

WATTS TRADING GROUP

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*A Smarter Way To Trade*

**A Simple Way to  
Trade the 2-minute  
S&P**

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The charts used in this book were created using  
[www.prophet.net](http://www.prophet.net)

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## A Simple Way to Trade the 2-minute S&P

**T**his is a technique I use to regularly scalp the S&P e-mini contract. It is a very simple technique with a high probability of success. It works best in range bound markets but it will also work well on trend days as long as you are not fighting the trend. In this report I will outline the method and provide examples of both types of trading as well as a couple alternative methods for using the system.. I think you will find the system easy to implement and potentially a valuable part of your trading arsenal.

### Indicators

There are only two indicators used with this set-up. A moving average to determine trendiness and a MACD to determine trade entry. The exact settings are listed below.

- **89 period moving average.**
- **MACD-Histogram with a setting of 50/88/9.**
- **Optional: 1 & 5 period moving averages applied to the MACD-Histogram.**

Below is an example of the chart layout. My chart includes the optional MACD moving averages.



## Trading Rules

The rules are very simple. If the S&P e-mini (ES) is in an obvious trend on the 2-minute chart then only trade in the direction of the trend. A trend can be identified by the ES making higher highs or lower lows and/or an easily identifiable slope on the 89 period moving average. The slope of the 89 period moving average on the 10-minute chart will identify the intermediate term trend.

Note:

For increased system reliability you could isolate your trades to the times when the 2-minute and 10-minute trends are in sync but for the basic system that is not a requirement and trade success should still be high..

The one time you wont want to trade in the direction of the trend is after a clear divergence between price and the MACD in the opposite direction. The trend may not end in this case but it is not a high probability trade to fight these divergences. The best bet is to wait for the trend to change or for a range to develop. A range will be defined as a lack of all the things that make up a trend, i.e.: higher-highs, lower-lows or a clearly sloped 89-period moving average.

This brings us to the heart of the system. The ideal market condition for this system is an intra-day trading range with good volume. Trading in a range allows you to catch swings in the MACD with little risk and a high probability for success.

So here is how to enter trades with this method.

1. Determine trading environment as outline above
2. In trends enter Long or Short accordingly as the MACD Histogram crosses above or below the zero line. Target one and a half to two points with a two point stop. The risk to reward is slightly unfavorable on a per trade basis but wins should far outnumber losers.
3. In range markets wait until a divergence has formed between the MACD Histogram and price.
4. Enter Long or Short accordingly once the MACD Histogram crosses the zero line. Target up to three points and risk two points. The higher the market swings the higher the target should be.
5. For trends and range markets if MACD Histogram starts getting bouncy around the zero line causing whipsaws, step aside and let the market sort it out while you wait for a new cycle of wide swings to produce.

That is how simple it is. The chart is clean and the trades are too. The best trades with this method follow sizable dips or spikes in the MACD

Histogram. For us this is definitely a scalping system and are best results have come from this mindset.



MACD crosses zero after a divergence leading to a 2-pt gain on the ES.

The momentum embedded in the S&P when the 50/88/9 MACD crosses zero is almost always strong enough to propel you to the target objective. The best part is that even if the trade gets busted and reverses direction

before your target is hit, a counter signal will usually be triggered before your stop is hit and the counter signal can often be quite strong. In fact if a counter signal is signaled you might be inclined to raise your target if the market structure is supportive of a move in the other direction. For instance if an initial Long signal comes as the price is testing the 89-sma from below and after a few minutes its reverses and the MACD crosses zero in the other direction then that move can be a meaningful decline since price failed to overtake the 89-sma. This comes as smart money fades the testing of the 89-sma and the cross of the 50 and 88 period moving averages represented in the MACD.

The best trades will occur during the first and last two hours of trading but smaller scalps of half a point to one and a quarter points are available during the middle day lulls, they just sometimes take longer to play out. Where a typical trade in the first and last two hours will last just a few minutes, a midday trade could last up to twenty minutes and during that time the MACD may become non-responsive. Given that, I recommend sticking with the higher volume periods.

I typically use this system during range periods. Those times when my homework tells me the market may be flat or where no trend is present on the PIVOT tables. I stick with the [E-mini Scalping System](#) on trend days or on trending parts of more range bound days. It has been quite successful for me and others who have a mindset for scalping.

It is key to have the proper mindset for scalping since the S&P will quickly develop into a trend immediately following a scalp and it is easy to fall into a shoulda, coulda, woulda mentality as you watch a two point scalp turn into a ten point run.

It is important to avoid this trap and be willing to step back and re-evaluate the new information the market is giving you. Practice the art of slowing your mind to the point where things look clear. I find it helpful to regularly get up from my trading station and switch my focus to something other than the market for a few moments. All the while breathing deep breaths and practicing positive self-talk. After doing this and returning to my station I feel ready to hit the next trade as the market activity takes on a new clarity.

While no mechanical system is infallible this system has had a terrific track record for me. There are of course nuances that can be developed into the system and I am sure that half of us will see the market in a different light but as far as a quick entry quick exit scalping system, this is a good start and a potentially profitable addition to your trading toolbox.

Good luck in your trading!

## Alternate Methods of Using this System

The following two variations to the above system could improve your results even further. You will need to test them out to see which best fits your market and personality.

### Alt. 1

First apply a one and five period moving average to the MACD Histogram indicator. This is an indicator on an indicator. Not all programs will allow this so check your software. Now, instead of waiting for the MACD to cross the zero line enter trades following a divergence once the one and five minute moving averages of the MACD cross each other in the direction of the trade.

This variation I have found works its best after large swings in the MACD Histogram. It is not advised to follow crosses in a choppy MACD that is not making good swings.

### Alt. 2

In certain markets such as those that are range bound on a larger time scale like the daily or weekly, using this variation will work very well and allow more trading opportunities. Instead of waiting for a divergence prior to entering a trade, enter trades based on the MACD Histogram crossing zero. The same rules apply as in Alt 1 or for that matter the main system – the best and safest trades occur after large swings in the MACD Histogram. This method is prone to more whipsaws but it also offers more trading opportunities and if the market is right it will provide great returns.

## Trade Examples



MACD crosses zero following a negative divergence and leads to a quick 1-pt scalp.



Another divergence and subsequent MACD cross of zero leading to a quick scalp. This is also a good example of how Alt method one would lead to greater gains with entering the trade on the MA of MACD cross instead of the cross of zero.



**Negative divergence and a short trade leads to a good quick scalp. Divergences on this time frame and MACD settings are very good indicators of at least a short-term trend change.**

Please feel welcome to visit our website, <http://www.wattstrading.com/> and use the valuable articles and resources we offer there. For a more complete and multi-market trading system check out the [E-mini Scalping System](#).

## Trading Resources

### Trading Systems

These are trading systems or method for reading the market that compliment mine very well. I have great respect for these traders and their methods.

[www.balancetrader.com](http://www.balancetrader.com) by Frank Butera  
[FOREX Trading Strategy](#) by Quantum Globe, Inc.

### Trading Books

There are too many books to name but I will just name a few that I will always have and refer to.

[Trading for a Living](#) by Dr. Alexander Elder  
[Trading Chaos](#) by Dr. Bill Williams  
[The Book of Five Rings](#) by Miyamoto Mushashi  
[Trading in the Zone](#) By Mark Douglas  
[The Holy Bible](#) – Any question you may have can be answered in here somewhere.

### Trading Music

There is a direct connection between the tempo of music and your state of mind. Music with 50-65 beats per minute will help you stay in a relaxed mindset which is optimal for trading. I will list four CD's that I use for that purpose and a mind programming product that could change your life if used regularly.

[Mozart Adagios](#)  
[The Ultimate Four Seasons-Vivaldi's Greatest Hit](#)  
[Simply Baroque](#) – Yo-Yo Ma  
[Music for Zen Meditation](#) by Riley Lee

[The Neuro-Programmer](#)