TURNING POINT INDICATOR TRAINING

INVESTINGWITHOPTIONS.COM

INTRODUCTION

Context.

If you're looking to bet on the direction of any market, that's what you need.

You can't just say…

"I'm going to buy this stock because it sold off a lot…"

How do you know if it "sold off a lot?"

How much further could the stock potentially go?

And if you're an options trader, it's crucial to have that context.

That's what the **IWO Turning Point Indicator (TPI)** can give you.

The TPI is a way to quantify the rate of change of a stock or market.

It gives you specific levels that shows the probabilities of a move in a stock.

We'll get into it a little more, but first let's get it installed…

INSTALLATION INSTRUCTIONS

THINKORSWIM

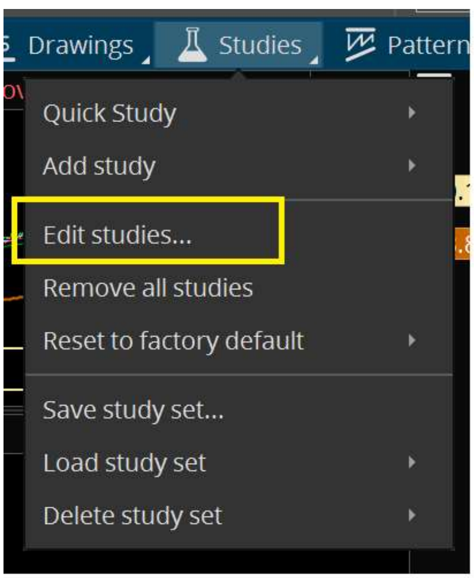
To install it inside of thinkorswim, **follow these steps exactly**. If you try to just open the file, your operating system will think it's a video file and it won't work. You'll need to manually import it into ToS.

Step 1: Open Your Trade Platform

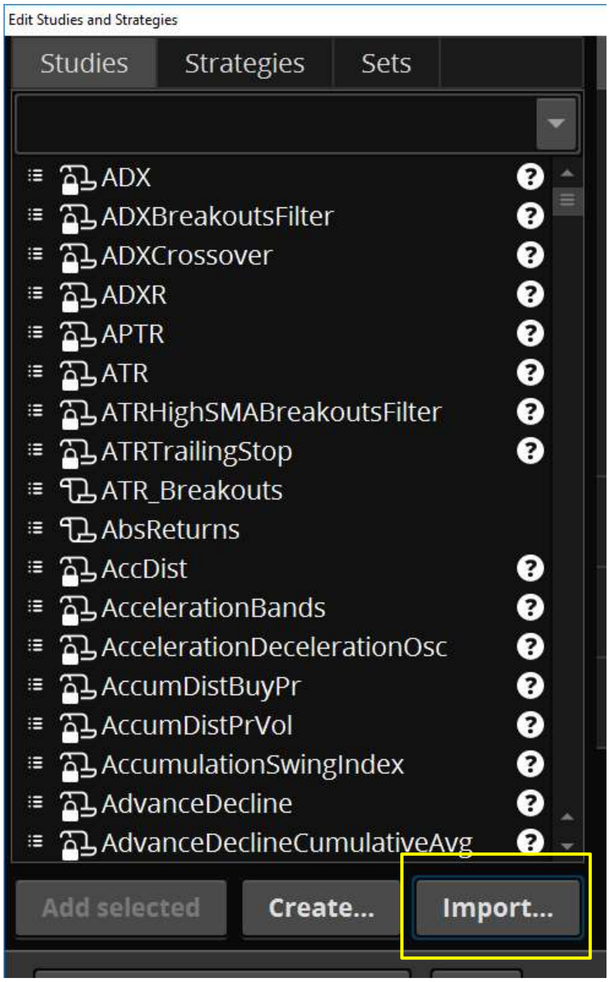
Step 2: Go to the "Charts" Tab

Step 3: Select the "Charts" Sub-Tab. (We are using thinkorswim charts, not Prophet charts.)

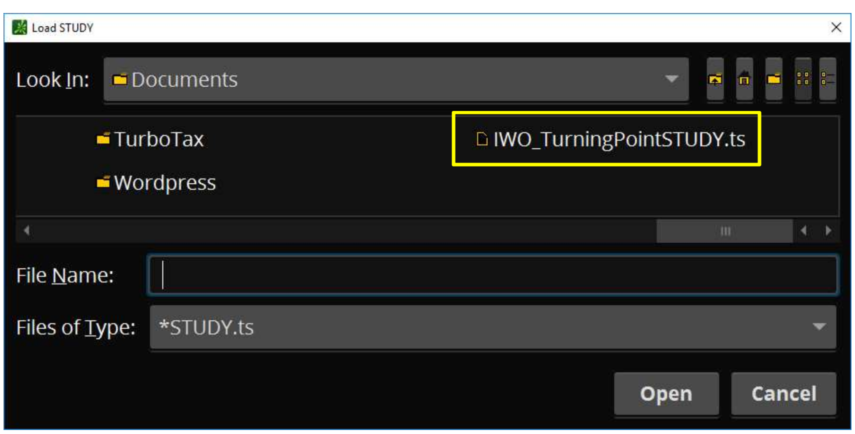
Step 4: Click on Studies -> Edit Studies



Step 5: Inside of the "Edit Studies and Strategies" Section, Click the Import Button



Step 6: Navigate to where the file is, and open it.



Step 7: The study is now installed in your thinkorswim platform. You can double-click on the study to add it to your charts.

TRADINGVIEW

TradingView is a free charting software available online. That way you can use the indicator no matter what broker you use.

Step 1: Go to this webpage: https://www.tradingview.com/script/Gn1EJ6Yq-IWO-Turning-Point-Indicator/

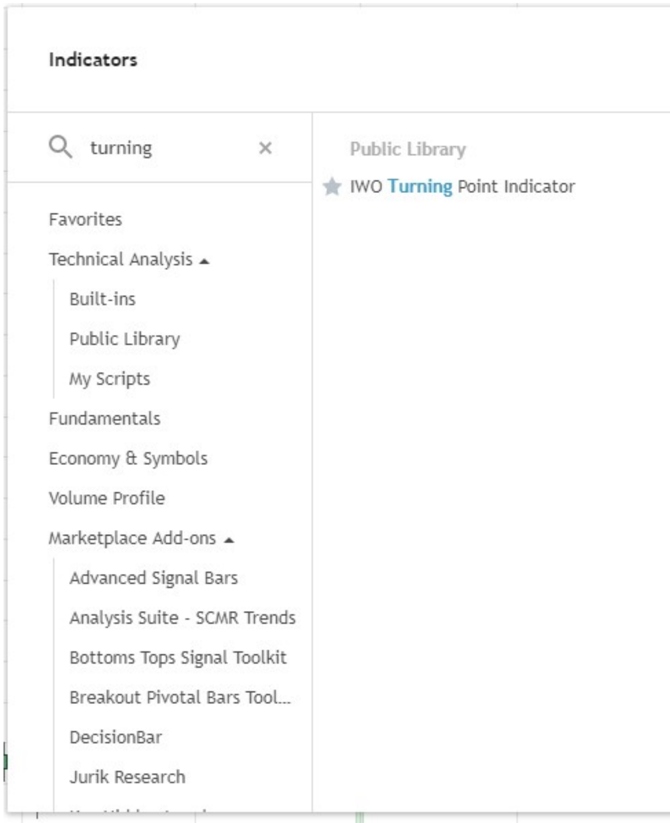
Step 2: Click the "Add to Favorite Scripts" button.

Step 3: If you don't yet have a free account, sign up.

Step 4: You can now use the indicator whenever you wish.

Step 5: To add the script to a trading view chart, go to a chart and then click "Indicators."

Step 6: In the search window, type in “Turning” and you’ll see the script pop up.



The indicator will now show on the screen.

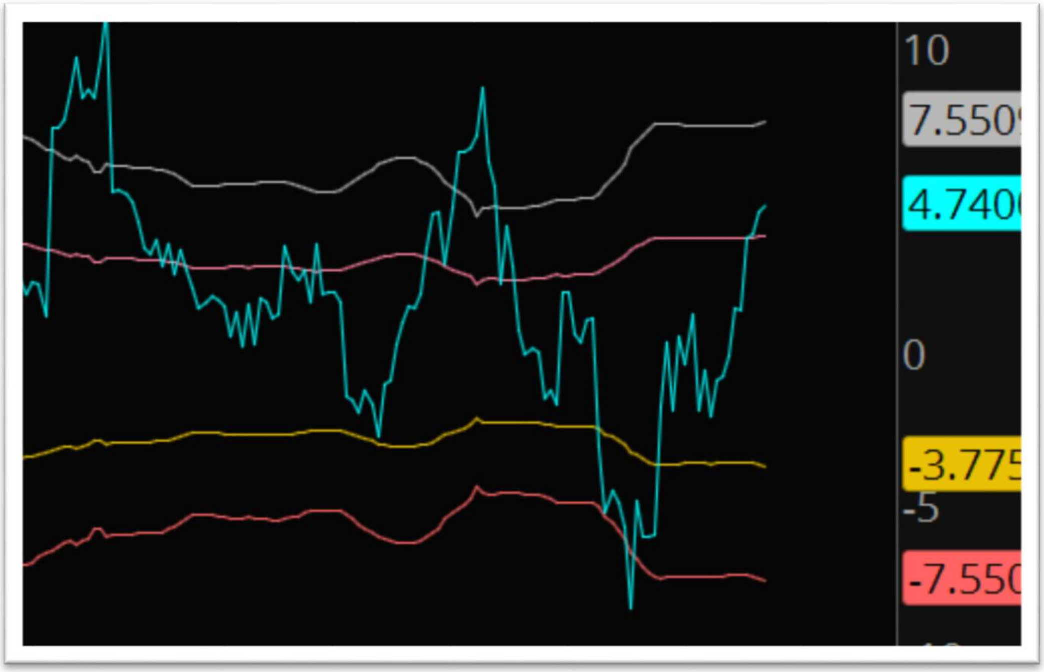
HOW THE TPI WORKS

The has a few components.

The first is the “Rolling” line. This shows us the rolling returns of a stock for whatever timeframe we want.

The default setting is a period of 10 trading days, which is the equivalent of 2 weeks.

So, for an example, if a stock is a reading of 4.7%, that means it has rallied 4.7% over 10 trading days.



The rest of the lines are volatility bands, using a 60-day sample. 60 days is about 3 calendar months.

The indicator looks back at all of the rolling returns data, and calculates the standard deviations.

This is important because it gives us context for a stock.

As an example, you can say "oh wow, this stock has moved big."

But the other questions to ask are…

1. How big?
2. Has it happened in the past?
3. What kind of moves should we expect?

The volatility bands are a guide.

In the chart above, the upper volatility band is at 7.55%.

What does this mean?

It means we should expect, about 95% of the time, for the stock to **not** rally 7.5%.

And with options trading, it's just as important to know where a stock isn't headed just as much as to where it is.

The sweet spot is at 30 days to expiration.

If you can capture 50% of maximum credit with 30 days left to expiration, that's a good exit.

If you can capture 20% of maximum credit after being in the trade for only 10 days, that's also a good exit.

The goal here is to maximize returns and minimizing time in the market.

WHAT TIMEFRAMES TO USE

There are few timeframes that I follow. Each has its own reasoning, but it basically comes down to how much a stock has moved…

… in the past week

… in the past two weeks

… in the past month

… in the past 3 months

Your trading style and strategy choice will dictate what kind of timeframe you need to use.

Here are the inputs for each timeframe:

One week (5, 60)

Two weeks (10, 60)

One Month (20, 80)

Three Months (60, 252)

Because we only look at trading days not calendar days, our numbers are shortened.

Oh, and that “252” is because there are 252 trading days in a year. Neat, right?

HOW TO TRADE WITH THE TPI

The TPI is an indicator best suited with looking for reversion-based moves.

Simply put, you wait for an expansion in volatility and then fade any further moves from that.

Let’s take an example.

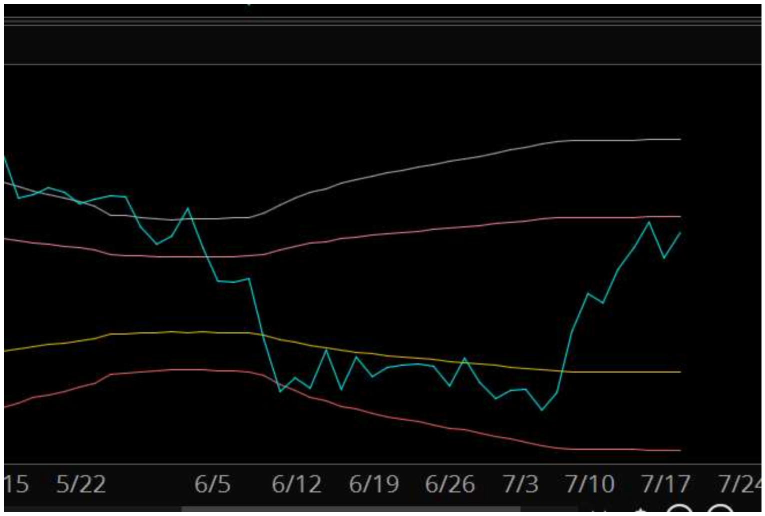
A stock is trading in a long-term uptrend with a closing price of 155, then over a 10-day period it moves -8%. That’s below its 2^{nd} standard deviation band.

Its closing price is 142.

Now the odds of seeing downside continuation are very low, especially within the next 10 days. So, you can look to structure a bull put spread, an option strategy that profits as long as the stock doesn’t move below a certain strike price.

The cool part? You can use the TPI to figure out where you should place that strike price.

So you can move the timeframe of the TPI out to 20 days, and then you get this chart:



The lower band shows -6%, which means that based on the past 3 months volatility the odds of seeing a selloff greater than that is around 5%.

And given the fact that the stock is already deeply oversold, the odds are further in your favor.

Put it all together.

The stock is statistically oversold, with a closing price of $142 per share.

6% off that current price is around 133.

So you can sell the 130/125 credit spread for around 0.65.

With a max reward of 65 and a risk of 435, that puts your return on risk at 14%.

Do the math!

The reward relative to the risk is much higher than the statistical odds!

I’d take that trade any day.

GET MORE TRAINING

I’ve put together a training that explains my approach a little bit more.

You’ll find that, often times, it’s not the trade idea that’s the problem… it’s the execution of that idea.

And you’ll also get access to a special stock screener and automated execution system that I use every single day.

Watch the training video right now.

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