

# Before The Close - Daytrading Secrets



## The Pivot Point

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## Pivot points

were developed by floor traders.

The definition of a pivot point is a turning point. It is the level at which market sentiment changes from bulls to bears or vice versa. If price is above a pivot point, the market is said to be bullish. Price should continue up. If price is below the pivot point, price is bearish and should continue down.

The pivot level should also act as support and resistance. Failure to break through pivot points should send prices back the other way.

Pivot points work BECAUSE they are so well known.

The main pivot point used by locals, including myself when I traded on in the T. bond pit, is calculated from yesterday's day session.

Pivot Point (PP) = (High + Low + Close) / 3.

An example, the September S & P 500 contract had the following numbers on August 10, 2006 -

High = 1277.00

Low = 1265.00

Close = 1275.50

The pivot point for tomorrow would be

$$PP = (1277.00 + 1265.00 + 1275.5) / 3 = 1272.50$$

So today, if prices are above this level, prices are bullish. If price is below this level, the market is bearish.

This is a good start. But simplistic. Floor traders also use resistance and support points. Resistance is above the market where prices should stall. Or, if broken, prices should continue up. Support points are below the market where prices should hold. Or, if broken, prices should fall farther.

The inner or closer support and resistance levels are called "S1" and "R1" respectively. They are calculated as follows -

$$S1 = (PP * 2) - \text{High of yesterday}$$

$$R1 = (PP * 2) - \text{Low of yesterday.}$$

The outer support and resistance levels are called "S2" and "R2" respectively. They are calculated as follows -

$$S2 = PP - (R1 - S1)$$

$$R2 = PP + (R1 - S1)$$

From the example above using data from August 10th day session,

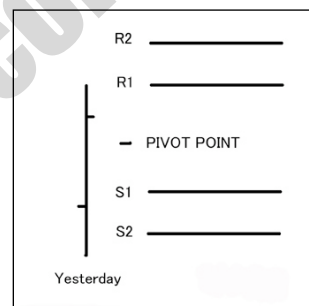
$$R2 = 1284.50$$

$$R1 = 1280.00$$

$$S1 = 1268.00$$

$$S2 = 1260.50$$

These levels should mark inner and outer levels of key support and resistance.



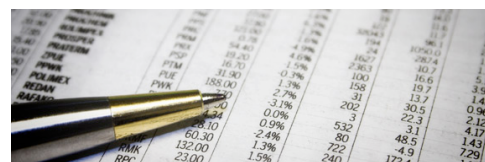
The first time a pivot point or support / resistance level is broken is the most important. It can set the tone of the upcoming action. A wide-range break above or below PP, S1, S2, R1 or R2 signifies a more likely continuation of the breaking action. Further, these levels can lose their significance the more times they are crossed during the day.

These levels can easily be calculated with an excel spreadsheet. If you mark each of these levels on your intraday chart, I think they will give you guidance in your trading.

Let's take a look at two recent examples.

In chart 1 above, we see a big gap down open.

The first 10 minute bar forms a bullish tail



right at the S2 level. This is followed by a wide range up bar. In this case, S2 provided



Chart 1. SPU, 10 Minute Bars

support and is sending the market up. A quick scalp from the long side could be entered at the close of the second bar. The price objective would be the S1 level at the minimum. A move to the pivot point would be the second objective.

At 1:00, we see a wide range break above the pivot point. Price closes above the pivot. This is strength and should be bought. The first objective is a move to R1

Note the bearish tails on the candlestick charts forming at the R1 level. These tails by themselves might not mean anything. Since they are forming right at the R1 resistance level. It is a red flag. You should liquidate your long positions. Or, at the very least, pull you stops in tight.

In chart two, we see the R2 resistance level turning the SPU contract down. After a strong gap open and some follow through up, SPUs turn down hard on a wide range down bar. This could warrant a short sell. But, the price is right at the R1 level.



Chart 2. SPU, 10 Minute Bars



Price “churns” around this level for an hour and a half. At 11:50, price finally breaks down. This is the sell signal. The objective for this trade is a move down to the pivot point at 1283.

Price eventually makes it down to the S1 support level where it stalls and turns back up. Note the initial resistance provided by the Pivot point level.

Since these numbers are calculated from the previous day’s data, the pivot point will seldom be exactly at today’s open. So, one basic system would be to buy at the pivot point if the open of the day is BELOW the pivot point. You would then



have a first objective point of R1. A secondary objective would be R2.

A quick internet search revealed two “systems” based on the pivot point levels.

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First - If today opened above the pivot point, sell short a break below the pivot point. The results of this simplistic

Both of these are daytrade systems coming out on the close with NO stop losses. Not bad results. My brand

All figures shown after deducting 100\$ for Commissions & Slippage. SP Test 9.92 years. All results are Hypothetical.

Total Net P/L	123650\$
%Winning Months	54%
Max DrawDn ClsTrd	80050\$
Average Trade	78\$
Average Win	1859\$
Average Loss	-1715\$
Long Net P/L	27650\$
Short Net P/L	96000\$
# of Trades	1587
Percent Winners	50.2%
Most Cons. Losses	8
%Time in the Market	50%


All figures are shown after deducting 100\$ for Commissions and Slippage. Test 9.92 years or 2498 trading days. All results are Hypothetical.

Total Net P/L	109713\$
%Winning Months	53%
Max DrawDn ClsTrd	60050\$
Average Trade	60\$
Average Win	1731\$
Average Loss	-1595\$
Long Net P/L	55338\$
Short Net P/L	54375\$
# of Trades	1837
Percent Winners	49.8%
Most Cons. Losses	12
%Time in the Market	47%

system on the S&P500 contract are as follows. Do the opposite for buys.

new "Gadget" is shown in the box below. I think it has AMAZING results. Put a stop loss on this method and I think you may have an FANTASTIC system.

Another simple system found on the internet is to buy a break above R1 and sell short a break below S1. The results of this simplistic system are as follows.



**The "Trend-Pop" Gadget.**

A little research and testing revealed a unique method to trade the pivot point and the R - S levels. *Stafford Trading* is selling this as a "Gadget" for \$195. A Gadget is not a system. A gadget is a tool to use in your trading. This S&P gadget is for daytrading and does NOT include a stop. Future Gadgets will cover stop losses.

Call *Stafford Trading* at 404-812-5360 to order the Tradestation code for this NEW **GADGET**.

**All figures shown after deducting 100\$ for Commissions and Slippage. Test 9.92 years.**

Total Net P/L	220,550\$
Avg. Net/Year	22,240\$
%Winning Months	66%
Max DrawDn w/OTE	33,175\$
Average Trade	360\$
Average Win	1962\$
Average Loss	-1689\$
Long Net P/L	71,313\$
Short Net P/L	149,238\$
# of Trades	613
# of Winning Trade	344
Percent Winners	56.1%
# of Losing Trades	269
%Time in the Market	19%

All results are hypothetical. Please see disclaimer. Past performance is not necessarily indicative of future results.

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