

QUESTION:

What is the ONE thing every trader and investor is looking for?

ANSWER:

Final Gains

Introduction

With over 22 years of Trading, Investing and Trading Education experience (as of writing this) one thing has consistently stood out when reviewing Stock Charts.

The price of every stock, every market, every index, commodity and currency will move in cycles.

At times the price moves quite slowly and at others times the price change can be explosive.

Explosive price change can happen both on the way up to higher prices and on the way down to lower prices.

Investors for the most part will look for stocks that move towards higher prices, but traders who generally have greater risk tolerance can trade stocks that are declining as well, by selling short.

The purpose of this eBook is to educate traders and investors alike on what I have found to be simplest and quickest way to find stocks that are about to have explosive moves and that can potentially lead to substantial profits.

Technical Analysis

Before we begin it is important to understand the difference between Fundamental and Technical Analysis.

The methods used to analyze securities and make investment decisions fall into two very broad categories: fundamental analysis and technical analysis. Fundamental analysis involves analyzing the characteristics of a company in order to estimate its value. Technical analysis takes a completely different approach; it doesn't care one bit about the "value" of a company or a commodity. Technicians (sometimes called chartists) are only interested in the price movements in the market. (Investopedia)

Fundamental Analysis

The biggest part of fundamental analysis involves delving into the financial statements. Also known as quantitative analysis, this involves looking at revenue, expenses, assets, liabilities and all the other financial aspects of a company. Fundamental analysts look at this information to gain insight on a company's future performance. (Investopedia)

Technical Analysis

In other words, technical analysis attempts to understand the emotions in the market by studying the market itself, as opposed to its components. If you understand the benefits and limitations of technical analysis, it can give you a new set of tools or skills that will enable you to be a better trader or investor. (Investopedia)

Fundamental Analysis will look at things like the cash flow, income statement, earnings and management of a company. It will evaluate the company's products and services in order to determine its future growth and profitability.

By contrast Technical Analysis considers that the 'fundamental analyzing' of a company or stock has already been done, and will use tools such as Charts, Indicators and Mathematical Formulas to determine if money is flowing into the stock (prices likely to increase) or flowing out of a stock (prices likely to decrease), and at what rate. (Accelerating or decelerating)

The Tools

Charting

In order to perform proper technical analysis of a stock you will need a Stock Charting Platform.

Fortunately with the widespread availability of stock market tools on the internet there are many excellent and FREE systems you can use. My favorite free stock charting platform is freestockcharts.com, and in fact many of the chart I am about to show you are taken directly from there.

Indicators

Charting platforms are loaded with hundreds of indicators used to analyze price movement; fortunately you will not need most of them. In fact my analysis requires only 3 indicators.

1. Bollinger Band

Bollinger Bands® consist of a center line and two price channels (bands) above and below it. The center line is an exponential moving average; the price channels are the standard deviations of the stock being studied. The bands will expand and contract as the price action of an issue becomes volatile (expansion) or becomes bound into a tight trading pattern (contraction).
(investopedia)



Chart by MetaStock

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2. **ADX**

The ADX, which can be used as a standalone indicator to measure the strength of a trend, is also an integral part of the Directional Movement System developed by J. Welles Wilder.

The genius behind the Directional Movement System is that it segments the analysis into 3 components.

They are ADX: Overall Market Strength This tells us only if the market has 'energy' but does not tell us in which direction.

The ADX component can also signal the start of a new trend, or the expiration / exhaustion of an existing trend

3. **DM + DM-**

The 2 DM components which stand for Directional Movement are appropriately labeled DM+ and DM-, and calculate the upward or downward trend movement.

DM+: Measures the strength of the buyers

DM-: Measures the strength of the sellers

by comparing the DM+ and DM- the Indicator has a unique ability to measure and summarize both upward and downward movement, and compares the 2.

The Chart

Once your chart is built with the proper indicators in place, it becomes your template, your main workspace for performing technical analyses on any stock, index, futures, Forex pair, commodity or currency



The Analysis

Finding the Stocks that are About to Explode

Now that you have an understanding of the tools you are using, and have configured your chart for analysis, save your chart as a template.

This will allow you to scan through a large number of different stocks without ever having to change the chart itself.

By creating a list of companies or markets that you want to analyze, all you need to do is simply click on the symbol and the chart will update to that particular stock chart.

You can see from the image below that clicking on the symbol for CME, immediately brings up a chart of CME with all the indicators already in place.



STEP 1: Scan for stocks with a rising Bollinger Band Channel, this indicates that the prices are in an uptrend.

STEP 2: Look for pullbacks to the lower Bollinger Band; this indicates a short term retreat in price in an otherwise Long Trend.

STEP 3: Look for the ADX to Drop below 20 and begin rising again; this indicates that the short term pull back is nearly over and prices should resume moving higher consistent with the longer term trend.

STEP 4: Enter trades as close to the lower Bollinger Band as possible while the ADX is climbing off of 20, e.g. 20-24 range.

STEP 5: Monitor your trade. Never leave a trade without checking on it at least once a day.

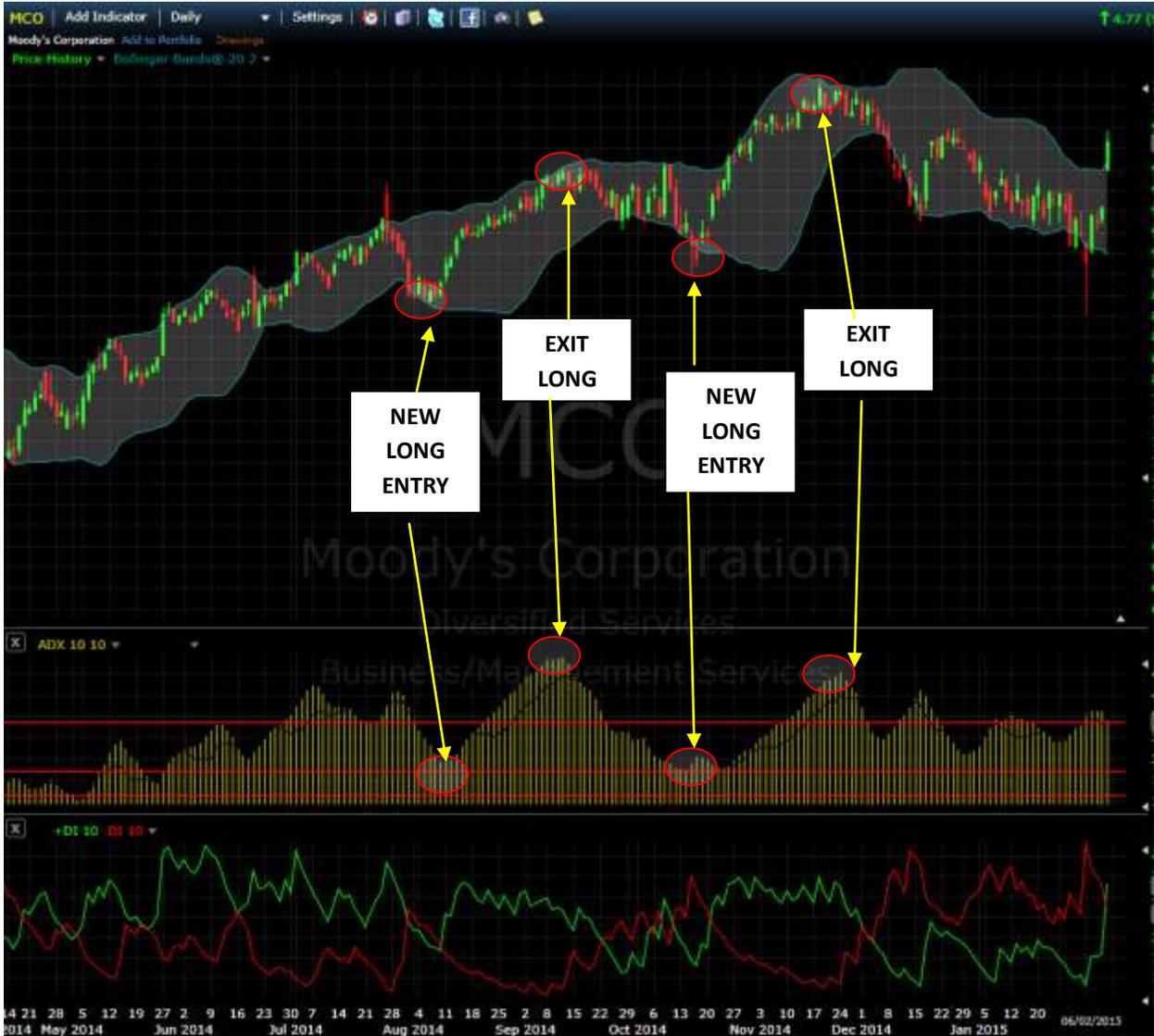
STEP 6: Plan your Exit. Exit the trade on exhaustion, when the ADX crosses into the exhausted region, (above 40)

STEP 7: Exit the trade on a failure if the DI- Crosses above the DI+

STEP 8: Always have a stop loss. This is the maximum financial loss you are willing to take on any single trade or position. E.g. if your maximum allowable loss is \$1,000 and you have purchased 1,000 shares, then your Stop Loss is a \$1 move below your entry price

All of the conditions above can be inverted when looking for short selling opportunities.

Examples



The ADX DMI trading system is incredibly adaptive and easy to use. It is easily learned and quick to deploy.

This approach works equally well on Stocks, Futures, Forex, Commodities...

Charting time frames and indicator settings can be accelerated for Day Trading, or slowed down for Swing Trading and Investing.

**To learn more about the ADX
and other system please visit
our website at**

CHARTPATTERNTRADING.com



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