



Bollinger Bands

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Introduction

This document will serve as an aid to the video / class provided on Bollinger bands.

We will start off with chart snap shots of signals that Bollinger bands will give you.

Here's what we'll cover..

Were looking for 4 set-ups as follows...

1.) **Bullish Squeeze** - A bullish squeeze is a constricting Bollinger bands where price is riding the new expanding band to the upside. The upper band is pointing up, and the lower band is pointing down. The more vertical, the stronger the potential move. Also look for the break-out candlestick to have a little more range than that of previous candlesticks.

Look for RSI below 30-50 and rising and look for bullish stochastics.

**Look for the VIX to make a 12-15 day high.

Look for up trending stocks, and use the bullish squeeze to enter the continuing trend.

2.) **Bearish Squeeze** - A bearish squeeze is constricting bands where price is riding the new expanding lower band to the down side. The upper band is pointing up and the lower band is pointing down. The more vertical the two, the stronger the potential move. Look for the break-out candlestick to have a bit more range than the previous candlesticks.

Look for RSI to be 50-80 and falling. Look for bearish stochastics.

**Look for the VIX to make a 12-15 day low.

Look for downtrending stocks, and use the squeeze to enter the continuing trend.

3.) **Bullish Reversion** - A bullish reversion is where the stock is up-trending nicely, and price pulls back to the lower band(s). I use a 2.0 and 3.0 band so I look for a close and reversal between 2.0 and 3.0 or better for a potential entry.

Look for RSI to be below 30-50 and rising, look for bullish stochastics.

Your entry should be on a bullish candlestick that has already reversed into the pre-existing trend. You can also wait for the next candles open. Look for the open on the second candlestick to be greater than the previous candles open.

** Look for the VIX to make a 12-15 day high.

4.) **Bearish Reversion** - A bearish reversion is where a stock is down trending nicely, and price pulls up to the upper Bollinger band(s) Again I use a 2.0 and 3.0 STDV so I look for price to move up into and between the 2.0 and 3.0 bands.

Look for RSI greater than 50-80 and falling. Look for bearish stochastics.

Your entry should be on a bearish candlestick that closes outside and lower than the upper bands. You can also wait until the seeing the open of the next candlestick to be below the open of the previous.

**Look for the VIX to make a 12-15 day low

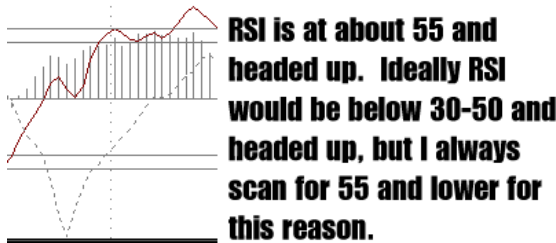
**VIX - The relationship between the VIX and stocks is an inverse one. When the VIX is making a 12-15 day low's we look for it to reverse. If the VIX reverses off of a reasonable move down, we can anticipate our stock prices to begin to make highs.

You don't have to use this rule, but you will find a greater degree of success if you VIX. You can be a bit flexible, but the bottom line is the VIX is an excellent indicator to apply.

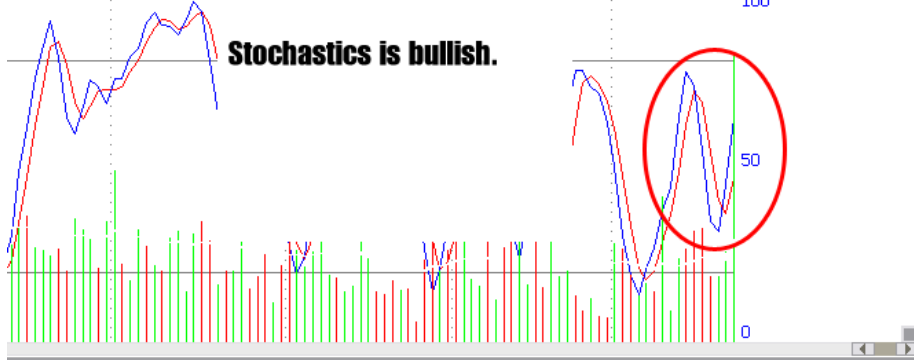
Bullish Squeeze



Here is your classic expanding bands. Price is right on top of the upper bands and moving up. Both the upper and lower bands are headed up and down respectively.



RSI is at about 55 and headed up. Ideally RSI would be below 30-50 and headed up, but I always scan for 55 and lower for this reason.

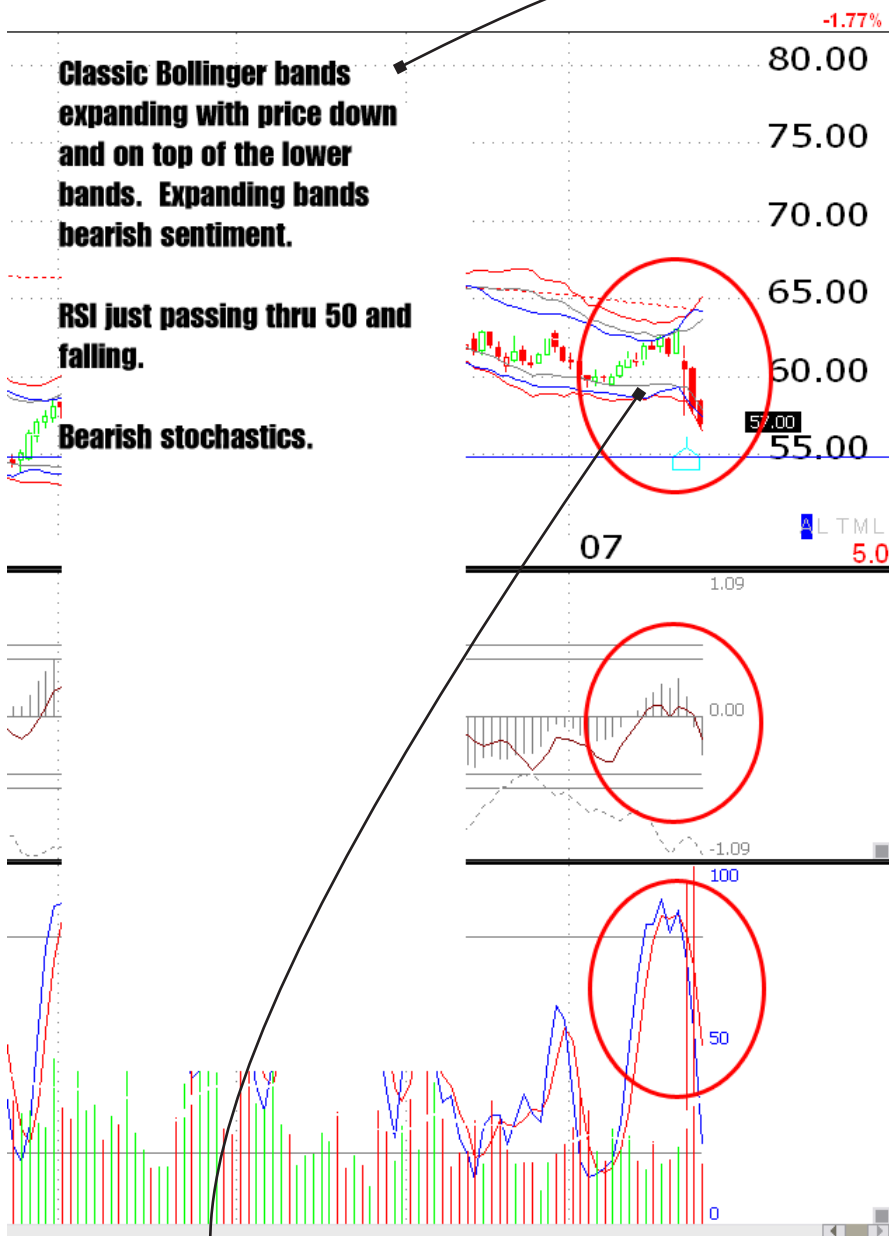


Stochastics is bullish.

Additionally look for ADX to be above 30 and the +DI reading to be greater than -DI.

Taking a bullish position we can also look for the VIX to make a 12-15 day high.

Bearish Squeeze



Classic Bollinger bands expanding with price down and on top of the lower bands. Expanding bands bearish sentiment.

RSI just passing thru 50 and falling.

Bearish stochastics.

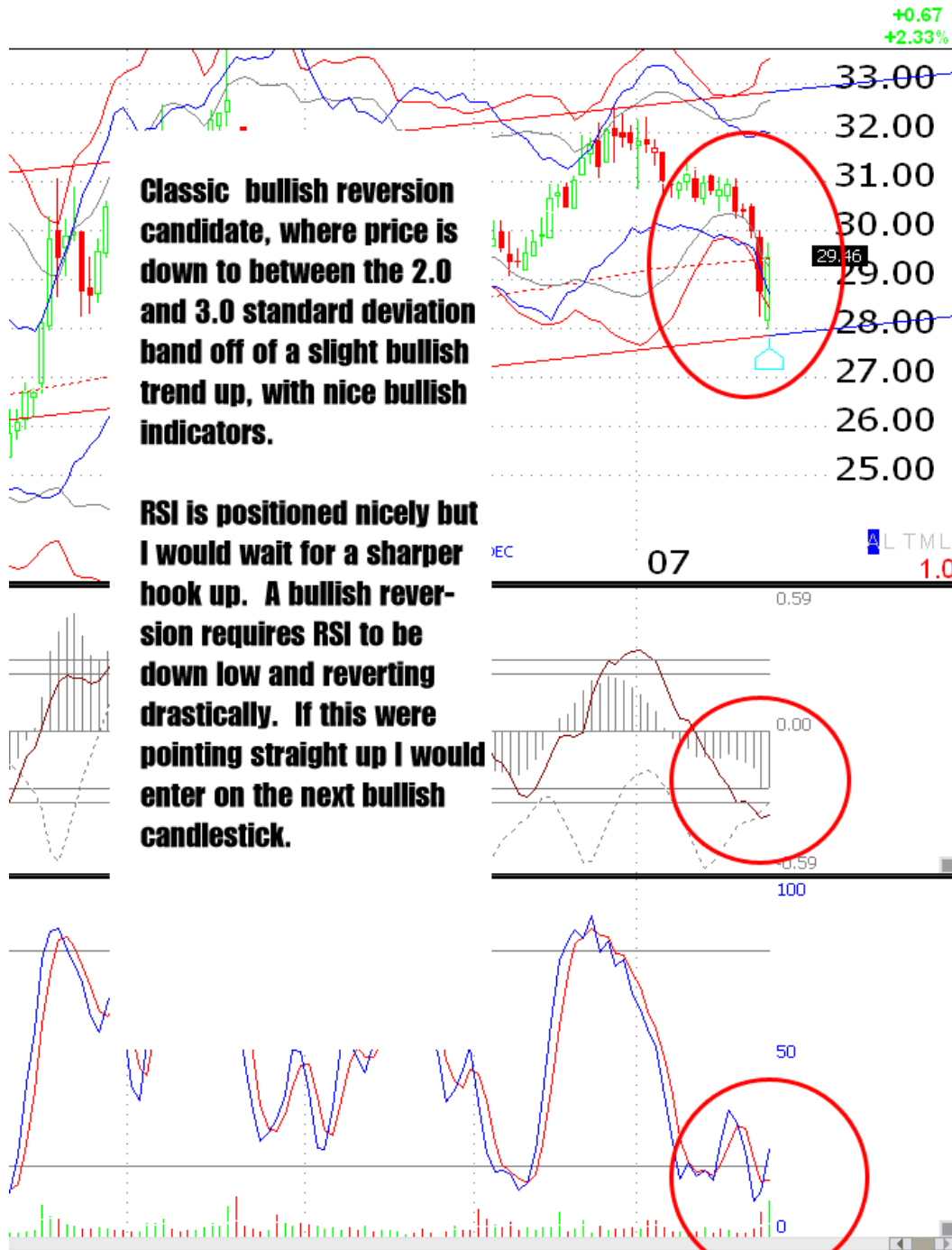
Additionally look for ADX to be above 30 and the -DI reading to be greater than +DI.

Taking a bearish position we can also look for the VIX to make a 12-15 day high.

We would prefer RSI above 50-80 and falling but that won't always happen. This is about as far down as I would take a trade (40). I would take this because is still pointing straight down.

Notice how we had a sell signal here about 5 bars back in the over extended upper and lower bands.

Bullish Reversion



This trade is almost ready. We're looking for the next candlestick to demonstrate some strength, we want RSI to get a little more vertical, and we want the markets to be with us with some bullish sentiment.

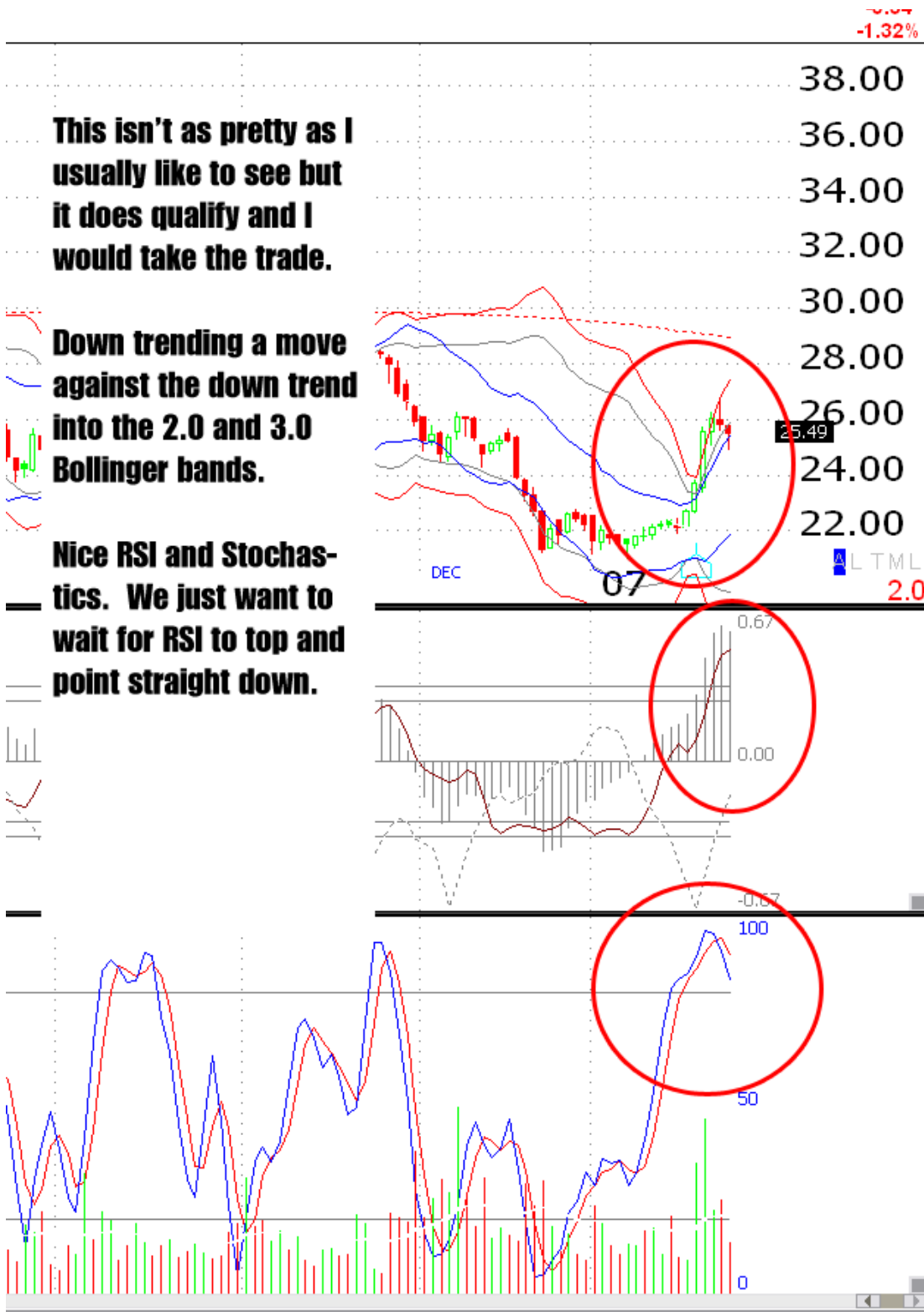
We can also look to the VIX for a 12-15 day high.

Bearish Reversion

This isn't as pretty as I usually like to see but it does qualify and I would take the trade.

Down trending a move against the down trend into the 2.0 and 3.0 Bollinger bands.

Nice RSI and Stochastics. We just want to wait for RSI to top and point straight down.



The key to applying the reversion technique is to find stocks that are down trending.

Sometimes you will stop out because price has actually reversed. Use your indicators and watch price closely after you enter to be certain you are correct in your assessment.

Wait for RSI to turn over and fall before entry.

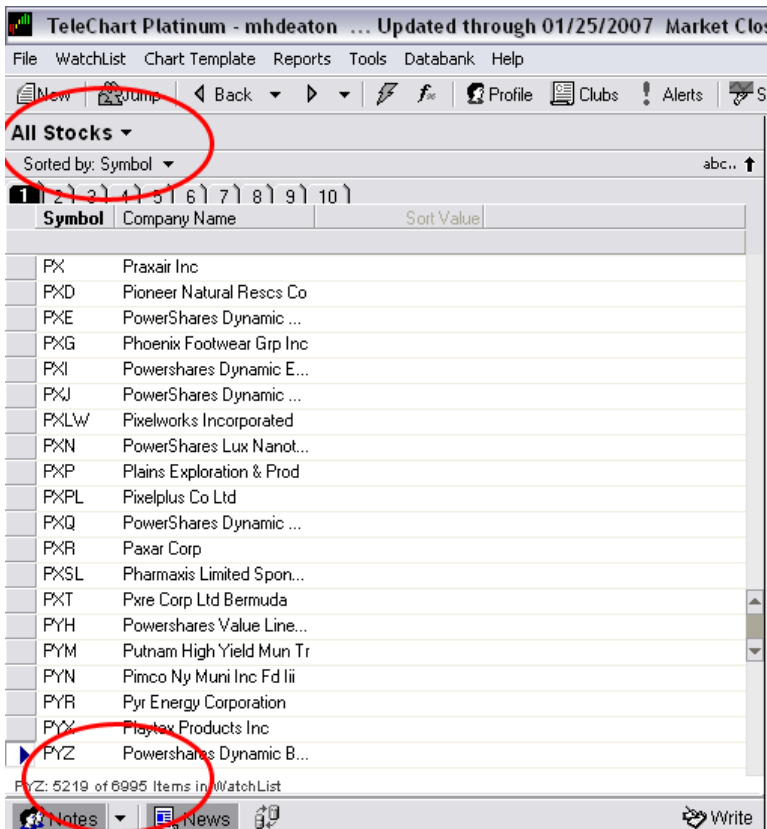
Finding the Set-ups

We will now, with the help of telechart, search through and narrow down all optionable stocks to bring the gems to the surface. If you don't buy options the steps to skip will be evident, but the principles are identical so stay with us.

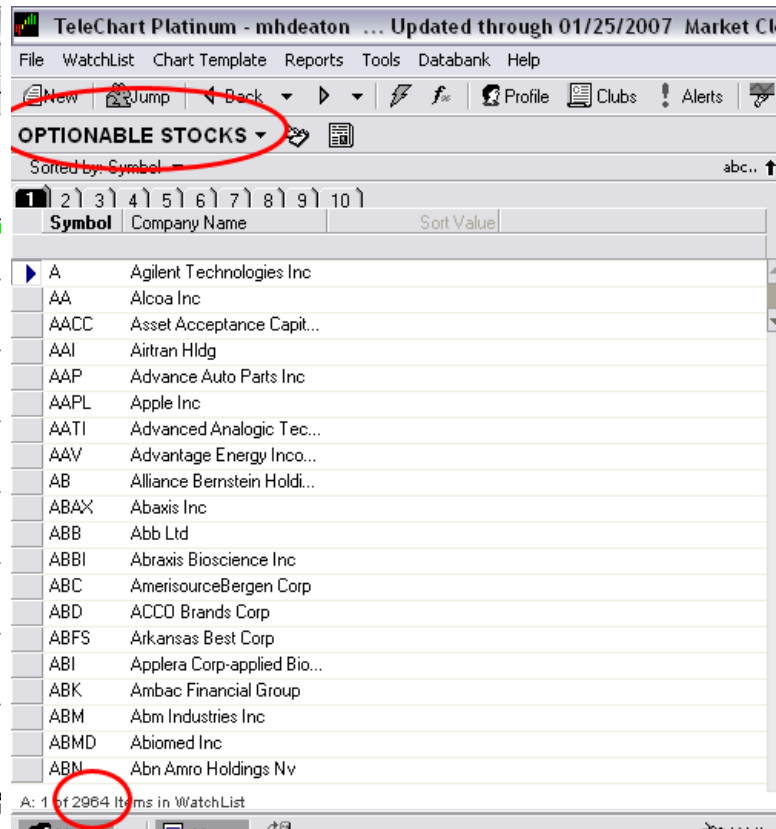
When you select "all stocks sorted by "symbol", you will be looking at a watch list of approximately 6995 stocks. The first thing we need to do is to narrow the list down to a reasonable size list of stocks that meet our criteria. Often times as I do this I will find the results to be worthless and that because I'm eliminating everything with my criteria.

You will find at times its necessary to scan the entire list with a channel, or Bollinger bands, with a combination of an RSI scan and that's all that's necessary . The 3-5 trades that are out there are in the top and bottom 25 results of your list (I will explain)

Other times when the market has a lot to offer it is necessary that your criteria be a little tighter otherwise you end up with 50+ instead of 3 or 4.



5995



2964

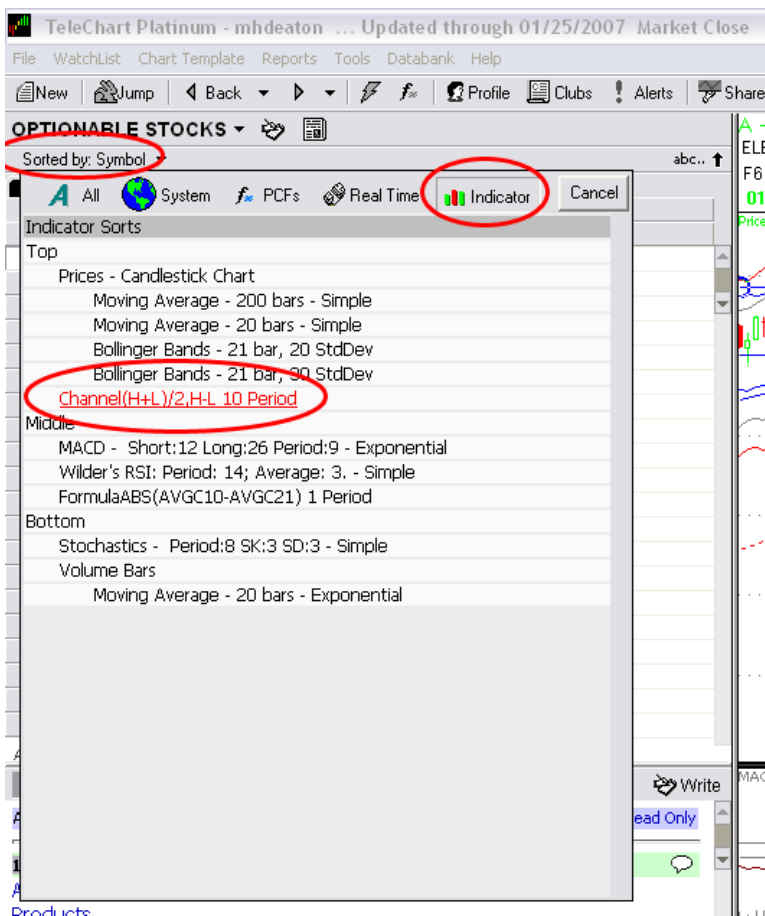
Now we can narrow the list to with various criteria. I will cover a few that I use regularly, but feel free to explore here. Always thoroughly scan, and when your done looking at the top 25 or so after your done, its critical that you reverse the sort order and do it again.

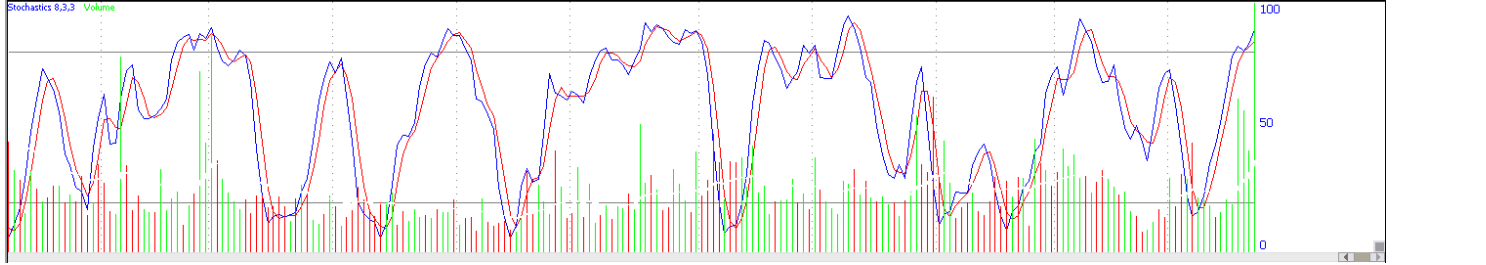
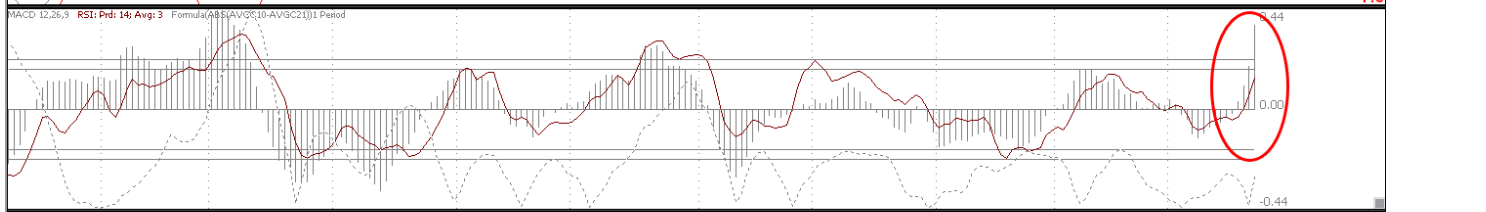
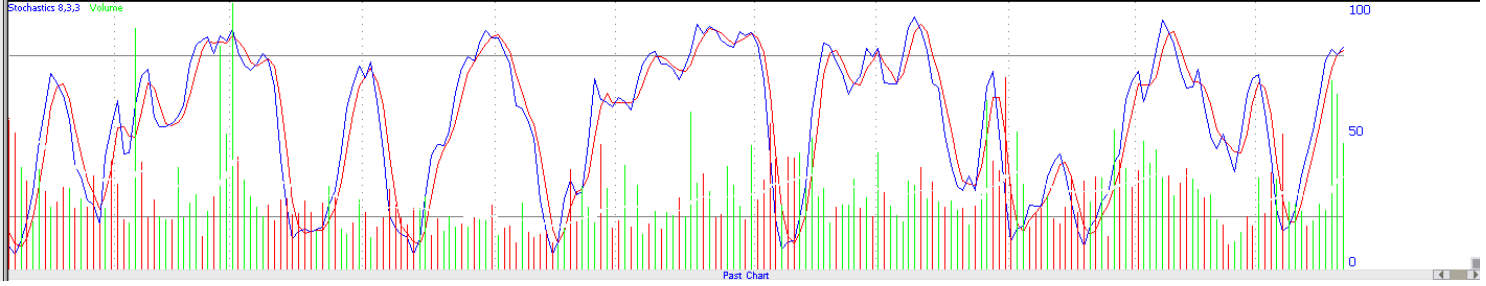
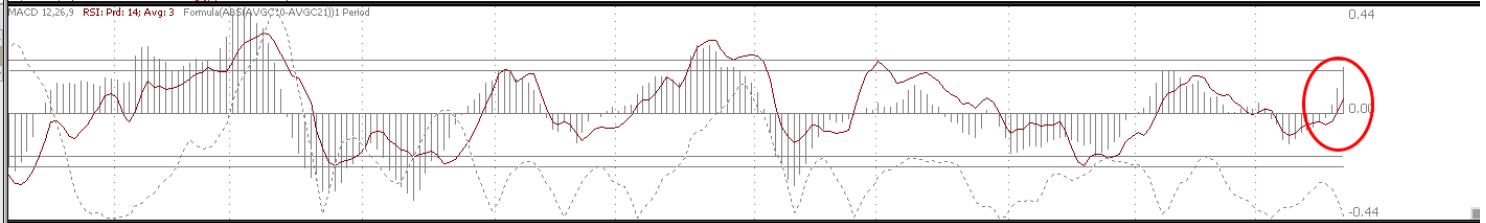
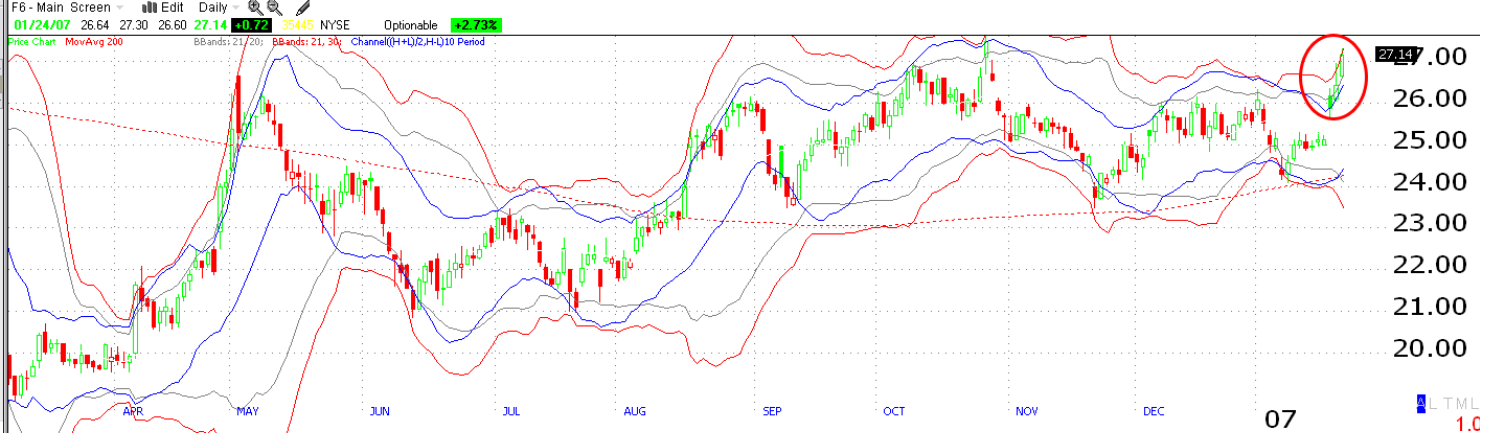
Keep in mind that the nature of Bollinger band and channel scanning is that we are pulling up stocks that are in extreme conditions so reversing the sort order is going to give you the opposite extreme, and in many cases you will find better trades ion the other side of the list.

The first thing you should do is narrow your watch-list by things like volume, volatility, daily range etc...

For the sake of this exercise we will scan the list using a channel and Bollinger bands, revealing only the gems.

Start by selecting the “sorted by” at the top, then select “indicator”, and then our custom channel.





Nice entry on a bullish squeeze in the top chart, and over a \$2.00 move in one day in the bottom. Using my channel to scan this stock came up in the top 10 in my list.



Here's one where we entered, got stopped out and re-entered for a 1 day move of over \$6.00. This is why after you get stopped out don't make the mistake of moving on to the next one. Use tight stops and re-enter. I can't tell you how many times I've lost 30-40% on a trade only to re-enter for several hundred percent returns.

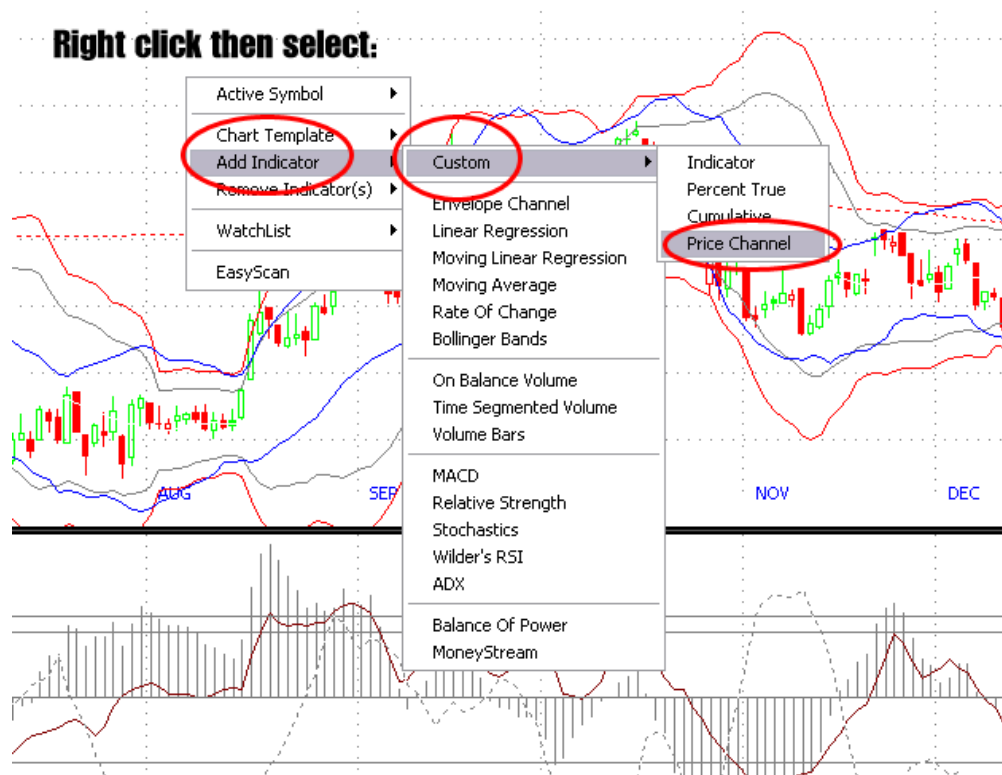
Try your best to keep your losses to a minimum, but never make the mistake of moving on to the next stock. Wait for the reversal and don't move on unless your indicators are no longer valid.

Creating the Channel

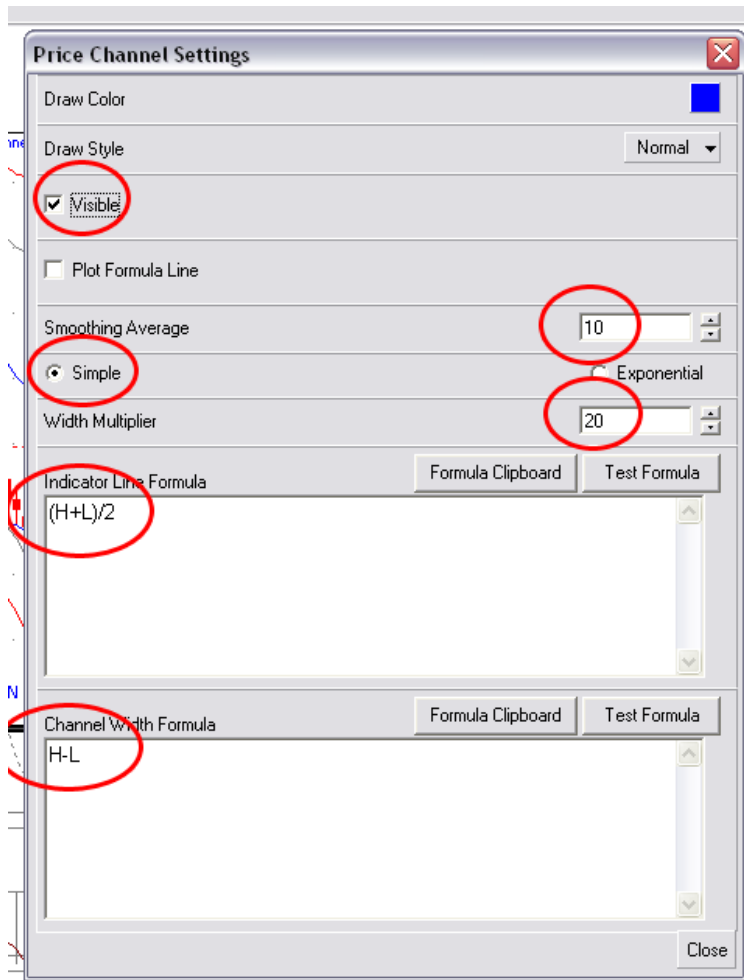
The following steps will allow you to create a channel in telechart and then scan your list according to the channel.

A nice scan for finding over extended stocks in either direction.

If you want a minimum criteria such as volume and minimum price range etc., create an “easy scan” first and then scan according to the indicator “channel.”



With telechart open and updated right click in any open space on the chart and select “Add indicator”, then “custom”, then “price channel. After you select price channel a box will appear...



In the price channel settings select 'visible', 'simple', use 10 for a smoothing average and 20 for your width multiplier.

In the indicator line formula add the following formula "(H+L)/2"

In the channel width box add "H-L" as displayed in the graphic.

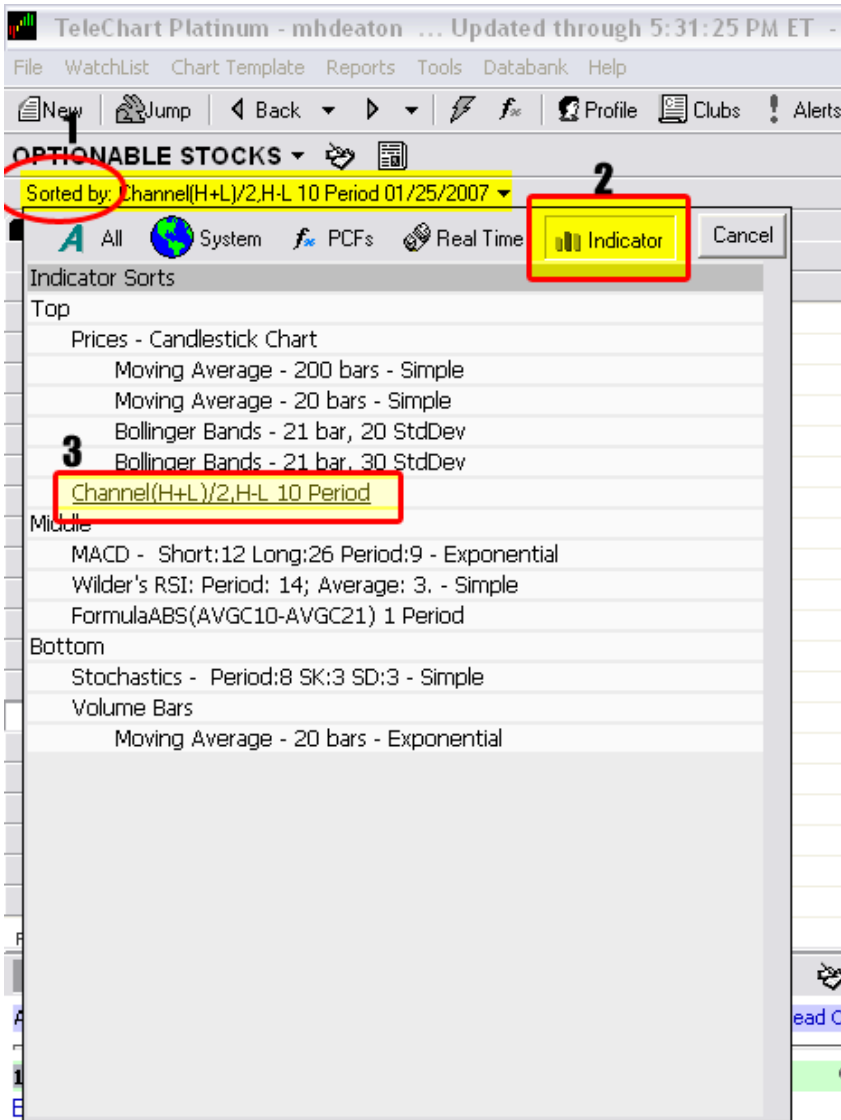
The custom indicator will be applied to price by default.

When your done it should look something like the picture below.

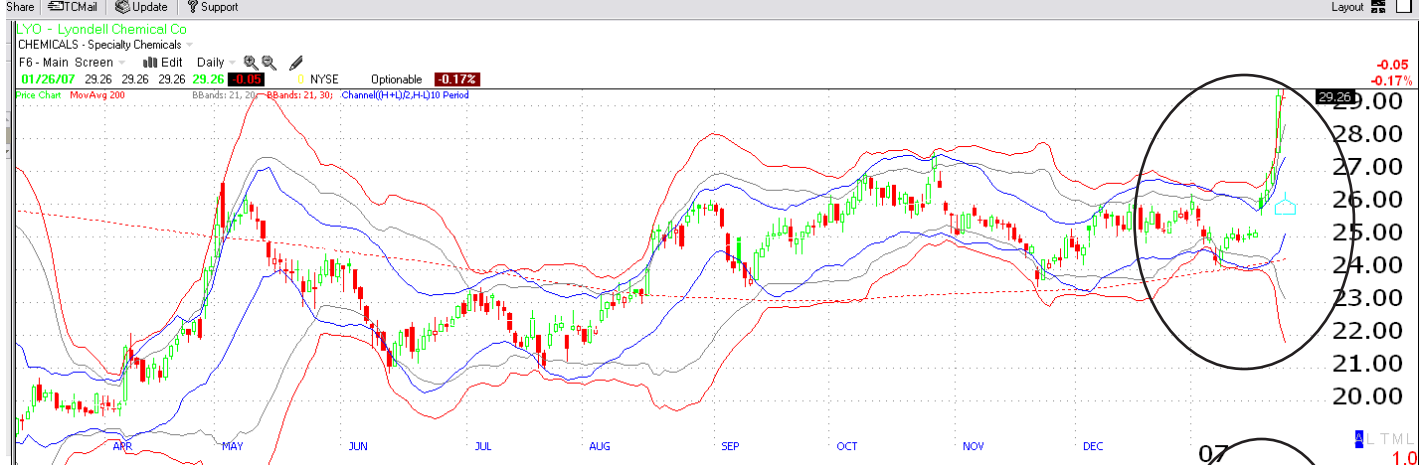
My Bollinger bands are the only indicator I use for the purposes of identifying deviations from the mean, the only reason I bring this channel in is for searching and scanning.

The channel provides distinctly different results than a typical Bollinger band scan.

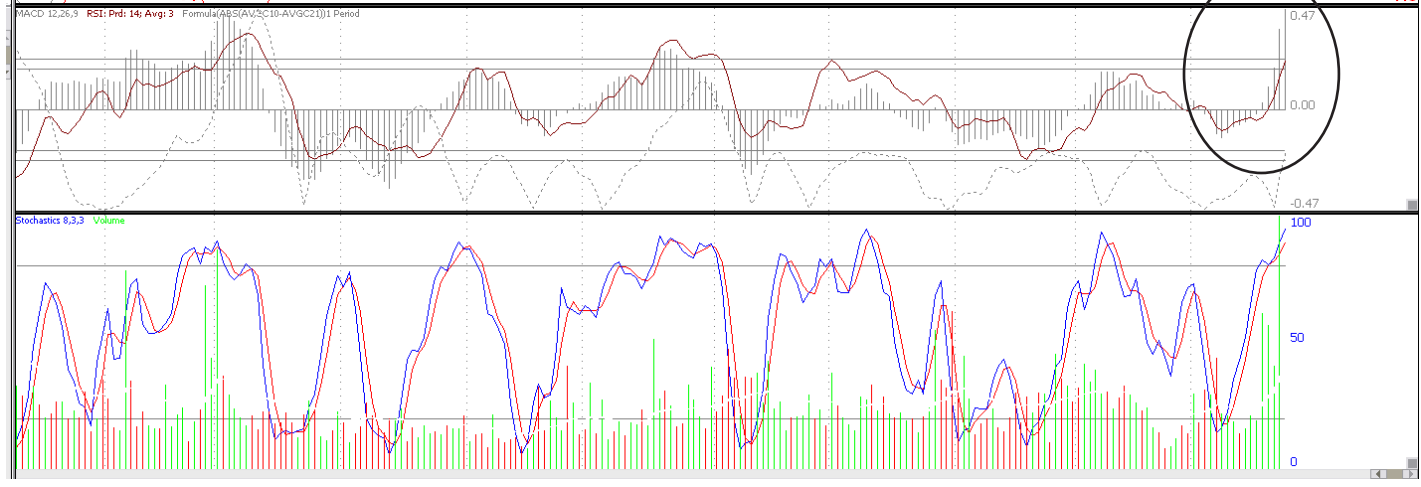




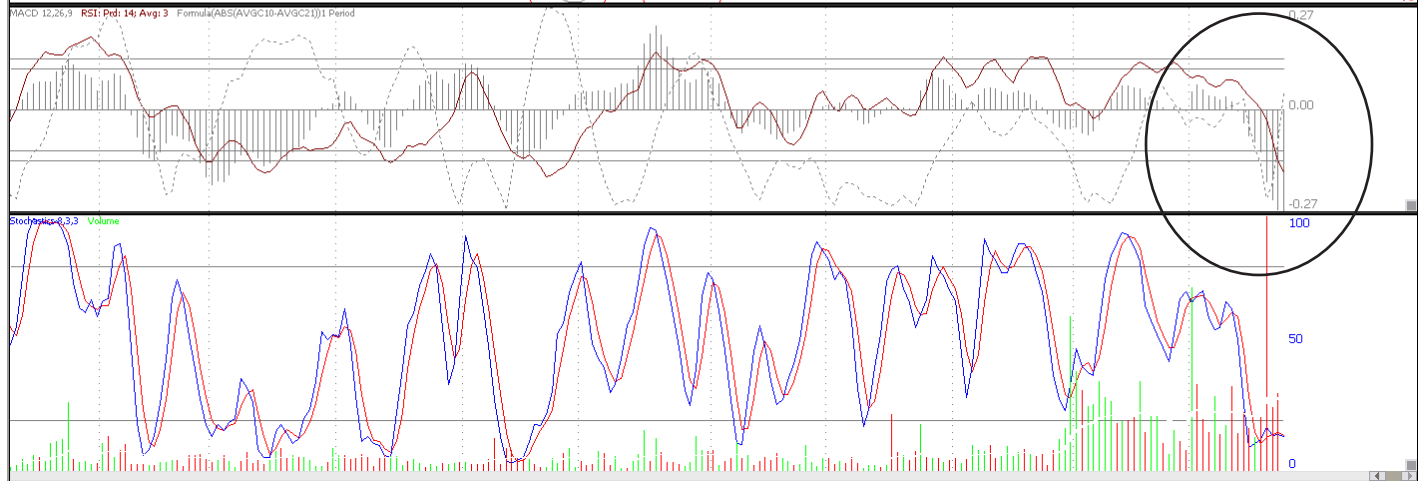
Once your channel has been created, be sure you're on the screen that has the indicator and then select "sort by" then "indicator" then select the channel.



Here's the top of the list.



Here's the bottom.



A search of the top 25 stocks on either side are sure to reveal some gems if any are available. If your indicators aren't perfect, wait until they are. After you have practised and learned to make a high percentage of successful entries you will develop your very own style.

TeleChart Platinum - mhdeaton ... Updated through 5:42:23 PM ET - Stream

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OPTIONABLE STOCKS

Sorted by: Channel(H+L)/2,H-L 10 Period 01/25/2007

Symbol	Company Name	Sort Value
PYZ	Powershares Dynamic B...	285.00
LYD	Lyondell Chemical Co	276.11
GRN	Claymore LGA Green ETF	275.00
HYSL	Hyperion Solutions	259.10
PRXL	Parexel Internat Cp	258.56
EOP	Equity Office Prop Trust	252.07
VARI	Varian Inc	234.52
ESI	Itt Educational Services	227.53
ARBA	Ariba Inc	227.17
SWFT	Swift Transportation Co	217.84
MT	Mittal Steel Company N.V.	205.31
EWBC	East West Bancorp Inc	203.62
TRID	Trident Microsystems Inc	198.25
RESP	Respironics Inc	196.74
DOCC	Docucorp Internat Inc	196.54
ABC	AmerisourceBergen Corp	194.18
SLX	Market Vectors Steel In...	187.13
SI	Siemens Aktien	185.92
CBI	Chicago Bridge & Iron Nv	182.75
CRXL	Crucell Nv Ads	179.75

ALU: 2962 of 2964 Items in WatchList

High to low numbers.

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OPTIONABLE STOCKS

Sorted by: Channel(H+L)/2,H-L 10 Period 01/25/2007

Symbol	Company Name	Sort Value
PJB	Powershares Dyn Banki...	-701.46
SRT	Startek Inc	-275.00
ALU	Alcatel-Lucent	-269.17
ACXM	Acxiom Corp	-254.98
SKM	Sk Telecom Co Ltd	-219.62
TGIC	Triad Guaranty Inc	-200.21
IKN	Ikon Office Solutions	-186.39
CWTR	Coldwater Creek Inc	-186.35
BMS	Bemis Co Inc	-185.11
VFC	Vf Corp	-176.97
IMCL	Imclone Systems Inc	-170.47
AMD	Advanced Micro Devices	-168.48
SPP	Sappi Ltd Ads	-168.42
MSO	Martha Stewart Lvg Omni	-159.08
TNS	Tns Inc	-153.74
WYN	Wyndham Worldwide C...	-153.57
REGN	Regeneron Pharm Inc	-151.44
ELDS	Syneron Medical Ltd	-151.12
ALDN	Aladdin Knowledge Syst...	-149.57
VAR	Varian Medical Systems ...	-148.22

ALU: 3 of 2964 Items in WatchList

Lowest to highest.

You'll find your candidates at the top of the list and then again at the top once you reverse the order. Use your space bar to scroll through the list.

Next sort the list in the same fashion but instead of the channel sort according to Bollinger bands. Go through the top part of the list and then reverse the sort order and go through the top again.

Sorting twice according to these two indicators produce the best results in identifying the set-ups referred to on page 1.

Once you do this a few times you can do it in 5-10 minutes every evening.

Please submit your questions to

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