“Stay on the Right Side”
&
Finishing the Year Strong!

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ALL MATERIALS PRESENTED ARE FOR **TRAINING PURPOSES ONLY**. **TRADERS SHOULD PAPER TRADE ANY NEW METHOD PRIOR TO RISK OF PERSONAL CAPITAL.**

Tools for Staying on the Right Side of the Market

Institutions don’t care about small traders—They just want to take our money!

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Tools for Staying on the Right Side of the Market

GET IN EARLY, GET OUT EARLY

The secret is to be able to **anticipate the move**, not to react to it.

And it is also important to **control the emotions** of fear and greed – which always causes people to do the wrong thing at the wrong time.

Tools for Staying on the Right Side of the Market

Even when we think we do everything correctly---

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Tools for Staying on the Right Side of the Market

Emotions are against us!

- A lot of academics get married to the idea that “markets are efficient.”
- Well, they aren’t.
- The financial markets are unique in that the emotions of the participants are on full display in minute to minute price charts.
- Always remember that – emotions trump logic every time when it comes to people’s money in the short term.
- It is especially easy to get into a state of denial when the stock market is going up . . . but your stock has actually reversed.

Tools for Staying on the Right Side of the Market

We must learn to be strategic
We must learn to be disciplined
We must learn to be patient

We must learn to use tools that will make this possible..

- **Ebb & Flow of the Market**
- **Mechanical Approach**
  - **Moving Averages**
  - **Price Envelopes**
  - **Fibonacci's**
  - **Trend Lines**
  - **Candlesticks**
  - **Oscillators**

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Today's Tech Tip: All Markets Ebb & Flow

Understanding this concept will improve your trading

Patience & Discipline

Market Ebbs and Flows

- Markets are ALWAYS ebbing and flowing.
- AND they are always ebbing and flowing in one of three patterns:
  - Sideways
  - Uptrend
  - Downtrend
- And all three have different sets of emotional intensity – which is why "down moves" are often faster than sideways or up moves.

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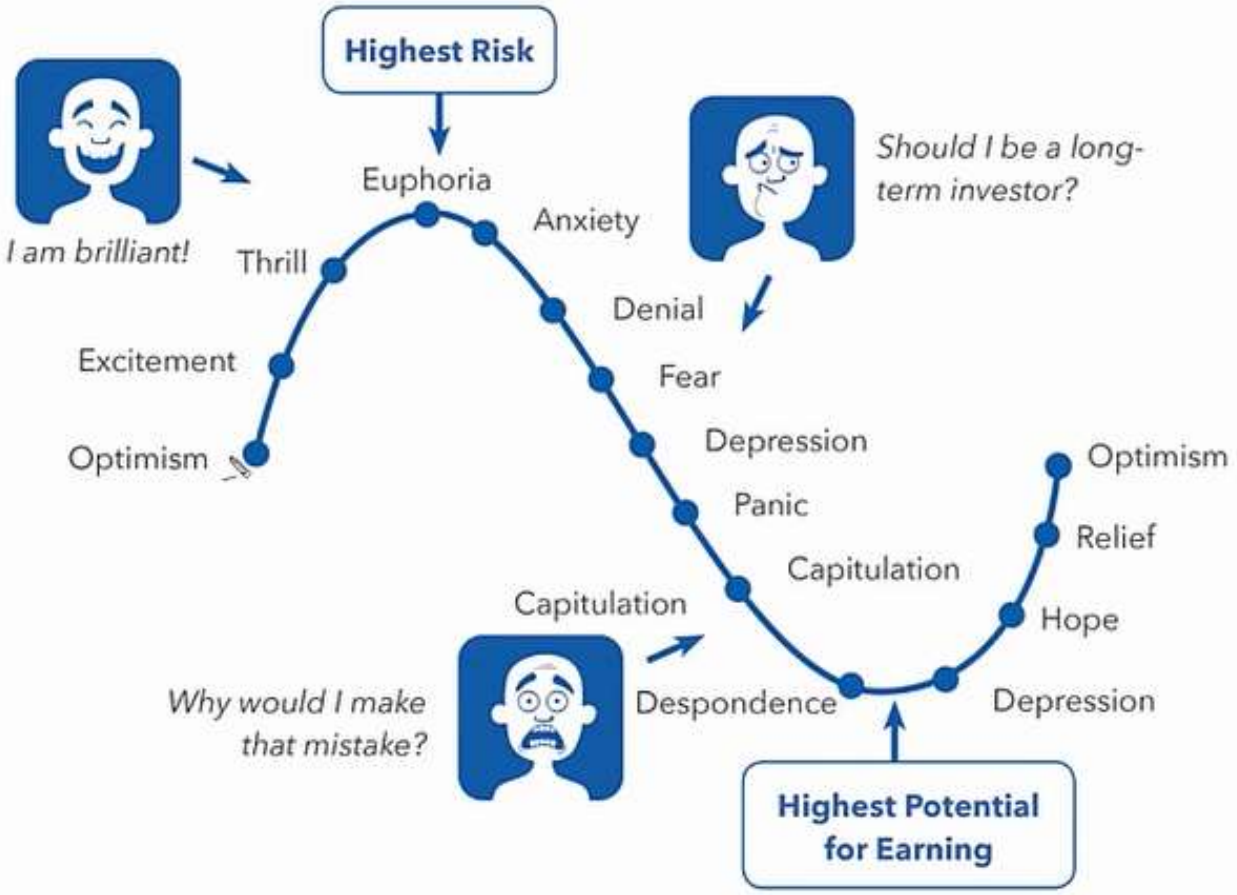
Markets Move On Waves of Emotion



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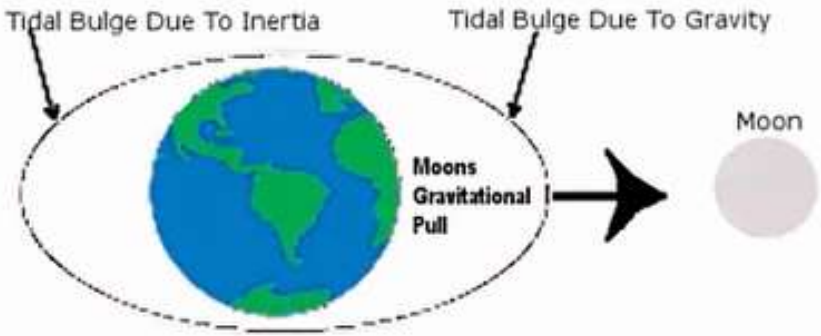
There is a Constant Pull on the Markets

- Just as gravity impacts the rising and falling of our ocean's levels -
- Human emotions impact the rising and falling of all markets and all stocks.
- The closer the moon, the bigger the ocean waves.
- The more intense the human emotion, the larger the market swings.



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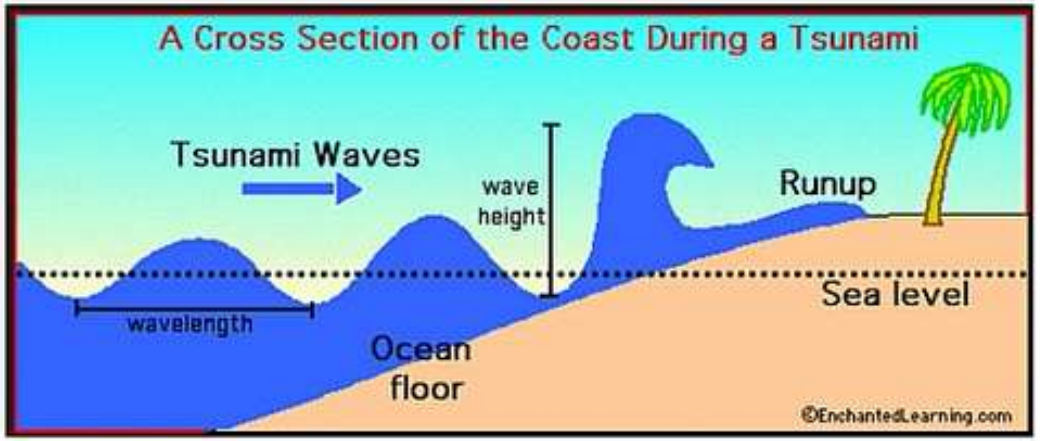
Waves crashing onto land look a lot like a stock chart, with the same ebbs and flows, peaks and valleys. Note the concept of "Sea Level" which is something we will come back to.



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Markets Move Like Waves

- In a sideways trend, stocks rise and fall in a narrow "flat" range.
- It means a market is currently fairly valued in the eyes of investors.
- In this type of market, inexperienced traders often buy the highs (because it feels safer!) and get stopped out on normal pullbacks, only to see the markets rally again.

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The Ebbs and Flows Are Readily Visible –

But are they measurable? Do they follow patterns?

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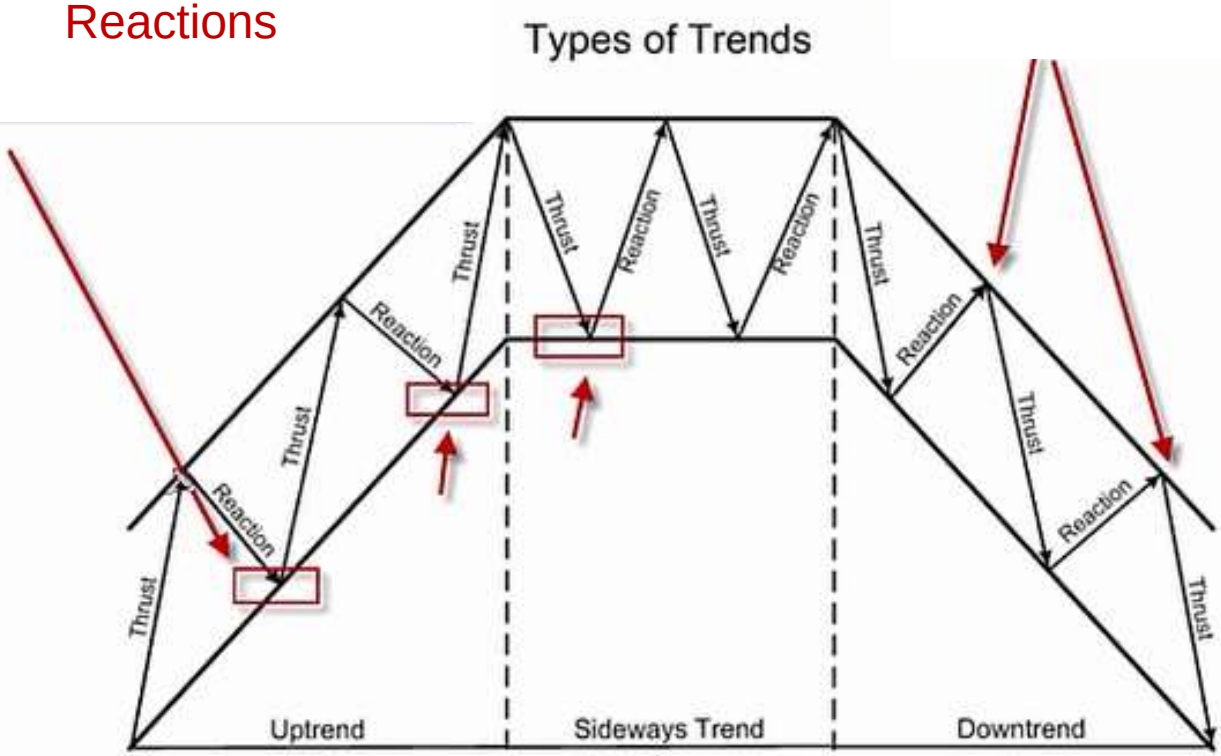
Ebbs & Flows can be defined as Thrust & Reactions

Ebbs & Flows Go Up & Go Down



Program yourself to wait!!

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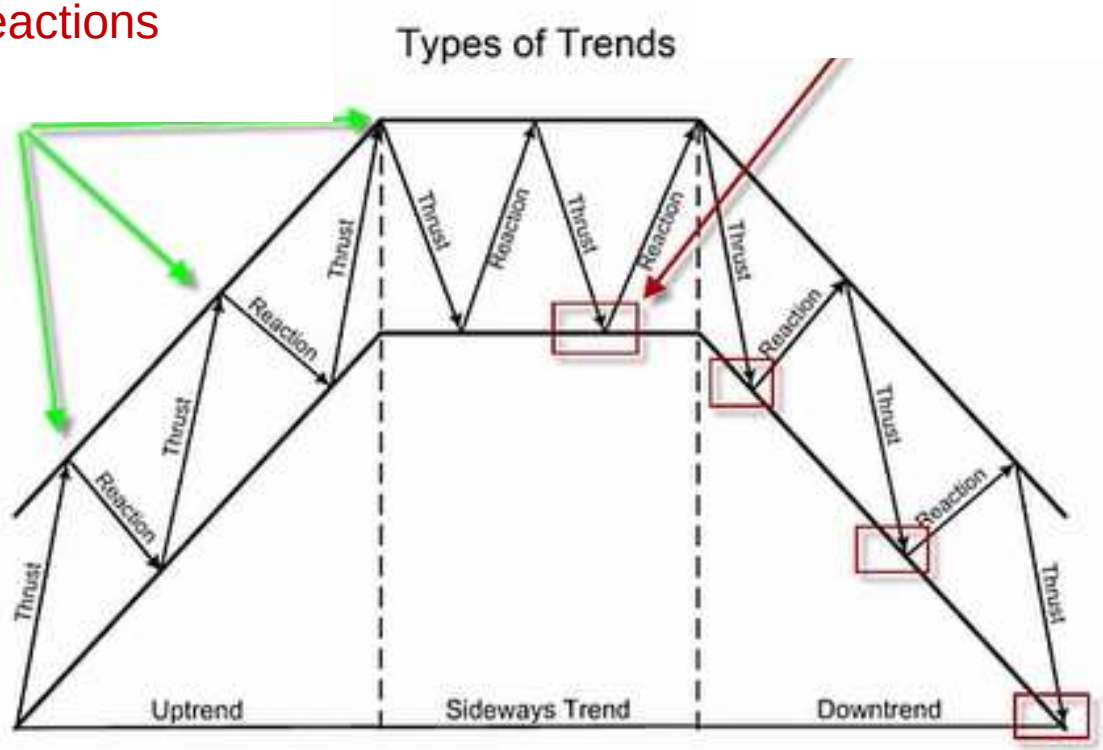
Ebbs & Flows can be defined as Thrust & Reactions

Ebbs & Flows Go Up & Go Down



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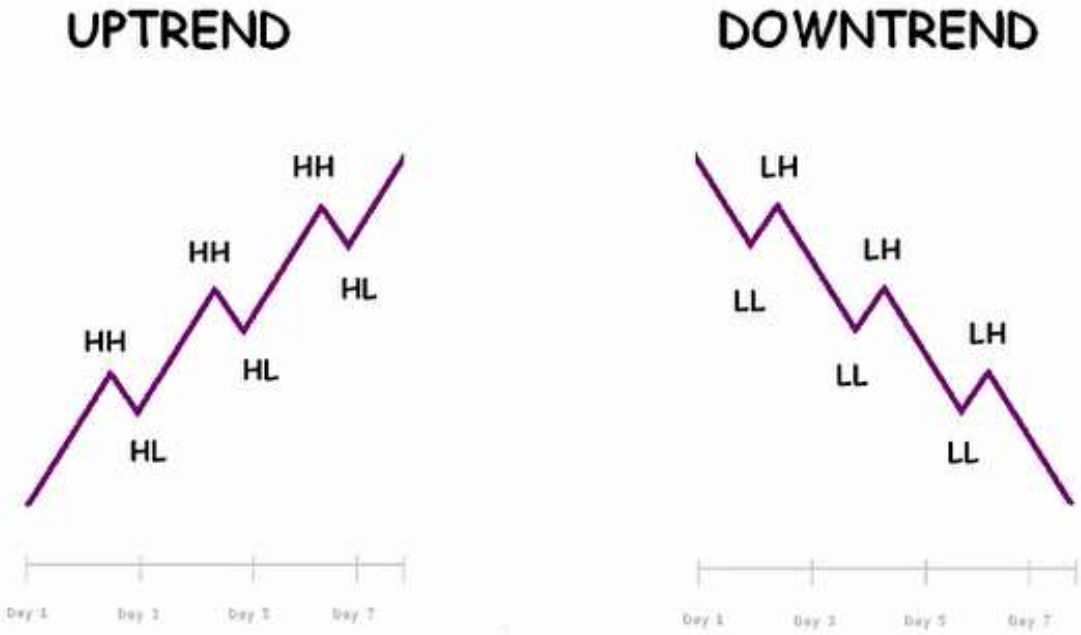
Uptrends & Downtrends

They move EXACTLY like sideways markets in terms of the ebbs and flows.
Think of it as ocean waves moving either up a hill or down a hill.

Uptrend: HH = Higher High, HL = Higher Low

Downtrend: LH = Lower High, LL = Lower Low



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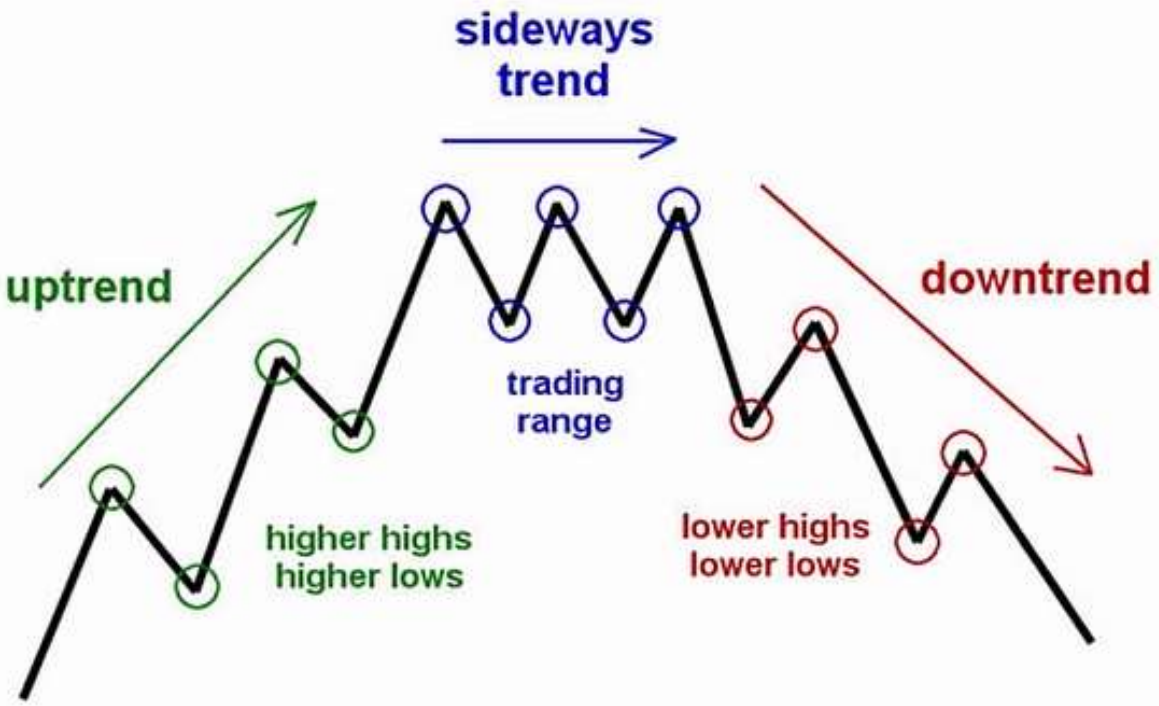
Typical "ebb and flow" of emotional price swings during an uptrend, toping sideways trends, and the prevailing downtrend.



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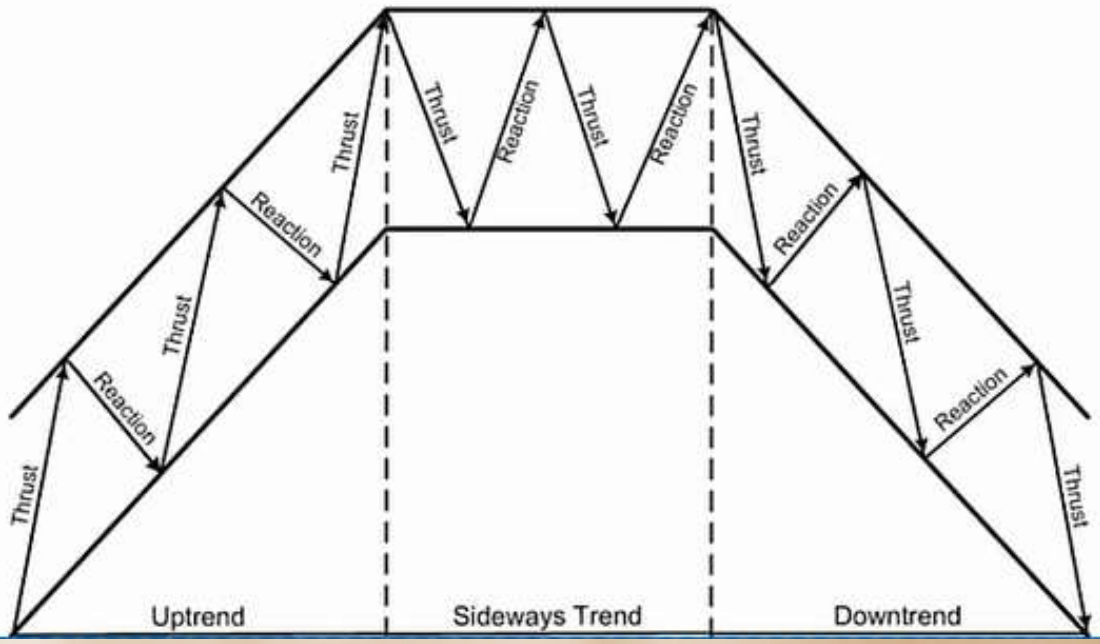
Keep in mind – during each of these cycles, there are always people "chasing the highs and chasing the lows" on the THRUSTS, then they get stopped out on the REACTION. This creates a lot of the price movement we see in the markets. Stocks move FASTER when lots of people are on the wrong side of the trade.

Types of Trends



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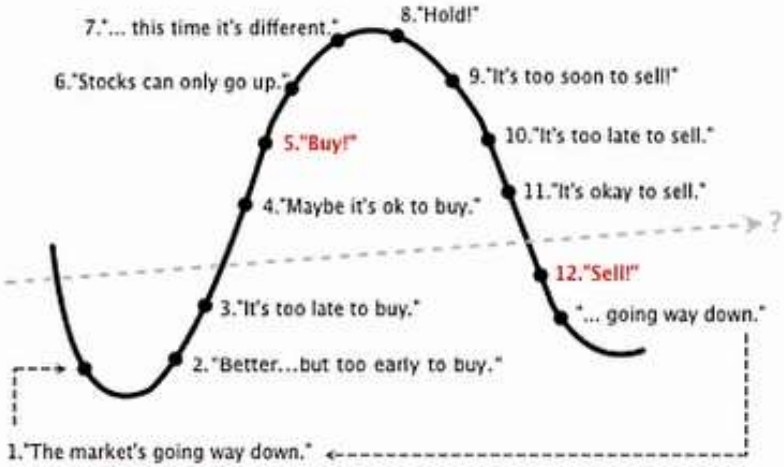
The Trading Cycle: This happens in uptrends, sideways trends, and in downtrends.

THE TRADING CYCLE

- Strong, Smart, and Dumb MONEY
- The marketing Model



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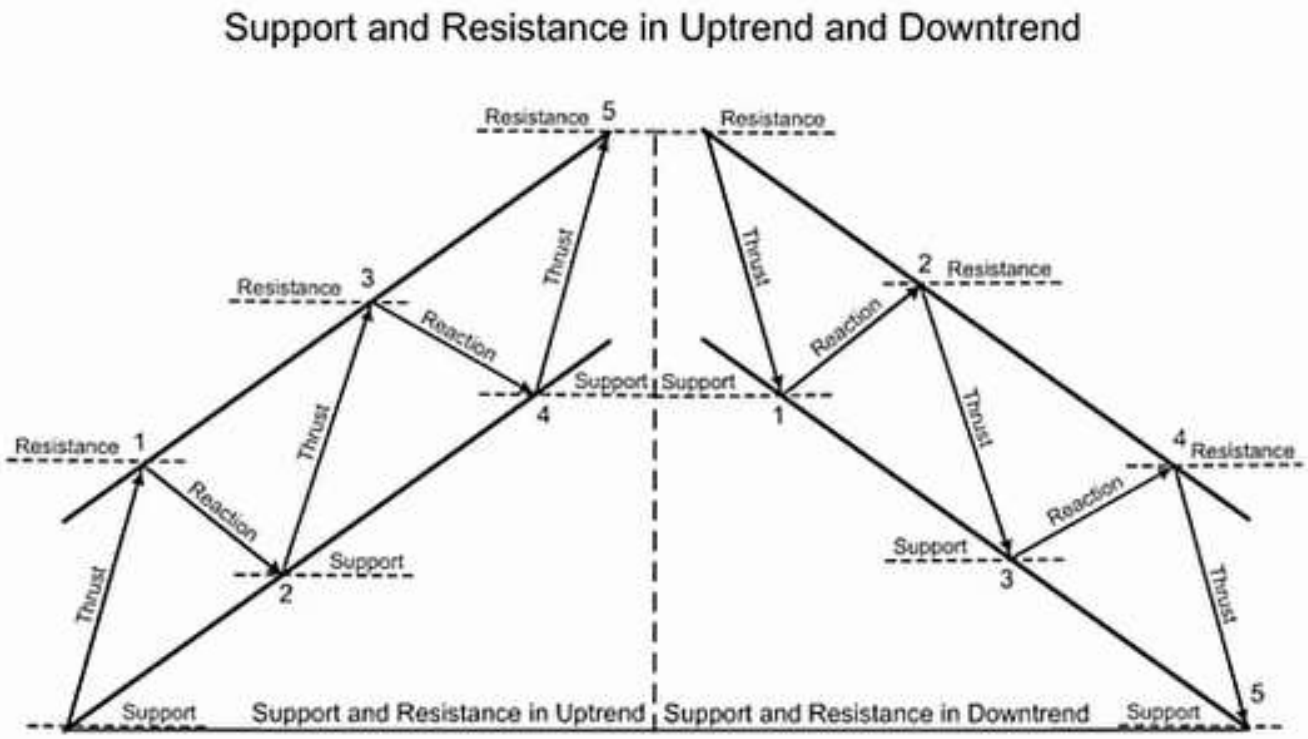
These Emotional Reactions Create Support and Resistance



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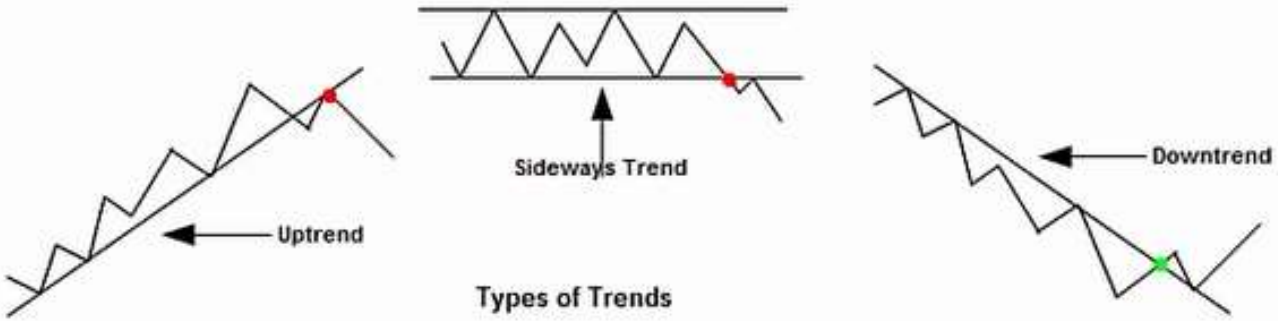
And the Trend is YOUR FRIEND Until it Breaks the Current Trading Cycle



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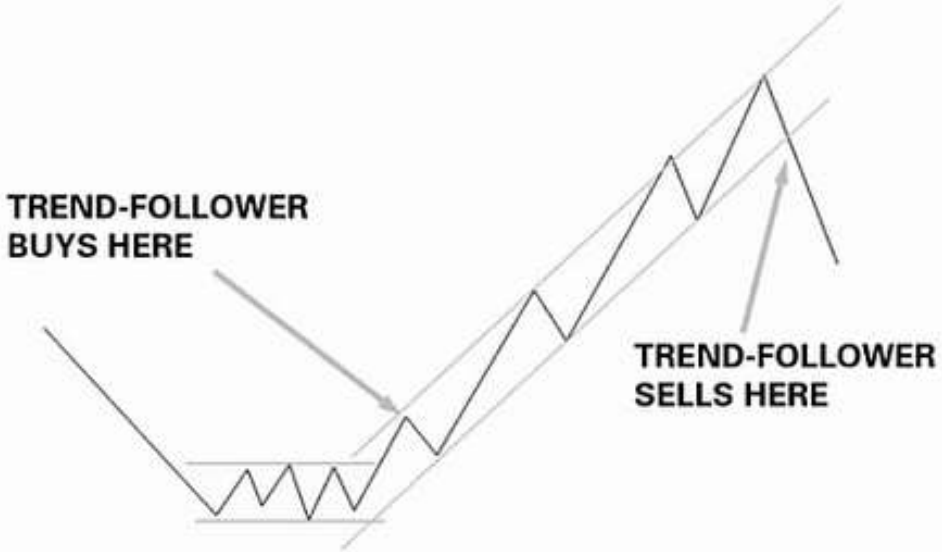
Trend Traders



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Price Envelopes

- Shows Extreme Price Levels
- ***Shows Strength of Trends***
- Provide Clues on when to enter & when to exit trades
- Often Set up Reversion Trade Opportunities
- Combining Keltner's and MA Envelopes provide confirming clues
- Encourages Patience

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Secondary Active Trend Trading Indicators

The Active Trend Trading System has Two levels of indicators to aid in timing both entries and exits

- Primary Indicators include
  - **Price Action—This is King!**
  - Moving Averages—8 ema, 20 ema, 50 ema, 100 sma & 200 sma
    (On weekly chart the only the 8 ema (approx the 50 day), 20 and 40 sma
  - Candlestick Reversal Patterns
  - Trend Lines & Price Level Support and Resistance Zones
  - Pattern Breakouts & Breakdowns

- Secondary Indicators include:
  - True Strength Index (8,8,3 setting on TOS Charts)
  - Momentum (12 setting on TOS Charts)
  - Keltner Channels (20 EMA, 2 ATR settings on TOS Charts)
  - 20 Period Moving Average Envelope set for different time periods

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Keltner Channels

- Originally developed by Chester Keltner in the late 1950's and early 1960's
- Refined by Linda Raschke in the 1980's
- A Volatility-based envelope set above and below an exponential moving average (some use SMA) which captures approximately **80-90%** of price movement. *(Including the 20 period EMA envelope increases to about 95%)*
- A Trend Following indicator used to identify reversals with channel breakouts and channel direction
- Works on all timeframes (intraday, daily, weekly, monthly)

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Keltner Channels vs. Bollinger Bands

- Keltner Channels are smoother than Bollinger Bands because the width of the B Bands are based on standard deviations while **K Channels are based on Average True Range (ATR)**.

- Many believe the K Channels are more sensitive because they use the exponential moving average, however some traders do use a simple moving average with the K Channels

- The smooth appearance makes K Channels well suited for trend following and trend identification

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Keltner Channels vs. Bollinger Bands

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Keltner Channels: How to use them

There is an excellent tutorial at:

http://stockcharts.com/school/doku.php?id=chart_school:technical_indicators:keltner_channels

This tutorial provides the basics on how to use K Channels for trade timing. However remember K Channels are still a secondary indicator. As always, **Price is King!**

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Keltner Channels: How to use them

Uptrend

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Keltner Channels: How to use them

Downtrend

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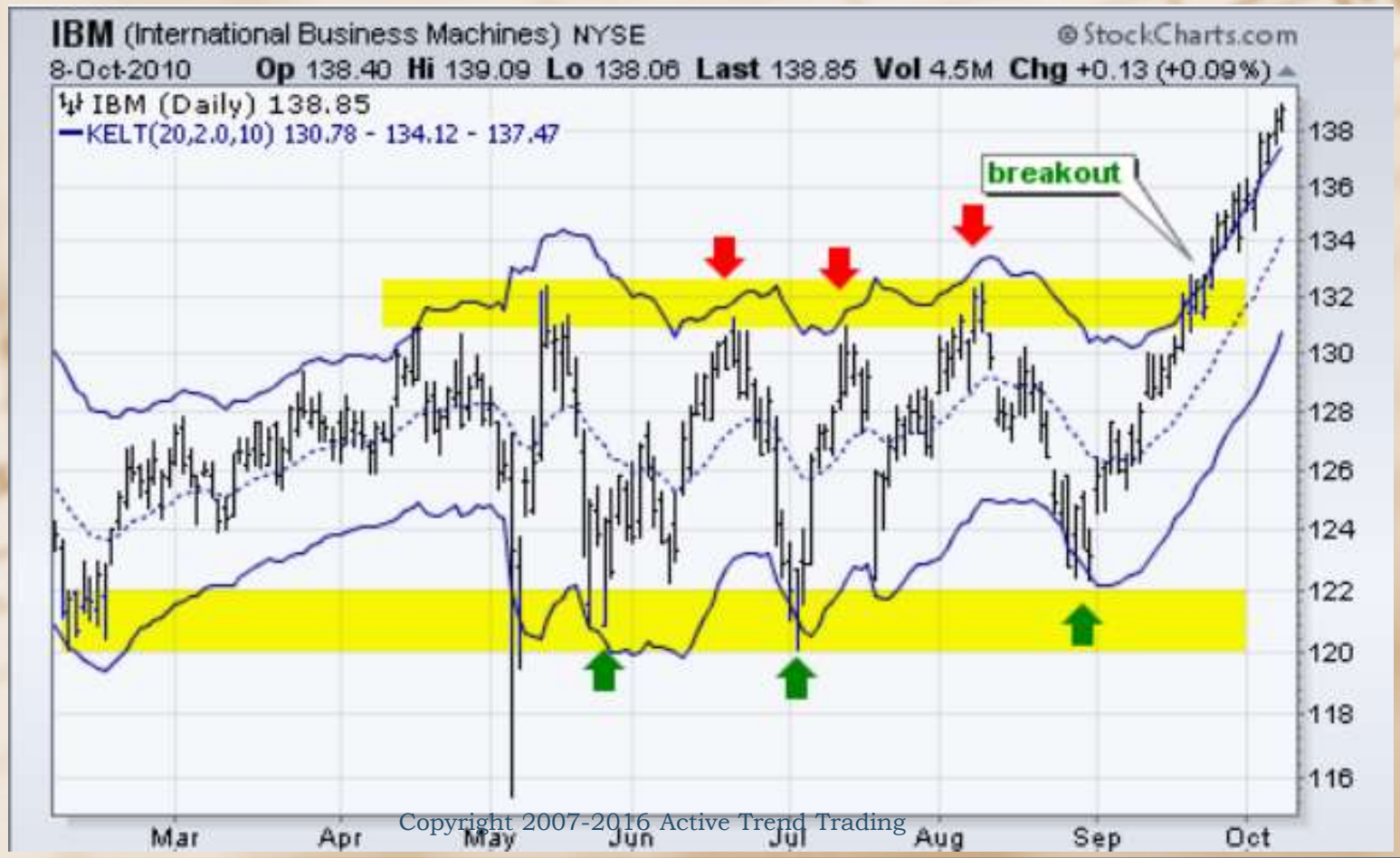
Keltner Channels: How to use them

Sideways Trend



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20 Period Moving Average Envelope

- Daily: 20 EMA (OHLC) +/- 10%
- Weekly: 20 EMA (OHLC) +/- 25%
- 1 Hour Intraday: 20 EMA (OHLC) +/- 5%
- Basically the same interpretation as the Keltners
- Typically shows greater extremes and trigger reversion to mean price action

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Combined Clues

Combined Clues

Combined Clues – Weekly

Combined Clues – 1-Hour Intraday

On Intraday Charts
Extremes on either TSI or Momentum
Provide Solid Clues when combined with price location

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Summary

- When Used together the value of price action clues are increased
- Great for planning trades
  - Strategy
  - Entries & Exits

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“Exploring Bottoms & Tops”
Getting Ready for End of Year!

From the Active Trend Trader

Today's Tech Tip: How to Buy at the Bottom

Don't Anticipate—Participate

Good: Don't Buy a New Lower Low Unless:

1. Price is at past support & Rebounding—and/or
2. Candlestick Reversal Pattern—and/or
3. Positive Diverging Indicators—and/or

Better: Wait for Price Action to Prove Itself

1. Constructive Price Action
2. Retest and Go!

Practice Patience & Discipline

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Today's Tech Tip: How to Sell at the Top

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Good: Don't Sell a New Higher High Unless:

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S&P Top of 1929

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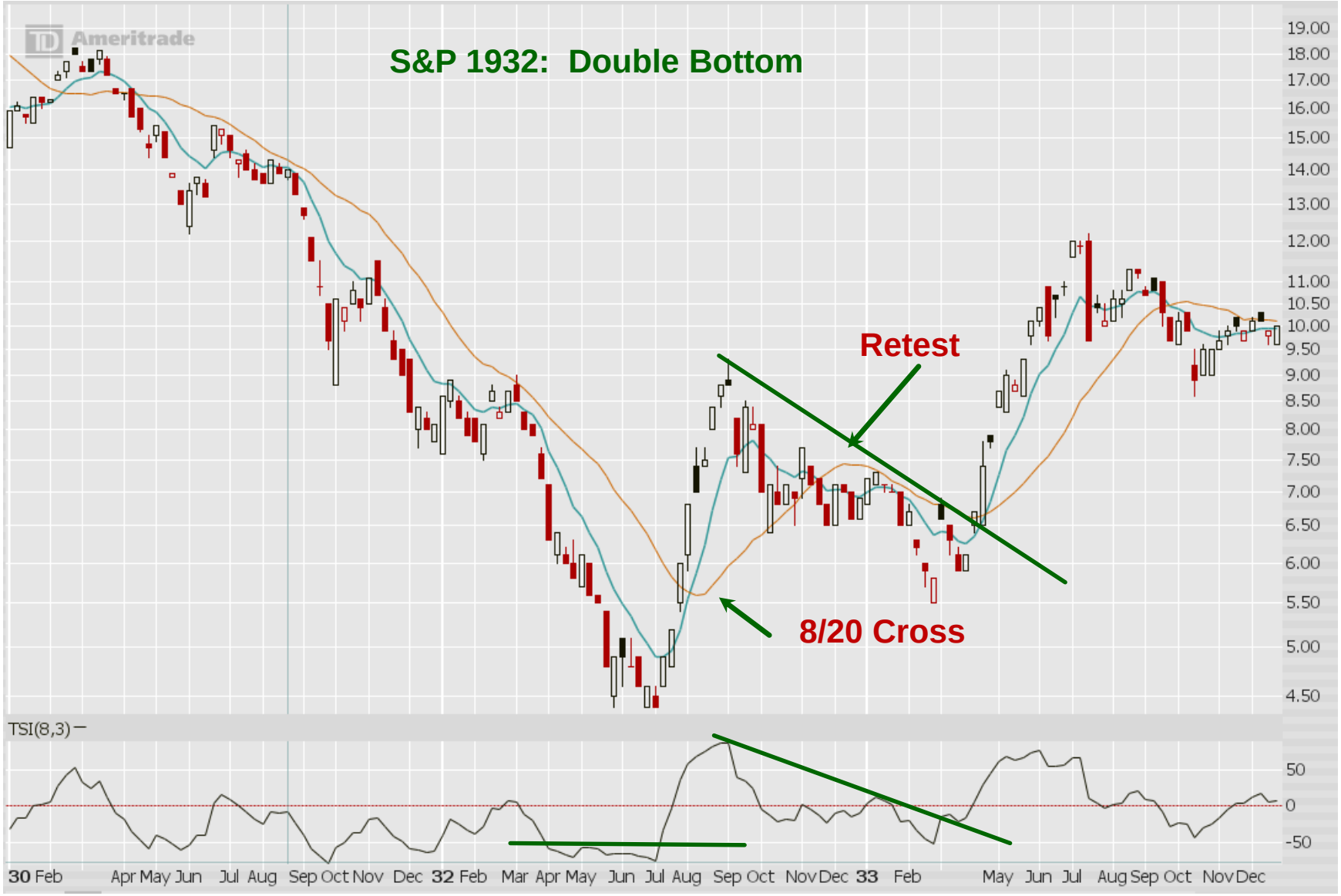
S&P Bottom 1932



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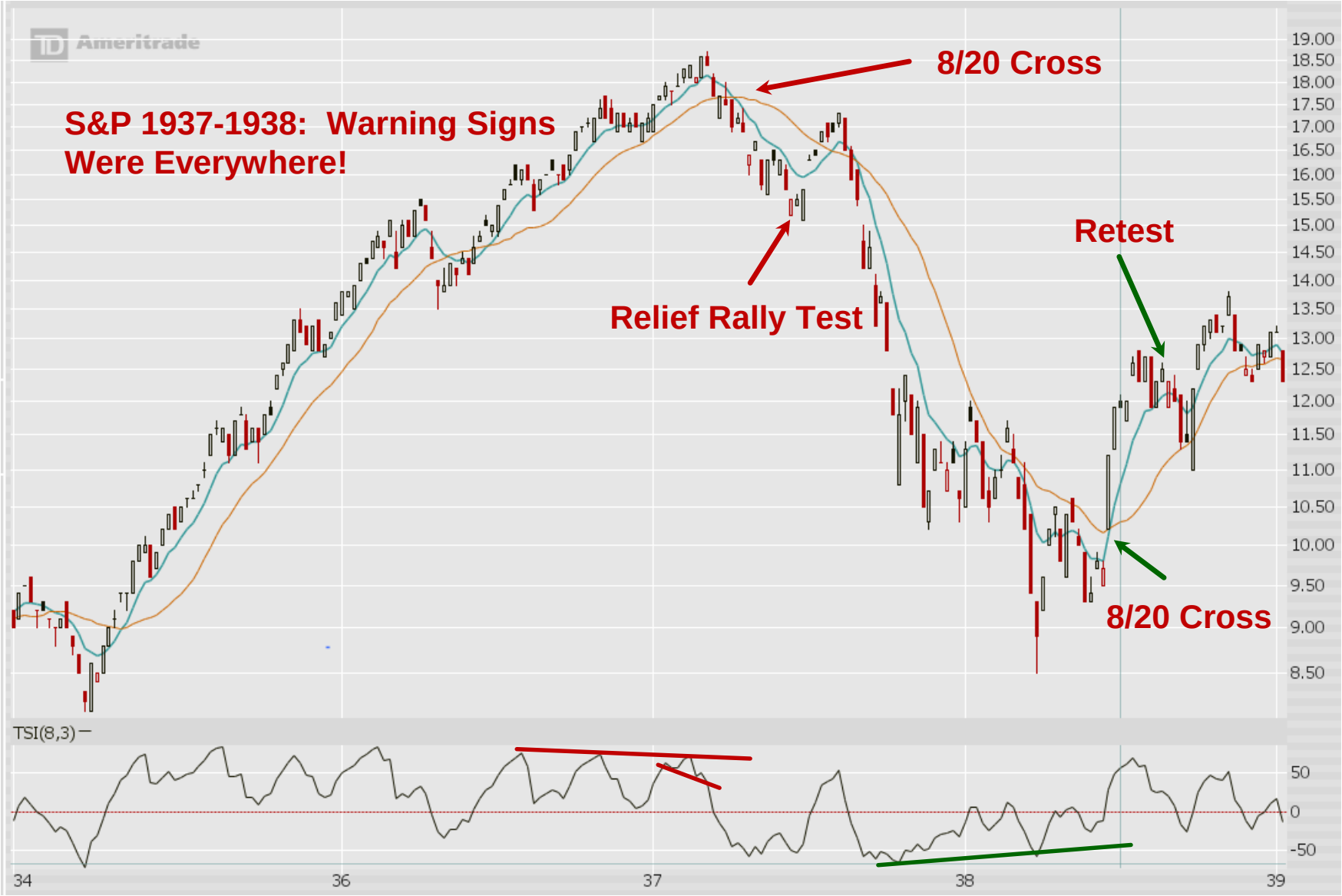
S&P Top & Bottom 1937-1938



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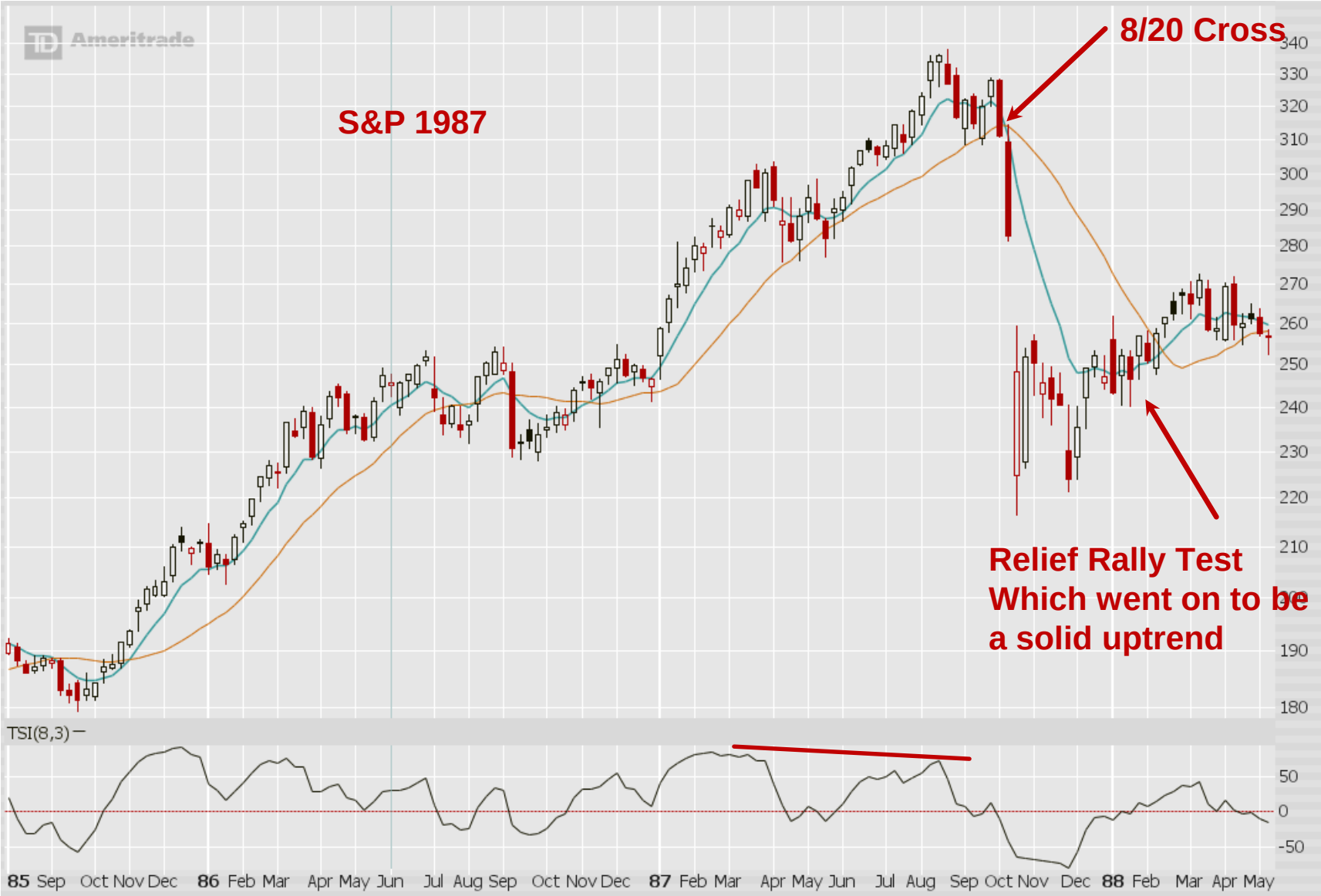
S&P Top October 1987



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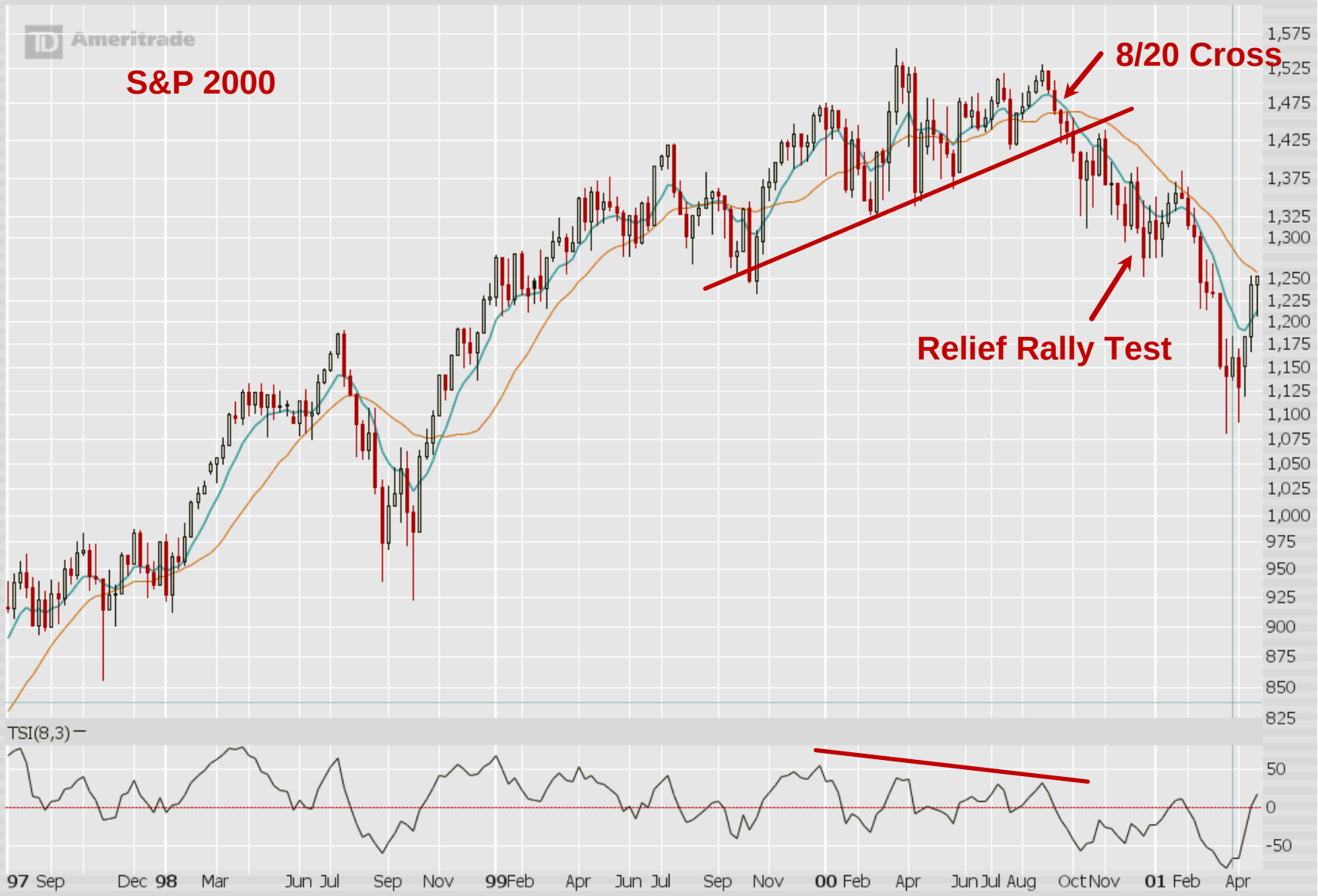
S&P Dot.com Pop 2000



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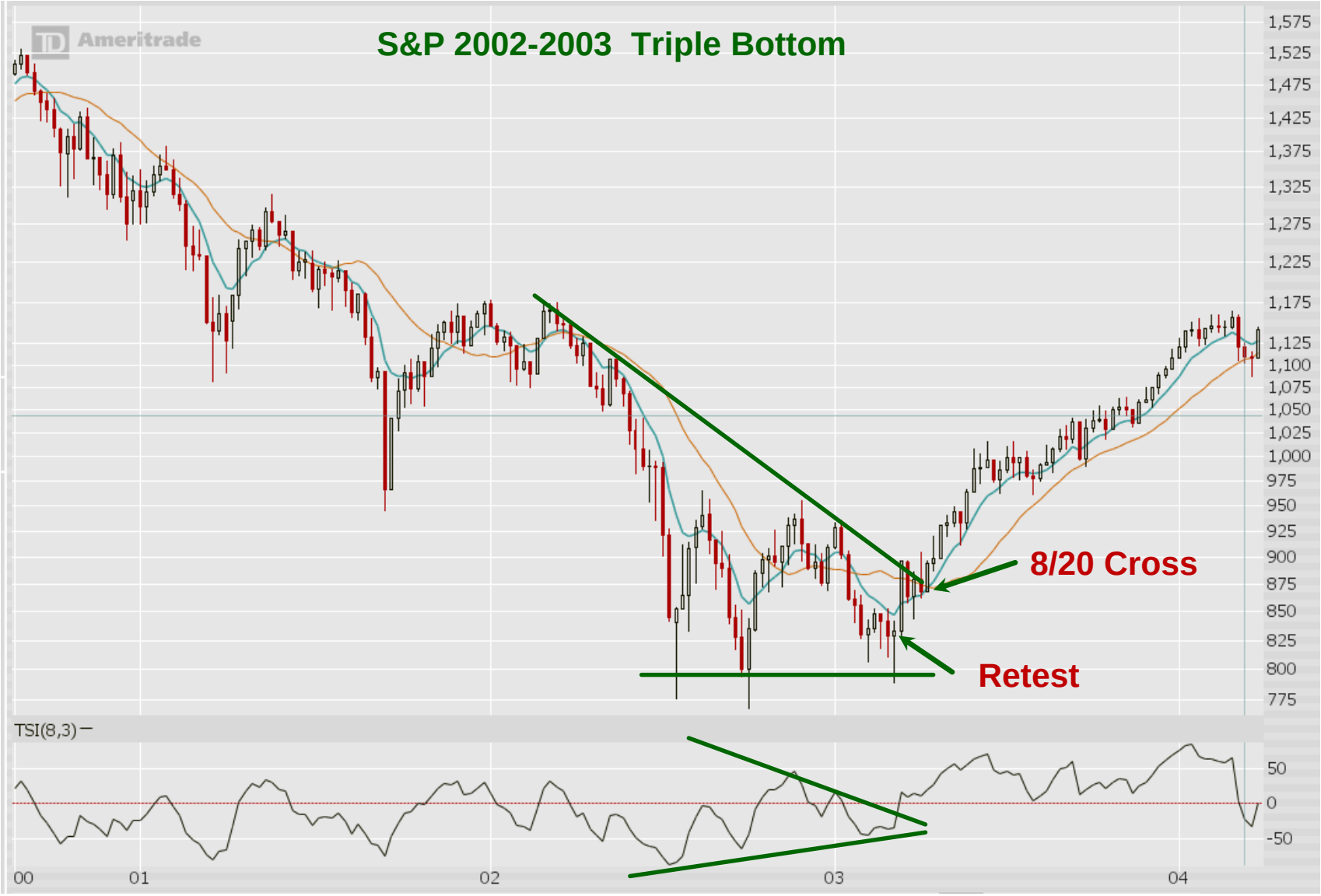
S&P Bottom 2002-2003



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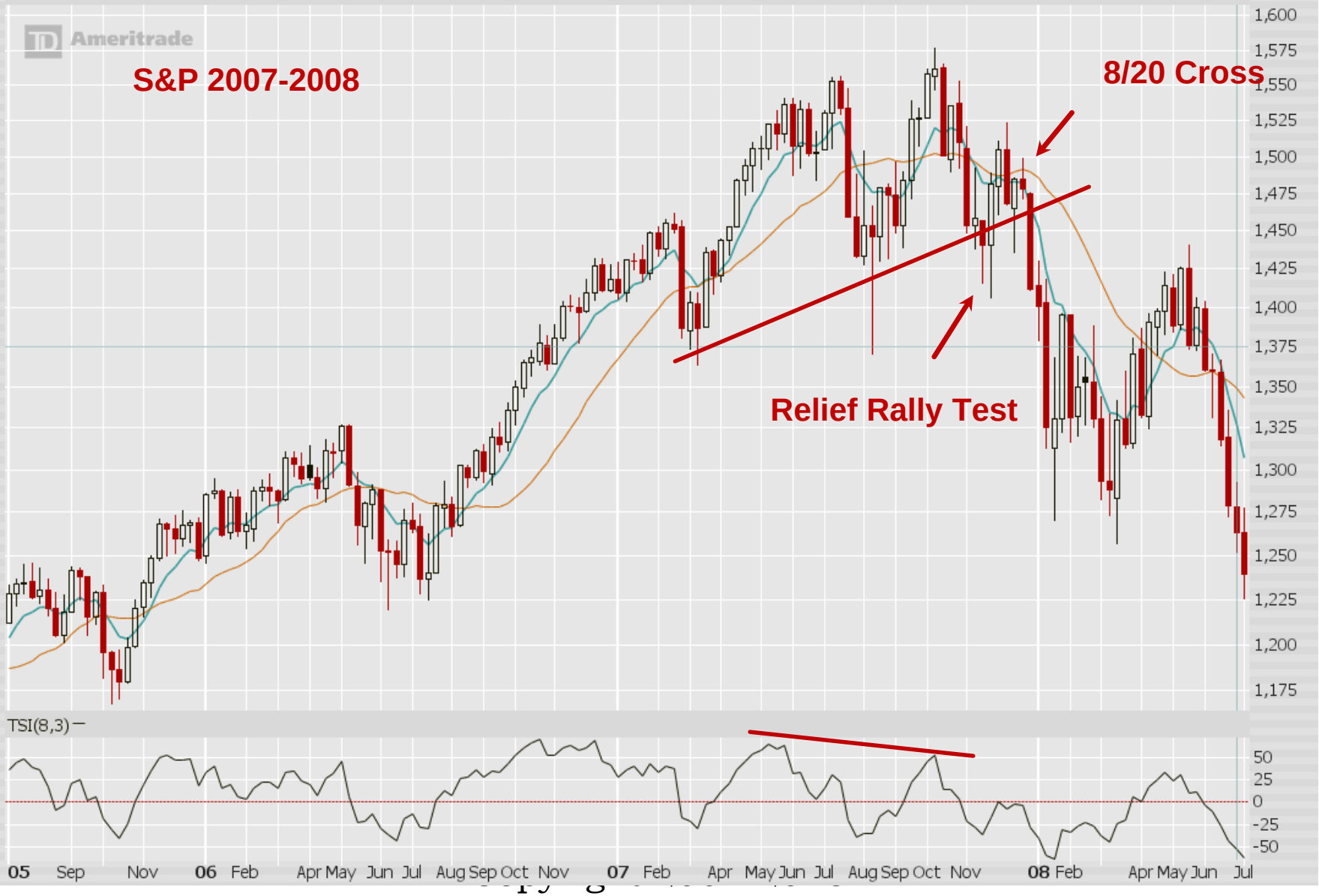
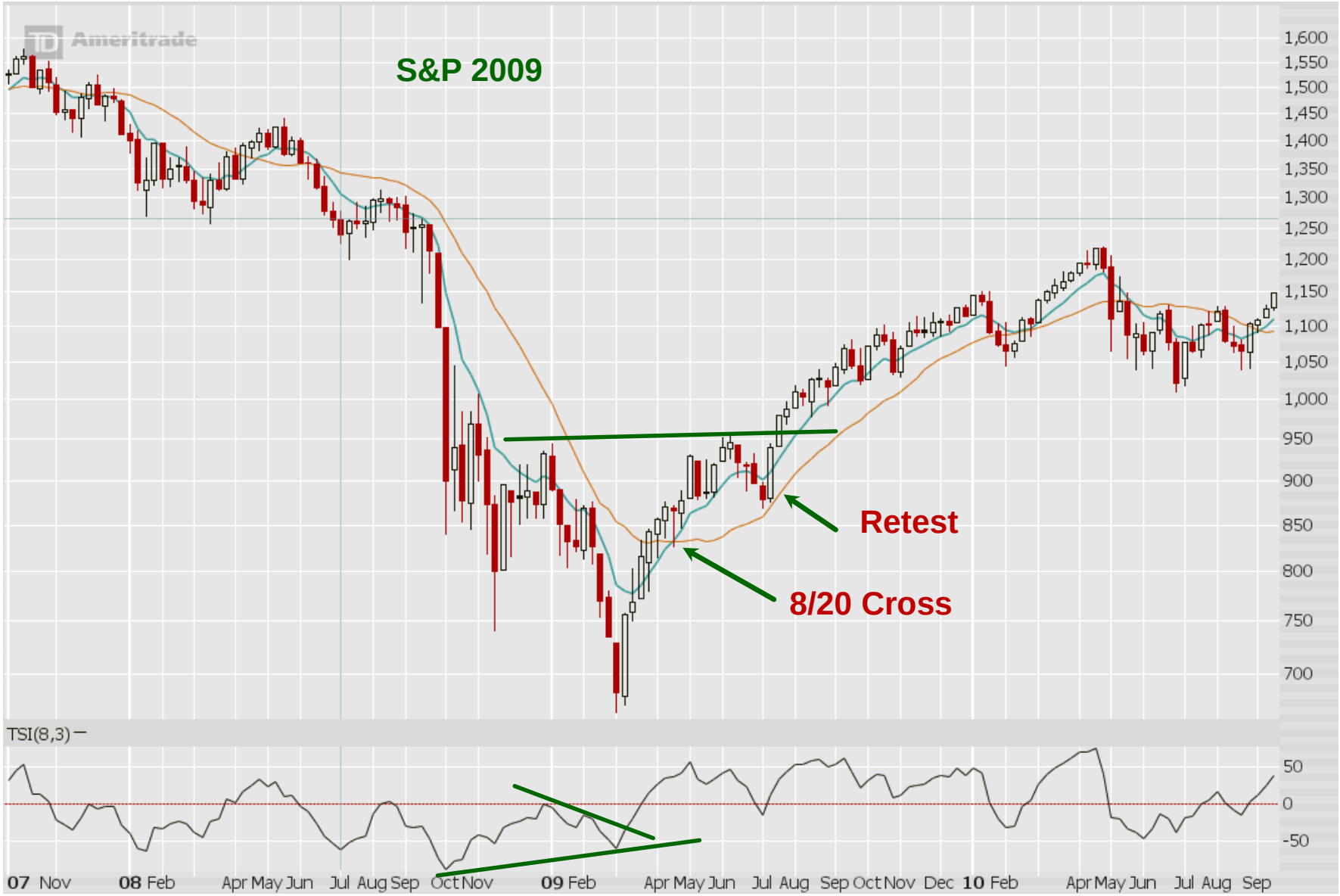
S&P Top 2007-2008



S&P Bottom 2009



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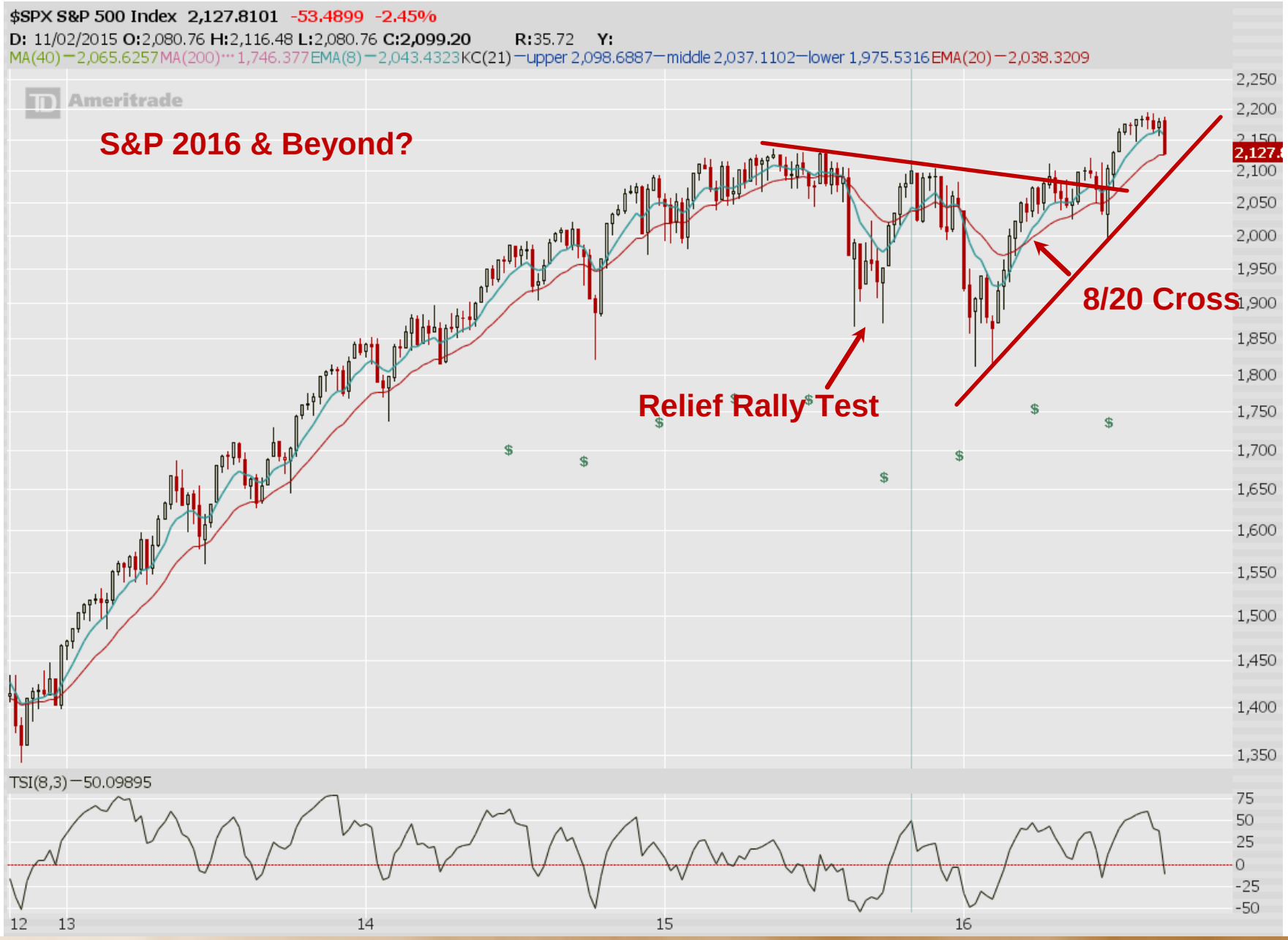
S&P Top 2016?


$SPX S&P 500 Index 2,127.8101 -53.4899 -2.45%
D: 11/02/2015 O:2,080.76 H:2,116.48 L:2,080.76 C:2,099.20 R:35.72 Y:
MA(40) 2,065.6257 MA(200) 1,746.377 EMA(8) 2,043.4323 KC(21) upper 2,098.6887 middle 2,037.1102 lower 1,975.5316 EMA(20) 2,038.3209
Ameritrade
S&P 2016 & Beyond?
Relief Rally Test
8/20 Cross
TSI(8,3) 50.09895
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16

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Clarify, Simplify & Multiply

This has been the Motto of Active Trend Trading from the beginning!

We continuously work to Clarify & Simplify through refinements to the system to make it objective and easy to both learn and use.

The purpose of all presentations is to provide our fellow Active Trend Trader Members a jump start to accelerate progress up the Learning Curve.

We welcome suggestions on how to improve the learning process!

Trade Wisely & Profitably,

Dennis W. Wilborn

Founder & Lead Technical Analyst

Stocks Worth Watching

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