HOW TO SWING TRADE FOR PROFIT
Hedge Fund Manager Secrets to Capitalize on Market Swings

MARKETGAUGE
Getting Started

MarketGauge has been helping professional trading institutions and individual active traders trade more efficiently and profitably since 1997. We hope this report improves your profitability immediately.

The objective of this report and the information that follows it is to accelerate the time it takes you to reach the level of swing trading expertise that enables you to achieve financial freedom and practice worry free trading.

What Is Swing Trading?

Swing trading is a style of trading that profits from the movement of prices over a couple of days to a few months. The time frame for holding a swing trade is shorter than a buy and hold investor, and longer than a day trader who doesn’t want to hold a position over night.

Markets are constantly moving both up and down, even when they are trending. Swing traders catch the burst of price movements that occur within larger trends or wider price ranges. A typical swing trader likes to take profits after a market has made a move and before it reverses. A typical swing trade may last a couple days to several weeks.

One of the most attractive characteristics of swing trading is that it can be very profitable in bull markets, bear markets and even in trendless, range bound markets!

Overcome Four Common Challenges To Profiting In The Markets

Whether you’re trading to provide your sole source of income, a secondary income stream, or a way to build your retirement nest egg - you’ll face a variety of challenges and obstacles.

Some obstacles you can control, others you can’t influence at all, but all obstacles can be overcome!

The best way to overcome trading challenges is to recognize them upfront and have a plan to conquer them.

Below are four common trading challenges that many traders face:

1. **You can no longer rely on a buy and hold approach to stocks.**
   Since 2001 the markets have seen extreme volatility, with little benefit for the buy and hold investor. If you bought the S&P 500 at the 2001 highs, your “investment” was underwater until early 2013. Even more unsettling is the fact that during this 13 year period, the S&P 500 saw its value cut in half, not once, but twice!
2. **Big losses can ruin your savings.**
   It only takes a few big losses to set you back years in your savings, and if you are not careful, they can wipe out an account. There is no reason for big losses if you trade with professional entry and exit rules.

3. **A small account size can limit your trading options, BUT** this does not prevent you from making money by trading or building your account size up to the size you desire. You can swing trade with as little as a few thousand dollars.

   Please don’t expect to turn a few thousand dollars into a million dollar account in a short amount of time, but don’t assume you can’t make money either. The best approach to success in trading is to have the mindset that you will grow rich slowly and with consistent returns – no huge losses, and no outrageously risky trades that attempt to make a killing over night.

4. **You don’t need to commit to becoming a full-time trader.**
   You can earn extra income or build your savings and assets as a part-time swing trader. And “part-time” can mean focusing on the markets only during a certain time of the day (i.e. the morning), or only trading on days when you’re available.

   As a part-time trader you can trade short multi-day trends, or longer multi-week trends that require only a few minutes a day to manage your positions.

We’ve prepared this report to put you on the path toward **overcoming all of these common trading challenges and lead you to the goal of financial freedom and worry free trading.**
Rule #1: Trade the Current Market Phase

“Trade With the Wind at Your Back”

This rule is how you overcome the “buy and hold” obstacle. Understanding market phases enables you to take advantage of trends that are in your favor, and avoid the risk of holding positions when the trend is against you.

We trade when the opportunities are right, and stay away from the market when the risk is high.

Stocks and markets obviously don’t go straight up or straight down continuously. They cycle up and down in what we call “Market Phases.” This rule keeps the wind at your back by trading with the primary trend in the market.

The most obvious application of this concept is that traders want to be long during the up phases, short during the down phases, and out of the market during choppy periods.

When a strong up or down phase can be reliably identified you have a real edge in the market. For most traders, however, it’s not easy to reliably know when a market is in a strong trending phase.

And if you have tried to systematically define which phase a market is in, you probably found that there are more than two phases - up and down. Let us help.

**Rule #1** is to trade in the direction of the market phase. This gives you a distinct advantage as you become a more sophisticated trader, you will develop specific trading strategies that do best in specific market phases.

In developing our trading strategies, we’ve done a lot of research and back testing to figure out a simple and effective method of knowing whether the market is in an up phase, down phase, or a transitional phase.

**Start Simple - Assume There are Only 3 Market Phases**

Below is a daily chart of the S&P 500 (as represented by the “SPY” ETF). The time period of this chart was specifically chosen because the trends shift many times making it a challenging period.

The daily bars are colored so that the days of the Bullish Market Phase are green and Bearish Market Phase days are red. White daily bars are transitional market conditions where your market bias would be neutral. The transitional period will be explained later.
Daily Chart of The “SPY” ETF with 3 Phases:

The Benefits of Phases Are HUGE, Yet Many Traders Ignore This!

Trading from the long side is MUCH EASIER when the market is in a bullish phase! Shorting is easier when the market is in a bearish phase. Doing the opposite (i.e. going long in a bearish phase) is extremely risky, but many traders make this costly mistake constantly!

If you don’t have a simple, systematic method to determine the current market phase, stop trading until you get one. This applies to market indexes, ETF’s, and stocks.

Successful traders know what the current market phase is, and they use a strategy that takes advantage of the characteristics of that market phase.

You do not need a strategy for every phase. Instead you need a market in the phase you’re good at trading. You will be best at trading strategies that match your personality, or your natural preference to be bullish, bearish, long-term, short-term, etc. If you only like to go long, there are plenty of opportunities to find market trends that are bullish. Some of these opportunities are ETF’s that go up because the market is going down.

How Many Market Phases Are There? Two, Four, Six?

So far we’ve shown how you can make your life easier by taking these first steps:
- Focus on just three market phases – bullish, bearish and transitional.
- Only trade when the phase is clear.
- Focus your trading on markets in the phase that is in line with your personality and strategy.
MarketGauge has created a systematic approach to determining the strength and direction of the market which categorizes the market into more than 2 market phases. It is common to think of the markets as having 4 market phases: accumulation (bottoming), bullish, distribution (topping), and bearish.

Our Swing Trading model identifies 6 different market phases as illustrated below:

![Six Market Phases of Stocks, Indexes, and ETFs](image)

**The Most Powerful Time to Catch a Market Phase**

We encourage you to look at market activity as having six different market phases because one of the most powerful times to focus on a stock, index or ETF is when it is experiencing a phase change!

Don’t try to pick absolute tops and bottoms, but do know when the market phase is shifting. This is when trends begin and/or accelerate! The easiest way to reliably identify these powerful shifts in trend is through a simple and systematic approach to trend analysis.

Look at the chart below to see the power of viewing the market with 6 phases. This is the same daily chart of the S&P 500 (as represented by the “SPY” ETF) shown above, but this time the days that were previously white and “transitional” are now more precisely defined as warning (yellow), distribution (magenta), recovery (light blue), and accumulation (dark blue).
Look At How Powerful It Is to Know the Market Phase Is Changing

1. Look at how turning to green ("bullish") means the bulls are in control, and the bears take over when its red, and how clearly you can see transitions coming.
2. Notice how the yellow ("warning") days gave you a heads up of volatile down magenta ("distribution") days to come.
3. Look at how much lead time you had to be forewarned of trouble before the brutal red ("bearish") days set in.
4. Notice the result of a light blue ("recovery") phase turned red ("bearish"). Here’s one nuance of phases - the fact that the recovery phase of April and May ’08 never progressed into an accumulation phase made its deterioration into a bearish phase an extremely dangerous bearish phase.

These colored bars representing the phases are not subjectively drawn. You don’t need special software to know the market phase. They are based on simple rules and formulas using the 50 and 200 day moving averages. Keep your rules simple!

These market phases are not limited to market indexes – they hold true for stocks and ETFs too.
Below you'll find more examples of how the market phases keep you on the right side of the major trends.

**SPY: March 2008 – October 2009**

**SPY: April 2009 – Oct 2010**
SPY: Oct 2011 - 2013
Rule #2: Timing Your Entry: “Be In the Right Place at the Right Time”

We call this principle “The rule of being in the right place at the right time - timing is everything.”

*Good timing is a result of combining the potential momentum from multiple time frames, with quality entry tactics. This rule is where big opportunities are created!*

This rule covers the area of trading that most traders spend all their efforts on – entries. However, despite the huge focus on this area, huge mistakes are made.

**Your Holy Grail Indicator**

If you are going to develop a good trading system, the first step is to STOP LOOKING for “the perfect entry indicator.” It does not exist. Even good stocks fail, and you don’t need a perfect indicator to be a successful trader. **You need a simple, repeatable, systematic approach to entering (and exiting) the market.**

The “right place at the right time” will not be the same time and place for every trader, because different trading styles, risk tolerances, and profit objectives will have their own ideal entry point.

To put yourself in the right place at the right time, you have to execute good quality entries, in the right market conditions.

**What is a “Good Quality” Entry?**

Good quality entries take into consideration the bigger goal – the system. **Don’t focus on perfecting individual trades. Focus on building entries that deliver consistent results over a large number of trades – systems lead to success, not individual trades.** Here are some guidelines to follow when you define your entries.

**Characteristics of Good Entries:**

1. **Easy to identify and execute:** Your entry criteria should be as simple as possible. If your entry rules are too difficult to identify or act upon, then you won’t use them consistently, and that renders them completely ineffective!

2. **Easy to repeat consistently:** Success in trading comes when you have an approach, or system that you can execute with consistency. If your criteria are subject to a lot of interpretation you will not be able to identify the same market condition that constitutes a consistent entry. This reinforces the importance of simplicity.

3. **Complementary with the trading personality of your market:** The trading personality of your market is the way in which a stock trades.
The best way to illustrate this point is with this example. If a stock generally experiences a daily trading range of $10 and has a typical bid-ask spread of $.50 to $.75 (i.e. GOOG when it was hot) your entry and exit rules must take that volatility and large spread into account. This is not a trading personality that is appropriate for stop loss criteria of 0.25 below your entry price. Instead you should have stop-loss criteria that enable the stock to trade with its normal level of volatility immediately after your entry without getting stopped out.

4. **Complementary with the premise of your trade:** When you enter a trade you should have a plan. You should also have an expectation of what the trade could do if it works, and what it might do if it doesn't work. Therefore, the quality of your entry is related to where you intend to place your protective stop. A good entry will enable you to stay in the trade until the conditions of the trade "not working" are met.

**Identifying The Right Market Conditions For Your Quality Entries**

In Rule #1 we discussed using Market Phases to identify the best time to catch big trades based on established trends and major trend transition periods. Now it’s time to identify low risk entry points which are consistent with the prevailing phase condition.

At MarketGauge we identify low risk, big opportunity trades by looking for specific short-term price patterns. One of the best short-term price patterns for new and experienced swing traders is a retracement over several days to a significant support level. Once the market is near this support level we will look for consolidation and reversal patterns that indicate that main trend is resuming.

An example of this would be a market in a Bullish Phase that has retraced back to the 10-day moving average as support. After a trending market breaks below the 10-day moving average on a closing basis or just intra-day, and then closes back over this level you should watch for the bull trend to continue. The premise of this trade set up is the market should not trade below the recent low created by the retracement before you are able to take profits. The profit taking part of this equation will be covered later in this report.

In Charts 1 and 2 on the right and below you'll see an example of the pattern circled in white with the white arrow indicating the resumption of the trend.
These Principles Will Result in Good Timing

When you combine Market Phases with short-term price patterns and quality entries you will have a system that is in sync with the market conditions that you like to trade. When you are in sync with the market good timing just happens. Then your exits make the money.

Chart 2: Goldman Sachs (GS) daily chart
Rule #3: Exits Protect And Grow Your Account

“Exits Are Where You Make Your Money”

We’ve saved one of the most important ingredients of your trading system for last – exits.

The difference between making and losing money is usually found in how and why you exit a trade. This rule is how you overcome big losses and create consistent returns!

If you are struggling become profitable, you should focus on your exit strategies. This includes both taking profits and managing losses.

We’ve found that one of the easiest ways for a trader to move from struggling to profitable is to implement the exit tactics we’ll discuss here.

What is a “Good Quality” Exit

The four characteristics of a good entry you learned in Rule #2 of this report apply here too. However, this doesn’t mean that your exit rules are the same as your entry rules.

Let’s do a quick review. Good exits should be:

1. Easy to identify and execute.
2. Easy to repeat consistently.
3. Complementary with the trading personality of your market.
4. Complementary with the premise of the trade.

If you want more detail on each of these four points, refer back to the descriptions of the same four elements of a good quality entry.

Define Your Trade’s Objectives

Before you enter your trade you should have a very clear understanding of your trade’s goal, or objective. In other words, how do you plan to make money with your trade? You can categorize your trade’s objective in to two basic categories:

1. Trend Following: This implies that you intend to let the market move in the direction of the trade until your exit rules determine that the trend has reversed enough to exit. While this may sound like an obvious “best exit strategy” for maximizing profits, it is not necessarily true. The benefit of this approach is that it can produce trades with unusually large returns when you catch a big trend. However, the challenge of this approach is that it also requires that you let the market retrace from price levels that could have been used to take profits.
Ultimately, the effectiveness of your profit taking is a function of both how often your trades are profitable as well as how much you make on each profitable trade. The second way to manage this balance between “how much” and “how often” is with the use of profit targets.

2. **Pre-Determined Targets:** This implies that your trade has a plan to take profits at a specific time duration or price level. Your target’s price level can be determined many different ways such as:
   a. Market defined levels of support and resistance
   b. The size of the move
   c. The profit level of the trade
   d. And more

Using targets vs. following a trend does not guarantee that your trades will be profitable more often, but it does enable you to take profits without relying on the quality of the market’s trend.

Another benefit of trading with targets vs. a trailing trend based exit is that you’ll exit as the market reaches a price level for the first time. You’re not relying on the market to exceed the price level by enough to create a trailing stop at the same level that your pre-determined target would have exited earlier. Consequently, the market does not need to move as far for you to take profits at the same level.

The biggest benefit of trading to targets is that it is the easiest way to enforce discipline in your trading. Since discipline is often a major cause of inconsistent profitability, profit targets are very often the easiest way to move from struggling to profitable.

It is imperative that you understand whether your trade’s profit objective is based on trend following, targets or both, because it defines your exit rules. Equally as important, however, is the fact that emotionally embracing your trade’s objective will reinforce your ability to be disciplined.

In our swing trading we use a blend of both objectives. We’ve found that taking profits in stages, also known as “scaling out of a position”, with targets defining the first exits, and trend following determine the final exits will give you:

- More consistent profits which means a smoother equity curve
- Reduced stress or concern over giving back profits
- Increased confidence to stick with a trend and catch bigger moves
- Easier trade management

**Exits That Protect Your Capital**

So far the discussion has focused on taking profits, but an equally important use of exit rules is to take losses. Losses are a part of trading, and the sooner a trader accepts this fact, the sooner they can become profitable over the long-term.
An exit that takes a loss is often referred to as a “stop loss”, or protective stop. In the context of your trading system it also represents your “initial risk”. This is a very important component in determining the profitability of your trading system over the long term.

As you become a more sophisticated trader, the size of your initial risk will have a direct impact on how you determine your profit taking exits and your position sizing (not covered in this report).

**How Big Should My Initial Risk Be?**
The answer to this common and very important question can be defined by your answers to criteria #3 and #4 for good quality exits listed above.

Criteria #4, *complementary with the premise of your trade*, simply means that your stop should be big enough to allow you to stay in the trade until your reason for entering the trade is no longer valid. A simple example of this would be that if your trade setup is buying against a support level, then your trade is valid until that support is broken.

Criteria #3, *complementary with the personality of the market*, is just as important and often over looked. This means that your stop should allow the market’s normal volatility to occur without hitting your stop loss. This will increase the probability of your trade being successful.

Finally, your best protective stop, or level of initial risk, takes into consideration the profits you are able to achieve on trades that reach your trade’s objectives.

Now recall from above that the effectiveness of your profit taking is a function of both how often you are able to take profits as well as how much you make on each profitable trade. You have probably heard this referred to as a trade’s risk to reward ratio. Simply put, this is the amount of your initial risk as compared to the total profit you make on your trades that work.

A common goal for this relationship is to have trades that yield profits of 2 or more times your initial risk. With a ratio of 2x you can make money even if your trades meet their profit objectives less than 50% of the time.

**Exits Tactics That Do It All – Easily!**
At this point you may be asking yourself this question…

“What exit strategies can incorporate all these criteria?”

1. Easy to identify and execute.
2. Easy to repeat consistently.
3. Complementary with the trading personality of your market.
4. Complementary with the premise of the trade.
5. Utilize scaling.
6. Can be used for trending exits.
7. Can be used for profit target exits.

MarketGauge.com
8. Can be used for protective stops.

**Here’s the answer...**

We have had great success with exit strategies that accomplish everything on that list by using tactics based on a measure of a market’s volatility known as, “Average True Range”, or ATR.

ATR is exactly what it sounds like: it’s the average range of the stock. We use the calculation based on daily ranges.

It is called average “true” range because it is not simply an average of the day’s range (high – low). Instead, it incorporates any gap that may have occurred at the beginning of the day.

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**Calculating ATR**

The calculation of Average True Range (ATR) is as follows.

The True High = the greater of the high of the day or the prior day’s close. *As a result, if the market gapped down and never climbed back up to the prior day’s close then the prior day’s close is considered the high of the day.*

The True Low = the lower of the low of the day or the prior day’s close. *As a result, if the market gapped up and never fell back down to the prior day’s close then the prior day’s close is considered the low of the day.*

The True Range for the day = (True High – True Low)

The ATR is a simple average of the True Range over a number of days that you feel best represents the time frame of your trade considering both the entry criteria and your expected trade duration. It is common to use a range of 10 to 30 days.

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**Why The ATR Is So Powerful**

ATR is an easy-to-use and effective measure of the market’s personality, and a simple value that represents the market’s normal volatility. Rather than calculating distance from your entry to stops and targets in dollar terms, you can define them in terms of the number of ATRs. For example if a stock has an ATR of $1.00 and it moves $.50 then it has moved half of an ATR. Now you can define your whole trade in a way that easily fulfills all 8 criteria for good exit strategies!
In our courses and webinars we teach the exact criteria for our various swing trading systems, but to give you an idea of how this all comes together here is a simple application of it using the sample short-term entry set up from Rule #2 earlier in this report.

Assume the entry set up is to go long a stock after a day when it traded below the 10-day moving average and then closed over it. Assume the stock’s ATR is $1.25, and premise of set up is that the stock will not trade under the low of the day of the retracement (shown circled in dashed red line).

Here is the trade:

- The protective stop is below the retracement day.
- It is a good risk trade if the risk of 1 ATR (or $1.25) enables a stop under the set-up’s protective stop.
- When the trade reaches a profit target of 1.5 ATRs we take off half the position and move our protective stop to no loss.
- When the trade reaches 3 ATRs we take profits again on another ¼ of the original position size.
- We set a trending trailing stop on the remaining ¼ of the position to catch any extraordinary moves. We even have trailing stops that use the ATR!

With an approach like this you can quickly and easily...

- Filter out your best trade setups based on risk
- Identify stops and pre-determined targets quickly and effectively
- Take profits easily and in a very disciplined way
- And ride swing trades for big moves

You should be able to find the ATR calculated in your trading platform. If you can’t, then check for more basic calculation of average range.
Conclusion: 
Rules Based Trading

These 3 Rules are foundational concepts that we have used to build many trading systems. If you review the rules you will find that there are some important overriding themes within each rule. Remember to:

- Keep it simple
- Trade with rules – have a plan

Improving Your Existing Trading Approach
If you want to start applying these rules immediately, use the short set of questions below to begin your own process of objectively evaluating the quality of your trading approach. The only person who will see your answers is you, so be sure to be specific and honest!

Rule #1:
- What are your rules for determining if a stock, ETF, or market is in the right condition for you to trade most successfully?
- Which of your rules warn you of any potential important change in conditions of the market you are trading?
- If you trade stocks, 70% of your stocks intra-day move is driven by the general market conditions. How are you measuring the overall health of the general market?

Rule #2:
- Are your entry and exit rules simple enough to execute consistently?
- Are you using short-term price patterns with a bias toward the larger trend to define good trade setups?

Rule #3:
- If you are not using ATR, how do your entry and exit rules account for the fact that not all stocks or markets trade the same?
- Are your exit rules consistent with the premise of your trading plan?
Discover More!

Get to know MarketGauge’s lead swing trader and teacher, Michele, ‘Mish’ Schneider. Mish offer’s many ways for you to ‘learn and earn’ from her 30-years of trading experience.

Learn more about how Swing Trading can grow your portfolio in all market conditions.

Here are 4 easy ways to improve your Swing Trading with Mish, and grow your portfolio in all market conditions:

1. **Make sure you’re receiving ‘Mish’s Daily’.** It’s FREE!
   This is a concise daily email which gives you insight into what to expect for upcoming short and long-term trading opportunities in ETFs that cover the major markets and industry trends based on the concept of phases you learned in this e-book! [Get the latest Mish’s daily here](#)

2. **Follow Mish’s Strategies & Trades** with one of her three levels of Mish’s Market Minute (MMM) trading services. Each one provides a combination:
   - Real-time trade alerts
   - A model portfolio that tracks Mish’s trade alerts
   - Streaming video trading that teaches you her strategies
   You’ll find all three MMM trading services under the “Trading Ideas” menu at [www.marketgauge.com](http://www.marketgauge.com)

3. **Attend a live webinar by Mish.** Occasionally Mish will host a complimentary training webinar where she’ll share more about her trading strategies, tactics and trade ideas. There isn’t a set schedule so keep an eye on your email from MarketGauge for the next invitation to attend.

4. **Follow Mish on Twitter** at [@marketminute](https://twitter.com/marketminute)

**Need Any Help?**

If you have any questions please contact MarketGauge at:
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or via our live chat on the bottom right corner of our home page