Linda will teach the "Short Skirt" technique as it pertains to S&P intraday scalping. This method follows the market's impulse as it forms small continuation patterns using the "hem line" to gauge the support and resistance levels in the market. It can be used both as a trading method and as a way of monitoring overall price action. The principles can be applied to all markets and all time frames. With Short Skirt trading, the market determines the direction for you. You will learn how to recognize the best setup patterns, how to determine your risk level, and how to determine the most profitable entry and exit points.

Linda Raschke, President of LBRGroup, Inc., has been a full time professional trader for nineteen years. She began her trading career on the Pacific Coast Stock Exchange and later moved to the Philadelphia Stock Exchange. In the early 1990s, she became a professional money manager and started LBR Group, Inc. Linda was written up in Jack Schwager's book, The New Market Wizards, and also in Women of the Street by Sue Herera. In 1995 she co-authored the best selling book, Street Smarts-High Probability Short Term Trading Strategies. Linda continues to trade every day and posts her trading activity to the Internet (mrci.com/lbr).

Ms Raschke's Personal Workshop was presented and recorded at a recent LIVE @ TAG conference.
S&P SCALPING - "SHORT SKIRT" TRADING

"Short Skirt" trades are scalp trades made off small continuation patterns in swinging or trending markets. They phrase was originally coined to describe the trades taken off bull and bear flags on a 1-minute S&P chart, but the concept works on any time frame, any market. Short Skirts are retracement patterns that follow a sharp impulse down. Remember that momentum precedes price. "Impulse" signals more "impulse", and this is what creates a trend. After an impulse move, there are very high odds of either a retest or another leg in the direction of the impulse.

The average profit when trading "short skirts" off a 1-minute time frame tends to be between 1-3 S&P points. The best way to place the stop is to risk 3 points from the initial entry price. The market rarely retraces 3 more points beyond your entry level without first going back down for a retest. In extremely volatile markets, it is suggested that a 5-point initial stop be used. As the trade starts to work in your favor, pull the stop down. Active trade management is an important trading skill.

By trading on a small time frame, much tighter risk parameters can be used, which allows one to trade with more leverage. The idea is to get into the market and grab as much spread as possible in the least amount of time. It is the ultimate game in scalping.

There are several ways to enter these continuation patterns. One way is to look for a retracement back to the 20-period EMA. Another way is to watch the price action for when it starts to stall out on the reaction. The last way is to eyeball the retracement pattern that is forming and use discretion. Sometimes the best trades are those that make flat ledges and do not give much bounce at all.

"Short Skirt" trading works best in heavy volume markets, broad swinging markets, and trend days. This style of trading does not work as well on the day following a large trend day or buying/selling climax. This is because consolidation days have little follow through, and the Short Skirt trades count on follow through to reach the profit objective. It also works best when there is good liquidity. Slippage in noisy markets can eat a trader alive!

Trades are taken in the direction of the trend. Thus, most losing trades tend to come at the end of the trend! There are 2 distinct patterns that most often signal the end of the trend. By being aware of these two patterns, losses can be reduced.
Patterns by which to filter losing trades:

The first is the '72" setup. This is actually such a nice trade it can be taken in the opposite direction. It is in part a simple divergence between the price and a smooth moving average oscillator. The easiest oscillator to use is one derived from the difference between a 5 and 35-period exponential moving average. (The 3/10 oscillator is too sensitive to use on a 1-minute SP chart).

Second, do not look to take a "short skirt" trade after a buying or selling climax. A selling climax can be recognized by an extreme tick and tiki reading .... such as -800 ticks and -24 tikis. The market can also make a sharp N" type reversal after a selling climax.

The end of a trend can also be more readily identified when looking at a higher time frame. For example, if there is a corrective downtrend on a 5-minute chart, but the 30-minute chart is still in an uptrend, the downtrend on the 5- minute chart is most likely to find support at the 30-period EMA. It helps to look at multiple time frames. If the market retraces deeper than the 30-minute EMA, the next level to look for support would be the hourly EMA.

The "Short Skirt" trading works best when watching 2 time frames side by side. For scalping, use a 1 and a 3-minute chart. The same principles should be used when looking for flag formations on other markets. For example, when trading bonds, perhaps a trader would want to use a 15 and a 60-minute chart. This is the best way to eliminate false signals on the shorter time frame.

Lastly, it is always important to examine the expected market volatility environment. The market tends to alternate between a trending and a non- trending environment. After a buying or selling climax, look for a trading range to begin. When the market is narrow or there is a large opening gap, expect a trend day. "Short skirt" trading cleans up in a good trend leg up or down.
TICKS

Ticks indicate how much buying/selling power is stored up. If there is a large "uptick" reading, a majority of stocks are being bought on balance.

Ticks must be watched with respect for the overall tone of the market. They are can be used in a countertrend manner by looking to fade the extreme readings when in a trading range. They can also be used in trending markets to enter on retracements in the direction of the trend.

For example, if the market is in a steady uptrend and there has been a burst of buying activity which drives the plus ticks to +600, watch for the ticks to retrace back towards zero as a buying opportunity.

In a normal sideways trading environment, +500 and -500 tend to be overbought/oversold levels. Ticks trade in an approximate 1200 tick range, so if the market has been in a down- trending environment, and the tick readings fluctuate around -1000, then +200 will be "overbought" or represent the upper end of the range.

Ticks should be watched in conjunction with the "Tiki's", (or "Ticki's" on some data feeds). This reading is the net number of Dow stocks on an up-tick or downtick. In general, overbought/oversold range is +24 to -24. If the Tick reading is +500 but the Tiki's only register +12, there will probably be another surge up. The implication is that the trading programs have not fully kicked in yet. The programs almost always cause the Tiki's to reach +/ 22 to 26.

Ticks also function as a confirmation/non-confirmation indicator. If the market makes a new high, the ticks should make a new high. When this occurs, retracements can be traded in the direction of the trend. However, if the price makes a new high and the ticks do not, a reversal is likely. Always remember, in a strongly trending environment, ticks and momentum based indicators or oscillators, will have a tendency to give premature false readings, so be sure and assess the degree of trend in the market before using these indicators.

Since the market alternates between a trending and a consolidation mode, the day following a trend day or wide range day tends to be a particularly good one for using the ticks in a countertrend mode.

* Ticks can also be used to confirm the opening in the S&Ps. If the S&Ps have a large opening gap up, and the ticks have a high reading, thus confirming the move, there should be continuation in the direction of the gap.
If Ticks reach an extreme reading one day, it indicates a trend day. There are good odds for a bit more follow-through the next morning on a day where the ticks hit +/- 1000 in the afternoon. Once again, the following day should see a lesser reading in the tick extremes before the trend turns.
DOG DIDN'T BARK

Ticks can be used to confirm the price action. A strong up move should be accompanied by healthy uptick readings. At market tops, there is a tendency for the market to get dull and complacent. The market rallies but the tick readings are barely positive. This pattern is called "The Dog Didn't Bark". It is a sign of weakness and means the market is ready to rollover.

The same principle can be used on opening gaps. For example, if the market has a large opening gap up, but the ticks only register between 100 and 300, this represents "non-confirmation" and is another case of "The Dog Didn't Bark". The market should sell off.

THE SHIP AIN'T SINKING

Just as there are distinct patterns such as a lack of tick reading at tops when the price action starts to roll over, there are also patterns that show support coming in at bottoms. When there is a series of heavy downtick readings, but the price starts to hold, it is called "the ship isn't sinking". The market is throwing a barrage of oversold tick readings at the market but it refuses to fall apart. Tick readings worse than -500 must be seen over an hour long period while price holds. A rally of a couple hours duration should then materialize.

'7' DAYS

"Z" days are consolidation days that can be aggressively scalped off intraday swing highs and lows. The market starts to form a trading range and key pivot points should start to contain the price movement. These are also days where overbought and oversold tick and tiki readings can be aggressively scalped. The market makes many intraday tests, as it begins to consolidate.

On consolidation days, a penetration of the first hour's high or low will be a false breakout and a trader should look for signs to fade the breakout. Keep in mind, the penetration of the first hour's high or low can still run a few points over a half hour time period, so wait for a sign of small buying or selling excess, or an exhaustion point.

If the market is consolidating following a strong upthrust, the first deep pullback in the ticks sets up a good buying opportunity. As long as there are strong uptick readings, it indicates a strong trend. Wait for the period when the "Dog Doesn't
Bark" or the ticks show a lack of up readings, before looking to go short. It will be a better short trade if the high is exceeded on a lack of plus tick readings and the market then rolls over, rather than trying to short a buying climax.
TICKI

Tiki's are the number of net Dow Jones Industrial stocks that are on an uptick or downtick. In a sideways (trading range) or light to moderate volume day, look to enter a short or exit a long when the Reading is greater than 24. Look to buy or exit a short when the reading is greater than -24.

S&P - PREVIOUS DAY'S HIGH AND LOW

The previous day's high and low are two of the most important pivots to watch. The market tests these levels many times and often they become key support and resistance levels. If a trader used no other indicators, he would still be able to make a living just by watching the play around these points.

The first "play" of the morning should be to move towards one of these levels. If the market close in the lower end of its range, expect it to test the low and vice versa. If the market penetrates one of these levels and does so on good volume, it will often retrace back to this level before starting another leg down. Old support becomes resistance and so forth. Key swing highs and lows are the most visible chart points and serve as magnets for the price action.

GLOBEX

The Globex high and low can be watched as key support or resistance in the same manner as the previous day's high and low. It is very rare that the Globex range is not traded into during the next day's session. In other words, if the next day's open gaps outside the Globex range, it is likely that a move will be made to test back into this range.

The first thing to note is whether there is buying or selling pressure on Globex early in the morning. More often than not, this pressure will assert itself after the day session's open. If Globex is trading 3 points higher than the previous day's close and then the day session opens 5 points higher, this tends to be a sign of strength. Conversely, if Globex is trading 3 points higher than the previous day's close but the SPs open flat, this tends to be a sign of weakness. Usually, there will still be a small move to test where the Globex session closed.

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CLOSING PREMIUM

If the market closes with a strong premium but opens weak the next morning, odds favor that the first "play" will be to the upside.

If the market closes weak, and the futures close with a discount, yet the market gaps up the following morning, the first "play" should be a retest down to attempt to fill the gap.

If the market closes with an extremely unusual discount OR excess premium, it is giving the trader a very loud and clear signal that continuation is likely the next day.

TRIN

TRIN measures the concentration of volume in advancing and declining stocks. It is also called the Arms Index, (after its creator, Dick Arms). Think of it as the market's "gas pedal". If the TRIN is falling, buying is coming into the market. Someone is stepping on the market's "gas pedal".

The trend of the TRIN is more important than the absolute level of the TRIN. However, if the TRIN is able to register a low reading, less than .60 going into the second half of the day, this is quite bullish. If the TRIN registers a reading greater than 1.25 after lunchtime, this is quite bearish.

Never go home short a TRIN reading less than .50. There are approximately 85% odds the market will be higher the next morning. In the first 1/2 hour, the TRIN can jump around if there is a large stock trading close to unchanged. As volume increases for the day, the TRIN will stabilize.

The TRIN is a coincidental indicator with the S&P. Its main value is qualifying the overall tone for the market. An increase or decrease in the TRIN reading reflects strong buying or heavy selling. The trend of the TRIN is what is most important. Watching this helps smooth out some of the noise in the S&P price and confirm turning points.

Afternoon TRIN Lead trade:

There is a time period where the TRIN sometimes leads the market. Around 2:00 PIVI (EST) in the afternoon, it can display a 5-10 minute leading function by indicating a change in buying or selling pressure before the S&P starts to move. This is quiet buying/selling by the smart money.
So, if you see the TRIN dropping like this: 86 ... 84 ... 82 ... in the afternoon and the S&P's are going sideways, there are extremely high odds a good afternoon rally is about to take place.
DOW AVERAGE and NASDAQ

Buy and Sell signals are given by non-confirmation (divergence) between one of these indexes and the S&Ps. In a trending market, especially on the upside, high beta indexes and stocks tend to lead. Thus, the NASDAQ has been an excellent indicator to watch over the last three years. In down markets, the big caps tend to lead, as this is where the liquidity is when funds are forced to dump.

There are also periods where a sector of stocks or a particular commodity sets the tone for the market's psychology. (Internet stocks, the price of crude oil, or the trend of the dollar). Be aware of the key factor the market is focussed on for that particular week and watch that individual market for leadership.

TIME OF DAY

The SP tends to have 2-3 main swings or trends during the course of a trading day. The moves tend to last 1 - 1 1/2 hours on average before either entering a consolidation period or reversing to go the other way. As a general rule, there tends to be 2-3 choice reversal points during the day. "Choice" means capturing one of the 1-2 hour swings.

There are 6-7 main patterns that tend to repeat themselves. For example:
The market opens weak, sells down into the 10:00 - 10:15 time frame (EST) and then rallies into 12:00, the lunchtime pivot. (Institutional New York traders like to take lunch at this time!). A countertrend reaction lasts until 1 - 1:30. The afternoon rally attempt then begins, but if it starts too soon, it won't be able to sustain itself. Profit taking might come in during the last hour as the market trades sideways to down. This could be a classic trading day.

A few things to look for: The first "inflection" point happens 20 - 40 minutes after the opening. At this point there will either be a countertrend reversal that will carry the market through the rest of the day, or there might be a brief 20-minute countertrend reaction before the market resumes its original trend off the opening price. The first hour is key for setting the tone for the day. If you find you are in sync with the first "play", you will most likely be in "sync" with the market for the rest of the day.

Noontime can be a tough time to initiate trades. It is usually better to use limit orders when half the pit is empty. Do not chase prices if the market is in a noontime trading range. Look for a spot where the market might start to resume its afternoon trend as 1:30 approaches. Morning reversals are much stronger plays to look for than afternoon reversals. If the market does reverse in the afternoon, it will usually try first to resume the original trend but then fail.
When the afternoon trend is strong and true, volume will be good during this time. On a trend day, the last hour's move will be the strongest, as losing traders are forced to cover going into the close.
3:00 JIGGLE

When the bonds close there is a trading opportunity called the 3:00 jiggle. Many traders are focused on how the bonds are going to go out. Once this market closes, it is as if the pressure on the SPs is released, almost along the lines of "buy the rumor, sell the news". If the market has been trending between 2-3:00 EST, expect a small tradable 10-minute countetrend trade!

If there has been little afternoon action, expect a last hour move.

Gaps are a form of impulses

Gaps on the opening indicate an order imbalance. The larger the opening price gap, the greater the odds of a trend day. Because a gap indicates an imbalance between the buyers and the sellers, one side will be wrong and forced to eventually cover.

Every trader should be able to readily distinguish a common gap from a breakaway gap or an exhaustion gap. The point is not to guess at the latter but just be prepared for it. Breakaway and Exhaustion gaps have STRONG forecasting value, but only if the gap has held by the end of the day. The common gap just sets up short-term scalping opportunities.

The easiest way to take advantage of a large opening gap is to trade in the direction the market starts to move after the first 40-60 minutes of trading. The easiest way to do this is to place a resting buy/sell stop to pull you into the market. If the trade is exited on the close, this strategy tends to win approximately 2/3rds of the time. This includes a stop and reverse function. If the first hour's range is broken to the upside, and the price then fails and comes out of the low end of the range, an order should be placed to stop and reverse at this point. The second trade almost always makes up for the loss on the first trade.

The second best way is to trade a breakout function off the opening price. This variable is best calculated off a percentage of the previous day(s) average true range. A good default value is 60%. In other words, add +/-60% of the previous day’s average true range to the opening price. By using a range function, the system will be adaptive in an environment of increasing or decreasing volatility.
Linda Raschke and Victoria Pearson provide real-time commentary on the above SP setups throughout the day to the LBR Chat Room. Educational analysis, lunchtime humor, and trading activities are posted to the room. For more information, visit: www.mracom/lb or call 888 LIMITIDN. The room is open to visitors the first day of the month.
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Figure 1

Textbook Bear and Bull flags. Both are preceded by well-defined pole.

Figure 2

The best bull and bear flags form after the first break from a sideways line (highlighted by a low ADX).
"Dog Doesn’t Bark" at A. Note numerous Three Little Indians. A false "short skirt" signal will always occur after the third Indian.

Watching the rallies and pullbacks in the ticks to help time entries on "short skirt: scalps."
1-2-3 pushes down odd initial down impulse followed by A-B-C. Notice the lack of selling climax on this day. All buyers are trapped. The worst is yet to come. (Made low next day at 1300.5).

"Three Little Indian" bottom with tick divergence. Ignore 4th "short skirt" sale, and ignore first high tiki reading.
Extreme Tick reading at Higher Low (A),
"Dog Didn't Bark" at 11:45 (B)

Classic tick divergence – minimum 2 hours apart.
Another case of "Dog Didn't Bark"!
"Ship Ain't Sinking". Shorting with no satisfaction!

Classic "Ship Ain't Sinking". Prolonged downtick readings over 1 ¼ hour, but price holds. Note "short skirt" scalp buys at points A, B, and C.
Ticks make a new low (A) – sell the first reaction. Three pushes down with tick divergence (B,C). Equilibrium point (D). Market reaches equilibrium point before new trend begins. Still OK to try to sell first rally back to zero in ticks (E), but bull flag forms.

Figure 13

High Ticks confirm initial gap up. Classic "Trend" day – Strong, steady ticks. Buy first pullback in ticks to "zero" line.

Figure 14

"Trend" day down. Note slow "ooze" action. Trend end in a climax. There is no selling climax yet on this chart.
1-2-3 pushes down odd initial down impulse followed by A-B-C. Notice the lack of selling climax on this day. All buyers are trapped. The worst is yet to come. (Made low next day at 1300.5).

"Three Little Indian" bottom with tick divergence. Ignore 4th "short skirt" sale, and ignore first high tiki reading.
Poor liquidity market. Marginal trading environment. Note lack of responsiveness in the ticks!
Thank you for taking this Live@TAG workshop

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