Seize the Trading Day

A one month guide
to
trading wisdom

Edward C. Turner

Dedicated to my wife who thought I would lose money trading; to my daughter who thought I would make money trading; and to my mentor, Todd Mitchell, who made my daughter's belief a reality

Introduction

You are on a journey to consistent profitability as a professional trader. You may be new to trading, be experienced enough to have baggage filled with emotional scars from trading failures, or a professional trader seeking to expand your repertoire. It is my belief that traders are qualified for trading in exact proportion to their ability to control their trading appetites with discipline and wisdom. So, no matter where you find yourself on the trading path today, may the following month of articles enhance these attributes in your trading life and allow yourself to gain in confidence, consistently, and profitability. During the following days, you will be visiting wise stewardship areas for your time and money; essential reasons for trading on paper; patience; discipline; money management; obedience to wise "trading rules"; and the need to keep invincibility, pride (there are still things that you can learn from others), and greed out of your trading room. For me, it cost over $40,000 in trading programs – and a lot more than that in financial losses – to learn some of the "wisdom nuggets" that I will be passing along in the pages to follow. In this eBook, you will find a collection of 31 articles – one for each day of the month. Each article indicates its day of the month at the top; of course, you can read them in any order and time you would like, but this "one article per day" arrangement is a good way to absorb the information in each day's trading article so you can seize the trading day and take command of the lifetime of trading days to follow!

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Trading "Trading Myths" for "Trading Truth"

We have all heard myths, and often we enjoy the uniqueness of the presentation. After a few laughs, we dismiss them for what they are . . . Myths! I mean, how can one take seriously stories like, "The Girl who Married a Bear", "Why Bats have no Friends", or "How Crows Bring Daylight?" However, when it comes to "trading" myths, well, that's another story. The potential trader – and the seasoned one as well – can find difficulty in separating the fact from the fiction. There is the possibility of danger lurking in this difficulty, so I thought we might spend some time discussing common trading myths – just to make sure they are staying on the "fiction" side of your reasoning.

Do you believe the myth, "I will make all the money I need following the signals of others, and I will never have to rely on finding my own trade set-ups?" I'll bet your bank account doesn't agree with that myth! Before I learned to trade, I turned my money over to others – only to find that they were worse than I was. The best trader always will lie within the beholder, and you are that "beholder!" You need consistency – not trades that may work only once in every seven or eight attempts. Find a mentor, a good trading program, and take a short time to becoming equipped! This is a recurring theme with me, but it's true, and it's also a quick myth-killer. Equipping leads to consistency, which leads to profitability.

How about this myth, "I will always make the most money by upping my trading frequency." Sorry, but that gets a buzzer. The old saying, "The more you trade, the more money you will win," is missing one crucial element – "set-ups!" What do you think the odds are of rapid firing trades and blindly hoping that some will hit the target? What kind of a solid income is that delivering? Patience – resulting in even one good, solid trade – will almost always outperform unplanned, random trading by the end of the trading day.

Last, how about the ridiculous myth that states, "My best trading is when I am under pressure, so extra knowledge will only hinder my sharpness." That one is so bad that it shouldn't even need a rebuttal, and yet, it's still high on the common myth list. The truth is just the opposite: too much pressure can cause a trader to make inaccurate, highly irrational, and highly emotional trading decisions. A trading room comes with its own inherent pressures, and you don't need to invite any extras. What already exists is more than sufficient for you. Pressure is always combated with learned knowledge, skill, and the implementation of your consistency -driven trading plan.

If you are friends with any of the three myths above, I would cease and desist quickly, and then watch your resulting profits grow. It's just that simple, so go for it! By the way, did you hear the myth that "Traders are more intelligent?" Good news, that's no myth! Keep on believing that one, and enjoy trading.

Why Bad Trades Go Ugly

Anyone that has never made a bad trade worse, raise your hand. I surely can't raise mine, and quite frankly, I don't see any other hands going up either. So why is this the case in trading, and can this emotional handling of a bad trade be overcome in the life of a trader? Of course it can, and if you have a few minutes, let's chat about this.

First, let me elaborate on my "bad trade" definition. Whether you enter a trade set up as a method trade – based on sound reasoning and proper methodology – or enter a non-method trade on a lark with no advanced entry plan or predetermined thoughts as to the success of the trade, the definition here is that – for whatever the reason – this trade has gone against you and become a bad trade. Now, the performance with your exit plan will determine the resulting damage control.

Here is an ideal example of what I am discussing. You buy two e-mini contracts, and you set a three point stop ($150.00) on your position immediately. So far, so good. Over the next five minutes, your position moves in your favor by two ticks, but it then whipsaws suddenly and now finds itself standing one tick above your stop. Wisdom tells you that if your stop is executed, so be it – there will be many more good trade setups around the corner. Good money management here! Then your eyes flash back on your chart, and you catch something interesting. Earlier in the day, the market bounced off the same support twice, and that support level is now resting three points below your current stop. Throwing caution to the wind, you remove your stop. Your reasoning is that the market will bounce off support yet again, allow your trade to recoup its initial stop loss, and allow a minimum of$300.00 to return to your pockets. Unfortunately, the market doesn't bounce off support this time. It continues to fall, and your actions wind up being the primary cause of a sizeable loss.

Sound all too familiar? It should, as it's an emotional mistake often made. Think back to when you were studying to be a trader. Remember that section on risk-reward ratios? I don't believe that definition would have been found in the illustration above. So why does this happen? Well, a few examples might be greed, panic, or possibly not wanting to deal mentally with any extra baggage from a loss before retiring for the evening. There can be a myriad of psychological issues that affect a trader's ability to deal with losses as a normal part of day-to-day trading, but many of the issues can be extinguished by going back to "Trading 101." As I always tell traders, "Follow the rules (there are not that many), stay disciplined and focused, set your stops and trailing stop the way you were taught (never deviating from that path), use proper money management, and always keep greed and gambling out of your trading room." Sound trading knowledge allows you to maximize profits and to cut losses. Be thankful for the profits, tolerant of the losses, and never accept any ugly!

The Procrastinator's Road to Trading – Part One

The procrastinator's road to trading is a journey encompassed about with detours, consequences, and roadside signs stating, "This week I will," "The first of next month for sure," "A must do for the family;" but alas, these signs are passed by, the status quo stays the same, and the profitability derived from being an equipped and successful trader is not forthcoming. Obviously, this isn't your plan; you've researched the benefits of trading a gazillion times, but there is a habit here that needs to be broken. Maybe there are a few simple suggestions here that can move you from the "wishing side" of trading to the "doing side" of trading and move you into the trading room where you want to be.

Your procrastination can stop today, and a new trading education – along with a good mentor – can be yours quickly and without delay. Surely you want to move forward, but there is some specific origin to your hesitation. So, let's take on some major, pre-trading issues and allow you to overcome any that may be standing in your way.

First may be your fear of failure. You have heard those gloomy statistics; eight out of ten new traders fail, and you have already grouped yourself as one of the eight. No, you should group yourself with one of the two because – like them – you will take the time to learn and to become an equipped, professional trader who will run his trading like a business.

Here's another possibility, you expect yourself to be perfect with your trading results, and since that's never going to happen, you're not even going to give it a try. Perfectionism is just another procrastination excuse. When you learn to trade, you're going to start out with a simulated account – a "practice account," if you will; here you will learn consistency and the resulting profitability that it brings with it. There is no "perfect" in live trading; wins and losses co-exist, but consistency and proper money management equal financial success, and that's the bottom line!

Last, maybe you think you are too busy to trade. Your present job – or other practical concerns – won't allow you the time to trade. When you learn to trade, you will find that different timeframes will give you the freedom to be an intra-day, short term, swing, or position trader. Still not satisfied? Well, how about a twenty-four hour Forex market that's just waiting for you? Before work, after work, or even at 2AM in the morning, it is ready when you are, and it always has excellent volume and volatility.

Are you ready to step through the trading door? Good, and congratulations! For those that may still have lingering doubts, stay tuned, as "The Procrastinator's Road to Trading" Part Two is just around the corner.

The Procrastinator's Road to Trading – Part Two

At the risk of sounding like a Saturday afternoon movie serial cliffhanger, "If you remember, in our last thrilling episode" (OK, "Article"), we discussed the major pre-trading issues breeding procrastination and keeping the potential traders out of where they want to be – the trading room. Since you are back for "Part Two" of this article, it's likely that your procrastination is still troubling you. With that thought in mind – given this might be a good time for more introspection – let's look at some of the ways that you may be procrastinating even as you are reading this next paragraph.

First, you may be overestimating the difficulty of learning to trade and are therefore postponing the essential first step to making it happen. Well, I have some encouraging news for you! In the many years that I have talked with potential traders just like you, most took their first live trade within six weeks of finding a good mentor and trading program. Additionally, many of these were people having a full-time occupation concurrently with their trading education. I even talked with one person who had three jobs running simultaneously, and he still was equipped and trading profitability within three months of starting his education. This should certainly give you hope and encouragement!

Another area that could be causing you to procrastinate is the fact that you are selling your future performance short when it comes to the profitability you will be enabled to make. What is the base of your projection? Have you heard the quote: "Knowledge breeds success"? You are not going to major on "hope" or "guessing" or learning new definitions for "luck;" you are going to major on the tools that will give you "equipping," "consistency," "profitability," "confidence," and "stability." Now those are the kinds of definitions that you can bank on – literally!

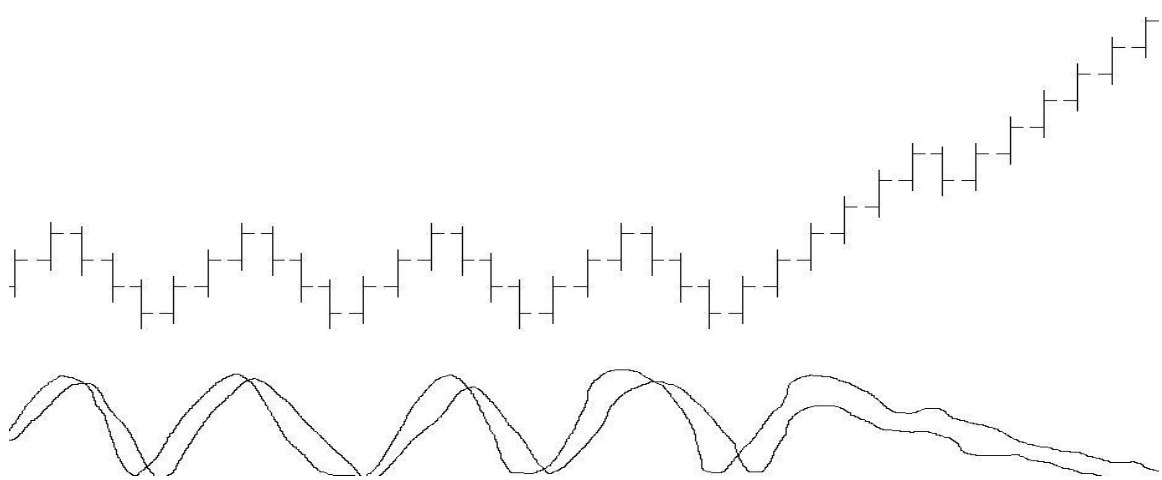
Last, you may be spending an inordinate amount of time researching information about trading – to the point that it has become a compulsion and a habit to postpone taking action. You follow through with this habit by asking e-mail questions by the hundreds, filing a myriad of trading web pages on your computer, cutting out ads from every trading magazine in the bookstore, and finding yourself spending many hours in the financial section of the local library. Research and due diligence is wise, but if it becomes nothing more than an excuse for procrastination, then it is time to move on.

You can change your behavior and become a successful trader. Often it takes nothing more than a combination of self assessment and a catalyst of motivation. May these last two articles serve as that motivation, and may you now take the next step. By the way, after that first step, the next step is easy. It leads directly through your trading room door. Great! I hope to see you there.

The Little Indicator That Could

As traders, we want to succeed. Our ultimate goal is profits. Toward that end, we peruse different chart designs, mathematical formulas, and software platforms, and we usually find ourselves evaluating a myriad of technical indicators. You know, technical indicators like stochastics, exponential moving averages, ADX, the Hilbert Sine Wave, RSI, MACD…Hey, wait a minute, what was that middle one? The Hilbert Sine Wave? Yes, that's right, you've never heard of it? Well, that's quite possible, so let me introduce you to this little obscure indicator.

"Hilbert" is extremely accurate when it comes to measuring cyclical price activity, and it does so by producing a sine wave plot. It is usable with all timeframes (minute through yearly) and comfortable with all trading vehicles (Forex, e-minis, stocks, options, currency, bonds, etc.). What makes the indicator special is that it can differentiate between cyclical and trending price action. It accomplishes this feat by not displaying the normal "cyclical look" (the lines will not cross and it won't look sinusoidal) during trending; when it is not trending, the lines will cross, and you will find the normal sine-wave appearance. In many ways, you might surmise that the Hilbert indicator works like a hybrid of an oscillator and a simple moving average. How? Well, it can signal over-bought and over-sold via the cyclical range tops and bottoms, and it also can signal the start or end of a trending move. Let me draw an example so that you can see this indicator in action. The Hilbert indicator is at the bottom of the Forex chart below.



In determining your trading decisions, whether you are using technical analysis for predicting future market moves or to react to particular market conditions, you want the best tools and techniques available to be a competent technical analyst. I have found the Hilbert indicator to be one of those "best tools," and I hope that you will find this to be the same for you. Like me, you may find that the "little indicator that could" will become the "little indicator that <u>DID</u>" on the bottom of your profitable balance sheet.

Successful in Business; Lousy in Trading

You're a professional in the work place, and you are achieving continuous success. For wise reasons, you have decided to become a professional trader – quite probably with the intent of having this become your new full time occupation. OK, this should be a piece of cake, right? After all, you are simply taking your business plan and skills and transposing them right into the trading room. I mean, watch out, charts and trading indicators; you have arrived, and you plan to collect profits! Well, how is that profit collecting thing working out for you? Not what you were expecting? Are you finding that those 9 to 5 job skills, impressive as they were, don't impress your brokerage account balance even in the slightest? Why not? Well, let's discuss this situation for a few minutes.

Foremost, don't be discouraged; you will become a professional trader. Einstein said, "Make things as simple as possible, and no simpler." You may be making this transfer too simplistic, because in reality, there are a few factors that you have not considered. For instance, in your previous business actions, you had learned successfully how to control any situation that came your way. You had been there, done that, and confidently knew how to bring any issue to a favorable conclusion. Now, with your new career, you have yet to build that trading methodology into your abilities, and thus that consistently profitable outcome has yet to be a reality for you. The byproduct of feeling out of control leads to another often overlooked factor, your emotions.

Your past business training probably had emotional issues that you dealt with on a regular basis. You understood those emotions, faithfully knew how to control them, and always kept them from worsening. Now, in your new field of trading, things are happening for which you don't have a mental file. For instance, you may be seeing trading losses that are well beyond the norm. They may be leading to fear, which can lead to a lack of self esteem and ultimately to finding yourself afraid to trade. You just quit before you even really started.

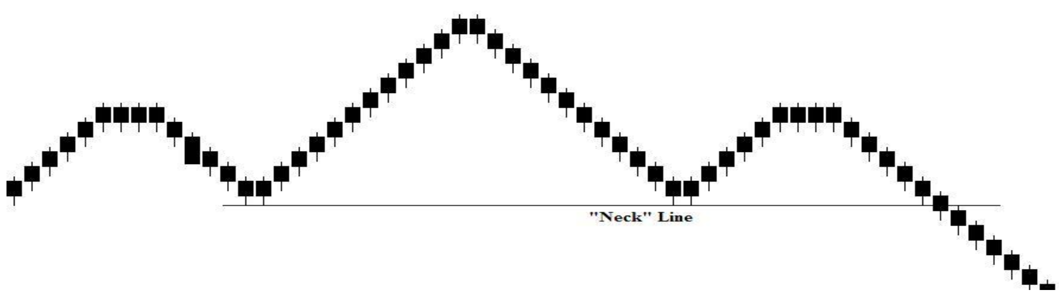
Now, let's get over all this. You need to stop right now and to formalize something that has been lacking from your life, a trading plan. Gain experience from a mentor, find a solid educational trading program, and use what you learn to define a stick-to-it trading methodology. This plan also will include specific trading setups, how to manage risk/reward ratios, and of course, proper money management. Implementing this plan will bring confidence to your trading and give order to your new career. Be patient, take it one step at a time; sooner than you can imagine, you will be that professional trader that just turned that 9 – 5 daydream into a full time reality. I'm very pleased for you, and good work!

Stands "Head and Shoulders" Above the Rest

No, this isn't an article on shampoo, and if you have dandruff, I suggest a drugstore. However, if your trading interest has been leaning toward chart patterns, then you have arrived at the proper destination.

Personally, I have never been a big proponent of chart patterns. Do they work? Yes, they do, but for some nebulous reason, teacups, saucers, and head and shoulders type chart patterns have never sparked my interest. I have had experience with all of these, and if I were a chart pattern guru, I would probably say that the Head and Shoulders stands taller than the rest. One word of caution before we move on here, chart patterns are best used when there is no market news. Surges in volume and volatility can skew the pattern, resulting in a greater probability of false signals.

Here we have a chart pattern where price will rise to a peak, retrace, rise above the peak that just formed, and then retrace again. If true to form, price will again rise to the level of the first formed peak, and then decline. Given this configuration, the chart pattern will resemble the physical head and shoulders of a person. Now, all you have to do is use your cursor and draw a line across the two lowest price points of this formation. When this line falls lower than your figure's "neck" line, then you will usually have a signal to sell the market. For a buy signal, just look at your head and shoulders pattern upside down. As you can surmise, this time the reserve is true. You will be looking for price to move above the "neck" line for the potential set-up. Let's draw an illustration of this, so you can get a general perspective of what you should be looking for.



If "Head and Shoulders" wets your trading tool appetite, then you might want to consider other credible chart pattern indicators. As examples, these could include double tops and double bottoms, support and resistance levels, and trend lines and channels**.** As with any indicator, practice and due diligence are required. However, if it gives you consistency with your trading, it surely should be a keeper! Have fun!

So You Want to Become a Full-Time Trader?

You want to breathe the air of free life. You want to be your own boss and to answer to nobody but yourself. You want to coach your son's baseball team and have independence and freedom. You want to schedule your own work hours; trade from home or on vacation; reduce stress; and quite possibly make more money – in less time – than you did from your old friend, the 9 – 5 workplace. Many traders have launched off onto that full time journey successfully, and if they can do it, so can you. Let's talk.

In 1986 I closed the doors to my corporation, and with a cushion of money in the bank, embarked on my childhood dream of becoming a full time trader. Over the next few years I spent a great deal of money on useless trading courses, software packages, incredibly inept robots, and autographed trading books. Compounding my trouble, I was going broke investing in the advice generated by my purchased products. Hey, where did all these hazards come from? I couldn't deceive myself any longer, my lifelong dream, in reality, had become a real time nightmare. Finally, I turned my remaining money over to a "professional" trader for management, only to find that he was worse than I was. Ready to abandon the dream, and quite by accident, I stumbled into a trading program and a mentor who taught me a word that I had never known with my trading, "CONSISTENCY." Since I believe you desire to be a steward with your money and your time, let me share some wisdom that I picked up along the way that will help you put the pieces of your new occupation together quickly.

1. Buy a proven program with a mentor. This program must have a money back guarantee and absolutely no upselling. Ask yourself, "Do I really want to succeed?" If "yes," then be steadfast with your learning until you become an equipped trader. Remember, you learn to trade with your mind, not your computer, so this training should be worthy of your time and diligence.
2. Open your trading account with a broker offering both a trading platform and a demo account. Practice with your virtual account using the very same size positions you will trade with when you go live. Don't take a live trade until you have a 65% winning consistency rate with your virtual account. Proven consistency in practice will steady your emotions and give you confidence when trading live.
3. Purpose to be disciplined, never wavering from your path. Follow the rules you were taught. Don't over-trade, under-trade, or be afraid to take small losses. Trade at risk levels that are comfortable for you; remember, this is not gambling or a get-rich scheme. Focus on areas where you are weak and fix mistakes. Don't trade on hunches or hope. This will be your business now, so even in the beginning, run it like a professional trader.
4. Remember that psychology is a major part of trading. Controlling your emotions will be paramount to your trading success. How you handle fear, risk, and greed is important.

OK, do you still want to trade toward financial freedom? Good, and welcome aboard!

Simpler Swing Trading Is Super

Speaking the title of this article five times in a row without getting tongue-tied is a much harder assignment than to learn this simple and profitable swing trading method for trading the markets. Additionally, this can be used as a “quick start” method for new traders who are eager to ease into the world of live trading.

This swing trading method isn’t rocket science; with a little practice, you can be up and running in just a few days. Your assignment (“should you choose to accept it,” as they used to say on the *Mission Impossible* TV series) is to start looking for overbought and oversold levels on a chart that you construct. Your trading plan will be to take advantage of the smaller (intermediate) market trends that are found nestled inside the big (long term) trends: be alert to sell at the overbought levels and conversely to buy at the oversold levels. To accomplish this little procedure, you simply will look for support and resistance levels on your chart; as the price action nears these levels, be on standby to place a trade. You see, often price is extended too far from long term value – kind of like a rubber band that has been stretched too far in one direction. When this happens, you will have a potential trade setup. For isolating the overbought and oversold levels, you might want to consider using my favorite indicator, the multi-faceted Keltner Bands. If you prefer another, then I would recommend that you check out the Bollinger Bands.

Now, one more item, and you will be ready to trade. You need to be able to confirm the move on your chart, and this will be accomplished by using some kind of an oscillator that will confirm price. Well, welcome to the vast array of momentum indicators. As examples, you can choose the MACD, the ADX, the RSI, or my favorite, the stochastic (to name a few). Whatever your decision, just remember to use an oscillator that you are comfortable using and only to plan on using one. You want to keep this trading plan simple, and you really don’t need a lot of oscillators cluttering up your trading screen.

Now, grab your patience and discipline, use wise money management, start looking for support and resistance levels, and enjoy your new trading method. Remember, always wait for price to fall into resistance or to turn up into support; above all, wait for your momentum oscillator to confirm the move. If everything checks out, then place a trade, set your stop, and start to enjoy the simplicity that swing trading can bring to your trading room.

Sawing Logs and Trading

Now before you envision a lumberjack riding a freshly cut tree down the river to the local brokerage house to place a trade, that's not the direction here. You probably have heard the expression, "The market never sleeps;" while that may be true for the EUR/JPY, it isn't true for you. The expression, "Sawing logs," came from my grandfather; during my visits as a young boy, he would inquire if it was time to "saw some logs" when the bedtime clock struck 10PM. You may know it as "Catching some Z's," "Hitting the sack," or "Going to count sheep." Whichever way you say it, it's spelled the same, "S L E E P," and it's a most important part of your trading arsenal. What? You don't think so? Really? What about that trade entry you missed three weeks ago because of that lapse in concentration due to fatigue? Let's discuss for a moment the quintessential roll sleep plays in the equipping of a trader for profitable trading.

In the trading life of every disciplined trader, every day, every time, whenever you push that keyboard key or click the mouse to place a trade, optimal cognitive functioning (being totally in control of every situation) is a top prerequisite. As a pilot goes over his pre-flight check list before he flies, so should a trader have a check list before he trades. The "top three" items on my pre-trade list include an evaluation of my food intake (am I too hungry to trade?), my emotions (are there distracting issues that need to be resolved?), and – the most often overlooked item – am I too tried to concentrate on my trade set ups?

Optimal sleep equals sharp focus ability. This alone can be the difference between a positive and a negative balance sheet at the end of any trading day. Remember, the goal here is not to let even one penny slip through the cracks of your trading room floor. Toward that goal, here are a few tips to consider: 1. Avoid coffee or candy bars loaded with sugar late in the evening. 2. Develop a pre-trading day sleep cycle that will generally have you going to bed at similar times every evening. 3. Last – if possible – try to eat dinner on the earlier side of the evening; when it comes to that beloved bedtime snack (one of my all-time favorite meals), try to opt for the "egg whites and a few nuts snack" rather than the "seven-layer ham, bologna, roast beef, Swiss cheese, and mayo sandwich."

So, let's see here. In this article, you have learned ways to make more consistently profitable trading dollars, ways to have a more restful night of sleep, and a menu tip to keep any unnecessary pounds off the weight scale. Good! All in the day's work of a disciplined trader.

Pulling the Trigger at High Noon

Howdy, Trading Partner. I'm curious to ask, how is your mouse "quick draw" with an excellent trade setup staring you right in the face? What? You always hesitate, you've never taken a live trade, and ultimately you get shot down on the profits you could have made? Keeping your mouse in its holster because of an unsure clicking hand is unwise in the corral of trading. I believe I have an assignment that might very well kick away any tumbleweeds blocking your ability to place live trades and quite possibly eliminate any of your future hesitation. If you have the time, let's pull up a couple of wooden stools and discuss this situation.

When it comes to placing your very first "live" trade, be aware that the fear of "pulling the trigger" is the number one problem facing a serious new trader (quite possibly, a trader like yourself). Not simulated (demo) trading, where fearless invincibility can run amok, but the actual placement of long or short positions that results in real, hard-earned cash entering or exiting pockets. Why can't you jump in? Why this fear and trepidation? How about being afraid of losing? Here's an interesting statistic: 10% of new traders trade, 40% think they are ready to trade but are too emotionally anxious about a first trade loss to jump in, and 50% of new traders claim never to have seen a good trade setup. The latter is often an excuse for perpetual keyboard freeze. OK, for the 90% that have yet to cross the first trade threshold, have yet to "get over the hump", or to "break the ice" – those who are wasting time and energy on wishful thinking and regrets – I have an assignment that might help.

Given that you have done due diligence to the educational side of correctly learning how to trade and have practiced until you have trading consistency (but have yet to place a live trade), this is going to take an act of sheer will to initiate you into the world of successful trading. On your very next trading day, at high noon, on the twelfth strike of the clock, you place a trade.

"What if I don't have a trade setup?" you ask. "Sometimes my charts look better around 1:00 PM."

Sorry, no excuses; the rule stands that you take the trade exactly at noon. The clock is ticking! You see, this isn't about winning or losing, this is all about getting over the fear of placing that first trade. By 12:01PM, you will have accomplished that purpose, and procrastination is now history. Congratulations, you have joined the exciting fraternity of live traders. Remember, no matter how good your technique, if you're afraid to apply it, then it just becomes wasted talent and ability.

So saddle up my friend, and head back to your trading monitor. Keep your eyes on the charts, have your mouse ever by your side, shoot for those profits, and much success to you!

Psychology Management and You

It's Wednesday afternoon around 3:30 PM. You're a little hungry, really didn't sleep well last night, and now find yourself in a trade that is going against you. Your mind print of the last loss is enhancing your fear of losing on this trade, and distress is in your heart. You are fighting off the irrational desire to remove your stop and hope for a bounce off some unseen support. Your thought processes are filled with confusion. Maybe you should just walk away from the whole situation and relax? Well, this probably isn't the best time to do that! What's a trader to do? Welcome to the psychology side of trading. How you handle your emotions is an integral part of the trader's life, and it will certainly be the pivotal factor between being a successful or unsuccessful trader. Let's discuss a little "Psychology Management 101."

As a beginning trader, my trading plan was a metaphorical dart board. I just threw a trade out there and hoped to get lucky. Maybe you can identify with how I started out. Without a thought-out trading plan, one that encompasses every part of your trading life; without a methodology; and without psychology management (which is crucial to forming both your trading plan and your methodology), your main trading strategy might very well be chasing missed trades and hoping for the best. Often conditioned for acceptance of three to four losing trades in a row, traders find themselves trying to catch a "big one" – giving themselves the false confidence of becoming successful traders. In retrospect, their trading plan and methodology were nil at best, and their psychology management fell somewhere between panic and nonexistence. Emotions were probably running rampant all over the trading room. Well, let's look at two steps to alleviate some of these early (and sometimes not so early) emotional traps.

First, do an honest psychological assessment of yourself. How is your work ethic for trading? If you lack understanding and skills to trade, then confidence will not be your friend in the trading room. Buy a good trading program, find a mentor, learn, practice, and then return to live trading. Second, how do your personality traits mix with your trading? In other words, how you feel about financial risk, risk tolerance, fear, losses, greed, and disappointment will speak volumes about your self-esteem and ultimately, about how you implement your profitable trading plans and methods.

Remember, an understanding of trading psychology and the management of it in your trading life is just as important as charting, technical analysis, and trading strategies. They work in harmony with one another to make you the complete and successful trader that you are purposing to become. OK, do you have your overconfidence under control? Mindset is focused on success? Great, now go out there and earn those profits!

Practice, Practice, and Practice Make Money, and a Demo Account Can Help

Congratulations! You have done your due diligence, you have successfully mastered your trading program, you know your strategies, your emotions are high, and you're ready to jump into the live markets, right? Well, let's discuss that thought for a minute.

Often traders believe they have the knowledge and invincibility to skip practice trading, and go with their instinct to make money, and make it now! This is a critical error in judgment, as many who "play hooky" from practice, not only fail the course, they are permanently removed from trading, and reluctantly return to their "old friend" the DAY JOB. The hardest step to trading successfully is often the patience to first practice what you have learned. When I was a high school senior, more than anything I wanted to fly Piper and Cessna airplanes. After two months of study, my instructor told me that I could leave the classroom, but he most certainly didn't put me in an airplane cockpit, close the door, wave goodbye, and tell me to fly around the airport three times. I had to log many hours of practice flying before I had the competency level raised to that point where my instructor had the peace to tell me to solo the aircraft. I did, and all went well.

Enter the practice trading account, also known as a "demo account." Here you can practice your trading program and your strategies, but without risking any of your own money. You are using the real markets, but with 'pretend' money. Hone your technique without the downside, and if you should make a mistake, no problem, the word "broke" is not in your vocabulary. Test systematic approaches; test the very same brokerage platform that you will be using when you trade live. Learn to follow the rules that you have been taught, practice good money management (trade in practice the very same dollar amounts that you will trade live), experiment with the proper use of stops and trailing stops, study good risk/reward ratios, keep greed out of your simulator account (just as you will with your live account), be patient, (remember you only have to learn this once for a lifetime of trading), test psychology, and in the long run, when it's time to fledge the nest with your first live trade, with emotions in check (remember, you saw that consistency in your demo account), you can confidently "pull the trigger" and enter a position. Congratulations on your first profitable trade! Now your combination of hard work, determination and practice has paid off.

As you search the internet, you will find many brokerage houses that offer the trader free trial demo trading accounts with charting platforms. For your information, here are a few brokerage houses to get you started:

Forex and E-Mini	Stocks
http://www.globalfutures.com/	http://www.nobletrading.com/stock-trading-practice.php
http://www.tradestation.com/default_2.shtm	http://www.scottradeelite.com/register.asp

Paper Trading Your Way to Real Profits

Patience is a virtue, and when it comes to a simulated paper trading account, these words of wisdom are worth applying to your future trading life. Here's another word of wisdom: "Do as I say, and not as I did"; because as a beginner, I thought "demo" trading was meaningless, and I jumped out of the educational gate trading with real money. Add to that the fact that I had success! My first three trades netted $79.00 in profits, which I promptly invested in a desk for my trading monitor. So, let's see here: no downtime, no practice, and profits to boot. Not bad, right? Well, maybe not so good. What if those three trades were supposed to total $1,500.00? Let's discuss some merits of starting with a practice account.

When learning to trade, paper trading will help keep "second best" out of your trading room, equip you with the highest of potential profitability, and make the transition toward becoming a real money trader much easier. Besides, you have new avenues of learned plans, methods, methodologies, ideas, and concepts to explore; wouldn't this be better served without the potential emotional risks of large draw downs in your brokerage account?

Another big advantage for paper trading is the ability to flex your trading muscles by building up proficiency rather than profitability. People are always telling me about their humungous profits with their simulated accounts; however, this may be a huge mirage. If you buy 200 standard lots to achieve these results in your Forex account, one has to ask, "Was that indicative of how you are going to trade when you go live?" No, of course not. Always use in your practice account the same procedures you will be using with your live account. That just makes common sense, and besides, this will give you an advance start in working with risk-reward ratios and proper money management. Remember, the focus here is not on how many profits you can make in a session; the focus is on honing your skills and on equipping yourself for a future of successful trading.

Last, a simulated account is a good location to check out your emotions. After all, if you are going to be upset, have sleepless nights, and battle anxiety over paper money losses, how are you going to react to the real event? Putting your emotions in check now will help keep ugly habits out of your trading room down the road.

Back then, I was wrong. Simulator accounts are not "meaningless". Plus, they have the added advantage of shortening your learning curve, curbing future troubles right in their tracks, and allowing you to take the time to find consistency with your trading. Consistency is your friend in the live world of live trading. Time to call your broker? I vote "yes"; how about you?

Ordinary Trader versus Extraordinary Trader

A trader can break-even at best, or enjoy a lifetime of profits. One will see hurdles and market fluctuations as huge roadblocks, while the other will confidently pursue the rewards and bank his money – all while looking right into the face of risk. Why does one succeed in the markets, and the other fail? Which person are you? Well, let's pull up the psychiatrist's couch for a moment and discuss the one personal asset that may be missing from your trading life. It's only one word, but it's a powerful one: MOTIVATION.

Many evenings as a junior high school student, I struggled with my mathematics homework. Ordinary was my norm, discouragement was my mental state, and often when I was ready to accept my predicament as normal life, there would be a knock on my bedroom door. There, with a big smile on her face and with my favorite cherry pie in hand, was Virginia Turner. Before the door closed, my mom had left me with the understanding that I was not ordinary, and that I would overcome the square root of 4864.238. I did just that, and the answer was: 69.744089! But there was a far more important answer here; she gave me the motivation to overcome that "ordinary" and strive for the extraordinary.

What is your catalyst for motivation? It doesn't have to look like a cherry pie or sound like a kind word. Maybe it's less sweet, and was that last disastrous trade, or string of losing trades that preceded it. Isn't that enough to make you ask yourself, "Is this what I want possibly to continue?" or are you at the point where you are no longer going to settle for "ordinary" in your trading?

If you are intending to earn a livelihood through this business, then this question is paramount to answer. Are you ready for change? You are? Good! Now, your first goal is not to feel guilty over your past losses, and second, unconditionally, absolutely irrevocably, plan to become the best trader you can possibly be. Your pursuit will not be thwarted. You are going to wake up tomorrow morning and follow a new trading route that will most definitely make a difference. You're going to change your stature. You are going to celebrate your trading successes and your strengths, while taking notes of your failures and weaknesses. No matter how trivial, plan to eliminate one weakness every day. For instance, did you trade without patience yesterday, cancel a stop hoping for a reversal, trade with your feelings, let greed control your decision making, try to recover a loss without a proper setup, or take trades when you were tired or emotionally distraught? Build focus and concentration with your trading, ask questions, make the changes needed, and you will see progress. Your emotions will be encouraged, your trading habits will improve, and you will profitably impact your trading performance.

Now you can live your trading with renewed passion, look at yourself in the mirror again, and move from ordinary trader to extraordinary trader. Enjoy the trip as it is a wonderful journey!

Laughing Your Way to Trading Success

Redundancy was repeating itself once again in my new trading life as I found myself chasing another bad trade. I was enduring my customary mental war; I was holding on for a reversal, and my position (as if it had a mind of its own) was refusing to reverse until I exited with a large loss. The tug of war continued, and my brokerage account was bleeding profusely; in the end, I succumbed to another profound defeat. Jumping from my chair, I was ready to dance my usual "ballistic two step" (a combination of a kick and a foot stomp) when something funny – and in this case, literally funny – happened: I laughed. I had been so bad for so long, and now it was resonating with me. The truth was, I had been – and currently was – an extremely negative testimony to my future trading success. As I examined my predicament, jokes even started running through my mind on the level of, "What's the difference between a pigeon and a trader who refuses to learn how to trade?" Answer: "At least the pigeon can still make a deposit on a BMW." After my laughter subsided and reality set in, I knew I needed help. I found a mentor, a great trading program, and I found trading success. So, if every now and then you should find yourself dancing my old "ballistic two step," maybe it's time to leave the dance floor and to take time to let us chat for a moment or two.

If your trading results are negative and the tension of trying to balance too many unknown variables is putting your balance sheet in lackluster perspective, maybe this would be a good time to conjure a smile or two for yourself. If you need a catalyst, I can even supply another joke. Let's see here . . . ah, OK, here's one: Trader: "Believe it or not, my lack of trading success has helped me to get back on my feet." Friend "How is that possible?" Trader: "My car has been repossessed." Now, if you're still smiling, start an honest inventory of your trading talent. While you are at it, why not do a financial projection of where you would like to be one year from today?

Jokes are good for working off tensions, but it's no joke when it comes to learning how to trade correctly. Through laughter, wonderful things can materialize; most importantly, you can step back for a moment and confront the real issues hindering your trading performance. This can be a beneficial time of contemplation, and you may just find the number one factor missing in the lives of new traders everywhere – they never took the time for equipping. My recommendation? Find a good mentor, find a good trading program, and learn how profitable consistency is bringing smiles to the faces of traders everywhere. Also, the next time you dance, it probably won't be the "ballistic two step." It will be something much more healthful, and that will be good news not only for your body, but for the furniture in your trading room.

In Search of the Holy Grail Trading System

No, we won't have to put on our Harrison Ford "*Raiders of the Lost Ark*" fedora hats here; however, we are going to discuss the fact that traders often invest years – spending thousands of dollars – searching for the elusive "Holy Grail" of trading systems, only to reach one disappointing dead end after another.

As a neophyte trader, I would read trading magazines from cover to cover. My problem was that my focus was never on the articles, but it was always on the advertising. I wanted to believe that there was a shortcut around education – a Holy Grail trading system if you will – one that was easy-to-use and had effortless money ready to be made. WOW, pattern recognition software; that's surely the answer. No wait, how about this program on neuro nets; I really need that. Better yet, I will buy them both, and I probably should add in this automated artificial intelligence package. Well, if your searching was successful, I am pleased. If you're one of the myriad of traders still in pursuit of the Holy Grail of trading – finding yourself identifying with where I was – still struggling, still reaching blind turns and dead ends, I have a piece of advice from past experiences. Sadly, I have some bad news for you: there is no Holy Grail to trading, and more importantly, you can waste your trading life in pursuit of such a treasure.

Many traders beginning their trading journey will choose to circumvent trading education in lieu of what they believe will be quick and easy money. They reason that learning and equipping isn't necessary because out there in the large trading universe is some sort of secret indicator, some bell-ringing software, some perfect vehicle that will dictate trades and allow them to reap huge profits. Unfortunately, they search in vain because this is not how successful trading works. In reality, skipping the educational road takes you down a money-spending path that leads away from discretion, from discipline, and from becoming the professional trader that invested a little time and effort to reap trading consistency and profitability.

So remember, there are no shortcuts to becoming a successful trader. If you think your search is turning up Holy Grails too good to be true, then they probably are. Exchange "quick and easy" for "solid and firm." Find a mentor, learn a trading program, and soon – through all market conditions, through all changing economic conditions, throughout your lifetime of trading – you can reflect back on the benefits of your trading education and be thankful that you invested a little time and effort in your future. I did it, and so can you.

How to Trade Live with a Full-Time Job

No, I am not talking about sneaking into the restroom with your Blackberry, or finding a quick Wi-Fi hotspot with a concealed laptop – what I am talking about is trading live with a full time job. Sound interesting? Let me share my experience with you.

In high school I traded stocks; in college, commodities. After graduation, I traded stock options, and during my early employment, the e-mini futures. I parked on the e-minis because it offered me liquidity at the end of my trading day. I'm one of those traders who sets his spreadsheets by the month, trades for the needs of the month, and wants to be able to count his cash at the end of each and every trading day. As I tell everyone, I want to know whether I can buy my wife and daughter an ice cream cone by the end of my trading day. My dilemma came when my work schedule prohibited me from trading the e-minis during the live market hours. I tried trading the Globex in the evening, but it moved too slowly for my trading tastes. Longer time frames were OK, but I wanted that live action: trading off a three minute time frame; having live control over my entries and exits and my stops and trailing stops; and above all, wanting the potential of placing more trades and earning more profits in any given trading day. Do you face such a dilemma? Would you like to trade "live" around your work schedule, stop frustration, and eliminate those quick queries of the work computer during your lunch break? Well, not to worry! Pull up a chair, and let me discuss some good news about my close friend, the Forex.

The world's largest market awaits you, and it awaits you with power! Open 5 ½ days a week, the Forex is available twenty-four hours a day with excellent volume and volatility, and it trades more in one day than the stock market trades in one month. Plus, this volume helps regulate price stability with an average turnover of 4.0 trillion per day. The Forex is available when you are, and it is always ready to adjust to your schedule. Want to trade live? The EUR/USD is open before going off to work, the USD/JPY during the afternoon with a day off, and the EUR/JPY in the evening after a tasty backed potato and hot chicken dinner. If you're a "night owl" you can be trading some setups after the clock strikes midnight. You can even trade Sunday evenings! Whatever your trading pleasure, the very lucrative Forex market says, "Welcome."

Additionally, all major Forex dealers offer fantastic analysis tools, news, and platforms at no cost to the trader. There are no commissions (you only pay the bid/ask spread), and a mini Forex account (1/10 the size of a regular account) offers minimum risk. It can be opened for US $300.00 to $500.00, and don't forget the flexible leverage of up to 50:1.

If trading live around your work schedule sounds intriguing, then you just might want to introduce yourself to the Forex. You might really appreciate the relationship as much as I do.

How Do You Handle Risk in the Marketplace?

Remember growing up and playing a board game called *RISK*? The object of the game was to conquer and acquire by using strategies, overcoming uncertainties, and moving across the game board with a cunning plan. Isn't trading like that? You desire to invest your money, overcome uncertainties (manage your risk), and win (acquire profits) by using strategies as you move through your day with your cunning trading plan. Over the years, we all have heard the saying, "there is profit in risk." Translated into "trader talk," the saying becomes "the less uncertainty you feel and how well you can manage your risk tolerance will ultimately determine the rate of return of your trading success."

During one of my first dates with my future wife, we drove past a horse racing track. On a lark, we stopped in to watch the action. I decided to place a position on the 1st race. As I look back on that event, I had found myself unexpectedly contemplating a trading type scenario: I needed a strategy (impress Janay) with a future-oriented goal (win the race) while reducing the risk and the uncertainty of a loss. I accomplished this feat by eliminating all risk! How? Well, I bought a winning position on every horse in the race. My strategy and plan worked, and the date was a success; however, unlike that night (but always with trading), risk can't be bought out! It will always be your variable in the trading equation. How you manage that variable (your risk tolerance) will make a big difference with the success of your trading results. Here is a short list of a few ideas to reduce your fear of risk.

1. How is your motivation? If your past performance makes you focus on losing trades rather than your successes, then your fear of risking money on future trades will increase. Change your perception by spending time with your practice account. When you see profitable consistency, return to your live account.
2. Are continuous little trading errors psychologically affecting your risk tolerance? Take notes on your recurring mistakes and take steps to correct the issues. You are a professional trader, so take the steps necessary to eliminate those problems. They can be corrected, you know!
3. How is your computer working? Most of us are efficiently trading online, but does your computer lock up, run slowly, or crash during a trade? This can lead to uncertainty in placing entries and exits and in your ability to access risk correctly. Clean your registries, tune up your computer, and make sure you know how to use it. This will help with your risk management.
4. Have you done a check up on yourself lately? Is greed getting into your trading room? Can you cut your losses when your stop is hit? Are you running your trading as a business or as a get-rich scheme? Do you still desire to learn, remove self doubts, and weed out weakness? These will all help with reducing risk.

If you invest your energies into overcoming fears and uncertainties, then your risk tolerance will lead to correct risk management. In turn, this will allow you to calculate the risk of your future trades with authority and confidence. You will no longer see trading as "no pain, no gain." It will become "no pain, no pain," and then you will find the profits that are resting just inside the risk.

Emotions versus Losses

Do you have a few minutes to create a sign? OK, good. Open your drawer; take out one piece of paper, a pair of scissors, and a pencil. On the paper, write the following sentence: "I will control my emotions or I will not trade." Now, you should mount your completed sign on or near your trading screen. Good work, the sign looks nice! Now, to get to the purpose behind the sign, let's digress and visit my trading room from years past.

As a new trader, I would take a long position; instantly, as if orchestrated to the push of my keyboard key, the market would move in the opposite direction. I would short the market, and immediately, the market would reverse directions and head for the sky. On the next trade setup, everything would line up great, but because of my last loss, I would hesitate to enter the trade. Much to my dismay, the position would surge in my favor; I jump in late to collect some remaining profits, only to be met by a market reversal. Again, right on cue, I have another loss. Does this sound familiar? Do you find yourself, like I did, looking at the windows – wondering if there was someone hiding in the bushes saying, "Look, the guy with the black sweater just went short again; quick, load up on long positions!" Additionally, you may be pondering thoughts like: "Am I going to get these results every time I trade," or worse, "should I stop trading?" Well, the answer to both of those questions is: "No, you aren't," and, "No, you shouldn't." Let's take a quick trip down emotion lane.

Emotions are a normal byproduct of a trader's life, and – not forgetting that sign you created at the beginning of this article – you need to be able to control those emotions or pause your trading career until you do. Otherwise, overtrading, taking bad trade setups, and using poor risk/reward ratios can prevail. By nature, many emotional issues will not impede your trading, but huge trouble often arrives after three or four consecutive losses. It's at this point doubts and fears can enter your psyche, and your self esteem becomes minimized at best. The resolution here, "Stay the course" – if, and only if, you have a trading plan that works, that has given you past confidence, and that is backed with proven consistency. If your trading plan is nonexistent, based on luck, and your main go-to method is taking "feel good" trades; then plan on riding an emotional roller coaster with anxiety being your ticket to ride. Find yourself a good mentor and a solid trading program; watch how fast panic and stress leave your demeanor, and consistency and profits arrive as a grateful substitute.

Having a successful trading plan will keep most emotions in check. A few losing trades are to be accepted, but they are not a catalyst for psychological damage. Keep a positive attitude, keep the control, keep your new sign close at hand, and you should do just fine. Now, go and have a bad trade and test yourself. Just kidding.

E-mini and Forex Trading Robots Letting You Down?

I'm not surprised, but then you're not alone. In my infancy days of trading, I also succumbed to "robot mania." I invested over $6,000 in robot software, only to ask myself the same question you may be asking today, "What happened?" That colorful Internet ad surely seemed tantalizing, didn't it? Then there were the incredible track records with profits that were almost beyond measure! Could it really have been true that money could be made simply by entering a position when a robot gave us the "go-ahead"? Well, we are wiser money stewards today, but let's discuss why we didn't receive the financial results that we were expecting.

I've always been a fan of the Star Trek genre of programs and movies. One of my favorite characters was Data, a humanoid robot from "The Next Generation" television series. Data was a programmed marvel, having the ability to be precise and to calculate an unlimited number of variables – always with accuracy and correctness. Well, the calculating robot in Star Trek is not the same calculating robot found in the e-mini and Forex markets; the very thing (numbers and variables) that gave Data such success has the very opposite effect with trading robots. There are just too many variables that influence price action. Every trading day is a new day, with the markets breathing differently than yesterday. You will see that your good friends have ever changing personalities and moods. On Monday, maybe heavy volume and volatility rule; Tuesday might be a trending day; Wednesday could find the markets moving sideways throughout the session, and on and on it goes. Robots are programmed with a strict set of trading rules; they look at a fixed variable or two, a specific event, or wait for their favorite indicator to fire. On the occasion that this happens, they briefly dance in the spotlight, but for the overwhelming amount of time, they flounder in the sea of input neither known nor encoded and find themselves calling out faulty signals. As we both have learned from past experience, it's not easy to make money when there is no consistency with our trading.

As I tell people, there are two ways to trade. One, you trade for fun (and break even at best), or two, you trade to make a living. If your purpose is to trade for a living, then you are going to want to run your trading life like a business. This means you are going to need consistency with your trading. So it's time to say, "Goodbye," to the bells, whistles, flashing lights, and robot software, and to say, "Hello," to the good news of learning to trade for yourself. Soon you will be a disciplined, professional trader, and from my point of view, that spells, "Success."

Day Trading and Discipline, a Worthy Duo

As the song lyrics go, “You can’t have one without the other.” Unfortunately, I had never heard that tune, and I was dancing to my own music. I moved to the beat of song titles like, “Flip Flop Strategies,” “No Skill Thrills,” and “The Easy Road Moola.” My trading jukebox played all the wrong songs, and I kept inserting the dollars – hoping to find that elusive hit, “Lucky Me.” Of course, the song didn’t exist, and eventually I found a melody that did. It came from a mentor and a good day trading program. In case you may be playing that same jukebox I played, unplug the thing, and I will share with you two day trading tips that I have learned.

First, discipline is paramount! If you are a potential day trader, there are rules you need to know to succeed, and discipline is huge. This is the same kind of discipline that is required to run a business. It’s focus and stick-to-it-iveness! You must control impulsiveness; you need self-control; any poor addictive patterns of trading behaviors are left outside the trading room; you don’t wander from strategy to strategy (or worse, you have no strategy plan at all), and you keep your emotions in check before, during, and after placing a trade. Need an “acid test” as to how you and discipline are getting along together? Take a look at your trading results. If things look a bit “iffy,” then stay with the long timeframes for awhile. Improvement will arrive.

Second, a subcomponent of discipline, is COMMITMENT. Day trading is a skill, and pausing to learn that skill will be one of the finest investments you will make for yourself, the lives of your family, and your continuing future years of trading. This is not a sideshow, a whim, a lark, a hobby, or a gambling occupation. This truly is a business (you may decide to form an LLC), and it will be one that – quite probably – will have a close association with you for the rest of your trading life.

I enjoy day trading, and I am pleased that you are considering the same path. It’s a tremendous feeling to know that you will have liquidity at the end of the trading day. No more sleepless nights! The returns can be greater (because you can trade several times a day), price patterns will form faster (I use three minute time frames), you will learn to respond to these signals quickly, and – as a disciplined (there’s that word again) trader – you should be able to leave less money on the table than with longer-term position trades. For me, I wouldn’t have it any other way.

Day trading can bring great rewards, but those rewards are coupled with the prerequisites of discipline and commitment. If you are up to the challenge, then I wish you much success. Who knows, maybe the next song you play will be: “Celebration” by Kool and the Gang – nice choice!

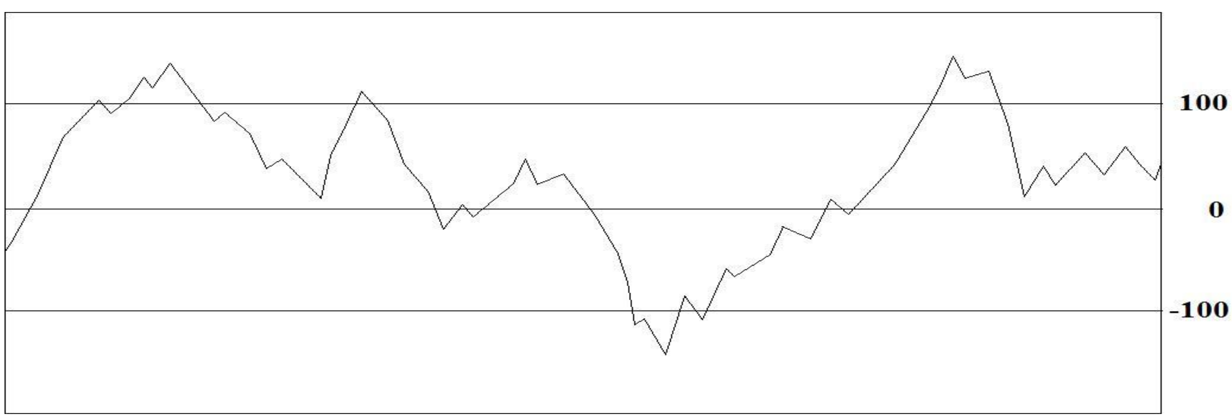
Day 23

CCI and U

No, this isn’t an alphabet game or ten points in a scrabble game. It doesn’t stand for the Center for Cultural Interchange, a broadcasting channel, or the Consumer Confidence Index. The “CCI” stands for the Commodity Channel Index, and the “U” stands for YOU. Together, they stand for whether you should be including this indicator in conjunction with your other arsenal of trading tools. Let’s inspect this indicator and see what we can find out.

Yes, you’re right; this is another oscillator to examine, but it is an excellent one at that. Why? Because it can help you identify whether the market is oversold or overbought. It works well in almost any trading environment, and it is especially happy with commodities, the stock market, futures, and the Forex. The idea behind the CCI is that the market moves in cycles where the high and low are established within a fixed period. In other words, this oscillator oscillates between a minus one hundred and a plus one hundred. Any reading above one hundred shows you that the market is probably overbought, and for the reverse, any reading below one hundred is telling you that the market is probably oversold. Some platforms may show the oscillations between a minus two hundred and a plus two hundred. I will draw this oscillator for your perusal.

CCI



As with any oscillator that you might consider using, it is always a wise practice to add a filter of some kind so that you don’t get fooled into taking an unwise trade. In this case, you could add a moving average to help determine the trend of the market. Then, follow the trend for the overbought and oversold setups.

So there you have it, another technical indicator that offers a different perspective when analyzing price action. Consider it, and then you can decide: Is the “CCI for U”? If your answer is yes, then go out and find some oversold and overbought positions. Thanks, and enjoy!!

Are You Having Trouble "Pulling the Trigger"?

Your hand is nervous as it hovers above the mouse. You are one click away from placing a trade. Your mind tries to block out the uncertainty of the future outcome. You see danger, but you also see opportunity. While you are evaluating the future outcome of all this, that "would be" profitable trade just passed you by. Now you're left knowing that you just weaseled out of making another important trading decision. Does it always have to be like this? Does there always have to be disappointment and anguish? NO, of course not! I have "been there, and done that," so let's talk about it.

Years ago, on a trip to Vail, Colorado, when I was learning to snow ski, I remember standing on the top of a ski slope and being puzzled by the feeling that something was wrong. I had excellent equipment, my K2 skis were waxed and ready to go, but I didn't want to push off and head for the bottom of the mountain. What was stopping me? Why the apprehension? Then, I realized it: my desire to ski was being offset by my fear of falling. My opportunity for success was battling the risk that I might break my leg. Does that sound familiar to you? It should, because it's the same with trading. As a trader, many times our responses to the uncertainty of outcomes interfere with the realization of our trading goals and profits. You want to make money, but you have a fear of losing. As I was prepared on the ski slope, so were you prepared in the trading room, but we both hesitated. You see, it doesn't matter how well equipped your trading tools are, how many autographed trading books you have read, or how many seminars you have attended; inordinate fear aversion can halt successful trading right in its footsteps.

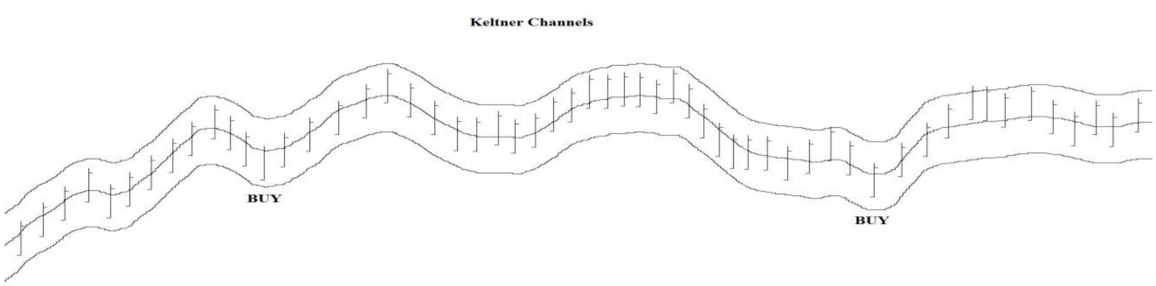
For me, the answer to all this was the "bunny hill," the practice slope; for you, the answer is the practice simulator, the demo trading account. Here you can identify, recognize, and eliminate any bad habits or trading behaviors. Are you overtrading, chasing the markets, setting your stops too loose, breaking the rules you were taught, not having patience to wait for the proper setups, or letting greed into your trading room? Without any question or doubt, I can assure you that this demo account will lead to trading discipline, which will lead to trading consistency, which will lead to "IT WORKS" confidence, which will lead to a live trading account and a steady hand over the mouse. No more missed trading opportunities! Congratulations! You just beat the number one trading problem with traders around the world, the fear of "pulling the trigger."

An Indicator Always on My Screen

Understanding the true overbought and oversold nature of any market or trading vehicle is essential for you, the trader! Whether it's stocks, bonds, the Forex, commodities, or the futures market, you need to be able to study price and to have the confidence to know that your charting techniques are the best available! When adding to your technical analysis tools, you might want to consider the indicator that I use the most: the Keltner Channels (also known as the Keltner Bands or Keltner Envelope). Don't be surprised if you have never heard of this indicator – I know I never had – and yet today it sits at the top of my favorite, albeit limited, indicator arsenal.

Created by Chester Keltner, the Keltner Channels are composed of two bands plotted around an Exponential Moving Average of the data for a given period. They are calculated by adding or subtracting a multiple of the average's true range from the moving average. With my price action study, I find the Keltner Channels to be very accurate. I use the channels primarily for determining support and resistance, although you will also find them very useful for signaling price breakouts and showing trends.

Let me construct a chart visually so that you can see this indicator in action. But first, let me answer my most frequently asked question in advance. If you are thinking, "Hey, this looks like a Bollinger Band," I would tell you that there is a big difference. They may look similar, but they differ in that the Keltner represents volatility using the high and the low, while the Bollinger uses the standard deviation of just one field.



You can experiment with your inputs, but often your moving average is 10 to 20 periods of the normal price. This will be used to construct your midline. You will form your upper and lower bands by using the average true range calculated over the same time period (usually the same 10 - 20 periods) and multiplied by a value (I use 1.5 which is common). This number then is added to the midline – forming the upper band – and subtracted from the midline to form the lower band.

Since many brokerage houses are now incorporating the Keltner Channels into their trading platforms, you will find it easy to program. Just enter the number of bars you want for your midline, the multiplier for your upper and lower bands, and presto! You're ready to view market information that might otherwise have passed you by. Have fun!

Day 26

Accountability of a Friend

I am – and always have been – a lone wolf trader. By nature, I am a recluse, and I have never sought the advice of television financial networks, chat rooms, or even the barber down the street. My charts always have been there to give me all the information necessary for making proper trading decisions. My “lone wolf path” to becoming a full time trader worked, but in retrospect, there was a much easier and more rewarding path around a corner that I never visited. That path was located at the street corner of “Accountability” and “Friendship”. Let’s step onto this path for a moment and look at some of the advantages of building your trading education with some of the friends you will meet along the way. Watch your step; here we go.

You see, things might have worked differently for me, but when I committed to becoming a full time trader, there were no other friends or associates that shared my financial pursuit. Quite frankly, if anyone dared broach the subject, it was usually with enthusiasm – not. “It’s too hard to learn, it’s too risky, people always lose money, and you will probably lose your shirt,” they would say. Then, they would go merrily back to their nine-to-five jobs, content to live with their fixed-income way of life. Fortunately for me, before I could become entirely overwhelmed from all the advice, I found a mentor – arguably the finest of trading mentors; coupled with a solid trading program, I solidified my dream and found success. My mentor could stand in the gap, could hold me accountable, could make instant teaching corrections when I veered from the knowledge base, and could be there as a friend, an encourager, and a confidant. My advice to any beginning trader – or to one honing skills that have become dusty over the years – is to find a friend that shares your trading goals and ambitions. Make a pact to hold one another accountable until you both become professional traders. Become cheerleaders for each other. The two of you (or more if you should be so fortunate) can take turns visiting each other’s trading rooms, writing via e-mail, talking over Skype or local phone services, meeting in the local library twice a week, or setting up scheduled live chats over the internet. Whatever or however you decide, accountability is your purpose, and profitable trading consistency will be the end product. You will settle for nothing less!

Watch how fast the barriers to becoming successful will be broken down. Your focus will be sharper, your motivation will be stronger, you will have a support system in place, the whole plan will be laid out before your eyes, and – the most important – no longer will you be on your journey alone.

So, from the “lone wolf” to the newly formed Wolf Pack, enjoy! It’s going to be a lot of fun.

A Trader's Resolution

Whoosh, bang, pop. If you have some confetti, this might be a good time to toss some up into the air. You see, you may be reading this article on a warm August evening or a cool September morn; however, as I write, I am in the midst of a New Year's holiday. Concurrently, I am finding myself inundated with the sounds of New Year's resolutions. I hear the normal echoes of weight loss, the year to stop smoking, to exercise, and to improve family values, but then there is my resolution. Call it my "Trader's Resolution," if you will, and no matter of what time of the year you find yourself partaking, you might want to consider adopting my resolution also. The good news here is that you can start applying this simple trading resolution in your life immediately (no need to wait until January 1st), but the bad news is that this is one resolution which is not allowed to be broken. No excuses, no procrastination, and no underestimating of your own abilities: this resolution starts right now (with the possible exception of one quick paper horn honk if you should happen to have one resting near your trading room.)

OK, you're ready; the resolution states, "Effective today, and throughout the next full year of trading, I will plan to follow the rules as I was taught (from my mentor, trading coach, or trading program). I will plan to set my stops as I was instructed (not removing stops just because I am down some money, see support below my stop, or have this infallible hunch that everything is going to turn in my favor.) I will plan faithfully to place trailing stops where warranted, practice proper money management (no cheating here), and to keep greed (in part, this means controlling the emotions) and gambling (remember, this is not some fly by night lark, this is a business, and I need to run it like a business) out of my trading room. "

OK, there you have it. Sound too basic? Why? Remember, in trading, simple is good, and this works! Besides, you will be surprised at all the benefits emerging from this resolution. For instance, your trading life will be less cluttered because you will be focusing only on the education that you have been taught. This will lead to your ability to analyze the markets with greater skill, and will allow you to find those all-important set-ups more quickly, regardless of the time frame in which you find yourself trading. Other perks should include psychological growth (knowing that beyond any doubt you can do this), and better consistency – leading to greatly-improved profitability (just for starters).

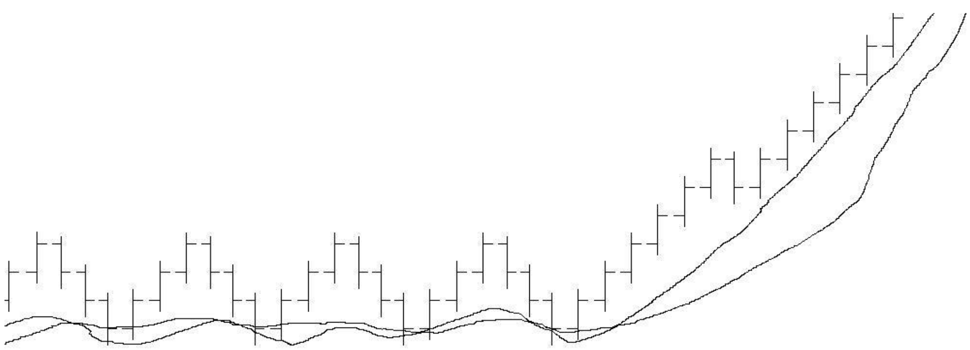
So, what's left? Well, congratulate yourself if you made the resolution decision; now, be fully committed to making the next year the best and most successful trading year that you ever have experienced. Now, that's worth a horn honk from this end, "HONK". I hope that it wasn't too loud and that you enjoyed it.

A Most Popular Indicator

Ready or not, it's pop quiz time. No groaning allowed; besides, it's not that hard a question. Ready? OK, here is the question: Of the following indicators, which do you believe is the most popular? A. RSI B. MACD C. Elliot Waves D. Moving averages E. Chart patterns F. None of the above. Alright, let's take a look at your answer: "B. MACD." No, but you were close. That was the second most popular indicator. The correct answer is "D. Moving averages." Surprised? Well, let's examine why the moving averages came in at number one.

For both of our primary uses, moving averages can be broken into two types: simple moving averages and exponential moving averages. The main use for these indicators is found in the analyzing of price action. We want to observe direction (trend) and location and – depending on the results of our analysis – to enter the market off of a buy or a sell setup. Buy setups will be found when price is above the moving averages, and sell setups will be found when price is below the moving averages. A simple moving average is calculated as price over a certain period of time, and the exponential moving average, while similar, is different in that more weight is given to the current time data.

For me, being an intraday trader, I have found it best to use a 79 simple moving average, and an 89 exponential moving average. However, in your case, if you are a trader that trades with longer timeframes (i.e. a short-term trader or a position trader), you will want to consider larger inputs for your averages to allow the possibilities of longer-trend moves while reducing the likelihood of any quick trend changes. Let's me draw a moving average for your examination.



So, there you have it. This may be the oldest technical (modern) indicator, but it is also the most popular indicator in all of technical analysis. Check it out. Maybe add a Stochastic to reduce any whipsaws, and it might just be a perfect fit for your chart study. Enjoy!

A Momentum Oscillator with Pizzazz

Traders often ask me "What's your favorite oscillator?", and I usually hedge, and hem and haw around the answer, because in general, I use very few indicators. I lean more toward the pure price action side of charting. However, there is one oscillator that truly caught my attention: it's called the Coppock Indicator, and I often share it with people when they ask.

During a year when the US landed its first rocket on the moon, and the first Wal-Mart opened, Edwin Coppock developed his Coppock Oscillator. Designed for the S&P 500 index, this "guide" or "curve", much to my amazement, has been faithfully identifying and signaling the start, and end, of bull market runs, and it's been doing it for decades passed! I found that it has also been applied to similar stock indexes, like the Dow Jones Industrial Average as an example. So what makes up this indicator that I appreciate so much?

This trend-following, averages-based oscillator is designed for use on a monthly time scale only. Using a ten-month smoothing of the averaged eleven-month rate and fourteen-month rate of change in the S&P 500, this oscillator will reverse direction when the momentum in the stock market runs out of gas. If you wanted to diagram it, this is what it would look like

WMA [10] of (ROC [14] + ROC [11])

If you are looking for a buy signal, this is generated when the indicator is below zero, and turns up from a trough. If you want to know when it is time to take your money "off the table", look for a double top without the curve falling to zero between the tops. This shows a very strong market that has not partaken of any normal market corrections, and broadcasts "trouble is just around the corner."

If you think the Coppock Indicator might not be all that it's cracked up to be, then just take a look at some of the statistics that I uncovered. This "double top" has occurred six times in the past eight years, and the indicator nailed it every time: October 1929, -86%, May 1946, -39%, February 1969, -36%, January 1973, -48%, September 1987, -33%, and April 1998, -18%. In 2007, the curve told us that there was trouble on the horizon, and sure enough, by late 2008 the S&P was off over 47% from the highs seen during 2007.

So if you and I should ever be talking, and the word "oscillator" comes up in our discussion, be prepared for my dissertation on Mr. Coppock. He might just be worth a little additional research.

A Formula for Trading Success

Trading formulas come in a myriad of sizes and shapes, but I have crafted this formula to be all encompassing, and it seems to suffice nicely. I'll give you the equation, and then we can discuss it:

(Trading Knowledge X Practice) + Persistence + Consistency = Success

My hobby (my passion) is playing chess, and I had the privilege of playing postal chess (sending chess moves through the mail) with the United States Champion, Sammy Reshevsky. While I never came close to winning a game, I did glean insights into his success. For one, I observed that he took the knowledge that he had acquired and practiced over and over and over. He would review his games, and if he made a rare mistake, he would identify the issue, make adjustments, and then return to the chess board. For the trader it's the same, and hence the first part of the formula is to constantly sharpen your knowledge by multiplying it with much practice. Knowledge is most important, and practice is the key to using that knowledge correctly.

Now we take your trading knowledge, which you are multiplying by practice, and add to this the next part of the formula: persistence. Persistence is the cornerstone of your trading competitive drive; it is your motivation for doing what you are doing and for having the unshakeable vision that you will be doing this for the rest of your trading life. It's your assurance that this training will sustain you, and it is your preparation to meet trading opportunities favorably. Also, it's not allowing yesterday's trading loss to break your concentration or your mental processing or to make you think that you must jump back into the market quickly (even without a proper setup) just because you foolishly have the notion that you must get your money back instantly. Instead, persistence molds behavior, and gives the boldness to continue learning the markets and to learn them correctly.

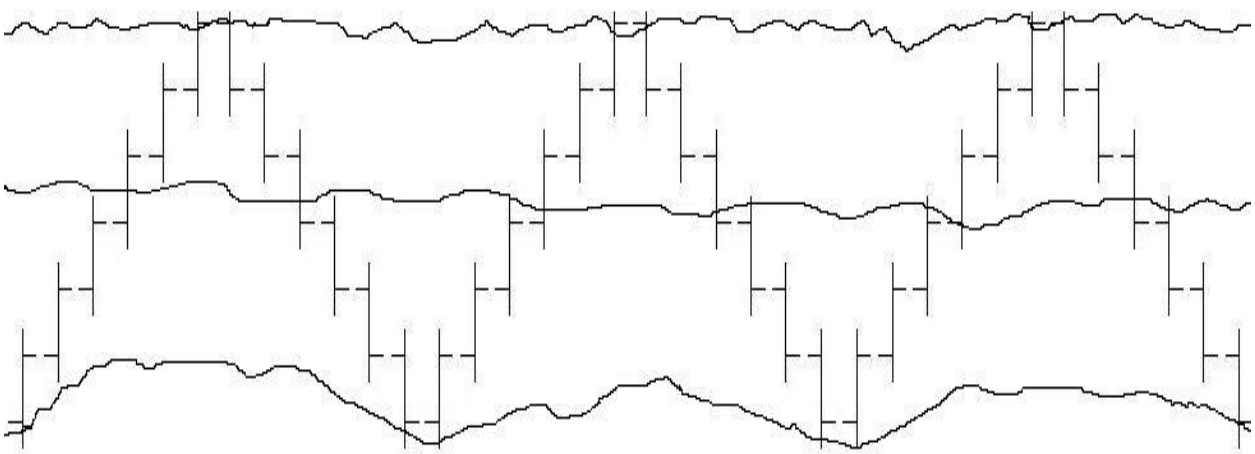
Consistency, the third component of the formula, a byproduct of knowledge and persistence, encourages the trader with trading performance, builds strengths, completes the equation, and yields a sum total of trading success.

So focus on this formula, use it for introspection of your own personal progress, and you should learn to build a career that will be gratifying and profitably rewarding for your trading lifetime to come.

A Favored Indicator

Picture yourself sitting in a trading class, and the instructor has just asked each student to write his favorite indicator on a sheet of paper. What would you write down? If I were sitting next to you, I would write without any hesitation my all-time favorite indicator, the Keltner Band. Since this wouldn't be a graded quiz, I might have taken a quick peek at what you wrote and noticed that you wrote "Bollinger Bands." Probably not surprising, when the teacher counted the results, most of your fellow students agreed with your answer. It tends to be a "Favored Indicator," so let's discuss why that might be the case.

When I first was learning to trade, an autographed copy of John Bollinger's book was one of the first to enter my library. Simply put, the Bollinger Bands are lines plotted in and around the price structure to form an envelope on your chart. The bands are plotted at standard deviations around the moving average. As a trader, you will want your attention focused on the price action as it nears the edges of this envelope. Let me draw a picture of what I mean:



You will find that the price will move through the upper or lower ranges of the moving averages. These "edges" are very accurate at spotting trend changes. Additionally, if the prices break through the upper or lower ranges, then you will want to keep an "Eagle Eye" on the move. Watch for a reversal, as price often will return into the channel with prompt predictability.

As with any indicator, it is best not to use it as your only confirming signal. You might want to consider using it in conjunction with an RSI for example. Also, I have found the Bollinger Bands to be effective on all timeframes from three minutes to monthly. Sound like something you would like to try? Good! I would go check out a very good tactician – namely, John Bollinger!