BOLLINGER BAND TRADING

How to Build a Profitable Trading System Using Bollinger Bands

GLENN WILSON

Bollinger Band Trading

How to Build a Profitable Trading System Using Bollinger Bands

Table Of Contents

Introduction

Introduction

I want to thank you very much and congratulate you for downloading the book, Bollinger Band Trading—How to Build a Profitable Trading System Using Bollinger Bands.

In this book, you'll discover the power of Bollinger Bands. You'll learn what they are and exactly how to use them to identify buy signals, sell signals and trends.

Plus, you'll learn step-by-step how to use Bollinger Bands in conjunction with other indicators (such as RSI) to build a complete profitable trading system.

Thanks again for downloading this book, I hope you enjoy it!

Legal

Risk Disclaimer

Trading in any financial market involves substantial risk of loss and is not suitable for all investors. Any style of trading in any market condition is extremely risky and can result in substantial financial losses in a very short period of time. There is considerable exposure to risk in any transaction including but not limited to, the potential for changing political and/or economic conditions that may substantially affect the price or liquidity of a trade.

Trading is a challenging and potentially profitable opportunity for those who are educated and experienced in trading. Before deciding to participate in the markets, you should carefully consider your objectives, level of experience and risk appetite. Most importantly, do NOT invest money you cannot afford to lose. Objective, experience, risk of loss, leverage, creditworthiness, limited regulatory protection, market volatility that may substantially affect the price or liquidity of a trade, communication failure, *etc.* could put you at risk for the loss of some or all of your capital and/or assets. The possibility exists that you could sustain a total loss of initial funds and be required to deposit additional funds to maintain your position.

We are not offering to buy or sell and of the financial instruments mentioned in any service we offer and we are not representing ourselves as a registered investment advisor or broker dealer.

We do not guarantee or represent that members acting upon any suggestion mentioned or discussed in any of the services we offer, will result in a profit. All decisions to act upon any suggestions made in any service we offer is the sole responsibility of the member.

We will not be held responsible or liable to members or any other parties for losses that may be sustained while trading. YOUR trading and financial actions taken are solely 100% YOUR decision and responsibility.

We may hold positions in various financial instruments mentioned in any of the services we offer and are under no obligation to disclose when a position was acquired, the amount of position held or when a position is closed.

We are not an investment advisor, and we do not provide investing advice. All content provided is for information purposes only.

IN PLAIN ENGLISH: DON'T TRADE WITH MONEY YOU CAN'T AFFORD TO LOSE. WE DO NOT PROVIDE ANY SPECIFIC OR PERSONALIZED INVESTING/TRADING ADVICE. YOU ARE COMPLETELY 100%

RESPONSIBLE FOR ANY FINANCIAL/INVESTING/TRADING DECISION YOU MAKE. WE ARE NOT LIABLE WHATSOEVER IN ANY WAY, SHAPE OR FORM FOR ANY ACTION YOU TAKE. BY TRADING/INVESTING, YOU RUN THE RISK OF LOSING EVERYTHING YOU OWN. YOU KEEP YOUR GAINS, YOU PAY FOR YOUR LOSSES. END OF STORY.

Earnings Disclaimer

The products and services sold by Zantrio, LLC are not to be interpreted as a promise or guarantee of earnings. All content provided is for information purposes only.

Any and all forward-looking statements on our website or in any of our products are intended to express our opinion of the earnings potential that some people may achieve. We make no guarantees that you will achieve any results from the ideas and techniques contained on our website or in our products.

To the extent that we included any case studies or testimonials on our website or in any of our products, you can assume that none of these stories in any way represent the "average" or "typical" customer experience.

In fact, as with any product or service, we know that some people will purchase our products but never use them at all, and therefore will get no results whatsoever. You should therefore assume that you will obtain no results with this material.

YOU FULLY AGREE AND UNDERSTAND THAT COMPANY IS NOT RESPONSIBLE FOR YOUR SUCCESS OR FAILURE AND MAKES NO REPRESENTATIONS OR WARRANTIES OF ANY KIND WHATSOEVER THAT OUR PRODUCTS OR SERVICES WILL PRODUCE ANY PARTICULAR RESULT FOR YOU. Zantrio, LLC IS NOT AN INVESTMENT ADVISOR AND DOES NOT PROVIDE INVESTMENT ADVICE. ALL CONTENT IS PROVIDED FOR INFORMATION PURPOSES ONLY.

Bonus: Download the Free Trading Toolkit **Get instant access to free cheatsheets, workbooks and guides to help you become a profitable trader or investor.**

As a special thanks for downloading this book, we've put together a toolkit of exclusive resources, including…

- Our exclusive ebook: *How to Protect Your Trading Profits* - Downloadable cheatsheets for proven option trading strategies - Our step-by-step guide for using a demo trading account to maximize your profits - Plus, brand-new ebooks, downloads, workbooks, cheatsheets, videos and more each month **Click to Download the Free Trading Toolkit**

or visit: **www.zantrio.com/kindle**

Chapter 1 – Envelopes

An envelope is defined as something that comprises of two moving averages on either sides of the trading range. One of the moving averages is shifted upward and the other one is shifted downward forming an envelope within which the prices generally trade. Envelopes define the upper and lower ranges of a financial instruments' normal trading range. A sell signal is generally said to be generated when the prices touch the upper end of the trading range and a buy signal is said to be generated once the prices touch the lower end of the envelope. The percentage shifts for the security completely depends on the volatile nature of the security, the more volatile the security the higher the percentage movements.

As stated earlier envelopes are trading bands within which the movements of the security are recorded and traders generally use these price movements to understand reversal patterns and entering or exiting certain trades with other indicators like the MACD, RSI used as confirmation signals. They are considered to be one of the most useful technical tools available to technical analysts, but should not be used as the Holy Grail for entry and exit just based on the price touching either sides of the band. One thing that traders need to keep in mind is the fact that these are not absolute signals but help in answering questions regarding whether the prices are high or low. Armed with this information, an intelligent investor can make buy and sell decisions by using indicators to confirm price action.

In this book we would like to discuss the use of these envelopes with the use of Bollinger bands and how they can be used to develop a trading system for an investor. We would also discuss the use of other indicators like the RSI which can be used in conjunction with Bollinger bands to develop a trading system.

Chapter 2 – What Are Bollinger Bands?

Bollinger Bands are a pair of trading bands representing an upper and lower trading range for a particular market price. It is said that a particular security would trade within this trading range under normal circumstances. The Bollinger bands consist of moving averages on either side and are used for decisive entry and exit signals by the traders. The lines are plotted using standard deviation on either side of the moving averages. The volatile nature of the security changes the standard deviation values and thereby changes the width of these bands on either side. This trading band technique was introduced by John Bollinger in the 1980s.

Bollinger Bands can be used as a decisive trading system by investors and traders for all security classes and types. Bollinger Bands can also be used on any time frame. For example: traders always have a question with regards to entry and exit points of a trade. Bollinger bands along with the use of other indicators can be used to make decisive decision. Like when the price is nearing the upper end of the trading band with the help of an indicator like the RSI, traders can go short and when the stock is near the lower end of the trading band traders can use it as a signal to go long.

Chapter 3 – Key Features of Bollinger Bands

Below are the key features of Bollinger Bands.

1. A move originating at the upper band tends to go all the way to the lower band and vice versa. This is generally the case for most of the securities and therefore is used extensively to enter or exit a particular trade.
2. Quick moves tend to happen when the Bollinger bands contract and there is less volatility in price. It is said that when prices are the least volatile, the propensity of a breakout is the highest.
3. At breakout, the current trend is generally sustained.

Chapter 4 – Components of the Bollinger Band

Below are the components of the Bollinger Band.

1. **Moving Average**: By default, it is fixed as the 20 day moving average
2. **Upper Band**: Generally calculated as 2 standard deviation above the closing prices of the moving average
3. **Lower Band**: 2 standard deviations below the moving average

Chapter 5 – Buy Signals

Let us try to understand how Buy signals are generated in the Bollinger bands with the help of an example. The chart below is the daily chart of Goldman Sachs Group. As can be seen in the chart below whenever the stock has hit the lower end of the Bollinger band it has given a buy signal and prices have moved back towards the higher end of the trading band once they have crossed over the 20 day simple moving average in the middle.

Chapter 6 – Sell Signals

In the below chart for Amazon.com, Inc. (NASDAQ:AMZN), we can clearly see that a sell signal is generated whenever the stock has hit the higher end of the Bollinger band and it has then retraced back towards the lower end of the trading band. Bollinger bands can thus be used by traders in all time frames may it be hourly/weekly/daily.

One can also see the importance of the 20 day simple moving average in the case of a trend. Whenever the price has been unable to close above the moving average in case of a pullback (pullback is a small rise after a sell off) we have seen prices fall back towards the lower end of the range. Similarly, if the prices have been unable to close below the moving average in a correction (correction is a small fall after a good rise) it has generated a buy signal and prices have moved back towards the higher end of the trading range.

Chapter 7 – Bollinger Band Breakouts

The next question on everyone's' mind is what if there is a breakout from the Bollinger Bands. Breakouts occur after time of consolidation and the prices break out above or below the Bollinger bands. It is important that traders use indicators like support and resistance lines to confirm the breakouts of prices in the current trend. In the below chart for BlackBerry Ltd (NASDAQ:BBRY), we can clearly see the prices moving above the Bollinger bands.

At times like these it is imperative for the traders to start looking at previous supports and resistance zones and only if the prices break out or break down from these resistance/support zones can a trader take a trade in the direction of the move. Traders need to cautious that if the previous support or resistance zones are not taken out, the trade should be immediately reversed as the current Bollinger band breakout is a fake breakout.

Thus to summarize Bollinger Band Breakouts traders should keep in mind the below signs for trading Bollinger band breakouts:

- Buy when: The stock has entered into an area of consolidation and breaks out of the Bollinger band envelopes. It is imperative that traders use indicators like support and resistance lines to confirm entry, please check the chart of BlackBerry Ltd (NASDAQ:BBRY) to get a fair idea
- Sell when: The stock breaks below the Bollinger bands and then also breaks below the support lines. Please look at the chart above of BlackBerry Ltd (NASDAQ:BBRY) to get a better idea.

Chapter 8 – Identifying Trends Using Bollinger Bands

The chart above of the CNX NIFTY (NSE:NIFTY) shows that prices remain in an uptrend when they remain above the 20 day SMA and take support at the dotted

line formed by the 20 day SMA.

The reverse is true when the prices are in a downtrend. The prices find resistance at the 20 day SMA and remain below the moving average confirming the trend. Please refer to the below chart for Twitter Inc. (NYSE:TWTR) as an example of understanding of how the Bollinger Bands play an important role in identifying down trends.


TWTR
Add Indicator
Daily
Settings
Twitter, Inc
Add to Portfolio
Price History
Bollinger Bands® 20 2
TWTR
Strong Downtrend,
Prices remain below 20 SMA
52.11
80.00
78.00
76.00
74.00
72.00
70.00
68.00
66.00
64.00
62.00
60.00
58.00
56.00
54.00
50.00
48.00
46.00
44.00
42.00
40.00
38.00
36.00
34.00
32.00
30.00
25 2 9 16 23 30 6 13 21 27 3 10 18 24 3 10 17 24 31 7 14 21 28 5 12 19
2013Dec 2013
Jan 2014
Feb 2014
Mar 2014
Apr 2014
May 2014
6/9/2014

Chapter 9 – Bollinger Bands and Relative Strength Index

Here let us explore how Bollinger bands could be used in conjunction with relative strength index.

What Is Relative Strength Index?

Relative Strength Index or RSI measures the rate at which the price changes. As is the case with all oscillators RSI oscillates between zero and hundred. When the RSI is above 70 it is said to be overbought and when RSI is below 30 it is said to be oversold.

How to Use Bollinger Bands with Relative Strength Index as a Trading System

It is said that when the prices hit the upper end of the Bollinger band and the RSI is above 70 and showing signs of a weakness, traders should see this as a reversal of the current uptrend and should use this opportunity to either book profits or go short in the security.

On the other end when the prices are near the lower end of the Bollinger band and the RSI is nearing 30 which is considered to be the oversold zone, traders should use this opportunity to go long in the stock and book out profits from a short position.

The trades should be entered only once it has been confirmed by both the Bollinger bands and the RSI. If not, they should be considered as inconclusive and traders should remain out of the trade in those scenarios.

To understand the above better please refer to the table below which has been divided into 3 main parts and would help all investors to develop a trading system for themselves:

READING	MEANING	ACTION(S)
If the stock prices are in the upper half of the Bollinger Bands and RSI is above 70	A top has been relatively put in place and a reversal might be on the cards	Consider selling the stock. Take (buy) puts of the stock. Sell deep In the Money calls
If the stock prices touch the lower band of the Bollinger bands and the RSI is below 30	A relative bottom has been put in place and a reversal might be on the cards.	Consider buying the stock. Option Calls of the stock could be bought. Selling Out of the Money covered calls is an option as well.
If the stock price touches the upper Bollinger Band and the RSI is less than 70	No trade, as it means that the stock would trend in a very narrow range.	Consider selling at the money covered calls. An option spread could be used.
If the stock price touches the lower Bollinger Band but RSI is greater than 30 and moving down.	No trade to be taken by the traders as current trend might continue.	Consider selling in the money covered calls. An option spread could be used.

Let us explain the above with the use of an example, please refer to the chart of The Coca-Cola Company (NYSE:KO) below:

Sell and Buy Signals: If you see in the above chart, whenever the price has hit the upper end of the Bollinger band thereby generating a sell signal, a similar sell signal has been generated by the RSI as it has started coming down from the overbought zone. Therefore the Bollinger bands should be used in conjunction with the RSI to generate a Sell Signal.

Similarly whenever the price has hit the lower end of the Bollinger band, it by definition has generated a buy signal. However we need a confirmation from the RSI or any other oscillator before entering into the trade. In the above example, a buy signal is only generated after both the Bollinger bands and the RSI has given a buy signal. It is very important to use the Bollinger band in conjunction with an oscillator for making an ideal entry and thus minimizing the risks associated with the trade.

To emphasize our points let us look at another chart. The following is a chart for Macy's, Inc. (NYSE:M)

The above chart shows that whenever the signals from Bollinger bands and RSI are used in conjunction with each other, they yield the best result. Also candlestick patterns can be used for further confirming the trade. For example in the above chart, when the sell signal was generated as per the Bollinger bands and RSI, a bearish engulfing candle was also formed on the chart. This further confirms the weakness of the stock and makes the case for an ideal short entry. So for reducing the risks Bollinger bands should be used in conjunction with other signals as well. Now let us see a few rules associated with Bollinger Bands.

Chapter 10 – Rules for Bollinger Band Trading

Below are some guidelines for using Bollinger Bands:

1. Bollinger Bands are just a relative definition of a high or a low.
2. These relative definitions with the use of indicators can be used to enter decisive buy and sell decisions.
3. Appropriate indicators can be derived and should be used along with Bollinger Bands. For example: MACD, RSI, OBV (volume indicator) should all be used in conjunction with Bollinger bands.
4. Volatility has already been used to calculate the width of the Bollinger Bands and therefore should not be used as a different indicator for buy and sell decisions.
5. Use different indicators from different sets. Don’t use two momentum indicators, use one from Momentum and the other from volume if need be.
6. Bollinger Bands are used to confirm pure price patterns like different types of Tops and Bottoms.
7. Price generally moves within the Bollinger bands so can be up or down depending on the overall trend for long periods of time.
8. Closes outside the Bollinger bands can just be a sign of continuation and not a breakout or reversal, so traders really need to use other indicators for confirming the trade entries.
9. Bollinger Bands generally have a set default pattern with regards to their makeup and the standard deviation is used to as per the volatility in a particular stock
10. Non Descriptive moving averages should not be used for the creation of Bollinger bands.
11. Bollinger Bands are based on simple moving averages. This is the case because of the belief that moving averages are logically constant and would remain well defined in all time frames.
12. Do not use statistical Assumptions just because of the use of Standard deviation in the creation of Bollinger Bands. These assumptions

might confuse the basic premise of the bands and would not help the traders take decisive action as is the case and use of Bollinger bands in general

Chapter 11 – Final Notes

Bollinger bands are very useful for trading as it helps traders make an ideal entry or exit based on the volatility. However, Bollinger bands should be used by traders in conjunction with oscillators like RSI or the MACD. This would help in improving the entry and exit signals and help in profit maximization. This would also help in risk management as it would prevent traders from making impulsive trades.

Conclusion

Thank you again for downloading this book!
You should now have the knowledge you need to build a profitable trading system using Bollinger Bands.

The next step is to take action!

Finally, if you enjoyed this book, please take the time to share your thoughts and post a review on Amazon. It'd be greatly appreciated!

Thank you and good luck!