Money&Markets
PRECISION PROFITS

Guide to Trading the OOPS Strategy

By Michael Carr

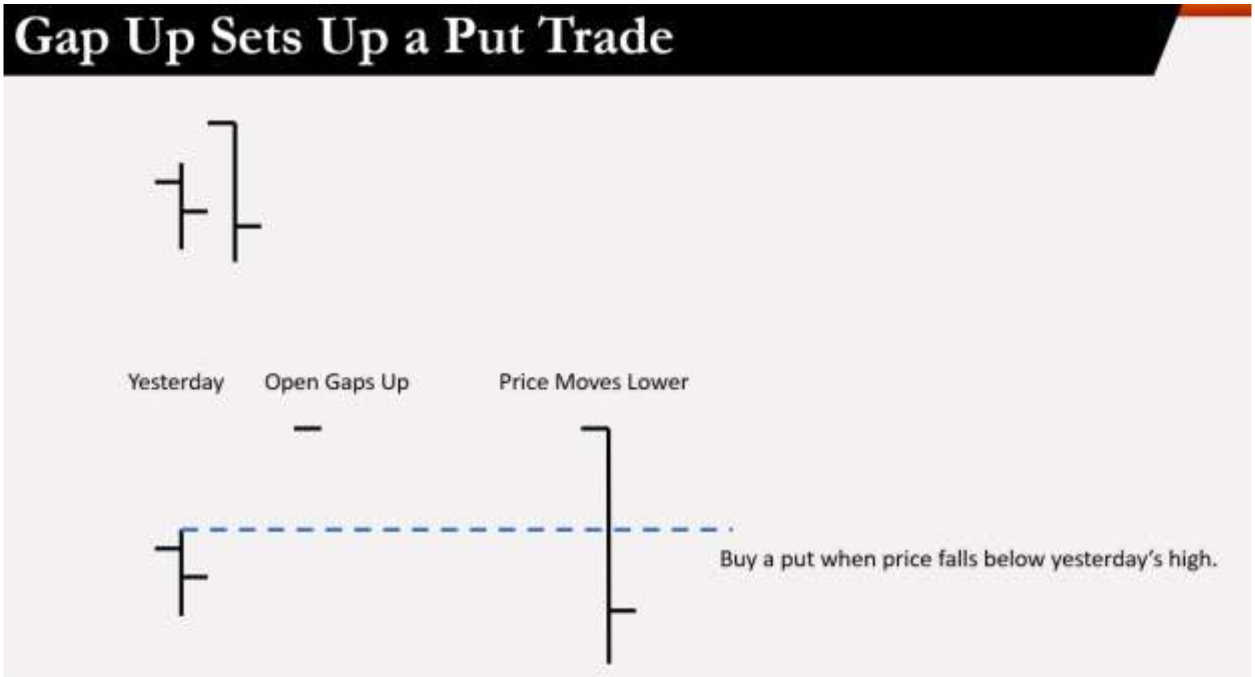
"OOPS" is a trading strategy that market expert Larry Williams developed. The OOPS signal trades gaps by going against the direction of the opening gap.

It's named OOPS because, according to Williams, when a market reverses an opening gap, many traders with losing positions say "Oops," and exit with a small loss.

The rules are simple…

For long positions, when a market opens lower than the previous day's low, place a buy-stop at the previous day's low.

Shorts are initiated when a market opens higher than the previous day's high by placing a sell-stop at the previous day's high.



We will use options, so a long signal tells us to buy a call, and a short signal triggers a trade in a put option.

The OOPS signal is based on market psychology. News often causes prices to open with a gap. If there is no momentum behind the market, there won't be any follow-through action on the news, and prices will reverse.

So can something this simple really work?

Williams found the strategy to be very successful in the futures markets. The leverage of futures helps increase profitability, but it can be employed in any market.

Results of a 10-year test on Invesco QQQ Trust (Nasdaq: QQQ) are shown below. QQQ is an exchange-traded fund (ETF) that tracks the volatile Nasdaq 100 Index.

The test below used data through February 2023.

	Win %	Average Win	Average Loss
Combined	78.2%	0.5%	-1.4%
Calls	81.7%	0.5%	-1.7%
Puts	71.0%	0.5%	-1.0%

The strategy can also be used with individual stocks. Over the same 10-year period, 19 of the stocks in the index had win rates over 90%. Here's a look at performance for that period:

	Win%	Average Win	Average Loss
ZM	98.1%	0.5%	-5.3%
ABNB	97.2%	0.5%	-9.8%
CRWD	94.8%	0.5%	-5.5%
MRNA	94.4%	0.5%	-5.9%
CEG	94.1%	0.5%	-4.1%
PDD	93.9%	0.5%	-5.2%
MTCH	93.5%	0.5%	-4.2%
OKTA	93.0%	0.5%	-6.0%
TEAM	92.3%	0.5%	-3.9%
ZS	92.2%	0.5%	-5.7%
DDOG	92.0%	0.6%	-5.8%
WDAY	91.4%	0.5%	-4.0%
DOCU	91.4%	0.5%	-7.2%
MELI	91.3%	0.5%	-5.2%
LCID	91.1%	0.5%	-12.1%
BIDU	90.5%	0.6%	-4.2%
SPLK	90.5%	0.5%	-4.4%
DXCM	90.1%	0.6%	-5.2%
SGEN	90.1%	0.5%	-5.2%

While losses were infrequent, they were large. Using options limits the downside risks to a predefined amount (the amount you paid for the option when entering the trade).

In the Trade Room, we focus on one stock, which can change from month to month. We look for a trading opportunity at the open.

If the stock gaps up or down at the open, we set an alert to be notified if the price moves back into the previous day's range. If it does, a trade is triggered.

Once a trade is opened, we use a straightforward process for determining when to close the trade. Here's an overview of our exit strategy:

- Set a profit target of 50%.
- Sell if the position shows a gain at the open the day after being opened.
- Sell if the trade doesn't show a profit two days after opening (open Monday, and exit Wednesday).

This can sound confusing at first glance. Use these specific rules to guide your exits:

- After entering, place a GTC (good 'til cancelled) order to sell with a 50% profit.
- If that order is not filled the day that you open the trade,

    - If you have a profit at the open the day after you open the position, sell.
    - If you don't have a profit at the open, hold.
- If the GTC order to take a profit is not triggered the day after the order is placed,
    - Close the position at the open the next day and cancel the GTC order.

You'll soon become an expert on this workflow as we review this process in the Trade Room every day.

Regards,

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