

# Bollinger Trading Methods

## Overview:

- Play 1 - The Squeeze
- Play 2 - The Trend Trade
- Play 3 - Reversals
- Wrap up



## Play 1 - The Squeeze

### The Squeeze

- The most popular strategy
- Looks to enter a trend early on
- Anticipates high volatility (lots of price movement)
- Usually portends a new trend
- Beware of the head fake!

### Remember!

- The “squeeze” is the setup
- The breakout is the trigger
- The trade can break either direction, you can not be biased

### Squeeze Rules

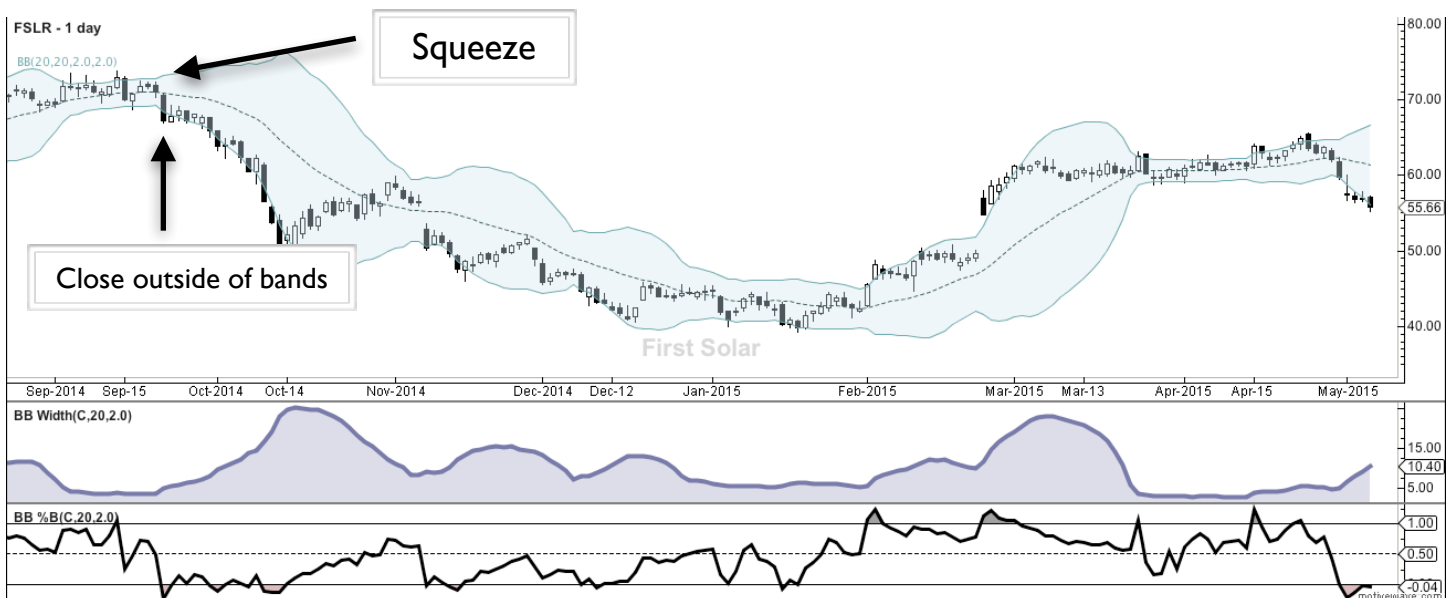
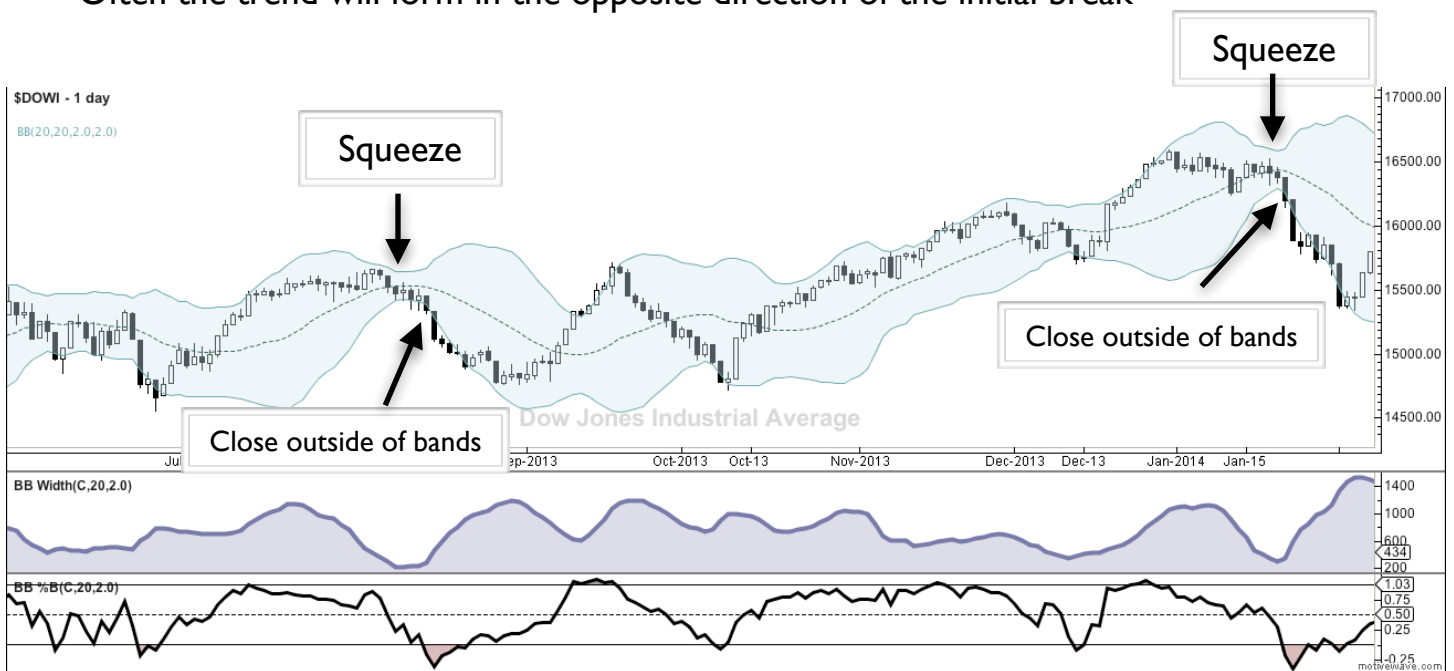
- Look for tight bands
- Ideally lowest bandwidth readings of the last 6 months
- Enter the breakout after the first closing price outside the bands
- Set a stop based on parabolic

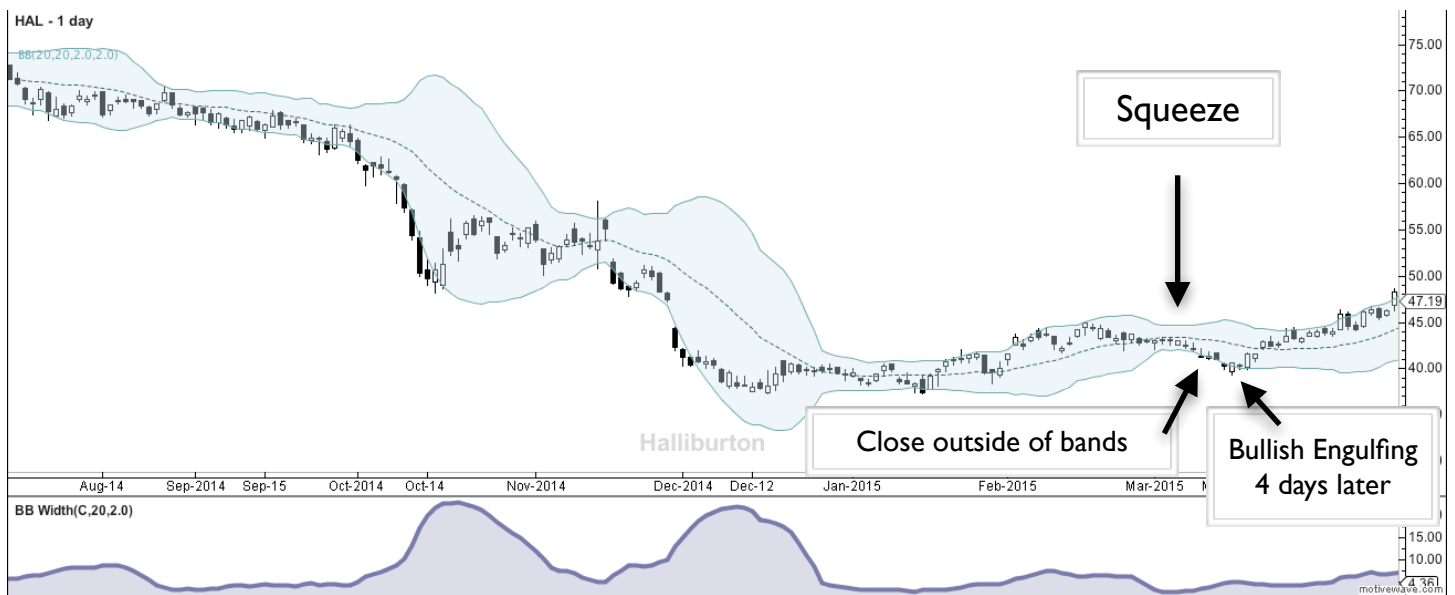
### Observations

- Occasionally there is not a closing price outside the bands: Watch for two successive days of expansion and enter.
- The tighter the squeeze, usually the more explosive the move!

### The Head Fake

- Watch for reversal candlestick patterns within 2-4 days
- If you see them, reverse position
- Target 1 is opposite side of the bands
- Often the trend will form in the opposite direction of the initial break





## Where's The Target?

- Often with the squeeze you do not know the exact target
- You can estimate based on Support & Resistance
- ALWAYS be watching for a candlestick reversal signal
- Don't be afraid to stop out

# Play 2 - The Trend Trade

## The Trend Trade

- Similar to a squeeze play but without the squeeze
- Buying at the upper band into strength, selling at the lower band into weakness
- Best paired with additional indicators and/or analysis

## Trend Trade Rules

### Bullish:

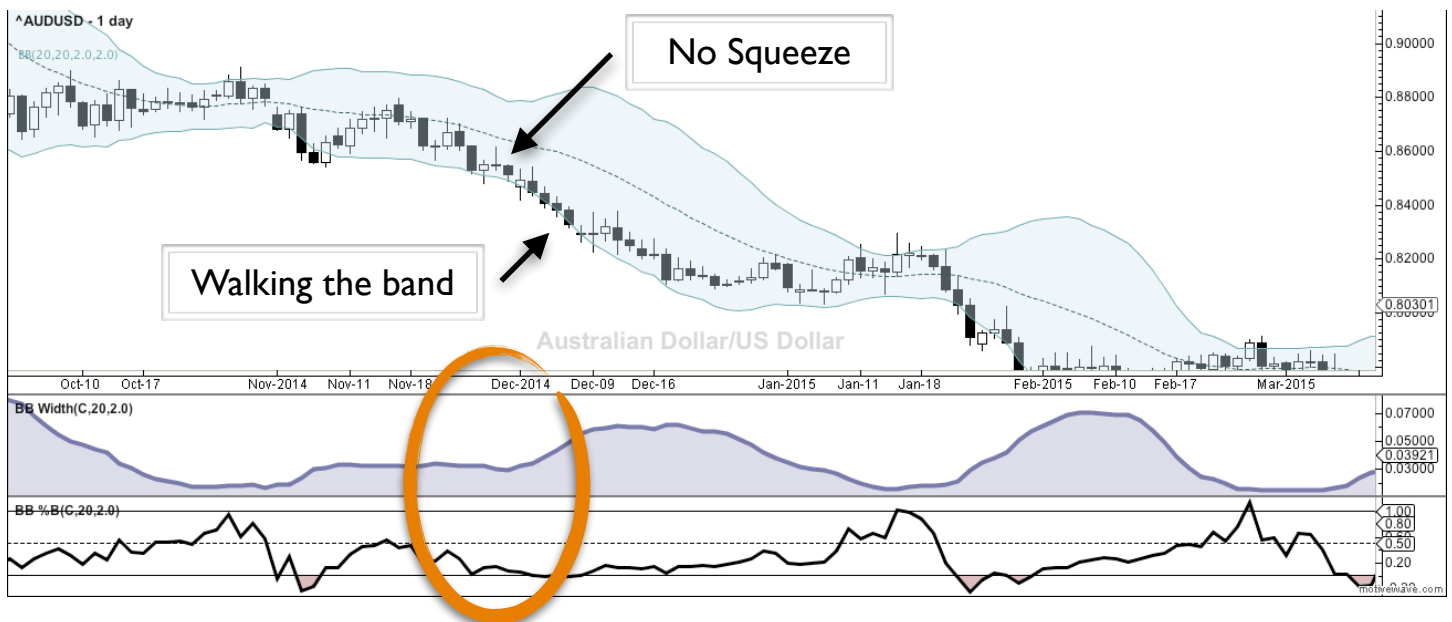
- Look for stocks with strength (based on indicators, pattern breaks, volume, fundamentals)
- Buy on a touch of the upper band
- Set a stop with Parabolic

### Bearish:

- Look for stocks with weakness (based on indicators, pattern breaks, volume, fundamentals)
- Short on a touch of the lower band
- Set a stop with Parabolic

## Observations

- You can buy/short retracements back to the middle band
- This method is very good when other confirmations are present
- A great technique for fundamental traders to use
- %B over .8 or below .2 is a good start
- Price pushes outside the band are continuation signals
- Price may walk the band for quite some time



## Moving Average System

- Set stop over or under the middle band (20 SMA)
- This works great in a trend
- It is weak in a sideways move
- In a sideways move you have to go outside upper or lower band

# Play 3 - Reversals

## The Reversal Trade

- Anticipates trend reversals
- Provides the best opportunity for high risk/reward trades
- Sells weakness at upper band
- Buys strength at lower band
- Use oscillator(s) to help confirm

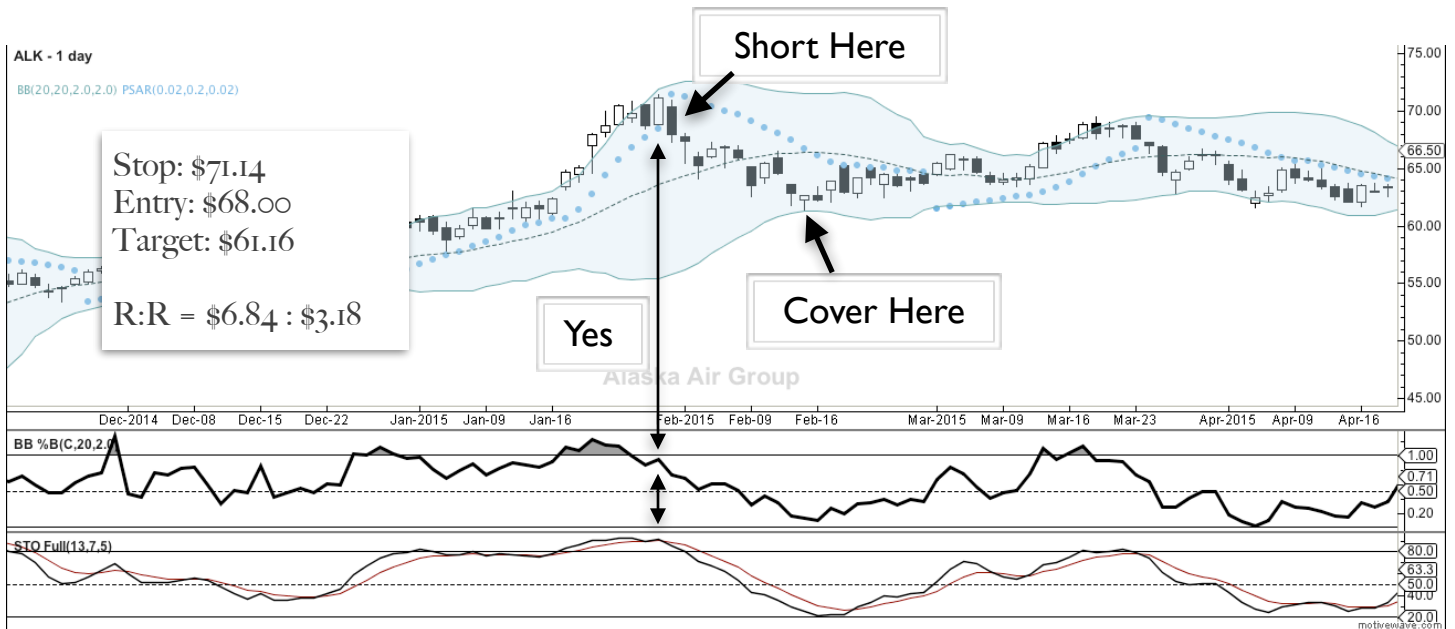
### Reversal Rules

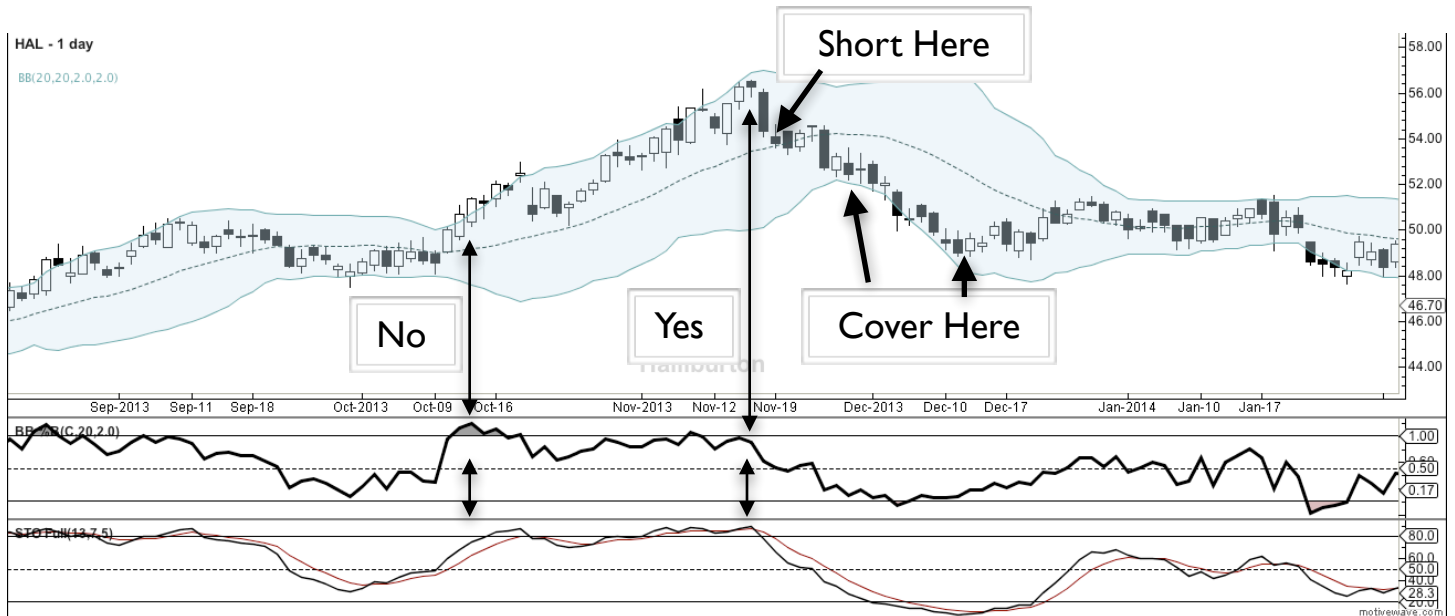
At tag of upper band:

- Look to short (bearish)
- %B should be diverging down
- Stochastics overbought crossing down
- Enter on first strongly bearish day
- Set stop based on Parabolic

At tag of lower band:

- Look to buy (bullish)
- %B should be diverging up
- Stochastics oversold crossing up
- Enter on first strongly bullish day
- Set stop based on Parabolic





## Observations

- Reversal plays can be very profitable because of the quality risk/reward
- They require a bit of faith
- You should practice them a lot before placing real trades

# Wrap UP

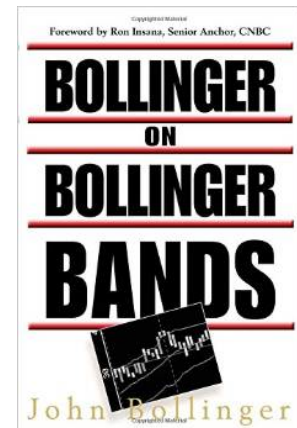
## General Wrap Up

- Bollinger bands provide a relative definition of highs and lows
- Highs and lows are not absolutes and may lead to a continuation or a reversal
- Can be used to clarify patterns
- Built on Simple Moving Average
- Setting of 20, Std Dev of 2.0
- Average outlines the Int. trend
- Can be applied across multiple time frames
- Used as a relative framework
- 3 main plays:

- ▶ Squeeze
  - ▶ Trend
  - ▶ Reversal
- %B & Bandwidth can help bring additional clarification

### Additional Resources

- John Bollinger speaks from time to time
- His book
- [BollingerOnBollingerBands.com](http://BollingerOnBollingerBands.com)



## Homework

- Review Videos
- Back trade each method
- Start with one and really perfect that one first, then move on
- Virtual trade the systems first
- Be sure to write a plan and follow it!