Twitter Thread by TraderLion ■

TraderLion ■
@TraderLion_

4 Simple Steps to Avoid Downtrends ■ (a thread)

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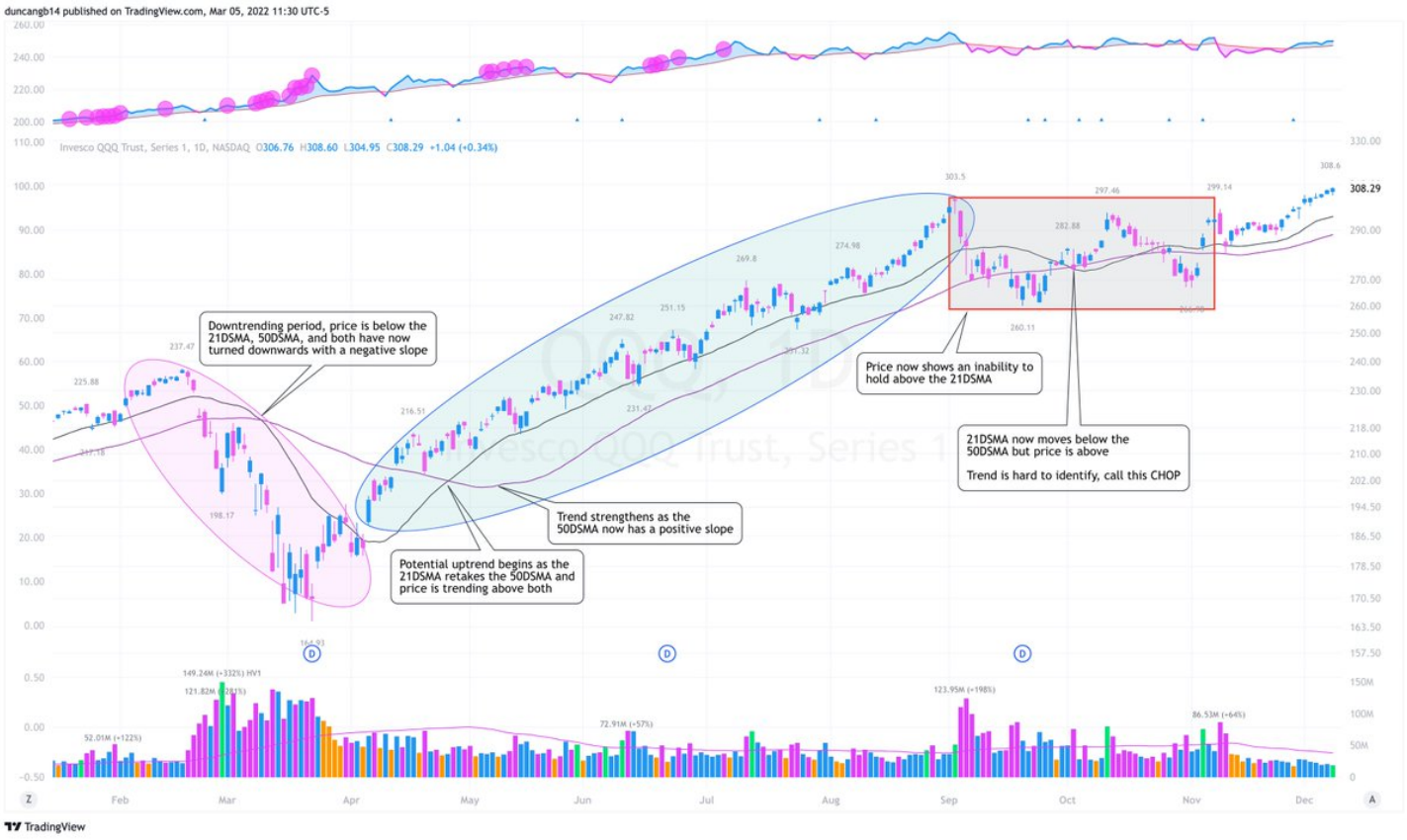
1. Know the difference between an uptrend & a downtrend ■■

At TraderLion, we identify an uptrend as stocks/markets that trade ABOVE a RISING 21DSMA and 50DSMA.

A downtrend occurs when stocks/markets trade BELOW a downsloping 21DSMA/50DSMA.

Let's look at an example ■

$QQQ from 2020 shows what an uptrend, downtrend, and even chop period looks like.



2. Know when it is really time to make money on the long side.

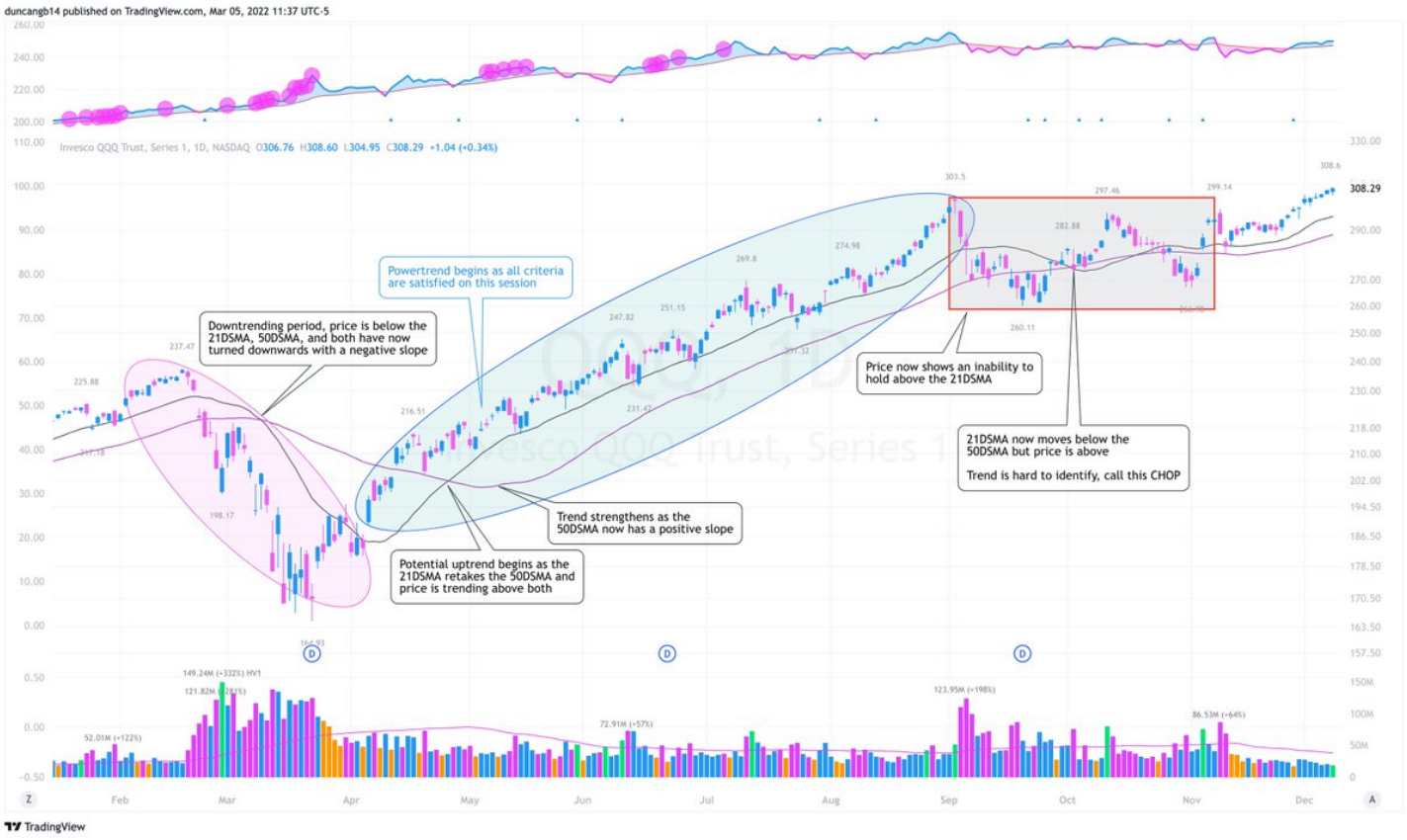
Swing Traders: when markets/stocks are above the rising 21D
Position Traders: when market/stocks are above the rising 50D

We can take this one step further by understanding what a Power Trend is ■

The trend is really your friend when we have a Power Trend in the general indexes. A concept coined by the @IBDinvestors team, we must have the following:

■ Low > 21ema for past 10 sessions
■ 21EMA > 50SMA for at least 5 sessions
■ 50SMA slope is positive
■ Market closes up

@IBDinvestors Here's the Power Trend view in 2020 ■



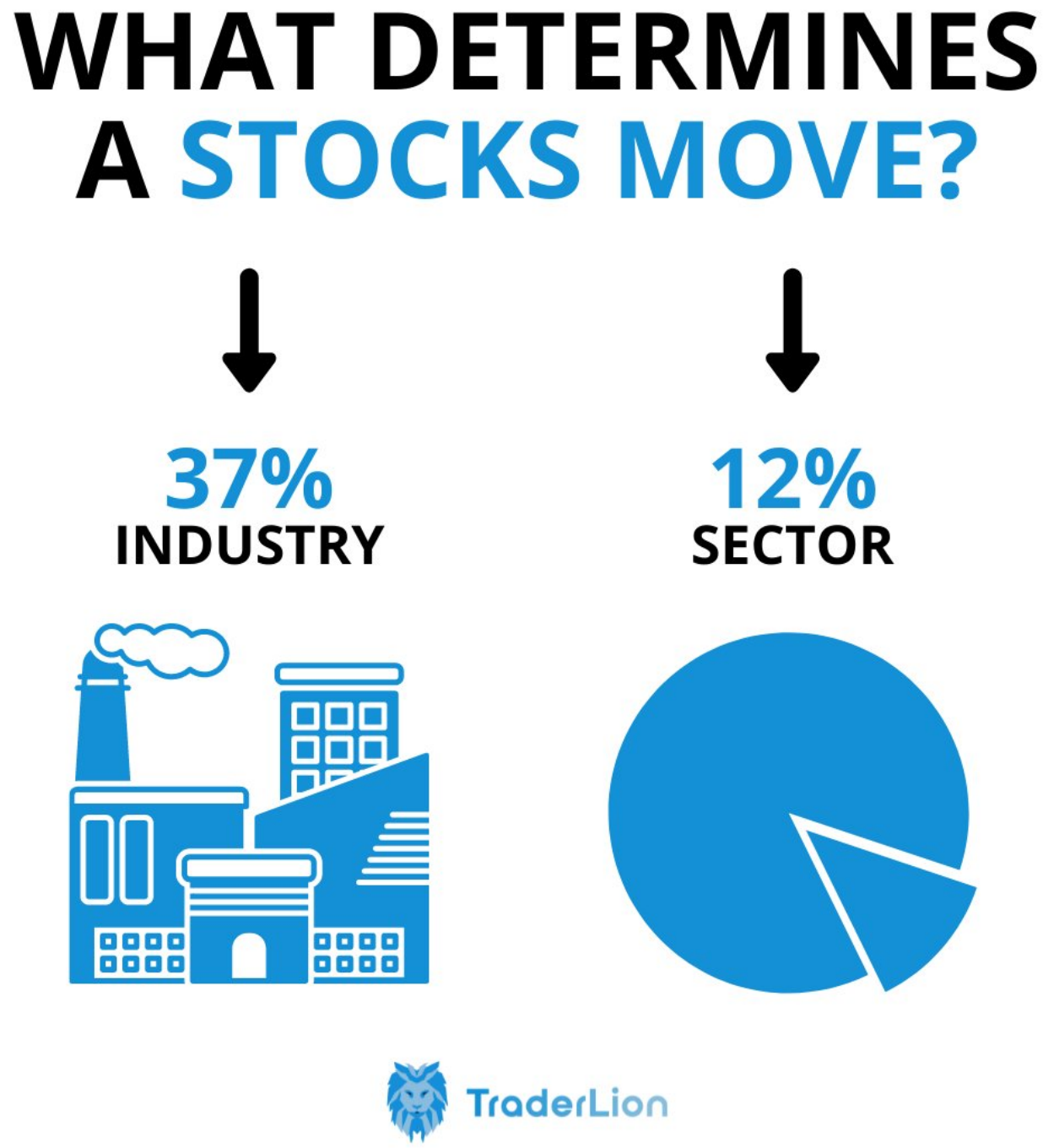
@IBDinvestors Knowing when the trend is ripe for making money on the long side will ultimately help you recognize when it is time to step away.

This is a key component to avoiding downtrends and losing money altogether.

@IBDinvestors 3. Understanding that sustained uptrends can only survive with clear leadership groups.

Our most recent follow through day is a great example of how NOT having clear leadership groups leads to quick failures of uptrends.

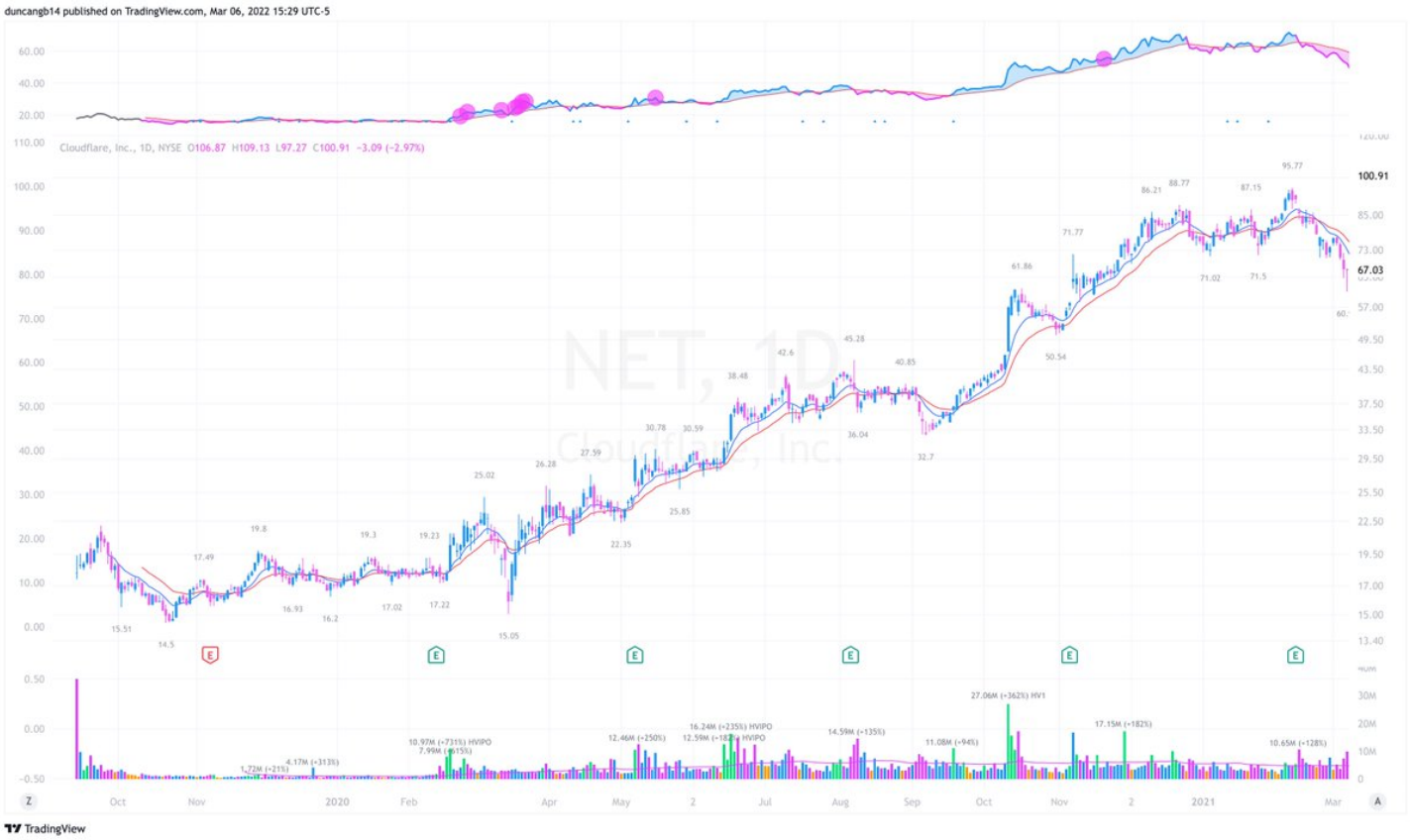
If the rally itself isn't broad, it is hard to sustain!



@IBDinvestors If we take this one step further, the 2020 market had a plethora of leadership groups.

The groups that stoodout the most were Software & Electric Vehicles ■

$NET $TWLO $TSLA $BLNK



@IBDinvestors It is fair to say Social Media picked up steam into 2020 EOY with some big gap ups as well.

$PINS $SNAP



@IBDinvestors 4. Tracking the results of your most recent 10 trades

Tracking if your recent trades were winners/losers/breakeven allows you to see if what you are doing is working on a net basis.

If you last 10 trades have all been winners or breakevens, you are in a strong environment.

@IBDinvestors On the other hand, if you last 10 trades have been majority losers, it may be time to take a step back and see if the environment has changed on the long side.

Ultimately this step is the most important because this directly relates to your hard earned money.

@IBDinvestors ■ Extra Tip ■

If you DO want to develop a feel for trading a corrective market, SIZE DOWN.

1/8 of your normal size should allow you to do this without hurting you in a big way.

@IBDinvestors The goal of trading during a corrective state/downtrend in the market should be to keep your mind fresh. Again, this isn't going to be the time when you make the most amount of money on the long side.

@IBDinvestors If you are unable to keep your mental game in check during downtrends, it may be best for you to walk away and build Mental Capital (MC).

Traders overlook the importance of MC while we are focused on the pursuit of maximizing our Equity Curves.

We can't do one w/o the other!

@IBDinvestors If you found this thread to be helpful, please like & retweet the first tweet!

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Let us know what your best trick is to avoiding downtrends ■