ULTIMATE GUIDE TO TRADING AND INVESTMENT
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HOW TO GET THE MOST OUT OF THIS BOOK

Thank you for downloading “Ultimate Guide to Trading and Investment”. This book is designed for beginning, intermediate and advanced traders. The authors in this book are leading experts in trading Stocks, Options, Futures, Forex and Nadex.

As you read this book, you will be exposed to multiple strategies that have high probabilities of success and/or high profit. Most of the chapters in this interactive eBook are divided into three sections:

- **The Game Plan** – An introduction to a charting technique. The strategy is then thoroughly explained along with illustrations and examples.
- **The Movie** - A video that completely describes the strategy discussed in the chapter.
- **Special Offers** – If you really like a strategy, you can follow the presenter and the strategy. There are thousands of dollars’ worth of trading tools, indicators, training and mentoring services, books and videos available at steeply discounted prices.

In short, you should have all of the information you need to test and try out many of the new ideas and concepts you will learn by reading this book.

**Some of the things you will learn in this book are:**

- The patterns and habits that are common to all successful traders
- How to effectively use Market Profile for trading Futures
- A simple 1-2-3 strategy for trading Forex currency pairs
- An all-hours Options strategy for Naked Put writing
- A rule-based method for trading with the trend
- How to spot when Big Money is entering the market and how to trade on their side
- And so much more … over 20 contributors with high probability strategies for trading Stocks, Options, Futures, Forex and Nadex.

**Limited Edition hardcopy of the Ultimate Guide to Trading & Investment**

For the first time ever, the TradingPub has decided to produce a hardcopy edition of one of its publications. You can now own a beautifully bound edition of the *Ultimate Guide to Trading and Investment* - one of the greatest collections of trading and investment tips, tricks, tactics, and strategies every collected in one place. And best yet, 100% of profits will be donated to charities to benefit low income children, raise awareness for cancer research, and give back to the community. [Tap this link to learn more about this limited time offer!](#)

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MARKET PERSPECTIVES
HABITS OF A SUCCESSFUL TRADER

Every trader has bad habits that they would like to change. Some habits are buried deep within and need to be brought to the surface so they can be identified and changed.

A good way to identify and change habits that are affecting your trading is to look at the habits of successful traders. While reading this chapter, do a self analysis of your habits by comparing them against the habits of successful traders. As you identify habits that you would like to change, write them down and describe what action you will take to change these habits. Then take the actions that you describe.

Have a plan for every trade. This means that you write down your entry, exit and stop loss strategy for every trade. Then execute the trade and stick with the plan. If your trade is based on a daily chart, then follow the daily chart when monitoring your position. On your trade plan write the chart frequency you will use to monitor the position. Some traders may decide to plan and monitor trades on a daily basis but use a lower time frame chart such as a 60 minute chart to monitor a position that is getting close to an exit area.

Watching intraday charts for trades planned on daily charts can cause you to react emotionally and is one reason traders may close positions too early and not according to plan.

This can have a detrimental effect on profits. Base your trade plan on what you see and not what you predict. What you see on a chart is fact. What you predict is fiction. No one has a crystal ball that accurately predicts price action but we all have charts that give us information that contain the facts about price. One way to test yourself using predictions is to pay attention to your choice of words. Words like “I think”, “I feel” are most likely predictions.

Know who you are as a trader and be your own trader. Do you have the personality for swing, day or long term trading? Stick with the type of trading that fits with your lifestyle and personality.

Be your own trader and don’t be a follower.

You need to be confident in the trades you execute and this means understanding the trade and believing in the trade. Just because someone else takes a trade doesn’t mean it is right for you.
Focus on the best trades for you. Study stock charts and identify high probability setups. Start with one or two trade setups, master them and then add more setups.

Have a “Trading Business Plan”. Every successful business owner has a business plan. Since trading is a business, traders should have a business plan. There is a lot of information out there on designing business plans. A suggestion is to keep it short and simple. A one or two page business plan is sufficient for most traders. You can always add to it as you go along. The point is to have a business plan that is convenient and you will use as a reference to certain aspects of your trading. Important topics to address in the business plan are

- Describe what kind of trader you are. Are you a day, swing or long term trader.
- What time frames during market hours will you be trading?
- How much capital do you have for trading and how much of that capital will you commit to any one trade?
- What trade method and trade setups will you be trading? If you are trading price patterns, indicate what chart time frame and what patterns you will be trading.
- For each trade setup, describe the entry, exit and stop loss strategy. Include a description of when you will add to a position, raise your stop and scale out of a position.
- Under what conditions will you stop trading for the day, week or month. For example, “You (the trader) will stop trading for the day or week if you have 3 losing trades.”
- What is your trading goal?
- Describe any psychological rituals you will use to stay focused or get focused. Some traders will use tapping sequences, meditation or other form of behavior modification technique.
Document every trade. Use a spreadsheet/log to document your trades. In addition, you may want to mark up a stock chart for each trade. On the stock chart, you indicate your entry, target and stop. You can also mark resistance and support areas along with trendlines and other notations to help manage the trade. Many stock trading programs have an annotation feature that helps you mark up charts. Save these marked up charts in a file or print them off for review.

Review your trade journal/log and identify areas of improvement. This is one of the best ways to grow as a trader. You may want to write a weekly summary of what you will do in the next week to improve your trading.

Know when to trade and have the discipline not to trade. Trade only when the market gives you clear direction. If you are confused, have trouble finding trades that meet your rules or do not know what to do, these are signs that the market may be in a state of flux and not conducive to your style of trading.

There are times to stay in cash or just manage the positions you have working. It is okay not to trade every day. In fact, forcing trades in an undesirable market often leads to losses. Have patience and wait for your setup!

Accept your losses. No one is right all of the time and trade setups do not always go the way you want them to. That is why you place stops with every trade entry. A stop is what you plan in advance and are willing to risk for the reward you specified in the trade plan.

Traders that don’t want to accept losses or set stops frequently let their losing trades run. They may even average down as price is falling only to watch the loss grow. Eventually, these traders are so devastated financially and emotionally that many quit trading. Copy the sentence below and post it where you will see it.

It is not whether you are right or wrong on a trade it is how much profit you accumulate in your account!

Take action! You may have the best intentions by developing a plan for every trade and documenting every trade. The most important thing is to execute the trade according to plan and to review your documentation with a critical eye and make changes in your trading behavior that will improve your trading results. Be honest with yourself when evaluating your performance and take responsibility by taking action to improve that performance.

Have a trading goal. Set a realistic goal so that you have a benchmark for measuring your improvement and trading success. Some traders establish a daily, weekly or monthly monetary goal. You may also consider a daily, weekly, or monthly percentage goal such as 2% return on capital per week. Set the goal that makes the most sense for you. The point is “set a goal” and keep track of your progress in meeting this goal.
Develop the right attitude about your trading business. What does this mean? Take a proactive approach to achieve positive results. Actions you can take toward developing the right attitude are:

- Identify what you may need help with and “get help”. This can be finding a trading coach, signing up for a webinar, reading written material.

- Persevere! Don’t give up because you make mistakes. Learn from your mistakes by identifying them, writing what you will do to correct them and then act on what you write.

- Follow and execute all plans that you make. You constructed these plans for a reason so keep these plans handy so you can refer to them often and take the planned action.

By taking these actions you are being proactive to making the necessary improvements to keep your trading business moving in a positive direction. There will always be rough times. Successful traders use these times as an opportunity to learn and to grow their business.

Thomas Edison once said: "Many of life's failures are people who did not realize how close they were to success when they gave up."

SUMMARY

- Habits of a successful trader are
  - Have a plan for every trade
  - Base your trade plan on what you see and not what you predict
  - Know who you are as a trader and be your own trader
  - Focus on the best trades for you
  - Have a Trading Business Plan
  - Document every trade
  - Review your trade journal/log and identify areas of improvement
  - Know when to trade and have the discipline not to trade
  - Accept your losses
  - Take Action!
  - Have a trading goal
  - Develop the right attitude about your trading business
"The difference between who you are as a trader and who you become as a trader is what you do!"

DEVELOPING THE RIGHT MIND SET FOR TRADING

Achieving the right mind set for trading is the result of a long process. It goes hand in hand with developing the skill for trading and building confidence in yourself and your trading.

Don’t expect this to happen overnight. The mechanics of trading is a skill that develops over time. Along with that, as your trading skills improve so does your confidence. “Confidence” is a state of mind and what helps traders to execute trades.

Think of it this way, when you don’t have confidence you are fearful and hesitant to take action. If you have confidence, you are brave and take prompt action. How do you develop the skill and confidence that relates directly to developing the right mind set for trading?

- **SKILL** - Education is the foundation in developing trading skills.
- **SKILL and CONFIDENCE** - Practicing what you learn through education and by applying that knowledge to chart reading develops skill in spotting trading opportunities. It also develops the confidence to know that these trading opportunities are profitable.
- **CONFIDENCE** - Selecting trading methods and designing trade setups for those methods helps traders to confidently execute trades.

Following this approach to trading leads to achieving the right mindset for trading. In a nutshell, **SKILL + CONFIDENCE = Right Mindset for Trading.** Whether you are new to trading or a skillful trader who lacks confidence, the components described here will help you to develop and maintain the right mindset for trading.
**Education**

As with any new skill, the foundation is education. Ask yourself “would you start to build a house if you had no knowledge of construction concepts and applications?” NO! Traders first learn the basics such as technical analysis and fundamental analysis.

Read books and attend webinars/workshops. This is really the start of building your knowledge base so you can later shape your trading style and philosophy. As you mature as a trader, education continues to play an integral role in your success so you never stop learning.

**Stock Chart Reading**

This is where you start to apply what you have learned in the education phase. Choose a stock charting platform, set up your charts using your favorite price display (e.g., candlesticks, bar, line) and technical indicators (e.g., moving averages, MACD, Stochastics).

Then scroll through a series of charts drawing horizontal lines to notate support and resistance, drawing circles around price patterns, drawing trend lines and notating the outcomes of price patterns (e.g., this price pattern price advanced 5% before hitting resistance). Notating the outcomes of price patterns will help you to determine which price patterns are most profitable.

Reading stock charts is like learning a new language, the more you practice reading the charts, the more proficient you become. This is a very critical step in developing confidence in your trading which leads to being in the right mind set. As you read hundreds and even thousands of charts you are training your eye to see certain patterns. As you practice reading and flipping through charts, you will be amazed at how quickly you will be able to spot certain patterns and trade opportunities.

Traders who are proficient at reading charts and have a list of profitable patterns often use scanning software to generate lists of stocks with those patterns. These scans are great as a tool to narrow down the selection of stocks to view. Traders still need to view each stock chart on the list generated by the scan in order to select the stock with the best potential according to their rules.

**Trading Methods and Setups**

During the beginning phases of your educational journey, you are simply collecting knowledge and exploring many different aspects of trading. You might say that you are collecting the ingredients necessary to develop trading methods and setups. While practicing your chart reading skills you are building confidence in identifying the chart characteristics you want to focus on.

Trading methods relate to what kind of trading you will focus on and the intricacies of those methods that become part of your library of trade setups. These trade setups supply the framework for executing your trades. Building solid trade setups is the key to building your confidence as a trader. The more success you have with these trade setups the less fearful and less hesitant you will be to execute them.

It is essential that you write down every trade setup in terms of your entry, exit and stop loss strategy.
This way you always know what you are risking on each trade, where you will enter the trade and what your potential profit is on that trade. This helps to minimize emotion and maximize discipline and confidence.

To give you an idea of what a trading method is consider that you have decided to trade price patterns using candlestick price displays on a daily chart.

Trading price patterns using candlestick price displays on a daily chart is a trading method. Within this trading method there are various patterns such as the “W” pattern, Head & Shoulders pattern, and J-Hook pattern.

Let’s say you limit your trading to these 3 patterns because they are easiest for you to spot, understand and through your stock chart research have found them to be profitable. The next step is to design a trade setup for each of these patterns.

With each trade setup, you describe your entry, exit and stop loss strategy. In addition you add that each trade must have a certain risk to reward ratio. For example, every trade must have a 3-1 reward to risk ratio which means that if my stop represents a $.50 loss, my anticipated reward must be at least $1.50.

Sample J-Hook Pattern with Trade Setup - Next Page
Trade Setup

**Entry** - Enter on the day of the breakout if the candlestick looks like it will close above the breakout level. Another entry is the day after the breakout on an opening price above the breakout level.

**Stop** - A price below the breakout level. Consider your risk tolerance when setting this stop. If the stop price is more than you can tolerate, then move to another trade.

**Exit** - Determine resistance levels and use them as possible exit areas. When price approaches one of these areas, look for candlestick sell signals and then decide if you will take all or part of your profits. At the very least, raise your stop to protect profits.

Reward to Risk Ratio - The exit for profit must be at least 3 times the stop loss.

**Personality Assessment**

Traders determine which types of trading are right for them after they are well educated in the types of trading. Traders who do not want to sit at a computer all day long may choose swing trading or long term trading. Traders who like a lot of action and make decisions quickly and don't want to hold positions overnight may choose day trading.

Assessing your personality may take some time and many traders try different types of trading to see what they are best suited for. When starting out, it is best to focus on education, stock chart reading and trading methods/setups using daily charts. Over time it will become clear as to which style of trading best suits your personality.

**SUMMARY**

The Right Mindset for Trading is achieved by developing your trading skills and building your confidence in executing trades. This is a process that involves education, stock chart reading, and designing trade setups for the trading method you select. The bottom line is SKILL + CONFIDENCE = Right Mindset for Trading

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ABOUT THE AUTHOR

Eight years ago Rick Saddler had a dream to quit his day job and trade for a living. That is how he came about to start Hit and Run Candlesticks. He felt that he was getting ready to replace his income from the job he had at the time. This, however, didn't happen overnight, as he had started trading 1993.

He had a dream to quit his day job and learn to trade the stock market and so his journey began around 1989, when he started dabbling in the market.

At the beginning he would make a little money and lose a little money, but the bottom line was that he was not profitable. While he continued to dabble with his trading strategies, it wasn't until May of 2002 that he became serious about his future as a trader. He was mentored by Stephen Bigalow on how to trade with Japanese Candlesticks and his education paid off. Over the course of his trading Rick has learned to stay committed to his strategies and trade with easy-to-spot patterns with clear entry and exit points.

He has now put his ability to recognize the same pattern developing in hundreds of charts and could enter with low risk on a short-term trade, grab any profits and sleep well at night. That is why he started his company, so he can help other traders achieve that same consistency.
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Experience is a great teacher, and nothing is better than learning from the wisdom of traders who have been in the trenches for years. Tom Busby started his trading career as a Vice President of Smith Barney. He is a member of the Chicago Mercantile Exchange, and one of 50 people selected worldwide for the first Globex terminals in the late 1990’s.

He is the author of three books, “Winning the Day Trading Game,” “The Markets Never Sleep” and “Trade to Win” (all available on amazon.com). In 1996, he founded DTI - a brick and mortar trading education business that provides classroom and online training for active traders.

With decades of trading experience, Tom has many insights that he has learned along his journey trading the markets. What follows are 30 of his trading insights. Some of them are historical observations of market behavior and some are common sense. When you are nose down trading the markets, it can be very helpful to step back and review common-sense trading insights to help maintain your focus.

DTI Headquarters in Mobile, AL
Insight #1

Record prices on the first day of the year.
This helps you trade the winners.

On the first day of the year, record the prices of all the markets you trade. Do you know what the price of gold was at the first of the year? If you trade gold and you knew that gold was trading at 1200, you would know today whether to be long or short gold. Having an historical perspective of your favorite market can help you identify long-term trends and can be an important decision-making tool. Record the first day of the year prices of your favorite markets, and display them in a place where you can see them every day.

Insight #2

When prices are trading at their highs,
they tend to make higher highs.

When prices are trading at their lows,
they tend to make lower lows.

When prices are trading at their highs, they tend to make higher highs. This was the story for the 2nd quarter of 2014. The S&P 500 made one record high after the next. Be mindful of this insight when you see your favorite market as it hits new highs or lows.

Insight #3

The market usually reverses its trend after July 4

If the market has been on an uptrend, it is common for it to reverse its direction after July 4, and the reversal usually continues through Labor Day. It doesn’t happen all the time but it happens quite frequently.

Insight #4

When a stock crosses the $100 price, it will typically go to $110. This is also true when stocks cross the $200 line, it will go to $220.
This trend happens with surprising frequency. Take a look at any stock that has crossed the $100 line. What you will discover is that the stock will reach $110 within a relatively short period of time. The same phenomenon occurs when stocks cross a major threshold, like the $200 line. This can give you a trading edge when you see this happening.

**Insight #5**

The 6:00am CDT price on the Dax futures is the most important price in the Dax for that day of trading.

It should be used as a pivot to gauge whether the overall market will be up or down for the session.

Take a look at the hourly charts for the Dax. You will notice that the high or low of the day usually reveals itself at the 6:00am bar. This can give you a very strong advantage when trading the Dax. This information can be especially valuable if you trade Nadex binary options.

**Insight #6**

Think of trading as a journey. Enjoy the trip and learn continuously from it.

Traders have a tendency to obsess on the trades they are currently making, but it is more important to take a long-term view and take a look at today's trading as just part of a long-term journey. Enjoy the ride, learn from all of your experiences, and focus at getting better at your craft. Study the markets and study yourself.

**Insight #7**

The market is open 24 hours a day. Learn to take advantage of it.

There are trading opportunities available the entire day. If you become familiar with the Asian, European and U.S. markets there are opportunities available to you around the clock. Here's a chart of the markets:

Trends can follow from Asia to Europe and into the US market, which is divided into a morning and evening session. If you watch trends transition through markets, it can give you a trading edge.
Insight #8

Don’t worry about the direction of the market.
Go with the market.

If a stock or market is trending up or down, stay on the side of the trend. If you watch the steady rise of Apple (NASDAQ: AAPL) you know it would be absolutely foolish to try to predict a downtrend. Go with the market when it’s trending and don’t fight it.

Insight #9

Markets respect news.
You should too.

There are eight Federal Reserve meetings per year, and you need to have them on your calendar. The first Friday of every month there is a major news announcement about jobs and unemployment. That’s 20 major economic news events. The markets are very sensitive to these events, and you need to be aware of them.
Insight #10

Know when important economic data is being reported. Then use that information to make money.

Know when economic reports are due to come out. Barrons.com and Investing.com provide valuable calendars of economic reports with indicators that rank their likely impact on the markets.

Insight #11

Every Wednesday, a Crude Oil report is released at 9:30am CDT
There are pre-market trading opportunities in the crude sector during the morning of the announcement.

Crude oil has a tendency to be very volatile around the release of this report, and there are trading opportunities in advance of the report and directly after the release of the report.

Insight #12

Crude oil tends to have a negative close on the last trading day of the month.

Here’s a little-known fact. Production checks for oil producers are paid out based on the closing price for oil at the end of the month. This has a tendency to move the market down slightly.

Insight #13

Fed announcements provide opportunities to locate trending opportunities in stocks, futures and options trades for 3 days after the Fed announcement.

There’s a 48-hour window after a Fed announcement that allows people to have a good trend trade. Find out when the Fed is going to have an announcement, and for the next 3 days afterwards, you can identify a good trending trade opportunity.
Insight #14

The night of the Presidential election offers great trading opportunities after 7:00pm CDT.

If you go back to the year 2000, when the race was really tight between Bush and Gore, the market rallied every time Florida went to Bush, and sold off when Florida went to Gore. There are a lot of good trading opportunities on the night of the Presidential election.

Insight #15

The day after Thanksgiving tends to have one of the largest percentage up days of the year.

If you get up at 6:00 and trade ahead of the markets open, you can make some very good money the day after Thanksgiving.

Insight #16

Be open-minded, and continue to learn.

There are always new things you can learn about trading, regardless of how long you have been doing it. Maybe it’s the 6:00am Dax rule. Maybe it’s the $100 stock rule. There is a wealth of information out there that can give you a trading edge. Stay open-minded, be nimble and continue to learn.

Insight #17

The week of December 26 – January 1 is the best trading week of the year.

Most people take off this week, but if you ever want to catch a trend, there is no better week to do it.
Insight #18

When overall market prices have risen 2.5 percent during any session, DO NOT GO SHORT.

If the market goes down less than 2.5 percent it will probably bounce back up. If the market rises 2.5 percent, do not go short. If the market breaks through 2.5 percent going down, it will probably keep going down. 2.5 percent is a good band to have around the markets.

Insight #19

Like your stock choices, but don’t marry them. When they stop paying, it’s time to split-up.

If the markets are having a big up day, and your stock isn’t moving, you might be in a bad relationship.

Insight #20

Chicken, fish or steak? Make a decision and move on.

Don’t beat yourself up second-guessing your decisions. When you made a decision to trade, it was hopefully based on some type of analysis. Remember you are on a journey, and the choice you made today could work in your favor even if it is moving against you a little.

Insight #21

If the general market is moving up and your stock is not – you have a problem.

More specifically, if the overall market moves up 2 percent, and your stock is moving down – GET OUT.

Your stock should never be moving against the market, especially if the market is rallying.
Insight #22

Stocks that have been the most bullish typically fall the fastest in a down-trending market

This is just the way markets seem to behave. Stocks with the greatest bullish momentum also fall the fastest.

Insight #23

Take losses more quickly than profits.

Riding profits long and getting out of losses quick is a major key to successful trading.

Insight #24

Always use a STOP

Trading without setting a stop is the easiest way to wipe out an account. Knowing where to set your stops and managing your risk is critical.

Insight #25

When you hear someone say “You don’t go broke taking profits.” – RUN

That’s exactly how it happens

You don’t take trades to make a small fraction of your potential profits, you take trades to reach an objective. That’s why it’s important to have a plan when you trade.
Insight #26

When entering a position, always know where the exit resides.

This goes back to having a trading plan. Always know what you plan to risk and where your reward lies. This also means you need to know when to get out of a trade.

Insight #27

Never risk too much in any trade.

No trade is worth potentially losing more than 10 percent of your account balance.

How big of an account do you need to have to stay within this rule? If you are risking $300 on a trade, you know you have to have at least a $3,000 account balance.

Insight #28

Learn how to win from your losing trades.

Analyze your losing trades. Keep a log of them. What went wrong? Often times the answer lies in timing, execution or not following the rules of a trading plan.

Insight #29

Overtrading will make you lose.

Don’t lose.

There are lots of reasons why people overtrade, but it leads to losing money. Quit when you’re ahead and don’t give your profits back. Give yourself some “Time Out” rules. Maybe if you have had 2 consecutive losses, it’s time to take a “time out” to prevent revenge trading from creeping in.
Insight #30

Some days, your best trading decision may be to stay in bed.

If the markets are not moving according to your trading plan, or if you just don’t see the trade, then it’s best not to take the trade.

CONCLUSION

The trading insights outlined in this chapter will help give you a trading edge. While many of these insights are common sense, we sometimes lose sight of common sense when we trade the markets. Tips like the 6:00am rule for trading the Dax, and other historical observations can definitely give you an advantage. If you pay attention to these insights, you probably win more trades with confidence.

THE MOVIE

Tom Busby goes through the 30 Trading Insights, and shares some of his insights in overcoming common trading fears. He also uses his trading method to demonstrate a live crude oil trade.

SEE FULL VIDEO HERE

SPECIAL OFFER FROM DTI

Get a free PDF and Video report for strategies to help you overcome fear in your trading, SIMPLY CLICK HERE for your copy.

ABOUT THE AUTHOR

Mr. Tom Busby founded DTI Partners, Inc. in 1996 and serves as its Chief Executive Officer. Mr. Busby spends his days teaching his students and trading his own private account in futures, options and equities. He is a pioneer in the trading industry as a world-recognized educator. His career started as a money manager with some of the world's largest wire houses. He is also the author of three books, “Winning the Day Trading Game,” “The Markets Never Sleep” and “Trade to Win.” Mr. Busby served as an educator in weekly online webinars for the Chicago Mercantile Exchange, where he has been a member since 2002. He also served as a Member of the Chicago Board of Trade, who has also called on Busby to trade live in CBOT sponsored events at some of the largest trade shows in the industry.
STOCKS
As long as buyers and sellers have been trading the markets, two predominant sentiments have been in play: fear and greed. Centuries ago, Japanese rice traders developed the candlestick method to graphically depict trader sentiment. It has worked successfully for hundreds of years, and still works today. Candlestick analysis can help you make better trading decisions about investor sentiment in the markets.

The Japanese rice traders didn’t just become wealthy using candlesticks, they created legendary wealth trading a basic commodity. This method works for any trading instrument as long as the basic human emotions of fear and greed are involved – which pretty much covers every market.

Candlestick analysis prepares you to be ready for big price moves based on historic results of specific signals and patterns. It’s simply a graphic depiction of investor sentiment. The Japanese rice traders gave us not only the benefit of knowing what the signals look like, but they also described what the investor sentiment was behind each signal. There are 50-60 signals to learn, but eight of the most successful candlestick signals will be discussed in this lesson.

The most beneficial thing about candlesticks is that they help identify trends.
But first, to help identify trends, you need a few indicators. Here’s what they are:

- **Red Line**: 200 day simple moving average (SMA)
- **Blue Line**: 50 day simple moving average
- **Gray Line**: 20 day simple moving average

These indicators are important because every money manager in the world uses these indicators to help them make decisions when trading their portfolios.

**The most important indicator is the T-Line, which is the 8 Exponential Moving Average (EMA).** The T-Line has some very simple rules:

- If you see a candlestick BUY signal ABOVE the T-Line, you are in an UPTREND
- If you see a candlestick SELL signal BELOW the T-Line, you are in a DOWNTREND

Stochastics are used to indicate overbought and oversold conditions. If you see a candlestick BUY signal in an oversold condition, there is a strong probability that you are going to be going into an uptrend. Conversely, if you see a candlestick SELL signal in an overbought condition, you are likely heading into a downtrend. **The settings that I use for stochastics are 12,3,3.** These settings have worked the best for what I do most of the time, which is swing trading.

Summing it up, if you plot the 200, 50, and 20-day Simple Moving Averages, along with the 8 Exponential Moving Average, and stochastics set at 12, 3, 3 – then you are good to go. Let’s see how these indicators work with candlestick patterns:
In this daily chart, the stochastics are in an overbought condition with candlesticks above the T-Line. Once they turn red and break through the T-Line, a downtrend is established until a Morningstar pattern at the bottom triggers a reversal to the upside.

The rest of this chapter will be devoted to the top bullish candlestick power signals. If you know them and can identify them you will have a much better handle on identifying trader sentiment.

**The Top Eight Bullish Power Signals**

1. **Your Best Friend**
2. **Left/Right Combo**
3. **Series of Doji’s**
4. **Candlestick Patterns followed by Gap Ups**
5. **Kicker Signal**
6. **Bullish Flutter Kicker**
7. **Steady Eddie Trends**
8. **Magnitude of a Signal**

**Your Best Friend**
A Doji occurs whenever the market opens and closes at the same level during a particular time frame.

- **Doji Star**: Small price movement.
- **Long-legged Doji**: If the price movement is huge, but the bar closes where it opened.
- **Dragonfly Doji**: Where the price opens and closes at the top of the bar.
- **Gravestone Doji**: Where the price opens and closes at the bottom of the bar. It got its name from Japanese soldiers pressing on in battle only to retreat back to camp.

A derivative of the Doji is the Spinning Top. Spinning Tops are characterized by short candle bodies with short wicks, similar to the child’s toy. Spinning tops signal indecision between the bulls and the bears in the marketplace. When you see a spinning top or Doji at the top, you want to consider taking profits. If you see them at the bottom, there’s likely to be an uptrend.

A Doji in an oversold area, followed by a gap-up, gives you a very strong probability that you are about to enter a strong uptrend. The beauty of candlesticks again is that they capture investor sentiment. When you are at the bottom of the market in oversold territory, as indicated by stochastics, and a Doji appears, it signals indecision. If it is followed by a strong gap-up, closing above the T-Line, then a strong uptrend is building.
One caveat to this strategy is that when the candlesticks start moving well above the T-Line, they are going to want to come back to the T-Line, so you want to be prepared to take profits if necessary.

To summarize, here are the optimal criteria for the “Best Friend: scenario:

1. Look for the signals
2. Stochastics oversold
3. Gap-up from the Doji signal. The bigger the Gap-up the stronger the uptrend
4. Close above the T-Line

Note: At the end of this chapter, click on the YouTube presentation of this topic for many more examples of the “Best Friend” bullish signals in action.

Left/Right Combo
The Left/Right Combo is a Doji followed by a bullish engulfing signal. The bullish engulfing signal completely encapsulates the previous candle body. Since the Doji body is small, it represents a moment of indecision followed by a clear bullish move. The Left/Right Combo is like a boxer setting up a small left jab with a roundhouse right punch. In this example we have a small Doji, followed by a bullish engulfing signal and a strong upward move in the stochastics. Notice there is a series of Dojis in this chart. If one Doji signals indecision, a series of Dojis indicates greater indecision. If you see a strong candlestick buy signal, followed by a series of Dojis and the next bar gaps-up significantly, a strong bullish move is in play, and you want to be buying.

Series of Dojis

Remember that a Doji represents indecision. if you see a series of Dojis it represents greater indecision. When you see a series of Dojis setting up, and stochastics start moving up, with candlesticks closing above the T-Line, it signals a positive open the following day and trigger to buy.

Bear in mind, you still need to do your due diligence. Make sure to check the pre-market futures the next day, and make sure there isn’t any economic or geopolitical news that could adversely impact your decision to buy. But if the futures are moving in the same direction as your trend, it’s a signal to proceed and buy.
Candlestick Patterns followed by Gap-Ups

Any signal followed by a gap-up is a signal to buy. In this case, we have a hammer signal, followed by a bullish gap up. Once the candles close above the T-Line along with a corresponding upward move in the stochastic, it signals a strong buying trend.

When we see a gap-down in an oversold condition it’s just telling you that most people panic when the market is at the bottom. How can you tell if the market is at its bottom? With candlestick patterns, once you see a gap-down in an oversold condition, start looking for signs of a reversal. It could be a Doji, a series of Dojis or a gap-up reversal.

Bullish Kicker Signal

The strongest of all buy signals is the Bullish Kicker Signal. This is when the market is in a downtrend, and the following bar opens in a gap-up above the previous day’s high. This pattern signals that investor sentiment has been kicked the other way.
In this example, there is a significant gap-up above the previous day’s downtrend. The gap-up is well above the T-Line and there’s a strong upward move in the stochastics. This signals a very strong change in investor sentiment.

Some traders are afraid to buy after a significant gap-up. They are afraid that they are buying at a high. Remember, if the stochastics are rising and the candlestick is above the T-Line, then the upward trend is likely to continue. Bear in mind that the further the candles drift north of the T-Line, the more likely they are to retrace and come back to it. Bullish kicker Signals don’t require a gap-up as long as it is a significant move in the opposite direction of a downtrend, and it’s moving above the T-Line with supporting stochastics. As a rule of thumb, the bigger the Bullish Kicker Signal is, the more significant the move will be.

**Bullish Flutter Kicker**

A Bullish Flutter Kicker occurs when the market has a down day followed by an indecisive gap-up. If you see a Doji gapping-up over the previous days open, it’s a signal that the market is showing some strength. If the market moves up the next day over the previous days close and starts moving above the T-Line, it’s a signal that investor sentiment is moving the market into an uptrend. If you remove the Doji from the picture, you would have a Bullish Kicker Signal with a strong gap-up.
Steady Eddie Trends

When you see a gap up through a resistance, in this case, the 200-day moving average, it signals the start of a “Steady-Eddie” trend, and it’s a great place to be. The candlesticks will ride above the T-Line for an extended period of time signaling multiple opportunities to let profits ride.

You can rest every night knowing that the market will continue to rise until you see a close below the T-Line.

Once again, the further the candlesticks drift above the T-Line, the more likely they are to return to the T-Line. Once the Candlesticks start crossing back below the T-Line is when you need to start thinking about making a course correction.

Magnitude of the Signal
The larger the signal, especially after a Doji, the more compelling the evidence is that there is a change in investor sentiment. In this example, the candles formed a rounded bottom and broke above the 50-day moving average resistance level, followed by a very large gap-up above the T-Line. Once a gap-up like this happens, the market will more than likely form a 45-degree “Steady-Eddie” pattern, where the market churns upward above the T-Line.

Whenever you see a large gap in candlestick patterns as shown above, it’s a sign of a strong move. If you can identify it, your earnings will multiply.

**SUMMARY**

Candlestick patterns are a historical gauge of investor sentiment. They were developed centuries ago by Japanese rice traders and they still work today.

If you study these bullish candlestick patterns and can identify them, you will prepared to act on decisive changes in investor sentiment.

You will be in a much better position to enter into an uptrend, set stop/losses and ride your profits to the upside.

The tools you need are simple and straightforward:

- The T-Line = the 8 Exponential Moving Average (EMA)
- 20, 50 and 200 Day Simple Moving Averages (SMA)
- Stochastic Oscillator (settings are 12,3,3)

Follow the rules in this lesson, and you will trade with better certainty. You will have a better handle on investor sentiment and will know when to enter and exit a trade.
THE MOVIE

If you like what you’ve read in this lesson and want more information, then you owe it to yourself to spend an hour watching this free presentation, courtesy of TradingPub. There are several more examples of these candlestick patterns in this video that will give you a better understanding how they work. **Watch the Video of this Presentation**

THE SPECIAL OFFER

As a bonus, Steve is offering a special $12 Candlestick Precision Major Signals Education Package that will include:

- Stephen’s **Candlestick Precision Major Signals Education Package** – comprised of 12 videos that dissect each of the major signals to illustrate where and when they work most effectively in a trend, (a $581 value)

- You will also receive 30 complimentary days in my Candlestick Forum Membership site, granting you access to a wealth of trading information and training. (a $97 value)

- PLUS, you will receive immediate access to over $335 worth of eBooks, videos and special bonuses when you activate your FREE 30-day membership.

Get the Major Signals Education Package for just $12.00 HERE

ABOUT THE AUTHOR

Stephen W. Bigalow possesses over twenty-five years of investment experience, including eight years as a stockbroker with major Wall Street firms: Kidder Peabody & Company, Cowen & Company and Oppenheimer & Company. This was followed by fifteen years of commodity trading, overlapped with twelve years of real estate investing.

He holds a business and economics degree from Cornell University, and has lectured at Cornell and at many private educational investment functions over the past twenty years.

Mr. Bigalow has advised professional traders, money managers, mutual funds and hedge funds, and is recognized by many in the trading community as the “professional's professional.” He is an affiliate of the “Market Technicians Association”. (mta.org – A non-profit association of professional technical analysts) and a member of AAPTA, the American Association of Professional Technical Analysts. (aapta.us)
"The trend is your friend." "Befriend the trend." "A rising tide lifts all boats." I'm sure many of you have heard these and other cliché phrases. The truth is that the trend is your friend, until it ends. I love trend trading and I've found it to be a lot more consistent than trying to "catch the falling knife." (Excuse me if I borrow another cliché.)

The problem I find with most traders is the inability to successfully follow the trend and stay with it. There are literally hundreds of indicators available to measure trend. It's very easy for new traders to fall into the "Analysis Paralysis" trap.

For me simplicity is the key to trading. My parameters for a trading system that I am willing to use are quite simple as well:

1. Must be Objective and Rule Based -- Systems and methods that rely on news, earnings, or subjective items are disqualified. I will not be making guesses about what effect the new Fed Stimulus package is going to have in the market! I am not in the business of trying to measure the effect earnings will have on a stock. Having something that is Objective and Rule based helps me employ discipline and removes emotions from my trading.

2. Must Employ Solid Money Management -- I remember Robert Deel's saying "You can win 90% of the time and still lose everything." There are old traders and bold traders, but seldom are there bold and old traders. It's important to use solid money management in your trading. Having defined entries and exits will help you stay disciplined in your trading. It will also ensure you are trading for many years to come.

3. I must be able to understand the system. In the last 18 years, I've seen all types of systems. I've seen and tested systems from very easy to systems that are very hard. I've seen systems that use simple moving averages and systems that use (literally) rocket science. I've always had better luck with systems that are easier. I'm not making the argument that complicated systems don't or won't work. In fact, I'm sure they most likely do. My experience has been better with systems I understand. I believe this is simply due to the fact that if I understand a system -- I am more likely to trust it. If I trust it, I am more likely to follow it. It helps my discipline and emotional management.
There are, of course, other things to consider in systems. It should make money over a broad spectrum of instruments. The system should be frequent but not too frequent for you. I teach classes on finding methods that will work with your time and risk tolerances.

One of my favorite systems that meet these criteria is a system built by Rahul Mohindar.

It is a simple trend following system, it employs solid money management, and it is very easy to understand and teach.

In case you are not familiar with Rahul Mohindar, he is a market educator in India.

He’s a regular contributor to CNBC in India and has trained thousands of traders.

He has been a long standing partner and distributor of MetaStock. Several years ago he was visiting us in our Utah office and we asked him to show us what he teaches his clients to trade. He taught us this method.

We were impressed. In fact, we set up an agreement with him to give the Rahul Mohindar Oscillator or RMO to all our clients for free.

Since then, I’ve been able to use his simple method and have been able to share it with thousands of traders worldwide.

The system is simple and can be boiled down to three steps:

1. Identify the Primary (Long Term) trend.
2. Identify the Short Term Trend.
3. Identify your Entry and Exit triggers and Execute.

Let me walk you through this simple system on a trade example with Apple. Starting with step 1
Identify the Primary (Long Term) Trend.

The first indicator we want to look at is the Rahul Mohindar Oscillator (RMO). It is the green indicator identified and the Primary trend in the image. This indicator is designed to measure the primary trend in the instrument you are using.

Rahul, in his teaching of this method, is very specific. Size and shape do not matter. The RMO is either Above Zero or Below Zero. If RMO is above zero, then you are in a bullish phase. If it is below zero, the instrument you are looking at is in a bearish phase. You will also notice the chart has a Green/Red Ribbon on the bottom of the chart that identifies these phases for you. The rules for these phases are similarly very simple:

Primary Bullish Trend (RMO Above Zero) :

- You are allowed to buy long
- You are not allowed to short
- Not a trigger to enter the security

Primary Bearish Trend (RMO Above Zero) :

- You are allowed to short
- You are not allowed to buy long.
- Not a trigger to enter the security.
In both cases, take careful note of the bullet that says "Not a Trigger." You won't place a trade based on the RMO (or green indicator) alone. At this point we are looking at the trend to decide our bullish/bearish bias. We'll get to trading -- remember there are three steps here. The goal is to make sure that we are doing what we can to put the odds in our favor and trade in conjunction with the defined trend. Combining multiple trends gives us a better view of the overall trend.

That's it for Step 1. Step 2 is also simple.

**Identify the Short Term Trend.**

Using the same screenshot from Step 1, focus on the purple indicator identified as short term trend. It is called Swing Trade 2. You'll notice that it is also either above zero or below zero. You'll also notice that it tends to be a lot faster to change from being above zero or below zero. This indicator is measuring trend, but it is measuring a shorter term trend. As such, it tends to be faster to react to changing market conditions.

The good news -- you read it in exactly the same way. If it is above zero, then the stock is currently short term Bullish. If it is below--Short Term Bearish. One thing I'd like to point out is that the colors of the bars on this chart match the short term trend. If we are short term Bullish -- the bars on the chart are blue. If we are short term Bearish -- then the bars color red.

Of course, the Rules for this are simple as well.

If our Primary trend **and** our Short term trend are both Bullish (above zero):

- You are still allowed to buy long
- You are not allowed to Short
- Not a trigger to enter the security.

If our Primary trend **and** our Short term trend are both Bearish (below zero):

- You are allowed to Short
- You are not allowed to buy long
- Not a trigger to enter the security

If our Primary trend **and** our Short term trend **do not match**:

- You are allowed to wait until they do.
- If you really want to make a trade-- the MetaStock Explorer will allow you to scan and find some better probability trades. Let's follow the rules. "The trend is our friend" after all.
Let's move to Step 3.

**Identify your Entry and Exit Triggers. Execute.**

For step number three we'll focus on the Blue indicator in the image below and its relationship to the Swing Trade number two (Short term trend).

We've talked a lot about the Long Term Trend and the Short Term Trend. If you haven't guessed, the Blue indicator is the Medium term trend and is called Swing Trade 3. With this indicator, we do not care if it is above or below zero. What we want to look at is the relationship between the Medium Term trend and the Short Term trend.

What we are looking at is the relationship between the short term trend and the medium term trend. If we see a rise of the short term trend above the long term trend we have a bullish trigger. Rahul calls this a change of momentum or a change of force. It means short term we have more buyers than we have had and the price is getting more bullish.

If we have a fall of the Short Term trend below the Medium Term trend, we have the opposite. We would have a bearish trigger.
These are triggers to enter a trade as long as the rest of the criteria match up. Let's go through a few examples:

In this example, I've added a blue vertical line when we had a Bullish Change of momentum.

We have a bullish trigger. Now we want to make sure that we follow the first two rules to make sure those match a buy signal.

1) Do we have Bullish Primary Trend? Yes
2) Do we have a Bullish short term trend? Yes
3) Do we have a Trigger? Yes.

Since all of our criteria match, we can now structure a trade.

There are a few rules about execution, but these are very simple to follow as well.

We want to identify where we will buy and we want to identify our initial stop level. To do this we look at the price of the security.

The line marked A is going to be my entry price. To confirm an entry, I want to wait until the price of the stocks confirms the move by going above this level. You determine this level just above the higher of either (1) today's high or (2) yesterday's high. If the price after everything lines up travels above your entry price, you have a confirmed buy setup. You would want to buy as close to this price as possible.
Line B will be your first stop. You will identify the first stop and put it just below the most recent trough in prices. If prices fall below this support you will exit your trade.

I love this method. It allows us to identify our potential risk on a trade before we trade and have a very clear entry and exit strategy. We also know our game plan before we trade and not by making our decisions in the heat of battle. In this example, we would have bought this security on the gap up. We also caught a very nice move.

There are also some other rules to keep in mind. If we are in a long trade and we get all the rules necessary for a short trade, we would want to get out of our long trade and setup a trade to the short side. In my experience most trades with RMO are exited by a stop. Stop management is an important part of any strategy and RMO is no exception.

Here's our chart of AAPL again.

This is the same example, hypothetically at the circled area, where we would be in a long trade that just completed a nice move up. As is natural in stock cycles, the momentum starts to expire in the upward move and you get a pullback. This pullback will usually be accompanied by a change of momentum or a change of force. This is indicated on the chart by the red sell signal. This is not a signal to exit. However, it is notice to start to pay closer attention. If we start to get a severe pullback we will go into a Bearish cycle and will look to reverse.
In this example however, AAPL establishes a new support area and continues on its upward trajectory. As the momentum shifts back to a bullish phase, we have setup a new support level. Since we have a new support level we would move our stop to lock in profits from this trade:

![Graph showing a new support level and stop]

**THE SPECIAL OFFER**

We do have some great supporting videos and I'd recommend that you watch our video to help understand this simple trading system. Repetition and practice are important. You can view a training video on RMO and even

[**SIGN UP FOR A COMPLIMENTARY TRIAL OF METAStock HERE**](#)

I'd recommend with all new methods that you paper trade it until you are comfortable. Then, as anything else you use with your trading, ease into it with smaller positions until you feel you are ready to go full scale.

**ABOUT THE AUTHOR**

Jeffrey Gibby has been working for MetaStock for over eighteen years. He is currently in charge of new business development and works to create new MetaStock distributors and partners worldwide.

Mr. Gibby works with training companies to help people learn the power of MetaStock. He has spoken to traders from around the world and has trained people on how to use the software and trade various markets. Among his areas of responsibilities are the management of new products and services for MetaStock and creating strategic partnerships.
Welcome, if you’re a day trader, swing trader or options trader this book is for you because…

You’re about to discover a focused approach to anticipating the markets’ next move, along with trading tactics that lead to immediate profits and trade entries you can be confident in trading whether you are a new trader or have years of experience.

Think about how you feel, and how you tend to trade, when a new trade is substantially profitable immediately after you enter it.

Now contrast that feeling with how you feel, and tend to trade, when the market is about to close and you’ve been in a trade for a few hours that is trading at a loss.

If you’re like most traders, the immediately profitable trade creates a desire to “trade this one right.” Your thoughts are on how to make the most of the apparent opportunity. You’re also enjoying trading.

The losing trade scenario, on the other hand, is disappointing. You’re more likely to be thinking about how to change the trade, rather than confidently sticking with your initial plan. This is common even among experienced and disciplined traders who know that losses, when managed properly, are not a problem.

Regardless of our trading style or instrument (day trading, swing trading, investing, stocks, ETFs, options, forex, etc.) I believe that we all enjoy trading more when our trades are immediately profitable.

More importantly, I also believe that immediate profitability makes it easier to be more disciplined, which in turn leads to more trading success.
Immediate profits are only one important result of having great entry strategies and tactics. Even more important than immediate profits is having enough confidence in your trade to ensure you trade with discipline. When you have enough confidence in your trade, “immediate” profits becomes a relative term. This means that even if a trade initially trades at an unrealized loss, you won’t have that feeling of disappointment.

How To Create The Confidence In Your Trade That Eliminates The Frustrating Feelings Of Unrealized Losses And Reduces Real Losses!

Successful traders confidently believe they are doing the right thing when they take a loss. Since beginning my trading career in 1990 on the floor of the New York commodities exchanges, and spending years in a multi-billion dollar hedge fund, I’ve worked with hundreds of professional traders and thousands of active individual investors. In this time I’ve found that confidently taking a loss is a common theme among successful traders at every level – floor traders, fund managers, and active individual traders.

One goal of this book is to show you how you can have the confidence of a pro in determining and executing on your stop losses, so you can improve your profitability. There are several ways to accomplish this level of confidence, but this book is narrowly focused on a very specific way of identifying great trade entries with stops you can have confidence in.

A great trade entry is one that has a risk level (a stop loss) and three important qualities:

1. You believe that you should exit the trade when the stop level is hit. This leads to consistently executing your plan.

2. The potential loss is small relative to the expected return when profit targets are hit. This leads to more profitable system.

3. The frequency of getting stopped out is in line with frequency and expected return when profit targets are hit. This leads to a more predictable equity curve and more confidence in trade execution.

A simple starting point for selecting a stop level that can provide all three of these critical qualities of a great trade entry is to have your stop loss be outside of the current day’s range.
The low or high of the day creates an emotionally powerful “line in the sand” that seems to naturally command the respect of traders. Think about how you feel when markets make new highs or lows. Are you more inclined to pay attention and respect the “trend of the day” at this point?

In my experience of working with successful traders, most traders are more likely to feel confident that their stop is safe when it’s beyond the current day’s trading range. This alone can improve your trading because it leads to less second guessing and moving stops prematurely.

Additionally, traders tend to feel more accepting of the fact that their trade is not working and exit the trade as they planned when it corresponds with a break of the current day’s range. This leads to more disciplined trading and less second guessing your stops when they are hit.

However, better trading is not simply placing your stop below the low of the day if you’re long, or above the high of the day if you’re short! You need more of an edge to determine when the high or the low of the day has been put in, and which days you should use this tactic.

In other words, you must identify the RIGHT DAY and TIME to use the day’s range as your stop.

You’re about to discover a reliable way to determine the day’s high or low early in the day. This creates powerful opportunities for all trading styles to use these levels for great stops that are quick and easy to identify and, as discussed above… leads to less second guessing.

For example:

If you’re a day trader… when you are able to buy near the low of the day, you’ll find many opportunities for trades that will have very profitable reward-to-risk ratios that don’t require the market to do much more than simply return to the high of the day!

If you’re a swing trader… you’ll be able to pinpoint the exact days to take very low risk trades that are more likely to enable you to avoid holding positions overnight that are not yet profitable. In addition to having more of your first days in the trade be profitable, you’ll be able to identify trades that have multi-day or more trend potential, creating huge profits relative to your initial stop level.

If you’re an option trader… you’ll be able to identify market turning points for precise timing of directional option strategies, and enjoy the benefits just listed for the day traders and swing traders.

Use This Floor Trader’s Secret Charting Tactic To Anticipate The Market’s Highs, Lows, Trends & Reversals

It may seem hard to believe, but this trading tactic can be so simple that I used it to “chart the market” without a computer! I didn’t have a computer standing on the trading floor in the early 1990’s.

Despite its simplicity, the principle works because it is based on the driving force behind the most important price points of any trading day. That force is human emotion – fear and greed. Remember your feeling of excitement when the market in which you hold a position goes racing your way right as the market opens? How about the feeling when the market gaps open in the direction of your position? Nice way to start the day.
And have you also had the frustrating experience of the excitement from a market open in your direction turn to disappointment as the market suddenly reversed? If you've traded for any period of time then you've certainly felt the anxiety of a profitable trade swinging into a losing position in the opening half hour of the trading day.

Fortunes and egos are inflated and burst during the opening several minutes in many markets all the time. Even if you have or don't have a position in the market, the opening minutes of the trading day can be an emotional roller coaster. This is exactly why the first 30 minutes of the trading day turns out to be very statistically reliable in determining the day’s high or low.

**In fact, 50% of the time the S&P 500 will make its high or low of the day within the first 30 minutes of the trading day.**

I'm using the S&P 500 as the example, but you will find other markets (stocks, ETFs, and futures) to have a similar statistical bias that you can profit from and here's how…

Stop and think about some of the implications of this data.

- The first 30 minutes is only 8% of the trading day, yet 50% of the time it determines the day’s high or low. This makes it a very significant time of the day for anticipating reversals and setting price levels that will likely remain as the high or low for the entire day.

- If you are going to set your stop below the low of the day, you give yourself a big statistical edge by waiting for the first 30 minutes of trading to finish.

Plus, you can make this statistical edge even stronger by combining it with a few simple indicators.

We've found easy ways to identify market conditions that indicate with 83% accuracy that the high or low will be determined in the first 30 minutes of a particular day. Even more impressive is that when these same criteria are used, you can determine that the low of the day has been set after the first 30 minutes 62% of the time. These are the best days to use the low of the day in your stop.

**The Opening Range Defined**

From this point forward in this book I’ll refer to the high and low of the first 30 minutes of the trading day as the “Opening Range” or the “O.R.” The Opening Range can be calculated using other time frames as well. Common time frames include 2, 5, and 15 minutes, and even the first hour. In our trading at MarketGauge we focus on the 2, 5 and 30-minute Opening Ranges. They all serve specific purposes. For example, the 30-minute O.R. is the best place to start for buying against the low of the day (or selling against the high) for day traders and swing traders.

Of course you'll use charts on your computer to figure out the day’s Opening Range, but now you can see how floor traders could use this tactic even without access to a computer. As illustrated in Chart 1, the OR high is simply the high for the day after the first 30 minutes of trading, and the OR is the low of the day at that time.
How To Objectively Evaluate Any Trading Day To
Anticipate the Day’s Trend
For Bigger Profits & Avoiding Losses

Every day in the market is different. It presents its own trend, opportunity and challenge depending on your perspective. The direction and magnitude of the market’s moves from day to day can seem random to the untrained eye, but the market does follow patterns and leave clues indicating its most likely direction.

The Opening Range is a trading tactic that pros have used for decades to read the market’s mood so they can anticipate and profit from the market's intra-day moves.

When you “chart the market” or look at it through the lens of the Opening Range, you’ll have an objective perspective on whether the bulls or bears are in control on any given day. This perspective begins with a very powerful understanding that the O.R. high and O.R. low levels will be critical support and resistance levels for the rest of the day.

With this understanding of market behavior you can anticipate that these levels will also represent levels where markets will reverse or accelerate into big moves. If you look at the trading day with this process you will be on the right side of the biggest market moves, and avoid getting hurt by them.
How To Read The Market With The O.R.

To begin using the O.R. to anticipate the market’s next move follow these simple rules.

First, let the market establish its 30-minute O.R. high and low. Even after the Opening Range period, keep a neutral bias while the market trades within its O.R.. As you learn more you’ll know if an O.R. has a bullish or bearish bias.

**Don’t Miss, or Get Hurt By Trend Days**

Next, wait for the market to attempt to trend by breaking the O.R. range. A successful breakout beyond the O.R. will indicate a trend day is forming. For example, if the market breaks below its O.R. low, you should consider it a trend down day unless and until it rallies back over its O.R. low level.

Too many traders lose money in big down days because they don’t have an objective method like the O.R. rules to determine that the market is in a down trend which should not be bought, and in fact, it should be expected to continue lower.

You will NEVER GET CAUGHT IN A MAJOR MARKET DECLINE if you only initiate your long trades above the O.R. low and stop out if a new daily low is hit. Buying markets that are under the O.R. low is equivalent to trying to find a bottom when the bears are in control.

This is much riskier than finding a bottom when the market is in a neutral to bullish mode (i.e. over the O.R. low).

Additionally, any rally from below the O.R. low will have to get through the resistance of the O.R. low (see chart 2).

As you now know, the O.R. low is often significant support until it is broken, and becomes a significant area of resistance once broken.

As a result, it is very common for rallies during a down trending day to roll over at the O.R. low, and resume the day’s down trend.
Use Opening Range Reversals To
Buy Near The Low, Or Short Near The High

When you combine Opening Range Reversal tactics with the emotional benefit, and statistical edge of placing your stops outside the day’s range as discussed earlier…

You have a very effective approach to entering low risk trades that have a high probability of working consistently!

An Opening Range Reversal (ORR) describes a condition when the market has reversed against an O.R. high or low sufficiently to anticipate that the low or high of the day has been set, and it can therefore be used effectively as a stop for your trade.

The basic ORR trade setup that I’ll cover here occurs when the O.R. low is touched or broken followed by a rally back over the O.R. low. As you become more familiar with how markets trade near their O.R. lows you’ll discover many profitable trading patterns, but to get started you only need to know one simple pattern.

A Simple Pattern That Puts Money In Your Trading Account Quickly Because It Pinpoints Reversals

This pattern is so effective at spotting intraday reversals that I use it for more than identifying O.R. Reversals, but right now our objective is to understand when to buy markets near their low of the day using the ORR and this pattern.

I use 5-minute charts for this pattern.

At MarketGauge we call this pattern the Higher Candle Close (HCC). It occurs when a 5-minute bar closes over the high of the prior bar.

Yes, the pattern is that simple, and it works extremely well. But the secret to why it works so well is that we’re using it when it occurs near the O.R. low!

WARNING: Like most good trading tools, this pattern works well when used in the right market conditions. If you use this pattern randomly it can be frustrating, and even be as annoying as turning on your car’s windshield wipers when the sun is shining! You must combine it with the O.R. Reversal setup.
When I share this secret setup I’m often asked…

Does it work on 1-minute charts? (probably because traders are always looking to act quicker, and cut risk tighter).

Well, at MarketGauge we also trade with, and teach how to use 1-minute charts for more advanced O.R. patterns along with price and time confirmation, but we DO NOT use this HCC pattern on 1-minute charts.

So, to get started all you need is a 5-minute bar chart or candlestick charts, which you can find on any charting platform, and the next step - a simple way to identify the best Opening Range to trade with the HCC.

**The Best Opening Range Conditions**
**For Consistent Profits**

When you’re looking at an O.R. for a potential trade think of it like finding a place to live. You’ll ask yourself 3 basic questions.

1. What does it look like?
2. Where is it located?
3. What’s the price?

A “good looking” O.R. for an ORR trade has a well-defined O.R. low price level. Remember from earlier in this book, the O.R. works best when the market is active and emotionally charged with either fear or greed.

This is demonstrated in the charts by the existence of volatility and/or big volume. Therefore, a well-defined O.R. low is one that has multiple 5-minute bar lows near it, or a big range bounce from it, or big volume near the O.R. low level. All of these indicate that traders are reacting to the O.R. low, and imply that if the market breaks the O.R. low, and then begins to rally (as defined by the HCC), it is time to trade! Chart 3 above is a good example of this.
"Good location" for an ORR has two considerations

1. The low of the day should be close to the O.R. low. The reason you want the low of the day to be relatively close to the O.R. low is because a good ORR trade defines its risk with a stop under the low of the day, and its entry over the O.R. low.

   In an ideal situation the distance from the entry point to the low of the day should be a fraction of the market's average daily range.

2. The O.R. low and/or the low of the day should be in a good location relative to important daily chart key reference points. This is very easy criteria to use to filter out the best ORR trades, and one of the most powerful determinants of the predictable profit potential.

   Simply put... The best ORR trades occur in the direction of the daily trend and at support and resistance levels that can be identified on the daily charts.

Chart 4: AMZN's location lined up with support from the prior day and the important key reference point of the Floor Trader Pivot (not visible on this chart).

"The price" is your entry price and your risk! It doesn’t take long to become good at quickly identifying good looking Opening Ranges in good locations.

This is a skill and tactic you can apply to almost any market and easily adopt into your existing trading rules, or simply trade it as described here, which is to apply the HCC pattern to determine the trade entry.
The Simple Entry Trigger
That’s Been “Hidden” in Your Charts All Along

As you start looking at the markets using the O.R. along with the HCC pattern in the way I’ve described in this book, you’ll find that some trades are such obviously great opportunities that you’ll want to be more aggressive, and get into the trade as quickly as possible.

You’ll also find trades that look great, but you’d like to have a little more confirmation before entering (i.e. general market conditions may be bearish)

Now that you know what the HCC pattern is, and where to best apply it, we can focus on the actual “entry price” trigger point for what I’ll describe as the HCC-ORR trade.

There are actually 3 potential trigger points for an entry. They are all slight variations of the same basic pattern of trading over the prior bar’s high, but they give you the ability to be more aggressive vs. waiting for more confirmation that the market has turned up.

IMPORTANT: For the purposes of this lesson, it is assumed that any entry trigger point described here is also above the O.R. low.

Maximum Confirmation

The entry trigger with most confirmation, and the one I’d start with, is to wait for the 5-minute bar to close over the prior bar’s high, AND then enter when the market trades over the HCC high. This means your entry trigger is actually a trade over the high of the HCC bar.

I will almost always use this trigger if the close of the HCC is not convincingly above the prior bar high, or if the high of the HCC bar is very close to the closing price. In these cases you’re not increasing your risk by very much, yet you’re getting some extra confirmation the price is moving your way.

Chart 5 below shows an example of a big range HCC reversal with confirmation.

Chart 5: A good wide range HCC with confirmation
No Confirmation

There are times where you will not want to wait for maximum confirmation described above. In this case the trigger is simply the close over the prior bar high and the entry is on the open of the following bar.

This is can be used for situations where the HCC bar’s close is significantly above the prior bar’s high, and it may even have good volume. In other words, the market has clearly demonstrated a reversal.

In fact, sometimes you will get this pattern, and have the opportunity to wait for a pullback in price to the high of the prior bar to be able to enter a lower price.

However, if you do not have a good demonstration of range expansions and or volume this can be risky. Chart 6 above is an example of a HCC at the ORR that did not confirm and continued lower.

“Jumping The Gun”

As the subtitle “jumping the gun” suggests, this is getting in before the HCC is complete. With some experience in trading ORR patterns you’ll be able to get away with this, and get in early on some trades, but be careful. I would prefer to have unusual volume in situations where I use this approach.

The trigger when you jump the gun is to enter when the market trades over the prior bar high. So you’re not waiting for the close in what you expect to be a HCC bar.

6 Steps To Identifying and Executing
Low Risk, High Profit Potential
ORR Trades With Confidence

It’s time to pull everything together, summarize the key steps to initiating an Opening Range Reversal trade.

1. Let the 30-minute O.R. form.

2. Focus first on the Opening Ranges that are in a good location relative to the daily chart’s trend and support levels.

3. Identify the Opening Ranges in a good location that also look good for an ORR trade. This means they have well-defined support at the O.R. low.

4. Use the HCC as your entry trigger.

5. Define your risk as being under the low of the day. Give the market room to break the low of the day by a small margin and reverse without stopping you out!

6. Set your initial profit targets. If you are a day trader, take at least partial profits near the high of the day, and move your stop to no loss after the market moves in your favor. If you’re a swing trader, you’re initial target may be higher (and your stop may be lower).
Identifying Trade Opportunities In Seconds
With This Simple Chart Display

In my charting platform I have a window that shows both the daily chart and a 5-minute candle chart with volume. As you know the candles on the 5-minute chart are not required, but they make it easier to see where a bar closes relative to the prior bar high.

With these two charts in plain view it only takes a few seconds to spot when the O.R. low lines up with key daily levels, and when a HCC forms. Don’t Sabotage Yourself By Setting Your Trades Up To Fail

You can evaluate every day’s price action with the perspective of the O.R. to anticipate the market’s next move, but the key to profiting from it is knowing how to spot high probability setups like the one I’ve revealed in this book.

Remember my analogy from earlier – You don’t use your windshield wipers on a sunny day!

The ORR combined with the HCC entry is an incredibly powerful pattern, but every O.R. low will not reverse. However, you now know how to select good looking ORR patterns. And you know that the location of the O.R., in the context of a bullish daily chart, is the easiest way to identify the most reliable and highest potential ORR trades for both the day trader and swing trader.

Be selective! If all the trade ingredients are not there, wait for the next one.

Chart 7: With a daily chart display next to the 5-minute you can see “good location” easily
SPECIAL OFFER: LEARN AND EARN MORE!

If you’d like to learn more about trading reversals and trend day patterns that leverage the power of the Opening Range, visit MarketGauge at the special link provided below.

MarketGauge provides free webinars, and more advanced O.R. training that will show you:

- How to determine volatility based stops that help to avoid frustrating stop losses
- How to profit from big trend day breakouts, and avoid false breakouts
- Which indicators dramatically increase the statistical edge of the O.R.
- Rules for more precise reversal patterns for quicker entries
- Time and price confirmation rules to minimize failed trades
- How to trade quicker O.R. time frames to profit from gaps and moves within the first 30-minutes of the day
- And more!

For a limited time, TradingPub members will find more training and a special offer here:

www.marketgauge.com/orr/tradingpub/

ABOUT THE AUTHOR

Geoff Bysshe, co-founder of MarketGauge, began trading in 1990 on the floor of the NY commodities exchanges. He spent several years as an independent floor trader.

He left the floor to trade and develop quantitatively based strategies for equities at Millennium Partners, a multi-billion dollar hedge fund in NY. In 1997 he co-founded MarketGauge.com to provide market analysis and trading tools to professional traders.

MarketGauge has since expanded into providing individual active traders and investors with trading systems, tools, education and actionable market analysis.
Are you lured by the siren song of searching for an elusive trend reversal and fighting the price action? It's understandable that many traders want to gratify their ego by pinpointing the exact spot that a trend reverses, but unfortunately many trading accounts have been dashed in the process of calling reversals.

Join me for a brief journey as we "go with the flow" with price action as it moves forward in a trend. We'll focus specifically on identifying a trend in motion and perfecting a classic trade set-up that will reduce frustration and - hopefully - build up your trading account consistently over time.

**Trends - the Foundation of Trading**

Technical Analysis and chart-based trading builds on the idea that trends, once established, have greater odds of continuing than of reversing. It's such a simple principle but so many traders get trapped in the allure of calling a market top or bottom - a trend reversal - and miss the easier profits that can be made by trading with the trend and not against it.

In Technical Analysis Explained, Martin Pring defines the entirety of technical analysis with this quote:

"Technical Analysis is the art of identifying a Trend Reversal at the earliest stage possible and then trading in the direction of that trend until the weight of the evidence proves that trend has reversed."

In this article, we'll focus on the portion of the definition that addresses "trading in the direction of that trend" and specifically develop a trade set-up you can recognize in any market or timeframe. You can use this as a building block to more complex strategies in your trading toolbox, or as a standalone set-up.

**Two Quick Ways to Identify a Trend in Motion**

If our first goal is to "identify a trend reversal at the earliest stage possible," how exactly do we do that? Let's build an official way to define a trend in motion.

1. **Pure Price Method**

The most basic method for identifying an official trend is to compare price highs and lows as they develop over time. On a price chart, simply draw a line over each swing high in price and also on each swing low. It can be helpful to draw small green lines over price highs and small red lines over price lows so you can compare them easier.
An uptrend is defined as a price movement having BOTH a higher high and a higher low.

A downtrend is thus a price movement over time having BOTH a lower low and a lower high.

A sideways trend occurs when the swing highs and lows closely overlap prior highs and lows.

Many new traders simply "eye-ball" a trend and have no formal way of defining it.

Let's see this on the chart:

Figure 1: CME Group (CME) Identified by Simply Labeling Higher Highs (Green) and Higher Lows (Red)

A Trend Reversal - by this definition - would occur when an uptrend develops BOTH a lower low AND a lower high; by the same logic, a downtrend would reverse ONLY when price then made a higher high and higher low.

2. Moving Average Crossovers

In addition to drawing your own highs and lows to define a trend, we can use two moving averages to define a trend in motion. We'll need a short-term and intermediate term moving average to place on our price chart.

There's no secret formula to which a moving average is the perfect tool to use, though in my experience I've consistently used the 20 period Exponential Average (which I often color green) and the 50 period Exponential Average (which I color blue).
**An uptrend** is identified when the 20 period (short-term) moving average is rising steadily above the rising 50 period (intermediate-term) Exponential Moving Average.

**A downtrend** is identified when the 20 period Exponential Average (EMA) is falling steadily beneath the falling 50 period EMA.

**A flat or sideways trend** occurs when the moving averages repeatedly cross each other as they take a sideways or horizontal slope. Trend Reversals occur when the moving averages cross each other, especially after a lengthy uptrend or downtrend.

Here is CME again with the 20 and 50 day Exponential Moving Averages applied:

![CME chart with 20 and 50 day EMAs applied. Uptrends contain rising moving average and crossovers reveal likely Trend Reversals.](image)

Figure 2: CME with 20 and 50 day EMAs Applied. Uptrends contain rising moving average and crossovers reveal likely Trend Reversals

While there are many formal chart-based methods for identifying trends, often these simple methods are easier to identify and can outperform complex methods with many variables.

New traders especially should begin with simpler methods, build success with them, and then only if necessary move toward more complex methods of trend identification.

**Now that We’ve Identified the Trend... What Do We Do with It?**

A main goal of new traders is to identify a trend in motion and then trade in the direction of that trend as long as it lasts. How exactly do we do that?

Just like there are multiple ways to identify a trend in motion, there are even more methods to align your trades in the direction of the trend and profit from the trend continuing into the near-term future.

For this article, let's focus on pullback or retracement trades and maximize our efficiency with this simple yet very powerful and consistent foundational set-up.
There are three foundational trade set-ups as follows:

**Retracement Trades** trigger on a pullback in an established uptrend.

**Reversal Trades** trigger on a breakout or reversal spot from a mature trend that is ending (as a new trend begins)

**Breakout Trades** trigger on the breakout beyond a new high or new low, or a clear support/resistance level (or from a price pattern). Breakout trades may trigger in the direction of a prevailing trend, or also against it.

For this article, we will only focus on the Retracement Trade identification and strategy.

The first step is to identify a trend in motion and thus the second step is to trade in the direction of that trend as it progresses.

Retracement trades attempt to identify a short-term turning point when a counter-trend retracement (price moving against the trend) ends and a new swing in the direction of the trend develops. Price tends to move in "waves" or swings that are either with the current trend direction (also called "impulses") or against it ("counter-trend reactions" or "retracements"). The goal is thus to enter as close as possible at the end of a short-term retracement and join in the direction of the trend when price resumes moving in the direction of the trend.

As you can imagine, there are hundreds of ways of accomplishing this goal, and there are just about as many methods and indicators you can imagine to pinpoint the end of a retracement and the beginning of a new uptrend price swing. Once again, new traders should start with simple methods and build complexity ONLY if it is necessary (never start with the complex).

**Three Simple Tools to Pinpoint the End of a Retracement**

1. **Hand-Drawn Price Trendline**

Let's start with the simplest tool, the hand-drawn (on your computer screen or on a printed chart) trendline. The goal when drawing trendlines is to connect as many price swing highs or lows as possible. More is better if possible. By definition, a trendline requires at least two points and the preference would be to connect three or more swing highs or lows. Extend trendlines into the future and when price "pulls back" to a trendline, it can be a low-risk spot to enter the market.

2. **Moving Averages**

They're back! We can use moving averages both to identify a trend in motion and also to enter a position into the trend once price "pulls back" or retraces to either our short-term or intermediate term moving average. Look closely at the chart of CME above to pinpoint each time price touched - or tested - the rising 20 or 50 day EMA and then rallied up off this "moving trendline." January 2015 reminds us that no method is perfect in trading a retracement, but each indicator gives us guidance and clues as to when a retracement may end and price will then swing back in the direction of the trend.
Here's Apple (AAPL) to demonstrate both the Trendline and Moving Average Tactics:

![Apple (AAPL) daily chart with trendline and moving averages](image)

Figure 3: Apple (AAPL) with Hand-Drawn Trendline (Black) which was touched four times and successful Pullbacks (labeled "P") to the rising 20 (green) or 50 (blue) moving average.

From April 2014, Apple shares burst into a strong uptrend on the Daily Chart and the series of higher highs and higher lows continued into 2015 without any sign of reversal. After April, price "pulled back" or retraced toward the rising 20 or 50 EMA.

Late 2014 saw a strong resumption of the trend but also a strong retracement against it. Instead of "stopping" or reversing up off the moving averages as was the case in 2014, price reversed off the hand-drawn black trendline to resume the strong uptrend in motion. The uptrend never reversed.

3. Flag Patterns

Sometimes the price trend is so strong that we never see a touch of a trendline or moving average. In these cases, especially on lower timeframes, our only method for entering a strong trend is to do so not at a support (uptrend) or resistance (downtrend) level like a moving average or trendline, but on the breakthrough of a smaller, mini-trendline that we call a "flag" pattern. These would be your classic Bull and Bear Flag price patterns.
Here's the same chart of Apple, only with the "Flags" highlighted:

Figure 4: Apple (AAPL) with Bull Flag Retracement Patterns Highlighted. Instead of aiming to buy at a support level (like a trendline or moving average), the goal becomes to buy shares on a price breakout above the smaller ‘flag’ trendline.

Here's a zoomed-in perspective of the first two flag patterns in mid-2014:

Figure 5: Apple (AAPL) with zoomed-in perspective of two pro-trend "Flag" retracement price patterns
So now we have three simple ways to identify both a counter-trend retracement and when it is likely to end - and thus resume moving in the direction of the uptrend (where we seek to make profit).

Let's create a specific strategy for entering and managing these Pro-Trend Pullback (retracement) Strategies.

**How to Trade a Retracement Play**

It's one thing to recognize a retracement as it develops in real-time but we don't make any money just watching patterns develop.

We need specific parameters for entry, targets, stop-loss placement, and management once we recognize a set-up in motion.

Fortunately, retracement trades naturally develop these parameters and all we must do is enter, manage, and exit as the trend resumes. We need to have a stop-loss strategy also in case the price "surprises" us with a trend reversal.

**Here are the simple, specific steps to trade a retracement play:**

1. **IDENTIFY** a Mature Uptrend in Motion (using the Price and/or Moving Average Method)

2. **MAINTAIN** the stock in your watch list UNTIL price retraces lower in an uptrend to a support level (trendline or moving average) in an uptrend or higher to a resistance level (trendline or moving average) in a downtrend

3. **BUY** as price touches the moving average or trendline in a prevailing uptrend; SHORT-SELL as price touches the moving average or trendline in a prevailing downtrend

4. **PLACE YOUR STOP** beyond the trendline or moving average (usually 1% to 2% away from the level on a Daily Chart, but this varies depending on your timeframe and the volatility of the stock). Ideally, TRAIL THE STOP under the rising 50 EMA (uptrend) or above the falling 50 EMA (downtrend)

5. **TARGET** a minimum of a touch of the prior swing high in an uptrend and the touch of the prior swing low in a downtrend (you can choose to exit your full position or exit half the position at the achievement of the minimum goal)

6. **HOLD** the remaining position until price breaks under a smaller hand-drawn price trendline in an uptrend or over a smaller hand-drawn trendline in a downtrend

Make a check-list from these simple rules and use them as guidance for entering and exiting positions.
The chart below reveals four small (yet profitable) pro-trend retracement trades in Monster Beverage (MNST) and each trade developed and played out:

Figure 6: Monster Beverage (MNST) with Four Retracement Trades (Trendlines, Moving Averages, and Flags Highlighted) as the Uptrend Continues on the Daily Chart

Here's a final glance at two simple Retracement Trades in Apple (AAPL):

Figure 7: Apple (AAPL) - two detailed (yet small) pro-trend retracement trades in a strong uptrend. The Yellow Highlight indicates BUYING when price TOUCHES the rising moving average while the Green Highlight indicates BUYING the "flag" or trendline breakout as price moves up off support. The Target is the prior price swing high and the stop is located beneath the moving averages (not exactly under the averages, as was the case at the end of June)
Summing it All Up:

No trading strategy guarantees perfect outcomes. The goal is always to take high probability set-ups and craft trades that aim for a higher profit relative to the risk of loss as defined by your stop-loss.

Retracements take advantage of the higher probability of a trend in motion continuing to extend higher (or lower in the case of a downtrend) and provide a clear, low-risk entry where the stop-loss is small relative to the larger target.

If price fails to hold support (or resistance when short-selling into a downtrend), take your stop-loss and prepare for the next opportunity. Also, don't keep your stop-loss positioned exactly at the reversal point - always locate it just beyond the trendline or moving average.

With experience, you'll be able to recognize trends, pullbacks, and opportunities more effectively and can add additional parameters that can increase your probability of success or maximize the profit (play for larger targets) relative to the risk. Start simple and grow from a solid foundation.

Taking it One Step Further...

For ambitious traders, the following strategies can help you further master your pullback trades:

• Adding Fibonacci Retracements to pinpoint "hidden" turning points (and to manage stops)
• Incorporating Reversal Candles that develop at trendlines or moving averages
• Stepping inside the price action to a lower timeframe to pinpoint more accurate entries
• Using Oscillators to quantify entries (especially when an oversold buy signal occurs at support or an overbought sell signal occurs at resistance)
• Incorporating Volume or Market Internals into the chart

Don't start with the complex; instead, build from successful trades you take using the simpler methods described here. You can't improve upon something when you don't have a solid foundation. The basic strategies here serve as building blocks you can use as a stand-alone strategy or preferably as a core method to add your own personal improvements as you gain experience as a trader.
SPECIAL OFFER

Download four in-depth lessons on how to apply this simple, effective retracement strategy to your successful trading activities.

• Lesson 1: Specifically, How do Trends Develop and How Do We Identify Them?
• Lesson 2: What Indicators are Best for Trend Trading Tactics?
• Lesson 3: How to Take Advantage of Trends through the Perfect Pullback Strategy
• Lesson 4: When to STOP Trading With the Trend When it is Showing Signs of Reversal

Get the special "Trend Trader Tactics" for only $27.00, simply CLICK HERE!

ABOUT THE AUTHOR

Corey Rosenbloom’s interest in the stock market began as a junior in High School where his team won an investment challenge competition which drew him into investing actual money in the market using basic fundamental analysis. Later, the Bear Market of the early 2000s would challenge these assumptions and force him into deeper study of market concepts – “There had to be a better way than Buy and Hold strategies”.

He was soon introduced to the concepts of price charting, or more formally known as “Technical Analysis” and the pattern recognition, along with indicator combinations, drew his attention sharply in that direction. As the market began its recovery, he was participating as a momentum intraday trader, which soon gave way to broader swing-trading strategies. He describes one of many “light-bulb” moments when he was introduced to Sector Rotation Concepts which seemed to make the price charts fit into a logical progression of expectations. From there, he deployed options trading strategies which gave way to ETF trading, which itself finally gave way to active futures market trading tactics.

Mr. Rosenbloom holds a bachelor’s degree in both Psychology (cognitive research focus) and Political Science and later received a Master’s Degree in Public Affairs with a Business concentration. He has completed Levels I, II, and III of the Market Technician’s Association’s Chartered Market Technician (CMT) program and is awaiting the official charter in early 2009.
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FOREX
Hello traders!

Welcome to this mini Forex Foundation course, your roadmap to trading the Forex Markets. My name is Jody Samuels and my trading career began on Wall Street in the early 80’s. Today I manage fxtradersedge.com, a comprehensive website that offers courses and numerous coaching and trading services specializing in Elliott Wave, Fibonacci and Harmonics analysis and trading.

Trading Pub asked me to explain what makes Forex a great market to trade so I thought I would start with some basic terminology and history, to show you how the market has evolved as one of the fastest growing markets to trade. I will then switch gears completely and talk about a strategy which is very easy for a new Forex trader to grasp. (It is even good for advanced traders!) The strategy is called the 123 continuation and reversal pattern and we will show how to use it during trend and end of trend cycles.

What is Forex?

Foreign Exchange Trading is known as Forex, or by the acronym FX.

Today we are going to talk about the transactions of the foreign exchange market known as the spot market. This market involves a worldwide electronic network of banks, brokers and other financial intermediaries. Unlike the stock exchange markets, Forex has no physical location – it’s completely electronic. This ensures that transactions happen in seconds directly with the market makers. All profits are settled immediately in cash.

Figure 1: The Forex Spot Market

The Lingo in Forex is about pips and lots. What is a pip? If we look at the EURUSD at 1.0925, the pip is the last decimal place. When we talk about a move in the EURUSD of 5 pips, we are referring to a move from 1.0925 to 1.0930.

The pip is 1/10,000 of a decimal place. A 100 pip move is from 1.0900 to 1.1000. If we look at the USDJPY at 122.50, the pip is also the last decimal place. If the USDJPY moves 1 pip in the market, it moves from 122.50 to 122.51. The pip is 1/100 of a decimal place.
Nowadays, brokers quote to 5 decimal places in the EURUSD and to 3 decimal places in the USDJPY. For example, the EURUSD would be quoted as 1.09256 and the USDJPY would be quoted as 122.508.

Currencies used to only be traded in specific Lot or Unit sizes. If the unit is USD, a standard lot is $100,000. A Mini lot is $10,000. And a Micro lot is $1,000. Today, brokers allow traders to vary the Unit size without sticking to the standard Lot sizes. If you are wondering how a small investor can trade $100,000 without depositing that amount of money, it’s because of Leverage.

The broker where you set up your trading account will require a margin to trade $100,000. That margin will vary according to the leverage the broker is willing to offer. At 50:1 leverage, the amount required to trade $100,000 is $2,000. The broker “lends” you the rest. Of course, any losses or gains on the position will be added to or deducted from the balance in the account.

**Why trade Forex?**

The Forex market has evolved faster than any other financial market in history. According to the Bank for International Settlements, the central bank for central banks, average daily turnover on the world’s foreign exchange markets reached almost $1.5 trillion in 1998, increased to $1.9 trillion of daily trading in 2004, and skyrocketed to an unprecedented level of almost $5.3 trillion in 2013.

However, foreign exchange transactions existed a long time before that. Let’s learn a little history together.

Between 1876 and 1931 currencies gained a new phase of stability because they were supported by the price of gold. The Gold Standard replaced the age-old practice in which kings and rulers arbitrarily devalued money and triggered inflation.

The Gold Standard was a commitment by participating countries to fix the prices of their domestic currencies in terms of a specified amount of gold.

The Gold Standard prevailed until WWI, was reinstated in 1925, and broke down again in 1931 following Britain’s departure in the face of massive gold and capital outflows.

Beginning in 1944, countries operated under the Bretton Woods Accord. A total of 44 countries met in New Hampshire to design a new economic order.

The Bretton Woods Conference of 1944 established an international fixed exchange rate regime in which currencies were pegged to the United States dollar, which was based on the gold standard at a fixed value of $35 per ounce.

However, heavy American spending on the Vietnam War led to persistent U.S. balance-of-payments deficits and steadily reduced gold reserves. Finally, on August 15, 1971, President Nixon announced the suspension of converting dollars into gold, unilaterally devaluing the U.S. dollar and effectively ending the Bretton Woods Accord.
After the Bretton Woods Accord, the Smithsonian Agreement was signed in December of 1971. This agreement was similar to the Bretton Woods Accord, but it allowed for a greater fluctuation for foreign currencies.

The US trade deficit continued to grow, however, and the US dollar needed to be devalued beyond the parameters established by the Smithsonian Agreement, and this resulted in its collapse in 1973.

In 1978, the free-floating system was officially mandated. This had occurred by default because no new agreements surfaced. At the same time, Europe gained independence from the dollar by creating the European Monetary System. This lasted until the introduction of the Euro in 1993.

Finally, the first online trade happened in 1997, which marked the beginning of the retail market.

**Who Trades Forex?**

An acronym I developed is the Be RICHeR network and this network trades Forex.

Figure 2: Who Trades Forex?

The Banks were involved in the Forex markets at its inception in the 1970’s. The Retail Forex Brokers came on the scene after 1997. Investment Management Firms have foreign exposures from their stock and bond portfolios and they transact with the banks.

Corporations in their daily, monthly and yearly foreign exchange transactions deal with the banks. The Central Banks are also key players managing their currency exposures and dealing with investment banks. Hedge funds manage a variety of asset classes, including currencies, and they transact with Banks.

Finally, we have eRetail, dealing electronically through a trading platforms of retail Forex Brokers. When you take your first currency trade, you too will become part of this Be RICHeR Network! Welcome.
OVERVIEW
Tradable Markets on a Forex Platform

In the Forex market, there are a great number of currency pairs to trade, which include the USD pairs and the Crosses. On the majority of Forex trading platforms, one can trade CFD’s as well as currencies. A CFD, or contract for difference, is a product whose price is based on the underlying instrument and is considered an over-the-counter (OTC) product, which is not traded on any exchange. CFD’s include stock indices, metals and energy products. For most brokers, the lists of offered instruments continues to grow. Now, Forex trading platforms are beginning to add CFD’s on stocks and ETFs as well. As retail traders, we have the ability to trade all of these instruments on Forex trading platforms. The number of markets quoted will vary from broker to broker.

Capture the “Flavor of the Day or Week”

Once we understand which markets can be traded on the trading platform, how do we decide which markets are trending? One way to do that, is to look at several markets at once to compare them. In this example we are looking at the major USD pairs to see if there is a particular trend in these pairs. Then we can do the analysis and decide which pairs to trade and when. Scanning charts like this is done to capture the “Flavor of the Day or Week” in order to stay with the trend.

In the example below, all the USD pairs have clean price action and fall within defined channel lines with the exception of the USDJPY, which is trading sideways and USDCAD, which is tracing out a triangle. The four other pairs—the EURUSD, GBPUSD, AUDUSD and the NZDUSD—are trading nicely within the channel lines which bodes well for either a trend continuation or a breakout to a new direction. Notice also that the weaker currencies are the EUR and the GBP and the stronger currencies are the AUD and the NZD.

What do you think the trends are for the EURAUD, EURNZD, GBPAUD and GBPNZD? You would be correct if you thought “trending lower.” In addition to scanning the charts for clean price action, it is necessary to review the news releases to be prepared for events which could move the markets. An understanding of the fundamentals is key to relating the price action to the economic backdrop affecting the markets.

Figure 3: Scanning the USD Pairs for Opportunities
The 123 Pattern as a Reversal Trading Strategy

Now we are going to move into the trading strategy section of this course. The simple trading strategy that I have selected is the 123 strategy for continuation trades and end of trend trades. First we are going to look at the 123 pattern as an end of trend, or reversal trading strategy, also called the 123 top and bottom pattern.

The 123 top and bottom pattern is a very powerful pattern that signals a trend reversal. It can also be used as a trend continuation, which will be described shortly. First, the reversal pattern.

Scenario 1: In an uptrend, the market hits a new high, labeled point 1. Price then pulls back to a short-term support level, labeled point 2. Finally, price moves up to an area between points 1 and 2, labeled point 3. It then reverses down again and begins a trend in the new direction.

Trade Entry: The pattern is complete when the price trades below point 2. At a 123 top, the strategy is to sell on a break of point 2. The measuring objective is the distance between point 2 and point 3, projected below the break at point 2. The stop loss is set just above point 3 but a more conservative stop loss is above the start of this move, at point 1.

This is a choice that the trader must make and only by trading it over and over again will the trader feel comfortable with the choice of a stop loss.

An optional sell is at point 3, only if point 3 is at the 50% retracement level of the move from 1 to 2. Also watch for reversal candlestick patterns at point 3 to trigger the entry.

Figure 4: 123 Reversal Trade Entry
Figure 5 summarizes the 123 top and bottom trade. We just looked at scenario 1 which is the 123 top. Now we will discuss the opposite scenario of a 123 bottom.

Scenario 2: At a 123 bottom, the market hits a low at point 1, trades up to point 2, trades back down to point 3, and back up through point 2 to begin a new uptrend.

Observations:

I like to see point 3 retrace at least 50% of the move down from point 1 to point 2. I also learned that if the pattern has between 10 and 20 bars between points 1 and 3, it is more likely to succeed. What I have to say about that is back test and see for yourself. I take most of my trades based on this pattern alone. It is very powerful. You can also use this pattern on a smaller time frame once the market reversal is identified. You will get a closer entry to point 1 and will therefore be able to take a larger position, using the same money management rules.

Figure 5: 123 Top and Bottom

Notes

1. The 123 formation is classified as a major reversal pattern and is one of the best indicators of a trend reversal. They are found on every time frame. The swing or position trader will look for these patterns on the weekly, daily and 4-hour charts. The day trader will look for 123's on the hourly and 15-minute charts. The momentum trader will trade these patterns on the 5-minute, 1-minute and tick time frames.

2. Stop losses for 123 tops should be set above point 1 initially, and positions need to be sized accordingly so as not to exceed the risk limit for the trade. Another option is to place stops above point 3. However, the odds are increased of being stopped out early. It is better to take a smaller position and leave the stop above point 1. Stop losses for 123 bottoms are set below point 1, or alternatively, below point 3.

3. Optional: On a 123 reversal using any time frame, wait one or two candles for confirmation. Ideally price will come back and retest the breakout or breakdown point for a safer entry. This helps to avoid whipsaw.
At this point in the video we look at more 123 reversal examples using market data.

The 123 Pattern as a Trend Continuation Strategy

We have just completed the section on the 123 reversal pattern as confirmation of the end of the trend. However, while the end of trend 123 top and bottom is a great entry method for taking reversal trades, most of your trades as swing and day traders will be trying to get into a trend move – getting into the trend in the middle of it. You may have heard that “the trend is your friend”, so now we will learn a method to get into a trend move using the 123 trend continuation pattern.

How do you get into the trend in the middle of it? The safest trades you can make are the ones where you are trading in the direction of the current trend. In other words, if the trend is up, you should be long – and if the trend is down, you should be short. If you miss the start of the trend, you still need a method to enter a confirmed trend during its progress. I am going to suggest two entry methods using the 123 pattern for trend continuation called internal 123's.

Figure 6: 123 Trend Continuation Trade Entry

Method 1:

Draw your 123 points as price moves in the direction of the new trend. Enter on a break of the newly established point 2 with a stop below point 3 if the trend is up, and above point 3 if the trend is down. Follow the market up or down, depending on the trend.

Method 2:

Draw your 123 points. Enter at point 3 with a stop below the new point 1 if the trend is up and above the new point 1 if the trend is down. Figure 7 illustrates both the 123 reversal and the 123 continuation, back to back, on the same market, the 4-hour GBPAUD.
Figure 7: 123 Trend Continuation Trade Entry with 123 Reversal

Notes

1. When the “Trend is your friend”, we need to make sure we get into the trend at various points along the way. Why? The safest trades are taken in the direction of the current trend. Trade entry is easily done with the internal 123 formation.

2. In a trend, the first 123 pattern is the reversal pattern that occurs at market tops and bottoms. The second and third sets of internal 123’s continue to confirm the uptrend or downtrend.

3. Take note how each point 3 becomes the new point 1 for the next internal 123 pattern. In a very strong trend, point 3 will not always retrace to at least the 50% mark, and that’s ok. It is more important for that to occur with reversal 123’s. In a strong trend, the retracements can be as shallow as 23.6% or 38.2%.

4. If you miss the initial reversal 123 pattern, look to get into the subsequent internal 123’s. Preferred entry is on the break of point 2. However, alternatively, you may enter at point 3. And, wait for the candles to start trending again before entering.

5. Profit taking is recommended along the way for day traders. Position and swing traders may hold the positions and trail the stop every time we trigger a new trade. The stop would then be placed above the new point 1 if in a downtrend or below if in an uptrend, and previous stops would be moved to the new point 1. These positions would be considered “add-ons” for position and swing traders.

At this point in the video we look at additional 123 continuation examples using market data.
CONCLUSION

The Forex markets offer an opportunity to trade various currency pairs and CFD’s as well. Once a trader understands that all of the markets are related in some way – currencies, commodities and stocks – and that correlations exist between certain markets, the excitement comes in understanding these relationships in order to confirm market moves day in and day out. Learn the fundamentals, scan the markets for the best markets to trade, and select a simple strategy such as the 123 Strategy to stay with the trend, or find the end of the trend for a market reversal.

Jody Samuels covers the 123 pattern over multiple markets. WATCH HER VIDEO HERE!

THE SPECIAL OFFER

The FX Trader’s EDGE Forex Foundation Course covers A to Z trading basics, including a multitude of trading strategies to use in today’s volatile markets. In this program, we are going to take you on a journey to further your trading education. That means that we will start with the basics, cover the intermediate levels, and end with more advanced concepts.

SIMPLY CLICK HERE FOR MORE INFORMATION!

ABOUT THE AUTHOR

Jody Samuels is one of North America’s leading coaches for successful traders, and the creator of fxtradersedge.com. Her highly acclaimed new book, The Traders Pendulum – The 10 Habits of Highly Successful Traders, is described as the trader’s guide to the business, psychology and hype in trading and is a must read for any trader with a passion for a profitable trading business. Jody Samuels, a professional trader with 15 years’ experience trading currencies with a New York international investment bank, successfully made millions of dollars using the proven theories of Elliott Wave analysis. The Elliott Wave Ultimate Course, Jody’s latest accomplishment, illustrates the convergence of Elliott, Fibonacci and Harmonics in a ground breaking program to combine precise analysis with a simple strategy, and can be accessed on fxtradersedge.com.
The FX market forms consistent patterns that often take place at the same time everyday. Between 2:00 am Eastern time and 5:00 am Eastern time the market has about a 70% chance to form its first high or low of the day. This consistent movement forms what we call the London Breakout Strategy and can be applied to any of the following pairs: GBP/USD, GBP/CHF, GBP/NZD, GBP/CAD, GBP/JPY and the GBP/AUD.

The second high or low will form anywhere between 8:00 am eastern time and 2:00 pm eastern time, which makes it more difficult to take advantage of seeing it as it is a larger time range. So we are going to focus in on the first high/low of the day simply because we have a higher percentage of winning.

The distance between the first low and the high of the day or vice versa is known as the ADT(Average Daily Trading Range) which can be anywhere between 50 and 200 pips in a single day. With a standard position, which is an investment of $2,000 at 50 pips a day, you stand to earn $500 and at 200 pips a day you are at $2,000.
The FX Market is open 24 hours a day, five and a half days a week. Within the 24 hours that the market is open there is going to be three main trading sessions: the Asian, US and European. The European session opens at 2:00 am EST and, because of how the time zones are set up in Europe, sometimes it will take 3 hours between 2:00 am and 5:00 am for all the banks to open and start to process orders.

Some of the world’s largest bulk transactions take place on a daily basis in Europe and because of this all of the banks are processing orders in a heavy directional manner, causing a large volume move. This is unique to the European session simply because the US and Asian transactions are just not as large.

So let’s take a look at how to set up the London Breakout Strategy

Presentation

Trading Rules Using a 60-minute chart:

1. Identify the candle that represents the 8:00 to 8:30 am London time.
2. After the close of the 8:00 to 8:30 am London time candle, place a working buy order 10 pips plus the spread above the wick high and a working sell order 10 pips below the wick low.

3. If the market breaks out to the north and takes you in on the buy, the sell straddle order will be the number you place your stop order and the limit order will be figured out by calculating the daily trading range as explained in #6. The working sell stop order will not be canceled but remain in place and be your entry should the market reverse, meaning you will keep that working sell order in play and use it to reverse your position to go short should the market reverse after it takes you in long, then reverse and take off to the south.
4. If the market breaks out to the south and takes you in on the sell, the buy straddle order will be the number you place your stop order and the limit order will be figured out by calculating the daily trading range as explained in #7. The working buy stop order will not be canceled but remain in place and be your entry should the market reverse; meaning you will keep that working buy order in play and use it to reverse your position to go long should the market reverse after it takes you in short, then reverse and take off to the north.

5. You will want to trade the daily trading range. Find the average daily trading range over the last month.

6. If it breaks out to the north and takes you in on the buy, find the low that has been made over the last 2-4 hours and use that as your starting point to find the estimated high of the daily trading range; and set your limit order 10 pips below that number.

7. If it breaks out to the south and takes you in on the sell, find the high that has been made over the last 2-4 hours; and use that as your starting point to find the estimated low of the daily trading range and set your limit order 10 pips above that number.
8. If the market stops you out 2 times in a row, you may consider it to be a sideways day and not continue to trade. Should you continue to trade, I recommend you continue to trade in the direction of the 2-hour chart.

**CONCLUSION**

London Breakout Strategy Checklist: Apply this strategy to the GBP crossovers: GBP/AUD, GBP/CAD, GBP/CHF, GBP/JPY, GBP/NZD, and the GBP/USD

Pre-Trade Checklist

- Use the 60-minute time frame.
- Identify the candle that represents the 8:00 AM to 9:00 AM London time (3:00 AM to 4:00 AM ET).
- After the close of the 8:00 AM to 9:00 AM London time candle, identify if the candle is in a BUY LOW or SELL HIGH price.

If the market is in a sell high price

- Place an ENTRY SELL ORDER -5 pips below the candlestick wick LOW.
- Place a STOP +10 pips ABOVE the candlestick wick HIGH. Your LIMIT will always be at least +50 pips from your entry SELL PRICE.

If the market is in a buy low price

- Place an ENTRY BUY ORDER +10 pips above the candlestick wick HIGH.
- Place a STOP at the LOW of the candlestick wick LOW. Your LIMIT will always be at least +50 pips from your entry BUY PRICE.

If by chance the risk is larger than -50 pips, then your reward will match your risk. For example: If risk is -65 pips then the reward will be +65 pips.
THE MOVIE

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ABOUT THE AUTHOR

Joshua Martinez is Market Traders Institute's product expert and has trained thousands of investors to trade the Forex market. Joshua initially began his trading career with a $500 investment which he turned into over $39,000 in profit. He is a published author, professional FX analyst and, most importantly, he is a full time trader.

Joshua is one of MTI's most followed Forex analysts and is head of MTI's Analyst on Demand. His time is spent training and coordinating its team of analysts as well as monitoring and evaluating the overall trader experience for quality assurance. You can find him in the Analyst on Demand chat room sharing his trading insight to MTI Clients.
The Importance of Volume and Order Flow Trading

I created my business for the purpose of helping active individual traders to understand the importance of Volume and Order Flow trading. I think that you might find more in common with me than you think. I say this because I started as a novice retail trader twelve years ago and like yourself have spent years, months, days, hours and minutes searching for the right strategy that would work for me.

Eight years ago, I decided that I could no longer trade in ignorance and decided that I had to figure out a way to break into the industry and find out what was happening behind the scenes. Living in Los Angeles, California I found it very difficult because the industry leaders in Forex were located at the time in New York, Chicago and San Francisco.

All I could find in Los Angeles were Independent Introducing Brokerage (IIB) firms. These were small boutique Futures and Forex Firms that referred their clients to large clearing firms. Since I could not relocate to any other place because I was too old and without experience, I applied to a small IIB as an assistant to get my foot in the door. Since I also had some experience trading Forex, they gave me an opportunity.

For a year and a half I worked there as a Broker’s Assistant learning the business and simultaneously studying for the Series 3 License. What did I learn working for young brokers was that they were more ignorant than I was when it came to trading and advising their client’s. Let’s just say that I don’t want to name who they are because they don’t matter anymore. However, they were relevant to my growth in this industry because if not for them I would have never gotten my foot in the door.

Once I passed my Series 3 exam, I had to move on and was hired by PFGBEST in 2008 as a Futures and Forex Broker. This is where I stayed there until 2011 right before PFGBEST went down due to the CEO’s embezzlement of client funds. Although PFGBEST leaves a bad taste in everyone’s mouth, it allowed me to work with some of the best software developers the company had in the industry.

A team of innovators that created one of the first Electronic Communications Networks an (ECN) that pioneered straight through processing. We were the first group to bridge multiple bank feeds into one master bank feed. Here is where my school of digital manipulation of order flow began.

This is where I learned the protocols that the banks/market makers created and implemented to trade against the retail trader. But more importantly, I learned what was happening behind the scenes that a retail trader would only dream of discovering but never gets a chance to see too see.
As a broker, it allowed me to work with many educators and traders. I was able to create one of the largest client books in the industry, which consisted of over 1,100 clients. I had clients from retail traders to professional Commodity Trading Advisors (CTA’s), to Institutional Traders that were Proprietary Desk Traders. And because I was able to provide them the technological solution that they were looking for, my reputation and business grew exponentially.

This also allowed me to work with software developers and traders that were on the forefront of High Frequency Trading, which at the time was a fad just like Expert Advisor (EA’s). So my experience as a broker and trader grew to levels of knowledge that few individuals ever get to aspire too. I lived it, I learned it, I worked it and I enjoyed it. A true blessing from God. So I believe that what I will share with you will change the way you trade forever, because I will change your perspective from looking at the market from the eyes of a retail trader to an institutional trader. I will let you be the judge of that as you continue to read.

The Trading Strategy
My trading strategy is based on four concepts:

1. Order Flow (High Frequency Trading)
2. Volume Divergence (The Foot Print of the Trade)
3. Volume Price Analysis
4. Volume Spread Analysis

It is because I have a more profound understanding of how the banks have designed their strategies under the umbrella of these four (4) concepts that I have been able to reverse engineer their protocols and create a strategy and suite of indicators that can intercept and interpret their real trades before anyone is aware of their real plan of action.

I know it sounds arrogant to make a statement like this, but you will discover that what most so-called experts and educators teach is outdated and cannot be applied in this new world of digital warfare. You need a guide that truly understands the new order of trading because what is being presented to the retail trader is incomplete and delayed information. That is why you have not been able to progress as a trader.

I’ll show you that trading is like a game of chess where you must think 4 to 5 steps ahead of your opponent. And this opponent does not care that you have emotions. This is why you are now trading against robots that are programmed with algorithms to confuse and out-think you.
I have learned to see through the smoke and mirrors and catch them make the mistake of a century. Yes, I said mistake of the century. Sometimes you have to know what you are looking for in order to find the right solution. Now it is at your fingertips and when you see that I have streamlined the trade identification process so that anyone can learn how to do this. The only thing on your mind will be, where do I sign up.

You see, while everyone is talking about Moving Averages, Stochastics, MACD, RSI, Elliot Wave, Fibonacci Levels, Regular Volume Indicators, Candle Sticks, Ichimoku Cloud, Pivot Levels, Chart Patterns, etc... They are leading you in the wrong direction. I say this because I have studied the mathematical formulas behind these indicators and now that I know how the banks manipulate their volume and order flow I can show you how they have counter programmed these indicators. Don’t despair. There is always a solution to the problem and an answer to a question.

You will learn that my strategy is defined by 4 algorithms and a systematic five (5) step process that anyone can learn without having to go through a big learning curve. Trading was hard until now. Now it has become too easy to predict, I don’t care if I miss a trade because there will be another that will make up for it. And since I have designed the strategy to give me time to determine the best entry, determine the best stop loss, and even forecast the best exit. Ask yourself. What more can you ask for? I trade with a calm demeanor and my students come the same conclusion. This can’t be that easy. They are right it was never meant to be easy but it has evolved in a strategy that we can trust and believe in. So when others began the race with decoding volume it is Phoenix Trading Strategies that has finished the race and is the winner.

Once you see what I do, you will be inspired to learn to trade without fear and doubt. Yes, fear and doubt? Fear and doubt cloud your decision process because you are unable to analyze the real risk of the trade. How can you when you have never had the right guidance or information?

I now look for a specific set up that identifies the point of control that the buyers and sellers have chosen in each candle where they prefer to buy and sell. Identify where there is real volume divergence, determine the real support or resistance level that they are going to use to rebalance their risk and exposure in the market. Isolate the price level that I can use to make my entry into the trade.

Establish my risk because I now know the price level that will not be penetrating as a support or resistance level because the decision has been made by the market makers to take the trade in the opposite direction and finally forecast the exit to maximize the best outcome of the trade.

**Identifying the Best Currency Pairs and Time of Day to Trade**

I am sure that you are aware that market conditions change and that finding trade opportunities as well. At this particular moment I find that there are better opportunities to find trades at the close of the U.S. Session - 5 pm EST. Why is this?

China has become such a big player that they are affecting the following currency pairs in FX that I see great opportunity almost every day. Those pairs that I like to trade the most are GBP/AUD, GBP/NZD, EUR/AUD, EUR/NZD, NZD/USD, AUD/USD ... You will discover that these are great pairs to trade because they are at this moment more active than the regular pairs such as the USD/JPY, EUR/USD, GBP/USD, USD/CHF etc.
I have found that these pairs usually move somewhere between 50 to 100 pips during the Asian session. But I feel that the Asian session is underrated by many traders because they are looking for trades in the wrong pairs when they should be looking at these six (6) pairs. That would excite everyone's trading and not require those that live in the U.S. to lose sleep and try and trade during the European Session.

I also favor trading the European Session at times because you can find some good trades with the EUR/USD, GBP/USD, and USD/JPY that are much more active. Now if you are like me and you live in Southern California you must value your sleep, so I only trade the European session on Wednesday evening into the early morning of Thursday. Yes, once a week. I find that one cannot make good trading decisions if you have a lack of sleep and are very tired.

I am sure that some of you like trading the U.S. Session but you really can’t find any good trades at this moment because they have already occurred during the Asian and European Sessions. Now this is not to say that this won’t change in a few months.

For the time being I don’t fear trading during the Asian session because others claim that banks and market makers set the trade up for the European session. Which is a lie, that I cannot support because the banks and market makers are always rebalancing their risk in the market and choose the FX Pairs where they have more exposure to do what I call Currency Portfolio Rebalancing.

Think about it they have exposure than you and I because they are constantly in the market 24/7. Remember the retail trader is just in the market from a few minute to a few hours while the banks maintain their positions and exposure for days weeks and months.

Using Phoenix Power Dots

If you are in love with trading as I am, I think you will appreciate the cutting edge technology break through that I bring to the table. I have developed my own proprietary indicators that describe the market from a different perspective than you are accustomed to seeing. So have an open mind because if you were truly interested in learning how decode the banks high frequency order flow trading then you are going to love what I have done.

Let us begin with my pride and joy, a super algorithm that I call the Phoenix Power Dots and you will understand why they are so powerful. These Gold dots announce three things.

They establish a new support or resistance levels that form based on the manipulation of order flow caused by high frequency around those price levels that the banks and market makers are doing to offset their risk to the downside before driving the trade long as the picture below describes. Upon forming they also announce that volume, momentum and liquidity that will come into the market to drive the pair.
As you can see the Phoenix Power Dots in the picture above show that they established the support level that would give an hour notice before they took the trade long. Can you think of any indicator out there that gives you 30 min to an hour notice before volume, momentum and liquidity come in to drive the trade? I can assure you that no such indicator exists, thus making my Phoenix Power Dot Algorithm unmatched. More importantly, you can see that we would be entering a trade long on the 4th or 5th candle because we have an established support level that will not be challenged.

This is because when the Phoenix Power Dots form, the banks/market makers are offsetting their risk to the downside. You will discover that the longer they take to rebalance their short positions the bigger the trend of that trade once it begins.

The Trend Dots, and Trend Stop help to keep you in the trade once it begins to trend. The Pivots outline new support and resistance levels which are price targets as the trade begins to trend. The next Algorithm that you are going to see will change the way you look at Order Flow forever if you have a little understanding of how it works.

You see there are people out there that have complicated indicators to demonstrate their sophistication, but in actuality they have the wrong formula. I am not here to correct them, because they have failed and I have succeeded in decoding what is probably the most complicated program that evades even institutional traders. But I am going to put it at your fingertips. So pay attention because you may have to read this again.

You see all traders want to know, what is the preferred price level in the candle that the buyers prefer to bid (buy) at and what is the price level that the sellers prefer to offer (sell) at. It is the one piece of information that can explain the conspiracy theory of whether the banks communicate amongst themselves.

The new Phoenix Price Identifier does exactly that, because now we can forecast when the buyers are in disagreement with the sellers or vice versa and see with clarity that the trade will change directions within the next two candles.

You see we now have the ability to detect a trade imbalance that you can bank on. You see this is
the actual Footprint you have been waiting for.

The picture below shows Green and Red Dashes in each candle. That is another super Algorithm that we created to show that how the buyer and sellers communicate amongst themselves. I’ll give a brief explanation of what happens here in the picture below.

I have numbered a few candles from 1 to 4. Candle No. 4 being the one where the first Power Dot formed. Normally, I look back 2 to 3 candles once a Power Dot has formed. Why because I want to verify that the banks are going to establish a support level because they are planning on taking the trade long which did happen here.

What you are about to discover will now change the way you look at trading forever. You see how in candle No. 4 the Point of Control (Green Dash) for the buyers it at the top of the candle that will give a two (2) candle warning before they take the trade long. You see even though that candle is bearish the candle is showing an imbalance between buyer and sellers because the buyers are giving the sellers notice that they are not going to allow the trade to go down any further and that they are going to increase their order flow to establish a support level and drive the trade long. So what happened in the next 3 candles after candle No. 4 … Now here is the tricky part. Can you see the same imbalance in candles No. 3,2, and 1? The answer is yes.

When the sellers took control and started to drive the trade short the buyers were not in agreement and communicated to the seller that they were going to slow the trade to short side and eventually take control again to take the trade long. So you see when combining the Phoenix Power Dots with the Phoenix Price Identifier you get the most magical combination. Now this will be better explained in the video so make sure to watch it.

Here comes the 3rd Super Algorithm that we created called the Phoenix Volume Indicator.

What makes this volume indicator different than any other out there for Forex traders is that we synthetically created volume to interpret the High Frequency Order Flow. In the Example below you will see what I mean. This is the only volume indicator that give you a visual describing Volume Divergence but also a numerical value of divergence through the high frequency trading in each candle. Let’s use candle No.3.
You see the Data Box show the buying volume, selling volume and cumulative volume in Panel 2. So the top of the volume bar is represents the maximum buying volume in that bar, the bottom of that bar represents the maximum selling volume and the grey dash represents where that bar settled which in this case was 32 million negative volume. But that 32 million represents order that did not get filled by the buyers. Again you will be able to understand it further in the video.

The Fourth Algorithm is called the Phoenix Congestion Zones. What this indicator does is identify support and resistance levels where Power Dots have formed in the past in different time frames. The example below will show blue and light green lines. The Blue Lines represent strong support levels in the 30 min time frame and the light green line represents strong support levels in the 60 min time frame.

Last but not least is the Market Analyzer that makes identifying trades easy as 1,2,3. I have over 20 pairs on it and I have programmed it to alert me when there are Phoenix Power Dot formations so that I can go to those pairs and take my time analyzing whether they are the type of trade setups that I look for.
Let’s Take a Look at a Trade Example

Here is an example of a trade set up that I normally look for in the GBP/NZD. You can see in the example below that we had a Resistance Level Power Dot Formation, You have an imbalance in the candle giving to two candle warning before going short and you have volume divergence confirming a short trade even further.

SUMMARY

If after you have read this chapter and watched the video. Take the time to look at the GBP/AUD, GBP/NZD, EUR/NZD, EUR/AUD, NZD/USD, AUD/USD at the end of the trading day which is 5 PM EST.

You will confirm for yourself that the banks at this particular moment are trading these pairs aggressively when you compare them to other pairs. More importantly is that if you live here in the U.S. you can trade these during the afternoon or early evening and not lose sleep trying to find a trade during the European Session. I love my sleep, How about you?

Just remember that if you choose to use our cutting edge technology you will be able to pinpoint these trade opportunities every day during the Asian or European Session by just letting the Market Analyzer alert you so you can go to the charts to analyze whether that is the trade you are waiting for or if you should wait for it to develop further. At the end you will love what I have to show you because the one thing that you have is time. Time to analyze and determine your entry, your stop loss and your take profit target. It just can’t get any simpler than this. Remember that information is the most valuable commodity a trader can get his hands on. With our suite of indicators traders get the right information to make great trading decisions.
Trading has changed my life for the better. I hope that I have inspired you to shoot for the stars and believe that there is someone out there that does care about your success and future. Here at Phoenix Trading Strategies we care, that we are willing to educate you and share our wisdom to help you become what for too many is but a dream. We don’t want you to dream about it. We want you to live and enjoy it. Life is getting harder every day for people, don’t let this opportunity pass you by that you miss the boat because you procrastinated.

**THE MOVIE**

“Decoding Market Maker’s Order Flow Footprint”

[CLICK HERE](#) to watch Ricardo demonstrate how to collect 400 pips in one night. With Phoenix Trading Strategies you are able to put the puzzle of information together. Where before you didn’t even know where to start. Now you know where to start and finish.

See how Ricardo trades the rate announcements for the Bank of England using the Phoenix Trading Strategies Indicator, [SIMPLY CLICK HERE](#)

**THE SPECIAL OFFER**

If you wish to learn more about how we trade these markets [YOU CAN SIGN UP FOR OUR FREE WEBINAR ROOM](#) on Mondays and Fridays from 9:00 am EST to 11:00 am EST. Below is a link for you to sign up. It will sign you up for our Free Webinar room as well as give you another gift to read.

**ABOUT THE AUTHOR**

Ricardo Menjivar a licensed Futures and Forex Broker who started trading over 10 years ago as a retail trader like many of you. He decided to become a licensed Futures and Forex Broker in 2008 where he collaborated with a team of software developers to bring out the first Electronic Communications Network platform for the retail FX traders.

As a broker he had the ability to deal with many software developers, CTA, Prop Desk Traders and Money Managers that were trading the Forex Markets. That is where he discovered the protocols that the Market Makers / Banks were using to report their order flow to the Broker Dealers. You will not find a better individual to guide you in this maze of digital warfare. Ricardo chose to create PhoenixTradingStrategies.com in 2014 for the purpose of helping retail traders learn the truth behind the deceit the banks have created to cheat the retail traders out of their money. He has chosen to share his knowledge to help individuals like you to learn how to correctly analyze and trade these markets.

Website: [www.phoenixtradingstrategies.com](http://www.phoenixtradingstrategies.com)
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OPTIONS
If you trade stocks, futures or Forex, you should consider adding weekly options to your trading arsenal. In this chapter you will learn how to trade weekly options using the Ichimoku cloud. We will also focus on four stocks that have weekly options: Apple, Facebook, Tesla and Twitter. Now is one of the best times in history to trade weekly options, and here are a few reasons why:

- Now is the best time in history to trade options. Markets are tighter and more liquid than ever.
- There are over 8,700 stocks and 4,200 stocks with options.
- Of the 4,200 stocks with options, 320 stocks are listed with weekly options.
- The CBOE lists weekly options on indices, stocks and ETFs.
- The CBOE publishes a list of all assets with weekly options.
- Gives traders 52 expirations to trade instead of 12.
- Weekly index options account for 11% of all index options volume in 2011 and this number is increasing over time.

Weekly options give you the opportunity to rake in huge percentage returns in a short period of time.

The CBOE puts out several reports on weekly options and this graphic shows you the huge increase in the volume of weekly options traded since 2010:
Why should you trade weekly options? The answer is twofold. First, stocks are boring. They move 1-3 percent on a big move and you have to outlay huge amounts of capital to own stocks. Google trades at $600 per share. If you wanted to buy 100 shares of Google, you would have to lay out $60,000 dollars.

Since options are leveraged, you can take returns and magnify them. Small moves in stocks can lead to huge returns using weekly options. Whether you are a novice or seasoned trader, anyone can trade weekly options. Green Mountain Coffee weekly options had profits that exploded 1,500 percent, but the stock moved just 6 percent.

It is very difficult to trade stocks, futures or Forex because you are trading against algorithms. High frequency trading and dark pools dominate these spaces, and they are programmed to win. I t’s like playing chess against a computer, it has been programmed to win, and it’s not likely that the average chess play can beat the computer. In weekly options, however, there is a “bluffing” mechanism built in.

A trader isn’t always buying calls to get long on a stock. Maybe they are buying the calls to go short on the stock. The added benefit to weekly options is that dark pools do not currently operate in these markets. Another advantage of trading weekly options is that there are multiple different ways to trade them depending on your trading style and personality.

Let’s take a look at Facebook using a 5-minute chart and the Ichimoku cloud.

The Ichimoku Cloud
The Ichimoku cloud is a highly valuable technical indicator because it looks at the past, the present and the future. It is also free and available on a wide variety of trading platforms. If you’re not familiar with the Ichimoku cloud, here are the basics:

The term Ichimoku means “at first glance.” At first glance, is a stock bearish, bullish or neutral? Where is a good entry, and where is a good exit? Let’s take a look at the components that make up the Ichimoku cloud:

First, let’s look at the tenken-sen (red) line. This line shows the short-term trend and it is calculated as follows:

\[ \text{Tenken-sen line} = \frac{\text{the highest high} + \text{the lowest low}}{2} \text{ over the last 9 periods divided by 2.} \]

This formula has a Fibonacci retracement built into its calculation. It’s an effective indicator because it works better than simple moving averages.
The **Kinjun-sen line** *(green)* shows the longer-term trend. The calculations for this line is:

**Kinjun-sen line** = the highest high + the lowest low over the last 26 periods divided by 2.

So the tenken-sen and kinjun-sen lines show the short-term and longer-term trends in a market at the present time.

**The Senkou Span A is the future short-term trend.**

It forms one of the boundaries of the cloud, and here’s the formula:

**Senkou Span A = tenken-sen line + kinjun-sen divided by 2 plotted 26 periods in the future.**

**Senkou Span B is the future long-term trend.**
It is calculated as follows:

**Senkou Span B = (highest high + lowest low) divided by 2, over the past 52 periods, plotted 26 periods in the future.** If a stock is not making a new high or a new low, then this line is going to be flat.

So we now know the present trend. If you pull up the Ichimoku cloud, you can tell at a glance if the market is bullish, bearish or neutral. If it is above the cloud, it's bullish. If it is below the cloud, it's bearish. If the market is in the cloud, it's neutral. Now we know how the cloud is constructed for the future.

**Kumo is the cloud, and it communicates how hard or easy it is to break the trend.** Since everyone trades differently, there will be different approaches to trading in the cloud. Some people are breakout traders.

In that case, a thinner cloud is preferable, because there are more entries and traps. Thicker clouds have less entries, less traps and wider stops. A medium size cloud has not too many traps and communicated that a trend is strong.
Finally, the Chinkou Span Line is the current closing price, plotted 26 bars back. If you trade a daily chart, it shows you where the price of that stock was a month ago. The Chinkou line gives you a historical perspective. How is your relationship with this stock versus the last month? Is it better or worse?

**How to Apply the Ichimoku Cloud in Trading Weekly Options**

Now that we know the elements of the cloud let’s apply it to this chart of Tesla. The stock rises above the cloud, breaking through the short-term (tenken-sen) and long-term (kinjun-sen) moving averages. The cloud also looks bullish moving forward.

As Tesla breaks the cloud to the upside, you want to plot the ATR, or Average True Range, for Tesla. When the opening bell rings, most institutional traders, mutual funds, hedge funds, etc. have a plan whether they are to buy Tesla and accumulate shares or sell Tesla to offload shares. It is very important to know if institutional traders are buying or selling Tesla.
The ATR measures how much a stock actually moves from high to low during a trading day.

Tesla has an average daily range of about $7.65. In this example, the low of the day for Tesla is $220.65. If we see the stock breaking to the upside, it is reasonable to expect that Tesla will move to $228.30.

So here is the trade:

1. Entry to Open and filled: 40 TSLA weekly 227.5 calls for $0.70
2. Targets: $0.95 and up every $0.25
   a. Sold 10 TSLA Calls for $0.95
   b. Sold 10 TSLA Calls for $1.10
   c. Sold 10 TSLA Calls for $1.35
   d. Sold 10 TSLA Calls for $1.60

The 227.5 calls were bought because they realistically reflected where the market was going to move, given the ATR for Tesla and information revealed in the Ichimoku cloud.

All of these targets were hit by the end of the day making this a huge winner. More about the data we keep on hand to choose this setup will be in the next section.

**How to Select a Target on a Trade**

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<td><strong>Up Days</strong></td>
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<td><strong>Down Days</strong></td>
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<td><strong>Average Range</strong></td>
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It is very important to have the right information to make decisions at your fingertips. If you don’t know the ATR and track record for TSLA over the past year, then you are flying blind. You can manually record this information if you follow TSLA daily, or you can subscribe to services that publish this data.
CONCLUSION

Trading weekly options can add significant income. If you become familiar with the Ichimoku cloud, and you have all of the information you need on the stocks you follow that have weekly options, then you can fine-tune your portfolio to a handful of stocks that are reliable performers.

• Weekly options offer a trader more expirations than standard options.
• Generally speaking, weekly options tend to trade at a lower price than standard options.
• Weekly options expire on Friday, and they are listed on the previous Thursday.
• Weekly options can experience fast, violent moves in delta.
• Can be used as a vehicle for trading during the day in stocks like FB, TWTR, AAPL and TSLA

THE MOVIE

To watch the video of Andrew discussing the materials shared in his chapter, CLICK HERE

Andrew Keene does an excellent job of explaining why weekly options can be a powerful addition to your trading arsenal. He covers the Ichimoku cloud and it applications for weekly options in depth.

SPECIAL OFFER

Learn how to trade weekly options using the Ichimoku Cloud. CLICK HERE

ABOUT THE AUTHOR

Prior to founding AlphaShark Trading in 2011, Andrew Keene worked as a proprietary trader at the Chicago Board Options Exchange.

Keene graduated from Botta Capital’s clerk-to-trade program to become known as one of fastest traders to ‘make a market.’ As a market maker he traded options in over 125 stocks, including Apple, General Electric, Goldman Sachs, and Yahoo.

Keene left Botta Capital to co-found KATL Group, where he was the largest, independent on-the-floor Apple trader in the world.
The sale of a naked put is often a very attractive strategy that is conservative, can out-perform the market, can have a high-win rate, and can be analyzed and sometimes constructed in non-market hours.

In this article, we’re going to look at some of the background on put writing, show a systematic way to select which puts are best to write, and finally explain how you can implement them into your trading arsenal “outside normal hours.”

The methodologies described herein are ones that I have confidence in, for they have produced profitable results in actual recommendations and in trading accounts that we manage over time. However, there may be other profitable approaches as well. I am not maintaining that this is the only way to analyze put writes – only that this is one viable way.

**Option Selling is Conservative**

The basic concept of option writing is a proven investment technique that is generally considered to be conservative. It can be implemented as “covered call writing” or, alternatively, “naked put writing” which is the equivalent strategy to covered call writing. In either case, one is selling a wasting asset, and over time the cumulative effect of this selling will add return to a portfolio, as well as reducing the volatility of a purely equity portfolio.

People sometimes stay away from uncovered put writing because they hear that it is "too risky" or that it doesn't have a sufficient risk-reward. The truth is that put selling, when secured by cash, is actually less risky than owning stock outright and can out-perform the broad market and the covered-writing index over time.

**Covered Writes vs. Naked Put Sales**

First of all, it should be understood that the two strategies – naked put writing and covered call writing – are equivalent.

Two strategies are considered equivalent when their profit graphs have the same shape (Figure 1). In this case, both have fixed, limited upside profit potential above the striking price of the written option, and both have downside risk below the striking price of the written option.
One very compelling, yet simple argument in favor of naked put writing is this: commission costs are lower. A covered write entails two commissions (one for the stock, the other for the written call). A naked put requires only one. Furthermore, if the position attains its maximum profitability – as we would hope that it always does – there is another commission to sell the stock when it is called away. There is no such additional commission for the naked put; it merely expires worthless.

Nowadays, commission costs are small in deeply discounted accounts, but not everyone trades with deep discount brokers. Moreover, even there, it doesn’t hurt to save a few dollars here and there. So, a naked put sale will have a higher expected return than a covered call write, merely because of reduced commission costs.

Another factor in utilizing naked puts is that it is easier to take a (partial) profit if one desires. This would normally happen with the stock well above the striking price and with a few days to a few weeks remaining before expiration. At that time, the put is (deeply) out of the money and will generally be trading actively, with a fairly tight market. In a covered call write, however, the call would be deeply in-the-money.

Such calls have wide markets and virtually no trading volume. Hence, it might be easy to buy back a written put for a nickel or less, to close down a position and eliminate further risk. But at the same time, it would be almost impossible to remove the deeply in-the-money covered call write for 5 or 10 cents over parity.

The same thinking applies to establishing the position, which we normally do with the stock well above the striking price of the written option. In such cases, the call is in-the-money – often fairly deeply – while the put is out-of-the-money. Thus the put market is often tighter and more liquid and might more easily be “middled” (i.e., traded between the bid and ask). Again, this potentially improves returns. The above facts regarding naked put writing are generally known to most investors. However, many are writing in IRA or other retirement accounts, or they just feel more comfortable owning stock, and so they have been doing traditional covered call writing – buying stock and selling calls against it.
But it isn’t necessary, and it certainly isn’t efficient, to do so. A cash-based account (retirement account or merely a cash account) can write naked puts, as long as one has enough cash in the account to allow for potential assignment of the written put. Simply stated, one must have cash equal to the striking price times the number of puts sold (times $100, of course). Technically, the put premium can be applied against that requirement.

Most brokerage firms do allow cash-based naked put writing, however, some may not. Some firms may require that you obtain “level 2” option approval before doing so, but that is usually a simple matter of filling out some paperwork. If your brokerage does not allow cash-based putselling, you can always move the account to one that does, like Interactive Brokers. Once you write a naked put in a cash account, your broker will “set aside” the appropriate amount of cash. You can’t withdraw that cash or use it to buy other securities – even money market funds.

Most put sellers operate in a margin account, however, using some leverage (if they wish). One of the advantages of writing naked puts on margin is that the writer can gain a fair amount of leverage and thus increase returns if he feels comfortable with the risk (as a result, we have long held that naked put writing on margin makes covered call writing on margin obsolete). That is not the case with cash-based naked put writing, though. The returns are more in line with traditional covered call writing.

In summary, put writing is our strategy of choice over covered call writing in most cases – whether cash-based or on margin. Later, when we discuss index put selling, you will see that there are even greater advantages to put writing on margin.

Put-Selling Can Outperform the Market

The Chicago Board Option Exchange (CBOE) has created certain benchmark indices so that investors can compare covered call writing ($BXM), naked put selling ($PUT), and the performance of the S&P 500 Index ($SPX). Figure 3 compares these indices, with all three aligned on June 1, 1988.

FIGURE 2
It is clear from the Figure 2 that naked put writing ($PUT) is the superior performer of these benchmark indices. For this reason, naked put writing is the preferred option-writing strategy that we employ in our newsletter services. Since covered call writing is equivalent to naked put selling – and since Figure 2 merely shows dollars of profit, not returns – you might think that the covered call writing graph and the naked put writing graph would be quite similar.

But there is something more to index put writing – especially writing puts on the S&P 500 index ($SPX or SPY, or even e-mini S&P futures): out-of-the-money puts are far more expensive than out-of-the-money calls.

This is called a “volatility skew,” and it has been in effect since the Crash of ’87. Institutional put buyers want to own $SPX (and related) puts for portfolio protection, and they don’t seem to care if they constantly pay too much for them. Conversely, other large institutions may be selling covered calls as protection, thereby depressing the prices of those calls. Some institutions do both – buy the puts and sell the calls (a collar). Thus, the main reason that $PUT outperforms $BXM by so much in Figure 3 is that the out-of-the-money puts being sold are far more expensive (in terms of implied volatility) than are any out-of-the-money calls being sold.

We recommend put ratio spreads and weekly option sales in The Daily Strategist newsletter as a way to take advantage of this. Moreover, we have put together a complete strategy – called Volatility Capture – that we use in our managed accounts.

In the Volatility Capture Strategy, we blend all aspects together to produce a reduced volatility strategy that can make money in all markets (although it will not keep pace on the upside in a roaring bull market). The primary focus of the strategy is selling $SPX puts, but there are two forms of protection in place as well. McMillan Analysis Corp. is registered as both a Registered Investment Advisor (RIA) and as a Commodity Trading Advisor (CTA), so we are able to offer the strategy to both non-retirement and retirement accounts.

Our complete track record and other pertinent details are available by request. For preliminary information and a summary of our track record, visit our money management web site: http://www.mcmillanasset.com. For more specific information, email us at the following address: info@optionstrategist.com, or call us at 800-768-1541.

**Positions Can Be Hedged**

One of the main arguments against put-selling is that the draw-downs can be large in severe market downturns. One way to mitigate these draw-downs would be to hedge the entire put-sale portfolio. For example, one may attempt to offset the market risk that is inherent to option writing by continually hedging with long positions in dynamic volatility-based call options as we do in our managed accounts.

This is really a topic for another article, but the gist of this protection is to buy out-of-the-money $VIX one-month calls and roll them over monthly. Buying longer-term $VIX calls does not work, for only the front-month contracts come anywhere close to simulating movements in $VIX (and in $SPX).
The Odds Can Be in Your Favor

As evidenced by the $PUT Index, nakedput-writing is a conservative strategy that has the potential to out-perform the broad market over time. When implemented correctly, the strategy can have high rates of success and can also be hedged against large stock market-drawdowns. For example, The Daily Strategist and Option Strategist Newsletters have produced a combined 89.4% and 85.6% winners in their index and equity naked put-selling/covered-writing trades since the newsletter started recommending them in May of 2007 and April of 2004 respectively. Investors looking for put-selling trading ideas and recommendations on a daily or weekly basis may be interested in subscribing to one of those services.

Trading Outside Normal Hours

Naked put-selling is an especially attractive strategy for do-it-yourself investors who do not have time in their day to watch the markets since positions do not need to be monitored closely all day. Put-writers can sit easy so long as the underlying stock remains above the strike price of the option sold. If the stock is above the strike price at expiration, the option simply expires. The option-seller then realizes the initial credit and no closing action needs to be taken. If the position needs to be exited early, usually due to the fact that the stock has dropped below the strike price of the short option, the position can be closed out automatically via a contingent stop loss order.

You cannot trade options outside of standard stock market hours; however, depending on your brokerage, you may be able to place your opening limit order outside the stock market hours. In this case, your order would simply be placed in a queue for processing once the market opened. If your broker doesn’t allow you to place an orderk outside market hours, you would only need a couple of minutes during the day to either call your broker or hop on your trading software to place your trade.

Another big benefit to naked put-selling is that it doesn’t take much analysis to find good potential trading candidates. In fact, as we do for our newsletters, all of the initial analysis can be done at night with computer scans and a little bit of discretion. The following section will discuss our approach to finding naked put-sale candidates for our newsletters each night.

Choosing What Put To Sell

For the most part, we choose our put-selling positions for our various publications based on data that is available on The Strategy Zone, a subscriber area of our web site consisting of various data scans and lists of potential trades compiled by our computer analysis. One could do the same sort of analysis yourself, as a subscriber to “the Zone.”

On top of that, our Option Workbench provides additional analytical capability for that data.

Our computers do a lot of option theoretical analysis each night – from computer Greeks to analyzing which straddles to buy to graphs of put-call ratios. The Zone was started about 10 years ago, when I decided to make the outputs of our nightly programs available to anyone who was interested in paying a modest amount of money to view them. These analyses are still the basis for almost all of our recommendations.
Expected Return

Expected return is the crux of most of these analyses. For those of you not familiar with the concept, I will briefly explain it here.

Expected return is a logical way of analyzing diverse strategies, breaking them down to a single useful number. Expected return encompasses the volatility of the underlying instrument as a major factor. However, it is only a theoretical number and is not really a projection of how this individual trade will do. Rather, expected return is the return one could expect to make on a particular trade over a large number of trials.

For example, consider a fair die (i.e., one that is not “loaded”). There is an equal, one-sixth chance that any number will come up on a particular roll of the die. But does that mean if I roll the die six times, I will get one once, two once, three once, etc.? No, of course not. But if I roll the fair die 6 million times I will likely have rolled very nearly 1 million ones, 1 million twos, etc. We are applying this same sort of theory to position analysis in the option market.

My Approach

For naked put selling, the first thing I look at is the file of the highest potential returns. These are determined strictly mathematically, using expected return analysis. This list is going to necessarily have a lot of “dangerous” stocks listed as the best covered writes. Typically, these would be biotech stocks or other event-driven small-cap stocks.

Next, I reduce the size of the list. I have a program that screens out a subset of these, limiting the list to stocks in the S&P 500 Index only. Individual investors might have other ways of screening the list.

If returns at the top of the list are “too good to be true,” then one can assume that either 1) there is a volatile event on the horizon (meaning the lognormal distribution assumption is wrong), or 2) the volatility assumption used in the expected return analysis is wrong. Throw out any such items. These would likely have annualized expected returns in excess of 100% – an unrealistic number for a naked put write.

However, weekly put sales might sometimes be in that range. Those would have to be looked at separately. In general, if the underlying stock is going to report earnings during the week in question, the put sale should probably be avoided.

At this point, I select all the writes with annualized expected returns higher than 24% (my minimum return for writing puts on margin), and re-rank them by probability of profit. Once that is done, I select those with a probability of profit of 90% or higher, and re-rank them by annualized expected return. In other words, I am still interested in high returns, but I want ones with plenty of downside protection. This screening process knocks out most of the list, usually as much as 90% of the initial put writing candidates.

From there the analysis calls for some research, for at this point it is necessary to look at the individual stocks and options to see if there is something unusual or especially risky taking place. Some stocks seem to be on the list perennially – Sears (SHLD), for example, perennially has expensive options due to its penchant for drastic moves.
Another useful piece of information is the Percentile of Implied Volatility. That is listed in the data, and if it is low (below the 50th percentile), then I will likely not write that particular put. Recall that expected return needs a volatility estimate – and for these naked put writes we use the current composite implied volatility. However, if there is the possibility that volatility could increase a lot (i.e., if the current composite implied volatility is in a fairly low percentile), then there is a danger that actual stock movements could be much more volatile than we have projected. Hence, that is not a naked put that I would want to write.

I also look at the absolute price of the option. I realize that is taken into account in the expected return analysis, but I personally do not like writing naked options selling for only 20 cents or so, unless it’s on a very low-priced stock. The expiration date of the option is important to me as well. I would prefer to write one- or two-month options, because there is less time for something to go wrong. Occasionally, if there is a special situation that I feel is overblown on the downside, I will look into writing longer-term options but that is fairly rare.

These further restrictions reduce the number of writing candidates down to a fairly manageable level. At this point, it is necessary to look at the individual charts of the stocks themselves. It’s not that I am trying to predict the stock price; I really don’t care what it does as long as it doesn’t plunge. Consequently, I would not be interested in writing a put on a stock, if that stock is in a steep downtrend. More likely, the chart can show where any previous declines have bottomed. I would prefer to see a support level on the chart, at a price higher than the striking price that I am considering writing. This last criterion knocks out a lot of the remaining candidates.

Some may say that the stock chart is irrelevant, if the statistical and other criteria are met. That’s probably true, but if I have my choice of one that has chart support above the strike and one that doesn’t, I am going with the one that does every time.

The potential put selling candidates that remain at this point are generally few, and are the best writing candidates. But I will always check the news regarding any potential write, just to see if there is something that I should know. By “news," I mean earnings dates, any potential FDA hearing dates, ongoing lawsuits, etc. You can easily get a lot of this information by looking up the company on Yahoo Finance or other free financial news sites.

The reason that this news check is necessary is that these puts are statistically expensive for some reason. I’d like to know what that reason is, if possible. The previous screens will probably have weeded out any FDA hearing candidates, for their puts are so dramatically expensive that they would have alarm-raising, overly high expected returns.

But what about earnings? Studies show that the options on most stocks increase in implied volatility right before the earnings. In general this increase is modest – a 10% rise in implieds, or so. But sometimes the rise is much more dramatic. Those more dramatic situations often show up on volatility skew lists and are used as dual calendar spreads in earnings-driven strategies. But as far as naked put writing goes, if the expected return on the put is extraordinary, then that is a warning flag. If a position meets all of these criteria, we officially consider it acceptable to establish and may recommend it in a newsletter.
I realize that many put sellers (or covered call writers) use a different method: they pick a stock they “like” first, and then try to find an option to write. By this “fundamental” approach, one is probably writing an option that has a very low expected return – a la the calls on almost every “dividend stock” in the current market. They compensate for this by writing the call out of the money, so that they will have some profit if the stock rises and gets called away.

To me, that is completely the wrong way to go about it. If you like the stock, why not buy it and buy a put, so you have upside profit potential? What is the obsession with writing a covered call? Rather than that “fundamental” or “gut” approach, the use of expected return as a guide to the position makes this a “total return” proposition – where we are not overly concerned with (upward) stock movement, but rather more concerned with the combination of option premium, stock volatility, rate of return, and probability of winning. To me, that is the correct approach.

**Selecting Naked Put Writes From OWB**

Option workbench makes finding actionable naked put-sale trades that fit all of the criteria in my aforementioned approach quite easy. Once you are logged into the software, one would first access the “broad” scan of potential candidates by hovering over “Spread Profiles” and clicking on Naked Puts.

A list of all the naked put writes that have annualized expected returns of greater than 4% will be shown (that 4% threshold would move higher if T-Bills ever yield anything besides 0%!). Using the closing data from June 17, 2015, there were 14,449 such put writes! Obviously, one has to cut that list down to a more workable size.

There are a lot of 32 column headings here, and most are statistical in nature. To me, the two most important pieces of data are 1) annualized expected return, and 2) downside protection (in terms of probability – not percent of stock price). Both of these are volatility-related, and that is what is important in choosing put writes. You want to ensure that you are being compensated adequately for the volatility of the stock.

If you click on “A Exp Rtn” (which is Annualized Expected Return), the list quickly sorts by that data. However, in my opinion, it is not a good idea to just sell the put with the highest expected return. The computer calculations make certain assumptions that might not reflect the real world.

For example, if there is a large possibility that the stock might gap downwards (an upcoming earnings report, for example), the puts will appear to be overly expensive. Any sort of upcoming news that might cause the stock to gap will raise the price of the puts. You probably don’t want to write such puts, even though the computer may “think” they are the best writes to establish.

In order to overcome these frailties, one would use the “Filter Editor” function of OWB. You can construct a filter to include or exclude writes that do/don’t meet your individual criteria.
If you click on the button (above the data) that says “Profile Filter Editor,” a box will appear. Figure 3 shows the box as it appears in my version of OWB. On the left are three filter names: DTOS Noearnings, DTOS w/ earnings, and TOS No Earnings (mine). In the center of Figure 3, the actual formulae for the filter “TOS No Earnings” are shown.

To apply the formulae, merely click the “Apply” button (lower right of Figure 3). In this case, the list of 14,449 potential naked put writes shrinks to 64 candidates!

Here are the formulae that appear in Figure 3:

```
and( InList('S&P 500'), days > 2, days <= 90, aexprtn >= 24%, PrDBE >= 90%, PutPrice >= 0.25, expdate < nextearnings )
```

- **InList (‘S&P 500’)**: include only stocks that are in the $SPX Index. This way, we are not dealing with extremely small stocks that can easily gap by huge amounts on corporate news.

- **Days>2, days <= 90**: include only writes whose expiration date is between 2 and 89 days hence.

- **Aexprtn >= 24%**: only include writes whose annualized expected return is at least 24%

- **PrDBE >= 90%**: only consider stocks that have less than a 10% chance of being below the downside breakeven (DBE) point at expiration.

- **PutPrice >= 0.25**: only consider puts that are selling for at least 0.25.

- **expdate < nextearnings**: only consider put sales on stocks that are not going to report earnings while the put sale is in place. Stocks are far too volatile on earnings announcements, and this will avoid the main cause of downside gaps: poor earnings.
These criteria produce a strong list of put writing candidates. There will be no earnings announcements to cause downside gaps. There is a 90% chance of making money. Over time, writes such as these should produce returns in line with the expected returns – greater than 24%, using this formula. You can add many other filters (or delete some of these if you wish). It is easy to do within OWB, and I encourage you to experiment with it.

Once the list has been filtered, there is still work to do. Why are these remaining puts so expensive? One might have to look at the news for certain stocks to see why. At the current time, health care stocks have very expensive options: ET, HUM, THC, for example. Not only are these inflated because of takeover rumors, there is also supposedly some Medicare-related pricing edicts coming soon from the U.S. Government. Those things could cause downside volatility; however, one may feel there is enough downside protection to warrant selling the puts. If that were the case, you would have found your trade!

### Placing Your Trade

After you have found your trade the next step would be to determine how many puts to sell. Generally, for a margin account, most brokerages have a margin requirement of 25% of the strike-price of the short put you are selling less the premium received for the sale of the put less the out-of-the-money amount, subject to a 10% minimum. We generally write out-of-the-money puts and set aside enough margin so that the stock has room to fall to the striking price – the level where we generally would be closing the position out. This conservative approach decreases the risk of a margin call if the stock moves against your position.

For example, if you sell a naked put with a strike price of 50 for a credit of 1.00, the margin we would set aside would be $1,150. The formula below illustrates this:

\[
\text{Strike Price} \times 25\% \times \frac{\text{Shares per Option}}{\text{Premium Received}} - \text{Margin Requirement} = \$1,150
\]

For cash accounts, one would have to set aside 100% of the strike price less the put premium. So, for the prior example, the cash collateral would be $4,900 (50 x 100 – 100).

We generally suggest that one puts no more than 5% of their total portfolio value in any particular put-sale for margin accounts, and 10% for cash accounts. If you had a $100,000 margin account, you would want to allocate no more than $5,000 to any particular put sale. Using the prior example, you would then sell 4 naked puts ($5,000 / $1,150 = 4.35). Cash based accounts would sell 2 contracts (($100,000 x 0.10) / $4,900 = 2.04).

The next step would be determine your stop. Generally, we like to set our stops at the downside break-even level at expiration. This level can easily be calculated with the following formula:

\[
\text{Strike Price} - \text{Put Premium} = \text{Downside Break-Even Level}
\]

However, if you cannot watch your position throughout the day, it may make sense to set your intraday stop at the strike price. This means that if the stock trades below the strike price you are short, the position would be automatically closed. That way, there would be no risk of assignment if the stock were below your strike at expiration.
Now that you have determined your quantity and stop, the final steps would be to enter your order (before the open with your brokerage’s order queue if possible), set your stop (via a contingent stop order if your brokerage allows) and monitor. Those who cannot generally participate during normal market hours and whose brokerages don’t allow order queuing and contingent stops, would only need a few minutes to initially place the trade. Furthermore, they would only have to monitor the trade near the market close each day to see if the stock is below their stop. If it were, one would simply buy back the put to close the position.

THE MOVIE

Do-It-Yourself with Option Workbench

Those looking to analyze potential naked put-writes themselves, can do so with ease with our *Option WorkBench* (OWB) software. This is the overlay service to our Strategy Zone, and it provides the ability to sort the reports in various ways. More importantly, it allows one to construct his own analysis formulae. For information on the various features and capabilities of OWB

WATCH THIS VIDEO HERE!

THE SPECIAL OFFER

Find naked put-sale candidates on your own with a free 30-day trial to Option Workbench. Feel free to use my filter or create one of your own! Scroll to the bottom and select the one month subscription ($135) and enter the Coupon Code **FREEOWB** at checkout. No credit card is required. Subscription will not automatically renew upon completion.

FOR MORE INFORMATION AND TO SUBSCRIBE, CLICK HERE!

ABOUT THE AUTHOR

Lawrence G. McMillan is the President of McMillan Asset Management and McMillan Analysis Corporation, which he founded in 1991. He is perhaps most well-known as the author of *Options As a Strategic Investment*, the best-selling work on stock and index options strategies. The book – initially published in 1980 – is currently in its fifth edition and is a staple on the desks of many professional option traders. His career has taken two simultaneous paths – one as a professional trader and money manager, and the other as an educator and proponent of using option strategies.

In these capacities, he currently authors and publishes "The Option Strategist," a derivative products newsletter covering options and futures, now in its 24th year of publication. His firm also edits and publishes three daily newsletters, as well as option letters for Dow Jones. He has spoken on option strategies at many seminars and colloquia, and also occasionally writes for and is quoted in financial publications regarding option trading. Mr. McMillan is the recipient of the prestigious Sullivan Award for 2011, awarded by the Options Industry Council in recognition of his contributions to the Options Industry.
For those not familiar with the straddle strategy, it is a neutral strategy in options trading that involves the simultaneous buying of a put and a call on the same underlying, strike and expiration. The trade has a limited risk (which is the debit paid for the trade) and unlimited profit potential. If you buy different strikes, the trade is called a strangle.

You execute a straddle trade by simultaneously buying the call and the put. You can leg in by buying calls and puts separately, but it will expose you to directional risk. For example, if both calls and puts are worth $5, you can buy a straddle for $10. If you buy the call first, you become bullish - if the stock moves down, the calls you own will decrease in value, but the puts will be more expensive to buy.

**The Options Guide explains straddle:**

Long straddle options are unlimited profit, limited risk options trading strategies that are used when the options trader thinks that the underlying securities will experience significant volatility in the near term.

Maximum loss for long straddles occurs when the underlying stock price on expiration date is trading at the strike price of the options bought. At this price, both options expire worthless and the options trader loses the entire initial debit taken to enter the trade.

**INVESTOPEDIA explains straddle:**

Straddles are a good strategy to pursue if an investor believes that a stock's price will move significantly, but is unsure as to which direction. The stock price must move significantly if the investor is to make a profit. Should only a small movement in price occur in either direction, the investor will experience a loss. As a result, a straddle is extremely risky to perform. Additionally, on stocks that are expected to jump, the market tends to price options at a higher premium, which ultimately reduces the expected payoff should the stock move significantly.
Example

With AAPL currently trading at $130.28, you could buy AAPL straddle by buying 130 put and 130 call. This is what the P/L chart would look like:

![P/L Chart]

### How straddles make or lose money

A straddle is a vega positive, gamma positive and theta negative trade.

That means that all other factors equal, the straddle will lose money every day due to the time decay, and the loss will accelerate as we get closer to expiration. For the straddle to make money, one of two things (or both) has to happen:

1. The stock has to move (no matter which direction).

2. The IV (Implied Volatility) has to increase.

A straddle works based on the premise that both call and put options have unlimited profit potential but limited loss. While one leg of the straddle loses up to its limit, the other leg continues to gain as long as the underlying stock rises, resulting in an overall profit.
When the stock moves, one of the options will gain value faster than the other option will lose, so the overall trade will make money. If this happens, the trade can be close before expiration for profit. In many cases IV increase can also produce nice gains since both options will increase in value as a result from increased IV.

When to use a straddle

Straddles are a good strategy to pursue if you believe that a stock's price will move significantly, but unsure as to which direction. Another case is if you believe that IV of the options will increase - for example, before a significant event like earnings. IV (Implied Volatility) usually increases sharply a few days before earnings, and the increase should compensate for the negative theta.

If the stock moves before earnings, the position can be sold for a profit or rolled to new strikes. This is one of my favorite strategies that we use in our model portfolio for consistent gains.

Many traders like to buy straddles before earnings and hold them through earnings hoping for a big move. While it can work sometimes, personally I don’t like it. The reason is that over time the options tend to overprice the potential move.

Buying a straddle before earnings

Few years ago, I came across an excellent book by Jeff Augen, “The Volatility Edge in Options Trading.” One of the strategies described in the book is called “Exploiting Earnings - Associated Rising Volatility.” Here is how it works:

1. Find a stock with a history of big post-earnings moves.
2. Buy a strangle for this stock about 7-14 days before earnings.
3. Sell just before the earnings are announced.

IV (Implied Volatility) usually increases sharply a few days before earnings, and the increase should compensate for the negative theta. If the stock moves before earnings, the position can be sold for a profit or rolled to new strikes. Like every strategy, the devil is in details. The following questions need to be answered:

1. Which stocks should be used? I tend to trade stocks with post-earnings moves of at least 5-7% in the last four earnings cycles.
2. When to buy? IV starts to rise as early as three weeks before earnings for some stocks and just a few days before earnings for others. Buy too early and negative theta will kill the trade. Buy too late and you might miss the big portion of the IV increase. I found that 5-7 days usually works the best.
3. Which strikes to buy? If you go far OTM (Out of The Money), you get big gains if the stock moves before earnings. But if the stock doesn't move, closer to the money strikes might be a better choice.

Under normal conditions, a straddle or a strangle trade requires a big and quick move in the underlying. If the move doesn't happen, the negative theta will kill the trade. In case of the pre-earnings strangle, the negative theta is neutralized, at least partially, by increasing IV.

In some cases, the theta is larger than the IV increase and the trade is a loser. However, the losses in most cases are relatively small. Typical loss is around 7-10%; in some rare cases it might reach 20-25%. But the winners far outpace the losers and the strategy is overall profitable.

Market environment also plays a role in the strategy performance. The strategy performs the best in a volatile environment when stocks move a lot. If none of the stocks move, most of the trades would be around breakeven or small winners. Fortunately, over time, stocks do move. In fact, a big chunk of the gains come from stock movement and not IV increases. The IV increase just helps the trade not to lose in case the stock doesn't move.

Would you like to rent your options for free?

I would like to explain the "underneath" of this strategy. Let's take a step back. When someone starts trading options, the first and most simple strategy is just buying calls (if you are bullish) or puts (if you are bearish). However, when doing that, you must be right three times: on the direction of the move, the size of the move and the timing. Be wrong just in one of them - and you lose money. You will also find out very quickly that options are a wasting asset. They lose value every day. If the stock doesn't move, the option is losing value. If it moves but not fast enough, it is losing value as well. It is called a negative theta. You can read more about the options Greeks here.

Another factor having a great impact on options value is IV (Implied Volatility). Rising IV will increase the option value, falling IV will decrease it. For volatile stocks, IV usually becomes extremely inflated as the earnings approach and collapses just after the announcement. This is why if you buy calls or puts before earnings and hold them through the announcement, you might still lose money even if the stock moves in the right direction.

Having said that, I would like to achieve the following three goals when trading options:

1. Not to bet on the direction of the stock.
2. To minimize the effect of the time decay.
3. To take advantage of the rising IV.

The strategy of buying a strangle (or a straddle) before earnings fits all three parameters. First of all, since I'm buying both calls and puts, I'm not betting on the direction of the stock.
Second, I'm holding for a very short period of time, so the impact of the time decay is minimal.

Third, since I'm buying a few days before earnings, the IV in most cases will rise into earnings. However, I will be selling just before the announcement, so the options will not suffer from the IV collapse.

Now, few scenarios are possible.

1. The IV increase is not enough to offset the negative theta and the stock doesn't move. In this case the trade will probably be a small loser. However, since the theta will be at least partially offset by the rising IV, the loss is likely to be in the 7-10% range. It is very unlikely to lose more than 10-15% on those trades if held 2-5 days.

2. The IV increase offsets the negative theta and the stock doesn't move. In this case, depending on the size of the IV increase, the gains are likely to be in the 5-20% range. In some rare cases, the IV increase will be dramatic enough to produce 30-40% gains. For example, AAPL strangle could be purchased on Friday before October 2011 earnings and sold the following Monday for 32% gain.

3. The IV goes up followed by the stock movement. This is where the strategy really shines. It could bring few very significant winners. For example, when Google moved 7% in the first few day of July 2011, a strangle produced a 178% gain. In the same cycle, Apple's 3% move was enough to produce a 102% gain. In August 2011 when VIX jumped from 20 to 45 in a few days, I had the Disney DIS strangle and few other trades doubled in a matter of two days.

This is why I call those trades "renting a strangle/straddle for free" (or almost free). Even under the most unfavorable conditions, your loss is usually limited to 7-10%. But if you get a decent IV increase and/or a stock movement, the gains could be much higher.

Another big advantage of this strategy is the fact that it is not exposed to the gaps in the stock prices - in fact, it benefits from them. So you cannot suddenly find yourself down 30-50%. You can always control the losses and limit them.

Selection of strikes and expiration

I would like to start the trade as delta neutral as possible. That usually happens when the stock trades close to the strike. If the stock starts to move from the strike, I will usually roll the trade to stay delta neutral. To be clear, rolling is not critical - it just helps us to stay delta neutral. In case you did not roll and the stock continues moving in the same direction, you can actually have higher gains. But if the stock reverses, you will be in a better position if you rolled.

I usually select expiration at least two weeks from the earnings, to reduce the negative theta. The further the expiration, the more conservative the trade is. Going with closer expiration increases both the risk (negative theta) and the reward (positive gamma).

If you expect the stock to move, going with closer expiration might be a better trade. Higher positive gamma means higher gains if the stock moves. But if it doesn't, you will need bigger IV spike to offset the negative theta. In a low IV environment, further expiration tends to produce better results.
Profit Target and Stop Loss

My typical profit target on straddles is 10-15%. I might increase it in more volatile markets. I usually don't set a stop loss on a straddle. The reason is that the upcoming earnings will usually set a floor under the price of the straddle. Typically those trades don't lose more than 5-10%. I believe our biggest loss on a straddle was around 25%, and only a handful of them have lost more than 20% since inception.

The biggest risk of those trades is pre-announcement. If a company pre-announces earnings before the planned date, the IV of the options will collapse and the straddle can be a big loser. However, pre-announcement usually means that the results will be not as expected, which in most cases causes the stock to move. So most of the time, the loss will not be too high, especially if there is still more than two weeks to expiration. But this is a risk that needs to be considered. As a rule, I will always close those trades before earnings.

Why I don't hold through earnings

Some people would argue that selling before earnings is premature. Why not to hold through earnings, hoping for a big move?

The problem is you are not the only one knowing that earnings are coming. Everyone knows that those stocks move a lot after earnings, and everyone bids those options. Following the laws of supply and demand, those options become very expensive before earnings. The IV (Implied Volatility) jumps to the roof. The next day the IV crashes to the normal levels and the options trade much cheaper.

For example, holding straddles on stocks like AMZN or NFLX could be very profitable during some of the last cycles. However, we have to remember that those stocks experienced much larger moves than their average move in the last few cycles. Chances are this is not going to happen every cycle. There is no reliable way to predict those events. The big question is the long term expectancy of the strategy. It is very important to understand that for the strategy to make money it is not enough for the stock to move. It has to move more than the markets expect. In some cases, even a 15-20% move might not be enough to generate a profit.

Some people might argue that if the trade is not profitable the same day, you can continue holding or selling only the winning side till the stock moves in the right direction. It can work under certain conditions. For example, if you followed the specific stock in the last few cycles and noticed some patterns, such as the stock continuously moving in the same direction for a few days after beating the estimates. Another example is holding the calls when the general market is in uptrend (or downtrend for the puts). However, it has nothing to do with the original strategy. From the minute you decide to hold that trade, you are no longer using the original strategy. If the stock didn't move enough to generate a profit, you must be ready to make a judgment call by selling one side and taking a directional bet. This might work for some people, but the pure performance of the strategy can be measured only by looking at a one day change of the strangle or the straddle (buying a day before earnings, selling the next day).
The bottom line:

Over time the options tend to overprice the potential move. Those options experience huge volatility drop the day after the earnings are announced. In most cases, this drop erases most of the gains, even if the stock had a substantial move.

Jeff Augen, a successful options trader and author of six books, agrees:

“There are many examples of extraordinary large earnings-related price spikes that are not reflected in pre-announcement prices. Unfortunately, there is no reliable method for predicting such an event. The opposite case is much more common – pre-earnings option prices tend to exaggerate the risk by anticipating the largest possible spike.”

It doesn’t necessarily mean that the strategy cannot work and produce great results. However, in most cases, you should be prepared to hold beyond the earnings day, in which case the performance will be impacted by many other factors, such as your trading skills, general market conditions, etc.

Test Case #1

On July 28, 2014 we purchased EXPE 80 straddle expiring in 18 days. We paid $8.45 for the trade. The IV of the options was around 59%.

Two days later, the IV of the options jumped to 73% and we sold the straddle at $9.85, for 16.6% gain. An hour later, IV reached 80%, and the straddle could be sold for 26% gain. The stock itself moved less than 1%.
Test Case #2

On June 24, 2014, we purchased MSFT $42 straddle expiring in August. We were able to roll the straddle twice, and finally closed it on July 17 for 35.4% gain. In this case, most of the gains came from the stock movement.

CONCLUSION

Buying a straddle or a strangle few days before earnings can be a very profitable strategy if used properly. Of course, the devil is in the details. There are many moving parts to this strategy:

1. When to enter?
2. Which stocks to use?
3. How to manage the position?
4. When to take profits?

And much more. But overall, this strategy has been working very well for us.
Here is an example how this strategy performed during the August 2011 crisis:

<table>
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<th>Date</th>
<th>Days</th>
<th>Strategy</th>
<th>Return</th>
</tr>
</thead>
<tbody>
<tr>
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<td>08/20/11</td>
<td>11</td>
<td>CRM strangle</td>
<td>41.5%</td>
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<td>08/17/11</td>
<td>8</td>
<td>NTAP strangle</td>
<td>19.0%</td>
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<td>5</td>
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<tr>
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<tr>
<td>08/09/11</td>
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<td>5</td>
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<td>7</td>
<td>GRMN strangle</td>
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<td>8</td>
<td>CF strangle</td>
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<td>08/08/11</td>
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<td>RL strangle</td>
<td>124.2%</td>
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</table>

THE SPECIAL OFFER

If you want to learn how to use the straddle strategy, and many other profitable strategies,

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CLICK HERE TO SEE Steady Options’ full performance!

ABOUT THE AUTHOR

Kim Klaiman is a full time options trader. He is a founder of www.SteadyOptions.com - options education and trade ideas, earnings trades and non-directional options strategies. Kim has been trading stocks and options for more than 10 years. He likes to trade variety of non-directional trades with low correlation to limit the total portfolio risk. Kim wrote over 100 articles for Seeking Alpha. He started the SteadyOptions educational forum after numerous requests from his Seeking Alpha readers, to share his experience and trading ideas. Kim holds a BSc degree in Computer Science. He lives in Toronto, Canada.

SteadyOptions.com is a combination of a high quality education and actionable trade ideas. Our style is non-directional trading. We aim for steady and consistent gains with a high winning ratio and limited risk. Our focus is on trading Earnings-Associated Implied Volatility rise, Iron Condors, Calendar spreads, etc. Our performance is based on real fills, not hypothetical performance. We provide a full trading plan with complete portfolio approach.
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If you trade Stocks, Options, Futures or Forex, every decision starts with your opinion about the direction of the market you are trading. Is the market on an uptrend, downtrend, or is it trading sideways? Once you have determined the direction of the market, then you must decide which trading strategy gives you the best edge.

Is it a trend-following strategy, or is it a scalping/fading strategy for a sideways-moving market? Finally, how do you manage your trade to minimize your risk and maximize your gains? What are the best entry opportunities? Where do you place your stops and take profit targets?

Trading involves risk, which needs to be carefully managed. If you trade heavily leveraged instruments like futures or forex, it is possible to lose substantially more than your initial investment. On January 15, 2015 the Swiss Franc “flash crash” blew through stops and caused many Forex brokers and traders to incur huge losses. Sudden market moves routinely stop-out trades, which can be a source of frustration for many.

If you want the certainty of trading in an environment where your maximum risk and reward are known in advance, then Nadex binary options and Nadex spreads may be the instrument that is best suited to your trading personality.

**What is Nadex?**

Nadex is the North American Derivatives Exchange. Based in Chicago, Nadex is a wholly-owned subsidiary of the IG Group, an international trading company that is headquartered in London and listed on the FTSE 250 exchange. Here are a few other facts about Nadex:

- **Nadex is a US federally regulated exchange** – Nadex is subject to strict oversight and regulation by the U.S. Commodity Futures Trading Commission (CFTC).

- **All member funds are held in a segregated bank account with a major banking institution.**

- **No Broker Needed** – When you place a trade with Nadex, your order is placed directly on the exchange and not through a broker.

- **Full transparency on every trade** – Nadex does not take positions on any trades, so they have no vested interest in whether your trade wins or loses. Nadex receives revenues from charging a small $.90 cent execution fee and a $.90 cent settlement fee per contract traded. Nadex employees are not allowed to trade Nadex.
• **Nadex is now available in 47 countries** – Nadex was previously only available to legal residents of the United States, Canada, Mexico and US Territories. As of March 2015, Nadex is now available in 47 countries.

<table>
<thead>
<tr>
<th>Australia</th>
<th>Austria</th>
<th>Belgium</th>
<th>Brazil</th>
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<tr>
<td>United Kingdom</td>
<td>United States</td>
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</tbody>
</table>

**What are Nadex Binary Options?**

Nadex binary options can best be described as “True” or “False” trades. With Nadex, you are making a trading decision about the likely direction of a major index, commodity, forex pair, etc. relative to a fixed strike price within a defined time period of your choosing.

Nadex binary options contracts are valued at exactly $100 per contract. That means the absolute most you can make or lose per contract traded is $100. When you place a trade with Nadex, you always know your maximum profit and maximum loss before you place your trade.

Nadex is a federally regulated exchange (CFTC) that matches buyers with sellers for every contract traded. If you buy a Nadex contract on Gold futures at $60 risk per contract, then Nadex matches you with a seller who is risking $40 per contract, for a sum total of $100. When the trade expires, one person is “right” and one person is “wrong.” The winner receives $100, the loser receives $0.

Nadex makes money by collecting $.90 cent trade execution and settlement fees, per contract traded. Execution and settlement fees are capped at 10 contracts per trade. That means if you have a successful trade with 10 contracts trade, your execution and settlement fees would be $9.00 per side or $18.00 round-trip.

If you traded 20 contracts on the same trade your total exchange fees would also be $18.00. One of the best features of Nadex is that you are **not charged a settlement fee if your trade expires out of the money for a full loss**. You are only charged for the $.90 execution fee, per contract.
Nadex does not take positions in any of the assets being traded, so you are never trading against the “house.” Rather, Nadex facilitates transactions between your opinion on a proposition, and another trader who takes an opposing opinion on the same proposition.

Placing trades on Nadex can be easily broken down into a few simple steps:

1. Everything starts with your opinion on the direction of a market. Is it on an uptrend, on a downtrend, or is it trading sideways?

2. Choose the asset you want to trade:
   a. Major Stock Indices (S&P 500, NASDAQ, FTSE, DAX, etc.)
   b. Commodities (Crude Oil, Gold, Silver, Natural Gas, Soybeans, etc.)
   c. Forex Pairs (GBP/USD, EUR/USD, GBP/JPY, USD/CHF, etc.)
   d. Bitcoin and News Events

3. Select your contract expiration timeframe, depending on your trading personality:
   a. Weekly Expiration (close of Market on Friday)
   b. Daily Expiration (close of Market daily)
   c. Intraday Hourly Expiration
   d. 20-minute Binary Options (US Indices Only)
   e. 5-minute Binary Options (Selected Currency Pairs)

4. Select a Nadex Strike Price, and determine if you are going to BUY or SELL.
   a. How many contracts do you plan to trade?
   b. What is the price you are willing to pay for each contract?
   c. Once you have made your decision, place your order directly on the exchange.

5. Once your trade is accepted, you have two options to manage your trade:
   a. Let the trade run until expiration and collect your maximum profit or lose your maximum risk.
   b. Or you can choose to exit your trade early and lock in profits or minimize losses.
How to Place an order with Nadex?

On this order ticket, we are looking at the US 500 Market (S&P 500 Futures)

1. Contract: US 500 (Jun) >2075.0
2. Date: April 7, 2015
3. Expiration of Contract: 4:15pm EST (close of market)
4. Time left until expiration: 55 min., 35 sec.
5. Nadex Indicative Index: Current price of the market is 2076.750
6. Offer/BUY Price: $69 ($69 max risk/$31 max reward)
7. Bid/SELL Price: $63 ($37 max risk/$63 max reward)
8. Size: Number of contracts being traded
9. Price: Price per contract traded
   a. The price box is automatically populated with the current bid/offer price for a market order.
   b. You can manually adjust the price to reflect a better risk/reward.
   c. When you do this the order will become a “working order” and will only become an active order if there is a market for your order.
10. Max Risk: $69 to BUY this contract
11. Max Reward: $31 to BUY this contract
At a glance, the Order Ticket gives you everything you need to know about this contract. Summing it all up, here’s how you place an order with Nadex:

- Make a decision about the probable direction of a market
- Select the expiration time you want
- Select a Nadex strike price
- Are you BUYING or SELLING this proposition?
- How many contracts?
- At what price?

Let’s take a look at an example of a Nadex trade on the Germany 30 (DAX) Index:

In this example using the Germany 30 (DAX) Index, we are looking at a trading period starting at 7am EST, and expiring at 9am EST.

The market had been on a downtrend going into the 7:00am hour, where a reversal started to occur. At 7:25am, the market was at 10734. Where would the market be at the 9:00am expiration?

With 1 ½ hours left in the trade, Nadex offered three nearby strike prices to choose from on the strike price ladder on the right side of the chart:

- **At the Money Trade (<10734)** – For this statement to be “TRUE” the market would have to expire ABOVE 10734 at the 9:00am expiration. The statement is “FALSE” if the market expires at or below 10734. Since the market is currently at 10734, buyers and sellers for this statement are almost evenly split.

  - If you place a **BUY** order on this proposition, then you will incur a $54.50 maximum risk, in order to make a $45.50 maximum reward.
Nadex deducts $54.50 from your account, plus a $.90 cent execution fee. If the market expires above 10734 at 9:00am, you receive a $100 payout, less a $.90 settlement fee. If the market expires at or below 10734 at 9:00 am, you receive a $0 payout.

- If you place a SELL order on this proposition, then you will incur a $52.00 maximum risk, in order to make a $48.00 maximum reward. Nadex deducts $52.00 from your account, plus a $.90 cent execution fee.

  If the market expires at or below 10734 at 9:00am, you receive a $100 payout, less a $.90 settlement fee. If the market expires at or below 10734 at 9:00am, you receive a $0 payout.

- **In the Money Trade (>10714)** – If you are a BUYER, this strike price is in the money, since the current market at 10734 is already significantly above that strike price of 10714. Since the probability of a successful expiration is much greater at this strike price, you are risking a maximum of $83.50 to make a maximum of $16.50. Nadex deducts $83.50 from your account, plus a $.90 cent execution fee.

  If the market expires above 10714 at 9:00am, you receive a $100 payout, less a $.90 settlement fee. If the market expires at or below 10714 at 9:00am, you receive a $0 payout. The marketplace of buyers and sellers has determined that there’s an 83.5 percent chance that this trade will expire above 10714.

  If you are a SELLER at this strike price, then you are placing an **out of the money** trade. Since the probability of a successful expiration is much lower at this strike price, you are risking a maximum of $23.00 to make a maximum of $77.00. Nadex deducts $23.00 from your account, plus a $.90 cent execution fee.

  If the market expires at or below 10714 at 9:00am, you receive a $100 payout, less a $.90 settlement fee.

  If the market expires above 10714 at 9:00am, you receive a $0 payout. The marketplace of buyers and sellers has determined that there’s a 23 percent chance that this trade will expire at or below 10714.

- **Out of the Money Trade (>10754)** – If you are a BUYER, this strike price is out of the money, since the current market at 10734 is already significantly below that strike price of 10754. Since the probability of a successful expiration is much lower at this strike price, you are risking a maximum of $25.00 to make a maximum of $75.00. Nadex deducts $25.00 from your account, plus a $.90 cent execution fee.

  If the market expires above 10754 at 9:00am, you receive a $100 payout, less a $.90 settlement fee. If the market expires at or below 10754 at 9:00am, you receive a $0 payout. The marketplace of buyers and sellers has determined that there’s a 25 percent chance that this trade will expire above 10754.
If you are a SELLER at this strike price, then you are placing an in the money trade. Since the probability of a successful expiration is much higher at this strike price, you are risking a maximum of $81.50 to make a maximum of $18.50.

Nadex deducts $81.50 from your account, plus a $.90 cent execution fee. If the market expires at or below 10754 at 9:00am, you receive a $100 payout, less a $.90 settlement fee. If the market expires above 10754 at 9:00am, you receive a $0 payout.

The marketplace of buyers and sellers has determined that there’s an 81.5 percent chance that this trade will expire at or below 10754.

Let’s take a look and see how this trade played out:

At 9:00am, the market expired at 10761.567

- If you placed the At the Money “BUY” order at >10734, your trade would have expired in the money for a $100 payout and a full profit of $45.50, less a $.90 cent settlement fee, per contract traded. If you had placed “SELL” order at >10734, you would have received $0 at expiration.

- If you placed the In the Money “BUY” order at >10714, your trade would have expired in the money for a $100 payout and full profit of $16.50, less a $.90 cent settlement fee, per contract traded. If you had placed “SELL” order at >10714, you would have received $0 at expiration.

- If you placed the Out of the Money “BUY” order at >10754, your trade would have expired out the money and you would have received $0. If you had placed “SELL” order at >10754, you would have been in the money, for a $100 payout and a full profit of $18.50, less a $.90 cent settlement fee, per contract traded.

Depending on your technical analysis, and your risk/reward preferences, there are many ways to
trade with Nadex binary options.

Advantages to trading with Nadex:

- **As long as your trade is active, you cannot be “stopped-out.”** The only thing that matters is where the price of the market will be at expiration. If you hold your contract until expiration, your payout will be either $100 or $0 per contract.

- **You always know your maximum risk and maximum reward before you place your trade.** There is no way you can lose more than your original investment in a trade. There are no margin calls with Nadex.

- **You are making an “Up” or “Down” decision about the market relative to a strike price.** With Nadex, you are not counting pips. If you win by one pip, you win the full profit at expiration. Conversely, if you lose by one pip you forfeit the amount of money you risked in the trade.

- **You can trade multiple markets with Nadex:**
  
  - Popular Indices
  - Commodities
  - Forex Pairs
  - Bitcoin and News events

- **If your trade expires out of the money for a loss, you are charged an execution fee, but you are not charged a settlement fee.**

- **Nadex is a regulated exchange.**
  
  - Nadex is headquartered in Chicago, and is regulated by the CFTCAll member funds are held in a segregated account
  - Nadex does not take positions in any of the instruments they offer for trading

- **You can open a Nadex trading account for as little as $100**
  
  - Unlike other trading accounts that can require initial investments of $5,000, $10,000 or $25,000, you can get started trading with Nadex for a fraction of the cost of other instruments.
• **No Broker Required** – When you place an order with Nadex, your order is placed directly on the exchange. Instead of paying broker commissions, you are charged $.90 cents per contract, per side ($1.80 round trip fees per contract). The maximum commission you will ever pay on one trade is $18.00 (10+ contracts)

• **Nadex is now open in 47 countries** – Nadex was previously available only to legal residents of the United States, Canada, Mexico and U.S. Territories.

**Opening a Free Nadex Demo Account**

It doesn’t get much simpler to open up a 2-week Nadex Demo account, funded with $25,000 in play money. Just create a demo name and provide your name, telephone number and email address. You will have complete access to the entire Nadex Trading Platform for 2 weeks.

Use your favorite trading strategies or the strategies in this book and see if Nadex is right for you.

[**SIGN UP for a free 2-week Nadex demo account.**](#)

If you have already looked at Nadex and want to fund a live account for as little as $100, then you can go to this link to open a funded account- [www.TradingPub.com/Nadex](http://www.TradingPub.com/Nadex). Once you have placed your first trade, your Nadex demo account will be extended for up to a full year.
FREE LINKS TO NADEX RESOURCES:


- **The Inquisitive Trader Blog**- [www.InquisitiveTrader.blogspot.com](http://www.InquisitiveTrader.blogspot.com)

  TradingPub's Cam White takes a look at Nadex trading strategies, and routinely breaks down Nadex trades in his “Trade of the Day” column.

The rest of this book is dedicated to Nadex trading strategies you can test tomorrow. If you haven’t tried Nadex, make sure to load up your **FREE DEMO ACCOUNT HERE**!

**ABOUT THE AUTHOR**

Cam White is a Partner Relationship Manager with TradingPub. When he joined TradingPub in June 2014, his first assignment was to become familiar with Nadex. He downloaded the demo software and dove into the Nadex platform. A self-professed “crash test dummy”, Cam tests directional and non-directional strategies with Nadex Binary Options and Nadex spreads and publishes results.

Cam also publishes The Probability Report, a monthly newsletter featuring Nadex webinars, and contributes articles on Nadex to financial media outlets.
If you are a futures or Forex trader, this chapter will show you a strategy to reduce your risk to the current strategy you are trading. Stock traders sometimes buy option puts to hedge their risks, but what about Forex traders or futures traders? The strategy in this chapter will discuss using Nadex as a hedge against risk for futures and Forex trades.

In this chapter, you will learn the following concepts:

- The three important things you must know to begin making money in trading.
- How to reduce risk by up to 75% or more while having stop/losses that are up to 400% or more larger than what you use now to decrease the probability of getting stopped out by a spike in the market.
- How to get stop/losses for pennies on the dollar with the Whipsaw Elimination Strategy.
- How to hide your stops from the market with the Ultimate Hedge Strategy.
- How to find the right spreads for your trade.
- How to know how far the market will move today.

But first, let’s take a look at a fairly typical trade setup:
The chart above is the GBP/USD, but it could be any market. You plot a trend line and see a bearish trend. You identify a pullback for an entry signal. You exercise caution and set your stop/loss above the highest candlestick. Your risk is 65 pips or $650 dollars, so you are prudent in setting your stops, but there is a greater amount of risk capital in play. And then this happens:

This really hurts. The market starts threatening your stop/loss. What do you do? Move your stops, take the hit? Go long because there is a trend reversal? And the worst part about it is that it is a slow, agonizing march toward your stop/loss. So you take the hit, and lose $650. And then the market decides to slap you in the face.

Your initial instincts were right. The market was in a downtrend, but it decided to spike upward and stop you out before it made its move downward. The net result is that you lost $650 dollars. This chapter will show you how to prevent this from ever happening in the future. You will learn how to place the exact same trade, use less money and never get stopped out again. You can combine this strategy with your current Forex strategy to create a massive stop/loss for a fraction of the cost.
To make money in trading, you need to master three things:

1. You need to learn to **reduce your risk**.
2. You need to **increase your leverage**.
3. You need **more time to be right**.

In the trading example above, the trade had $650 dollars of money at risk, and as soon as you made it, the market spiked and took you out. You were right, but you needed more time to be right. Trading futures, options and Forex can be very expensive. Traders can be required to have upward of $30,000 on hand to fund accounts and have a considerable amount committed to margins. This is where Nadex comes in very nicely, as the table below illustrates:

Day trading the EUR/USD (Equalized Size 125,000) and other instruments requires considerable capital to fund an account, margin requirements are high, and leverage varies. When you look at the table above, you can easily see a comparison of trading the same instrument across multiple trading platforms. The significant advantage of Nadex is reduced capital risked, a huge leverage advantage, and best of all, you can’t get stopped out in a trade.

Other benefits of using Nadex as a trading platform are:

- You can’t lose more than you put up in margin. The amount of cash you risk is your margin.
- You still get very good leverage.
- You can trade stock indices, popular commodities and Forex pairs.
- Price is driven by the underlying market.
- Every pip is worth $1.00 per spread bought or sold.
- Nadex is an exchange that facilitates transactions between buyers and sellers.
- Nadex is regulated by the CFTC, and does not take a position in any market.
- Nadex is now available in 49 countries! (Previously USA, Canada & Mexico).
Let’s talk about some basics to trading Nadex spreads:

- A spread is defined by a floor and a ceiling. In this EUR/USD example, the spread is between 1.2400 and 1.2500, which is 100 pips. Each pip is worth $1.00, so the spread is worth $100.

- If the price moves above the ceiling or below the floor of the spread, you can’t get stopped out. Nadex spreads are based on a defined time period that you choose, and the trade is active until expiration of the contract.

- Using this example, if you **SELL** at 1.2490 and the ceiling of the spread is 1.2500, your maximum risk is 10 pips or $10. Remember, with Nadex, your risk is your margin. If you placed the same trade on Spot Fx, your margin would be $250.

- Since the spread is 100 pips and you are risking 10 pips, your maximum profit is 90 pips if the trade ends at the floor.

- If you **BUY** the spread at 1.2410, it’s the exact opposite. Your risk is 10 pips from the floor of the spread, and your maximum profit is 90 pips above.
• You can close the spread any time you want to before expiration to capture profits or limit losses. When the contract expires, remember that you are trading an underlying market, and not physical commodities, for example. Corn will never be delivered to your doorstep if you trade corn futures on Nadex.

• Your profit is the difference between your strike price and the price of the market at the expiration of the contract, or the price of the contract if you close the spread early. If you BUY this spread at 1.2410 and it settles at 1.2480, then the difference is 70 pips, and $70 is deposited in your account, usually within a matter of seconds.

• There are a wide variety of spreads and timeframes to choose from in Nadex. Choose the spread that works the best with your trading plan and risk/reward tolerance.

Duration and Expiration of Nadex Spreads

Nadex offers a wide variety of spreads, both in terms of markets you can trade (indices, commodities, Forex) and time intervals:

• **Intraday** – as little as every 2 hours. Time frames can depend on the markets being traded. Forex trades are available in the overnight hours when the commodities and some indices are closed. All times listed on Nadex are Eastern daylight time (EDT).

Some spread times can include:

- 8am-10am EDT
- 9am-11am EDT
- 10am-12pm EDT
- 11am-1pm EDT
- 12pm-2pm EDT
- 1pm-3pm EDT
- 2pm-4pm EDT
• **Expiration and Settlement**
  
o Days of expiration

  
o Time of settlement (All quoted in Eastern time)

  
o Spread Range/Width: Distance between the floor & ceiling of the spread

  
o No. of contracts: Number of spreads per expiration, per range. For example, you could have one in the middle, one high and one low.

• **Trading Hours:** Times when new trades can be entered, and when open trades can be closed before settlement.

• **Commissions:** Since you are placing an order on an exchange without a broker, there are no commissions charged. There is an exchange fee of $0.90 cents per $100 contract, per side. You are not charged a settlement fee if your contract expires out of the money.

  If you trade one $100 contract successfully, you are charged a $0.90 to execute a trade and $.09 to settle the successful trade for a total of $1.80 in transaction fees. Transaction fees are capped at $9.00 per side. If you trade over 10 contracts on a transaction, your transaction fees are capped.
The chart above shows the overlap of five Nadex spreads. The longer you have until expiration, the wider the spread:

- **Daily**: The yellow background is the Daily Spread between 1.2700 – 1.3300 ($600)
- **8 Hour**: The blue spreads are two 8-hour spreads:
  - 1.2875 – 1.3125 ($250)
  - 1.2750 – 1.3250 ($500)
- **2 Hour**: The Orange spreads are two 2-hour periods
  - 1.2950 – 1.3050 ($100)
  - 1-2900 – 1.3100 ($200)

Nadex offers binary options and spreads on the following markets:

![Market list](image)

The **Whipsaw Elimination Strategy** is simply using a Nadex spread. As long as a spread is active within a defined time period you can’t get stopped-out.
The Ultimate Hedge Strategy

Now that we have a basic understanding of Nadex spreads, we will apply Nadex spreads to help you get stop/losses for pennies on the dollar. You will also learn:

- How Nadex spreads work
- Nadex spread example
- How to find the best spreads
- How to know how far the market will move today

Let's go back to our original example

We identified a trend, placed our trade, set a conservative stop/loss, and got stopped out on a market spike before the market continued downward. We lost $650.

Let's look at the same trade, using an 8 hour Nadex spread:

A Nadex spread was available with a ceiling of 1.5700 and a floor of 1.540 (250 pips). If you sell 10 contracts at 1.5665 then your maximum risk (and margin) is 35 pips or $350. In the previous example, our risk was $650, and our margin requirement was $3,138.

In the Nadex spread, we didn’t get stopped out and took a $750 profit within 8 hours. In the previous example, we got stopped out immediately on a market spike and lost $650. We satisfied the criteria for making money discussed earlier in this chapter. We risked less money, we had better leverage, and we had more time to be right.
Here is the side-by-side comparison of trading a Forex spot trade vs. making the same trade with Nadex spreads:

<table>
<thead>
<tr>
<th>Underlying Spot vs. Nadex Spread Example Results</th>
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<tbody>
<tr>
<td><strong>Underlying - Spot</strong></td>
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<tr>
<td>Risk: $650</td>
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<tr>
<td>Margin: $3138.00</td>
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<tr>
<td>Result: Lost $650</td>
</tr>
<tr>
<td><strong>Nadex Spread</strong></td>
</tr>
<tr>
<td>Risk: $350</td>
</tr>
<tr>
<td>Margin: $350</td>
</tr>
<tr>
<td>Result: Profit $760</td>
</tr>
</tbody>
</table>

Here’s another way to look at the original trade in this chapter. What would happen if we took our original Spot Forex trade, went short and hedged it with a Nadex spread instead of a stop/loss?

A Nadex spread is available with a floor of 1.5700 and a ceiling of 1.5950 (250 pips). You buy the spread at 1.5710, which becomes your margin, and you risk $100 instead of $650. When the market spiked, you had a 240 pip Nadex insurance policy protecting your trade. The market continues downward to your profit target. Your gross profit is $960, less your $100 Nadex spread loss for a net profit of $860.

If you trade Forex or futures, you can trade the way you normally do, but use Nadex spreads to minimize your risk.

**Using the Apex Investing Institute Website to Help You Find the Right Nadex Trade**

If you sign up as a member on the Apex Investing Institute website, you will have free access to a wealth of information to help you identify the right Nadex spreads and binary options to trade.

They also have tools to help you learn how far the market thinks it will go in any given trading day. The graphic above is a screenshot of the Apex Nadex “Spread Scanner” utility which will return spreads to you based on the money you are comfortable risking, your expected reward and the time period you are looking for. Apex also offers free chat rooms for their members and several services which can be purchased at a reasonable price if you need them.

**CONCLUSION**

Nadex spreads are an excellent way to trade with less risk, get better leverage, and they buy you the time to be right. Since you are placing your orders directly on an exchange without a broker, you don’t pay brokerage commissions, just exchange fees. You can’t get stopped out during a trade, and you have the flexibility to exit a trade at any time before contract expiration.

If you trade futures or spot Forex, Nadex spreads allow you to trade the way you normally trade, but they can buy you stop/loss protection for pennies on the dollar. There are no large margin requirements with Nadex. Your risk is your margin.
THE MOVIE

WATCH THE VIDEO OF THIS CHAPTER’S PRESENTATION HERE! During the presentation Darrell Martin does an excellent job of explaining how Nadex spreads work, and how they can be used as a standalone trading instrument or as a hedge against risk in your current trading strategy.

SPECIAL OFFER

Get hundreds of hours of free Nadex Binary and Spread Education! CREATE YOUR FREE ACCOUNT HERE!

ABOUT THE AUTHOR

Darrell Martin coined the phrase “diagnostic trading.” He defines “diagnostic trading” as looking at how fundamental investors, technical investors, statistical investors, and seasonal investors look at the market and then using that knowledge to be one step ahead of the markets. His A.P.E.X. pattern and Trend Catcher system simplifies trading entries, stop losses, and take profits to the tick/pip/cent and works on the one thing that moves the markets. For more information visit www.apexinvesting.com.
My trading background before Nadex was trading traditional options on TD Ameritrade software. The main strategy was selling options where prices were NOT going to go in a specific time period, usually 30-50 days out. Although it was a simple strategy, I had to wait a month or two to collect the premium and to pocket the money.

Then, 2 years ago, I discovered Nadex. I was so excited. I could take my knowledge and instead of trading 30-50 day contracts, I then could trade 1-24 HOUR (not days) contracts. I took my same methodology of buying and selling options on the chart where prices were NOT going to go in a way shorter time period and made my profits faster!

I won't lie, when I first started trading Nadex, it was a lot harder than I thought it was going to be. Binary prices move fast and you have to always be ready for a fast move against and learn to manage risk. I realized too why so many people were losing money (including myself); because they weren't trading with a Plan!

I was tired of losses and knew I needed to treat trading Nadex like a business. I turned my trading account into an LLC Entity account and started taking trading seriously and creating Daily Trading Plans for myself.

**HOW TO CREATE A NIGHTLY TRADE PLAN**

The main markets I trade are Futures instruments, such as US 500, Smallcap 2000, Gold and Crude Oil. There is a bigger advantage to Futures because you can use volume and order flow in your analysis, where as some markets such as Forex you cannot.

In a previous career, I worked in the car business. When I bought and sold cars, one thing I ALWAYS did was I first would determine the fair value for the car.

Usually I would consult with Kelley Blue Book to find out where the range was for selling and buying that specific vehicle based on the marketplace. If you're selling the car, you want to try and sell it at the top of the range and when buying, you want to try and get the price at the lowest range.
Let's look at the Kelley Blue Book of the car above. If you're selling this car, you want to try and get as close to $16,817 as you can. If you're buying, you're trying to get as close to $13,752 as you can. I would want to try and stay away from the "Fair Purchase Price". What if we could see this information on a Futures chart?

It's safe to say that 90% of people do this when working a car transaction. You always want to make sure you're getting a good deal. Even when you buy a house, you almost always look at comps of other similar houses.

So it finally hit me that in any other buy/sell transaction out there, almost everybody does research first. I have now taken that same philosophy and I "Kelley Blue Book" every night the price of a certain Futures market using a free tool called Volume Profile.

Every evening, I "Kelley Blue Book" the price of the instrument I want to the trade the next day. Here's an example of US 500 (ES. I first begin by defining the price range. I want to find where the "Good Deals" are to be a buyer and a seller:

Next, I draw a rectangle from the top of the Value to the bottom so I can visually see the price range for the next trading day:
There are 6 ways to profit from the Value Area Box that you can learn in my Education Center, and here is a visual picture of the first two:

1. ![Image of a trading strategy]
2. ![Image of a trading strategy]

So, I have now defined where I want to be as a buyer and a seller.

Early in the morning, the price of US 500 was at a point of a "Good Deal" for buyers.

Mid-afternoon, price then retraces up to a point where sellers were on high alert.
Here was that day's US 500 "Trade Plan" video the night before, starting at the 5:40 minute mark. I do nightly "Trade Plan" videos just like this to help me and my Binary Trade Group members know where the best opportunities are each day. Watch this 3/23/15 Trade Plan here www.TradingPub.com/Nadex6. Begin making Trade Plans for yourself on your favorite instruments that you like to trade to see how much of a dramatic difference to your success it makes.

UNDERSTANDING INTRADAY MARKET MOVEMENTS

The next element of trading Nadex and Futures that has drastically increased my winning ratio was understanding how a typical day works in the stock market and when the best times are for reversals, and what type of risk/reward binary to take during which times of the day.

Here is an easy time-based synopsis of the New York Trading session:

9:30am ET - Strong opening and will see heavy volume in one direction or another.

10:10am-11:00am ET - Many stocks reverse their trends. When stocks open up with strong buying (or selling), specialists and market makers were forced to take the other side of the longs (or shorts) and sell short (or long). They have no intention of riding losing positions forever, so they start "dropping the bid" so they can cover their short (or longs) at a profit.

11:00am-1:00pm ET - "Lunchtime Doldrums". This is when most of the traders in New York go to lunch and you will see lower volume during this time. Sometimes you will see range bound trading or a reversal continuation.

1:30pm-1:45pm ET - Most often the market compresses during lunch and volume picks up after, and the market then starts to make its next move.

2:15pm-3:00pm ET - Volume should be strong and the trend should continue.

3:30pm-4:00pm – Going into the close you will see heavy volume and big money getting their positions in or out. Prices will move fast.

High Probability Nadex Trading Strategy – The “Caret” Trade

My favorite trading strategy from using the time based information is the reversal of the market open trend and using “Lunchtime Doldrums” to my advantage. Here is an example of a high probability trading strategy that I use at least 3 out of 5 days a week called “The Caret Trade”:

Many traders avoid trading at lunchtime because there is just not much volume in the market. With Nadex Binary Options, the lunchtime “Caret” Trade allows you to take advantage of declining lunchtime volume on the S&P 500 Futures market.

Quite often, after a busy morning session, volume on the S&P 500 has a tendency to start declining, usually after 10:00am EST. The market, which has been grinding upward, hits resistance, and then starts forming an upside-down "V" pattern. I call it the "Caret" trade because it resembles the "^" symbol above the number 6 on your keyboard.
On this day's lunchtime trade, the "Caret" trade was in play. The market started moving upward after 10:00am as volume declined. At noon, the market hit resistance on the Keltner Channel and the indicators on the Fisher Transformer were lined up overbought. A reversal Star candle signaled a potential reversal. Sure enough, it happened:

The market started to reverse with a strong SELL signal on the Fisher transformer. The following order was placed:

Trade Details:
Contract: US 500 (Mar) >2107.3 (1PM)
Expiration: Mon Feb 23 13:00:00 EST 2015
Direction: SELL
Quantity: 2
Price: 20.00

Two contracts were being sold, with a maximum risk of $160 and a maximum reward of $40 for this deep in the money trade. The trade settled in the money for full profit of $40 at 1:00pm, less $3.60 in exchange fees.
Here was the video of me trading this strategy live. The more times you see it and do it, this type of trade becomes extremely routine and mechanical. Watch this Live Caret Trade here- www.TradingPub.com/Nadex7

(This type of trade works the opposite way as well, where price will move down at the open and you will see a "V" pattern develop.)

CONCLUSION

1. Create "Trading Plans" for your favorite instruments. Never go into a trading day unprepared.

2. Trade in areas of the charts where big buyers and sellers are. You can easily find out with my "Kelley Blue Booking" the price of that instrument every evening.

3. Understand how the New York Stock Exchange works and when the big money is trading and not trading and then utilize specific risk/reward strategies based off of the hour of the day.

4. Trade with a group of like-minded Nadex traders and gain support, confidence and knowledge with Binary Trade Group.

THE SPECIAL OFFER

Binary Trade Group is all about traders helping traders. Trading alongside others and learning from profitable NADEX traders dramatically speeds up the learning curve. BTG aims to keep NADEX simple but effective. Take a FREE sneak peak at BTG! Request to be added to Binary Trade Group's Education Center, simply go here- www.binarytradegroup.com

THE MOVIE

Watch Sean Jantz's Presentation From Trading Pub's Trade-A-Thon- "How To Profit by Knowing Where Prices Are NOT Going to Go Using the NADEX Platform". Sean Jantz talks about Nadex, and covers how to exploit value areas in the charts to make high probability trades based on areas where the market is not likely to move. WATCH IT HERE!

ABOUT THE AUTHOR

Sean Jantz, the Founder of Binary Trade Group, is a fairly new, successful trader who saw the need for more simplification in the marketplace for ordinary people trying to bust through into the markets. Sean's journey to profitability was filled with courses, books and videos that sounded great, but nothing seemed to make sense, or he just didn't understand how to apply the teachings. Now, he has a knack for simplifying charts and terminology by using layman terms and using real world analogies so newer traders can keep up. He likes to say, "If you can't explain it to a 3rd grader, then you can't explain it."
When you trade Nadex binary options the first step is to determine the direction of the underlying market for the option you want to trade. In order to enter binary option trades with the right risk/reward ratio, it is important to not only know the direction of the market, but also the historical probability that a market will close higher or lower.

In this chapter, we will discuss a strategy that can give you an edge for trading Nadex dailies on U.S. Indices and popular commodities. You will learn how to determine the direction of the market using 3 indicators, and how to use this information to select the best binary options to trade.

The PowerX Method

The PowerX Method is a strategy that has been used for years to trade stocks and options. We recently discovered that it is also a perfect method for finding high probability binary option trades. When you trade binary options using this method, you identify “buy” or “sell” signals, and use daily charts to identify the potential for the market to close higher or lower the next day.

But first, there is some essential terminology you must know in order to use this method:

“Trend Day” – When all three PowerX Indicators confirm a trend. These indicators are customized Stochastic, Relative Strength (RSI) and MACD indicators.

  ➢ “Triggered” – This means the price traded above a Trend Day's previous day’s high for an “uptrend”, or below the Trend Day's previous day’s low for a “downtrend”.

Depending on your charting software, it may be possible to customize and color code the bars on your daily charts. Using the rules for the three PowerX indicators, you may be able to customize your charts to make decision making easier:

  ➢ Green Bar: All three indicators a bullish
  ➢ Red Bar: All three indicators are bearish
  ➢ Black Bar: There is a divergence between the indicators
To better understand the concepts of Trend Days and Triggers let’s look at the chart above. The last five bars show a nice downtrend in the E-Mini S&P 500 market. This trend is easy to identify because the bars are colored red based on our PowerX Method rules. When MACD, RSI, and Stochastics are bearish, we have a Trend Day (red bar).

If the market trades below the low of a Trend Day during the next trading session, we have a Triggered downtrend. Triggered trends are powerful because there is a higher probability that the trend will continue and the market will close lower in a downtrend, or higher in an uptrend. These scenarios create perfect conditions for high probability binary trades.

Taking things a step further we can take all Triggered uptrend and downtrend days for the year and determine the probability that the trend will continue (close lower in a downtrend or higher in an uptrend).

**Here are the yearly probabilities for the core markets we trade (as of December 2015):**

- **E-Mini S&P** = 68% probability trend continues
- **E-Mini DOW** = 70% probability trend continues
- **E-Mini NASDAQ** = 72% probability trend continues
- **Crude Oil** = 79% probability trend continues
- **Gold** = 90% probability trend continues
- **Silver** = 90% probability trend continues
How to Trade Binary Options using the Power Crossover Method

Once you are familiar with the essential terminology and the PowerX indicators, you can make better decisions when trading binary options. We can then use PowerX Triggered days and probabilities to determine:

- The market with the best probability.
- The direction of the market, based on PowerX Method rules.
- The right expiration (dailies).
- The best strike price.
  - BUY below the previous day’s close for a triggered “uptrend”
  - SELL above the previous day’s close for a triggered “downtrend”
- The best entry price (BUY/SELL $5 better than the probability).
  - Example: If you are buying a US 500 contract with a PowerX uptrend and 70% probability the market will close higher, buy a daily for $60 or less.
- Amount Risked: $60 (max)

What Happens if a Trade is Working Against You?

Using this method will help put probabilities in your favor, but sometimes the markets don’t cooperate. With Nadex you can always exit your trade early and buy/sell your contract at current market prices.

This might preserve some profits or minimize losses. But keep in mind that the probabilities are based on end of day data. So there’s nothing wrong with keeping it simple and hold trades to expiration.

A Case Study for Using this Strategy

On November 17, 2014, we started a very unique experiment. The goal of the experiment is simple: "Can We Make 10% Per Month with Trading - SAFELY and CONSISTENTLY?"

10% per month is quite aggressive. After all, this would yield to 120% per year! And as if this goal is not challenging enough, we added some more "restrictions" to this experiment - making it almost impossible to succeed!

So did we succeed? And if so, how did we do it? Before I show you the results, let me talk a little bit more about the "restrictions" for this experiment
The trading strategy should be easy to understand and easy to use. Even somebody who has NEVER traded before should be able to understand and execute the trading strategy in less than 60 minutes.

The trading strategy should work equally well on a $2,000 and a $200,000 account. It's important to us that ANYBODY could trade this strategy.

You should be able to trade the strategy without buying any charting software, indicators, etc. It should be possible to trade this strategy with a simple browser, no matter whether you are on a PC, Mac, tablet or even your phone!

It should be possible to trade the strategy even if you have a full-time job. Therefore it should take less than 5 minutes per day to place the trades and also manage the positions.

Pretty challenging, isn't it? - But we did it! And thus far the results have been impressive!

After spending months testing and trading the strategy on a live account, we narrowed it down to the BEST 6 markets to trade. And on November 17th we started to trade THESE markets on a live account. Below is the performance based on a $2,000 account (Keep in mind that you could trade this strategy with $2,000 or $200,000 – it doesn't matter.)

Here Are the Results (Updated Daily)

The Strategy

Here’s the strategy we used for our experiment. We tried different strategies for stocks, options, futures and even forex markets. But the market that produced the best results was binary options.

We have been running a sophisticated algorithm on 5 years of data for 6 different markets, and based on this algorithm we know the probability of a market closing above or below a certain price. The table below is an example of the trades we want to place, including the probabilities of the trade.
We update these values every night, and the next morning you just have to wait until a market goes above or below the “trigger price”, and then you place an order. In order to place an order, simply log into your trading account using a simple web browser, and that’s it.

In this example, a trade in Crude Oil was triggered, and you will receive a text message from us:

```
[Binary Options Alert] - CL (Crude Oil) triggered: SELL 49.50 at $34 or higher
```

Now you just need to log into your account and place the order as specified. It’s that easy!

The beauty of this strategy is that we know the probabilities of success based on historical data collected over the past 5 years. As you can see from above, all of the probabilities listed are above 75 percent!
In the REAL LIFE statistics above you can see exactly what OUR winning percentage is. And we're updating the statistic daily, so that you can follow our experiment. Keep in mind that we are just trading a small $2,000 account, so if you have more money in your account, you would just trade more contracts! Simple and straightforward.

So let's review the criteria for this strategy (and then I'll show you how YOU can join us in this experiment, if you want to):

- The trading strategy should be easy to understand and easy to use. Even somebody who has NEVER traded before should be able to understand and execute the trading strategy in less than 60 minutes. I just briefly explained it to you in a few minutes, so I'm sure you'll fully understand it after 60 minutes.

- The trading strategy should work on a $2,000 account as well as on a $200,000 account. (you simply trade more contracts!)

- You should be able to trade the strategy without buying any charting software, indicators, etc. It should be possible to trade this strategy with a simple browser, no matter whether you are on a PC, Mac, tablet or even your phone! All you need is the table with the probabilities and exact entry signals and you can start trading the strategy right away! When trading binary options you only need a browser. All you need is the table with the probabilities and exact entry signals and you can start trading the strategy right away! When trading binary options you only need a browser.

- It should be possible to trade the strategy even if you have a full-time job. Therefore it shouldn't take longer than 5 minutes per day to place the trades and manage the positions. You have seen how easy and fast it is to place the orders. And once the order is in the market, there's nothing else you need to do. Just wait until the end of the day to see if you are right or wrong. If you are right, the money will be automatically deposited into your account! Easy enough, isn't it?

I have been trading for more than 25 years. I don't know about any other way that makes it so easy to identify and place the trades, especially not with the accuracy that we're achieving!

I wish Binary Options existed when I started trading! I'm sure I would have achieved my trading goals MUCH QUICKER!
CONCLUSION

The PowerX Method puts probabilities in your favor, and makes it easier to identify trending markets. The rules are simple and straightforward as long as you have an understanding of the key concepts, and your charts are set up to help you make the right decision.

Since binary options boil down to a simple “up” or “down” decision relative to a strike price and a defined expiration, this strategy can be quite effective.

THE MOVIE

In this 45-minute video, Mark Hodge will walk you through the basics of trading NADEX binary options, along with the step-by-step approach toward using the Power Crossover Method to trade NADEX binary options. **CLICK HERE** to view the video.

SPECIAL OFFER

So let me show you how YOU can take advantage of a fantastic trading opportunity to trade Binary Options just like I do. I have decided to make our table with the probabilities available for a limited amount of traders. As you know, "stock picking services" and other newsletters charge $200 and more per month!

But the reason I started this experiment and created this strategy in the first place is because we wanted a solution for EVERYBODY who wants to trade - regardless of experience or account size - and I want YOU to have access to this, too.

We are planning to increase the price of this service to $197 per month, but when you join us TODAY, you can join for **only $47** per month.

And of course you can cancel anytime, if you don’t want to continue for ANY reason.

- Just click on the **SIGN UP NOW** button below to join.
- You will then receive an email with a username and a password that allows you to access the members area in which you will see the table with detailed trading instructions.
- We will update the table the night before the next trading day, and we will send you an email as soon as it is updated, so that you don’t miss any trades.
- You will also have access to our training videos, in which we explain EXACTLY how to trade this strategy.
SPECIAL BONUS

If you decide to join us TODAY, we will upgrade you to our TEXT ALERT SERVICE free of charge! Whenever a trade occurs, we are sending you a text message. So you don't have to sit in front of your computer all day.

You can simply go about your day as usual, and whenever you receive a text message, you log into your account using a browser - or even your phone - and place the trade. It's that easy! As you can see from the LIVE results above, THIS works!

You are no longer GUESSING, you now trade with the odds in your favor. Imagine using this simple strategy to finally achieve your trading goals! Instead of spending more time and money on complicated courses, DVDs, indicators, software packages, you now have a simple strategy ...

- ... that's easy to execute,
- … can be traded on a small account,
- … can be traded from ANYWHERE (as long as you have access to a browser),
- … and produces RESULTS!

Even if you just want to follow it on a demo account first, sign up now and Let's get you started today!

CLICK HERE to get Instant Signals and 5-Year Probabilities for just $47 per month!

ABOUT THE AUTHOR

Mark is the Head Trading Coach at Rockwell Trading. He is co-developer of many of Rockwell Trading’s educational resources. With an extensive knowledge of technical analysis and money management, Mark has been featured by SFO Magazine, Technical Analysis of Stocks & Commodities, AllExperts.com, INO, FXstreet, Traders’ Library and other leading publications and websites in the trading industry.
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FUTURES
If you actively day trade the futures markets, specifically the ES, NQ, TF, CL, 6E and other popular futures markets, then this chapter is for you. You will learn about using the TradingZone method with Market Profile. This chapter will also focus on bridging the mechanics of trading with the human elements of trading. Most traders get into the technical side of trading without taking into consideration that trading is an emotional business.

Trading isn't for everyone, and every trader develops a trading style that best fits their personality. Some traders are more attuned to day trading short time frames. Others swing trade and let a position ride for a few days. Still others have long time horizons. The beauty of trading the markets is that there are strategies tailored for each type of trading personality.

But first, you need to ask yourself “How much money am I prepared to lose?” What are you prepared to invest in your trading business, and how much are you prepared to lose if things go terribly wrong?

Once you have taken personal responsibility for what you invest and what you’re prepared to lose, then you can identify what trading style is best suited to your personality.
The TradingZone System is built on three primary pillars:

- **Market Profile** – A tool used to assess the broad market. It’s like a big-picture roadmap. If you are driving from New York to Chicago, you need to know you are heading west. Where does the market want to go, and which direction is it going?

- **Patterns and Inflection Points** – There are some places on the charts that are better opportunities than others. Something has happened in the recent past that’s a better place to take a trade, or something has happened in the recent past where it’s less advantageous to take a trade. Market Profile gives us the direction of the markets. Patterns and Inflection Points give us the best spot on the charts to make a trade.

- **Price Action Order Flow** – The final step is to take a look at Price Action Order Flow. Once we have determined the direction of the market and where on the charts we need to trade, and we want to go long, are other traders moving in that direction as well?

The fourth pillar is **Money Management**. The reason why this pillar is separated from the others is that the first three pillars are determined solely by the market. Money management is determined by the trader, and it goes back to the human element of understanding what type of trader you are, how much you are prepared to lose and how you manage your money.

200 traders in the same trading room, using the same tools and methodology, will have 200 different P&L statements. We are all unique in our trading personalities.

**A Key Tool for Developing a Positive Trader’s Psychology**

In order to trade successfully, you need to learn how to trade consistently. One of the first things you can do is to set a reachable, reasonable daily goal. Let’s say it is $50. Once you reach that goal, stop trading for the day. Once you have become accustomed to reaching a daily goal and stopping, thereby protecting your earnings, it becomes easier and easier to do. As your account balance increases, you can gradually increase your daily goal as you move forward.
Market Profile – The First Pillar

Market Profile is the most powerful and the most fun indicator to learn. It was originally developed in the 1900’s by J. Peter Steidlmayer, a floor trader on the Chicago Board of Trade, who subsequently licensed the program to the Chicago Board of Trade. Market Profile has been taught by numerous educators, and some have over-complicated it. In the TradingZone System, Market Profile is essential, but it is also greatly simplified.

Market Profile organizes one single day’s trading data into a simple distribution curve. On the right, you have the prices that traded throughout the day. The letter blocks are plotted every time a specific price was traded. The letter blocks move from left to right as time moves forward. During the course of the day, as all the letter blocks are being plotted on the chart, it builds a distribution curve until one of those rows stands out the furthest.

This row of letter blocks is called the **Point of Control (POC)**. It is the price level traded more frequently than all of the other price levels. To put it another way, it is the price where most buyers and sellers met to exchange product. It is the center of gravity, or the equilibrium point of the market. It is the most accepted price on the market.

Once the POC has been determined, the Market Profile calculates one standard deviation on either side of the POC, creating the **Upper Value Area** and the **Lower Value Area**. All of the data between the UVA and LVA comprises 68.3 percent of all of the data for the day.

If you flipped this data on its side, it would look like the bell curves taught in statistics class. What this information tells us is that the relevant prices, or the most accepted prices, happened within these 2 boundaries. The irrelevant prices, which were the prices with less acceptance and less volume, occurred outside the boundaries.
When you superimpose Market Profile on the daily charts, here’s what it looks like:

The chart becomes more visually appealing, and easier to understand. You can clearly see the uptrend with the brackets between the UVA and LVA stacking on top of each other. It’s much better, but it can be simplified even further.

This becomes even more visually appealing to traders. The Market Profile indicator is now superimposed on a candlestick chart regardless of the time frame you are using. If you have a visually appealing chart with patterns that are easily recognized, then the probability that you will hesitate to make a trade is diminished.

On this chart, the green shaded area is the same as the Market Profile on the smaller chart above. You can easily see how the Point of Control drives the market. Above the green shaded area you can see yesterday’s Point of Control, Upper Value Area and Lower Value Area, so you can compare today’s price to yesterday’s value. Yesterday’s charts established the value of the market. Has it become cheaper or more expensive? This chart lets you know whether you are trading above value, below value or inside value.
We can use these charts and value levels as a basis for making trades, or as guides to market structure and direction. Market Profile gives you the information instantly to identify if a market is range-bound, or whether it is trending.

This is a market that is building value. When you try to draw trend lines on traditional charts, it can become difficult trying to plot a clean trend line due to periodic spikes. When you see how the value brackets line up, it's much easier to draw a trend line that is more objective and quantifiable.

In contrast, this is a market that is losing value. The value brackets are being set up one below the other. There is one period where the market is actually bullish, but it is a reactionary movement away from the greater downtrend.
In this chart the brackets are in line with each other, making this chart value neutral. It’s range-bound, so you can look to sell off the upper range and buy off the lower range. So how do you identify a good entry opportunity?

This is a market that is neutral. It is contained within the upper and lower boundaries, providing an opportunity to buy off the low range and sell off the high range.

Here’s an example of a market that had a number of opportunities. This is more consistent with an active market. You tend to get 3-5 opportunities in a day. Support was tested twice and the market bounced back off the Upper Value Area.
This is Market Profile superimposed on a 2-minute chart. You still get the information you need for setups on a shorter intraday time-frame.

This is an example of the **80 percent rule**. It was a term coined by the makers of Market Profile because it works 80 percent of the time. When a price breaks out of the bracket, it will move to the other side of the bracket when it re-enters the bracket 80 percent of the time. It will travel from one extremity to the other.

With Market Profile in place as your primary indicator, you will notice that the market will almost always make a big move if it bounces off a value area, whether it's the Upper Value Area or the Lower Value Area.
CONCLUSION

Market Profile and the TradingZone System give you the tools you need to make objective and quantifiable decisions about determining the direction and structure of the markets.

Market Profile also works on all markets whether you trade the eminis, stocks, commodities, ags or forex. Key benefits include:

- **Market Profile is Different from other Indicators.** It determines if the market is long, short, trend or range-bound
- **It is Easy to Learn.** Your chart isn’t cluttered with useless information
- **Works in Any Market.** Forex, Futures, Indices, etc.
- **Clearly Identifies Optimal Trading Price Levels.** It makes entries objective and accurate.
- **Provides Entries as well as Exits.** Keeps you in the trade for big moves
- **Objective, Accurate and Precise Rules-Based Trading.** This is critical because without it you are just trading on information and not a methodology

THE VIDEO

**WATCH THE VIDEO OF GREG SHARING MORE ABOUT THE MATERIAL PRESENTED IN HIS CHAPTER** – He does an excellent job of explaining how the Market Profile and TheTradingZone System work.

There are also numerous other examples of how to spot market direction, entry and exit points.

THE SPECIAL OFFER

Get this trading system cheat sheet complimentary eBook: **SIMPLY CLICK HERE**

ABOUT THE AUTHOR

Greg Weitzman founded the trading education firm TheTradingZone.com in 2003. TheTradingZone teaches both new and experienced traders how to day trade the e-mini stock index futures, based on his own methodology of combining technical indicators, rice levels. Market Profile™ (market profile is a trademark of the CBOT), and Tape reading.
After trading the futures markets for 25 years, there are a few things that are certain. Trading futures is a high risk business, and like all trading it will require your full application of skill in the areas of research, practice and live “in the trenches” trading to gain experience and realize success.

The rewards can be tremendous if you apply yourself fully to learning the key ingredients described in this chapter. The Trading Strategy, I will be describing in this chapter, is for the US stock index and primarily uses the mini Nasdaq (NQ) contract.

I find this to be the best day trading contract for the US stock indexes. This strategy can also be used on the Mini S&P 500, Mini Dow or Mini Russell 2000 as well, with great results.

The 6 essential ingredients to successful futures day trading are:

1) A tested and proven method for day trading on a short term time frame basis.
2) The “High 5” or what is sometimes referred to as “the tape” or “the big board”. These indices are used for reading the surface bias of the market.
3) The Higher Time Frames of the market. To get a "helicopter" view of the market bias above the “High 5” readings.
4) Simple Candlestick reading. I use very simple candlestick reading methods to get instant additional information as to the direction of the prices.
5) Basic Elliot Wave chart patterns. These patterns occur regularly in day trading and you should learn them following the simple approach I use.
6) Fibonacci Retrace map. The Fibonacci readings are very accurate if used correctly and they should be part of your day trading arsenal.

These are the 6 key ingredients for successful day trading.

This is really all you need to know to be successful, but you will need to gain skill in learning how to work with these elements and incorporate them into your trading. This mastery comes from time in front of your screen and practice, just like a surgeon masters all the surgical tools in front of him during an operation or airline traffic controllers are completely adept at reading all the gauges in front of them.
You, too should master the simple methods for the 6 key ingredients for successful day trading. They are not that hard to learn and I will summarize them in this article.

First, here is a 450 tick Boomerang Day Trader chart of the mini Nasdaq (NQ) which shows both a winning Sell short trade and a winning Buy trade using Boomerang’s bias indicators and chart readings.

![Boomerang Day Trader Chart](image)

Note the Sell Trade Channel moving down (marked by down arrow) and a pullback to the Signal Line Entry marked by the yellow dot and subsequent lower move in prices. Also, the Buy Trade Channel moving up and the pullback to the Signal line marked by the Blue dot.

Because of this lower move and then upside reaction, the High 5 readings were most likely more Neutral. The Higher time frames were also leaning more on the Neutral side, which you can also learn more about on the webinar provided below.

You can see how on the way down during the sell off the Red Boomerang candles which were all solid bodied. The bearish candlesticks are solid bodied. Note, how after the reversal and the Buy signal from Boomerang, the majority of the Green candles were hollow bodied. Hollow bodied candles are the bullish candles. For simple candlestick reading I only focus on 2 things. I focus on the hollow bodied candles on an up move and if some of the candles are starting to show solid bodies as a possible sign of a reversal. The opposite is true for a down move.

I watch for solid bodied candles moving lower with some intermittent hollow bodied candles showing possible signs of the move to the downside completing. The only other element I watch for in looking for a completion of the move is for a candle to become “engulfed” by the body of the next candle.

The Higher time frames bias reading is a matter of watching the shift first in the 5 minute chart from Bullish to Neutral to Bearish and the follow up with the 13 minute chart following the same pattern. You can use an MACD indicator to watch for these shifts and other indicators, such as our BDT bias.
indicators. Then, when we see the 30 minute chart bias join the one sided bias reading to neutral and then bearish, it is important to trade on that side of the market until the downside gets more exhausted.

If the 60 minute then rolls over to bearish during this time expect a larger scale move. When the 135 minute chart rolls to bearish intraday, joining the other already bearish time frames, then we will most likely see a very strong move to the downside. When the market makes a stronger, one sided move in line with the shift in the higher time frames that is when we can begin to start measuring the Elliot Waves 1-5 pattern.

On the chart below you can see the Elliot Wave patterns which are based on a Wave 1 directional thrust, a Wave 2 pullback, a Wave 3 continuation thrust and a 4th wave pullback. The general rule is that if Wave 2 is simple then Wave 4 will be complex. If Wave 2 is complex then Wave 4 will be simple. Then following Wave 4 we have the Wave 5 move, which is often a very strong extended move which finishes off the directional pattern.

Below is a chart of a common Elliot Wave 1-5 move intraday and subsequent upside reversal after the 5th wave lowest move. Note how the patterns all correlate with the description I gave above. Note also how the Boomerang bias indicators #1 and #2 measure the Elliot Wave patterns.

Elliot Wave theory can be kept simple by using it intraday like I show you here. The E Wave 1-5 pattern is easier to spot intraday.

It is when you get into multi day or even multi week E Wave patterns that a deeper study of the theory is required. Here is a good place to learn more about the Elliot Wave 1-5 pattern- www.TradingPub.com/Chart3. I follow as one of the key ingredients for successful day trading.

The last Key Ingredient you will want to learn for professional day trading is how to use what I call a Fibonacci Retracement map. Fibonacci was a brilliant mathematician from long ago who discovered specific numerical sequences present in nature itself and with many valuable uses. It was Fibonacci who introduced the Hindu/Arabic numeral system to the west. When we count 1-2-3-4 etc. we can thank Fibonacci for that.
I use the Fib retracement map after the market has made a strong intraday move and I want to map out the potential retrace levels using the highly accurate Fibonacci readings. However, please note that the Fibonacci map is only for purposes of measuring where to exit a clear Boomerang trade or for support/resistance using the map as a guide.

The Key numbers used with Fibonacci are: Zero...23.6%...38.2%...50%...61.8%...100%. You can see on the chart below how after a strong, early rally as measured from the top of the rally prices pulled back and bounced off of the Key Fibonacci numbers, as shown by the 50% center dot/dashed white line and the key 38.2% light blue line and 61.8% dark blue line. This can be a very valuable road map when you are live trading intraday.

“How to trade with the Elliot Wave patterns”

In this section of the chapter I will show you two excellent examples of how to trade using the Elliot Wave patterns using a plain chart.

I have added to this plain 450 tick chart on the mini Nasdaq (NQ) a 14 period Bollinger Band and a 10 period simple moving average which is the blue dashed line.

On the charts I have identified the specific Waves 1-2-3-4-5 along with the completion A-B-C pattern after the 5th Wave move. The rule to watch for on the Wave 2 and Wave 4 patterns is as follows:

If Wave 2 is relatively simple then Wave 4 will be complex (and therefore require a bit more patience in shifting to Wave 5)

If Wave 2 is more of a complex wave then Wave 4 will be simple with Wave 5 coming into play much quicker.

The above rule, when learning to intraday trade with Elliot Wave, is incredibly valuable, so be sure to make a note on your trading desk about this. The Elliot Wave patterns occur over and over in intraday trading of active markets. The patterns will not always complete the full extension of the move, but if you have carefully read the higher time frame charts and they are all one sided then odds are very strong the pattern will come to full fruition.
I highly recommend that you go over 20-50 charts with the same time frame and indicators I showed above and get really skilled at identifying these patterns. You will be surprised to see how frequently they occur intraday, giving you the advantage of trading off of them. Once you recognize the E Wave pattern in relation to the Higher Time Frame charts described earlier, you will have an incredible advantage in seeing where the market is most likely to go.

Sometimes the pattern will not complete itself and a Wave 4 (or even sometimes an early Wave 3) will fail and prices will shift gears. This can be identified when the Bollinger Band level on the Wave 2 or Wave 4 cannot hold the retrace pullback. So always be sure to work a tight stop on the BB pullback retracement moves.

Here is a classic Elliot Wave intraday pattern on the downside with details describing the move:

![Classic Elliot Wave Intraday Pattern on the Downside](image)

Note how on the Wave 2 and Wave 4 reflex reversal moves prices ran right to the Bollinger Band, while the Blue dashed MA line stayed relatively flat on the move. Below is another classic E Wave up pattern:

![Another Classic Elliot Wave Intraday Pattern](image)
This particular chart is interesting in that it shows the full E Wave pattern completing along with the A-B-C pattern right into the close of the session. Still, because the pattern is so powerful in this case, citing a reversal that prices drifted lower into the final futures close and then lower into the Globex session. Notice throughout these charts also the Candlestick Engulfing patterns signaling the end and start of a new reversal move.

After 25 years of trading I have seen these 6 Essential Ingredients prove to be the most valuable elements of day trading. If you just focus on getting a really tested proven short term time frame system of day trading and then combine that with the other 5 key ingredients, it will be all you need to learn. It is not that difficult to learn these ingredients and it will save you many years of going to endless webinars trying to figure out what are the most important things to follow.

If I can be of any assistance in your trading just email me anytime and I will gladly answer any questions you may have. Mohan@daytradersaction.com

SPECIAL OFFER

You can find out more about Mohan’s trading methods and Boomerang Day Trader by visiting his site - www.BoomerangTrader.com

ABOUT THE AUTHOR

Mohan is a 25 year trading veteran and trading coach for over 14 years in the industry. He is also the developer of Boomerang Day Trader, which is one of the top selling day trading software on NinjaTrader. Boomerang is also the first day trading software to offer a “90% guaranteed winning trade signals,” creating an historical precedent in the industry.
The Game

It’s natural to approach the markets with a “them vs. me” mentality; to see the market as one thing and yourself as another. The reality is that a “me vs. me” scenario is closer to the truth; the markets are better viewed as a collection of people just like yourself, all trying to squeeze money out of the markets. In effect, the markets consist of a mass of participants all trying to guess what the mass of participants will do next.

This could give you a headache just thinking about it.

Of course, not all market activity is speculative. Or rather, not every trade is taken with a view to making a profit on that specific trade in that specific market. A trade might be an airline taking a hedge on fuel prices. Other than a massive correction, they won’t care what happens to prices in the short term and they won’t react to short term price fluctuations. An arbitrage trade, such as a calendar spread or a NOB spread, also is non-directional for the individual sides the spread is placed. As long as the spread is widening/narrowing as expected, it doesn’t matter to them if prices are moving up or down.

Some trading is purely speculative. But how much? Well, that depends on the market and it depends on what’s going on that day. There is certainly a lot more speculation in the US Index Futures than the US Corn Futures. In markets like the e-Mini S&P 500, the vast majority of trading is speculative.

It’s hard to get actual numbers, but my personal estimate is that a minimum of 80-90% of the trading on the eMini S&P 500 Futures contract is intraday speculation. Each market will differ in this respect and individual days will differ, too. On a day where a government announces it’s going in a new direction – for example with Quantitative Easing, the amount of longer term speculation will increase.

The intraday speculators will be taking a ride with the longer term traders O.R. getting run over by them because they weren’t informed enough to realize what was going on.

The Market

Some traders like myself play specific markets. Other traders play specific situations (such as stock earnings reports) across multiple markets. Most retail traders lean toward outright trading where you buy to sell higher later or sell to buy lower later. Situational trading, such as trading stock earnings reports is a popular way to trade. For me, I feel there is too much work to be done in the researching for opportunities before the open.
I also feel at a disadvantage to people that trade stocks daily that might appear on my radar just a couple of times per year. I find that I spend so much time looking for opportunities; I’m often there when the opportunity has passed. Other people thrive in this environment. Specializing in a small number of markets is my preference. The decision on which specific markets to trade then comes down to a number of factors:

**Is the Market "fair"?** We’d be a bit naïve to think that all participants in a market play it straight but we need to ensure the playing field is as level as possible so that we stand as good a chance as any other speculator. Forex markets are the most fragmented, with exchanges on every street corner. Any individual brokerage can quote any price they like, although arbitrage keeps them in line. Stock markets are fragmented to a lesser degree and some exchanges are intentionally hidden (Dark Pools), but overall there’s more transparency than Forex.

Futures markets are traded on a centralized exchange, with all participants able to see the same liquidity and trading activity. This is the most transparent of the markets. **Is it rich in information?** Price information is available for all markets. In addition to price changes, many traders assess changes in volume and liquidity to pre-empt changes in market state. Volume and liquidity information is not available for the Forex markets. For stocks it is available (at a cost) with the exception of dark pool activity. With Futures, all players can see all of the liquidity, volume and trades. **Can I Trade sufficient Size?** The volatility in the market and the liquidity are key here. If a market only moves 5 ticks a day but you can trade 10,000 contracts, then maybe a tick is all you need. You cannot expect to trap the entire market range each day, so look for a smaller portion of the range and the amount of size you can trade.

You need room to be able to trade now and to scale up. For Forex there is theoretically no limit to the size you can trade. With stocks it’s down to the individual stock and similarly for Futures, you have to be careful about which one you pick. For my style of trading, Futures markets have a clear edge in terms of centralization and visibility. The eMini S&P 500 is very liquid and you can scale up. Most of the trading there is speculative and short term. As a short term trader, I understand my opponents and I can clearly see what they are doing. Armed with that, I am confident that in this market (and other Futures markets) I can gauge strength and weakness and look for areas where speculators may be caught offside.

**The Strategy**

Short term speculators all have their own ideas about where to get in and where to get out. It’s like a shopping mall full of shoppers; all buying in different places. If you mapped out where each shopper in a shopping mall was at any point in time. How would you predict where they would all be in 15 minutes time? It’d be impossible… **unless you set off the fire alarms!** Then it’d be fairly predictable.

The markets are the same, people in and out, a directionless herd until there is a trigger that causes a directional move that speculators jump on. Often the trigger is a group of traders being stopped out, but the follow through is the herd seeing clear directional movement.

Not only do you then have direction from the herd of new traders perpetuating the move, you also have the stopped out traders now thinking twice about trading in the opposite direction. The perpetuation of a directional move is much easier to predict than the end of a directional move, yet new traders are obsessed with buying the top and the bottom of a move.
Buying the low of the day and selling the high of the day. This obsession is what blows people's accounts. The trouble is that in some cases, the market is in a range. Then the trade IS to fade the extremes. When the market is in a trend, the trade is to trade with the trend.

So you employ the complete opposite strategy for the 2 basic states of the market.

So we start our strategy with 2 simple rules.

1 – Fade Ranges

2 – Take continuation trades of intraday trends

The Tools

In this article, we will focus on using Swing Charts to define areas to trade. In my trading, I put heavy emphasis on using Order Flow to refine the entry. For most people Order Flow acts as icing on your trading cake. For now, let’s just focus on getting the cake – implementing a profitable trading setup that can be refined later with a little Order Flow icing.

Image 1 – Swing Chart

Most trading platforms have a swing indicator. The above is a 900 tick chart of the eMini S&P 500 March 2015 contract. The image is from February 15th 2015 (this is the chart at the time of me writing this article). The action to the left of the vertical black line is Friday the 13th’s trading.

The swings in this case are colored red and blue. We can also see the number of ticks moved in a swing and the total volume in that move.

Red A downswing with more volume than the prior upswing OR an upswing with less volume than the prior downswing.

Blue An upswing with more volume than the prior downswing OR a downswing with less volume than the prior upswing.
As long as the volume is greater on the moves up, the swings will be blue. Vice versa for reds. And that’s all we will use. We are not interested in any indicators, in fact, we are not interested in the individual price bars at all. Let’s consider those individual bars the points at which our shoppers are all buying in different places. We are just interested in the turning points, the points at which the fire alarms went off. As mentioned earlier, I tend to stick to few markets. That means I get to know them well. So I can tell you that the number of contracts in that first blue swing, 103 thousand contracts, well, it’s a lot for that market.

It’s a lot relative to the other moves on that day and it’s a lot relative to moves on any other day, too. This means a lot of people are jumping on that move. Many of them will be short term speculators. That means you do NOT want to jump in front of that move and short it. We moved up 25 ticks on 103 thousand contracts volume. With any move, people have to actually close the position in order to exit. On the way down we had selling. Anyone that is short needs to BUY in order to take profits. So as we move down, we are gathering future buyers.

When we see a big surge like this we can conclude that late shorts got stopped out. We can also conclude some shorts took profits and took part in the buying. There’s probably some that shorted and didn’t sell yet and are regretting it. So there are people who shorted and lost and others that shorted and took profits. Will they now short again after this move up? Most likely not in the short term.

New long positions at this point are pretty happy. So if we look at the balance of future trading in the short term, it’s imbalanced to the buy side. After the initial push up from the lows, we moved back 9 ticks on just 17 thousand contracts. That’s actually less volume per tick on the way down. That might make you think that this is actually weak because of the relatively small number of contracts for each tick down. What’s also interesting is that the pullbacks are of equal size. Both pullbacks are 9 ticks. Bear this in mind because it happens a lot, as we move down we’ll have uniform swing sizes and then as we move up, we get the same size swings. We cannot expect the pullbacks to be EXACTLY the same size. In fact, the more volatile the market is, the more variation we can expect in the swing sizes.

In this image, we can see there are 4 ticks variance between the smallest and largest pullbacks on the way up. Compare that to variation to the upside. This is fairly normal. So for trends, we need to recognize them and we also need to be able to recognize choppier, more range-bound markets.

**Image 3 – Rangebound start – 12th February, 2015**

We can see the open of the market on the left. We give ourselves and our competitors in the market a ‘mental reset’ each day and in this case, that’s at 9:30AM EST. At the open, we first give some time to allow the market to show its hand.

We started off with some weak moves to the downside and then we had a move up with volume that was decent. 63 thousand contracts and 27 ticks. Definitely a move you could jump on to the long side. The next push up also had good volume but we only gained a few ticks. We didn’t really make any headway. That’s OK but then the next move down was larger than your ‘average’ pullback and had decent volume. This is indecision.

Right from the open it’s not clear who is in control or which side the volume is on. Buyers did appear to take control with that 63k push up but there was no follow through. It wasn’t until we got that push up on the right side (167k, 31 contracts) that one side came in with overwhelming volume. Image 2 shows what occurred afterwards. Some ranges are easier to spot than others.

**Image 4 – 27th January, 2015 – Rangebound behavior at the open**

In this example, we see a very indecisive market, right from the open. Swinging this way and that way with no real clarity regarding which side the volume O.R. swing size is on. In this example, it’s also fairly clear where you could fade the trading range. It is also clear how attempting to trade pullbacks in the market would be destructive to your account.

In the end, we had a breakdown. As a range develops, we build positions on both sides – long and short. Eventually, the range breaks and one side loses out. So we get an extended push away from the range on good volume. But we also have one side of the market happy and one side licking their wounds. This is important in the short term because it has a psychological impact on the behalf of both the winners and losers.
The Rules

Putting this together requires you to know your market. That’s simple enough in itself because you can go back over historical charts, look at the swing sizes and what sort of volume tended to make your specific market move.

Market Mode

Your first task is to define which mode the market is in. Is the market in a range or is it trending? Is it a range with lower volume moves and no clear advantage on either side? Caution must be taken when ‘with trend’ moves don’t push price forward a significant amount.

Range Plays

Once you have established that the market is in a range, look to use the volume profile for the day to determine where the most volume sits within the range.

![Image 5 – High Volume in an early trading range on 12th February, 2015 (Jigsaw DOM)](image)

The volume profile (total trades at each price) is in the far left column. As you can see we have volume tapering towards the outside of the range, the high volume area is where the bulk of the positions are (the yellow box).

In this case, the range on the chart will be 2071.75-2076. Your chances of getting filled on a short trade at 2076 are extremely low. Look to enter at the extremes of that high volume area.
Strategies

1- If the range forms AFTER an intraday trend, there is a good chance price will continue that trend. So if the market moves down and consolidates, you can sell the top of the range and scale off some of the position at the bottom of the range and hold the rest for a breakdown.

2- Fade both extremes of the range. This is one of the main ‘bread and butter’ trades for scalpers. It’s moving in and out of the market fairly quickly.

Ranges do not last forever, so it’s essential to exit these range trades quickly if it appears the range is failing. Order Flow will help to keep you onside with ranges but I would advise also using Order Flow to pre-empt the range failing against you. It is imperative that you exit the market before the other range traders get stopped out. If you don’t, you get caught on the wrong side of a stop run and that can put you in ‘catch up’ mode for the rest of the day.

Intraday Trend Plays

Many traders want to buy the low of the day and sell the high of the day. Good luck if you can do that. If the market is range bound, then of course it is the correct strategy. Intraday trends continue much more often than they reverse. Many traders will see a market trend up and then start looking for a shorting opportunity, then as soon as it starts trending down they start looking for a long opportunity; always getting stuck on the wrong side of the market.

At Jigsaw, we call these people ‘permafaders.’ To avoid being a permafader, set a bias and stick with it until you get evidence the market has shifted in the opposite direction.

Setting Your Bias

When the market opens, look for a strong swing with good volume. If you don’t get it, wait for it or for a range to develop. If a range develops, look for the breakout with good volume to initiate the trend. Once an intraday trend is established, the next trend will usually establish itself with a countertrend swing with overwhelming volume and a relatively large swing size in the opposite direction. Once you have one of these, presume a new trend until proven otherwise. Don’t worry if the market didn’t pullback yet or if it pulled back 20 times, stay with that trend until you get the volume/size in the opposite direction.

Trend Plays

Once you have your bias, you look for a weak move in the opposite direction, a pullback. It will be low in volume and relatively small. From an Order Flow perspective, there will be little interest, low participation. Often an iceberg order will stop the pullback and often the counter-trend traders will simply disappear.

All markets are different but the eMini S&P 500 will often put in 3-5 tradable intraday trends. The second trend will often have the same size pullbacks as the first trend. So you may see the first intraday trend put in 11-14 tick pullbacks and see the same thing as it moves in the opposite direction. That is not magic, just a measure of volatility.
Strategies

1- If the average pullback was 10 ticks, look to fade that pullback before the 10 ticks. If the market puts in a 10 tick pullback, it may only trade 100 or so contracts at the 10th tick and you may be right about the location but you will not get filled on a limit order entry. So enter a tick or 2 ahead of it.

2- Wait for some 'with trend’ interest. So instead of entering ahead of the estimated pullback, wait for some ‘with trend’ traders to move the market your way a few ticks. This gives you additional confirmation that the pullback is over but you do have to be quick, it may start to move quickly with trend when the permafaders realize they are going to get stopped out.

I utilize order flow to tell me when a pullback has ended. This is worth looking into and will yield extra ticks but is not absolutely essential from the start.

Get the overall method right first. Then refine it with order flow. In terms of exiting a losing trade, as soon as you see evidence of decent volume coming in or the pullback has put in an abnormal number of ticks move, it’s time to get out.

It's actually in this area where the Order Flow will help the most because you will SEE the traders coming in to push against the trend. You can often get out before the price has been adversely impacted by that Order Flow.

CONCLUSION

Using swing charts will put you on the right side of the market and give you a heads up as the market shifts from trending to consolidating. This is a discretionary trading method, but the number of components you are using to make the trading decision is small. There is no 'analysis paralysis' here.

You are trading based on market participation and your knowledge of how speculative traders operate; after all, **YOU are a speculative trader**.

These methods can also be added to your existing trading techniques, implementing what we have taught about swing sizes and participation in turns, you can use these techniques to help keep you onside within your existing trading framework.
THE MOVIE

As mentioned, this doesn’t have to be the only tool in your trading toolbox. If you’d like to see how I analyze the market personally using Swing Charts in real time,

**TAKE A LOOK AT THE FULL VIDEO SHARED HERE!**

In the video, you will see me describing the action as it unfolds looking at the swing charts, correlated markets and the market Order Flow.

THE SPECIAL OFFER

For those of you who would like to move their discretionary trading to the next level, utilizing the number 1 trading software according to the independent review site Investimonials.com, [PLEASE CLICK HERE](#) for more details.

ABOUT THE AUTHOR

Peter Davies entered the world of trading in the mid 2000’s. After becoming disillusioned with the results attained by fund managers and financial advisors on his own portfolio, Peter figured that even losing money himself would be better than paying someone to lose it for him.

Peter’s initial intent was to focus on investing and, in fact, he still manages his own long term portfolio. Somewhere along the journey he developed a passion for day trading. Peter feels most comfortable trading the “here and now” and feels that he has a better feel for what will happen in the next six minutes than the next six months.
A Trading Challenge

I had a lot of fun with this assignment, so kudos to TradingPub for organizing this eBook! This exercise forced me to really think about the function of every indicator I use. Now, as I dive into this fun exercise, I am making the assumption that I am still allowed to use traditional price charts along with the one indicator I select.

I personally consider price charts to be an indicator themselves. Many traders choose only to trade with price charts and nothing else. Unlike these traders, I am absolutely convinced that I can glean much more information about a market by displaying my indicators compared to only reading a price chart. It therefore goes without saying that I am a fan of using indicators to compliment price charts, like the one displayed below of Apple.

![OHLC Chart of Apple (Monthly) using Tradestation](image)

Also, let’s not forget that there are many types of price charts. There are OHLC (Open High Low Close) bar charts, Candlestick Charts, Point & Figure Charts, Kagi Charts, Tick Charts, Range Bar Charts, and Renko Charts, to say a few. With respect to the rules of this assignment, I will utilize both OHLC bar charts along with candlestick charts.
My Background

I was a mechanical engineering major in college. As an engineer, I had to use every advantage I could within the context of the rules established by my professors to pass certain classes. This was good practice for my trading career, which also demands that I utilize every edge I can when trading the markets. In my senior level Controls class, engineering students were given the ability to write as many formulas on a single “cheat sheet” paper that we could (front and back).

My cheat sheet looked very similar to the one below. It felt like I was writing in size 2 font as I labored to fill my sheet with as many formulas as possible. In some ways, this assignment is similar to my cheat sheet exercise in college. When limited to the tools (or formulas) you can use, you must choose wisely.

Example Engineering Cheat Sheet (Source: Google Images)

Needless to say, if I failed to include a key formula on my cheat sheet, I would have been in real trouble. I actually had a fellow engineering classmate show up to the test not knowing that he could have a cheat sheet as a reference to help him take the test. What a catastrophic oversight!

When the realization hit him that he had no chance of passing the test without this vital “encyclopedia of formulas,” his head hit his desk as he resigned to failure. Indeed, he had no chance of passing the test without this critical reference tool. Similar to my engineering classes, it is critical that traders use every edge or advantage they can (within legal limits) to trade profitably in the markets.

This eBook is challenging me to find that one indicator that would give me the greatest ability to achieve profitability in the markets. It is therefore critical that this one indicator I select communicate as much useful information about what a market as possible.

My experiences from the challenges associated with my engineering background will certainly help me with this indicator exercise. Now, I am admittedly a huge indicator nerd. I have spent the better part of the past several decades developing trading indicators and quantitative financial models for my personal trading and for hedge funds.

After twenty-five years of developing and collecting market indicators, it is safe to say that I have a large indicator library to choose from. However, trading involves more than just possessing indicators. We must understand how indicators fit into a plan to trade the markets profitably.

How I Approach Trading

I know we live in a world where many investment advisors try to make trading or investing in the markets seem mysterious or sophisticated. Many do this so that you will come to believe that you need their services. Now, admittedly, trading or investing can be challenging and trading or investing can be sophisticated. But in generally, trading does not have to be complicated.
I prefer to approach trading in a very simply way by compartmentalizing the way I approach trading into three areas. These primary areas are as follows:

1. Forecast
2. Setup
3. Signals

**Forecasting** relates to longer-term market analysis, involving either technical chart analysis or fundamental analysis.

**Setups** relate to identifying certain conditions or chart patterns that suggest that there is a high probability of a market either going up or down in the immediate future.

**Signals** involve the strategy that a trader employs to determine where to enter a market, where to exit a market given a profitable trade, and where to exit a market given a losing trade (risk management).

By combining effective forecasting with the ability to identify statistically attractive trade setups, a trader can dramatically increase the odds for success. Furthermore, traders tend to have the most difficulty with identifying where to enter trades and where to exit trades. The worst thing to do in trading is exactly what most traders do, which is let emotions get involved in making trading decisions.

I am a huge advocate of using rule-based logic to manage trading signals and stop loss placement levels. By using rule-based logic, traders can remove “toxic” emotions from their trading and let proven indicators or trading systems guide where to enter and exit markets. I have learned both through personal experience and through empirical research that successful trading involves removing the influence of emotions on making trading decisions.

Emotions such as Greed tend to drive traders to enter markers at overvalued price levels where risk is elevated and where profit potential is reduced. Emotions such as fear tend to cause trader to want to get out of long positions when markets are oversold and are likely to bounce back. Greed and fear have no place in successful trading.

Now that you understand how I approach trading, you will better understand my approach to identifying the best trading indicator to trade the markets.

**The Role of My Indicator**

My assignment in this eBook is to select only one trading indicator to trade with. I am to assume that I am stranded on a desert island with only one trading indicator. Therefore my first task will be to understand and clarify the role of this one special indicator.

In the previous section, I outlined my approach to trading, which involves Forecasts, Setups, and Signals. The first thing that I must do is determine which of these areas I want my indicator to help me with. Do I want to select an indicator to help me forecast long-term market direction? Do I want my indicator to help me identify high probability trade setups? Or, do I want my indicator to help me identify trading signals; where to enter and exit trades?
The first thing I must do is to establish what I can reasonably expect my charts to do for my trading. My indicator needs to compliment my price chart. As it turns out, many of the strategies that I employ for forecasting prices utilize long-term chart patterns. This means that I can use my price charts in this area.

A recent example of forecasting long-term price moves unfolded in the Crude Oil market. For those of you who have followed my Crude Oil analysis, you know that I have been talking about the fact that Crude Oil has been in a massive pennant pattern on monthly charts (reference the Crude Oil chart on previous page).

I have discussed how Crude Oil is likely to experience a massive move in the breakout direction once a breakout from the pennant pattern is confirmed. Just recently, Crude Oil broke out of the bottom of this massive pennant pattern, which I then predicted would cause Crude Oil to most likely trade down to $50 per barrel. Crude Oil did end up braking hard to the downside and did achieve its downside target of $50 per barrel.

Because I can effectively use price charts to help with market forecasts, I do not need to select my indicator to fill this role in my trading. I now have to determine if I want my indicator to find quality trade setups or for identifying trading signals – where to enter and where to exit markets. This is where things get a little trickier.

**The Three Components of Price Analysis: Cost**

Before I continue, it is important that we understand what type of information we want to derive from an indicator. When we think about price analysis for any market, we can organize our price analysis into three components.
They are as follows:

Three Components of Price Analysis

The first component of price analysis relates to Cost (or Price). Because we tend to use price and cost interchangeably, I will use the term “price” to represent “cost.” I am doing this because the investment world refers to cost charts as price charts.

Although price charts are essentially plotting the cost history for a security or financial instrument, cost charts would actually be a more accurate descriptor of these charts. However, in the spirit of keeping industry terms consistent with how most of us use them, I will use price charts to represent cost charts.

Price charts are the most widely used market analysis tool in the investment world. They are powerful tools because they communicate a tremendous amount of information about a market in a condensed picture format.

The saying still holds true that “a picture is worth a thousand words.” Price charts show us where markets have been historically and where they are trading now. Price charts communicate short-term and long-term market trends, historical trading ranges, and support and resistance levels, to name a few functions.

Because I am operating under the assumption that I will have access to price charts along with my one indicator, I have the costs component of my market analysis covered. It is important to understand that price charts, or cost charts, are not designed to communicate information about value or momentum.

The value and momentum components of price require indicators designed to communicate information about value and momentum for a particular market. Traditional price charts were never designed to do this by themselves nor are they capable of doing this effectively.

The Three Components of Price Analysis: Value

Many traders are not accustomed to thinking about Value as part of price chart analysis when evaluating markets. This is unusual given that value plays such an important when making significant purchased outside of the markets.

The differences between non-centralized markets and centralized markets are the primary culprit in causing confusion with many traders in this area.
Most traders would never purchase a used automobile (free market example) without checking an industry value reference like Kelley Blue Book or Edmunds. Yet, when it comes to trading the markets, traders have historically been completely lost when it comes to value.

This is primarily due to the fact that there has historically been no Blue Book for the markets that allow traders to check for a value reference. However, this has changed. Now, with the development of ValueCharts® (www.ValueCharts.com), traders can see if a market is overvalued, undervalued, or trading at fair value.

Learning to read a ValueCharts® Price Window is fairly simple. Similar to most indicators, ValueCharts Price Windows share the same time axis as traditional charts (see below). Traditional price charts communicate information about “Cost” and ValueCharts® Price Windows communicate information about “Value.”
ValueCharts® are easy to use. Note that there are a total of five colored valuation zones in a ValueCharts® Price Window.

The green valuation zone represents fair value, the two yellow valuation zones represent moderately overvalued (top yellow zone) and moderately undervalued (bottom yellow zone), and the two red valuation zones represent significantly overvalued (top red zone) and significantly undervalued (bottom red zone). The five valuation zones are labeled in the following ValueCharts® Price Window.

It is important to note that some ValueCharts® Price Windows display the valuation zone colors as bar segments instead of color bands like the chart above.

This variation is related to the trading platform graphics capabilities and limitations. However, regardless of this settle difference, the ValueCharts Price Window functions the same across all platforms.

**The Three Components of Price Analysis: Momentum**

Momentum indicators have been around for many years. Momentum is thought of as the velocity of price for a particular market. There is no need to go into too much detail as most traders are familiar with momentum indicators. The Google chart below displays my favorite momentum indicator, MQ Momentum (developed by [www.ValueCharts.com](http://www.ValueCharts.com)). Because most momentum indicators tend to be similar, I will not spend a lot of time discussing momentum. It is important to note that momentum is a very important component of market analysis. Therefore I always like to have a momentum indicator on my charting screen. However, given the limitation of only being able to select one indicator, I will not select a stand-alone momentum indicator for this exercise.
Choosing My One Indicator (ValueCharts®)

It goes without saying that the one indicator I choose can either give me an edge over other traders or put me at a disadvantage against the market. Therefore I must choose wisely in order to give myself the greatest edge I can.

I am left with selecting an indicator to either help me find quality setups or to identify entry and exit signals in the markets. Now, I will be the first to say that I always trade with more than one indicator because I have found that I can gain a stronger edge by combining complementary indicators when analyzing markets.

After much reflection, for the purpose of this assignment, I decided to select an indicator to help me find quality setups because I can use my experience to leverage price action on bar charts to generate entry and exit signals. I thought that I could realize the greatest benefit by having a quality indicator help me find high probability trade setups.

Getting back to the three components of price discussed in the previous section, I already described how a traditional price chart would communicate the cost history for a market, so I do not need an indicator to serve this function. For me, it really comes down to deciding between value and momentum indicators.

What if there was an indicator that could communicate both market valuation for a defined timeframe and, at the same time, also communicate momentum information as well? As it so happens, there is an indicator that can communicate market information about both value and momentum. This indicator is called ValueCharts® Price Window. Now, this is not to be confused with other ValueCharts® tools like ValueBarsSM and ValueLevelsSM. The ValueCharts® Price Window is the flagship ValueCharts® indicator. It is also very easy to read.
In order to provide full disclosure, I am the inventor of ValueCharts®. I am not selecting this indicator for that reason. That would be foolish. I am selecting the ValueCharts® Price Window because it serves a powerful purpose that other indicators simply cannot serve.

The ValueCharts® Price Window allows me to see, in real-time, the exact valuation zone that a market is trading in. This helps me find high quality trade setups and helps me find price levels where I could enter low risk trades and or avoid entering high risk trades. In the next section I will discuss several ways I use the ValueCharts® Price Window to trade the markets.

**Trading with ValueCharts®**

I have selected the ValueCharts® Price Window as my single indicator because it communicates information about both value and momentum. I will begin discussing a number of powerful setups I can identify with this super indicator.

**Bullish Divergence Setup**

Google Bullish Divergence Identified with ValueCharts® using Tradestation

In the chart above, we can see that Google has reached a new low at the bar labeled 1a. Then, over the course of the next several trading days, Google bounced back before selling off again and reaching a new low at point 2a.

This is where the ValueCharts® Price Window can be extremely powerful. Note at point 2b that ValueCharts price bars are higher than the ValueCharts price bars were at point 1b. This is in light of prices reaching new lows at point 2a (compared to prices at point 1a).

Notice also (in the chart below), which is now displaying candlestick price bars, that a bullish hammer pattern appeared in the white box on the candlestick chart? Even more significant is the fact that the ValueCharts Price Window shows the same price bar to have a lower red bar segment? This bottom red bar segment (enclosed in the white box in the chart below in the ValueCharts Price Window sub chart) communicates that this price bar traded within the significantly undervalued zone, which represented extreme undervalued conditions.
With the combination of the bullish divergence and the bullish lower red tip price bar in the ValueCharts Price Window (ValueCandles are not covered here, but they are a combination of candlestick patterns and ValueCharts®), we can now look to buy Google.

Because the hammer candlestick pattern presented itself, we can now employ a simple yet powerful strategy of buying the open of the next price bar and placing our sell stop below the low of the hammer candlestick pattern. Reference the chart below for trading strategy entry signal and risk stop placement.

In the chart above, our entry signal would have been at $498.84. We also place our risk sell stop at $487.56, risking a little over $10 per share. Now that ValueCharts® has helped us buy Google at a very attractive price level, we need to strategize about where to exit this new long position.

Because I do not have use of my traditional indicators like Hedge Fund Trader or Intelligent Breakout, I am going to simply move my trailing exit sell stop stop right below the lowest low of the previous two price bars.
In this case, this would have exited my long position at $529.67 on January 27, 2015 (reference the chart below). This trade generated a little more than $30 per share, which is great. Because I had a bullish candlestick pattern to confirm the timing of my bullish divergence, I strengthened my bullish divergence setup.

This trade showcases the power of a simple breakout exit strategy in conjunction with a bullish trade setup. I am not a big fan of trading breakout strategies all of the time when trading markets. However, when used with high probability trade setups, breakout strategies can be extremely effective.

Google Daily with ValueCharts® Trade Entry and Exit using Tradestation

Sometimes in the context of a longer-term timeframe (weekly or monthly charts), a market trading in either the significantly undervalued zone or the significantly overvalued zone can represent a good trade setup.

When looking at Apple during late 2012 through 2013, we can see that the weekly ValueCharts® Price Window registered a number of significantly undervalued points (red bar segments on the ValueCharts® Price Window) that coincided with cycle lows. In fact, these significantly undervalued bar segments coincided almost exactly with cycle lows (reference the weekly Apple chart below).

Without seeing the value component of Apple by way of the ValueCharts® Price Window, we would not have detected that Apple was trading at significantly undervalued during those five cycle bottoms. But because I had ValueCharts® on my chart window directly below my weekly price chart of Apple, I was able to see these extreme value setups in real-time. Again, these significantly undervalued bar segments proved to be the exact cycle bottoms in Apple.
Now, when trading longer time frame setups from weekly price charts, I always drill down to a shorter timeframe to execute my signals. In this case, I use daily price bars to manage my entry and exit signal logic. Similar to the previous example, I use a two bar breakout strategy to both enter and exit my trade.

Using a simple 2 bar breakout in the context of the bullish weekly Apple setup, a buy signal (breakout above highest highs of previous two bars) was generated at $66.17. Then, after Apple rallied for several days, an opposite sell exit signal was generated at $68.94 using a breakout of the two bar lows. This resulted in hypothetical profits of approximately $2.70 on this trade (reference the chart below).

There are many more ways we could generate trading signals if we were allowed to have more than one indicator. However, in this case, using a simple breakout strategy is effective in realizing profits of several dollars per share. The trade exampling the chart below utilized the last extreme value setup (significantly undervalued setup) occurrence on the Apple chart above to demonstrate how this type of setup could be traded.
Apple Daily with Breakout Trade Entry, Stop, and Exit using Tradestation

![Chart showing Apple Daily with Breakout Trade Entry, Stop, and Exit using Tradestation](image)

This chapter barely scratched the surface about how ValueCharts® can be used to find high probability trade setups. There are many, many more examples that could be discussed if we had use of additional powerful indicators.

At a minimum, ValueCharts® is a tool that no trader should be without (in my humble opinion) because value is such an important part of any significant purchase or sale. Thank you for allowing me to share several powerful trading examples that showcase one of my favorite indicators, ValueCharts®.

Good luck trading!

Mark Helweg

**THE MOVIE**

See this quick overview of our services here. [WATCH THE MOVIE HERE](#)

**THE SPECIAL OFFER**

For more information about ValueCharts® indicators or how to trade with ValueCharts® sign up for their upcoming workshop “Strategies for Maximizing Profits and Minimizing Loss w/ Mark Helweg”. [GET YOUR SEAT RESERVED HERE](#)
ABOUT THE AUTHOR

Mark Helweg began his trading career as a runner on the floor of the Chicago Board of Trade at the age of 19. When he turned 21, he leased a seat on the floor of the exchange and traded in the Treasury Bonds pit for a brief time. Mr. Helweg then returned to school to complete his degree in mechanical engineering with a minor in statistics.

While in school, Mr. Helweg developed trading models for a large Commodity Trade Advisor (CTA). In addition, while in school Mr. Helweg also developed the first algorithm to model price in terms of objective value known as ValueCharts®.

Over the past 18 years Mr. Helweg has developed quantitative financial models for several CTAs. Honors and awards earned by these CTAs include Top New CTAs Group (Futures Magazine 1998), MFA Star Search (2003), and MFA Star Search (2008). Mr. Helweg released his first book, “Dynamic Trading Indicators,” with the John Wiley Marketplace Series.

This book was recognized among the “Best Investment Books of 2002” by Barron’s magazine. Mr. Helweg was awarded a patent for his ValueCharts® concept with the U.S. Patent and Trademark Office in Dec 2008.

Recently, Mr. Helweg founded a new financial technology company, MicroQuantSM, that now features value-based market analysis tools on the Bloomberg terminal platform worldwide. Mr. Helweg now speaks around the country about trading technology and technical analysis applied to Stocks, FOREX, and futures markets.
Learning how to trade doesn’t need to cost thousands of dollars

Like you, I’ve read a lot of books. I’ve attended many seminars and workshops. I even went on an expedition looking for the Holy Grail to trading. It took time, but now I’m at a point where I’m confident in my trading and am able to offer you this step-by-step guide.

In this chapter, you will be ready to envision a life where trading can be a reality to make a living. Like you, when I started to trade, I envisioned a life of waking up in the morning, putting in a couple trades and going golfing the rest of the day. Far from that reality, but it can offer everything from some supplemental income to making a living. Perhaps you may even take your earnings from the short term and invest for the long term.

Either way, it will take time to be a successful trader. Just because you read this chapter and you learn to apply it doesn’t make you a successful trader. The TradingFibz website and resources including this e-Chapter is a straight to the point, rudimentary approach to what it takes to become a trader with minimal indicators and after hours work. This is a guide, and its purpose is to do just that – guide you.

Pick a method, keep it simple and learn it well. Trade 1 or 2 stocks/futures and learn their personalities. My hope is to bring investing knowledge to many more and make it as easy as possible to comprehend. I hope you will find something in this chapter that is useful and tell a friend or two – especially if they are new to investing or trading. It takes time, but with a little help and guidance, you can do this.

I have had the extraordinary experience of teaching middle and high school students about the stock market, including participating in three years of stock market simulations where applying the Fibonacci patterns took 19 awards back to their school. This preceded my three year experience as a state Stock Market Game Coordinator. I have taught many workshops, spoken to numerous investing groups so whether it is adult or students, it’s all about the opportunity of awareness in one’s investments.

With all this invested time, I am now and still an inspiring day trader as well as value investor. Taking home $100 a day in the market can be $2,000 extra a month you didn’t have. Sure, I hear of people making $4,000 a day – I also hear of those losing $4,000 a day. The question is not why did you make or lose so much – it’s how did you manage your trade or investment, how “greedy” did you get and lose it, and did you have a stop loss in place?
I don’t lay claim to any NEW Grail of trading. I simply have gathered the tools that work best for me.

Let me share with you through this e-Chapter, a step-by-step guide without all the theory and hundreds of patterns to learn, a simple and profitable way to trade the market.

**Successful Trading**

Many traders want to be told when to enter trades and when to exit or even shadow trade. As Jesse Livermore said it best in “Reminiscences of a Stock Operator”: “The average man doesn’t wish to be told that it is a bull or a bear market. What he desires is to be told specifically which particular stock to buy or sell. He wants to get something for nothing. He does not wish to work. He does not even wish to have to think.”

Many of the indicators today are written so that a green light means in and red arrow means out, leaving the automation to the machine. Even airplanes today are so automated they almost leave the flying to a computer. As traders, we may have the automated systems in place, but as “crumb traders” we are at the whim of watching what is in front of us on our screens and making informed decisions of when to enter and exit. You may be a subscriber to that service, but in the trading philosophy of TradingFibz, if you know one thing and know it well, you will profit in the market. Multitasking is not conducive to success in trading the markets. The brain is actually not wired to multitask while we have convinced ourselves of that. Successful trading is a mindset that if followed, can lead to becoming a master trader.

No one can guarantee your success in trading. Those who follow a detailed plan will have the greatest chance of making it as a successful trader. Here are some personal lesson and tips that I have developed as a trader and gained insight from others.

- Remove emotion from your trading and this will allow you to detach from the fear of losing money.
- Execute your trades with discipline each and EVERY time.
- You will fail if you don’t follow your trading plan and trade on gut – oh, the market has got it wrong!
- The market doesn’t owe you anything so be patient and you will be rewarded
- Trade less than hitting the button all day. Wait for your setups will make you a more profitable trader. It may take all day for your setup, but follow your rules.
- Everything looks great. The setup is perfect. You enter the trade. It goes the other direction – This will happen – Have a plan and follow it.
- Trade your setups, not the money. You may even want to hide your Profit and Loss ticker when in the trade.
- You will lose money sometimes so accept small losses. Key is to minimize the risk.
- Blame yourself, not the market – oh this is a big one…who are you mad it? You have complete control over how quickly you exit or hold on to your trade. Let’s not forget…how quickly you
cut your losers. In other words, DON’T move your stop.

- Becoming a profitable trader day after day, week after week, is the result of many years of experience.
- If you really like trading, keep working and learning every day from it— it is the extra hours I have put in that has made me a better trader.
- KISS - Keep it simple! I use limited indicators. My screens aren’t overwhelmed with lines all over the place.
- As always…Plan your trade and trade your plan.
- While the setups outlined in this e-Chapter are for the futures, the setup principles can be adapted to fit all markets.
- Market will always go up and down. While your trading plan may be hoping for up, always be ready for the other direction.
- Trade the trend. The run is longer and the TradingFibz tools will keep you in the trade longer.
- Previous support lines become new resistance ones and vice versa. Have those lines on your chart.
- There will ALWAYS be another trade, remain patient. As Ben says, “New day, Fresh start.” If you didn’t get it today, it may be there tomorrow.
- The prepared trader has the greatest chance for success – do you have a trading plan?
- The space to the right is always blank - No one is capable of predicting market moves.
- Always continue to learn, recap, blog. Review your trades of the day
- Don’t chase trades – you walk away and come back and the setup already occurred. Wait for another setup.
- Don’t let your winning trade turn around on you and become a loser.
- Don’t add to losing trades
- You wrote a trading plan. Just this once you’ll try something different. Break your rules. You will surely fail
- Take breaks
- Account management – Never add money to the account, Remove profits frequently.
- Trade with the volume. If trading US markets, trade during regular trading hours.
- Read your trading plan every day.
The Setup

**Original T3 Study** Developed by Tim Tillson, the T3 Moving Average is considered superior to traditional moving averages as it is smoother, more responsive and thus performs better. The advantage is that it gets less lag with the price chart and its curve is considerably smoother.

T3 TREND bars set to your period preference. Moving average (set to 5ema) that changes color when in TREND

Looks like a great study to keep you in TREND!

![Chart](image)

**Range Bound Market?**

Riskier entry but can simply trade off the change in T3 moving average. Add a second T3 moving average (10ema) and now you have a crossover study

![Chart](image)

It makes a very strong strategy to keep you in TREND.
While there are endless amounts of studies and indicators to add, the more you add, the more complex it becomes and less probable that you will enter the trade.

Remember to keep it simple.

With several variations to the core chart, the TradingFibz TREND strategy is all about identifying the momentum of the TREND and keeping in the TREND as long as possible with trade management tools.

**Variations for Chart #1**

The standard setup for chart 1 is wherein the core TREND strategy exists. The ability to add a visual dimension to your charts is where the flexibility exists for you to modify your charts to your liking.

**Optional additions you may add to your charts.**

1. Color Cloud
2. Crossover Arrows
3. Heikin Ashi Bars/T3 Trend Bars
4. Adjust colors of lines/thickness
5. Add labels
6. Adaptability to other trading platforms including setup signals/audio alerts of when the strategy is in TREND.

![Trading Fibz Example]

**Executing the Trade**

The TradingFibz mantra is to know 1 thing and know it well.

- I am primarily a futures trader.
- I trade the indices as my primary markets.
- I watch all four major indices closely and comment daily in the live trading room.
- Learning to use this strategy on the futures can be transferred to any other market be it intraday or swing trading.
- If futures trading is something you are interested in, there is plenty of good information.

**Caution: Do not attempt to trades this live until you are consistently making a profit.**

**Entry Options**

I use a market order. The trend has been identified, and it’s not as important that I enter on the exact price when price action closed beyond the 1st bar. It’s that the probability is greatest to continue in trend.

The fewer charts you watch, the more emotion you remove from your trade. I will monitor the TREND bars, 50/144ema and moving averages It’s all about the TREND and what does it take to remain in it?
Any of the trading platform charts individually may be used as a trading tool. It is the strategy of TradingFibz to identify the TREND with the highest probability of success in combination with several charts together indicating that a TREND move is occurring.

The goal is to remain in the trade as long as the TREND is active. Whether you choose to exit at 5 ticks or 100 ticks, the probability of success was greater when all charts are in unison and you have kept the ticks in your pocket and didn't give it to the market.

**Core Chart Setup**

**Chart #1**: T3 Exponential Moving Averages, 10 Tick Range Chart/Heikin Ashi Candles.

**Chart #2**: 5/34 Exponential Moving Average, 10 Tick Range Chart.

**Chart #3**: T3 Exponential Moving Averages, 20 Tick Range Chart/Heiken Ashi Candles.

**Chart #4**: 50/144 Exponential Moving Averages, Overnight High/Low. 24hr chart. Heikin Ashi Candles.

**Chart #5**: Advancers vs. Decliners.

**Chart #6**: $TICK; NISS-NYSE chart ($TIKRL; NISS - TF for R2K).
Criteria to T3 TREND Setup (Tick/Range chart)

- **T3_5ema moving average in TREND**
  - T3 moving average set to a 5ema setting
  - Confirm
    - Color change on moving average
    - Color change on T3 price bar
  - Most riskiest setup – can work in a range bound market
Criteria to T3 TREND Setup (Tick/Range chart)

- T3_5/T3_10 ema moving averages CROSSOVER
  
  o T3_5 moving average set to a 5ema setting
  o T3_10 moving average set to a 10ema setting
  
  o Confirm
    - Color change on both moving averages
    - Color change on T3 price bar
  
  o Less risky setup

Criteria to T3 TREND Setup (Tick/Range chart)

- 5/34 ema moving averages CROSSOVER
  
  o Two moving averages set to 5/34
  o Confirm
    - Color change on both moving averages
    - Color change on T3 price bar
  
  o Least riskiest setup
Gold Standard Setup

Essential to entering a technical trade with the highest reward of being in trend. While each criterion is independent of one another and can be traded as a system in itself, the TREND strategy has the highest probability of continuing in TREND with the least amount of risk. Based on the following combination, patience and discipline is the key to waiting for each setup.

1. T3_5ema in TREND (A)
2. T3_5 and T3_10 Crossover in sync with 5/34ema Crossover (B)
3. Price action bars in TREND (C)
4. Price action on 50/144ema and/or 20 tick range chart in TREND above/below based on TREND

5. $TICK or $TIKRL above/below based on TREND

6. AD line not at any resistance

7. ALL Labels in the GREEN or RED depending on TREND?
8. Utilizing the color cloud in the background to keep you in the TREND.

Once steps 1-7 have been identified and you have chosen to enter the trade, option to remain in the trade using the trade management tools.

**Putting it all together**

If you have confirmation on all the Charts – what other significant support and resistance lines are above or below? This where experience and discipline come into play. Just because I have a crossover, doesn’t mean I will enter the trade.

**Things to consider….**

- Time of day?
- Economic data coming out?
- Am I in between daily gap and pivot?
- Is the CAM H4 or L4 within 10 ticks of price?
- Am I in between the range or outside the range?
- Overnight high or low?
- Price action at the 50 or 144ema?
- $TICK count flat?
- Where is price action on the bigger time frame? Daily, Weekly, Monthly.
The setup is clear.  
You’ve considered all.  
You take the trade.  
Now it’s all about your trade management.

Trade Management

The high winning % of the TradingFibz T3 Trend Strategy defeats the high risk stop loss

Should I Trade with Targets

One thing you need to always do is not give money back to the market on a winning trade. The following target and loss management will minimize your risk and maximize your profit. Key is to lock in the stop at break even after ticks are in the bank. I tend to trade with two contracts. Never more than 4. If you use just one contract, use your stop to manage the trade.

Option 1: In and Out strategy

Option 2: Use key levels to remove contracts (Open Ranges, Pivot, Gap, etc.) Once the first target is HIT, move stop to break even. No loss trade.

Option 3: As long as 5 ema is above the 34 ema, remain in the trade. If the 5ema crosses the 34, remove contracts, manage your stop.

Option 4: Take off ½ contracts when T3_5 crosses T3_10 ema and move stop to breakeven.

Always front run your exit by 1-2 ticks of your target
Do you need a stop?

You will have losses in the market. There is simply no way to avoid it. We all come to the trading world with different size accounts. The T3 TREND TradingFibz strategy can be traded with 1 contract or 100 contracts. It’s all about the stop.

First question I am always asked….how big is your stop? How much can you risk I ask? The bottom line is that because I identify the trade with the least risk and highest probability, though every trade carries its own inherent risk, the stop is almost inconsequential as the trade will most surely put you in the profit and not at a loss. You may consider trading another market if the potential loss may be too much for your account. Price action needs room especially in a momentum drive and that is where the pocket of liftoff (or down) off of price sometimes need that wiggle room to get going. Are you willing to give it some room of 20-30 ticks just to move in trend?

There are a variety of ways to manage, each with their own level of greater reward. As a trading room mentor/author, it is my position to identify the risk of the trade and give you the best probable outcome. Once in the trade, it is up to you where you want to take your contracts off. However good trading is always having a stop and that is what the TradingFibz strategy recommends.

Option 1: At the most recent swing size

Option 2: At 1 tick below entry bar

This applies to both initial entries and re-entries on pullbacks.

On trading platforms of the like of Ninja, Sierra, etc. the ability to have your stop moved to breakeven can be automated once you have hit a pre-determined number of ticks away from your entry.

Example : Once price action reaches 5 ticks, stop is moved to breakeven or breakeven +1 to insure a no loss trade.
Does this work on other charts?

Index Futures – Nasdaq (NQ)

Intraday – 10 Tick Range Chart

Commodities/Futures – Gold (GC)

Intraday – 10 Tick Range Chart
Equities - Facebook (FB)

100 tick Range

Equities – Netflix (NFLX)

Weekly
Forex – EUR/USD

100 tick Range

ETF – Russell – IWM

100 tick Range
THE VIDEO

To view in detail a walkthrough of the information presented here in this e-Chapter, please click on the links below.

Click here to view extended presentation with Infinity Futures

Click here to view - TradingPub presentation

SPECIAL OFFER

If the information in this e-Chapter has piqued your interest, I invite you to email me and request a FREE session in my trading room to see this strategy traded live. David@TradingFibz.com

I run a live trading room with 25-40 members everyday from open to close with screenshare and chat room. We primarily watch the 4 indices including crude. Trading Room Information

Please feel free to stop by my social media outlets to obtain additional information- TradingFibz.com

ABOUT THE AUTHOR

Greetings. My name is David, founder of TradingFibz, LLC.

An educator first, I understand the patience and time it takes to learn anything new. As an inspiring investor years ago, I realized that if I wanted to learn what it took to be an investor/trader, it would take time and discipline. I don’t claim to be a guru, write articles, conduct free webinar’s and then load up your inbox, and claim to make thousands a day. What I do – I teach in a methodical manner so you get it and can invest or trade with confidence.

I have taught many about the world of value investing and along the way picked up some fascinating methods for use in the market. By far, I have come to appreciate the order of numbers and thus applying the Fibonacci patterns to the stock market. Since then, I have adapted this to my own method and have learned to be the disciplined trader I am today.
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