



Martin J. Pring
President of Pring.com

How to Manage Risk Using Technical Analysis

The first trading objective is to preserve capital

#1 Trading rule...

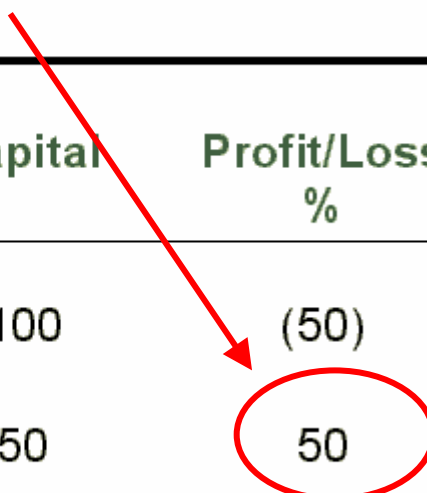
Cut losses quickly, let profits run.

First trade 50% loss!



	Capital	Profit/Loss %	Profit/Loss Amount	Ending
Trade 1	100	(50)	(50)	50
Trade 2				
Trade 3				
Trade 4				
Trade 5				

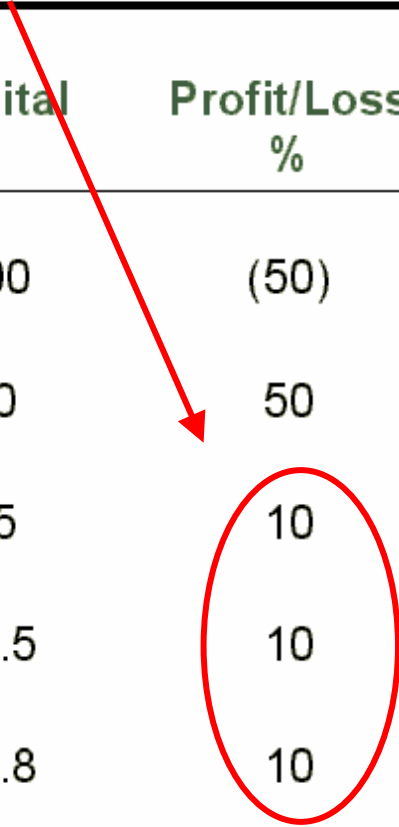
Next trade 50% gain



	Capital	Profit/Loss %	Profit/Loss Amount	Ending
Trade 1	100	(50)	(50)	50
Trade 2	50	50		
Trade 3				
Trade 4				
Trade 5				

Next 3 trades make 10% each

	Capital	Profit/Loss %	Profit/Loss Amount	Ending
Trade 1	100	(50)	(50)	50
Trade 2	50	50		
Trade 3	75	10		
Trade 4	82.5	10		
Trade 5	90.8	10		

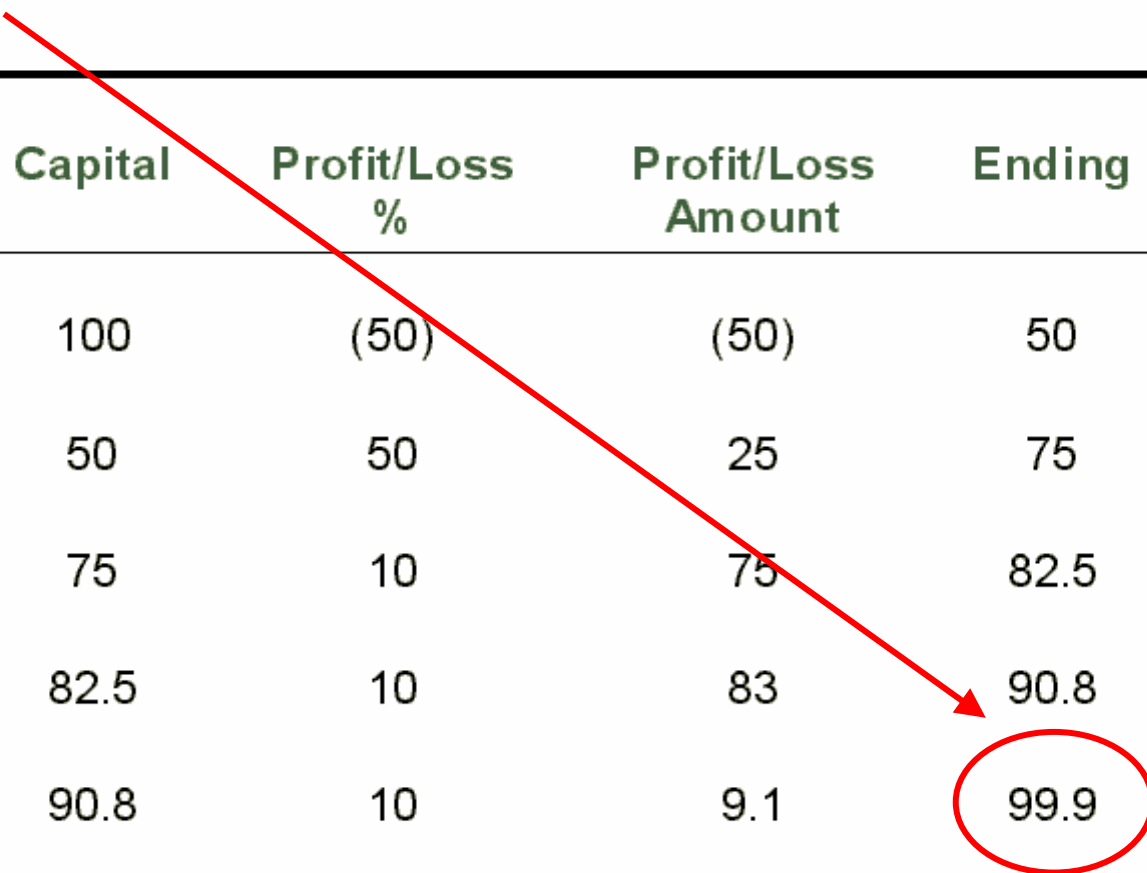


Next 4 trades make 80%

	Capital	Profit/Loss %	Profit/Loss Amount	Ending
Trade 1	100	(50)	(50)	50
Trade 2	50	50		
Trade 3	75	10		
Trade 4	82.5	10		
Trade 5	90.8	10		

Still not back to break even

	Capital	Profit/Loss %	Profit/Loss Amount	Ending
Trade 1	100	(50)	(50)	50
Trade 2	50	50	25	75
Trade 3	75	10	7.5	82.5
Trade 4	82.5	10	8.25	90.8
Trade 5	90.8	10	9.08	99.9



A key trading rule is **always** run scared.

The number one decision when entering a trade is to know where you are going to get out if the market goes against you .

*That means setting stops ahead of time and
changing them when appropriate.*

Best place to place stops is above resistance or below support....

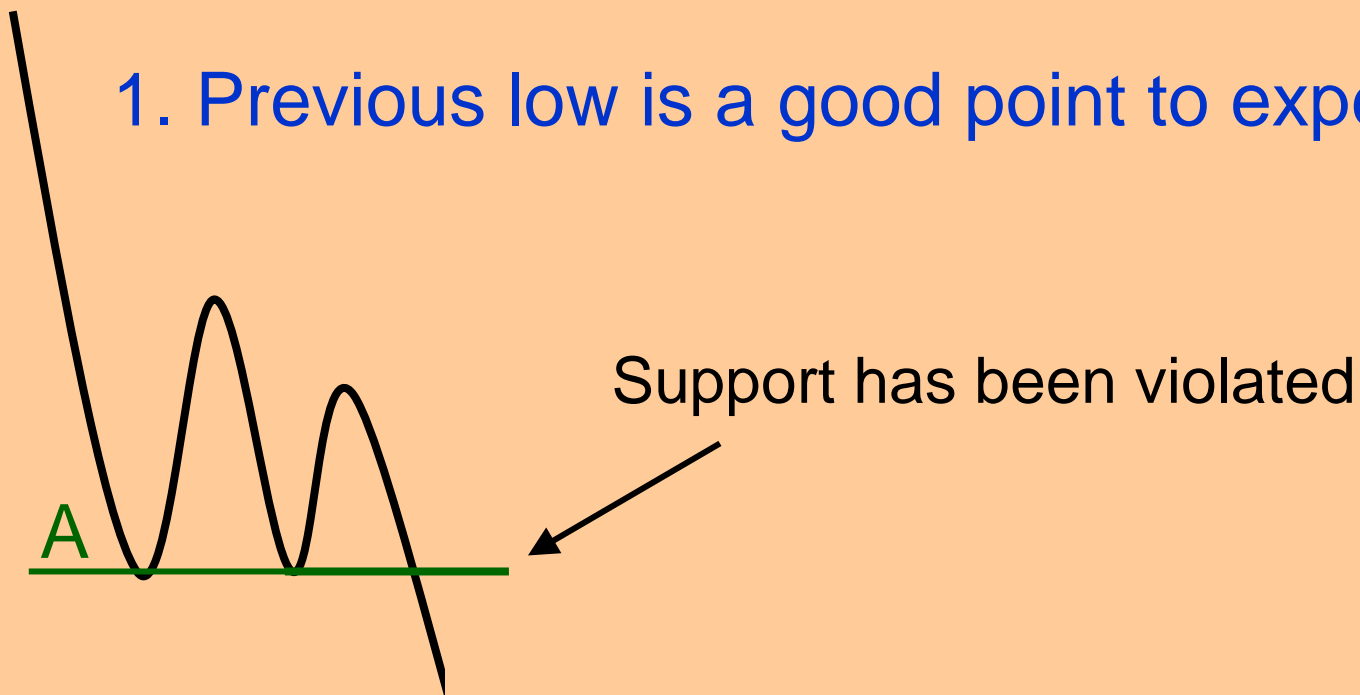
..so what are support and resistance?

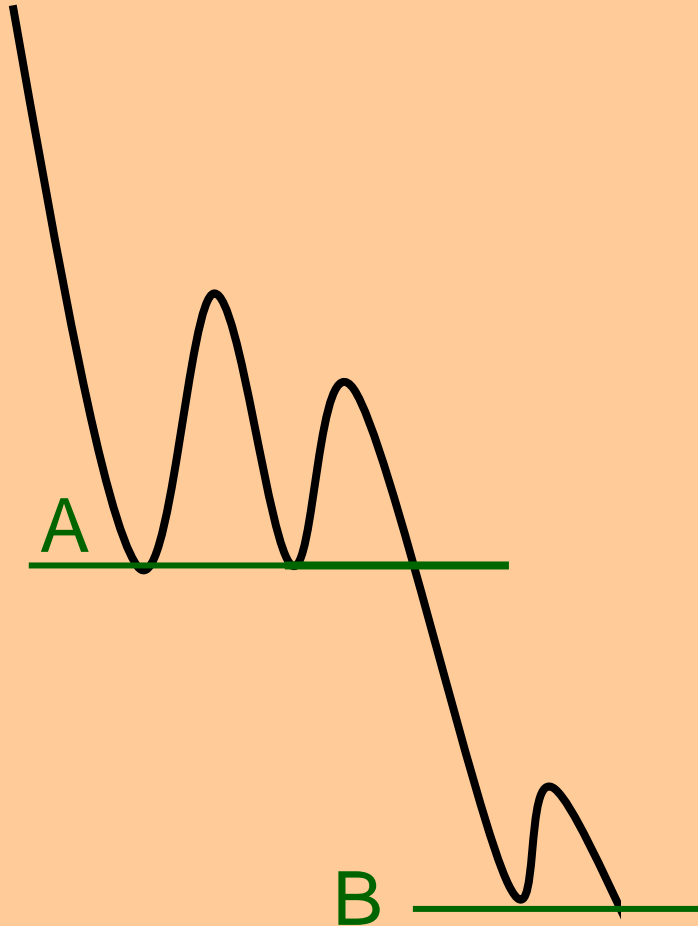
“Support” is where a declining trend can be expected to halt, temporarily, due to a concentration of demand.

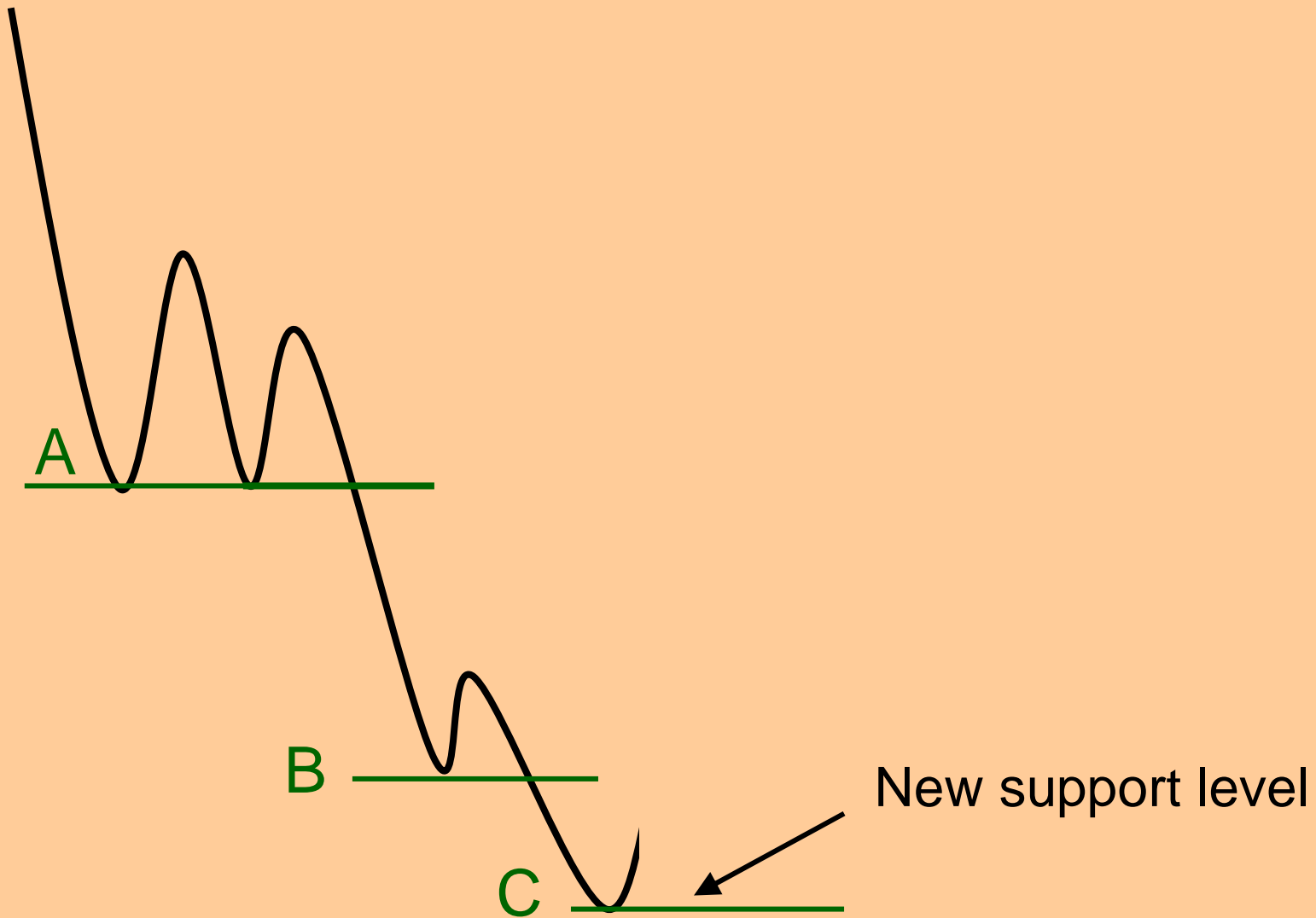
“Resistance” is where an advancing trend can be expected to halt, temporarily, due to a concentration of supply.

Support and resistance areas are **not** predictors
of where prices will reverse,
but merely indicate possible, or probable, points.

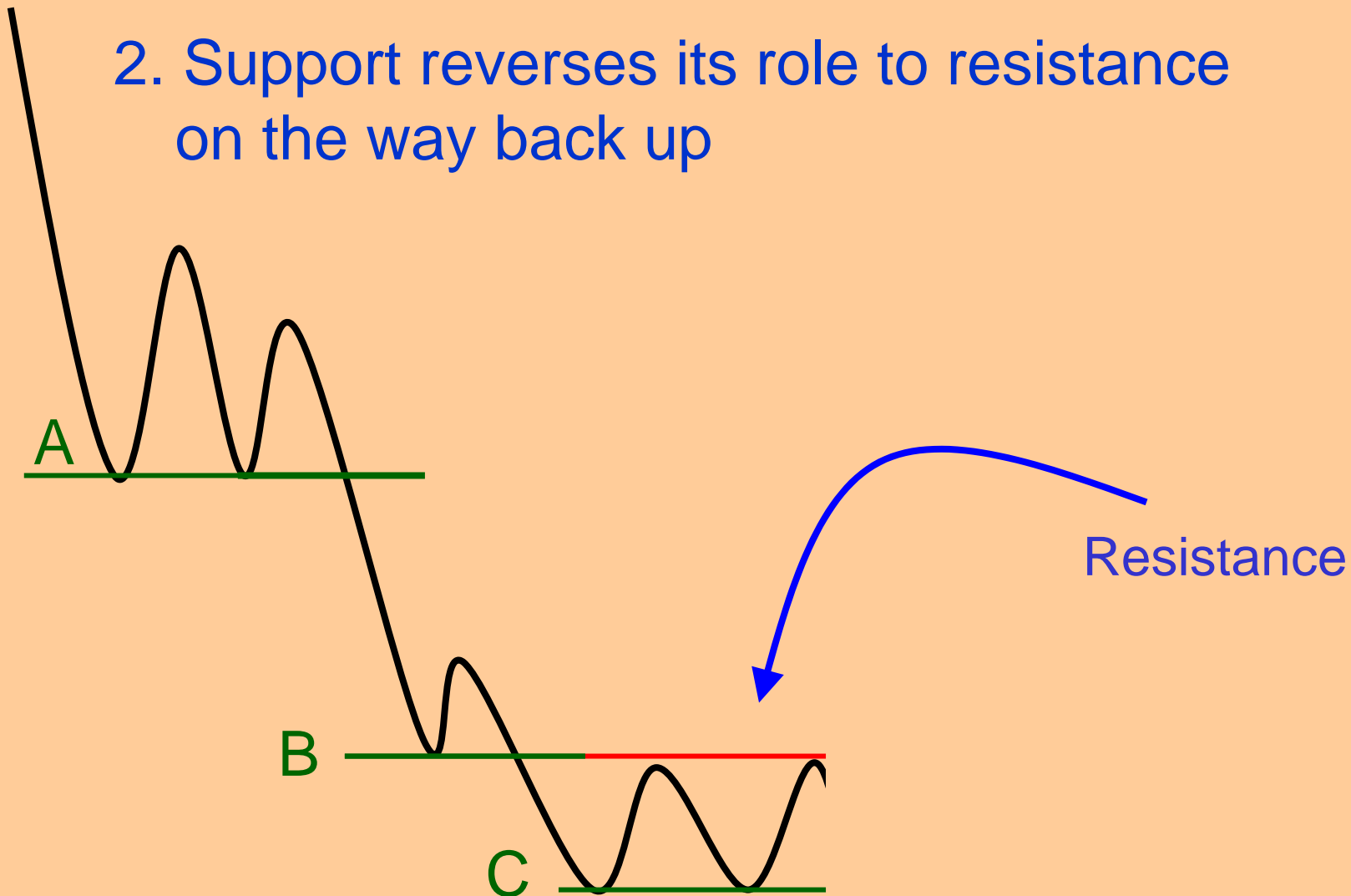
1. Previous low is a good point to expect support

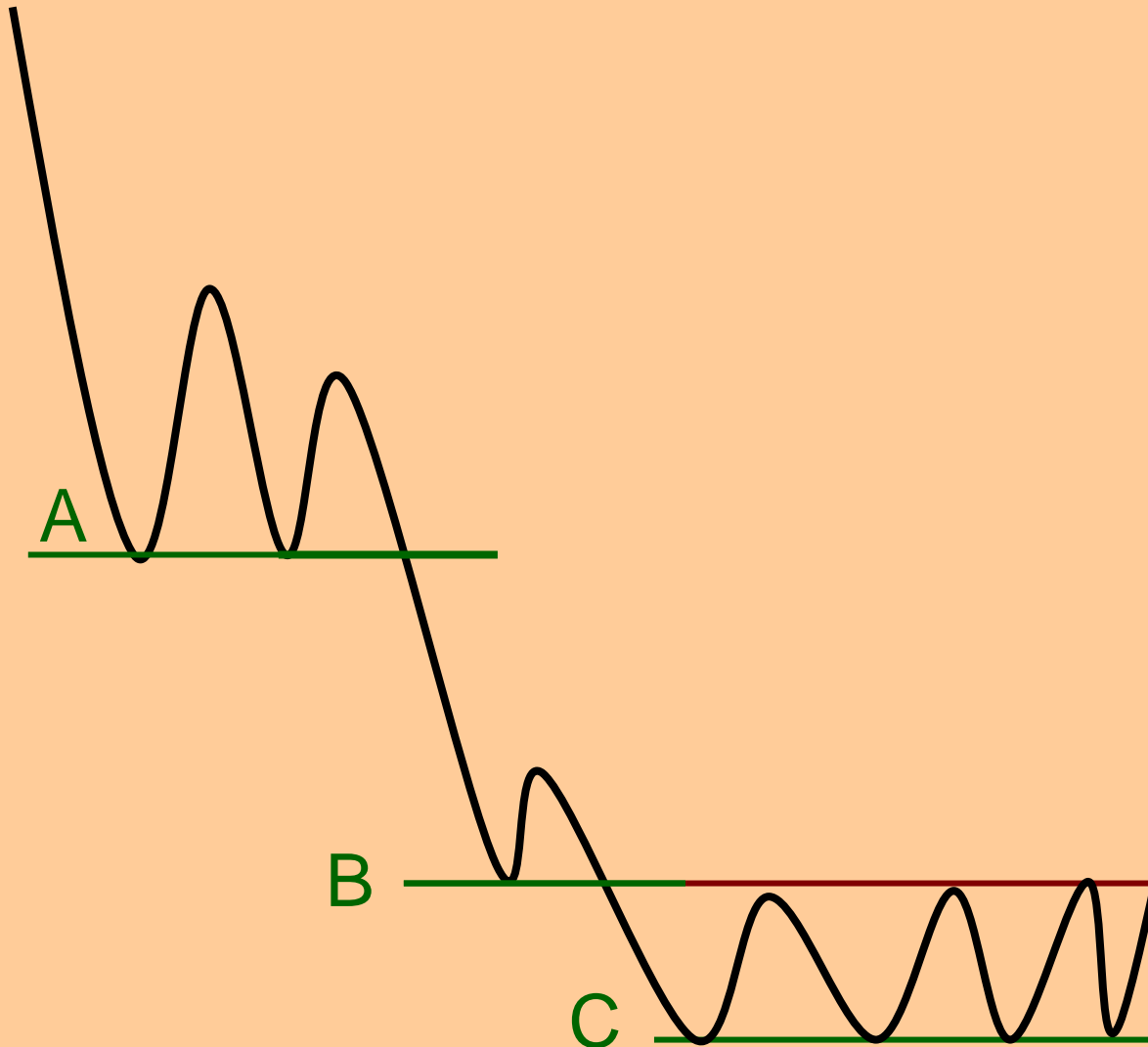


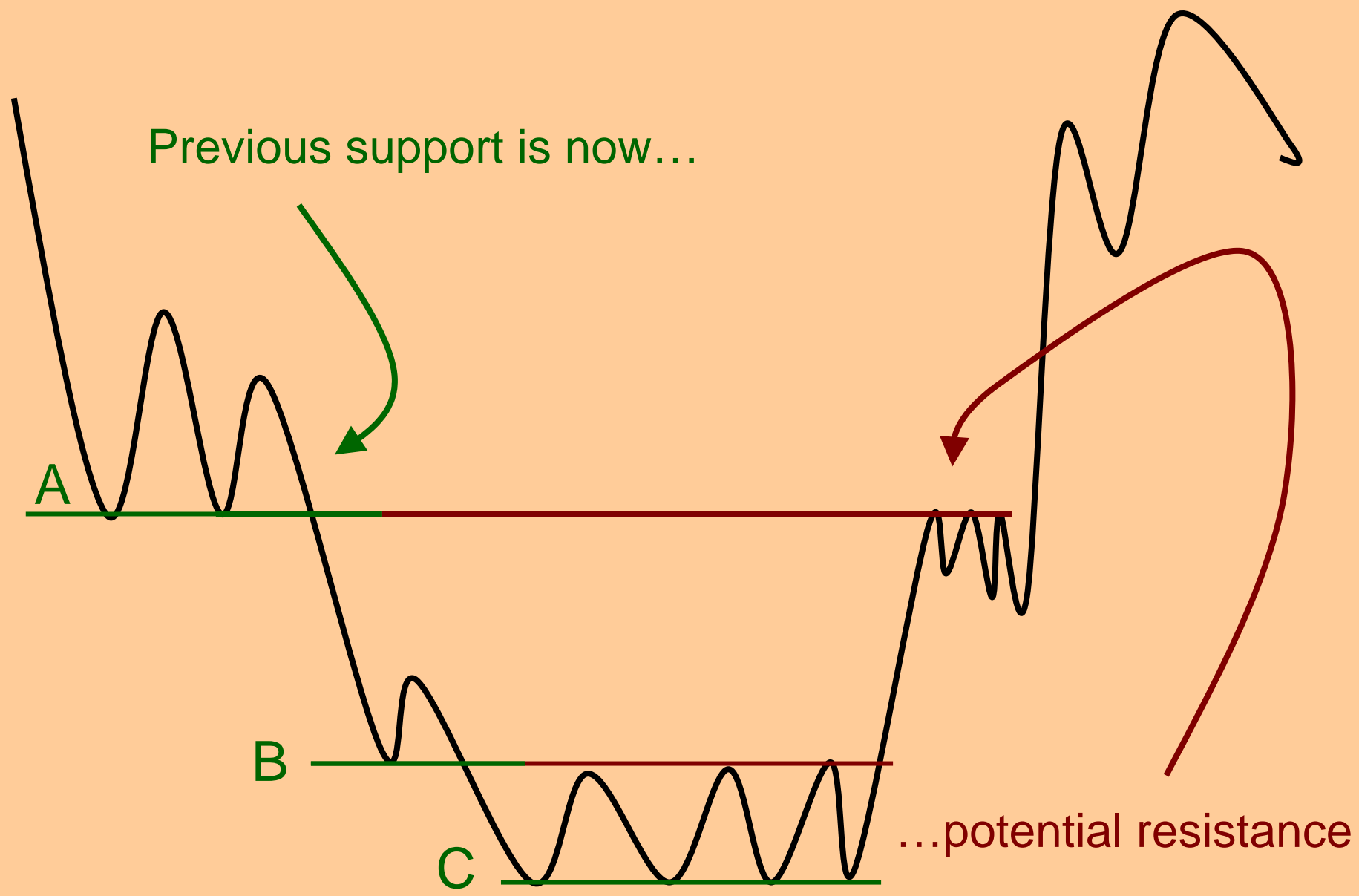




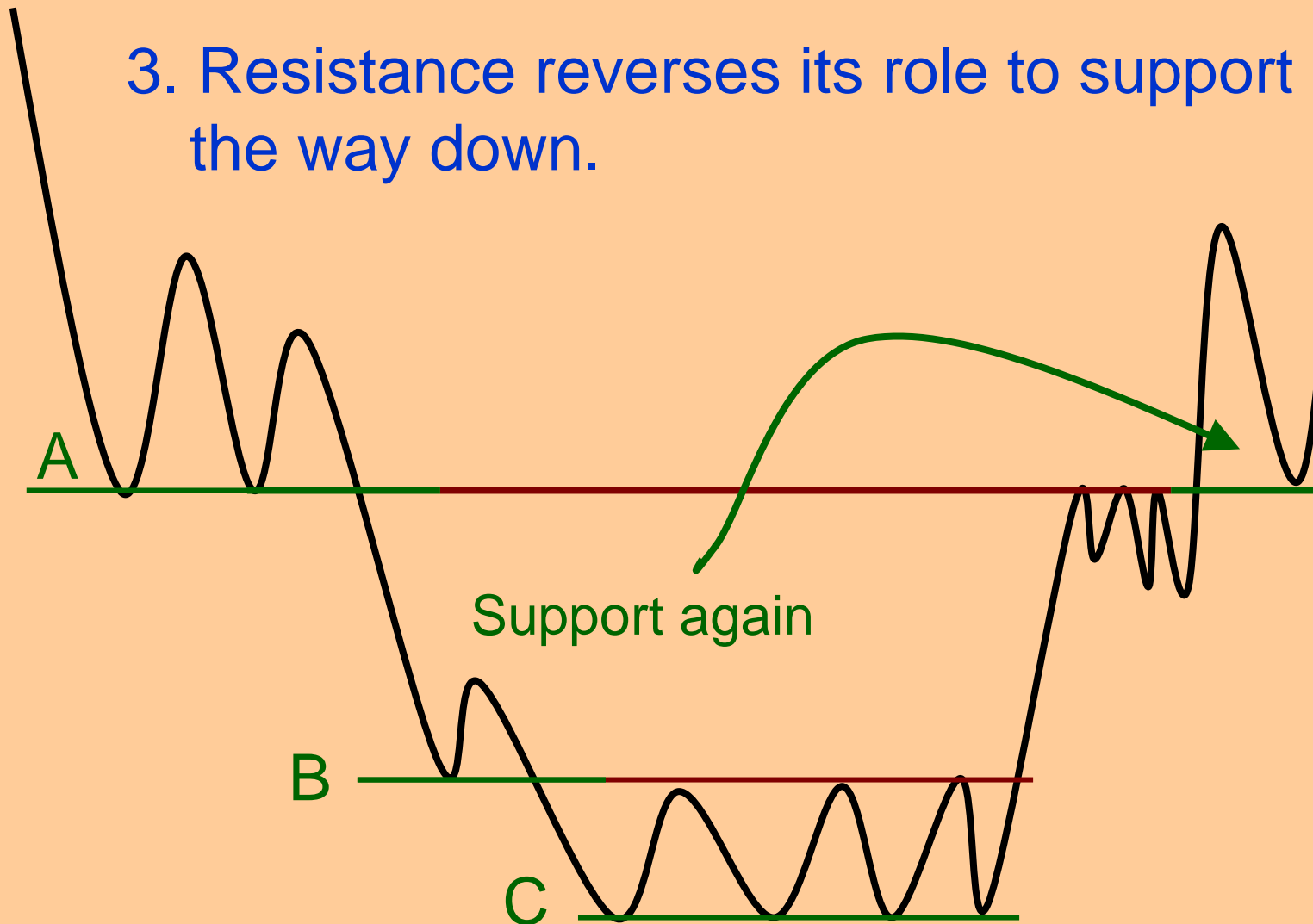
2. Support reverses its role to resistance on the way back up







3. Resistance reverses its role to support on the way down.



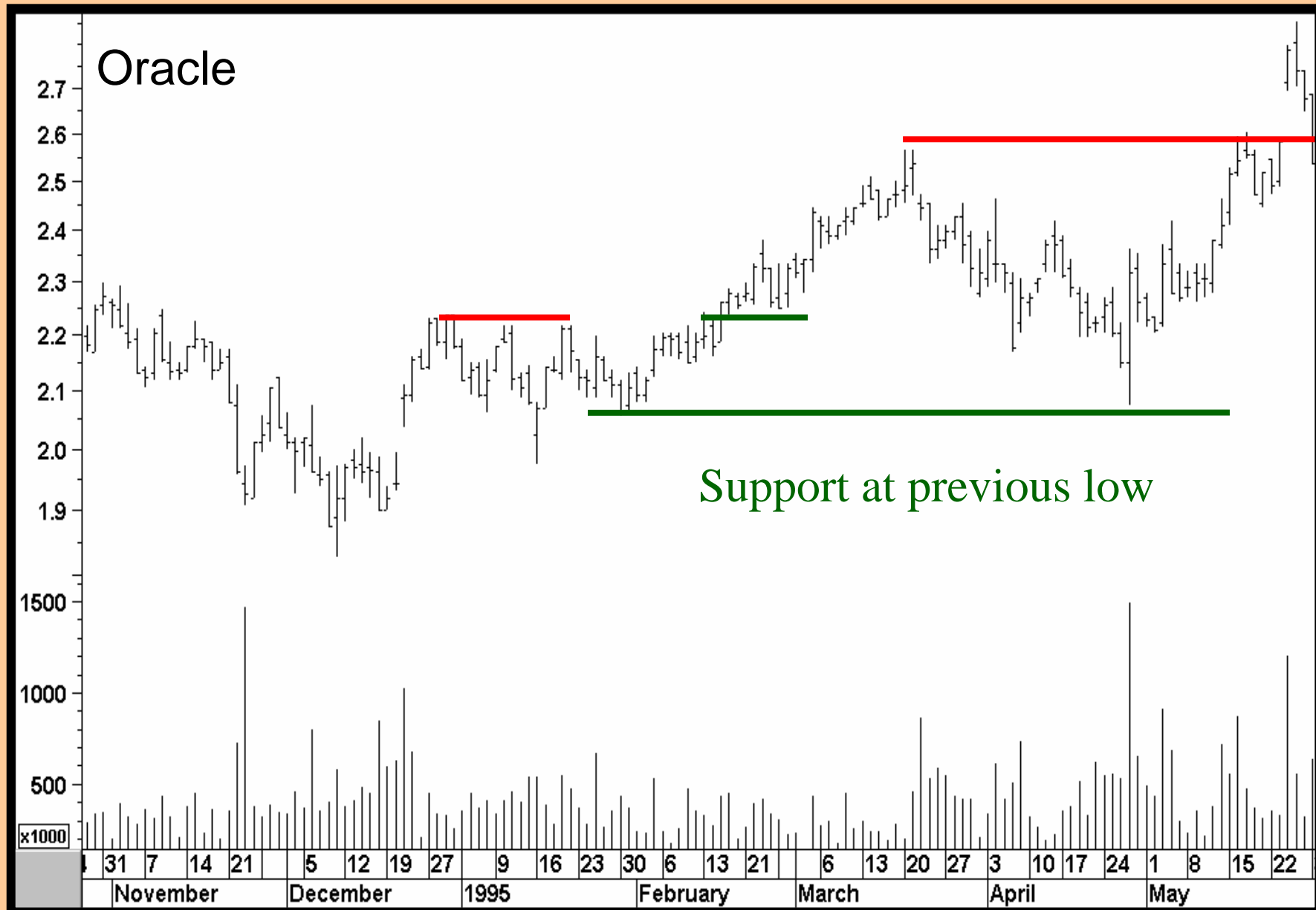
Rules for Determining Significance of Support/Resistance Zones:

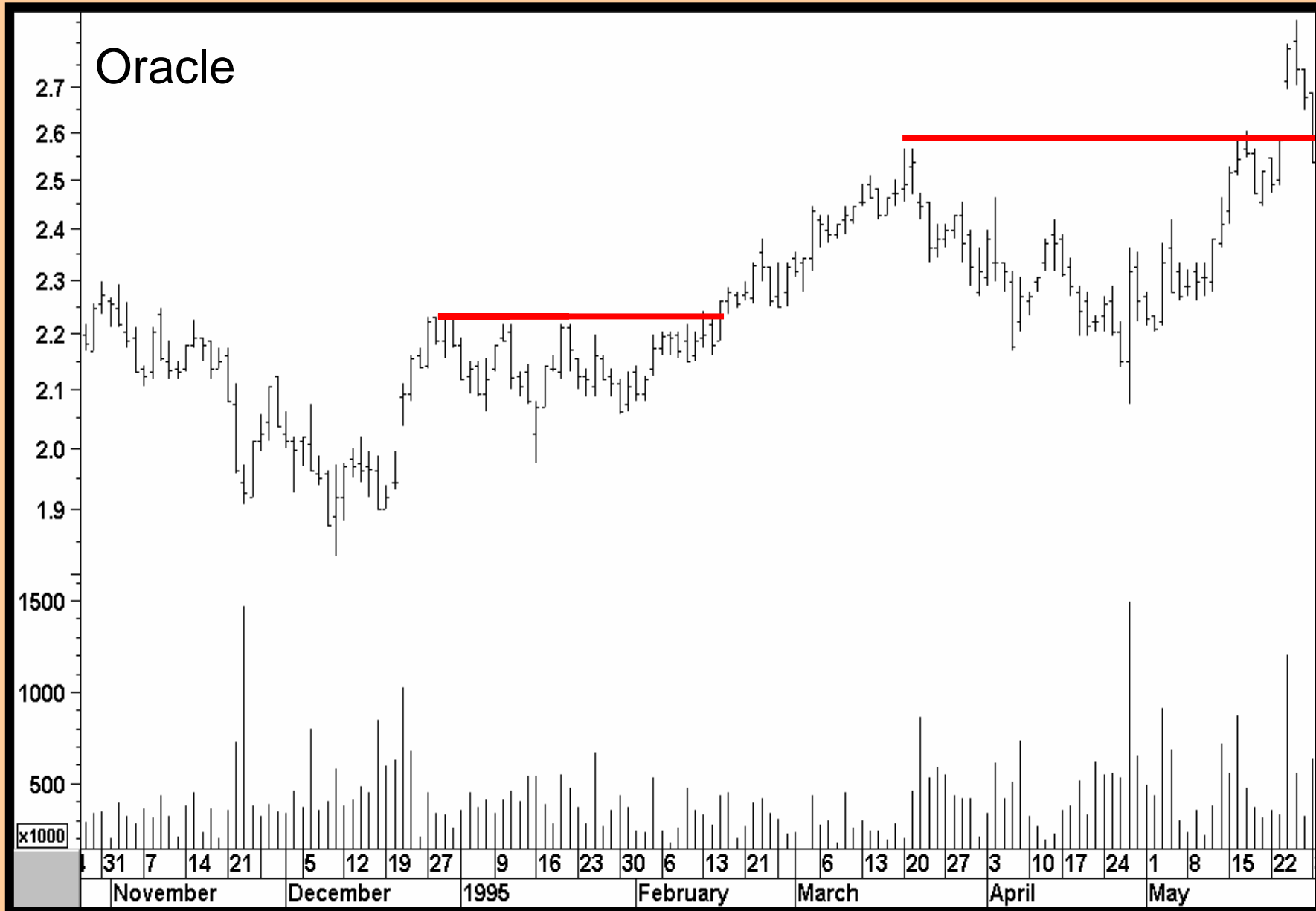
1. The more times a zone has been able to halt or reverse a price trend, the greater its significance.
2. The steeper the price move preceding a given support or resistance zone, the greater its significance.
3. The more a security changes hands at a particular level, the more significant that level is likely to be as a support or resistance zone.

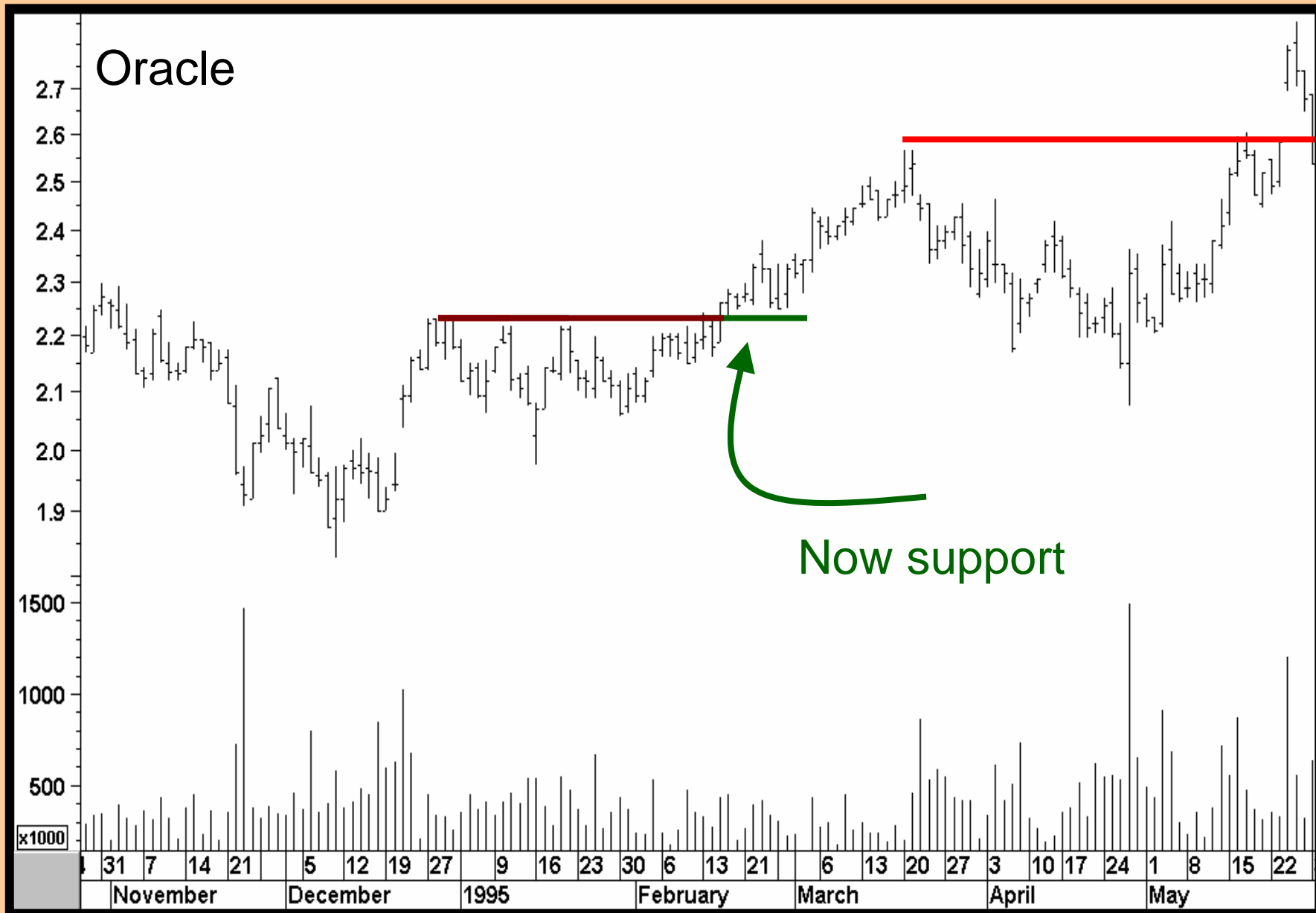
Where are Support/Resistance Points Likely to Develop?

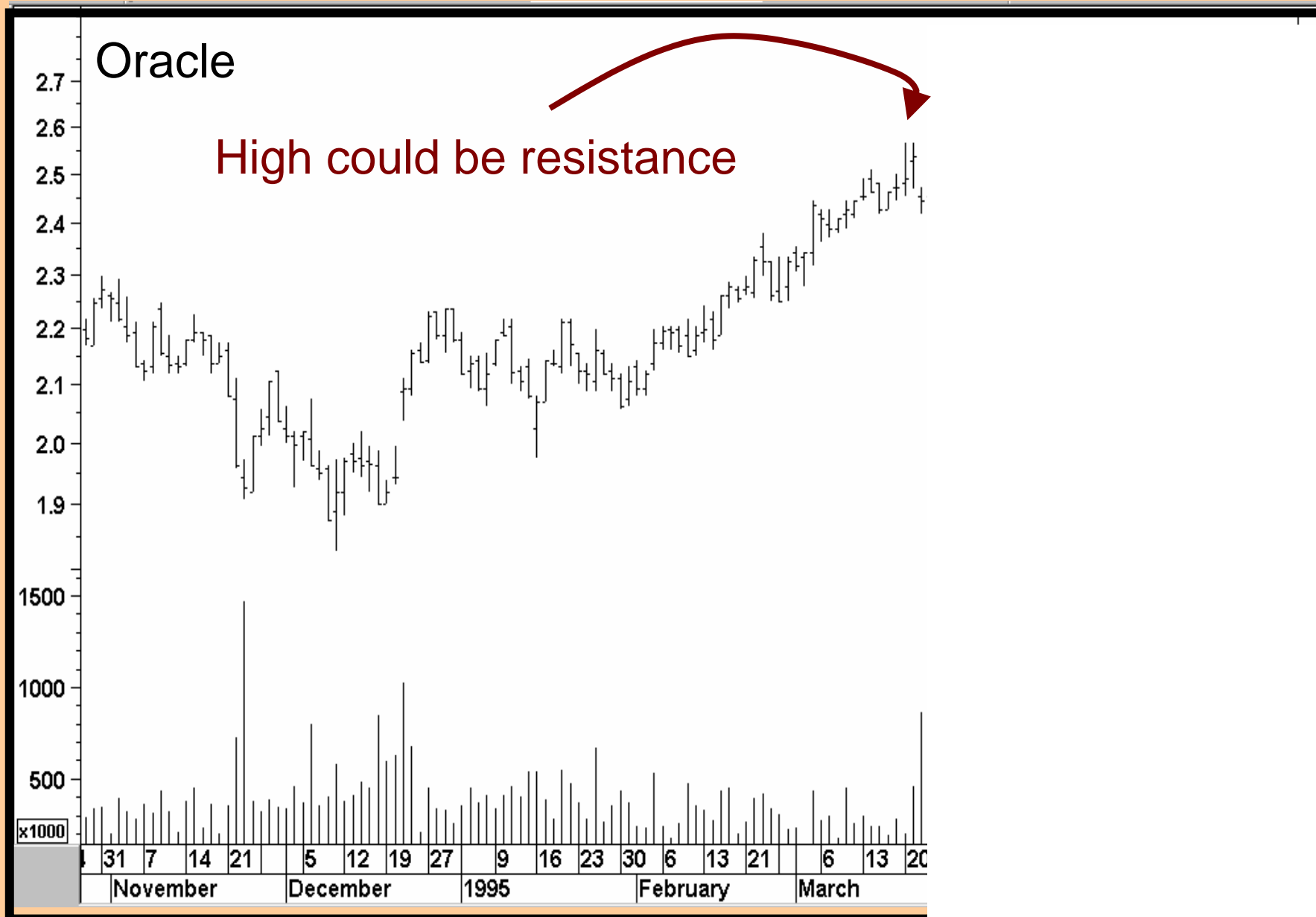
1. Previous highs and lows.

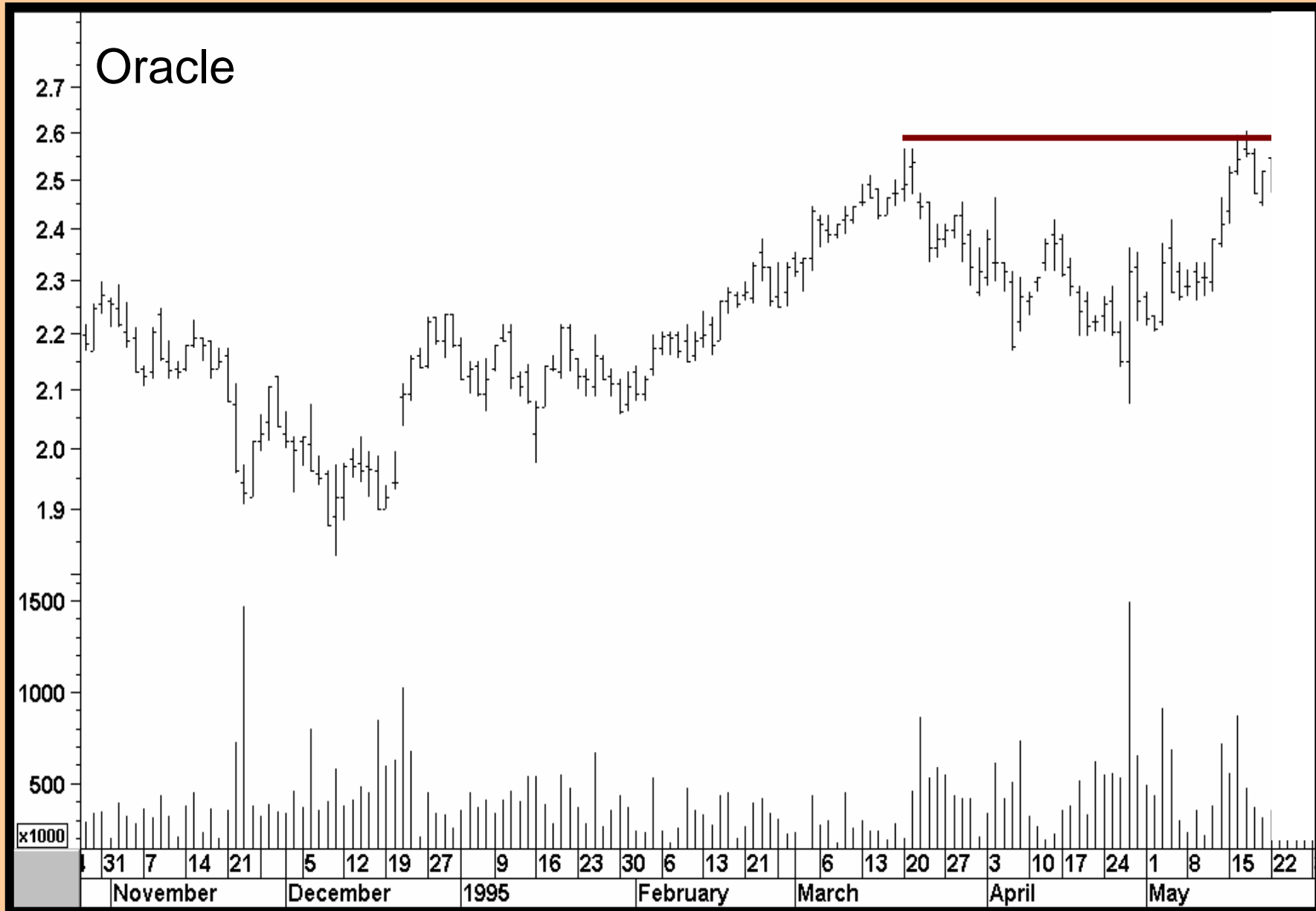


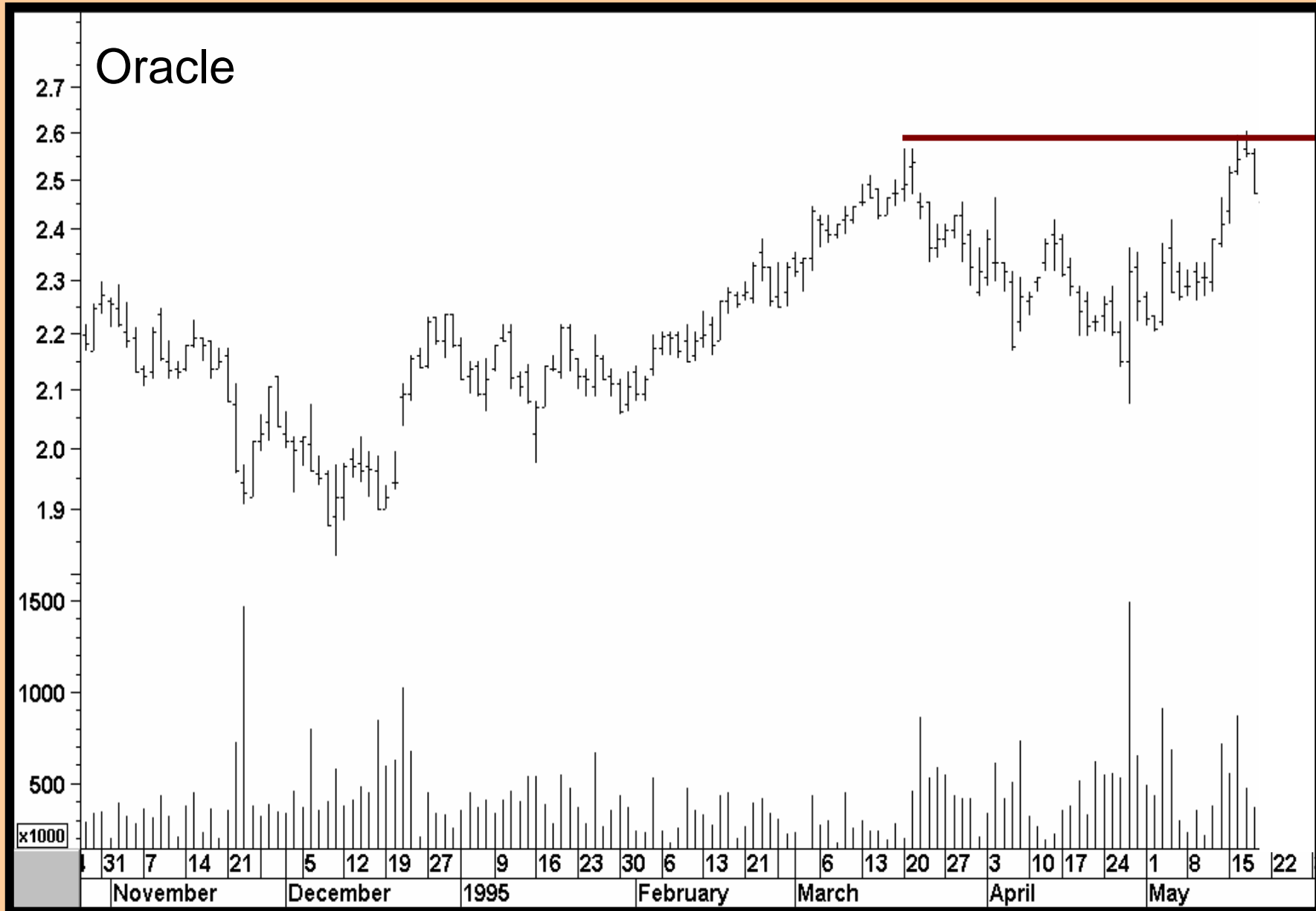








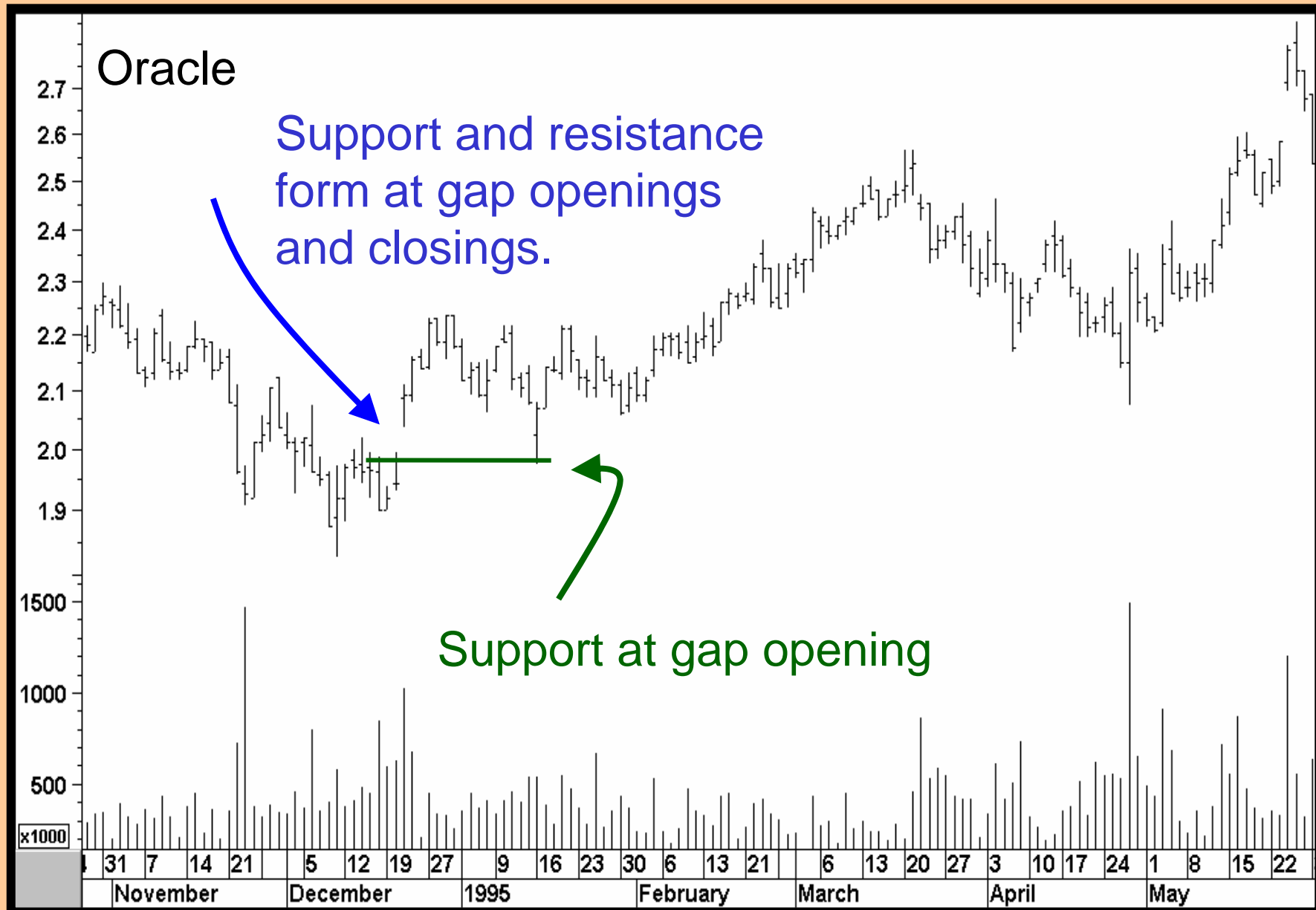


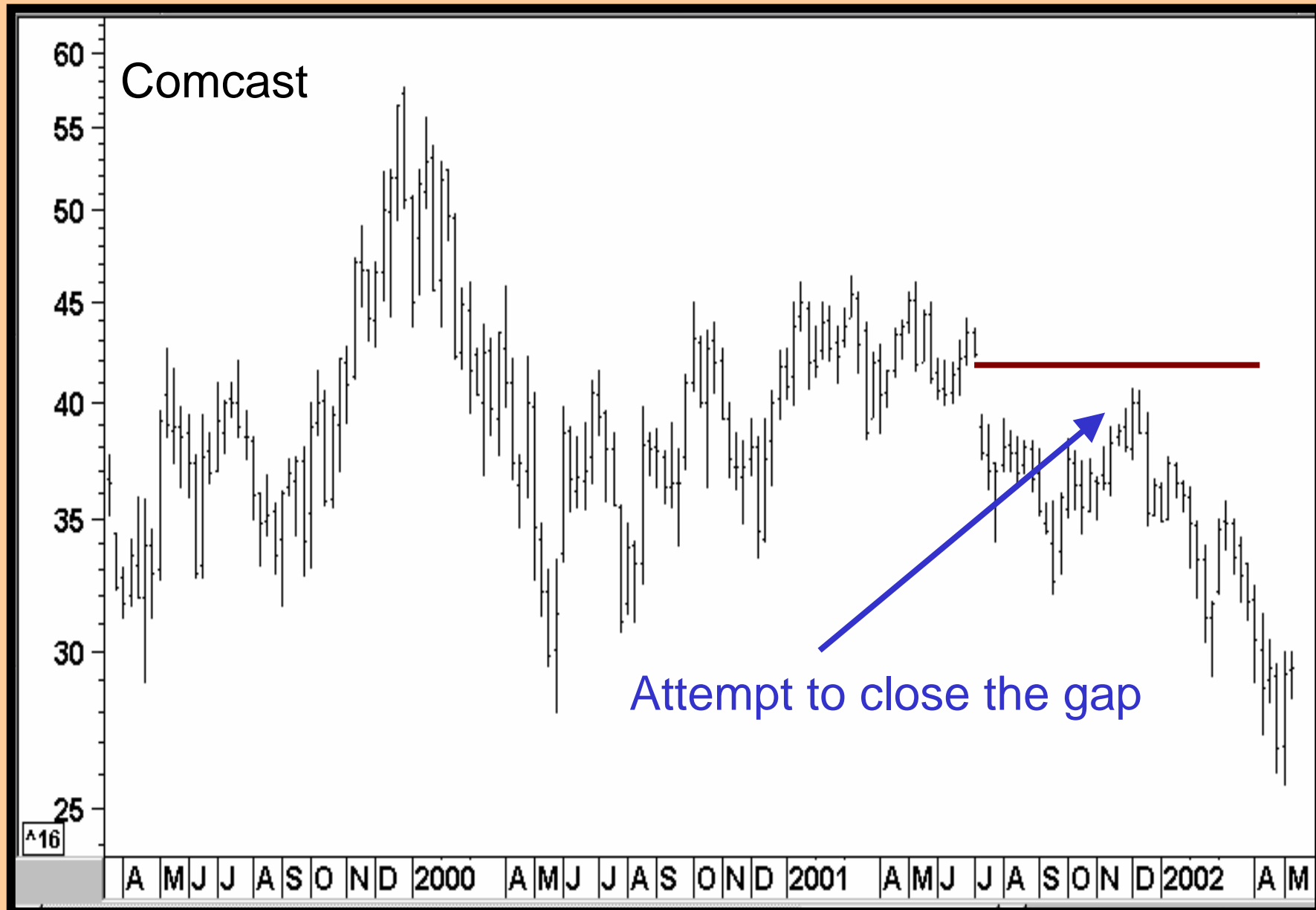


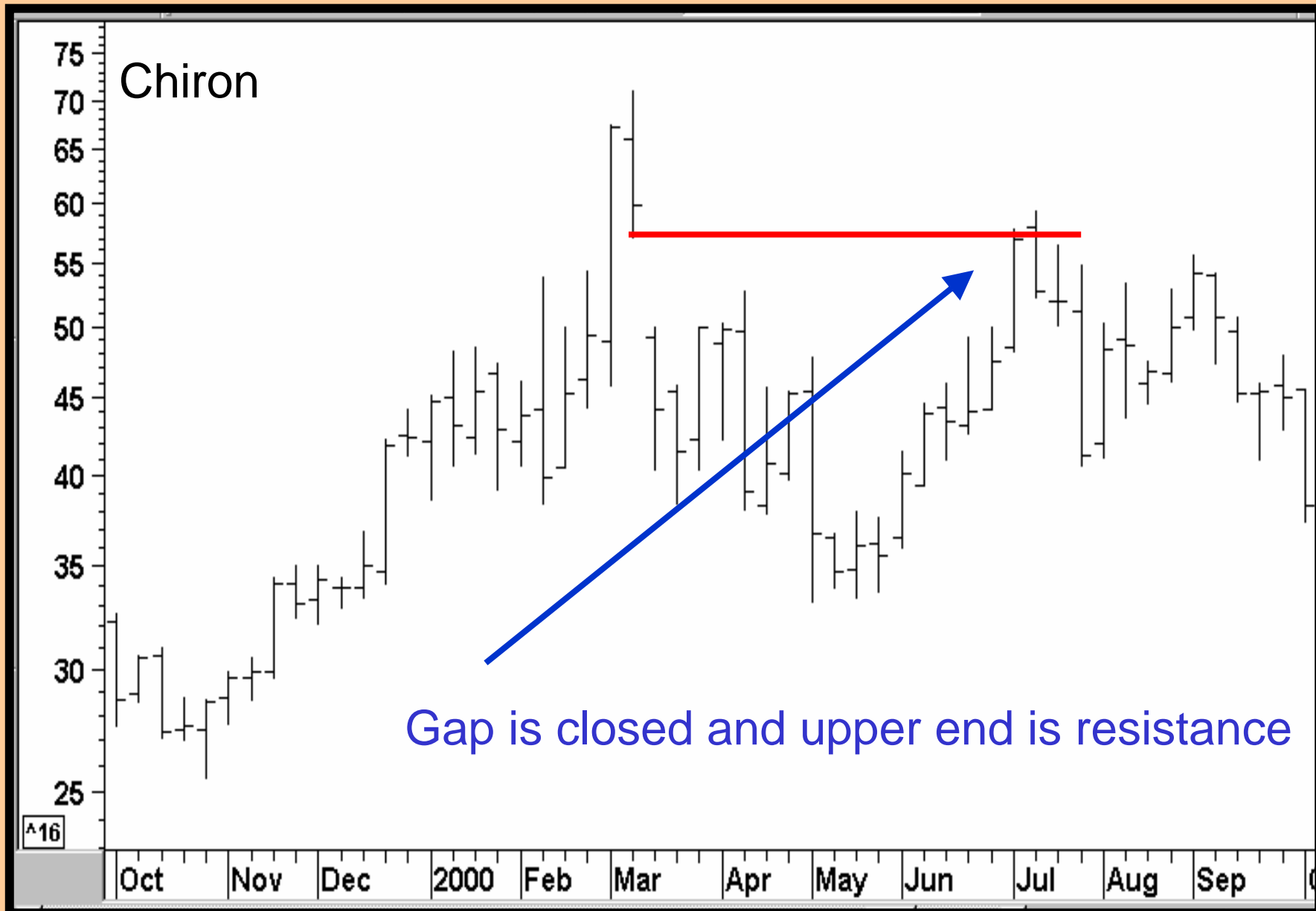
Where are Support/Resistance Points Likely to Develop?

1. Previous highs and lows.

2. The upper and lower area of gaps often represent crucial support/resistance pivotal points.

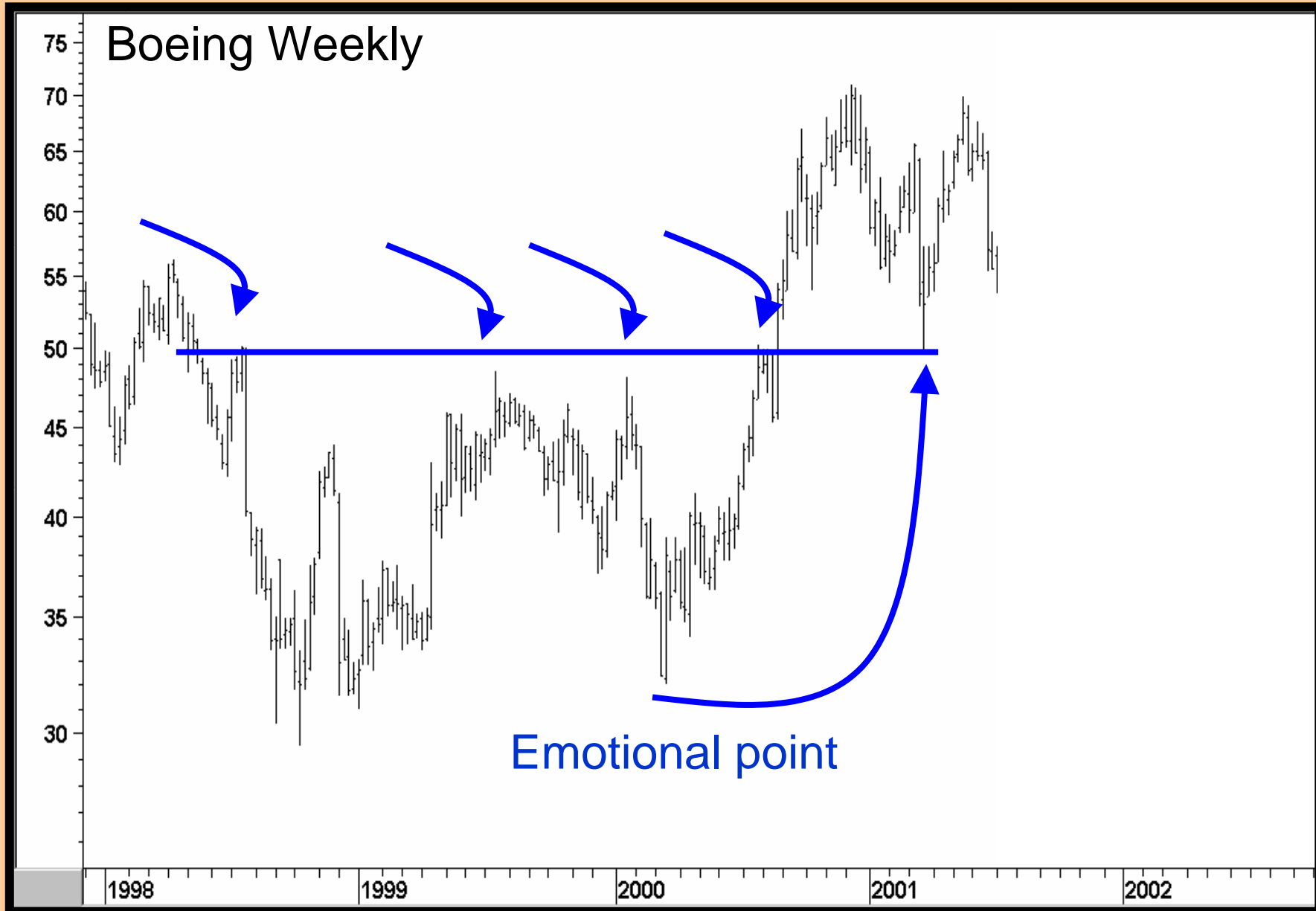






Where are Support/Resistance Points Likely to Develop?

1. Previous highs and lows.
2. The upper and lower area of gaps often represent crucial support/resistance pivotal points.
3. *Emotional points on charts*

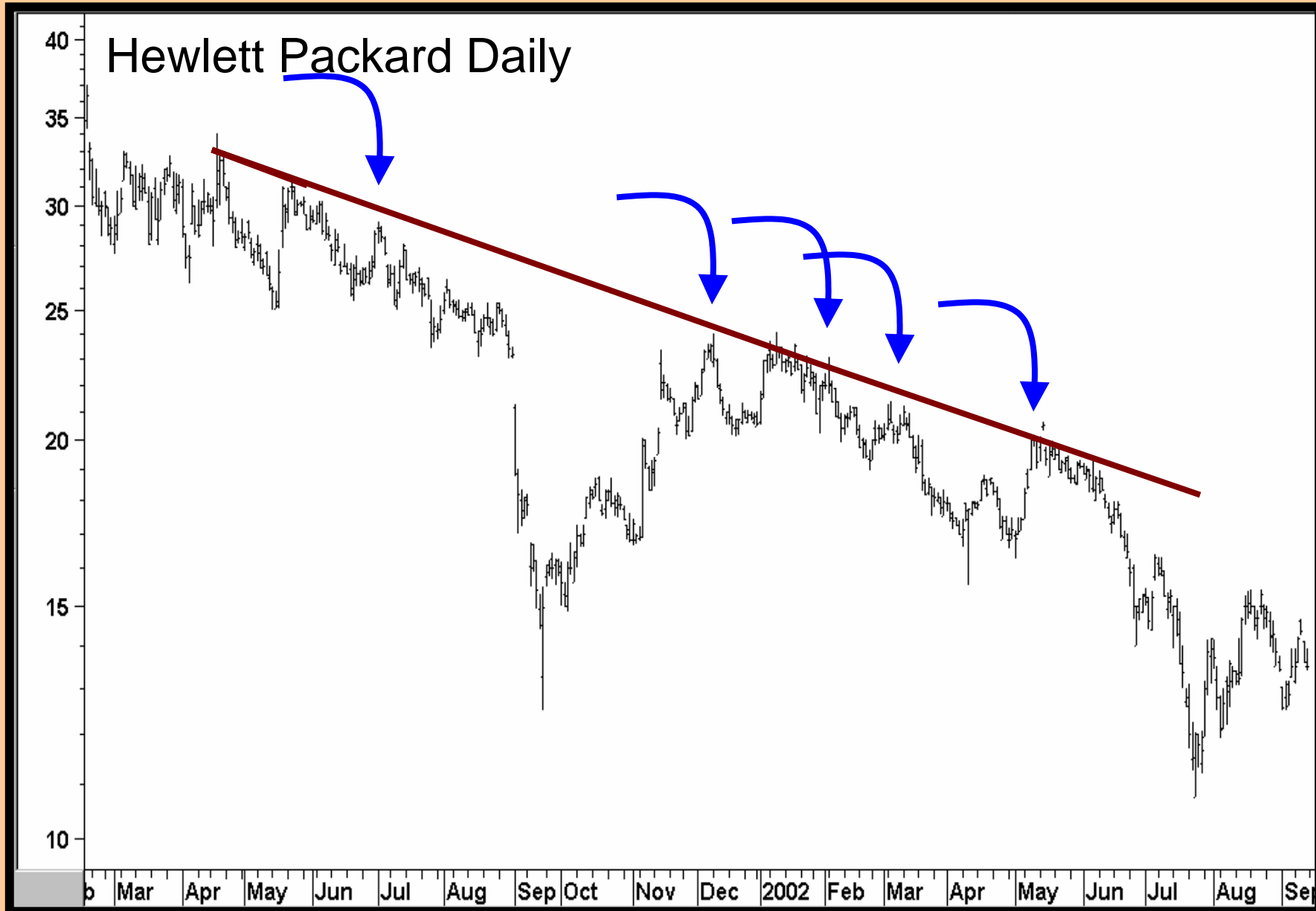


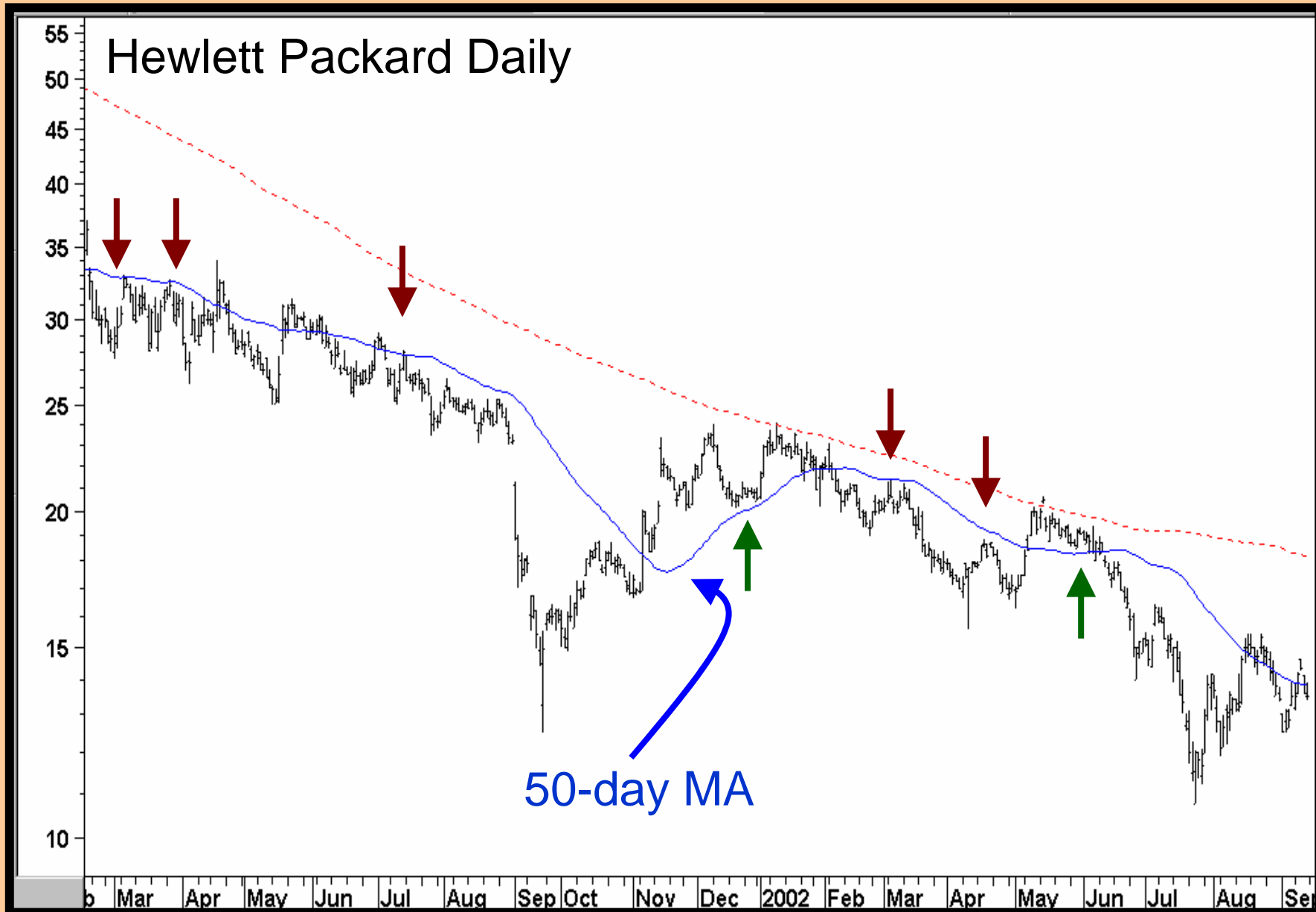


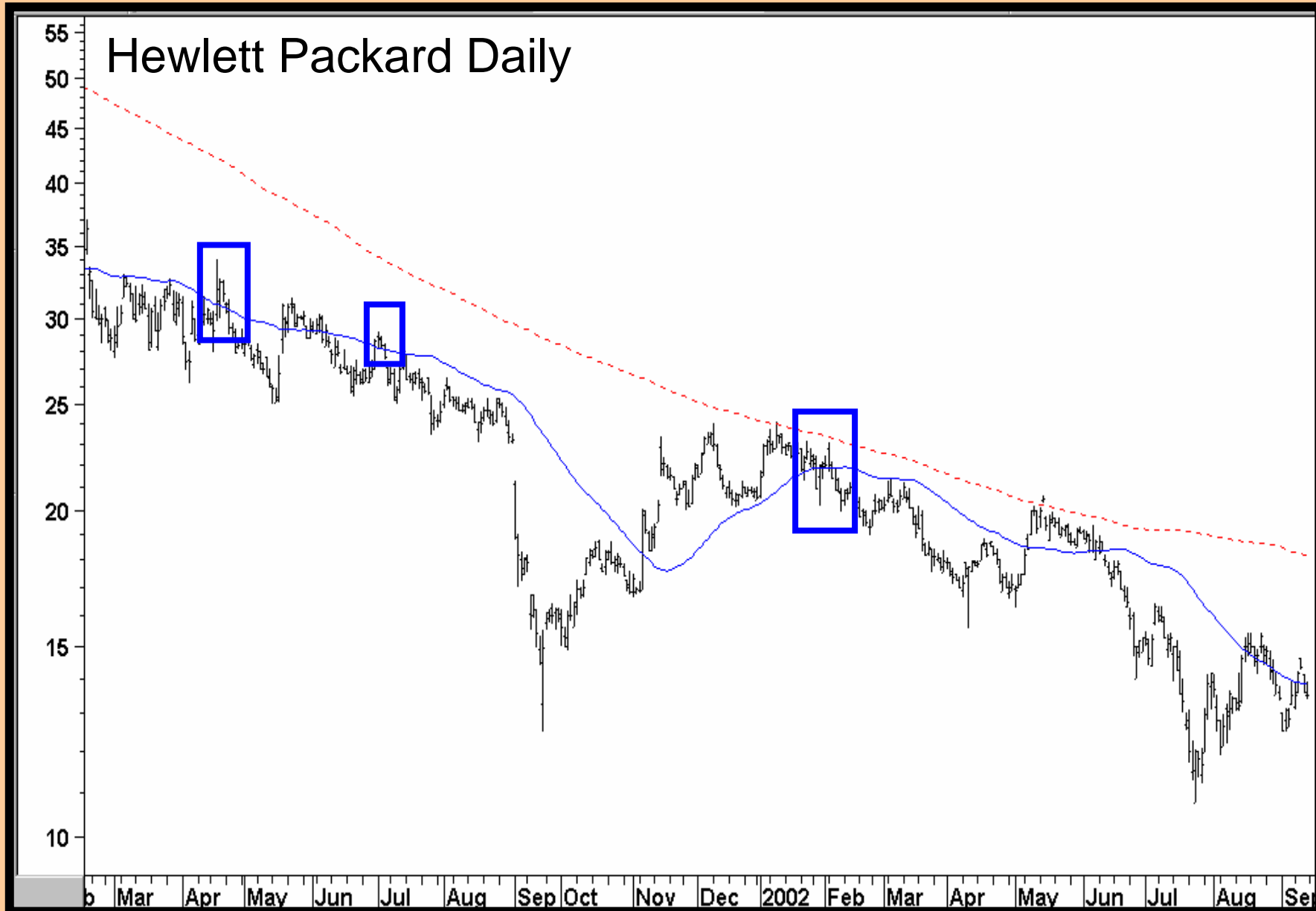


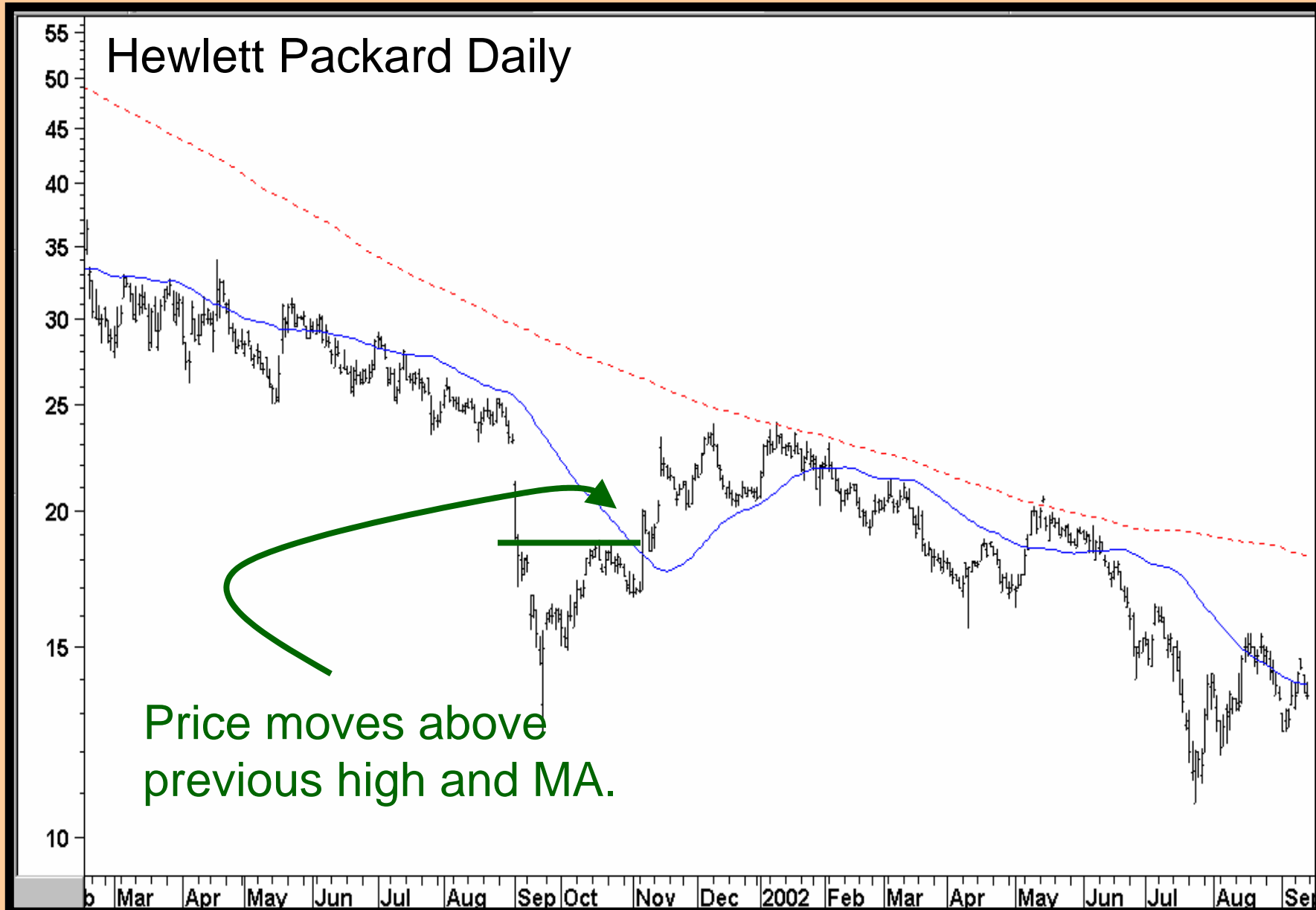
Where are Support/Resistance Points Likely to Develop?

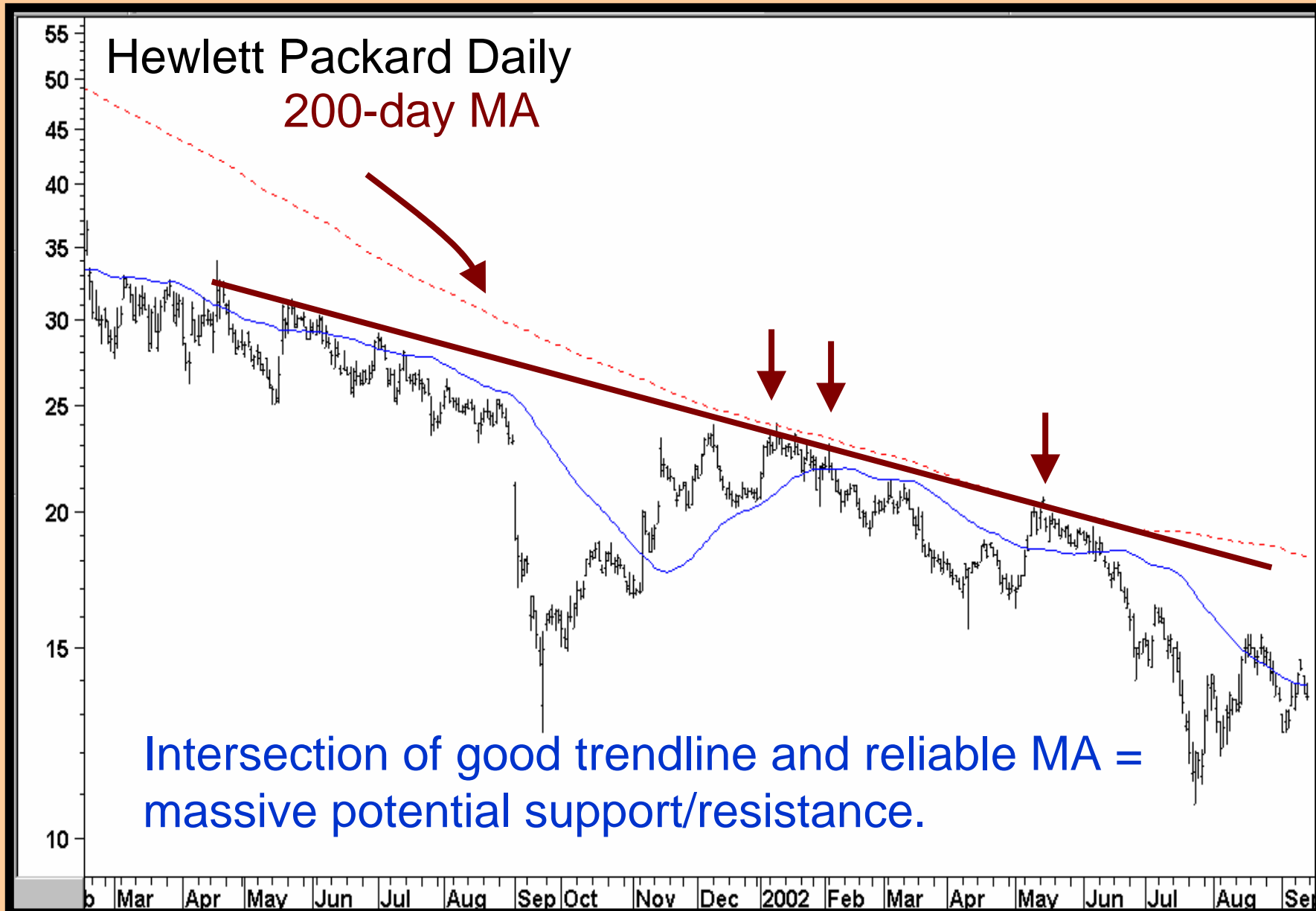
1. Previous highs and lows.
2. The upper and lower area of gaps often represent crucial support/resistance pivotal points.
3. Emotional points on charts
4. *Trendlines and MA's represent potential support/resistance zones.*





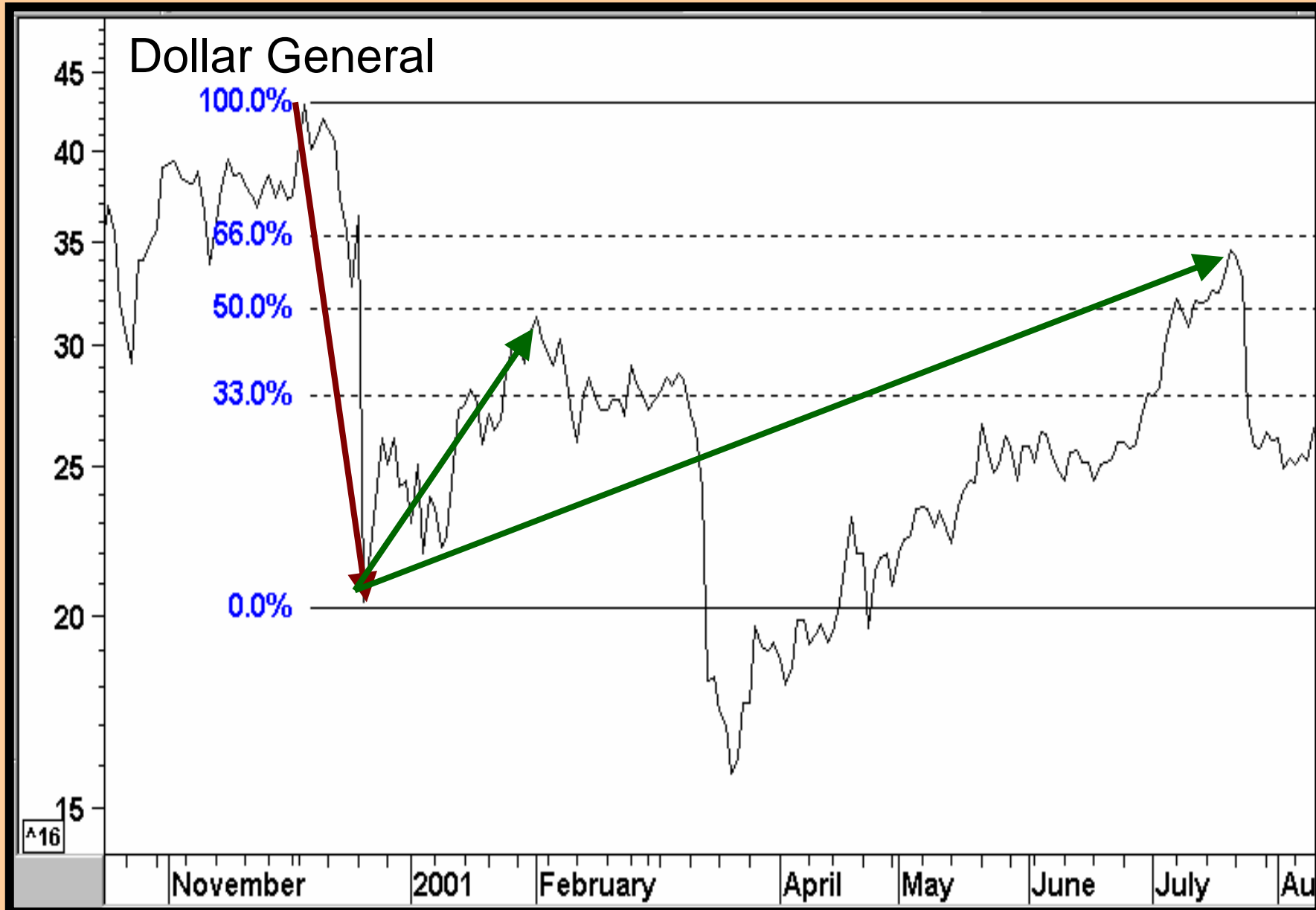


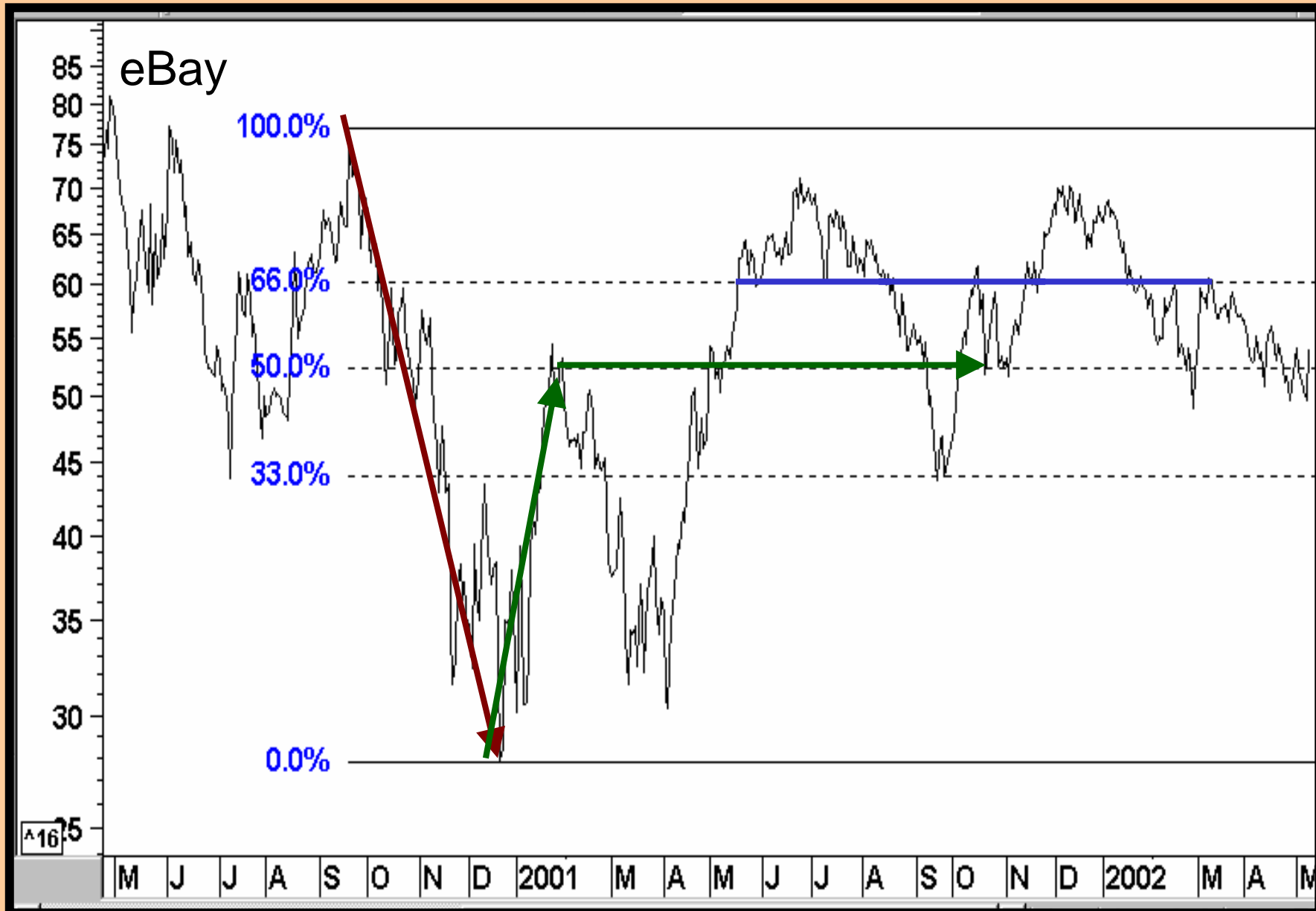




Where are Support/Resistance Points Likely to Develop?

*5. Retracement points for previous moves; e.g.,
50% Fibonacci retracement levels, etc.*





Key Places to Place Stops for Long Positions

1. Below a previous low
2. Below the extreme low of an emotional bar.
3. Below an up trendline
4. Below a reliable MA
5. On a breakout from a price pattern.
6. *Better still when more than one of these conditions is met.*

Key Places to Place Stops for Short Positions

1. Above a previous high.
2. Above the extreme high of an emotional bar.
3. Above a down trendline.
4. Above a reliable MA.
5. On a breakout from a price pattern.
6. *Better still when more than one of these conditions is met.*

Dollar/Yen 10-minute bar

Buy on breakout



Dollar/Yen 10-minute bar

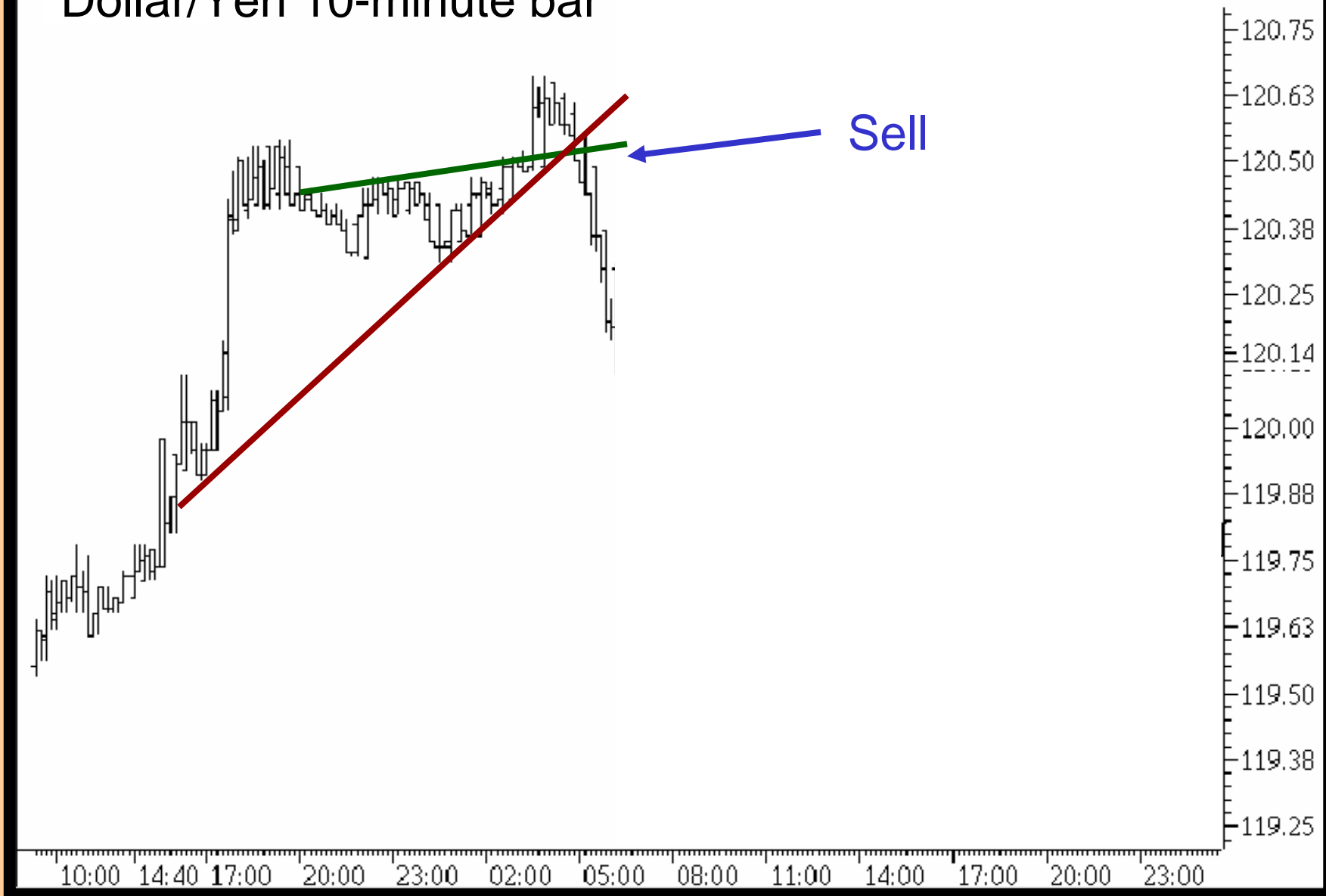
Buy on breakout

Place stop below support

Buy just above support where
trendlines converge.



Dollar/Yen 10-minute bar

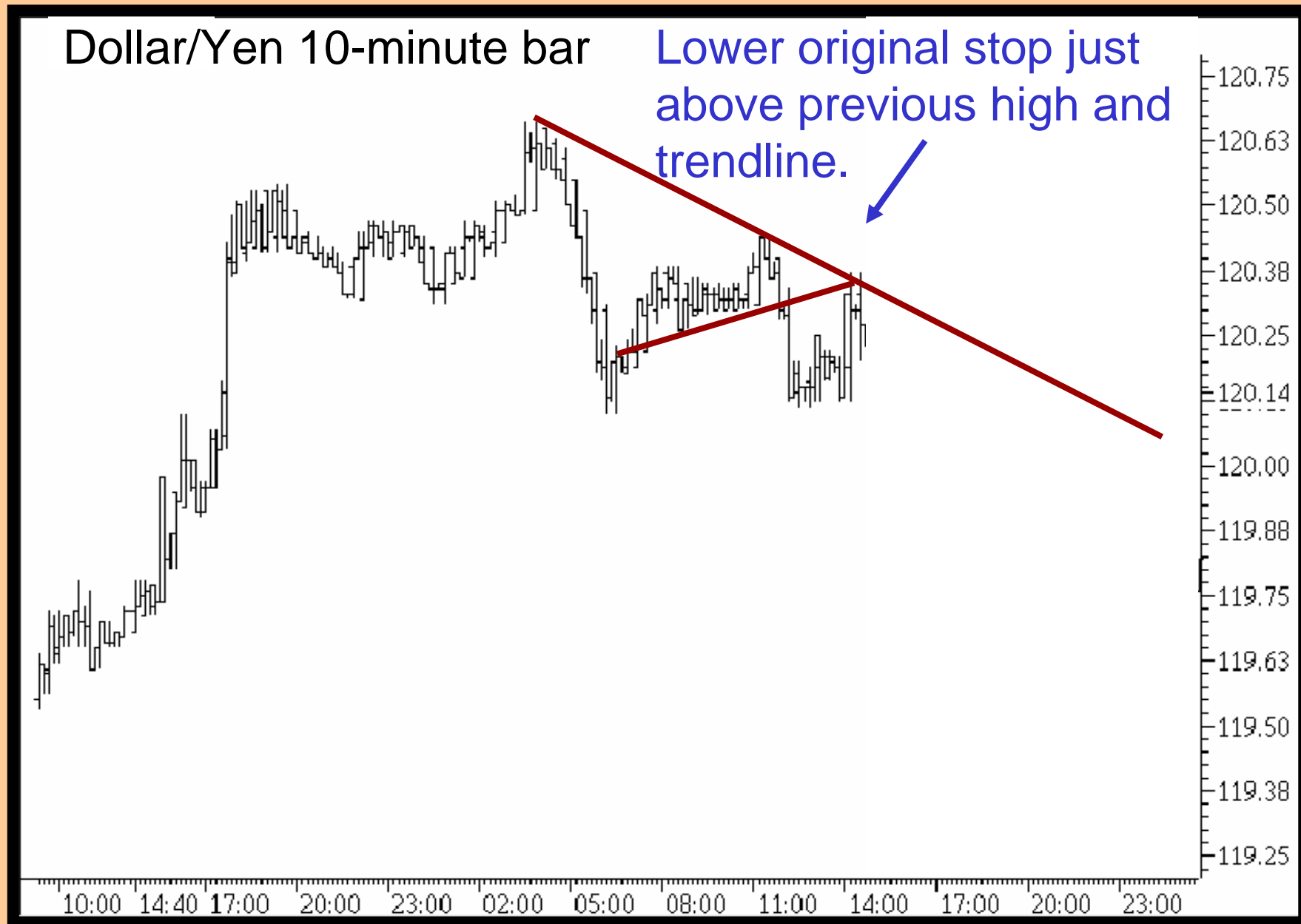


Dollar/Yen 10-minute bar

Place stop above previous high



Sell into resistance at a better price.

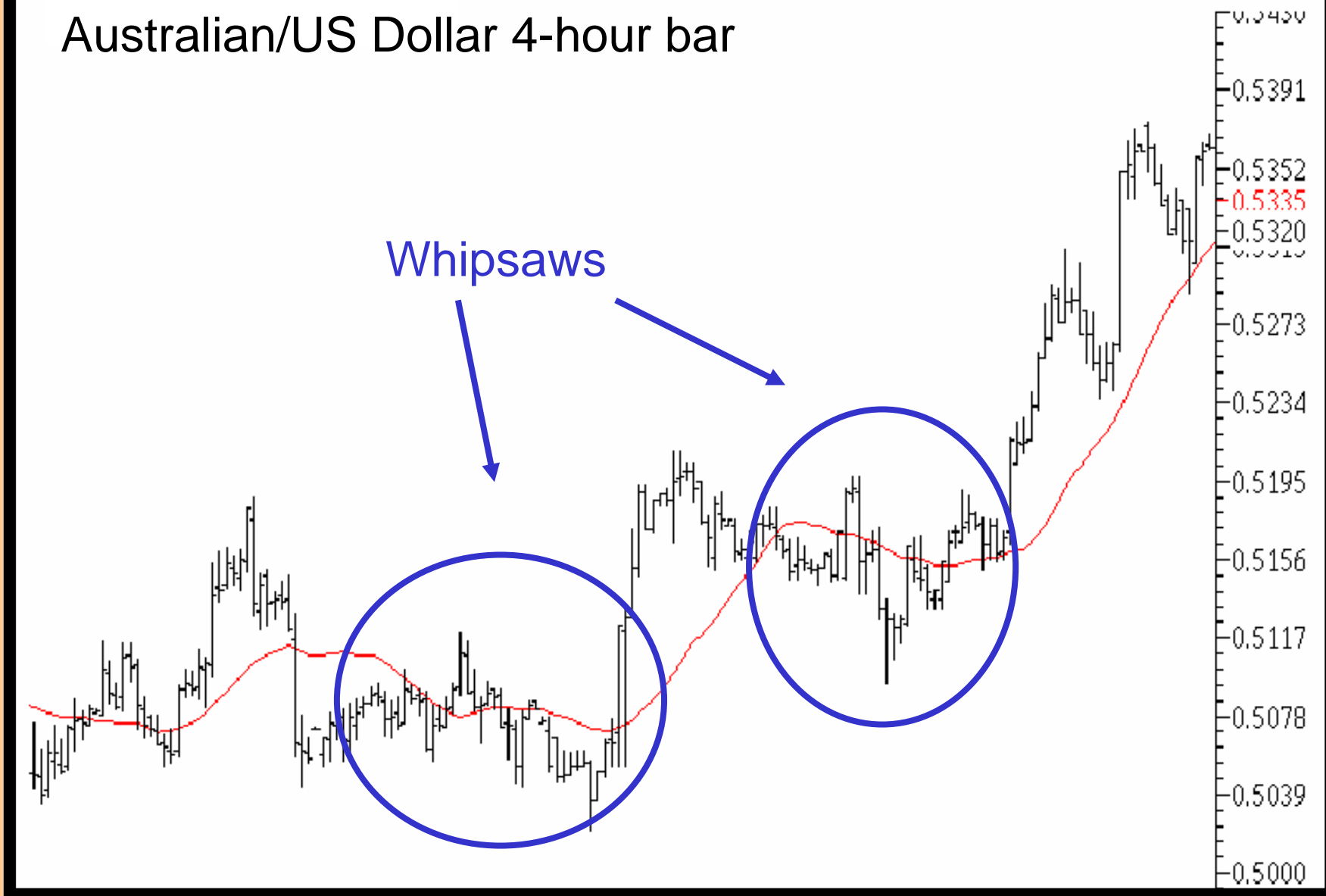


Dollar/Yen 10-minute bar

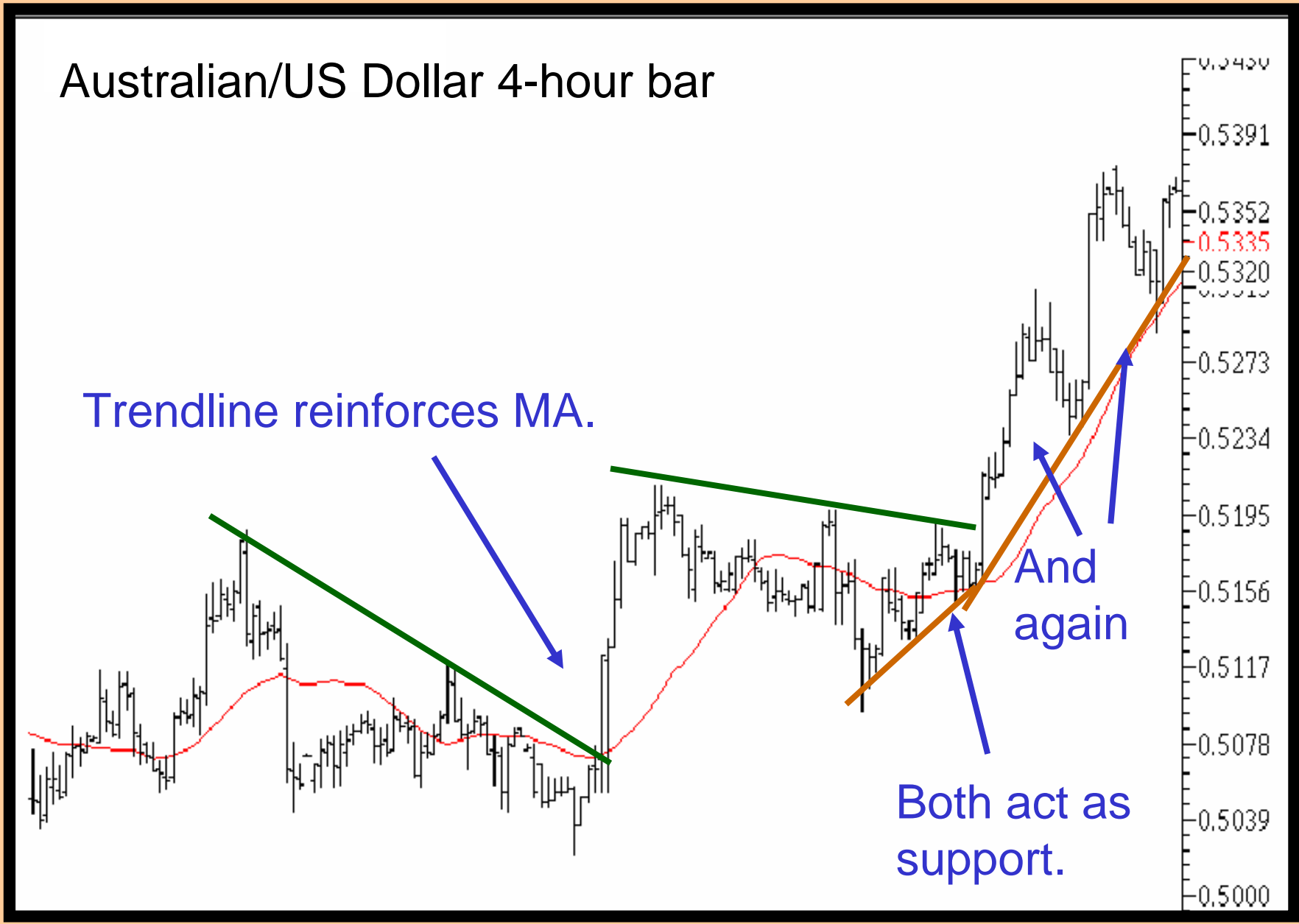
Lower stop just above
trendline.



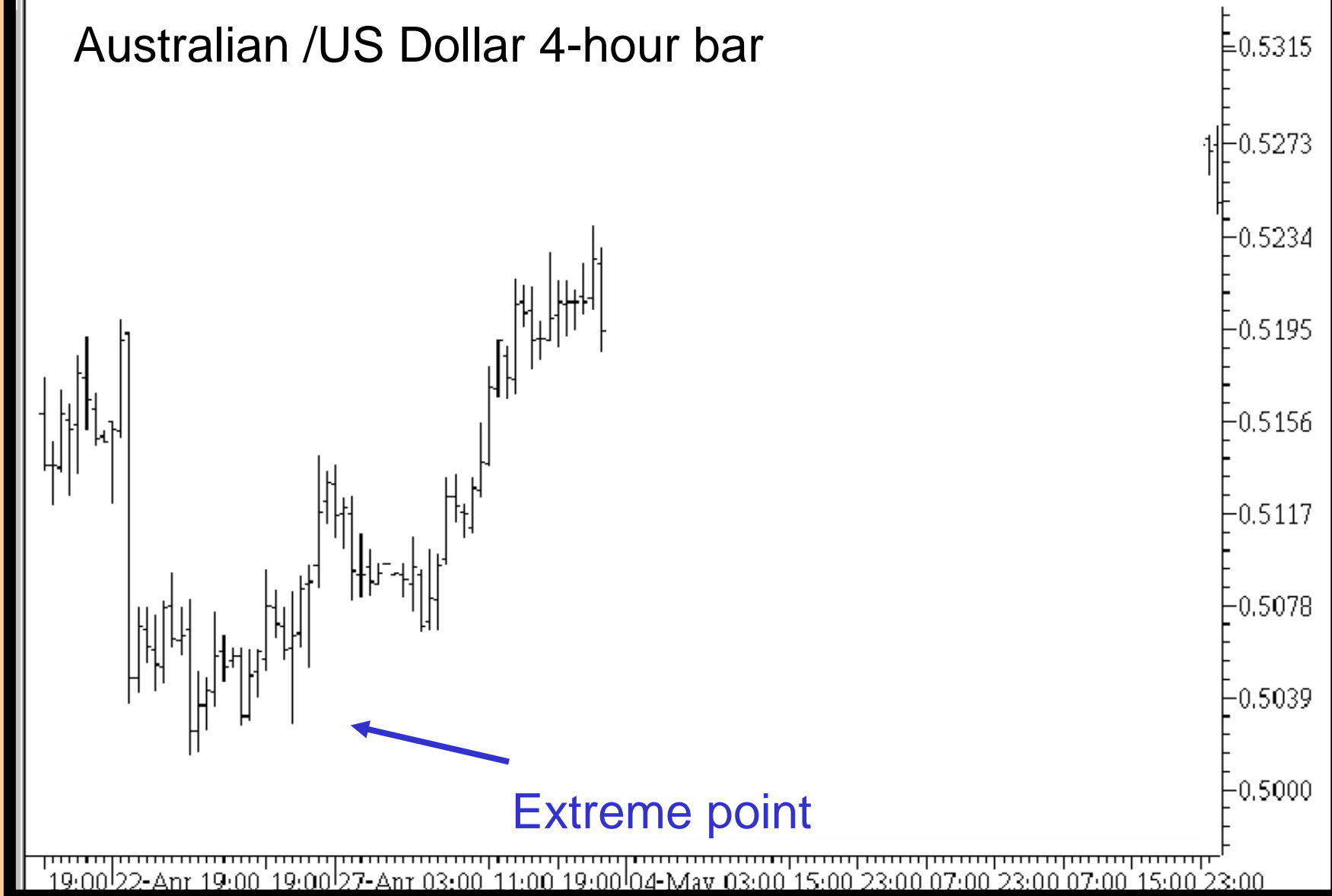
Australian/US Dollar 4-hour bar



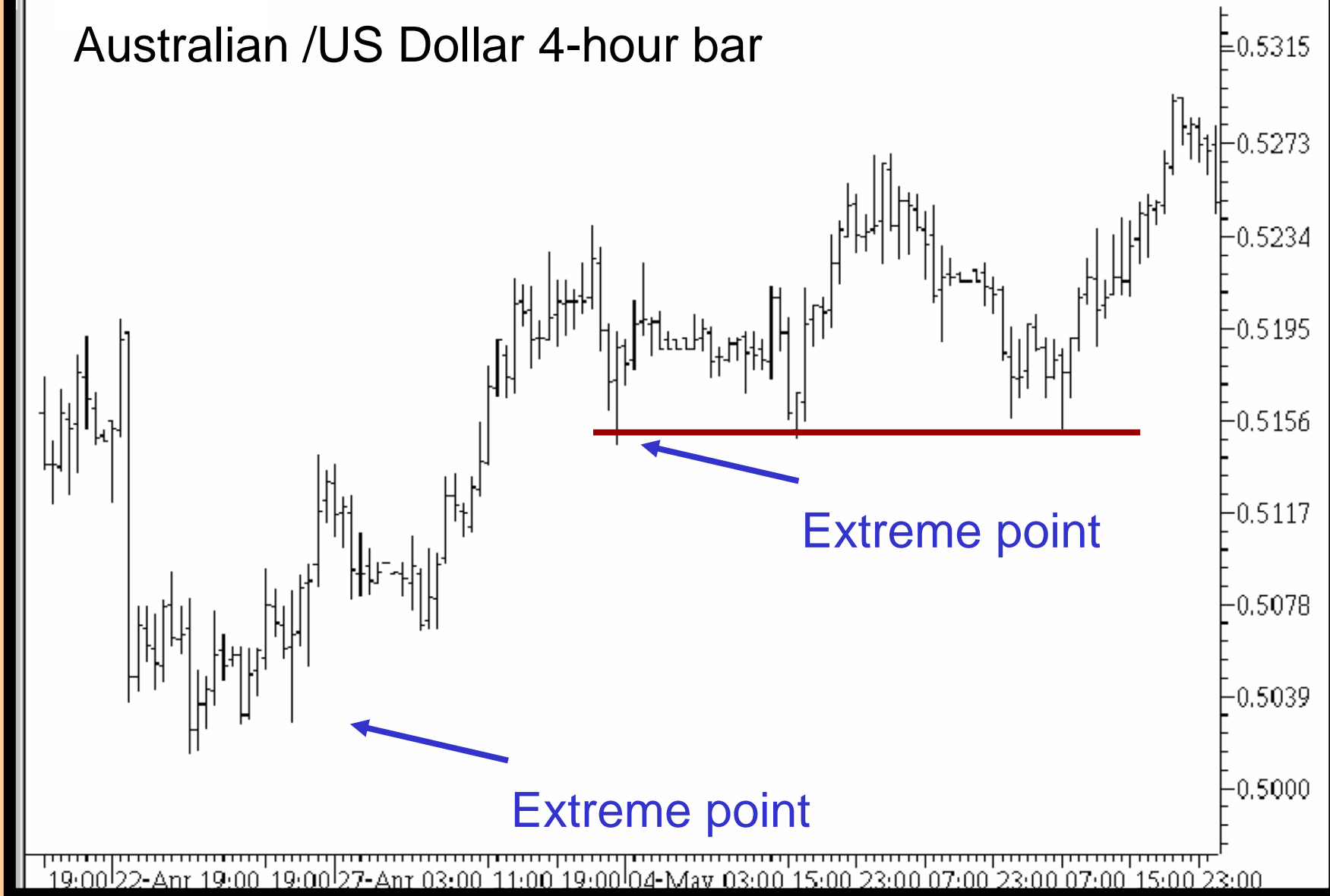
Australian/US Dollar 4-hour bar



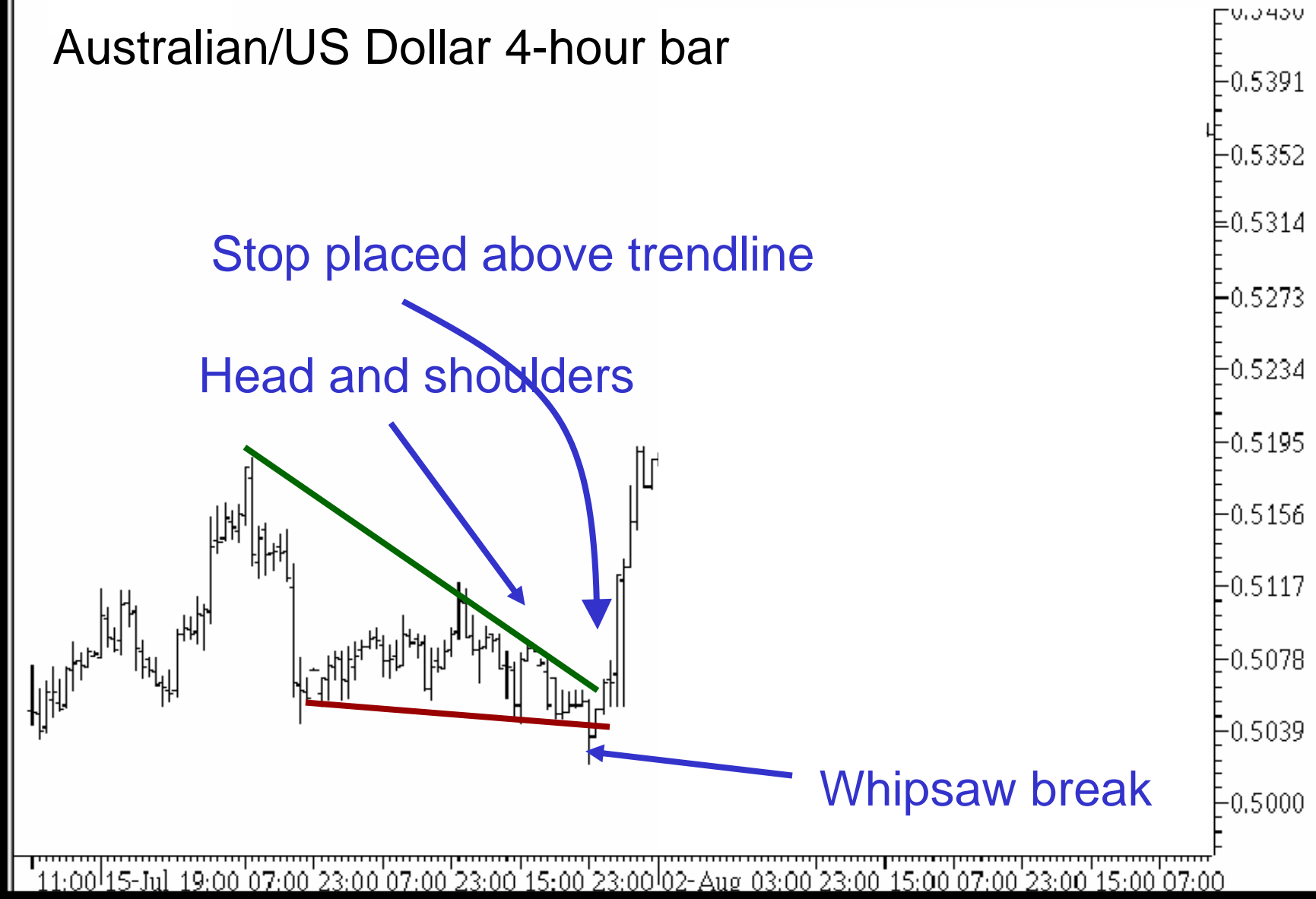
Australian /US Dollar 4-hour bar



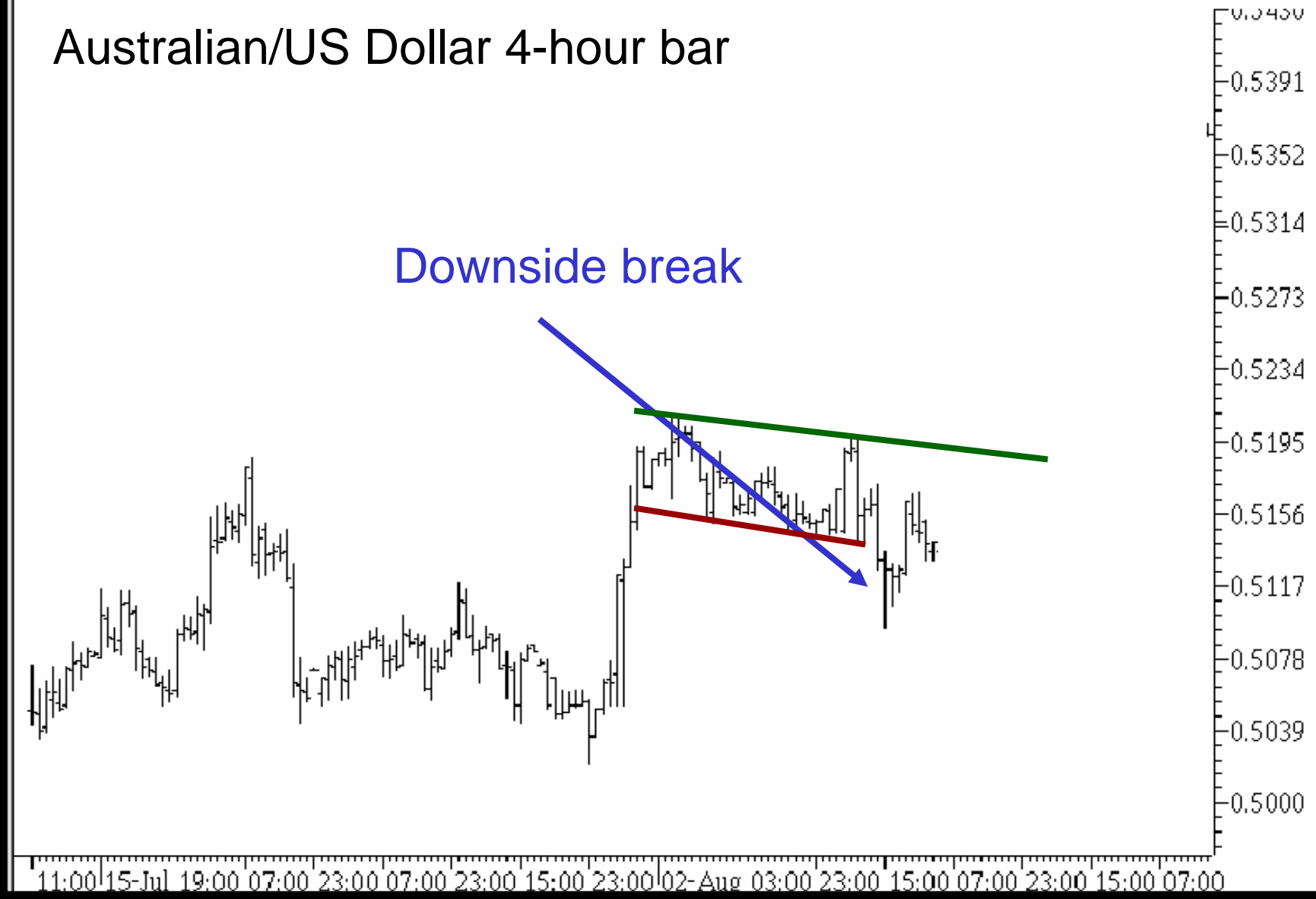
Australian /US Dollar 4-hour bar



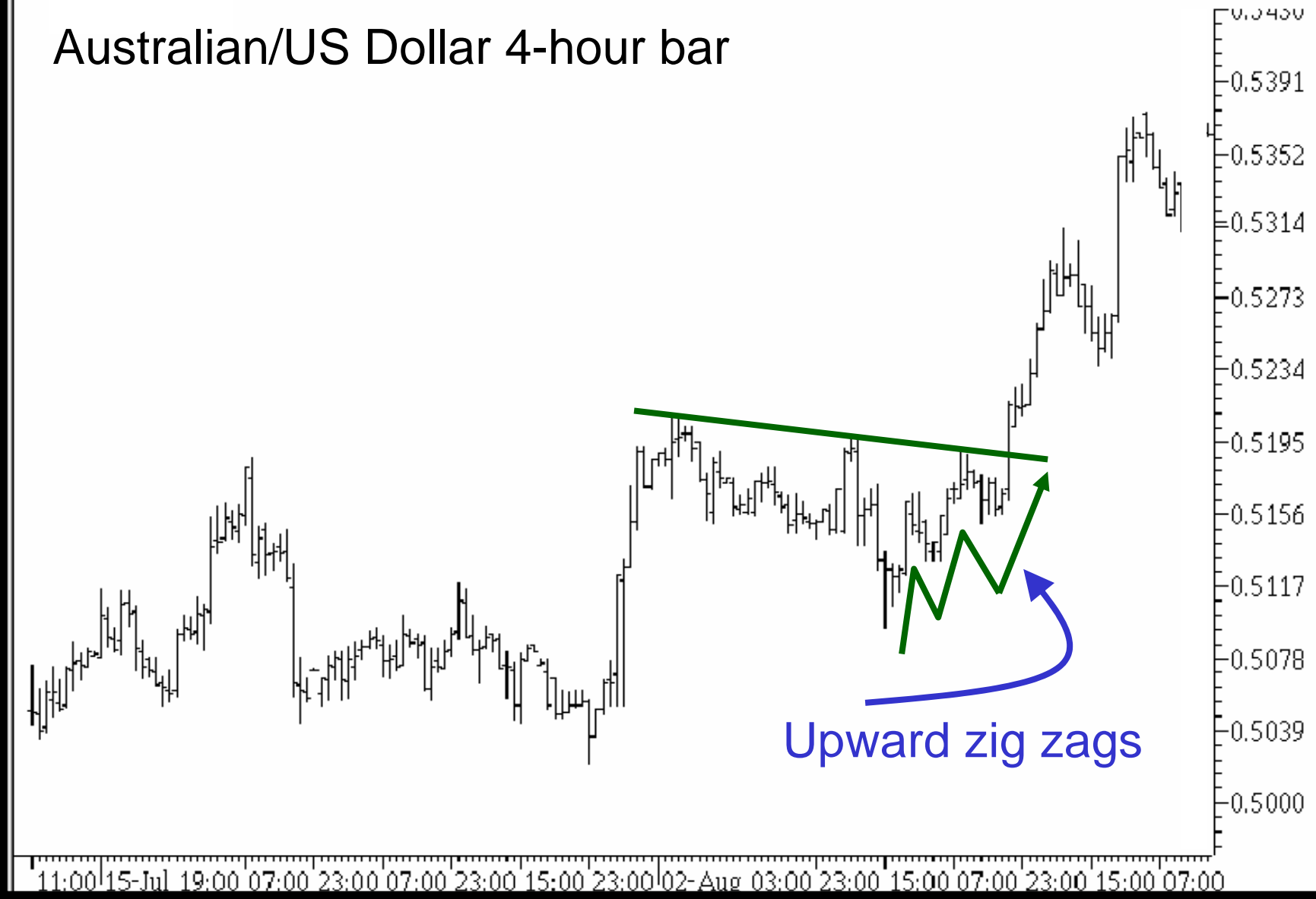
Australian/US Dollar 4-hour bar



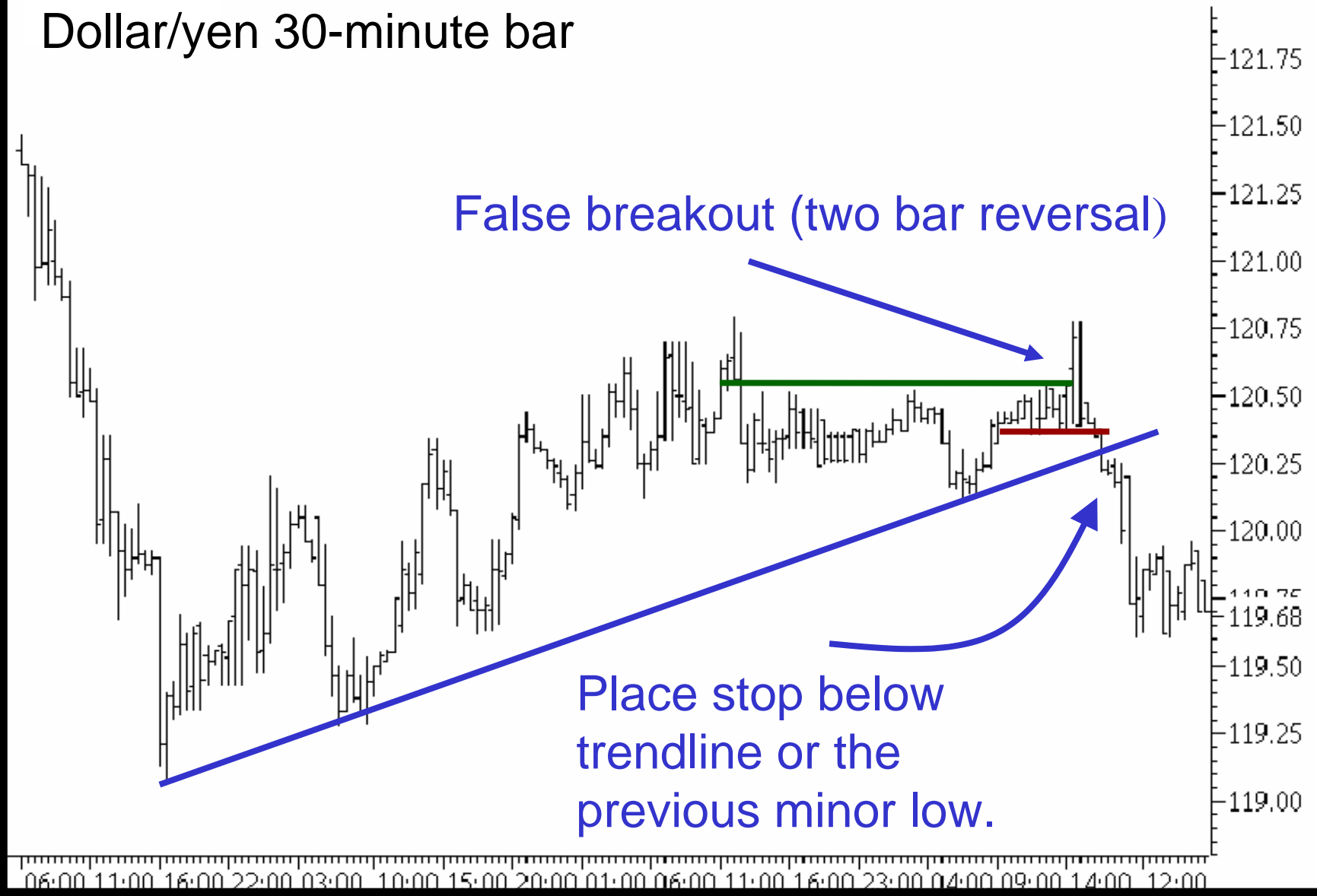
Australian/US Dollar 4-hour bar



Australian/US Dollar 4-hour bar



Dollar/yen 30-minute bar



Dollar/yen 4-hour bar



Using Oscillators with Trend Following Techniques

A key problem, is never knowing whether a market is likely to trend or become a trading range.

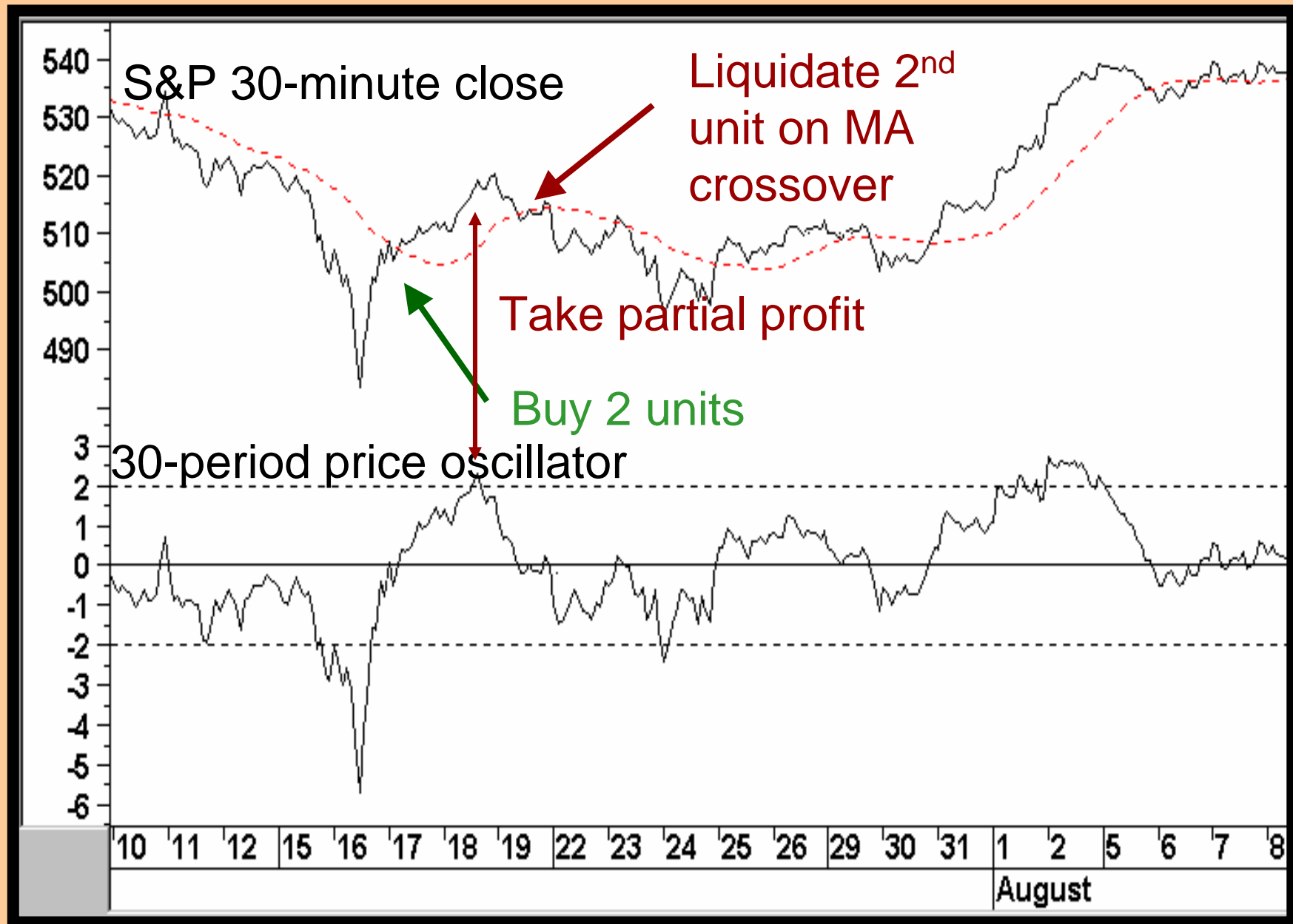
One solution...split the trade into two parts.

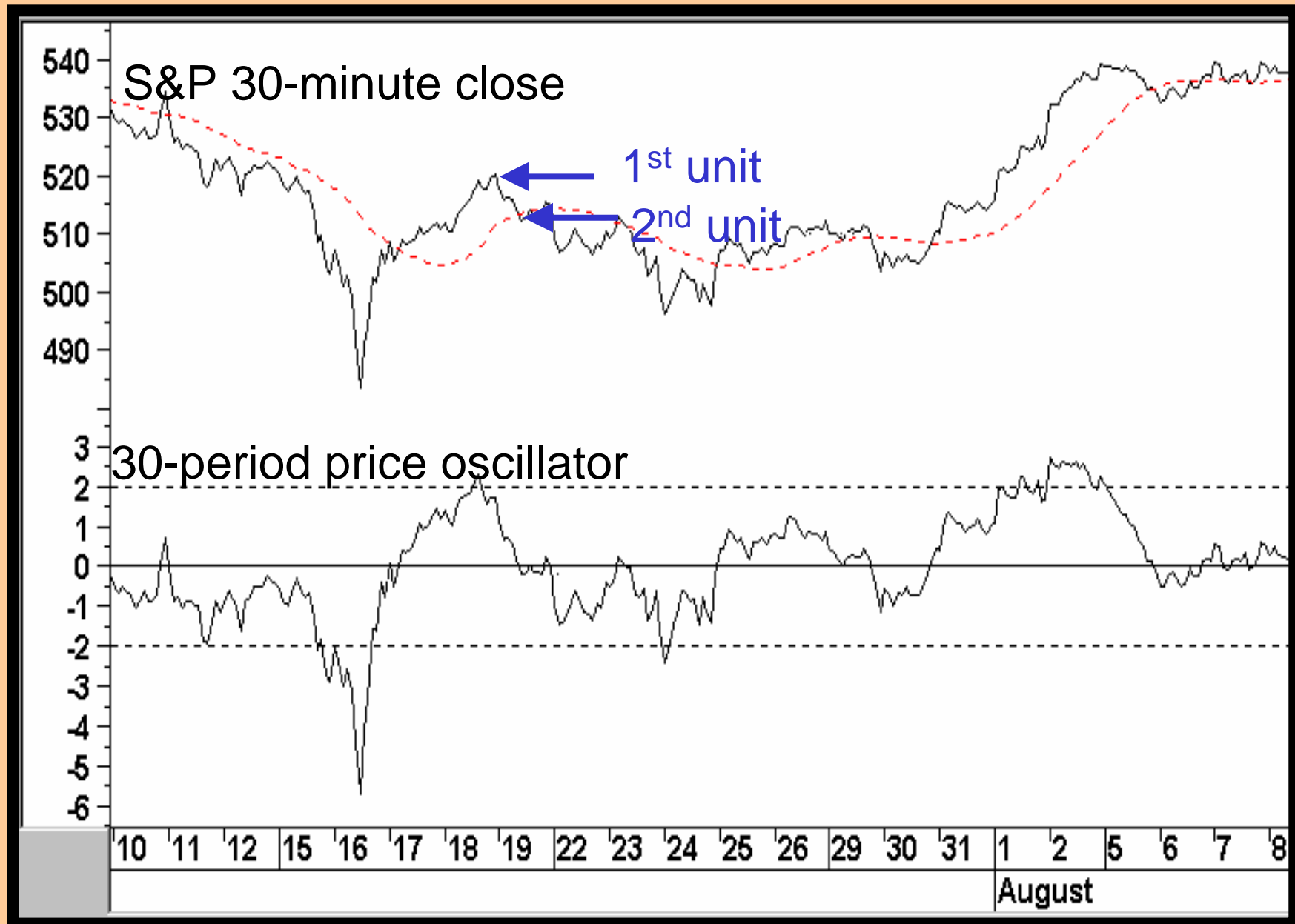
Liquidation of one part is triggered by a momentum signal, the other by a trend following signal.

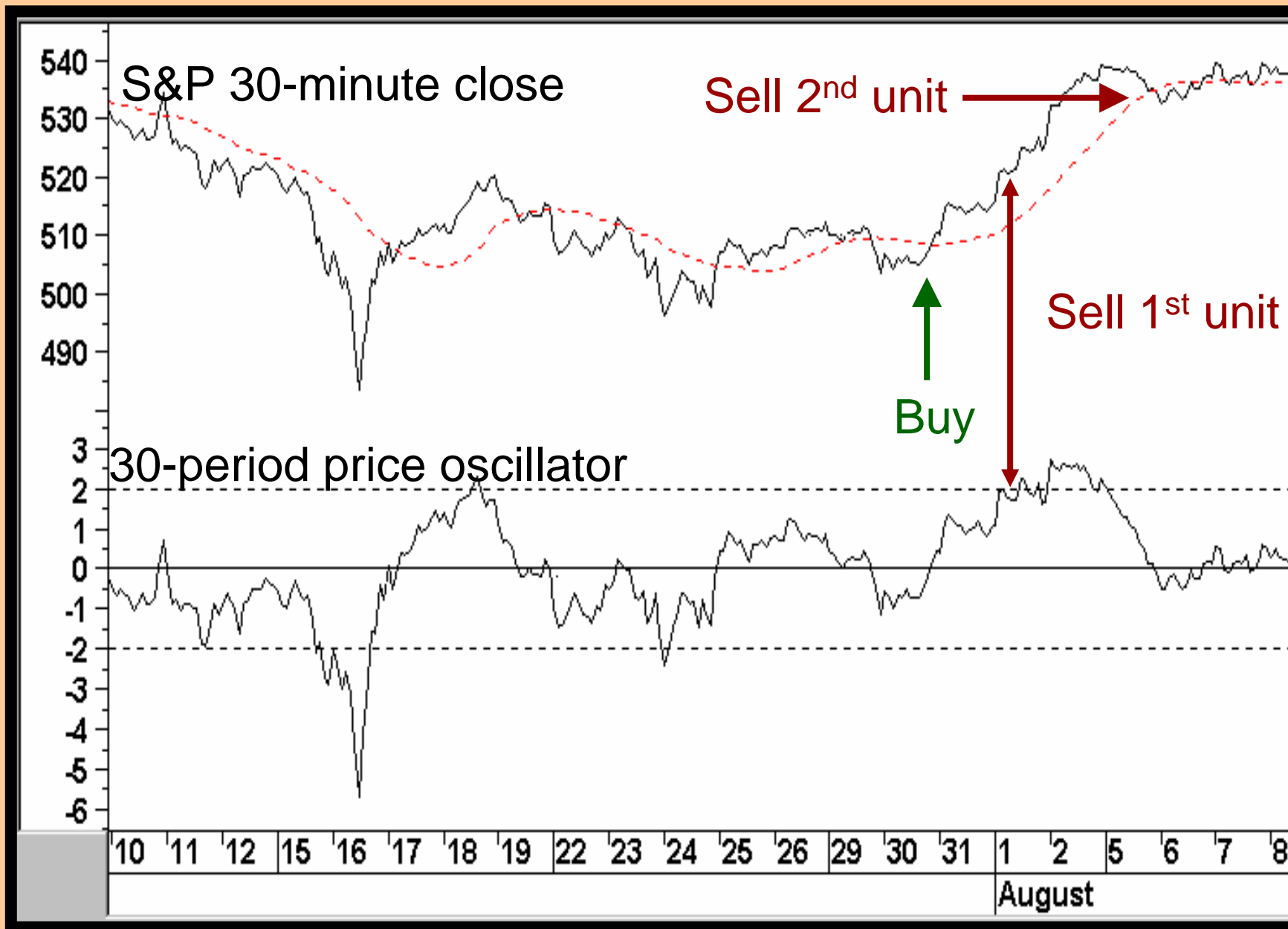
Sell one unit when the oscillator reaches an extreme reading and...

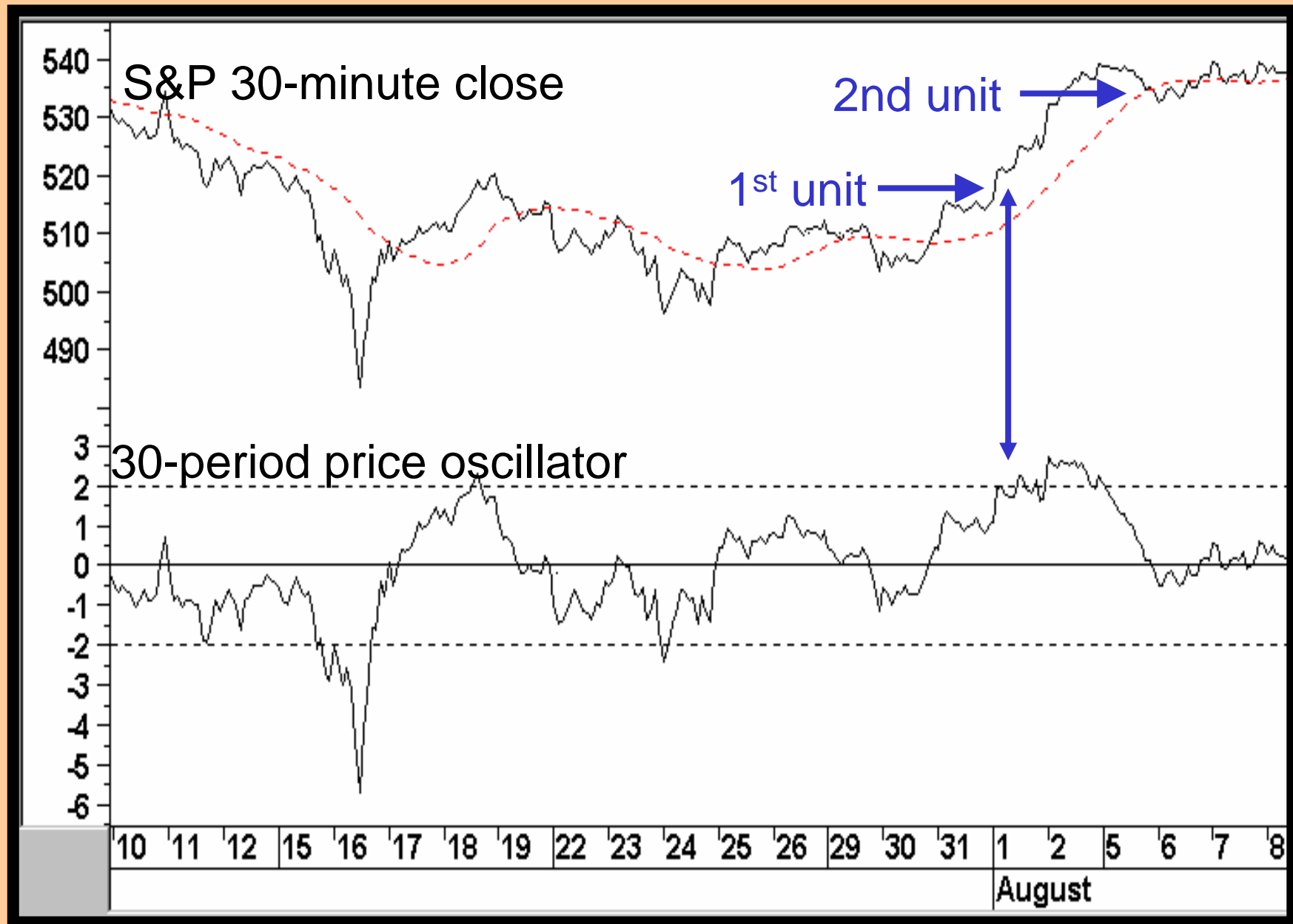
....sell the second on a moving average crossover.

If the oscillator never reaches an extreme, sell both units on a moving average crossover.





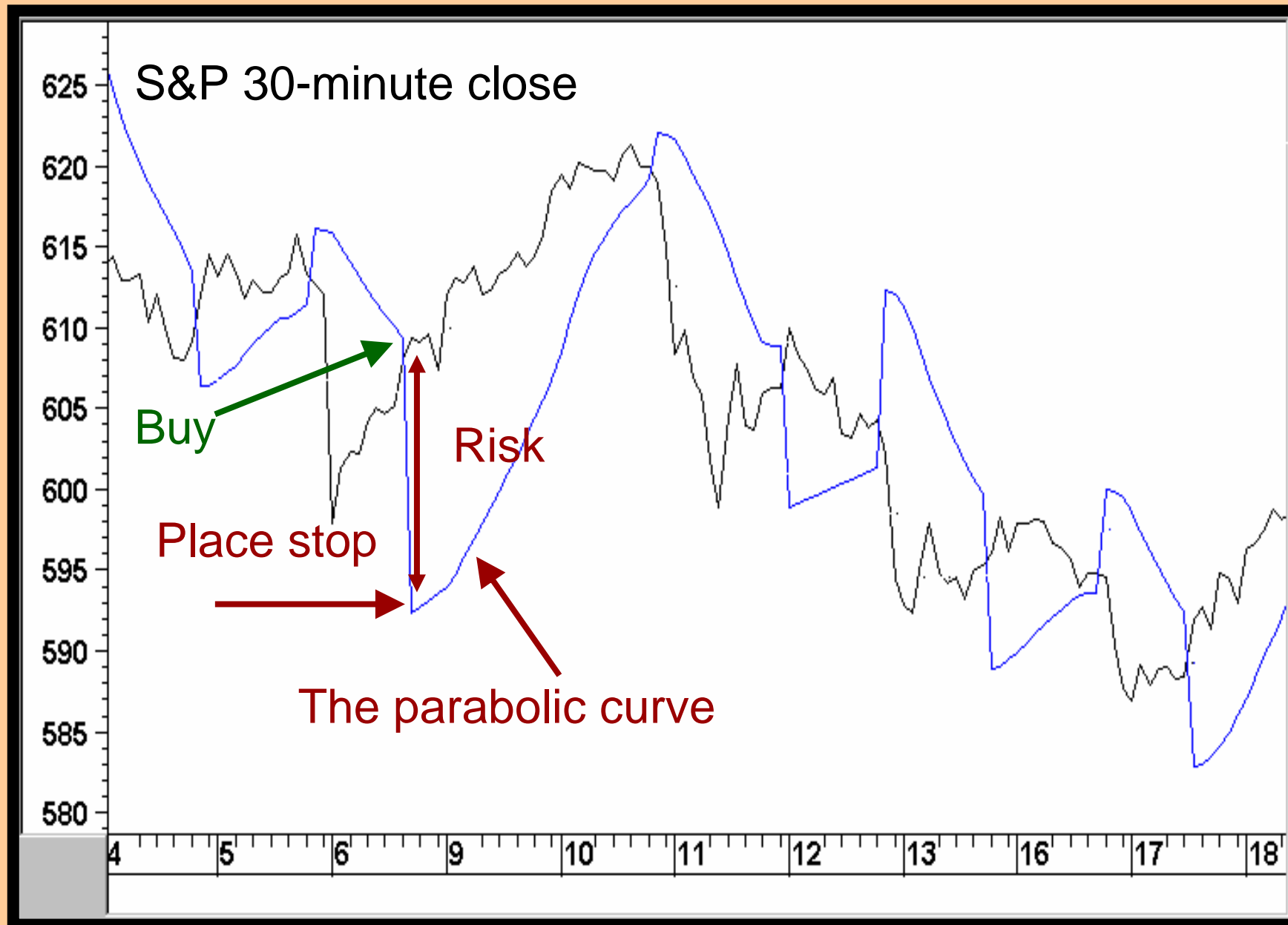


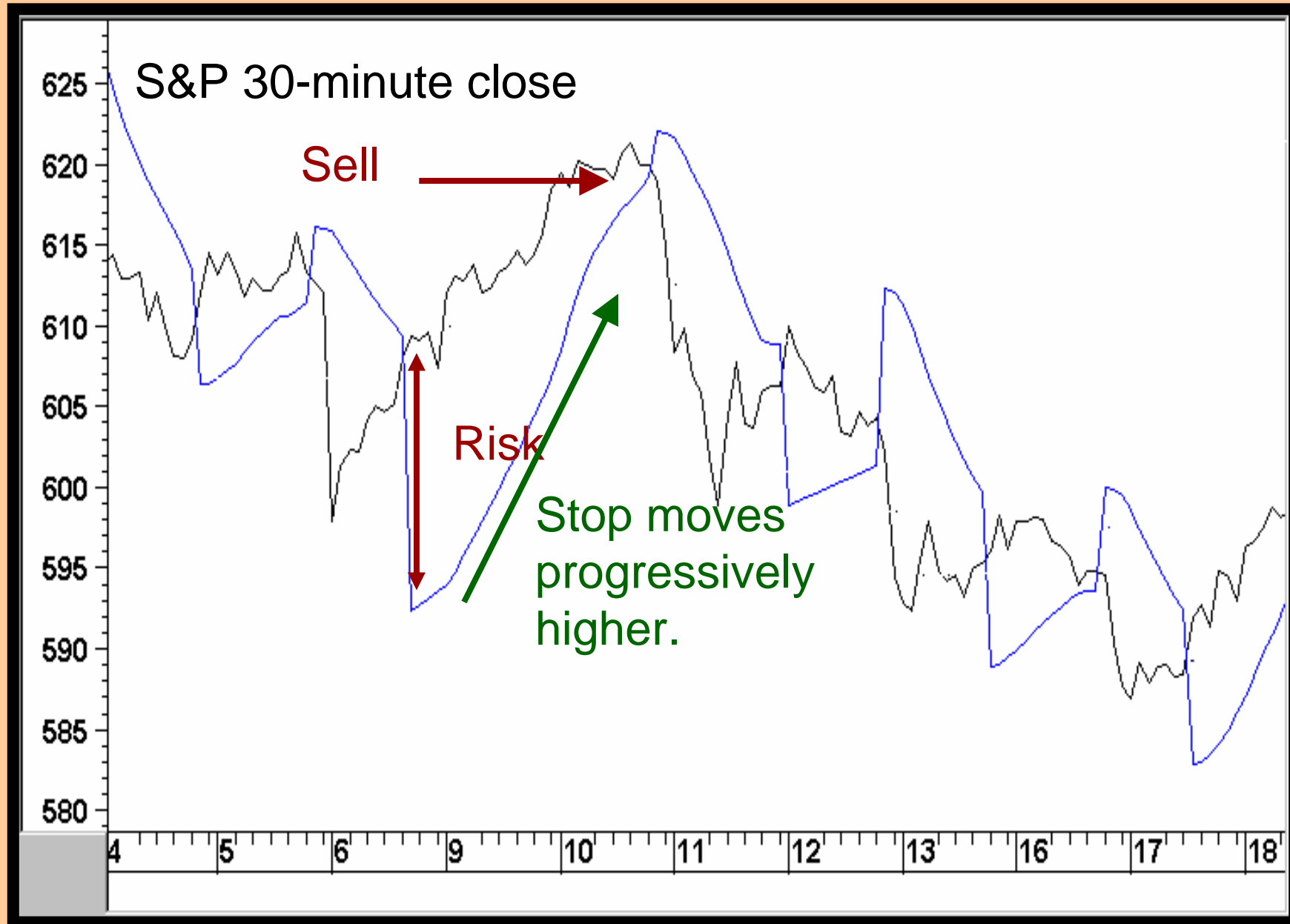


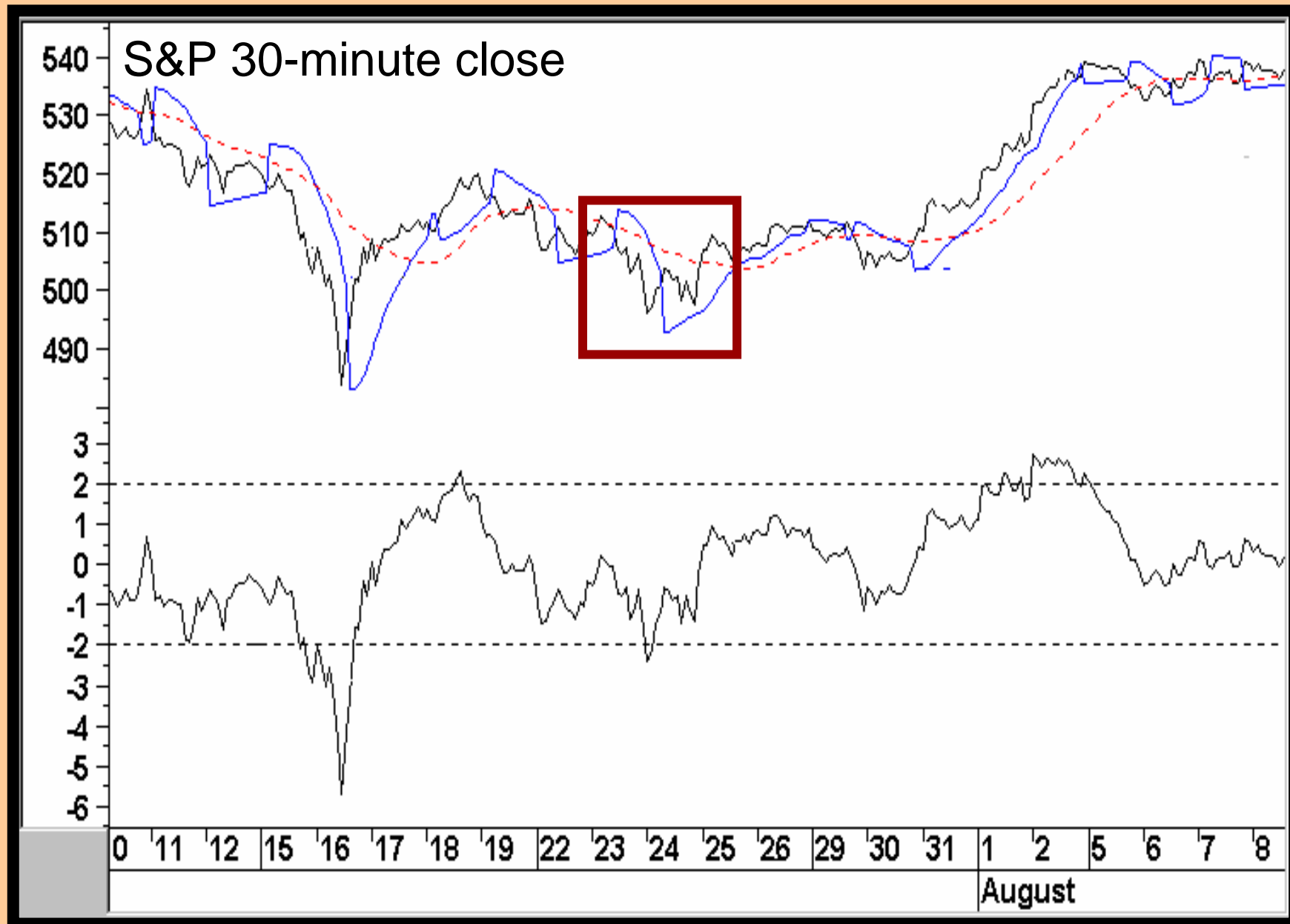
Introducing the parabolic

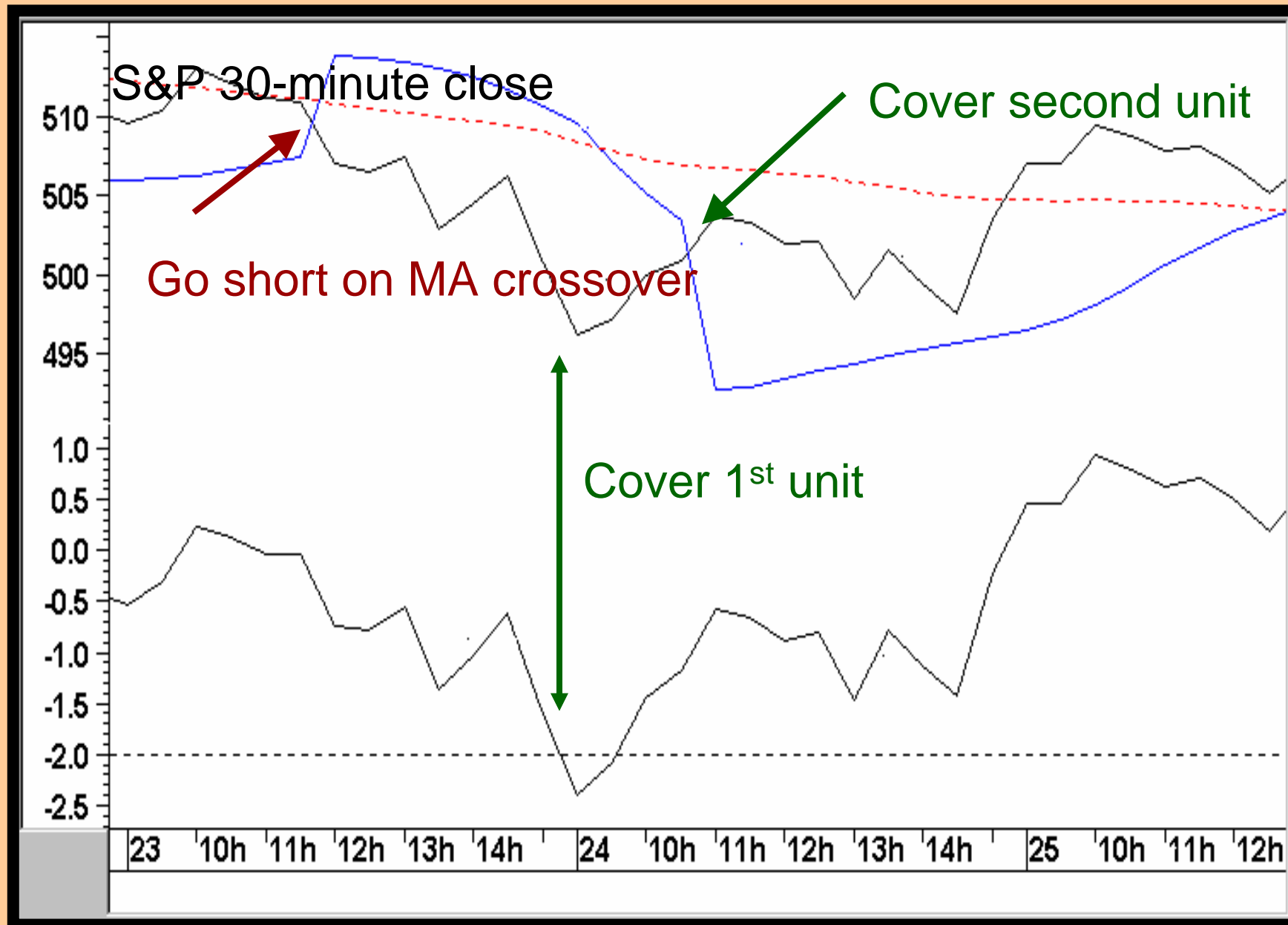
The parabolic requires two parameters.

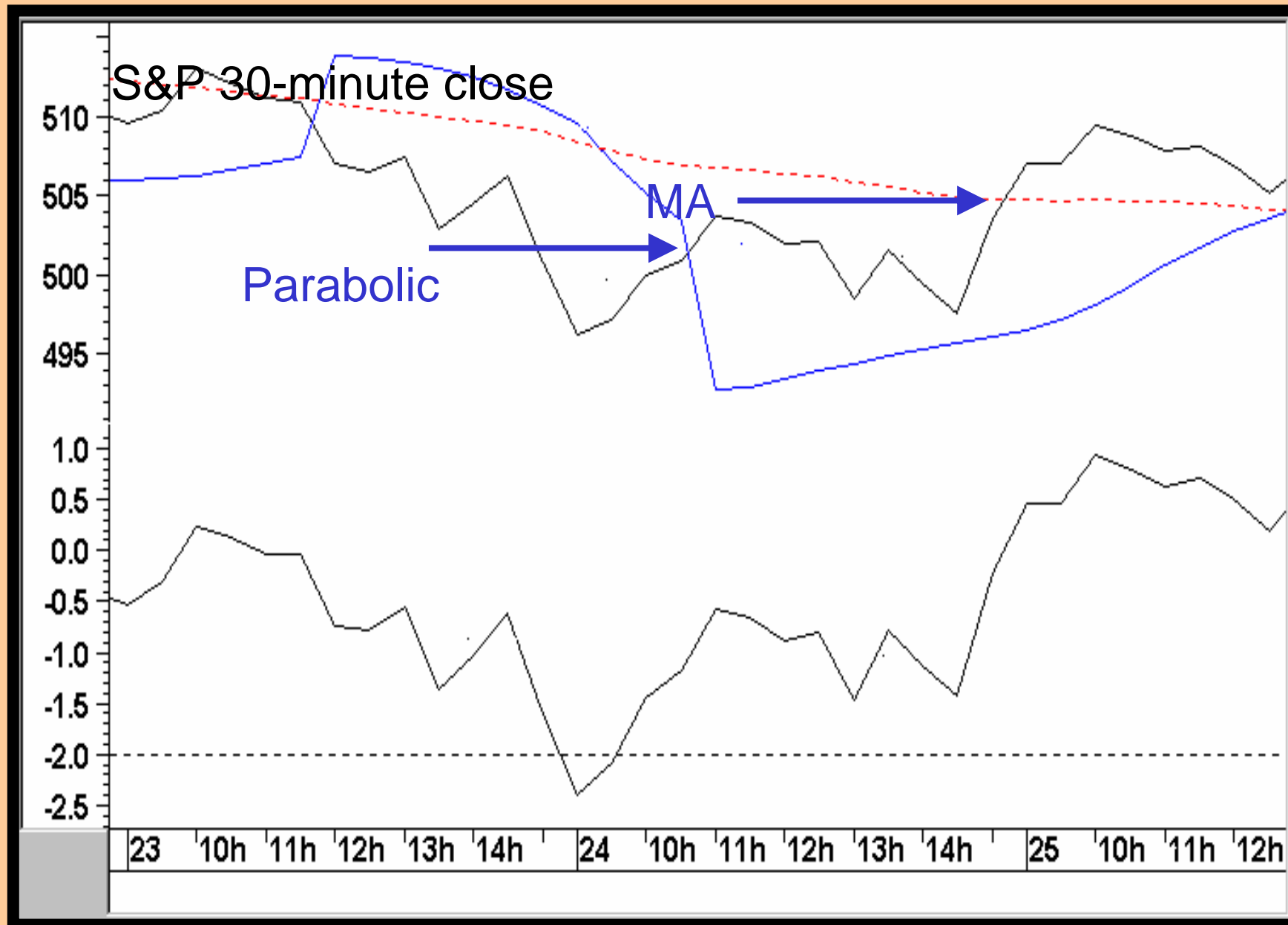
1. The speed of the move.
2. The maximum unit by which it can be increased or decreased.

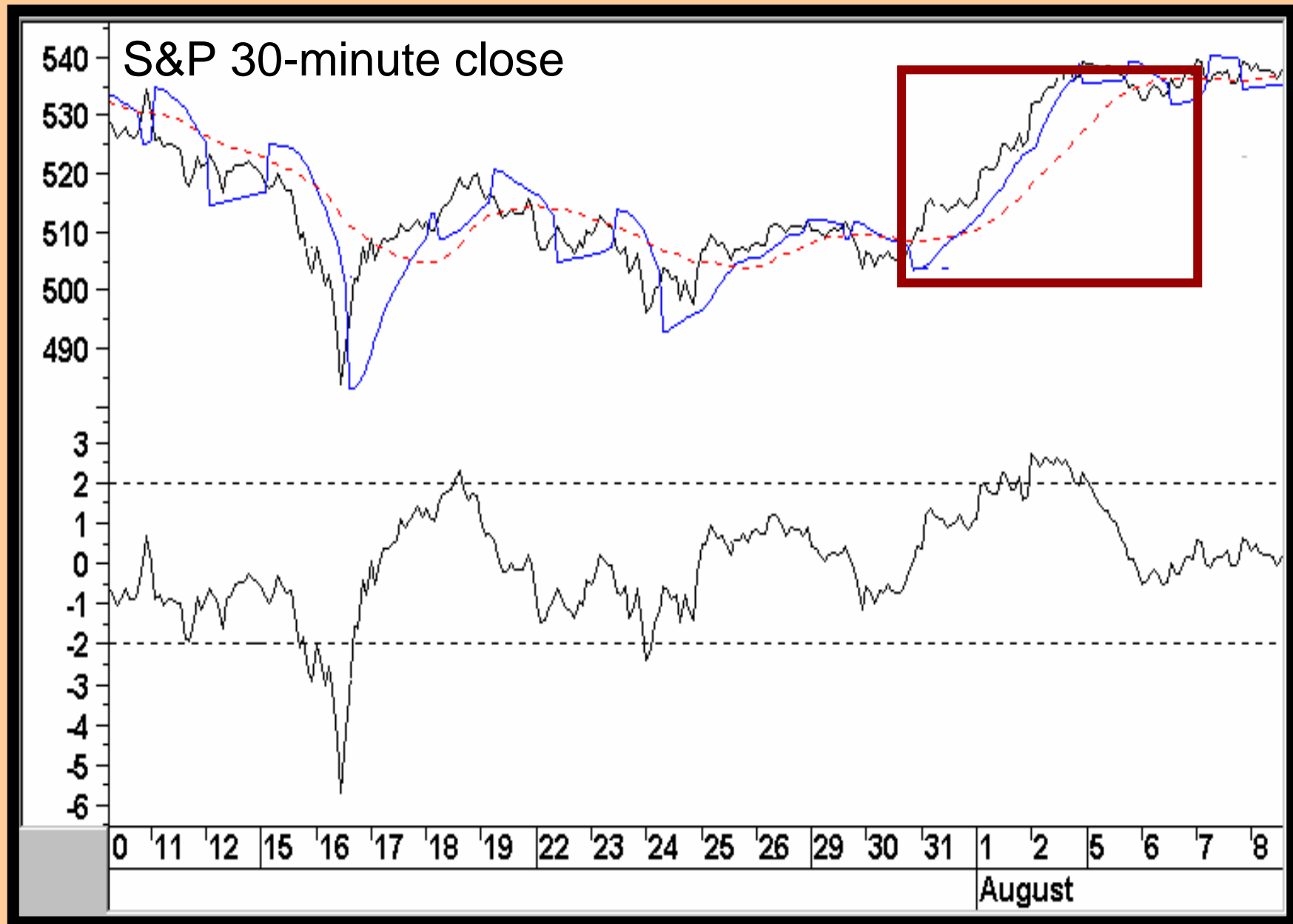


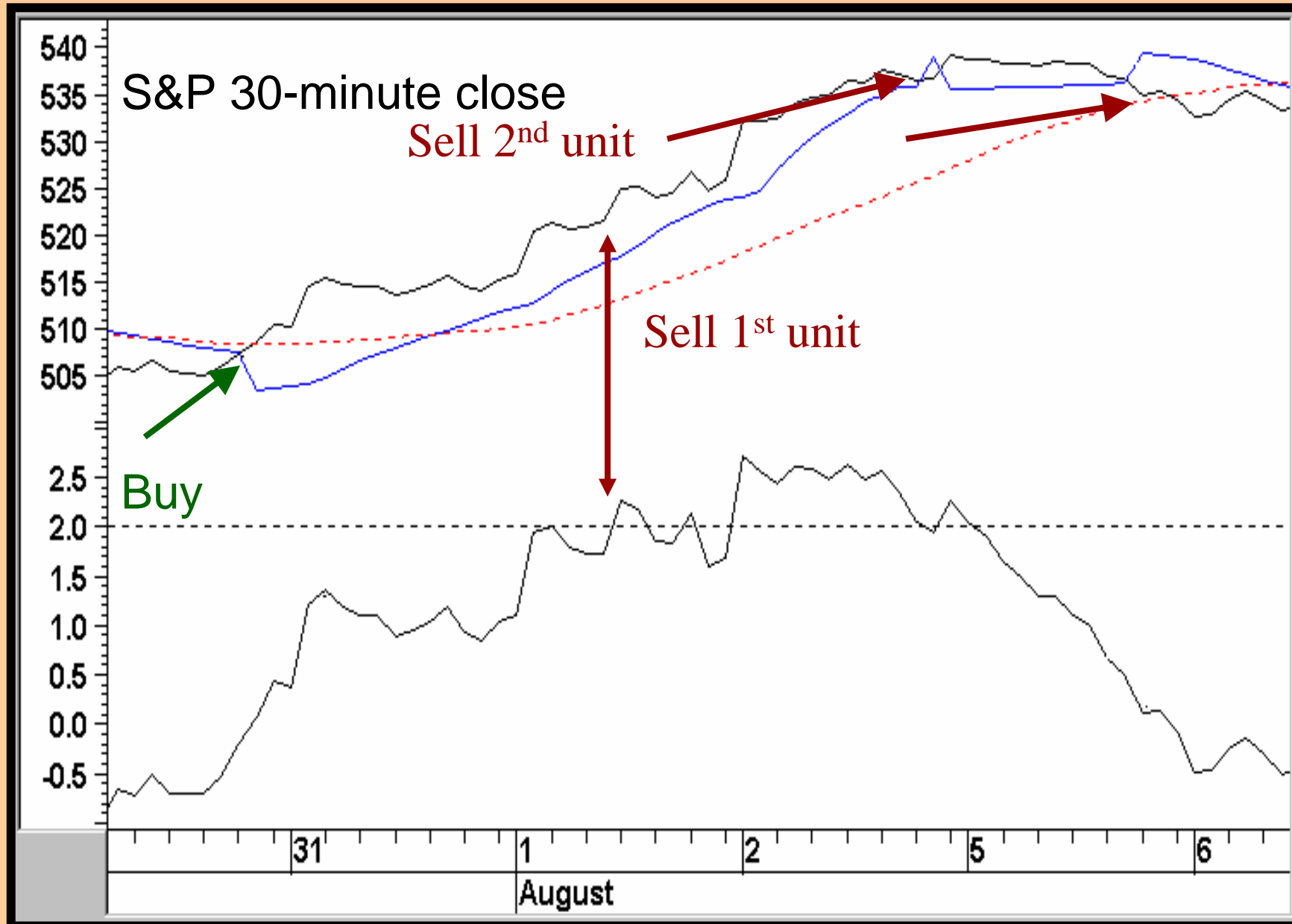








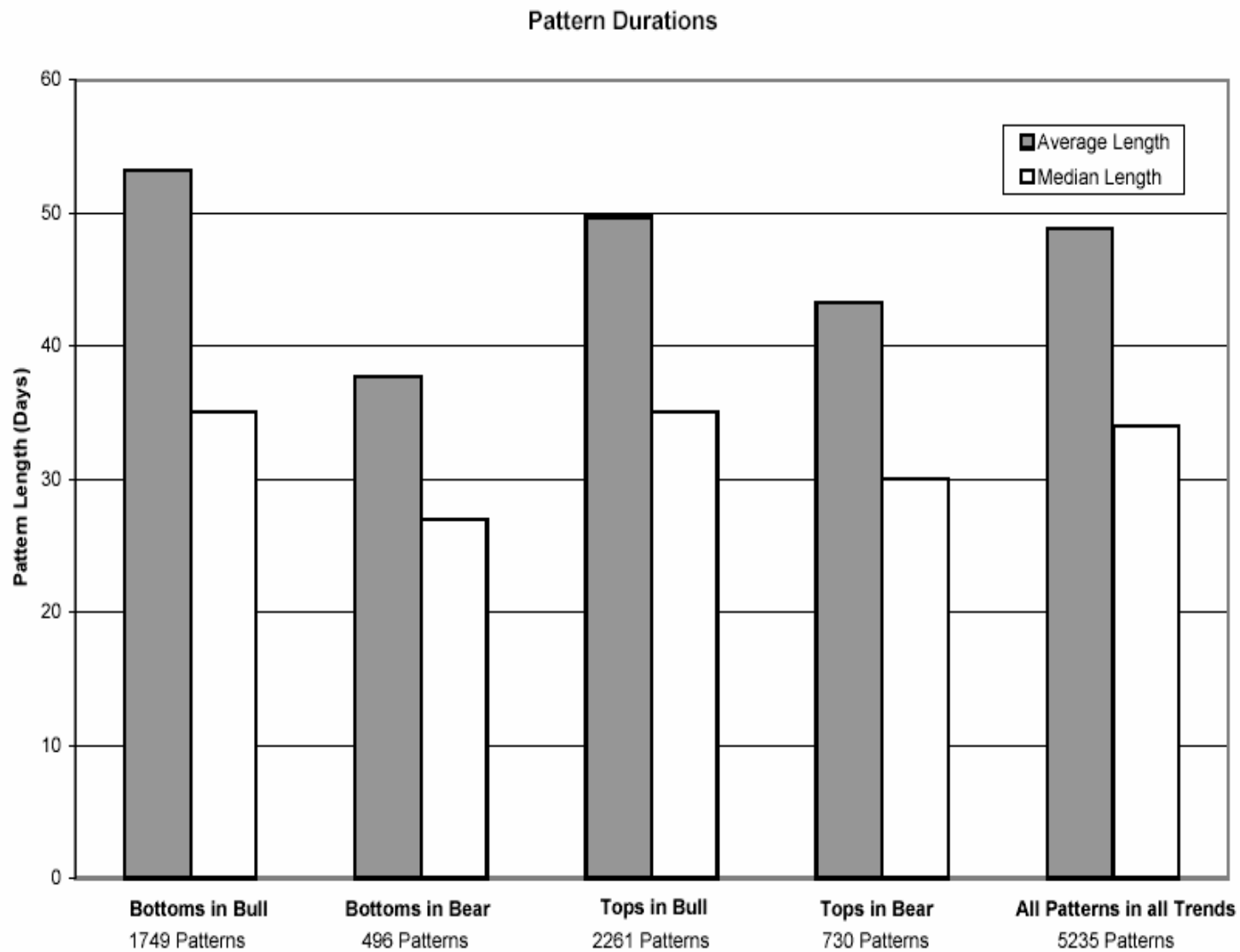




How do price patterns test?

Guidelines

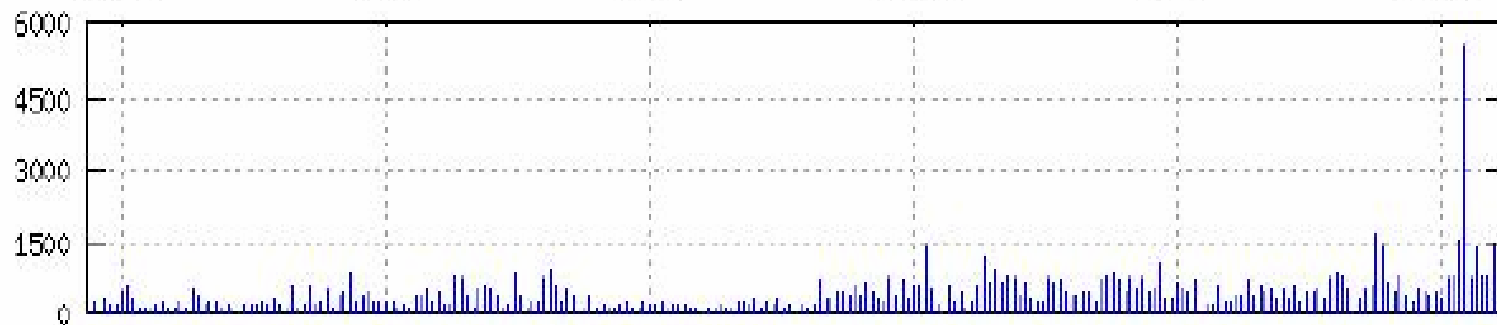
1. Head and shoulders, and double tops and bottoms, were tested.
2. Financial, energy, transportation, and retail sectors were tested between 1982-2003.
3. Primary bull and bear markets were identified.



Event ID: 250877 Event Duration: 24

VLO:NYSE (daily)
2000-01-18 : Head and Shoulders Bottom

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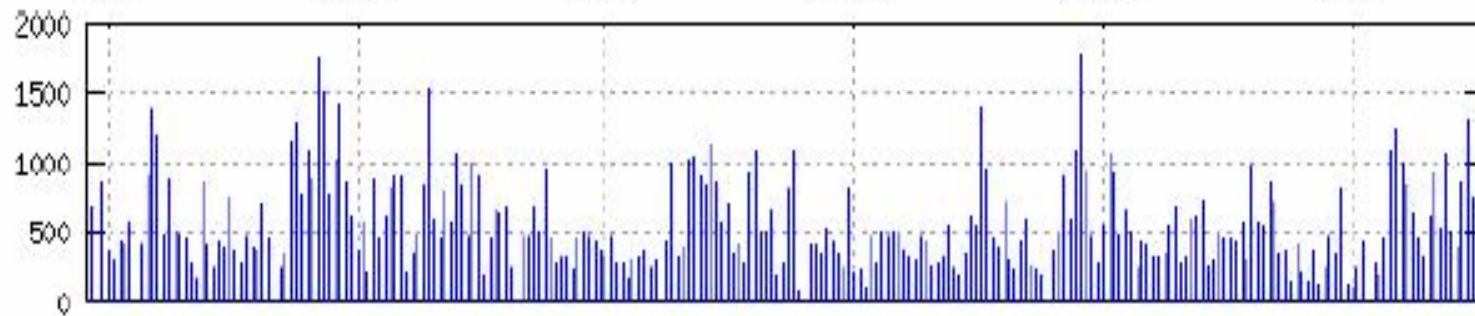
Volume (1000's)

www.recognia.com

Event ID: 165894 Event Duration: 25

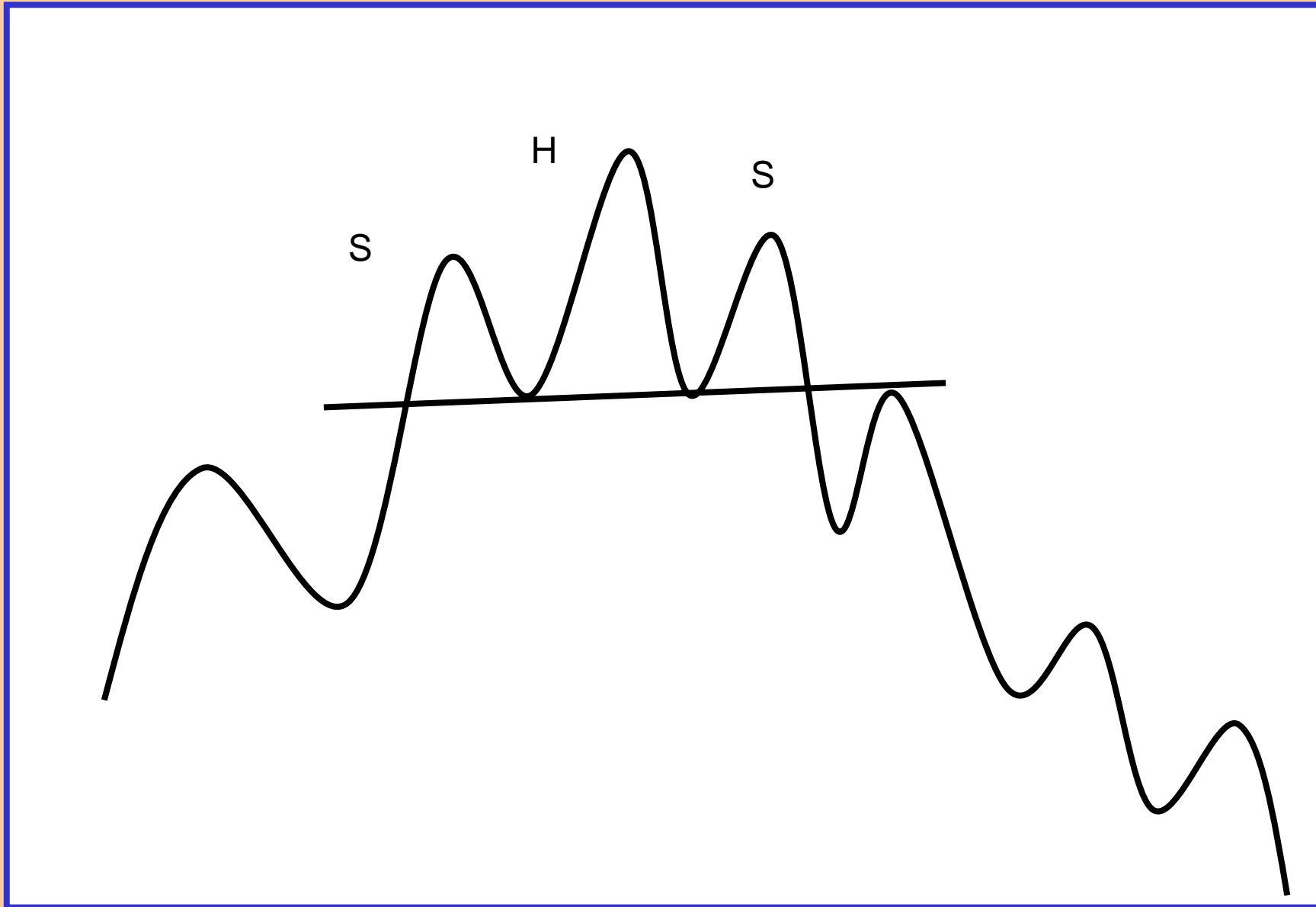
PTEN:NASDAQ (daily)
2000-06-29 : Head and Shoulders Bottom

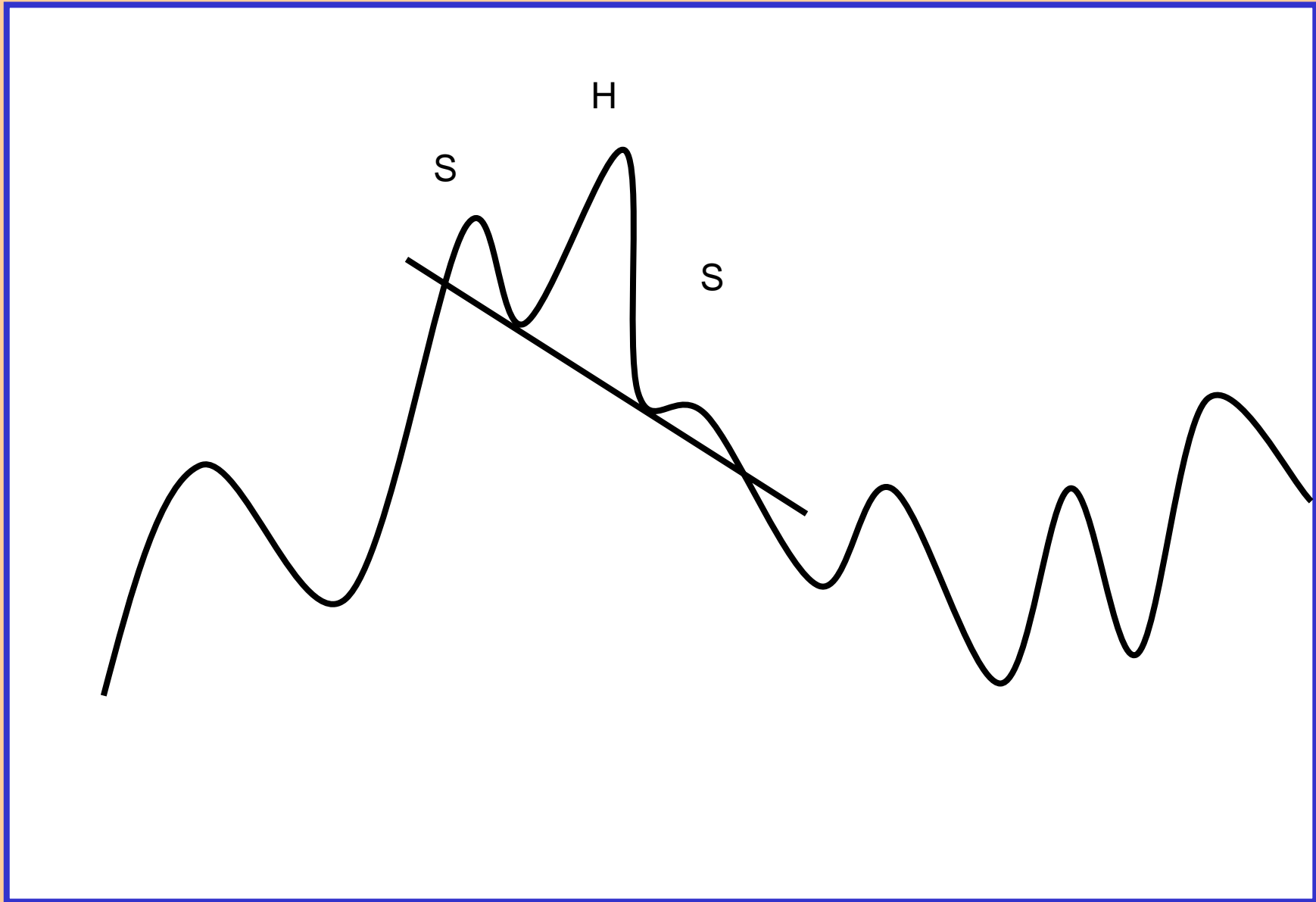
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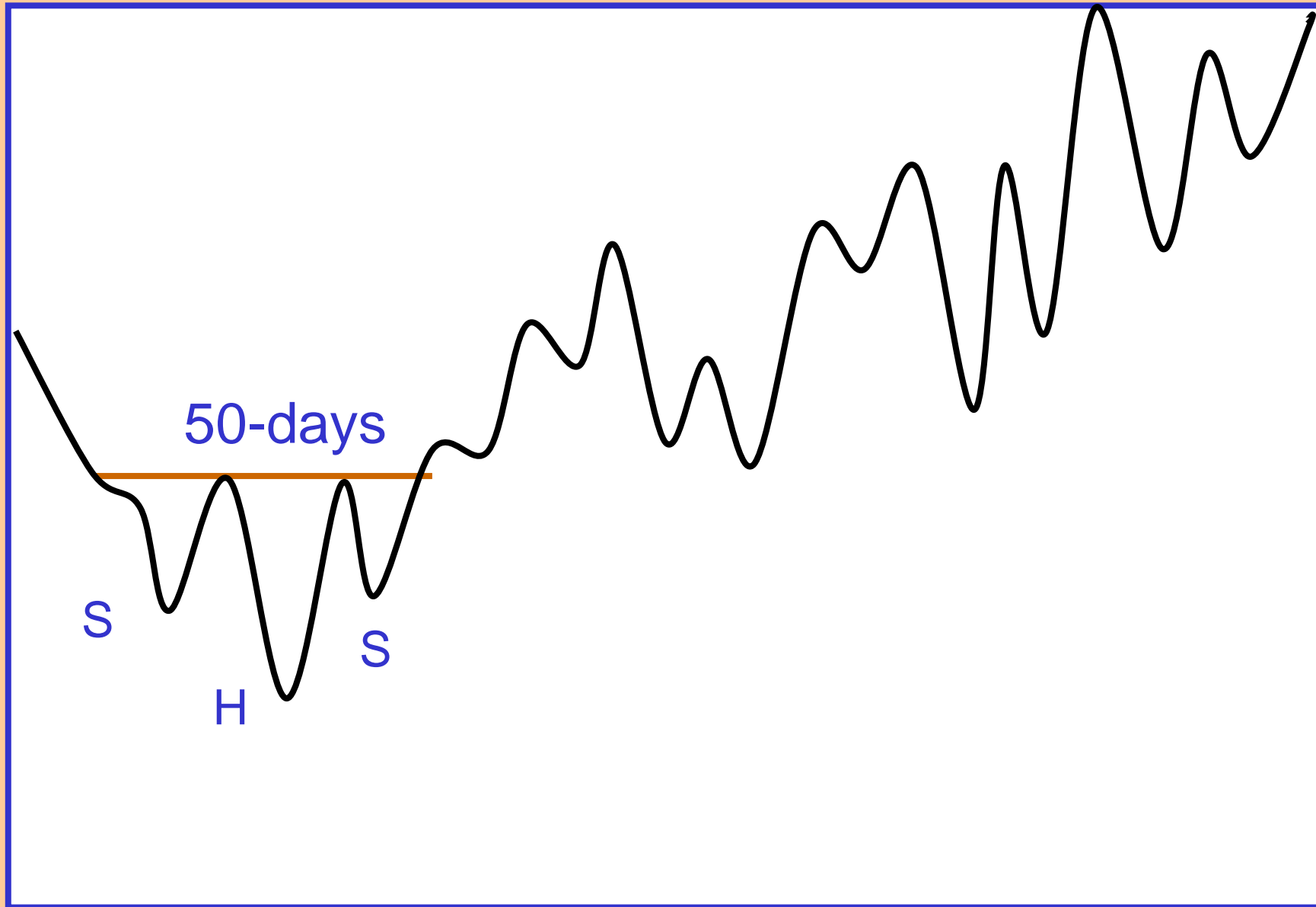
Volume (1000's)

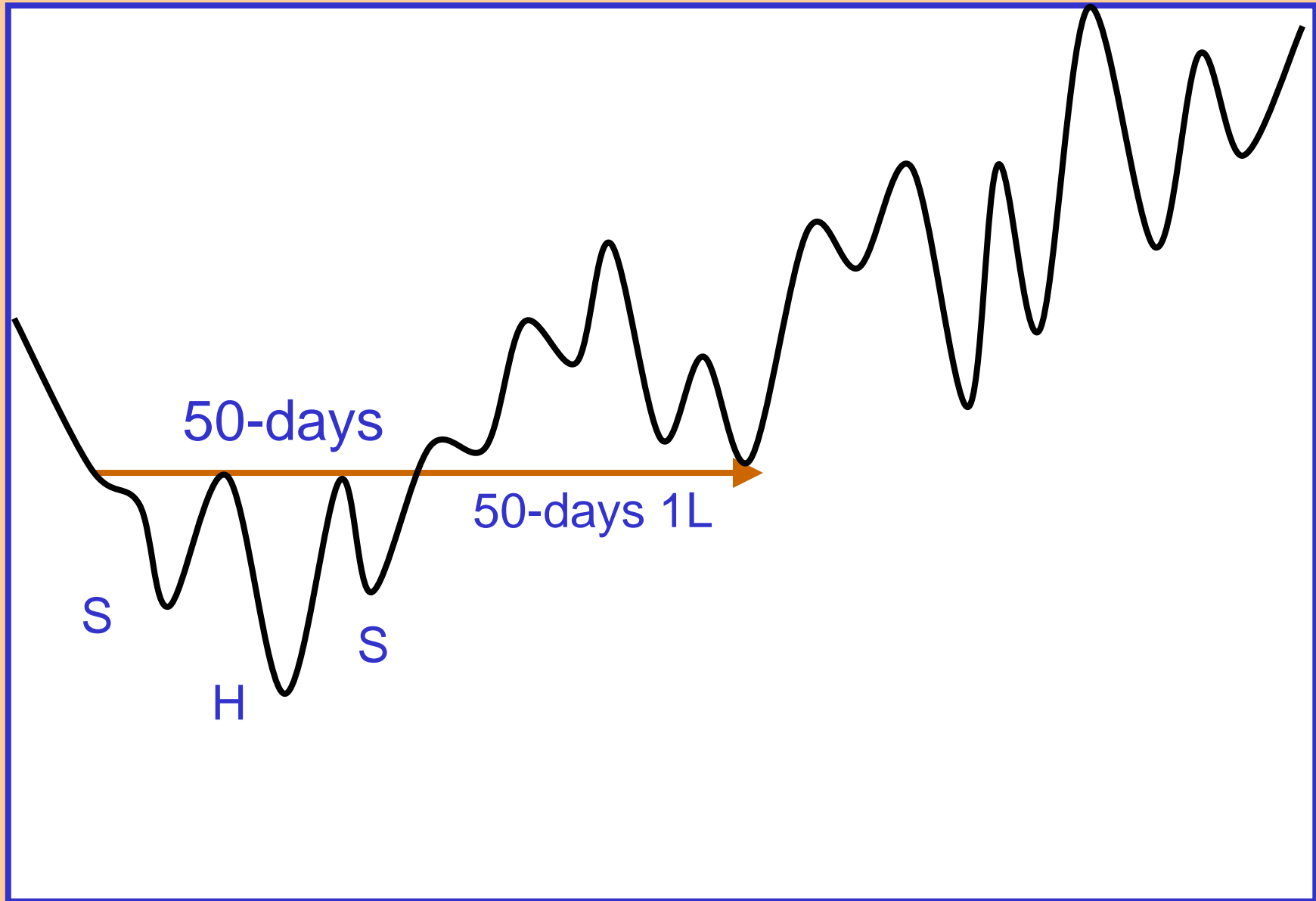
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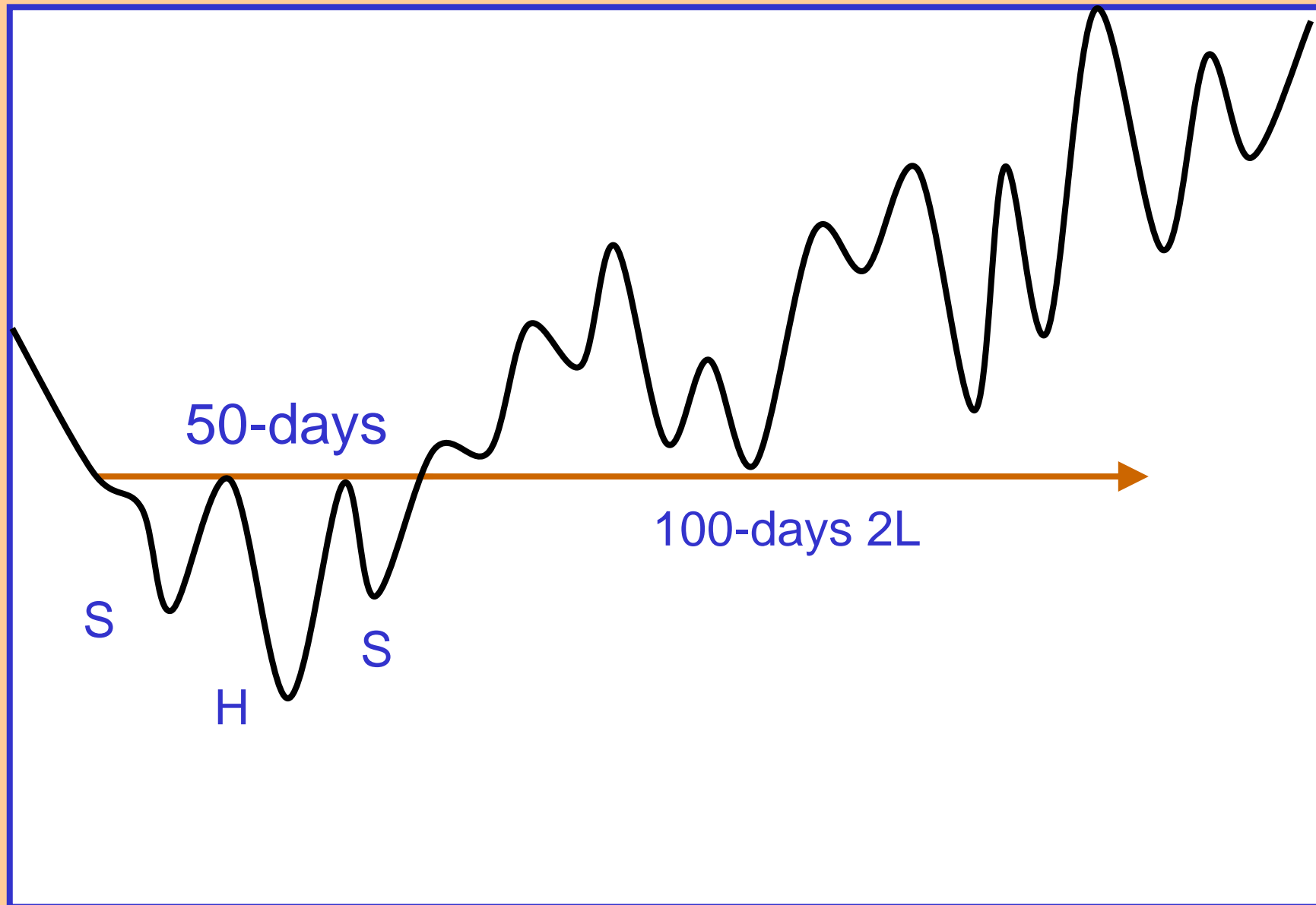


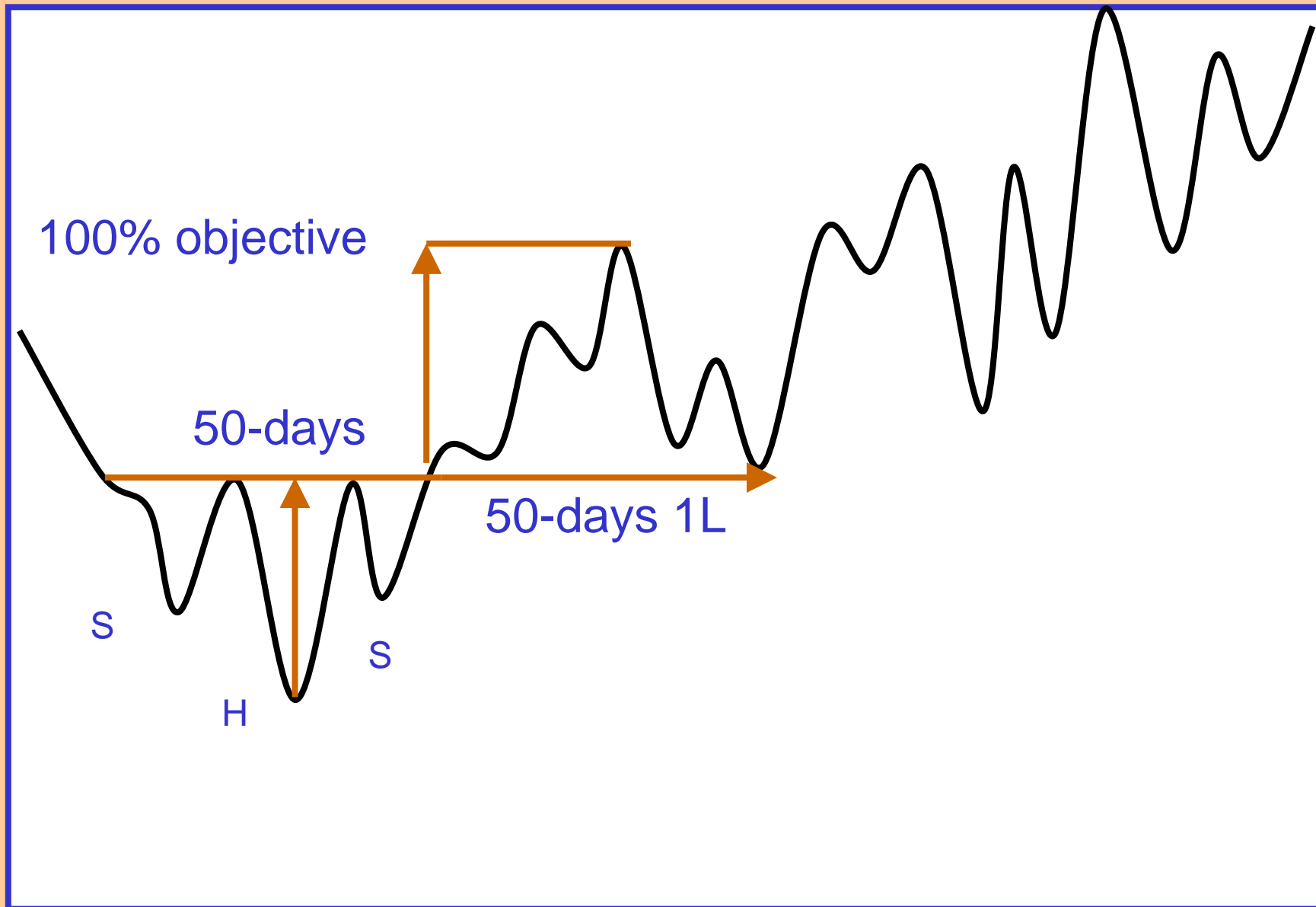


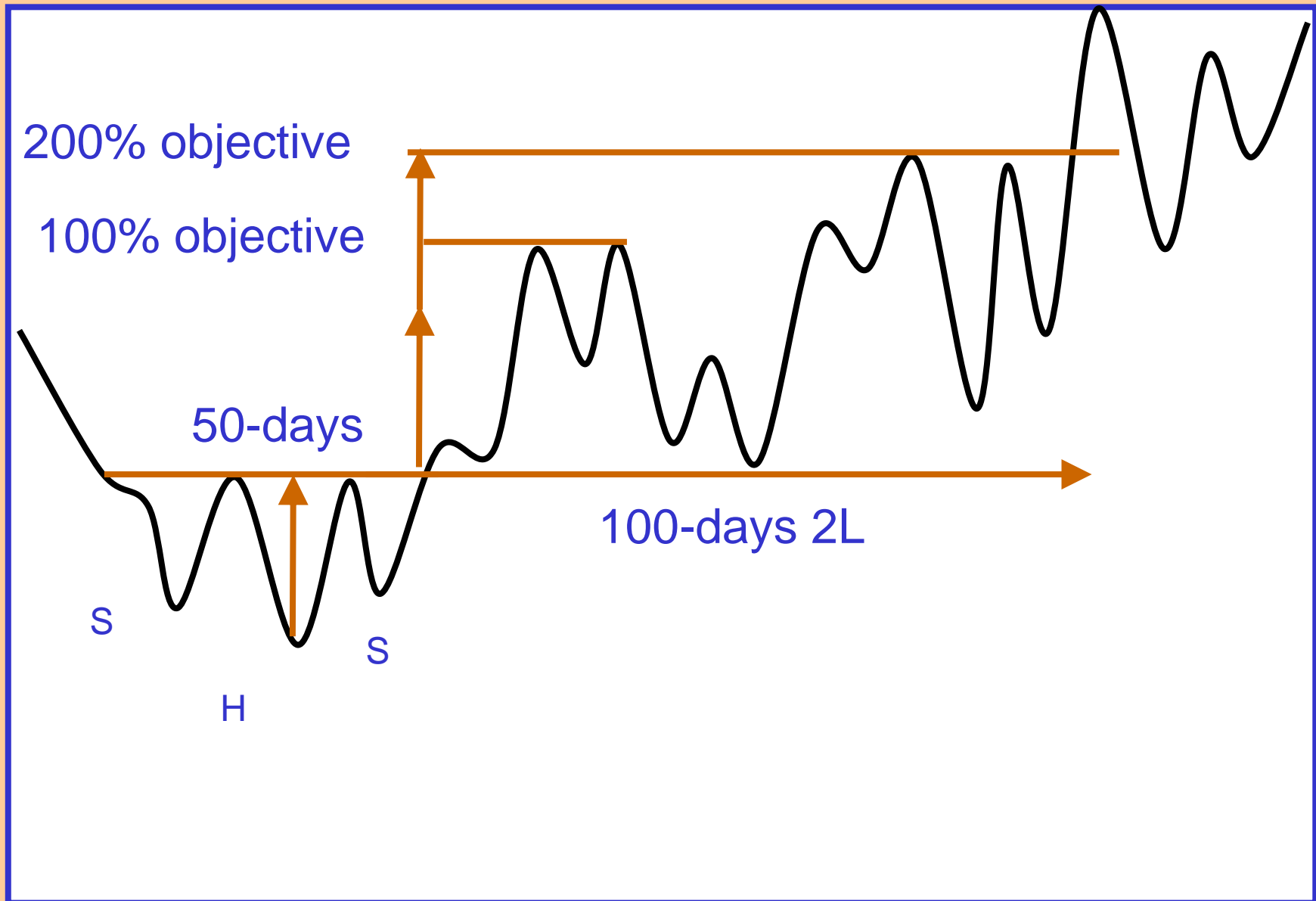
The concept of “L”

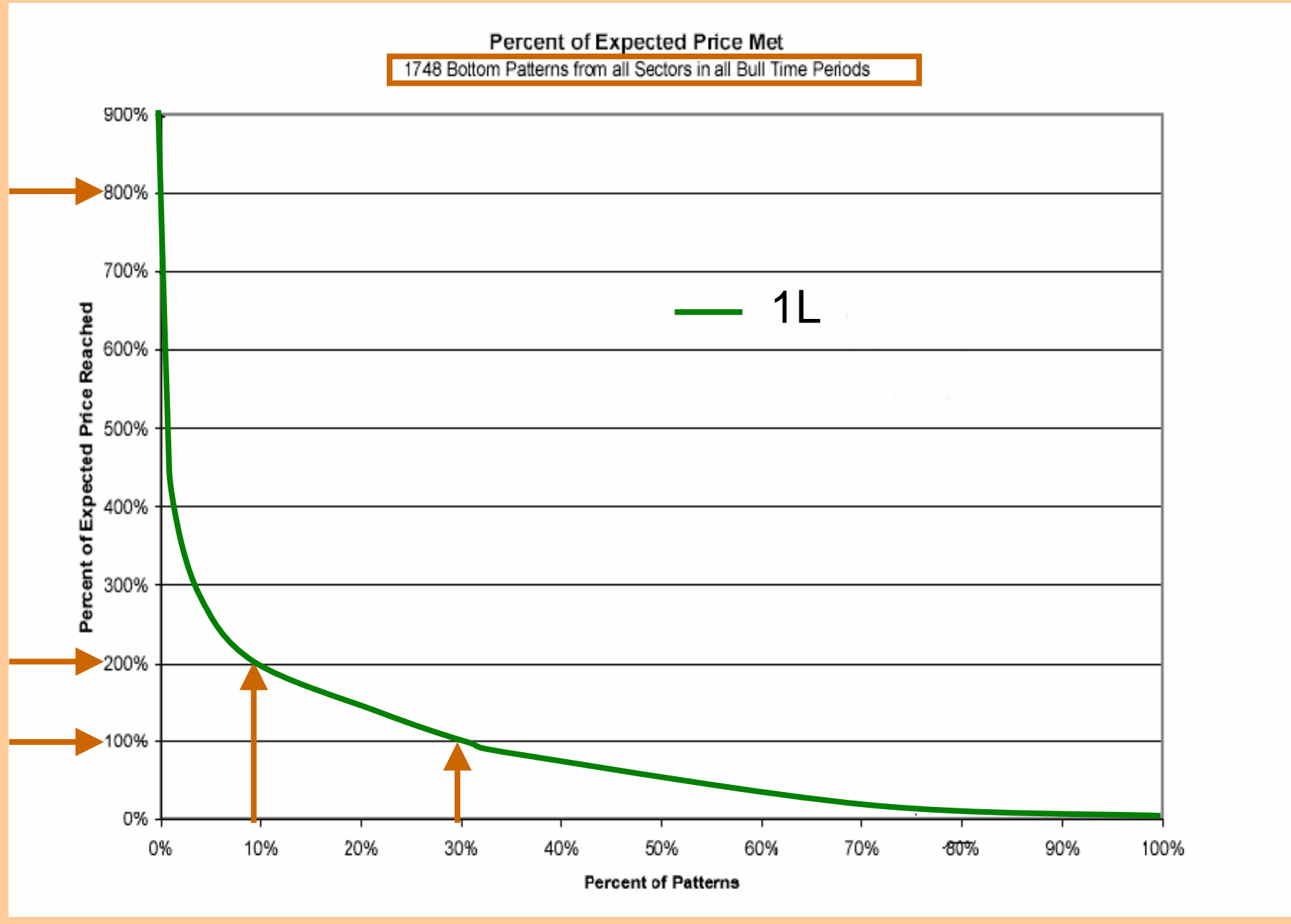




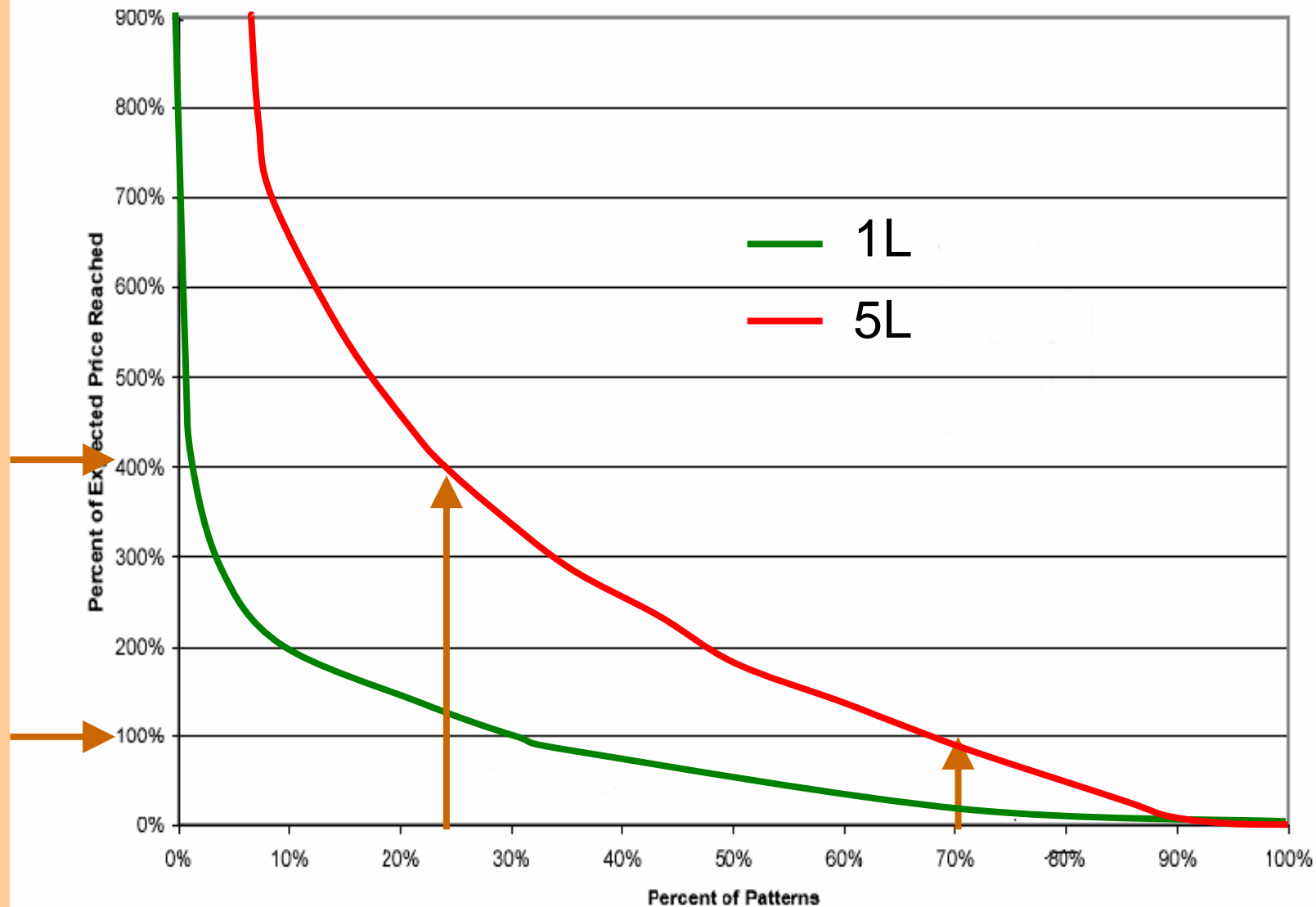


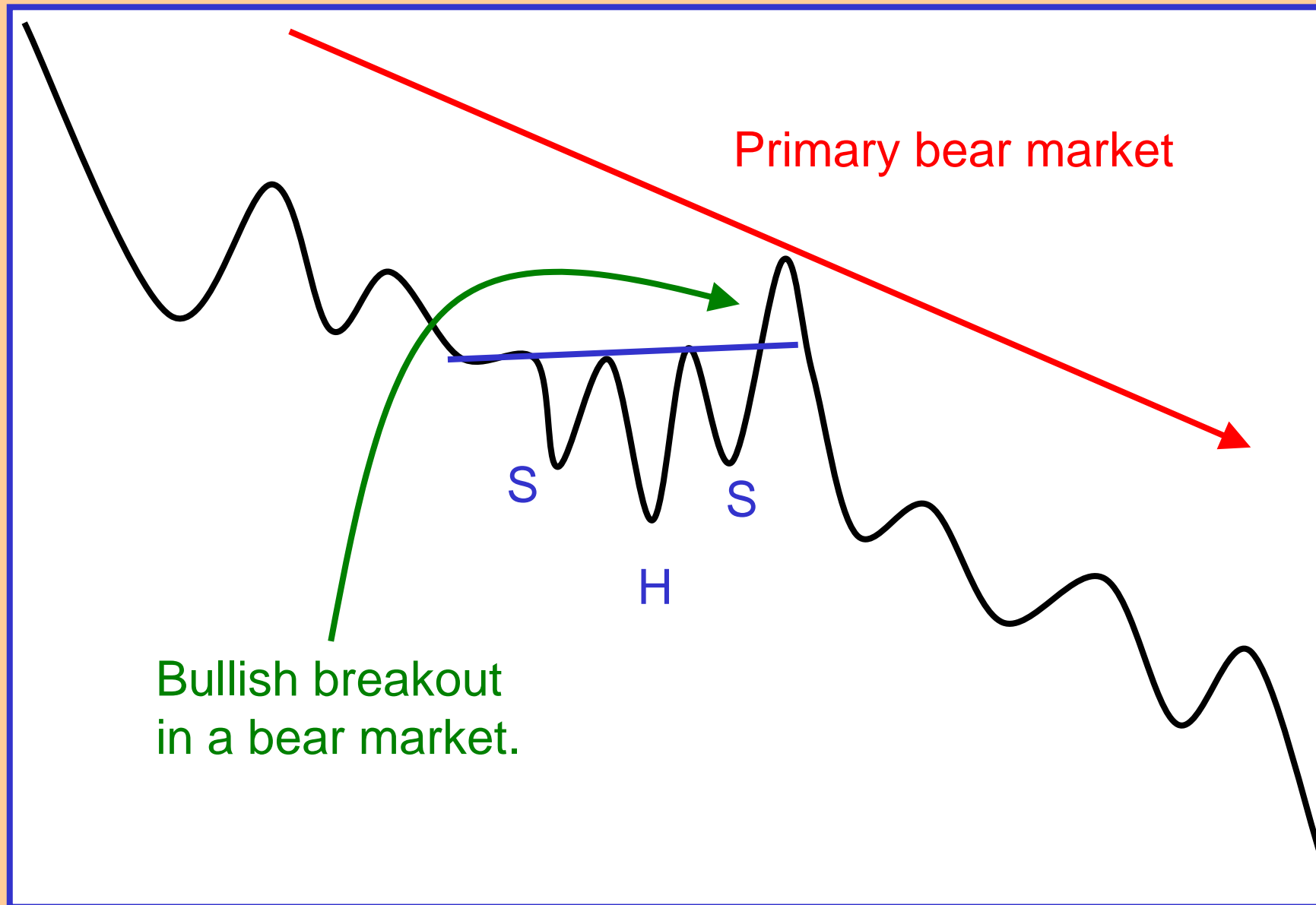


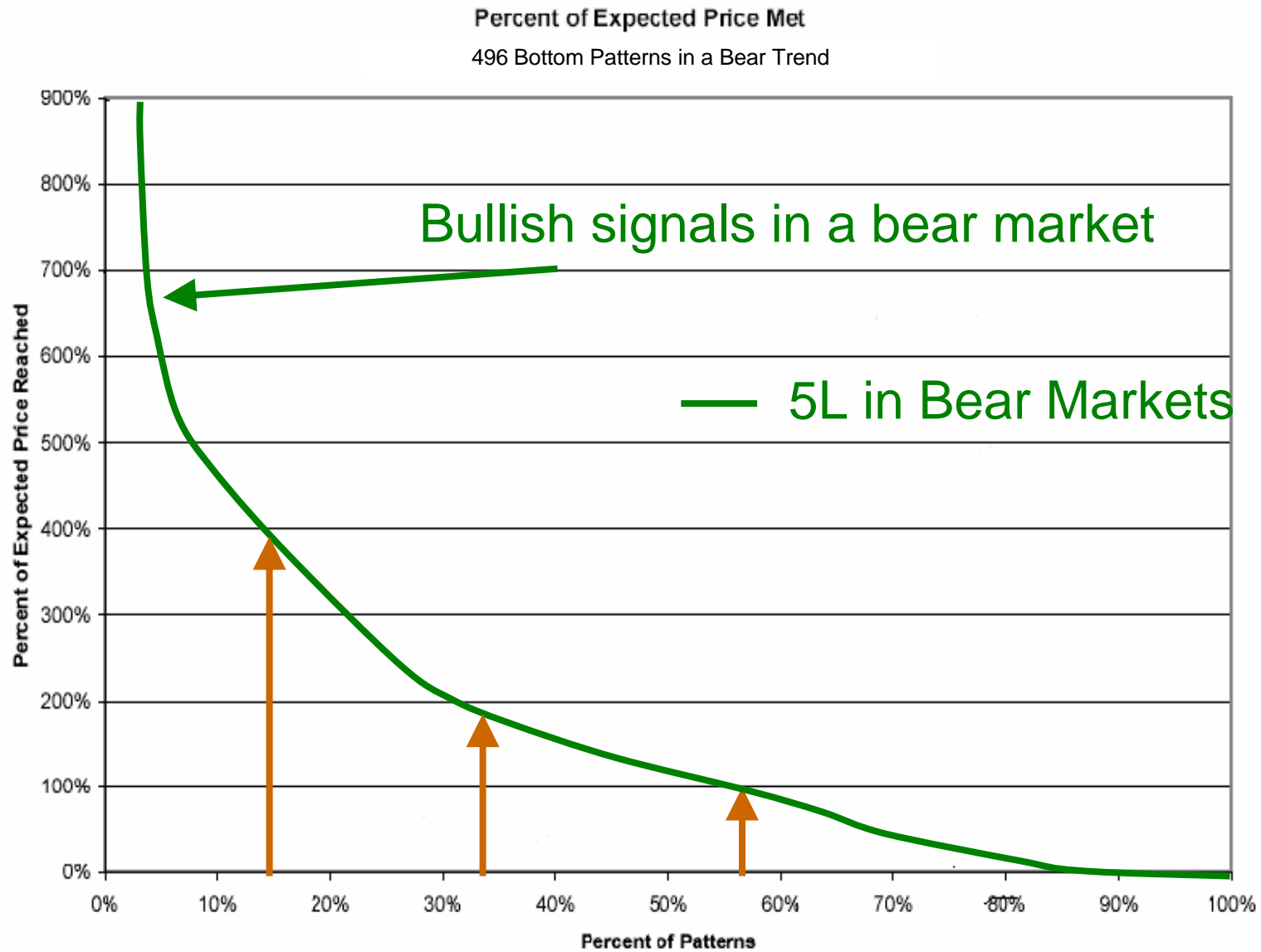


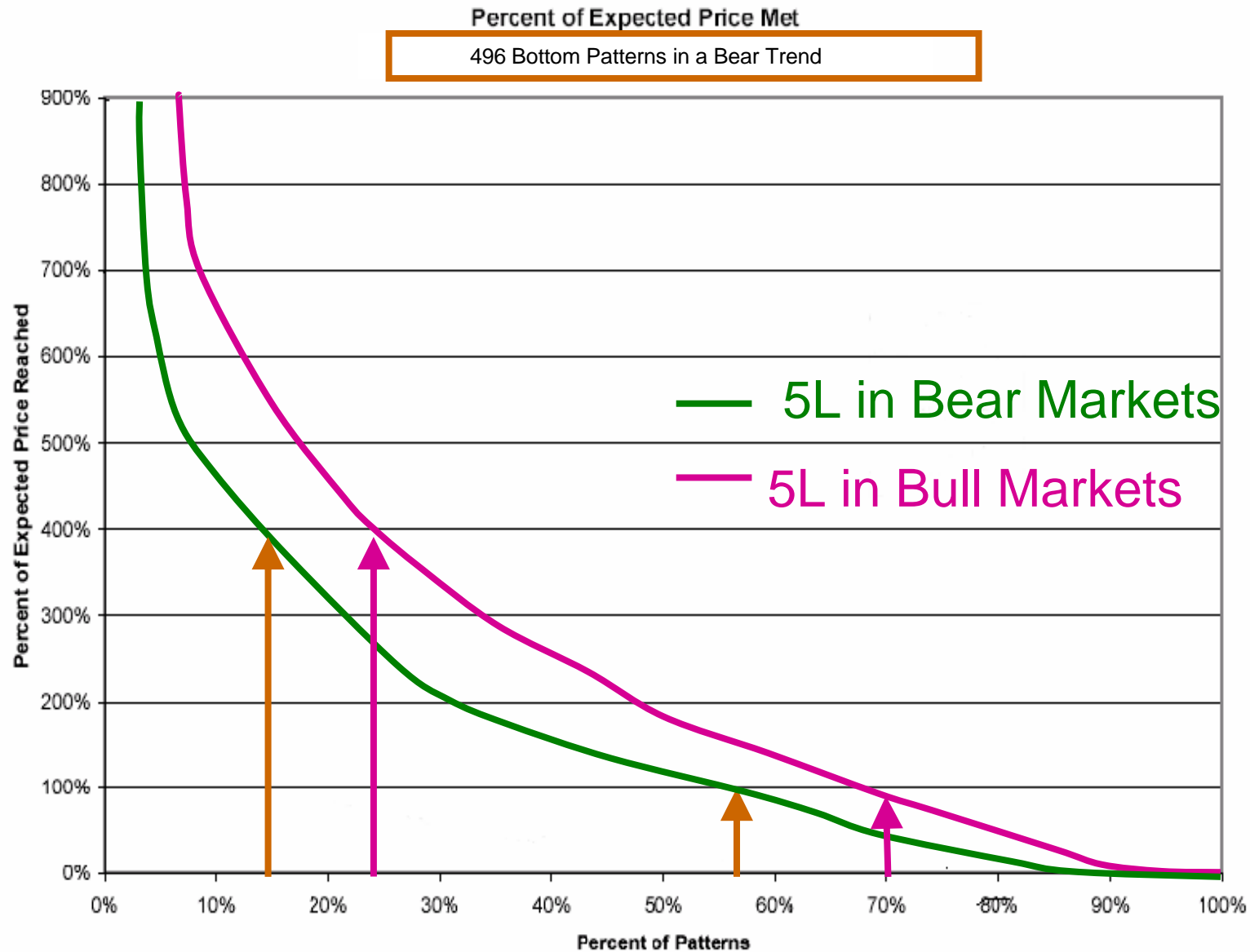


Percent of Expected Price Met
1748 Bottom Patterns from all Sectors in all Bull Time Periods









Pointers for a Primary Bull Market

1. Positive long-term KST.
2. Security should be above its long-term (e.g., 200-day) MA.

[Click here for online KST education.](#)

If you cannot open the "click here" hyperlink, hold down the Control key (Ctrl) and click again.

[1mth](#) | [3mth](#) | [6mth](#) | [1yr](#) | [2yr](#) | [5yr](#) | [More Chart Options](#)

H&S Bottom

La-Z-Boy Inc.
(LZB on New York)



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Double Bottom

Coldwater Creek Inc
(CWTR on NASDAQ)



Stop loss line

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H&S Bottom

Valuevision Media
(VWTV on NASDAQ)



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Double Bottom

Coldwater Creek Inc
(CWTR on NASDAQ)



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The
End