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The Candlestick Squeeze Trading System

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Lets get started...

Hello and welcome to the candlestick squeeze. This system is very simple and straight forward, and because I'm not trying to fill pages with text, you are going to get to the meat of this system starting now.

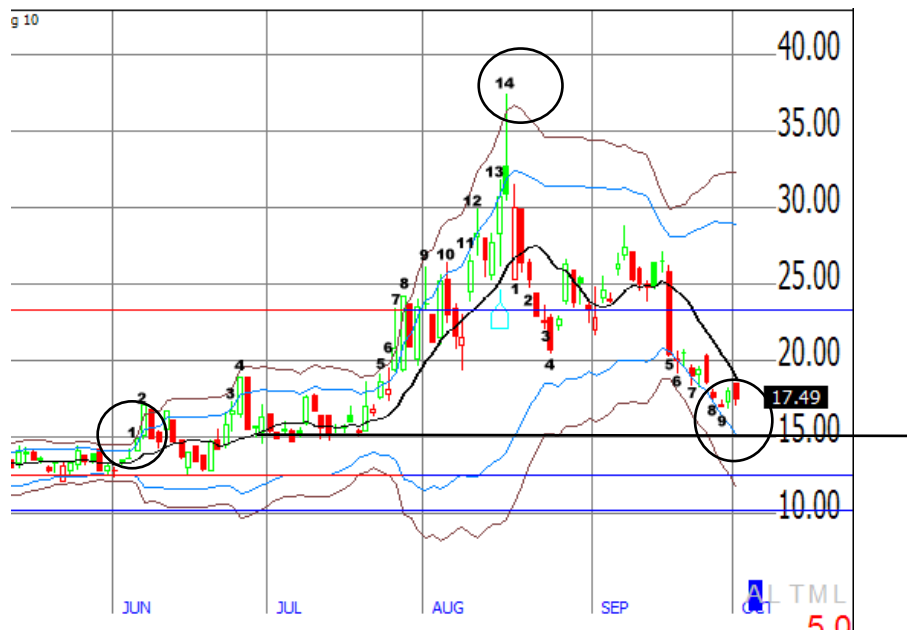
Here's how were going to implement this system:

1.) We are going to look at a couple of market indicators and get a sense of trend direction.

VIX
DOW 30

Here's a shot of the VIX. When the VIX is falling the markets are rising. When the VIX is rising the markets are falling.

An ideal bullish entry was mid August where the VIX made a 14 day high. A 12-15 day high tells us that the VIX is about to reverse, and when the VIX is falling we want to be long.



Ideally you will count your new highs and lows constantly to determine the direction that the VIX is overextended in. For example if we were to begin a count to the downside after the high in the middle of august we would reach a new 9 day low. This tells us that there's no major turning point here, but there is room for the VIX to keep falling. It appears there is some support at 15.00, so for now we can assume that the VIX is falling so we are bullish.

We will continue on the next page but I want to give you a clue here. I have just laid out a very effective system on this page alone if you read between the lines. It's a system that I use at market turning points and I find them at 12-15 day highs or low on the VIX...

On the 16th we get our a 14 day high but we don't get a buy signal until 2 days later when the close is < the open.

Once this happens we can start planning our long positions.



Here's a bigger shot of the VIX for you blind folks, if you can't see this you probably shouldn't be trading. Just kidding. I want to be a bit analytical here. Ideally we are waiting on the overextended VIX to the downside. We would like to see a 12-15 day low. This would tell us that the VIX is likely due for a short term reversal to the upside and that we should be short the market.

You can wait for these overextended zones and do rather well especially if you really anti up once the move starts. On 8/16/07 when the VIX made the 14 day high I went long on the SPY



Very nice kicker signal on 8/16 allowed for bullish entry as soon as the VIX turned over.



The OEX didn't throw off the best signal on the 16th so we waited until the next day which is when the VIX reversed and found a nice entry about 1 hour after the open.

Buys

1. The VIX is making 12-15 day high's
2. Today the VIX closed less than the open
3. After 1 and 2 are met, scan using Bollinger bands the S&P 500, 100 etc..
4. Identify high probability candlestick patterns in over extended zones.

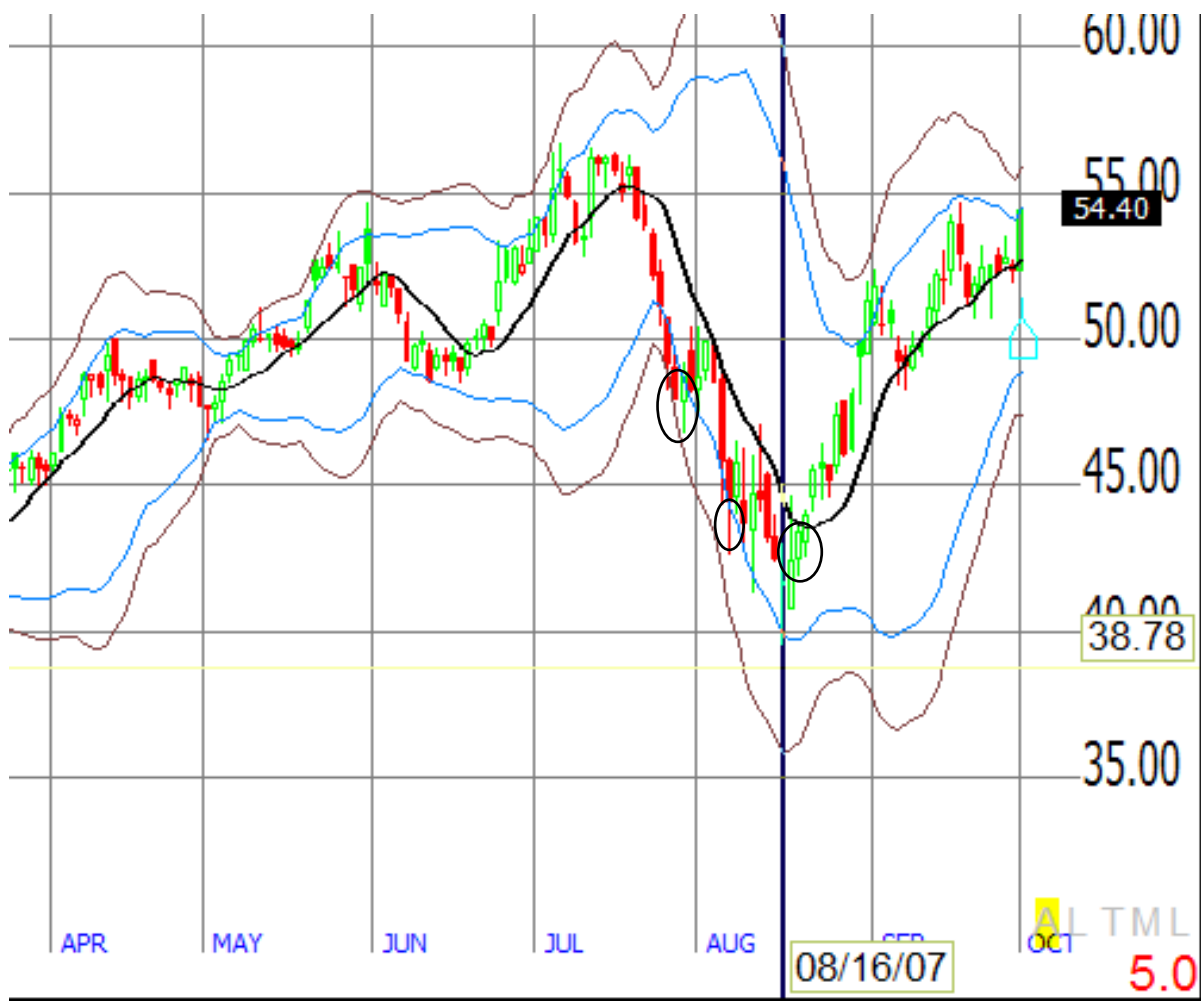
Sells

1. Today the VIX is making 12-15 day lows
2. Today the VIX closed higher than the open
3. After 1 and 2 are met scan using Bollinger bands the S&P 500,100 etc..
4. Identify high probability candlestick patterns in overextended zones.



You can see that the 16th indicates the 14 days high on the VIX. 2 days later we received the buy signal from the VIX, and after doing our scans with Bollinger bands we came across IBM with basically a morning star doji,

We entered the day after the morning star doji about 1 hour after the open



On the day of the 14 day high we have a doji which you might not be able to see. Two days later we got the signal. We took entry here because the doji and the next day provided a bullish engulfing pattern.

Additionally this is also a set-up we call RTT, meaning 'return to trend' using the Bollinger band indicator. You can't see the whole chart, but since Aug. 06 this stock (TIF) has had a nice bull run. The actual RTT high set-up came when price pulled back to just between the 2 lower bands, but was not confirmed with the VIX until 8/16.

There are 3 circles on price. The first two are a RTT High set-up, but only after watching the VIX closely do we enter after we receive both a signal and a trigger. The third circle is where we received the trigger to enter.



As you can see, if you apply the steps and then use some common steps you can select perfect entries. A tip on your exit is to look for a 3-5 days run. Keep your eyes on the VIX when it begins to retrace after entry start taking profits.

Look for your candlestick pattern set-up within the signal and trigger time-frame. You may not always find your favorite signal, but make sure you understand price action because that is essentially what candlestick patterns are all about.

Look at the long tail on the hanging man within the circle. That candlestick is telling you that the bears tried hard to close down low, but before the bell the bulls drove price way back up to darn close to the open price. This is very bullish



Go take a look at the VIX on a weekly chart and you can get confirmation on your stance. This clearly has more room to fall so we should be bullish on the market.

I used those last two examples to demonstrate the validity and accuracy of using the VIX to identify short term market tops and bottoms. Lets continue.

The next thing I do is scan through the DOW 30 and just look at the stocks. I'm looking for gainers vs losers.

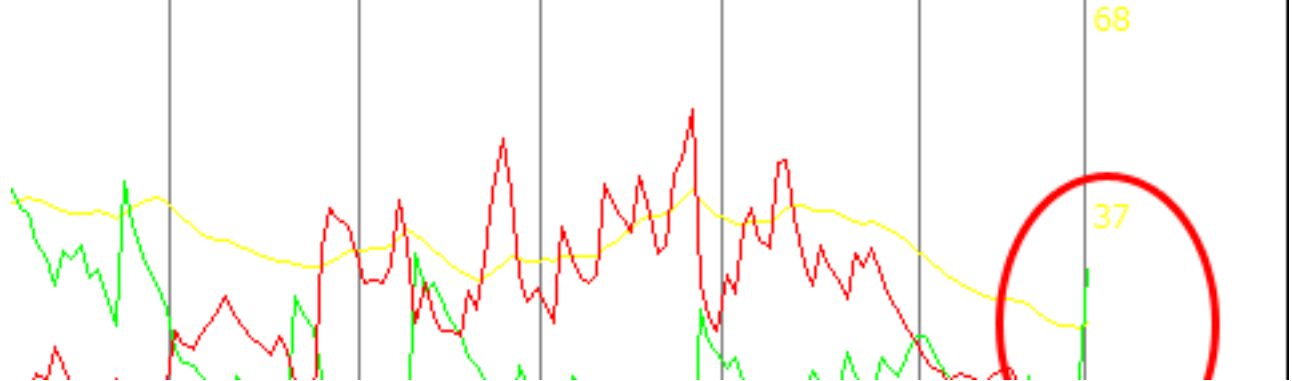
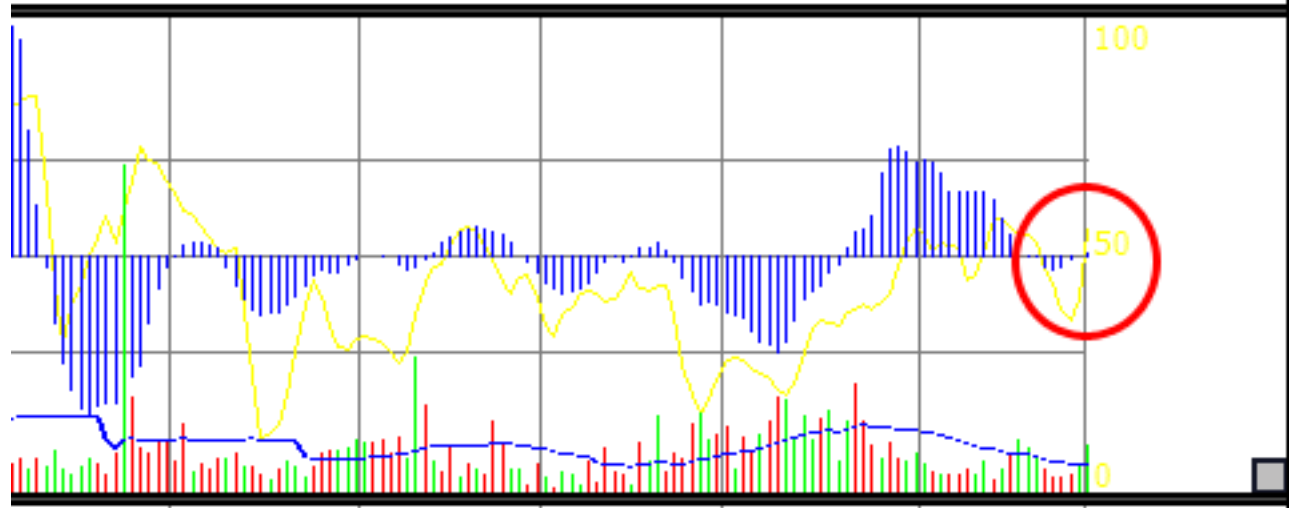
Today 10/1/07 a look at every stock in the DOW 30 shows 26 gainers -vs- 4 losers. So were definitely bullish.

Additionally the VIX is making lower lows/

I don't want to get to complicated here because I might lose some of you and I want to avoid that. I will often go from here to an average true range scan and find only those stocks that move by .75 cents to 1.00 a day. This way we don't get stuck in positions that are stagnant.

Feel free to add this to your to-do list, but for now we will just go to Bollinger bands to refine our search. Bollinger bands is a means of measuring volatility and overextended zones of price action.

A quick scan of the S&P 500 produces the following result. (Next page.)



The first stock on the list is ACS. Looking at the last 3 candlesticks we have a kicker signal that turned into a bullish engulfing pattern. Then today we get a Bullish engulfing pattern with confirmation.

Pretty nice. Because the VIX is at a 9 day low, we know this trade is very short term. If your going to buy the stock, you can do so the next day, provided:

The open tomorrow needs to be greater than today's open for entry. AND RSI is above 50 and falling. (Covered later.)

(We will recap all the rules at the end.)



A bigger picture of ACS shows us that if this thing is going to move up it has plenty of room to do so. We still need to heed the word of the VIX when making our trading decisions, as such we would pass on this for now.



This is number 2 on the list. Very unusual to find ideal candidates in the top of the list. Notice both stocks have “squeezing” Bollinger bands. They are not only squeezing, but the upper band is pointed up, and the lower band is pointed down. This is a sign of expanding volatility. Additionally we are coming out of a period of consolidation and a break-out seems imminent.

We could take the time to scan for our high probability candlestick patterns, but since we have a squeeze criteria in the mix, I choose to scan with Bollinger bands first, and then look for my strongest patterns. Again nice potential set-up, but the VIX still won't allow entry just yet.

This strategy involves two types of entries, and you should consider varying rules depending upon which set-up you take.

When the VIX has made a 12-15 day high or low I tend to diligently go through 1000 stocks + looking for my positions. (Selecting maybe 10 or 12) I tend to hold the positions longer because I'm expecting a larger move. I also tend to sit tight during the retracements or pullbacks because I anticipate them, and I'm prepared to tolerate them.

The rest of the potential entries for this system involve the ride down or up on the VIX. Let me explain. On 8/16 we made a 14 day high, and 2 days later we got our trigger. (The close < the open.)

We then made entry on many stocks, watched our positions, and if everything went right we closed out all of them for a profit. That's would be a perfect scenario.

Next the VIX is now lets say making a new 5 day low. This isn't necessarily overextended but its still moving down.

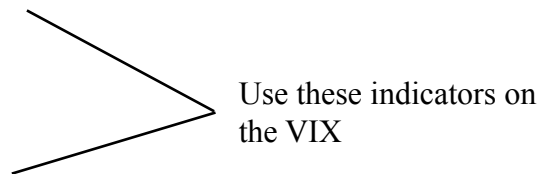
We can STILL ENTER long positions, if we follow these rules, bearing in mind that as we near a new 12-15 day low or high a reversal is likely and we should be flat and ready for the reversal. (Flat = cashed out.)

Trading to the over-extended zone **BUYS**

- 1.) RSI is above 50 and falling (prd. 14 Avg. 3)
- 2.) Bearish Stochastics
- 3.) Its not Friday

Trading to the overextended zone **SELLS**

- 1.) RSI is below 50 and rising (prd. 14 avg. 3)
- 2.) Bullish stochastics
- 3.) It's not Friday



REMEMBER - Were talking about the VIX here, use these indicators on the VIX to time your entries to the extended zone. If the VIX is bearish (falling.) the market is bullish.

Your success with this system will depend upon your getting to know the VIX intimately. If you think you already know the VIX intimately, then think again. I'm not talking about kissing once a week, I'm talking about ALL THE WAY! You should look at the VIX every night and write on it like you see here.

When it flips you should be immediately counting in the other direction if only in your head at first. What I mean buy that is - See my new low at the 9? In my mind I'm on #3 for new highs (The next 3 candlesticks.) Once I continue making new lows, I'll disregard those counts.



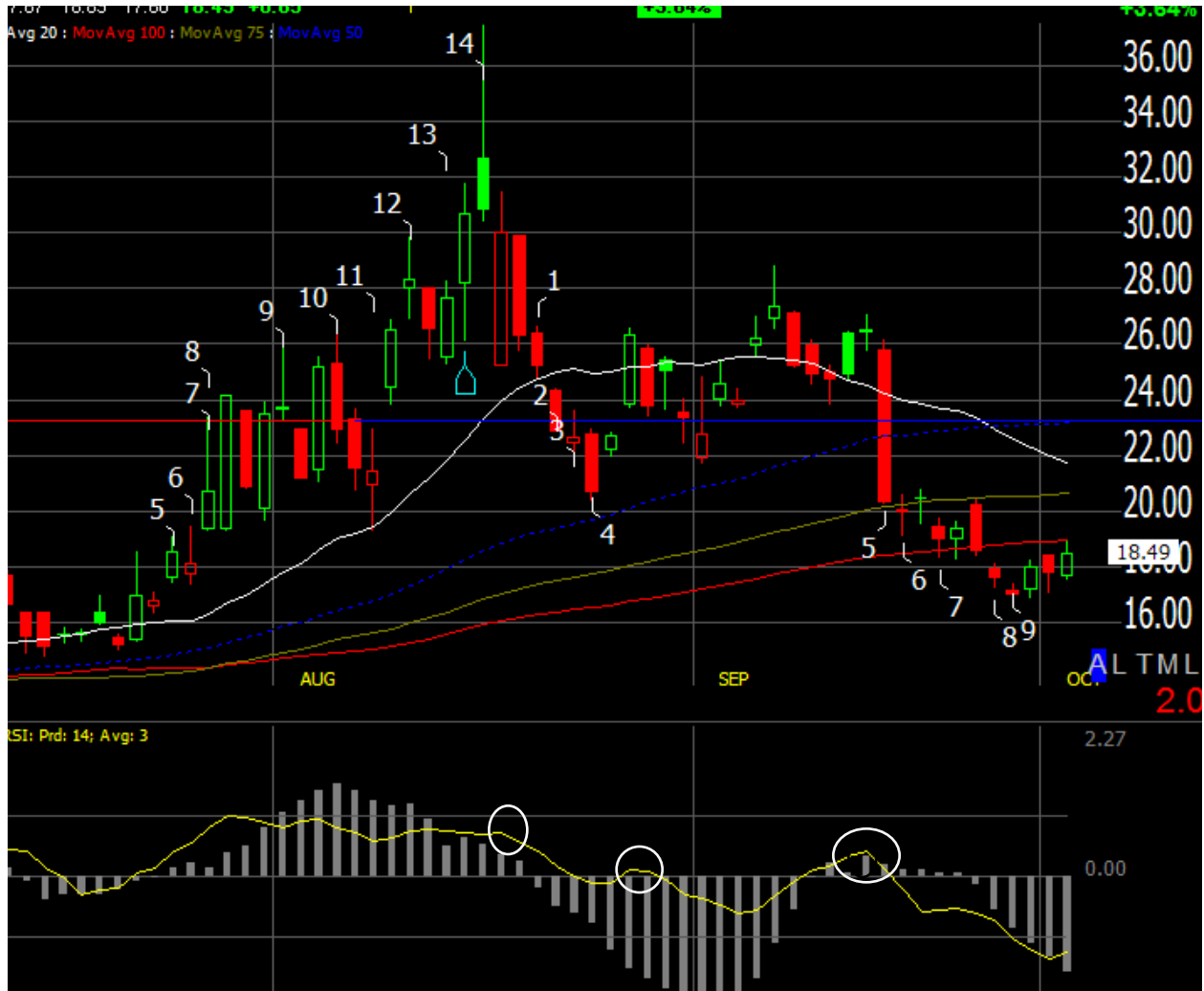
On the 14 day high on 8/16 we got our signal. Two days later we loaded up long following our buy rules. We managed those trades appropriately and independently.

Two days after the 4 count to the downside RSI was above 50 and falling. A time where we can enter long positions.

Then about a week later on the 5th count we got another opportunity to enter the market long.

Notice that on our 9 count RSI is way below 50 and rising so we cannot enter new long positions. In this example we have only 3 opportunities for new long positions.

On 8/17 after the 14 day high and the trigger, 2 days after the 4 count to the downside, and then lastly on the 5th count when RSI was over the 50 and falling again.



Scan Using Bollinger Bands

We should discuss how to do this. Its very simple and you will really dig it if you've never done it. Start by pulling up your list. In our case its the S&P's the 100, 500 or the OEX.

TeleChart Platinum - mhdeaton ... Updated through 6:43:19 PM ET - Str

File WatchList Chart Template Reports Tools Databank Help

New Jump Back Profile Clubs Alerts

Charts With Notes

All System Personal Scans Component Industry

Component WatchLists	Item Count
Dow Jones 15 Utility Component Stocks	15
Dow Jones 20 Transportation Component Stocks	20
Dow Jones 30 Industrial Component Stocks	30
Nasdaq 100 Component Stocks	100
Russell 1000 Component Stocks	1011
Russell 2000 Component Stocks	1938
Russell 3000 Component Stocks	2949
Standard and Poors 100 Component Stocks	100
Standard and Poors 400 MidCap Component Stocks	400
Standard and Poors 500 Component Stocks	500
Standard and Poors 600 SmallCap Component Stocks	600

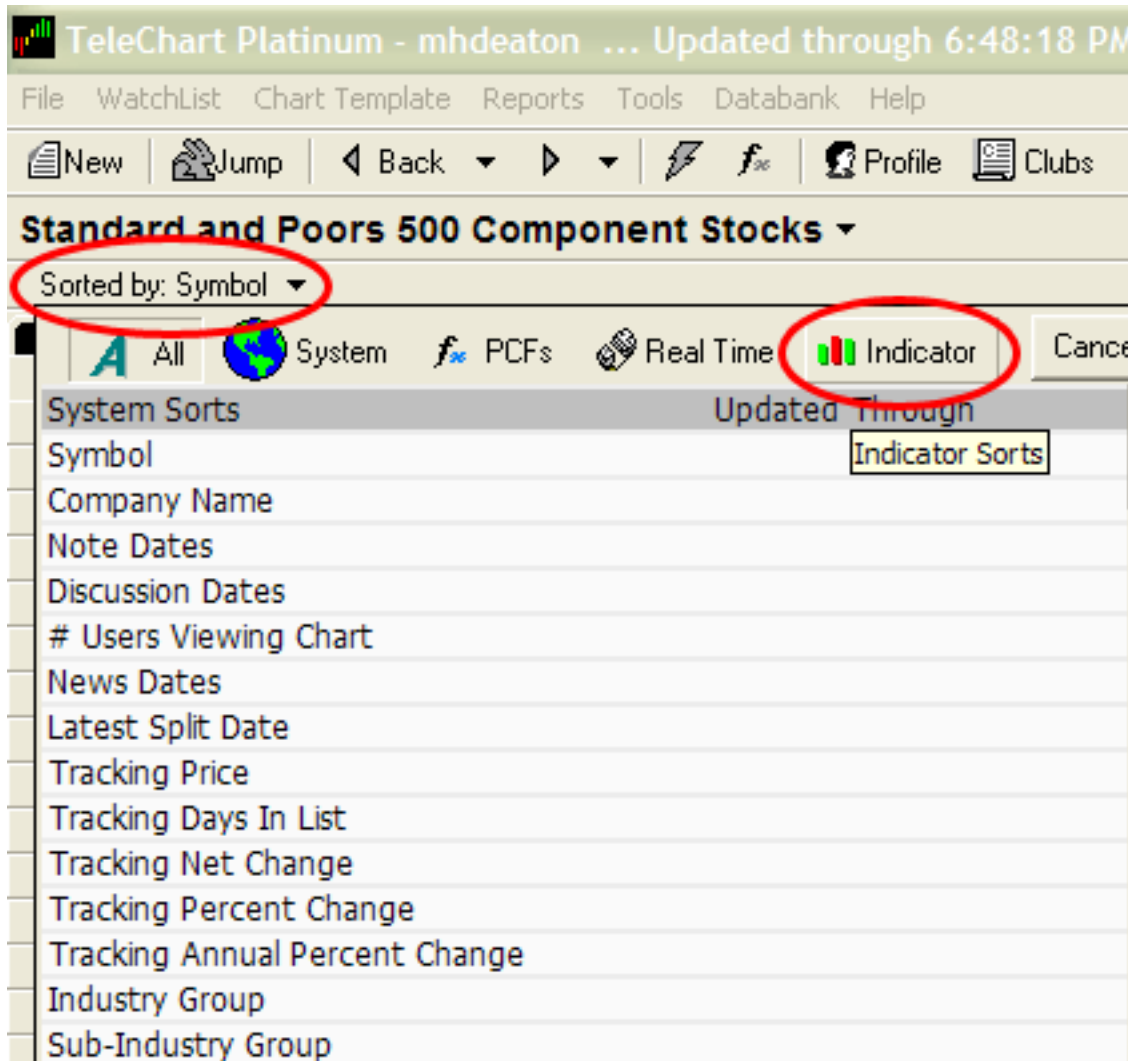
ETF Component WatchLists	Item Count
Advent Claymore Global Convertible Securities & Income Fund - AGC	0
Ameristock/Ryan 1 YR ETF - GKA	0
Ameristock/Ryan 1 YR ETF - GKA	0
Ameristock/Ryan 10 YR ETF - GKD	0
Ameristock/Ryan 10 YR ETF - GKD	0
Ameristock/Ryan 2 YR ETF - GKB	0

Select your watch-list box, select components then select the Standard and Poor's 500 component stocks.

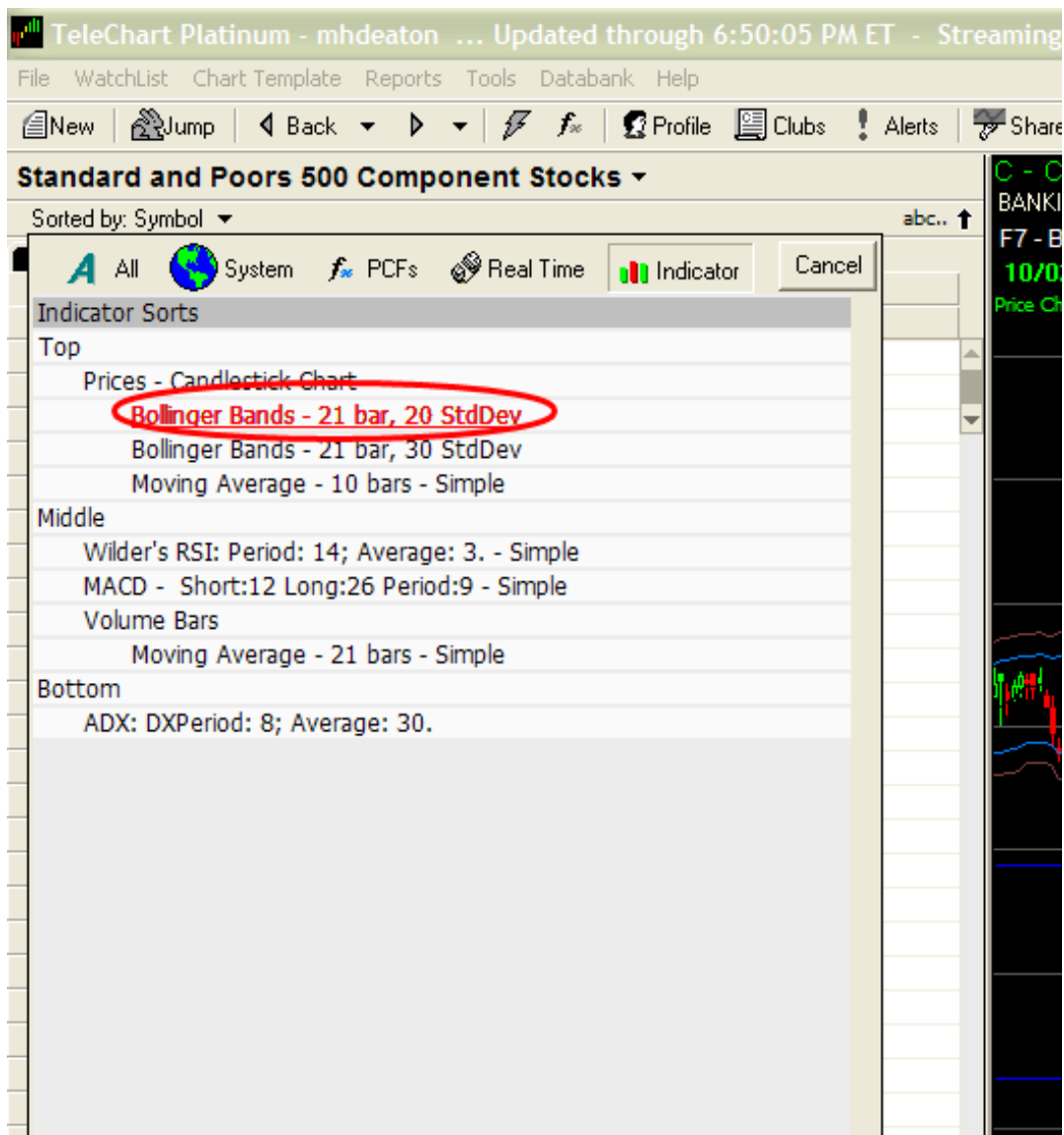
Now you're looking at the S&P 500 in alphabetical order. We could go through them one at a time but that really sucks after a while. So let's get some help from Bollinger bands.

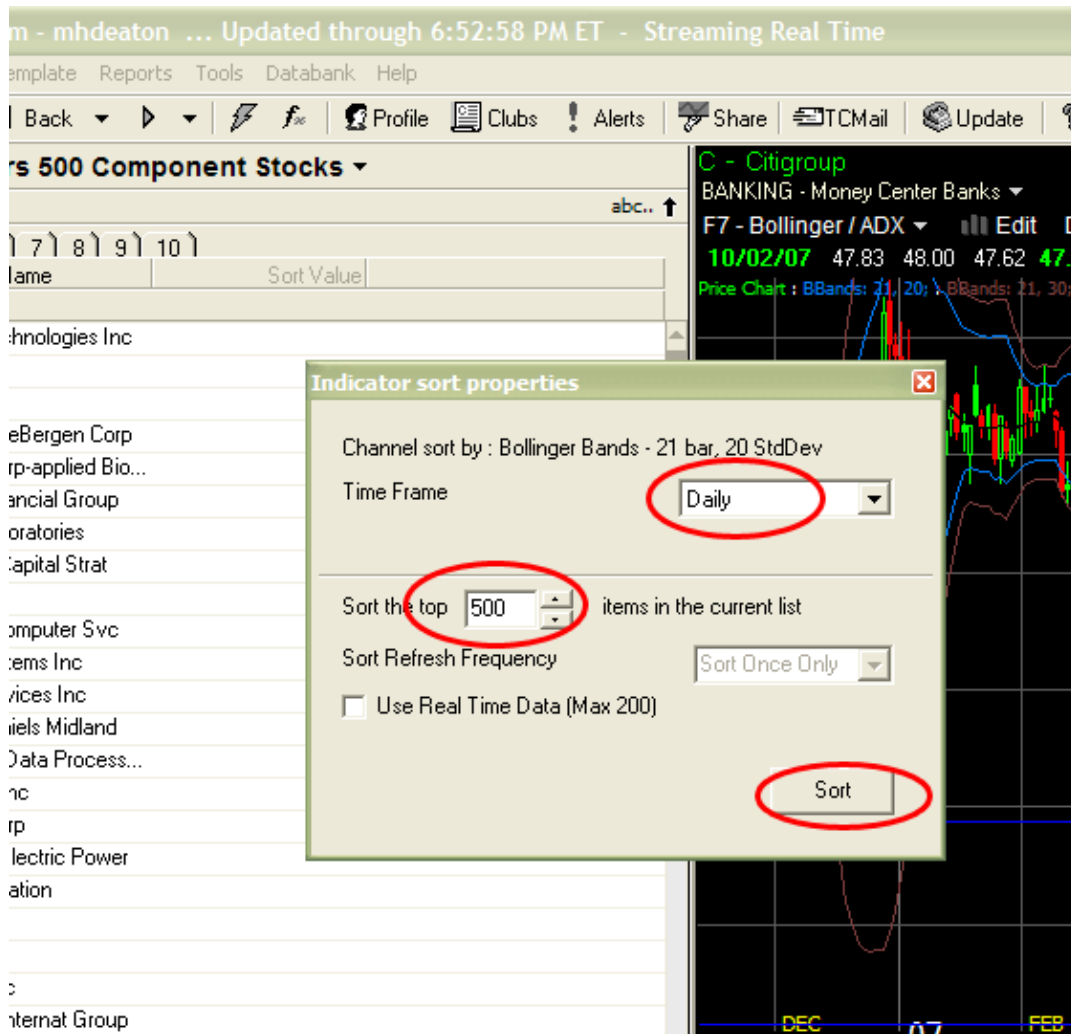


With a chart that has Bollinger bands on the chart select the “sorted by” option and then select “indicator.”



Now select Bollinger bands. I use my 21 bar 20 standard deviation bands but it really doesn't matter. Notice I have 2 sets of Bollinger bands, one on top of the other. You can do this if you like, I use different settings for each as indicated.





The next dialogue will show “daily” and “500” by default so just click sort.



Now are list is in order according to Bollinger bands. We want to look at the top and bottom of this list to identify our candidates.

I will usually go through the top 25-50 on both sides of the list. I use my spacebar on my keyboard to move fast and when it starts getting boring, I reverse the list and do it again.

Up at the top of the list there's a column that says "sort value", if you just click it, it will put the order in descending order as opposed to ascending, so you can look for the trades on the opposite end of the spectrum.



Our watch list in descending order.. Descending order will bring some bearish trades to the surface, but it's also brings some of the best bullish trades out. Remember you only really need to look at the first 25 or so in either direction. Unless your at the beginning of a 12-15 day reversal and you get the trigger, then you might have to look through 75-100 because there's a lot more potential candidates to choose from.

What we look for in descending order if were bearish is self evident, but if were bullish as you scan down the list you will come across what we call RTT High, or return to trend high. This is where price has pulled back to the lower bands and is now bullish. These are some of my most profitable set-ups when used in conjunction with the VIX as described.

VIX Signal Day



COP Signal Day RTT High



Use the candlestick patterns in the accompanying manual in your search parameters for your set-up. Remember the candlestick pattern may come trigger day, signal day, or shortly before. Just identify your pattern around your entry.

Also because your getting so intimate with the VIX you should prepared well in advance of trigger day with 10 or 20 stocks that are ripe for big profits. So be researching and doing your homework in advance of trigger day.

If you follow these rules you will do very well.

If you have any questions, I'm just an e-mail away.

mark@renegadetrader.com

Sincerely,

Mark Deaton