eSignal

A Basic Trading Strategy For
TRADING THE OPEN

by Chris Curran of Tradewinds Online

Trading the Open: Some Preliminary Information

To get started, it's important to note some things about the charts used in this strategy, as well as to provide some definitions of the terms used. The strategy trades using the S&P E-Minis (the popular mini stock index futures traded on the CME), so, to use the strategy, you must subscribe to an eSignal package with the CME E-Minis datafeed.

First, some definitions: the TICK is the NYSE broader market cumulative TICK, and it simply measures the number of stocks in an uptick minus the number of stocks in a downtick. Note that the chart (shown in "Trading the Open: The Set-Up") to which it is applied as a symbol has ($TICK,1) in the top left corner.

PREM, or the premium, is the difference between the lead S&P 500 futures contract and the underlying cash S&P 500 index. By knowing where the day's fair value, buy premium and sell discount levels are, a trader can have a general knowledge of where program trades can come into the market. Note that the chart to which it is applied as a symbol has ($PREM,1) in the top left corner.

You will want to set up and save a Layout in your eSignal application with a chart showing the E-Minis (ES) at the top and $TICK and $PREM charts below it.

Trading the Open: The Set-Up

- I use a 3-minute chart for the ES (the S&P 500 E-Mini contract), but you can use a 5-minute chart if you are comfortable with that time frame.
- I have the high, low and close of the prior day as horizontal lines on my chart. I also plot the open as a horizontal line on my chart.
- I place a 1-minute TICK and 1-minute PREM chart below the 3-minute ES chart.

Trading the Open: Rules of Thumb

- I normally wait 10 – 15 minutes after the open to let the overnight "market on open" orders get filled.
- If the price is between the prior day's close and the current day's open, it is neutral, and it is best to stand aside until the market shows a long or short bias.
- Exceptions to these rules are extreme gap openings, of which there are 4 types, divided into "buying" and "shorting" categories:

For buying:

- Gap Up Long
- Gap Down Long

For shorting:

eSignal

Trading the Open: Some General Facts about Gaps

A gap between 0 and 1% will have an 85% chance of retracing at least halfway and a 78% chance of retracing 90 to 100%. Gaps between 1 and 2% are not quite as reliable when it comes retracement. 78% of them will retrace at least halfway while just 60% will retrace 90 to 100%. So, it's important to know the size of the gap.