The Retail Core

A strategy that achieved 388% return in 9 months for #100TradeChallenge on X

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Founder's Letter - New Opportunity

Hi There!

Congratulations on taking the first step towards joining the Top 1% of traders. At Strats Labs, our mission is to provide you with world-class education on trading and investing in capital markets. The financial markets, much like real estate, offer incredible opportunities, but their complexity has made success elusive for over 90% of participants. With a decade of experience across various global institutions and asset classes, we have honed our ability to identify high-probability trading opportunities.

If you're reading this, you're likely intrigued by the workings of capital markets or have already invested countless hours studying charts, fundamentals, and macroeconomics, or even misled by fake trading gurus who promise unrealistic returns, leaving you without the success you seek. Or you may be a seasoned professional finding success here and there but may not be consistent over the long term. We are here to give you a no-nonsense guide to see the capital markets from a fresh perspective which has the potential to revolutionize the way you trade and manage risk across different asset classes, be it stocks, ETFs, indices, derivatives, etc. We won't promise you a magic formula for instant riches, but we will emphasize the crucial importance of risk management. Our experience shows that managing risk is the simplest yet most effective way to achieve stellar results in the markets. This book will help you develop an eye for high-probability trading opportunities while preserving your capital through a robust risk management framework.

To demonstrate the power of these principles, we initiated the #100TradeChallenge on X (formerly Twitter), achieving a remarkable 388% return in just nine months by trading listed securities. We transparently share all trades, including timestamps, for easy tracking and verification. Our goal is to distinguish ourselves from the numerous FinTwit fraudsters who exploit retail traders with flashy but misleading claims.

Why is this important?

The rise of social media has brought a wave of financial influencers, many of whom are more interested in selling dreams than delivering results. They highlight their best trades while concealing the risks and losses, creating false hopes. Social media's lack of regulation allows these educators to make grand promises without accountability, making it hard to distinguish genuine experts from scammers.

How to Identify and Avoid Fake Fintwit Educators?

- Be wary of educators who only highlight their successes. Authentic educators share both wins and losses.
- Genuine educators often provide valuable information for free. At least some basic valuable information should be available for the general public (like this eBook), if not be skeptical.
- Avoid anyone promising quick and easy riches. Trading success requires time, effort, and knowledge.
- Research thoroughly before making a decision. Check reviews, qualifications, and track records.
- Look for educators who focus on solid financial principles, like risk management and a strong trading plan.

Let us first set the mandate. What to expect?

This book probably isn't what you're looking for if:

- You want to get rich quickly by turning a little money into a lot e.g. $1000 to $1,000,000 in 1 year or similar claims.
- You need a textbook with tons of different ways to trade.
- You prefer listening to showy TV or FinTwit experts who promise easy money but have never actually managed money themselves.

Instead, this book is about:

- 1 simple strategy " The Retail Core " that anyone can use to build their account profits over time.
- Few simple secrets and tips on technical analysis, we keep it very simple for our readers.
- A method that can work very well, but only if you understand the rules (most people don't).

Please be aware that you may feel a little uncomfortable at first after going through a few concepts mentioned in this book or our knowledge base available to our members, based on your expertise. It is completely natural, and since we put our best efforts into delivering it to you in the simplest language possible, they are not as difficult and complex as they may seem.

Teaching professional standards and institutional knowledge gathered over years at once may sound hard, hence, we will keep it to the minimum and deliver the basics. Please put your efforts into learning the markets and it will reward you for a lifetime.

Why Choose Strats Labs?

Not all the educational service providers out there do not have the best interests of retail traders at heart. For the past decade, we have been providing top-notch research and analysis on capital markets to our family, friends, and acquaintances, building strong and successful relationships along the way. Now, we aim to extend this value to a wider community and make a positive impact on their investment portfolios with an impeccable education and simple trading strategies that yield healthy income from trading and investing in capital markets.

Follow us on X (@stratslabs) to stay updated and join us in celebrating our upcoming grand opening in a few days. Get ready for some fantastic surprises, including exclusive discounts and bonuses that are only available to the readers of this eBook, who have taken their first steps towards getting into the Top 1%. We are introducing a groundbreaking service that will serve as Your Gateway to the Top 1%, and we are confident you will find it invaluable. You can become an expert with the time it takes to read a newspaper article. We will send our members educational newsletters targeted at niche trading content and best practices in approaching global markets and products.

We want you to build a fantastic portfolio that generates money while you sleep. We will show you how to do that.

For the best times ahead!

Vyas

Chief Analyst and Founder @ stratslabs.com

Global Markets and Participants

Who are you trading against and what do you need to know?

Global financial centers play a crucial role in capital markets by providing the infrastructure and services necessary for trading various financial instruments. Let's explore these centers in detail. The top Financial Centres we scan are New York, London, Frankfurt, and Tokyo.

New York (United States)

Overview: New York is home to two of the largest stock exchanges in the world: the New York Stock Exchange (NYSE) and NASDAQ. The city is a major hub for investment banking, asset management, and insurance. Our main portfolio of watchlists is from this market.

<u>Main Participants:</u>

- NYSE and NASDAQ: Primary stock exchanges where equities, ETFs, and other securities are traded.
- Investment Banks: Firms like Goldman Sachs, Morgan Stanley, and JPMorgan Chase facilitate large-scale trading, underwriting, and advisory services.
- Asset Management Firms: Companies like BlackRock and Vanguard manage large portfolios of assets for institutional and retail investors.
- Hedge Funds: Investment firms that use sophisticated strategies to generate high returns often trade in derivatives and alternative assets.

<u>Main products we watch:</u>

- Indices: S&P 500, NASDAQ 100, Russell 2000, Volatility Index VIX
- Stocks: All stocks on NYSE, NASDAQ

- ETFs: TLT, HYG, BITO, ARKK, XLP, XLU, XLV, SMH, UVXY and 15 more
- Futures: 2,5 & 10yr T Bills, E-mini S&P500, Copper, Gold, Silver, Natural Gas, Platinum, Oil & more
- Options: Stock Options, Index Options, Options on Futures, Commodity Options, etc.

London (United Kingdom)

Overview: London is one of the most important financial centers globally, known for its extensive financial services industry, including the London Stock Exchange (LSE) and a large number of international banks.

<u>Main Participants:</u>

- London Stock Exchange (LSE): A leading global exchange for equities, bonds, and derivatives.
- Banks: Major banks like HSBC, Barclays, and Lloyds provide a range of financial services, including retail banking, investment banking, and wealth management.
- Forex Market: London is the largest foreign exchange market in the world, with a daily trading volume exceeding $2 trillion.
- Insurance Companies: Firms like Lloyd's of London play a crucial role in global insurance and reinsurance markets.

<u>Main products we watch:</u>

- Indices: UK FTSE 100
- Stocks: All LSE Turquoise stocks
- Options: All available options
- Forex: FX Options (we don’t recommend CFDs to our members as the odds are against them about 98% time)

Frankfurt (Germany)

Overview: Frankfurt is the German hub for major companies traded on European exchanges. XETRA is a German stock exchange and the Eurex is an international derivatives exchange where other countries in Europe also trade their products. Germany is the second most interesting market after the US and the following are on our watchlists.

Indices: DAX, mDAX, sDAX (order of market capitalization, m is medium, s is small)

Stocks: All stocks in the above indices

Options: All available Eurex Options & Futures

Tokyo (Japan)

Overview: Tokyo is the financial hub of Japan and Asia, hosting the Tokyo Stock Exchange (TSE) and numerous financial institutions.

Main Participants:

- Tokyo Stock Exchange (TSE): One of the largest stock exchanges in the world by market capitalization.
- Bank of Japan: The central bank that implements monetary policy and ensures financial stability.
- Major Corporations: Companies like Toyota, Sony, and Mitsubishi have significant influence on the market.
- Pension Funds: Large institutional investors that manage retirement savings for millions of people.

Main products we watch:

- Indices: Nikkei 225 (major Japanese index)
- Options: Stock Options of all 225 stocks traded in N225 and additional stocks from OSE (Osaka Stock Exchange)

Cryptocurrencies:

We also cover potential high-probability setups in the crypto space including options and futures.

Note

Although this list is not exhaustive, our typical portfolio of markets that we assess include - United States, Canada, United Kingdom, Europe (Germany, Netherlands, France, Switzerland, Italy, Spain, Denmark & more), Japan, Australia, India, HongKong , Singapore etc. We accommodate custom requests by our users for example, if you are from Argentina, we will add it in our portfolio.

In each financial market, retail traders interact with a variety of other participants. Here's one example of equity markets that they are trading against.

Participants:

- Retail Investors: Individual investors who buy and sell stocks through brokerage accounts.
- Institutional Investors: Proprietary trading firms, Pension funds, mutual funds, hedge funds, and insurance companies that manage large portfolios. Also known as the buy side.
- Market Makers: Firms that provide liquidity by buying and selling stocks, often profiting from the bid-ask spread. Usually, trading desks at investment banks provide market-making services. Also known as the sell side.
- High-Frequency Traders (HFTs): Use algorithms to trade rapidly and capitalize on small price movements. Latency is everything, the closer they are the faster their execution at stock exchanges.
- Corporate Insiders: Executives and employees who may buy or sell stock in their own companies, often subject to regulations.

As a retail trader, it is wise to follow where big money follows. In other words, follow where volatility follows and one can see multiple opportunities frequently. Institutional traders follow and trade various asset classes across global markets for several reasons, including diversification, risk management, and profit maximization. They react to changes in global events, economic indicators, and market trends, adapting their strategies to capitalize on opportunities. Volatility creates trading opportunities as prices fluctuate. Institutional traders often employ strategies to take advantage of these price movements, such as arbitrage, momentum trading, and hedging.

Hedging is necessary when employing complex strategies although not necessary for the scope of this book as it addresses typical strategies used in **#100TradeChallenge** on X. Institutions also employ global macro strategies that exploit macroeconomic trends and global events, which we also use in our research. An example would be, during an oil price surge, traders might buy energy stocks and sell airline stocks, anticipating higher profits for energy companies and increased costs for airlines.

Our entire philosophy at Strats Labs is focused on these topics: Momentum Trading, Global Macro, Economic Events, & Corporate actions (earnings, mergers, etc.). You will learn and understand all of them by reading our newsletters in a short period of time. You will develop an eye to identify and relate events across the globe as they manifest.

Strats Labs is about more professionalism and less uncertainty, we embrace confluence and reduce conflicts, and we react and adjust on demand because the markets are dynamic, therefore your trading plan should be dynamic as well at least to some extent. Be prepared to change your opinion and don't be stubborn. Ride the waves as they come & disappear.

Tactical Trading

Topics in this chapter form the backbone of our Tactical Trading philosophy at Strats Labs. You must read and understand them thoroughly. We've distilled the information to its essence, eliminating unnecessary noise. Our approach emphasizes technical analysis, which constitutes over 80% of our market strategy. We cover all essential topics, including key concepts, indicators, chart patterns, volume and sentiment analysis, and robust trading strategies tailored for retail traders.

At Strats Labs, our goal is to simplify trading for you, avoiding the overwhelm of advanced and complex topics that aren't necessary for a retail trading account. The concepts and tools explained in this chapter are more than sufficient for generating consistent returns.

Price Action Theory:

As the name suggests, price is the king. Ignoring all other aspects, just by looking at the price, one can define various areas of supply and demand that are driven by the underlying market sentiment. These fundamentals of economics occur everywhere in the world. Supply drives the price down and demand drives it up. These are also known as support and resistance levels. Huge supply at resistance levels causes the price to move down and huge demand at support levels causes it to go up. What to look for? Observe the raw price data. This is similar to reading the tape (more on this later), except that you will be looking at the price values and not at the charts.

By observing the raw price data, traders primarily examine the candlestick charts, or bar charts to interpret market behavior. They analyze the size, shape, position, and growth of price bars or candlesticks. Size tells us about the volume, shape tells us the underlying trend, etc. Traders look for trends, breakouts, reversals, and chart patterns formed by price movement which we will look into in the next pages. Simply put, price action theory interprets the behavior and psychology of market participants that we looked at in the earlier chapter. If retail traders want to succeed in this business, they have to follow the liquidity or money supply introduced by the big financial institutions. Trading against them is in principle detrimental and trading with them is very beneficial. So, the first step for a successful trading business is to understand the price action theory.

Let us look at a core strategy that institutions follow. It is called a momentum loss shown through candle sizes and shapes. Think of momentum as a physical force that moves the prices - the stronger the momentum, the larger the price movement. Take a look at the chart of Apple below.

We can see that there is a huge demand for pending orders waiting to be executed shown in the rectangle below. Simple economics here. Lots of demand resulted in driving the price 4 times despite sellers pushing it downward. Whenever the price

Over supply of the orders driven the price up 4 times in Q1 2024

came into the rectangle, it shot up. After the price hit the zone for 3rd time, the momentum slowly faded away and hence it had to break out after the 4th time into further downward levels signaling that upward momentum has faded - a.k.a the demand has vanished. Typically, there are large sets of orders placed from high-frequency trading algorithms to exploit these fundamentals which will create a huge spike in the volume therefore resulting in large moves. These orders are placed by the big institutions a.k.a big whales and retail traders want to be on their side in maneuvering across the liquidity (money supply).

This is the same for the supply side where the price enters into the supply zone and starts to fall down due to a huge supply of sell orders waiting to be executed. Simple economics drives the prices and identification of the zones is simple.

How to identify these zones?

1. Load up the chart of the underlying asset you wish to analyze
2. Clean up and remove all the indicators. We only need the raw price shown in candlesticks.
3. Check and zoom out on a higher time frame and see where the price consistently bounced up or down
4. If moved up, as shown above, that is a demand zone or support level
5. If moved down, that is a supply zone or resistance level

Let us look at the core strategy that could be helpful for retail traders to trade using the above chart of Apple.

1. Look for the price losing momentum as it approaches the key level (here into the demand zone in red)
2. See as the price comes into these levels, it starts to show smaller candles (meaning low volume)
3. Once at the key level, the price starts to shoot up with a huge spike (meaning high volume)
4. Wait for confirmation after the price comes to the level (does it reverse the upside as expected?)
5. If reversed upside, it is ideal to take an entry with a potential stop loss below the level (although we don't recommend it - more on this later topic called Stop Hunts)
6. You don't want to see the momentum rising as it approaches the key level, as this could mean it won't reverse at all, but a potential breakout of that level is on the horizon. So it is important to wait for confirmation. We will look at breakout patterns in the next pages.

To summarize, if the chart shows huge momentum upward at the demand zone, it is ideal to buy and vice versa for the sell side or supply side.

Note

Supply and demand zones are where the price potentially changes its direction. We usually take entry positions in those zones to maximise the risk-to-reward.

Volume Analysis:

Volume analysis is a critical component of technical analysis, offering insights into the strength and sustainability of price movements. It helps traders confirm trends, identify potential reversals, and make informed decisions about entry and exit points. Volume refers to the number of shares, contracts, or units traded in a financial instrument during a specific period. High volume indicates strong interest and participation, while low volume suggests weak interest and potential indecision in the market.

How to identify volume confirmation?
Volume should increase in the direction of the prevailing trend. For example, in an uptrend, rising volume supports the continuation of the trend, while decreasing volume may indicate weakening momentum. A significant volume change can signal a potential trend reversal. High volume during a price reversal suggests strong conviction behind the change. Volume spikes often precede major price moves. They can indicate the start of a new trend, a reversal, or a continuation pattern.

Tools for volume analysis:

On-Balance Volume (OBV) - a very good concept developed by Joseph Granville that bakes the volume information into accumulation and distribution phases. Please check this explanation on investopedia to identify the OBV and how it can be used to spot trends.

We apply the volume analysis for the following use cases.

1. To identify trend confirmation
2. To identify reversals
3. To trade the breakout patterns

In an uptrend, increasing volume supports the continuation of the trend. Traders look for higher highs in price accompanied by higher volume.

In a downtrend, increasing volume confirms the downward movement. Traders look for lower lows in price with rising volume.

There is one important aspect to this called Reversals. Price reversals happen when the volume fades away at the end of a trend, meaning losing interest among market participants in the direction of a trend, making it a perfect case for reversals. Reversals are often accompanied by Divergences. This is the single most yet misunderstood concept among retail traders. Identifying and trading divergence is the secret to trade with the institutions. We will look into trading divergences in the next pages.

Don't worry if you don't understand these concepts yet. We will look into real examples of trades posted on X as part of the #100TradeChallenge and identify price behavior.

Note

> We are only interested in how price behaves in tandem with the volume. If the volume dries up in consolidation phase and increases rapidly as it approaches key support or resistance levels, this is clear indication of a potential breakout. Remember what we said in price-action theory? Price momentum should slow down for a reversal to work, and rising momentum will cause it to breakout.

Chart Patterns

Let us look at key chart patterns as part of the technical analysis.

Head and Shoulders

Price forms two short curves acting as shoulders and a middle curve higher (in an uptrend) or lower (in a downtrend). This type of formation is called head and shoulder pattern. This is a high-probability chart pattern that results in price continuing the reversal after the second shoulder. It is used to identify potential trend reversals, indicating a shift from a bullish trend to a bearish trend (Head and Shoulders top) or from a bearish trend to a bullish trend (Inverse Head and Shoulders). Take a look at the chart below for The Kraft Heinz Company on Nasdaq.

Structure: It consists of three peaks.

- Left Shoulder: The first peak is followed by a decline. Forms as the price rises and then falls, marking the first peak.
- Head: The second peak is the highest and is followed by another decline. Forms as the price rises again, surpassing the high of the left shoulder, and then declines.
- Right Shoulder: The third peak is lower than the head and is followed by a decline. Forms when the price rises once more, but does not reach the high of the head, and then falls again.
- Neckline: A trendline drawn across the lows following the left shoulder and the head. The neckline can be horizontal, ascending, or descending.

Volume considerations:

Volume typically increases during the formation of the left shoulder and decreases during the decline. It may be lower during the formation of the head compared to the left shoulder and it often decreases during the formation of the right shoulder and increases during the decline and breakdown below the neckline.

Head and Shoulders on The Kraft Heinz Company

How To Trade?

✓ Enter a trade after the price breaks the neckline, confirming the pattern.
✓ Place a stop-loss order above the right shoulder (standard) or below the right shoulder (inverse) to manage risk.
✓ The price target can be estimated by measuring the distance from the head to the neckline and projecting it from the breakout point.

Double Tops and Bottoms

Double Top on Amazon

This type of pattern is used to identify potential changes in the direction of the trend. They occur frequently and are almost an industry standard that manifests in the same way over and over across various asset classes. These patterns occur due to the trading behavior of market participants.

A Double Top pattern forms after a sustained uptrend and indicates a potential reversal to a downtrend. It is characterized by two distinct peaks at approximately the same price level, separated by a trough. Take a look at the above chart of Amazon traded on Nasdaq.

A Double Bottom pattern forms after a sustained downtrend and indicates a potential reversal to an uptrend. It is characterized by two distinct troughs at approximately the same price level, separated by a peak. Double tops and double bottoms are essential reversal patterns in technical analysis, providing clear signals of potential trend changes.

With a confirmation, one can look at a potential entry after the price initiates a reversal at the tops and bottoms. Take a look at the below chart of the Euro Stoxx 50 Index from Frankfurt, Germany.

Double Bottom on EuroStoxx 50 index

Triangles, Channels and Wedges

Triangles are continuation patterns that signal the consolidation of a price movement before the prevailing trend resumes. There are three types of triangles: ascending, descending, and symmetrical.

<u>Ascending Triangle:</u>

An ascending triangle is a bullish continuation pattern characterized by a horizontal resistance line and an upward-sloping support line. Formation occurs when the underlying asset is in an uptrend before the triangle forms. The price repeatedly hits a horizontal resistance level but fails to break through and forms higher lows, creating an upward-sloping support line.

Take a look at the below chart of Google on Nasdaq. You can see the price hit the resistance level several times and fell repeatedly also making a series of higher highs and contracting by forming an ascending triangle support and eventually did a breakout of the resistance level. The key point of breakout is always at the end of the triangle. Think of it like this - price is getting squeezed into a very narrow part at the end of the triangle and gathered enough tension and momentum to find it breaking for the upside to release the gathered momentum. This is why momentum trading is the most crucial part of many chart patterns that yield success for a retail trader. One can place an entry position accordingly knowing what is going to manifest next by having the stop below the trending support line in orange. One has to wait for a breakout to happen to have the confirmation.

Ascending Triangle pattern on Google

Descending triangle:

It is exactly the reverse of the ascending triangle picture. Price tends to break down downward releasing its momentum along the way. One can take entry positions accordingly at the end of the triangle where the tip gets narrowed over time and place the stop above the resistance level that is trending downward. Ideally, one has to wait for a breakout to have the confirmation.

Symmetrical Triangle also known as Disjoint Channel:

A symmetrical triangle is a neutral continuation pattern characterized by converging trend lines that slope toward each other. It forms when the prevailing trend of the underlying is in an uptrend or downtrend before the triangle forms.

Two separate trend lines one upward and another downward continue further and converge at a point or an area making a triangle formation. The price forms lower highs and higher lows, creating converging trend lines. Volume typically decreases as the pattern forms, indicating consolidation, but often increases on the breakout or breakdown, confirming the continuation of the prevailing trend.

This is a neutral pattern with both bullish and bearish possibilities, hence waiting for the price to come out of the converging triangle is a good decision before taking an entry.

Take a look at the below chart of Microsoft on Nasdaq. Price initially traded in a consolidation pattern within the borders of its trend lines that were formed between highs and lows and then kept converging at the end indicating a potential squeeze either upside or downside. So, traders wait for the breakout or breakdown to happen and then take entry positions.

Here in the case of Microsoft, the breakout was very strong and the price surged up a lot along with the tech sector growth during the AI hype that is partially being contributed by the semiconductor sector.

Please keep in mind that not just a breakout upside, but a breakdown downside is also possible for this pattern. Hence, it is crucial to confirm by waiting for the price to come out of the triangle.

Symmetric Triangle on Microsoft

Channels

Channels are continuation patterns that indicate the ongoing trend direction within parallel trend lines. There are two types of channels: ascending (bullish) and descending (bearish).

An Ascending Channel is a bullish continuation pattern characterized by parallel upward-sloping trend lines. While in an uptrend, the price forms higher highs and higher lows within upward-sloping parallel trend lines. Volume may fluctuate within the channel but does not show a clear pattern.

How to trade?

First, identify the pattern and look for parallel upward-sloping trend lines.

Second, trade the range. Buy near the lower trend line (support) and sell near the upper trend line (resistance).

Place stop loss below the lower trend line. You can trade anyway within the range from the lines, just keep in mind to keep the risk to a minimum.

A descending channel is a bearish continuation pattern and is the exact opposite of the above ascending channel. Take a look at the below chart of the S&P 500 index. Price respects the parallel channel (ascending) and is in a long uptrend.

Ideally, one can trade in either direction within the channel by keeping the stop losses outside of the trend lines. Trailing stops work best in this scenario where one can move the stops as the price surges/moves down in a continuation pattern within the channel and this ensures maximum return for a zero-risk trade provided that the stop has been brought above the entry price or also known as breakeven level.

Ascending Channel on S&P 500 Index

Wedges

Wedges are reversal or continuation patterns that indicate a narrowing price range. There are two types of wedges: rising wedge (bearish) and falling wedge (bullish).

Rising Wedge

A rising wedge is a bearish pattern that can indicate a reversal or continuation of a downtrend. It is characterized by converging upward-sloping trend lines. It forms when the underlying asset can be in an uptrend or downtrend before the wedge forms. The price forms higher highs and higher lows within the converging upward-sloping trend lines.
Volume typically decreases as the pattern forms, indicating consolidation. However, it often increases on the breakdown below the trend line, confirming the bearish signal.

How to trade?

First, identify the pattern by looking for converging upward-sloping trend lines.

Second, wait for a breakdown, then enter a short position when the price breaks below the lower trend line with increased volume.

Next, set a stop loss above the upper trend line.

Finally, set a price target by measuring the height of the wedge and projecting it downward from the breakdown point to set the target.

Let us take a look at the below chart example for a falling wedge pattern. The stock ran over 60% after breaking out of the wedge. Wedges may look mostly similar to triangles, but the key difference is that a rising wedge happens in a bearish market and a falling wedge in a bullish market. Below is an example of a falling wedge that gave a breakout upwards. Picture it like this, the triangle is rising and contracting or falling and contracting are wedge patterns.

Falling wedge pattern on Carvana Co. on NYSE

Flags

Flags are short-term continuation patterns that signal a brief consolidation before the prevailing trend resumes. These patterns are useful for traders to identify potential entry points during a strong trend. Understanding flags can help traders capitalize on strong market movements and improve their trading strategies.

Flags:

They are small, rectangular-shaped continuation patterns that slope against the prevailing trend. They are characterized by parallel trend lines and form after a sharp price movement, known as the flagpole.

Structure: It consists of a flagpole and a flag.

Flagpole: A sharp and nearly vertical price movement that precedes the flag

Flag: A small rectangular pattern that forms as the price consolidates, moving within parallel trend lines that slope against the trend.

Types:

Bullish flag: Forms during an uptrend, with the flag sloping downward.

Bearish flag: Forms during a downtrend, with the flag sloping upward.

They are formed when the underlying asset has a sharp price movement (flagpole) in the direction of the trend. The price then consolidates within a rectangular range, forming a flag. The pattern is confirmed when the price breakout of the flag is in the direction of the prevailing trend.

Volume typically increases during the formation of the flagpole, indicating strong momentum. It usually decreases during the consolidation phase within the flag and often increases on the breakout, confirming the continuation of the trend.

Bullish Flag pattern on S&P 500 Index

How to trade?

First, identify the pattern by looking for a sharp price movement followed by a small rectangular consolidation pattern that slopes against the trend.

Second, wait for a breakout and enter a trade in the direction of the prevailing trend when the price breaks out of the flag with increased volume.

Third, manage exits by setting stop loss below the flag (for a bullish flag) or above the flag (for a bearish flag) and price targets as deemed necessary by measuring the height of the flagpole and setting a target from the breakout point, ideally, the target will be of greater distance than the height of the flag pole itself.

Key considerations

- A pattern is bounded by at least two Trend Lines (straight or curved)
- All patterns have a combination of entropy and exit points
- Patterns can be continuation patterns or reversal patterns
- Patterns are fractal, meaning that they can be seen in any charting period (weekly, daily, hourly, etc.)
- A pattern is not complete or activated until an actual breakout occurs

Avoid these Dangerous Illusions in the markets for Traders and Investors

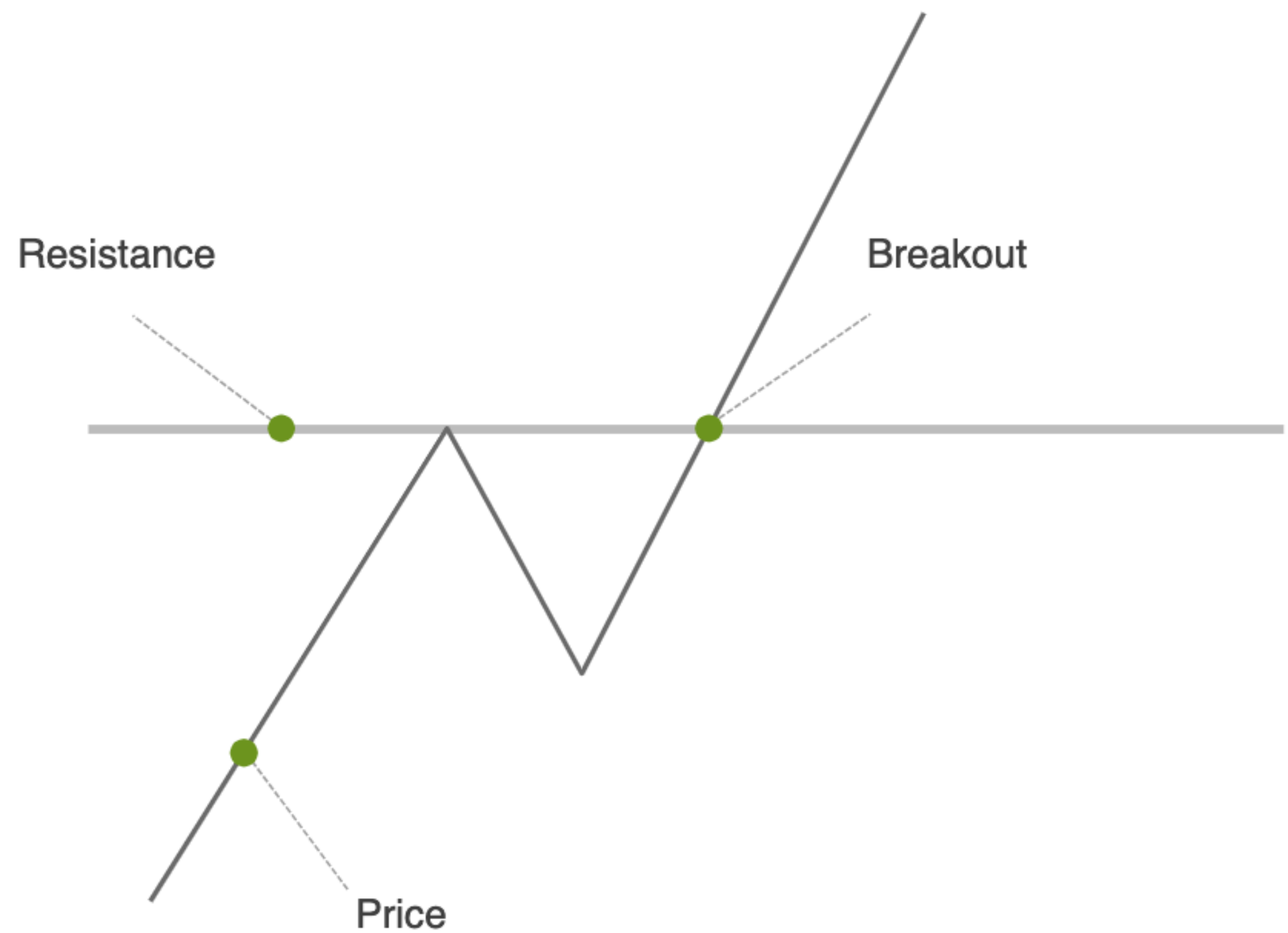
- Following the herd on FinTwit (or any online post) posting POTENTIAL chart patterns without their full occurrence
- Seeing patterns where there aren't any (it should be clear, don't try to compromise yourself into believing)
- Believing "market lore", technical and fundamental, without evidence
- Sticking with the original price targets of patterns after market conditions have changed.

Let us take a look at the top chart patterns including position entry and management.

Breakouts

Violation of Trend Line, Support or Resistance, or previous reversal point

It signifies that a change in buyer and seller behavior and signals the beginning or end of a trend.



Breakout Pattern

False Breakout

Price breaks out but almost immediately returns back through its breakout price.

Failed Breakout (Trap)

False breakout occurs and the price then breaks out in the opposite direction.

False Breakouts

Protects Capital

Determines the amount of capital risk before entry

Types of placement

- Filters, such as percent, points, or money
- Trend line, support or resistance level with filter

Capital Protection using Stops

How to Trade False Breakouts Using Protective Stops

Example

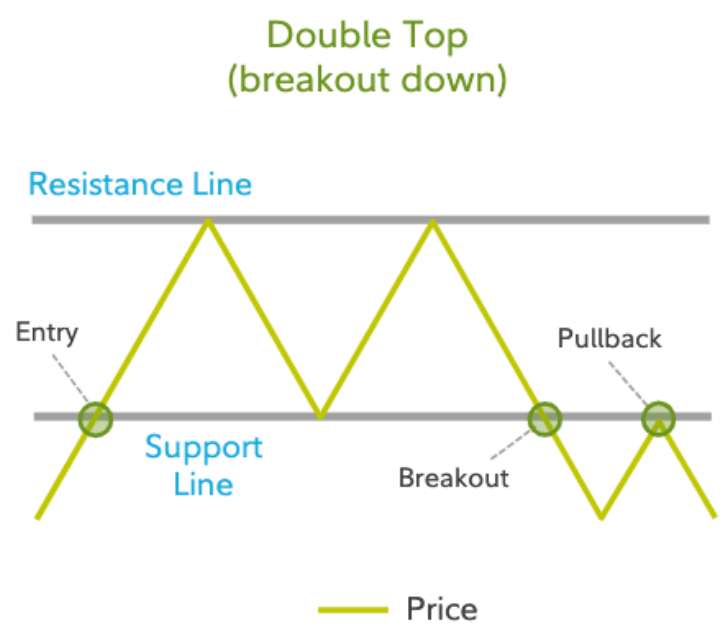
- Enter on breakout
- Place protective stop outside breakout bar opposite from breakout direction
- Place entry stop at same level (called a "stop and reverse" order)
- If price continues in direction of breakout, profit from breakout entry
- If breakout is false, profit from stop and reverse

Managing False Breakouts

Double Top

Characteristics:

- Two successive peaks separated by an opposite reversal point
- Either rounded or pointed peaks that are usually at roughly the same price (resistance level)
- Price must break out of middle reversal point



Calculate target price:

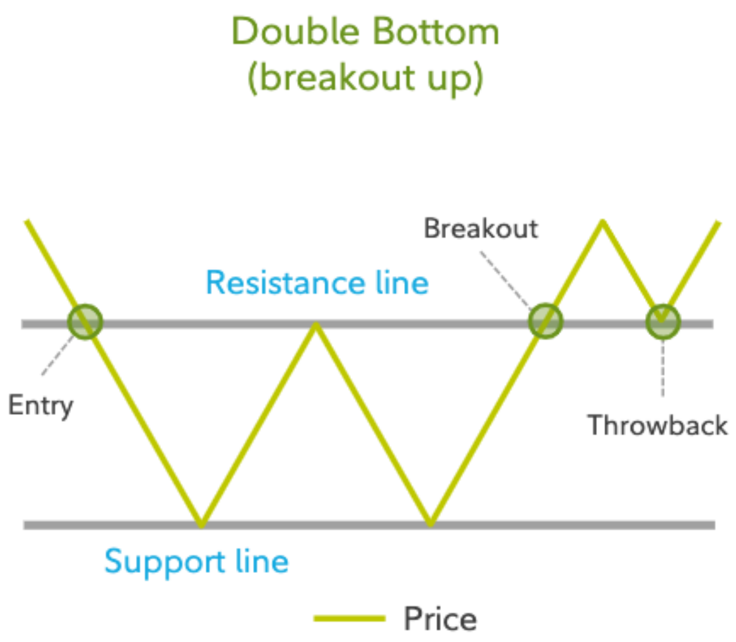
Taking the height from the highest peak to the trough and then subtracting the amount from the breakout price to the downside.

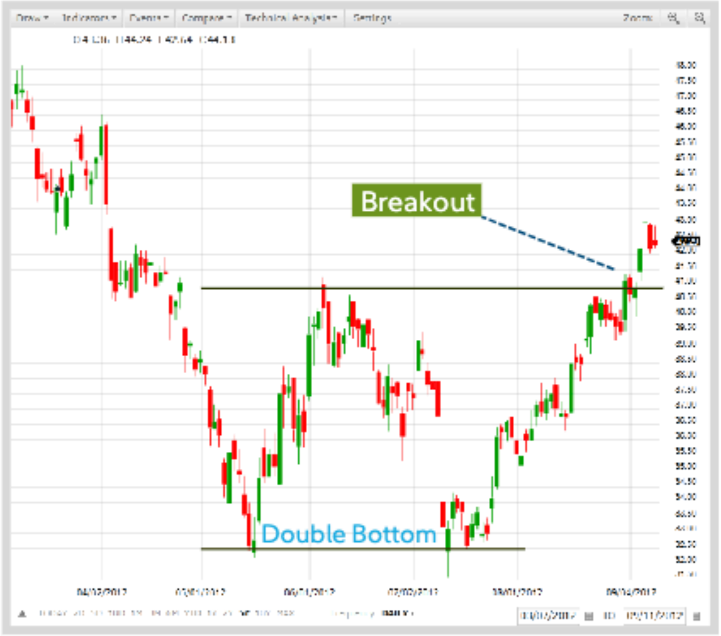
Double Top pattern

Double Bottom

Characteristics:

- Two successive troughs separated by a peak
- Either rounded or pointed troughs that are usually at roughly the same price (support level)
- Price must break out of middle peak





Calculate target price:

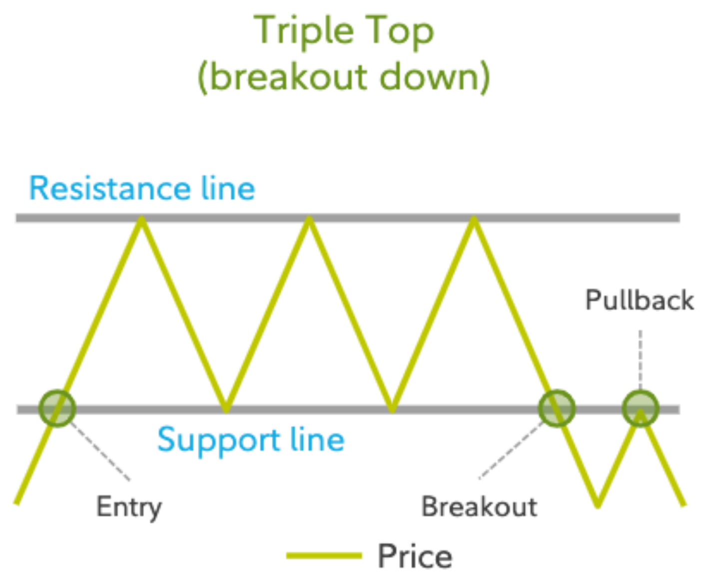
Taking the distance from the troughs to the peak and then adding that amount from the breakout price to the upside.

Double Bottom Pattern

Triple Top

Characteristics:

- Three distinct peaks at roughly the same price level separated by two intermittent troughs
- Breakout occurs when price exceeds the extreme of the intermittent trough or a trend line connecting those points



Calculate target price:

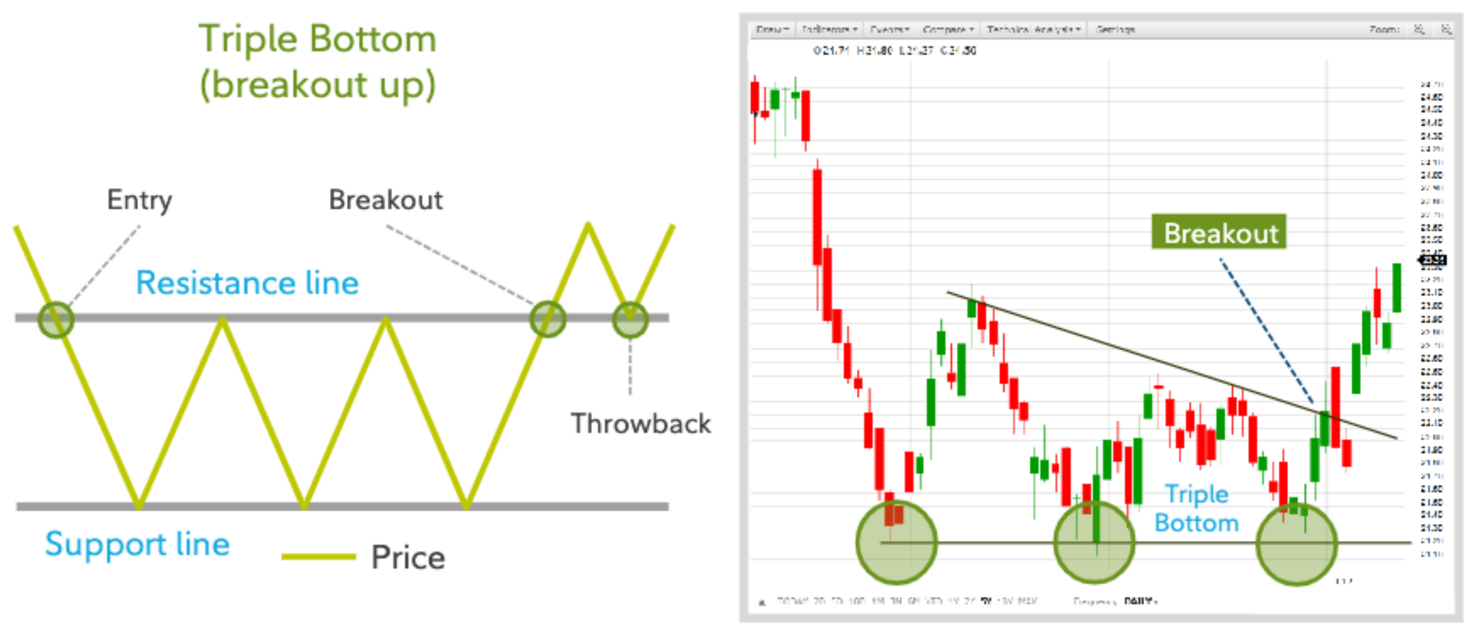
Take the height from the highest peak to the lowest trough in the pattern. Then subtract that amount from the lowest trough in the pattern to generate a price target.

Triple Top pattern

Triple Bottom

Characteristics:

- Three distinct troughs at roughly the same price level separated by two intermittent peaks at any level
- Breakout occurs when price exceeds the extreme of the intermittent peaks or a trend line connecting those points
- Best performance may be after a sustained decline*
- An average performance, but watch for failures*



Calculate target price:

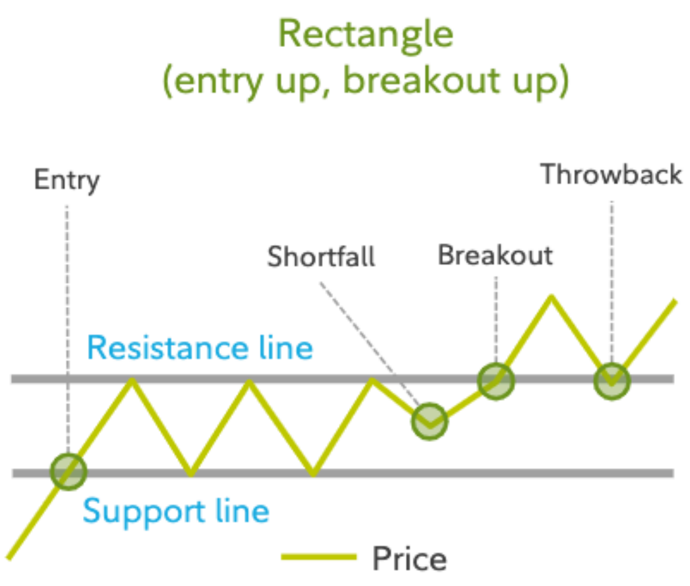
Take the height from the highest peak to the lowest trough in the pattern. Then add that amount to the highest peak in the pattern to generate a price target.

Triple Bottom pattern

Rectangles

Characteristics:

- Trading range with support and resistance levels bounding price action
- Slight tilt, similar to horizontal channel
- Often has many false breakouts*
- Things to consider:
  - Confirm a breakout
  - "Shortfall" often indicator of eventual breakout direction
- Best occurrence may be bottom breaking upward*



Calculate target price:

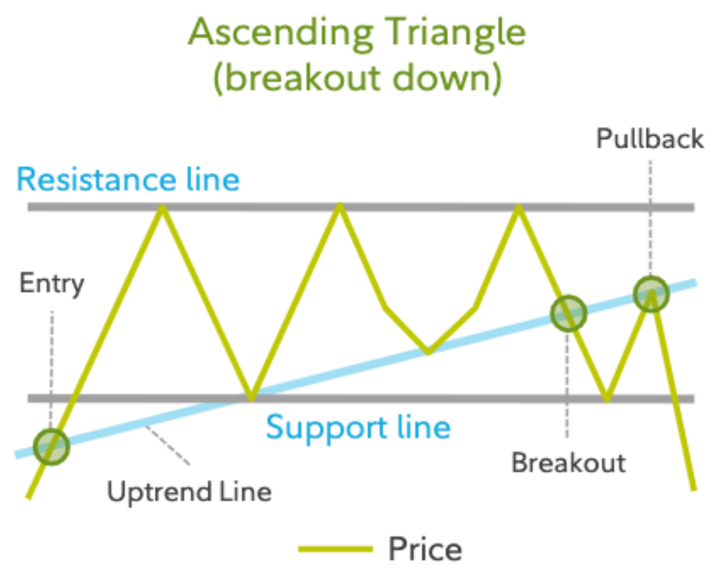
Take the height from the resistance line to the support line. Then either add that amount to the resistance line to generate a price target for an upside breakout, OR subtract that amount from the support line to generate a price target for a downside breakout.

Rectangles

Ascending Triangle

Characteristics:

- Bounded by a horizontal upper trend line and an upward sloping lower trend line. Each bound is a straight trend line
- Prices can break in either direction, but more commonly upward*
- Breakout usually occurs in pattern. About average failure rates but many small false breakouts*
- Post breakout performance average on upside but above average on downside*



Calculate target price:

Take the height from the highest peak in the pattern to the lowest trough in the pattern. Then either add it (for upward breakouts) to the breakout price or subtract it (for downward breakouts) from the breakout price to generate a price target.

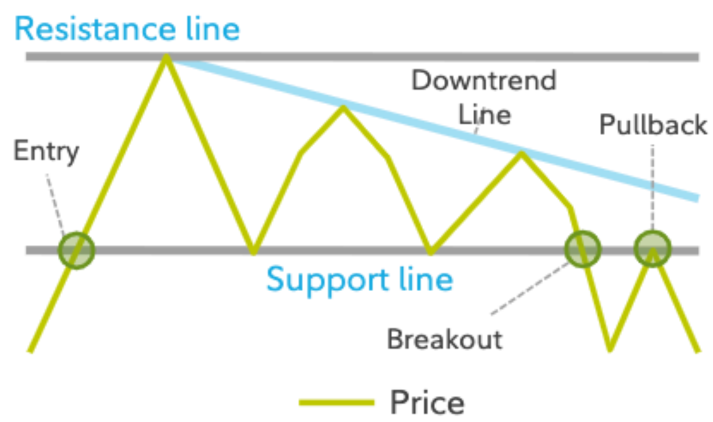
Ascending Triangle

Descending Triangle

Characteristics:

- Bounded by two trend lines; the lower is horizontal and the upper slopes downward
- Prices can break in either direction but most commonly downward*
- Above-average performance on upside break; retracements occur often*

Descending Triangle
(breakout down)



Calculate target price:

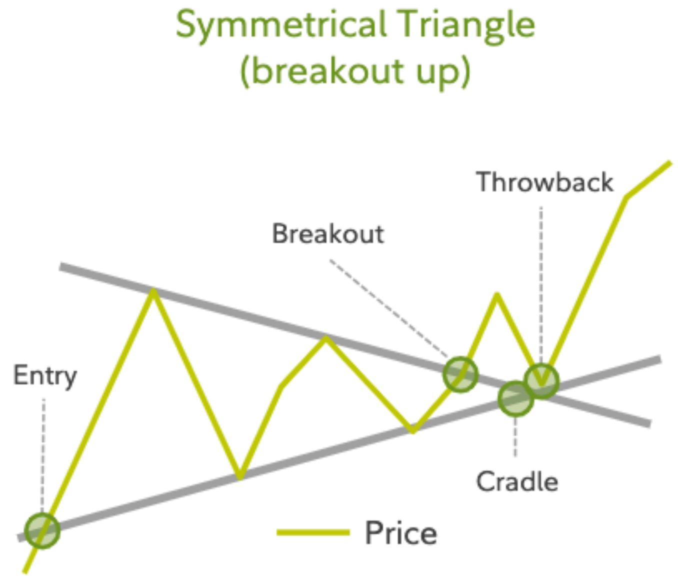
Take the height from the highest peak in the pattern to the lowest trough in the pattern. Then either add it (for upward breakouts) to the breakout price or subtract it (for downward breakouts) from the breakout price to generate a price target.

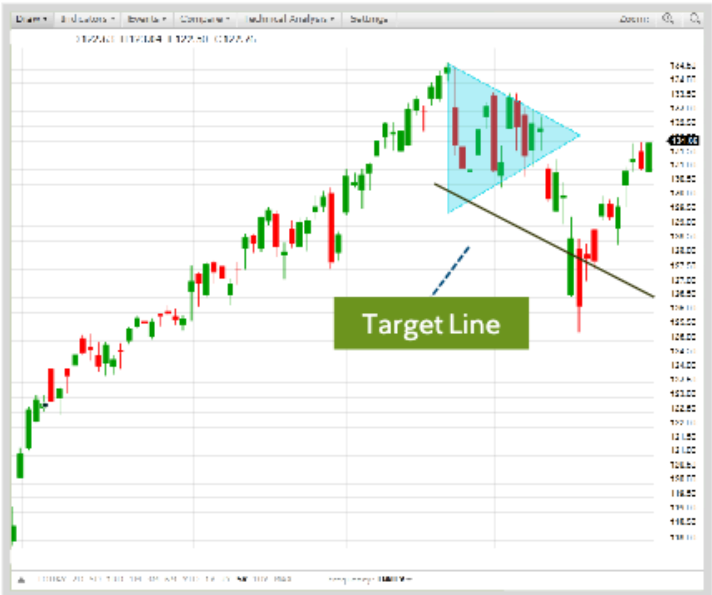
Descending Triangle

Symmetrical Triangle

Characteristics:

- Bounded by a downward sloping upper trend line and an upward sloping lower trend line. Each bound is a straight trend line
- Prices must touch each bound at least twice. Many false breakouts. Moderately successful in performance
- Things to consider:
  - Confirm a breakout
- Best occurrence may be upward breaking out – above average for all patterns*





Calculate target price:

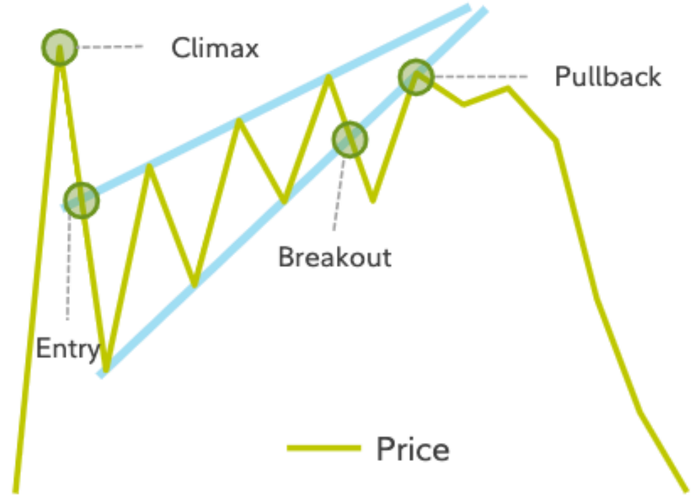
Take the height from the highest peak in the pattern to the lowest trough in the pattern. Then either add it (for upward breakouts) to the breakout price or subtract it (for downward breakouts) from the breakout price to generate a price target.

Symmetrical Triangle

Characteristics:

- Bounded by two trend lines, each headed in the same direction; Price must touch a trend line at least five times (3 times on one and 2 times on the other) before a breakout
- Often occur following a panic (declining wedge) or bubble (rising wedge)
- Performance in both types is below average, and retracements are very common*

Rising Wedge
(breakout down from climax peak)



Calculate target price:

For downward breakout, the lowest trough in the pattern is the price target. For upward breakouts, take the height from the highest peak in the pattern to the lowest trough in the pattern and add that amount to the breakout price for a price target.

Triangle: Wedge

Characteristics:

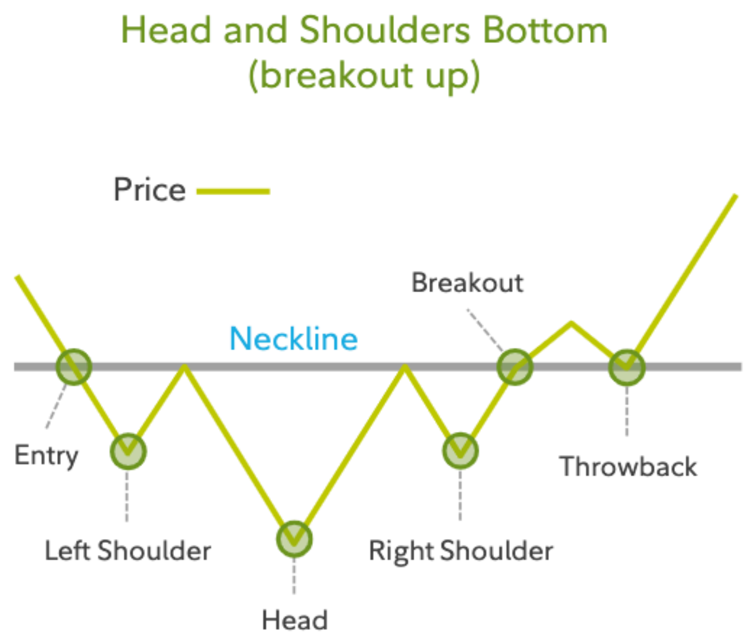
- Three peaks with center peak higher than the other two
- Shoulders should be at approximately the same level and the head higher
- Line connecting the two throughs between the peaks is called the "neckline"
- Pattern is only complete on breaking the neckline
- Target is the distance from the head to the neckline projected from the neckline
- This is a standard pattern for tops and has one of the lowest failure rates

Head and Shoulders: Top

Head and Shoulders: Bottom (Inverse)

Characteristics:

- Inverted but otherwise identical to a top pattern except not as profitable*

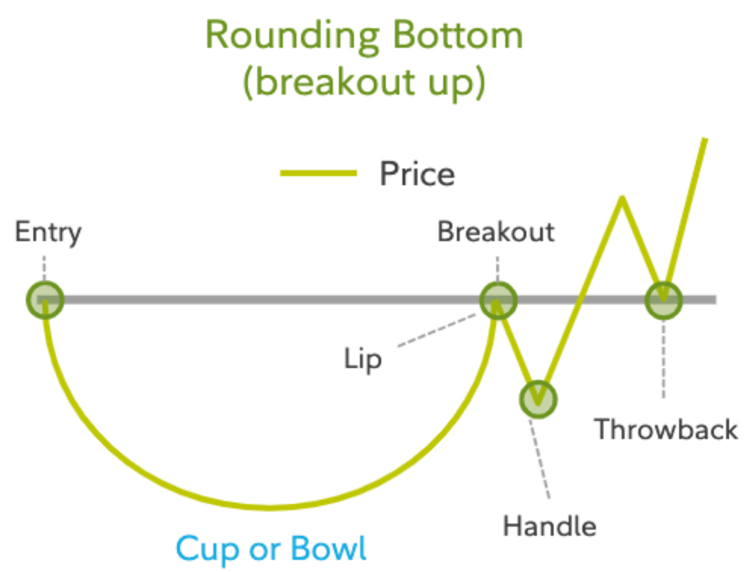


Inverse Head and Shoulders

Cup and Handle (a.k.a 'Saucer')

Characteristics:

- Pattern consists of a rounded bottom (not a "V" bottom), two "lips" at each end, and a "handle" (similar to a flag pattern) from the handle
- Pattern is complete with breakout above both lips
- Often have a throwback
- The pattern's performance ranks about average for bottom patterns*



Calculate target price:

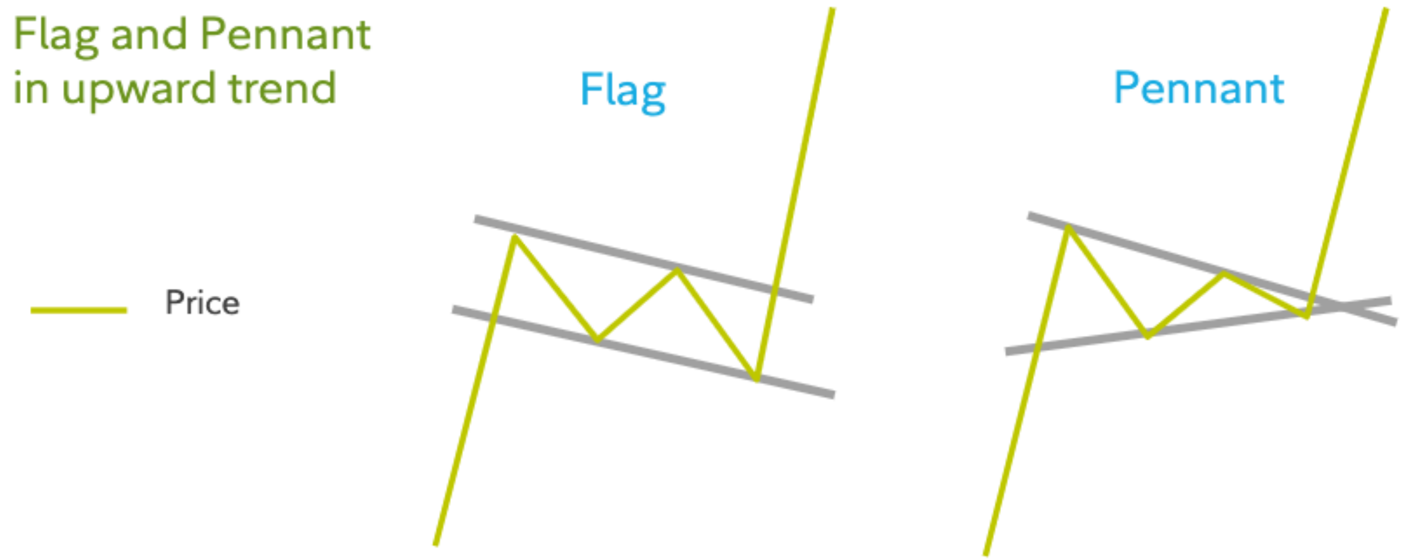
Take the height of the right cup lip to the bottom of the cup, then add that amount to the breakout price.

Cup and Handle

Flags and Pennants

Characteristics:

- Pennant and flag patterns are variations of the same pattern
- These patterns are often preceded by a steep, sharp price change, up or down, and form a short consolidation that appears like a triangle or flag. Generally, the pattern slopes slightly in the direction opposite from the trend
- The breakout in either direction is often followed by a move that equals the earlier steep, sharp price change into the pattern



Calculate target price:

Take the height from the start of the "flag pole" to the highest peak in the pennant. Add that amount to the bottom of the pennant for an upward price target.

Flags and Pennants

Market Sentiment Indicators

We use various indicators to understand the market sentiment. Professional traders and investors gauge the overall mood of the market, whether it's bullish or bearish. One of the most popular sentiment indicators is the Put-Call Ratio (PCR). This ratio provides insight into the relative trading volumes of put options versus call options and can be a valuable tool for predicting market trends. The other important ones are VIX Volatility Index, Bullish Percent Index, and Fear and Greed meter which are derived from VIX again.

Let us take a quick look at the tips for reading them at least once a day before looking at the listed securities.

Put-Call Ratio

The Put-Call Ratio is calculated by dividing the number of traded put options by the number of traded call options over a specific period. There are 2 types of interpretations.

High PCR (>1): Indicates that more puts are being traded than calls. This suggests that investors are expecting the market to decline, hence it's considered a bearish signal.

Low PCR (<1): Indicates that more calls are being traded than puts. This suggests that investors are expecting the market to rise, hence it's considered a bullish signal.

Equity PCR is calculated from stock options and Index PCR from index options. Both of course have their purposes as the name suggests.

What to remember?

- A PCR around 1 is considered neutral, indicating a balance between bullish and bearish bets.
- Extreme values (very high or very low) can signal potential market reversals.

- The PCR should be used in conjunction with other indicators and analysis tools to confirm signals.

How to trade using this information?

First, identify trends. Check PCR whether market sentiment is mostly bullish or bearish. Combine PCR with other technical indicators (e.g., moving averages, RSI) to confirm trading signals. Monitor for extreme PCR values, as these can indicate potential reversals. For example, a very high PCR may suggest the market is overly bearish and due for a reversal. Look PCR over different time frames (e.g. daily, weekly, hourly), each has its sentiments.

Keep in mind, that this tool is better when used along with other tools we are going to teach in the next chapter: " Core Strategy from our Strats ". This tool also serves as a good one to identify reversals especially. In our experience, combining this PCR tool with reversal patterns gave us good results, but on higher time frames such as daily and weekly, as there's too much noise on lower time frames. This is helpful only to get an idea for a day or two, as market sentiment changes every day reacting to the macro and global events. So, please be aware of this.

Volatility Index

The VIX, or Volatility Index, is a crucial tool for traders and investors to gauge market sentiment and predict future market movements. Often referred to as the "fear gauge," the VIX measures market expectations of near-term volatility conveyed by S&P 500 stock index option prices. Understanding the VIX and its implications can significantly enhance a trader's ability to make informed decisions, especially when trading options.

VIX is calculated using the implied volatilities of a wide range of S&P 500 index options. It uses both calls and puts across various strike prices to create a measure of expected market volatility. There are two types of interpretation:

High VIX (>20-30): Indicates high market uncertainty and expectation of significant price movement. Often associated with bearish sentiment or market turmoil.
Low VIX (<20): Indicates market stability and low expected volatility. Often associated with bullish sentiment or market calm.

Using VIX to trade Options

A high VIX indicates increased fear or uncertainty in the market. Investors may expect larger price swings in the near future and can act as a contrarian signal indicating a potential market bottom if the VIX is extremely high.

A low VIX indicates complacency or confidence in the market. Investors may expect smaller price swings in the near future and this acts as a contrarian signal indicating a potential market top if the VIX is extremely low

Buying options in a High VIX period is safer because, a high VIX means a high IV, and a high IV keeps the options prices from falling down due to theta decay. This is helpful for a buyer, but detrimental for a seller.

If the VIX spikes to 35, indicating the fear and potential market decline, buying put options on the S&P 500 is preferable to capitalize on the downward fall. Remember, extreme fear leads to significant falls. Again, use it in conjunction with other indicators and exit the trade as deemed necessary.

One can also look at Options Spreads Strategies (our favorite) such as vertical spreads, straddles, & strangles.

Now is the beginning of the most important section of this book. Whatever was taught until now is getting you prepared for this. Let us get into it.

Note

> We will explain some of the not so well known strategies on our website available to our members. These strategies are applied across various institutional trading desks and are worth over $10K in the current market because of their efficiency. We will make them available to our members.

The Retail Core

Strategy blueprint that yielded 388% return in 9 months

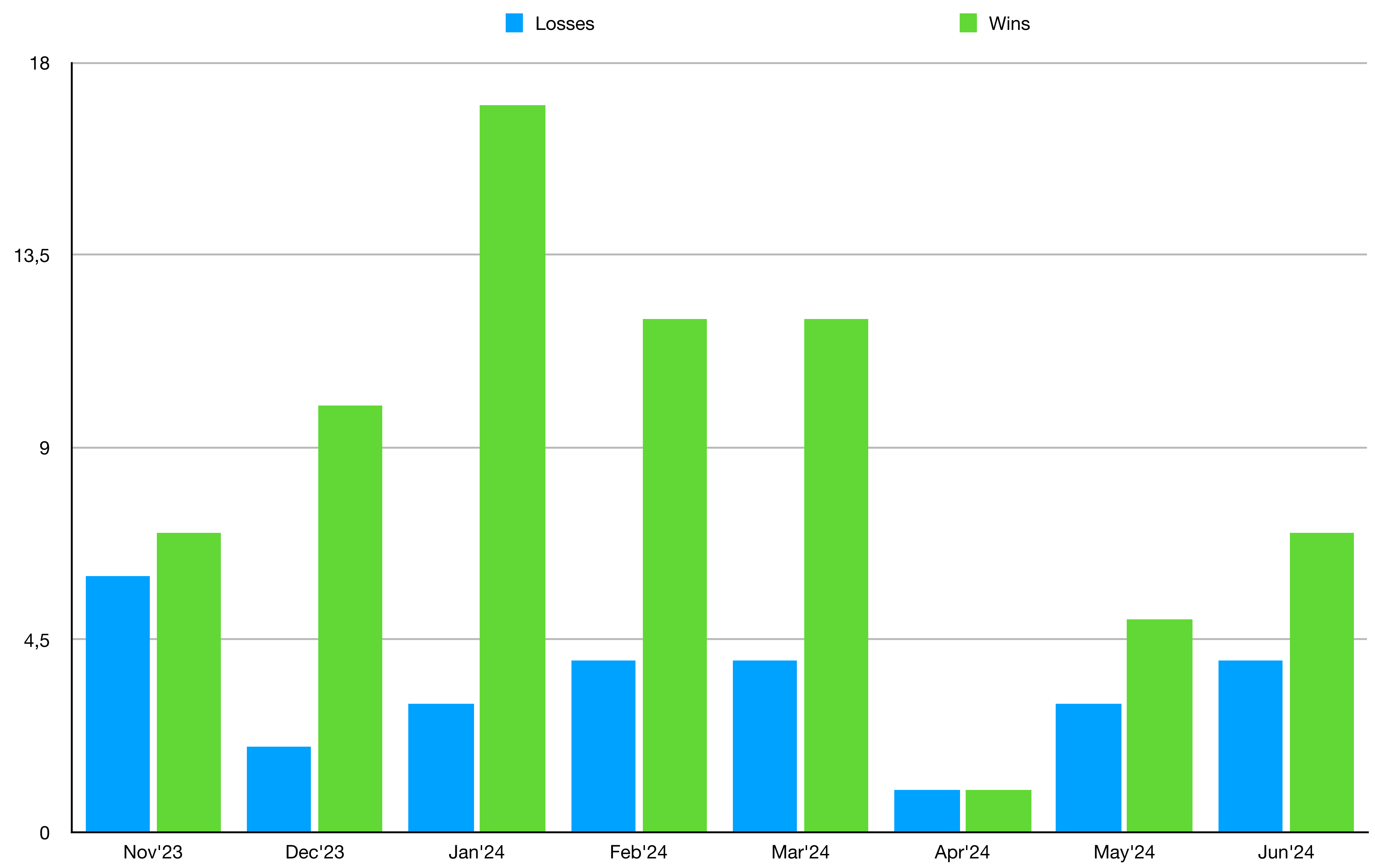
Following is a blueprint written by our Strats, upon which the strategy is developed. Read left to right.

STRATEGY OVERVIEW	Objective: Maximize Long-Short returns on high probability scenarios in short period of time.	Philosophy: Compounded growth on diversification across global market assets.	Time: Short term duration enables quick response to market inefficiencies in listed securities typically lasting for a week.	Assets: Listed securities on exchanges across the globe e.g. US, EU, Japan etc., including equities, derivatives, indices, commodities and CFDs.
SELECTION CRITERIA	Market Conditions: All market scenarios are feasible. VIX < 20 - buy vertical spreads VIX > 20 - sell spreads / buy put spreads	Historical Performance: Ideally, at least 2 decades of price data gives clarity on asset behaviour	Global Macro: Factors do have strong influence. Weightage in position is more after entry than prior to entry.	Technical Indicators: Momentum, Volume, Trend & Price action. e.g. Volume profile, Supply demand, Divergence, Moving averages, Fibonacci, Elliot Wave, RSI & MACD.

CONFLICTS TO AVOID	Avoid correlation conflicts in the portfolio. Multiple positions move in sync if underlying assets belong to same sector & index with higher weightage. e.g. NVDA & AMD.		Avoid conflicts over time frames. Higher time frame typically is stronger than lower time frame with less noise.	Avoid conflicts across indicators, earnings, and any corporate announcements that could distort the prices negatively.
CONFLUENCES TO EMBRACE	Higher probability setups across long and short directions		Align the lower and higher time frames	Maximize confluence of indicators. Ideally, 100% or aim for at least 90% confluence.
POSITION MANAGEMENT	Contrarian approach. Enter and exit in tranches. Hedge the position as deemed necessary. Adjust the exit levels dynamically reacting to the market.		Add more positions if short term trend aligns with longer term as it manifests. Exit at key levels.	

Keeping it simple, let us delve into the next sections that explain key components of the “The Retail Core”. Below is our performance of the number of wins in the #100TradeChallenge following exactly the blueprint above.

Monthly total number of wins against total number of losses in the #100TradeChallenge.



Key concepts:

1. Moving Averages: Calculates average price over a specified number of periods. There are 3 main important averages.

There's another variant of this called exponential moving averages. Basically, it gives more weight to recent price points with diminishing importance for the past price points. This will smoothen out the imperfections in general.

Below are the most important ones.

50-day MA: Commonly used to identify the intermediate-term trend. Trading above a 50-day MA is considered to be in an uptrend and below indicates a downtrend.

200-day MA: A very important indicator for long-term trend interpretation. This level acts as a key support and resistance level.

100-day MA: Used for confirmation of the strength of a trend, after lower MAs indicate a crossover (or a trend change)

20-day MA & 10-day MA: Used to first identify crossovers (change of trend). They provide quick and frequent signals on lower time frames, however, these must be confirmed by higher MAs.

We use mainly 200-day MA, 100-day MA, and 50-day MA and typically trade on a daily time frame where the noise levels are low and the value of signals is high.

2. Divergences: They occur when the price of an asset and an indicator move in opposite directions. These divergences can be powerful signals for potential reversals in the market. Let us look at what divergences are, the types of divergences, and how to trade them effectively.

What is a divergence?
Divergence happens when the price of a security and a related indicator, such as the Relative Strength Index (RSI), Moving

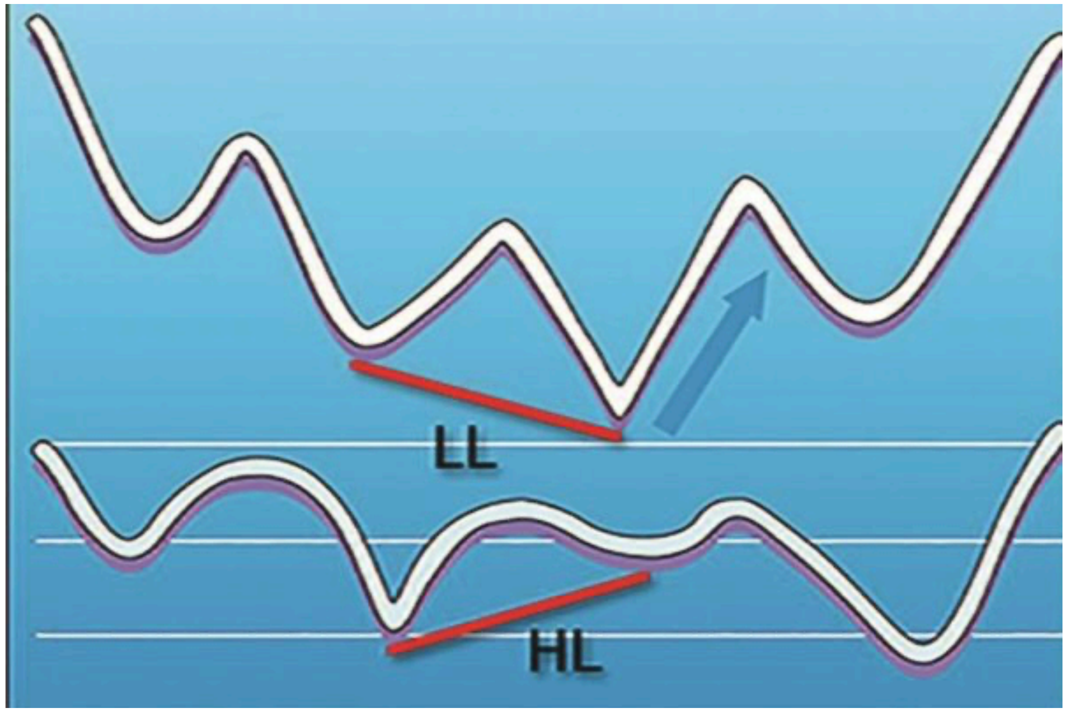
Average Convergence Divergence (MACD), or Stochastic Oscillator, move in different directions. It indicates a potential change in the strength or direction of the price trend. Classified into two main types: Regular and Hidden and are further classified into bullish and bearish divergences making a total of 4 main types.

The explanations are out of the scope of this book and the below pictures clearly show how the price behaves (indicated by the blue arrow) after it forms divergence with the indicator (e.g. MACD).

LL - Lower Lows ; HL - Higher Lows ; LH - Lower Highs ; HH - Higher Highs

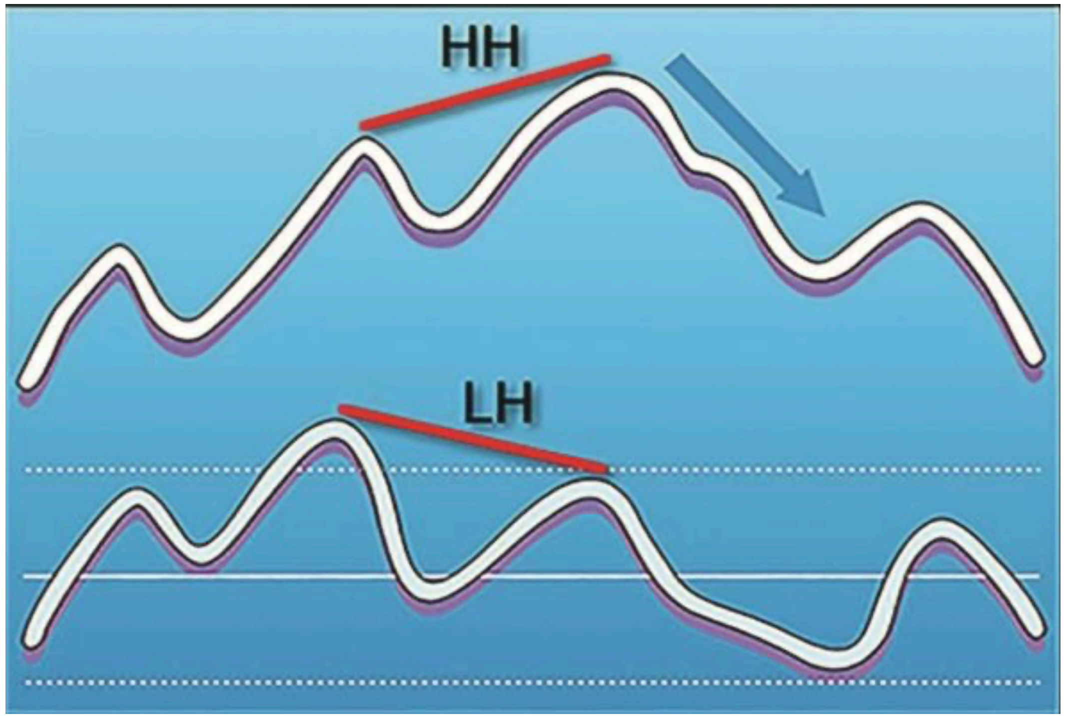
The upper curve is the price and the lower curve is the indicator and what happens next is shown by the blue arrow.

1. Regular Bullish Divergence: A very strong indicator that the price will surge upwards. (Shown by the blue arrow)



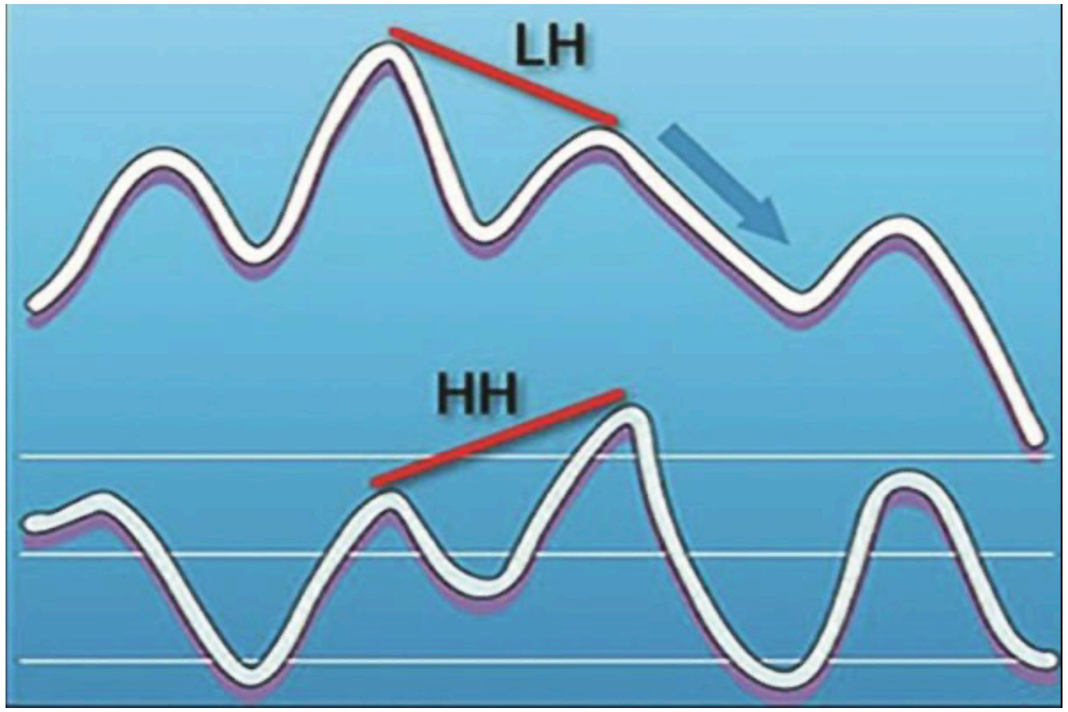
Regular Bullish Divergence

2. Regular Bearish Divergence: A very strong indicator that the price will plunge downwards. (Shown by the blue arrow)



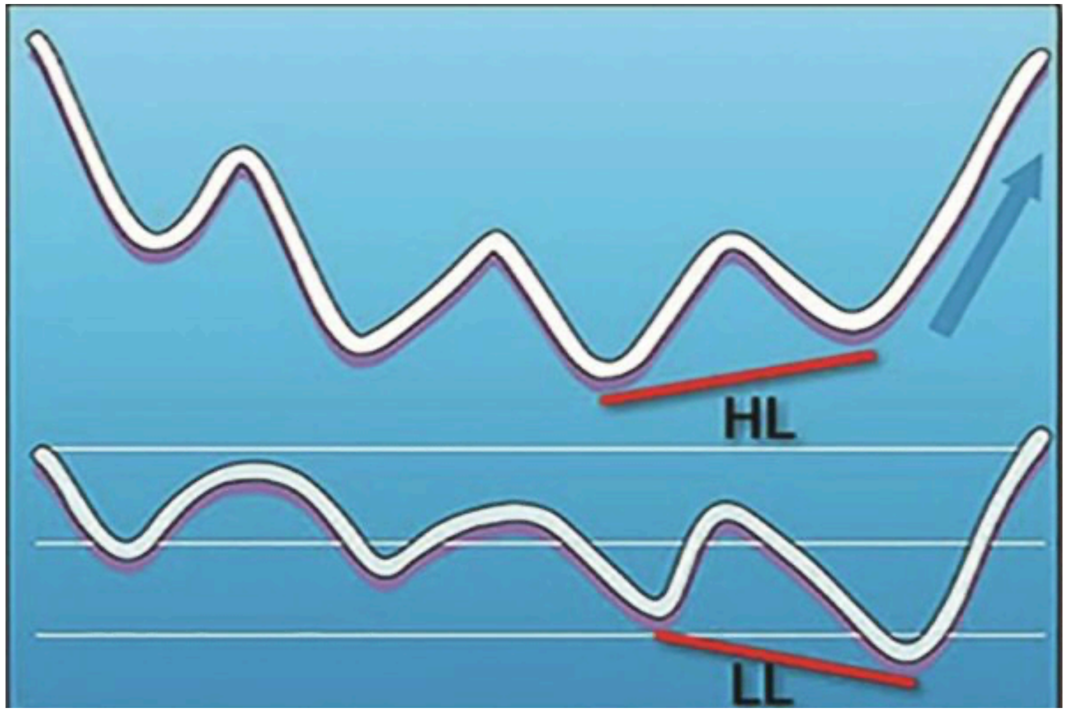
Regular Bearish Divergence

3. Hidden Bearish Divergence: Another strong indicator that the price will plunge downwards. (Shown by the blue arrow)



Hidden Bearish Divergence

4. Hidden Bullish Divergence: A strong indicator of a potential bullish surge upwards. (Shown by the blue arrow)



Hidden Bullish Divergence

From the earlier mentioned blueprint, the “The Retail Core” strategy’s key points are explained below in chronological order. They are very simple to follow and generate consistent results month over month.

<u>Before Taking a Position:</u>

1. Identify the overall market sentiment. Check futures in pre-market & after-market across major asset classes such as E-Mini S&P 500, Dow Futures, VIX, Gold, Bond Futures (10, 5 & 2-year notes), US Crude Oil, DXY US dollar index, and EURUSD currency. This will give an overall gauge of the market sentiment.

2. Note the correlation within the futures above e.g. Gold is inversely correlated with the USD futures and slightly correlated with the stock markets.

3. Check for global macroeconomic news events such as interest rate meetings, GDP data & major policy interventions or changes.
4. Check stock markets across the globe and check major indices. e.g. S&P500, Nikkei 225, DAX, UK FTSE etc.
5. Sort the underlying assets of the Index or Futures or Commodities etc. e.g. Nasdaq 100, by volume.
6. Scan the charts of the 50 top most assets by volume for any major structural patterns, Weekly, Daily, and Hourly in that order.
7. Select a few underlying assets (e.g. stocks) that are near major supply and demand zones.
8. Apply trend and momentum indicators (e.g. MAs, MACD, etc)
9. Identify divergence patterns clearly. They should have clear peaks and troughs.
10. Measure the strength of the trend from moving averages.
11. Apply Fibonacci retracements (for entry) and Extensions (for exit). Key levels for entry are 38.2%, 50%, and 61.8% for entries where possible price retracements happen. Exit key levels are 50% and 61.8%, price typically gets liquidated here as these levels are used by institutions that exit positions in large bulk.
12. Expect a sudden change here and discard every other level, they're just noise.
13. Position for an entry only in the direction of a trend. Manage exits with stop losses and price targets as per the key levels such as Fibonacci (mentioned above), MAs, Supply Demand, and monthly or weekly resistance and support levels.
14. Having satisfied all the confluences of various indicators such as momentum - MACD, divergence, price action (support and resistances), volume profile (receding or accumulating), with the trend or against the trend, respects key levels (e.g. Fib), lower time frame expected move inline with higher time frame trend, etc., we took various positions accordingly.

We have proprietary algorithms that are used in confluence with the above steps. These algorithms output probability scores (a.k.a confidence scores) of the distribution of various potential scenarios that we identify in the markets. These confidence scores are used for entries and position management and capital allocation for better risk management. We showed a sample risk management table mentioned in the performance tracker of #100TradeChallenge, that combines all the above information into a table along with other proprietary variables to output some scores through which we decided on an entry position. The algorithm and rule engine are our intellectual property and are not available for external use or review and are solely for our internal consumption.

Here's the table for reference.

Variable	Rule	Rule	Rule	Rule	Rule	Boolean	Boolean	Confluence Classificati on	Rule Engine Factor
Value	QMP (proprietory)	Algorithm (proprietory)	Momentum	Divergence	Volume	Trend	Conflicts	Strong divergence ? 0.7 Weak divergence ? 0.3	1.14
	Score	Confidence	Allocation	- Scores are not shown here, only the classification is shown. - Proprietory algorithm and indicators are strictly restricted for internal purpose only. - Rule Engine Factor normalises the confidence scores on a readable scales.					
	>=0.79	High	Full (11% max)						
	0.3-0.79	Medium	Moderate (2-6%)						
	<0.3	Low	Reduced/ no entry						

In the next chapter, we will look into real trade examples we posted on X (formerly Twitter) where we applied " The Retail Core" strategy explained above. Our results speak for themselves.

Real Trade Examples on X

We posted all 100 trades on X in chronological order. Let us look at a few of them.

As part of the #100TradeChallenge started in November of 2023, we posted trades starting from 1 to 100 on X in chronological order. All trades are posted in the order because there are many imposters and scammers out there on X, who don't bear the accountability for losing trades. We want to mitigate this and have proceeded with posting all 100 positions taken including with timestamps of the post, so that one pulls up the chart and verifies the trade progression towards the success of the challenge. We have shared our performance tracker with you along with this book, which includes the links to the " X " trades posted going back until November so that you can find them easily instead of going through the wall of posts, which is fine, but takes quite a lot of time.

Let us look in detail at a few trades that resulted in stellar returns, and what our remarks are on those trades for the readers. We want to show you how we applied the "The Retail Core" strategy and our reasoning while navigating through the market inefficiencies. We will keep it simple and straight to the point and show you how effective this strategy can be even for small accounts.

Please note that there were also losses and losses are part of the business. Mitigating the risk and cutting losses are also classified as successful trades. Why? Because it is imminent to have a loss in capital markets, but how one manages the losing trades is the key to growth and success. Taking an entry with less exposure and getting stopped out is actually a great trade that prevented considerable damage to the portfolio. Let us proceed with the review.

Trades 36 & 37: Microsoft Corporation

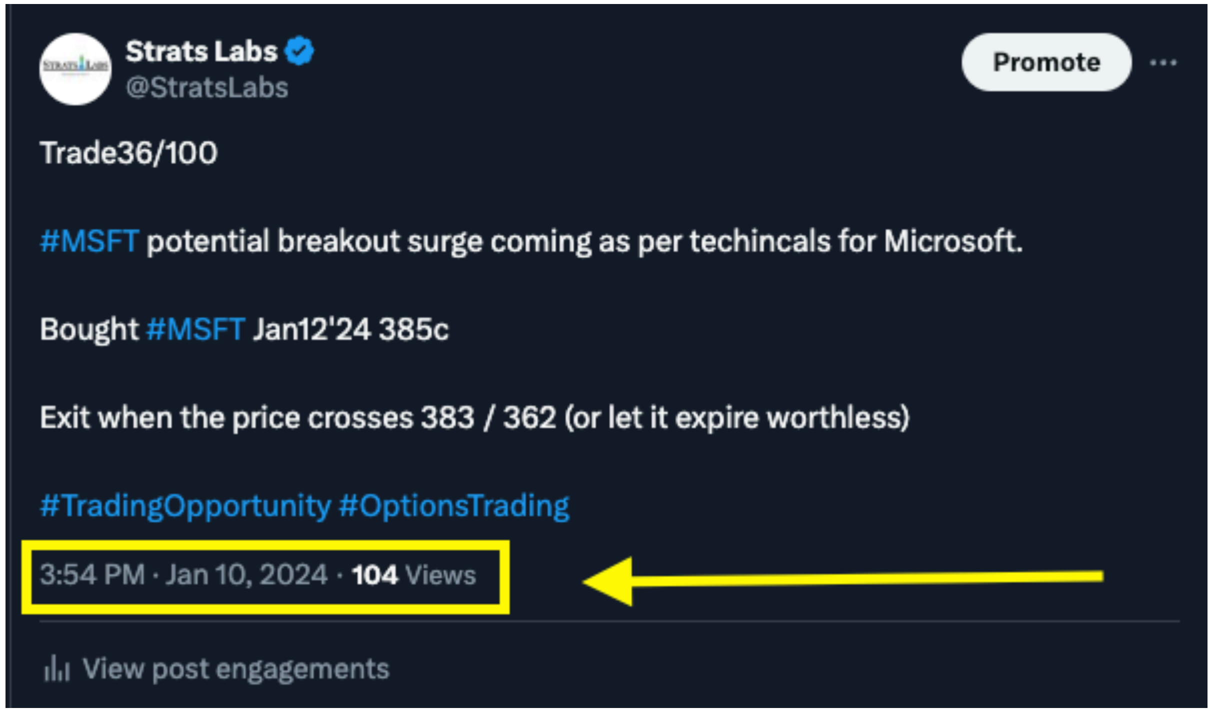
Link to the X post for trade 36: https://x.com/StratsLabs/status/1745096819217158579

Date posted: Jan 10, 2024

Trade: Bought 5 contracts of $MSFT Jan12'24 385 Call Option @ $105 /contract and sold @ $550 /contract

Total Profit = $2,225

Total Return = +423.81%



Microsoft Weekly Options Trade

The daily chart of the Microsoft Corp.:

Microsoft 1D Chart

Reasoning:

It is evident that it is a strong breakout after coming out of the ascending triangle and out of the monthly consolidation that happened from mid-November 2023 till mid-January 2024. This prompted an entry and the entry vehicle was chosen by going Long on both weekly and monthly options adding a layer of protection for the weeklies that were about to expire in a couple of days at the time of the entry, as sometimes trends may take time to manifest.
It also has support from our in-house for a strong bullish signal, along with MACD and RSI showing a sign of bullishness. It was

also in line with the longer trend and time frame without any conflicts. We did see a very strong bullish run after that, and these are sufficient to put the account in a great return in a couple of trades that protect the trading account against headwinds and drawdowns from other trades. Overall, this is a very resilient trade and typically rare as we explore them in 1-day time frame.

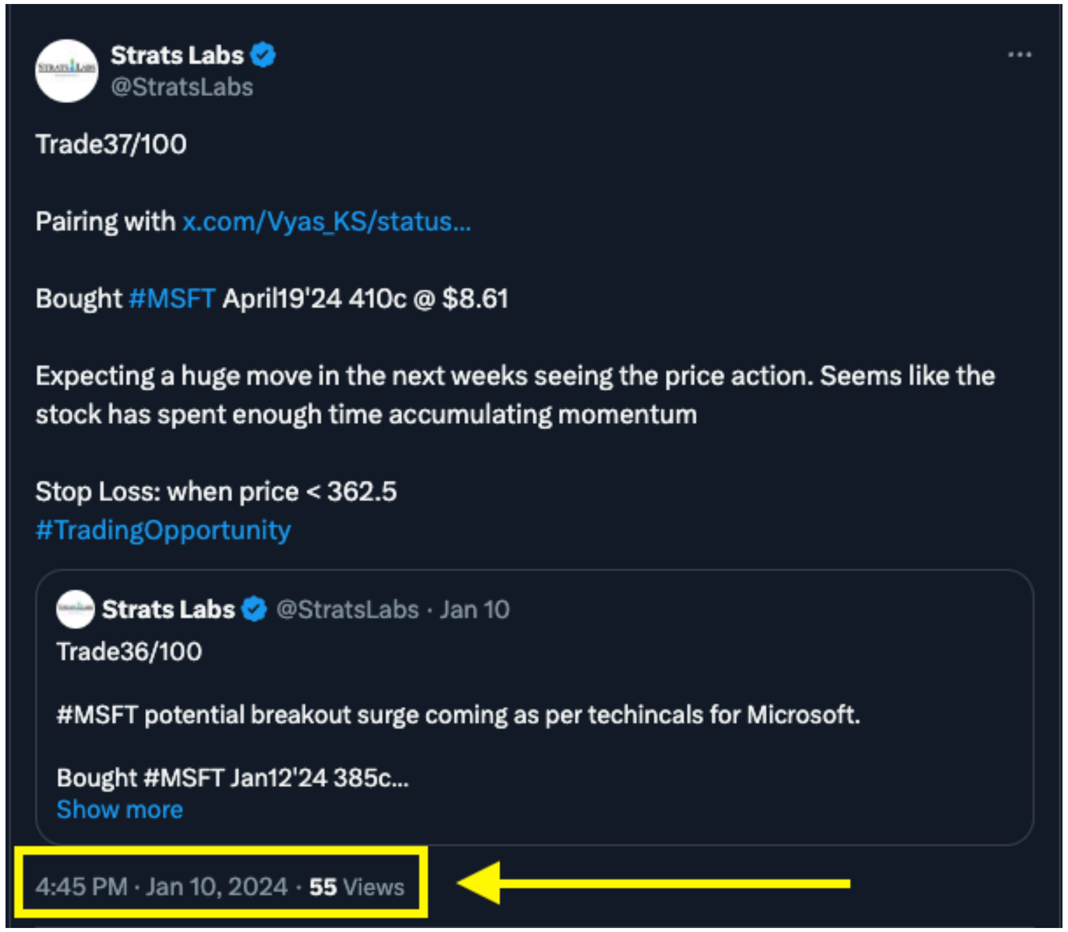
Link to the X post for trade 37: https://x.com/StratsLabs/status/1745109693855322605

Date posted: Jan 10, 2024

Trade: Bought $MSFT April19 expiry 410 Call @ $861 and sold @ $1,018

Total Profit: $157

Total Return: +18.23%



Microsoft monthly expiration Options Trade

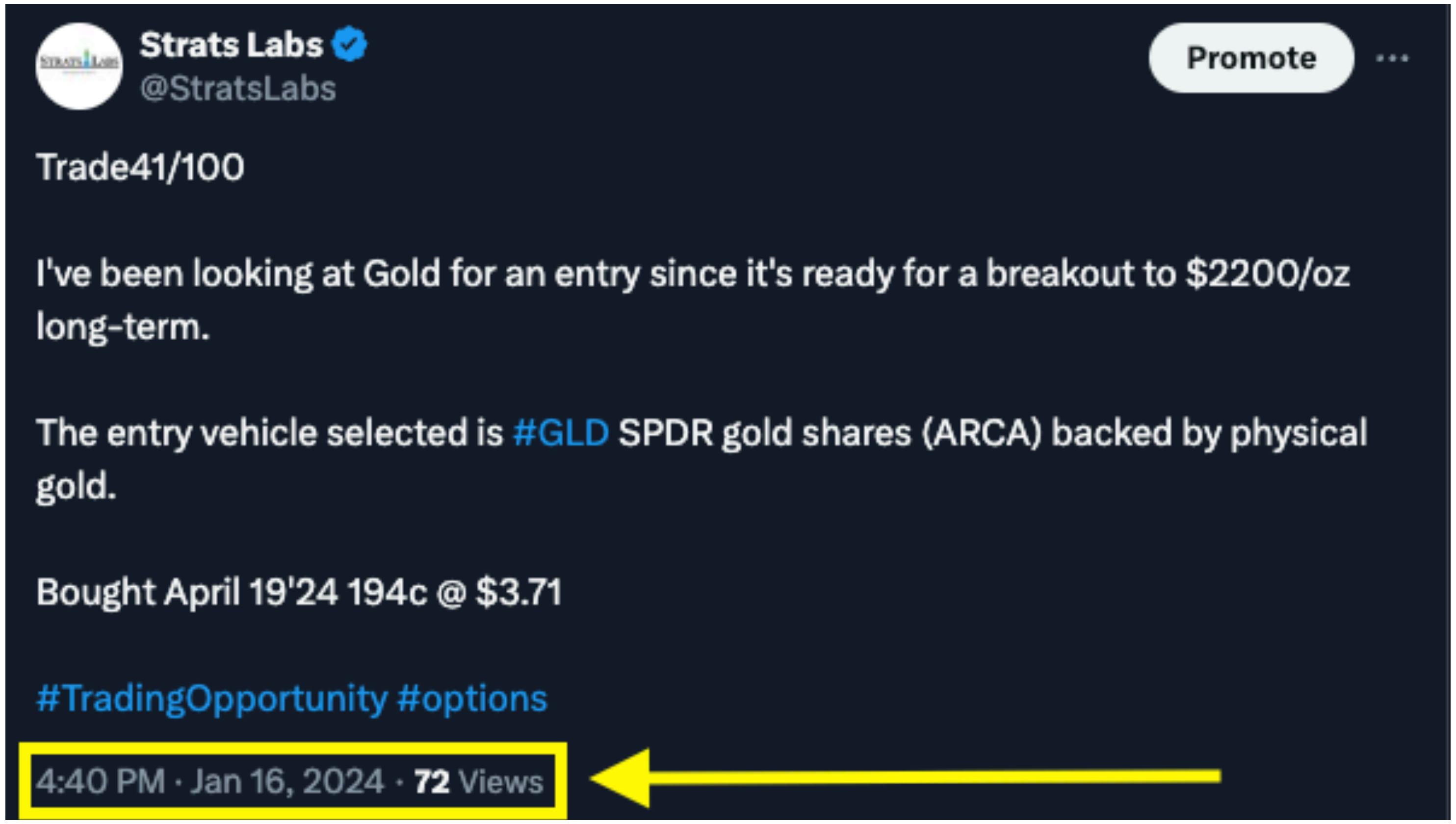
Same logic as trade 36. We took these trades both on weekly and monthly expiries to offset potential risk from weeklies as theta decay for them was highest. It also turned out to be good in our favor.
Overall, this combination of trades gave a hefty return on the investment with a minimal acceptable risk.

Trade 41: SPDR Gold Trust ETF (GLD)

Link to the X post for trade 41: https://x.com/StratsLabs/status/1747282778180272380

Date posted: Jan 16, 2024

Trade: Bought $GLD April19 194 Call @ 3.71 and sold @ 27 (expired deep ITM)



SPDR Gold ETF monthly options Trade

Total profit: $4,658

Total return: 627.76%

Daily chart of SPDR Gold ETF Trust:

1D chart of SPDR Gold Trust

Reasoning:

We can see there's a disjoint channel formation as price compression happens on 1D time frame after our algo signaled a buy. The volume profile was decent and there was also a strong bullish divergence in the price made with MACD which signaled a strong buy as well. However, the momentum at the end of the channel was not sufficient and you can see it extended until the beginning of February (where technically the channel ended) with a breakout upside. However, for visualization purposes, we kept the channel short. This trade was also in line with the higher time frame trend and there were no conflicts and posing a high confluence score on our rule engine. This prompted us to buy and therefore took a long (bullish) position on monthly options that tend to expire. Although initially, we preferred closing on-demand with profits, the global macro scenario with fuelled tensions from the Russian war on Ukraine and the Israeli war on Hamas, along with the dovish sentiment of the Federal Reserve in the USA, which signaled potential rate cuts in 2024 with their dot plot amid strong economical growth, we left the options expire as they're running deep in-the-money. This also resulted in a massive gain of 627.76%. Although these kinds of returns are typically rare, they are very much possible in Options Trading. We typically, prefer selling spreads and don't take naked long option positions frequently, but when we do, it usually is a very high probability trade opportunity like this one.

Trade 44: Advanced Micro Devices

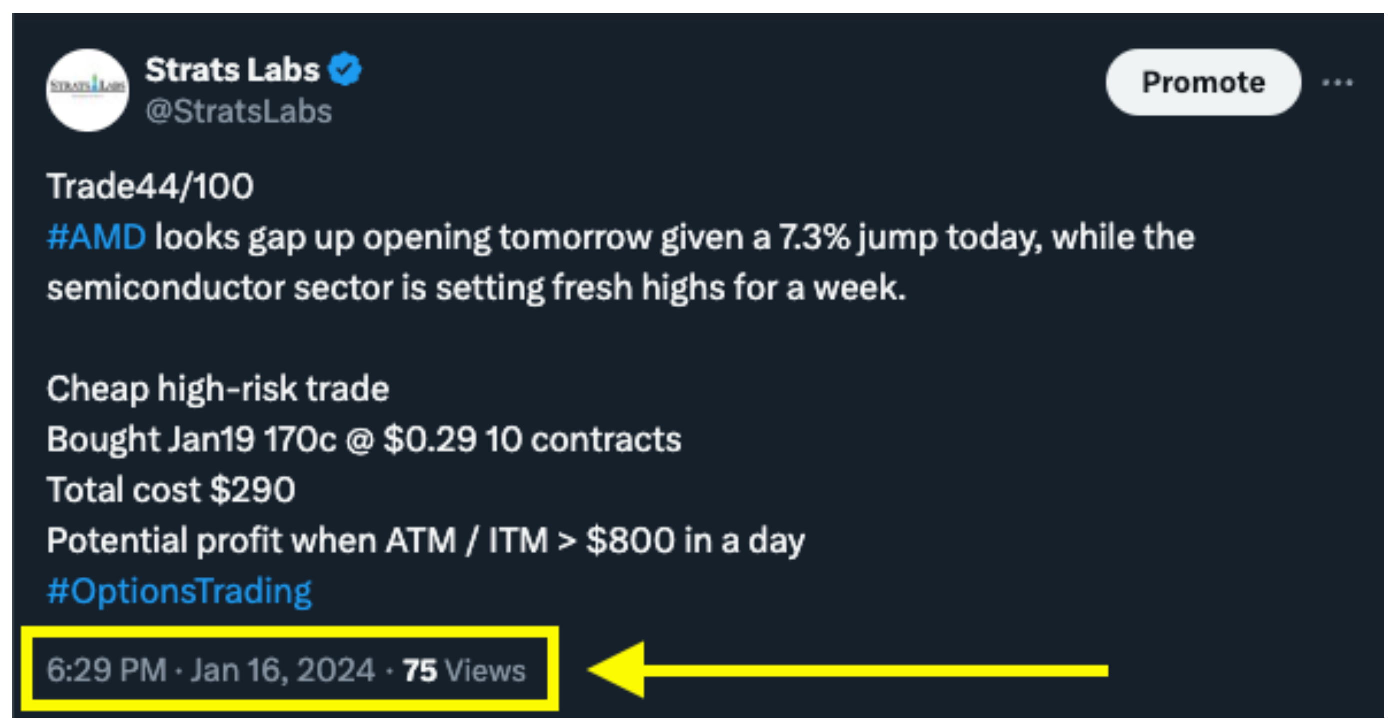
Link to the X post for trade 44: https://x.com/StratsLabs/status/1747310060882051375

Date posted: Jan 16, 2024

Trade: Bought $AMD JanI19 170 Call @ $290 and sold @ $2,000

Total profit: $1,710

Total return: 589.66%



X post on AMD

Daily chart of Advanced Micro Devices:

AMD 1D chart

Reasoning:

The implied volatility was high and we wanted to take a long call option for a quick exit in a few days due to the heavy interest in the semiconductor sector. The position here had a strong bullish divergence between the price MACD and RSI. This is also in line with the breakout that pushed the stock higher from resistance and acted as a further catalyst to the direction of the trade. There were no conflicts on higher time frames either. One another important reason would be that given the hype around Artificial intelligence and the increased demand for compute and processing power delivered by specific AI chips, the semiconductor sector earnings expectations were high, meaning that the stock could potentially make big moves and we capitalized on this move with a long call option. Our proprietary algorithm and the rule engines favored an entry with moderate to higher confidence scores as well.

Trade 58: Airbus on XETRA Germany

Link to the X post for trade 58: https://x.com/StratsLabs/status/1762081764347117809

Date posted: Feb 26, 2024 (added another call option same day)

Trade: Deployed $AIR May 150/145 Bull Put spread @ $2300 and closed @ $100 (10 contracts)

Total profit: $2,200

Total return: 78.57%

Call Option: (added same day)

Trade: Bought $AIR May 155 Call @ $285 and sold @ $1600

Total profit: $1,315

Total return: 461.40%

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Trade 58/100 Germany DAX

$AIR Airbus earnings were good. The stock seems to have already factored that in when analyzing the weekly time frame. Historically, the days following the earnings will have a stock movement that will continue to grow until the next quarter's earnings date for stocks. However, we also have a divergence on MACD and the price action bounced from 200 MA.

Deployed $AIR May 150/145 Bull Put spread

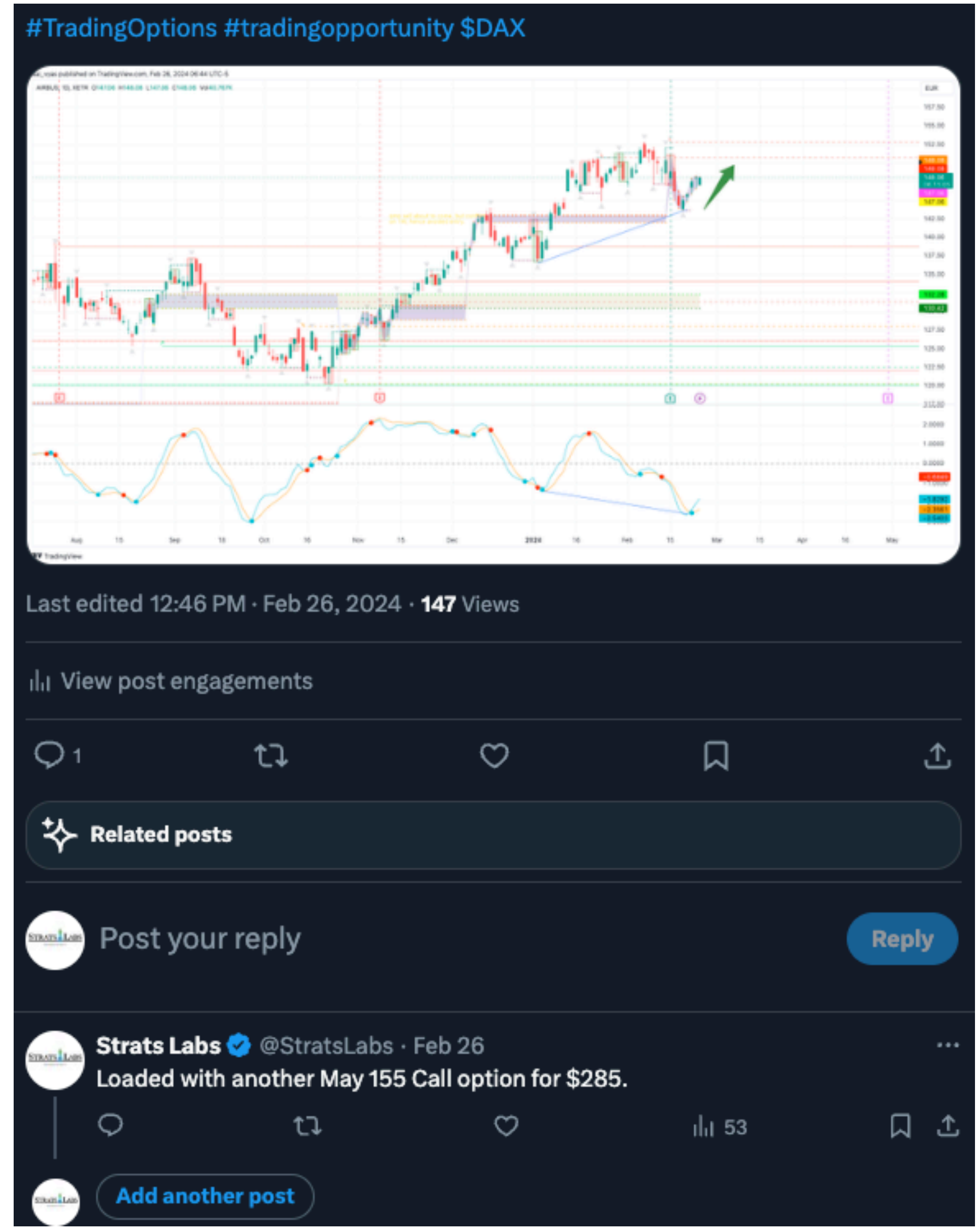
Premium received = $230
DTE = 81 days
Probability = 43%
Return/Risk = 0.77
Max loss = $280

The spot is 147.94. I'll exit when the price hits 150 / 141.50.

#TradingOptions #tradingopportunity $DAX

Last edited 12:46 PM · Feb 26, 2024 · 147 Views

Airbus options trade



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Loaded with another May 155 Call option for $285.

53

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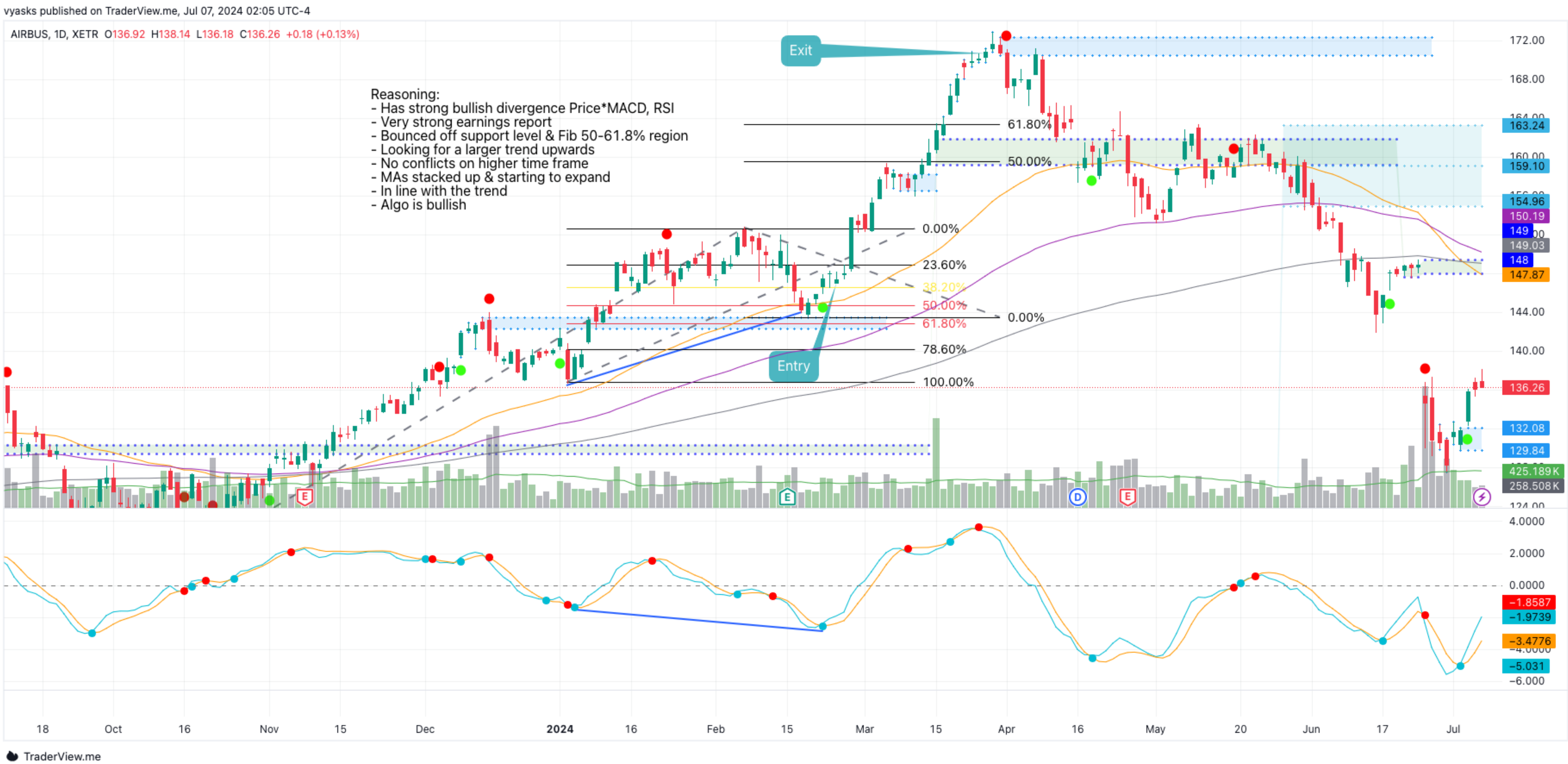
Additional call option trade added for low risk

The daily chart of the Airbus:



1D chart of Airbus

Reasoning:

This is another good example of the “The Retail Core” strategy. We had a strong bullish divergence that price made with MACD, and RSI and is in line to form a fresh longer trend as it bounced off a key support level on a daily time frame including the very important 50-61.8% Fibonacci retracement zone indicating that it indeed was a potentially strong retracement upwards. This position is also in line with our internal proprietary algorithm and rule engine that made a strong case for entry with higher confidence.

We initiated the analysis and deployed a Bull Put options spread for 10 contracts receiving a hefty premium while mitigating the overall risk exposure to below 10% cap with a slight tolerance for a second trade. We added a second call option trade for a negligible risk to maximize the returns from this trade, should it work in our favor, which it did eventually. The exit of the trade is based on the Fibonacci extension levels drawn on higher time frames as the strength of divergence-based momentum was stronger there.

The second additional call option trade acts as a springboard and increases rewards for a smaller additional acceptable risk, thereby making a healthy combination to the above position. For high-confidence positional opportunities, we are always exploring ways to increase the rewards for a negligible risk which is the secret sauce behind the “The Retail Core” strategy.

Trade 86: American Airlines Group, Inc.

Link to the X post for trade 86: https://x.com/StratsLabs/status/1793356499177152998

**typo: cost per contract to open spread is $0.14, not $0.07 as mentioned on X (must be incorrect entry, we couldn't edit and didn't delete to respect the order of 1-100)*

Date posted: May 22, 2024

Trade: Bought $AAL Jun21 13/12 Bear Put spread @ $1400 and sold @ $7400 (100 contracts)

Total profit: $6,000

Total return: 428.57%

AAL Bear Put Spread Trade

The daily chart of American Airlines Group:

1D chart of American Airlines Group

Reasoning:

This has been one of those strong bearish cases where multiple signals align and form a strong confluence. There was a double top pattern with a strong resistance on daily timeframe where the volume is starting to rise on higher time frame analysis. Adding to that was a bearish divergence between the price MACD and RSI. Our proprietary algorithm along with the rule engine made a strong case for a bearish opportunity in line with a higher time frame without any conflicts. It was further expected to reach near-term support on the daily around $11 level and the price eventually sat down around that level as days passed by as you could see. Overall, this was a very good trade.

Trade 87: Mondalez International, Inc.

Link to the X post for trade 87: https://x.com/StratsLabs/status/1794035721583448377

Date posted: Feb 26, 2024 (added another call option same day)

Trade: Deployed $MDLZ Jun14 +64/-67/+70 Long Put Butterfly Spread @ $600 and closed @ $1,590 (10 contracts)

Total profit: $990

Total return: 165%

X post on Mondalez International butterfly options trade

The daily chart of Mondalez International, Inc.:

1D chart of Mondalez International on Nasdaq

Reasoning:

We can see the price in May has receded from a structural resistance on the daily chart. This combined with a strong bearish divergence price formed with MACD and RSI made a strong case for a sell signal. We can also clearly see although the price tried to hit resistance, the breakdown of the trend line joining recent swing lows confirms that the price is going to enter a bearish trend. This is a very strong signal that oftentimes leads to price searching for the nearest demand zone to settle as there were too many sellers at that entry level we took a position on. We combined this with our internal proprietary rule engine evaluated the confidence in the trade and proceeded to open a long butterfly put option spread position that yielded stellar returns with minimal risk. Butterflies are the best options trading strategy when the overall market sentiment is in line with the direction of the position taken, i.e. with the market sentiment turning bearish, this trade yielded a significant profit for a minimal risk as the payoff is highest at the center strike in the spread. We exited the trade as it manifested in the next days with profit.

Expert Secrets

Trading the breakout and momentum shifts are one of the best forms of tactical trading. This increases the success rate and produces greater results that often trump losses from losing trades, due to their superior strength and extension range in price movements with greater risk-to-reward ratios. For illustration, even let's say you've taken each trade based on a coin toss for each breakout and momentum patterns combined with divergences, even if you have an accuracy as low as 30% will push your account end up in profits overall given the superior risk-to-reward ratios ranging from 1:3 to 1:10 or even higher. In reality, these coin tosses converge to a 50% level on a normal distribution meaning that you'll have an even greater chance of profit growth and winning if you get 50% of the trades right with " The Retail Core " strategy.

"The Retail Core" strategy in itself is a strong anchor for keeping the account drawdowns to the minimum and within the protected range, as is evident from our performance tracker that comes with this eBook for the #100TradeChallenge with about 388% returns spanning over 9 months.

Quick tips:

How to distinguish between noise & the signal? What is useful and what is not?

Choose higher time frames. That's where the professionals trade. Lower timeframes often carry a lot of noise and it is hard to distinguish them from signals as they tend to react to the global news, scenarios of uncertainty, central bank meetings and speeches, etc. We trade both 1Day and 1Week charts while setting the 1Month chart as the base for drawing key resistance and support levels while overlaying the daily and weekly charts to identify entries. We also sometimes take entries on the 4Hour chart only when the trend is clear and to identify key entry opportunities for superior risk-to-reward.

How do we identify and sort high-probability trading opportunities? What indicators are sufficient?

Identification is explained in the above sections. We use a confluence metric (i.e. how many indicators and signals are in line with each other) and try to keep the conflicts very low to null. We use a proprietary algorithm and rule engine to plot probability distributions and consider the entry opportunities that are on a higher confidence level.

Identify direction - Long or Short?

Higher time frames provide a good basis for the decision. If lower time frames are conflicting with the higher timeframes, we avoid the entry unless there's a strong reason. We explained all the necessary steps to identify the trend and take entries in the earlier section on tactical trading.

Choose asset class - Equities (Stocks, ETFs), Crypto, Derivatives (Stock Options, Index Options, Futures, etc)

Always choose the asset class considering 3 things in mind:

1. Liquidity
2. Payoff profile (how big profit/losses can be?)
3. Feasibility for exit management (How easy it is to exit/manage/roll in the future if necessary e.g. options?)

Set a mandate & define max risk you are willing to take

Always know how much you can lose, and be comfortable with your risk. We limit our max risk to 10% for high-confidence entries and below 5% for medium & low confidence entries.

Write the plan

Right it on paper for 3 scenarios

Up, Down, Sideways - what to do in each context and apply the plan diligently.

Define parameters of trade execution

Liquidity, volatility (a.k.a IV for options), target & stop losses

Get it Filled - Execute the Trade

Choose mid-order or adjust the price as necessary, don't enter the trade if the spread width is unrealistic. Wait or move on to another asset class. Often in outside market hours, stock prices have very wide bid-ask spreads due to low liquidity, but also, during the regular trading hours for some stocks/options, and avoid such high width prices.

Trade Adjustments and Exit Management

A good reference we use for exits is the Fibonacci extension and we exit at the 50-61.8% zone very often. Another reference is key levels from higher time frames (e.g. weekly and monthly).

We also trail our stop losses or roll over the profits in options to higher strikes if the trade works in favor. We prefer exiting in tranches, i.e. few contracts at each exit point instead of exiting all at once, leaving some contracts to run in profits as long as they can. Often when the opportunity presents itself, we close the trade on-demand and re-allocate capital on other assets, if the trade is taking too long for it to manifest or when the momentum starts fading away.

Journal the Trade - Rinse and Repeat the Above

Maintain the journal and reflect on your track record. Review comments and learn from the mistakes. This is the most valuable step among all mentioned here. This practice will change the way you see the markets over time and improve your edge.

A Successful Investing Career

Achieving success as a trader goes beyond saving money and picking a few stocks. There are no shortcuts to wealth in this field; consistent returns demand patience, dedication, and strategic thinking. Here are some valuable tips to help you excel:

Embrace Market Fluctuations

No investor has a perfect track record. Losses are inevitable and normal. The key is focusing on the long term. Learn from your setbacks, refine your strategies, and stay committed.

Assess Stock Value Accurately

Evaluating a stock's price with its financial health is vital. Undervalued stocks present significant growth opportunities, while overvalued stocks, despite their popularity, can crash when speculative bubbles burst.

Capitalize on Growth Stocks in Bullish Markets

Growth stocks thrive in bullish markets as companies expand, boosting sales and attracting new customers. In a down economy, these stocks struggle, affecting their performance. Timing your investments in growth stocks is crucial.

Ignore the Noise

Emotional investing is a recipe for disaster. Avoid reacting to news headlines and resist the urge to constantly check your stocks. This approach reduces stress and allows your investments to grow uninterrupted.

Diversify Your Portfolio Wisely

Diversification is essential for any investment strategy. Spread your investments across various industries and stock types. As you gain experience, explore commodities, fixed income, or options. Don't rush, but once confident, integrating options with stocks offers numerous benefits, such as:

1. Enhancing diversification of your stock portfolio
2. Generating additional income from existing stocks without increased risk
3. Maximizing returns with less capital
4. Adapting strategies for any market condition—bullish, bearish, or neutral

Know When to Sell

1. When investor interest in a bullish company wanes
2. When a stock consistently underperforms the market for three months
3. When a company's profits decline significantly
4. When you incur a 20% loss on your investment

Stay Objective, Avoid Emotional Attachments

Investing is about making smart financial decisions, not about loyalty to a company. If a company underperforms, make objective decisions and avoid emotional attachments.

Enjoy the Journey of Investing

Investing can be challenging, but it's incredibly rewarding. Success brings satisfaction and a sense of accomplishment. As you gain confidence, you'll be ready to explore more advanced strategies. Every experience, even the losses, contributes to your growth.

Lifelong Benefits of Investing in Stocks

You don't need to leave your job to be a successful investor. Start by using investing as a secondary income source. Should you face job loss or business failure, your investments can provide financial support. Unlike hobbies, investing offers enduring value and can safeguard your family's future.

Leverage Your Trading Expertise

Managing money effectively earns respect. Investing is a highly regarded skill. With experience, you can market your expertise, enhancing your career prospects and business opportunities.

Summary for investors

Navigating the stock market can be intimidating at first. However, numerous free resources and educational tools are available to guide you. Thorough research is essential; there are no shortcuts. Do your homework, understand your financials, maintain a balanced and diversified portfolio, and you'll outperform average market returns. Like any worthwhile endeavor, investing requires effort to start, but once you're on track, you'll wonder why you didn't begin sooner!

Closing Note

Please note that the topics covered in this book are basics and act as a quick short guide to getting started with the capital markets. There are other important concepts, we teach for gaining and refining the edge further that suit all types of market scenarios for different asset classes such as stocks, ETFs, Indices, and options on equities, futures, commodities, and structured products like Turbo Knockout certificates, Factor certificates and Warrants, etc. These are more advanced instruments that provide leverage in very niche markets and are interesting instruments that are quite famous among institutional traders in Europe, Singapore, and other parts of East Asia.

We teach tactical trading techniques that exploit various market inefficiencies across the global capital markets. We have baked all this content into our knowledge base on our website available to our subscribers. These strategies are worth over $10,000 in the current market and it is very hard to find the best ones among many mediocre ones out there. We brought you the expert secrets, the right analysis techniques, high alpha generation strategies, performance tips for consistency, and many more, from the institutional trading desks to help and support struggling retail traders in finding their edge.

We cover all the markets from East to West, i.e. from Japan to the US with over 5000 instruments that we scan regularly to bring you cutting-edge opportunities. This takes quite a lot of time daily and we are dedicated to putting our efforts to help and support retail traders and investors all across the world to improve their edge and help them get into the club of the Top 1% successful traders in the world. We encourage and accommodate requests from our customers for adding and reviewing a specific niche to our portfolio of assets we review regularly, for example, an Argentinian customer wants us to review and provide tactics on Argentinian stocks, or an Australian customer wants us to review ASX, etc.

We set our standards very high and strive to reach them by continuously improving our deliverables. To cover a global audience and offer our services is a very ambitious goal that we have to attain by the end of 2024. For this, we need your support and feedback on the quality of our services, to continuously refine and improve our service.

We hope you liked this book and the performance statistics of the #100TradeChallenge. We look forward to hearing from you if you have any custom requests, questions, and feedback. Write to us at support@stratslabs.com Follow us on X @stratslabs and message us.

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