GUY COHEN

An Introduction to Flag Patterns and the OVI

Simple and Safe Trading For Windfall Profits

TRADE WHAT YOU SEE AND FOLLOW THE INSIDERS

Introduction

Trade Safely in Three Easy Steps

In this report I'm going to show you how to trade safely and for windfall profits in just three easy steps.

My method embraces one of the most respected traditional techniques combined with a unique way of following insider trading activity. These are meshed together into a simple trading plan that anyone can replicate. My method is endorsed by professional traders who not only subscribe to my unique services, but also use my tools to qualify their own recommendations.

Dramatic Trades That Demonstrate What We Do Best

Just to whet your appetite I'm going to mention a few trades that illustrate the power of what we do and how simple it is.

Bear Stearns (BSC) 2008

Between 1st January 2008 and 28th February 2008, Bear Stearns (BSC) shares traded in a range between $68.18 and $93.09. Nothing unusual in that.

On 3rd March 2008 Bear Stearns closed at $77.32. At around this time most commentators (famously including those on CNBC) were suggesting that BSC could be a takeover target and as such were optimistic about the stock's prospects.

At the same time, a discreet new indicator plummeted to its lowest possible reading for BSC. In itself that wasn't the key factor. It's the fact that for the next two weeks the indicator remained at its most negative reading for all but two days.

Exactly two weeks after the unknown indicator first plummeted, BSC went into free-fall, reaching a low of $2.84. Bear Stearns was indeed taken over … but at $10 per share, a far cry from the heady heights of $77.32.

The share price drop represented a move of over 80% and a massive profit for those who had bet on BSC's demise.

This was one of the most dramatic declines in the history of the stock market, and yet not one commentator saw it coming.

And yet, there were people who DID see it coming … and they made a fortune from it too.

How do we know this? Well, the "unknown indicator" measures what options traders are doing. And the good news is that this report is not about how to trade options. All we're doing is following the lead of what options traders are betting on, and then applying that to simply trading stocks.

In the case of BSC, the indicator went nuts to the downside two weeks before BSC collapsed!

Someone, somewhere must have known something …

In this report you're going to learn how to spot another Bear Stearns, or more positively, how to spot a meteoric rise in a stock before it happens.

Whatever your trading experience or proficiency may be, this report will suit you. This is because my method is effective, simple and easy to apply.

I also want to re-emphasize, this is NOT a report on options! We will refer briefly to options during the report because part of our method relies on following what savvy options traders are doing, but this is specifically **not** an options trading method.

What we're doing is following a simple indicator that is derived from options transaction data. We combine this with a traditional chart pattern in order to trade stocks. As for the simple indicator, well, it's simple to use, but what's behind it is pretty sophisticated.

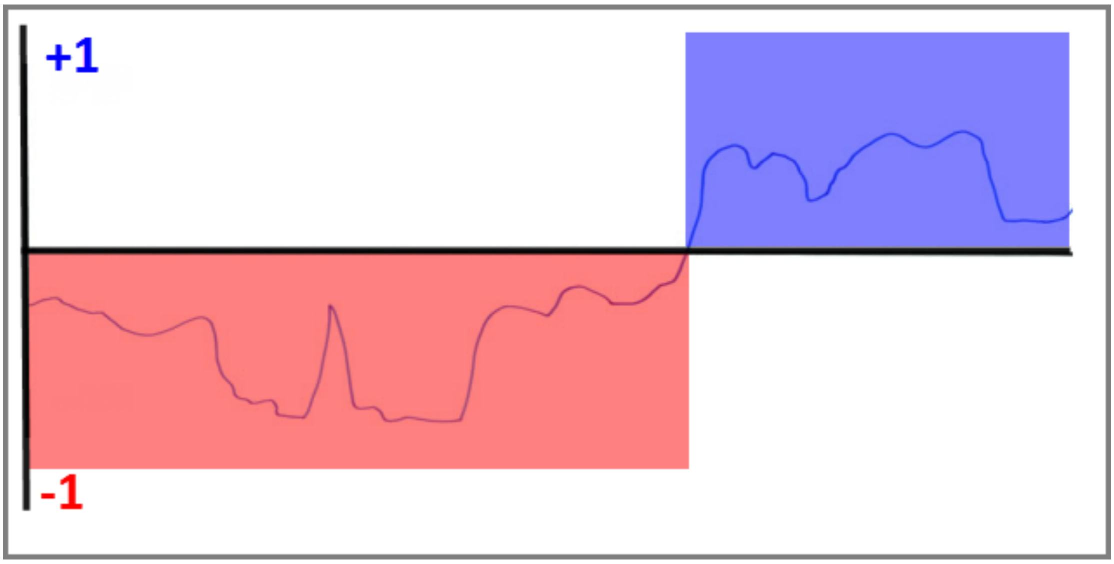
This indicator is known as the OVI.

Look at the diagram below - can you identify where this line is positive (above the horizontal line) or negative (below the horizontal line)? Of course you can!

- In the first two-thirds of the chart the indicator is negative. When it's like this for a few days we focus more on bearish chart patterns.
- In the last third of the chart the indicator is positive. When it's like this for a few days we focus more on bullish chart patterns.

It's that simple to read!

The OVI is a simple line:



Typically what we're looking for is for the indicator to correspond with a particular chart pattern. When the two match, then we have a potential trade.

Here's another example.

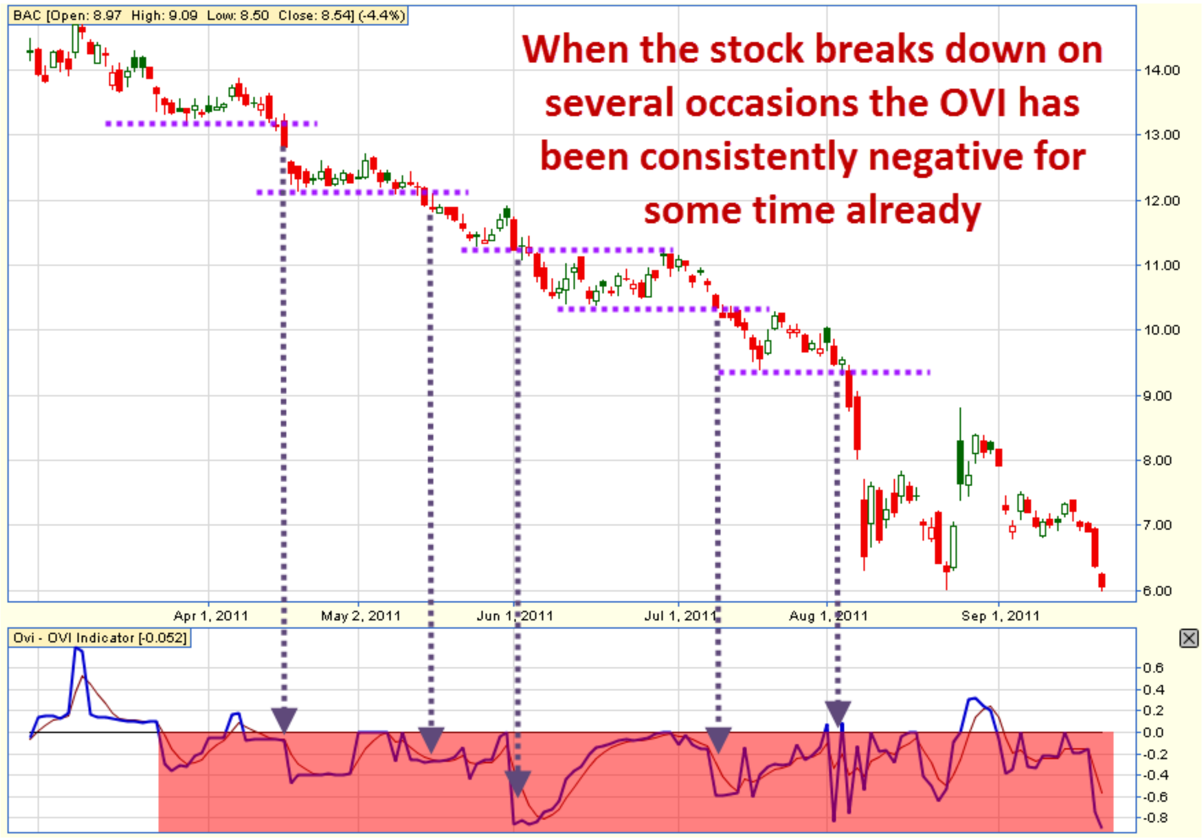
Apple Inc (AAPL) 2012

In this example you can see how the indicator was positive for over a month before AAPL broke out to the upside. This led to a move of over 200 points, representing a 50% increase in AAPL's share price in just three months. During this move there were several opportunities to buy the stock using our method and profiting from the fantastic move.


AAPL [Open: 639.93 High: 644.00 Low: 626.00 Close: 628.44] (-1.2%)
Original bull flag
600.00
550.00
500.00
450.00
400.00
Nov 1, 2011
Dec 1, 2011
Jan 2, 2012
Feb 1, 2012
Mar 1, 2012
Apr 2, 2012
Ovi - OVI Indicator [0.421]
0.8
0.6
0.4
0.2
0.0
-0.2
-0.4
-0.6

Bank of America (BAC) 2011

In the next example you can see how the OVI was negative preceding Bank of America's several breakouts to the downside. Within four months of the first obvious breakout the stock had halved in price meaning massive returns for short traders.



So now you've had a teaser of what's to come, here's a summary of our three steps.

1. We're going to learn about flags and breakouts.
2. We're going to learn how to use the OVI.
3. Finally we're going to outline the trading plan.

Before we start with Step One, let's outline some of the facts that underpin our method and some of the challenges that traders face.

The Facts

- **Fact 1**

  More fortunes have been created from the stock market than any other financial instrument.
- **Fact 2**

  There is one type of chart pattern that is responsible for more success than any other pattern or indicator. This pattern is easy to find and easy to trade with.
- **Fact 3**

  "Insiders" are consistently successful in the stock market. But insiders do not just include the dodgy ones – they can be completely legitimate.
- **Fact 4**

  No-one can consistently predict the direction of the market. You have to trade what you see.
- **Fact 5**

  You must always trade with a trading plan. The trading plan must specify where you enter, where you exit, and where you take profits.

These are pretty bold statements so examine each of them in turn:

Fact 1 – More fortunes are made in the stock market than any other instrument

Of course there are people who've made fortunes from Forex, commodities, futures, options and other instruments. But many more fortunes have been made from stocks. Why? Because they're more accessible and because stocks, like no other instrument, give certain people at certain times an "edge" that no other instrument can give. And that edge is what I call "privileged" information.

In this report I'm going to show you how to follow the traders who appear to have privileged information, and how to translate that into profitable trading for you.

Fact 2 – One particular chart pattern has made many fortunes

Legendary traders like Darvas, O'Neil, Zanger all celebrate a particular chart pattern that has been largely responsible for their own trading fortunes. This is the pattern we're going to focus on in this report.

Fact 3 – Insiders make more profits more often!

This may seem like an obvious statement but "insiders" can be completely legitimate.

It's a fact that some people are going to know what's going on with certain organisations at certain times. Sometimes this information is apparent because they have proximity to the business – for example a supplier or customer to the business has no illegal insider information per se, but has a general feel for how things are going for that corporation. Sometimes the information is more intimate with an insider connotation, for example in the case of information held only by the company's officers and close advisors.

I certainly do not advocate illegal insider trading, but it's a fact of life that it does go on. However, sometimes "informed" trading occurs which is totally legitimate. Either way, the tell-tale signs of informed trading are easy to spot. And our job is to follow it because it leads to high probability trading profits.

You don't need to be an "insider" or even have any information per se to make use of privileged information. Sometimes even those with supposed inside information get it wrong because they overestimate the impact their information may have. As such, illegal insider trading doesn't necessarily translate to profits anyway.

Suffice to say for now that our purposes, being able to observe transactions in the financial markets is far more important than the specific information on which they may be based.

Fact 4 – Don't predict, only trade what you see …

No-one can predict the market as in with a crystal ball. But what we can do is make educated decisions based on patterns when they start to move in our favour.

Fact 5 – Trade with a trading plan

This should really read "trade with a robust trading plan". Not all trading plans are made equal. The right plan should embrace a tradeable chart pattern (like our preferred chart pattern), where you enter, where you exit, and where you take profits. It is simple but you have to have discipline to execute it over and over again.

Successful trading is all about having an edge or advantage. In this report I show you how to use that advantage simply and effectively.

First, let's outline what our typical private investor is up against in the markets today. The average trader is faced with a multitude of challenges. Let's talk about some of those, and after that we can talk about how to make money from them.

Fund Management – A Cautionary Tale

I know an old lady who put her life savings of $1million in the charge of a reputable fund manager whose offices were in the Wall Street vicinity. The fund manager assured the lady that her money would be well diversified into blue chip companies spanning across the various stock market sectors.

And he did just that, true to his word. However, just one year later, that $1million fund was only worth $700,000, representing a 30% loss. The fund manager still got his fee, just no performance bonus.

Market Soothsayers

Have you ever watched the guest analysts on CNBC and Bloomberg TV, all making their predictions and peddling their wares? Have you ever noticed how wrong they get their predictions and yet still come back for more, time and time again? Have you noticed how they shamelessly forget about their countless wrong predictions and how the TV hosts never give them a grilling for it?! And yet, the one (out of ten!)

predictions that they got vaguely right, they bang on about that solitary successful one for years!

Well, I have a saying for those frustrated mathematicians who make their livings out of making bold yet misjudged predictions: "***Even a broken clock is right twice a day"***.

The Black Box

If a black box software system could trade the markets continuously without any human intervention then trading would cease to exist as we know it. Sure black boxes exist, but you must realize that the decent ones are continuously having their models and algorithms adjusted by humans. So don't fall for a black box type system. Discretion is a necessary part of any successful trading system.

Tip Sheets

First, tell me why most tip sheets don't last more than one year - fact! To be fair it's not all the fault of the tipster. You see, most tipsters do have their day, but that's just the point … they have their day. Then their day finishes. And that's the beginning of the end of their tip sheet.

Another issue with tip sheets is that they're simply impractical as most traders aren't necessarily in front of their PCs at the time when a call is made.

One of the main problems for private investors and traders is that they have a tendency to latch onto stock tips from any source that claims to have a unique edge. The fact is, however, that *no-one* really knows where a stock is going for sure, and this is particularly true when companies are announcing their results during the earnings season when *anything* can happen. Those who play earnings often get hurt badly when stocks jump against them. Others don't play earnings at all, and therefore may miss some of the stunning opportunities that can present themselves around that time.

What Traders Really Need

We traders need a clear and simple method that is based on sound principles.

And yet, the trading world abounds with complex theories and all kinds of funky hocus-pocus.

Our way of trading focuses on these factors:

- Our favoured chart pattern must be in place.
- An insight into what the insiders are doing.
- No earnings announcement likely to interfere with our trade.
- A clear and simple trading plan that specifies where we enter and exit the trade.
  The trading plan must embrace taking partial profits early, and then hopefully windfall profits will follow if the markets trend in our favour.

***Earnings Season* occurs every quarter where the majority of companies announce their results for the previous quarter, and is often coupled with a trading statement for the current quarter and beyond.**

Is all this possible for the amateur trader?

Absolutely YES, that's what this report is all about.

So let's see how we can achieve this.

- **What is the favoured chart pattern?**
  Our favoured chart pattern is called a flag. There are two types of flag pattern, bullish and bearish. With bull flags we profit as the stock rises. With bear flags we profit as the stock falls.
  We also like to trade price breakouts from "support" and "resistance". Support is like a floor formed by previous low prices, and resistance is like a ceiling formed

by previous high prices. As a stock price breaks these levels we have the chance to make money.

- **Is it possible to profit from the breakout and keep our risk low?**
  Yes, we can. By entering a trade that will only be triggered after the breakout occurs, we radically reduce our risk while still being able to participate in potential windfall profits.

- **Can we really see what the insiders have been up to?**
  Absolutely! Clever traders congregate in the options markets. My original training was in options so I know just where to look for them! This is where my OVI indicator comes in very handy.

- **Can we find stocks that are not about to report earnings?**
  Yes, we can identify stocks that have already reported earnings and disqualify those stocks that are about to make announcements. We can also find stocks that have no earnings in the imminent future. The more news there is in the recent past, the less likely there is of a potential nasty surprise. But that's not the only thing that we need here … we need a combination of factors.

- **Can a trading plan really be simple?**
  Yes. The components to it are:
  ✓ when to enter
  ✓ when to exit with a small loss
  ✓ when to take your first profit
  ✓ when to take your second profit.

When you trade the method I'm about to teach you, you must be able to manage the trade properly. This means taking partial early profits and allowing for further profits if the stock continues to move in our favour.

Don't worry, I'll teach you exactly how to do that. I'll also teach you how to recognise the easiest and least risky patterns to trade.

Finally …

- **Can we find the opportunities easily?**

  Yes, we can identify these stocks with just a couple of clicks of the mouse:

  - ✓ with no scheduled news announcements in the near future
  - ✓ forming our favoured chart patterns
  - ✓ those where the insiders seem to be trading

The Three Easy Steps

So let's remind ourselves of the three easy steps.

1. We trade with our favoured flag patterns and breakouts from support and resistance.
2. We follow what the insiders are trading by monitoring the unique OVI indicator.
3. We execute a simple trading plan that specifies where we enter and exit. We only enter when a breakout is occurring and we take partial profits early in the hope that the remaining part will lead to a windfall. If it doesn't then at least we've still cashed in a profit. Also, we avoid stocks that are about to make an earnings announcement.

First, let's summarize flag patterns ...

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Trading Flag Patterns

Many traders believe that everything you need to know about a security can be seen by looking at the charts.

The study of chart patterns is also known as "technical analysis". The idea is to recognise and interpret patterns in order to improve the odds of making a profit. The chart can tell you the story of the company's perception within the stock market so technical analysis can help you make your decisions with more precision, discipline, and can help you manage your money more effectively.

Technical analysis comes in two forms:

- **Price patterns** These are simply visible patterns of what is happening to the price of the security. There are only a couple of patterns that we're interested in for ***Flag Trading***, so that makes life easy for us.
- **Indicators** These are mathematical algorithms typically based on the stock price and volume of shares traded. These calculations enable traders to make interpretations. We won't be using these types of traditional indicators. Instead we'll be using my unique OVI indicator which is based on what the clever options traders are doing.

Over time the fluctuations of the share price will often form a recognisable pattern on the stock chart. There are many patterns that can occur and each one may give rise to a different interpretation of what may follow. As ***Flag Traders*** we're mainly interested in one type of pattern that involves trading in the direction of the main trend.

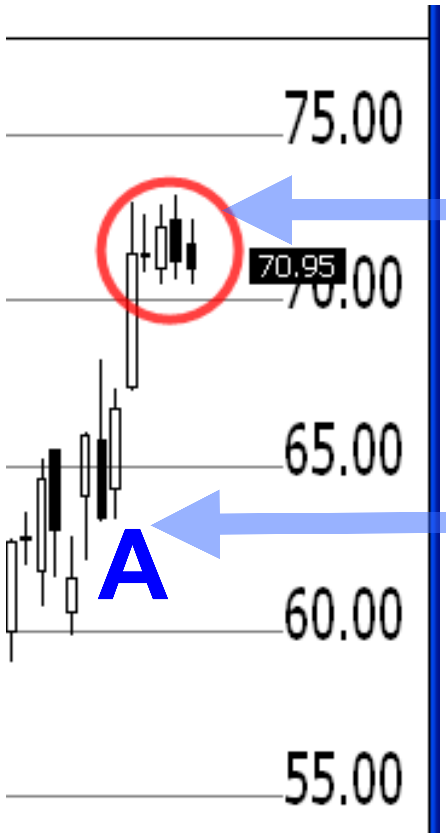
The type of pattern we like to see for our kind of trading is called a "consolidating" chart pattern. Let's take a look at one so you can get the idea.

Consolidating chart pattern

This is an ideal chart for ***Flag Trading***. Do you see how the price rises sharply from point A? It resembles a flag pole. The steeply rising bars demonstrate that this stock has the capability of making sharp moves in price. We like that characteristic very much.

Then the stock slows down and moves sideways for a number of bars doesn't it? Let's focus in on this area of the chart to make it clearer.

Flag pattern close-up



This is the consolidation pattern where the stock stalls, and goes sideways. Notice also the length of the bars (the range) has fallen since the large rise.

Notice how the stock rises with long thrusting bars from around point **A**. Here the stock rises from around $64 to $73. That's a move of around $9 in just 2 days!

We're only just getting ready to make the trade at this point if our other parameters (which you'll learn about in the DVDs) are in place. From the chart all we know is that we love the pattern and that if this stock can break upwards past this flag pattern then we'd like to profit from such a move.

From this point, as a ***Flag Trader***, we're only going to be involved if the stock makes a move to the upside. If the stock price declines, then we'll lose nothing. If it rises and continues to rise, then we'll make good profits.

So with the stock now at $74 and with all the other requirements in place we enter our Flag trade – don't worry, I will show you how on the DVDs – and then we let nature take its course.

So, what happened next? …

Six days later …


SCHN - Schnitzer Steel Indust
METALS & MINING - Steel & Iron
04/07/08
As you can see, the stock moves from $74 to over $82. That's a move of 11% in just 6 days.
But as a ***Flag Trader*** it got even better than that. The stock price then went on to form another bull flag …
original flag
75.00
70.00
65.00
60.00
55.00
50.00
OCT
NOV
DEC
08
FEB
MAR
APR
Volume

Another 12 days later …

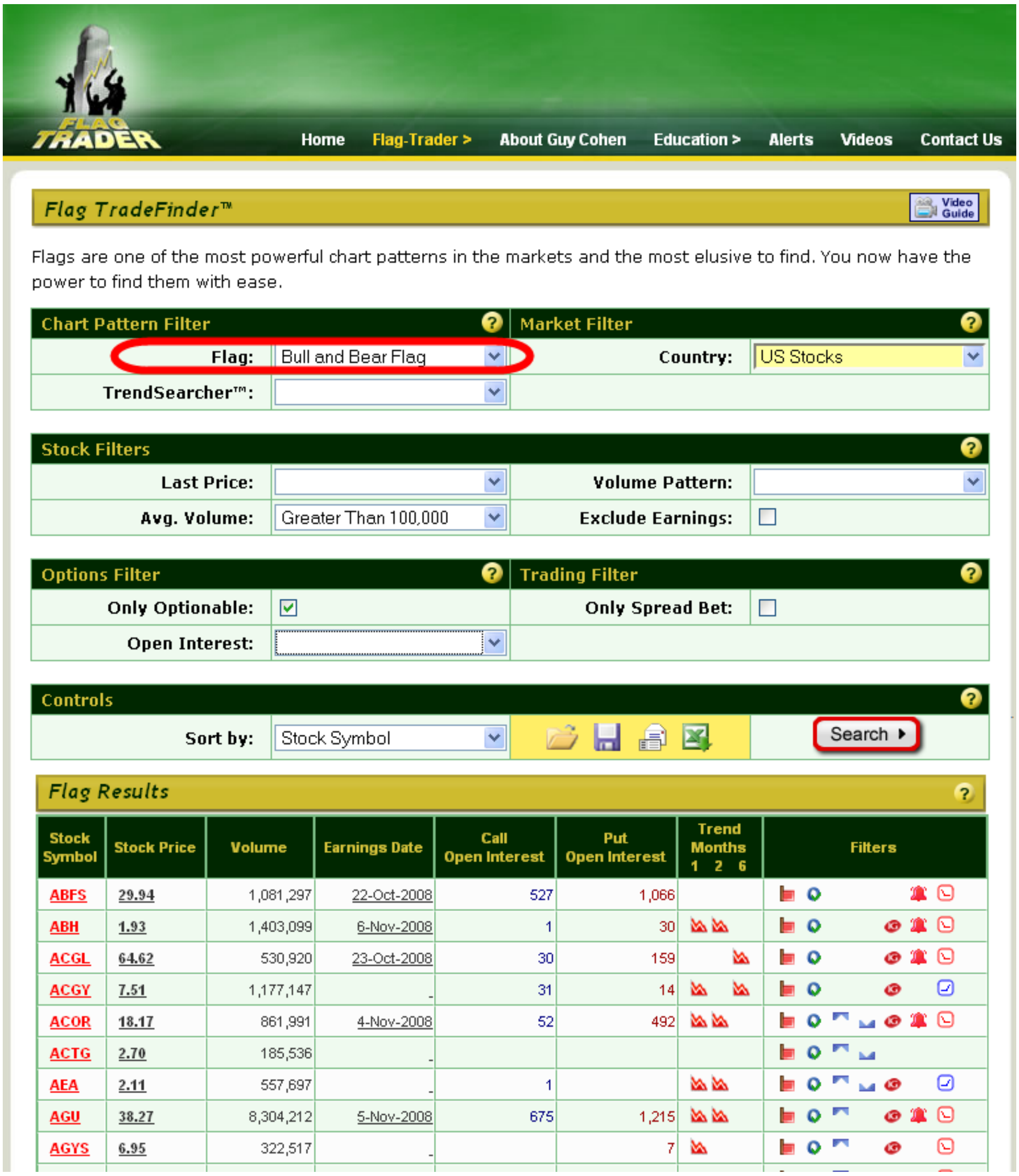
The example we've just been through shows a "bull flag". The pattern involved the main trend rising and then the flag pattern forming. We look to profit when the stock price rises above the flag pattern.

The opposite of a bull flag is a "bear flag". With bear flags the main trend will be falling and we look to profit as the stock price falls below the flag pattern.

Now I'm sure you're anxious to discover exactly how you can regularly find these patterns, almost at will. Be assured, you're going to learn how you can find the opportunities for yourself when you go through all the DVDs and then use the website applications in the months and years to come.

Within the ***FlagTrader*** website application you can filter for stocks in a number of ways including those stocks that are forming these flag patterns – how useful is that! All you have to do is make the appropriate selection and a list those stocks forming bull or bear flag patterns will appear underneath.

Your next step is to cherry pick the best looking patterns from that list. In the DVDs I teach you how to use your discretion to select those best looking patterns.



This is the most fun and exciting way to trade and you're not stuck to your computer once you've spent just a short time completing your homework and placing your trades. The rewards can be phenomenal, and the risk and stresses low if you follow exactly how I do it.

Flags come in various shapes and sizes. Some are more optimal than others. I teach all of that in fine detail in the FlagTrader DVD-ROM course, so you can hone your discretion and learn to pick out the optimal patterns for making money consistently.

We can even make money trading when the stock price is falling too using the exact same mechanism in reverse. Instead of buying-then-selling, we can sell-then-buy-back. This is known as "shorting".

The key is to ensure that we only get involved when the move happens in our favour. We don't buy or short in anticipation of a move, but we can enter a conditional order that says, "If the stock trades through a price, then buy it at that price".

By using conditional orders we can control our involvement for only when the stock does what we want it to be doing whether we're buying or shorting.

Now let's look into this "insider" indicator, the OVI ...

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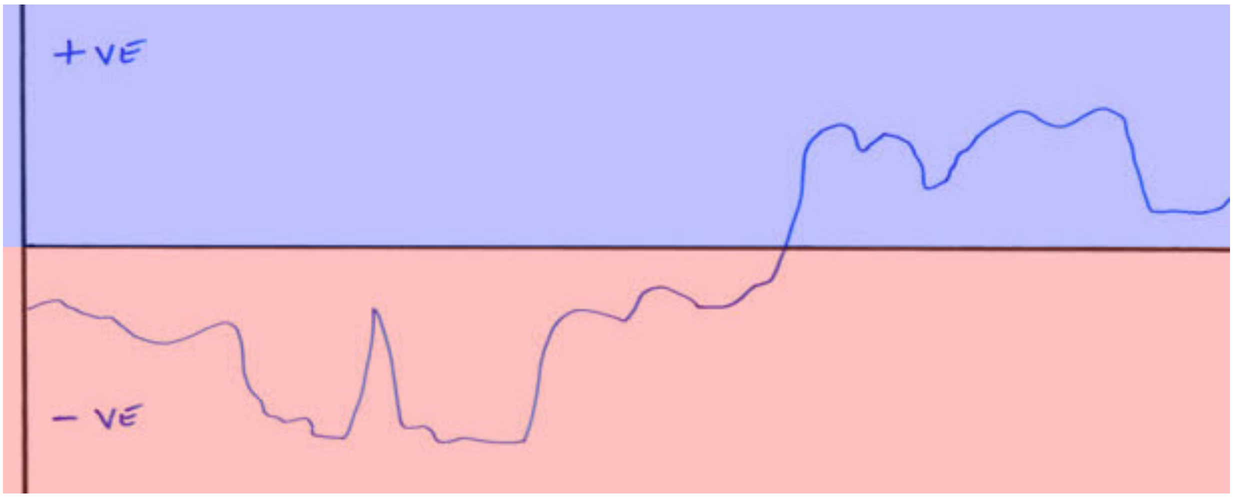
The OVI Indicator

No-one can predict 100% where the markets are going at any given time, but the OVI gives us an insight, especially during certain market setups ... like flag patterns! And that's what we need to become consistently great traders and investors. You can stick with just one inspired method like this and you'll make windfall profits safely.

On the face of it, the OVI is a simple line that oscillates between -1 and +1.



- When the OVI is positive we're more inclined to focus on buying stocks and when it's negative we're more inclined to focus on shorting stocks.
- The OVI is derived from options transaction data but you don't need to know anything about options to use it!
- Effectively the OVI is tracking what the smartest, savviest options traders are up to. When we combine this with specific chart patterns (flags!) we have a massive edge.

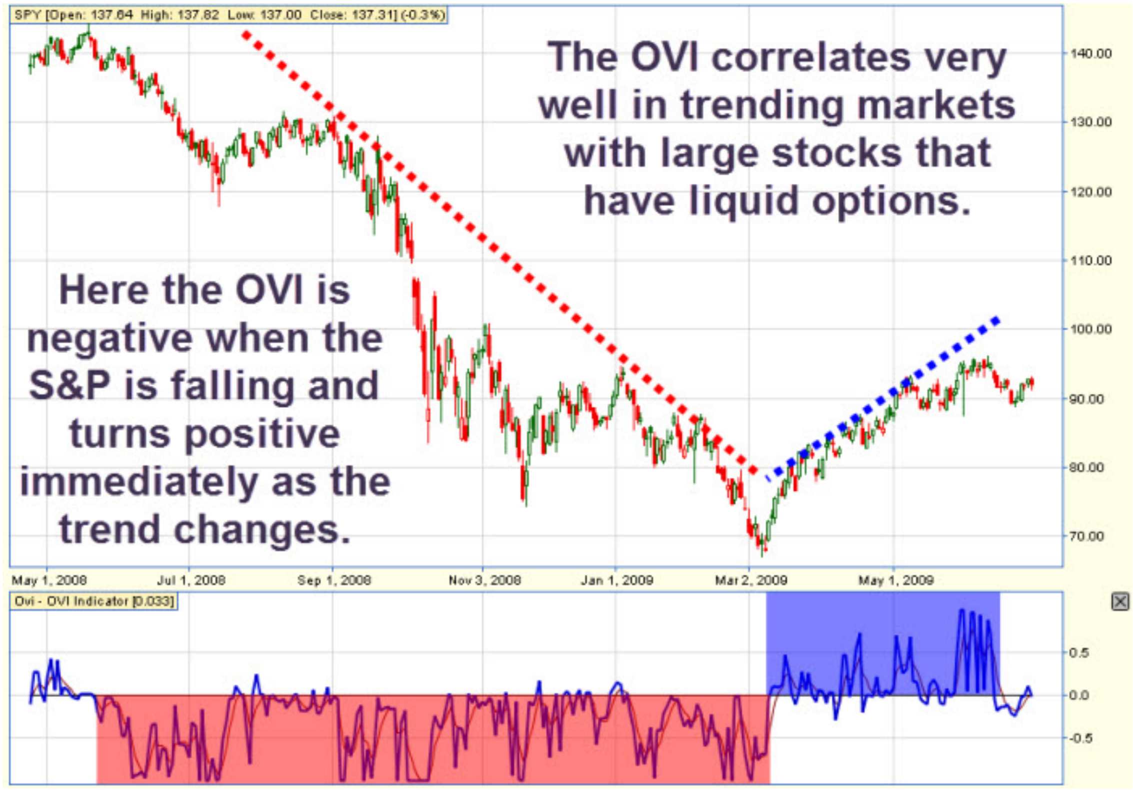
Why the OVI is Unique, and What it Can Do For You

- The OVI reveals what the smartest investors are quietly getting up to, by analyzing the options transactions for each stock. No other indicator does this.

- You don't need to know anything about options to understand the OVI. It's just a line that oscillates between +1 and -1.
- The OVI is focused on actual transactions. Traditional price indicators (like moving averages, MACD, RSI, Stochastics, Gann, Elliott, Fibonacci etc) are all derived from stock price - some indicators also include volume. But in my experience the price itself (and the pattern it's forming) is far superior.
- What we need is a transaction-based indicator to supplement a price-based indicator. But we need something more pre-emptive than just looking at share volume. The OVI often moves decisively BEFORE the stock price breaks out. This is what gives us such a powerful edge.
- In this way, the OVI leads the market, whereas most traditional indicators lag the market. The OVI therefore gives you a huge advantage, especially prior to a potential price breakout. Traditional indicators are smoothed by way of averaging several days of data. This creates a lagging effect, which means they will tend to signify something only after the market has made its move. This is all very well in theory but not so good in practice where we need something more immediate.

In broad terms, the OVI tends to be positive when a market is trending up, and negative when it's trending down. The OVI typically works best with the larger stocks with liquid options, and has even worked very well with the SPY and QQQ ETFs for the S&P and Nasdaq respectively.

You can see this clearly with the S&P during a major reversal of trend:



Bear Stearns (BSC) 2008

Back to Bear Stearns, for a big stock with huge liquidity in its options like BSC, it's unusual for the OVI to plummet quite like this, so it's certainly on the radar now. However, one swallow doesn't make a summer and it's possible that this could be a blip. That said, if we break through this support then a short trade can be activated.

From the above chart we can see that BSC breaks support immediately, and as it approaches the next support level after three days the OVI is still pinned to its maximum negative reading. Now this is definitely unusual and if you haven't shorted it by now, then you sure do want to on the next break of support that is at the January low of $68.18.

What happens next is extraordinary. The stock breaks the January low and plunges to a low of $2.84 in just six days! There are a couple of things to note. First, the OVI is strongly negative as this happens and indeed almost two weeks beforehand.

The second thing to note is that the OVI comprehensively outdid share volume as an alert that something was happening with the stock. Certainly there's nothing particularly unusual with volume in the chart below, but the OVI has been at its maximum negative reading for a few days already by the time the stock breaks $70.

In the next chart we see how volume did rise dramatically, but only when the share price had begun to plummet and several days after the OVI had already alerted us.

The OVI With Bullish Stocks

As we've just seen, the OVI is often ahead of the stock in terms of a major breakout from a consolidation pattern. In the next chart we see AAPL forming a classic bull flag pattern just below $410. At the same time the OVI has been consistently and strongly positive for over a month by now.

Now see what happened next ...

In just 2 months, AAPL soars by over $140 with the OVI in attendance all the way. It only takes one of these to make a major difference to your trading performance.

We use the OVI in the context of a very safe trading plan, combining it with breakout patterns such as flags and sideways channels. This gives us an ideal way of using the OVI as a LEADING indicator, with maximum safety and the potential for windfall profits as you've just seen.

As you can see by now, the OVI is one of the most powerful indicators to help supercharge your trading profits. It works best with liquid stocks where there's plenty of activity and will give you the edge you need.

There's one piece of our puzzle left and that's the trading plan ...

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The Trading Plan

The Basic Trading Plan for Bull Flags

Our basic trading plan consists of four broad steps:

1. Enter the trade.
2. Set the first profit target.
3. Exit with either a small loss; or
   Partial exit with a first profit target.
4. If you reached the first profit target, then exit the second half of the trade at the second profit target.

In this report I'll outline the basics of:

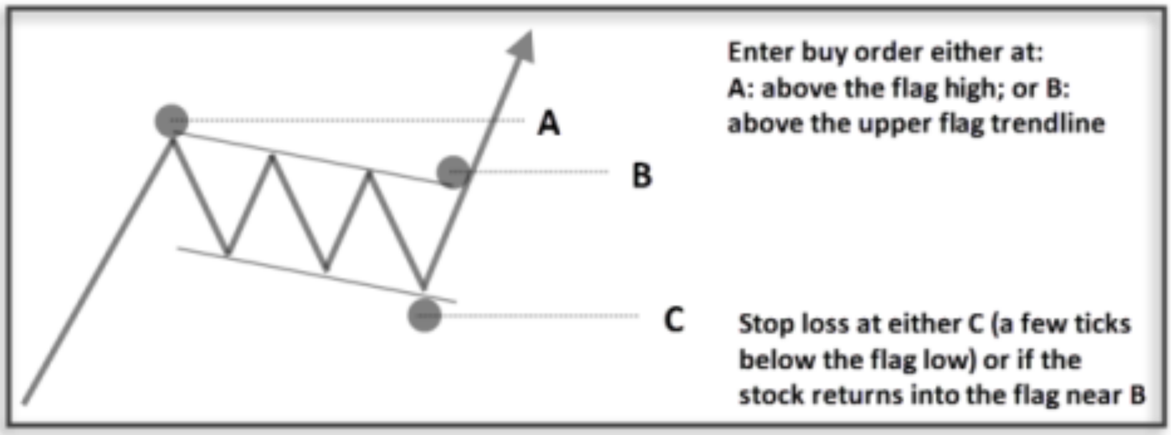
- Entry
- Setting the initial stop loss
- Setting the first profit target
- How to exit the second half of our trade

We'll cover this plan for bull flags.

Entry

The bull flag potentially has two resistance levels. If the bull flag has consolidated sideways, then the only possible entry point is at Level A, just above the flag high.

If the bull flag has retraced downwards, then the most recent point of the upper trendline is the other. Level B is just above this.



We can enter our buy stop-limit order at Level A or Level B. Level A is more conservative as it is higher. Because it is above the highest resistance level for the entire pattern, if the stock price reaches it, the chances of a double top occurring are lower.

In rampant bullish trending markets Level B would be appropriate as a more aggressive entry point.

If the top of the flag is $50, then Level A will be slightly above this, say around $50.17.

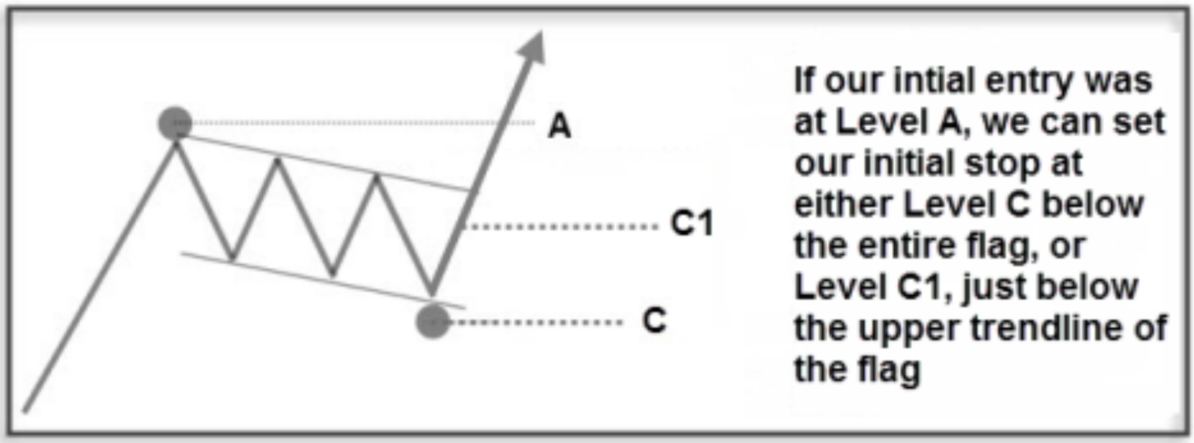
Initial Stop Loss

With a tight, neat bull flag we typically place our initial stop loss under the base of the consolidation at Level C (see below).

There is an alternative however, especially where the flag is not so tight.

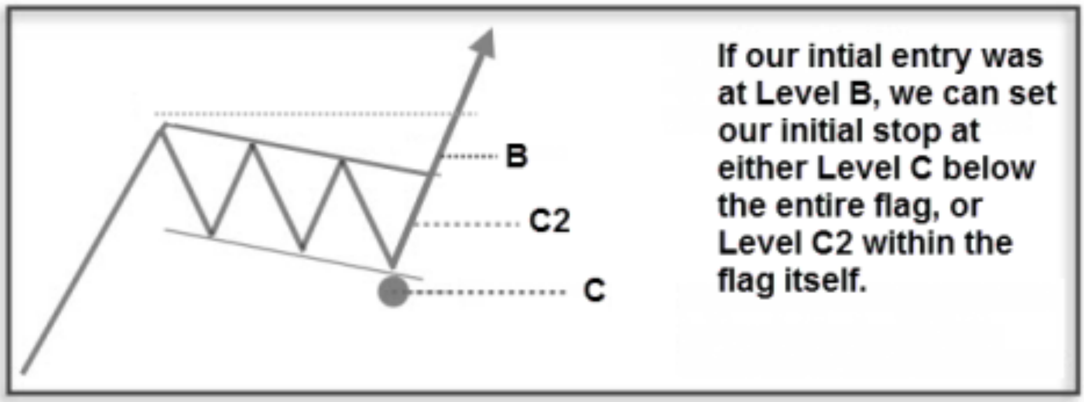
If our entry is at Level A (just above the entire pattern) then you could have a stop just below Level B at Level C1. So, if a stock price breaks out to trigger our trade at Level A, only to reverse back into the flag consolidation, then you could have your initial stop loss within the consolidation itself around Level C1.

Having the stop here means you bear less risk on the trade, but because your stop is now nearer your entry point, your risk of being stopped out in the first place is higher.



I typically prefer to enter at Level A, and provided the flag is tight, I'm usually ok with my initial stop at Level C.

If your entry is at Level B (just above the upper trendline of the flag) then you can have your initial stop loss either just below the base (Level C), or within the actual flag itself – just below the halfway point of the consolidation around Level C2 (see below).



First Profit Target

The first profit target is where we exit half our stake, taking profits on that portion of the trade. When we do this we'll also have to adjust the initial stop. The remaining half of the trade is still active as the price hopefully continues trending in our favor.

<u>Entering at Level A</u>

If we enter the trade at Level A (just above the very top of the flag), we take the length of the flagpole, and extend it upwards by 0.382 beyond the high point of the flag pattern. Then round-down as appropriate to set an easier target to reach.
In the next diagram our flagpole is 8 points. So the move we're looking for beyond the breakout is:

8.00 x 0.382 = 3.06

If our top-of-flag resistance is at $50, then we add 3.06 to this figure to calculate our P1:

3.06 + 50 = 53.06

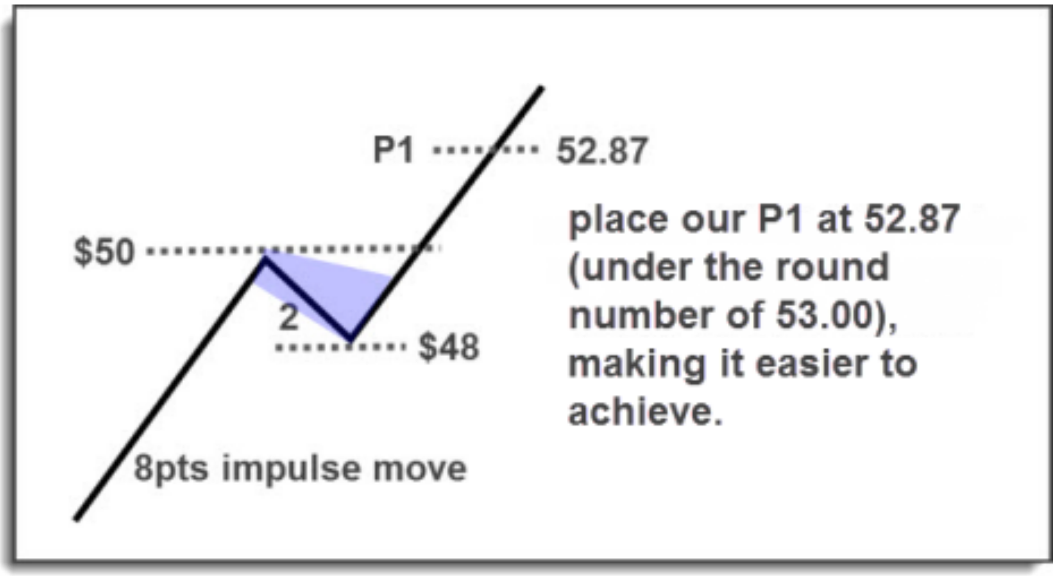
But let's make our target easier to reach by setting it under the round number of $53.00, say $52.87.

Remember, we can always bring our P1 in closer and therefore easier to achieve.
In this example below, we have a stock that moves up $8 to a high of $50. The stock then retraces by $2 to $48. This $2 retracement could have taken the form of a flag. As the stock then resumes its ascent, our buy order is activated as it trades through our stated entry point of $50.17.

With P1 at $52.87, the amount of our first profit is:

52.87 – 50.17 = 2.70

Remember, the first profit is designed to be achievable, and it's only part of your potential profit in this trade. Bagging the first profit secures a quick reward for us that also enables us to modify our initial stop loss into a trailing stop, thereby protecting what we already have.



Entering at Level B

Looking at the next diagram, if you entered your trade at Level B (just above the flag's upper trendline), then you can use the same P1 as we did above, or you could bring the calculated P1 target nearer to our Level B entry point.

For our entry at Level B we'll use the same length of flagpole at 8 points. So the move we're looking for beyond the breakout is the same as before:

8.00 x 0.382 = 3.06

If the most recent point of the flag's upper trendline resistance is at $49.00, then we can add 3.06 to this figure to calculate our P1:

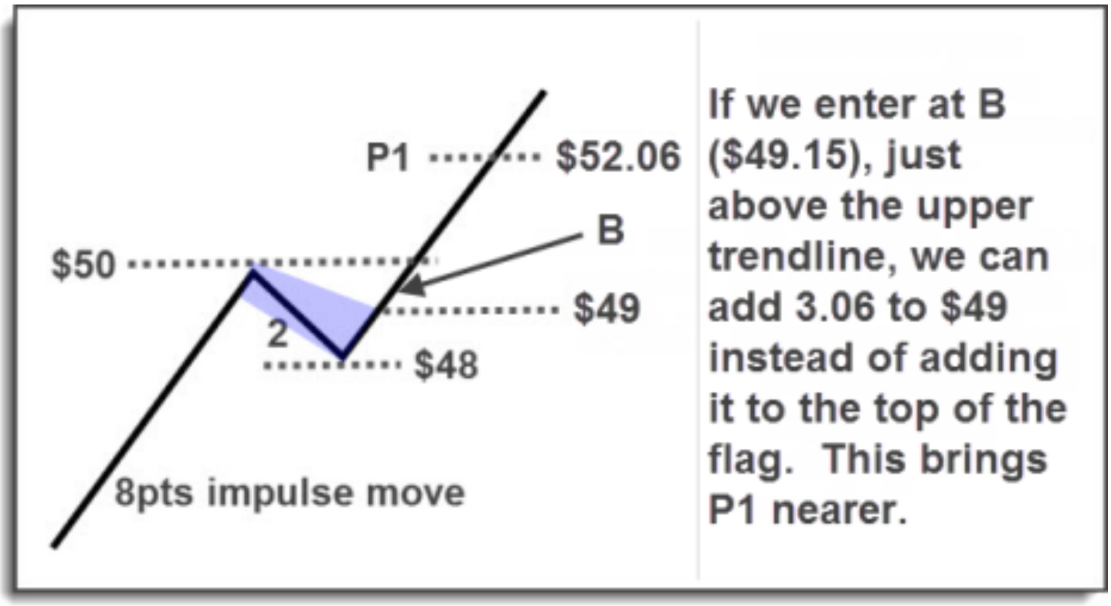
3.06 + 49.00 = 52.06

Using the same example, the only difference now is that we're entering at Level B, just above $49.00 (say at $49.15), rather than Level A ($50.17) which was just above the top of the entire flag pattern.

As the stock then resumes its ascent, our buy order is activated as it trades through our stated entry point of say $49.15.

With P1 at $52.06, the amount of our first profit is:

52.06 – 49.15 = 2.91

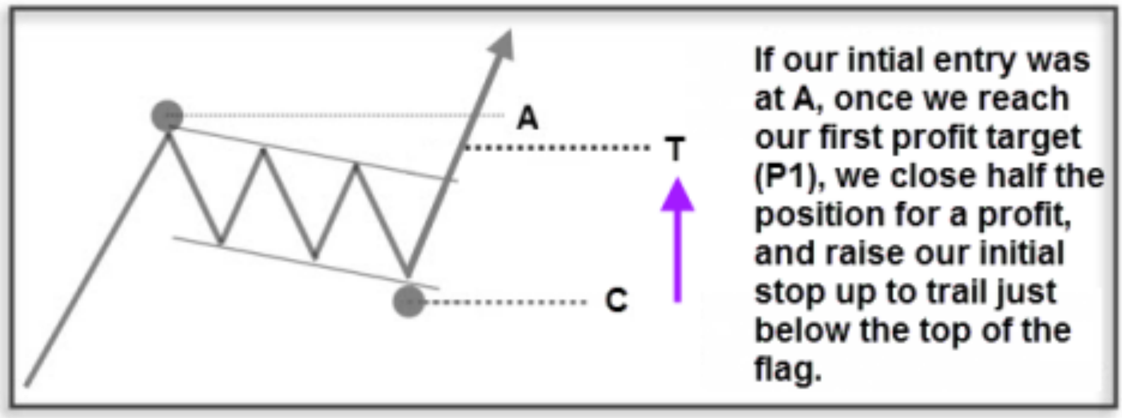


Adjusting the Initial Stop

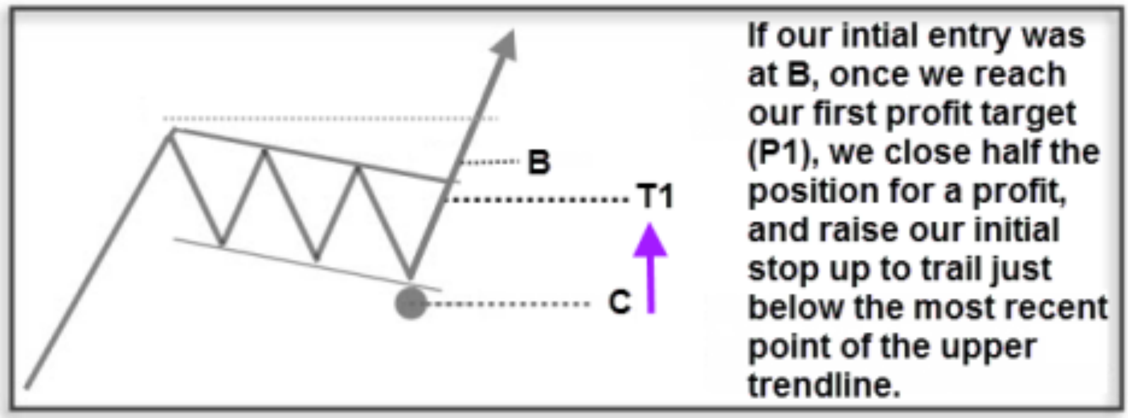
Now that we've secured our first profit, we need to adjust our initial stop. Remember, if we bought 200 shares in the first place, our initial stop would be with respect to those 200. Once we close half our position (100 shares) the stop now only relates to our remaining 100 still open.

So now we need to raise the level of the stop so it's at or just below our initial entry point. Placing it just below our entry point enables the stock price to test the breakout level without stopping us out.

If our initial entry point was at Level A (above the entire flag) then we raise the stop to trail just below this at Level T.



If our initial entry point was at Level B (above the most recent point of the upper trendline of the flag) then we raise the stop to trail just below this at Level T1.



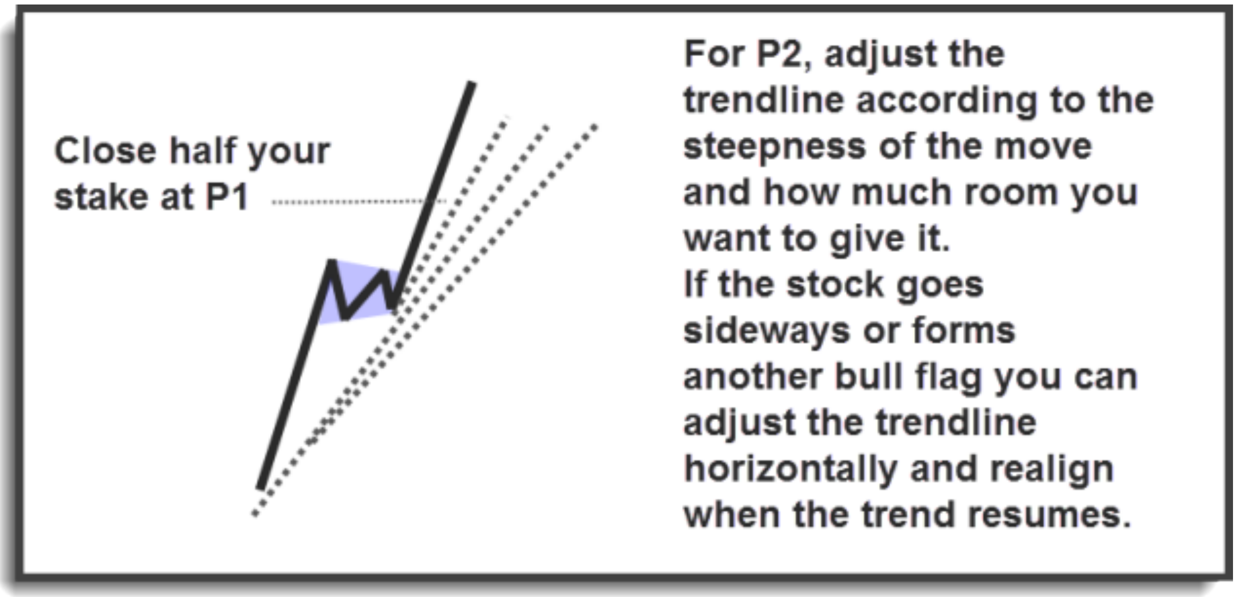
Taking the Second Profit (P2)

Now it's just a matter of managing the second half of the trade with a trailing stop.

From here, if the stock price reverses to below our entry point, hitting our adjusted stop, we'd make a tiny loss (or breakeven depending on where you adjusted it to) on the second half of the trade, but overall we're up because we've already closed the first half of our position at the P1 target.

If the price meanders sideways our adjusted stop holds firm horizontally until the stock either breaks down or resumes the uptrend.

If the price resumes the uptrend then we manage this with a simple rising trendline.



We draw a rising trendline under the bar lows as higher lows are made.

There is some room for discretion when it comes to managing your P2 profits with the rising trendline. If the stock price rises beyond P1 and then starts to form what might become another bull flag, you may want to adjust the trendline horizontally for a while to see if the price can make another burst upwards.

Trends occur in steps and flags. Our windfalls depend on riding trends, so we need to give ourselves a chance to do so without being stopped out prematurely. At the same time, safety is our mantra.

Furthermore, you can always add another entry to each new flag and repeat the trading plan, thereby adding to your position in a very safe way, taking P1 targets each time and potentially having several P2s running all at the same time.

Prevailing market conditions will have a bearing on how aggressively you manage your trendline for P2. In a choppy market you may keep it tight, especially if the stock rises very steeply before retracing just as severely.

In a low volatility, stable, trending market you may want to keep the trendline quite loose in order to give the stock price room to keep trending. It's in trending markets where we make our windfall profits and once you've been trading this method for a while, you'll get a feel for which type of market we're in.

Also, by trading in this way you only need one or two rockets to really boost your batting averages. If you just stick with prime OVI-Flag combinations you'll have fewer trades, but the quality will be phenomenal, and you'll have more chance of picking up one of these …

Bear Flags and Channels

For bear flags the trading plan is identical but in the opposite direction.

We also use very similar trading plans for bullish channel breakouts and bearish channel breakouts.

In this way we have a consistent methodology.

Combining the OVI with these patterns is one of the most powerful trading methods I've ever encountered, and one that is very easy on your trading psychology.

You can see a full product demonstration of the Flag Trader + OVI on an exclusive 'Global Release' webinar. Simply follow the link below to register your seat and learn how you can start trading with the OVI and flags immediately.

http://www.oviflagtrader.com/webinar