Harness the Power of Relative Strength

Course Notes – October 8, 2020

Why use Relative Strength?

We all want to trade "What's going up?" Relative Strength tells us which stocks are being accumulated. But the Relative Strength indicator everyone is familiar with can easily show over-bought or over-sold levels. We need something that shows us the likelihood of a trend continuing.

The new indicator **HRS_ACC** goes the next step to measure "Accumulation" of Relative Strength itself. It does this by combining prior periods to essentially determine the TREND of Relative Strength. Those stocks with the highest trend (or ACC) values are the ones being accumulated, and those with the lowest values are being sold off.

Trading vs. Investing Approaches

This method is based on the concept of Accumulated Relative Strength, or ACC. There are two ways to use ACC, in a Trading Mode or for investing.   The typical trade lasts 5-11 days. When investing, as long as the chart is in our favor, we stay with the position.

Trading with ACC:

When Trading with ACC, four Scans are Used:

- HRS Launch
- HRS Down
- HRS Launch Low Volume
- HRS Down Low Volume

The Launch Scans find stocks that are being accumulated and, ideally, are ready for "Launch", and the Down Scans find stocks that are being distributed and typically are being sold off.   With these scans, we are looking for "launch points", which are places where the angle of departure in the HRS_DIFF indicator is the highest.

Investing with ACC:

Two Scans support investing:

- HRS Strength
- HRS Weakness

These scans are designed to find the highest and lowest values of ACC. The ideal trade is a straight-line entry on a steady candidate, or an entry above the 20p ZMA with ACC consistently high (low).

Strategies for Entries and Exits

Timing Entries:

The basis for trading the method centers around the ACC line, which is plotted by the HRS_ACC Indicator. Here are a few ideas:

- Straight-line ACC

- Consistently High ACC

- Strong zero crossover

- Pull-Back Reversal

- Chart moving through ZMA

- Chart breaking highs

- Multiple Confirmation

Optimal Exits:

The Trade Plan will provide proper Exits to protect against downside risk. However, to maximize profits, you want to look for early exits based on inspection of the charts.

For **Trading**, look for TARGETS:

- Channel Projections – Tops of Channels
- Fibonacci Retracements – especially 50%
- Consolidation Targets – Go twice the distance
- Measured Gap Targets – " " " "
- Volume Climax Targets – " " " "

For **Investing**, look for signs of failure to follow the ACC Trend

- Close through ZMA – Indicates weakness if 2 consecutive bars close through the ZMA.
- Turn in ACC – A downturn in ACC can portend coming weakness
- Sudden volume or indication of an opposing philosophy (from accumulation to distribution)

Using Options:

Finding the Best Option
Option Chain:

- Options expiring about 2 weeks out if available.
- Bid-Ask spread less than 10% of Last

OptionFinder:

- Set Max Bid-Ask spread% in Settings to 10.
- Set target along Trend about 2 weeks out
- Set Trade Size to 10-20% of normal exposure.
  So if normal trade is $5,000 apply $500 to $1,000 max

Placing the Trade
Normally, use Quick Trade or the Trade Manager to place trades (see When to Exit below). If you want to use Option Trade Plans to manage the trade, you will need to copy OPT Long Option and add the exits that are found in the HRS Adaptive Trade Plan.

When to Exit:
If you are trading a very small allocation of your account, you can just let the Long Calls expire worthless. When trading, say, ½% ($500 on a $100,000 account) you can expect a good trade to yield about $250 in profit and a "runaway" trade to make $1,500+_