How To…
“Buy Low” for Bigger Profits, Less Stress, and More Enjoyable Trading

By MarketGauge.com
Bigger Profits Are Easier When Your Trades Are Immediately Profitable

Welcome, if you’re a day trader, swing trader or options trader this ebook is for you because...

You’re about to discover a focused approach to anticipating the markets’ next move, along with trading tactics that lead to immediate profits and trade entries you can be confident in trading whether you are a new trader or have years of experience.

Think about how you feel, and how you tend to trade, when a new trade is substantially profitable immediately after you enter it.

Now contrast that feeling with how you feel, and tend to trade, when the market is about to close and you’ve been in a trade for a few hours that is trading at a loss.

If you’re like most traders the immediately profitable trade creates a desire to “trade this one right”. You’re thoughts are on how to make the most of the apparent opportunity. You’re also enjoying trading.

The losing trade scenario, on the other hand, is disappointing. You’re more likely to be thinking about how to change the trade, rather than confidently sticking with your initial plan. This is common even among experienced and disciplined traders who know that losses, when managed properly, are not a problem.

Regardless of our trading style or instrument (day trading, swing trading, investing, stocks, ETFs, options, forex, etc.) I believe that we all enjoy trading more when our trades are immediately profitable.

More importantly, I also believe that immediate profitability makes it easier to be more disciplined, which in turn leads to more trading success.

Immediate profits are only one important result of having great entry strategies and tactics.

Even more important than immediate profits is having enough confidence in your trade to ensure you trade with discipline. When you have enough confidence in your trade, “immediate” profits becomes a relative term. This means that even if a trade initially trades at an unrealized loss, you won’t have that feeling of disappointment.

How To Create The Confidence In Your Trade That Eliminates The Frustrating Feelings Of Unrealized Losses And Reduces Real Losses!
Successful traders confidently believe they are doing the right thing when they take a loss.

Since beginning my trading career in 1990 on the floor of the New York commodities exchanges, and spending years in a multi-billion dollar hedge fund, I’ve worked with hundreds of professional traders and thousands of active individual investors. In this time I’ve found that confidently taking a loss is a common theme among successful traders at every level – floor traders, fund managers, and active individual traders.

One goal of this ebook is to show you how you can have the confidence of a pro in determining and executing on your stop losses, so you can improve your profitability. There are several ways to accomplish this level of confidence, but this book is narrowly focused on very a specific way of identifying great trade entries with stops you can have confidence in.

A great trade entry is one that has a risk level (a stop loss) has three important qualities:

1. You believe that you should exit the trade when the stop level is hit. This leads to consistently executing your plan.

2. The potential loss is small relative to the expected return when profit targets are hit. This leads to more profitable system.

3. The frequency of getting stopped out is in line with frequency and expected return when profit targets are hit. This leads to a more predicable equity curve and more confidence in trade execution.

A simple starting point for selecting a stop level that can provide all three of these critical qualities of a great trade entry is to have your stop loss be outside of the current day’s range.

The low or high of the day creates an emotionally powerful “line in the sand” that seems to naturally command the respect of traders. Think about how you feel when markets make new highs or lows. Are you more inclined to pay attention and respect the “trend of the day” at this point?

In my experience of working with successful traders, most traders are more likely to feel confident that their stop is safe when it’s beyond the current day’s trading range. This alone can improve your trading because it leads to less second guessing and moving stops prematurely.

Additionally, traders tend to feel more accepting of the fact that their trade is not working and exit the trade as they planned when it corresponds with a break of the current day’s range. This leads to more disciplined trading and less second guessing your stops when they are hit.
However, better trading is not simply placing your stop below the low of the day if you’re long, or above the high of the day if you’re short! You need more of an edge to determine when the high or the low of the day has been put in, and which days you should use this tactic.

**In other words, you must identify the RIGHT DAY and TIME to use the day’s range as your stop.**

You’re about to discover a reliable way to determine the day’s high or low early in the day. This creates powerful opportunities for all trading styles to use these levels for great stops that are quick and easy to identify, and, as discussed above... leads to less second guessing.

For example:

**If you’re a day trader**... when you are able to buy near the low of the day, you’ll find many opportunities for trades that will have very profitable reward-to-risk ratios that don’t require the market to do much more than simply return to the high of the day!

**If you’re a swing trader**... you’ll be able to pinpoint the exact days to take very low risk trades that are more likely to enable you to avoid holding positions overnight that are not yet profitable. In addition to having more of your first days in the trade be profitable, you’ll be able to identify trades that have multi-day or more trend potential, creating huge profits relative to your initial stop level.

**If you’re an option trader**... you’ll be able to identify market turning points for precise timing of directional option strategies, and enjoy the benefits just listed for the day traders and swing traders.

**Use This Floor Trader’s Secret Charting Tactic To Anticipate The Market’s Highs, Lows, Trends & Reversals**

It may seem hard to believe, but this trading tactic can be so simple that I used it to “chart the market” without a computer! I didn’t have a computer standing on the trading floor in the early 1990’s.

Despite its simplicity, the principle works because it is based on the driving force behind the most important price points of any trading day. That force is human emotion – fear and greed.

Remember your feeling of excitement when the market in which you hold a position goes racing your way right as the market opens? How about the feeling when the market gaps open in the direction of your position? Nice way to start the day.

And have you also had the frustrating experience of the excitement from a market open in your direction turn to disappointment as the market suddenly reversed?
If you’ve traded for any period of time then you’ve certainly felt the anxiety of a profitable trade swinging into a losing position in opening half hour of the trading day.

Fortunes and egos are inflated and burst during the opening several minutes in many markets all the time.

Even if you have don’t have a position in the market, the opening minutes of the trading day can be an emotional roller coaster. This is exactly why the first 30 minutes of the trading day turns out to be very statistically reliable in determining the day’s high or low.

**In fact, 50% of the time the S&P 500 will make its high or low of the day within the first 30 minutes of the trading day.**

I’m using the S&P 500 as the example, but you will find other markets (stocks, ETFs, and futures) to have a similar statistical bias that you can profit from and here’s how...

Stop and think about some of the implications of this data.

- The first 30 minutes is only 8% of the trading day, yet 50% of the time it determines the day’s high or low. This makes it a very significant time of the day for anticipating reversals and setting price levels that will likely remain as the high or low for the entire day.

- If you are going to set your stop below the low of the day, you give yourself a big statistical edge by waiting for the first 30 minutes of trading to finish.

Plus, you can make this statistical edge even stronger by combining it with a few simple indicators.

We’ve found easy ways to identify market conditions that indicate with 83% accuracy that the high or low will be determined in the first 30 minutes of a particular day.

Even more impressive is that when these same criteria are used, you can determine that the low of the day has been set after the first 30 minutes 62% of the time. These are the best days to use the low of the day in your stop.

**The Opening Range Defined**

From this point forward in this ebook I’ll refer to the high and low of the first 30 minutes of the trading day as the “Opening Range” or the “O.R.” The Opening Range can be calculated using other time frames as well. Common time frames include 2, 5, 15 minutes and even the first hour.
In our trading at MarketGauge we focus on the 2, 5 and 30-minute Opening Ranges. They all serve specific purposes. For example, the 30-minute O.R. is the best place to start for buying against the low of the day (or selling against the high) for day traders and swing traders.

Of course you’ll use charts on your computer to figure out the day’s Opening Range, but now you can see how floor traders could use this tactic even without access to a computer. As illustrated in Chart 1, the OR high is simply the high for the day after the first 30 minutes of trading, and the OR is the low of the day at that time.

**Chart 1: O.R. Defined**

![Chart 1: O.R. Defined](image)

**How To Objectively Evaluate Any Trading Day To Anticipate the Day’s Trend For Bigger Profits & Avoiding Losses**

Every day in the market is different. It presents its own trend, opportunity and challenge depending on your perspective.

The direction and magnitude of the market’s moves from day to day can seem random to the untrained eye, but the market does follow patterns and leave clues indicting its most likely direction.
The Opening Range is a trading tactic that pros have used for decades to read the market’s mood so they can anticipate and profit from the market’s intra-day moves.

When you “chart the market” or look at it through the lens of the Opening Range, you’ll have an objective perspective on whether the bulls or bears are in control on any given day. This perspective begins with a very powerful understanding that the O.R. high and O.R. low levels will be critical support and resistance levels for the rest of the day.

With this understanding of market behavior you can anticipate that these levels will also represent levels where markets will reverse or accelerate into big moves. If you look at the trading day with this process you will be on the right side of the biggest market moves, and avoid getting hurt by them.

How Read The Market With The O.R.

To begin using the O.R. to anticipate the market’s next move follow these simple rules.

First, let the market establish its 30-minute O.R. high and low. Even after the Opening Range period, keep a neutral bias while the market trades within its O.R. As you learn more you’ll know if an O.R. has a bullish or bearish bias.

Don’t Miss, or Get Hurt By Trend Days

Next, wait for the market to attempt to trend by breaking the O.R. range. A successful breakout beyond the O.R. will indicate a trend day is forming. For example, if the market breaks below its O.R. low, you should consider it a trend down day unless and until it rallies back over its OR low level.

Too many traders lose money in big down days because they don’t have an objective method like the O.R. rules to determine that the market is in a down trend which should not be bought, and in fact, it should be expected to continue lower.

You will NEVER GET CAUGHT IN A MAJOR MARKET DECLINE if you only initiate your long trades above the O.R. low and stop out if a new daily low is hit.
Buying markets that are under the OR low is equivalent to trying to find a bottom when the bears are in control. This is much riskier than finding a bottom when the market is in a neutral to bullish mode (i.e. over the OR low).

Additionally, any rally from below the O.R. low will have to get through the resistance of the O.R. low (see chart 2). As you now know, the O.R. low is often significant support until it is broken, and becomes a significant area of resistance once broken. As a result, it is very common for rallies during a down trending day to roll over at the O.R. low, and resume the day’s down trend.

**Use Opening Range Reversals To Buy Near The Low, Or Short Near The High**

When you combine Opening Range Reversal tactics with the emotional benefit, and statistical edge of placing your stops outside the day’s range as discussed earlier...

*You have a very effective approach to entering low risk trades that have a high probability of working consistently!*

An Opening Range Reversal (ORR) describes a condition when the market has reversed against an O.R. high or low sufficiently to anticipate that the low or high of the day has been set, and it can therefore be used effectively as a stop for your trade.

The basic ORR trade setup that I’ll cover here occurs when the O.R. low is touched or broken followed by a rally back over the O.R. low. As you become more familiar with how markets trade near their O.R. lows you’ll discover many profitable trading patterns, but to get started you only need to know one simple pattern.

**A Simple Pattern That Puts Money In Your Trading Account Quickly Because It Pinpoints Reversals**

This pattern is so effective at spotting intra-day reversals that I use it for more than identifying O.R. Reversals, but right now our objective is to understand when to buy markets near their low of the day using the ORR and this pattern.
I use 5-minute charts for this pattern.  

At MarketGauge we call this pattern the Higher Candle Close (HCC). It occurs when a 5-minute bar closes over the high of the prior bar. 

Yes the pattern is that simple, and it works extremely well. But the secret to why it works so well is that we’re using it when it occurs near the O.R. low! 

WARNING: Like most good trading tools, this pattern works well when used in the right market conditions. If you use this pattern randomly, it can be frustrating, and even be as annoying as turning on your car’s windshield wipers on when the sun is shining! You must combine it with the O.R. Reversal setup. 

When I share this secret setup I’m often asked... 

Does it work on 1-minute charts? (probably because traders are always looking to act quicker, and cut risk tighter). 

Well, at MarketGauge we also trade with, and teach how to use 1-minute charts for more advanced O.R. patterns along with price and time confirmation, but we DO NOT use this HCC pattern on 1-minute charts. 

So, to get started all you need is a 5-minute bar chart or candlestick charts, which you can find on any charting platform, and the next step - a simple way to identify the best Opening Range to trade with the HCC. 

The Best Opening Range Conditions For Consistent Profits 

When you’re looking at an O.R. for a potential trade think of it like finding a place to live. You’ll ask yourself 3 basic questions. 

1. What does it look like? 
   2. Where is it located? 
   3. What’s the price?
A “good looking” O.R. for an ORR trade has a well-defined O.R. low price level. Remember from earlier in this ebook, the O.R. works best when the market is active and emotionally charged with either fear or greed.

![Chart 3: A Good Looking O.R. Breaks down Then Reverses](chart3.png)

This is demonstrated in the charts by the existence of volatility and/or big volume. Therefore, a well-defined O.R. low is one that has multiple 5-minute bar lows near it, or a big range bounce from it, or big volume near the O.R. low level. All of these indicate that traders are reacting to the O.R. low, and imply that if the market breaks the O.R. low, and then begins to rally (as defined by the HCC) it is time to trade! Chart 3 above is a good example of this.

“Good location” for an ORR has two considerations

1. The low of the day should be close to the O.R. low. The reason you want the low of the day to be relatively close to the OR low is because a good ORR trade defines its risk with a stop under the low of the day, and its entry over the OR low.

   In an ideal situation the distance from the entry point to the low of the day should be a fraction of the market’s average daily range.

2. The OR low and/or the low of the day should be in a good location relative to important daily chart key reference points. This is a very easy criteria to use to filter out the best ORR trades, and one of the most powerful determinants of the predictable profit potential.
Simply put… The best ORR trades occur in the direction of the daily trend and at support and resistance levels that can be identified on the daily charts.

“**The price**” is your entry price and your risk! It doesn’t take long to become good at quickly identifying good looking Opening Ranges in good locations.

This is a skill and tactic you can apply to almost any market and easily adopt into your existing trading rules, or simply trade it as described here, which is to apply the HCC pattern to determine the trade entry.

**The Simple Entry Trigger That’s Been “Hidden” in Your Charts All Along**

As you start looking at the markets using the O.R. along with the HCC pattern in the way I’ve described in this book, you’ll find that some trades are such obviously great opportunities that you’ll want to be more aggressive, and get into the trade as quickly as possible.

You’ll also find trades that look great, but you’d like to have a little more confirmation before entering (i.e. general market conditions maybe bearish)
Now that you know what the HCC pattern is, and where to best apply it, we can focus on the actual “entry price” trigger point for what I’ll describe as the HCC-ORR trade.

There are actually 3 potential trigger points for an entry. They are all slight variations of the same basic pattern of trading over the prior bar’s high, but they give you the ability to be more aggressive vs. waiting for more confirmation that the market has turned up.

**IMPORTANT:** For the purposes of this lesson, it is assumed that any entry trigger point described here is also above the OR low.

**Maximum Confirmation**

The entry trigger with most confirmation, and the one I’d start with, is to wait for the 5-minute bar to close over the prior bar’s high, AND then enter when the market trades over the HCC high. This means your entry trigger is actually a trade over the high of the HCC bar.

I will almost always use this trigger if the close of the HCC is not convincingly above the prior bar high, or if the high of the HCC bar is very close to the closing price. In these cases you’re not increasing your risk by very much yet you’re getting some extra confirmation the price is moving your way.

Chart 5 below shows an example of a big range HCC reversal with confirmation.
**No Confirmation**

There are times where you will not want to wait for maximum confirmation described above. In this case the trigger is simply the close over the prior bar high and the entry is on the open of the following bar.

This is can be used for situations where the HCC bar’s close is significantly above the prior bars high, and it may even have good volume. In other words, the market has clearly demonstrated a reversal.

In fact, sometimes you will get this pattern, and have the opportunity to wait for a pullback in price to the high of the prior bar to be able to enter a lower price.

However, if you do not have a good demonstration of range expansions and or volume this can be risky. Chart 6 above is an example of a HCC at the ORR that did not confirm and continued lower.

**“Jumping The Gun”**

As the subtitle, “jumping the gun” suggests, this is getting in before the HCC is complete. With some experience in trading ORR patterns you’ll be able to get away with this, and get in early on some trades, but be careful. I would prefer to have unusual volume in situations where I use this approach.

The trigger when you jump the gun is to enter when the market trades over the prior bar high. So you’re not waiting for the close in what you expect to be a HCC bar.
6  Steps To Identifying and Executing  Low Risk, High Profit Potential ORR Trades With Confidence

It’s time to pull everything together, summarize the key steps to initiating an Opening Range Reversal trade.

1. Let the 30-minute O.R. form
2. Focus first on the Opening Ranges that are in a good location relative to the daily chart’s trend and support levels.
3. Identify the Opening Ranges in a good location that also look good for an ORR trade. This means they have well-defined support at the O.R. low.
4. Use the HCC as your entry trigger
5. Define your risk as being under the low of the day. Give the market room to break the low of the day by a small margin and reverse without stopping you out!
6. Set your initial profit targets. If you are a day trader, take at least partial profits near the high of the day, and move your stop to no loss after the market moves in your favor. If you’re a swing trader, you’re initial target may be higher (and your stop may be lower).

Identifying Trade Opportunities In Seconds With This Simple Chart Display

In my charting platform I have a window that shows both the daily chart and a 5-minute candle chart with volume. As you know the candles on the 5-minute chart are not required, but they make it easier to see where a bar closes relative to the prior bar high.

With these two charts in plain view it only takes a few seconds to spot when the O.R. low lines up with key daily levels, and when a HCC forms.
Don’t Sabotage Yourself By Setting Your Trades Up To Fail

You can evaluate every day’s price action with the perspective of the O.R. to anticipate the market’s next move, but the key to profiting from it is knowing how to spot high probability setups like the one I’ve revealed in this ebook.

Remember my analogy from earlier – You don’t use your windshield wipers on sunny day!

The ORR combined with the HCC entry is an incredibly powerful pattern, but every OR low will not reverse. However, you now know how to select good looking ORR patterns. And, you know that the location of the OR in the context of a bullish daily chart is the easiest way to identify the most reliable and highest potential ORR trades for both the day trader and swing trader.

Be selective! If all the trade ingredients are not there, wait for the next one.

Special Offer: Learn And Earn More!

If you’d like to learn more about trading reversals and trend day patterns that leverage the power of the Opening Range visit MarketGauge at the special link provided below.
MarketGauge provides free webinars, and more advanced O.R. training that will show you:

- How to determine volatility based stops that help to avoid frustrating stop losses
- How to profit from big trend day breakouts, and avoid false breakouts
- Which indicators dramatically increase the statistical edge of the O.R.
- Rules for more precise reversal patterns for quicker entries
- Time and price confirmation rules to minimize failed trades
- How to trade quicker O.R. time frames to profit from gaps and moves within the first 30-minutes of the day
- And more!

For a limited time, you will find more training and a special offer here:
http://www.marketgauge.com/orr/

About The Author

Geoff Bysshe, co-founder of MarketGauge, began trading in 1990 on the floor of the NY commodities exchanges. He spent several years as an independent floor trader.

He left the floor to trade and develop quantitatively based strategies for equities at Millennium Partners, a multi-billion dollar hedge fund in NY. In 1997 he co-founded MarketGauge.com to provide market analysis and trading tools to professional traders.

MarketGauge has since expanded into providing individual active traders and investors with trading systems, tools, education and actionable market analysis.