

THE KEVIN HAGGERTY
INNER CIRCLE
TRAINING PROGRAM

August 24th, 2005

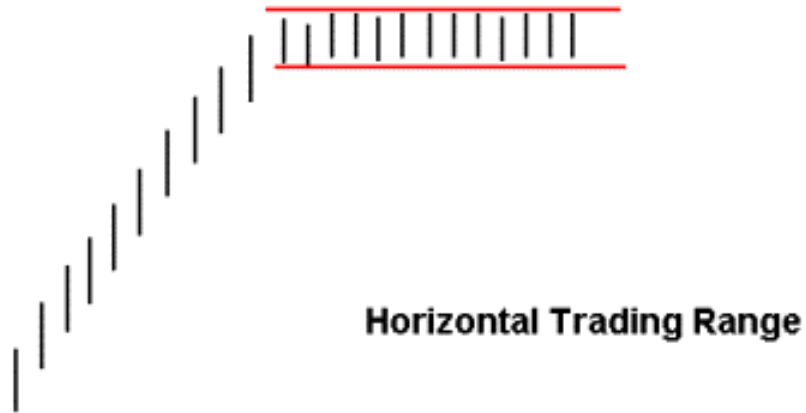
Chapter XIII: Slim Jims

Kevin Haggerty's
"Trading with the Generals IV"

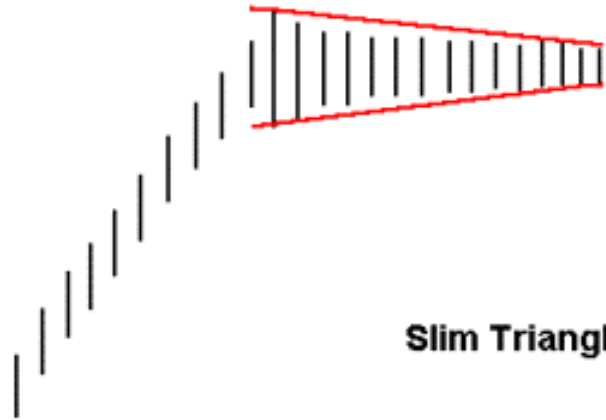
Slim Jims

- This pattern is simply a narrow-range horizontal consolidation at or near the current day's high or low.
- It can also be a narrow-range triangle or wedge.
- The pattern is simple, but easily identified and can be very explosive when involved with a certain kind of program trading.

Slim Jims

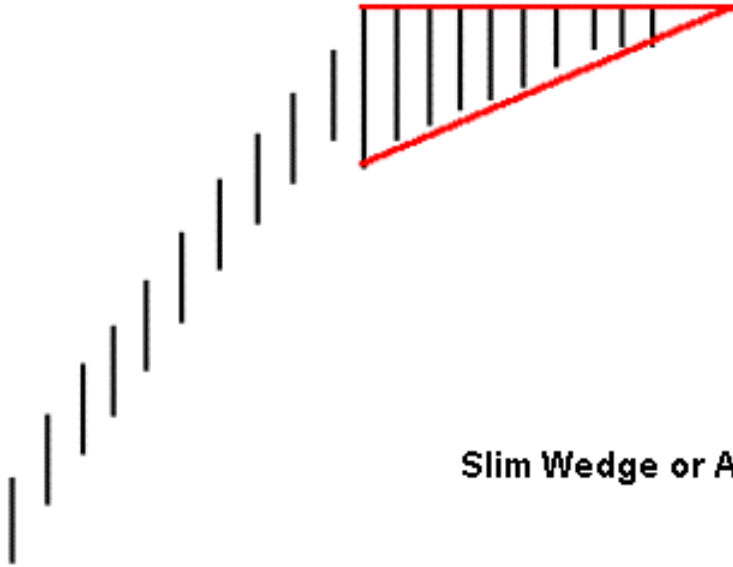


Slim Jims



Slim Triangle

Slim Jims



Slim Wedge or Ascending Triangle

Slim Jims

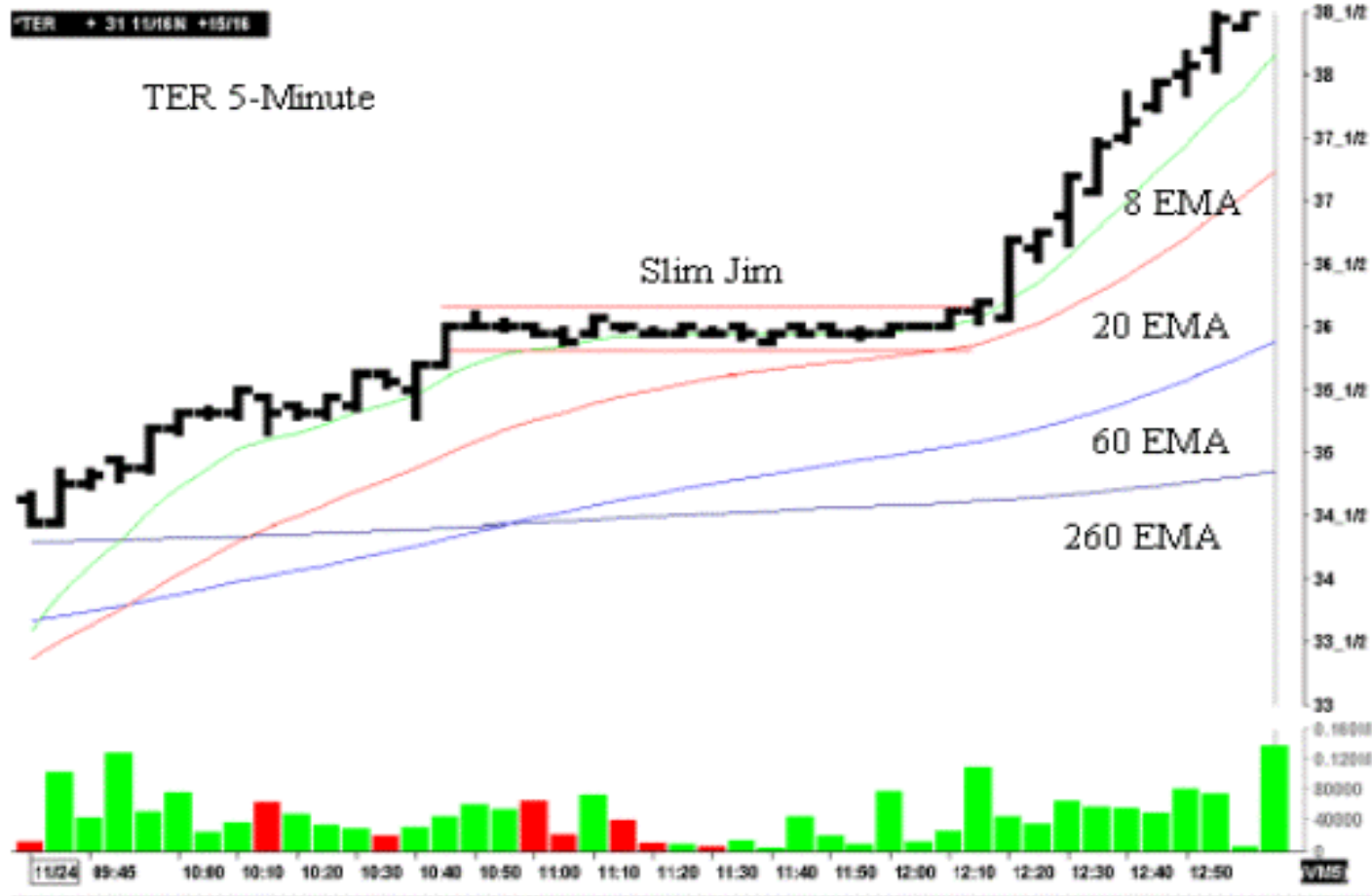
- The Slim Jim is a very high-probability trade because your stops are tight, and there is better than a 75% chance for a profitable trade in the direction of trend.
- The pattern is even more explosive when there is a confluence with higher timeframe sequence, moving average, support/resistance, etc.
- If you are a relatively new trader or are in a minor slump, the Slim Jim would be an excellent choice. There is never a day that you can't find a good Slim Jim either long or short.

Slim Jims

Guidelines

- There must be a minimum of seven bars in the consolidation (five-minute chart).
- The longer and tighter from high to low the pattern, the more explosive the trade.
- This is a contracting volatility pattern where the narrow range gets resolved in the direction of the trend, or else a reversal from a key sequence level.
- Experience has demonstrated that the strongest trades originate from 12-bar or more patterns.

Slim Jims



TER is a long narrow-range Slim Jim at the intraday high that explodes, as the afternoon trend is a moonshot.

Slim Jims

Key Point: The first Slim Jim B/O to new intraday highs is usually the best because it provides the best risk/reward ratio, i.e., if a stock has an average daily range of 2.0 points and your entry is after the stock has only traded in a .50 point range, then your trade has more potential to run, provided the momentum continues in the direction of your trade.

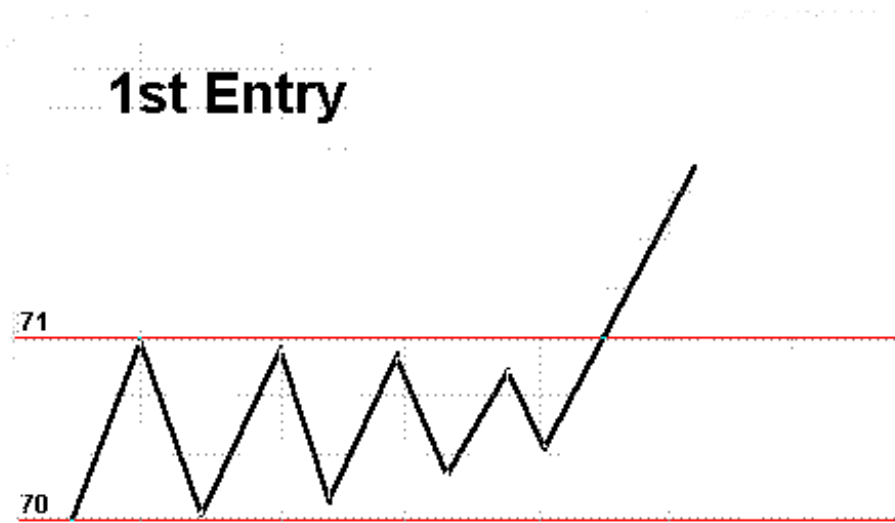
Slim Jims

Slim Jims

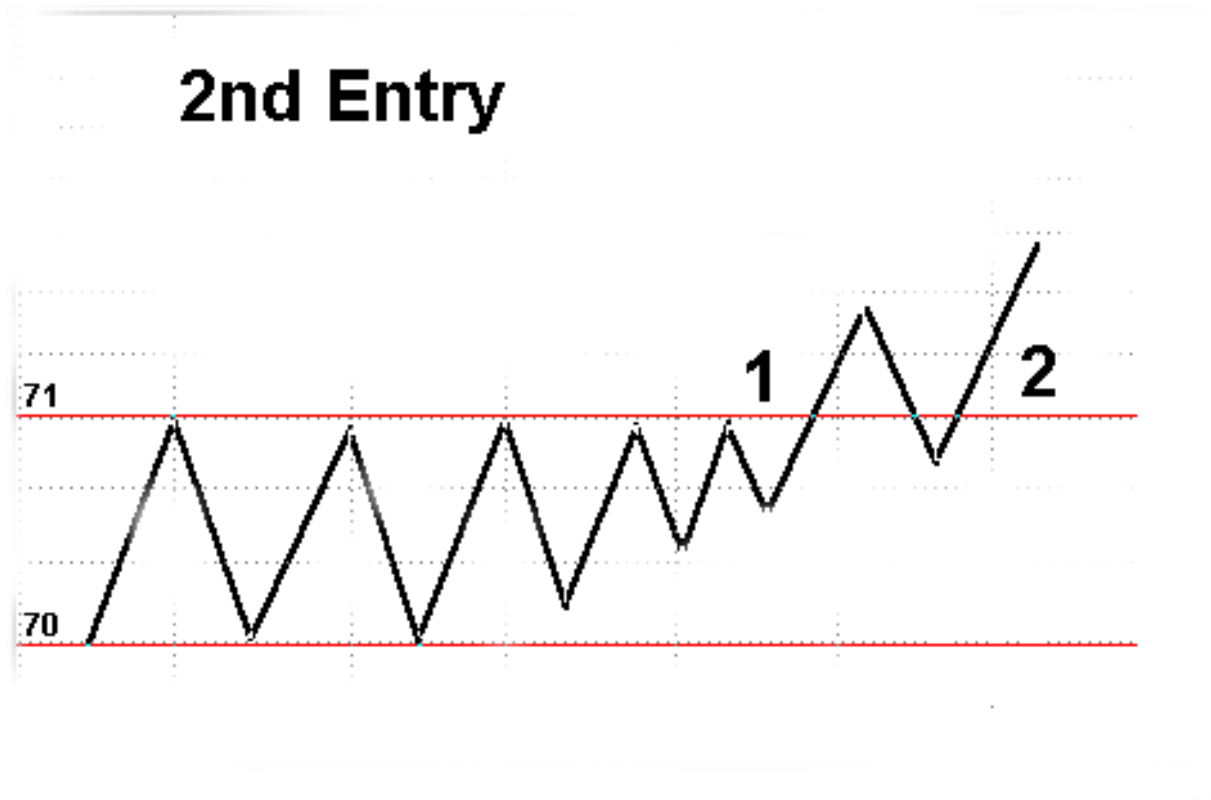
1. Identify any buying/selling pressure prior to the breakout.
2. Look for confirmation of strength or weakness from the other stocks in the group and also the major indices.
3. Confirmation from market dynamics is a strong positive.
4. The second entry can be your best entry, unless the market is obviously very strong.
5. If the dynamics are compelling and you decide to anticipate the B/O, just take a 50% position. The odds are not in your favor doing that, and you should be an experienced trader before you attempt to play the early trade.

Next, we will take you on a graphic explanation of the Slim Jim pattern and the entry, exit and stop guidelines.

Slim Jims – First Entry



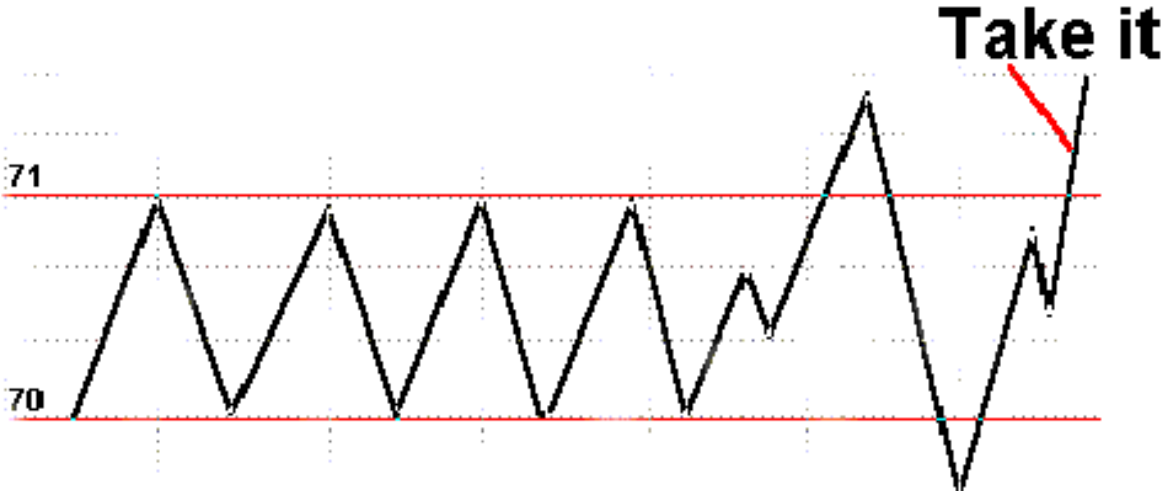
Slim Jims – 2nd Entry



Slim Jims – FAILURE AND REVERSE

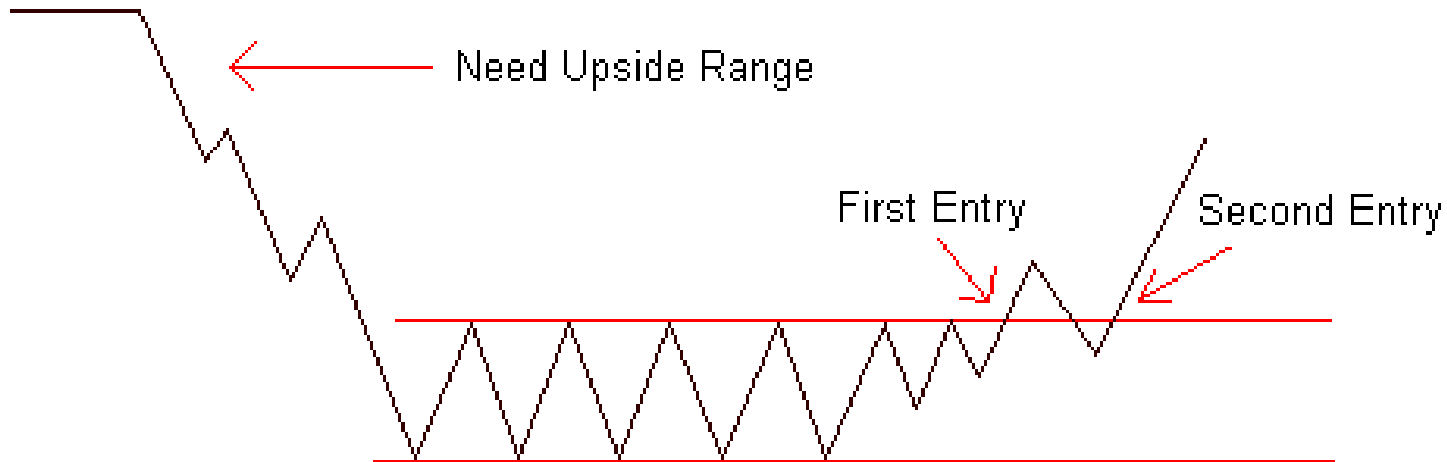


FAILURE AND REVERSE



Slim Jims at Lows

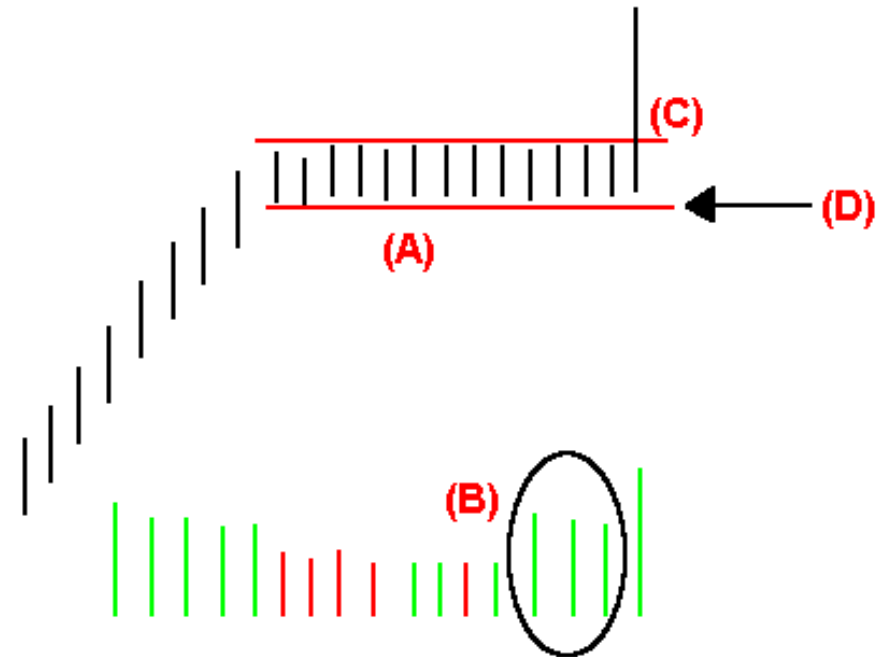
Slim Jim at Lows



Entry Rules for Slim Jims – Long Entry

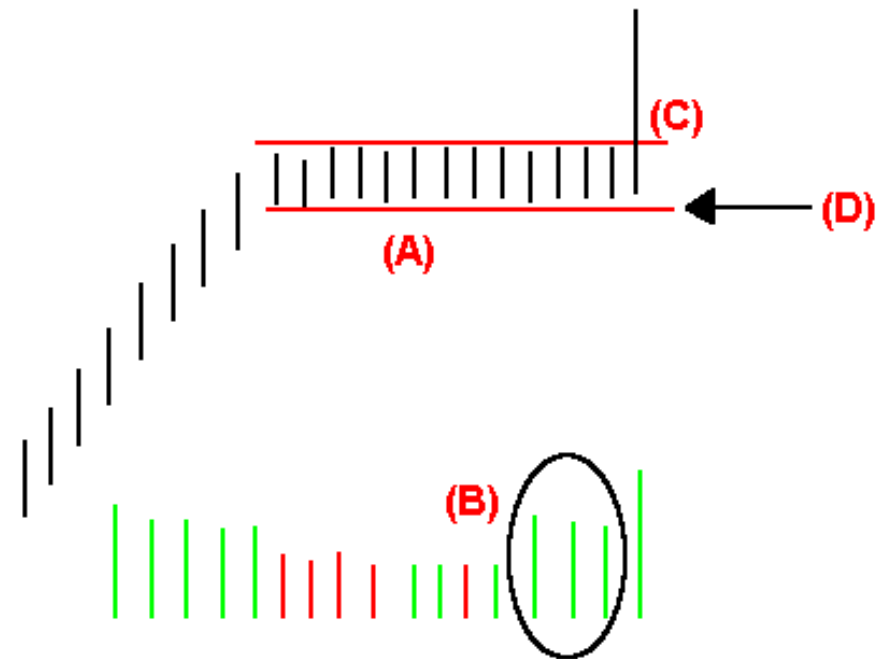
1. Look for a minimum seven-bar consolidation on the five-minute intraday chart at or just below the high of the day (A).

KEY POINT: It is important that you are aware of the current average daily range and how much of the range the initial advance has covered.



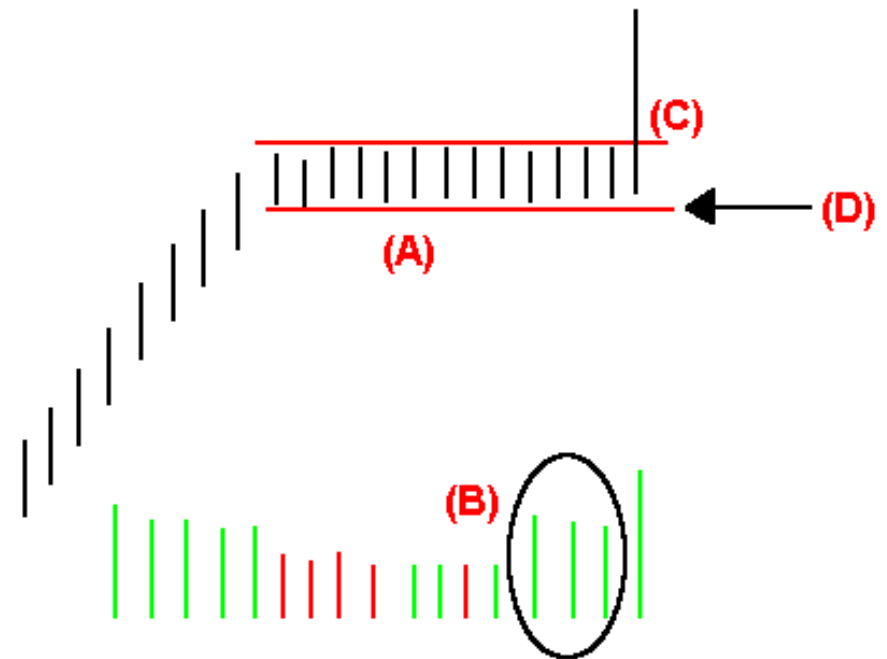
Entry Rules for Slim Jims – Long Entry

2. Volume is best when it has increased on the initial advance to the Slim Jim consolidation, indicating buying pressure by the Generals. As it consolidates, the volume usually decreases until just before the breakout (B).



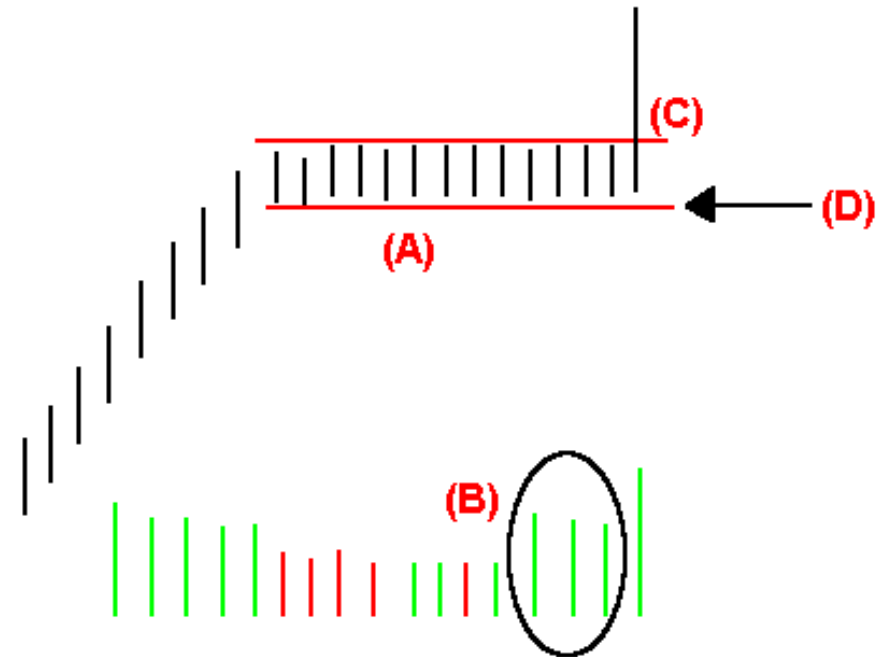
Entry Rules for Slim Jims – Long Entry

3. Market dynamics must be positive, with the futures moving up and your quote screen showing most of the stocks positive for the day (particularly the group) if you are taking a long-side entry.



Entry Rules for Slim Jims – Long Entry

4. Enter long when the stock breaks out of the consolidation (C).
5. Place your stop just under the low of the pattern (D).



Key Points on Stop Placement

- Placing the initial protective stop is easy with the Slim Jim. The maximum distance you will place your stop is just below the bottom of the pattern for longs and just above the high of the range for short setups.
- Your risk should be no more than 1/2 point or 20-25% of the current daily range, whichever is less on intraday trades.
- You can also stop yourself out just under/over the breakout points and take an even smaller loss. The reason for this method is that you can always take a second entry trade in the same direction after it has traded back into the pattern's range and broken out of the pattern a second time.
- On position trades from the daily charts, you can also use the second method mentioned above, but never use more than a 3.0% to 5.0% stop, depending on the stock's price and volatility.

Action Prior to the Slim Jim Breakout

You can often anticipate a strong breakout by observing the price and volume action while price is still within the consolidation.

If the stock advances up to the consolidation on strong volume, then declines as the stock consolidates in a narrow range, you are now on alert for the pre-breakout price and volume action to exhibit certain characteristics. What you should be looking for is:

Action Prior to the Slim Jim Breakout

1. Price starts to trade on the ASK side on increasing volume and size.
2. Usually there will be closes in the top of the range on the bars of the five-minute chart over the last couple of bars prior to the breakout.
3. The last few bars before the breakout might have higher lows and narrow-range bars as the coiled pattern gets set to explode.

Action Prior to the Slim Jim Breakout

KEY POINT:

When you see this kind of action, it is the Generals starting to show their hand because they may see too many competing buyers and an intraday market trend that continues to be strong, so they decide to get more aggressive with their orders.

Action Prior to the Slim Jim Breakout

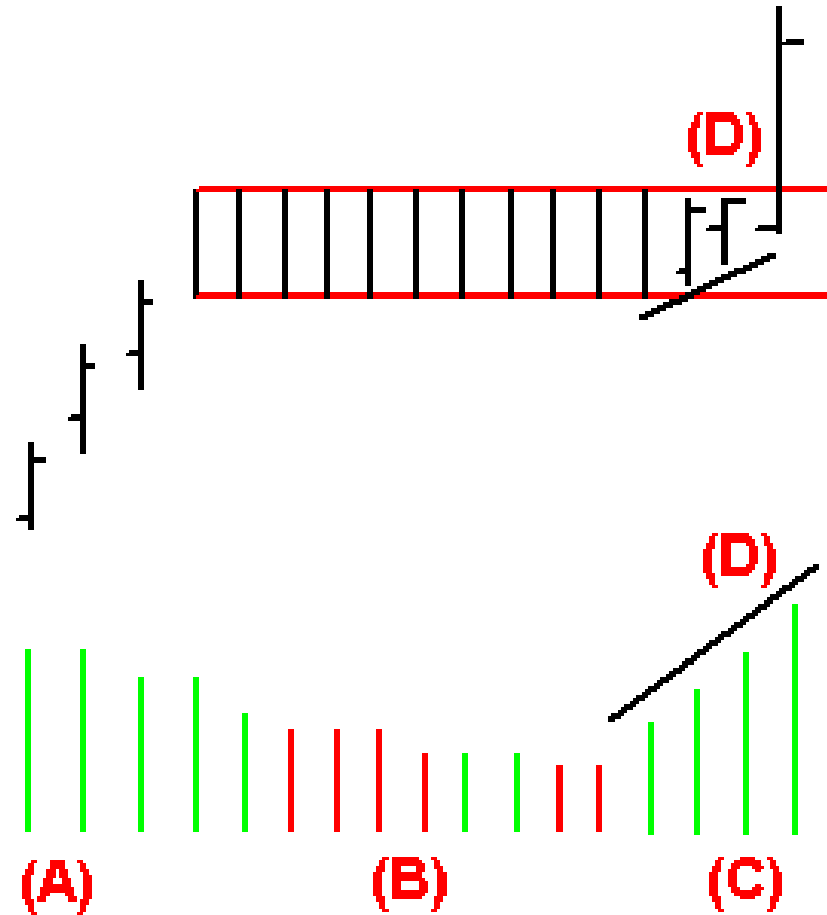
KEY POINT:

It is not a "rule" that one must see this exact action.

Rule is not a term I particularly like to use when discussing this pattern, since it is a dynamic, rather than static, pattern that must be viewed in context with the current market conditions. The Slim Jim pattern can still explode without any of that pre-breakout action because of a news event. The "moonshot" takes place when it all hits at the same time.

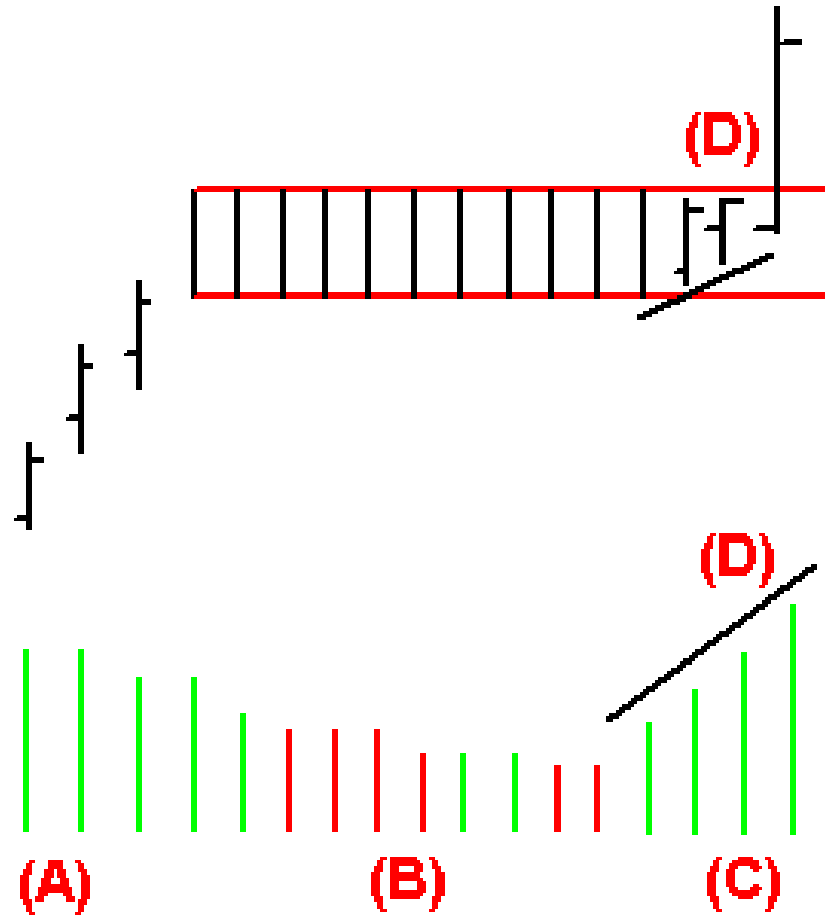
Action Prior to the Slim Jim Breakout

This chart is a graphic example of this price action prior to the first entry Slim Jim breakout.



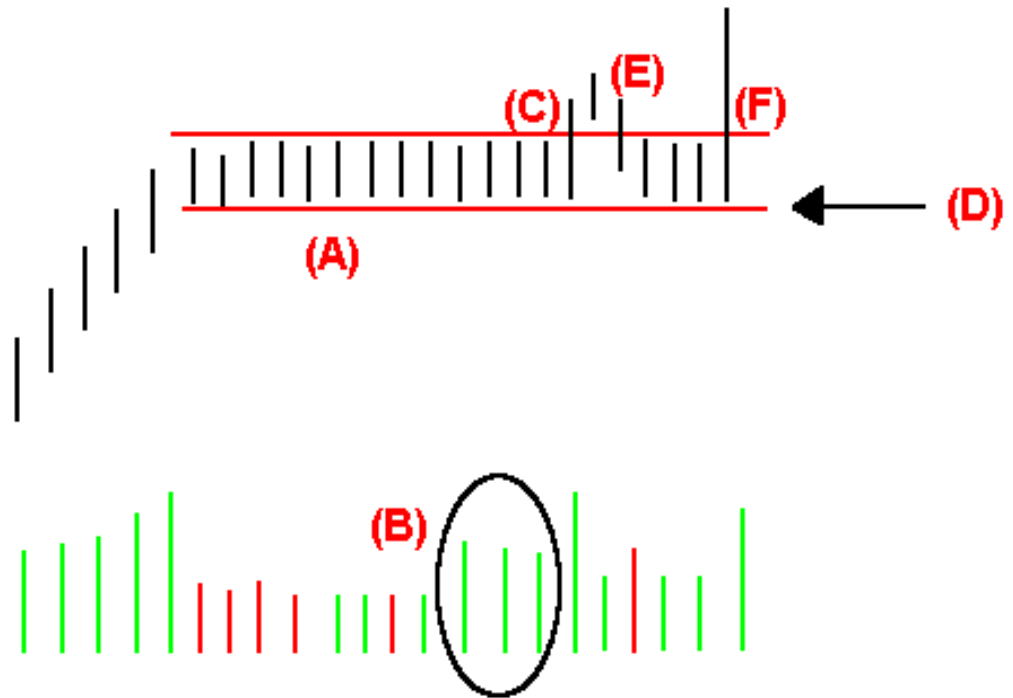
Action Prior to the Slim Jim Breakout

1. Rising volume on the initial advance to the consolidation in a tight range (A).
2. Volume goes quiet as the stock consolidates in the Slim Jim. This is the quiet area before price and volatility explode (B).
3. Volume increases and you see two higher lows with closes in the top of the range (C).
4. Breakout on a wide-range-bar thrust with very strong volume (D).



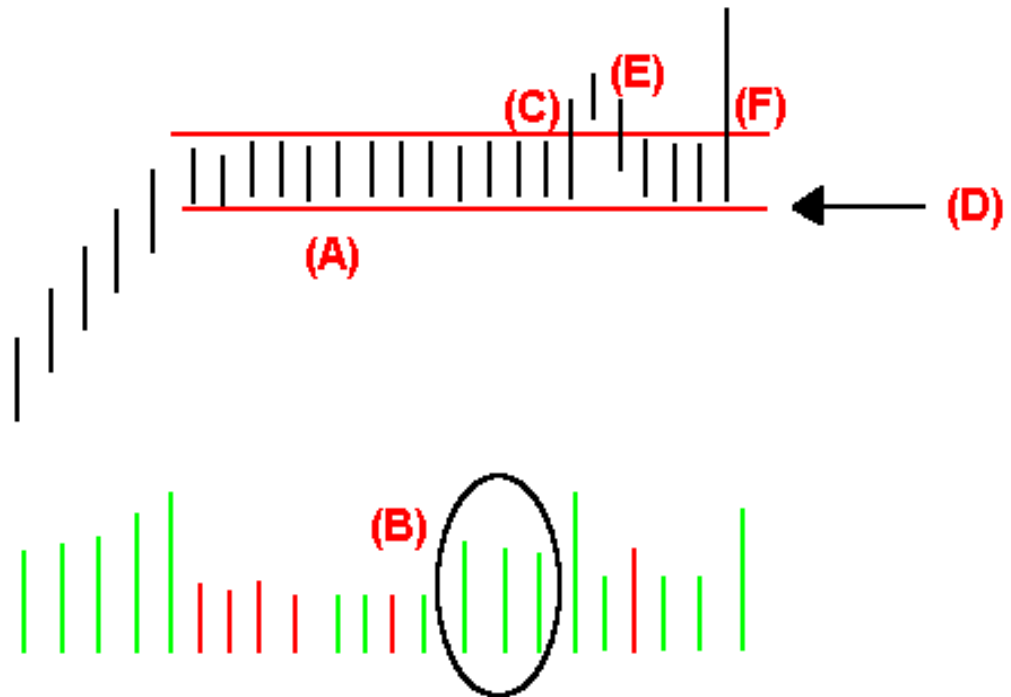
Second Entry Slim Jims -- Long

1. Look for a minimum seven-bar consolidation on the five-minute intraday chart at or just below the high of the day (A).
2. Volume must be increasing on trades, meaning larger lots of the stock start to trade (B).
3. Market dynamics must be positive, with the futures moving up and your quote screen showing most of the stocks positive for the day if you are taking a long-side entry.



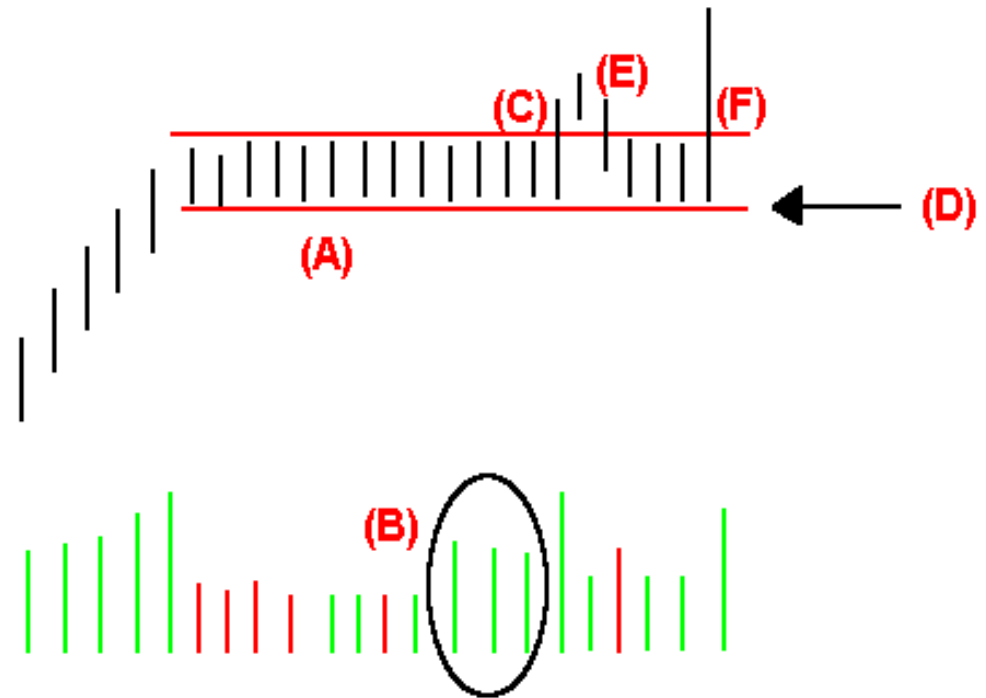
Second Entry Slim Jims -- Long

4. Enter when the stock breaks out of the consolidation (C).
5. Place your stop just under the low of the pattern (D), or just under the upper boundary of the Slim Jim as described in **KEY POINTS FOR STOP PLACEMENT.**
6. The stock moves back into the pattern's range (E). If it does not hit your stop just below the bottom of the range, hold tight.



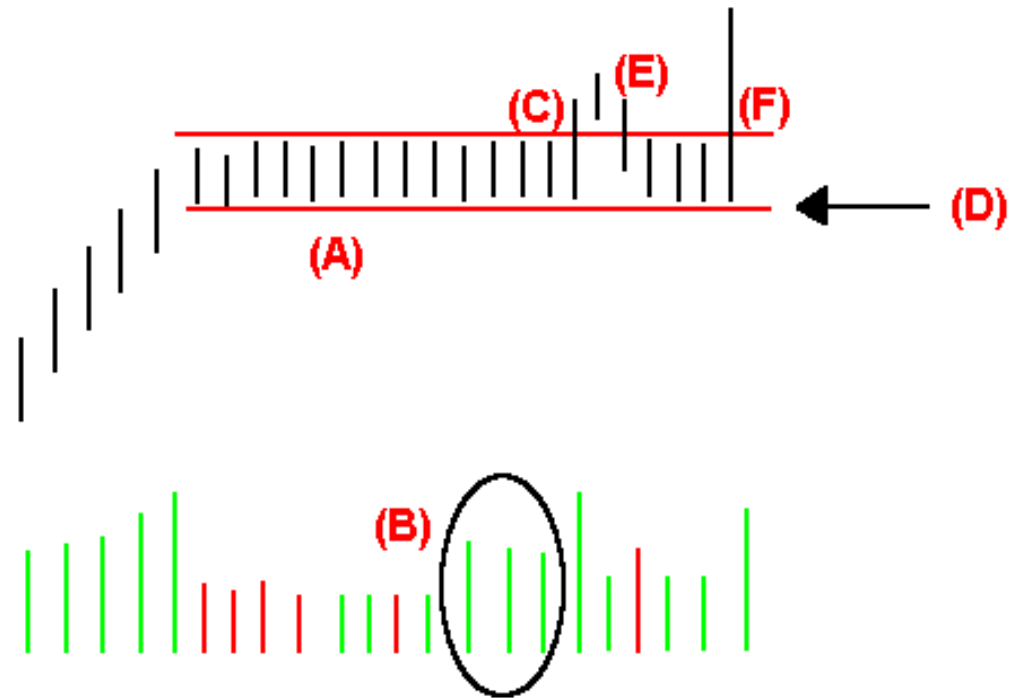
Second Entry Slim Jims -- Long

7. If you used the alternate method and got stopped out, you are now alert for a second entry. This is a good entry to wait for in highly volatile stocks. This is especially true in the OTC stocks, where it is often better to not take the first breakout and wait for the second entry. Aggressive traders can also add to the position here if the market dynamics remain favorable. I would recommend that new traders start trading the Slim Jim pattern with second entries only until you get familiar with the dynamics of the pattern.



Second Entry Slim Jims -- Long

8. The second entry stop can be placed below the bottom of the pattern or else below the upper boundary after the second entry.



Entry Rules for Slim Jims -- Short Entry

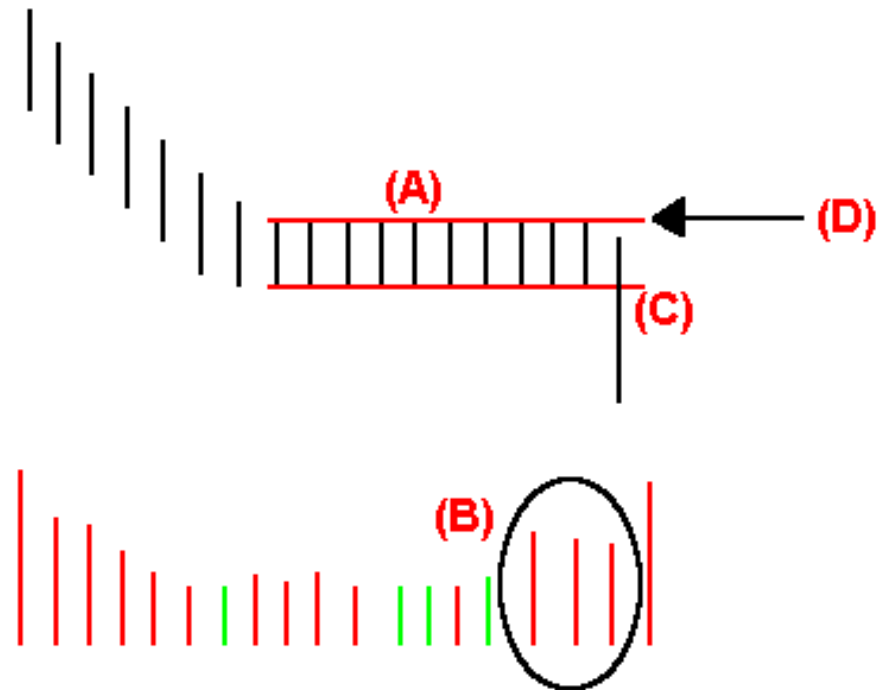
The Slim Jim short entry has the complication of needing the up-tick for a valid short trade on stocks, but is not a problem when trading futures, index proxies like SPYs, DIAs and QQQs, in addition to HOLDERS, such as the SMHs.

Because the Slim Jim is a breakout pattern, it is obvious that having to adhere to the up-tick rule will prevent you from getting executed on Slim Jims that make strong breakouts to the downside because there will be few up-ticks.

Entry Rules for Slim Jims -- Short Entry

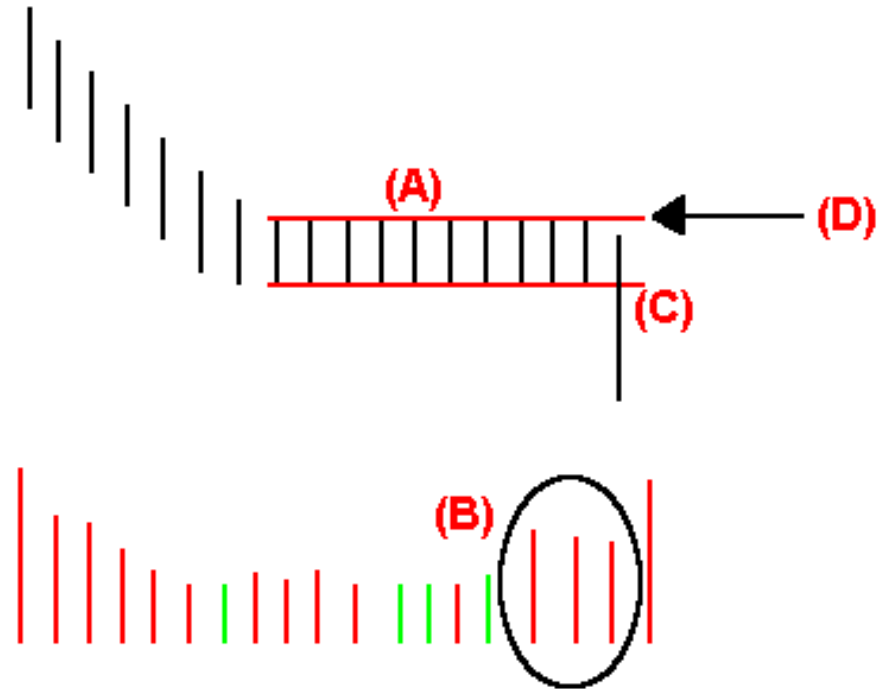
1. Look for a minimum seven-bar consolidation on the five-minute intraday chart at or just above the low of the day (A).
2. Volume should be increasing on trades, meaning larger lots of the stock start to trade (B).
3. Market dynamics must be negative, with the futures moving down and your quote screen showing most of the stocks negative for the day if you are taking a short entry.

For a short entry, the rules are similar, but reversed.



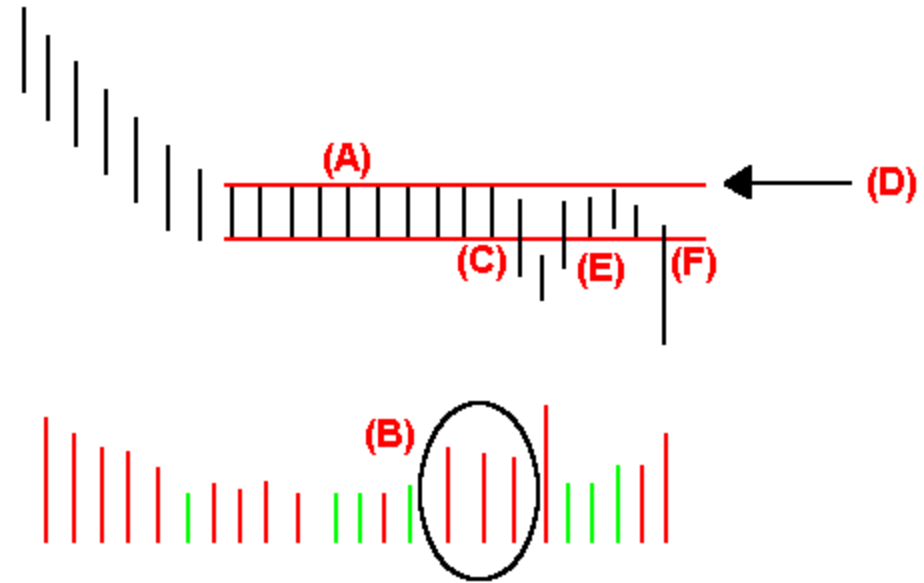
Entry Rules for Slim Jims -- Short Entry

4. Enter when the stock breaks down from the consolidation (C).
5. Place your stop just above the high of the pattern (D), or else you can use the alternate method with your stop a little bit above the breakout point, but be sure to give it a little wiggle room.



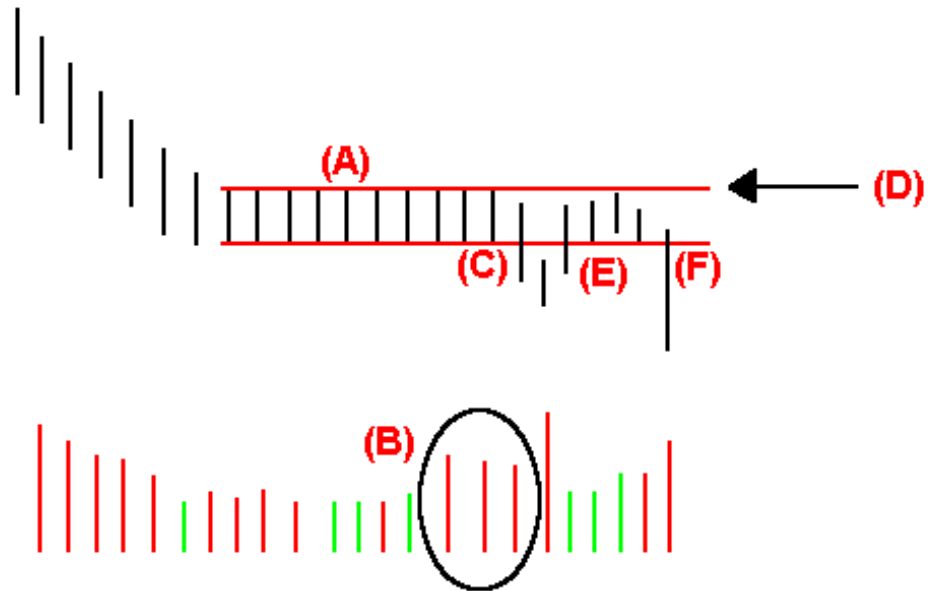
Second Entry Slim Jims -- Short

1. Look for a minimum seven- to ten-bar consolidation on the five-minute intraday chart at or just below the high of the day (A).
2. Volume should be increasing on trades, meaning larger lots of the stock start to trade (B).



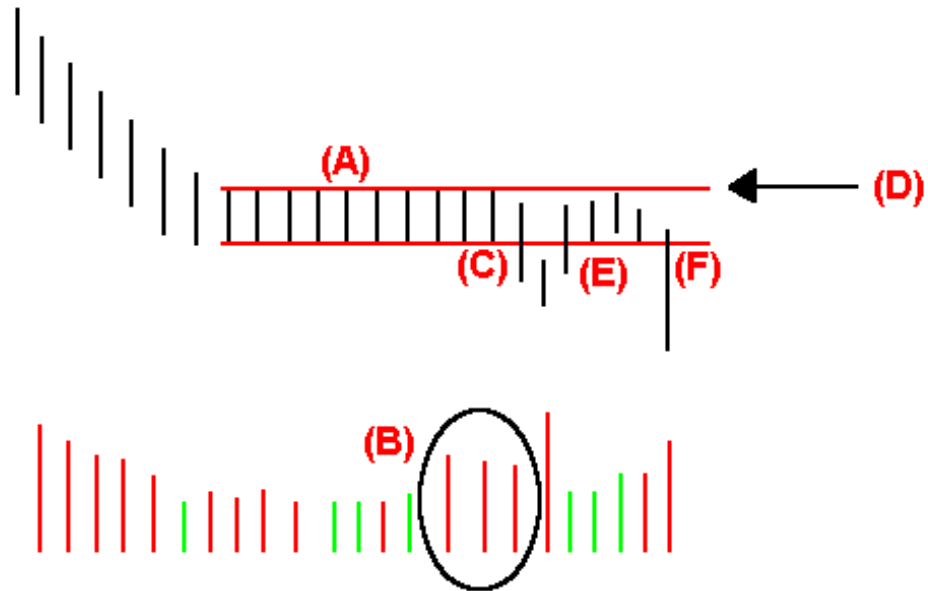
Second Entry Slim Jims -- Short

3. Market dynamics must be negative, with the futures moving down and your quote screen showing most of the stocks negative for the day if you are taking a short-side entry.
4. Enter when the stock breaks out of the consolidation (C).



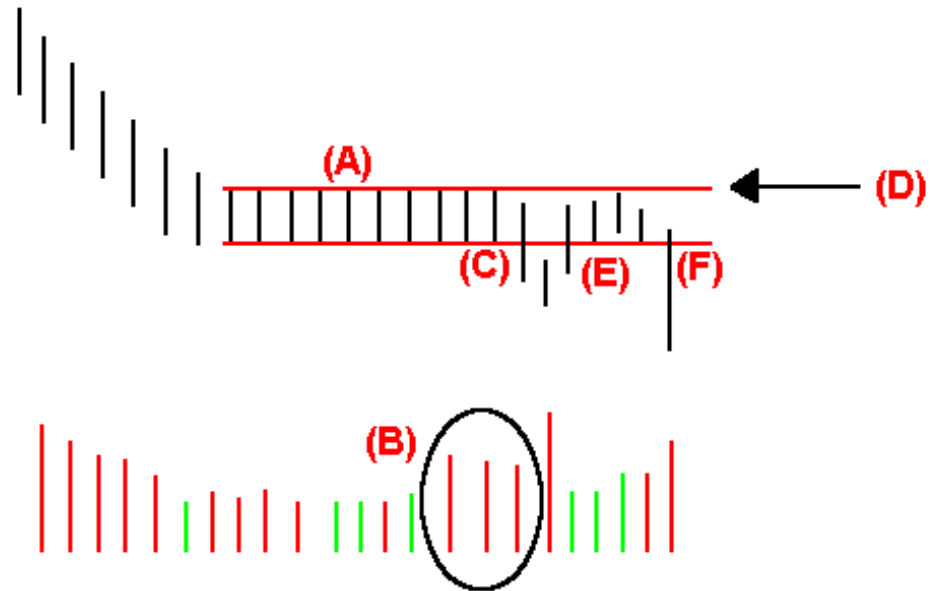
Second Entry Slim Jims -- Short

5. Place your stop just above the high of the pattern (D), unless you are using the alternate method discussed in the previous example.
6. The stock moves back into the pattern's range (E). If it does not hit your stop just above the top of the range, hold tight. If you got stopped out for a small loss using the alternate method, then you are on alert for a second-entry trade.

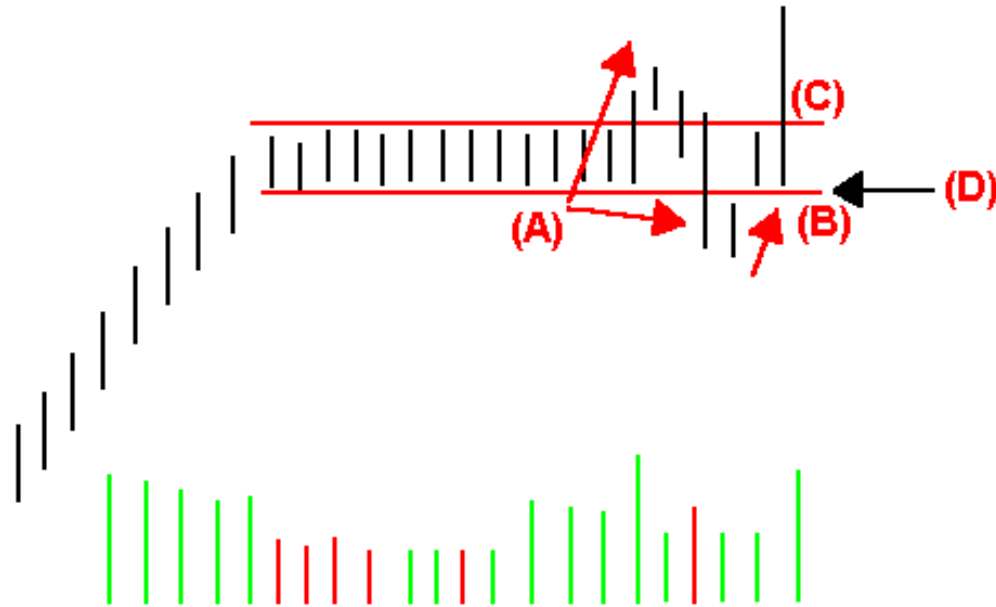


Second Entry Slim Jims -- Short

7. When the stock moves out of the bottom of the range again (F), "second entry" occurs. This is a good entry to wait for in highly volatile stocks. In a very volatile stock, like many Nasdaq issues, it is better to pass on the first breakout and wait for the second entry. Aggressive traders can also add to the position here if the market environment is favorable.



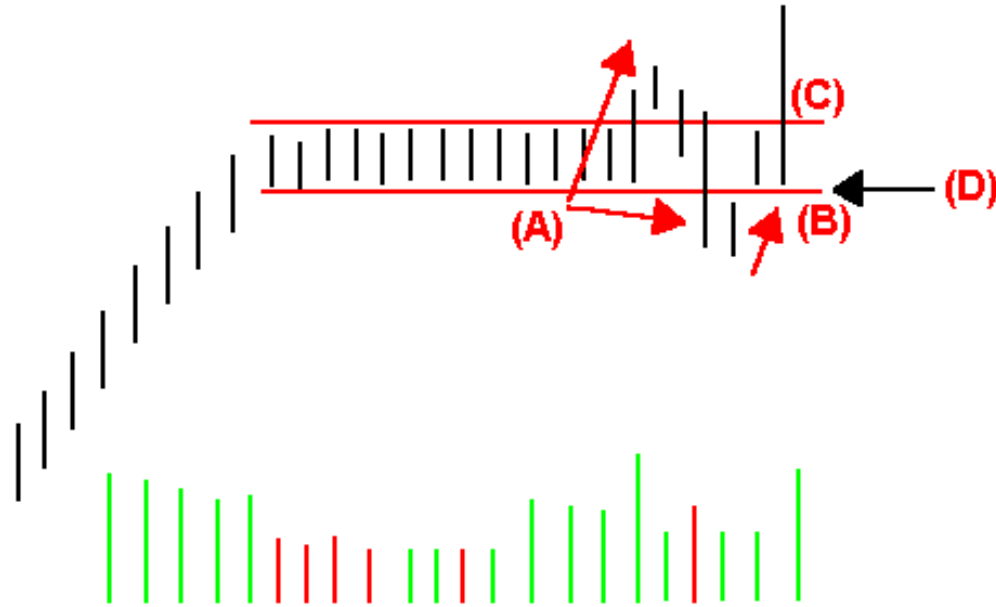
Failure and Go -- Shaking Out the Scared Money



The failure and go is often the best Slim Jim to trade because it gives the appearance of a breakout that fails, then reverses back in the direction of the original trade.

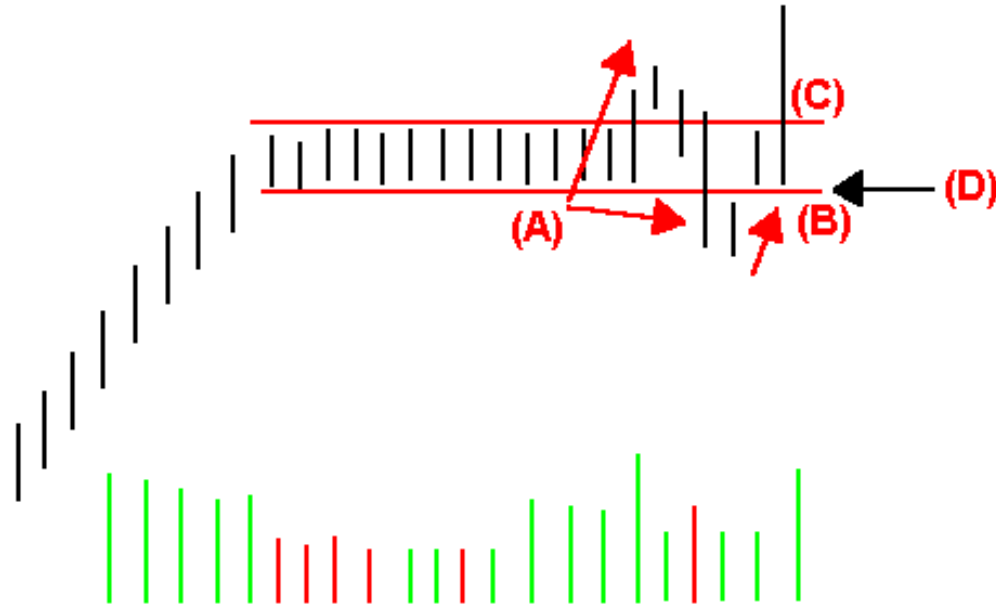
The rules will be the same for the other types of Slim Jim entries, with the following exceptions:

Failure and Go -- Shaking Out the Scared Money



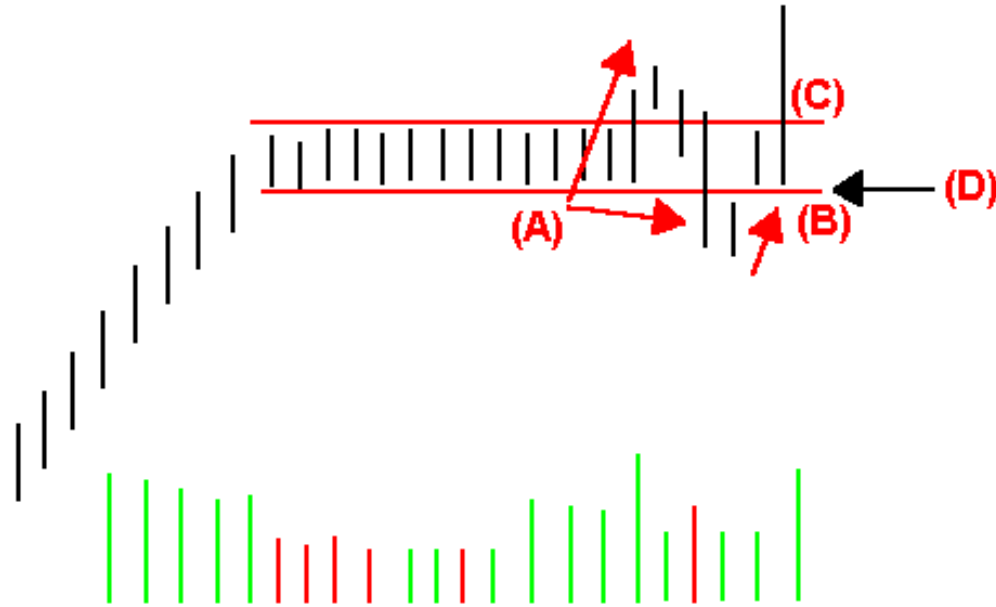
1. The stock must break out of the top of the pattern for a buy entry, then reverse and go back through the bottom of the pattern (A). You would have been stopped out of your original entry on both the regular and alternate methods.

Failure and Go -- Shaking Out the Scared Money



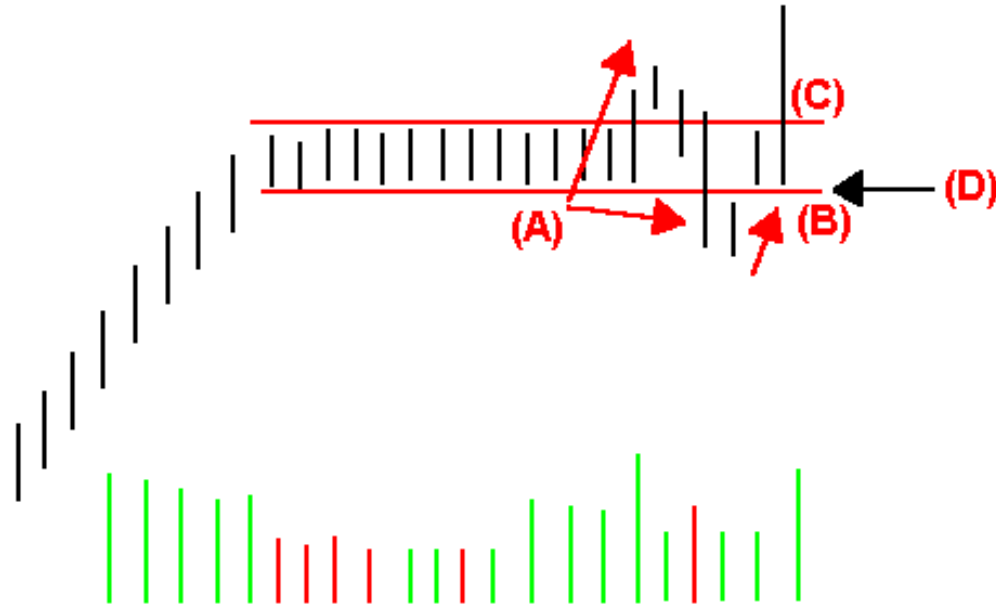
KEY POINT: This shakeout happens quite frequently on days with high volatility. It could be the Market Makers or Specialists trying to influence the stock, or it could be program trading or maybe just a wrong reaction to a quick news flash.

Failure and Go -- Shaking Out the Scared Money



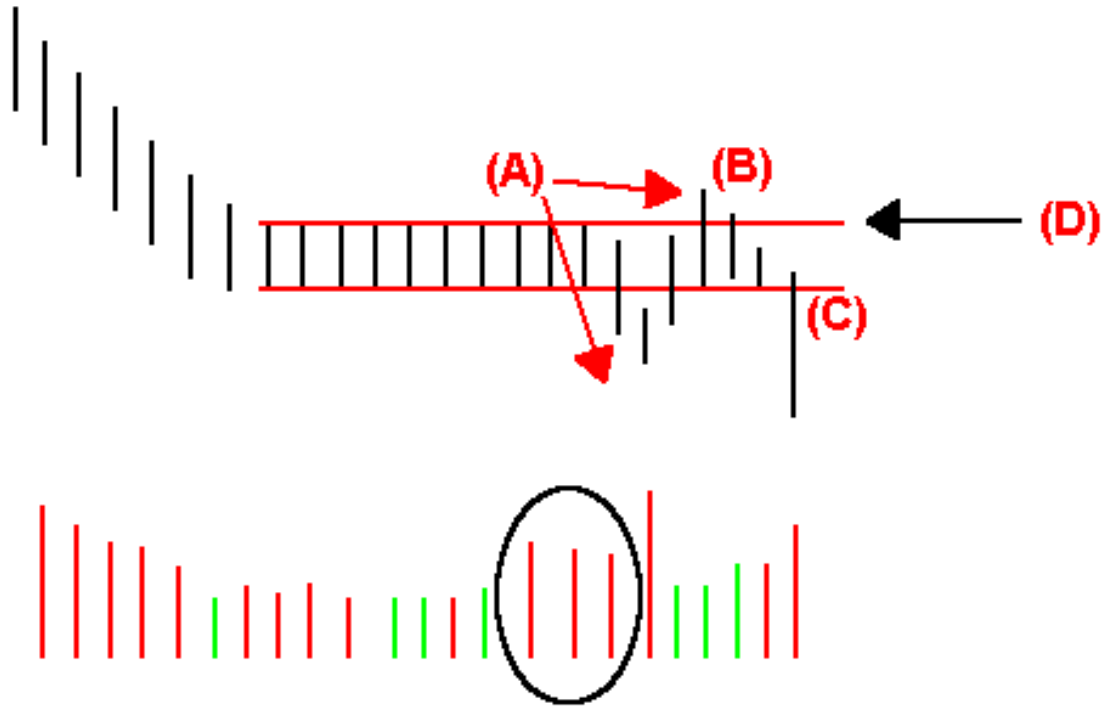
2. When the stock reverses back up again (B), take entry when it moves out of the top of the pattern (C).
3. The initial protective stop is still placed just below the bottom of the pattern at (D), or else use the alternate method which is often only risking .25 - .30 of a point. This is more apt to give you the confidence to take the "failure and go" entry.

Failure and Go -- Shaking Out the Scared Money



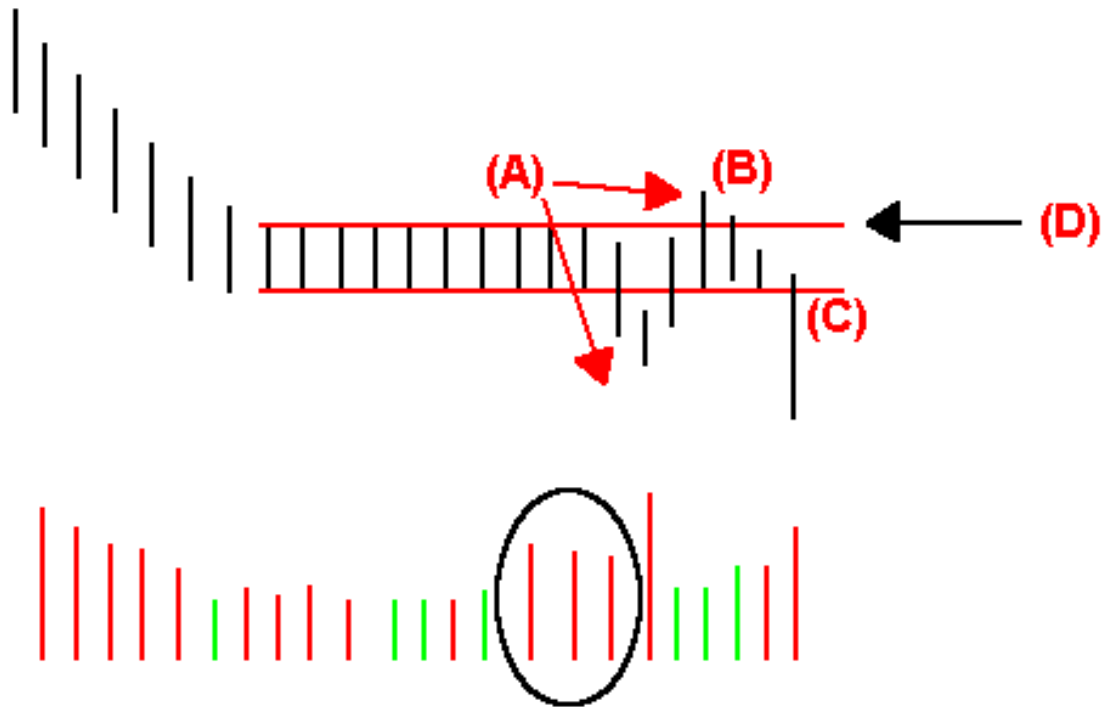
4. Many traders are scared to enter after this volatile action, but the trade will often move very quickly in your favor. This head fake puts the scared money on the sidelines and will often clear the way for the stock to explode further.

Failure and Go -- Short Entry



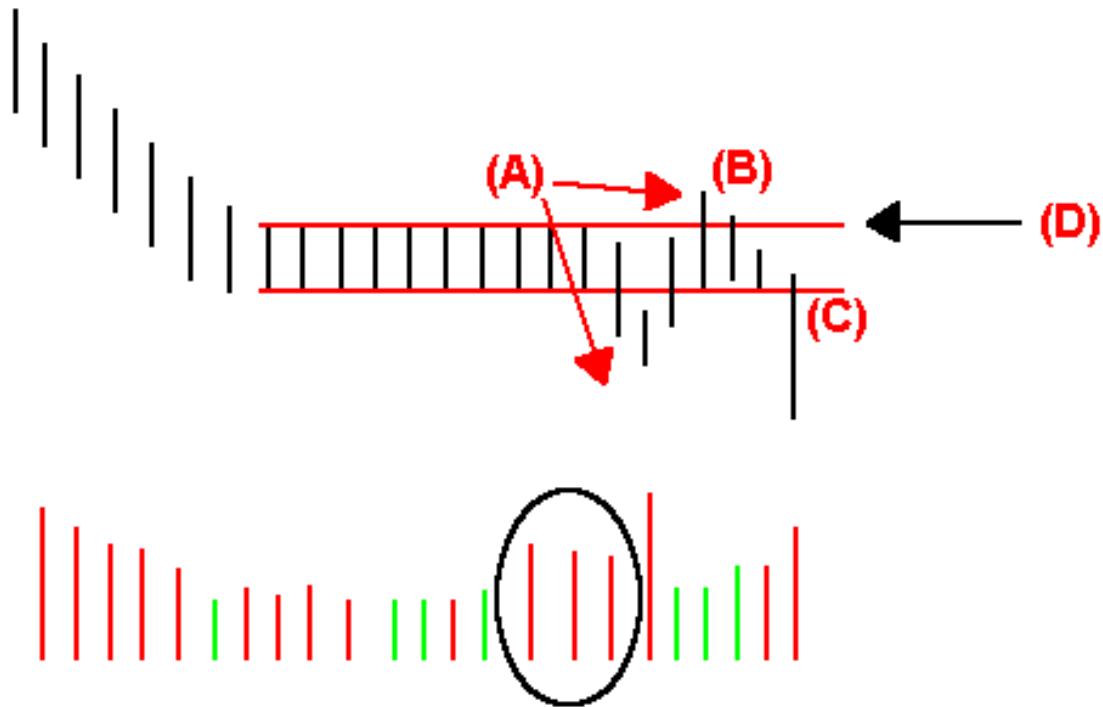
As with the long failure and go, the rules will be the same for the other types of Slim Jim entries, with the following exceptions:

Failure and Go -- Short Entry



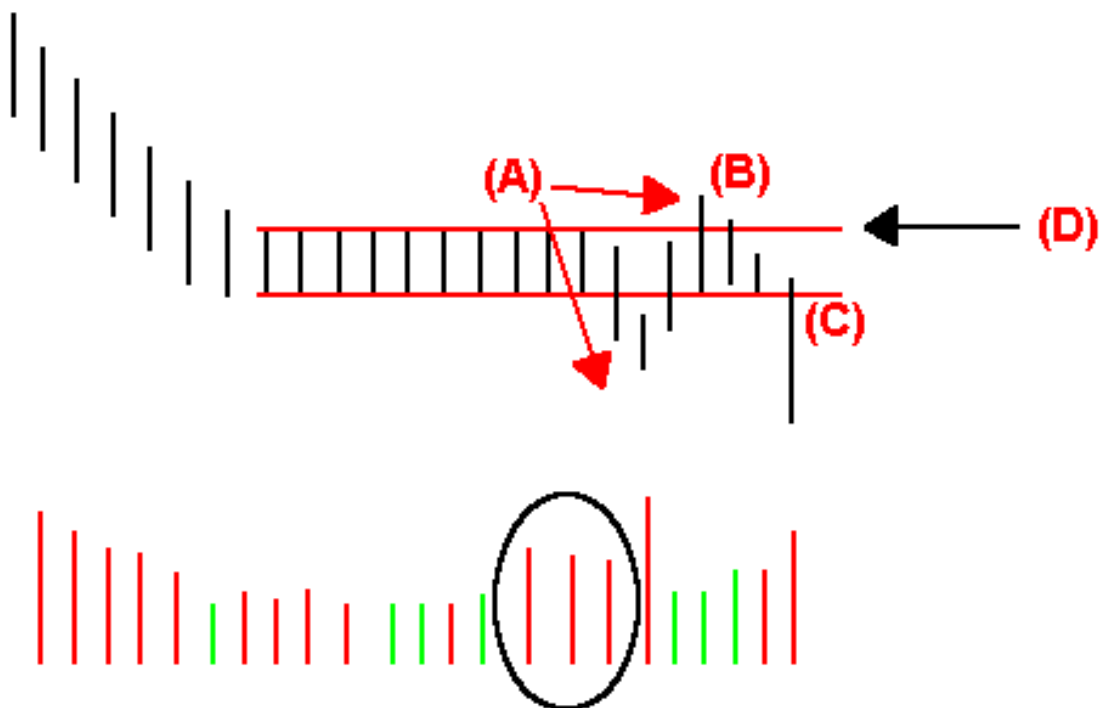
1. The stock must break down out of the bottom of the pattern, then reverse and go back through the top of the pattern (A).
2. When the stock reverses back down again (B), take entry when it moves out of the bottom of the pattern (C).

Failure and Go -- Short Entry



3. The stop procedure is the long failure and go, only reversed. You can use either the regular stop at (D), or use the alternate method and put the stop just above the bottom of the range after you get your entry at (C).

Failure and Go -- Short Entry



Again, many traders are afraid to enter after this volatile action, thinking "it is too choppy," or after getting stopped out fear another losing trade. You should approach it as just another trade of the many you will take over the course of the year.

When to Buy a Slim Jim at the Intraday Lows

The Slim Jim patterns we have covered so far are continuation breakouts in the direction of the intraday trend. We will now explain how to trade the intraday contra-trend Slim Jim.

Very often, if the market has sold off more than usual, Slim Jims will develop at the low of the day that can be played to the upside, as well as any further continuation to the downside.

One key point to keep in mind when taking a long side entry in a Slim Jim at or near the intraday low, in addition to improving market conditions, is that there must be enough profit potential to risk when taking the breakout.