Timing Your Trade

An important skill for any trader to develop is trade timing. Trade timing consists of several components but begins the moment a trade entry is generated. Everything that happens from that moment to the point of exit is considered trade timing.

For example, Figure 1 below is a chart of the Euro Future Contract for Friday morning, 02/26/10, after the 10:00 Existing Home Sales report.

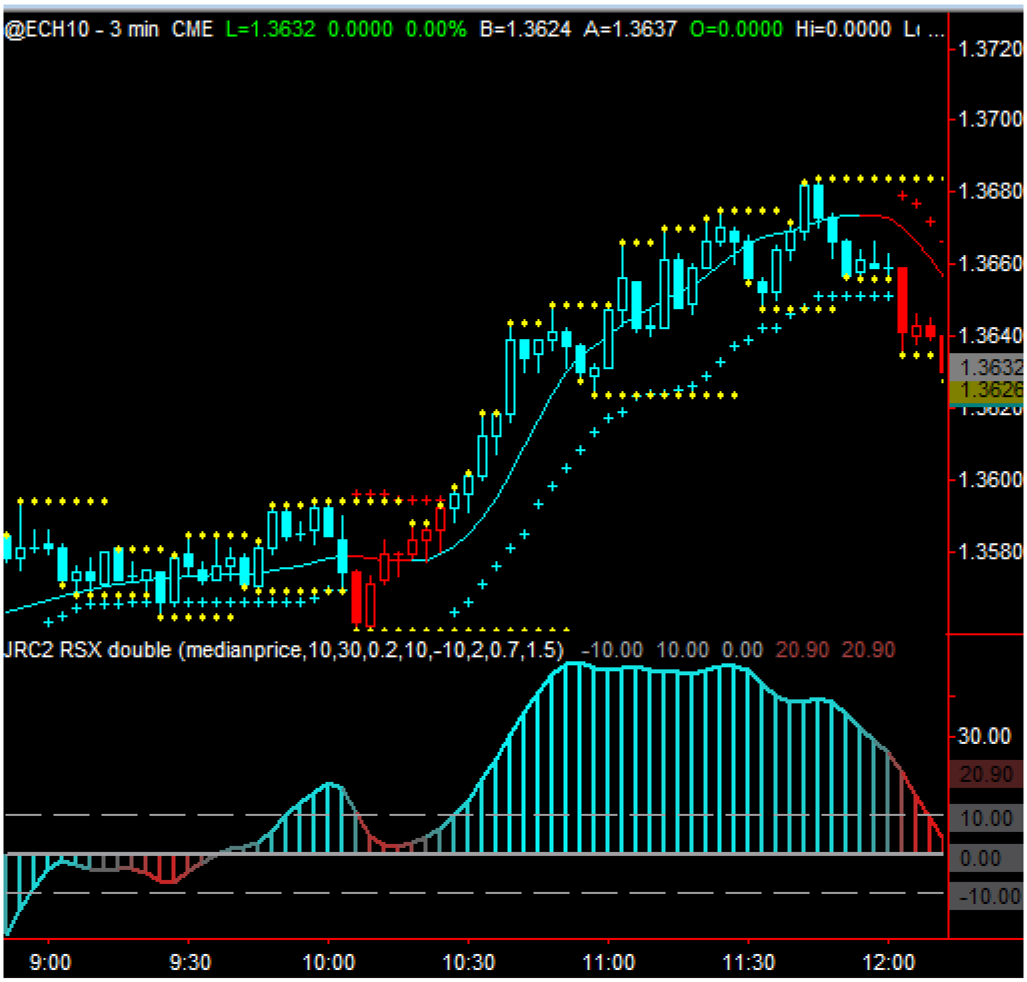

Figure 1: Euro Contract, 2/26/10

Our rules for entry are quite simple. We wait for a trend to develop, then a pullback, then a price bar that closes in the direction of our trade.

Now let's look at how timing can effect this trade.

In Figure 2, same chart showing the THD Clipper, we entered at the open of the next bar after the signal is generated. We manage to capture all three profit targets. We did not stop to think or analyze. We simply followed our entry rules without hesitation. We exited our first contract at Clipper 1, second contract at Clipper 2, and the remaining contract at Clipper 3. The result was a net profit of 96 points.

Figure 2: Euro Contract, 2/26/10 with THD Clipper

Now, let's look at what would happen if we stopped to think about the trade or perform additional analysis.

Figure 3 shows the same chart but with a late entry. Instead of entering when our criteria was met, we waited for a more definitive close up. After all, when the low was formed and the price closed above the open, we decided that the bar was weak and waited for additional confirmation. As you can see, we did not reach any of our profit targets but we did increase our risk to 24 ticks per contract. We were eventually stopped out at 1.3649 resulting in a net gain of 2 ticks.

Figure 3: Euro Contract with THD Clipper - Late Entry