



## **How to Get More Leverage and More Bang for Your Buck**

We live in what many consider to be strange times. With every negative headline about the dysfunction in Washington D.C. and around the globe, not to mention historically high valuations, the stock market seems to shrug off the naysayers and charge higher.

Can this seeming aberration continue higher indefinitely? Of course not. But the uptrend can last a lot longer than the masses expect, as evidenced by the long bull markets of the 80s and 90s and the current 9-year bull run. Of course, we know there were 50% haircuts in the indexes after the market peaks in 2000 and 2007 but with the CBOE Volatility Index (VIX) hovering near historic lows around 10, the options market is priced very cheaply and not expecting much action ahead.

This leads us to the opportunity to capitalize on bigger trends than the markets expect, on both the upside and the downside. And we can leverage these moves with cheap options to get the biggest bang for our buck. Now you can join in on this opportunity to hit home runs with greater speed and magnitude, which I call ***Grand Slam Options***.

***Grand Slam Options*** is essentially the culmination of my 27 years trading options and developing indicators and systems to trade. In the past, I used to focus most options traders on more conservative strategies (like in-the-money options) in order to reduce the amount of time one had to pay to trade a given stock move.

But now with volatility so low, much too low relative to the great trends I've been seeing in many stocks, it's an exceptional time to buy more aggressive out-of-the-money options and really get some "bang for your buck."

And when I talk about more aggressive, I'm referencing the fact that I never will pay more than \$1.00 per options contract (which equates to \$100 per 100 shares). This low-dollar up-front investment means you can get multiple contracts and that way, you can take advantage of the gradual scale-out profit technique I developed to take profits at +100%, +200% and +300% to hit the potential 4-bagger home runs that can really carry your portfolio to new heights.

And with this in mind, let me walk you through several key technical indicators that guide me to find the strongest trends when all these indicators line up in the same direction. It's very much like the point where multiple rivers flow into each other, creating a much more powerful current that we can harness into greater currency in our portfolio.

## **WILLIAMS PERCENT RANGE and BIGTRENDS BANDS**

Trend versus Range: this is the age-old question that must be answered when developing your trading method as the answer determines whether you succeed more in buying strength or buying weakness.

My testing shows that while there can be profit opportunities in buying weakness, it can often take longer to pay off, as weakness often needs time to stabilize before reversing higher. At the same time, buying strong trends must be done with the perspective of not chasing so high that a pullback becomes inevitable.

I've often been a fan of bands as a visual to contain much of the expected range of any security's expected move. This means that when an unusual move is happening outside those bands, it can be very significant. Bollinger Bands were the first time I noticed such patterns but because of the nature of a standard deviation band, it will not allow the security to stay outside the Bollinger Bands for very long before those bands race to catch up and contain the unusual trend.

Acceleration Bands were my first innovation to use a band that factored in both volatility and the trend component, to then see periods where exceptional trend strength or weakness could result in more sustained trend trading signals. I still use these Acceleration Bands signals to show me the initial thrust and takeoff point for a new trend.

I also began using Williams Percent Range (%R) as a tool when my testing showed that the best trends tend to stay overbought or oversold for far longer than anyone would expect. Movement over the 80<sup>th</sup> percentile tends to result in trading opportunities to the upside as strength begets strength. Selling pressure in the bottom 20<sup>th</sup> percentile can lead to still more downside potential as no one likes to be on board a sinking ship.

While %R is usually shown as its own indicator, I experimented with the concept of a band at the 80<sup>th</sup> and 20<sup>th</sup> percentile levels for any particular stock or market, since the highest %R can read is 100% and the lowest it can read is 0% (note that I use a 0 to +100 scale while Larry Williams originally used a 0 to -100 scale). The resulting plot of these BigTrends Bands shows when a stock is moving out of the

trading range phase within the BT Bands into a trending phase outside the BT Bands.

### **Breakouts**

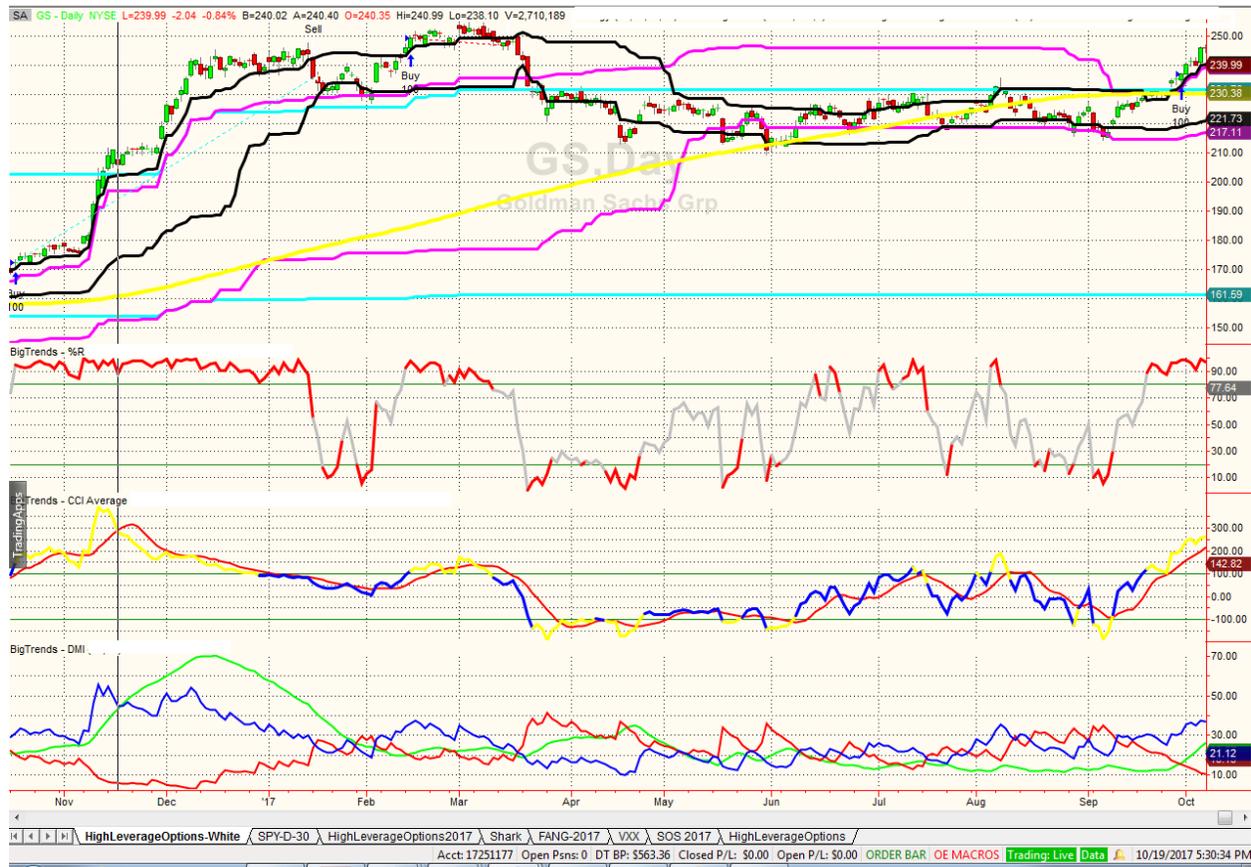
One close outside the BigTrends Bands is not sufficient to define the start of a new trend. An upside breakout is confirmed when we see a second consecutive close outside the BigTrends Bands, and the close is higher than the previous bar's high for a bull trend (or lower than the previous bar's low for a bear trend).

### **Retests**

Just because we see a close back inside the BigTrends Bands, that does not invalidate the trend until we see a further violation. One close back inside the BigTrends Bands means that it is a critical inflection point within a confirmed trend. A future close under the low on the first close under the upper BigTrends Band will cause an exit of a bullish trend, while a future close above the high of the first close above the lower BigTrends Band will dictate an exit of a bearish trend.

We will cover the other supporting indicators shortly. For now you can see how powerful the moves outside the BigTrends Bands can be. I plotted the short-term BigTrends Bands in black, while longer-term BigTrends Bands are in purple on the upper panel.

## Goldman Sachs (GS) Daily Chart



Note that in October 2016, GS shares broke out in front of the hotly contested presidential election. I'll never forget on the night of the election when it became clear Trump would be the new President, one commentator said the biggest loser would be Goldman Sachs! He claimed that GS had invested so much in Clinton's campaign, and Trump would not let GS forget it. In the face of this common view, GS shares exploded higher, as Wall Street saw Trump's victory as a boon for the markets and GS as the leader in the financial sphere. Ironically, Trump ended up adding many Goldman Sachs alumni to his inner circle of advisors.

It's a good reminder to trade what you see, not what you hear or believe. That's the power of technical analysis, as it focuses on the price action to show you where the money is flowing. Our job as traders is to get in tune with this flow and ride it as far as we can before the momentum wanes.

Note that not every signal is a home run, as the +300% and more gain potential from the post-election move was followed by a February signal that failed to get traction and those out-of-the-money **Grand Slam Options** were exited at a -73% loss. That's why you must stay consistent in your capital allocation so you don't get too high after a win streak or too low after some losses. The subsequent signal in October 2017 led to a quick +100% gain in 4 trading sessions. I also find it encouraging how we get no signals during the back and forth choppy action from April through September. We only want to buy aggressive options when the indicators are all stacked up in our favor.

## Commodity Channel Index (CCI)

The Commodity Channel Index indicator (often abbreviated as 'CCI') is a technical analysis indicator introduced by Donald Lambert in 1980. As an oscillator, it was created as -- and still lends itself to -- identifying instances where a stock or index is overbought or oversold. But, as is the case with many technical analysis tools, the Commodity Channel Index indicator has been refined and interpreted in a variety of unconventional but still highly effective ways.

Before we go further, we have to cover the question of why it is called the "Commodity" Channel Index. Lambert was a commodity trader, and developed the indicator as a means to find cyclical turning points for commodity prices. The tool, though, has since been practically applied to stocks and market indices.

The CCI indicator -- a single-line tool plotted on a scale of -100 to +100 -- plots the difference between a stock's price change for any given bar and its average price change (per bar) over the course of a specified time frame. The indicator formula is:

$$CCI = \left( \frac{High + Low + Close}{3} - X\text{-period SMA of } \left( \frac{High + Low + Close}{3} \right) \right) / (.015 * \text{Mean Deviation})$$

*\* In this case, the '0.15' value is the chosen "constant" preferred by Lambert, though this can be adjusted as needed.*

High readings (above +100) of the Commodity Channel Index say prices for that instrument are above their norm thanks to abnormally large gains for recent bars, indicating strength. Conversely, low readings (below -100) of the Commodity Channel Index say recent weakness has been uncharacteristically weak, suggesting extreme bearishness.

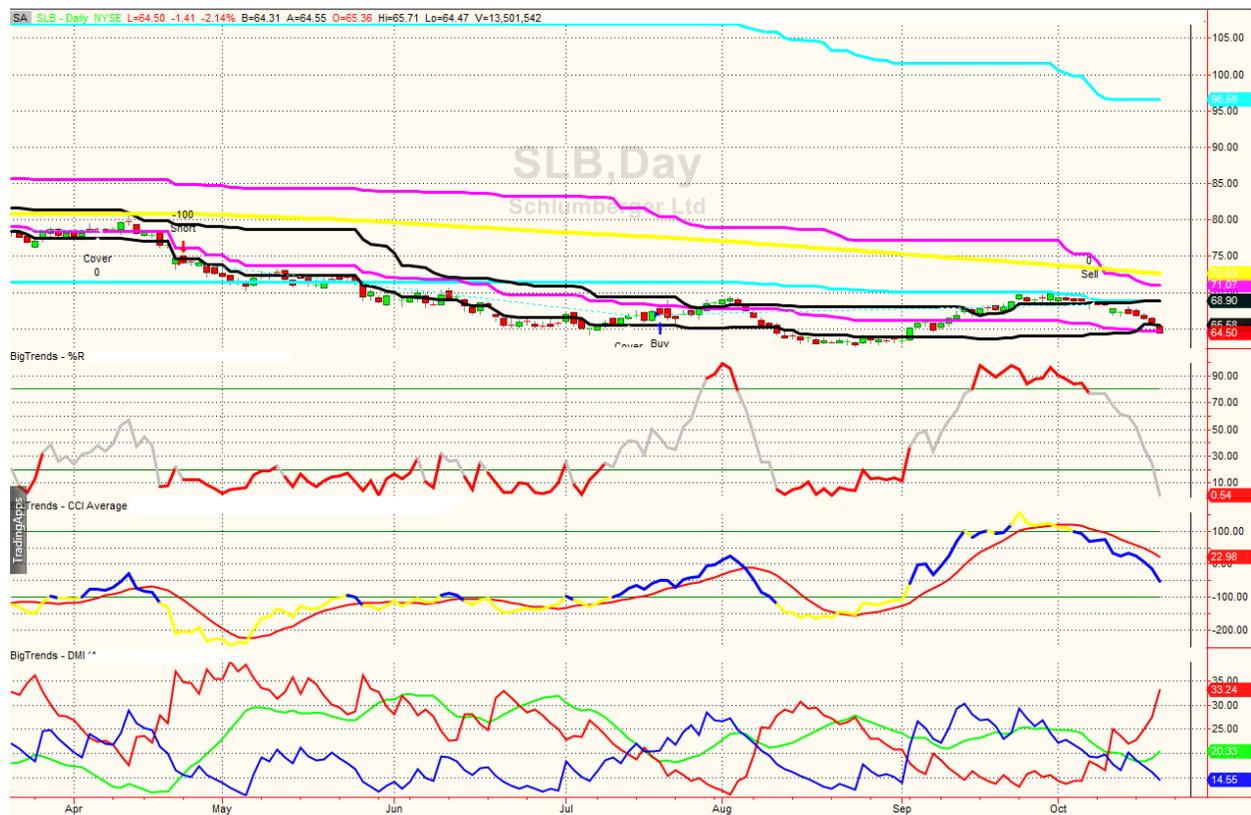
As a mathematical oscillator that is designed to spot instances where a security is overbought or oversold, the logical interpretation of the CCI tool would be to sell when readings are above +100 or buy when readings are below -100. But careful study of the indicator's history reveals that a stock or index that's overbought can

stay overbought and rally indefinitely. Likewise, an oversold security can remain oversold indefinitely, with that stock or index continuing to move lower.

In that light, the Commodity Channel Index can also serve as a momentum indicator. As always, interpretation and application are subjective, and in this particular case may be best used in conjunction with other indicators.

The example below illustrates how the CCI tool could have been used with Schlumberger (SLB). Once the CCI indicator broke below -100, a prolonged downtrend ensued, confirming the CCI can indeed identify momentum, making it a potent addition to any trader's arsenal.

### Schlumberger (SLB) Daily Chart



## Directional Movement Index (DMI)

The Directional Movement Index, or DMI, is a moving average of range expansion during a specified period of time. In other words, it indicates how strong a trend is by looking at how significant price changes have been in a specified period of time. But, unlike most technical momentum indicators, Directional Movement Index lines aren't plotted based on a stock or index's closing price. Rather, they're plotted based on the bar-to-bar changes in a security's highs or lows.

The DMI indicator is actually a two-plot indicator: the +DMI line, which tracks the size of the bar-to-bar changes in a security's highs, and the -DMI line, which tracks the size of the bar-to-bar changes in a security's lows. The +DMI and -DMI lines are plotted on the same plane (starting at zero and theoretically extending infinitely higher, but usually capped between 40 or 50) and are often compared to one another as a means of deriving buy and sell signals from the Directional Movement Index indicator.

The Directional Movement Index plots aren't difficult to interpret once understood but there is one potentially confusing nuance with them. When the bull trend is strong, the +DMI line is rising and the -DMI line (usually) falls. Conversely, when a bearish trend is strong, the -DMI line rises and the +DMI line (also usually) falls. For that reason, it's critical to know which line is which when interpreting a DMI chart. This is usually accomplished by using different colors to plot the -DMI and +DMI lines.

An example will clarify how each Directional Movement Index line moves in relation to bullish or bearish trends.

On the image below, the +DMI line is plotted in blue and the -DMI line is plotted in red. The former rises when the trend is bullish and falls when the trend is bearish. Conversely, the -DMI line points higher when the trend is bearish and moves lower when the trend is bullish. Note that once the +DMI kept rising while the -DMI kept falling in late August and early September, the ADX (in green) started to rise more steadily and led to an eventual +300% gain in the GOLD October 110 call.

## Randgold (GOLD) Daily Chart



As for using the Directional Movement Index indicator to generate buy and sell signals, crosses of the +DMI and -DMI line are one way of doing so. But, that's not the only way. Some technical analysts argue that such a methodology is too lagging in nature, meaning that it doesn't create a signal until well after the trend has started. As an alternative, some technicians use higher highs made by the - DMI or +DMI lines as a sell or buy signal, respectively.

## Average Directional Index (ADX)

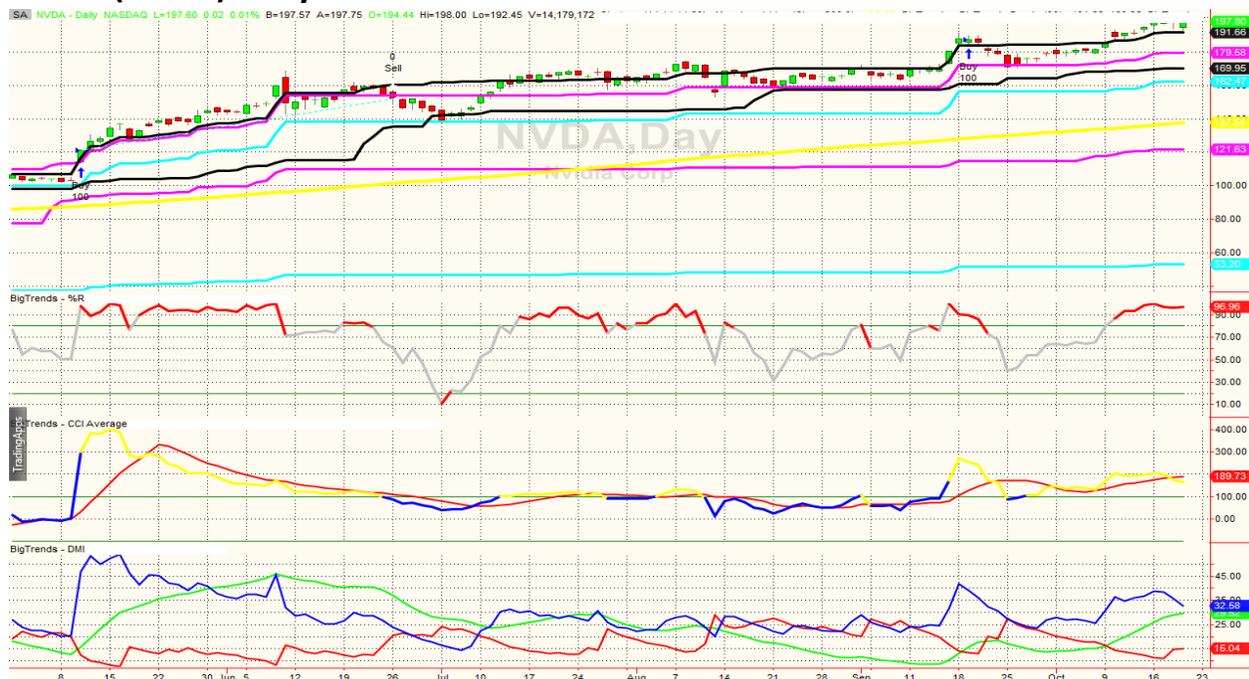
The Average Directional Index (ADX) indicator measures the strength of a trend, whether that trend is bearish or bullish.

The ADX indicator is often used in conjunction with the Directional Movement Index (DMI) lines. In fact, the ADX line is derived from the relationship of the two DMI lines (+DMI and -DMI), and is plotted on the same scale from 0 to 100.

Unlike most other oscillators, the Average Directional Index rises when a stock or index's trend is rising sharply. The ADX line, however, also rises when a stock or index is falling sharply. As was noted, it's merely an indicator of a trend's strength, not an indicator of that trend's direction.

An example will clarify how the Average Directional Index indicator works. On the chart below, the ADX line (green, bottom panel) is plotted on the same scale as the +DMI (blue) and -DMI (red) lines. The +DMI line crossed above the -DMI line early in the chart's time frame (right after earnings) and that acted as a catalyst that caused the ADX to rise as well over the next month or more. That resulted in a +300% gain in the NVDA June 145 call.

### Nvidia (NVDA) Daily Chart



Later on in the chart's time frame, the trend again gives a buy signal. This time, we don't see the immediate follow-through and NVDA stops out 4 trading days later per our rules to move on quickly if the trend is not give us the necessary validation to merit holding the position.

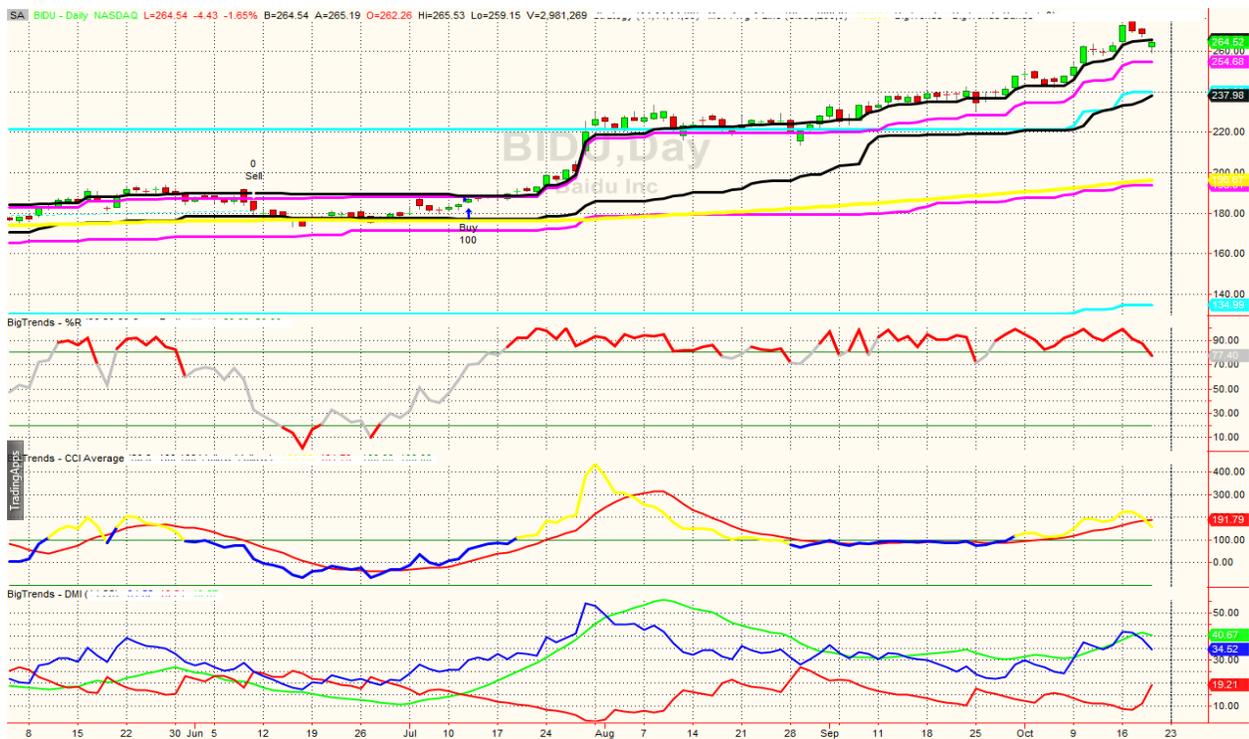
The knock on the ADX indicator is that some say it only shows you a trend but not the direction. This is easily fixed by the overlay of the DMI lines with the ADX, so an upturn in ADX with +DMI above -DMI is an uptrend.

The ADX indicator formula is:

$$100 \times (\text{moving average of the absolute value of } (+\text{DMI minus } -\text{DMI})) / (+\text{DMI plus } -\text{DMI})$$

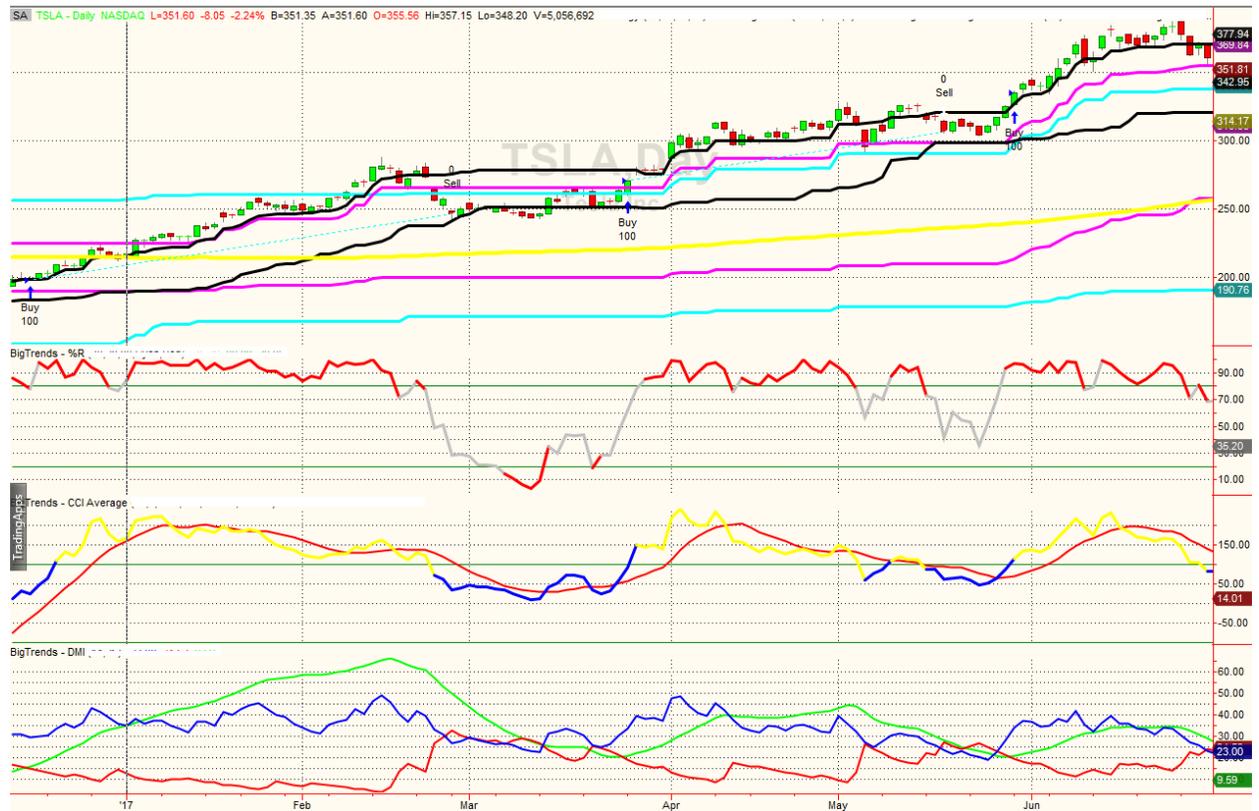
Take a look at how consistent the trend can be when BigTrends Bands, CCI and ADX all come together at the same time. In the case of Baidu.com (BIDU), the Chinese Google as it's often called, the stock went ballistic with very little give-backs through this pronounced uptrend phase. That was good for a quick +300% gain in less than one week in the BIDU August 210 call. We plan to re-enter these super strong trends on the "retest" phase as trends that are working this well need to be re-entered to catch new legs of these potent price moves.

### Baidu.com (BIDU) Daily Chart



Also, electric car maker Tesla (TSLA) is an example of a new-age company that has defied most experts' predictions that the stock would come back to earth. You can see in 2017 several wonderful uptrends in the stock, though only 2 of the 3 managed to hit +300% gains, while the other signal in April was initially missed due to a big gap up the next day, so it's subsequent purchase on a retest was a good entry but the stock just slowed down into early May and would have resulted in a complete loss. I'd gladly take a full loss on one trade if I could get 2 gains of up to +300% in return. It's just important to remember to not "pyramid" your profits, but rather stay consistent in your capital allocation throughout the up and down phases.

### Tesla (TSLA) Daily Chart



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