

Trading Williams Percent R

The BigTrends Way

By Price Headley, CFA, CMT

Creator of the [Williams %R DVD Study Course](#)

Larry Williams developed the Percent R indicator (also written as %R), which was meant to be a faster-moving version of stochastics, to pick up the overbought and oversold areas of any stock or market. Of course, when you see the word “overbought”, you immediately have been conditioned to think that this implies the security has run up too far, and must be due for a drop or at least a sideways cooling off phase. Likewise, the term “oversold” implies that the underlying stock has come down too much, and must be due for a bounce or recovery.

This flawed logic is what gets too many traders into trouble. Buying weakness into the teeth of a downtrend, or selling strength amid a strong uptrend, is what can send traders quickly to the poorhouse. What we must FIRST determine is:

1) Is this a Trend or a Trading Range?

And then

2) Determine the best strategy to profit from the condition of the stock or market.

The strategy actually varies depending on whether you are looking at a Trend or a Range-bound security. Suffice it to say that if you are trying to “scalp” for quick smaller moves within a trading range, you are literally “picking up nickels in front of a bulldozer” as I heard one of my trading buddies once say. You’ll feel like you’re doing great as more often than not, you’ll find a way to get a little bounce up or pop down amid market noise to allow you to cash out some smaller gainers. But then the other part of the time, you’ll find yourself fighting the trend and generally frustrated in your position. And as the stock

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you thought was overbought gets more and more overbought, going higher and higher to cause you to either lose money if you are bearish, or lose opportunity if you sold the stock too soon, you find that this trading range method doesn't really work at all by taking in small winners and then getting literally "stuck" with bigger losers.

So the first secret is an important mindset shift, to look for the best patterns by the following rule: **ONLY TRADE THE TRENDS!** Yes, a stock or market will only have these big trends a relative minority of the time, but with 3,000+ optionable stocks, and 600+ exchange-traded funds (ETFs) not to mention the dozens of currencies for Forex traders as well as many domestic and internal indexes, there will be plenty of opportunities ... you just have to know where to look, and Percent R (the BigTrends Way) shows you which stocks and sectors and indexes are the true leaders and laggards where you can focus your energy and your capital.

In fact, you may have heard of the 80/20 Rule, also known as Pareto's Principle. Economist Vilfredo Pareto noticed how more than 80% of the wealth of many countries was concentrated in 20% or less of the population. This same rule it turns out can be applied in generally the same proportion in many aspects of life, 20% of your efforts will generate 80% of your returns. In trading and investing, 20% of your trades will generate 80% of your profits. This does not mean that the other 80% of your trades are unprofitable, just that the majority will have a smaller impact while a certain minority will have a greater impact. This 80/20 effect has also been called "The Vital Few & The Trivial Many" in this regard.

So back to the Percent R indicator, we're looking for that top 20% (or less for maximum focus) to get us 80% of the profits (or more in some cases). Look at the chart on page 4 for an example of what we're looking for in fewer trades, with more definition about the Percent R indicator here. Certainly when it comes to the traditional "oscillators", one of my favorites has to be the Williams %R indicator. Unlike most traders who are looking to sell overbought markets and buy oversold markets, I actually look for something quite different. But first, here's the formula for Percent R so you can see how it's constructed:

$$\%R = [(Highest\ high\ over\ 10\ bars - today's\ close) / (highest\ high\ over\ 30\ bars - lowest\ low\ over\ 10)] * -100$$

Note: The settings I personally use as explained on my [3 DVD Course](#) are even more effective.

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That configuration will give a scale with a peak reading of 0 and a lowest possible reading of -100. This is how Larry Williams created it, though I prefer to use a scale from a low of 0 to a high of 100, to correspond with similar indicators like Stochastics and the Relative Strength Index (RSI). The examples I will show will use the Williams traditional scale, but just remember that per our earlier 80/20 Rule discussed where I'm looking for the rare 20 percent of the trends that make 80 percent or more of my profits, overbought for me is in the top 20th percentile (a reading of -20 or higher on the traditional scale) while oversold is in the bottom 20th percentile (a reading of -80 or lower).

I prefer a different "lookback" period compared to the traditional default of 10 or 14 bars (I give you ALL my rules in my [3 DVD Course on Percent R - The BigTrends Way](#)), because I find that I want a smooth but still responsive reading compared to the other settings which can be too jagged and noisy to define a meaningful trend. Note that since %R is so much more responsive than an indicator like Slow Stochastics, the added bars do not add that much lag to the behavior of the indicator for my purposes, which is to help you find major trends and be able to ride those trends without getting whipsawed out by 1 bar or two of market noise.

Trading Principles for Percent R - The BigTrends Way

While I cannot give away my exact rules in this free report, I can share with you the core principles that went into creating my set of rules. For Bull trades, you want to see several things happening:

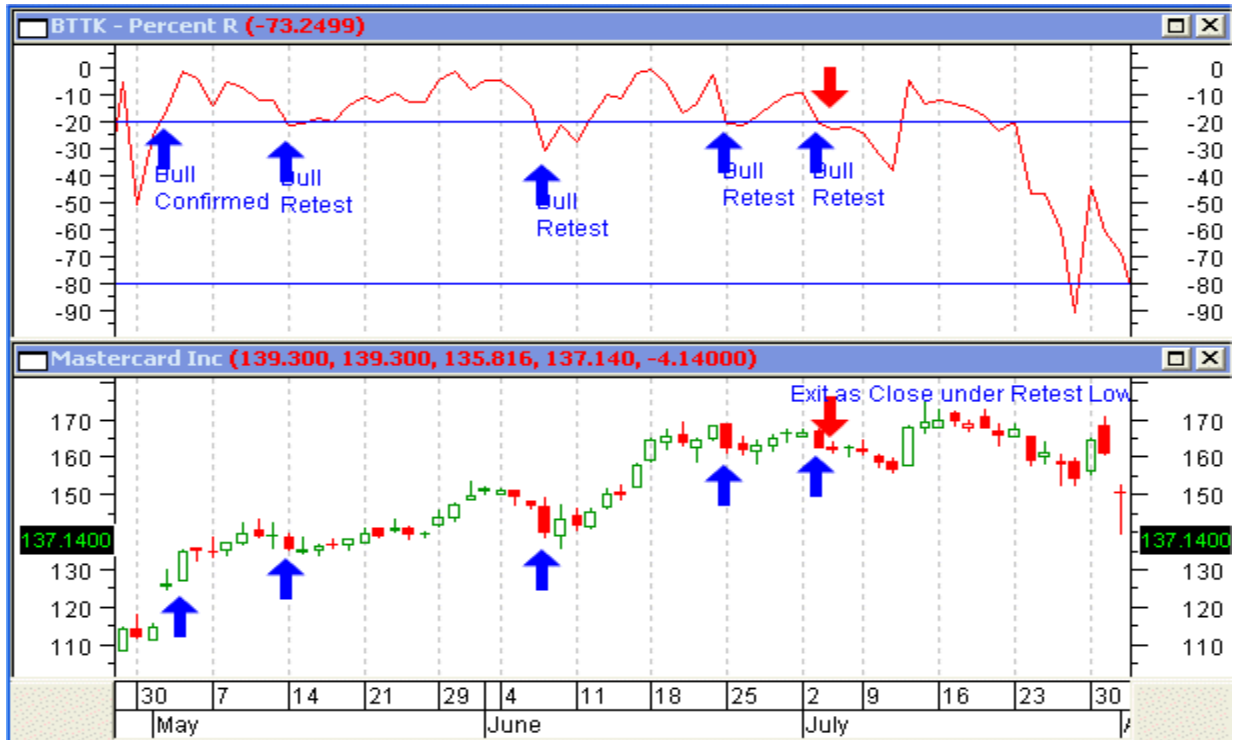
- 1) You actually want the security to get "overbought".
- 2) What happens from that point is critical - if it gets even more overbought, that's a sign of strength.
- 3) There's a very specific number of bars this continued strength must develop within, in order to be strong enough to merit a new buy signal.
- 4) Even after the Buy signal is confirmed, I will then look to be patient to wait for low-risk re-entry points.

Stops must also be re-adjusted at key intervals, and I give you my complete and specific stop and profit-taking rules in the [DVD Course](#).

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Let's look at an example, using the daily chart on MasterCard (MA) for an actual trade I made:

Daily Chart of MasterCard (MA) with Daily %R Indicator



Notice how the first blue arrow shows us the bull confirmation on May 3. Each successive blue arrow shows a new stop on each Bull Retest (again, this will be defined precisely in the [DVD Course](#) complete rules). What you will learn is there is not just one point within a trend to get on board, but multiple low-risk re-entry points. This lesson alone will provide with countless new profit opportunities, rather than making you look in from the sidelines feeling like you missed out on the first move and then looking back later to see how much more the strong trend could have made you ... if only you knew where to jump back on board! This is where the [Percent R - The BigTrends Way Course](#) helps you to define your re-entry points, as well as your stops and profit targets.

Retests as New Opportunities

A good example of a re-entry after missing the first buy point was shown in real trading here in the case of MasterCard (MA). I actually placed a new call trade for my Options Shark subscribers on June 7 when the stock was down nearly 7 points that day just under 140. With the day's low within 2 points as my stop, I

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knew my risk would be manageable as I'd simply exit the position any subsequent day that the stock would close under that key stop level. The closing stop is another rule you'll learn all about in the [DVD Course](#). It prevented me from being "faked out" like the rest of the crowd, as the stock traded down the next morning in the midst of a market pullback to as low as 135.18 but reversed hard to the upside to close over 143. The stock ran up to 150 and then 155 allowing my subscribers to score a gain of +150% on average on the option I recommended. These "bend but don't break" situations where the bears try to take control intraday but the bulls regain control by the close are yet another rule that I share with you in the Course as a method to see who is getting the upper hand in the daily battle between the bulls and the bears. So you no longer need to fear "missing out." If you miss the first breakout for any reason, the Course will teach you how to get back on board the next time you see the rules set up a new low-risk entry point within the strong trend.

The bear case works similarly, but in the opposite direction. We actually want to see the stock go "oversold" and then keep on dropping. I know this runs counter to what most teach, but that's what makes these unusual patterns the best trends that surprise the majority of market followers.

Let's look at an example, using the daily chart on brokerage firm Bear Stearns (BSC) from 2007 - of course, you know BSC eventually tanked to 3 bucks in March 2008, and our percent R System picked it up as a sell back around 130:

Daily Chart of Bear Stearns (BSC) with Daily %R Indicator



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The shares of Bear Stearns (BSC) were in a slow downtrend, but each attempt to confirm a move under the -80 level was not triggering a new sell confirmation until late July. The vertical line on July 20, 2007, showed the latest setup bar, with that bar's low at 134.12 needing to be taken out to the downside to confirm. That bearish confirmation occurred 2 trading days later on July 24 at the close of 129.85 (the first down arrow). You can see the downtrend then started to speed up, but the stock did give a bear retest on July 30th. The high of that bar was 128.24 which was your new closing stop and also a place to add positions if full exposure was not already established.

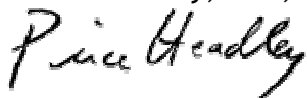
Interestingly, BSC had a "bend but don't break" occurrence the next day as the stock opened near 130 but closed back down at 121.22. This again shows why you need to use closing stops and not intraday stops, as intraday reactions will often fake you out from the true move on the daily chart. The stock dropped all the way to 100, and then reversed that day to close on its high of 113.81 on August 6, giving you the next new tightened stop based on the BigTrends Percent R Rules. The next day the stock closed over that stop to finish at 116.89 and mandate the exit of the remainder of your bearish position (remember, for options traders, we would already be out of half our options position per my profit-taking rules, with the rest being what we call a "free trade" - again, you'll learn all these rules in the [DVD Course](#).

Note that this Percent R analysis can apply to any timeframe. I like to look at monthly charts if I'm considering a longer-term LEAPS option with a 1-2 year outlook, down to weekly charts using about a 6-month outlook for the options, for daily options I use typically a 2-month option, and then for hourly 60-minute charts where I only expect to be in a trade 3-5 days, you can consider 1-month or 2-month options.

I'm confident that my DVD course will help you greatly, in both defining WHICH trades you should be making, and WHEN! As they say, Timing is EVERYTHING, and my version on Percent R has truly helped my timing to stay with winning trades longer, while dumping losers quicker, and as I'm sure you'll see from numerous testimonials, many traders and investors continue to rave about [Percent R - The BigTrends Way](#).

I look forward to hearing how well you like the Percent R Course and how it helps you take your trading to the next level!

Thank you,
Price Headley, CFA, CMT



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See what previous buyers have had to say about the DVD course:

"Mr. Headley is not only knowledgeable, he's a super good teacher. Next to price and volume, %R has become my most valuable and useful indicator. It sure has helped avoid "headfakes" in this very volatile, choppy market. I get much better results than with stochastics and RSI. Using %R the BigTrends way is making me a better trader."

-Christie A.

"I liked the thoroughness of explanation and repetition of key ideas in different formats (seminar, classroom, and individual instruction)."

-David P.

"I have integrated some of your Williams %R trading principles in my own trading system with good results. The main thing is I now have a better understanding of this indicator and how it works. I use 2 different time periods and their crossing as one my stock alerts for swing trades."

-Glenn W.

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"The explanation of how %R can help alert the trader to pending actionable issues regarding a trade was clear and I thought well presented."

-Ray D.

"There was a lot of detail on the use this indicator and I really liked the confirming signals. I have been able to stay into trades for a longer time then I was before."

-William F.

"I liked especially your narrative. The examples you chose to emphasize certain aspects are well done. It was well organized, actually quite complete. It sure has helped my trading results. I don't do options, but just trading ETFs and high momentum stocks are much easier now. I agree that if one had only one indicator, %R is it."

-Bob K.

"%R is now my primary trigger for entry. It has changed me from a fair to poor trader to a consistently successful trader and has given me a level of confidence I never had in the past. I no longer stress about the market and have been able to take most emotions out of my decisions...all due to Price's usage of %R."

-Robert R.

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