

BLITZ



PAYCHECK ALERTS



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Blitz Paycheck Alerts

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Today is the Day!

I am excited to be writing this book and sharing very specific trade information with you. I also know the financial benefits, the life-changing prosperity, it can bring when implemented with a high-performance mindset.

When I say “performance” and place meaning on that word, I realize it is a fluid word with multiple definitions based on our objectives and feelings toward the effort involved. For some people, the word “performance”, or increasing their level of performance, can mean they feel satisfied or fulfilled with the reward versus the required effort to achieve that goal. For others, it is a feeling of joy derived from accomplishment. And, even more, it centers around winning or succeeding, and, of course, achieving financial success runs high on the list.

Another element is wanting performance to achieve consistent long-term success.

My objective in addition to covering all the details relating to the Green Zone trading strategy is a desire to touch on all the aspects of helping achieve high-performance in your trading and “personal life.”

Are you ready to take the next step toward prosperity? This is the start. Choose to make this your year.

We are going to cover the What? Why? How?

Sometimes, we need something to happen or something new to come into our life that makes us want to change. Ask yourself, voice it aloud, “Will this be a prosperous, high-performance year for me?”

This is a decision we each need to make every morning when we wake up. It is (or should be) a conscious choice.

Some people go through life reacting to everything that comes their way – dodging, darting, ducking – in the easiest, least burdensome, or habitual direction, or in what they think will be the most beneficial or least hurtful direction.

Because people are reacting in this way, they are not experiencing advancement or a forward direction of a high-performance life.

The 3 D’s - this dodge, dart and duck reaction - can also happen in trading the stock market if we don’t prepare and choose differently, but I am going to save this discussion for when we move to specifics on trading options.

Achieving high performance is not something a person has by nature or genealogy or luck. It is a conscious choice. And that is what I want you to do today.

So, let me ask, what does high performance mean to you in your personal and trading life?

Does it mean starting a new business? Is it learning about option trading? Trying a new trading strategy? Filling or spanning a gap in your life? Bringing in more joy. Asking for help? Achieving financial independence?

I encourage you to do it, make that choice – go, push, expand, leap, jump, progress. Face your fears or hesitations. Don't avoid change. Embrace it.

Today, make a conscious decision to take the steps toward living a prosperous life. Bring something different. Bring change. Let the restlessness in you that desires more push you to take the step to stretch and try something new to bring about change.

You can approach a bridge from either of two directions. In the same way, new things come about in two ways – they either come about from within (something that rises from within you that desires change or growth like a fire in the belly) or it comes from without, forcing you to make a choice out of necessity or offering a new opportunity.

Today, I hope it comes from both directions. I hope you have that fire for change and that the Blitz Paycheck Alerts option strategy provides that opportunity for change.

It is important to remember that it is your thoughts and feelings “together” that create what you draw into your life, and you cannot separate them. Also, remember that it's your feelings that are summing up your overall frequency and telling you what you are creating in this moment. Your energy is the magnetic pull.

So, how are you feeling right now? Could you feel better? Well then, do what it takes right now to feel better. It is your choice. Move in the direction of what you want in your life.

If something extraordinary is going to happen, make it a conscious decision. Amazing things happen when you have more mornings where you make a conscious choice to live a prosperous life. So, let's get started.

This discovery and now firm belief helped me to be a positive creator of an amazing life. Anyone can do it! Life for me didn't start that way. Life had tough periods, but I consciously made changes. I believe this is important enough that I wrote a personal book called *Knowing Is Seeing!* that is available on Amazon. It has to do with knowing who you really are and the elements in your life that you are bringing about and creating for yourself.

What is Blitz Paycheck Alerts Trading Method?

As we will cover in greater detail throughout the book, the Blitz Paycheck Alerts Trading Method focuses on specific chart patterns. I am going to teach you a very specific chart

set up and explain the information these charts are sharing with you. You will look at a chart, and it will tell you a story about what has taken place up to the current moment and what is likely to happen next. Because option trading benefits from the moves of the market, the Blitz Paycheck Alerts can offer evidence that something important has happened to the fundamentals or the mindset of the traders who are participating in this Blitz Paycheck Alerts (BPA) strategy. The option is often purchased based on a specific time frame chart (weekly, daily, 60, 30 or 10-minute chart) benefitting the trader with the price moves that happened in the market during that period of time. These price swings offer the potential for profiting from price moves over short, medium and long periods of time.

These price moves can happen for a variety of reasons. Perhaps, a news event is expected, an upcoming earnings report, a company being purchased, drug approval, announcement of a new product or promotion, CEO change, an overall market shift, or a sector rotation brings about excitement. Any general market anticipation can bring about a move in price.

What we will cover in this book is how to identify a trade entry pattern before it happens and how to capitalize on these moves of the market. Let me briefly explain the path we are going to take to accomplish this.

Our first step will be to cover what an option is and how to use them as a vehicle to ride an equity's price move up and down as the equity swings between being overbought and oversold, which is the natural order or flow of the stocks and the market.

Price charts are key to being able to anticipate the moves and then see them when they happen. To use charts to garner pre-move information, we are going to cover how to add a variety of indicators to the chart and then learn how to read or interpret the information they give. These indicators create patterns or pictures that flow through stages - P3 (long- when price is apt to go up) and P3½ (short- when price is apt to go down). I think of these stages as a life cycle that goes from conception to the end of direction movement. We will cover these patterns and their stages, so that you will easily recognize where the price is as it moves through the stages that can then bring about the moves.

These P3 patterns can be applied to various time-frame charts so what you are learning is very flexible trade information. To zero our sight in on a trade, we are going to use a new, early pattern formation on a weekly, daily, 120, 60, 30, or 10-minute chart, and then watch for entry confirmation, which will signal that there is the possibility of an upcoming price move. If or when the move takes place, it will push the chart deep into the pattern's stages, and the pattern will move along the path until it is time to exit.

After the entry move occurs, we follow the pattern stages and will close the trade as it moves into a natural exit stage after a big move, when it is likely to pullback and test

itself to see if its price has the strength to continue its path after the move or end. Our goal is to enter a trade as the pattern starts to unfold and exit before it gives back its gains. Zeroing in on a confirmed in and out, capturing profits and then moving on to the next candidate.

Once you know what to look for, you will be on your way toward the high performance you know you are capable of!

Let's get started!

Option Trading

I will briefly skim over the definition of an option and how it functions within the overall market, but if equity options and trading them is "brand new" to you, I suggest before you continue reading through this entire manual that you pause at the end of this section, and you read my option trading basics book, *Exploring Your Options* on Amazon. Once you understand the principles surrounding options, opening a trading account, and virtual, or practice, trading, then return to this strategy book to build on that foundation by adding the details of the Blitz Paycheck Alerts Trading Method.

You don't have to be an expert in the financial field to trade options, but it helps to demystify the terms used, so let's start with the option itself.

What is an option?

In its simplest definition, an option is a choice. In the financial world, options give the option owner the right to buy or the right to sell the underlying asset at a pre-determined price during a pre-set period. As the owner of the option, you have the choice of buying, selling, or doing nothing! You pay someone for these rights or choices.

An easy way for you to think about options is as if you are renting the equity for a specific period. Along the way, you could decide to buy/sell or do nothing with the equity, or you decide to no longer rent the equity, and walk away from it.

Each option contract is based upon the price movement of 100 shares of the underlying asset. If you own 2 contracts, you control 200 shares of the underlying asset.

Since an option contract is not something that you will be able to physically hold in your hand to look at and study, allow me to explain how they work by telling you a story that will help you understand their value.

Calls and Puts

There are two types of options - Calls and Puts. This first story example will relate to a Call option.

Let's say you are interested in refurbishing and flipping homes, and you have a friend who wants to sell her house for \$350,000. You know the neighborhood and like the fact that it is well-established and can be reached from two major highways, which makes

the area desirable. However, you don't have \$350,000 to purchase the house as an investment, so you offer another proposal. "If you'll give me a piece of paper saying I can purchase your house for \$350,000 any time over the next twelve months," you say to your friend, "I will give you an extra \$2,000." Your friend agrees to your proposal because it's not important that she sells today. In essence, you have bought a Call option based on your expectation that the property's value will appreciate.

Six months later, a shopping center is under construction a half-mile away, making the properties in the area in hot demand. Now the house has gone up in price to \$360,000. You hold up your paper – the option -- and wave it in front of interested buyers. "I'll sell you this paper for \$4,000. It states that you can purchase this \$360,000 house for only \$350,000."

A young couple takes you up on your offer, and the trade is made. Here's what happened.

- Your friend receives the \$350,000 she wanted for her house, plus the \$2,000 you paid for the option to purchase her property for a total of \$352,000.
- The young couple purchases the house valued at \$360,000 for \$350,000, plus the \$4,000 they paid you for the paper option. They pay a total of \$354,000. which is a savings to them of \$6,000.
- You received \$4,000 for the option (paper) you purchased for \$2,000 six months ago, so you made a \$2,000 profit (100%) on your \$2,000 investment.

One major difference from our story and how a real Call option works is if, after a period, you decide you are no longer interested in buying the property, you can sell the option for the time value that is left. If our story had a different ending and the property had not appreciated in value in six months, and if you had sold the option back to your friend (the issuer), it would still have half its time value (6 months) remaining. Your friend will be able to sell that option to purchase her house within the next six months to another option buyer. Therefore, rather than lose your total investment, you will receive a portion of your investment back when you sell the option to close your position. You get back its remaining time value.

This story illustrates in a concrete manner the crux of trading options. In our story, you see the house, the owner, and the buyer. They are tangible to you. In the world of stocks, it's all like pieces of paper, and truthfully, it is even less concrete because most traders handle their trades over the internet, so you never actually hold that piece of paper. However, the principle is the same. *You control enough of a great stock, index, or ETF to make a great deal of money with essentially only a down payment.*

Most of us can't go out and simply plunk down \$350,000 to invest in an *underlying instrument* or *asset*, like a second house or a block of stocks. But we can benefit from the leverage of controlling the *underlying* asset with a fraction of the house or stock cost by using options.

Earlier, I mentioned there were two types of options – Calls and Puts. We have looked at an example of Call options to be used when you expect the underlying asset to go up in value, so let's take a moment to tell a story. Puts are purchased when you expect the underlying asset to go down in value.

Traders sometimes have trouble making sense of Puts because they go contrary to what we have been taught in life. Who in their right mind will pay for something they expect to go down in value? Puts are considered a short position because they benefit from a decline in the security's price.

In this story, let's say you and your neighbor Fred are in your front yard discussing the new golf store opening in the shopping center about a half mile away. You both agree that the new store will be convenient, attract other quality stores, and add value to your already appreciating properties. While you're talking, a real estate agent walks up to you. He explains that he's selling pieces of paper that guarantee that if you decide to sell your home any time over the next year, he will pay you \$350,000 for the house, no more, no less, but \$350,000 is guaranteed. This guarantee will cost \$2,000.

Fred isn't impressed. "Why the heck would I consider paying \$2,000 to let you buy my property for \$350,000? It's worth that now, and it's been appreciating 10% every year for several years. With the new golf store coming in, who knows? By the time that contract runs out, my house will be worth \$360,000 or more."

On the other hand, you take a minute to mull over the agent's offer, which he has explained is a transferable contract, meaning that it can be sold to someone else under the same terms. As it happens, you've been thinking about moving closer to your work, but haven't found a new house yet. You know your house might go up in value before you actually want to sell, but the guarantee feels like insurance. You tell the agent to get the paperwork ready while you get your checkbook. So, you pay the real estate agent \$2,000 for the paper guarantee (Put option).

Two months later, you find the perfect house across town, and quickly find a buyer willing to pay \$355,000 for your old house. Of course, you now feel a little foolish for purchasing the contract to sell at the lower fixed price. Nevertheless, you hang on to the contract rather than sell it for the remaining time value.

Six months later, still four months before the contract is due to expire, an article in your local newspaper reports that, many years ago, toxic waste material was buried beneath the ground in your old neighborhood. This news has an immediate effect on the housing market in your town. Within days, you learn that the house you recently sold is now worth only \$75,000. At that point, you remember the paper that you hold, guaranteeing a price of \$350,000.

You entertain the thought of going to your neighbor Fred, but he heckled you so badly when you purchased the contract in the first place that you go to the young family who purchased your home. "I'm sorry this happened," you say, "but there was no way of

knowing about this toxic waste. But I have this paper and I'm willing to sell it to you for \$4,000. The paper says that a particular real estate agent is obligated to purchase the house for \$350,000."

No doubt, the young family is ecstatic. They will be out from under the poor investment at a loss of only \$9,000 – the extra \$5,000 they paid you for the house, plus the \$4,000 for the paper guarantee.

You're happy to have sold the house and the paper guarantee. In the eight months since you purchased that contract, you doubled the \$2,000 you paid for it, so you have 100% profit.

In our story, I point out that no one could have anticipated the toxic waste catastrophe, but that would not be entirely true with a Put purchase. You purchase Puts with the same care and consideration that you put into your Call option choices. You are drawn to a security by its chart (I will go over examples), and then you do your homework. You know its earnings history, its next earnings date, what sector it trades in, and whether that sector is gaining or losing strength.

To tell my story, I made it sound as if you are actively involved in finding a buyer for your contract (option), and that is not the case with trading option contracts. Selling option contracts, if there is open interest, is part of the option contract itself. It happens within seconds if the price is agreed upon. You set the price at the time that you push the button to sell-to-close the position. All this will be explained in more detail as we proceed, I just want to clear up the impression that you might need to become a salesperson searching for a customer to sell your option to. This is not the case.

The transaction is arranged behind the scenes at the exchange and usually happens within seconds at the agreed upon price.

Trading Options: What to Expect

With careful candidate consideration, you can achieve significant short-term profits on funds you invest in the options market. Your profits are made by purchasing option contracts (Calls and Puts) with the express intention of selling the contract after the underlying, stock, ETF, or index has moved in price, either up as with Calls, or down as with Puts, and you sell well before the option's expiration date. In this service, we are specifically discussing equities that routinely have moves of 2% or higher, yet the information you are absorbing can be applied to any equity.

When you purchase an unripe avocado from the produce market, you know the avocado still has a while before it has to be eaten. In terms of options, the idea is to sell the avocado before it becomes fully black, soft, and ready to expire.

By incorporating this line of thought, you never exercise your option to buy the underlying equity. Your goal is to hold the option long enough for the price of the

underlying asset to increase in the case of a Call option and decrease in price in the case of a Put option. You don't intend to exercise the option, meaning buy the equity, but someone will want to, *and that's its value*. In most cases, within the BPA strategy, the option is often purchased, held for a long period of time, a few days, or sold the next morning, depending on the time frame chart that signaled the trade.

To make even clearer the principle of options, let's convert our house selling story into a Call stock transaction. To make this clearer still, let's compare this option purchase to a stock purchase.

Option contracts control 100 shares of the underlying asset, so, for this example, let's use Nike (NKE). You'll buy 100 shares of stock, and then you will buy one option contract and make a comparison.

Note: An option premium is the amount you pay to control the underlying stock when you purchase an option. This option premium increases in a magnified way in relation to the stock price. As the stock price goes up, our option also increases in value, and then you sell your option back well before the expiration date. In that way, you trade the options, but never actually buy or sell the underlying stock or asset.

If Nike's (NKE) stock price is \$99 per share, one hundred shares of stock would cost \$9,900. If next month, the stock price goes up \$2, and you sell the stock, you have a profit of \$200 on your one hundred shares. Your profit is 2% over your original investment.

However, if you buy a Call option on those same one hundred shares of NKE stock, you will pay approximately \$120, or \$1.20 per share. (This is a good estimate, but actual option premiums vary greatly). The \$120 investment controls all one hundred shares of the stock for the duration of your option until the expiration date- in this case about two weeks. If Nike's price goes up \$2, your option may go up half that amount, \$1. (This too varies according to the Delta of the underlying option, which I promise I will discuss). This \$1 increase, or \$100 profit, is 83% of the initial price you paid for the option. Using the leverage of options, you've made 83% profit on the same underlying instrument (NKE stock) that only realized a 2% profit when the actual stock was sold.

- 100 shares @ \$120 = \$9,900
- \$2 increase x 100 shares = \$200
- New Value = \$10,100
- Gain 2%

Or

- 1 Option Contract on 100 Shares @ \$1.20 per share = \$120
- \$1 increase in option price x 100 shares = \$100
- New Value = \$220
- Gain = 83%

Let's take this example one step further. If you were to invest the same amount in each trade (\$9,900 in both stock and option trade), you would have been able to purchase 82 option contracts and would have earned \$8,200 profit versus \$200.

You can see, options provide traders with leverage benefits. As seen in our example, you can begin trading with a small amount of money and can turn a high percentage of profit.

As your confidence increases, you can earn even greater profits. With careful, precise trading, a \$100 profit can become \$200, \$200 can become \$400, \$400 can become \$800, and before long a trading account will increase, showing compounded profit.

When It Comes to Trading, How Do You Know When a Move is Going to Happen?

An equity's price is tracked on a chart, often using what is called a candlestick to depict the price movement over a given period. A price move is an area on candle on a price chart in which there is a move up or down. This can occur between the closing of the market of one week, one day, one hour, or another period and the next week's, day's, hour's, or shorter periods' open.

Lots of things can cause moves in price, such as news or an earnings report coming out after the stock market has closed for the day. If the earnings were significantly higher than expected, many investors might place buy orders for the next day. This could result in the price opening higher than the previous day's closing. If the trading that day continues to trade above that point, the candle will increase in size or move up on the chart. Price moves offer evidence that something important has happened to the fundamentals or the mindset of the traders who are participating in this market's move. Before we get into the different types of price-moves and how to trade them, here is a chart showing a price move on a daily chart, so you will know what we are talking about.



Figure 1 - Courtesy of Stockcharts.com

The chart above shows an upward price move on October 12th. This is the third upward move of the week after a modest drop on Monday. The 12th is a Thursday.

As you can see, a trader who entered a trade before the close of the day on the 11th would benefit from the move on the 12th.

Before we get into the types of chart-moves and their identification criteria, let's set up our chart.

Chart Elements

In this section, I will cover all the chart elements and indicators needed for the BPA strategy. These details will help us to set up our chart template. From there, we will go over and discuss specific patterns, option selection requirements, and the triggers needed to enter a trade.

So, what charting service should you use? Most brokers offer charting services on their websites. There are also several free chart sites online. For years, I have used Stockcharts.com. It offers a free version, but the free version doesn't allow enough indicators for the BPA strategy. The basic paid version is about \$15 a month. I feel charts are my most important tool, so, for me, the charge is justified. You will have to decide what chart provider best suits you.

Another asset of Stockcharts.com and some other chart services is that you can create lists of charts of equities, and that makes it easy to scroll through. I have a list that includes the 5-time frame charts for numerous stocks that create numerous pages of charts that are easy to scroll through. That way I don't need to recreate charts every day.

We will start with the Exponential Moving Averages (EMA), but before we jump in with both feet, I'd like you to consider that you bring everything about you - your past experiences, your likes and dislikes, your mood, and feelings about yourself, as well as your belief system - with you as you tackle new things, including trading and testing a new strategy.

This said, it is important to make sure that you don't sabotage yourself with your thoughts before you even get started. Many traders place unnecessary stumbling blocks along their own path by stating and believing false stories about themselves - I am too old to learn anything new, too young, not educated enough, not enough time, too stressed, too busy, poor health, etc.

Rather than take the easy way or the familiar way, let this be the day that you make a conscious decision to tackle an old belief, or perhaps explore something brand new. Maybe you know it will make you a little stressed, a little worried today, or it won't be popular. However, today you are making a conscious decision to choose to be courageous as you tackle this thing you have avoided; you are going to go for it. You are going to put yourself out there more than you did yesterday or last week. You are going to stretch.

You just need to concern yourself with today. Tomorrow will take care of itself. Stay in the moment. When you think about it, in "this" moment, you have everything you need to feel great, satisfied, and joyful. You have that in the next moment and the next, but I will let you settle into that awareness.

Today, believe in your abilities to live a gigantic, amazing performance life. Take it slow but know you can do it!

Fibonacci EMAs

Before I jump into Exponential Moving Averages (EMAs), let me take a half step back to tell you another story. Years ago, a Forex-trading friend mentioned Fibonacci and the Golden Triangle. (I will go over more about this concept as we proceed, but for a minute go with me as I tell this short story.) I had no idea what he was talking about, so I looked it up and researched the subject. I have told this story numerous times, but I think it is important. One, I want to give my old friend credit, but also to share the universal connection within this science of numbers.

Fibonacci lines and number sequences go by dozens of names - the golden angle, golden triangle, divine proportion, golden mean, and many more. The name that caught my attention was the Divine Proportion. I consider myself to be a spiritual person. I try to walk the talk by demonstrating my spiritual beliefs in my daily actions, so here was a finger hold for me - a small way to connect and cast a spiritual hue over Wall Street (the banking and financial community that is often viewed with such sour disdain) and over my trading as well. Why not? It's my choice, my conscious choice. I get to choose what I want to add importance to, so it reflects in my life.

Therefore, I have my friend Aaron to thank for leading and giving me the Fibonacci sequence of numbers that I use on my stock charts for this strategy. It combines a practical, yet spiritual element to my trading that lifts it up to a high-performance level.

The first step is to appreciate the stock market for what it is - one vehicle among many that can bring about financial prosperity. But for now, let me explain the significance of these numbers and then I'll explain how these numbers are applied to the BPA chart.

The Divine Proportion – Fibonacci Principle

Before I get too far along with chart reading, discussing our trading patterns and covering the rules of our option trades, I want to further discuss the tool I just mentioned. Most traders have at least a basic understanding of a chart to track an equity's price movement. The various strategies that we will cover use a handful of different chart indicators, but one consistent element is Exponential Moving Averages (EMAs) that will be applied to every chart in this strategy. So, let me explain the history of this special trading tool and how I leverage the Divine Proportion.

The first record of the “Divine Proportion Numbers” dates to 200 BC. Yet, in the West, they first appeared in 1202 when they were introduced by Leonardo of Pisa, known as Fibonacci. Leonardo puzzled over the reproduction of a pair of rabbits, which seems to have nothing to do with the stock market, yet it brought about this special number sequence. Leonardo pondered the end “family” result of this pair of rabbits and this simple (or not so simple) multiplication concept introduced a numerical relationship that seems to show up everywhere. I am simplifying here, but as amazing as it may seem, the Universe seems to function by this very sequence of numbers.

These numbers relate to our strands of DNA. It is found in nature in the veins and numbers of leaves on a stem, petals on a flower, tree branches, insect body joints and legs, human physical anatomy, and, in very general terms, in the proportions of the human body. Broadly speaking, the distance between the forehead, nose and chin, the shoulder, elbow and wrist, or the hip, knee, and ankle all function around Fibonacci numbers. Macro or micro—bones in the hand and our feet. The number ratios are found in seashells, spirals of galaxies, the harmony of music, the artistic eye, genealogy of a bee, the makeup of chemical elements, and the behavior of light and atoms. (This is a quick capsulation. Research for yourself.)

Anyway, if in the great scheme of things, the sequence of numbers relates to the movement and formation of all material things, including brain waves, then it stands to reason that this numerical relationship and sequence of numbers might apply to something as ambiguous as the stock market... and traders' reaction to the market. Why not? Elliott waves, which is another well-recognized and accepted chart reading principle of counting the up and down waves in the market, is based on Fibonacci numbers as well.

We see harmony expressed by emotions, feelings, and characteristics present within ourselves. This harmony is viewed within nature as the Divine Proportion. Simply stated, given three parts of an organism or natural occurrence, the ratio of the largest piece to the middle-size piece is the same as the ratio of the middle-size piece to the smaller piece. Simple enough, right? Don't jump ship. This is going to make sense in a second.

This sequence of numbers is easy enough to figure out. Fibonacci numbers begin with zero (0). Easy math. 0 plus 1 is 1. Now we are going to start adding the number back to itself. 1 plus 1 is 2. 1 plus 2 is 3. 2 plus 3 is 5. 3 plus 5 is 8. 5 plus 8 is 13. 8 plus 13 is 21, and so on, on into infinity. (The ratio between 5 and 3 is the same ratio between 3 and 2... on up the line of numbers. Each set of numbers has the same exact ratio between them and in relationship to their sum, the whole—the Divine Proportion).

0, 1, 2, 3, 5, 8, 13, 21, 34, 55, 89, 144, 233 ... on into infinity... and beyond.

Most traders are familiar with moving averages. Every trading guru or instructor has their favorite combination. I often used 9, 15, 50 and 200-EMAs. But for my private trading and for the BPA strategy, I use a special set of EMAs. I use Fibonacci numbers. Further into this manual, I will show you how to set up these EMAs on a stock chart, but right now I want to express my amazement at how often these numbers are not only close as support and resistance levels (I will explain this, too, if it is a new concept), but they nail these points to the penny. It is crazy accurate.

I have selected a few Fibonacci numbers that I want to use as EMAs and applied to our other indicators – 8, 13, 21, 55, 89, 144, 233, 377, and 610 for this strategy. When you place them on a chart they look like colored ribbons. For those who are not familiar with the purpose of exponential moving averages (EMAs) or moving averages (MAs), we will discuss that next.

Exponential Moving Averages (EMAs)

There are numerous types of support and resistance, and we will discuss several of these as we proceed. One type of support and resistance lies with moving averages. When we create a chart, we have the choice of where to set either Simple Moving Average (SMAs) or Exponential Moving Averages (EMAs). For our purposes in this book, we will be using just some of the special Fibonacci numbered lines – 8, 13, 21, 55, 89, 144, 233, 377, and 610 exponential moving averages.

I will add this note here for clarification. If you use Stockcharts.com as your charting service, they only go up to 600-EMA on their service, but 600 is close enough to a 610-EMA for our chart reading.

You will be amazed at how often these EMA lines absolutely nail the exact area of price movement. If you have been trading for a while, you will have heard many traders use 20, 50, 100 and 200-EMAs. Notice that the 21, 55, 144, and 233 are not far off from these numbers. I feel the Fib EMAs fine-tune or tweak the common EMAs.

In the left-hand corner of a chart, the notation will tell you which type of moving averages (either SMA or EMAs) are used and the price that moving average reached.

If an equity is trading above any of the exponential moving averages (EMAs) that are incorporated within the chart, watch what happens when the price reaches the support of the EMA. Likewise, if it is trading below, watch what happens when it reaches the resistance of the EMA. You will notice that the lines act as floors where the price goes no further, ceilings where the price goes no higher, and general areas where the price rests for a period.

As you become more familiar with the EMAs, you will notice that the 8, 13, and 21-EMAs work as a short-term unit; the 55 EMA might be considered a very important independent indicator, and the 89, 144, 233, 377, and 610-EMAs work as a long-term unit.

Let's apply these Fib EMAs as the first addition to our chart.



Figure 2 - Courtesy of Stockcharts.com

The chart above is a daily-minute chart for Snap Inc. (SNAP). Take note of how the 8, 13, and 21-EMAs move in tandem as the short-term unit I mentioned earlier. A cross above and below each other is significant and we will delve into this further as we proceed, but for the moment, look at the bigger picture of when the 8, 13, and 21-EMAs cross the 55-EMA, and then when they cross the larger-time frame unit of the 89, 144, 233, 377 and 600. These crosses above and below the large-time frame unit of EMAs signify major trend changes. A cross above the 600-EMA can be a milestone. In the case of SNAP's chart, the 600-EMA isn't even visible, so its influence is out of the picture currently.

At the current moment, the 8 EMA is crossing the 13-EMA and is just below the 21-EMA and candles are passing 55-EMA.

Our two most informative EMA lines on a day in and day out basis will be the 8 and 13-EMA. Notice that the 8-EMA closely follows the price of the candlesticks. Price runs just above or below them.

Notice, too, how often either 8-EMA or a candlestick itself touches and respects the strength of the 13-EMA where it can't move through it, either up or down. An actual cross will be significant to our trading. The crosses happen regularly, but not every day.

I also mentioned that the 55-EMA could work as an independent indicator. I think of it as a line in the sand. Notice there was a cross up in late May and down in late July when they crossed. Price tried a couple times and the 8- and 13-EMA rose and was not able to break up through it. It climbed to get close but could go no higher.

Notice now, the 8, and 13-EMAs are lined up in down-trending order like they were back in May, before they crossed up in June and part of July. Now, you can be sure that the price could go lower until the EMAs cross each other on the way up. Then as long as they are in up-trending order like they were between May through early July, you can trust that the overall direction will be up until the unit of EMAs cross over each other and start heading downward.

We will study these special Fib EMAs as we look at more charts, but for now get acquainted with the patterns they create - the way they line up, their numbers, and colors. I truly love them. They are a daily reminder that we should expect the unexpected, and I should expect it to be amazing.

Let's continue with the chart elements that are superimposed over the candlestick portion of the chart, and then we will add the indicators. Next, we will look at Fibonacci Pivot Points.

Pivot Points

Using the Fib Pivot Points, traders can spot other areas of support and resistance. An easy way to think of support and resistance is as floors and ceilings. The floor is called support, and the ceiling is called resistance. Support reflects the supply of this equity and resistance reflects demand. You can easily think and remember this by thinking about gravity and the support needed to hold things up. Resistance is a barrier that prevents or inhibits something from going higher. (We'll discuss other types of support and resistance lines as we proceed).

Support and resistance are two important principles involved in understanding chart analysis, and subsequently profitable trading.

- Support is a price level to which prices tend to descend but not break through.
- Resistance is a price level to which prices tend to ascend but not pass through.

The key word here is “tend”. These imagined lines of floors and ceilings hold through most price movement, whether it is weekly, daily, or intraday charts like the 60, 30 or 10-minute charts. We will be primarily using a variety of time frame charts in this strategy. It takes something out of the ordinary to happen to break through the support and resistance lines on the longer time frame charts. These could include reporting earnings growth or a large loss, a major lawsuit against the company, an overall stock market reversal, FDA refused drug approval, or the end of an extended up/down trend but can move up and down more often on shorter time frame charts.

Support and resistance lines gain strength as the time frame lengthens. For example, support and resistance lines in a 10-minute chart might hold for a few hours to a day at most; a 30-minute chart might hold for a day or two; in a 60-minute chart, they might remain unbreakable for several days; a daily chart’s lines might be steadfast for a week or two and on a weekly chart, strength areas can last for months.

You can spot areas of support and resistance without any fancy formulas. They are the tops of peaks, the low point of troughs, and any time there are several candlesticks that consolidate at one price level.

By watching for levels of support and resistance, you can find natural trade entry and exit points that go beyond the patterns we are going to focus on in this strategy. They also provide logical exit points. You could consider purchasing an option when a stock starts to come up off the support floor. You then watch closely, being ready to sell as the stock’s price comes close to the ceiling resistance before your option’s expiration date.

While it’s possible that the stock might break through resistance to then go higher, you will stand ready to sell in case the stock doesn’t have the thrust-power to do so. In other words, you’ll be ready to sell once the stock hits resistance, thus likely to descend back toward support.

This is a very basic explanation, and we will delve deeper into support and resistance. On the chart below, notice the areas where candlesticks collect along a line in one area.

I took the EMAs off the chart, so the Fibonacci Pivot Point lines would be obvious. The Pivot Point is the darkest with three lines (Resistance) above and three lines (Support) below.



Figure 3 - Courtesy of Stockcharts.com

Beyond visibly being able to see support and resistance areas, pivot points are a way to add specific lines of support and resistance to a chart based on past support and resistance areas. Stockcharts.com has a chart overlay that calculates and draws pivot points on the chart, but if you use a charting site that does not offer this overlay, there are ways to manually determine these amounts and levels. For Fibonacci Pivot Points at stockcharts.com, you add an "F" under parameters. Fibonacci Pivot Points are closely related to Standard Pivots, the main difference is that they calculate a third level. Fibonacci R2 and S2 match Standard Pivot Points R1 and S1.

Notice how often price rises or drops to touch the faint lines across the chart.

Pivot points are determined by utilizing the previous day's open, high, low, and close information. Online, there are a variety of different calculators where you insert that information, and it does the calculations for you. One such site on the web now is <http://www.pivotpointcalculator.com/>. It is principally designed for Forex trading, but it works for charts for option trading just as well.

On the calculator, you insert the open, high, low, and close details of the equity you are interested in charting, and then note when the price hits those numbers, and the amounts act as areas of support and resistance.

In the support and resistance section, I discussed visually seeing areas where traders bought (demand) and sold (supply) at certain price levels. These areas can be visually seen as peaks and troughs where an equity's price stopped and bounced or was repelled from going further.

By applying the Pivot Point overlay, you are now also turning those areas into prices as well as lines. On a chart, you will notice these areas from the top down are marked R3

(Resistance 3), R2 (Resistance 2), R1 (Resistance 1), P (Pivot Point) and S1 (Support 1), S2 (Support 2), and S3 (Support 3).

The Pivot Point can be a turning point, but it is also used as a reference point. If the equity's price is trading above the Pivot Point, it is said to be bullish. If it is trading below the Pivot Point, it is said to be bearish. The support and resistance lines respond to price in the same way as discussed earlier, meaning as ceilings and floors.

On the chart that follows, notice that not only are the current week's Pivot Points marked, but also the Pivot Point areas from the previous weeks. These lines are not as vital, but past price action affects current price based on market sentiment.

I will add the EMAs back in as well.

As an added point, notice on September 29th how the price gapped up on the open. It then pulled back and flattened out just above S1, which supplied support for the day. For a few minutes, price went up and touched the 600 EMA, and then withdrew as if the EMA was hot to the touch. From there, the next day it dropped.

Again, notice as the EMAs cross down, they periodically rise to test the overhead resistance and when it can't continue upwards, it drops to the next level. This process repeats.



Figure 4 - Courtesy of Stockcharts.com

Notice on UAA's chart, the EMAs were flat on the 2nd of October, and then on the 3rd, it dropped down toward S1. The point is to see how the EMAs, and pivot points act as support and resistance. Once the price makes it through the resistance or support levels, it then drops back to test support, or rises to test the resistance area. On the chart above, the 8 EMA tested support and resistance areas repeatedly and broke to

test the Pivot Point several times, losing its grip on that area for various periods of time – a day or a couple of days.

On the chart above, extra lines have been added so that it shows next week's Pivot Point levels. This line can then be taken into consideration if you were to consider getting in or holding a trade over the weekend.

The Pivot Points play a big role in the BPA strategy as other indicators are added, their importance will become evident.

Average Directional Index (ADX)

Okay, here we go, hang on to the railings! The Average Directional Index (ADX) determines the strength of a trend, whether it's trending up or down or trading sideways. As an oscillator, the ADX fluctuates between 0 and 100, but readings above 60 are relatively rare. Low readings, below 20, indicate a weak trend and high readings, above 40, indicate a strong trend.

Studying the ADX, you'll note that the ADX indicator does not rate the trend as bullish or bearish, but merely assesses the strength of the current trend. In other words, a reading of 40 can indicate a strong downtrend as well as a strong uptrend.

To determine in which direction the trend is flowing, or to indicate a change in direction, two other lines are added to the graph. Usually two different colors, green for bullish and red for bearish, represent respectively a Positive Directional Index (+DI) or Negative Directional Index (-DI).

As these green and red lines cross each other and the ADX trend line, we can determine not only the strength of the trend, but in which direction it will head before it fully takes place.

- When the green +DI crosses upward over the red -DI and/or the black ADX trend strength line, we can expect the trend will be up.
- When the green +DI line crosses downward and the red -DI moves upward and crosses over the black ADX trend strength line, we can expect the trend to fall.
- On occasion, it happens that the DI lines will touch each other prior to crossing, and they will act as resistance and will bounce off each other, resuming the previous trend direction.
- There are other times that the DI lines braid as they swim up and down, struggling to be the dominant direction. When this happens, the price most often goes flat and trades in a tight range.

The ADX is special enough that it will be added twice to our chart. The full chart set up will be covered before long. We have two more indicators to cover, and then we will create our chart template. As these indicators are applied to our charts, their movement, and the information they impart will become crystal clear. Hang in there. These indicators are going to create a picture that you will be able to spot as it is forming.

Again, the default is 14 periods, and I am going to tweak this to 13, which is one of our Fibonacci numbers.



Figure 5 - Courtesy of Stockcharts.com

I will post the chart again without the text boxes, so you can get a better view of the information and how the different indicators work together. Notice that the DI lines foretell a change in direction before the actual change, but on occasion, they can braid, and the price goes flat because the two directions are battling it out like during September 28 and October 5th and 6th.



Figure 6 - Courtesy of Stockcharts.com

This might seem like a lot of information to absorb. Take it slow. Before you know it, your eyes will be circling around the chart in quick motions, gathering the information that your mind's eye will absorb and analyze instantly. Then, it will slow and zero in on the important portions.

In the same way that your eye and mind work together to look at a Monet painting, your eyes swirl over the details, putting them together to take in the whole picture. It is only when your eyes settle on the small details of a ripple of water that the small dots and minute nuances become evident. This analyzing ability comes rather quickly when you spend just a little time looking at charts. One day they seem to be foreign and confused and then, within a short time, they become old friends that comfortably share their stories. Hang in there. It will happen!

Okay, the PPO indicator is next, and then the ATR, and we are done with the elements of our chart. From there, we will tie all the pieces together.

Price Percentage Oscillator (PPO)

I present this oscillator as one of the main components of the P3 patterns for the BPA strategy. For traders who are familiar with the MACD and prefer to use that indicator instead of the PPO, they are welcome to do so. I prefer the PPO. The PPO is like the

MACD, but uses a more complex, but more reliable formula; it's based on the percentage difference between two moving averages over a given period of time. It uses two lines, one thicker and one thinner, to display its information, as well as a series of blocks located beneath the lines called the histogram.

The PPO is an indicator that either confirms or contradicts the signals given by the special Divine Proportion Exponential Moving Averages that we have inserted into our charts. As a momentum indicator, it's one of the simplest and most reliable indicators available.

The PPO is a lagging indicator, meaning it uses information based on a stock's past performance. This lagging indicator turns into a momentum oscillator and functions by tracking the amount of difference between the short-term moving averages and a longer-term moving average, often the 12-day MA and the 26-day MA. The results form a line that oscillates above and below "zero," without any upper or lower limits. This equation is represented by a thick line. The other time-period is included as a reference point, seen as a thinner line.

- If the PPO is positive and rising, then the gap between the referenced time periods widens.
- When the thicker line moves up, positive (bullish) momentum is building for that underlying stock or index.
- When the thicker line moves downward, then the negative gap is widening, so we see negative price (bearish) momentum.
- When the thicker line crosses upward over the thinner line, we see that as a signal to buy. This buy-signal will often confirm other buy signals depicted on the chart.
- But, when the thicker line crosses the thinner line in a downward slope, we see a signal to sell, depending on the option's expiration time frame.

You'll see two graphs within the PPO chart. One is formed by moving averages, and the other is a histogram, which notes what has transpired previously on a shorter trigger exponential moving average (EMA).

The histogram is the bar chart along the bottom of the PPO graph. The size of the bars fluctuates above and below the "zero" line. These bars are another way of expressing the relationship between the PPO equation and an equation using a 9-day exponential moving average.

- If the shorter moving average (the thicker, dark line) is above the longer moving average (the thinner, lighter colored line), the PPO histogram will be above the "zero" line, or positive.
- If the shorter moving average is below the longer moving average, the PPO histogram will be below the "zero" line, or negative.
- The PPO histogram compares the PPO number equation with the 9-day EMA. If the value of the PPO is greater than the 9-day EMA, the histogram will be above the "zero" level or positive.

- If the value is less than the 9-day EMA, the histogram will be below the “zero” level or negative.



Figure 7 - Courtesy of Stockcharts.com

Signals in the histogram to watch for:

- 1) Positive divergence that precedes a Bullish Moving Average crossover on the PPO. A positive divergence (ever higher lows) in the histogram indicates that the PPO is strengthening and could be on the verge of a crossover.
- 2) Negative divergence (ever lower highs) that precedes a Bearish Moving Average crossover. A negative divergence in the histogram indicates that the PPO is weakening in momentum.
- 3) Broadly speaking, a widening gap or space between the lines indicates strengthening momentum and a shrinking gap indicates weakening momentum. Usually, a change in the histogram precedes any change in the PPO.

- 4) The main signal generated is a divergence on the histogram followed by a moving average crossover.
- 5) Keep in mind that a centerline crossover on the histogram represents a moving average crossover for the PPO.

The size of the histogram bars and the shape they create give visual clues, representing the expected movement of the moving averages. I touched on divergence above and will point out slant divergence (up or down) and peak and trough divergence as seen on charts.

If you are feeling overwhelmed, just let this basic indicator information settle in. We will get into the specifics and how to use the information when we apply the indicators to actual trade set-ups. Once you begin to absorb the basic information, you can come back and reread the specifics. It is all part of the detail layering process.

The drawbacks, or downside, to PPO's histogram is that it is a second derivative, based on the PPO's equation of the price action of the underlying stock or index. The further removed an indicator is from the underlying price action, the greater chance of a false signal.

Because the histogram was designed to anticipate PPO's signals, the temptation exists to get in too soon when you compare longer and shorter time frame charts. By acting only on a shorter time frame chart signal that agrees with the next time frame up, we are assured of trading with the longer trend and not against it. You will see this in action as we proceed. That said, please understand, the histogram signals need to be taken as part of a whole evaluation. Don't be tempted to plunge in with just the histogram information.

We are going to tweak the default numbers to 13, 21, 8 (Fib numbers).



Figure 8 - Courtesy of Stockcharts.com

As mentioned earlier, the histogram blocks within the PPO are a leading aspect of the indicator. They can give an early warning when the price is getting tired from the current move and is getting ready to flatten out to rest or change directions.

Study each indicator to see which one gave the first hint that a change was forming. Then, which one happened next? Which one followed? How about the PPO and the EMAs? The 6 EMAs crossed down and through, so they were in down-trending order in one quick burst.

Now that we have the PPO in place, we are going to add another ADX indicator. Yes, we want two of them, one above the PPO and one below. This will be explained further. But for now, just know that the line-up of indicators is an important element to the BPA strategy.



Figure 9 - Courtesy of Stockcharts.com

Average True Range (ATR)

The Average True Range indicator starts with True Range (TR), which is defined as the greatest of the following over a period of 14 days:

- Current High less the current Low
- Current High less the previous Close (absolute value)
- Current Low less the previous Close (absolute value)

Typically, the Average True Range (ATR) is based on 14 periods and can be calculated on an intraday, daily, weekly, or monthly basis.

For this strategy, the ATR will be based on daily data. Because there must be a beginning, the first TR value in a series is simply the High minus the Low, and the first 14-day ATR is the average of the daily TR value for the last 14 days. (We again will tweak this to the other indicators by changing to 13-day period.)

We will be using intraday (10, 30, and 60-minute) charts for our trading strategy, along with Daily and Weekly, but the ATR information you will be using to qualify candidates will be an equity's "daily" price movement.

Baidu's (BIDU) ATR often runs almost \$3.50, whereas Dollar Tree's (DLTR) ATR measures just over \$2.61. We will often be investing in a variety of time frame options, so having a higher than 2% Average True Range means that the equity's price movement is apt to fulfill your price goal more quickly than an equity that swings back and forth in penny movements.

On the chart below, notice it is a daily chart set up with the chart indicators we've discussed. The ATR indicator has been added. It reflects that the daily ATR for Dollar Tree, Inc. (DLTR) is \$2.61. A two-percent price move would be approximately \$2.08, so DLTR would be a good candidate for our trades since it moves on average \$2.61. In this study and strategy development process, I have discovered that a 2-4% move in price often equates to double an option's premium. So, this is our goal; we want to trade equities with large, quick moves, weaving in and out of the trades.

Now you can keep the ATR on your chart for convenience, but you are only going to use the information from it when you change the time frame to a daily setting, not your everyday chart analysis setting of either 10, 30, or 60-minute charts.

Beyond this, there are times when the ATR range has increased to such a high point that it indicates a bearish environment is brewing (brought on by erratic price swings), but aside from the daily information as to price movement, the other indicators give us what we need to know on the intraday charts. If you chose to remove the ATR from the 10, 30 and 60-minute charts that we will be looking at, and then add it to the daily chart to see if an equity qualifies, that is a good option as well. That decision remains your preference. As stated earlier, I keep a list of qualifying equities on my chart list on Stockcharts.com, so if a company interests me because it has a high ATR, I can add it to my list of qualifying equities. Keeping a list is a great practice to have.

Use the ATR indicator on a daily chart to look for equities that consistently move 2% or higher, or to create a list of equities to focus on and that fit the other criteria, and you will have developed a list of premium equities upon which to trade.



Figure 10 - Courtesy of Stockcharts.com

In another minute, we are going to tackle two patterns, one bullish and one bearish. These patterns use the indicators we have lined up on the chart. I want you to come to a point where you recognize the formation and stages of these patterns. They hold so much information and will be involved in the trade patterns we will be using to open new trades. There will also be two stages within the P3 Squeeze (long) and the P3½ Squeeze (short) patterns used for shorter, quick entries and exits.

Before I jump into the Squeeze pattern information, I will do a screen print of the under-portion of the chart at Stockcharts.com so that you can see the indicators and changes in parameters or periods.

Chart Set-up

The chart below is a screenshot of the lower portion of the chart at Stockcharts.com.

Not every charting service will use the same procedures, but this will give you the guidelines needed to set up your charts in the right order and with the needed time periods. All the indicators below have had their parameters changed to tie back to Fibonacci numbers.

The screenshot shows the 'Chart Attributes' and 'Overlays' sections of the Stockcharts.com interface. The 'Chart Attributes' section includes options for 'Period' (Daily), 'Range' (5), 'Bar Gap' (0), and 'Extra Bars' (15). The 'Overlays' section lists several 'Exp. Moving Avg' lines with parameters 8, 13, 21, 34, 55, 89, 144, 233, and 600. The 'Indicators' section lists 'ADX Line (w/+DI and -DI)', 'Pct Price Oscillator (PPO)', 'ADX Line (w/+DI and -DI)', and 'Avg True Range (ATR)', all with parameters 13.

Figure 11 - Courtesy of Stockcharts.com

Starting from the top, you'll see that I added the special EMAs (8, 13, 21, 34, 55, 89, 144, 233, 377, and 600 EMAs) and changed each number to be the Fib numbers in order in the Overlay section. Each EMA line will now be a separate color. I love the pink 55 EMA line. It reminds me of the color of the cover of my first book. Traders call it the "pink book". In this section I also added the Pivot Point overlay.

I have inserted each indicator in the order we discussed them. I placed the ADX indicator in the line-up twice with the PPO in between. Followed by the ATR from which we will only use information on a daily chart setting. Each of the indicators has had their default numbers change to Fib numbers.

So, there you have it. This is our chart set-up. Hopefully you can place these chart overlays and indicators on your current chart service or at your broker. If not, then the small monthly fee charged by Stockcharts.com can be deducted as a business expense

that will be offset by your gains. I find it well worth the expense. I don't have a formal relationship with Stockcharts.com, but I consider it to be one of those "can't do without" tools in my trading arsenal.

How This Strategy Came About

In 2010, I wrote a book titled *Option Trading in Your Spare Time* with my friend Virginia McCullough. In it I wrote down all the needed details and elements to learn and trade options. I taught Virginia how to trade. I would email her a section or chapter, and then she would come back with questions. I would rewrite the section until each unit clearly covered the points I was trying to make and that she fully understood.

Within *Option Trading in Your Spare Time*, I briefly mentioned a pattern that I had discovered that shows when an equity is going to have an explosive move. This pattern is an anomaly since it is created by unrelated chart indicators. It has become known as the P3 Squeeze pattern.

I think it was my artistic nature that drew me to it and allowed me to recognize this unusual chart phenomenon in the first place, and then it was readers who asked for more information and a trading strategy based on the Squeeze that encouraged me to spend the next four years analyzing and viewing this pattern from every angle.

The result has been several strategy books that focused on the Squeeze pattern. It took another few years for the development of the P3½ Squeeze pattern (short), which then created a well-rounded strategy where other traders and I could trade both sides of the market, up and down price moves.

We will cover both chart patterns thoroughly, but the BPA strategy has taken these unique patterns even further with tighter confirmation signals for entry and exits on a variety of time frame charts (most often shorter 10, 30, and 60-minute charts and daily and weekly charts held longer) developed for accurate trades based on what is occurring in the market and on the specific chart.

Often, we will trade only the stage 6 that these patterns go through. In essence, we will be zeroing in on the exact moment of change and explosive move, and then we will exit the trade when it starts to weaken and change. This is capitalizing on the BPA strategy.

The specific details of the strategy start with the P3-P3½ patterns as the base, but the nuances evolved were fine-tuned to include exponential moving averages and specific areas of the pattern. Boundaries were stretched to include Fibonacci Exponential Moving Averages (Fib EMAs) and Pivot Points that have become value tools within the BPA strategy.

During 2023, trading became a challenge and at times, it was frustrating because of the volatility. Not only did the indices go through extended flat periods, but at times, volatility initiated daily triple digit swings in the DOW index. Some days these swings

changed direction not only daily but also intraday. I recall an unusual day when the DOW swung back and forth more than 1200 points within a single day.

These major swings created unique trading opportunities as we tried to capture the big moves. It was during this period that the specifics of the BPA trading strategy were cemented into place to form a strategy that brought forth successful trades with awesome returns because it included a variety of time frames, zeroing in on what was taking place.

I realized that I needed to look for a pattern when I realized that, often the huge moves came on the open of the market. I, as a trader would get excited, enter a trade, and then, after the first 30 minutes, price would switch directions after a gap. Then, it might change directions several more times throughout the day.

It didn't take long for me to decide that I needed to find a way to capitalize on the move of defined strength that happened by entering the P3 patterns and depending on the ADX strength line telling me what was likely to happen next.

The result is the BPA strategy and a new high-performance "mindset." Every morning before the market opens, I affirm that this will be a prosperous trade period for me!

Early in my life, I came to understand that wealth is an inside job ... what does that mean? At 28 years old, I had two children and was earning \$4,000 per year, and I owed \$6,500. I didn't think we would ever get caught up, let alone get ahead. This was my mindset. As I grew older and our family also grew, I still earned little more than what was needed to manage week to week. I knew with surety it would be a struggle, but somehow, I would skim by. **I proved myself right every single week.**

My life needed to change.

The Universe shook things up. After a devastating flood and losing our livelihood of 25 years, I began to read, study, and apply the teachings in *Think and Grow Rich* by Napoleon Hill – and my life changed so quickly and dramatically.

Truthfully, this happened well into my life when I was about 56 years old, a time in life when it was harder to bounce back. Within a short period of time, I went from earning barely enough to more than I needed to experience my fondest dreams. This was my first realization that wealth is truly an inside job. What was inside of ME mattered. If I want MORE, all I do is expand my awareness and change my mental expectations (expect the unexpected and expect the result to be great) – and the same is true for you.

Ask yourself by digging deep – What have you been avoiding? Perhaps you have avoided conflict? Asking for help? Accepting help? Sharing what you really believe? Sharing your values? Difficulties? Changing what isn't working?

In option trading, we discuss long and short-term strategies. In life, there are different definitions.

Avoidance as a short-term strategy can offer immediate relief. As a long-term strategy, avoidance guarantees suffering.

Earlier, I mentioned writing a book called *Knowing Is Seeing!* (available on Amazon). My life is so awesome I have difficulty imagining what I could add to make it better and this overall prosperity is available for everyone, no matter what it is that you desire.

It is time to go for it! Face the areas you have been avoiding and push through. It may cause some momentary discomfort, but it will be gone in a flash. Then, you can look at yourself anew and see a person who is striving for high-performance, a person who is making a conscious decision every day to have a life of prosperity.

You've got this!

P3 and P3½ Patterns

P3 Squeeze Pattern

I am going to point out two different patterns that will be visible on all the time frame charts. (Actually, they are visible on any time frame chart, but we are going to concentrate on daily and 30-minute charts as we delve into the strategy and then later, we'll bring in the other time frames. I just don't want this to feel overwhelming). Let's start with the P3 Squeeze pattern that will be used for Call trades. Some of you may be familiar with this pattern, so this section will act as a review. Then, we will discuss the pattern that will be used to initiate Put trades (P3½).

We have our chart set-up established, so now I want to draw your attention to a pattern that often forms. I will annotate a chart where I circle the pattern - the Squeeze Pattern – this picture on the chart is as close to a guarantee as you can find in the stock market.

It's interesting. The PPO indicator and the ADX indicator have no connection to each other. They are separate indicators, yet, when they are set up as you have done with the PPO on top of the ADX, a pattern is formed. When this picture is created, the stock will ALWAYS go up. Oh, there are times when it takes a few days, and other times when the price pops up like a kid on a trampoline, and then drops back down for a short period, but in the end, it always comes back up.

I will list a few charts so that you can see the accuracy in what I am showing you. Also, I will point out on a chart or two what happens when this pattern fails after it gets started. When it does fail, the pattern forms again, tightens, and then pops up with even more gusto, like a geyser that has built up steam.

There are times when the lines of the PPO and ADX squeeze together so tightly they almost touch, and other times there is a larger bit of space between them. The

indicators create their patterns separately, yet together they tell a story about the equity's past and its future. The P3 Squeeze picture is created when a stock has not just dropped, but dropped drastically. The PPO black line reflects this extreme drop, and the ADX black line reflects the strength behind the drop. The pattern combination of these two indicators draws this unique picture that guarantees upward movement.

After we look at this pattern picture on a few charts, I will show you the second pattern for Puts, the P3½. Then, we'll address what you need to look for on the other indicators that will pinpoint exactly when to enter a trade. We'll also review an option chain so that you can see how to select the option you want to purchase once you've located a stock that has drawn the picture of an equity that is getting ready to explode.

On the chart below, notice the circle drawn over an area on both the PPO and ADX indicator. Once you study this area, look up on the candlestick portion of the chart and see the uptrend that happens after this picture is formed. Notice how the indicators squeeze together.

Both the P3 Squeeze and the P3½ pattern go through specific stages. We will cover those stages after you look at a few charts to get the basics.



Figure 12 - Courtesy of Stockcharts.com

The last two charts were daily charts, where each candle showed the price movement of a day. I am now going to change this to a 60-minute chart just to share that the patterns formed by the PPO and ADX are the same. They just take less time to form.



Figure 14 - Courtesy of Stockcharts.com



Figure 15 - Courtesy of Stockcharts.com

Let's look at a couple of 30-minute charts.



Figure 16 - Courtesy of Stockcharts.com

On this chart above, I boxed the swings in the DI lines. This volatility kept new patterns from forming, and the P3 that started on September 28th kept adding small strength stages when the P3 ½ patterns failed. The -DI line didn't have much strength.

Next, we will look at 10-minute charts and then we will move on to learn more about the patterns.



Figure 17 - Courtesy of Stockcharts.com



Figure 18 - Courtesy of Stockcharts.com

These were a variety of time frame charts. The pattern as it unfolds is the same in every time frame. You have seen that sometimes the lines come very close together, and other times there is more white space between the lines. As we proceed, I will cover all the indicator details and what part they play in the unfolding process as the price goes up.

Let's look at a few weekly P3 chart patterns, where the patterns take months to form and play out. On these charts, each candle takes a week to form. Then, we will look at the other indicators and how they give signals and confirmations.



Figure 19 - Courtesy of Stockcharts.com



Figure 20 - Courtesy of Stockcharts.com



Figure 21 - Courtesy of Stockcharts.com

I'm sure the point has been made with the charts listed above. Any time the PPO and ADX line come together to form a squeeze pattern on the chart, the equity's price goes up when the lines eventually push away from each other. Sometimes, the movement lasts for a few hours, and other times, it continues and strengthens to start an uptrend that can last months based on the weekly charts, weeks on daily charts, numerous days on 60-minute, a day or two on 30-minute, and hours on 10-minute charts.

Confirming indicators are going to help us determine which of the squeeze patterns are going to develop into profitable trades.

Time is very relevant. With 10-minute charts, the patterns form more quickly, and there are often more of them because they pick up the smaller moves. This is one of the reasons we use them only at specific times to select a trade. They are often used to help fine tune entries and exits. To use 10-minute time frames, you have to be a quick,

decisive trader, who can enter and exit without a great deal of thought or mental reservation.

The Blitz Paycheck Alerts trading method will be explained fully, and you'll see how the time charts work hand-in-hand.

If there is a squeeze pattern on three time frames, then, as the 10-minute chart pattern unfolds, it prompts the 30-minute to do the same, and, as the 30-minute unfolds, it triggers the 60-minute chart to kick into gear, all the way up to the daily chart.

Even though you may not be trading the higher time frame, or perhaps not all the time frame charts, you can use all the information to know the squeeze on the weekly and daily chart is on sound footing and is apt to go through all its stages and hit profit targets and support the shorter time frames when pull backs are minimal.

If, on the other hand, the 60-minute chart doesn't have a squeeze pattern forming like the 30-minute chart, you might use this information to determine that the pattern formed on the 30-minute chart will likely be short-lived or fail and, perhaps, drop further before it is ready to unfold into an explosive move upward.

Please skim through the charts above again and note the squeezes that had profitable moves and those that didn't. Note where the squeeze was only a shallow advance, and also note that all of the patterns, as they begin to go up some amount, is when the +DI line crosses up, and that the real move carries it upward.

It doesn't matter if the underlying equity is a major index, an ETF, or a stock, the Squeeze patterns reacts the same.

Let's put all the P3 squeeze pieces together before we move on to the P3½ Put pattern. By then, maybe you will understand my terms and references for what is taking place, making it easier to apply the terminology to the P3½ Put Squeeze.

This is a description of what has been taking place on the charts, so you will more easily recognize the actions. During this learning process, it might be helpful to write these stages down on a sticky note as a cheat sheet. You will soon have the stages memorized and will easily recognize the stages.

Stages of P3 Squeeze:

1. The PPO and ADX black (thick) lines come close together to form the squeeze pattern.
2. The PPO line crosses up over its signal line, and the ADX black (thick) line pushes away from the PPO line as if it is repulsed by it.
3. As the Squeeze continues to unfold, the PPO and ADX lines will move further and further away from each other.

4. It is only when the +DI line turns up and eventually crosses over the –DI line that the price will “really” move upwards. The PPO line cross can only take the price so far. If the +DI falters and doesn’t continue by taking control, the squeeze is likely to fail and resqueeze because the price will go flat or head back down. A PPO cross down over the signal line can be a stop or exit for the trade. Exit quickly and losses will be cut short.

If after stage 7, (the official end of the P3 pattern), and the +DI is still strong, it may have a PPO cross down, pause and rest before another leg up. We will discuss the exceptions to the PPO cross down sell rule.

You can always reenter when you are given the confirmation signals again.

5. Quite often, as the PPO line is moving upward, it will weaken for a period of time, drop back and test the PPO signal line. The signal line will then act as a trampoline, and the PPO line will bounce up from there. There are times that it will do this twice during the climb up. I call this a “wobble”. The lines/direction are weak as if on wobbly legs and can fall before picking itself up again to proceed. In actuality, these are tests of support.

Wobbles can be used at times for second entries if you missed a trade entry or if you want to add to a trade.

See note under 8 regarding a PPO cross down and add-on sweet spot stage.

6. While the PPO line advances upward and the +DI line has crossed up and over the –DI line, the ADX Strength line will turn up to support the new uptrend. I call this the sweet spot, strength stage or adult stage of the squeeze pattern.

In this stage of the pattern, the PPO and ADX thick lines run parallel to each other. They almost look like railroad tracks. As long as the lines remain in this formation, the price will continue to move up.

7. The last stage and exit is when the PPO and ADX line turn and start heading down or the PPO rolls over the signal line. This is a final signal to exit.
8. During extended periods of strong uptrends, P3 patterns started creating what I call add-on sweet spot legs. The PPO would cross down for a shallow rest period and then, before enough weakness set in by a P3.5 pattern to create a new P3 pattern, the PPO would cross back up, and it would go into another add-on sweet spot stage. On occasion, this could happen 3 or 4 or more times.

Eventually, the trend will get too tired to continue, and a deep enough drop will happen that creates a new P3 pattern.

On the next few charts, I will annotate the chart with numbers that tie in to the descriptions above so that you begin to recognize each stage.

The first chart is for Home Depot (HD). It's an older chart but is a perfect example of a 30-minute chart and is a great example of a squeeze pattern that played out, then added several sweet spot legs. There were also two other P3 patterns. The first one failed and then re-squeezed.

After the pattern went through all 7 stages, it then added four more sweet spot legs before it dropped enough to form a new P3 pattern. As mentioned earlier, this is an odd event that started happening during periods of strong uptrends. This can be seen on this chart by the strength of the +DI line. It remained high and above the -DI line for weeks.



Figure 22 - Courtesy of Stockcharts.com

On February 7th, the new squeeze started to unfold and went through all of the stages mentioned earlier.

Really study this chart; it is a great example no matter what time frame you are looking at. It is a classic image of all the P3 squeeze stages.

- 1) The PPO and ADX lines come close together.
- 2) PPO lines cross and ADX line pushes away from PPO.
- 3) The lines move further away.
- 4) +DI crosses -DI line and then the ADX line itself.
- 5) PPO line wobbles- maybe once, maybe twice. If PPO fails and crosses back down, this is a stop exit unless the strength of the +DI suggests that it is just a wobble that went a little too far and will bounce back up.
- 6) PPO and ADX move into the sweet spot - railroad tracks where lines run parallel.
- 7) Time to Exit with PPO rollover. If +DI remains strong, it is possible that the PPO crossover is a deep rest period and will move back into stage 8.
- 8) Possible Add-on sweet spot leg

I cannot stress strongly enough how important the +DI is to this P3 pattern. It truly reflects the direction of the trend and whether the price has a chance of moving up into a new uptrend, or if it will drop back along with the PPO enough to form a new P3 pattern to then break out again.

Let's study another example. This one is a 60-minute chart. HD was a 30-minute chart.

Notice on Visa's (V) chart below at the 1st and 2nd areas on the left side where the PPO line wobbled (stage 5) and then failed with a PPO cross down, the price dropped back. A new pattern formed on October 4th and then added additional strength stages. On November 17th, it seemed like the P3 ended again. Will it add another strength stage 8 or will it form a new P3.5 that will conceive the next P3? I will go deeper into this pattern conception process as we proceed.

It often works out that successful wobbles - ones that hold the PPO signal line or even if the PPO breaks through but builds no bearish strength in the -DI/ADX rising - will then initiate the sweet spot stage or a second/third area of strength. Notice after October 9th, the -DI (red) line couldn't get above the +DI (green) line.

It makes sense when you think about it. This could be an area where after a rise, traders take profit, it pulls back a little with the selling, and then, when support holds, it takes off again. This back-and-forth movement is natural in the market, and it is cool when you can recognize it taking place on a chart. Because you know it is part of the natural order of how the pattern plays out, when it does happen, it doesn't scare you. You expect it when it happens, recognize it for what it is, and decide to either take and preserve profit if you have it, or hold through the test of support and anticipate the next bounce up.

I will get into the specifics of exact entry and exits as we proceed, but for now, I want you to focus on the stages of the pattern. As I mentioned before, the P3 squeeze pattern reacts the same no matter what time frame it is seen in. The difference is the time it takes for it to unfold and whether it is going to stop at stage 7 (PPO cross down

after a sweet spot stage) or whether it will pause to rest and then bounce for another leg up (stage 8).

The strength of the +DI line can be a clue as to whether the drop of PPO is just temporary or signals the end of the pattern.

At the current moment on this chart, notice the EMAs are crossing down, where they didn't cross down on the other pullbacks, meaning the 8-EMA below the 13-EMA.

Channel Commodity Index (CCI)

I have decided to add another indicator to the charts. It is a very easy to read indicator. I recently had a subscriber make a comment about how it helped them scroll through charts more quickly as it gives a quick, simple picture. I will include it on the rest of the charts.

CCI measures the current price level relative to an average price level over a given period of time. CCI shows as high when prices are far above their average and shows as low when prices are far below their average. In this manner, CCI can be used to identify overbought and oversold levels.

Overbought refers to an equity that has experienced such a high level of demand that the price of the stock has moved beyond the actual value of the stock until the market corrects itself. This means that the price of the stock is likely due for a reversal, or at least a pullback. A stock is considered oversold when the price of the stock has fallen below the actual value of the stock. This can be caused by an overreaction on the part of investors, or more than typical selling, which has brought about a drop in the price where the stock fell too far, too fast and may be due for a reaction rally.

When the CCI is above the zero line and heads up to make a green upper fin, it is bullish. When it is below the zero line it is bearish and then creates a brown fin. The zero line splits bullish and bearish.

This indicator gives a simple, quick impression of the future direction of the equity's price.

I will place it at the top of the chart, up and away from the P3/P3.5 indicators so it is easy to spot and read.



Figure 23 - Courtesy of Stockcharts.com

Every squeeze pattern must go through the unfolding process, end up in the sweet spot, and then conclude by a PPO cross back down. There are times that a stock will make it through stage 5 where the PPO and ADX lines have spread apart, and the PPO wobbles, and then the squeeze fails and re-squeezes. You know this happens if the PPO crosses down through the signal line before the ADX strength line has headed up into the sweet spot where the PPO and ADX line run parallel to each other.

Sometimes a squeeze pattern will re-squeeze several times, but, eventually, it will unfold completely. All squeezes will finally go through all the stages, and this then ends that original squeeze. At some point, another one will form.

Understanding this squeeze process and the stages will help you analyze where the pattern is along the way. You will be able to spot if the squeeze is weakening and likely to re-squeeze or if it is showing strength and is apt to move through the stages - #1- 8.

If the +DI seems to be regaining strength at the first wobble, this can be a second entry point. If the ADX line has headed up and is in the sweet spot, the next PPO wobble is quite likely to be the exit time or there will be a deeper wobble (pause), and then a stage 8 pattern will take place, and another sweet spot stage will be added.

From here on out, as you spot a squeeze on a chart, follow the stages, and analyze where it is in the unfolding process. Use your cheat sheet until you have the stages memorized. The more you do this, the faster you will train your eyes and mind to digest the information, recognize the stage and interpret its message.

As I mentioned, when I started trading, I made a little cheat sheet on a yellow sticky note, and I kept it near my computer with the stages numbered and a short description. This helped to keep me straight and was a quick reference.

The next chart is for FFIV. It is an example of the pattern that failed to go through all the stages of the squeeze.

On the chart below, note the squeeze furthest to the left had a +DI cross first and then that cross faltered. The PPO crossed, but just barely, and then it too crossed down. If you got into this trade right as the PPO crossed, rather than waiting for there to be some space between the lines, you would have exited at your stop (PPO cross down) shortly after entry for a small loss.

Then there were three more squeezes that formed, but none had a +DI cross. Finally, the pattern further to the right had a solid +DI and PPO cross and then quickly moved through all the stages to stage 7 – exit. Note when the PPO crossed down, the DI crossed up. This would have been a clue that this was a true exit and not a deep pause where stage 8 (another leg up) was likely. A short time later, the ADX rose to show that strength was now moving into the bearish direction.



Figure 24 - Courtesy of Stockcharts.com

Okay, let's move on. The three examples of the long P3 pattern are great examples of the stages of the patterns. I want to draw your attention to the fact that it doesn't matter what time frame chart you are looking at, the P3 pattern stages are the same. On a longer time, frame chart, the patterns will take longer to unfold. The patterns also show how sometimes the pattern gets right down to business and flows steadily through the stages, and other times, it takes a while for the pattern to test a bottom, shake out the last of the sellers, and then to build up the strength to make the next run up.

Understanding the pattern stages and waiting for the entry confirmation helps to weed out the false starts. Using a PPO cross down against the direction of your trade, if it happens soon after the pattern gets started, is a good signal as to where to place a stop to exit a trade that has weakened. The pattern may pause and then get another running start and you can reenter, but it is better to have a stop in place as protection. Err on the side of caution.

Let's move on to the short P3½ pattern and then we will tie the specific of the Blitz Paycheck Alerts strategy together.

P3 ½ Put Squeeze Pattern

For the P3½ adapted pattern for Puts, we will be using the PPO indicator and the ADX that is on top of the PPO.

In some ways, the squeezing portion of the pattern is not quite as obvious as the P3, but you can train your eyes to pick it out. More obvious is the P3½'s sweet spot. During this stage, the equity's price drop is a certainty.

On the Boeing (BA) chart below, note that to the left, there was a P3½ pattern that started off the chart. What is visible is the add-on stage 8 sweet spots. There are four of them in a row, which means they are stage 8 add-on sweet spot stages.



Figure 25 - Courtesy of Stockcharts.com

The next full P3½ is a pattern that unfolds going through all the stages. As mentioned earlier, it is more difficult to spot the beginning of a P3½ pattern where the PPO and ADX come a little closer together. The first obvious sign is a cross of the PPO down. Next is the -DI crossing up. Sometimes, there is an underside wobble on the PPO, and, at other times, it gets right down to business and drops quickly. When that happens, the ADX rises, and the pattern is that of the ADX and PPO pushing away from each other like this <. This is the sweet spot stage of the P3½. It is the most obvious of the stages.

The pattern on October 11th and 12th went through most of the stages in two days, and then on 13th, it went into the strength stage, and that continued into Monday the 16th. Drops seem to happen more quickly than upward moves.

The next P3½ took from October 18th to October 20th to go through the stages and is still in that stage at the right side of the chart. Notice the strength of the -DI line, signaling that the bears were still in control, and they are perhaps just resting before the next leg down. The +DI isn't yet rising or showing any interest in playing this game.

I will discuss it in more detail later but notice as you begin to learn the stages of the P3½, that as this pattern goes into the stage 6 sweet spot or adds on a stage 8 sweet spot stage, it is creating a new P3 pattern on the PPO and lower ADX. A P3 pattern ultimately flows into and creates a P3½, and a P3½ creates a P3. They go back and forth, and if a pattern fails for any reason and doesn't become an adult (stage 6), then the opposite pattern and previous adult will become an adult again.

There is period on BA's chart between October 3rd through the 8th where the DI lines braided back and forth. The PPO switched directions several times with little white space between the lines. There was a tug-of-war taking place, and each time the bears won with a burst of strength, and it went into short lived adult strength stages.

Be patient with yourself. It will take a little bit of chart looking, but, before you know it, your eyes will instantly pick up the P3½ patterns on the upper portion of the chart and will zero in on the P3 squeezes on the lower side of the same chart. You will soon be able to look at any chart and instantly be able to tell what stage of P3 or P3½ pattern it is in and will be able to anticipate what is likely to happen next.

For the P3½ pattern to form, you must have the PPO cross down, -DI up, and a rising ADX line. Again, the sweet spot in the P3½ pattern is the strongest and longest lasting of the stages. If you have these elements and the ADX is rising, the price will continue to drop. Eventually, you will notice a new P3 pattern forming, and, if you continue to watch the strength of the -DI, you will be able to determine if there will likely be an add-on stage 8 sweet spot stage, or if the P3½ is ending.



Figure 26 - Courtesy of Stockcharts.com

An adult or strength stage of one pattern conceives a new opposite pattern. P3s conceive P3.5 and P3.5 conceive P3s.





Figure 28 - Courtesy of Stockcharts.com

Perhaps, after looking at these charts, you have realized why the P3½ pattern is harder to spot than the P3. The secret is in the ADX indicator. For the P3 and the creation of the squeeze pattern, the PPO and ADX indicators are the reverse image of each other. One indicator goes up and the other goes down. If the PPO is up, then ADX strength line is down. Or, if the PPO is down, the ADX is up. It is this reverse pattern that creates the P3 squeeze pattern, and, when the indicators run in the same direction, the sweet spot is formed.

So how is the P3½ different, making it tougher to spot? The ADX strength line placed above the PPO supports each other, making the pattern harder to see. If the PPO is up, so most often is the ADX line, as both indicators reflect the movement of price going up or flat. As the price goes up, the PPO and ADX lines follow the same path (parallel lines), it is when the uptrend starts to weaken that the P3½ starts to form.

The PPO and ADX lines are relatively close, and the PPO line prepares to cross down over its signal line. Then, the -DI moves up to cross the +DI line, so that the trend will change to the downside. The PPO crosses its signal line. Soon afterwards, the PPO line and ADX line spread apart and push away from each other to create the P3½ sweet spot or strength stage. The P3½ pattern, in a sense, is the complete reverse of the P3.

The beauty of it all is that one pattern flows into the other. This creates a wave that can be ridden up and down. As the P3½ pattern unfolds and plays out, the chart starts to form the P3 squeeze pattern. As the P3 squeeze pattern forms and plays out, the P3½ pattern is forming.

Let me make a list of the stages for the P3½ so that you can again make a little cheat sheet.

We now have all the elements for our squeeze patterns in place. Next will tie everything together in our Blitz Paycheck Alerts strategy.

Stages of P3½ Put Pattern:

- 1) ADX and PPO come close together as they mimic each other.
- 2) -DI Rising
- 3) PPO crosses down and over its signal line.
- 4) -DI crosses +DI and eventually the ADX line.
- 5) PPO wobbles against the signal line.
- 6) Spread apart of PPO and ADX lines creates the sweet spot.
- 7) Exit - Rollover of ADX line and drop of -DI, or if the -DI remains strong, it could a deep pause, and a stage 8 will take place before eventually a stage 7 exit takes place.
- 8) Add-on sweet spot stage

Now you understand the stages of both the P3 Squeeze and the P3½ Squeeze patterns. As the P3½ forms and plays out, the P3 is forming. As the P3 unfolds and it is time to exit, the P3½ is taking shape.

One pattern flows into and forms the other.

I will move on now, and we will delve into the strategy itself, tying in the other indicators as confirmations. I suggest during this learning process that you do a lot of chart gazing. Like walking the beach at night and looking skyward, the more often you can pick out and identify the Little Dipper and Orion's Belt, the easier it is to zero in and identify those patterns no matter how cluttered the night sky is. It is the same with the charts. The more you skim through charts and locate the patterns, the easier it is to spot them amongst all the other information on the chart.

I am and will be eternally grateful for the circumstances that brought these patterns to my attention. They have been at the root of changing my life for the better and living a prosperous, high-performance life.

Blitz Paycheck Alerts Trading Method

The premise of the Blitz Paycheck Alerts strategy is to spot indicators that suggest that an equity is building up pressure and may be ready to confirm a new pattern.

We will be looking for patterns to confirm in the morning or in the latter half of the trading day. Perhaps, around 2:30pm EST.

We want to look for specific stages of the P3 or P3½ pattern on the various time frame charts. Most of the charts posted have been 30- and 60-minute charts, but we will be looking at combination of weekly, daily, 60, 30 and 10-minute charts. It is possible that a couple of time frame charts on the same equity could be confirming pattern entries or be open at the same time. The BPA zeros in at the beginning of the strength stage, stage 6 or add-on strength stage 8. We are trying to zero in on patterns as the ADX starts to turn up, which is adding strength to the trade.

As an example, you find a new P3 forming on a stock on a 30-minute chart. The squeeze pattern is there, PPO has crossed up, and the +DI is heading up, but has not yet crossed the -DI line. If you were to be trading a 30-minute P3 chart pattern, you would wait for the +DI to cross up as an entry confirmation, but, in the BPA strategy, you are looking for a later entry when the ADX turns up and goes into the strength stage or sweet spot. The strategy is focusing and trading the strength stages of P3 and P3½.

It could be as you are looking through the various time frame charts on the same equity that the daily chart is also starting a strength stage which is an add-on pattern or a stage 8. It previously had a stage 6, then the PPO crossed down, but the P3.5 bears didn't have a great deal of strength and now the P3 strength stage has started again when the PPO crossed back up.

You will use this information and the premium from the option chain to determine if the likely move will be sufficient to result in a profitable trade. I will cover more of this in a few minutes. For now, let's concentrate on the strategy and the stages of the P3 patterns first.

The new P3 squeeze entry is when the P3 enters stage 6. The PPO has crossed up, the +DI has crossed up and is over the ADX, and the strength line of the ADX starts to turn up.

You could also have the pattern be in a stage 5 wobble on the chart, and the ADX showing the first sign of going into the stage 6 sweet spot stage.

Let's look at an example of a P3 squeeze strength stage that is just starting on chart.

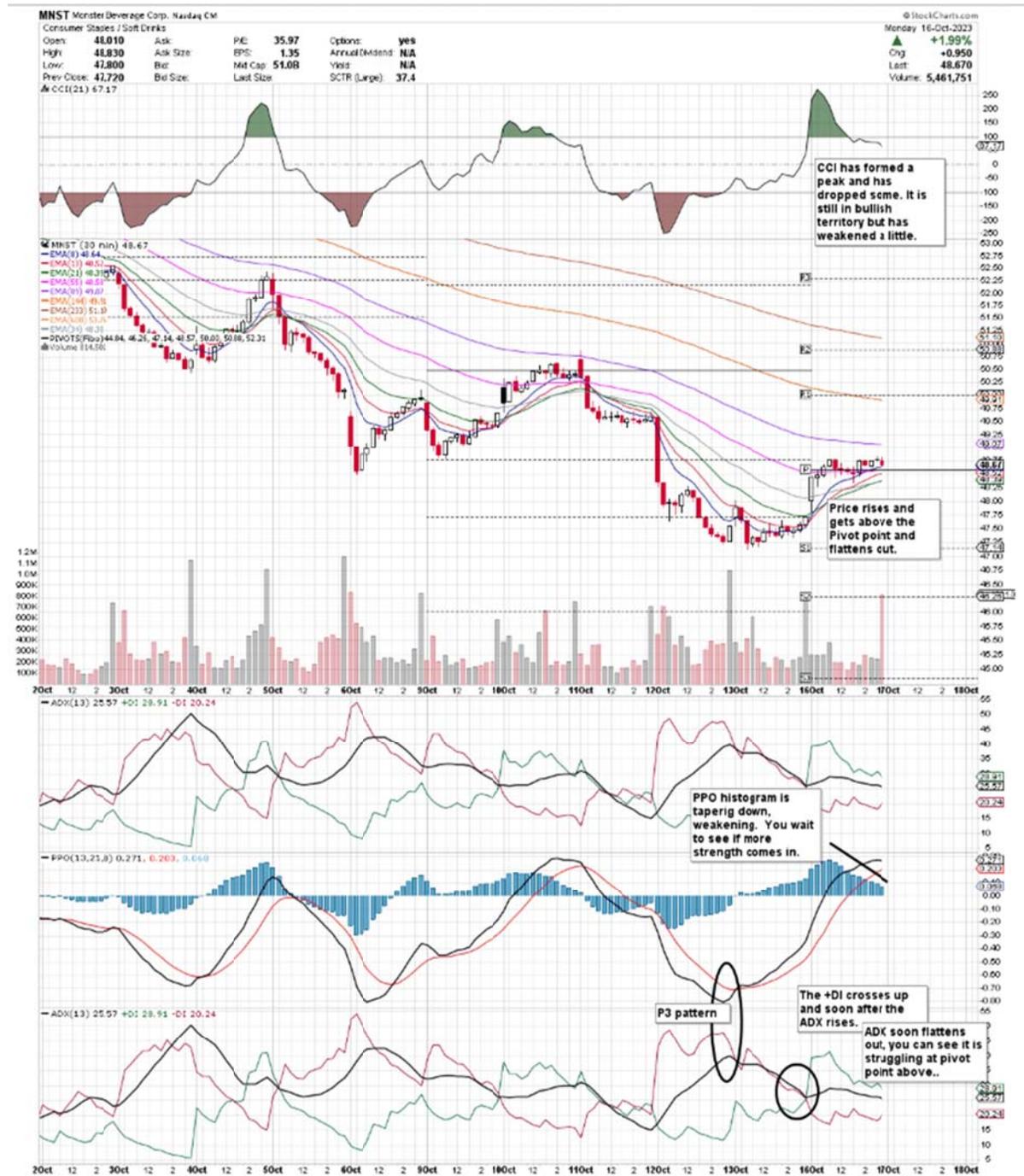


Figure 29 - Courtesy of Stockcharts.com



Figure 30 - Courtesy of Stockcharts.com

Let's look to see what happened when the market opened the next day.

As mentioned on October 16th, MNST's price started going up and into the strength stage and then flattened out during the last half of the day. On the 17th and into the 18th, it headed up again. The PPO and ADX lines are running parallel. You will likely also notice late on the 17th; the PPO lines came together and actually crossed down. That

would be a signal to sell signal or a hint to watch close. The +DI was still strong on the 19th.

Traders become comfortable with varying trade closes. Some always zero in on a gain percentage. They close at 45-50%. If your brokerage firm doesn't provide premarket price moves, you can check CNBC's website to see if the equity has moved pre-market open. If so, you can prepare your sell order to send as soon as the market opens if that seems appropriate.

MNST's 60-minute chart looks quite like the 30-minute chart, and the daily and weekly haven't yet confirmed P3 pattern but are heading in that direction. So, let's look at the 10-minute chart. Unless you have a cash account, trading 10-minute charts is limited because they are often opened and closed the same day, which means they are a day-trade. In a margin trade account, you can only have 3 day-trades in 5 consecutive days, or your account will be frozen for 90-days if there are more than 3, so you must be aware and careful. In a cash account versus margin, day-trades are unlimited.

Often the 10-minute patterns will start midday or late in the afternoon and flow into the next day, so they aren't day-trades.

As mentioned earlier, the indicator patterns are the same. The indicator patterns just happen faster. Seldom does a 10-minute chart pattern last longer than a day or start late in the day, go overnight and into the next morning.

Check out the 10-minute MNST chart below. It had a P3 pattern that had one bullish go into the next day. Likely you would have decided to close the trade on the 20th rather than hold it over the weekend. As it played out, there were a couple bullish candles at the end of the day on the 20th, another reason to close. The big drop on Monday that only lasted a few minutes was a surprise and unexpected.

Also, holding over the weekend there would have been additional time decay, and of course, the bottom line is the trades expiration date. If you bought Friday's expiration and not into next week, you would have sold in the afternoon at the first sign of bullishness moving into the equity late in the day.

Most equities offer expiration dates every week on Friday. It didn't used to be that way, but shorter-term trades have become more popular, and some equities now have expiration dates every day of the week.

Each of the various time frame charts needs to be looked at objectively as to the amount of time for the trade to play out and an extra consideration is that in this strategy, we are not trading the full pattern, we are zeroing in on the strength stage. We are looking to enter when the equity is really getting down to business and moving into the adult move area of the life-cycle pattern.



Figure 31 - Courtesy of Stockcharts.com

Let's look at another chart set up. This is a weekly pattern chart. Each candle is created over a 5-day week. Therefore, it takes months for the patterns to play out. It is difficult to know if a pattern will take 2-months, 3 or 4 months or longer, therefore, it is important to purchase additional time, so the strength pattern can play out and unfold. Of course, if you are in a trade and it has been playing out as expected, then when the expiration date nears, you can close and be thankful for the gains. Or after the close of the trade, you could consider a reentry or just move on to another pattern starting on a new equity.

The last P3 pattern has been playing out for about 4+ months.



Figure 32 - Courtesy of Stockcharts.com

Let's look at Home Depot (HD) in a daily time versus weekly. We'll check out how much quicker the patterns take to play out.



Figure 33 - Courtesy of Stockcharts.com

The next image is another 60-minute chart and again this is Home Depot. The point is to know that the patterns play out as they go through the stages in the same way no matter the time frame chart. The biggest variability is the amount of time it takes for the indicators to flow through the pattern stages. And, then of course, the strength stages happen more quickly on the shorter time frame charts.



Figure 34 - Courtesy of Stockcharts.com

Most of the 60-minute charts last 2-3 days. Buying a weekly expiration date that is 3 to 5 days out, or into next week gives the trade time to play out.

We'll look at two more long Call trade and how to share the various time frame chart patterns. We will continue looking at Home Depot (HD) so that you can see how the trades play out in the same way over shorter periods of time.



Figure 35 - Courtesy of Stockcharts.com

In the recent trade atmosphere (volatile), patterns, meaning the strength stages often play out over one or two days. That said, there were several patterns that got started and failed because the DI never crossed up and over, so the pattern failed, and the previous pattern went back into the strength stage like during October 17th through the 23rd.

Let's wrap up looking at the patterns by looking at a Home Depot (HD) 10-minute chart to note again the length of time that it takes for patterns to play out. Of course, I will

stress that the recent environment has been super volatile, lots of swings. There certainly are other periods where the market is either in a strong bullish or bearish trade environment and patterns play out over longer periods of time.



Figure 36 - Courtesy of Stockcharts.com

In this 10-minute chart, the P3 patterns that formed after a drop soon failed. The +DI crosses were weak and didn't last very long and then, the PPO crossed back down.

Several of the P3.5 strength stages were formed late in the day and flowed into the next morning, so the trade wouldn't have been a day-trade. A couple others where the P3.5 happened early in the morning, then often ended the same day. Take a moment to look at each of the strength stages and notice when they started and how long they lasted.

As mentioned earlier, many 10-minute chart patterns are day-trades or if they happen late in the day, then will flow into the next morning.

Let's discuss profit targets and trade evaluation. Two of our guidelines (and I will outline them as we wrap up) will be to select the option that is one or two strikes out-of-the-money to benefit from the Theta jump as it moves into-the-money and to have a Delta of at least .40. The result of these requirements is if it moves in your direction, you can count on making more than 50% of each dollar move in the equity's price.

In our example that means if HD moves 1.70, you will expect to make at least .85 of that move.

Since we just looked at a 10-minute chart, let's look at the specifics of trading that time frame pattern, and then we will discuss the longer time frame chart patterns.

You check the current weekly expiration chain for HD and find that the 285 strike Put for the October 4th week, expiring October 27th is 2.55 a share, or \$255 per contract. You plan to purchase 2 contracts for a total investment of \$510.

The Delta on the 285 strike Put is .43, which means the premium will increase .43 for every dollar move in the stock's price. The Delta amount of .43 will increase as well as price moves up. As mentioned, the premium when you bought was 2.55, and it has moved to 4.00 as you guessed it would. That is more than a 64% gain, which would more than make this a satisfactory trade. You paid \$510 and made \$145 on each of your two contracts or \$290. Nice trade.



Figure 37 - Courtesy of Stockcharts.com

Let's look at a few more chart patterns and see how trades would have played out on various time frame charts. Rather than list the same equity and pointing out various patterns on different time frame charts, I will list a different equity and time frame for each trade.



Figure 38 - Courtesy of Stockcharts.com

On United Health's (UNH) chart, the P3.5 on the morning of the 25th failed. As mentioned previously, when a pattern fails, you know 100% of the time what will happen next. It will go back into the previous pattern- adult or strength stage so that it can then reform or conceive the opposite pattern again. Knowing it will go back into a strength stage is an awesome entry signal because you know 100% what is going to happen. The only question is how long will it last?

In this example, if you entered when the ADX line started heading up and had you selected the 530-strike, you would have paid .90. That strike had sufficient volume.

You hold until it crossed above R2. Three candles struggled going higher, and you note the PPO histogram is sloping down, so you decide to sell and close the trade. The ask premium is 4.59. This trade lasted about an hour and a half and earned a profit of 410%.

Not everyone can zero-in on charts close enough to day-trade, but those who can often earn an amazing profit.

Let's look at a P3½ trade on a 10-minute chart and then we will move on to other time frame charts.

Let's say, during the first 10 minutes of trade, you zero in on the change of direction on Penn National Gaming (PENN). You see that it formed a P3 pattern on October 24th and, this morning on open, the P3 pattern fails with a PPO cross down. You have learned that when a pattern fails, 100% of the time the previous pattern goes back into its strength stage, so you know a P3.5 strength stage is starting. You don't know how long it will last, but you know it is going to play out and you'll watch for weakness and change.

You select the 530-strike Put and pay .90 per share or \$90 per contract and select 5 contracts for \$450. Price drops for about 3 hours until just before 1:00 o'clock. You close the trade when you see the PPO starting to head up, and the first bullish candle started to form.

The Bid premium you receive at the close is 4.59 or \$459 per contract, and you bought 5 so \$2,295. You paid \$450 to enter the trade and earned a profit of \$1,843 over three hours.

Again, not everyone can day-trade and watch trades while they are open and if you do, it is wise to trade from a cash account unless you have a large balance, well above \$25,000 in a margin account. There are no disadvantages to a cash account. Many traders trade from a cash account or they have both types and use the margin account for longer held trade strategies.

The main goal in this strategy is to learn to recognize the beginning of the strength stages and zero in when they are just starting.

After you study the PENN chart below, we are going to look at a few more trades based on various longer time frame charts.



Figure 39 - Courtesy of Stockcharts.com

We'll look at a 30-minute chart next.



Figure 40 - Courtesy of Stockcharts.com

On October 24th around 2:00 o'clock, PG's ADX started turning up on a new P3 that started forming on the 22nd. Deciding to enter a trade, you select the 150 strike Call with an Ask premium of .61 and you decide on 10 contracts for a total premium of \$610. Price rises for two days and then starts to slip and slope down.

You decide to close the trade. The PPO could bounce again off the signal line, but you are happy with the current gain and close the trade. The Bid premium is 1.54, which means you earned a 152% profit over the two days the trade was open. Not bad and you didn't have to watch the trade quite as closely.

Next, we will check out a 60-minute Put trade.



Figure 41 - Courtesy of Stockcharts.com

The premium for the 81-strike Put out in time until the first week of November was .63 and you decided on 10 contracts for \$630. The main drop took place on the 25th, and the price is still dropping, and the pattern has not yet negated or failed. For the sake of seeing how this played out, the Bid premium is currently at 1.43 per share, or \$1,430 for the 10 contracts. This is a gain of \$800 or 127% for a 2-day trade. It could still gain more.

We'll look at two more trades, a daily and weekly chart trade, and then we will cover the strategy guidelines.

The chart UnitedHealth Group (UNH) looks like it is regaining strength in mid-September. Around September 11th, the new P3 confirms, and on the 18th, the ADX line heads up into the strength stage, and you decide to open a trade.

You decide to buy the Nov 19th monthly expiration on the 530 strike Call for 2.54 a share, \$254 per contract, and you buy 2 contracts for \$508. You follow the trade, glancing at the chart a couple times a day, and, on October 21st after two modestly down days, you decide to exit and close the trade.

The Bid premium was 18.95 or \$1,895 per contract. You purchased two contracts or \$3,790. You paid \$508 to enter, which means you earned \$3,282. That is a gain of 646% over the course of about 4 weeks.

This is a great example to see that often a daily chart takes several weeks for a pattern to play out and go through the strength stage, while a 30 and 60-minute chart pattern takes days to a week. Ten-minute trades take even less time.

Some traders decide they like the flexibility of various time frame charts, and they may enter a variety of different time frame patterns throughout the week, and other traders decide that one specific time frame chart is right for them at this period or stage of their trading.

Being able to trade a variety of time frame chart patterns makes a strategy very flexible and allows you to adjust based on what is taking place in your life at that time.



Figure 42 - Courtesy of Stockcharts.com

The weekly chart below is for Boeing (BA). The P3.5 strength stage pattern started on September 12th. You decide to enter a longer-term trade along with a few other shorter trades that you are holding and watching more closely. This pattern will just take a quick glance once a day.



Figure 43 - Courtesy of Stockcharts.com

You decide to buy an option out a few months since there has been a lot of volatility recently, and the pattern might not last for numerous months. You can always reenter if things change.

It is September, and you select a December 19th expiration date. This gives the pattern 4 months to play out, and you can always sell sooner if the environment changes. On September 12th, you decide to purchase the December 15th expiration date of the 175 Put for 1.90 a share, or \$190 per contract, and you buy 3 contracts for \$570. Now, the pattern is still intact, and there are still 2 months left until expiration. For education, the Bid premium is \$5.75 now as we look at the chart, which means you have already earned 3.85 per share, or \$385 per contract, or \$1,155 for the 3 contracts, and it could still drop lower over the next few weeks.

I will draw your attention to the fact that the current candle is sitting on the pivot point and has dropped below the 600-EMA. The pivot point offers a level of support, and a break of the 600-EMA is a pretty severe fracture. Hmm. Which will win? Time to pay close attention and err on the side that you have already earned a nice profit.

Some traders err by feeling they need to gain every penny possible rather than being thankful for a gain and profit that they didn't have yesterday. Then they are critical that they left money on the table and put themselves down rather than appreciate that they are earning a living based on patterns they have studied, learned, and are able to apply to charts that they set up and are able to read. Be grateful!

We have looked at strength stage patterns on all the time frame charts included in the Blitz Paycheck Alerts strategy, but before we move on let's look at one more 10-minute chart, so that you can again compare the patterns and their stages and see that the strength stages are the same whether they form on a weekly chart and take a couple months to play out or are on a 10-minute chart and take a few hours. The strength in the rising ADX is the same.

On the Royal Caribbean Cruises (RCL) chart below, you considered entering a trade yesterday afternoon as a P3 strength stage formed. You may have decided to hold off selling until today since it started forming late in the day. At the market open this morning, it gapped up but soon started slipping and heading down. You quickly sold and gained a modest profit, the shift in direction was so strong, you watched to see what was going to happen.

After a short time, the price began to head up again, and you wondered if a buyer intended to take price up, but it got caught up in the market's opening drop. When price started rising again, you bought a few contracts but were watching closely for a change in direction. The new call trade lasted from about 10:20 until 11:10.

You selected the 85-strike on the weekly option that closes Friday October 27th with a premium of 1.27. On the morning with the startling gap up and quick volatile drop, you

quickly sold for 1.62, or a gain of .35 per share, or \$35 per contract, and you had bought 4 contracts, so a \$140 gain.

You watch to see what happened after the crazy swing, and when it started up again, you purchased the same 85 strike and expiration, and this time you paid .64. Price rose for the next couple hours, and, when you decide to close the trade and take profit, the ask premium was 1.68, so you gained a profit 1.04 per share, or another \$104 per contract for the 4 contracts you repurchased at a lower price of \$256. Remember, you bought- $\$64 \times 4 = \256 ; sold $\$168 \times 4 = \672 ; and $\$672 - \$256 = \$416$. The end result of these two trades was the initial \$140 and then \$416, or a \$556 profit.



Figure 44 - Courtesy of Stockcharts.com

The numerous examples above demonstrate both Call and Put trades and the potential of locating and trading charts that are setting up patterns on various time frames and following the P3 and P3.5 patterns.

From here, let's discuss specific guidelines that will add to the success of the Blitz Paycheck Alerts program.

Blitz Paycheck Alerts Trading Method Guidelines

First Requirement

The first consideration will be open interest on the strike you select of at least 100. Open interest is the number of open contracts at the current moment, whether they are long or short positions. The reason for the 100 requirement is, if you purchase an option with open interest of less than 100, you may have trouble selling the option when you are ready if there aren't enough interested traders wanting to buy it from you.

Also, don't buy more than 10% of the open interest.

Therefore, if the open interest is 200, then don't buy more than 20 contracts. On the option chain that will feature both Call and Put options in a few pages look to see how the open interest is listed for each option.

To fine tune this even further, make sure there is at least some amount of volume. "Some" is a rather ambiguous term, but since there is no set number requirement for volume, "some" will have to do. The point is that you want to see daily activity.

Volume is the number of contracts bought and sold for the day, while open interest is an accumulated total for all the contracts on that strike option.

If there is no volume on the strike price you are interested in, I suggest you check the historical information for that option. It may be that you are looking at a Call option chain when the market is heading down, so there might not be interested buyers, and this may explain the lack of volume. But then again, you might think at least one or two other traders would be interested if you are.

Even if there is a 100 open interest, look at the historical information. You may find that all the contracts are held by a market-maker, and there hasn't been any trade interest at all. (Below, I will post a chart of historical information to show you what it looks like when a market-maker is in control of all the option contracts.) If you find all the option contracts are being held in-house, I suggest you either find another strike that does have some legitimate volume or move on to another trade.

This is a general trading rule no matter what stock you are trading, and it is almost a moot point with the index ETFs because of the huge amount of open interest in most of the strike prices. But, on occasion and especially with the new weekly options, there can be strikes where there is not enough open interest or volume.

It also takes place on options that are deep out-of-the-money or very deep in-the-money, too deep for traders to be interested.

On Thursdays when new weekly options are created or born, there will be no open interest because it is the first day that they are being traded. The volume acquired during the first day of trade will become open interest tomorrow. So, on that first trading

day, rather than looking for open interest of 100, you would want to see volume of 100 or more before taking a position at that strike.

In most cases, as you can see on the chain image below, there are thousands of open interest contracts, but the 100-open interest requirement is an aspect that you need to be aware of and to follow.

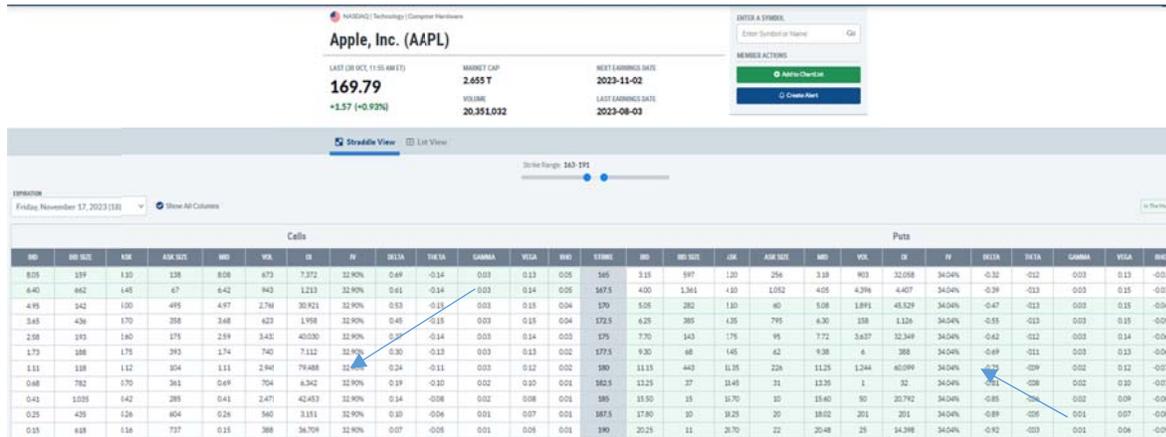


Figure 45 - Courtesy of Stockcharts.com

You may not be purchasing an option that is so deep in-the money or out-of-the-money as the arrows point to on the chart above, but it shows what I am talking about with high open interest.

Remember open interest is the accumulated number of open contracts and volume is the current open contracts thus far for the trading day.

In a later section of this book, I will discuss the other aspects found on an option chain, but for now let's just study the open interest and volume mentioned in this requirement.

Second Requirement

The second consideration is option expiration. In the BPA strategy, we usually purchase the current weekly for 10-minute trades, a week or more for 30-minute trades, a few weeks on 60-minute, a couple months on daily charts, and several months on weekly-charts. An additional consideration is the overall strength of the current market trend.

If it is a Friday, and you are purchasing based on a 10-minute chart pattern, you would purchase the next week's expiration because you would likely be selling on Monday, and the current weekly expiration would close today on Friday.

A new weekly option covers 5 trading days. As each trading day closes, the time value erodes on an escalating basis. There is less time loss on the first day of an option's life, if I can call it that, and more loss on the day before an expiration day.

An easy way to think of time erosion is to liken it to a 5-day use-by date on a gallon of milk. On the first day of the use-by time frame, you have 5 days to consume the milk.

As each day passes, there is less time value, a shorter time to utilize the product. Until on the last couple days, you better drink quickly before it is poured down the drain.

In a similar way, a monthly expiration erodes much more quickly during the last three weeks before expiration than it did the prior month or two coming up to its current/front month expiration. I mention this because on occasion only monthly is available.

The BPA strategy focuses on both upward and downward equity price movement. Quite often (but not always), a (short) Put trade, as opposed to a (long) Call trade, has a more rapid descent. It often takes more time for an equity to paddle up stream and less for the stream to thrust the equity down. You will want to select option expiration time frames that are appropriate for the type of trade. You don't want to cut the time on the trade too close. You want a little extra expiration time to take full advantage of the move if there is a delay, or if the move lasts longer than expected.

Another overshadowing consideration is the environment of the stock market atmosphere. Think of this as the mood of the market. Is it turbulent? High volatility, low volatility? Is it in a solid uptrend? Is it going into a correction? Is there a sector rotation taking place? The answer to any of these questions could influence the amount of time that it could take your trade to develop. It would be a shame to only plan for a one-week Call trade, while the indices are pulling back and selling off.

You will be participating in a variety of pattern stages, so it pays to be aware of the trading-weather conditions.

Next, you will want to evaluate the indices as a whole and particularly the one your equity is associated with. Is the NASDAQ moving in the same direction as your trade? Is the Dow or S&P trading against your trade direction?

The chart image below is a free chart from Stockcharts.com called a Perf-Chart, short for performance chart. I have selected the chart for the major indices and set it for the last 30-day period. From here, it can determine which index is outperforming the others. This may influence your long-term trade decisions. On the chart below, the QQQs, which trades based on the NASDAQ index, is likely to outperform the other indices.

These perf charts can be found at StockCharts.com, on their home page, under the Free Charts tab. You can adjust the time frame to reflect 200 days to 2 days. When you are trading short term 10-minute charts, you will want the latest information 2-5 days.



Figure 46 - Courtesy of Stockcharts.com

The overall objective of the BPA strategy is to get into a trade at the beginning of the Strength move and exit quickly at the end of the move as the ADX line starts to flatten out or head down and before giving back any profits.

As a rule, you will want to sell your position before expiration and will want to exit at the end of the strength move or before the point where time decay is greater than the premium's daily gain.

Third Requirement

A third yet major consideration must be available funds. Since extra time or expirations that are further out will be available at an increased premium, you can only work with the funds you have on hand to invest. Don't be tempted to cut the expiration period short because of a shortage of funds! Find another strategy or trading timeframe to utilize, one that has a lower premium.

For our weekly option trades on 10-minute chart patterns, set an average total investment for each trade between \$300 and \$600. Decide on an amount that fits your trade account. This then is the total amount at risk for the trade. You can't lose more than \$300 to \$600, and you know the full amount that is at risk before you ever enter the trade.

The main reason for setting a \$300 to \$600 limit is that trading fees or commissions need to be considered when trading multiple contracts that are inexpensive. One broker might charge \$12.95 for 1-10 contracts and \$1.25 for each contract thereafter. Other brokers may have slightly higher or lower commission fees. As option trading has grown in popularity, fees have decreased. Be sure to compare brokers.

By limiting each 10-minute trade to an average of \$300 to \$600, you are limiting the risk on each trade and controlling the costs to place the trade.

30-minute trades will have higher premiums – perhaps you invest \$750-1,000

60-minute trades \$1,000- 1,250

Daily trades \$1,250- 1,500

Weekly \$1,500-2,000

This too brings up the importance of finding an online broker with reasonable fees. I will cover this again when I get into the section about opening a trading account.

It is also advisable that once you decide on an option trade investment total, stick with that total. Don't trade \$300 on one trade, \$750 on another of the same time frame, and \$2,000 when you feel flush. Come up with a trade amount that feels comfortable and maintain the trade range on each specific time frame trade until you make a conscious choice to change to another amount as your trade investment amount.

Another account management suggestion is to limit active trades investment to about half of your account balance. The reason for this is to hold about half the account as protection against the worst of the worst happening.

Example, if you have a \$5,000 trade account. Perhaps you choose to invest \$500 in each trade, or 10% of your balance. You will continue trading this amount until you have added perhaps 50% to your balance (\$7,500), and then you will consider increasing your trade investment amount to \$600-750. During the period of your \$500 trade investment, you only have 5 active trades at any one time, so that only \$2,500 of your account is at work on any given day.

This strategy trades several time frame charts. Whether you choose to invest in a 10- or 30-minute chart trade is going to be less than the investment in a weekly chart trade that goes out in expiration for months. If you have a modest account, only trade the time expiations that suit that account until your account expands.

By using the half-account investment guideline, if the worst happened and all five trades reached zero (nearly impossible), your account would remain intact, and you would have funds to continue trading.

Consistency is part of the plan and helps set in place certain expectations. You are re-thinking and sending out a message that you expect consistent returns on your trades as you follow your trade plan.

Fourth Requirement

Our next option-consideration is an option's strike price. The strike price we select should be first to third strike out-of-the-money, and this will depend on the time frame chart you choose to trade in and an acceptable premium.

Explanation:

- *In-the-money* (ITM) is the amount by which the price of the underlying exceeds the strike price. For example, if Nike's stock (NKE) price is \$101.15. You decide on a strike price of \$100. This option is \$1.15 *in-the-money*, which is the difference between the stock price and the strike price.
- *At-the-money* (ATM) is the amount when the price of the underlying matches the strike price, or nearly so. For example, if NKE's stock price is \$101.15. You decide on a strike price of \$101. This option is *at-the-money* since the strike price nearly matches the stock price. (Actually, it is .15 *in-the-money*, but the amount is so small, you'd say it is *at-the-money*).
- *Out-of-the-money* (OTM) is the amount by which the price of the underlying is below the strike price. For example, NKE's stock price is \$101.15. You decide on a strike price of \$105. This option is \$3.85 *out-of-the-money* since the stock price is below the strike price.

The agreed-upon price at which the option can be exercised is the strike price; therefore, that price is a factor in strike selection for the following reasons.

Let's say you want to purchase a Call option to buy NKE. Its current price is \$101.15 a share. You can agree to buy shares of NKE stock for \$102, or you can agree to buy NKE stock for \$105. If both options cost the same, which one would you choose to buy? The options with the \$102 exercise or strike price. That's a no-brainer.

Now let's assume NKE increases in value to \$104. If you had the right to buy the stock for \$102, you could "exercise" your right, purchase the stock for the strike price of \$102, and then sell it for the stock price of \$105, thus earning a profit of \$3 per share, or \$300 for your 100-share option contract.

Obviously, you would not "exercise" your right to buy if you owned the \$105 strike option, but the stock price was \$104. You would choose to do nothing because there would be no profit in it.

(The example of buying and selling stock is used for illustration in our example. The process of buying and selling the stock happens silently behind the scenes at the broker. You are not involved in this process, and all you see is the end profit/loss result.)

The fact that there would be a \$300 profit on the option with a \$102 exercise or strike price, and no profit on an option with an \$105 exercise or strike price illustrates how an

option's value increases or decreases, depending upon the agreed-upon price at which the stock can be purchased.

The \$3 per share you earned, if you exercised your option, is called the "Intrinsic value" of the option. You want the intrinsic value to accrue quickly as the stock value increases for Calls or drops in the case of a Put option. Therefore, you want to buy your options out- or at-the-money for the BPA strategy.

For many of my strategies, I stress buying ITM or ATM strike options, but for the strength stage strategy, the rules are different. We want to focus on quick gains that cause the gamma and delta to jump in value. For the strategy covered in this book, I don't recommend buying deep out-of-the-money (OTM). We want modest OTM where it is apt to gap up in value quickly.

To determine the intrinsic value of the option, subtract the current price of the equity from the strike price.

Example: For a Put option -- \$65 strike price minus \$69 stock price equals \$4 intrinsic value. (This is the opposite of a Call option -- a \$72 strike Call option on a \$69 stock price, would be \$3 out-of-the-money (OTM).)

Another example: \$65 strike price Put option minus \$68 stock price equals - \$3 (negative \$3) or \$3 out-of-the-money (OTM). (For a Call option, the 65-strike price would be \$3 in-the-money (ITM) or intrinsic value.)

The equity's price will have to drop \$3 before a \$65 strike Put will be at-the-money (ATM).

To take this pricing example one step further, let's say the premium for the \$66 strike Put for our expiration month was \$3.00. If we deduct the \$2 intrinsic value from the premium, the balance is its time value. This time value dissipates each day as the expiration date nears. It is also replaced by additional intrinsic value if the equity's price moves in the direction of your option position. As the equity's price moves in the direction of your trade, so does your option's intrinsic value.

To conclude our example, since the \$70 strike has no intrinsic value because it has a minus number, there is nothing to deduct from the premium. Therefore, the entire amount of the premium is time value. If the equity's price moves in the direction of the trade and continues to do so, the option will eventually gain intrinsic value.

Fifth Requirement

Each strike price incorporates a delta percentage number that is used in the calculation of its option premium. The deeper in-the-money, the higher the delta. Delta is one of the Greeks that play a part in option pricing.

You want to avoid the lure of an inexpensive option that is too far out-of-the-money (OTM). At first, you assume you have found a great bargain, perhaps only \$.29 per

share, a total of \$29 per contract. You imagine getting 20 contracts for just under \$600. But then, you check the Deltas, and find it is .10. For every dollar of the underlying asset's price move, you get \$.10 cents. You can see at that rate, it will take a long time for an option to cover the spread cost between the bid and the ask and the brokerage fees, much less ever get to the point where you realize a profit.

Therefore, the 5th option requirement is to not only buy only slightly out-of-the-money (OTM) or close to at-the-money option (ATM), but the option should have a Delta of .35 or better, preferably with a Delta of .39 to .49 for an option. With that percentage or higher, you'll make \$.39 to \$.49 or more for every dollar move of the underlying asset. Higher Deltas have higher premiums.

With weekly options, the increase in Deltas happens quickly. The Delta might be .35 one day and after a small move, it will be .55 the next day, and .80 the following day. Monthly options increase a little slower, but that said you want to select the appropriate time frame expiration for the time frame chart pattern you are trading.

It would be silly to be trading a weekly chart pattern, where each candle consists of 5 day's price movement, yet you select an expiration that is only two weeks out in time.

I have found that the greatest leverage happens on the option that is one or two strikes out-of-the-money (OTM). They are strikes that would also be considered close to at-the-money (ATM). The Delta is large enough to give you a nice increase as the equity price moves, but it also brings the Delta up quickly, so that if your trade is working, the profits are compounded by Delta and the larger number of contracts that you were able to purchase.

The chart image below shows the Delta percentages for December 15th option that has 7 weeks until expiration. With the stock price at 101.58, the 100-strike price is 1.58 in-the-money (ITM) and could be considered in or at-the-money option. It has a Delta of .60. The ask premium price of \$4.70 for the 100-strike Call will move up .60 cents (rounded down) for every dollar move up in the stock's price.

The 97.50 strike has \$4.08 intrinsic value and is even deeper in-the-money. Therefore, the ask premium is higher than the 100 strike and so is the .70 Delta. The 97.50 strike ask premium of \$6.35 will move up by .70 cents (rounded up) for every dollar move up in the stock's price.

The 105 strike is out-of-the-money by 3.42 cents; therefore, it has no intrinsic value. Its Delta is .39 and, as the stock's price moves up, so will the ask premium by .39 cents for every dollar move.

You will note the further out-of-the-money (OTM) that the strike is, the cheaper the premium price and the lower the Delta.

Especially, when it comes to a short-term overnight trade (meaning a 10-minute chart pattern or sometimes, a 30-minute chart), you'll want your option to gain quickly, to move .30 to .65 cents per dollar move in the stock's price rather than only .30 or less.

On the left-hand side of the chart below, you will find the Put option information. For Put options, you expect the stock's price to go down or decrease. Therefore, the further out-of-the-money the strike is the more valuable. The ask premium of \$5.45 for the 105 strike has a higher Delta of .61 and is more expensive than either the 100 or 97.50 strike.

Sometimes new traders have trouble understanding the concept of Puts or the essential difference between Calls and Puts.

Calls give the option trader the opportunity, but not the obligation, to buy the stock for the strike price and sell it for (hopefully) the stock's current higher price.

The example below is fictitious and not based on the option chain information below or on any specific stock, but instead are numbers that are easy to multiply and follow.

Example: you've bought the Call strike price of 70 for \$1.25 ask premium with a Delta of .66 and sell for an increased stock price of \$72, having increased in price by \$2. Now most traders seldom, if ever, take possession of the shares of stock. The buy and sell transactions happen behind the scenes at the brokerage, and you just receive the profits from the option transaction.

So, if you paid the \$1.25 ask premium (total investment of \$125 for the 100-share option contract) with a Delta of .66, and the stock price increased \$2, the option would increase by \$1.32 (\$2 times .66). The ask would now be \$2.57 (\$1.25 + 1.32), and the bid price a little lower by the spread (cost of handling the transaction - let's use a .03 cent spread), so you could expect the bid or the amount you would receive when the option was sold to be about \$2.54 per share, or \$254 for the option contract of 100 shares.

Pretty good trade. You paid \$1.25 and received \$2.54 per share, or a gain of \$1.29 (98%) or \$129 for the 100-share contract.

Puts give the option trader the opportunity, but not the obligation, to buy the stock for the current stock price and sell it (hopefully) for the higher strike price.

The example below is fictitious and not based on the option chain information below or on any specific stock, but again the numbers were easy to multiply and follow.

Example: You've bought a Put strike price of 69 for \$1.15 ask premium (\$115 total investment per option contract) with a Delta of .56, and stock's price drops to \$67, having decreased in price by \$2. Now, again, most traders seldom, if ever, take possession of the shares of stock. The brokers handle the option transaction.

So, now the stock's price is \$67, and you paid \$1.15 to sell at the strike price of 69. Behind the scenes, the broker will buy the stock for \$67 and will sell it for \$69. Your

option had a Delta of .56, so your premium increased by \$1.12 (\$2 times .56). The ask would now be \$2.27 (\$1.15 + 1.12) and the bid a little lower by the spread (cost of handling the transaction - let's use .03 cents again), so you could expect the bid or the amount you would receive to be about \$2.23 per share, or \$111 profit for the option contract of 100 shares.

Another nice trade! You paid \$1.15 and received \$2.23 per share, or a gain of \$1.11 (97%) or \$111 for the 100-share contract.

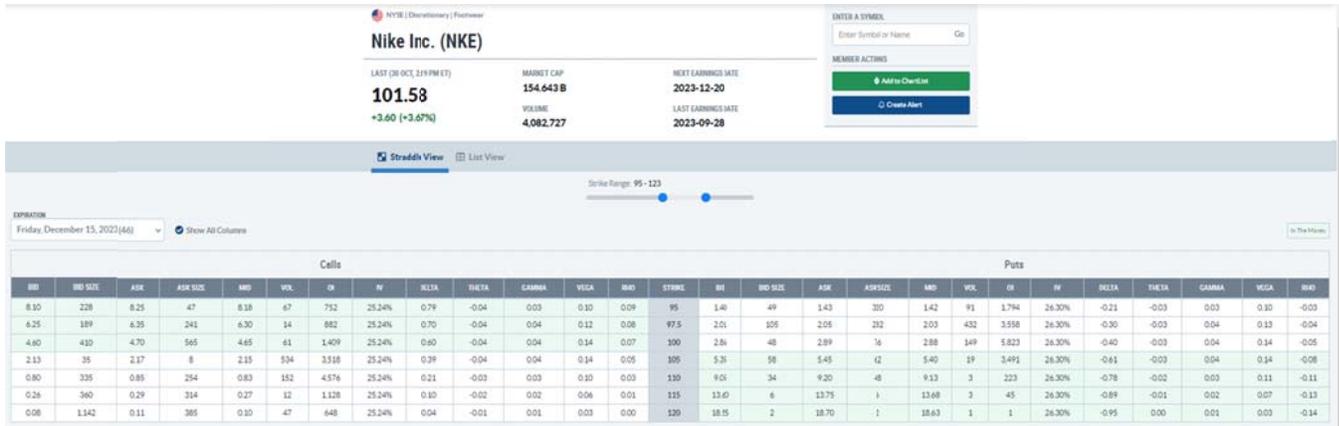


Figure 47 - Courtesy of Stockcharts.com

Sixth Requirement

The cost of purchasing an option is another consideration. The difference between the bid price and the ask price on an option chain listing is the amount that goes to the market-makers. You might think of it as a commission paid for handling the in and out transactions of the sale.

For example, if the bid is \$2.13 and the ask is \$2.17 at the time you purchase your option, you would most likely pay \$2.17 per share for the 100-share option, or \$217. If you wanted to exercise the option, and the bid was \$3.45 and the ask was \$3.50, you would receive \$3.45 for each of your 100 share options, or \$345 per contract. The market-maker, or the person on the other buying/selling end of the transaction, receives \$.05 per share, or \$5, which is the difference between the bid and the ask, for the 100-share contract as their commission for handling the transaction.

This explains why, when you purchase an option contract, your account starts off with a deficit. You are down the amount of the spread.

You don't want to pay a fee that is too high. If the spread is greater than \$.12 on monthly option or .06 for weekly options, don't purchase that option or else place a limit purchase order for a price that is between the bid and the ask price, bringing the spread into the range or less. Market-makers will sometimes trim their commission if they are interested in taking part in the trade. Also, the various exchanges don't always maintain the same bid and ask premiums, so what seems to be a low commission for market-

makers at one exchange might be within range at another exchange. The broker will check the various exchanges in their effort to fill your limit order. (We will discuss limit and market orders in an upcoming section.)

The exception to this is equities with prices over \$150. These equities demand higher premiums and have wider spreads. You approach these trades with caution, being aware of the spread. Goldman Sach's (GS) stock price is over \$300 per share. Its bid/ask spread is well over the range of .06 or even .12, which is logical for such a pricey stock. You must stay aware, and know that your gains will have to make up that difference.

A trick that often works for bid/ask spreads that are too large and are divisible by 3, divide by 3 and subtract that amount from the ask premium, then insert that amount in your limit order. This trading secret then works even for .12 spread. Submit your limit order for \$.08 instead of \$.12. You do this by subtracting \$.04 from the ask premium. Insert that amount into your limit order. The \$.04 you save per share per contract is \$4 and is apt to pay a portion of the broker's trading fee for one side of the trade if you purchase several contracts.

For a .06 weekly spread, divide by 3, result (.02) and subtract that amount from the ask premium, or .04 and insert that amount in your limit order.

Weekly and monthly options for equities that have a high ATR and lots of open interest and volume seldom have a spread that is higher than a few pennies. The times when this amount increases are at the end of the day so market-makers can capture a little extra from those who are foolish enough to place trades overnight. The amount will also increase during times of market excitement or high volatility.

A second cost is the brokerage fee. This is what the broker charges to handle the trade. Each brokerage has a fee structure, and it is worth comparing these fees in relation to the bells and whistles you want from the broker. I seldom use the charts at my broker, so that is not an important feature for me, but I do want a quick, easy to use trading platform that is known for fast executions.

Speaking of brokerage costs - Every few months of trading, contact your broker (especially online brokers) and ask if you are getting their best deal. You can mention that you want to make sure you are paying a fee commensurate to other brokerage firms. Often you will find they will drop you from \$14.95 per side of a trade to \$12.95, then to \$9.95 the next time you call, etc. Eventually, you will hit a limit, but it still doesn't hurt to ask. Fees are forever being lowered as option trading becomes more and more popular.

Trade Requirement Recap

Let's recap the basic option considerations before we move on to study the charts and indicators.

Recap – Option Requirements – the first 6 aspects of the BPA strategy:

#1 - Strike Prices must have open interest of at least 100. And don't buy more than 10% of the open contracts. Also, the strike should have some volume. If the volume is questionable, check the historical information on the option.

#2 – Buy the appropriate time frame option (current week, next weeks, or front month, several months out) expiration for the equity's pattern that you are trading.

If your option has intrinsic money value at expiration, close the trade so it is not exercised where you need to purchase the equity. In these strategies, you are trading the options with no intent to purchase the underlying equity.

If the trade has no value at expiration, you can let it expire worthless and save the fee needed to close the trade. If it has no value, there is no need to close it.

#3 –Purchase option premiums that have a reasonable spread between the bid and ask premium. Limit total trade investment to a consistent level per trade for the time frame trade you are entering. The amount should fit your trade account and risk tolerance.

#4 – For this strategy, buy strikes that are one or two strikes out-of-the-money or at-the-money Call or Put options, and purchase the number of contracts that fit your available funds, investing no more than 10% per trade.

Don't be tempted to buy beyond your means. This consideration ties in with Requirement 2 and 4. Also, don't be tempted to go cheap by buying way out-of-the-money strike price options. Cutting corners sets a trader up with a mindset of lack and the inevitability of facing unforeseen market eventualities.

#5 – Purchase options with a Delta of .39 or better (preferably between .39 and .65 for the highest returns on options).

#6 – Don't enter an option where the spread between the bid and ask is more than \$.12 for Monthlys and .06 for Weeklys or enter a limit option for premium less the amount needed to bring it in line with the requirement.

We have now covered the general requirements in selecting expirations and strike prices for trades. Let's take one more look at pattern set-ups and you will be ready to practice trading once you have established a trade account.

BPA Pattern Set-Ups

As previously discussed, we will be using weekly, daily, 60, 30, and 10-minute patterns as we decide on a trade. We will be striving to find and establish a chart list of equities that have high ATRs of +1.5% move per day and that, in general, fit the requirements listed above.

An example would be an equity that has a daily ATR of 1.8% and that, under normal circumstances when you observe its option chain, had lots of open interest, well over 100 on the strikes that are at-the-money, and its bid/ask-spread normally runs about .05. The Delta of the strike that is one out-of-the-money or at-the-money is usually around .45+.

Creating a list of these equities makes it easy to run through them to look for trade set-ups where the chart shows that the black ADX line is just starting to rise, to turn-up. If the +DI (green) is on top, it is setting up a Call trade. If the -DI (red) is on top, consider a Put trade.

General Pattern Stages

- New P3 pattern forming without +DI cross - PPO has crossed up
- +DI Cross
- P3 pattern experiencing a wobble pullback on PPO that appears ready to bounce
- P3 wobble bounce often starts new sweet spot stage
- PPO cross down- ends P3 pattern and confirms a P3½ pattern
- If PPO crosses back up (P3 ½ fails, P3 PPO and ADX will head up into add-on sweet spot (stage 8)
- P3½ continues (didn't fail) underside wobble- bounce after wobble often starts sweet spot
- P3½ new sweet spot pattern
- PPO cross back up ends P3½ pattern and confirms P3

Look at the charts, lots of them. As I mentioned early on, every single chart you look at will be in one of the stages of either a P3 or P3½ pattern. Once you begin to recognize the stages on one time frame chart, step up or down to another time frame and note its stage. It doesn't matter which time frame chart you are looking at, the P3 or P3½ stages they eventually run through are the same. Is it one or two stages ahead, confirming the same pattern? Or does the 10-minute chart suggest that the 30-minute time frame pattern is going to fail? Perhaps, the 30-minute is in a P3 wobble, showing a pullback, and the 60-minute is just forming the P3½ pattern, suggesting that the daily P3 pattern is going to fail or at least experience a wobble.

Before long, you will soon be able to spot the pattern stages quickly, evaluate the next move and its potential as a new pattern stage form, and when it is ready to start the sweet spot or strength stage.

It may be that option trading and chart patterns are concepts that, until recently, were totally foreign subjects to you. If you are willing to devote the time and energy to learn something new, you will soon absorb the information. You'll build up layers of information and understanding of patterns and, before you know it, what was once foreign will settle into a comfortable place and become a sound trading strategy. Take that step!

What If I Miss the start of a strength stage? Is There a Way to Trade It After-the-Fact?

In the previous section, I wanted you to concentrate on the P3 patterns and not the reason that the patterns formed.

Technically, there are several reasons that strength patterns happen. Let's cover those reasons and how they tie back to the P3 patterns.

There is an old saying that the market abhors a vacuum, and in the end, all patterns will play out. Perhaps, they will reform, but eventually they will move through their stages. That means price will drop or rise, bringing it back to the level from before the pattern failure.

As a generalization, let's say three things can happen.

1. The pattern plays out - goes through its life-cycle
2. The patterns plays out about half way and fails
3. The opposite pattern goes back into its strength stage, and previous pattern is conceived again

Knowing that there are three possible scenarios, we need to be aware that two of them will have strength stages and #3 is a 100% certainty. When a pattern fails, the previous pattern goes back into a strength stage 100% of the time.

Common Life-Cycle Strength stage or Sweet Spot

An important way to think about the patterns (P3 or P3½) is that when the PPO crosses it is beginning a new life cycle. The previous pattern conceived it. P3 conceive P3½, and P3½ conceive P3 pattern. There are no exceptions. If ever a pattern fails and doesn't flow through all the life-cycle stages, then the previous pattern "always" 100% of the time goes back into its strength stage or adult stage (sweet spot) of the previous pattern.

It is easy to absorb or accept this fact. An adult conceives the opposite pattern, and that pattern should flow through its life cycle and then conceive the opposite pattern. Back and forth, they go. If ever a pattern fails, the previous pattern will become an adult or go into the strength stage again 100% of the time.

This trade strategy trades strength stages, so we know that patterns, both P3 and P3½ patterns, normally flow through their life-cycle stages. We enter when the adult stage or strength stage starts. If ever a pattern fails before it goes into its adult strength stage, we know what will happen next. The previous pattern will go back into its strength stage again. Its ADX will rise. How long to hold is the question.

Add-on Strength Stage

This information was just stressed in the last section. There isn't much that happens within the market that can be said that it happens 100% of the time, but this aspect or stage is an exception. It happens 100% of the time. If a pattern fails before it becomes an adult or moves into the strength stage, it will 100% of the time go back into being the previous adult.

The whole process is that one adult pattern conceives the opposite pattern, so if that conceived pattern fails before it becomes an adult, the previous adult is resurrected. So, it can conceive the opposite pattern again.

Exhaustion Strength Stage

Exhaustion strength stages happen near the end of a good P3/P3½ sweet spot trend move. They can be a sign that the move is over.

They can seem extreme, identified by high volume and large price move. They can be confusing to inexperienced traders who see them as a new upswing and time to open a new trade, but the extreme volume late in the game is a giveaway. This price move usually happens after a sweet spot. As you watch the P3/P3½ pattern develop and witness this upward move, sometimes a gap, you are likely to say, "Geez, what brought that on? I was thinking the pattern might be wrapping up." Most likely it is, and this is an Exhaustion Move.

Exhaustion Moves fill quickly as prices reverse their trend. These can be quick reversal trades as the reversal or gap fills and goes further in the new trend direction.

Measuring the Strength Stage

There is no way to know for certain how long a strength stage will last. Of course, this adult stage of the pattern will last longer on a weekly and daily chart than it does on a 10 or 30-minute chart, but often each time frame chart is rather consistent or at least ties in with what is happening within the overall market. If the market is in a strong bullish uptrend, then the adult stage or strength stage is apt to last a longer time. Yet, if the market is going through a period of volatility, lots of up and down swings, then the patterns are apt to start and end more quickly.

Often if a pattern forms and its strength stage is weak and then fails, if it quickly retakes its position of strength, the second rise is apt to be stronger. If it has had a strong rise and slips and then regains, the second rise is not apt to be as strong as the first strength stage.

So, we have three types of Strength Stages (Adult):

- Common or Trading Strength Stages- Adult stage of the P3 or P3½ pattern.
- Add-on strength stage- pulls back and then rises again.
- Exhaustion Strength Stage- quickly jumps up, sometimes a gap and then heads in the new trend direction.

What Days Do Strength Stages Usually Happen?

Mondays were the best day for strength stages starting up as the market opened. Wednesday was the second-best day, nearly as good as Monday. The other days each produced adult moves as they opened the trading day, but most were half as likely as Monday and Wednesday.

The days changed for down moves in the price at open. Fridays produced the most down strength stages. On Friday, the market gapped down 6 times more often than the other days of the weeks, and gaps create usually create strength stages. Tuesday was the second-best day but happened much less often than Friday.

Strategy to Trade Strength Stages

Let's look at a few Gap examples, and then we will discuss how to trade them.



Figure 48 - Courtesy of Stockcharts.com



Figure 49 - Courtesy of Stockcharts.com





Figure 51 - Courtesy of Stockcharts.com



Figure 52 - Courtesy of Stockcharts.com



Figure 53 - Courtesy of Stockcharts.com

Additional Facts

For our BPA strategy, we focus on 10-, 30-, 60-minute, daily and weekly time frame charts. We spot a new strength stage pattern or new P3/P3.5 through its stages and we know “likely” the strength or adult stage will soon confirmation and we will consider entering the trade, expecting the strength stage to keep moving as long as the ADX line is heading up.

To trade the strength stage after it has happened, we are going to evaluate and determine the type of strength stage from the three types listed earlier, and then we are going to trade the possibility of that pattern continuing in the direction based on the time frame chart.

The point of this section is to state that the P3/P3.5 patterns go through their life style stages no matter what time frame chart they form on. There are numerous traders who have studied the P3 patterns, perhaps they have decided to trade options as their job and income source, and they trade even shorter time frame charts. Perhaps, they day-trade from a cash account, and trade patterns that form on 3 or 5-minute charts. The stocks flow through the same stages, but the patterns happen much more quickly and take full attention.

PLEASE NOTE: Before we go any further, I need to state and issue a warning that, if you are trading 3 or 5-minute charts, the trade is apt to remain open only an hour or two at most. This means it will be a day-trade. Traders who have small margin accounts need to be aware of day-trading rules.

You can only have 3 day-trades in a 5-day period before the SEC decides that you are a pattern day-trader, and you need to have an account of \$25K in reserve at all times after your open trades. If you don't have \$25K in a margin account, they will freeze your account for 90 days.

There is one way around this, and that is to open a cash account versus margin. Cash accounts are not subject to the same day-trade restrictions. With a cash account, you can trade in and out with available funds. The funds from a trade closed today will be available for use tomorrow.

More on this is discussed in the Setting up a Brokerage Account below.

If you are going to trade this strategy using 3 or 5-minute charts, be sure you are set up with adequate funds, or have a cash account, since you may have several day-trades in a 3-day period.

Okay, now that I posted the warning about the number of day-trades, let's continue with thoughts on the strategy.

If you are going to use a 5-minute chart, it is suggested you wait until 9:40 am ET or after to enter a trade. Take the first 10 minutes after the market's opening to determine if you feel the morning's open will continue in the trade direction, based on the type of open that it seems to be.

Let's look at a couple charts and how the patterns look on a 3- and 5-minute chart. How can you trade it?

On Boeing's (BA) 5-minute chart, a P3 was created late in the day yesterday, and conformed with a PPO cross on open this morning. It wasn't long, about 10:05 that the ADX started to head up. The 182.50 call that expires Friday this week ask premium was

2.40. The bid at 2:00 is 5:30 which a 2.90 profit. More than 100% in 4 hours.



Figure 54 - Courtesy of Stockcharts.com

Target went through a series of strength stages. The P3½ pattern started with a PPO cross down and soon failed, so P3 strength stage played out again and again. Notice the EMAs stayed in up-trending order. When you learn to read the indicators, they tell you the story.



Figure 55 - Courtesy of Stockcharts.com

Let's look at a 3-minute chart, and then we will move on. The point is, the pattern details you have learned play out the same no matter what the time frame chart.



Figure 56 - Courtesy of Stockcharts.com

You entered the first P3½ after the P3 failed. It went through a wave of P3½ and all these entries would have been profitable. The P3 patterns failed soon after they started. The +DI line never crossed up, and the pattern soon failed when the PPO crossed back down.

The Ask premium at 10:45 for the 29 Put that expires this Friday was .80. It is now 1.28, so the premium has gained 62.5% in 3.5 hours.

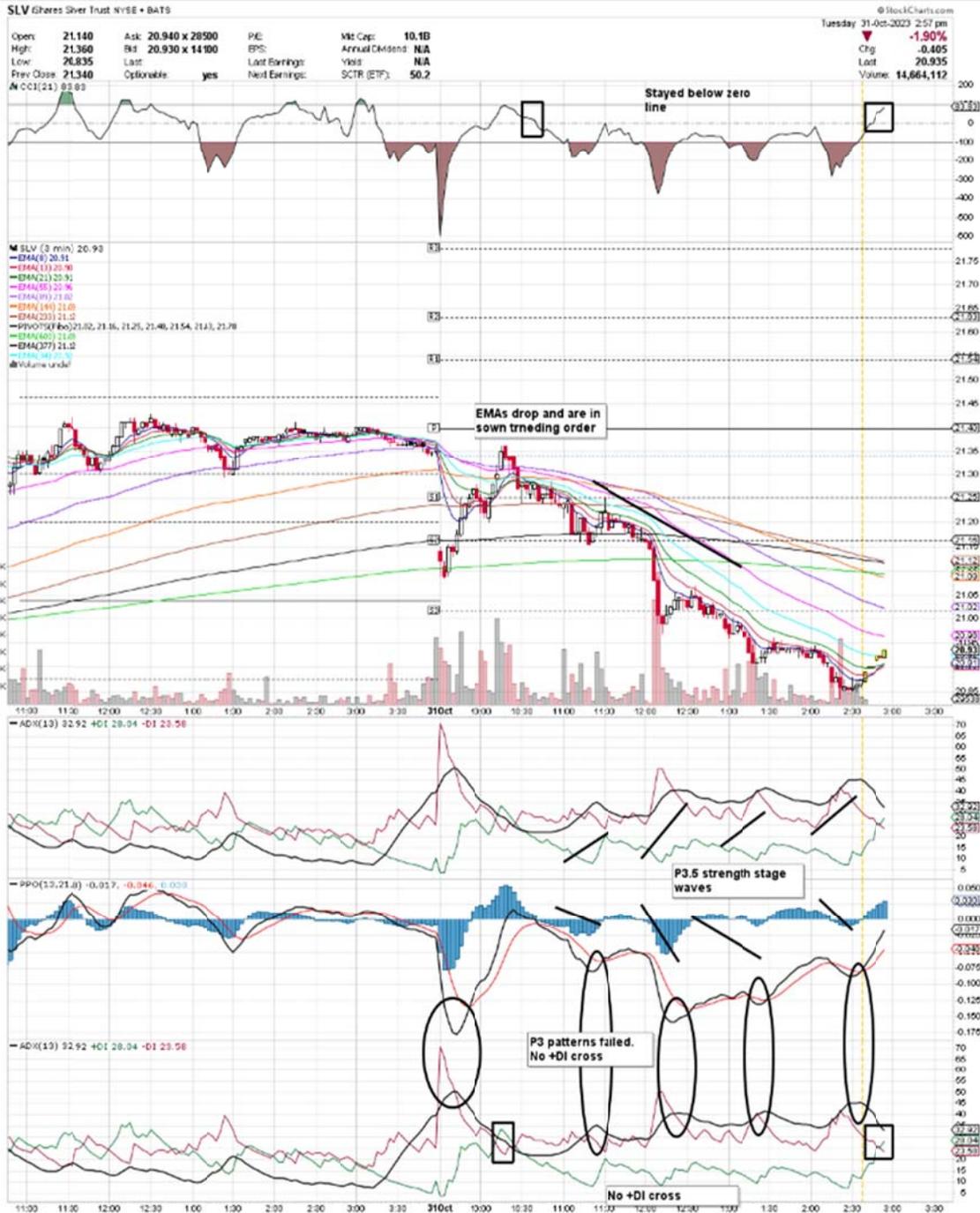


Figure 58 - Courtesy of Stockcharts.com

Entering a Silver (SLV) trade about 11:00 for Friday's 21.50 Put cost .43, and, holding until 2:30, the Bid premium is now .72. For this example, let's say, you decided to purchase 10 contracts for \$430. Then closed when the pattern weakened and received .72 or \$720. This means in those 3.5 hours you made \$290, less the trade fee. Not bad for a few hours.

Let's look at one more.



Figure 59 - Courtesy of Stockcharts.com

After lunch at 1:30, you enter a trade in Visa (V). You select the 175 Call with an ask of 1.67 per share or \$167 and you buy 3 contracts. Forty-five minutes later, you close the trade for a bid premium of 2.40. Over those 45 minutes, you made .73, or \$73 per contract, or \$219 for the 3 contracts. Nice!

We have discussed these short-term pattern trades, so that you can see the P3/P3½ play out the same in all time frames. The BPA service can't day-trade, but I wanted to share that you personally can apply the patterns to any time frame if it works for the time you have to dedicate to trading. I am going to share one more long term time frame.



Figure 60 - Courtesy of Stockcharts.com

Johnson & Johnson (JNJ) formed a strength stage pattern in mid-September when the ADX line started to head up on a bullish trade. You decided to enter and select an

expiration date that is out 3 months until December 15th and chose the 160 Put for a premium of 3.22. The premium is currently 12.60. This is a gain of 9.38 over about 6 weeks. You have until the December expiration, but you can choose to close any time before that date.

Beyond learning the P3 patterns (P3/P3½) and their stages, it is equally important to practice reading charts and then deciding which time frame chart best suits you. It is unwise to get all excited about looking at short term charts like the 3 or 5-minute charts, imagining daily income, if you are distracted and unable to watch charts while the trades are open. It is inevitable that you will lose money and get very discouraged.

It is super important to learn the patterns and entry stage (strength stage), but to also make a very conscious decision as to which of the chart time frames fits in with the time that you devote to trading.

Don't enter a short-term chart trade and decide you will be back after a couple hours on the golf course and will check to see how it is doing then. If being active describes your lifestyle, then select daily or weekly chart patterns. Enter the trade and go have fun on the course and then check the trade in the evening once you are home and have time.

If on the other hand, you want to be an active and involved trader, then review the various time frame charts and decide which feels the most comfortable for you as far as pattern evolution. Select more than enough time rather than too little.

Brokerage Accounts

Chances are if you are interested in options, you already have a broker with whom you are dealing. Many traders, when trading, want the convenience obtained by establishing an online brokerage account. Once you have the trade form filled in, and you push the "send" button, the trade is instantly filled if it is a market order, or when it hits the amount of a limit order.

There are several types of trading accounts.

Cash versus Margin Account

In the process of opening an online trading account, you will have the choice of opening a Cash or Margin. Many traders open a cash account. The reason for this is the very restrictive day-trading SEC (Security Exchange Commission) regulations.

Regulations require that day-traders with margin accounts (traders who are in and out of trades within the same day) always maintain \$25,000 in their trading accounts. If their account drops below that amount and more than three day-trades are placed in a five-day period, they often will freeze the account for 90 days.

Not everyone has \$25,000 to leave sitting in an account to fulfill that requirement, and though the BPA does not often do daily round-trip trades (in and out the same day), it does happen, especially with 10-minute charts. An example would be to close a trade soon after opening it if it headed in the opposite direction and hit your stop. The stress of tracking how many roundtrips you have made in the last five trading days can be eliminated if you open a Cash account. The SEC's restrictions of three round-trip trades in a five-day period applies to Margin accounts and not to Cash accounts.

There are no such rules for Cash accounts. You can move in and out of trades without any concern about SEC limitations. Place as many trades as you have money to buy. If you open and close a trade today, the proceeds from that trade will be available for use again tomorrow. It takes one day for the trade to be settled.

If you have the funds to place three trades today, and you close one today and the other two ride toward expiration. Let's say you close the second trade in two days and the last on the third day. You will have the funds from the first trade to use tomorrow for another trade, the second trade's funds will be available on the third day, and the third trade will be available for use on the fourth day. This way funds and profits roll in and out of the account. You have no need to count round-trip trades (if you have the money to buy and a reason to close 10 round-trip trades a day, no problem). You can place as many trades as you have money to buy.

Of course, within the BPA strategy, you might also have a weekly trade open, as well as a daily chart trade and perhaps, a 60 and 30-minute trade as well. You will focus most of your attention on the 10- and 30-minute trade and modest attention on the 60-minute trade and an afternoon glance at daily and weekly.

An extra asset to this strategy program is that weekly and daily trades don't have to be watched as closely, so if you have a minimum amount of time to focus on trading, perhaps you zero in on daily chart trades, and that is all you trade. Once your trade account grows, you can add a weekly trade because extra time adds to its cost. Then, during the summer, you take two weeks off to rest and vacation. One week, you head to the beach, but on the second week, you want to venture into a few shorter-term trades, so you focus on a couple 10-minute chart patterns and a quick 3-minute chart trade just to be able to see what it is like.

The Green Zone Strategy is flexible, and it helps us to be able to trade no matter how volatile the market is.

BPA creates a Unique Opportunity

As we conclude, the strategy offers a unique opportunity for option traders to benefit from day-swings, overnight, modest, and long term moves in the market. The key is identifying these moves before they happen to maximize your benefit from them using my extremely successful P3 and P3½ chart patterns.

The Green Zone Strategy Trading Method has taken these unique patterns even further than my other trade strategies with confirmation signals for entry and exits on weekly, daily, 60-, 30- and 10-minute time frame charts that have been developed for accurate trades. The strategy is flexible, so within the BPA strategy, the option can be purchased late in the afternoon one day, held overnight, and sold the next morning at the first sign of weakness or held for weeks depending on our signal to sell.

Often, we will trade only one or two of the strength stages that these patterns go through if there is a series of them like a few of the earlier charts showed. In the BPA strategy, we have narrowed our focus on the exact moment of a strong strength stage move to enable you to exit the trade rather than hang on beyond the first sign of weakness of the P3/P3½ patterns. This enables traders to capitalize on strength. Big moves mean big gains. My Blitz Paycheck Alerts strategy will help you take the next step down your path to personal prosperity and the high-performance life you have dreamed about.

A Conscious Choice

Do you feel anxious? Are you wondering if you can do this? Can you really trade options? Let that restlessness in you, that desire for more, push you to take the steps to try something new.

If something extraordinary is going to happen, make it a conscious choice. When extraordinary things happen, it is going to be because you have more mornings where you make a conscious choice to live a prosperous life.

Let's get started today. Read through this manual again and maybe even a third time. Layers of understanding will begin to build as it moves from being new information to that of being information that is reviewed for clarification.

Sometimes we get comfortable after experiencing a measure of success, so we quit pushing ourselves. This lack of pressure can become complacency, or you aren't challenging yourself anymore.

Strive to get to the place where you honor the struggle to move to new heights toward a high-performance mindset or a new uncertain place.

Option trading may be the cause of that uncertainty. Celebrate. Yes, it may cause you to struggle, but you will ultimately grow. Yay!

Or, if not option trading, it may be some other aspect of life drawing you to higher performance.

Many people don't realize that they avoid stretching or trying something new because they are afraid. Afraid of rejection. Afraid they will be disappointed. Afraid they won't be able to handle it or won't be capable enough. Perhaps, past failures loom overhead like black clouds, and they are afraid if they put all that work in, and then it doesn't go well, it will be one more failure.

The point is to engage in the journey, take the first steps, and enjoy the process, even if it is a challenge.

You may put in more hours as you take these steps, which could mean you'll have less time for family and friends. Yet, you need to realize that to work this out, all you need is to ramp up your level of engagement. You want to be present when you interact, rather than half listening while your attention is split while watching TV, checking Facebook, scanning emails, or other distractions.

To narrow down the levels of performance that are important to you, start with your feelings. What feelings do you long for? Take some time to really evaluate and discover those desired feelings.

It has been recognized that, when you are achieving or expressing high-performance, a beneficial feeling (satisfaction, fulfillment, accomplishment, winning, succeeding, financial success) is being generated. So, the goal is to learn how to create or generate that feeling, that connectedness, so, on a regular basis, you can achieve the desired results.

Let's reverse engineer this. Learn to get the emotions or feelings so that the results of high-performance become predictable and consistent. Feelings or emotions are the foundation of performance achievement.

These feelings can be generated by being present and investing in what is happening in the moment. Experience joy. Don't postpone it. Don't wait for it to come. Feel it now in each moment.

The moment can consist of family meals, conversation, company meetings, business exchanges, friends sharing life's details, learning something new, reverence, exercise, playing with the kids. Be engaged. Feel the joy. The satisfaction. The success.

Experience gratitude. Be grateful for everything. Gratitude will bring you more of what you appreciate.

Be positive. Love the challenge. It brings joy. Bring positive emotions rather than wait to take them. Bring it!

As you know by now, I so strongly believe that “knowing” is the key that I wrote a non-trading book about this concept which has changed my life to one of perfection - Knowing is Seeing! by Wendy Kirkland, available on Amazon.

Develop confidence. “Know” you have the confidence to achieve your goals despite obstacles. Believe in your abilities.

Be willing to learn, to be humble, put in the time, seek answers, ask questions. Know that you will figure it out. One feeds the other and raises your performance.

The journey is the payoff. Don’t wait to get the reward. Joy and confidence are the reward. Enjoy it every day. Accept it. Be grateful.

Know that you deserve a prosperous life.