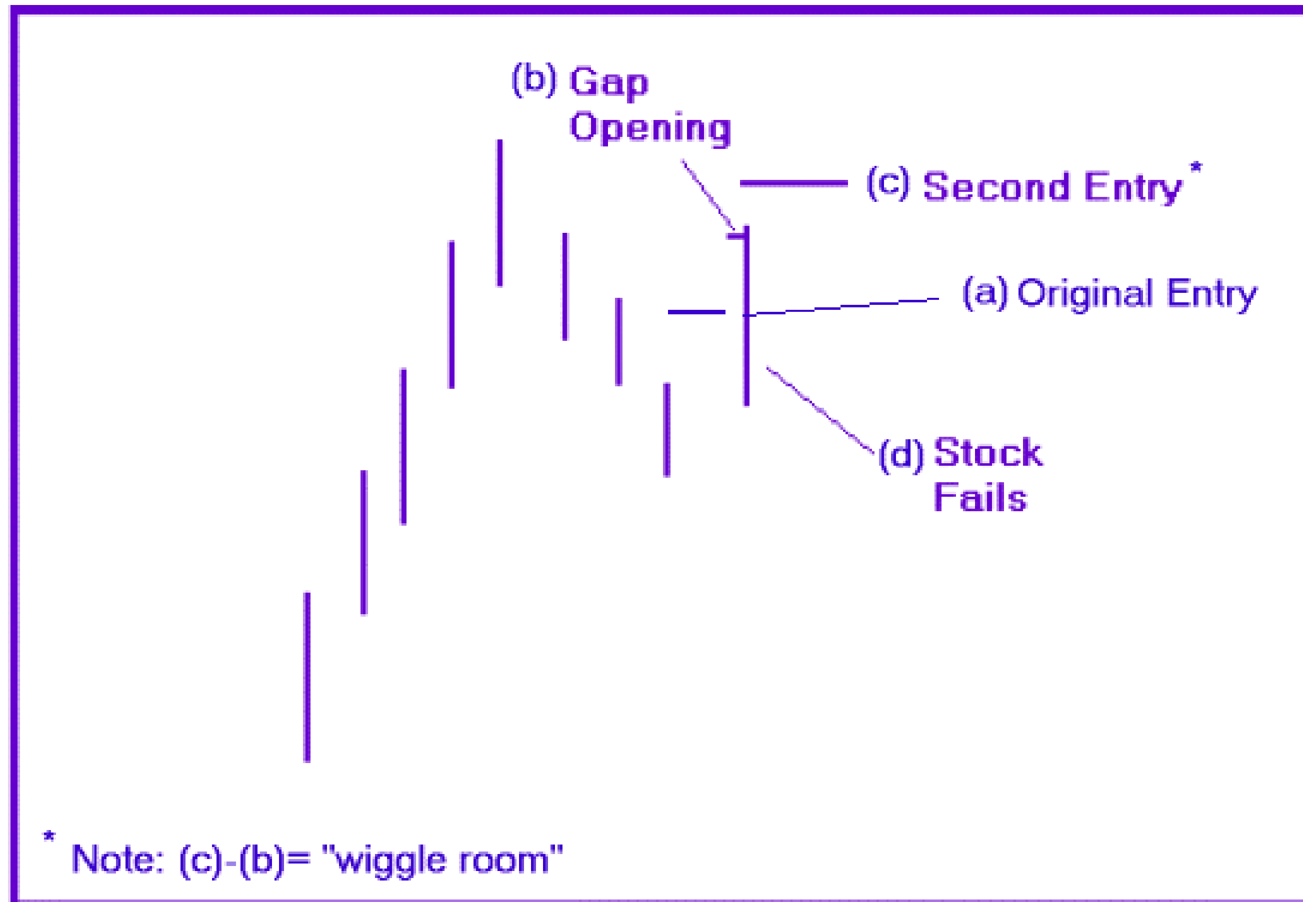
Discretionary "Rules"-Gap Entries

1. Gap Entries: When a stock (long) triggers on a gap open, it must continue to trade *above* the gap open before entering. It must also have a bid *above* the gap open. The amount of "wiggle room" to give the stock is arbitrary depending on the price and volatility of the stock. However, as a general rule, the stock must have at least 2 trades above the gap and bid *at least* ½ point above the GAP. If the stock reverses before hitting the new trigger, do NOT fade the stock when it comes back through its original entry.

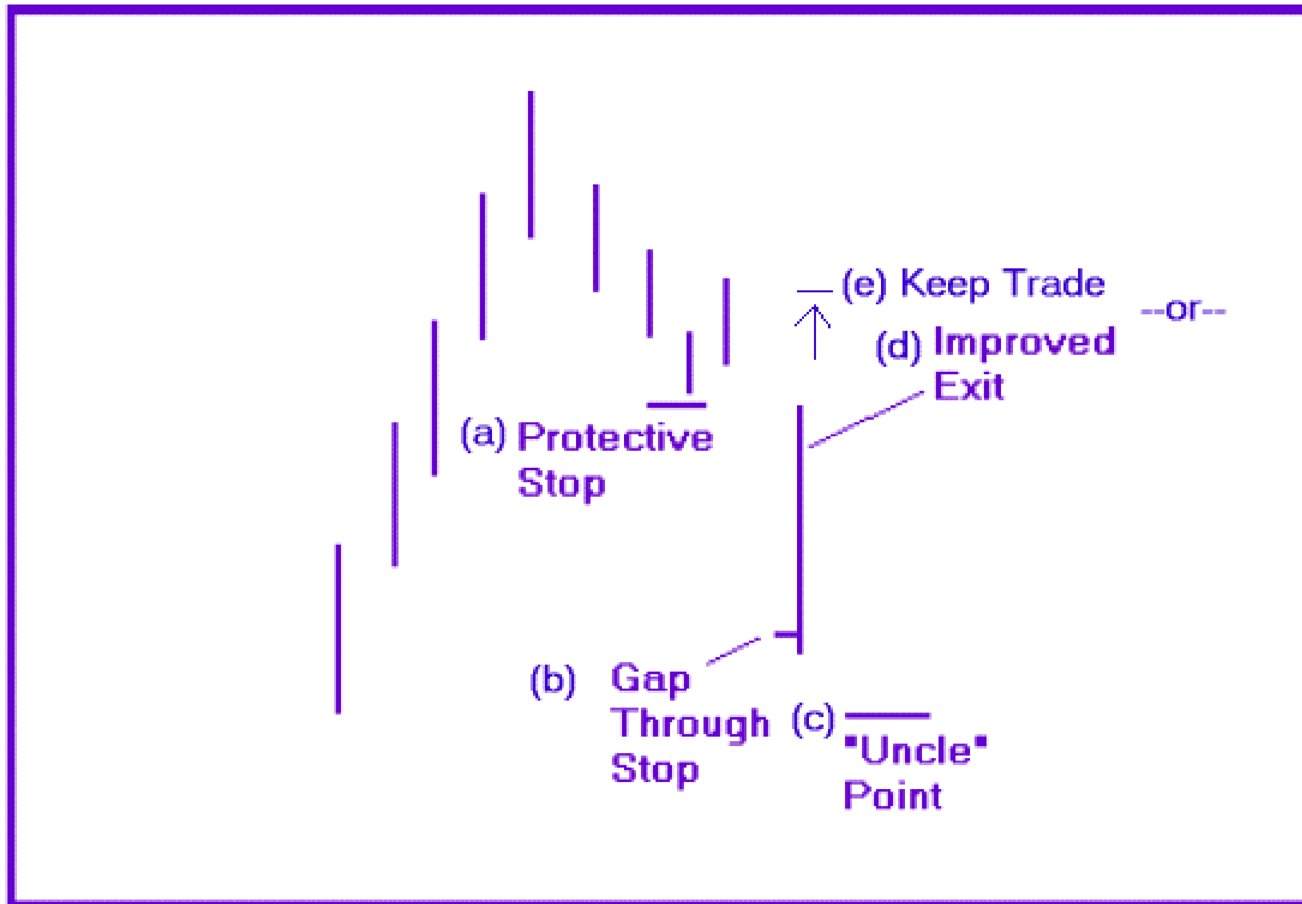
Avoiding Entries On OGeRs



Discretionary “Rules”-Damage Control

2. Damage Control: If a stock gaps through a stop, it must have at least 2 trades *past* the gap and have a bid *above* the gap (for shorts) or an ask *below* the gap for longs. The amount of wiggle room to give the stock above the gap is arbitrary depending on the volatility and price of the stock. As a *general* rule, the stock must trade at least 1 point below the gap for longs or 1 point above the gap for shorts.

Damage Control-Opening Gap Reversals

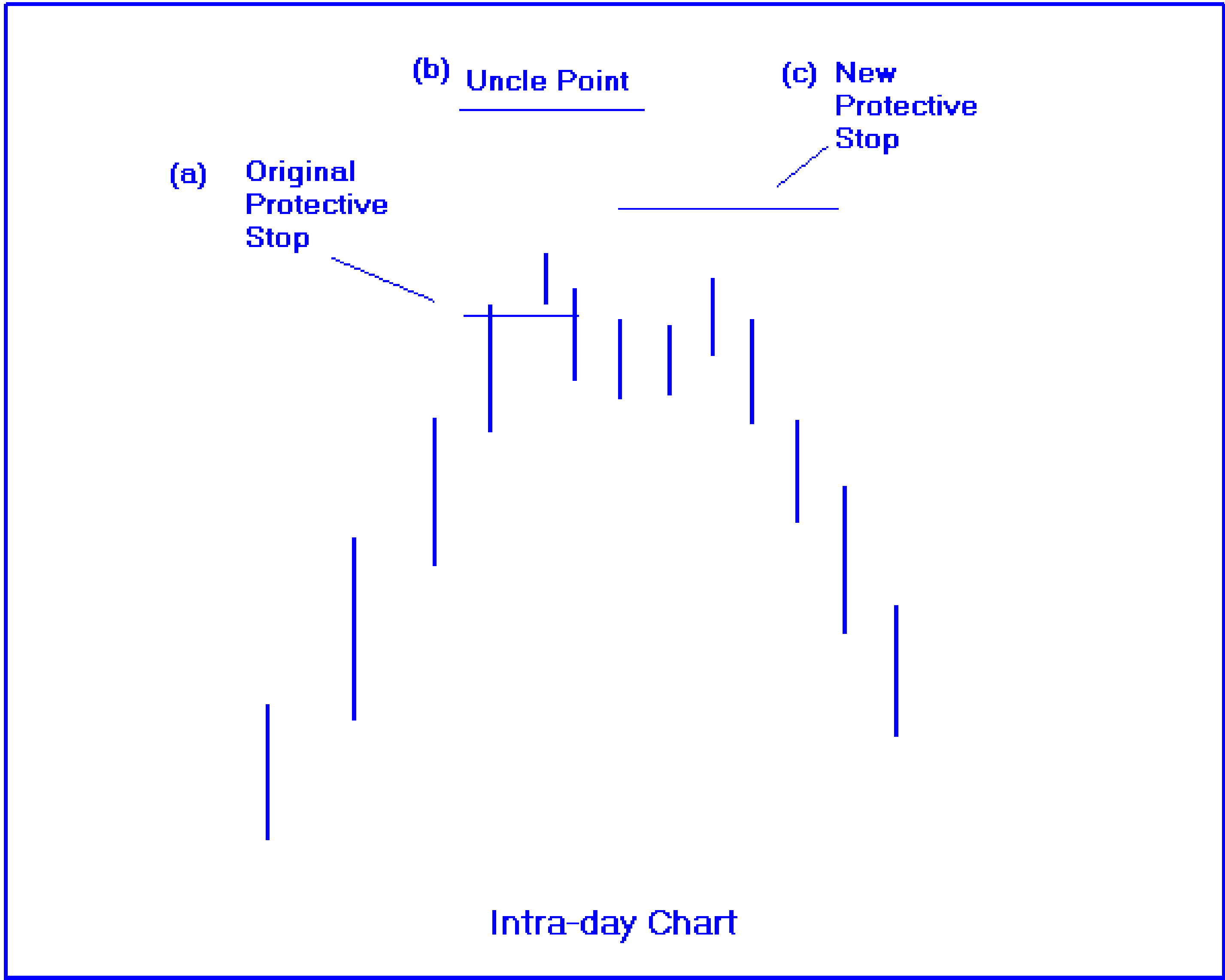


Discretionary Rules

3. "Normal" triggers- Stock must have at least 2 trades at or above the trigger and *bid* at or above the trigger.
4. "Normal" stop-Stock my have at least 2 trades at or below the stop and *ask* at or below the stop.

Damage Control-Fast Opens

5. Damage Control-Fast Open: A fast open is when a stock makes a big move in early trading. Often though, these moves quickly exhaust themselves as the euphoria (or panic) quickly wanes. This creates a situation similar to an opening gap reversal. When this occurs, especially if the stock market has made a large move overnight (and is prone to reverse itself), pull the stop and give the stock some "wiggle room." Like the damage control on a potential opening gap reversal, the amount of wiggle room to give the stock above/below the original stop is arbitrary and depends on the volatility and price of the stock. Market conditions such as the magnitude of the overnight move and "recent behaviour" (e.g. has the market been choppy and prone to reverse?) must also be considered. As *general* rule, the stock must trade at least ½ point to 1 point above the stop for shorts or ½ to 1 point below the stop for longs. Risks must be kept in line and this "uncle point" must be honored if hit. If the stock reverses (in earnest) before hitting the "uncle point", the stop can be tightened to above the opening range for shorts (or below the opening range for longs). This is illustrated in the next page. For more detailed information, see "The Week In Charts" for 02/14/08.


(b) Uncle Point
(c) New Protective Stop
(a) Original Protective Stop
Intra-day Chart

Other Possible Discretionary "Rules"

1. Near Misses
2. Letting Profits Ride
3. Completely Avoiding Large Gap Opens