The mechanics behind the UndergroundTrader trading system may seem overwhelming in the beginning. For this reason, we have put together a quick and dirty start up guide.

Before we get started, take a look at these two series.

1) > > > >
2) > < > <

Which is an example of convergence also known as aligned, uniformed and congruent?

Think fast. If you picked 1, then you are correct.

Now spot that same series in the following:

1) <<<>>>><<<<>>>>
2) <>>>><<<<>>>><<<<>>><
3) <>>>><<<<>>>><<<<>>>><<<<>>><

A little more difficult this time, eh? The correct answer is 1 as well. What makes this more difficult is the background noise.

The first has the same “> > > >” convergence but it’s camouflaged within the context. The second and third have just as much noise and get close but not the series pattern we looking for. If you can distinguish between the three series, then you are already off to a good start because this is what happens in the markets every single day. We are constantly trying to filter through the noise to spot the convergence pattern.

Most trading books and courses focus on particular patterns that historically have high probability results. Often times, this is ‘backtested’ to confirm the validity, effectiveness and so forth. Yet, when the average trader or investor takes the signals, the results usually do not live up to the expectations. They look good on paper but in reality, it feels like a coin toss. Does this mean the pattern is ineffective?

Let me pose this question in another light. Does a rifle have the potential to kill a deer? Yes. Can a rifle be used to kill a deer in the woods? Yes. Can that same rifle be used underwater to kill a shark? No. Why? Because you can’t use a rifle underwater! Bingo.

Does that make the rifle insignificant as a weapon? No.

The key is the environment in which the rifle is being used, right? No one will dispute the deadly capabilities of a rifle in the right hands and the right environment. Common sense tells us this. If we extrapolate that thinking to trading, then you should see why methods and patterns are only effective when used like a weapon/rifle in the right environment.

The environment is the CONTEXT. Context is the red headed step-child that is often left out or forgotten in the markets mainly because it’s so hard to interpret and align. Well, that’s what our system does. It quantifies the correct CONTEXT FIRST and then spots the high probability set-up within that context!
When Michael Milken was pitching his junk bonds to fuel leveraged buyouts and corporate raiders in the 80’s, he was comparing the default rates of his double digit return junk bonds versus triple A rated corporate bonds paying less than 50% of his junk. Imagine if you are an insurance company that must invest all the cash premiums in a secure return and you have a choice between an 8% corporate AAA bond and a 24% junk bond. The first question is “what is my risk?”. Milken showed identical risk and default rates between the two products with a handy dandy chart. This was a no-brainer for the insurance companies and the reinsurance companies to the tune of over 11 billion dollars. Ultimately they collapsed, triggering the infamous savings and loan crisis. What was the problem with the equation? Milken compared corporate triple A rated bond defaults rates in the 1980s to junk bond defaults rates in the 1930s just after the great depression, apples and oranges. The context was the key element of deception. This is just another example of context being the often overlooked yet most important distinguishing factor in analysis.

I will go so far as to state that the context is the most important part of the set-up. This is what allows a particular pattern to be effective. The best part is that I have a system of defining and quantifying the context at any given moment in the markets. Just remember

**Context first, then Pattern! Context and (then) pattern recognition are the skills that the top traders and investors possess.**

**Converging Time Frames**

Effective indicators and patterns are linear throughout all time frames and markets. As mentioned so many times in my book “Trading Full Circle”, convergence is the key to a smooth trade. Take your four intra-day time frames (Daily, 60, 15, 5 minute time frames) with the 1 minute ‘fuse’ and when they are ALL aligned in the same direction (stochastics all in the same direction and moving averages same direction), the straight beeline moves occur. This occurs for a limited period of time just as a very profitable window of opportunity will not stay open forever. The goal is to time the final trigger with the fuse to take a piece of that window before it reverts back to divergence/noise. In a nutshell, remember that timeless arcade game Frogger? That’s what the markets are. You have to patiently wait until the lanes are cleared before you make your move. The toughest part is the waiting. During that waiting period, you must prevent yourself from wasting ammo and taking unnecessary trades. This will dilute your reaction once the lanes are cleared. Trust me! It happens all the time.

It is important that you are aware of the mechanics that go into analyzing a trade and the process of making the trade from beginning to end.

This guide will go over the basic set up of the charts so that you can track the swing trade portfolio alerts and see the actual pattern set-up that triggered the alerts as well as monitor your trades. Should you feel more inclined to delve deeper into the methods and expand your trading towards intra-day, the good news is that the methods, patterns and charts are all linear and scalable to accommodate that. So let’s cut to the chase and start with setting up the charts.

*To test your understanding of the Trading Full Circle methods and get updates on Jea’s latest strategies, visit www.traderslibrary.com/tradingfullcircle*
**Screen Set-up**

First we are going to set up your computer screen. While there are many online brokers and platforms available, for demonstration purposes, we will use the CobraIQ platform, for which you have a **30-day free trial at Cobra Trading**. If you take the CobraIQ offer, the preformatted template is already there, ask Chadd or Brandon for the upitcobr.lay file to download. They will even log onto your system to set up remotely.

**The Basic Chart: Stochastics Moving Average Chart**

The stochastics moving average chart is the basic tool used for swing and intra-day across all markets. This is chart is broken down into two halves. The top portion contains the price data, moving averages, and the Bollinger Bands (road map). The bottom chart contains the stochastics momentum bands and volume (engine).

Very important, make sure that your data is set to include pre and post market trades! This gives the full scope of view. I repeat, set the data to run from 8am to 8pm est or include pre/post market trades or continuous. Do not use just the 9:30am to 4pm est data settings!

Depending on your quote provider or online broker, the indicator settings should be universal. You should open up a new chart and then add the following indicators/studies.

1) Add four Simple Moving Averages composed of: 5 period, 15 period, 50 period and a 200 period  
2) Add Bollinger Bands set at 20 periods and 2 standard deviations.  
3) Add Stochastics Slow with the settings of 15,3,5 with 1 for smoothing,  
4) Candlestick charts (not line or bar charts)  
5) Volume bars (optional to a single time frame chart)

Once you have set up the above chart. Save it as the Default Chart. Open up four more identical charts. Change the time frame of the charts to 60 minute, Daily, Weekly and Monthly (one chart to each time frame). In CobraIQ, right click the chart, click Scaling and then click the aforementioned time frames.

On most platforms including CobraIQ, you will create a layout or workspace.

_Open ‘New Window” and Click Chart Window_

To get definitions of Stochastics, Bollinger Bands, and other key terms, be sure to visit the glossary at [www.traderslibrary.com/glossary](http://www.traderslibrary.com/glossary).

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Then you should get a blank chart along with a window with many options.

You want to click to the Indicators (or Studies on other platforms). Click Add Study and click Moving Average.

One you click Moving Average, click Customize to arrive at this screen.

Type in 50 for Indicator Length and click OK. Repeat the process four more times by clicking Add Indicator, then Moving Average, then Customize and add the values 5, 15, 20, and 200 for Indicator Length, clicking OK each time.

Once those are completed, click Add Indicator and click Stochastics Slow.

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Click Customize and type in 15 for Indicator Length for Stochastics Slow.

Then highlight Slow Stochastics %D and key in 3 for Indicator Length. Click OK.

Click Indicators, Add Study and Bollinger Bands. Click Customize and type in 20 for Indicator Length for Bollinger Band.

Then highlight Deviation Up and type in 2 for Indicator Length, then highlight Deviation Down and type in 2 for Indicator Length.
Click OK and your screen should contain all the key indicators below:

Click OK and you should have the basic Stochastics Moving Average chart. Right click on the chart and Save Chart as Default.

Here’s the breakdown of this CORE ESSENTIAL component of our trading system.
The UndergroundTrader Trading System “Exclusive” Quick Start Guide

Once you have the basic chart and made it your default chart, simply click New Window, click Chart Window, type SPY for symbol and click Scaling. Check Intraday type in 5, then OK. Repeat this process for Intraday for 60, 15 and 1. Repeat this process three more times clicking Daily, Weekly and Monthly.

Very importantly, for the 1 minute chart, delete the 15 period moving average indicator.

Right click on the 1 minute chart, click Indicators, highlight Moving Averages 15 and click Delete Indicator.

Lastly click New Window and click Level II.

Right click the upper portion of the Level II window and click Link To Group.

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Click *Link Window* for Group A.

Now go through each of your 7 charts and do the same thing. Right click the chart and *Link to Group* and click *Link Window* to group A. Eventually you should have the following 7 charts and a Level II screen (an extra Level II screen alone is recommended, not linked and an extra default chart on a 5 minute located at the bottom right).

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Wider Time Frame/Swing Trade Charts

The wider time frame Swing Trade charts are the 60 minute intra-day, Daily, Weekly and the Monthly. These are the four time frame charts needed for Swing Trading.

Intra-Day Trading Charts

The 60 minute, 15 minute, 5 minute and 1 minute charts are the Intra-day trading charts, as shaded below.

The shaded charts are the intra-day additional charts. That is the complete charting set-up and all the charts you will need on one screen! Even if you are just swing trading, it’s better to have a gun and not need it, than to need one and not have it, as it pertains to the intra-day charts.

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**Mini Pup and Pup Patterns**

Now that you have the tools, let’s get to the real nitty gritty of how to use the tools as a weapon. The core of the UndergroundTrader methods are based on two simple patterns. The mini-pup is a stochastics pattern and the pup is a moving averages pattern. However, they require confirmation with the other portion of the chart. In other words, a mini pup may be formed on the stochastics, but the moving averages provide the road map for the support, target and stop loss area.

A pup pattern is formed on the moving averages but require the stochastics momentum engine to move in the direction of the pup trend.

While a single mini pup formed on a single time frame is strong, two mini pups on two separate time frames are stronger. When a stock has three mini pups, this is the strongest pattern called The Perfect Storm.

**The Mini-Pup**

This pattern forms when the moving averages are showing an uptrend. An uptrend means rising 5 and 15 period simple moving averages, which represent higher highs and higher lows. When a stock price is rising, the stochastics will be rising as well with the lead stochastic followed by the laggard stochastics. When the stock stalls out and pulls back to the 5 period simple moving average, the lead stochastic will usually stall while the laggard is still rising. It is at this point where you need to pay very close attention. If they test the 5 period moving average with a reversal red candle and break it with a candle close below, then the stochastics will usually cross down.
However, when they test that 5 period moving average with a reversal red candle and bounce back up with a green candle, this will cause the lead stochastic to slope back up. This sloping up is the Mini-Pup breakout. It signals that the sellers were not strong enough to break the uptrend support and are now getting squeezed higher as new buyers come in off the fence. When a mini pup forms, the trail stop is set on a candle close below the 5 period moving average for that time frame with a target set at the next bumper. **Bumpers are 15, 20, 50 and 200 period moving averages and upper or lower bollinger bands.**

The inverse version of this is called a Mini-Inverse Pup, which pertains to downtrends, falling 5 and 15 period simple moving averages indicating lower lows and lower highs.

The reversal candle mini inverse pups are green going against the succession of red candles.

Mini-pup support is always the 5 period moving average with target set at the next bumper (15/50/200 or upper/lower Bollinger Bands) for that time frame chart.

**The Pup Pattern**

This is a moving averages pattern whereby the 5 period simple moving average stalls sideways while the **15 period simple moving average continues to rise**. When the stochastics oscillators cross back up and candlestick closes above the 5 period moving average, the breakout resumes to the upside. Pup breakouts need to trail the 15 period simple moving average. In many cases, a pup breakout will then form a mini pup on the stochastics as the 5 period simple moving average no longer wiggles and rises steadily. These are very strong patterns.

The same set up on a downtrend is called an inverse pup breakdown. This occurs when the 5 period moving average stops falling as the buyers try to bounce the stock back up, but fail when candles close back under the 5 period simple moving average while the stochastics cross back down for confirmation. The 15 period moving average stays constant and continues to fall.
Keep in mind, the stochastics MUST be crossed up to confirm a pup breakout and crossed back down to confirm an inverse pup breakdown!

Perfect Storms

These are the most powerful patterns. They are composed of three or more pup and or mini pups on three or more time frames.

Analysis Checklist

Whenever you have to swallow something big, the best course of action is to break it down into bite sized pieces and grind away piece by piece. This is the same mentality that should be adopted for our methods. The core analysis portion helps you quantify and analyze any stock on the fly. This core analysis is applied to context with the intent of discovering stocks that are at or close to convergence.

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There are three elements to keep in mind with the checklist:

**Core Analysis**
These are the core patterns and indicators that are significant!

**Context**
The wider time frames cover this

**Convergence**
Make sure the components are all moving in the same direction

### Core Analysis: The Nitty Gritty

While there are numerous things that you can analyze, I’m just breaking it down to the three most significant components to look for on any given time frame:

1) **Pup and mini pup patterns**
   On mini pups, always note the price of the 5 period simple moving average and the next bumper.

2) **Stars and hammer candle formations**
   Make sure there are at least 3 or more successful candles prior to the reversal star or hammer candle forming and note any bumpers where these candle form at/under/above or near. Eg hammer at the lower Bollinger bands.

3) **Galvanized price levels, meaning 3 or more bumpers that overlap within .20 of each other**
   For example, if a stock has its daily 200 period moving average at 25.25, weekly 15 period moving average at 25.15 and monthly 5 period 25.20 would make that 25.30 x 25.10 area a galvanized price level. It would be a galvanized support if the stock is trading above that range and a galvanized resistance if the stock is trading below that range.

   The wider the time, the more weight the elements carry. Eg: a monthly mini pup is much stronger than a 60 minute mini pup, however, the monthly doesn’t come into effect until the preceding time frames become aligned and converged.
First, search for the three components on the monthly chart. This chart helps to determine the deepest context.

Then, search for the components on the weekly, daily, and 60-minute charts.

If you happen to find a pup and or mini pup three or more charts (which represent different time frames), then you have just hit pay dirt, as this is money shot perfect storm pattern. Always strive to find these highest probability patterns.

**Context**

Take the above and run through the monthly, weekly, and daily charts. There’s your context!

**Convergence**

Check those context charts to see if they are moving in the same direction. If the weekly and monthly are aligned, but the daily is not, this is a signal to watch for the daily to eventually converge.

Ultimately, you want to find stocks that are converged from widest time frame on down. The paydirt pattern is a perfect storm. The mini pups naturally give you the supports and targets. Overlapping support/resistance levels further galvanize and clarify levels to take action. The playing field becomes clearer as you fill in the details. Ultimately, the trading plan writes itself through a series of IF THEN equations.

**Core Analysis:**

<table>
<thead>
<tr>
<th>Chart Time Frame</th>
<th>Trend</th>
<th>Galvanized Price Levels</th>
<th>Mini Pups</th>
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</thead>
<tbody>
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**The Trade Process**

Preparation and planning are crucial to your success with the swing trades and intra-day trading. The initial scanning and filtering will be done by our service and candidates for watch list inclusion provided along with triggers, trail stops and incremental profit targets. However, the process needs to be understood as well as applied. I have always been a believer in teaching a man or woman to fish rather than just providing the fish.

Speaking of marine life, consider the time frames like the depths of the ocean. The shorter time frames are more shallow (intra-day- 1,5,15 minute). The wider swing time frames (60 minute, daily, weekly and monthly) are deeper underlying ocean currents. While the shallower time frames will see the immediate results, the deeper time frame currents are ultimately the strongest. With this understanding, it only makes sense that when you place your trades, you want to be aligned with as many currents in the same direction. This is called convergence.

One of the reasons there is so much ‘noise’ and confusion associated with intra-day trading is because of the constant diverging time frames. For example, when the 60 minute is uptrending, but the 15 minute is downtrending and the 5 minute is uptrending, this causes a lot of chop with no sustained price movement. It’s easier to say ‘you can’t time the markets’ than to actually figure out that divergence composes the majority of the market activity. Unfortunately, this is how most of the trading day goes. That’s fine. It only makes the converging periods more profitable and satisfying when you catch them.
The key is to spot these windows of opportunity when the time frames are converged in the same direction... which is when the solid sustained price action comes into play.

Using our ocean analogy, we want to analyze from the bottom ocean currents up to the surface. Start with the monthly chart to see where the bumpers are in relation to where the stock is trading and note if there are any pups or mini pups in place. If there is a mini pup, then you know right off the bat to respect that 5 period moving average and measure the next bumper. From there, move to the weekly, then daily, then 60 minute charts. Note if there are mini pups or pups in place and which direction. This provides your playing field.

The intra-day analysis takes into account the daily and 60 minute charts first (note any significant pup/mini pups and their respective bumpers), then add the 15 minute and 5 minute. What about the 1 minute? That is our trigger chart for entry and exits.

The highest caliber trades contain at least 2 pup/mini pups. In this guide, I will only use the criteria for high probability set-ups, therefore having 2 pup/mini pups in the same direction (convergence) is a minimal requirement. When you add a third pup/mini pup, you have a perfect storm! Isn’t it so much easier that way?

**Filtering is the Key to Consistency**

The more you trade, the more you can lose. It’s not a very optimistic view of trading is it? However, it is the truth. Another truth is: Making profits is not hard, keeping them is. Do you see the correlation between the two statements?

Usually, a trader or investor will get lucky on their first few set of trades. Instead of accepting the ‘gift’, they critique themselves for taking profits too early or not taking enough leverage. The trader thinks he/she is doing the right thing by holding himself to a higher standard and not being satisfied which they misguidedly believe would lead to complacency.

So what do you think happens next?

If he has a minimal grasp of the set ups, he will enter on the trigger as before, but this time, he will take more shares and try to hold longer to capture more gains. He will ignore the smaller profit targets because he has the eye on the prize!

As the stock peaks out just above the initial resistance, he ignores the shorter time frame signals and is absolutely committed to the larger price target with full leverage. The stock pulls back to where it started. This trader is still brimming with confidence and assumes it will move much higher. As the stock falls lower and breaks down through the supports, this trader convinces himself that this is about resolve. As the original pattern now reverses into a breakdown, the trader finds himself in a severe losing position, he continues to hold on and even prays. When the trader is about to receive a margin call, he finally throws in the towel as his account is devastated, then the darn-dest thing happens, the stock rebounds.

At this point, this trader is not even watching the charts. He is just trying to make back losses and continues to buy the peaks and stop out at the lows, all the while oblivious to the larger time frame downtrends that are rejecting the shorter time frame coils. He blows out his account during this process. You must understand there is a nominal limit to price movement.

Accept any profits you attain are a ‘gift’ from the markets, especially in the beginning. The market willingly gives ‘gifts’ knowing it will...
Building a Solid Foundation aka Stormchasing for Perfect Storms

In the beginning, only focus on the highest probability set-ups, perfect storms. These occur when a stock has three or more pup and or mini pups (and inverse pup/mini inverse pups for breakdowns) that converge in the same direction lit by a fuse. Once they occur, they are easy to spot, after the fact. The tricky part is finding them before the thunder and lightening strike. As mentioned earlier, convergence is when full transparency is shown to the market. By the time transparency is made apparent, the profit window is near shutting.

Therefore, the key is to spot the set-up forming on the larger time frames and waiting patiently for the shorter time frames to align in that direction.

Case in point, June 7th, 2010, the daily chart on the SPY had an inverse pup breakdown. The daily moving averages formed an inverse pup that was confirmed by the stochastics cross down. This is a great start. However, if you had simply shorted SPY on the open at 107, you would have been sweating the move to 107.60.

The problem on the market opening was that the 60 min chart had stochastics that were moving up on very tight moving averages. The stochastics is the engine. Therefore, the key was to patiently wait in the wings for the stochastics to wear itself out and cross back down on the
60 minute, the 15 minute and the 5 minute chart. This noise and choppiness last for FIVE HOURS after the open. During this time, so many newbies and inexperienced traders probably got shaken and stopped constantly. More than likely most of these guys threw in the towel and wrote off the day as chop, not us ;)

Five hours after the market open, the 5 minute chart broke down as the stochastics crossed down fueling the moving average downtrend. The 15 minute stochastics finally crossed down at the 2pm est mark and formed a mini inverse pup as it rejected the bounce attempts and the 60 min chart finally crossed down at the 2:30pm est mark. The earlier trigger was the SPY 107 break where we SHORTED on the 5 min mini inverse pups. Like a domino effect, the 15 and 60 min fell over thereafter. When the 5 minute formed mini inverse pups it aligned with the daily chart. Once the 15 minute stochastics crossed back down, we had 3 lanes and the 60 min cross down was the final nail in the coffin as SPY sold off methodically to 105.50s into the close. We shorted at 107 to ride down and also took 6 shorts in between on almost every bounce and rejection off that 5 period moving average. Like a sniper waiting in the brushes, we had to buy ourselves time and get the 5/15/60 minute time frames to finally rollover and align with the daily inverse pup breakdown. This formed a solid sell-off to close near the lows and prior double support areas at 105.50s to lock out.

The morale of this story and trade is to be patient to let the smaller time frames align with the larger time frame and then attack when triggered. This is the essence of “A skilled fighter places himself in a position where defeat is impossible, yet never misses the opportunity to defeat the enemy” Sun Tzu.

Before you go on, take this quick quiz to make sure you haven’t missed any key concepts:

1. The mini pup pattern:
   a. Is a stochastic pattern
   b. Is formed when moving averages show an uptrend
   c. Requires the confirmation of the moving averages
   d. All of the above

2. The pup pattern:
   a. Is a moving average pattern
   b. Requires stochastic confirmation
   c. Is used in conjunction with the mini pup
   d. All of the above

3. What should be the first consideration when researching trades?
   a. The pattern
   b. The direction of the moving average
   c. The one-minute chart
   d. The context

4. Data used to scan for trades should ALWAYS include:
   a. Premarket trades
   b. Postmarket trades
   c. Only the easiest trades
   d. Both pre and post market trades

Get the answers! Visit www.traderslibrary.com/tradingfullcircle.
Pup Quiz…

If you are new to this system, then you MUST start with ONLY the best filters to build a foundation of proven methods to hit a minimum of 75 percent profit accuracy. Keep in mind, this accuracy is based on where you exit out of the trade. Do not let a profit turn into a loss. Even if you exit with just a 0.01 profit, that goes into the positive accuracy column.

Once that is accomplished, then and only then can you widen your filters to play lower probability setups. The trade off with lower probability setups is that they are more common than the highest probability setups, logically so. The reason most traders and self-directed investors fail is that they do not discriminate from the beginning the difference between highest and lower probability setups, which ultimately dooms them to fail in time. Do not walk this path.

Pre-requisites

Before you even consider moving forward here, you must absolutely be able to identify a mini pup and a pup formation on a chart.

Can you spot the Mini Pups?

1) What is the support on all mini-pups and mini-inverse pups?
2) Does a stock have to be trending to form a mini pup?
3) How many pup and or mini-pups are required for a Perfect Storm?
4) What is the stop-loss level for a mini pup?

Get the answers! Visit www.traderslibrary.com/tradingfullcircle.
I am going to walk through the planning and execution process of a trade. This will apply significantly to the intra-day trading and will illustrate the process behind filtering the Swing Trades. This is still important for swing trades because your entry and exit routine can be adjusted favorably with solid intra-day trading skills.

**Buying Long Checklist:**

1) 60 minute/15 minute uptrending moving averages and stochastics crossed moving up with a mini pup on either or both charts

2) 5 minute chart forms a mini pup

3) 1 minute stochastics crosses up through 20 band stochastics and 5 period moving average (mini pup is even better!) – BUY

4) SELL the 1 minute upper Bollinger band first and the upper Bollinger bands on the 5 minute secondary in progression 15 minute and lastly 60 minute

5) STOP out if the 1 minute stochastics crosses back down and 5 minute candle closes under the 5 period moving average
Selling Short Checklist:

1) 60 minute/15 minute uptrending moving averages and stochastics crossed moving up with a mini pup on either or both charts

2) 5 minute chart forms a mini pup

3) 1 minute stochastics crosses up through 20 band stochastics and 5 period moving average (mini pup is even better!) – BUY

4) SELL the 1 minute upper Bollinger band first and the upper Bollinger bands on the 5 minute secondary in progression 15 minute and lastly 60 minute

5) STOP out if the 1 minute stochastics crosses back down and 5 minute candle closes under the 5 period moving average
Perfect Storm SHORT Trade:

1) 60 minute chart has a mini inverse pup and or a moving average downtrend
2) 15 period chart has a mini inverse pup and or inverse pup and moving average downtrend
3) 5 minute chart has a mini inverse pup and or inverse pup and moving average downtrend
4) 1 minute stochastics crosses down ➔ trigger SHORT
   1 minute stochastics mini inverse pup down ➔ extra strong SHORT trigger

This chart is an example of a PERFECT STORM SHORT trade that we played on June 4th, 2010 intra-day. Four time frames all converged (finally!) with the 1 minute mini inverse pup (best trigger!) which set up an immediate panic and followthrough that resonated for hourse afterwards on the SPY. When the SPY tanks, the market and literally even single stock follows. This is one of the reasons why it’s important to track the SPY or the futures (S&P E-minis or Nasdaq 100 E-minis) throughout the day.
Swing Trades in Action

SPY SHORT via PUT Options

On 4/30/10, we anticipated a strong sell off in the markets and initiated a swing trade to buy June 120 PUTS on the SPY (S&P 500 Index etf). The premise for the short was the daily mini inverse pup breakdown. The underlying stock SPY was trading at 119.60. We closed out the puts at $6.30 for a +80% gain, as the SPY sold off to 113s and eventually crashed to 106s intra-day as puts hit a high of $12.50!
VHC Long on Daily Mini Pup

VHC had formed a monthly mini pup and daily mini pup. We took VHC LONG at $5.52 on 5/12/10 for a three day swing trade to lock out completely at $7.55 (premarket) on 5/15/10 for a +2.03 gain (36%)

The monthly mini pup was a powerful undercurrent that foreshadowed the breakout to the upside. The daily mini pup was the trigger to go long on the swing trade.

Keep in mind that one mini pup is strong, two are stronger and three (perfect storms) are the strongest pattern for swings and intra-day!
The UndergroundTrader.com Trading Pit

With this material, you should have a free 30 day trial membership to the UndergroundTrader.com Trading Pit, which is the text chatroom where I dwell every single trading day with our community. I provide real time analysis and trade recommendations. Before you take any trade, it is imperative that you have the tools set up and a solid grasp of the methods.

To log in, go to www.undergroundtrader.com/pit/

Enter in your login and password (case sensitive)

This will open up the java chatroom with various buttons on the right that are self explanatory including the daily and archived logs. The trader training sector has over 3,000 pages of materials for members to read through as they wish. You can click the Float option at the top right hand side to minimize just the chatroom window.
Trading Alerts

When I call a trading alert, it will come in the format of “Consider a BUY XXX at 27.30” followed by analysis comments like “15 and 5 min mini pups and 1 minute low band cross up, trail 27.10 for now, looking for 27.49 x .52 area”. While this may seem self explanatory, there is much responsibility placed on the trader, you.

Allocation is a major component. Start off small (100 shares) until you get more experience and consistency under your belt.

When a stock gets near a target, I will post “Clip/pare”. Clip means to exit your positions for a profit. Pare only applies to the more experienced traders who can manage to trim out 50-75% of their position and revert to the wider time frames for a larger move. However, if that move does not transpire, then the trader will actively manage the stop loss on the remaining shares.

Newbies should exit their complete position at any mention of “Clip/pare”. This allows you to lock in profits, end of story. When I alert “Lock out”, that means exit the position completely.

If a trade turns sour, I will alert “Back to cash” or “Keep stops”. This means to exit your position immediately at a loss to prevent further losses because the pattern got rejected or we are being prudent and buying necessary time for transparency to form while avoiding any more losses.

Here is an example of a trading alert where we bought LVS long at 24.88 to sell at 25.13, out + .25. The actual entry and exits will vary depending on what price you get executed at.

The premise for the trade was the 5 minute mini pup on the 1 minute stochastics cross back up trigger and the 1 minute pup breakout. The daily and weekly charts both have mini pups. These are four mini pups, which is a perfect storm set up. This is what the charts showed.
Conclusion

I hope this guide was helpful getting your started on the right footing. Please read through “Trading Full Circle” for more detailed explanations of the set-ups and indicators. Once you have gotten your win consistency through the 75% threshold, then delve into the Playbook chapter of the book, which further details more strategies.

Feel free to send any questions to me at jay@undergroundtrader.com.

I wish you great success with your trading journey and hope to have sped up your learning curve exponentially. Good Trading!

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