

Traders Library
Trade Secrets On-Line Manual

This tutorial was originally titled "Electronic Trading: Mind & Technology" and was recorded at the Online Trading Expo

The Intelligent Online Trader

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THE FORMULA FOR SUCCESS

- ✍ A Mental Equation

PROGRAMMED FROM BIRTH

MONEY = EMOTION

- ✍ What does money mean to you in one- word answers?
- ✍ Joy And Fear
- ✍ Tool
- ✍ Money & Emotion
- ✍ Paper Tool
- ✍ Learned Perceptions Of Money

VALUE

- ✍ Psychological Price
- ✍ Context Of Time
- ✍ Value Neutral

YOUR EGO AND WINNING CAN MAKE YOU BROKE

- ✍ You Are A Winner
- ✍ Distortion Of Reality
- ✍ The Joy Of winning Is The Drug That Gamblers Live For

- ✍ The Thrill Of Winning Once

LIMITED TRADING CAPITAL

- ✍ It takes money to make money
- ✍ Minimum of \$ 50,000 to trade intraday
- ✍ Use risk management in all trading

NO EXPERIENCE

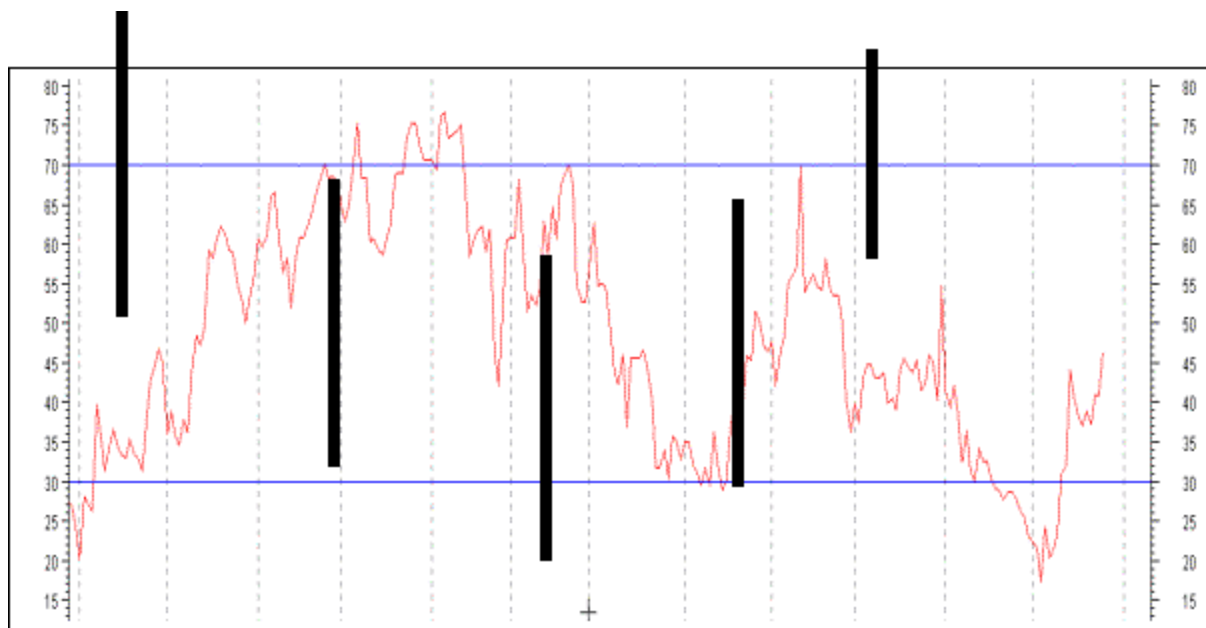
- ✍ Why do people think they can be successful without any experience? Do not lose all of your money proving how good you *aren't*.
- ✍ Your competition has millions of dollars and trades for a living.

YOU AND YOUR TRADING METHODOLOGY

- ✍ Are You Psychologically Prepared
- ✍ The Awakening
- ✍ The Dream And The Reality
- ✍ Mindset (the zone)

YOUR PSYCHOLOGICAL PREPARATION WILL ULTIMATELY DETERMINE THE OUTCOME OF YOUR SUCCESS OR FAILURE AS A TRADER OR AGGRESSIVE INVESTOR.

WHY MOST DAY TRADERS LOSE MONEY



THE WRONG TRADING METHODOLOGY

Most people confuse day trading with scalping. The definition of a day trader is someone who enters the market with the intention of going long or short at some point during that day. At the end of the day they will be flat or 100% in cash and do not carry a trade over night. *Successful* day traders are trend followers and will sell or reverse a position only when trend has changed. A true day trader that follows trend will typically be in a trade until it reverses far longer than someone who is scalping.

Scalping is based on an extremely short time frame of minutes sometimes seconds. It is based on micro momentum within a given day. The scalper tries to buy or sell in the general direction of momentum. This momentum is based on the professional market maker activity and is reflected in the Level II screens. The scalper will bid or offer stock from $1/16$ to $1/4$ point from the price he or she was *filled* while momentum is still active in one direction or another. It is not uncommon for a scalper to make 30 –100 trades a day.

To make any money at all, scalping requires a mastery of several factors. You must have a rigid risk management program. Along with this you must use effective money management. You need a very high success rate on trades. The most important part of success in scalping is your psychological make up. **92 % or the vast majority of people simply are not psychologically suited to this type of trading and therefore will never be successful with this methodology.** Only 8 % of traders are successful using a strategy of scalping. The mathematics of scalping are not in your favor. Remember when you are down x percent it takes you far more just to break even on the next trade *and margin compounds the losses exponentially.* Don't forget a very important factor, commissions. You don't mind commissions when you have a winning

trade but it's another story when you have a loss. The combination of losses and commission on the losing trades can put you out of business in the very short amount of time. It is not uncommon for a novice trying to trade this type of strategy without experience and education to lose 50 % of their capital in a few months.

IF YOU ARE TRADING MORE THAN 18 TIMES A DAY YOU ARE GAMBLING. YOU SHOULD BE TRADING NO MORE THAN 3-5 TRADES A DAY.

NOT UNDERSTANDING THE MATHEMATICS OF TRADING

% Loss Of Capital	% Gain Required To Recover
5	5.3
10	11.1
15	17.6
20	25.0
25	33.3
30	42.9
35	53.8
40	66.7
45	81.8
50	100.0
55	122.0
60	150.0

PROBABILITY OF A SERIES OF LOSSES

A winning trade does not have to be followed by another winning trade. The market is filled with variables which can change the outcome of the best strategy or system. You must except the fact that a series of losses *can* and *will* occur. The following is based on a 50/50 outcome.

<u>Series Of Losses</u>	<u>Probability</u>
3 losses in a series	12.5 %
4 losses in a series	6.25 %
5 losses in a series	3 %
10 losses in a series	1 in a 1,000

What if you have 10 losing traders in a row? Don't say it can't happen. If you are an aggressive trader it will happen. It is just a question of when.

? **Do you have the proper risk management in place to limit the losses?**

? **Do you have too much money in one individual trade?**

THE MAGIC NUMBERS

- I. **3 – 5** high probability traders per day, month, year
- II. 500 securities $3 \times 500 = 1500$ potential high probability, profitability trades. 240 trading days in the year divided into $1500 = \mathbf{6.25}$ high probability trades.

III. Following **3** real time trading candidates

VI. **3** high probability trades x **3** securities = **9**

Day traders entry and exit total maximum trades = **18**

TIME CYCLE CORRELATION

I. The best performing months in the stock market tend to be

a. November, December, January

II. The worst performing months in the stock market tend to be

a. September & October followed by February & June.

b. Bear markets tend to end in October

c. Declines tend to end in June if beginning in mid to early May.

III. The best performing days of the week in the stock market in the past six years tend to be

a. Monday, Wednesday, & Friday

b. First three days & last four days

IV. The best short term time cycle moves for the S&P 500 and the

Dow Jones EST

a. 9:30 - 11:00 AM

b. 2:30 - 4:00 PM

MOMENTUM ACCELERATION POINTS



Figure 1. Three Momentum Acceleration Points

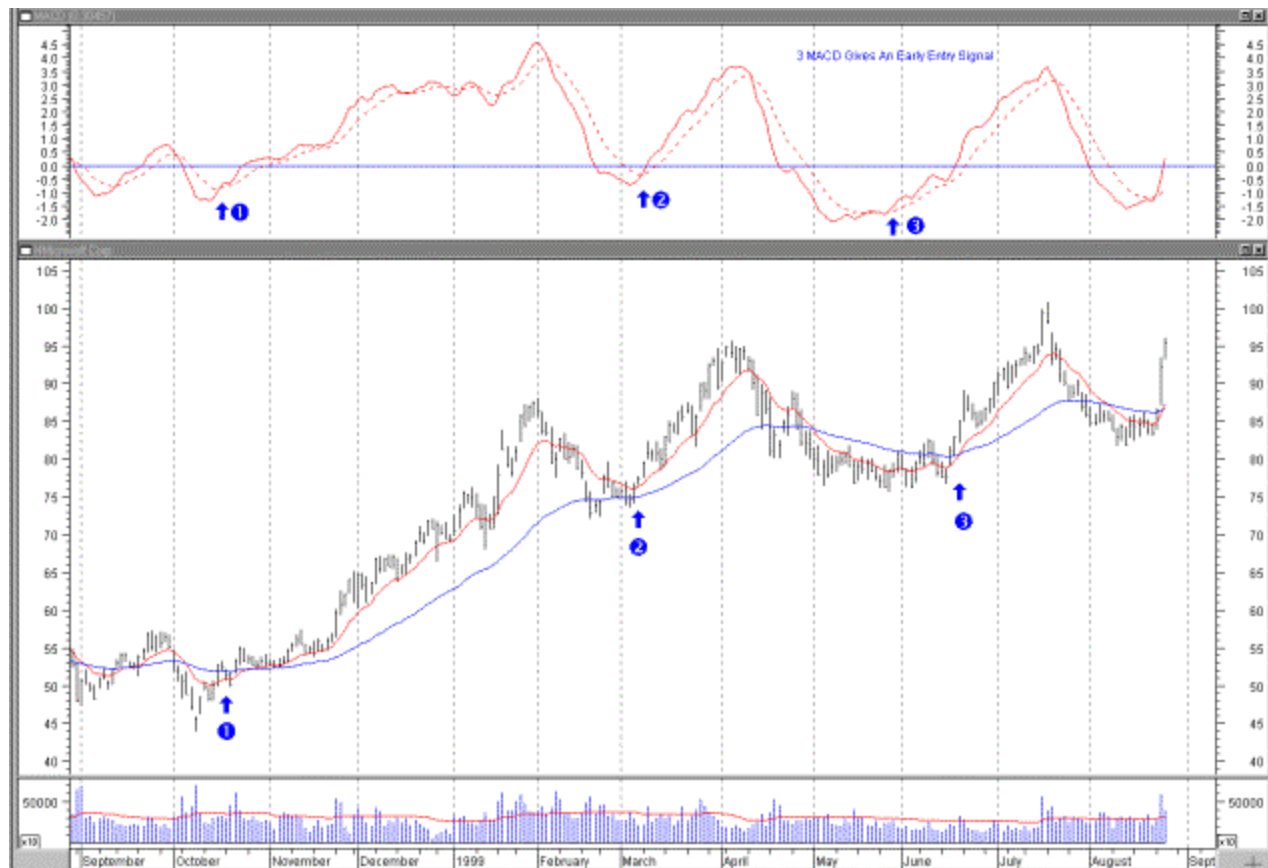


Figure 2. MACD & Acceleration Points

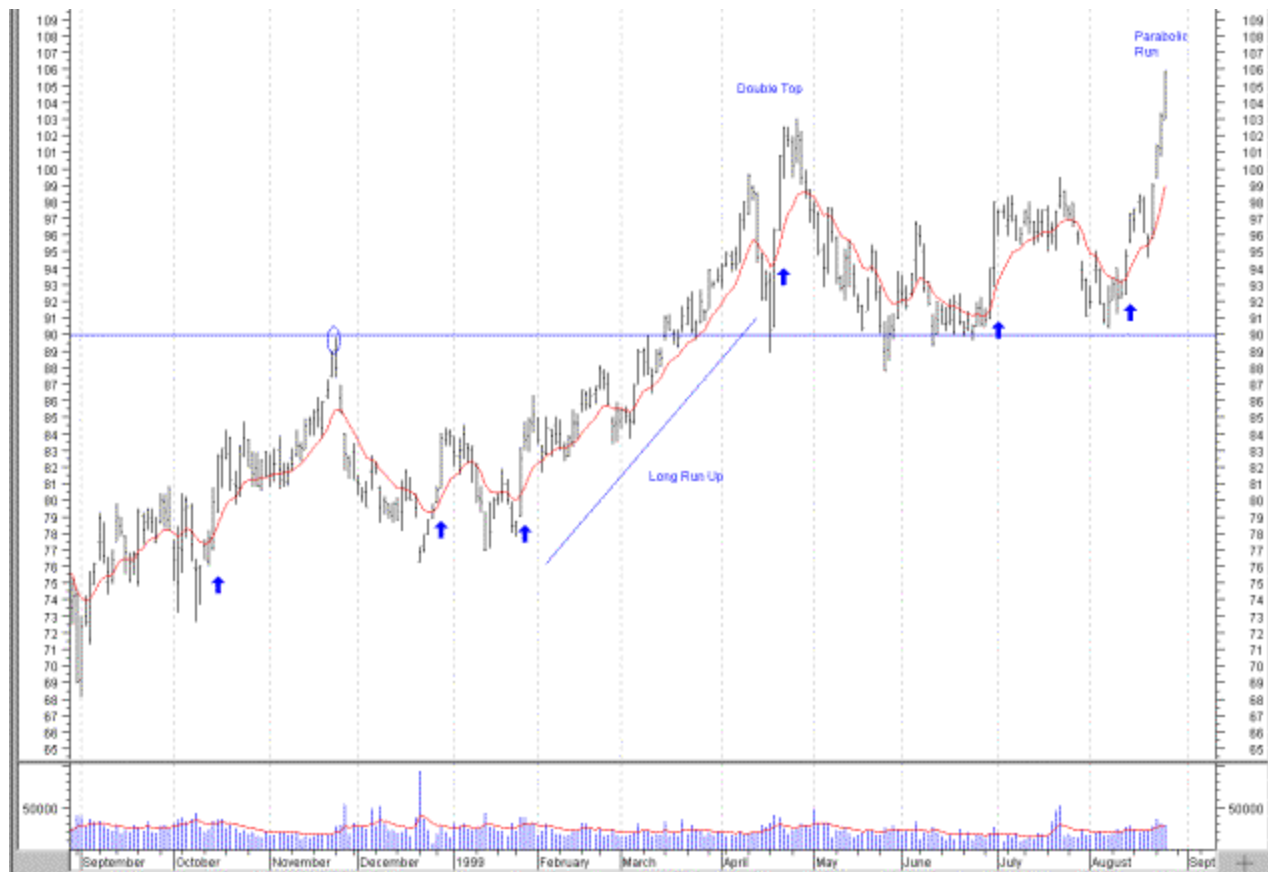


Figure 3. Chart Patterns

MOMENTUM ACCELERATION POINTS

SOME TECHNICAL FILTERS FOR DATA BASE OF 500

1. 5 % increase in price 30 % increase in volume
2. Most volatile over the last 16 weeks
3. Largest % increase over the last five days
4. Largest % decrease over the last five days
5. Oversold price & volume filter
6. Under value filter
7. Bullish filter

Once you have found your six trading candidates you will need to narrow the selection down to 3 of the top potential trades. For this you will need to use the trading trend quantifier. Note that you need a risk-to-reward ratio of greater than **2.5** for a trade to qualify. Select the highest risk-to-reward ratio followed by a high technical probability score.

REWARD TO RISK RATIO

Profit Objective – Purchase Price = \$ 2,500 = 2.5 expectable

Purchase Price – Exit Stop = \$ 1,000

500x \$ 25= \$ 12,500 500x \$ 20= \$ 10,000 - =\$ 2,500

500x \$ 20= \$ 10,000 500x \$ 18= \$ -9,000 - =\$ 1,000

TRADING TREND QUANTIFIER POINT SYSTEM

Trend Trend Score

1. Trend lines +2, -2, 0
2. Support & Resistance +1, -1, 0
3. Reward-To- Risk Ratio 2.5 Or Greater
4. Moving Averages +1, -1, 0 12, 20, 50 EMA
5. Chart Patterns +1, -1, 0
6. TRIX +1,-1, 0
7. ADX +1,-1,0
8. Trend Score
9. Volume +1, -1, 0
10. *Trend Score*

Buy & Sell Indicators

Probability

1. Moving Averages +1, -1, 0 EMA
2. MACD +1, -1, 0

3. RSI +1, -1, 0
4. Price ROC +1, -1, 0 12, 26, 39 Day ROC
5. Williams % R +1, -1, 0 (Over Sold Extreme Readings Only)
6. CCI +1, -1, 0 (Over Bought Over Sold Oscillator)
7. Bollinger Bands +1, -1, 0
8. Money Flow +1, -1, 0
9. Volume ROC +1, -1, 0 12, 26, Day ROC
10. *Probability Score*

At this point you have the *reward to risk ratio, trend point score, entry and exit or (buy and sell) point value*. By adding the trend score and the probability score you derive the *total score*. This information is entered into the chart on the next page. If you run into a situation where your entry and exit scores are very close select the trading vehicle with the highest reward to risk ratio.

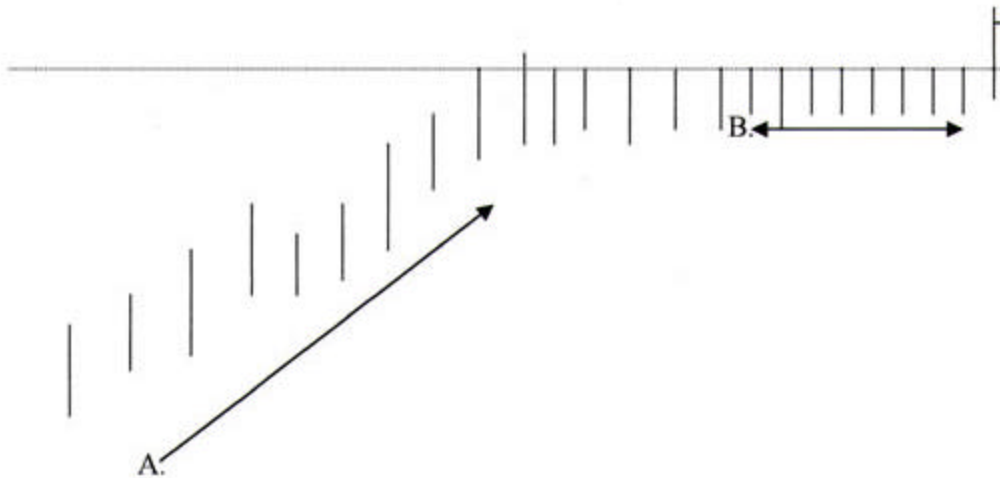
TRADING TREND QUANTIFIER

DATE	VEHICLE	REWARD TO RISK	TREND SCORE	↑ ↓	PROBABILITY SCORE	TOTAL SCORE
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11/19/99	MU					

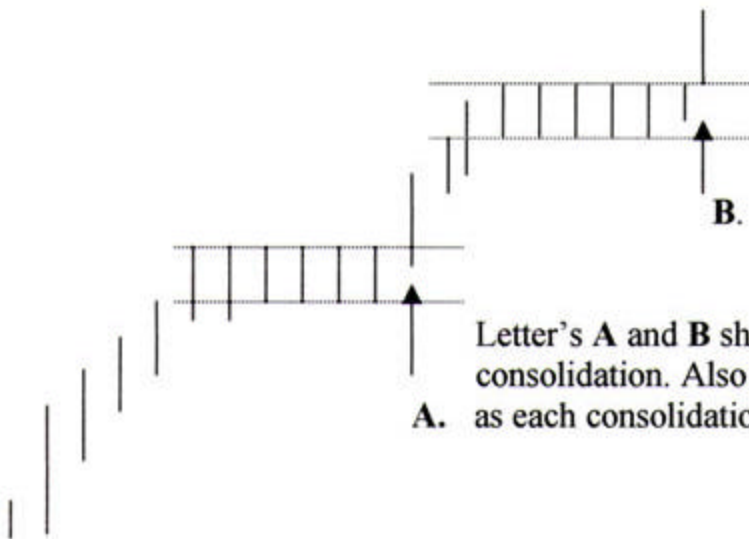
Figure 5. Trading Trend Quantifier

RISE TO MEET RESISTANCE



Letter A shows the rise of price to resistance. Note that resistance was penetrated slightly and then began to consolidate below resistance. Point B shows a tight narrow price range from high to low. The longer the time frame of this range the better.

THE TRENDING BREAK OUT OF CONSOLIDATION



Letter's A and B show the break out of consolidation. Also note the overall trend is up as each consolidation is higher than the last.

CHARACTERISTICS OF SUCCESSFUL TRADERS

- ✍ A SENSE OF HUMOR
- ✍ EMOTIONAL CONTROL
- ✍ ABILITY TO FOCUS

- ✍ ABILITY TO ORGANIZE IN CHAOS
- ✍ ADAPT TO CHANGE
- ✍ FOLLOW THE TRADING PLAN
- ✍ ALWAYS SEEKING TO IMPROVE AND LEARN
- ✍ LITTLE OR NO EGO – STRONG SELF-CONCEPT
- ✍ DON'T TAKE A LOSS PERSONALLY – NEXT !
- ✍ DO NOT FOCUS ON MONEY
- ✍ LONG HOURS DO NOT BOTHER THEM

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DETERMINE THE OUTCOME OF YOUR SUCCESS OR FAILURE AS A
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**"SUCCESS IS DIRECTLY PROPORTIONAL TO THE AMOUNT OF WORK
YOU ARE WILLING TO DO THAT NO ONE ELSE WILL."** *Robert Deel*

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