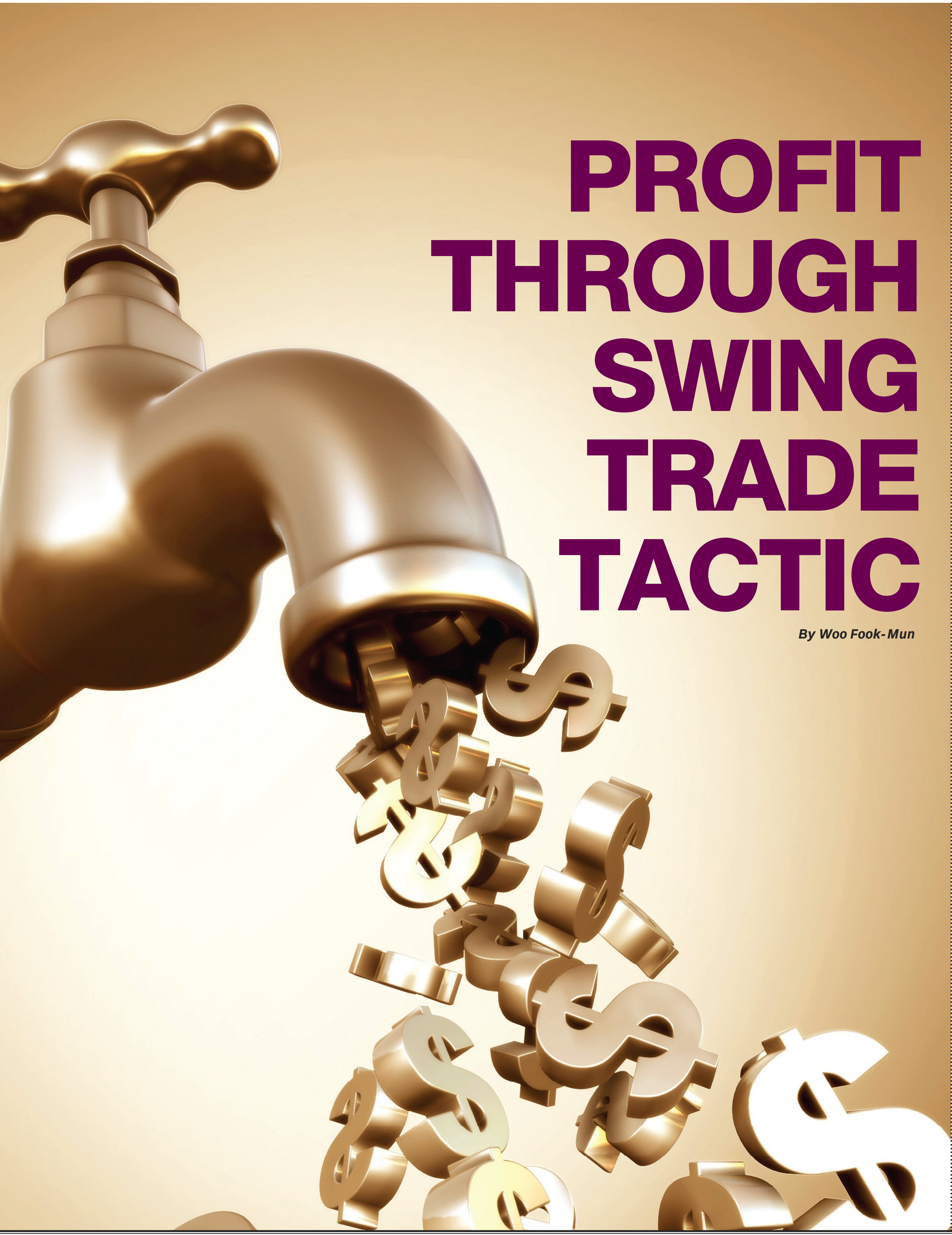


PROFIT THROUGH SWING TRADE TACTIC

By Woo Fook-Mun

Stock trading is the art of finding two groups of market participants. The first group is willing to give up their position (ie: stock holding) to you too cheaply. The second group is willing to buy over your position too expensively. These two groups do so out of fear and greed. Stock trading is therefore the trading of human emotion, not the intrinsic value of the stock.

Swing Trade is a style of trading that often last between 2 ~ 5 days although it is possible to last up to 10 days at time. Its aim is to capture a profit through the identification of the transition of emotion from fear to greed (buy) and greed to fear (sell) in the market. When a strong uptrend stock that is experiencing three to five days of selling, fear emerged. Swing traders make use of a set of tactics explained below to determine the turning point in emotion to time the entry and exit.

Before we begin, it is necessary to understand two important terminologies:

SETUP:

A setup is an "alert". You do not enter your position when a setup is spotted. You only standby and wait for the trigger.

TRIGGER:

A trigger is when a pre-defined condition is met. This is when you will enter your position.

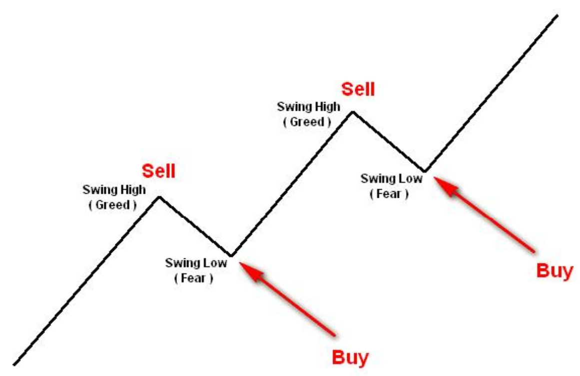
HOW TO "BUY ON DIP" IN AN UPTREND?

TECHNICAL TOOLS NEEDED :

- 20 days & 40 days simple moving averages (SMA).
- Commodity Channel Index (CCI, value = 5)

> ***"Stock trading is therefore the trading of human emotion, not the intrinsic value of the stock."***

FIGURE 1 : SWING TRADE CONCEPT



THE SETUP:

- Establish that the trend is up,
- You do this by using two simple moving averages, 20-day & 40-day plotted on top of the prices,
- Both moving averages must be pointing upward, 20-day should be above 40-day. The further the two moving averages spread apart, the stronger the uptrend (better),
- The area between the 20-day and 40-day moving averages is known as the buy zone,
- After a period of advances, prices will inevitably dip on profit taking. When prices started to retrace and touch the 20-day simple moving average, observe if CCI has reached oversold (-100 or more),
- Once CCI has reached oversold (-100 or more) and the prices have touched the 20-day simple moving average (or dip below the 20-day but above the 40-day, ie: in the buy zone). The stock is presenting you with the 'Setup'.
- A 'setup' is basically an 'alert', you do not buy (or sell) when a setup surfaced (because this is only an alert)

THE TRIGGER:

- A 'trigger' is when you should enter your position,
- A trigger surfaced when prices started to reverse after several days of falling and rally beyond the previous day high (greed emerged). Enter your position (buy) when price rally 1~ 2 bids higher than previous day high.

FIGURE 2 : AN EXAMPLE OF SWING TRADE ON INDOAGRI

- For example, if the previous day high was 0.895 and closed at 0.815. Today, open at 0.83 and rally up. When the price rally up to 0.895, buy signal is triggered. Enter at 0.90 and stop loss at .810 (below previous day low).

WHEN TO TAKE PROFIT?

Sell 50% at previous high (last significant high) and the remaining 50% before the next major resistance. In other word, use 'incremental profit taking' rule.

STOP LOSS:

Set the initial stop loss at 1 ~ 2 bid(s) below the current day low or prior day low whichever is lower. Subsequent days, use 'bar by bar' trailing stop method to make adjustment to the stop loss level.

DURATION OF THE TRADE:

2 days ~ 5 days

SUMMING UP:

To sum up, the entire strategy is to capture an ostensible reversal from a strong uptrend stock that is experiencing three or more days of selling followed by a turn around before you swoop in and ride it back to a new high.

About the author:
Woo Fook-Mun CFTe MSTA is a Certified Financial Technician (CFTe) accredited by the International Federation of Technical Analysts (IFTA). Fook-Mun is also a Full Member of the Society of Technical Analysts (STA) UK.