CONCEPTS FOR

# SUCCESSFUL TRADING

Key Information For New Traders

The Chart Guys

# CONCEPTS FOR SUCCESSFUL TRADING



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# CONTENT

# INTRO TO TRADING

Trading in the market can be life-changing but the process of getting started is daunting. Prospective traders are often overwhelmed by the sheer amount of information available to them as they delve into the world world of trading. A quick Google search for trading advice will result in an assault of advertisements, charming personalities selling incredible “secrets”, and questionable guides full of promises of success through a few simple steps. Few resources will mention how difficult trading can be. As with most things, there is no easy path to success but most things worth doing are hard. For a trader to achieve consistent profitability in the markets, they must put in the work.

The Chart Guys was founded in 2015 with the goal of educating people about trading safely and profitably in the financial markets. Our initial focus was on teaching people how to apply technical analysis to their trading strategies. The community quickly evolved to be much more, offering an effective space for personal and professional development simply through organic member engagement, consultation, analysis, and camaraderie.

Born from many perspectives with one centralized goal, success in the markets, our process has resulted in countless lessons that have affirmed a few key ideas.

The following publication is designed to provide readers with the foundational concepts necessary to build successful personalized trading strategies so that they may avoid the expensive mistakes that beginners are prone to making and benefit from the collective wisdom of the Chart Guys community.

**Temper your impatience. Focus on education to advance your ambitions. With preparation comes success.**

The first essential skill set every trader must learn is how to apply the basic concepts of technical analysis. Understanding price action & patterns, support & resistance levels, and trends are critical before one begins trading. Failure to master the basics often results in heavy losses and we encourage traders to study technical analysis as much as possible before entering the market; those who do are better prepared to navigate the market effectively. Perhaps the best way to practice trading with technical analysis is on "paper". Like practice before a big game, paper trading is a critical step in any trading career and allows traders to hone their skills without risking capital, through simulated trading.

After becoming proficient with the fundamental concepts of technical analysis, new traders can be confident in trying their hand at trading live and taking on appropriately managed risk. In our experience, practicing technical analysis is essential for consistent success in the markets.

# TECHNICAL ANALYSIS

There are an infinite amount of ways for a trader to use technical analysis in order to operate successfully in the markets. The plethora of information may seem intimidating and esoteric but in reality there are just a few concepts that technical analysis depends upon. Our goal is to equip traders with the universal building blocks of technical analysis so that they might build upon their understanding and develop custom strategies that best suit their goals and personalities. Traders need not master every indicator or strategy in order to be successful, any one edge that can be continually utilized to extract value from the market is enough and most professional traders stick to just a few reliably effective techniques that they are comfortable executing repeatedly. It's very much like cookery where there is no "right" way to do the task and there are many ways in which adding personal flavor to established techniques result in wonderfully novel recipes.

Technical analysts use historical price action and current data to evaluate the likelihood of market movements. It is often used in conjunction with the much more familiar approach of fundamental analysis which aims to value assets accurately based on their past, current, and projected future financial metrics like assets and liabilities. Using the study of a tree as an analogy, fundamental analysis is akin to determining how a tree grows whereas technical analysis is similar to determining if the wood of a tree is ready to be harvested. Technical analysts are primarily concerned with the strength of an asset as represented by its current price which is driven by public perception which may not be fundamentally supported.

When a trader begins exploring technical analysis, it's easy to become overwhelmed by a maelstrom of bright lines and ambiguous patterns. The TCG method is a robust approach that allows traders of any level to practice an effective strategy that can be run successfully as is. Much of its power lies in its simplicity which makes it easily scalable and customizable for different traders and their goals. In order to practice the TCG method, traders need only an understanding of integral technical analysis concepts: candlesticks, price action, and trends.

> **I fear not the man who has practiced 10,000 kicks once, but I fear the man who has practiced one kick 10,000 times.**
>
> *Bruce Lee*

## Candlesticks

Candlesticks are a popular way of displaying price movement on a chart. They offer more detail than the more common line chart as each period's open, close, high, and low are represented in one unit, a candlestick, which are then plotted in a series. Originating in 17th century Japan, a rice trader named Homma observed that the price of rice was largely influenced by the emotions, fear and greed, of market participants as much as it was by supply and demand. It is safe to say that the price of rice is dependent on the emotional response of rice traders due to their perception of supply and demand. The true power of candlesticks is that they allow traders to recognize shifts in the ever developing price of an asset, commonly referred to as price action.

# TECHNICAL ANALYSIS

## Price Action

Price action is simply the movement of price over time commonly displayed through charts. By observing the flow of price action as it develops on charts, we can identify and position to benefit from the ebb and flow of market buying and selling. A popular way of anticipating future price action is through the development of patterns. Patterns are not definitive actionable signals. Rather, they are a lens into the development of market psychology. Successful traders look beyond the superficial shape of a candle or pattern and investigate the underlying sentiment using the full context of each visual representation. In the chart below is a popular pattern called the hammer. It is easily recognizable and is typically considered to be an indication that the current down trend is poised to see some opposing price action to the upside. A trader may find success in buying after the presentation of the hammer, but a tactful technician will dig deeper. Upon deeper analysis, we see that this reversal has the potential to set a daily higher low to perhaps see further trend continuation.

## Trends

They say, “the trend is your friend” and at TCG we are inclined to agree. Once a trader can identify trends effectively, typically they will want to trade with the same direction as the trend. Even the most fundamentally focused market participant engages in technical analysis whether or not they realize it. Being able to identify if an asset is trending, moving with strong directional bias, or consolidating, moving with minimal directional bias typically in a contained range, is a critical skill for every market participant to develop since profit is made from anticipating the most likely direction of the market whether it be up, down, or sideways. Perhaps the most common practice of trading with the trend is initiating a long position in an uptrend.

Trends occur when there is an imbalance between buying and selling. An excess of buying pressure will cause the price of an asset to trend upwards while an excess of selling pressure leads to downwards trends. When there is relative balance, price will consolidate. There are effective strategies that can be applied to trading under any circumstances though most traders will find they do best in trending markets.

TCG considers price action that is making higher lows and higher highs an uptrend whereas a downtrend occurs when price is making lower highs and lower lows. With the ability to reliably identify trends, traders can then apply the concept to multiple time frames in order to get the clearest overall picture of an asset’s price action which of course allows for more effective trades.

TCG suggests approaching technical analysis with a few core principles. First, determine the strength and efficacy of the current trend. Second, review any potential candlestick patterns that may support or negate your trend thesis. Finally, determine relevant levels of support and resistance which may act as locations for actionable signals to develop.

## Relevant Tips

- Never enter a long position when RSI is over 70 or a short position when the RSI is under 30
- Whenever possible, enter bullish plays at key supports or clear resistance breaks. Enter bearish plays against proven resistance or the loss of major support levels.
- Every trade needs to have a plan. Entry, stop, and exit targets must be clearly defined with rationale for each decision made.

# PAPER TRADING

## Paper Trading

An athlete would not enter serious competition without any previous experience and expect to do well. First the athlete studies basic theory in order to practice and perfect foundational skills and strategies. The experience gained from their mistakes allows them to hone their craft until they are ready to compete with the best. This is the time-tested method for long term success.

Traders must adopt this mindset when they enter the market for the first time in order to establish a footing to build upon. Failing to adequately prepare for open competition often results in failure and costly hard-learned lessons.

Developing the critical skills necessary to navigate the market without risking capital can be accomplished through paper trading, simulated trading that allows a trader to make decisions using real-time prices.

> **Trading without experience is like piloting a plane without flight training. Some people may be lucky enough to take off, a couple might even land, but the vast majority of people are going to get hurt.**

Investing time and effort into developing your skills through paper trading will pay dividends down the line. Comprehensively document your experience as you find trade opportunities by writing down your reason for entering the trade and tracking entry prices and exit levels for both intended targets and stop losses. The idea is to prove profitability in the market so it's critical that a trader is truthful about their performance. When paper trading, it is very easy to modify an entry beyond the scope of your initial trade plan after some more price action has developed. Taking liberties with paper trading records will only serve to misrepresent a trader's true ability. To prevent this dangerous habit, we suggest that traders close the trading platform the moment after a paper trade is placed. This helps to stop traders from watching every minor change and modifying a paper entry inappropriately with the help of hindsight. Making an adjustment on a paper trade after it has been initiated because you "actually would have waited for that drop before buying" is an unrealistic approach to trading the markets and will only inhibit a trader's ability to progress.

With regular disciplined practice and by reviewing paper trading performance statistics, traders will be able to identify their most successful trade setups and develop a keen eye for spotting them. Discovering one's preferred trading parameters is the starting point for the development of a personal trading strategy and is an integral part of the learning process. As you find success with your strategy, eventually there will be a point where you feel confident enough to trade with real money.

Trading with your own money is a vastly different experience than paper trading. Even if armed with a tried and true effective strategy for trading, once fear and euphoria come into play, it's a whole new ball game.

# EMOTIONS & PSYCHOLOGY

**Trading without emotion requires accepting the losses that are a part of every strategy just as readily as accepting the gains.**







## Emotional and Psychological Implications of Trading

Fear can manifest in a trader's behavior in many ways. Fear of missing out, FOMO, can lead traders to jump into trades too late, fear of losing money often influences traders to exit too early or not enter at all even if a setup is good, and fear of being wrong commonly leads to traders refusing to exit positions, creating bag-holders. Euphoria is the other prevalent emotion that rears its influential head during live trading. The most common symptom observed in traders with euphoria is complacency. Some of the biggest losers tend to come after the biggest winners as traders assume that the good times will keep on rolling without any additional work on their part. It's easy to lose sight of all the planning and failed attempts that took place before the winning trade when staring at big gains. Sometimes the loss comes in the form of wiping potential gains on a big winner due to lack of trade management. TCG traders know that trading under the influence, emotional and psychological, is a recipe for disaster.

Accepting stop losses with discipline is made much easier if a trader has confidence with the mechanics of trading and in their strategy. This is why paper trading is so critical, it allows confidence in a strategy through safe practice. In addition to a strategy with clearly defined entries and exits based on technical reasoning, a trader must also consider risk management which, if done appropriately, will help immensely in staying level-headed while trading.







## Relevant Tips

- Successful traders focus on a well developed plan, not the profit potential. Profits are a symptom of disciplined trading.

- If you truly desire proficiency, practice until you have mastered it. Trading stocks is no different. Make practice and stretching for improvement a regular part of your daily routine even if it's just 5 minutes.

# RISK MANAGEMENT







## What is Risk Management?

In order to make money in the markets you'll have to have skin in the game. Given that a trader must put capital at risk, good risk management is a key element to trading longevity. Making money in the market is easy, keeping and compounding it is difficult. Risk must be managed by capping losses relative to account size in order to stay in the game for the long haul. This can be accomplished by using a few basic strategies, all of which will require a trader to be familiar with order types, the execution tools of trading, and position sizing.

> **Risk management requires a trader to be familiar with order types, the execution tools of trading, and position sizing.**

### Stop Losses

Imagine going to a casino to play blackjack. When you sit down at the table and place your bet you know exactly how much you stand to lose, everything! Your stop loss in this situation is your entire bet since that's the most you stand to lose. Blackjack is a high risk, high reward situation that results in a player either doubling their money or walking away with nothing. Now imagine if you could decide how much you want to wager at the blackjack table before the hand and the potential to reevaluate after each new card is dealt. Instead of a complete loss, you would stand to risk much less capital allowing you to play many more hands. This is essentially what well placed stop losses allow traders to do!

A stop loss is an order set to execute when a defined condition which negates your technical thesis is met. If your trade thesis fails, a stop loss order protects your account from excessive capital drawdown. For example, let's say that you buy FFGQ at $120 per share right before an anticipated breakout. You expect that the price will go up but you are also aware that the price can drop just as easily if the market turns. To protect your investment you place a stop loss at $110 to allow price action to develop while resting comfortably knowing that the most you could possibly lose is $10 per share. If the trade begins to work in your favor, you can adjust your stop loss to $120, eliminating all possible risk!

Using a stop loss has two major benefits. The first is simply that you are protecting your trading capital by mitigating losses when your trade ideas are wrong. Additionally, the emotional and psychological difficulties that arise from exposure to risk are more easily managed if you know exactly how much is at risk for each trade idea. This concept is far too complex to address in significant detail but the core concept is this: by removing the fear that you could face complete loss, you remove aspects of emotional trading that hinder all but the most advanced market technicians.

The use of stop losses as part of your risk management strategy is a cornerstone of success in the market. Failure to use this tool opens your trading to unlimited losses and invites detrimental emotional influences that will cloud your judgment. Be sure to do additional research on proper and effective use of stop losses. Appropriate risk management will have a direct positive correlation to your overall performance as a trader.

# RISK MANAGEMENT







## Profit Targets

In the previous section we dealt with the subject of potential losses, but what should be done when the trade works according to plan? Believe it or not deciding when to take profits is often one of the most difficult aspects of trading for new and experienced traders alike because psychology and emotion are more heavily at play compared to entries.

Imagine the previously mentioned FFGQ trade works according to plan and begins to develop into some significant gains. Once an entry is profitable new traders often wonder just how much further a trade can go as they become increasingly euphoric, and perhaps greedy, from the potential of locking in gains. If you have earned $9 per share, what's to say you won't earn $15? Or even $20 per share? It is very easy to lose sight of your trading plan in this context and the elation from success often fosters complacency even as price begins to consolidate, or worse, enter a counter trend that erases gains. Should the worst occur, there are only two circumstances that may result, both of which are sure to include negative psychological implications of varying degree.

The trader will either relinquish all the potential gains on the trade, even potentially taking a loss on the trade if they refuse to even move a stop loss order to ensure a break-even exit, or they will double down on despair and remove their stop loss order completely with hopes that the price will rebound. The former is often more devastating to traders than simply being stopped out of a trade immediately as they must deal with the fact that they failed to realize profits that were available to them. The latter is very likely the primary reason that trading accounts are blown up as market participants who are unwilling to accept that they were wrong marry positions regardless of the drawdown. As the drawdown becomes larger, traders find it even more difficult to exit as that would suggest admitting to "being even more wrong". Both scenarios are easily avoided with execution of a comprehensive trade plan. In short, we are removing emotion and psychology through binary decision making. If price reaches X, then close the position.

Profit targets need not be complicated. For new traders we often recommend setting targets at the nearest major price action resistance for the simple fact that it offers a fixed target to use as an actionable signal.

## Position Sizing

A general rule of thumb is to keep the risk for each non-correlated trade below one percent of total account value. An example of a correlated trade would be two tickers within the same sector.

A trading account can take 1% account losses forever and never reach zero. A trader must utilize proper risk management to ensure there is always capital available to leverage. A simple equation can be used to determine maximum position size according to maximum risk tolerance of one percent of total account value:

**Risk on trade (% change from average price to stop loss order price) × X = 1% of account**

As an example, let's assume an account size of $10,000 and maximum risk tolerance accepted is one percent of the account, $100. A trader sees price is approaching a support level at $100 and wishes to go long there with a stop loss at $95, 5% away from the entry price of $100. To determine maximum size that should be taken, the trader might use the equation:

**.05 × X = $100**

Solving for X, a trader would arrive at $2000, the maximum position size for the proposed trade. Note that it's often difficult for new traders to accept being wrong and respect their stop loss orders and so it's wise to cap maximum risk to even lower than 1% of total account value to become comfortable with the day to day ebb and flow an account might see over regular trading conditions.

**X = $2000**

## Relevant Tips

- Considering if you should take profit? If you are happy with the current profit… Take it!
- If you place a trade and do not place a stop loss and profit target, you should feel uncomfortable and think "I am missing something"
- As a trade works in your favor, adjust stop loss orders to protect profits.

# CONCLUSION

Armed with the information presented in this publication in conjunction with the free video content found on the TCG YouTube channel, traders are ready to gain experience through practicing different strategies through paper trading. Before going live, TCG recommends paper trading a strategy over a sample size of at least 100 trades to prove profitability. If an effective strategy has been mastered and a trader can commit to risk management rules, it is time for them to proceed with caution and transition into live trading.

The material provided here is designed to help new traders establish a footing in the world of trading. However, trading is a challenging endeavor and we find that most challenges are best experienced with friends. There is great value in a group of people with a centralized goal as everyone brings something different to the table to benefit from. We hope that you will consider joining TCG which we believe to be a unique trading community in that while we are all focused on securing financial freedom through market operations, we also place a great emphasis on doing good things which creates an incredible learning environment for independent discretionary traders.

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