

Short term swing trading

7/15/2012

Intro

I often mention in my updates that the short term is overbought/oversold, so that short term traders can take advantage of these short term reversals to scalp a few % here and there. This is not part of our service, because in order to trade the short term, one must have intraday access, and intraday live charts and quotes (available at www.stockcharts.com), and absolute discipline. Personally, I seldom indulge in such activity, especially after I relocated to Asia, which means staying up many nights. However, there has been enough interests from members wanting to learn to trade the short term, and have asked me if I could add that to my service. Sure, lets do it.

Why



We see this chart every week in our weekend updates, and since mid 2007, volatility has caused the markets to become unstable, with sharp swings making it difficult to park our cash in any sector for a decent length of time, thus resulting in a few flat years with not much return.



Our trading model did a great job in warning us in early 2008, thus sidestepping the sharpest sell off in modern history, and subsequently a very sharp rebound in 2009. But since 2010, our benchmark \$SPX has been confined to a 20% trading range. How long will this trading range last? Nobody knows. But one thing for sure, until \$SPX breaks above the all time high of 1575, we will not see a new bull market, and therefore, buying and holding is not wise. This is not good news for investors, which is a stance I have taken since 2007, resulting in zero growth for my capital. But as Warren Buffett said long ago, during hard times, the return of capital is far more important than return on capital. However, there is profit to be made in any market conditions, as long as we are able to identify the current market conditions, and implement a trading plan which is suitable for such.

The current market condition is unstable with sharp short term swings in a limited trading range. Hence, intraday trading with hourly charts is definitely an option worthy of your consideration, and small profits can add up over time.

What and when – short term swing trading



SPY is the ETF for \$SPX (SP500), a more diversified index among the major indices. It is also very liquid with exceptionally high daily volume, thus allowing instant fills with little or no slippage. Beta is also quite low on average, making risk management easier. I always try to keep things simple, and there are only three considerations in order to initiate an entry or exit.

#1 – divergences in the MACD and/or MACD histogram.

#2 – oversold/overbought in the RSI (14).

#3 – enter upon an MACD buy signal, place stop below the current low, and exit upon an MACD sell signal.



Upon exiting SPY, we can enter SH trading the short side.

The trading plan

As with any trading plans or strategies, we must first paper trade until it becomes an emotionless routine. Once we are satisfied with our results, we can deploy our capital. I will start tracking these two charts above in our updates, and send out buy/sell alerts intraday if necessary. Experienced traders can apply the same strategy to trade other ETFs in the same or different sectors, or use leveraged ETFs if your risk tolerance allows, but I will not be able to track them.

If the results by year end is satisfactory, I will incorporate this short term swing trading as part of our service.

Thankyou for your support as always.

End of report