

What to Look for When the Market Hits a Bottom

When the market hits a bottom, it's time to start the bargain hunting. The upside from a bottomed market is huge, and then profits can be further compounded into a short position. Bottoms can be hard to spot, but with some experience, bottom hunting can be profitable and extremely rewarding. Even with the best uptrend, you're unlikely to time a bottom perfectly. Sometimes you'll see a bottom, enter a trade only for the security to downtrend briefly and retest a bottom. Bottoming securities are unlikely to be perfect, so you'll have to have plenty of patience. Profitable traders do very well in market bottoms, as they provide some of the best risk to reward ratios.

What to Look For

First, you need to look for a measured downtrend. A downtrend that follows some guide for its dropping price will be more likely to respond to an uptrend or support lines that make up a bottom. When stocks hit the bottom, they rarely do so due to unforeseen events. This is where long term trendlines and indicators really pay off.

Professional traders usually start calling a bottom after a sideways trend, when the stock remains on a bottom for a long period of time. These kinds of trades are more responsive to news, as a breakout must force through plenty of limit orders placed around the current values. When in a sideways trend, orders line up all around the current value, further adding momentum to the trade. Get in heavy on a sideways trend or movement.

Master Day Trading

Creative techniques, like buying when short interest is high or before a big company releases news, is often the best bet. At a bottom, further downside potential is low, while any good news is likely to send a stock flying. Watching the short interest on a particular investment will help you follow any potential bottoms.

The most important thing you can do is preserve trading capital. A win is nothing when compared to a loss. A professional trader is prudent at bottoms, considering the potential risk to reward. In all cases, when the risk to reward is great, simple mathematics would tell you to take a trade.

Strategies

Day trading strategies best apply to bottomed stocks. You'll be trading in an environment where small factors can send a price moving quickly – for this reason, day traders find bottoms. A trading plan planner will help you organize your strategy for picking bottoms and help you keep your composure during a white knuckle whipsaw in the market.

About the Author

Leroy Rushing is an active, [professional day trader](#); trading coach; and author. He is the Founder and CEO of Trading EveryDay, a distinguished provider of educational trading products and [services](#) that are available worldwide. Trading EveryDay also has many [articles](#) with unique perspectives on day trading.

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