

## Trading the NR<sub>4</sub> Strategy

By Michael Carr

In the past, I've said that "Toby Crabel is one of the greatest traders you never heard of." But you know about his work from certain trades we make in the Trade Room.

Crabel has been managing money for over thirty years.<sup>i</sup> His flagship fund has gained 5.4 times more than the S&P 500 over the past 25 years.<sup>ii</sup> That fund has less than half the risk of the S&P 500.<sup>iii</sup> And the average holding period for positions in the fund is 1 day.<sup>iv</sup>

His performance is so good that investors pay his firm a management fee equal to 3% of their investment. Crabel also keeps 30% of the profits. This is high for hedge funds. In the current market environment, management fees average 1.4%. While performance fees average 16%, new funds often charge just 10%.<sup>v</sup>

But Crabel's performance is so good that the fees are acceptable to many investors. You may even be willing to pay those fees for returns like that. But you might not have the \$1 million minimum investment to invest with Crabel Capital Management.<sup>vi</sup>

You're probably asking, "how does he do that?" While successful hedge funds tend to follow secret strategies, Crabel is one of the rare investment managers who wrote a book.

### **A Book of Secret Strategies Now Out of Print**

*Day Trading with Short Term Price Patterns and Opening Price Range Breakout* was published in 1990. This is really one of the few books written about trading that are worth reading.

It's out of print now. Rumor has it that Crabel regretted publishing the book filled with strategies that work so well. He supposedly refused to allow a second printing. I've heard he even bought up as many as copies as he could find.

There are still some copies out there. Used copies sell for more than \$1,200.<sup>vii</sup>

Crabel detailed several useful trading strategies. We have traded one of those strategies since the very first session of the Trade Room — the opening range breakout (ORB).

We also trade a strategy based on the NR<sub>4</sub> pattern that Crabel has identified.

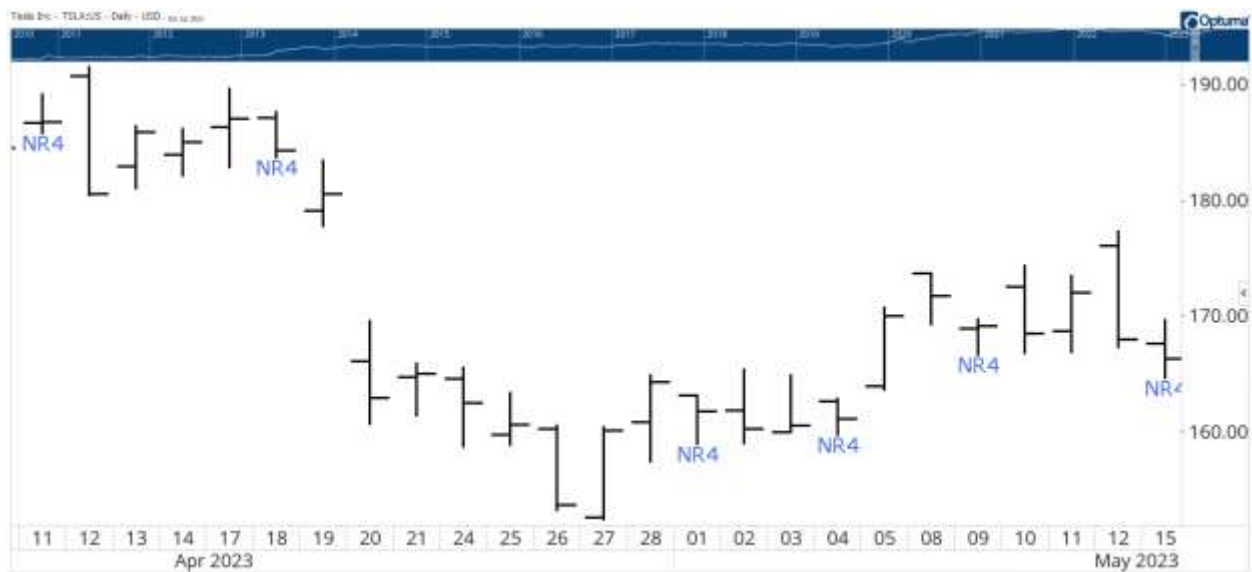
## How to Trade Narrow Range 4

NR<sub>4</sub> — or Narrow Range 4 — is the smallest range of the past four days. It's important to note that this is the stock's range (high – low), not the true range which accounts for gaps.

This pattern is an indicator of low volatility. That's important because volatility has a tendency to be mean reverting.

A popular saying among traders is “low volatility begets high volatility and vice versa.” This implies that an NR<sub>4</sub> day is often a setup to a large range day.

An example of NR<sub>4</sub> days is shown below.



There are a significant number of days like this in the market. To limit the number of trade signals, several qualifiers are added.

Remember that NR<sub>4</sub> signals simply indicate volatility is likely to increase. The pattern doesn't include any information about the potential direction of the price move.

There is a tendency for prices to follow through in the direction of the close.

That means if the NR<sub>4</sub> occurs on an up day, we will look for an opportunity to trade a call. If the signal occurs on a down day, we will look for a potential trade in put options.

There are additional qualifiers outlined below.

## NR4 Strategy

- Call Setup: NR4, the candlestick is a doji, the close is up, and close > MA(200).
    - ✓ Trigger: Up open.
    - ✓ Exit: 50% profit target/40% trailing stop/exit day after opening if profitable/close near the open on the second day after opening if no other rule closed trade.
  - Put Setup: NR4, the candlestick is a doji, and the close is down.
    - ✓ Trigger: Down open.
    - ✓ Exit: 50% profit target/40% trailing stop/exit day after opening if profitable/close near the open on the second day after opening if no other rule closed trade.
- \*Doji =  $((\text{ABS}(\text{Close} - \text{Open})) / \text{Close}) < 0.005$

This strategy has delivered profits in the long run. Because trades are only open a few days, it can be combined with multiple other strategies to develop a diversified trading plan.

You can see how we check for NR4 signals in real time in the Trade Room at the market's open each day.

Regards,



Michael Carr

Editor, *Precision Profits*

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<sup>i</sup> [https://en.wikipedia.org/wiki/Toby\\_Crabel](https://en.wikipedia.org/wiki/Toby_Crabel), began in 1992

<sup>ii</sup> <https://www.iasg.com/en/groups/crabel-capital-management/programs/crabel-multi-product-1-5x-period-returns-since-2/1998> (1382/256) using 1.5x fund because we use leverage in trade room.

<sup>iii</sup> <https://www.iasg.com/en/groups/crabel-capital-management/programs/crabel-multi-product-1-5x> Worst dd 24.49% vs 56% for SPX in 2009.

<sup>iv</sup> <https://crabel.com/programs/>

<sup>v</sup> Hedge fund fees fall to lowest level since 2008 financial crisis -HFR, <https://www.reuters.com/business/finance/hedge-fund-fees-fall-lowest-level-since-2008-financial-crisis-hfr-2023-01-06/>

<sup>vi</sup> <https://www.iasg.com/en/groups/crabel-capital-management/programs/crabel-multi-product-1-5x>

<sup>vii</sup> [https://www.abebooks.com/servlet/BookDetailsPL?bi=30365707626&ref=ps\\_ggl\\_17738760402&cm\\_mmc=ggl--COM\\_Shopp\\_Rare--product\\_id=bi%3A%2030365707626--keyword=&gclid=Cj0KCQiA0oagBhDHARIsAl-BbgeXzTCw9fzZszgP3jbG7B9IzrFjTJwkmwOq4FEnH21aj0OC7gO7zkEaAlckEALw\\_wcB](https://www.abebooks.com/servlet/BookDetailsPL?bi=30365707626&ref=ps_ggl_17738760402&cm_mmc=ggl--COM_Shopp_Rare--product_id=bi%3A%2030365707626--keyword=&gclid=Cj0KCQiA0oagBhDHARIsAl-BbgeXzTCw9fzZszgP3jbG7B9IzrFjTJwkmwOq4FEnH21aj0OC7gO7zkEaAlckEALw_wcB)

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