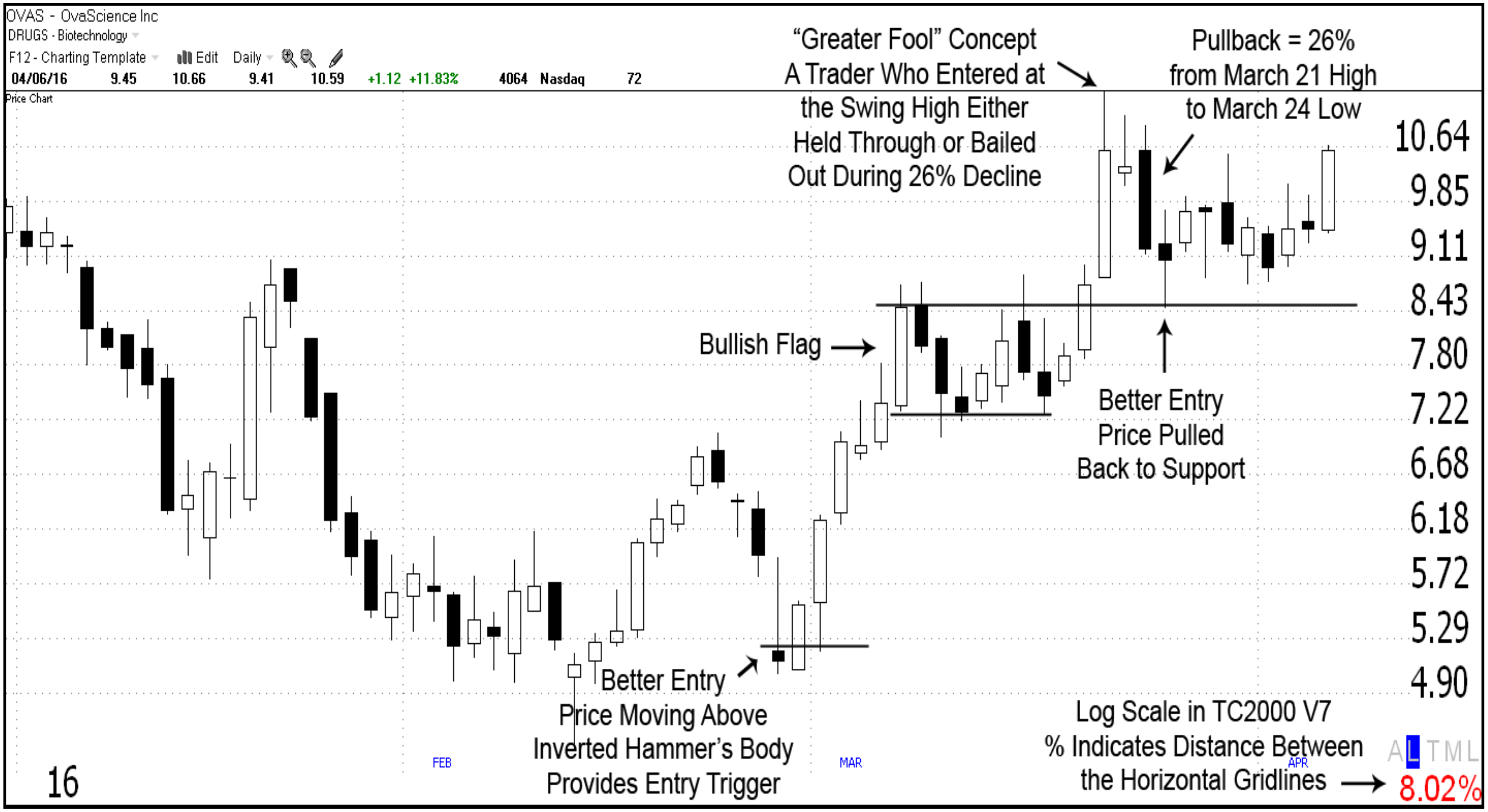

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Figure 1.15

Shadows show the extreme points of a price swing.

As a general rule, the higher the percentage between the gridlines the more volatile the stock. Keep the concept of volatility in mind when determining the following:

- **Whether a stock meets your risk tolerance or not.**
- **How you'll trade the stock (e.g. short-term or core position).**
- **If an entry you are considering offers adequate reward compared to the risk. A poor entry in a highly volatile stock can be devastating.**
- **Which account to trade the stock in (e.g., margin account or retirement account).**

Viewing Patterns in Different Time Frames

Let's add another piece to this discussion. This is a visual concept, the price values will be the same on the various time frames.

•A move that would be considered a pullback on one time frame (e.g., daily) will look like a correction on a lower time frame (e.g., hourly), and a major trend reversal on an even lower time frame (e.g., 15-minute). Thus, what looks like a minor price pivot on one time frame will mark a major turning point on lower time frames.

•A move that would be called a shallow base, or a flag if preceded by a sharp run, on one time frame will look like a trading range on a lower time frame. It will look like a much longer trading range on an even lower time frame.

•A move that would be called a pennant on one time frame will look like a triangle on a lower time frame, and will look like a much longer triangle on an even lower time frame.

A flag or pennant includes fewer than 15 bars in its formation. Conversely, triangles and trading ranges include a minimum of 15 bars, and are often much longer than that.

Trends and Patterns Viewed on Different Time Frames

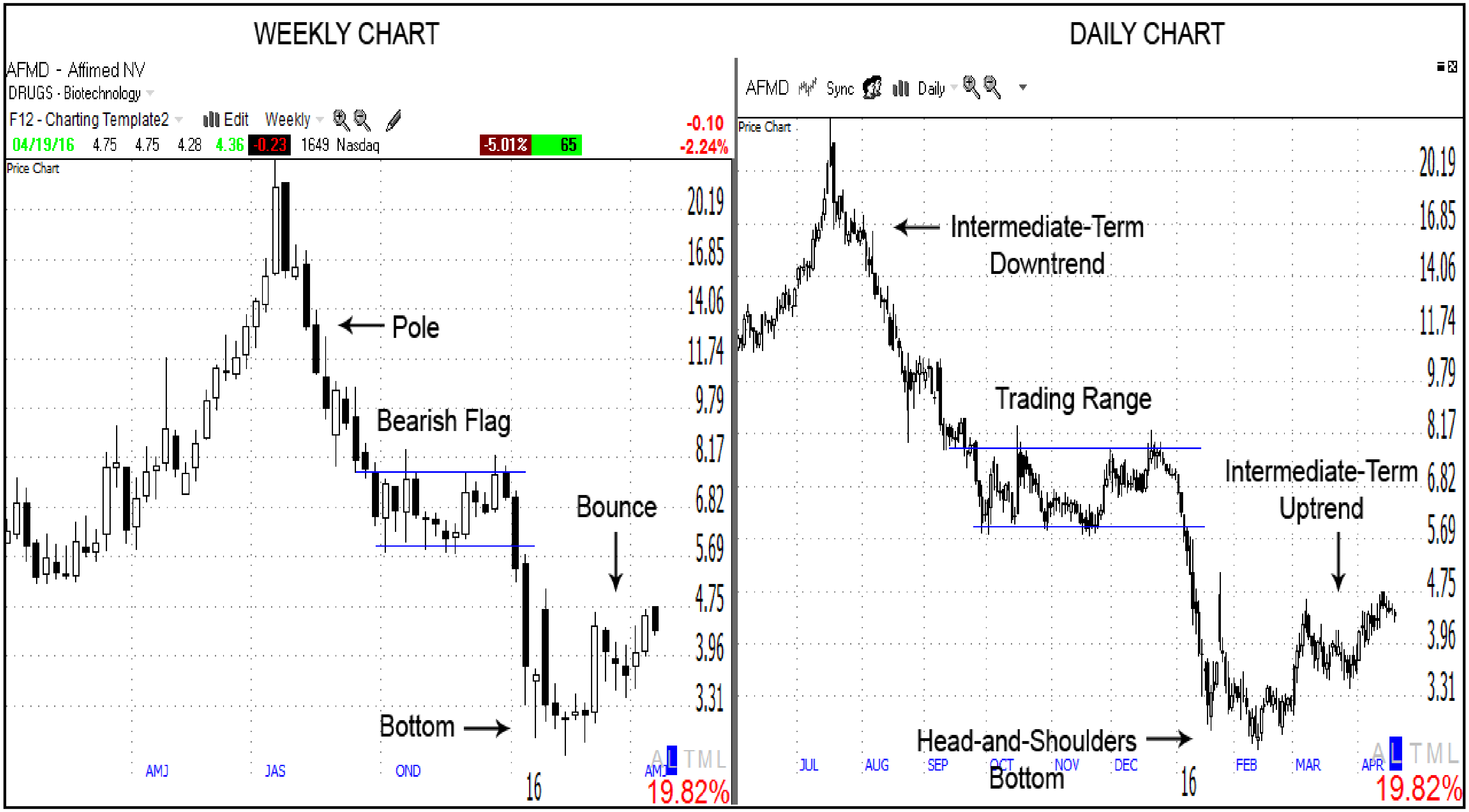

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Figure 1.16

Affimed NV (AFMD) – A Flag on the Weekly Chart (Left) Looks like a Trading Range on the Daily Chart (Right)

THE SWING CONCEPT PROVIDES CONTEXT

"Swing" helps maintain perspective. Avoid chasing a move and getting caught in a pullback, especially if the stock is volatile. I strive to enter early in anticipation of a move, or on the first day of the move, rather than chasing after a move.

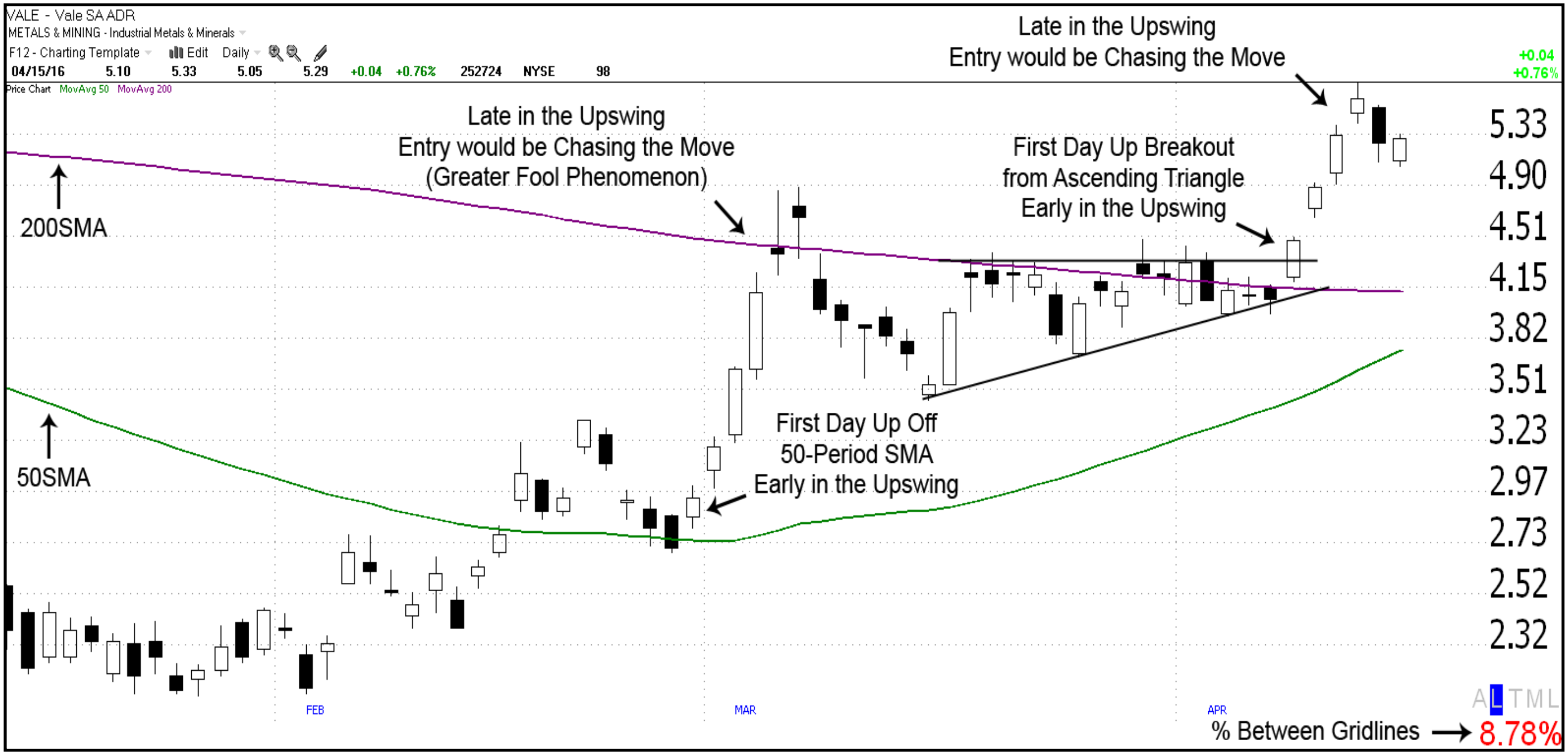

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Figure 1.17

SWING-ENDING WARNINGS

MORNING GAPS

A morning gap occurs at the opening bell when price gaps away from the prior bar creating a temporary void on the daily chart. There is a gap between the two consecutive bars at the open, but price trades back through that vacuum so no void remains on the chart by the close of the session. Conversely, a true gap leaves a void on the chart (Figure 1.19). Figure 1.18 shows an upside morning gap, and Figure 1.20 shows a downside morning gap. A variation—a "body gap"—occurs when price gaps within the prior bar's shadow (Figure 1.21) but at no time is there a void on the daily chart.

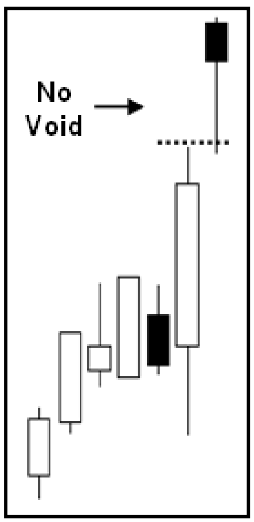


Figure 1.18
Upside
Morning Gap

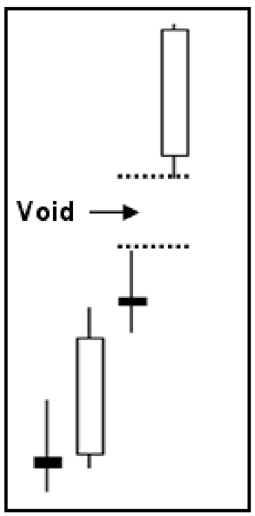


Figure 1.19
True Gap

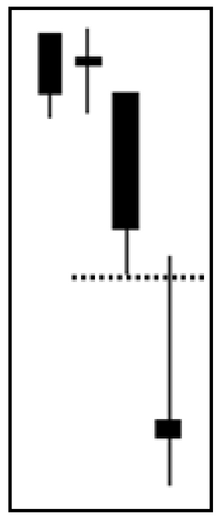


Figure 1.20
Downside
Morning Gap

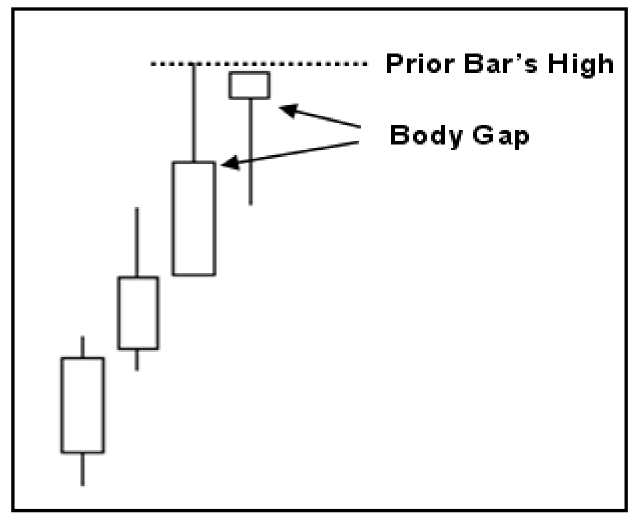


Figure 1.21
Variation of Upside Morning Gap
(Body Gap)

The morning gap is another example of focusing on the concept of probability. What is the likelihood that a morning gap will be filled during the session? How long does it take for most morning gaps to be closed? The answer to those questions: Most morning gaps are closed, and most of them are closed during the first hour of trading.

If price has made a directional move and then gaps open, especially if the gap is a significant percentage, it is a chance to sell at/near what may turn out to be the high of the swing up (or low of a swing down). Of course, price could continue its move unhindered, but if you don't want to risk holding through a pullback or sideways move, consider exiting at least part of the position. A morning gap at the end of the price swing may turn out to be the start of a pullback. Other times, price will move sideways and then resume the trend. You can't know in advance which will occur.

A morning gap often turns out to be an early warning that the swing move is at an end. A morning gap may morph into a candlestick reversal pattern. It will be obvious with the benefit of hindsight. However, I focus on the gap at the opening bell, and the probability of it being filled. That takes precedent over a candlestick pattern that won't be certain until several more hours of trading have passed.

***Note:* I frequently exit on a gap up (long position) or gap down (short position) during the pre-market trading session rather than waiting until the opening bell when a bottleneck may occur as queued up market orders are filled. Slippage can be significant at/near the open on a fast-moving stock.**

Morning Gaps – Location Matters

Morning gaps that occur early in a price swing may not be meaningful, but well into a price swing they are. Many morning gaps become candlestick reversal patterns.

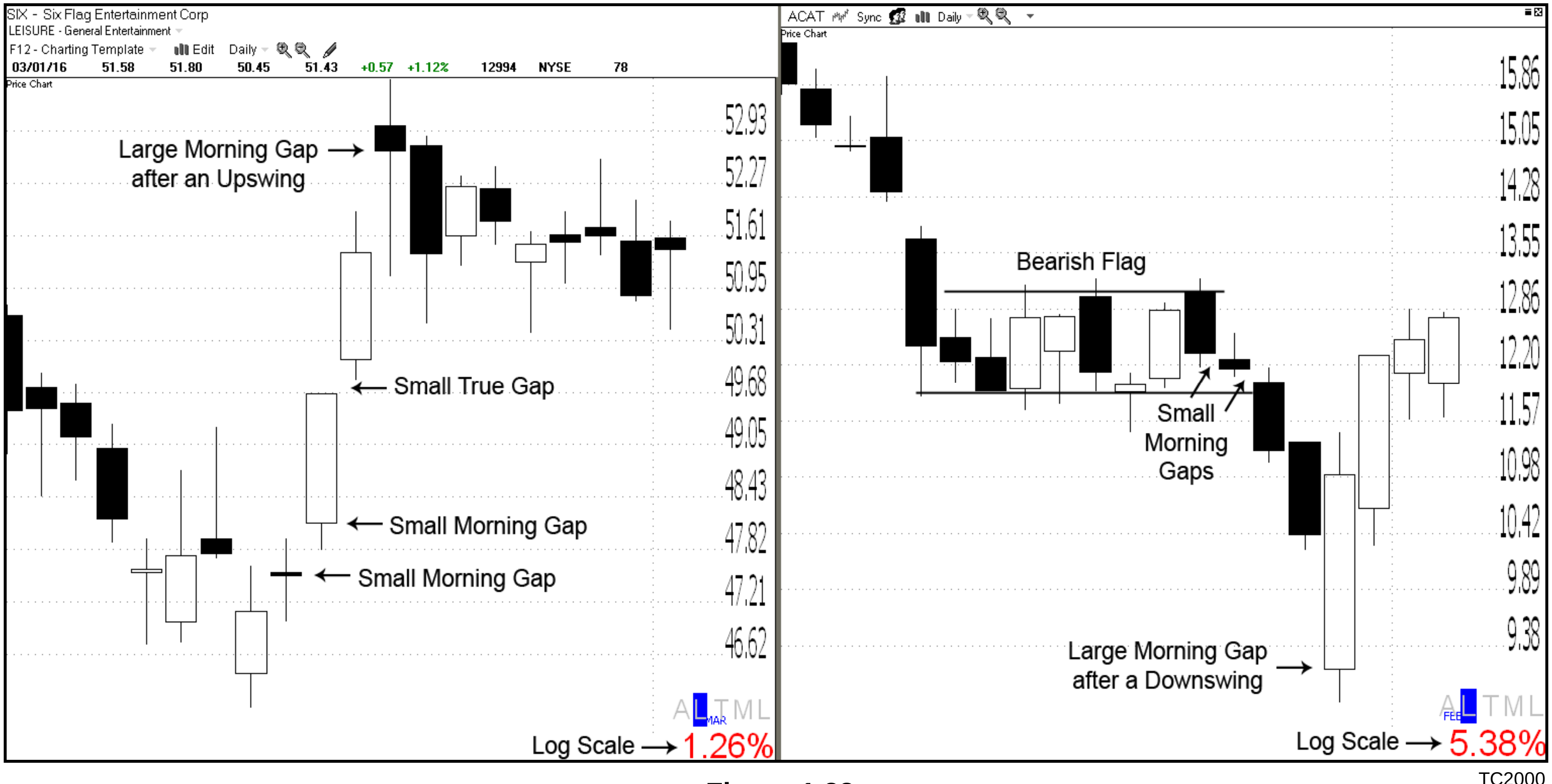


Figure 1.22
Morning Gap Became a Hanging Man (Left) – Morning Gap Became a Piercing Pattern (Right)

OTHER SWING-ENDING WARNINGS

When a price swing is losing momentum, there are often clues in the candlestick lines.

•A shift from average or long-bodied candles to one or more small-bodied candles suggests loss of momentum. The smaller-bodied candle may be recognizable as a candlestick reversal pattern (e.g., a Doji or Hanging Man).

•Long shadows at the end of a swing indicate loss of momentum for the move.

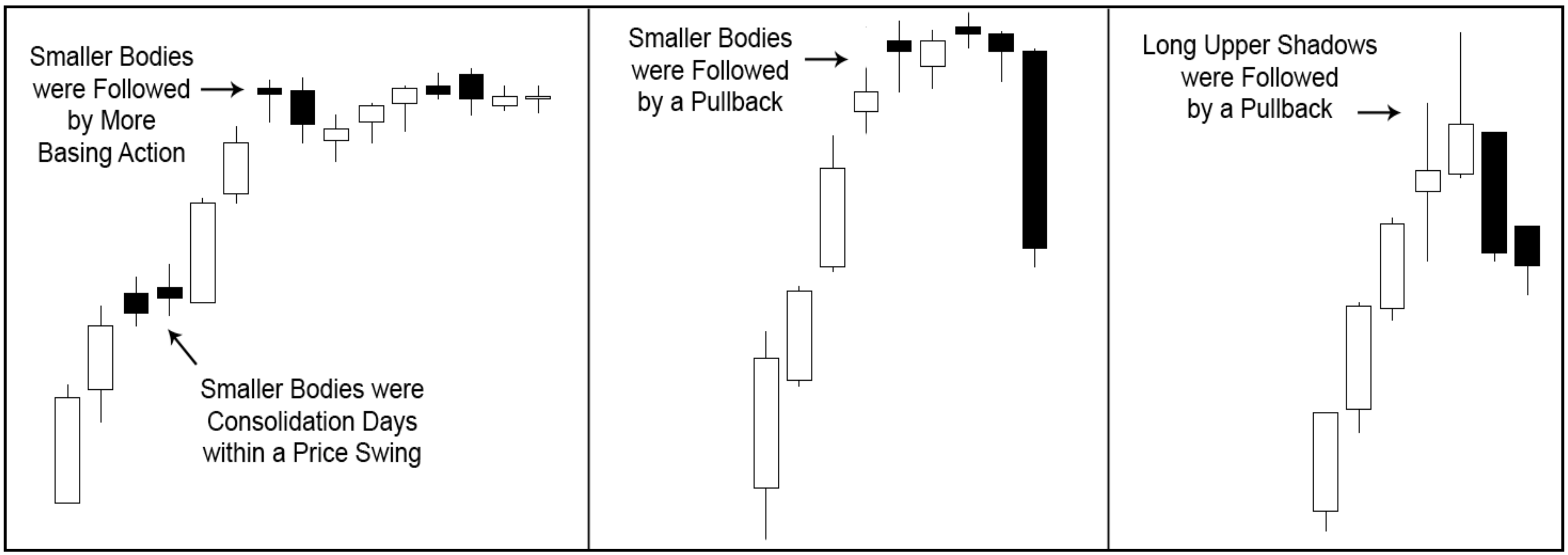


Figure 1.23
Swing-Ending Warnings

TAKING PROFITS ON SWING TRADES

Three reasons to take profits:

1. **Price is at/near a swing target.**
2. **One or more swing-ending warnings occur.**
3. **The trader sees the gains built up in the trade and just wants to take some, or all, of the profits.**

Tina's Rule: When in doubt, get out or get smaller. That is, either exit the trade, or take partial profits to reduce exposure to an adverse move.

SOME IMPORTANT SWING TRADING TIPS

PAY ATTENTION TO THE MARKET AVERAGES. A RISING TIDE RAISES ALL (MOST) BOATS, AND VICE VERSA. ADJUST TRADING TO THE BROAD MARKET AND INCORPORATE SECTOR ANALYSIS INTO YOUR ROUTINE.

IN ORDER TO CONTROL LOSSES, USE PROTECTIVE STOPS (OR ALERTS IF DISCIPLINED ENOUGH TO ACT ON THEM).

TAKE AT LEAST PARTIAL PROFITS AT SWING TARGETS. BE ON THE ALERT FOR WARNINGS THE PRICE SWING MAY BE LOSING MOMENTUM.

CHECK FOR THE EARNINGS RELEASE DATE BEFORE ENTERING A SWING TRADE. I DO NOT HOLD SWING TRADES THROUGH EARNINGS ANNOUNCEMENTS.

DEVELOP A STRATEGY WITH WRITTEN RULES AND GUIDELINES.

AS YOU BEGIN EXECUTING A STRATEGY, YOU'LL DISCOVER THINGS YOU HADN'T PLANNED FOR AND WILL HAVE TO BUILD GUIDELINES FOR THOSE SITUATIONS INTO YOUR STRATEGY.

EXTRA STUFF

FALSE SELL SIGNAL

Here is an example of why I use alerts instead of hard stop loss orders. It helps avoid much of the "stop running" by market professionals that occurs in the marketplace.

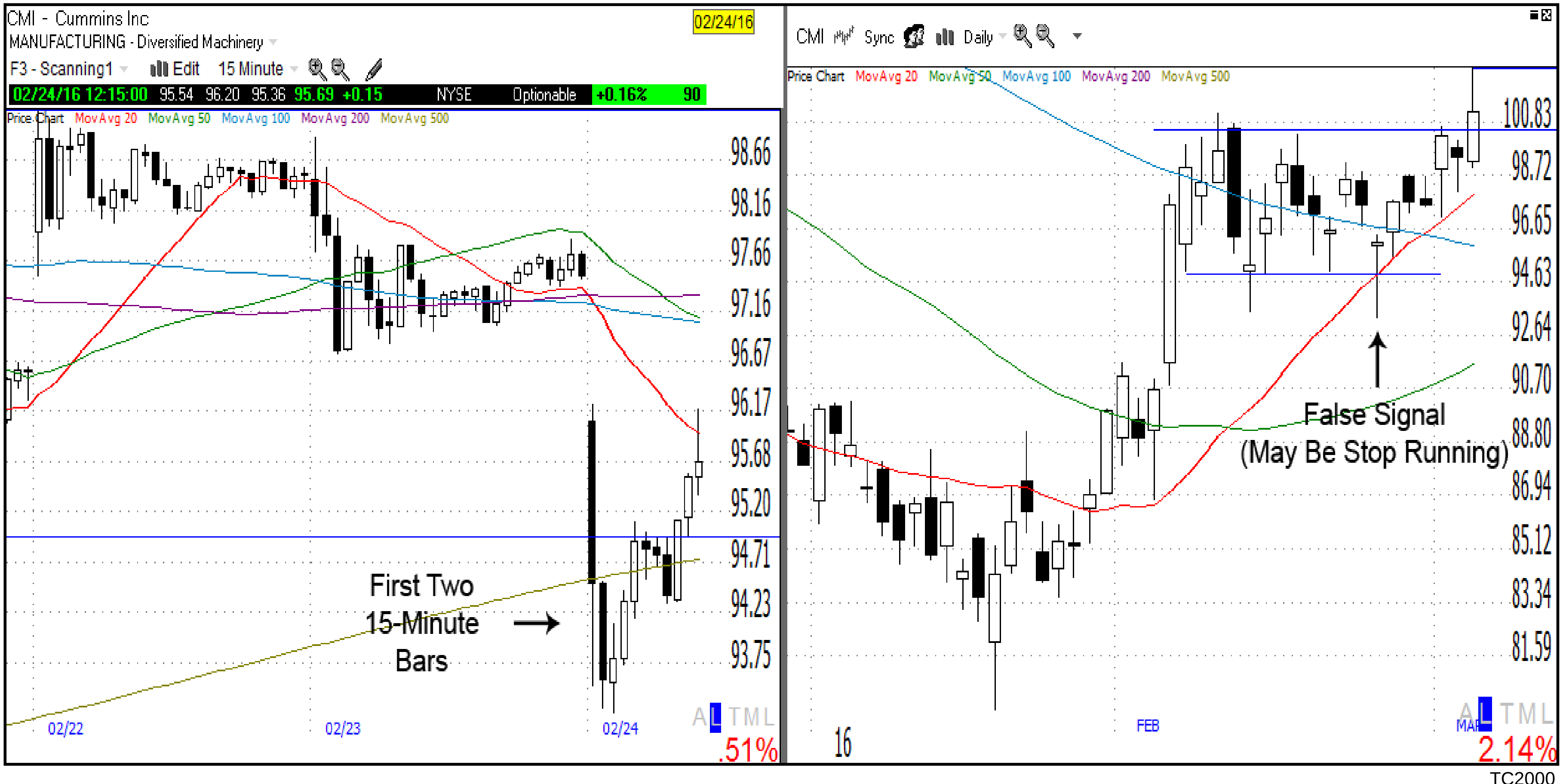
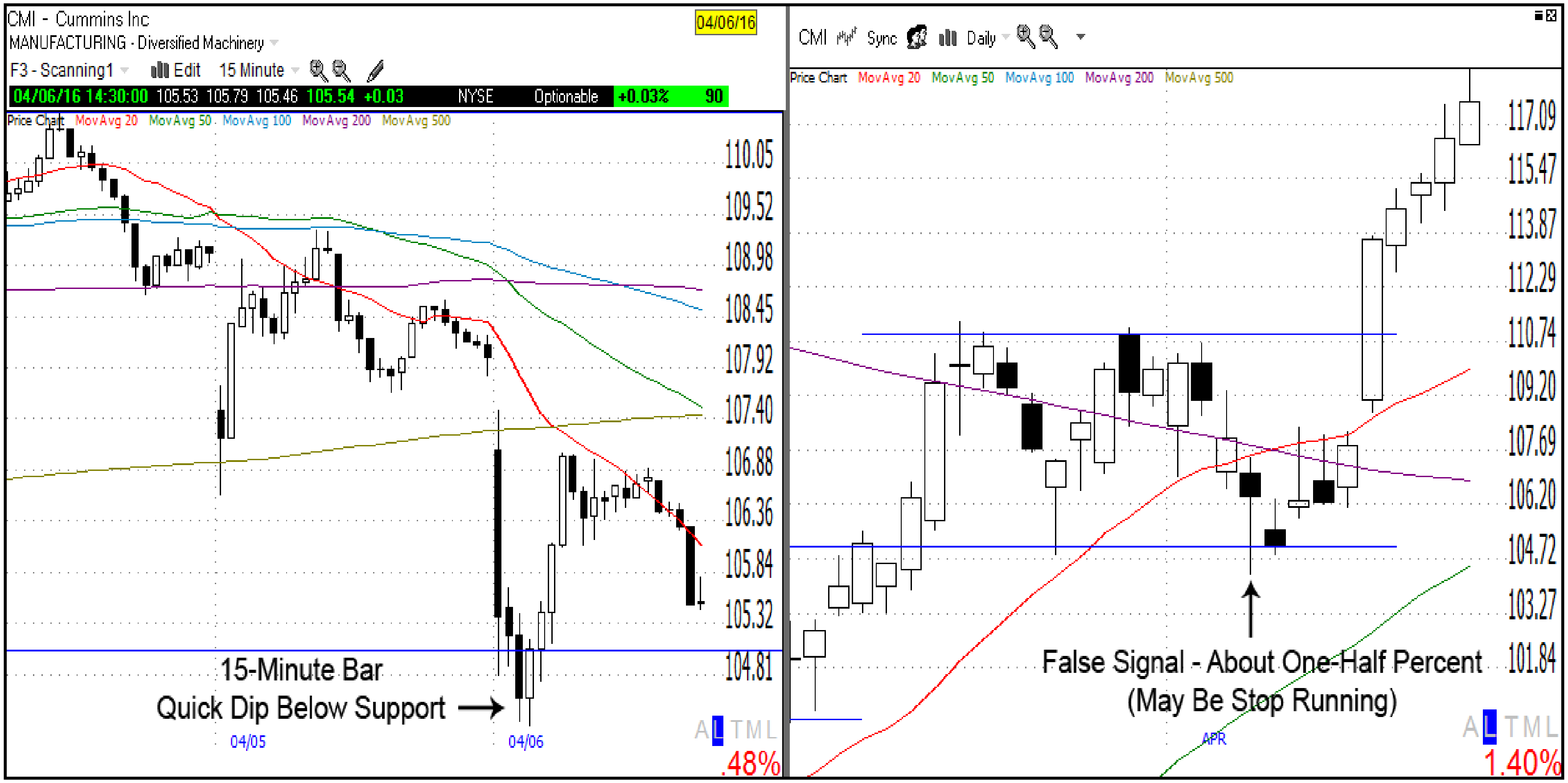


Figure 1.24

February 24, 2016 – The 15-Minute Chart (Left) Shows Stop Orders Being Run on Daily Chart (Right)

FALSE SELL SIGNAL

Oops, they did it again! Price dipped about one-half percent below support. The tight stops were triggered, and then price rallied.



TC2000

Figure 1.24

April 6, 2016 – The 15-Minute Chart (Left) Shows a Small Dip Below Support on Daily Chart (Right)

TRADER TIP

A gap up after a strong or long decline may behave like an upside breakaway gap. This stock gapped up after earnings were released. There were entry opportunities intraday allowing a trader to get aboard relatively early in what may be a new uptrend starting.

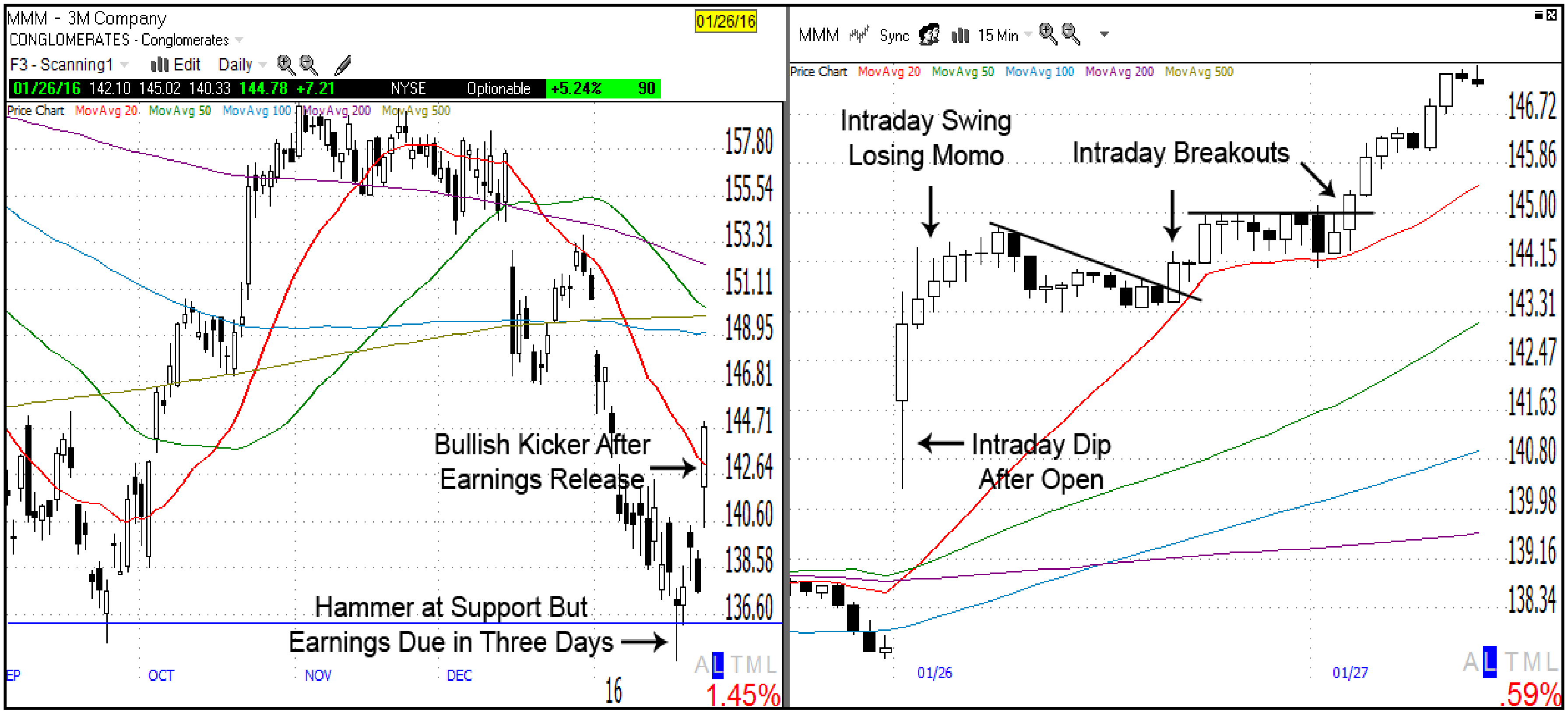


Figure 1.24

Bullish Kicker on Daily Chart (Left) After Earnings – Intraday Entry Opportunities Shown on 15-Minute Chart (Right)