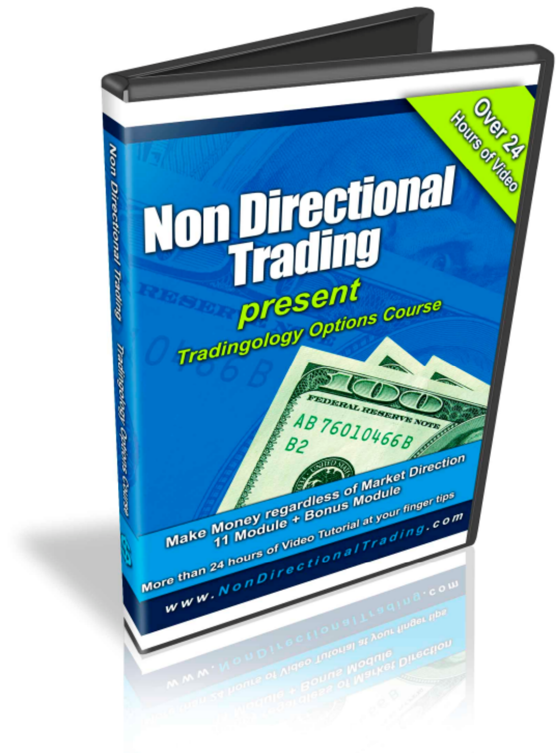
The One Trading Secret That Could Make You Rich

INSIDE DAYS

What 'Inside Days' Are, How To Identify Them, The Setup, How They Work, Entrance Criteria, Management and Exit Criteria for MAXIMUM PROFITS



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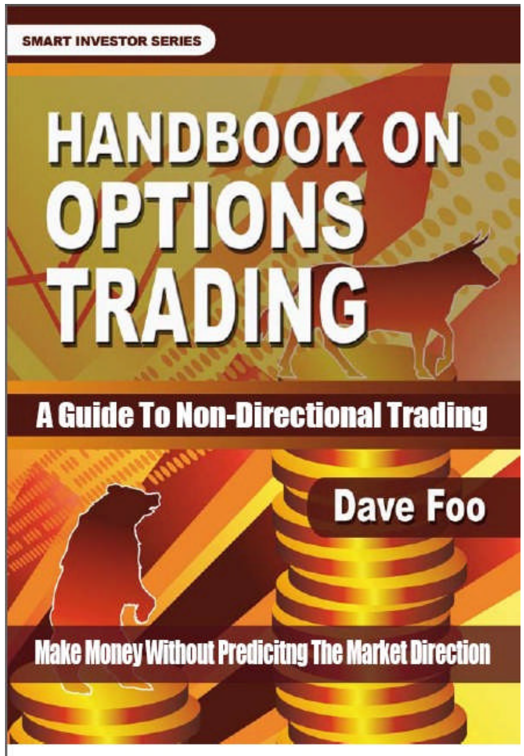

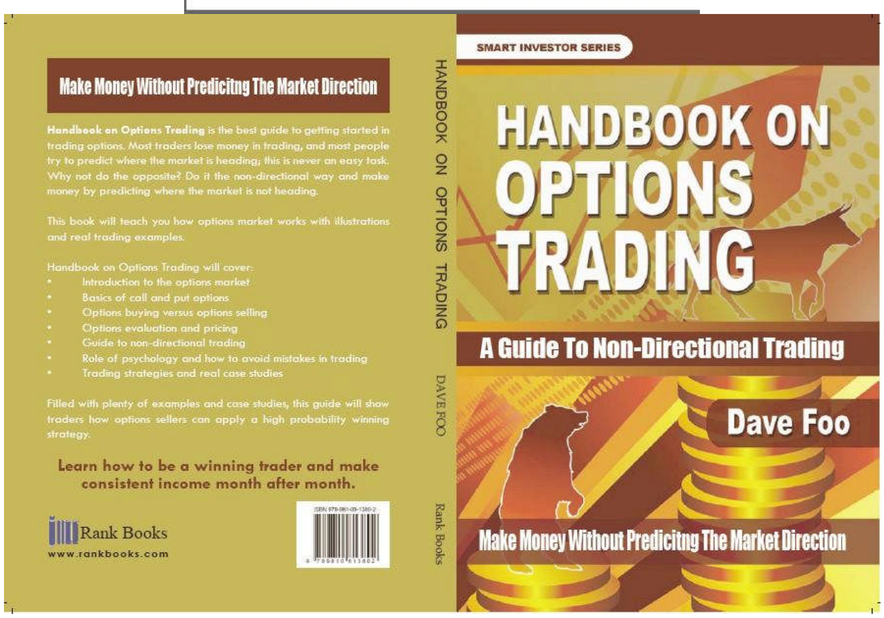

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What Inside Days Are

Definition: Inside days have a 'lower high' and a 'higher low' than the previous day.

These are also generally narrow range bars. In other words, the range of the bar from the high to the low of the bar is relatively narrower (approximately 50% of the range of at least the *immediately preceding* bar is recommended) than the most recent bar.

For the purposes of this strategy we are only using daily charts. For easy identification and abbreviation we identify 'inside days' the same as “Narrow Inside Bar” or NIB's.

Objectives, Winning Percentages and Maximum Loss

The objective of this strategy is to accumulate short-term profits on a consistent basis using objective entry and exit criteria. It can be used on any liquid stock on a daily time frame.

The strategy has a 84% chance of hitting profit Target #1, a 16% chance of hitting profit Target #2 and a 9% change of hitting profit Target #3.

There is a high probability of a profit but there is a risk of loss if the trade does not work as planned. The maximum risk is greater than or equal to the range of the inside day. Risk is managed using stop loss orders.

How To Identify Inside Days or NIB's

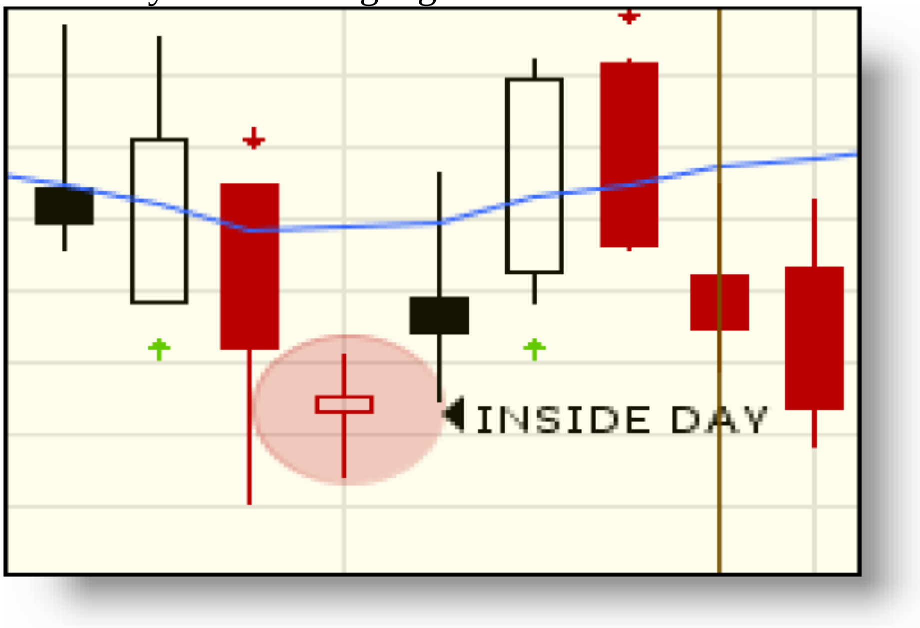
In any stock, identify a recent inside day.

As mentioned, inside days (NIB's) have the following characteristics:

They have a lower high and a higher low than the previous day.

NonDirectionalTrading uses Japanese Candlesticks for chart graphs.

Here's an example of an NIB (we will be using the same example throughout this Guide). The 'inside day' or NIB is highlighted in the red circle:



As you can see the 'inside day' has a 'lower high' and a 'higher low' than the previous day which, in this case is a large red bar indicating that the bears were in charge of that day. In addition, the range of the NIB is about 50% or less than the previous day's range.

This trade, however, does not depend on the previous day's bar. It can be any color bar and it can have a large real body or short real body.

Also, it does not matter if the inside day is a doji or spinning top. In other words it does not matter if it has a real body or no real body. If you're not familiar with these Candlestick terms, it's ok. This method works without that understanding.

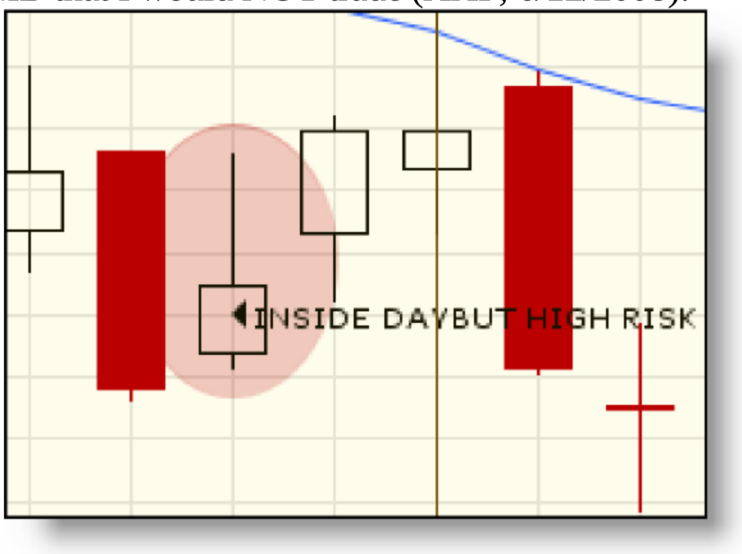
The only thing that is important is that the day that triggers this trade must have a 'lower high' and a 'higher low' than the previous day and it must be relatively smaller than the previous day's bar in range.

The Setup

We would like to see the 'inside day's' range be 50% or less of the previous bar, but that is a not a strict criteria. It should be tighter in range than the previous bar.

50% of the previous bar's range is ideal, 60% is ok and even trades of 70% of the previous range has the potential to work if the previous day was a relatively small range bar. These are approximations. Simply 'eyeing' the ranges is sufficient for this analysis.

Here's an example of NIB that I would NOT trade (AXP, 6/12/2008):

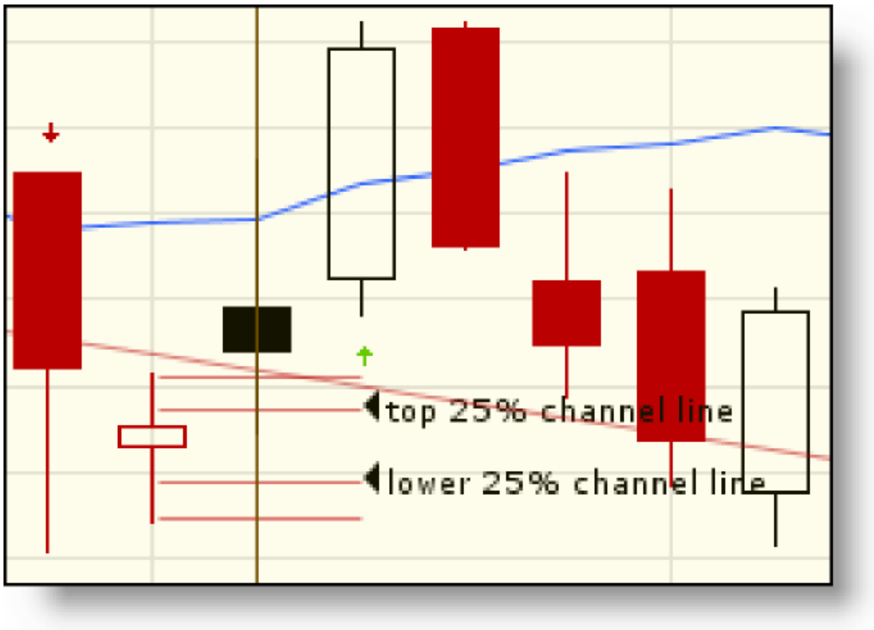


By definition, it *is* an inside day but look at the rather large range of this NIB. It's almost as large as the previous day (which was also a relative ly large trading range day), therefore I would not trade this NIB. Although it may present a good opportunity, there are plenty of trades to be found with a higher probability of success.

One thing to keep in mind is this: The smaller the inside day is the lower your risk will be.

Once you have identified an inside day or NIB on a chart you can begin using the 'channel' drawing tool in your stock charting system (all good charting systems have the ability of draw 'channel lines', see video):

A channel is simply a set of parallel lines that help you visually identify, in this case, the high and low of the NIB. The channel I used below is comprised of 4 lines: (1) the high, (2) a 25% top channel line, (3) the low, and (4) a 25% low channel line.



The channel should be drawn as shown: The top of the channel is at the high of the day and the low of the channel is at the lowest point of the bar – the low of the day.

Aggressive traders only: Sometimes an early position can be taken in anticipation of a breakout in the area between the 25% channel and the top or low channel line.

That's why I have included those lines in my analysis (see video for further details).

If the channel lines are a little 'off' that's ok too. The charting programs tend to 'snap ' to certain guides.

It won't matter, the specific entrance, exit and stop criteria will be exact. Drawing the channel is simply a visual tool to help you identify the setup.

Why This Trade Works

The goal of the bulls and bears are to always push prices higher (if you're a bull) or lower (if you're a bear) than the previous day's high or low. When that does not happen, then their power struggle ends in frustration for both sides.

Inside days happen when there is a fight between the bulls and the bears. In fact, the strength of the bears and bulls are about equal and neither side gains any ground in pushing the stock higher or lower that's why it ends up as a day that has less of a range of movement than the prior day.

So neither side could push the price in the direction they wanted. It creates little movement in either direction. That creates short-term frustration.

Usually this power struggle lasts no more than one day. It is EXTREMELY rare to have a NIB followed by another NIB! In fact the odds are extremely low that you would have an inside day followed by another inside day. If you ever see one you might even want to add to your position because the price move could be outstanding!

Trading inside days is like trading a shook-up bottle of pop, soda or whatever you like to call sweet carbonated drinks in a bottle.

When you shake the bottle and you twist off the cap, it will explode! Those who wanted to push the prices higher or lower will try again the next day and usually one side will overpower the other and win. It's like a tug-of-rope... eventually one side dominates.

For example, if the bulls outnumber the bears then on the following day prices will go higher. And, conversely, if the bears outnumber the bulls then on the following day then prices will go lower.

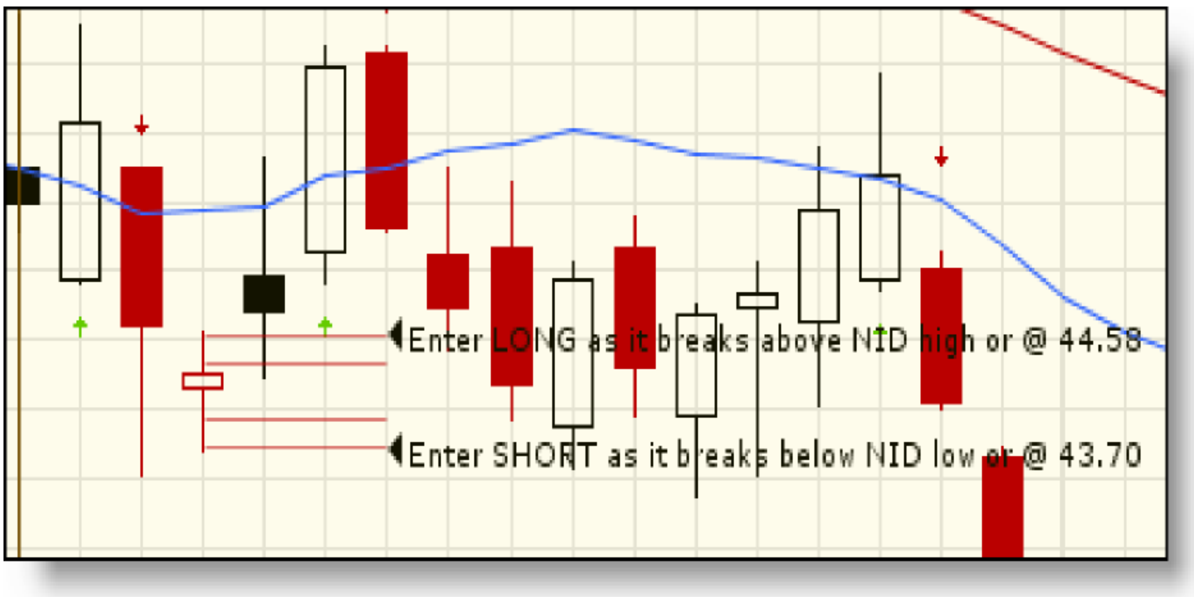
That's how we profit. We simply take the side of the group that has the most power to push prices in their direction!

Specific criteria in the sections below will help you stay out of trouble and minimize losses.

Entrance Criteria

The entrance criteria could not be easier however I DO NOT recommend placing this trade just prior to an earnings announcement. Since you'll only be in the trade a few days – 4 at most – you can plan accordingly.

Use one penny above the high of the NIB to enter a LONG position and one penny below the low of the NIB to enter a SHORT position as shown below:



The NIB in this example has the following High/Low:

High= 44.57
Low= 43.71

NIB Range = .86
LONG ENTRY PRICE: Add one penny to the High = 44.58
SHORT ENTRY PRICE: Subtract one penny from the Low = 43.70

In our example above (this happens to be AXP on February 8, 2008) we enter the position either at $44.58 to go long or $43.70 to go short.

This order can be setup ahead of time using your brokers software.

It would be entered like this:

BUY 100 Shares AXP @ $44.58 STOP - DAY ORDER
SELL 100 shares AXP @ $43.70 STOP - DAY ORDER

Note: You want to make sure these are DAY ORDERS only.

Also, if you have the time and enjoy active trading you can enter these orders manually, of course, once they reach the price objectives.

STOPS

Immediately after your order is filled on either side set your STOP LOSS.

I do not suggest using 'mental stops' even if you can watch the market all day.

If you get your LONG order filled at 44.58 then you would place your stop loss order at 43.70 which is the low of the NIB minus one penny.

That tells your broker to sell your position if the price moves back to 43. 70. This is a stop loss order that will exit you from the position.

If you get your SHORT order filled at 43.70 then you place your stop loss order at 44.58 which is the high of the NIB plus one penny.

That tells your broker to buy back your position if th e price moves up to 44.58. This is a stop loss order that will exit you from the position.

Your potential maximum loss is equal to the NIB's range + one penny or 87 cents in this example.

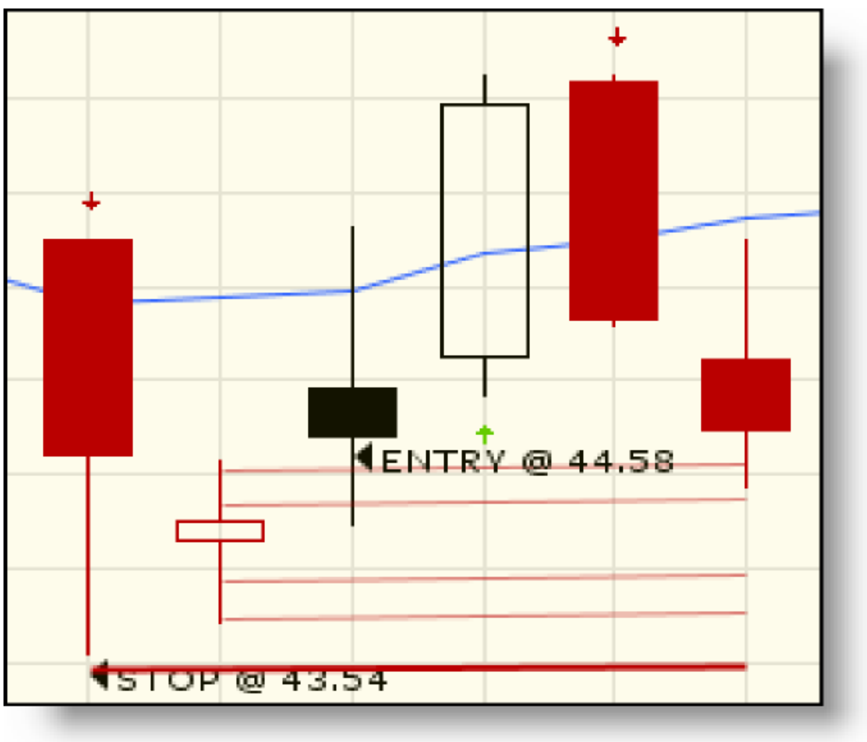
Remember there are other risks in holding a long or short stock posi tion which is beyond the scope of this report.

As your position hits your first Profit Target, you may consider moving your STOP to your break-even point which is your entry price.

As your position hits profit Target #2, raise your stop loss to profit Target #1... etc.

VARIATION: After your LONG or SHORT order is filled, you may also consider placing your stop at the low or high of the previous day's bar instead of the NIB low or high.

In this example I was filled on my long position at $44.58 and set my stop loss at the low of the bar on the day prior to the NIB as shown below at $43.54:



This gives the trade a bit more room to move, but of course, it also increases risk.

TRADE MANGAGEMENT

The benefit of this trade setup is that the entry is mechanical.

You do have choices in the trade when it comes to profit taking which we'll discuss shortly but once the trade is on, you should let it run.

There are no decisions to be made until the price reaches one of your targets.

If the trade goes against you and is closed out at your stop loss price, then you are out of the trade and no further action is required. Go on to the next trade.

VARIATION: For aggressive players only: If the stock breaks out to one side and then reverses, it may setup additional profit opportunities.

See "Fake Out" under ***Special Situations*** and Example Trade #5 below for additional information. It's mentioned for experienced traders only.

In most cases you're better off sticking with the primary criteria for entry and exits. There are plenty of opportunities.

CALCULATING PROFIT TARGETS

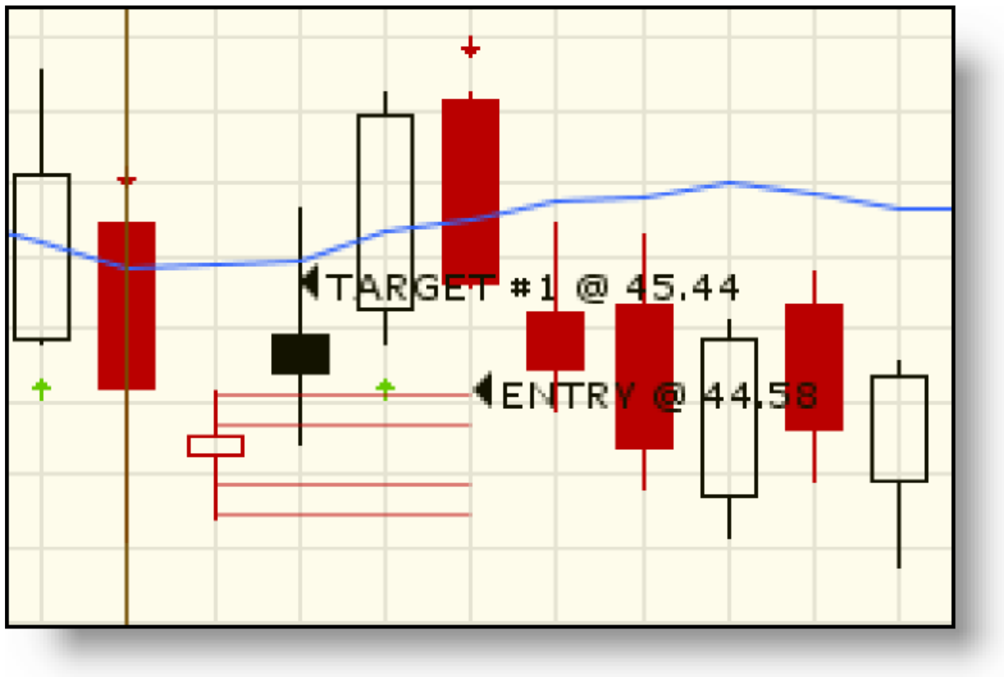
Profit targets are easy to calculate. There are 3 profit targets for each entry.

As mentioned, you have a high probability of hitting Target #1. Less than 1 in 6 of all trades will hit target #2 and less than 1 in 10 trades hit profit Target #3.

To calculate your profit targets take the NIB Range and subtract/add it to your entry prices for each target:

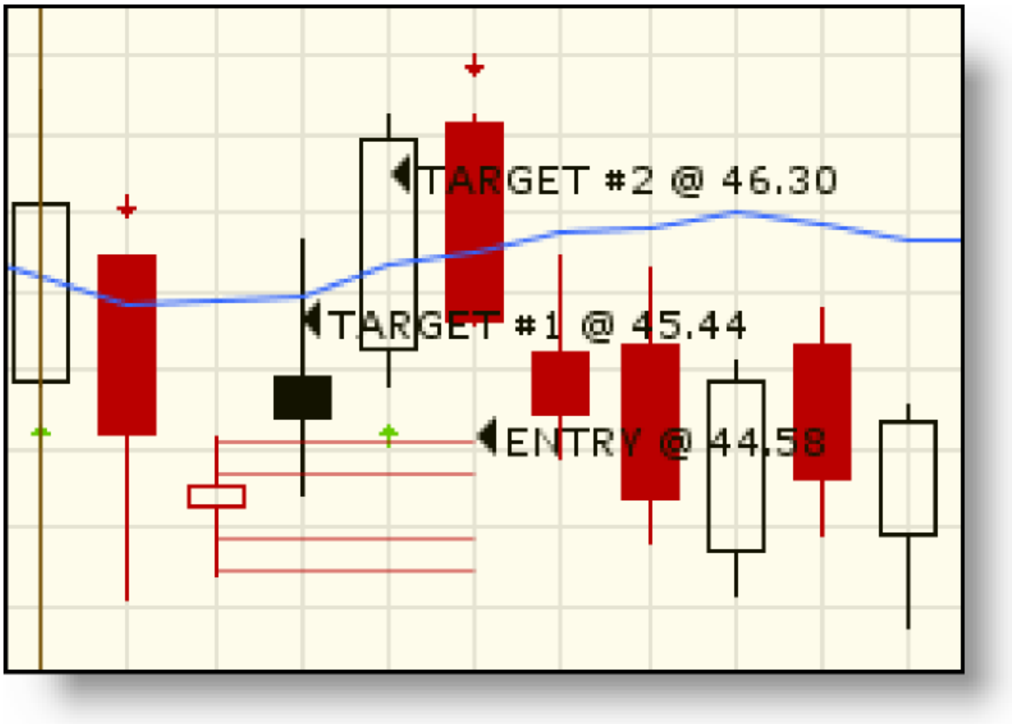
PROFIT TARGET 1:

LONG ENTRY **Profit Target #1 = $45.44** (44.58 +.86)
SHORT ENTRY **Profit Target #1 = $42.84** (43.70 - .86)



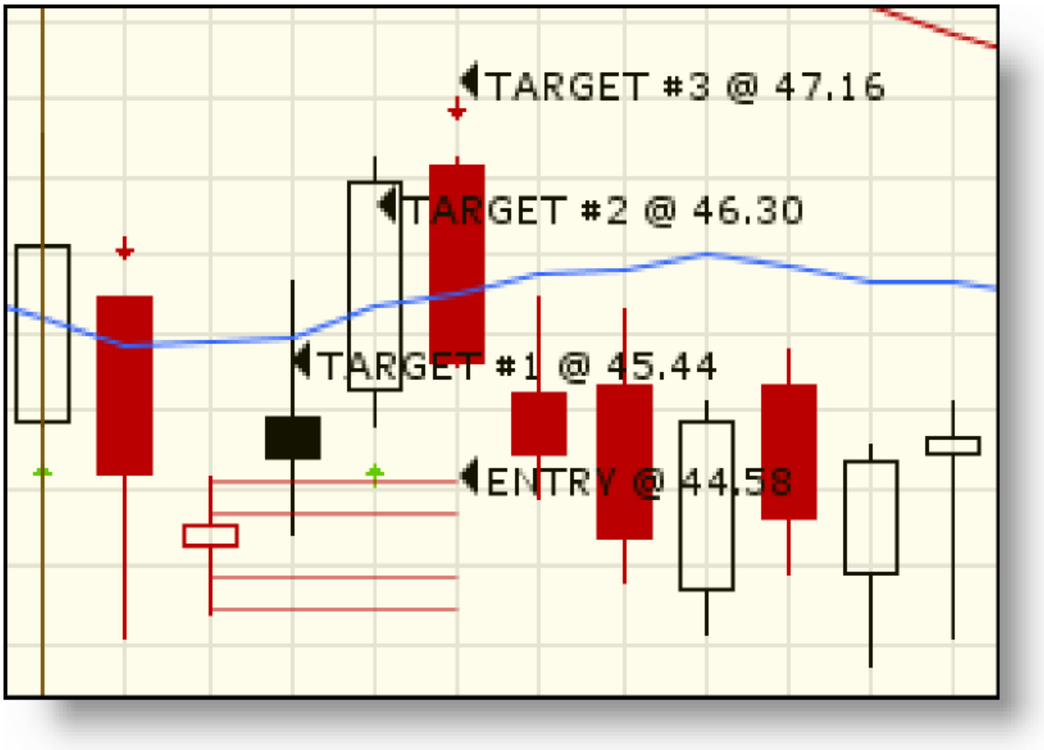
PROFIT TARGET 2:

LONG ENTRY **Profit Target #2 = $46.30** [44.58 + (2*.86)]
SHORT ENTRY **Profit Target #2 = $41.98** [43.70 + (2*.86)]



PROFIT TARGET 3:

LONG ENTRY **Profit Target #3 = $47.16** [44.58 + (3*.86)]
SHORT ENTRY **Profit Target #3 = $41.12** [43.70 + (3*.86)]



EXIT RULES AND STRATEGIES

There are 3 Rules when it comes to exiting this strategy once you have been filled:

> **RULE 1**) The position hits your stop loss (Losses are a part of the business. Move on to your next trade)
>
> **RULE 2**) You hit one or more of your Profit Targets (Best scenario!).
>
> **RULE 3**) We count the Inside Day we are using in the setup as Day 1. Exit your position on Day 4 or the close of trading on Day 3 - whichever is more comfortable with your style of trading. If you feel it has more potential to move in the direction of your trade, then exit on Day 4.

We close the position on Day 4 whether or not any Targets have been hit. (We don't hang around for this trade to work. Either it works or we get out. See comments below)

Conservative players will exit 100% of their position on hitting Profit Target #1.

A slightly more aggressive player may consider selling 1/2 their position a t Target #1, 1/2 of the remaining position at Target #2 and the remaining position at Target #3.

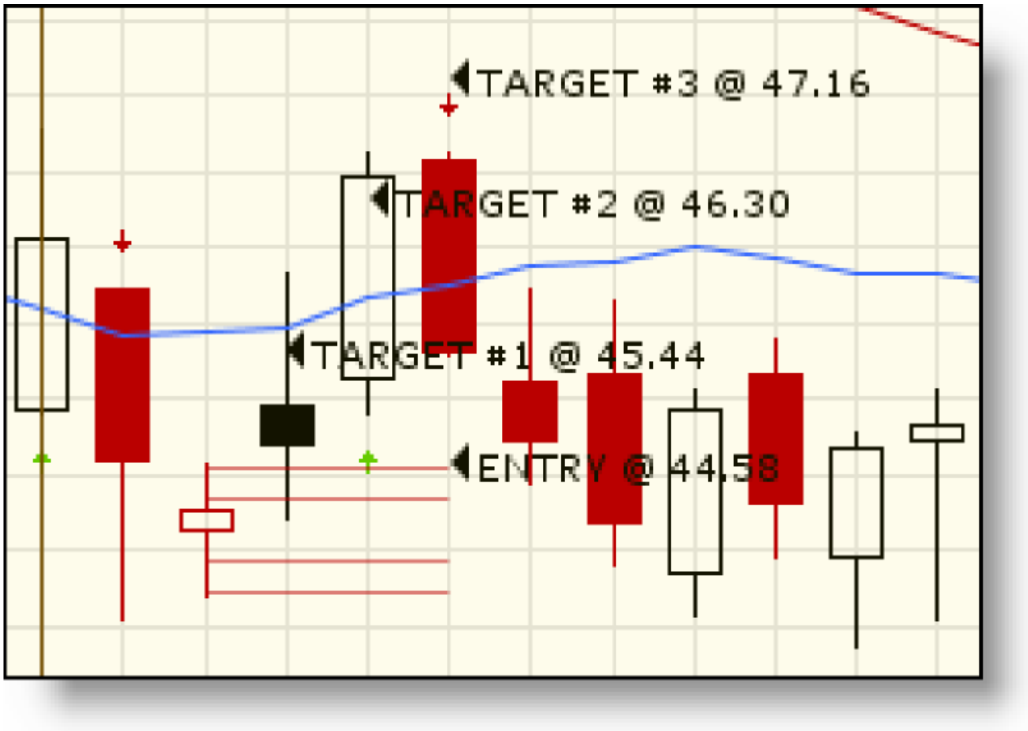
For example, if I placed an order for 500 shares I would exit 250 shares at Target #1, 125 shares at Target #2 and the remaining 125 shares at Target #3.

IMPORTANT: Once I hit Profit Target #1 and sell half my position I would immediately raise or lower my stop loss to my ENTRY price on the remaining shares in my position.

In other words, if I was LONG in our example I would sell half my position at $45.44 (Target #1) then IMMEDIATELY raise my stop loss to my ENTRY price of $44.58.

That would insure a profit on the trade for at least half my position and a *break-even* on my remaining shares.

Then, if I hit profit Target #2, I raise my stop loss to profit Target #1 , etc...



In our example (above) Target #3 was never hit and I would exit the remaining position at on Day 4 of the trade – in this case, I would be stopped out of my remaining position at profit Target #2 at $46.30.

The 4 Day Rule: We count the Inside Day we are using in the setup as Day 1.

Whether or not the stock hits our targets, we exit the entire position on Day 4 or the close of Day 3 whichever is more comfortable with your style of trading.

It doesn't mater if we've hit 1 or 2 or zero price targets, we exit the position, without hesitation, at the latest on Day 4. In th example above, since we hit profit Target #2 and it traded above that price I would set my remaining shares with a top loss at profit Target #2.

Why? As we mentioned, this trade is like a shaken bottle of pop, if it does n't move or stop us out, something is wrong and we get out.

More aggressive players may consider selling the majority of their position on Day 4 but holding a small position in case the position starts a late move or continues in the direction of your trade.

Special Situations

Gap DOWN: If the stock should Gap DOWN below your Short Entry price you don't need to do anything.

Keep your order in and let the price come back to your entry price. A gap down indicates strong selling activity (selling orders have been building up and entered before the market opens) usually has a higher probability of being a profitable short trade if your order is filled. If the price does NOT come back to your entry price DO NOT chase the trade, let it go. There will always be another one.

Gap UP: If the stock should Gap UP above your Long Entry you don't need to do anything.

Keep your order and let the price come back to your entry price. A gap up indicates strong buying activity (buying orders have been building up and entered before the market opens) and has a higher probability of being a profitable long trade if your order is filled. If the price does NOT come back to your entry price DO NOT chase the trade, let it go. There will always be another one.

Fake Outs: Example Trade #5 below demonstrates how a fake out occurs. One side will break through only to see it fail and reverse. Very often thes e are excellent candidates to trade!

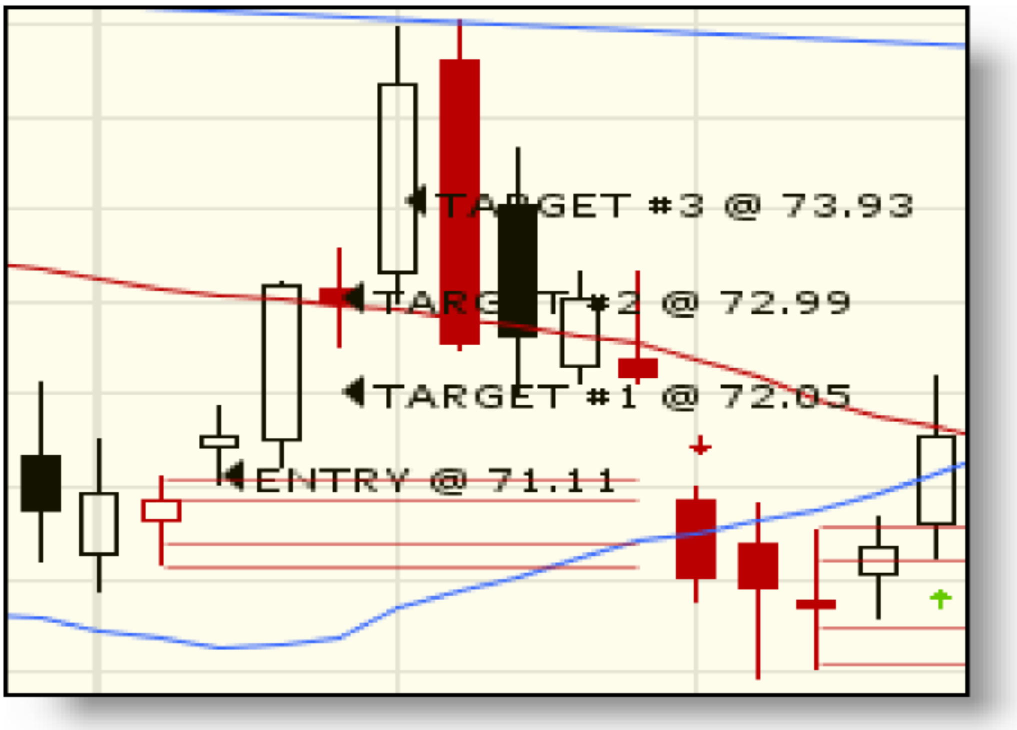
The reason is that if the break out fails in one direction the result is a 'piling on' of either bulls or bears in the opposite direction. You must be a confident and aggressive player to trade these fake outs, but the results usually outweigh the risks.

Conclusion

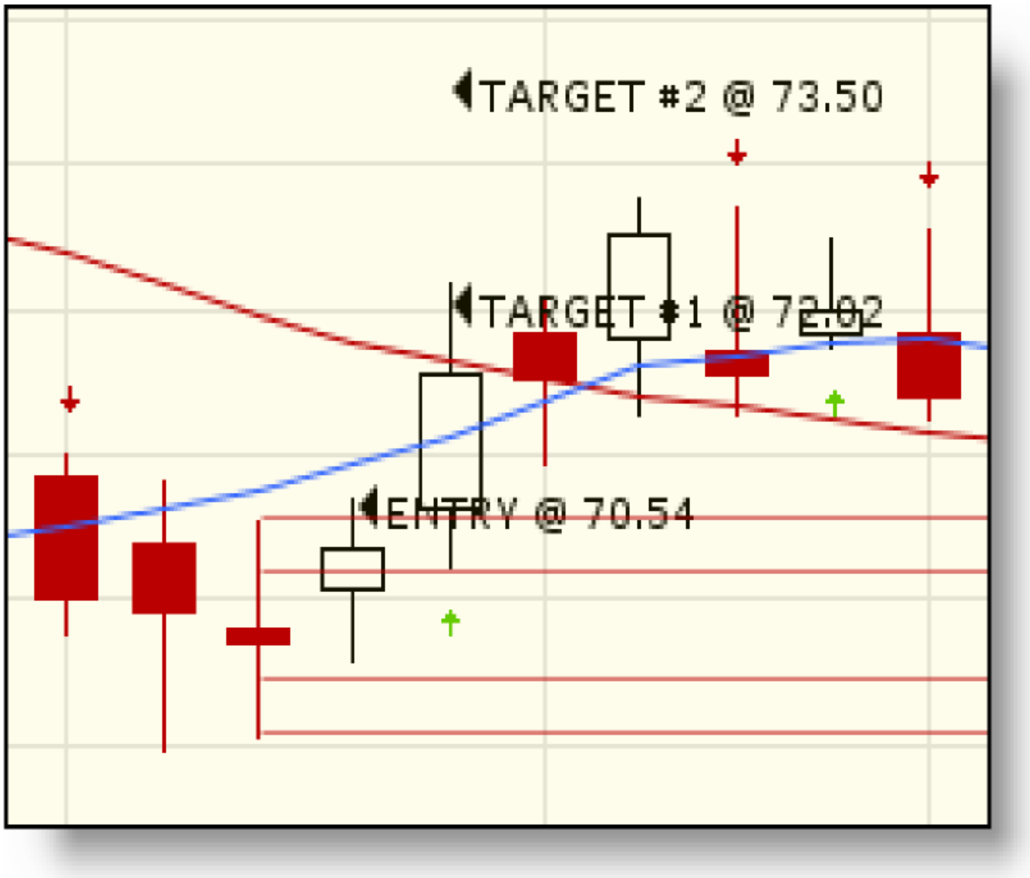
That's it! I hope you profit immensely from this strategy. Send us your feedback, questions and comments! Email: dave@nondirectionaltrading.com

6 CASE STUDY TRADES

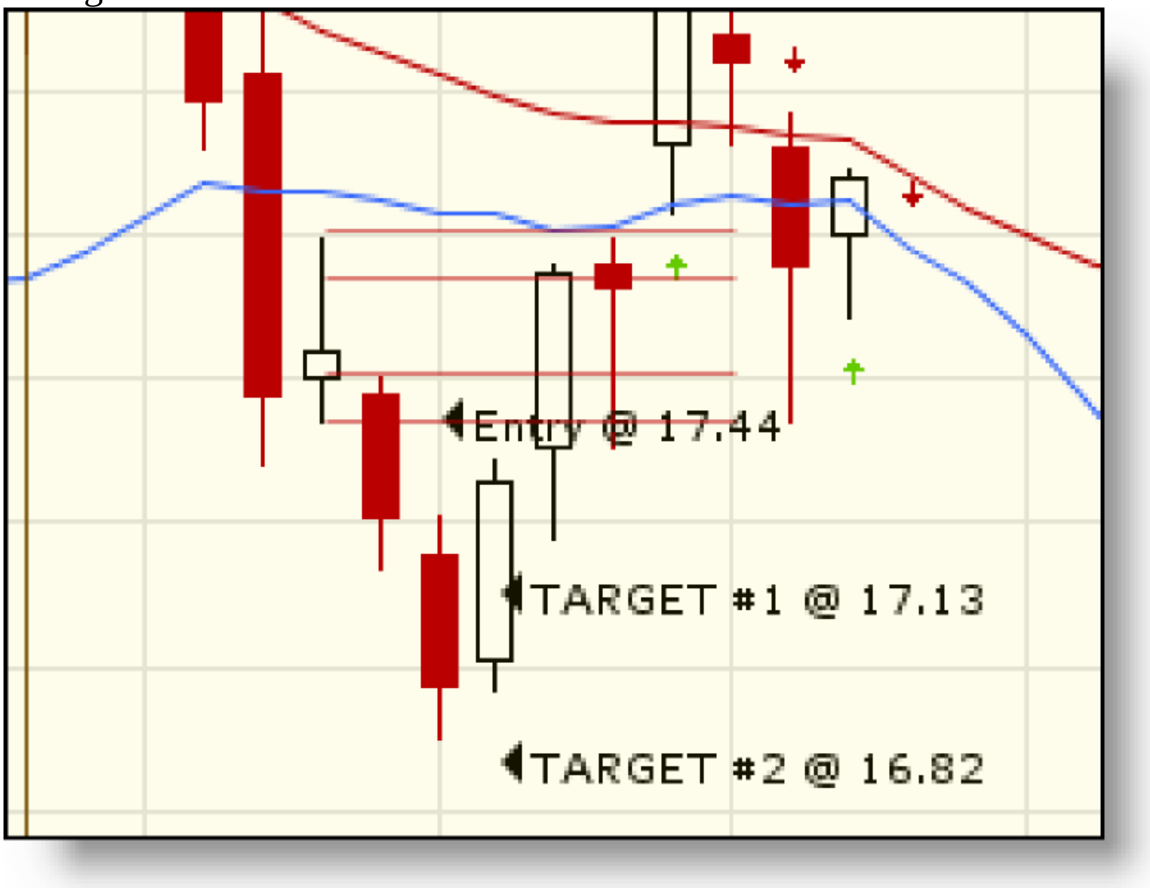
EXAMPLE #1
Date: December 4, 2007
Symbol: CAT
Profit Target Hit: #3



EXAMPLE #2
Date: December 19, 2007
Symbol: CAT
Profit Target Hit: #1

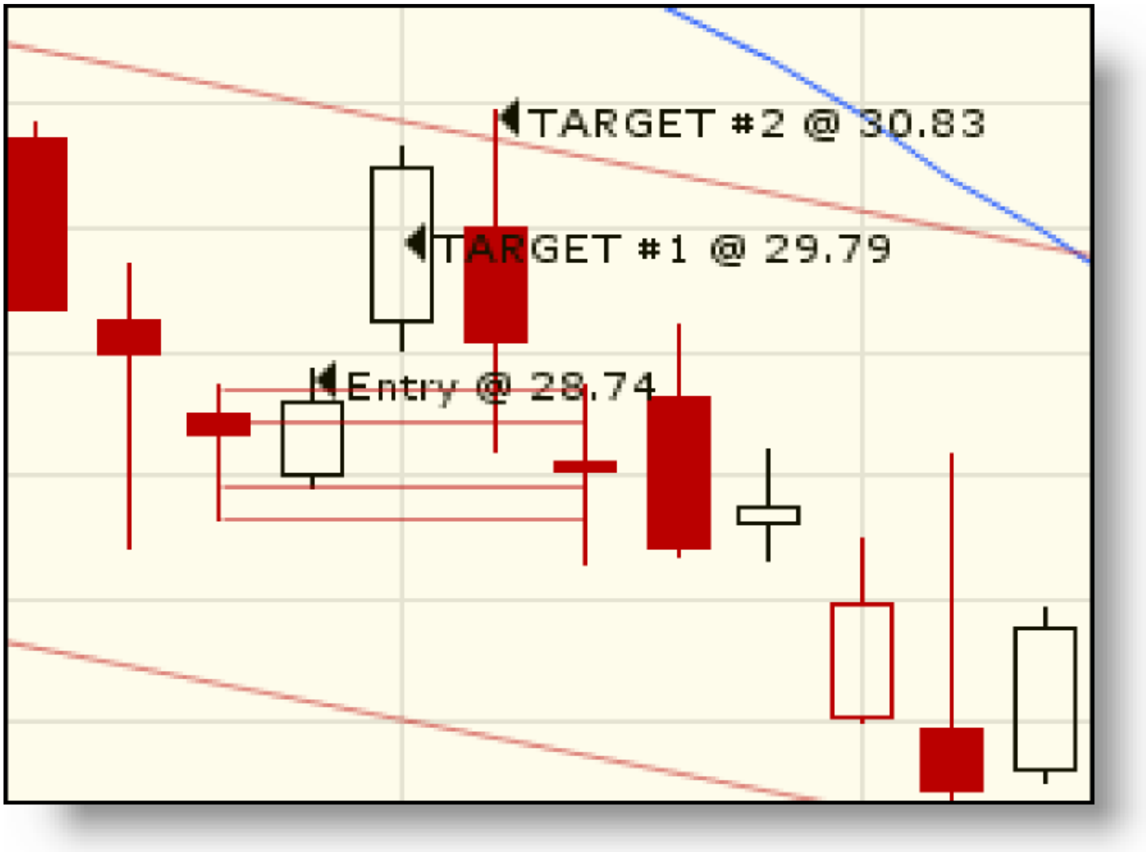


EXAMPLE #3
Date: April 10, 2008
Symbol: SBUX
Profit Target Hit: #1 *

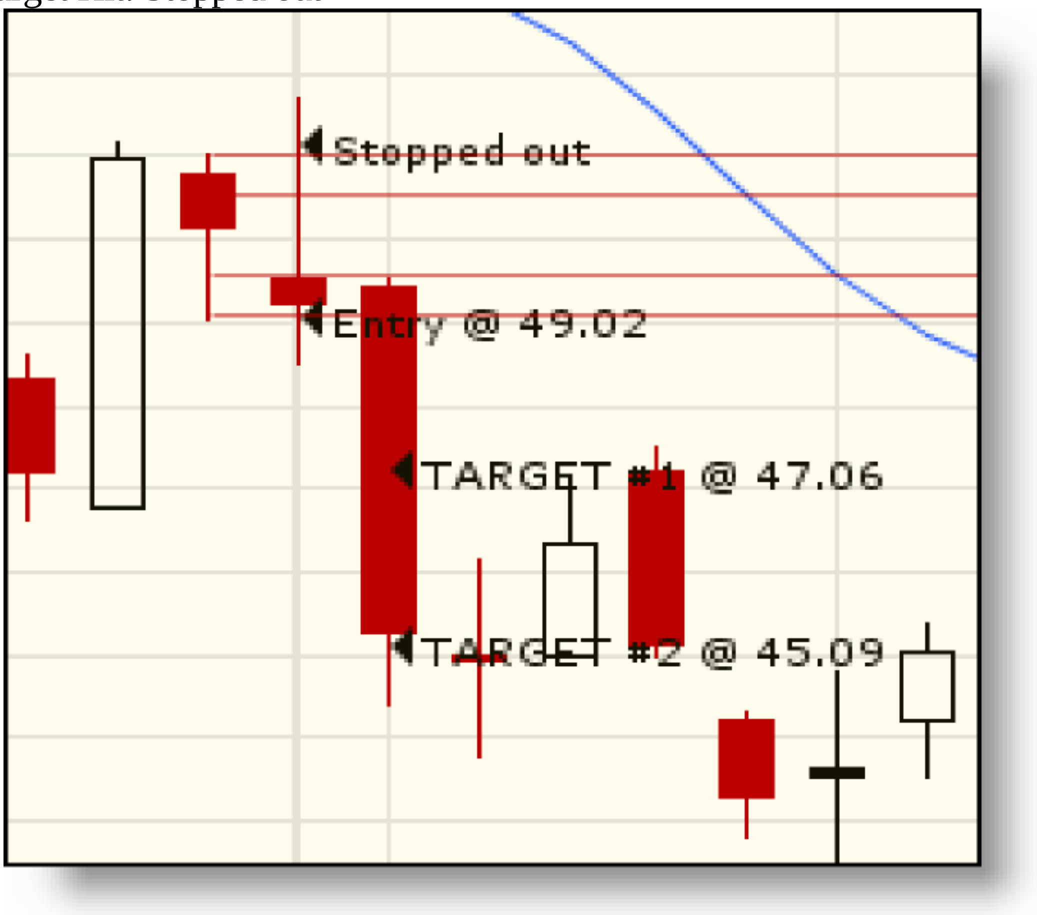


*The low on day 3 was 16.88 and did not hit our profit target of 16.82. Using discretion, you could have exited on Day 4 at the open if you saw the trend reversing or we would have exited the trade after raising our stop loss order to profit Target #1.

EXAMPLE #4
Date: January 10, 2008
Symbol: SNDK
Profit Target Hit: #2



EXAMPLE #5
Date: July 31, 2008
Symbol: CHK
Profit Target Hit: Stopped out*

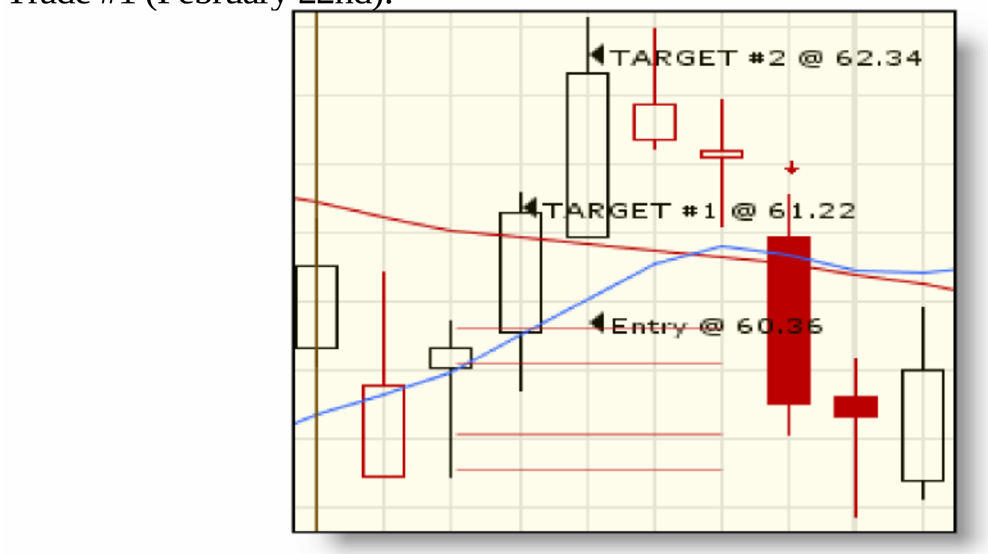


• Ironically this trade would have generated a large profit by hitting Target #2 but after getting our entry at 49.02 it reversed stopping us out at 51.01 before moving in the direction of our original short position. Aggressive players could have re-entered when they saw the large reversal at the end of Day 2, the same day we entered the position.

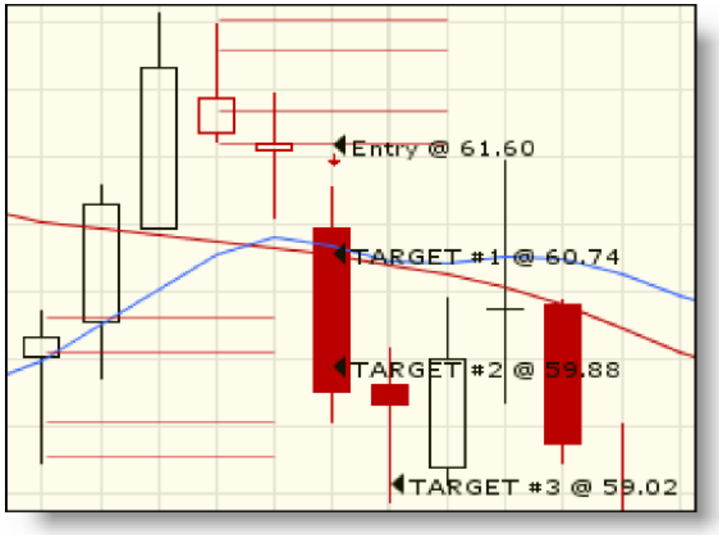
EXAMPLE # 6
Date: February 22, 2008 and February 27, 2008
Symbol: NKE
Profit Target Hit: Trade #1 hits Target #2 – Trade #2 hits Target #3!

Here's a nice setup! We get two trades on Nike within days of each other. Both setups hit multiple Targets for some nice profits.

Trade #1 (February 22nd):



Trade #2 (February 27th):


Entry @ 61.60
TARGET #1 @ 60.74
TARGET #2 @ 59.88
TARGET #3 @ 59.02