Paix Trader Strategies

My trading can be broadly tied to four price action approaches: Gap-and-Go, Gap-and-Fade, Overbought/Oversold Reversal, and Momentum Continuation.   I am a trend trader at heart, meaning that I trade in the direction of the *primary intraday trend*.   Typically, I will wait for price action to confirm the trend.

Gap-and-Go	Gap-and-Fade
These are stocks that have gapped up or down typically between 5% to 30% on news. The news could be related to earnings releases, management forecasts, contracts, lawsuits, upgrades/downgrades, reviewer hit pieces, etc. I will evaluate the strength of the news as well as the chart technicals when deciding whether to trade the stock. I will trade in the direction of the gap. For example, for a stock that gaps up >5%, I will be looking to go long (and vice versa for a stock that gaps down). I will typically wait for intraday price action to confirm the trend.	These are stocks that have gapped up or down significantly on news (typically >30% gap). The news will typically be more catalytic in nature such as receiving drug approval or rejection from the FDA. I will evaluate the potential impact of the news on the company fundamentals. I will also determine whether there are other underlying factors that might drive the price opposite the gap (for at least a partial gap close). I will typically wait for price action to confirm the trend.
Overbought/Oversold Reversal	**Momentum Continuation**
These are stocks that have moved sharply higher or lower over a single or multi-day period. These stocks are generally fundamentally mispriced at the new level. Their daily charts may also be signaling a potential reversal. I am looking to trade the reversal to the "mean", which may be a previous support/resistance level or moving average.	These are stocks that have moved up or down strongly on high relative volume. The momentum continuation could be on an intraday basis or multi-day basis. I am looking to join the trend at low-risk entry points.

Technical Methods of Entry – Example Setups

123 Go – This is my term for a high R/R setup for Gap and Go or momentum plays.   What you are looking for ideally is a tight intraday consolidation with key price catalysts directly overhead (or below if short).   The price catalyst might be a whole (or half) number, and is typically always a key level on the intraday, daily, or monthly chart.   The term "123" refers to a tight consolidation range where price might touch the breakout level a few times, and then finally break out on the last attempt.   You can either trade the breakout, or wait for the stock to break out and then trade the continuation.

DPM (Deep Pullback – Momentum) – This is an intraday continuation setup.   I am looking for significant intraday pullbacks on high momentum stocks later in the morning session.   It could be to the VWAP level or other key price support level on the chart.   This setup is particularly powerful on stocks that have just experienced a key breakout level on higher timeframes.

Popular Indicator: VWAP

The VWAP order is a popular and effective entry point for intraday "swing" trading.   It can be a simple, helpful guide for new traders who do not yet have a grasp of all of the other subtleties involved in successful day-trading.   VWAP is the Volume Weighted Average Price.   Generally, traders calculate VWAP as follows:

1.   First, choose a time frame (say 1-minute bars)
2.   Calculate a "typical" price obtained by adding the bar high, low and close, and dividing by three.
3.   Multiply this typical price by the volume for that period.   This will give you TP*V.
4.   Keep a running total of the TP*V values, called cumulative TPV.   The number should always be getting larger as the day progresses.
5.   Keep a running total of cumulative volume.   This number should also always be getting larger as the day progresses.
6.   Calculate VWAP as cumulative TPV/cumulative volume.   This will provide a volume weighted average price for each period for which you can draw a line that overlays the price data on the chart.

VWAP is best used as an intraday "swing" trade entry method.   For scalping, I prefer to use faster moving averages such as the 9 period sma.   I typically trade off of VWAP long when the general market is in a very bullish, mid to low-volatility phase, and I am confident the stocks I trade will carry their momentum throughout the entire day.   However, sometimes an individual stock may have such powerful momentum that I am not too concerned about the overall market dynamics.

Example of Buying an Intraday Pullback to VWAP

In this basic example above, you can see that price broke both the 5-minute and pre-market high signaling potential intraday price momentum.   A trader might be looking to buy this stock on the first pullback to VWAP.   The trader could then sell the stock in partials after a break to new highs (or hold until close).

(Note: this entry is a bit earlier than I would personally prefer, as to me the stock had not yet proved enough momentum. In that case, I would have missed the trade.   However, I'd also be referencing higher time-frames as well as sector strength/weakness, which may have led me to an earlier entry.)

While I find VWAP very useful and do use it, I am generally focused more on scalping stocks on shorter timeframes using a 9 period or lower simple-moving average; or swinging a stock all day based on higher time-frame entry criteria.

General Trading & Market Terminology

API: Application program interface is a set of routines, protocols, and tools for building software applications. This is how my software interacts with the broker.

Averaging Down: Buying more of a stock as the price goes down so your average purchase price decreases (or vice versa for shorting). Tip: don't do it in general, or more than once! This is how many trading careers end as losses may balloon.

Bear Market: An extended period of falling stock prices and the opposite of a bull market.

Beta: A measurement of the relationship between the price of a stock and the movement of the whole market. If stock ABC has a beta of 2, that means that for every 1 point move in the market, stock ABC moves 2 points and vice versa.

Blue Chip Stocks: Large, industry leading companies. They offer a stable financial record and significant dividend payments.

Book Value: The total value of assets of a company minus its liabilities and shares of preferred stock.

Borrow List: This is a list of stocks at any broker that have shares available to short (borrow from the broker).

Box Trading: Think of drawing a box on your chart representing range high/low over X period. Buy/sell the breakout.

Broker: A person who buys or sells an investment for you in exchange for a fee (a commission). Our lead trader uses Interactive Brokers. There are many great brokers available, those with low commissions are best (see FAQ on website).

Bull Market: An extended period of rising stock prices and the opposite of a bear market.

Day Trading: Buying and selling within the same trading day, before the close of the markets on that day. I am a part-time day trader and typically trade only the first hour of the day.

Dividend: A portion of a company's earnings that is paid to shareholders on a quarterly or annual basis. Not all companies do this.

Double-bottom: A price pattern where price reflects off of a support or resistance level two different times. It may signal a major reversal in the stock price. A triple-bottom would reflect three times off the support or resistance.

EPS: Earnings per Share is net income minus dividends to preferred shareholds, divided by the shares of common stock.

Exchange: A place in which different investments are traded. The most well-known in the United States are the New York Stock Exchange and the Nasdaq.

Execution: When an order to buy or sell has been completed. If you put in an order to sell 100 shares, this means that all 100 shares have been sold.

Float: Number of shares of a company that is generally available for buying and selling.

Hedge: This is used to limit your losses. You can do this by taking an offsetting position. For example, if you hold 100 shares of ABC, you could buy puts on the stock.

Hype: Also called stock promotion or pumping. When unscrupulous promoters try to manipulate the stock price by spreading rumors or misleading information to investors.

Index: A benchmark that is used as a reference marker for traders and portfolio managers (e.g. DJIA, S&P 500)

Initial Public Offering (IPO): The first sale or offering of a stock by a company to the public.

Margin: A margin account lets a person borrow money (take out a loan essentially) from a broker to purchase an investment.

Momentum: Generally, these are stocks with strong price continuation and high relative volume on multiple timeframes.

Moving Average: A stock's average price-per-share during a specific period of time. We use 20, 500, and 200 day averages.

Order: A trader's bid or offer to buy or sell a certain amount of stock or option contracts.   An "open" order has not yet been filled.

Portfolio: A collection of investments owned by an investor. You can have as little as one stock to several.

Quote: Information on a stock's latest trading price.

Rally: A rapid increase in the general price level of the market or of the price of a stock.

Reverse Split: When a company reduces the total number of outstanding shares

R/R: Risk to reward.   It goes without saying that your potential reward should always be at least your risk on any trade.

Sector: A group of stocks that are in the same business (e.g. "Technology" includes Apple and Intel).

Shares Outstanding: The number of shares owned by the public and not held by the company.

Shorting: Selling stocks in advance of acquiring them (borrowing them from your broker) with the goal to buy them lower.

Spread: The difference between the bid and the ask prices of a stock, or the amount someone is willing to buy it and someone is willing to sell it.

Stock Split: Dividing existing stock into more shares.   It reduces the price per share.

Stock Symbol: A 1-3 character, alphabetic symbol, which represents a publicly traded company on a stock exchange.

Stop Order: An order to buy or sell a security when its price surpasses a particular price.

Swing Trading: Technical trading that is similar to day trading but with a holding period of 2 days to 2 weeks.

Tick: The smallest increment in a stock price, typically a value of 0.01.

Time frame: The period of time over which you are evaluating price action, typically 1min (low) to monthly (high).

Triangle: A price pattern that looks like it sounds.   It often signals a consolidation period before a continuation higher/lower.

Volatility: The price movements of a stock or the stock market as a whole. Highly volatile stocks are ones with extreme daily up and down movements and wide intraday trading ranges.   They are ideal for trading.

Volume: The number of shares of stock traded during a particular time period, normally measured in average daily volume.

Wedge: This price pattern can be rising or falling.   The rising wedge is a bearish pattern that begins wide on the bottom and contracts as prices move higher and the trading range narrows.   Conversely, a falling wedge is bullish.

Yield: The return on an investment that is received from the payment of a dividend. This is determined by dividing the annual dividend amount by the price paid for the stock.