Darvas Box Explained – Trend Following System for Any Time Frame

The Darvas Box was a fascinating trading discovery in the mid 1900s. Eponymously named, Nicolas Darvas was able to devise a system to trade the markets from anywhere in the world with only a magazine and telegrams.

A truly captivating story, and one that is recounted in his book *How I Made $2,000,000 in the Stock Market*, **it is a worthwhile read for any trader**.

Despite the use of his system as a swing trader, the Darvas Box indicator can be used in today's markets on any timeframe. And to that end, we'll discuss the strategy, rules, and best practices for the Darvas Box in this post.

Who is Nicolas Darvas?

Nicolas Darvas was a professional dancer that traveled the world with his sister in their own dance company during the 1950s. At one point, after receiving shares of a stock as a gift, he became obsessed with the markets and put countless hours into the study of market movements and internal mechanics.

It’s really fascinating to think that he was able to teach himself how to trade the markets just by reading books and newspapers. In fact, his favorite two were *The Battle for Investment Survival* by Gerald M. Loeb and *Tape Reading and Market Tactics* by Humphrey Bancroft Neill. He also took Barron’s magazine publication and regularly searched for up-and-coming companies.

Nicolas Darvas studying the markets

It was this intuition on *up-and-coming* companies that benefitted Darvas greatly. **He was a master of “social arbitrage,” before that was even a term**. Yet, his strategy for entering the market was so simple that he could enter orders from anywhere in the world his dancing profession took him.

All he had to have was access to a telegram service. From there, he’d wire his orders to his broker.

To learn more about Nicolas Darvas check out his Wikipedia page.

What is a Darvas Box?

The Darvas box is a trend following system. A trend following system is one that does not try to anticipate a market move. Another way of saying this is that the system is reactive versus predictive.

Darvas would only enter stocks that were in confirmed uptrends and breaking out of consolidation patterns to make new highs. **His boxes helped him visualize this while he was on the road dancing for a living**.

Essentially, if a stock on his watchlist was bouncing around inside a "price box" of say $35 and $40, then he knew if it broke to $40.50, it was time to buy.

Likewise, if the stock retreated back into the box, it hit his stop loss orders. He wanted to make sure the uptrend was confirmed with higher prices.

Darvas Box Rules

Darvas's rules were fairly simple, as stated in his book *How I Made $2,000,000 in the Stock Market*. You can find his book on any digital platform. Again, it's a quick and fascinating read and worth your time.

Okay, back to the rules.

1. A stock is making a new 52-week high
2. After the high is set, there are three consecutive days that do not exceed the high
3. The new high becomes the top of the box and the breakout point leading to the new high becomes the low of the box
4. Buy the break of the box once it exceeds the high by a few points
5. Sell the low of the box if it is breached
6. Add to your position as it moves into each new box

This sounds like a lot, but it's honestly straightforward. You have 7 steps which prescribe how to find the stock and also provides entry and exit criteria.

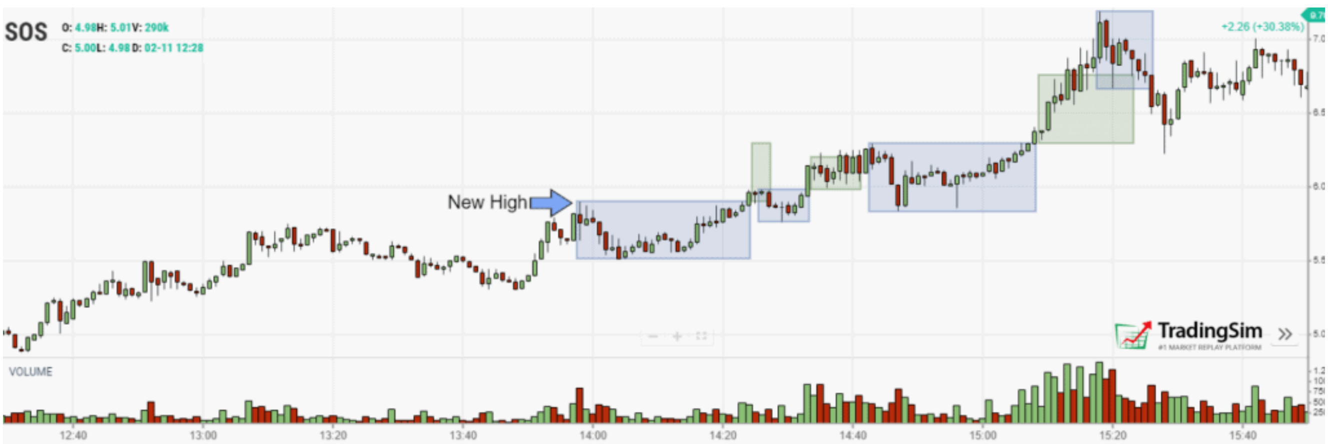
How to Draw a Darvas Box

Keep in mind that Darvas did not have a computer. They hadn't been invented. He had to rely soley on data from newspapers and needed to manually track his trades after the market close later that day or even the next morning when he could get his hand on a newspaper.

In fact, he recounts that the worst trading he ever did was when he was "close" to the action in New York. Something about the proximity to Wall Street and the instant availability of information made him overtrade and over think. **For that reason, he went back to his "detached" style of trading while on the road and found success again**.

Thankfully for us, we live in a time where computers do all of the heavy lifting for us. On that token, the Darvas Box indicator is prevalent on many charting systems.

Within Tradingsim, it is one of our standard indicators which you can select from our list of studies. Below is an example of a Darvas Box on an intraday chart of SOS



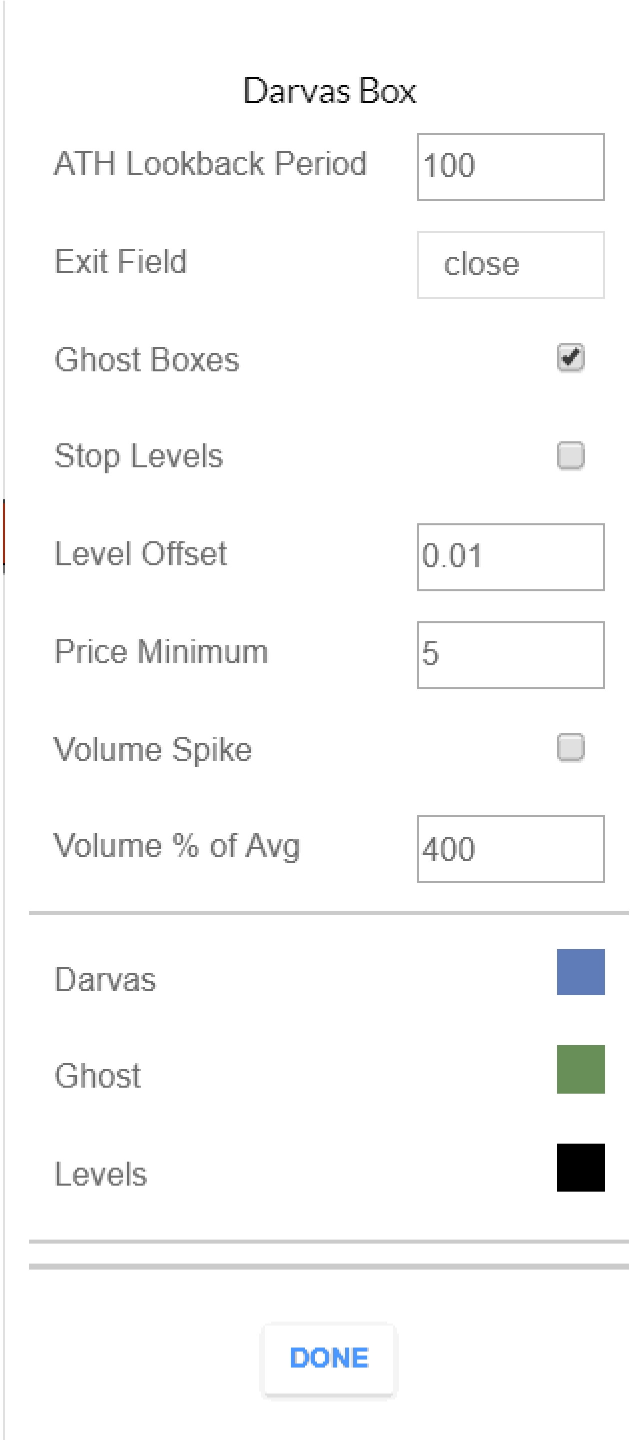
SOS Darvas Boxes

Notice how the blue box identifies a new high, the consolidation, and the subsequent breakout levels.

Darvas Box Settings

Darvas used three bars consolidating under the first high bar to construct the box. However, you can now configure the boxes to your liking with a few clicks of the mouse.

Here’s an example of how you might change these settings inside TradingSim:



Darvas Box Settings

You may be wondering, “why do we need these settings and offsetting levels?”

Many traders have a tough time surrendering to any method without adapting to the original technique.

For example, Darvas clearly says buy the new 52-week high, so the look-back period is honestly irrelevant. Do what feels right to you, but we would recommend you stick as close as possible to Darvas’s original intent to see what part of the strategy works for your trading style.

Where Darvas Works the Best

Without a doubt, the Darvas box strategy works best in strong bull markets. The market simply goes higher and you just keep buying the strength. If you are swing trading and you can catch the right symbol, profits can get out of hand quickly.

The hard part though is finding, buying, and managing these homerun trades.

Example of Darvas Box Working

Below is a weekly chart of Microsoft, which is a large stock that often mirrors the movement of the Nasdaq or S&P 500. There were at least three clear long entries in the bull market from 2016-2019. You would have added to your position at both the second and third breakout zones, perhaps more.

Darvas Box – Strong Bullish Trend

There is also a spot on the chart which says "no entry." This is because the breakout was not convincing and Darvas requires the price to leave the box by a few points. Darvas avoided placing trades when a security was only able to slightly tick over the most recent high.

Do you see how by adding to your position and letting your profits run, **you are able to reap significant rewards**?

Now let's review the hard part of the system, which requires tremendous discipline – the ability to not only pick the right stock but to also understand when market conditions are ripe.

Risks of Trading the Darvas Box

The Darvas box can put you in a tight spot under the following scenarios:

- Buying breakouts into stocks that are near 52-week lows
- Buying breakouts during bear markets

- Scaling too heavily when adding to your position
- Using the Darvas Box within sideways markets
- Ignoring Your Stop Levels

Ignoring Your Stop Level

There aren't many examples on the web discussing the issue of not honoring your stop levels when trading Darvas boxes. But because we like to be thorough, here is a fine example of what *could* happen when you neglect your stop.

Not honoring your stop can be disastrous!

Let's say you were able to ride VCNX up and you also were adding to your position as the stock went in your direction. Then the inevitable happens, the stock breaks major support.

By not honoring the stop, you actually could end up in a catastrophic situation. Remember, you are trading stocks that are trending strongly, so when things go wrong, they can go *horribly* wrong.

Sideways Markets Hurt Darvas Traders

Sideways markets can drain you dry using the Darvas box method. This is because you will find yourself buying the breakout and then consequently selling the breakdown at the bottom of the box.

Choppy Darvas Signals

In the above stock of ROKU, the first breakout felt like the start of a new trend. Well, each signal thereafter would have taken you on a 2-3 day grind of wasted time and high commissions.

The market only trends about 20% of the time. Be sure to determine when the market is in a strong bull trend. More importantly, the sector you are trading should also be outperforming.

Can you Day Trade with Darvas Boxes

Darvas boxes can work on any timeframe. So, yes, you can day trade with the Darvas Box. However, you will need to define your "look back" period. This will allow you to collect trade data, so you can begin to assess the right configuration.

For example, Darvas stuck to new 52-week highs with three consecutive bars below the high to establish a new box.

You will need to define similar parameters for yourself that work. We suggest playing with the indicator settings and figuring out what works for your style. By default, the look back period for intraday 100 bars. You may also want to turn off the green "ghost boxes" to declutter your charts.

How Can Tradingsim Help?

All of the above examples were taken directly from Tradingsim. You can use Tradingsim to practice your strategies using the Darvas box. You can also test Darvas's original strategy using daily and weekly bars.

If you are more interested in day trading with Darvas boxes, you can test out the system with a number of intraday timeframes as well.

Best of luck!