

Stock market

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Myths & Hard Facts

- Brain Myths

- I lost because I didn't know trading secrets.
- Only intelligent people make money in stock market.

- Fortune Myth

- Only lucky or fortunate people make money in stock market

- Undercapitalization Myth

- One needs bigger account to be successful
- If only I had a bigger account, I could have stayed in the market a little longer and won

- Autopilot Myth

- If I had a good trading system, I would be successful.
- Myth of Fundamentals
 - Stock price is determined by companies fundamentals and past performance
- Myth of Brand
 - Buy XYZ company's share, it always makes you money.
- Market is not your mother...
 - It is made of tough men and women who look for ways to take money from you instead of pouring milk into your mouth
- Futures Trading is not a "ZERO-SUM" game, it's a "MINUS-SUM" game!
 - Winners receive less than what losers lose.
 - Just being "better than average" is not enough to win in this game
- This industry attracts new losers to feed the winners, brokers and exchanges.
- For a price to go up, there has to be greater fool who is ready to pay higher.

Common Questions

- Is it good time to buy?
- What stock should I buy and when? [™]
- Market is falling... should I sell or hold?
- Is this a Bull Market or a Bear Market?
- How high (or low) this stock could go?

Answer lies in Technical Analysis (TA) coupled with Money Management Rules

Have you got it right?

- Markets rise when
 - i. There are more buyers than sellers
 - ii. Buyers are more aggressive than sellers
- TM
- iii. Sellers are afraid and demand a premium

iv. More shares or contracts are bought than sold

a. i and ii

b. ii and iii

c. ii and iv

d. iii and iv

- Find out - when Markets Fall!?

Retail Mentality

- Retail portfolio consists of more Gadhas

(Underperformers) than Ghodas™

(Outperformers) - Why & How?

- They Feed the Weeds in the Farm

- They Catch the Wrong Train

- They are too Loyal to their stocks

- They like to be Brave

- They like to Buy Cheap

- They like to Average by putting good money after bad

TREND

The trend has been your friend for over 250 years,

so stop fighting it!

- Up Trend

Higher Highs, Higher Lows

Moving Averages $5 > 13 > 26 > 50$

- Down Trend

Lower Highs, Lower Lows

Moving Averages $5 < 13 < 26 < 50$

- Sideways Trend

Moving Averages are mostly flat or intermingled

TM

AV

Bulls vs. Bears

Hammer

Hanging Man

1. Long white candlesticks indicate that the Bulls dominated the action (trading) for most of the time.
2. Long black candlesticks indicate that the Bears dominated the action (trading) for most of the time.
3. Small candlesticks indicate that neither team could move the action and price finished about where they started.

RADING ACADEMY

4. A long lower shadow indicates that the Bears dominated the action for part of the time, but lost control by the end and the Bulls made an impressive comeback.
5. A long upper shadow indicates that the Bulls dominated the action for part of the time, but lost control by the end and the Bears made an impressive comeback.
6. A long upper and lower shadow indicates that the both the Bears and the Bulls had their moments during the time, but neither could put the other away, resulting in a standoff.

Oscillators

- Oscillators help find turning points i.e. they identify emotional extremes of market crowds i.e. "Overbought" OR "Oversold" conditions.
- However, in a strong bull markets they may remain overbought for long period of time, giving pre-mature sell signals.
- In Strong bear markets they may give pre-mature buy signals.
- They work extremely well in **Trading Ranges** (Sideways Trend):
 - Buy on Positive Crossover (ready to turn from oversold)
 - Sell on Negative Crossover (ready to turn from overbought)

Divergence

- To "Diverge" means to drift apart OR go on a different route. Generally, price and oscillators go hand-in-hand however, there are times when they diverge from each other.

- Oscillators give best trading signals when they diverge from price.

- Divergences often help to identify market tops or bottoms.

- There are 2 different divergences:

i. Bullish Divergence - Bullish Divergence is where price chart will show price making equal low or lower low while Stochastic/RSI will show price making a higher low. In other words, bullish divergence occurs when price fall to a new low but an oscillator refuses to decline to a new low.

ii. Bearish Divergence - Bearish Divergence is where price chart will show price making equal OR higher high while Stochastic/RSI will show price making a lower high. In other words, bearish divergence occurs when price rise to a new high but oscillator refuses to rise to a new peak.

TIME FRAMES

• Monthly Chart

> Good for ultra long term investors.

• Weekly Chart

> Good for long term investors with over 1-2 years investment horizon.

• Daily Chart

> Good for medium term investors with over few months investment horizon.

• Intra-day (1 minute, 5 minutes, 15 minutes etc.)

> Used by day-traders

Interpretation: Each bar / candle represents price for the specific time

frame. E.g. In daily chart "each" candle represents price for the day i.e. open, high, low & close of the day

TIME FRAMES

• According to DOW Theory, Stock Markets have 3

trends

- Long-term Trend lasting for several years (like a Tide)
- Medium-term Trend lasting for several months (like a Wave)
- Short-term or minor Trend (like a Ripple)

- Trade in the direction of TIDE (e.g. weekly chart)
- Take advantage of the WAVE (e.g. daily chart) that

goes against the Tide

- Use breakouts / reversals in RIPPLE (e.g. intra-day)

- M1: METHOD: Triple Screen System

- 1st screen: Long-term (Market Tide)

- This is one order of magnitude longer
- Invest / Trade in the direction of this trend
- Use slope of MACD on this chart as your key 'direction indicator'

- 2nd Screen: Medium-term (Market Wave)

- This is the timeframe you want to Trade
- Identify the Wave that goes against the Tide i.e. a pullback on daily chart when weekly trend is up

- Use Oscillators to determine buy / sell signal

- 3rd Screen: Short-term (Ripple in the direction of Tide)

- This is one order of magnitude shorter
- Use intra-day breakouts for entry

- Choosing Time Frames:

- Use factor of 5
- For medium term investors: Weekly / Daily / 1 hour
- For day-traders: 1 hour / 10 minute / 2 minutes or 30/5/1 minute

M3: MIND MANAGEMENT

- Can you control Mr. Market?
- You can only control
 - Entries & Exits
 - Capital preservation and money management
- Self-inflicted pressures
 - I must succeed
 - Making quick bucks
 - Want to leave job and start full time trading
 - I want to double my account
 - Trading on borrowed money
- Not enough education
- Money does not make the trader... It's the trader that makes the money! 😊😊😊

Important M3 Rules

- Never "count" your profits, until you are in the trade.
- Overconfidence Can Kill - Don't let winning spoil you.
Don't increase your risk after winning trades.
- Stop Loss has to be based on Charts, not the MM rule.
- Ride your Winners: Don't jump off a Running Horse!
- Withdraw Profits Regularly.
- Don't expect every trade to be a big winner.

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- Follow what market is doing and not what you want market to do
- Ignore the news, follow the chart. If News is in the news papers for general public - act exactly opposite to what general people would do. Usually news are published to burn inventory!
- Trade the Trend (catch the train that's going in the direction where you intend to go!)
- Never let a Profit turn into Loss (this is easy said than done.. But you may try!)
- Follow stop losses religiously without being emotional.
- Study more, Trade less.
- If you don't know what's going on, don't do anything
- Tips are to trap suckers and pigs, use them only for your advantage.
- Never put more money into a losing trade / investment.
- Be a sniper trader
- Don't follow the crowd, they are usually wrong!
- Markets are never wrong, opinions often are.

--- OCR End ---

RULES OF THE GAME.....contd.

AVADHUT

-TRADING AC

- Don't buy a stock because you think it's cheap. Let market decide if it's cheap....follow your chart.
- Never let speculative play (rumor ones) to turn into long term investments. Sell if your chart tells you to do so.

TM

- Don't catch a falling knife in anticipation of the bottom. Let the chart confirm reversal.
- Always use "Triple / Double Screen System" while analyzing a chart.
- NEVER fall in love with a stock... not even Reliance 😊
- Habit of managing money is more important than the amount.

NEVER compromise your

MONEY MANAGEMENT RULES

RULES OF THE GAME.....contd.

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MONEY MANAGEMENT RULES

DEVELOPING TRADING STRATEGY

- Focus on the 3 Mantras
- Method
 - Identify the Methodology that works for youTM
 - Identify high probability setups
 - Filter the setups based on MM Rules
- Money Management
 - Identify your Risk Appetite
 - Develop a MM plan
- Mind Management
 - Identify your Personality: Key to Success!
 - Follow the Rules of the Game

LESSONS LEARNT BY ME

- I have ALWAYS lost money whenever I have compromised my own System & Rules....

Hence,

- Follow the Rules
- Follow the Discipline
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- Follow the Rules DING ACADEMY -
- Follow the Discipline