

Swing Trading: Rules and Philosophy

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My style is based on the "Taylor Trading Technique", a short-term method for trading daily price movements that relies entirely on *odds* and *percentages*. It is a *method* as opposed to a *system*. Very few people can blindly follow a system, though many find it easier to be discretionary in a systematic way.

Because this short-term swing technique generates frequent trades, it is important to know the "correct plays," to lock in profits, and to seek the "true trend." *Taking a loss is merely playing for better position*. One trades strictly for *probable* future results, not for what the market might do.



To know the "correct play" is to know whether to buy or sell first, to exit or hold. Trades are based on "objective points," which are simply the previous day's high and low. Movement between these two points determines the "true trend."

When swing trading, adjust your expectations. The lower your expectations, the happier you will be and, ironically, the more money you will probably make! Entries are a piece of cake, but you must also trust yourself to get out of bad situations and trades. It is important to use tighter stops when trading swings and wider stops when trading trends.

This method teaches you to *anticipate*! Never react! Know what you are going to do *before* the market opens. Always have a plan--but be flexible! "See" your stop (support or resistance) before initiating a trade. Know how to trade out of trouble situations and get off the hook with the smallest possible loss.

Finally, never trade in narrow, dead markets. The swings are too small. Never chase a market. Rather than worry that you've missed a move, think instead, "Oh, boy! I've got oscillations and volatility back..."

Basic Rules for Swing Traders

But first--the rules! Because of the short-term nature of this technique, swing traders must adhere to some very basic rules, including:

- If the trade moves in your favor, carry it overnight--the odds favor follow-through. Expect to exit the next day around the objective point. An overnight gap presents an excellent opportunity to take profits. Concentrating on only one entry or one exit per day relieves the pressure.
- If your entry is correct, the market should move favorably almost immediately. It may come back to test and/or exceed your entry point a little, but that's OK.
- Do not carry a losing position overnight. Exit and play for better position the next day.
- A strong close indicates a strong opening the following day.
- If the market doesn't perform as expected, exit on the first reaction.
- If the market offers you a windfall of big profits, take them to the bank on the close.
- If you are long and the market closes flat, indicating a lower opening the following day, scratch or exit the trade. Play for better position the next day.
- It is *always* OK to scratch a trade!
- Use tight stops when swing trading (wider stops when trading trend).
- The goal always is to minimize risk and create "Freebies."
- When in doubt--get out! You have lost your road map and your game plan!
- Place your orders *at the market*.
- When the trade isn't working, exit on the first reaction.
- **ANTICIPATE!**

"Trading the Swing"

How does one anticipate entry? The following may be indicators of a buy day or a sell day:

The Count

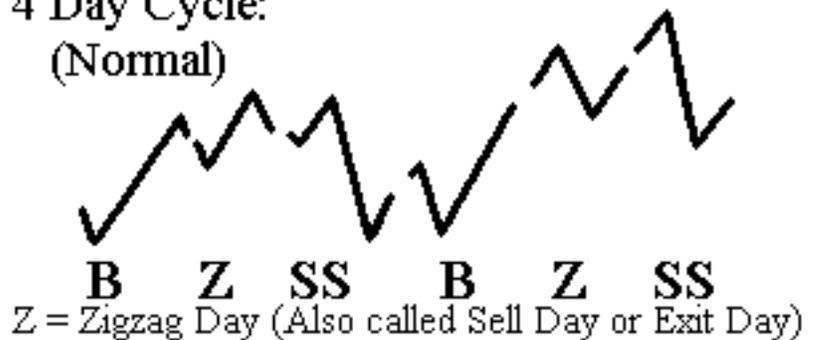
Start searching for a *buying day* 2 days after a swing high or, conversely, a *shorting day* 2 days after a swing low. Ideally, the market will move in complete 5-day cycles. (In a strong trend, the market will move 4 days in the primary direction and only 1 in reaction. Thus, one must seek entry 1 day earlier.)

"Check Mark" on the Test

The potential entry is sought

Classic Trading Cycle

4 Day Cycle:
(Normal)



opposite, or contrary to, the previous day's close. If looking to buy (sell), one first wants the market to "test" the previous day's low (high), preferably early in the day, and then form a trading pattern that looks like a "*check mark*" (see examples).

This pattern sets up and establishes a "double stop point" or strong support. If entering a market with only a "single stop point" or support formed by today's low only, exit on the same day--the trade is clearly against the trend.

Close vs. Open

The close should indicate the following day's opening. When a market opens opposite what is expected or indicated by the trend, one may first look to "fade" it--but must take profits quickly. Then look to reverse!

Support (Resistance)

Is today's support (resistance) higher or lower than yesterday's?

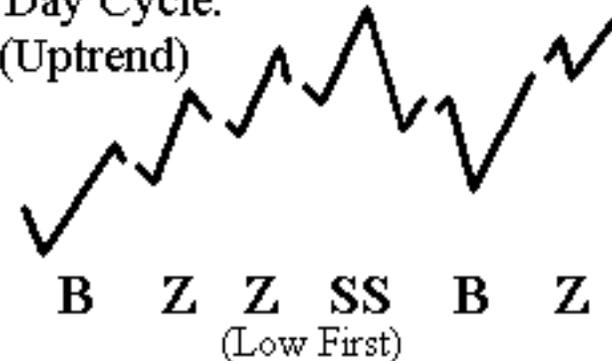
Swing Measurements

Where is the market relative to the last swing high or low? Look for swings (up or down) of equal length, and for retracements of equal percentage.

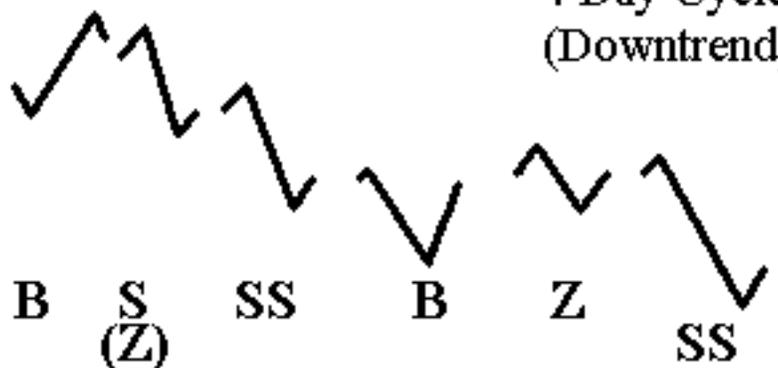
**5 Day Cycle:
(Normal)**



**5 Day Cycle:
(Uptrend)**



**4 Day Cycle:
(Downtrend)**



Additional Considerations!

No matter in what time frame, always look for supply at tops and support at bottoms. Penetrations should be accompanied by volume and activity.

Expect trends, either up or down, to last for either 2 or 4 weeks.

The following conditions are fairly reliable indicators for the start of one of these trends (I personally skip the first buy or sell swing when one occurs because the move ensuing could be quite strong):

- Narrowest range in the last 7 days
- 3 consecutive days with small range
- The point of a wedge
- A breakaway gap
- A rising ADX (14-period) above 32

Practice

Because a certain amount of confidence in any technique is required to trade it consistently, paper trading can cultivate the faith necessary to recognize and trade pattern repetition. Although the temptation to try too many different styles and patterns always exists, one must strive ultimately to trade in just one consistent manner--or at least to integrate techniques into *your own* unique philosophy.

System Characteristics

Certain points about trading short-term swings deserve note. Understanding the nature of short-term systems can help you recognize the psychological aspect of trading.

When consistently following a short-term system, you should expect a very high win/loss ratio. Though the objectives with this style of swing trading appear conservative, you will almost always incur "positive slippage".

In all systems, winners are skewed. Even though making steady profits, 3-4 really big trades may actually make the month. It is vitally important to always "lock in" your trades. Don't give back profits when short-term trading.

You may be astonished at just how big some winners may be from catching the swings "just right!"

Decision-Making

I feel it is important to address this topic. Every time you make a trade, you make a decision. The more decisions you make, the more you increase your self-esteem.

You grow with each decision, yet each decision has a price--you must discard a choice, and you must commit. Conditions are *always* imperfect! You must allow yourself to fail. Allow for human limitations and incorrect choices. Reserve compassion for yourself and your limitations.

There is so much instantaneous information available to all market players today. It is OK to use intuition and to listen to that little voice inside your head, "Does the trade *feel* right?" If in doubt, get out...!

Golden Rules

Finally, I want to leave you with what I believe are two Golden Rules, applicable to all traders but, of essential importance to short-term swing traders:

- NEVER, ever, average a loss! Sell out if you think you are wrong. Buy back when you believe you are right.
- NEVER, NEVER, NEVER listen to anyone else's opinion! Only YOU know when your trade isn't working.

Recommended reading list:

- [*The TAYLOR Trading Technique*](#), by George Douglass Taylor, 1950
- [*Trading is a Business*](#), by Joe Ross
- *Day Trading with Short-term Price Patterns & Opening Range Breakout*, by Toby Crabel
- *Forecasting Financial Markets (or Technical Analysis Explained)*, by Tony Plummer
- *The ABC of Stock Speculation*, by A. Nelson, 1903

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