



Outside Days

Outside days can occur frequently on daily charts. The secret of the outside day is the bigger the better and it has more meaning if found at the end of a trend.

They can be short lived and I always take my profit quickly. The outside day (OD) should completely encompass the previous day. It must have a higher high than the previous day and a lower low than the previous day.

One of the most important things about this pattern is that the bar closes in the opposite direction of the trend. If the trend is down the close on the OD must be near the high or in the upper part of the bar. The opposite is true of the up trend. The OD may still work if this is not the case but my research show that it is more effective if it does close in the opposite direction.

A great example of this happened on the cash Dow only a few days ago (24th July 02, refer to chart). I like to trade this in two ways. First, depending on what the market has been doing prior to the outside day I will place a entry order a few ticks above the high of the OD if the trend has been down and I am looking to get long. Once I am in the market I will place my stop loss either as a dollar amount or at the .618 fibonacci retracement of the OD.

If you don't know anything about fibonacci don't worry, we will cover that in future lessons. The same applies to the short trade. If the OD occurred at the end of an up trend and I am trying to get short, I will place my entry order a few ticks below the low of the OD. Once taken short I will place my stop loss order in the same way as the long trade, either as a dollar amount or as the .618 fibonacci retracement.

The second way I like to trade this pattern is to trade it intraday. I closely monitor what happens at the high of the OD if I intend to go long and the low of the OD if I intend to go short.

Once the high or low has been taken as the case may be I will then enter the market on a 5 minute or 1 minute chart. For long position I will buy the first retracement with a tight stop loss order under an intraday support and if trying to get short I will sell the first rally with a stop loss order above an intraday resistance.

Below are two examples of Outside Days. The first occurred at the end of a down trend (First Chart) and the second occurred at the end of an up trend (Second Chart).





Good Trading

Best Regards
Mark McRae

Information, charts or examples contained in this lesson are for illustration and educational purposes only. It should not be considered as advice or a recommendation to buy or sell any security or financial instrument. We do not and cannot offer investment advice. For further information please read our [disclaimer](#).