

Bollinger Bandit Trading Strategy Standard deviation is a number that indicates how much on average each of the values in the distribution deviates from the mean (or center) of the distribution. Bollinger Bands, created by John Bollinger in the 1960s, is an indicator that uses this statistical measure to determine support and resistance levels. This indicator consists of three lines and is very simple to derive; the middle line is a simple moving average of the underlying price data and the two outside bands are equal to the moving average plus or minus one standard deviation. Based on theory, two standard deviations equates to a 95 percent confidence level. In other words, 95 percent of the time the values used in our sampling fell within two standard deviations of the average. Initially, Bollinger Bands were used to determine the boundaries of market movements. If a market moved to the upper band or lower band, then there was a good chance that the market would move back to its average. We have carried out numerous tests on this hypothesis and seemed to always come back with failure. Instead of using the upper band as a resistance point, we discovered, as others have, that it worked much better as a breakout indicator. The same goes for the lower band. The Bollinger Bandit uses one standard deviation above the 50-day moving average as a potential long entry and one standard deviation below the 50-day moving average as a potential short entry. This system is a first cousin of King Keltner. They are similar in that they are longer-term channel breakout systems. However, this

is where the similarities end. Instead of simply liquidating a position when the market moved back to the moving average, we concocted a little twist to this exit technique. From observing the trades on the King Keltner, we discovered that we gave back a good portion of the larger profits waiting to exit the market at the moving average. So, for the Bollinger Bandit, we incorporated a more aggressive trailing stop mechanism. When a position is initiated, the protective stop is set at the 50-day moving average. Every day that we are in a position, we decrement the number of days for our moving average calculation by one. The longer that we are in a trade, the easier it is to exit the market with a profit. We keep decrementing the number of days in our moving average calculation until we reach ten. From that point on, we do not decrement. There is one more element to our exit technique: the moving average must be below the upper band if we are long and above the lower band if we are short. We added this element to prevent the system from going back into the same trade that we just liquidated. If we hadn't used this additional condition and we were long and the moving average was above the upper band, the long entry criteria would still be set up and a long trade would be initiated. **To read More, Please download The book.** [Download This Book](#)