TRADE AND GROW RICH

ADVENTUROUS JOURNEY TO SUCCESSFUL TRADING

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This book is
Dedicated to Traders
With blessings of our Family and Gurus!

Contents

Foreword

In this book, ***Indrazith Shantharaj*** and ***Kiran Nayak*** have explained everything from pin to pumpkin required for a complete trader.

Various aspects of trading are covered to the point, and it is just not the trading system which is important, equally one has to focus on good risk-reward, risk management, right mind set etc to become a successful trader. This book clear gives the missing link for why most of the traders lose money in markets and how can one transform from losing trader to a winning one.

As pointed out in this book, loosing traders are so busy in finding the next holy grail of trading through a good trading system which can take them from rags to riches. But they completely ignore the other most important variable of right risk management. Any good trading system without right risk management will always give a mediocre result. However, an average trading system with a great risk management can still give far better trading results.

If you sincerely want to become a successful trader and are willing to act on that desire, I believe this book has the potential for bringing that desire change.

Wish you successful Trading,

C A Rudramurthy

Managing Director & Research Head

Vachana Investments Pvt Ltd

Preface

Trading can be simple, but don’t make the mistake of thinking that it’s easy.

Quite late in the web many try to tell you differently. They make you think that you just have to read a few pages or attend an online class, and then, magically, you’ll become a successful trader in a jiffy. **Don’t be fooled.**

Like in any field to gain the proficiency, you need a solid education before you get started. As a trader your goal is to make more money than professionals from other field. Some aspiring traders think they don’t have to learn a single thing. They believe that they can buy a “holy grail system” to trade for them and make them rich while they sleep. Or they rely on the advice of some “guru” for their trading decisions, blindly following his recommendations without knowing anything about the markets.

We are glad you’re different.

You took decision to read this book because you’re serious about becoming a successful trader. And, we assure you, that’s exactly what you’ll learn, a complete journey.

WARNING: Be aware, though, that just reading this book will NOT automatically make you a successful trader. You’ll learn a lot of facts and concepts about trading, but in order to make the most out of this book and become the trader you want to be, you’ll have to adapt the ideas that you’re about to learn to what you already KNOW.

Richard Branson says:

“Do not be embarrassed by your failures, learn from them and start again.”

Definitely you will find many new concepts in this book and we have presented these new concepts in a practical way. You’ll be getting a great deal of examples and scenarios to look at. This book is about you getting the essence of how should be your journey to become successful trader. And by the last page, you’ll have it.

Remember: “The best time to plant a tree was 20 years ago. The second best time is now.” – Chinese proverb.

Our Objective: We are determined that this book will save you both

money and time with respect to your trading goals. We are convinced that it will help you become the trader you want to be and Grow Rich.

Cheers!

Indrazith Shantharaj & Kirankumar Nayak

April 2018

Acknowledgements

There are many that have made this book, and its work, possible. We have been blessed by number of people and situations. It is a pleasure to recognize the traders, colleagues, mentors, writers, and friends who contributed directly and indirectly to “Trade and Grow Rich”.

None of this would have been possible without encouragement and everlasting support of loving family members. We also give thanks to the traders who have encouraged and supported us by sharing their knowledge. We are indebted to Gurus who have helped us to discover our passion and pass on our experience and learning. They have allowed us to see beyond our limitations.

We are particularly grateful to those traders who were generous to give interviews and share their secrets of their success for the benefit of the readers. Throughout years of research related to various aspects of trading and life, we have benefited from world’s great traders and authors, trading wisdom, insight and information.

We also give thanks to traders as a group. It is their motivation and eagerness to learn right things from right source that has been an inspiration to us. With them, definitely we have found the deep sense of purpose and meaning that defines the bigger why of presenting this book to the world.

We are thankful to tradingview for allowing us to use the charts which is integral part of technical trading.

We also give thanks to editors who have edited this version which enables seamless reading. Last but not the least, this book could only have come to fruition with the overall guidance and support from Notion press team and we are grateful to them.

Indrazith Shantaraj & Kirankuamr Nayak

April 2018

Chapter 1

Do You Fail in Trading?

Mind Your Game

We hear so many get-rich-quick schemes surfacing around us. Do you wonder if any such thing exists in the world, where one can become an overnight *crorepati*? If yes, how many instances would you be able to offer as an example? Lottery tickets and casinos may have made the luckiest people millionaires overnight, but other than those rare examples, in real life, we cannot find people who have become rich overnight by luck and no consistent work.

Similarly, if you have come to the market with the mindset of becoming rich in a very short time, then please stop; it's not at all possible. Yes, we are neither joking nor threatening—we are just conveying the facts. What happens if you rely solely on luck? Luck favours hardworking people. The harder you work, the more luck you seem to have. A gambler always relies on his luck and keeps betting. The outcome can neither be predicted nor guaranteed.

If our mindset is to gamble in the market in anticipation of quick profits as beginner's luck, we may end up winning a few times. However, we will not be able to make consistent profits over a long period of time. Our mindset towards our game definitely defines the result. Are you in this game for winning or just for the thrill? If you are here for the thrill, we are sorry. This is not the place for thrills. We suggest scuba diving for that instead! If you gamble, your journey will surely tumble. Be humble and don't gamble.

Let us take an analogy of one of the most respected professions in the world. It is the profession that saves people's lives—a doctor. Many people aspire to be a doctor, but is it so easy to become one? Even if you become a doctor, does it guarantee you great success? Or can you really achieve the mission of helping all those in need? Obviously not! You have to be a specialist in your domain. A niche that you create in your domain can help both you and the person in need.

A person should finish at least 16 years of education before becoming a surgeon. If that profession calls for years of patience, do you think you will become a successful trader in a few weeks or months? Again, definitely not! It's a progressive journey. Every day, the market teaches us, and we should be observant enough to learn from our mistakes and keep correcting them.

A doctor can't play games with life. In the same way, a trader should not play in the financial market without an appropriate mindset. Let's play the money game to win, not to ruin!

Know Who You Are and Get What You Want

As we know, our aspirations drive us. A person can think of becoming a doctor or a trader. Now we know the necessary mindset and skill set to become successful in your chosen domain. Then why do so many people end up as losers in the market? Is the market that cruel? Or are they committing serious repetitive mistakes in their behaviour? When we closely observe the losers, the first and foremost issue is that many don't know what type of trader they are. Sounds crazy? Famous motivational speaker T. Harv Eker says, "The number one reason most people don't get what they want is that they don't know what they want!"

Any chosen field calls for the highest level of skill to make a lot of money. If you are only attracted to that field because of the money, you may not understand the passion and skill set required for repeating what a successful person has been doing. If you have a bigger purpose (why) attached to the bigger money, there is a high probability of you replicating the behaviour of a winner and becoming one.

To illustrate this with an example, look at the life story of Steve Jobs, who started Apple in his garage. His one and only purpose in life was to provide a world-class product to the entire world. This is his "Bigger Why," and when he started working on this Bigger Why, he started getting success and, as a by-product, a huge inflow of money!

What are your "Bigger Whys" associated with becoming a trader?

Consider the market as an employee. Why should the market give you money? What qualities do you possess or develop to get money from the market? Be honest with yourself and write them down.

Is there any connection of these qualities to your Bigger Whys? If not, review these qualities to align with your Bigger Whys.

Do you want to be a loser or a winner? We suggest that you define your Whys, define your objectives and integrate and act upon them. Welcome to the winning game!

Plan the Trade, Trade the Plan

The probability of you becoming a winning trader increases only when you stop behaving like a losing trader. What do they generally do? They follow the crowd without clarity on what to trade and what not to trade, when to trade and when not to trade.

Let's take an analogy to understand why a trading plan is important. Suppose you want to go from one city (Bangalore) to another (Delhi). The first thing you should know is that you want to go to Delhi. Then you have to plan based on factors of situation, urgency and affordability. Similarly, before trading, one should plan based on his personality and objective. A clearly written trading plan plays a crucial role and helps you become a successful trader.

Some people say they trade operator stocks, trade based on the news, etc. The question that arises in a few amateur traders is whether this equates or qualifies for the trading plan. Look at the results obtained by those people who blindly follow operator stocks and trades based on the news and the answer will be clear.

Let us consider the example of a news-based trader. The news may be positive, but the price may behave negatively and vice versa. This kind of random behaviour of the price with respect to news can cause serious confusion to the trader and eventually a big loss to his or her account. Even if by chance, on a few occasions, someone makes money by following the news, consistent profitability cannot be assured.

With the clear-cut objective of becoming a trader, the next step is to have a clear written plan. As a trader, it's advisable to gain mastery in one method or one type of trading, rather than becoming a jack of all, master of none. Your trading plan should cover both dos and don'ts.

Eager to Make Money in Brisk Pace; Don't Forget the Risk You Face

If you don't bet, you can't win. If you lose all your chips, you can't bet. —

Larry Hite

Let us narrate the story of Mr Pramod and what happened with his portfolio when he traded based on the news. When the Bull Run started in the Indian market around March 2014, his friends started sharing their success stories with him. This convinced Pramod to try his luck in the markets. Hence, he took out his savings of Rs. 2,00,000 and decided to make some trades.

He started reading market-related articles and watching financial news channels. On one of the channels, a famous trader was explaining about a stock and how this stock could give returns up to 5 times because it was available at a discounted price and the overall market had turned bullish. So he took the trade by buying shares of this company worth Rs. 2,00,000. The next day, this company price went up by 5%, and this increase continued for a few more days.

Finally, Pramod sold all his shares at a profit of Rs. 25,000. He was very happy on the day he sold all his shares, and he thought that making money in the stock market was very easy. He spent Rs. 10,000 to treat his friends and shared his success story. All his friends congratulated him and advised him to continue.

The next day, Pramod transferred all his savings to his trading account and traded with all his money, in anticipation of huge returns in a short time. He gained a little and lost some money on his trades over the next few days. One day, he received another tip from the same news source and poured his entire trading capital of Rs. 10,00,000 into that trade.

Unfortunately, luck was not on his side, and the stock dipped. He was so helpless because he didn’t know what to do. Within a week, by the time he had sold all his shares, he had lost Rs. 3,00,000. This time he didn’t share his experience with his friends. He consoled himself, saying that winning and losing are part of the game. He took it as a challenge and decided to continue with more trades to gain back the losses.

After a few days, a reputed trader on a news channel was explaining a stock and how the next budget would help this company grab more projects that would indirectly increase the revenue of the company. Pramod decided to test his luck again and bought shares in that company worth Rs. 7,00,000. Initially, the script showed some movement on the upside, but after some time it started trading lower. Within a few days, the price fell over 20%, costing Pramod over Rs. 2,00,000.

The entire process, without proper knowledge and with greed for quick money, dug a hole of more than 50% in Pramod's savings. This story resembles that of most retail traders.

During surgery, if a surgeon does not take the necessary precautions, it can cost a person his life. Similarly, for a trader, it can result in blowing off an entire account. Hence, we urge you to understand the risk in the process of making money quickly.

Thrill Can Kill; Be Disciplined

Have you seen crazy guys or new-age super youths driving high-CC bikes? In general, some of them don't care about the rules or environment of where they are driving. They just drive at the maximum speed. Even though they might have the skills to manoeuvre the bike and drift, they can't anticipate what may come in their way from different directions. This entire activity is thrilling for them. However, an accident can take their lives in a jiffy.

Similarly, the majority of losing traders strive for quick money by trading frequently without proper discipline. A few quick wins and associated big profits may be so lucrative to them that they get caught in the wrong process. The end result will be a loss of trading capital. Then, they feel sad that they can't trade because they don't have trading capital, and the irony is that their analysis will go great during this period. This will affect their emotions and make them feel alone in the market.

To overcome such a scenario, a trading journal can be of great help. A trading journal is seen as a post-mortem report by many losers. But if you ask any trader who is successful, he will definitely vouch that a trading journal is a must for a trader's success. In the trading journal, one has to record his physical activity related to trading, both as he planned prior to taking the trade and according to his prewritten trade plan. One also has to note down the emotions before making the trade, during the trade and after exiting it. This integration between physical action and emotional balance is the stepping stone of inculcating the discipline in your journey as a trader.

We tend to deviate from our trading plan. The rate of deviation will be high in the beginning. Periodic review of the trading journal is essential to realizing our mistakes and avoiding them in the future. The basic idea of the trading journal review is to reduce this gap between the trading plan and deviation as much as possible. Hence, we urge you to make it a habit to update your trading journal.

Writing, reviewing and updating your trading journal can be a boring activity. However, it’s always advisable to keep up the habit. Remember, the thrill of quick profits should not be the evil that kills your trading capital!

Chapter 2

Seek the Basics

Fun-da-mental or Tech-niche-uncle

One of our friends is crazy about cars. He keeps collecting data on various manufacturers, horsepower, engine speed, tank capacity, acceleration, fuel efficiency, etc. One day, we went to buy a car for him. He gathered all the information from a marketing guy based on his great fundamental knowledge about cars. He looked happy about knowing more than the agent himself. Finally, the deal was not encouraging enough for my friend to make the decision to buy a car. What's the significant advantage he got from his fundamental knowledge, when he couldn't close the deal just because of the price?

Similarly, when it comes to market analysis, there are 2 schools of thoughts. One is **Fundamental Analysis** and the other is **Technical Analysis**. Fundamentalists are more concerned about the management of the company, various products, sales, the price-to-earnings ratio, the balance sheet, cash flow, the debt-to-equity ratio, competition, etc. Broadly, they are concerned about qualitative as well as quantitative aspects of the company analysis. However, technicians merely analyse the past behaviour of prices in their study.

When we look into the case of our friend who made his decision not to buy just because the price was not appealing to him, his fundamental information was not useful for him. The technical analyst community puts utmost priority in price analysis and firmly believes prices discount all fundamental information.

In general retail, traders have all the fundamental information about the company, thanks to the internet. However, they don't have sufficient knowledge or the tools to convert that information into price. At the end of the day, as either a buyer or a seller, we have to trade prices. The time taken to analyse the fundamental data is comparatively higher and the process is complex.

Price analysis is applicable to any tradable instrument and is almost similar across various asset classes. In the case of fundamental analysis, the complexity of analysis varies with respect to asset class and reliability of the information source. We all know “garbage in, garbage out.” If we don’t have authentic information to feed in for fundamental analysis, the end result will be catastrophic. Authentic price information is easily available and is accessible in both exchange and trading terminals. In this scenario, one can easily spot the error, and the root cause will be process deviation, not the input.

With due respect to the fundamental analysis community, we consider technical analysis to be more fun and to require much less mental analytical ability. This thought process helped us find out the niche in the marketplace in terms of technical analysis, and further discussion in this book will be based on technical analysis.

Charts Can Reveal Everything

Charts are graphical displays of the price information of scripts (or securities) over time. The vertical axis represents price and the horizontal axis represents time. Often, these charts also include volume. Chart inspection is the basic form of technical analysis. They also help technical analysts decide the **Entry** and **Exit** points, and at what price to place the stops to reduce the risk (**Stop Loss**). In addition, a chart concisely presents price and volume information over a certain duration, which can even be used by fundamentalists to study market behaviour and how it has reacted to specific events.

There are 3 primary types of charts used by traders and investors, depending on the type of information they are seeking:

1) Line Chart

2) Bar Chart

3) Candlestick Chart

In all these charts, we can choose the time frame. If you opt for a daily bar chart, then each vertical bar represents one day. Similarly, one can change the time frame to weekly or monthly to view long-term charts.

Line Chart

This is the simplest form of chart and represents only the closing prices over a set period. The line is formed by connecting the closing prices for each period over the selected time frame. This chart will not contain open, high or low values of the period. This chart is typically used by investors to spot a trend.

Image 2.1—Line chart of NIFTY (TradingView)

Bar Chart

This chart is made up of a series of vertical lines that represent the price range for a given period, with horizontal dashes on each side that represent the open and close prices.

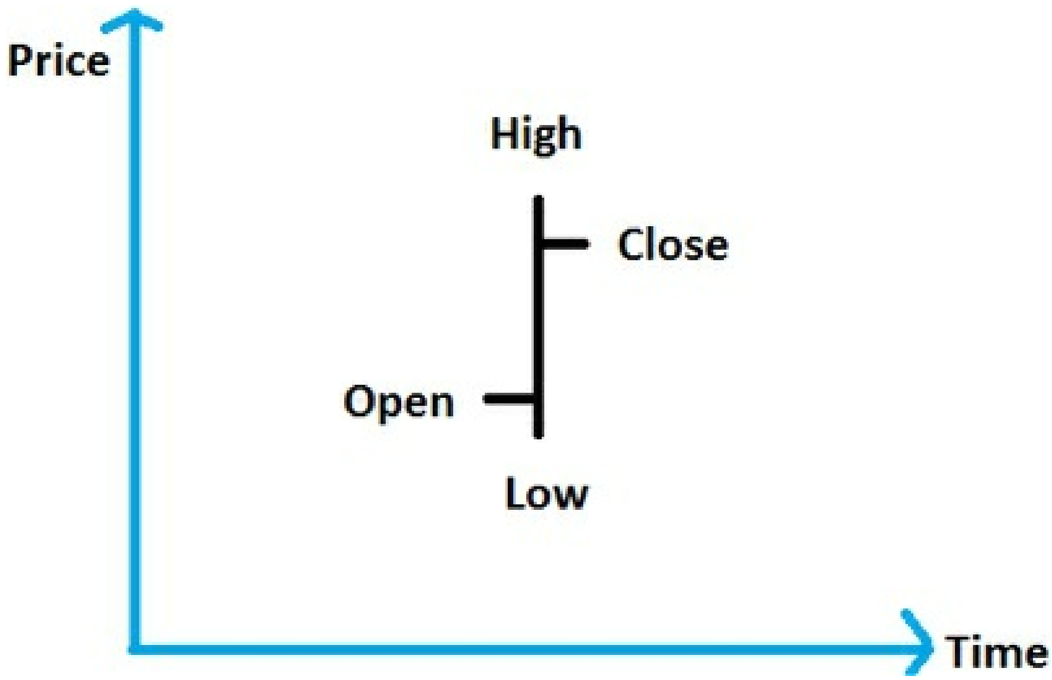

Image 2.2—Bar chart formation

The opening price is the horizontal dash on the left, and the closing price is represented by the horizontal dash on the right. Usually, the colour of the entire bar is constant. However, in some software, the colour of the bar is black or green when the closing price is above the open price, and the colour of the bar will be red when the closing price is below the open price.

Image 2.3—NIFTY bar chart (TradingView)

Candlestick Chart

The candlestick chart was invented in Japan over 300 years ago. This is the most popular chart pattern among traders and investors.

A chart that has open, close, high and low data in the form of a candle is a candlestick chart. Both the bar and candlestick charts provide the same data. However, the candlestick chart is easier to read and more visually appealing.

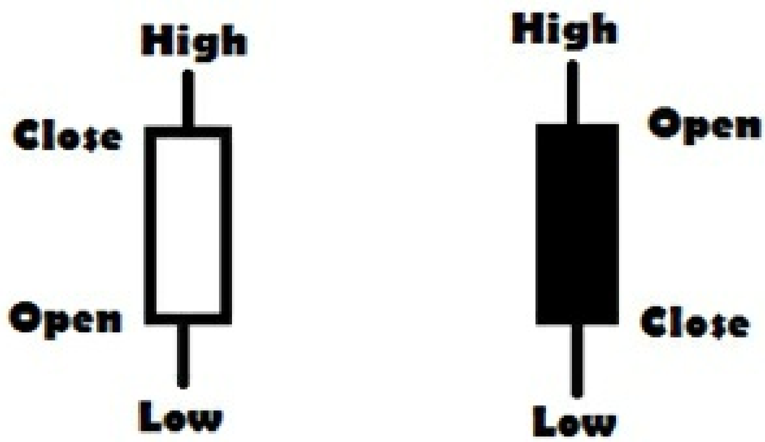

Image 2.4 (a)—Candlestick chart formation

Falling periods (when the closing price is less than the opening price) will be represented by block candlestick bodies, and rising periods (when the closing price is greater than the opening price) will have hollow bodies.

Another common practice is representing bullish candlesticks with green bodies and bearish candlesticks with red bodies.

Image 2.4 (b)—NIFTY candlestick chart (TradingView)

In a daily candlestick chart, a candle represents a day. Similarly, you can view the same candlestick chart in a smaller time frame (hourly, 30 minutes, etc.) by changing the time frame settings.

How I Fell in Love with Dow

Charles Dow wrote a series of Wall Street Journal editorials from 1900 until the time of his death. According to Dow, all market-related information—past, present and even future—is discounted and reflected on the charts.

Many traders presented different versions of his theory from his editorials. However, we are explaining the simplest version of the same. As per Dow, market movements can be divided into 3 types. At any time, the price is a combination of these 3 types:

1) Uptrend
2) Downtrend
3) Sideways

Uptrend

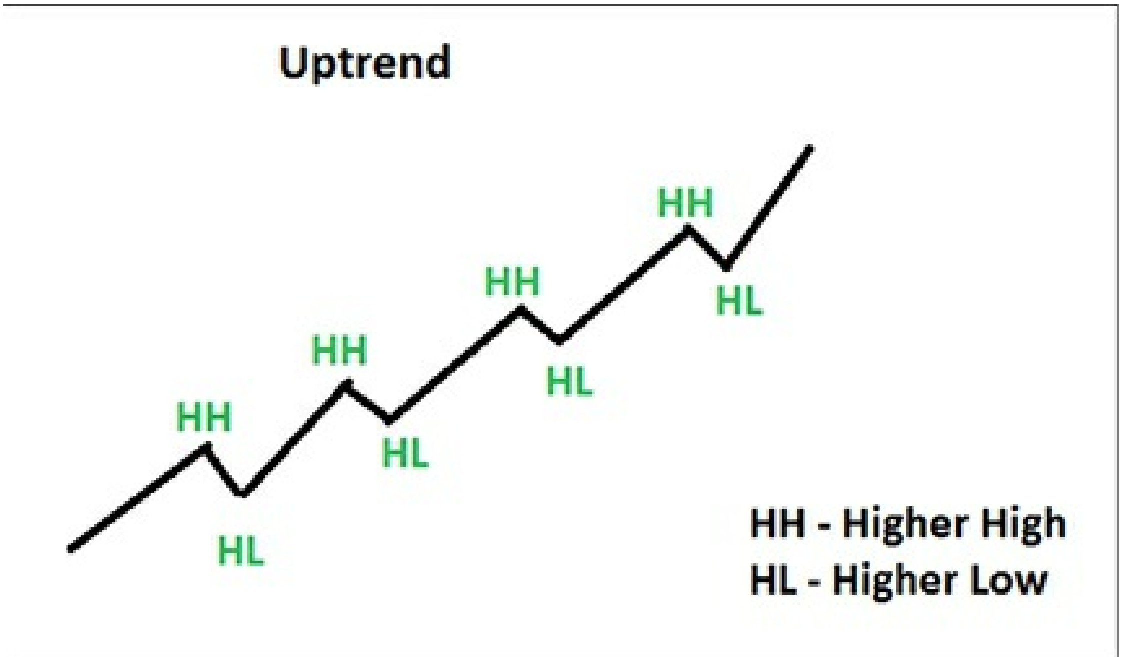

Image 2.5—Uptrend according to Dow theory

An uptrend consists of a series of Higher Lows (HL) and Higher Highs (HH), as shown in the above image. We can say the price is in an uptrend until it continues making HL and HH.

Image 2.6—MARUTI daily chart to show an uptrend (TradingView)

Downtrend

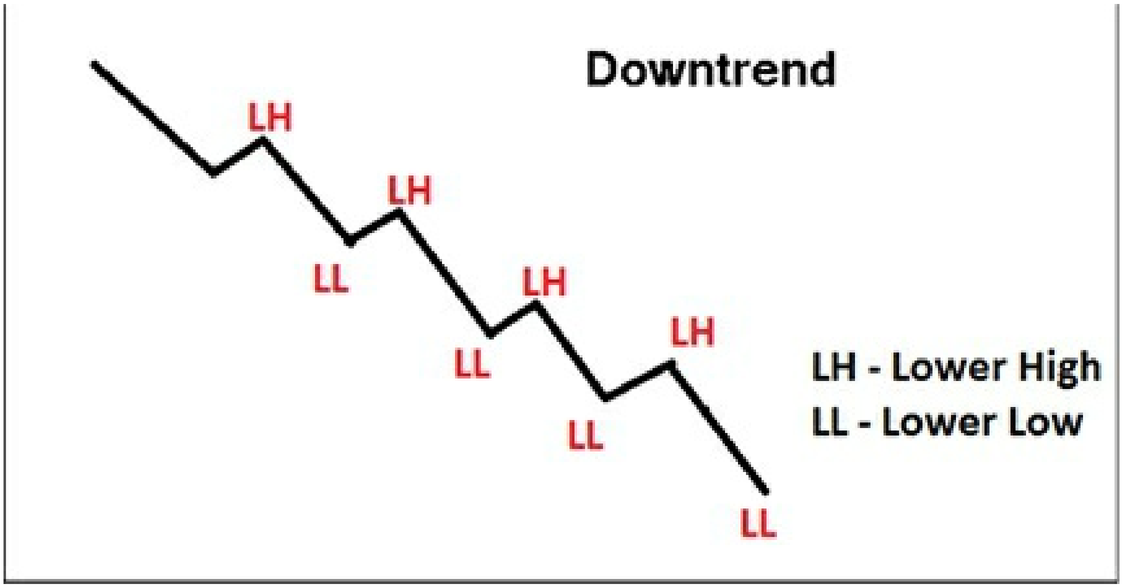

Image 2.7—Downtrend according to Dow theory

A downtrend consists of series of Lower Lows (LL) and Lower Highs (LH) as shown in the above image. We can say the price is in a downtrend until it continues making LL and LH.


Image 2.8—RCOM daily chart to show a downtrend (TradingView)

Sideways

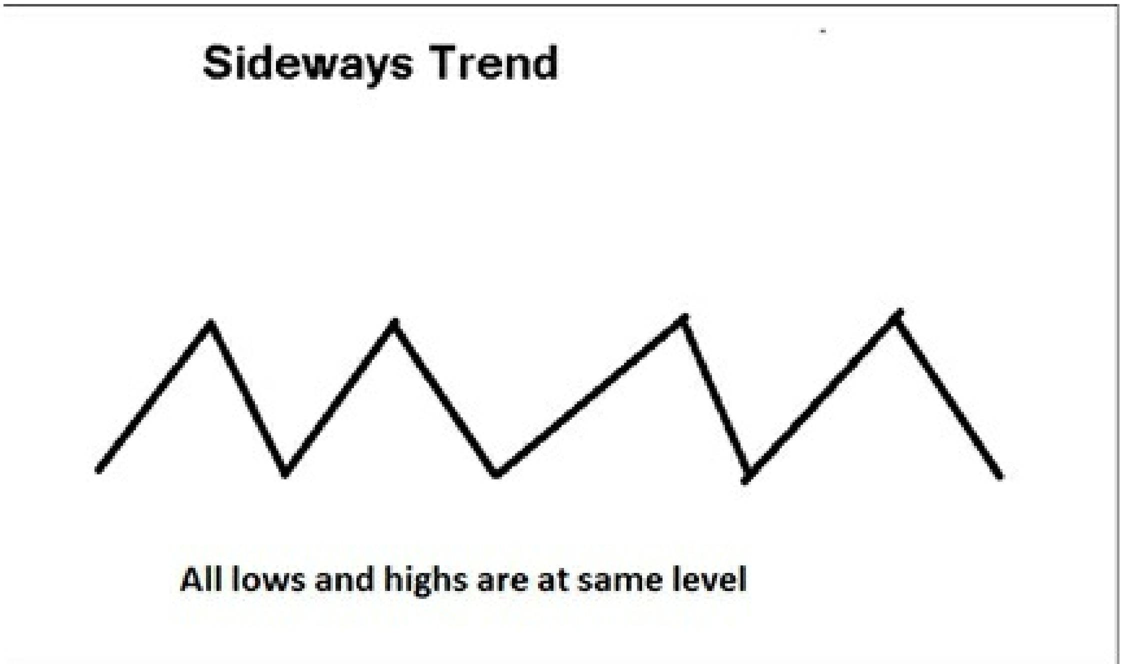

Image 2.9—Sideways trend according to Dow theory

When the price starts making the same Lows and the same Highs, it can be recognised as a sideways trend.

Image 2.10—INFOSYS daily chart to show a sideways trend (TradingView)

How to Identify the Change in Trend

To make more money in the market, you have to enter at the beginning of the uptrend and exit at the beginning of the downtrend. However, it is always a challenging task to identify the beginning of the uptrend and the beginning of the downtrend. Dow theory helps us identify these market turns with ease.

End Of A Downtrend

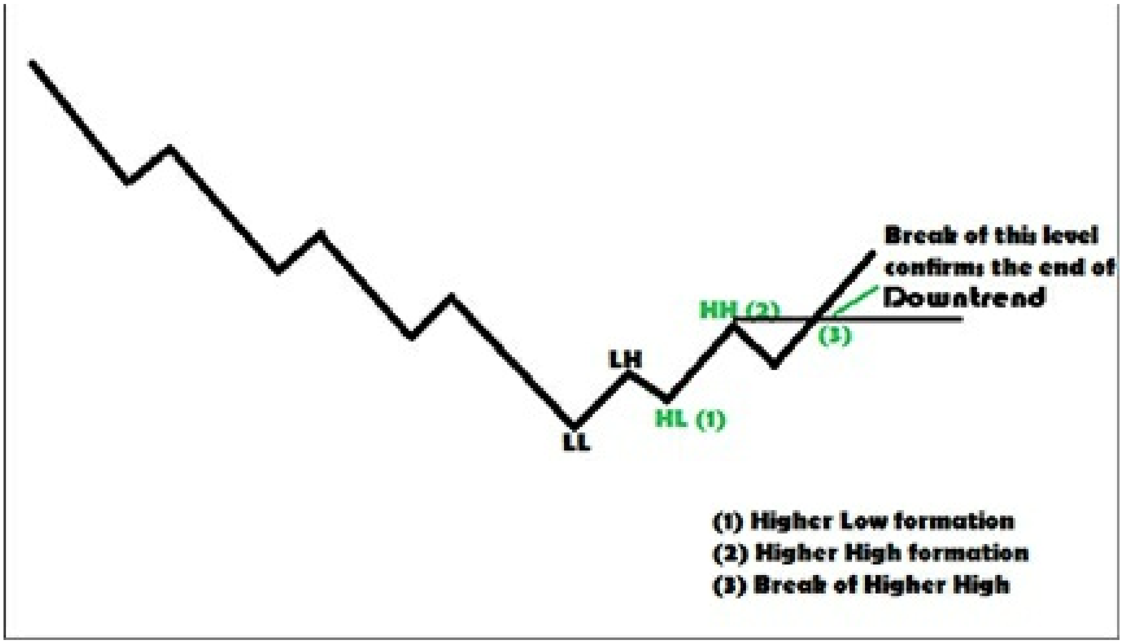

Image 2.11—End of a downtrend (or start of an uptrend)

As shown in the above image, the first price stops forming lower lows (LL) and lower highs (LH) and instead forms a higher low (HL). The break of the next high indicates the end of the downtrend and the beginning of a new uptrend.

Image 2.12—End of a downtrend in BANKNIFTY (TradingView)

Image 2.13—End of a downtrend in TATA MOTORS (TradingView)

Image 2.14—End of a downtrend in IGL (TradingView)

Image 2.15—End of a downtrend in BAJAJ AUTO (TradingView)

End Of An Uptrend

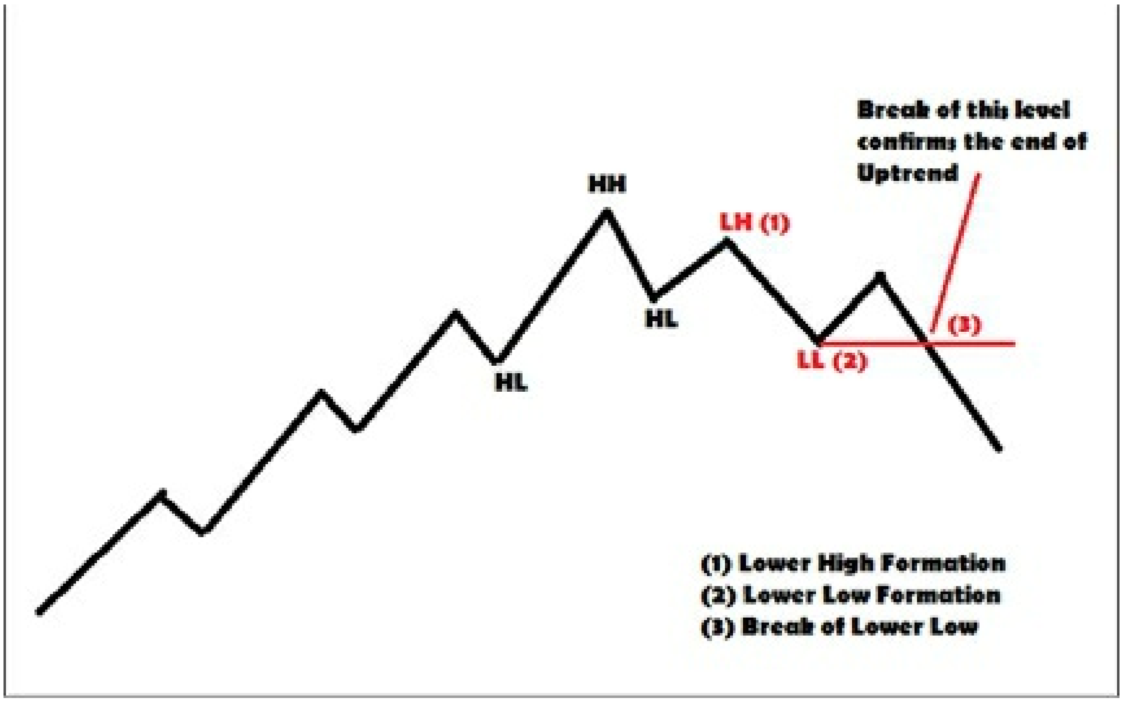

Image 2.16—End of an uptrend

As shown in the above image, the first price stops forming higher lows (HL) and higher highs (HH) and instead forms a lower high (LH). The break of the next low indicates the end of the uptrend and the beginning of a new downtrend.

Image 2.17—End of an uptrend in NIFTY (TradingView)

Image 2.18—End of an uptrend in BANK NIFTY (TradingView)

Image 2.19—End of an uptrend in PNB (TradingView)

Image 2.20—End of an uptrend in VIJAYA BANK (TradingView)

So, if you are a part-time investor in the market or if you don't want to be involved every day in trading or if you want to park some portion of your money, then you can invest in any script which shows the "end of downtrend" characteristics on the chart and you can hold this script in your portfolio until it shows the "end of uptrend" characteristics. Just ensure to invest only 5-10% of your portfolio amount on any script to minimize the losses due to any unavoidable circumstances which can bring down the value of the script.

Tame the Time

Any trading pattern, be it trend following, trend reversal or breakout, appears in all time frames from 1-minute charts to monthly charts, because a market exists in several time frames simultaneously.

The biggest mistake that traders commit while choosing a time frame is sticking to one time frame, assuming their trading pattern will occur only in that time frame. For example, a short-term trader with a trend following system selects a weekly time frame, thinking trends occur weekly. This is not a good idea, as even if he makes the proper 'entry,' he will not able to ride the complete trend due to his short-term holding mindset.

Hence, it is always a good idea to consider your holding period to select a suitable time frame. You can follow the below thumb rule to pick your correct time frame:

Sl No	Holding Period	Suitable Timeframe	Trading Style
1	1–6 hours	Hourly/Daily	Intraday Trading
2	1–4 weeks	Daily	Swing and Positional Trading
3	More than 4 weeks	Weekly	Long-term Trading

Irrespective of your trading style, you can look for the best entry setups or proper confirmation in a lower time frame as well. For example, if your time frame is daily, then you can look for best setups in an hourly chart to take a position at less risk.

Image 2.21—INDIGO daily chart (TradeView)

For example, in the case of a trend following trader who follows the daily time frame above, the script (Indigo) provides a good trade. It is in a clear uptrend, with the price taking support at the trend line, and we can see candlestick confirmation through the Bullish Harami and Hammer. According to this chart, the ideal entry for long positions should be at 1,250 with a stop loss (SL) at 1,218. So the total risk is 32 points according to the daily chart. Now, let us see the hourly chart.

Image 2.22—INDIGO hourly chart (TradingView)

The hourly chart of Indigo shows that 1,225 acted as strong support from the past, and we can see a false breakout at the same level in a head and shoulders pattern. We can also see candlestick confirmation through a hammer and bullish harami. Based on the hourly chart, the entry can be made at 1,234, with a stop loss of 1,218. So the total risk is only 16 points, as compared 32 points of risk in the daily chart (50% less risk).

If you are a trend trader, you have to take one precaution: Don’t always make trades against the trend of your higher time frame, because the probability of trend continuation is always high in a higher time frame. If you are against the trend, then you have to take SL on most of your trades.

Chapter 3

Mastery No Longer a Mystery!

As said by Albert Einstein: “Only one who devotes himself to a cause with his whole strength and soul can be a true master. For this reason, mastery demands all of a person.” The first person to walk on the Moon, Neil Armstrong once said, “Mystery creates wonder and wonder is the basis of man’s desire to understand.”

Let’s stop wondering how successful traders pull out consistent profits from the market and understand how we can travel the same path.

Know Your Travel Well

Imagine you are travelling to your favourite destination with your loved ones. To make your travel most enjoyable, what’s your first priority? For us, it’s choosing the type of transportation that suits our comfort, the duration of travel and the budget. Similarly, for a trader, choosing the trading type before pursuing the trading journey is critical.

Each type of travel has its own advantages and disadvantages. A road journey is less expensive but consumes more time. A plane journey can provide you with a significant time advantage, but it takes more money to travel.

“The expert at anything was once a beginner,” was rightly said by – Helen Hayes

In the quest to achieve mastery over trading, it’s prudent to begin with the basics.

Support and Resistance

Support is the price level at which demand is assumed strong enough to prevent a fall in price. At this level, buyers are more inclined towards buying and sellers are less inclined towards selling.

Resistance is the price level at which selling is assumed strong enough to prevent the price from rising. At this level, sellers are more inclined towards selling and buyers are less inclined towards buying.

Why does it happen?

Prices have memory. In other words, people remember the important levels of any stock, which makes them important for market psychology and supply and demand.

As the price rises from support levels, traders who are long feel happy and will think to add a position, in case the price comes to back to their entry level. The next category is traders who missed the previous trade and will be eagerly waiting to take their position if the price pulls back to the original level. The last category is traders who took a short position and will not be happy when the price is rising. They will be looking for a price point to exit their positions with minimum loss. When the price pulls back to the original level, their loss is minimised (or zero), so they will try to close their positions. Hence, they will indirectly become buyers.

The combination of efforts from these 3 types of traders creates the buying force, which stops the fall in price and instead pushes it upwards. How far it will go in the upward direction depends on the buying force created at that time. However, it is not mandatory for the price to stop falling and trend in the upward direction whenever it reaches any support level, because it depends on many factors, including the importance of the particular support level, overall market sentiments and level of buyers’ participation based on their perception of supply and demand. Similar logic is also applicable to resistance, and when the price reaches any resistance levels.

Image 3.1—Support (TradingView)

Image 3.2—Resistance (TradingView)

Support Turning into Resistance

Another important point to note is that a support can turn into a resistance and vice versa. Once the price breaks an important support level, the broken level can turn into resistance. The break of support signals that the forces of supply have overcome the forces of demand. Therefore, if the price returns to this level, the chance of more supply is high, hence causing resistance.

Image 3.3—Support acting as resistance (TradingView)

Another concept is resistance turning into support. As the price breaks above the resistance, it indicates changes in supply and demand. This breakout shows that the forces of demand have taken control over the forces of supply. If the price returns to this level, there is a chance of an increase in supply, and hence, it will act as a support.

Image 3.4—Resistance acting as support (TradingView)

Trend Line Support or Resistance

Trend lines are very important to identify the trend, its confirmation and its reversal. A trend line is a straight line that connects 2 or more price points and then extends into the future to act as a line of support or resistance. **The higher the number of peaks it connects, the stronger the trend line**.

An uptrend line has a positive slope and is formed by connecting 2 or more low points. Note that at least 2 points must be connected before the line is considered a valid trend line. Uptrend lines act as support and indicate that the demand is increasing, even as the price rises. A rising price with an increase in demand is bullish, and as long as prices remain above the trend line, the uptrend is solid and intact.

Image 3.5—Uptrend support line (TradingView)

A downtrend line has a negative slope and is formed by connecting 2 or more high points. The second high must be lower than the first for the line to have a negative slope. These trend lines act as a resistance and indicate net supply increases, even when the price decreases. A declining price combined with increasing supply is bearish and shows strong action by the sellers. As long as prices remain below the downtrend line, the downtrend is solid and intact. A break above the downtrend line indicates that net supply is decreasing and that a change in trend could be imminent.

Image 3.6—Downtrend resistance line (TradingView)

Volume

Volume is one of the most critical factors that give a clue about further movement in the price chart. It is better to remember the below information at all times:

Price	Volume	Direction
Increase in Price	Increase in Volume	Bullish (can go up)
Increase in Price	Decrease in Volume	Not Bullish
Decrease in Price	Increase in Volume	Bearish (can go down)
Decrease in Price	Decrease in Volume	Not Bearish

It’s time to know about different trading types:

Trend Following: All trades will be in the direction of the existing trend.

Trend Reversal/Mean Reversion: Trades will be counter-trend in nature and aim to capture the entire move of the new trend.

Breakout: It can be with the trend or counter-trend. For example, the cup-and-handle format will be in the direction of the trend, whereas a trade based on the head and shoulders pattern is against the trend.

Rather than getting confused between different types of trading with different time frames of trading, it's wise to acknowledge that the trading types will occur in all the time frames (15-minute chart, hourly chart, daily chart, and so on).

Hence, when choosing a trading type, the trader has to consider various advantages and constraints and pick the one that suits his personality. Choosing a trading type sometimes becomes emotional, too. Define your trading journey by combining the knowledge you gained in choosing the time frame and trading types. Control your emotions to make your travel memorable.

Smile with Style

When we think of our favourite sports, we each have our favourite player. The basic reason for attraction may be his personal style or his playing style. When we consider a bunch of examples of different sports and sportsmen, we find each player has his own style. When it comes to trading, successful traders have their own style. While imitating their success, we have to ensure that we pick a style that suits our personality.

Trading types can impact your personality. If there is a mismatch between personality and requirements of the trading type, it can act as a hindrance to your success. We can broadly analyse trade types based on accuracy, risk-reward and duration of the trade.

Are you fond of cricket? There are various formats—test, one day and T20. In T20, the batsman wishes to score the most runs in a limited time. This style has lower accuracy and higher risk, and less time is required to score the runs. Analogically, if traders want to make quick money in a short period, their accuracy may suffer. If your accuracy does not hamper your emotions compared to the reward it gives you, this will be the perfect type for you. Statistically, breakout trading gives medium-accuracy trades. This style is worth considering for a person who can take high risks to capitalise on appropriate rewards in less time.

In a test match, the batsman tries to build an innings over the time. He emphasises scoring the milestone runs, such as a century and a double century. This requires participation at the crease for a considerably long time. Similarly, if a trader is emotionally connected to achieving high accuracy and can have the patience to wait till his trade materialises, it's advisable to try trend following.

In a test match, you may lose your wicket quite a few times for lower scores, but you get your name established in the cricketing field for the number of big innings you have played. If you are a trader who has the patience to wait for a long haul without getting panicky during small losses along the way, ride the trend. After all, it's your friend!

One day matches require a skill set that can be attributed to a mix of T20 and test match skills. Batsmen should know both how to score quick runs when the situation demands and how to stay at the crease for longer innings. As a trend reversal trader, one has to wait till his trades start performing. When the trade favours you, it will give a higher reward in a medium duration for the risk you are ready to take. As this is counter-trend, the chances of the trade going against you are higher, causing less accuracy. If you have the temperament for this scenario, develop your skill to become a trend reversal trader.

Run to Win

If you are fond of athletics, you may be aware of different running types. Let us try to make an analogy between running types and types of trading. Sprinting is running a short distance in a short time. It is used typically as a way of quickly reaching a target or goal, or for avoiding or catching an opponent. Likewise, intraday trading is a way of quickly achieving a target within a day. Some people use it to avoid an overnight risk (e.g. gap up and gap down risk). Intraday trading requires speed in terms of thinking, decision making and trade execution. If you have proven methods, this can lead to quick money. However, with more trades comes a higher associated cost.

Hurdling is the act of running and jumping over an obstacle at speed. In track-and-field events, a series of barriers known as hurdles are set at precisely measured heights and distances, which each athlete must pass by running over. Similarly, the market will never move in a straight line. Volatility causes prices to swing between levels. The trader may decide to catch various moves consisting of upward and downward movements.

Swing trading requires patience to wait for the proper entry price, with direction-based thinking, decision making and trade execution. If you have proven methods, this can lead to consistent money. A few occasions where the price swing may be extremely volatile can impose unplanned risk. The price moving in a range causes you to wait for the right opportunity and can test your patience. Swing trading can limit the number of trades compared to intraday trading and, hence, may demand a lower time allotment for trading-related activities.

The marathon is a long-distance race with an official distance of 42.195 km. Winning a marathon requires endurance and ongoing practice. In the stock market, wealth creation is attributed to long-term investing. An investor has to leave enough time so that his picks start rewarding him to achieve his financial objectives. A long-term game requires the patience to hold stocks with conviction. The marathon is only run after completing the distance. To cover the distance, the runner should maintain his stamina. Similarly, an investor has to preserve capital as well as appreciate capital. Time starts aiding him so that compounding returns become significant. Maintaining discipline in the investment journey is the key to successful investing.

Health is wealth! Most people know that if they jog every day, they can keep themselves fit. Only a few people practice it. Taking action is important to reap benefits. The same applies to traders. You may have all the knowledge to choose the right type of trading, but you can only reap the money when you practice the type.

Promotion with Emotion

Let us consider a game where someone has to bet on the outcome of choosing a ball from a box. The person is told that the box contains 100 balls, out of which 70 are white and 30 are black. This means that, when he picks a ball, there is a 70% probability it will be white. Using this information, he bets on getting a white ball and, to his surprise, his bet goes wrong 5 times in a row.

If he is an amateur player, he may think he is unlucky and quit the game, or next time he may bet against his study. This behaviour, where he can’t control his emotions and acts against the study, guarantees his failure. On the other hand, a professional player would have played with conviction based on his study and eventually he would end up winning a large number of the bets.

Traders who are using some system or method may be in a scenario where their method is momentarily unable to deliver money to them in the real world, even though their backtesting has proven its potential. A simple trading concept like a moving average crossover (10 daily moving average crossovers of 50 DMA for long entry) will yield accurate results over 60%

and with more than 1:3 risk-rewards.

But traders find it difficult to follow any system even after seeing past results. When they are using their system, they may face a small loss or break even, and suddenly they find another great system whose recent results are so lucrative. Rather than focusing on the current system, there is a high probability that they will switch to the other system. This tendency is caused by the disappointment of missing the next big trade or by switching faith from their own system is another. They again end up in a similar scenario because they have been frequently changing their system to fit market dynamics. A deeper understanding of the limitation of a trader's system based on various market conditions can act as a red pill to his emotional trauma.

Professional traders backtest their methods to find out the edges of the system. If statistical reports meet their style and type of trading, they stick to that system irrespective of its short-term performance. Hopping from one system to another causes you to become a master of no categories. To avoid such a scenario and to become a real expert, it is recommended to use the proven system over a long period of time to become a winner. In a nutshell, controlling your emotions will promote you from an amateur to a professional trader.

Chapter 4

Follow One or Follow None—Indicators Demystified

Indicators Indeed

All technical indicators available in the stock market are derived using different types of calculations from the same price information: open, close, high, low and volume.

All technical indicators can be broadly classified into 2 categories: **Leading Indicators** and **Lagging Indicators**.

Leading indicators are those that lead the price movement. They give a signal before a new trend or reversal occurs.

Lagging indicators are those that follow the price action. They give a signal after the trend or reversal has started.

Technically, all indicators can be divided into 4 types, as shown below:

1) Trend indicators.

2) Momentum indicators.

3) Volatility indicators.

4) Volume indicators.

Trend Indicators

Usually, trend following traders use trend indicators to support their trading views.

Moving averages (MA), MACD, average directional index (ADX), parabolic SAR (PSAR) and linear regression are some examples of trend indicators.

These indicators are designed to show the direction and strength of any script. The direction of the trend can be upwards, downwards or sideways.

These are all lagging indicators.

Momentum Indicators

These indicators are used to measure the speed of a script in a given period.

Short-term traders focus on stocks that move significantly in one direction with high volume to make quick money. For this reason, they use momentum indicators like RSI, Stochastics, CCI (Commodity Channel Index) and Williams %R.

Below are the 2 widely used, important characteristics of momentum indicators:

1) Overbought and oversold conditions.

2) Bullish and bearish divergences.

Usually, overbought and oversold conditions are used to predict the end of a trend and to take the trades in the opposite direction of the existing trend. For example, if a momentum indicator is showing an overbought condition for a script, then traders will look to sell it.

Similarly, divergences are used to pick the end of a trend by identifying its weakness and to make trades in the opposite direction of the trend.

Volatility Indicators

The volatility is the relative rate at which the price of a security moves up and down. A high volatility condition is good for short-term traders, and because of this, many volatility indicators such as Bollinger Band (BB), Average True Range (ATR), Donchin channel and Volatility Chaikin have been developed.

Volume Indicators

The volume plays a crucial role in trading. A trend with a high volume indicates that the probability of the price moving in the direction of the trend is high. Hence, this can be used to confirm a trend or trend reversal.

A few examples are money flow index, Chaikin money flow, force index and on-balance volume.

It Will Click—Learn How to Pick (Be Quick)

When you get ready to go to the office, you will wear nice black or brown formal shoes. To run a marathon, an athlete will choose good sports shoes with good cushioning to prevent any possible injuries. A mountaineer will choose shoes that are specifically designed for hiking by preventing slipping.

But what happens when a corporate person wears sports shoes to his office? Similarly, think of the consequences of a marathon runner using heavy hiking shoes for his running. In addition, what can happen if a mountaineer wears formal shoes to climb? All these situations can lead to physical pain and few can even cause death. Similarly, picking the wrong indicator in your trading system can kill your trading capital.

Trend Following System

All trend indicators work better with a trend following system. A moving average, MACD or ADX is a good pick for this trading system. Please note that there is no necessity to use 2 or more trend indicators because all of them are derived from the price and give the same confirmation. Using more will increase the complexity of the system.

Image 4.1—Daily chart of ESCORTS with a 25-day moving average (TradingView)

The above image shows that the price was always supported at the 25-day MA and rallied upwards. So it is always a good idea to buy when the price is supported at MA. This MA can also be used to trail your SL if you bought any script previously.

Similarly, an ADX can be used in a trend continuation system. Basically, the ADX indicator has 3 components: ADX line, +DMI and –DMI. An ADX line above 25 is considered a strong trend (either uptrend or downtrend). If the +DMI line is above the –DMI, then it is considered that the bulls are in control. Similarly, if the –DMI is above the +DMI, the bears are in control of the bulls.

Hence, a trader can only plan a long trade if the ADX line is above 25, the +DMI is above the –DMI and the price is supported at the trend line. Similarly, he can plan a short trade only if the ADX line is above 25, the –DMI is above the +DMI and the price has resistance at the trend line.

Image 4.2—Daily chart of MARUTI to indicate long trades (TradingView)

Image 4.3—Daily chart of SUNPHARMA to indicate short trades (TradingView)

Trend Reversal System

The ADX indicator can also be used to identify trend reversals. So a trader can plan a long trade if the ADX line is above 25 and if the +DMI crosses the –DMI from the downside. This indicates the end of a downtrend and the beginning of an uptrend.

Similarly, he can plan a short trade if the ADX line is above 25 and if the –DMI crosses the +DMI from the downside. This indicates the end of an uptrend and the beginning of a downtrend.

Image 4.4—Daily chart of HDFC BANK with an ADX indicator (TradingView)

Image 4.5—Daily chart of ESCORTS with an ADX indicator (TradingView)

Many traders use oscillators like RSI or Stochastic to identify the trend reversals and make trades through divergences.

Image 4.6—Weekly chart of NIFTY showing RSI bearish divergence (TradingView)

As shown in the above image, a bearish divergence can be identified when the price makes higher highs, but the RSI makes lower highs, indicating the weakness of the current trend (up, in this case). Traders usually make short trades when they see a bearish divergence, as this indicates the end of a current trend and the beginning of a new one.

Image 4.7—Daily chart of DLF showing RSI bullish divergence (TradingView)

A bullish divergence can be identified when the price makes lower lows, but the RSI makes higher lows, indicating the weakness of the current trend (down in this case). Traders usually make long trades when they see a bullish divergence, as this indicates the end of a current trend and the beginning of a new one.

However, based on our study, the above concept (RSI Divergence) is not good to follow for trend reversal trades. The consequences and some better approaches are explained in the ‘Diving In: Reality-sensing using RSI’ section in this chapter.

Breakout Trading System

If you are a breakout trader, volatility indicators are the best indicators to pick your trades. We will choose the Bollinger Band (BB) and explain how to use this indicator in your trading.

Bollinger Band (BB) squeeze is a concept used by most traders to pick breakout trades. Basically, when the volatility reduces, the BB also reduces, and this can be related to a ‘calm before the storm’ concept. A breakout in any direction can yield large payouts.

Image 4.8—Daily chart of BHARATFIN showing a BB Squeeze (TradingView)

Image 4.9—Hourly chart of BHARATFINANCE showing BB Squeeze (TradingView)

As shown in the daily and hourly charts of Bharat Finance, a BB squeeze is common in both cases, followed by a breakout. So breakout traders can use Bollinger Bands in their trading system.

Behaviour Redefined

When you go to the office, you greet everyone and most of the time behave in a professional manner. If you are intelligent, you will have diplomatic views in all your discussions and conversations. However, you behave differently with your family members when you get back home. You will interact informally with your family members, and you won't have any diplomatic discussions at home. Next, when you go to a disco, you are a completely different person. You shout, sing and dance to music, and you will have a nice time at the disco.

Similarly, all technical indicators are unique and behave differently in different market conditions. The behaviour of an indicator is unique in all uptrend market conditions, the same indicator shows different unique characteristics in downtrend market conditions and the same indicator shows another type of unique characteristic in a sideways market. Intelligent traders study the behaviour of the indicator in uptrend, downtrend, sideways and random market conditions and use this information while making trading decisions.

Again, we will use RSI as an example to show the different behaviours of an indicator in different market conditions.

Image 4.10—Daily chart of IGL showing RSI levels above 60 during an uptrend (TradingView)

Image 4.11—Daily chart of NIFTY showing RSI levels between 40 and 60 during a sideways market (TradingView)

Image 4.12—Daily chart of DR REDDY showing RSI levels below 40 during downtrend market (TradingView)

After looking at the RSI behaviour in different market conditions, we can summarise it:

Different Market Conditions	RSI Behaviour

Uptrend	RSI above 60
Sideways	RSI between 40 and 60
Downtrend	RSI below 40

Similarly, when you pick an indicator according to your system, you have to study its behaviour in all market conditions. This increases the success ratio in your trading.

Diving in: Reality-Sensing Using RSI

Relative Strength Index (RSI) is a famous indicator for technical analysis in the trading world. It was invented by J. Welles Wilder in 1978 and is most typically used in a 14-day timeframe. Below are the 2 important parameters of RSI that will be used by traders to make their trades:

1) Overbought and Oversold conditions (30 and 70 rule).
2) Bullish and Bearish Divergences.

In this part, you will see the conventional definition for overbought and oversold conditions, and why they are not the right techniques to use alone in trading. This chapter will also provide an alternative method that gives better clarity and better results.

According to the traditional definition, any RSI movement above 70 is considered an overbought condition, and any RSI movement below 30 is considered an oversold condition. Hence, it is advisable to exit your old positions or look for short trades when the script is in an overbought condition and for a new buying opportunity when the script is in an oversold condition, as shown in the NIFTY image below.

Image 4.13—NIFTY showing overbought and oversold conditions (TradingView)

If you use the above concept for your trading, then it is certain that you will have poor trading results, damaging your capital terribly. This is because in an uptrend market, the RSI can stay above 70 for a long duration. If you take a short trade, the price will hit your stop loss (assuming you have a stop loss) many times since you are taking trades against the trend. However, exiting any old position is also not a good idea, because you will be closing your position when the market is ready to give more!

Overbought

Image 4.14—Failure of ‘overbought’ condition in an uptrend in HDFC BANK (TradingView)

Image 4.15—Failure of ‘overbought’ condition in an uptrend in CEAT LTD (TradingView)

If you look at the above images of HDFC Bank and CEAT Ltd, the overbought condition failed every time because taking short positions is against the trend (up in this case). Your capital will be saved if you have an SL plan. Otherwise, it is quite difficult to imagine the situation if you make trades based on this concept and don’t have an SL plan.

Oversold

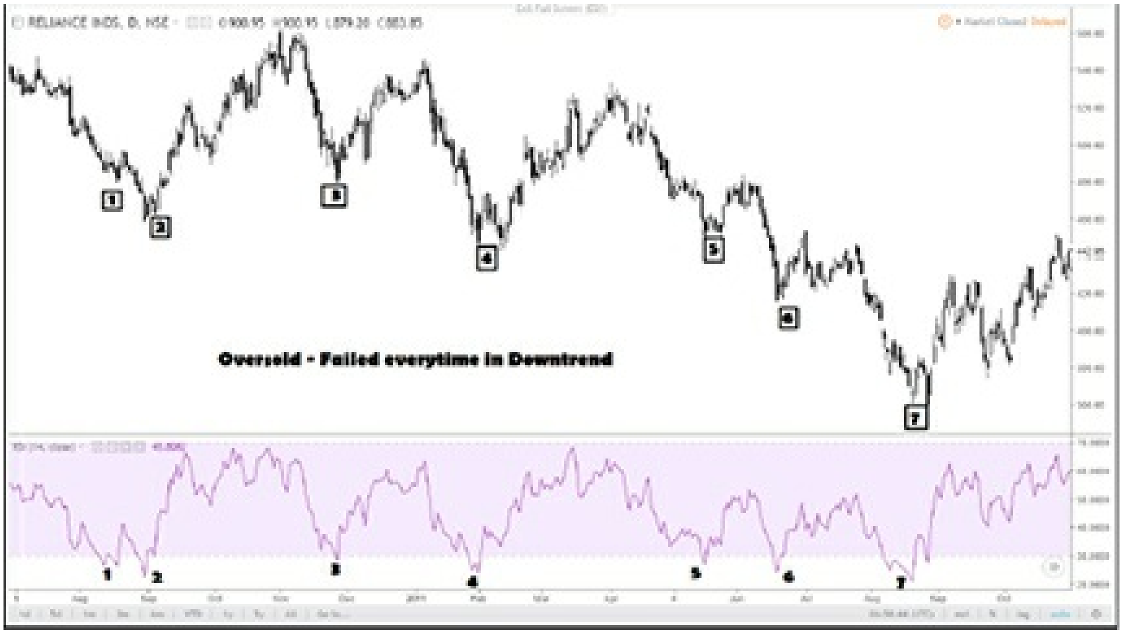

Image 4.16—Failure of ‘oversold’ condition in a downtrend in RELIANCE INFRA (example 1) (TradingView)

Image 4.17—Failure of ‘oversold’ condition in a downtrend in AXIS BANK (example 2) (TradingView)

If you look at the above images of Reliance Infra and Axis Bank, the oversold condition failed terribly as the price made new lower lows at all places where the oversold situation occurred, because buying at the oversold position is against the trend (down in this case).

Right Way to Use RSI

Image 4.18—RSI zone that explains the trend

The above image explains the right way to use RSI. When the RSI value is above 60, the price will usually be in an uptrend; when the RSI is below 40, the price will be in a downtrend; and when the RSI is in between 40 and 60, the price will be in sideways zone. Look at the following examples to get a clear understanding:

Image 4.19—INFOSYS chart showing a downtrend when the RSI is below 40 (TradingView)

Image 4.20—RELIANCE chart showing uptrend when the RSI is above 60 (TradingView)

Image 4.21—APOLLO TYRE chart showing a sideways trend when the RSI is 40-60 (TradingView)

This concept is applicable to all timeframe charts. The moment the RSI breaks 60, the price will be in an uptrend until it breaks 60 again. When the RSI is in between 40 and 60, it will show sideways movement. The moment it breaks 40, a downtrend will start.

According to the traditional definition, when the price makes a higher high and the RSI makes a lower high, there is bearish divergence and it is good to make short trades (or exit if you are holding long positions) at this point. This is shown in the image below.

Image 4.22—NIFTY chart showing bearish divergence (TradingView)

Similarly, when the price makes a lower low and the RSI makes a higher low, it is a bullish divergence. It is advisable to make long trades (or close if you are carrying short positions) at this point. This condition is shown in the image below.

Image 4.23—BANKNIFTY chart showing RSI bullish divergence (TradingView)

Why Is It A Bad Idea to Use These Concepts?

These concepts always suggest making trades against the trend and attempting to catch the tops and bottoms. For example, bearish divergence can occur continuously in an uptrend, making short trades at this point against the trend. Even if you are able to catch the top, you may not be able to make big money because sitting with the position is a challenging task for most retail traders.

The charts below show the failure of bearish divergence.

Image 4.24—MARUTI chart showing the failure of bearish divergence (TradingView)

Image 4.25—ESCORTS chart showing the failure of bearish divergence (TradingView)

Image 4.26—Failure of bearish divergence twice in HDFC chart (TradingView)

Image 4.27—Failure of bearish divergence 3 times in the NIFTY chart (TradingView)

From the above images, it is clear that bearish divergence frequently occurs in an uptrend and it is not a good idea to take short trades, as they are against the trend. Similarly, bullish divergence occurs frequently in a downtrend, and it is not a good idea to take a long position as it is similar to catching a falling knife.

Hidden Divergences

RSI hidden divergences (bullish and bearish) are the best way to make trades because of the following reasons:

1) Trades will be in the direction of the trend.
2) Success ratio is better than for conventional RSI Divergence.
3) Good risk-reward as a trend can continue at higher levels.

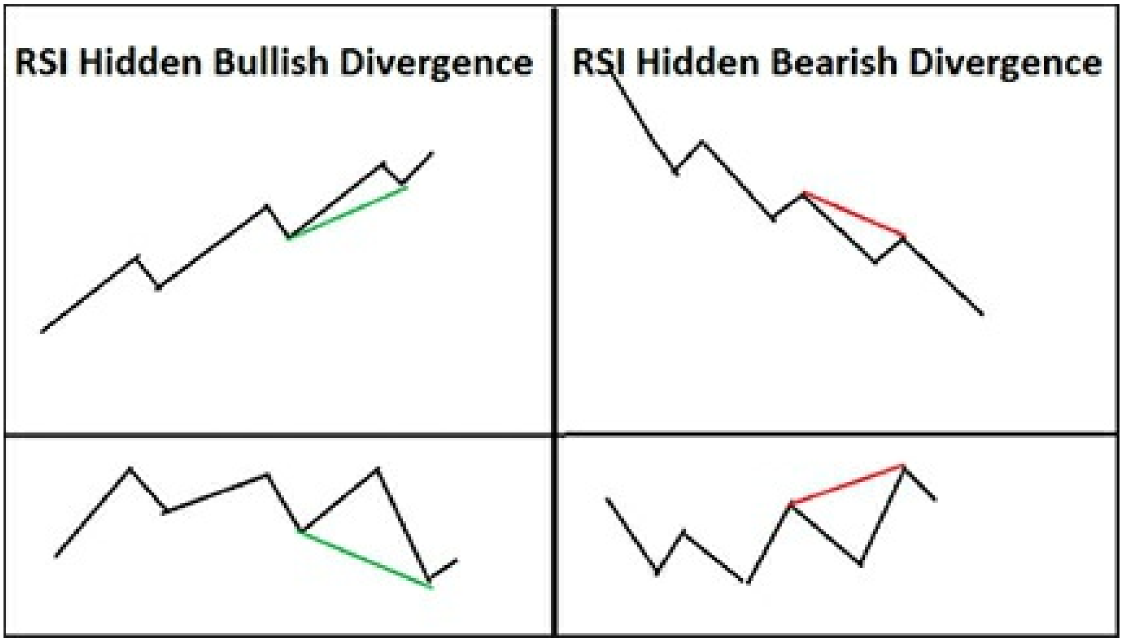

Image 4.28—RSI hidden bullish and bearish divergences

The above image shows the formation of both hidden bullish and hidden bearish divergences. If we look at some charts, it will be easier to see the hidden divergences and results.

Image 4.29—MARUTI charts showing hidden bullish divergence (TradingView)

Image 4.30—CEAT LTD charts showing hidden bullish divergence (TradingView)

Image 4.31—HDFC BANK charts showing hidden bullish divergence (TradingView)

Image 4.32—NIFTY chart showing hidden bearish divergence (TradingView)

Image 4.33—YES BANK chart showing hidden bearish divergence (TradingView)

Image 4.34—SAIL chart showing hidden bearish divergence (TradingView)

If you look at all the above charts, hidden divergences occur in the direction of the trend. Making trades based on hidden divergences (and supporting with other confirmations like candlestick confirmation or MA confirmation) is a better idea than making trades on normal divergences.

Don’t get carried away by the indicators discussed here. If you understand the essence of the explanation, you or on the right track.

Chapter 5

Abhimanyu, Who Knew the Entry and Not the Exit

Trading Warrior

Abhimanyu is the only character in the Mahabharata who inspires readers even in death. The majority of traders come to trading inspired by great traders. They would love to establish themselves as an inspiration to others. Abhimanyu was a great warrior prince who acquired the most secret knowledge of strategic warfare from his father Arjuna and his maternal uncle Sri Krishna. In their journey to become successful, traders acquire knowledge from various sources and test different strategies.

Abhimanyu's greatest virtue lay in his determination to fight even in the face of certain death. Even though 95% of all traders are losing and the odds are against the nomad trader, each trader's aim is to establish himself as a pro and to join the 5% of winners. One should have a warrior attitude towards improving himself every day as a skilful trader.

Chakravyuha was an effective defensive military formation. When the Kauravas decided to engage the Pandavas with a Chakravyuha, Abhimanyu came to the rescue of the Pandavas and entered the battle formation all alone, because only he knew how to enter it. Like Abhimanyu, many traders acquire the knowledge about great entry points in their trades. To make money in the market, traders should know how and when to be aggressive or defensive based on market dynamics. But the unfortunate Abhimanyu had not learnt the technique to break all circles in the Chakravyuha. Similarly, unprepared traders will end up losing capital and blaming luck.

Breaking the mental blocks about trading myths is the key. One should be open-minded, assimilating the information given by the market as it is, rather than being judgemental to map the information according to his biased opinion. Rather than being encircled in a losing streak, a trader should critically examine the reasons behind it and constantly try to come out of it.

Despite his incomplete knowledge of the technique, Abhimanyu entered the formation and overcame one circle after another until he came to the seventh one, which he had no knowledge of how to break. Many traders also jump into a trade without being prepared for it. For a trader, only knowing about great entry into a trade is not sufficient. One has to be aware of position sizing, risk management, emotion control and, most importantly, exits.

Brave and ambitious as he was, Abhimanyu fought valiantly in the unequal struggle, but in vain. As a trader, you may be brave enough to make trades based on your instincts but if you don't know how to manage the risk and subsequent exits, you will end up losing your trading capital when the market proves you wrong.

Abhimanyu's strength and bravery proved no match against the skilfully laid-out maze of warriors, which led to his end. A retail trader may worry too much about institutional traders, operators and insiders but, in the true sense, they are all immaterial if you are organised with a complete trade plan. Rather than fighting against the smart money, if you align your trades along with the flow, the probability of you meeting your end on a positive note is high.

Abhimanyu stands out in the epic in many ways as the most intense warrior in the battle of Kurukshetra. I wish that you as a trader will exemplify many virtues of successful traders, such as a proper trade plan that covers entry, exit, emotion control, risk management and trade management. As a trader, develop the warrior attitude to succeed in your trading. **Remember, if Abhimanyu knew the exit, his story would have been different**.

Sharpen Your Axe Before You Cut the Tree

Becoming a trader is a skilful game. In any game, if you intend on winning, you should know about the game up front. Based on the gathered information, you have to plan accordingly. From a trader's perspective, this is called a trade plan. Many successful traders place the highest importance on the trade plan. As a trader, you should know at least the below 5 aspects before entering any trade.

1) Based on your entry mechanism, where is your entry point?
2) In case your analysis goes wrong or the trade setup fails, where is your stop loss?

3) Where is your anticipated exit to book profits based on your exit mechanism?

4) What is the amount you are risking in this particular trade?

5) How much money do you risk on this trade out of your entire portfolio?

Each time, before you make a trade, answering the above questions can help you to plan your trade. You are now at least one step ahead of the 95% traders who lose.

Entries That Matter

Irrespective of your trading reputation and knowledge and experience in the market, the entry and exit alone will decide the fate of your trade. The entry is the first step in your trade and has to be accurate to increase your odds of success in trading.

Entry with Respect to Trend Following System

Below are the important factors that need to be considered before taking an entry in the trend following system:

- A clear, established trend. Your trade should only be in the direction of the trend.
- Price should be at the support trend line (in case of long trades) or resistance trend line (in case of short trades).
- Candlestick confirmation.

Image 5.1—Daily chart of MOTHERSON SUMI showing ideal entry point (TradingView)

If you look at the above chart of Motherson Sumi, the trend is clearly upside, the price is near the trend line and candlestick confirmation is also present through Bullish Harami and Hammer. So buying 1-2 points above the high of the hammer provides an ideal entry point, and the SL will be 1-2 points below the low of the hammer. This concept provides the safest entry point, and hence there is a high probability of price trading at a higher level.

Image 5.2—Daily chart of RELIANCE showing ideal entry point (TradingView)

Similarly, in the Reliance script above, the trend is clearly down, the price is near the resistance trend line and we have candlestick confirmation through the bearish pin bar. So ideal entry for a short trade is 1-2 points below the low of the pin bar with an SL 1-2 points above the high of the pin bar. This entry is safest because the price hitting the SL indicates a change in the trend.

Entry with Respect to Trend Reversal System

Traders use different methods to pick trades in the trend reversal system, like a simple trend line breakout, reversal according to Dow theory or according to any indicator. However, the following factors need to be considered if you make trades under a trend reversal system:

1) Dow Theory concept—A higher low/high formation if you are looking for a long trade in a script that is in a downtrend, or a lower low/high formation if you are looking for a short trade in a script that is in an uptrend.

2) Volume confirmation during the reversal.

3) Candlestick confirmation.

Image 5.3—Daily chart of CEAT LTD showing the ideal entry point (TradingView)

The above picture shows the daily chart of CEAT Ltd, which is in a clear downtrend. In mid-February, the price made a higher low, which is the essential confirmation from the Dow theory perspective. Later, we can see a clear-cut breakout from the resistance trend line, along with the volumes. So the ideal entry for a long trade should be above the high of the breakout candle, keeping the SL below the swing low. You can see the trade result in the below image.

Image 5.4—Daily chart of CEAT LTD showing the trade result (TradingView)

Image 5.5—Daily chart of NIFTY showing ideal entry point (TradingView)

The NIFTY daily chart above shows a clear uptrend. In the end, the price has formed a higher low, which is the first confirmation by Dow theory, and then the price breaks the support trend line with good volume, which provides the rest of the confirmation. So the ideal entry for a short trade is below the low of the breakout candle, keeping the SL above the previous swing high.

Image 5.6—Daily chart of NIFTY showing the trade result (TradingView)

Entry with Respect to Breakout/Breakdown System

The major risk with a breakout/breakdown system is that the chance of a false breakout (or fake head) is always high. Traders can wait until the completion of the breakout candle (in any time frame) beyond the trend line. However, the only issue is that sometimes the price rallies too much in the breakout candle and you end up taking less position due to a big SL. Another way to deal with this problem is to look at the prior trend and volume, and most of the times the chance of a breakout in the direction of the trend is high. In addition, traders can also wait for the pullback after the breakout.

Image 5.7—Daily chart of GLENMARK showing the breakdown (TradingView)

If you look at the chart of Glenmark given above, a clear breakdown is visible. However, the breakdown candle closed far below the support trend line, which increases the risk (because the SL will be above the high of the breakout candle).

Image 5.8—Daily chart of JP ASSOCIATE showing a breakout (TradingView)

The above chart of JP Associate shows a clear breakout from the trend line with decent volume. In this case, the breakout candle has not gone far from the trend line, and hence breakout traders can place the entry for their long trade above the high of the breakout candle, keeping the SL below the low of the previous candle (or below the swing low). This provides the safest entry point, with the least risk.

Image 5.9—Daily chart of HINDUSTAN ZINC showing the breakout (TradingView)

Another option for a breakout trade is to wait for the pullback after the breakout. This also provides an ideal entry point with less risk, as shown in the above picture. However, this approach does risk not getting a pullback with certain stocks when they show more strength in the direction of the breakout.

Limitation Game

What Is Stop Loss?

Stop loss is nothing but a price point indicating that your trade analysis while taking the entry has gone wrong or that a stop needed to be placed at a logical level, where the trader would know they were wrong about the direction of the trade.

The market will throw limitless opportunities to make millions. What if you don’t have the trading capital to seize them? Many losing traders commit a blunder by taking positions using leverage and without proper risk assessments in place. In such cases, one bad move against them can kill their account. To avoid such a pathetic situation in a trader’s life, it’s always advisable to limit your loss per trade, which ensures that you don’t go broke while trading. This limiting zone is a stop loss. As the name suggests, if you don’t stop the loss, a small loss may be converted to the mother of all losses.

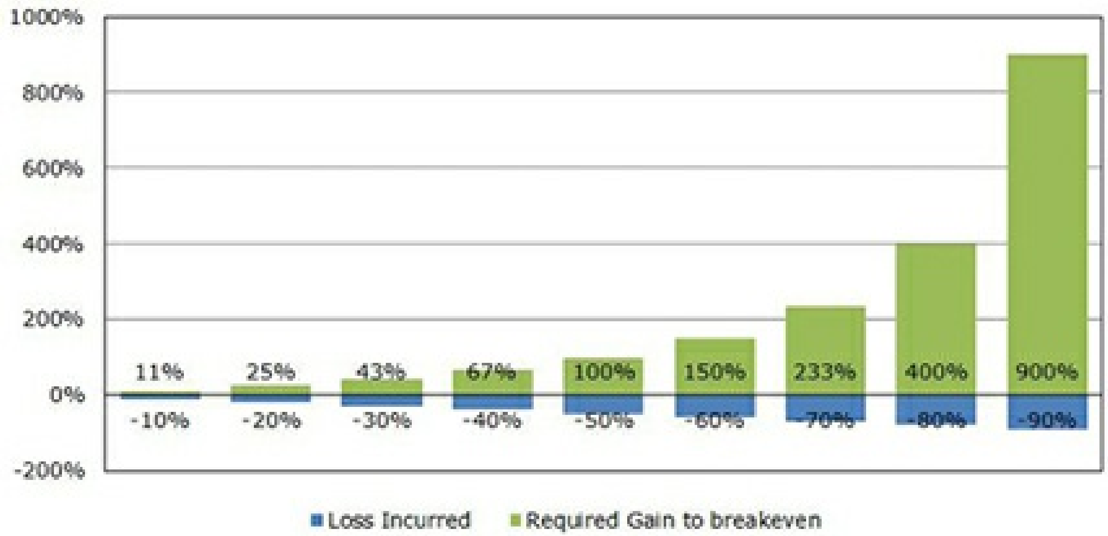

Image 5.10—Required gain to recover losses

A picture speaks more than words. If you lose 50% of your trading capital, you have to gain 100% just to break even. That’s why the way you manage your risk per trade using appropriate SL and portfolio-level risk can define your success.

Exciting Exits

You’ve made a trade. You will only know if you’ve lost or made money after you exit it. Hence, the exit plays a crucial role, because it signifies the completion of your trade. Since there are so many entry types, there are a few reliable exit types commonly practised by successful traders. Each time a trader exits a trade, depending on the type of exit, there is also emotion attached to it. Trade execution based on your exit plan, along with the type of emotion that can surface, is debriefed here.

Risk-Reward-Based Exit

In common terms, the gap between your SL and your entry is called risk, which we will abbreviate to R. Assume your entry is at Rs. 100 and your SL is at Rs. 90. In this case, your R = Rs. 10.

Your anticipated exit for 1R reward is placed at Rs. 110, 2R reward is placed at Rs.120 and so on.

A risk-reward-based exit can take place in broadly 2 situations. The trader might have exited at the predefined R, and after his exit the stock has tumbled. In this case, he should not celebrate too much that he exited right at the top. In another scenario, his predefined exit stock price has skyrocketed after exiting and he will feel left alone in the rally. In this situation, he should not feel sad as he has executed his trade plan and honoured his rules. Irrespective of the scenario, a trader should develop the ability to control emotions and enhance his skills to repeatedly apply his trade plan.

Image 5.11—Daily chart of WIPRO showing fixed RR exit (TradingView)

If you look at the daily chart of Wipro given above, the trade plan is to short Wipro at the break with support at 254 and SL at 261.5. In this case, the exit has been decided at 1:2 RR, and hence a limit buy order can be placed at 238.

Once the price has reached the price level of 238, our limit buy order has been triggered, and we are out of the trade.

Trail SL-Based Exit

Let’s assume you have entered the stock at Rs. 500 and your predefined stop is placed at Rs.480. In this case, the initial stop loss is Rs. 20. As the trade is panning out, let’s say the stock price rose to Rs. 540 and the trader has decided to move his stop loss to Rs. 520. After some days, the stock price reverses back and hit his modified SL. He has still made Rs. 20 per unit.

The process of modifying your initial stop loss in the direction of your anticipated move of the underlying is called trailing stop loss (TSL)-based exit. Traders who follow the TSL method of exit tend to practice trailing the stop loss below recent swing lows when they have buy positions, and trail SL above swing highs when they have sell positions. A few traders trail only after the particular price zone is tested from their entry price and then continue trailing in the direction of price movement.

For the trader who follows TSL for their exits, there are primarily 2 scenarios where emotions may obstruct the original plan. After making the trade entry, it may take some time to perform in your anticipated direction. Just because the trade is not catching up to your expectation, you should not move your stop loss against your plan. In the other case, after the trade goes in your direction, instead of trailing, you may see huge returns and feel like exiting with the profits on the table. Controlling your agitation when the trade is taking longer and your excitement when the trade is rewarding you with huge profits is important, and how you manage these feelings can prove yourself a trader.

Image 5.12—Daily chart of WIPRO showing trail SL exit (TradingView)

If you look at the above daily chart of Wipro, entry has taken after the breakout of the trend line, and the price gives a pullback opportunity along with a candlestick confirmation via 2 hammer candles. A stop loss can be placed below the low of the hammer.

When the price moves in the expected direction and breaks the previous swing high, our SL can be pushed ahead at 'trail SL (1),' as shown in the image. When the price continues to move upwards and breaks the previous swing high again, we can move our SL to 'trail SL (2)' as shown in the image.

We should continue this process until the price hits our trail SL, because we never know the upside potential, and through this trail SL we try to capture the maximum benefit.

In the above chart, the price has hit our 'trail SL (4),' and we have made whopping returns of 50 points (entry at 230 and exit at 280).

'It never was my thinking that made big money for me. It always was my sitting. Got that? My sitting tight!' – Jesse Livermore

Time-Based Exits

A few traders keep their objective of exit based on the time frame they have chosen for their trade analysis. For example, consider an intraday trader who uses a 15-minute time frame for his analysis. He will wait for his exit order to trigger in the next 15 minutes or a multiple of 15 minutes, limited to an hour. If a trade is not performing up to his desire, he may choose to exit without worrying where the price is and cancel the previously placed exit order.

In this scenario, after his exit, his trade may have been performed in his favour, causing him frustration and thoughts that he should have waited a little longer. Alternatively, the direction may have reversed, making him feel on top of the world for exiting at exactly the right time. Controlling the urge to time the market becomes so important. Otherwise, emotions can kick back his further trades.

Image 5.13—15-minute chart of NIFTY showing time-based exit (TradingView)

If you look at the above 15-minute chart of NIFTY, a long entry can be made when the price breaks the resistance with an SL below the low of the breakout candle or below the previous swing low on the day.

However, the price didn't give the expected breakout and the price closed at the same level on that day. So in this case, if you are an intraday trader, you have to close your long position to avoid any overnight risk.

Dynamic Exits

This advanced type is used by pro traders. It combines risk-reward, trail SL and time-based exits to maximise profit in all market conditions.

For example, after buying a position, an expert trader may decide to exit 50% of his position at 1:2 risk-reward and carry the remaining position by trail SL. While the price is moving in his trade direction, he will keep trailing the SL to a few ticks (points) away from every swing extreme. If the price goes sideways, he may decide to exit at the existing position.

Adaptive execution plays a very crucial role here to match the market movement and cater all the exit types to his trade plan. In addition, a trader has to control his emotions in 2 situations:

1) When the price shows a big move after he exits 50% of the position, as it reduces the profit by 50%.

2) After the first exit, when the price comes back and hits his trail SL again

reducing the profit up to 50%.

The critical advantage to the dynamic exit is that the trader will profit in both cases.

Image 5.14—Daily chart of NIFTY showing a dynamic exit (TradingView)

Unplanned Exits

Sometimes, traders need to exit their position based on unplanned activity imposed by the external environment. It may be due to technical glitches, a black swan event or personal reasons such as needing money. Some traders can’t control their emotions and exit their positions against their original plans. These should strictly not be considered unplanned exits, and emotion-related reasons should be addressed.

If someone chooses any other type of exits besides the ones covered here, it should be treated as a blind exit. It is best to avoid these on your journey to becoming a pro trader.

Chapter 6

Risks Ahead!

Unbeaten Boxer

In general, there is always a constant fight between bears and bulls in the market. Who will win the game is not only decided by the direction of the market but also by the person who has controlled his risk in the process of fighting. To simplify the jargon, let's assume we are driving a car. How long can a car be driven for, assuming the driver doesn't get tired or any parts of the car have not broken down? The major requirement to keep the car on the move is fuel.

Similarly, for a trader to remain in the game, his major requirement is his trading capital. He can analyse, but if he has no trading capital to trade with, can he win the game? Obviously, the answer is no. Then how can a trader safeguard his capital in a constantly changing market? To keep him alive as a trader, he should manage his risk.

In boxing, a player is only declared defeated when he has collapsed. While he is standing, even if by defence, he can't be a loser, and he still has the chance become a winner in the end. Similarly, as a trader, we should not be too aggressive and keep a calm head to play the game in defensively when the market demands it. If we can control the risk, we will be rescued irrespective of market conditions. To remain unbeaten and keep trading according to your trading plan, learn the art of managing risk.

A rule of thumb in risk management is to not risk more than 2% of your trading capital per trade. For example, if your trading capital is Rs. 5,00,000, you should not risk more than Rs. 10,000 in a single trade. By adhering to this risk-per-trade policy, even if you fail 5 times in a row, your maximum loss is only 10% of your capital.

If you are following a trading strategy from your trading plan, it's advisable to allocate capital exposure to that particular strategy based on its maximum drawdown. The risk-per-trade strategy can be correlated to the concept of portfolio diversification, used by long-term investors, which ensures that even if a few picks fail, it will not damage the entire capital.

When you use some risk control mechanism, there should be a check to maintain the overall portfolio risk level, in case of strategy failure or any other reason for successive trades going against your trade plan. Pro traders try to maintain the portfolio risk below 10% at any point in time. For example, if the per trade risk is 2%, they try to keep at most 5 positions open. A few traders decide portfolio risk based on the impact of the risk on their finances and emotions.

There may be certain occurrences where the trader has no control. It may be because of natural calamities, unanticipated man-made events such as a city bombing or technical glitches that occurred in exchanges or trade terminals. These kinds of risks can’t be avoided and can only be mitigated to a certain extent using position sizing algorithms.

Avoiding and managing risk increases your survival in the market as a trader. This ensures you will stay fit both financially and emotionally to play the trading game to win.

Pre-Positioned (Size Your Position)

What Is Position Sizing?

Position sizing refers to the size of a position within a particular portfolio. It can also be defined as a number of shares (or lots) per trade, or the amount that a trader is going to invest per trade.

The famous trader Van Tharp defines this as ‘How big should I make my position for any trade?’

Why Is Position Sizing Important?

Without proper position sizing, it is impossible to prevent a drawdown with a substantial amount of your capital on a single trade. Hence, this is a must for all traders and investors who want to avoid major drawdowns in their accounts due to unforeseen circumstances.

For the moment, assume you have Rs. 1,00,000 as trading capital. You feel very confident on a script XYZ, which is currently priced at Rs. 100 and you think the price will go higher in the next few days. As a result, you buy 750 shares of XYZ. The next day, you hear that a few popular products this company makes have been banned in the US and some other countries, causing the price to open at 22% below your entry price. Due to this unforeseen incident, you decide to exit the trade. You sell all your 750 shares at Rs. 78, and your trading capital reduces to Rs. 58,500, which is a 41.5% drawdown on your capital in a single trade.

Prerequisites for Position Sizing

Typically, laypeople will make trades based on an expert’s advice, their friend’s suggestion or an article. They don’t have a constant and concrete approach to making trades.

We hope that by this time, you know the importance of finalising one trading method for your future trading. As discussed in the previous chapter, observe its behaviour in the uptrend, downtrend, sideways and random market by checking past data. If you are convinced by its performance, note down when to make trades with this system and when to avoid it.

How to Calculate Position Sizing

To know your position sizing, you should always know how much you ready to lose per trade if something goes wrong. A rule of thumb in the stock market world is that one should not risk more than 2% of his portfolio per trade and no more than 1% per investment call. For example, if you have Rs. 10,00,000 as trading capital, then you should risk only Rs. 20,000 per trade and Rs. 10,000 per investment call.

One can use the formula below to calculate their position sizing:

Position Sizing = Risk Amount Per Trade/(Entry price – Stop Loss price)

We will look at an example to understand this concept.

Image 6.1—Daily chart of CEAT LTD (TradingView)

If you look at the above CEAT Ltd chart, an entry can be taken at 1,180 because of the trend line breakout, and we can keep SL at 1,140 because if the price comes back to 1,140, then it indicates that the breakout has failed. We can aim the target at the peak, which comes at 1,425.

Position Sizing = Risk Amount per trade/(Entry price – Stop Loss price)

If you have Rs. 10,00,000 of capital, then your risk amount per trade is Rs. 20,000 (2% of portfolio).

Then Position Sizing = Rs. 20,000/(1180 – 1140) = 500

Hence Position Sizing = 500 shares.

So one can buy 500 shares of CEAT Ltd if they have Rs. 10,00,000 as trading capital. Similar calculations can be applied to other trades as well.

Leverage

One of the most common questions we get from traders in our seminars is, ‘How much leverage do you use?’

If you are unfamiliar with the term ‘leverage,’ it means how many times larger than your account size you can trade.

But we don’t bother about leverage because it has zero relevance to risk management.

Assume you have a Rs.1,00,000 account.

You risk 2% of your account—Rs. 2,000—on each trade.

Scenario 1

Your entry price is 1,000 and your SL is at 990.

So how many units can you trade?

Position Sizing = Risk Amount per trade/(Entry price – Stop Loss price)

Position Sizing = 2,000/(1,000 – 990) = 200

Position Sizing = 200 shares

This represents Rs. 2,00,000 (200 shares x 1,000), or in other words, a leverage of 1:2.

Scenario 2

Your entry price is at 1,000 and SL is at 960

So how many units can you trade?

Position Sizing = Risk Amount per trade/(Entry price – Stop Loss price)

Position Sizing = 2,000/(1000 – 960) = 50

Position Sizing = 50 shares

This represents Rs. 50,000 (50 shares x 1,000) or, in other words, a leverage of 1:0.5.

In both scenarios, the maximum loss on each trade is Rs. 2,000, even though you're using different leverages. Why?

Because the leverage you use depends on the size of your stop loss. Hence, don't think too much about the leverage and concentrate on getting proper position sizing using the above formula.

As a simple rule, **don't risk more than 2% of your portfolio on any trade, even if you are using leverage,** and this dissolves many questions related to position sizing and leverage.

Honey, It's All About Money

Position sizing will take care of the risk per trade. However, a trader should have an overall money management plan for his portfolio, which is the make-or-break skill that will impact a trader’s longevity. No matter how technically skilled a trader may be, poor money management can cause all kinds of unforced errors, resulting in account blow-ups. **Even if a trader has an 80% win rate, poor money management on the 20% can wipe out the account. On the other hand, a trader with a 40% win rate can still remain profitable with strong money management skills**.


Image 6.2—Daily chart of RELIANCE (TradingView)

Assume that, after looking at the price near resistance, you take a short position at the closing time of the market. Your plan is to keep the SL above the resistance and your target is the previous swing low. Anticipating a good profit, you will invest 50% of your capital in this trade. However, the next day Reliance shows a gap opening above the resistance line and for some technical reason, your SL order does not trigger. Do you know your portfolio value at the end of the day? With this single trade, your portfolio will be down by over 5.5%!

Along with the 2% risk-per-trade rule, a trader should look at the overall capital allocation per trade. One should not allocate more than 10% of his capital for any trade. Any unforeseen incident like a gap opening or technical issues can make a big dent in your portfolio. When you invest only 10% of your capital per trade, even in the worst case scenario you still have 90% of your capital, which is a necessity for a trader. In the same example of Reliance, you would have lost only 0.55% of your portfolio if you had invested only 10% of your capital.

In addition, total capital deployment may not be required in all the market conditions. For example, if you use a trend following system, there is no need to deploy 100% of your capital when the market index is in a sideways zone. Because most stocks follow market conditions, when you deploy your entire capital in this situation, you end up having more losing trades and a low magnitude of profits. Similarly, if you are a breakout trader, it makes sense to deploy your entire capital when the market is breaking all-time highs or important support levels, because you will end up having more success and the magnitude of your success will be huge.

Chapter 7

Golden Rule of Holding

Whenever we buy a property or gold, we tend to hold it for a longer period of time. Unknowingly, our holding can result in a higher appreciation on our investment. When it comes to the stock market, traders lack the discipline to hold on to their trades until they meet their exit criteria. Constant observation of the ticker can be grossly attributed to such behaviour. When we analyse, we find that the real reason behind such behaviour is a lack of emotional control, not just excessive attention to the ticker. There is a misunderstanding that holding is to be considered by value investors. As a trader, you have to hold until your trade plan says you should exit your position.

In the words of Jesse Livermore, ‘Men who can both be right and sit tight are uncommon. I found it one of the hardest things to learn. But it is only after a stock operator has firmly grasped this that he can make big money.’ This is one of the most important concepts to consider if you are in the phase of breakeven in your trading. If you are in the market and are not making money, then you have to introspect and analyse whether your exit strategy is causing damage to your account. If you are making small profits, can holding give you golden opportunities?

Six Ways to Fix

Fixing A Target for Trend Following and Trend Reversal Systems

As the name suggests, in the trend following and trend reversal systems, you have to hold the trade until the end of the trend. However, retail traders have a tough time holding their positions because they have to fight their emotions. Usually, they are happy with small profits; hence, they are happy to close the trade with a small profit, and they keep a trade that is going into a loss, hoping it will come back the entry price so they can exit their position.

There are many ways to identify the end of a trend—a simple trend line method, based on Dow theory or using any other indicator.

Image 7.1—Daily chart of AURO PHARMA showing the end of an uptrend (TradingView)

If you look at the above chart, a simple trend line can be drawn by connecting the swing lows. The break of this line indicates more troubles are ahead for the uptrend. It would have been good to exit the positions at the break of this trend line, as the price slipped from 825 to 600 rapidly in the next few days.

The only disadvantage of this approach is that the price can show a false breakout from the trend line at times, or the price can continue its uptrend even after breaking the support trend line. However, it is not possible to prevent false wicks in trading. Hence, this is a better approach, providing an early exit.

Image 7.2—Daily chart of NIFTY showing the end of an uptrend (TradingView)

The above chart shows a reversal using Dow theory. Earlier, the price is in a clear uptrend by forming higher lows (HL) and higher highs (HH). However, at the top, it has formed a lower high and a lower low, which confirms the end of the prior trend. Hence, it makes sense to exit when you see a reversal based on Dow theory, as the price fell from 8,600 to 7,900 in a few weeks.

Fixing A Target for Breakout/Breakdown System

In most cases, a breakout trader will follow a pattern to make breakout trades and almost all the patterns have their own method to fix the target. If you don't follow any pattern, then it makes sense to exit partial positions at some levels and carry the rest. This concept will be explained further on. Now, let us see the target for some of the patterns.

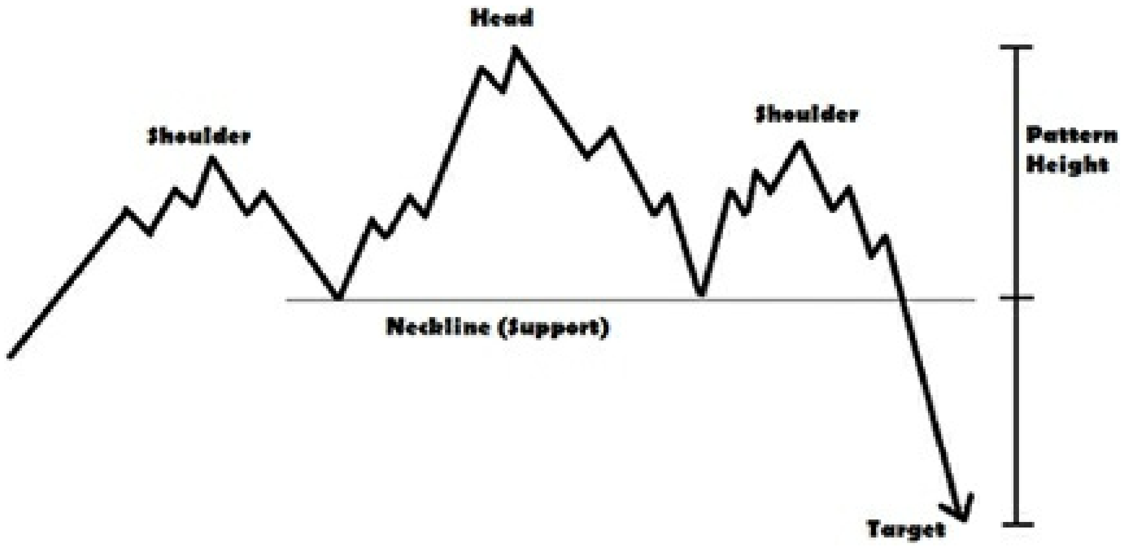

Image 7.3—Head and Shoulders Pattern

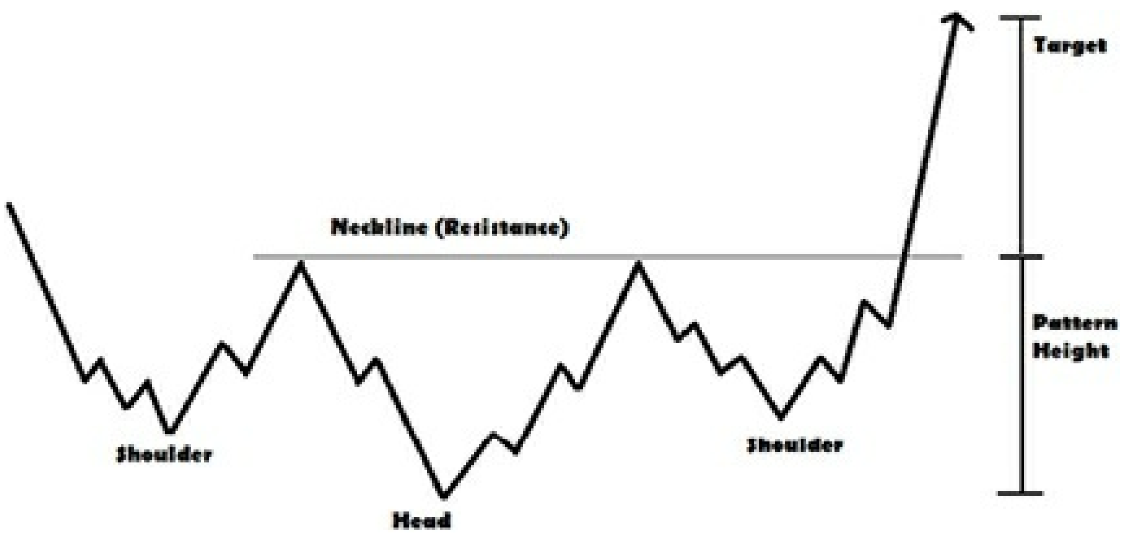

Image 7.4—Inverse Head and Shoulder Pattern

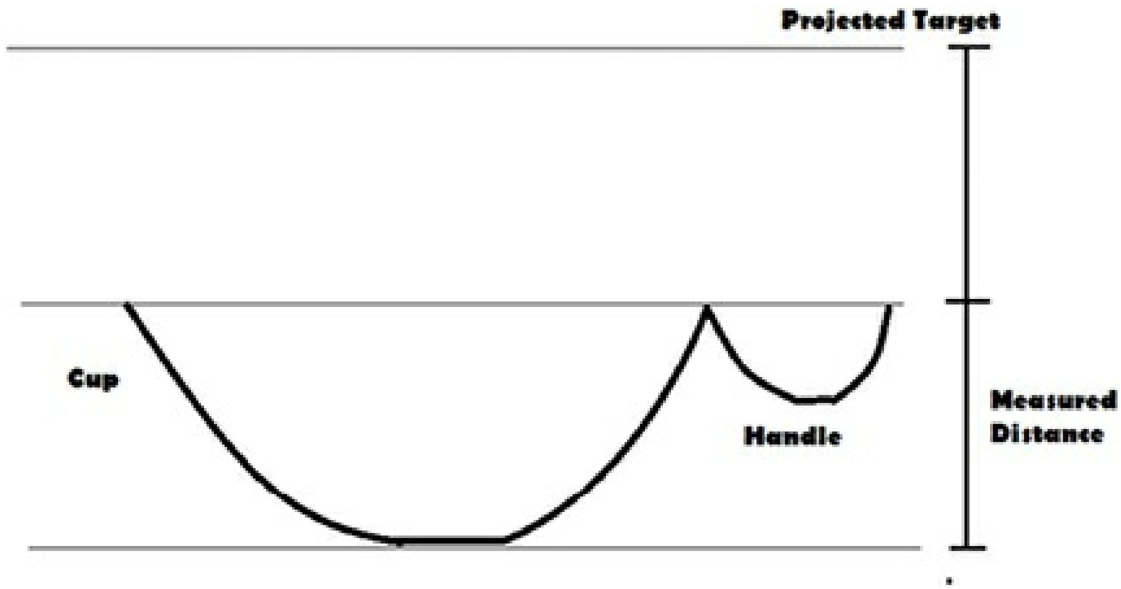

Image 7.5—Cup-and-Handle Pattern

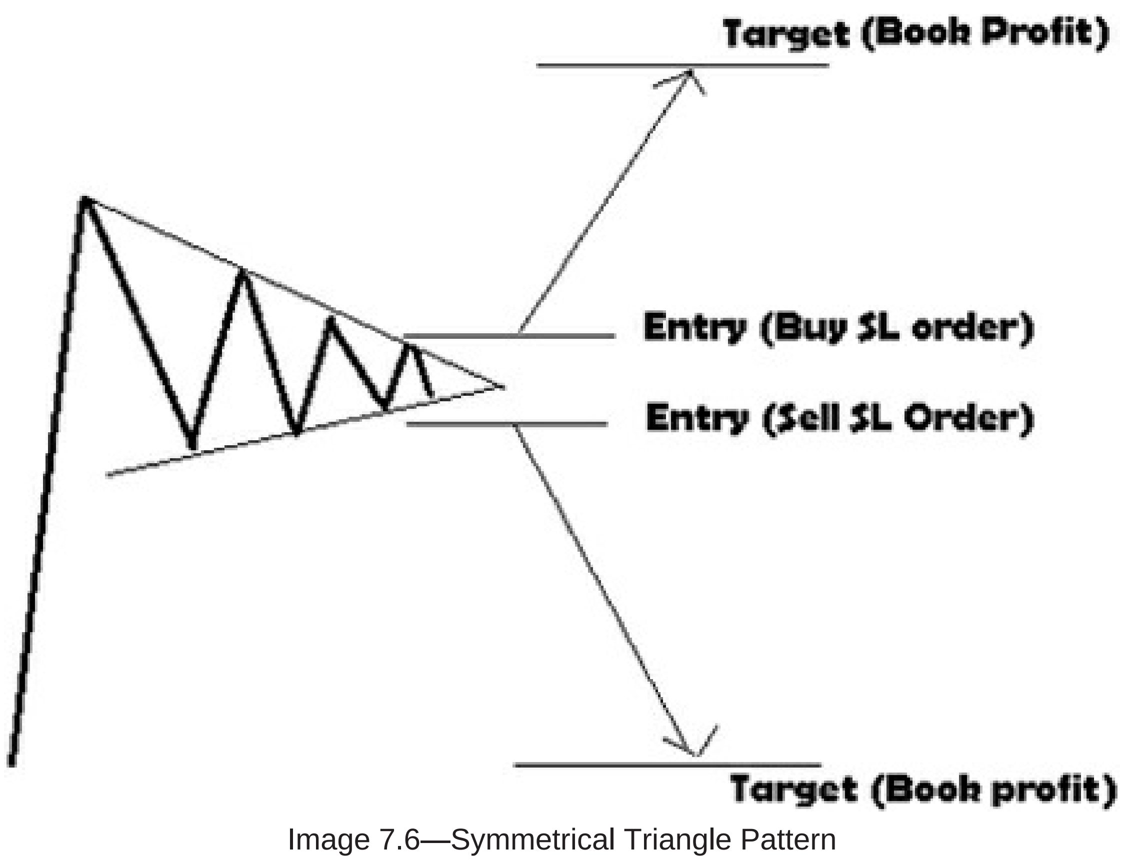

Image 7.6—Symmetrical Triangle Pattern

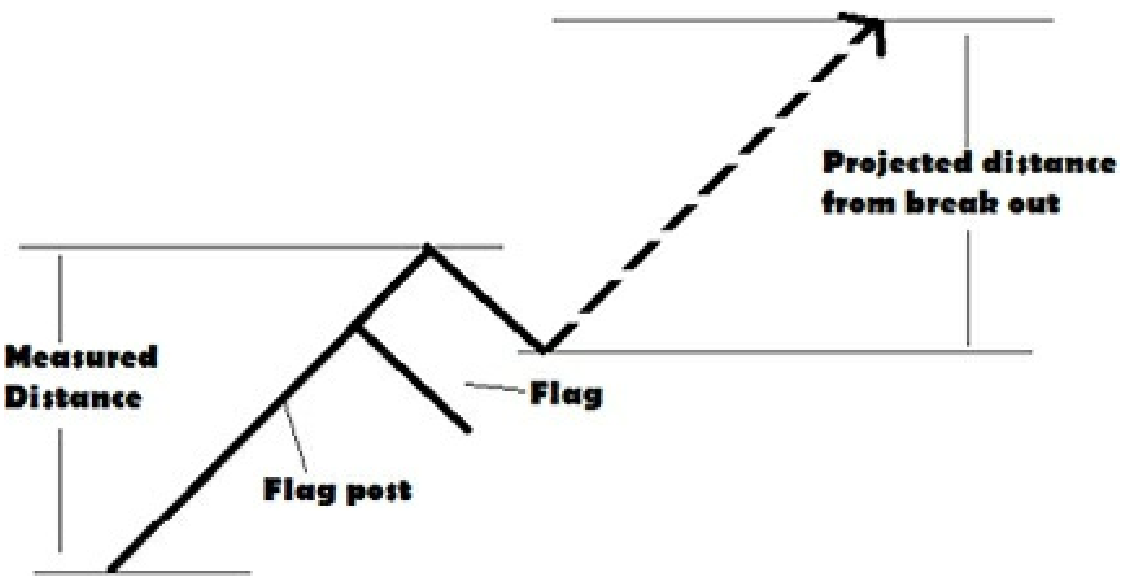

Image 7.7—Bullish Flag Pattern

Flexi-Fixing

As we discussed earlier, there are only 3 major trading patterns, and we will look at the exit plan for each of them.

Breakout System

Usually, you will have a target price point in breakout trading and assume your plan to exit all your position at the target. Then what happens to your overall profit and emotional aspects in the below scenarios?

1) The price trades very close to your target point but does not hit the target, and comes back down to your stop loss.
2) The price reaches your target and moves far ahead in your direction, but you have already exited your position at the target.

How do you feel in both scenarios?

In the first instance, you have lost money, and it impacts your emotions as the price traded very close to your target point.

In the second case, you get a profit, but again it has a psychological impact because you lost a chance to make more profit.

Then what is the best solution to create a win-win situation in both the cases?

The answer is very simple.

Exit some position (either 25 or 50%) at 1:2 risk-reward and some position

(25%) at the target point, and carry the remaining position until you see the reversal signal. You should trail your SL to your entry point once you exit some positions at 1:2 risk-reward.

In the first scenario, you will receive a profit for some position (25–50%), as you have exited this position at 1:2 risk-reward, and you don’t lose anything as you kept the SL at your entry point.

Even in the second scenario, you will get a profit as you have exited some position at 1:2 risk-reward and some position at the target, and you will catch the profit for your remaining position if the price moves far ahead in your direction.

Image 7.8—Daily chart of BHARTI AIRTEL showing the partial exits (TradingView)

Trend Following/Trend Reversal System

Retail traders face a tough time keeping their positions open when they are showing profits. They are quite happy to close trades at small profits. However, according to both trend following and trend reversal systems, one should hold their position until it shows a reversal in the trend. Due to their limited mindset, they will not be able to extract complete advantage of the above systems.

The same partial exit strategy that we discussed in the breakout system will also solve this problem. In the beginning, retail traders can exit 50% of their position at 1:2 risk-reward and they can carry the remaining position with an entry price as the SL until it shows a reversal in the trend.

Traders can carry less position (10-25%) if they still face emotional problems with carrying their remaining 50% until the reversal. In this way, they develop the habit of holding their positions to extract maximum benefits. Once they see the profits, and after gaining control over their emotions, they can increase the position size to carry until the reversal.

Image 7.9—Daily chart of ADANI PORTS showing partial exits (TradingView)

Be Glad, It’s Not so Bad!

When you hold a stock that is in an uptrend, it is very common that you will hear a lot of negative sentiments about the stock. Analysts will say there are low chances of growth, that the current economic situation may not be suitable for this company, and they might conclude that the price will not go up from here. The challenging thing is holding your profitable trades when you hear this kind of news about your holding.

Case Study 1

Jul 26, 2017 09:35 PM IST | Source: [redacted]

Rs 909-cr exposure to Essar Steel spikes HDFC's non-performing assets

Keki Mistry said HDFC will file the red herring prospectus for HDFC Life IPO by October and aims to launch the issue this year itself

Image 7.10 (a)—News heading on 26/07/2017 from a financial website

Jul 26, 2017 07:35 AM IST | Source: [redacted]

HDFC Q1 profit seen down 7% to Rs 1,734 cr but net interest income may increase 15%

Analysts said if net interest margin comes above 3.75 percent (4.1 percent in Q4FY17), AUM growth above 15 percent (16.1 percent) and gross non-performing assets below 0.9 percent (0.79 percent) then that will be positive.

Image 7.10 (b)—News heading on 26/07/2017 from another financial source

If you look at the above news, it shows huge negative sentiments on the HDFC script on 26/07/2017, but look at what happened to this script after 26/07/2017:

Image 7.10 (c)—Daily chart of HDFC showing 10% move (TradingView)

Case Study 2

Jul 27, 2017 08:43 AM IST | Source: [redacted]

Dr Reddy's Labs Q1 profit growth may be over 2-fold on strong operational numbers

Revenue is seen rising 4.6 percent year-on-year to Rs 3,383 crore in June quarter, according to average of estimates of analysts polled by CNBC-TV18.

Image 7.11 (a)—News heading on 27/07/2017 before market open from a leading financial source

Image 7.11 (b)—Daily chart of DR REDDYS LABS showing 10% move (TradingView)

Again, if you look at the news, people had positive hopes for Dr. Reddy’s on 27/07/2017. But it fell around 3.7% on the same day, fell over 13% in just 4 trading days and the total fall is over 26% in just 11 trading days.

So a trader should trust the conviction that he developed from his study and hard work, and he should not consider people’s opinions while holding the trade. If you are in a trade, if the crowd is with you, then you might get comfort, but you can’t make money as over 95% of the people lose in the market. So you have to choose between **Comfort** and **Profit**. Which one do you choose?

Chapter 8

Journey with the Journal

Importance of the Journal

The main reason traders fail is due to a lack of experience. All traders go through a long learning curve as they transition from novice to professional. In fact, making mistakes is an important part of the learning process. The key to becoming consistently profitable is to minimise how often mistakes are repeated. If you want to be a professional trader, you must develop a strategy to avoid making the same mistakes over and over and constantly develop your skills.

The best way to speed up your learning curve is to keep meticulous records using a trading journal. A trading journal is like a diary, keeping a record of each trade. Over time, it will identify frequently committed mistakes. A mistake can have many sources—emotional, human error, trading system mistakes, etc. Hence, a trading journal will also improve your efficiency, help you master your emotions, identify the trade setups that are most profitable for you and give you a framework to improve your profitability.

The business of trading is filled with some of the brightest minds in the world. These veteran traders have 10, 20 and 30 years of experience trading in the markets. How do you beat them? Trade to trade well and the money will follow. A trader might think that keeping track of every single trade idea, decision and outcome are tedious, but it will definitely help in trading consistency and long-term profitability. A trading journal will also improve your efficiency, help you master your emotions, identify the trade setups that are most profitable for you and give you a framework to improve your profitability.

A famous trader, Toni Hansen, said, ‘One of the very first things I stumbled upon as a key to my success as a trader was the importance of keeping a trading journal. In this journal, I tracked each of the trades I was taking from a technical standpoint, and it led to the unique system of market analysis that I use to this day.’

She continued, ‘As I studied, analysed, and reviewed my journal over the years, paying particular attention to each of the charts I printed out for the trades I was taking, something began to stand out. I noticed that there were many times throughout the trading day where the market had a greater propensity to stall, reverse, or even just break out from a trading range, than during other times of the day. I began to realise that when I started to take positions and exit positions with strategies triggering in tune with these intraday periods that my overall success was substantially higher.’

Keeping a trade journal is similar to a professional cricketer reviewing his recorded games. Too often, there are details and plays missed when simply trying to recall a game from memory, so watching a play-by-play tape can reveal crucial strategies or tendencies that can lead to improvements. Whether it’s football, basketball or even performance sports such as gymnastics, elite athletes often refer to tapes to analyse their performance and figure out what they need to work on.

A well-thought-out and detailed journal is a massive help for traders who are serious about the trading business. Without a trading journal, you have no idea how you have performed over a period of time. You will remember only the last few trades, but a well-maintained trading journal can show you many things you would never pick up on otherwise.

When reviewing a trade journal, you can monitor the common mistakes you make and take specific steps to avoid them. For instance, you may notice that you are trailing your SL too early due to fear of losing your profit. Once you realise this, you can trail your SL properly on the next trade. If you notice that entering trades at the market makes you more nervous and uneasy with your trading decisions, then you can make it a point to go for limit entries on your next trades to ensure that you have a better and more relaxed trading mindset.

Contents of a Journal

A trader should try to record the maximum information with respect to the trade. However, the details below must be recorded in a trading journal.

1) Script Name.
2) Entry Date.
3) Entry Price.

4) Quantity.
5) Entry Reasons.
6) Planned Stop Loss.
7) Planned Target.
8) A screenshot of the script before entry.
9) Trade type—Long or Short.
10) Exit Date.
11) Exit Price.
12) Exit Reasons.
13) Total Profit/Loss.
14) A screenshot of the script after exit.
15) Mistakes or Learning from the trade.

Script Name: The particular security traded. This can be equity, derivative or a currency pair.

Entry Date: This is self-explanatory; the date you entered the trade. If the order got filled, the date you got filled is what you want here.

Entry Price: Your entry price of the trade.

Quantity: Your position size on the trade, or the number of micro/mini/standard lots being traded.

Entry Reasons: What was the setup/Why did you make the trade? Did you trade a with a valid price action trading strategy?

Planned Stop and Planned Target: You will put your pre-determined stop and target prices in these boxes. It’s very important to pre-define your stop level and target level. If you have pre-determined that you will trail your stop, you can just type something in this box describing your trail method, for example, you might enter, ‘Trail stop each time price makes a new swing low/high.’

Trade Type: Here, you enter whether you bought or sold.

Exit Date: Again, this is self-explanatory; the date you exit the trade.

Exit Price: What price did you actually exit the trade at?

Exit Reasons: What was the reason for your exit? Trail SL Hit? Target Achieved? Mention the reasons.

Total Profit/Loss: How much total money you made or lost on the trade.

Screenshots: Attach screenshots before and after the trade. This is very useful when you analyse the trade later.

Mistakes or new learning: Document whatever you learnt from this trade. It can be identifying a mistake or a new thought about the trading or anything else.

Script Name	Entry Date	Entry Price	Quantity	Entry Reasons	Planned SL	Planned Target	Screenshot Before Trade	Trade Type Long or Short	Exit Date	Exit price	Exit Reasons	Total P/L	Screenshot After Trade	Mistakes /Learning

Image 8.1—Trading template Sample

Periodic Review of the Journal

Creating a trading journal and writing all the trade details is only the first step. You have to review your trades regularly—either once a week if you are a day trader or once in a month if you are a positional trader—to identify your common mistakes. Maybe you make most of your money before lunch. A great deal of information can be gathered by looking through your past performance. You can then use this information to refine your trading strategy, focusing on more profitable strategies.

Look at where you have entered and where you have exited the trade. Could you reasonably have improved these points based on the information you had at the time? Be very honest here. You will want to assess whether or not you followed your trading plan in a disciplined manner. Also, if you can, perhaps see if you can find other signals on the charts or indicators that you can incorporate into your trade plan in the future.

Many traders suffer profitability issues even after developing a successful trading system on paper or after backtesting the strategy because they allow their emotions to creep into their trading decisions. This can lead them to override the otherwise clear implications and signals of their tested trading system and adversely affect results. Taking the time to analyse your trading journal is one of the best ways to attain success as a trader.

You have been recording your trades in your trade journal, your trading has been improving, but it could still use some tweaks to make it better. Now that you have all your trades recorded, finding outside help will be easy. A peer group or a mentor will be able to look through your trade journal and find patterns that you may not have discovered.

Traders can ask the following questions if they find it difficult to discover their mistakes:

1) Did I follow my rules?

2) Was the entry price correct?

3) Did I take all valid setups?

4) Did I hold to my targets?

If you are bluntly honest and diligent in keeping your trading journal, you will never struggle to systematically develop strategies to improve your trading profitability.

It doesn't matter if you use a paper and pen, Excel or other software to keep your journal. The important part is that you keep a trade journal. Journals will allow you to review your past and current trades, look for trends and patterns and keep your emotions in line.

Taking the Journal to the Next Level!

This concept is highly advanced and applicable to all trading types. Anybody who is serious about trading or wants to consider trading for a full-time profession must read and follow it, as it will bring self-realisation and fine-tuning to your trading. This concept is explained from an intraday trading perspective and can be expanded to all other trading types.

Intraday traders record their trades in their trading journal almost every day, as they make at least one trade per day. Usually, all intraday traders make their trades either in indices or in a few market leaders. Now open your journal and verify the last 10 trades. After looking at all the trades, open the chart and see what happened in those 10 trades.

Case 1

Assume your first trade was a long trade, but the price hit your SL and then traded downwards. Now, don't feel happy that you had kept the SL and hence saved a big loss. Ask yourself, what were the reasons for you to make a long trade in this script when the price was set to fall (because the market is supreme and it traded in the opposite direction of your view)? You may not find all the logical reasons for one trade, but if you analyse some more similar trades, you will get a clue.

If you now understood what was happening in the market and where your analysis had gone wrong, not only will you avoid the trade, but you will also make a trade in the right direction and make money.

Case 2

Imagine you were able to catch 2 good trades in a week on an index and you have avoided any trade on other days. Now, you might be thinking that you are a highly successful trader and there is nothing left to learn. This kind of thinking will block your further growth as a trader. When you get this thought in your mind, it is confirmed that either you will continue to make the same amount of money or you will make less money, as you cannot grow from here.

Now open the chart of the week in which you made 2 trades. You did a decent job by picking 2 successful trades in 2 days this week. Look at the intraday chart of the remaining 3 days in the same week. Did you spot some good moves (either on the upside or the downside) on those 3 days? I am sure the probability of finding another 2 or 3 good trades (which gave big moves) is very high, unless that week contained small, range-bound days. Now ask yourself, why did you miss these trades?

Case 3

Image 8.2—NIFTY 15-minute Chart (TradingView)

Now we are digging into higher levels of trading. The above image shows a

15-minute intraday chart of NIFTY. For a moment, assume you will make a long trade after seeing a false breakout of the low of the open candle and after seeing a small hammer (or Doji). Your buy entry is above the hammer candle, and your SL will be under the low of the hammer candle. You will be in the trade in the next candle, and the price starts trading in the upside direction.

After some time, you will trail the SL to the next swing low. However, this time the price just kisses your SL and goes up again. Initially, you will feel bad, but after some time you will console yourself that you made an attempt and got at least partial success. But again, you miss a very important lesson here. Look at the explanation below to learn the important lesson:

Entry price	: 10,155
Original SL	: 10,138 (so total risk is 17 points)
Your Exit price (at trail SL)	: 10,183.5 (so total reward is 28.5 points)

So in this case, total risk-reward is only 1:1.6.

Now suppose you carried this trade till close, and the closing price is then 10,233. This indicates a profit of 78 points (for a risk of 17 points).

In this case, total risk-reward is 1:4.6.

To illustrate this example, if you invest Rs. 10,000 with an RR of 1:1.6, you will make Rs. 16,000 (ignoring brokerage and taxes), and with an RR of 1:4.6, you will make an astonishing Rs. 46,000.

Case 4

Image 8.3—NIFTY 15-minute Chart (adding positions) (TradingView)

Do you think the explanation in Case 3 is the end of learning in trading? Definitely not. There will be something to learn as long as we live on this planet or as long as the market exists. Then how can we improve our results for the same trade setup? We had one entry after the third candle, and if you look at the 6th and 7th candle, they together represent a bullish harami candlestick pattern just below the day high (at the 6th and 7th candle, the day high was 10,170), which is a bullish indication. You can add the same position above the bullish harami candle and keep the SL below the low of the bullish harami (for overall positions).

Now after this, the price broke out of the range and traded at higher levels. Do you remember that a small correction is always good when the price is trading higher and higher? Do you also remember about the pyramiding positions theory, explained by the world famous trader Jesse Livermore? According to this theory, we can add position again, if the price has a healthy correction and candlestick confirms the reversal.

If you look at the third entry point, there is a small correction, followed by a bullish engulfing pattern. In this case, we can add position again above the high of the bullish engulfing, and we keep the SL below the low of bullish engulfing (for the entire position). In this way, we can carry our position until the end of the day. In this process, if the price hits our SL at any stage, we end up making a breakeven trade (no loss and no profit) or a small profitable trade. However, if the price closes at the day high, then we will make a killing!

Trade Explanation:

First Entry	:	10,155
SL	:	10,138
So Total Risk	=	17 points
Second Entry	:	10,162
SL	:	10,150
So Total Risk	=	12 points in this entry + 5 points from the previous entry = 17 points
Third Entry	:	10,200
SL	:	10,183
So Total Risk	=	17 points in this entry + Risk from Second Entry + Risk from First Entry

But at the moment, there is no risk from the first entry, the second entry price is already trading above its entry level and the current SL is above the first and second entry points.

Hence, Total Risk = 17 points in third entry – 21 points [10,183 – 10,162] – 28 points [10,183 – 10,155] = –32 points (or 32 points profit)

We will get 32 points of profit, even if the price hits our SL during the third attempt and our risk-reward is still close to 1:2.

But what will our risk-reward be if price closes at the day's high?

The close is at 10,233, so profits can be calculated as below:

Profit from Entry 1 = 78 points

Profit from Entry 2 = 71 points

Profit from Entry 3 = 33 points

So total profits = 182 points.

But did you notice, our risk didn't exceed 17 points at any time?

This means that with a risk of 17 points, we generated 182 points profit. This is whopping 1:10 risk-reward trade!

Please note, pyramiding should be done with high-probability setups and a trader should not get confused with averaging. Pyramiding is exactly opposite to averaging.

Chapter 9

Mind Shift—Average Employee to Successful Entrepreneur

Trading vs Small Business

Even though the rapid change in the economy is giving opportunities to generate income via various business opportunities, many are not able to set up small business against the odds. This phenomenon makes people choose self-employment or start small businesses. To start a small business in any city in India, you need at least Rs. 10,00,000. Let us have a look at various aspects to be considered for comparing setting up a small business to trading.

Cont'd...

Aspects To Be Considered	Small Business	Trading
Nature of Business	Varies	Buying and selling shares, Commodities
Location and Infrastructure of Business	Building is owned or rented, modified to suit the nature of business; Machinery	Can be carried out from anywhere just using a laptop and internet connection
Manpower	More than 2	Can be handled alone
Raw Material or Supply Chain Management	Involves difficulty at each level, depends on nature of the business	Not applicable
Production or Service	Depends on supply and demand	Handled via broker

Management		
Sales and Marketing	Different types	Not applicable
Legal aspects and government policies	Affects the business cycle	Majorly taken care of by broker/ compliance team
Scalability	Needs additional resources depending on the scale of expansion	Easily scalable to 10x with the same infrastructure

In the competitive world, the profit margin for small business has been coming down over the years and on average stands at 15% per year. That means Rs. 1,50,000 returns on a capital of Rs. 10,00,000. On a monthly basis, that comes to Rs. 12,500. Does this amount justify you taking all the associated risks?

Because of automation and policy reforms, job losses are common. In the era of unemployment and looking at the simple process of starting a trading business, people are jumping into trading. Is it possible to beat the experts in trading without proper business management skills?

Trading as a Business

The majority of small businesses are owner-centric and require his/her physical presence to run the show. In case the owner is absent for a long time, the probability of the business taking a hit is high. Once attached to a business, the person will have less time for other activities and will be submerged in the day-to-day operations of the business. Once it is set up in a particular location, moving is capital-intensive and affects the business. Achieving financial freedom by owning a small business takes more time if the business is not expanded. Even though the owner may have gained enough knowledge and expertise, scaling up the business is not so easy. It takes more time to address the barriers such as an increase in resource requirement and capital expenditure.

Initially, trading appears to be owner-centric. However, the process can be streamlined over the period to manage the trading business. Infrastructure costs are way lower, compared to any traditional small business. Even if a trader decides to do it all by himself, he is left with ample time to enjoy himself, as his operations are linked to the time when the market operates. If he feels like changing the location of his trading, it's a matter of choice and hassle-free. To increase the turnover or to scale up his business from 1 to 10 times, he does not necessarily spend a considerable amount on infrastructure and other expenses. Achieving financial freedom can be fast-forwarded if market conditions favour his trading plans.

Looking at the three-dimensional aspects of money, location and time, the trader scores high compared to the small business owner. This particular aspect of achieving three-dimensional freedom is encouraging many to choose to trade as their business.

Worship Your Ownership

'Man must cease attributing his problems to his environment, and learn again to exercise his will—his personal responsibility.'—Albert Einstein

'A sign of wisdom and maturity is when you come to terms with the realisation that your decisions cause your rewards and consequences. You are responsible for your life, and your ultimate success depends on the choices you make.'—Denis Waitley

'It is a painful thing to look at your own trouble and know that you yourself and no one else has made it.'—Sophocles

What is the common thread between the above statements?

You are totally responsible for your life. To many people, everything is someone else's fault. Every problem can be explained away with reasons why they can't affect the situation or the outcome, especially at work. By taking responsibility for yourself and only yourself, you become aware of the true connection between your inner and outer world. You are the one and only creator of your life. There is no one else to blame for what your life is. When we take responsibility, we take back control of our experience.

It is interesting to see how our subconscious mind comes up with excuses and is not ready to take responsibility for its actions. Some of the excuses are:

1) I have to do more work at the office, no one is cooperating in my team.

2) I don't get time due to traffic.

3) My boss can't understand anything, and I am having a tough time dealing

with him.

4) My spouse doesn’t understand the importance of money.

5) My parents don’t agree with me.

6) I don’t have a sufficient education background.

7) I don’t have the necessary experience.

8) I didn’t get time as I had to attend some functions.

Are you someone who uses any of the above (or similar) excuses for anything in life? Then perform the below task and think about whether it makes sense.

Take a sheet of paper and list down all your excuses and problems in your life. You should not miss any excuse or problem in your life. Once you are satisfied that you have listed all your excuses and problems, fold the sheet and visit the nearest supermarket or provision store. Buy only one lemon and try to pay with that paper, instead of cash or a card. Do you think the cashier or store person will accept your list of excuses and problems? Obviously not. Because your excuses and problems are not even worth Rs. 2, so why are you trying to sell your worthless excuses and problems for every incident of your life?

So from this moment on, stop making excuses for everything in your life, take responsibility for your actions and you will definitely see a different life, where people treat you differently and you automatically gain recognition. If you are still doubtful, take this challenge for the next 24 hours. Don’t offer any excuses or reasons for anything in your life (even in your mind) and see how you regain your power.

The most important aspect of taking responsibility for your life is to acknowledge that your life is your responsibility. No one can live your life for you. You are in charge. No matter how hard you try to blame others for the events of your life, each event is the result of choices you made and are making.

Now think, only people who work at some place can give excuses. Generally, the excuse is indirectly proportional to your growth. If you give more excuses at work, then you will definitely get less growth and vice versa. Look at all the successful people in the world; they don’t give any excuses at any time. They take responsibility for their actions, which separates them from the rest of the crowd.

If you are satisfied, plan the following activities:

1) Make a list of things you want to achieve in your life in descending order, from the highest priority task to the lowest priority task.
2) List all resources required.
3) Write down your problems or dependencies.
4) List how you can eliminate these problems and dependencies.
5) Think about how you would help someone if any of the dependencies in their life were because of you.
6) Start executing all the tasks from top to bottom.

Unlock the Mind Block

Focus

For most people, trading seems to be a bunch of red and green flashy numbers and charts with little or no actual meaning. You should see your trading account as no different than a business investment. The sooner you realise that it requires the same focus necessary to run a business, the sooner you can expect to see a positive gain from it. One of the most important steps to long-term trading success is getting organised and focused.

There are 4 ways to improve your trading focus:

Prepare Smaller Watch Lists

Let's face it, we all have those days where our watch list is too long to even remember. Whenever the market was doing well, we loaded many scripts on the watch list. Unless you have some superpower, there is no way you can keep track of all the stocks on your watch list. If you chase 2 rabbits, you don't get anything. When you have a big watch list, you dilute your power as a trader. Hence it makes sense to keep only a few scripts on your watchlist so that you can give them your complete focus.

Define Your Trading Style/System

We need to accept that nobody will be able to catch all moves in the market. Hence, we should have a trading system that is capable of capturing just the big moves with high probability. You don't need to be a jack of all trades to make money. You simply need to master one trading style and constantly improve it. Recall the famous quote by Bruce Lee: 'I fear not the man who has practised 10,000 kicks once, but I fear the man who has practised one kick 10,000 times.'

Deploy Less Technical Indicators

If you recall our earlier explanation, all indicators are derived from price (and volume in a few cases), and there is not much benefit to using too many indicators in your trading. What is the benefit if your RSI shows buy signals but the MACD shows sell signals, and your 50 EMA shows breakout characteristics? Simplify your trading approach and remove unnecessary technical indicators.

Zero Information Diet

A food diet is good for your health. Similarly, an information diet is good for your trading. News will always have an adverse effect on your trading. 'If John says to buy, but Ryan says to sell, what do you do?' Hence, it is better to concentrate on your trading approach. Because if you follow the Masses, sometimes the 'M' is silent!

Discipline

To become a successful trader, you need to keep your emotions in check and should have the discipline to follow your trading plan.

It looks simple in theory, doesn't it?

But do you know why any trader has a tough time with discipline and makes trades out of his trading plan?

The reasons are pretty simple and straightforward:

Fear Of Losing An Opportunity

This is caused by the greed factor, which is stored in your subconscious mind. This is a big problem, especially for new traders, as they want to capitalise every big move on all scripts. An expert trader knows that it is impossible to capture all the big moves in all the scripts, and hence he concentrates only on his trading system to make his trades.

We all should know that the market will be there forever and good opportunities will always occur. Hence, it is better to sharpen your trading edge by improving your trading system and to make trades based on your trading system, instead of worrying about a missed opportunity in a script.

Lack Of Confidence In The Trading System

Many amateur traders pick a trading concept from a book or from a YouTube video and directly start making trades based on the concept. They will not even try to understand it. Because of their partial knowledge of the concept, they can visualise a trading opportunity in most scripts, and hence start making trades.

The antidote for a lack of confidence in your trading system is complete and extensive research. In addition, you should also perform complete backtesting of your system in a different time period and in different market conditions.

Boredom

'There is time to go long, time to go short and time to go fishing. A good signal jumps at you from the chart and grabs you by the face—you can't miss it. Amateurs look for challenges, professionals look for easy trades. Loser gets high from the action, the pros look for the best odds.' – Jesse Livermore

'I don't trade for excitement, I trade to win.' – Larry Hite

These 2 quotes from some of the biggest traders indicate that, even in the stock market, there will not be any opportunities sometimes. It is better to stay away from the market during this time.

If you want excitement or thrill, try bungee jumping, skydiving or a casino, but avoid the stock market. It will save you a lot of money and time.

In fact, every trading opportunity is boring to an expert trader. Because if you are managing the risk and adhering to your system with a minimum 50% success ratio and 1:2 risk-reward, then you will always be profitable in the long run. Where is the excitement in this process?

Forcing A Trade To Earn A Minimum Amount Every Day

Some people think they are quite smart and develop a plan to earn some minimum money every day, irrespective of market conditions.

This is not a good idea, because you are not laying bricks at a construction site—you are trading markets!

It makes sense to take the complete benefit of a trading opportunity (instead of exiting at some profit) and to avoid trades if you can't see any opportunity in the markets.

Persistent Effort

No matter what you do in life, there will be times when things don't go according to the plan, and you feel everything is working against you. This is the time when persistent effort plays an important role. One should move on with whatever goal has been originally planned, even though an external event or initial losses may have slowed down or temporarily halted them on the way to achieving their goals.

Steve Jobs provides an excellent example in this case. He had been with Apple for many decades, continuing with work despite suffering from ill health, and he made Apple one of the most successful, innovative and popular companies in the world.

Most traders expect to become successful quickly and with minimal effort. This is not going to work. Just like Steve Jobs, you must stick with trading (or a trading system) for the long-term and avoid the tendency to view things from a short-term perspective. This is the true reality of success.

Chapter 10

I Wish I Had a Mentor

As defined in the dictionary a mentor is an experienced and trusted adviser. Let us consider a hypothetical scenario: You are driving on a highway and you have some issue with your car. You are constantly struggling to apply all your knowledge to solve the problem. While the situation appeared to be a nightmare, one gentleman stops by, who is incidentally an expert mechanic. He asks a few questions, observes the problem and bingo, he not only gives you a solution but also demonstrates how he solved the problem. Yes, this is exactly how a mentor contributes to bringing you out of the hurdle and sets up a new path that you can travel with ease.

In every part of the world, mentors have an immense contribution to learning a subject. There is a high probability that knowledge learnt may be applied in the wrong way. The result of the wrong application causes a blockage in your progress. A guru, or mentor, would have applied the knowledge, tweaked the steps on his way to success and gained immense expertise. He will be willing to help other committed people who seek the solution.

Excellent Accelerator

I know everything! Many of us feel that we have the immense knowledge to be successful. We keep applying strategies or methods that we feel should work great. Ironically, most of the time we are proved wrong by the external environment. Internal ego still abides us in trying out new methods that have yielded results. If we closely observe, seeking advice and guidance is considered an identity threat to people with failure stories. Sometimes, going to a mentor is considered more of a financial burden than a righteous investment. The do-it-yourself approach costs more time and investment than following the leader. So it’s time to set aside your ego and open your mind like a parachute to protect yourself from the fall.

Par excellence is the aim of any goal-oriented person. If you have a dream to achieve a certain amount of money in trading by your own methodological efforts, it may take a considerable amount of time. What if the mentor can reduce the time required? In the process, your journey has been accelerated. This is the exact context where your mentor is an excellent accelerator in your journey.

Some people seem to think that traders, or any entrepreneurs, don't need mentors. However, a mentor plays a big role at all stages of your career, especially in the early days. A specialised mentor challenges the way you think, as they have seen more of the world than you have. They would have solved more problems innovatively from a long time ago.

Sometimes, a small piece of advice from the mentor can change your thinking forever. One such 'Aha!' moment can lead to better results than one year of hard work. One of the biggest obstacles to hiring a mentor is your own pride (or arrogance). Remember, almost all successful people will have an open mindset and, like it or not, they will have mentors.

Tipping Point/GPS

'An investment in knowledge pays the best interest.'—Benjamin Franklin

The majority of problems are caused by the limitations of our thinking. What limits your mind? Can one enhance that limit? Yes, beyond-the-limit thinking requires constant upgrading of the self, and this costs both time and money. Association with a mentor can help you drastically reduce the time required. Remember, the best investment in the world is investing in oneself.

The famous mystic Sadguru Jaggi Vasudev, while explaining the importance of a guru, says, 'If you drive in an unknown terrain, you use GPS, and a strange woman will tell you, "take a left," and you take a left, and she says, "take a right," you take a right—why? Simply because you are not familiar with the terrain; when you are in an unfamiliar terrain it is sensible to take instructions.' So, be it trading, investing or any new business, it is better to have a mentor or guru who can guide us in the right direction.

Some of us are very smart and think we will make some money in trading (or any other business) first with the available resources and capital, and will then hire a mentor. This is similar to a farmer who waits for the returns or profits first, instead of investing his money and effort on buying seeds and fertilisers and planting the seeds. He has to first invest in all these things, and only then can he expect some returns. However, in the real world, we are quite comfortable to commit this mistake in all aspects of life.

In his book *Tipping Point*, Malcolm Gladwell narrated how little things can make a big difference. Many traders think that whatever the mentor says is freely available in the public domain. The guru will simplify the process, pick and provide only the necessary information and will help connect all the dots to get a clear understanding. In various areas, successful people have highlighted the importance of having a mentor. This is how the Guru Positioning System has helped famous people.

The Berkshire-Hathaway CEO, Warren Buffett, mentored Microsoft co-founder Bill Gates. Gates admits that over the years, he has turned to Buffett for advice on various subjects, and has often referred to Buffett as ‘one of a kind.’

Oprah Winfrey was mentored by celebrated author and poet, the late Maya Angelou. She said, ‘Mentors are important, and I don’t think anybody makes it in the world without some form of mentorship.’

Steve Jobs served as a mentor to Facebook CEO Mark Zuckerberg. He posted on his Facebook page, ‘Steve, thank you for being a mentor and a friend. Thanks for showing that what you build can change the world. I will miss you.’

Virgin Group co-founder Richard Branson has personally benefitted from a mentor-mentee relationship. ‘I wouldn’t have got anywhere in the airline industry without the mentorship of Sir Freddie Laker,’ Branson has said.

Because of Jim Rohn’s mentorship, Tony Robins is able to create a new vision for his own life and has impacted the lives of millions of people.

The biggest advantage of having a mentor is that you will get direct access to his network. One of Jim Rohn’s famous quotes is, ‘You are the average of the 5 people you spend the most time with,’ and by having a mentor you will spend at least 20-25% of your time with the mentor. This will automatically help you pick up qualities from your mentor that will be useful to be successful in your business. Your mentor gives you relevant information and sometimes sponsors you for events. Most importantly, if you are disciplined and a quick learner, then you might also get an opportunity to work with your mentor in a partnership arrangement, because most successful people conduct mentorship programmes or training programmes to figure out a second-level leadership team to can expand their business.

Manage Expectations and Build Trust

Mentoring takes time and implies sacrifices for both the mentor and the mentee. Avoid any trust-breaking behaviours such as cancelling appointments or not following through on leads and contacts given to you by your mentor.

Acquire Mentoring Skills and Competencies

Pay attention to great skills that you notice in your mentors. These skills include listening, guidance, recommendations and wisdom. When you receive corrective feedback from your mentor, don't be defensive. Remember that your mentor is offering feedback, not criticising. Stay positive to listen and digest, and take immediate steps to apply what you have learnt.

Be Respectful of Your Mentor's Time

Do not overburden him by demanding too much time or too many contacts. Understand that the moment you decide you need information might not be the best time for him, so be patient.

Be Innovative and Creative

As a mentee, one should offer ideas to the mentor on what activities and exercises you can do together. In response to that, the mentor will share his ideas, give advice and be a resource for new ideas.

As people come from diverse backgrounds and experiences, it's prudent to get to know each other on an individual basis, so that the mentor-mentee relationship becomes a tipping point in your journey.

Paul Tudor Jones

'Black Monday' refers to 19 October 1987, when the Dow Jones (DJIA) lost almost 22.6%, or over $500 billion in a single day. Due to this event, this day is notorious in financial history. By the end of the month, most major exchanges had dropped by more than 20%. Immediately after the crash, the Federal Reserve itself decided to control the situation and reduced short-term interest rates to prevent a recession and a banking crisis.

When the whole world is suffering from these losses, Jones was not worried about this fall. In fact, his future fund registered an eye-whopping 62% return! To make things tougher, his fund gave triple-digit returns consecutively over 5 years with very low equity retracements.

Jones started fund management in September 1984 with a total fund of $1.5 million. Within a period of 4 years, his fund has grown over 1,748% (over 17 times), and he was managing $330 million.

When Jones was in college, he read an article on Richard Dennis that left a big impression on him. He decided that trading was the best job in the world and sought out his uncle Billy Dunavant's help to start his career in trading. His uncle sent him to Eli Tullis, a famous cotton trader.

Eli Tullis was the mentor of one of the greatest traders and investors in the world, Paul Tudor Jones**.** Only he can trade position sizes of 3,000 contracts in the cotton market when the entire market's open interest was only 30,000. His even temperament and attitude impressed Jones. This helped Jones control his emotions and temperament when he reached great heights.

Tullis taught Jones how to manage and exit big positions. Because when a trader trades big, he has to get out when the market allows him to get out, and not when he wants to get out.

Interviews

Surabhi Chauhan

Introduction

Surabhi Chauhan is one of the youngest female traders and fund managers. She started trading and investment activities at the age of 17. She has worked in big organizations like J.P. Morgan, Kotak Securities and Alchemy Capital Management before starting her own venture under the name of 'Wonderstocks.' (https://wonderstocks.in/)

She is active on Twitter and Facebook under the names of 'wonderwoman991' and 'wonderstocks,' respectively.

How Did You Start Trading?

After my 12^{th}, I decided to move to Mumbai to pursue my graduation from St. Xavier's College (one of the best in India). In my first year of college, I got an internship in a Forex broking firm. After my good performance during the internship period, the MD gave me an offer to work as a Forex dealer on a part-time basis. I accepted it and, after a few months, he was happy enough with my progress that he introduced me to the world of equities. Initially, he would give me a list of companies to study and analyse and made me read all the financial newspapers on a daily basis. One day, he gave me a corpus of Rs. 5 lakh to be deployed in a stock that I thought could give healthy returns. The stock I picked at the time was Eicher Motors, and he still has it in his portfolio. Meanwhile, I started focusing on building my own portfolio, and thus my equity journey started.

After my graduation and with my level of exposure in financial markets, my MD referred me to one of the best investment banking firms: J. P. Morgan Chase. Since then, there was no stopping my learning curve. I worked in organisations like Kotak Securities and Alchemy Capital Management, where I started managing funds for high net-worth clients. I finished my CFA in the U.S. simultaneously. One should never stop learning and should complete their basic education first, as there is a saying, 'Once we stop learning, we die—or at least we stop growing.'

While working in these organizations, I never lost focus on my equity portfolio. Instead, I started applying all my knowledge from work to picking stocks. After gaining strong experience, I resigned from my job and started trading full time. Over time, I made a few mistakes due to overconfidence and ego. Psychology plays a big role in being a good trader. From childhood, we are programmed to win, and that mindset takes over rational thinking in stock trades too. We want to win in all our trades. It's hard to accept that you were wrong, because being wrong means taking a loss. Loss equals failure, and we are never taught properly how to take failures.

That's exactly what happens in trading. Novice traders don't cut their losses fast; their ego lets them grow and they keep hoping they will win. All this made me realize one thing: 'Your attitude, not your aptitude, will determine your altitude.'

What Markets Do You Trade And What Is Your Trading Style?

I usually trade in equities and use F&O (Futures and Options) to hedge my portfolio. I do not trade ranges and I prefer trading breakouts from ranging markets. Price patterns and volume breakout determine if the trade will be kept open. I also don't trade when there aren't clear opportunities.

What Have Been The Biggest Influences On Your Development As A Trader?

The ability to accept mistakes: Whenever I make a significant mistake in trading, I write it down, both to augment the lesson and to serve as a future reminder. Then, I change my trading process based on this new experience. In this way, mistakes become the essential ingredient for continual improvement as a trader.

The urge to never stop learning: The worst thing we can do is to stop learning. We tend to settle in our lives and become complacent. To evolve as a consistently profitable trader, you must constantly be on the lookout for opportunities. I find myself always thinking about the markets and new ways to implement my ideas. Life is a constant learning process.

Explain One Of Your Winning Trades

Some stocks have cycles. I entered Graphite India at 261 on 11 September, 2017. Less than 5 months later, the stock has gone to over 810—nearly 3 times as much. I booked out half in the range of Rs. 860–880 in the first week of January 2018. This was an event-based trade, based on the Chinese Pollution Control Measure. China started setting up more EAF (electric arc furnace) plants as a pollution control measure, and graphite electrodes are the only commercially available material used in these EAFs. Thus this increased demand for electrodes, which raised the price over 3 times. Graphite India, among the top producers of graphite electrodes in the world, can only gain from this. A temporary price spike has a massive effect on fixing the balance sheet for some businesses, sometimes changing their fortunes. This is what happened with Graphite India. Its earnings grew by 464% in Q2, to Rs. 90 crore.

What Advice Would You Give Traders Who Are Just Starting out?

Don’t leverage too much. Leverage is a tool, neither good nor bad. However, it is a tool best used after you have gained experience and confidence in your decision-making abilities. Limit your risk when you are starting out to ensure you can profit over the long term.

What Is The Biggest But Most Easily Fixed Mistake That You See Traders Make?

The first is failing to implement a stop loss. This is because tight stop losses mean that losses are capped before they become sizable. The second is blindly following the herd. By doing this, traders may either end up paying too much for hot stocks or initiate short positions in stocks that have already plunged and may be on the verge of turning around.

What 3 Books Do You Recommend Traders Read?

How to Trade in Stocks by Jesse Livermore

Jesse Livermore, perhaps the greatest trader ever, outlines his strategy for investing and presents trading in a very logical and coherent manner with strong persuasive arguments.

Trading in the Zone by Mark Douglas

This book focuses on the psychology of trading and the steps necessary to think like a successful trader. It also talks about eliminating emotional risk.

The Stock Twits Edge: 40 Actionable Trade Set-Ups from Real Market Pros

It is the market encyclopaedia for the retail trader, and more importantly, each chapter’s author has an active presence on social media.

Soumya Malani

Introduction

Soumya Malani is the co-founder of Sharebazaar app. He serves as a faculty member in the Institute of Chartered Accountants of India (ICAI) – Dubai. True to his talent, he got a 'Brilliant Performance Award' twice in the All India National Accounting Talent Hunt.

How Did You Start Trading?

I was very fortunate that my grandfather used to trade and invest in the stock market. He was really passionate about it. During my teenage years, I used to ask him a lot of questions about how the stock market works, how to choose a company and so on. Although I was too young to understand the nitty-gritty of the complex world of stock markets, there was one thing I clearly understood: The stock market is not a bad place. In fact, it's an excellent medium to grow your savings.

While I was doing my Masters in Accounting and Finance at the London School of Economics (LSE), I started to trade and invest. My passion for stock markets made me become a full-time trader and investor. I think the biggest advantage for me was just looking at equities as an asset class from such an early age, since we all know that the 'Brahmastra' of the investing world is to start early.

What Markets Do You Trade And What Is Your Trading Style?

My primary focus areas are small and mid-caps, where I use both my fundamental skills and technical skills to find great businesses fundamentally. I then follow up these discoveries by looking at charts to find a good entry point where 'risk-reward + probability' is in my favour. One important point I would like to mention here is that risk-reward becomes an overly abused term in the markets when people start using it without considering the probability of the trade's success.

Another way in which I use charts is to find stocks or sectors where there is massive activity or where market-makers are getting high participation. For this, I use a volume scanner on longer-term charts and then check which stocks or sectors are showing long-term breakouts with massive volumes.

Once I get the sector or stock by looking at the charts, I try to study them fundamentally to see what kind of changes are happening in the company or the sector that are driving such a massive breakout. If I am convinced by studying the fundamentals of the company and I feel the probability is in my favour, then I bet on those stocks. The massive advantage in such a strategy is that I get the stock on radar much before it comes to the eyes of the majority of market participants.

It might sound strange for a person who looks at charts, but one of the things that has worked very well for me as a trader is never trying to predict price targets from the charts. This is where the fundamental aspect comes into the picture and helps me ride solid businesses as long as the fundamentals remain intact. I strictly do not believe in getting in and out of stocks again and again, as you make maximum money by riding very strong long-term trends that are driven by solid fundamentals.

What Have Been The Biggest Influences On Your Development As A Trader?

Once I completed my Masters and decided to make equities my full-time profession, all I wanted to do was meet as many successful traders and investors as possible. To this end, I travelled across India to attend events and conferences, contacting each and every successful trader or investor who had already accomplished what I was setting out to achieve. This exercise had the largest influence on my development as a trader, since meeting these super successful traders and investors showed me how massively all these people’s strategies varied. The only common thread was that all of them had found out what worked best for them and had built their philosophy accordingly, rather than blindly following someone else’s approach. This easily qualifies as my most significant lesson, after which I started focusing totally on what worked for me and sharpened my process and philosophy of trading.

Explain One Of Your Winning Trades

The biggest winning trade in my career was Avanti Feeds, which has gone on to become a 70+ bagger for me in the last 4 years. We cannot hold on to such massive multi-baggers by having price targets in mind. I truly believe that equity is a life-changing asset class, and these are the kind of stocks that can change your life if you have the conviction to hold.

Time and again, I could add a high-conviction fundamental bet such as Avanti Feeds on supports and breakouts to maximize my gains by playing with allocation. However, playing with allocation didn't actually mean that I kept entering and exiting the stock regularly. Avanti was always more than 15% of my portfolio during the last 4 years, but a lot of times when there was a strong breakout or consolidation in the stock, I kept adding it. This increased the trading allocation of Avanti in my portfolio, which helped me to maximize my gains. This trading portion of the allocation to Avanti is what I sold once the cream, or the momentum move, of that particular breakout ended.

Explain One Of Your Losing Trades

Rather than a trade, I would like to talk about a phase of around two months where the market went up considerably, but I made some losses. This was at the beginning of my career, when I had started to learn and implement technical analysis. I tried to catch every stock that showed breakout or specific patterns, which lead to a lot of churning. Then I realised that too much churning and shifting stocks every other day was not my cup of tea, so instead I focused on catching strong long-term trends using price and volume, which we can hold for long periods of time. This was a crucial lesson for me to discover myself as a trader.

Another strict rule I started to follow in my techno-funda approach was to never average down by adding more at lower levels. In fact, I believe in adding more even at higher rates when the story unfolds, because there is more clarity around the variables you are tracking for that particular business.

What Advice Would You Give Traders Who Are Just Starting Out?

New traders should focus on learning the process, rather than coming with a mindset of doubling their money the next day. Leverage is a tool that can kill you, so don't leverage just because you have heard rosy stories from other people. The best traders I have come across have built fortunes without leveraging. Your biggest leverage in the early part of your career is how much time, effort and dedication you are willing to put in to learn as much as you can. Also, there is absolutely no substitute for reading.

Another important thing for a youngster to understand is that there are a thousand different ways that people have used to make big money in the stock market. Rather than following someone blindly, they should focus on understanding what suits them the best and work on their strengths.

What Is The Biggest But Most Easily Fixed Mistake That You See Traders Make?

One of the biggest mistakes I feel traders make is spending the majority of their time discussing things that are not in their control, such as macros, politics or events that are not relevant to their stocks or strategies. Obviously, it's not bad to be aware of such events, but if the focus is much more on these and less on developing your skills, building a process and trusting your process, then there is something wrong. Only once we start giving our utmost attention to things in our control can we start focusing on things that are external and not in our control. If you believe that markets are forward-looking, then why not trust your charts or methods? They would help you much more than always being fearful of some external event happening.

Another crucial point is that traders need to realise that the most important factor for making money is risk-management, rather than being right. People are so obsessed with being right that sometimes they forget we are here to make money, and not to prove anything to anyone. History tells us that the best of traders have made fortunes with even a 60% accuracy rate, but with strong risk-management systems.

What Books Do You Recommend Traders Read?

One up on Wall Street by Peter Lynch

This was the first book I read on stock markets, and trust me, this is one gem that no one should miss out on. It entirely changed my thought process.

How to Make Money in Stocks by William O'Neil

Reminiscences of a Stock Operator by Edwin Lefevre

Jaychandran

Introduction

Jaychandran is one of the top market profile traders in India. He is very active on Twitter as ‘jay-niftywizard’ and shares his view on the market every day. His expertise is in market profile and order flow trading, which gives him an edge for intraday trading and short-term trading.

How Did You Start Trading?

When I was studying B.Tech (a graduation course in India) in 2001-02, a friend of mine was involved in buying and selling shares. When I asked him about it, he suggested that I read some financial newspapers and study some charts before getting involved in trading. I spent some time reading information on trading but I was focused on graduating at the time. After graduation (2005–06), I secured a job in one of the top IT companies in India.

When I started working in Chennai, I noticed some of my colleagues were involved in trading, which brought back memories. Along with them, I started trading, and after some time, I started taking positions in F&O. One day, I bought Rs. 30,000 of call options (CE) based on a friend’s suggestion. On the same day, the premium of call options reduced drastically and my total investment reduced to Rs. 500. When I checked with my friend who suggested this call, he said that anything can happen in the market and I should have been ready for it.

I was depressed, and when I narrated this story to my brother who had some knowledge in trading, he recommended I bought put options (PE) the next day in a script with the remaining money (Rs. 500). I bought them, and on the same day, the underlying script price fell drastically, hence increasing my premium value and making me a profit over Rs. 30,000.

I went back home and started thinking about this experience. Two thoughts started dominating my mind:

- A lack of knowledge can reduce capital from Rs. 30,000 to Rs. 500.
- Knowledge can increase capital from Rs. 500 to Rs. 30,000.

At this moment, I made one of the most important and biggest decisions of my life. I decided to quit my job and work to get trading knowledge instead. I am fortunate to have wonderful parents who agreed with my decision and supported me in my new venture. So the next day, I submitted my papers at the office and started my trading career.

What Markets Do You Trade And What Is Your Trading Style?

My trading style evolved over time. For the first 6 years, I only traded in F&O with Nifty, so I was recognized as the 'Nifty Wizard.' During those days, I was a complete day trader. Now I predominantly take swing trades in Nifty and a few selected scripts (F&O).

I arrive at my trading decisions using 'Market Profile,' which is an advanced intraday trading technique developed by Peter Steidlmayer.

What Have Been The Biggest Influences On Your Development As A Trader?

As I said earlier, I stayed back in Chennai even after quitting my job and started learning market profile. It is an interesting concept to learn. When I read about 'Open Types' (a concept that gives an idea about the day's possible range after looking at the first 15-minute open auction of price with respect to the previous day's range), I was fascinated. When I checked this concept with old data, it proved that it was a good concept that gives an edge over other traders. Hence, I started taking trades based on this concept, and it gave me results. This was the biggest turning point in my trading career.

Explain One Of Your Winning Trades

In 2015, in one of my trading accounts I had Rs. 6 lakh, and after 2 months of trading, the total funds in this account had reached Rs. 48 lakh.

On 6 May 2015, before market open, I was bearish on the market. I had bought a few short positions in Nifty one day before. When the market opened, I added some more short positions in all three possible methods (selling futures, buying put options and selling call options). Nifty fell over 200 points on that day, and I had made around Rs. 8 lakh in one day!

Explain One Of Your Losing Trades

It is a good idea to share these details with traders, as they will warn them about the risks in the market. Instead of sharing one trade, I would like to share what happened during my losing streak.

After knowing open type market profiling, I was doing well for a few years. My position size gradually increased. I think I was in a transition period from a small trader to a big trader. I thought that trading concepts were the same for any capital.

Because of my capital size, I started having problems with my emotions. I was not in a position to recognize my mistakes, as trading had become a daily habit. I constantly committed the same mistakes, hoping they would just be a small setback. As a result, I lost over Rs. 70 lakh within a few months in 2011. So I stopped trading for a few days. When I reviewed those trades, I could not understand why I had taken them.

What Advice Would You Give Traders Who Are Just Starting Out?

Please note that any person will need a minimum of 1 to 2 years of dedicated effort to become a successful trader. Even if you are highly intelligent, it is not possible to become a profitable trader in a short time. So I suggest that new players concentrate on learning for the first 1 or 2 years and that they don't expect any returns from the market. Once you are confident, try with a small capital and follow proper risk management.

Never deploy all your savings in the market. Always have a diversified plan for your savings and deploy only some portion in the stock market. Have an open mindset and rectify your mistakes every time, so that you will commit minimum errors after some exposure to trading.

What Is The Biggest But Most Easily Fixed Mistake That You See Traders Make?

Not putting a hard stop loss. People are eager to cut their profits, but they are slow to cut their losses. A trader should cut his losses immediately and should allow his profits to run. Many traders keep the SL in their mind and never place it in the system. When the price reaches their SL, they will change the SL level, thinking the price will take support or resistance, and they end up losing money. The first thing you have to do after taking a trade is place an SL order in the system!

What Books Do You Recommend Traders Read?

Pit Bull by Martin Schwartz

Trading Psychology 2.0 by Brett N. Steenbarger

Thinking Fast and Slow by Daniel Kahneman

Prem Doshi

Introduction

Prem Doshi is a trader, value investor and stockbroker. He started trading and investing in 2005, when he started learning about it. He authors a famous blog on value investing, giving out free multi-bagger ideas to his readers.

As of today, he heads his broking and research venture ACE Equities, writes a blog, trades and invests for himself and his clients.

He is active on Twitter with the handles ‘StocksResearch’ and ‘TheAceInvestor’.

How Did You Start Trading?

Back in 2005, when I was 12, I used to read business newspapers. I didn’t understand them clearly, but it was just for the sake of reading. Then, I heard relatives and other people having a conversation about how easy it is to make money in the shares market, which got me interested in it.

My uncle had an active online trading account in 2006. In the business newspapers, I had seen that all stocks with the name Reliance were doing well, and the cheapest stock was RNRL (Reliance Natural Resources Ltd), so I thought it was a value stock. Without any deep knowledge besides the price, I told my uncle that I wanted to invest in it. I remember placing the order myself to buy 70 shares of RNRL close to the price of 25.70 in his account. This was my first trade, which I ended up selling for little profit based on the broker’s advice. After that, I changed broker after broker, following their advice and booking losses.

By 2007, after a whole year of bad experiences, I had started to understand stock price movements better and had learnt a little about things like technical analysis and fundamental analysis.

What Markets Do You Trade And What Is Your Trading Style?

I mainly trade and invest only in equities. However, I do sometimes use any special opportunity that I come across in the F&O space.

As for the strategy, I think that to succeed in the market, we need to be flexible and adaptive. I think we can simultaneously use basic fundamental analysis, discuss picking one core multi-bagger stock for the portfolio and trade in short-term and intraday, looking at the breakouts, volumes and momentum.

One should build on a portfolio of stocks which look undervalued and ripe for a re-rating, or maybe increase the allocation to the core multi-bagger holding. In this way, you can grow your capital and increase your level of play in the markets.

What Have Been The Biggest Influences On Your Development As A Trader?

When I started out, the biggest influencing factor was hearing that this was an easy money-making opportunity. As I grew in this field, I realized the immense potential this business has. Plus, this is very exciting. You can work a typical, boring 9-to-5 job and most likely will not end up making a lot of money. So if profit is the priority, why not do something exciting that rewards you well?

Explain One Of Your Winning Trades.

I don't know whether we call short-term investments trades.

I love playing cyclical sectors. We had a sugar cycle in the markets in 2016.

While everyone participated in prominent names like Balrampur Chini, I chose to buy a penny stock called KM SUGAR.

As you can see in the above chart, the stock was in an early stage of a higher high, higher low pattern. When the fundamentals of the industry were falling into place, no one could stop it from scaling heights of 30+ within 6 months.

Explain One Of Your Losing Trades

There have been many losing trades. I don't have charts for them, but always keep your losses in check by keeping a stop-loss, and if you are participating in a trade for profits, calculate the risk-reward. It does not make sense to buy a stock at 100 if the expected rally takes it up to only 105 and the downside risks are below 95.

What Advice Would You Give Traders Who Are Just Starting Out?

Learn before you plan to earn.

Learn about technical analysis and brush up your fundamental knowledge.

Always have a hybrid approach; look at both the technical and the fundamental pictures.

What Is The Biggest But Most Easily Fixed Mistake That You See Traders Make?

Don't keep averaging a losing trade. Just have discipline and stop denying that your trade has gone wrong. Don't average it until it ends everything for you.

What Books Do You Recommend Traders Read?

I have not really spent a lot of time reading famous books on trading. I would suggest reading *Reminiscences of a Stock Operator*, *The Secret* and *The Wolf of Wall Street*.

Nav Bhaiya

How Did You Start Trading?

In 2006–07, my father's maternal uncle, Shree Mohan Lal Ji Daga (my mentor), made a fortune in equity markets by investing. He is a value investor, and his holding period ranges from 3 to 10 years, and even more. That stuck in my mind, and that kind of wealth started driving me. However, with less than Rs. 1,000 as pocket money and financial problems in my family, I had nothing to invest. So trading seemed to be the easiest way to make money.

In 3 years, by the end of 2010, a few good things happened: My pocket money got doubled, and I cleared PCC (CA Intermediate) and CFA L1 (USA).

But trading turned my life upside down. I was wondering how to repay my loss of roughly Rs. 20 lakh (which I worked really hard in my initial 3 years of trading to earn!) with Rs 2,000 per month of pocket money. And to add to the problem, no one in my family even knew that I was trading, so forget about asking them for money to repay the debt. I was broke and broken at the same time.

I stopped trading then. Instead, I completed my academics and luckily even got a job. However, my dad instilled one thing in myself and my brothers: *'Kaam galat ya sahi nahi hota, kaam karne ka tarika galat ya sahi hoa hai.'* This most precious learning made me come back to trading by the end of 2012 with a bit more knowledge of risk and reward!

So I actually started trading in 2012.

What Markets Do You Trade?

Equity markets.

What Have Been The Biggest Influences On Your Development As A Trader?

I think trading is mostly (or rather entirely) about temperament. My forced break of 2 years made me introspect a lot. That was the period when I realised my comforts, my strengths, my vulnerabilities and so on. This self-understanding was the biggest influence, which made me adjust my trading style accordingly.

Tough times made me learn money management in a unique way. I have always used that learning while trading in margin and M2M management.

Interestingly, I have never put a SL in any particular trade. Instead, I use my money management learning to decide on position sizing, riding and exiting trades.

Explain One Of Your Winning Trades And One Of Your Losing Trades

The more relevant concept, I think, is the winning trader. Evaluating a single trade on either side will give skewed results and probably will not add much value to the readers.

As I said earlier, trading is all about temperament. So developing the right temperament and maintaining basic discipline is necessary. I will try to explain my trading style.

- Initiating a trade: My mindset before initiating a trade is that I won't trade until it convinces me. So the rationale of the trade has to be solid to begin with, and then the trade has to offer a risk-reward of 1:5. This ensures very few high-conviction trades. Such conservatism at the time of initiating a trade allows for aggressive trade management later on.

I also never take a trade against the broader market trend.

- Position sizing: This is a function of my ability to bear losses (in amount) and the price behaviour of a particular stock (maximum price movement in the stock in a normal market). If stock X can move Rs. 10 in a day and I can bear a loss of Rs. 1 lakh in that particular trade, I would buy a particular percentage of 10,000 shares. This percentage is a derivative of the strategy of the trade, my conviction to the strategy, broader market trends and so on. If all these subjective factors are in favour, the percentage can go as high as 80%. In some cases, it comes as low as 40%.

Note that this Rs. 10 is not my SL for that trade. This helps me roughly understand what I am putting at stake in a particular trade, and the cumulative amount of all trades gives me a sense of my total money at risk. This thought process has helped me ride the intermittent volatility in a better way.

- Riding/Booking the trade: Obviously, if my strategy turns out right, I exit the trade. Otherwise, when the strategy goes wrong, I exit the trade. In both cases, the price of the stock is not a decider.

Sometimes, the target is achieved before the strategy plays out. In that case, I book half the trade and trail the rest.

I am more of a positional trader and allow my trades a long time for the strategy to play out.

This sounds so easy, right?

No, it’s not!

Intermittent volatility on account of systematic risks (broader market turns against) and unsystematic risk (unfavourable stock-specific news) require a lot of management. I have a habit of ranking every trade. So if there are 5 open trades, the first trade to exit will be the 5^{th} in rank. This reduces overall position size and works well in the case of systematic risk. In the case of unsystematic risk, I review the initial strategy in light of the new information. If the strategy is valid, I hold on to the trade and adjust the quantity based on how my conviction has changed with the new information. If the strategy gets thrown off, I exit the trade.

I follow a very strict limit on my total value of open trades. If I have exhausted my limit and a new trade turns up, I will compare that new trade with the lowest-ranked open trade. If the new trade presents better risk-reward, it will replace the lowest-ranked trade, and I will rank all open trades again.

How Do I Identify A Trade?

I read a lot of business newspapers, magazines, global industry situations and outlooks. Along with this, I talk to a lot of industry people, follow a few top traders and do many other things to help identify a trade. Each activity creates a dot in my subconscious mind. The strategy to initiate a trade is the outcome of connecting a few of the many dots I have formed.

Once I have a strategy, I religiously follow my style as mentioned above.

What Is The Biggest But Most Easily Fixed Mistake That You See Traders Make?

Although I am more wrong than right, I feel the inability to book out losing trades when the whole strategy is invalidated is the biggest mistake I see traders making. This can easily be fixed by building the right temperament. Remember, when one books a loss, he frees the capital blocked in the losing trade. This free capital can then be used for a new trade, where the probability of recouping the loss is higher.

But this can only happen after booking the loss. Holding on to losing position in the hope that it will bounce back is not only stressful but also deprives one of new opportunities. This, I think, is the biggest mistake.

Don’t be afraid of booking losses. Remember, this is not the last trade!

What Advice Would You Give Traders Who Are Just Starting Out? Or What Books Do You Recommend Traders Read?

Frankly, I am a novice to answer this. I won’t be able to advise on books to read as I have never read a book for trading. Also, I don’t think books are as useful as we may think when it comes to trading. Reading is one thing and practising what we read is altogether a different ball game. So only if one practices what he reads will it add value, which is easier said than done.

I will instead discuss some habits that I find really helpful for traders.

- Keep introspecting: Trading on one’s strength will only help make a sustainable profit. Introspecting will help one understand their strengths and what they are vulnerable to. Trade accordingly.
- Take losses gracefully: Losses will happen. One can’t make profits in every single trade. Take them gracefully. Focus on making profit at an overall level, not on every single trade.
- Be grateful: Be grateful for whatever happens. Everything happens for good. Take note and never forget!
- Be good, do good: As Vijay Kedia says, ‘Good karma will bring you good luck.’ One should do it to experience it. If I was to attribute a number, 80% of what I am today is because of good deeds. I believe.
- Keep scaling up: This doesn’t need explanation. Real success will happen when one starts measuring growth in allocation to a particular trade apart from the percent of returns made in the year. The percentage of returns over a year alone doesn’t satisfy me. Only when I see growth in my trade size every year, along with decent positive returns over the year, do I feel good.

D Pavan Kumar

Introduction

Pavan is an intraday trader, trainer and research analyst, popularly known as Wolf to other intraday traders. He started his trading and investment activities in 2015. After meeting many technical analysts and successful traders, he decided to research the safest intraday strategies.

He is active under the name 'tradewithwolf' on Instagram.

How Did You Start Trading?

I got my MBA in 2003 and worked in marketing and research in good companies like Airtel, ACC and Dalmia Cement. My dream was to become an entrepreneur but I was not able to quit a well-paying job. Finally, I made the hardest decision of my life, quitting my job in 2012 and starting my own cement trading business. This decision paid me well, and in no time I was one of the top distributors of Dalmia Cement in my area. I felt happy to see the same company I worked at approaching me with gifts and foreign trips to reward my business performance.

Good days or bad days will not last long. Due to political conditions and the separation of my state into Telangana and Andhra Pradesh, the cement business halted. My house payments and infra projects stopped. Due to high credit exposure, I couldn't close the business, and I don't personally believe in losing. I always knew things would take time to change and good days would return to the cement business.

Fortunately, when I was going through the bad phase, I met a futures trader—a cousin flying to Ahmedabad to participate in a workshop by CNBC analyst Shri Mitesh Thacker on technical analysis. He told me that all my market research experience in telecom and cement companies would be useful if I used it to read stock market data. He offered me a free ticket and paid the fee for the workshop.

That meeting was the turning point of my life. I attended more than 10 workshops of different analysts online and offline, watched hundreds of YouTube videos and finally realized that trading is just mathematics and calculations. I started applying my market research Excel techniques to stock market data, which yielded good results.

Due to a lack of capital to trade, I applied for certification in equity derivatives and research analysis and passed. I started educating intraday traders on data reading in live markets, as I believe strongly that bad days will not last for many days. Now, I am happy to restart my cement business, having recovered from most debts.

What Markets Do You Trade And What Is Your Trading Style?

I trade only in the futures segment and only intraday for the time being. Since I am going to restart my cement business and other businesses, I will be focusing mostly on trading with options strategies to hedge my positions.

What Have Been The Biggest Influences On Your Development As A Trader?

I follow successful traders like Timothy Sykes on YouTube and Facebook. Their achievements are the biggest influences on me. Jesse Livermore books influenced me to become a trader as well.

Explain One Of Your Winning Trades.

My most memorable winning trade was based on my unique data reading of options activity. When SBI was trading around 251, and most indicators were suggesting to sell because it was moving towards 52-week lows, activity suddenly started raising it to 280, then 300 and then 320. Usually, this sort of activity happens when major fundamental news is expected in favour of the stock. So I took position of the stock and told my friends to take calls of SBI because we could see 10-20% upside in a few days. It moved more than 30% in the next week, and news of recapitalization to PSU banks came out 2 days after my data reading.

What Advice Would You Give Traders Who Are Just Starting Out?

Friends, trading is a dangerously addictive skill game. Entering is in your hands, but getting out is very difficult. Don’t just follow the tips or practices of other analysts or books. You need to create your own strategy. Get input from everyone, but you should change it all to fit your personality based on your risk appetite, financial position and capital. Design your own strategy to execute a trade.

What Is The Biggest But Most Easily Fixed Mistake That You See Traders Make?

Trading every day is a mistake. Trade on trending days. Trade when most odds are in your favour. Take the help of market statistics. Trade only when 70% of the stocks are in one direction, either long or short.

What Books Do You Recommend Traders Read?

Mind Over Markets

It is a very good book on market dynamics that explains how the market behaves.

Art Of War

An intraday trader is no less than a warrior. One shall read warfare techniques and strategies to become smarter in this game of trading.

Mohak Pachisia

Introduction

Mohak Pachisia is a full-time trader and a technical trading trainer. He is a Chartered Financial analyst level 3 candidate and has qualified at all levels of the prestigious Chartered Market Technician course by the Markets Technician Association.

Currently, he trades for himself and extends his money management services to client firms. He has been training people to become A-class technical traders in many cities in India. He has also been a visiting faculty member at St. Xavier's College, Kolkata for a lecture on his subject in a program initiated by the National Stock Exchange. He is one of the few people to teach people the psychology of trading markets because he believes that is where the core of understanding trading markets lies.

Along with the money that he believes just keeps coming, he has also accommodated a long 9 years of experience. His core belief in applying technical tools and Elliot Wave theory have created many turn-around stories for his students.

How Did You Start Trading?

I began trading right when I finished my schooling years. I was a little child when I saw my father making a price chart on a graph paper by hand. Since then, I knew I had to explore this creative and lucrative field of knowledge.

I began reading and practising then. I loved being with the markets and enjoyed just watching them all day. This passion never stops. Risk taking and big thinking have always been a part of my personality, so it wasn't difficult to apply my knowledge.

What Markets Do You Trade And What Is Your Trading Style?

I trade Indian equities, currency and commodity markets. I do not care much about the news. Sometimes I take a step back before the news and respect how price reacts to it. For me, buying and selling makes the markets tick.

In different market phases, different technical tools become useful and potent. I keep making the transition and take trend following or mean reversion trades. My key is mostly a combination of multiple technical tools.

I am a firm believer that one should trade with the trend in most cases and identify the time frame of the trade. Monster trades come when there are converging factors.

Keeping tabs on the pulse of the world is not an easy job. A full-time trader needs to look at his work as a money manager, with trading as only a subset of the job. Without risk management, it is easy to get swayed away in the creative flow of things while ignoring the risks.

I believe that every move in the market is unique, so one needs to accept the individuality of every trade. Each chart is mutually exclusive, and so is each set-up. In the process, I pigeon-holed myself into a particular style, which I consider a fatal thought process. Sure, the patterns repeat, but a certain style of trading can be valid for 6 months. In the next 6 months, it can give back the money.

I would say my style is to go with the flow and repeat the process over time.

What Have Been The Biggest Influences On Your Development As A Trader?

- Knowledge from various sources: I have had the fortune to get a lot of knowledge from different sources. The ability to observe and be hungry for knowledge in every form has been my strength. I have worked in firms as a trader and can specify my observations and learn from more than 100 traders I have seen. The trader friends I made have been instrumental. My work on myself and spirituality has also been a game-changer. Here, too, I needed to extract and assimilate knowledge from books and people. In a nutshell, absorbing and segregating has been a recurring theme. To the readers, I would advise gaining as much knowledge as possible, be it from stories, fellow traders, formal education or anything else.
- Dealing with failure: I started off with a small capital and traded options. I had turned it into lots of money and got wiped several times. Going through failure with a certain attitude has been my biggest and most important influence. When you are not afraid of failing, magic happens. To be able to deal with one losing trade or many in a row is a defining feature of a trader. To be more specific, my failures used to happen because of large position sizes. Instead of chickening out with the shame that comes with failure, I kept going and humbly learnt from my mistakes. Everyone goes through these times. All amazing traders I know have gone through failure. I began controlling my risk again, just like the first time I

traded, and began understanding markets and trading in a new light. I think failures are an inevitable part of growth. Only people who are willing to push their limits have the courage to meet those resistances and eventually get past them. One needs to develop the objectivity with which they handle themselves as they flow through the seasons of markets and learning curves in trading.

- A grip on technical analysis: This has been the most timeless influence of all. The very reason I began trading. Over the years, I have learnt from the best authors and teachers in the world and come to the conclusion that many aspects of the subject on social media or the internet are fake. The true essence of the subject has been missed out. But it is all about what works for you. What I see working for me is clarity on the tools and ideas that I use. I do not leave any stone unturned to assign a subjective probability to my analysis before I take a trade. Often, I am spontaneous, but the depth behind it has been tested in practice many times. Elliot Wave theory, in particular, has been a life-changer, but it is tough to get your head around trading with it. I grew through that, and it has reflected a massive change in my trading accuracy ever since.

Explain One Of Your Winning Trades

Before I give this example, I must admit that one trade doesn't define my prowess and doesn't have to be the only one of its kind. Maybe a different set-up is used to call another good trade. In that light, a good trade for me is a trade with entries that are accurate and stop losses that offer risk to rewards. The move should come with low momentum and head towards a higher momentum ride. Just last week, I bought and sold ten bagger options in a matter of a day. Each trade didn't need yield too much, and there may even have been some losses. However, one of the biggest trades I sought this year has been shorts on Lupin.

The entry and exit areas have been marked out. Around 40% on a futures trade. There have been many trades on the long side this year that did well. However, in terms of the magnitude of the move, this was the biggest move in the futures segment.

Explain One Of Your Losing Trades.

My worst trade was when I took my first futures position in index futures. I was so biased that I could not imagine getting out. This was the first time I had ever taken a loss according to my stop loss. It was devastating. I was baffled by my own behaviour, as the trade had been totally against the trend. An indigestible risk profile of position size and the magnitude of the loss became my biggest lessons. That day, I realised that in this game, no matter how much you can do with your capital size, you are not allowed to be lazy.

What Advice Would You Give Traders Who Are Just Starting Out?

I would tell beginners, train your mind to believe in yourself. Observe the markets and figure out what variable or method appeals to you most. What makes you push through when the going gets tough? Technical analysis has pushed me, since my passion lies there.

I recommend a lot of things to my students when they start. But to the layman thinking about trading, I say, observe the markets, be real and learn to create your approach. Be neutral to emotions related to trading and read and learn how to be objective. Study markets very well. When you begin trading, your homework is the main work. Prepare well and be ready to sacrifice the comfort of zero risk. You need to give up to go up.

One must learn to sail through the transitions of the market phases and learn a lot about one's own thought patterns. I have certain repetitive patterns, and someone else has others. It is through self-awareness that we understand the process. Learn as much as possible. 95% of traders lose money, so even if you are better than the average, you may still lose money. One needs self-belief to pull through. Do not get plagued by self-doubt. Do not buy into what others say is not possible. Put on your blinders and take one step at a time.

Take breaks from the screen, develop an optimum screen time and you only get to know it better as your method plays on the pitch of experience. Take a break once in a while and enjoy the richness in life that doesn’t come in material forms.

Lastly, be ready to put in long hours of work without any output, keeping the bigger picture. It is not a sprint, but a marathon. Carve your own path. There are many good books out there. I wouldn't say one is suitable for everyone, but you need to read all or many and write only one of your own. If you can be open, absorb, segregate and assimilate your insights, knowledge and experience in light of probabilities, it will be a career worth the hard work.

What Is The Biggest But Most Easily Fixed Mistake That You See Traders Make?

If it were easily fixed, it would not be the biggest mistake. However, there are 2 I have in mind.

One is the set of emotions and the mindset that you bring to the markets, because these are often misguided. Acknowledging that the mind you bring to the screen is also a function of your trading process is the solution.

Secondly, each trade is a probable venture; people fail to understand this. The most slowing mindset for people who never understand that it is about probabilities. The solution is simple; one must understand their edge so well that they develop the flexibility that arises from it. For example, I was very bullish on a stock recently. I had an edge, and it put the odds in my favour, so I shorted it double when it gave me a sell idea. As a result, my sell, meaning the second output of the same edge, worked out very differently.

What Books Do You Recommend Traders Read?

Trading In The Zone by Mark Douglas

The Art Of Thinking Clearly by Rolf Dobelli (not market-related but useful to train your thinking independently).

Market Wizards by Jack Schwager

Good technical analysis books; as much as one can get their hands on, starting with books written by John Murphy.

“Money is made by sitting, not trading.”
– Jesse Livermore

“Throughout my financial career, I have continually witnessed examples of other people that I have known being ruined by a failure to respect risk. If you don’t take a hard look at risk, it will take you.”
– Larry Hite

“Letting losses run is the most serious mistake made by most investors.”
– William O’Neil

“That cotton trade was almost the deal breaker for me. It was at that point that I said, ‘Mr. Stupid, why risk everything on one trade? Why not make your life a pursuit of happiness rather than pain?’”
– Paul Tudor Jones

“The elements of good trading are: (1) cutting losses, (2) cutting losses, and (3) cutting losses. If you can follow these three rules, you may have a chance.”
– Ed Seykota

“Never spend your money before you have earned it.”
–Thomas Jefferson

“Frankly, I don’t see markets; I see risks, rewards, and money.”
– Larry Hite

“Don’t focus on making money; focus on protecting what you have.”
– Paul Tudor Jones

“Money is usually attracted, not pursued.”
– Jim Rohn

“Learn to take losses. The most important thing in making money is not letting your losses get out of hand.”

– Marty Schwartz

"The goal of a successful trader is to make the best trades. Money is secondary."
– Alexander Elder

"Don't tell me where your priorities are. Show me where you spend your money and I'll tell you what they are."
– James W. Frick

"It takes 20 years to build a reputation and 5 minutes to ruin it. If you think about that, you'll do things differently."
– Warren Buffett

"In investing, what is comfortable is rarely profitable."
– Robert Arnott

"Money is a terrible master but an excellent servant."
– P.T. Barnum

"I'm always thinking about losing money as opposed to making money. Don't focus on making money, focus on protecting what you have"
– Paul Tudor Jones.

"If you personalize losses, you can't trade."
– Bruce Kovner

"Another lesson I learned early is that there is nothing new in Wall Street. There can't be because speculation is as old as the hills."
– Jessy Livermore

"Sheer will and determination is no substitute for something that actually works."
– Jason Klatt

"You must gain control over your money or the lack of it will forever control

you."
– Dave Ramsey

"Too many people spend money they earned..to buy things they don't want..to impress people that they don't like."
– Will Rogers

"If most traders would learn to sit on their hands 50 per cent of the time, they would make a lot more money."
– Bill Lipschutz

"Everyday I assume every position I have is wrong."
– Paul Tudor Jones

"A stock operator has to fight a lot of expensive enemies within himself. "
– Jessy Livermore

"Everyday is a bank account, and time is our currency. No one is rich, no one is poor, we've got 24 hours each."
– Christopher Rice

"Opportunity is missed by most people because it is dressed in overalls and looks like work."
– Thomas Edison

"I have two basic rules about winning in trading as well as in life: 1. If you don't bet, you can't win. 2. If you lose all your chips, you can't bet."
– Larry Hite

"They say there are two sides to everything. But there is only one side to the stock market; and it is not the bull side or the bear side, but the right side."
– Jessy Livermore

"Bulls make money, bears make money, pigs get slaughtered."

"Formal education will make you a living; self-education will make you a

fortune."
– Jim Rohn

"Price is what you pay; value is what you get."
– Warren Buffet

"There is a huge difference between a good trade and good trading."
– Steve Burns

"If I buy stocks on Smith's tip I must sell those same stocks on Smith's tip. I am depending on him. Suppose Smith is away on a holiday when the selling time comes around?"
– Jessy Livermore

"The market is a device for transferring money from the impatient to the patient."
– Warren Buffet

"Never let a win go to your head, or a loss to your heart."
– Chuck D.

"How many millionaires do you know who have become wealthy by investing in savings accounts? I rest my case."
– Robert G. Allen

"Losers average losers."
– Paul Tudor Jones.

"Trade the market in front of you, not the one you want!"
– Scott Redler

"I will tell you how to become rich. Close the doors. Be fearful when others are greedy. Be greedy when others are fearful."
– Warren Buffet

"I'm a great believer in luck, and I find the harder I work the more I have of

it.”
– Thomas Jefferson

“All you need is one pattern to make a living.”
– Linda Raschke

“Your deepest pain is your greatest gift if you learn how to use it”
– Tony Robbins

“Wall Street is the only place that people ride to in a Rolls Royce to get advice from those who take the subway.”
– Warren Buffet

“Every time you borrow money, you’re robbing your future self. ”
– Nathan W. Morris

“The individual investor should act consistently as an investor and not as a speculator.”
– Ben Graham

“All the math you need in the stock market you get in the fourth grade.”
– Peter Lynch

“Rich people have small TVs and big libraries, and poor people have small libraries and big TVs.”
– Zig Ziglar

“The trend is your friend until the end when it bends.”
– Ed Seykota

“Bottoms in the investment world don’t end with four-year lows; they end with 10- or 15-year lows.”
– Jim Rogers

“An investment in knowledge pays the best interest.”
– Benjamin Franklin “

"It's not how much money you make, but how much money you keep, how hard it works for you, and how many generations you keep it for."
– Robert Kiyosaki

"If you can't take a small loss, sooner or later you will take the mother of all losses."
– Ed Seykota

"Every once in a while, the market does something so stupid it takes your breath away."
– Jim Cramer

"The successful warrior is the average man, with laser-like focus."
– Bruce Lee

"Don't let the fear of losing be greater than the excitement of winning."
– Robert Kiyosaki

"The obvious rarely happens, the unexpected constantly occurs."
– Jesse Livermore

"The stock market is filled with individuals who know the price of everything, but the value of nothing."
– Phillip Fisher "

"Believe you can and you're halfway there."
– Theodore Roosevelt

"I'm only rich because I know when I'm wrong…I basically have survived by recognizing my mistakes."
– George Soros

"When buying shares, ask yourself, would you buy the whole company?"
– Rene Rivkin

"Money is not the most important thing in the world. Love is. Fortunately, I

love money."
– Jackie Mason

"If you have trouble imagining a 20% loss in the stock market, you shouldn't be in stocks."
–John Bogle

"Know what you own, and know why you own it."
– Peter Lynch

"I'm only rich because I know when I'm wrong…I basically have survived by recognizing my mistakes."
– George Soros

"You can't move the market. You can only move yourself."
– Unknown

"The only way to "beat an index" is to invest in something other than the index. Why would you, when the only source of long-term risk and return data is the index ?"
– Hebner, Mark.

"If you want to know what God thinks about money, just look at the people He gives it to."
– Dorothy Parker

"90 % of the people in the stock market, professionals and amateurs alike, simply haven't done enough homework,"
– William J.O'Neil.

"Win or lose, everybody gets what they want out of the market. Some people seem to like to lose, so they win by losing money."
– Ed Seykota

"The markets are the same now as they were five or ten years ago because they keep changing – just like they did then."

– Ed Seykota

"If you would know the value of money, go and try to borrow some."
– Benjamin Franklin

"Money is the opposite of the weather. Nobody talks about it, but everybody does something about it."
– Rebecca Johnson

"Never, ever argue with your trading system"
– Michael Covel

"Perfection is not attainable, but if we chase perfection we can catch excellence."
– Vince Lombardi

"Money is like a sixth sense – and you can't make use of the other five without it."
– William Somerset Maugham

"Trading is very competitive and you have to be able to handle getting your butt kicked"
– Paul Tudor Jones

"Money was never a big motivation for me, except as a way to keep score. The real excitement is playing the game."
– Donald Trump

"Limit your size in any position so that fear does not become the prevailing instinct guiding your judgment."
– Joe Vidich

"Formal education will make you a living; self-education will make you a fortune."
– Jim Rohn

"There is no single market secret to discover, no single correct way to trade the markets. Those seeking the one true answer to the markets haven't even gotten as far as asking the right question, let alone getting the right answer."
– Jack Schwager

"My attitude is that I always want to be better prepared than someone I'm competing against. The way I prepare myself is by doing my work each night."
– Marty Schwartz

"I used to have a drug problem, but now I have enough money."
– David Lee Roth

"I just wait until there is money lying in the corner, and all I have to do is go over there and pick it up. I do nothing in the meantime."
– Jim Rogers

"The person who doesn't know where his next dollar is coming from usually doesn't know where his last dollar went."
– Unknown

"The market can stay irrational longer than you can stay solvent."
– John Maynard Keynes

"Expect the best. Prepare for the worst. Capitalize on what comes."
– Zig Ziglar

"If most traders would learn to sit on their hands 50 percent of the time, they would make a lot more money."
– Bill Lipschutz

"I don't pay good wages because I have a lot of money; I have a lot of money because I pay good wages." Robert Bosch

"Don't worry about what the markets are going to do, worry about what you are going to do in response to the markets."

– Michael Carr

"It's not whether you're right or wrong that's important, it's how much money you make when you're right and how much you lose when you're wrong."
– George Soros

"Don't focus on making money, focus on protecting what you have."
– Paul Tudor Jones

"So you think that money is the root of all evil. Have you ever asked what is the root of all money?"
– Ayn Rand

"I know where I'm getting out before I get in."
– Bruce Kovner

"There is the plain fool, who does the wrong thing at all times everywhere, but there is the Wall Street fool, who thinks he must trade all the time."
– Jesse Livermore

"You can be free. You can live and work anywhere in the world. You can be independent from routine and not answer to anybody."
– Alexander Elder

"I believe in analysis and not forecasting."
– Nicolas Darvas

"What seems too high and risky to the majority generally goes higher and what seems low and cheap generally goes lower."
– William O'Neil

"You don't need to be a rocket scientist. Investing is not a game where the guy with the 160 IQ beats the guy with 130 IQ."
– Warren Buffet

“Money is the best deodorant.”
– Elizabeth Taylor

“The four most dangerous words in investing are: This time it’s different.”
– Sir John Templeton

“Overthinking, also, best known as creating problems that are never there.”
– David Sikhosana

“In order to win as a contrarian, you need perfect timing and the perfect size.”
– Henrique M. Simões,

“How much of a role does luck play in trading? In the long run, zero. Absolutely zero. I don’t think anybody winds up make money in this business because they started out lucky”
– Richard Dennis

“There is a saying that bad traders divorce their spouse sooner than abandon their positions. Loyalty to ideas is not a good thing for traders, scientists
– or anyone.”
– Nassim Nicholas Taleb

“You create your own game in your mind based on your beliefs, intents, perception and rules.”
– Mark Douglas

“Every day I get up and look through the Forbes list of the richest people in America. If I’m not there, I go to work.”
– Robert Orben

“Most people dont understand the process. They get frustrated by it. Dont Be. Focus”
– David Sikhosana

"In the short run, the market is a voting machine, but in the long run it is a weighing machine."
– Benjamin Graham.

"If you pay peanuts, you get monkeys."
– James Goldsmith

"Novice Traders trade 5 to 10 times too big. They are taking 5 to 10% risks on a trade they should be taking 1 to 2 percent risks."
– Bruce Kovner.

"Investing should be more like watching paint dry or watching grass grow. If you want excitement, take $800 and go to Las Vegas."
– Paul Samuelson

"Markets are never wrong – opinions often are."
– Jesse Livermore

"Sheer will and determination is no substitute for something that actually works."
– Jason Klatt

"You can lose your opinion of you can lose your money."
– Adam Grimes

"Take your profits or someone else will take them for you."
– J.J. Evans

"The desire for constant action irrespective of underlying conditions is responsible for many losses in Wall Street."
– Jesse Livermore

"Never let a win go to your head, or a loss to your heart."
– Chuck D.

"Some people make shoes. Some people make houses. We make money, and

people are willing to pay us a lot to make money for them."
– Monroe Trout

"Trade What's Happening…Not What You Think Is Gonna Happen."
– Doug Gregor

"If you don't respect risk, eventually they'll carry you out."
– Larry Hite

"The market can stay irrational longer than you can stay solvent."
– John Maynard Keynes

"Hope is bogus emotion that only costs you money."
– Jim Cramer

"Amateurs think about how much money they can make. Professionals think about how much money they could lose."
– Jack Schwager

"The obvious rarely happens, the unexpected constantly occurs."
– Jesse Livermore

"Accepting losses is the most important single investment device to insure safety of capital."
– Gerald M. Loeb

"The best time to plant a tree was 20 years ago. The second best time is now."
– Chinese proverb.

"It takes 20 years to build a reputation and 5 minutes to ruin it. If you think about that, you'll do things differently."
– Warren Buffett

"Letting losses run is the most serious mistake made by most investors."
– William O'Neil

"The goal of a successful trader is to make the best trades. Money is secondary."
– Alexander Elder

"In investing, what is comfortable is rarely profitable."
– Robert Arnott

"If you dont know what you are doing, doing nothing is better than doing you know what"
– Trader Jack

"A quiet mind is able to hear intuition over fear."
– Yvan Byeajee,

"Most traders take a good system and destroy it by trying to make it into a perfect system."

"If you look around the table and don't see a sucker, then you are the sucker."

"If you find yourself in the bottom of a deep hole, the first thing to do is stop digging."

"The opportunity of a lifetime must be seized during the lifetime of the opportunity."
– Leonard Ravenhill

"There is a huge amount of freedom that is derived from not fighting the market."
– Yvan Byeajee

"Experienced traders control risk, inexperienced traders chase gains."
– Alan Farley

"My first rule is not to lose money. Losing an opportunity is minor in comparison, because there are always new opportunities around the corner."

– Burt Dohmen

"Understand from whom and why you are getting "hot" tips."

"Confidence is not "I will profit on this trade." Confidence is "I will be fine if I don't profit from this trade."
– Yvan Byeajee

"Improbable things happen. You have to put yourself in a position to take advantage of them."
– Andreas Clenow

"If you make money by making a mistake, it is loan with a very high defualt rate."

"I get real, real concerned when I see trading strategies with too many rules (you should too)."
– Larry Connors

"Develop a plan before you trade or do it later with less cash and more frustration."

"I always define my risk, and I don't have to worry about it."
– Tony Saliba

"Because trading seems difficult today, it was not for someone else. Stick with it, the roles may reverse tomorrow."

"The key to trading success is emotional discipline. If intelligence were the key, there would be a lot more people making money trading... the single most important reason that people lose money in the financial markets is that they don't cut their losses short."
– Victor Sperandeo

"You have power over how you'll respond to uncertainty."
– Yvan Byeajee

“A trade is not connected to another, unless you let.”

“I’ll keep reducing my trading size as long as I’m losing... My money management techniques are extremely conservative. I never risk anything approaching the total amount of money in my account, let alone my total funds.”
– Randy McKay

“If you lose you are not necessarily a loser, if you call yourself a loser no one will be able to change your mind.”

“Genuine acceptance that there will be losses on your way to market success will greatly decrease the hurt when they eventually come.”
– Yvan Byeajee

“There is the plain fool who does the wrong thing at all times anywhere, but there is the Wall Street fool who thinks he must trade all the time.”
– Jesse Livermore

About the Author

Indrazith Shantharaj is a full-time trader, trainer and coach in the stock market and a former IT professional with 10 years of experience. He has decided to pursue a full-time career in the stock market, which is his subject of passion and expertise. Having met success in trading, he wants to help others who find it difficult.

He has conducted over 50 seminars and trained over 1,000 people on trading. His articles can be found at www.Indrazith.com.

Apart from trading and training, he spends his free time travelling, reading books and practising spiritual *sadhana*.

Kirankumar Nayak, a qualified engineer, entered the market during the challenging times of 2008. With his excellent analytical ability, which is a unique blend of quantitative and qualitative strengths, he achieved a remarkable command over trading strategies that generate Alpha. He built well-researched mechanical systems to trade broadly in Nifty and Crude Futures.

He is an opportunistic trader and an internationally certified trainer who addresses market gatherings. He has always abided by simplicity and promoted the principle of a passion-filled life as the key to success. His articles can be found at www.investtoharvest.com.