





SCALE THE HEIGHTS OF TRADING PROFESSION

Secrets of Market Millionaires



INDEX

Myths & Facts.....	5
Trends.....	9
Candles (Bulls vs. Bears).....	10
Oscillators.....	11
Divergence.....	14
Timeframes.....	17
3Ms of Market Wizards:	
• Method (Triple Screen System).....	20
i. Entry.....	21
ii. Exit.....	22
iii. Stop Loss.....	23
• Money Management.....	24
• Mind Management.....	25
Important M3 Rules.....	26
Rules of the Game.....	28
Currency Trading.....	30



**Winning is a matter of
Skill and Discipline
not Luck**

**Become a PRO
Money will FLOW**

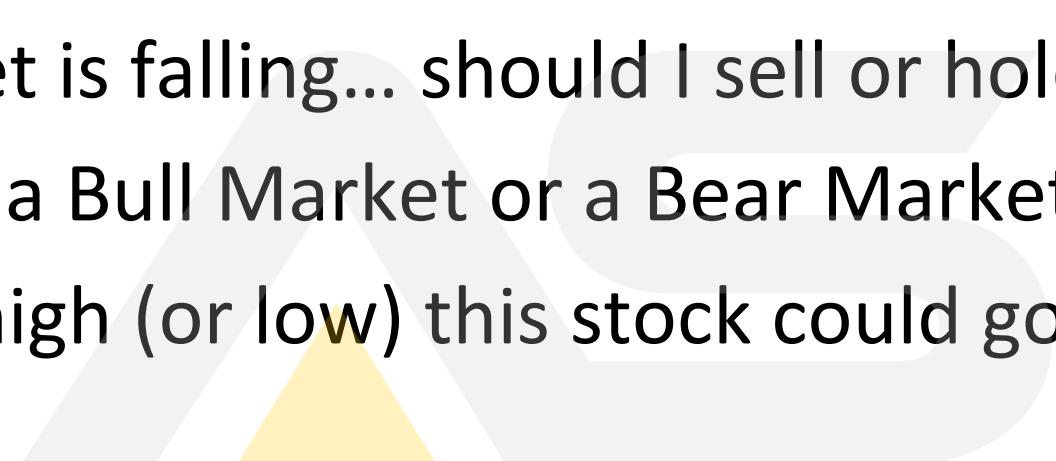
Myths & Hard Facts

- Brain Myths
 - I lost because I didn't know trading secrets.
 - Only intelligent people make money in stock market.
- Fortune Myth
 - Only lucky or fortunate people make money in stock market
- Undercapitalization Myth
 - One needs bigger account to be successful
 - If only I had a bigger account, I could have stayed in the market a little longer and won
- Autopilot Myth
 - If I had a good trading system, I would be successful.
- Myth of Fundamentals
 - Stock price is determined by companies fundamentals and past performance
- Myth of Brand
 - Buy XYZ company's share, it always makes you money.
- Full-time trading
 - I need to be a full-time trader to become successful in the markets.

- **Market is not your mother....**
 - It is made of tough men and women who look for ways to take money from you instead of pouring milk into your mouth
- Futures Trading is not a “ZERO-SUM” game, it’s a “MINUS-SUM” game!
 - Winners receive less than what losers loose.
 - Just being “better than average” is not enough to win in this game
- This industry attracts new losers to feed the winners, brokers and exchanges.
- For a price to go up, there has to be greater fool who is ready to pay higher.

Common Questions

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



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

Have you got it right?

- Markets rise when
 - i. There are more buyers than sellers
 - ii. Buyers are more aggressive than sellers
 - iii. Sellers are afraid and demand a premium
 - iv. More shares or contracts are bought than sold
- a. i and ii
- b. ii and iii
- c. ii and iv
- d. iii and iv
- Find out - when Markets Fall!?

Retail Mentality

- Retail portfolio consists of more Gadhas (Underperformers) than Ghodas (Outperformers) - Why & How?
 - They Feed the Weeds in the Farm
 - They Catch the Wrong Train
 - They are too Loyal to their stocks
 - They like to be Brave
 - They like to Buy Cheap
 - They like to Average by putting good money after bad

TREND

The trend has been your friend for over 250 years,
so stop fighting it!

- **Up Trend**

- Higher Highs, Higher Lows
- Moving Averages $5 > 13 > 26 > 50$

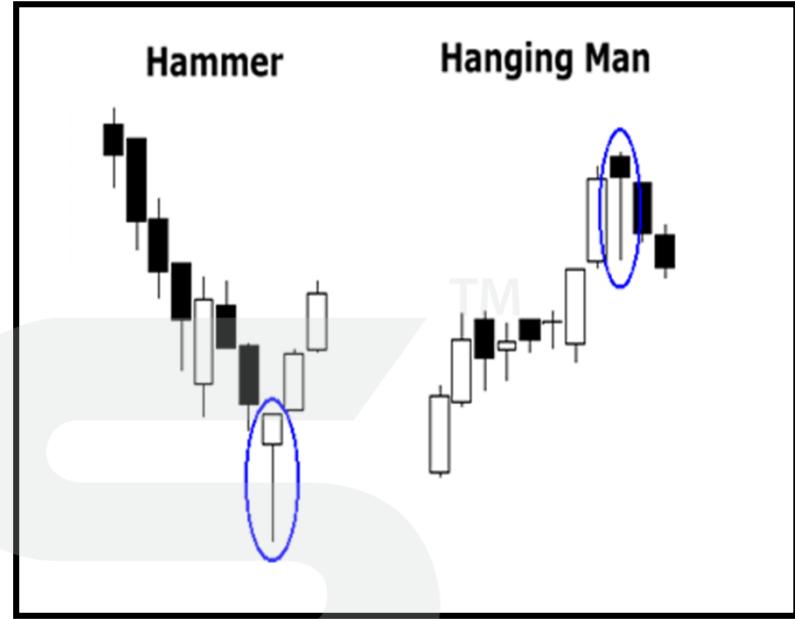
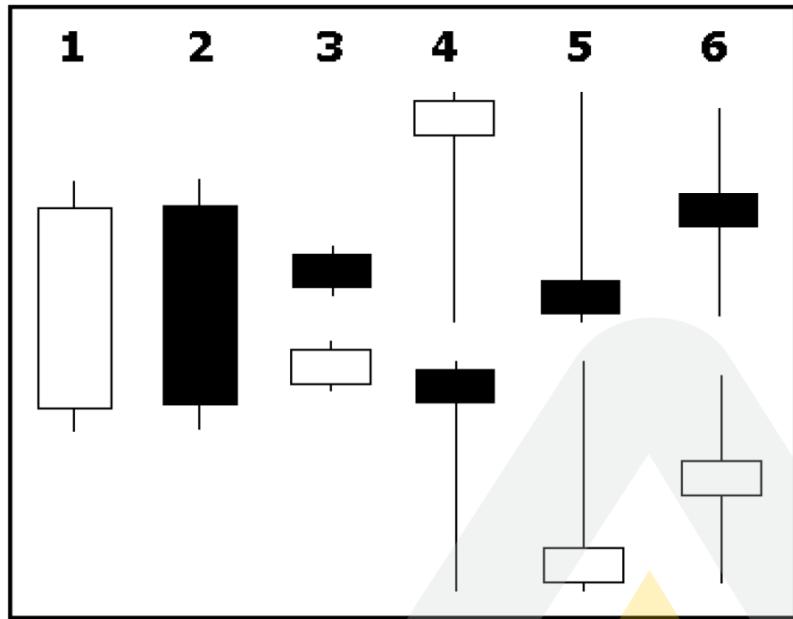
- **Down Trend**

- Lower Highs, Lower Lows
- Moving Averages $5 < 13 < 26 < 50$

- **Sideways Trend**

- Moving Averages are mostly flat or intermingled

Bulls vs. Bears



1. Long white candlesticks indicate that the Bulls dominated the action (trading) for most of the time.
2. Long black candlesticks indicate that the Bears dominated the action (trading) for most of the time.
3. Small candlesticks indicate that neither team could move the action and price finished about where they started.
4. A long lower shadow indicates that the Bears dominated the action for part of the time, but lost control by the end and the Bulls made an impressive comeback.
5. A long upper shadow indicates that the Bulls dominated the action for part of the time, but lost control by the end and the Bears made an impressive comeback.
6. A long upper and lower shadow indicates that the both the Bears and the Bulls had their moments during the time, but neither could put the other away, resulting in a standoff.

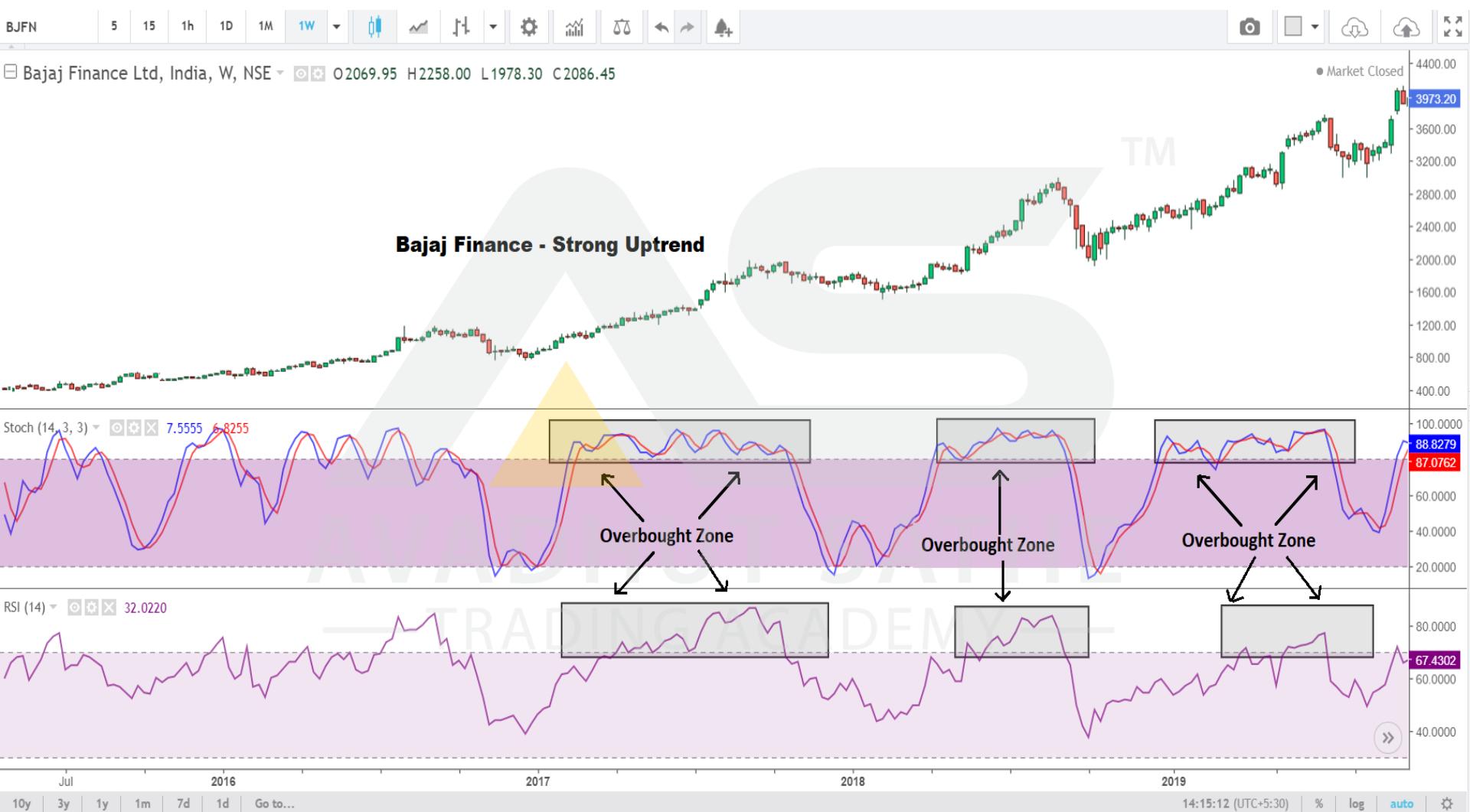
Oscillators

- Oscillators help find turning points i.e. they identify emotional extremes of market crowds i.e. “**Overbought**” OR “**Oversold**” conditions.
- However, in a strong bull market they may remain overbought for long period of time, giving pre-mature sell signals.
- In Strong bear markets they may give pre-mature buy signals.

- They work extremely well in **Trading Ranges** (Sideways Trend):
 - Buy on Positive Crossover (ready to turn from oversold)
 - Sell on Negative Crossover (ready to turn from overbought)

Oscillators in Strong Uptrend

Bajaj Finance Example



Oscillators in Strong Downtrend

PC Jeweller Example



Divergence

- To “Diverge” means to drift apart OR go on a different route. Generally, price and oscillators go hand-in-hand however, there are times when they diverge from each other.
- Oscillators give best trading signals when they diverge from price.
- **Divergences often help to identify market tops or bottoms.**
- There are 2 different divergences:
 - i. **Bullish Divergence** - Bullish Divergence is where price chart will show price making equal low or lower low while indicator (Stochastic/RSI) will make a higher low. In other words, bullish divergence occurs when price fall to a new low but an oscillator refuses to decline to a new low.
 - ii. **Bearish Divergence** – Bearish Divergence is where price chart will show price making equal OR higher high while indicator (Stochastic/RSI) will make a lower high. In other words, bearish divergence occurs when price rise to a new high but oscillator refuses to rise to a new peak.

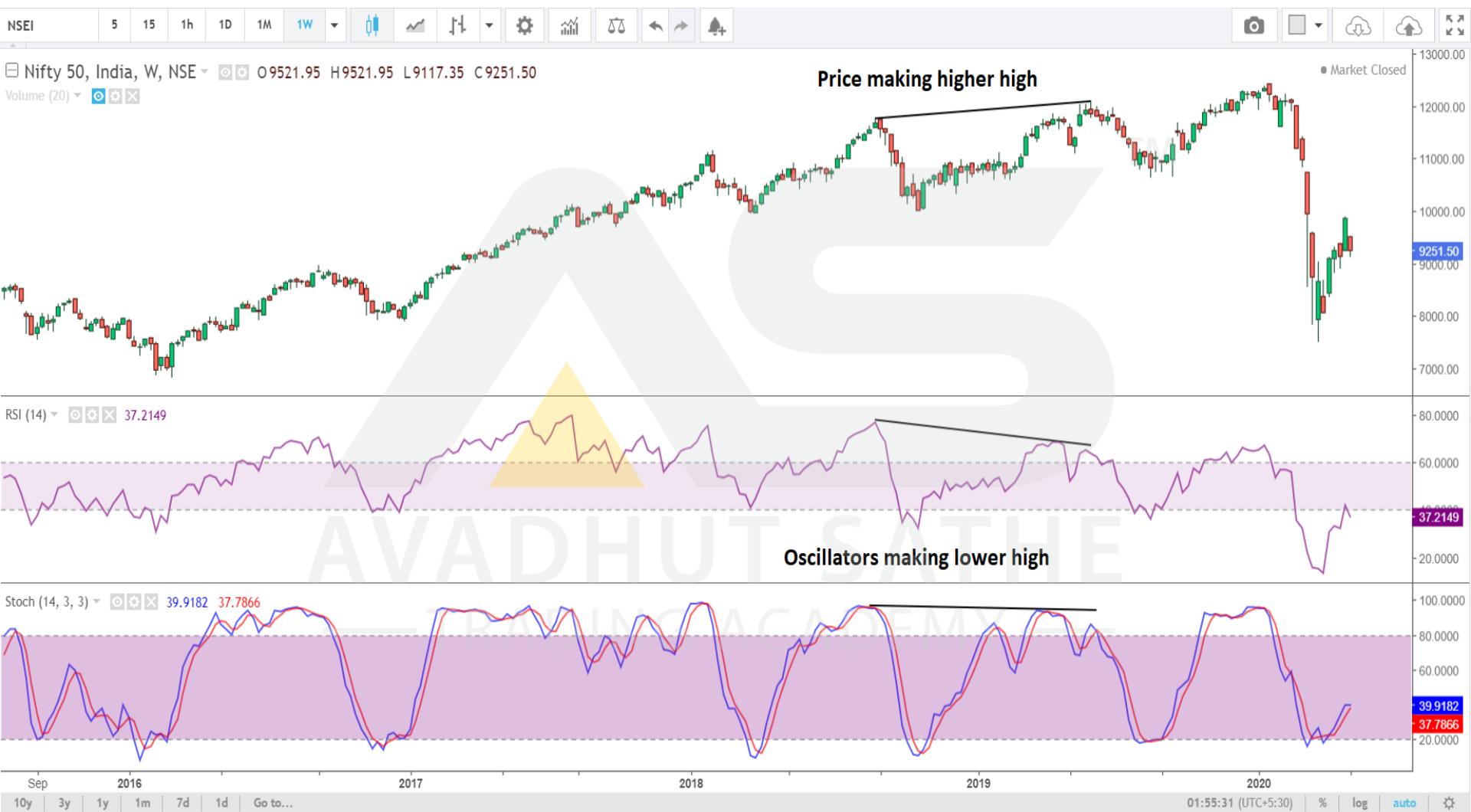
Bullish Divergence

TCS - Daily chart showing a bullish divergence



Bearish Divergence

Nifty 50 - Weekly chart showing bearish divergence



TIME FRAMES

- Monthly Chart
 - Good for ultra long term investors.
- Weekly Chart
 - Good for long term investors with over 1-2 years investment horizon.
- Daily Chart
 - Good for medium term investors with over few months investment horizon.
- Intra-day (1 minute, 5 minutes, 15 minutes etc.)
 - Used by day-traders

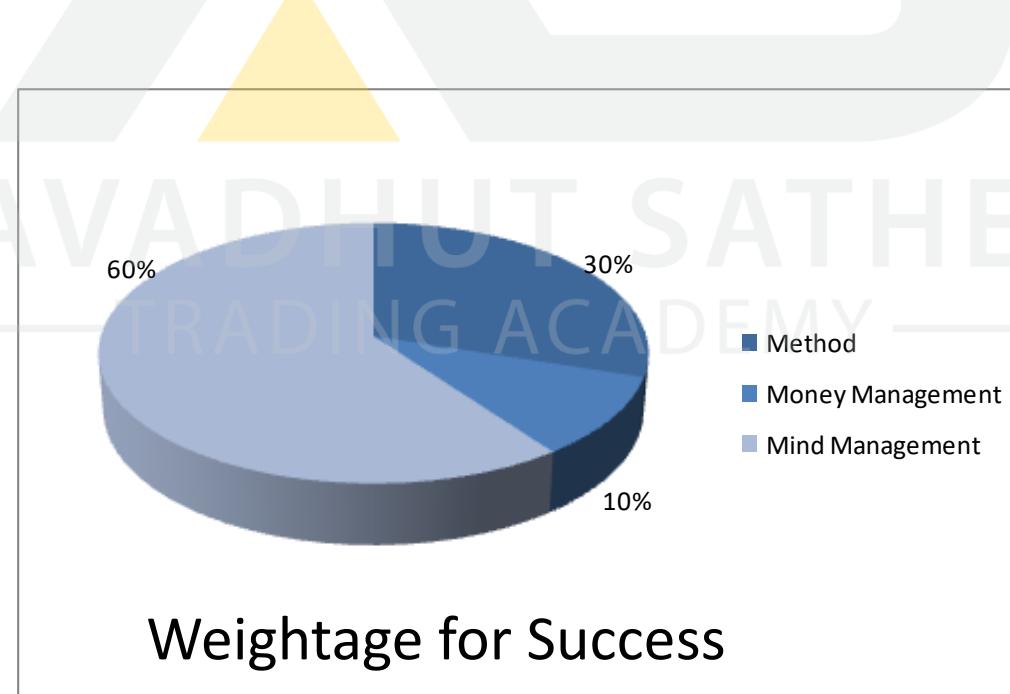
Interpretation: Each bar / candle represents price for the specific time frame. E.g. In daily chart “each” candle represents price for the day i.e. open, high, low & close of the day

TIME FRAMES

- According to DOW Theory, Stock Markets have 3 trends
 - Long-term Trend lasting for several years (like a Tide)
 - Medium-term Trend lasting for several months (like a Wave)
 - Short-term or minor Trend (like a Ripple)
- Trade in the direction of **TIDE** (e.g. weekly chart)
- Take advantage of the **WAVE** (e.g. daily chart) that goes against the Tide
- Use breakouts / reversals in **RIPPLE** (e.g. intra-day)

The 3-Ms of Market Wizards

- M – **Method** to Identify Right Opportunity in every market situation
- M – **Money Management** Rules for Survival and Make Profits!
- M – **Mind Management** to Conquer your Emotions & Follow the Rules



M1: METHOD : Triple Screen System

- 1st screen: Long-term (Market Tide)
 - This is one order of magnitude longer
 - Invest / Trade in the direction of this trend
 - Use slope of MACD on this chart as your key ‘direction indicator’
- 2nd Screen: Medium-term (Market Wave)
 - This is the timeframe you want to Trade
 - Identify the Wave that goes against the Tide i.e. a pullback on daily chart when weekly trend is up
 - Use Oscillators to determine buy / sell signal
- 3rd Screen: Short-term (Ripple in the direction of Tide)
 - This is one order of magnitude shorter
 - Use intra-day breakouts for entry
- Choosing Time Frames:
 - Use factor of 5
 - For medium term investors : Weekly / Daily / 1 hour
 - For day-traders : 1 hour / 10 minute / 2 minutes or 30 / 5 / 1 minute

DETERMINING ENTRY

- Use Triple Screen System
- Invest in the direction of the TIDE (Long Term Trend)
- Think of Loss before thinking about profit
- Determine Stop Loss price
- Determine Target using Chart Pattern
 - If clear pattern is not evident, avoid the stock
 - Or Use major support / resistances as targets
- Reward = Target – Entry (for short seller Entry – Target)
- Risk = Entry – Stop Loss (for short seller SL – Entry)
- Enter the trade ONLY IF
 - Reward / Risk > 3
 - Stock has enough liquidation
 - Your study gives zero contradictory signal (i.e. if you want to go long (buy) no indicator should give sell signal)

DETERMINING EXIT

- DO NOT Exit just because your target is reached. The stock may go up (or down) further!
- Trail your Stop Loss as Price moves in your desired direction.
- Exit when your exit signals are hit
 - Moving Average crossover
 - Stop Loss / Trailing Stop Loss
 - Reversal Pattern
 - You know it's a Bad Crop / Bad Employee / Gadha
- Sell (or Cover : for short sellers) when your stop loss price has hit
 - DO NOT be emotional about the company. She is not your spouse!
 - Neither the company nor the exchanges are going to shut their doors on you (as long as you have money!!).
 - Cash is the KING !!!
 - You will get another chance to buy (only if you have money!)

CHOOSING STOP LOSS

- Identify Immediate Support (Resistance for Bears).
- Identify Next Support.
- Stop Loss should be below the immediate or next support.
- Cases
 - Breakout (below the median or low of BO candle)
 - Double Bottom (below the median or low of confirmation candle)
 - Reverse H&S (below the median of confirmation candle)
 - Triple Screen driven signal (based on candlestick pattern)
- Experience will help you decide better stops!

M2: MONEY MANAGEMENT

- Determining Corpus for Stock Market investment
 - Typical Rule : $(100 - \text{your Age})\%$ of your Total Investments
- Number of companies in portfolio : 5 to 15 max
- Distribution : 8 – 20 % each
- Stop Loss for each stock : must be less than 2% of total portfolio
 - If you have 10 stocks, your max loss is restricted to 20% of the portfolio.
- For day-traders
 - Same 2 % rule applies for each trade
 - Maximum monthly loss should not be more than 8% of your portfolio i.e. if you loose 4 trades in a row, STOP trading... there's something wrong with your judgment or market is nasty!
 - If you loose 8% every month for 3 consecutive months, look for some other profession... Day-trading is not your cup of tea!!!

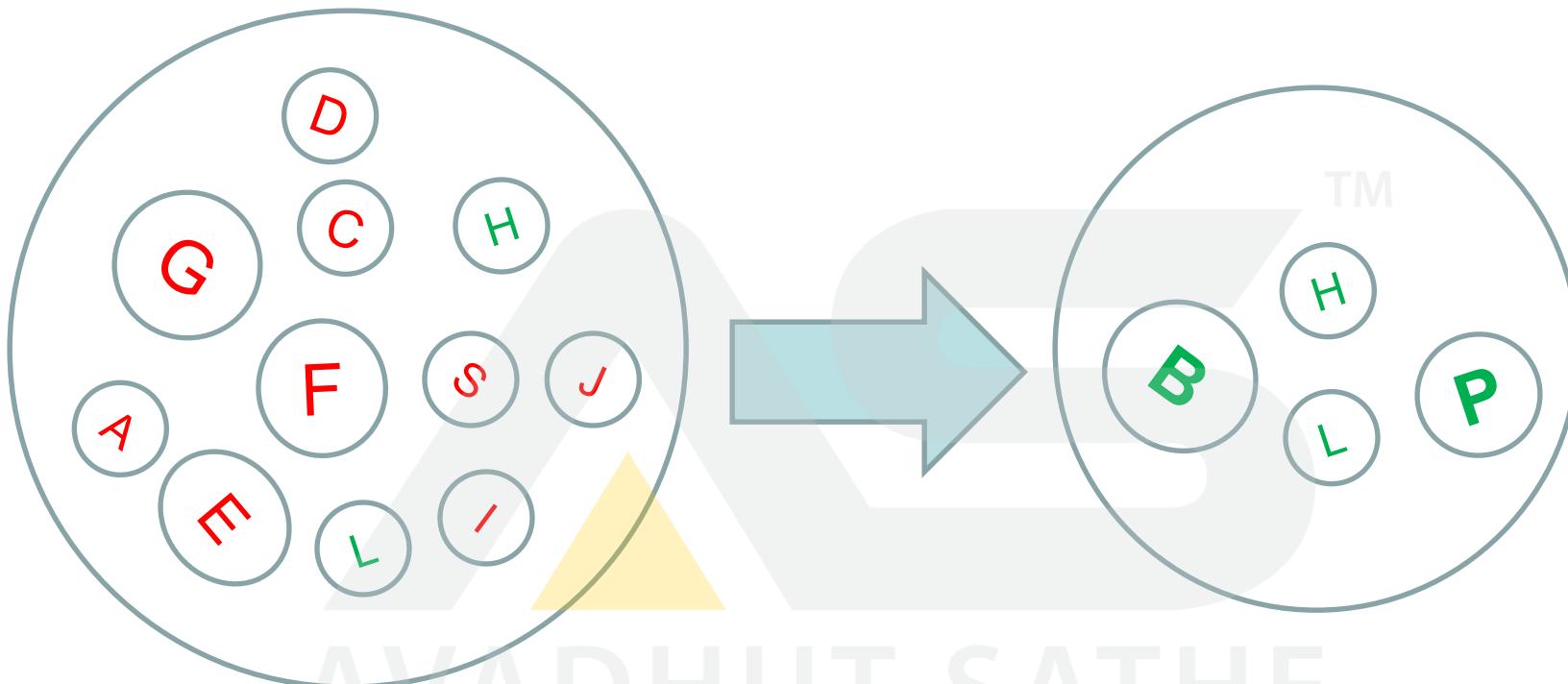
M3: MIND MANAGEMENT

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

Important M3 Rules

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

Inside the Mind of a Trader



Clustered Mind, full of Emotions

Clear Mind, control over Emotions

Winning is a matter of skill and discipline not luck

RULES OF THE GAME

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

RULES OF THE GAME.....contd.

- Don't buy a stock because you think it's cheap. Let market decide if it's cheap....follow your chart.
- Never let speculative play (rumor ones) to turn into long term investments. Sell if your chart tells you to do so.
- Don't catch a falling knife in anticipation of the bottom. Let the chart confirm reversal.
- Always use “Triple / Double Screen System” while analyzing a chart.
- NEVER fall in love with a stock... not even Reliance ☺
- Habit of managing money is more important than the amount.



**NEVER compromise your
MONEY MANAGEMENT RULES**

CURRENCY TRADING

- Currency or Foreign Exchange markets, aka Forex Market, is the largest financial market in the world. It is where trading of international currencies takes place. Currencies are always traded in pairs, for example - the USD/INR is a pair that's traded.
- **Lot size:** Lot size is the minimum quantity of units that have to bought or sold under a contract.
- Currency trading is done via Futures & Options only and hence, traded in lots. Lot size for all currency pair is 1000 quantity and 1000 quantity is considered as "1 Lot".
- Suppose one wants to buy 1 lot of USDINR at Rs.82/-, the contract size for the 1 lot will be Rs.82000/- (82×1000 quantity of USD).
- Margin is a portion of your total funds (capital) that your broker keeps aside from your account for you to enter/open a trade and to stay in the trade.

MARGIN:

Margin is a portion of your total funds (capital) that your broker keeps aside from your account for you to enter/open a trade and to stay in the trade.

Last updated: 16 Dec 2022

Contract	Price	NRML Margin	
USDINR Jan 2023 Lot size 1000	82.94	2109	Calculate
JPYINR Jan 2023 Lot size 1000	60.92	2735	Calculate
GBPINR Jan 2023 Lot size 1000	102.25	4389	Calculate
EURINR Jan 2023 Lot size 1000	88.14	3008	Calculate

NOTE:

- > Above mentioned margin requirement is as on Dec 16, 2022.
- > Margin requirement are subject to changes. It is always recommended to check the margin requirement before entering a trade.

PIP (Point In Percentage):

- Point In Percentage or PIP is unit of measurement for price movements of currencies. It is the smallest amount of change in the rate for a currency pair and calculated using last decimal point. It is also called as "Tick Size".
- Example:
> The PIP for USD/INR is 0.0025, this means the tiniest move in USD/INR will be 0.0025 and cannot be lower than that. The lot size of USD/INR is \$1000.00; so one can make Rs.2.5 (0.0025 x 1000) per PIP in USD/INR.

Expiry:

- All monthly futures currency contracts expires on two working days prior to the last business day of the expiry month at 12:30 PM.
- All weekly futures currency contracts expires every Friday at 12.30 PM.

Table showing conversion of PIPs to Paise and P&L on 1 lot:

PIP Unit	Times PIP	Lot Size	Paise	Amount	Conclusion
0.0025	1 PIP	1000	0.25 paise	2.5	1 PIP can result in profit/loss of Rs.2.5
0.0025	4 PIPs	1000	1.00 paise	10	4 PIPs can result in profit/loss of Rs.10.00
0.0025	10 PIPs	1000	2.50 paise	25	10 PIPs can result in profit/loss of Rs.25.00
0.0025	40 PIPs	1000	10.00 paise	100	40 PIPs can result in profit/loss of Rs.100.00
0.0025	100 PIPs	1000	25.00 paise	250	100 PIPs can result in profit/loss of Rs.250.00
0.0025	200 PIPs	1000	50.00 paise	500	200 PIPs can result in profit/loss of Rs.500.00
0.0025	400 PIPs	1000	100 paise (Re.1)	1000	400 PIPs can result in profit/loss of Rs.1000.00

Table showing P&L on 10 Paise w.r.t. lots:

Lot	Quantity (Lot x 1000)	Paise	Amount
1	1000	10	₹ 100.00
2	2000	10	₹ 200.00
5	5000	10	₹ 500.00
10	10000	10	₹ 1,000.00
50	50000	10	₹ 5,000.00
100	100000	10	₹ 10,000.00
1000	1000000	10	₹ 1,00,000.00

Instrument : USDINR

Below exercise is to understand the difference in “Investment” & “ROI” when trading in Real Currency v/s Currency Futures:

Option 1 : Buy Real Dollars

Qty : 1000

	Rate	Amount
Entry	₹ 80.04	80040
Target	₹ 82.07	82070
Stop Loss	₹ 79.98	
Reward	₹ 2.03	2030
Risk	₹ 0.60	600

Option 2 : Buy Futures 1 Lot

1 Lot = 1000 Dollars Margin = 2.5%

	Rate	Amount
Entry	₹ 80.04	2001
Target	₹ 82.07	
Stop Loss	₹ 79.98	
Reward	₹ 2.03	2030
Risk	₹ 0.60	600

$$ROI = \frac{2030 - 2001}{2001} \times 100 = 15.4\%$$

$$ROI = \frac{2030 - 2001}{2001} \times 100 = 15.4\%$$

Copyright © Avadhut Sathe Trading Academy

Mark To Market:



	Opening Price	Closing Price	Difference between Open and Close	Lot Size	Daily MTM
Day 1 (Entry)	80.047	80.257	0.21	1000	210
Day 2	80.257	81.275	1.018	1000	1018
Day 3	81.275	81.479	0.204	1000	204
Day 4	81.479	81.889	0.41	1000	410
Day 5	81.889	81.966	0.077	1000	77
Day 6	81.966	81.735	-0.231	1000	-231
Net Profit at the end of 6th day after exit					1688

DEVELOPING TRADING STRATEGY

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

LESSONS LEARNT BY ME

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

Hence,

- Follow the Rules
- Follow the Discipline
- Follow the Rules
- Follow the Discipline
- Follow the Rules
- Follow the Discipline

TM

Keep it Simple

Follow Discipline

You CAN DO it !!!

With ASTA, you shall do it



Our Motto

at



**ALL-FOR-ONE
ONE-FOR-ALL**

DEVELOPING CHARACTER THAT DESERVES SUCCESS!