

## Trading Safely Using the ADX Line

- Market trending up, or going sideways.
- Avoid this play if market trending down.
- Look for waterfall shape (rather than a "grind down").
- ADX line breaks above 40 (50,60, or 70 better).
- Just an ADX breaking above 40 isn't a play. To be safe, you need the shape, capitulation and reversal signs, and market assistance.
- Capitulation/reversal candle(s) on bottom of trend (hammer, doji, etc.).
- Capitulation selling volume turns to massive buying at bottom.
- Trade off chart with the best shape (5,3, or 1). Get good at recognizing good shape!!!! It makes a difference!!!!
- Do not enter if ADX has not broken.
- If all the above is met, take long on the first break of the previous candle's high.
- Original stop at low of day.
- Resist urge to go break even too quickly, as if all criteria above are there, 80% will never go to low of day after entry, but being underwater for a while is common.
- Be patient on the retracement.
- Expect resistance on retracement from "left side" consolidations.
- It's okay/even smart to sell half or a third (or get very tight) on a third or half of the shares when safely profitable to protect against a possibly fall to the LOD.
- Obviously, if the market suddenly tanks when in a pfpd, consider getting very tight on the stop.

### Even better/other notes

- Shape into support on daily chart like 200MA or 50MA or area of previous support is a significant bonus.
- Stocks down significantly (5% to 30% or more) retrace better.
- ADX's of 50, 60, or 70 are even better if all other criteria met.
- Sharp ADX breaks better than "rounding" breaks.
- Upward retracement often mirrors left side fall.
- Beautiful shape down usually means nice shape up.
- Choppy shape down usually means choppy shape up.
- Fast falls down (falling knives) usually mean fast retracements (but can be tough for a new trader).

### More Notes

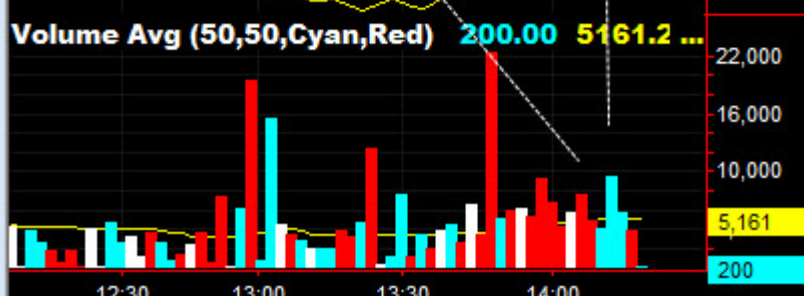
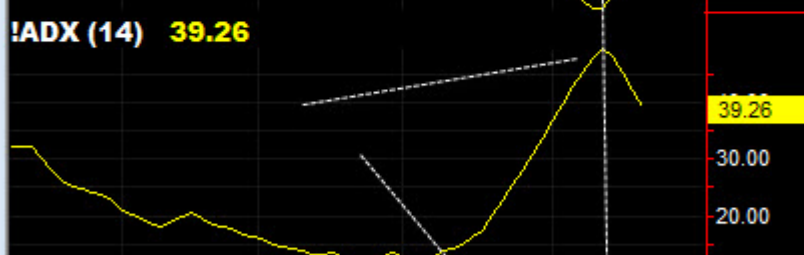
A trader should always do a "post trade review" of these trades. If the trade did not work, *review if all criteria was actually met*. Be honest with yourself. Common mistakes are entering before the ADX break, or entering when overall market is falling. Often traders find they may have made \$0.25 on these trades when the stock retraced a \$1.00 plus or more. They just get too tight with the stops!

Trust the pattern! A trader has to get good at identifying "shape" and "waterfall" patterns which takes experience. Obviously, shares/contract size must be considered. No pattern is 100%. However this one is 80% plus if you have all the criteria and you play it correctly.





**TTM - 2 min NYSE L=33.64 -0.76 -2.22% B=...**











Note: the first shape....





**Very Important Obvious Note:**

There is always a chance that any pattern/entry will not work. As with any size, do the math on your share size! What are you willing to lose if the trade goes against you?

A pfpd is basically panic selling. Picture the run on the bank scene in "It's a Wonderful Life" (if you are a millennial and haven't seen that movie, you should. It's on every Thanksgiving).

Genetically, we are programmed to run or fight when faced with danger. In the face of eminent danger, people get *panicked and irrational*. The bottom of a pfpd represents that panic... things can get really nutty there. Spreads can be nasty sometimes, fills can be bad. The bottom is where the battle is. In the "fight or flight response" is where the adrenaline and cortisol is released.... these hormones have one purpose....to keep us alive through the threat! We get tunnel vision when these hormones are released. To combat that tunnel vision, after entering the trade and safely above break even, keep your eyes off the one-minute chart. Force yourself to focus on the big picture.

As the cortisol and adrenaline is reabsorbed, tunnel vision subsides. Take a deep breath and see the big picture of the trade. It will keep you in longer.