

S1

TRADEWAY PRESENTS:
STEP 1: START YOUR JOURNEY

STEP 1:
START

YOUR JOURNEY



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The best tool to Improve Your Life!

“Receive...knowledge rather than choice gold.”

~ Proverbs 8:10

“By knowledge shall thy chambers be filled with all pleasant and precious riches.”

~ Proverbs 24:4

“Riches certainly make themselves wings and fly away as an eagle toward heaven.”

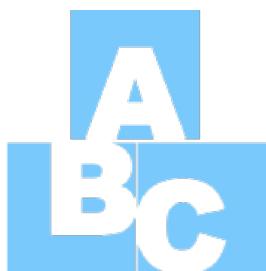
~ Proverbs 23:5

Knowledge >

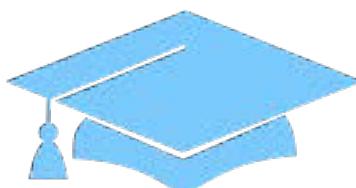


What stage are you at?

Newbie



Amateur



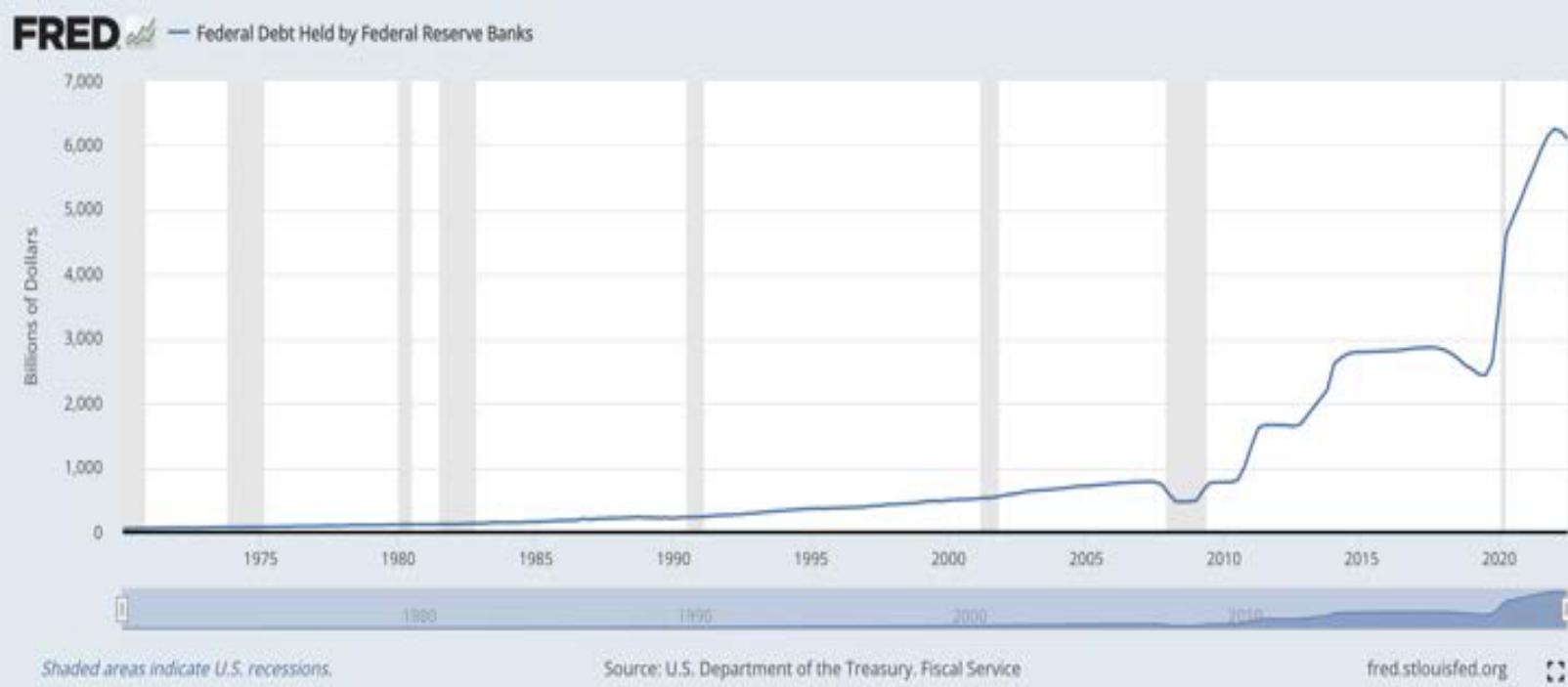
Pro



Little to no trading experience.

Break-even to slightly profitable.

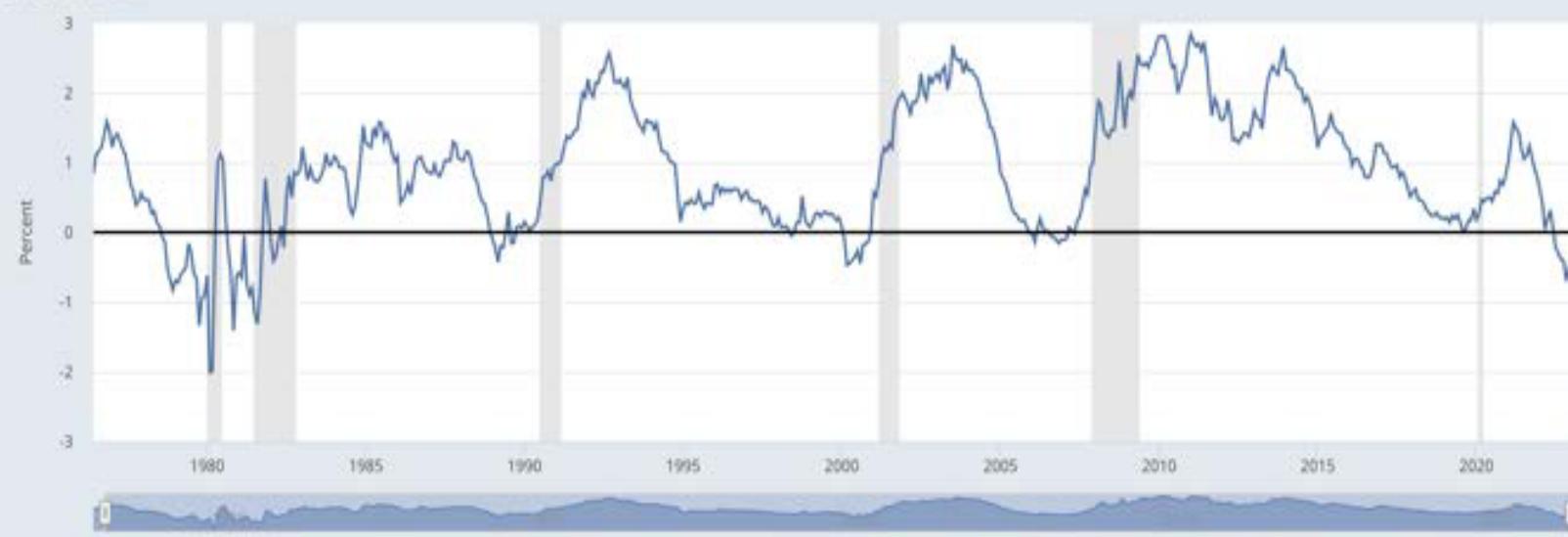
Supplementing or replacing income.

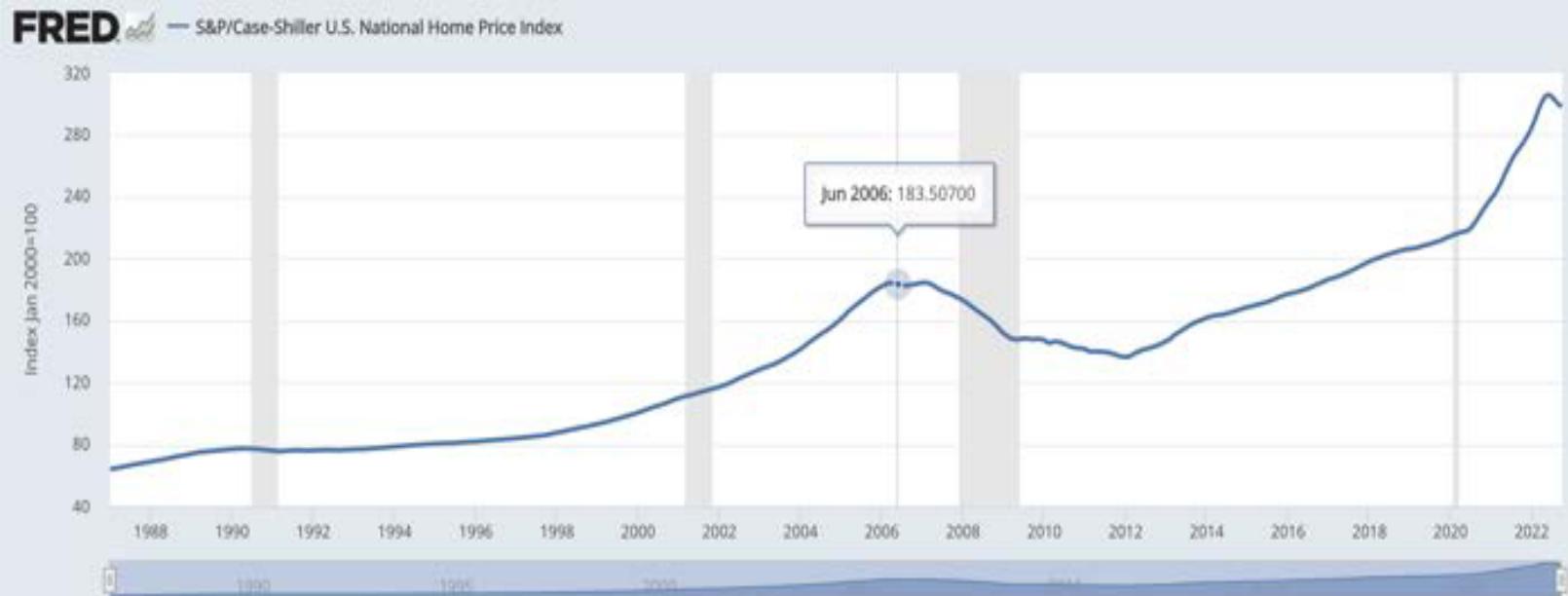


FRED — Federal Debt: Total Public Debt



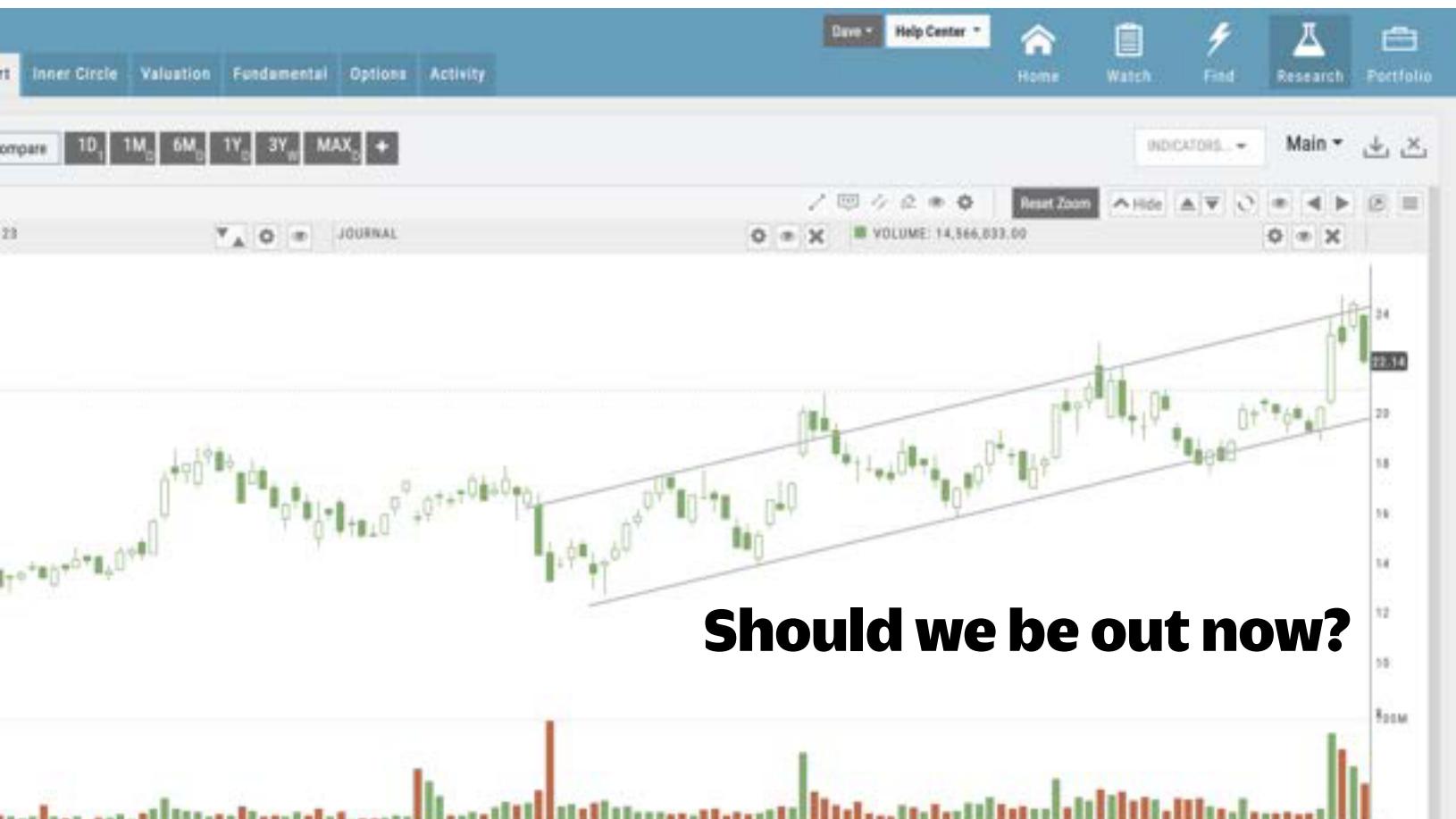
FRED — 10-Year Treasury Constant Maturity Minus 2-Year Treasury Constant Maturity







Knowledge Understanding Wisdom Instruction



Did Knowledge Help?

Year 1	Balance	ROI	Profit
Jan-Feb	\$2,002.60	20%	\$400.52
Mar-Apr	\$2,403.12	20%	\$480.62
May-Jun	\$2,883.74	20%	\$576.75
Jul-Aug	\$3,460.49	20%	\$692.10
Sep-Oct	\$4,152.59	0%	\$830.52
Nov-Dec	\$4,983.11		End of Year 1

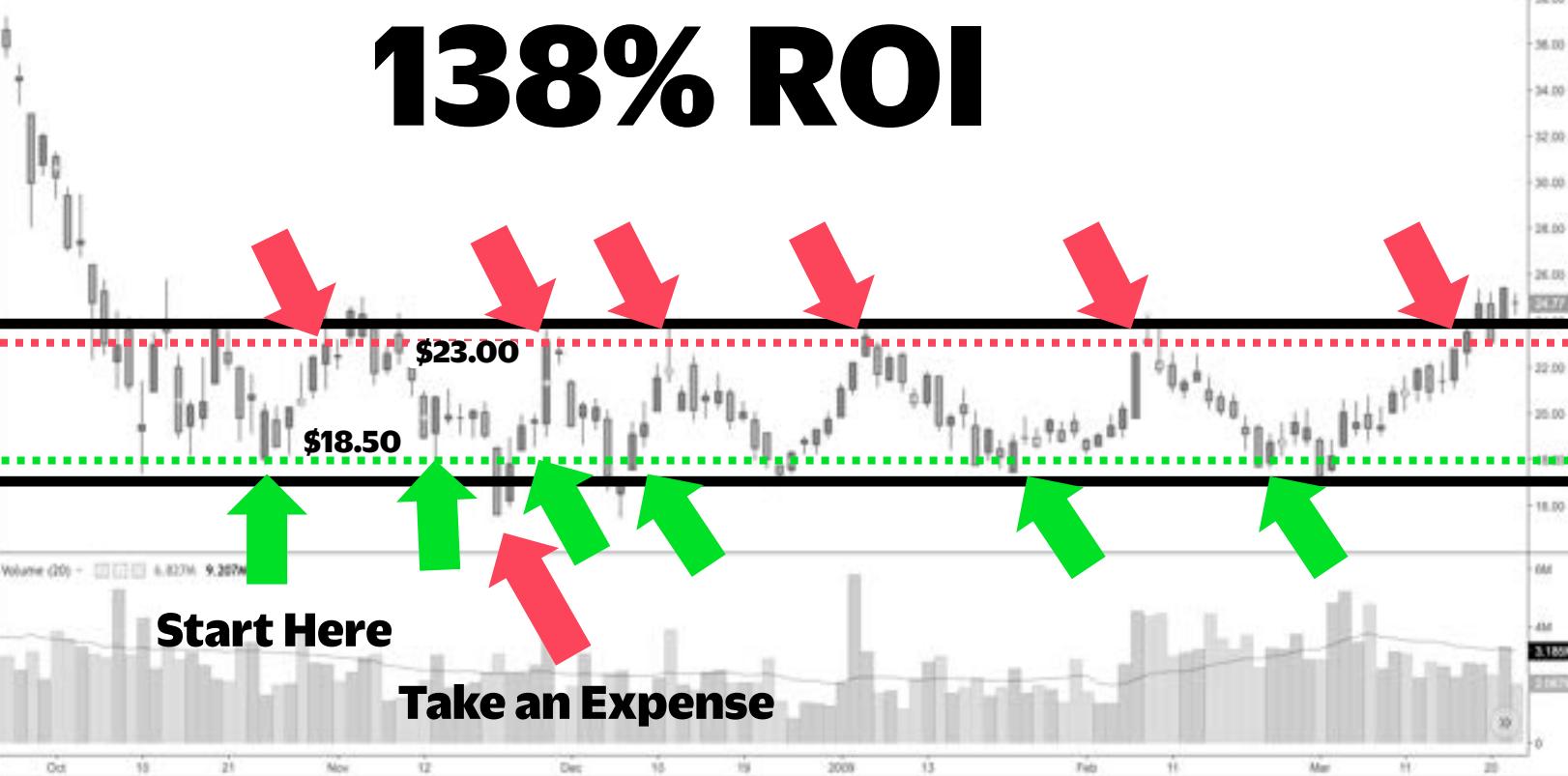
Year 2	Balance	ROI	Profit
Jan-Feb	\$4,983.11	20%	\$996.62
Mar-Apr	\$5,979.73	20%	\$1,195.95
May-Jun	\$7,175.68	20%	\$1,435.14
Jul-Aug	\$8,510.81	20%	\$1,722.16
Sep-Oct	\$10,332.98	0%	\$2,066.60
Nov-Dec	\$12,399.57		End of Year 2

Year 3	Balance	ROI	Profit
Jan-Feb	\$12,399.57	20%	\$2,479.91
Mar-Apr	\$14,879.48	20%	\$2,975.90
May-Jun	\$17,855.38	20%	\$3,571.08
Jul-Aug	\$21,426.46	20%	\$4,285.29
Sep-Oct	\$25,711.75	0%	\$5,142.35
Nov-Dec	\$30,854.10		End of Year 3

Year 4	Balance	ROI	Profit
Jan-Feb	\$37,024.92	20%	\$7,404.98
Mar-Apr	\$44,429.90	20%	\$8,885.98
May-Jun	\$53,315.88	20%	\$10,663.18
Jul-Aug	\$63,979.06	20%	\$12,795.81
Sep-Oct	\$76,774.87	0%	\$15,354.97
Nov-Dec	\$92,129.84		End of Year 4

Year 5	Balance	ROI	Profit
Jan-Feb	\$92,129.84	20%	\$18,425.97
Mar-Apr	\$110,555.81	20%	\$22,111.16
May-Jun	\$132,666.97	20%	\$26,533.39
Jul-Aug	\$159,159.84	20%	\$31,840.07
Sep-Oct	\$191,040.44	0%	\$38,208.09
Nov-Dec	\$229,248.52		End of Year 5

138% ROI



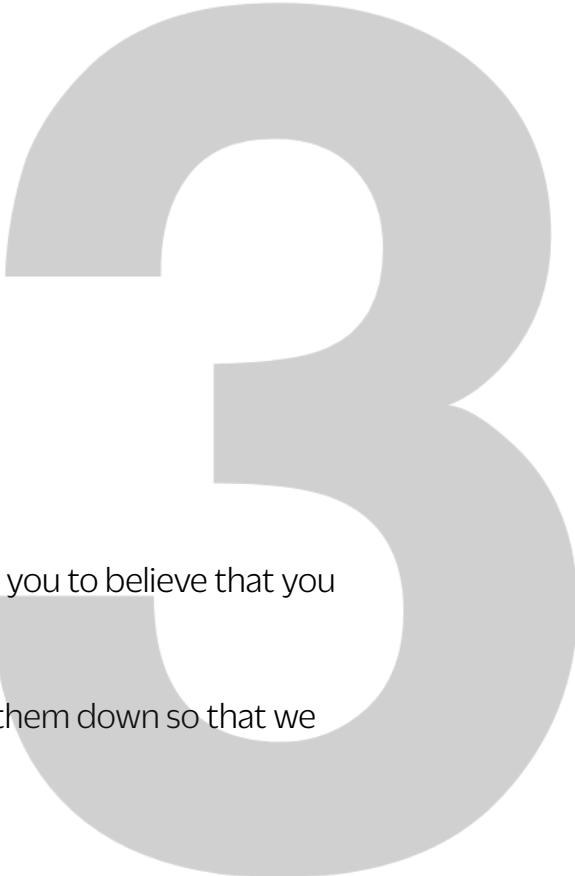
Green = Go!

1. Learn the System
2. Open a Trading Account
3. Fund it with \$2000 & Begin Trading
4. Let your money work for you!

Red = Stop!

What
If?

Financial Fables About the Stock Market...



1. "You Must Buy & Hold!"
2. "You Can't Know When to Buy & Sell!"
3. "You Must Diversify!"

They overemphasize the importance of "Buy & Hold" leading you to believe that you "Cannot Know When to Buy and Sell."

Let's take a look at each of these Financial Fables, and break them down so that we know WHY they could be very misleading!

1. "You Must Buy & Hold!"

The people your financial advisor works for don't "Buy & Hold"! They **trade stocks!**

When asked: "Do you trade stocks?" Stock Market Wizards always say, "Yes—sometimes twice in the same day.... Usually every few weeks."

—Stuart Walton, Stock Market Wizards (115% avg. over 8 yrs)

While they're telling you, "You must buy and hold blue chip stocks to make money safely...", they earn 100+% off your money and pay you 8%!¹

Ask your financial advisor what the phrase "**Window Dressing**" means. Mutual Funds sell their growth stocks, and buy blue chips at the end of the year to "dress up" their SEC reports!

You thought they were holding blue chips, because that's what showed up in the



¹How Investors Lose 89 Percent of Gains from Futures Funds, by David Evans, Bloomberg 10/08/13

prospectus! All year long, they were **ACTIVELY TRADING** growth stocks!²

In 2002, the great stock trader and editor of the Investor's Business Daily, William O'Neil said, "Since the 1950s, the average market leader has fallen **72% from its high**. In the 1990s **many fell 90%**, and only **one in eight** ever reassert themselves as leaders. In 1964 AT&T fell from \$75, and it took twenty years to come back."³ In 2000, many Tech stocks fell 75% to 90% and some will never recover.⁴

Perhaps you were one of the 80 million Americans who **lost 50% to 80%** of their life's savings because their money managers refused to cut losses.⁵ If so, you understand that "Buy & Hold" is not always a great idea. In my experience, there are times in a market cycle when it could be, and times when **shorter term trades** would be more appropriate.

The Danger of Buy & Hold

"The NASDAQ is trading at its highest level in over a decade and is up more than 1,000 points in the past year.

"If it can eke out another 1,000 points, or rally 25% from here, it will have retraced all its losses from the dot-com bubble and trade above 5,000.

"That means it will have taken **over 13 years!**"⁶

Scott Burns, a regular syndicated writer in the Financial Section of the Dallas Morning News, wrote the following in November of 2008:

"Have you dared to look at your 401 (k) statement lately? ...The definition of insanity is doing the same thing over and over but expecting different results. So I'd like to offer an early New Year's resolution. Demonstrate your sanity. Give your overpaid managers the boot."

² Statement reflects trading styles of Fund Managers in Jack D. Schwager's *The Stock Market Wizards* (New York: Harper Collins Publishers, 2003).

³ William O'Neil, *How to Make Money in Stocks* (New York: McGraw Hill, 2002), p. 91.

⁴ William O'Neil, *How to Make Money in Stocks* (New York: McGraw Hill, 2002), p. 54.

⁵ William O'Neil, *The Successful Investor* (Noe York: McGraw Hill, 2004), p. ix.

⁶ Why the NASDAQ may be hitting the law of large numbers, By Maxwell Meyers, December 6, 2013, Talking Numbers, CNBC | Yahoo Finance.

2. “You Can’t Know When to Buy or Sell!”

“The idea that one cannot time the market is a **myth.**” —William O’Neal

O’Neil says, “The erroneous belief that no one can time the market evolved more than 30 years ago when most mutual funds that tried it **weren’t successful at it.** This is because they had to both sell **exactly right** and then get back in the market at exactly the right time, but due to their **asset size problems**, it took **two weeks to raise cash** and **weeks to reenter the market....** Therefore top management at these mutual funds imposed rules on their money managers that required them to remain **fully invested.”⁷**

Beyond 30 years ago, short-term trading was very much in vogue, and David Mitchell’s grandfather certainly did not ever think that all money should be tied up in long-term buy and hold positions, so he was in agreement with O’Neil.



Who is William O’Neil?

William O’Neil owns a seat on the New York Stock Exchange, which he bought with money he earned trading between 1962 and 1963, starting with \$4,000 from his salary. During this time he was in his twenties, and invested in just three companies.

⁷ William O’Neil, *How to Make Money in Stocks*, 3rd Ed., (New York: McGraw-Hill, 2002), pp. 48-49.

3. "You **MUST** Diversify!"

"They greatly overemphasize the importance of diversification and OVER-diversify. Actually, the need for great diversification is also a myth."

- David Mitchell

- ▶ Mutual Funds
- ▶ Annuities
- ▶ Life Insurance

The fear of risk is used to frighten you away from the market. They do this because Financial Advisors make a living by selling you products!

Without skill-sets, these are necessary. When you have skill-sets, it changes **EVERYTHING!**

"Diversification is something people do to protect themselves from their own stupidity."⁸ —Warren Buffet

Philip Fisher, legendary stock trader from California, stated that diversification was an idea that caught on "...*Because it was a simple enough theory for even stock brokers to understand.*"⁹

⁸ Mary Buffet & David Clark, *Buffettology* (New York: Simon and Schuester, 1997), p. 173.

⁹ Mary Buffet & David Clark, *Buffettology* (New York: Simon and Schuester, 1997), p.174.



Employees

- Take Little Risk
- Paid for Role
- Have Jobs
- No Leverage
- Serve Customers
- Work in Sales/Marketing
- Lose Jobs in Recession



Entrepreneurs

- Risk Time & Money
- Paid for Results
- Create Jobs
- Leverage People
- Obtain Customers
- Constant Sales/Marketing
- Lose Business in Recession



Investors

- Protect Time by Risking Money
- Paid for Ownership
- Give Money a Job
- Leverage Money
- Need No Customers
- No Sales/Marketing
- Can Actually Be Recession Proof

NOTES:

2 Types of Investors

Traditional Investor

Buy & Hold Mindset

- Ignorant of disciplines of trading
- Passive
- Relies on Financial Advisor
- No Cash Now!

Stock Trader w/o Skills

Cashflow Mindset

- Ignorant of disciplines of trading.
- More active but fearful & greedy!
- Too much or too little risk = Failure!

We believe investing is for people who want to maintain their wealth and attempt to grow it slowly.

Why I don't ONLY like to invest:

Typically, investing does NOT create wealth.

Trading has the potential to create wealth and cash flow for families! These skill-sets are totally different...

TIMING

- Value Investors (Too focused on PE Ratio)
- Buys bad stocks because they're cheap
- Skip good stocks because they cost more.

- Growth Investors focus on EPS
- Need to be aware of proper entry & exit



PHILOSOPHY

The Result of the Three-Legged Table

Get the math on your side!

- ❖ Win BIG using predetermined sell points.
- ❖ Lose LITTLE using stop outs.

Leverage the Big Boys!

- ❖ Use charting software (David Mitchell uses **Charts by TRADEway**).
- ❖ Get in right *after* the Big Boys.
- ❖ Get out right *before* the Big Boys.

Should We Trade ETFs?

Exchange-Traded Fund Definition (ETF): "A security that tracks an index, a commodity or a basket of assets like an index fund, but trades like a stock on an exchange. ETFs experience price changes throughout the day as they are bought and sold."

We do not recommend trading ETFs because **one of the three legs of the trading table will always be missing**. ETFs, like indices, **do not have fundamentals**. These may be vehicles that can be used for long-term investing, but not trading, in our opinion.

The TRADEway System

Triple Analysis!

WHAT TO BUY

- EPS (Earnings Per Share)
- Relative Price Strength
- Industry Group Rating
- ROE (Return on Equity)
- Accumulation/Distribution

WHEN TO BUY

- Follows Market Emotions
- Indicates Changes in Supply & Demand
- Chart Price Movements
- Chart Volume Movements
- Signature Patterns
- Candlesticks
- GAPS
- Indicators

TECHNICALS

WHY TO BUY

- Earnings Announcements
- Mergers
- Spin Offs
- Stock Splits
- Share Buy Backs
- Lawsuits
- Upgrades/Downgrades
- New Products—other company news

MARKET TONE

[Balance Sheet](#)[Income Statement](#)[Cash Flow Statement](#)

Do the math yourself...

FUNDAMENTALS

The screenshot shows the Yahoo Finance homepage. At the top, there's a search bar and navigation links for 'Finance Home', 'Watchlists', 'My Portfolio', 'Screens', 'Value Finance Plus', 'Markets', 'News', and 'Personal Finance'. Below the header, there's a banner for 'Chrono24' featuring various luxury watches. Underneath, there are tickers for major indices: S&P 500 (4,796.18), Dow 30 (34,208.38), Nasdaq (15,644.97), Russell 2000 (2,245.31), and Nasdaq Composite (15,445.48). A specific stock entry for NMI Holdings, Inc. (NMIH) is shown with a price of 21.85, down 0.01 (-0.05%). The page also features a large candlestick chart for the S&P 500 index.

How to Build Your Watchlist

RATIO

FORMULA

ANALYSIS

RESULT

Earnings Per Share (EPS)

$$\frac{\text{Net Income}}{\text{Common Stock}}$$

 $\frac{\$60,193}{85200}$

Growing EPS = Growth Stock
\$.70

Price/Earning

$$\frac{\text{Current Price of Stock}}{\text{TTM Earnings Per Share}}$$

 $\frac{\$22.72}{\$2.56}$
\$ 8.87

Lower PE = Bigger Discount!

FUNDAMENTALS

NMIH



Show: [Income Statement](#) | [Balance Sheet](#) | [Cash Flow](#)

How to Build Your Watchlist

[Annual](#) | [Quarterly](#) | [Download](#)

[* Expand All](#)

Income Statement

All numbers in thousands

Get access to 40+ years of historical data with YNAB.

Breakdown	TTM	Earnings Per Share (EPS)		Net Income		\$60,193
		Common Stock	Preferred Stock	Common Stock	Preferred Stock	
> Total Revenue	468,975			87,000		
> Net Non Operating Interest Inc...	-31,673					
Other Income Expense	2,110					
Pretax Income	280,178					
Tax Provision	61,304	17.258		16,133	14,565	13,348
Net Income Common Stockholders	218,874	60.193		57,522	52,891	48,268
Net Income	218,874	60.193		57,522	52,891	48,268
> Net Income Including Non...	218,874	60.193		57,522	52,891	48,268

Show: [Income Statement](#) | [Balance Sheet](#) | [Cash Flow](#)

Balance Sheet

All numbers in thousands

Get access to 40+ years of historical data with YNAB.

Breakdown		Earnings Per Share (EPS)		Net Income		\$60,193	Q4 \$.70
		Common Stock	Preferred Stock	Common Stock	Preferred Stock		
> Total Assets							
> Total Liabilities Net Minority Int...							
▼ Total Equity Gross Minority Int...							
▼ Stockholders' Equity		1,369,591		930,420		701,000	509,077
▼ Capital Stock		852		684		663	605
Common Stock		852		684		663	605

Find EPS for each quarter
Then find EPS for trailing twelve months

FUNDAMENTALS

NMIH

Get latest news, real-time price, currency in USD
Last updated 1 hour ago

22.72 -0.62 (-2.50%)

As of 1:47 PM EDT. Market open.

Summary Company Outlook 

How to Build Your Watchlist

Earnings Per Share (EPS)	Net Income Common Stock	\$60,193 85200	\$201.37
Price/Earnings	TTM Earnings Per Share	\$ 22.72 \$ 2.56	\$ 8.87

Growing EPS = Growth Stock
Lower PE = Bigger Discount!

NOTES:

WHY DOES THE STOCK MARKET EXIST?

Ways to Raise...



Stocks = Ownership

A single unit of stock = 1 share

Basic Stock Market Jargon

What You Need to Know:

- Major Exchanges—warehouses for stocks

NASDAQ NYSE AMEX

- Market Makers

Each company will have 10 to 30 Market Makers. One Market Maker will handle 400 to 500 different companies. They make a market in the stock. This is not a “zero sum game.” You buy from and sell to the Market Maker—you cannot hurt him!

Market Makers are wholesalers of stocks—some call them **thieves!**



The BID and the ASK — Their profit is between here.

Bid = \$23.50

Ask = \$23.75

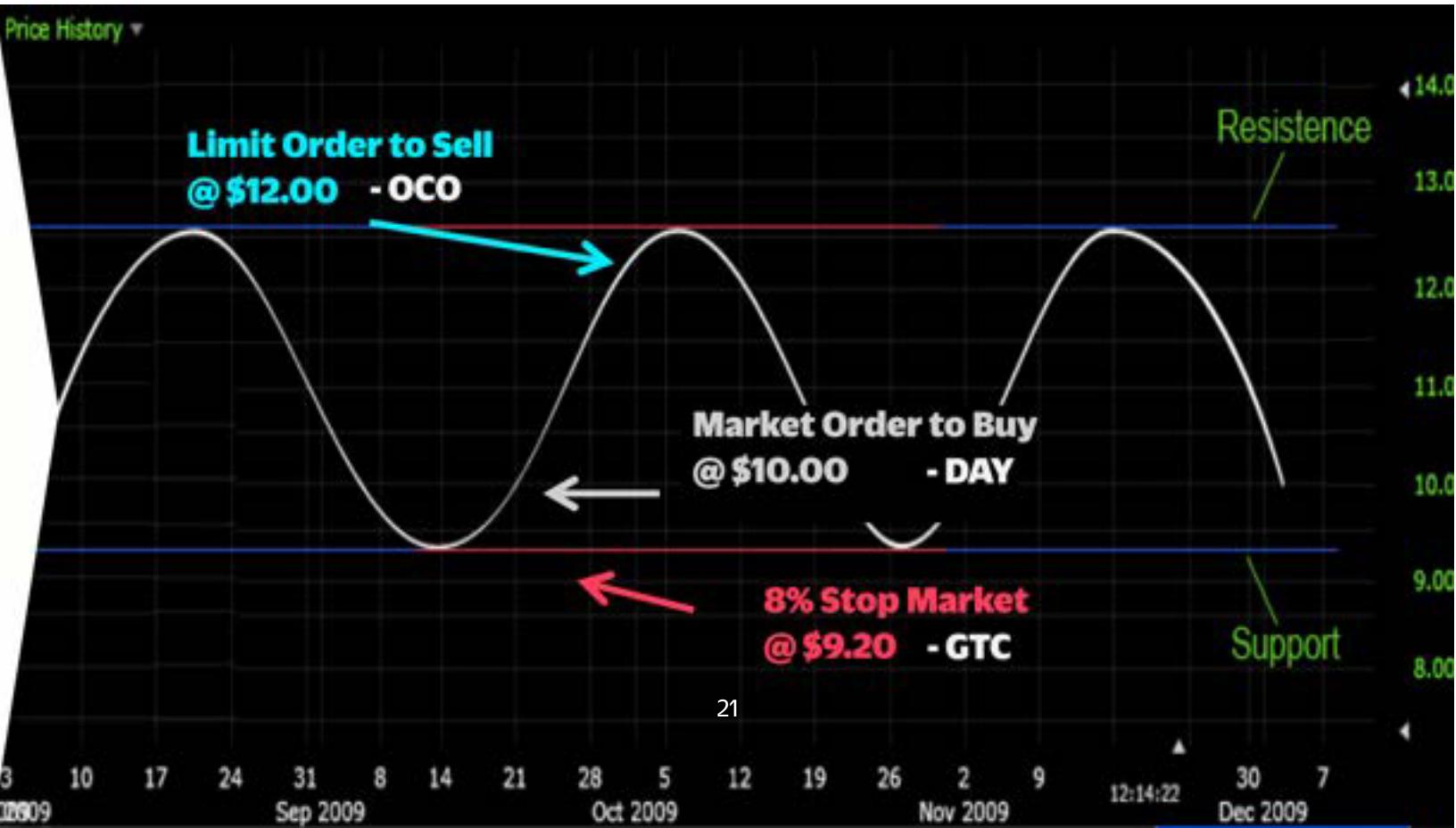
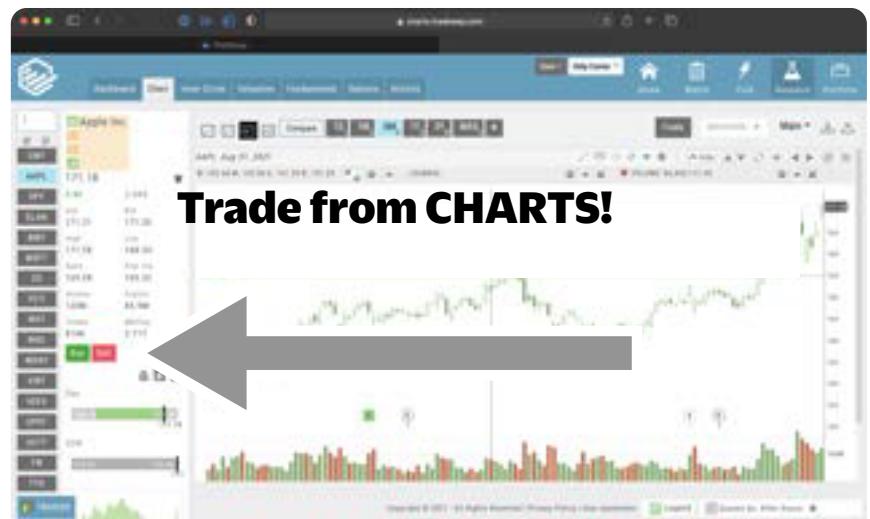
Spread = \$0.25

How do you know what you buy and sell for? It's the price that you DO NOT want (i.e. you would **buy** for \$23.75/share and **sell** for \$23.50/share).

How to Buy & Sell Stocks In a Trading Account

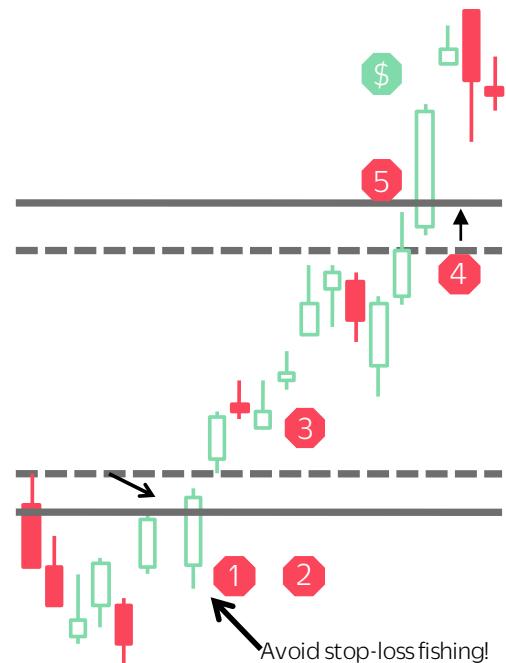


+



Stages of a Stop Loss

- 1 After you buy the stock, **write down** your stop loss & watch the stock.
- 2 Stock moves up, place a **real** stop-loss 8% below your original buy point.
- 3 Stock moves up half way. Cancel original stop. Place new stop loss higher with wiggle room.
- 4 Stock reaches sell point. Cancel previous stop. Place tight **trailing** stop alerts \$.10 - .20 BELOW BID.
- 5 Stock breaks above resistance. Cancel previous trailing. Place loose **trailing** stop alert to a larger amount.



We suggest this method for new students.

NOTES:

TECHNICALS

How to Understand Stock Charting

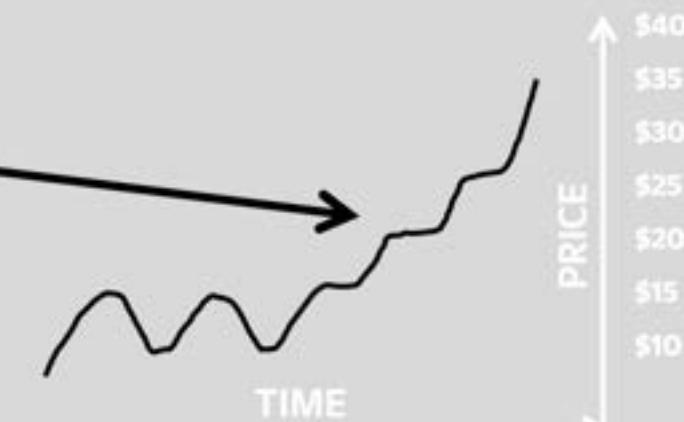
Price Graph

PRIMARY

Bull = Trending Up

Bear = Trending Down

Squirrel = Erratic



Volume Bars

PRIMARY



Technical Analysis: Uses charts to measure price and volume movements over time, which helps determine Buy and Sell points.

It measures the emotions of the market, and graphically displays Supply and Demand for the stock.

TECHNICALS

How to Understand Stock Charting

RESISTANCE

SUPPORT

**Primary Indicator:
Candlesticks**

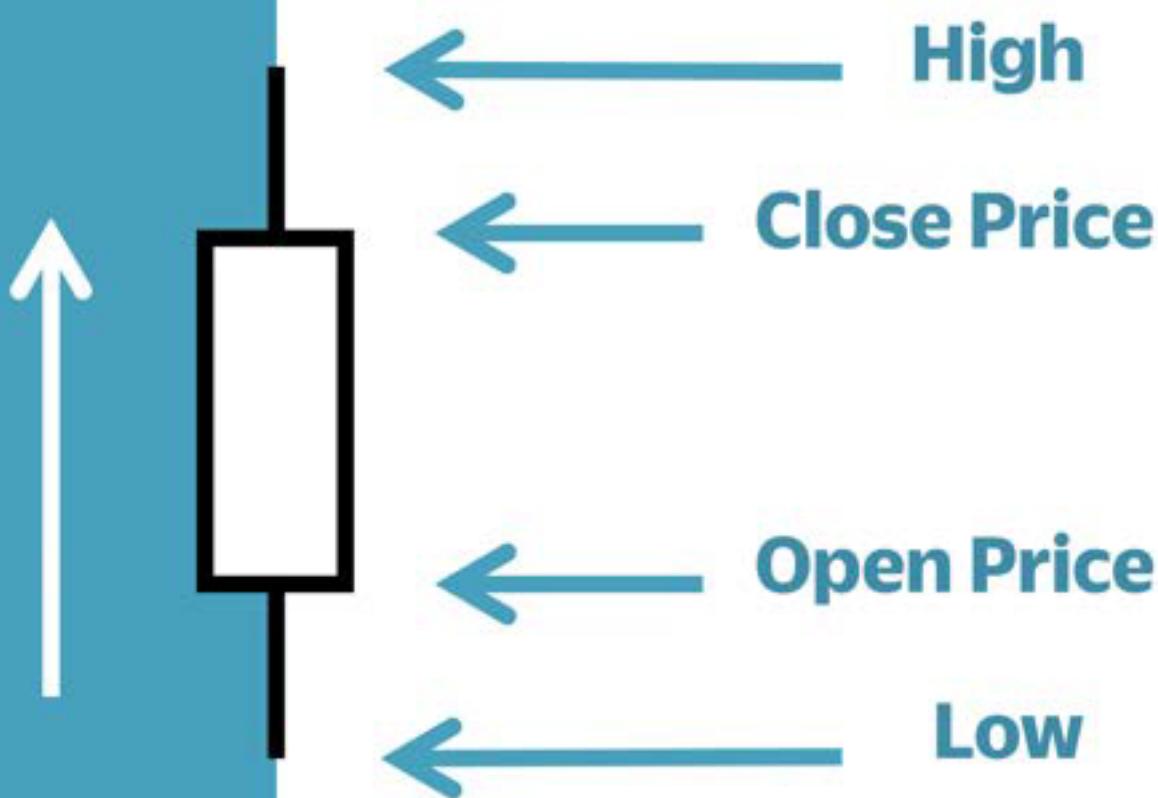
Clear Goes Up



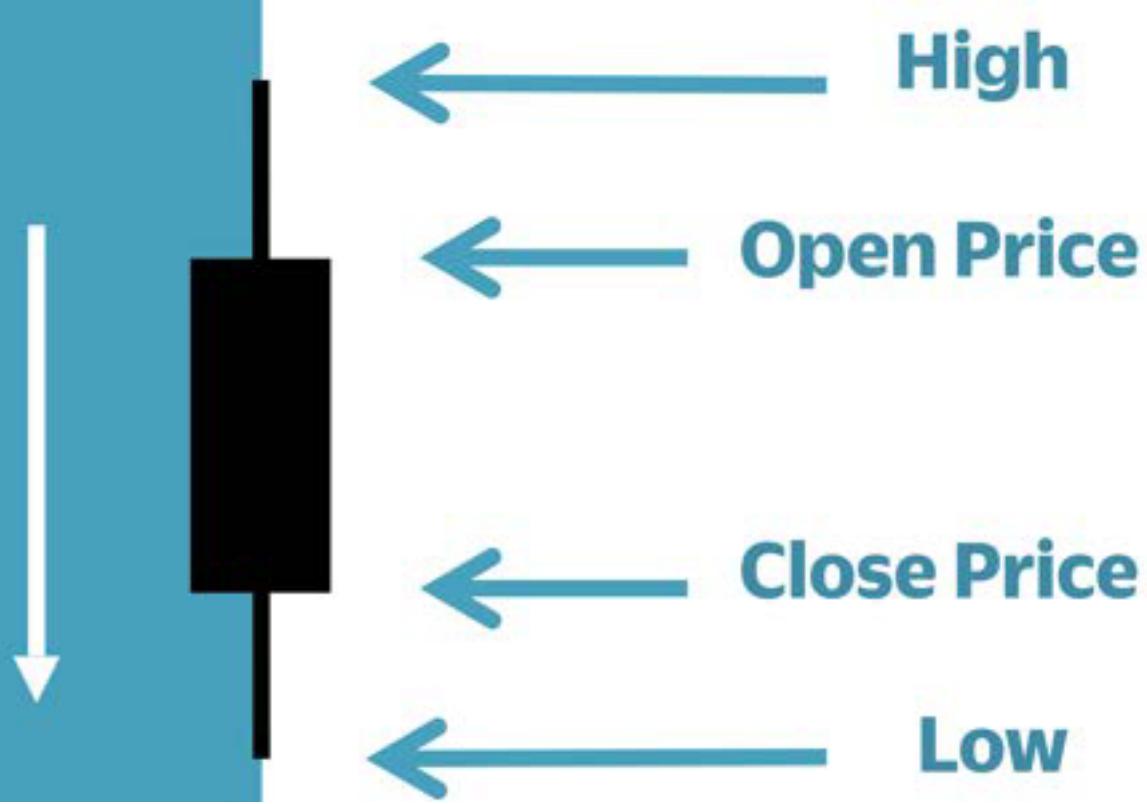
Filled Goes Down



**Clear
Goes
Up**



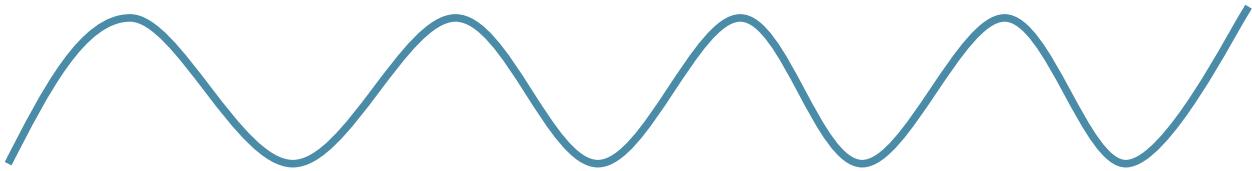
**Filled
Goes
Down**



NOTES:

Rolling Stocks

A Professional Strategy

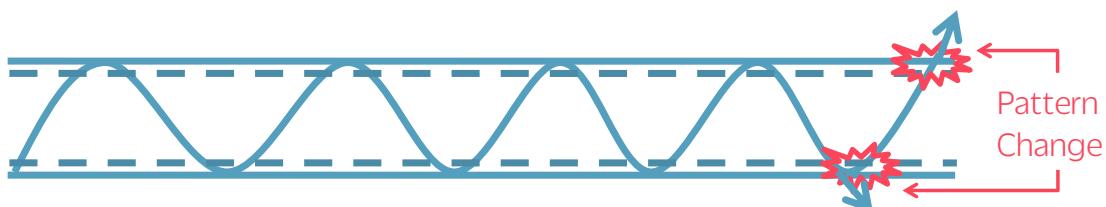


Definition: A stock which continually rolls between two horizontal price points—a high and a low.

Also called: Consolidation, Channeling, Sideways Stock

How many directions does a stock move? **THREE!**

1. Up (Uptrend) Top Line = RESISTANCE
 2. Down (Downtrend) Bottom Line = SUPPORT
 3. Sideways (Rolling Stock)



The dotted lines between the Support and Resistance lines are called the **Trading lines**. You choose where to **draw them**.

NOTE: I call this kind of strategy “Target Trading” because I pick “targets” at the predetermined price points I wish to get in and out of a trade. My trading lines (as shown above) make for good “targets.”



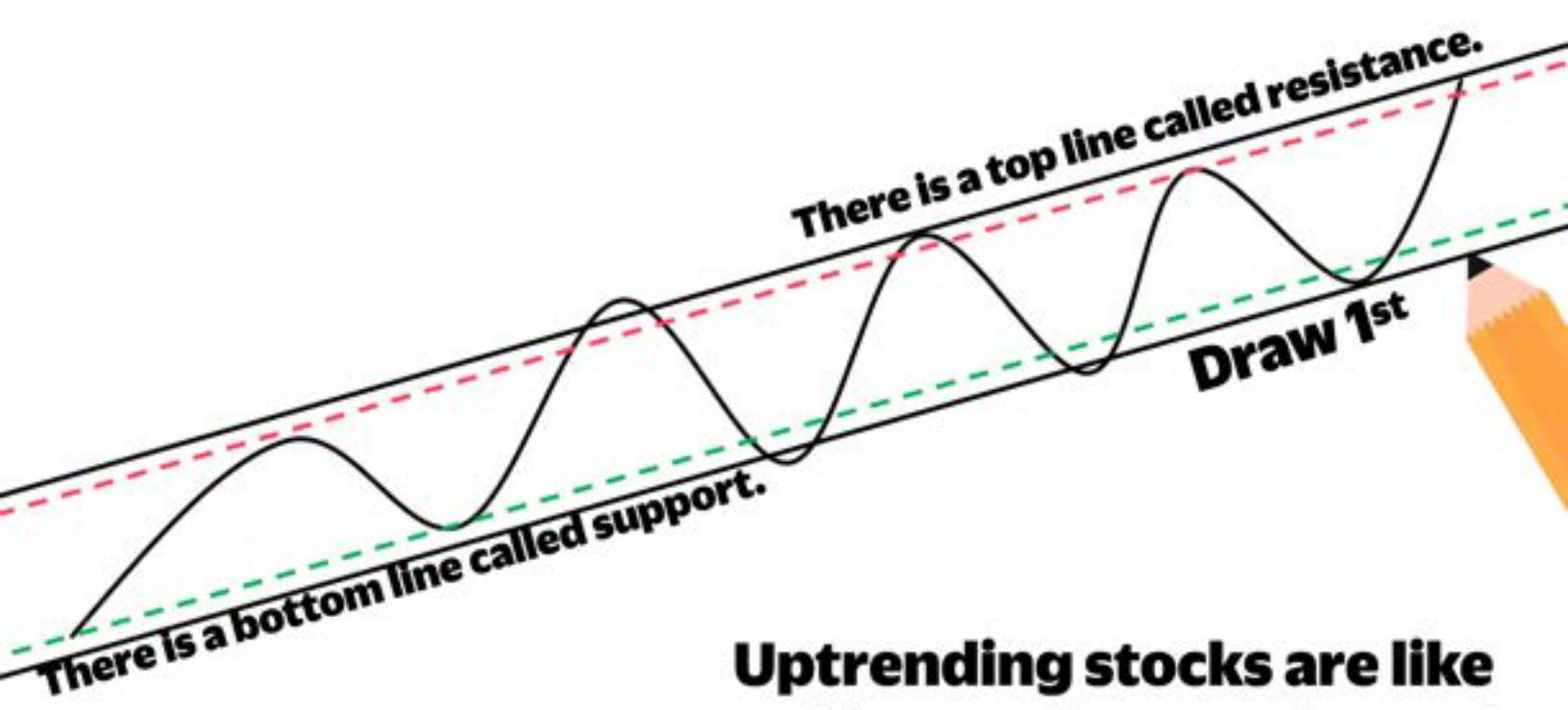
Buy Point—ONLY after the stock goes down, hits support, turns and bounces up.

Sell Point—Just before the resistance line.

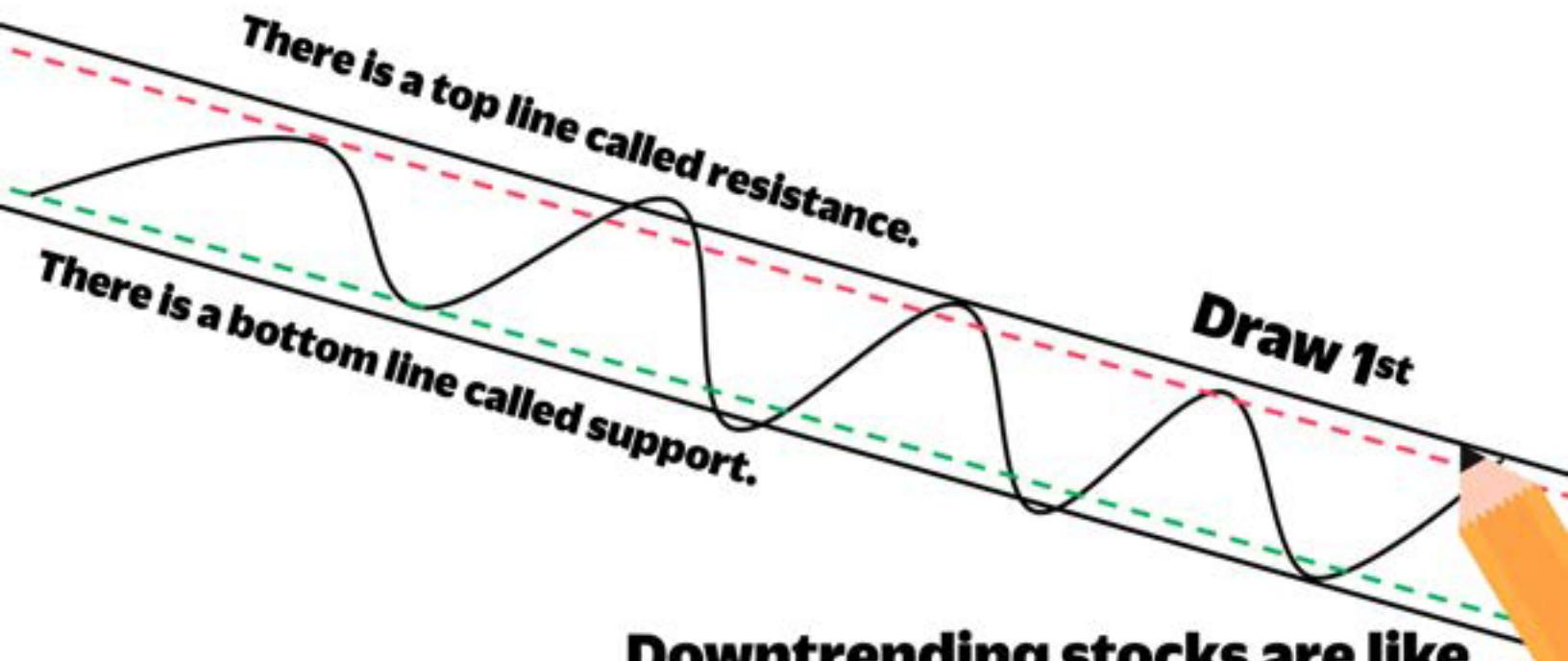
Breakouts—When the stock breaks through support or resistance, the pattern is about to change!

Get out and look for another stock, especially if breakout is on higher volume.

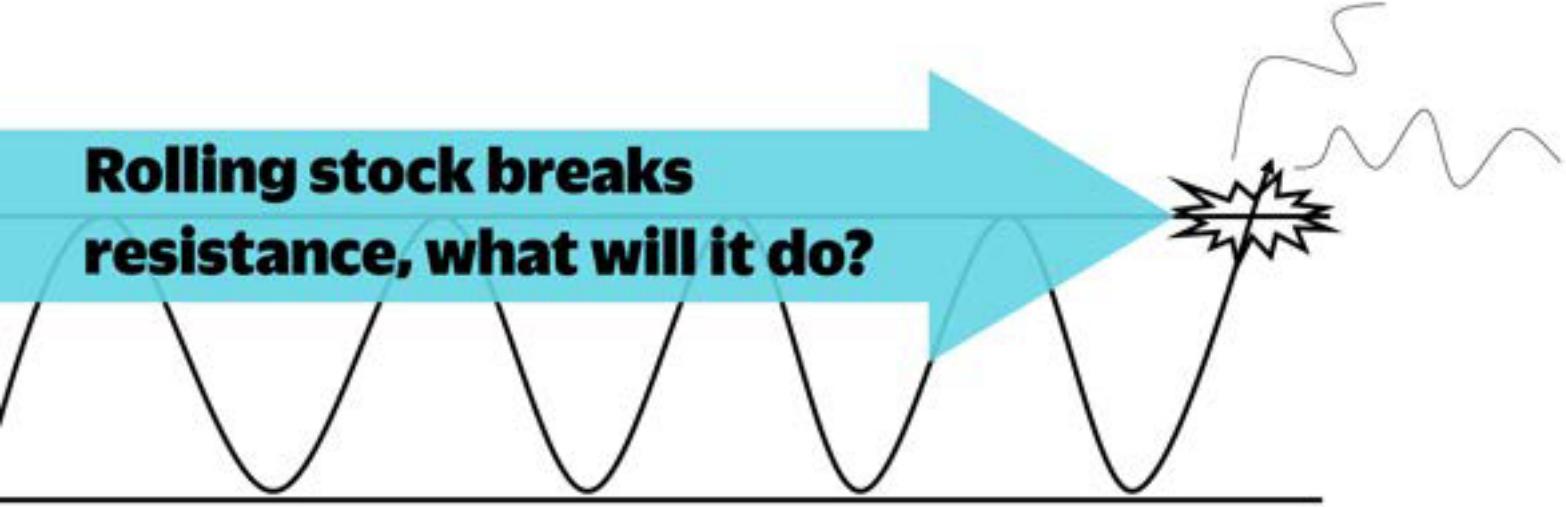
NOTES:



**Uptrending stocks are like
rolling stocks... going up!**



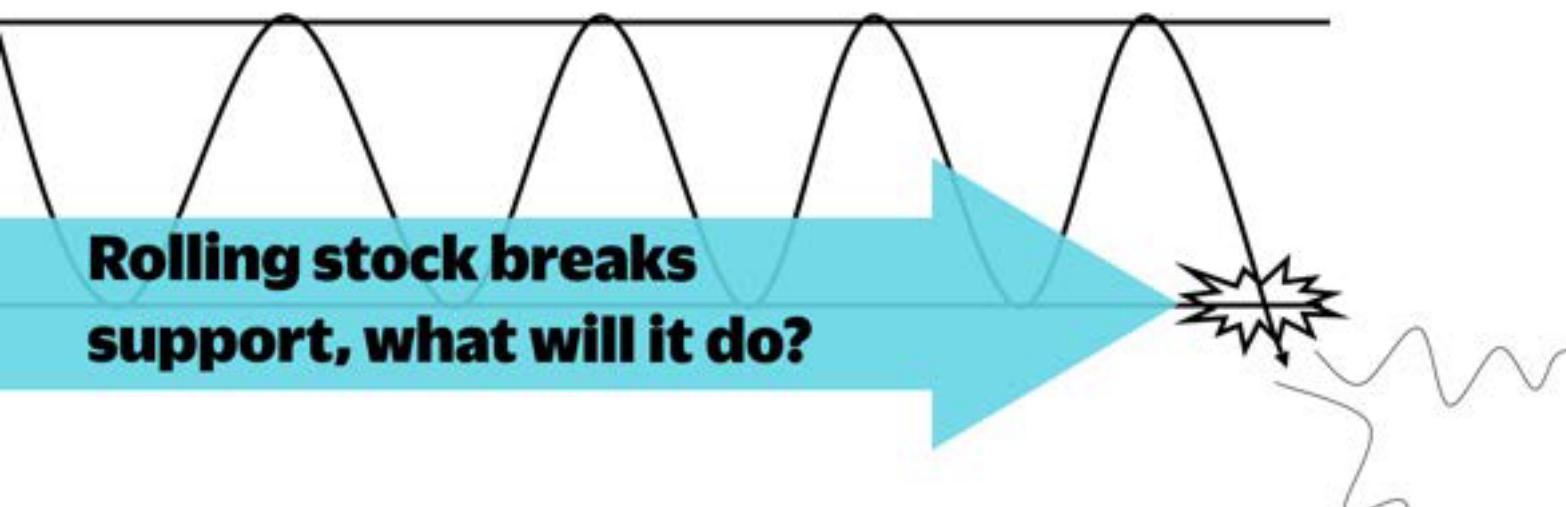
**Downtrending stocks are like
rolling stocks... going down!**



**Rolling stock breaks
resistance, what will it do?**

Don't Know!

It could uptrend or roll in a higher range.



**Rolling stock breaks
support, what will it do?**

Don't Know!

It could uptrend or roll in a higher range.



If an Up Trending Stock
breaks the Support Line...

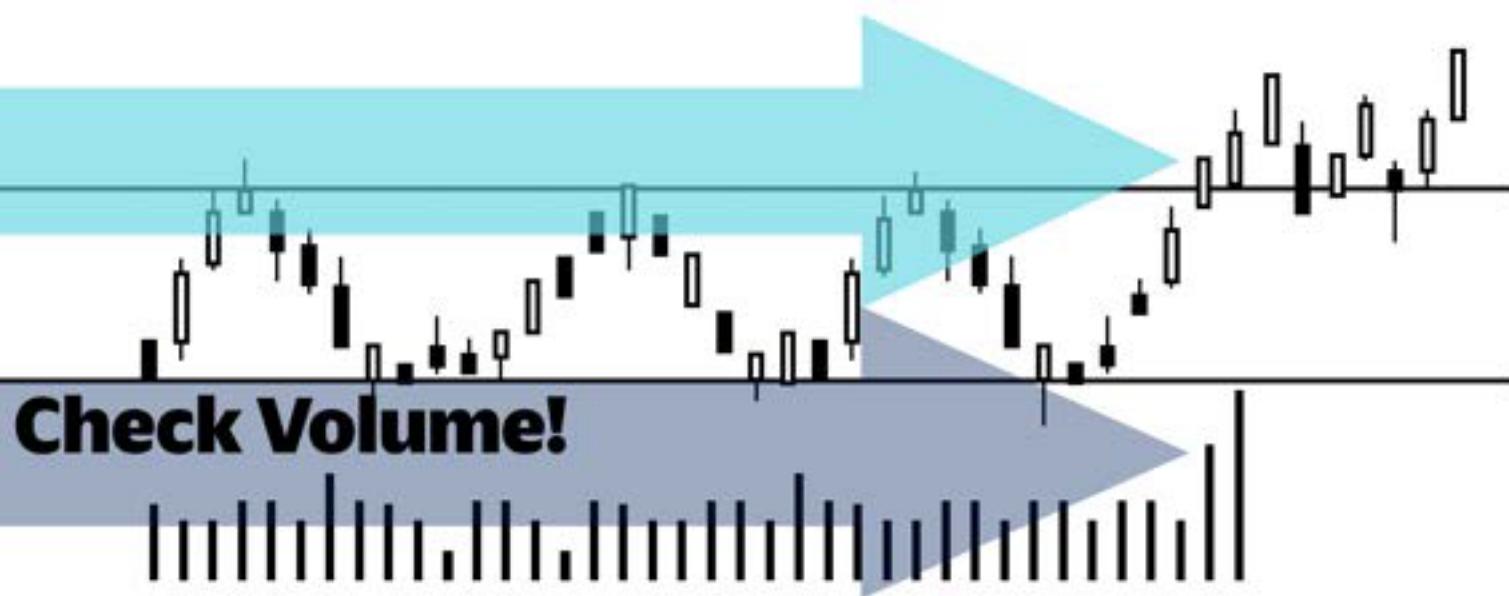
It Will Be a Rolling Stock or a Down Trending Stock.



If a Down Trending Stock
Breaks the Resistance Line...

It is now a Rolling Stock or an Up Trending Stock.

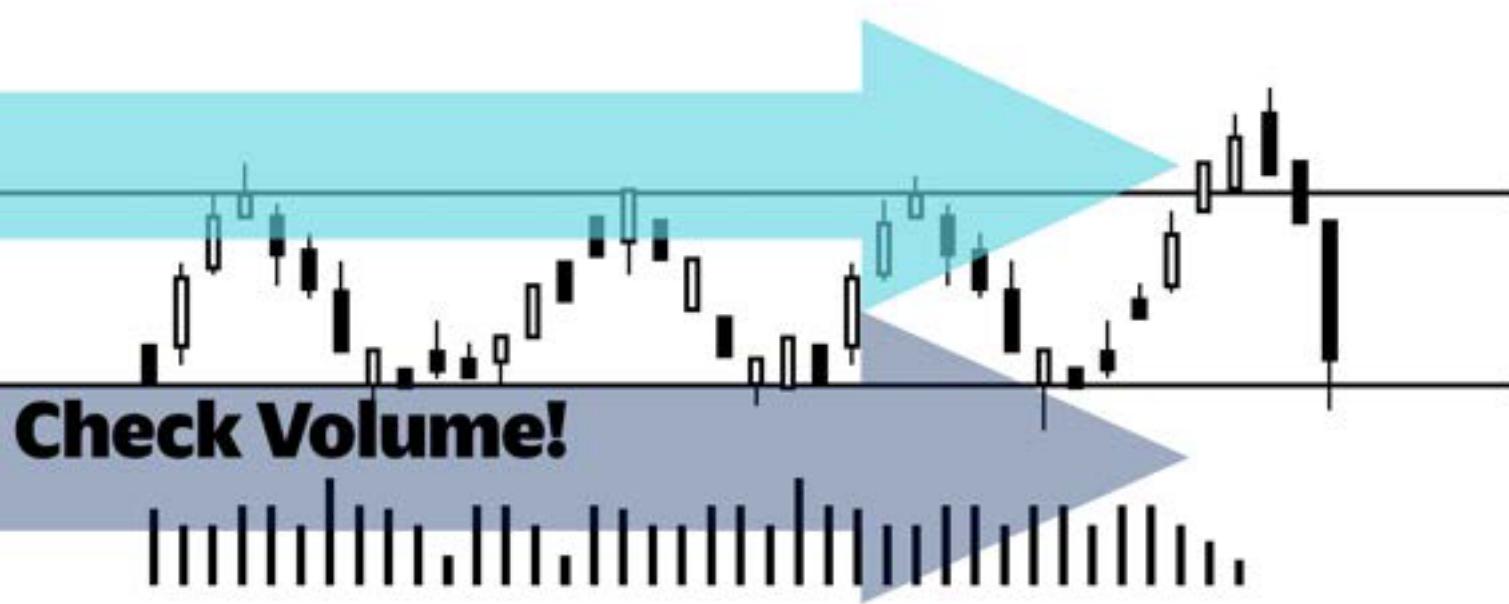
Breakout Through a Trend Line?



Check Volume!

Increased...Watch for Pattern Change

Breakout through resistance!



Check Volume!

Decreased... Watch for Anomaly

How to Identify Buy & Sell Points



Buy and Hold	Purchased	\$1,850		
	Sold	\$2,375		
	Profit		\$525	28.38%

Rolling Stocks

Strategy Preview

Stock	Ticker	Date	Shares	Bought/Sold	Cash	Profit	ROI	Annualized
Delta Airlines, Inc.	DAL	08/28/08	250	\$7.40	\$1,850			
Airline		09/02/08	250	\$9.40	\$2,350	\$500		
		09/04/08	317	\$7.40	\$2,346			
		09/17/08	317	\$9.50	\$3,012	\$666		
		10/01/08	406	\$7.40	\$3,004			
		10/07/08	406	Stopped Out	\$2,764	-\$240		
		10/15/08	373	\$7.40	\$2,760			
		10/20/08	373	\$9.50	\$3,544	\$783		
		10/28/08	478	\$7.40	\$3,537			
		10/30/08	478	\$9.50	\$4,541	\$1,004		
							\$2,712	147%
								849%

Buy & Hold
\$525
ROI 28%

VS

Rolling Stock
\$2,712
ROI 147%

Disclaimer:
This example is for academic purposes only and does not guarantee that you will obtain similar returns.

Rolling Options

Strategy Preview

Delta Airlines, Inc.								Spread		
Airline	Stock	Ticker	Date	Shares	Stock	Bought/Sold	Delta	\$0.10	\$1,800	
	Stock		Date	Shares	Stock		Profit	ROI	Annualized	
Buy calls	DAL	08/28/08	1500	\$740	\$1.20	\$1,800				
Sell calls		09/02/08	1500	\$940	\$2.10	\$3,150	\$1,350			
Buy calls		09/04/08	2600	\$740	\$1.20	\$3,120				
Sell calls		09/17/08	2600	\$950	\$2.47	\$6,409	\$3,289			
Buy calls		10/01/08	5300	\$740	\$1.20	\$6,360				
Sell calls		10/07/08	5300	Stopped Out	\$0.93	\$4,929	-\$1,431			
Buy calls		10/15/08	4100	\$740	\$1.20	\$4,920				
Sell calls		10/20/08	4100	\$950	\$2.47	\$10,107	\$5,187			
Buy calls		10/28/08	8400	\$740	\$1.20	\$10,080				
Sell calls		10/30/08	8400	\$950	\$2.47	\$20,706	\$10,626			

Rolling Stock
\$2,712
ROI 147%

vs

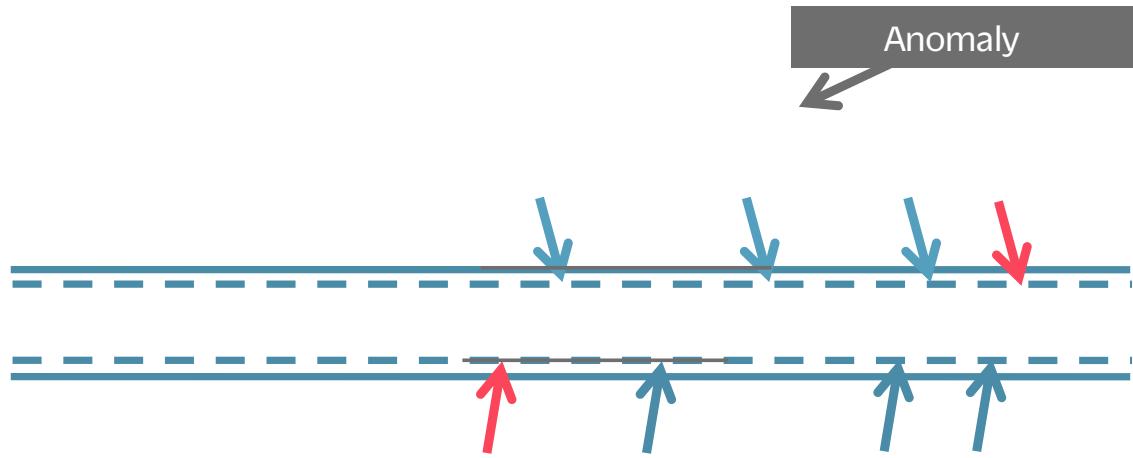
**Rolling Option
\$19,021
ROI 1,057%**

Disclaimer:
This example is for academic purposes only and does not guarantee that you will obtain similar returns.

NOTES:

When to Buy & Sell Rolling Stocks

SVN on 11/19/08



Buy on Weakness (Dips)
Sell on Strength (Tops)

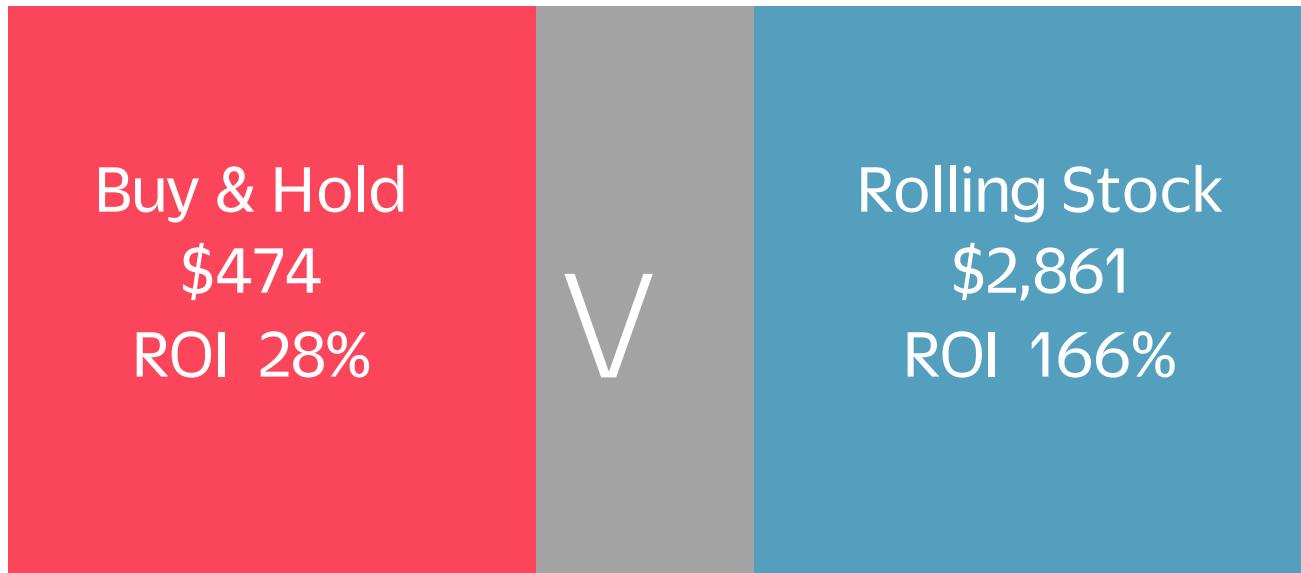
↗
↗
Buy & Hold

Could lose... ?
Should lose...?

\$2,861 166% 620%
↑
↑
Rolling Stock

↗
↗
Buy & Hold

Compared to Buy & Hold...



...is it really riskier? Why give up the profit?

But, to turn a small amount of money into a large amount, another form of leverage is **OPTIONS!** Let's have a preview...



ROLLING OPTIONS—DOUBLE DIPPING

Wuxi Pharmatech Cayman Inc.							Spread \$0.15	
WX	Stock	Ticker	Date	Shares	Stock	Bought/Sold	Cash	Profit
Buy Calls		WX	04/25/12	300	\$13.68	\$1.45	\$435	
Sell Calls			04/27/12	300	\$14.90	\$1.97	\$591	\$156
Buy Puts			04/27/12	300	\$14.90	\$1.93	\$579	
Sell Puts			05/09/12	300	\$13.62	\$2.48	\$745	\$166
Buy Calls			05/10/12	500	\$13.60	\$1.40	\$700	
Sell Calls			05/11/12	500	\$15.00	\$2.02	\$1,010	\$310
Buy Puts			05/15/12	600	\$14.68	\$1.50	\$900	
Sell Puts			05/17/12	600	\$13.55	\$1.97	\$1,183	\$283
Buy Calls			05/21/12	800	\$13.50	\$1.40	\$1,120	
Sell Calls			05/30/12	800	\$14.90	\$2.02	\$1,616	\$496
Buy Puts			06/04/12	1000	\$14.85	\$1.50	\$1,500	
Sell Puts			06/21/12	1000	\$13.70	\$1.98	\$1,983	\$483
Buy Calls			06/22/12	1200	\$13.70	\$1.45	\$1,740	
STOPPED OUT			07/26/12	1200	\$13.00	\$1.00	\$1,200	-\$540
Buy Calls			08/03/12	800	\$13.75	\$1.50	\$1,200	
Sell Calls			08/14/12	800	\$15.15	\$2.12	\$1,696	\$496
Buy Puts			08/14/12	1000	\$15.08	\$1.55	\$1,550	
Sell Puts			08/16/12	1000	\$13.60	\$2.21	\$2,214	\$664
Buy Calls			08/20/12	1400	\$13.83	\$1.55	\$2,170	
Sell Calls			09/26/12	1400	\$14.92	\$2.00	\$2,799	\$629
Buy Puts			10/01/12	1800	\$14.92	\$1.50	\$2,700	
Sell Puts			10/19/12	1800	\$13.57	\$2.09	\$3,767	\$1,067
Buy Calls			10/22/12	2500	\$13.79	\$1.50	\$3,750	
Sell Calls			11/05/12	2500	\$15.20	\$2.13	\$5,314	\$1,564

Profit	ROI	Annualized
\$5,773	1327.23%	2497%

In this example, leverage turned \$435 into \$5,773 in 6.5 months!

Disclaimer:

All charts' previous history is not indicative of future results.



What is a Bull Market?
Asset or securities prices
rise continuously (2 mths)

Catalysts to Bull Market:

1. Strengthening economy
2. Strong GDP
3. Drop in unemployment
4. Higher Corporate profits
5. Higher investor confidence

Lasts 2.5- 3yrs



What is a Bear Market?
Asset or securities
prices decline
continuously

Catalysts to Bear Market:

1. Widespread Pessimism & negative investor sentiment
2. Inflation
3. Higher unemployment

Lasts > 1 Yr. (6-9 Months)

Market Tone

1. World News; it takes a decade or more to master it!
2. Charting the S&P 500; we'll teach you proper charting techniques in this course!

Squirrel Market©

When either (1.) the S&P 500 chart **breaks out** either up through resistance or down through support (the pattern has changed); or (2.) the news component of Market Tone does not match the S&P 500 chart component.

Usually at this point we will put out a "Squirrel Market Alert," which means the Mitchell family and staff are NOT trading regular strategies from courses 1-3. Therefore, the TRADEway system suggests not trading for newer students with little experience, during a Squirrel Market Alert. These last, on average, 6 to 8 weeks or less.



Amateur Hour



This is the first hour of the trading day.

- Usually amateurs place a trade, then run off to work.
- Many times amateurs get it wrong.
- Professionals know this and often don't trade immediately.
- The market can reverse directions any time of the day and sometimes does so immediately after Amateur Hour.

Due to this instability, it is not a wise time for novice traders to initiate trades. Rather, one may watch to see what the **professionals do AFTER amateur hour**, then place one's trade.

Match the Strategy to the Stage

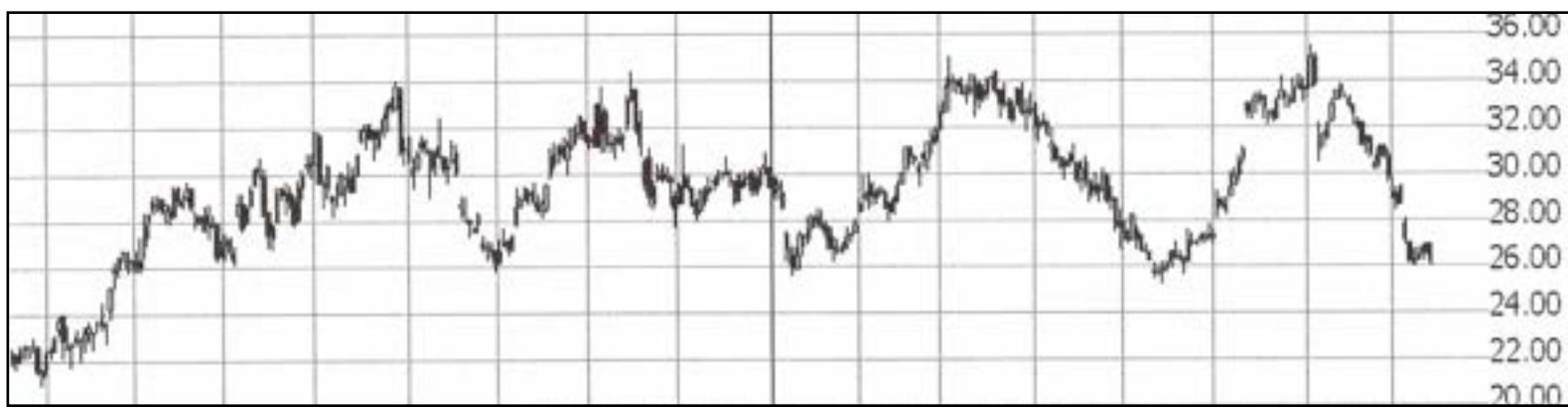
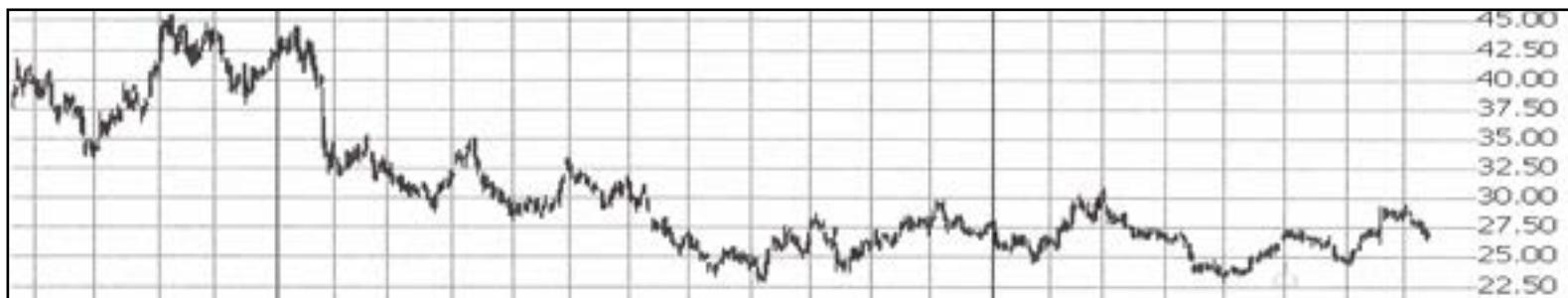
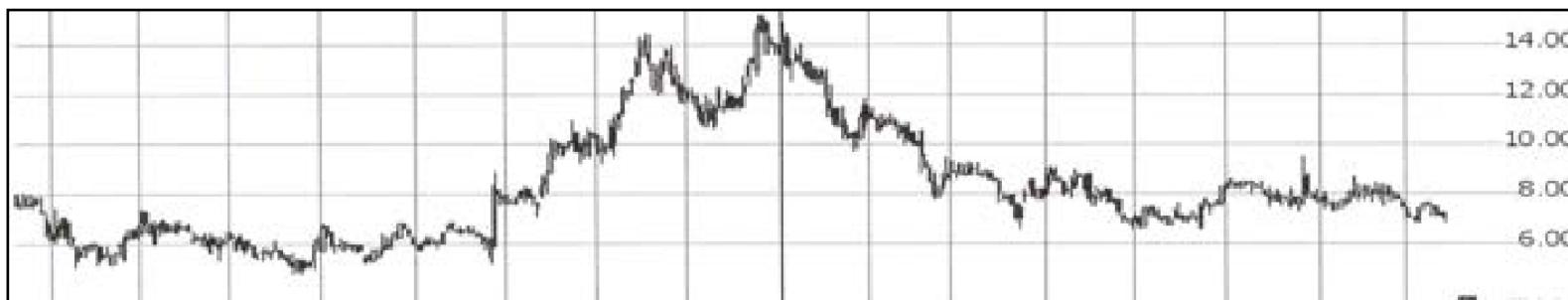
S&P 500, United States, D, NYSE (CFD) - 04388.30 H4392.60 L4362.70 C4377.70



NOTES:

Time to Practice!

Horizontal Support & Resistance

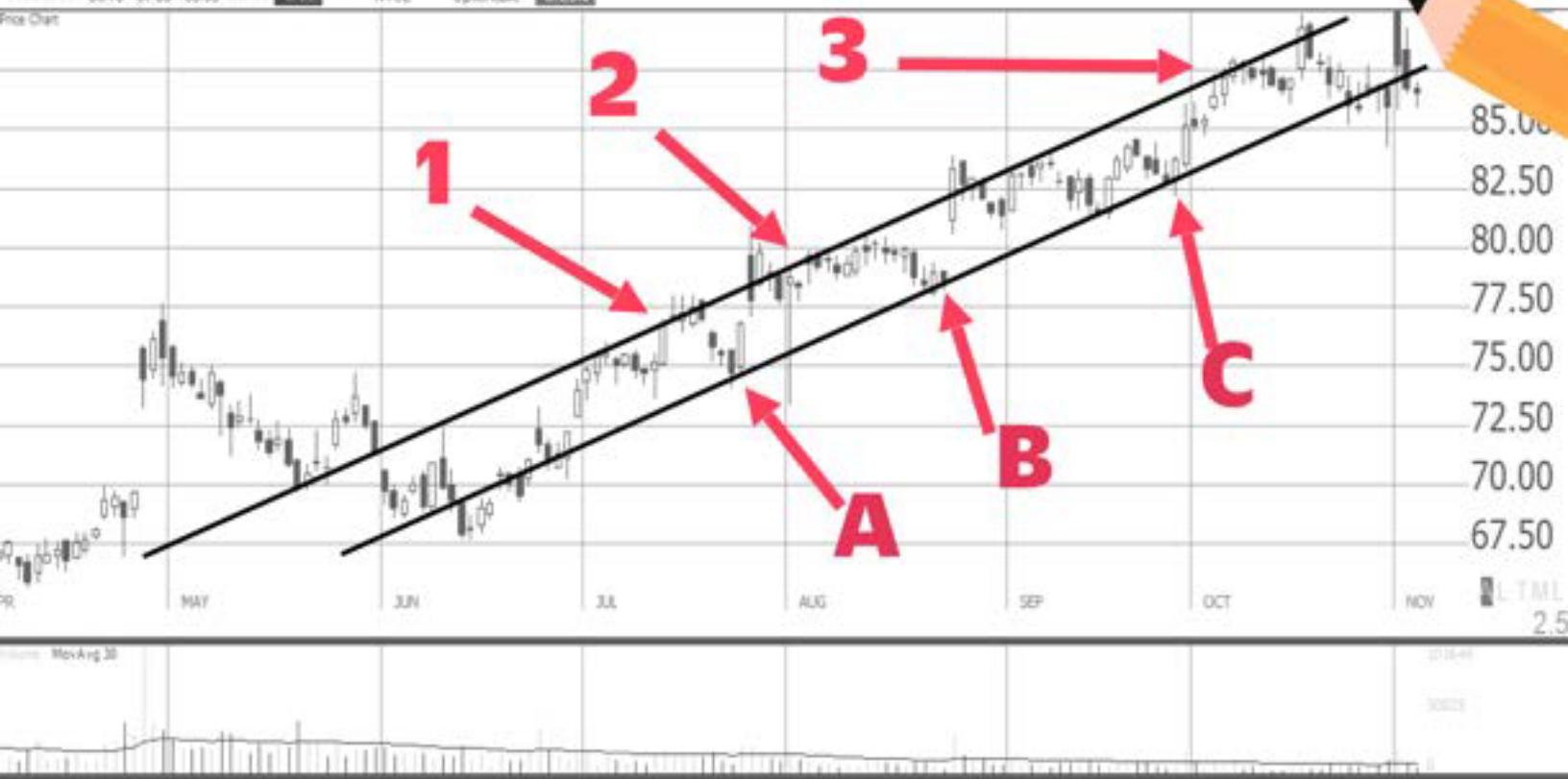


AGN - Allergen Plc
DRUGS - Drugs - Generic

F10 - Instructional - Edit Daily NYSE Optionable 8.22 85.76 87.03 85.95

Start at the pattern change & work forward

11/05/12



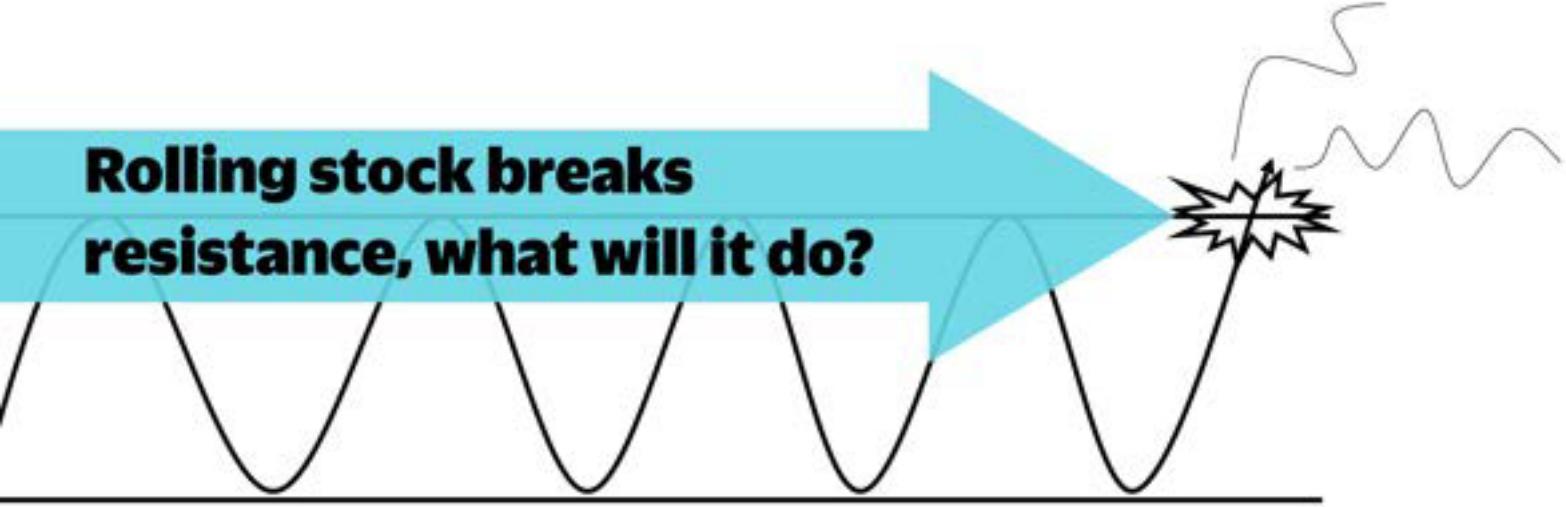
CAM - Cameron International Corp
ENERGY - Oil & Gas Equipment & Services

F10 - Instructional - Edit Daily NYSE Optionable +2.05 40.05 40.67 39.90 48.76

08/28/12



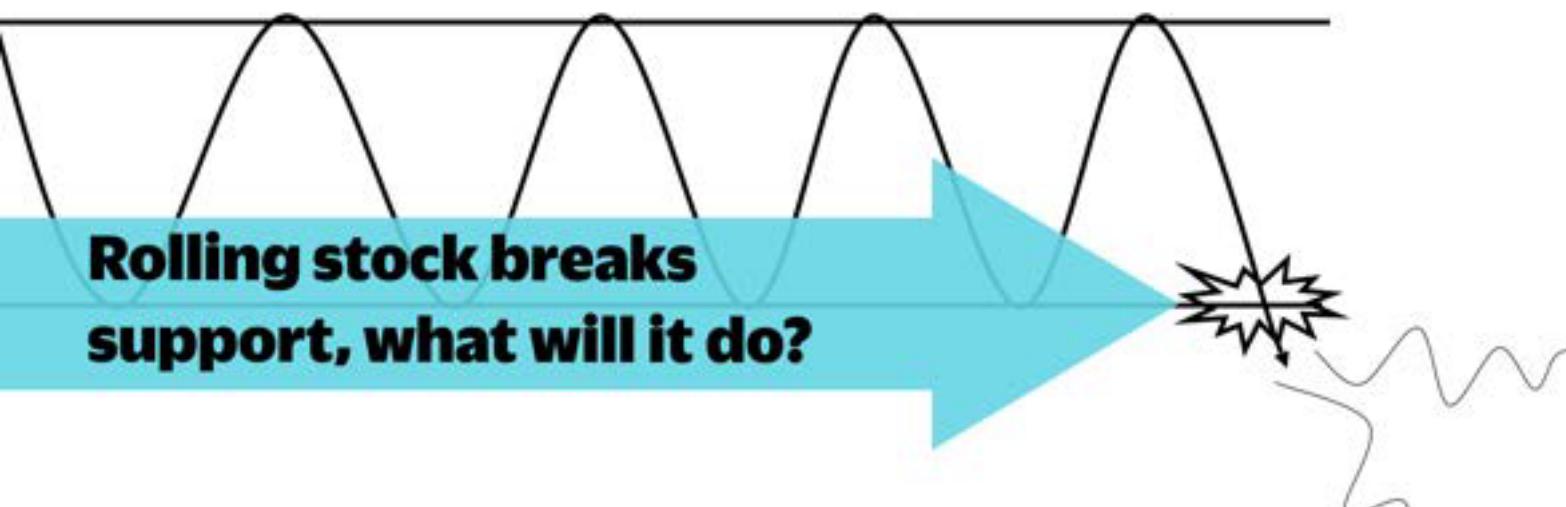




**Rolling stock breaks
resistance, what will it do?**

Don't Know!

It could uptrend or roll in a higher range.



**Rolling stock breaks
support, what will it do?**

Don't Know!

It could uptrend or roll in a higher range.



If an Up Trending Stock
breaks the Support Line...

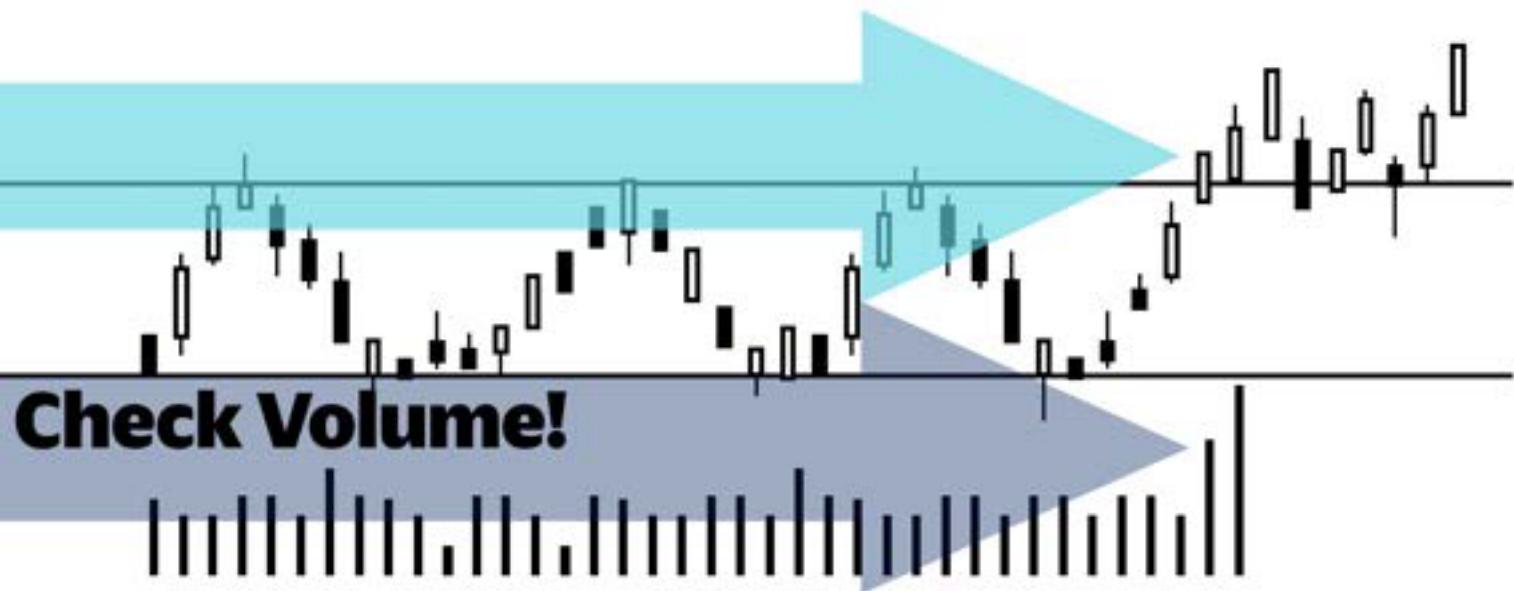
It Will Be a Rolling Stock or a Down Trending Stock.



If a Down Trending Stock
Breaks the Resistance Line...

It is now a Rolling Stock or an Up Trending Stock.

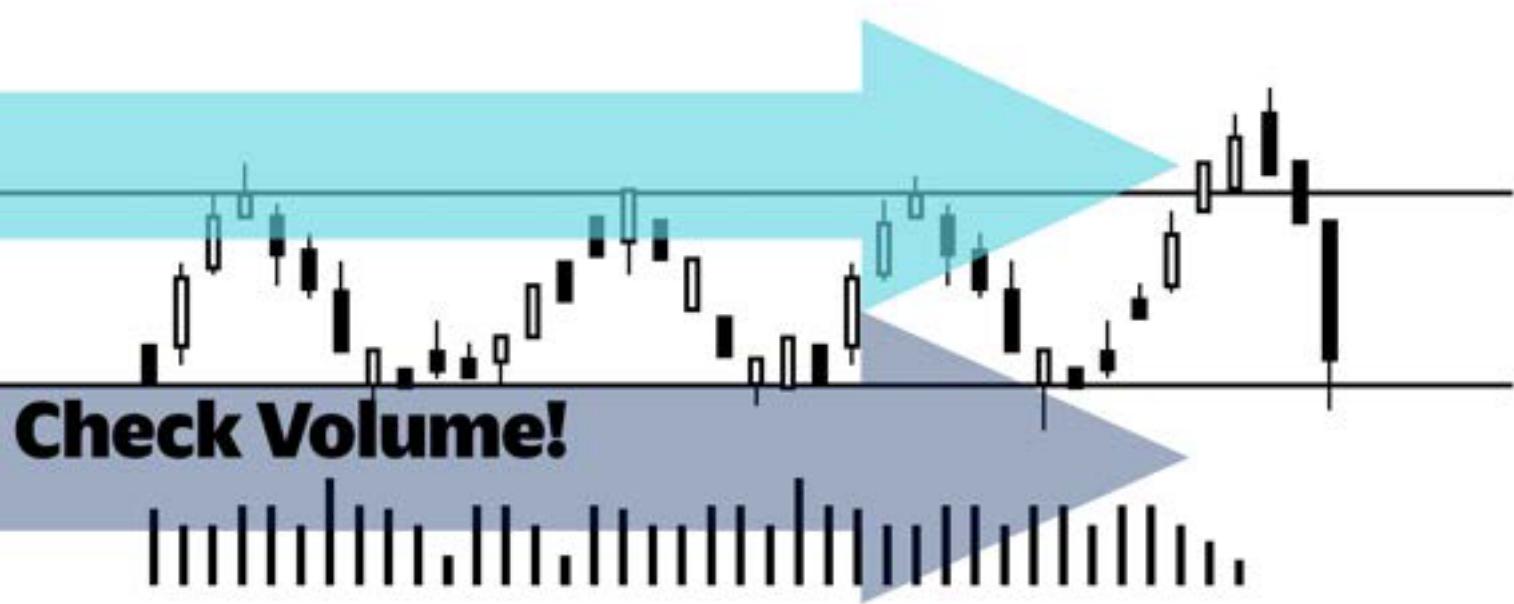
Breakout Through a Trend Line?



Check Volume!

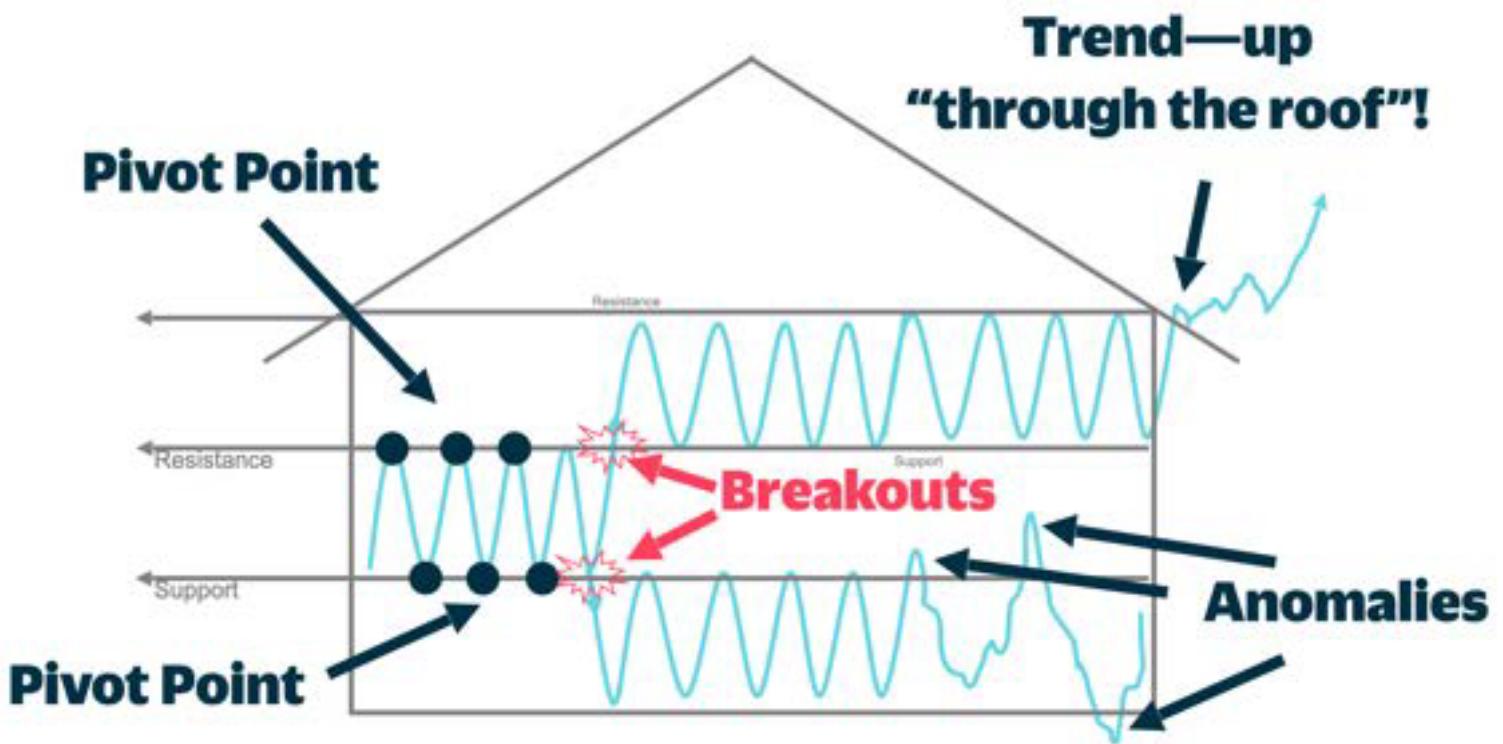
Increased...Watch for Pattern Change

Breakout through resistance!



Check Volume!

Decreased... Watch for Anomaly



Up is good! Down is good! Let the market tell you what it is doing!

PIVOT POINTS

When a stock bounces up or down off of a Support or Resistance line.

OUTRIDER ANOMALIES

These are drastically higher or lower price points that fall outside the normal Support and Resistance lines for approximately one or two days. Don't count these when drawing Support and Resistance lines.



Settings: 13—5—7 (Exponential)

Exponential provides quicker Buy & Sell signals than 14—7—9.

Function: Buy & Sell signals. The stock must be in a rolling pattern for 3 weeks or more, or it's not a good indicator.

Method: When lines cross, separate, and turn above or below the lines, it indicates a buy or sell signal. If between the 80% & 20% lines, it tells us nothing!

Apple Inc., United States, D, NASDAQ 0124.34 H127.90 L124.13 C127.88
EMA (10, close, 0) 123.0048
EMA (20, close, 0) 121.3066
EMA (50, close, 0) 118.3791

* Market Closed

EMAs: Trending Stocks

Moving Averages

10 Day
20 Day
50 Day



Settings: 10—20—50 (days); Exponential

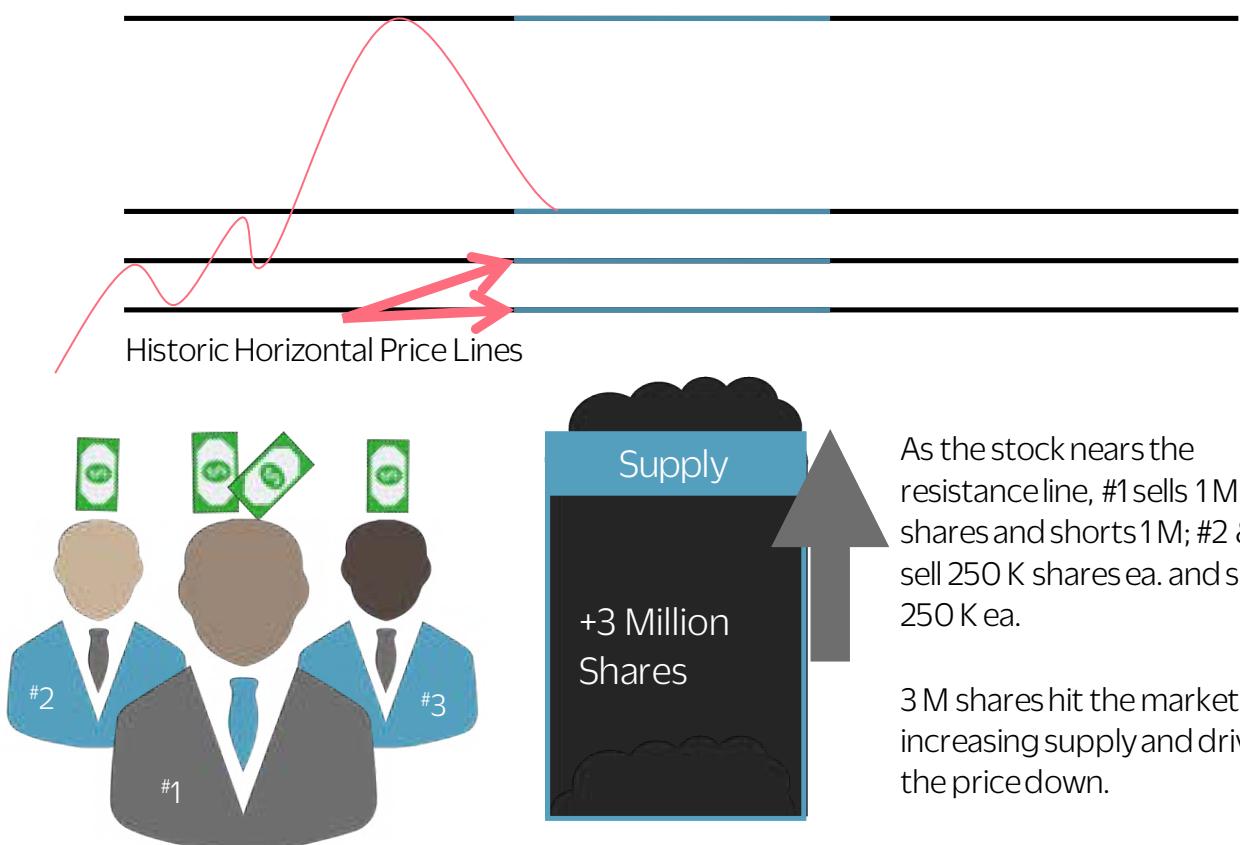
Function: Find Buy Points; NOT for a Rolling Stock—must have a trend up or down.

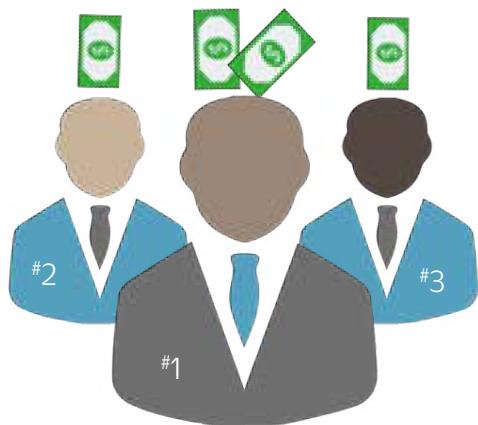
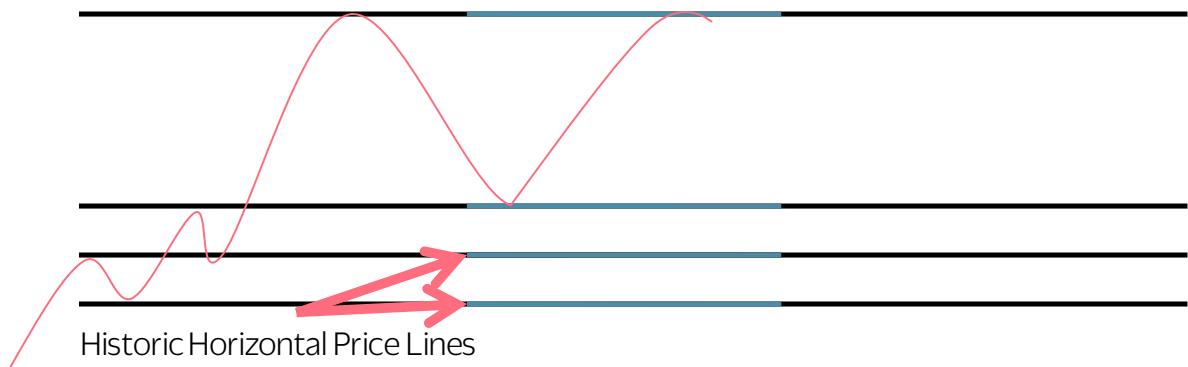
Method: Determine which line the stock bounces off of. It tends to continue to do so. So few stocks bounce off the 10-day that I believe it is unreliable, so I always look for stocks bouncing off the 20 or 50-day M.A.

Why Charting Works...

Human psychology is behind

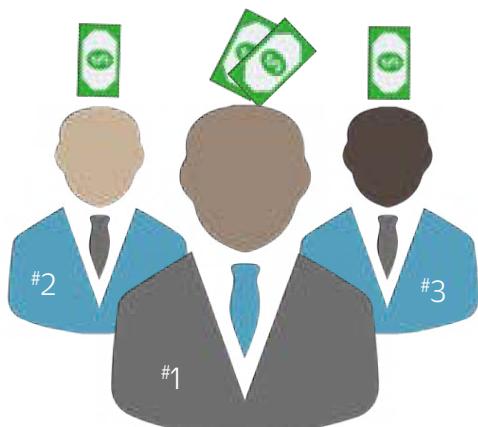
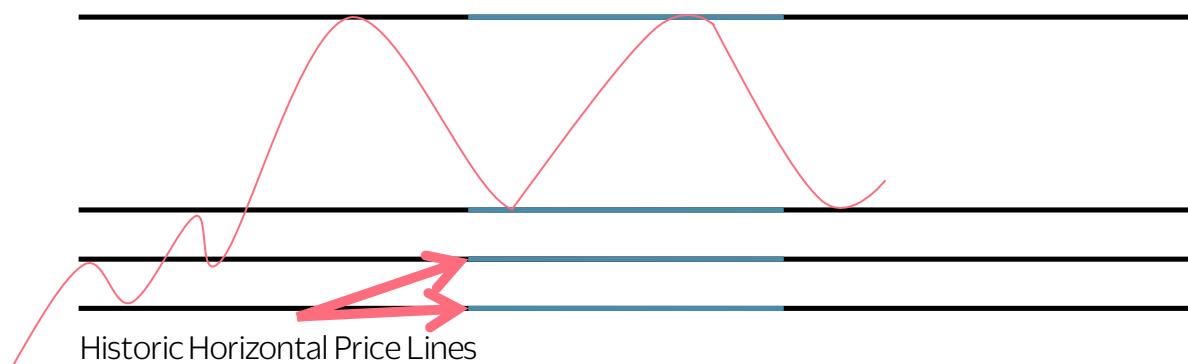
- **BIG BOYS with the BIG MONEY control the pivot points.**
- **There is a NUMBER ONE. OTHER BIG MONEY MANAGERS must join in, or the No. 1 may not be able to control the direction.**
- **Usually they join in because it is mutually beneficial**
- **This is HOW IT WORKS....**





As the stock nears support, #1, #2, & #3 cover their shorts, and buy back their original stock

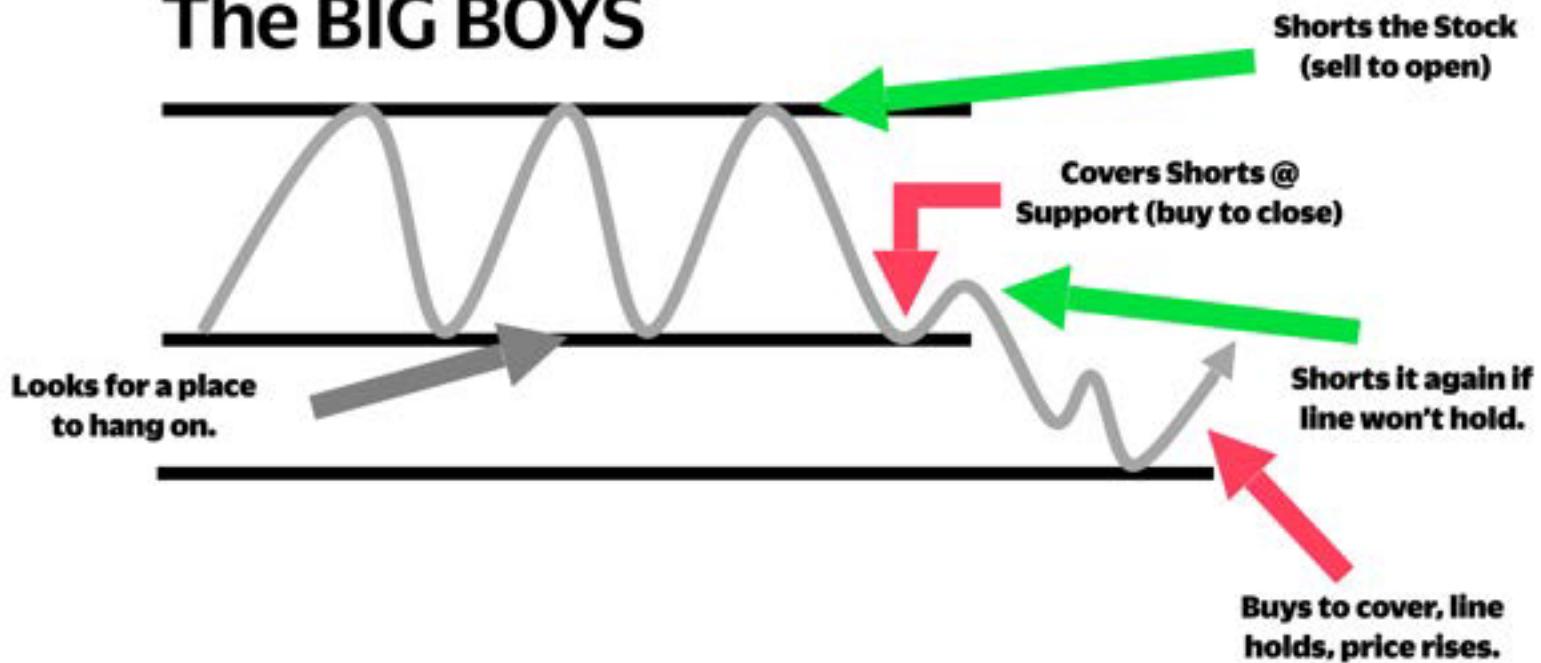
3 M shares are taken from the market, decreasing supply, so the price goes up.



#1, #2, & #3 sell their stock, and short the stock again.

3 M shares hit the market, increasing supply, and driving the price down.

The BIG BOYS



NOTES:

David Mitchell's Basic Rules

1. I want to know my **exits** before I enter the trade.
2. I try to avoid **greed!**
3. I do not respond to **fear!**
4. I try to be **patient**.
5. I use **Stop Losses** or Alarms
6. I only trade if volume is **300,000** + shares a day.
7. I use stocks **\$10 to \$30** in value (low-priced).
8. I NEVER buy stocks going **down!** I wait for the stock to **turn**, and go up.
9. I check the **earnings report** (and sell the day before it comes out).
10. Before doing a play, I ask myself..."Is it **predictable, repeatable, & reliable?**"



NOTES:

Facts you need to know

1. Not everyone learns at the same rate. That's okay, God made every one of us different. **Learn at your own rate** and have fun!
2. Not everyone achieves their personal goals, but **MANY do!** The OPPORTUNITY is there for EVERYONE!
3. Please **do NOT attempt to use money you make trading** to pay for advanced courses.

You are new and it will require some time to gain practical understanding to go with your academic knowledge. Putting pressure on your trading, when you're new, takes the fun out of it.

4. **We do NOT guarantee success**, but we DO guarantee a GREAT EDUCATION!

Using a system, staying disciplined, and persevering produces greater success.

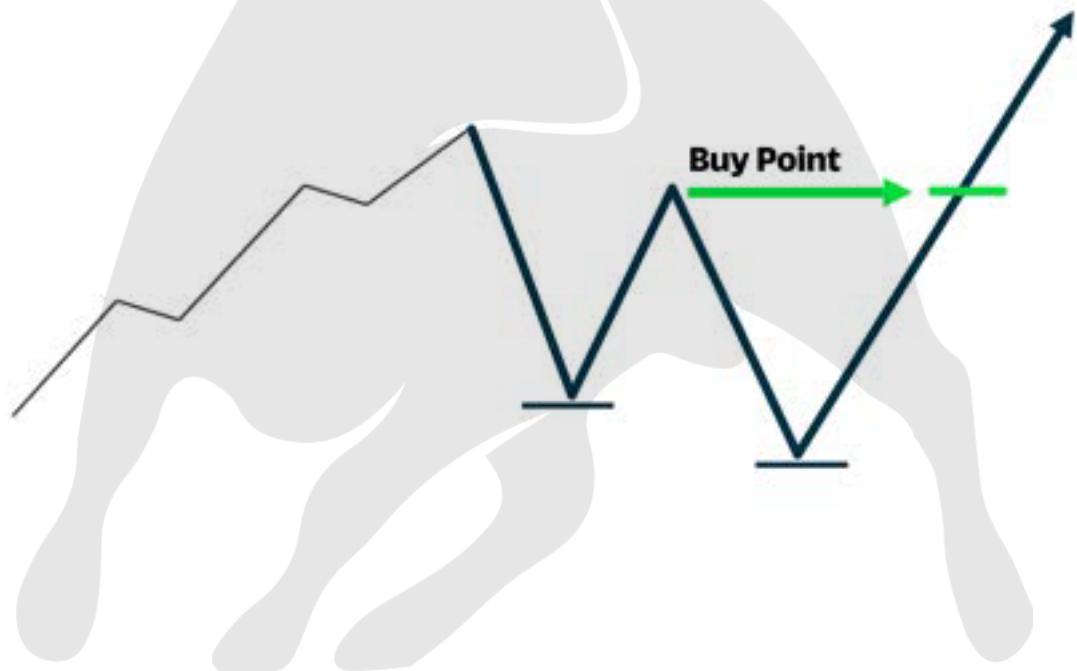
5. **Every great trader has suffered some losses** before they became GREAT!¹⁰

¹⁰ Schwager, op. cit.

Patterns & Bases

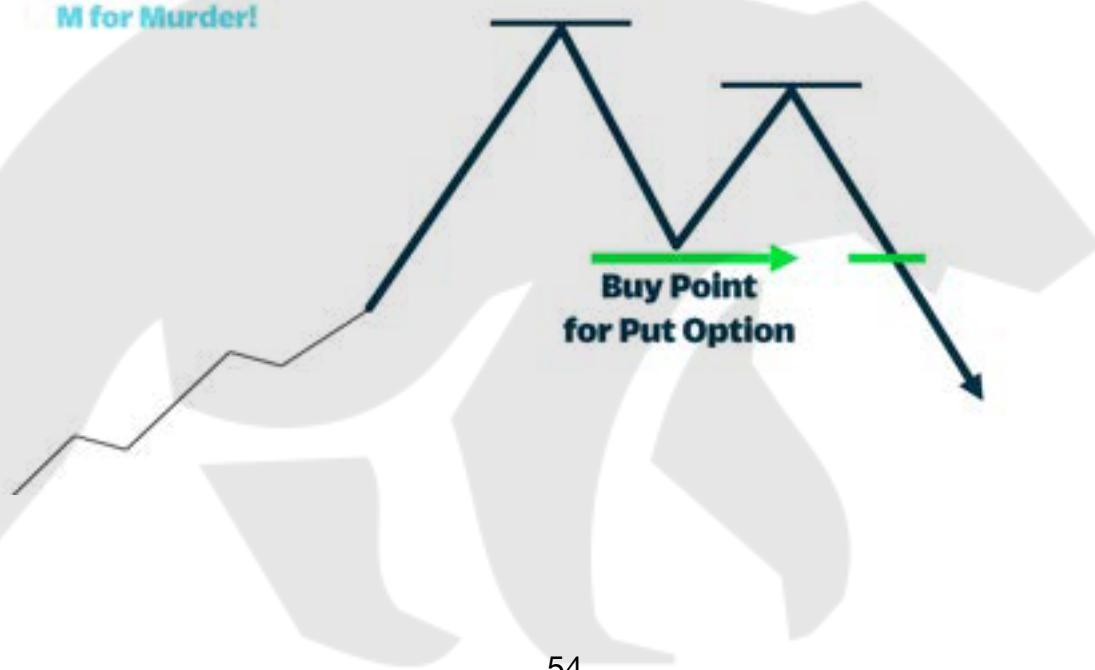
Double Bottom (W)

W for WINNER!



Double Top (M)

M for Murder!





Ms & Ws can be found at the bottom of a bear market, but are most reliable when found in a bull.

NOTES:

Stair Steps

Profit on the Step Up!



NOTES:

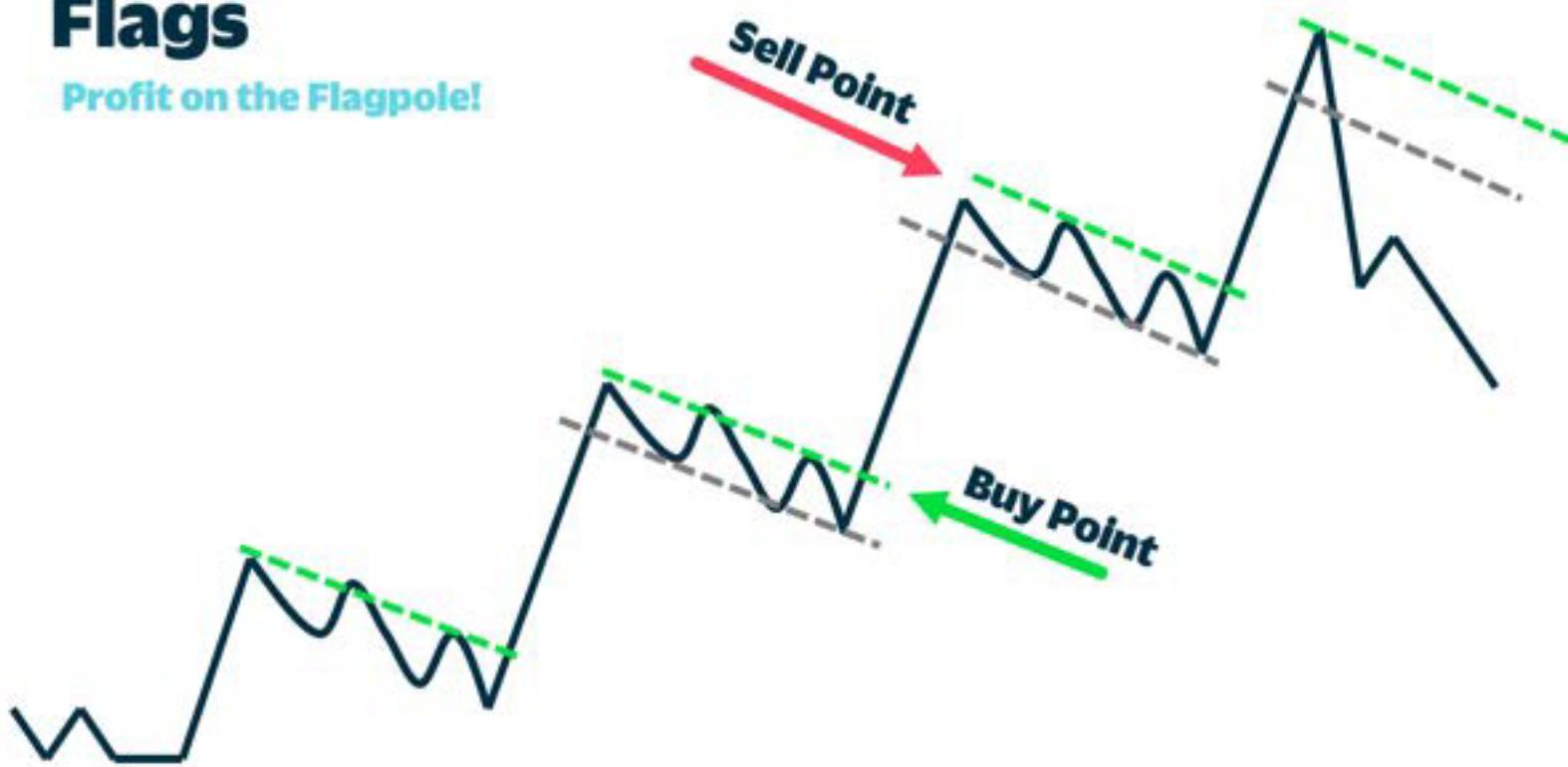


**\$10,495.00
2 mo. 26 days
ROI: 891%**

Stock	Ticker	Date	Shares	Bought/Sold	Cash	Profit	ROI	Annualized
Jazz Pharmaceuticals, Inc.	JAZZ	07/27/09	1000	\$5.00	\$5,000			
Pharmaceuticals		07/28/09	1000	\$7.60	\$7,600	\$2,600		
		08/11/09	1206	\$6.30	\$7,600			
		08/12/09	1206	\$7.90	\$9,527	\$1,927		
		08/25/09	1452	\$6.56	\$9,527			
		09/09/09	1452	\$11.00	\$15,972	\$6,445		
		10/15/09	1984	\$8.05	\$15,972			
		10/21/09	1984	\$7.81	\$15,495	-\$477		
						\$10,495	210%	891%
Buy and Hold				Purchased	\$5,000			
				Sold	\$7,810			
				Profit		\$2,810	56.20%	56.20%
2 mo. 26 days =								

Flags

Profit on the Flagpole!



NOTES:



\$7,255.00
4 mo. 3 days
ROI: 865%

Stock	Ticker	Date	Shares	Bought/Sold	Cash	Profit	ROI	Annualized
Sprint	S	02/13/09	1000	\$2.49	\$2,490			
Telecommunications		02/26/09	1000	\$3.48	\$3,480	\$990		
		03/09/09	1164	\$2.99	\$3,480			
		03/13/09	1164	\$4.14	\$4,819	\$1,339		
		04/01/09	1357	\$3.55	\$4,819			
		04/02/09	1357	\$4.57	\$6,201	\$1,383		
		04/29/09	1477	\$4.20	\$6,201			
		05/04/09	1477	\$5.48	\$8,094	\$1,892		
		06/11/09	1686	\$4.80	\$8,094			
		06/16/09	1686	\$5.78	\$9,745	\$1,651		
						\$7,255	291%	865%
								4 mo. 3 days
		Buy and Hold		Purchased	\$2,490			
				Sold	\$5,780			
				Profit		\$3,290	132.13%	132.13%

Certain patterns require high volume on the day of the move in order to signal that one should get in the play, but not all patterns require this (such as rolling, stairs, flags, and normal trends).



However, if any pattern includes higher volume than the day before when the up move takes place, this is even better evidence that the play has potential to work.

Buy as NEAR the pivot point as possible.

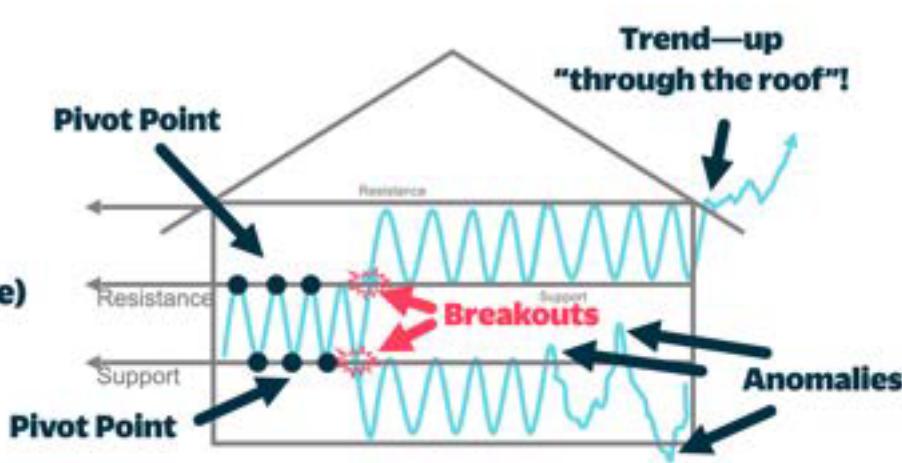
This is an ART more than a science.

Don't use a percentage.

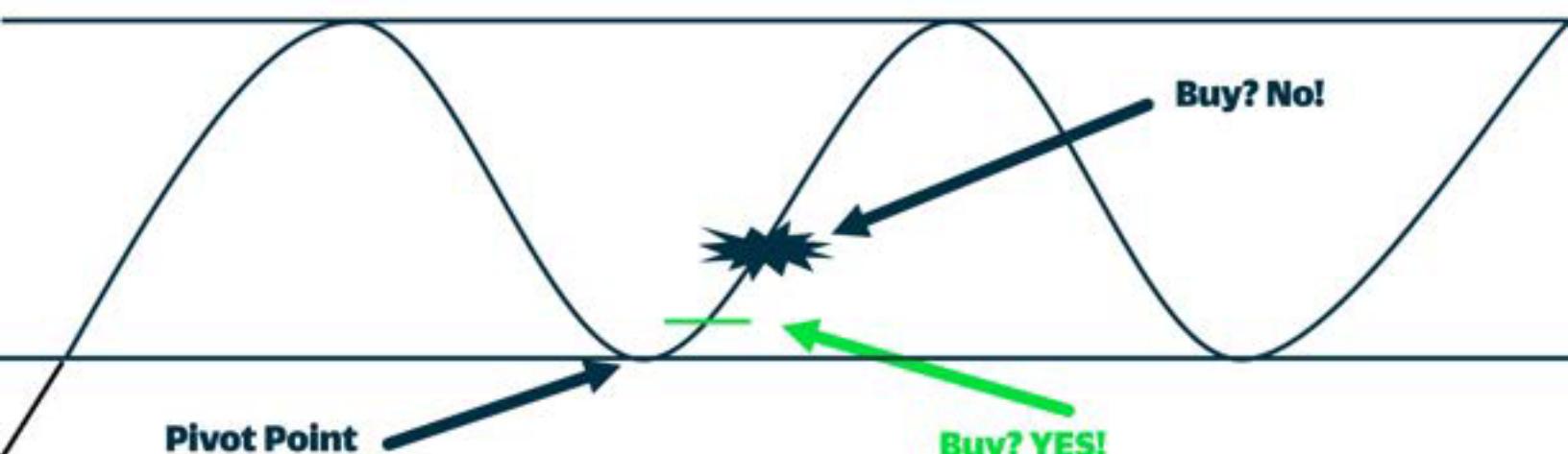
Just "eyeball" it...

...if it looks too far from the pivot point (support or resistance line)

...then DON'T buy it!!!



Buy at the right place!



**Buy point near a
CLEAR pivot
point.**

**Don't get caught
buying at or near
the top!**

NOTES:

Pull Back:

Within the normal move from Support and Resistance lines, after a few days up, there is normally a pull back (down). Stocks seldom move straight up, they "zig zag" up. These pull back days are often small dark candlesticks on low volume.

Retracement:

Once a stock hits Resistance, it normally moves back down to Support, and bounces back up. This is **natural**. It does not mean the stock is weak. Normally, this is profit taking, but Bulls are anxious to buy again at Support.

Correction:

A "Correction" is when a stock moves down THROUGH the Support line on higher volume and **continues down** from there (or up through Resistance). At this point, the pattern has changed.

On the S&P 500, this is a larger move down, but not the end of the Bull. This can mark the beginning of a "Squirrel Market."®

Pull Back Retracement Correction



What Patterns do YOU see?



What Patterns do YOU see?



What Patterns do YOU see?



What Patterns do YOU see?



What Patterns do YOU see?



What Patterns do YOU see?



What Patterns do YOU see?



The Action Plan!



- 1. Go through David Mitchell's Stock Rules – Keep these by your computer!**

- 2. Setup Charts by TRADEway (charts.bytradeway.com)**

- 3. Open Trading Account (tradeway.com/tradier)**

- 4. Wire Funds (Put money in your trading account!)**

- 5. Connect Charts by TRADEway w/ Tradier® Account**

- 6. Check your email for follow up from TRADEway!**

GLOSSARY OF TERMS

The TRADEway Three Legged Trading Table:

1. **Fundamentals:** Shows you what to buy. Includes earnings per share, relative price strength, industry group ratings, return on equity and accumulation/distribution. It determines if the company's financial statements are in order through ratios such as the ones listed previously. Trade in stocks that are good, strong, and sound companies with good to great financial statements. This helps to determine which stocks you should look at buying.
2. **Technicals:** Shows you when to buy and sell your fundamentally sound stock. It uses charts to measure price and strength movements over time, which helps determine buy and sell points. It measures the emotions of the market and graphically displays supply and demand for the stock. It includes chart price movements, chart volume movements, signature patterns, candlesticks, gaps and secondary indicators.
3. **Market Tone:** Shows you why to buy now or not to buy now. Market Tone consists of two parts: charting the S&P 500 and the world news. Part of Market Tone is the Technical Analysis of the S&P 500 index. The other part is determined by the world news. It takes years to develop and understand which world news is driving the market. The news and events that are important for individual stocks include earnings announcements, mergers, spin offs, stock splits, share buy backs, lawsuits, upgrades, downgrades, new products and other company news.

Basic Stock Market Jargon:

Buy Point: The point of purchase after the stock bounces up off of Support.

Candlesticks: These are turn indicators. Each candlestick is a visual representation of the opening and closing price of a stock for the time period set on the chart; daily, weekly, monthly, etc. This term gets its name because it looks like a candlestick that has a wick on both ends. A clear candlestick represents a stock which opened at a certain price and closed at a higher price. A dark candlestick represents a stock which opened at a certain price and closed at a lower price.

Day Order: Good for calendar day only (this order will cancel at the close of the market unless it was already executed or filled).

Exchange-Traded Fund (ETF): A security that tracks an index, a commodity, or a basket of assets like an index fund, but trades like a stock on an exchange. ETFs experience price changes throughout the day as they are bought and sold. We do not recommend trading ETFs because one of the three legs of the trading table will always be missing. ETFs, like indices, do not have fundamentals. These may be vehicles that can be used for long-term investing, but not trading.

Executed or Filled Order: Order was placed and executed; you now own the stock or you have sold the stock.

GTC: Good till canceled (this type of order will be an open order until it is either executed or canceled).

Market Makers: Found on the NASDAQ, NYSE and AMEX stock exchanges. A company will have 10 to 30 Market Makers and one will handle 400 to 500 different companies.

Market Order: Buying or selling at the current market price. This often changes or can be manipulated by the Market Maker. The appropriate time to use this would be when you must get in or out of a position in a hurry (i.e. the market is rapidly going up or down).

OCO: One cancels the other.

Open Order: Order has been placed, but not yet executed (you do not own the stock or have not yet sold the stock).

Outrider Anomalies: Drastically higher or lower price points that fall outside the normal Resistance and Support lines for approximately one or two days. Do not count these when drawing Resistance and Support lines.

Price Graph: A chart which shows the price of a stock and its movement over time. The price of the stock is indicated on the right side of the graph.

Pivot Points: When a stock bounces up or down off of a Support or Resistance line.

Primary Indicators: Price Graph Patterns, Support and Resistance lines, Volume Bars and Candlesticks are the primary indicators that show buy and sell points.

Resistance Line: The top line drawn to show historically where the stock moves up before bouncing and moving down to Support.

ROI: Cash-In divided by Cash-Out (of pocket) = ROI% over time—OR—Profit/Initial Investment = ROI%.

ROI Annualized: (See page 36 of workbook)

Rolling Stock: A stock which continually rolls between two price points—a high and a low. This is also called a consolidation, channeling or sideways stock.

Secondary Indicators: Use these indicators to help confirm your decision to buy or sell based on your primary indicators. Secondary indicators are used in Technical analysis to anticipate changes in stock trends or price patterns. Secondary indicators discussed in "Step 1: Start Your Journey" include: Stochastics (F3) and Exponential Moving Averages (F6).

Sell Point: The point just before the stock reaches the Resistance line.

Stops: A stop order allows you to stop out of a play when the stock is moving against you.

Stop Limit: Becomes an active Limit Order at a specified price. **WARNING:** Might not get filled if the stock gaps below your stop price.

Stop Loss or Stop Market: This becomes an active Market Order at a specified price. This type of stop will stop you out of your play at the price you entered or anything below that price. You could set the stop on the stock price, 8% below your buy point.

Support Line: The bottom line drawn to show historically where the stock moves up to before bouncing and moving up to Resistance.

Trailing Stop: A trailing stop is designed to protect gains by enabling a trade to remain open and continue to profit as long as the price is moving in the right

direction, but closing the trade if the price changes direction by a specified percentage or dollar/cent amount. You could use a trailing stop when your stock reaches your predetermined sell point, placing a tight trailing stop a little below the bid. If your brokerage house doesn't offer trailing stops, you could accomplish the same thing with stop alerts on your smart phone. When the alert goes off, then you would have to manually sell your stock.

Trending Stock: A stock which continually moves between Support and Resistance lines. 1. Up Trend; 2. Down Trend.

Volume Bars: Indicates the number of shares of stock bought and sold each day. (Note: With TC2000 v.7, add 2 zeroes to the volume noted on the top of the screen because 2 zeroes have been truncated). They must be 300,000+ shares traded on average per day.

Basic Guidelines for Using David Mitchell's System:

1. Know your exit point before entering a trade.
2. Don't get greedy!
3. Use stop losses or alarms.
4. Don't respond to fear!
5. Be patient.
6. Average Volume should be over 300,000+ shares per day.
7. Stock should be \$10 - \$30 in value (low-priced).
8. Don't buy stocks going down! Wait for the stock to bounce and go up.
9. Check earnings reports and sell the day before they come out. It is your responsibility to know the dates when checking the news and events of your stock.
10. Ask, is it..."predictable, repeatable and reliable?"

Strive Your Best To:

1. Recognize patterns. (If you don't see a pattern, don't trade it.)
2. Use correct buy points.
3. If the pattern changes, get out. (No longer predictable, repeatable, or reliable).

Disclosures

Trading Risk Disclosure:

"All forms of investing involve risk of loss that clients should be prepared to bear, including but not limited to, risk of loss of all or substantial portions of your investment. TRADEway methods and strategies have not always been successful. In fact, there is no guarantee they will be successful. Any past performance, successes, or losses of anyone utilizing TRADEway investment strategies is not indicative of future results. TRADEway students should educate themselves of the risks associated with trading and investing in particular securities. TRADEway makes no guarantees of success of its trading strategy. You should not trade using our methodology or anyone else's, without first assessing whether you can bear to lose all of your investment."

Market Risk Disclosure:

"TRADEway students should be aware that there are unforeseen risks that could affect the financial market and the price or value of any security for a variety of reasons outside of TRADEway's control and unforeseen by its trading methods, including, but not limited to, changes in the macroeconomic environment, unpredictable market sentiment, forecasted or unforeseen economic developments, interest rates, regulatory changes, and domestic or foreign political, demographic, or social events. This brief statement does not disclose all of the risks and other significant aspects of investing in financial markets."

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Biblical Principles:

While TRADEway is a faith-based organization that loves the Lord and studies God's word, TRADEway does not represent in any way that the Bible directly endorses TRADEway trading methods and strategies. TRADEway does not represent that Christianity, the Bible, or belief in God guarantee that TRADEway's trading methods and strategies have been or will be successful. Any shared biblical faith we have with you should not be interpreted as a reason to value us or our methods above another strategy. Rather you should evaluate what any investment professional, including TRADEway, suggests based solely on the merits of the strategy.