

DAILY SUPPORT/RESISTANCE

There are times when daily pivots are not prevalent or the profit range after a daily pivot does not justify the risk of a trade due to the proximity of daily support/resistance levels and that's when I drop down to intraday charts.

On Mondays what I try to do is wait for the market to form a trend on the 1hr chart. That means I'm waiting for the hourly to form a higher high or a lower low. Monday trading can be tricky for myriad reasons too many to go into here.

But in lieu of my recent computer problems this is a gift to you that will prove to be invaluable in your trading and it has everything to do with intra-day trading.

This is the thing that will keep you out of trouble. **ONLY GO LONG ON A PIVOT ABOVE YESTERDAY'S (the prior trading day) LOW AND ONLY GO SHORT BELOW YESTERDAY'S HIGH WHEN THE LOW AND THE CLOSE ARE CLOSE TOGETHER.**

Each level of yesterday's price range (high,low,open,close) serves as support resistance levels for the next day's trading.

Whenever you enter long at the low your target will be the next support/resistance level above the low. It may be the open or close from yesterday that is closest. The same if you enter short near yesterday's high.

Your stop will always be above yesterday's high for a short trade and below yesterday's low for a long trade. Keep in mind that it is not often that a market will 50 pips above the open or 50 pips above the close.

Also keep in mind that an average 1 direction move does not often go more than 75 pips in one direction before a pullback. So, when calculating your target, you do not want your target to be more than 75 pips beyond the beginning of the move in that direction.

Before the start of each trading day you want to draw horizontal lines at the high low open and close of the prior day's range.

The example below is from Last Friday July 6. The support/resistance lines are drawn from the prior day's (Thursday July 5th) range.

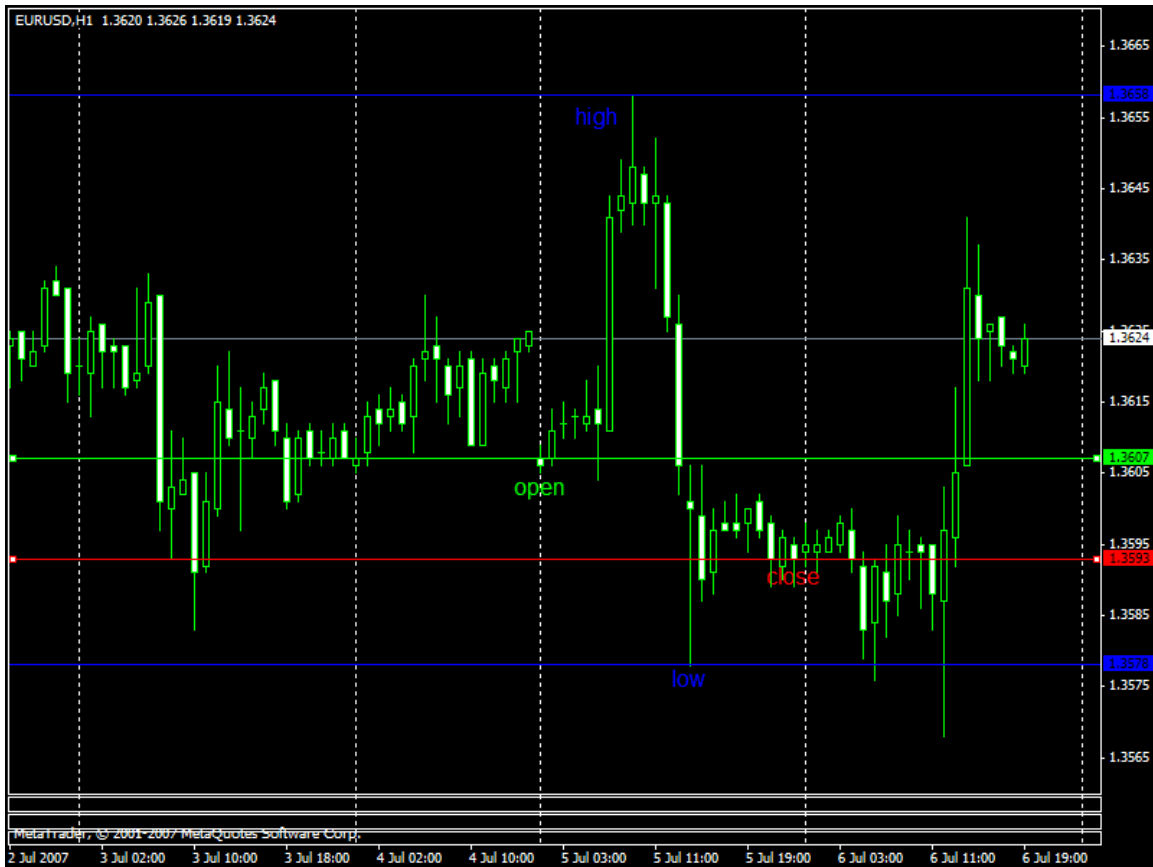
The market subsequently closed above the close at 12:00 gmt signaling a long entry with stop below Thursday's low.

The first level of resistance was 3607 (Thursday's open) and since this level is so close to the close I place my target above here as I would expect a break from such a short distance. So I will count from the start of the up move which began just below Thursdays

low at a price of 3568. When I add 75 pips to this we get 3643 for a target projection and price reversed after coming within 2 pips of that at 3641.

Play with your charts with this and you will see how markets universally respect the prior day ranges. If your aim is to keep your stops as small as possible this is the best way to do it, and it also provides an excellent timing mechanism for entering/exiting when trading daily pivots.

This is powerful stuff that I have never disclosed to anyone and I believe other than pivots, this is the most powerful strategy you can learn.



For the trading day of July 6th, 2007.

The support/resistance lines above are drawn at the **high** and **low**, the **open** and the **close** of the prior day's bar printed for July 5th, 2007. The breaks and bounces through and off these s/r levels dictate where price will flow for the course of the day.

For example; let's look at the trading day for Friday, July 6 2007 on the 1hr chart above. Yesterday's close (red line) is the first level of support at the open of July 6.

We see that price opened the day right around the red line which is the prior day's 5th close. The prior day's close is your first benchmark support/resistance level of the trading day. An intraday bull pivot above the close means price will move up to the next resistance level above and a bear pivot below the close means price is going to the next support level below.

In our chart above, the green line (prior day's open) is the closest resistance up above the prior day's close and the lower blue line (prior day's low) is the next closest support below the prior day's close.

NOTE: YOU ONLY WANT TO ENTER LONG NEAR YESTERDAY'S LOW

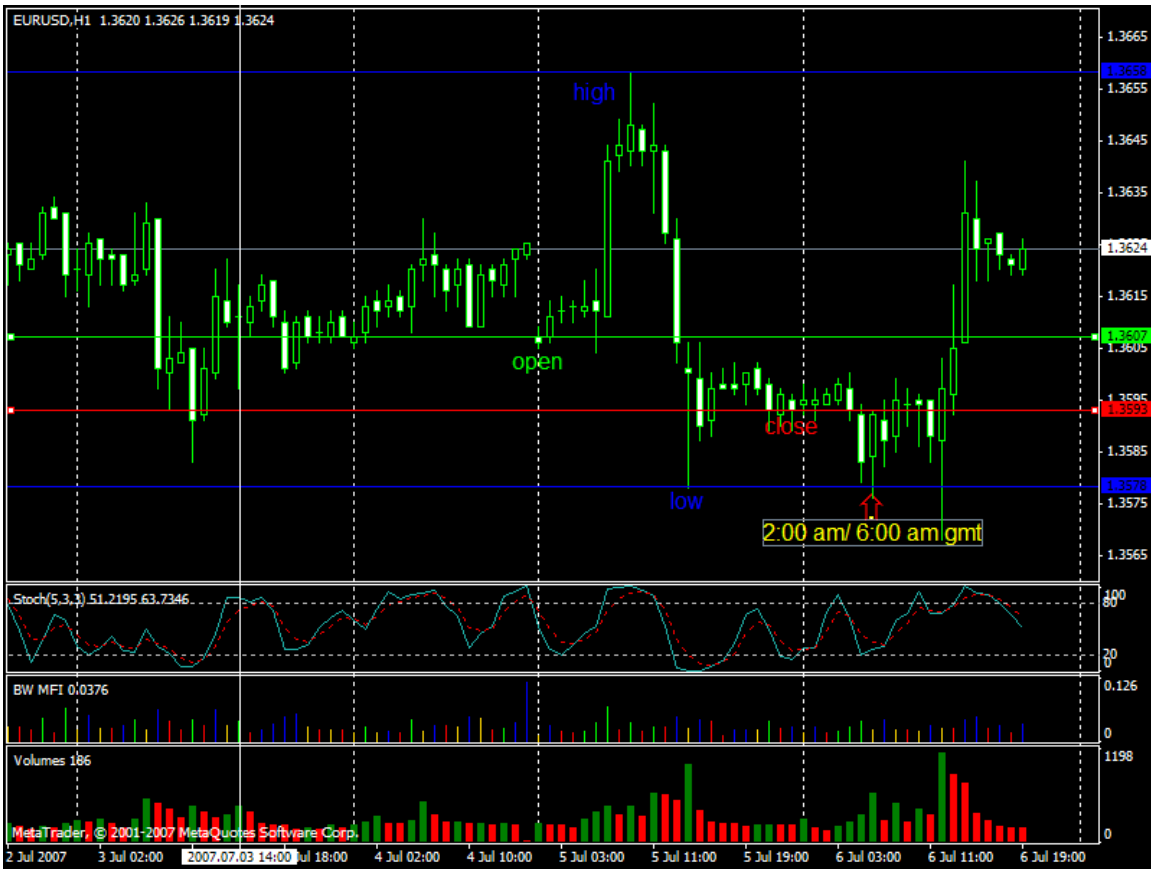
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YOU ONLY WANT TO ENTER SHORT NEAR YESTERDAY'S HIGH.

I don't like to enter until after the London open at 2:00 am est where I'm located but 6:00 am gmt. The charts are aligned to gmt time. Before the London open trading volume is thin and most days it is stop hunt time. On days with major data announcements pending I wait until after the news.

So, I start monitoring the charts just before 2:00 am at 1:30 am. I look and see what happened to price action since the daily open. On our chart I can see that since the open, price has broken through yesterday's close and continued down to test yesterday's low, which is the next closest intra-day support.

Since I am only looking for an opportunity to go long near yesterday's low I am waiting for a bull pivot above yesterday's low. At the London open I see that price has almost touched yesterday's low but not quite.



Since I would only look to go long here near yesterday's low I am looking for a pivot above yesterday's low on any intraday time frame. So, I drop down from my 1hr chart to my 5min chart for early confirmation.

You can see on the chart below how the market formed the hourly pivot at 12:00 gmt and continued up from there. Interestingly enough this was a bar that formed on the news/data announcement. Notice how it first moved below the (Thursday's) prior day low (to shake out the stops that were sitting below Thursday's low, before closing up.

That's what I mean when I say that news is designed to take out the next level stops and sometimes 2 levels before continuing in the true direction. See, that's why no entry on the pivot that formed prior at 8:00 am gmt. I had to wait for the news and inevitable shakeout

Always draw your prior day s/r levels and always have your news calendar handy.

I'll be talking to you more about the little nuances of trading this intraday approach in future lessons. There may be times when you are watching the market and I am not and while it is not my intent nor is it possible to notify you in time about every trade setup that occurs in the markets I will be providing you with enough information to spot profitable setups yourself also.



Cheers, Jerry