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Trend and time frame

BY ACTIVE TRADER STAFF



Name: Brian Shannon

Age: 39

Lives and works in:

Denver, Colorado

Brian Shannon grew up watching Louis Rukeyser's "Wall Street Week" with his father on Friday nights.

"I did it to spend time with him, but then I started listening and developed an interest in the markets," Shannon says.

His first real trading experience occurred when he was 13 years old. Lo-Jack, a company that developed an automobile security system that made it possible to track and recover stolen cars, was in the news.

"The stock was about \$5 a share and I said to my Dad, 'That sounds like a good deal,'" Shannon remembers. With about \$500 in savings from a newspaper route and caddying, Shannon bought 1,000 shares. His father made up the difference and Shannon had his first taste of leverage.

The stock doubled over the next three months and Shannon was bit by the lure of easy money.

"I was a kid who just made \$5,000 in three months," he says. "I thought, why does anyone get a real job?"

He continued to sporadically trade stocks before and during college. After graduating in the early 90s, Shannon took a job as a stockbroker with Lehman Brothers in Boston and got his first exposure to technical analysis.

After several years, Shannon was looking for a change. He moved to Denver and began trading through a proprietary trading firm, putting up \$25,000 and receiving 20:1 leverage. He primarily traded listed stocks from a technical perspective, using a simple pattern-based momentum strategy.

Shannon credits his fairly consistent success to two things.

"I was very, very disciplined about taking losses," he says.

Second, he believes "practice with other people's money" from his days as a stockbroker helped. Now, Shannon trades for himself full-time. He also writes a free-access blog (www.alphatrends.blogspot.com).

Before trading for himself:

Shannon also worked at MarketWise, a proprietary trading, active trader brokerage, and market education firm, for several years. (He still occasionally teaches market education classes for Marketwise.)

Trading methodology: Shannon trades mostly Nasdaq stocks from both the long and short side. He puts on roughly five or six trades per day that last anywhere from a couple of hours to a couple of days. He looks for 10-day average volume between 200,000 and 50 million shares and mostly trades stocks within the \$2.00-\$50.00 price range.

"Trend alignment" plays a key role in Shannon's trading decisions: He identifies the primary longer-term trend and then times entries into those trends based on intraday price action.

Shannon uses The Profiler scanning software, which has a database of roughly 4,500 stocks. The software helps him develop a list of roughly 200 stocks for further analysis and study and identify which stage a stock is in: accumulation, mark-up, distribution, or decline. He looks for solidly trending stocks that are in the mark-up or decline stages on the daily time frame.

He also looks for stocks that have positively positioned moving averages. For a bullish trade, he likes to see the 10-day average above the 20-day average, the 20-day above a positively sloped 50-day average, and price above all three.

Certain volume cues enter into the picture as well.

"Volume allows us to measure the intensity of participants," he explains. "I want to see a stock that rallied from, say,

Trading setup

Hardware: Two PCs, one with two monitors and the other with one. AMD Aflon 64x2, 2 GHz dual core processor, 960 MB RAM; one laptop

Software: RealTick

Internet connection: Cable

Brokerage type: TerraNova online

\$15 to \$18 over the last three days with volume expanding on each of those days. If price pulls back to \$16.00-16.50 over the next two days, I want to see diminishing volume."

Finally, Shannon studies multiple time frames to determine trend alignment.

"I'm trying to use the definition of trend to tell me when to get involved," Shannon says. "I never buy on weakness, only on strength."

For a stock that is clearly in a daily time frame uptrend, Shannon will drill down to a 10-minute chart over the past three days. If he sees the stock pulling back on diminishing volume, he'll keep it on his watch list.

When a pullback appears to be ending, Shannon will enter a limit order if price makes a new high on a five- or 10-minute chart. He calls this a momentum entry based on the definition of trend, confirmed on multiple time frames.

For a long trade, Shannon usually places a stop under the most recent higher low. He uses daily pivot point analysis for targets. Typically, he sells a part at R2 (see Key Concepts," p. 81). Overall, his goal is to sell into strength after signs of a profit-taking retreat.

Most important lesson learned:

"My opinion doesn't matter — the market doesn't care what I think. The only thing that matters is price. It's the only thing that pays."

Best thing about trading:

"Freedom and independence."

Best trading book: Stan Weinstein's *Secrets for Profiting in Bull and Bear Markets*.

When not trading: Shannon skis, competes in triathlons, and participates in a masters swim team program, and he recently competed at the state championship meet. ☺