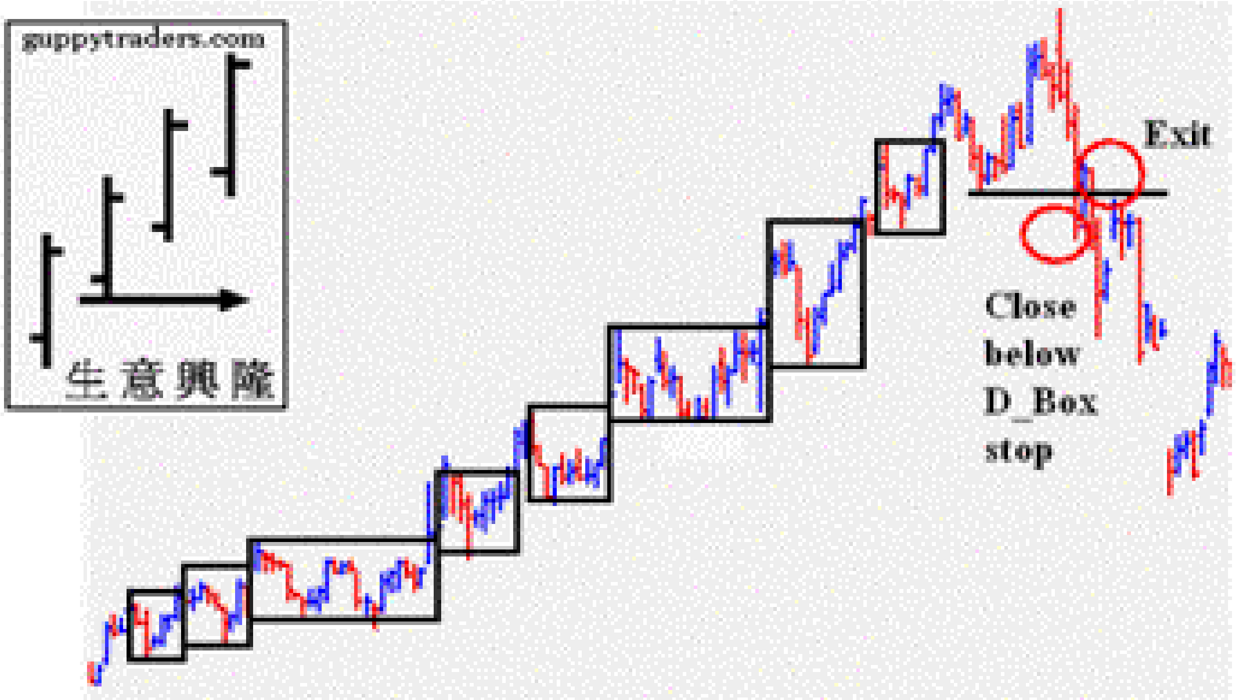
Modern Darvas Trading

Daryl Guppy
www.guppytraders.com

Author of

Share Trading, Market Trading Tactics,Chart Trading, Better Stock Trading, Snapshot Trading, Trend Trading



Trend Trading

Objectives

To buy high and sell higher

Set entry and exit conditions to take defined returns

To identify a strong, well established trend

Develop trend trading discipline

- **TRADING ADVANTAGES**
- Buying into strength
- Lower risk of trend collapse
- Less pressure for quick decisions
- Suitable for weekly monitoring

- **TRADING DISADVANTAGES**
- Some popular indicators are unreliable
- Requires strong discipline to leave profits behind
- Reluctance to act when profit is substantially diminished
- Trend may move sideways for long periods

Darvas trading

- Strategy is based on buying new highs
- A different way of understanding trend behaviour
- Based on volatility ranges used to define the 'box'
- Uses clear stop loss conditions
- Long term trend trading requiring minimal management
- Classic, modern and breakout applications

Darvas trends - Overview

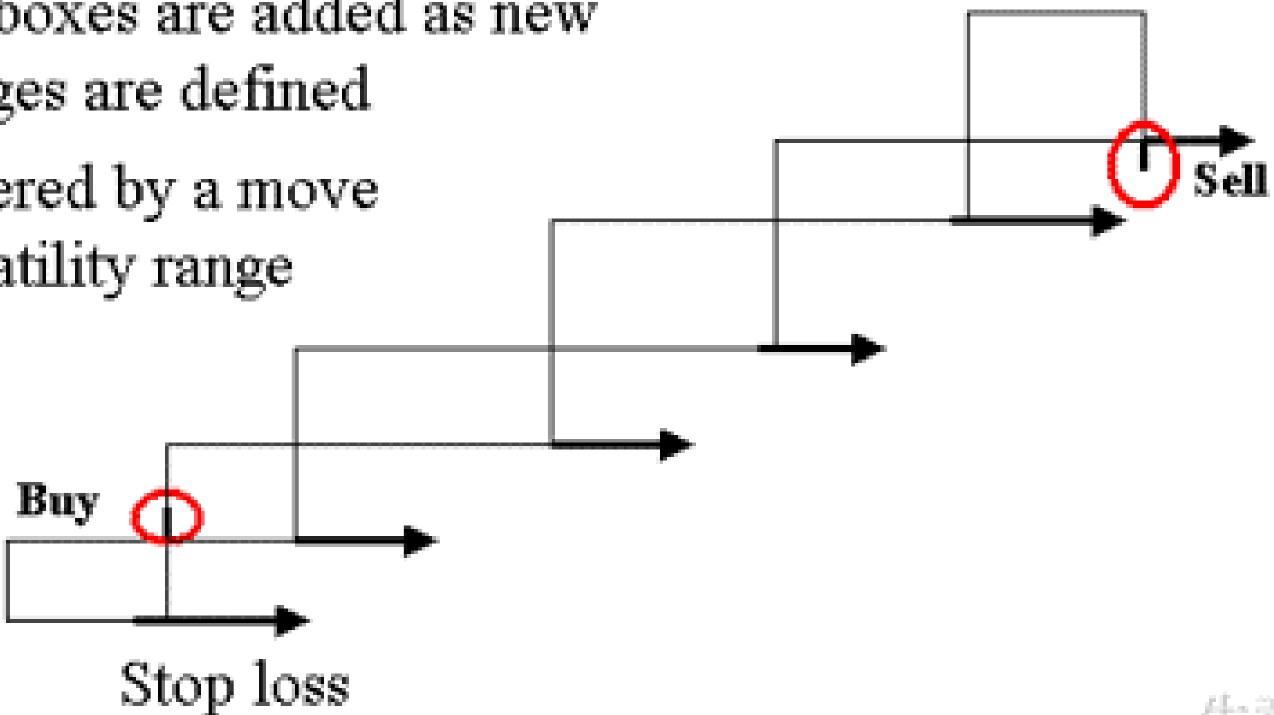
Trend definition starts with a box that defines volatility range

A buy is triggered by a move above the upper volatility range

A stop loss is set on the lower volatility range

New Darvas boxes are added as new volatility ranges are defined

A sell is triggered by a move below the volatility range



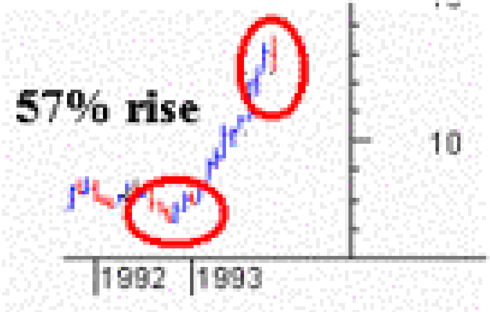
Avoiding a strategy for the foolish

Buying new highs is a strategy for fools

Buying new highs is a good strategy when we validate the high as part of continued bullish strength. Darvas does this

Who is afraid of heights?

Looks expensive



Who is afraid of heights?

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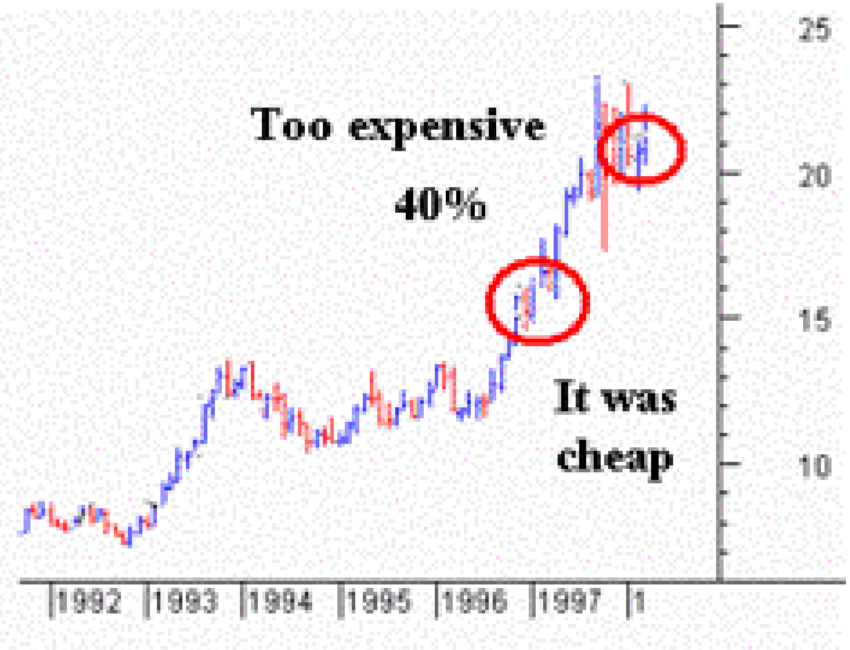
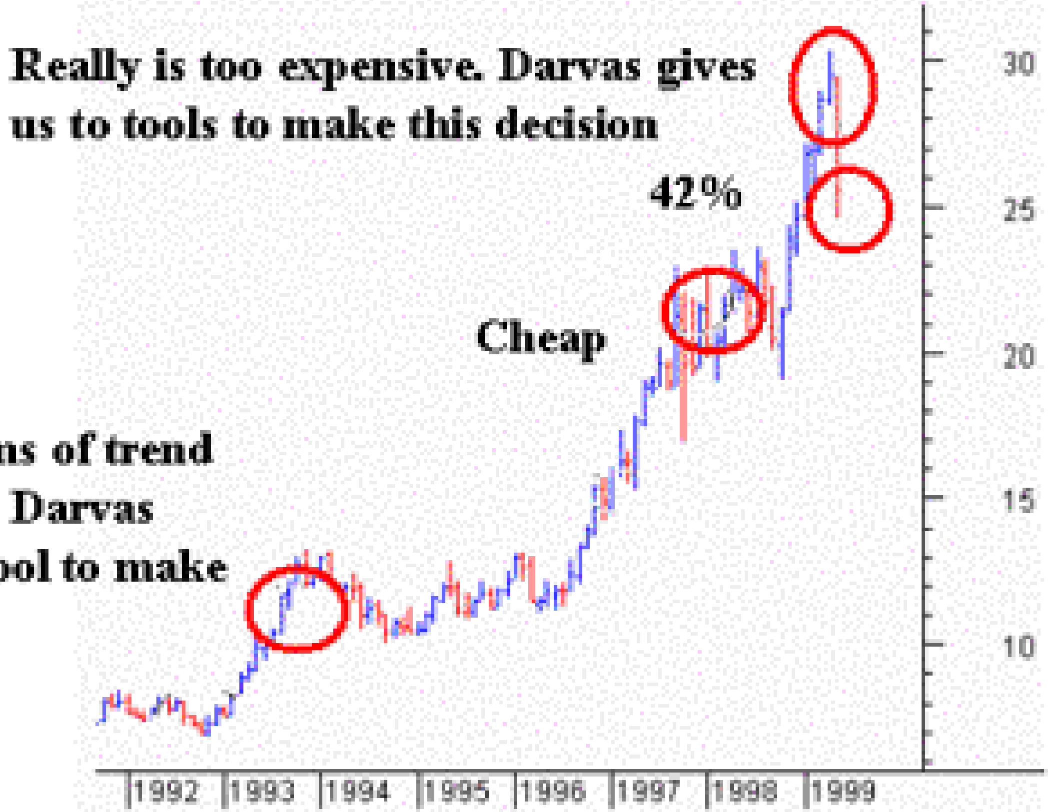


Who is afraid of heights?

Our participation in trends is held back by our focus on concepts of cheap and expensive

Cheap in terms of trend development. Darvas gives us the tool to make this decision



We trade trend more effectively if we concentrate on measures of trend strength

Darvas style trading

• CLASSIC

- Trade initiated by a new high for the rolling 12 month period
- All decisions based on the high or low of the series
- Action triggered by the first trade at the trigger price
- Method of stop loss calculation remains constant
- Volume increase with breakout

•MODERN

Trade initiated by a new high for the rolling 12 or 6 month period

All entry decisions based on the high or close of the series

•Action triggered by the first trade at the trigger price or close

All exit decisions based on the close of the series

Exit on the day after the trigger close

Stop loss calculation uses 'ghost' boxes to handle modern volatility

•BREAKOUT

Trade initiated by the second Darvas box after the initial downtrend breakout

All entry decisions based on the high of the series

•Action triggered by the first trade at the trigger price

All exit decisions based on the close of the series

Exit managed on the day after the trigger close

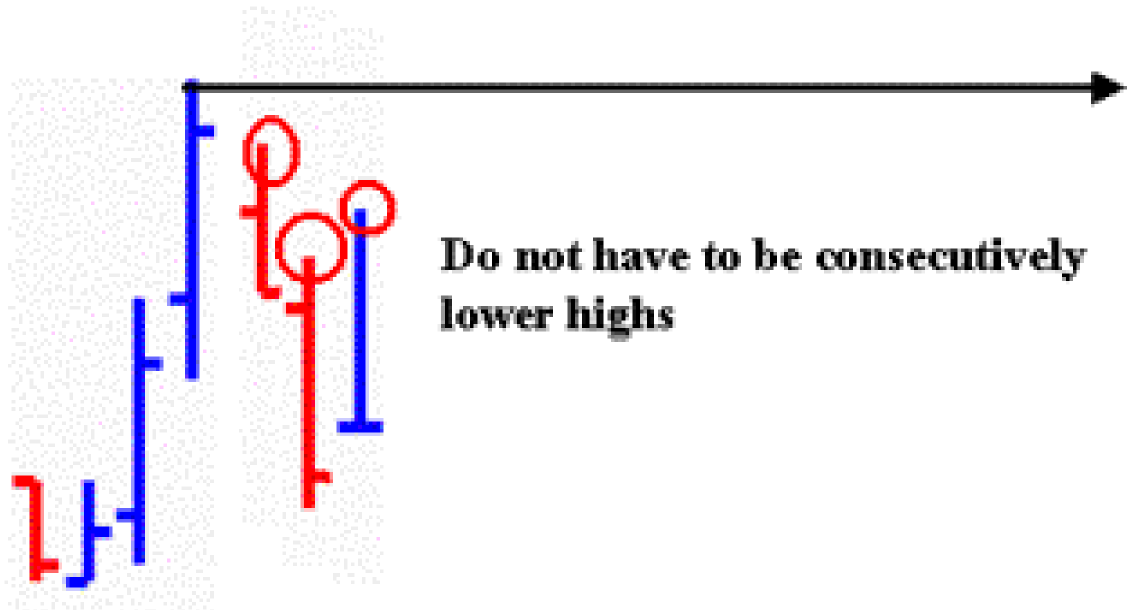
Stop loss calculation uses 'ghost' boxes to handle modern volatility

Classic Darvas box – Set the top

Start with a new high for the selected period

Look for 3 lower highs

Set the top of the D_box



Classic Darvas box – Set the Bottom

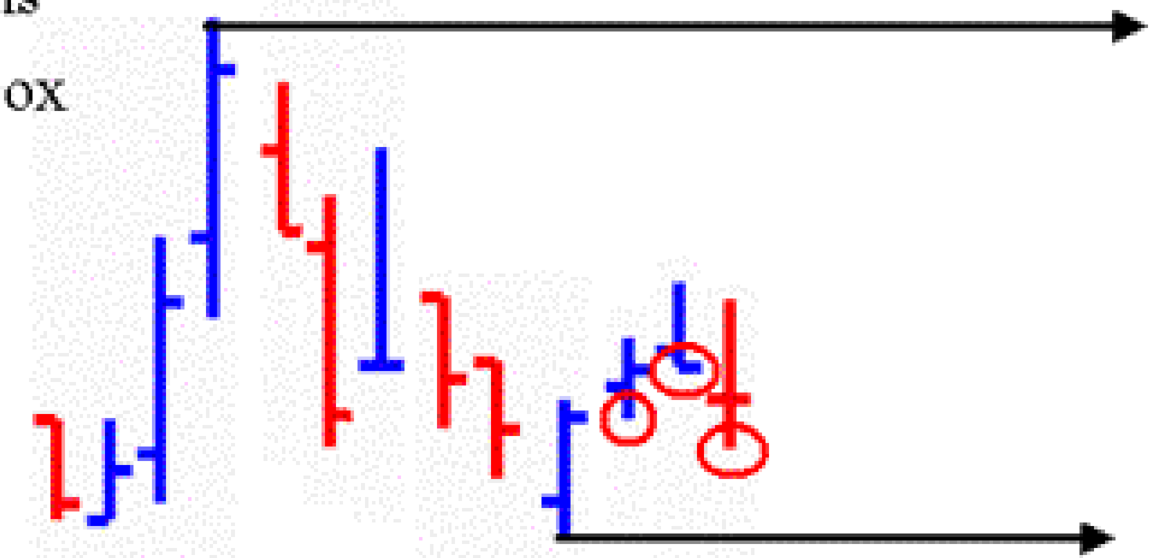
Start with a new high for the selected period

Look for 3 lower highs

Set the top of the D_box

Look for a low followed by 3 higher lows

Set the bottom of the D_Box



Do not have to be consecutively higher lows

Classic Darvas box – Wait

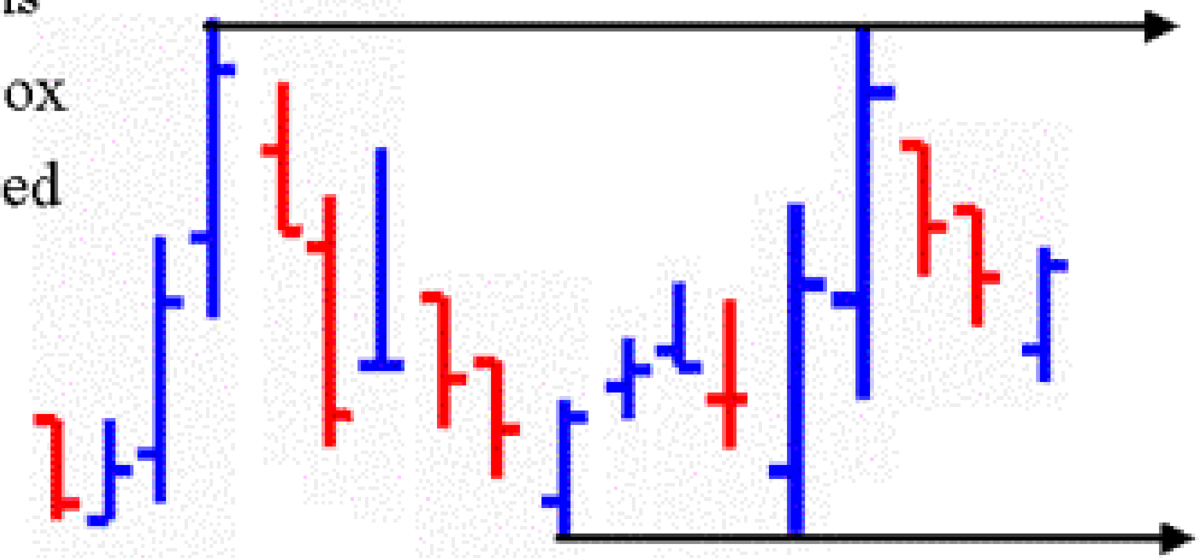
Start with a new high for the selected period

Look for 3 lower highs

Set the top of the D_box

Look for a low followed by 3 higher lows

Set the bottom of the D_Box



Ignore equal highs and lows

Ignore price moves within the box

Classic Darvas box – buy & sell

Start with a new high for the selected period

Look for 3 lower highs

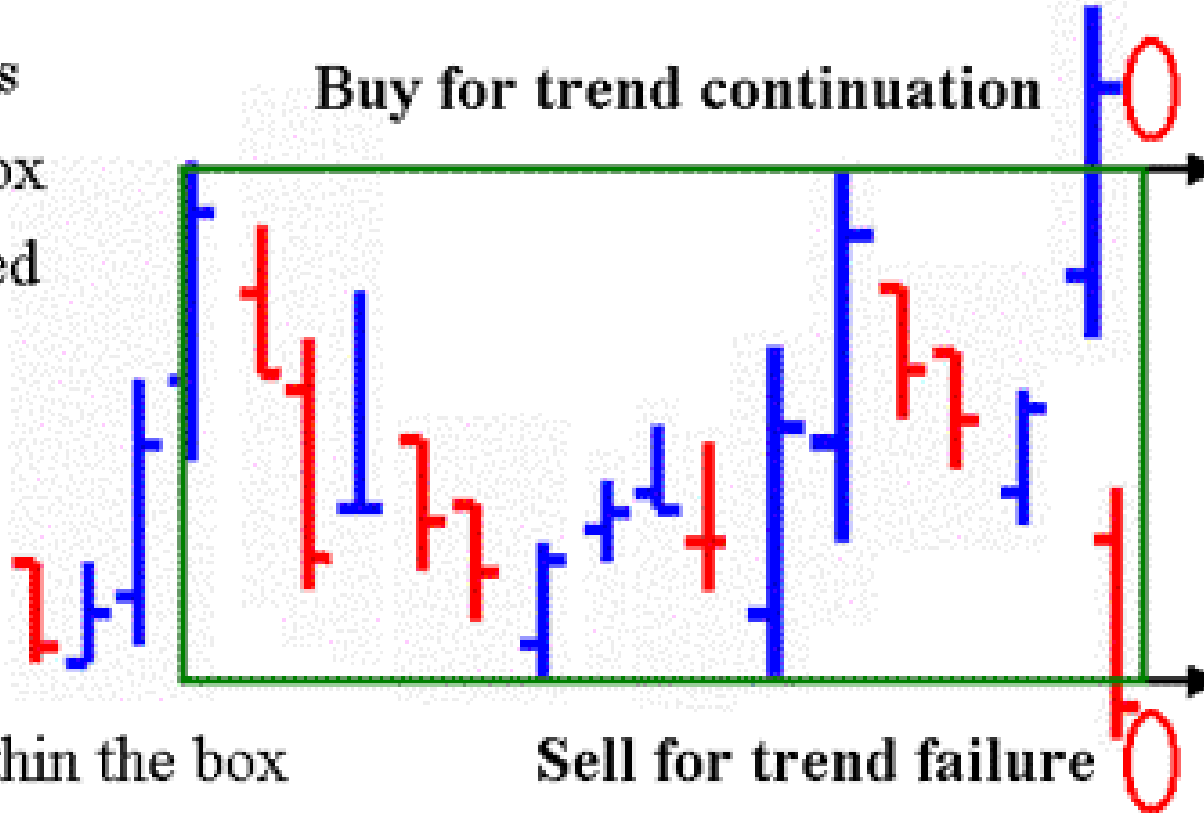
Set the top of the D_box

Look for a low followed by 3 higher lows

Set the bottom of the D_Box

Ignore equal highs and lows

Ignore price moves within the box

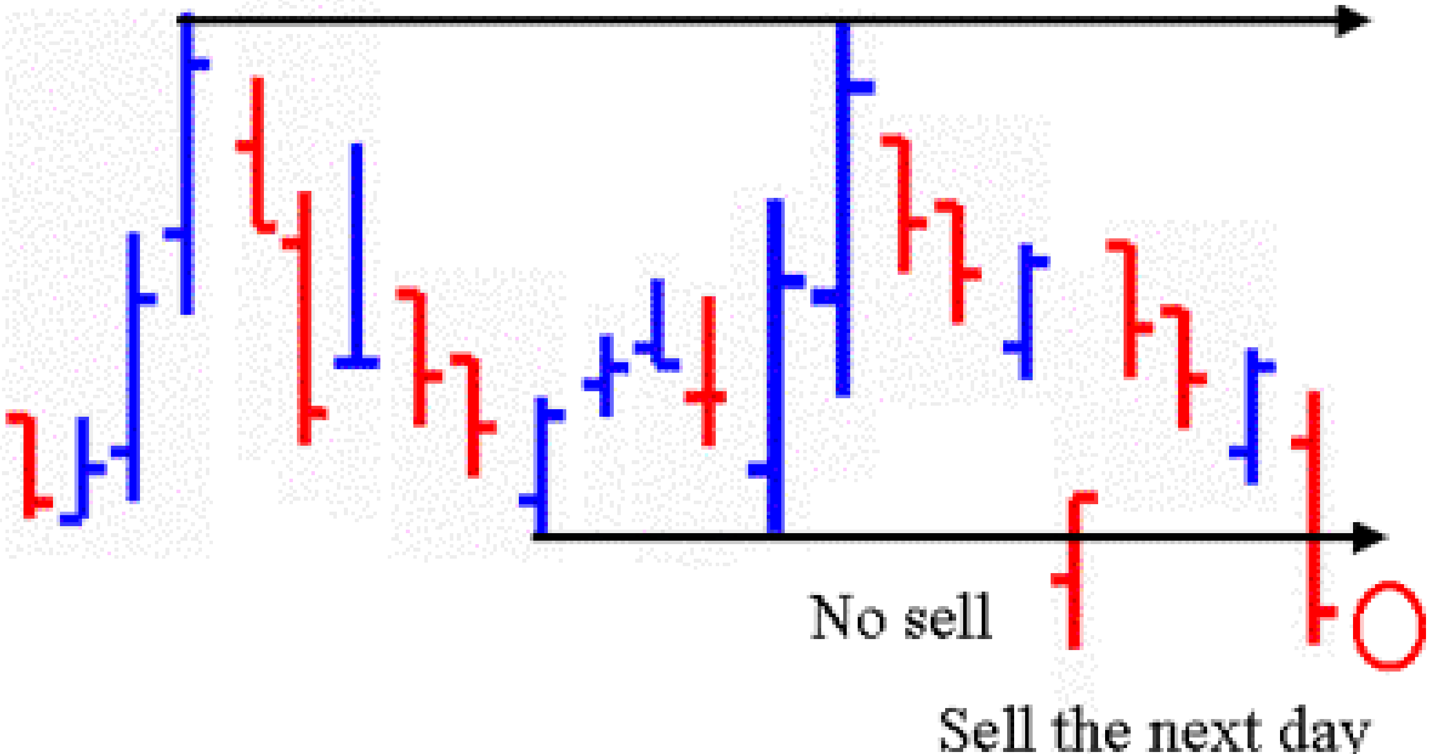


Buy breakouts to new highs   Sell breakouts below the box

For visual clarity we define this with a Darvas box

Modern Darvas box
Sell modification

No sell signal until
close below the D_Box



Special Darvas

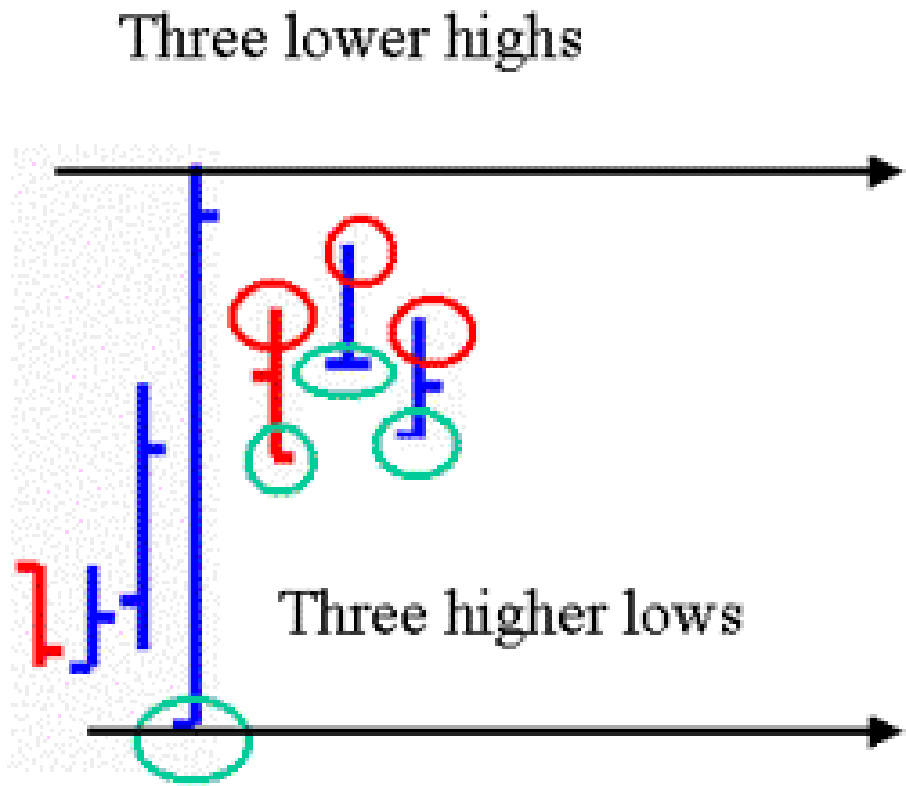
Modern volatility has made a ‘special’ case more common

Set the top of the box as normal

Set the bottom of the box on three higher lows

Initial low already established

Set the bottom of the box



Better than a trend line

Darvas is a stand-alone technique for defining the trend

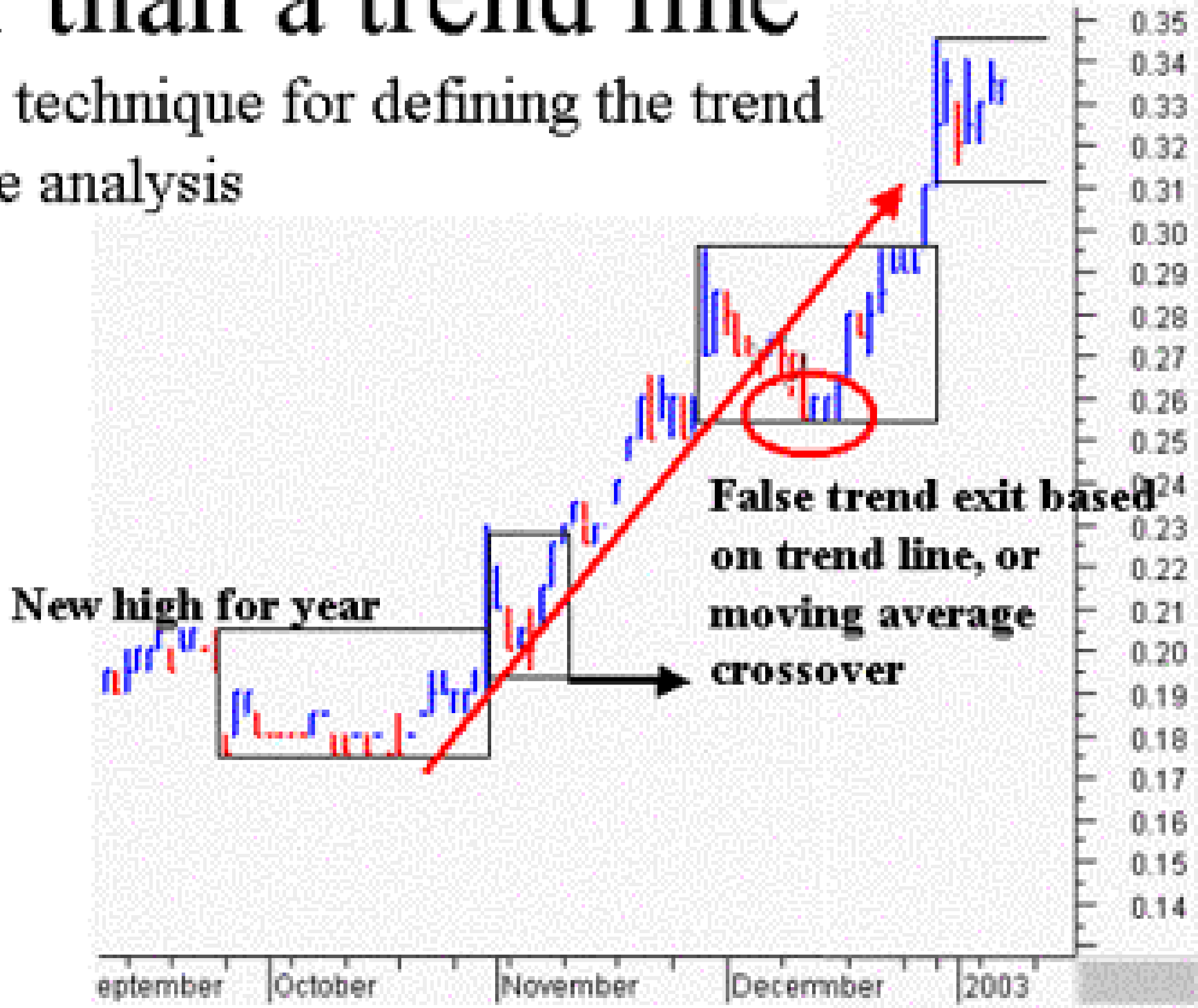
Apply classic trend line analysis

Exit trend

Apply classic Darvas analysis

Trade with Darvas trend discipline

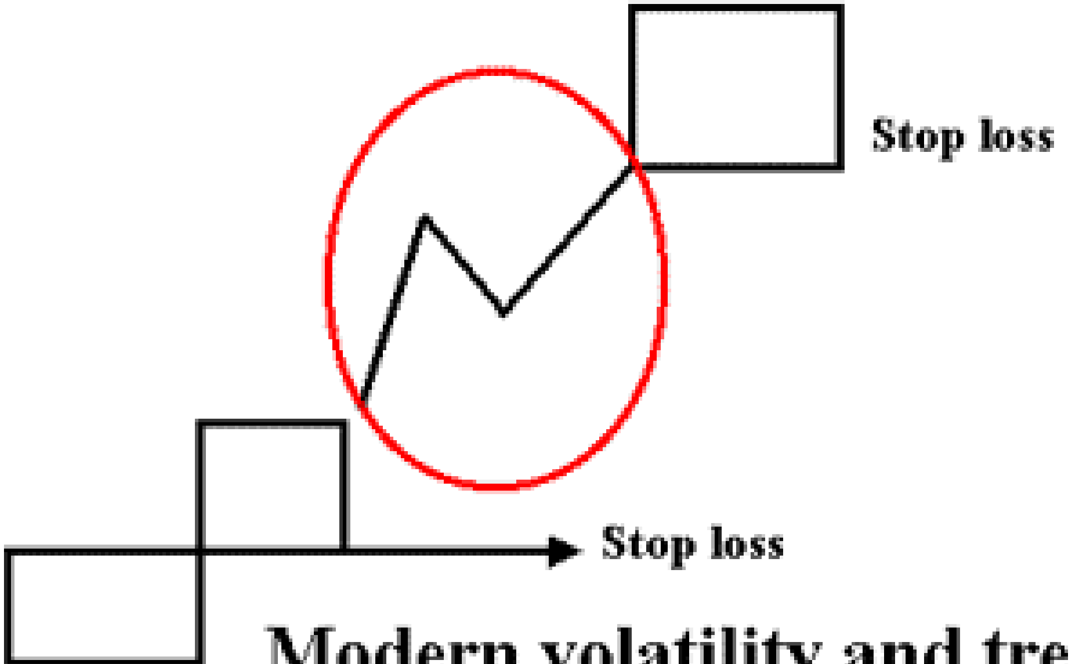
Darvas defines trends independently of other methods and indicators



Darvas ghost boxes

Volatility has increased in modern markets so there may be a very large gap between the current D_Box stop loss and the development of a new D_box stop loss.

A 'ghost' box sets a temporary stop loss. It is the same height as the previous valid D_Box



Modern volatility and trend development

Darvas ghost boxes

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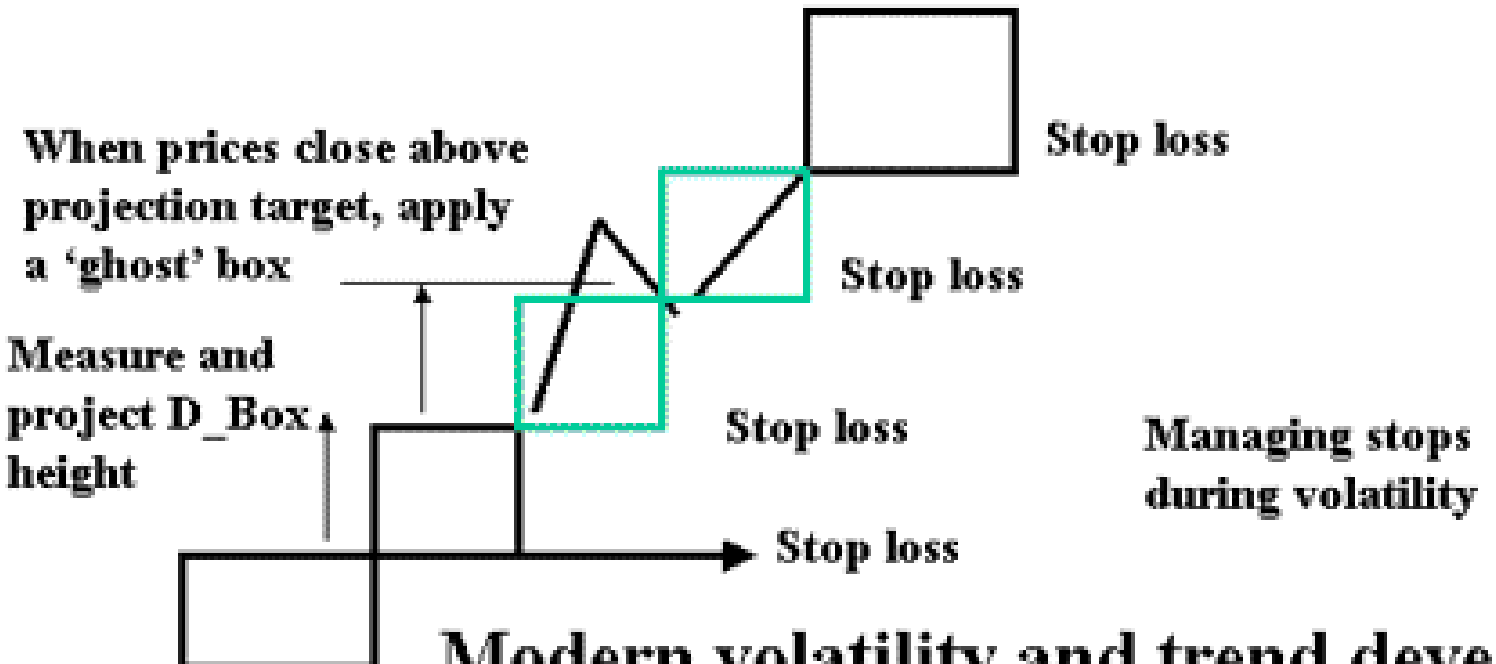


Modern volatility and trend development

Darvas entry tactics

Aggressive Darvas

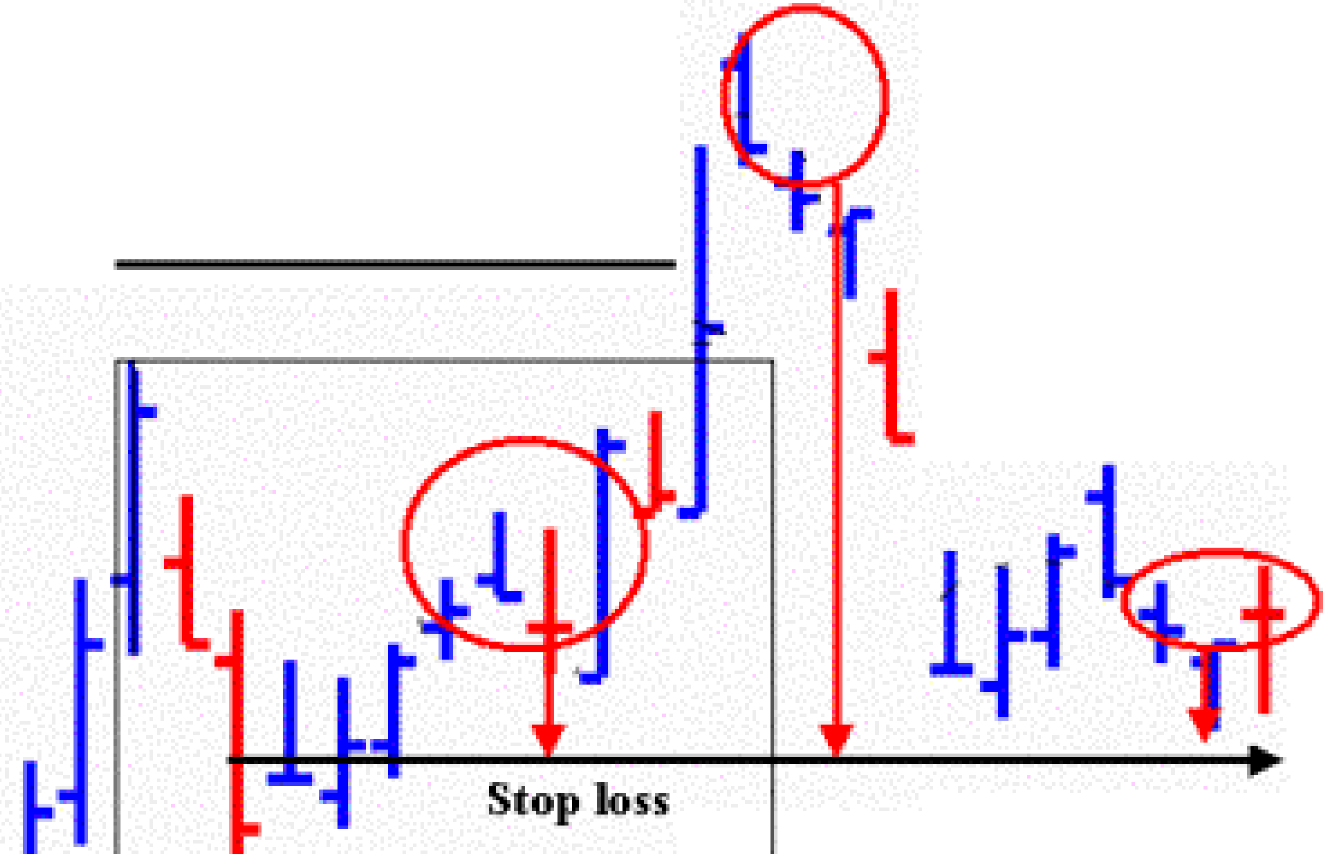
Enter in anticipation of a breakout.

Advantage: Tight stop loss

Classic entry after breakout.

Advantage: Trend strength confirmed.

Disadvantage: Stop loss a long way below and prices may fall



Delayed entry

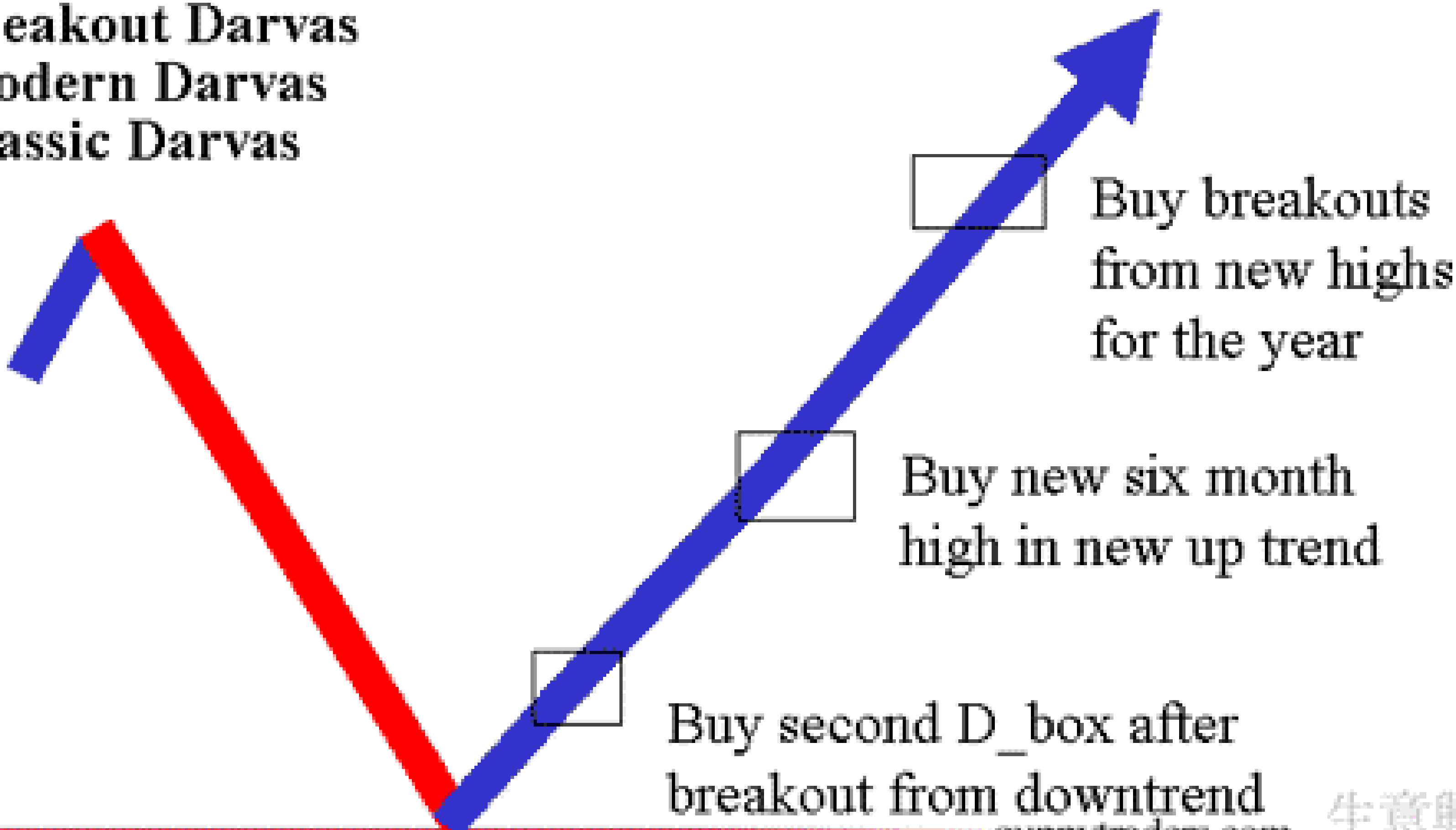
Advantage: Closer to stop loss and suitable for delayed identification. Disadvantage: Price might not pullback to allow for delayed and cheaper entry.

Tactics summary

Strategy buys new highs **on proof** of trend strength

Look for a new high for the period

- **Breakout Darvas**
- **Modern Darvas**
- **Classic Darvas**



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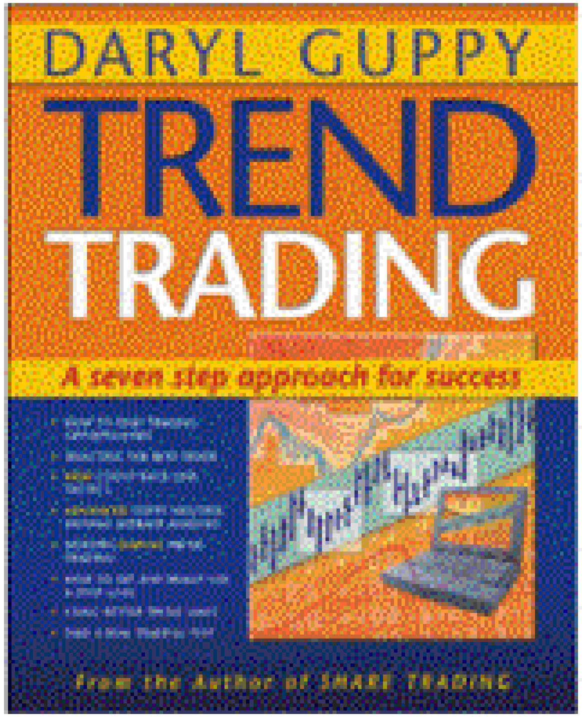
New Darvas Trading

- Modern Darvas trading techniques
- Detailed development and strategy applications
- Detailed Metastock formula
- www.guppytraders.com



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