Trader Tom

20 Years Later

Tom Hougaard

Saxo Bank Notes

1. Notes to this talk will be available to download. I will give you the URL at the end of the presentation.
2. You are welcome to record on your phones.
3. You are welcome to take pictures of slides.
4. The notes will be in English.
5. Talen er på dansk.

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Bio

Name:	Tom Hougaard
Place of Birth:	Hørsholm – Denmark
Date:	September 1969
Higher Education:	BSc Economics
	MSc Money Banking & Finance
Career Highlights:	JP Morgan: 1997 – 2000
	Home Trader: 2000 – 2001
	City of London: Broker/Trader/Chief Market Strategist 2001 – 2009
	Private Trader: 2009 - 2079

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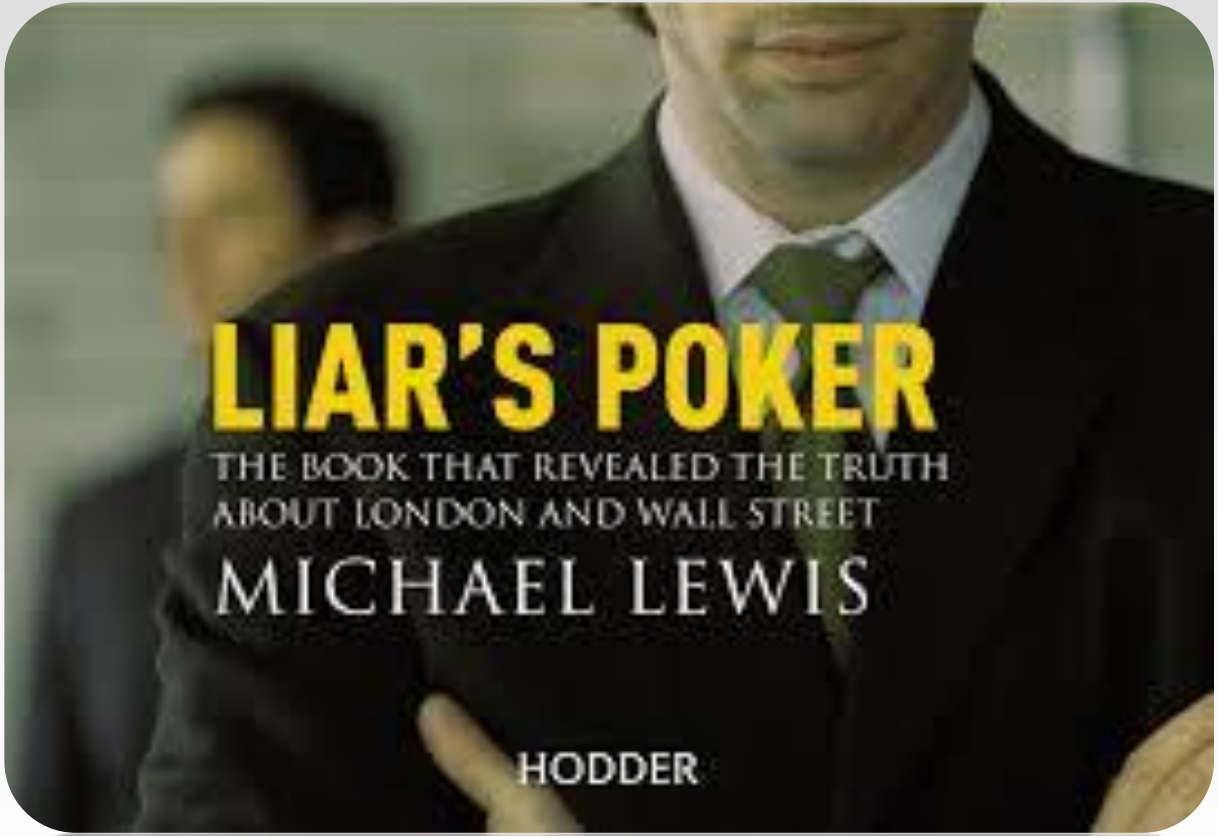
How It All Started



"It's not that I'm so smart, it's just that I stay with problems longer" Albert Einstein

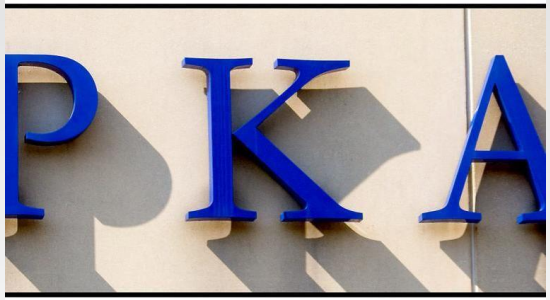
Then Things Changed

“It's not that I'm so smart, it's just that I stay with problems longer” Albert Einstein

The Past

“It's not that I'm so smart, it's just that I stay with problems longer” Albert Einstein

Eureka Moment



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My First BIG Currency Trade

eSignal Page - WELCOME TO ESIGNAL - [GBPDKK A0-FX,M - AdvCh]

File Page View Tools Lines Advanced Chart Research Scanner Support Symbols Trade Window Help

1 5 10 15 25t 60 240 Daily w

(GBPDKK A0-FX - BRITISH POUND/DANISH KRONER,M) Dynamic,0:00-24:00 (Delayed)

OK
Symbol: GBPDKK A0-FX,M
Date: 10/01/83
Time: 00:00
Price: 8.34605325
Open 14.0589
High 14.1864
Low 13.9483
Close 14.1752

15.5000 15.0000 14.5000 14.0000 13.5000 13.0000 12.5000 12.0000 11.5000 11.0000 10.9170 10.5000 10.0000 9.5000 9.0000 8.5000

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1976 1977 1978 1979 1980 1981 1982 1983 1984 1985 1986 1987 1988 1989 1990 1991 1992 1993 1994 1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006

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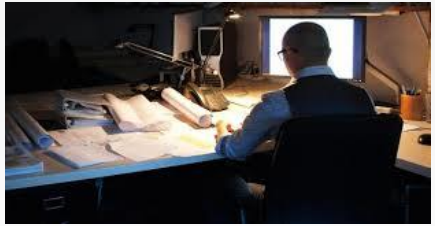
The Path Until Today – In Pictures

PRIFYSGOL CYMRU
UNIVERSITY OF WALES

UNIVERSITY OF BIRMINGHAM

J.P.Morgan



Every Place Taught me Something

PRIFYSGOL CYMRU UNIVERSITY OF WALES

UNIVERSITY OF BIRMINGHAM

Taught me Economics.

Taught me how the world financial system is put together – at least back in the 1990's.

Taught me Economic History.

It didn't teach me how to trade!

.. the Opportunity to Work Yourself Hard

J.P.Morgan

Working for JP Morgan taught me an invaluable lesson about life:

You can work all the hours God gives, get to work at 5am and leave at 11pm, but unless you are prepared to go where other people will not, you are unlikely to get to where you **really** want to end up.

It means that work ethics is a must – but you have to be prepared to sacrifice it all. I did. I left JP Morgan, just as I was getting ready for a major promotion. You have to work with your heart. You MUST follow your heart. I sacrificed it all – just so I could follow my heart. I reasoned that I would rather fail spectacularly at something I loved than to succeed in something I couldn't give an F about.

.. the opportunity to watch other professions up close

I did approximately 1300 interviews on CNN, CNBC, Bloomberg, BBC in my 9 year career. You learn very quickly to adjust to “their” way of thinking. You learn to talk in “soundbites”. You learn the memory span of front desk journalists is VERY short-lived.

You quickly realise that journalists suffer from “news nausea”, akin to a junkie getting immune to the hit from his preferred drug. You learn that their focus is on the latest piece of news.

.. But nothing can prepare you for …

. . working on a trading floor. You observe human emotions and their associated behaviour through the prism of the financial markets: impatience – impulse buying – fear – panic buying and panic selling – hope – holding on to positions long past their "expiration" day – greed – stupidity – stubbornness – despair

City Index had 3000 active clients who logged in most days and traded stocks, currencies, commodities and stock indices. I must have been a witness to somewhere between 50m and 100m trades.

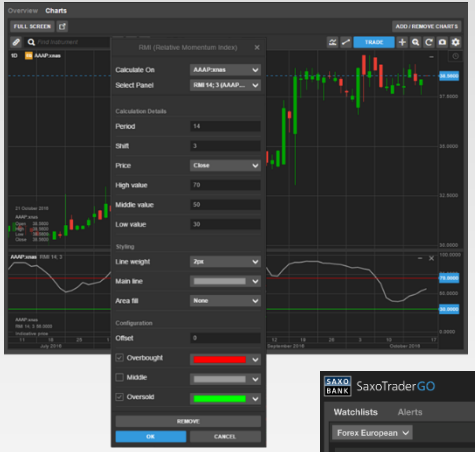
I recently spoke to a friend of mine, the CEO of a CFD broker in the UK. He has celebrated 30 years in the trading industry. He says he remembers perhaps 10 traders from those 30 years, traders who impressed him.

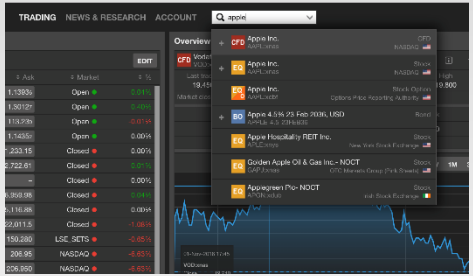
We are talking about a percentage so infinitesimal small that it makes you wonder why anyone would want to trade in the first place?

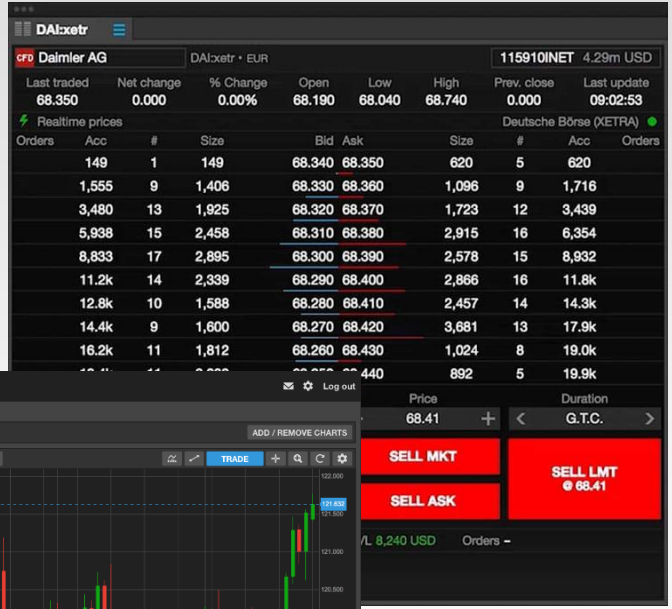
Trip Down Memory Lane

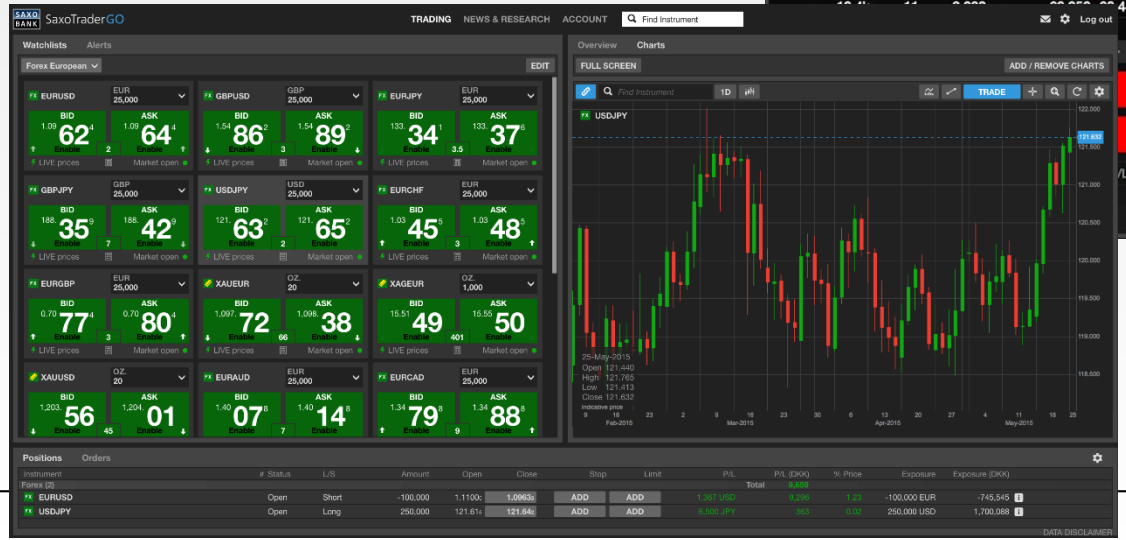
Trader Tom

The Tools…… is that the key?









Trader Tom

No One is Immune – Unless They are Trained

SAXO BANK

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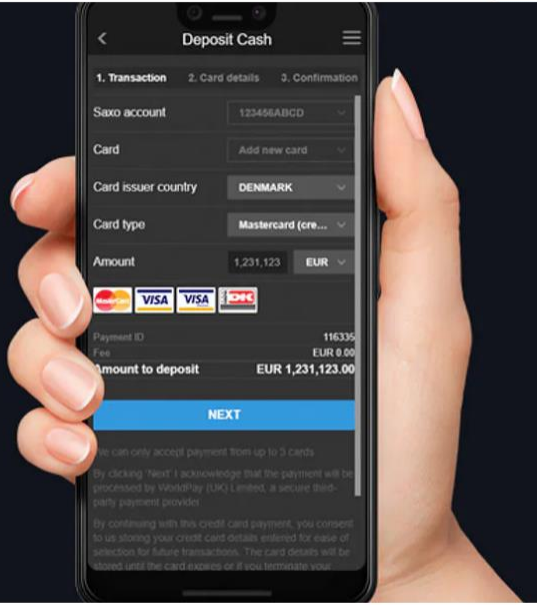
Fund your account in minutes

Deposit quickly via:

- Credit card
- Bank tranfer
- Stock transfer

Log in to fund



Saxo completes BinckBank takeover
We are pleased to announce that we have completed the acquisition of BinckBank.

Find out more

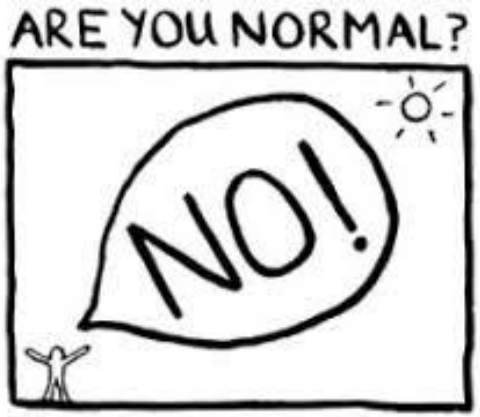
CFDs are complex instruments and come with a high risk of losing money rapidly due to leverage. **71% of retail investor accounts lose money when trading CFDs with this provider.** You should consider whether you understand how CFDs, FX or any of our other products work and whether you can afford to take the high risk of losing your money.

CFDs are complex instruments and come with a high risk of losing money rapidly due to leverage. **79.6% of retail investor accounts lose money when trading spread bets and CFDs with this provider.** You should consider whether you understand how CFDs work, and whether you can afford to take the high risk of losing your money.

Trade Responsibly: CFDs and Spread Betting are complex instruments and come with a high risk of losing money rapidly due to leverage. **79% of retail investor accounts lose money when trading CFDs with this provider**. You should consider whether you understand how CFDs and Spread Betting work and whether you can afford to take the high risk of losing your money.

If this is normal, show me what is not normal.

Show me the face of the "not normal" trader, the "I don't belong to the 80% trader".



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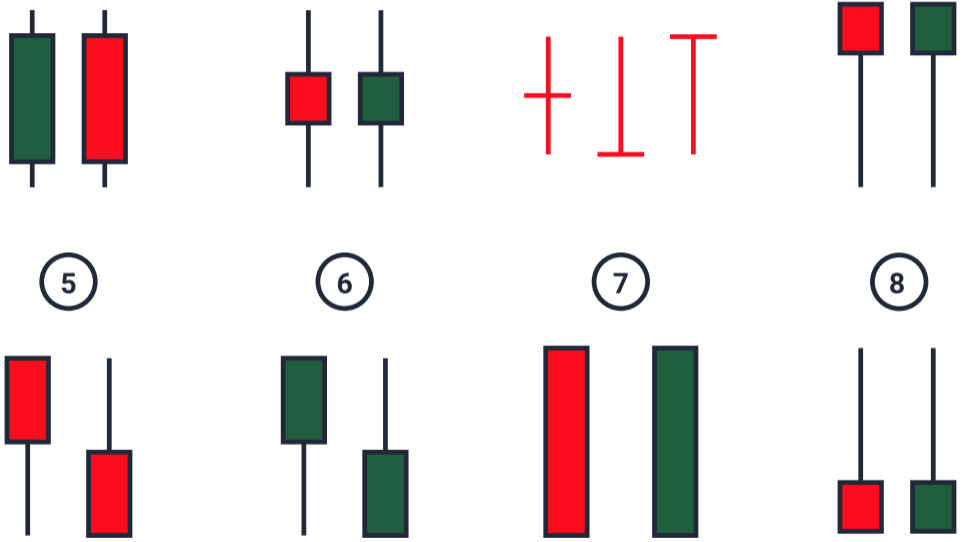
Am I Normal?

Weekend Courses



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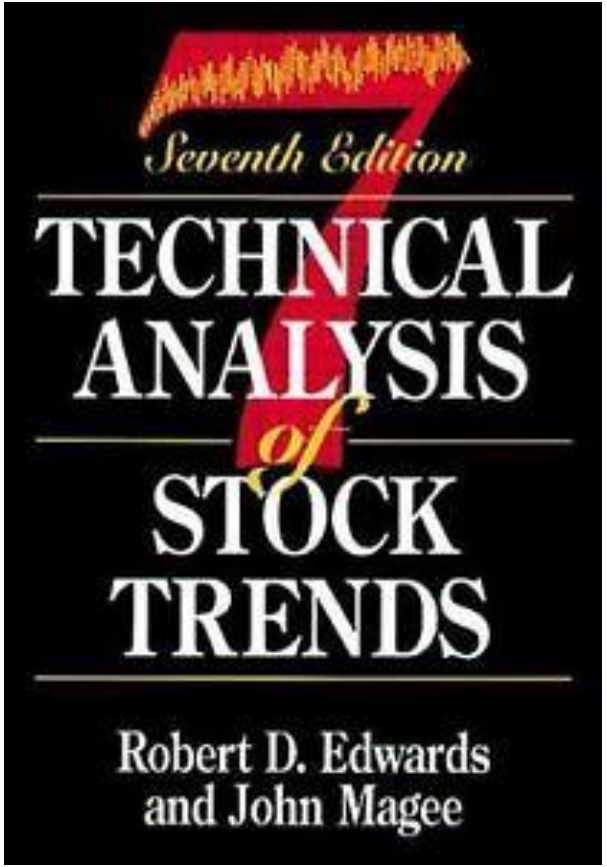

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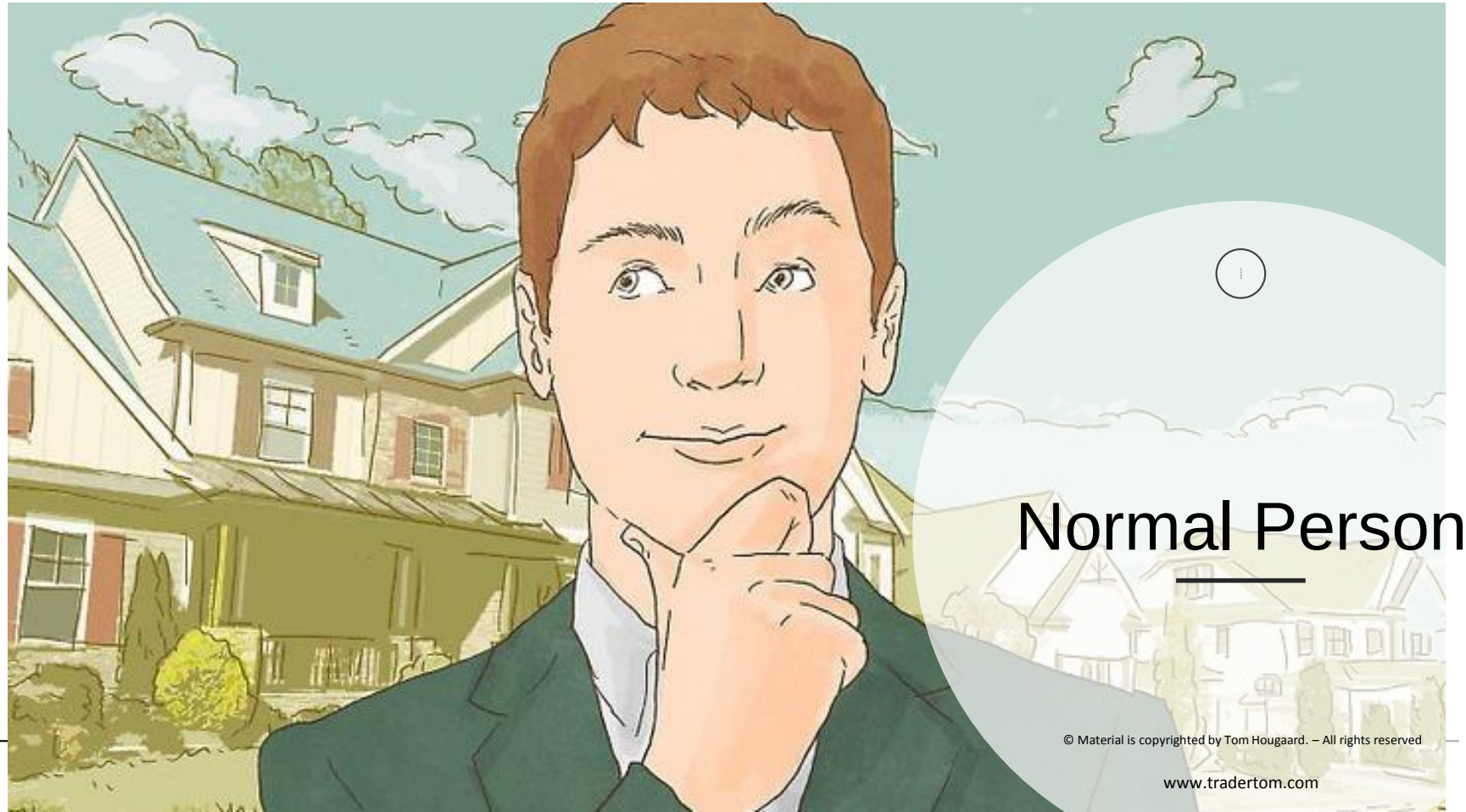
But if 80% lose and They All Do the Same . . ??



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Tough Questions – Honest Answers

1. **Are people good traders?**	Yes and No.
2. **Why "yes"?**	More winning trades than losing trades.
3. **Why "no"?**	They run their losses longer.
4. **How do you make money?**	By letting people trade.
5. **Do you hedge?**	We only hedge big traders.
6. **Do you have losing months?**	Yes, at times, but very rare.
7. **What are your best months?**	When the market is in a "runaway mode".
8. **What's the problem?**	Clients have no emotional control.

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What is Normal in Trading?

	Your Answer	The Answer
Percentage winners?	_ _ _ _ _	_ _ _ _ _
Pips/points won?	_ _ _ _ _	_ _ _ _ _
Pips/points lost?	_ _ _ _ _	_ _ _ _ _

What is Normal in Trading?

	Your Answer	The Answer
Percentage winners?	_ _ _ _ _	62%
Pips/points won?	_ _ _ _ _	48 pips
Pips/points lost?	_ _ _ _ _	82 pips

(62*48) – (38*82) = 140 pips deficit

On the Face of It

Sidestepping Sigmund Freud for a moment:

1. People love to find the low in a bear trend.
2. People love to find the top in a bull trend.
3. People think every reaction in a trend is the beginning of a new trend.
4. People are fearful when they should be hopeful.
5. People are hopeful when they should be fearful.

Why they do what they do, I will explore momentarily.

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What Is Normal Behaviour?

Action	Reason	Subconscious Reason
1. I am letting my loss run.	1. I am hoping.	1. Avoid pain.
2. I am letting my loss run.	2. Indicator/Fib/etc says so.	2. Avoid pain.
3. I am taking my profits.	3. You can’t go broke taking a profit.	3. Avoid pain.
4. I am winning, so I am reducing my stake.	4. I want to take it easy now.	4. Avoid pain.
5. I am losing, so I am increasing my stake.	5. I am trying to get back to where I was.	5. Get rid of pain.
6. I made my points for today so I stop.	6. I am afraid to lose what I made.	6. Avoid pain.
7. Trading without real conviction	7. I am bored / or scared of missing out.	7. Avoid pain of boredom or pain of missing out.

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Fear & Hope

Fear & Hope

People are fearful when they should be hopeful.

People are hopeful when they should be fearful.

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Not So Normal Behaviour

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www.tradertom.com

In his biography by Fallon he says:

"The time you know you've become a good trader is that first day you were able to win by holding and adding to a winning position. There are many people here (in the pit)that have traded for a long time and who have never added to a winner."

"Unfortunately, its only human nature to want to cut your winnings. Everett Klipp* taught me that. I am long and 6 and market goes 7, *SO GET ME OUT*."

"That's human nature. It is also human nature to ride the losses. I am stuck. Don't sell.

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The Message

“But when you are a good futures trader, everything you do hurts.”

You have got to fight it (your human-ness) unless there is a reason to do it, based on what you see in the market.

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The Message

“But when you are a good (futures) trader, everything you do hurts.”

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Not the Result of Normal Thinking

Wall Street	3,000.0 S	25419.6	25135.9	kr851,150.00
	500.0 S	25458.	25135.9	kr161,500.00
	700.0 S	25455.	25135.9	kr224,000.00
	350.0 S	25469.	25135.9	kr116,725.00
	450.0 S	25455.	25135.9	kr143,775.00
	200.0 S	25441.	25135.9	kr61,100.00
	300.0 S	25329.	25135.9	kr58,050.00
	250.0 S	25356.	25135.9	kr55,250.00
	125.0 S	25258.	25135.9	kr15,312.50
	125.0 S	25259.	25135.9	kr15,437.50

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Mental Foundation for Profitable Trading

1. Are you prepared to do what the 90% are not doing?
2. Are you aware of your weaknesses?
3. Do you have a routine to counteract them?
4. Are you pushing yourself? Or are you “Sunday golfing?”
5. Are you trading your account or are you trading your past trades, or are you trading the markets?
6. Do you have a metaphor or a philosophy that enables you to detach from the outcome?

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Mental Foundation for Profitable Trading

1. **Are you prepared to do what the 90% are not doing?**

What does that involve? You need to create 2 things:

1. **A method you can trade from. This is a strategy.**
2. **A philosophy – Not any old philosophy – but one that makes you different to the 90%**

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Once More – What are their flaws?

Sidestepping Sigmund Freud for a moment:

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My Framework

- I have accepted with every inch of my being, with every cell of my belief system, that I have no idea if my next trade will be the best trade of my life or a little loss.

- I know with every fibre of my body that this trade can easily turn into my worst trade ever, and bust my account if I let it. All I have to do is to act like the 90%, and “hope” at the wrong time, or “fear” at the wrong time.

- I am not a fortune teller – I REALLY don’t know what will happen next - so my self-worth is not tied to the outcome of the position, but I am curious how big my profit can get.

- I am conscious that if I want to be like the 90%, then I will consider “targets” and invent ideas when to get out, but I am not like the 90% - so I embrace the “pain” – the uncomfortableness – and run the trade – just to see how big my profit will get.

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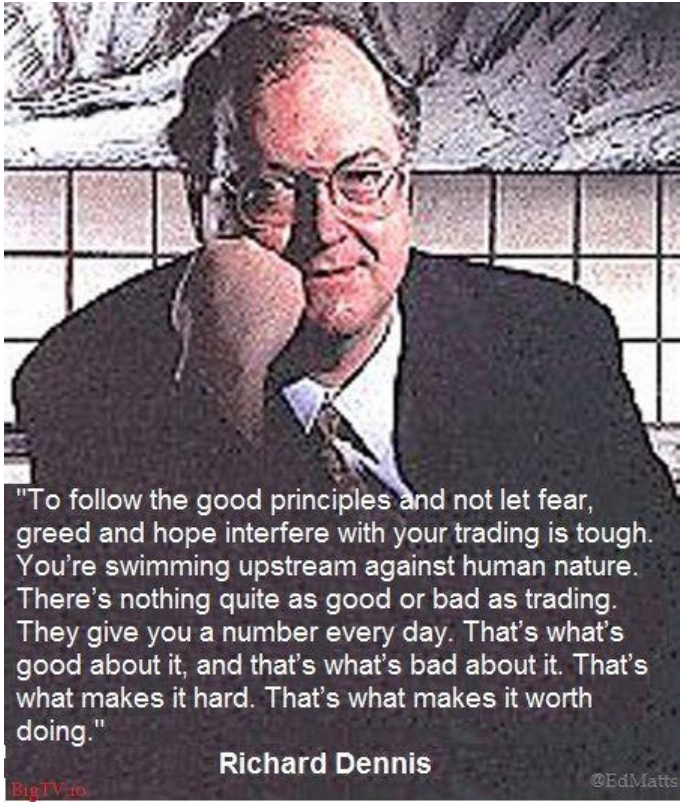

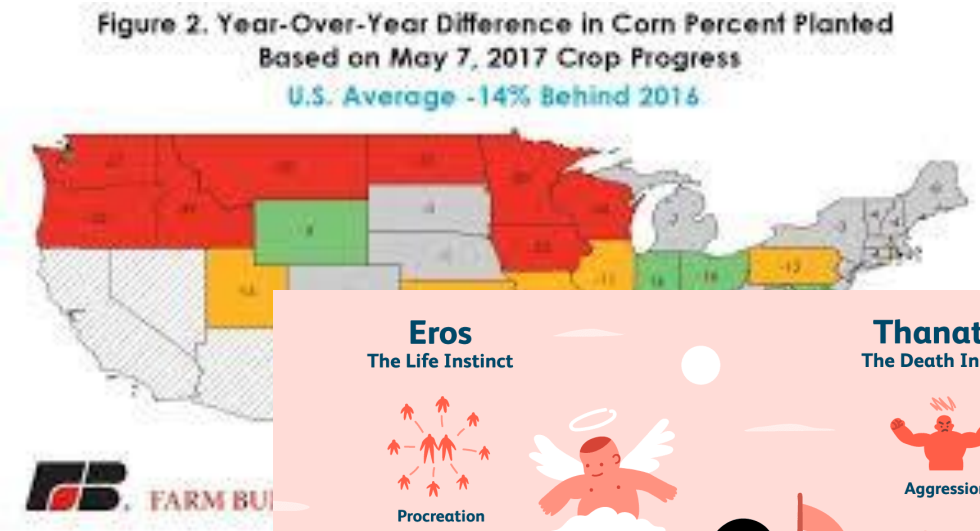

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Maybe a little “new age” advice – but here goes

1. **Making sure I am fit – strong body – rested body – rested mind**
2. Practicing detachment – what we do is not normal.
3. You can’t have a standard attitude about money and do well in this business.
4. The best way to learn detachment is to practise it.

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Developing a Low-Risk Idea

1. High performance traders approach their preparation like a pro tennis player approaches his preparation to a game.
2. The 80% that loses with spread betting and CFD companies, they know chart patterns as well as the best of us.
3. Successful traders also train people, but their skills is unlikely to be transferred to the student? Why is that?
4. Because there is much more to trading than seeing a S-H-S pattern.
5. Why is it that there are more winning trades in our industry than losing trades?

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When No one is Looking . . .

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Finding Yourself

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LOG OUT

Cash Balance	Open Profit/Loss
kr227,789.68	kr586,660.00

600.0	S	11991.0	11829.2	kr97,080.00
600.0	S	11992.0	11829.2	kr97,680.00
600.0	S	11982.0	11829.2	kr91,680.00
600.0	S	12000.3	11829.2	kr102,660.00
300.0	S	11979.8	11829.2	kr45,180.00
300.0	S	11978.5	11829.2	kr44,790.00
500.0	S	11924.3	11829.2	kr47,550.00
100.0	S	11926.8	11829.2	kr9,760.00
600.0	S	11906.0	11829.2	kr46,080.00

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300.0	S	11288.3	11314.0	kr-7,710.00
350.0	S	11286.8	11314.0	kr-9,520.00
400.0	S	11285.2	11314.0	kr-11,520.00
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500.0	S	11279.0	11314.0	kr-17,500.00
500.0	S	11274.8	11314.0	kr-19,600.00
450.0	S	11295.2	11314.0	kr-8,460.00
500.0	S	11293.2	11314.0	kr-10,400.00
500.0	S	11292.7	11314.0	kr-10,650.00
500.0	S	11312.7	11314.0	kr-650.00
2,000.0	S	25392.4	25433.5	kr-82,150.00
700.0	S	25378.5	25433.5	kr-38,500.00
300.0	S	25378.0	25433.5	kr-16,650.00
1,000.0	S	25406.5	25433.5	kr-27,000.00

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Control Your Mind – Control Your Future

WHAT HURTS MORE,
THE PAIN OF HARD WORK
OR THE PAIN OF REGRET?

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Professionals are still Humans

Jim Cramer: "Bear Stearns is Fine!" Tues, 3/11/08

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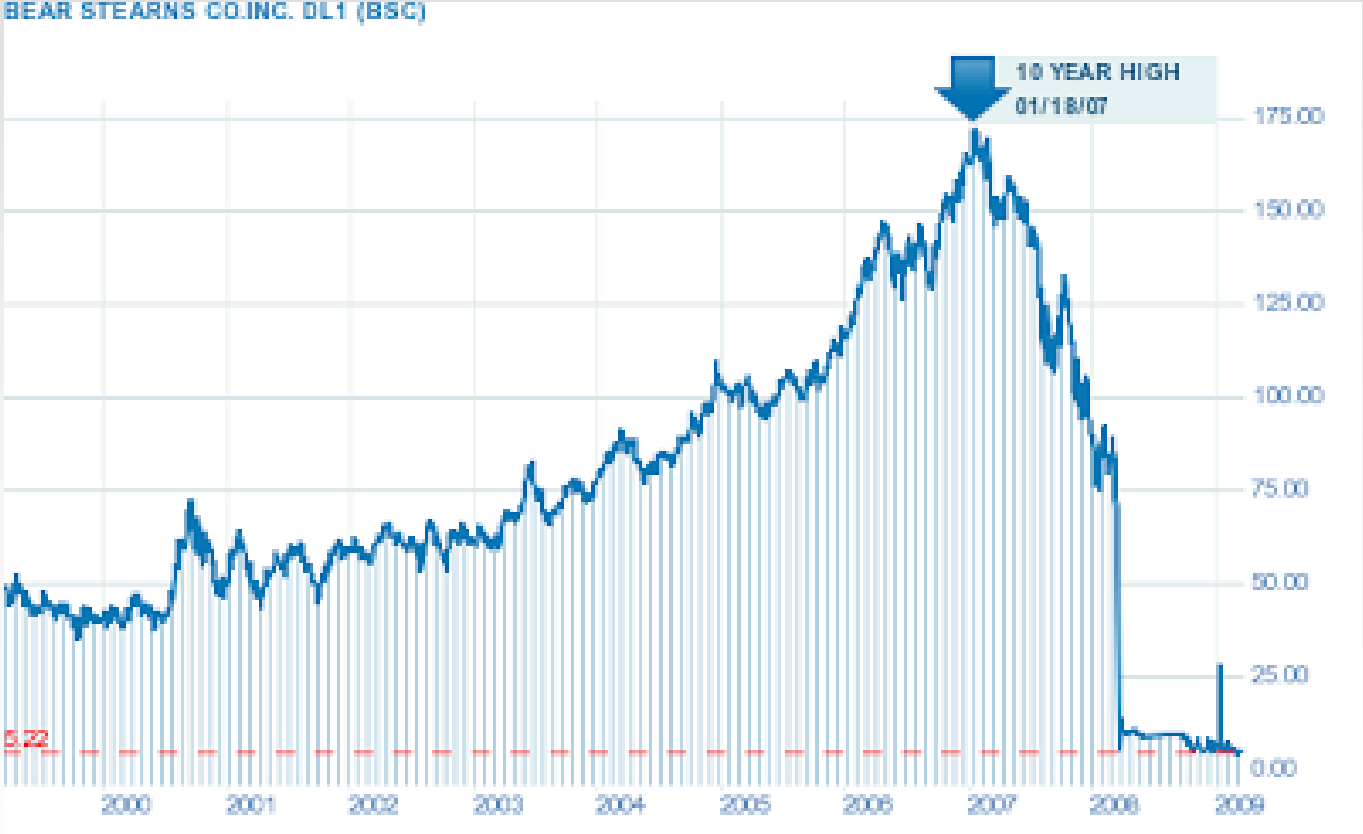
And We All Make Mistakes



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Rallied 50%

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And It Fell Back

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Why Trading is difficult: Brain Washing

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Universal Problem – Ukraine example

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No Country is Immune: Holland

Speciaalbier in alle soorten en maten

Proef en ontdek!

Meer speciaalbier ›

6.99
Affligem Blond
6 x 0,33 l

35% KORTING
~~6.49~~ 4.22
Brand IPA
6 x 0,3 l

2E HALVE PRIJS
6.69
Leffe Blond abdijbier
6 x 30 cl

6.99
La Chouffe Bier
4 x 0,33 l

2E HALVE PRIJS
6.49
Leffe Zomer 6pack
6 x 0,33 l

5.69
Hoegaarden Belgisch witbier
6 x 30 cl

6.89
Karmeliet Tripel .
4 x 33 cl

10.39
Corona Extra pils
6 x 35,5 cl

5.25
Jillz Raspberry
6 x 0,23 l

35% KORTING
~~4.79~~ 3.11
Brand Weizen 0.0%
6 x 30 cl

Meer om mee te proosten?

Bekijk meer speciaalbier

Feedback

Stock has now fallen 66% from the top

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The share was suspended at zero

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Who is most beautiful?

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Technical Analysis vs. Fundamental Analysis

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MarketWatch

MARK HULBERT GET EMAIL ALERTS

Opinion: Technicians vs. analysts in a CNBC stock-picking slapdown: Who wins?

Published: Sept 4, 2015 5:01 a.m. ET

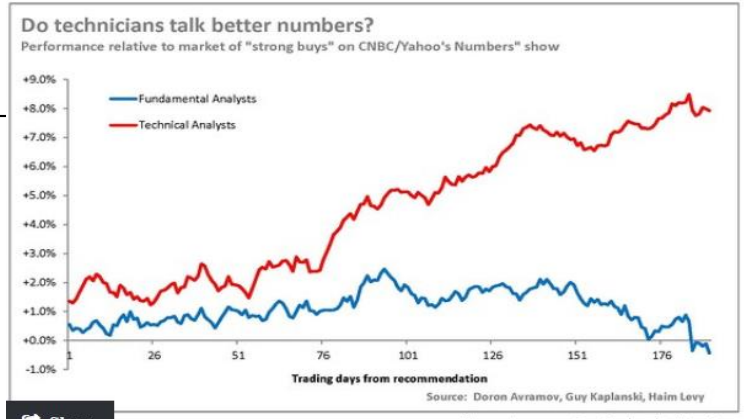
700 122 135

New study provides definitive answers

CHAPEL HILL, N.C. (MarketWatch) — The age-old debate between technicians and fundamental analysts appears to be on the verge of being answered.

Over investment horizons ranging from one month to one year, top technicians come out well ahead of leading analysts.

In fact, according to the academic study that reached this conclusion, it's not even close: While the average buy recommendation from well-known technicians outperforms the broad stock market by 8% over the subsequent nine months, the average stock recommended by leading fundamental analysts underperforms the market.



Share

Doron Avramov, Guy Kaplanski, Haim Levy

Consider first the stocks that the technical analysts identified as strong buys. They on average proceeded to outperform the overall stock market by 7.9% over the subsequent nine months, while the stocks they recommended as strong sells underperformed by 8.9%.

That spread of 16.8 percentage points is highly significant from a statistical point of view. As the professors put it in their study, it means that "technicians display rather impressive stock-picking skills."

Contrast that with the performance of the fundamental analysts. The researchers found that their strong buys proceeded on average to underperform the market over the nine months following recommendation — though not by enough to conclude at the 95% confidence level that these analysts were actually worse than random. Even worse, the stocks that these analysts rated as strong sells did not perform appreciably differently than those they considered strong buys.

It won't be easy for fundamental analysts to wriggle out from underneath the weight of these results. Since the TV show creates a head-to-head comparison on the same stocks over similar time horizons, the usual escape valves have been closed off.

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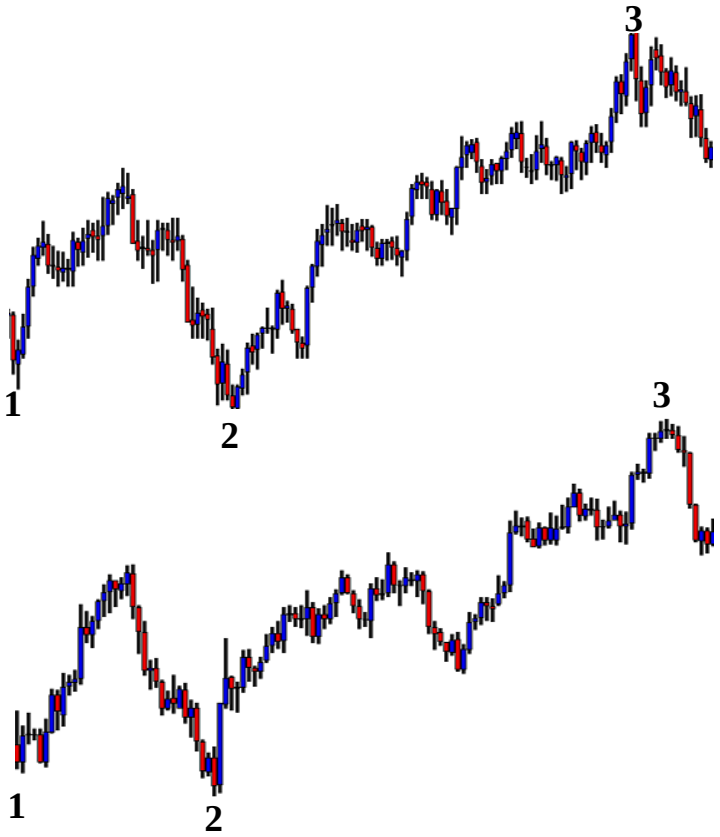
Is it the same market?

It is the same market.

The top chart is a 5min chart.

The bottom chart is a daily chart.

Both are Euro Dollar



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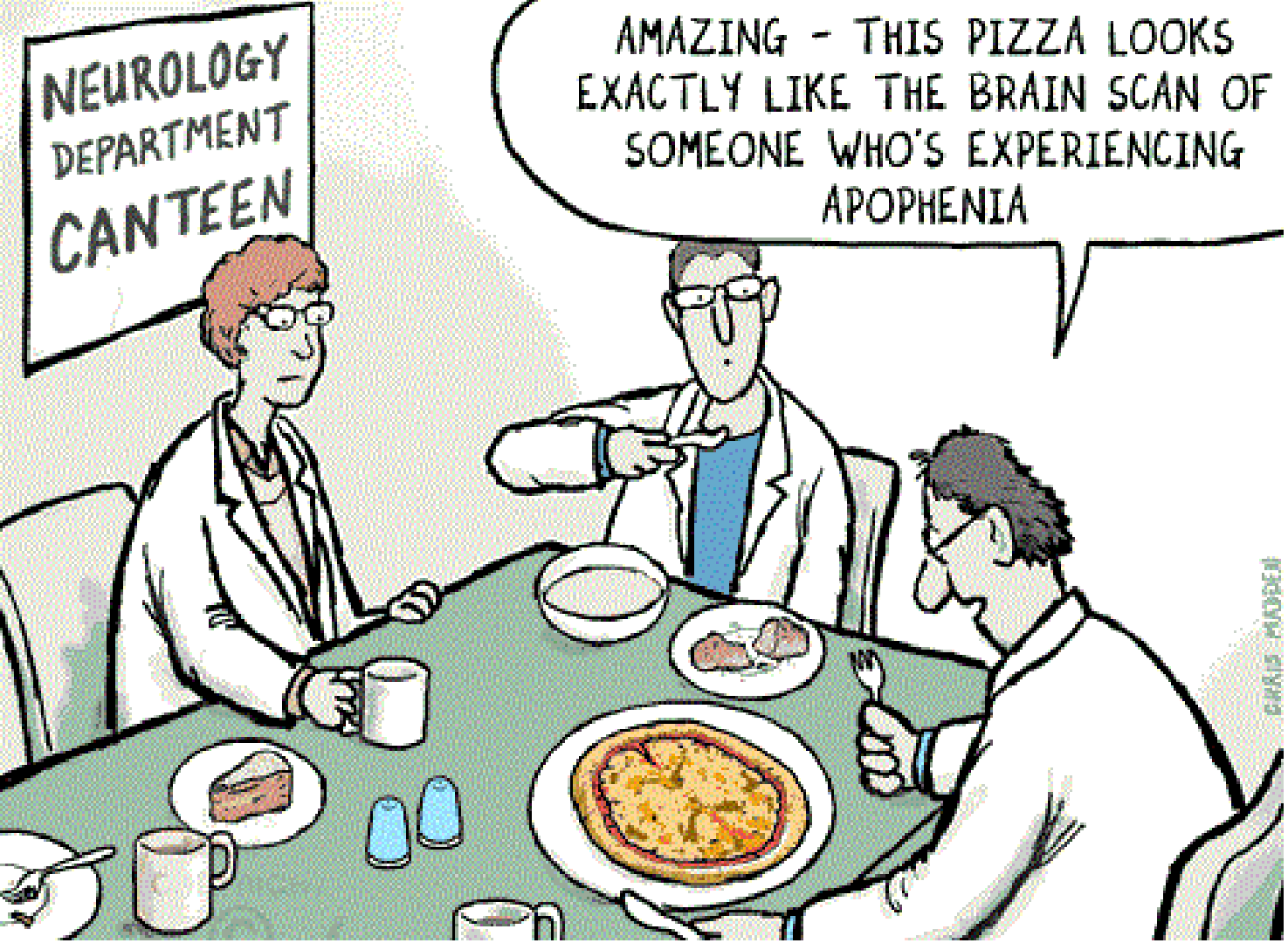

Apophenia – also called “patternicity” is a common cause in people trading.

Think about the nature of all indicators…. What is their common purpose?

Reversals

Apophenia

Apophenia (/æpoʊˈfiːniə/) is the tendency to mistakenly perceive connections and meaning between unrelated things. The term (German: Apophänie) was coined by psychiatrist Klaus Conrad in his 1958 publication on the beginning stages of schizophrenia.

Apophenia - Wikipedia

https://en.wikipedia.org › wiki › Apophenia

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It is just a tap and a flower

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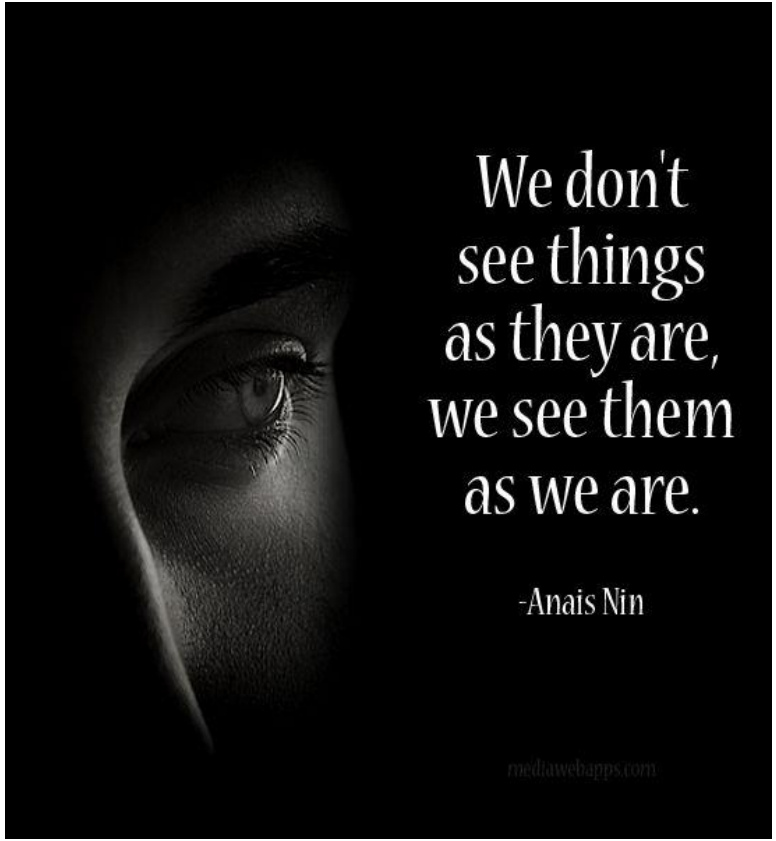

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Deception of Charts

The “Deception of Charts” is that our EYES will seek out that which confirms the fact you are seeking to prove or support the bias you have already established.

Deception of Charts

The “Deception of Charts” is that our EYES will seek out that which confirms the fact you are seeking to prove or support the bias you have already established.

Deception of Charts

“Outlier” Ignorant Beliefs

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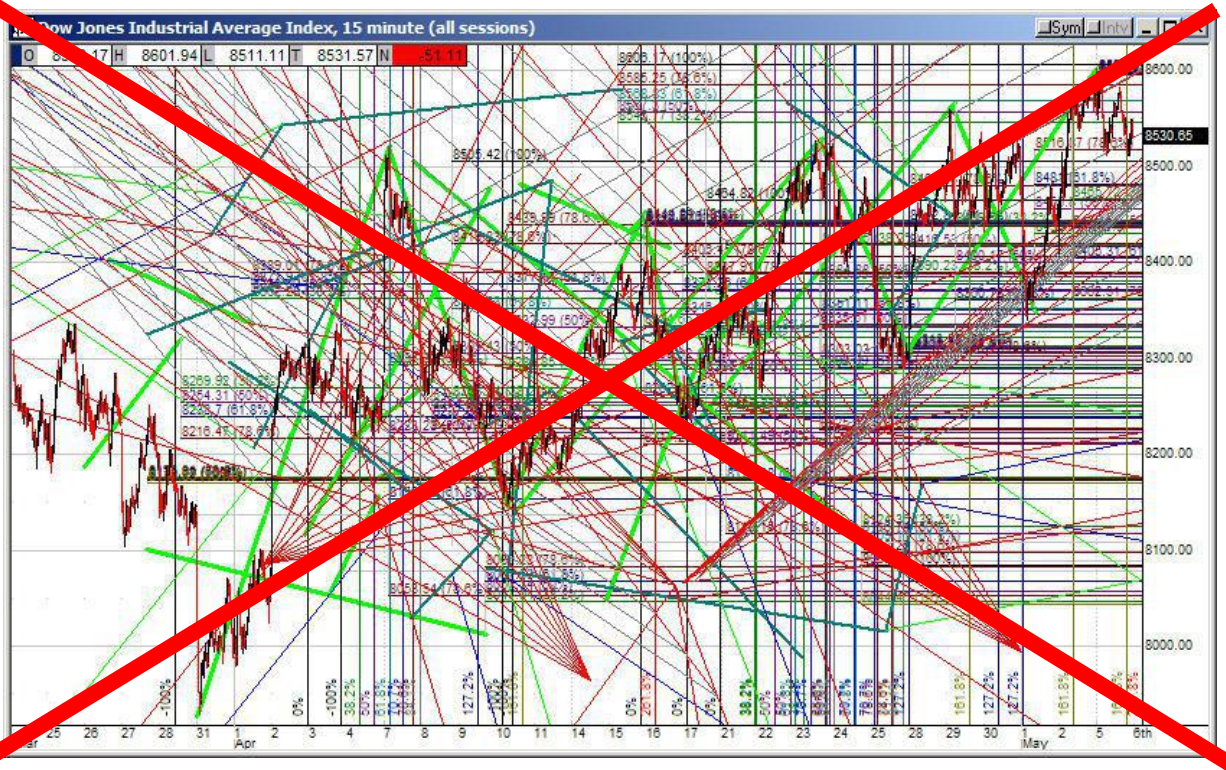
That the perfect trading setup exist – and that it can be bought!!!



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FTSE 100 index

What do you want to do?

1. **Buy** because it is a trading range
2. **Sell** because it is lower highs and breaking below support
3. Your answer please?

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DAX Index

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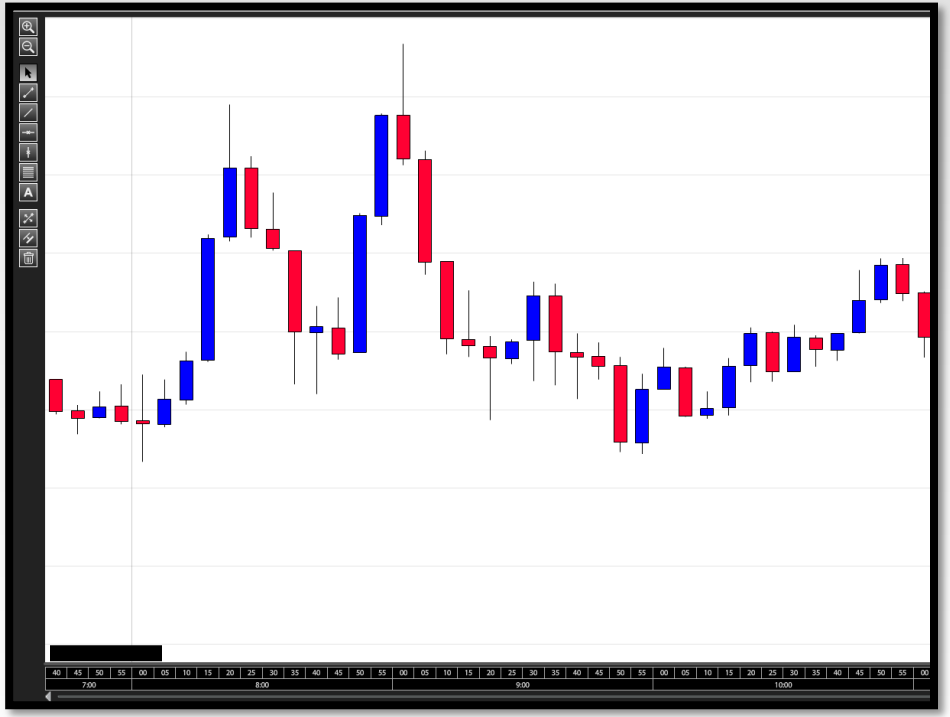
Side by Side



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FTSE 100 index

What do you want to do?

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FTSE 100 index - part 2

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FTSE 100 index – 28 Feb 2018 – part 3

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Germany 30 - Google Chrome

ETX Capital (Monecor (London) Limited) [GB] | https://trade.etxcapital.com/itrade/TearOff.html?childType=MarketChart2&childID=MarketChart2X101&appManID=1&lang=EN&acf=null&theme=null&z=1550505085873&fontList=MyriadPro.swf&lcts=true

Charts | Studies | Drawing | Options | Settings

High: 11374.2 Low: 11240.3 (-0.29%)

Period: 5 min | Chart Type: Candle | Price: Mid

TraderTom
DAX failed to attract buyers..... I am looking to sell short again....
386 11:03

TraderTom
Trader ALERT 50% position..... short DAX at 11,295
383 11:04

TraderTom
stop loss at 11,315
381 11:04

TraderTom
I cut my trading size I have a string of losing trades behind me.....
381 11:04

TraderTom
I hate to even say this, but I am finding today hard to understand.
379 11:06

TraderTom
TRADE ALERT WATCH DOW... .I AM SHORTING DAX again now
328 11:27

TraderTom
11,280
327 11:27

11240.0

11220.0

Indicative prices

7:00 8:00 9:00 10:00 11:00

Germany 30 - Google Chrome

ETX Capital (Monecor (London) Limited) [GB] | https://trade.etxcapital.com/itrade/TearOff.html?childType=MarketChart2&childID=MarketChart2X101&appManID=1&lang=EN&acf=null&theme=null&z=1550505085873&fontList=MyriadPro.swf&lcts=true

Charts | Studies | Drawing | Options | Settings

High: 11374.2 Low: 11240.3 (-0.29%)

Period: 5 min | Chart Type: Candle | Price: Mid

To me DAX fails at the most critical point, where it has a chance to clear the trading range of the last 16 bars, and push towards new highs, but it fails.

11380.0
11360.0
11340.0
11320.0
11300.0
11280.0
11260.0
11255.5
11240.0
11220.0

Indicative prices

7:00 | 8:00 | 9:00 | 10:00 | 11:00

Germany 30 - Google Chrome

ETX Capital (Monecor (London) Limited) [GB] | https://trade.etxcapital.com/itrade/TearOff.html?childType=MarketChart2&childID=MarketChart2X101&appManID=1&lang=EN&acf=null&theme=null&z=1550505085873&fontList=MyriadPro.swf&lcts=true

Charts | Studies | Drawing | Options | Settings

1m 13s

High: 11374.2 Low: 11240.3 (-0.29%)

Period: 5 min | Chart Type: Candle | Price: Mid

Germany 30 - Google Chrome

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Charts | Studies | Drawing | Options | Settings

1m 13s

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Germany 30 - Google Chrome

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Charts | Studies | Drawing | Options | Settings

1m 13s

High: 11374.2 Low: 11240.3 (-0.29%)

Period: 5 min | Chart Type: Candle | Price: Mid

FTSE again – the whole story

What was your answer?

When I asked this question last week to 120 people over 3 days, the vast majority said (98%) said "sell short". A few said "buy".

What do you want to do?

1. Buy because it is a trading range
2. Sell because it is lower highs and breaking below support
3. Your answer please?

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It is always easy afterwards

It may look negative but CONTEXT is up. The market doesn't reverse nearly as often as you think it will. Most "reversal" bars fail!!!

Now what do you do?

What do you want to do?

1. Buy because it is a bullish doji?
2. Sell because at top of trading range?
3. Your answer please?

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Short or Long?

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Short & Caught!!!

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The Big Picture once more

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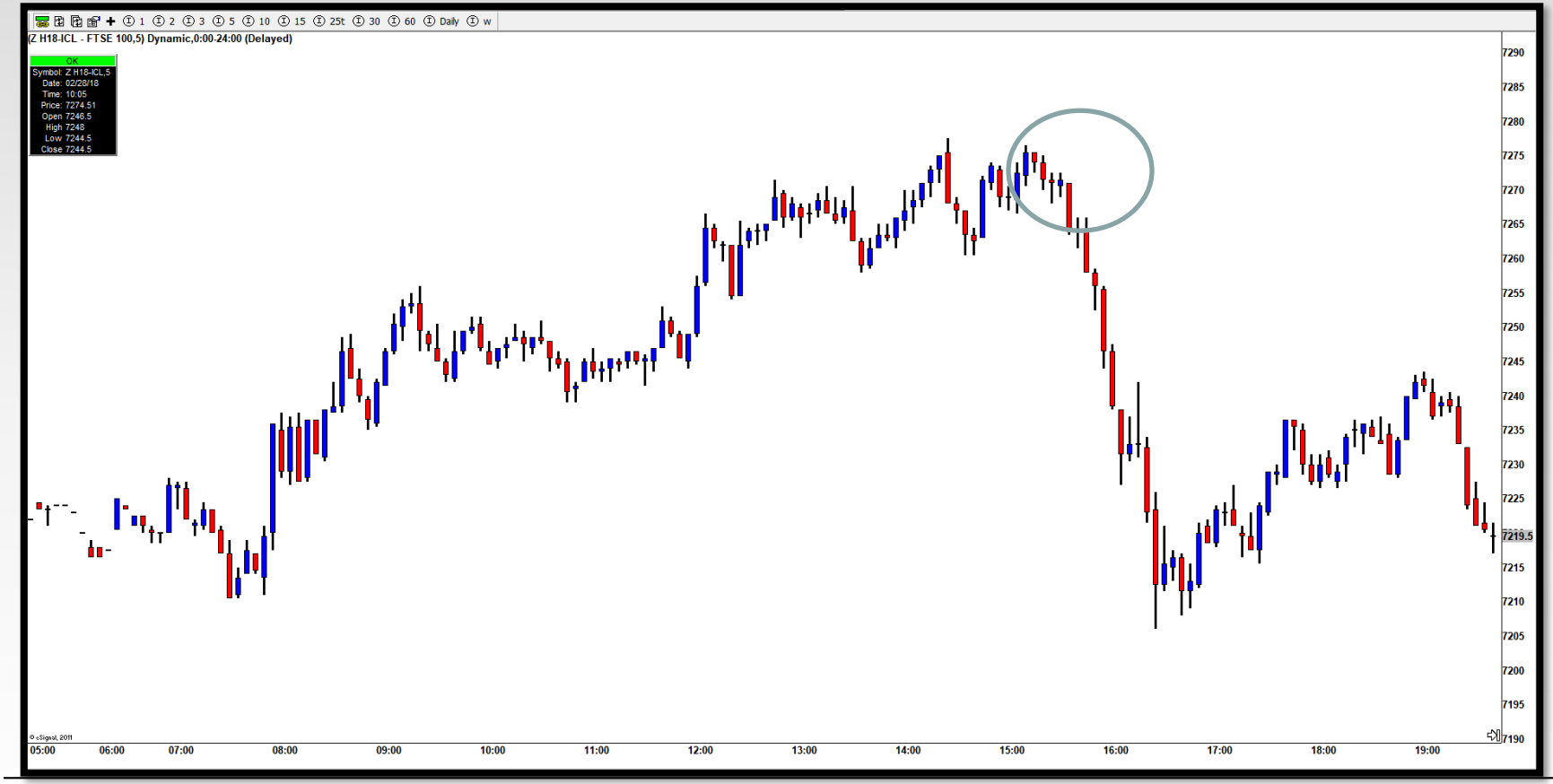
Anything can happen



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The Nature of the Game – not helping you

1. The players change – the brokers change – but the game never changes – because **you** are the game.
2. History clearly shows that the game of trading has never changed (e.g. 15k Merrill Lynch commodity clients data 4x losses vs. gains – empirical research – Larry Livingstone).
3. The very thing supposed to help you is what is keeping you trapped.
4. Charts are not a solution – they are an ingredient – but one ingredient does not make a dish.
5. The solution is not more charts – more indicators – because that is what everyone else is doing ….and…..they are mostly wrong!!!!
6. Everyone else is losing – thank you ESMA for pointing this out to us.
7. Remember – The “reptile mind” is there to protect you from pain – so introduce pain slowly..

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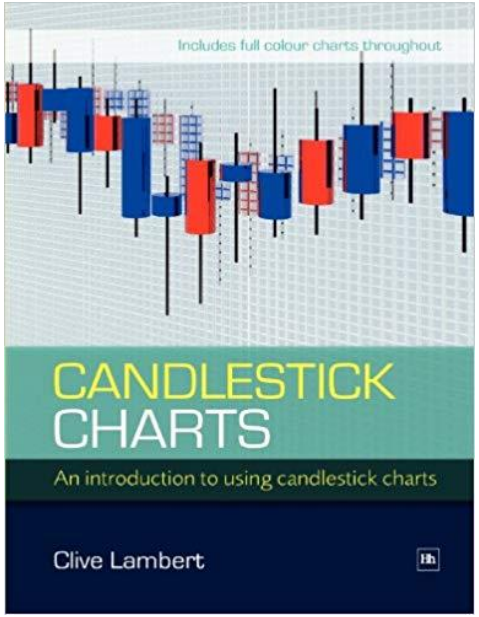
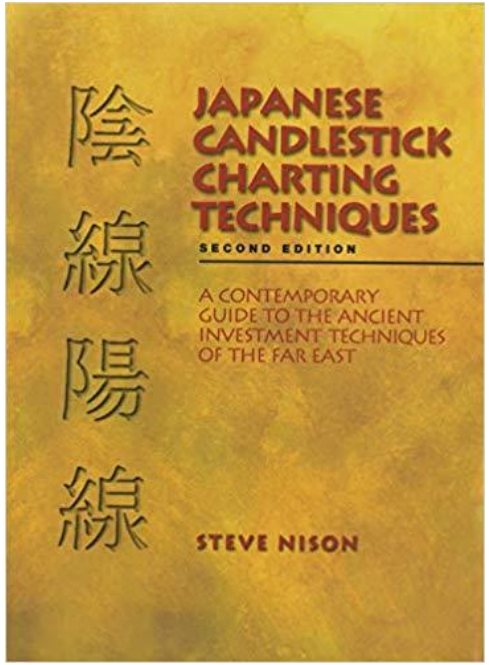
The individual components of a chart: Bar chart – Candle Chart etc.





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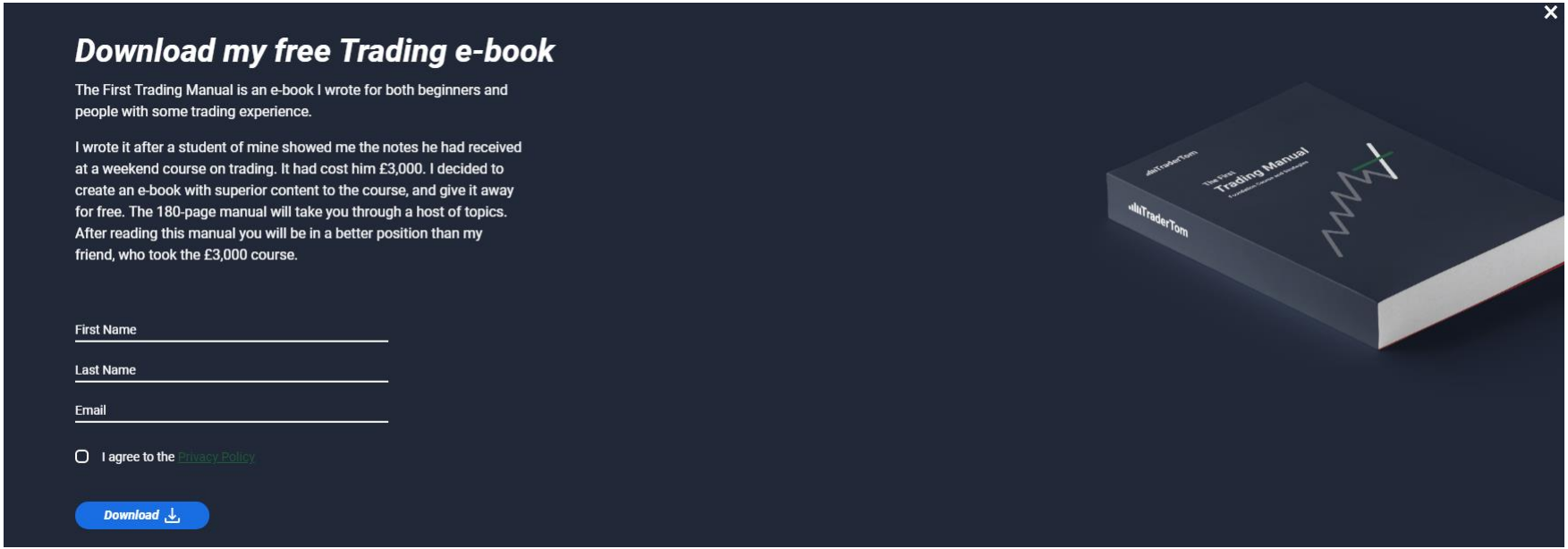
Characteristics of charts: Trends – Trading Ranges -



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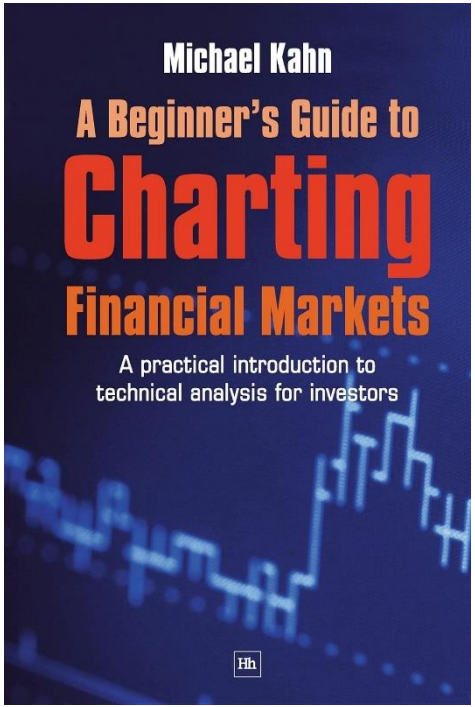
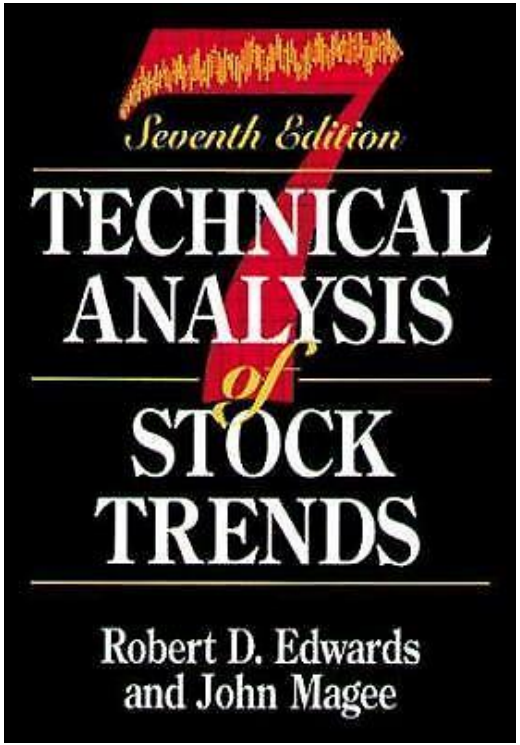
Patterns such as Double Tops – Head & Shoulders – Cup and Handle





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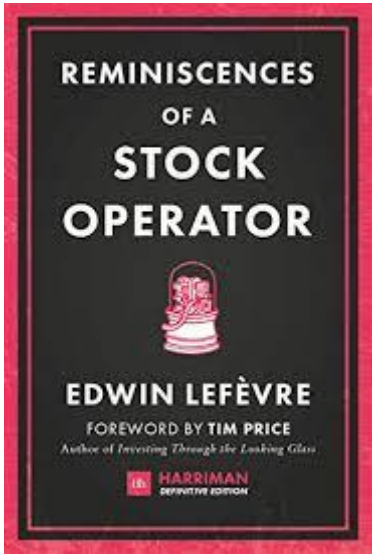
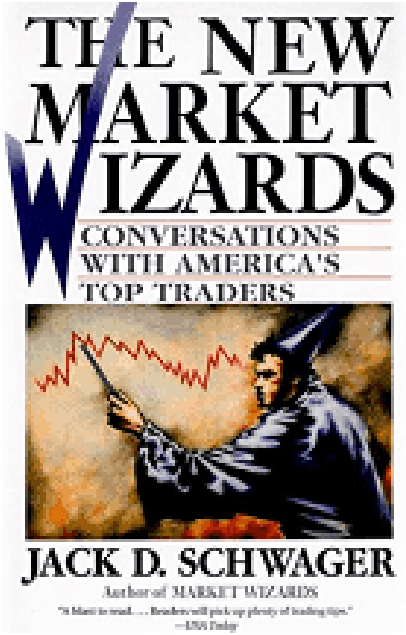
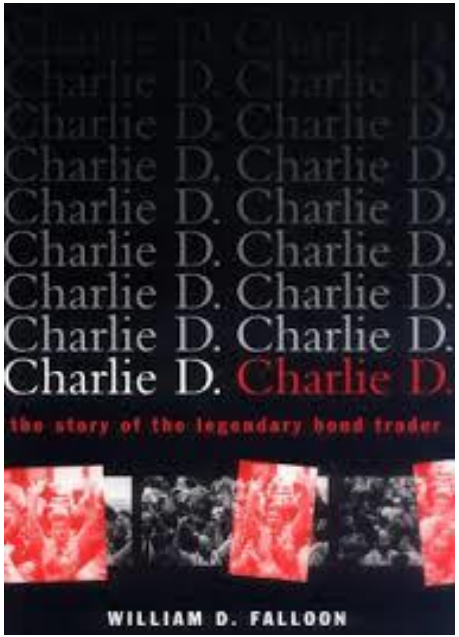
Life as a trader







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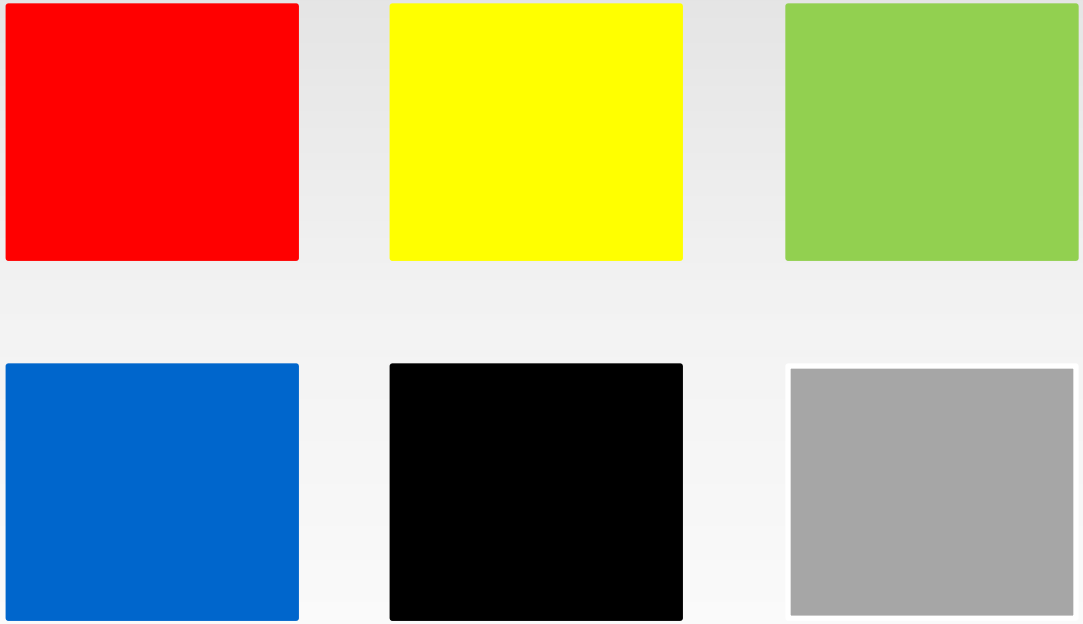

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RED YELLOW GREEN

BLUE BLACK WHITE

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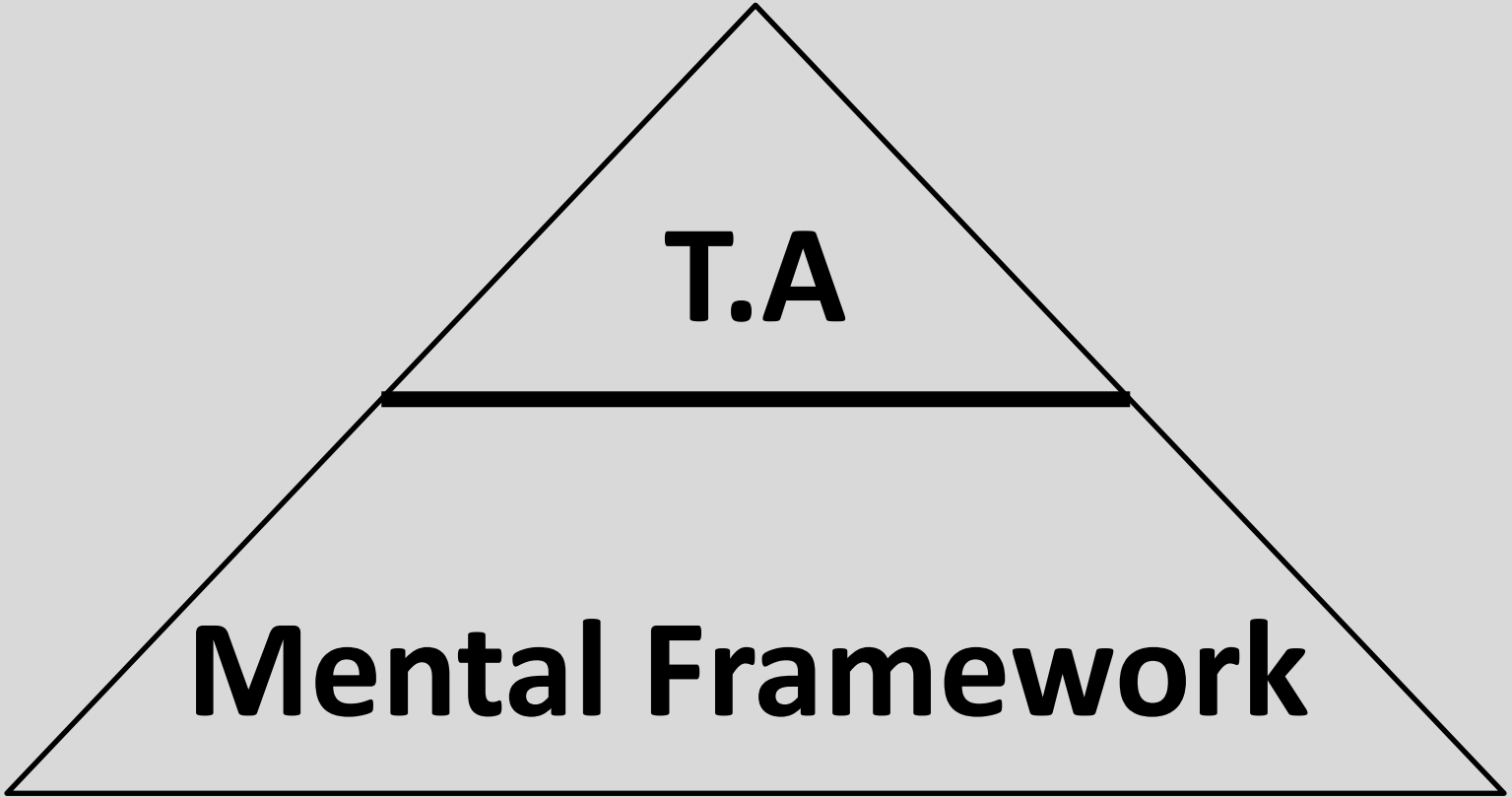
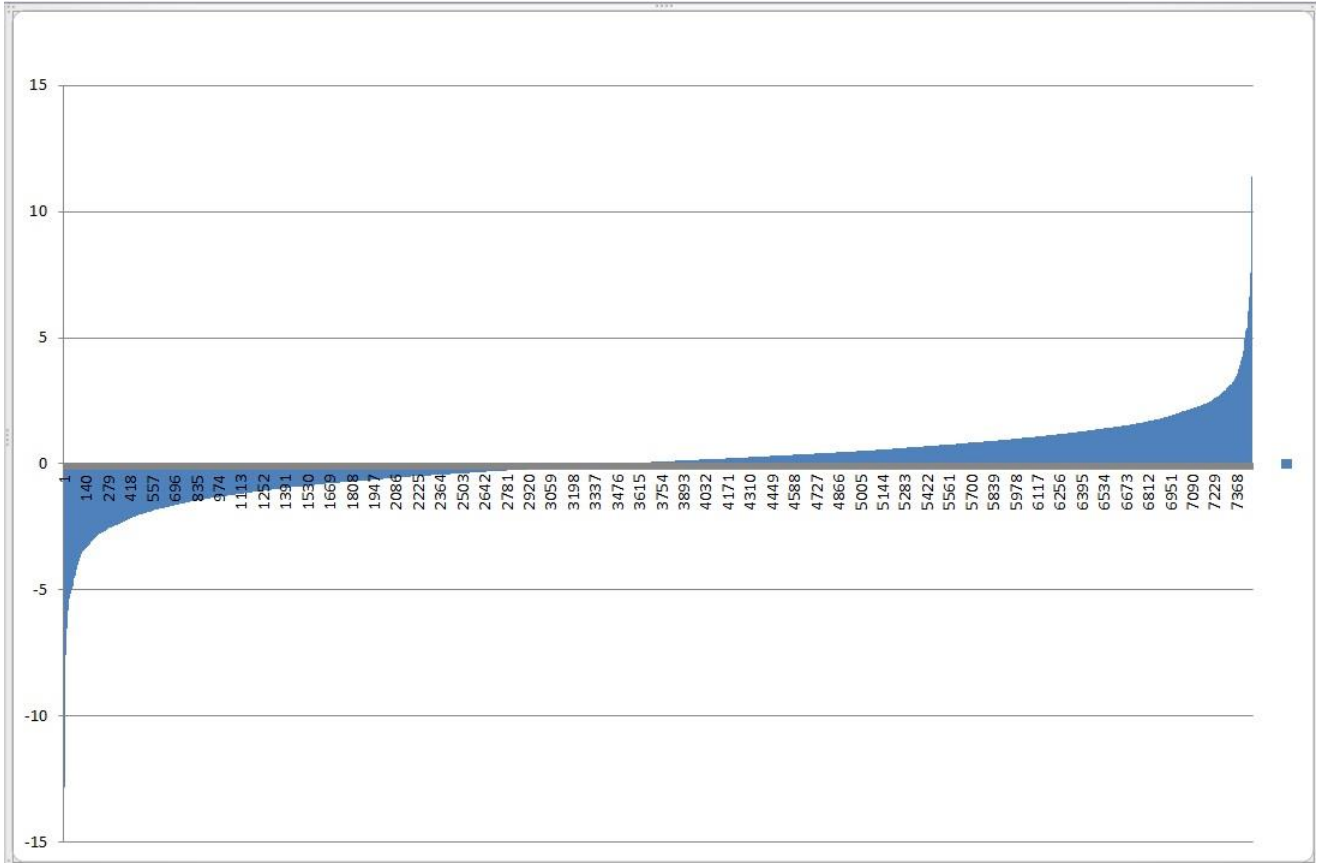

T.A
Mental Framework

Ideas & Perspectives

Thinking in “Scenarios”

Trader Tom

Statistics of 7500 trading days



I ask myself questions

1. How often does the Dow “gap up” or “gap down” in a year?
2. Is there any truth to the “As Wednesday goes, so too goes Friday”?
3. Is there a rhythm to the markets – 5 days on, 2 days off?
4. How often is Monday the low and Friday the high?
5. Does it help to know Fibonacci as a day-trader in Dow?
6. Is there any merit to the “strong Friday, strong Monday”?
7. How many days a year are “trend days”?
8. Is there any merit to “what Monday starts, Wednesday continues”?
9. Is there any truth to the 32 Calendar day cycle?

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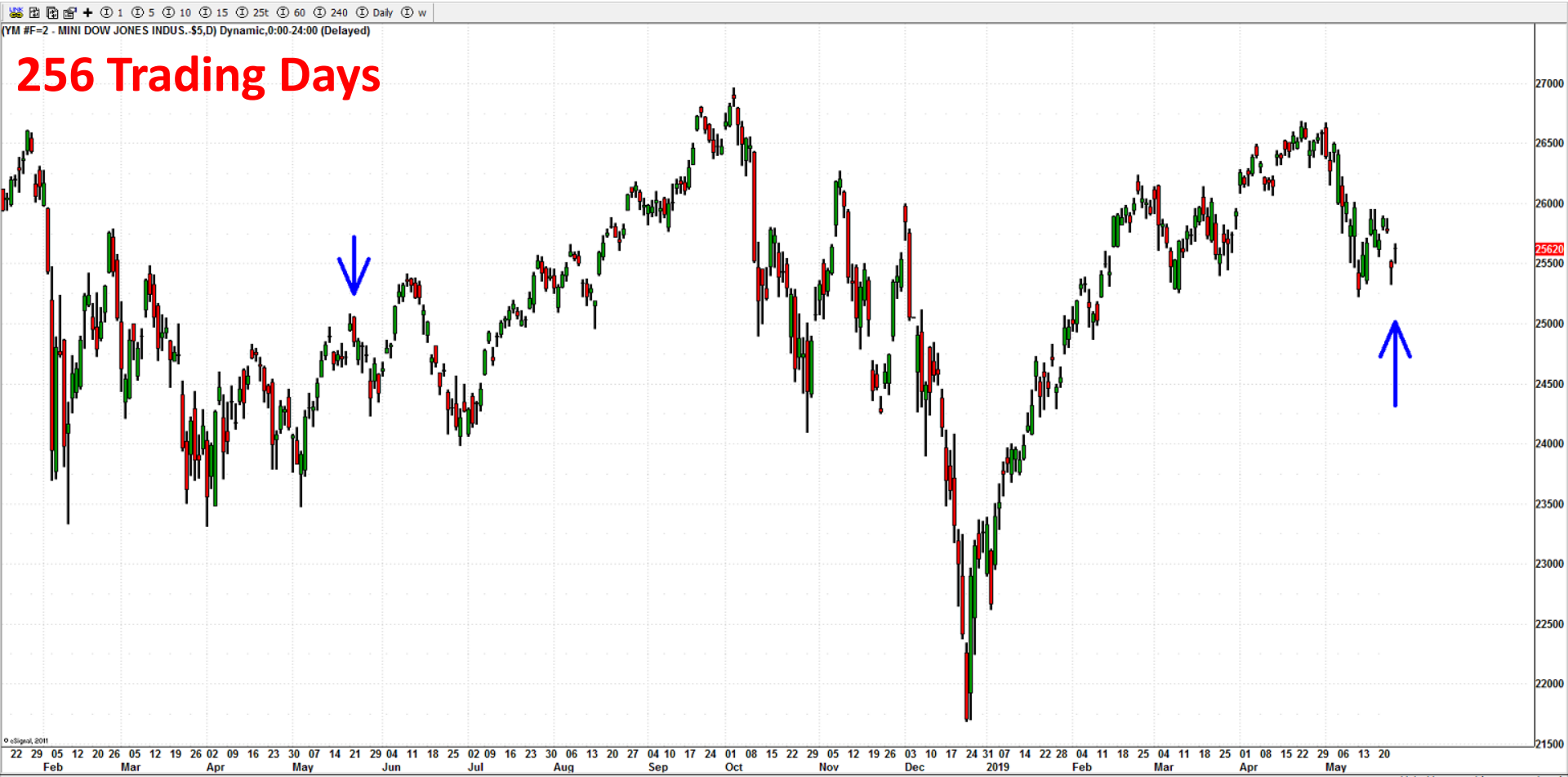
Trader Tom

Overview of Research for this speech



Scenario Questions

1. **If Thursday is higher than Friday, then what does the following Monday look like?**
2. **If you only traded "extended bars" on a scalp basis, how would you do? Would you make money?**
3. **Is there evidence of Fibonacci at play intra-day?**
4. **Is there evidence to support that what Monday starts, Wednesday continues?**
5. **How often is a low or a high made in the first 30 minutes of the day?**
6. **How often do gaps occur? Do they always fill, as the saying goes?**
7. **How often does the market have trend days? How do you trade a trend day?**
8. **Are there common denominators between strong* trend days?**
9. **Is there support for the comment that strong Fridays means strong Mondays?**
10. **If Tuesday is lower than Monday, then what does that mean for Wednesday?**

***strong = strongly to the upside OR downside**

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How often is Monday the high/low of the week?

It isn't often that Monday marks the high of the week or the low of the week. In a moment, after we have gone through this initial research, I will show you a much more important pattern.

For now I will state the facts. Over the last year, Monday has marked the high of the week, or the low of the week, 31 times.

31/52 = 60%

This information by itself is not particularly helpful. However, say you prepare for trading on Thursday, and you see that Monday is so far the highest day of the week, could that help you?

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Thursday performance

The results I show you is manually tested. It means I go through many print outs. I am certain I could do it much quicker if I had a programmer to do the testing for me. However, while I am checking for data, I also take in other pieces of information.

What I have asked myself here specifically is this question:

If Monday so far is the highest traded point for the last 3 days, i.e.. Monday Tuesday Wednesday, then how often is Thursday going to trade below the low of Wednesday?

I found there were a total of 25 times, when I was faced with this possibility, i.e. Monday was so far the highest point of the week, and Tuesday and Wednesday were weak.

Out of those 25 times, the Dow trade below the Wednesday low a total of 21 times.

To me that is a significant piece of information. Let me show you some example, and some close calls.

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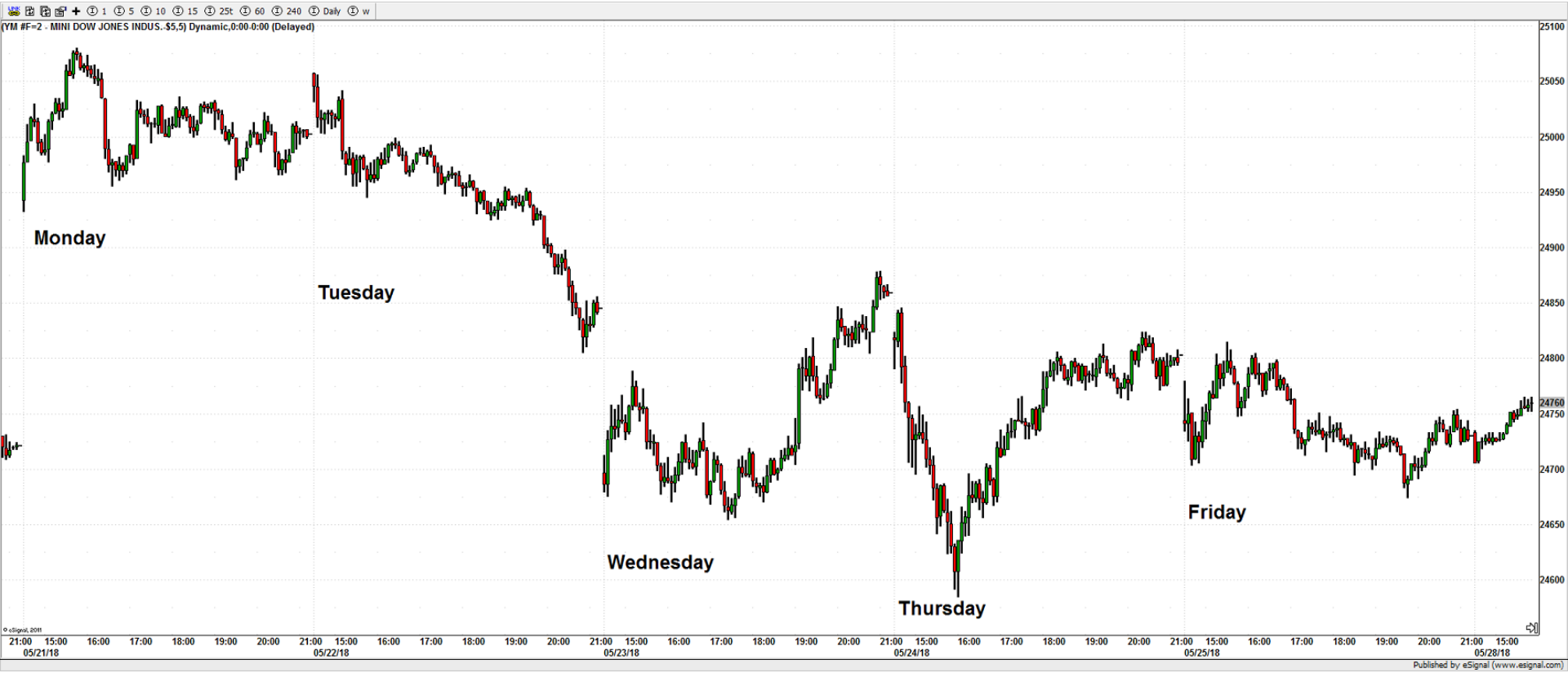
Example



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Example

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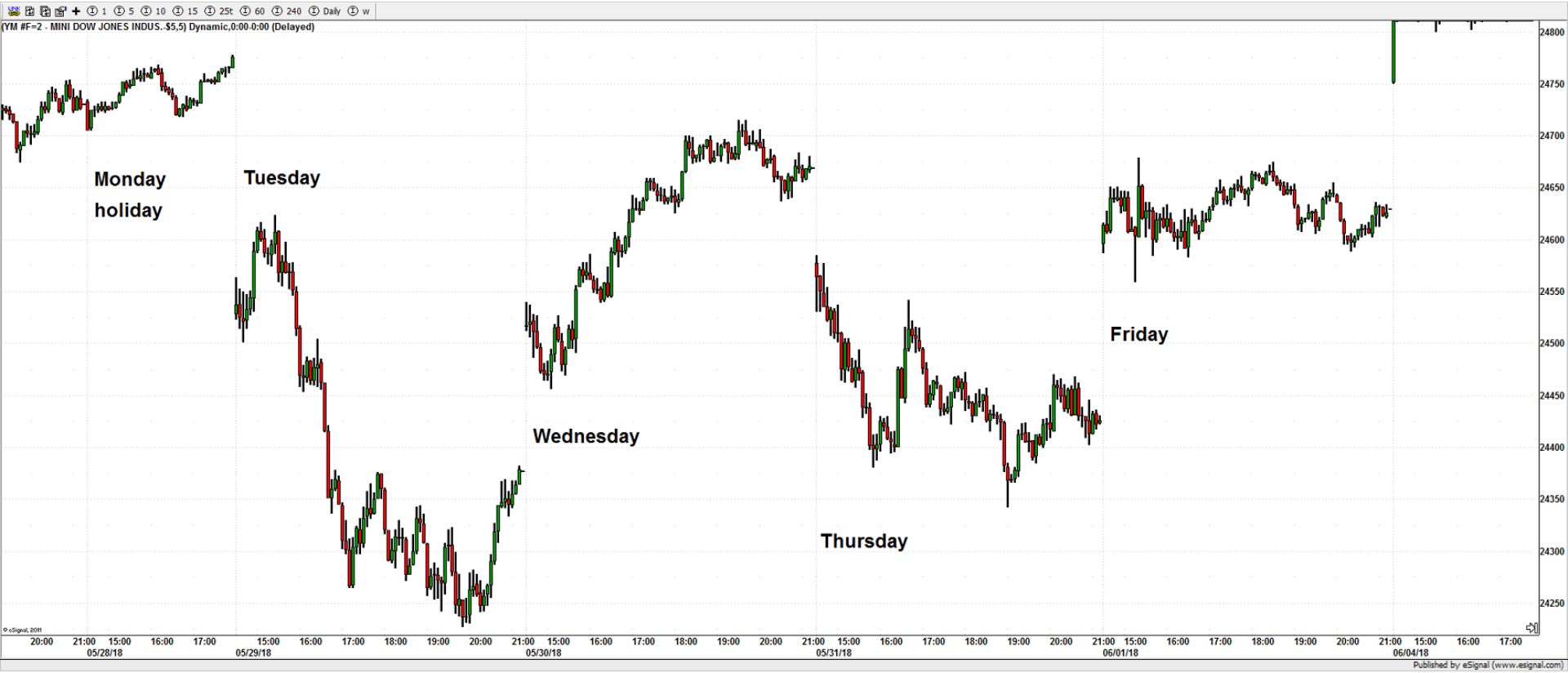
Different kind of example



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Perfect example

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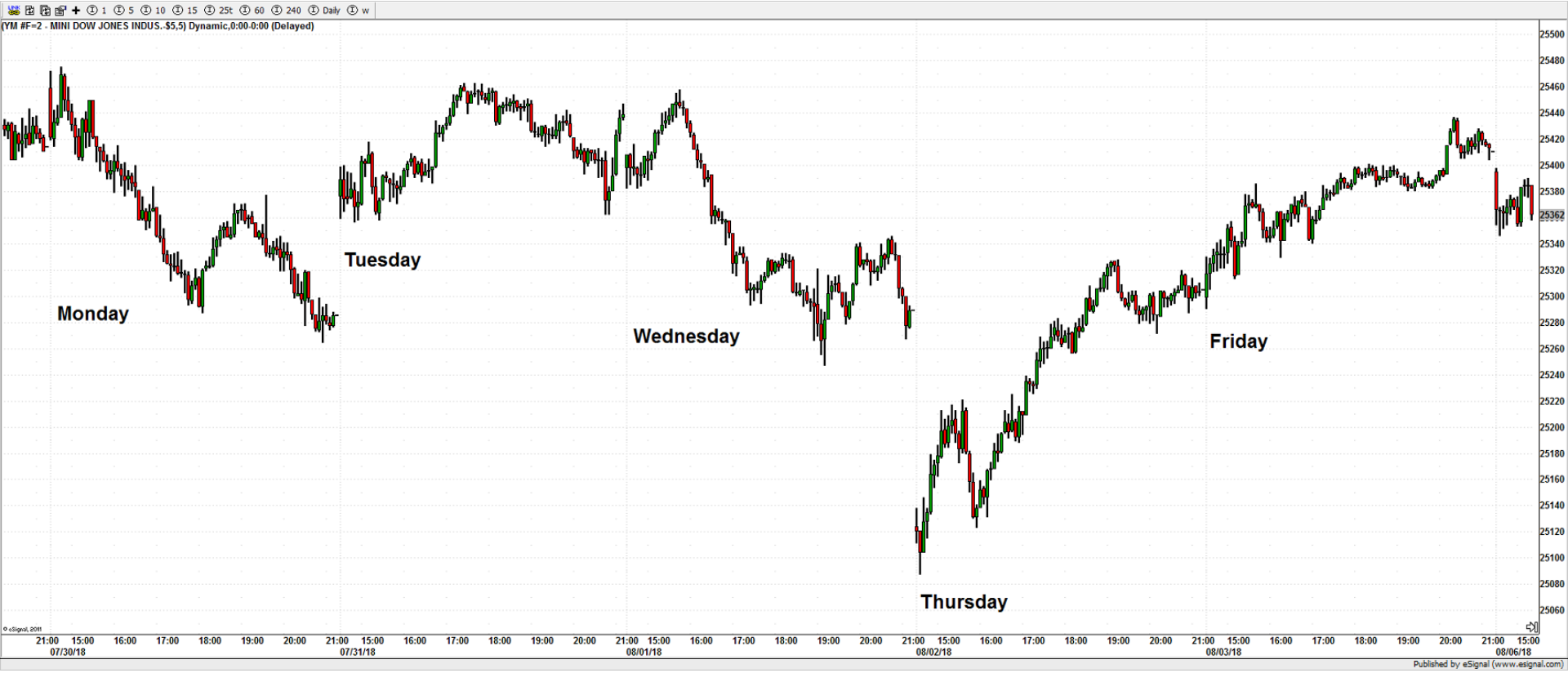
One more example



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One where it failed

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If Thursday is higher than Friday, then what does Monday look like?

Testing a hypothesis

- I mentioned earlier that I work on “scenarios” which I then test.
- Another scenario that I have dreamt up is the idea of weakness going into the weekend.
- Specifically, what happens to “Monday” if the previous Friday trades below the highs of Thursday?
- Over the last 52 weeks, there were 21 instances where the price action on Friday was unable to trade above the highest point of the previous day, Thursday.
- I then looked at what happened on the following Monday. If there was a holiday on the Monday, I would view the price action on the Tuesday.
- Considering the random nature of the markets on a day by day basis, there shouldn’t be a pattern, and if there is, I have found an edge to exploit.

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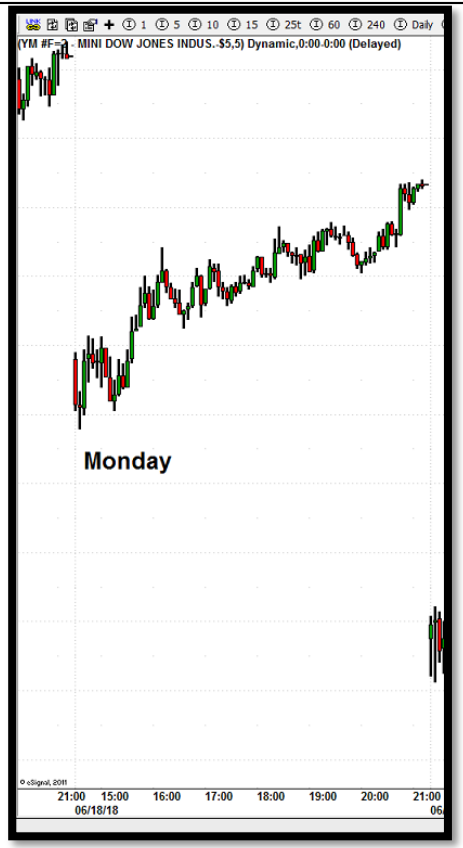
Thursday Friday Monday Scenario



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One more example

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I decided not to go through each and everyone – out of consideration of time. I will just tell you the result.

20 out of 21 times the Dow traded lower on Monday.

To me that is quite impressive stats.

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Gaps

1. Out of 256 trading day, how many days did the Dow make a gap up or down? The answer is 206 days.

2. The Dow made **no meaningful gap only 50 times** in the last year. By "meaningful" I mean a gap of more than 10 points.

Next I will differentiate between

- Dow made a gap and it was filled within the same trading day.
- Dow made a gap and it was not filled on the same trading, but within 2 additional trading days.
- Dow made a gap and it was not filled on the day or the next 2 days.

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Dow made a gap and it was filled within the same trading day:

Out of the 206 days where Dow made a gap of more than 10 points, it closed the gap on the same day on 120 occasions.

120/206 = 58%

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86 times it didn't close the gap on the same day. How many times did it close the gap in the next 2 trading days, if it failed to close the gap during the trading day?

42 times

42/86 = 49%

I can now conclude that gaps in the Dow will either

- Close on the day
- Or close within the next 2 trading days 42 times
- Close either on the same day or within the next two days 162/206 = **78.60%**

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High of the Day

Low of the Day

High or Low of the Day

All 5min bars:

1st bar of the day has a 20% chance of being the HIGH or the LOW of the day.

But, if we see a **BIG BULL BAR** after a gap down, or a **BIG BEAR BAR** after a gap up, then the odds are now 30% that we just saw the low or the high of the day.

By 30 minutes in, or by bar 7, there is now a 50% chance that the high or the low of the day is formed.

By the close of the 13th bar, around 1 hour into the trading session, the odds are now 70% that we have seen the high or the low of the day.

By bar 18, there is now a 90% chance we have seen the H or L for the day.

By bar 78, there is a 99.99% chance you have seen the high or the low of the day

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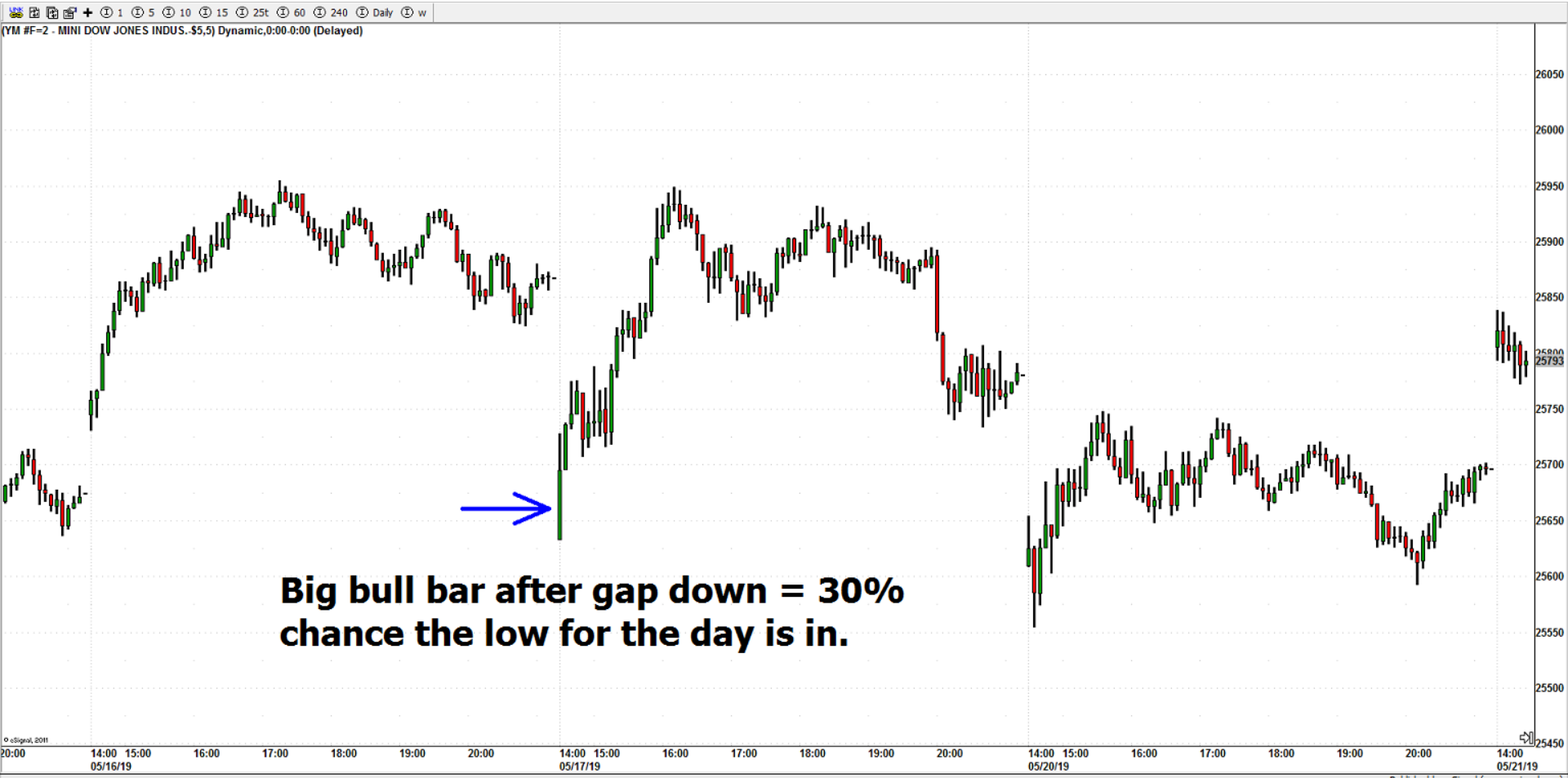
Trader Tom

Example of a gap down and bull bar



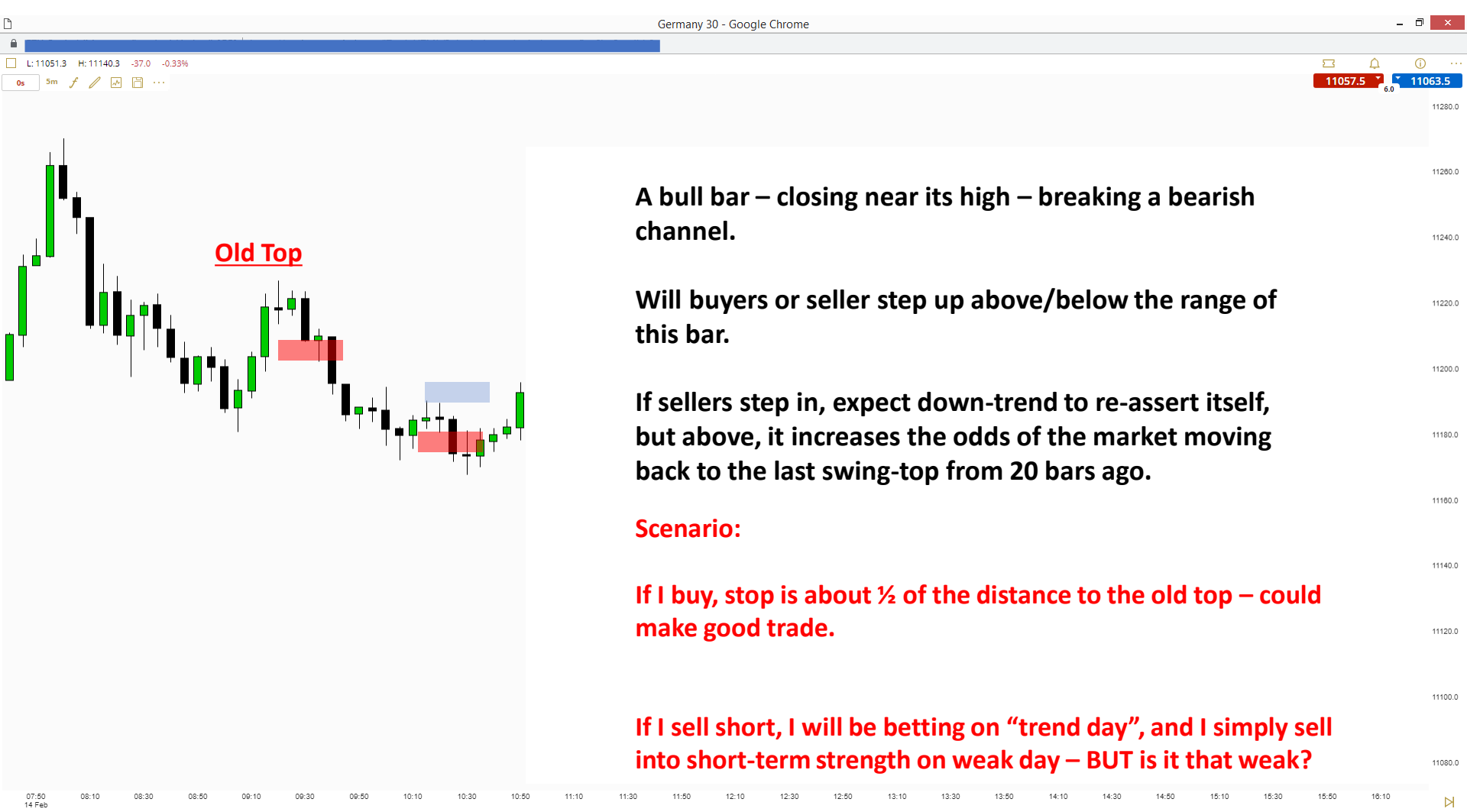
Example of a Trade

It is not pretty – but it is real – and it perfectly sums up what it is like to trade for a living…..

Germany 30 - Google Chrome
L: 11051.3 H: 11140.3 -37.0 -0.33%
11057.5
11063.5
If there are buyers around, then they need to build a stronger case than just creating 1 or 2 bulls bars in an otherwise down-trend.
At this point, I have two scenarios to select from:
1/ Buy because it is a DB – even though trend is down. Risk is small (last low), reward looks like 3:1. But odds are probably just 40%.
2/Sell short – stay short – follow trend – but risk of new position is higher – dependent on stop, the odds of success is 60%.
The philosophy is “keep pressing the trend”.

Germany 30 - Google Chrome
L: 11051.3 H: 11140.3 -37.0 -0.33%
11057.5
11063.5
Bear bar – close on lows – should lead to more selling
Risk? Double Bottom.

Germany 30 - Google Chrome
L: 11051.3 H: 11140.3 -37.0 -0.33%
11057.5
11063.5
BUT the bears – the sellers – also need to prove they are strong enough to push the market lower.
While the overall picture is pointing lower, the last 10-15 bars have more or less been sideways.
The last 3 bars have all been bull bars.
OBSERVATION
When a market has a lot of overlap bars, but within the context of a bull trend or a bear trend, AND the market makes a new low/new high, and THAT new low/new high "bar" is the one that should push the market further – well if it doesn't and the market immediately reverses or does the opposite for 2-3 bars, I get concerned.



A bull bar – closing near its high – breaking a bearish channel.

Will buyers or seller step up above/below the range of this bar.

If sellers step in, expect down-trend to re-assert itself, but above, it increases the odds of the market moving back to the last swing-top from 20 bars ago.

Scenario:

If I buy, stop is about ½ of the distance to the old top – could make good trade.

If I sell short, I will be betting on "trend day", and I simply sell into short-term strength on weak day – BUT is it that weak?

Germany 30 - Google Chrome

L: 11051.3 H: 11140.3 -37.0 -0.33%

0s 5m

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07:50 14 Feb | 08:10 | 08:30 | 08:50 | 09:10 | 09:30 | 09:50 | 10:10 | 10:30 | 10:50 | 11:10 | 11:30 | 11:50 | 12:10 | 12:30 | 12:50 | 13:10 | 13:30 | 13:50 | 14:10 | 14:30 | 14:50 | 15:10 | 15:30 | 15:50 | 16:10

Germany 30 - Google Chrome

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Germany 30 - Google Chrome

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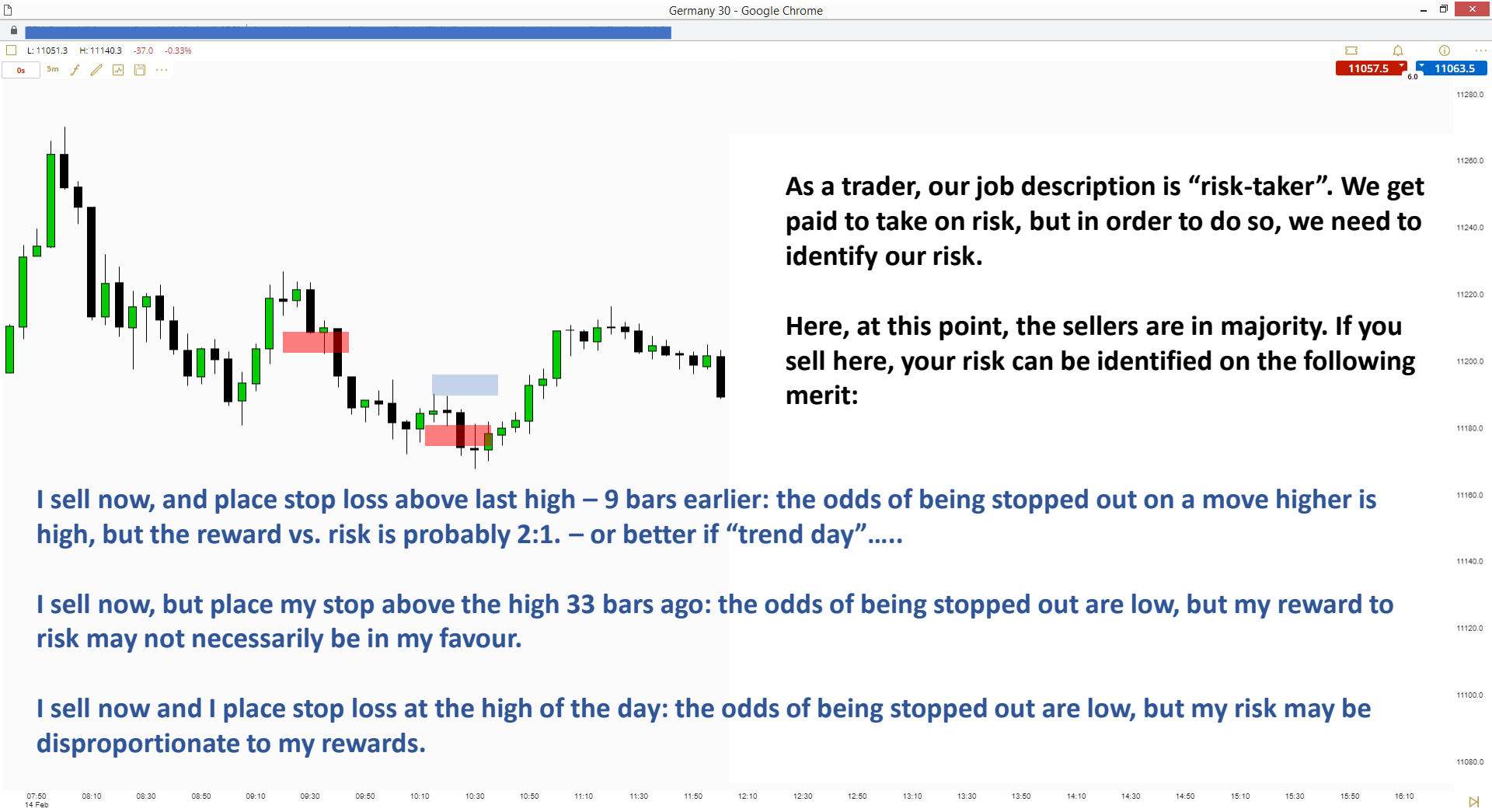
Germany 30 - Google Chrome
L: 11051.3 H: 11140.3 -37.0 -0.33%
11057.5
11063.5
As a trader, our job description is “risk-taker”. We get paid to take on risk, but in order to do so, we need to identify our risk.
Here, at this point, the sellers are in majority. If you sell here, your risk can be identified on the following merit:
I sell now, and place stop loss above last high – 9 bars earlier: the odds of being stopped out on a move higher is high, but the reward vs. risk is probably 2:1. – or better if “trend day”…..
I sell now, but place my stop above the high 33 bars ago: the odds of being stopped out are low, but my reward to risk may not necessarily be in my favour.
I sell now and I place stop loss at the high of the day: the odds of being stopped out are low, but my risk may be disproportionate to my rewards.

Germany 30 - Google Chrome

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0s 5m

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Germany 30 - Google Chrome

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Germany 30 - Google Chrome

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Germany 30 - Google Chrome
L: 11051.3 H: 11140.3 -37.0 -0.33%
11057.5
11063.5
OBSERVATION
Biggest ranging bar of the last 4 hours… while not closing on lows, you have no top wig, and it is a bearish bar.
What do you do?
Evaluate risk

Germany 30 - Google Chrome

L: 11051.3 H: 11140.3 -37.0 -0.33%

0s 5m

11057.5 6.0 11063.5

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Germany 30 - Google Chrome
L: 11051.3 H: 11140.3 -37.0 -0.33%
11057.5
11063.5
OBSERVATION
Pressed below last low – no top wig -
What do you do?
Evaluate risk
Risk scenario:
Still in range? Long position possible?
Is the bar news related (13:30)..
What is risk on either direction, and what are the odds?

Germany 30 - Google Chrome
L: 11051.3 H: 11140.3 -37.0 -0.33%
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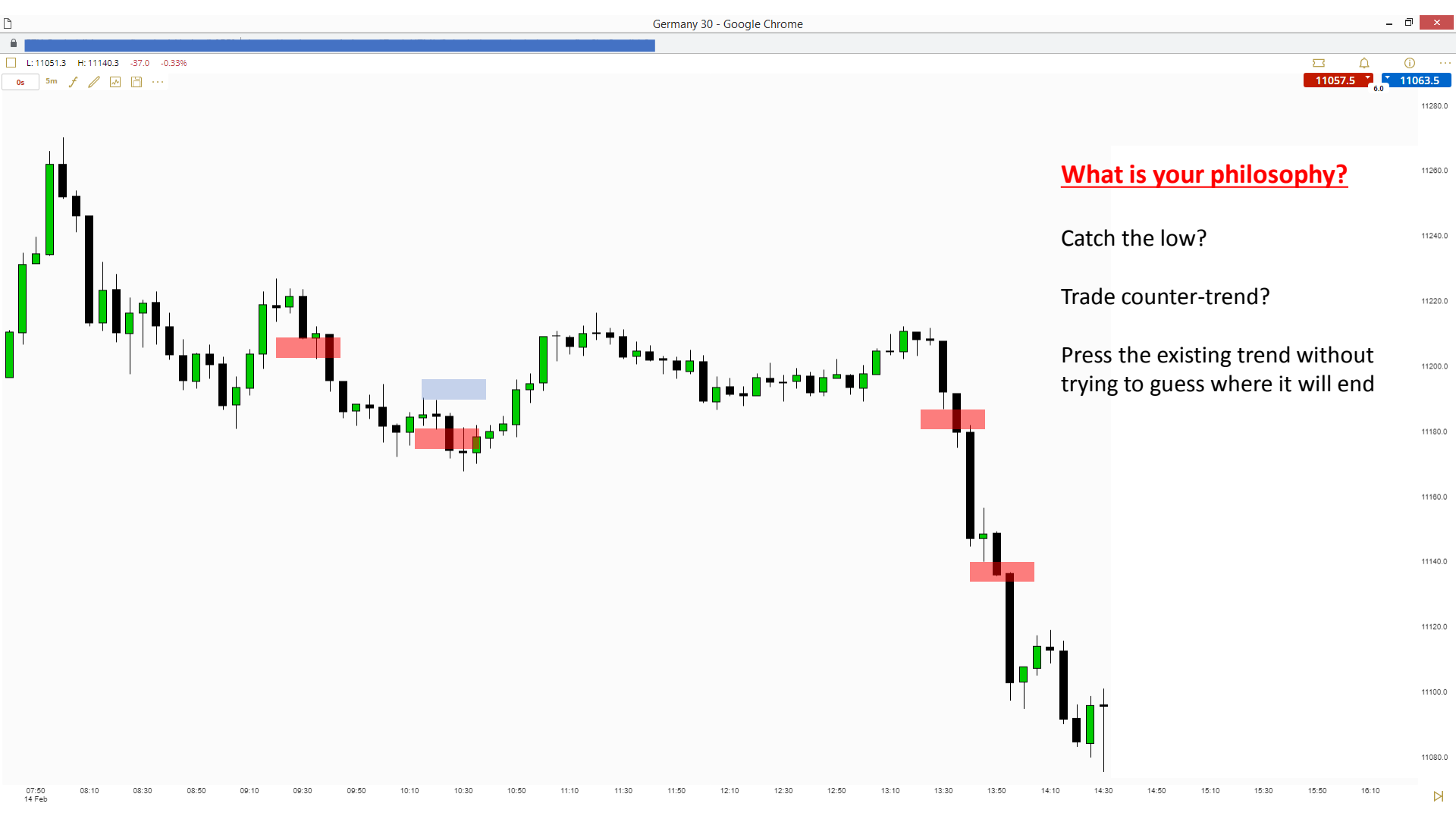
15:50
16:10

Germany 30 - Google Chrome
L: 11051.3 H: 11140.3 -37.0 -0.33%
11057.5
11063.5
Indecision
Will you buy, sell, add to short, do nothing.


Germany 30 - Google Chrome
L: 11051.3 H: 11140.3 -37.0 -0.33%
11057.5
11063.5
What is your philosophy?
Catch the low?
Trade counter-trend?
Press the existing trend without trying to guess where it will end

Germany 30 - Google Chrome

L: 11051.3 H: 11140.3 -37.0 -0.33%

0s 5m

11057.5 6.0 11063.5

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Germany 30 - Google Chrome

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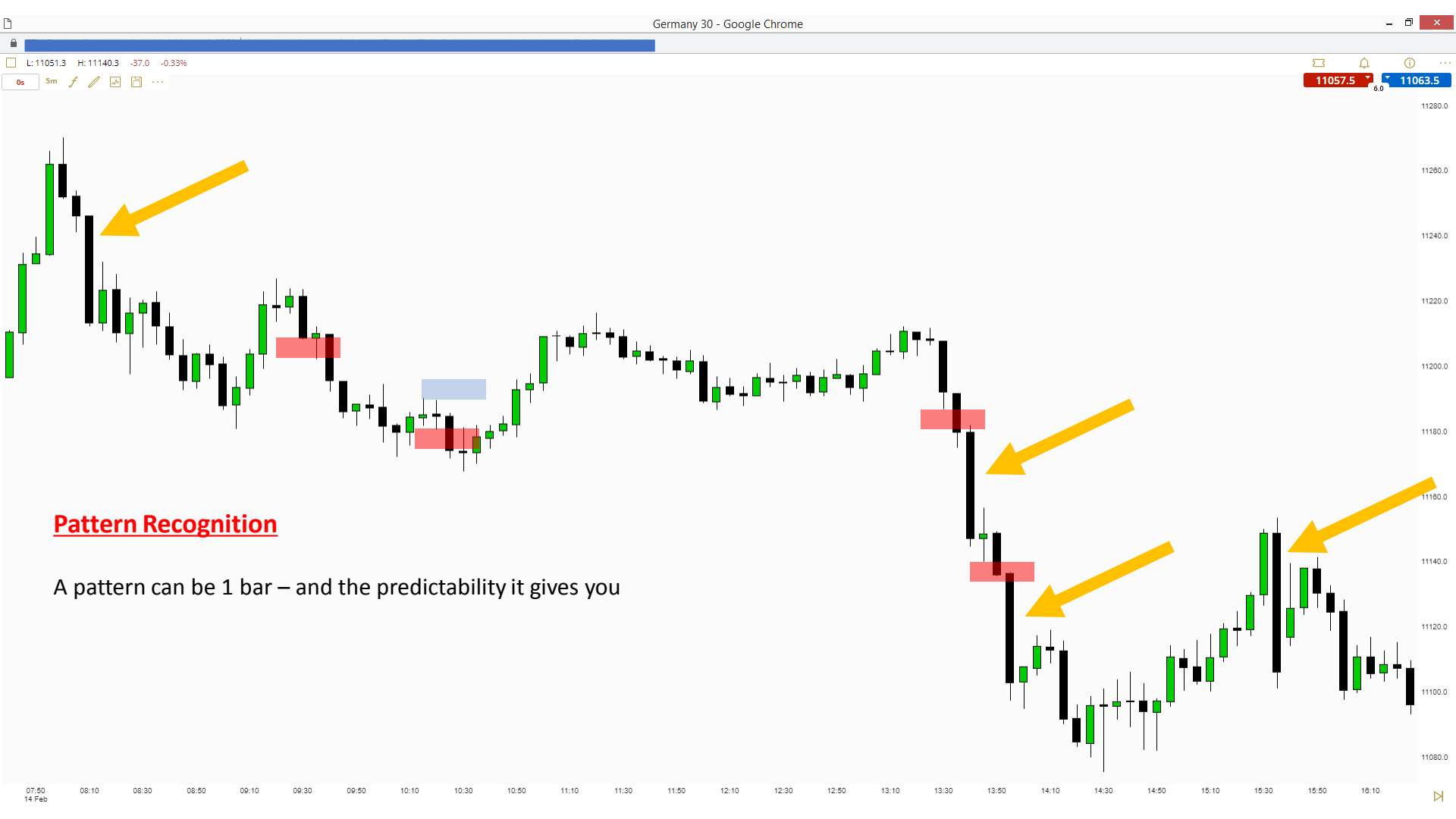
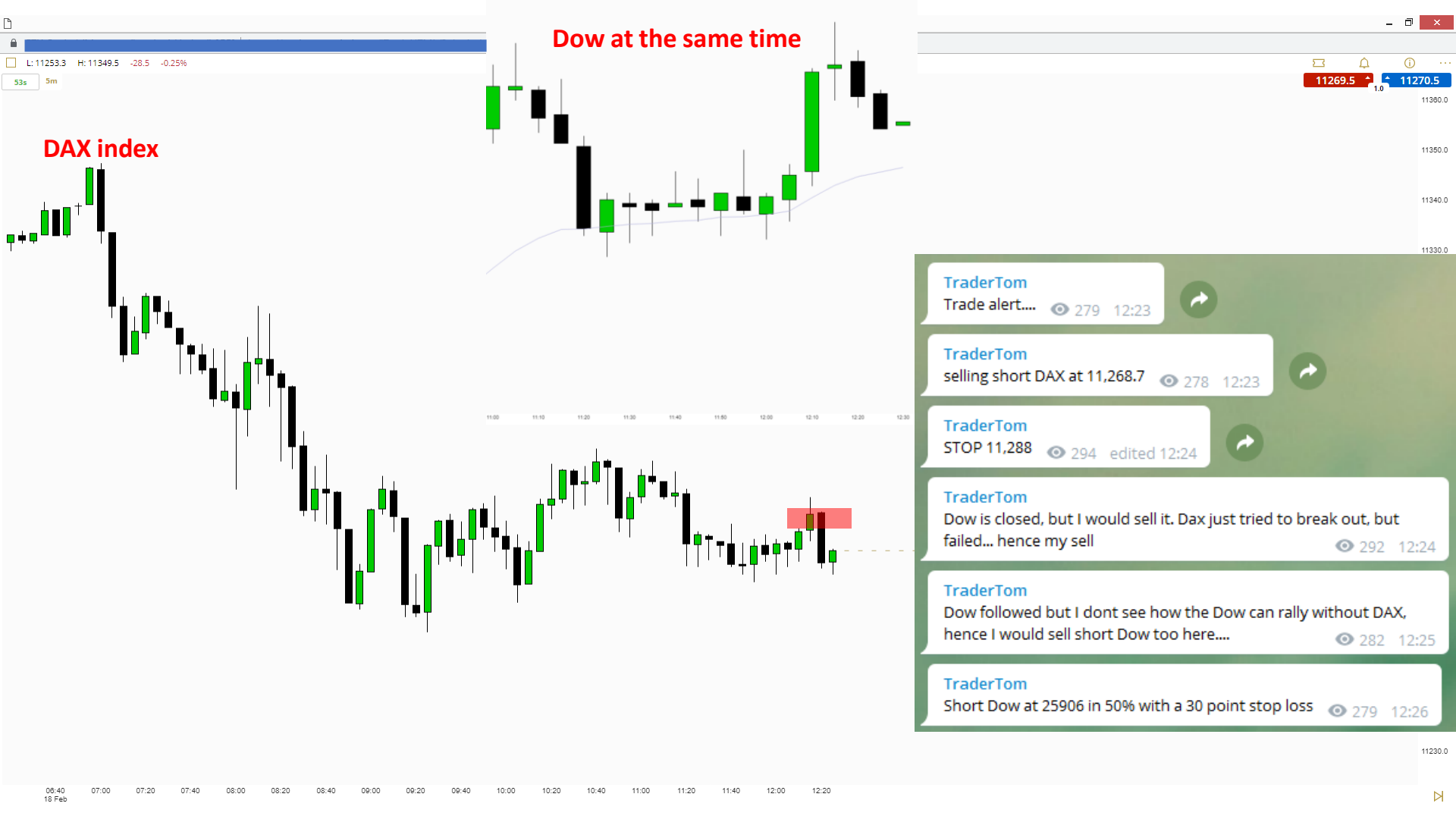
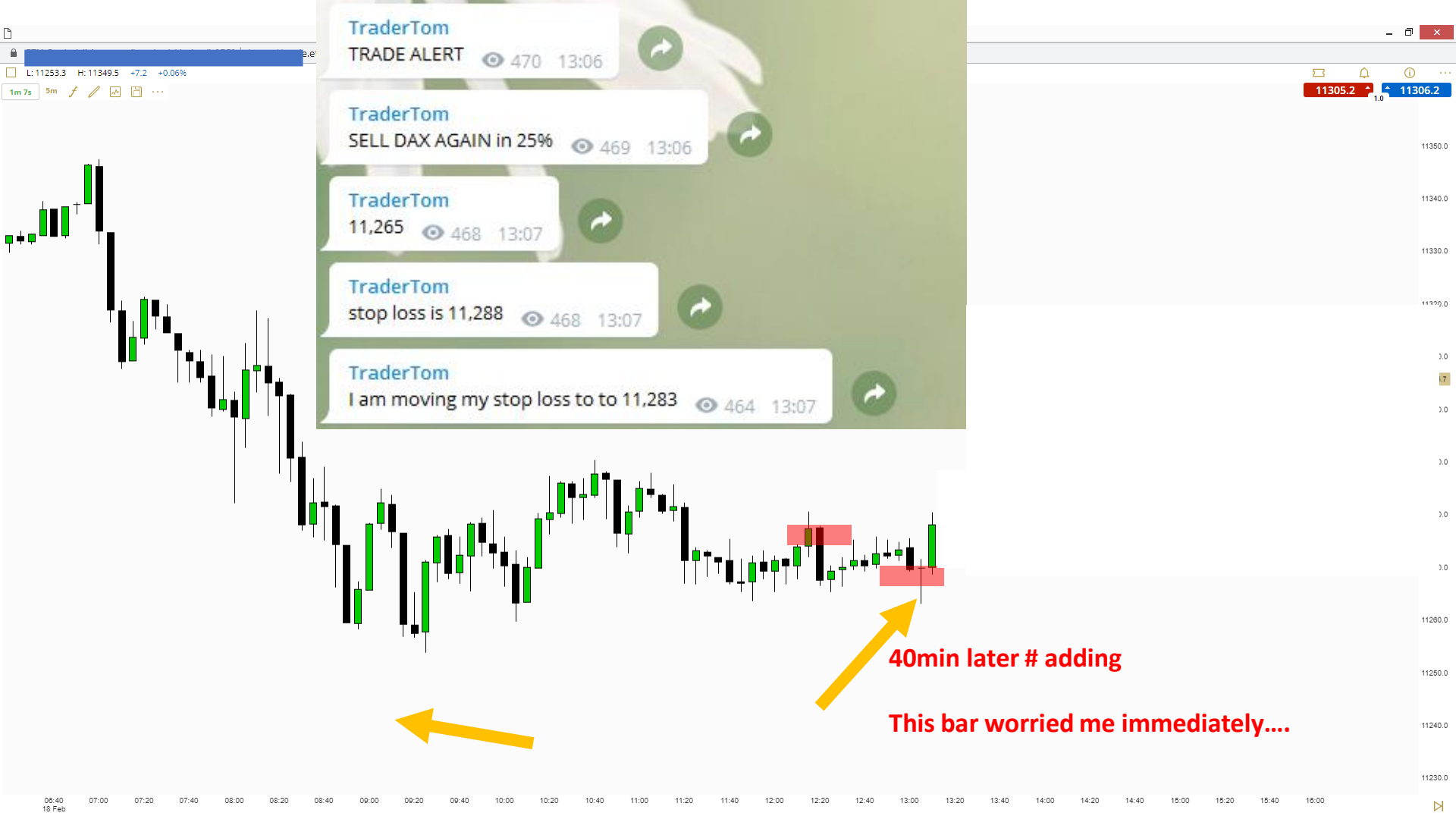

Germany 30 - Google Chrome
L: 11051.3 H: 11140.3 -37.0 -0.33%
11057.5
11063.5
Pattern Recognition
A pattern can be 1 bar – and the predictability it gives you

Germany 30 - Google Chrome
L: 11051.3 H: 11140.3 -37.0 -0.33%
11057.5
11063.5
To sum up
This is how I teach – and how I train..

Example of a Trade


Dow at the same time
DAX index
L: 11253.3 H: 11349.5 -28.5 -0.25%
11269.5
11270.5
TraderTom
Trade alert.... 279 12:23
TraderTom
selling short DAX at 11,268.7 278 12:23
TraderTom
STOP 11,288 294 edited 12:24
TraderTom
Dow is closed, but I would sell it. Dax just tried to break out, but failed... hence my sell 292 12:24
TraderTom
Dow followed but I dont see how the Dow can rally without DAX, hence I would sell short Dow too here.... 282 12:25
TraderTom
Short Dow at 25906 in 50% with a 30 point stop loss 279 12:26


TraderTom
TRADE ALERT 470 13:06
TraderTom
SELL DAX AGAIN in 25% 469 13:06
TraderTom
11,265 468 13:07
TraderTom
stop loss is 11,288 468 13:07
TraderTom
I am moving my stop loss to to 11,283 464 13:07
40min later # adding
This bar worried me immediately....

TraderTom
TRADE ALERT 470 13:06
TraderTom
SELL DAX AGAIN in 25% 469 13:06
TraderTom
11,265 468 13:07
TraderTom
stop loss is 11,288 468 13:07
TraderTom
I am moving my stop loss to to 11,283 464 13:07
Stopped out.
40min later # adding
This bar worried me immediately....

Saxo Bank Notes

1. The files sent to you consist of 2 parts.
2. There is a PDF file of the slides you have just seen.
3. I have also created a Word Document, which gives you my thoughts and many additional thoughts to each slide. It is incomplete. I have done 135 of the 165 pages. I will do the last 30 slides tonight and tomorrow.
4. If you want to receive both files, there is a very easy way of doing so.
5. **www.tradertom.com/saxo**

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Tak for denne gang. Jeg håber vi ses igen.

hello@tradertom.com

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