The Red Dog Reversal: A Powerful Strategy for Day or Swing Trading

The Red Dog Reversal is named, endearingly, after [Scott Redler](). Red Dog has been his nickname in some circles for years — perhaps dating back to his bartending days.

Redler is loved in the trading community. He's known as a great family man, an accomplished athlete, and an incredible teacher and trader. His technical expertise has been shared on CNBC, Fox Business, and other popular financial networks.

As a professional trader and Chief Strategic Officer at [T3Live](), Scott knows a thing or two about short term trading. He's famous for his [8 moving average strategies](), trend lines, and 6am strategy calls to all the early morning followers he has.

Today we want to pay homage to one of his great strategies, the Red Dog Reversal. We'll take what we can from Scott's

teachings and apply them to the markets and the simulator to find out how we can practice this strategy for explosive short term gains.

But before we get started, if you want to hear about the strategy from the man, himself, check out this quick clip of our interview with Scott:

The History of the Strategy

Legend has it that Scott grew up under the tutelage of [Greg Capra](#) in the 90s. Capra is known for his Pristine Method of Trading in the markets, which has evolved over the years and no longer taught except for the likes of Sami Abusaad or others at T3Live. Still, it was foundational for a lot of what Redler created on his own.

Within the method are reversal signals like bottoming tails and topping tails. Redler found that these were lucrative opportunities with a high time-value. They also offer defined risk levels.

Throw in the cool Red Dog name, add the reversal, and you've got a popular strategy made mainstream by a great personality.

The Theory Behind the Red Dog Reversal

The psychology behind the Red Dog Reversal is pretty simple on paper. Redler [describes it](#) in the following way:

> *This is a battle between the Bears and the Bulls — the Bears think it's going lower and are shorting it, and all of a sudden it goes below [the prior low] then comes back above, so they'll want to cover. It could bounce.*
>
> *Scott Redler*

Sounds pretty simple doesn't it? It's essentially buying the reversal at the prior day pivot on a stock that has been trending downward for some time. Shorts will be keen to cover and take their profits, while bulls jump on the bounce.

Along those lines, here are the steps for taking an entry:

In order to get a full understanding, we'll give a few examples below. We'll also take a look at the short side of this strategy.

Red Dog Reversal Example 1: AMD

We'll start with the daily chart of AMD. Focus your attention on a few things to start with:

- The steady near term downtrend that AMD has formed
- The first candle to reverse the down trend

We've delineated these down days with numbers so you can get a feel for the trend. If that isn't enough, check the trendline across the top.

AMD Red Dog Reversal

You may even spot that AMD was starting the base of a downtrend channel as it touched $87s on the 19th, the day of the reversal. **All of these contextual clues help us setup the trade**.

To that point, we want to draw our attention to the price on this 5th down day as it starts above the the prior day (4), breaks lower and touches the lower trend channel (not drawn), then proceeds to reverse.

As astute traders, we might have set an alert on our charts at $88.21, knowing that this was the prior day (4) candle's closing low.

Intraday Chart

In the morning action, this what that would have looked like on a 1 minute chart:

AMD Intraday Red Dog Reversal

Notice that the we got a long washout on the first few swings down on this morning. It's all about the anticipation and making sure you have a clear setup to [define your risk](). Once we break the prior day low, our antenna are up, waiting for the reversal.

If you had taken the first breach and reclaim, you might have been stopped out. Even in this strategy, you might want to wait for a proper entry like a [head and shoulders]() or "higher low, higher high" to form.

Perhaps you want to wait and see the $106.80 from the prior day breached and hold as support first. This way, we get at least one higher low and higher high, thus defining rut risk after the low of day is set.

Thankfully, for this trade, we had a great secondary washout long that then rallied. It never took out the day's low after that, so we weren't stopped out.

This trade would have given us a $2 move on the first day, and another $6 as we retest the [trading channel]() highs the next

day.

Managing the Trade

This is somewhat discretionary. If you are a day trader, **you could be looking to find the best risk to reward setup and take your profits for that day**.

However, the beauty of this strategy, as you can see, is that it often gives multi-day moves. To that end, you may want to consider hanging on to a portion of your position to see what happens the next day. In the chart above, we've given you an example of what it would look like to take a partial near the 8ma on the 3rd day and then close out the position the 4th day.

Red Dog Reversal Example #2: AMD Re-entry

Sometimes, you might get lucky with another quick opportunity to trade the same setup. AMD was no exception to this in the example above.

Let's look at how this could have set us up for another entry using the RDR.
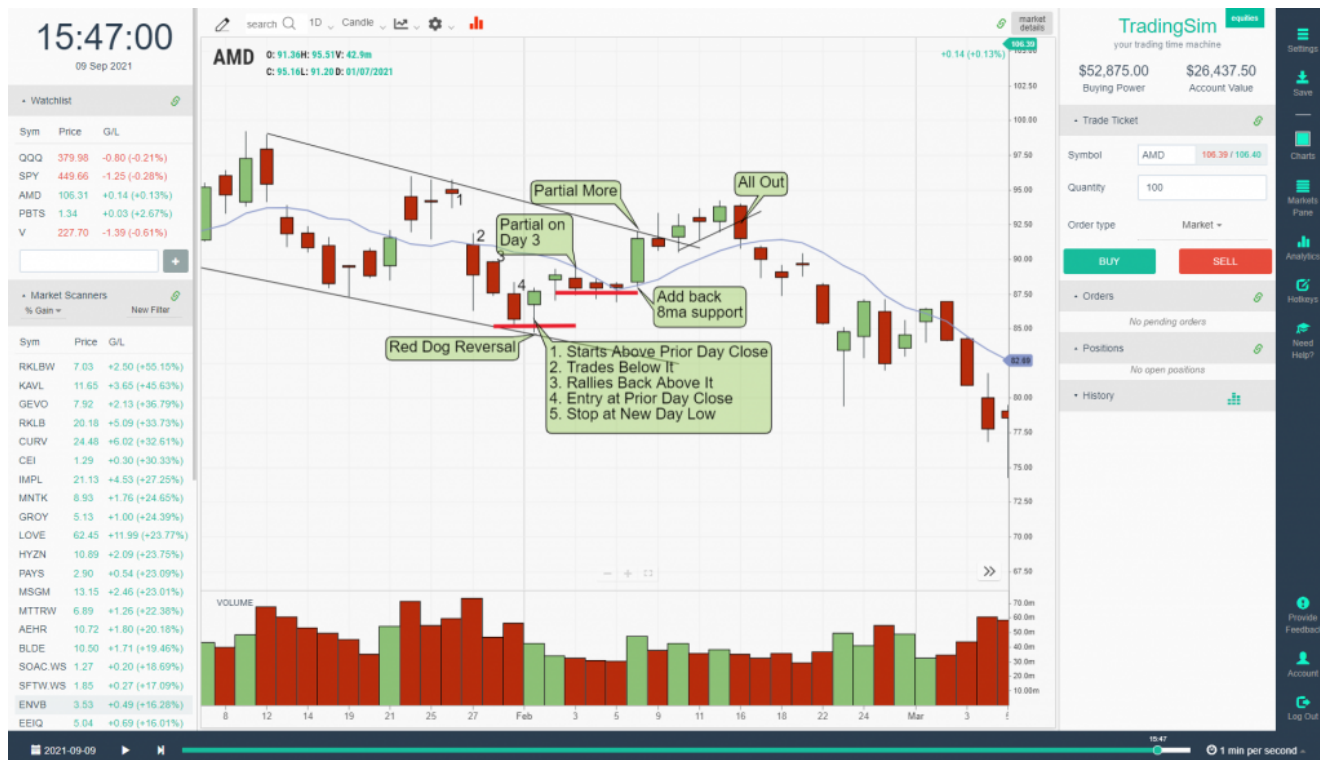
AMD Secondary Red Dog Reversal Opportunity

What makes this a great trade is three things.

1. We've already had a significant reversal off the lows of the down trend (our first trade).
2. We are retesting the levels of that significant day on lower volume.
3. The rally persists and breaks the down trend.

A lot is going in our favor for this trade. The down trend is at least a few weeks into its maturity. And for a stock like AMD, this could be overextended.

Then, all of the other factors for a reversal line up for us. As Scott often notes, you want to take advantage of the trade when it presents itself. **Amateur traders may be wary to take the trade because of the retracement from the first trade**.

Professional traders see this as a natural retest, a potential double-bottom, and a chance to catch a big move higher. Plus, if the trade signals a long, we have to take it. It's all a game of numbers.

Just like our first trade, we wait for the trade to reclaim

the prior day low, go long, and set our stop at low of the current day.

Management of the Trade

If this turns into a broader rally, you'll want to manage your position in order to squeeze the most out of the trade.

Here are a few ways Redler likes to do this.

1. Take short term profits along the way into any nice rallies
2. Use a "three day" rule-of-thumb
3. Hold remaining shares to see how they react to support
4. Employ an 8 moving average for near term trend

Just like with steady 3, 4, 5+ day downtrends, you want to consider the same with your uptrends. Eventually there will be a reversal. So, if you're long, keep this in mind.

With that, let's look again at the chart to see what it would look like as our stock rallies.
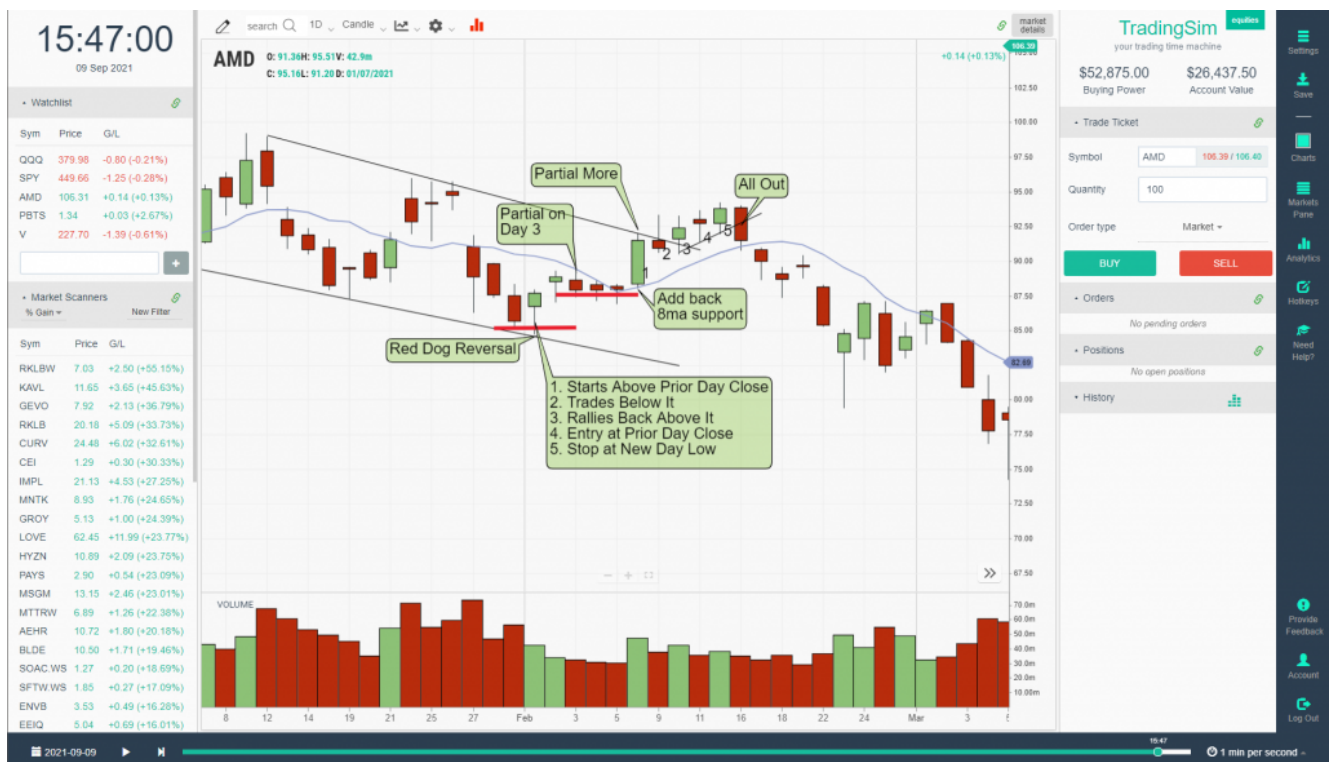
AMD Red Dog Reversal Management

As the stock pushed higher the second day or third day, perhaps you would take profits, then hold a small core for any pullbacks. By the 5th day, the price moves above the 8ma. **Notice how it was resistance before**. This gives a potential re-add to the position.

Re- Adds and Trend Break

If you added on the break through the 8ma or support, you'd then move your stop up close to the new average you have as a break-even. We've show this support line as the second red line near the 8ma. Just as we did in the first rally, we want to pay ourselves when the market gives it to us.

After the re-add we've numbered the rally days. Clearly, this move had decent velocity, but there was some selling pressure as it broke the channel high. As a swing trader, you might have taken some profits into the 1st day of the re-add.

The stock then surfs a solid trend noted by the small diagonal line. As it broke this area, you could have taken all of your profits with a trailing stop.

Take your profits, or hold a small position for the break below the 8ma that comes a few days later. All in all, you banked about $7/share!

Red Dog Reversal Intraday Example: AMC

The RDR works great for swing trades, but we set out to see if it would work for an "intraday swing." Sure enough, we've found evidence that this works well on intermediate time frames like the 5 minute chart.

Here is one such example with AMC:

Red Dog Reversal Intraday

On this 5 minute chart, we've added the 8ma and VWAP. Take a moment to analyze all the elements of the RDR. The open slightly above, dip below, and rally back above the prior candle close. You could have employed the exact same RDR tactics that we used on the daily for a short term intraday scalp, or rode the stock's 8ma all the way back to vwap.

Like our other example, we find that the 8ema worked great on this 5-minute time frame as support once the trend changed. Noted on the chart is an 8ma support area for a potential add-on.

Profits could have been held into the vwap push, or with a trailing stop along the 8ma.

Red Dog Reversal Short Example: AAPL

Like most strategies, there is a long and short side. The RDR can work great for short term selloffs.

In this example with AAPL, we get the perfect opportunity to take advantage of a reversal to the short side. Notice the

stock was trending very strongly upward into a climactic overextended gap in the prior days. Then, we get a nice candle after the gap that opens below this day, trades above it, then retraces.

What we have left is a hanging man candle.

Red Dog Reversal Short Strategy

When the signal is there, we have to take it. In this example, the next day was sideways. However, you could have taken some profits into the dip on the second day. Remember, **the initial stop is above the RDR candle**. Likely, you wouldn't have stopped out if you were minding your stop and giving some breathing room.

Luckily we got a nice gap down the next day. **When we the market gives us an opportunity like this, as short term traders, we take it**.

This trade would have resulted in a nice $6 move in just over a week.

Second Opportunity

If the first trade weren't enough for you, AAPL gave a second RDR a few weeks later. Can you spot it on the chart above without cheating and looking below?

Look closely.

Here's where it occurred:

2nd RDR Shorting Example

If you see the big picture here, you'll notice that many of these opportunities form around trading ranges and consolidations. Reversals at the highs and the lows can create great short term trades.

Like the first short trade, we take our profits as the stock capitulates and gaps down on day three.

How to Practice the Red Dog

Reversal

The best way to practice any strategy in the market is to turn over enough stones that you discover a pattern. After all, that's what we're seeing here, thanks to the work of Scott Redler. He's traded enough of these to know his probability of success.

And that's your call to action. If reversal strategies are your thing, be sure to check out our other posts, especially the ones covering [candlestick reversals](). Then spend time in the simulator training your chart eye and taking enough trades to study your analytics on the pattern.

With plenty of trades for a nice subset, you'll have the confidence to know when the RDR works, and when it doesn't. Then it's time to put your real cash to work.

So here's to good fills! We hope you sniff out some great reversals in the market!

Oh! And be sure to give Scott a like on [Twitter](). He's always putting out great free content for the community!