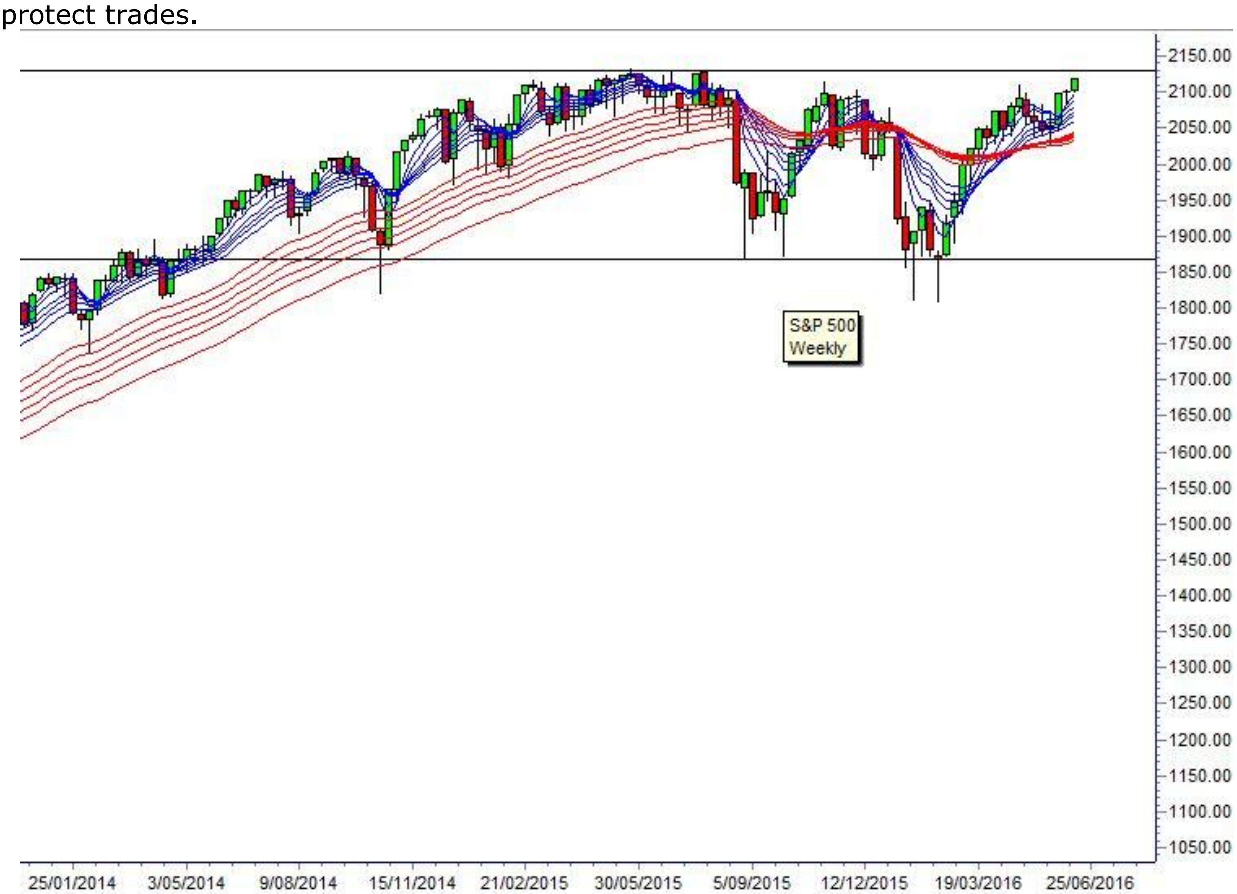
# HOW TO TRADE TRADING BANDS

*By Daryl Guppy*

Janet Yellen used to be decisive, but now she not so sure and that's given a gift to traders. There are times when the market just hands a gift to those who use chart analysis. This is one of those times. It's when markets develop a consistent patterns of behavior that can be used to set a profit target and a stop loss. This creates a high probability trading situation.

The common and dominant pattern in today's market is the trading band. This is created by a well-defined support level and a well-defined resistance level. Each of these levels requires at least three touch or anchor points. Our preference is to use the close on a weekly chart for positioning these lines. Often the levels are verified by previous support and resistance activity at this level in previous years.

These support and resistance lines also allow for setting good stop loss points to protect trades.




The trading band offers two types of trade. The first is a simple long trade from support to resistance. Of course, they also offer the reverse short trade from resistance to support. It's lazy high probability trading offering 10% to 25% return per trade at a time when investors complain about low return sideways markets! Without leverage that's a 23% return on the S&P trading band.

The second type of trading band trade is a measured move. Eventually the market breaks out of the trading or consolidation band. How high will it move? The trading band provides the answer. The depth of the band is measured and this value is projected above the resistance level. For the S&P this gives an upside target near 2,390. A word of caution.

If the trading band has been in place for 6 months then it may take 6 months to reach the projected target and the up move will not necessarily be smooth and continuous.

The same method is applied to the downside with a drop below the trading band. Down moves tend to be faster, more violent and much shorter duration.

The key advantage; traders know when to tighten stops to protect profits and they know when to prepare for a new trade entry.

Daryl Guppy is a trader and author of Trend Trading, The 36 Strategies of the Chinese for Financial Traders –www.guppytraders.com.. He is a regular guest on CNBCAsia Squawk Box. He is a speaker at trading conferences in China, Asia, Australia and Europe