Money&Markets
PRECISION PROFITS

Understanding the 10-14 Strategy

By Michael Carr

In the longer term, prices sometimes move in trends. After noticing trends, many novice traders accept the old adage that "the trend is your friend."

With experience, traders learn that "the trend is your friend <u>unless the trend is about to end</u>."

There are two important points about trends in those first few sentences. One is that prices only move in trends sometimes. Most of the time, the price action doesn't reveal a clear trend. The other point is that trends end.

Few indicators are designed to spot the continuation or the end of trends.

TD Sequential® is specifically designed to identify times when there is a high likelihood that the trend is about to continue for weeks, or that it is likely to end.

Our 10-14 strategy is based on that indicator but adds additional steps that define exactly when to trade.

Sequential has two principal components:

1) Setup, which compares the closing price with the closing price four days earlier.

2) Countdown, which compares the close with the high or low two days ago.

The language to describe the indicator is detailed and confusing. The indicator is also just a setup. Trade rules still need to be defined. With 10-14, I worked to simplify the process while maintaining its powerful signals.

The 10 confirms a trend is underway. The 14 warns us that the trend is likely to reverse. Let's look at both in detail.

The starting point for a 10 is nine consecutive days where the close is higher or lower than the close four days ago. You can use this indicator in any timeframe, but I will use days in this guide to avoid confusion.

When there are nine straight up days, we have a setup for the trade. The trigger comes when the price closes above the high of the setup. This is a 10 call signal. It tells us to buy a call on the stock because we expect a 14 to develop, and the 14 will be in the same direction.

This is all shown in the chart below.

The red box highlights nine consecutive days where the close was greater than the close four days ago. After the box is drawn, we look for the highest high that was recorded over those nine days.

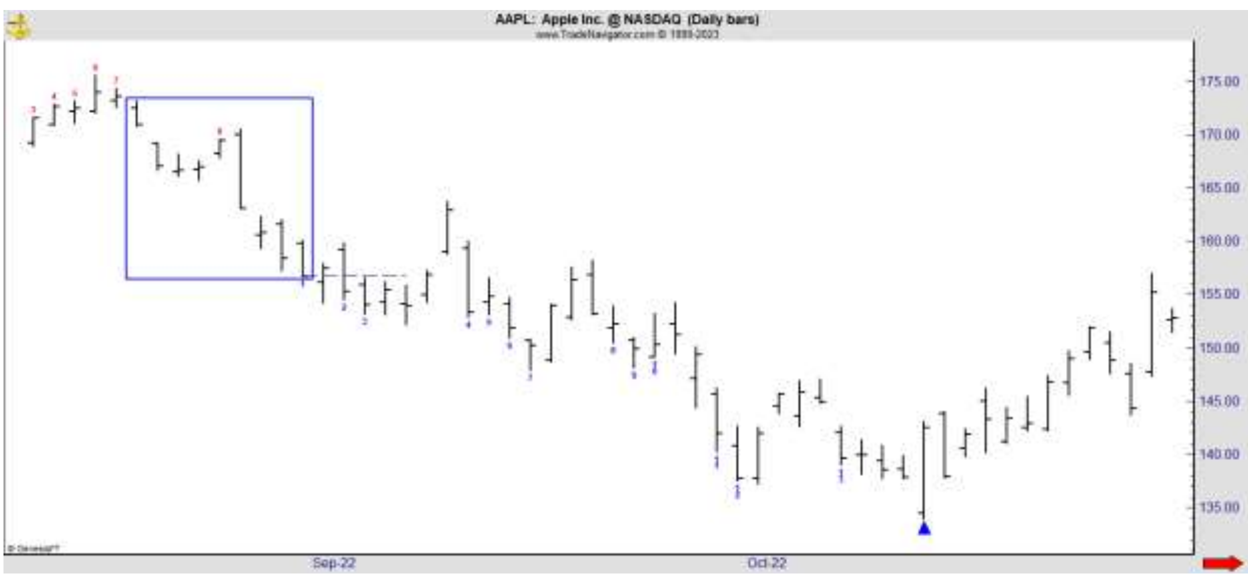
The dashed line shows the high. The close topped the line the next day. That’s the 10. We had a signal to buy a call.

The next stage of the strategy was the 14. Red numbers indicate the count to 13. This count doesn’t need to be consecutive.

After the count reaches 13, we expect a trend reversal. We wait for the price to close lower than the close four days ago. That’s our 14. Then we buy a put option expecting a downturn. This is shown as the red arrow in the chart below.

The 9 and 13 signals can expire. If we don't get a 10 buy signal within four days of a 9, then the 9 is invalid. If we don't get a 13 signal within 13 days of the count reaching 13, then that signal is invalid.

This same process applies on the downside. That's shown in the following chart.



The blue box identifies nine consecutive days when the close was lower than the close four days ago. The dashed line is the lowest low in the box. The blue rectangle shows when prices turned higher after reaching 13.

Closing below the blue dashed line (the 10 put signal) would signal that it was time to buy a put since we expect prices to continue falling. The arrow shows the 14 call signal, The 10-14 is a simplification of the more complex Sequential indicator.

It's adapted to short-term trading, and the rules we follow in the Trade Room will have us out of these trades within a week.

Regards,

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