How to use BORC

Key knowledge for using BORC

- Why does this work?
    - Academic papers have proven that the most profitable trading strategies are ones that focus on mean reversion, and BORC utilizes multi-period BollingerBands and custom signals to paint a clear picture of price movement.
- What can I trade with BORC?
    - **EVERYTHING.** BORC works for Futures, Equities, Indices, Crypto, and on any time interval.
- Good combinations to use with BORC?
    - Heikin Ashi has been proven to be VERY effective with BORC. Also, Maxx Momentum, BORC, RSI is many traders favorite combination

BORC Signal Legend

- You should pay most attention to the triangle signals (or arrows on ToS) as they are representing the price movement action of the larger period BollingerBand that will filter out *most* of the false breakouts.
- Red Triangle / Red Arrow
    - Pointing Down => **Bearish Breakout has occurred, watch for a Bullish Reversal**
    - Pointing Up => **Bullish Breakout has occurred, watch for a Bearish Reversal**
- Green Triangle / Red Arrow
    - Pointing Down => **Bearish Reversal is confirmed, price has a high chance to move Bearish**
    - Pointing Up => **Bullish Reversal is confirmed, price has a high chance to move Bullish**
- Red Circle
    - Weak Bearish / Bullish Breakout
- Green Circle
    - Weak Bearish / Bullish Reversal Confirmed

General Trading Guidelines

- If you are using indicators for analysis, you should try to combine a leading + a lagging indicator
    - **Leading Indicator**
        - These arrive at a value before a price does
        - Ex: RSI gets to 20 before prices reaches its low
        - Most leading indicators are oscillators

- If trading view puts it at the bottom of the viewport, it is usually a leading indicator
  - **Lagging Indicator**
    - These react to price with a delay almost They deform and react to a price event
    - Ex: Bollinger Bands
  - Examples of Valid Leading + Lagging combinations
    - MACD + RSI
    - Bollingers + Money Flow Index
    - EMAs + ADX
- Price and Volume are the two most important variables **ALWAYS** in any setup
- <u>**Price is King**</u>
  - "Price is the agreement we've arrived to on our disagreement of value"
- Once you have exited a position, the trade is over. Don't feel bad if you had kept the position you would have made more money.
  - Making sure you have a solid entry and exit strategy is key

RSI

$$RSI = 100 - [\frac{100}{1 + \frac{Avg_{gain}}{Avg_{loss}}}]$$

- RSI is a leading momentum indicator normalized to range $0 - 100$, genereally speaking these are what the values represent.
- Since RSI has a fixed range, we can know the common support and resistance lines on the RSI indicator for any stock because they are all the same
- RSI horizontal lines represent the following key levels

RSI Interval	What it means
0-20	Extreme selling pressure
20-40	Strength in selling
40-60	Neutral market conditions
60-80	Strength in buying
80-100	Extreme buying pressure

- Strong trending stocks usually bounce around the 60-80 range
- **When we break support or resistance, the key variable be it price, RSI, or whatever else will attempt to get back above / below. If it fails, more often than not, it hurries to test the next support / resistance and establishes a range between these two lines**
  - Pyschologically this makes sense too, let's say $60 support breaks and next support is $58. The beers just won the battle so they're in power, who would want to step in between 60 and 58 when they could smash through the next support too?

- If we break the wall, and we can't fix it right away then we're moving onto the next wall
- 50 RSI is the midpoint support
  - Key support and resistance of a buying and selling trend
  - 50 RSI last line of defense in a bearish or bullish trend
- **If a stock is bullish, buy it at oversold**
- **If a stock is bearish, sell it at overbought**

Volume

- Large body candles with high volume you should take seriously
- If a candle has too big of a wick on each side and the body is not appreciable relative to the total height, then the high volume just represents "high trading in that period"
- If you are observing a chart on a shorter timeframe, let's say 5 min, you want to look for a change of volume bars
  - You want to see green bar volumes starting to match or dominate red ones
  - Observing volume patterns over a bunch of cnadles is always a lot more powerful than a single candle
  - If you are looking for a bullish move, you want to see green volume bars to be greater than the moving averages. If the red candles are dominating the green ones in volume, its a sign the bearish trend may not be over
- High volume bars can represent the start of a powerful new trend or a point of reversal
  - So high volume just means something big is happening, people starting to position themselves

Bollinger Bands

- Let you know if the stock is trading at "high" or "low" price relative to its recent price action
- Default is set to 20 periods
  - So if you're looking at hourly, the bollinger bands would show the last 20 hours
- **Basis Line**
  - The middle line between the bands
  - The simple moving average during the set period
  - aka: $midBB$
  - You can use EMA or SMA
    - EMA = Exponential Moving Average, reacts quicker
    - SMA = Simple Moving Average
- **The Bands**
  - The area that represents a particular stanard deviation of price away from the moving average
  - Upper Band is 2 standard deviations above the mean trading price
    - aka: $2highBB$

- Lower Band is 2 standard deviations below the mean trading price
    - aka: $2lowBB$
- The width of a ballinger band is the the difference between $2highBB$ and $2lowBB$, or 4 standard deviations
- When looking at a candle, ask the following
    - **Where are we in the Ballinger**
        - aka: $\%b$
            - Basically the Y-Coordinate withing the Bollinger
            - If the price is exactly on $2lowBB$, then $\%b$ is 0
            - If the price is exactly on $2highBB$, then $\%b$ is 100
    - **What are the width of the Bollingers?**
        - Width shows volatility
            - Narrow Bollinger Bands are a period of low volatility, where price is relatively "flat" or trending very slowly in one direction
            - Wide open Bollinger Bands signify either high volatility OR trending powerfully in one direction
    - **What is the direction they are pointing too?**
        - If the Bands are pointing downwards it is a bearish trend
        - If the Bands are pointing upwards it is a bullish trend
- It is important to get the right about of data or "context" for Bollinger Bands
    - Too small of a period for basis (5,8,10), then you don't have enough data or context
    - Too high and you have way too much data and context
- The right amount of context for 2 reasons
    1. You want to be following common averages that algos and other traders follow
    2. You want the Bollinger length to give you enough data to look at various standard deviations
    - Too low of a Bollinger length means it deforms too easy
    - Too high of a Bollinger length means its too flat, and you can't make interpretations of the data
- Arrow will pop up when the price breaches the 2.9 std. deviation
    - This means we are in an extreme range leading to a continuation or reversal
- The 1 standard deviation band
    - Minor band, shows +- 1 standard deviation from midBB on the same interval
    - The 1 standard deviation bands and 2 standard deviation bands represent the **same as the RSI intervals**
        - Ex: If the price is staying between 2lowBB and 1lowBB then it means the bearish trend is holding

Setups

The Squeeze

- This occurs when bands get narrow and volume usually dies off and then we have a tag of upper or lower BB with lots of volume
- They call this a Squeeze because everyone that isn't aligned with the subsequent move gets squeezed out
- Examples:
    - CGC Success

    - GE Failed Squeeze

- The bands should be increasing after the initial pop, and if the bands shrink back in and the early price action is showing opposite movement, it is a good indicator that the squeeze has failed

The Upper and Lower Gutter Walk

- This occurs when price basically trends very nicely in the upper / lower gutter of the bands, usually in between 1-2 standard deviations or even 1-3 standard deviation bands

- For strong consistently trending stocks, this is a common behavior you will observe.
- You hold until the upper gutter or lower gutter is broken on a "closing" basis
- Examples:
  - SPY
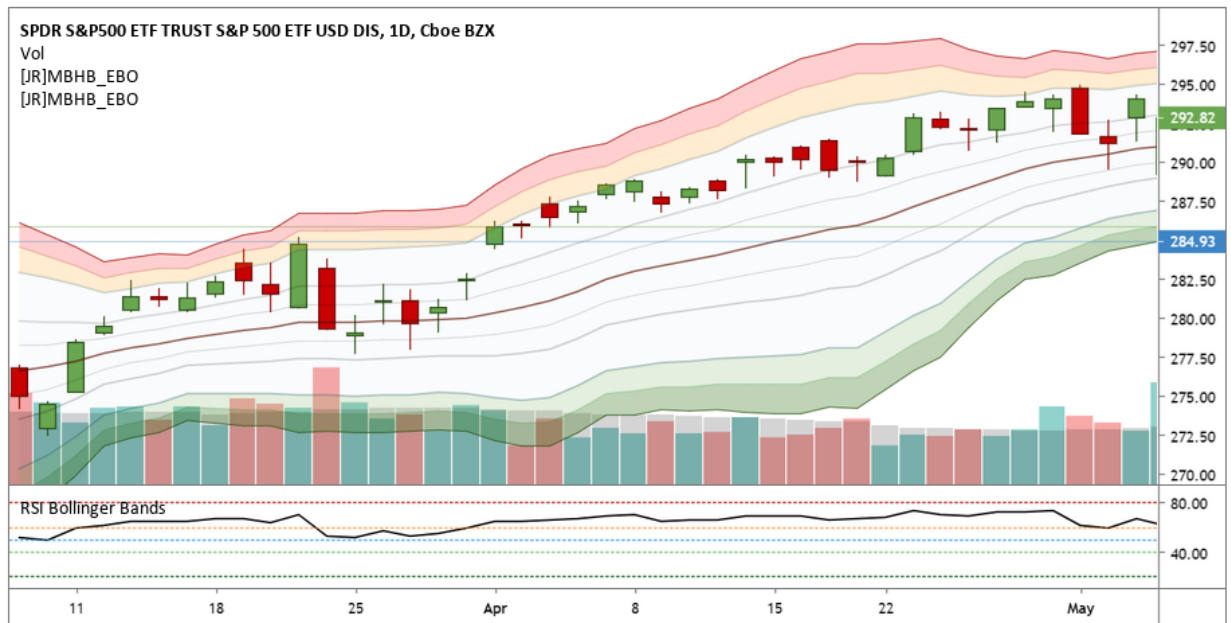
## The Tag and Reverse - Mean Reversion

- After price tags the 3 std dev band and wicks, you position within the 2-3 std dev range with a stop loss at the botton of the previous candle. Your target should be either 1 std deviation (if you're playing counter trend) or mid bollinger (if the bollingers are flat)
- You can reduce risk (but also reward) by waiting for price piercing under 2 std dev. Even less risky, wait for it to close under 2 std dev and ride to midBB
- Examples:
  - NFLX
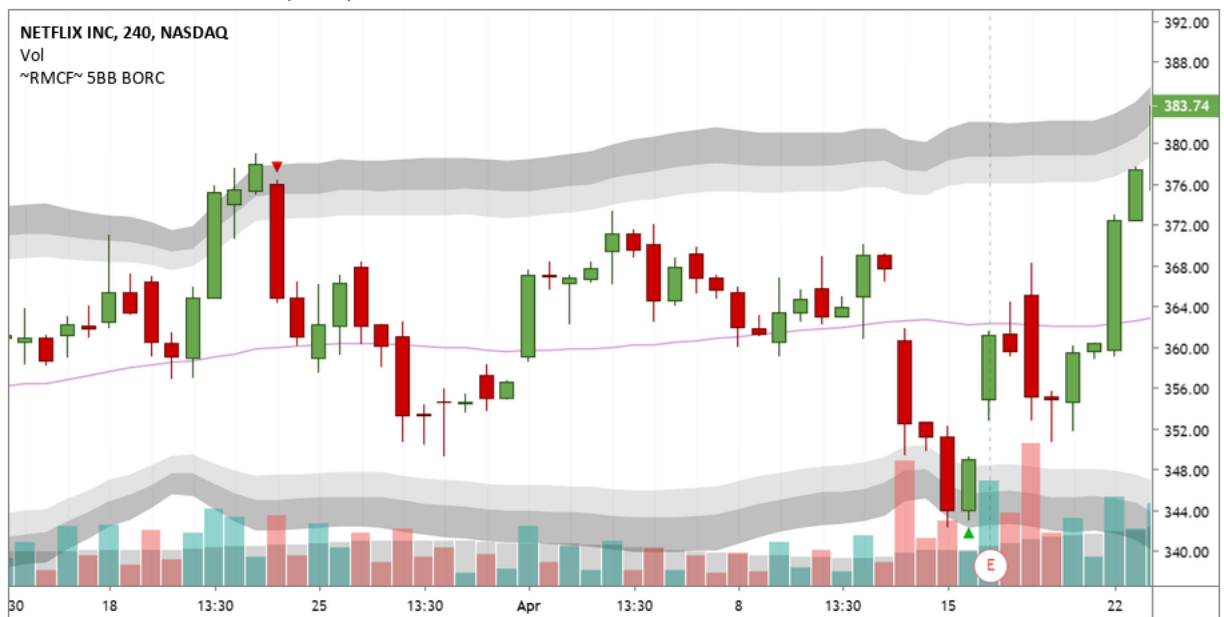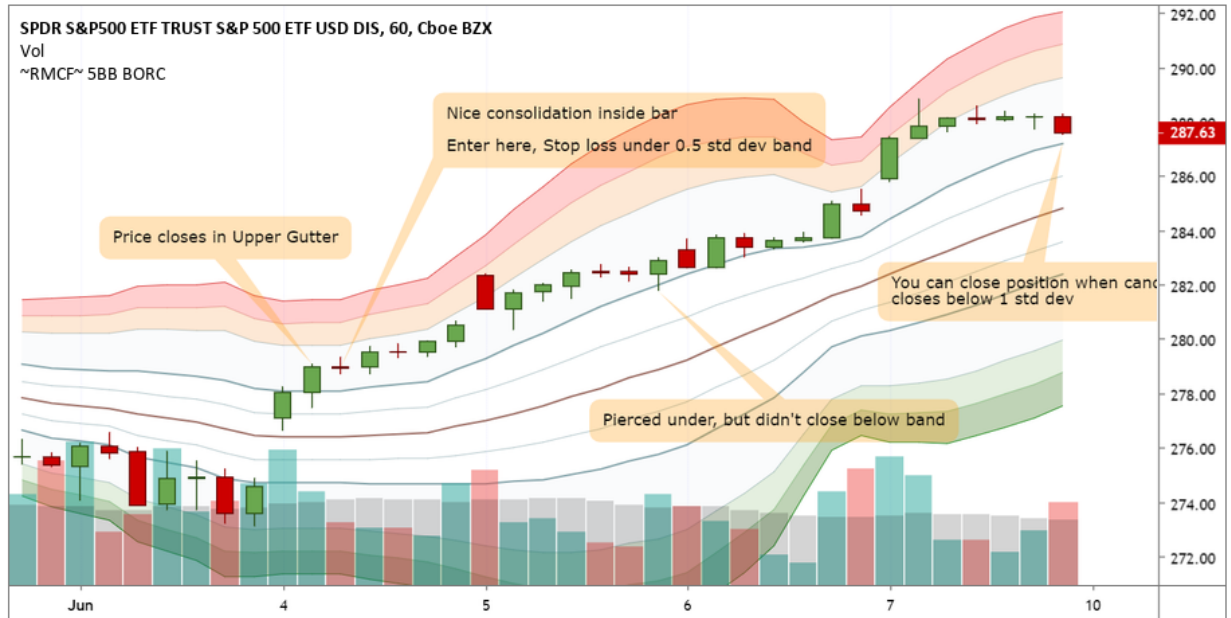
Gutter Walk - Trending Up / Down

- If you don't want to continue monitoring position for close under 1 std dev band, you can stop loss a penny or two under 0.5 std dev band because that's the last line of defense
- You want a nice wide band that is pointing in your direction of trade, careful applying this idea to narrow bands OR flat bands
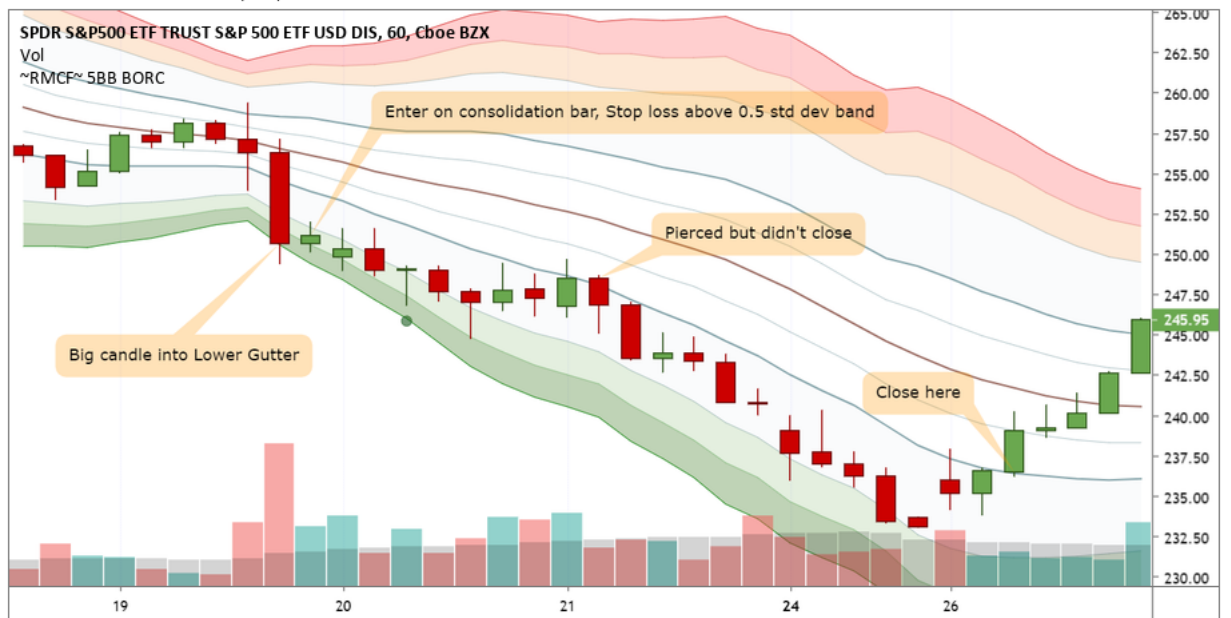- Examples:
    - SPY Long (with annotations)
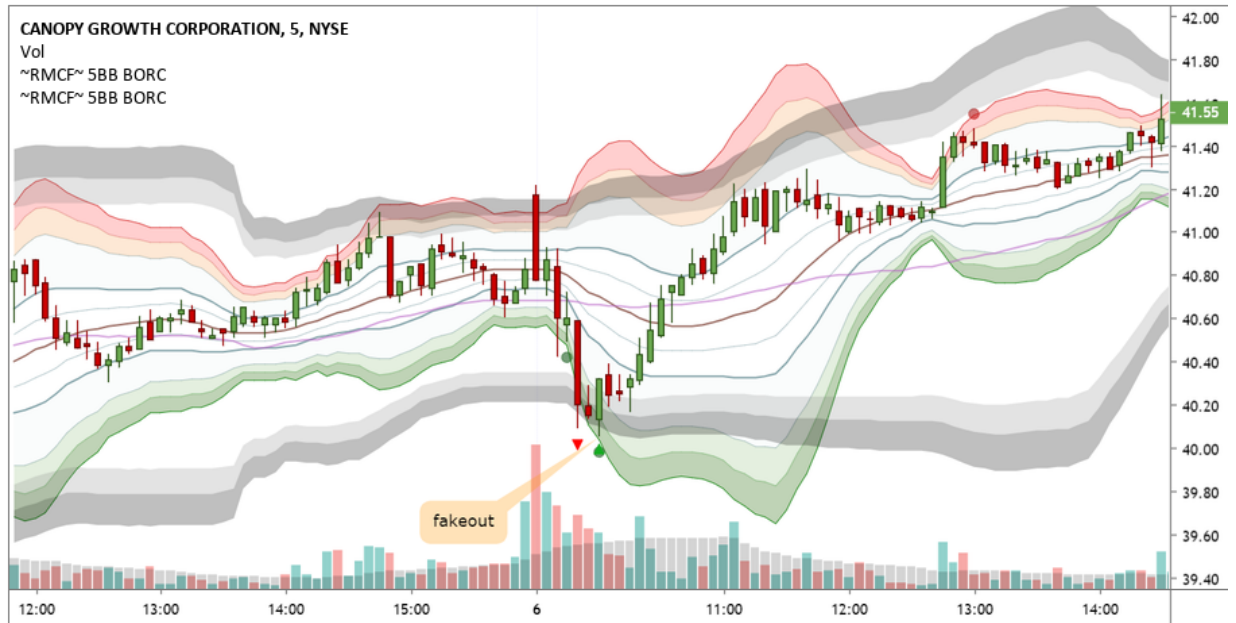

    - SPY Short (with annotations)

"The Fakeout"

- This is a scenario where the short term bollinger is crashing hard into a rising OR flat intermediate term bollinger. In our case, we're looking at the 20bb crashing into the 50bb.

- This happens on all timeframes but since longer timeframe bollingers are more "rigid", they tend to give you more time for positioning.
- This can also help you spot fakeouts
    - If you have a sharp declining price movement short term that bounces off of the intermediate bollingers, then you know the short term trend was a fakeout
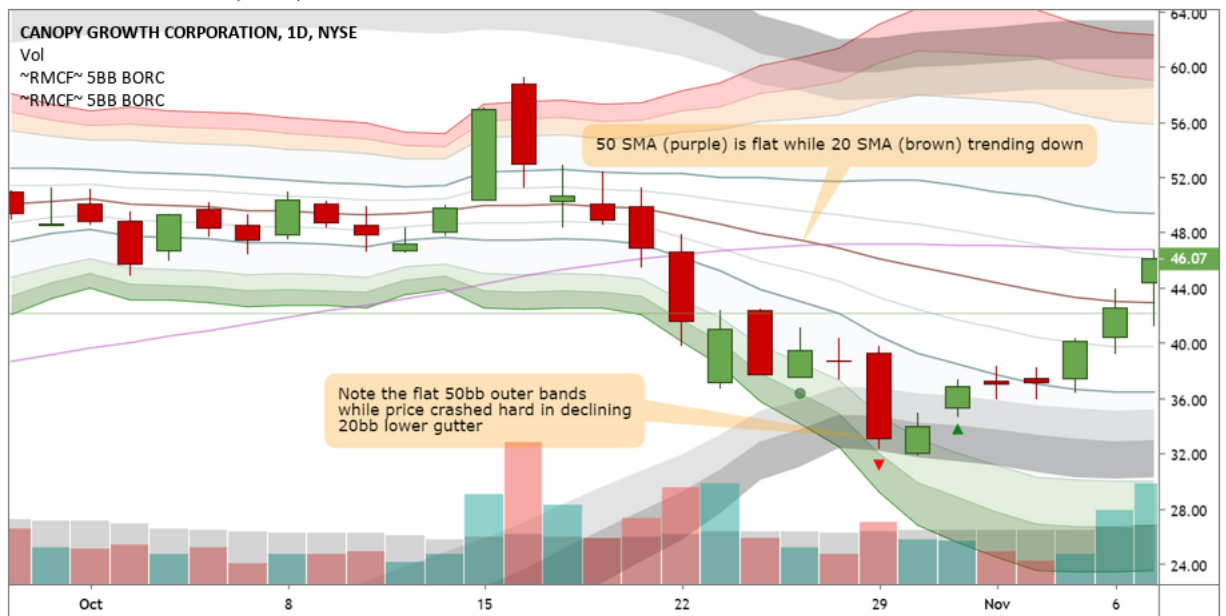   - Example of fakeout:

- Examples:
    - CGC (with annotations)

    - SPY (with annotations)

BB + RSI Divergence

- Sometimes as the price is trending in one direction, it gives us signals that it is having a hard time continuing the move. It can often do this while it makes higher highs, this is called a divergence of price and indicators. Basically meaning the indicator trend no longer matches up with the trend.
- A divergence for Bollinger Bands is when lower lows / higher highs are moving inside the bollinger bands
- A divergence for RSI is when a lower low / higher high on price lines up with a higher low / lower high on RSI
- You **MUST** wait for confirmation that a higher high and lower low has been set before entering
- You **MUST** also be patient on these setups as trading c an get very tight before breakdown
- Examples:
  - TSLA (with annotations)

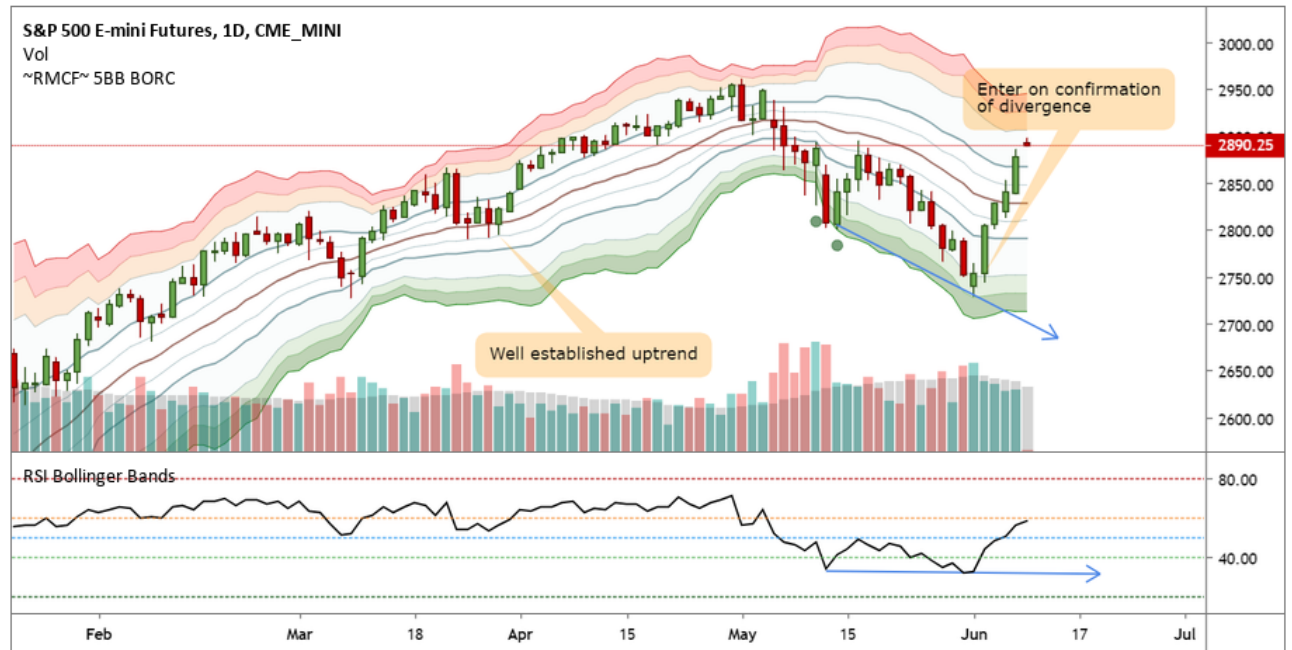NASDAQ:TSLA, 30 204.50 ▼ −1.45 (−0.7%) O: 204.22 H: 204.74 L: 203.81 C: 204.39

TESLA INC, 30, NASDAQ
Vol
~RMCF~ 5BB BORC

Price moving lower but moving into bollinger
This is a Bullish Bollinger Divergence

RSI Bollinger Bands

RSI flat to slightly uptrending as we make lower lows
This is called Bullish RSI divergence

Created with TradingView

- CGC ("super example", with annotations)

NYSE:CGC, 60 42.19 ▲ +0.79 (+1.91%) O: 42.21 H: 42.32 L: 42.14 C: 42.19

CANOPY GROWTH CORPORATION, 60, NYSE
Vol
~RMCF~ 5BB BORC

Enter short under this candle's low, stop at 2 std dev above

Cover short on this consolidation and re-assess

48.81

RSI Bollinger Bands

50 RSI lost leads to breakdown

Weak..can't regain 60-80 range

Created with TradingView

- Although it's tempting and very profitable to use this for timing tops or bottoms, it's often better to use divergences for positioning in an already well established uptrend

CME_MINI_DL:ES1!, 1D 2890.25 ▲ +12.75 (+0.44%) O: 2893.25 H: 2898.00 L: 2888.50 C: 2890.25

S&P 500 E-mini Futures, 1D, CME_MINI
Vol
~RMCF~ 5BB BORC

Enter on confirmation of divergence

Well established uptrend

RSI Bollinger Bands

Created with TradingView