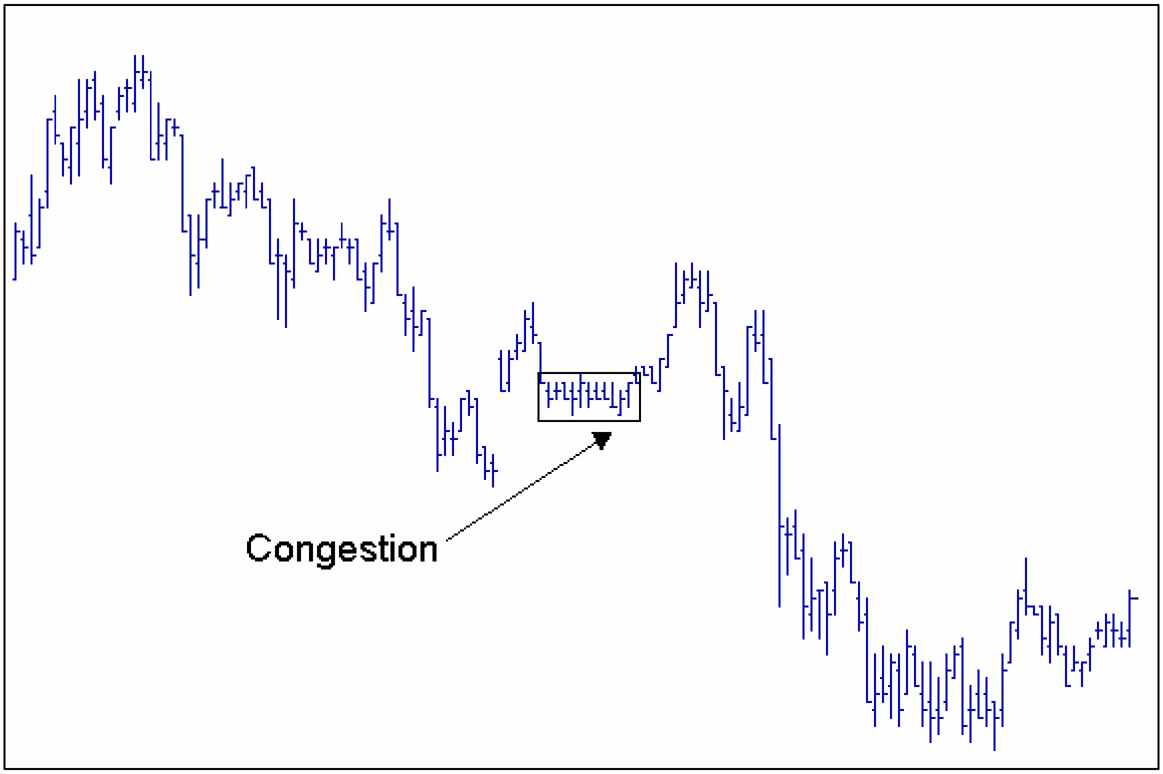
Chapter 15

THE CONCEPT OF SECOND TIME THROUGH

Quite often, prices will enter a congestive phase and begin to move sideways. The following chart is an example.



When this happens, it is often better to take a second-time through breakout of the congestion in the direction of the previous trend. It makes no difference as to the time period involved. The above chart happens to be a five minute chart. However, the same principle would apply to any time frame.

Here are the conditions that set up the trade:

1. There must have been a prior trend.

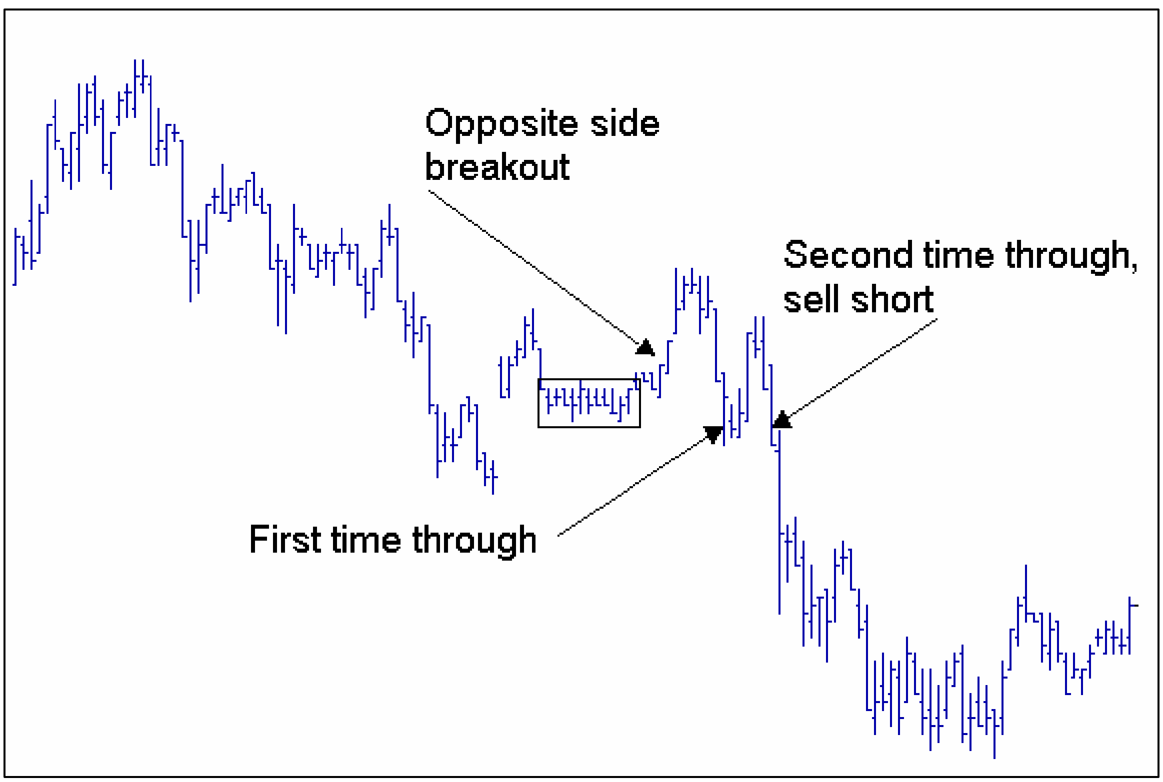
2. There must be a clearly visible congestion area, the flatter it is in appearance, the better.

3. There must be a breakout of that congestion area in the direction opposite to the prior trend. In other words, if the previous trend was downward, there must first be a breakout from the congestion to the upside.

4. The upside breakout must be followed by a first-time through breakout in the direction of the prior trend.

5. The first-time breakout of the congestion must be followed by a reaction back towards or even into the price level of the congestion.

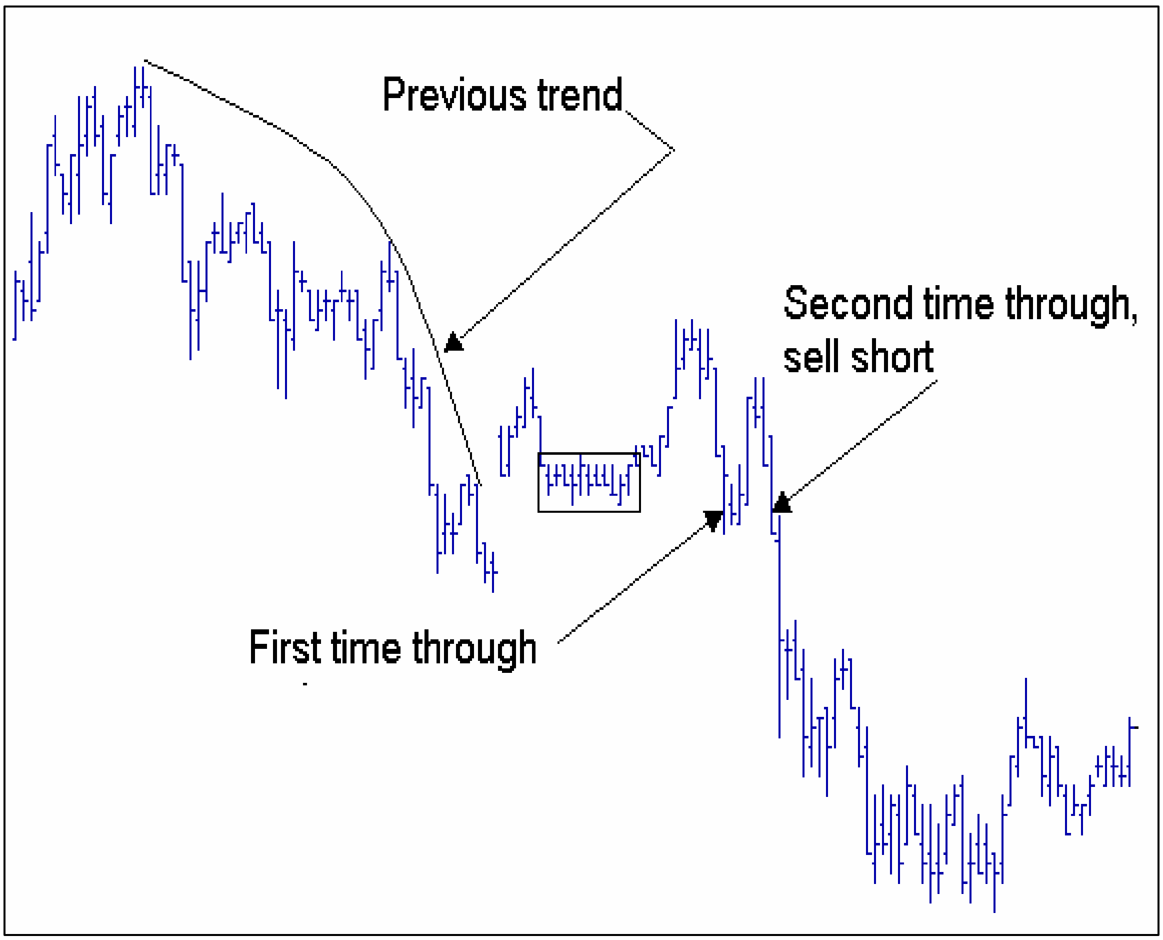
A second-time through breakout of the bottom of the boxed off congestion area on the chart below would be in keeping with the direction (down) of the previous trend. As prices pass through the lows of the congestion area, you would sell short because the direction of the previous trend had been down. The trade would look like this:



You may wonder why anyone would want to do this. The reason is that in the first time through congestion, often the only reason prices breakout is because the market movers see an easy opportunity to scalp a few profits by running the orders. Orders tend to accumulate just above and below congestion areas. However, the second time through the congestion, the previous orders are no longer there. The second time prices move through the congestion, the move is usually real.

PERTINENT POINTS

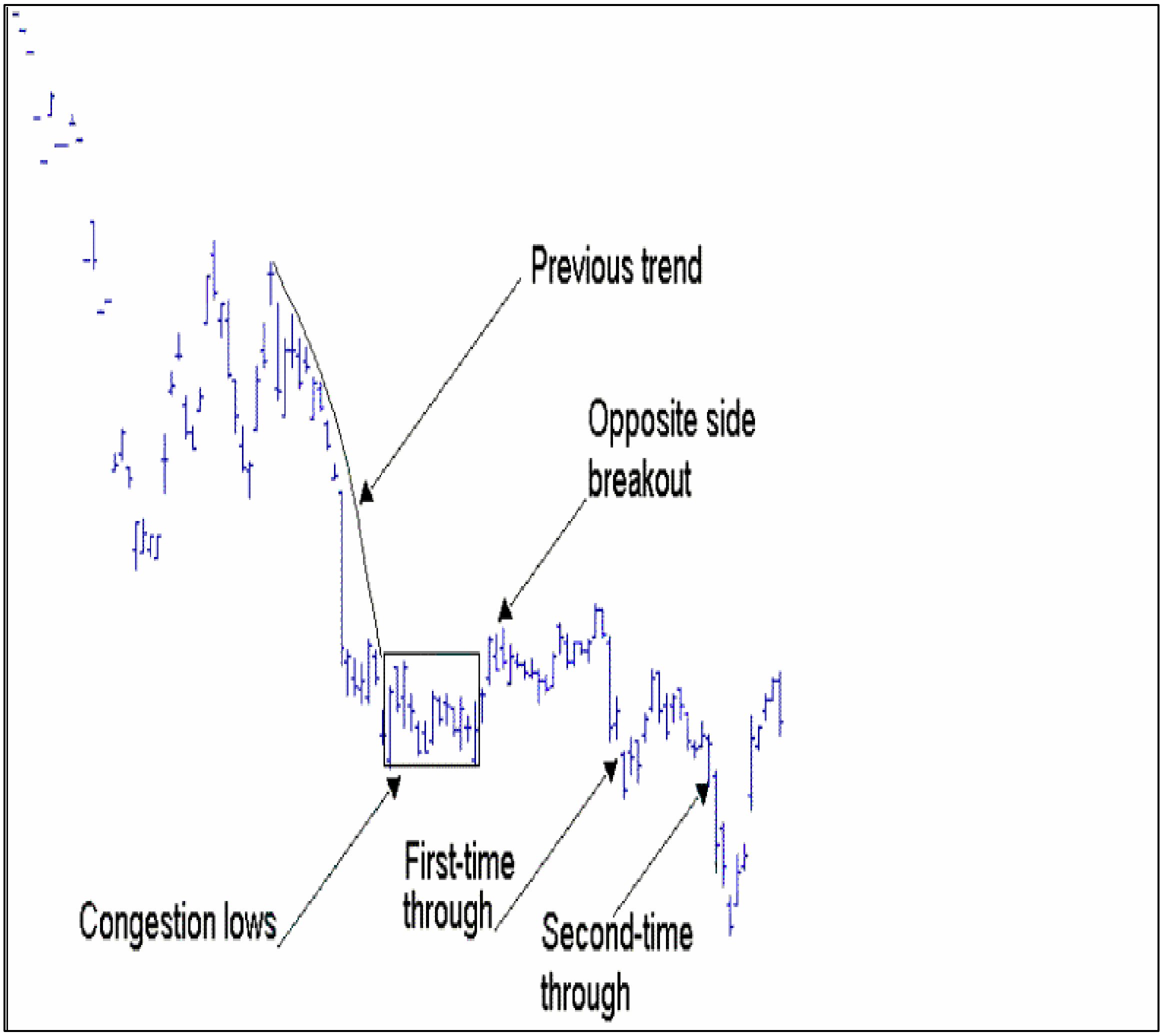
1. Be sure you can clearly identify the direction of the previous trend.



Anticipate a very short term scalp on the fade side of the trade, i.e., once the first time through occurs, don't expect the reaction to last more than a few bars.

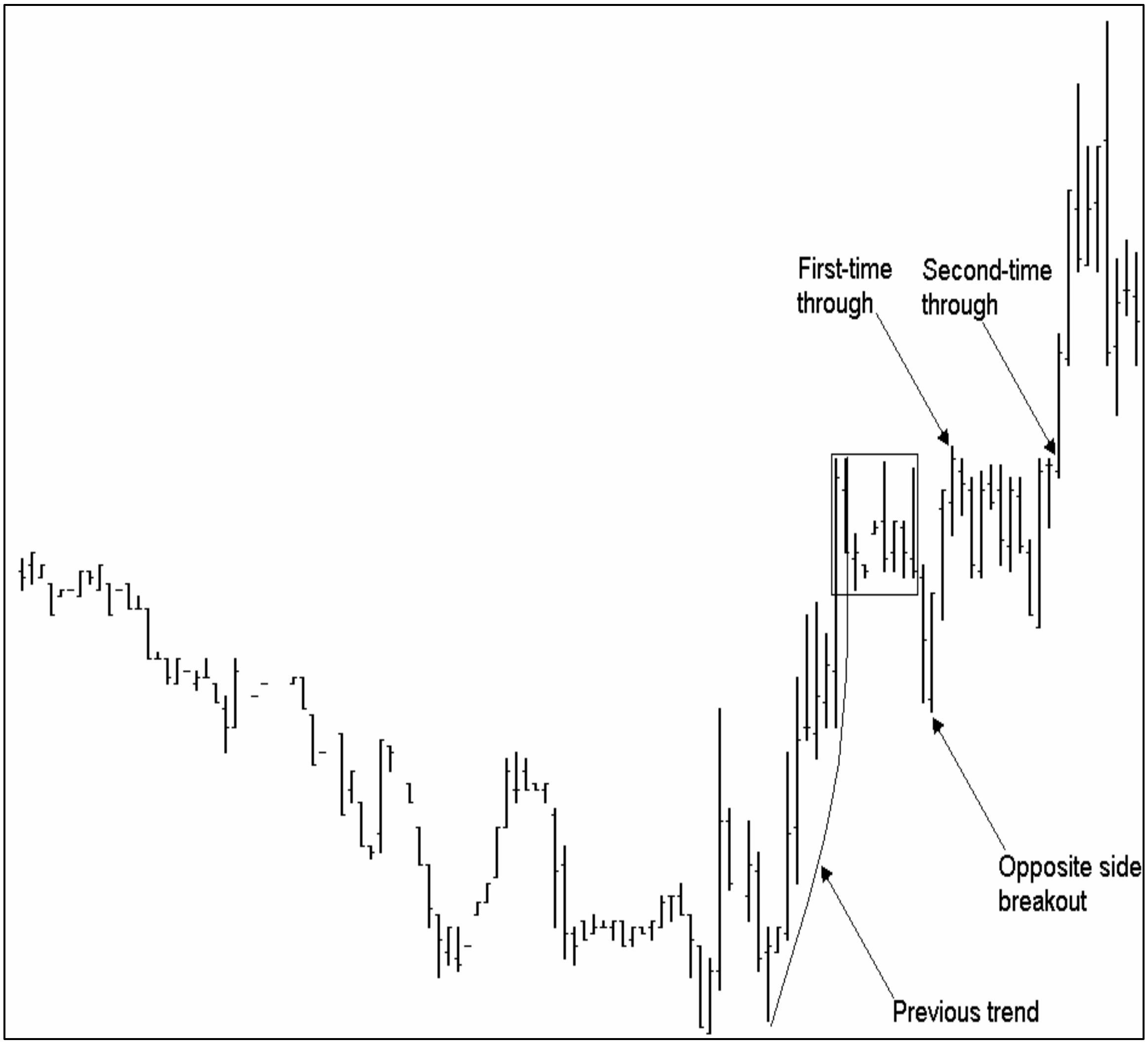
Consider passing up the short term scalp, opting for the second-time-through trade only.

2. Be sure you can identify an opposite side breakout. In the example below, the breakout above the congestion is less pronounced than it is in the previous example.



3. Try to find a congestion area that has a flat bottom if the second-time through breakout is to be through the lows. Try to find a congestion area with relatively flat tops if the second-time through breakout is to be through the highs.

4. **NOTE CONGESTION AREAS THAT BREAKOUT TO THE UPSIDE GENERALLY DO NOT PRESENT THEMSELVES WITH AS FLAT A CONGESTION AS DO THOSE THAT BREAKOUT TO THE DOWN SIDE.**



We had to look long and hard to find this example of an upside second-time through trade with fairly flat tops to the congestion, but we wanted to give you an example of what one looks like. Most of the time, flat top congestions are more difficult to find than congestions with flat bottoms. However, the above chart presents all of the criteria we've been discussing for second-time through trading.