

### ***Rules for Longs in Uptrends***

When the trend is up, we calculate Safe Zone on the basis of the lows because their pattern determines stop placement.

1. Obtain at least a month of data for your stock or future in high low-close format,
2. Test whether today's low is lower than yesterday's. It measures the depth of the downside penetration below the previous day's range, and if there is none, it shows zero.
3. Choose the look back period and summarize all downside penetrations during that time. Begin with 10 days and later experiment with other values. It will summarize the extent of all downside penetrations for the past 10 days.
4. Mark each bar that penetrates below the previous bar. It will mark each downside penetration with 1 and no penetration with 0.
5. Count the number of downside penetrations during the look back period, in this case 10 days. It will show how many times in the past 10 days the lows have been violated.
6. Find the Average Downside Penetration by dividing the sum of all downside penetrations during the look back period by their number. It will show the Average Downside Penetration for each day, that is, the normal level of downside noise in that market.
7. Place your stop for today at a multiple of yesterday's Average Downside Penetration below yesterday's low. Multiply yesterday's Average Downside Penetration by a selected coefficient, starting at 2 but testing as high as 3, and subtract the result from yesterday's low to obtain today's stop. It will place a stop two Average Downside Penetrations below the latest low. If today's low penetrates yesterday's low by twice the normal range of noise, we bail out.
8. Refine the formula to prevent it from lowering stops in uptrends. If the above formula tells us to lower our stop, we simply leave it at the previous day's level. It will prevent the stop from declining for three days, by which time either the uptrend resumes or the stop is hit.

### ***Rules for Shorts in Downtrends***

When the trend is down, we calculate Safe Zone on the basis of the highs because their pattern determines stop placement.

1. Obtain at least a month of data for your stock or future in high low-close format.
2. Test whether today's high is higher than yesterday's. It measures the height of the upside penetration above the previous day's range, and if there is none, it shows zero.
3. Choose the look back period for summarizing upside penetrations. Begin with 10 days and experiment with higher values. It will summarize the extent of all upside penetrations for the past 10 days.
4. Mark each bar that penetrates above the previous bar. It will mark each upside penetration with 1 and no penetration with 0.
5. Count the number of upside penetrations during the look back period, in this case 10 days. It will show how many times in the past 10 days the highs have been violated.
6. Find the Average Upside Penetration by dividing the sum of all upside penetrations during the look back period by their number. It shows the Average Upside Penetration, the normal level of upside noise in that market.
7. Place the stop for your short position today at a multiple of yesterday's Average Upside Penetration above yesterday's high. Multiply yesterday's Average Upside Penetration by a selected coefficient, starting at 2 but testing as high as 3, and add the result to yesterday's high to obtain today's stop. It will place a stop two Average Upside Penetrations above yesterday's high. If today's high shoots above yesterday's high by twice the normal amount, it hits our stop and we bail out.

8. Refine the formula to prevent it from raising the stop during a downtrend. If the above formula tells us to raise our stop, we simply leave it at the previous day's level. It will prevent the stop from rising for three days, by which time either the downtrend resumes or the stop is hit.

Safe Zone offers an original approach to placing stops. It monitors changes in prices and adapts stops to the current levels of activity. It places stops at individually tailored distances rather than at obvious support and resistance levels.

Safe Zone works on the way down just as well as on the way up.

Here we count each upside penetration of the previous day's range during a selected time window and average that data to find the Average Upside Penetration. We multiply it by a coefficient, starting with 3, and add that to the high of each bar.

Like all systems and indicators in this book, Safe Zone is not a mechanical gadget to replace independent thought. You have to establish the look back period, the window of time during which Safe Zone is calculated.

Do not go back beyond the last important turning point. If the market has reversed from down to up two weeks ago, then Safe Zone for the current long trades should not look back more than 10 trading days.

Another important decision is choosing the coefficient for the Safe Zone stop. Usually, a coefficient between two and three provides a margin of safety, but you must research it on your own market data. Once you have done your homework and tweaked this indicator, it will become your own private tool in the battle for survival and success in the markets.

You can add it to almost any trading system, including Triple Screen.