

# eASCTrend 6.0 software application note

## Day trading stocks

Due to good liquidity and the possible opportunity for a quick profit, many traders have chosen to follow high volatility stocks. This application note will cover some of the details regarding stock day trading.

### **Nature of the Market**

It is our belief that stock price actions, like every other market, alternates between a short-period big price movement and a long-period consolidation. Normally, the length for consolidation is three to four times the length of the big price movement. This observation is very important for trend-following trading. Our software and all related trading methods and strategies are based on this understanding of the nature of the market.

### **Must-Read Materials**

Please spend time on two very important web pages and thoroughly understand the points and rules in these pages:

[http://www.wintick.com/6\\_0/trading\\_strategy.asp](http://www.wintick.com/6_0/trading_strategy.asp)

[http://www.wintick.com/6\\_0/hybrid\\_rules.asp](http://www.wintick.com/6_0/hybrid_rules.asp)

(you can also find similar materials in the eASCTrend 6.0 Manuel as well as the Help within the software program.)

### **Powerful and Flexible**

Because eASCTrend 6.0 is very flexible to accommodate all trading styles and all markets, each trader can explore settings (selecting different intervals, applying different indicators and fine-tuning parameters for indicators applied.) to fit his or her trading style and risk tolerance. **With this note, we intend to offer some specific settings and practical implementation details for a first time user of our software.**

### **Picking Stocks**

You can use our Wintick web search engine to generate a list of day trading candidates. Here are a few of the lists that will generate good candidates for trading the next day:

- [Todays PreBreakOuts for Tomorrows Trading](#)
- [Todays BreakOuts for Tomorrows Trading](#)
- [Stocks That Will Test Key Supports/Resistances Tomorrow](#)
- [Todays Buy/Sell Signals for Tomorrows Trading](#)
- [Most Traded and Volume Leaders for Tomorrows Trading](#)

Once you have a list of trading candidates, you can select a few that meet your trading style in terms of liquidities (volume), price range, volatilities and trading direction (long/short).

### **The Best Interval**

For day trading stocks, different traders have different preferences regarding the symbols and intervals. There are many elements to determine your strategies and settings, including the price range of the stocks, volatility of the stocks and risk tolerance of the trader. You can use more aggressive chart settings such as a 3-10 min chart for the higher priced and high volatility stocks. You can use 10-30 min charts for some medium priced and average volatility stocks. You will find your comfort zone for a stock quickly once you know your own risk tolerances. Depending on the number of shares you trade, you can predetermine the initial trading risks by calculating the difference between the current price and the stop value before you enter a trade. For example, if you trade 1000 shares of a \$30 stock and the stop value is around \$29.5, you will have an initial trading risk of \$500. The program will show this initial stop value (eASCTrend2/T2) on the chart as well as the “info” window.

### **Best Setting for Trading Session Time**

You can change the session time inside the “S” (symbol) window. Normally we just use the default setting that is “day session” from 9:30 EST to 16:00 EST.

### **Coordinate with the Guidance Window**

Normally, traders like to use a relatively larger interval chart as guidance, such as using a 30-min chart along with a 3-min trading chart. We can call the 3-min chart, the “trading window”. A trader will follow the signals and stop values in the trading window to execute trades. We call the 30-min chart a “guidance window”. It will be ideal to find the tradable opportunities in the trading window that are also in agreement with the directional bias indicated by the guidance window. For example, trade the long (buy) signal agreement in the trading window while the guidance window also indicates a long (buy) signal. But sometimes, it is not appropriate to mechanically enforce the direction agreement between the trading window and the guidance window with equal weight (50/50). Under certain conditions (refer to Day Trading Rule A), we have to give more weight to the signals in the trading window in order to “break the tie”.

### **Further Thoughts Regarding HTM**

The key to the success of HTM is its “near 100% mechanical” nature to remove traders’ guesswork and emotion in trading. Our software offers colors and dots as well as exact values. Once the trader decides to trade, the entry, stops and exits are pretty much managed by the program. In all the steps (C.A.R.E. & Stops) associated with HTM, only “C” needs a trader’s experience. And even, “C” is fairly straightforward, namely, triangle, flatness and low volume. If you would like to be aggressive, e.g. after a long,

long consolidation period, you can just take the signal agreement without waiting for the “R” retracement.

## **Two Filtering Rules to Find Better Time to Trade**

Traders need to understand which phase the market is in. As we mentioned before, the market always alternates between a big thrust and consolidation. As a trend-following trader, you need to get very aggressive in honoring (executing) the signal agreement at the end of a long period of consolidation that is the “C” of the HTM rules. The odds for a big thrust or a “run” will be very high at this time. This is just the nature of the market. It is very important to know this. But knowing this phenomenon alone is not specific enough for trading. As a trader, we need to take a much closer look at how the market behaves in most cases. Here are two filtering rules for day trading:

**Day Trading Rule A** -- We consider a move of 70-80% of the recent daily price ranges as a major move. At the end of a major movement, 2 hours of consolidation is considered as “medium” and 3 hours of consolidation is considered as “well done”. This is just for day trading with smaller interval charts such as 3 or 5 minutes. Actually, the consolidation length is 3-4 times the length of the major price movement. This is true for most charts. **Please note that this filtering rule could be used to “break the tie” if the trading window signals are conflicting with the signals in the guidance window.** In other words, if you see a two-hour or three-hour consolidation in the trading window, the signals in the guidance window are less important. Also, this filtering rule could be used to supersede the filtering rule B stated below in case of a conflict.

**Day Trading Rule B** -- For day trading, don’t fight with the morning winner. The morning winner is the directional breakout of the first hour range. The winner is “bull” if the first hour high is broken with force and volume. A trader will have a “long” bias for the rest of the trading session unless Filtering Rule A takes over, meaning: You don’t care about Day Trading Rule B after three hours of consolidation. **Just follow the signal agreement if you see three hours of consolidation with triangle, flat prices and low volume.**

## **Risk Management**

Due to the uncertain nature of the market, everybody is equally at the mercy of the market once the trade is placed. Nobody can control the market direction. But we all can control our own trading risks (to a certain degree of course). With C.A.R.E., we are entering a trade at a low risk and high reward area. By looking at the T2 value before you place the trade, you know exactly what will be the initial risks. Once the price is heading the direction we desire, we can just follow the T2 trailing stops to manage the trade. We can dramatically cut down the emotional involvement of the real time price fluctuation. We tend to make fewer mistakes if we have less emotional ups and downs when we have positions in the market. T3 (for ASCtrend 3.5 indicators) or T13 (for eASCtrend 6.0) could be used once the market has done an extended move or has tested the key support/resistance a second time.