Figure 7.25 Exxon Corporation (daily bars). Graphed by the "Navigator" (Genesis Financial Data Services).

A Vital Note-This Works on Shorter Time Frames as Well

Over the years, I have seen many successful trades using these smash day and traps on 5-minute, 30-minute, and hourly price charts of market activity. You very short-term traders will want to add this to your intraday arsenal of trading techniques. These patterns represent excellent points of entry for short-term traders. The key, though, is to make certain you have something else backing the trade, something suggestive of the action you are taking, otherwise you are just using price to predict price. Your best trades will come from loading the trade with several qualifiers, not just a price structure.

Oops! This Is Not a Mistake

If there is any mistake to the pattern I am about to reveal, it is my mistake to go public with this pattern. It is the most reliable of all short-term patterns I have researched and traded. Numerous other authors and system developers have incorporated it in their work. A few (e.g., the highly talented Linda Bradford

Ratschke; Bruce Babcock, the critic's critic; and Jake Bernstein) have been honorable enough to give me credit, whereas many more fail to or even claim credit for this pattern that I first taught to my followers in 1978.

The pattern is based on an overemotional response, then a quick reversal of the concomitant overreaction of price. The overreaction is a large gap in price from last night's close to the next morning's opening. The precise overreaction we are looking for to give us a buy signal is an opening that is below the previous day's low. Such a rare occurrence indicates a potential market reversal. The setup is the extreme selling that causes people to panic with a rush of selling as price opens, so much so that price opens less than the prior day's range. This is a most unusual occurrence as price almost always opens within the prior day's range.

That is the setup. The entry comes when, following the lower open, price then rallies back to the previous day's low. If the market can muster up enough strength to do that, most likely, the selling pressures have been abated and a sharp market rally will follow.

As you might suspect, a sell is just the opposite. You will be looking for an open greater than the prior day's high. The emotional response or setup is a huge amount of buying right on the open that causes a large gap, driving price above the prior high. Our entry then comes from price falling back to the prior high, telling us the gap could not hold, giving us a strong shortterm suggestion of lower prices to come.

The name Oops! comes from the price action as the public pitches their positions and sells short on the opening based on news, charts, and the like. For a moment, they appear to be on the right track, but about the time price rallies back to the prior day's low, their broker calls to tell them price is moving against them usually saying something like, **"Oops! We may have done the wrong thing [again], price is coming back pretty strong. Do you want to stay short?"**

By the time the collective public makes up their mind to now get out of the losing trade, price is above yesterday's low and their new buying or short covering adds momentum to the rally we positioned ourselves for. **Figures 7.26** and **7.27** show how the Oops! signals will appear.

Okay, now let's see how we might use this pattern as short-term traders. We can start with taking buy signals in the S&P 500 on any day of the week except Wednesday or Thursday, the days of the week we know are most apt to lead to declines (see **Figure 7.28**). The results speak more loudly than anything I might say about this pattern: the 82 percent plus accuracy, $42,687 of profits, and a very large average profit per trade of $438 are quite remarkable considering the trade usually lasts 11/2 days. That is, we buy today and are out on the opening tomorrow. The stop was a flat $2,000 loss. You may want to read about stops and exits (Chapter 11) to improve on what I am presenting here.
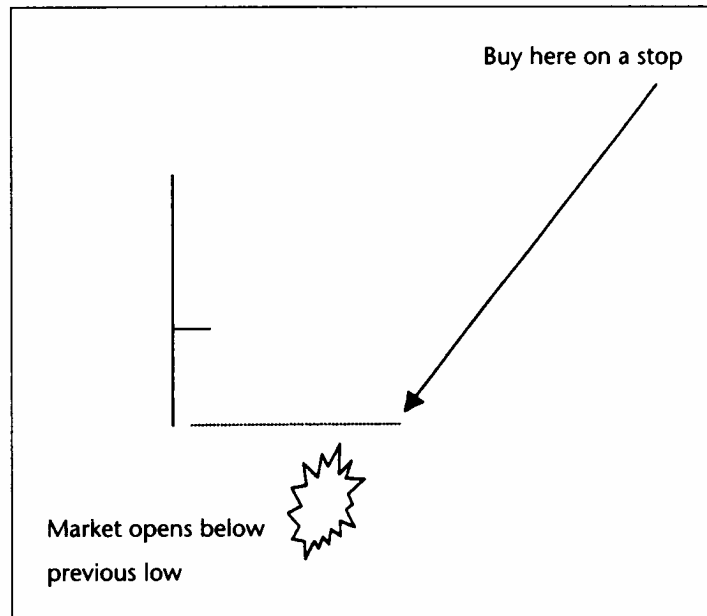
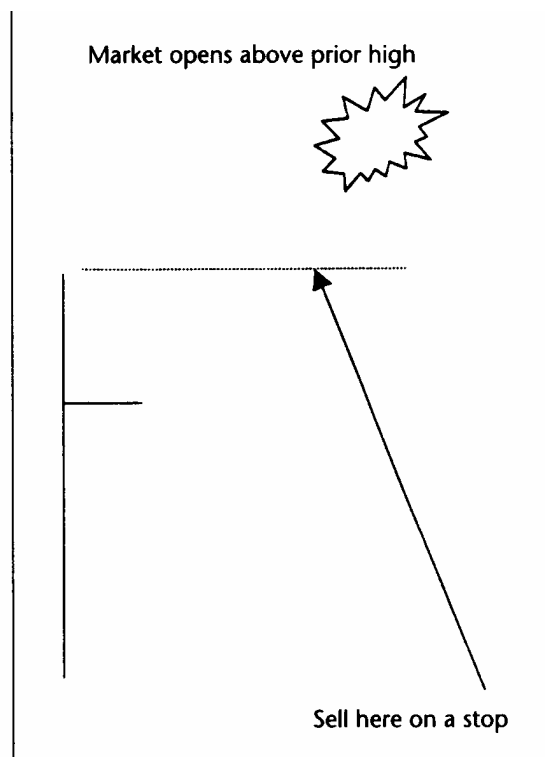**Figure 7.26** The Oops! buy signal.

Figure 7.27 The Oops! sell signal.

```
Data            : S&P 500 IND-9967    09/80
Calc Dates      : 09/15/87 - 08/28/98

 Num. Conv. P. Value  Comm  Slippage  Margin  Format  Drive:\Path\FileName
-------------------------------------------------------------------------
  149    2  $   2.500  $  0   $   0   $ 3,000  CT/PC   C:\GD\BACK67MS\F59.DAT

//////////////////////////// ALL TRADES  - Test 1 \\\\\\\\\\\\\\\\\\\\\\\\\\\\

 Total net profit           $42,687.50
 Gross profit               $76,687.50    Gross loss              $-34,000.00

 Total # of trades              98        Percent profitable          82%
 Number winning trades          81        Number losing trades         17

 Largest winning trade      $3,950.00     Largest losing trade    $-2,000.00
 Average winning trade        $946.76     Average losing trade    $-2,000.00
 Ratio avg win/avg loss         0.47      Avg trade (win & loss)     $435.59

 Max consecutive winners        23        Max consecutive losers        3
 Avg # bars in winners           1        Avg # bars in losers          1

 Max closed-out drawdown    $-6,000.00    Max intra-day drawdown  $-6,000.00
 Profit factor                  2.25      Max # of contracts held       1
 Account size required      $9,000.00     Return on account           474%
```

Figure 7.28 The Oops! pattern at work.

How about the Bond market? Here we will take long trades any day of the week except Wednesday and a stop-loss of $1,800 from the point of entry. Our exit is the bailout technique, soon to be discussed. As shown in **Figure 7.29**, the results here sure blow the random walk academicians out of the water and off their ivory towers with 86 percent accuracy, 527,875 profits, and a very nice average profit per trade of $201, after commissions of $50.

On the sell side, the rules are to sell on Wednesday if our Oops! opening gap and failure occur. Since 1990, there have been 55 trades with 31 winners netting $9,875 using a closer $1,000 stop and 4-day bailout

```
Data            : DAY T-BONDS-9967    01/80
Calc Dates      : 01/01/90 - 08/28/98

 Num. Conv. P. Value  Comm  Slippage  Margin  Format  Drive:\Path\FileName
-------------------------------------------------------------------------
   44   -5  $  31.250  $  0   $   0   $ 3,000  CT/PC   C:\GD\BACK67MS\F62.DAT

//////////////////////////// ALL TRADES  - Test 1 \\\\\\\\\\\\\\\\\\\\\\\\\\\\

 Total net profit           $27,875.00
 Gross profit               $60,812.50    Gross loss              $-32,937.50

 Total # of trades             138        Percent profitable          86%
 Number winning trades         120        Number losing trades         18

 Largest winning trade      $2,031.25     Largest losing trade    $-2,125.00
 Average winning trade        $506.77     Average losing trade    $-1,829.86
 Ratio avg win/avg loss         0.27      Avg trade (win & loss)     $201.99

 Max consecutive winners        24        Max consecutive losers        3
 Avg # bars in winners           2        Avg # bars in losers          3

 Max closed-out drawdown    $-5,812.50    Max intra-day drawdown  $-5,812.50
 Profit factor                  1.84      Max # of contracts held       1
 Account size required      $8,812.50     Return on account           316%
```

Figure 7.29 Using Oops! on bond trades.

```
Data              : DAY T-BONDS-9967    01/80
Calc Dates        : 01/01/90 - 08/28/98

Num. Conv. P. Value  Comm  Slippage  Margin  Format  Drive:\Path\FileName
------------------------------------------------------------------------
 44   -5  $ 31.250  $  0   $   0   $ 3,000  CT/PC   C:\GD\BACK67MS\F62.DAT

////////////////////////////// ALL TRADES  - Test 1 \\\\\\\\\\\\\\\\\\\\\\\\\\\\\\

Total net profit          $9,875.00
Gross profit             $34,031.25    Gross loss               $-24,156.25

Total # of trades              55     Percent profitable             56%
Number winning trades          31     Number losing trades           24

Largest winning trade    $2,687.50    Largest losing trade      $-1,093.75
Average winning trade    $1,097.78    Average losing trade      $-1,006.51
Ratio avg win/avg loss         1.09   Avg trade (win & loss)       $179.55

Max consecutive winners         5     Max consecutive losers          3
Avg # bars in winners           4     Avg # bars in losers            3

Max closed-out drawdown  $-4,437.50   Max intra-day drawdown    $-4,437.50
Profit factor                  1.40   Max # of contracts held         1
Account size required    $7,437.50    Return on account             132%
```

Figure 7.30 The results of the Oops! technique.

exit. In the S&Ps, the best day to sell has been Thursday, which shows 78 percent winners and $14,200 of profits. Check out the results as shown here to solidify the value of this technique (**Figures 7.30** and **7.31**).

The most value will come, not from a mechanical rote approach to trading, but from using this technique with some intelligence or layered on top of a setup market. Here is one such example of this type of thinking. The results in **Figure 7.32** are derived from taking my Oops! buy signals in the

```
Data              : S&P 500 IND-9967    09/80
Calc Dates        : 09/15/87 - 08/28/98

Num. Conv. P. Value  Comm  Slippage  Margin  Format  Drive:\Path\FileName
------------------------------------------------------------------------
149    2  $  2.500  $  0   $   0   $ 3,000  CT/PC   C:\GD\BACK67MS\F59.DAT

////////////////////////////// ALL TRADES  - Test 1 \\\\\\\\\\\\\\\\\\\\\\\\\\\\\\

Total net profit         $14,200.00
Gross profit             $40,200.00    Gross loss               $-26,000.00

Total # of trades              60     Percent profitable             78%
Number winning trades          47     Number losing trades           13

Largest winning trade    $4,612.50    Largest losing trade      $-2,000.00
Average winning trade      $855.32    Average losing trade      $-2,000.00
Ratio avg win/avg loss         0.42   Avg trade (win & loss)       $236.67

Max consecutive winners        14     Max consecutive losers          2
Avg # bars in winners           2     Avg # bars in losers            2

Max closed-out drawdown  $-6,725.00   Max intra-day drawdown    $-7,012.50
Profit factor                  1.54   Max # of contracts held         1
Account size required   $10,012.50    Return on account             141%
```

Figure 7.31 More results with the Oops! technique.

```
Data               : DAY T-BONDS-9967    01/80
Calc Dates         : 01/01/90 - 08/28/98

 Num. Conv. P. Value  Comm  Slippage  Margin  Format  Drive:\Path\FileName
 -----------------------------------------------------------------------
   44   -5  $  31.250  $  0   $  0   $  3,000  CT/PC   C:\GD\BACK67MS\F62.DAT

/////////////////////////////// ALL TRADES  - Test 3 \\\\\\\\\\\\\\\\\\\\\\\\\\\\\\

Total net profit        $24,625.00
Gross profit            $46,750.00   Gross loss            $-22,125.00

Total # of trades               66   Percent profitable            81%
Number winning trades           54   Number losing trades           12

Largest winning trade    $2,625.00   Largest losing trade   $-2,125.00
Average winning trade      $865.74   Average losing trade   $-1,843.75
Ratio avg win/avg loss        0.46   Avg trade (win & loss)    $373.11

Max consecutive winners         20   Max consecutive losers          2
Avg # bars in winners            3   Avg # bars in losers            6

Max closed-out drawdown $-5,500.00   Max intra-day drawdown $-5,500.00
Profit factor                 2.11   Max # of contracts held         1
Account size required    $8,500.00   Return on account            289%
```

Figure 7.32 Buying on any day but Thursdays with the Oops! technique.

Bonds on any day but Thursday if Friday's 9-day moving average is less than Thursday's. The entry is Oops! as taught. The exit is the close on the first profitable opening after 3 days in the trade: 81 percent of these trades made money, $24,625, in fact. Check out the high average profit per trade of $373. On the sell side, the results reflect taking Oops! sell signals on Wednesday if the 9-day average is greater on Tuesday than Monday, which reflects an overbought market. These signals have been 79 percent accurate netting $13,406, and a surprising $394 profit per trade-not bad for a short-term trade, using the same rules as above for stop and exit as on the long trade (see **Figure 7.33**).

```
Data               : DAY T-BONDS-9967    01/80
Calc Dates         : 01/01/90 - 08/28/98

 Num. Conv. P. Value  Comm  Slippage  Margin  Format  Drive:\Path\FileName
 -----------------------------------------------------------------------
   44   -5  $  31.250  $  0   $  0   $  3,000  CT/PC   C:\GD\BACK67MS\F62.DAT

/////////////////////////////// ALL TRADES  - Test 4 \\\\\\\\\\\\\\\\\\\\\\\\\\\\\\

Total net profit        $13,406.25
Gross profit            $25,281.25   Gross loss            $-11,875.00

Total # of trades               34   Percent profitable            79%
Number winning trades           27   Number losing trades            7

Largest winning trade    $2,375.00   Largest losing trade   $-1,812.50
Average winning trade      $936.34   Average losing trade   $-1,696.43
Ratio avg win/avg loss        0.55   Avg trade (win & loss)    $394.30

Max consecutive winners          8   Max consecutive losers          1
Avg # bars in winners            4   Avg # bars in losers            6

Max closed-out drawdown $-2,781.25   Max intra-day drawdown $-3,312.50
Profit factor                 2.12   Max # of contracts held         1
Account size required    $6,312.50   Return on account            212%
```

Figure 7.33 Oops! sells on Wednesday.

S&P Oops! Trading

The same idea meets with success in trading the S&P; here the best buy days, given the oversold criteria as established by the 9-day trend, are Tuesday, Wednesday, and Friday. This combination shows 81 percent accuracy and $22,650 of profits with an average profit, after losses, of $456, a remarkable feat for getting in and out the same day (see **Figure 7.34**). The idea of the. 9-day moving average to set up the trade is based on work by Joe Krutsinger, a protege of mine and avid system developer.

The best sell in this market, using the 9-day overbought technique is to take sells on Wednesday to make $18,962 with 89 percent accuracy on 35 trades (see **Figure 7.35**). The average profit of $486 per trade drives home the validity of the approach.

Now let's look at another way of using our Oops! entries in the S&P 500. For years, researchers have noted that stock prices tend to rally around the first of the month. This sets up a perfect Oops! trade. Should this pattern occur at the end of the month, and trading day after the 17th trading day of the month, our pattern and the monthly influence come together. These are good trades!

Knowing this end of the month rally spills into the next month, I tested taking all Oops! in Bonds after the first TDM through the 5th. The results are equally impressive. This combination setup is one of the most powerful shortterm trades you will find to consistently appear, month in and month out.

Some observers may suggest we are curve-fitting things here by taking the Oops! signals only during a limited window of opportunity.

```
Data              : S&P 500 IND-9967      09/80
Calc Dates        : 09/15/87 - 08/28/98

 Num. Conv. P. Value  Comm  Slippage  Margin  Format  Drive:\Path\FileName
 ----------------------------------------------------------------------------
  149    2  $  2.500  $  0   $  0   $ 3,000   CT/PC   C:\GD\BACK67MS\F59.DAT

///////////////////////////// ALL TRADES  - Test 1 \\\\\\\\\\\\\\\\\\\\\\\\\\\\\\
Total net profit         $22,362.50
Gross profit             $40,600.00    Gross loss              $-18,237.50

Total # of trades               49    Percent profitable              81%
Number winning trades           40    Number losing trades             9

Largest winning trade     $3,875.00   Largest losing trade     $-2,237.50
Average winning trade     $1,015.00   Average losing trade     $-2,026.39
Ratio avg win/avg loss        0.50    Avg trade (win & loss)      $456.38

Max consecutive winners         28    Max consecutive losers           2
Avg # bars in winners            1    Avg # bars in losers             0

Max closed-out drawdown  $-4,925.00   Max intra-day drawdown   $-4,925.00
Profit factor                 2.22    Max # of contracts held          1
Account size required     $7,925.00   Return on account              282%
```

Figure 7.34 Oops! buys in a down trend on Tuesday, Wednesday, and Friday.

```
Data              : S&P 500 IND-9967    09/80
Calc Dates        : 09/15/87 - 08/28/98

Num. Conv. P. Value  Comm  Slippage  Margin  Format  Drive:\Path\FileName
-------------------------------------------------------------------------
149    2  $  2.500  $  0   $   0   $ 3,000  CT/PC   C:\GD\BACK67MS\F59.DAT

////////////////////////// ALL TRADES  - Test 2 \\\\\\\\\\\\\\\\\\\\\\\\\\\

Total net profit         $18,962.50
Gross profit             $26,962.50   Gross loss               $-8,000.00

Total # of trades              39     Percent profitable            89%
Number winning trades          35     Number losing trades            4

Largest winning trade     $3,175.00   Largest losing trade     $-2,000.00
Average winning trade       $770.36   Average losing trade     $-2,000.00
Ratio avg win/avg loss         0.38   Avg trade (win & loss)      $486.22

Max consecutive winners        26     Max consecutive losers          2
Avg # bars in winners           1     Avg # bars in losers            2

Max closed-out drawdown  $-4,000.00   Max intra-day drawdown   $-4,000.00
Profit factor                  3.37   Max # of contracts held         1
Account size required     $7,000.00   Return on account            270%
```

Figure 7.35 Oops! after the 17th trading day of the month.

That could be, but let me hastily add I first became aware of this "window of opportunity" in 1962 when I read Art Merrill's classic, The Behavior of Prices on Wall Street. I believe Merrill, a delightful, white-haired grandfather figure, was the first to note the rally tendency at this time and fully discussed it in his works.

All I have done is add my Oops! entry, a reasonable stop and exit, to a known market bias. To the best of my knowledge, no one noticed this same pattern or tendency exists in Bonds until 1988 when I revealed it to my students; so again, we have lots of out-of-sample experience. This is not a conclusion looking for a promise. Merrill and others, notably Norm Fosback and Glen Parker, have suggested the end-of-the-month stock rally is due to mutual funds balancing and window-dressing their holdings. Once I discovered that Bonds rally at this time, I took the position that stocks rally not because of the funds but because of Bonds. As go Bonds, so go stocks. Always keep in mind Bonds (interest rates) are the dog that wag the tail, which is stocks.

Virtually any time you have a bullish outlook or bias in the market, Oops! buys are worth taking, just as Oops! sells are worth taking when you have a bearish outlook. This pattern works wonders, given an underlying reason. It is the single best pattern I have discovered; enjoy it, treat it with care, use it with wisdom.