Stocks To Watch

Thursday, August 27, 2015

CAMERON INTERNATIONAL CORP

Symbol	**CAM**
Pattern	Infield Fly
Position	Short
Entry	59.12
Maximum Stop	**59.47**
Initial Target	58.60
50% To Target	58.86
Resistance 2	**63.36**
Resistance 1	**61.65**
Pivot	**60.43**
Support 1	**58.72**
Support 2	**57.50**
Sector	Energy
Sector Symbol	$XOI.X

Around the Horn:
The Rule Book

Just as the Around the Horn trading plan developed for our personal use, these rules also evolved to maximize our own trading profits, minimize risk and still allow the trades room to breathe. When we compute the monthly results, we use these rules to calculate the plan's efficacy. Individual trade results may exceed or fall short of the monthly results (for example, more or less favorable fills or missing a trade), but these rules allow comparison of results over time and a measure for one's own trading performance using pre-established criteria. While these guidelines will always have an exception to the rule (e.g. stopping out of a trade that later becomes profitable) over time, they serve us well more often than not.

Entries:

1. The entry price (or entry tick within the allowable slippage or gap) has to ***print on the NYSE***. That is, a stock that ticks the entry price on the NAS on or before the open does not count as a legitimate entry as the tick must originate on NYSE;
2. For ***Gaps*** and ***allowable slippage,*** profit target is the key. Your entry slippage should not be more than 25% of the total amount you expect to make and for planned trades should never be more than 20 cents total. Thus, if your profit target is a 40 cent gain, then allow for 10 cents of slippage. If the profit target is over a dollar, then 20 cents of slippage is reasonable. If you enter a trade beyond this level, then mentally shift gears and treat the trade as an intraday play or scalp trade, not as a planned trade;
3. ***No new entries*** after 12:20 PST/3:20 EST (40 minutes to close).

Stop Protocol:

Once you enter a trade at the stated entry price or within the acceptable 10 cent slip level there are several criteria we use to protect ourselves from losses, as well as protect profits, while still allowing some room for volatility. During the trading day, I like to think of these as hurdles, moving from one to the next as the trade progresses.

Hurdle 1: After entering the trade at the stated entry price, watch to see if the trade goes 10 cents in your favor FROM THE STATED ENTRY PRICE, NOT YOUR FILL PRICE. If it does not go 10 cents in the trade's favor from the entry price before it goes 10 cents against the trade, exit the trade 10 cents against your trade and watch for another entry opportunity. HURDLE 1 IS CURRENTLY OPTIONAL

Issues: This strategy has protected us against what I call getting "tagged-in" only to head straight to the stop-loss. To execute this strategy, a trader needs to be comfortable paying the extra commissions if the trade comes back to your entry. Also, another entry here does not count as a "second" entry. If you are uncomfortable with this strategy, don't use it and use the stop level as your exit.

Hurdle 2: Once the trade is in your favor 10 cents beyond the entry price, keep the stop loss at the stated stop loss until the trade hits the 50% to Target level.

Hurdle 3: At the 50% to Target level, move the Stop Loss from the stated stop loss to a breakeven level at the STATED ENTRY PRICE, NOT YOUR FILL PRICE.

Hurdle 4: Once the trade ticks within 10 cents to the stated Initial Profit Target, move the stop to a Profit Stop at the 50% to Initial Profit Target level.

Hurdle 5: Once the trade hits the Initial Profit Target, determine if the trade is zooming past your price (in other words, it would be a struggle to exit the trade at that price as it is trading so strongly in your favor it has already surpassed the Initial Profit Target before you can get your order in). If this happy situation is occurring, stay in and trail with a profit stop, initially at the Profit Target.

If the trade is not this strong (as occurs much more often), exit the trade at the Initial Profit Target. Some traders choose to exit only half or some other percentage at this level and then trail a profit stop initially at the 50% to Target level, then later the Initial Profit Target, then by some other method as the trade gets progressively further from this level (reversal of two closes, violation of the 8 period simple moving average, support/resistance, etc.).

Note: These are the rules we use to calculate the monthly performance. As trader's you may find some other variation useful. For instance, for the 10 cent "tagged in" rule when a trade has not gone more than 10 cents in your favor before reversing, some traders prefer not to exit at 10 cents against you in favor of a wider exit at a 50% to stop loss level, giving the stock a little more room to breathe. Another example some traders employ is to take a percentage of profits at the 50% to Target level, another percentage at the initial profit target, and the final if it travels further, with protective stops for each of these levels as the trade progresses.

It is important to understand how we are trading and the rules we are using. It is also important that trading rules suit your psychology. If you have questions or thoughts please don't hesitate to contact me at: Julie@TraderInsight.com

Expanded Rules For Manual Trading

Around the Horn:

1. Price must travel at least 8 cents through the entry price before turning around for a second entry (or first entry after an opening gap). Should the price touch the entry price, without going the required 8 cents, but then go at least to the 50% line, the missed opportunity counts as an "entry."
2. After two 10-cent scratch losses, the entry price moves to one cent beyond the day's high (for longs) or low (for shorts). This rule is not applicable after opening gaps or after second entries, like what is being referred to in #1, because we are moving the entry price to one cent beyond the day's high or low. We can only move the entry price a maximum of five cents, meaning we got tagged in by a maximum of four cents.
3. After second entry, Around the Horn stock become a discretionary Stock to Watch when you must find a stop based on the day's trade, and try to find market and sector support.
4. Maximum three 10-cent scratch loss trades.
5. 10-cent scratch loss trades do not count as an "entry" in Around the Horn stocks. Only stocks that go to the target, the full stop, or where the stop was trailed count as an "entry."
6. The 10-cent rule (stock went 10 cents against us before going 10 cents in our favor) is suspended during high volatility.

Stocks to Watch:

1. You must find a stop that has a Reward/Risk Ratio of at least 1.50. (For instance, if it's 48 cents from the entry to the target, the stop must not be more than 32 cents.)
2. Stops must be found on 5-minute charts.
3. A stop must contain the last pullback before triggering or the last consolidation before triggering. That is, the extreme high (for shorts) or low (for longs) of the last move is contained between the stop line and the trigger line.
4. The spread of the stock must be UNDER 5 cents.
5. The market (SPY or SPX) and sector should confirm the direction of the trade before a Stock to Watch triggers. The market and sector confirmation should be LEADING the stock. That is, the market and sector rally (for longs) or sell-off (for short) should begin before the Stock to Watch rallies or sells off, or the market and sector rally or sell-off should be stronger (steeper move).
6. The market or sector should NOT be nearing or stalling at a likely inflection points as the Stock to Watch nears the trigger. Likely inflection points are floor trader pivots (R2, R1, P, S1, S2), the day's high or low, the previous day's high or low, or an obvious consolidation from earlier in the trading day.
7. We need at least three 5-minute bars to determine if we have market and sector confirmation. That is, no Stocks to Watch trades before 9:40 ET.
8. Price must travel at least 8 cents through the entry price before turning around for a second entry (or first entry after an opening gap). Sector confirmation not necessary. Should the price touch the entry price, without going the required 8 cents, but then go at least to the 50% line, the missed opportunity counts as an "entry."
9. Maximum three trades to include 10-cent scratch loss trades.

Stocks on the Radar (scalps):

1. The default stop is 10 cents, though you should try to find a stop that's under 20 cents, if possible. Stops can be found on 5-minute charts or 25-tick charts if that's available on your charting package. Ultimately, we simply want to get out of a scalp if it's not going in our direction and/or we have lost market and sector confirmation once the trade has triggered.
2. The spread of the stock must be UNDER 3 cents.
3. The market (SPY or SPX) and sector MUST confirm the direction of the trade before a Stock on the Radar triggers. The market and sector confirmation should be LEADING the stock. That is, the market and sector rally (for longs) or sell-off (for short) should begin before the Stock on the

Radar rallies or sells off, or the market and sector rally or sell-off should be stronger (steeper move).

4. The market or sector should NOT be nearing or stalling at a likely inflection points as the Stock to Watch nears the trigger. Likely inflection points are floor trader pivots (R2, R1, P, S1, S2), the day's high or low, the previous day's high or low, or an obvious consolidation from earlier in the trading day.
5. The Stock on the Radar must not have made a substantial move in the last 10 minutes before triggering. For now, we'll say substantial means more than 50 cents. That is, if the stock moved more than 50 cents in the last 10 minutes before triggering, we'll pass on that trade because it's unlikely for the stock's momentum to carry the price another 30 cents or so from the entry to target. Better to wait for a consolidation or pullback.
6. We need at least three 5-minute bars to determine if we have market and sector confirmation. That is, no Stocks on the Radar trades before 9:40 ET.
7. Price must travel at least 8 cents through the entry price before turning around for a second entry (or first entry after an opening gap). Should the price touch the entry price, without going the required 8 cents, but then go at least to the 50% line, the missed opportunity counts as an "entry."
8. Maximum three trades to include 10-cent scratch loss trades.

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