THE BOLLINGER BANDS LETTER

Ice Breaker

I developed the Ice Breaker trading system in 2002 and it continues to be profitable despite all the changes in the markets. Ice Breaker uses Bollinger Envelopes (BE) to generate its signals. Like Bollinger Bands, BEs are driven by market volatility, but instead of using a simple moving average of the closing prices, they use moving averages of the highs and lows. Likewise, instead of using the volatility of the close, Bollinger Envelopes use the volatilities of the highs and the lows. The lower Bollinger Envelope is a moving average of the lows shifted down by a multiple of the standard deviation of the lows and the upper Bollinger Envelope is a moving average of the highs shifted up by a multiple of the standard deviation of the highs. Those with a historical mindset will recognize that Bollinger Envelopes are a marriage of the envelope approach of cycles analysts like J. M. Hurst and Bollinger Bands.

We use Bollinger Envelopes rather than Bollinger Bands for Ice Breaker because we are looking for extremes. Bollinger Bands tell us whether prices are high or low on a relative basis whereas Bollinger Envelopes exist, in part, to identify extremes. If you plot 20-day, two standard deviation BBs and 20-day, 1.6 standard deviation BEs you find a tight fit most of the time between the two. Indeed, BEs could be substituted for Bollinger Bands in many applications.

Much of the time it is at the extremes that BEs provide different and interesting information. Take 10-day, 1.5 standard deviation BE for example. Here we are getting closer to parameters Chester Keltner would have recognized and many short-term traders admire.

In Ice Breaker we use BEs in exactly the opposite manner of Keltner's "The Ten-Day Moving Average Rule" – the progenitor for Keltner bands – which was a breakout device. His approach was always in the market, you covered short and went long when you crossed the upper limit and sold long and went short when you crossed below the lower limit. This approach may have worked in the 1940s and '50s when it was developed, but is not viable in today's market.

Ice Breaker was designed to trade the NASDAQ 100 ETF, the QQQ, which was known on the floor as “the cubes”, hence the name. Ice Breaker is a mean reversion approach rather than a breakout system focused on identifying severely oversold and overbought situations.

Ice Breaker has been through a lot of changes since first developed. It has been expanded to trade four other Index ETFs in addition to QQQ: The Dow Jones Industrial Average ETF, DIA, the S&P 500 Index ETF, SPY; the S&P 500 mid-cap ETF, MDY; the S&P small-cap ETF, IJR. For a rigorous exit system we initially used stops derived from Welles Wilder's Parabolic system, then we switched to Chandelier Stops.

Ice Breaker has remained profitable over the years. Signals can be seen by Bollinger Band Letter subscribers on www.BollingerBands.com complete with stops and histories for MDR, IJR, SPY, DIA and QQQ as part of the Bollinger Band Letter subscription. Subscribers can track Ice Breaker signals in real time, know what the stops are on a day to day basis and see real-time trade/performance histories to evaluate how Ice Breaker was doing. For open trades the price in the exit column is the stop for that position

There are many ways that Ice Breaker can be used. One interesting Ice Breaker application is to use the signals from the index symbols, like SPY, to trade individual stocks. For example, you might use QQQ signals to trade GOOG or AAPL.

We hope that you enjoy Ice Breaker as much as we have!

John Bollinger