THE TURNAROUND

TRADER

2nd Edition - Includes Railroad Tracks

BY
GUY COHEN

TURNAROUND TRADER

By

Guy Cohen

For legal reasons we are obliged to state the following:

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1. Introduction

Welcome to **Turnaround Trader**! I'm Guy Cohen.

Before I describe my background, I want to re-assure you that this course is going to be a lot easier than you might have imagined, and a lot faster to get working for you. I also want to emphasize that this should be fun.

There's something else really important that I want to say right up front. I don't want you to see this as 'just a manual' on trading. My passion is to help you to achieve what I have achieved – **financial freedom and enough money to enjoy the good life.** To that end I want you to see this as a gateway into the exciting and lucrative world of trading.

Such gateways are not normally available without spending many thousands of pounds. It was only after receiving a letter from a (rather irate!) potential customer that I decided to dramatically slash the cost of entry into the 'inner circle'. There is nowhere else you can get this information at such a low price.

As you will see later, I am also going to give you many FREE bonuses which will form part of your ongoing training with me, as together we get you up to speed and give you the confidence that you really CAN make many thousands a month from home just using your PC and an Internet connection.

I hope you agree that it's worth investing some of your time in this (the money you have invested is insignificant). Some greedy people want an instant solution without putting any effort into learning. I hope this is not you. The learning is not arduous. All I ask is a few hours of your time and a serious attitude towards wanting to learn about this amazing way of making money. And that means reading this manual a few times until you 'get it' and watching my free training videos which I have put on line.

I promise you that soon, strange terms will seem familiar and unusual ideas will seem second nature. If you follow my teaching (as hundreds of ordinary people have done so far) very soon you will be making profitable trades and banking £200, £400 … even £1,000+ plus per trade which will take you ten minutes to do! It doesn't get better than that.

So if you are serious about changing your life and serious about becoming my student, let us make a start together.

My background

I'm not a City or Wall Street boy – I've never worked in the City – and that's a good thing!

My background in finance actually began academically – in other words I was a bit of a nerd! But that's also a good thing from your point of view, because it means someone else has done all the hard 'nerdy' work for you in devising trading strategies that actually work.

I started trading when I did my finance MBA in 1996. A few years later, after some professional traders had seen some of my work, I was asked to write a book for the Financial Times. This became an international best-seller and I was asked to write another book quickly after, which also became a best-seller. This was followed by a third, and later a fourth, this time for Wiley (New York).

Over the years, my work has been published and translated in several different languages and my clients include top institutions such as the New York Stock Exchange and the International Securities Exchange. Those are quite heavyweight clients I'm sure you'll agree!

My books have been very successful in the trading and investing niche. They were focused mainly on options trading and a particular type of pattern in the markets associated with stocks that are trending. This is my mainstay of trading. However, stocks can only trend some of the time – though I should add, that it's during those times that we make the most money most quickly. A 'trend' is when a stock has a momentum in one of two directions. Yes, you've guessed, that is either UP or DOWN. But of course stocks can spend considerable periods not doing much of anything – sort of bumbling along, up one day, down the next. More about that later.

In this course we'll be looking at a different type of pattern – that is, we're focusing on stocks that are poised to *reverse* direction. In many cases there are recognizable signs that a trend is about to end … **and we can make money from these signs.** Putting it simply, if a stock has been trending UP there are signs that this could end, reverse, and start trending DOWN. Likewise if a stock has been trending DOWN there are certain signals which indicate the stock could be about to reverse and start an UPWARD trend.

Recognizing when stocks are potentially about to turn

This course will show you how to recognize when a stock looks like it's about to turn and how to trade it in the safest way.

I'm also including SEVERAL bonuses with this course. You're really going to be amazed with what you're getting here!

- First, I'm giving you a special automatic 'turnaround filter' for you to find the stocks that are forming these recognizable patterns! This has a value of at least £1,000 for 12-months. This takes all the hard work out of finding potential turnarounds.

  The stocks being scanned are just a small basket of what we call 'liquid' stocks. This simply means they are very actively traded, popular stocks.

With the automatic scanner, your work will only take minutes on a given day, and many days you won't have anything to do at all.

- I'm also giving you a series of bonus tutorials that you'll be able to view every few days. These videos will teach you another entire method of trading IN FULL and are worth well in excess of £1,000 ($1,500)! So what I'm proposing is to hand you £2,000 ($3,000) worth of amazing bonuses **absolutely for FREE!** Here 's more about them:

Bonus-Bonus-Bonus!!!

As part of this package I'm going to give you a series of special bonus tutorial videos which you'll receive **every few days**! These bonuses amount to well over £2,000 ($3,000)!

You see, over the years I've created some amazing methods that are unique to me. I've also had some remarkably successful students who have been kind enough to write and thank me. This is part of what inspires me to keep working.

The point is this … there are two main types of different trading conditions. Turnaround Trader is perfect for choppy markets. But I also like to trade trending market conditions, which I do in a very special way, again unique to me.

So, **as part of this package** you'll also learn about trending conditions in the bonus videos. That's a huge advantage because it gives you the awareness of a complete trading solution for all market conditions.

If there's one particular piece of feedback which keeps repeating itself it's that my students love trading with my methods.

When I first started trading I was able to transform an account from $14,500 to over $187,000 in just 5-6 months. But this was no fluke as my other students have demonstrated:

- *A. Abraham turned an account from $10,000 to $140,000 in just two years - that's an increase of 1,300%.*
- *S. Khan made a profit of £80,000 in just five months.*
- *Richie S tripled his account in just one month, and multiplied his account TENfold in 18 months!*

These are real figures from my students trading my systems. As part of your £2,000 bonus package moving forward, I'm going to treat you to some of my other systems that have some of the world's top traders endorsing them.

Why do we focus on the big stocks?

- The big stocks are easily tradable, which means you can get in and out of them easily.

- Also, the big stocks don't often exhibit the pattern I'm about to reveal to you, so when they do, and when the "planets line up" so to speak, our odds of success are greatly heightened.

Finally, with the big stocks you can learn about my *special indicator* that I'll be revealing to you over the weeks ahead. It's not specifically part of this course, but I'm going to be revealing it to you as another special bonus feature.

Here's a snippet that will get you excited about this indicator I've developed and that I'll be showing you how to use …

My indicator follows the "informed" trading activity in the markets. "Informed" is a nice way of saying "insider". That's not necessarily an illegal terminology because what we're doing is completely legal and ethical.

This is because my special indicator follows what others in-the-know are doing, and we can then act on that information accordingly!

This is just ONE of the bonuses that you're going to be receiving over the coming weeks. And that makes this course worth many times its price purely on this basis alone!

My special bonus indicator can see the footprints of the big and the smart money ...

What this means is that when the big institutions and hedge funds make their trades my indicator can see it, whereas other indicators simply cannot. By focusing on a limited number of stocks it keeps your workload completely manageable so you're not going to have to spend hours and hours looking at loads of stocks. You're only going to be looking at a very few.

Another big bonus you'll be receiving is how to trade trending stocks. As I mentioned before, this should be your mainstay in any case. My bonus material with this course will show you how to trade trending stocks safely and with the potential for windfall profits. It's a huge bonus just by itself.

Back to the main part of this course…

Here's what you are about to learn:

- First, I'll introduce you to the basics. This will include what a price chart is and how we read it. It's very simple, so don't worry if this is all new to you. I'll also show you how to interpret the charts each time, and the popular patterns that repeat themselves over and over again. And by this repetition, we are given opportunities to recognize the patterns and position ourselves to make money from them.

- Next we home-in on the first specific pattern we're looking for in order to find a potential reversal signal. Again it's very simple, and remember, I'm giving you a scanner to find the pattern anyway!

- We then follow this up with a Trading Plan to keep you safe in the trade. A Trading Plan is effectively a business plan of how you enter the trade, how you exit and how you take your profits. It's about minimizing any losses and maximizing your profits. There are traders who make money and traders who lose money; the difference is the first have a trading plan, the second do not.

- We'll cover some examples of how to trade the signals, and finally I point you to the website, www.turnaroundtrader.com where you can view my complimentary videos which give more details and show you how to trade with your spread-bet account or broker.

- I'll then be explaining my favourite reversal setup, the Railroad Track. While rarer than our standard reversal pattern, the railroad track is special in its reliability.

- Remember, on the website you'll find all your bonuses which I'll be releasing day by day so you never feel overwhelmed by information.

Turnaround Trader is for anyone who can trade US stocks on any platform

The Turnaround Trader method and software is applicable to anyone who has broker access to the US stock market. That means if you're based in the US, UK, Australia, Europe, Far East, South Africa, South America, or pretty much anywhere … this is for you!

UK traders can trade via a 'spread-betting' account that has special characteristics for leverage and tax efficient trading.
During this book I will mention spread-betting from time to time for the benefit of UK-based readers.

If you're based in the US you can simply trade Turnaround Trader via your standard online brokerage, trading shares (or options).

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Okay, that's enough of an introduction … let's get straight into it!

2. The Basics

Stock Analysis

There are three ways in which traders analyze stocks – the good news is that we're going to focus only on the easiest one. But I will mention all three here for clarity.

Method 1: Technical Analysis
First, we have what's called technical analysis. Technical analysis is the study of charts and patterns. A chart tells you the story of the buying and selling activity of a stock at any point in time. **This is our focus during this course.**

Method 2: Fundamental Analysis
Fundamental analysis is the analysis of a company's financial health. We're talking about its balance sheet, its profit and loss statement, its cash flow. We're talking about all the ratios that come, as a result of the balance sheet and the profit and loss.

Luckily, in this course we're not going to be doing any fundamental analysis as it can be quite complicated and time consuming!

Method 3: News
"News" includes companies releasing earnings reports, as well as wider economic data, like inflation, employment reports and interest rates. We can find the news very easily with just a single click from our website. We don't need to be glued to the news but we do need to be aware of the news so it doesn't disrupt a trade adversely.

So let's focus on technical analysis – the study of charts.

Basic Chart Patterns

In the picture overleaf you can see a price chart of a stock.

Along the bottom is time – measured in days here, so each bar represents a single day's price movement.

Along the y-axis (the vertical axis) is the stock price.

Don't worry if this seems strange to you at first. Soon you'll be reading charts like a pro!

Please also know that all the complicated work has been taken care of for you by my 'turnaround scanner' which you have access to for an entire year.

Look at the chart above. Forget for the moment the individual red and green price bars, just look at the overall shape of the graph. Hopefully you can see the price of this share (Apple.inc) goes up and down. You should also notice a general trend in the upward direction from mid-October onwards. The figures on the right hand side (95.00 – 130.00) represent the price per share in US Dollars (USD) of course. 130.00 means $130 per share.

So far so good. Now let's look at those individual price bars – the red and green rectangles with the vertical lines coming out from the top and bottom.

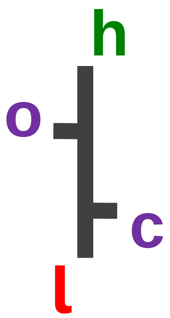
Individual Price Bars

Each price bar shows the price action over a certain period of time, and there's information contained *within* each bar too. We'll come to that in a moment. Price bars can literally be for a second, minute, 5-minute, 30-minute, 60-minute, daily, weekly, monthly or yearly, depending on the length of time you're looking at. Obviously the shorter time period of the bar, the shorter the time period of the chart you're looking at! For our purposes here we ONLY look at the DAILY bars. So each bar that we're looking at here represents one day – it's called a DAILY BAR. If you look at the chart above you should be able to count about 20 or so such bars in any one month (there are no bars at the weekend as the markets are closed).

Now let's take a look at those different coloured bars and how we use them to predict price movements.

Each bar contains important information that can be represented in slightly different ways – it's like the same words but in a different language. We are going to focus on just one way of representing the price action.

What we have below is a simple price bar to which I have added some letters for clarity.



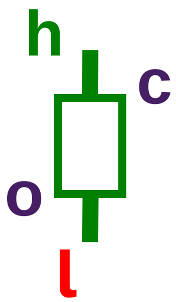
As you can see, the extremes of the bar represent the high (h) and the low (l). The left tag represents the price the stock OPENED at for the day (o), and the right tag represents the price the stock CLOSED at for the day (c).

So each bar contains the following information for its period of time:

OPEN: The price at which the stock opened on that day.
HIGH: The highest price the stock reached that day.
LOW: The lowest price the stock reached that day.
CLOSE: The price at which the stock closed that day.

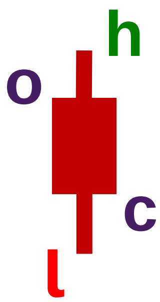
In this particular example above, the stock closed lower than the open, we can see that quite clearly. You can also see it moved higher than the open at some point during the day. It also moved lower than the final close at some point during the day.

Now let's look at the same bar but using a different symbol called a "Japanese candlestick".



With the Japanese candlestick, we still have the extremities (i.e. the low and the high) as vertical lines, but what we have instead of the left and right tags is the top and bottom of the body of the rectangle.

When we have a <u>hollow body</u> like the one here, it means that the price closed higher than it opened.



When we have a <u>filled body</u> like this one, it means the price closed lower than it opened.

You'll also notice that the bars on the chart will be coloured. Typically, **if the close is higher than the previous day's close, then the bar will be green.**

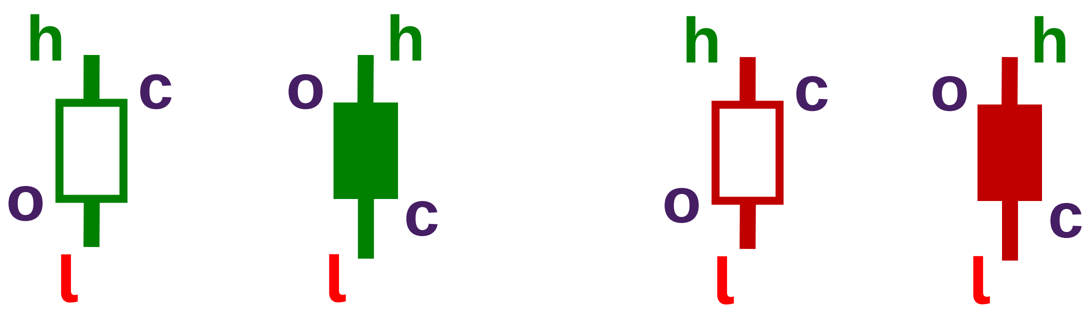
And **if the close is lower than the previous day's close, then the bar will be red.**

You can actually get a scenario where the stock close is higher than the open on the specific day, but the close is still lower than the close of the previous day. In such a case the bar will be HOLLOW and RED. Here's a summary:

The symbol '>' means 'greater than'. The symbol '<' means 'less than'.

Close vs Open	Close vs Previous Day's Close	Candlestick Result
Close > Open	Close > Previous Close	**Green + Hollow**
Close < Open	Close > Previous Close	**Green + Filled**
Close > Open	Close < Previous Close	**Red + Hollow**
Close < Open	Close < Previous Close	**Red + Filled**

Here are all four types:



The vertical lines are also known as 'shadows'. You now know all the four different candlesticks and what they mean. We'll look at each specific candlestick and what they indicate a bit later in this chapter.

Price Patterns

Of course when we look at a price graph of a stock, we're typically looking at the chart in the context of a period of time, say over 6-9 months or so, if we're looking at the daily price chart. Remember, **a DAILY PRICE CHART is where each bar represents just one day's trading.**

Most technical analysis and chart reading needs to view a chart over a period of time. When you see a whole bunch of price bars in sequence, this makes up the price chart and patterns emerge. Many of these patterns are recognizable (with a bit of practice) and the best traders construct simple trading plans around these patterns.

The patterns tell their own story and indicate outcomes that in certain cases have increased probability of playing out. In this way, we can view a chart as a rolling interpretation of how well a particular company is viewed by investors and traders in the market place.

So a stock that is going down over a prolonged period of time may be a company that is underperforming in terms of its results; the resulting selling of the stock causes the price to drift downwards. And a stock that is trending up over a period of time may be a company that is outperforming expectations, meaning more buyers want the stock in expectation that the price will continue to rise. The buying pressure forces the stock price upwards.

“Continuation” Patterns

In this course we’re focusing on stocks that look ripe for reversing direction.

But before we get there, let’s have a quick look at stocks that are trending. With trending stocks we look for “continuation” patterns.

Bull Flag

In this example, the stock price is going up from October 1st as you can see from the chart below. It then pauses (or retraces) before continuing to rise again. It can do this over and over again. This is what you call an up-trending stock. And each little pause is called a flag. It’s a “bull flag” because the main thrust (prior to the pause) was upward.

Similarly, you can have a stock that is trending down in a similar way.

Bear Flag

In this example, the stock price is going down from March 1st as you can see from the graph below.
It then pauses (or retraces) before continuing to fall again. It can do this over and over again. This is what you call a down-trending stock. And each little pause is called a flag.

It’s a “bear flag” because the main thrust (prior to the pause) was downward.

I'm sure you know that in stock market parlance a 'bull' is an optimist (about a particular stock) and a 'bear' is a pessimist.

Even if a stock is trending strongly, at some stage that trend is going to come to a temporary or permanent end. <u>This event could present us with an opportunity to make money</u>.

We'd like to discover when this is likely to happen and make money from it in an organized way when it does.

We're also open to occasions where there is no discernable trend in place but where we can potentially spot a clear reversal signal.

There are a couple of other very popular chart patterns that we should be aware of in the context of a potential reversal. I will explain these now.

Other Popular Chart Patterns

Double Top

A double top occurs when a new high is made at roughly the same price area as a previous high. The first high acts as an area of **resistance**.

In other words the stock price meets an invisible resistance around this price area (purple dotted line) and given the right circumstances the price may rebound downwards.

Double Bottom

A double bottom is the exactly the same as a double top, except it's in reverse!

A double bottom occurs when a new low is made at roughly the same price area as a previous low. The first low acts as an area of **support**. In other words the stock price meets an invisible support around this price area (dotted purple line) and given the right circumstances the price may rebound upwards.

Here we see a double bottom where the second low happens to converge with the 200-day moving average which is the red line in the chart. This is a very useful confluence when it occurs but don't worry about such details right now.

Head and Shoulders

A head and shoulders pattern occurs when three highs appear, with the middle high being the highest of the three. The theory is that the stock will fall from the second shoulder.

In the diagram below you can see the first 'shoulder' forming (dotted purple lines) then the 'head' followed by the second 'shoulder' before the stock falls away as indicated by this pattern.

Reverse Head and Shoulders

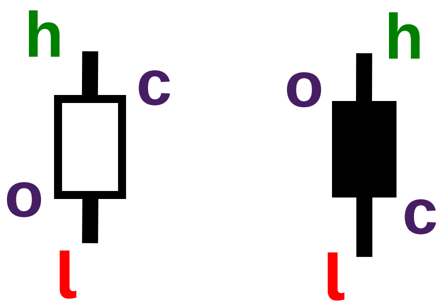
A Reverse (upside down) head and shoulders pattern occurs when three lows appear, with the middle low being the lowest of the three. The theory is that the stock will rise from the second 'shoulder'.

Specific Candlesticks

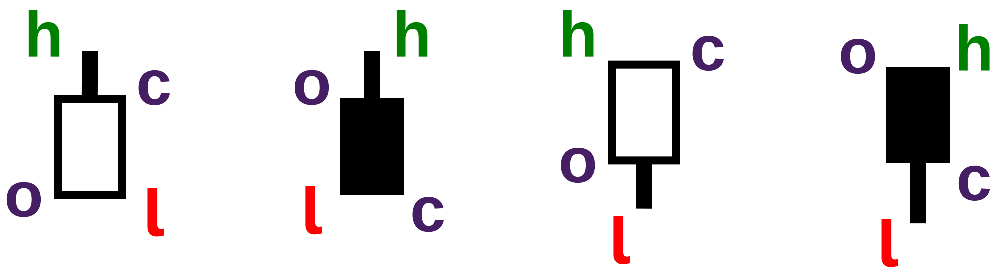
So now we're familiar with some of the most popular price patterns, let's also reveal the most relevant individual candlesticks that apply to potential reversals. This is where the magic starts to happen with reversal patterns.

First a quick reminder of what we are trying to achieve. If a stock is trending in one direction (say UP) and we can spot a 'reversal indicator' we can place our bet on the stock going DOWN in the near future. If the reversal happens as predicted, we make money. Similarly if a stock is trending DOWN and we can spot a 'reversal indicator' we can place our bet on the stock going UP in the near future. If the reversal happens as predicted, we make money.

We already know the composition of a candlestick from before. The candlestick is comprised of a "body" and "shadow(s)" (vertical lines). The body contains the information about open and close prices. The top of the upper shadow is the high of the bar (or day with daily bars), and the bottom of the shadow is the low of the bar (or day with daily bars).



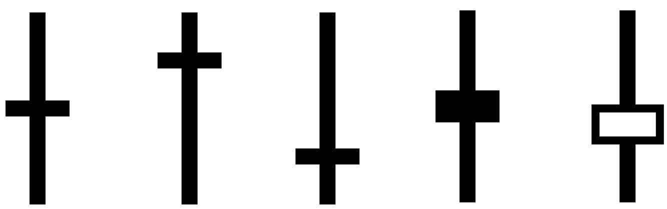
If the extreme (high or low) of the day was exactly at the open or the close then there may not be shadow for a particular candlestick.



The Doji Bar

'A Doji is when the open and the close of a particular trading bar are at similar levels.'

Examples of Doji bars.



A Doji is thought to represent uncertainty in the markets and, which could herald a change in market direction – the reversal we are looking for. <u>So the Doji is one of the signals we look for to herald a possible reversal or turnaround</u>.

Whatever strategy we're going to employ, we always need a signal and we always need a trading plan in order to implement any trade. That's the golden rule - we always need a trading plan. Those without such a plan are known by the technical term ‘losers’!

I’m going to give you two strategies for trading reversals in the next chapter.

Before we go into the specific pattern we’re looking for, there’s just one more piece of the puzzle to reveal … and that’s Volume.

Volume

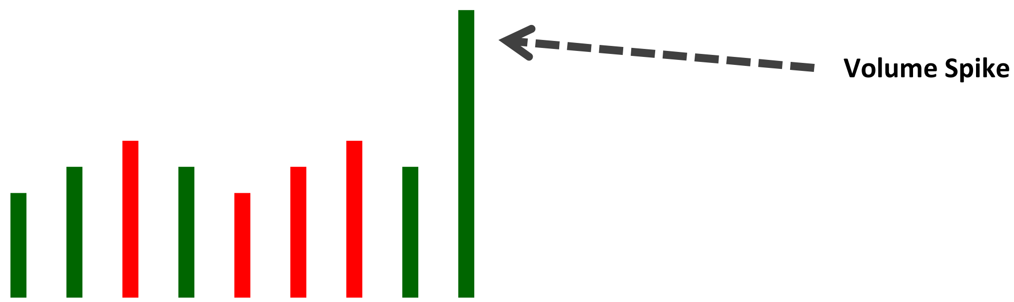
Volume is defined as the number of shares traded on a particular day. High volume means lots of action (trading) in that share. Low volume means the opposite – thin trading.

When we look at stock charts, we can also see volume bars underneath the price chart. Volume bars are typically going to be colored either green or red in accordance with the price bar.

If the volume bar is red, then that's going to correspond with the price bar closing down compared to the day before. If the volume bar is colored green then that's going to correspond with the price bar closing up compared to yesterday's close.

A volume spike is when we get a huge surge in volume on a particular traded day.

When volume spikes (say 50% greater than the 21-day average) then there is thought to be a good chance of a reversal.



Here’s an insider tip: **if that spike happens to correspond with a Doji bar then you have a more powerful reversal signal.**

Okay we’re about ready to put all this together.

What we’re looking for

Ultimately we’re looking for a high probability that a reversal will occur. If we can get a tip off about a reversal, we can ‘place our bet’ with a high degree of certainty that the market will turn in our favour.

- The basic requirement for our strategy is as follows. First, a general trend up or down. Second a Doji type of price bar to be present indicating uncertainty. Third, this Doji bar marking a 20-day extreme in price. By that I mean the price has not been higher than this in the last 20 days (for a rising trend) or the price has not been lower than this in the last twenty days (for a falling trend).

  So we're looking for a Doji to be forming together with a 20-day high or low in price.

- *Where possible*, it's a bonus to have this occur with a volume spike as this adds weight to the chances of a reversal.

- Another bonus is where the Doji bar occurs in conjunction with double tops or double bottoms (both reversal patterns) and at the second-shoulder turning point of the head & shoulders pattern (or upside down head & shoulders pattern).

Chapter Conclusion

The great thing about the reversal Doji bar is that it's easy to see. We can also SCAN for them – and that's part of your bonus with this course – you can SCAN for these with our free online application which I call 'Reversal Scanner'.

By the time you've finished this course, you'll be able to recognize a good trading opportunity within seconds of looking at a chart.

Remember, all we're really looking for is a Doji to form while the stock price is also forming a 20-day extreme in price. If the Doji occurs with a volume spike or together with a recognized reversal chart pattern, then so much the better!

What we now need to do is apply a robust and safe trading plan (or two!) so we can make money consistently when we find this pattern.

I cannot over emphasize the importance of having a trading plan. It marks out the winners from the losers at this game.

3. Your First Trading Strategy

So, now we know what we're looking for, let's put a simple trading plan together.

We actually have two trading plans for trading Doji reversal type patterns. Strategy One is the more aggressive and the simpler of our two plans. It's also my preferred strategy as it gets us in quicker and potentially out quicker too.

For our reversal signal, what we're looking for initially is a Doji that is forming a 20-day high or low. So it's a price extreme of the last 20-days and, if possible, a volume spike would be very helpful, though not absolutely, essential. A Doji bar represents indecision, remember. It is used to signal a possible turnaround in the market.

Note, there are two ways a stock can reverse. It can reverse from a high towards a low, and from a low towards a high. So in fact, Strategy One will have two (very similar) plans!

Trading Plan for Strategy One

Reversal from a Doji Low

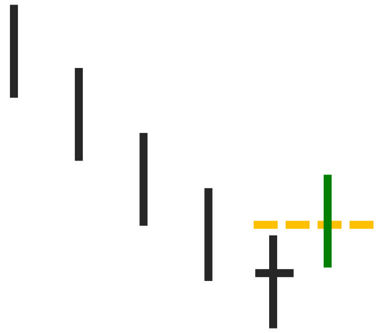
With Strategy One, the Doji itself is what we call the Signal Bar. This is NOT the bar that we initiate the trade from. It's the bar from which we get ourselves ready to trade.

Here, the Doji Bar is the Signal Bar

Buy if the next bar rises above the Doji High as indicated by the dotted yellow line.

In this case, we've got the Doji forming a 20-day low and we now can get ourselves ready to BUY because if the next bar goes above this Doji high, then our BUY trade or up-bet is the one we should place. Don't worry about HOW to place these trades at the moment. That's easy and I have made a triaging video which shows you how to do this. See later.

So, the next bar will be where we <u>enter</u> our trade if it is triggered. We'll talk about if, when, and how a trade is triggered in a few moments.



Here, the <u>next</u> bar has penetrated the Doji's High, therefore our trade is triggered.

In summary:

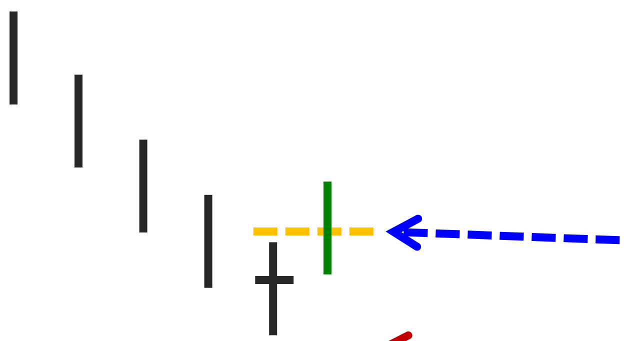
1. Look for a Doji bar which marks a 20 day low.
2. Note the stock price indicated by the <u>top</u> of the Doji bar.
3. Wait to see if the next bar penetrates this stock price.
4. If it does, you have a reversal trade on your hands and you should place an UP bet.

Trading Plan

We now need to implement a clear and simple trading plan. I've also put a free video together for you on the website www.turnaroundtrader.com. A trading plan simply means deciding when to buy, what 'stop loss' to place and when to sell. How simple is that? And yet many 'traders' have no such plan and merely buy and sell on a whim or a 'gut' instinct. Needless to say they lose money consistently.

- We BUY when the bar following the Doji breaks the high of the Doji, as we have discussed. In fact we actually place our trade slightly ABOVE the high of the Doji.

- At the same time, we place a "Stop loss" just below the Doji low. A stop loss protects us from a catastrophic eventuality. So when we place a BUY trade, we also place a stop loss so that if the price falls dramatically, we're protected from the price falling below our stop loss. We are taken out of the trade <u>automatically</u> if this happens.

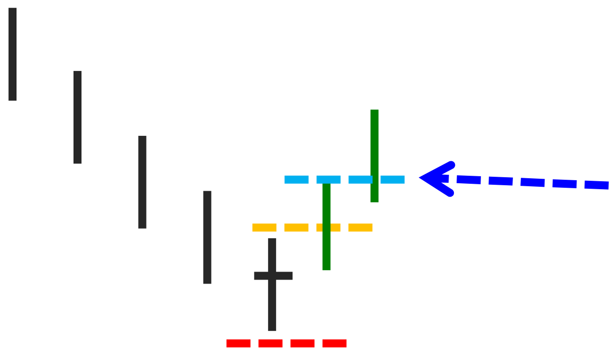


So, how do we manage our profits if the stock continues to rise after our BUY trade is triggered?

Well, we set a modest profit target and take some profits if the target is reached, but allow the remainder of the 'bet' to ride in the hope of making even more. Here's how it works:

- We measure the range of the Doji bar – i.e. the difference between its high and low. We then set our first profit target at 38.2% of this range, above the Doji high. (*I'll talk in a moment about where that odd figure of 38.2% comes from*).

  So we're going to take 38.2% of the range of the Doji, and then add that on and extend it upwards. When the stock hits this target, we sell HALF of our position.



First Profit at 38.2% of Doji range, extended from the Doji High. Sell half of your position.
(diagram not to scale)

38.2 is a "Fibonacci" number where many traders set targets for highs, lows, profits and stop losses. Fibonacci is an entire study in itself and involves numbers deriving from the sequence: 0, 1, 2, 3, 5, 8, 13, 21, 34, 55, 89, 144, 233 … etc. Each number is the sum of the prior 2. When you start dividing adjacent numbers into each other they produce numbers that seem to repeat themselves throughout nature and science. Such numbers are thought to have magnetic-type properties in the stock market as well.

The only problem with using Fibonacci as a staple trading mechanism is that there are so many numbers when you start getting involved in square roots, cube roots, etc, as the real Fib enthusiasts start to "curve fit" with the benefit of hindsight. Curve fitting is where you keep adjusting calculations once you have the benefit of hindsight – the problem is that in trading for real, we'll never have that benefit, so it renders all that fascinating Fib work pretty useless.

Trust me, I studied this for several years and eventually canned it. Remember, even a broken clock is correct twice a day. And with Fibonacci, you'll see examples where it seems to work by magic – but how did anyone know in advance which particular number or ratio it would be? The answer is they didn't … until it actually happened!

Many Fib-nuts (as I call them) think that the numbers derived from the Fibonacci sequence have divine type qualities. Again, I can assure you they do not. However, as a way of setting a modest profit target for our purposes here, I've found this 38.2% number to be useful and safe. If you prefer, you could just as easily take the Doji bar range and divide it by three to get 33.33%. I'm fine with that.

We now need to manage the second half of our position. From here the stock can do two things. It can either keep rising or it can fall! So, what do we do in either case?

- Once we've taken our first profit from the trade, we <u>move our initial stop loss</u> to either:

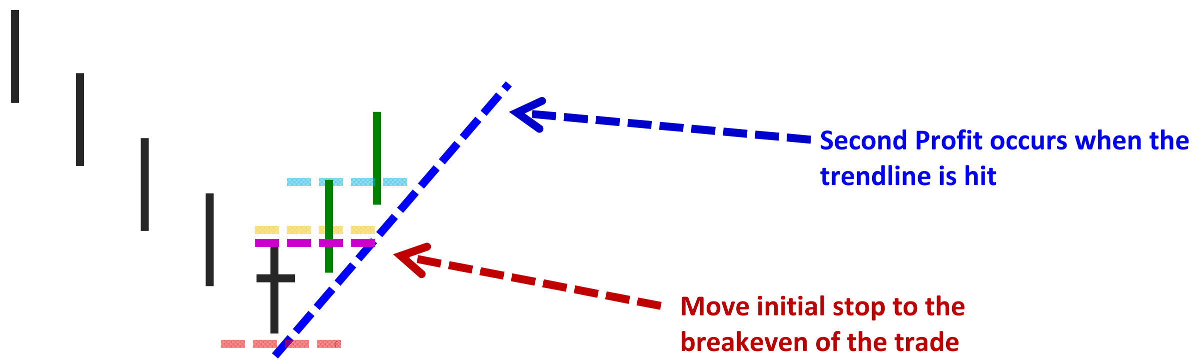
  ➔ the 'breakeven point' where our trade was entered (or a bit below); or
  ➔ the breakeven point of the entire trade. In other words our Entry Point less the profit made at the first Profit Target. The advantage of this option is that it gives the stock some room to move without triggering a premature sell.

  Either way, **we're now totally protected against the stock falling against us.** By that I mean it is now impossible for us to lose money on this trade – a nice position to be in!

  Once we've taken a profit on the first profit target, we are in a no-lose situation.

- If the stock continues to rise, we need to "trail" it. The easiest way to manage this part is to simply **draw a dynamic trendline**, which we adjust each day either horizontally or upwards where necessary. A trendline is drawn as shown below (blue dotted line) which connects the bottom of the bars for a rising trend, or the tops of the bars for a falling trend. If the stock moves sideways, lessen the slope of the trendline or even draw it horizontally until the stock starts moving in your favour again.

  When the stock price breaks through the trendline (i.e. starts to head down and breaks through this line), we'll sell the other half of our trade, most of the time with a profit.



So, let's summarize this:

Strategy One Trading Plan for Doji Low Reversal - Summary

- We BUY when the bar following the Doji breaks the high of the Doji. We actually place our trade slightly ABOVE the high of the Doji.

- At the same time, we place a "Stop loss" just below the Doji low. A stop loss protects us from a catastrophic eventuality, say if the stock falls rapidly whilst you are not watching it. So when we place a BUY trade, we also place a stop loss so that if the price falls dramatically, we're protected from the price falling below our stop loss. Stop loss orders are handled automatically – you do not need to be watching the screen. If the price hits your stop loss, your position will be closed for you, with whatever (small) loss you incurred. It's important to realize that with a stop loss you cannot be taken by surprise if the market moves against you, as it will from time to time. We take our small loss on the chin and move on to the next trade.

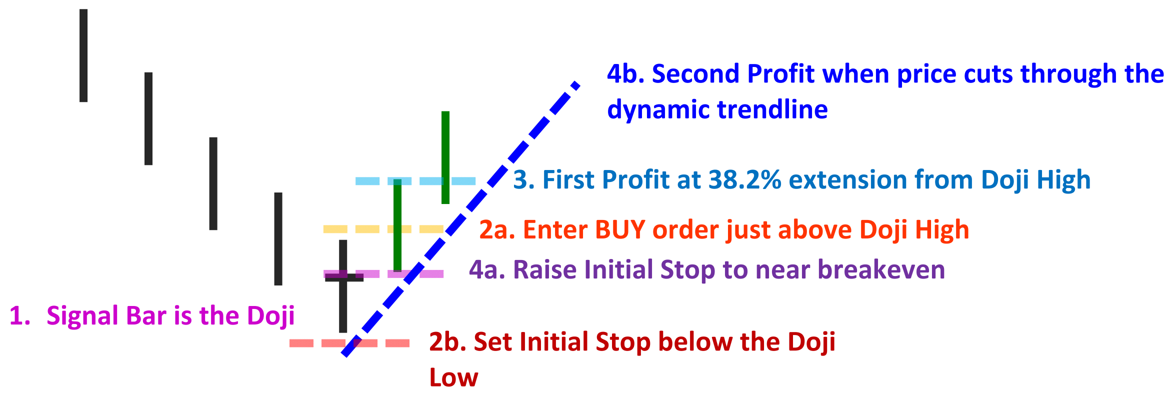
- Next we measure the range of the Doji bar – i.e. the difference between its high and low. We then set our first profit target at a 38.2% extension above the Doji high.

  So we're going to take 38.2% of the range of the Doji, and then add that on and extend it upwards. When the stock hits this target, we sell HALF of our position.

- Once we've taken our first profit from the trade, we move our initial stop loss to a breakeven point, either just below where our trade was entered, or at a point where our trade was entered, less the profit we made from the first profit target. We're now protected against the stock falling against us.

- If the stock continues to rise, we need to "trail" it. The easiest way to manage this part is to simply **draw a dynamic trendline**, which we adjust sideways or upwards each day where necessary. The trendline (blue dotted line below) is simply the 'best fit' line joining the bottom of the bars for the rising trend shown.

  When the stock price hits the trendline, we'll sell the other half of our trade, most of the time with a profit. The complete sequence is shown below. Follow 1, 2a, 2b, 3, 4a and 4b.



A Variation on Strategy One (Strategy 1a) – Creating the No-lose Trade

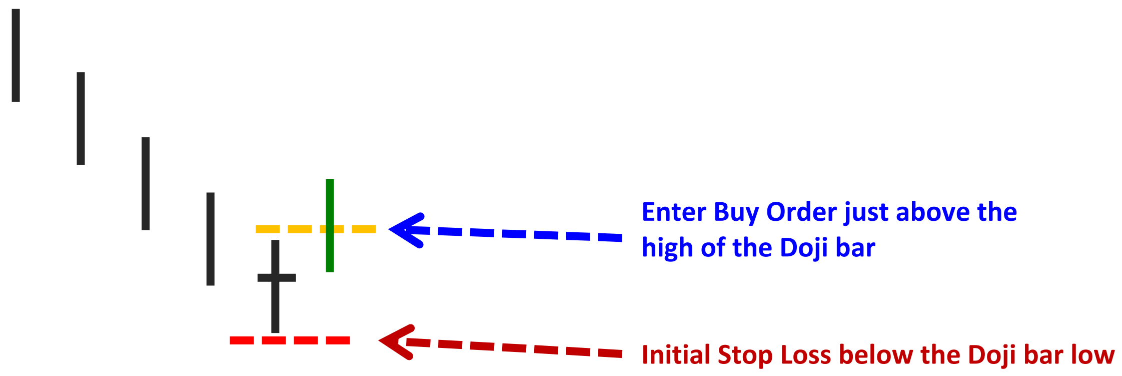
When the markets are choppy or if I'm feeling particularly conservative, there is a simple variation that I use to ring-fence my profits as soon as possible.

The variation is simply that if the entry bar closes in profit, immediately move your stop to near break-even, thereby protecting the trade.

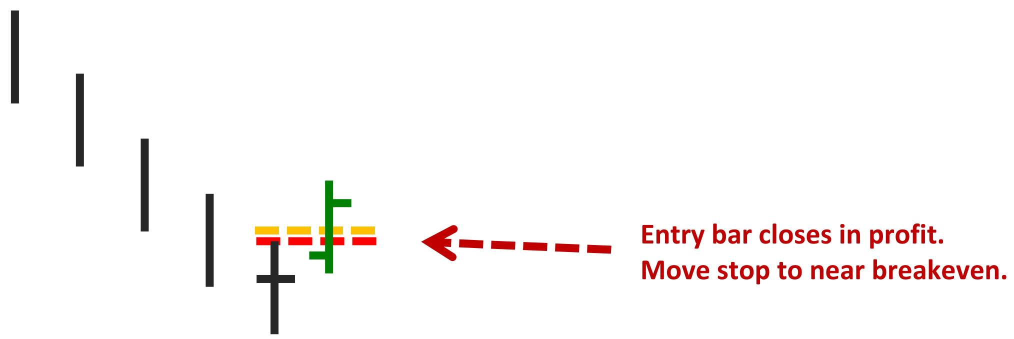
If the price subsequently moves against you, you make little or no loss. If the price continues in the direction of the reversal then you simply use the dynamic trailing stop.

<u>Strategy 1a (Doji Low Reversal)</u>

- Step 1: Enter trade as before



- Step 2: Move stop to near breakeven if the entry bar closes in profit, then use dynamic trailing stop to manage profits.



- Step 3: If the entry bar does not close in profit, use the original Strategy One trading plan OR exit immediately.

Reversal from a Doji High

Our trading plan here is identical to the "*Reversal from a Doji Low*" except that we're 'selling short' instead of buying in order to enter the trade. In spread betting terms (see later) we are going to be taking a DOWN bet rather than an UP bet. All the principles are the same, it's just all upside down!

Selling short simply means selling something you don't yet own. We do this all the time with stocks we think are going down.

The idea is that you sell for a high price and buy back for a lower price, thereby banking a profit.

When you spread-bet you simply make a down-bet. When the stock price falls, you close the trade for a profit.

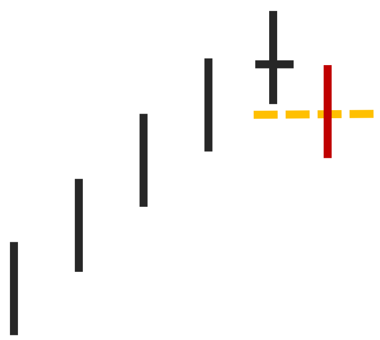
With Strategy One, remember the Doji itself is the Signal Bar. This is NOT the bar that we initiate the trade from. It's the bar from which we get ourselves ready.

Here, the Doji Bar is again the Signal Bar

Sell Short if the next bar falls below the Doji Low

In this case, we've got the Doji forming a 20-day high and we now can get ourselves ready to SELL SHORT (or make a down-bet) because if the next bar goes below this Doji low, then our SHORT trade or down-bet is triggered.

So, the next bar will be where we enter our trade if it's triggered.



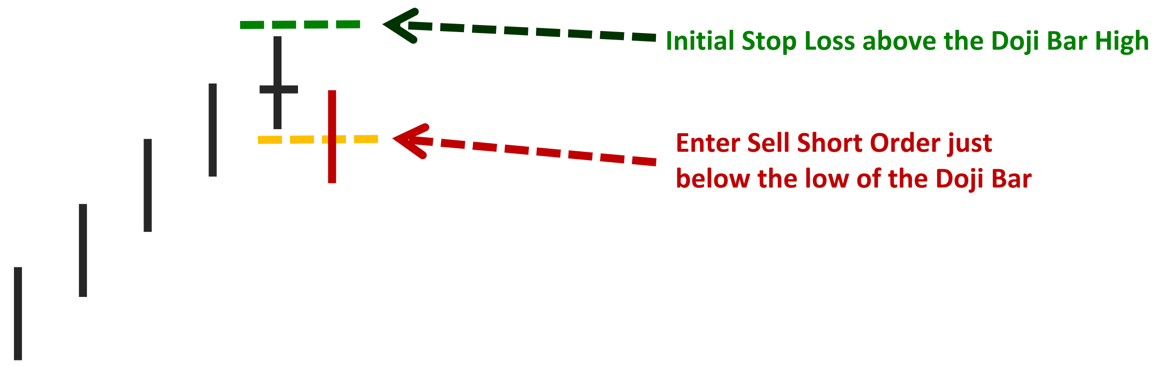
Here, the next bar has penetrated the Doji's Low, therefore our trade is triggered.

Trading Plan

We now need to implement our trading plan. Remember you can watch my free video on this link: www.turnaroundtrader.com.

- We SELL SHORT when the bar following the Doji breaks the low of the Doji. In fact we actually place our trade slightly BELOW the low of the Doji.

- At the same time, we place a "Buy-Stop loss" just above the Doji high. A stop loss protects us from a catastrophic eventuality if the market rises sharply instead of falling as we predict. So when we place a SHORT trade, we also place a "buy-stop loss" so that if the price rises dramatically, we're protected from the price rising above our stop loss.

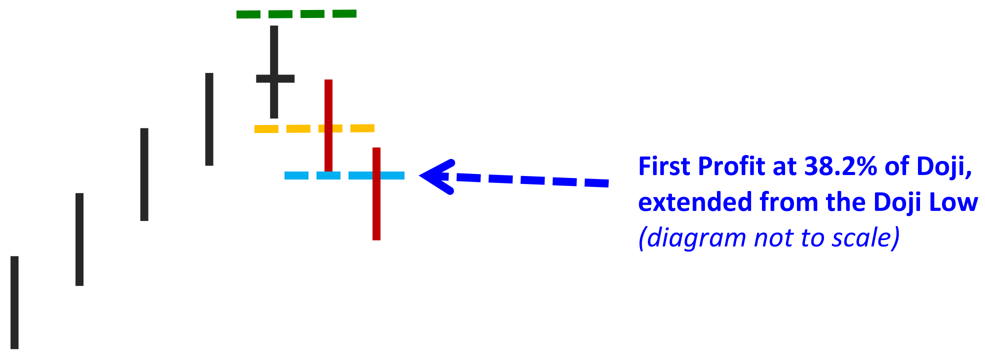


So, how do we manage our profits if the stock continues to fall after our SHORT or DOWNBET trade is triggered?

Well, as before we set a modest profit target, and allow the remainder to keep going. Here's how it works:

- We measure the range of the Doji bar – i.e. the difference between its high and low. We then set our first profit target at 38.2% of this range below the Doji low.

  So we're going to take 38.2% of the range of the Doji, and then subtract that from the Doji low and extend it downwards. When the stock hits this target, we close HALF of our position.



We now need to manage the second half of our position. From here the stock can do two things. It can either keep falling in our favour or it can rise against us! So, what do we do in either case?

- Once we've taken our first profit from the trade, we move our initial stop loss to either:

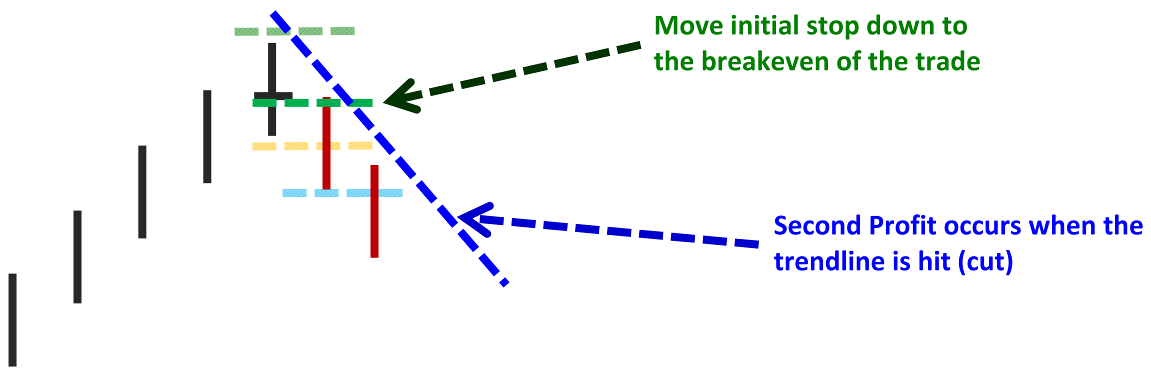
  ➔ the breakeven point where our trade was entered (or a bit above); or
  ➔ the breakeven point of the entire trade. In other words our Short Entry Point plus the profit made at the first Profit Target. The advantage of this option is that it gives the stock some room to move.

  Either way, we're now protected against the stock rising against us.

  Once we've taken a profit on the first profit target, we should be in a no-lose situation.

- If the stock continues to fall, we need to "trail" it. The easiest way to manage this part is to simply **draw a dynamic trendline**, which we adjust either horizontally or downwards each day as necessary.

  When the stock price hits the trendline, we'll close the other half of our trade, most of the time with a profit.



So, let's summarize this:

Strategy One Trading Plan for Doji High Reversal - Summary

- We SELL SHORT or PLACE A DOWN-BET when the bar following the Doji breaks the low of the Doji. We actually place our trade slightly BELOW the low of the Doji.

- At the same time, we place a "Buy-Stop loss" just above the Doji high. A stop loss protects us from a catastrophic eventuality. So when we place a SHORT trade, we also place a stop loss so that if the price rises dramatically, we're protected from the price rising above our stop loss.

- We measure the range of the Doji bar – i.e. the difference between its high and low. We then set our first profit target at a 38.2% extension below the Doji low.

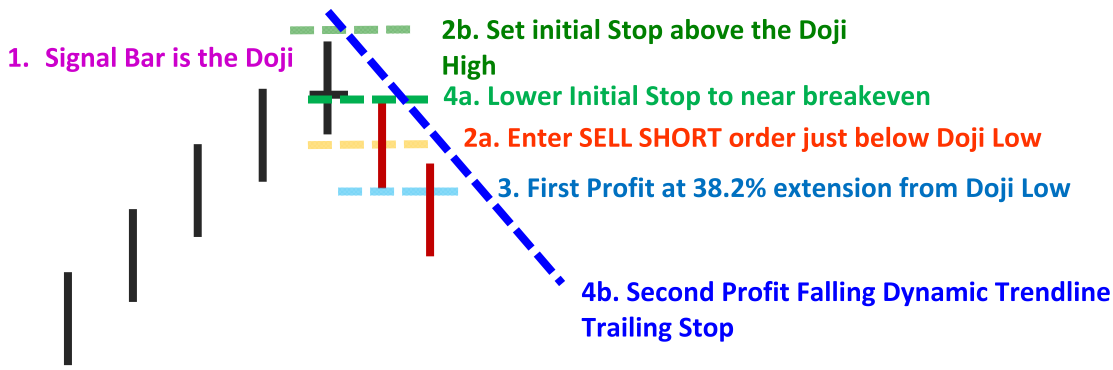
  So we're going to take 38.2% of the range of the Doji, and then subtract that and extend it downwards. When the stock hits this target, we close HALF of our position.

- Once we've taken our first profit from the trade, we move our initial stop loss to a breakeven point, either just above where our trade was entered, or at a point where our trade was entered, plus the profit we made from the first profit target. We're now protected against the stock rising against us.

  We now should not be able to lose on the entire trade unless an unlikely devastating gap up occurs.

- If the stock continues to fall in our favour, we need to "trail" it. The easiest way to manage this part is to simply **draw a dynamic trendline**, which we adjust each day either horizontally or diagonally as necessary.

  When the stock price hits the trendline, we'll close the other half of our trade, most of the time with a profit. Follow the sequence below from 1, 2a, 2b, 3, 4a, 4b.



The Variation on Strategy One (Strategy 1a) – Creating the No-lose Trade

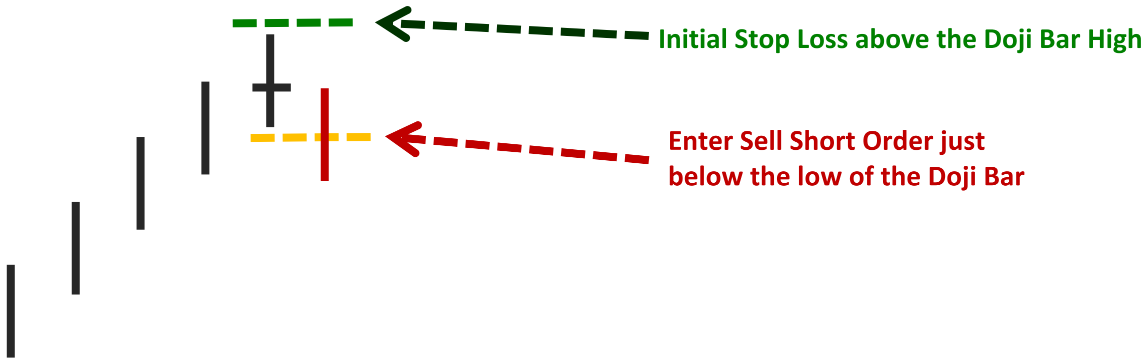
As I described earlier, when the markets are choppy or if I'm feeling especially conservative, I use a simple variation to ring-fence my profits as early as possible.

As before, if the entry bar closes in profit, immediately move your stop to near break-even, thereby protecting the trade.

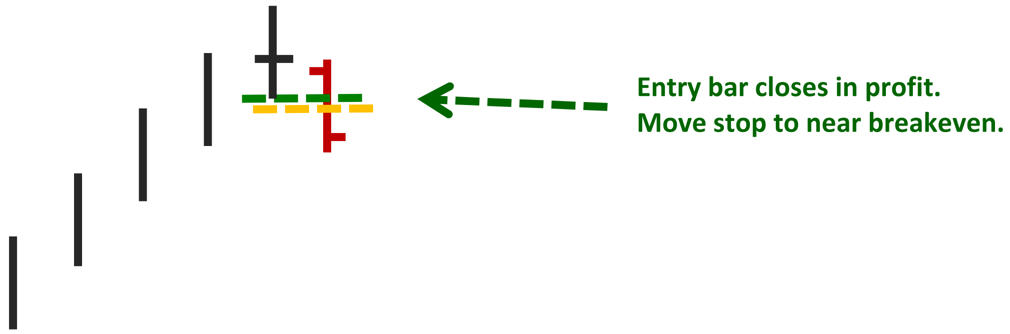
If the price subsequently moves against you, you make little or no loss. If the price continues in the direction of the reversal then you simply use the dynamic trailing stop.

Strategy 1a (Doji High Reversal)

- Step 1: Enter trade as before



- Step 2: Move stop to near breakeven if the entry bar closes in profit, then use dynamic trailing stop to manage profits.



- Step 3: If the entry bar does not close in profit, use the original Strategy One trading plan OR exit immediately.

4. Your Second Trading Strategy

Strategy Two is less aggressive than Strategy One. It gets us in and out of the trades later than Strategy One which is the one I prefer. However it is simple to manage as we let all of the money 'ride' on the trade and don't take profits on half the money early as we do in strategy 1.

Remember, for a reversal trade, we're looking for a Doji that is forming a 20-day high or low. So it's a price extreme of the last 20-days and, if possible, a volume spike would be nice, though not absolutely essential. A Doji bar represents indecision as you will recall.

The main difference between Strategy One and Two is that the Doji in Strategy Two is NOT the signal bar. The signal bar usually happens the day AFTER the Doji (depending on certain parameters) and then the following day after that is our trading bar. This means we would only enter a trade TWO days after the Doji as a minimum. This can have the disadvantage of getting us a bit late into a trade; sometimes too late.

So the order is:

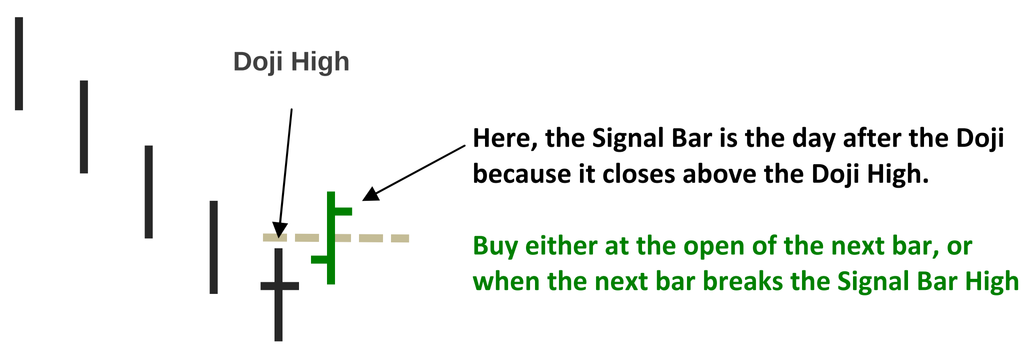
1. We see the Doji bar forming at a 20 day high or low.
2. We wait until the following day and hopefully see our signal bar.
3. We trade the day after that.

Let's see how all that works out in practice.

Trading Plan for Strategy Two

Reversal from a Doji Low

With Strategy Two, the Signal Bar is the day after the Doji, provided it closes above or near the high of the Doji. The Signal Bar is NOT the bar that we initiate the trade from. It's the bar from which we get ourselves ready. The following day (i.e. two days after the Doji) is the bar we trade from.



In this case, we've got the Doji forming a 20-day low and we now can get ourselves ready to see if the following day will present a signal.

In order to generate a signal, the signal bar (shown green in the diagram above) needs to CLOSE above or near the HIGH of the Doji bar.

Trading Plan

We now need to implement a trading plan. I've also put a free video together for you on the website www.turnaroundtrader.com which explains this.

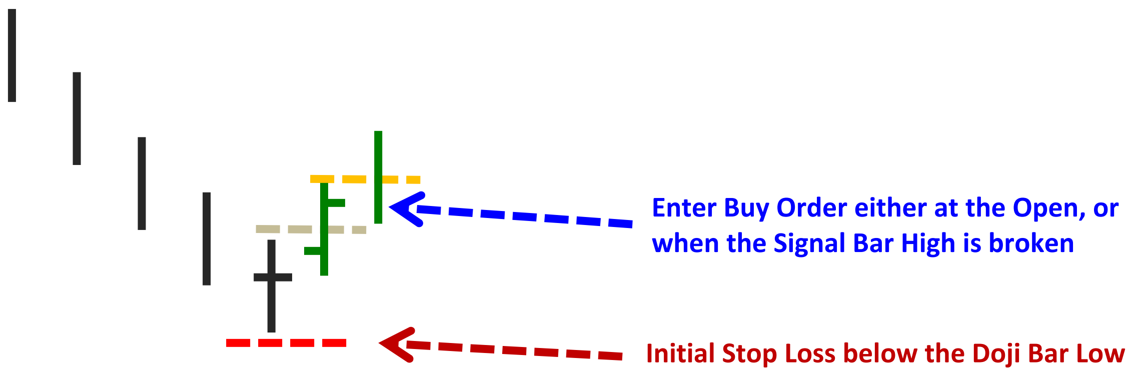
- We BUY either:

  - when the bar following the Signal Bar breaks the Signal Bar high; OR
  - on the OPEN of the bar following the Signal Bar.

  You can choose which one you prefer.

- At the same time, we place our initial "Stop loss" just below the Doji low.

  As I mentioned before, a stop loss protects us from a catastrophic eventuality. So when we place a BUY trade, we also place a stop loss so that if the price falls dramatically, we're protected from the price falling below our stop loss.



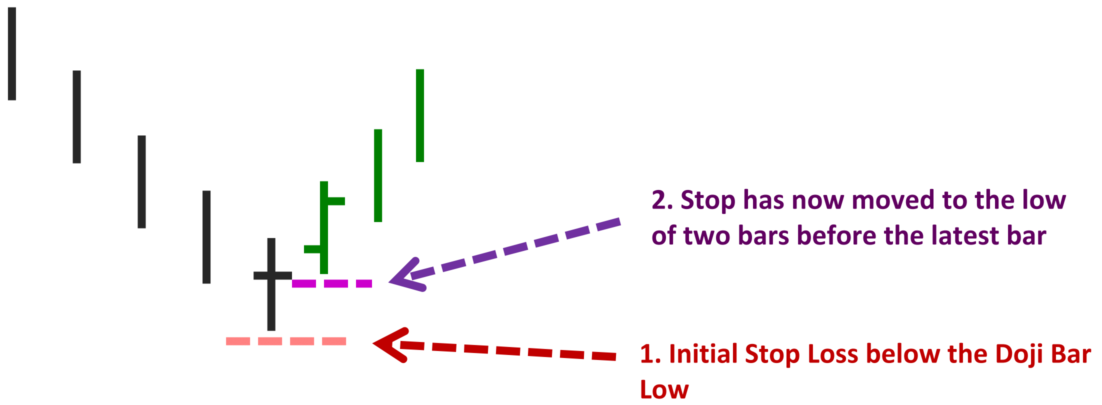
We now have another choice in terms of how to manage the trade moving forward.

- The simplest way is to employ a 2-bar trailing stop from the stock's lows.

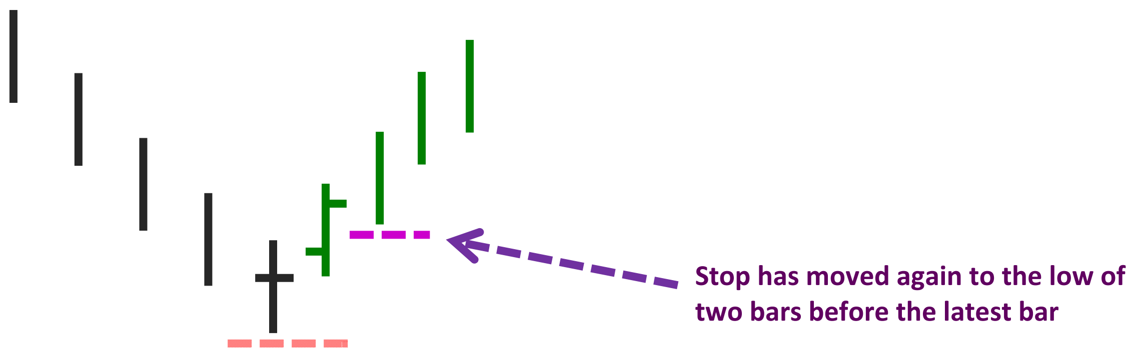
  This is where we follow the stock from 2 bars behind. We place our stop loss at the LOW point of the second bar *behind* the new current bar that the stock is trading at. (*This is simpler than it sounds – see the three diagrams below*!)

  As each day passes, our stop loss moves along a day to the new '2-day-before' low.

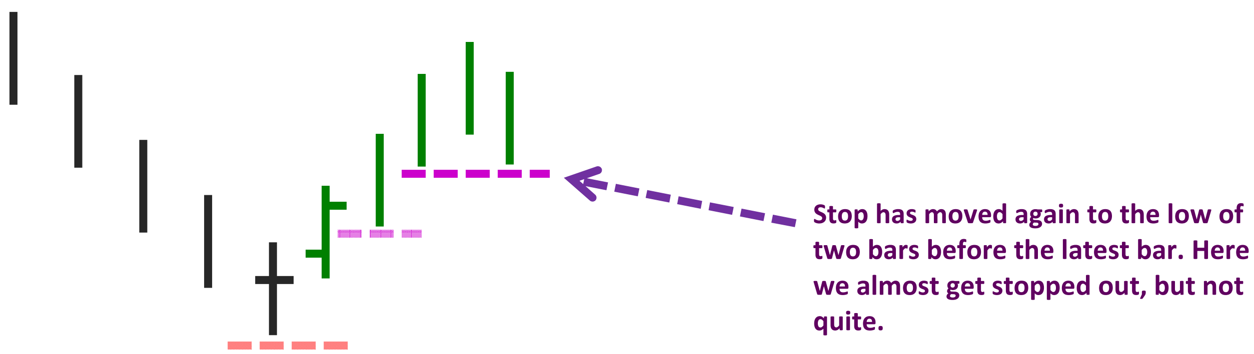
  In the first diagram below we see the initial stop still in place at the Doji low (in reality we'll place the stop just below the Doji low).



Now let's progress by a day and you can see the trailing stop moving along:

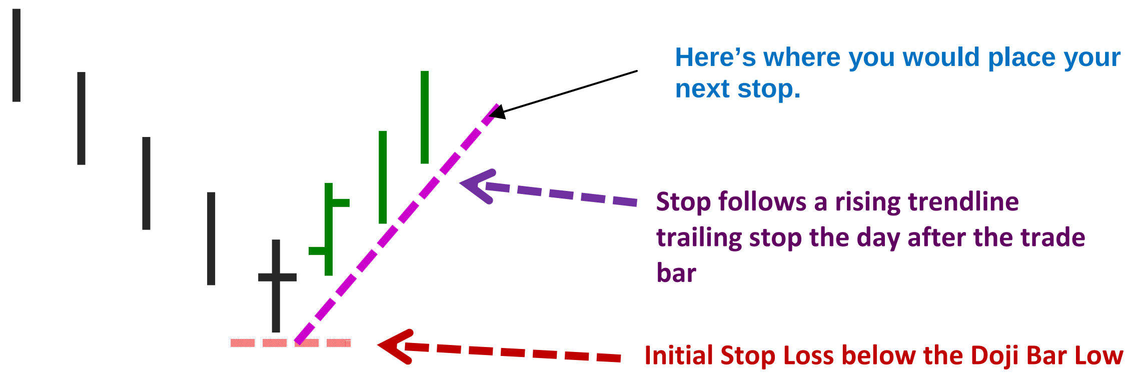


Another day later and you can see the trailing stop moving along again:

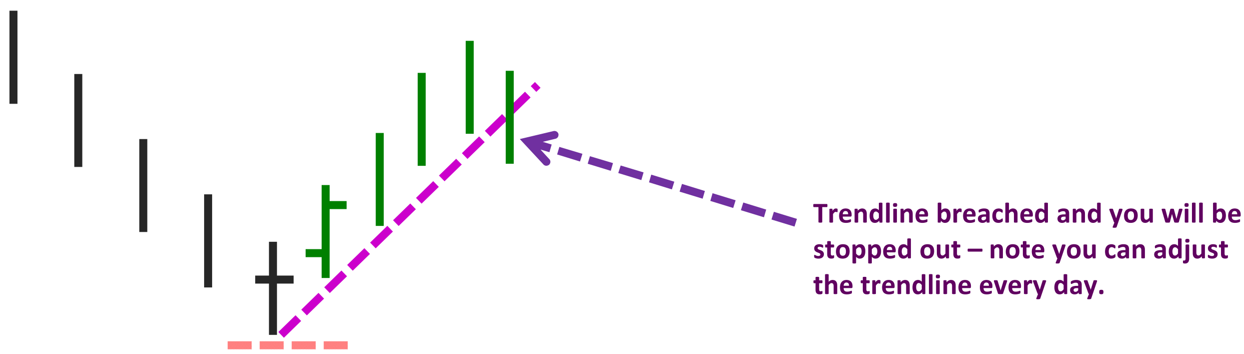


With the 2-bar trailing stop, you exit the entire trade automatically when the stop loss is hit.

- OR: as an alternative to the 2-bar trailing stop:
  The other way of managing the trade is by way of a simple trendline.



… and ultimately the trendline will be hit as no rise goes on forever.



With the trendline trailing stop, again you exit the entire trade when the stop loss is hit.

Strategy Two has a slightly more complicated Entry, but an easier Exit than Strategy One. Also with Strategy Two you can use it in conjunction with my amazing OVI indicator.

I'll explain more about that in about a month's time when you're more ready to handle more profit-making information. Don't worry about it for now.

So, let's summarize all this:

Strategy Two Trading Plan for Doji Low Reversal - Summary

With Strategy Two, the Signal Bar is the day *after* the Doji. The following day (i.e. two days after the Doji) is the trade bar.

The setup is that the Doji forms a 20-day low and we now can get ourselves ready to see if the following day will present a signal.

- In order to generate a signal, the signal bar needs to CLOSE above or near the HIGH of the Doji bar.

- We BUY either:

  - when the bar following the Signal Bar breaks the Signal Bar high; OR
  - on the OPEN of the bar following the Signal Bar.

  You can choose which one you prefer.

- At the same time, we place our initial "Stop loss" just below the Doji low.

- For our trailing stop, we can use a 2-bar trailing stop from the stock's lows.

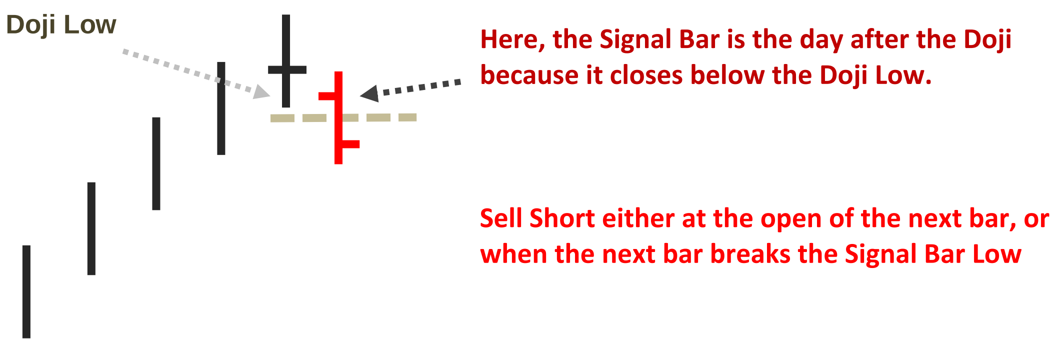
- OR just a simple trendline.

- We exit the entire trade when the stop loss is hit. As you probably realise this is done automatically by the spread betting company (see later) and you do not need to be sitting at a computer watching for the exit point!

Reversal from a Doji High

Our trading plan here is identical to the "*Reversal from a Doji Low*" except that we're 'selling short' or making a down-bet instead of buying to enter the trade.

Remember, the Signal Bar for Strategy 2 is the day *after* the Doji bar. This is NOT the bar that we initiate the trade from. It's the bar from which we get ourselves ready. The following day (i.e. two days after the Doji) is the bar we trade from.



In this case, we've got the Doji forming a 20-day high and we now can get ourselves ready to see if the following day will present a signal.

In order to generate a signal, the signal bar needs to CLOSE below or near the LOW of the Doji bar as shown in the diagram above.

Trading Plan

We now need to implement a trading plan. I've also put a free video together for you on the website www.turnaroundtrader.com.

- To enter the trade we SELL SHORT or make a DOWNBET either:

  - when the bar *following* the Signal Bar breaks the Signal Bar low; OR
  - on the OPEN of the bar following the Signal Bar.

  You can choose which one you prefer.

- At the same time, we place our initial "Buy-Stop loss" just above the Doji high.

  As I mentioned before, a stop loss protects us from a catastrophic eventuality. So when we place a SELL SHORT or DOWN-BET trade, we also place a buy-stop loss so that if the price rises dramatically, we're protected from the price rising above our stop loss.

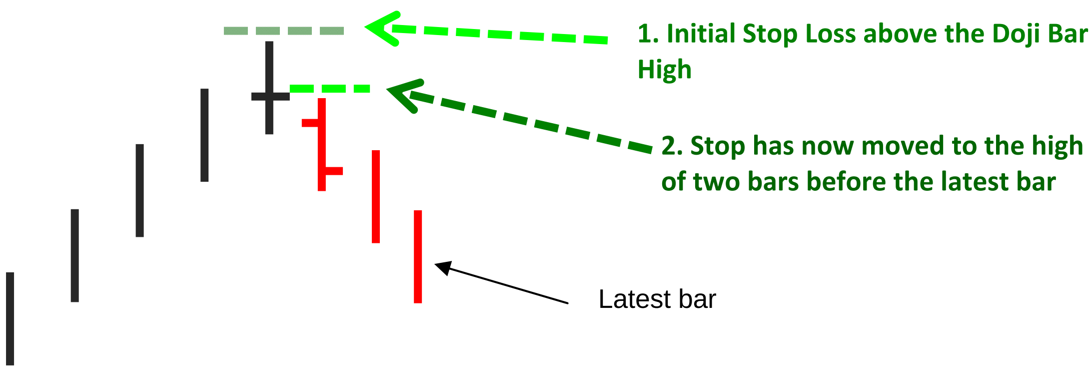
We now have another choice in terms of how to manage the trade moving forward.

- The simplest way is to employ a 2-bar trailing stop from the stock's highs.

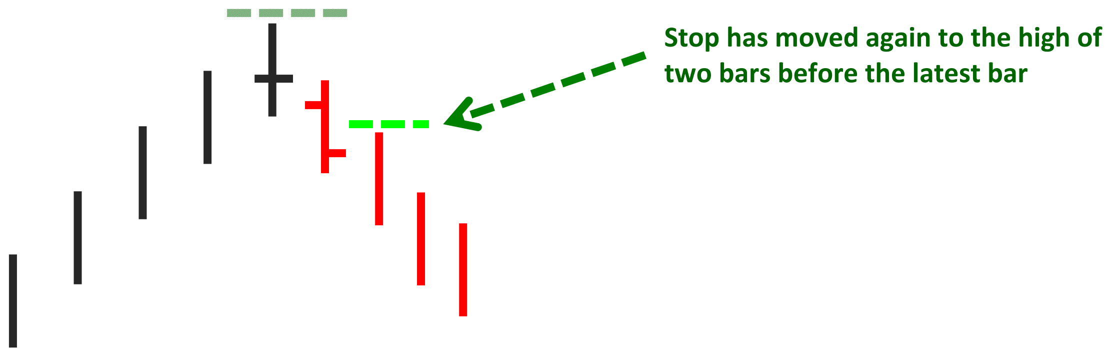
  This is where we follow the stock from 2 bars behind. We place our stop loss at the HIGH point of the second bar behind the new current bar that the stock is trading at. (*This is simpler than it sounds – see the three diagrams below*!)

  As each day passes, our stop loss moves along a day to the new 2-day-before high.

  In the next diagram below we see the initial stop still in place at the Doji high (in reality we'll place the stop just above the Doji high).



Now let's progress by a day and you can see the trailing stop moving along:



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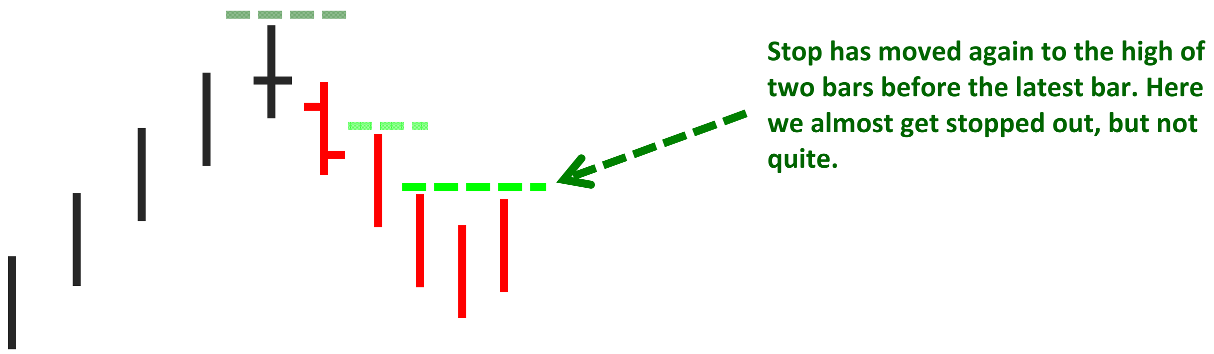
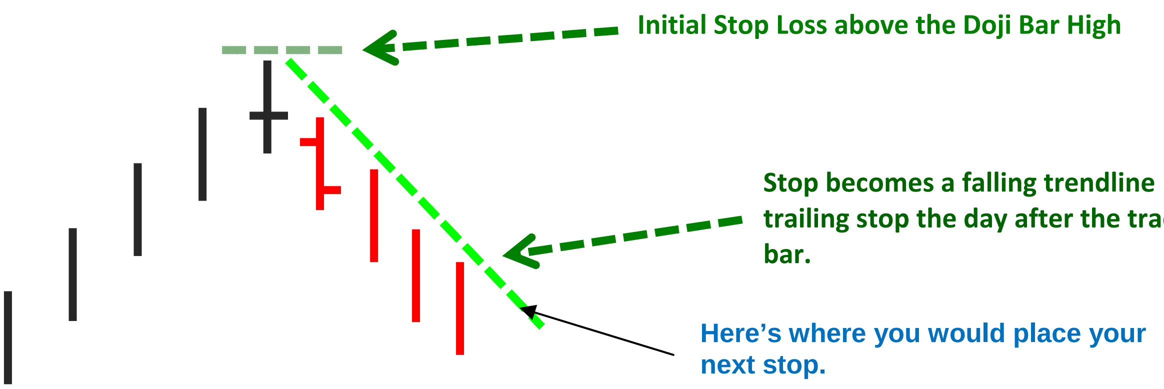
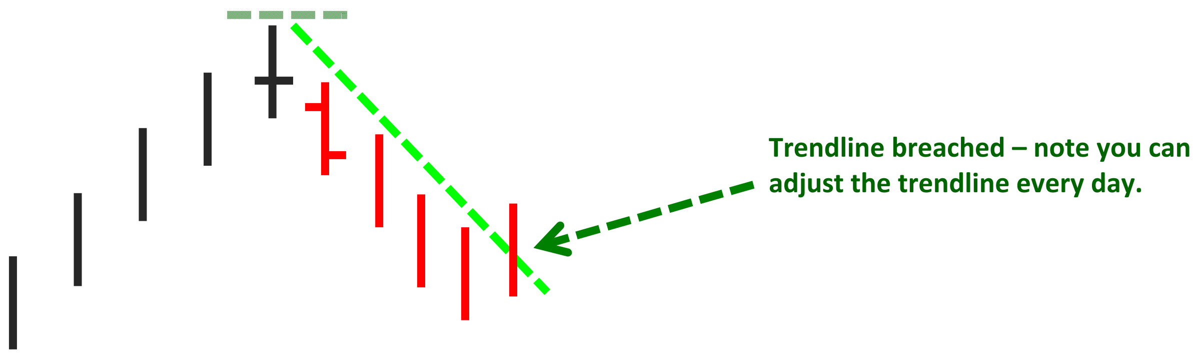


With the 2-bar trailing stop, you exit the entire trade automatically when the stop loss is hit.

- OR: as an alternative to the 2-bar trailing stop:
  The other way of managing the trade is by way of a simple trendline.



… and ultimately the trendline will be hit as no fall continues forever.



With the trendline trailing stop, again you exit the entire trade when the stop loss is hit.

As before, Strategy Two has a slightly more complicated Entry, but an easier Exit than Strategy One. Also with Strategy Two you can use it in conjunction with my OVI indicator.

I'll explain more about that in a month's time when you're more ready to handle more information.

So, let's summarize all this:

Strategy Two Trading Plan for Doji High Reversal - Summary

With Strategy Two, the Signal Bar is the day *after* the Doji. The following day (i.e. two days after the Doji) is the trade bar.

The setup is that the Doji forms a 20-day high and we now can get ourselves ready to see if the following day will present a turnaround signal.

- In order to generate a signal, the signal bar needs to CLOSE below or near the LOW of the Doji bar.

- We SELL SHORT or make a DOWN-BET either:

  - when the bar following the Signal Bar breaks the Signal Bar low; OR
  - on the OPEN of the bar following the Signal Bar.

  You can choose which one you prefer.

- At the same time, we place our initial "Buy-Stop loss" just above the Doji high.

- For our trailing stop, we can use a 2-bar trailing stop from the stock's highs.
- OR just a simple trendline.

- We exit the entire trade automatically when the stop loss is hit – you don't need to take any special action to end the trade as this is done for you.

5. Trading Examples

In this chapter we'll go through four examples where you could have traded Strategy 1 or Strategy 2. Two examples will be from Doji low reversals, and two will be from Doji high reversals.

Example 1
AAPL – August 2010

Take a look at AAPL (Apple Corp) below and you can see a fantastic Doji on 27 August.

What makes this so good is the following characteristics it displays – and which you should look out for:

- It's a long tailed Doji – in other words the range of the bar is longer than normal.
- AAPL is a very heavily traded stock and rarely exhibits Doji bars.
- It's forming a 20-day low or more (the price had not been lower than this in the last 20 days).
- The open and the close are virtually identical, as displayed by the bar.
- There's other support around the $240 area with AAPL and this would be a great place for a reversal to happen as it has broken through this support line.

The one thing it's not showing here is a particularly large volume bar – there's not what I'd call a volume spike here, but everything else looks pretty good.

Let's zoom in a bit and you can clearly see the long tail and that it is forming a new extreme in price for at least 20 days:

So, let's summarize the situation:

- The Doji is forming an extreme low in price for at least the last 20 days.
- The range of the bar is 7.05
- The high of the bar is 242.61
- Support around $240 shows this would be a good area for a reversal.
- No real volume spike here, but everything else is looking positive for a potential reversal and so the trade is on.

Trading AAPL Using Trading Strategy 1

- The Doji bar is the signal bar. Therefore look to BUY if the next bar goes above the Doji high. The Doji high is 242.61, so let's say our trade is triggered if the stock rises above 242.76 just to allow a bit on top.

  We give the market a bit of room to try to avoid what's called a fake. A fake is where a support or resistance is met or exceeded, only for the price to rebound straight back.

- **Entry**:
  "Buy Stop Limit" Order at **$242.76**. This means the Buy order will only be triggered if the stock passes through $242.76, but it will not be triggered if the stock gaps above $242.76 at the open. This protects us from a gap that may take us well beyond our preferred entry point. A 'gap' is when a stock opens at a significantly higher or lower point than the previous close. It's a sudden dramatic overnight jump or fall.

- **Initial Stop Loss**:
  Place your 'sell' stop loss a tad below the Doji low of $235.56, so here make the initial stop loss at around **$235.33**. This means we're absorbing quite some risk here, but with a stock like AAPL as you'll discover when you start trading these patterns, if the high is penetrated we're very likely to hit our first profit target.

- **<u>First Profit Target</u>:**
  ➔ Doji Range = 242.61 - 235.56 = $7.05.
  ➔ 38.2% of Doji Range = 38.2% x 7.05 = 2.69
  ➔ Extend by this amount above the Doji High for **First Profit Target (P1)** = 2.69 + 242.61 = **$245.30**

  So, our First Profit Target here is when the stock reaches **$245.30**, meaning a profit on that first half of **$2.69** less the difference between our entry point and the Doji High (242.76 – 242.61 = **$0.15**) = $2.69 - $0.15 = **$2.54**, or 254 points. Not bad for a day's work. We always 'bet' so much per point of course. So if you bet £2 a point you would be a tasty £508 in profit from this single trade (254 x £2).

  At this point we'll sell half of our position. So if we made an up-bet of £2 per point, we'd take profits on £1 per point now meaning profit in hand of **£254**.

- **<u>Adjust the Initial Stop</u>:**
  On taking the first profit, we move initial stop loss up to either:

  ➔ the breakeven point where our trade was entered (or a bit below); OR
  ➔ the breakeven point of the entire trade. In other words our Entry Point less the profit made at the first Profit Target.

  In this case we'll move our initial stop up to the breakeven point of the entire trade. This means 242.76 - 2.54 = **$240.22**.

We're now protected against the stock falling below this level unless it makes a catastrophic gap down (which is unlikely at this point), but if the stock continues to rise we'll be making good money.

- **Trailing Stop**:
  Here, AAPL does continue to rise without making any major retracement until 28 September where the big red bar hits our rising trendline at around $288.41 (see below). This represents a terrific rise of **$45.65** on the second half of our trade.

  On the second half of our spreadbet that $45.65 represents 4,565 points, which at £1 per point is a massive profit of **£4,565**.

Trading AAPL Using Strategy 1 - Summary

- Bought AAPL at $242.76, or made an up-bet at £2 per point.
- First Profit Target hit at $245.30 = Profit $2.54 or 254 points ➔ Exit half the position for a profit of **£254**.
- Second Profit Trailing Stop hit at $288.41 = Profit $45.65 or 4565 points ➔ sell second half of the position for a profit of **£4,565**.
- Profit on trade = [£254 + £4,565] = **£4,819**

So, at £2 per point this Strategy 1 trade on AAPL gave us a profit of £4,819 in just 21 days. Actual 'work' involved, maybe ten minutes? Not bad!

Trading AAPL Using Trading Strategy 2

- With Strategy Two, the Signal Bar is the day after the Doji. Remember, this is NOT the bar that we initiate the trade from. It's the bar from which we get ourselves ready. The following day (i.e. two days after the Doji) is the Trade Bar, **provided the Signal bar closes above or near the Doji high**. In this case the Signal bar closes just under the Doji High, (and as a bonus its High has breached the Doji High) so this qualifies because it's so close.

  We BUY either:

  ➔ when the Trade Bar breaks the Signal Bar high; OR
  ➔ on the OPEN of the Trade Bar. ($241.79)

  Let's say here we buy at the Open of the bar following the Signal Bar.
  (The day after the Signal Bar in this example didn't break the Signal Bar High … In fact it happened with a huge gap up the following day after that).

- **<u>Entry</u>:**
  "Buy at Open" Order which is filled at **$241.79**. The Signal Bar closed near the high of the Doji, meaning we could initiate the trade the following day, i.e. on the Trade Bar.

- **<u>Initial Stop Loss</u>:**
  Place initial (sell) stop loss below the Doji low of $235.56, so here make the stop loss at around **$235.33**. As with Strategy 1 before, this means we're absorbing quite some risk

here, but with a stock like AAPL as you'll discover when you start trading these patterns, if the Doji high is penetrated (as it already has done by the time we enter Strategy 2) the odds are substantially in our favour.

- **Trailing Stop and Profit Taking:**
  After two days in the trade we now start to adjust the stop on a daily basis. In Strategy 2 we don't take partial profits along the way, we simply exit the entire trade. For our trailing stop, we use either:

  ➔ a 2-bar trailing stop from the stock's lows; OR
  ➔ just a simple trendline.

  We exit the entire trade when the 2-bar trailing stop or trendline is breached.

  Just to give the stock a bit more room to move, we can make the 2-bar trailing stop just below the low of the bar which occurred 2 days before the current bar.

  With AAPL here, it takes until Tuesday 28th September for the 2-bar trailing stop to be hit. So with the low of Friday 24th September being $290.55, we would have our trailing stop at **$290.32**.

  If we were to select the rising trendline as our exit route here, this occurs at around $285.18, so in this case it would have been preferable to use the 2-bar trailing stop. It doesn't always work out this way, and sometime it's a matter of chance as to which one will work out the best.

So, if we took this AAPL reversal with Strategy 2, we'd have entered our up-bet at **$241.79**, and exited at either **$290.32** or **$285.18**.

This means profits of **$48.53 (4853 points)** using the 2-bar trailing stop or **$43.39 (4339 points)** using the rising trendline.

On a £2 per point bet, that means respective profits of **£9,706** or **£8,678.**

Trading AAPL Using Strategy 2 - Summary

- Bought AAPL at $241.79, or made an up-bet at £2 per point.
- 2-bar trailing stop hit on 28 September at $290.32, resulting in a profit of $48.53 or **£9,706** on our £2 per point up bet.

So, at £2 per point this Strategy 2 trade on AAPL gave us a profit of £9,706 in just 21 days!

AAPL Trade: Comparing Strategy 1 with Strategy 2

	Strategy 1	Strategy 2
Entry	242.76	241.79
Initial Stop	235.33	235.33
Risk	7.43 *	6.46
First Profit	**£254** *(on £1 per point)*	**£9,706** *(2-bar trailing stop on the entire £2 per point)*
Second Profit	**£4,565** *(on £1 per point)*	**n/a**
Total Profit	**£4,819**	**£9,706**

** this does not take into account the fact that in Strategy 1, we raise our stop loss to breakeven once we take our first profit. If the Strategy 1 first profit target is hit, then Strategy 1 becomes the far less risky of the two strategies.*

On the face of it, Strategy 2 here looks like a no-brainer both in terms of initial risk and reward. However, it doesn't always work like this.

The reason Strategy 2 worked so well here is that AAPL went on a parabolic run from which we benefited from the entire £2 per point the whole way. In Strategy 1 we were more cautious in taking an early profit and protecting ourselves from the stock moving back down, leaving only £1 per point to ride the wave.

Example 2

SLV – April 2011

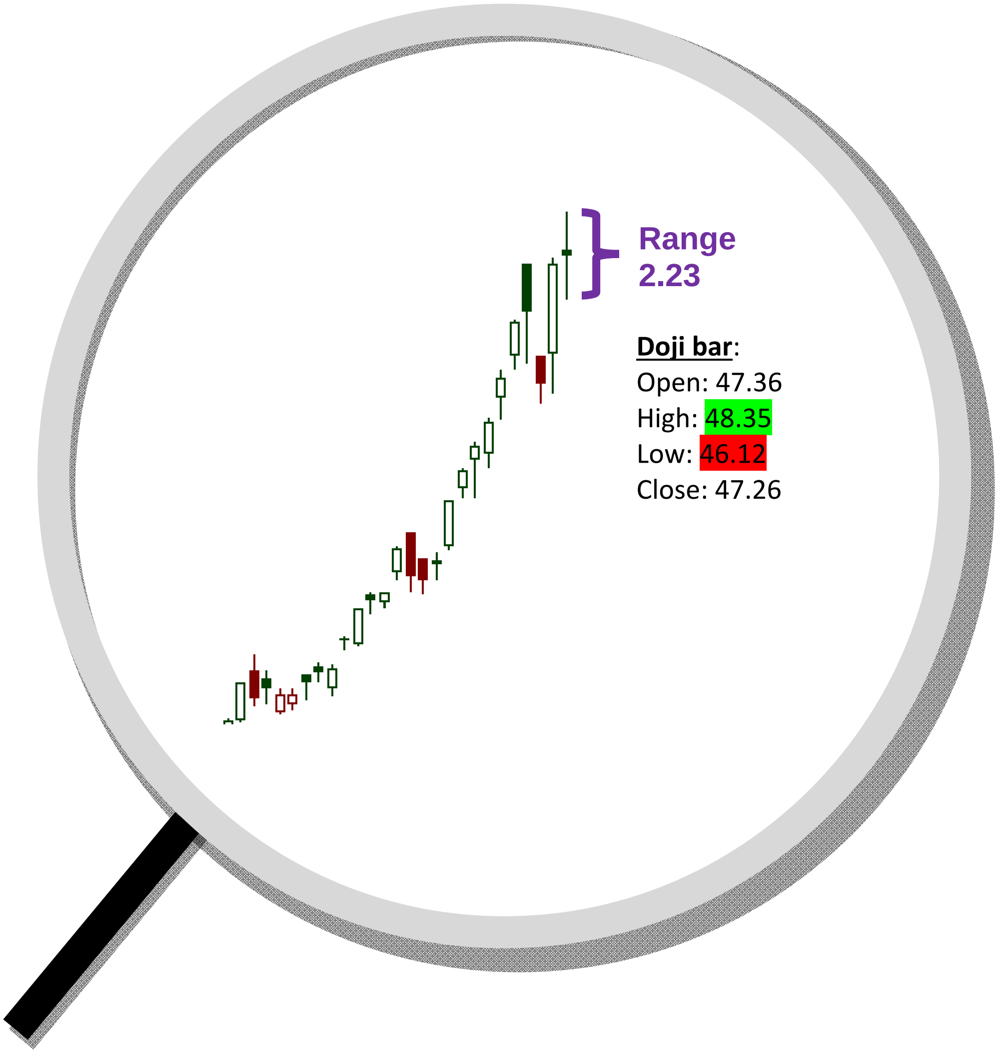
Now let's look at SLV (iShares Silver Trust Exchange Traded Fund) and in this chart you can see an amazing Doji on 28 April.

Again this one displays very attractive characteristics that foretell of an imminent reversal.

- The bar itself is wide-ranged, i.e. it's longer than normal.
- SLV is a very heavily traded ETF stock and rarely exhibits Doji bars like this.
- It's forming a 20-day (or more) high.
- The open and the close are near each other.

Although there's not a volume spike here per se, what we can see is that for the last few days, volume has gone wild.

Let’s zoom in so you can clearly see the wide range and the new extreme in price for at least 20 days:



As we did before, let’s summarize the situation:

- The Doji is forming an extreme in price for at least the last 20 days. That means it has not been higher than this for the last 20 days.
- The high of the bar is 48.35. The low is 46.12. Subtract one from the other gives us…
- The range of the bar, which is 2.23 – this is clearly wider than normal for this particular stock.

Trading SLV using Strategy 1

- With this strategy, remember that the Doji bar is the signal bar. Therefore look to SELL SHORT or make a DOWN-BET if the next bar goes below the Doji low. The Doji low is 46.12, we set our trade a tad below that, so let's say our trade is triggered if the stock falls below 45.93.

  Again, we give the market a bit of room to try to avoid what's called a fake. A fake is where a support or resistance is met or exceeded, only for the price to rebound straight back.

- **Entry:**
  "Sell Stop Limit" Order at **$45.93**. This means the Short order will only be triggered if the stock passes through $45.93, but it will not be triggered if the stock gaps below $45.93 at the open. This protects us from a gap that may take us well beyond our preferred entry point.

In this example there are two things that occur which we need to make note of:

(i) the day after the Doji the stock does not penetrate our entry point, so there's no trade. It only does so the following day.

(ii) when the price does go below the Doji low, it actually gaps down, then climbs up to our entry point before collapsing straight back down again.

- **Initial Stop Loss**:
  Place (buy) stop loss above the Doji high of $48.35, so here make the initial stop loss at around **$48.46**.

- **First Profit Target**:
  ➔ Doji Range = 48.35 – 46.12 = $2.23.
  ➔ 38.2% of Doji Range = 38.2% x 2.23 = 0.85
  ➔ Extend below Doji Low for **First Profit Target (P1)** = 46.12 - 0.85 = **$45.27**

  So, our First Profit Target here is when the stock reaches **$45.27**, meaning a profit on that first half of **$0.85** less the difference between the Doji low and our entry point (46.12 - 45.93 = **0.19**) = $0.85 - $0.19 = **$0.66** ... or 66 points.

  At this point we'll close half of our position. So if we made a down-bet of £2 per point, we'd take profits on £1 per point now meaning profit in hand of **£66**.

- **Adjust the Initial Stop**:
  On taking the first profit, move initial stop loss down to either:

  ➔ the breakeven point where our trade was entered (or a bit above); OR
  ➔ the breakeven point of the entire trade. In other words our Entry Point plus the profit made at the first Profit Target.

As with the AAPL trade, we'll move our initial stop down to the breakeven point of the entire trade. This means: 45.93 + 0.66 = **$46.59**.

We're now protected against the stock rising above this level unless it makes a catastrophic gap up (which is unlikely at this point), but if the stock continues to fall we'll be making good money.

- <u>**Trailing Stop**</u>**:**
  Here, SLV does continue to fall without making any major retracement until 5 October where it fills the gap at $37.90 (see below). This represents another big profit of **$8.03 per share** on the second half of our trade.

  *On the second half of our trade that $8.03 represents 803 spread-bet points, which at £1 per point is a profit of **£803**.*

Trading SLV with Strategy 1 - Summary

- Sell Short SLV at $45.93, or make down-bet at £2 per point.
- First Profit Target hit at $45.27 = Profit $0.66 → Exit half the position for a profit of **£66**.
- Second Profit Trailing Stop hit at $37.90 = Profit $8.03 → sell second half of the position for a profit of **£803**.
- Profit on trade = [£66 + £803] = **£869.**

So, at £2 per point this Strategy 1 trade on SLV gave us a profit of £869 in just 8 days.

Trading SLV with Strategy 2

- With Strategy Two, the Signal Bar is usually the day after the Doji. Remember, this is NOT the bar that we initiate the trade from. It's the bar from which we get ourselves ready. The following day (i.e. two days after the Doji) is the Trade Bar, **provided the Signal bar closes below or near the Doji low**. In this case the bar following the Doji isn't quite near enough so we wait another day for a new Signal Bar.

  However, the next day the stock price gaps down a long way and closes well below the Doji Low, thereby creating a signal for us. However, it means if we enter a short trade (or take a down bet) the following day, we'll have to absorb a lot of risk in terms of the distance from our entry point and our initial buy stop which is above the Doji High. This presents us with a dilemma as that distance is quite scary here.

  Assuming we're still interested in the trade, we SELL SHORT either:

  ➔ when the Trade Bar breaks the Signal Bar low ($42.47); OR
  ➔ at the OPEN of the Trade Bar. ($42.70)

  Let's say here we sell short or take a down bet when the Trade Bar breaks the Signal Bar Low at $42.47.

<u>Entry</u>:
"Short Sell" Order which is filled at **$42.47** which is the low of the Signal Bar where the stock closed below the Doji Low.

- **<u>Initial Stop Loss</u>:**
  Place initial (buy) stop loss above the Doji high of $48.35, so here make the stop loss at around **$48.46**. I think in this case the distance between our entry and buy stop is too great, but let's follow the example through in any case.

- **<u>Trailing Stop and Profit Taking</u>:**
  After two days in the trade we now start to adjust the stop on a daily basis. In Strategy 2 we don't take partial profits along the way, we simply exit the entire trade. For our trailing stop, we use either:

  ➔ a 2-bar trailing stop from the stock's highs; OR
  ➔ just a simple trendline.

  We exit the entire trade when the 2-bar trailing stop or trendline is breached.

  Just to give the stock a bit more room to move, we can make the 2-bar trailing stop just above the high of the bar 2 days before the current bar.

  With SLV here, it only takes until 10th May for the 2-bar trailing stop to be hit. So with the high of Thursday 5th May being $36.89, we would have our trailing stop at around **$37.05** which happens to be the high of 10th May. (In this example we're being a bit harsh but it shows that sometimes you can be a bit unlucky with entries and exits.)

If we had selected the falling trendline as our exit route here, this occurs at around $34.35, so in this case it would have been preferable to use the trendline trailing stop. But hindsight is a wonderful thing!

So, if we took this SLV reversal with Strategy 2, we'd have probably entered our down-bet at **$42.47**, and exited at **$37.05**.

This means profits of **$5.42** using the 2-bar trailing stop.

On a £2 per point bet, that means profits of **£1,084.**

Trading SLV with Strategy 2 - Summary

- Sold Short SLV at $42.47, or make down-bet at £2 per point.
- 2-bar trailing stop hit on 10 May at $37.05, resulting in a profit of **£1,084** on our £2 per point down bet.

So, at £2 per point this Strategy 2 trade on SLV gave us a profit of £1,084 in just 6 days.

SLV Trade: Comparing Strategy 1 with Strategy 2

	Strategy 1	Strategy 2
Entry	45.93	42.47
Initial Buy Stop	48.46	48.46
Risk	2.53 *	5.99
First Profit	**£66** *(on £1 per point)*	**£1,084** *(2-bar trailing stop on the entire £2 per point)*
Second Profit	**£803** *(on £1 per point)*	**n/a**
Total Profit	**£869**	**£1,084**

** this does not take into account the fact that in Strategy 1, we lower our stop loss to breakeven once we reach our first profit target.*

What we can clearly see here is that Strategy 1 is far less risky, and the reward between the trades isn't vastly different in real terms.

Given the distance between our entry and stop on Strategy 2, it's unlikely we'd have gone for Strategy 2 in any case, so here Strategy 1 is the more realistic choice.

AAPL – Long Tailed Bars

Just to emphasize the point of how these opportunities materialize, take a look at this chart of AAPL, and see the three long tailed bars that in fact resulted in tangible turning points.

They're not precisely what we'd call Doji bars, but they do exhibit the long tails that we associate with market indecision and potential turnaround situations. They're also occurring at 20-day extremes in price, and therefore qualify for turnaround trades.

6. Railroad Tracks

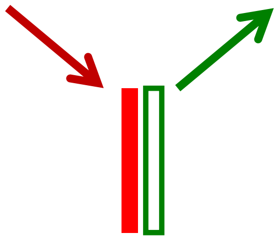
The Railroad Tracks setup is my favourite reversal setup. It is much rarer than a simple Doji setup but it has superior performance and reliability. I have also perfected how to find it!

A railroad tracks pattern is effectively a type of Doji that forms over two days, not one.

The pattern forms at a clear extreme in price, preferably several weeks or months, but 20-days at a minimum. Where the pattern occurs at a price extreme is known as being 'in the country'.

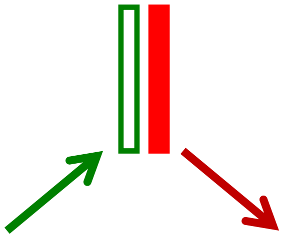
Railroad Track Low:

Forming at a new extreme low in price, the first bar opens near its high and closes near its low. The second bar opens near its (and the first bar's) low and closes near the first bar high. This is effectively a 2-day 'hammer' bar.



Railroad Track High:

Forming at a new extreme high in price, the first bar opens near its low and closes near its high. The second bar opens near its (and the first bar's) high and closes near the first bar low. This is effectively a 2-day 'shooting star' bar.

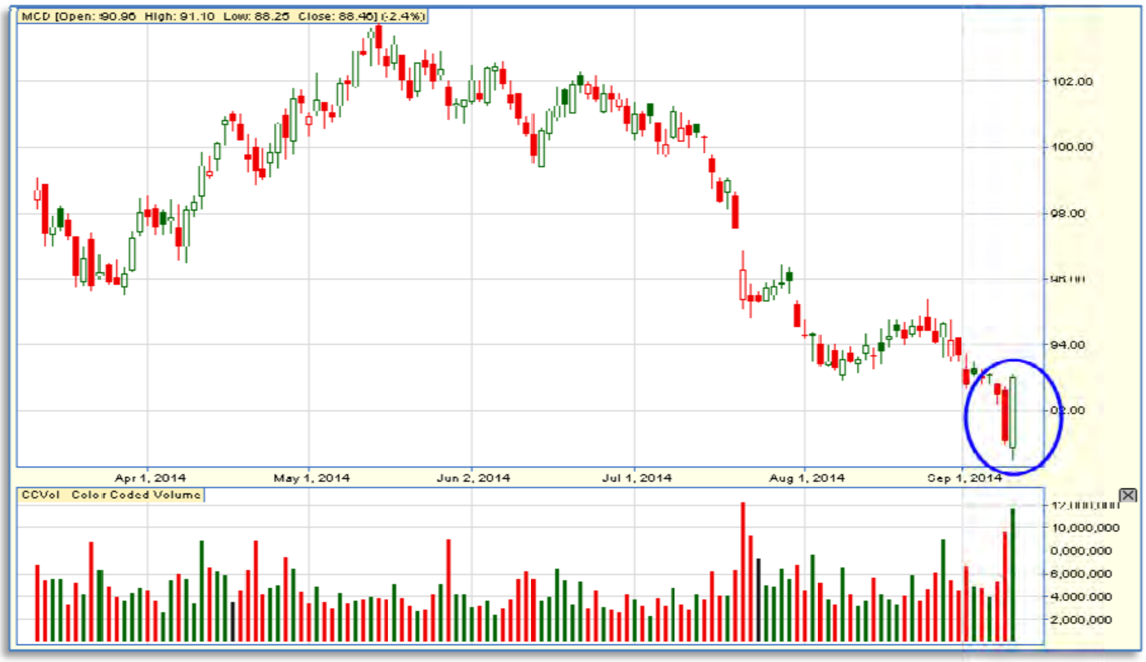


Railroad Track Trading Plan

You play the railroad track pattern as you would per Strategy One or 1a.

MCD – Railroad Track Low (September 2014)

Here MCD exhibits a railroad track low where the second bar actually engulfs the first, and volume is spiking for both of those days.



You play the railroad track pattern as per Strategy One or 1a.

SPY – Railroad Track Low (August 2014)

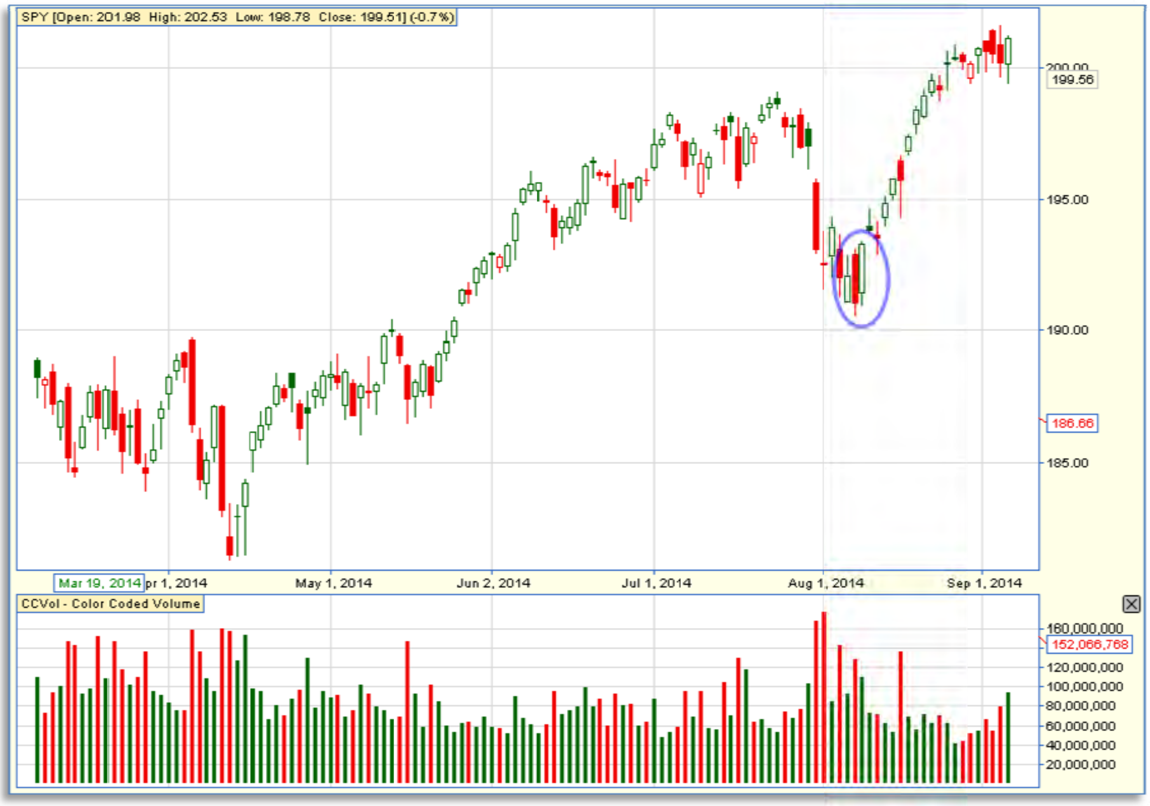
Here SPY exhibits all but a railroad track where the second bar actually engulfs the first, and volume is spiking for both of those days.

I spotted this at the time by way of lateral thinking. Although it's not as clear cut as MCD, the basic concept was in evidence:

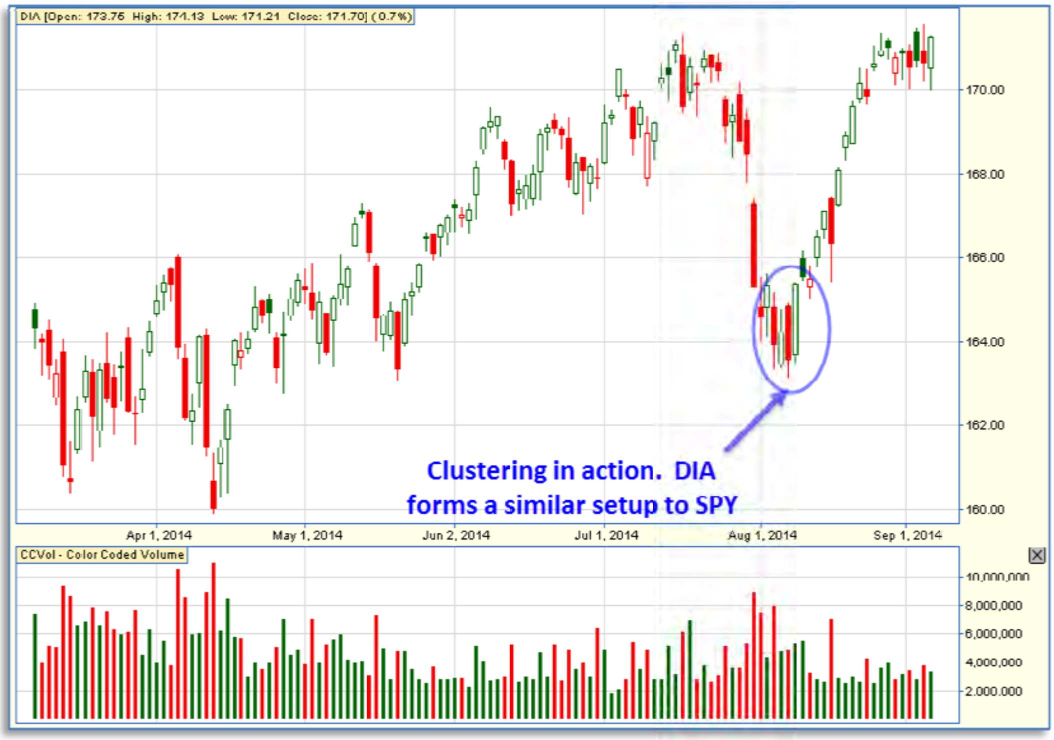
A completely filled red candle making an extreme low, followed by a completely hollow green candle with a similar high and low. This made for a very low-risk setup.

What also made this pattern special – and this is very important – is that there was a clustering of major stocks and indices exhibiting a similar setup. A clustering of securities with the same setup is a very powerful signal.

The SPY reverses immediately, as did other major securities at that time.



Here’s the DIA with a virtually identical setup:



SNDK – Railroad Track High (September 2014)

Here SNDK exhibits a near perfect railroad track extreme high setup.

The result is a fantastic 15% reversal in just three weeks:

Railroad Tracks Summary

- The railroad track setup is rare but extremely effective. The Turnaround Trader software identifies these patterns so you can now find them with ease.

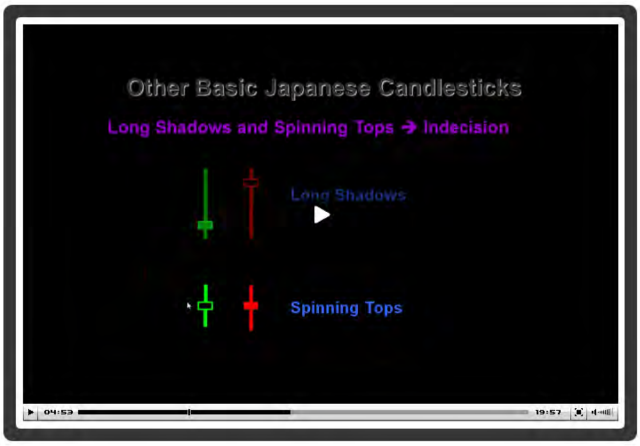
- Use Trading Plan One or 1a to play this setup.

7. The Next Step

Now you have the strategies, you simply need to find the opportunities. Luckily I've done the hard work for you and it's just a matter of a couple of clicks of your mouse from here.

The very first thing you should do however is to go back to the start of this manual and read it through again, particularly if you are brand new to trading. Many of the terms will seems strange to you on first reading, but will become clearer and clearer as you read it several times. When you have done that you can…

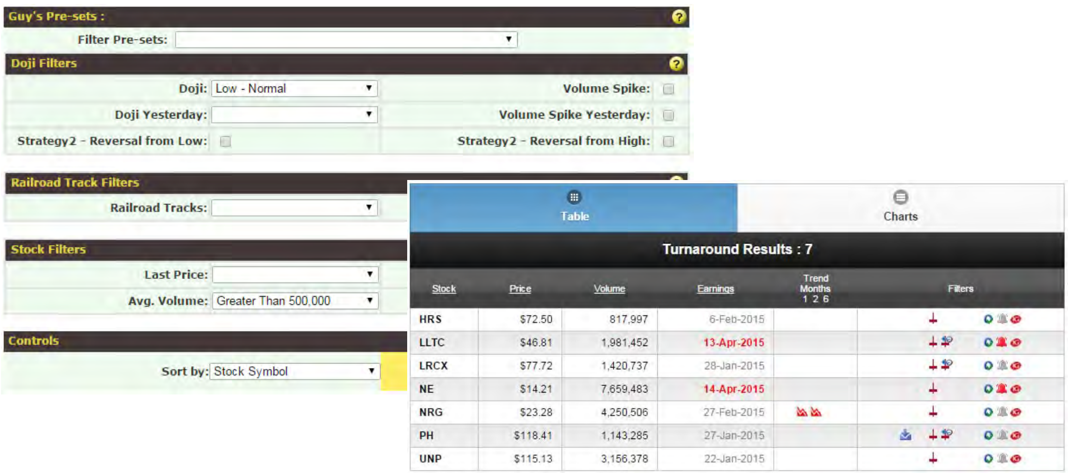
1. Watch the videos on www.turnaroundtrader.com



2. Filter for Turnaround Opportunities

- Go to the website www.turnaroundtrader.com and log in. We've already sent you your username (typically your email address) and password.

- Use the scanner – we scan from the most liquid stocks where a Doji or Railroad Track will be more meaningful.



Stock	Price	Volume	Earnings	Trend Months 1 2 6	Filters
HRS	$72.50	817,997	6-Feb-2015		
LLTC	$46.81	1,981,452	13-Apr-2015		
LRCX	$77.72	1,420,737	28-Jan-2015		
NE	$14.21	7,659,483	14-Apr-2015		
NRG	$23.28	4,250,506	27-Feb-2015		
PH	$118.41	1,143,285	27-Jan-2015		
UNP	$115.13	3,156,378	22-Jan-2015		

- When you find a great looking opportunity, you'll be ready to place your trade.
- NOTE. You don't need to have ANY of your own charting software – that is all handled for you on the Turnaround Trader website.

3. Spread-Betting or Using a Traditional Broker

- If you're US-based, then you'll trade with a traditional online or phone brokerage account. If you're UK-based you can choose to trade via a spread-bet broker.
- Go to www.turnaroundtrader.com and watch the videos about brokerage and spread-betting.
- For UK traders, if you don't already have a spread-betting account, simply follow the link on the website to set yourself up an account. It is really very easy indeed.

- Follow the guidelines within the videos so that you place your trade properly with your traditional online broker or spread-bet broker.

- Now you are ready to take the plunge and make your first small trade. The key to becoming a profitable trader is just to *get started!* You need to get your feet wet with a few modest trades just to get used to this trading lark. It all seems a bit scary and difficult to start with but honestly, it's quite simple. Soon you will be trading like a pro. Go back and read this manual from top to bottom again until you are familiar with the principles. Watch all the videos I have pointed you towards and take advantage of my amazing free bonuses.

8. Bonuses

Remember The Free Bonus Tutorials!!!

At the beginning of this report I mentioned that as part of this package I'm going to give you a special bonus tutorial **every few days**! All the bonuses you're going to receive amount to well over £2,000 ($3,000)!

I don't want to ruin the surprise(s) too soon, but a couple of the bonuses I'm going to reveal to you are:

- **The Secrets of Insider Trading … and how to follow the insiders LEGALLY!**
- **How to jump into stocks that are rocketing …**

Literally every few days you'll be receiving a **significant and valuable bonus** that you can review at your leisure.

I'm also going to reveal my other profitable trading methods that have been hugely successful for so many others just like you.

Here's an email I received recently:

---------- Forwarded message ----------
Date: Fri, Jun 17 at 2:38 PM
Subject: Re: [SUPPORT #YUK-803984]: webinar

Hi - please tell Guy Cohen I love him dearly!!! A sudden jump in RIMM and the whole course is now paid for! A unique experience to me - the earth even moved!
Best wishes
Mike B

Imagine this … you're going to learn exactly what this guy learnt … all part of your Free Bonus package here!

So, here's the approximate timetable of bonuses worth at least £1,391 which you can expect to receive **on top of** the £1,000 ($1,500) turnaround filtering tool you will have access to.

Bonus	Release Date (approx.)	Value to You
How to follow the Insiders	Immediate	**This priceless, proven content is unique to me and not available anywhere else.**
The 'Insider Indicator' - Part 1	5 days	
The 'Insider Indicator' - Part 2	7 days	
The Major Chart Patterns	10 days	**£249**
Fundamental and News Analysis	13 days	**£199**
The Breakout Pattern We Love	15 days	**£249**
The Secrets of "Open Interest"	18 days	**£249**
Entering Trades	21 days	**£99**
Managing Profits	25 days	**£99**
Money Management	28 days	**£99**
The Mind of a Trader	32 days	**£99**
Brokerage or Spread bet?	35 days	**£49**

And that's not the end. I will continue to send you exciting FREE bonuses for months to come. That's how committed I am to your trading success.

So as you can see, you're getting a whole load of bonus materials here that will give you so much choice … And remember, choice is power!

You'll start to receive these bonuses literally from Day 1, so keep an eye on your Inbox and keep the links safe! The bonuses will be available to you for as long as you're a Turnaround Trader Member.

Finally

I hope you have enjoyed this manual. More importantly, I hope you are excited about getting into trading for yourself. Trading the markets is really the most amazing way of making money. It certainly beats a 'real job'! After learning a few simple basics you could make up to a grand each week just by tapping a few keys on your PC.

What I love about trading is you don't have to work for a modest wage. You don't have to jump when the boss says jump. You don't have to watch your precious life slip by whilst locked into wage slavery.

The amazing truth is … as a home trader you can *decide* how much money you want from this – and then make it in arguably the easiest way possible.

I certainly never get tired of making even modest amounts like £240, £576, or £750 PER TRADE – which takes a maximum of thirty minutes of an evening.

Care to join me? Well now you can – thanks to my many years of work at bringing new traders such as yourself the cutting-edge secrets which allow for easy and profitable trades, time after time.

Please do not think this isn't for you. You CAN do this. All you need to do is invest a few hours in your training by re-reading this manual, watching my videos and going through the free bonus materials which will be coming your way very soon.

Thousands of ordinary men and women are making a tidy living by trading from home, often in their spare time. Why not join them?

Thanks for reading. It remains for me to wish you happy and profitable trading!

Regards

Guy Cohen

P.S. Remember, you can trade US stocks with Turnaround Trader via a standard online brokerage if you're based in the US or anywhere else in the world. If you're based in the UK you can trade this way via a traditional broker or a spread-bet broker. The choice is yours, the technique is exactly the same!