



Pierce and Fail

Why Lack of Conviction Leads to Reversals

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Outline

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Purpose

Wanted a reversal strategy that was aggressive and had a high success rate.

- Reversals tend to be difficult for newer traders as many 'false signals' can lead to getting 'chopped' around.
- Getting into trends on pullbacks can seem daunting as well; how do we know if the last 'push' was the final one?

My style: Perfectionist with Entries, Impatience with Trade Management

Wanted a 'Quick to Resolve' Strategy that had great signals for entries, offered consistent reward targets quickly (3R or higher), and had the potential to offer 'Grand Slam' trades (10R or higher targets on the day).

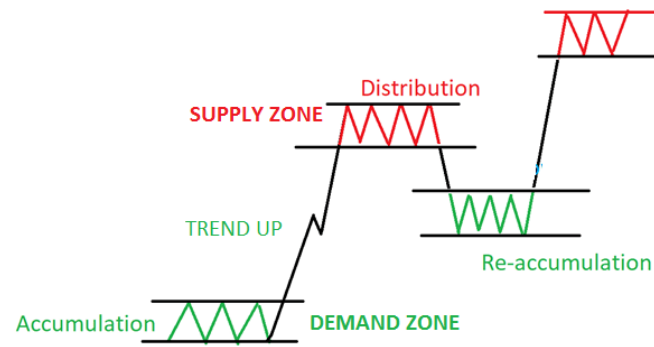
Supply and Demand

Law of Supply and Demand

- Theory of Availability and Desire for a Product; Leading to Pricing Affected by Low Supply with High Demand (Boosts Price of Item) and High Supply with Low Demand (Reduces Price of Item).

In general, we want to be buyers in Demand Zones and sellers in Supply Zones, looking to transition into the other zones higher or lower.

We want to avoid Trend Up and Trend Down unless we are in the direction of the trend and haven't hit a large enough Zone. We want to find Zones to enter positions.



Trends and Reversals

Trends are confirmations that a Zone had enough Demand/Supply in order to transition into a lower/higher Zone. The Inventory is placed throughout the trend price ranges up into the next Zone(s).

Reversals tend to be a loss of continual Demand/Supply driving the trend to new price ranges; however, pullbacks during the trend are opportunities for Demand/Supply to be reinstated and continue the range expansion higher/lower.

Stronger Trends will move through Multiple Zones of Supply/Demand and will require a dramatic shift in both price sentiment and imbalance between prevailing forces (Uptrend requires large Supply to stop the progression higher, Downtrend requires large Demand to stop progression lower).

We can use multiple tools at our disposal to see these shifts prior to, during, and after they have occurred, allowing for a Trade Strategy to be formed.

The Strategy – Pierce and Fail

Pierce and Fail is a Trend Reversal Pattern characterized by a Breakout through a Major Level of Support/Resistance on High Relative Volume, followed by a change in Sentiment and Momentum back through the Level as the Trend Inventory is Exhausted

Causes Trend Traders to 'cover' as realization that not enough Supply/Demand remains to carry trend higher and balance shifts.

I.E. High Volume Failed Breakout

Major Levels:

- Daily Highs/Lows (Wicks are good for Known Inflection Points)
- Previous Day Close (PDC)
- Pre-Market High/Lows (TFL Included, tends to be responsive on Accelerated Trends)
- Whole Numbers/Half Numbers (Requires Observation of Level 2 to see if Supply/Demand exists and can be absorbed)

Examples



My Trade



Entry: 113.03 SL 112.85

Partials:

113.24, 113.34, 113.47, 113.56

Missed Potential:

115.22 (EOD High)

Better Partials using Pivots:

113.90 (Pivot Low), 114.28 (PDL), 114.50 (VWAP) and 115 (Whole Number)

Parabolic Reversal [\(Return to Top\)](#)

The Parabolic Reversal takes advantage of a stock that is extended from the 9 EMA on the 5-min chart as it is breaking out of the accumulation phase. It is designed to take advantage of the pullback toward the 9 EMA when buyers begin chasing the stock for greed.

Time: Any time during the trading day

Indicators:

- Stock extended from the 9 EMA on the 5-min chart
- New 1-min or 2-min low/high

Confirmations:

- Reversal candles on smaller time frames

Entry Signal:

- New 1-min high/low

Stop Loss: Break of the high/low of the previous candle

Target: 9 EMA on the 5-min chart

Rules:

- Once a partial is taken, the trade should always be exited at break-even



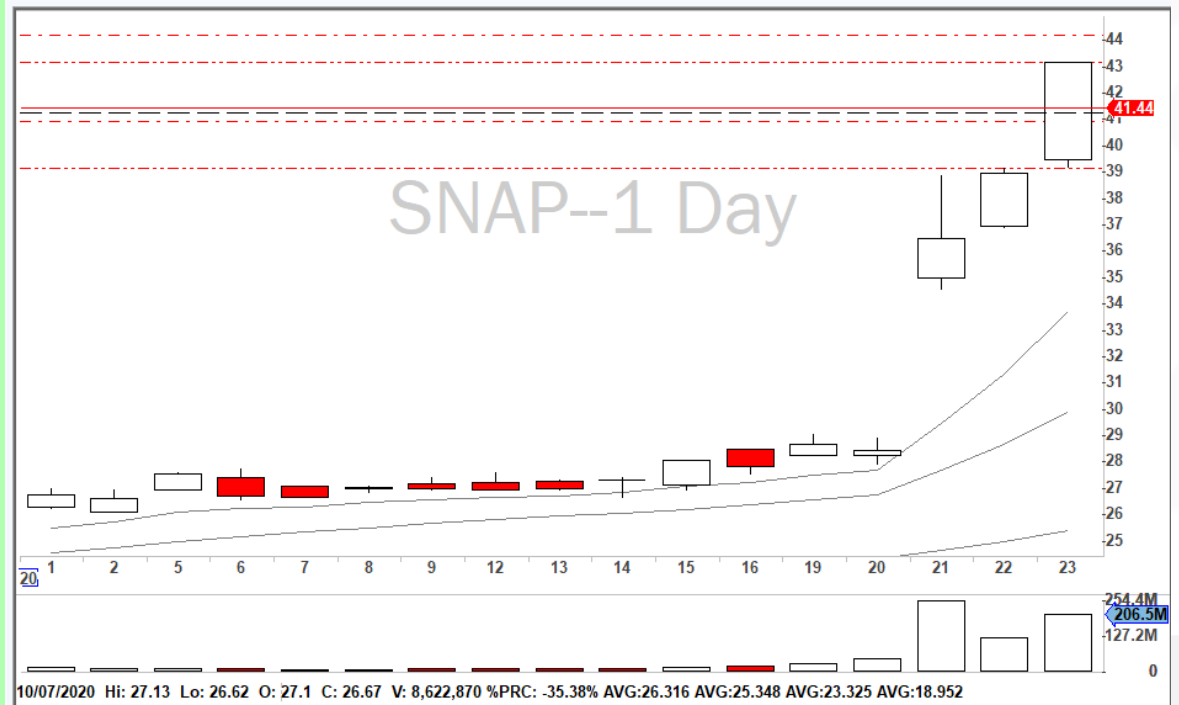
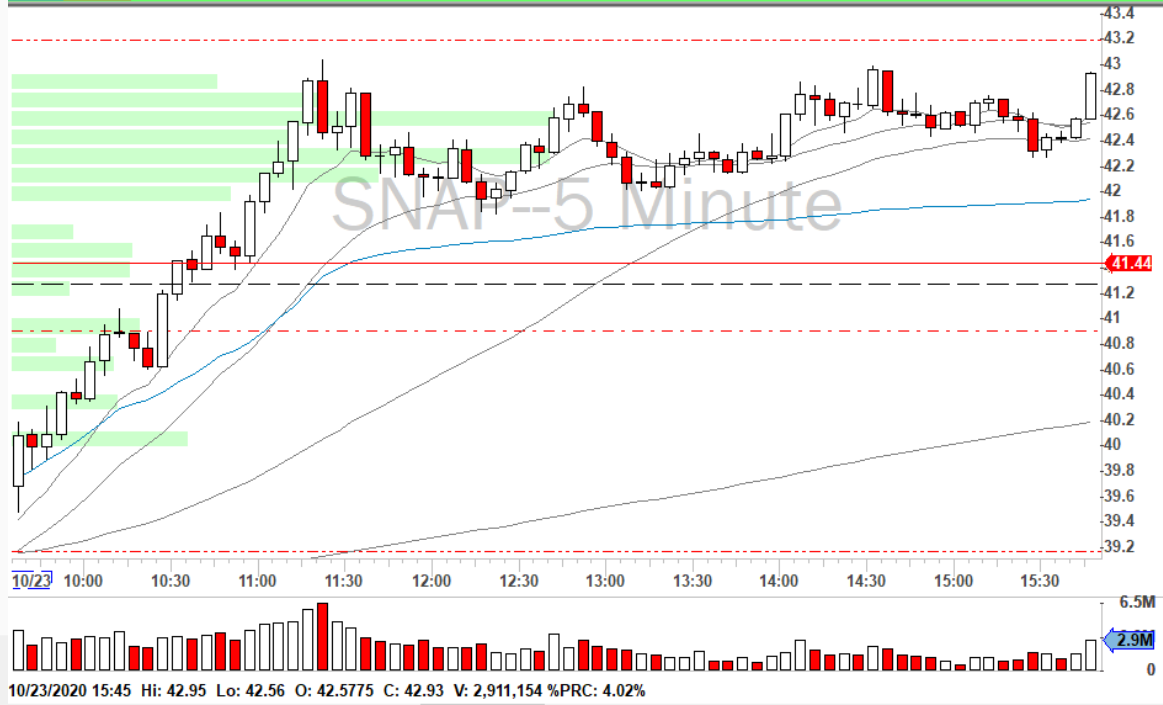
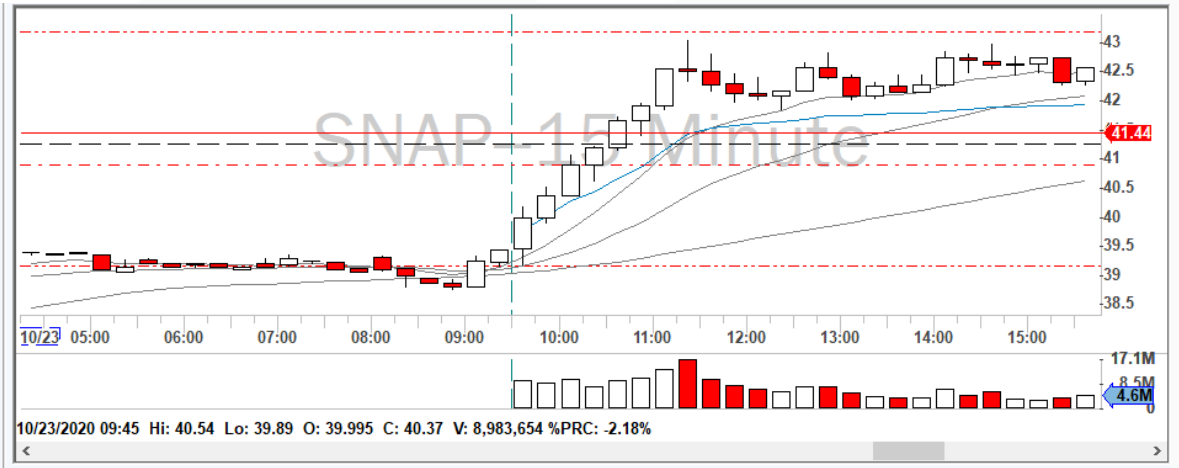
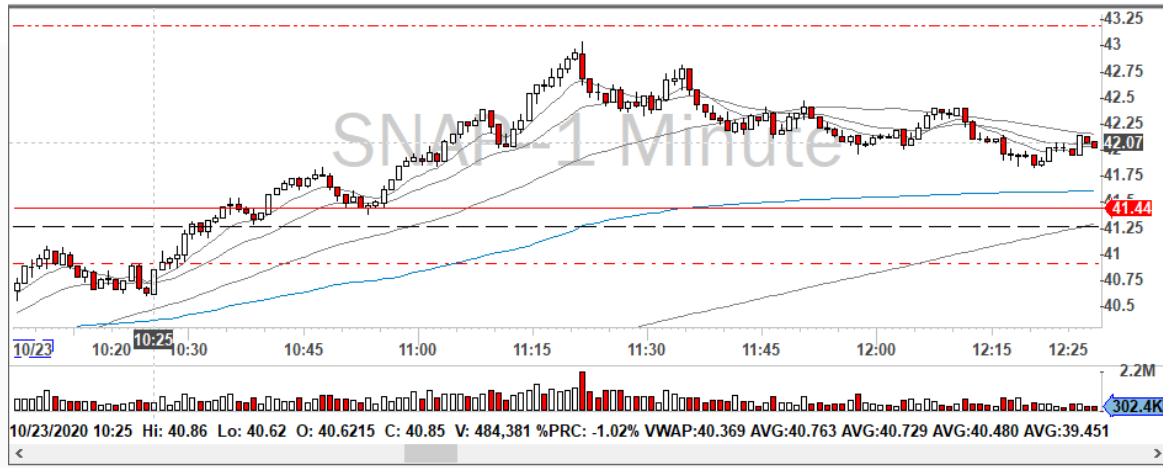
Look Familiar?

The 'Pierce and Fail' Strategy is similar to another popular strategy from BBT – The Parabolic Reversal.

Looking to enhance the entry criteria, add information using VPA and Level 2, and manage trades using levels instead of Moving Averages.

<https://forums.bearbulltraders.com/topic/2354-bbt-tradebook>

How to Manage



Trade Management

Perfect Entry: 43

Stop Loss: Above 43.05

Pivot Management:

Partials at Pivots

42.4, 42.01, 41.85, VWAP

Profit Potential:

Assuming 42.95 SL 43.10

41.85: 7.3R

VWAP: 9R



Trade Management – Add and Reduce

Perfect Entry: 43

Stop Loss: Above 43.05

Profit Potential:

Assuming 42.95 SL 43.10

50% at 42.40 (1.8R)

Add Back at 42.70

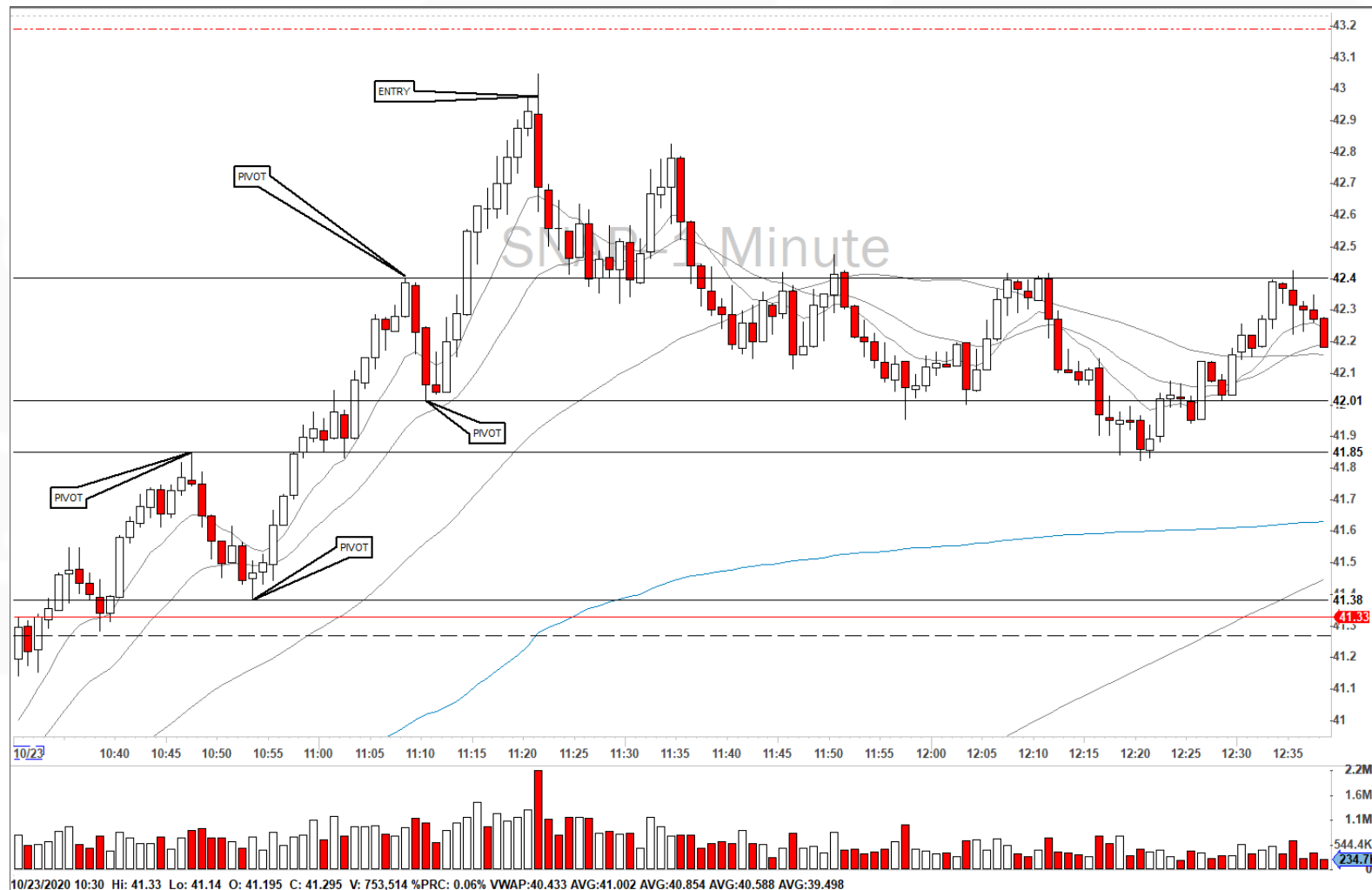
Average Cost 42.82 SL 42.97

50% at 42.01 (2.75R)

25% at 41.85 (1.6R)

Remainder at 42 (1.37R)

Total: ~ 7.5R



Patterns

Engulfing



Pin Bars



Patterns



Tends to form either on the Capitulation Move or shortly after; includes Wide Range Bar (WRB), followed by Doji Candle above the low of WRB, and finally a 'Piercing' Candle that absorbs any Inventory at a Major Level before heading higher.

Good Entry Point:
Low of WRB after
Piercing Candle begins
the Reversal Pattern.

Putting it All Together

Trending Stock

Arriving at Major Level on Accelerating Volume And/Or Larger Range Candles (Capitulation)

- Extended from Moving Averages is ideal

Price Exceeds Level of High Supply/Demand, Large Volume Anomaly

Price Returns Sharply above Level

- Time and Sales shows Aggressive Buying/Selling Pressure in Opposite Direction of Prevailing Trend
- Level 1 (Bid/Ask) shows Rising Bids (Downtrend Reversal) or Dropping Asks (Uptrend Reversal)
- Level 2 shows no significant orders below (Demand) / above (Supply) the Level

Enter Position at or slightly ahead of Level with Stop Loss below Trend Exhaustion price (Pierce)

Manage Position using Moving Averages, R Targets, or Pivots

- Look for Add and Reduce Opportunities on Confirmations of NEW Trend Continuation



Name:

Pierce and Fail

Description:

Pierce and Fail is a Trend Reversal Pattern characterized by a Breakout through a Major Level of Support/Resistance on High Relative Volume, followed by a change in Sentiment and Momentum back through the Level as the Trend Inventory is Exhausted

Time:

30 Minutes after Market Open until Market Close

Indicators:

- Extended from 9 EMA on 5 Minute Chart
- High Volume Event at Major Level
- Breakout is not sustained, Level 2 and Time and Sales shows Opposite Sentiment



Confirmations:

Reversal Candles on Smaller Time Frames

- Engulfing
- Pin Bar
- Wide Range/Doji/Pierce and Fail (Name Pending)

Entry Signal:

Price moves through Level, Entry at Level

Stop Loss:

Beyond Breakout Price

Target:

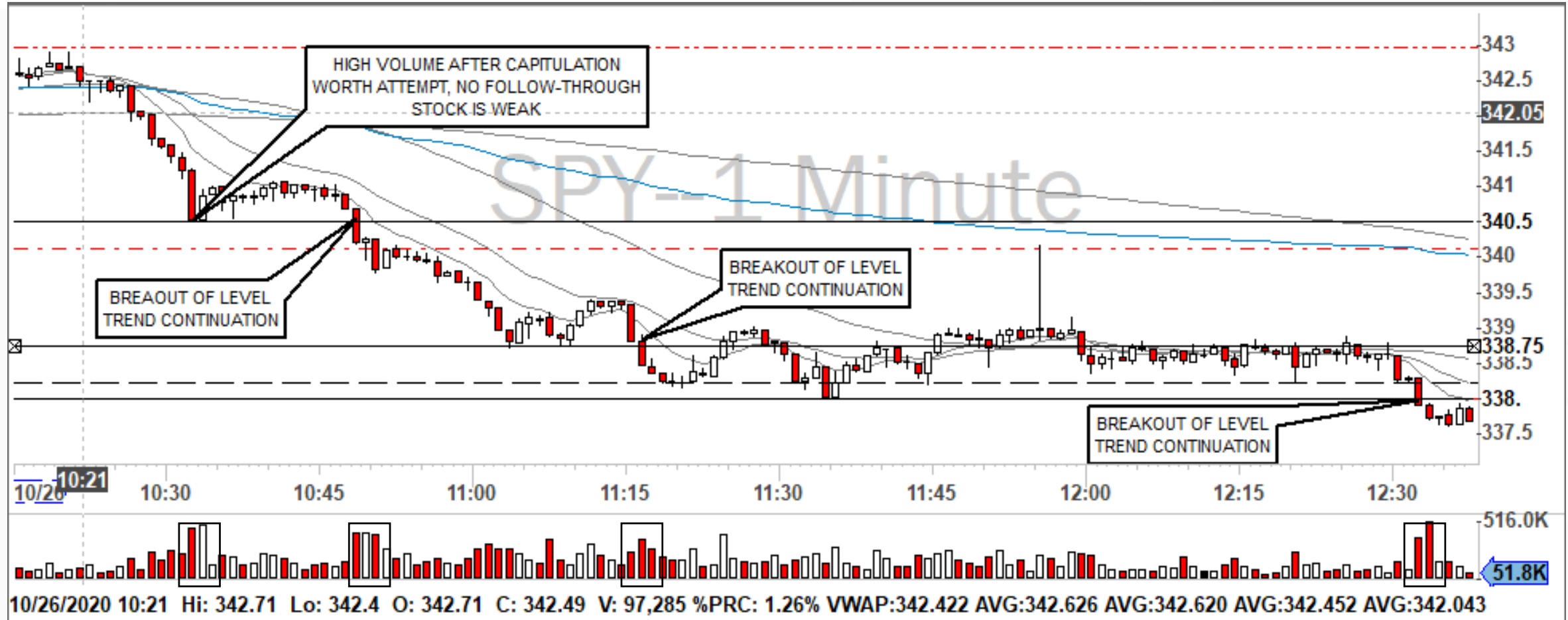
Depends on Trade Management

- Moving Averages
- R Targets
- Pivots

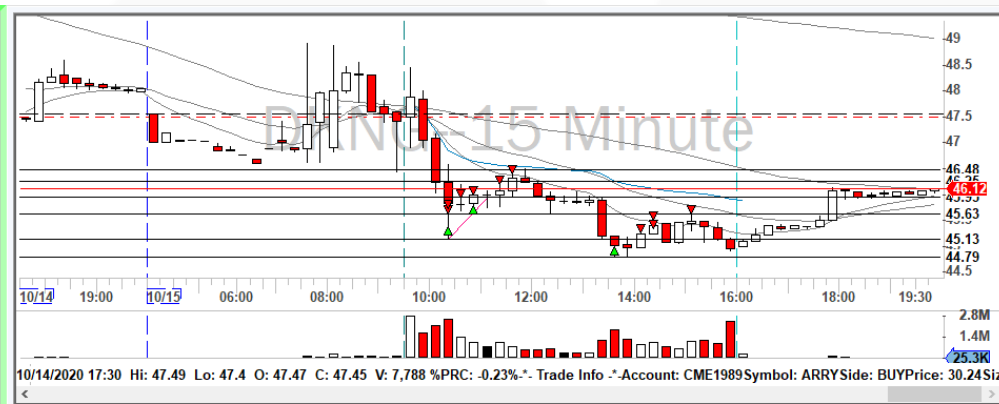
Rules:

- Avoid High Volume Events that occur through Intraday Levels on Larger Time Frames
- Never Average Down if Price Breaks Below Stop Loss on Volume, as Range Expansion is highly likely against your position

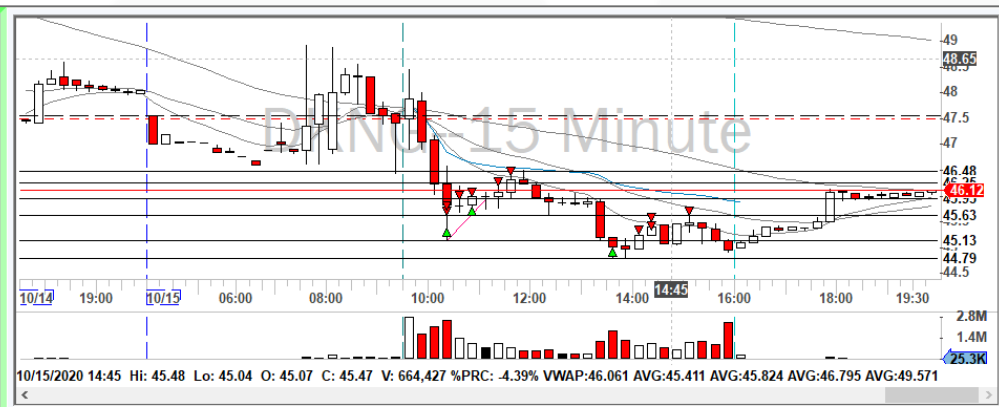
Things to Avoid



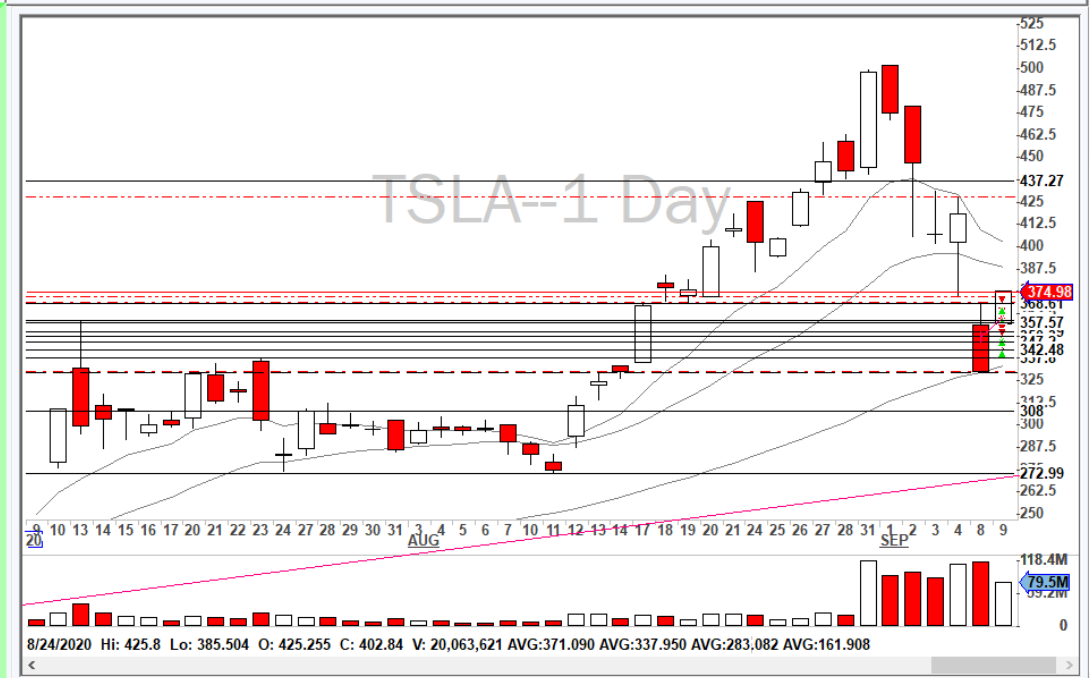
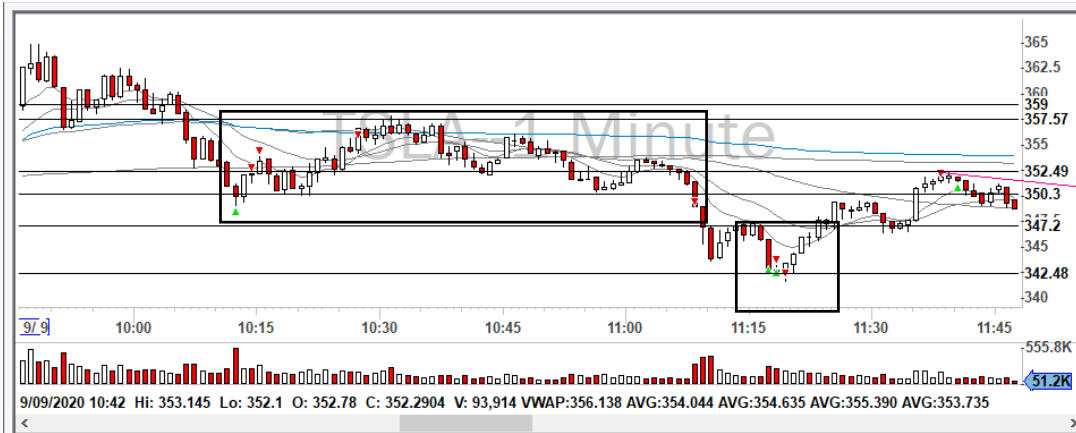
My Trades



My Trades



My Trades





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