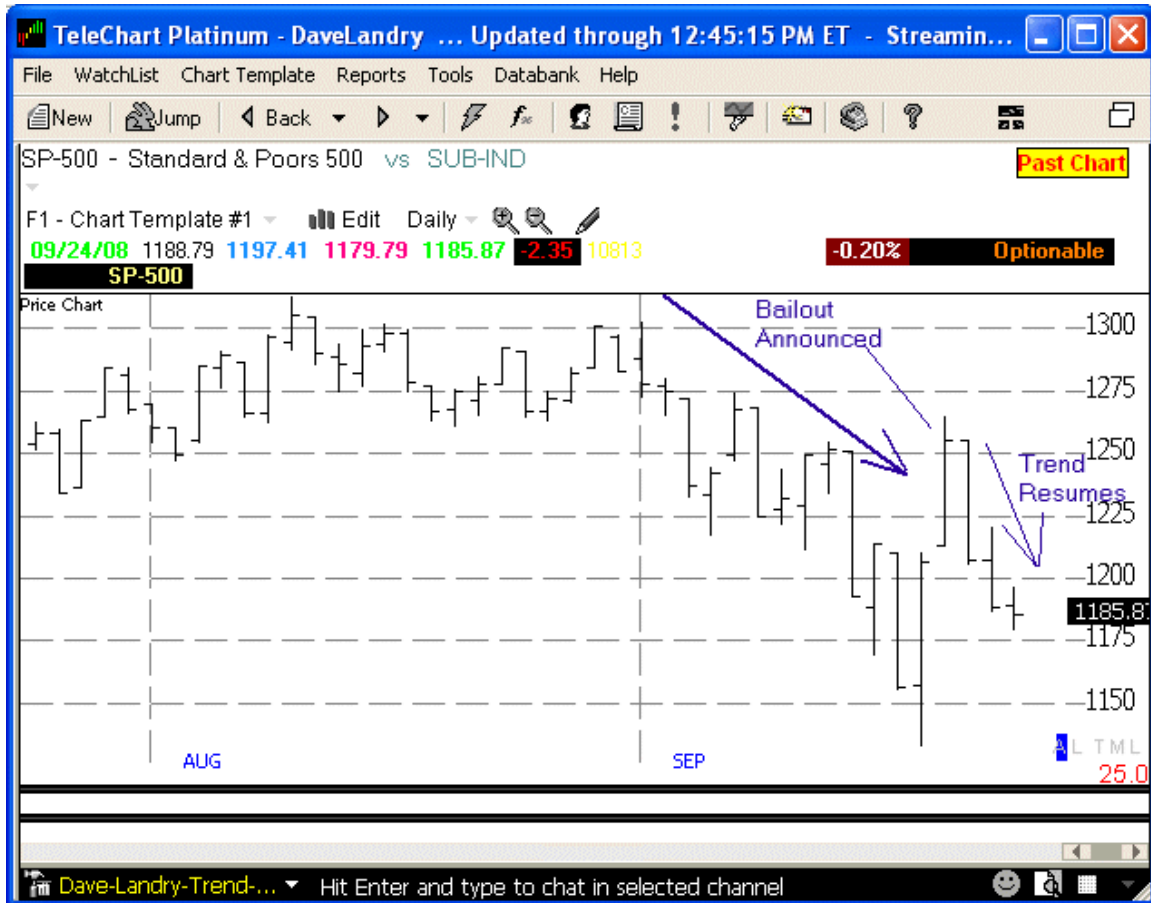
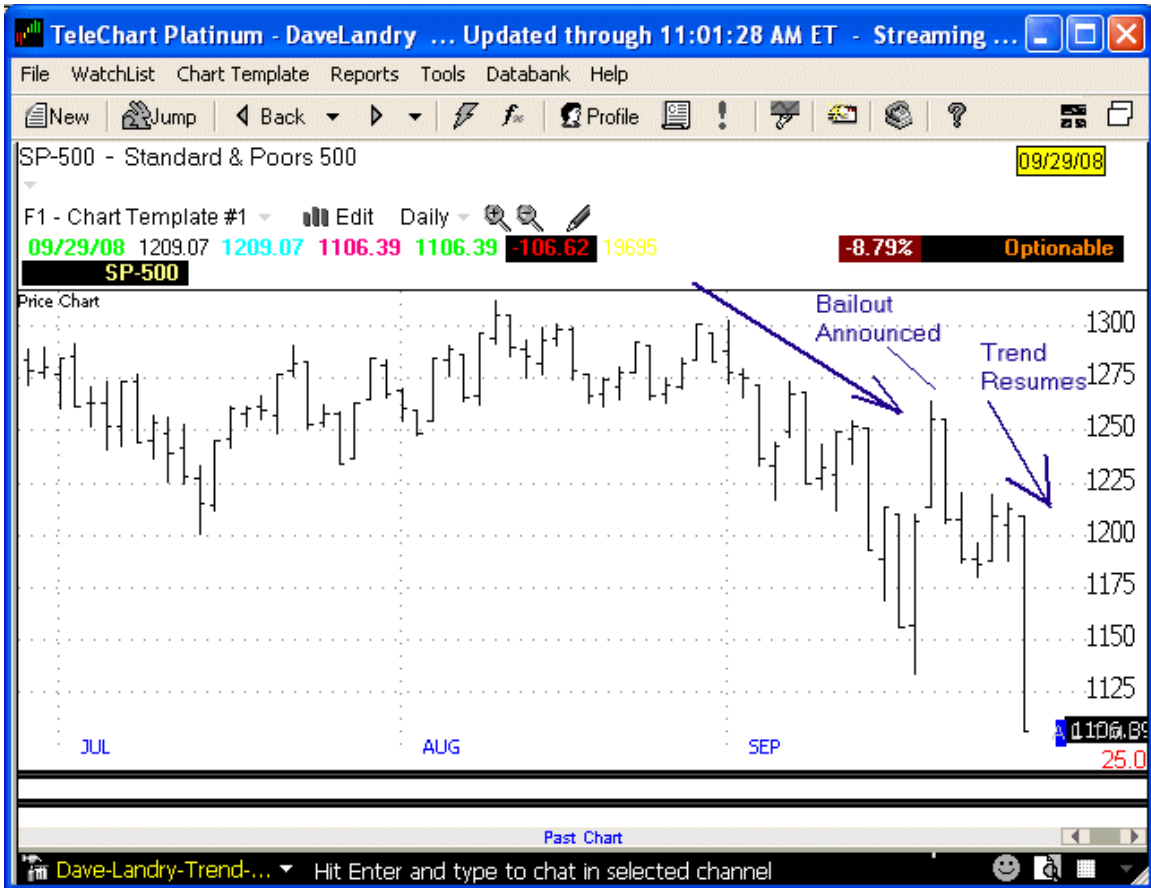


Types Of Entries

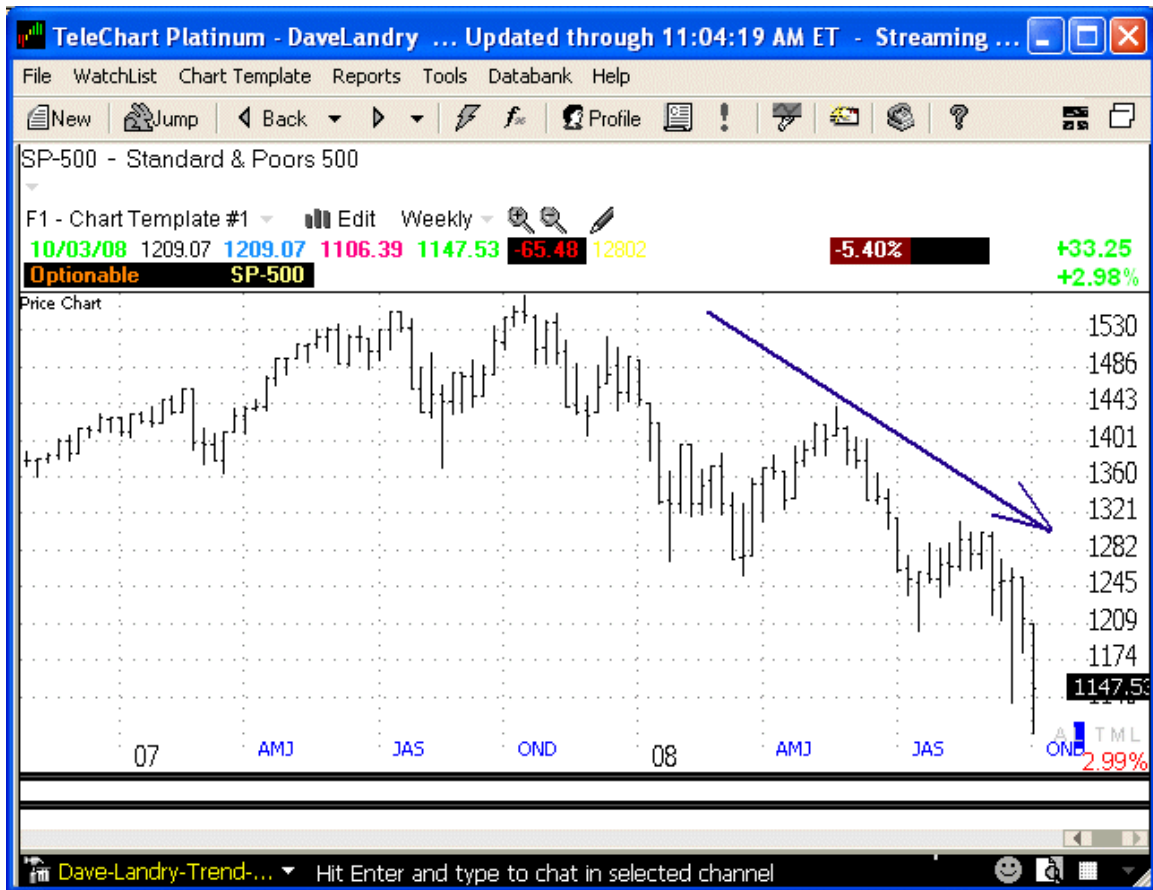
Over the past few weeks, I have been discussing the importance of trading with the trend. Last week I pointed out that in spite of the government announcing a massive bailout plan (which could total as much as a trillion dollars!), the trend of the market resumed. And, just 1 day later, all of those “news gains” were erased.



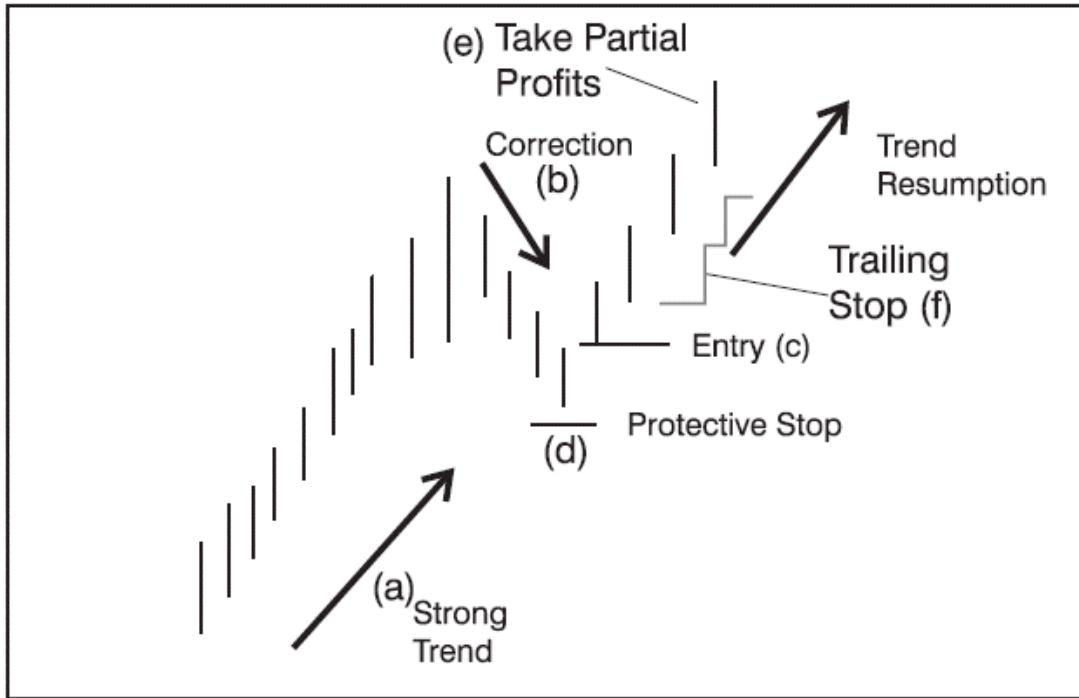
What's worst is, just a few days later, the US indices suffered their worst point loss in their history.



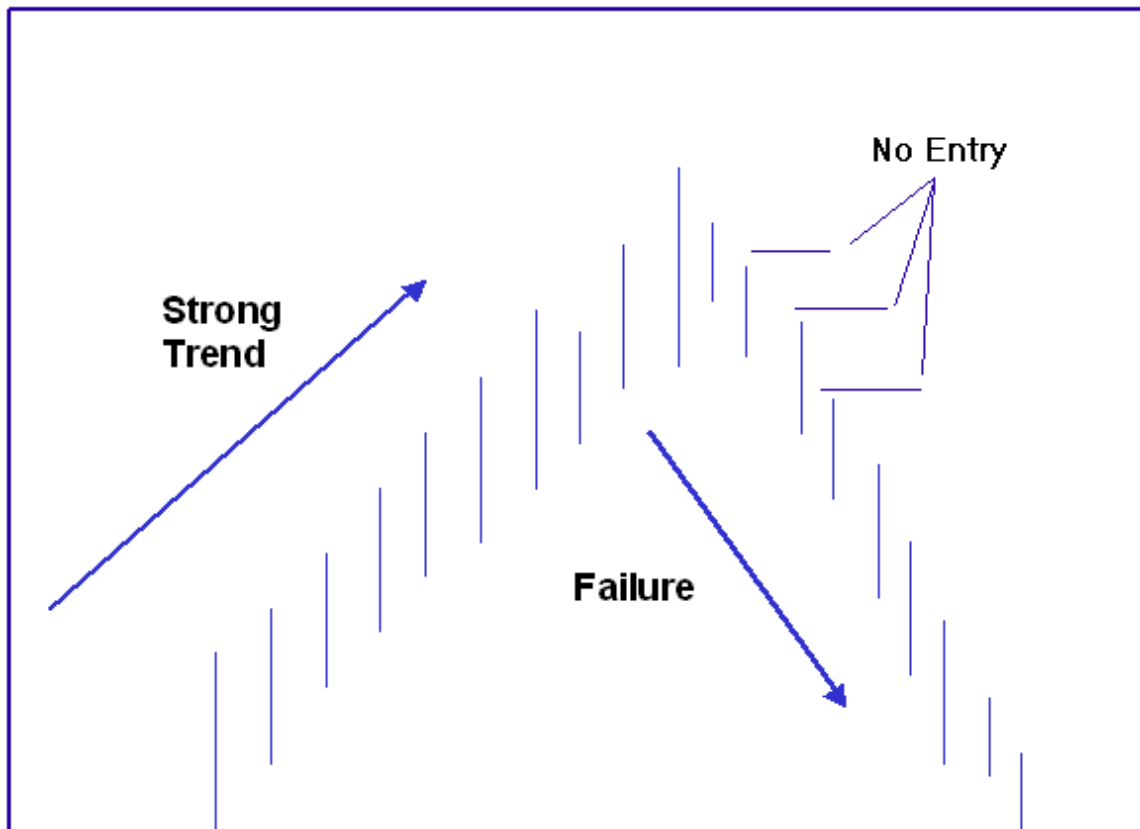
This action has the index resuming its longer-term downtrend. Notice the weekly chart below.



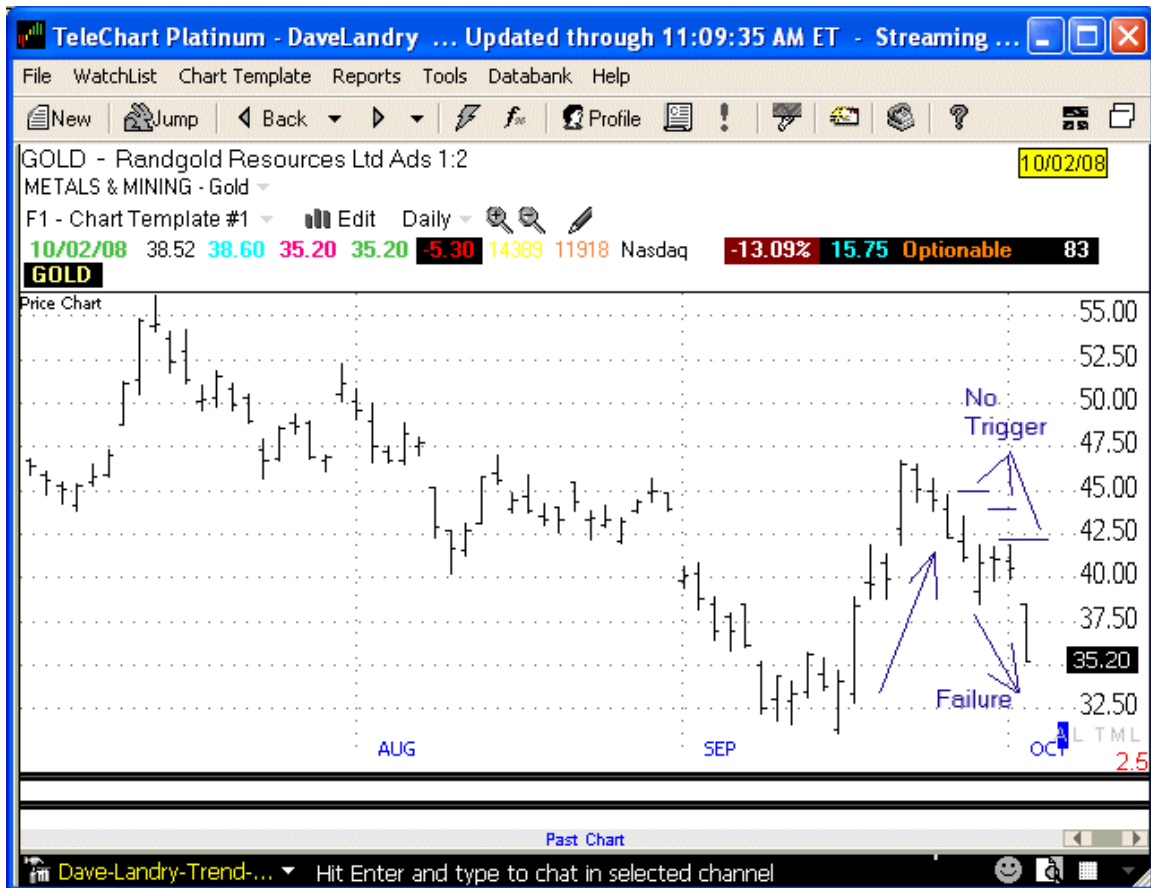
Of course, there's no guarantee the trend will resume, that's why last week we discussed the importance of using protective stops. This week, I will continue to dissect the elements of the pullback. To review, here is the pullback chart. A pullback consists a market in a strong trend (a) that has begun to correct (b). An entry is triggered when the trend begins to resume (c) and a protective stop is placed just in case the trend does not resume (d). As the trend continues, partial profits should be taken (e) and the stop on the remaining shares should be trailed higher (f).



This week, I'd like to talk about entries. An entry is a placed above the market. This will *only* "trigger" if the trend begins to resume. This way, at least for the time being, you are trading with the trend and hopefully on your way to capturing a longer-term trend. If the stock does not "trigger", then it should be ignored. This in and of itself can often keep you out of a losing trade when a pullback fails and is illustrated below.

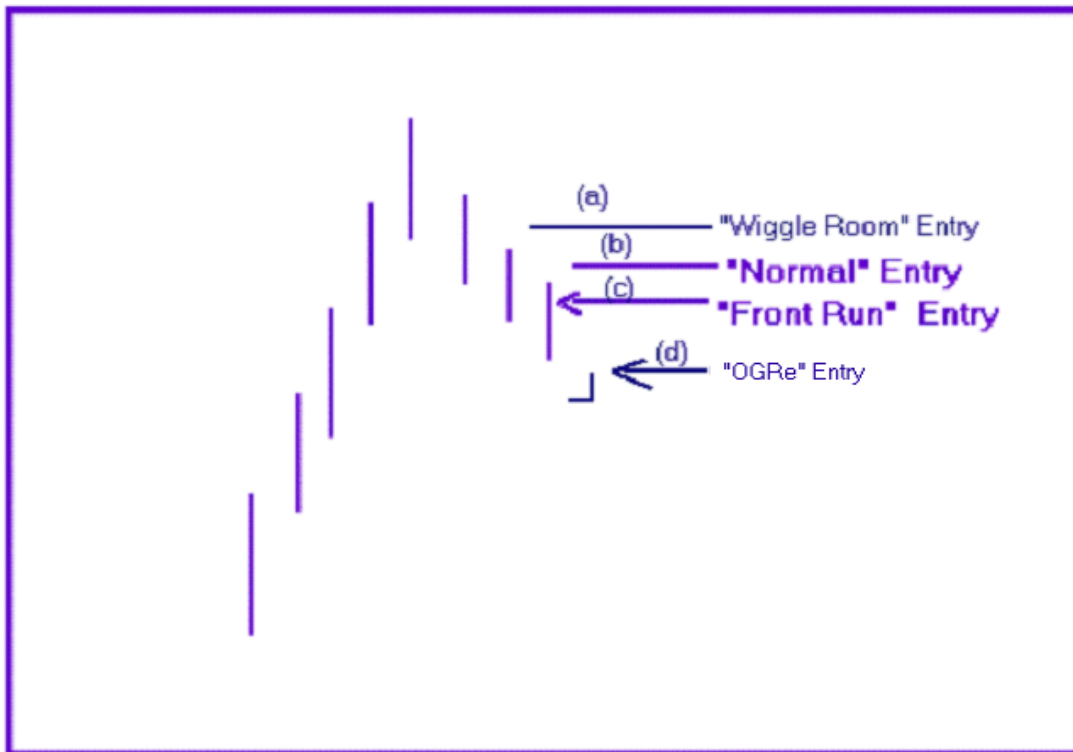


Here's a recent "real world" example of how waiting for an entry can sometimes keep you out of a losing position. Gold stocks had been rallying recently. This action set up a First Thrust pattern (this is a trend transition pattern that I will cover in future articles. Email me if you would like the rules). Both the sector and many stocks within the sector were set up. Therefore, especially given these troubled times, I recommended Rangold (GOLD) in my trading service. The stock failed miserably. However, notice that it did not trigger. As you can see, this simple rule—waiting for an entry---kept you out of this trade that would have resulted in a loss.



In my first book Dave Landry On Swing Trading, I implied that the entry should go right above the high of the last bar of the pullback. When that book was written, we were in the greatest bull market of the century. Entering just above the high (or even before the trigger in many cases!) was the right thing to do. This is because back then, most trends resumed. And, entering just above the high, or even early!, helped to ensure that you were getting into the trend as soon as possible.

Referring to the chart below, let's take a look at some types of entries.



Over the past few years, markets have been prone to more and more false moves. Many times a pullback will trigger a “textbook” or “normal” (b) entry only to immediately reverse. In addition to less-than-ideal conditions (i.e. momentum markets), it’s possible that this is caused by market makers and savvy traders pushing the stock above the prior day’s high in order to draw in—and subsequently take advantage of—traders looking to enter just above the prior day’s high.

Therefore, in less than ideal conditions, I like to give stocks some “wiggle room” above the prior days high. This is illustrated in the figure above (a). The amount of room is arbitrary and depends on the price and volatility of the stock. It also depends on where the stock closed on the prior day. If the stock closed poorly---i.e. near the bottom of its range, then the stock will have to travel a long distance in order to get past the prior day’s high. Therefore, less “wiggle room” is needed. If a stock closed well—near its high—then you might want your entry further away to help ensure you don’t get triggered on “noise” alone. The bottom line is that you want the stock to have a meaningful move in order to trigger. However, you don’t want to have the entry so far away that you give up too much of the move should the trend resume.

As a general statement, over the last few years, I have found myself giving stocks more and more room on the entry. This has kept me out of a considerable amount of trades that would have resulted in a loss.

Keep in mind that there are times when you might consider a “normal” (b) entry. If the market/sector/stock are all trending in the intended direction, especially if they too are set up as a pullback, you might consider entering on a “textbook” early .

If the conditions are really good, you might even consider entering early or “front running”(c) the entry. During these momentum times, you want to be in the market as soon as you see signs that the prior trend is resuming. You want to get in before the rest of the crowd who is waiting for more of a “textbook” type of entry.

The earliest entry is entering on an **Opening Gap Reversal**. This is when a market opens lower but quickly finds its low and begins to rally. The best “OGRe”(d) entries occur when the market and sector itself are also forming an opening gap reversal. The advantage of this entry is that risks to reward can be great since markets that gap lower often quickly find their low and begin to rally (and if they don’t, you avoid them). In many cases, the opening tick turns out to be the exact low of the day. You must be nimble and a savvy trader though. If the market turns right back down, you have to be willing to exit the trade.

In summary, waiting for an entry helps to ensure you are trading in the direction of the trend. It can help to avoid losing trades. In less-than-ideal conditions, you might consider giving stocks some room above the prior day’s high before entering. In better conditions, you might consider a “normal” entry. In great or reversing (back to the longer-term trend) conditions, you might even consider entering early.

Over the next few weeks, I’ll continue to break down the components of the pullback. I’ll then begin showing you some of my specific pullback related patterns that I use to capture the three phases of trend.