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Channeling Stocks Offer Both Great Buying and Shorting Investment Opportunities
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Long and Short Backtesting Results of Channeling Stocks

Trading channeling stocks offers one of the best opportunities to make good, consistent profits in the stock market. Good, consistent profits can be made by both buying and shorting channeling stocks. This article will explore the findings regarding backtesting channeling stocks, thus illustrating the opportunities available through buying and shorting channeling stocks.

What are channeling stocks?

First, channeling stocks, or sometimes called rolling stocks, are stocks that are moving up and down between their support price and their resistance price. While all channeling stocks will at some point break out of their channel in one direction or the other, many channeling stocks will continue to move up and down between their support price and their resistance price for a period of time, thus providing the investor an opportunity to make a fairly predictable return as the stock continues to move between its support price and its resistance price.

Criterion for Research

As stated above, the purpose of this article is to present the findings on backtesting channeling stocks. The important criterion used to determine which stocks were included in the research is presented first. In order for the stock to be considered a channeling stock, the stock had to first establish its resistance price and its support price by touching its support price and its parallel resistance price two times each. The current price of the stock had to be within 1%, above or below, of its previously determined resistance price or support price, which would be the third time it had been at this resistance price or support price, and the distance between the support price and the resistance price had to be at least 15%.

Secondly, 1% of the average market capitalization traded each day for the last year had to be at least \$1,000. While there are many thinly-traded penny stocks that trade in a channeling pattern, it is very hard to make a profit on these stocks after taking into account the trading fees.

Lastly, the returns of the stocks were calculated for up to 60 days after the stock reached its resistance price or its support price. Any stock that closed more than 1% above its resistance price, in the case of shorting, or more than 1% below its support price, in the case of buying, during this 60-day period, was considered covered or sold at the closing price of that day.

Results

Using the criterion above, over 11,000 U.S. Stocks were tested from January 2011 to January 2012. During that period there were 2,946 different stocks that traded in a channeling pattern at one time or another, representing 6,547 occurrences, both long and short.

Long/

Short Average High Above Support Price/Average Low Below Resistance Price Maximum High Above Support Price/Maximum Low Below Resistance Price Average Number of Days to High or Low Price

Long 9.1% 585.0% 9.4

Short 11.1% 300.0% 9.6

For channeling stocks that were at their support price and presented an opportunity to buy, these stocks rose to an average high price of 9.1% above their support price, with a standard deviation of 23.5%. The percentage of stocks that rose above their support price, thus offering an opportunity for a positive return, was 75.3%. The maximum return was 585% and the minimum return was -48.3%. Additionally, the average number of days it took the stocks to rise to their high price or to be stopped out at more than 1% below their support price was 9.4 days, with a standard deviation of 15.2 days.

On the other hand, when channeling stocks were at their resistance price, thus presenting an opportunity to short, these stocks dropped to an average low price of 11.1% below their resistance price, with a standard deviation of 22.6%. The percentage of stocks that dropped below their resistance price, thus offering an opportunity for a positive return, was 79.7%. The maximum return was 300% and the minimum return was -18.9%. Additionally, the average number of days it took the stocks to drop to their low price or to be stopped out at more than 1% above their resistance price was 9.6 days, with a standard deviation of 15.2 days.

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