

Price Headley's
Simple Trading
System for Stock,
ETF & Option
Traders

Using Acceleration Bands, CCI & Williams' %R

How Technical Indicators
Can Help You
Find the Big Trends



For any type of trader, correctly forecasting short-term price action is imperative to long-term success and, in my view, technical analysis is the best way to achieve this. Many would say the "Holy Grail" of technical analysis is to find true "leading" indicators, namely those that point to directional movements and trends as they are occurring or before they occur, not lagging indicators that show what has already occurred. I've tested and designed hundreds of technical indicators over the years and I will share with you one of my trading systems that uses my top 3 favorite and time-tested indicators.

What are these three indicators? One is **Acceleration Bands**, which I created. Another is the Commodity Channel Index (CCI), developed by Donald Lambert. The third critical indicator is **Williams' Percent R (%R)**, which I have modified from Larry Williams' original parameters and created specific rules to utilize that are different than is seen in normal trading systems.

A major problem that many traders have is too many signals. In other words, their criteria need to be tightened and refined. As many of you already know, I look for the Big Trends that rarely occur—this helps me leverage my capital while reducing the number of total trades.

Now, don't be fooled. There is no fool-proof system out there so risk control is an important part of any technical system. In life, it's good to be an optimist, but excessive optimism in system development can easily lead to ignoring the risks and the weaknesses in your trading system. All systems have weaknesses and you must be sure that your systems have a risk control element to them.

Today, I want to share with you a system that uses only my favorite three indicators: **Acceleration Bands with CCI and Williams' %R**. I always say to keep your system simple and to this end, we have created a simple in-the-money options buying system applying these indicators to daily charts. I call this system ***After Hours Trader*** (since it releases its trades every Monday evening at 6:00 PM ET) so read on below to see how each indicator works in theory **before seeing a recently-recorded example of each indicator in action in my newest newsletter advisory service.**

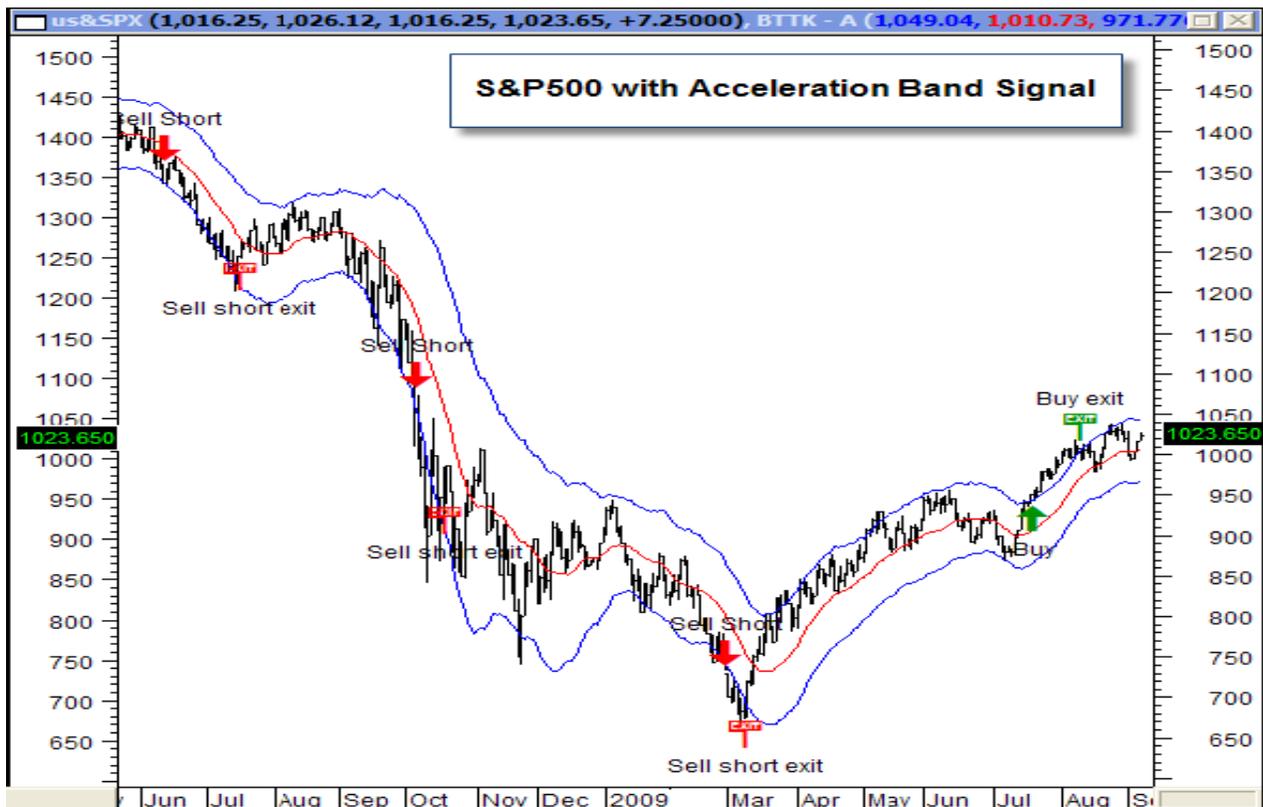
Acceleration Bands: Available in all Big Trends Toolkits

Description: Adaptive bands that contain 95% of price action usually used in 20 or 80 bar periods. Trading signals occur when price action is confirmed outside these bands. This indicator targets the top 5% of moves, keeping traders focused on the best trends. The 20 Bar Acceleration Band Expert Advisor (SPX chart below) shows buy and sell signals based on my system.

Notice that in the 14 months shown, the S&P 500 only posted a signal 4 times and each was profitable. This depicts the 5% theory well - Acceleration Bands highlight only the extreme moves for traders. The issue many traders face is really two-fold; many traders want more signals and the entry point can use some refinement.

Like the Yin and Yang relationship, I've developed a system that combines Acceleration Bands with CCI and Williams' %R to remove any weaknesses and refine trading signals. Let's take a look at how it works...

SPX Chart with Acceleration Band Signals

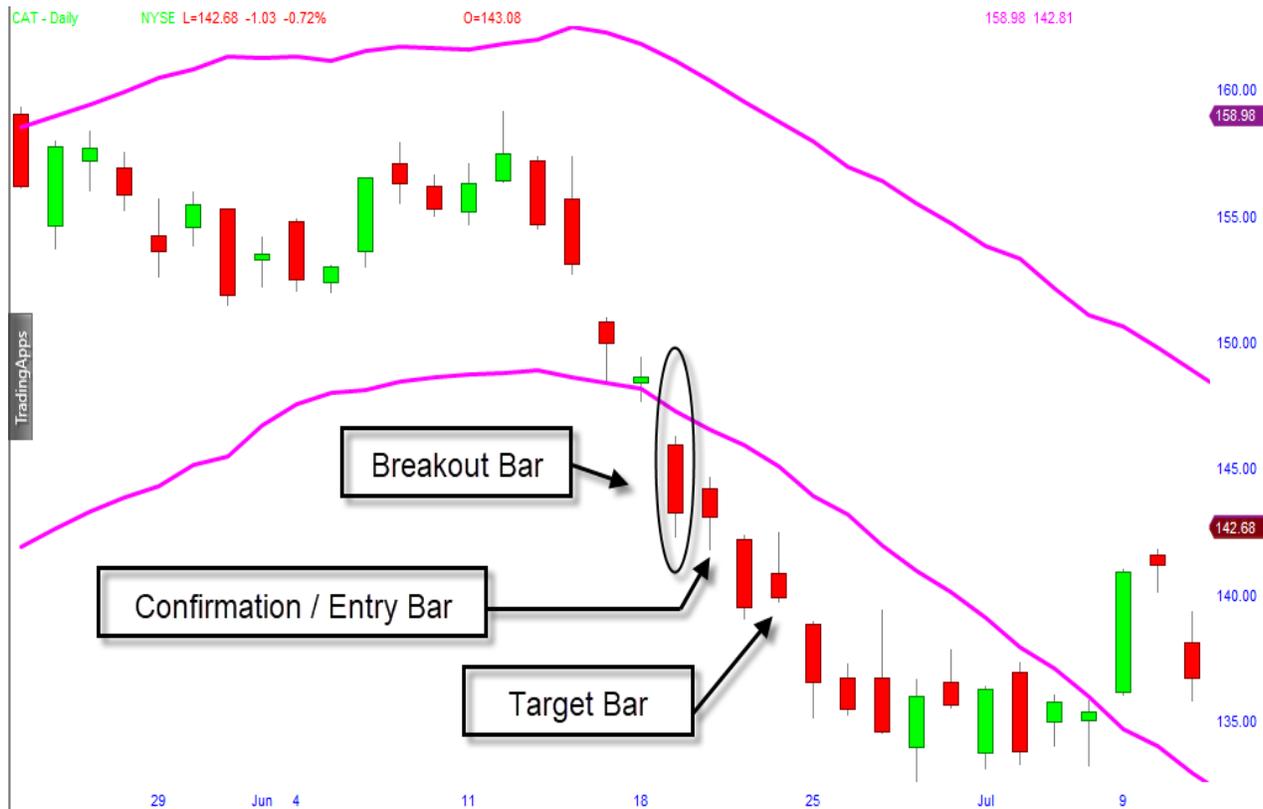


Finally, the United States Oil (USO) weekly chart shows a massive rollercoaster trend—with the bullish expansion topping out in mid 2008 followed by the massive sell-off into 2009. This is not typical; it is a statistical aberration. These are the so-called fat tails where fortunes are made and Acceleration Bands were created to define just that. Once again, note the BUY and SELL signals based on the Acceleration Bands signal over the 2 ½ year period between 2007 and 2009.

United States Oil Fund (USO) with Acceleration Bands and Williams' %R



And to show you a 2018 example from our *After Hours Trader* service, see the CAT chart below:



The chart above illustrates a strong breakout to the downside as CAT closes below the 20 period Acceleration Bands on the Daily chart. After the fresh breakout, we wait for a second close outside of the bands as a confirmation signal. We got the second close on June 20th and entered the trade short based on that signal. We entered the CAT July Monthly 148 Puts at \$6.65 per contract. **Using After Hours Trader's standard 20% stop and 40% target, we were able to lock down a +42.86% profit just two days later.** Acceleration Bands are meant to identify extreme moves with a high likelihood of continuation, and this CAT trade was a great example of that pattern.



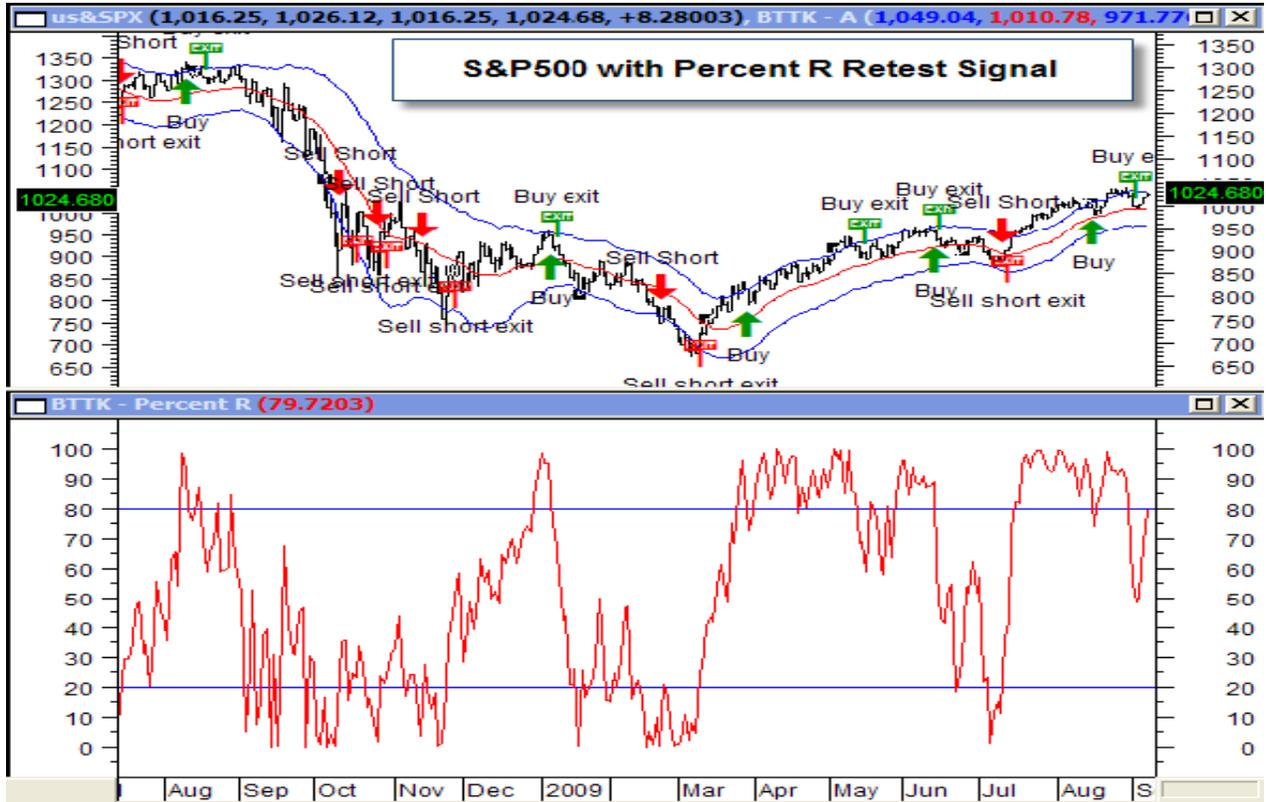
Williams' %R - The Big Trends Williams' %R method is available in the Big Trends Toolkit with two separate systems based on breakout and retest (lower-risk entries) methods.

Description: Larry Williams created the Percent Range oscillator to highlight overbought versus oversold levels in securities. Traditionally, “overbought” connotes a long exit or sell short entry and “oversold” would insinuate the opposite. However, I generally consider overbought to be potentially very bullish and oversold to be a setup for bearish trends to come. The Big Trends %R system targets the top 20th percentile and bottom 20th percentile.

In the chart below, we have the Expert Advisor for Big Trends Toolkit (BTTK) %R Retest System applied to the S&P 500. My first impression is that there may be too many signals with 11 trades in 14 months (compared to 4 with the Acceleration Bands). The %R Retest System targets lower-risk entry points by signaling buy or sell-short signals after a corresponding breakout confirmation occurs.

These pullbacks, or retests, are patterns that help identify fast moving trades that are often immediately profitable. If they do not move in the expected direction immediately, an exit signal is typically triggered quickly for effective risk control.

SPX Chart with Percent R Retest Signals



Notice above that we also have 20 Bar Acceleration Bands applied to the price action - our favorite system employs both %R and Acceleration Bands; reducing the number of trades while only trading the best pullbacks. I focus on %R retests within Acceleration Band signals. Let's take a look at an example of this signal further below.

When developing a system, I look for winners that are at least twice the size of losses and a minimum 50% winning average. However, I've found that 60% winning average is optimum and realistic.

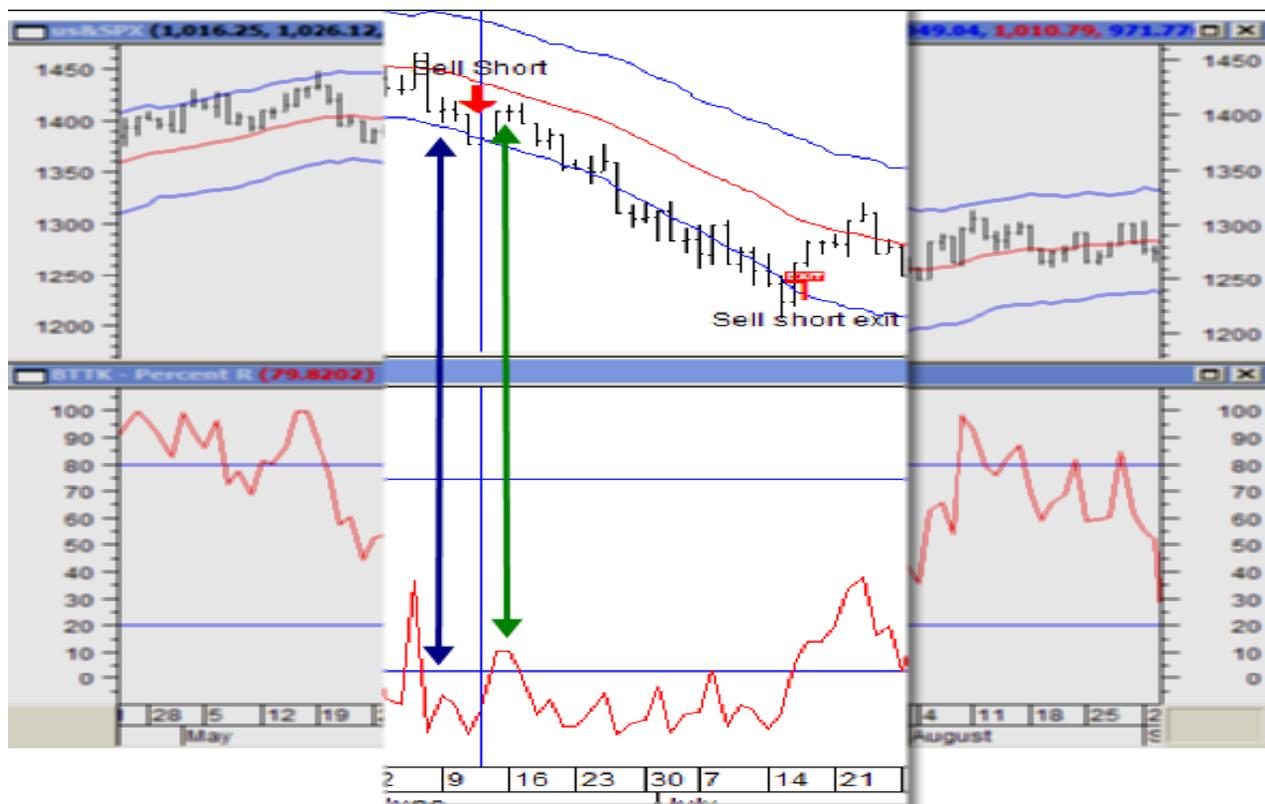
That's why using Acceleration Bands and Williams %R has become one of my favorite two-indicator systems. Acceleration Bands highlight extremely strong moves, while %R Retest Method highlights low risk entry points within those Accelerations.

In addition, I found that this system works particularly well on individual stocks and ETFs, which typically provide more Acceleration Bands signals than market averages like the S&P 500.

For ease of learning, I want to show you a quick example of a signal using both indicators within the same time frame as the charts above on the S&P 500. In the chart below, we have the Acceleration Band Expert Advisor (20 Bar) exposing a sell-short signal based on momentum.

Notice that in the days after extreme selling signals an Acceleration Bands short signal, we see a bounce, or retest, in price action. This typically occurs from value seekers; however, we know that once the trend has accelerated thus far it's probable to continue.

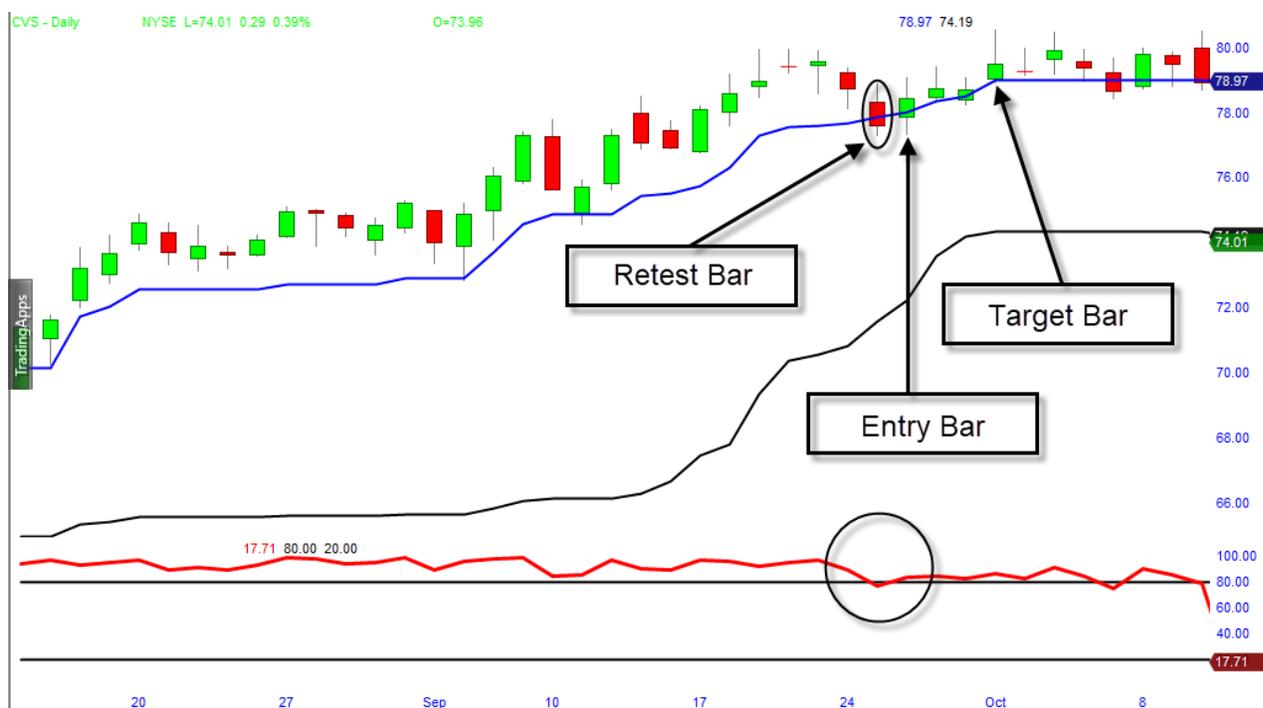
SPX Chart with Combined System



The blue arrow shows us where %R initially confirms bearish activity (prior to Acceleration signal), and we know that any %R spike above 20% is now a qualified retest.

Furthermore, if the retest occurs after the Acceleration Bands signal, it's a lower risk entry within a highly probable signal. Adding the %R Retest filter to your Acceleration Bands will help you be patient for those lower risk entries after momentum has confirmed while Acceleration Bands signals help you identify weaker trends where retests become reversals.

And to show you a 2018 example from our *After Hours Trader* service, see the CVS chart below:



This CVS chart shows how to use Percent R the BigTrends way. This particular trade was based on a Percent R retest that occurred after an extended period of bullish momentum. You'll notice that the Percent R indicator closed under 80 (back into the range) after having been confirmed to the upside. We used this as a "buy-the-dip" opportunity and bought the CVS October Monthly 72.5 Calls at \$5.50. **Using our standard 20% stop and 40% target, we were able to lock down a +40.18% profit within four days.**



Commodity Channel Index - The Big Trends CCI method is available in the BigTrends Toolkit, focused on bullish and bearish breakout strategies. We have again smoothed out the focus on the most meaningful signals.

Description: Donald Lambert originally developed the Commodity Channel Index (CCI) for the futures markets, and the principles work very well for stocks and ETFs and even for the options charts I have taught my BigTrends traders to follow.

Lambert created a Typical Price that averages the High, Low and Close each day, rather than most indicators which mainly focus only on the Close. The BigTrends CCI system targets readings above the +100 overbought threshold for continued bullish trends, while focusing on bearish moves below the -100 oversold boundary.

One of the main value-added benefits to CCI in addition to Percent R is that CCI is not bound between 0% to 100% like %R. CCI can move up or down many multiples of the overbought and oversold boundaries, which makes CCI a better momentum indicator to assess just how powerful a breakout can become.

In the chart below, we have the Expert Advisor for Big Trends Toolkit (BTTK) CCI Breakout System applied to the S&P 500. From 2015 to early 2016, there was not a single confirmed CCI bull trade (thus keeping traders out of trouble during a sideways to down period overall), while there were only 2 confirmed CCI bear trades: in August 2015 and again in early January 2016. Both of these CCI signals were simultaneously confirmed by the breakdowns in the Acceleration Bands and Percent R, to confirm the severity of these market drops.

While not catching the exact top of any move, the alignment of these indicators in the same trend direction is often a sign of a continued trend, here showing the continued declines for stocks prices that happened quickly in August 2015 and more steadily in January 2016.

SPX Chart with 2 CCI Bear Signals: August 2015 and January 2016



And to show you a 2018 example from our **After Hours Trader** service, see the LVS chart below:



The image above shows a bearish LVS chart (lower highs and lower lows). We used the CCI indicator to trade this situation by purchasing puts as the 60 bar CCI closed back above -100 (retesting the range). We saw this as an opportunity to short a brief spike within the longer term downtrend and bought the LVS September Monthly 71 Puts at \$5.50. **Using After Hours Trader's standard 20% stop and 40% target, we were able to lock down a +47.27% profit six days later.** The beauty of momentum indicators like CCI is that they identify a defined range that can be used to capture both bullish and bearish trends, consistently, without second guessing.



As I've mentioned, **keep your trading system simple** - I have found that the unique combination of Acceleration Bands breakouts along with CCI breakouts and Williams' %R retests (utilizing BigTrends' %R methods) makes for a very effective trading tool and system. I encourage you to start testing this on your favorite stocks and ETFs as it has helped me increase my winning percentage, while reducing those whipsaws that many traders experience from using just one indicator alone.

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Please visit www.BigTrends.com for up-to-date market information, trader education and trade advisory services to suit every active trader. Please address any questions to ClientCare@BigTrends.com or call 800 244 8736. We're here to assist you in reaching your trading goals.

Trade Well!

Price Headley and the BigTrends Staff