Short-Term Trading Strategies

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There are a number of trade set-ups and strategies that provide very high probability and low capital exposure short-term trades. Many of these short-term strategies also may be used to initiate positions for longer term trades.

One of the most reliable short-term trade set-ups is the Inside Day/Narrow Range (IB/NR) trade strategy. The breakout of a narrow trading range, particularly an *inside-day*, usually signals at least the short-term trend direction.

An inside-day is a period of indecision. It is a day when traders do not have a strong conviction as to the trend of the market. The breakout direction of the inside-day usually signals what trend decision traders have made. Even more reliable is the breakout direction of the day prior to the inside-day.

Inside-Bar / Narrow Range (IB/NR) Breakout Rules

The IB/NR breakout strategy may be used for short-term trades, generally 1-3 trading days or as a trend-continuation entry technique with a trend filter. We will only discuss this trade set-up in this tutorial as a short-term trade technique.
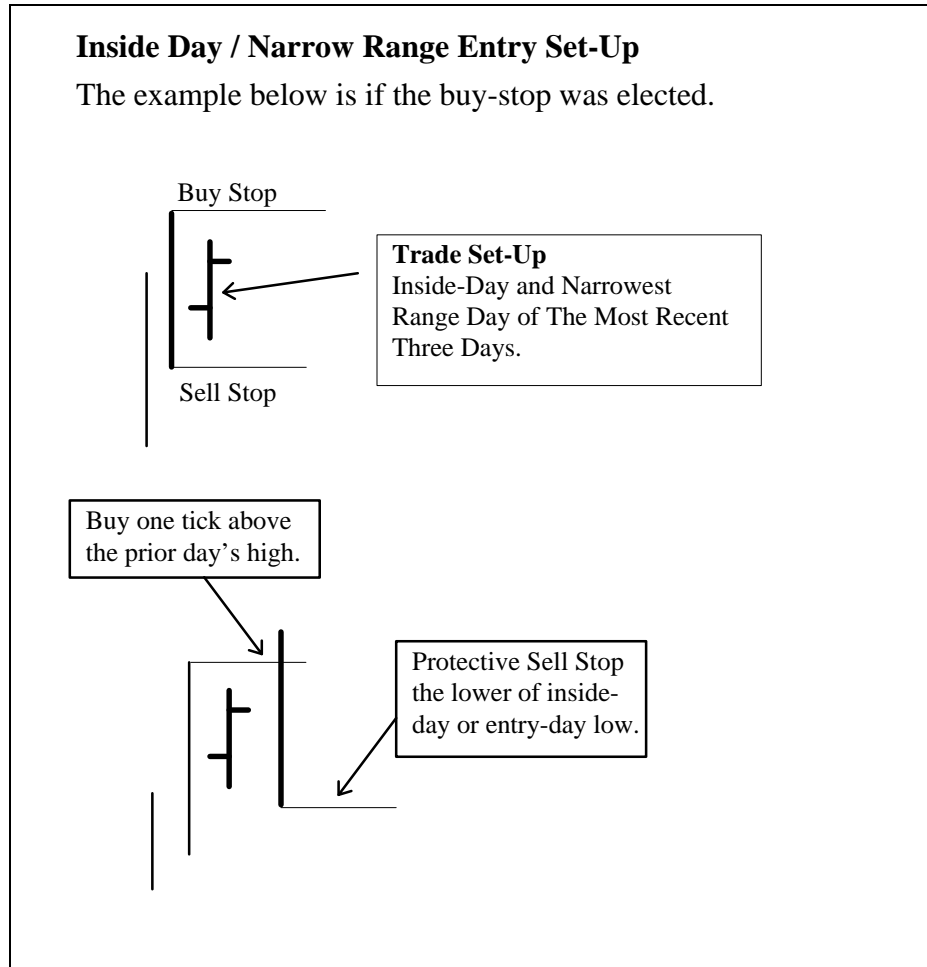
The rules for trade entry and initial protective stop-loss are completely objective. There are no fixed rules for closing out the trade or profit objectives as they depend on the market position when the trade was entered.

While the examples will be for daily bars, the strategy is equally applicable to intraday bars such as 30 or 60 minute bars.

IB/NR Breakout Rules

1. Identify an inside-day that is also the narrowest range day of the most recent three days. This is the set-up day.
2. Place a buy-stop one tick above the high of the day prior to the inside-day. Place a sell-stop one tick below the low of the day prior to the inside-day.
3. If the buy-stop is elected, place the initial protective sell-stop one tick below the lower of the inside-day low or entry-day low to the time of trade entry. If the sell-stop is elected, place the initial buy-stop one tick

above the <u>higher</u> of the inside-day high or the entry-day high to the time of trade entry.

Inside Day / Narrow Range Entry Set-Up

The example below is if the buy-stop was elected.

Buy Stop

Trade Set-Up
Inside-Day and Narrowest Range Day of The Most Recent Three Days.

Sell Stop

Buy one tick above the prior day's high.

Protective Sell Stop the lower of inside-day or entry-day low.

The ***Dynamic Trader*** software includes a trade-study routine that identifies every bar that meets the IB/NR set-up rules. The number of days for the narrow range may be chosen by the user. The solid square boxes above the bars in the chart on the next page are each IB/NR days. Three days were used for the narrow range.
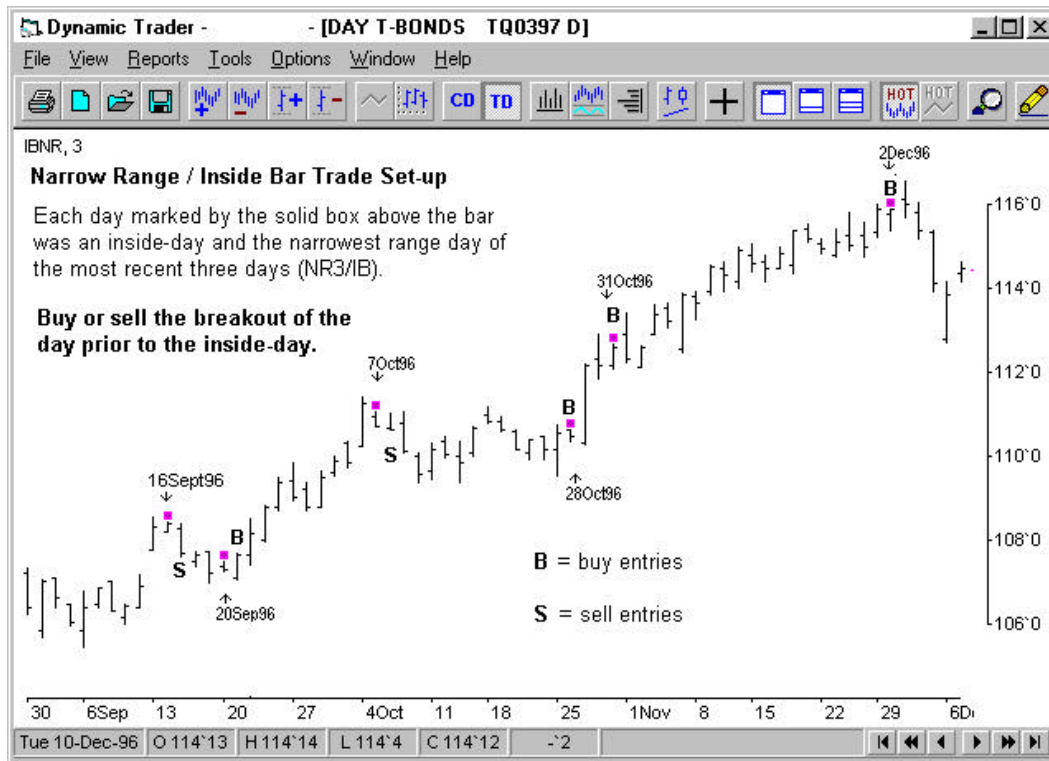
Of the six IB/NR3 set-ups for the period for the bond market shown above, all but the last (Dec. 2) would have been profitable short-term trades. There will usually be at least 2-3 days follow-through to the direction of the breakout from a IB/NR3 set-up. If the breakout is in the direction of the main trend, IB/NR3 entry strategies are excellent trend-continuation signals. Both Oct. 28 and Oct. 31 IB/NR3 set-ups resulted in long trades in the direction of the main trend. Trend-continuation trades require a trend filter. They will be discussed in a tutorial sometime in the future.

The Dynamic Trader Software Identifies Short-Term Trade Set-Ups

The IB/NR strategy is just one of many short-term trade strategies that identifies unique, high-probability and low-capital exposure trade set-ups. The Dynamic Trader software includes many of these set-ups as part of its *DT Trade Scanner* routine. The *DT Trade Scanner* routines scans any portfolio of markets each day and identifies these unique trade set-ups and the trigger price for trade entry. This IB/NR set-up and others are included in the DT Trade Scanner routine.

Check out the Dynamic Trader Software Example page on our web site for more information regarding the *DT Trade Scanner* and short-term trade opportunities.

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