

Chicago Board of Trade
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How to Trade the CBOT mini-sized Dow with High Accuracy

Dr. John F. Clayburg
www.clayburg.com

"There is a risk of loss in trading. It is the nature of commodity and securities trading that where there is the opportunity for profit, there is also the risk of loss. Past performance is not necessarily indicative of future results".

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Today's Presentation

- 1. Four Step Method and use of the Directional Day Filter
- 2. Alternative Method to use Common Oscillators
- 3. Use of support and resistance to set entry and exit stops.

The Four Step Trading Method

1. Determine the Major Trend for the Day
2. Define the Minor Trend within the Major Trend
3. Identify a High Probability Entry Point
4. Define Logical Stop Loss and Profit Taking Strategy

Step One

Define the major trend for the day.
Cannot overemphasize the importance
of trading with the major trend.

Directional Day Filter

Used to Determine Major Trend of
each Day

Trend is Defined within 45 - 90
Minutes after the Open of the NYSE

UpTrend Days - Only Take Buy Signals

DownTrend Days - Only Take Sell
Signals

75% Accuracy Rate

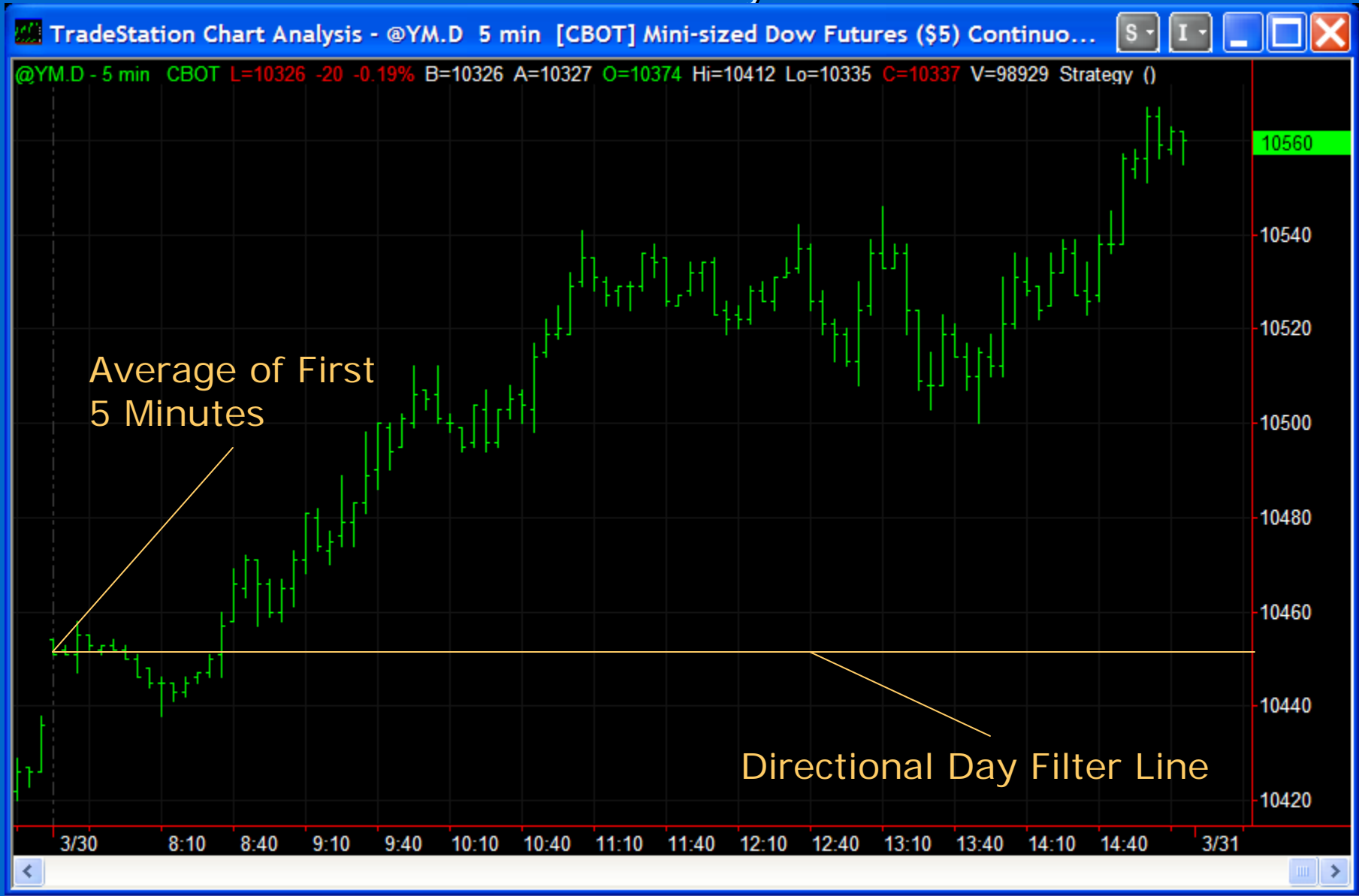
Directional Day Filter

Five Minutes after the Open, Calculate
average of the Intraday Range

Draw a Horizontal Line at this Point

Will Use This Line as a Reference Point
for the Rest of the Day

Directional Day Filter



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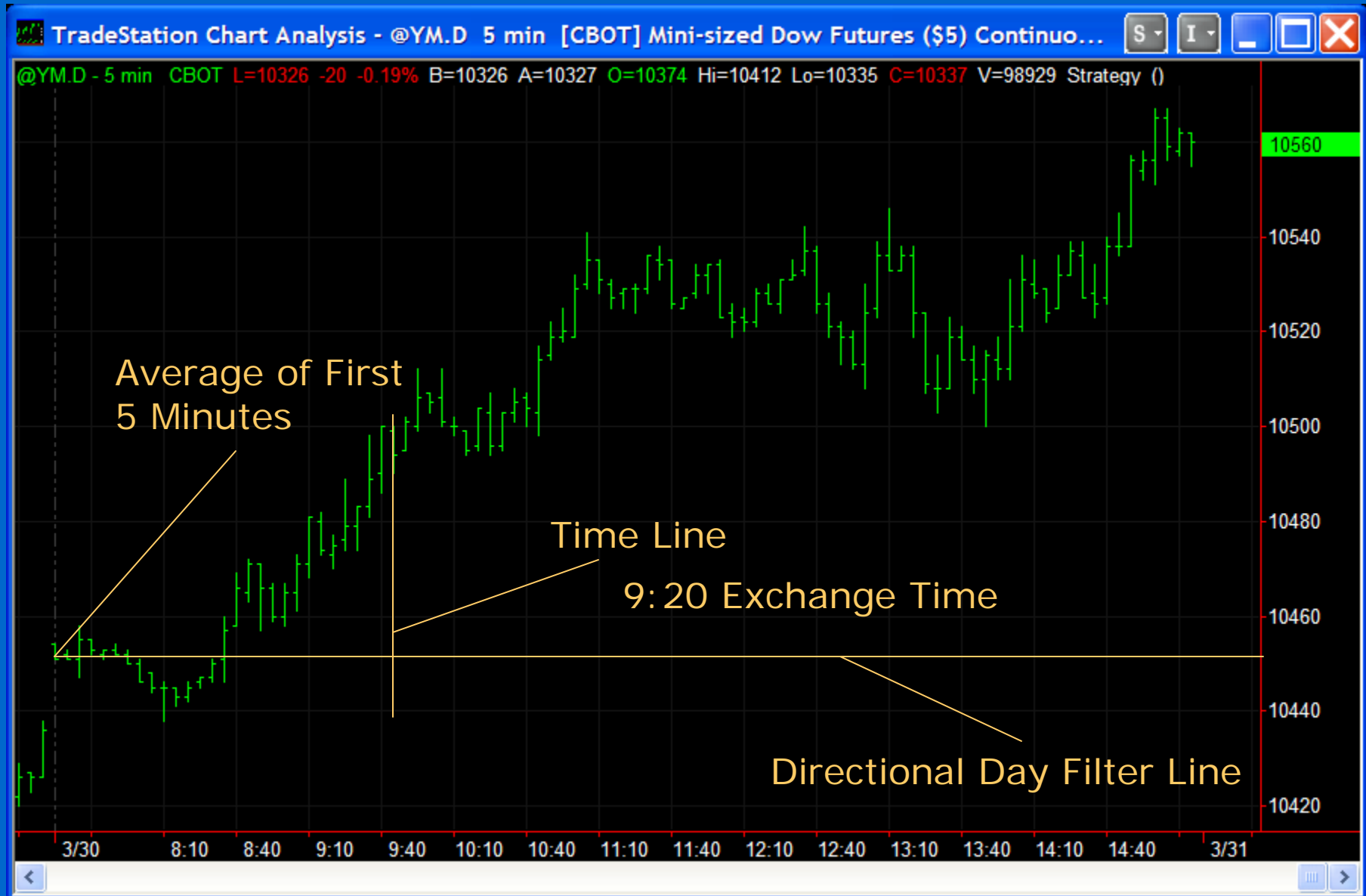
Directional Day Filter

140 Minutes after the Open or 9:40
exchange time for the mini-sized
Dow contract

Draw a Vertical Line at this Point which
defines the Intraday Range

Time of this Determination will Vary
when trading other Issues or
Contracts

Directional Day Filter



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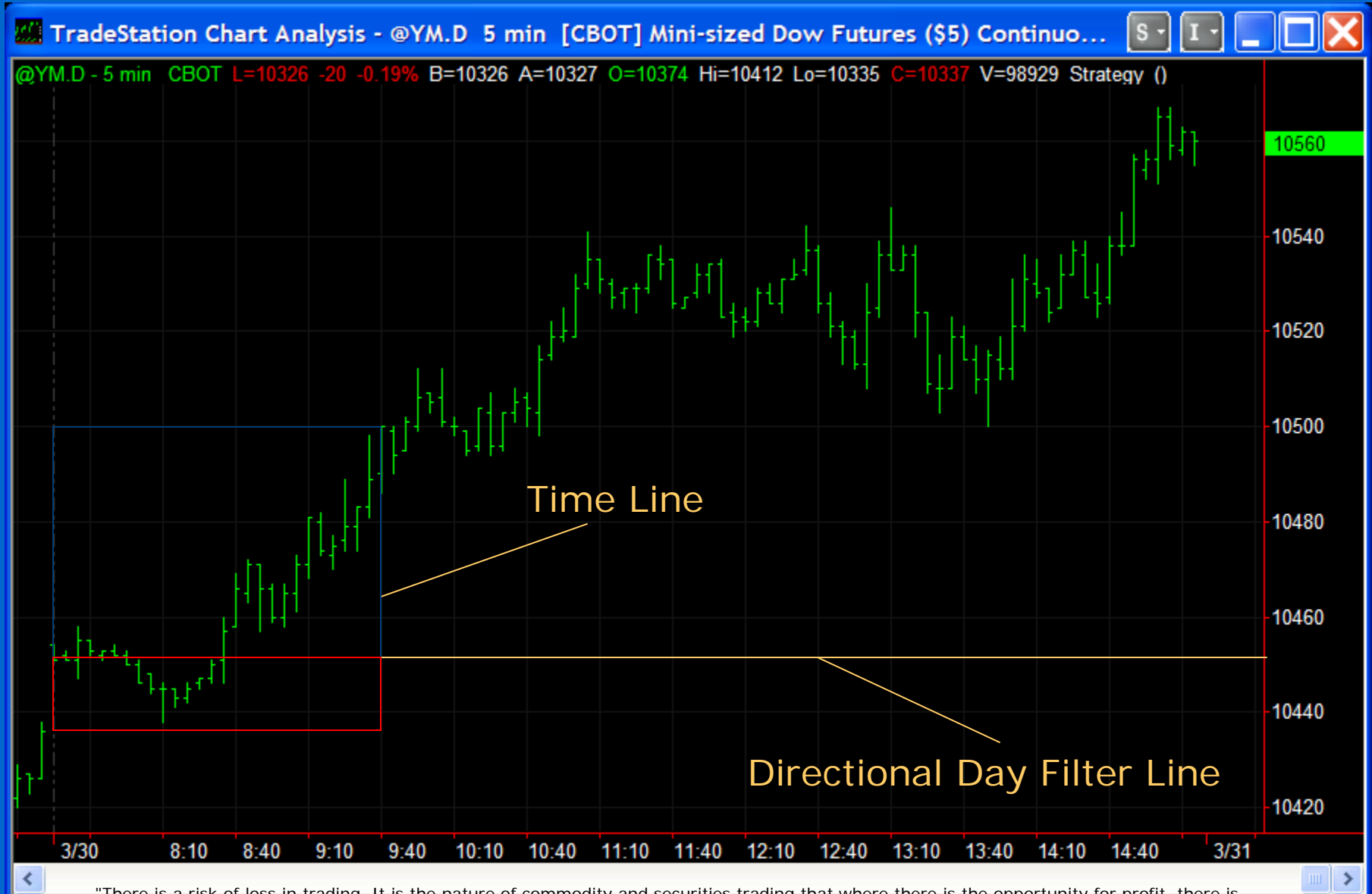
Directional Day Filter

Determine Amount of Market Activity
Above and Below the Directional Day
Filter Line prior to the Time Line

Subjective Observation

Programmed into automated version of
the Directional Day Filter

Directional Day Filter



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Directional Day Filter

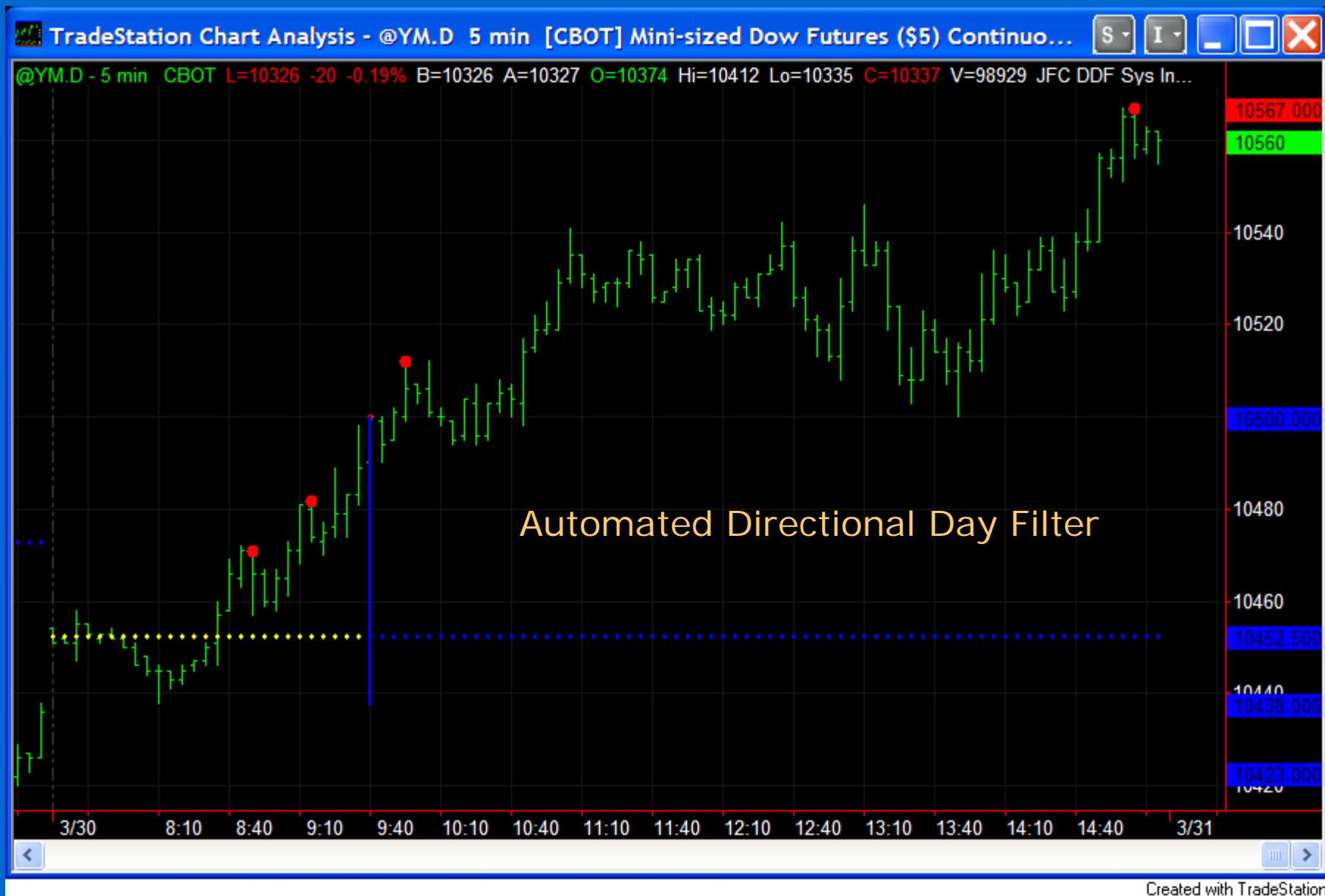
- ⑦ If the Majority of Market Activity prior to the Time Line is above the Filter Line the Trend Bias for the Day is Higher

Directional Day Filter



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Directional Day Filter



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Directional Day Filter

The interpretation is exactly opposite for a downtrending day.

If the Majority of Market Activity prior to the Time Line is Below the Filter Line the Trend Bias for the Day is Lower

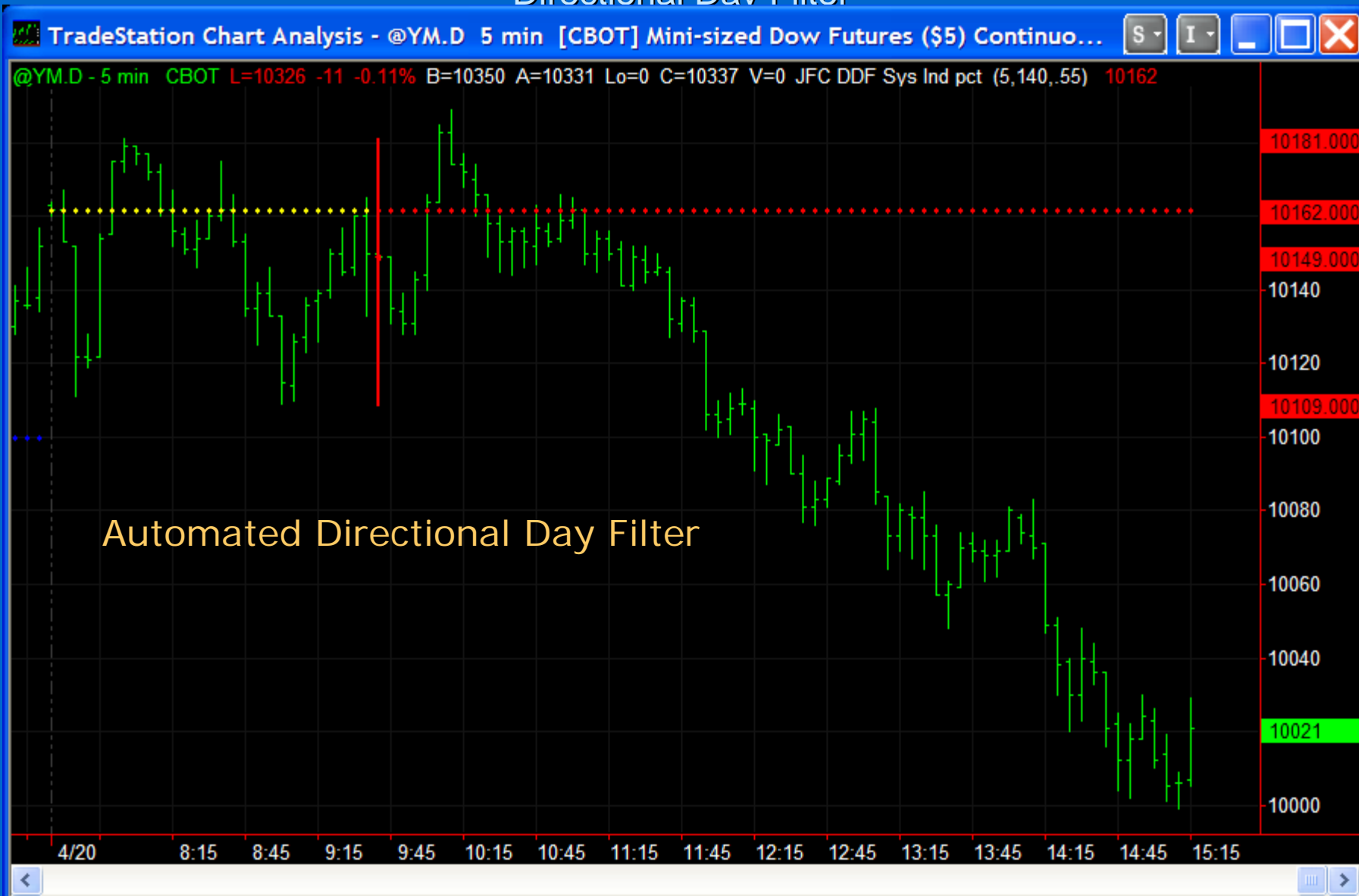
If Activity is Equal then the Bias is for a Non - Trending Day

Directional Day Filter



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Directional Day Filter



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Directional Day Filter

Two Trading Approaches using the Directional Day Filter

1. Breakout Trade

Buy the breakout of the timeline on uptrending days.
Sell the breakout of the timeline on downtrending days.

20 point target price

Stop loss is opposite side of timeline

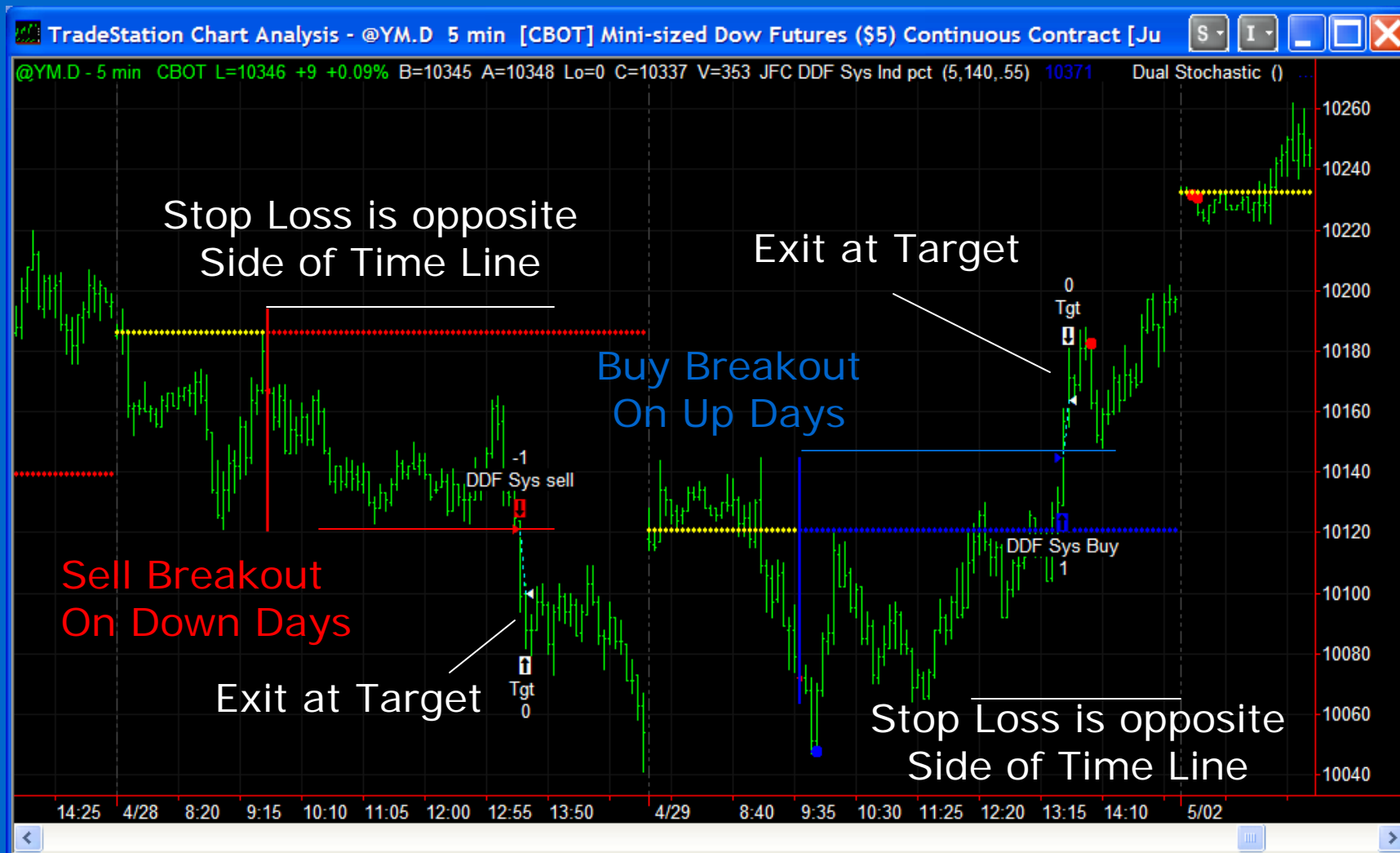
2. Oscillator Trade

Establish position in direction of major trend

Use Oscillators to define exhaustion of minor trend

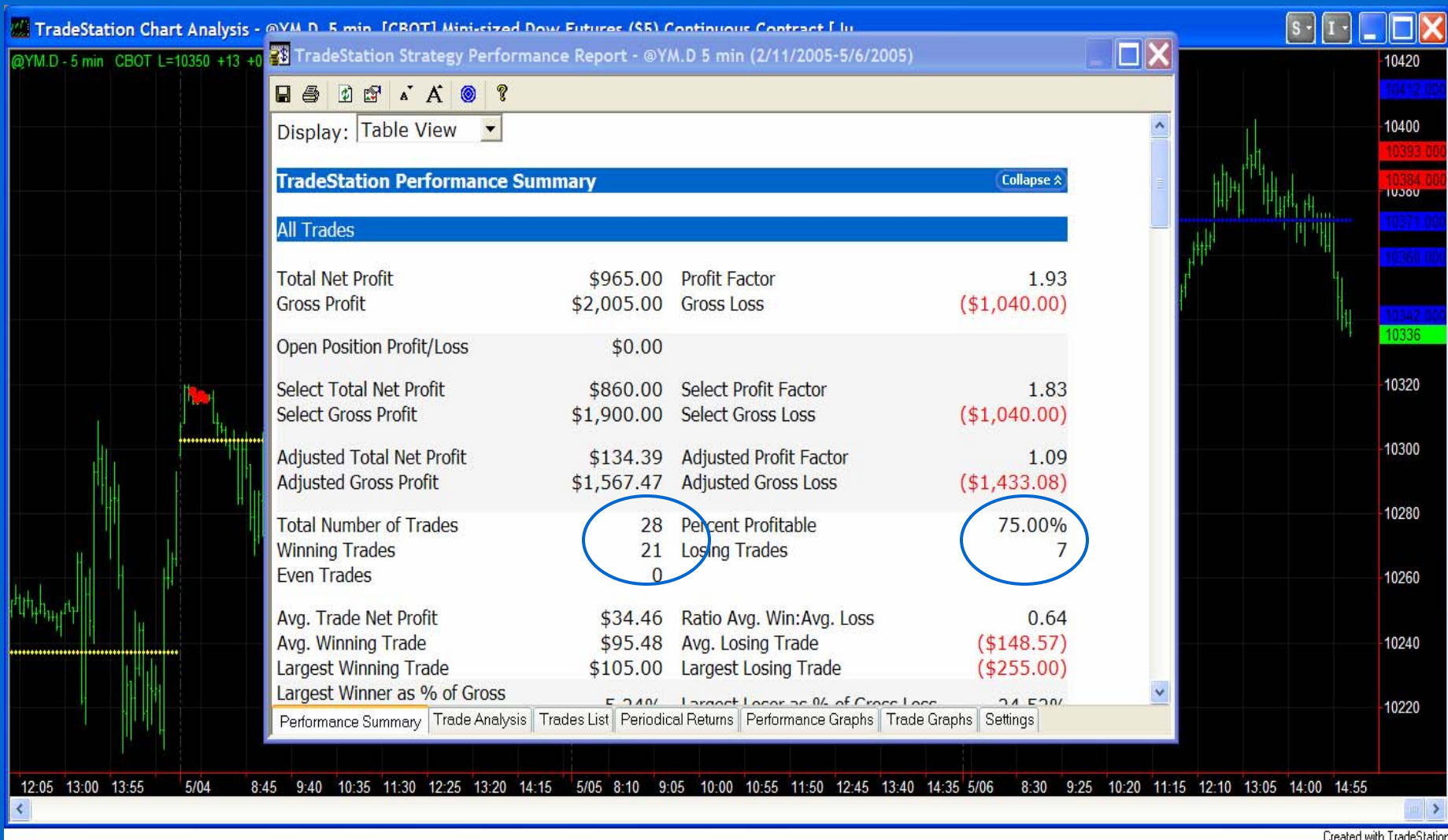
Use support and resistance to place buy and sell stops.

Directional Day Filter Automated Trading System



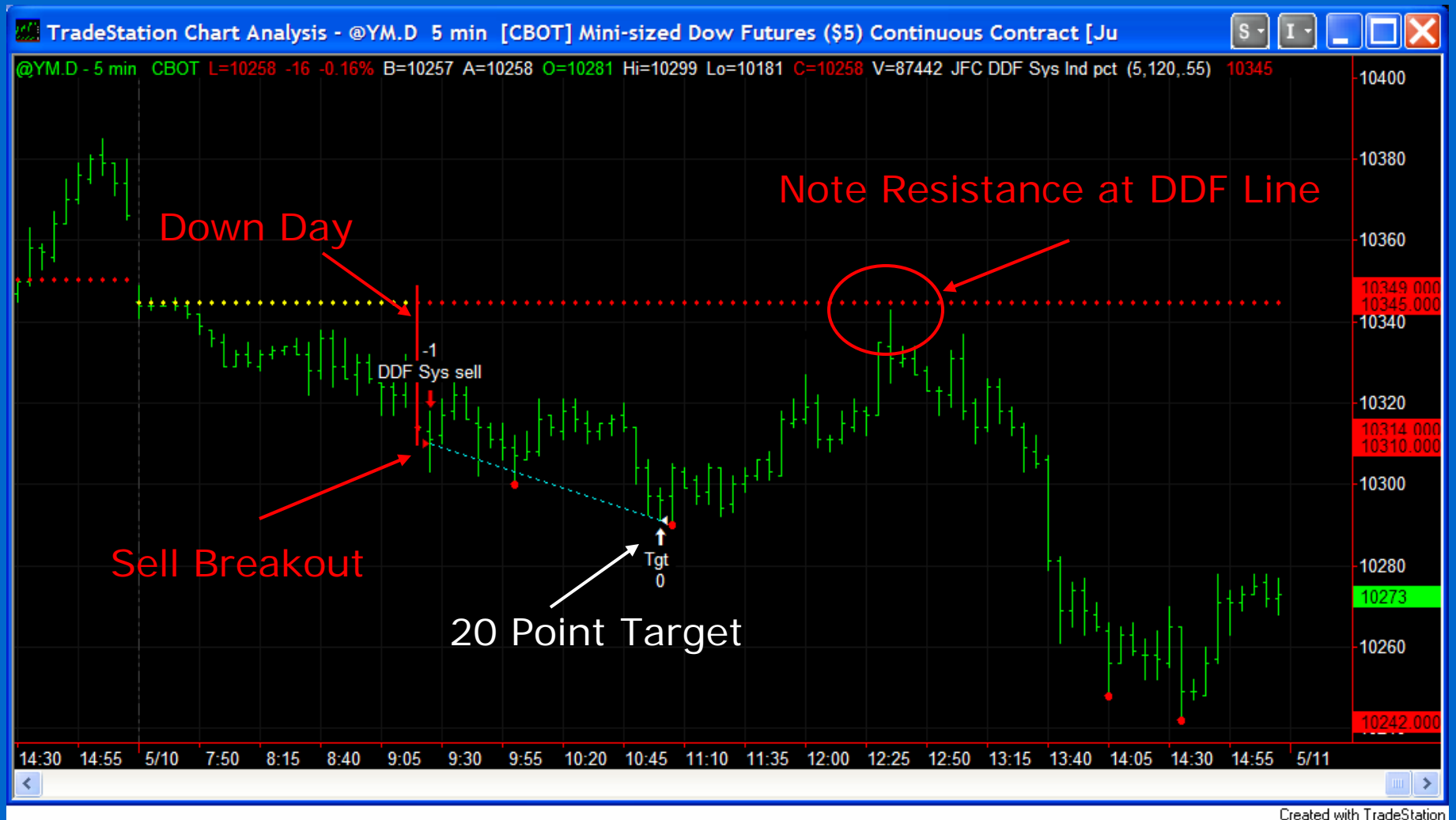
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Directional Day Filter Automated Trading System



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Directional Day Filter Automated Trading System



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Directional Day Filter

Define the Minor Trend within the Major Trend
Trading with Oscillators

Dual Stochastic

Buy signal:

45 Bar Stochastic below 30

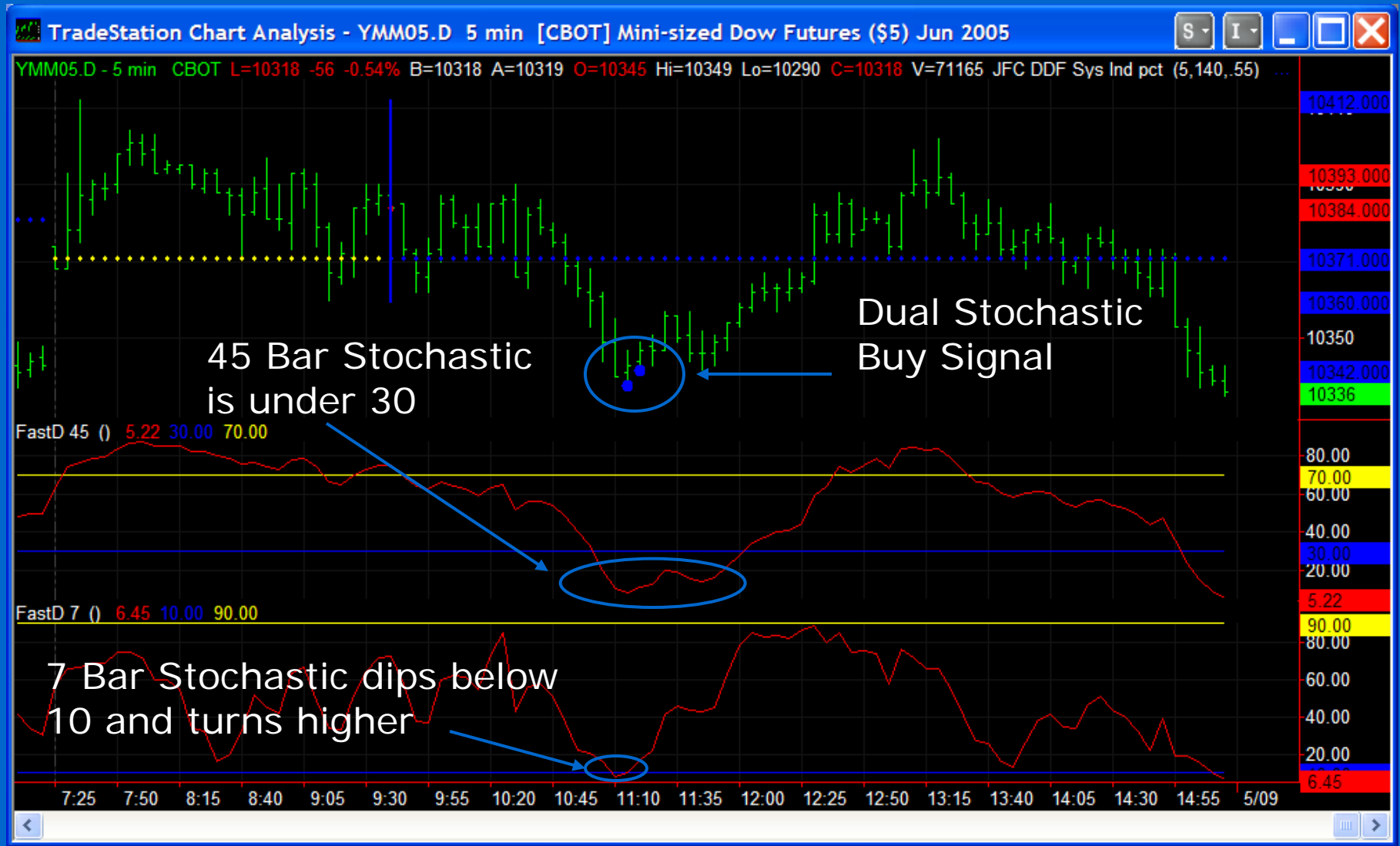
7 Bar Stochastic below 10; turn higher

Sell Signal:

45 Bar Stochastic above 70

7 Bar Stochastic above 90; turns lower

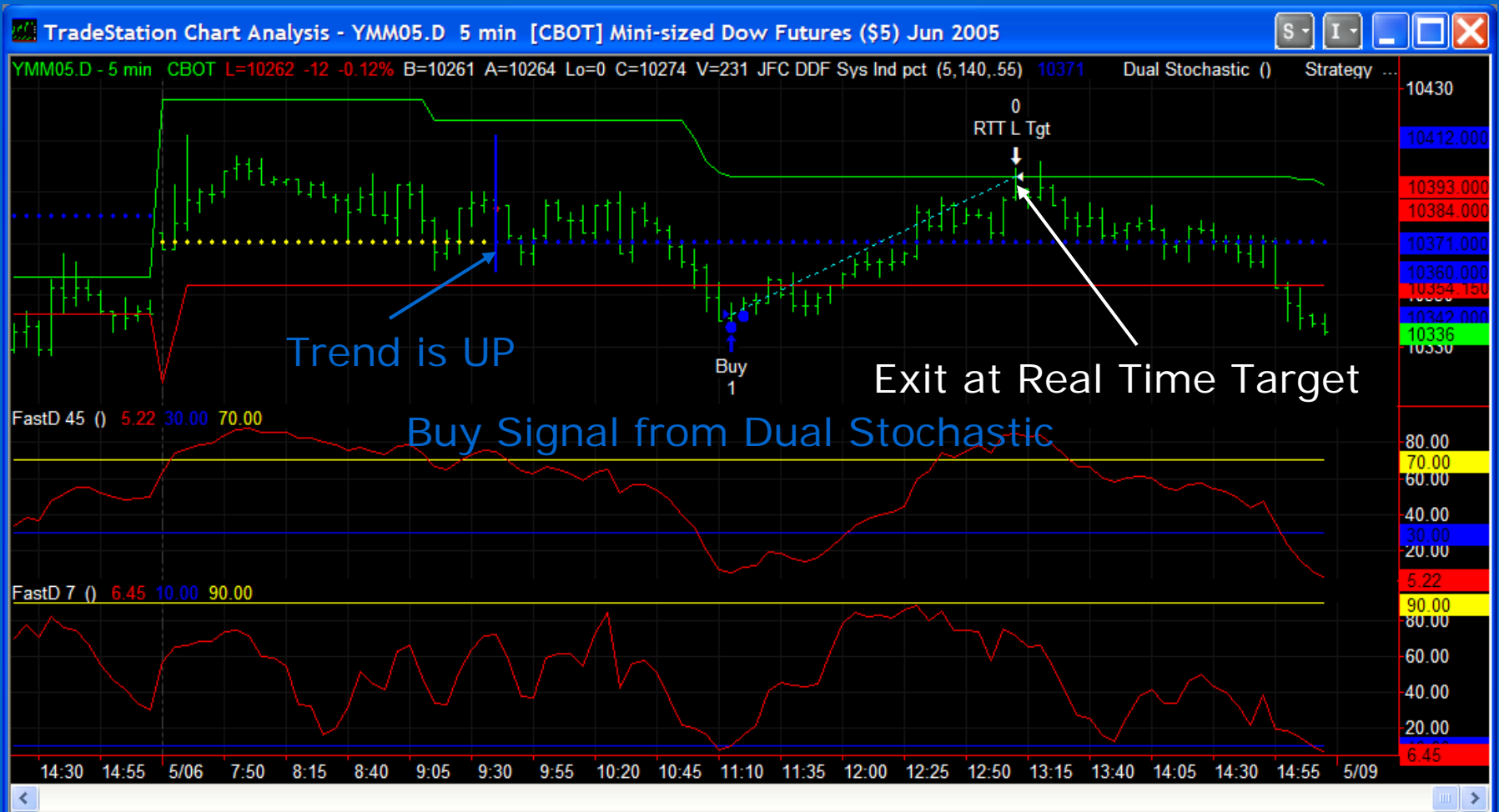
Dual Stochastic



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Directional Day Filter / Dual Stochastic Trade



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Support and Resistance

Support and resistance is one of the two most important concepts for the serious trader to master.

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Support and Resistance

- ⑦ Defined by market action
- ⑦ Significant buying or selling at these points
- ⑦ When violated, is often the final confirmation of an important trend change
- ⑦ Market will often accelerate upon breaking these levels

Resistance at DDF Line



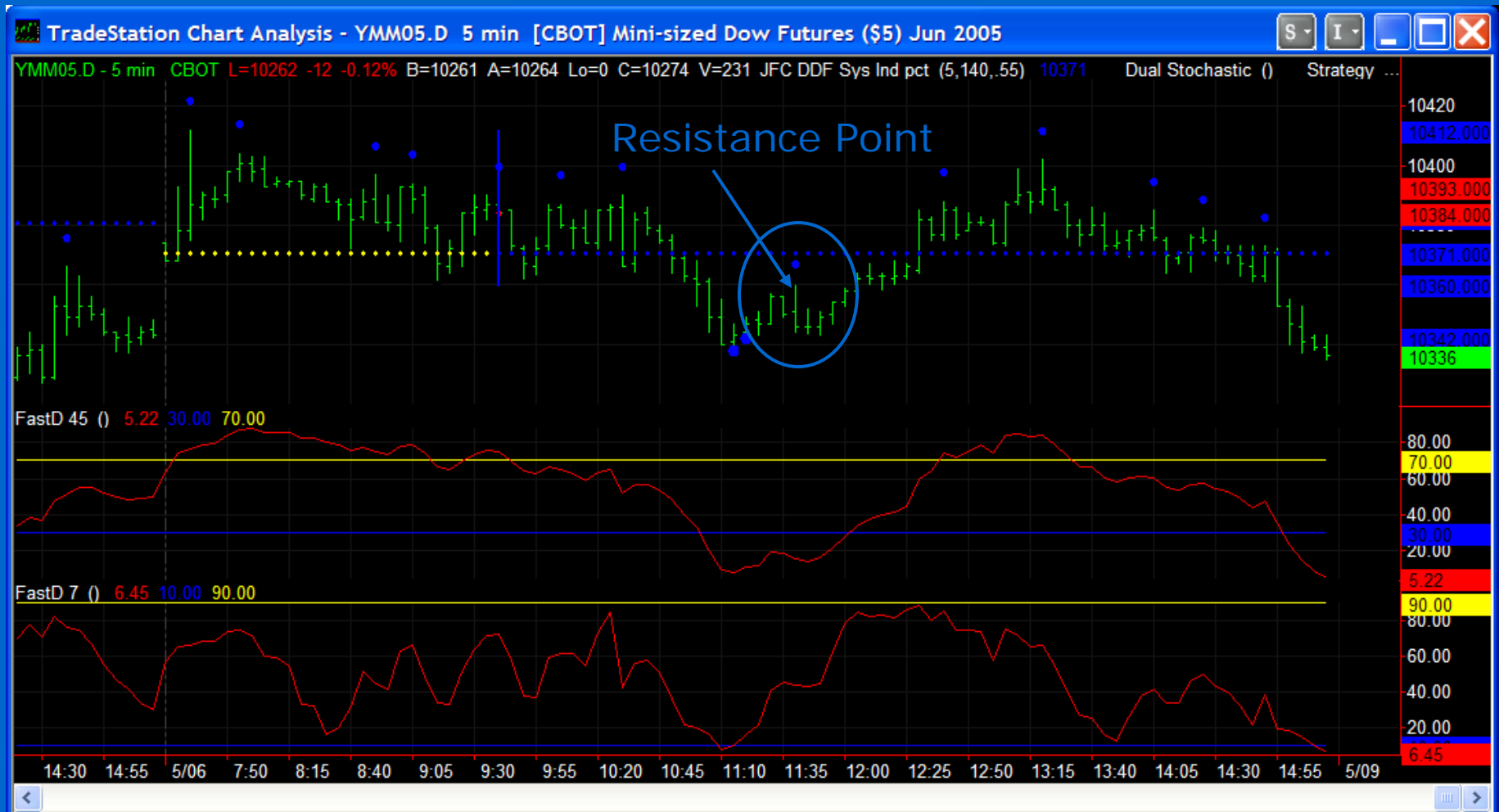
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Resistance



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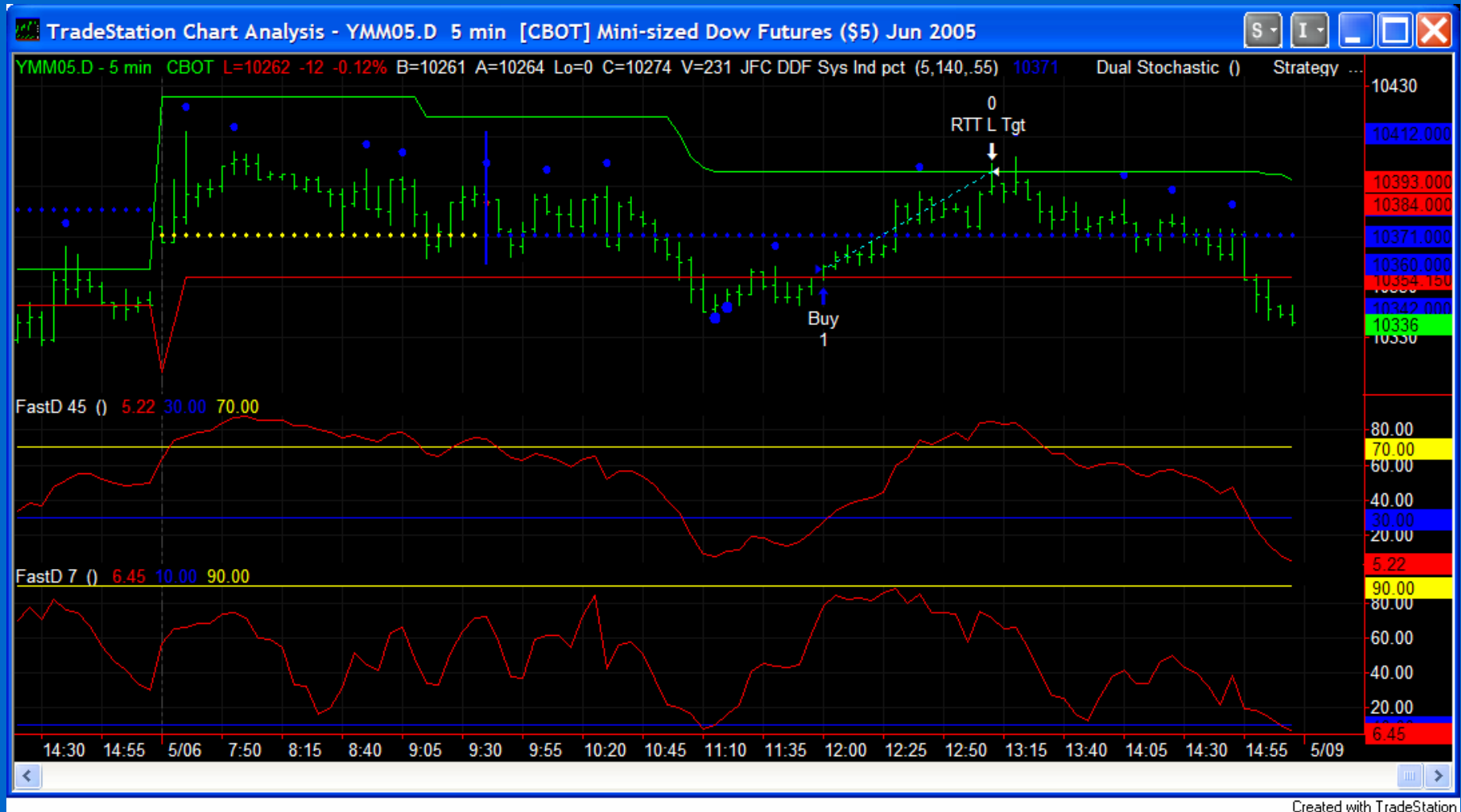
Resistance



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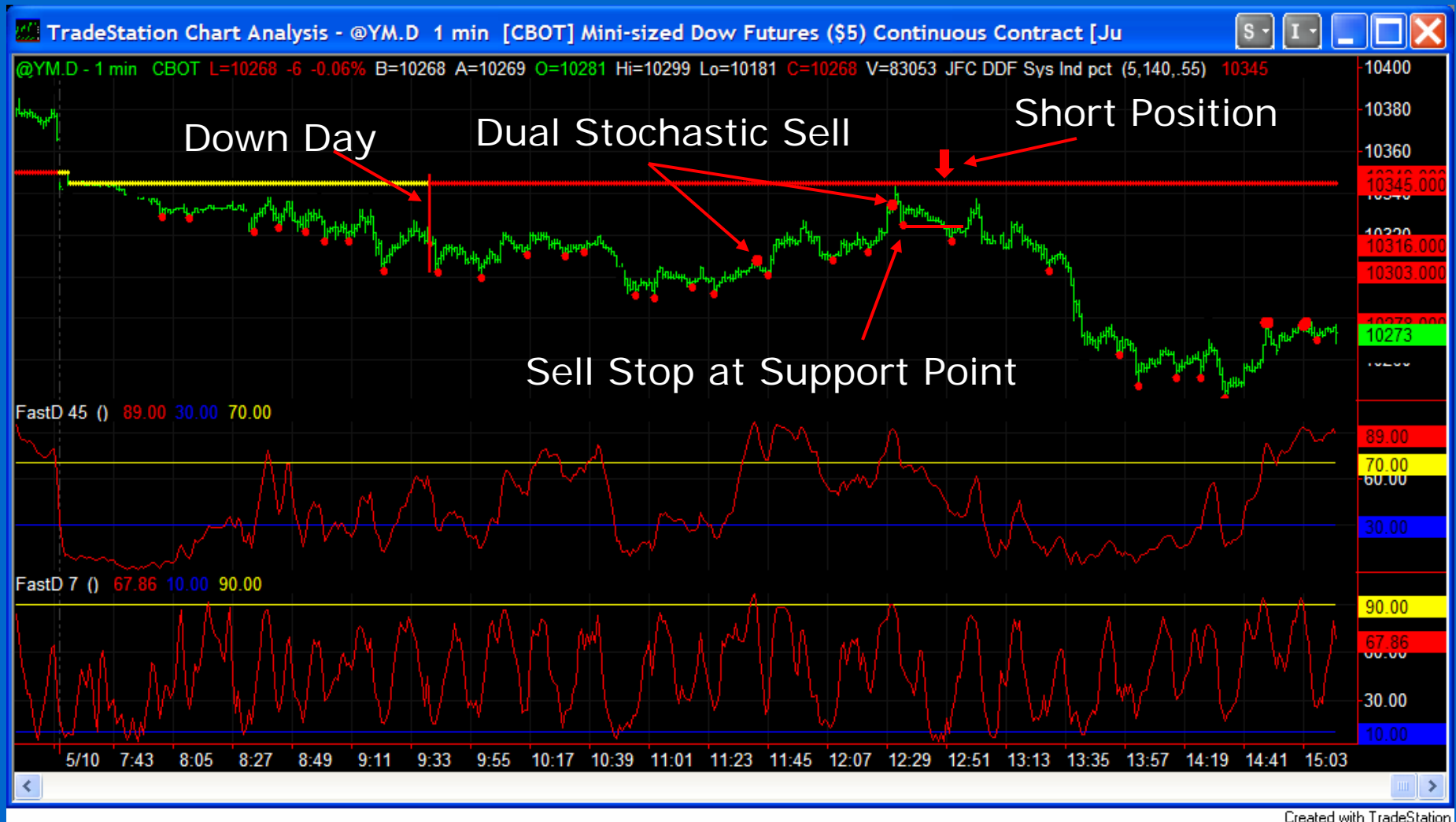
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Buy Using DDF, Dual Stochastic, Resistance Point



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Sell Using DDF, Dual Stochastic, Support Point



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