

Whiplash Plus

Background

Larry Williams in his book, 'Long-Term Secrets to Short-Term Trading' claims that his 'Oops!' pattern 'is the most reliable of all short term-term patterns I have researched and traded'. This and Lynda Bradford-Raschke's 'Whiplash' pattern are very similar. In fact Bradford-Raschke does give credit to Williams for his work and Williams does give credit to Bradford-Raschke for recognising this - even though he managed to spell her name wrong in his book!

In this paper I look at both Bradford-Raschke's 'Whiplash' and William's 'Oops!' trading patterns. The rationale behind them is very similar but with a subtle difference. The pattern is based upon a day when a gap in the morning is followed by a reversal in the afternoon. The subtle difference being William's looks to fill the gap and enter the trade, but Bradford-Raschke does not, choosing to use a set of criteria instead to ensure the momentum has reversed since the morning gap, then entering the trade on close.

I have chosen to name this trading pattern 'Whiplash Plus' as 'Whiplash' best describes what it is about. The Plus aspect is the inclusion of William's criteria. I give credit to both of the original authors.

I have added other criteria to try to improve the statistical performance of this trading pattern. However, Williams claims 82% success rate when he trades using his 'Oops' pattern. I'm not sure how much you can improve a success rate this high.

I have broken down the two patterns separately below to demonstrate the differences, although most of the search results come out exactly the same (note the entry is significantly different).

Bradford-Raschke 'Whiplash' Description

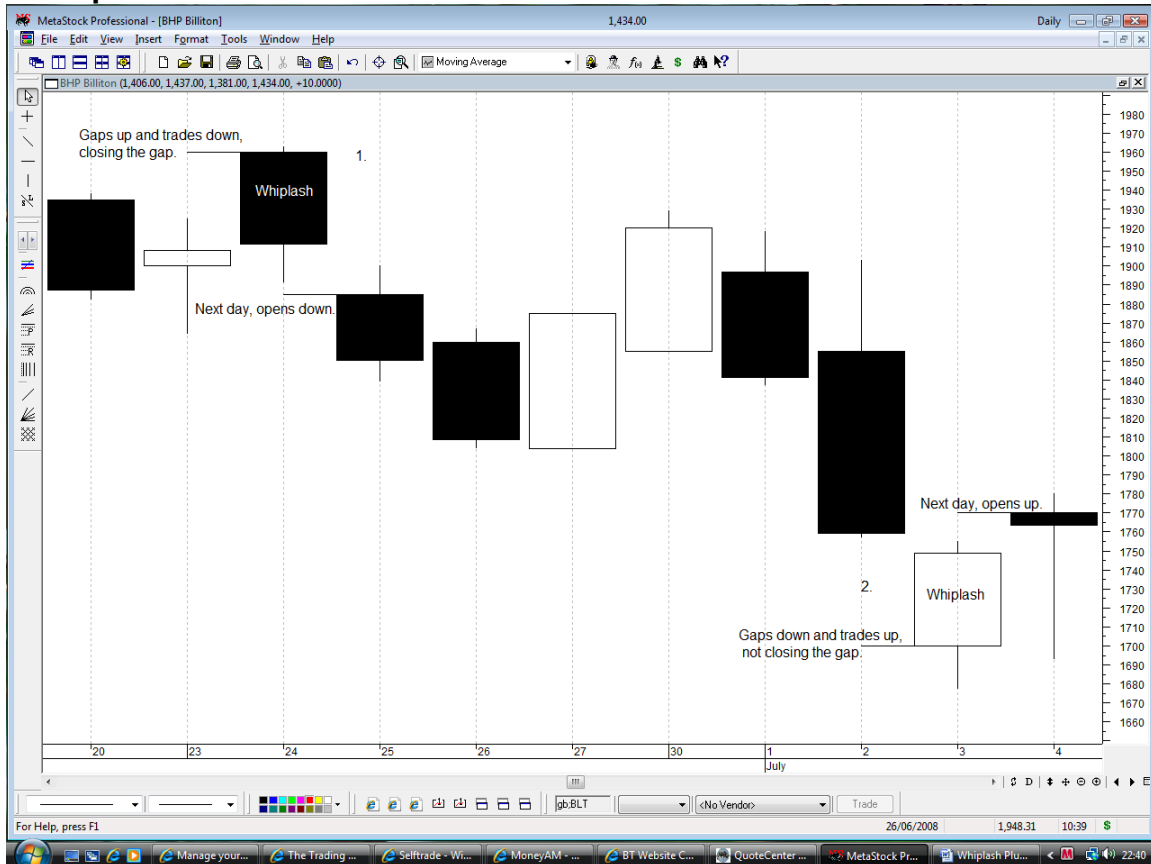
To quote Bradford-Raschke, 'this is a simple strategy that takes advantage of gaps by entering on the close'. The uniqueness of this strategy is that the gap does not need to be closed. Simply, a gap in the morning is followed by a reversal later in the day.

Buy Set-up (Reverse for Sell)

- The stock (or whatever) must gap lower than the previous day's low.
- The close must be higher than the open and in the top 50% of the day's trading range.
- If the above rules are met then buy on close.
- If the open is below today's close, indicating a loss, sell immediately and take the loss.

- If tomorrow opens with a profit run with the trend, trailing with a stop to protect profits.

Example Trade



In the above example, the first Whiplash (1.) – a sell set-up, the stock opens up with a gap. It then trades down closing the gap. The next morning opens down and continues to trade down. A lucrative profit could have easily been made.

The second Whiplash (2.) – a buy set-up, the stock gaps down and trades up, not closing the gap. However, the next morning the stock opens up before moving down. Not a great trade but a profit could have been had before exciting.

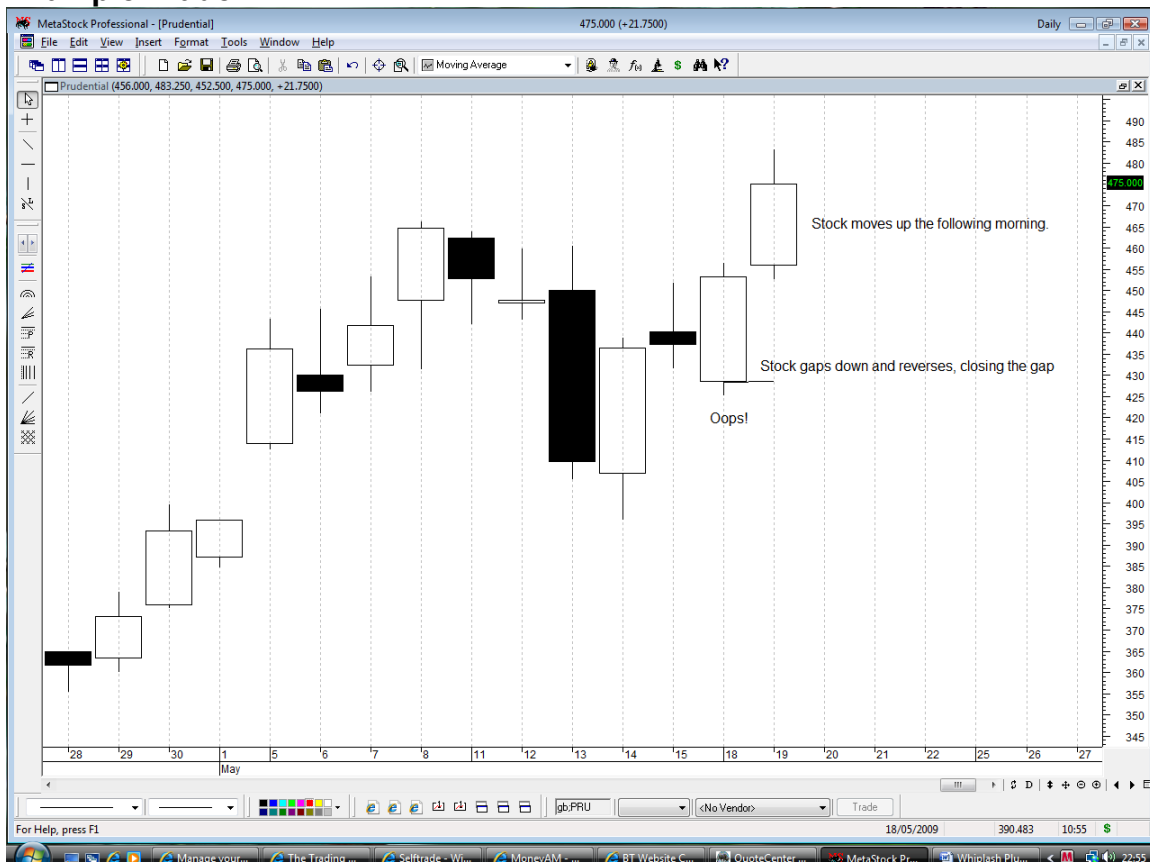
Williams 'Oops' Description

You are again looking for an opening greater than the prior day's high. The emotional response is a huge amount of buying, driving the price up. Our entry comes from the price falling back to the prior high, indicating the gap cannot hold. This gives us the suggestion of lower prices to follow. Note, with the 'Whiplash' the gap does not have to be closed, providing the other criteria, already described above, are met.

Buy Set-up (Reverse for Sell)

- The stock must gap lower than the previous day's low.
- The close must be higher than the open and higher than the low of the previous day.
- Enter the trade at the low of the previous day when the gap has been closed. If the price falls below the entry point re-evaluate your position.
- If tomorrow opens with a profit run with the trend, trailing with a stop to protect profits.

Example Trade



In the above trade the stock gaps down on the opening but quickly reverses closing the gap to create a buy point as the stock passes the low of the previous day. Hold the stock overnight to gain the advantage (hopefully) of the morning's opening price move upwards.

Duration of Trade

These trades are only 1 night to 2 nights maximum (generally).

Additional Criteria

- Trade with the trend
- Trade with the Market / Sector
- When searching for this trade you will have a list of potential 'buys' and 'sells'. Trade with the majority signal

- Cross reference other searches – is there any other supporting signals.
- This trade works well at Bollinger Band extremes but also at the 20 period moving average.

Conclusion

Both of the above strategies work – there is no doubt. However, I did have a preference for William's 'Oops' strategy as I found the entry point easier to manage. However, over time I have used both strategies equally effectively.

References

- Connors, Laurance A. & Raschke, Linda Bradford (1995) 'Street Smarts', M. Gordon Publishing Group.
- Williams, L (1999) 'Long-Term Secrets to Short Term Trading', Wiley.