

Swing Trading

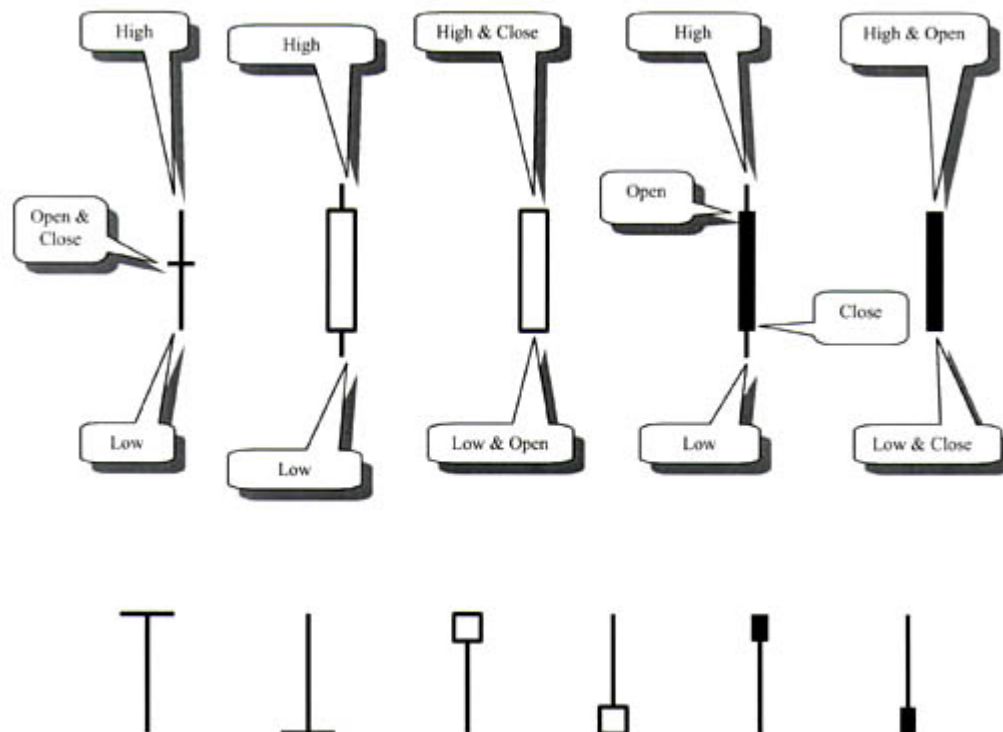
with Oliver Velez

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Introduction

In this section, we will reveal a few simple keys to understanding how the market works. The following concepts form the cornerstone of any and every sound trading technique or tactic. After gaining a clear understanding of these building blocks, the trader will never again find himself confused and not knowing what to do. In fact, once these powerful but simple concepts are mastered and understood, the trader will rarely find himself on the wrong side of the market. And over 65% of all trading losses can be attributed to being on the wrong side of the market.

Understanding Candlesticks



Commentary

The main difference between Japanese Candlestick analysis and Western Bar Chart analysis is that *the Japanese place the highest importance on the relationship between the*

open and close of the same day, while the Westeners place the importance on the close as it relates to the prior period's close.

NOTE: As long as the underlying stock closes higher than the prior day's close, Western thought says it's positive, however, according to the Japanese view, this is not necessarily the case. If, on an up day, the stock closes below its open, the Japanese would regard it as negative. **EXAMPLE:** Monday's close = \$39. Tuesday's open = \$40.75. Tuesday's close = \$39.75. The Western view: "Positive action because the stock was up 3/4 on the day." Japanese view: "Negative action because the stock closed sharply below its opening price of \$40.75."

IMPORTANT: We regard the latter view as more accurate and useful for traders. This is why we exclusively use candlestick bar charts in our trading analysis in all time frames.

3 Primary Trends - Building Block Two

There are only three things a stock can do: *go up, go down, or go sideways.*

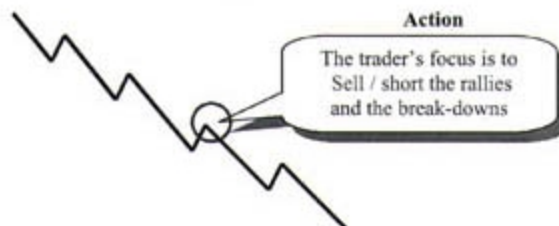
1. Up Trend - Defined by a series of *higher highs and higher lows.*

- The Up Trend is better known as Stage 2.



2. Down Trend - Defined by a series of *lower highs followed by lower lows.*

- The Down Trend is better known as Stage 4.

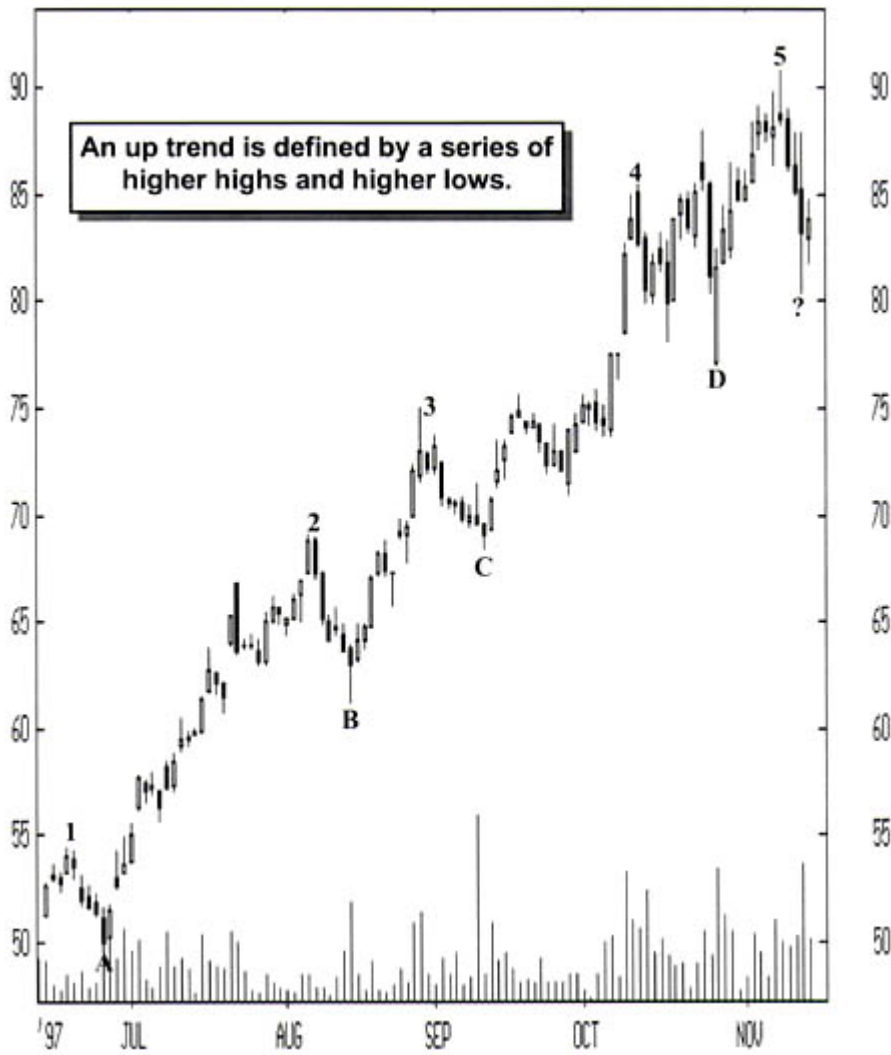


3. Sideways Trend - Defined by a series of "relatively equal highs and lows."

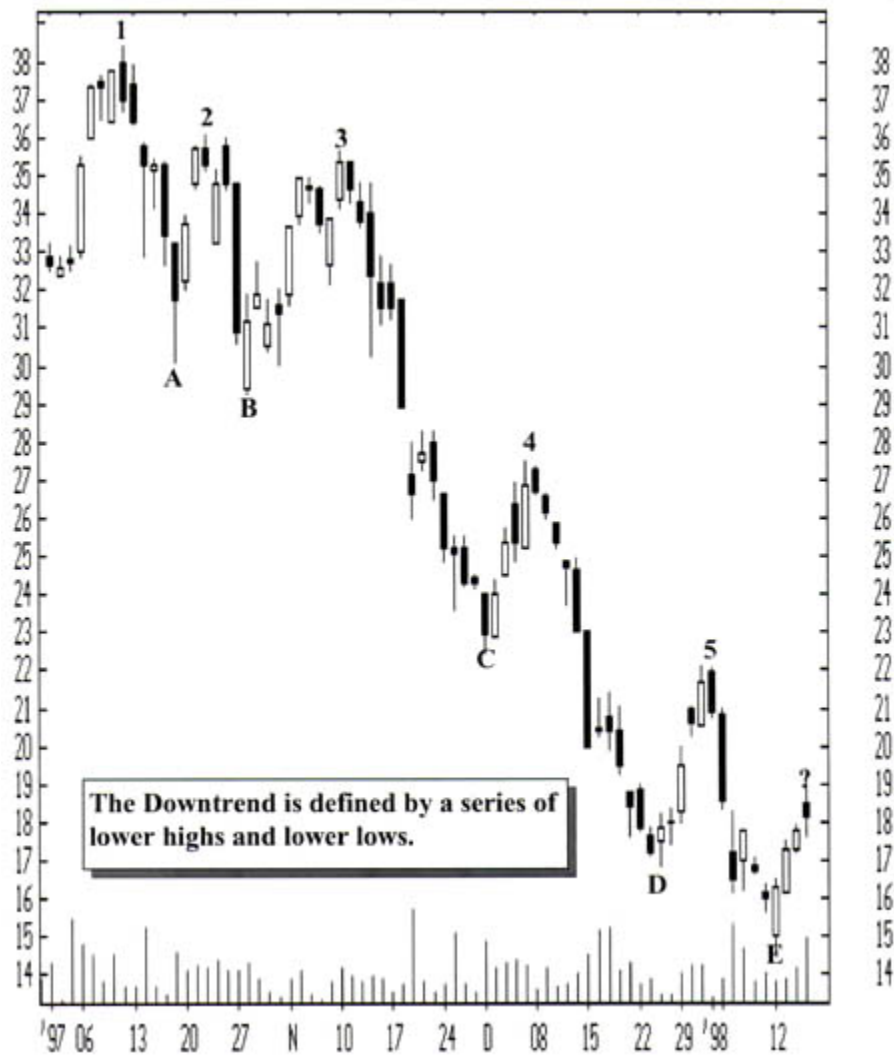
- The Sideways Trend is better known as Stage 1 and Stage 3.



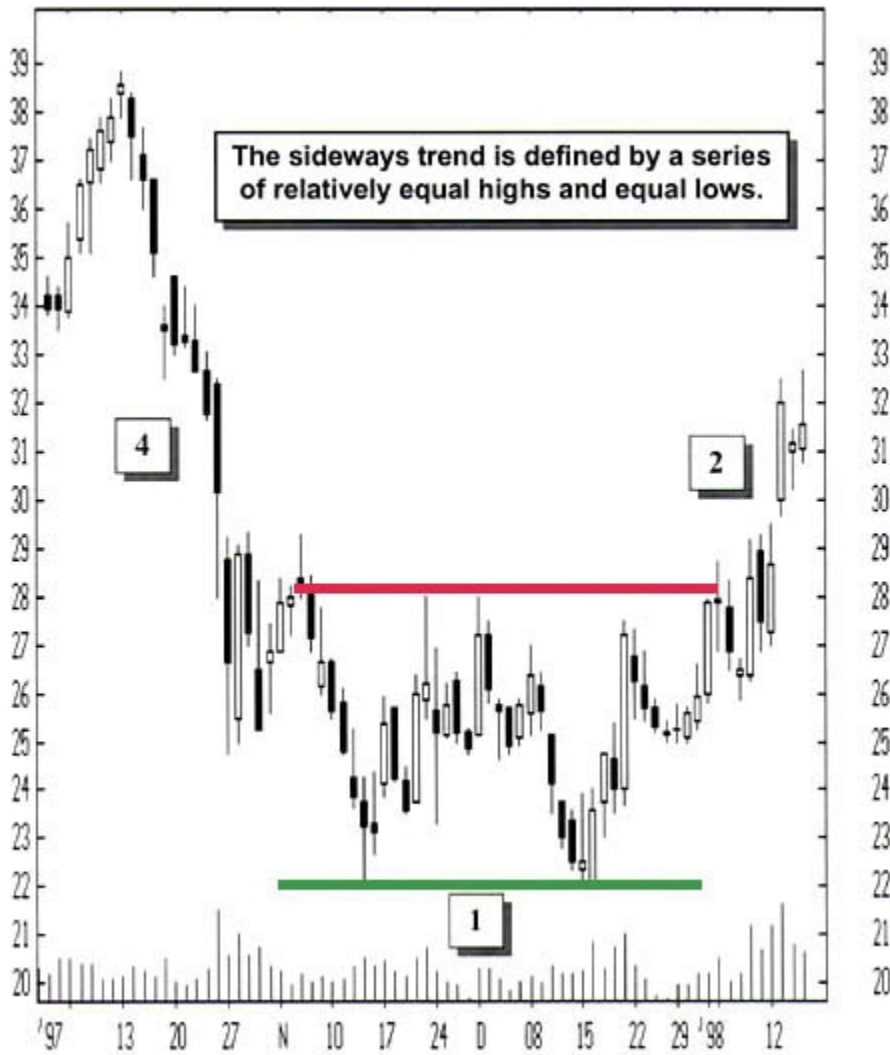
The Up Trend



The Down Trend



Sideways Trend



Pristine's Key Buy Set-Up

- The **Key Buy Set-Up** is made up of only a few basic criteria.
- This set-up is the key to capturing big 1 to 5 day trading gains on the up side.
- The trader can often use this one set-up alone to buy without any other guide.

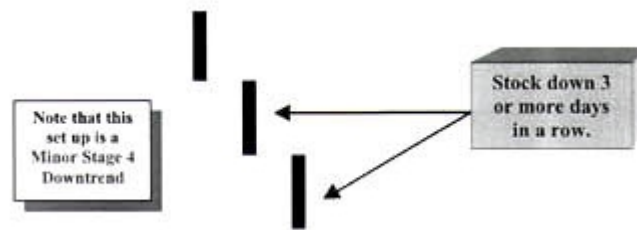
The Set-Up

1st Criteria - 3 consecutive lower highs and lower lows (major emphasis on the highs).

NOTE: At times, it is acceptable for the high of the last day to be equal with the prior day.

2nd Criteria - The stock's close on each day should be below the open price.

NOTE: At times, it is acceptable for the close to be above the open on the last day.



The Action

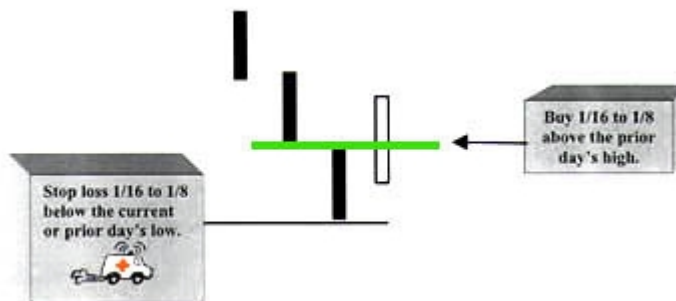
1 - Buy when the stock trades above the prior day's high, *or*

2 - Buy when the stock trades above its first 30 minute high.

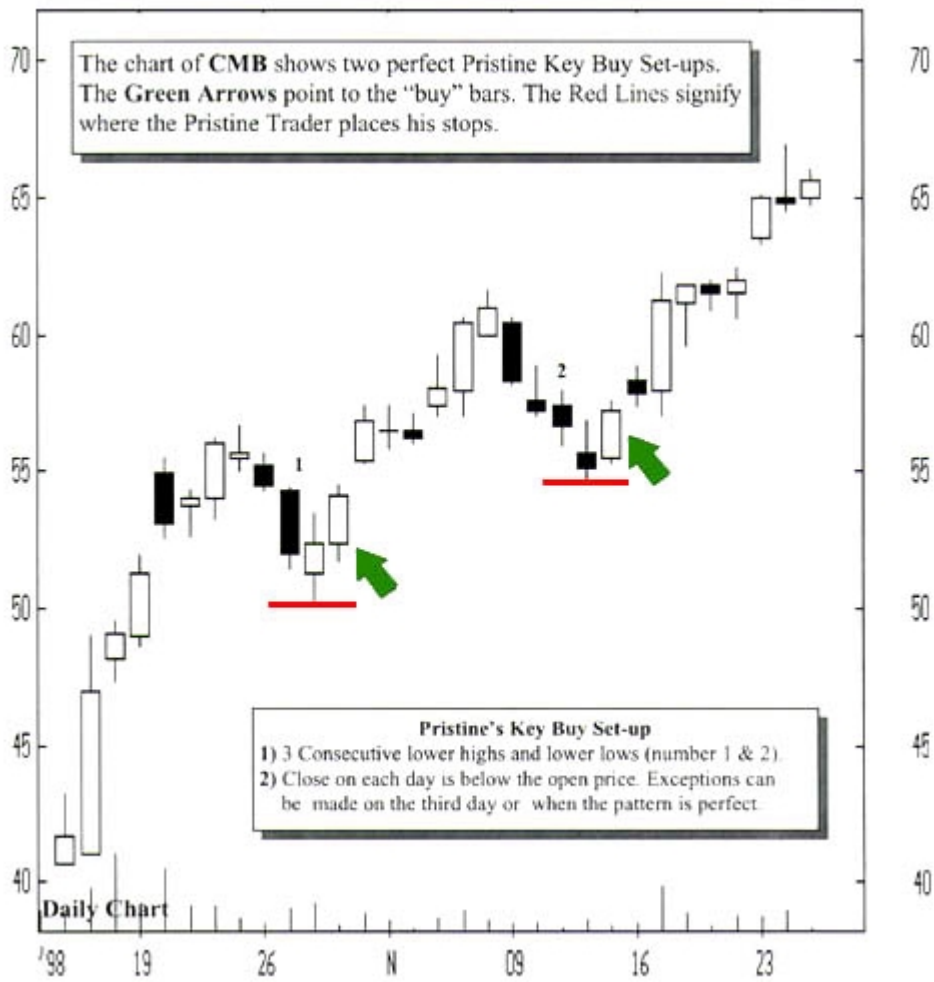
NOTE: Only use Buy Action 2 if the prior day's high is too far away.

3 - Place a stop 1/16 to 1/8 below the entry day's low, or the prior day's low, **whichever is lower.** Traders with a very low threshold for pain should use the entry day's low.

4 - Use a trailing stop under each prior low until a) the price objective is met, b) a reversal bar has developed, or c) a gap up has occurred.



Chase Manhattan (CMB)



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Power Trading Combos

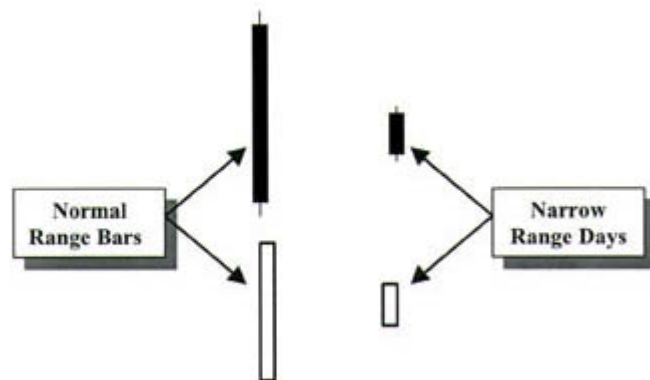
Trading Combinations That Reap Profits

In this section, we show the trader how to combine Pristine's Key Buy & Sell Set-ups with several powerful occurrences that dramatically increase the trader's odds of success. Individually, these Key Set-ups will reap profits and ensure that the trader plays on the side of professional market makers and specialists. However, the Key Buy & Sell Set-ups used in conjunction with the following events will actually help increase the accuracy of this already accurate approach. Trading truly becomes an art once one knows how to properly combine powerful trading concepts. Now we are going to delve deeper into the realm of professionalism, showing how the Key Buy & Sell Set-ups along with several other indicators and occurrences can reap huge profits. Keep in mind that each concept will be applicable in all time frames.

The Narrow Range Day - (NRD)

- Narrow range days (NRDs) are defined as bars with a smaller than average distance between the high of the day and the low of the day.
- The NRD is only significant if and when it appears after a several day move.
- A NRD indicates that a potential change of trend is close at hand.

Pristine Trading Tip: Turns (rebounds or declines) after NRDs tend to be more potent and reliable than turns from more daily bars.



Important Points

- NRDs only have significance when they occur "after" a very decent move.
- NRDs offer the trader the clearest possible sign that a turn is close at hand.
- NRDs are warning signs after a drop to get ready to buy.
- NRDs are warning signs after a rally to get ready to sell.

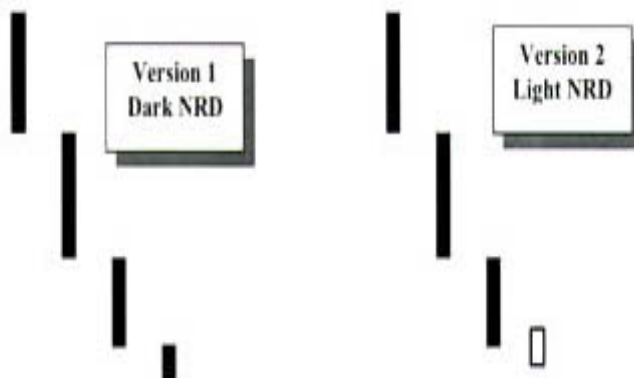
The Buy Set-Up & Narrow Range Day - (NRD)

- The **Buy Set-Up** combined with the formation of a NRD presents a near perfect buy opportunity that is far more reliable than the regular Swing Buy..

The Set-Up

1st Criteria - A Buy Set-Up and

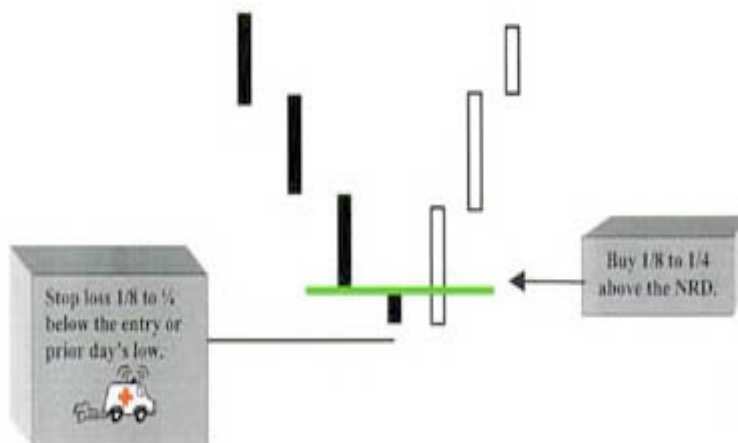
2nd Criteria - A NRD



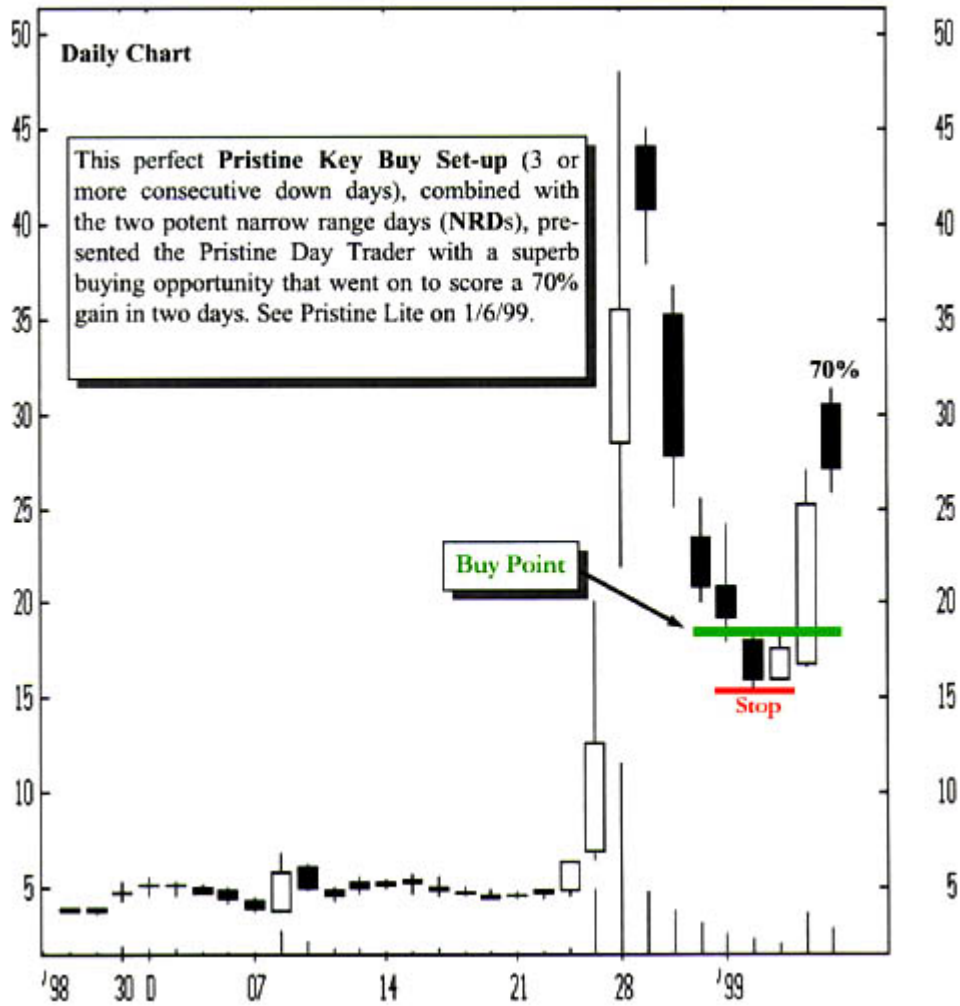
NOTE: More than one NRD after a Buy Set-Up is also powerful, and it is acceptable if the NRD occurs on the 3rd day of the Buy Set-Up.

The Action

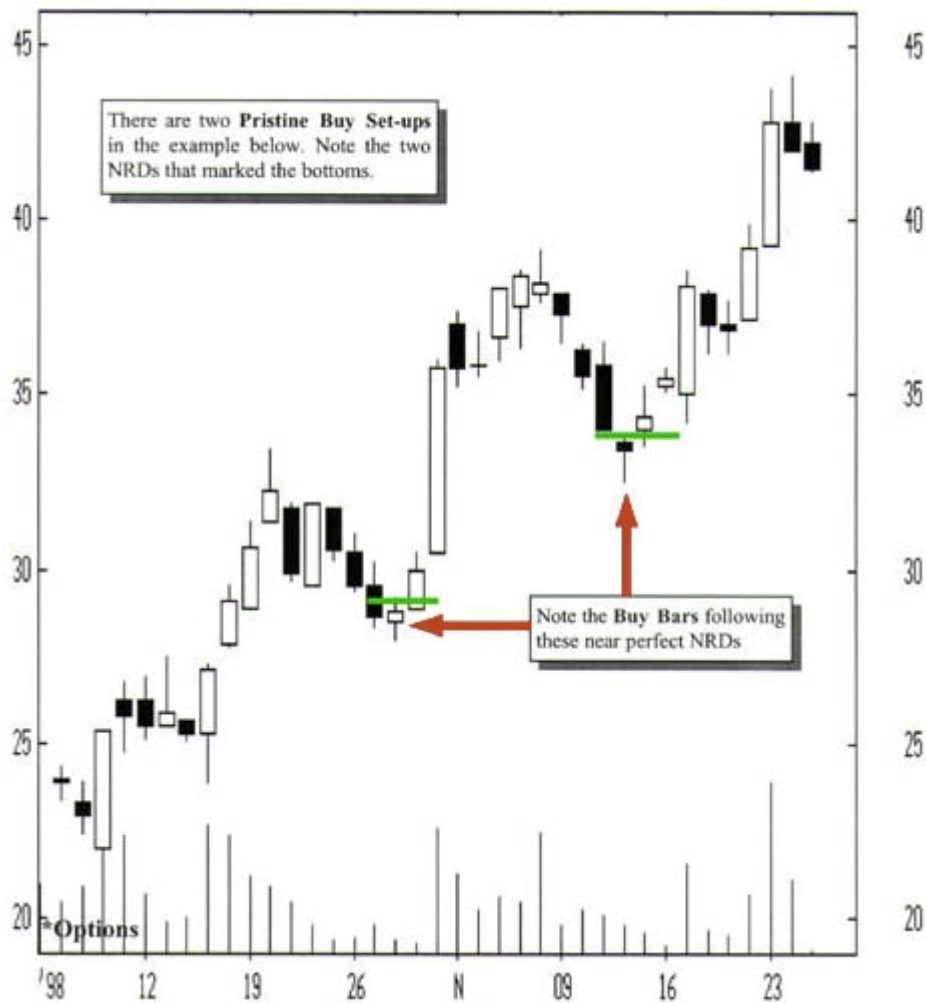
1 - Buy above the NRD and follow the stop and sell rules.



Skymall Inc (SKYM)



Donaldson Lufkin (DLJ)

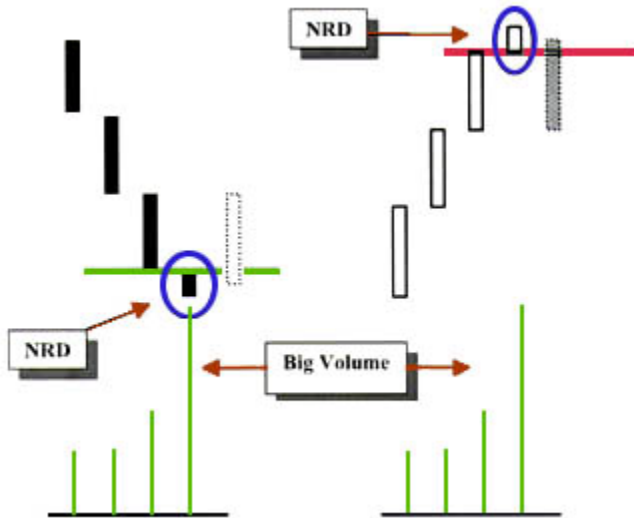


Above Average Volume

- Volume is one of the most valuable keys to predicting price turns.
- The Trader who masters the art of reading price/volume relationships will be able to pick tops and bottoms in stocks with amazing accuracy.
- The truly astute trader can trade successfully by relying exclusively on price and volume.

Pristine Volume Rule: Above average volume, "after" a strong up or down move, indicates that a near-term price reversal is at hand.

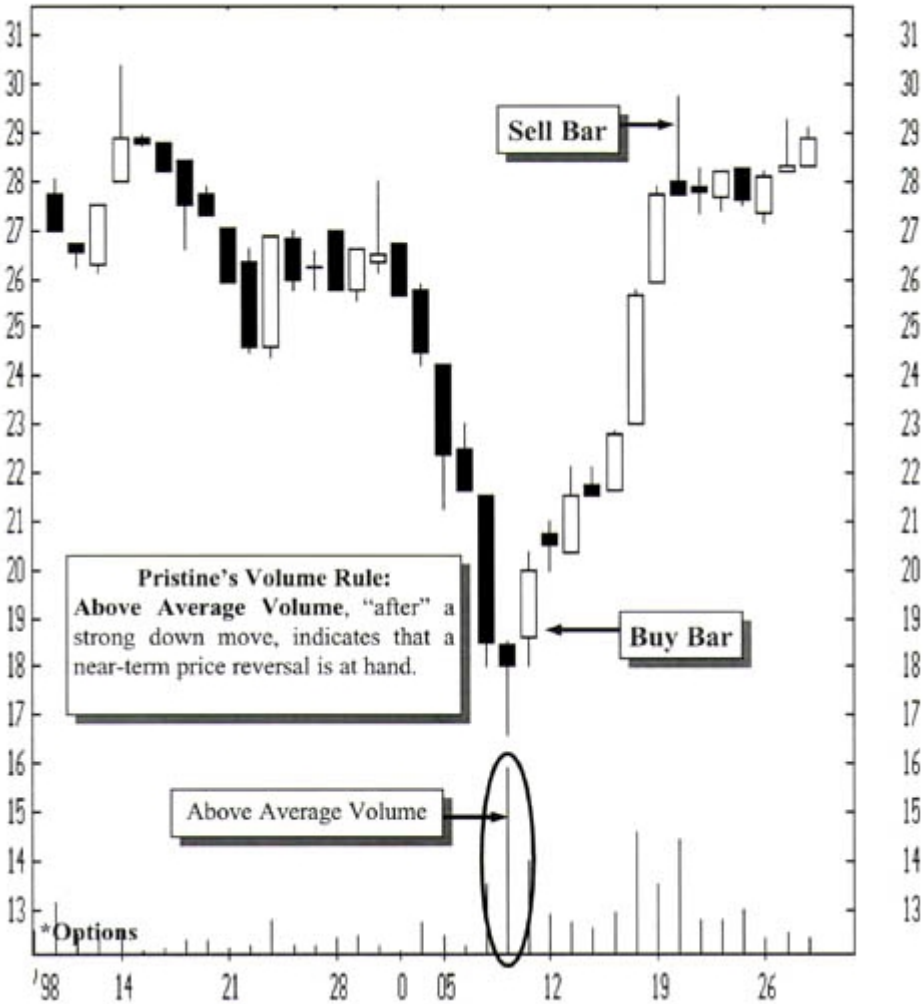
The Buy & Sell Set-Ups with Above Average Volume



Important Points

- By now traders should know both buy and sell set-ups. They will not be repeated from this point onward. Refer to sections above for the details.
- Note how the above examples really combine three concepts: the **Buy/Sell Set-Up**, the **NRD** and **Above Average Volume**. A very powerful combination.

Donaldson Lufkin (DLJ)



About the Experts

Oliver L. Velez is the CEO and co-founder of Pristine.com, the nation's leading online educational service for active self directed traders and the coeditor of its flagship product The Pristine Day Trader. A respected financial professional with a highly successful 14-year track record in the industry, Mr. Velez is one of the original pioneers in the day trading industry. After giving the keynote address at the first ever Day Trading Expo in the fall of 1999, Mr. Velez was invited back to do likewise at the second Day Trading Expo in the winter of 2000.

As a professional trader, Mr. Velez built a formidable reputation for his trading skills. When he established Pristine in September 1994, he set out to differentiate his services from the hundreds of investment advisory companies telling investors what to buy and sell. Instead, he established Pristine as an educational site, making stock recommendations, but also explaining when, how and, most importantly, why to buy a stock. Today, 61,000 individuals in over 52 countries use Pristine's services.

Through Pristine Seminars, Inc., and other Pristine services, Mr. Velez has subsequently taught thousands of self directed traders around the world the art of self reliant, educated trading. He is also editor of *Pristine Lite*, *Pristine Day Trader*, and *Pristine's Real-time Trading Room*. Most recently, Mr. Velez co-authored, with Greg Capra, *Advanced Tools and Tactics For The Master Day Trader*, to be published by McGraw-Hill this spring.

Mr. Velez is widely known for his trading skills and specialized knowledge of technical analysis (i.e., predicting price movement through chart patterns and market indicators). He is one of the most sought after speakers in the industry and has instructed thousands of day traders, including market makers, specialists, and money managers, in seminars and focused workshops. Mr. Velez, and his partner Mr. Capra, has advised professional traders, money managers, mutual funds and hedge funds, and is recognized by many in the trading community as the "professional's professional." Their trading techniques and educational services have been favorably mentioned in the most recognized financial publications in the country.