Options Mastery Day 1 – System Training
Day 1 Agenda

- 10:00-10:15 - Intro & Course Outline
- 10:15-11:00 – Indicator Overview and Setup
- 11:00-11:15 - Break
- 11:15-12:15 - Active Swing Trader Training
- 12:15-12:30 – Special Situations & Filters
- 12:30-12:45 - Break
- 12:45-1:15 – Reversal Setup Training
- 1:15-2:15 - Time Based Charts
- 2:15-2:30 - Break
- 2:30-3:30 - Chart/Workspace Setup
- 3:30-4:00 - Walk Thru’s, Daily Routine, Alerts, Order Types, Trade Management
Indicators - ASW

• **PTUOM_Sentiment** (usually as a histogram for best visual)
  Sets up the initial signal on "0" cross-over
  +0 uptrend, -0 downtrend

• **PTUOM_Signal Line**
  For the ASW used primarily as a re-entry line
  steps up - uptrend, steps down, downtrend

• **PTUOM_ActiveSwingTrader** (Trade Calculator)
  Brains of the Operation
Interval Size Formulas

• Open up a monthly chart
• Add the PTU_Range Indicator
• Scaling = 0.10
  – This will be the default that we use for all stocks and ETF’s to determine the range that we use for the month.
• Active Swing Trader/ASW = Round to the closest tick. We will take the exact range setting that the PTU_Range indicator gives us each month.
## ASW Trade Calculator

### Format Indicator: PTUOM_ActiveSwingTrader

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[Dictionary Button] [Default Button]
### ASW Trade Calculator

#### Format Indicator: PTUOM_ActiveSwingTrader

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| i375_SandRNumKL           | 1                                          |
| i376_SandRTargetAdj       | True                                       |
| i38_MaxInFlow             | 2                                          |
| i41_TrailLength           | 4                                          |
| i42_IncrLength            | 14                                         |
| i43_IncrX                 | 1                                          |
| i44_SentimentLength       | 10                                         |
| k00_UseKLAdj              | False                                      |
| k01_KLMinor               | 5                                          |
| k02_KLMinorFZone          | 1                                          |

#### Dictionary...
Review of the Trade Calculator Inputs & Customizations – Active Swing Trader

- EntryMult = 1 (1x interval size)
- StopMult = 1 (1x interval size)
- Tgt1Mult = 2 (2x interval size)
- Tgt2Mult = 3.3 (3.3x interval size)
- ExitAtTarget = True (goes for fixed target)
- ExitTgt = 2 (can set to 1 if using Tgt1Mult)
- UseBreakEvenStop = True (once Tgt1 is reached)
- UseTrailStop = False
- TrailMMPct = 65/any value if false
- TrailMult = 1
- UseMMStop = False (default but will vary by Trade Plan)
- MMPct = any number if False (65)
- MMLockInMult = any number if False (0.4)
- SandRAdjMethod = 3
- S2RMaxTics = 99999 or 600
- S2SMaxTics = 99999 or 600
- SandRMult = 1.5
- MaxInARow = 2
- TrailLength = 5 (needs to match the PTU_Signal)
- IncrLength = 14
- IncrX = 1
- SentimentLength = 21 (needs to match your PTU_Sentiment)
1. Active Swing Trader System Rules

- Setup each chart with the range setting determined by the monthly chart using the PTU_Range indicator
- Momentum Bar = Tradestation Default
- Range Bar = Ninjatrader and Thinkorswim Default
- Load 4 months worth of data. I like to do a 4 month look back when optimizing the system. **Make sure you load enough data to capture all trades going back 4 months.**
2. Apply ASW Template

• Should contain default PTUOM_Sentiment, PTUOM_Signal Line and PTUOM_ActiveSwingTrader Calculator

• Easiest way to do this is to download the workspace that I will post each month that will contain the optimized settings.
3. Understand the main buy/sell signal - crossover of the PTUOM_Sentiment
4a. A Buy Setup

- Occurs when the PTUOM_Sentiment crosses over the zero line into the positive
  - Exception - if already in a buy that has triggered there is not an extra signal, etc...

- The actual buy trade then is going to be an interval based upon the input "EntryMult" in your Calculator - the default is almost always the size of 1 of your interval range bars.

- Always the high of the setup bar plus the EntryMult (usually range bar size)

- For example, range bar is $1. High of Set-up bar is $500. Buy entry would be buy stop/limit $500 + $1 = $501
4b. A Sell/Short Setup

- Occurs when the PTUOM_Sentiment crosses over the zero line to the downside and goes negative
  Exception - if already in a short that has triggered there is not an extra signal, etc...
- The actual short trade then is going to be an interval based upon the input "EntryMult" in your Calculator - the default is almost always the size of 1 of your interval range bars.
- Always the LOW of the setup bar MINUS the EntryMult (usually range bar size)
- For example, range bar is $1. Low of Set-up bar is $500. Sell/Short entry would be Sell stop/limit $500 - $1 = $499
5. The Trade Setup Remains constant until triggered

- Which would lead to a target and a stop being placed
- OR there is a new setup the opposing direction - which would always cancel the open trade
6. Once Triggered Targets and Stop are plotted

Targets: There are Two Targets

1. Target 1 = Set from the Target 1 Multiplier input
   • Default is 2x the range bar size
   • For example, range bar size is $1 then the Target 1 = $2 from the ENTRY PRICE on the chart

2. Target 2 = Set from the Target 2 Multiplier input
   • Default is 3.3x (based on being 65% beyond the Target 1)
   • For example, range bar size is $1 then Target 2 = $3.30 from the ENTRY PRICE on the chart
**Examples**

- **Buy Example**
  
  Entry Price = $501
  
  Target 1 = $503 (501 + 2)
  
  Target 2 = $504.30 (501 + 3.30)

- **Short Example**
  
  Entry Price = $499
  
  Target 1 = $497 (499 - 2.00)
  
  Target 2 = $495.70 (499 - 3.30)
Protective Stops

Your Stop is based upon the LOW of the setup bar for a buy or the HIGH of a setup bar for a short

PLUS you'll add on a StopMULT (Stop Multiplier) which defaults to 1 range bar size interval

For example
Buy Trade Set-up Bar has a low of $499, High of $500 so buy entry is $501. The initial protective stop would be:
$499 (low of setup bar) - $1.00 (range bar size) = $498
Short Trade Set-up Bar has a low of $500 a high of $501 so the short entry is $499. The initial protective stop would be:

$501 (high of setup bar) + $1.00 (range bar size) = $502
Break-Even Stop Rule (Default)

- Standard Trade Management Rule
  When we reach Target #1 - the Stop is raised to Break-even which equals your Entry Price
Stop and Reverse Trades

• When in a trade and you get another trade to setup in the other direction make one additional key level adjustment on the stop and reverse entry

• If the stop and reverse entry is close to the stop on the original trade then just move the stop and reverse entry to the stop of the original trade.

• We can actually use the calculator to now make this adjustment
Reminders:

- If the PTUOM_Sentiment Crosses back over to the other side - across the Zero Line and trade has not triggered yet - cancel the open trade - you'll have a new trade setup.

- If trading the shares of stock you can attach your stop and target to your entry order. If trading the options we will talk about your different options in a later video. We can use conditional orders and trade alerts to manage the trades manually.

- Key Level Adjustments Might Be Needed (Later Discussion)
7. Re-Entry Trades

We have the opportunity to re-establish a 2nd trade in the same direction when one of the following occur:

- Winning Trade
- Break-even Trade
- Protective Stop Reached

AND

The PTUOM_Sentiment Has Not Changed Color/Crossed the Zero Line
Re-Entry Cont’d

The idea of the re-entry is to get either a 2nd opportunity in a strong trend and take advantage of a larger move - or it gives us an opportunity to re-establish a break-even or failed trade in a trend that remains in the same direction with no Sentiment crossover.

Qualifiers:
UseRevTrig = False (will discuss during re-entry talk)
If we were to set this to true - it would have to setup a trade in the other direction on that crossover (against the prevailing Sentiment) and also have price move through that like the example above -- however we are not requiring that in the default Trade Plans.
Re-Entry Trades should only be taken one time. After you take two trades in the same direction make sure you wait until a trade sets up in the other direction before taking another one. For example, if you have taken 2 winning long trades in a row wait for a short trade to at least setup before taking another long trade. The short **does not** need to trigger in...just print.

Make sure you are careful with gap trades. If a stock gaps past your entry point you can get in synch with the trade as long as it hasn’t hit Target 1. If it has already hit target one without a pullback then cancel your order and wait for the next trade.

Pay attention to "Trade for Profit" training and the "Art of Trading/Key Level Adjustments"

The Trade Calculator provides the RAW trade set-ups before any key level adjustments.

Be aware of important market news.

Make sure you correctly calculate your range bar intervals.

Take note of important announcements and holidays that could impact typical trading.

Any uncertainty? Always best to walk away or not to take a trade -- every trade taken should feel 100% confident in adherence to rules and system.
Possible Filters

• Consider other money management methods on re-entry trades. Possibly scale out of part of position at T1.
• Consider filtering out the first 15-30 minutes of the session. Don’t enter new trades in this time zone.
• Consider taking no re-entry trades.
Reversal Setup
1. We use the exact same range setting formula to setup our charts that we use for the regular setups.

2. You will need the %R indicator on the chart as well (See settings on the next slides)

3. You will also need to add the PTUOM_ActiveSwingReversalCalc to the chart as well.

4. You might need to add a second PTUOM_SignalLine if the reversal setup is using a different setting than the regular setups. Make sure you change the color on the 2 signal lines to tell them apart.
%R Settings

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Reversal Setup Calculator Settings

![Calculator Settings](image)

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## Reversal Setup Calculator Settings

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Reversal Setup – Long Trade

• Need an overbought (above 90) on the %R indicator
• Wait for a close above the PTUOM_SingalLine
• The calc will print an entry point using the high of the setup bar plus the EntryMultiple which is a multiple of the range being used on that months chart.
• The calc will print targets using the entry point plus the multiples listed in the calculator. These will be multiples of the range being used on that months chart.
• The calc will print a stop using the low of the candle minus a multiple of the range being used on that months chart (StopMult in the calc).
Reversal Long Setup

- Close above Signal Line
- Oversold on %R (below 10)
Reversal Setup – Short Trade

• Need an oversold (below 10) on the %R indicator
• Wait for a close below the PTUOM_SingalLine
• The calc will print an entry point using the low of the setup bar minus the EntryMultiple which is a multiple of the range being used on that months chart.
• The calc will print targets using the entry point minus the multiples listed in the calculator. These will be multiples of the range being used on that months chart.
• The calc will print a stop using the high of the candle plus a multiple of the range being used on that months chart (StopMult in the calc).
Reversal Short Setup

Close below signal line

Overbought on %R (above 90)
Reversal Setup – Other Rules

• Trades will cancel if price closes on the other side of the Signal Line before hitting the entry point.
• Overbought and oversold readings stay valid until crossing back over the 50 level on %R
Time Based Charts
Time Based Chart Setup - Tradestation

• We can use the same indicator set from the range charts
• Entries, Targets and Stops are calculated using the NetPicks Incremental Indicator
• Calculator reads that it is a time based chart and makes the necessary adjustments for calculations.
Time Based Chart Setup - Tradestation

• Right click on your chart and select ‘Format Symbol’
• Under the settings tab Select a ‘Minute’ interval
• Under the Interval Settings section type in the time interval you desire to use
  – We like the 195, 4 hour or Daily Time Frames
• Make sure the drop down under ‘For bar building use:’ is set to Session Hours
• Under the Range section load up 1 year of data
• Click ok and the data will load
Input i42 – Incr Length is the input that determines the sizes of the setups.
In control center Click on ‘File’ and Select New – Chart
Type in the Symbol that you are looking to trade
Under ‘Period’ change the chart ‘Type’ to Minute
Change ‘Value’ to your desired time interval (195 min, 4 hour, or daily).
Under ‘Data’ change the ‘Load data based on’ option to ‘Custom Range’
Load up 1 Year of Data
Time Based Chart Setup - Thinkorswim

• Start with the same Range Chart setup with the same indicators loaded up
• Click on ‘Style’ and set the Aggregation Type to ‘Time’
• Click on ‘Style’ and go to Intraday - 90 days - Custom
• Type in your desired Time Interval (195 min, 4 hour or Daily).
• Right click on your chart and go to Edit Studies. Click on the Active Swing Trader Calc
• In input i001 set to ‘No’
• Click ‘Apply’ and ‘OK’
Time Based Chart Setup - Thinkorswim

- Start with the same Range Chart setup with the same indicators loaded up
- Click on ‘Style’ and set the Aggregation Type to ‘Time’
- Click on ‘Style’ and go to Intraday - 90 days - Custom
- Type in your desired Time Interval (195 min, 4 hour or Daily).
- Right click on your chart and go to Edit Studies. Click on the Active Swing Trader Calc
- In input i001 set to ‘No’
- Click ‘Apply’ and ‘OK’
Time Based Chart Notes

- Key level adjustments become more important
- Average holding time tends to be longer
- Have to be quicker to manage trades that are larger than normal (when ranges expand).
- Patience is important as you can go stretches with no setups. Time charts aren’t as active. Typically get 1-2 trades per month.
- Be cautious with Re-entries. Performance isn’t as good with re-entry trades. Maybe consider getting out at T1 on re-entry trades.
• You will need to insert the PTUOM_ActiveSwingTrader Strategy onto each chart
• We can click “Format Strategy” to get inside the Input settings that you can optimize
• We optimize once a quarter or once every 6 months.
• We do a 1 year look back
Trade Assist Automation

• Settings to Optimize:
  – EntryMult
  – StopMult
  – Tgt1Mult
  – Tgt2Mult
  – Trailer Length
  – MktSentmntLength
  – Incremental Length

• You can look at every setting but that will often times lead to over optimization.
• **Input Variables Ranges to Test:**
  - EntryMult (i01): .5 - 1.5 (using a .25 increment)
  - StopMult (i02): .75 – 1.25 (using a .25 increment)
  - Tgt1Mult (i03): 1.5 – 2.5 (using .25 increment)
  - Tgt2Mult (i04): 3 – 4 (using .10 increment)
  - Trailer Length (i41): 3 – 9 (using 1 increment)
  - MktSentmntLength (i44): 3 – 31 (using 1 increment)
  - IncrLength (i42): 10-20 (using 1 increment)
  - Max Trades In a Row (i38): 1-4 (using 1 increment)
Steps to Consider When Optimizing

• Start by optimizing signal line and sentiment values
• Then in test 2 move to entry, stop and target multipliers.
• Then in test 3 we look at the IncrLength.
• Finally in test 4 we look at max trades in a row.
• When looking at the report don’t just pick most profitable result. Look at profit factor also. You will also want to consider how fast you want the system to be. We want a profit factor of at least 2.
• A higher sentiment value means a slower system.
Trade Assist Automation
• You will need to insert the PTUOM_ActiveSwingTrader Strategy onto each chart
• We can click “Format Strategy” to get inside the Input settings that you can optimize
• We optimize once a month and the end of the month
• We do a 4 month look back
  – Make sure you load enough data to catch all trades going back 4 months. This might mean you have to load more than 4 months of data.
Trade Assist Automation

• Settings to Optimize:
  – EntryMult
  – StopMult
  – Tgt1Mult
  – Tgt2Mult
  – Trailer Length
  – MktSentmntLength

• You can look at every setting but that will often times lead to over optimization.
Trade Assist Automation

• Input Variables Ranges to Test:
  – EntryMult: .5 - 1.5 (using a .25 increment)
  – StopMult: .75 – 1.25 (using a .25 increment)
  – Tgt1Mult: 1.5 – 2.5 (using .25 increment)
  – Tgt2Mult: 3.1 – 3.8 (using .10 increment)
  – Trailer Length: 3 – 9 (using 1 increment)
  – MktSentmntLength: 3 – 31 (using 1 increment)
Steps to Consider When Optimizing

• Start by optimizing signal line and sentiment values
• Then move to entry, stop and target multipliers (you don’t have to do this every month).
• When looking at the report don’t just pick most profitable result. Look at profit factor also. You will also want to consider how fast you want the system to be. We want a profit factor of at least 2.
• A higher sentiment value means a slower system.
Alert Types, Conditional Orders, Daily Routine, Trade Management
Setting Alerts

• There are a number of ways to do this.
  1. Put a horizontal line on the chart that has an alert attached to it. Place the line just in front of the entry, target, or stop so you have some advanced warning that a level is being approached.
     – You can have this set as an audible alert to your computer or you can have it sent to your phone.
  2. Have the alert set in your broker platform.
     – This can also be set as an audible alert or sent to your phone in many cases depending on your broker platform.

• See setup videos on the owner’s site for more instructions on how to do this.
Conditional Orders

• You can set conditional orders in most broker platforms which can be really nice. See TOS example.
• Training video is available on the owner’s site that walks you through how to do this in TOS
• We look at the Daily Charts of all 3 U.S. market ETF’s (DIA, SPY and QQQ).
• We load the 20, 50 and 200 Simple Moving Averages
• We load the 89 Exponential Moving Average

• We don’t trade these charts but use them to place context around the market
• We look at the UVOL vs DVOL (up volume – down volume). Use the 15 min chart.
  – (up volume – down volume)/1,000,000
  – Look for a 2:1 ratio for bullish or -2:1 for bearish
• We look at the ADVN vs DECN (Advancing –declining names). Use the 15 min chart.
  – +1500/+2000 bullish
• We look at the NYSE Tick on a 15 min chart. Mark the +400, +800, +1000, -400, -800 and -1000 levels with solid lines.
  – Anything above +1000 is near term overbought.
  – Anything below -1000 is near term oversold.
• We look at a 5 min chart of SPY. We add pivot points and the VWAP (volume weighted average price). We use this chart to get a feel for where SPY has come from and where it is going (support and resistance).
Daily Routine

• I like to come in 3 times each day. Once at open, once at lunch and once before close.
• 5 minutes each time
• Look for new setups and manage open trades. Use alerts or conditional orders.
• If can’t come in 3 times a day find what works for you and stick to it. Try to come in 1-3 times per day for about 20-30 min total.
Trade Management

• I like to adjust my position size over time to reflect my personal outlook on the markets. Smaller position size if more conservative. Bigger position size if more aggressive.

• Managing for profit – As you approach full target be more aggressive with stop movement. Try to lock in profit as soon as possible.

• Mix up Basic/Re-entry trades with Reversal Setup
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