

Short Term Explosive Performance Small caps

STEPS

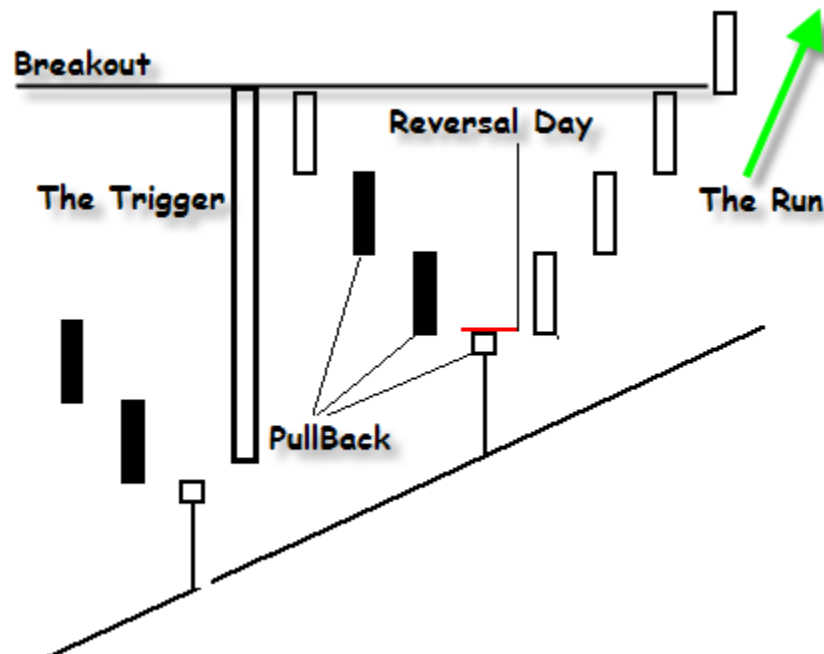
Successful trading is reliant on discipline and implementing a proven strategy. Without a strategy, trading can become an emotionally driven exercise in gambling.

The very best strategies have simplicity at their core. Welcome to STEPS. Short Term Explosive Performance Small caps. A simple and profitable strategy for trading breakout stocks.

STEPS is a volume reliant pattern, no indicators, moving averages, oscillators required to identify trades. Although the biggest returns and subsequently risks will come from the .PK .OB and sub \$5 stocks the pattern is technically a variant of a bull continuation / breakout and applies to all stocks (although higher priced mainstream stocks will not show the type of explosive continuation that this setup aims to catch). The idea behind the pattern is to gain safe entry to (without chasing) and profitably exit from (without hanging on too long) stocks that have exploded upwards (usually on some form of fundamental shifting news).

THE STRATEGY

STEPS is graphically depicted in this chart and then described in detail below.



STEP 1: THE TRIGGER:

A big upwards volume backed move. Volume **MUST** stand out from the rest of the chart, as price climbs strongly. No exact numbers apply here, this is a visual pattern, but this move should be anywhere from 1 to 5 days. The scan is for stocks less than \$5, volume & price explosion, daily volume > 100K (check \$ value for

liquidity especially if it is a sub penny as this will be more important than the actual volume number as you want to ensure tradability). The very best set ups do not have much historical overhead supply, and indeed are coming off a base pattern. Create a watch list of stocks passing the Trigger. The aim now being to watch the pullback, identify and calculate entry and exit points.

STEP 2: THE PULLBACK:

A pullback of price, and volume that does not pierce the low of the start of Step 1. Pullback MUST last at least 2 days to ensure pattern validation.

STEP 3: ENTRY #1:

The STEPS pullback entry should be on the day of or the day following reversal confirmation. You can afford to be careful on entry here; there is no need to dive in because the pullback has to confirm and then start reversal. So, watch for candles that give confirmation e.g. an inside day, a morning doji star, bullish harami etc. You can also use an ascending trend line or short term moving average (e.g. 10 days) in conjunction with confirmatory candles to help guide entry. (remember though, entry is conditional on at least 2 days of pullback having occurred, the low of the initial breakout having not been pierced and volume lower than during Step 1.

STEP 3: ENTRY #2:

The STEPS Breakout entry point is the new break of the highest close or open (whichever is higher) of Step 1. This needs to show heavy volume as well, the best trades will likely have bigger volume here than in step 1. Entry can be anywhere on breakout day but recommend a buy stop at or around the breakout point itself. Also recommend setting buy stop entry once you have identified the stock which best fits the pattern (prior to pullback entry) in case it breaks out without you being able to execute pullback entry.

STEP 4: THE RUN:

The pattern on true sub-penny stocks (those ridiculous \$0.00x types) displaying the above conditions can run 100%+ from the breakout point. In extreme cases, this can happen in 1 session, but more likely over 2 to 8 sessions for the more sane stocks (in the sub \$5.00).

ENTRY & EXIT DETAILS:

Entry: ½ position on pullback and ½ on breakout (Step 3 entries)

Initial Stop: For pullback entry: either just below low of the day prior to entry (confirmed reversal point) or below an ascending support line which may be able to be drawn or at or near the low of the Trigger phase. For breakout entry just below the low of the entry day or confirmed breakout day (if entry day does not become confirmed breakout day, also move the pullback stop to that point once both positions are filled).

Exit(s): Following the breakout, there are several exit strategies that can be used. Sell if set to close below half way point of previous day's candle, or (if you are

more an end of day trader) sell next day on open if this occurs. Sell $\frac{1}{2}$ on double (100% gain) or during the day of 3rd white candle following breakout (whichever comes first) or on open next day for end of day traders. Selling in blocks of $\frac{1}{3}$ or $\frac{1}{2}$ total positions will give the best reward to risk returns. Again an aggressive ascending support line can be employed after the breakout and used as an exit signal if it breaks. Your aim is to be closing all positions above the original breakout high (the STEPS breakout entry). If the breakout fails (and you have either the pullback entry only or pullback and breakout entry filled), then employ aggressive trend-line or candle watch exit. The aim on a breakout failure should be to exit your position(s) above entry price of the pullback position. Expect to close trade within 5 to 15 sessions.

GOOD TRADING WITH STEPS AND 3STOCKS