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Toni Turner discusses her market checklist designed to evaluate market conditions and two market set-ups for trading stocks. Using these tools as the foundation of a trading plan could greatly improve your chances of trading success

Three Steps To Short-Term Trading Success

When the opening bell rings each morning, do you feel calm and confident or do you feel apprehensive and overwhelmed?

With thousands of financial Internet sites to research, hundreds of new financial products to trade, economic news coming from all directions and the heady bubbling of global markets thrown in, it is no wonder that the opening bell finds many traders immersed in uncertainty.

One of the best ways to approach the trading day with confidence is to keep a concise, carefully considered plan of action at your fingertips.

If these three areas have been covered before that opening bell rings, your trades can be planned with ease and can be executed with success.

1. Monitor market conditions with a checklist.

2. Become an expert in two or three set-ups. Target two or three set-ups that complement your trading style. Become expert in their execution and use them on a consistent basis.

3. Establish definitive risk management parameters. Maintain firm risk/ reward parameters that serve to keep your risk low and your profits high.

Market Checklist: Evaluate Current Market Conditions

Each morning before the market opens, I fill out a market checklist. Answering the questions on this list serves to form a premarket analysis routine. It also helps me form a bias (positive or negative) relative to market action for the morning session.

My checklist is shown in the following spreadsheet (Figure 1). The first few questions are self-explanatory. As you answer them, you will note whether the global markets traded while you were sleeping. Markets in different countries tend to take cues from other markets as they close, in a kind of domino effect.

Next, you will want to analyze daily and weekly charts of the S&P 500 and the NASDAQ 100. You also may want to check the Dow Jones Industrials, the S&P 400 (mid-cap market) and the Russell 2000 (small-cap market). These indices pertain to U.S. markets. Of course, if you are trading in another country, you will want to analyze charts of your country's major indices or exchanges.

After you determine the health of the major markets, check the E-Mini futures contracts for the S&P 500 and NASDAQ 100. The futures contracts tell you whether the markets will open up or down; they will also help furnish you with a positive or negative opening bias.

I like to keep an eye on the VIX and VXN, which are the CBOE (Chicago Board Options Exchange) volatility indicators. The indicators are 'contrarian.' As they move higher, the index generally moves lower. The VIX applies to the S&P 500, and the VXN applies to the NASDAQ 100. When these indicators trade quietly in low basing formations, the low volatility is positive for the indexes. When the VIX and/or the VXN begin to move higher, it suggests that the S&P 500 and/or the NASDAQ 100, respectively, may be in for a pullback.

You may also want to check the New York Stock Exchange Advance/Decline line. You should be able to find a chart of this line in any financial newspaper. An advancing line means more stocks are moving higher than moving lower, which is a positive indication for the overall market. A declining line means more stocks are moving lower. Pay strict attention to the major indices. If they are soaring, but the A/D line is falling, that is an indication that market weakness may be just around the corner.

The onset of options expiration week, which falls in the third week of every month, means that price moves can be choppy, especially toward the end of the week, when the actual expiration of these positions takes place.

It is imperative that you stay up on the dates and times when new economic data or earnings reports are to be issued. These reports can move markets around the globe. You will find an Economic Calendar with major economic reports listed on the ToniTurner.com home page. Economic and earnings reports can also be found at www.briefing.com and other financial websites.

Finally, you will want to analyze daily and weekly charts of the sectors or industry groups where your target stocks reside. Remember, about 40% of a stock's daily price action can be attributed to the health of the trend of the sector or industry group where it resides. So, if you want to assume a long position in a semiconductor stock, but the semiconductor index is diving lower, you might want to stand aside. Reconsider the trade when that index moves into a positive mode.

Two High-Potential Set-ups for Position (Trend), Swing and Intraday Traders

Most successful traders rely on a few good set-ups that work well for their trading style and timeframe. A 'set-up' is a specific formation on a price chart that offers a good place to take a long or short position. Remember, the more complicated your set-up triggers are, the fewer stocks will fit your criteria.

The following are two of my favorite set-ups. While they are designated for position and swing trades, you will find that the entry day of each set-up can be traded as a day trade as well because the entry day generally sees the strongest buying momentum.

Set-up #1 – Trend Reversal Trade

The first set-up is a trend reversal trade, sometimes referred to as 'bottom fishing.' In this trade, I look for a stock that has moved in a downtrend and consolidated on former price support. Now, I look for it to break into a healthy uptrend.

Entry triggers:

- Price breaks above the base consolidation tops on strong volume
- 20-day simple moving average (SMA) crosses above the 50-day simple moving average (SMA)

Current Market Conditions Evaluation Checklist

Date	Question	Response
	1. Where did the global markets close overnight?	
	2. S&P 500 Index in uptrend, downtrend, or horizontal trend?	
	3. S&P 500 Index trading above/below its 50-day MA?	
	4. NASDAQ Composite trading above/below 50-day MA?	
	5. Are the S&P 500 and NASDAQ 100 E-Mini futures positive or negative?	
	6. Is the VIX trading quietly or moving higher?	
	7. NYSE Advance/Decline Line rising or falling?	
	8. Is this options expiration week?	
	9. Will economic data or earnings reports be issued today?	
	10. Are the sectors/industry groups related to my target stocks trading in positive or negative territory?	

Figure 1 – Market Checklist

- MACD (moving average convergence-divergence indicator) moving higher
- On-Balance Volume (OBV) indicator rising (the OBV is a single line indicator plotted over the volume spikes on a chart.)

When these signals are in place, I enter a long position with the goal of holding it as long as the stock moves in an uptrend. For risk management, I use a trailing stop placed beneath each consolidation or pullback.

Please note: This is a trend reversal trade heightening the risk involved. A base forms after a stock falls in a steep downtrend, diving below its 20, 50 and 200-day moving averages on a daily chart. The underlying company many have had poor fundamentals that sent it into a downward spiral.

Once sellers are exhausted and there is an indication that fundamentals will brighten, new buying comes into the stock, causing it to consolidate or move in a sideways pattern.

When (if) new buying comes into the stock causing it to move above the consolidation highs, traders who buy positions do so with the expectation that the prior downtrend has ended and a new uptrend is beginning.

> **Make sure you buy stocks breaking out of *orderly* consolidations formed from narrow price patterns. Bases that develop from wide and disorderly price swings usually spawn unreliable breakouts.**

This is where the risk comes in. News or market conditions can cause the initial breakout to fail – and price to fall and possibly slide below the low of the base. If that happens, the prior downtrend could resume with dire consequences to long traders who do not sell their long positions quickly. With this type of trade, you must place an automatic stop-loss order with your broker as soon as you enter the position. Remember, the first rule of trading: protect your capital.

Now for some good news – if the stock does begin a new uptrend as previously expected, your long position may move higher for weeks or months and deliver multi-point profits and high percentage returns on investment!

Daily chart of Apple, Inc. (AAPL). RealTick® by Townsend Analytics, Ltd.

Figure 2 provides examples of two position trades in Apple, Inc. (AAPL). In March, AAPL broke out of an orderly base on strong volume. It showed a 20/50-day simple moving average (SMA) crossover, rising MACD and rising On-Balance volume (OBV).

The tech stock surged into an uptrend and did not look back until it experienced weakness in August. Then, it catapulted below the 20-day simple moving average (SMA). Our trade was stopped out when it touched our stop order placed just below that pullback's low at $134.

We re-entered AAPL in mid-September when it displayed the same technical signals. We were stopped out in mid-October, when AAPL once again hit its pullback stop. While some traders would not have chosen to exit here, we have noted that the OBV is moving lower and the NASDAQ 100 is weak. This appears to be a good time to take profits and stand on the sidelines.

Set-up #2 – Trend Continuation Trade

The second set-up is a trend continuation trade or swing trade. Its intended hold time is two to five days or longer. In this setup, I scan for stocks already rising in a confirmed uptrend. I enter a long position when the stock breaks out on strong volume from a pullback or orderly consolidation.

Entry Triggers:

- Price breaks out of pullback or consolidation on strong volume
- 6-day exponential moving average (EMA) crosses above a 10-day simple moving average (SMA)
- MACD (moving average convergence-divergence indicator) moving higher
- On-Balance Volume (OBV) indicator rising

My goal with this set-up is to take profits out of price swings on the daily charts in stocks moving in an uptrend. (Short sellers can use these triggers in the context of a confirmed downtrend.) The usual hold time is two to five days and often the hold time is longer. I exit the trade when the 6-day exponential moving average (EMA) crosses below the 10-day simple moving average (SMA).

Three considerations:

- If the stock surges in a vertical move higher and becomes dramatically overbought, I may take profits and exit before the 6-day exponential moving average (EMA) crosses below the 10-day simple moving average (SMA) signaling an exit.

Daily chart of Frontier Oil Corp. (FTO) RealTick® by Townsend Analytics, Ltd.

- This moving average crossover is very 'tight.' Just so, the setup earns the highest gains when applied to stocks moving in a 45-degree uptrend, or steeper. Using this crossover in a shallow uptrend can produce choppy, no-gain results.

- This moving average combination also has the capacity to keep the trader in a muscular, uptrending stock for several weeks. Profit-wise, that is a really good thing!

  Why is strong volume necessary for entry? If price moves out of a pullback or consolidation on weak volume, the buying support may not be strong enough to sustain the breakout and price may slide back into the pullback or consolidation area.

Figure 3 shows Frontier Oil Corporation (FTO) moving in an uptrend initiated in March. Two swing trade opportunities occurred in March and April, but the laterally moving MACD told us that the moves were shallow. In mid-May, the oil services company surged higher on strong volume with all entry triggers in agreement.

Frontier Oil continued its strong uptrend. The crossing 6-day exponential moving average (EMA) and 10-day simple moving average (SMA) offered three multi point swing-trading opportunities. Then, in mid-July, the stock hit a high price of $49 and rolled to the downside.

Short-sellers note: When Frontier Oil (FTO) reversed into a downtrend in July, short-sellers could have used the 6-day exponential moving average (EMA) and 10-day simple moving average (SMA) crossover, MACD and OBV negative signals to pocket a multi-point short sale. Even so, I do not recommend selling short until a stock is in a confirmed downtrend. On this chart, Frontier Oil (FTO) did not make a lower low until it broke 41.

Lower oil prices took Frontier Oil lower from mid-July until mid-August. Then the stock reversed to the upside as dramatically as it had fallen and shot higher into another uptrend. With the moving average crossover, rising MACD and OBV in positive territory once again, Frontier Oil shot higher for another four weeks, offering yet another good trading opportunity to the long side.

Establish Effective Risk Management Parameters

While these set-ups and others can offer you a low risk, high profit potential for your short-term trades, all successful traders know that it is imperative to have risk management in place to stay in the game. You must perform firm risk/ reward analysis for each trade before you enter. That way, you can plan your trades to keep your risk low and your profits high.

As part of your overall trading plan, you may want to establish a risk/reward ratio of 1 to 2 or 1 to 3 for all of your trades whatever the time frame. That means that for every one point of risk, there are two points of possible profit. Or, better yet, for every one point of risk, there are three points of potential profit.

Risk equals your possible loss on a trade. If you buy 500 shares of a stock at $20 per share and place your protective stop at $19, you have one point of possible risk.

To take the example a step further, let's say you want to enter the stock at a consolidation breakout at $20 per share. The prior high on the daily chart was at $23 per share. The prior high equals resistance, or the point at which sellers might stop the price rise. That is three points from your entry at $20.

Therefore, if your entry is $20, your initial protective stop is at $19 and your profit target is at $23, you have a risk/reward ratio of 1:3. And, that is a good trading plan.

Please remember to plan your trade before you enter. If you see that your logical protective stop is too far below your entry price to make the trade potentially successful – avoid the trade. Or, if you see that resistance may produce sellers just above your entry price, avoid the trade. Remember, those who succeed in this business do so by maintaining small losses coupled with larger profits. In other words, they combine small potential risk with higher potential reward.

As you move forward in your trading career, remember to monitor market conditions, become expert on a few good trade set-ups and plan each trade with effective risk management parameters.

That way, when you hear the opening bell ring each morning, you will trade with confidence and success!

Toni Turner is a popular speaker in the financial arena and the best-selling author of A Beginner's Guide to Day Trading Online and Short-term Trading in the New Stock Market. For more information and educational resources, please go to: www.ToniTurner.com.