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

Stop: $71.14
Entry: $68.00
Target: $61.16
R:R = $6.84 : $3.18
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

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!