Twitter Thread by The Chartians

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#Darvas #Box is a simple and interesting strategy used by the trader. It is a momentum strategy with no technical indicators.

This learning thread would be on "Darvas Box Strategy"

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1/11

Darvas Box is named after Nicolas Darvas, who was a dancer and self-taught investor.

He discovered "Box Theory" after gaining experience from the market and he believed that the shares which move up and down the chart move in a specific box pattern.

2/11

There are some condition to use Darvas Box and we will discuss only buy strategy:

1. Stock should be trading near all time high levels
2. Fundamentals of the company should be good
3. Volumes play a crucial role

Prefer to use it daily time frame and above.

3/11

When the price is near all time high levels, if price consolidates then there is a range or box formed having a upside ceiling and downside floor. Price consolidates in this range before breakout.

Volumes during breakout is very important and it should be high.

4/11

Let's see some example now.

Dmart was trading in a range of 1955-2438 for six months.
After breaking this range upside, DMart price rallied from 2500 to 3200+ (Rally of 28% in 3 months).

During breakout volumes should rise and it should spike up.

5/11

Another example:

Reliance Ind [Monthly Chart]

Price was trading in a box (range 341-570) for seven years. After breakout with good volumes, Reliance share rallied from 613 to 1600 in 3 years.

Darvas Box can be used for investment and time frame should be weekly/monthly.

6/11

What would be the exit strategy?

Once stock breaks the resistance or ceiling of the box then keep stoploss at the floor of the box and once price moves up then it will form higher lows. So trail your stoploss to precedent higher lows or else one can use ATR method.

7/11

Trailing Stoploss based exit.

Example is Deepak Fertilizers.

After breakout above 170, initial stoploss was at 135 then it was trailed to 194/216/223/284/388/401.

Finally stoploss got hit at 401 and trader would have exited.
Captured a move from 180 to 392 (117% rally)

8/11

Why are we focusing on buying side?

When price breaks ceiling of the box then there upside is unlimited and one should trail the stop losses if one wants to ride a big trend in a stock.
Second reason is buying don't require margin whereas short selling require margin.

9/11

One can use closing basis entry and exit criteria to avoid noise in the candle.
This is not a holy grail strategy and even stoploss would get hit.
Important point is exit in wrong trade and ride the winners by trailing stoploss to get good returns.

10/11

These are not a universal rules one must follow. One can create their rule or follow someone else rules.
One can use indicators or can keep it simple by trading based on lines.

Only important thing is one must follow a fix rule instead of tweaking setup frequently.

11/11