

[The V.a.t. Setup For Online Stock And Option Trading](#)

The VAT setup was designed to take advantage of explosive moves that change and/or accelerate the trend in a stock's price action that can be exploited with online stock trading and stock option trading. This technique was inspired by a similar method detailed in Victor Sperandio's work as written in his book, "Trader Vic II: Principles of Professional Speculation". The VAT setup can be implemented with either the stock itself or stock options depending on your preference. To use the setup for stock trading or stock option trading you will need to be able to determine whether the market is in a confirmed rally, to select the stocks with strong fundamentals and price action, have access to stock charts, know how to draw a trendline, utilize Bollinger Bands, spot gaps or laps in a stock's price action, and have a trading plan once a trade is entered.

My preferred method of confirming a market rally in the general market or indices is the one developed by William O'Neil, founder of Investor's Business Daily and author of the book "How to Make Money in Stocks". In O'Neil's method, one looks for a Follow Thru Day or FTD after a market decline. When the market shows a rally equal or greater than one percent of that particular index with greater volume than the previous trading day then that marks Point 1 or Ground Zero as I call it. Once that occurs then ideally you want to see the same type of rally again at one percent or greater on higher volume than the previous day within 4 trading days. This day is the FTD and confirms the market is set to rally.

You must then have a list of stocks that are high in price volatility as well as possess strong earnings along with low debt. For online stock and option trading, you will watch these stocks daily on your stock charts to review their performance while watching for certain types of price patterns which I will detail later. On your charts, you must have a technical indicator called Bollinger Bands on the screen. These bands measure the fluctuation of volatility in a stock's price action. If the bands are expanding then that shows that price is accelerating in a particular direction. If the bands are constricting or the ends of the bands are turning outward then it indicates low volatility as price action becomes constricted.

Each day, you must watch to see if there is any explosive price action in any of the stocks that is bullish which results in a gap in price or a lap in price. A gap results when a stock opens higher than the previous day's high but still within the previous day's high of that day while a lap results in an opening above the previous day's high of the day and never comes down within that previous day's price action. Between the two, the lap is the more powerful pattern to trade off of. Once a gap or lap pattern occurs then you must observe whether that results in a break in a defined trendline as well as reach the upper Bollinger Band. Once that occurs then you have a VAT setup in place and now ready to trade. Commonly, a trader can take a position as soon as the stock opens and/or pierces the upper Bollinger Band however there are many other methods which are beyond the scope of this article.

Apple recently resulted in a 75% gain in just this past year for the author of this article using the VAT setup and, presently, RIMM has just triggered a VAT trade as well while the market has been in confirmed rally at the date of this writing. Stocks such as Apple Computer, Google, Goldman Sachs, Blue Nile, Chicago Mercantile Exchange, and many others have all offered up VAT setups in the past which have resulted in huge returns to stock and option traders that were watching for this type of trade.

This is a powerful method of getting in early on stocks that are fixing to make huge bull runs in price and, with practice, you can become an expert in trading them as well as profitable. These moves are explosive and make accelerated gains in a short time that can be exploited with a proper trade management as well as make huge gains making intelligent use of stock options. Take the time to build a "hit list" of high performing stocks and watch for these types of trades and you will be rewarded.

About the Author

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