Futures Edge

STRATEGY

SCALPING IN A DOWNTREND USING COUNTER TRENDLINE BREAKS

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STEP 1

Find and mark the highest point at the beginning of a bearish trend. The highest point must have two candlesticks to the left and two candlesticks to the right which are lower than the center wick high. This highest point is called a “swing high”.

STEP 2

Once the swing high has been identified, which signifies the start of a new downtrend, click the trend line tool on the charting platform of your choosing. You may need to reach out to your platform provider for more information on the location of this drawing tool.

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STEP 3

Begin plotting a trendline at the swing high. This can be at either the swing high price or the candle open. Once the first point has been placed, draw the trendline across the top of the candles to help identify a trend angle. The more times the candle bodies or the candle wicks touch the trendline, the more powerful the trendline.

STEP 4

Once the market price reaches a low price point and shows signs of an increase in price with a sequence of at least 3 bullish candlesticks, use the trendline tool to plot a new uptrend trendline from the low point. The new trendline will be plotted below the candlestick sequence. This is called a downtrend counter-trendline.

Note: The 3 bullish candlesticks do not need to be in a row.

STEP 5

Wait for the market to break and close below the counter trend line while staying above the below line. When or if the market can close below the counter trend line, this will be a sign that the short term rally is completed, and that market price may begin to decrease. This will be the ideal time to enter into the market short.

STEP 6

Place the protective stop loss above the high price before the counter-trendline break and above the downtrend trendline. This will be the risk of the trade. If the market price reaches this price level while the position is open, there will be a loss.

STEP 7

Using a measuring tool, measure from the current market price at the time of the market entry to the stop loss. The tick value will be the amount below the current market price to place your take profit.

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STEP 8

Once the market price hits either the stop loss or take profit, the trade is considered complete. It is now time to close the short trade. The sequence is considered complete.