Ed Heath's Swing Trading Plan (as of 6/8/14)

Synopsis: I am a swing trader with most of my positions lasting a couple of days to a week or two. I prefer to trade PBOs (Pull Back Opportunities) which are up-trending stocks that have pulled back for a buying opportunity. I prefer trading non-leveraged ETFs over stocks because they tend to be less volatile, I don't have to watch them as much, and I'm able to put more money on their position. I will also trade the ETFs not in an uptrend, as long as Stochastics are starting to turn up. If the market is up-trending, I'll hold by positions until I see a daily sell signal, "Let your winners run". However, if the market starts to downtrend, I'll take profits sooner, "A bird in the hand is worth two in the bush"! I found that greed is a killer of profits! I don't trade volatile stocks, stocks under $15/share, or stocks with daily volume less than 300k.

Broker and Trading screen: I use Scottrade as my broker and Scottrade Elite for my charts.

My watch list: I create my watch list at the end of the day from candidates from a free scanner I use from Scottrade called Trade Ideas. Each day I run it during market hours looking for good pullback swing trade set-ups to put on my watch list to either buy now or watch for the next couple of days. My scan criteria is: 1) Stochastic out of oversold on the 60 minute; 2) >300,000 daily shares traded; and 3) Price over $15. The scan produces both bottom fishing set-ups (which I don't trade), and pullback opportunities (I only trade the set-ups I like). My ETF watch list comes from a list of about 40 ETFs I have.

My charts: I use candlesticks, a Bollinger band (21 SMA/ 2 Std. Dev.), 2 EMA (thin yellow line), 5 EMA (black line), 13 EMA (red line), 50 SMA (blue line), 89 EMA (green line), 200 SMA (gray line), Fast Stochastic (13/3) (green line) over Slow Stochastic (13/3) (read and blue lines) in the same window, and volume. See below:

My screen set-up: I have my screen set-up with 4 linking windows and a scanner. I have a daily chart (3 months) on the left, 60 minute (1 week) in middle top, a 3 minute chart (.5 day) with scanner on center bottom (I'll change the 3min to a weekly one year when I do my watch list), and a 13 minute (2 day) chart on the right side. I also use pivot points on the 13min. See below:

Market direction and number of positions I hold: Depending on what market we are in, will determine how many positions I will hold, "Don't fight the trend". I use the moving averages on the S&P index ($SPX) to determine the general market direction since about 80% of all stocks follow its direction. If the 2 EMA is above the 5 EMA on the S&P daily chart, we are in a short term up-trending market, and I will swing trade long and holdup to 6 positions (keeping a cash reserve for 2 additional positions). However, if the 2 EMA is below the 5 EMA on the daily S&P, we are in a short term downtrend and I will just watch my holdings and may only buy one position. I may just not buy anything or look to trade some of the inverse ETFs.

The trade: On the daily chart below, I like to buy upward momentum stocks which I define as the 50 SMA inclining, and the 50 SMA is over the 89 EMA. I prefer price to be above the 50 SMA, but not below the 89 EMA. I also want to see the price at or near the bottom of the Bollinger Band, with Slow Stochastic at or near oversold and starting to flatten out, and Fast Stochastic curling up through Slow Stochastic. I look for a swing low to set the stop and the current daily candle to have a higher low than the previous day and best with a higher open than previous day's close. I also look for reversal patterns like: Hammer, Inverted Hammer, Southern Doji, Piercing Pattern, Bullish Engulf, Bullish Harami, or Morning Star.

Once I see a swing low and a higher candle with Stochastics starting to turn up, I'll use the 60min and 13min charts for a better entry. On the 60 minute chart, I want to see the 2 EMA (yellow line) crossing up through the 5 EMA (black line), and well below the 50 SMA. I also want to at least see the Fast Stochastic rising up out of oversold, but best if also Slow Stochastic follows it. The 60min chart is used mostly for guidance and I do not trade from it.

On the 13 minute chart, I want to see the 2 EMA (yellow line) cross up through the 13 EMA (red line) and best to buy if the price is below the 50 SMA (blue line), but will buy if just above. Also best to see how the price is acting to the pivot points.

Initial stop and # of shares to buy: Once I find the buy set-up I like on the daily chart, I will set an initial stop just under the low of the previous day, which is usually the swing low day (usually -.02 to -.05 cents or so, or use approx. -.10% of LOD as a guideline). If you want to use a tighter stop, use the close of previous day, as long as the open of the current day is higher. You must determine what your risk tolerance is (the amount you are willing to lose per trade), and buy the amount of shares to reflect that loss. Let's say your threshold of pain is -$200 per trade, there are two ways to buy.

1) Best choice is buying with a swing low as a point of support. Buy the amount of shares according to your loss tolerance of -$200, using this formula: R/ (E-S) = #shares (R=risk, E=entry price, S=Stop loss price). Risk ($ willing to lose) ÷ Entry or Current price – Low of previous day (or stop price) = # of shares to purchase. [e.g. $10 (E=Entry price) - $9.80 (S=Stop loss price) = $.20; $200 (R=Risk loss) ÷ $.20 = 1000 shares can be purchased].

2) This is a way to buy, but not as good since you don't have a point of price support. If you have a set amount you want to spend per position, say $10,000, you can just set a stop using a percentage loss (e.g. 10k - 2% = $200 loss), so you would set an initial stop at -2% under your purchase price on all of your initial positions.

Where to place your stops after purchase: Hopefully the next day or two your stock will go up. After your initial stop, I think your first goal is to be able to place a stop at or near your purchase price. After you have a gain of about +1% to +2% in price, you can move your initial stop up and set it at the end of the day on the low of day, low or close of previous day, below a certain moving average, or some other form of resistance. At that point, you are into free money, meaning all gains are now a profit and you won't take a loss on your trade. After you are into free money, only you can determine how much wiggle room to give by continue to move your stops up on some form of resistance as price moves up!

When to sell the trade: This is fully up to your risk tolerance and timeframe of the trade! On the day of purchase or the next day or two, I'll just let my initial stop get triggered if it heads down. After you are able to move your stop up to your purchase price to be in the free money, you then need to decide which sell signal and length of trade fits your trading style:
1) Profit swing trade: As long as the market is up-trending, I'd suggest letting your trade ride. However if the market starts to down-trend and your stock is declining, you may want to not wait for a daily signal and take a profit. This may also be a sell option to consider if your stock is outside the upper Bollinger Band since they usually pull back. I'll sell on the 2/5 EMA downward cross on the 60min chart, or on the 2/50 cross on the 13min chart (you can use a 15min chart) and take my profits.
2) Stochastic swing trade: As long as Stochastics are not in the overbought area (signals get mixed once they are in that area), use the daily Fast Stochastic crossing down through both Slow Stochastic lines as a sell signal (or use the Slow Stochastic cross). You'll have to give more wiggle room for your stops, maybe using the previous day low or just below the 5 EMA.
3) Moving average swing trade: Use a moving average cross, perhaps the daily 2/5 EMA or 2/8 EMA downward cross to sell. For a stop, use an area of resistance or just below the next longest moving average as a guideline (e.g. Set the stop just below the 8EMA for the 2/5EMA cross sell signal).

Notes:

- Take any of these trading ideas that work for you and tweak them to your own style.
- Trading style to consider: Sell half of your position, and then swing trade the other half.
- Find the timeframe, indicators, and buy/sell signals that work the best for you and create your own trading style that matches your personality!

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Disclaimer: This document is my personal trading plan and should only be used for educational purposes. I am not a professional financial advisor and all investing/trading comes with risks!