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!

<table>
<thead>
<tr>
<th></th>
<th>Capital</th>
<th>Profit/Loss %</th>
<th>Profit/Loss Amount</th>
<th>Ending</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade 1</td>
<td>100</td>
<td>(50)</td>
<td>(50)</td>
<td>50</td>
</tr>
<tr>
<td>Trade 2</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade 3</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade 4</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade 5</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Next trade 50% gain

<table>
<thead>
<tr>
<th>Trade</th>
<th>Capital</th>
<th>Profit/Loss %</th>
<th>Profit/Loss Amount</th>
<th>Ending</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade 1</td>
<td>100</td>
<td>(50)</td>
<td>(50)</td>
<td>50</td>
</tr>
<tr>
<td>Trade 2</td>
<td>50</td>
<td>50</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade 3</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade 4</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade 5</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Next 3 trades make 10% each

<table>
<thead>
<tr>
<th>Trade</th>
<th>Capital</th>
<th>Profit/Loss %</th>
<th>Profit/Loss Amount</th>
<th>Ending</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade 1</td>
<td>100</td>
<td>(50)</td>
<td>(50)</td>
<td>50</td>
</tr>
<tr>
<td>Trade 2</td>
<td>50</td>
<td>50</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade 3</td>
<td>75</td>
<td>10</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade 4</td>
<td>82.5</td>
<td>10</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade 5</td>
<td>90.8</td>
<td>10</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Next 4 trades make 80%

<table>
<thead>
<tr>
<th>Trade</th>
<th>Capital</th>
<th>Profit/Loss %</th>
<th>Profit/Loss Amount</th>
<th>Ending</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade 1</td>
<td>100</td>
<td>(50)</td>
<td>(50)</td>
<td>50</td>
</tr>
<tr>
<td>Trade 2</td>
<td>50</td>
<td>50</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade 3</td>
<td>75</td>
<td>10</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade 4</td>
<td>82.5</td>
<td>10</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade 5</td>
<td>90.8</td>
<td>10</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Still not back to break even

<table>
<thead>
<tr>
<th></th>
<th>Capital</th>
<th>Profit/Loss %</th>
<th>Profit/Loss Amount</th>
<th>Ending</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade 1</td>
<td>100</td>
<td>(50)</td>
<td>(50)</td>
<td>50</td>
</tr>
<tr>
<td>Trade 2</td>
<td>50</td>
<td>50</td>
<td>25</td>
<td>75</td>
</tr>
<tr>
<td>Trade 3</td>
<td>75</td>
<td>10</td>
<td>75</td>
<td>82.5</td>
</tr>
<tr>
<td>Trade 4</td>
<td>82.5</td>
<td>10</td>
<td>83</td>
<td>90.8</td>
</tr>
<tr>
<td>Trade 5</td>
<td>90.8</td>
<td>10</td>
<td>9.1</td>
<td>99.9</td>
</tr>
</tbody>
</table>
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

Support has been violated
New support level
2. Support reverses its role to resistance on the way back up.
Previous support is now…

…potential resistance
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.
Oracle

High could be resistance
Oracle

Support at previous low
Oracle

Now support
Oracle

High could be resistance
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.
Oracle

Support and resistance form at gap openings and closings.

Support at gap opening
Comcast

Attempt to close the gap
Gap is closed and upper end is resistance
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
Boeing Weekly

Emotional point
Once violated, a violent drop
Boeing Weekly

Resistance again
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.
Price moves above previous high and MA.
Intersection of good trendline and reliable MA = massive potential support/resistance.
Where are Support/Resistance Points Likely to Develop?

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

Sell
Dollar/Yen 10-minute bar

Place stop above previous high

Sell into resistance at a better price.
Dollar/Yen 10-minute bar

Lower original stop just above previous high and trendline.
Dollar/Yen 10-minute bar

Lower stop just above trendline.
Australian/US Dollar 4-hour bar

Whipsaws
Trendline reinforces MA.

And again

Both act as support.
Australian /US Dollar 4-hour bar

Extreme point
Australian /US Dollar 4-hour bar

Extreme point

Extreme point
Australian/US Dollar 4-hour bar

Stop placed above trendline

Head and shoulders

Whipsaw break
Australian/US Dollar 4-hour bar

Downside break
Australian/US Dollar 4-hour bar

Upward zig zags
Dollar/yen 30-minute bar

False breakout (two bar reversal)

Place stop below trendline or the previous minor low.
Dollar/yen 4-hour bar

Exhaustion break
Later on place stop above trendline.

Go short using placing stop above the exhaustion high.
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.
30-period price oscillator

Buy 2 units

Take partial profit

Liquidate 2\textsuperscript{nd} unit on MA crossover

S&P 30-minute close
S&P 30-minute close

30-period price oscillator

1st unit

2nd unit

August
30-period price oscillator

S&P 30-minute close

Buy

Sell 1st unit

Sell 2nd unit
S&P 30-minute close

30-period price oscillator

1st unit

2nd unit
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.
The parabolic curve

S&P 30-minute close

Buy
Place stop
Risk

The parabolic curve
S&P 30-minute close

Sell

Risk

Stop moves progressively higher.
S&P 30-minute close
Go short on MA crossover

Cover 1st unit

Cover 2nd unit

S&P 30-minute close
S&P 30-minute close
S&P 30-minute close

Buy

Sell 1st unit

Sell 2nd unit

www.pring.com
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.
Pattern Durations

- **Bottoms in Bull**: 1749 Patterns
- **Bottoms in Bear**: 495 Patterns
- **Tops in Bull**: 2261 Patterns
- **Tops in Bear**: 730 Patterns
- **All Patterns in all Trends**: 5235 Patterns

Legend:
- □ Average Length
- □ Median Length
Scary decline following the breakout.
The concept of “L”
200% objective

100% objective

50-days

H S S
Percent of Expected Price Met

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

Percent of Expected Price Reached

Percent of Patterns

1L
5L
Primary bear market

Bullish breakout in a bear market.
Bullish signals in a bear market

5L in Bear Markets

Percent of Expected Price Met
496 Bottom Patterns in a Bear Trend
Percent of Expected Price Met

496 Bottom Patterns in a Bear Trend

- 5L in Bear Markets
- 5L in Bull Markets
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.
Momentum and Stochastic not overbought at breakout time
H&S Bottom

Valuevision Media
(VWTV on NASDAQ)

Data Source: CSI
www.csidata.com
The End