So You Want to be a Trader

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So, You Want to be a Trader:

How to Trade the Stock Market for the First Time

from the Archives of New Trader University

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www.NewTraderU.com

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Disclaimer:

This book is meant to be informational and shouldn’t be used as trading or investing advice. All readers should gather information from multiple sources to create their personalized investment strategies and trading systems. The authors make no guarantees related to the claims contained herein. Always seek the advice of a competent licensed professional before implementing any plan or system that involves your money. Please invest and trade responsibly.

Hello New Traders!

My name is Steve Burns. I have been trading and investing in the stock market for over 20 years. Many of those years were very profitable. I spent a decade reading every good trading and investing book I could find. I've read over 400 books on the subject, and spent thousands of hours studying charts.

While less fun, the years I lost money were very educational. I paid a lot of tuition in losses for the stock market education I received. Trading can be both a lucrative endeavor and a dangerous one. It is one of the few professions that allow anyone to go head to head with professionals from day one, with a minimal investment and little or no training. Trading is the ultimate low-cost startup business, a few thousand dollars can get anyone started, but you will lose it quickly without a thorough education.

New traders can become lost and feel overwhelmed with the mountain of information available to them online. I have tried to combine the best products, books, and principles that lead to profitable trading. In this book, I have put together 25 of my most popular blog posts in one place for quick reference.

The learning curve in trading the financial markets can be expensive and emotionally difficult to overcome. The goal of my blog, books, and e-Courses is to save new traders from losing their money and their nerve before they learn the crucial lessons necessary to survive. Following the principles in my books and courses will build a strong foundation for long-term success and profitability.

The Trader’s Brain

So, You Want to be a Trader

Trading is not just math. It’s not just a system that you plug into a chart, and it’s not a path to easy money. You are going to have to earn it. If you do get lucky and make some quick money, you will eventually give it back. Trading is a business. Trading is challenging because it requires being good at many things. Why? Trading is a multidimensional sport.

Here are the foundations required for being successful:

1. Work Ethic: You must do a lot of backtesting, researching, and the study of price action. Hundreds of hours of work are required. You must have passion that can sustain you during the late nights of study.
2. Support from your spouse or partner: If your wife or husband doesn’t believe in you and what you are doing, it will prove problematic at some point. Understand their viewpoint, and ease their fears by being transparent about your activities. Trade responsibly and don’t do anything stupid, like trying to trade when you are under-capitalized or without a proven system.
3. Capital: Without enough capital, you will be ineffective and unable to trade effectively. Commissions and slippage will be a high percentage of your capital. If you have only a few thousand dollars to trade, you would do better off with long-term trend trades and hold investments while you grow your capital.
4. Mind set: You must embrace the risk and reward of trading real capital. You must battle the unknown, not allowing it to stress you out, or give in to bailing when the uncertainty of short-term results come calling. A trader must think like an entrepreneur and not an employee.
5. No Gambling: You should remove any gambling instinct. Be like a casino, measuring probabilities, odds, and possibilities of winning, rather than hoping, praying, and dreaming of a huge win.

6. Timetable: You should change your timetable from get rich quick to steady returns and consistent growth of capital. The real path to big money is in the magic of compounding returns over multiple years.
7. Manage Risk: Good traders risk a little to make a lot. If you risk a lot in the hopes of making a fortune, the odds are that you will lose over the long term.
8. Self Control: A trader must be in control of their fear, greed, and ego always. These will all exist, but how they are managed will be the difference between success and failure.
9. Just Another Trade**:** Traders must trade at a position size that makes each individual trade just one of the next one hundred. No trade should keep you from following a trading plan.
10. Long Term Results**:** Traders must understand short-term results can be random. It is the faith in long-term results, while following a robust methodology, that makes all the difference. A trader's edge will play out and lead to profitability.

The book I wish I had when I started: **New Trader 101**

Starting a Trading Business

If a new trader wants to be a successful, they will need to treat their trading like they would operate a profitable business. Many traders lose a lot of money by approaching trading like it's a hobby. In trading, making money is the goal, and must be kept at the forefront of a trader's mind if they are to be successful. Fun and excitement in trading can be expensive entertainment. The reality is that most of the time, trading is boring. A trader must treat the market like they would any other business by utilizing discipline and great care to grow their capital and be successful.

1. You can't open your trading business until you have a full business plan.
2. Your inventory is your current positions; you must buy them for less than you intend to sell them.
3. Your customers are those you sell to; they must be willing to pay

more than you bought your positions for.
4. Your mind is the manager of your business; you can’t let pride, fear, or greed lead to an unprofitable mistake.
5. Your business must have insurance to manage risk. Stop losses and hedges are your insurance against big losses.
6. Location is everything. You must conduct your business where there are ample buyers and sellers so you don’t get stuck with positions that no one wants.
7. Your current positions are your employees. You should keep the ones that produce gains, and fire the ones that lose.
8. Expansion of your business can only happen after your first location is successful. Once you have mastered a system of entries and exits you can add new markets and systems.
9. Your trading capital and your positions are your inventory. Lose that and you are out of business.

The only reason to be in business is to make money. If you don’t make money, you need a new business plan.

A Trader’s Job Description

The financial markets are looking for applicants that fit these qualifications:
1. Expect long hours of study and research. Assume you will lose money in the beginning.
2. A person interested in becoming a trader must have the mindset of an entrepreneur. Risk, irregular income, and spending money to make money are all part of the business.
3. You must trade like a businessperson and not a gambler. Gamblers need not apply; go to Vegas instead.
4. Risk management will be your priority. Too much risk exposure will eventually lead you to be an unemployed trader with no trading capital.
5. You are your own human resource department. Be prepared to manage your own greed and fear.

6. To keep your morale up, you must keep your losses small and allow your winning trades to be as large as possible.
7. You must have enough trading capital. The minimum is $25,000 in risk capital, or close to half a million to trade for a comfortable living. Small trading accounts are eaten up by percentage commissions and end up being unprofitable. When trading for a living, you must be able to live off your returns and not touch your initial trading principle.
8. Jesse Livermore's quote for potential candidates: *"The game of speculation is the most uniformly fascinating game in the world. But it is not a game for the stupid, the mentally lazy, the person of inferior emotional balance, or the get-rich-quick adventurer. They will die poor."*

If you are interested in this position please apply at your favorite broker. Financial markets are an equal opportunity employer, and don't discriminate based on wins or losses.

7 Habits of Highly Successful Traders

There are seven things that are common in the successful traders I have known, read about, and seen in action. Whether it is stock trader Nicolas Darvas in the sixties, commodity trader Ed Seykota in the twentieth century, or Jesse Livermore at the turn of the last century, many of their principles hold true to this day. The closer I get to these principles, the better I trade. The farther I stray from them, the worse I do. In trading, discipline pays. Adopt these seven habits of highly successful traders.

1. Traders must have the perseverance to stick to trading until they are successful. Many of the best traders are those that have the strength to push through the pain, learn from their mistakes, and keep going until they make it.
2. Great traders cut losing trades short. The ability to accept that you are wrong and put your ego aside is the key to personal and professional success.
3. Letting a winning trade run as far as it can go on your time frame, insures that you have big enough wins to cover your small losing

trades.
4. Avoiding the risk of ruin by leveraging a small portion of your capital on each trade. If you risk it all often enough, you will lose it all eventually.
5. Being reactive instead of predictive on actual price action is a winning principle used by many rich traders. Letting price action give you signals is trading reality. Trading based on what the price should be is wishful thinking.
6. Great traders are bullish in bull markets, and bearish in bear markets, until the end when then trend bends.
7. Great traders care about making money more than anything else; proving they are right, showing off, or predicting the future is not as important as hearing the cash register ring.

7 Reasons to Never Give Up Trading

Early on, new traders will want to give up. Particularly when they figure out that the first few years are more about studying and paying tuition in losses, than in making money. Trading is a two-sided competition, and you must be on the right side of the trade to make profits.
Not only does this not happen all the time, but many profitable traders only have 60%-win rates. It is the magnitude of their wins versus their losses, and their fortitude that make them profitable. Half of the battle of successful trading is never giving up. Perseverance in trading is about learning, implementation, and dedication.

1. Trading will educate you about yourself. You will learn your strengths and weaknesses.
2. Learning to trade well will make you a better person. Good traders damage their ego, fear, greed, and practice risk management in all areas of life.
3. Trading is a good measure of the culmination of your abilities. It is competitive, but it happens on an even playing field.
4. A great trading system can be a stream of consistent income.
5. You can grow your capital through compounding returns and

significantly change your life.
6. Nothing else offers the personal control over your financial freedom like trading.
7. What else are you going to do? Work a career in a job you don't like making money for someone else?

Quitters give up when they are tired and frustrated. Winners don't quit until after they have won.

10 Bad Habits of Unprofitable Traders

1. They trade too much. The edge that small traders have over institutions is that they can pick trades carefully and only trade the best trends and entries. The less they trade, the more money they make because being picky gives traders an edge.
2. Unprofitable traders tend to be trend fighters, always wanting to try to call tops and bottoms. They eventually will be right, but their account will likely be too small by then to profit from the reversal. Money is made by going with the flow of the river, not paddling upstream against it.
3. Taking small profits quickly and letting losing trades run in the hopes of a bounce back is a sure path to failure. Profitable traders understand their risk/reward ratio; big wins and small losses. Being quick to take profits while allowing losses to grow will blow up your trading account.
4. Wanting to be right more than wanting to make money will be a *very* expensive lesson. A trader who doesn't want to take losses will most certainly balk at reversing his position because it signifies personal failure. A profitable trader is not afraid to get on the right side of the market to start making money.
5. Unprofitable traders trade too big and risk too much to make too little. The biggest key to profitability is to **avoid big losses**. Your wins can be as big as you like, but the losses must be limited.
6. Unprofitable traders watch CNBC for trading ideas.
7. Unprofitable traders want stock picks, while profitable traders want

to develop trading plans and systems that point them in the right direction.
8. Unprofitable traders think trading is about being right. Profitable traders know that profitability is about admitting you are wrong quickly, and being right as long as possible.
9. Unprofitable traders don't do their homework because they think there is a quick and easy route to trading success.
10. Unprofitable traders number one question is how much they can make if they are right, while the profitable traders number one concern is how much they can lose if wrong.

12 Reasons Trading is Worth It

Let's face it. There are a lot of things you can do with your life and most of them are easier than trading every day, especially in this market environment. But there are real advantages to devoting your time to the science of trading. If given the proper attention and nourishment, a trading career can exceed your expectations and give you a new leash on life. Here are the top twelve reasons why trading beats most other things you could be doing today.

1. You are your own boss. You decide when and why you do what you do. You don't have to answer to anyone else, and you don't have to justify your actions.
2. You reap what you sow. Your actions are a direct reflection of your knowledge. You benefit from your own self-study.
3. Your time is your own. There is nothing more valuable than your own time. Guard it with your life.
4. It never ends. In the long term, you will be paid for your hard work and effort.
5. You can overcome any emotional self-doubt. You will benefit from the stubbornness of others, instead of being a victim of it.
6. You can finally earn what you are worth!
7. It is a business with no inventory, little overhead, and no employees.
8. You are in control. You can trade from wherever and whenever you

want.
9. No commute.
10. You can work in your pajamas.
11. Your destiny is in your own hands.
12. It is the greatest game on earth, and you are paid to play.

7 Things Each Trader Has to Accept if They Want to Trade

If you are serious about being a trader then there are seven things that you will have to accept.

1. You will have to accept that over the long term, at best only 60% of your trades will be winners. It will be much less with some strategies.
2. Accept that the key to being a successful trader is having big wins and small losses and not big bets paying off. Big bets can lead to you being out of the game after a string of losses.
3. Accept that the best traders are also the best risk managers; even the best traders don't have crystal balls. They ALWAYS manage their capital at risk on EVERY trade.
4. If you want to be a better trader then you need to accept that trading smaller and risking less is a key to your success. Risking 1% to 2% of your capital on any single trade is the first step to being a winner. Use stops and position sizing to limit your losses and get out when your losses grow to these levels.
5. You must accept that you will have 10 trading losses in a row a few times each year. The question is what your account will look like when they happen.
6. You must accept that you will be wrong, a lot. The sooner you accept you are wrong and change your mindset, the better off you will be.
7. If you really want to be a trader then you are going to have to accept the fact that trading is not easy money. It is a profession like any other that requires dedicated study, perseverance, and years to become proficient. Expect to work for free and pay tuition to the markets through losses until you learn to trade consistently and

profitably.

Trading is about math, ego control, risk management, psychology, focus, perseverance, passion, and dedication. If you are missing one, you may not make it.

Calm Trader, Rich Trader

Traders who are emotionally calm that approach trading as a business have greater odds of profitability than the thrill seekers and gamblers. One third of trading is based on logic and two thirds is based on emotions.
Here are 10 things that a trader must overcome to stay calm and be profitable.

1. Impulsiveness. The biggest thing that following a trading plan does is trade impulsiveness for proven rules.
2. Impatience. Quantified entries and exits make you wait for a signal and avoid the noise.
3. Anger. You should depersonalize the outcome of your trades. Each trade is just an entry and an exit, with no emotions required.
4. Uncertainty. We must accept the randomness of our short-term results and understand our long-term edge.
5. Laziness. You must do enough homework when the market is closed to be ready when the market is open.
6. Greed. Following the correct position sizing parameters replaces the need for big wins and helps you focus on risk management.
7. Fear. The confidence in your system will relieve the fear of failure.
8. Ego. The desire to make money should override the need to be right about specific trades.
9. Hope. A stop loss must replace the need to hope a losing trade comes back to even.
10. Stress. You must manage your risk exposure to losses to reduce your stress level.

The profitable traders are rarely, if ever, emotionally stressed. The egomaniacs and the gamblers are usually the ones that lose it all. The calm traders are the ones that typically keep a level head and maximize

opportunities when the market presents them.
Are you a calm trader?

For more ways to become a better trader: Calm Trader: Win in the Stock Market without Losing Your Mind

Protecting your Money

10 Keys to Being a Trader, Not a Gambler

There is a big difference between being a trader and a gambler. Many people think they are traders when they are just gamblers that could get better odds in Las Vegas betting on the roulette wheel than what they get in the financial markets. The difference between a trader and a gambler is like the difference between a casino and a gambler. The casino paradigm for traders was introduced in, "Trade like a Casino" by Richard Weissman, and this thinking process can really help traders become profitable.

The Edge

Why would the casinos in Las Vegas be so luxurious while most gamblers are broke? Casinos have a statistical edge in their games of chance against the players of those games. Time is the friend of the casino and the enemy of the gambler. The more someone tries to beat the casino, the better their chances of losing all their money.

The casino also has table limits so a gambler can't keep doubling down to eventually win. There is a ceiling to the bet size risk the casino is willing to take on. The casino doesn't risk their profitability on any one bet; it has table limits to make sure that a single winner makes no difference to their overall profitability. The casino allows this edge to play out over a huge amount of games so they win in the long-term.

Another edge that the casino has is that it has no emotions; the casino doesn't care about any player and whether that player is winning or losing. In contrast, the gambler is filled with emotion, wanting to win back all their losses. This causes them to trade with the odds against them and risk more than they should to get back to even. This typically leads to bigger losses. A gambler is often plagued by greed. Even after winning streaks they often don't take their profits and leave with their winnings. Instead, they forfeit their discipline, go all in, and lose it all in the end. Be a casino, not a gambler.

Ten Ways to Be a Trader and NOT a Gambler

1. Trade based on the probabilities and the potential profits.
2. Trade small position sizes based on your account and never put your whole account at risk.
3. Trade a plan and not your emotions.
4. Always enter a trade with an edge that can be defined and don't trade with entries that are only opinions.
5. Trade based on quantifiable facts and not opinions.
6. Trade after extensive research on what works and what doesn't. Don't trade in ignorance.
7. Trade with the correct position sizing. Risk management is your number one priority and profits are a secondary concern.
8. Trade in a way that eliminates any chance of financial ruin and not to get rich quick.
9. Trade with discipline and focus. Don't change the way you trade suddenly due to winning or losing streaks.
10. Trade in the present moment and don't become biased due to old wins or losses.

The question is what side of the market are you operating on? Are you with the majority who gamble and lose their money, or are you with the minority acting as the casino, picking up the profits that the gamblers consistently lose?

The Risk of Mental Ruin for Traders

Losing a position is aggravating, whereas losing your nerve is devastating."
– Ed Seykota

There are three components of trading that must be managed correctly for the trader to be successful.

There is risk management, system management, and mental management. I think that most traders that don't succeed fail because mental limitations, not their system shortcomings. This also includes professionals and retail traders. It comes down to discipline, self-control, and perseverance to eventually make it as a trader.

A trader can be mentally ruined by stress, ego, arrogance, stubbornness, fear, greed, and emotional instability. These factors cause bad decisions that inflict emotional and mental pain that can't be overcome by most new traders, resulting in failure within the first year.

Launching into trading for a living too early can have disastrous consequences for those that haven't educated themselves. Day trading, where many new traders start, can exhaust and break down their fortitude as they watch every tick in price all day, every day.

Traders should protect themselves mentally and emotionally as much as they do financially. New traders must find the profitable system that they can trade. They should never put their net worth or lifestyle on the line for any one trade or string of trades. They should always be able to look at their trade objectively without their self-worth tied up in the outcome.

Many legendary traders came back from ruin; Dan Zanger, Jesse Livermore, Nicolas Darvas, and Alexander Elder lost their personal accounts but had no trouble coming back and trading again to win big. You can always get more capital if you have the confidence and perseverance to stick with trading when times get tough.

The problem arises when you lose confidence in your own abilities, you think that the markets are just too hard, or that trading is not worth your time and effort. Trading too big, trading too much, and starting your trading before you have done your homework will likely result in an unpleasant trading experience.

In the beginning, you can add up the time, effort, and loss of capital and determine that trading is difficult and may not be a good path for you. I’m sure doctors and lawyers face the same moment of decision at the beginning of their careers, as they look through the next ten years of their life and realize the price they must pay for the price of entry into their professional field. They realize that they will be educating themselves for ten years, not for the pot of gold at the end of the rainbow, but for the opportunity to pursue the pot of gold.

Trading is no different; you must pay the price of admission. You must hold the goal that you want to achieve in your mind to give you the energy and drive to carry you through the losing trades and drawdowns. You must never forget the ultimate prize: freedom, independence, leisure time, and an improved lifestyle.

The reason I stress the 1% rule for loss of capital per trade and finding a method that fits a trader’s beliefs and personality, is so they can survive that first year of trading. Trading may or may not be a good fit for everyone, but all new traders should at least have a year to decide if trading is right for them.

Why You Lose So Much Money Trading

10 trades with a 50% win rate

		Trade #1	Trade #2	Trade #3	Trade #4	Trade #5	Trade #6	Trade #7	Trade #8	Trade #9	Trade #10
AUM risk per trade	Start	Win	Loss	Win	Loss	Win	Loss	Win	Loss	Win	Loss
1%	$100,000	$101,000	$99,990	$100,990	$99,980	$100,980	$99,970	$100,970	$99,960	$100,960	$99,950
2%	$100,000	$102,000	$99,960	$101,959	$99,920	$101,918	$99,880	$101,878	$99,840	$101,837	$99,800
3%	$100,000	$103,000	$99,910	$102,907	$99,820	$102,815	$99,730	$102,722	$99,640	$102,630	$99,551
5%	$100,000	$105,000	$99,750	$104,738	$99,501	$104,476	$99,252	$104,214	$99,004	$103,954	$98,756
10%	$100,000	$110,000	$99,000	$108,900	$98,010	$107,811	$97,030	$106,733	$96,060	$105,666	$95,099
15%	$100,000	$115,000	$97,750	$112,413	$95,551	$109,883	$93,401	$107,411	$91,299	$104,994	$89,245
20%	$100,000	$120,000	$96,000	$115,200	$92,160	$110,592	$88,474	$106,168	$84,935	$101,922	$81,537
30%	$100,000	$130,000	$91,000	$118,300	$82,810	$107,653	$75,357	$97,964	$68,575	$89,147	$62,403
40%	$100,000	$140,000	$84,000	$117,600	$70,560	$98,784	$59,270	$82,979	$49,787	$69,702	$41,821
50%	$100,000	$150,000	$75,000	$112,500	$56,250	$84,375	$42,188	$63,281	$31,641	$47,461	$23,730

10 losses in a row

AUM risk per trade	Start	Loss	Loss	Loss	Loss	Loss	Loss	Loss	Loss	Loss	Loss	% Down After 10 Losses
1%	$100,000	$99,000	$98,010	$97,030	$96,060	$95,099	$94,148	$93,207	$92,274	$91,352	$90,438	-9.56%
2%	$100,000	$98,000	$96,040	$94,119	$92,237	$90,392	$88,584	$86,813	$85,076	$83,375	$81,707	-18.29%
3%	$100,000	$97,000	$94,090	$91,267	$88,529	$85,873	$83,297	$80,798	$78,374	$76,023	$73,742	-26.26%
5%	$100,000	$95,000	$90,250	$85,738	$81,451	$77,378	$73,509	$69,834	$66,342	$63,025	$59,874	-40.13%
10%	$100,000	$90,000	$81,000	$72,900	$65,610	$59,049	$53,144	$47,830	$43,047	$38,742	$34,868	-65.13%
15%	$100,000	$85,000	$72,250	$61,413	$52,201	$44,371	$37,715	$32,058	$27,249	$23,162	$19,687	-80.31%
20%	$100,000	$80,000	$64,000	$51,200	$40,960	$32,768	$26,214	$20,972	$16,777	$13,422	$10,737	-89.26%
30%	$100,000	$70,000	$49,000	$34,300	$24,010	$16,807	$11,765	$8,235	$5,765	$4,035	$2,825	-97.18%
40%	$100,000	$60,000	$36,000	$21,600	$12,960	$7,776	$4,666	$2,799	$1,680	$1,008	$605	-99.40%
50%	$100,000	$50,000	$25,000	$12,500	$6,250	$3,125	$1,563	$781	$391	$195	$98	-99.90%

"The key to long-term survival and prosperity has a lot to do with the money management techniques incorporated into the technical system." -Ed Seykota

The above image shows the destruction of capital, not only for a losing streak, but also for a string of 10 trades with a 50%-win rate; alternating between wins and losses.

Many things cause new traders to fail. One of the main reasons that traders fail is because they don't understand the math of capital destruction. The more capital you risk per trade, the quicker you will lose it in losing trades. Once your capital is depleted, it takes a larger return to get back to even than what you initially lost.

- A 10% loss requires an 11% return to get back to even
- A loss of 20% of your capital requires a 25% return to get back to even
- A 50% loss of capital needs a 100% return just to get back to where you started
- Risking 1% of your capital per trade puts you down 10% after 10 trades
- Risking 5% per trade puts you down 50% after 10 trades

No matter how good you are, you can't trade so large that a single losing streak is your last. If you risk too much of your trading capital, even a few losses in a 50% winning streak will destroy your capital. You're not going to be perfect as a trader, and you should play the defense needed to protect your trading account from losing streaks. You *will* have streaks of 50%-win rates and losing streaks. The question is will you survive them with your current risk exposure.

You have lost money trading because you exposed your capital to too much risk in a single trade. You haven't been profitable because your losses have destroyed your capital. You must structure your position sizing so your losses don't destroy your capital after every losing streak.

5 Quick Tips for Risk Management

Always remember if you have big winning days and trades that are disproportionally large percentage wise, then the odds are that you are also exposed to the downside risk of an equal magnitude. Here are five quick tips for risk management for traders.

1. Structure your position sizing and stops so that you try to never lose more than 1% on any of your trades.
2. My maximum risk exposure is a total of three trades on at once risking 1% per trade each for a total possible drawdown of 3% in one day if all three go against me at the same time.
3. I don't trade individual stocks that are highly volatile. I prefer my alpha to come from leveraged index ETFs or option trades for a smoother equity curve.
4. I trade in the direction of the trend on the daily chart so my biggest risks and losses come from big whipsaw reversal days.
5. I honor my stops when they are hit. I don't hold and hope. I get out and get back in later.

Risk Management for the Trader in 1 Lesson

The very first rule we live by is: Never risk more than 1% of total equity on any trade. -Larry Hite (Market Wizard)

One of simplest lessons that a trader can learn to ensure long-term success is never risk more than 1% of your trading account on any one trade. This doesn't mean trading with 1% of your account capital, it means adjusting your stops and position sizes based on the volatility of your stock, currency, commodity, option, or future contract. This way, when you are wrong, the consequences are the loss of 1% of your trading capital. This not only eliminates your risk of ruin for a string of losing trades, but also decreases your stress level so you trade with a clear mind.

If you don't understand the reality of having 10 to 20 losing trades in a row, then you haven't been trading long enough to experience a volatile market, or an unexpected event that shakes a stock, commodity, currency or an entire market.

The #1 job of a trader is not to make money, but to protect what they already have so they can continue to grow their capital.

Your trade entries should be designed at a price level and a position size that, if after you enter a trade and it retraces, decreasing your trading capital by 1%, you will know you were wrong and exit.

The opposite of this method is that you let your winner run until it reverses through a trailing stop at a price level that shows when you should exit and lock in profits, because near term support was lost. Your losses should almost never be more than 1% of trading capital, but your wins can be 2%, 5%, 10% or even larger when you enter at the price sweet spot, and a trend takes off. Small losses and big wins is the secret to being a successful trader.

7 Steps for Surviving a Drawdown

"Where you want to be is always in control, never wishing, always trading, and always first and foremost protecting your ass. That's why most people lose money as individual investors or traders because they're not focusing on losing money. They need to focus on the money that they have at risk and how much capital is at risk in any single investment they have. If everyone spent 90 percent of their time on that, not 90 percent of the time on pie-in-the-sky

ideas on how much money they're going to make. Then they will be incredibly successful investors." -Paul Tudor Jones

A drawdown is a normal occurrence for a trader. Swing traders experience them at times in markets that breakout of trading ranges and trends. Trend traders experience them in choppy or range bound markets. Day traders experience them in markets that whipsaw violently. Growth investors experience them in bear markets and corrections.

The key to surviving them is staying disciplined in your entries and exits. Only take valid entries and always cut your losses at predetermined spots when you are proven wrong. If you are gunning for high returns then you can expect drawdowns that are about half your return rate. If a trader is disciplined and using a winning system, then a drawdown is simply a result of the market environment not being conducive to the trader's method and system. It is not an indictment of the trader's ability if they are taking their entries and exits according to their trading plan.

The question is: "Where will your account be with a string of 10 consecutive losses?" Some traders will be out of business; others will be down 10% from their equity peaks. The truly naive or arrogant trader will think that 10 straight losses will never happen to them. Even with high winning percentages, some systems may not have ten straight losses, it may just be one big one.

Here are 7 steps to limit the pain of drawdowns:

1. When losing in trade after trade, lower your trading size by 50%. Trade smaller until a winning streak begins. Go even smaller if needed or even take a break from trading.
2. Only risk 1% of your capital per trade. While this is standard, you must avoid the temptation to trade big to make up your losses. This usually compounds the problem because the market is not co-operative with your style during a downtrend.
3. Stay disciplined with your entries and exits. Don't get sloppy.
4. Don't abandon your method; you must stay the course so when your method comes back in favor you will start winning again.
5. Don't take losses personally. It's not your fault that the market is not conducive to profits if you are trading your proven system.
6. Don't fall give into the temptation of letting your losers run. Cut your losses at predetermined stops regardless of the pain.

7. Don’t stop tracking your watch list for the markets you trade. Be ready to take the right entry when it presents itself. Many traders get so beat up on a string of losses that they stop focusing on their watch list and stop taking high probability entries.

The Magic of Compounding Returns

“Compound interest is the eighth wonder of the world. He who understands it, earns it … he who doesn’t … pays it.” – Unknown

When I was a teenager, I was fascinated with compounded return tables. They seemed like magic to me. I knew that at some point in the future, I could build up my capital to the point where it made more than I did. If I managed my capital correctly, and could return 12% a year, it would double at the end of the sixth year. If I could really knock it out of park and return 20% a year, I was looking at doubling at the end of four years. The key would be to figure out how to get these returns through the stock market, and how to get the capital in the first place. I decided I would sell my time for work, and then put that money to work to save time in the future.

I have been fortunate to make my teenage dreams come true, and over the past 20 years, I have created this compounding in my accounts. For me, capital preservation is the key. Grinding out 15%-20% returns a year can work magic in a few years, and if you throw in a few 40% and 50% return years in great trending markets, you can build capital quickly. When you have six figures in your personal trading accounts and 1% of capital is over $1,000, it gives you tremendous trading firepower.

If you have never pondered the power of compounding a trading/investing account for capital appreciation, please give this chart your attention. It is possible to be a millionaire in a reasonable amount of time if you leave your capital alone and let it grow. This is a program that anyone can use with simple trend following methods.

Using an index and moving averages is not rocket science. Implementing this inside a tax deferred account like a 401K, 403B, or IRA eliminates the capital gains tax. The key is to start building early at a very young age. Once you get into the six figures, the acceleration is amazing.

This table is showing growth after starting with $10,000 in capital.

Growth in $10,000 in capital												
Year		5%		8%		10%		12%		15%		20%
1	$	10,500	$	10,800	$	11,000	$	11,200	$	11,500	$	12,000
2	$	11,025	$	11,664	$	12,100	$	12,544	$	13,225	$	14,400
3	$	11,576	$	12,597	$	13,310	$	14,049	$	15,209	$	17,280
4	$	12,155	$	13,605	$	14,641	$	15,735	$	17,490	$	20,736
5	$	12,763	$	14,693	$	16,105	$	17,623	$	20,114	$	24,883
6	$	13,401	$	15,869	$	17,716	$	19,738	$	23,131	$	29,860
7	$	14,071	$	17,138	$	19,487	$	22,107	$	26,600	$	35,832
8	$	14,775	$	18,509	$	21,436	$	24,760	$	30,590	$	42,998
9	$	15,513	$	19,990	$	23,579	$	27,731	$	35,179	$	51,598
10	$	16,289	$	21,589	$	25,937	$	31,058	$	40,456	$	61,917
11	$	17,103	$	23,316	$	28,531	$	34,785	$	46,524	$	74,301
12	$	17,959	$	25,182	$	31,384	$	38,960	$	53,503	$	89,161
13	$	18,856	$	27,196	$	34,523	$	43,635	$	61,528	$	106,993
14	$	19,799	$	29,372	$	37,975	$	48,871	$	70,757	$	128,392
15	$	20,789	$	31,722	$	41,772	$	54,736	$	81,371	$	154,070
16	$	21,829	$	34,259	$	45,950	$	61,304	$	93,576	$	184,884
17	$	22,920	$	37,000	$	50,545	$	68,660	$	107,613	$	221,861
18	$	24,066	$	39,960	$	55,599	$	76,900	$	123,755	$	266,233
19	$	25,270	$	43,157	$	61,159	$	86,128	$	142,318	$	319,480
20	$	26,533	$	46,610	$	67,275	$	96,463	$	163,665	$	383,376
21	$	27,860	$	50,338	$	74,002	$	108,038	$	188,215	$	460,051
22	$	29,253	$	54,365	$	81,403	$	121,003	$	216,447	$	552,061

35 Top Destroyers of Trading Capital

When I asked my Facebook trading group what was the cause of their biggest trading losses, no one had any trouble remembering those painful and valuable lessons. These top 30 insightful answers will benefit new traders and provide a nice reminder for those with more experience.

“What was the cause of the biggest drawdowns in your trading accounts?”

1. Having no exit strategy
2. Being certain of your opinion on the direction of an asset
3. Arrogance that you know how the trade will turn out
4. Thinking that you are invincible
5. Over-trading
6. Believing that the market must go down based on a guru’s prediction
7. Letting a guru convince you that you shouldn’t place a hard stop, but to wait for a reversal
8. Incorrect position sizing

9. Greed that causes you to trade too big and risk too much
10. Margin
11. No Hedges
12. Not understanding that a Bull Market has ended
13. Poor risk management
14. Not knowing that earnings were about to come out on your stock
15. Your ego takes over your trade
16. You decide not to take your initial stop loss
17. Believing a losing trade just has to reverse
18. Buying a stock because it is a ‘value’ that drops another 50% from your entry
19. Trading without a positive expectancy model
20. Trading options without understanding how to place stops or use proper position sizing
21. Thinking it “Has to Come Back”
22. Buying and hoping
23. Trading with no plan
24. Not having trading rules for your system
25. Not following your trading rules
26. Averaging down
27. Trading without an edge
28. Keying error on the trade
29. Not placing a stop
30. Trying to out-guess the market
31. Trading illiquid options
32. Fighting the trend in your time frame
33. Not fighting the natural impulses of greed and fear
34. Using emotions for trading signals
35. Using greed for position sizing

Thanks to all the members of the trading group that shared their wisdom! These 35 things can cost a trader a lot of money. If you can avoid these errors, you will find yourself on the right side of your trades, with the money of less educated traders filling your account.

Buying and Selling

10 Metrics that Lead to Trading Profitability

Just like in the movie “Money Ball” where they quantified what was the most important factors were that lead to winning baseball games, I have also tried to help new traders cut through all the noise and focus on what really matters. The quantification and capture of trends for profits in the time frame we are trading is the most important aspect of what we do. Here are ten important and profitable metrics that give you an edge.

1. Expected win versus loss percentage. Your winning percentage performance is the first step to profitability.
2. Average win size. The higher your winning percentage, the smaller your wins can be. The smaller your winning percentage, the bigger your wins *must* be to become profitable.
3. Risk versus reward ratio. Your focus should be on risking a little for the high probability of making a lot.
4. Historical performance of entry signals. You must understand how your entry signals did in your time frame in the past.
5. Exiting trades to maximize gains. The use of trailing stops and overbought/oversold oscillators help target the maximization of profits.
6. Proper position sizing. This keeps losses from being over 1% of total trading capital. Not having big losses is a big step to towards profitability.
7. Limiting total risk exposure at any one time to 3% of total trading capital. Eliminating big drawdowns and the risk of ruin is the first thing a trader must focus on.
8. The frequency of your trade entries is important. Will there be enough trades to make your system work when you start trading? Will there be too many signals that lead to lowering your win rate, or over trading and you have excessive commissions?
9. Consider market volume. Does the volume in the markets you want

to trade keep the bid/ask spreads tight to avoid large slippage? This is especially true for option markets, over-the-counter markets, or for trading systems that are not scalable.

10. Hope for the best, but plan for the worst. What are your expectations for maximum drawdowns in your trading capital? Can you handle it practically and emotionally?

The book I wish I had when I started: **New Trader 101**

Trading Methods, Systems, and Plans

Do You Know the Difference Between Trading Methods, Systems, and Plans?

There are significant differences between trading methods, trading systems, and trading plans. These variations can be confusing for new traders, but it is important that students of the market understand and develop these areas to optimize their chance of success.

Trading Method

A trading method is the overall process and trading style that is used to profit from the markets. A trading method can be defined as principles used to successfully trade in the stock market, options, Forex, futures, or bonds. These operating principles are based on the belief of long-term profitability and increased value of trading capital. Traders using different systems and different plans can use the same methodology. Methodology is based on the specific style of trading, with some examples being:

- Technical Analysis
- Trend Following
- Value Investing
- Momentum Trading
- Growth Investing
- Swing Trading

Trading System

A trading system is a set of rules that quantifies buy and sell signals, as demonstrated by successful testing on price history or chart studies. A trading system is the specific kind of data or knowledge used to execute the trading method, based on price action or fundamental valuations. These signals are triggered by measurable technical indicators or key levels on charts. Trading systems have specific parameters relating to position sizing that manage risk and increase the probability of profitability over time. A trading system has at least eight quantifiable elements:

1. Entry signal
2. Exit signal
3. Winning percentage
4. Risk to reward ratio
5. Position sizing parameters
6. Frequency of trading opportunities
7. Average expected annual return
8. Maximum expected drawdown

Trading Plan

A trading plan is a set of rules, consistent with a trader's chosen methodology and system that govern how trades will be executed in real-time. These rules determine what will happen based on the trading system's entries and exits, risk management, and psychology. The trading plan is meant to keep the trader disciplined and safe from their own weaknesses, while providing the parameters for consistent profitability.

Understanding the difference between methodology, system, and plan is essential to organizing and implementing trades at the optimum levels. As traders turn research into beliefs, trading methods will become their religion, trading systems will become their bible, and their trading plan will allow them to walk in faith every day.

A Trading Plan: Do You Have One?

Successful traders have a plan to win. By carefully putting the odds in their favor for the long term, successful traders will overtake gamblers who rely on randomness.

If you want to win in any area of life, you must be disciplined, study, and do the hard work. There are no shortcuts, and especially not in trading. You need to enter the markets prepared and with a detailed plan.

The Components of a trading plan:

1. Entering a trade: You must know clearly at what price you plan to enter your trade. Will it be a breakthrough resistance, a bounce off support, a specific price, or based on indicators? You need to be specific.

2. Exiting a trade: At what level will you know you are wrong? Will it be a loss of support, a price level, a trailing stop, or a stop loss? Know where you are getting out before you get in.

3. Stop placement: You must have a mental stop, a stop loss entered, a time stop alone, or a time stop with an indicator.

4. Position sizing: You determine how much you are willing to risk on any one trade before you decide how many shares to trade. How much you risk will determine how much you can buy based on the equities price and volatility.

5. Money management parameters: Never risk more than 1% of your total capital on any one trade.

6. What to trade: Trade things you are comfortable with. Swing trading range bound stocks, trend trading growth stocks, or trend following commodities or currencies. Trade what you know.

7. Trading time frames: Are you a day trader, position trader, swing trader, or long-term trend follower? If you are a long-term trend follower, don’t get shaken out of a position in the first day by taking profits or getting scared. Know your holding period and adjust your plan accordingly.

8. Backtesting: Don’t trade any method until you reviewed charts over a few years to see how you would do. Alternatively,
utilize backtesting software to analyze historical data for your system.

There are also precooked systems like CAN SLIM, The Turtles Trading System, and many Trend Following Systems. You need to start trading knowing you have an edge.

9. Performance review: Keep a detailed record of your wins and losses. You need to be sure that your method is working in real-time. Review this after every 20 trades. If you have issues with discipline, then make notes, learn from your mistakes, and adjust your strategy.

10. Risk vs. Reward: Enter high probability trades where you are risking $1 to make $3, or trade a system that wins big in the long-term through trend following.

Regardless of how you trade, every trader must have a trading plan. Period.

What Is the Best Trading Method?

You don't trade the markets; you only trade your beliefs about the markets."
– Van Tharp

Just like there is no 'Holy Grail' trading system that never loses, there is also no one size fits all trading method.

All trading methods have good points and bad points with advantages and disadvantages.

Many traders make the mistake of thinking their way is the best and only way to trade. In my experience, I have made money using multiple trading methods. The keys to profitable trading are in risk management, reactive technical analysis, and discipline. There is good news and bad news about every trading methodology. It's not about finding the right trading method, it's about finding the right trading methodology for you. It must fit the amount of screen time you can spend trading, your personality, risk tolerance, and account size. It's not the time frame that you pick that determines your success, but your work in backtests and research of the price action in the historical time frame that makes all the difference.

Day traders: The good news is that you have no overnight risk. The bad news is most day traders watch the market action almost all day long and day trading is the most stressful type of trading. It requires lots of screen time and quick reflexes to take entries and exits.

Trend followers: The good news is that you will be on the right side of major market trends, and you will not have to take very many entries and exits. The bad news is that you won’t make money in trendless and choppy markets. Many trend following systems even underperform in range bound markets.

Swing traders: The good news is you are profitable more times than not by buying at high probability supports and shorting into resistance levels. The bad news is that in trending and parabolic markets you must take stop losses quickly or risk big moves against you.

Growth Investors: The good news is that you can buy the stock in a company you study and see the high probability that it will continue to grow. You can make a lot of profits by being in the right company in a bull market. The bad news is that in bear markets the downward storm sinks all ships, even the strongest ones.

Option traders: The good news is that you can control your total risk of loss through contract size, and at the same time capturing a move through leverage. The bad news is that options can expire worthless, or go to near zero while you are holding them. Additionally, you should be sure that they are liquid enough to trade, or the bid/ask spread will be expensive on the entry and exit. Also, with options, you must be right about the direction of the move and the time period.

The correct question is, “What is the best trading method for you?” The best trading method is one that you can stick with and trade over the long-term. You need a method that fits who you are and what you want to accomplish as a trader.

30 Of the World’s Best Trading Rules

Here is the inconvenient truth about successful trading. ***It’s hard work.***

Trading is more than just numbers — it is a three-dimensional fight that rages primarily inside the traders themselves. Missing any crucial element can ruin a trader quickly. The trader must develop a robust trading system that fits their personality and risk tolerance. Then they must trade it with discipline and faith consistently through ups and downs.

But that’s not all. Risk exposure must also be managed carefully through position sizing and limiting open positions. Risk management must be able to carry the trader through the losing streaks and give them a chance to make it to the winning side.

Here are thirty rules that can help a new trader survive their first year:

Trader Psychology

- Be flexible and go with the flow of the market’s price action. Stubbornness, egos, and emotions are the worst indicators for entries and exits.

- Understand that the trader only chooses their entries, exits, position size, and risk, while the market chooses whether they are profitable.

- You must have a trading plan before you start to trade. It serves as your anchor in decision-making.

- You must let go of wanting to be right over making money. The first step of making money is to cut a loser short the moment it is confirmed that you are wrong.

- Never trade position sizes so large that your emotions take over from your trading plan.

- “If it feels good, don’t do it.” – Richard Weissman

- Trade your biggest position sizes during winning streaks and your smallest position sizes during losing streaks.

- Don’t worry about losing money that can be made back. Worry about losing your trading discipline.

- A losing trade costs you money, but letting a big losing trade get too far out of hand can cause you to lose your nerve. Cut losses for the sake of your confidence as much as for the sake of capital preservation.

- A trader can only find success after they have faith in themselves as a trader, their system, and their ability to stay disciplined.

Risk Management

- Never enter a trade before you know where you will exit.

- Find the right stop loss level that will show you that you’re wrong about and then set your positions size based on that price level.

- Focus like a laser on how much capital can be lost on any trade before you enter, not on how much profit you could make.

- Structure your trades through position sizing and stop losses so you never lose more than 1% of your trading capital on one losing trade.

- Never expose your trading account to more than 5% total risk at any one time.

- Understand the nature of volatility and adjust your position size for the increased risk with volatility spikes.

- Never, ever, ever, add to a losing trade. Eventually that will destroy your trading account when you fight the wrong trend.

- All your trades should end in one of four ways: a small win, a big win, a small loss, or break even, but never a big loss. If you can get rid of big losses you have a great chance of turning a profit.

- Be incredibly stubborn in your risk management rules and don't give an inch. Defense wins championships in sports and profits in trading.

- Most time trailing stops are more profitable than profit targets. We need the big wins to pay for the losing trades. Trends tend to go farther than anyone anticipates.

Your Robust Method

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

- Go long strength; sell weakness short in your time frame.

- Find your edge over other traders.

- Your trading system must be built on quantifiable facts and not opinions.

- Trade the chart and not the news.

- A robust trading system must either be designed to have a large winning percentage of trades or big wins and small losses.

- Only take trades that have a skewed risk reward in your favor.

- The answer to the question, "What's the trend?" is the question, "What's your timeframe?" – Richard Weissman. Trade primarily in the direction that a market is trending in on your time frame until the end when it bends.

- Only take real entries that have an edge, avoid being caught up in the meaningless noise.

- Place your stop losses outside the range of noise so you are only stopped out when you are likely wrong.

For more of the World’s Best Trading Rules check out the book Trading Habits

10 Great Technical Trading Rules

“We learned just to go with the chart. Why work when Mr. Market can do it for you?” – Paul Tudor Jones

Only price pays. In trading, emotions and egos are expensive collaborators. Our goal as traders is to capture price moves inside our time frame, while limiting our drawdowns in capital. The longer I have traded, the more I have become an advocate of price action. Moving away from the perils of opinions and predictions has improved my mental well-being, and my bottom line.

In developing a trading system of your own, you must begin with the big picture. First, look at the price action and then work your way down into your own time frame. You need to create a systematic and specific approach to entering and exiting trades, executing your signals with the right trailing stops, setting realistic price targets and position sizing, and limiting your risk exposure. Relying on fact rather than being tossed around by your own subjective feelings will insure your long-term profitability.

Here are 10 great technical trading rules that will help you build a systematic approach to trading:

1. Start with the weekly price chart to establish the long-term trend, and then work down through the daily and hourly charts to trade in the direction of that trend. The odds are better if you are trading in the direction of the long-term trend.
2. In Bull Markets, the best strategy is to buy the dips. In Bear Markets, the best strategy is to sell short into each rally. Always go with the path of least resistance.
3. Support and resistance levels can hold for long periods of time; the

first few breakout attempts usually fail.
4. The more times a support or resistance level is tested, the greater the odds that it will be broken. Old resistance can become the new support, and the old support may become the new resistance.
5. Trend lines are the easiest way to measure trends by connecting higher-highs or lower-lows, and they must always go from left to right.
6. Chart patterns are visible representations of the price ranges that buyers and sellers are creating. Chart Patterns are connected trend lines that signal a possible breakout buy point if one line is broken.
7. Moving averages quantify trends and create signals for entries, exits, and trailing stops.
8. Moving averages are great tools for a trader to use, but they are best used along with an overbought/oversold oscillator like the RSI. This maximizes exit profitability on extensions from a moving average.
9. 52-week highs are bullish, and 52-week lows are bearish. All-time highs are more bullish, and all-time lows are more bearish. Bull Markets have no long-term resistance, and Bear Markets have no long-term support.
10. Above the 200-day is where bulls create uptrends. Bad things happen below the 200-day; downtrends, distribution, bear markets, crashes, and bankruptcies.

Moving Average Answer Key

Moving averages allow traders the ability to quantify trends and act as signals for entries, exits, and trailing stops. They can become support and resistance, and give the trader levels to trade around. Below are examples of the specific moving averages with time frames.

- **5-Day EMA:** Measures the short-term time frame. This is support in the strongest uptrends. This line can only be used in low volatility trends.
- **10 -Day EMA:** *"The 10-day exponential moving average (EMA) is my favorite indicator to determine the major trend. I call this 'red*

light, green light' because it is imperative in trading to remain on the correct side of a moving average to give you the best probability of success. When you are trading above the 10-day, you have the green light, and you should be thinking buy. Conversely, trading below the average is a red light. The market is in a negative mode, and you should be thinking sell." – Marty Schwartz

- **21- Day EMA:** This is the intermediate term moving average. It is generally the last line of support in a volatile up trend.
- **50-Day SMA:** This is the line that strong leading stocks typically pull back to. This is usually the support level for strong uptrends. Use 50-Day Average for Trading Signals
- **100-Day SMA:** This is the line that provides the support between the 50-day and the 200-day. If it doesn't hold as support, the 200-day generally is the next stop.
- **200-Day SMA:** Bulls like to buy dips above the 200-day moving average, while bears sell rallies short below it. Bears usually win and sell into rallies below this line as the 200-day becomes resistance, and bulls buy into deep pullbacks to the 200-day when the price is above it. This line is one of the biggest signals in the market telling you which side to be on. Bull above and Bear below. Bad things happen to stocks and markets when this line is lost.

New Trader U Moving Average eCourse

Why the Cup & Handle Chart Pattern Works

While my trading focuses more on following capital flows based on trends that I measure with key moving averages, there is one chart pattern that I use that has a high probability of success.

The cup and handle pattern is a bullish continuation formation. It is one of the newer chart formations and can be easily identified on a price chart. This chart pattern was first popularized by William J. O'Neil in the first edition of his 1988 book, How to Make Money in Stocks. In order for the cup and handle setup to have the highest odds of succeeding, it should come after a clear uptrend is in place. The chart pattern consists of two key components:

(1) cup and (2) handle.

The cup part of the formation is created when profit taking sets in or the market itself is in a correction, and the stock sells off and forms the left side of the cup. The cup bottom is formed when the stock finally runs out of sellers at new low prices and buyers start moving in and bidding the stock back up again as sellers demand higher prices to turn the stock over.

Most of the time, as the stock emerges out of the right side of the cup in an uptrend, it fails and meets resistance the first time it tries to break out to new high prices and the pattern forms a handle. The second run at new highs usually works because the sellers have been worked through and the stock breaks out to new highs.

This pattern sets the stage for nice uptrends because most short-term traders sold as the stock fell into the cup, the bottom was formed when the holders of the stock refused to sell for less than the support level in the base of the cup, then profit takers were worked through as the stock came up through the right side of the cup.

The investors and traders that sold at new highs the first time that price level was reached coming out of the cup were the last group of sellers to overcome as the stock broke out of the pattern the second time. It is a lack of sellers that propels the stock upwards as seats on the bull bus get more expensive because no one wants to risk giving up their seat.

Here’s a checklist for the cup-with-handle pattern to see if it is puts the odds in your favor:

1. Cup and handle patterns are not good probability trades if the general market is in correction or in a bear market.
2. The pattern has better odds if it is a stock in a strong sector that has increasing earnings and growth expectations.
3. The stock should have had a previous uptrend leading into this pattern.
4. Check the depth and length of the cup. A cup-with-handle base usually corrects 20% to 30% from the base’s left-side high, or 1-1/2 to

two times the market average. Most are three to six months long, but can be as little as seven weeks or as long as a year or more. (IBD parameters)
5. Look for a classic shape. If you have to convince yourself that the shape is a cup, it's not a cup.
6. Note how much of the cup is in the lower half. A steady climb up the right side is best.
7. Look for a U shape and volume that dries up near the cup's low. Volume that dries up at the bottom suggests funds lost interest in selling. U-shaped bases are also more likely to work than V shapes.

Chart courtesy of StockCharts.com

In Conclusion

As we’ve seen by these blog posts, trading is not a piece of cake. The learning curve in the financial markets is steep and can be expensive and emotionally difficult if you don’t do your homework. The goal of this book is to give you a good starting point, and to show you that you can become a successful and profitable trader. I hope that you will consider reviewing my blog posts (more than 1,000 of them to date), other eBooks, and e-Courses to decrease your learning curve and speed up your profitability. More importantly, I hope you will save yourself the pain and hardship of losing your hard-earned capital through mismanagement and undisciplined trading. Remember, educate yourself, find like-minded folks who share your goals, and never give up your dreams. With hard work, dedication, and the support of those around you, you will reap the benefits of long-term success and profitability.

Wishing you much trading success!

Steve Burns

Join the discussion on Twitter!

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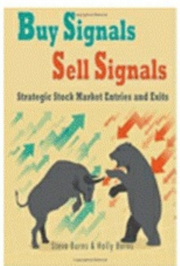

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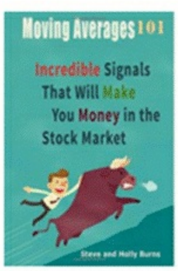

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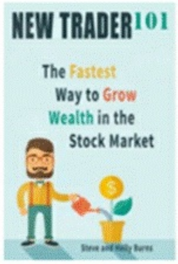

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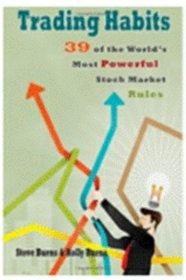

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