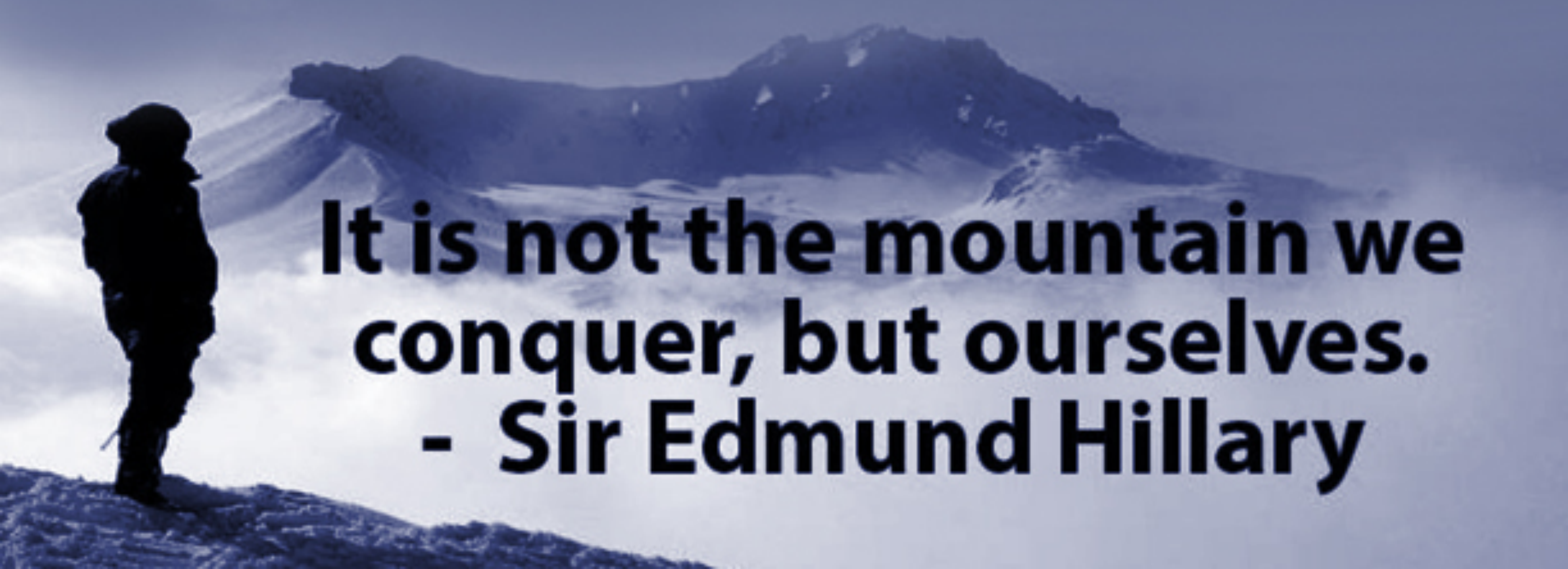
JEFF COOPER'S

HIT AND RUN

TRADING

SUCCESS GUIDE



It is not the mountain we conquer, but ourselves.
- Sir Edmund Hillary

The Nature of Trading

I often get asked what is the most important thing I can tell someone about the art of trading.
The corollary to that is if I were beginning my trading career now, and knew what 40 years have taught me what would I do.

First of all I would I would judge and forecast the stock market by its own actions.

Analyzing the stock market is something that requires a lot of study and continuous practice.

Practice in actual trading as paper trading lacks the element of risk.

The feeling of uncertainty and of danger, the hope of profit as well as the fear of loss-these are all obstacles to be overcome by anyone who desires to master trading and investing.

In doing this, one must risk ones money and subject themselves to all the emotions that accompany regular trades.
After one has made hundreds of trades they may find that they can work without being dominated by hope or fear. But in my experience emotions will always accompany trading because we are human.

A trader will father experience from a long series of transactions, each requiring a summary of the factors upon which decisions are based. This is why I recommend keeping a trading journal as well as printing out examples of setups that worked and failed..

Then a trader will gradually evolve a trading character or personality and be able to decide whether they have adapted to the business of trading. Comparatively few can do so as markets turn on a dime, most traders cannot. When a trader embraces that the business of trading is about making money and not about being right, it is easy to cut losses quickly, the first step to getting emotions out of the game.

Hit and Run Rules of the Road

1. More important than the setup itself, is position sizing. Why? Because setups are just setups, the best setups can fail: always respect risk.
2. There are several ways to position size. The simplest is to position size based on the account equity at risk. The rule is no potion should ever hit maximum stops and cost more than 1% of account equity. In other works If I have a $10,000 account, no positon that hits my stop will cost me more than $100.

   For example, if I buy $APPL at $100 and my stop loss is set at $95 based on the chart, this means I have $5 per share at risk.

   $100 (1% equity) divided by $5 per share risk= 20 shares.
3. You have decided your entry AND exit point before calculating how many shares you buy which = good risk management.
4. Most market participants think the general market must be in an uptrend to be able to buy a stock. But some of the biggest long-side winners may occur in a bear market.
5. As well short squeezes in a bear market can elicit powerful SHORT-TERM countertrend moves which the Hit and Run Methodology has strategies to identify.

6. False moves lead to fast moves---up and down. The corollary to this is “follow thru is key.”

7. A setup is one of the most powerful weapons in a traders arsenal. My setups are largely derived from pattern recognition. From a setup a trader can determine a 'pivot point' where the stock triggers (long or short). Buying a stock up more than 1% above the pivot point means assuming more risk. Often times a stock that gaps through a pivot point will pull back in the first hour offering a Side Door Entry.
8. High volume close is the closing price of the gap up on day 1= High Volume Close Gappers= Monsters in the Making
9. An Inside N R 7 Day (narrowest range in 7 days) at the top of a consolidation = potential breakout pivot
10. As a swing trader/day trader all that matters is the next move or two and your trade execution.

    Focusing on where the $SPX will be in 3 months or its path there is intellectual curiosity at best and at worst can cause costly distractions/ biases.

    The trick of the trade is to integrate the short and intermediate term trends. Ignoring the noise outside your time frame is a game changer.

Stay present, focus on the process not the results

Markets can turn on a dime, most traders cannot: keep an open mind.

The Law Of Multiples: Focus on setups with multiple signals: this stacks the odds in your favor.

Take partial profits into strength: Hit and Run, Trim and Trail…especially in bear markets and choppy markets.

Top 13 Strategies

"History repeats itself in the stock market. Many price patterns and price consolidation structures that stocks form are repeated over and over again." William O'Neil

Whether we like it or not, as traders, we are all in the pattern recognition business.

We are in the business of determining patterns of accumulation and distribution.

Because our culture thinks in images, especially our modern pop culture aided by technology, behavior patterns repeat even more vigorously than in the past. That also means they may be gamed aggressively by the algo guys.

All of my strategies are based on price. They are not based on some kind of magical indicators. I don't use stochastics, RSI's or MACD's, VIX or TRIN. All indicators are derived from price and/or price and volume. So, why not go right to the horses mouth--- price itself. Money makes price.

Price is the point of the sword. Price is truth. Price is the final arbiter.

Time and price are the Lennon & McCartney of swing trading and pattern is the offspring of time and price.

My strategies are all based on pattern recognition.

As I gathered experience trading when I'd see a pattern show up it was like seeing an old friend. That's the 6th sense of trading. You've seen situations before and you recognize them.
This is what will happen with your own trading the more time you put in.

But good and great traders alike need coaches just like, Mohamed Ali, Tom Brady and Andre Agassi needed coaches.

They all had superior coaches which helped separate them from the pack.

1. The Most Important Strategy of all is The Hit List or Focus List.

This is a list of around 10 uptrending names and 10 downtrending . Additionally, I scan a larger universe of stocks daily for standouts for the next day; but the most important thing is to have a core list of names to stalk every day.

You have to be able to see something to trade it. In my experience, the more you try to see, the less you see.

I create my Hit List of stocks over the weekend. These are 'where the action is' and include stocks that are making new highs, breaking out of consolidations and or showing good volatility. You can't make money in stocks that are going sideways.

Over the years I have honed my list of stocks to observe from a specific criteria that includes TIME factors in addition to price. This has led to superior setup selection and enhanced performance.

My top strategies consist of continuation setups and reversal setups.

2. 1 2 3 Pullbacks

A few years ago I had lunch with a fellow trader I've known for 20 years. I was surprised to hear him admit that many years ago when he read my first book, Hit & Run trading, he didn't 'get' my strategy of buying stocks on pullbacks. He was a breakout buyer. He bought stocks making new highs or stocks breaking out of high-level consolidation patterns.

He asked me where I got the concept of buying pullbacks in stocks versus buying breakouts.

The answer was that strongly trending stocks must 'inhale'---just as the fastest long distance runner inhales and exhales, stocks breathe.

I recognized that stocks in the most powerful of uptrends---in runaway moves, typically don't pullback for more than 1 to 3 days before resuming their underlying trend.

This makes sense because the big buyers, institutions, who are accumulating a name, will only chase it so far any given day while at the same time they will be a bid under a stock as it comes in. They want to add to their position while at the same time they want to 'protect' their baby.

So buying pullbacks is a conceptually correct concept.

At the same time not all pullbacks are created equal.

There are certain characteristics in trends and in pullbacks I am looking for that enhance the odds of this setup working.

There are certain characteristics in strongly trending stocks that make them dangerous to buy on pullbacks if it appears a Buying Climax has played out.

The essence of the 1 2 3 Pullback is to have a stock in a strong uptrend. I used to use several criteria for this. Now, primarily I define a strong uptrend for the purposes of this strategy as a stock being above both its rising 20 and 50 day simple moving averages.

The 3 days of pullback may be 3 consecutive days of lower daily lows against the underlying trend OR two consecutive lower daily lows and an inside day.

The entry trigger is typically 'trade through' entry. In other words trade through the prior days high.

However, in the last 10 years I have augmented the entry on many of my strategies to be Opening Range Breakouts.

For example, this is very helpful if a stock has pulled back for 3 days and closes at/near session lows on day 3.

In that case an Opening Range Breakout (ORB) may get one long at a better price than waiting for the prior day's high to be exceeded.

The same strategy works for stocks in strong downtrends. The rules are reversed. These are what I refer to as 1 2 3 Snapbacks

3. Opening Range Breakouts

This brings me to my ORB or Opening Range Breakout strategy. I define an ORB as a breakout (or breakdown) above or below the first 30 minutes range.

This overall strategy is very helpful for initiating positions (intraday or swing) in stocks that don't set up per se but that are in strong uptrends (or downtrends as the case may be). In other words, stocks that are in nice trends don't always oblige with picture perfect setups---they just continue to stair-step.

If you look at any daily bar chart you will notice that daily bars just don't stack up on top of each other: there is often what I call bleedback or some retracement into the prior days range before the stock pushes higher.

The ORB does a good job of identifying good risk to reward entries for intraday traders and swing traders.

The ORB is a good continuation strategy and does a great job of defining trend days---whether up or down.

4. The Holy Grail

Pullbacks in uptrends to the rising 20 day moving average is a Holy Grail setup, so named because of its knack of defining reversals back in the direction of the underlying trend.

The same is true of stocks in downtrends: rallies that backtest the overhead declining 20 day moving average are good risk to reward short setups.

It is worth keeping in mind, that the market is not a fine Swiss watch---often a stock will ‘Pinocchio’ or push through its 20 day line, grabbing stops and flushing players out, before reversing.

The Holy Grail strategy works because there are billions of dollars in momentum based mutual funds looking to buy strong stocks as they ‘crouch’ and sell weak stocks as they try to stand on their tiptoes. 20 days is the number of trading days in a month so this moving average does a good job of defining the intermediate term trend.

5. Expansion Breakouts

We can’t buy every new high---we can’t even buy every new high on our Hit List.

There needs to be a way to qualify breakouts, in this case, breakouts to new highs. As my dad liked to say, “Stocks don’t move, they are moved.’ Often breakouts are orchestrated for big players to sell into.

At the same time we have to BELIEVE WHAT WE SEE and MANAGE OUR RISK.

Only after finding myself on the wrong side of breakouts when they reversed did I realize there had to be another piece to the strategy.

After studying the breakouts that most consistently led to one to five day profits, I noticed one common theme: the best breakouts were accompanied by a daily range that was the largest range of the previous nine trading sessions.

Next, I further qualified the strategy with the criteria that the breakout had to make a 60 calendar day new high.

Stocks often play out in cycles of 7 weeks; consequently, a breakout of a 7 week consolidation often meant a genuine, new upleg was on the table.

For short sales (Expansion Breakdowns) the exact opposite rules apply.

Many times an Expansion Breakout ties to a news event such as earnings or an analyst upgrade. A breakout accompanied by a large range and a news item attracts attention to the stock and buying begets buying. Often it becomes difficult for an institution to shares in these instances and they are forced to pay up causing price to run even farther.

The entry trigger for Expansion Breakouts (or Breakdowns) is trade through above the prior days high by 15 cents.

In many instances the range of the breakout is so large that it pays to wait for an Opening Range Breakout.

6. Expansion Pivots

In my 30 years of experience of being in front of screen throughout the day, I have noticed that range precedes price. So the above Expansion Breakout strategy is conceptually correct.

This brings us to the Expansion Pivot strategy.

This is another of the daily range expansion strategies I use to identify when institutions are piling into or bailing out of a stock.

Over the years, I have observed the number of times a stock will trade around its 50 day moving average for a period of time and then out of the blue explode either to the upside or downside.

The 50 day moving average is significant because institutions and traders use it as a benchmark indicator. This means that when a stock has a significant move off this level, it comes on the radar of literally thousands of money managers and traders.

Again, as with all my strategies, entry is triggered on trade through entry (15 cents above the prior days high) OR an Opening Range Breakout.

The rules are reversed for shorts.

7. 180's

180's is a strategy I use to identify stocks that have a one day trend reversal and then resume the trend.

So it is a two day continuation pattern. The stock must be in an uptrend (trading above its rising 50 and 20 day moving averages). On day one, the stock closes at/ near session lows(in the bottom 25% of the day's range) on day 2 it closes at/ near session highs and we are looking to enter on continuation on day 3 above the high of day 2.

I typically trade in the direction of a stock's trend. As I mentioned above, stocks breathe, they contract and expand both directionally and as to the size of their range.

So I am constantly looking for strong stocks that are pausing and I wait to climb aboard as their move begins (up or down) again.

8. TNT Strategy

This strategy is related to any range expansion setups such as the Expansion Breakout or Expansion Pivot.

As traders we are looking for immediate gratification. Follow through is key but often that follow through is not immediate.

I have found that short term traders will often move on to the next setup if a stock does not follow through immediately.

However, often a stock will experience a Pause Day after an initial thrust followed by a resumption of the underlying trend.

TNT refers to Thrust, Noise (Pause), & Thrust. In other words following an explosive one day move, a stock may pause for a day before exploding in the direction of the underlying impulse.

Good price comes to patience.

A TNT setup is often viable out of a basing pattern without the stock being in a well-defined uptrend.

Remember, my strategies are looking for those setups that allow us to participate in short-term momentum moves, both long and short. As traders our job is not to be look at the big picture.

The analogy I like to use is of a small bird swooping down to grab a bread crumb and flying off whereas staying put eat entire piece of would leave the bird vulnerable to a larger prey.

9.Gilligan’s Island

A Gilligan’s Island is a setup I created to trade short term gap reversals.

A gap is nothing other than a market that opens higher or lower than the previous day’s high or low.

Not all gaps are created equal. My research found that gaps to new 60 day highs (or lows for long setups) that see closes at/near session lows (or closes at/near session highs in the case of buy setups) do a good job of identifying at least short term exhaustions..

In the case of Gilligan sell signals on gaps to new 60 day highs with closes near the low of the day, I then look to climb aboard the next day for the ride down.

Many times the reversal is short-lived; however occasionally the Gilligan reversal identifies an intermediate to long term high. This is especially true with WEEKLY Gilligan sell signals which is a gap up to a new 60 day high and a close at/near the lows of the week.

10. Lizards

A Lizard is another low-risk, potentially high-reward strategy that can be either a continuation pattern or a reversal pattern.

A Lizard buy signal in a continuation is a new 10 day low within the context of an uptrend. Day one of the setup is an open and close in the top 25% of the day's range where the stock makes a new 10 day low. On day two, the trigger is trade above (by 15 cents) the high of day 1.

A Lizard sell signal can also be a reversal signal. This setup occurs when a stock makes a new 10 day high but 'tails off' with an open and close in the bottom 25% of the day's range. The short is triggered the next day if the stock trades below (by 15 cents) the low of the prior day.

A Lizard reversal buy signal can occur within the context of a stock in a downtrend that makes a new 10 day low but 'tails up' with the open and the close in the top 25% of the day's range.

Occasionally, Lizard signal reversal bars can mark intermediate changes in trend---especially when these occur on Weekly bars.

11. Triangle Pendulums

Often stocks trace out triangle or pennant consolidation patterns. Traders await a breakout through one side of the triangle to jump on board. Sometimes this works, but in the markets fast moves come from failed moves or patterns.

If the stock breaks out and there is no real follow through and instead the stock then knifes through the other side of the triangle a Triangle Pendulum signal is triggered.

12. Boomerang’s

A Boomerang signal is similar to the Triangle Pendulum except that the consolidation phase is a flat. The other qualifier is that the best Boomerang buy signals occur when the flat is being traced out at 52 week highs. When a breakout to the top side occurs but falters with the stock stabbing back below the bottom of the flat, a Boomerang sell signal is triggered.
The opposite rules apply for Boomerang buy signals.

Triangle Pendulums and Boomerangs remind me of what legendary trader Jesse Livermore said: “The diabolical purpose of the market is to continue higher (or lower) with as few people on board as possible.”

13. LROD’s and N/R 7 Days

An LROD is a Large Range Outside Day (either up or down) or a Lightning Rod.

As offered above range often precedes price and these Lightning Rod’s attract the attention of traders and often perpetuate further momentum---at least for a day or so which we can capitalize on.

These can occur anywhere within a trend. Follow through as always is key so entry is only on trade through the prior day’s high (or low in the case of shorts and Large Range Outside Down Days).

The N/R 7 Day is the ‘companion’ setup to the LROD. An N/R 7 Day is the narrowest range in 7 trading days. These contractions often are followed by an expansion of range within the next few days.

An N/R 7 Day often does a good job of identifying when a stock is poised to breakout of a flag or consolidation pattern.