

4 Simple Scalping Trading Strategies and Advanced Techniques



Today we are going to cover one of the most widely known, but misunderstood strategies – scalp trading, a.k.a scalping. If you like entering and closing trades in a short period of time, then these strategies will definitely suit you best.

We'll touch on the basics of how to scalp trade, then dive into specific trading examples. At the end, we'll cover more advanced scalp trading strategies and techniques that will help increase your odds of success.

Scalp Trading Definition

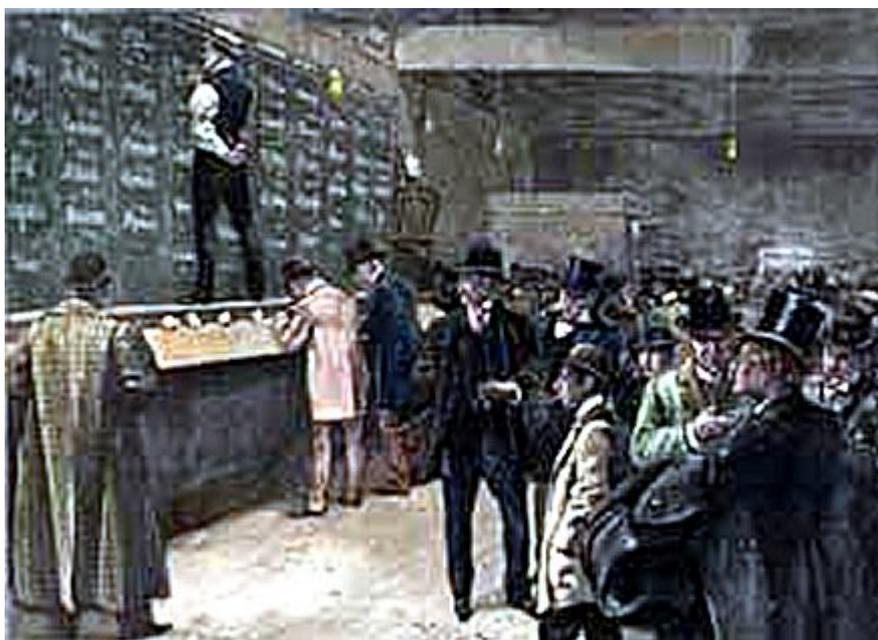
Scalp trading can be one of the most challenging styles of trading to master. It requires unbelievable discipline and [trading focus](#). Despite the trend in high frequency trading these day, scalping has been around for a while.

Traders are usually attracted to scalp trading for the following reasons:

- less potential exposure to longer-term risk
- higher frequency trading – you can place up to a hundred trades or more per day
- ability to fight the [greed](#), since your [day trading profit targets](#) are very small
- a greater number of trading opportunities

The Decimal System

Years ago, when stocks were quoted in fractions, there was a standard spread of 1/16 of a dollar or a “teenie”. This spread allowed scalp traders to buy a stock at the bid and immediately sell at the ask. Hence the teenie presented clear entry and exit levels for scalp traders.



1892 Trading Bucket Shops

The scalp trading game took a turn for the worse when the market converted to the decimal system. The decimal system closed the “teenie” often times to within 1 penny for high volume stocks. Overnight, this shifted the strategy for scalp traders.

A scalp trader now had to rely more on instincts, [level II quotes](#), and the time and sales window.

How to Scalp Trade

A scalp trader can look to make money in a variety of ways.

One method is to have a set profit target amount per trade. This profit target should be relative to the price of the security and can range between .1% – .25%.

Another method is to track stocks breaking out to [new intra-day highs](#) or lows and utilizing Level II to capture as much profit as possible. This method requires an enormous amount of concentration and flawless order execution.

Exchange	Price	Qty	Exchange	Price	Qty
ARCA	337.75	2300	ARCA	337.77	400
BATS	337.75	1700	BATS	337.77	300
NASD	337.75	1500	EDGX	337.77	300
EDGX	337.75	1400	NASD	337.77	300
NYSE	337.75	1400	PSX	337.77	300
MIAX	337.75	800	MEMX	337.77	200
PSX	337.75	800	MIAX	337.78	1100
EDGA	337.75	100	NYSE	337.78	800
IEX	337.75	100	NSX	337.79	300
IEXG	337.75	100	BYX	337.79	300
NQBX	337.74	500	EDGA	337.79	300
AMEX	337.74	300	NQBX	337.79	300
MEMX	337.73	600	IEX	337.80	200
BYX	337.73	300	IEXG	337.80	200
NSX	337.65	200	IEXG	337.81	200
IEXG	337.65	200	IEXG	337.82	200
IEXG	337.64	200	CHX	338.30	200

A Level II montage. Source: [CenterPoint Securities](#)

Lastly, some scalp traders will follow the news and trade upcoming or current events that can cause increased [volatility](#) in a stock.

Winning is Critical

Unlike a number of day trading strategies where you can have a win/loss ratio of less than 50% and still make money, scalp traders must have a high win/loss ratio. This is due to the fact that losing and winning trades are generally equal in size. **The necessity of being right is the primary factor scalp trading is such a challenging method of making money in the market.**

Now that we have covered the basics of scalping, let's explore a few scalping strategies you can test for yourself.

Scalp Trading Strategies

Strategy #1 – Pullbacks to the Moving averages

We discuss this in detail in a post on [20 Moving Average Pullbacks](#). It can be a very lucrative strategy on any time frame.

In a nutshell, it is a scalping strategy that is focused on joining a trend in either direction by jumping into a stock as it pulls back to a popular moving average.

This method has been popularized by legendary traders like Linda Raschke.

The criteria you want to look for in this strategy are as follows:

1. Strong momentum in either direction
2. A clear trend
3. Pause in the trend with constructive/light pullback volume
4. The ability to enter at the 20 moving average
5. Reclaim of the prior trend

Here is an example of what this might look like with ticker symbol SGOC.



20 moving average pullback

As you can see, the stock is minding the 20 moving average the entire time, until the top around 11:15. Profits can be taken along the way as you add and sell around a core position.

#2 – Scalp Trading with the Stochastic Oscillator

One of the most attractive ways to scalp the market is by using an [oscillator as the indicator](#) leads the price action.

Yes, it sounds pretty simple; however, it is probably one of the hardest trading methodologies to nail down.

Since oscillators are leading indicators, they provide many false signals. The reality is that if you scalp stocks with one oscillator, most likely you are going to accurately predict the price action 50% of the time.

This is literally the equivalent to flipping a coin.

While 50% may prove a profitable ratio for other strategies, when scalping, you need a high win to loss ratio due to the increased [commission costs](#).

Let's dig a little deeper.

Stochastics

The slow stochastic consists of a lower and an upper level. The lower level is the [oversold](#) area and the upper level is the overbought area.

When the two lines of the indicator cross upwards from the lower area, a long signal is triggered. When the two lines of the indicator cross downwards from the upper area, a short signal is generated.

The below image further illustrates these trade signals.



Stochastic Scalp Trade Strategy

This is the 5-minute chart of Paypal. At the bottom of the chart, we see the stochastic oscillator. The circles on the indicator represent the trade signals.

In this case, we have 4 profitable signals and 6 false signals. The 4 profitable signals generate \$16.00 per share of Paypal. However, the losses from the 6 false signals generate a loss of almost \$10.00 per share.

You are probably asking yourself, what went wrong?

The bottom line is the stochastic oscillator is not meant to be a standalone indicator. You need some other form of validation to strengthen the signal before taking a trading opportunity.

#3 – Scalp Trading with Stochastics and Bollinger Bands

In the next trading example, we will combine the stochastic oscillator with [Bollinger bands](#).

We will enter the market only when the stochastic generates a proper overbought or oversold signal that is confirmed by the Bollinger bands.

In order to receive a confirmation from the Bollinger band indicator, we need the price to cross the red moving average in the middle of the indicator. We will stay with each trade until the price touches the opposite Bollinger band level.



Stochastic and Bollinger Band Scalp Strategy

Above is the same 5-minute chart of PYPL. This time, we have included the Bollinger bands on the chart.

Trade Signals

We start with the first signal which is a short trade. Notice that the stochastic generates a bearish signal. Also, the price does break the 20-period moving average on the Bollinger band. Therefore, the signal is good.

The second signal is bullish on the stochastic and we flip long until the price touches the upper Bollinger band.

At the end of this bullish move, we receive a short signal from the stochastics after the price meets the upper level of the Bollinger bands for our third signal. A price decrease occurs, but the moving average of the Bollinger bands isn't broken to the downside.

We get a series of fake outs, and then the stochastics finally cross a fifth time, this time with confirmation on the bollinger band as well. You may be thinking, but what about that one cross of the median during the chopfest.

You may have take a small loss here depending on whether you took this trade or not. The second signal provided a re-entry in that case.

The third trade provides a short opportunity after the stall at the highs. We have a short signal confirmation and we open a trade.

This lasts until the [double bottom](#) reversal long signal.

The stochastic generates a bullish signal and the moving is broken to the upside, therefore we enter a long trade. We hold the trade until the price touches the upper Bollinger band level.

False Signals

As you can see on the chart, there are quite a few false

signals in a row. Talk about a money pit!

The good thing for us is that the price never breaks the middle moving average of the Bollinger band, so we ignore all of the false signals from the stochastic oscillator, except for maybe one.

If we compare the two trading methodologies, we realize that with the Bollinger bands we significantly neutralized all the false signals.

Profits

With a \$10,000 bankroll with day trading leverage of 1:4, we have a buying power of \$40,000. If we then invest 15% of our [buying power](#) in each trade (\$6,000), below are the results:

First trade: 23 shares x \$3 = \$70 profit.

Total bankroll: \$10,000 + \$70 = **\$10,070.00**

Second trade: 23 shares x \$2 = \$50 profit

Total bankroll: \$10,070 + \$50 = **\$10,120.00**

Third trade (Stop Out): 23 x -\$0.50 = -\$11.50 profit

Total bankroll: \$10,074.52 - \$11.50 = **\$10,108.50**

Fourth trade: 23 shares x \$5 = \$115 profit

Total bankroll: \$10,108.50 + \$115 = **\$10,223.00**

Fifth trade: 23 shares x \$1 = \$23 profit

Total bankroll: \$10,223.00 + \$23 = **\$10,246.00**

We were able to generate \$246.00 of profit with four scalp trades and one stop loss. Each of these trades took between 20 and 25 minutes.

While these trades had larger percentage gains due to the

increased volatility in Paypal, the average scalp trade on a 5-minute chart will likely generate a profit between 0.2% to 0.3%.

As you can see, the stochastic oscillator and Bollinger bands complement each other nicely. The stochastic oscillator says “get ready!” and the Bollinger bands say “pull the trigger!”

#4 – Scalp at Support and Resistance

This a very popular strategy that comes from the teachings of Richard D. Wyckoff and his [trading range](#) theories. Simply put, you fade the highs and buy the lows.

You really need the following two items (1) low volatility and (2) a trading range.

The low volatility reduces the risk of things going against you sharply when you are first learning to scalp. The trading range provides you a simple method for where to place your entries, stops, and exits.

In the next example, let’s take a look at the [S&P Futures E-mini](#) contract to identify scalping opportunities.

Why the E-mini contract? Well, it has low volatility, so you have a lower risk of blowing up your account if you use less leverage and the E-mini presents a number of trading range opportunities throughout the day.



E-mini Scalp Trades

Notice how the tight trading range provides numerous scalp trades over a one-day trading period. Later on in this article, we will touch on scalping with [Bitcoin](#), which presents the other side of the coin with high volatility.

To learn more about stops and scalping trading futures contracts, check out this [thread](#) from the [futures.io](#) community.

Advanced Scalping Techniques

Risk Management when Scalp Trading

We discussed a profitable scalp trading strategy with a relatively high win/loss ratio. We also suggested leveraging 15% of the buying power for each scalp trade. Now we need to explore the management of risk on each trade to your trading portfolio.

Since you are a scalp trader, you aim for lower returns per trade, while shooting for a higher win/loss ratio.

Therefore, your risk per trade should be small, hence your [stop loss order](#) should be close to your entry.

To this point, try not to risk more than .1% of your buying power on a trade.

Let's see how a tight stop would impact the stochastic/Bollinger bands scalp trading strategy.

Example: ORCL



Stop Loss Orders – Scalp Trading

For this example, we had a total of 3 trades.

For the first trade, the stochastic crossed below the overbought area, while at the same time the price crossed below the middle moving average of the Bollinger band.

We shorted Oracle at \$39.06 per share, with a stop loss at \$39.09, 0.1% above our entry price. The price began decreasing and 14 minutes later, ORCL hit the lower Bollinger band. We exited the trade at 38.95, with a profit of 0.28%.

After hitting the lower Bollinger band, the price started increasing. The stochastic lines crossed upwards out of the oversold area and the price crossed above the middle moving average of the Bollinger band.

We went long on this signal at \$39.04. Our stop loss is located at \$39.00, 0.1% below the entry price. This trade proved to be a false signal and our stop loss of .1% was triggered 2 minutes after entering the trade.

The third and final signal took over 40 minutes to develop.

After the price crossed above the oversold territory and the price closed above the middle moving average, we opened a long position.

We entered the market at \$38.97 per share with a stop loss at \$38.93, 0.1% below our entry price.

This time Oracle increased and we closed a profitable trade 2 minutes after entering the market when the price hit the upper Bollinger band, representing a 0.17% price increase.

Profitability

So, if we had a \$10,000 bankroll leveraged to \$40,000 buying power, these are the results from a 15% investment per trade:

First Trade: $6,000 \times .28\% = \$16.80$ profit.

Total bankroll: $10,000 + 16.80 = \$10,016.80$

Second Trade: $6,010.08 \times -0.1\% = \6.01 loss

Total bankroll: $10,016.80 - 6.01 = \$10,010.79$

Third Trade: $6,006.47 \times 0.17\% = \10.21 profit

Total bankroll: $10,010.79 + 10.21 = \$10,021$

These three trades generated a profit equal to \$21. The total time spent in each trade was 18 minutes.

Scalp Trading and Commissions

Usually, when you scalp trade you will be involved in many trades during a trading session. Sometimes, scalp traders will trade more than 100 trades per session.

If you look at our above trading results, what is the one thing that could completely expose our theory?

You guessed it right, commissions.

If you have a flat rate of even 5 dollars per trade, this would make the exercise of scalp trading pretty much worthless in our previous examples.

This is why when scalp trading, you need to have a considerable bankroll to account for the cost of doing business. You are going to find it extremely difficult [to grow a small account](#) scalp trading after factoring in commissions and the tax man at the end of the year.

The only thing you will end up doing after thousands of trades is lining your broker's pocket.

Unlimited Monthly Trading

Just having the ability to place online trades in the late 90s was thought of as a game changer. Now fast forward to 2021 and there are firms popping up offering unlimited trades for free.

So, if you are looking to scalp trade, you will want to give some serious thought to signing up for one of these brokerage firms. Let's say you place on average 10 trades per day. This would translate to approximately 2,400 day trades per year.

Assuming the average commission per trade is \$4, this could run you over \$12,000 per year.

Most brokerage firms do this, so you shouldn't have a hard

time finding one.

Focus on Profit to Risk Ratios and Limiting Your Number of Trades

This is going to sound counter to the entire idea of scalp trading.

What comes to mind when you hear scalp trader? You are likely going to think of a trader [making 10, 20 or 30 trades per day](#).

Well, what if scalp trading just speaks to the amount of profits and risk you will allow yourself to be exposed to and not so much the number of trades.

Here is another story that [references a study from FXCM \[1 \]](#) which showed profitability often came down to trading less. Also, if traders use proper [risk-reward](#) expectations – they will make more money over the long run.

So again, as a scalper or a person looking into scalp trading – you might want to think about cutting down on the number of trades and seeking trade opportunities with a greater than 1 to 1 reward to risk ratio.

Competing with the Algos

We can't get through an article on scalp trading strategy and not touch on the topic of algorithmic trading. 20 years ago, you were trading against other humans.

Now there are open source [algo trading programs](#) anyone can grab off the internet. These algorithms are running millions of what-if scenarios in a matter of seconds.

It's gotten to the point now that large hedge funds have entire quant divisions setup to find these inefficiencies in the market.

This may or may not matter to you and your style of trading. The only point we are trying to make is you need to be aware of how competitive the landscape is out there.

Now we all have to compete with the bots, but the larger the time frame, the less likely you are to be caught up in battling for pennies with machines thousands of times faster than any order you could ever execute.

In the book, *Start Day Trading Now: A Quick and Easy Introduction to Making Money While Managing Your Risk*, author Michael Sincere, touched on the topics of bots in trading.

Sincere interviewed professional day trader John Kurisko. In the interview Sincere states that Kurisko believes some of the reversals can be blamed on traders using high-speed computers with black-box algorithms scalping for pennies.

“That’s one of the reasons many traders get frustrated with the market. The timing is not like it used to be, and many of the old rules don’t work like before,” he says. [\[2\]](#)

Taking Money Out of the Market

This is one positive regarding scalp trading that is often overlooked. In trading, you have to take profits in order to [make a living](#).

This is much harder than it may seem as you are going to need to [fight a number of human emotions](#) to accomplish this task.

Well, this is where scalp trading can play a critical role in building the muscle memory of taking profits. Scalp trading requires you to get in and out quickly.

The keyword in that last sentence is *out*. The better you get at taking profits, the more consistent you’ll become.

Scalp Trading with Bitcoin

Scalp trading did not take long to enter into the world of Bitcoin. Traders in this growing market are forever looking for methods of turning a profit.

To this point, let's review a few characteristics of Bitcoin that may prove challenging for scalp traders.

- Bitcoin is really volatile with wild price swings [\[3\]](#). Therefore, scalp trading will provide a number of trading opportunities, but you will need to adhere to strict stops to avoid getting in a jam.
- There are many brokerage firms offering 15 to 1 leverage. Some even offer up to 50 to 1 leverage. While this may sound super exciting, in reality, this could expose you to the [risk of blowing up your account](#).

So, as stated throughout this article, you will need to keep your stops tight in order to avoid giving back gains on your scalp trades.

Conclusion

Let's review a few key points on scalping.

- Scalp trading involves entering trades for a short period of time to catch swift price moves.
- If you scalp trade, you need a win/loss ratio greater than 50%.
- Oscillators could be very useful for your scalp trading system because they are leading indicators; however, oscillators are not meant to be a standalone indicator.
- Try to find indicators that complement each other so you can validate trade signals.
- Scalp trading [money management](#) is crucial:
 - – Invest around 15% of your buying power in each

scalp trade.

- Put a stop loss of 0.1% [from your entry price](#).
- Stay in the trades until the price hits the opposite Bollinger band
- You will usually make between .2% and .3% per trade if you trade lower chart frames.
- If you scalp on higher chart time frames (5-minute, or more) your targets might be higher.
- You must have a solid bankroll to scalp trade. Small accounts will be eaten alive by trading commissions.

To practice scalp trading strategies and topics detailed in this article please visit the homepage <https://tradingsim.com> to see how we can help.

You can also simulate trading commissions to see how different tiers of pricing will impact your overall profitability.

Good luck!

External References

1. Autochartist. [43 Million Trades Reveal the Secret of Profitable Traders](#) [Blog Post]. [Autochartist.com](https://autochartist.com)
2. Sincere, Michael. (2011). '[Start Day Trading Now: A Quick and Easy Introduction to Making Money While Managing Your Risk](#)'. Simon & Schuster. p. 171
3. Cheng CFP, Marguerita. (2018). [Why Trading in Bitcoin or Other Cryptocurrencies is Playing with Fire](#) [Article]. [Kiplinger.com](https://kiplinger.com)