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PROFITABLE DAY AND SWING TRADING

USING PRICE/VOLUME SURGES
AND PATTERN RECOGNITION TO
CATCH BIG MOVES IN THE STOCK MARKET

HARRY BOXER

WILEY

PROFITABLE DAY AND SWING TRADING

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PROFITABLE
DAY AND SWING
TRADING

Using Price/Volume Surges and
Pattern Recognition to Catch Big Moves
in the Stock Market

Harry Boxer

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This book is dedicated to my lifelong friend Gary Fishman, who passed away suddenly in April 2012. He and I learned the markets and technical analysis together from the time we were teenagers until his passing. We shared somewhat parallel investment paths writing investment columns in our respective college newspapers and then professionally in our early years of employment in Wall Street. Gary and I had planned to write this book together, and since he had just recently retired, the idea seemed to give him a spark of excitement. I count him among my best friends in life and miss him dearly.



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PREFACE

For most of my nearly 50-year trading career I have been told or asked many times to put it all down on paper and write a book on my knowledge, trading experiences, and personal methods of technical analysis. I just wasn't ready or motivated to do so until now. Likely, this has at least partially developed as a result of doing many online live webinars and personal training seminars for Worden Brothers, as well as speaking at many traders' expos and money shows over the past decade or so.

I've also come to see and feel that I truly enjoy the teaching aspect of technical analysis. Educating traders and investors on my site, thetechtrader.com, affords me that opportunity each and every trading day. The interaction with my subscribers, positive comments, and testimonials I have received over the years have not only been appreciated but very gratifying as well. This, too, has added to my desire to get this book written.

For many years I hesitated to write this book because by nature I am not a patient person or personality type for the most part. That's pretty typical of Sagittarians. However, I now believe that age has mellowed me enough and increased my desire to write this book as an educational tool to assist traders of all types in enhancing their knowledge base and trading skills.

I live and breathe charts and technical analysis and have read most of the generally accepted important books on the subject over the years. I can speak for hours and days on the subject and often find when my hour to speak has ended I've barely scratched the surface of what I wanted to cover. This book is meant to complete that presentation in more depth.

If you are a trader who hungers for more in-depth knowledge of technical analysis, especially as it relates to methods of day and swing trading, this book is for you! However, traders with longer-term horizons will also find great benefit, as the concept and rules in this book apply on all time frames.

I truly believe that no matter what level of trading experience you have, after reading this book, you'll find you have likely enhanced your skill set and become an even more efficient and, most important, more profitable trader.

ACKNOWLEDGMENTS

I want to acknowledge several people who were largely responsible for my progress and successes over the past 50 years. First, Hank Greenstein was responsible for introducing me to charting and technical analysis. My former brother-in-law, Stephen Feldman, was an early supporter of mine and cocreated our investment club in our late teens; he greatly increased my interest in investments and technical analysis. Joel Bernstein was one of my early mentors and supporters, who encouraged me to have a career in Wall Street. Harris Shapiro, over the past 20 years or so, has greatly assisted and supported me. Harris is responsible for recommending me and introducing me to my current partner in our web site. I remain close friends with him and collaborate daily on investment ideas. I owe Harris a lot for his continual confidence in me to this day. Finally, but certainly not least, I thank my wife, Denise, and daughters, Taylor and Rylee, for putting up with my many days and hours away from them, traveling to speaking engagements and focusing daily on my chart analysis and web site.

ABOUT THE AUTHOR

Harry Boxer has more than 45 years of Wall Street investment and technical analysis experience, including 8 years on Wall Street as chief technical analyst with three brokerage firms. He won the 1995 and 1996 worldwide Internet stock-market trading contest, “The Technical Analysis Challenge,” sponsored by AmericanInvest.com. Boxer is widely syndicated and a featured guest on many financial programs and sites, including CNBC, CBSMarketWatch, Forbes.com, DecisionPoint, and many more. In addition, he conducts nationwide training seminars on his methods for Worden Brothers. He is currently cofounder and chief writer of The Technical Trader (www.thetechtrader.com), a real-time diary of his trading ideas and market analysis, and is also a technical consultant to many Wall Street hedge funds and large institutional traders.

My Journey as a Trader

When I was in my early teens, I became intrigued by the stock market, how and why it moved, and how I could possibly analyze or gauge those movements to benefit financially. I was constantly scouring the newspapers for unusual stock movements using closing prices and wondered how could I use that information in an organized manner for profitable investing.

My big aha moment came a couple of years later when I met a cranky old stockbroker named Hank Greenstein. During the summers in the early 1960s, my parents rented a bungalow in a bungalow colony at Greenwood Lake in upstate New York (quite typical of many Jewish families during that period). Hank was a neighbor in that colony, and I had several conversations with him about the market and investing after I heard he was a stockbroker. One day after Hank and I talked for a while about investing, he said, “Young man, you are very bright and inquisitive and tuned in to the market in a way I have never seen in a young man.” He then said to me, “Come over to my place. I want to show you something related to investing I think you’ll be very interested in.” Hank proceeded to show me something he created by hand called stock charts on graphic chart paper. He literally would add a vertical line or bar to the graph each day showing the high, low, and last closing price. That was certainly a painstaking process, indeed, requiring patience for the patterns to develop over a period of time until they became useful enough to trade on. Keep in mind this was 20 years before the first IBM PC hit the market and the subsequent arrival of charting software!

To say the least, I was very excited! Had I found the “Holy Grail” for stock investing and trading?? My thoughts ran to how I could use this method for myself, and I asked Hank how I could learn more about this. He suggested I read *Technical Analysis of Stock Trends* by Robert Edwards and John MaGee (now widely considered the “bible” of technical analysis).

Based on the charts Hank had created by hand, he recommended three stocks to me in 1962 (shortly after the market had tanked during the Cuban Missile Crisis). Those three stocks were Chrysler (nearly bankrupt earlier), now around \$4; U.S. Steel, around \$18; and Sperry Rand (maker of the first large mainframe computer UNIVAC), around \$13. I decided to invest my summer earnings of \$3,000 (a lot at that time) in all three, and the rest is history! Sperry ran to over \$40, U.S. Steel over \$80, and Chrysler more than 10-fold over \$40! Wow, I certainly was hooked for life!!

When I was back in New Jersey at home late that summer I acquired the book and

immersed myself in it. I was fascinated and totally engaged. As a matter of fact, I then read it again. Over the years, I have read it six or seven times as a refresher—just to make sure I wasn't getting into bad technical habits or overusing certain technical formations because I was "comfortable" with them.

After high school, I started an investment club called the "Mutual Growth Fund of New Jersey" along with my best friend at the time (Gary Fishman), my sister's boyfriend (later husband), Steve Feldman, and his best friend, Neil Prupus, who was a finance major, both in school at Rutgers University in New Jersey. We took approximately \$4,000 dollars and later added quite a few more of our friends and associates. Over the next couple of years using primarily technical analysis, we built the club's assets to nearly \$120,000 on an investment of just 30,000!

At that time I also started an investments column in my college newspaper at Fairleigh Dickinson University called "The Traders Corner." By doing that column I was able to write down my thoughts and market ideas, which helped me hone my technical analysis and trading skills as well.

During college I often found myself at a broker's office sitting in front of the big electronic tape that scrolled across the top of the room in front where many seasoned (and older) traders congregated. They considered me a young whippersnapper until they saw how well my ideas worked and became curious how I came up with my picks. They were amazed at my knowledge and feel for trading, as well as my fearless approach. An example was a trade I made on then market darling Syntex (the first company to develop a birth control pill). I saw it run from \$190 to \$250 in just a day after it had run earlier in the week from \$150. I decided it was overbought and shorted it near the high and within a couple of days covered it under \$200 for a quick 50-point gain!! I quickly became their friend (as you can imagine!) and became part of the trader's gang at the office. That's where I met Joel Bernstein, assistant manager and also a technical analysis advocate. When he saw the depth of my technical skills, he introduced me to the branch manager, Bill Somekh, who asked me if I would be interested in a career as a stockbroker after I graduated from college, which I was thrilled about. However, he wanted me to get some brokerage experience first and suggested I find a position with a smaller Nasdaq firm where I might build my book of clients and then come to work at his office, which I proceeded to do. I found a broker training position at a small firm called Carlton Cambridge in Fort Lee, New Jersey, and worked there for about two years or so before moving to Bill and Joel's firm, Weis Voisin & Cannon.

Later on, I moved to New York City and took a position with Pressman, Frohlich & Frost to be at the heart of Wall Street. They quickly were impressed with my technical knowledge and suggested I write a weekly technical letter for the brokers at the firm called "The Traders Corner." Sound familiar? My experience there was immense. I got to see how the "Street" works close up and interfaced with many big traders and fund managers who loved my technical skill set. It was the mid-1970s, and volume on Wall Street was still quite paltry compared to current or recent levels. As a young man with very little experience as a broker and low volume levels on Wall Street, commissions were hard to come by, and I was not being compensated for my weekly newsletter, other than a larger commission percentage take. Then came the Nixon bear market in

1974, and most brokers suffered big commission drops and loss of income. I witnessed several brokers' career demise and departures and eventually decided to leave Wall Street a disappointed young man.

During the following 20 years I continued to trade actively and hone my technical analysis skill set while employed in the executive search business and excelled in that field as well. I continued to read every book on technical analysis I could get my hands on. I eventually decided to make the move to California and started my own executive recruiting firm (now the largest in Los Angeles). However, my love for trading and technical analysis was rekindled with the advent of personal computers and charting/trading software programs that just kept getting better and better.

In 1993 I found TC2000 or TCNET (by Worden Brothers) and have been using it ever since. I eventually began doing webinars and then training seminars for the Worden seminar training series. For me it's clearly the best charting software on the market and continues to evolve with more and more features and programs at every new release. I highly recommend it.



In 1995, with the Internet becoming more and more popular and expanding rapidly, I found a trading contest called "The Technical Analysis Challenge" and entered it for kicks (no prizes were awarded, especially during the internet's infancy). I astounded the founder, Neil Hughes, with a winning percentage of 135 that year, and he encouraged me to enter again in 1996, which I did and won again! That year my gains were 148 percent. Neil asked me to fly up to Seattle, where he lived, to discuss starting a technical web site, which I agreed to! We named it—what else?—The Traders Corner! We had some success with building subscribers, but during the early development of the Internet, it was very difficult to get people to pay for anything. Most curious surfers were trying to get something for free and not yet convinced the Internet was anything more than an information-for-free tool! After about 18 months, I decided the effort I was putting into it was not giving me the financial returns I wanted, so I decided to discontinue the service.

By 1999 the Internet and the stock market were becoming popular and very active places, and the development of the Internet with faster servers and the advent of computerized and online trading, I believe, was a chief reason for the boom in the markets, especially Nasdaq.

At that time, a friend of mine from my prior Wall Street days, Harris Shapiro (now a close friend of mine), recommended me to an executive he knew at a fast-growing Internet investments services site called America-Invest. com. Its parent New York Stock Exchange-listed GlobalNet was America-Invest.com International, which had similar sites unique to many countries. The editor of America-Invest.com was Richard Hefter, who was asked to call and interview me for a possible spot on their site to do a technical analysis section. When I arrived at their offices in Santa Monica, California, in 1999, Richard and I had a casual conversation about what I my knowledge was and what I could bring to the table. He finished our talk by asking me my technical opinion of Yahoo!'s chart. I believe it was about \$240 a share at that time. After reviewing and analyzing the patterns and technicals, I projected a target over \$400 over the next four to six months, and he was astounded—he even chuckled! When Yahoo! reached \$400

in just a few weeks, Rich called me to offer me a position, which I agreed to, but only on a part-time basis. I was still engaged in my executive search profession and doing very well. He agreed and we decided to call my section of the site “The Technical Trader.”

As most of you know that time was not long before the great bull market top and implosion in March 2000, which caused the collapse of many Internet companies, including GlobalNet and America-Invest.com. When it all came apart Richard Hefter called me with an astounding fact. He said that my section of the site had more page hits than all the others sections combined! He suggested that we should get together and form a new site of our own, which officially started in July 2001. And that’s how our current site thetechtrader.com got started.

In the past 12 years of trading, our site has evolved from short and intermediate trading and stock picks to day and swing trading for the most part. This was a result of my pattern recognition skills, noticing that those patterns form similarly in all time frames and may be used intraday, as well, for successful day and swing trading using 1-, 5-, and 15-minute charts in conjunction with the daily patterns.

Our site has had dramatic growth in the past few years, especially when we added a trading chat room and introduced intraday live analytical videos that monitor the progress of chart patterns we are trading (I’m told a very instructive learning process for my subscribers). We also do nightly summary videos and Saturday morning weekly webinars as well, as part of our current service.

I have found over the several decades I’ve been actively trading that technical analysis is a long-term learning process. Unfortunately, many of the best traders I know had to learn from making mistakes earlier in their trading careers! The key to trading is to review every trade after it’s completed to see why decisions were made, what resulted, and what lessons can be learned from those trades. Only then can you really benefit and learn from your own educational process. Use it! I am astounded how many traders do not do this and continue to make the same mistakes over and over, eventually blowing themselves out of the market with a major percent of their capital wiped out. The purpose of this book is to teach traders not only about my technical analysis skills and how to use them for profitable trading, but also how one must be disciplined, using rules and stops to protect trading capital, at all times. The challenge is to always preserve your capital with protection so you can trade another day!

Preparing for the Trading Session

The trading day does not just begin at the opening bell. Ask any successful trader and you'll discover he has a routine leading up to the trading day that is nearly as important as what goes on during set trading hours. Preparation is the key to many things in life, and trading is no exception. In this chapter, we'll cover premarket preparation and analysis, which includes a review of the closing patterns from the prior session and a look at the premarket news and resulting price action.

■ Analyzing Patterns from Previous Trading Day

Proper premarket preparation always starts with analyzing the closing patterns of interest from the prior session for possible strong “setups” for the next day trade. This should be done after the close of the prior session (or during that evening) before the next session begins. My strong suggestion is that you do your work when it’s fresh in your mind and prepare your watch lists before the next day, when you should be monitoring premarket news and price action for possible trading candidates. In any case, you are looking for key bullish price action with relatively higher volume than normal, hopefully on a significant price volume surge through a key technical resistance or support level or zone. You should be on the lookout for following bullish/bearish consolidations or orderly retracement patterns such as flags, wedges, coils, pennants, and so on.

The preceding patterns have distinctly different formations, although coils, pennants, and wedges may at first appear similar, and all eventually will move toward an apex or narrowing of price pattern until the lines meet. Coils usually are narrower at the start and then price moves in a smaller decreasing range. Pennants, although very similar to coils, are usually smaller and tighter and shorter in time. Wedges can and usually do start with a wider price range and appear more symmetrical or triangular than coils before also narrowing toward the apex. Bull flags are more orderly and tend to remain in a parallel pattern, ideally moving in a lateral direction or with a slightly upward or downward micro trend.

These patterns may be precursors or setups for the next move or extension of the prior move, otherwise called a possible new wave or leg up. Stocks that have those characteristics should be put on a “trading watch list” or “focus list,” so they can be closely monitored for possible trades the next session and going forward.

(See three examples of pennants, coils, and flags in one intraday session trend, resulting in additional up legs in [Figures 2.1](#) through [2.3](#).)

[FIGURE 2.1 58.com](#) (WUBA)



As you can see in [Figure 2.1](#), WUBA displayed an opening gap on a 2-minute chart, which was followed by an early mini bull pennant formation. That then elongated into a 3-hour bull coil. The pattern then breaks out and later on results in a 2-hour bull flag that also breaks out, extending the session run to near the close for a very nice day trade of nearly \$3.50 or more than 10 percent.

[Figure 2.2](#), on a 1-minute chart, shows a strong intraday move by ZHNE: first the opening price volume surge gap, followed by a large bull wedge. Later during the session a bull flag and two bull coil continuation patterns developed and were precursors to the continuation of the intraday trend and up channel extension to the close resulting in nearly a \$1 gain or more than a 20 percent day trade!

In [Figure 2.3](#), Foundation Medicine (FMI), we see several early mini bull consolidations (coils, pennants, and flags) followed by a strong spike surge to a midday top. Then a late afternoon 3-hour bull coil forms. The pattern resulted in nearly a 20 percent gain from the breakout of the first morning mini coil.

These patterns may be precursors or set ups for the next move or extension of the prior move, otherwise called a possible new wave or leg up. I've found over the years that stocks tend to move in steps or waves and that very often important moves occur in five waves (three up, two down or sideways consolidations) and any time frame, as well! Obviously, the opposite will often occur in important down moves. We'll cover this subject in more depth in a later chapter, but [Figure 2.4](#) shows some examples of five-wave intraday moves.

In [Figure 2.4](#) the VISN chart shows an example of an intraday five-wave move up