Identifying High Probability Setups Using Average True Range Support and Resistance

By Dan Steinberg
Bio

- **Professional Experience:**
  - 1982-1992 – Market Maker- Stock Options (Sole Proprietor), Pacific Stock Exchange
  - 1980-1982 – Bechtel Corporation, Nuclear Engineer

- **Education:**
  - 1979 University of Colorado, BS in Mechanical Engineering

- **Personal:**
  - Married 32 years, 2 children, 56 years old

- **Other:**
  - Proficient in Spanish, Private Pilot License, Certified SCUBA Open Water
Welcome to Marin Trading

October 7, 2011
By admin

Here you’ll find information that we hope will help you learn how to become a better trader.

Our focus is on technical analysis, which we feel offers timely guidance on entries, exits, profit targets, and risk management, as well as portfolio and equity curve analysis. We also discuss the important issues of psychology in trading, such as loss aversion and confirmation bias. Find out more about Dan here, as well as hear what some of our traders have to say.

Should you be interested in expanding your trading skills, we have a small group of traders that meet regularly with Dan to discuss current market conditions, and continue to develop their trading skills through Dan’s example and guidance.

Read more »

Radar/Study – ONXX
June 20, 2013
By admin
Radar/Study – ONXX – Textbook bounce off 200d and

Radar/Study – GILD
June 20, 2013
By admin
Radar/Study – GILD -Note action on S2 as stock defends 49.5 neckline:
The **true range** is the **largest** of the:

- Most recent period's high minus the most recent period's low
- Absolute value of the most recent period's high minus the previous close
- Absolute value of the most recent period’s low minus the previous close
Average True Range (ATR)


Wilder originally developed the ATR for commodities but the indicator can also be used for stocks and indexes. Simply put, a stock experiencing a high level of volatility will have a higher ATR, and a low volatility stock will have a lower ATR.
Using the ATR

- Stock/Option Selection
- Pair Trading
- Volatility Breakout Systems
- Keltner Channels
- ATR Stops
- ATR Support and Resistance
**Keltner Channels**

**Keltner Channel** - developed by Chester W. Keltner in 1960. The indicator is somewhat similar to the Bollinger Bands and Envelopes. It uses three plot lines: the middle line is the 10-day simple moving average applied to the typical price ((high + low + close) / 3), the upper and the lower bands are produced by adding and subtracting the ATR from the middle line.
Keltner vs Bollinger

KELTNER CHANNEL:
MA +/- Factor*ATR(n)

BOLLINGER BANDS:
MA +/- Factor*StdDev
Keltner vs Bollinger
Modified ATR
Published by Sylvian Vervoort,
Stocks & Commodities V. 27:6

- Can be used as a Trailing Stop
- Can be used as Support/Resistance
- Can be used Long/Short Trigger
Mod ATR Calculation

ATR Resistance = Lowest Close + Factor*ATR
  Can’t go UP

ATR Support = Highest Close - Factor*ATR
  Can’t go DOWN

ATR Resistance

Short Position

Long Position

ATR Support
In figure 2.3 a chart of Salesforce Com Inc, you can see how the trailing stop nicely captures a five-wave Elliott up move. The input settings are displayed in the chart.

Figure 2.3: Salesforce Com Inc ATR trailing stop from a buying date.
Another chart of CRM in Figure 2.4 that shows how nicely the ATR tracks price action.

Figure 2.4: Salesforce Com Inc ATR trailing stop from the start of a short position.
High Probability ATR Setups

- ATR with Momentum Combo
- ATR with 50day MA Setup
- ATR with Pivot points
- Long/Short Trigger
ATR with Momentum Combination

SPX Daily

[Image of SPX Daily chart with indicators and trends]
ATR with Momentum Combination

SPX 34min
ATR with Momentum Combination

SPX 34min
ATR with 50day MA Setup
ATR with 50day MA Setup
ATR with 50 MA Setup Intraday
ATR with 50 MA/BB Setup
Pivot Points

\[
PP = \frac{(HIGH + LOW + CLOSE)}{3} \\
R1 = (2 \times PP) - LOW \\
R2 = PP + HIGH - LOW \\
R3 = HIGH + 2 \times (PP - LOW) \\
S1 = (2 \times PP) - HIGH \\
S2 = PP - HIGH + LOW \\
S3 = LOW - 2 \times (HIGH - PP)
\]
ATR with Pivot Points
ATR with Pivot Points
ATR with Pivot Points
Trend Quantification for Long/Short Trigger

- Wave Overlap
- Moving Average Transition
- Maximum Adverse Excursion
Wave Overlap

OVERLAPPING WAVES

NON-OVERLAPPING WAVES
Maximum Adverse Excursion

**MAXIMUM ADVERSE EXCURSION**

**PRICE**
- largest open loss in winning trade
- Price Stop

**TIME**
- last (latest) period with loss in winning trade
- Time Stop
Long/Short Trigger
Trading Plan Flow Chart

Market Condition Analysis

Price Pattern Scans and Filters

Trade Setup Analysis

Price Target and Stop Loss Evaluation

Position Entered into Monitoring System with Price Alert

Position Exit – Price Target or Stop Loss
ATR with 1 minute ESU
Current Setups: TAN vs USO
Current Setups: JPM