



Here are the raw basics on this strategy (see red type):

- #1. Find two stocks that correlate
- #2. Decide on some rules in advance so you don't hang onto losers.
- #3. Keep risk on any trade to 1% of your portfolio or less. If you don't know how then I can create some charts to show you how.

I highlighted in BLUE CIRCLES when there were periods when you could have bought the lagging stock and shorted the outperforming stock. You will see this latest decline in DVN appears to be a watershed wipeout of DVN stock holders. Someone was bailing out, but now it appears they are out of the way. (See the chart I produced on DVN earlier tonight).

Note that this PAIR can RESOLVE AT A PROFIT in basically three ways. The key is to make money OVERALL and not on each position. The point is to avoid another "crash" where you might be stuck long and suffer at 10%-20% loss overnight in the market. Cheers!

Nov. 17, 2011, 11:29 p.m.

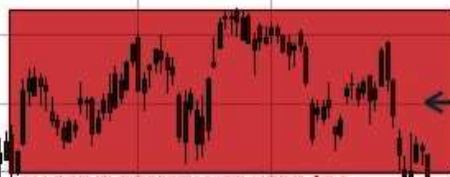
Further comments: It would be prudent to go back and understand exactly why each stock has performed the way it has to help you define your risk. Otherwise, keep risk to 1% of your portfolio Why? Because you never know in advance which trade will work.

Let's make some assumptions:

- #1. 50 trades a year with this methodology:
- #2. If they are 75% winning trades and if your winners are 2% and your losers are 1%, then your return at year end will be 75%. This will require massive portfolio margining, by the way, to get all of these positions on. Cheers.

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This area was also a decent Head&Shoulders top formation. Note the falling volume on each rally.



MASSIVE RESISTANCE HERE \$84

A decline at least equal in size to the head has always been my way of waiting for the ideal head and shoulders bottom patterns. Why? For a trend to reverse, you need to have a trend to begin with. I discovered this from my years of hand-plotting charts.

***FOR THOSE OF YOU WHO ARE AWARE OF THE RISKS AND REWARDS OF PAIRS TRADING - I'LL SHOW HOW TO SHORTING XOM AGAINST A LONG POSITION IN DVN HAS A GOOD CHANCE OF LOWERING RISK.



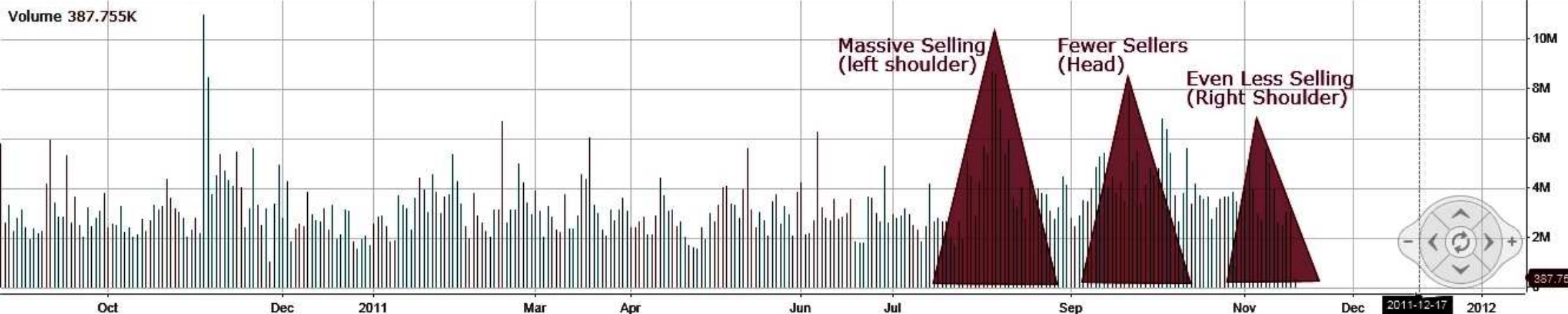
This head and shoulders bottom is clearly visible to me
Perfect and classic price and volume setup.

1. Highest volume in the left shoulder.
2. Less volume in the head signifying less selling pressure from anxious shareholders.
3. Much less volume in the right shoulder, again, revealing the lack of seller stock supply.

Next to look for... a small rally to trigger the entry.

By: Technical Tim, 11:17 PM EST 11/17/11

This is just a guess for the way that DVN could come out of this base pattern.



Massive Selling (left shoulder)

Fewer Sellers (Head)

Even Less Selling (Right Shoulder)

There is a clearly visible HEAD & SHOULDERS BOTTOM pattern in Devon Energy Corp (DVN, nyse). Note the classic signs of a bottom with price and volume patterns.

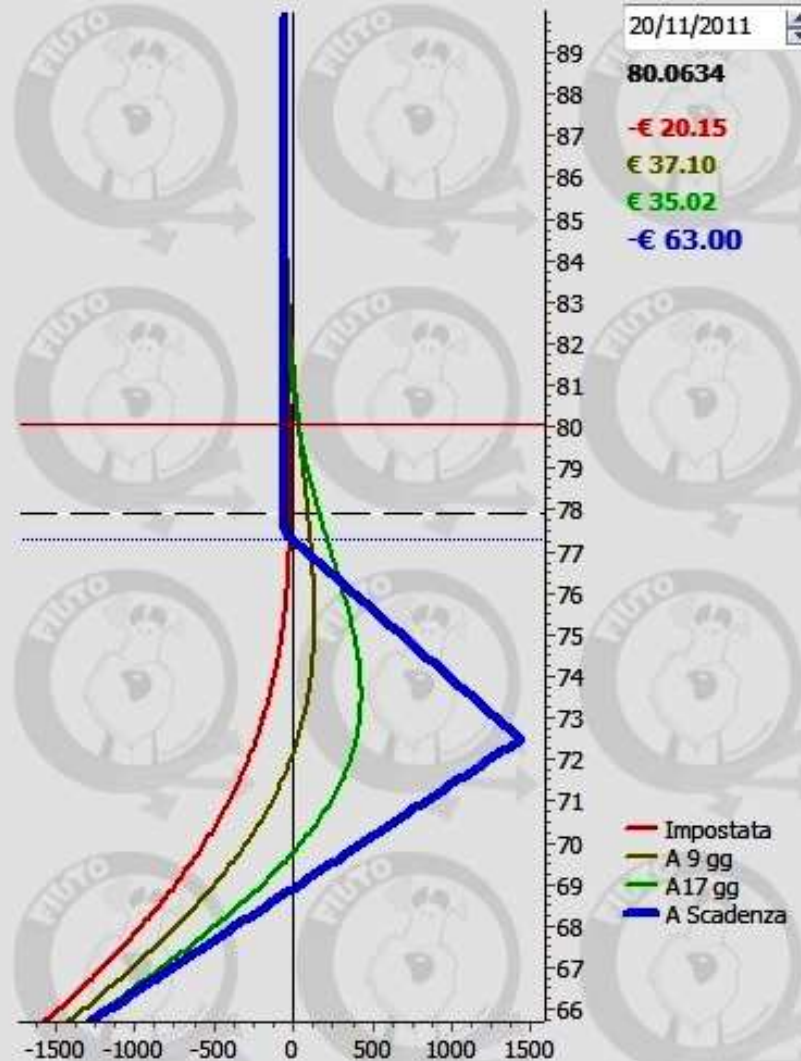
- #1. The highest volume of selling is in the left shoulder, which is the longest time ago.
- #2. Much less selling pressure in the head, again indicating a reduction in selling pressure.
- #3. Right shoulder builds time on lower volume still. Note the extremely low volume in today's session.

I drew the head as a blue-circle to show you a concept to confirm a pattern known as the H&S. I believe it is important to find a big enough trend prior to the pattern to create a REVERSAL of trend. This is a reversal pattern.
Note the same pattern at the high this past winter-spring above \$84 in DVN. I hope you found that pattern too.



Strategy Prop.	Valore
Totale At Now	-159
Massimo Profitto	Inf
Massimo Rischio	-1157
Massimo Profitto/Rischio	Inf
Probabilita' Profitto	12.26
Costo	407
Upside Break-Even	68.5179
Downside Break-Even	0
% Upside Break-Even	7.5297





Strategy Prop.	Valore
Totale At Now	-30
Massimo Profitto	1437
Massimo Rischio	-Inf
Massimo Profitto/Rischio	0
Probabilita' Profitto	42.66
Costo	63
Upside Break-Even	0
Downside Break-Even	77.2796
% Upside Break-Even	100