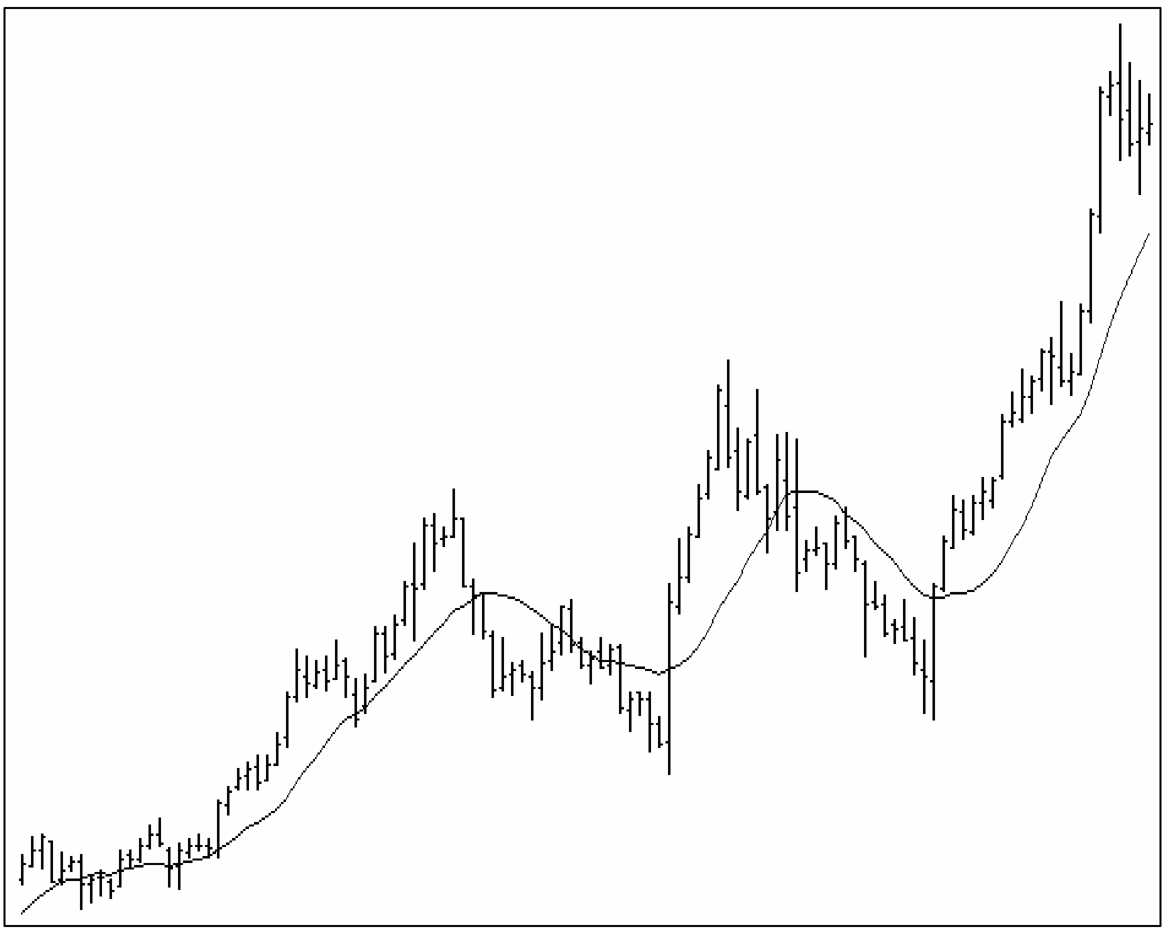
Chapter 16

THE SWEET CHARIOT

One of the more difficult types of price action to trade is when prices are gradually rising, but making wide swings as they move higher.

The Sweet Chariot trading technique is used to take advantage of these types of swings in a gradually rising market. It is a very simple yet effective way to trade prices which are moving sideways, but which have an upward trend bias. The Sweet Chariot will usually have you in a trade well before it begins trending more strongly.



The Sweet Chariot uses a simple 40 bar moving average of the close, and it looks like the above:

We prefer to use it on weekly charts when trading for the longer term, but it works just as well on daily and intraday charts. The rules for trading are straightforward and easy to follow.

1. When prices are above the moving average, long positions are initiated.

2. No short positions are allowed with this technique.

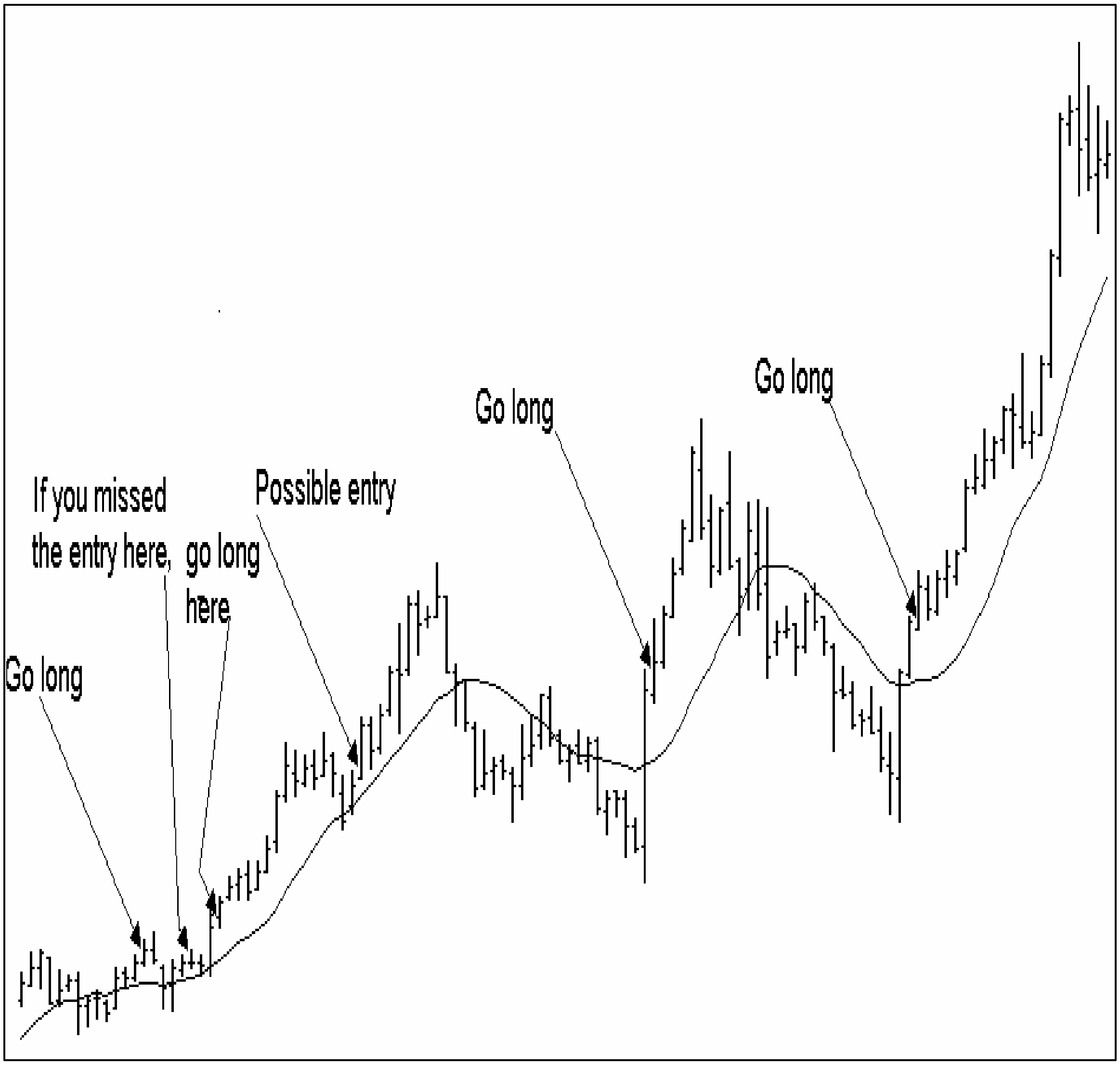
3. When prices are flat (not swinging) and are straddling the moving average, no new positions may be entered.

4. On the first price bar that is completely above the moving average with a close in the upper half of its price range

    - Enter long on the first price bar to have at least 80% of its daily price range entirely above the moving average with a close in the upper 1/3rd of its price range

    - Enter long on a breakout of the high of the bar meeting those qualifications. This ***is*** the entry bar for this trade.

The following chart shows some "go long" entries.

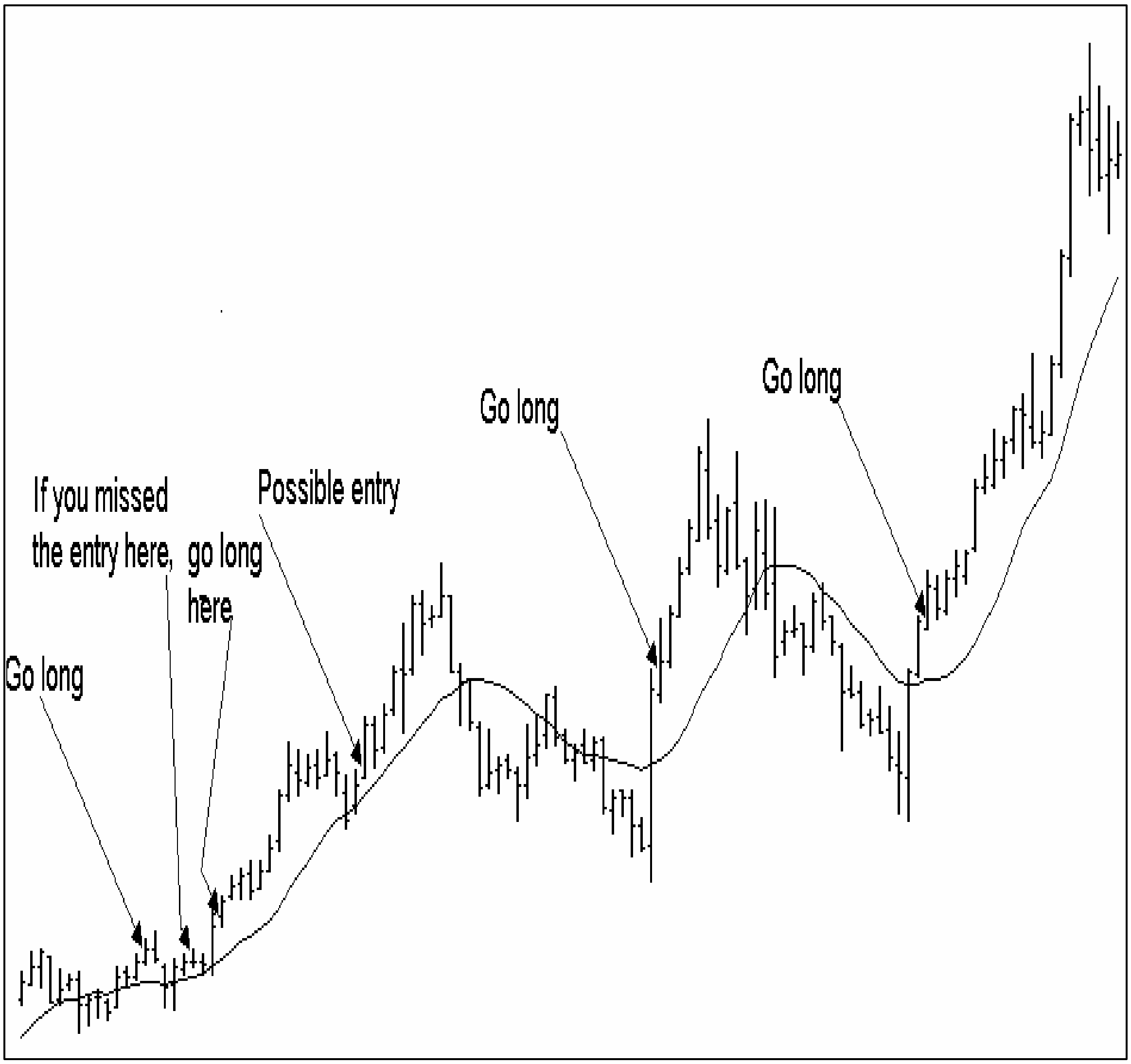


Viewing from left to right, let's notice a few points:

- We've assumed that prior to the first entry bar, that prices had been swinging well above and below the moving average. Based on that assumption and the price you can see, we've shown you the first time you might have attempted a long entry following a dip by prices below the moving average line.

- The price bar prior to the first “go long” bar is clearly above the moving average. Its close is in the upper 1/2 of its price range. It qualifies as an entry bar, therefore you would go long on a breakout of its high. The same set of rules apply to the next “go long” bar, the one you might have “missed.”

- The price bar prior to the next “go long bar” has its low on the short side of the moving average, however, 80% of its price range is above the moving average and the close is in the upper 1/3rd of its price range. The price bar prior to the next “possible entry” qualifies as an entry bar for the same reason.



- The price bar prior to the next to the last “go long” bars has 1/2 of its price range above the moving average, and closes in the top 1/3rd of its price range. It qualifies as an entry bar.

- The price bar prior to the last “go long” bar has all of its price range clearly above the moving average, and closes in the top 1/2 of its price range. It qualifies as an entry bar.

PERTINENT POINTS

- Be sure that prices are swinging well above and at times below the moving average. The wider the swings the better.
- Be sure that prices are in a trend, but not too steep (no greater than a 45 degree angle). Steep trends will see prices almost always above the moving average.
- You will need some crossing of the moving average by prices, but beware of prices constantly hugging the moving average. If they are, you are not in the right kind of situation for this technique to work properly.

If a market is moving sideways, and the moving average is largely flat, the following chart indicates the nature of the problems you will face: