SELECTIVE STRATEGIES FOR INTRADAY TRADING – AN OVERVIEW

Dr. L Jalaja

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Abstract:

Intraday trading, also called day trading, is the buying and selling of stocks and other financial instruments within the same day. In other words, intraday trading means all positions are squared-off before the market closes and there is no change in ownership of shares as a result of the trades. The usefulness of intraday trades lie in the fact that one can also short sell the instruments aiming to square it off by the end of the day if they anticipate that the price of the instrument will go down. This is not possible in positional trading. Many people are by and for moving to the intraday trading mode from positional mode, as they get to see the money at the end of the day. Until recently, people perceived day trading to be the domain of financial firms and professional traders. But this has changed today, thanks to the popularity of electronic trading and margin trading. While there are numerous strategies adopted by various individuals and firms to increase their profitability in day trading this study aims to analyze and present three such effective strategies that can be used for intraday trading in primarily stocks, futures and options. It aims to suggest the entry and exit points for the traders with a good risk to reward ratio

Keywords: Intraday trading, Short sell, Strategies, Stocks, Futures and Options, Margin, Risk to reward ratio.

M.Com, M.Phil, Ph.D College of Science and Humanities SRM Institute of Science and Technology (SRMIST) Kattankulathur Chennai – 603 203

Email: jalajal@srmist.edu.in

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1. Introduction

Intraday trading means **buying and selling stocks on the same trading day**. Intraday trading is also known as Day Trading. Share prices keep fluctuating throughout the day, and intraday traders try to draw profits from these price movements by buying and selling shares during the same trading day. The stock prices keep fluctuating in the stock market, creating several trading opportunities throughout the day. These price movements reflect shifting investors' sentiments towards the company stocks. During the day, stock prices fluctuate depending on demand and supply parameters changes. In simple words, when demand exceeds the supply volume of the scrip, its price rises and a more drastic demand-supply gap results in a higher price. Intraday trading involves buying and selling stocks within the same trading day. Here stocks are purchased, not to invest, but to earn profits by harnessing the movement of stock and indices. Thus, the fluctuations in the prices of the shares are monitored to earn profits from the trading of stocks.

The success of intraday trading depends on correctly timing the day, meaning entering and exiting at the right time. It requires a great deal of understanding of the intraday trading time frame to place trades. This is where adopting a right strategy comes into play. With the help of a set strategy a trader can end up making decent profits on his capital. However it is also wrought with inherent risks of uncertainty of the stock market which is where the stop loss point also plays a critical role.

As they say, you cannot time the markets and you cannot predict them either, these strategies aim at improving the success ratio in comparison to the blind game or tips based approach which few traders adopt.

1.1 Trading Strategy

A trading strategy is a systematic methodology used for buying and selling in the securities markets. A trading strategy is based on predefined rules and criteria used when making trading decisions.

There are thousands of equities to choose from, and day traders can pick virtually any stocks they want. So, the first step for a day trader is to figure out what to trade. Once a trading opportunity has been the next step is coming up with some ways to profit from them.

Day traders who execute intraday strategies attempt to profit off of price changes for a given asset using a wide variety of techniques.

2. Review of Literature

Abdul Rahim (2013)2 explained the relationship between SEBI and NSE in his research paper, "Problems and Prospects of Online Share Trading Practices in India, International Journal of Marketing, Financial Services and Management Research." NSE has implemented online trading of securities in accordance with SEBI regulations. In his research, he also included the advantages of investing in stocks or equity-oriented mutual funds over a longer period of time.

In his research paper "Benefits and Drawbacks Of Online Trading," Petric Loana Ancuta (2015)3 explains that the investment and financial services companies should use other factors that influence the decision to switch from traditional to online trading to guide their marketing campaign to attract more investors for online platforms. Additionally, he asserts that when investors have extensive stock market expertise, greater education, and computer savvy, they will convert to online trading.

In his work "Impact of Internet Growth on the Online Stock Trading in India," Dr. Sarika Srivastava (2016) notes that the internet has reduced geographical boundaries for customers and increased their knowledge of financial products and services. This research paper's main goal is to examine how the expansion of the internet has affected stock market trades. The current condition of internet trading in India, in particular the size of the online trading market there, is also covered in the study.

Professor Aadil Bade has examined about Demat account and online trading in his essay "Analysis-Demat account and online trading," which was published in the Scholarly Research Journal for Interdisciplinary Studies in 2017. He claimed that online trading is still in its infancy in India.

The literature on tick size tends to focus on the impact on market liquidity (see, for example, Ahn et al. (1996), Bacidore (1997), Bessembinder (2000), Goldstein and Kavajecz (2000), and Chung et al. (2004)). • The first prediction is by Harris (1994) who expects that bidask spreads should narrow following reductions in tick size. • The general consensus in the literature is that a larger tick size is indeed associated with wider bid-ask spread, while the evidence on trading volume is mixed.

A related strand of research focuses on price clusters. • Many studies have found that the stock prices tend to cluster around particular numbers (e.g. Harris (1991), Aitken et al. (1996), Brown et al. (2002), Chung et al. (2002), Chung et al. (2004), Ahn et al. (2005), Chung et al. (2005), Ohta (2006), and Chiao and Wang (2009). • Even with decimalization of stock quotes, Ikenberry and Weston (2008) show that in the U.S., trade prices tend to cluster around integers, half-dollars and quarters

Round numbers have also been linked to cognitive limitations and investors' tendency to use "shortcuts" in their investment decisions. • Brown

and Yang (2016) analyze horse race betting data and find greater propensity to quote odds at round numbers, which they suggest is reflective of cognitive limitations of the agent who proposes the price. • Kuo et al. (2015) find that investors who disproportionately submit more orders at round numbers (they classify this group as investors with limited cognitive abilities) tend to suffer greater investment losses.

3. Objectives

- To study the VWAP strategy, its applications with entry and exit points
- To study the Fibonacci strategy
- To study the strategies that can be applied in huge gap up and gap down markets
- To study the risk reward ratio behind each strategy

2. Research Methodology

The statistical data is collected completely from secondary sources such as backdated charts and indicators.

3. Results and Discussions

5.1 VWAP Strategy (Volume Weighted Average Price)

Definition of VWAP : In finance, volume-weighted average price (VWAP) is the ratio of the value of a security or financial asset traded to the total volume of transactions during a trading session. It is a measure of the average trading price for the period.

VWAP is the average price a security has traded at throughout the day, based on both volume and price and is important because it provides traders with insight into both the trend and value of a security.

The VWAP calculation is performed by charting software and displays an overlay on the chart representing the calculations. This display takes the form of a line, similar to other moving averages.

VWAP shows who is in control

VWAP is an indicator, it indicates who is in control of the price (the buyers or the sellers). When a stock is traded above the VWAP, it means that the buyers are in overall control of the price and there is a buying demand for the stock. When a stock price breaks and close below the VWAP, it is safe to assume that the sellers are gaining control over the price.

1. If VWAP is rising then it shows buyers in control
2. If VWAP is falling it shows sellers in control
3. If VWAP is flat then it indicates no one is controlling the market, the price is in a trading range

Current strategy which has been described under is ideal for trading index futures and options where one can expect atleast a 1:1 on risk reward ratio if not more in a trending market. To better the risk reward ratio one can take multiple lots and square off 50% on 1:1 ratio while holding the other 50% with a revised stop loss at buying price.

Strategy

1. Charts to use : Normal candlestick in 5 min time frame
2. Applicable essentially to index futures and options
3. The trader has to Choose any index future chart (nifty or bank nifty) which is traded actively
4. 5 min timeframe with normal candle stick patterns has to be opted for
5. Vwap line has to be activated on the chart. Many brokerage houses give this facility on their charts
6. The close of the first five minute candle has to be taken into consideration irrespective of being red or green. The close of the candle has to be observed if it is above or below the vwap line.
7. The trader needs to wait for a first set of candles (two candles either consecutive or alternate of after few candles) to close in the same direction either above or below the vwap line. It could be the first and second candle or second and fourth candle or second and sixth candle.
8. If the above selected candle set has closed above VWAP, then the trader has to bet prepared to take an entry at the break of the high of the highest value of the two candles with a stop loss at either VWAP line or the low of the lowest value of the two candles.
9. Alternatively if the First candle set closes below VWAP, then the plan is to take a short entry at the break of the low of the lowest value of the two candles with a stop loss at either the VWAP line or the high of the highest value of the two candles.
10. Target could be marked with 1:1 precision. But huge trending market could give an enormous returns of 1:5 or even 1:6 in some cases
11. This strategy has been observed to give an average 7 wins out of 10 which is a good strike percentage

Bank Nifty Chart on 30th August 2022

We can see that after the first two closings above VWAP and crossing of the high of the second close, the index (futures) rallied towards bigger gains. The 1:1 was easily achieved while holding on to the futures or trailing the stop loss could have given gains as easily as 1:5 or 1:6

Entry	38890
Stop Loss	38829
First Exit	39060
Second Exit	39403
SL %	0.2%
Profit %	0.4%
Risk To Reward	1:2
Risk to Reward 2nd Exit	1:6

Nifty futures Chart on 23rd August 2022

Here it can be seen that the opportunity to trade was provided twice. Once in the morning with a risk reward of 1:2 and again in the afternoon with a risk reward of 1:2. Also it can be observed that while there was a downward break of VWAP line at 10:35 followed by another low at 10:40. However the low of the second break at 10:40 was not breached and hence no trade was initiated. This clearly shows that following the rules of the strategy is as important as the strategy itself.

Entry	17460
Stop Loss	17407
Final Exit	17566
SL %	0.3%
Profit %	0.6%
Risk To Reward	1:2

5.2 Fibonacci Strategy

Whenever a stock moves either upward or downward sharply, it tends to retrace its path before the next move.
The Fibonacci sequence is a series of numbers, where a number is found by adding up two numbers before it. Starting with 0 and 1, the sequence goes 0, 1, 1, 2, 3, 5, 8, 13, 21, 34, and so on and so forth till infinity. If we divide any of the number in the series by the previous number; the ratio is always approximately 1.618.
The ratio of one number divided by the next settles at .618, which is known as the golden ratio. In nature, this is the proportion of a perfect spiral, like that found in a pinecone and a pineapple. This ratio has in turn been correlated to stock price action and enacts retracements and target levels periodically,"

The Fibonacci retracements utilised in trading draw their numbers not from the Fibonacci sequence but rather from mathematical correlations between the numbers in the sequence. Dividing a number in the Fibonacci series by the number after it yields the "golden" Fibonacci ratio of 61.8%.
For instance, 89/144 equals 0.6180. Divide a Fibonacci number by the number two places to the right, and the result is the 38.2% ratio. For instance, 89/233 equals 0.3819. The Fibonacci sequence number is divided by the number three places to the right to arrive at the 23.6% ratio. 89/377, for instance, equals 0.2360.
By identifying the key at the high and low points on a chart, Fibonacci retracement levels are displayed.
Typically, the grid of Fibonacci levels that can be constructed using charting software includes the 50% retracement level.

It's common practise to incorporate Fibonacci retracements into trend-trading strategies. Traders attempt to create low-risk entries in the direction of the initial trend utilising Fibonacci levels in this scenario as they see a retracement occurring within a trend. Traders that employ this approach believe there is a good chance that a price will revert to the initial trend after rebounding off the Fibonacci levels.

Now let us understand how to use the Fibonacci as a tool for trading and generating profits.
The underlying statement here is that this tool can be used for trading in futures and stocks as value of options necessarily depend on volatility, demand and supply and hence cannot be applied to option values directly
The strategy:

1. Charts to use: Normal candle stick in 5 minute time frame with volume chart at the base.
2. Applicable to Index Futures, Stock Spot price and Stock Futures.
3. This strategy combines two tools. One is the Fibonacci series tool and the other is the volume chart for the stock or the derivative (Futures)
4. The trader has to observe the first five minute candle for the day which we can call as the opening range candle in general terms for this strategy
5. Mark the high and the low of the candle after close.
6. Taking high and low as the base points, using the tools (as provided by various broker charting softwares), a Fibonacci extensions have to be drawn above and below the candles with the 0, 0.382, 0.5, 1, 1.382, 1.618, 2.618, 3.618 and 4.618 points
7. The trader has to wait for any candle to break and go above the 1.618 line on the Fibonacci lines drawn for the stock with a volume which is higher than the 20 period moving average volume.
8. The trader can take a long entry at the close of such candle and place his stop loss at the value being shown on the 1.382 line (or slightly below) in the Fibonacci drawing.
9. For the short entry, the candle has to break and go below the 1.618 line on the downside with a volume which is higher than the 20 period moving average volume. Stop loss remains the same at 1.382 line (or slightly above) on the downside
10. The trader can set his first profit target at 2.618 levels on either side depending on the type of entry taken and then keep trailing his stop loss.
11. Extremely trending days have been observed to take the value of the stock on either side beyond the 3.618 line however, it is always advisable to trail stoploss once the value hits the 2.618 line.
12. This strategy also facilitates contra trading when you observe that the value of the stock or the derivative (futures) is retracing from either 0.5 or 1 value or from 1.618 or 2.618 or so on. The opposite side entry can be taken by the trader depending on the risk profile
13. This strategy has a good risk to reward ratio in comparison to the other strategies and also gives the trader an idea of the levels to which the stock or the derivative can travel and plan his profit taking accordingly.
14.

Reliance industries Chart on 22nd August 2022.
We can observe an opportunity for contra trade when the price touches the 1.618 line on the downside and reverses. Also observe the volume which is lower than the 20 period moving average
.

Breaks 1.618 but volume below 20 period MA. So No entry

Breaks again but this time with volume above MA. Possible Long Entry

Reliance industries Chart on 23rd August 2022.
We can observe that an attempt was made at 10:00am in the morning to break the 1.618 level but the volume was not supporting. Hence it retraced back to 1.382. Had anybody gone long on this break would have hit a stoploss. But again at 11:45 am the 1.618 level was brea on this break would have hit a stoploss. But again at 11:45 am the 1.618 level was breached with volume above the 20 period moving average volume and the stock zoomed to 4.618 levels
Below table summarises the risk to reward

Entry Long (Buy)	2620
Stop Loss	2612
Final exit (Sell)	2660
SL %	0.3%
Profit %	1.5%
Risk to Reward	1:5

Bank Nifty Futures Chart on 19th August 2022.
It is clear from the above chart that once the 1.618 level was breached on the downside, it was a good opportunity for short selling the futures which would have given phenomenal profits.

Below is the summary of Risk to Reward

Entry (Short Sell)	39441
Stop Loss	39617
Final exit (Buy & Squareoff)	38980
SL %	0.4%
Profit %	1.2%
Risk to Reward	1:3

Bank Nifty Futures Chart on 25th August 2022.

As one can see from the above chart that the market started reversing from 1.382 levels thereby providing an opportunity for placing contra trades (short sell trades in this context since market was going up)
However it may also be noted that RR ratio does not apply to contra trades as these are just opportunity trades taken in respect to the prevailing market condition. Hence it is advised that a strict stop loss and trailing of the same may be applied while taking contra trades.

GAP Up or GAP Down Strategy :
Gap-up / Gap Down Defined : **When the price of a financial instrument opens higher than the previous day's price**, it is gap-up. Gap-down: When the price of a financial instrument opens lower than the previous trading day it is gap-down. Gap-downs occur when there is a change in investor sentiments.
Markets are very volatile and can never be predicted. One day the market could rally over 1000 points while the very next day could open lower than the previous day close. When the markets open at a significantly higher or lower levels than the previous day's close, it is called a Gap up or Gap Down Opening respectively. The percentage varies depending on the security or the derivative. Especially for Nifty Index, a variation of over 100 points is a Gap on either side and similarly for Bank Nifty a variation of over 250-300 points is a Gap.
The strategy we are about to discuss can be applied on the index futures and options with a very good risk to reward ratio on Gap Up or Gap Down days.

Strategy :
Chart to Use: Candle Stick 1 Min Timeframe
Condition1 : Gap Down

1. Look for the first green bullish candle which should be well within the first five minutes.
2. Entry to be taken when the high of the candle is breached (not later than next two to three minutes)
3. Stop loss to be placed at the low of the green candle
4. Target a risk to reward of 1:2

Condition : Gap Up

1. It is reverse of the Gap Down strategy
2. Look for the first red bearish candle which should be well within the first five minutes

3. Short entry to be taken when the low of the candle is breached (not later than next two to three minutes)
4. Stop loss to be placed at the high of the red candle
5. Targe a risk to reward of 1:2

This strategy essentially aims at extracting profit by riding the wave. When the markets open gap up or gap down big institutional players run to book profits or cover their stop loss resulting in the market retracing fast in the reverse direction atleast for a small amount of time. It is this momentum that the retail traders can cash upon by using this strategy. A quick short trade would result in a sizeable profit.

Bank Nifty 1st Sep 2022 Chart:
Markets rallied for over 1200 points on 30th August which was the last working day prior to opening a gap down of over 700 points on 1st Sep. The entry at the high of the first green candle shows a clear 1:2 risk to reward in such a scenario

Entry	39053
Stop Loss	38808
Final Exit	39543
SL %	0.6%
Profit %	1.3%
Risk To Reward	1:2

First Swing break strategy:

Bank Nifty 29th July :
Market opened with a big gap of above 400 points. Then the first red candle strategy if it would have been applied would have given substantial returns as per the above chart

Entry	37676
Stop Loss	37738
First Exit	37529
Second Exit	37317
SL %	0.2%
Profit %	0.4%
Risk To Reward	1:2
Risk to Reward 2nd Exit	1:5

4. Suggestions and Conclusion:

Stocks do not move up or down in a straight line. They travel up for a period of time, then they retrace, again move up, retrace again and then move up. This goes on till there is demand for the security and once it reaches the peak, the retracement turns into a downside move in the same style. Moves down for a certain period, then retraces upwards, then continues its downward journey again. This pattern can be attributed to the supply and demand zones created by sellers and buyers at various levels.
These abovesaid levels form the resistance on the upperside and support on the lowerside respectively. Hence understanding of the resistance and support levels are also crucial for application of any strategy in the market because no matter whatever is the strategy applied, the support and resistance play a crucial role in deciding the further direction of the instrument.
While the strategies can be a basis for entries and exits in the markets, these are also bound by the psychology and the emotions of the retail trader. Because of the swings as discussed above which is an inherent quality of any financial instrument traded, the price fluctuates and fluctuations can be extreme at times. This is where the stop loss comes in handy. However many a times retail trader gets scared of the loss on the screen even before the stop loss is effected and exits the trade prematurely in loss only to notice that the the stock or the futures has rallied in his expected direction after the trade. So to ensure success in any strategy, the retail trader should ensure that he follows that strategy day in day out without deviations from its rules and then sticks to the stop loss factor.
The success or wholesome profitability of the retail trader is dependent on the strategy that he uses, the

discipline (defined by his ability to avoid trading prematurely) and the psychology of the trader.
The strategies discussed here are few of the widely available number of strategies and each of them have their own risk to reward profile. As such no strategy can assure a 100% success rate as markets can never be predicted. Hence stop loss plays a crucial role in ensuring the profitability of the trader.
The goal of a successful trader is to make the best trades. – Alexander Elder

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