THE DAILY-TREND FILTERED MOVING AVERAGE STRATEGY

Intraday Directional Option Buying (Stock/Index Options)

Type: Intraday Directional | **Instrument: Options (ATM / Near OTM)** | **Daily: Heiken Ashi** | **Execution: 3-Min Candlesticks**

This strategy is designed to capture high-probability intraday momentum by aligning execution with the prevailing daily trend. It strictly uses Heiken Ashi for trend identification and regular candlesticks combined with an EMA band for precise entries.

Step 1 Determine the Daily Bias (The Night Before)

Open the Daily Chart and apply **Heiken Ashi** candles. Check the color of the previous day's completed candle to set your intraday bias:

- **Green Candle:** Market momentum is bullish. **Only look for BUY / CALL options** the next day.
- **Red Candle:** Market momentum is bearish. **Only look for SELL / PUT options** the next day.

> **Crucial Rule:** Do not try to catch tops and bottoms. Align yourself strictly with the daily trend.

Daily Chart (Heiken Ashi): Determining the Bias

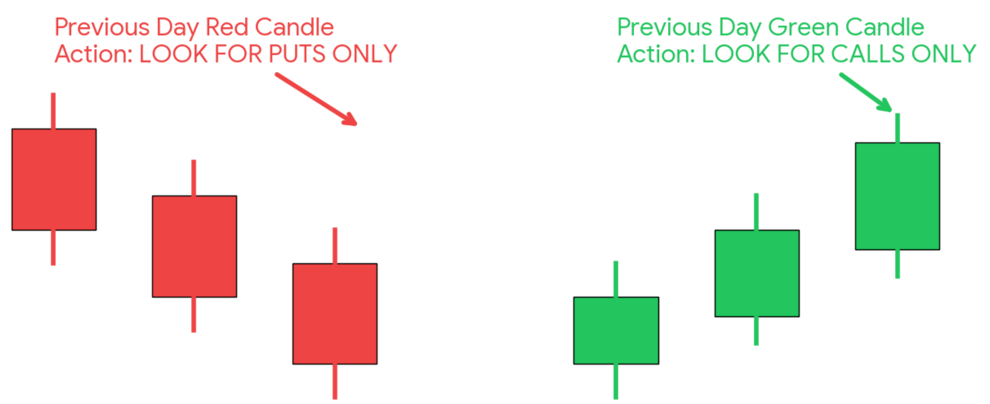

Fig 1: Using the previous day's Heiken Ashi candle to determine the trading bias.

Step 2 Set Up the Execution Chart

Switch to the **3-minute regular candlestick chart** of the chosen stock or index and configure the moving averages to create a dynamic support/resistance band.

- Apply two Exponential Moving Averages (EMA) set to **length 34**.
- **EMA 1:** Source set to *High* (e.g., colored Red).
- **EMA 2:** Source set to *Low* (e.g., colored Blue).

Note: This creates a "band" on the chart. Avoid trading when price action is chopping inside this band.

Step 3 Entry Rules

Entries are taken strictly when the 3-minute price action breaks out of the 34 EMA High/Low band in the direction of your Daily Bias.

- **For Bearish Days (Red Daily Candle):** Wait for the price to break *below* the moving average band. Enter a Short position (Buy Put options) when a candle **closes below** the lower band.
- **For Bullish Days (Green Daily Candle):** Wait for the price to break *above* the moving average band. Enter a Long position (Buy Call options) when a candle **closes above** the upper band.

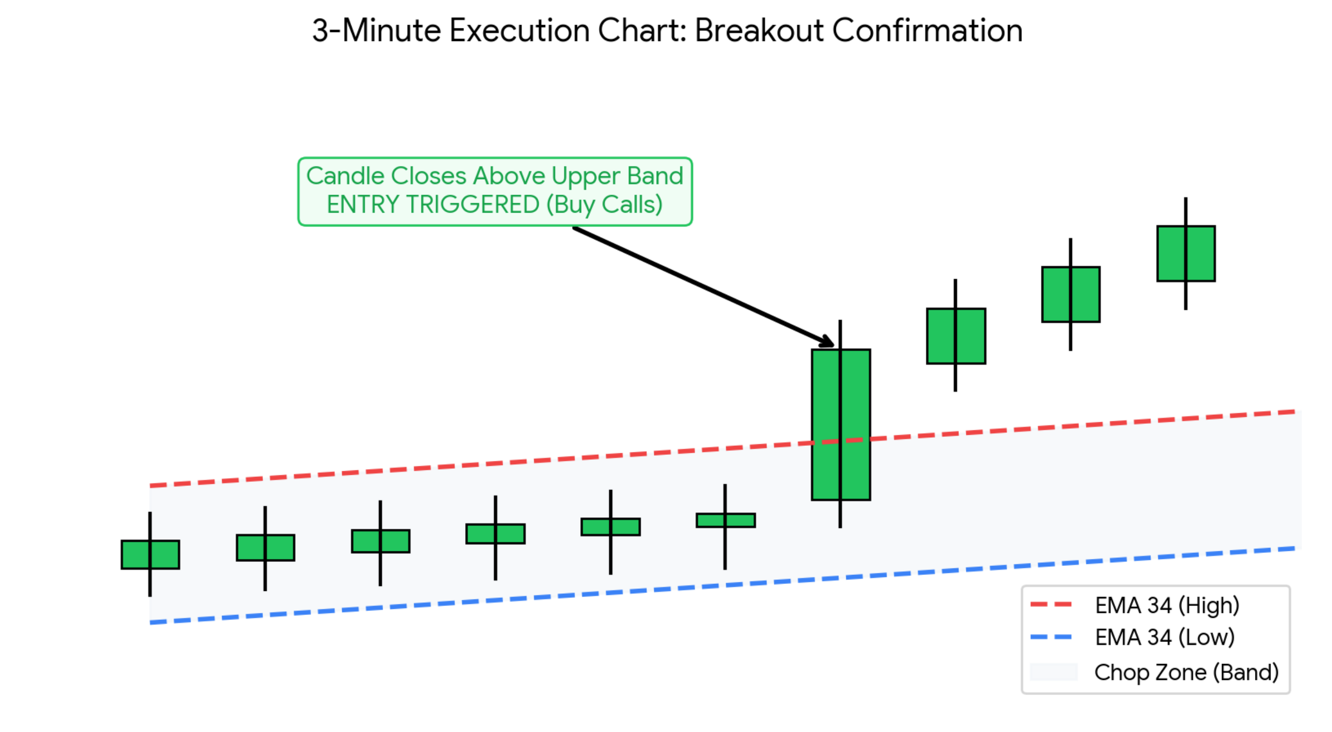

Fig 2: Example of a Bullish Entry (Green Daily Bias). Price breaks out and closes above the 34 EMA High line.

Step 4 Option Selection & Confirmation

- **Strike Selection:** Select At-The-Money (ATM) strikes or options within 1 strike price distance. *Avoid deep Out-of-The-Money (OTM) or deep In-The-Money (ITM) options.*

> **Pro-Tip for Confirmation:** Pull up the 3-minute chart of the *option premium itself* and apply the exact same 34 High/Low EMA band. Take the entry only when the option premium chart confirms the momentum breakout.

Step 5 Exit & Risk Management

- **Stop Loss** / **Soft Loss:** Maintain a small, defined stop loss based on the recent swing high/low. Alternatively, exit immediately if the price crosses back into and past the opposite side of the EMA band.
- **Target** / **Trail:** Do not exit prematurely out of fear. Either trail your stop loss aggressively along the EMA band or hold until the end of the intraday session to capture large moves.

> **Strict Rule:** Never carry intraday option buying positions overnight. Always close before market close.

Key Psychological & Risk Tips

- **Hide your MTM:** Focus exclusively on the chart setup and execution rules—not the running Profit & Loss—to prevent emotional panic and premature exits.
- **Accept the "Cost of Business":** Small stop-losses are just running expenses. Keep your losses tiny and let the winning directional trends cover them and generate profit.
- **Backtest First:** Test this strategy on at least 100 historical trades or paper-trade for 10–15 days. Understanding the win rate is essential to managing psychological expectations before deploying live capital.