



Previous Day Close King of Levels

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- Pivoting the Trend
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Purpose

- **Issue:** Reversal Trader with Aggressive Entries Trading the Morning Open
- **Challenge:**
 - Significant Moves from Reversal Levels (Daily S/R, Psychological Levels) require Time and Structure in order to facilitate Larger Movements
 - Lots of alignment coming together to move the price against the Trend
 - Waiting for Reversal Signal involves watching the Prevalent Trend and missing Opportunity
 - Some Reversals occur later in Morning Session, with some not occurring at all
- **Solution:**
 - Looking for approach to trade the Intraday Trend without needing a Momentum Strategy
 - Simple way to confirm bias on Multiple Timeframes and add confidence to a Trending In-Play Stock
 - Versatile Level with ways to use for different Strategies

Observations

Noticed over time that some of the best moves during the Morning Session had to establish themselves against a Level.

Sometimes the Level would be a Daily Low/High and/or a Premarket Low/High, but those often had to prove themselves and had the same characteristics as a Reversal Trade.

- Intraday Traders had to utilize these levels and build a structure against them, often a range that eventually broke in the opposite direction.
- Due to these levels sometimes being 'untested', the reactions against them were often hard to quantify given that the shorter-timeframe participants were the most involved.
 - False Breakouts
 - Range Contraction

Wanted a better 'gauge' as to the expectation of movement while still offering Aggressive Entry potential and skewed Reward to Risk Opportunities.

Previous Day Close (PDC)

From [Investopedia](#):

- Previous close is a security's closing price on the preceding time period of the one being referenced. Previous close almost always refers to the prior day's final price of a security when the market officially closes for the day. It can apply to a stock, bond, commodity, futures or option contract, market index, or any other security.
- In financial information the previous closing price of any security is an important daily measure for reporting purposes. It marks the daily measuring point against which updated returns can be calculated and for which new information is gathered to inform new investing decisions and strategies. It can be an important indicator for a variety of different technical patterns and fundamental measures. It is one of two essential components in a candlestick day chart. It also may be used by investors and technical analysts to chart gap patterns which can show substantial changes from a previous close to new open.

For the purpose of Day Trading, it can be used as a pivot point for a stock, showcasing when stocks are in balance and signaling a move to imbalance on the session. It can also give us a bias intraday with expectations of movement.

Why it Matters

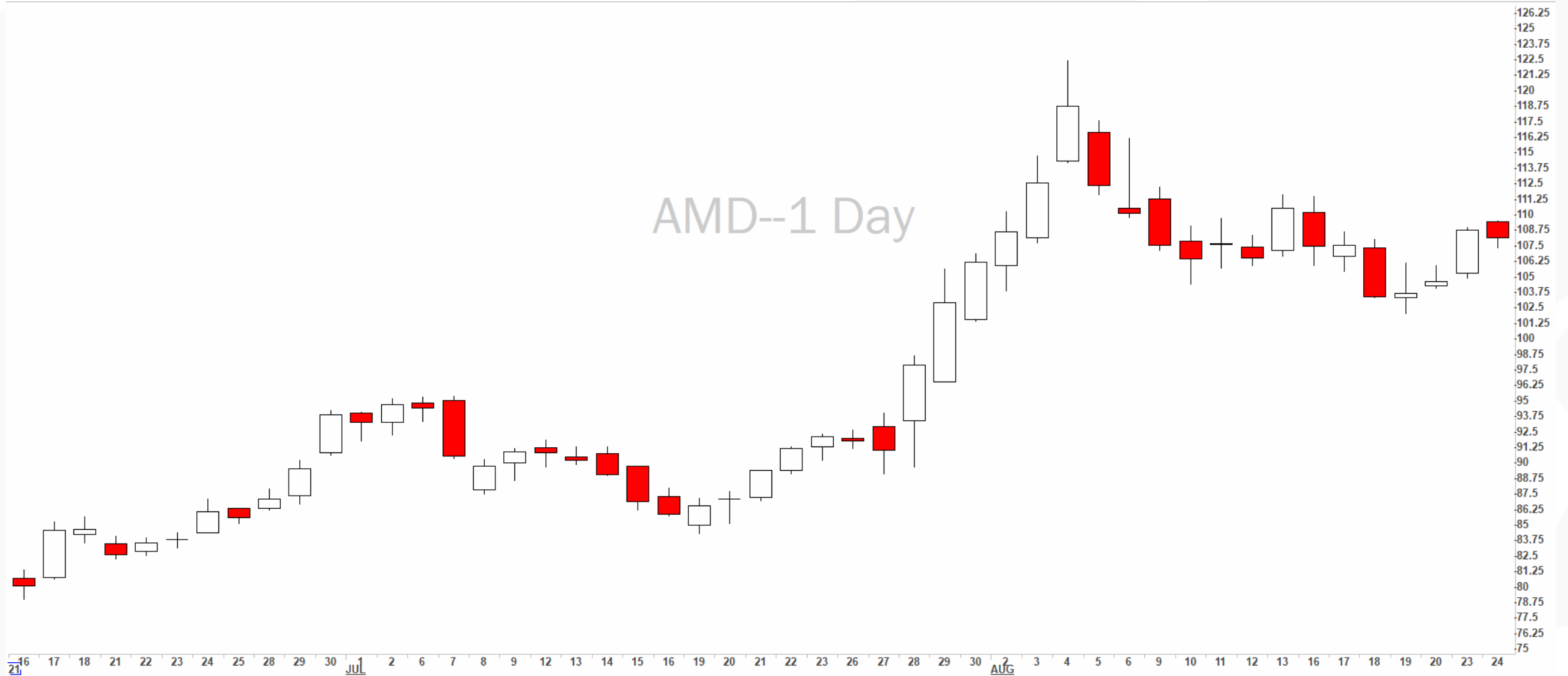
- Sentiment

- Bullish Traders want to trade Stocks In Play that are EITHER Gapping Up (hence showing Imbalance away from PDC) OR Entering Imbalance Away from PDC. Reverse is true for Bearish Traders.
- Idea is a Gapping Stock has potential to Expand the Range and new Interest enters the stock; however, the morning auction can be volatile due to the larger change in price.
- In Play Stocks opening near PDC may have signs that a larger than average move is incoming with certain factors and signals to quantify.

- Price Acceptance

- Every day in the market is an open auction; buyers and sellers are trying to find what is 'fair value' in the context of that Day and the current information.
- PDC is the final price that all 'involved' buyers and sellers were willing to accept, ideally holding into the next day seeing what new information they can acquire.
- Prices moving away from PDC, especially with other Technical Bias and Signals, can show confirmation of that price acceptance, looking for the next 'fair price' for that session.

Simple Example



15 Minute Chart



Difference with other 'Levels'

Unlike a Support or Resistance Level, which either requires 'testing' to confirm that it'll hold and/or is a repeating 'pattern' (e.g. Trending Moving Average pullbacks), PDC is often referred to based on Trader/Investor 'Acceptance'.

- Holding a position overnight or over weekend relative to a previous PDC shows confidence that the change in price is accurate; otherwise, the price would 'return' to an older PDC or even 'pivot' relative to other Daily PDCs.
- Relates to an auction closing with prices higher or lower from a previous session.

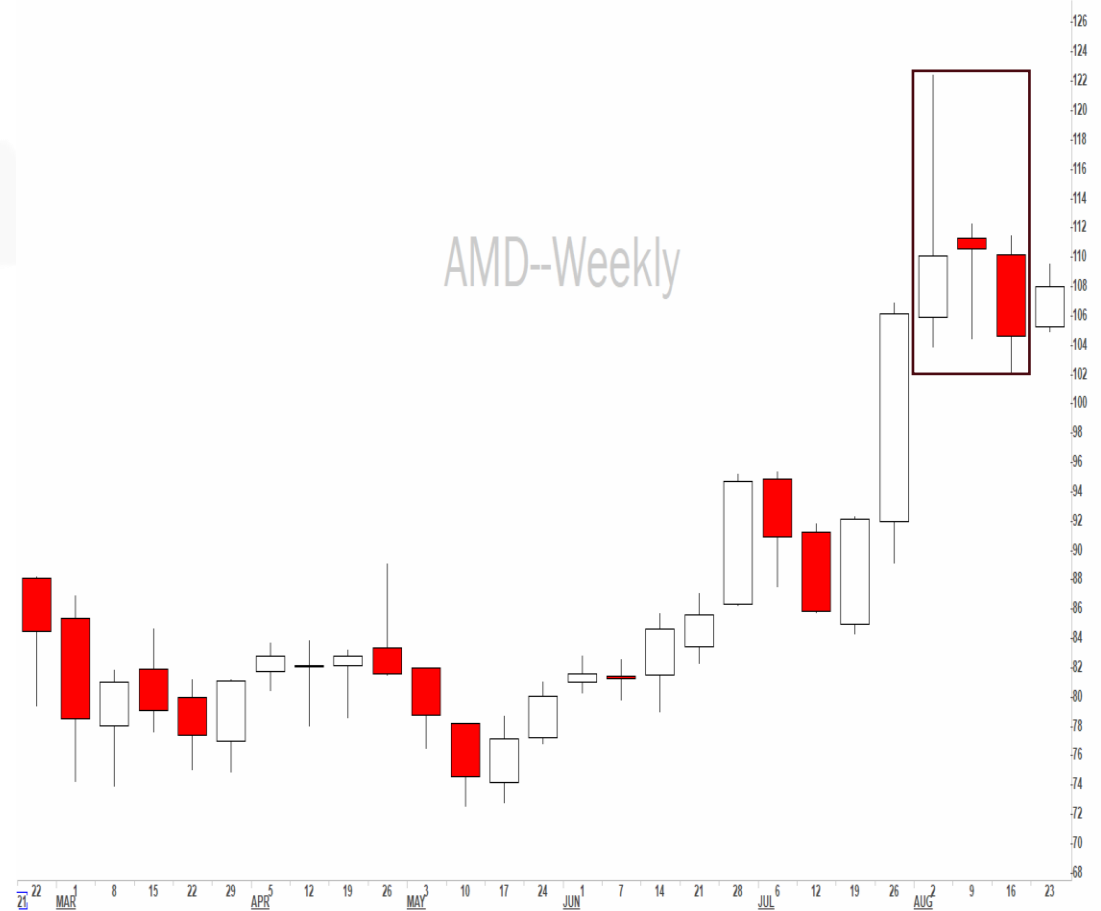
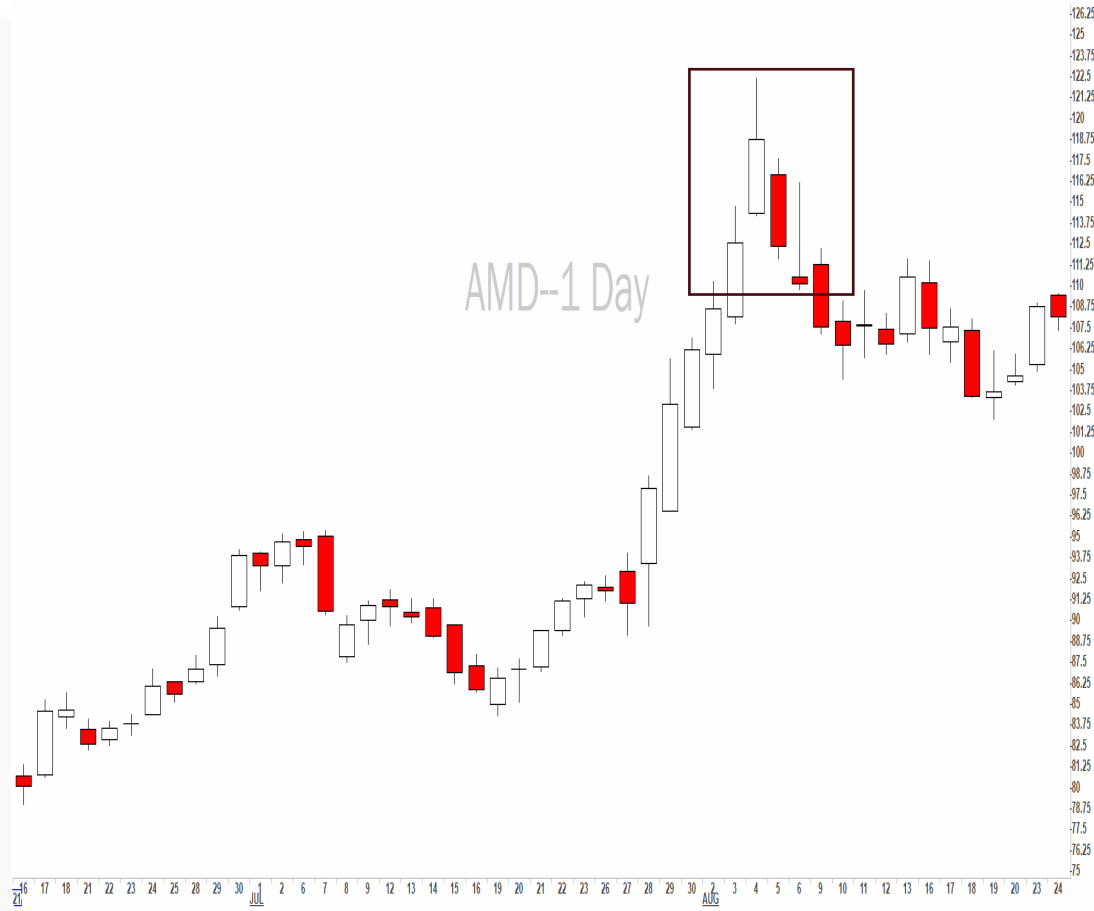


Given larger players often settle near the Market Close, the PDC can also create a Volume Point of Control (VPOC) going into the next session, meaning we can get some Initiation from it to establish the Daily Bias.

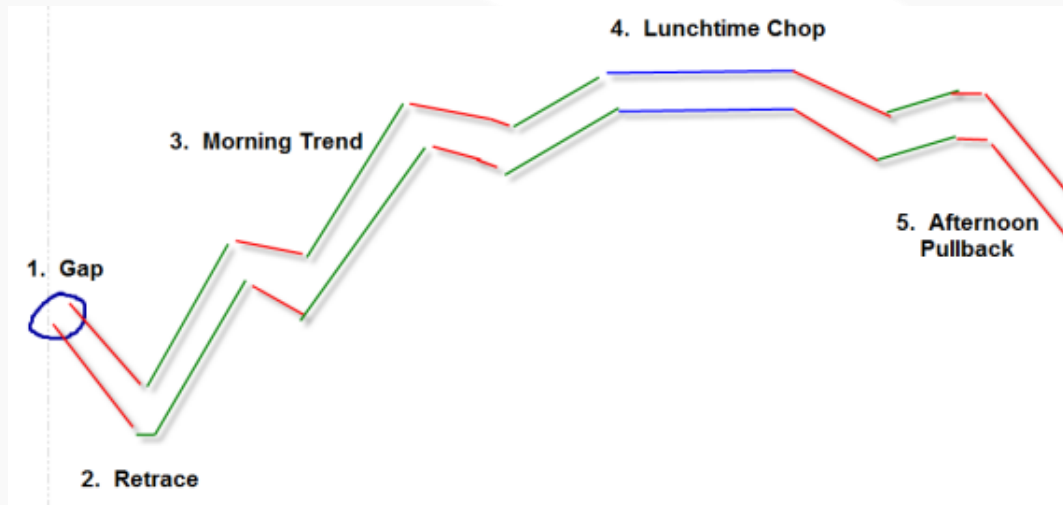
- Unlike the Intraday VPOC, which can change over the session and isn't immediately available, we can use PDC as a reference point.

Additionally, it can give us some clues to when the price may be pivoting around a price level, as changing the 'trend' and/or providing a pullback can depend on a lack of acceptance of increasing prices.

Simple Example - Additional Context



Trend Days



In the 'normal' Trend Day Model, the Morning Gap tends to 'retrace' or pullback to some area of support.

We can look at 'Gap Fill' Strategies, with the complete Gap Fill ending at Previous Day Close.

If the retracement holds, we then can look for the Trend Day to transpire in the direction of the Gap.

Pivoting the Trend

When we consider how candles close (regardless of timeframe) in a trend, that timeframe's trend is under scrutiny by the market at all times. Each candle can provide information about the likelihood of the trend continuing, stalling, or pulling back.

Often, we want to think about a few stacks of timeframes in a trend, knowing how each perceives the prior candle's close. We can use this information to find moments when the trend may be reversing and leveraging that information to take profits and/or trade against the trend for the counterreaction.

Idea is that we need short timeframe trends to break down in order for the larger timeframes to begin pulling back, cascading the pivot into each higher timeframe's close and facilitating the change in trends.

Day Trading Strategies

In this section, let's look at some examples based on other known strategies and see how PDC can help us with the criteria for entry and management.

We want to review examples of stocks that use PDC as a risk management level with the bias in the direction of the Opening Price along with examples that change the bias after the acceptance of PDC changes.

I'll be using Camarilla Pivots to quantify Intraday Levels and Risk Factors. More work can be done to enhance this information based on Pivot Strategies.

Day Trading Strategies

Today's Examples with PDC Bias

Reward and Risk Approximate with (Reward:Risk) Denoted

\$AMC (PDC = 36.78):

- Aggressive: Bullish Pin Bar at PDC – Transition to PDH, Risk LOD Below PDC (4:1)
- Conservative: VWAP Breakout from PDC – Transition to PDH, Risk Low of Morning Range (2:1)
- Bias to Trend: Add at 37.50 – Transition to HOD and 4R Level, Risk Below PM Lows (4:1)

\$SPCE (PDC = 25.44):

- Aggressive: Morning Opening Range above PDC – Transition to PDH, Risk Low of PM (1.5:1)
- Conservative: VWAP Anchor to PM Range Breakout – Transition to R4, Risk R1 (2:1)

\$FB – Review as Exercise

Day Trading Strategies

Today's Examples with PDC Changing Bias

Reward and Risk Approximate with (Reward:Risk) Denoted

\$AMD (PDC = 108.77):

- Aggressive: Retest of PDC from Below – Transition to S3 and Lower, Risk PDH – PDC (6:1)
- Conservative: VWAP Test from Below – Transition to S3 and Lower, Risk PDC (2:1)

\$AAPL (PDC = 149.71):

- Aggressive: Retest of PDC from Above (Engulfing) – Transition to R3 and Higher, Risk Engulfing (6:1)
- Conservative: HOD Breakout after PDC Reclaim – Transition to Higher, Risk PDC (2:1)

Day Trading Strategies

Today's Examples with PDC as Target
Reward and Risk Approximate with (Reward:Risk) Denoted

\$NVDA (PDC = 219.58):

- Aggressive: Double Bottom Breakout – Transition to PDC, Risk New LOD (4.5:1)
- Conservative: Higher Low at Double Bottom – Transition to PDC , Risk S3 (3:1)

Swing Trade Strategies

Switch to ToS for PDC Study and Discussion

**Name:**

Peter Clause (PDC) Acceptance

Description:

PDC Acceptance is an enhancement to any Gap Continuation ORB Strategies. It provides a level of Price Acceptance if a Gapping Stock does have a Morning Retracement to PDC. It can also be used for Trend Day Bias and Sentiment if we get Intraday Price Acceptance.

Time:

5-15 Minutes into Market Open

Indicators:

- Price Action at or near PDC can dictate both sentiment going into the Trading Session along with providing clear risk parameters.
- Shorter timeframe 'test' candles at PDC along with larger Intraday timeframe closures against PDC can set the stage for the Morning Trend.
- Volume confirmation on PDC Tests and Initiations



Confirmation(s):

Initiation Candles against PDC

Entry Signal(s):

Needs Refinement

Stop Loss:

Aggressive: Loss and/or Candle Close against Entry Candle Signals

Target(s):

Using Camarilla Pivots, if PDC exists between R1 and S1, transitions to R3/S3 should be a minimum requirement for initial Risk to Reward.

Rules:

- After Confirmation is completed, do not look for Reversal Trades until at least minimum target is met.
- If Setup is confirmed and a clear Moving Average and/or Trend Line is formed, use pullbacks to add to position in circumstances where Minimum Target is not met.

Follow On Work

- Continue backtesting and reviewing how PDC interacts with Intraday Trading Opportunities; can there be additional criteria using simple indicators and strategies we already use?
- Introduce into Swing Trading Criteria and improve ThinkorSwim Thinkscript.
 - <https://tos.mx/7m0anhv>
- Camarilla Pivot Refinements – Rules and Restrictions



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